

## Client Presentation

The returns and other characteristics of the allocation mixes contained in this presentation are based on model/back-tested simulations to demonstrate broad economic principles. They were achieved with the benefit of hindsight and do not represent actual investment performance. There are limitations inherent in model performance; it does not reflect trading in actual accounts and may not reflect the impact that economic and market factors may have had on an advisor's decision making if the advisor were managing actual client money. Model performance is hypothetical and is for illustrative purposes only. Model performance shown includes reinvestment of dividends and other earnings but does not reflect the deduction of investment advisory fees or other expenses. Clients' investment returns would be reduced by the advisory fees and other expenses they would incur in the management of their accounts.

Past performance is not a guarantee of future results, and there is always the risk that an investor may lose money. Indexes are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.

## **5. Investment Considerations**

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## Investment Considerations

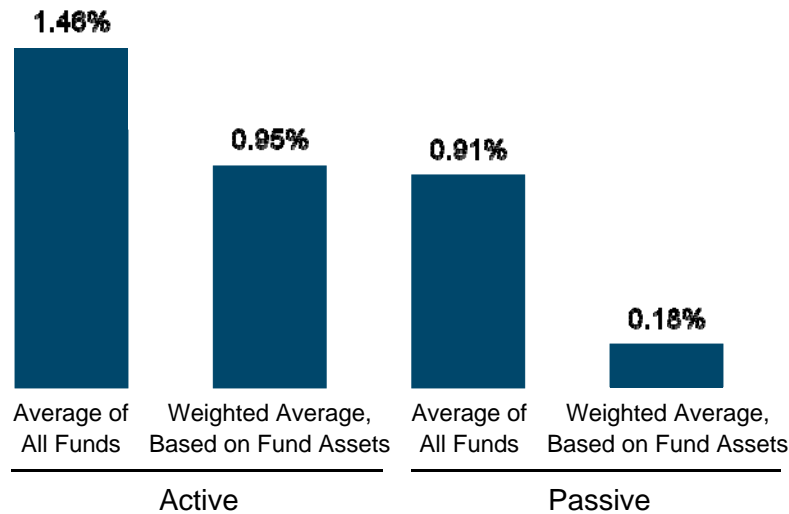
- Reduce expenses.
- Diversify systematically.
- Minimize taxes and turnover.
- Think long-term.
- Apply discipline.
- Hold low-cost funds.
- Maintain asset allocation.

## Mutual Fund Expenses

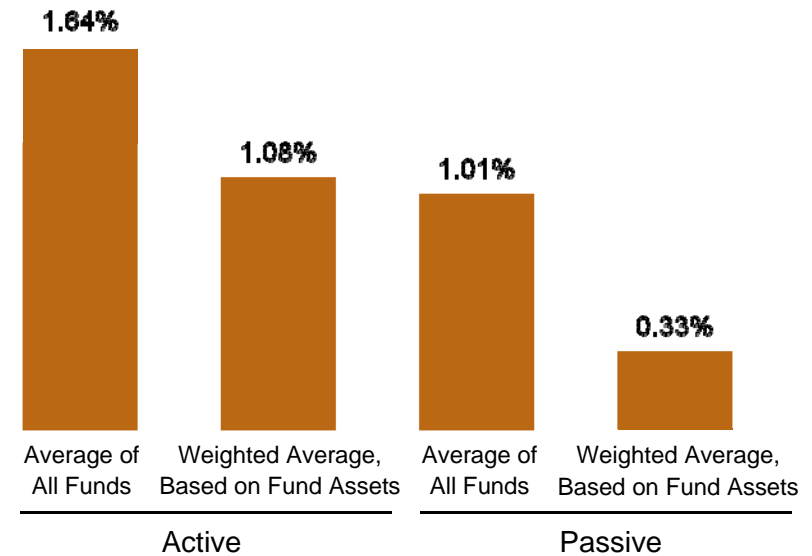
“After costs, the return on the average actively managed dollar will be less than the return on the average passively managed dollar for any time period.”

