Summit Equities, Inc.

Investing Involves Risk

Summit Equities, Inc. ("Summit") has generally summarized below what we feel are relevant risks broadly relating to the types of securities we primarily recommend and invest in for our client accounts; however, securities may be subject to additional risks that are specific to that security or issuer and we cannot and do not attempt to cover all risks that clients may be exposed to within their portfolios. Clients are strongly encouraged to review the prospectus disclosures and offering documents relating to the securities held in their portfolios if they have any questions, as these documents discuss in more detail the risks relating to the particular product. Clients with questions regarding a particular security should contact Summit.

General Risks of Owning Securities

Risk of Loss

Investing in securities always involves the risk that you will lose money. Securities markets fluctuate substantially over time. In addition, as recent global and domestic economic events have indicated, performance of any investment is not guaranteed. As a result, there is a risk of loss of managed assets that may be out of our control. We will do our very best in the management of our investors' assets; however, Summit cannot guarantee any level of performance or that the account assets will not be lost.

Market Volatility

In periods of market volatility, we may be unable to invest new money contributed to an account, or proceeds from the sale of securities as quickly as we might have been able to do under normal market conditions. Similarly, we may be unable to sell securities to raise cash or to accommodate a terminating client's request to sell securities as quickly, or at favorable prices, as we might have been able to do under normal market conditions. During periods of market volatility, we will use reasonable efforts to manage accounts consistent with applicable account guidelines and will take efforts to restore the account to such guidelines in a prudent manner if market volatility causes it to deviate from such account guidelines.

Mutual Funds (Open-end Investment Company)

A mutual fund is a company that pools money from many investors and invests the money in stocks, bonds, short-term money market instruments, other securities or assets, or some combination of these investments. The portfolio of the fund consists of the combined holdings it owns. Each share represents an investor's proportionate ownership of the fund's per share net asset value ("NAV") plus any shareholder fees that the fund imposes at the time of purchase. Mutual funds have benefits such as professional management, diversification, affordability and liquidity. However, they also have features that some investors view as disadvantages. Mutual funds charge clients sales charges, annual fees and other expenses, regardless of how the fund performs. Depending on the timing of their investment, clients may also have to pay taxes on any capital gains distribution they receive. This includes instances where the fund went on to perform poorly after purchasing the shares. With an individual stock, clients can obtain close to real-time pricing information with relative ease by checking financial websites or by calling their IAR. Clients can also monitor how a stock's price changes throughout the day. By contrast, with a mutual fund, the price at which an investor purchases or redeems shares will typically depend on the fund's NAV, which the fund might not calculate until many hours after the client placed the order. In general, mutual funds must calculate their NAV at least once every business day, typically after the major U.S. exchanges close.

When it comes to investing in mutual funds, clients have literally thousands of choices. Each type has different characteristics and risks. Generally, the higher the potential return, the higher the risk of loss. Some of our more prevalent mutual fund categories include:

Money Market Funds

Money market funds have relatively low risks compared to other mutual funds (and most other investments). By law, they can invest in only certain high quality, sort-term investments issued by the U.S. Government, I.S. corporations, and state and local governments. Money market funds try to keep their NAV, which represents the value of one share in a fund, at a stable $1.00 per share. However, the NAV may fall below $1.00 if the fund's investments perform poorly. Client losses have been rare, but they are possible. Money market funds pay dividends that generally reflect short-term interest rates, and historically the returns for money market funds have been lower than for either bond or stock funds. That is why inflation risk, the risk that inflation will outpace and erode investment returns over time, can be a potential concern for investors in money market funds.

Bond Funds

Bond funds generally have higher risks than money market funds, largely because they typically pursue strategies aimed at producing higher yields. Unlike money market funds, the SEC's rules do not restrict bond funds to high quality or short-term instruments. Because there are many different types of bonds, bond funds can vary dramatically in their risks and rewards. Some of the risks associated with bond funds include:

Credit Risk

There is a possibility that companies or other issuers may fail to pay their debts (including the debt owed to holders of their bonds). Consequently, this affects mutual funds that hold these bonds. By contrast, those that invest in bonds of companies with poor credit ratings generally will be subject to higher risk.

Interest Rate Risk

There is a risk that the market value of the bonds will go down when interest rates go up. Because of this, clients can lose money in any bond fund, including those that invest only in insured bonds or U.S. Treasury Bonds. Funds that invest in longer-term bonds tend to have a higher interest rate risk.

Payment Risk

Issuers may elect to pay off debt earlier than the stated maturity date on a bond. For example, if interest rates fall, a bond issuer may decide to "retire" its debt and issue new bonds that pay a lower rate. When this happens, the fund may not be able to reinvest the proceeds in an investment with as high a return or yield.

Stock Funds

Although a stock fund's value can rise and fall quickly (and dramatically) over the short term, historically stocks have performed better over the long term than fixed income investments, such as corporate bonds and treasury securities. Overall "market risk" poses the greatest potential danger for clients in stock funds. Stock prices can fluctuate for a broad range of reasons – such as the overall strength of the economy or demand for particular products or services. Not all stock funds are the same. For example:

Growth Funds

Growth funds focus on stocks that may or may not pay a regular dividend but have the potential for large capital gains. These funds favor companies expected to grow earnings, which could result in stock prices rising faster than the economy, and may be smaller and less seasoned companies. The smaller and less seasoned companies that may be in a growth fund have a greater risk of price volatility. Growth stocks, which can be priced on future expectations rather than current results, may decline substantially when expectations are not met or general market conditions weaken.

