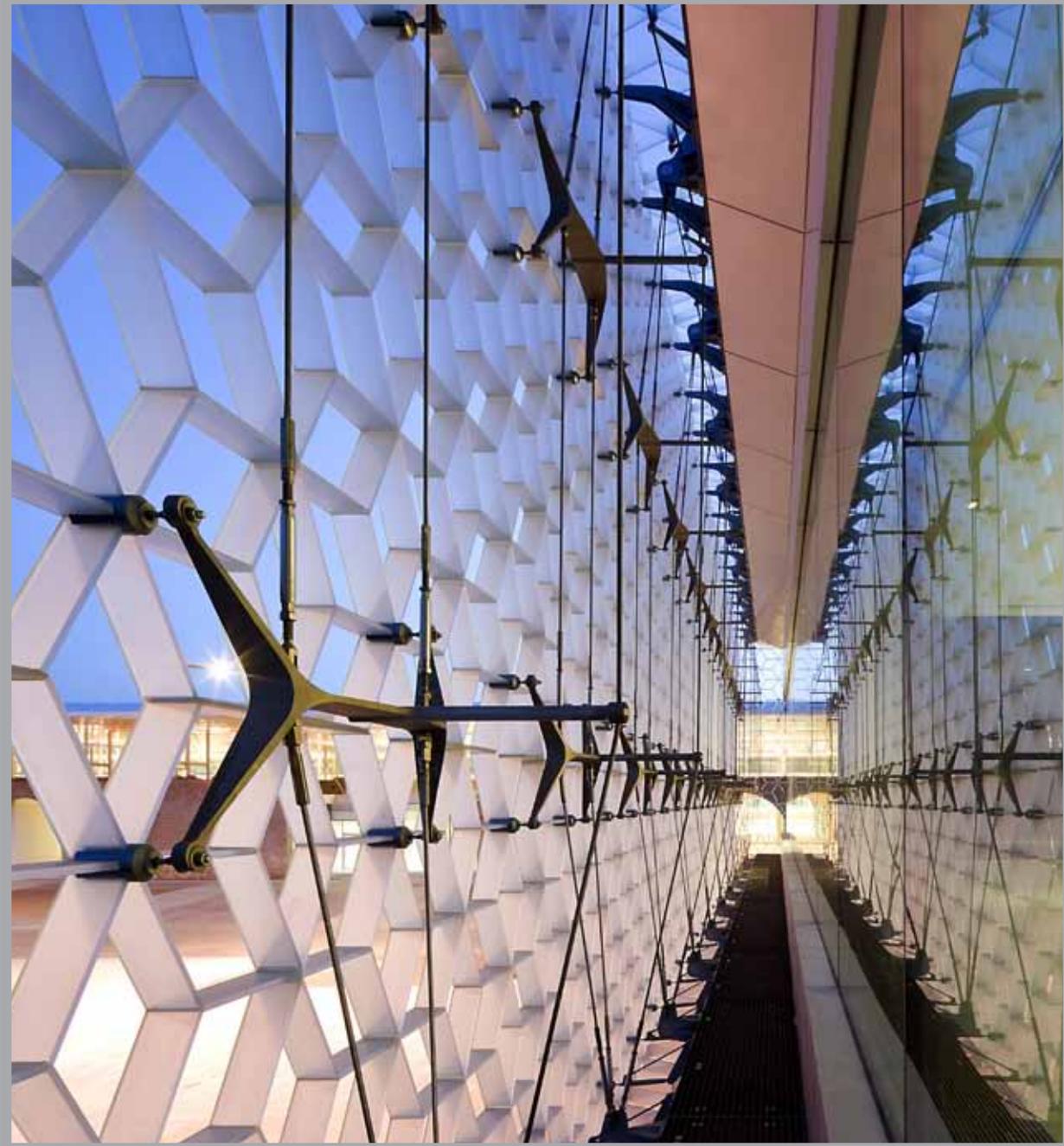


Essentials of Alternatives

Modern Investment Tools Simplified



This information is intended to be general in nature and should neither be construed as investment advice nor a recommendation of any specific security or strategy.

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Mention alternative investments and you may get a variety of reactions—are they alternative energy products? Hedge funds? Investments only for the super-rich? The reality is that many investors don't know what an alternative investment is. Alternative investments (or “alts”) are generally those outside the traditional asset classes of stocks, bonds or cash.

MODERN INVESTMENT TOOLS

Alternative investments differ widely in their composition and scope—including vehicles such as hedge funds, real estate, precious metals, managed futures, private equity and commodities. These investments are typically characterized as having low correlation to traditional investments—that is, their movements are generally unrelated. This low correlation may serve to “hedge” or help protect traditional portfolios during sideways or down markets. Asset classes that are not correlated generally do not move in tandem with each other—or, when the market moves down, these asset classes may not fall as much as the market in general.

The following pages present a look into many of these alternative investments—their history, characteristics and accessibility options for the typical investor.

