From the Desk of:

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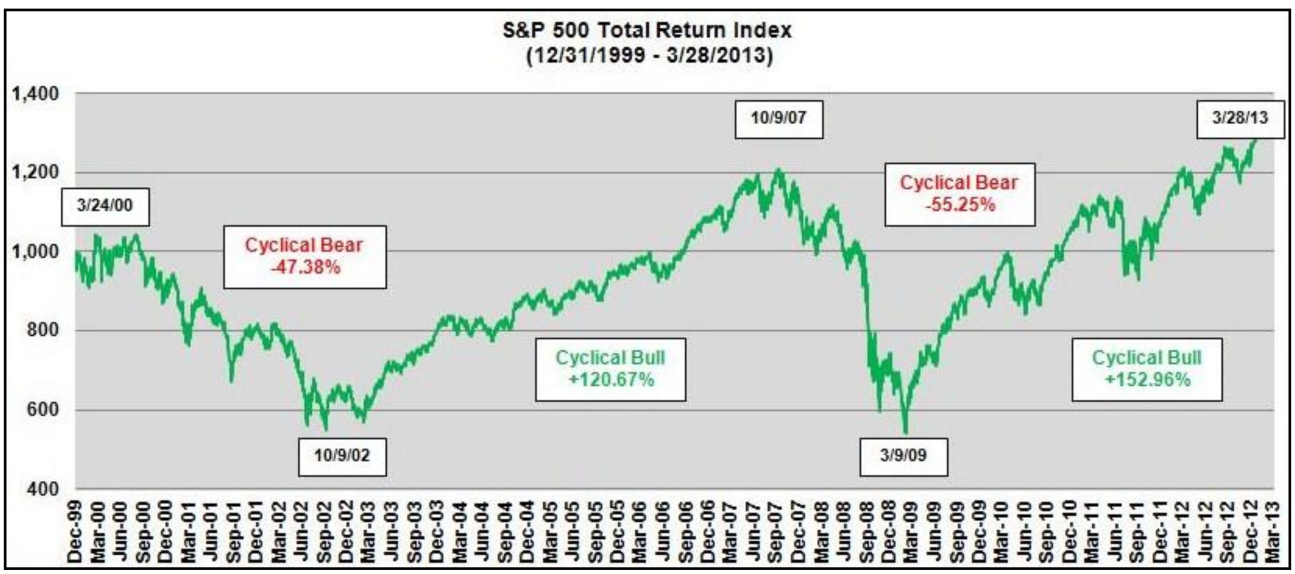
Power Dividend Index Portfolio
A Tactical Dividend Strategy for Today's Yield Starved Investor

Secular Bear Market

Since the turn of the millennium the market has been in a secular bear market (typically a 16-18 year period) offering very little in terms of a total return for investors. In addition, the market as is depicted in the chart below has offered significant volatility and created an unwelcome roller coaster ride for investors along the way. The market as measured by the S&P 500 index has had two cyclical bear markets over the aforementioned time period both with hearty drops in the 50% range. Clearly the buy and hold approach over this time period has not been successful. This downside volatility has forced many investors away or reducing their investments in stocks and driven them into less volatile areas in the fixed income asset classes.



Source: Bloomberg as of 3/28/13

The S&P 500 index from the turn of the millennium through the end of March has averaged 2.45%. By comparison, money markets have returned around 2.00-2.25%. The majority (about 80%) of the return of the S&P 500 index since the turn of the millennium has come from dividends being paid by corporations. Clearly this lack of a total return macro environment has led many investors seeking yielding investment vehicles primarily into the fixed income asset classes. As baby boomers, and the population as a whole here domestically, are aging it is only natural for investors to be seeking more income, and less volatility, from their investments.

Challenges Facing Income Investors Today

In order to stimulate the economy to come out of our last recession the Federal Reserve has taken extraordinary measures. They had reduced the Fed Fund's rates to near 0%. In addition, they have been providing monetary stimulus in the form of quantitative easing to help re-invigorate a sluggish economy. Currently, the Federal Reserve is purchasing $85 billion per month in treasury and asset backed security assets in an attempt to maintain a low interest rate and accommodative policy. Between the combination of Fed stimulus and investor demand, investors are seeing historically low interest rates as is evidenced by the following yield chart.

