



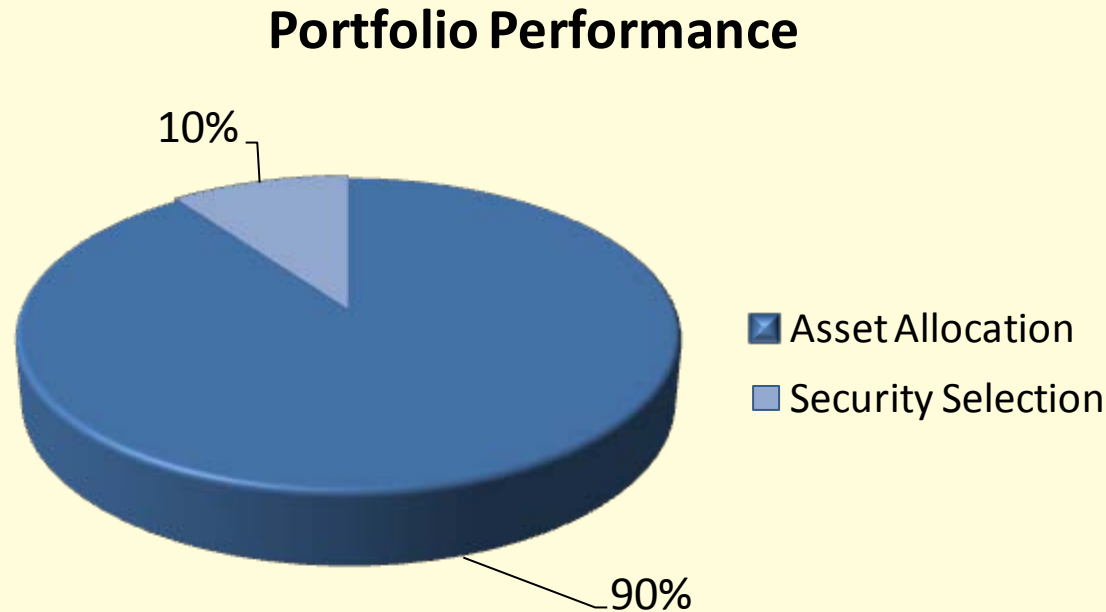
Investing 101

A Guide to Building Portfolios



Why is Asset Allocation Important?

Our basis for investing is predicated on diversification through sound dynamic asset allocation.



It's all about what you own!

- Over time the main drivers of your portfolio's performance, are the asset classes you own (i.e. Cash, Fixed Income, or Equity) and when you owned them.
- Roughly 90% of your portfolio performance is driven by the asset allocation, while only 10% is attributed to security selection (i.e. Coke vs. Pepsi).¹

¹ Gary P. Brinson, L. Randolph Hood, and Gilbert L. Beebower, *Determinants of Portfolio Performance*, The Financial Analysts Journal, July/August 1986.

Examples of Asset Classes

Equity

Geography/
Demographic

- Domestic
- International
- Developed
- Emerging

Capitalization

- Large
- Mid
- Small

Style

- Growth
- Value

Sector

- Technology
- Energy
- Healthcare
- Consumer Staples, Etc.

Fixed Income

Tax
Status

- Taxable
- Non-Taxable

Credit

- Investment Grade
- Non-Investment Grade (High Yield)

Issuer

- Sovereign (Domestic/Foreign)
- Agency
- Municipal
- Corporate

Sector

- General Obligation
- Revenue
- School
- Hospital

Passive Portfolio Implementation

Passive vs. Active Portfolio Implementation?

- **Active** portfolio implementation is the process of picking individual securities, or hiring a manager to pick securities with the goal of beating the benchmark (i.e. S&P 500)
- **Passive** portfolio implementation is the act of investing in the benchmark or market, vs. taking specific individual stock views
 - Over time, it has been proven that **active managers underperform** the benchmark roughly 60-70% of the time
 - “A semiannual study by Standard & Poor’s finds that over the five years ended June 30, only 37.1 percent of actively managed funds made up of large-capitalization stocks beat the category’s benchmark, the S.&P. 500.”¹
 - Even when a manager does outperform, one can not be sure if the process is repeatable
 - “In picking any managed fund, you can never be certain that past success was a matter of skill, not luck.”²
 - Active managers are also more **expensive** than passive strategies
 - If you are uncertain that a manager can consistently outperform their benchmark over time, than you are better off making a passive investment in the asset class

^{1,2}The New York Times, 9/23/09, “Active vs. Passive: The Debate Keeps Going”



Exchange Traded Funds – A Passive Approach to Portfolio Implementation

What is an ETF?