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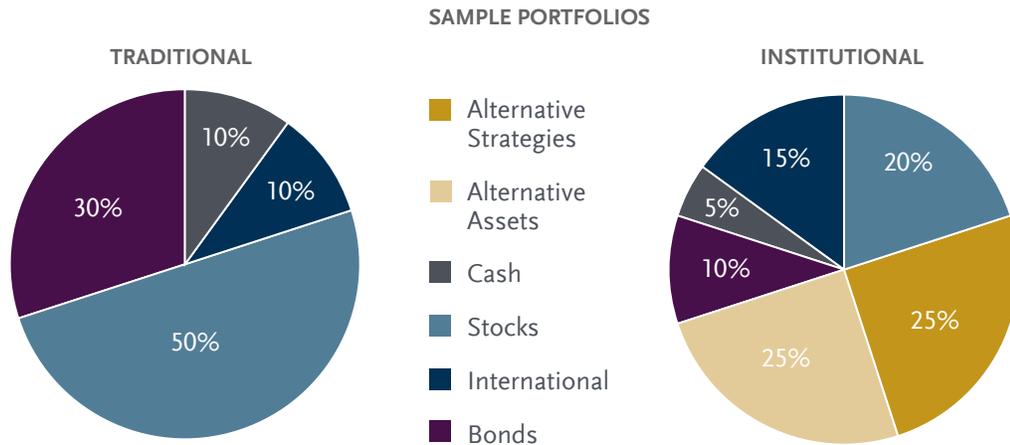
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ALTERNATIVES: A LONG AND COLORFUL HISTORY

While forms of alternative investments have been available for centuries, recent decades have seen the rapid development and increased use of alternatives among institutional investors (such as pensions and endowments), which have looked to alternative asset classes and strategies in an attempt to manage risk, improve diversification¹ and provide more consistent returns.

INCREASING POPULARITY

While a traditional portfolio might hold a combination of cash, stocks, bonds and international exposure, institutional portfolios may expand that mix to include alternative choices—as illustrated in the samples below.



	Traditional	Institutional
Allocation	Static allocation targets—50/30/10/10 “typical” moderate portfolio	Adjustable allocations—driven by market environment and risk targets
Exposure	Uses traditional stocks, bonds, international and cash	Blend of traditional assets, alternative assets and alternative strategies
Risk	Result of market conditions	Focus on controlling risk by adjusting to market conditions
Rebalance	Rebalanced quarterly/annually	Ongoing allocation adjustments and rebalancing

The portfolios are hypothetical examples provided for illustration purposes only. No assumptions should be made that similar asset allocations will be profitable, suitable or perform as indicated above. Allocations and their percentages should change based on an individual investor’s needs.

¹ Diversification neither assures a profit nor eliminates risk of experiencing investment losses.

The timeline below illustrates the evolution of alternative investments.

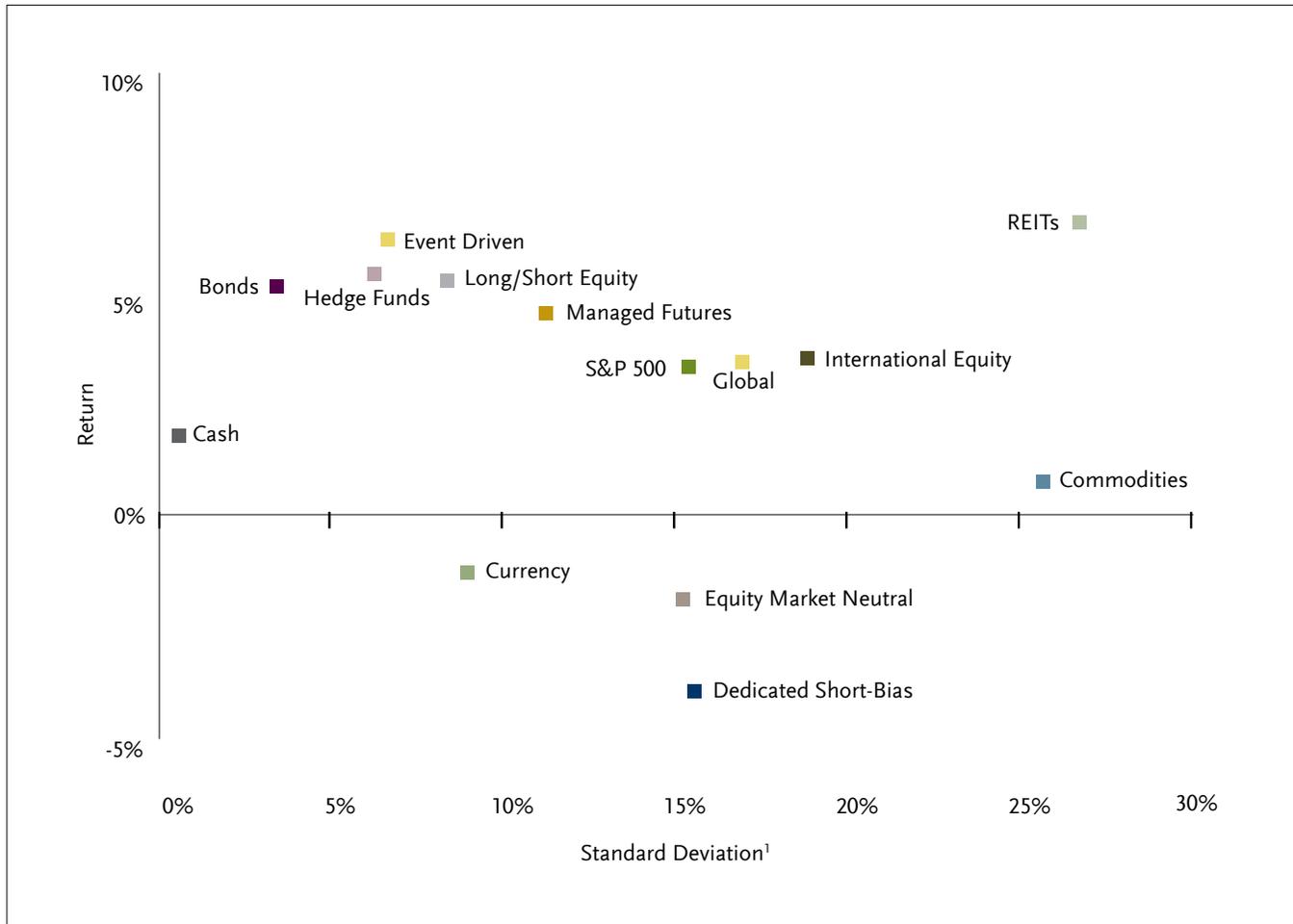
TIME PERIOD	TYPE OF ALTERNATIVE INVESTMENTS	DESCRIPTION
1400s	○ Commodity	Stored rice was traded for agricultural products or receipts.
1600s	○ Futures contracts	Parties agreed to deliver and pay for a good in the future at a price agreed upon in the present. This was intended to mitigate the inequalities of supply and demand.
1800s	○ Pooled investments	People began “pooling” money to invest, similar to today’s mutual funds. This was the precursor to hedge funds.
	○ First modern futures exchange	Formation of the Chicago Board of Trade (CBOT), which created standardized contracts and made the futures market more liquid.
1946	○ First modern venture capital/private equity firm	Creation of first private funding for start-up firms
1949	○ First hedge fund	Use of both shorting and leverage in a private fund.
1971	○ First currency future	Futures on foreign currencies.