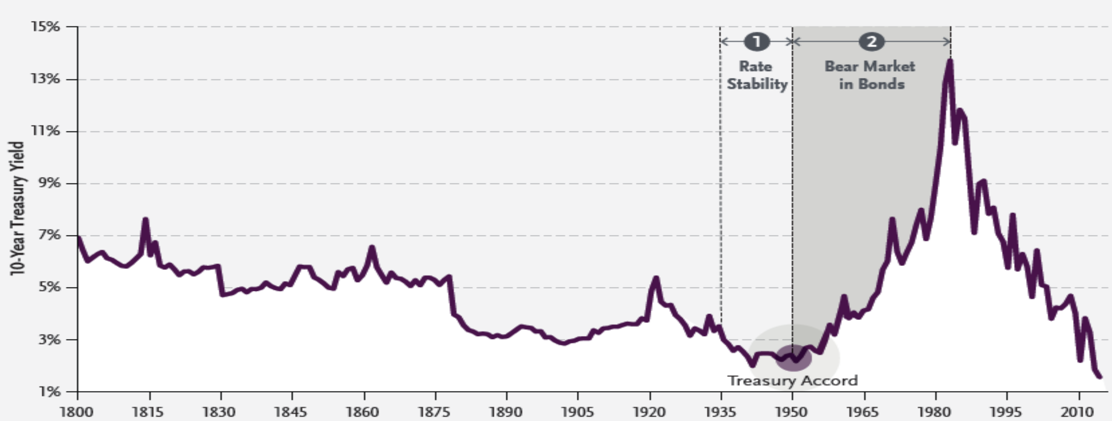
Current Fixed Income Yields as of 4/19/2013	
Money Market, annual yield	0.47%
5 Year CD, annual yield	1.22%
US 10 Year Treasury	1.71%
Barclays US Aggregate Bond Index	1.76%
Merrill Lynch US High Yield Master II Index	5.49%

Source: Bloomberg/Wall Street Journal, Monday April 22, 2013

Further, the Fed has given guidance that they will be leaving interest rates low for an extended period heading into 2015. This is problematic for the retiree or pre-retiree investor who is seeking either income or income and growth as part of their total return. In addition, not only are investors faced with paltry yields in the fixed income space, they are further facing the dilemma of rising interest rate risk to their fixed income investments when interest rates rise. There is an inverse relationship between interest rates and bond prices. Hence, a bond fund investor could potentially lose significant principal value when the rate cycle changes and interest rates head higher. Essentially, the higher the quality of the bond or bond fund and the longer the duration the higher the interest rate risk. Consider the following chart reflecting the last time the Fed was supporting the long end of the curve (similar to today) and changed policy:

Historically, the End of Fed Intervention is Bad News for Bonds

U.S. 10-Year Treasury Yields since 1800



The removal of Fed support of bond prices at the long end of the curve in 1951 set off a bear market in bonds that lasted thirty years. Could history repeat itself once the current period of low rates ends? While we do not think this is imminently possible, future policy change is increasingly a concern.

Source: Bloomberg. Data as of 12/31/2012.

