# Q2 2018 Boot Camp





- **ALTITUDE:** Sept 5-7, 2018
  - Park City @ Stein Eriksen Lodge
  - National conference, learn from industry experts, etc.

- PINNACLE / SUMMIT TRIP: March 15-22, 2019
  - Big Island and Kauai
  - Incentive trip, 2 levels of qualification (details on our website)

#### Our team...



#### **INVESTMENT COMMITTEE:**

- Kurt Brown (Chair, Head of Equities)
- Monica Sonnier, CFA (Head of Fixed Income)
- Chris Hedquist, CFA (Audits and Portfolio Design)
- Jordan Miller (Audits and Portfolio Design)
- Coming Soon (Credit Analyst) Interviewing
- Stanford McCullough (Portfolio Analyst)

#### **TRADING:**

- Xavier DesForges (Head of Trading)
- Brady Webb (Trading)
- Trenton LaPorte (Trading)

#### **CLIENT SERVICE & OPERATIONS:**

- Michael Folker (Head of Operations)
- Kristen Vance (Head of Client Service)
- Natalie Larsen (Finance)
- Erica West (Client Service Manager)
- Shirley Harris (Process Specialist)
- Thomas Allgaier (Onboarding)
- Jeremy Thompson (Onboarding)

#### **COMPLIANCE:**

Coming Soon (CCO) - Interviewing

# **Building Better Portfolios**





### Portfolio Construction Checklist



1	TIME HORIZON & RISK TOLERANCE	All investment decisions start with three questions: 1) when will this money be drawn down / spent? 2) what is the objective for the money; principal protection or growth? And 3) what is an acceptable risk/volatility tolerance?
2	OPTIMAL or INEXPENSIVE?	Which is more important to the client, the best risk- adjusted portfolio or the lowest cost? This will drive the "Active vs. Passive" conversation.
3	STYLE BOX & SECTOR BETS	Make sure style box allocation reflects client objectives. For example, do you own almost all Growth with no Value companies? How much Small and Mid-Cap is appropriate? Be sure you aren't over-allocated to any single industry.
4	Use SMAs where possible	Lean heavily on institutionally managed SMAs for better returns, lower cost, tax optimization, transparency, etc. If not, utilize low-cost index ETF's alongside alpha-adding funds.

### 10 steps to optimal portfolios (new to website)...



5	Reduce STYLE REDUNDANCY	Avoid owning multiple strategies or funds with the same styles or objectives. For example, owning multiple large-cap growth funds is redundant and expensive.
6	Reduce OVERLAP OF HOLDINGS	Many funds and ETFs own the same holdings. Focus styles and strategies to reduce overlap in holdings. This will reduce transaction costs and cap-gains.
7	PROPER DIVERSIFICATION	If you're paying for active management, reduce total number of holdings. Typically between 50 and 200 stocks and bonds is ideal. If you're using an index strategy, look to reduce overlap of styles and holdings.
8	Reduce TURNOVER	If possible, use managers that limit trading. Turnover leads to increased transaction costs and more capital gains generation.
9	Avoid BOND FUNDS when possible	Own professionally managed bonds whenever possible.  If your dollar values are small you may be forced to use funds; be certain you understand the credit quality and durations of those funds
10	Understand your UNDERLYING BONDS	Be careful of huge yields - could signify a troubled company. Avoid outsized positions and illiquid issues. Durations should not be too long (high rate risk) or too short (low yields)

#### Portfolio construction foundation...

Preservation

Agencies

Fixed Annuities/Life Ins.

Treasuries



**High Income** 

MLPs

Junk Bonds

**BDCs** 

Leveraged Loans

#### RISK/VOLATILITY CONTINUUM LESS RISK MORE RISK More liquid Less liquid Higher quality underlying assets Lower quality underlying assets Less volatile price movements More volatile price movements Lower historical returns on investments Higher historical returns on investments Conservative Growth **High Growth** Growth Home High Dividend Value International Aggressive Growth Private Equity Preferreds Deep Value Growth Small/Mid-Cap **Emerging Markets** Venture Capital Capital **Stable**

High-Yield Corp.

Income

Municipals

High-Grade Corp.

REITs

### Guidelines for building portfolios...



#### When to use an <u>all-SMA portfolio</u>:

- All households over \$500k that want to optimize risk/reward
- Households \$100k to \$500k that:
  - Only need a core portfolio of stocks and/or bonds
  - Only need a couple of style boxes filled

#### When to use **SMA's with BRIX**:

Clients with \$200k to \$500k that want several or all style boxes

#### When to use an Allocation Models or a blend of BRIX:

- Households under \$100k
- Households under \$250k that want all style boxes
- You or the client prefers passive management
- When lowest cost is a high priority

#### Cornerstone or Foundation?



While our investment committee makes similar macro-allocation and rebalancing decisions for the Cornerstone and Foundation series, there are different uses for each:

#### When to use CORNERSTONE:

- For households or registrations with smaller AUM levels
- For passive asset selection only
- For lowest internal investment expenses

#### When to use FOUNDATION:

- When a client doesn't have enough AUM for an SMA solution
- When you prefer our tenets of good active management
- When the client doesn't have to have the absolute lowest cost funds

### Cornerstone, Foundation, BRIX choices...



### **CORNERSTONE MODELS**

- Income Focused (100% bonds)
- Cons. Growth & Income (30/70)
- Growth & Income (50/50)
- Growth (70/30)
- Equity Focused (100% stocks)

### **FOUNDATION MODELS**

- Income Focused (100% bonds)
- Cons. Growth & Income (30/70)
- Growth & Income (50/50)
- Growth (70/30)
- Equity Focused (100% stocks)

### **BRIX SATELLITES**

- Tax Exempt
- Conservative Income
- Stable Income
- High Income

- Conservative Equity
- Growth Equity
- High Growth Equity

- SMID
- International

### The Morningstar style box...



- Every stock fits into one of Morningstar's nine style-boxes. No stock will be located in more than one place on the grid.
- The placement of a stock on the grid is determined by it's relationship with other stocks. *Placement is not nominal, it's relative.*
- The overall style box looks like the broader market (70% large cap stocks, 20% mid-cap stocks, 10% small cap stocks)

33% Value

Large Cap Value	Large Cap Core (Blend)	Large Cap Growth
Mid Cap Value	Mid Cap Core (Blend)	Mid Cap Growth
Small Cap Value	Small Cap Core (Blend)	Small Cap Growth

23%	24%	23%	70% Large Cap
7%	6%	7%	20% Mid Cap
3%	4%	3%	10% Small Cap

33% Growth

34% Core

### Determining STYLE (value, core, growth)...



- Stocks are given a 'value score' based on five valuation measures and a 'growth score' based on five growth rates.
- The difference between the stock's growth and value scores is the **NET STYLE SCORE**. If the result is strongly negative, the stock's style is value. If the result is strongly positive, the stock is classified as growth. If the scores for value and growth are similar in strength, the stock is classified as "core."
- On average, value, core, and growth stocks each account for approximately onethird of the total capitalization in a given scoring group

Value Score Components and Weights		<b>Growth Score Components and Weights</b>	
Forward looking measures  ► Price-to-projected earnings	50.0%	Forward looking measures  Long-term projected earnings growth	50.0%
Historical based measures	50.0%	Historical based measures	50.0%
► Price-to-book	12.5%	<ul><li>Historical earnings growth</li></ul>	12.5%
► Price-to-sales	12.5%	► Sales growth	12.5%
► Price-to-cash flow	12.5%	<ul><li>Cash flow growth</li></ul>	12.5%
► Dividend yield	12.5%	▶ Book value growth	12.5%

### US Large Cap Options...



#### **VALUE**

#### Morningstar Style Box - Logan Concentrated Value

Portfolio Date: 3/31/2018

75.1	19.8	5.1	Large
0.0	0.0	0.0	Mid
0.0	0.0	0.0	Small
Value	Blend	Growth	

Equity Style	%
Equity Style Value	75.1
Equity Style Core	19.8
Equity Style Growth	5.1

### **LOGAN**

#### Morningstar Style Box - Columbia Select Large-Cap Value SMA

Portfolio Date: 3/31/2018

36.5	43.0	7.1	Large
13.4	0.0	0.0	Mid
0.0	0.0	0.0	Small
Value	Blend	Growth	-

Equity Style	%
Equity Style Value	50.0
Equity Style Core	43.0
Equity Style Growth	7.1

### **COLUMBIA**

### **GROWTH**

#### Morningstar Style Box - Polen Focus Growth

Portfolio Date: 3/31/2018

	0.0	8.7	86.9	Large
	0.0	0.0	4.4	Mid
	0.0	0.0	0.0	Small
١	/alue	Blend	Growth	

Equity Style	%
Equity Style Value	0.0
Equity Style Core	8.7
Equity Style Growth	91.3

### **POLEN**

#### Morningstar Style Box - Alta Large Cap Quality Growth

Portfolio Date: 3/31/2018

9.8	22.1	57.6	Large
2.3	2.5	5.7	Mid
0.0	0.0	0.0	Small
Value	Blend	Growth	

Equity Style	%
Equity Style Value	12.1
Equity Style Core	24.6
Equity Style Growth	63.3

**ALTA LG.** 



### **Dearborn Core**

#### Morningstar Style Box - Dearborn Core Rising Dividends Portfolio Date: 3/31/2018 **Equity Style** % 31.4 26.8 17.5 Equity Style Value 36.7 Equity Style Core 39.6 Equity Style Growth 23.6 5.3 12.8 6.1 Small 0.0 0.0 0.0 Value Blend Growth

### **Alta All-Cap Growth**





### **VALUE/CORE**

#### Morningstar Style Box - LMCG Mid-Cap Value

Portfolio Date: 3/31/2018

9.8	7.8	3.5	Large
34.3	24.9	10.5	Mid
3.9	3.3	2.0	Small
Value	Blend	Growth	-

Equity Style	%
Equity Style Value	48.0
Equity Style Core	36.0
Equity Style Growth	16.0

#### **LMCG**

#### Morningstar Style Box - EARNEST Small Cap Core

Portfolio Date: 12/31/2017

0.0	2.1	0.0	Large
1.0	11.3	20.0	Mid
14.8	35.6	15.1	Small
Value	Blend	Growth	

Equity Style	%
Equity Style Value	15.8
Equity Style Core	49.1
Equity Style Growth	35.1

### **EARNEST**

### **GROWTH**

#### Morningstar Style Box - Congress Asset Mgt Mid Cap Growth

Portfolio Date: 3/31/2018

0.0	2.6	2.9	Large
4.5	34.2	49.0	Mid
0.0	4.5	2.4	Small
Value	Blend	Growth	_

Equity Style	%
Equity Style Value	4.5
Equity Style Core	41.3
Equity Style Growth	54.2

**CONGRESS** 

#### Morningstar Style Box - Kayne Anderson Rudnick SC Sustain Grov

Portfolio Date: 3/31/2018

0.0	0.0	7.5	Large
0.0	0.0	51.0	Mid
2.3	9.9	29.2	Small
Value	Blend	Growth	_

Equity Style	%
Equity Style Value	2.3
Equity Style Core	9.9
Equity Style Growth	87.8

**KAYNE** 

### SMA Crib Sheet (new to website)...



Name	Mkt Sector	Mkt Cap / Term	Style	Description	Riskalyze Score		Downside Protection	Lower Beta / St. Dev	Higher Dividends	Semi- Concentrated	Good as a stand-alone / core SMA
Cash Management Bond Portfolio	Fixed Income	6-24 mo's	Bond	Custom, B rated and higher, may include gov't or other, short term liquidity	20			Х		х	
Principal Protection Portfolio (3P)	Fixed Income	4-8 yr	Bond	Custom, investment grade corps (BBB or better), may include gov't.	30			х		х	
TOEW's Tactical High Yield	Fixed Income		Tactical	Long HY bonds, rarely goes to cash	33		Х	х	х		
Enhanced Income Portfolio (EIP)	Fixed Income	4-8 yr	Bond	Custom, mid-grade corporates (B, BB) , may include REIT, BDC, MLP, etc	35			Х	Х	х	
St James Tactical Dividend	Equity		Tactical	Ultra defensive, exceptional downside capture with yield	37		Х	Х	х		
Dearborn Core	Equity	Large Cap	Core	Excellent conservative core manager with dividends	62			Х	х	х	100k
Dearborn High and Rising	Equity	Large Cap	Core	High quality, value co's, high dividend	63		Х	Х	х		
Polen Large Cap Growth	Equity	Large Cap	Growth	Excellent, high quality growth with downside protection	65		Х			х	50k
Logan Large Cap Value	Equity	Large Cap	Value	Mega cap value with high dividends	65		Х		х	х	50k
Alta Large Cap Growth	Equity	Large Cap	Growth	Conservative growth - close to a 'core' manager	65						100k
Alta All Cap Growth	Equity	Core	Growth	Great when you can only use one SMA for entire portfolio	66						100k
Bluestone Elite Tactical	Equity		Tactical	Long equities and ETF's, will go to cash or bonds	69		Х				
Dorsey Global Tactical	Unconstrained		Tactical	Global, unconstrained, all asset classes, opportunistic	69		Х	Х			
LMCG Mid Cap Value	Equity	Mid Cap	Value	Plays like a mid-cap core strategy	73	X					
Congress Mid Cap Growth	Equity	Mid Cap	Growth	Exceptional growth with compelling up/down capture	74	Х					
Clearbridge International	Equity	Core	Int'l	Fundamental, global, excellent up/down capture	75		Х				
Kayne Small Cap Growth	Equity	Small Cap	Growth	Small cap growth, strong returns and up/down capture	76	X					
Columbia Large Cap Value	Equity	Large Cap	Value	Value with a growth tilt - almost a core strategy	76	X			х		
Earnest Small Cap Core	Equity	Small Cap	Core	Small-cap core manager with excellent historical returns	80	X					
Dorsey International	Equity	Core	Int'l	Momentum strategy with strong upside capture	86	Х					

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Dorsey International	Equity	Core	Int'I	Momentum strategy with strong upside capture

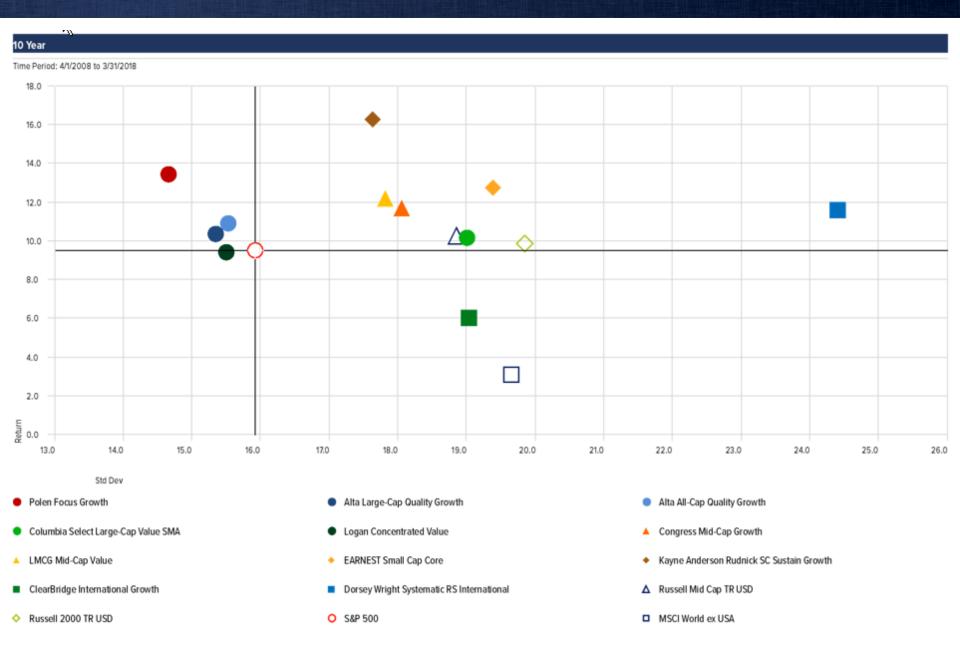
### SMA Crib Sheet (new to website)...