—William F. Sharpe, 1990 Nobel Laureate

**Domestic Mutual Fund Expense Ratios**



**International Mutual Fund Expense Ratios**



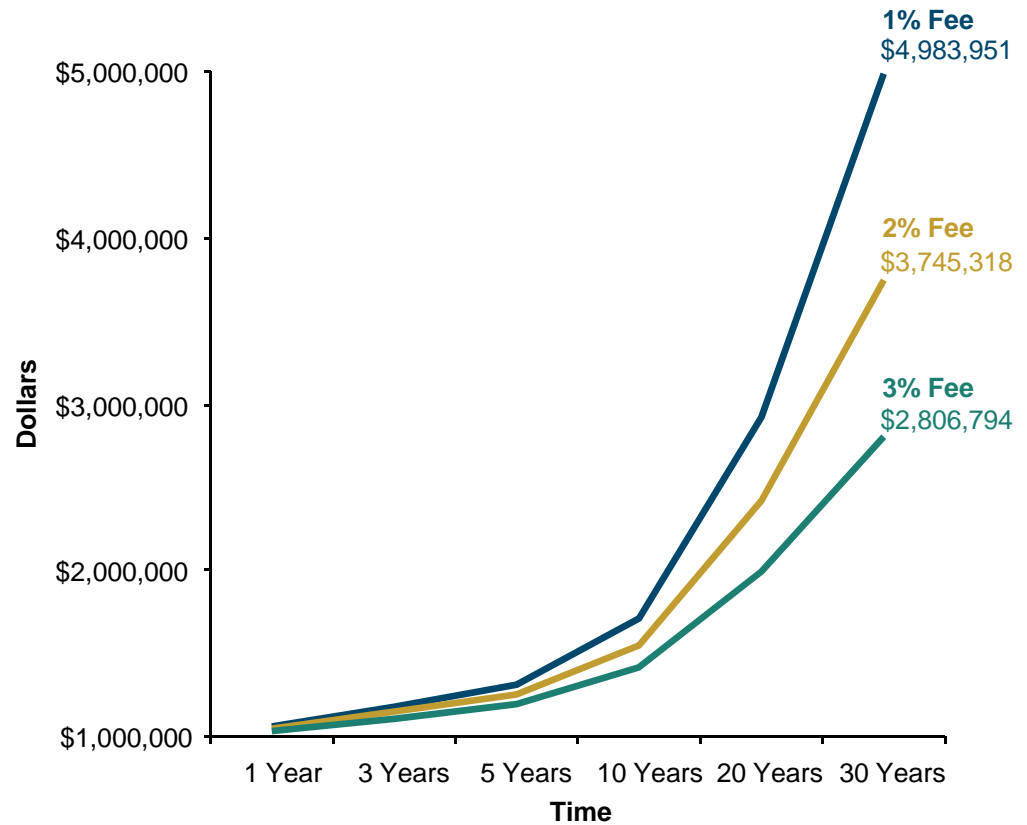
William F. Sharpe, “The Arithmetic of Active Management,” *Financial Analysts Journal* 47, no. 1 (January/February 1991): 7-9.

Mutual fund expense ratios as of April 9, 2010. Asset weighting based on net assets as of December 31, 2008. Data provided by Morningstar, Inc. Passive funds are those coded by Morningstar as Index Funds.

## Fees Matter

- Fees matter.
- Over long time periods, high management fees and related expenses can be a significant drag on wealth creation.
- Passive investments generally maintain lower fees than the average actively managed investment by minimizing trading costs and eliminating the costs of researching stocks.