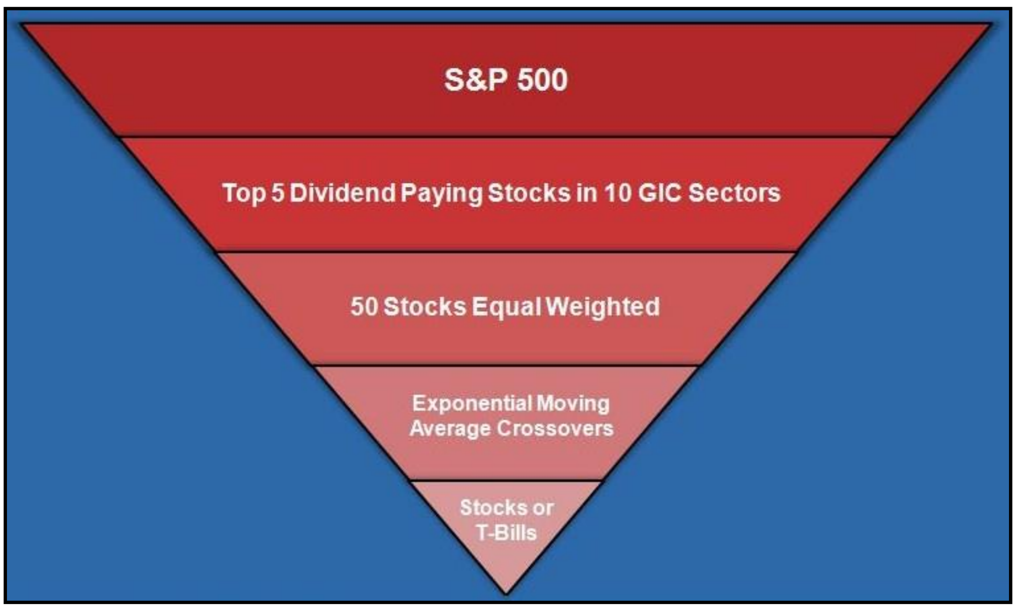
Let this be a warning particularly to fixed income bond investors of the potential impact of rising interest rates! The combination of historically low yields and the possibility of rising interest rates are forcing yield starved investors seeking income and or a total return to either take on higher credit risk in the fixed income space or seek other alternatives such as dividend paying equities.

W.E. Donoghue's Power Dividend Index

In order to address the needs of investors facing the previously mentioned challenges, W.E. Donoghue & Co., Inc. (WEDCO) has collaborated with S-Networks and Standard and Poor's to create W.E. Donoghue's Power Dividend Index. In addition, since you cannot invest directly in and index, WEDCO has established a separately managed account portfolio, the Power Dividend Index Portfolio to track the index.

The strategy is a total return solution attempting to meet clients' objectives of seeking growth and income and or total return. The strategy is suitable for an aggressive investor or the aggressive component of an overall allocation as the strategy can exhibit stock market like volatility and risk in the short term. The strategy is an entirely rules based mechanical index strategy calculated by Standard and Poor's which attempts to reduce the risks of individual stock risk, sector concentration risk, and overall market risk.