Equity Income Funds

Equity income funds stress current income over growth, and may invest in stocks that pay regular dividends. These funds are subject to dividend payout risk, which is the possibility that a number of the companies in which the fund invests will reduce or eliminate the dividend on the securities held by the fund.

Mid Cap Funds

Funds that invest in companies with mid-range market capitalizations involve additional risks. The securities of these companies may be more volatile and less liquid than the securities of larger companies.

Small Cap Funds

Funds that invest in stocks of small companies involve additional risks. Smaller companies typically have higher risk of failure and are not as established as larger blue-chip companies. Historically, smaller-company stocks have experienced a greater degree of market volatility than the overall market average.

International Funds

International investments are subject to additional risks, including currency fluctuation, political instability and potential illiquid markets.

Emerging Market Funds

Funds that invest in foreign securities of smaller, less-developed countries involve special additional risk. These risks include, but are not limited to, currency risk, political risk and risk associated with varying accounting standards. Investing in emerging markets may accentuate these risks.

Alternative Investment Funds

Alternative investments fall outside the three traditional asset types (stocks, bonds and cash). Alternative investments include hedge funds, managed futures, real estate, commodities and derivative contracts. Each fund is subject to specific risks, depending on the nature of the fund. These types of investments may have additional or enhanced risks. Clients should carefully review the prospectus disclosure and offering documents of these products, which contain important information about the specific risks of the product.

Exchange Traded Funds ("ETFs")

An ETF is a type of investment company (usually, an open-end fund or unit investment trust) containing a basket of stocks. Typically, the objective of an ETF is to achieve returns similar to a particular benchmark, including sector indexes. An ETF is similar to an index fund in that it will primarily invest in securities of companies that are included in a selected market. Unlike traditional mutual funds, which can only be redeemed at the end of a trading day, ETFs trade throughout the day on an exchange. Like stock market mutual funds, the prices of the underlying securities and the overall market may affect ETF prices. Similarly, factors affecting a particular industry segment may affect ETF prices that track that particular sector.

Leveraged ETFs

Leveraged ETFs seek to deliver multiples of the performance of the index or benchmark they track. Some ETFs are "inverse" or "short" funds, meaning that they seek to deliver the opposite of the performance of the index or benchmark they track. Some funds are both short and leveraged, meaning that they seek to achieve a return that is a multiple of the inverse performance of the underlying index. Most leveraged and inverse ETFs "reset" daily, meaning that they are designed to achieve their stated objectives on a daily basis. Due to the effect of compounding, their performance over longer periods of time can differ significantly from the performance (or inverse of the performance) of their underlying benchmark or index during the same period of time. This effect is magnified by the use of leverage. Therefore, inverse and leveraged ETFs that are reset daily typically are unsuitable for retail investors who plan to hold them for longer than one trading session, particularly in volatile markets.

Master Limited Partnerships ("MLPs")

MLPs are publically traded partnerships that trade mainly on the New York Stock Exchange and/or the NASDAQ, the same as stocks. With a few exceptions, MLPs hold and operate assets related to the transportation and storage of energy (certain MLPs may have commodity risk). Most publically traded companies are corporations. Corporate earnings are usually taxed twice. The business entity is taxed on any money it makes and then shareholders are taxed on the earnings the company distributes to them. The main advantage a partnership has over a corporation is that partnerships are "pass-through" entities for tax purposes. This means that the company does not pay any tax on its earnings. Distributions are still taxed, but this avoids the problem of double taxation that most publically traded companies face. Congress requires that any company designated as an MLP has to produce 90% of its earnings from "qualified resources" (natural resources and real estate). Most MLPs are involved in energy infrastructure, such as pipelines. MLPs are required to pay minimum distributions to limited partners. A contract establishes the payments, so distributions are predictable. Otherwise, the shareholders could find the company in breach of contract. In addition to general business risks discussed, MLPs bear the following risks:

Risk of Regulation or Change

The main advantage of an MLP is its tax-advantaged status under the current Internal Revenue Code. Therefore, changes in the tax code resulting in the loss of its preferential treatment could significantly affect the viability of MLP investments.

Interest Rate Risk

It is commonly thought that MLPs perform better when interest rates are low, making their yield higher in relation to the safest investments, such as Treasury bills and securities that are guaranteed by the U.S. government. Consequently, MLPs may perform better during periods of declining or relative low interest rates and more poorly during periods of rising or high interest rates.

Tax Risk

MLPs are pass-through entities, passing earnings through to the limited partners. Clients must be aware that there are potentially significant tax implications of investing in MLPs and they should consult with their tax advisor before investing in these securities. For example, income allocated to organizations that are exempt from federal income tax, including IRAs and other retirement plans, may be allocated in related business taxable income from a MLP and this income could be taxable to them.