Assumed 6.5% Annualized Return over 30 Years



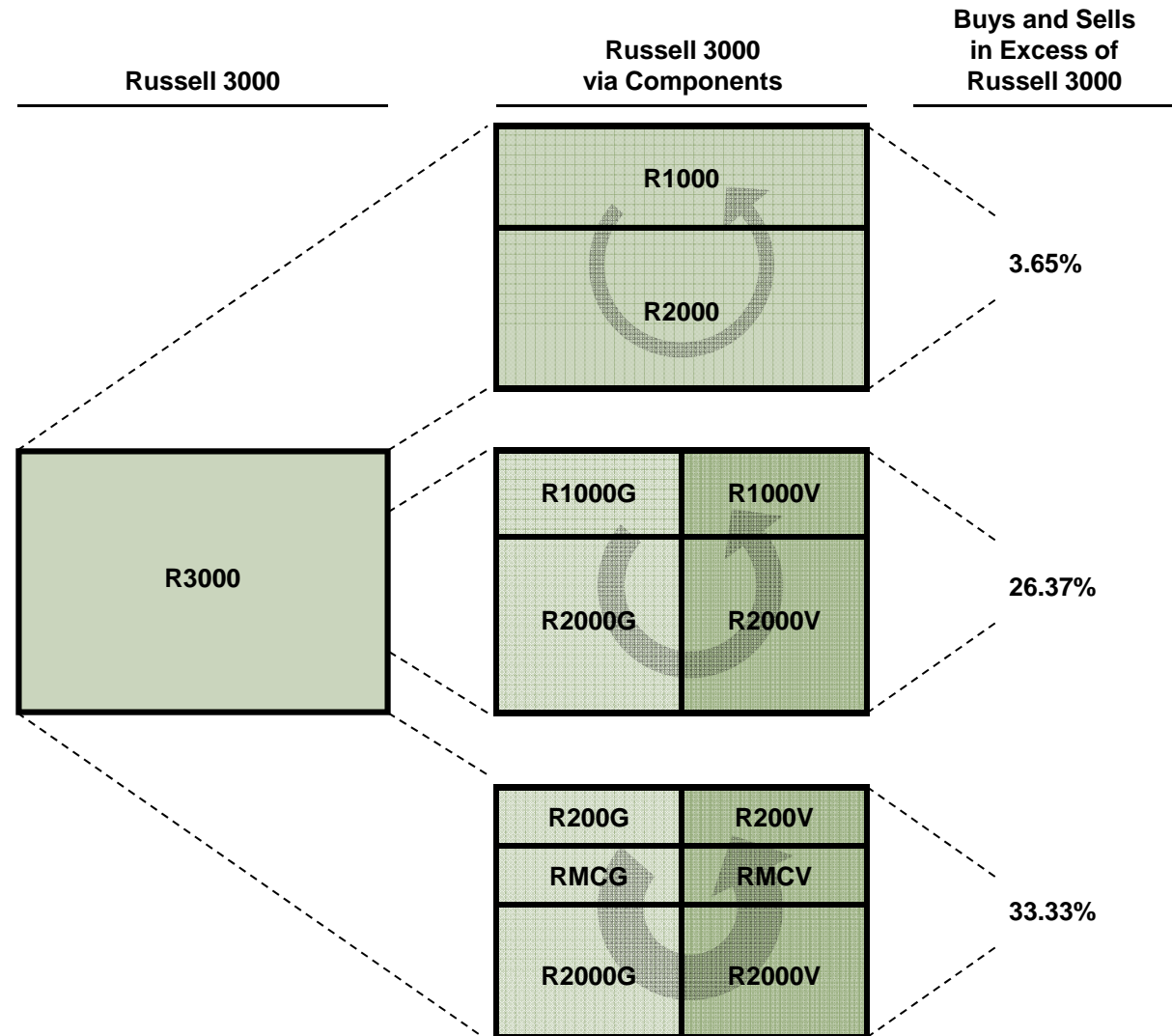
## The Limits of Fund Rating Services

	Fund A	Fund B	Fund C	Fund D
<b>Morningstar</b> (Dec 2000)	★★★★★	★★	★★★	★★★★★
<b>Forbes</b> (Dec 2000)	C	A	A+	D
<b>US News &amp; World Report</b> (Dec 2000)	34	50	10	93
<b>Wall Street Journal</b> (Jan 2001)	E	C	A	B
<b>BusinessWeek</b> (Jan 2001)	A	No Rating	B+	C

Funds A, B, C, and D are actual funds. They are not identified because the purpose of this illustration is to emphasize that ratings, by themselves, do not provide enough information to make a sound investment decision.

# Traditional Asset Allocation Generates Excess Turnover

- In effect, a component portfolio buys and sells from itself, generating needless costs and taxable events.



Annual: January 1989-December 2009.

Russell components are Russell indices weighted according to Russell 3000 market value weights (buys and sells measured by the weight of each component). Estimated annual cost assumes transaction costs of 50 bps.

For illustrative purposes only.