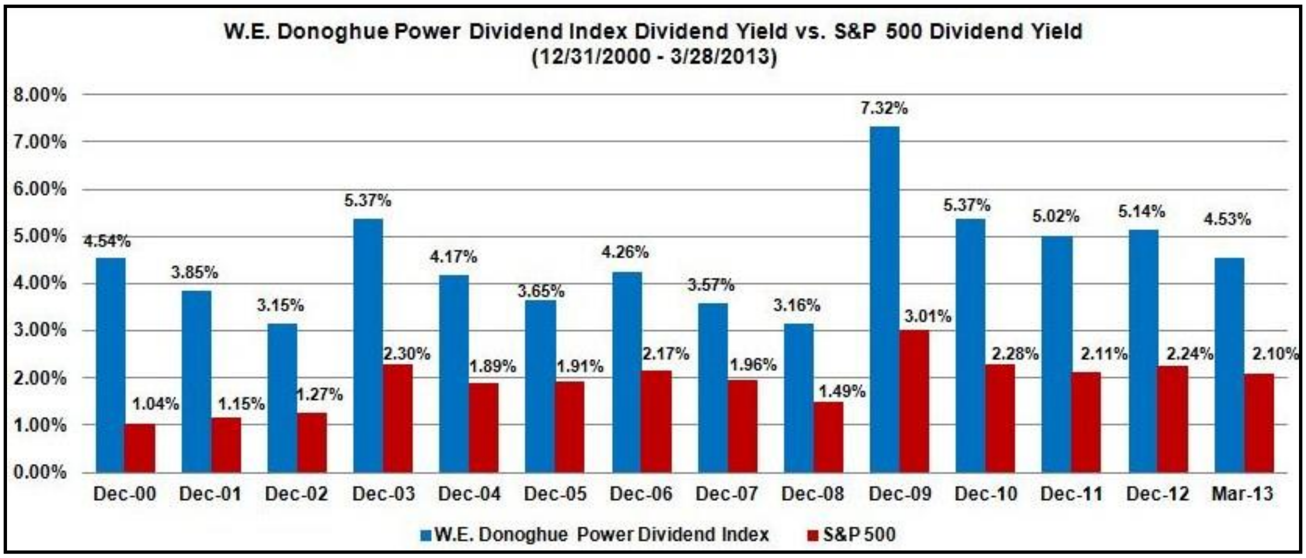
Power Dividend Index Selection Process



The index is predicated upon the SDOGX index of 50 stocks derived from the S&P 500 Index. The strategy will employ an intermediate term tactical overlay to determine whether to be in a bullish or bearish (defensive) posture. When in a bullish posture, the index methodology selects the five stocks in each of the ten GICS sectors that make up the S&P 500 index which offer the highest dividend yields as of the last trading day of November. The stocks selected for inclusion in the portfolio are equally weighted. The index will be divided into the following ten GICS sectors: consumer discretionary, consumer staples, energy, financials, health care, industrials, information technology, materials, telecommunication services and utilities. All constituents of W.E. Donoghue's Power Dividend Index must be constituents of the S&P 500 index. Technical indicators are utilized as an overlay to shift the strategy to a bearish (defensive) position, should the market conditions warrant, to attempt to mitigate losses during equity market downturns. When in a defensive position the index will be invested in 90 day T-bills, thus the separate account portfolio will be invested in cash equivalents such as money market funds. When in a bullish posture the index and hence the separate account portfolio will rebalance the individual stock holdings quarterly.

Why Dividend Paying Stocks?

W.E. Donoghue's Power Dividend Index invests in a diversified portfolio of 50 dividend paying stocks which reduces individual stock risk. WEDCO prefers dividend paying stocks because dividends have accounted for the majority of returns since the turn of the millennium in the S&P 500 index. In addition, dividend paying stocks provide investors with an income source and potentially hedge inflation. Further, dividend paying stocks tend to be less volatile and potentially can offer preferential tax treatment. The following table reflects the historical dividend yield of the Power Dividend Index relative to the S&P 500 index dividend yield. This additional yield can offer an additional income source for an investor.



Source: S-Networks as of 3/28/13

Why Equal Weighting?

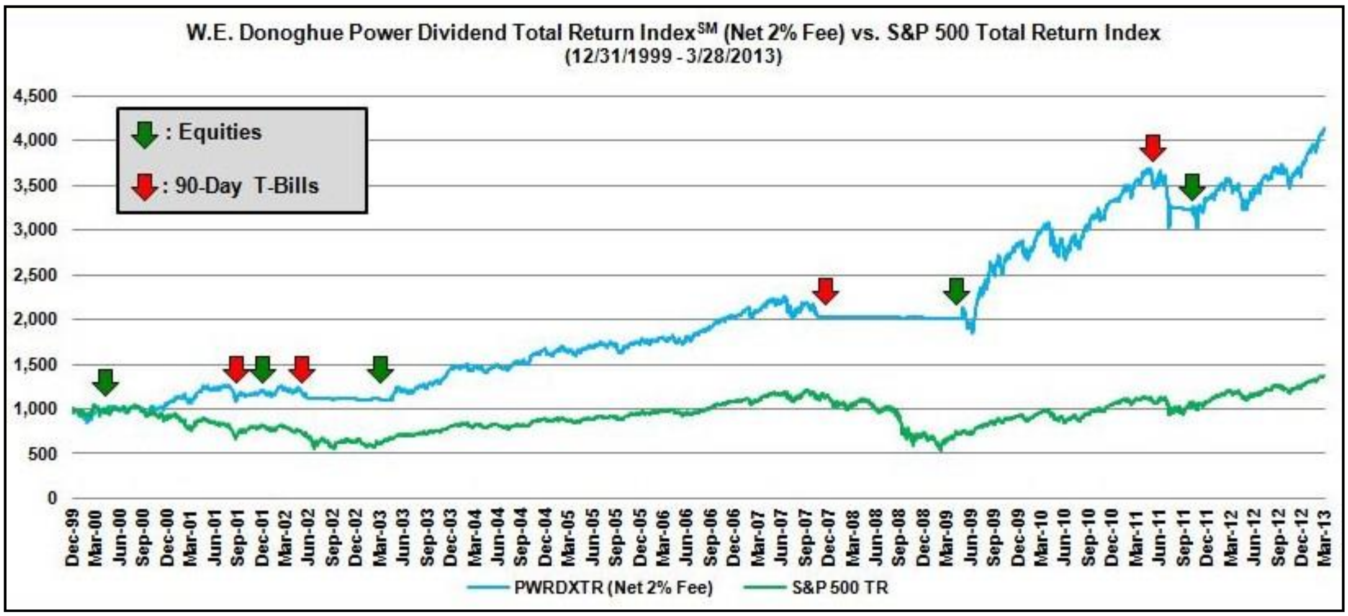
The Power Dividend Index will equal weight amongst 50 stocks when in a bullish position. The purpose of equal weighting vs. market cap weighting is to avoid investing too much in one single stock that may have experienced strong price appreciation and result in an overbought position. As an example, Apple has been a dominant player in the NASDAQ and NASDAQ 100 index which is great when it is providing the upside returns but when it turned negative it was dragging down the overall indices.

