

## Market Index Hedge Account

Successfully participating in today's unconventional stock market is more challenging and demanding than ever. Recently the market has become very efficient, making individual stock selection a tough proposition. All in all, the "modern market is challenging conventional wisdom like never before" <sup>1</sup>.

The **MARKET INDEX HEDGE ACCOUNT** has been developed for investors to take advantage of this challenging market. ***Our objective is to be profitable in both up and down markets over the long term.***

### Market Index Hedge Account

We utilize the Rydex Family of Index Funds to accomplish our objective. Rydex is an innovative developer of various types of market index funds with over \$10 billion in assets.

In recent years, the market has segregated itself into several distinct broad market segments. The four predominant ones that we concentrate on are Nasdaq (OTC), Large Cap, Mid Cap and Small Cap. Each of these market segments are represented by a Traditional and an Inverse Rydex Index Fund. Some of these funds are leveraged to enhance the funds performance relative to their benchmark index.

Market Segment	Underlying Benchmark Index	Rydex Traditional (Long) Fund	Rydex Inverse (Short) Fund
Nasdaq (Over-the-Counter)	NASDAQ 100 Index	OTC Fund	Inverse OTC Fund
Large Cap Stocks	S&P 500 Index	Nova Fund	Inverse S&P 500 Fund
Mid Cap Stocks	S&P Mid Cap 400 Index	Mid Cap Adv Fund	Inverse Mid Cap Fund
Small Cap Stocks	Russell 2000 Index	Russell 2000 Fund	Inverse Russell 2000 Fund

### Market Index Hedge Strategy

Hébert Advisory Services has been providing professional market research and technical analysis since 1968 to individual and institutional investors.

Applying our proprietary analysis to the Rydex Funds provides the key to the proper combinations of, **and when**, the long or inverse funds are owned in each of the four markets.

Market Index Hedge Investing takes advantage of the varying market conditions investors face today:

- ▲ **Up or stable markets:** long index funds are owned to profit in rising & stable markets.
- ▲ **Falling markets:** short index funds are owned to profit during extended declining markets, and provide a hedge to reduce downside market risk.
- ▲ **Mixed markets** (when the four market segments are not performing in unison): both long and short funds are owned to profit from the appropriate side of each market segment, and to also provide a hedge to reduce downside market risk.

***Our Market Index Hedge Strategy is an active management discipline of various index funds. Because of the unpredictable nature of the stock market, it is only appropriate for investors with a longer time horizon. This style may be more volatile than just owning a single market index fund. Markets are influenced by a variety of changing conditions, therefore future performance based on prior results should not necessarily be assumed.***

<sup>1</sup> Rydex Investments brochure 2004

**Please contact us for current  
Market Index Hedge Account Performance Details**

### Index Funds

**Traditional (long) Index Funds** will follow a specific benchmark Index and closely mimic the performance of that index - in both up and down markets.

**Inverse (short) Index Funds** are designed to do the **opposite** of the traditional index fund. In other words, their share prices will **appreciate** in a falling market, and vice versa.

The use of inverse funds can be an important tool as an overall hedge against declining markets within an investors total investment strategy. They offer another advantage as they can be owned in qualified retirement accounts. This offers investors a hedging tool that is otherwise not available through the use of options, futures and short sales, which are not permitted in retirement accounts.

### About Hébert Advisory Services, Inc.

Hébert Advisory Services is an independently owned and operated investment management and technical market research firm. We specialize in discretionary, separately managed, mutual fund and common stock portfolios. We have been managing portfolio accounts since 1975 and publishing our proprietary INSTITECH technical stock market analysis on a continuous weekly basis since 1968.

#### Key Investment Professionals:

**Howard J. Hébert, CMT**, Principal and Chairman; Investment Professional since 1968

**Suzanne M. Hébert, CFA**, Principal and President; Investment Professional since 1986

**Richard Hébert**, Vice President Operations & Marketing; Financial Professional since 1999

**Irish Correia**, Operations Coordinator; Financial Professional since 1985

## About Rydex and Their Funds We Use

***We utilize the Rydex Family of Index Funds to accomplish our objective: to profit in both up and down markets over the long term.***

Rydex is an innovative developer of various types of market index funds. We concentrate on four predominant market segments: Nasdaq (OTC), Large Cap, Mid Cap and Small Cap for our Market Index Hedge Account. Each of these market segments are represented by a Traditional and an Inverse Rydex Index Fund as listed on the right. Some of these funds are leveraged to enhance the funds performance relative to their benchmark index.