TYPES OF ALTERNATIVE INVESTMENTS

UNDERSTANDING RISK AND RETURN OF DIFFERENT ASSET CLASSES

The image below shows how different asset classes compare to one another historically in terms of risk and return over an eight-year period. It's also a starting point in considering the potential risk and benefits of four traditional asset classes, such as stocks, bonds and cash, as well as some alternative assets and strategies (including most, but not all, mentioned in this piece).

Risk/Return of Various Asset Classes: January 2004–December 2011



Performance displayed represents past performance, which is no guarantee of future results. The aforementioned indices and indicators are not available for direct investment. The index returns do not reflect any management fees, transaction costs or expenses.

Source: Calculated by Guggenheim Investments using data calculated by FactSet.

¹ Standard Deviation: A statistical measure of the historical volatility of an investment, usually computed using 36 monthly returns. More generally, a measure of the extent to which numbers are spread around their average. The higher the number, the more volatility is to be expected.

Alternatives are often divided into two categories.

- **Alternative assets**, also called “hard assets” or “real assets,” are tangible items that hold inherent value—that is, their value is not derived from other sources.
- **Alternative strategies** are tactics or tools used to create value through investments in traditional and nontraditional asset classes.

Annualized Return & Risk: January 2004–December 2011

		Annual Return	Annual Std. Dev.
Bonds	Barclays Capital U.S. Aggregate Bond Index	5.44%	3.46%
Cash	BofA Merrill Lynch U.S. Treasuries – Bills (3 M)	2.08%	0.57%
Commodities	S&P GSCI™ TR	1.03%	25.71%
Currency	U.S. Dollar Index®	-1.00%	8.99%
Dedicated Short Bias	Dow Jones Credit Suisse Hedge Fund Index Dedicated Short Bias	-3.67%	15.60%
Equity Market Neutral	Dow Jones Credit Suisse Hedge Fund Index Equity Market Neutral	-1.54%	15.05%
Event Driven	Dow Jones Credit Suisse Hedge Fund Index Event Driven	6.51%	6.70%
Global Equity	MSCI World Net TR Index	3.71%	16.84%
Hedge Funds	Dow Jones Credit Suisse Hedge Fund Index	5.79%	6.31%
International Equity	MSCI EAFE Index	3.87%	18.88%
Long/Short Equity	Dow Jones Credit Suisse Hedge Fund Index Long/Short Equity (USD)	5.58%	8.42%
Managed Futures	S&P Diversified Trends Indicator	4.67%	11.29%
REITs	NAREIT (National Association of Real Estate Investment Trusts®)	6.89%	26.67%
S&P 500®	S&P 500® Index	3.63%	15.43%

Source: Calculated by Guggenheim Investments using data calculated by FactSet. See appendix on page 16 for detailed index information.

TYPES OF ALTERNATIVE ASSET CLASSES AND STRATEGIES

Alternative investing means going beyond traditional investments like stocks and bonds. The chart below shows some of the alternative assets and strategies available to investors.

Traditional Assets	Alternative Assets	Alternative Strategies
U.S. Stock	Commodities	Absolute Return
Bonds	Currency	Long/Short
International	Real Estate	Momentum
Cash		Leverage
		Managed Futures

ALTERNATIVE ASSETS (OR REAL ASSETS)

The following is a list of some, but not all, alternative asset classes. Included in each description is at least one instrument used by investors to make accessing the particular asset less cumbersome (versus investing directly in the asset).



COMMODITIES

Basic goods, with little differentiation from one producer to another. They are most often used as inputs in the production of other goods or services. Examples include grains, gold, beef, oil and natural gas. While commodities are often bought and sold through spot purchases, which are immediate delivery for cash transactions, they are most often traded using futures contracts on exchanges like the Chicago Board of Trade (CBOT).



CURRENCY

Investors may hold a certain currency in anticipation that it appreciates in value in relation to the other currencies. One of the most popular ways of trading currency is still a spot transaction, which is an outright exchange of one currency for another.



REAL ESTATE

Investment in real estate, whether commercial, retail or land, is done with the expectation that the property will increase in value or that rental income may provide a stable stream of revenue. Some investors find Real Estate Investment Trusts (REITs) a more convenient investment vehicle than direct investments. REITs provide the opportunity for investors to buy shares in a company that purchases (and often manages) a large portfolio of real estate.

ALTERNATIVE STRATEGIES

The following is a list of some alternative strategies that may be used by investors. While some of these strategies are straightforward, involving traditional investing mediums such as stocks, some may be more complicated.