Name	Riskalyze Score	Upside Capture	Downside Protection	Lower Beta / St. Dev	Higher Dividends	Semi- Concentrated	Good as a stand-alone / core SMA
Cash Management Bond Portfolio	20			Х		X	
Principal Protection Portfolio (3P)	30			х		х	
TOEW's Tactical High Yield	33		Х	х	Х		
Enhanced Income Portfolio (EIP)	35			х	х	х	
St James Tactical Dividend	37		х	х	х		
Dearborn Core	62			х	Х	х	100k
Dearborn High and Rising	63		Х	х	х		
Polen Large Cap Growth	65		Х			х	50k
Logan Large Cap Value	65		Х		Х	х	50k
Alta Large Cap Growth	65						100k
Alta All Cap Growth	66						100k
Bluestone Elite Tactical	69		Х				
Dorsey Global Tactical	69		Х	х			
LMCG Mid Cap Value	73	Х					
Congress Mid Cap Growth	74	Х					
Clearbridge International	75		Х				
Kayne Small Cap Growth	76	Х					
Columbia Large Cap Value	76	х			х		
Earnest Small Cap Core	80	х					
Dorsey International	86	х					

### SMA risk/return diagram...





# **Typical Client Audit & Proposal**





Audit Prepared For: Advisor

Audit Requested By: Advisor

**Current Advisor:** Morgan Stanley

Current Account Value: \$2,096,474

Audit Preparation Date: December 5, 2017

Account Statement Date: September 30, 2017

**YOUR AUDIT.** We hope you find the information provided herein of value. We use some of the industries best software to deconstruct the holdings in your current portfolio in an effort to provide valuable insights on structure, efficiency, asset quality, costs, and performance. This audit is not intended to serve as investment advice or as a financial plan. Our wealth advisors invest considerable amounts of time with clients understanding their specific needs. This information and insight is provided as a tool to help clients achieve their goal of building better portfolios.

#### **KURT BROWN**

As Chief Investment Officer for TownSquare Capital, Kurt oversees the portfolio construction for equity and fixed income assets. With nearly 25 years of capital markets experience, Kurt has managed portfolios for Fortune 500 companies, hedge funds, university endowments, Taft Hartley plans, bank trust portfolios, and individual retirement accounts. Prior to joining TownSquare, Kurt was a principal at Alta Capital, a high-quality growth equity manager based in Salt Lake City, Utah. During his 12 years with Alta, Kurt helped grow the firm's assets under management from \$300 million to over \$3 billion. In addition to his investment work, Kurt is frequently called upon to speak at investment conferences, universities, and CPA and Estate Planning conferences. Topics include capital markets inefficiencies and conflicts of interest associated with investment products and brokerage firms. Prior to Alta, Kurt was with Black Rock Capital and Bank of America / Montgomery Securities where he advised institutional clients on trading and risk management issues including the divestiture and hedging of concentrated equity positions and the creation of structured product. Kurt studied Finance and Economics at Brigham Young University where he currently serves as an adjunct professor and board member of The Ballard Center for Economic Self Reliance.

#### MONICA SONNIER, CFA,CPA

Monica is the Senior Fixed Income Strategist with TownSquare Capital, assisting advisors and their clients in managing their portfolios. She specializes in fixed income analysis and management. Monica moves to the advisory /wealth management arena after over 20 years in institutional portfolio management, following a passion developed through her service to the accounting profession for helping others to manage finances and plan for retirement. Monica was most recently the head of portfolio strategies for a regional broker/dealer, serving their Monica also spent eight years as the portfolio manager and funding manager at a large regional bank, managing a portfolio of over \$2 billion in Government, Agency, Municipal, Corporate, Mortgage-Backed and Money Market securities. She began her career in public accounting with a CPA firm, specializing in audits of financial institutions. Monica is currently on the AICPA's National Financial Literacy Commission, was recently on the Board of Directors of the AICPA and has chaired the Investment Committee of the Institute. She received a degree in Accounting from Louisiana State University.

#### CHRIS HEDQUIST, CFA, CFP®

As Senior Portfolio Strategist, Chris works directly with advisors of TownSquare and their clients in developing, implementing and monitoring investment portfolios and Chris sits on the financial planning strategies. TownSquare Capital investment committee and is responsible for helping to develop the firm's investment policies and conducting due diligence on the investment offerings available through the firm. Chris has been a registered representative and investment adviser since 1992 and has been a General Securities Principal since 2003. Chris also holds the Chartered Financial Analyst (CFA) and CFP® designations. After graduating from Brigham Young University in Business Management & Finance, Chris began his career as a financial advisor working for Shearson Lehman Brothers and then Merrill Lynch. During the past 24 years, Chris has also worked for an insurance broker-dealer and for two independent wealth management firms where he primarily focused on advising clients on portfolio construction and investment selection, retirement planning, and due diligence of hedge funds and alternative investments.

### **Summary of Findings**



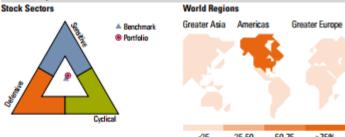
#### **ALLOCATION**

- The portfolio is allocated roughly **78% equities**, **8% fixed-income**, **13% cash** and **1% in other types of securities**. This blend of investments is consistent with an investor who has a moderately aggressive risk tolerance.
- Roughly 13% of the equity allocation (11% of the total portfolio) is invested directly in companies domiciled overseas. This weighting is lower than our firm's current recommendation for international equity exposure.
- 67% of the equities are considered Large-Cap, 26% are Mid-Cap, and 7% are Small-Cap. The portfolio has a heavy style overweight to Growth stocks relative to Value stocks.
- Nearly 47% of the allocation to equities is invested in Technology companies. We generally recommend that no one industry sector represent more than 20% of a client's portfolio.

#### **STRUCTURE / NUMBER OF HOLDINGS**

- The portfolio consists of 1 individual stock, 34 ETF's (exchange traded funds), 5 Open-End Mutual Funds, 11 Variable Annuity subaccounts (similar to mutual funds), 1 Structured Note, and 3 Alternative (Hedge-type) Funds and cash. The client does not directly own any individual bonds or Separately Managed Accounts (SMA).
- The average mutual fund/ETF/annuity sub-account in the client's portfolio owns 1,242 securities. Indirectly the client owns 62,085 securities within these investment vehicles.
   Owning this many securities is akin to owning a global index fund. (Consider there are only about 4,000 total stocks traded in the U.S.).





0.	Port Cyclical	folio (%) 30.76	Bmark (%) 31.18		
*	Cyclical				
A.	Basic Matls	3.00	2.77		
<b>~</b>	Consumer Cycl	11.79	11.06		
<b>e</b> ₽	Financial Svs	12.73	15.15		
m	Real Estate	3.24	2.20		
An	Sensitive	51.96	43.15		
8	Commun Svs	1.99	3.65		
8	Energy	3.14	5.85		
•	Industrials	10.10	12.21		
	Technology	36.73	21.44		
<b>→</b>	Defensive	17.28	25.67		
$\equiv$	Consumer Def	5.33	8.22		
•	Healthcare	9.50	14.30		
•	Utilities	2.45	3.15		
Not Classified 0.00 0.00					

	Portfolio (%)	Bmark (%)
Americas	86.55	99.09
North America	86.40	99.09
atin America	0.15	0.00
Greater Europe	7.70	0.37
United Kingdom	1.48	0.06
Europe-Developed	6.02	0.31
Europe-Emerging	0.06	0.00
Africa/Middle Eas	t 0.14	0.00
Greater Asia	5.75	0.55
Japan	1.34	0.00
Australasia	0.37	0.00
Asia-Developed	1.23	0.05
Asia-Emerging	2.81	0.50
Not Classified	0.00	0.00



#### **OVERLAP / REDUNDANCIES**

- There is significant redundancy of stock holdings throughout the portfolio which adds to
  increased transaction costs and to less efficiency. 47 of the top 50 stocks in the
  portfolio are held in 2 or more of the funds in the account.
- A number of stocks are held in 10 or more fund vehicles within the portfolio. One stock is a holding in 16 different funds owned by the client.
- Fewer holdings and less overlap has the potential to reduce costs while generally contributing to better account performance. (We can provide data on the correlation between fewer holdings and top performance).

#### **EXPENSES**

- The weighted average annual expense ratio of the funds & ETF's in the portfolio is 0.63%. These are only the disclosed cost of the funds not those expenses that are not required to be disclosed (such as trading commissions, soft dollars, etc). Keep in mind that other undisclosed costs exist that are not included in the expense ratios of the funds. These include trading commissions, soft dollars paid by the fund to its trading partners, trading desk spreads, front-end loads (sales concessions), and cash drag for liquidity within the funds. These typically range between 1% and 2% per year.
- Per the prospectus, the two AXA Accumulator Elite Variable Annuities have an annual internal contract charge of 1.3% of the value of the assets. In addition, various "riders' offering other benefits can be added to the contract for additional charges. Finally, subaccount fees on the contract range from about 0.70% to 1.1% annually. Overall the total annual fees on the contract are most likely 2% to 3% of the contract value.
- We were able to see a monthly advisory fee of \$443 on Fidelity Joint Account xxx-xx1650. Based on the \$455,849 value of the account, this fee is approximately 1.1% of the account value on an annual basis.
- From the statements we examined, we were unable to determine if there are other sales charges, advisory fees and transaction fees being charged to the accounts.

Apple Inc(USD)	AAPL
Source of Stock	
AXA AE 2006-Multimanager Technology IB (USD)	VAUSA05MQB
AXA AE 2006-AXA Large Cap Growth Managed Vol IB (USD)	VAUSA05MVQ
AXA AE 8.0-AXA Large Cap Growth Managed Vol IB (USD)	VAUSA06X3X
iShares Core S&P 500 ETF (USD)	IW
Vanguard Balanced Index Inv (USD)	VBINX
AXA AE 2006-EQ/Equity 500 Index IB (USD)	VAUSA05MQT
Fidelity® Contrafund® (USD)	FCNTX
iShares Core S&P US Growth ETF (USD)	IUSG
Vanguard Information Technology ETF (USD)	VGT
iShares Edge MSCI USA Momentum Fctr ETF (USD)	MTUM
AXA AE 8.0-AXA/Mutual Large Cap Equity Mgd Vol IB (USD)	VAUSA06X42
AXA AE 8.0-AXA Global Equity Managed Volatil IB (USD)	VAUSA06X4D

Microsoft Corp(USD)

Source of Stock	
AXA AE 2006-Multimanager Technology IB (USD)	VAUSA05MQB
AXA AE 2006-AXA Large Cap Growth Managed Vol IB (USD)	VAUSA05MVQ
AXA AE 8.0-AXA Large Cap Growth Managed Vol IB (USD)	VAUSA06X3X
Vanguard Balanced Index Inv (USD)	VBINX
iShares Core S&P 500 ETF (USD)	IW
AXA AE 2006-EQ/Equity 500 Index IB (USD)	VAUSA05MQT
Fidelity® Contrafund® (USD)	FCNTX
iShares Core S&P US Growth ETF (USD)	IUSG
Vanguard Information Technology ETF (USD)	VGT
AXA AE 8.0-AXA/Mutual Large Cap Equity Mgd Vol IB (USD)	VAUSA06X42
iShares Edge MSCI USA Momentum Fctr ETF (USD)	MTUM
AXA AE 8.0-AXA Global Equity Managed Volatil IB (USD)	VAUSA06X4D
Facebook Inc A(USD)	FR
	10
Source of Stock	
Source of Stock	
Source of Stock AXA AE 2006-Multimanager Technology IB (USD)	VAUSA05MQB
	VAUSA05MQB
Source of Stock AXA AE 2006-Multimanager Technology IB (USD) AXA AE 2006-AXA Large Cap Growth Managed Vol IB (USD) Fidelity® Contrafund® (USD)	VAUSA05MQB VAUSA05MVQ
Source of Stock AXA AE 2006-Multimanager Technology IB (USD) AXA AE 2006-AXA Large Cap Growth Managed Vol IB (USD) Fidelity® Contrafund® (USD) AXA AE 8.0-AXA Large Cap Growth Managed Vol IB (USD)	VAUSA05MQB VAUSA05MVQ FCNTX
Source of Stock AXA AE 2006-Multimanager Technology IB (USD) AXA AE 2006-AXA Large Cap Growth Managed Vol IB (USD) Fidelity® Contrafund® (USD) AXA AE 8.0-AXA Large Cap Growth Managed Vol IB (USD) Vanguard Balanced Index Inv (USD)	VAUSA05MQB VAUSA05MVQ FCNTX VAUSA06X3X
Source of Stock AXA AE 2006-Multimanager Technology IB (USD) AXA AE 2006-AXA Large Cap Growth Managed Vol IB (USD) Fidelity® Contrafund® (USD) AXA AE 8.0-AXA Large Cap Growth Managed Vol IB (USD) Vanguard Balanced Index Inv (USD) iShares Core S&P 500 ETF (USD)	VAUSA05MQB VAUSA05MVQ FCNTX VAUSA06X3X VBINX IVV
Source of Stock  AXA AE 2006-Multimanager Technology IB (USD)  AXA AE 2006-AXA Large Cap Growth Managed Vol IB (USD)	VAUSA05MQB VAUSA05MVQ FCNTX VAUSA06X3X VBINX IVV
Source of Stock AXA AE 2006-Multimanager Technology IB (USD) AXA AE 2006-AXA Large Cap Growth Managed Vol IB (USD) Fidelity® Contrafund® (USD) AXA AE 8.0-AXA Large Cap Growth Managed Vol IB (USD) Vanguard Balanced Index Inv (USD) iShares Core S&P 500 ETF (USD) AXA AE 2006-EQ/Equity 500 Index IB (USD) iShares Core S&P US Growth ETF (USD)	VAUSA05MQB VAUSA05MVQ FCNTX VAUSA06X3X VBINX IVV VAUSA05MQT
Source of Stock  AXA AE 2006-Multimanager Technology IB (USD)  AXA AE 2006-AXA Large Cap Growth Managed Vol IB (USD)  Fidelity® Contrafund® (USD)  AXA AE 8.0-AXA Large Cap Growth Managed Vol IB (USD)  Vanguard Balanced Index Inv (USD)  iShares Core S&P 500 ETF (USD)  AXA AE 2006-EQ/Equity 500 Index IB (USD)	VAUSA05MQB VAUSA05MVQ FCNTX VAUSA06X3X VBINX IVV VAUSA05MQT IUSG
Source of Stock  AXA AE 2006-Multimanager Technology IB (USD)  AXA AE 2006-AXA Large Cap Growth Managed Vol IB (USD)  Fidelity® Contrafund® (USD)  AXA AE 8.0-AXA Large Cap Growth Managed Vol IB (USD)  Vanguard Balanced Index Inv (USD)  iShares Core S&P 500 ETF (USD)  AXA AE 2006-EQ/Equity 500 Index IB (USD)  iShares Core S&P US Growth ETF (USD)  Vanguard Information Technology ETF (USD)	VAUSA05MQB VAUSA05MVQ FCNTX VAUSA06X3X VBINX IVV VAUSA05MQT IUSG VGT



#### **CREDIT QUALITY, RATE RISK and CASH FLOW YIELD**

- Approximately 89% of the bonds held within pooled fund vehicles in the accounts are rated as investment grade (BBB and higher) while roughly 11% are not-rated or are below-investment grade.
- The average maturity of the bonds in the portfolio is 8.73 years.
   The duration of the bonds in this portfolio averages 6.3 years.
   This means that for each 1% move in interest rates the market value of the bond portion of this portfolio will move approximately 6.3% in the opposite direction. (i.e. interest rates go up then bond prices go down and vice versa).
- The total portfolio (including equities) has a current annual cashflow-yield of approximately 1.1%.