### ***The Rydex Story <sup>1</sup>***

When Rydex was founded in July 1993, the operation consisted of one mutual fund, a staff of three people, and a single borrowed office just large enough to squeeze in three desks.

Rydex, a unique family of mutual funds, has experienced phenomenal growth since those early pioneering days. Today, the company has \$10 billion in assets under management. With its innovative funds, Rydex plans to capture an increasing share of the mutual fund marketplace.

The first fund group to successfully offer leveraged index-based funds to the public, Rydex has become a much-watched industry innovator largely due to one, simple strategy—listening. All Rydex products were created according to the requests of financial professionals and knowledgeable investors. "We always tell our investors that Rydex is not an adversary. We are on the same side of the desk," said Skip Viragh, Rydex Founder.

Rydex offers more than 45 flexible investment products for a variety of market conditions including:

- ▲ 24 Dynamic Funds benchmarked to well-known market indices and include
  - ◇ 15 traditional (long) funds
  - ◇ 9 inverse (short) funds that move opposite the market
- ▲ 18 sector funds
- ▲ Two leveraged international funds
- ▲ Two strategic Funds
- ▲ US Government Money Market fund
- ▲ Rydex S&P Equal Weighted ETF
- ▲ Rydex SPhinX Fund—a hedge fund of funds

Rydex provides knowledgeable investors from all disciplines the flexibility to benefit from market upturns and downturns. The funds, which seek to be fully invested at all times, allow investors to conduct trades daily at no extra charge.

<sup>1</sup> Rydex Investments Website ([www.rydexfunds.com](http://www.rydexfunds.com)) September 2004

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### **Rydex Traditional (long) Funds and Their Investment Strategies**

***OTC Fund (Over the Counter)*** Seeks to provide investment returns that correspond to the daily performance of the NASDAQ 100 Index®.

***Nova Fund (Large Capitalization)*** Seeks to provide investment returns that correspond to 150% of the daily performance of the S&P 500® Index

***Mid Cap Advantage Fund (Mid Capitalization)*** Seeks to provide investment results that correspond to 150% of the daily performance of the S&P Mid Cap 400 Index™.

***Russell 2000 Advantage Fund (Small Capitalization)*** Seeks to provide investment returns that correspond to 150% of the daily performance of the Russell 2000® Index.

### **Rydex Inverse (short) Funds and Their Investment Strategies**

***Inverse OTC Fund (Over the Counter)*** Seeks to provide investment returns that inversely correlate to the daily performance of the NASDAQ 100 Index®

***Inverse S&P 500 Fund (Large Capitalization)*** Seeks to provide investment returns that inversely correlate to the daily performance of the S & P 500 Index®.

***Inverse Mid Cap Fund (Mid Capitalization)*** Seeks to provide investment results that inversely correlate to the daily performance of the S&P Mid Cap 400 Index™

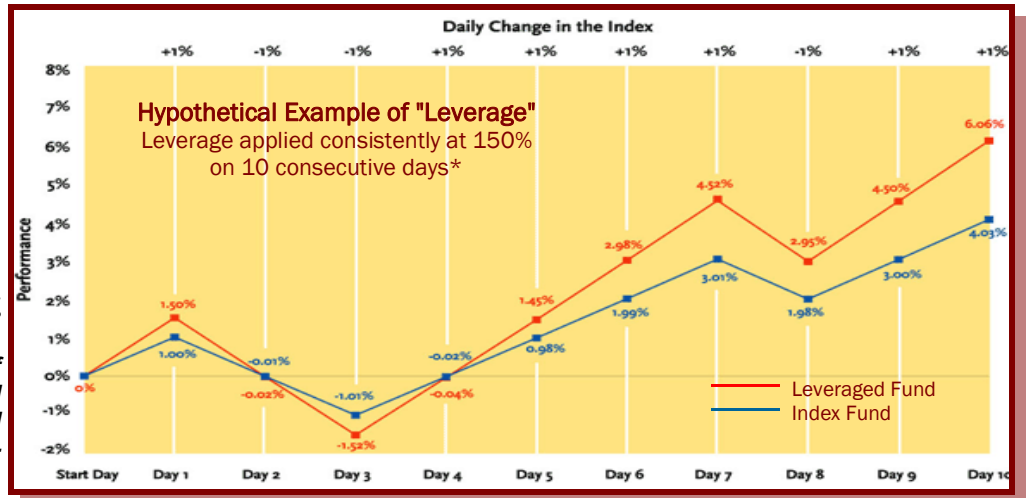
***Inverse Russell 2000 Fund (Small Capitalization)*** Seeks to provide investment returns that inversely correlate to the daily performance of the Russell 2000® Index.