Equity Securities

Investments in equity securities (e.g., common stock, preferred stock, convertible securities, rights and warrants) are generally subject to greater price volatility than fixed income securities. Investments in income-producing equities are subject to the risk that the issuer may reduce or discontinue the dividend. Under strategies utilizing equity securities, the portfolios are subject to the risk that stock prices may fall over short or extended periods of time. Individual companies may report poor results or be negatively affected by industry and/or economic trends and developments. The price of securities issued by such companies may suffer a decline in response. These factors contribute to price volatility, which is the principal risk of investing in securities.

Debt Securities (Bonds)

Issuers use debt securities to borrow money. Generally, issuers pay investors periodic interest and repay the amount borrowed either periodically during the life of the security and/or at maturity. Alternatively, investors can purchase other debt securities, such as zero coupon bonds, which do not pay current interest, but rather are priced at a discount from their face values and their values accrete over time to face value maturity. The market prices of debt securities fluctuate depending on such factors as interest rates, credit quality and maturity. In general, market prices of debt securities decline when interest rates rise and increase when interest rates fall. The longer the time to a bond’s maturity (i.e., duration), the greater its interest rate risk. Certain additional risk factors related to debt securities include:

Reinvestment Risk

When interest rates are declining, clients have to reinvest their interest income and any return of principal, whether scheduled or unscheduled, at lower prevailing rates.

Inflation Risk

Inflation causes tomorrow's dollar to be worth less than today's; in other words, it reduces the purchasing power of a bond investor's future interest payments and principal, collectively known as "cash flows". Inflation also leads to higher interest rates, which in turn leads to lower bond prices.

Call Risk

Debt securities may contain redemption or call provisions entitling their issuers to redeem them at a specified price on a date prior to maturity. If an issuer exercises these provisions in a lower interest rate environment, the account would have to replace the security with a lower yielding security, resulting in decreased income to clients.

Credit Risk

If the issuer of a debt security defaults on its obligations to pay interest or principal or is the subject of bankruptcy proceedings, the account may incur losses or expenses in seeking recovery of amounts owed to it.

Liquidity and Valuation Risk

There may be little trading in the secondary market for particular debt securities, which may affect adversely the account's ability to value accurately or dispose of such debt securities. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may decrease the value and/or liquidity of debt securities.

Municipal Bonds

Municipal bonds are debt obligations generally issued to obtain funds for various public purposes, including the construction of public facilities. Municipal bonds pay a lower rate of return than most other types of bonds. However, because of a municipal bond's tax-favored status, clients should compare the relative after-tax return to the after-tax return of other bonds, depending on the investor's tax bracket (which may change over time). Investing in municipal bonds carries the same general risks as investing in bonds in general. Investing in municipal bonds carries risk unique to these types of bonds including:

Legislative Risk

Legislative risk includes the risk that a change in the tax code could affect the value of taxable or tax-exempt interest income.

Tax Bracket Changes

Municipal bonds generate tax-free income and, therefore, pay lower interest rates than taxable bonds. Clients who anticipate a significant drop in their marginal income-tax rate may benefit from the higher yield available from taxable bonds.

Non-Traded Real Estate Investment Trusts ("REITs")

The risks of non-traded REITs are varied and significant. Because they are not exchange-traded investments, they are often lack a developed secondary market, thus making them illiquid investments. As blind pool investment vehicles, non-traded REITs' initial share prices are not related to the underlying value of the real estate investment properties. This is because non-traded REITs begin and continue to purchase new properties as new capital is raised. Thus, the risk for non-traded REITs is the possibility that the blind pool will be unable to raise enough capital to carry out its investment plan. After the capital raising phase is complete, non-traded REIT shares are infrequently re-valued and thus may not reflect the true net asset value of the underlying real estate investments. Non-traded REITs often offer clients a redemption program where the shares can be sold back to the sponsor, however, those redemption programs are often subject to restrictions and may be suspended at the sponsor's discretion. While non-traded REITs may pay distributions to investors at a stated target rate during the capital-raising phases, the funds used to pay such distributions may be obtained from sources other than cash flow from operations, and such financing can increase operating costs.

Hedge Funds

Hedge funds are speculative in nature and may use leverage or other aggressive investment practices. As a result, client returns may be highly volatile, and clients may lose all or a portion of the investment in the fund. Clients who invest in commodities (through hedge funds that specialize in this asset class) should know that commodities are subject to world events, liquidity, shifting market preferences, trade signal disruption, and many other things that cannot be successfully predicted, but do have a significant impact on future results.

Cash and Cash Equivalents

Cash and cash equivalents are the most liquid of investments. Cash and cash equivalents are considered very low-risk investments meaning, there is little risk of losing the principal investment. Typically, low risk also means low return and the interest an investor can earn on this type of investment is low relative to other types of investing vehicles.

This list of risks is not exhaustive. When clients invest in mutual funds and newly issued municipal bonds, they receive prospectuses and official statements which identify the risk factors associated with those securities and issuers. Clients are encouraged to review such disclosure documents. Past performance is not indicative of future results. Investing in securities involves a risk of loss that you, as a client, should be prepared to bear.