Fixed-Income Sectors	Portfolio (%)	Bmark (%)	Portfolio	Bmark
Government Government	45.86	39.03		
Municipal	0.33	0.58	1	
Corporate	33.60	23.23		
♠ Securitized	13.30	19.80		
Cash & Equivalents	6.91	17.37		
Derivative	0.00	0.00		
			0% 5 10 15 20	25 30 35 40 45

Maturity Breakdown		Credit Quality Breakdown	
Effective Maturity	Portfolio (%)	Credit Quality	Portfolio (%)
1-3	16.66	AAA	53.69
3-5	19.30	AA	3.55
5-7	12.06	A	12.92
7-10	15.51	BBB	18.85
10-15	4.53	BB	5.13
15-20	3.71	В	4.72
20-30	26.26	Below B	0.83
>30	1.97	NR	0.31

#### Investment Style 11-30-2017

6	55	9	High
0	0	13	Med
0	5	12	Low
Ltd	Mod	Ext	'

Fixed-Income Style	Portfolio	Bmark		
Effective Duration	6.30	5.71		
Effective Maturity	8.73	7.88		



#### **TURNOVER**

• The fund investments in the account have an average annual asset turnover of 41% - a large number of transactions per year given the 62,000+ securities owned in aggregate in the portfolio. Holding this number of securities with this level of turnover is expensive for a variety of reasons including transaction costs and the generation of realized short-term capital gains in taxable accounts. It's important to note that these costs are not reflected in the fund 'expense ratio' and therefore add a significant cost drag to the portfolio.

#### **TAXATION**

- The Variable Annuities and 401k are tax-deferred accounts, therefore a analysis of the tax-efficiency of the accounts is not relevant.
- The Joint Account at Morgan Stanley holding the Nokia stock has an unrealized capital gain of \$1,187.
- Joint Account xxx-xx3587 has an unrealized capital gain of \$40,170.
- Joint Account xxx-xx1650 has an unrealized capital gain of \$21,538.
- We did not receive unrealized capital gain/loss information on Joint Account xxx-xx5700.
- Wise tax management of taxable accounts can add significant value to the net after-tax return of those accounts. This includes carefully and strategically realizing gains, avoiding short-term capital gains treatment as much as possible, and strategically harvesting losses to offset gains.

#### **PERFORMANCE**

- The only account showing actual personalized performance reporting was the Corning 401k account. The statement indicated as of 10/11/17 that the client's account had achieved a 1 year return of 17.02%, a 3 year average annual return of 10.23%, and an annualized return from 1/1/14 of 8.84%.
- A stress test shows the current portfolio would have dropped approximately 44% (-\$923k) during the Financial Crisis period of Oct. 15, 2007 to March 2, 2009.
- On the next few pages we have provided some historical performance and peer-data for the assets currently in the portfolio. (NOTE: even though we are showing 3 and 5 year performance data, it's impossible to know what the portfolio looked like at those times. This is simply a snapshot of the current holdings looking backward.)



Name	Ticker	Expense Ratio	Turnover	Holdings	Category	1 Year	3 Year	5 year	Security Type		Value
Consumer Staples Select Sector SPDR® ETF	XLP	0.14%	4%	35	US Fund Consumer Defensive	13.85	7.11	12.17 E	xchange-Traded Fund	\$	5,420.02
Energy Select Sector SPDR® ETF	XLE	0.14%	6%	33	US Fund Equity Energy	-4.22	-1.85	1.96 E	xchange-Traded Fund	\$	2,793.98
ETFMG Prime Cyber Security ETF	HACK	0.60%	34%	43	US Fund Technology	16.53	7.18 -	E	xchange-Traded Fund	\$	2,257.50
Financial Select Sector SPDR® ETF	XLF	0.14%	6%	68	US Fund Financial	24.34	13.69	18.67 E	xchange-Traded Fund	\$	6,047.02
Health Care Select Sector SPDR® ETF	XLV	0.14%	8%	63	US Fund Health	23.40	7.86	17.54 E	xchange-Traded Fund	\$	8,976.40
Industrial Select Sector SPDR® ETF	XLI	0.14%	12%	69	US Fund Industrials	21.77	11.68	17.32 E	xchange-Traded Fund	\$	6,090.87
iShares 20+ Year Treasury Bond ETF	TLT	0.15%	24%	34	US Fund Long Government	6.38	3.26	2.73 E	xchange-Traded Fund	\$	2,653.02
iShares Core MSCI EAFE ETF	IEFA	0.08%	2%	2,537	US Fund Foreign Large Blend	28.40	7.05	9.03 E	xchange-Traded Fund	\$	25,814.00
iShares Core MSCI Emerging Markets ETF	IEMG	0.14%	4%	1,962	US Fund Diversified Emerging Mkts	32.16	6.12	4.72 E	xchange-Traded Fund	\$	10,772.99
iShares Core S&P 500 ETF	IVV	0.04%	5%	509	US Fund Large Blend	22.83	10.86	15.69 E	xchange-Traded Fund	\$	52,336.52
iShares Core S&P Mid-Cap ETF	IJН	0.07%	14%	404	US Fund Mid-Cap Blend	18.46	11.30	15.37 E	xchange-Traded Fund	\$	20,782.99
iShares Core S&P Small-Cap ETF	IJR	0.07%	13%	606	US Fund Small Blend	17.58	13.21	16.83 E	xchange-Traded Fund	\$	7,191.39
iShares Core S&P US Growth FTF	IUSG	0.05%	43%	577	US Fund Large Growth	27.84	12.24	16.50 F	xchange-Traded Fund	Ś	21.625.12
iShares Core US Aggregate Bond ETF	AGG	0.05%	242%	6,459	US Fund Intermediate-Term Bond	3.21	2.08	1.93 E	xchange-Traded Fund	\$	70,726.75
iShares Currency Hedged MSCI EAFE ETF	HEFA	0.35%	10%	23	US Fund Foreign Large Blend	20.24	7.98 -	E	xchange-Traded Fund	\$	7,026.60
iShares Edge MSCI USA Momentum Fctr ETF	MTUM	0.15%	114%	129	US Fund Large Growth	38.89	15.90 -	E	xchange-Traded Fund	\$	6,926.75
iShares iBoxx \$ High Yield Corp Bd ETF	HYG	0.49%	13%	1,033	US Fund High Yield Bond	7.82	4.09	4.59 E	xchange-Traded Fund	\$	10,288.17
iShares iBoxx \$ Invmt Grade Corp Bd ETF	LQD	0.15%	11%	1,868	US Fund Corporate Bond	6.58	3.53	3.29 E	xchange-Traded Fund	\$	27,346.09
iShares IP Morgan USD Em Mkts Rd ETE	FMR	ი ვე%	37%	383	US Fund Emerging Markets Rond	10 58	5.40	3 60 F	vchange-Traded Fund	Ś	23 950 15
iShares MBS ETF	MBB	0.09%	748%	511	US Fund Intermediate-Term Bond	2.01	1.59	1.76 E	xchange-Traded Fund	Ś	16.588.82
iShares S&P 500 Value ETF	IVE	0.18%	21%	353	US Fund Large Value	16.17	8.90	14.15 E	xchange-Traded Fund	\$	20,633.57
iShares TIPS Bond ETF	TIP	0.20%	24%	37	US Fund Inflation-Protected Bond	1.86	1.23	-0.29 E	xchange-Traded Fund	\$	19,784.72
iShares US Aerospace & Defense ETF	ITA	0.44%	14%	40	US Fund Industrials	31.30	18.93	24.16 E	xchange-Traded Fund	\$	3,052.49
Materials Select Sector SPDR® ETF	XLB	0.14%	16%	26	US Fund Natural Resources	21.68	8.82	12.53 E	xchange-Traded Fund	\$	3,040.56
PowerShares S&P 500 High Beta ETF	SPHB	0.25%	55%	101	US Fund Large Blend	15.87	7.88	16.25 E	xchange-Traded Fund	\$	2,987.13
SPDR® Blmbg Barclays Convert Secs ETF	CWB	0.40%	32%	161	US Fund Convertibles	18.14	7.77	11.13 E	xchange-Traded Fund	\$	10,692.11
											6,272.22
SPDR® EURO STOXX 50 ETF	FEZ	0.29%	7%	53	US Fund Europe Stock	34.85	4.56	8.05 E	xchange-Traded Fund	\$	0,272.22
SPDR® EURO STOXX 50 ETF SPDR® S&P Biotech ETF	FEZ XBI	0.29% 0.35%	7% 59%	53 103	US Fund Europe Stock US Fund Health	34.85 33.31	4.56 12.11		xchange-Traded Fund xchange-Traded Fund	\$	3,209.06
	_		_		·			23.66 E		_	
SPDR® S&P Biotech ETF	XBI	0.35%	59%	103	US Fund Health	33.31	12.11	23.66 E 27.58 E	xchange-Traded Fund	\$	3,209.06
SPDR® S&P Biotech ETF VanEck Vectors Semiconductor ETF	XBI SMH	0.35% 0.36%	59% 53%	103 25	US Fund Health US Fund Technology	33.31 42.36	12.11 23.42	23.66 E 27.58 E 16.65 E	xchange-Traded Fund xchange-Traded Fund	\$	3,209.06 2,333.00
SPDR® S&P Biotech ETF VanEck Vectors Semiconductor ETF Vanguard Consumer Discretionary ETF	XBI SMH VCR	0.35% 0.36% 0.10%	59% 53% 6%	103 25 373	US Fund Health US Fund Technology US Fund Consumer Cyclical	33.31 42.36 20.35	12.11 23.42 11.09	23.66 E 27.58 E 16.65 E 20.49 E	xchange-Traded Fund xchange-Traded Fund xchange-Traded Fund	\$	3,209.06 2,333.00 5,768.14
SPDR® S&P Biotech ETF VanEck Vectors Semiconductor ETF Vanguard Consumer Discretionary ETF Vanguard Information Technology ETF	XBI SMH VCR VGT	0.35% 0.36% 0.10% 0.10%	59% 53% 6% 6%	103 25 373 362	US Fund Health US Fund Technology US Fund Consumer Cyclical US Fund Technology	33.31 42.36 20.35 38.94	12.11 23.42 11.09 17.37	23.66 E 27.58 E 16.65 E 20.49 E 10.09 E	xchange-Traded Fund xchange-Traded Fund xchange-Traded Fund xchange-Traded Fund	\$ \$ \$ \$ \$	3,209.06 2,333.00 5,768.14 9,314.85
SPDR® S&P Biotech ETF  VanEck Vectors Semiconductor ETF  Vanguard Consumer Discretionary ETF  Vanguard Information Technology ETF  Vanguard REIT ETF	XBI SMH VCR VGT VNQ	0.35% 0.36% 0.10% 0.10% 0.12%	59% 53% 6% 6% 7%	103 25 373 362 156	US Fund Health US Fund Technology US Fund Consumer Cyclical US Fund Technology US Fund Real Estate	33.31 42.36 20.35 38.94 10.11	12.11 23.42 11.09 17.37 5.99	23.66 E 27.58 E 16.65 E 20.49 E 10.09 E 1.00 E	xchange-Traded Fund xchange-Traded Fund xchange-Traded Fund xchange-Traded Fund xchange-Traded Fund	\$ \$ \$ \$ \$	3,209.06 2,333.00 5,768.14 9,314.85 6,694.47
SPDR® S&P Biotech ETF  VanEck Vectors Semiconductor ETF  Vanguard Consumer Discretionary ETF  Vanguard Information Technology ETF  Vanguard REIT ETF  Vanguard Short-Term Bond ETF	XBI SMH VCR VGT VNQ BSV	0.35% 0.36% 0.10% 0.10% 0.12% 0.07%	59% 53% 6% 6% 7% 51%	103 25 373 362 156 2,497	US Fund Health US Fund Technology US Fund Consumer Cyclical US Fund Technology US Fund Real Estate US Fund Short-Term Bond	33.31 42.36 20.35 38.94 10.11 1.24	12.11 23.42 11.09 17.37 5.99 1.06	23.66 E 27.58 E 16.65 E 20.49 E 10.09 E 1.00 E 14.33 E	xchange-Traded Fund xchange-Traded Fund xchange-Traded Fund xchange-Traded Fund xchange-Traded Fund xchange-Traded Fund	\$ \$ \$ \$ \$ \$	3,209.06 2,333.00 5,768.14 9,314.85 6,694.47 18,108.04
SPDR® S&P Biotech ETF  VanEck Vectors Semiconductor ETF  Vanguard Consumer Discretionary ETF  Vanguard Information Technology ETF  Vanguard REIT ETF  Vanguard Short-Term Bond ETF  Vanguard Utilities ETF	XBI SMH VCR VGT VNQ BSV VPU	0.35% 0.36% 0.10% 0.10% 0.12% 0.07% 0.10%	59% 53% 6% 6% 7% 51% 4%	103 25 373 362 156 2,497 76	US Fund Health US Fund Technology US Fund Consumer Cyclical US Fund Technology US Fund Real Estate US Fund Short-Term Bond US Fund Utilities	33.31 42.36 20.35 38.94 10.11 1.24 25.24	12.11 23.42 11.09 17.37 5.99 1.06 11.42	23.66 E 27.58 E 16.65 E 20.49 E 10.09 E 1.00 E 14.33 E 16.39 C	xchange-Traded Fund xchange-Traded Fund xchange-Traded Fund xchange-Traded Fund xchange-Traded Fund xchange-Traded Fund xchange-Traded Fund	\$ \$ \$ \$ \$ \$	3,209.06 2,333.00 5,768.14 9,314.85 6,694.47 18,108.04 5,672.70
SPDR® S&P Biotech ETF VanEck Vectors Semiconductor ETF Vanguard Consumer Discretionary ETF Vanguard Information Technology ETF Vanguard REIT ETF Vanguard Short-Term Bond ETF Vanguard Utilities ETF Fidelity® Contrafund®	XBI SMH VCR VGT VNQ BSV VPU FCNTX	0.35% 0.36% 0.10% 0.10% 0.12% 0.07% 0.10% 0.68%	59% 53% 6% 6% 7% 51% 4%	103 25 373 362 156 2,497 76 316	US Fund Health US Fund Technology US Fund Consumer Cyclical US Fund Technology US Fund Real Estate US Fund Short-Term Bond US Fund Utilities US Fund Large Growth	33.31 42.36 20.35 38.94 10.11 1.24 25.24 32.52	12.11 23.42 11.09 17.37 5.99 1.06 11.42 13.00	23.66 E 27.58 E 16.65 E 20.49 E 10.09 E 1.00 E 14.33 E 16.39 C 9.92 C	xchange-Traded Fund pen-End Fund	\$ \$ \$ \$ \$ \$ \$	3,209.06 2,333.00 5,768.14 9,314.85 6,694.47 18,108.04 5,672.70 51,097.00
SPDR® S&P Biotech ETF VanEck Vectors Semiconductor ETF Vanguard Consumer Discretionary ETF Vanguard Information Technology ETF Vanguard REIT ETF Vanguard Short-Term Bond ETF Vanguard Utilities ETF Fidelity® Contrafund® Vanguard Balanced Index Inv	XBI SMH VCR VGT VNQ BSV VPU FCNTX VBINX	0.35% 0.36% 0.10% 0.10% 0.12% 0.07% 0.10% 0.68% 0.19%	59% 53% 6% 6% 7% 51% 4% 41% 44%	103 25 373 362 156 2,497 76 316 12,849	US Fund Health US Fund Technology US Fund Consumer Cyclical US Fund Technology US Fund Real Estate US Fund Short-Term Bond US Fund Utilities US Fund Large Growth US Fund Allocation50% to 70% Equity	33.31 42.36 20.35 38.94 10.11 1.24 25.24 32.52 14.24	12.11 23.42 11.09 17.37 5.99 1.06 11.42 13.00 7.17	23.66 E 27.58 E 16.65 E 20.49 E 10.09 E 1.00 E 14.33 E 16.39 C 9.92 C 15.37 C	xchange-Traded Fund pen-End Fund	\$ \$ \$ \$ \$ \$ \$	3,209.06 2,333.00 5,768.14 9,314.85 6,694.47 18,108.04 5,672.70 51,097.00 115,601.32