LONG/SHORT STRATEGY

This strategy entails buying some stocks in anticipation of their value increasing, known as having a long position, and also entering into short positions in stocks, in anticipation that their value may decrease. Holding these competing positions (in theory) should level out returns and reduce overall risk. Shorting allows an investor to sell a stock that he or she does not own. Investors enter into short positions to either speculate (profit from an overpriced stock or market) or in an attempt to protect a long position in a stock. Investors who are long lose money if the stock they expected to go up actually goes down. If the investor holds a short position and the stock actually increases in value, the investor must then buy the stock at the higher price. An investor who is short the market profits when the stock or market decreases in value. Theoretically, if the value of a stock that an investor is shorting continues to go up, the investor is exposed to the risk of unlimited loss.

MOMENTUM STRATEGY

This strategy involves purchasing stocks that are on an upward trend or are expected to have high returns and selling stocks that are on a downward trend. Momentum investors are typically looking for stocks to show significant gains in a matter of months. The risk is that the stock may not move in the direction expected.

LEVERAGE STRATEGY

This strategy is the use of borrowed money (i.e., debt) to increase returns by investing the borrowed funds with the intent to earn a greater rate of return than the cost of interest on the borrowed funds. While leverage can help increase returns, it is possible an investment will move in the opposite direction expected, making the loss much greater than it would have been without using debt. Leverage therefore can magnify both gains and losses in this way.

MANAGED FUTURES STRATEGY

A futures contract is a contract that obligates the holder to buy or sell an asset at a specific time, known as the delivery date (or final settlement date), and price, known as the futures price. There are two parties—one with the obligation to buy at a certain price, and the other with the obligation to sell—and they must exercise their contract on the delivery date. Managed futures may involve going long or short futures contracts in areas such as commodities and financials, including interest rates and currencies.

ABSOLUTE RETURN STRATEGIES (ALSO KNOWN AS HEDGE STRATEGIES)

The styles and techniques often called absolute return strategies or hedge strategies seek to achieve positive or “absolute” returns in all types of markets versus matching or beating an index (returns tied to an index are known as “relative” returns). With hedge strategies, the goal is to make money in all types of markets, regardless of the direction of the market.

ALTERNATIVE STRATEGIES AND ASSETS OVERVIEW

	ABSOLUTE RETURN	MOMENTUM	LONG/SHORT	MANAGED FUTURES	LEVERAGE	REAL ASSETS (Currency, Commodities, Real Estate)
Risks	Typically involves speculative investments, increasing the potential for loss of some or all funds invested. Investments may not meet stated goals, returns may be less than more common benchmarked or “relative” investments.	Predicting and monitoring the upward or downward direction of a stock may be difficult to do consistently over time. A stock may not move in the direction expected, increasing the potential for loss of some or all funds invested.	Stocks may move in a way not anticipated by the investor. Specifically, long positions may go down and short positions may go up—moving in the opposite direction desired by the investor, potentially adding to losses.	All money invested plus fees may be lost. The high amount of leverage that is often used adds to potential losses. Management of an account is time intensive, generally making a fund advisor necessary. Investors must be approved to have a managed futures account.	If the investment moves in a direction not expected, losses are magnified by the increased exposure an investor holds through leverage. Investors must pay fees and interest for money borrowed.	Real assets may be illiquid and/or volatile depending on variables such as weather, economic, political and regulatory conditions that may impact that asset. The value of the asset may not move in the desired or expected direction, decreasing the holdings’ value.
Benefits	Seeks to achieve positive returns in all types of markets. Returns are generally not tied to any specific index as a benchmark—giving the manager more freedom in investment choices.	If a stock continues moving in the direction expected, the investor potentially gains from the increased value of the investment or from having sold a stock to avoid continued losses from the downward trend of the stock.	If stocks move in the direction expected, long positions may help increase profits and short positions may increase profits and reduce risk in a portfolio.	Investors may profit from movements in the contract prices of commodities, stocks, bonds or currencies and potentially gain from increased profit from exposure provided by leverage.	When investments move in the direction expected, there is potential for increased profits through increased exposure provided by leverage.	When an investment’s value increases, an investor’s overall portfolio value can also increase.
Traditional Investment Vehicle	Hedge fund	Hedge fund	Hedge fund	Managed futures account	Derivatives	Direct investment, derivatives, ETFs or mutual funds

See Characteristics of Private Investment Vehicles section for more information on page 10.

TRADITIONAL PRIVATE INVESTMENT VEHICLES

For years, institutional investors, accredited investors and qualified clients have had access to alternative assets and strategies through investments in private investment vehicles, such as:

HEDGE FUNDS

Investment vehicles used to pool investors' money together into a range of investments, typically implementing a variety of sophisticated techniques. Hedge funds themselves are not easily classified into one type of risk/return category. Each manager uses different investment strategies, has different return goals and may or may not employ varying amounts of leverage.

VENTURE CAPITAL FUNDS

Provide financing and some participation in business decisions for a new or young company with the potential for large returns in the future. They are possibly the most risky form of private equity because of uncertainty and risk in the future of those companies.

PRIVATE EQUITY FIRMS

These firms primarily look to invest large amounts of money in a small private company that is not traded on a public stock exchange—often either in preparation for an Initial Public Offering (IPO), or as a takeover of a public company that is struggling and needs reorganizing and/or restructuring.

The appeal of private equity investments lies with the potential of profiting from a company's turnaround with large monetary payouts and the possibility of an IPO. Entry into private equity often requires substantial investments—sometimes upwards of \$1,000,000—and a lock-up period of multiple years.

