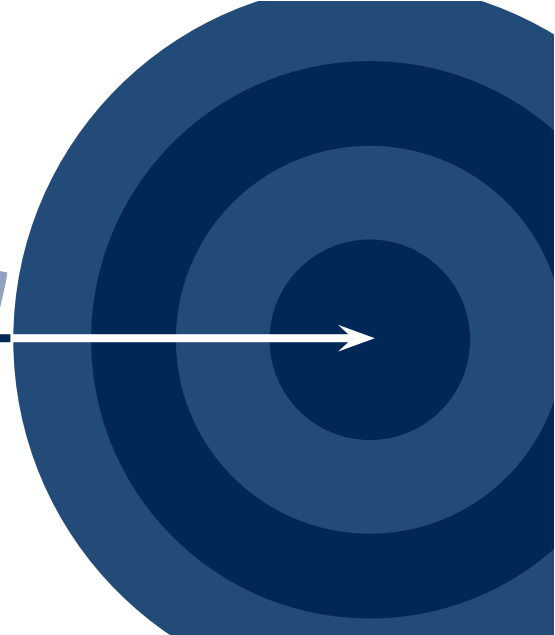


BULLSEYE

Highlights



Investor Behavior

DALBAR'S Quantitative Analysis of Investor Behavior (QAIB) has been measuring the effects of investor decisions to buy, sell and switch into and out of mutual funds since 1984. The QAIB study revealed that over the long term, the average asset allocation investor earned significantly less than mutual funds with an asset allocation objective.

Annualized Returns	1 Year	3 Years	5 Years
Average Asset Allocation Investor ¹	10.9%	6.5%	5.0%
Morningstar Objective: Asset Allocation	11.4%	8.6%	6.7%
DWA Balanced Strategy ²	15.4%	14.0%	12.1%
Inflation	2.0%	2.8%	2.1%

Source: Dabar & Morningstar calculated by Arrow Investment Advisors, LLC. Performance displayed represents past performance, which is no guarantee of future results. As of December 31, 2006.

Many investors wait for markets to rise, then pour cash into mutual funds. After markets decline, a selling frenzy begins. Tracking the dollars going into and out of mutual funds against market performance proves the correlation: as markets rise, cash flows swell; as markets decline, cash flows deflate. Unfortunately, this investor behavior erodes returns on even the best-performing fund.

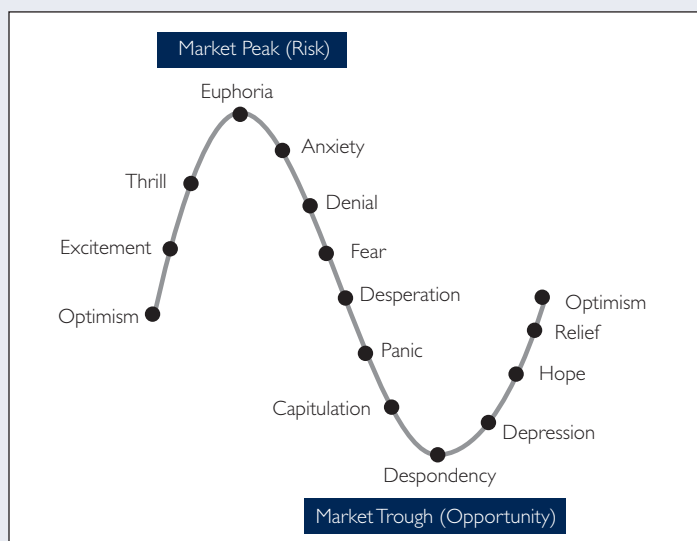
Nothing influences the behavior of investors more than their aversion to loss. The market cycle shown to the right illustrates investor emotion during periods of expansion, peaks, contractions and troughs. It shows how investor emotions build towards a peak as the market goes up, then plummet under the stress of prospective losses. These emotions, not logic, drive investor decisions. During market swings, investors place too much credence in recent market opinions and events, mistakenly

extrapolating trends that run contrary to historical, long-term averages and probabilities. Many wait until the market has already gone up before they buy, then panic when the market drops, selling when prices are low. This pattern—buying high and selling low—shows up consistently in investor behavior over long time periods.

What can help improve an investor's return beyond the kinds of results shown in the QAIB survey?

The most recent QAIB shows a gradual improvement in investor behavior, but that alone is not sufficient. The investor needs to commit, for the long term, to a portfolio mix and investment process that gives them a chance to achieve their goals. Working with a financial advisor is another way investors can remove

INVESTOR SENTIMENT DURING MARKET CYCLES



Continues on back

emotions from the process, through a well-defined systematic approach—such as technical analysis, fundamental analysis or dollar cost averaging.