Source: Morningstar 12.05.17



# **Building A Better Portfolio**

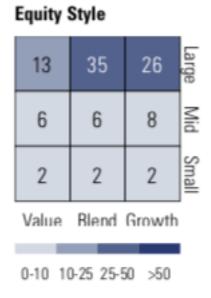


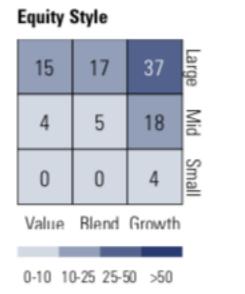
Rather than own 60,000+ total stock and bond positions, across dozens of funds and ETF's, it's more optimal to blend money managers with highly focused areas of expertise and proven track records of success.

#### **WE BLEND 5 SMA MONEY MANAGERS:**

- 25% Polen US Large Cap Growth
- 25% Columbia US Large Cap Value
- 15% Congress US Mid-Cap
- 20% Dorsey International
- 15% Enhanced Income Portfolio

#### **CURRENT PORTFOLIO: PROPOSED PORTFOLIO:**







	Current Portfolio	Proposed Portfolio
Total # of Holdings	62,085	163
Overlap in Top 50 Holdings	47	0
Annual Turnover	41%	15%
Annualized 3 yr Return	5.6%	13.2%
Annualized 10 yr Return	4.0%	9.9%
Total 10 yr Return	47.7%	156.9%
10 yr St Dev	14.6	15.4
10 yr Beta	0.9	0.9
Worst 12 month return	-44.0%	-39.6%
Fund Expenses	0.63%	0.45%
Advisory Fee	1.10%	1.00%
Total Cost to Client*	1.73%	1.45%

### Consistent outperformance...





# New SMA Strategies

Q2 2018



### New SMA additions in 2018...





## KAYNE ANDERSON SMALL CAP GROWTH

- 20 yr track record (GIPS)
- AUM: \$3.8b (firm: \$20.4B)
- 5 yr annualized: 22.2% (vs 15.2%)
- 10 yr annualized: 14.5% (vs 6.7%)
- 29 holdings
- 25-30% turnover
- St. Dev = 12.7 / Beta = 0.92
- 10yr Up/Down %: 118/90
- 2008: down 33.6%
- Yield: 1.1%

### EARNEST PARTNERS

## EARNEST PARTNERS SMALL CAP CORE

- 17 yr track record (GIPS)
- AUM: \$1.3B (firm: \$21.9B)
- 5 yr annualized: 18.8% (vs 14.1%)
- 10 yr annualized: 11.6% (vs 8.7%)
- 48 holdings
- 20-25% turnover
- St. Dev = 12.8 / Beta = 1.1
- 10yr Up/Down %: 124/119
- 2008: down 34.4%
- Yield: 1.0%

### New TACTICAL SMA additions in 2018...





#### **BLUESTONE ELITE TACTICAL**

- Equities (to bonds/cash)
- Holds stocks and ETF's
- 2008: down 13%
- 2.0% yield
- 5 yr annualized: 10.2%
- 10 yr annualized: 13.7%
- St. Dev = 10.3
- Beta = 1.5
- 22 holdings

# St. James | INVESTMENT ADVISORS

#### ST JAMES HIGH DIVIDEND

- Equities (to bonds/cash)
- 2.8% yield
- 5 yr annualized: 7.2%
- 10 yr annualized: 6.6%
- 2008: down 7.8%
- 34 holdings (indiv. stocks)
- 15% turnover
- St. Dev = 6.0 / Beta = 0.5
- 10yr Up/Down %: 45/31



#### **DORSEY GLOBAL TACTICAL**

- All sectors / ETF's
- 1.7% yield
- 5 yr annualized: 9.6%
- 11 holdings
- 143% turnover
- St. Dev = 9.1
- Beta = 0.8
- 5yr Up/Down %: 79/87

# **Using Custom Bond Ladders**



### I. Breaking Down the Bond Ladder



#### A. Bond Basics – The Fixed Income Part of the Portfolio

### What are Bonds

- Security that represents debt of a company or government entity (as opposed to stocks which represent ownership in the company)
- Evidences a commitment by the issuer to pay a set amount of interest for a set amount of time (maturity) and principal at maturity
- Government bonds carry the guarantee of the government entity
- Corporate bond owners have a higher claim on assets of the company than stockholders

### **How to Own Bonds**

- Portfolio of individual bondsbest for investors that can invest in enough bonds to properly diversify and still own liquid sizes
- Mutual Fund Comingled fund, best for small allocations to obtain diversification, can be actively or passively managed
- ETF- Comingled fund, best for small allocations and shorterterm commitments to obtain diversification, typically or passively managed to match an index

### I. Breaking Down the Bond Ladder



#### A. Bond Basics – Bond Math

### **How Interest is Paid**

- Most bonds (Treasury, Corporate and Municipal) pay half the annual interest amount semi-annually
  - Coupon payment is Par Amount X Coupon Rate / 2
  - Payment date usually coincides with maturity (example a bond that matures in January pays coupons in January and July)
- The coupon payment is a set amount for the life of the bond (except for floating rate bonds)
  - As interest rates change, the market price of the bond adjusts to compensate. When rates rise, the price goes down. When rates fall the price goes up.
- The owner of the bond on the coupon date gets the full amount of the coupon
  - ❖ A seller of a bond is paid the accrued interest from the last coupon date to the sale date in the amount paid for the bond
  - ❖ A buy of a bond pays the previous owner the amount of accrued interest from the last coupon payment.



#### B. Bond Basics - Bond Math

# **Paying for a Bond**

Example: Tyson Foods Bond due 6/15/2022, 4.50%

**Purchase Date:** 5/17/2018 50,000.00 Amount to be received at Maturity **Par Amount** Price Determined by the yield the **Price** 103.297 market demands X **Market Value** 51,648.50 Par times price divided by 100 Interest for 152 days (days since last **Accrued Interest** \$ 950.00 coupon on 12/15/17) **Total Amount Paid** 52,598.50 **Market Value plus Accrued Interest** Net present value of all the coupon payments plus par amount at the **Effective Yield** 3.629 current



#### B. Bond Basics – Bond Math

# Why Do My Bonds Appear to go Down in Value the Day After Purchase?

- Accrued Interest
  - The accrued interest paid to the seller upon purchase will be recouped on the next coupon date
  - The amount of accrued interest due to the owner increases by one days interest every day up to the coupon date
  - The accrued interest amount is not included in the market value quoted on the statement
- Bid/Ask Spreads
  - Bond dealers sell bonds "as principal", meaning from their own account, making a profit on marking the bond up from the price at which it is purchased (no commission is charged)
  - A buyer buys at an "ask" price which is generally higher than the price a seller will get, or the "bid" price
  - The custodial statement will show bonds priced at the bid, or lower, price



#### C. Managing the "Bond Ladder"

- Spreading maturities of bonds evens cash flow stream out and lowers interest rate risk
- Shorter maturities provide added liquidity as they would generally be able to be sold closest to par
- Reinvesting maturities as they come due from the short end of the ladder out to the longer end of the ladder constantly replenishes the portfolio with current yields and will generally increase the yield in the portfolio over time

3.55% 10 YEAR What is a bond ladder? Portfolio of bonds 3% constructed such that roughly equal amounts are 8 YEAR maturing each year over the investor's time horizon. 2.5% The bond ladder's cash flow schedule can be tailored to 6 YEAR an investor's specific income needs or time frame. 1.5% 4 YEAR 0.55% 2 YEAR illustrate the concept of a bond

> ladder and does not represent he performance or current yield of any specific investment.

 Maturing principal is reinvested at the long end of the ladder to capture higher rates

 Short-term securities provide liquidity in anticipation of future rate increases



# **C.** Ongoing Reporting

Bond Ladder Report shows breakdown of bond portfolio, yields and duration

Totals	Averages		
Par Value	\$432,000.00 Average Years to Redemption		5.32
Current Market Value	\$431,653.50 Average Interest Rate (%)		6.12 %
Accrued Income	\$4,838.87 Average Duration		4.46
Market Value With Accrued Income	\$436,492.37 Average Moody Rating		B2
Annual Income	\$26,298.75 Average S&P Rating		B+
Cost Basis	\$430,974.08 Average Yield to Worst		6.05 %
Number of Issues	22 Average Yield to Maturity Cost		6.07 %
	Cash or Equivalent Corporate Bond Total:	\$12,951.99 \$436,492.37 <b>\$449,444.36</b>	2.99 97.19 <b>100.0</b> 9



# C. Ongoing Reporting

Bond Ladder Report shows future coupon payments and maturities

#### **Expected Income and Redemption by Month**

		January	February	March	April	May	June	July	August	September	October	November	December	Annual Totals
20	I	\$1,138	\$1,200	\$1,709	\$1,413	\$3,100	\$3,941	\$1,788	\$1,200	\$1,709	\$1,413	\$3,100	\$3,941	\$25,649
2018	R	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2019	I	\$1,788	\$1,200	\$1,709	\$1,413	\$3,100	\$3,941	\$1,788	\$1,200	\$1,709	\$1,413	\$3,100	\$3,941	\$26,299
19	R	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2020	I	\$1,788	\$1,200	\$1,709	\$1,413	\$3,100	\$3,941	\$1,788	\$1,200	\$1,709	\$1,413	\$3,100	\$3,941	\$26,299
20	R	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
20	I	\$1,788	\$1,200	\$1,709	\$1,413	\$3,100	\$3,941	\$1,788	\$588	\$1,709	\$1,413	\$3,100	\$3,166	\$24,911
2021	R	\$0	\$20,000	\$0	\$0	\$0	\$20,000	\$20,000	\$0	\$0	\$0	\$0	\$20,000	\$80,000
20	I	\$1,138	\$588	\$1,709	\$1,413	\$3,100	\$2,691	\$1,138	\$0	\$1,709	\$1,413	\$1,788	\$2,691	\$19,374
2022	R	\$0	\$20,000	\$0	\$0	\$40,000	\$0	\$20,000	\$0	\$0	\$0	\$20,000	\$0	\$100,000
20	I	\$550	\$0	\$1,709	\$1,413	\$1,138	\$2,691	\$0	\$0	\$1,084	\$1,413	\$638	\$1,416	\$12,049
2023	R	\$20,000	\$0	\$20,000	\$0	\$20,000	\$40,000	\$0	\$0	\$0	\$0	\$0	\$0	\$100,000
20	I	\$0	\$0	\$1,084	\$1,413	\$638	\$1,416	\$0	\$0	\$575	\$563	\$638	\$1,238	\$7,562
2024	R	\$0	\$0	\$22,000	\$20,000	\$0	\$5,000	\$0	\$0	\$0	\$25,000	\$0	\$0	\$72,000
20	I	\$0	\$0	\$575	\$0	\$638	\$1,238	\$0	\$0	\$0	\$0	\$0	\$563	\$3,013
2025	R	\$0	\$0	\$20,000	\$0	\$20,000	\$20,000	\$0	\$0	\$0	\$0	\$0	\$20,000	\$80,000
20	I	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2048	R	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0