The Power Dividend Index will also equal weight amongst the 10 sectors. This will reduce the risk of being overly exposed to a given sector. As an example, in the first cyclical bear market of the new millennium technology was a significant part of the S&P 500 Index. When technology stocks dropped about 90%, between 2000-2002, the S&P 500 Index took a significant hit due to the sector concentration.

Lastly, the Power Dividend Index will rebalance on a quarterly basis all stocks in the index. This will potentially further reduce the impact of stocks and or sectors getting run up and taking on a greater weight. Essentially the strategy will sell down its winners to a 2% weighting and take the proceeds and buy the losers back to a 2% weight on a quarterly basis. To some degree this may help the portfolio, at least partially, sell higher and buy lower.

Why Tactical Asset Management?

The Power Dividend Index employs a tactical asset management technique. The strategy shifts its overall allocations based on intermediate term exponential moving average crossovers. When the crossover is bullish the index will invest in dividend paying stocks. When the crossover is bearish the index will invest in 90 day US treasury bills or in the case of the separate account portfolio in cash equivalents. The reason WEDCO chooses to employ the tactical overlay is because you can invest in the best of quality fortune 500 stocks paying a nice dividend, but when the overall market is declining (market risk) you can still be faced with significant losses. As an example, during the financial crisis environment in 2007-2009 dividend strategies, including indices, were down 50-60% plus. The tactical overlay attempts to mitigate market risk by shifting to cash equivalents when the markets are broadly declining. The following chart reflects the implementation of the tactical overlay including a visual of buy and sell dates:



Source: Standard and Poor's as of 3/28/13, see disclosure.

From the chart below you will find that although the tactical overlay does make changes, the changes are relatively infrequent considering the 13 year plus time frame:

Allocation	Begin Date	End Date
Equities	6/21/2000	10/31/2001
90-Day T-Bills	11/1/2001	11/13/2001
Equities	11/14/2001	6/24/2002
90-Day T-Bills	6/25/2002	5/9/2003
Equities	5/12/2003	11/16/2007
90-Day T-Bills	11/19/2007	5/26/2009
Equities	5/27/2009	8/15/2011
90-Day T-Bills	8/16/2011	11/2/2011
Equities	11/3/2011	Current

Source: Bloomberg as of 3/28/13, see disclosure.

