



MARTIAL CAPITAL
www.martialcapital.com

MARTIAL CAPITAL WHITEPAPER: SECTOR DIVERSIFICATION

One of the ways that our model contains risk and reduces drawdowns¹ is by diversifying across sectors. The model is given a set of rules that allows it to allocate more positions to those sectors it thinks will give the best performance in the near to intermediate term, but it is also encouraged to spread its risk broadly across the market.

To illustrate the point, here are our sector allocations in the spring of 2007, during the seeded² period of our funds.

US	Canada
Energy Equipment & Services 6%	Metals & Mining 34%
Containers & Packaging 5%	Energy Equipment & Services 6%
Metals & Mining 4%	Oil & Gas Consumable Fuels 5%
Machinery 8%	Paper & Forest Products 15%
Auto Components 6%	Construction & Engineering 8%
Leisure Equipment & Products 4%	Food & Drug Retailing 4%
Diversified Consumer Services 4%	Pharmaceuticals 4%
Media 11%	Thrifts & Mortgage Finance 4%
Multiline Retail 6%	Capital Markets 5%
Food Products 8%	Insurance 4%
Tobacco 5%	Internet Software & Services 4%
Pharmaceuticals 8%	Communications & Equipment 3%
Internet Software & Services 6%	Wireless Telecommunication Services 5%
Software 7%	
Electronic Equipment & Instruments 4%	
Semiconductor Equipment & Products 5%	
Wireless Telecommunication Services 3%	

¹ A drawdown is a decrease in price. It is measured as the percentage decrease from the highest price of a security to its lowest point

² Before a fund is made available to the public, many portfolio managers put their own personal funds at risk using the investment strategy they intend to follow with the fund, to make sure their strategy really works in the real world. This is called the "seeded period".