<sup>\*</sup> I = Income R = Redemption

Total Income: \$145,154
Total Redemptions: \$432,000



# C. Marketing

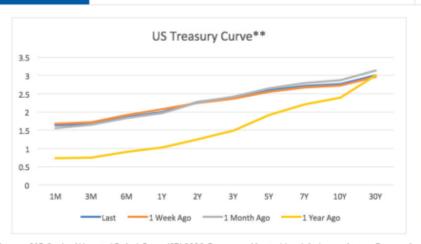
Bond Market Monitor published quarterly

				INVE	STMENT-GRADE CORPO	MID-GRADE CORPORATE		
Treasuries	CDs	Agencies	Corporate (AAA)	Corporate (AA)	Corporate (A)	Corporate (BBB)	Corporate (BB)	Corporate (B)
2.07	1.87	1.97	1.45	2.16	2.38	2.61	2.86	3.16
2.36	2.31	2.03	2.40	2.94	3.08	3.68	4.23	4.73
2.55	2.79	2.21	2.74	3.08	3.43	4.46	5.26	6.01
2.67	2.95	2.60	2.97	3.20	3.65	4.98	6.03	6.78
2.75	3.07	2.85	3.20	3.56	3.90	5.27	6.42	7.32
2.81	3.27	3.60	3.58	3.78	4.66	5.78	7.33	8.33
3.01	3.53	3.64	3.89	4.28	4.66	6.42	7.97	9.97
lt %*			0.01%	0.01%	0.03%	0.44%	1.47%	3.90%
	2.07 2.36 2.55 2.67 2.75 2.81 3.01	2.07     1.87       2.36     2.31       2.55     2.79       2.67     2.95       2.75     3.07       2.81     3.27       3.01     3.53	2.07     1.87     1.97       2.36     2.31     2.03       2.55     2.79     2.21       2.67     2.95     2.60       2.75     3.07     2.85       2.81     3.27     3.60       3.01     3.53     3.64	2.07     1.87     1.97     1.45       2.36     2.31     2.03     2.40       2.55     2.79     2.21     2.74       2.67     2.95     2.60     2.97       2.75     3.07     2.85     3.20       2.81     3.27     3.60     3.58       3.01     3.53     3.64     3.89	Treasuries         CDs         Agencies         Corporate (AAA)         Corporate (AA)           2.07         1.87         1.97         1.45         2.16           2.36         2.31         2.03         2.40         2.94           2.55         2.79         2.21         2.74         3.08           2.67         2.95         2.60         2.97         3.20           2.75         3.07         2.85         3.20         3.56           2.81         3.27         3.60         3.58         3.78           3.01         3.53         3.64         3.89         4.28	Treasuries         CDs         Agencies         Corporate (AAA)         Corporate (AA)         Corporate (A)           2.07         1.87         1.97         1.45         2.16         2.38           2.36         2.31         2.03         2.40         2.94         3.08           2.55         2.79         2.21         2.74         3.08         3.43           2.67         2.95         2.60         2.97         3.20         3.65           2.75         3.07         2.85         3.20         3.56         3.90           2.81         3.27         3.60         3.58         3.78         4.66           3.01         3.53         3.64         3.89         4.28         4.66	Treasuries         CDs         Agencies         Corporate (AAA)         Corporate (AA)         Corporate (A)         Corporate (BBB)           2.07         1.87         1.97         1.45         2.16         2.38         2.61           2.36         2.31         2.03         2.40         2.94         3.08         3.68           2.55         2.79         2.21         2.74         3.08         3.43         4.46           2.67         2.95         2.60         2.97         3.20         3.65         4.98           2.75         3.07         2.85         3.20         3.56         3.90         5.27           2.81         3.27         3.60         3.58         3.78         4.66         5.78           3.01         3.53         3.64         3.89         4.28         4.66         6.42	Treasuries         CDs         Agencies         Corporate (AAA)         Corporate (AA)         Corporate (AA)         Corporate (BBB)         Corporate (BBB)         Corporate (BBB)           2.07         1.87         1.97         1.45         2.16         2.38         2.61         2.86           2.36         2.31         2.03         2.40         2.94         3.08         3.68         4.23           2.55         2.79         2.21         2.74         3.08         3.43         4.46         5.26           2.67         2.95         2.60         2.97         3.20         3.65         4.98         6.03           2.75         3.07         2.85         3.20         3.56         3.90         5.27         6.42           2.81         3.27         3.60         3.58         3.78         4.66         5.78         7.33           3.01         3.53         3.64         3.89         4.28         4.66         6.42         7.97

Representative Issuers\* Johnson & Johnson, Microsoft, Royal Bank of Canada, Yale University Alphabet, Chevron, Colgate, Toyota, Walmart Adobe, Bank of America, Caterpillar, Cummins, Hershey's, Loews,

Qualcomm

21st Century Fox, AT&T, Bed Bath & Beyond, Kohl's, Motorola, Viacom Ally, GMAC, Ingram Micro, Nabors Ind., Sally Beauty Supply, Toll Bros. Homes Albertson's, Century Link, Columbia Healthcare, Diebold, Hertz, Safeway, Sprint





<sup>\*</sup> Source: S&P, Study of Historical Default Rates, 1971-2006, Represents Marginal 1-yr default rate of issues 5 years after issuance

<sup>\*\*</sup> Source: Bloomberg L.P.



#### A. Assessing the Client Needs

# **Factors that Shape the Proper Portfolio Construction**

- What Percent of the client's overall fixed income allocation is this?
- Does the client have other cash/ money market or liquidity portfolios to provide for unexpected cash flow needs?
- What is the Income need or Expectation?
- Does the client need to use the income or withdraw for RMDs?
- Does the client anticipate needing to utilize principal cash flows or liquidate bonds for cash needs? In what time horizon?
- What is the client's tolerance for risk-
  - Credit risk?
  - Interest rate risk/ market price volatility?
  - ! Note Enhanced Income portfolios are not right for every client even though they usually have the highest yield level

# II. Fact Finding for the Bond Portfolio



#### A. Communicating the Portfolio Needs

#### **Bond Portfolio Construction Checklist:**

	Dona i di tidilo constituction checkiist.
1	Amount to Invest
2	Are the amounts spread across multiple registrations/accounts? (List registrations and approx. dollar amount in each)
3	Restrictions on types of bonds in each registration (no alcohol/ tobacco, etc.)
4	Automatically reinvest coupon payments and bonds matured or called?
5	Min/Max Credit Rating of bonds
6	Min/Max Maturity bonds
7	Min/Max Cash Position in each account
8	Advisory Fee to be charged
9	Monthly withdrawal flow needs net of fees (include start date)
10	Any other cash flow needs in future years (RMDs, etc.), include amount and timing
11	Client marginal tax bracket
12	Is client subject to AMT?
13	State of residence
14	Any existing holdings? Does PM have discretion to liquidate any current/legacy holdings? Any gain/loss constraints?
15	Other Special Instructions



#### **Separately Managed Bond Portfolios**

 Offers superior transparency, tax efficiency and cost advantages over comingled forms of ownership such as mutual funds and ETFs as well as the ability to customize for risk preferences and cash flow needs

#### **Laddered Maturity Approach**

Time-tested approach to managing interest rate risk and liquidity

#### **Credit Analysis to Manage Risk**

 Credit analysis performed by experienced bond professionals to identify attractive opportunities and maximize return for a given amount of risk

#### **Customized Maturity Schedules**

- Portfolio construction to meet each clients unique needs for income and cash flow as well as tolerance for market value volatility
- Engineered to meet unique Asset/Liability needs of institutional clients

# **Ongoing Portfolio Monitoring and Measurement**

Surveillance of credit risk and reinvestment of cash flows when needed



# **Using Separately Managed Bond Portfolios**

- Providing predictable and dependable income source that can be used for providing for retirement income, RMDs, replacement of annuity income streams, funding of future cash needs (education funding, home purchase, etc.)
- Replacing money market/ cash equivalent assets with short-term bonds at higher yields
- Providing tax efficient exposure to fixed income sector in asset allocation portfolio
- Lowering volatility and standard deviation in a portfolio



# **Strategy Code 1003- Cash Management Bond Portfolio**

- New product offering designed to replace cash/ money market assets in client portfolios with short-term bond portfolios designed to provide a higher level of income for those that do not have an immediate cash need
- Generally would be bonds in 12-24 month cash flow ladder (similar to a money market fund), but can be customized to shorter/ bullet dates for specific needs
- Would generally be corporate bonds, but may also utilize government, municipal or CD issues where attractive yields are available

# IV. Cash Management Bond Portfolios



# **Sample Cash Management Bond Portfolio**

Sample Cash Mgmt Portfolio Blend

TownSquare

As of: 05/15/2018

<b>Qty</b> 50,000.00	Issue							
	Issue							
		Ratings	Coupon	Maturity	Yield	Price		Mkt Value
	ALLY FINL INC	Ba3/BB+/	3.500	1/27/2019	2.55	100.55	\$	50,275.50
50,000.00	PITNEY BOWES INC	Ba1/BB+/	6.250	3/15/2019	2.79	102.71	\$	51,354.50
50,000.00	QVC INC	Ba2/BBB-/	3.125	4/1/2019	2.45	100.45	\$	50,225.00
50,000.00	КВ НОМЕ	B1/BB-/	4.750	5/15/2019	3.12	101.44	\$	50,722.00
50,000.00	AMERIPRISE FINL INC	A3/A/	7.300	6/28/2019	2.47	105.14	\$	52,567.50
50,000.00	TEVA PHARMACEUTICAL FIN NET	Ba2/BB/	1.700	7/19/2019	3.19	98.12	\$	49,060.00
50,000.00	SYNCHRONY FINL	/BBB-/	3.000	8/15/2019	2.72	100.16	\$	50,081.00
50,000.00	VIACOM INC NEW	Baa3/BBB-/	5.625	9/15/2019	2.66	103.66	\$	51,830.50
50,000.00	TEXTRON INC	Baa2/BBB/	7.250	10/1/2019	2.59	106.07	\$	53,035.00
50,000.00	BARCLAYS PLC	Baa3/BBB/	2.750	11/8/2019	2.70	99.86	\$	49,929.50
50,000.00	SCRIPPS NETWORKS INTERACT	Baa3/-/	2.750	11/15/2019	2.90	99.56	\$	49,782.00
50,000.00	METHANEX CORP	Baa3/BB+/	3.250	12/15/2019	3.00	100.15	\$	50,073.50
50,000.00	SOUTHERN PWR CO	Baa1/BBB+/	1.950	12/15/2019	2.76	98.52	\$	49,260.00
50,000.00	FORD MOTOR CREDIT CO LLC	Baa2/BBB/	2.681	1/9/2020	2.84	99.51	\$	49,755.00
50,000.00	BOSTON SCIENTIFIC CORP	Baa2/BBB-/	6.000	1/15/2020	2.76	105.00	\$	52,498.00
50,000.00	TIME WARNER CABLE INC	Ba1/BBB-/	5.000	2/1/2020	3.09	102.91	\$	51,453.50
50,000.00	AIR LEASE CORP	/BBB/	4.750	3/1/2020	2.98	102.80	\$	51,400.00
50,000.00	THE ADT CORPORATION	Ba3/BB-/	5.250	3/15/2020	3.67	102.51	\$	51,253.00
50,000.00	HEALTH CARE REIT INC	Baa1/BBB+/	6.125	4/15/2020	2.90	105.70	\$	52,849.00
32,000.00	ADVANCE AUTO PARTS INC	Baa2/BBB-/	5.750	5/1/2020	2.97	104.98	\$	33,593.92
982,000.00	Total Corporate Bonds			1.41	2.85		\$	1,000,998.42
982,000.00	Total Portfolio			1.41	2.85		\$	1,000,998.42
	Estimated Annual Income - Fi	ully Taxable Ed	uivalent				\$	28,548.56
	50,000.00 50,000.00	50,000.00 QVC INC  50,000.00 KB HOME  50,000.00 AMERIPRISE FINL INC  50,000.00 TEVA PHARMACEUTICAL FIN NET  50,000.00 SYNCHRONY FINL  50,000.00 VIACOM INC NEW  50,000.00 BARCLAYS PLC  50,000.00 SCRIPPS NETWORKS INTERACT  50,000.00 METHANEX CORP  50,000.00 SOUTHERN PWR CO  50,000.00 FORD MOTOR CREDIT CO LLC  50,000.00 BOSTON SCIENTIFIC CORP  50,000.00 TIME WARNER CABLE INC  50,000.00 AIR LEASE CORP  50,000.00 THE ADT CORPORATION  50,000.00 HEALTH CARE REIT INC  32,000.00 ADVANCE AUTO PARTS INC  982,000.00 Total Corporate Bonds	50,000.00         QVC INC         Ba2/BBB-/           50,000.00         KB HOME         B1/BB-/           50,000.00         AMERIPRISE FINL INC         A3/A/           50,000.00         TEVA PHARMACEUTICAL FIN NET Ba2/BB/           50,000.00         SYNCHRONY FINL        /BBB-/           50,000.00         SYNCHRONY FINL        /BBB-/           50,000.00         VIACOM INC NEW         Baa3/BBB-/           50,000.00         TEXTRON INC         Baa2/BBB/           50,000.00         BARCLAYS PLC         Baa3/BBB/           50,000.00         SCRIPPS NETWORKS INTERACT         Baa3/BB-/           50,000.00         METHANEX CORP         Baa3/BB+/           50,000.00         SOUTHERN PWR CO         Baa1/BBB+/           50,000.00         FORD MOTOR CREDIT CO LLC         Baa2/BBB//           50,000.00         BOSTON SCIENTIFIC CORP         Baa2/BBB-/           50,000.00         TIME WARNER CABLE INC         Ba1/BBB-/           50,000.00         THE ADT CORPORATION         Ba3/BB-/           50,000.00         ADVANCE AUTO PARTS INC         Baa2/BBB-/           982,000.00         Total Corporate Bonds           982,000.00         Total Portfolio	50,000.00         QVC INC         Ba2/BBB-/         3.125           50,000.00         KB HOME         B1/BB-/         4.750           50,000.00         AMERIPRISE FINL INC         A3/A/         7.300           50,000.00         TEVA PHARMACEUTICAL FIN NET Ba2/BB/         1.700           50,000.00         SYNCHRONY FINL        /BBB-/         3.000           50,000.00         VIACOM INC NEW         Baa3/BBB-/         5.625           50,000.00         TEXTRON INC         Baa3/BBB/         2.750           50,000.00         BARCLAYS PLC         Baa3/BBB/         2.750           50,000.00         SCRIPPS NETWORKS INTERACT         Baa3/BB+/         3.250           50,000.00         SOUTHERN PWR CO         Baa1/BBB+/         1.950           50,000.00         SOUTHERN PWR CO         Baa1/BBB+/         1.950           50,000.00         BOSTON SCIENTIFIC CORP         Baa2/BBB-/         6.000           50,000.00         BOSTON SCIENTIFIC CORP         Baa2/BBB-/         5.000           50,000.00         TIME WARNER CABLE INC         Ba1/BBB-/         5.000           50,000.00         THE ADT CORPORATION         Ba3/BB-/         5.250           50,000.00         ADVANCE AUTO PARTS INC         Baa2/BBB-/	50,000.00       QVC INC       Ba2/BBB-/       3.125       4/1/2019         50,000.00       KB HOME       B1/BB-/       4.750       5/15/2019         50,000.00       AMERIPRISE FINL INC       A3/A/       7.300       6/28/2019         50,000.00       TEVA PHARMACEUTICAL FIN NET Ba2/BB/       1.700       7/19/2019         50,000.00       SYNCHRONY FINL      /BBB-/       3.000       8/15/2019         50,000.00       VIACOM INC NEW       Baa3/BBB-/       5.625       9/15/2019         50,000.00       TEXTRON INC       Baa2/BBB/       7.250       10/1/2019         50,000.00       BARCLAYS PLC       Baa3/BBB/       2.750       11/8/2019         50,000.00       SCRIPPS NETWORKS INTERACT       Baa3/BB-/       3.250       12/15/2019         50,000.00       METHANEX CORP       Baa3/BB+/       3.250       12/15/2019         50,000.00       SOUTHERN PWR CO       Baa1/BBB+/       1.950       12/15/2019         50,000.00       FORD MOTOR CREDIT CO LLC       Baa2/BBB/       2.681       1/9/2020         50,000.00       BOSTON SCIENTIFIC CORP       Baa2/BBB-/       6.000       1/15/2020         50,000.00       TIME WARNER CABLE INC       Ba1/BBB-/       5.250       3/15/2020 <td>50,000.00       QVC INC       Ba2/BBB-/       3.125       4/1/2019       2.45         50,000.00       KB HOME       B1/BB-/       4.750       5/15/2019       3.12         50,000.00       AMERIPRISE FINL INC       A3/A/       7.300       6/28/2019       2.47         50,000.00       TEVA PHARMACEUTICAL FIN NET Ba2/BB/       1.700       7/19/2019       3.19         50,000.00       SYNCHRONY FINL      /BBB-/       3.000       8/15/2019       2.72         50,000.00       VIACOM INC NEW       Baa3/BBB-/       5.625       9/15/2019       2.66         50,000.00       TEXTRON INC       Baa2/BBB/       7.250       10/1/2019       2.59         50,000.00       BARCLAYS PLC       Baa3/BBB/       2.750       11/8/2019       2.70         50,000.00       SCRIPPS NETWORKS INTERACT       Baa3/-/       2.750       11/15/2019       2.90         50,000.00       METHANEX CORP       Baa3/BB+/       3.250       12/15/2019       3.00         50,000.00       SOUTHERN PWR CO       Baa1/BBB+/       1.950       12/15/2019       2.76         50,000.00       FORD MOTOR CREDIT CO LLC       Baa2/BBB-/       6.000       1/15/2020       2.76         50,000.00       BOSTON SCI</td> <td>50,000.00       QVC INC       BaZ/BBB-/       3.125       4/1/2019       2.45       100.45         50,000.00       KB HOME       B1/BB-/       4.750       5/15/2019       3.12       101.44         50,000.00       AMERIPRISE FINL INC       A3/A/       7.300       6/28/2019       2.47       105.14         50,000.00       TEVA PHARMACEUTICAL FIN NET Ba2/BB/       1.700       7/19/2019       3.19       98.12         50,000.00       SYNCHRONY FINL      /BBB-/       3.000       8/15/2019       2.72       100.16         50,000.00       VIACOM INC NEW       Baa3/BBB-/       5.625       9/15/2019       2.66       103.66         50,000.00       TEXTRON INC       Baa2/BBB/       7.250       10/1/2019       2.59       106.07         50,000.00       BARCLAYS PLC       Baa3/BBB/       2.750       11/8/2019       2.70       99.86         50,000.00       SCRIPPS NETWORKS INTERACT       Baa3/BBB/       2.750       11/15/2019       2.90       99.56         50,000.00       METHANEX CORP       Baa3/BB+/       3.250       12/15/2019       3.00       100.15         50,000.00       FORD MOTOR CREDIT CO LLC       Baa2/BBB/       1.950       12/15/2019       2.76       98.</td> <td>50,000.00         QVC INC         Ba2/BBB-/         3.125         4/1/2019         2.45         100.45         \$           50,000.00         KB HOME         B1/BB-/         4.750         5/15/2019         3.12         101.44         \$           50,000.00         AMERIPRISE FINL INC         A3/A/         7.300         6/28/2019         2.47         105.14         \$           50,000.00         TEVA PHARMACEUTICAL FIN NEI Ba2/BB/         1.700         7/19/2019         3.19         98.12         \$           50,000.00         SYNCHRONY FINL        /BBB-/         3.000         8/15/2019         2.72         100.16         \$           50,000.00         VIACOM INC NEW         Baa3/BBB-/         5.625         9/15/2019         2.66         103.66         \$           50,000.00         TEXTRON INC         Baa2/BBB/         7.250         10/1/2019         2.59         106.07         \$           50,000.00         BARCLAYS PLC         Baa3/BBB/         2.750         11/8/2019         2.70         99.86         \$           50,000.00         SCRIPPS NETWORKS INTERACT         Baa3/BB+/         3.250         12/15/2019         3.00         100.15         \$           50,000.00         METHANEX CORP</td>	50,000.00       QVC INC       Ba2/BBB-/       3.125       4/1/2019       2.45         50,000.00       KB HOME       B1/BB-/       4.750       5/15/2019       3.12         50,000.00       AMERIPRISE FINL INC       A3/A/       7.300       6/28/2019       2.47         50,000.00       TEVA PHARMACEUTICAL FIN NET Ba2/BB/       1.700       7/19/2019       3.19         50,000.00       SYNCHRONY FINL      /BBB-/       3.000       8/15/2019       2.72         50,000.00       VIACOM INC NEW       Baa3/BBB-/       5.625       9/15/2019       2.66         50,000.00       TEXTRON INC       Baa2/BBB/       7.250       10/1/2019       2.59         50,000.00       BARCLAYS PLC       Baa3/BBB/       2.750       11/8/2019       2.70         50,000.00       SCRIPPS NETWORKS INTERACT       Baa3/-/       2.750       11/15/2019       2.90         50,000.00       METHANEX CORP       Baa3/BB+/       3.250       12/15/2019       3.00         50,000.00       SOUTHERN PWR CO       Baa1/BBB+/       1.950       12/15/2019       2.76         50,000.00       FORD MOTOR CREDIT CO LLC       Baa2/BBB-/       6.000       1/15/2020       2.76         50,000.00       BOSTON SCI	50,000.00       QVC INC       BaZ/BBB-/       3.125       4/1/2019       2.45       100.45         50,000.00       KB HOME       B1/BB-/       4.750       5/15/2019       3.12       101.44         50,000.00       AMERIPRISE FINL INC       A3/A/       7.300       6/28/2019       2.47       105.14         50,000.00       TEVA PHARMACEUTICAL FIN NET Ba2/BB/       1.700       7/19/2019       3.19       98.12         50,000.00       SYNCHRONY FINL      /BBB-/       3.000       8/15/2019       2.72       100.16         50,000.00       VIACOM INC NEW       Baa3/BBB-/       5.625       9/15/2019       2.66       103.66         50,000.00       TEXTRON INC       Baa2/BBB/       7.250       10/1/2019       2.59       106.07         50,000.00       BARCLAYS PLC       Baa3/BBB/       2.750       11/8/2019       2.70       99.86         50,000.00       SCRIPPS NETWORKS INTERACT       Baa3/BBB/       2.750       11/15/2019       2.90       99.56         50,000.00       METHANEX CORP       Baa3/BB+/       3.250       12/15/2019       3.00       100.15         50,000.00       FORD MOTOR CREDIT CO LLC       Baa2/BBB/       1.950       12/15/2019       2.76       98.	50,000.00         QVC INC         Ba2/BBB-/         3.125         4/1/2019         2.45         100.45         \$           50,000.00         KB HOME         B1/BB-/         4.750         5/15/2019         3.12         101.44         \$           50,000.00         AMERIPRISE FINL INC         A3/A/         7.300         6/28/2019         2.47         105.14         \$           50,000.00         TEVA PHARMACEUTICAL FIN NEI Ba2/BB/         1.700         7/19/2019         3.19         98.12         \$           50,000.00         SYNCHRONY FINL        /BBB-/         3.000         8/15/2019         2.72         100.16         \$           50,000.00         VIACOM INC NEW         Baa3/BBB-/         5.625         9/15/2019         2.66         103.66         \$           50,000.00         TEXTRON INC         Baa2/BBB/         7.250         10/1/2019         2.59         106.07         \$           50,000.00         BARCLAYS PLC         Baa3/BBB/         2.750         11/8/2019         2.70         99.86         \$           50,000.00         SCRIPPS NETWORKS INTERACT         Baa3/BB+/         3.250         12/15/2019         3.00         100.15         \$           50,000.00         METHANEX CORP

