

Strategic

The logo for Strategic Equity Management features a stylized graphic of five horizontal blue lines of varying lengths, creating a sense of motion or a road, positioned above the company name. The name "Strategic Equity Management" is written in a serif font, with "Strategic" in a smaller size and "Equity Management" in a larger, bold size.

Equity Management

The Smooth Road to Lifelong Investing:

Capital Appreciation with Risk Management

Since 1926, the average return for equities has been 10%, while bonds returned just 5% and T-Bills returned 4%, according to Ned Davis Research. After taxes and inflation are taken into account, only equities showed true growth. Naturally there's a catch. The average investor has a time frame of 20-35 years, not 75 years. And, past performance is not necessarily indicative of future returns.

Many roads will take you to financial security and the accumulation of wealth. But before you set off, it is crucial to understand the road conditions and know whether you have what it takes to complete the journey.

Strategic Equity Management was founded on the belief that lifelong investing requires an investment strategy that smooths the roadway by anticipating the potential for severe losses from bear markets. This strategy strives to preserve capital during market declines while capturing gains during bull markets.

Investing in the stock market can be a bumpy road. While stocks have historically outperformed most investment categories over the long term, this growth has been repeatedly interrupted by bear market declines. Each of these downturns has erased 20% or more from the major market indices. From 2000 to 2002, the Nasdaq Composite index declined more than 75% from its prior high. Losses like these can cause some long detours in your retirement plans.

Bear markets often end after a majority of investors become disillusioned with stocks, leaving the market at its low point. The road became too rough, the losses too great to tolerate.

Our goal is to dynamically position our clients' assets in investments with the potential for superior returns, given current market conditions, and quickly shift to defensive positions when the market's trend turns downward. By doing so, we strive to match or exceed the performance of each program's benchmark index while significantly reducing the potential for losses in client portfolios.

By smoothing the market's path, we provide investors with strategies they can comfortably pursue for a lifetime.

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Mapping the Market through Technical Analysis

Strategic Equity Management was founded in 1992 by Rick Gage, an engineer experienced in the use of statistical design and optimization. Today the team at Strategic Equity is comprised of both engineering and finance professionals who combine their knowledge and experience to navigate the uncertainties of the stock market. Our approach to the financial markets utilizes technical analysis to develop computer-driven investment models. These proprietary models, developed through extensive back-testing, have guided Strategic Equity's investment approach since its formation.

Our disciplined approach constantly evaluates the condition of the market and reallocates client assets to our top-ranked market sectors when they are rising, and invests defensively in

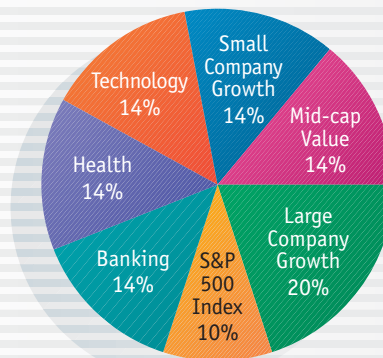
low-risk investments when most sectors of the market are in decline. This daily oversight of client accounts is a crucial element of risk management.

Our investment programs emphasize diversification and capital preservation relative to their benchmarks. As the performance histories of each program illustrate, our models do not capture all of the upward movement of the market, nor have they missed all of the downside. They have capitalized on market fluctuations to achieve competitive returns with lower drawdowns, or losses. While past performance is not a guarantee for future results, our thoroughly researched, technically driven strategies have clearly shown their value in prior market cycles.

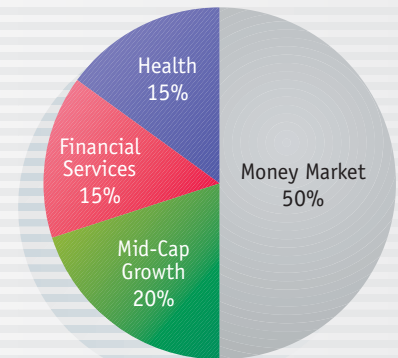
SEM Dynamic Asset Allocation in Different Market Conditions

In bullish markets, long-term portfolios may be 100% invested in equities. As the market transitions between positive and negative trends, the allocation is adjusted to reduce market exposure and concentrate investments in those market sectors showing the greatest perceived potential.

MARKET EXPOSURE is determined by the overall strength of the market.

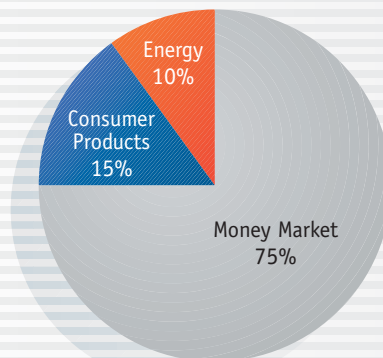


BULLISH
100% Equity

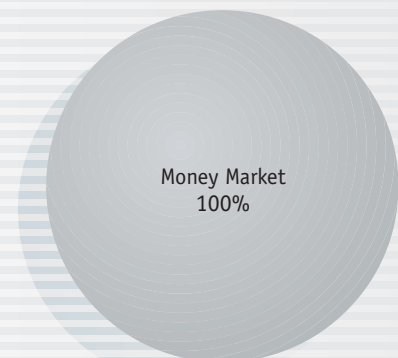


TRANSITION
50% Equity & 50% Money Market

FUND ALLOCATION is determined based on the relative strength of the individual fund.