Limited partnerships are the most prevalent form of private equity investment. While there is no involvement with the day-to-day running of the business, investments in a limited partnership may be locked up for 10 years or more.

CHARACTERISTICS OF PRIVATE INVESTMENT VEHICLES

ACCESS	These investments are often only available to accredited investors or qualified clients (that is, individuals who meet certain net worth, income or asset benchmarks set by the SEC). These investments are usually open to a limited number of investors and typically require a high initial investment.
FEES	Private investment vehicles typically have a 1%-2% management and 20% performance fee annually, but may vary widely and could be much higher.
INVESTMENTS	These private investment vehicles generally have the flexibility to use leverage and short sales in greater amounts than mutual funds. While this provides the opportunity for outperformance, there is the potential to lose some or all of the money invested, as investments may not go in the direction anticipated.
LIQUIDITY	Funds may be “locked up” for months or years, making it difficult for investors to access their money.
PERFORMANCE	Most private investment vehicles seek to hedge against downturns in the market and provide positive returns regardless of market conditions. However, it may be difficult to establish appropriate benchmarks for these investment vehicles and thus appraise performance, particularly because managers are typically under no obligation to report returns.
PRICING	Because there are no standards established for pricing these private investment vehicles, it may be difficult to value your investment at any specific time.
REGULATION	For private investment vehicles, SEC registration is not required.
TAXES	The tax implications involved in these investments are often unclear and are more complex than other investments.
TRANSPARENCY	Holdings are only available at the discretion of management.

TYPES OF INVESTMENT VEHICLES

	PRIVATE EQUITY (INCLUDES VENTURE CAPITAL)	HEDGE FUNDS	DIRECT INVESTMENT IN ASSETS	ETFs	MUTUAL FUNDS
Liquidity	Periodic, at the discretion of the advisor (monthly, quarterly, annually or longer)	Periodic, at the discretion of the advisor (monthly, quarterly, annually or longer)	Varies, depending on asset class	Typically daily	Typically daily (though certain fees may apply for early redemption)
Taxation	May be very complex	May be very complex	Taxation varies by asset class	Taxed on capital gains (plus income tax on any dividends)	Taxed on personal capital gains and also if the fund realizes a gain (plus income tax on any dividends)
Transparency	Holdings available at the discretion of a fund's management	Holdings available at the discretion of a fund's management	Holdings are typically clear	Holdings typically available daily	Holdings available at least quarterly
Registration Requirements	SEC registration not required	SEC registration not required	N/A	SEC registration required	SEC registration required
Fees	Typically 1%-2% management and 20% performance annually ²	Typically 1%-2% management and 20% performance annually	Transaction fees vary by asset class—fees may include account opening, transaction and management	0.56% on average annually, plus brokerage commission ²	On average, have annual expense of 1.18% ²

² Source: Morningstar, April 2012.

INVESTING IN ALTERNATIVE ASSETS AND STRATEGIES

Alternative investing provides investors with exposure to asset classes and strategies (or a combination of the two) that they do not typically get from traditional investments.

Many have been traditionally difficult to access for individual investors for a variety of reasons, such as costly initial investments (as with hedge funds) or what may be the intimidation of using complicated techniques (as with shorting or futures).

There are other reasons investors may be hesitant to directly access alternative investments themselves, including lack of knowledge on how to invest or where to invest in these types of assets or strategies.

In recent years, some alternative investments have become easier to access. The creation of electronic foreign exchanges, which essentially never close, give investors access to international currency exposure, practically 24 hours a day. Commodities markets and other exchanges online provide for easier participation in derivative strategies.

HISTORICAL CORRELATION: JANUARY 2004–DECEMBER 2011

	Positive	Negative														
High	0.7–1.0	(0.7)–(1.0)	Bonds	Cash	Commodities	Currency	Dedicated Short Bias	Equity Market Neutral	Event Driven	Global	Hedge Funds	International Equity	Long/Short Equity	Managed Futures	REITs	S&P 500®
Moderate	0.4–0.7	(0.4)–(0.7)														
Low	0.0–0.4	(0.0)–(0.4)														
Bonds	1.00															
Cash	(0.03)	1.00														
Commodities	(0.05)	(0.03)	1.00													
Currency	(0.31)	(0.08)	(0.51)	1.00												
Dedicated Short Bias	0.04	0.13	(0.23)	0.37	1.00											
Equity Market Neutral	(0.25)	0.08	0.34	(0.24)	(0.18)	1.00										
Event Driven	(0.10)	0.03	0.58	(0.46)	(0.57)	0.36	1.00									
Global	0.11	(0.03)	0.53	(0.64)	(0.73)	0.33	0.79	1.00								
Hedge Funds	0.01	0.01	0.64	(0.55)	(0.55)	0.43	0.93	0.82	1.00							
International Equity	0.14	(0.01)	0.54	(0.70)	(0.66)	0.31	0.79	0.98	0.83	1.00						
Long/Short Equity	0.02	0.01	0.59	(0.58)	(0.66)	0.26	0.90	0.88	0.94	0.89	1.00					
Managed Futures	(0.22)	0.14	0.25	(0.05)	0.02	0.02	0.10	(0.11)	0.10	(0.07)	0.11	1.00				
REITs	0.23	(0.06)	0.26	(0.46)	(0.64)	0.40	0.48	0.77	0.51	0.72	0.53	(0.25)	1.00			
S&P 500®	0.08	(0.05)	0.45	(0.55)	(0.77)	0.34	0.73	0.97	0.74	0.90	0.80	(0.17)	0.80	1.00		

Source: Calculated by Guggenheim Investments using data calculated by FactSet.