Power Dividend Index Portfolio

The Bottom Line

Returns for Period Ending March 31, 2013

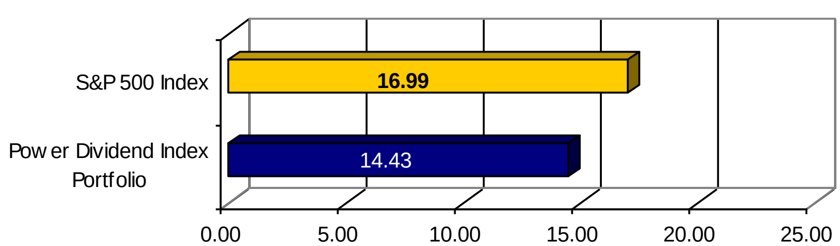
	Year to Date	1 Year Total	3 Year Annl.	5 Year Annl.	10 Yr Annl.	Incept. Annl.
Power Dividend Index Portfolio	13.55	16.96	11.70	15.23	13.99	11.23
S&P 500 Index	10.61	13.95	12.67	5.80	8.53	2.40

*See Disclosure

As is evidenced from the table above the strategy seeks to add value by focusing its primary discipline on yield. Should a stock fall out of the S&P 500 index or not pay a dividend the stock will be removed at a given point from the index. This reduces the risk of owning a company whose business model may be running into difficulty and not meeting cash flow issues to account for the dividend. I believe this reduces risk along with re-balancing, equal weighting and the tactical overlay. By avoiding the large losses the strategy has been able to offer stronger returns than the S&P 500 index. As is the case for many sports sometimes a good defense can lead to a good offense.

How Wild Is the Ride?

Standard Deviation 3 Years



*See Disclosure

Keep in mind that although the strategy has less volatility than the S&P 500 index, it will still have stock market like volatility. Therefore, it is critically important to determine if the portfolio offers an acceptable level of risk for an individuals portfolio needs and risk tolerance.

How Do the Numbers Stack up the vs. S&P 500 Index?

Clearly any investment portfolio can offer strong returns over a short term period which can skew the numbers. That being said, I think it is an important exercise to review year on year results to get an understanding of how a given strategy will perform over different environments. The following reflect the yearly returns on a year over year basis for the period ending March 31, 2013:

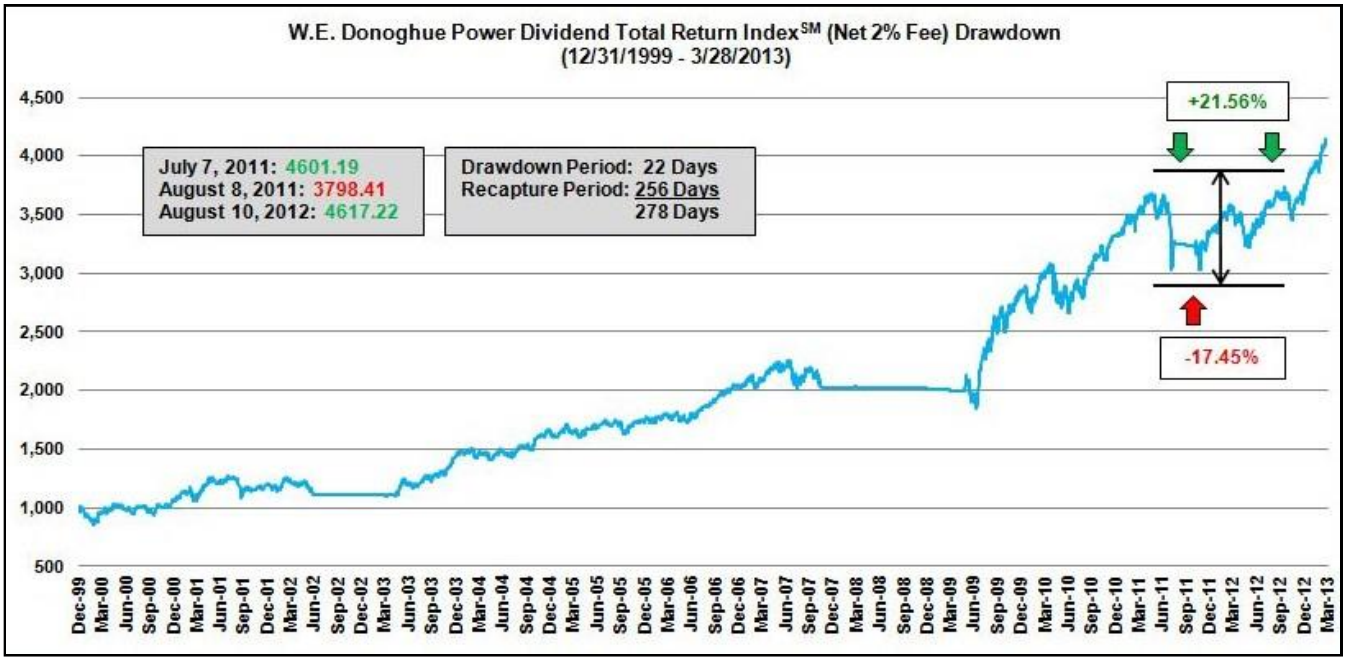
	Power Dividend TR Index (Net 2% Fee)	S&P 500 TR Index	+/- vs S&P 500 TR Index
3/31/2000	-3.20%	2.29%	-5.49%
3/30/2001	14.85%	-21.68%	36.53%
3/28/2002	11.96%	0.24%	11.72%
3/31/2003	-10.83%	-24.76%	13.93%
3/31/2004	31.68%	35.12%	-3.44%
3/31/2005	13.65%	6.69%	6.95%
3/31/2006	7.30%	11.73%	-4.43%
3/30/2007	17.01%	11.83%	5.18%
3/31/2008	-2.63%	-5.08%	2.45%
3/31/2009	-1.00%	-38.09%	37.09%
3/31/2010	47.67%	49.77%	-2.10%
3/31/2011	19.53%	15.64%	3.88%
3/30/2012	-0.29%	8.54%	-8.83%
3/28/2013	17.11%	13.96%	3.15%