Over the long term, the financial markets have generally followed an upward trend—with downward volatility along the way. It is during the volatile periods that the investor needs to turn panic into a buying opportunity. Fluctuations in the stock market are to be expected. Investing when prices are low brings the highest returns.

A disciplined investment process helps provide protection through even the worst markets. According to the QAIB study, the easiest way to achieve this discipline is with an asset allocation fund.

The benefits of asset allocation funds, which usually have exposure to a variety of asset classes, come from their design and construction. These funds handle portfolio rebalancing for investors, so they project a retention rate of 5.2 years, indirectly limiting losses caused by fear-based selling.

An asset allocation fund can also serve as an investment vehicle for contributions, at regular intervals, in up and down markets. This turns market fluctuations into potential buying opportunities, and, as more shares are bought at lower prices, reduces the effects of market risk. This is an easy concept to state, but it takes patience and discipline to stick with.

THE DISCIPLINED INVESTMENT PROCESS

The Arrow DWA Balanced Fund is an asset allocation fund that provides broad diversification across sector, style, international, fixed income, and alternative asset classes. Its tactical approach reallocates portfolio segments, within certain bands, to stay responsive to market conditions.

Our portfolio strategy does have a strict buy and sell discipline which removes emotion from the investment process. The systematic process is executed with technical analysis. The Fund is intended for patient investors seeking an investment vehicle for contributions at regular intervals, in both up and down markets.

The Fund is appropriate for the investor who takes advantage of market drops as a buying opportunity—a commitment which requires discipline, but which should ultimately be rewarded.

Market drops provoke fear and anxiety among investors—but ultimately, when the market recovers, it rewards those who treated the drawdown as a buying opportunity. For example, a drawdown occurred for the Fund between February 21 and March 5, 2007, when its NAV dropped from 11.35 to 10.61, a loss of 6.5%. Thirty-six days later, on April 10, the Fund had climbed back up to an NAV of 11.32, recovering 6.69% from the low point of March 5. On April 16 the Fund exceeded its previous high, as its NAV reached 11.40.

Performance displayed represents past performance, which is no guarantee of future results. The maximum sales charge for A-shares is 5.75%. A-share investors may be eligible for a reduction in sales charges. The Fund charges a fee of 1.00% on redemptions of shares held less than 30 days. The Funds Annual Operating expense is 1.75%.

Notes:

¹The 2007 QAIB study was performed and obtained from an independent third party, DALBAR, Inc. DALBAR is not associated with Arrow Funds. The information herein is believed to be reliable, but accuracy and completeness cannot be guaranteed.

²The DWA Balanced Strategy reflects hypothetical or simulated performance figures and is not meant to represent actual performance results for the Arrow DWA Balanced Fund. Past performance is not indicative of future results. Potential for profit is accompanied by possibility of loss. These figures reflect a simulated portfolio managed with the DWA Balanced Strategy using actual & hypothetical performance data for various Exchanges Traded Funds (ETFs) based on DWA's analysis. The simulated model was constructed using their proprietary set of rules for the purchase and sale of ETFs for each underlying strategy as outlined in the Arrow DWA Balanced Fund prospectus. There can be no assurance that actual transactions would have given the same results, although the manager believes results of actual trades would have been very similar. Performance results reflect the re-investment of dividends and other earnings. The performance results are net transaction costs and operating expenses associated with the management of the DWA Balanced Strategy. The performance of the Hypothetical DWA Balanced Strategy was reduced by 200 bps annually.

Disclosure

An investor should consider the Fund's investment objective, risks, charges, and expenses carefully before investing or sending money. This and other information about Arrow Funds is contained in the fund's prospectus, which can be obtained by calling 1-877-277-6933. Please read the prospectus carefully before investing. Arrow is distributed by Aquarius Fund Distributors, LLC member FINRA/ SIPC.

The Fund may invest in commodity related securities, which may be subject to greater volatility than investments in traditional securities. The Fund may invest in international and emerging market securities, which may be subject to special risks including fluctuations in currency, government regulation, differences in accounting standards and liquidity. The Fund may invest in small-cap securities, which may have special risks associated including wider variations in earnings and business prospects than larger, more established companies. The Fund may invest in real estate related securities, which may be subject to mortgage-related risks and real estate market fluctuations. The Fund may invest in fixed income securities, which are subject to risks including interest rate, credit and inflation. The Fund is nondiversified as there are a limited number of underlying funds available and each holding has the potential for a greater impact on the Fund's return. However, the underlying funds have access to a large number of different investments providing the additional diversification benefits discussed in the prospectus. Diversification does not assure a profit or protect against loss in a declining market. The maximum sales charge for A-shares is 5.75%. A-share investors may be eligible for a reduction in sales charges. The Fund charges a fee of 1.00% on redemptions of shares held less than 30 days.