# Individual Stock Portfolio Audit Example

TownSquare

#### The Statements



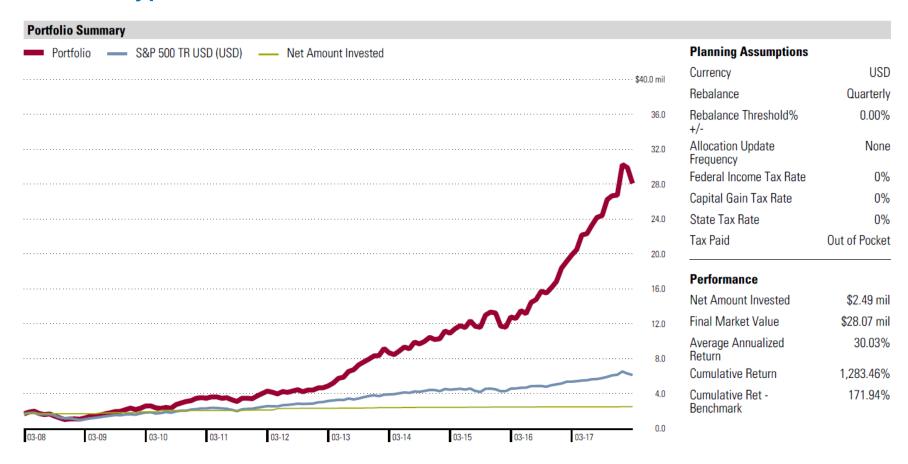
# Information needed from statements (or client) for an Audit on a stock portfolio:

- What to look for:
  - Fees Is the client paying a reasonable fee?
  - Transaction History/Turnover How frequently is the account being traded?
  - Performance What has the performance been over the last 3, 5, and 10 years? How does performance compare to the Benchmark or a portfolio of comparable risk?
  - Manager Are the equity positions being managed by the client, current advisor, or a third party (Separate Account) manager?
- If possible, most recent statement and a prior quarter or year end statement.

#### Performance

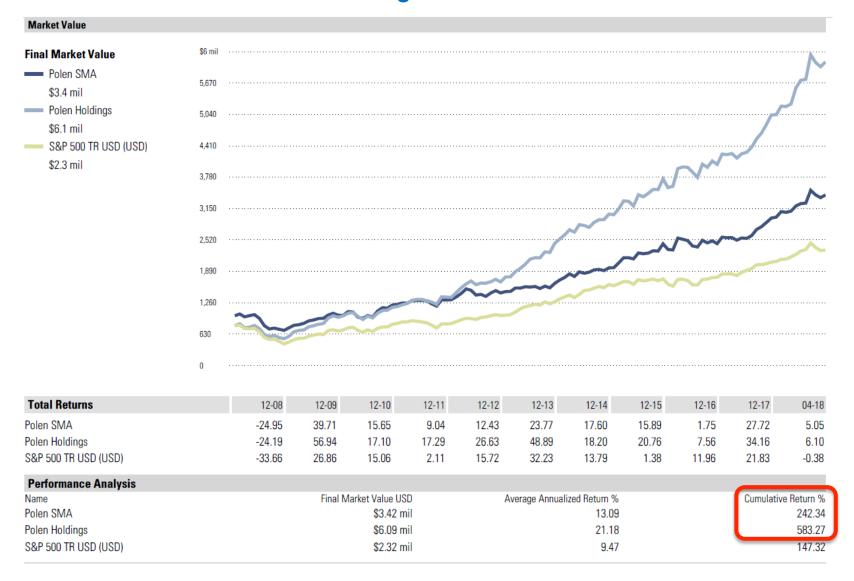


# 10 Year Hypothetical





#### Polen vs Polen's Current Holdings



#### **Client Overview**



#### Client

- Couple in late 50's
- Retiring in 3 years
- Aggressive Risk Tolerance

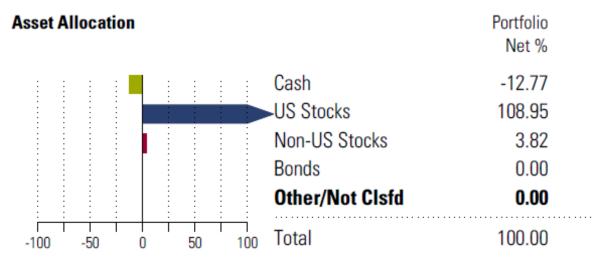
#### **Current Portfolio**

- \$2.5M portfolio managed by Morgan Stanley
  - \$2M in Individual Stocks
  - \$500K in ETFs
- Taxable Account
- 43 Individual Stocks / 12 ETFs



#### 1 - Overall Asset Allocation

 Review the asset allocation of the portfolio based on the risk tolerance and time horizon for each account.

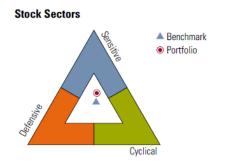


- The portfolio is allocated 100% net to equities.
- There is leverage used in a few of the ETF's in the portfolio that makes the leveraged equity exposure approximately 112% of the investor's capital.
- Less than 4% of the portfolio is invested internationally



#### 2 - Sector & Geographic Allocation

- Over 70% of the portfolio is invested in the Consumer Cyclical and Technology sectors (more than 2x the market weighting).
  - Our recommendation is that no one sector make up more than 20% of a portfolio.
- 10% exposure to Healthcare.
- Little to zero exposure to any other sectors in the market.
- Nearly all of the international exposure in the portfolio is in one Region (China) and in one stock (Alibaba).



	F	ortfolio (%)	Bmark (%)
<b>W</b>	Cyclical	23.58	33.57
Æ.	Basic Matts	0.34	2 68
A	Consumer Cy	cl 19.64	11.73
-Q-	Financiai 5vs	3.54	16.91
<b>fi</b>	Real Estate	0.06	2.25
W	Sensitive	56.23	41.83
	Commun Svs	0.31	3.29
	Energy	0.50	5.74
Ö	Industrials	4 81	10.64
	Technology	50.61	22.16
<b>→</b>	Defensive	13.33	24.60
Ħ	Consumer De	f 3.15	7.83
•	Healthcare	10.15	13.91
	Utilities	0.03	2.86
Not	Classified	6.86	0.00

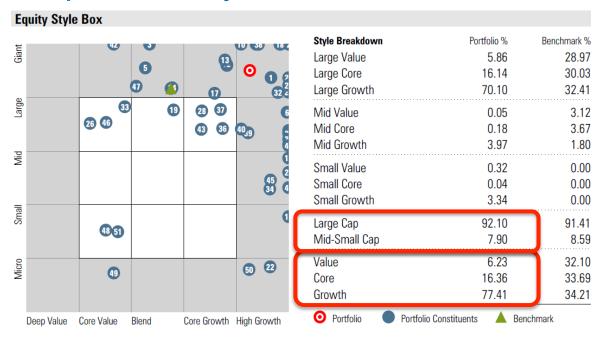
World Reg	gions		
Greater As	ia America	is G	reater Europe
		3	7
<25	25-50	50-75	>75%

Not Classified: 6.86%

Americas	Portfolio (%) 89.54	Bmark (%) <b>99.16</b>
North America	89.54	99.16
Latin America	0.00	0.00
Greater Europe	0.15	0.34
United Kingdom	0.03	0.06
Europe-Developed	0.11	0.28
Europe-Emerging	0.00	0.00
Africa/Middle Eas	t 0.01	0.00
Greater Asia	3.45	0.50
Japan	0.34	0.00
Australasia	0.00	0.00
Asia-Developed	0.09	0.07
Asia-Emerging	3.02	0.43
Not Classified	6.86	0.00



#### 3- Cap Size and Style



- The equity portion of the portfolio is 92% Large Cap stocks, 4% Mid Cap stocks, and 4% Small Cap stocks.
- There is a heavy over-weighting of "Growth" stocks relative to "Value" stocks. The portfolio is 77% Growth stocks, 16% Core, and only 6% Value.



#### 4 - Valuations & Portfolio Statistics

- The P/E Ratio for the portfolio is 32.4 as opposed to the S&P 500 P/E of 20.84. The portfolio is trading at significantly higher multiples (more expensive) than the rest of the market.
- Historical average P/E for the S&P 500 is 17.0

Valuation Multiples	Portfolio	Bmark
Price/Earnings	32.40	20.84
Price/Book	7.30	3.10
Price/Sales	4.13	2.19
Price/Cash Flow	20.44	13.60

#### 5 - Concentration Risk

- The top 4 largest individual equity holdings make up over 1/3 (36.5%) of the portfolio.
- We typically recommend that no one stock represent more than 5% of a clients portfolio

T	op 10 Constituents	
		% Weighting
1	NVIDIA Corp	9.94
2	Amazon.com Inc	9.91
3	Apple Inc	9.20
4	Alphabet Inc A	7.29
No.		
	SPDR® Dow Jones Industrial Average ETF	7.12
6	Tesla Inc	6.13
		6.13 6.00
	Tesla Inc	
7	Tesla Inc Facebook Inc A	6.00

#### Recommendations



- Review the asset allocation of the portfolio based on the risk tolerance and time horizon for the account.
- Offset gains and create a more tax efficient portfolio through targeted taxloss harvesting.
- Consider increasing the allocation to international equities. We are currently recommending that long-term, growth-oriented investors allocate 20-25% of their equity exposure to international equities based on current valuations and economic conditions.
- We generally recommend that no one industry sector represent more than 20% of the equity portion of a portfolio. Consider reducing the exposure to over-weighted sectors such as Technology and increasing exposure to under-weighted sectors.
- Consider a more balanced weighting between "growth" and "value" stocks and an increased weighting to Mid and Small Cap stocks for greater potential long term growth and diversification.
- Consider decreasing the allocation to stocks that represent over 5% of the overall portfolio.
- Consider an in-depth review of each stock based on current valuations and long-term outlook.