Performance displayed represents past performance, which is no guarantee of future results. This information is intended to be general in nature and should not be construed as investment advice nor a recommendation of any specific security or strategy. The index returns used to calculate the correlations do not reflect any management fees, transaction costs or expenses. The indices are unmanaged and are not available for direct investment.

While investors may have more access to and knowledge of many alternative investments, these products are sophisticated investments, requiring a high level of knowledge and research.

The table on page 12 illustrates how various asset classes and strategies (including most, but not all, of the assets and strategies mentioned in this piece) historically correlate to one another. A correlation of 1.00 indicates perfect correlation, while lower numbers indicate that the asset classes are not correlated and generally do not move in tandem with each other. Or, when the market moves down, these asset classes may not fall as much as the market in general, which could mitigate risk in your portfolio.

POTENTIAL BENEFITS FOR INVESTORS

Despite the unique aspects of various types of alternative investments, many do share some common potential benefits:

- Many provide improved diversification⁵ (i.e., non-, low or moderate correlation) when added to a traditional portfolio consisting of stocks and bonds (as seen on the historical correlation chart).
- Alternative investments may provide the opportunity for enhanced returns when added to a traditional portfolio (as seen on the risk/return trade-off chart).
- Alternative investments may help decrease risk when added to a traditional portfolio (as seen on the risk/return trade-off chart).

POTENTIAL RISKS FOR INVESTORS

As with any investment, traditional or alternative, there are inherent risks of investing in alternatives and many hold the opportunity to lose most or all money invested.

- The more you invest in leveraged instruments, the more the leverage will magnify any gains or losses on those investments.
- The use of short selling involves increased risks and costs. You risk paying more for a security than it received from its sale. Theoretically, stocks sold short have the risk of unlimited losses.
- The use of derivatives such as futures, options and swap agreements may expose an investment to additional risks that it would not be subject to if you invested directly in the securities underlying those derivatives.
- Additionally, certain alternative strategies tied to hard assets such as commodities, currencies and real estate may be subject to greater volatility as they may be affected by overall market movements, changes in interest rates or factors affecting a particular industry, commodity or currency—such as droughts, floods, weather, livestock disease, embargos, tariffs and international economic, political and regulatory developments.

³ Diversification neither assures a profit nor eliminates risk of experiencing investment losses.

INVESTING IN PACKAGED ALTERNATIVES

Pronounced market turbulence in recent years (particularly the volatile market in later 2008 and 2009 and the bear market of 2000 to 2002) has led investors to look for different investment options that help mitigate risk in volatile market conditions. Alternative asset strategies and asset classes are becoming available in the form of mutual funds and exchange traded funds (ETFs), thereby providing individual investors greater access.

Mutual funds and ETFs may provide a convenient, less expensive and more transparent vehicle for individual investors to gain exposure to alternatives.

ACCESS	ETFs and mutual funds are available to the general public, and though there are usually certain investment minimums set by the fund, these are typically less than hedge funds. ETFs must be bought through a broker, while mutual funds can be bought directly from the fund company or from a broker.
FEES	Mutual funds, on average, have an annual expense of 1.18% ⁴ , while ETFs have annual expenses that average 0.56% ⁴ , plus any brokerage fees. Certain fees for both ETFs and mutual funds are regulated by federal law.
INVESTMENTS	Mutual funds and ETFs generally make direct investments in stocks, bonds and other securities. There are regulations that apply to the use of leverage, shorting, and derivatives.
LIQUIDITY	Mutual funds and ETFs offer the opportunity to trade in and out of shares on a daily basis.
PERFORMANCE	<p>Performance goals for these mutual funds and ETFs are sometimes daily objectives rather than “buy and hold” strategies.</p> <p>As with any investment, when investing in any mutual fund or ETF, it is important to thoroughly investigate and understand the investment objectives, strategies, fees, risks and expenses. All of this information is available in the prospectus. Investors should also be familiar with the fund manager’s track record and reputation.</p> <p>When investing, it is important to have realistic expectations. It is tempting to think that alternatives will guarantee enhanced results, but this is not necessarily the case. As with any investment, there is the potential for up and down days.</p>
PRICING	Most mutual funds are priced once a day, giving investors a clear value of their investment. ETFs are priced throughout the day on an exchange just like a stock, though their value may trade above or below the value of the underlying portfolio.
REGULATION	Mutual funds and ETFs must register with the SEC and are subject to SEC regulations regarding their structure and operation. All funds must publish a prospectus and Statement of Additional Information (SAI) containing specific information about the fund’s management, holdings, fees and expenses and providing transparency to investors. Although registration with the SEC is a requirement of mutual funds and ETFs, neither the SEC nor any other regulatory organization endorses, indemnifies or guarantees the fund’s performance.
TAXES	With a mutual fund, investors pay taxes on any ordinary dividends, personal capital gains when their shares are sold and possibly on the fund’s capital gains. An ETF’s taxes work similarly to stocks. Investors pay income tax on any dividends and interest and pay taxes on capital gains for any profits when the ETF is sold.
TRANSPARENCY	ETFs generally provide their holdings daily, while mutual funds do so at least quarterly.

⁴ Source: Morningstar, April 2012.