Source: Bloomberg as of 3/28/13, see disclosure.

The W.E. Donoghue Power Dividend Index^{SM} has Outperformed the S&P 500 in 9 of the Past 14 Years.

The strategy seeks to provide consistencey of performance. It is important to note that the solution is not immune from down periods. However, the strategy does have a defensive sell discipline to attempt to mitigate the major market selloffs. The index has outperformed the S&P 500 index in 9 of the last 10 years. What is more important is that it has done so with less risk particularly in the years the market has had significant down periods since the turn of the millennium.

What About the Downside Risks?



SourSource: Bloomberg as of 3/28/13, see disclosure.

One should always consider drawdown when choosing an investment strategy. Essentially drawdown measures the peak to trough percentage drop. In other words, from the highest value to the lowest value. When an investor receives their statement and the see their account values going down in a given month they are experiencing drawdown. What no investor likes to see is a sustained bear market where their account values are going down repeatedly month after month. This can be disheartening, and unfortunately as is too often the case, force an investor to sell out of the market at the wrong time and have no plan for re-entry. I believe drawdown is the most important risk statistic for an investor to analyze before choosing an investment. An indiviual investor should take the maximum drawdown and equate it to real dollars to detemine how much in the short term they are willing to lose. A 17% loss doesn't sound that bad until you put it into dollar terms. A pre-retiree with a $500,000 account might view that same loss equated to $85,000 differently. Therefore, it would make sense to get an understanding of how much your investment portfolio might fall if your timing wasn't great and you started investing in the strategy at the worst possible time. The above chart reflects maximum drawdown the strategy may have experienced since the turn of the millennium. Therefore the biggest drop was about 17%. It is worth noting that the S&P 500 Index experienced a maximum drop in excess of 50% over the same time period. This is consistent with the strategy's goal of striving to capture a total return and mitigating downside risks in periods of market weakness. There can be no guarantee that the strategy will benefit from these defensive shifts in the future. In addition, the strategy may be subject to whipsaws in the short term such as the defensive move in 2011. In addition, the above chart reflects the time it would take in months to recapture what you may have lost during the drawdown. For most equity investors the recapture period is relatively short. It is not what you make, it is what you keep.

Let's Take a Look at the Stats.

The following tables reflect how the strategy has stacked up over the different time intervals relative to the S&P 500 Total Return Index. Generally speaking the solution has offered more upside with less downside risk.