# The Proposal



#### **Action Plan**

- Sell ETFs
- In depth analysis on current stock portfolio, sell ½ of the equity positions based on unrealized gains, growth factors, and valuations.
- \$500K additional deposit from client

Name	Ticker	Current P/E	12 Month Trailing P/E	Forward P/E	5 Year EPS Growth	1 Yr Rev Growth	3 Yr Rev Growth	Current PEG	ROE % TTM	ROA % TTM	FCF/Share TTM	Debt/Equity	Net Margin	5 Yr Div Yield %	Price	Fair Value Estimate
Adobe Systems Inc	ADBE	63.30	59.09	36.76	22.10	24.72	20.75	1.47	23.16	13.41	-	0.22	23.06	-	237.39	235.00
Aetna Inc	AET	16.97	31.52	16.08	12.68	-4.15	1.43	1.27	11.38	3.06	5.81	0.52	2.93	0.98	177.47	181.00
Alibaba Group Holding Ltd	BABA	49.08	43.93	30.21	30.05	56.48	44.46	1.01	21.86	11.16	-2.61	0.28	30.87	-	198.11	210.00
Alphabet Inc	GOOGL	45.94	43.16	24.63	27.71	22.80	18.87	0.89	10.88	8.76	6.32	0.03	20.09	-	1,084.09	1,200.00
Altria Group Inc	MO	9.82	10.04	13.79	-3.41	0.81	2.80	-	77.49	23.79	30.11	0.85	79.47	3.92	54.87	64.00
Amazon.com Inc	AMZN	199.91	197.25	126.58	36.43	30.80	25.97	2.80	14.82	3.80	2.54	1.37	1.19	-	1,587.28	1,900.00
Apple Inc	AAPL	18.13	16.97	16.45	11.08	6.30	7.84	1.26	37.07	13.69	10.82	0.73	21.09	1.82	188.18	175.00
Arista Networks Inc	ANET	41.04	49.45	35.46	17.87	45.79	41.25	1.97	30.50	20.16	10.04	0.02	25.04	-	249.13	207.00
Blackstone Group LP	BX	15.19	14.00	11.16	7.25	38.89	-1.66	-	14.59	4.84	-0.16	1.44	22.88	6.55	31.29	-
Boeing Co	BA	22.67	22.18	23.42	14.43	-1.25	0.96	1.62	1,380.11	8.94	-7.87	27.55	7.33	2.18	340.97	309.00
Broadcom Inc	AVGO	13.28	12.67	12.41	14.75	33.20	60.46	0.83	34.20	14.75	20.80	0.86	9.59	1.46	240.51	283.00
Century Aluminum Co	CENX	25.11	34.39	14.99	-	20.47	-6.29	-	5.64	2.86	-1.76	0.30	-10.41	-	16.94	-
Costco Wholesale Corp	COST	29.61	29.38	25.84	9.37	8.68	4.63	2.76	24.47	7.96	-5.63	0.61	2.09	1.02	198.71	173.00
Facebook Inc	FB	30.33	28.48	24.04	19.92	47.09	48.29	1.08	25.53	22.64	-0.28	-	41.69	-	183.20	198.00
Fair Isaac Corp	FICO	45.71	43.95	-	-	5.77	5.72	-	31.30	9.84	6.34	1.09	13.76	0.08	180.09	-
Kimberly-Clark Corp	KMB	20.61	20.34	15.02	5.95	0.31	-2.54	2.52	798.23	12.03	1.08	10.29	11.89	3.04	104.89	118.00
Lam Research Corp	LRCX	20.11	17.98	11.92	9.32	36.15	20.26	1.28	27.84	14.77	6.42	0.29	22.85	-	206.91	185.00
Micron Technology Inc	MU	6.79	5.53	5.95	-9.06	63.90	7.50	-	50.03	27.17	13.28	0.53	32.77	-	56.50	34.00
Microsoft Corp	MSFT	65.64	63.19	24.04	11.45	5.43	1.18	1.95	15.42	4.88	5.86	1.05	23.89	2.33	97.15	117.00
Moody's Corporation	MCO	32.56	31.50	22.17	-	16.64	8.03	-	-	14.37	4.30	-	13.73	1.26	172.24	-
Netflix Inc	NFLX	220.26	209.70	113.64	35.59	32.41	28.55	3.19	19.18	3.89	3.38	1.81	4.04	-	328.19	90.00
NVIDIA Corp	NVDA	51.04	46.66	33.44	11.28	37.92	18.72	2.97	46.05	28.91	-4.10	0.27	28.77	1.12	246.01	120.00
PayPal Holdings Inc	PYPL	49.57	47.52	33.44	20.20	20.77	17.73	1.65	13.13	5.07	4.60	-	12.69	-	77.82	59.00

# The Proposal



#### **Fixed Income**

- \$1M Custom Bond Ladder
  - 50/50 Blend of EIP (Enhanced Income Portfolio) and California High Grade Muni Bonds (3P)
  - 4-8 Year ladder on the Corporate Bonds at 6.71%
  - 3-12 Year ladder on the Municipal Bonds at 2.78%
  - \$47K Estimated After Tax Annual Income

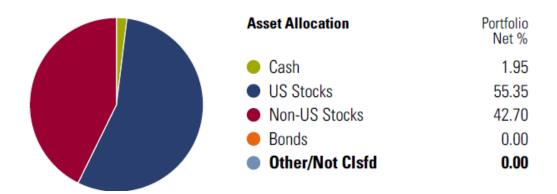
		Comparable Taxable Income at 28 % F	TR, 9.30% CA	State Tax						\$ 54,740.31
		Comparable Taxable Income at 35% F	TR, 9.30% CA S	State Tax						\$ 57,067.68
Total		Estimated Annual Income (Tax-Free)								\$ 47,242.04
Total	\$ 1,030,000.00	Total Bonds			7.72	4.71	5.70	5.46		\$ 1,002,045.05
Total	\$ 505,000.00	Total EIP Corporates			6.20	6.71	6.71	6.71		\$ 494,050.25
030981AJ3	\$ 25,000.00	AMERIGAS PARTNERS L P	Ba3/-/	5.875	8/20/2026	5.81	5.81	5.81	100.45	\$ 25,112.50
70959WAG8	\$ 30,000.00	PENSKE AUTOMOTIVE GRP INC	B1/B+/	5.500	5/15/2026	5.77	5.77	5.77	98.30	\$ 29,490.00
845467AM1	\$ 25,000.00	SOUTHWESTERN ENERGY CO	B1/BB-/	7.500	4/1/2026	6.97	6.97	6.97	103.21	\$ 25,803.00
02406PAY6	\$ 25,000.00	AMERICAN AXLE & MFG INC	B2/B/	6.250	3/15/2026	6.10	6.10	6.10	100.94	\$ 25,235.50
55262CAE0	\$ 25,000.00	MBIA INC	Ba3/-/	7.000	12/15/2025	8.53	8.53	8.53	91.53	\$ 22,882.50
402635AL0	\$ 25,000.00	GULFPORT ENERGY CORP	B2/BB-/	6.375	5/15/2025	6.61	6.61	6.61	98.67	\$ 24,667.50
05508RAE6	\$ 25,000.00	B & G FOODS INC NEW	B2/B+/	5.250	4/1/2025	6.37	6.37	6.37	93.78	\$ 23,444.75
85172FAM1	\$ 25,000.00	SPRINGLEAF FINANCE CORPORATION	B2/B/	6.875	3/15/2025	6.41	6.41	6.41	102.54	\$ 25,634.75
402635AH9	\$ 25,000.00	GULFPORT ENERGY CORP	B2/BB-/	6.000	10/15/2024	6.50	6.50	6.50	97.39	\$ 24,348.00
724479AJ9	\$ 25,000.00	PITNEY BOWES INC	Ba1/BBB-/	4.625	3/15/2024	5.96	5.96	5.96	93.42	\$ 23,354.75
29358QAG4	\$ 25,000.00	ENSCO PLC	/BB-/	8.000	1/31/2024	7.73	7.73	7.73	101.19	\$ 25,296.75
779382AR1	\$ 25,000.00	ROWAN COS INC	B2/B+/	4.750	1/15/2024	7.50	7.50	7.50	87.39	\$ 21,848.00
156700AX4	\$ 25,000.00	CENTURYLINK INC	B2/B+/	6.750	12/1/2023	6.50	6.50	6.50	101.15	\$ 25,288.00
257867BA8	\$ 25,000.00	DONNELLEY R R & SONS CO	B3/B/	6.500	11/15/2023	6.06	6.06	6.06	102.06	\$ 25,514.25
85207UAF2	\$ 25,000.00	SPRINT CORP	B3/B/	7.875	9/15/2023	6.17	6.17	6.17	107.72	\$ 26,930.75
88167AAD3	\$ 25,000.00	TEVA PHARMACEUTICAL FIN NETH	Ba2/BB/	2.800	7/21/2023	6.16	6.16	6.16	85.13	\$ 21,282.75
868536AW3	\$ 25,000.00	SUPERVALU INC	B3/B-/	7.750	11/15/2022	7.80	7.80	7.80	99.82	\$ 24,955.75
428040CN7	\$ 25,000.00	HERTZ CORP	B3/B-/	6.250	10/15/2022	7.63	7.63	7.63	94.83	\$ 23,707.75

# The Proposal



#### **Equities**

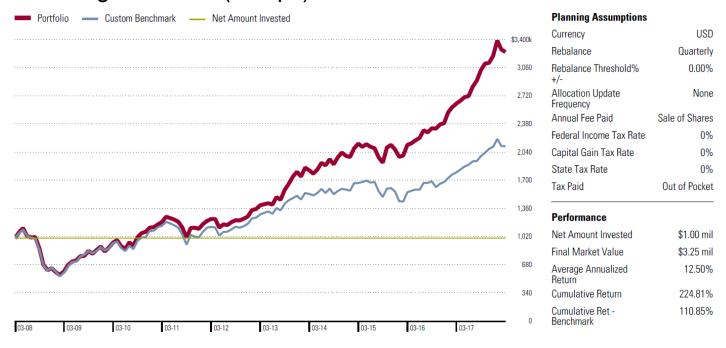
- Retain \$1M in Large Cap stocks from current portfolio.
  - \$1M Equity Proposal
  - 40% International (Dorsey Wright Sys Relative Strength International)
  - 35% Mid Cap (20% Congress Mid Cap Growth, 15% LMCG Mid Cap Value)
  - 25% Small Cap (Kayne Anderson Small Cap Sustainable Growth)





#### **Equity Proposal Highlights**

- Portfolio is 180 stocks total
- Roughly the same amount of risk/volatility as the respective index/benchmark for each strategy. Blended Benchmark 10 yr St. Dev 17.75 vs 17.68 for proposed. 10 yr Beta is 0.96.
- Outperformed the blended benchmark by 4.77% per year (124% cumulatively) over the last 10 year period. This is net of TownSquare management fee (60 bps).



Passively Managed Mutual Fund Portfolio (<\$250k)

Audit Example



# Accounts



The following is a list of accounts and values that were analyzed and are included in this audit. The values are based on the most recent statements provided to TownSquare Capital:

Account	Туре	Amount			Unrealized Gain/Loss		
Vanguard	Joint	\$	92,114	\$	3,698		
DFA	Trust	\$	98,311	\$	7,724		
Total		\$	190,425	\$	11,422		

#### **Client Overview**



#### Client

- Couple in their mid 40's
- Moderately Aggressive Risk Tolerance
- 32% Federal Marginal Tax Bracket
- Long-term time horizon

#### **Current Portfolio**

- \$190k portfolio managed in Vanguard Funds and DFA Funds
  - Client owns 11 mutual funds, 3 ETF's, a non-traded REIT and cash
  - Vanguard is a self-managed account (no advisory fees)
  - DFA is an advisory fee account (0.75% fee)
- Both accounts are taxable (non-qualified)
- Current allocation is 70% equities, 30% bonds/cash
- \$11k in unrealized long-term capital gains



Averages		0.23%	9%	4265								
Name	Ticker	Expense Ratio	Turnover	Holdings	Category	1 Year	3 Year	5 year	Security Type		Value	Weight
Vanguard Energy ETF	VDE	0.10%	11%	143	US Fund Equity Energy	-1.43	-2.42	-1.4	Exchange-Traded Fund	\$	787.00	0.5%
Vanguard Total International Stock ETF	VXUS	0.11%	3%	6,281	US Fund Foreign Large Blend	17.05	6.93	6.4	1 Exchange-Traded Fund	\$	2,904.00	1.7%
Vanguard Total Stock Market ETF	VTI	0.04%	3%	3,641	US Fund Large Blend	13.87	10.20	13.0	2 Exchange-Traded Fund	\$	4,559.00	2.6%
DFA Emerging Markets I	DFEMX	0.48%	4%	1,192	US Fund Diversified Emerging Mkts	23.06	8.95	5.0	1 Open-End Fund	\$	2,450.00	1.4%
DFA Emerging Markets Small Cap I	DEMSX	0.73%	11%	4,231	US Fund Diversified Emerging Mkts	19.47	10.34	6.6	3 Open-End Fund	\$	3,348.00	1.9%
DFA Emerging Markets Value I	DFEVX	0.57%	22%	2,425	US Fund Diversified Emerging Mkts	19.76	10.08	4.3	3 Open-End Fund	\$	2,507.00	1.4%
DFA International Small Cap Value I	DISVX	0.68%	21%	2,138	US Fund Foreign Small/Mid Value	16.11	10.30	10.3	7 Open-End Fund	\$	4,103.00	2.4%
DFA International Small Company I	DFISX	0.53%	0%	4,609	US Fund Foreign Small/Mid Blend	19.70	11.86	10.3	2 Open-End Fund	\$	4,146.00	2.4%
DFA International Value I	DFIVX	0.43%	15%	513	US Fund Foreign Large Value	17.45	6.66	7.2	9 Open-End Fund	\$	8,483.00	4.9%
DFA Real Estate Securities I	DFREX	0.18%	1%	160	US Fund Real Estate	-2.45	1.65	6.3	4 Open-End Fund	\$	7,028.00	4.0%
DFA US Core Equity 2 I	DFQTX	0.22%	4%	2,787	US Fund Mid-Cap Blend	13.03	9.20	12.2	9 Open-End Fund	\$	12,418.00	7.1%
DFA US Large Cap Value I	DFLVX	0.27%	15%	315	US Fund Large Value	12.21	10.13	12.€	5 Open-End Fund	\$	16,552.00	9.5%
DFA US Vector Equity I	DFVEX	0.32%	10%	2,594	US Fund Mid-Cap Value	10.42	8.28	11.4	2 Open-End Fund	\$	20,639.00	11.8%
Vanguard Target Retirement 2045 Inv	VTIVX	0.15%	8%	28,679	US Fund Target-Date 2045	13.68	8.10	9.8	8 Open-End Fund	\$	34,215.00	19.6%
Federated Prime Cash Obligations WIth	PCOXX	0.20%		152	US Fund Prime Money Market	1.24	0.64	0.4	0 Money Market Fund	\$	523.89	0.3%
Vanguard Federal Money Market Investor	VMFXX	0.11%		100	US Fund Money Market - Taxable	1.02	0.49	0.3	0 Money Market Fund	\$	49,649.00	28.5%
Devonshire REIT 2.0 REINV DIV	DEVONSHE5			-	-	-	-	-	REIT	\$	16,112.00	
Cash								\	Cash	\$	-	
Total				59960						\$1	90,423.89	100%
Benchmarks					Style	1 Year	3 Year	5 year				
S&P 500					Large Blend	13.99	10.78	13.3	1			
Russell 1000					Large Cap	13.98	10.39	13.1	7			
Russell Mid Cap					Mid Cap	12.20	8.01	12.0	9			
Russell 2000	·				Small Cap	11.79	8.39	11.4	7			
MSCI World ex USA					International	14.46	5.81	6.5	5			
BBgBarc US Agg Bond					Core Bond	1.20	1.20	1.8	2			