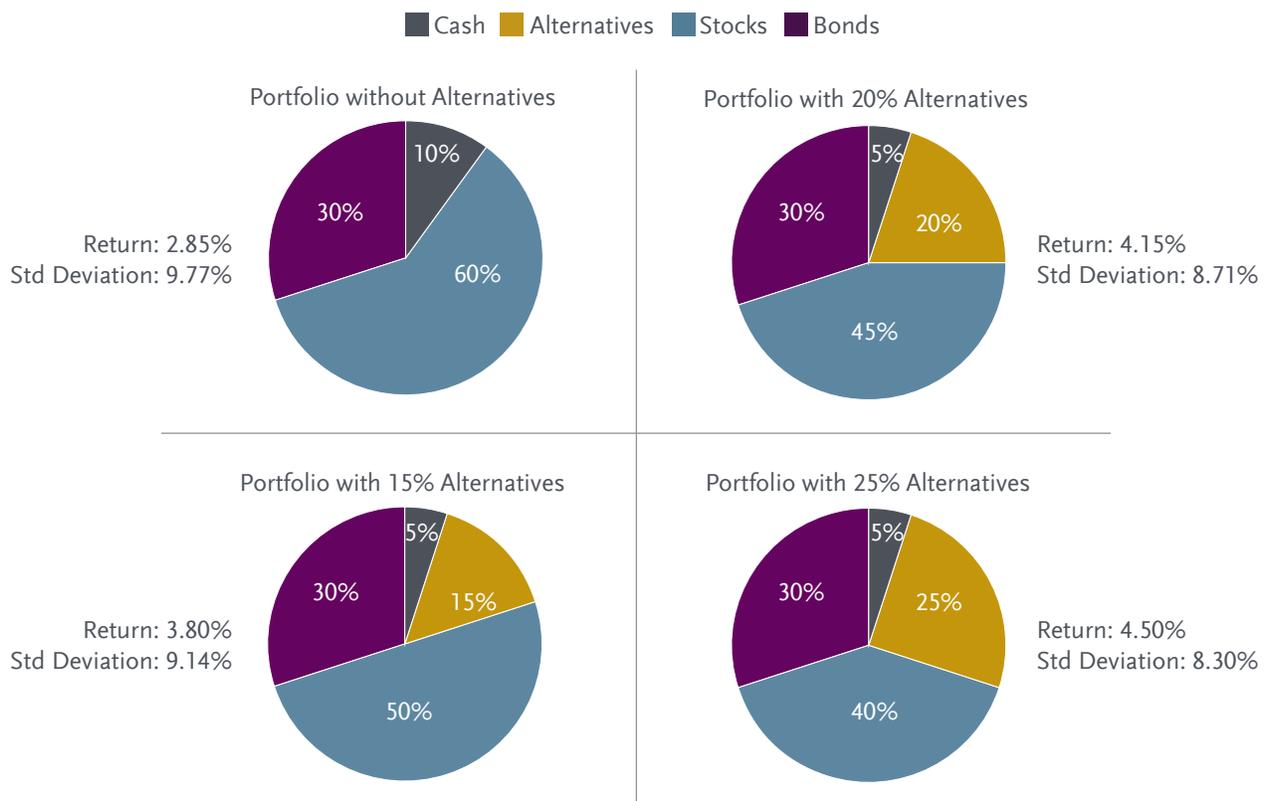
IMPLEMENTING ALTERNATIVES IN YOUR PORTFOLIO

Putting alternative investments to work in a portfolio may be simpler than most investors realize. Allotting a portion of a traditional portfolio to alternatives may help reduce risk and increase return for the portfolio.

Below are four hypothetical portfolios. The first portfolio consists of what many consider to be the traditional allocations of 60% stocks, 30% bonds and 10% cash. Next is a portfolio of stocks, bonds, and cash along with a 15% allocation to alternative investments. The alternative investment is divided equally among five strategies: absolute return strategies, long/short strategies, managed futures, commodities and REITs. The next portfolio increases that alternative allocation to 20% and the final portfolio includes a 25% allocation to alternatives.

As the allocation of alternatives is increased in each example, the return of the portfolio also increases and the standard deviation of the portfolio actually decreases. These examples illustrate how it may be possible to enhance risk/return performance with the inclusion of alternative investments.

Risk and Return Summary From January 2004 to December 2011



Performance represents past performance, which is no guarantee of future results. Performance does not include fees, therefore returns for the portfolios performance would be lower due to impact of fees and expenses not included here.

Source: Calculated by Guggenheim Investments using data calculated by FactSet. This is for illustrative purposes only and is not indicative of any investment. No assumptions should be made that similar asset allocations will be profitable, suitable, or perform as indicated above. Allocations and their percentages should change based on an individual investor's needs.

The indices used to determine the return and risk figures for the portfolios shown were: stocks by S&P 500® Index; bonds by Barclays Capital U.S. Aggregate Bond Index; alts by equal amounts of NAREIT (National Association of Real Estate Investment Trusts)®, S&P GSCI™ Commodity Index, Dow Jones Credit Suisse Hedge Fund IndexSM, Dow Jones Credit Suisse Long/Short hedge Fund IndexSM, S&P DTI; and cash by BBoFA Merrill Lynch U.S. Treasuries—Bills (3 M). See appendix for descriptions of the referenced indices. Indices are not available for direct investment.

WHY ALTERNATIVES?

Institutional investors have used alternative investments for years in an attempt to decrease risk and enhance returns.

While alternative investments have required specific expertise and have been difficult for individual investors to access easily, individual investors can look to mutual funds and ETFs to gain alternatives exposure in their portfolios.

Alternative investments in a mutual fund or ETF format potentially offer investors a way to access alternatives for increased portfolio diversification⁵ and decreased risk. Take the time to discuss with a financial advisor how you might realign your investment plan to include alternatives to help protect and strengthen your portfolio. Contact Guggenheim Investments at 800.820.0888 or visit rydex-sgi.com for more information.

⁵ Diversification neither assures a profit nor eliminates risk of experiencing investment losses.