- An Exchange-Traded Fund (or ETF) is an investment vehicle traded on stock exchanges, much like stocks
- An ETF holds an underlying basket of assets, such as stocks or bonds, and trades at approximately the same price as the net asset value of this basket over the course of the trading day
- Most ETFs track an index, such as the S&P 500 or the MSCI EAFE

What are the advantages of ETFs?

- Provides investors a **simple** and easy way to invest passively across broad markets, sectors that aren't easily accessible for individual investors, such as:
 - Currencies
 - Emerging Markets
 - Commodities
 - High Yield Debt
- ETFs are also attractive compared to actively managed portfolios due to their low cost, tax efficiency, and **liquidity**.
- ETFs allow us to be **nimble**, responding quickly to the ever changing markets

Measures of Risk

- **Beta:** Beta is a measure of market risk. This is generally used to compare the risk of a particular stock or portfolio to the broad market on a *relative* basis.
 - Beta approximates the overall volatility of a security or portfolio's returns against the returns of a relevant benchmark (usually the S&P 500 is used).
 - **Example)** a stock with a beta value of 1.1 has historically moved 110% for every 100% move in the benchmark, and is considered more risky than the market. Conversely, a stock with a beta of .9 has historically moved 90% for every 100% move in the underlying index, and is considered less risky.

- **Standard Deviation:** Standard Deviation is the most common measure of *volatility* or total risk. This includes both market risk as well as non-systematic risk, or individual company risk. It is a measure of the dispersion of a set of returns for a given asset class or security from its mean return. We use historical volatility measures to gauge or estimate the amount of future expected volatility for an asset class of security.
 - **Example)** Equities tend to have a higher volatility (are more risky) than bonds. In addition, certain types of equities can have a wide range in volatility. For instance, emerging market stocks tend to have a higher volatility than US stocks.

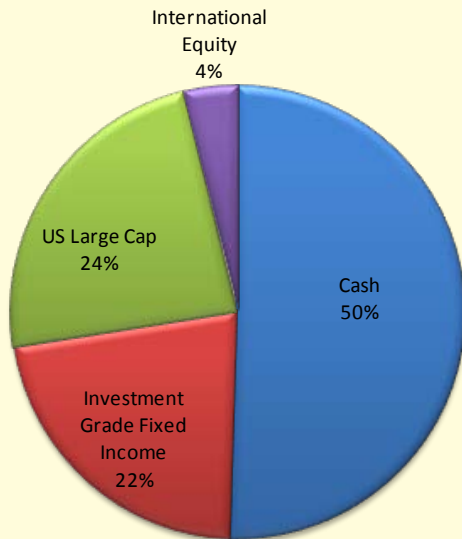
How Correlation Drives Allocation

- **Correlation:** Correlation is a statistical measure of how two securities or asset classes move in relation to one another.
- Correlation is computed into what is known as the correlation coefficient, which ranges between -1 and +1.
 - Perfect positive correlation (a correlation co-efficient of +1) implies that as one security or asset class moves, either up or down, the other security or asset class will move in lockstep, in the same direction.
 - Alternatively, perfect negative correlation (a value of -1) means that if one security or asset class moves in either direction the security or asset class that is perfectly negatively correlated will move by an equal amount in the opposite direction.
 - If the correlation is 0, the movements of the securities are said to have no correlation; they are completely random.
- We combine asset classes with low or negative correlation, in order to build portfolios that have low volatility (or risk) and low correlation to broad market movements.

Building the Optimal Portfolio

By increasing the diversification of a portfolio, we are able to produce a higher return, while still maintaining a risk level (or volatility) that is appropriate for our clients. Diversification is created by combining asset classes with low or negative correlation to one another in order to reduce overall volatility.

