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## Methodology

# Guggenheim Directional Allocation Index

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## Introduction

The Guggenheim Directional Allocation Index<sup>SM</sup> is part of the family of indexes offered by Transparent Value using rules-based, published analytics. Components of the index are selected in part based on their RBP<sup>®</sup> probabilities.

RBP<sup>®</sup>, which stands for Required Business Performance<sup>®</sup>, is calculated by taking a reverse discounted cash flow approach to determine the future business performance required by a company to support its current stock price. RBP<sup>®</sup> probabilities intend to measure the likelihood that a company can deliver the required business performance identified by applying the methodology over specified time periods.

The Guggenheim Directional Allocation Index<sup>SM</sup> is constructed as an index of indexes, reallocating weights among the Guggenheim RBP<sup>®</sup> Large-Cap Aggressive Index<sup>SM</sup>, the Guggenheim RBP<sup>®</sup> Large-Cap Defensive Index<sup>SM</sup>, the Guggenheim RBP<sup>®</sup> Large-Cap Market Index<sup>SM</sup> and a cash component (earns 0% return) using a moving average crossover system that accounts for three primary signals: economic condition, consumer sentiment and market momentum.

## Index Universe

The Guggenheim Directional Allocation Index<sup>SM</sup> takes an index-of-indexes approach. The selection universe comprises component stocks of Guggenheim RBP<sup>®</sup> Directional Series Indexes<sup>SM</sup> and a cash component. The allocations are determined by the moving average crossover system at the time of the rebalance.

## Index Construction and Rebalancing

The index methodology uses the following indicators as inputs:

### Primary Indicators:

- 12-month simple moving average (SMA) of The Conference Board<sup>®</sup> Consumer Confidence Index<sup>®</sup> (CCI)\*. (Positive if the index is above the moving average; negative otherwise)
- 6-month SMA of The Conference Board Leading Economic Index<sup>®</sup> (LEI)\*. (Positive if the index is above the moving average; negative otherwise)
- 250-day SMA of the Dow Jones U.S. Large-Cap Total Stock Market Index<sup>SM</sup> (DWLT). (Positive if the index is above the moving average; negative otherwise)

### Secondary Indicators:

- 250-day SMA of Guggenheim RBP<sup>®</sup> Directional Indexes<sup>SM</sup>. (Positive if the index is above the moving average; negative otherwise)

### Component Selection and Holdings:

At each snapshot day, moving averages for the index and each of the underlying indexes are calculated. Reallocations are made when the following conditions are met:

- In the event that all three primary indicators are positive (above their respective moving average):
  1. The Guggenheim RBP<sup>®</sup> Large-Cap Aggressive Index<sup>SM</sup> receives an allocation if it is above its moving average.

2. The Guggenheim RBP® Large-Cap Market Index<sup>SM</sup> receives an allocation if either of the following is true:
  - i. It is above its moving average and the Guggenheim RBP® Large-Cap Aggressive Index<sup>SM</sup> is above its moving average.
  - ii. The Guggenheim RBP® Large-Cap Aggressive Index<sup>SM</sup> is below its moving average.
- In the event that two of three primary indicators are positive:
  1. The Guggenheim RBP® Large-Cap Market Index<sup>SM</sup> receives an allocation.
- In the event that one of three primary indicators is positive:
  1. The Guggenheim RBP® Large-Cap Market Index<sup>SM</sup> receives an allocation if it is above its moving average.
  2. The Guggenheim RBP® Large-Cap Defensive Index<sup>SM</sup> receives an allocation.
- In the event that the three primary indicators are negative, current LEI is less than the one-month-prior LEI, and the two-month-prior LEI is less than the three-month-prior LEI:
  1. Cash receives an allocation if all primary signals are negative and at least one of the primary signals was positive at the previous scheduled or unscheduled rebalance.
  2. If the above conditions are not met, the Guggenheim RBP® Large-Cap Defensive Index<sup>SM</sup> receives an allocation if it is above its own moving average.
  3. Cash receives allocation if:
    - i. The Guggenheim RBP® Large-Cap Defensive Index<sup>SM</sup> is below its own moving average.
    - ii. The Guggenheim RBP® Large-Cap Defensive Index<sup>SM</sup> is above its own moving average, but was below its own moving average at the previous rebalance.
- In the event that the three primary indicators are negative and either the current LEI is higher than the one-month-prior LEI, or the two-month-prior LEI is higher than the three-month-prior LEI:
  1. The Guggenheim RBP® Large-Cap Defensive Index<sup>SM</sup> receives an allocation.

## Review Frequency

The index is rebalanced quarterly, after the close of third Friday of March, June, September and December.

The index also is rebalanced after the close of any Friday if LEI moves above or below its moving average on the snapshot day, which occurs three business days prior to the rebalance day.

## Weighting

The Guggenheim Directional Allocation Index<sup>SM</sup> allocates weights to the underlying indexes equally based on the number of underlying indexes selected to receive an allocation at the time of the rebalance.

## Launch Date

The index was first published on June 11, 2012.

Additional information regarding the RBP® methodology is available at [www.rbpinstitute.com](http://www.rbpinstitute.com).

The Guggenheim RBP® Large-Cap Aggressive Index consists of a basket of stocks in the Dow Jones U.S. Large-Cap Total Stock Market Index selected and weighted in an optimized fashion to maximize RBP® Probability and target a beta greater than 1.0 in the aggregate.

The Guggenheim RBP® Large-Cap Market Index consists of a basket of stocks in the Dow Jones U.S. Large-Cap Total Stock Market Index selected and weighted in an optimized fashion to maximize RBP® Probability and target a beta close to 1.0 in the aggregate.

The Guggenheim RBP® Large-Cap Defensive Index consists of a basket of stocks in the Dow Jones U.S. Large-Cap Total Stock Market Index selected and weighted in an optimized fashion to maximize RBP® Probability and target a beta less than 1.0 in the aggregate.

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