INDEX DEFINITIONS

BARCLAYS CAPITAL U.S. AGGREGATE BOND INDEX (“BONDS”) An unmanaged index composed of securities from the Barclays Capital/Corporate Bond Index, Mortgage-Backed Securities Index and the Asset-Backed Securities Index. Total return comprises price appreciation/depreciation and income as a percentage of the original investment. Indices are rebalanced monthly by market capitalization.

BOFA MERRILL LYNCH U.S. TREASURIES—BILLS (“CASH”) is an unmanaged market index of U.S. Treasury securities maturing in 90 days that assumes reinvestment of all income.

DOW JONES CREDIT SUISSE HEDGE FUND INDEXSM is designed to measure the aggregate performance of the broad universe of hedge funds. The index utilizes the hedge funds of all major styles in the Dow Jones Credit Suisse Hedge Fund Database of over 8,000 managers. The index is asset weighted and comprises all Database funds with greater than \$50 million under management, a 12-month track record and audited financial statements.

DOW JONES CREDIT SUISSE HEDGE FUND INDEXSM EVENT DRIVEN is a subset of the Dow Jones Credit Suisse Hedge Fund IndexSM and is designed to measure the aggregate performance of event driven hedge funds. These funds seek to profit from corporate transactions and reorganizations, such as mergers, acquisitions, bankruptcies and refinancing. The index utilizes all of the event driven hedge funds in the Dow Jones Credit Suisse Hedge Fund Database of over 8,000 managers. The index is asset weighted and comprises all Database funds in the category with greater than \$50 million under management, a 12-month track record and audited financial statements.

DOW JONES CREDIT SUISSE HEDGE EQUITY MARKET NEUTRAL INDEXSM is a subset of the Dow Jones Credit Suisse Hedge Fund IndexSM that measures the aggregate performance of equity market neutral funds. Equity market neutral funds typically take both long and short positions in stocks while seeking to reduce exposure to the systematic risk of the market (i.e., a beta of zero is desired).

DOW JONES CREDIT SUISSE HEDGE FUND INDEXSM LONG/SHORT EQUITY is a subset of the Dow Jones Credit Suisse Hedge Fund IndexSM and is designed to measure the aggregate performance of long/short equity hedge funds. These funds invests both long and short in the equity markets, and many are highly specialized in particular sectors or markets. The index utilizes all of the long/short equity hedge funds in the Dow Jones Credit Suisse Hedge Fund Database of over 8,000 managers. The index is asset weighted and comprises all Database funds in the category with greater than \$50 million under management, a 12-month track record and audited financial statements.

DOW JONES CREDIT SUISSE HEDGE FUND INDEXSM DEDICATED SHORT BIAS is a subset of the Dow Jones Credit Suisse Hedge Fund IndexSM and is designed to measure the aggregate performance of short biased equity hedge funds. These funds invests primarily short in companies that the funds expect will depreciate because of weakening financials, bad management, expectation of an adverse event, or poor competitive positioning. The index utilizes all of the short bias hedge funds in the Dow Jones Credit Suisse Hedge Fund Database of over 8,000 managers. The index is asset weighted and comprises all Database funds in the category with greater than \$50 million under management, a 12-month track record and audited financial statements.

MSCI EUROPE, AUSTRALASIA AND FAR EAST INDEX (EAFE) (“INTERNATIONAL EQUITY”) An unmanaged market capitalization-weighted equity index comprising 20 of the 48 countries in the MSCI universe and representing the developed world outside of North America. Each MSCI country index is created separately, then aggregated, without change, into regional MSCI indices. EAFE performance data is calculated in U.S. dollars and in local currency.

INDEX DEFINITIONS (Continued)

MSCI WORLD NET TR INDEX (“GLOBAL EQUITY”) The MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. The MSCI World Index consists of the following 23 developed market country indices: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States.

NAREIT® INDEX (NATIONAL ASSOCIATION OF REAL ESTATE INVESTMENT TRUSTS) (“REAL ESTATE”) An unmanaged index that reflects performance of all publicly traded equity REITs. Listed on the New York Stock Exchange, American Stock Exchange and the NASDAQ National Market System.

STANDARD & POOR’S 500® INDEX tracks the performance of the equities of 500 of the largest, widely held companies in the U.S. The index is capitalization-weighted, and it is often considered representative of the large-cap U.S. stock market.

STANDARD & POOR’S DIVERSIFIED TRENDS INDICATOR (S&P DTI) (“MANAGED FUTURES”) Comprised of long and short positions in highly liquid financial and commodity futures. The S&P DTI is designed to offer investors an alternative investment indicator that is uncorrelated to traditional bond and equity returns. The S&P DTI’s inception date is 1.1.2004.

S&P GOLDMAN SACHS COMMODITY INDEX™ (“COMMODITIES”) A composite index of commodity sector returns representing an unleveraged, long-only investment in commodity futures that is broadly diversified across the spectrum of commodities. The returns are calculated on a fully collateralized basis with full reinvestment. The combination of these attributes provides investors with a representative and realistic picture of realizable returns attainable in the commodities markets.

U.S. DOLLAR INDEX® (USDIX) (“CURRENCY”) Indicates the general international value of the U.S. Dollar Index. The USDIX does this by averaging the exchange rates between the U.S. dollar and six major world currencies: the euro, yen, British pound, Canadian dollar, Swedish krona and Swiss franc.

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Before investing in any of the investment products or strategies discussed, consult with your financial advisor to determine if they are appropriate for your objectives, risk, tolerance, income level and investing time horizon.

There are special risk considerations with each of the strategies mentioned and they are not suitable for all investors. None of the investment strategies can guarantee a return in a declining market. Additionally, an investor could lose all or a substantial amount of their investment. For more information about these strategies and their risks please consult your financial advisor.

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