



Automated Allocations

*The Strategy That Adjusts...
Automatically.*

Video Script Video 3 Why UPRO and TQQQ?

So far, we've looked at why Automated Allocations was developed and why Annualized Rate of Return is important when comparing investment results.

Now let's look at the investments AA actually uses – and, more importantly, why they were selected.

First, we need to understand what an ETF is. ETF stands for Exchange-Traded Fund. An ETF is essentially a basket of investments that can be bought and sold like a single stock. Instead of buying the individual companies one at a time, a single ETF can give you exposure to many companies at once. Think of it as buying one box that already contains a collection of stocks.

That brings us to the first reason AA uses ETFs: Diversification.

AA wasn't designed around trying to find the next great individual stock. An individual company can stumble, become obsolete, suffer from poor management – or even disappear. Instead, AA was designed around broad groups of companies representing a significant portion of the U.S. stock market.

And that brings us to UPRO. The S&P 500 represents approximately 500 of the largest publicly traded companies in the United States and is one of the most widely followed measures of the U.S. stock market. SPY is an ETF that tracks the S&P 500. AA takes that one step further.

UPRO seeks to provide three times the DAILY performance of the S&P 500. If the S&P 500 rises 1% on a given day, UPRO is designed to rise approximately 3%. If the S&P 500 falls 1%, UPRO is designed to fall approximately 3%.

That leverage can create very large price movements in both directions. And that's important, because volatility is the third reason UPRO was selected. AA was designed around volatility. When prices decline, AA calculates when, how much, and at what price to buy, accumulating additional shares at progressively lower prices. When prices recover and rise, AA calculates when and how much to sell.

So, the volatility that can make a leveraged ETF uncomfortable to simply buy and hold creates the price movement AA was designed to respond to. For these reasons – diversification, broad-market exposure, and volatility - UPRO is the primary ETF used by Automated Allocations and the starting position for AA users.

AA also provides a second, optional and more aggressive position using TQQQ. TQQQ seeks to provide three times the DAILY performance of the Nasdaq-100. The Nasdaq-100 consists of 100 of the largest non-financial companies listed on the Nasdaq Stock Market and has significant exposure to technology and growth-oriented companies. Just as UPRO provides leveraged exposure to the S&P 500, TQQQ provides leveraged exposure to the Nasdaq-100. And because of its composition, TQQQ can experience even greater price movement. For that reason, TQQQ is an optional, secondary and more aggressive AA position.

So why UPRO and TQQQ? Three primary reasons:
Diversification.
Broad-market exposure.
And volatility.

AA isn't looking for the next great stock. It's looking for broad-market exposure with enough volatility to put AA to work.

Next, we'll take a look at an overview of the Automated Allocations App.

Enjoy.