NEUTRAL
25% Equity & 75% Money Market



BEARISH
100% Money Market

These charts represent possible asset allocations utilized under the stock market conditions illustrated above. These allocations are merely illustrations and are not necessarily allocations that will be utilized in the future. Strategic Equity Management, Inc. (SEM) uses mutual funds and variable annuity subaccounts to dynamically change asset allocation as dictated by market conditions. There is no guarantee that SEM's dynamic asset allocation strategy will be profitable.

Designing a Successful Portfolio



Tucson, Arizona, the site of Strategic Equity Management's headquarters, is a constant reminder that thriving in an environment many might consider hostile and demanding is a matter of adapting to current conditions. The desert flourishes in response to the rains, yet preserves water and nutrients during dry times.

The long-term portfolio forms the base of your investment accounts. As time passes, this portfolio will make up an ever increasing portion of your wealth. The allocation of funds to each portfolio should be adjusted in response to changes in your individual situation, not in response to market conditions. Strategic Equity Management's programs adjust the exposure of each portfolio in response to market conditions.

A good road map to investment success includes three portfolios. The first is a short-term portfolio for emergency funds or money you will need in one to two years. Risk should be minimal for this portfolio, which tends to experience returns in line with money market performance.

The second tier is a mid-term portfolio for funds you may need in two to five years. These investments should have low or moderate volatility, depending upon your risk tolerance.

The third long-term portfolio is targeted toward investments with the potential to achieve substantial growth at a rate of return that exceeds the impact of taxes and inflation. To achieve real growth, this portfolio tends to be exposed to greater volatility.

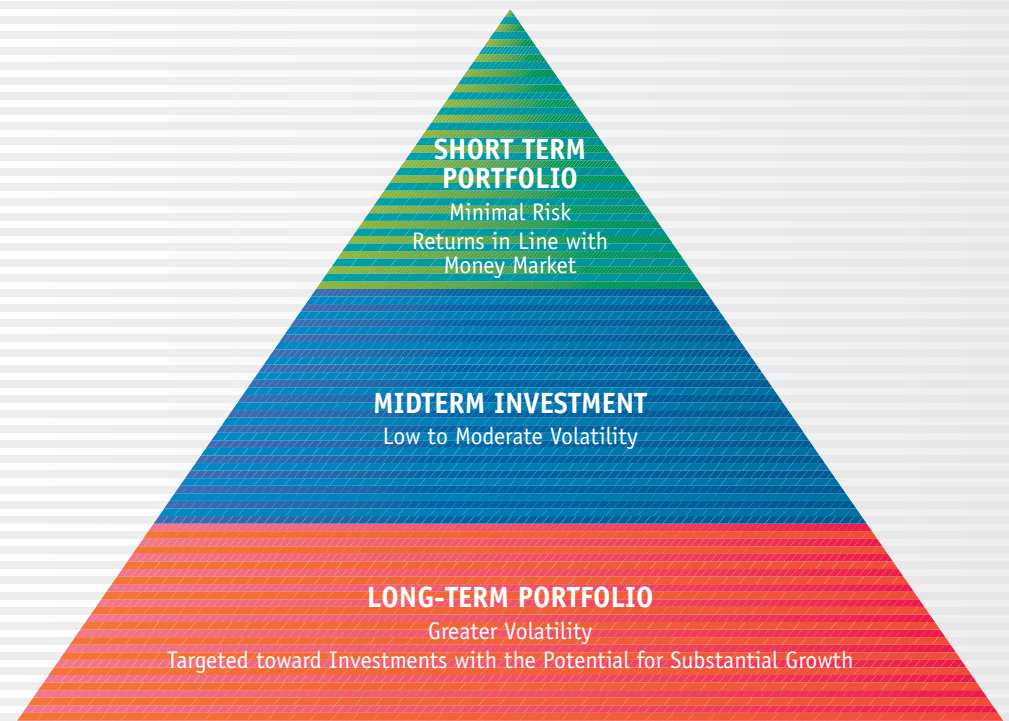
To meet the risk and return requirements of each portfolio, Strategic Equity Management offers targeted investment programs using dynamic asset allocation among numerous stock and bond asset classes. These programs are available through taxable and tax-deferred accounts as well as variable annuities.

Before investing, we recommend that you review your financial situation with your financial advisor and together evaluate the description, historical performance and risk level for each Strategic Equity Management program. All investments carry some degree of risk. It should be noted that the possibility for loss exists along with the potential for profit. Also, because markets are influenced by a variety of conditions, future performance based on prior results should not be assumed.

Next, decide which program(s) are suitable for your situation and how they fit into your three portfolios. Remember to preferentially use tax deferred accounts in your long-term portfolio.

Finally, determine the appropriate investment allocation to the Strategic Equity Management programs that you have selected.

Remember, your success will depend upon establishing a long-term investment approach and sticking with it over time. At Strategic Equity Management, our goal is to provide you with a road to lifetime investing success.





Built near a streambed in the Sonoran Desert in 1783, the San Xavier del Bac Mission has endured for more than three centuries in the area now known as Tucson, Arizona. At Strategic Equity Management, we believe a well designed investment should also be shaped to stand the test of time and change.

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Strategic Equity Management, Inc., is an Investment Advisory firm, registered with the U.S. Securities and Exchange Commission. Strategic Equity Management can be found on the Internet at www.stratequity.com. A copy of our ADV Part II, filed with the Securities and Exchange Commission, is available upon request. We welcome calls to our office at 800-408-2423.