## About Leverage and Inverse Funds

### The use of Leverage in an Index Fund

Leverage increases an investor's exposure to an index without increasing the investment amount. This increased exposure to an index is achieved through a fund's use of instruments such as derivatives (i.e. futures, swaps, options on futures) as well as the underlying securities that enable the leveraged fund to pursue its objective. The objective of using leverage is to multiply the return of the index <sup>1</sup>.

Consistently applied leverage, when coupled with compounding, may significantly increase an investor's long-term prospects for out-performance versus the underlying index. The possibility of outperforming the underlying index can increase dramatically with the length of the holding period <sup>1</sup>. **Of course, investors need to understand that leverage works both ways and there is a risk of compounded under-performance as well <sup>1</sup>.**

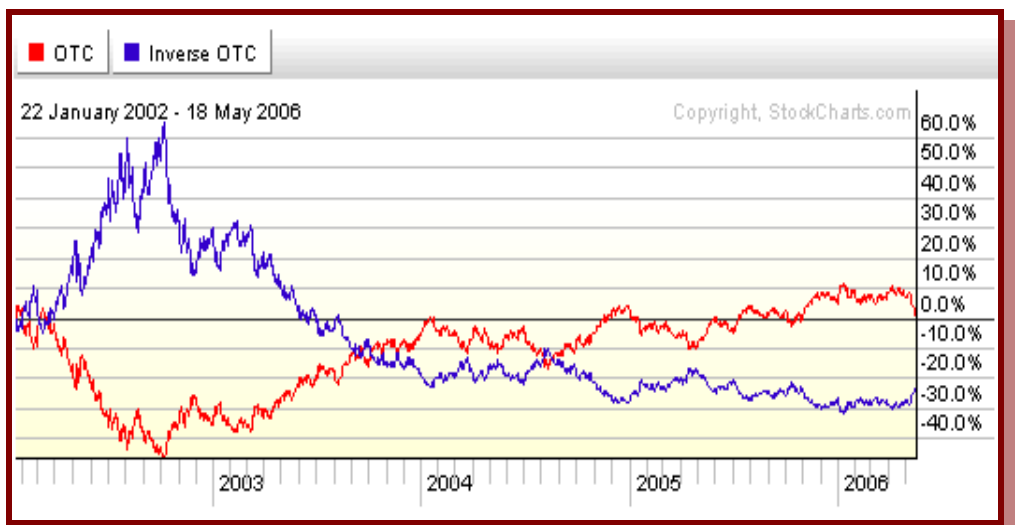


### How Inverse Funds Work

Inverse or short funds are designed to provide investment results that inversely correlate to the daily price movement of their benchmark. If the fund meets its objective, the value of the shares will tend to increase on a daily basis by the amount of any decrease in the benchmark. Likewise, the value of the shares will tend to decrease on a daily basis by the amount of any increase in the benchmark <sup>1</sup>. Inverse funds attempt to meet their objective through the use of short sales, futures and/or options.

Inverse funds are not as risky as short selling a security—which could cause the investor to lose more than the principal amount invested. Like all other mutual funds, investors are subject to losses up to, but not exceeding, the principal amount invested <sup>1</sup>.

They offer another advantage as they can be owned in qualified retirement accounts. This offers investors a hedging tool that is otherwise not available through the use of options, futures and short sales, which are not permitted in retirement accounts <sup>1</sup>.



<sup>1</sup> Rydex Investments Website (www.rydexfunds.com) September 2004