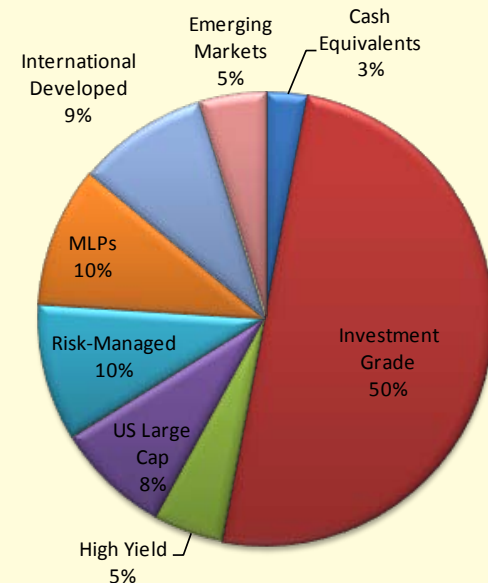
Current Asset Allocation



Estimated Volatility: 5.60%
Estimated Return: 3.21%



Suggested Asset Allocation



Estimated Volatility: 7.11%
Estimated Return: 5.95%

What Portfolio is Right for You?

Depending on your life goals and risk tolerance, your asset allocation may vary across the risk/return spectrum.



As your wealth advisor we adjust and rebalance your portfolio as your needs and goals change throughout your life.

Our Model Portfolios

Asset Class	Capital Preservation Strategies	Income Generation Strategies	Stable Growth Strategies	Partners Flagship Core Strategies	Wealth Accumulation Strategies	Estimated Total Return*
Target Blend (Equity/Fixed)	20% Equity/ 80% Fixed	40% Equity/ 60% Fixed	50% Equity/ 50% Fixed	65% Equity/ 35% Fixed	80% Equity/ 20% Fixed	
Cash Equivalents	4.9%	4.2%	6.3%	7.2%	7.7%	1.0%
Fixed Income	73.0%	55.0%	47.0%	32.5%	22.0%	
Investment Grade	70.0%	48.0%	43.0%	25.1%	15.00%	4.2%
High Yield	3.0%	7.0%	4.0%	7.4%	7.00%	6.2%
Equity	20.1%	40.8%	42.7%	55.8%	65.8%	
US Equity	15.2%	24.7%	30.6%	39.4%	43.4%	
Large Cap	8.2%	16.2%	18.0%	23.9%	26.8%	7.5%
Risk-Managed	5.7%	8.5%	8.2%	11.0%	7.9%	6.0%
Mid Cap	0.8%	0.0%	2.7%	3.0%	4.8%	9.1%
Small Cap	0.5%	0.0%	1.6%	1.5%	4.0%	10.3%
MLPs	3.0%	10.0%	5.0%	5.5%	5.50%	10.0%
International Equity	2.0%	6.1%	7.1%	10.8%	16.9%	
Developed	0.9%	1.8%	2.6%	3.2%	3.7%	7.3%
Emerging Markets	1.1%	4.3%	4.6%	7.6%	13.2%	10.9%
Commodities	2.0%	0.00%	4.0%	4.5%	4.50%	5.0%
Real Estate						
Total	100.0%	100.0%	100.0%	100.0%	100.0%	

As of June 18th, 2010.

Model Portfolio Statistics

Asset Class	Capital Preservation Strategies	Income Generation Strategies	Stable Growth Strategies	Partners Flagship Core Strategies	Wealth Accumulation Strategies	S&P 500
Estimated Return	4.8%	5.8%	5.8%	6.3%	6.9%	7.5%
Yield	2.7%	3.2%	2.5%	2.4%	2.3%	1.8%
Volatility	3.74	6.46	8.12	9.60	14.95	18.00
Return 2007	5.32%	7.09%	7.97%	6.29%	12.90%	5.49%
Return 2008	-6.08%	-12.31%	-14.91%	-15.39%	-27.88%	-37.00%
Return 2009	14.44%	19.37%	20.93%	20.01%	32.20%	26.47%
Return YTD*	1.83%	1.24%	1.18%	0.81%	0.31%	1.15%
Return since 1/1/07*	15.53%	13.91%	13.86%	8.25%	9.46%	-14.47%