Price Appreciation		
	Power Dividend TR Index (Net 2% Fee)	**S&P 500 TR Index**
Since Inception	314.33%	37.04%
10 Year	273.29%	126.78%
7 Year	132.48%	40.80%
5 Year	104.04%	32.64%
3 Year	39.57%	43.05%
1 Year	17.11%	13.96%

Compound Annual Growth Rate		
	Power Dividend TR Index (Net 2% Fee)	**S&P 500 TR Index**
Since Inception	11.55%	2.45%
10 Year	14.08%	8.53%
7 Year	12.81%	5.01%
5 Year	15.33%	5.81%
3 Year	11.75%	12.67%
1 Year	17.11%	13.96%

Standard Deviation (Monthly)		
	Power Dividend TR Index (Net 2% Fee)	**S&P 500 TR Index**
Since Inception	0.1226	0.1589
10 Year	0.1160	0.1482
7 Year	0.1236	0.1672
5 Year	0.1364	0.1892
3 Year	0.1284	0.1501
1 Year	0.1153	0.1039

Source: Bloomberg as of 3/28/13, see disclosure.

Who Should Consider Power Dividend Index Portfolio?

Investors who are seeking stock market returns with less volatility should consider the Power Dividend Index Portfolio. It is important to again point out the potential volatility and downside risks previously mentioned. Therefore, the strategy may be appropriate for a portion of an overall diversified portfolio for less assertive investors. We have been suggesting a combination of this strategy and W.E. Donoghue's Power Income Portfolio for clients seeking a combination of growth and income.

Should you have interest in the Power Dividend Index Portfolio please review all disclosures and ADVII before establishing an account to be certain the strategy is right for you or your client. Should you have any questions regarding the current market conditions feel free to call W. E. Donoghue & Co., Inc. (800) 642-4276.

Disclosure

The Power Dividend Total Return Index (Ticker: PWRDXTR) is a Service Mark of W. E. Donoghue & Co., Inc. The Power Dividend Index Portfolio is based on the Power Dividend Total Return Index (PWRDXTR) with an inception date of 12/31/1999; one cannot invest directly in an index. The Index is a rules based index, which the Power Dividend Index Portfolio follows; reflects the theoretical performance an investor would have obtained had it invested in the manner shown and does not represent returns actually obtained and does not represent returns an investor actually attained, as investors cannot invest directly in an index. The Power Dividend Index Portfolio returns represented in this material do not reflect the actual trading of any client account. No representation is being made that any client will or is likely to achieve results similar to those presented herein. The Power Dividend Index Portfolio performance is net of a two percent (2.00%) annual fee deducted from the account balance quarterly. The annual fee is derived from the average daily balance of the previous quarter. The Portfolio performance includes the reinvestments of all dividends and distributions. Additional fees will apply for transactions and trading which will be determined by the Custodian of the account and will decrease the return experienced by a client. Individual client account results will vary from the Power Dividend Index Portfolio and the Power Dividend Index (PWRDXTR) returns. Past performance is no guarantee of future results or returns. Therefore, no current or prospective client should assume that future performance will be profitable. The Power Dividend Index Portfolio inception date is 12/21/2012. January 2013 is the beginning of client composite performance, net of actual fees and expenses.

The inclusion of the S&P 500 (S&P) Index results are for comparison purposes only. The S&P 500 Index is a market capitalization weighted index of 500 widely held stocks often used as a proxy for the stock market. Standard and Poor's chooses the member companies based upon market size, liquidity, and industry group representation. Included are stocks of industrial, financial, utility, and transportation companies. The historical performance results of the S&P 500 Index (and all other indexes) are unmanaged; do not reflect the deduction of transaction and custodial charges, or the deduction of a management fee, the incurrence of which would have the effect of decreasing indicated historical performance results and cannot be invested in directly. Economic factors, market conditions and investment strategies will affect the performance of any portfolio, and therefore are not assurances that it will match or outperform any particular benchmark.

Drawdown calculations are based upon month end values beginning 12/31/1999. Drawdown is the percentage loss from the highest month end value to the lowest month end value in the drawdown period. Recapture is the number of months required to return to, or exceed, the account value at the beginning of the drawdown period, including the months of the decline.

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