*As of June 18th, 2010

**Estimated return based on data collected from Goldman, Sachs & Co.

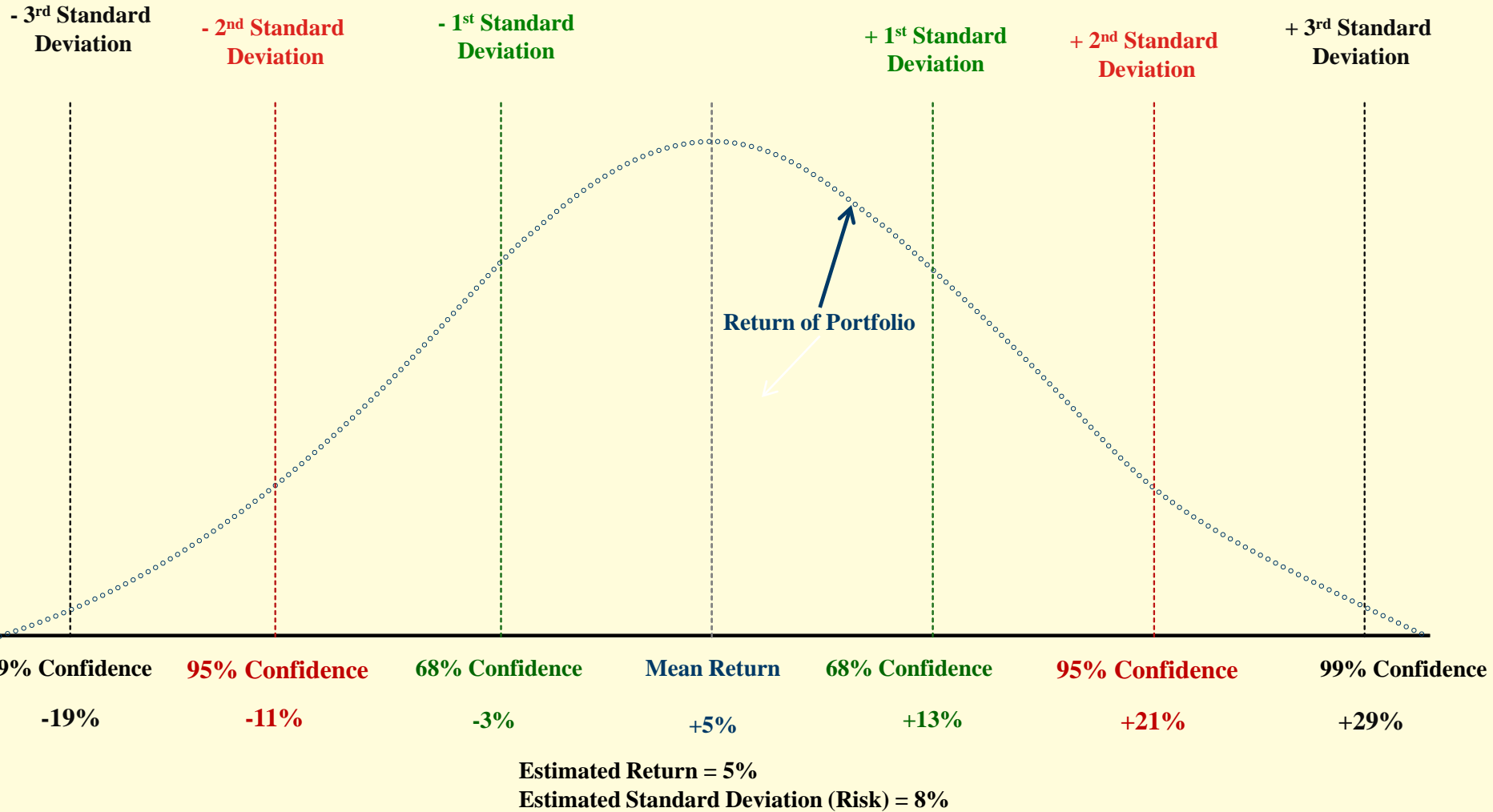
***Return statistics do not represent active portfolios, but back-tested returns on Bloomberg. Past performance in not an indicator of future results.

Potential Range of Returns:

	Capital Preservation Strategies	Income Generation Strategies	Stable Growth Strategies	Partners Flagship Core Strategies	Wealth Accumulation Strategies	S&P 500
68% Confidence	8.6%	12.3%	13.9%	15.9%	21.9%	25.5%
	1.1%	-0.6%	-2.4%	-3.3%	-8.0%	-10.5%
95% Confidence	12.3%	18.7%	22.0%	25.5%	36.8%	43.5%
	-2.6%	-7.1%	-10.5%	-12.9%	-23.0%	-28.5%
99% Confidence	16.1%	25.2%	30.1%	35.1%	51.8%	61.5%
	-6.4%	-13.6%	-18.6%	-22.5%	-37.9%	-46.5%

Theoretical Return of Portfolio

In this example, we can estimate with 95% confidence that our portfolio return will fall between -11% and 21%



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