1											
								Peer	Rankings (To	otal Return % R	kank)
Name	Category	1 Year	3 Year	5 year	Security Type		Value	1 Year	3 Year	5 Year	10 Year
Vanguard Energy ETF	US Fund Equity Energy	12.06	-1.65	0.62	2 Exchange-Traded Fund	\$	787	38.00	18.00	20.00	12.00
Vanguard Total International Stock ETF	US Fund Foreign Large Blend	15.42	5.46	5.84	4 Exchange-Traded Fund	\$	2,904	25.00	30.00	46.00	44.00
Vanguard Total Stock Market ETF	US Fund Large Blend	13.10	10.19	12.73	3 Exchange-Traded Fund	\$	4,559	36.00	27.00	21.00	14.00
DFA Emerging Markets I	US Fund Diversified Emerging Mkts	19.20	6.18	4.51	1 Open-End Fund	\$	2,450	45.00	41.00	37.00	29.00
DFA Emerging Markets Small Cap I	US Fund Diversified Emerging Mkts	16.81	7.49	5.99	9 Open-End Fund	\$	3,348	66.00	22.00	13.00	3.00
DFA Emerging Markets Value I	US Fund Diversified Emerging Mkts	19.34	6.78	4.22	2 Open-End Fund	\$	2,507	43.00	31.00	45.00	52.00
DFA International Small Cap Value I	US Fund Foreign Small/Mid Value	15.50	9.23	10.19	9 Open-End Fund	\$	4,103	63.00	20.00	13.00	29.00
DFA International Small Company I	US Fund Foreign Small/Mid Blend	16.91	10.15	9.93	3 Open-End Fund	\$	4,146	52.00	27.00	26.00	33.00
DFA International Value I	US Fund Foreign Large Value	18.92	5.70	6.82	2 Open-End Fund	\$	8,483	3.00	18.00	14.00	45.00
DFA Real Estate Securities I	US Fund Real Estate	-2.06	3.89	5.06	6 Open-End Fund	\$	7,028	59.00	35.00	33.00	30.00
DFA US Core Equity 2 I	US Fund Mid-Cap Blend	12.26	9.15	12.15	5 Open-End Fund	\$	12,418	16.00	21.00	13.00	40.00
DFA US Large Cap Value I	US Fund Large Value	11.65	9.45	12.46	6 Open-End Fund	\$	16,552	25.00	13.00	4.00	15.00
DFA US Vector Equity I	US Fund Mid-Cap Value	10.28	8.48	11.51	1 Open-End Fund	\$	20,639	19.00	30.00	20.00	37.00
Vanguard Target Retirement 2045 Inv	US Fund Target-Date 2045	12.56	7.68	9.51	1 Open-End Fund	\$	34,215	27.00	23.00	18.00	16.00
						-					

#### **Summary of Findings**

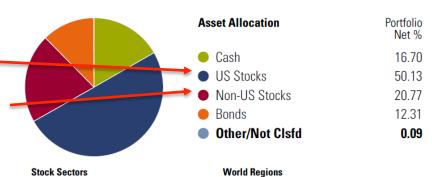


#### **ALLOCATION**

- The portfolio is allocated roughly 70% equities, 12% fixed income, 17% cash and less than 1% in other types of securities. This blend of investments is consistent with an investor who has a moderately high risk tolerance.
- Approximately 29% of the equity allocation (21% of the overall portfolio) is invested in companies domiciled overseas.
- Real Estate represents the largest sector weighting at 18%. Other top
  industry sector exposures in the portfolio are Financial Services, Technology,
  and Consumer Cyclicals. Real Estate is heavily over-weighted relative to its
  weight in the overall market as represented by the S&P 500. Healthcare and
  Technology are underweighted.
- The portfolio is overweight towards cyclical stocks. This may cause the
  portfolio to be more volatile and sensitive to changes in economic conditions
  than the overall market.
- The equity portion of the portfolio is invested in 54% Large Cap, 29% Mid Cap, and 17% Small Cap stocks. The portfolio is over-weighted to Value stocks relative to Growth stocks.

#### **STRUCTURE / NUMBER OF HOLDINGS**

- The portfolio consists of 11 open-end mutual funds, 3 ETF's (exchange traded fund), 1 non-traded REIT (real estate investment trust), and 2 money market funds. There are no individual bonds held in the portfolio.
- The average mutual fund/ETF in the client's portfolio owns 4,265 securities. Indirectly the client owns 59,960 stocks and bonds. Owning this many securities leads to mediocre returns and is akin to the client owning a giant index fund. (Consider that there are only 3,700 listed equities in the United States). However, given the layers of cost associated with this portfolio it makes it for a very expensive index fund.



▲ Benchmark
● Portfolio

Greater Asia

Americas

25-50

50-75

Greater Europe

ĺ	Utilities	1.55	2.86	Not Classified	0.00	0.00
	Healthcare	7.56	13.91	Asia-Emerging	3.91	0.43
	Consumer Def	5.09	7.83	Asia-Developed	3.63	0.0
	Defensive	14.20	24.60	Australasia	1.27	0.0
ı	Technology	12.18	22.16	Japar	5.04	0.0
	Industrials	10.50	10.64	Greater Asia	13.85	0.5
	Energy	6.72	5.74	Africa/Middle East	0.82	0.0
	Commun Svs	3.94	3.29	Europ <mark>e-Emerging</mark>	0.42	0.0
	Sensitive	33.34	41.83	Europe-Developed	8.10	0.2
	Real Estate	17.92	2.25	United Kingdom	3.41	0.0
	Financial Svs	17.78	16.91	Great <mark>e</mark> r Europe	12.75	0.3
	Consumer Cycl	10.68	11.73	Latin America	1.22	0.0
	Basic Matls	6.08	2.68	North America	72.18	99.1
	Cyclical	52.46	33.57	Americas	73.40	99.1
	Portf	olio (%)	Bmark (%)	Poi	rtfolio (%)	Bmark (%



#### **OVERLAP / REDUNDANCIES**

There is significant overlap in the stock holdings throughout the portfolio which adds to increased transaction costs. All of the top 50 stock holdings are held in 3 or more mutual funds/ETF's in the portfolio.

- The following stocks are each owned in 6 funds in the portfolio:
  - Exxon Mobil
  - Chevron
- The following 17 stocks are each owned in 5 funds in the portfolio:
  - JPMorgan Chase
- Citigroup

AT&T

- Qualcomm
- Wells Fargo
- Time Warner

Intel

- Medtronic
- Cisco Systems
- Goldman Sachs
- Bank of America
- Charter Communications

Comcast

Morgan Stanley

Pfizer

Micron Technology

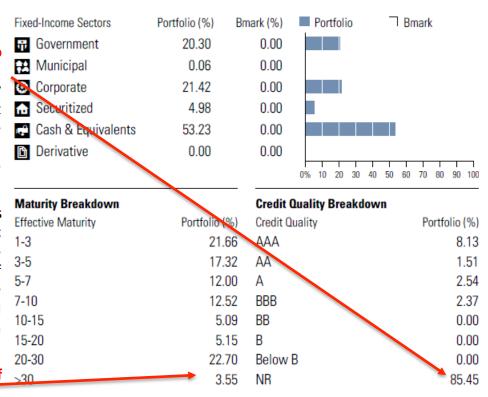
- Walmart
- Fewer holdings and less overlap has the potential to reduce costs while generally contributing to better account performance. (We can provide data showing the correlation between fewer holdings and better performance).

JPMorgan Chase & Co(USD)	JPM	2,700
Source of Stock		
DFA US Large Cap Value I (USD)	DFLVX	1,306
DFA US Vector Equity I (USD)	DFVEX	497
Vanguard Target Retirement 2045 Inv (USD)	VTIVX	463
DFA US Core Equity 2 I (USD)	DFQTX	319
Vanguard Total Stock Market ETF (USD)	VTI	115
Simon Property Group Inc(USD)	SPG	2,413
Source of Stock		
Vanguard Real Estate Index Investor (USD)	VGSIX	1,642
DFA Real Estate Securities I (USD)	DFREX	697
Vanguard Target Retirement 2045 Inv (USD)	VTIVX	60
Vanguard Total Stock Market ETF (USD)	VTI	15
AT&T Inc(USD)	T	2,149
Source of Stock		
DFA US Large Cap Value I (USD)	DFLVX	1,071
DFA US Vector Equity I (USD)	DFVEX	483
Vanguard Target Retirement 2045 Inv (USD)	VTIVX	265
DFA US Core Equity 2 I (USD)	DFQTX	263
Vanguard Total Stock Market ETF (USD)	VTI	66
Exxon Mobil Corp(USD)	XOM	2,147
Source of Stock		
DFA US Large Cap Value I (USD)	DFLVX	1,029
Vanguard Target Retirement 2045 Inv (USD)	VTIVX	383
Vanguard Energy ETF (USD)	VDE	301
DFA US Core Equity 2 I (USD)	DFQTX	183
DFA US Vector Equity I (USD)	DFVEX	155
Vanguard Total Stock Market ETF (USD)	VTI	95



#### **CREDIT QUALITY, RATE RISK and CASH FLOW YIELD**

- Approximately 15% of the bonds held in the portfolio are rated investment grade (BBB and higher).
   Approximately 85% of the bonds are NOT RATED by major agencies. (Note that credit ratings are a decent indicator of default risk on the bonds; the lower the credit rating, the higher the probability of default).
   Lower rated bonds typically have higher interest rates – and create greater cash flow - than higher rated bonds.
- The average maturity of the bonds held in the portfolio is 8.73 years. The duration of the bonds in this account averages 6.64 years. This means that for each 1% move in interest rates the market value of the bond portion of this portfolio will move approximately 6.64% in the opposite direction. (i.e. interest rates go up then bond prices go down and vice versa). This portfolio bears a moderate level of interest rate risk.
- 26% of the underlying bond holdings have maturities of 20 years or longer.
- The overall portfolio has a current annual cash-flowyield of approximately 1.59%. This represents dividends from stocks and coupon payments from the bonds held within mutual funds.



#### Investment Style 03-31-2018

0	0	0	High
0	15	0	Med
0	0	0	Low
Ltd	Mod	Ext	

Fixed-Income Style	Portfolio	Bmark
Effective Duration	6.64	_
Effective Maturity	8.73	_



#### **EXPENSES**

- The average annual expense ratio of the mutual funds/ETF's in the portfolio is approximately 0.23%. Other undisclosed costs not included in the expense ratio include: internal fund commissions, soft dollars paid by the fund to its trading partners, trading desk spreads, and cash drag for liquidity held within the funds. These typically range between 1% and 2% per fund.
- From the DFA account statement we were able to view institutional and outside advisory fees of approximately \$60 for the month. This roughly translates to 0.75% on an annual basis. It doesn't appear that there are any advisory fees charged on the Vanguard account.

#### **TURNOVER**

• The average mutual fund/ETF in the account has an annual turnover of roughly 9% per year – this translates to about 5,000 transactions per year given the estimated 59,000+ securities owned in aggregate in the client's portfolio. Holding this number of securities with this level of turnover is expensive for a variety of reasons including transaction costs (and realized short-term capital gains in taxable accounts). It's important to note that neither of these costs are reflected in the fund 'expense ratio' and therefore add another cost drag to the portfolio.

#### **TAXATION**

- The portfolio realizes a small amount of capital gains on an annual basis. There is approximately \$11k in unrealized gains in the portfolio.
- Wise tax management including carefully and strategically realizing gains, avoiding short-term capital gains treatment as much as possible, and strategically harvesting losses to offset gains can add significant value to the net after-tax return of the taxable accounts.



#### **PERFORMANCE**

- We are unable to determine the historical performance of the accounts as we are not in possession of all past transactions or a detailed historical performance report provided by the current advisor. That being said, on the next two slides we are able to provide some historical performance and peer-data for the mutual funds and ETF's in the portfolio. (NOTE: even though we are showing 3 and 5 year performance data, it's impossible to know what the portfolio looked like at those times. This is simply a snapshot of the current holdings looking backward.)
- A stress test of the portfolio shows that the current mix of investments would have dropped 44.9% (-\$85k) from Oct. 15, 2007 to March 2, 2009 if the financial crisis were to happen again.
- See the following slides for detailed information on the current holdings.

# **Current Portfolio Strengths**



#### **Strengths**

- Low internal fund expenses (0.23% average expense ratio on funds)
- No advisory fee on the Vanguard account; 0.75% advisory fee on DFA account
- Average mutual fund/ETF in the account has an annual turnover of 9% per year
- Highly tax-efficient
- Fund peer rankings are mostly average to above-average
- Reasonable allocations to International stocks and a logical mix between large, mid, and small cap stocks

# Potential Areas of Improvement



#### **Asset Allocation**

- Does asset allocation match the client's goals, time horizon, and risk tolerance?
- Is the portfolio over-weighted or under-weighted in sub-asset classes, sectors and styles?

#### **Investment Holdings**

- Does the portfolio have multiple funds in the same category?
- Is the portfolio over-diversified or too concentrated?
- Do the funds have overlapping holdings that increase costs and inefficiencies in the portfolio?

#### **Fixed Income**

- Is the level of credit risk and interest rate risk (duration) acceptable?
- Does the client own the most efficient blend of taxable vs. tax-exempt bonds based on their tax bracket?
- Are the bonds overly concentrated by sector or issuer?
- Does the portfolio have a high level of illiquidity?

# Potential Areas of Improvement



#### **Fees & Expenses**

Are the fees and expenses reasonable and transparent?

#### **Turnover**

• Is there a large number of securities transactions taking place creating unnecessary trading costs and realized gains?

#### **Tax-Efficiency (Taxable Accounts)**

- Is the portfolio tax-efficient?
- Is the client taking advantage of opportunities to engage in tax-loss harvesting or in donating appreciated securities?
- Could the client's heirs benefit from a stepped-up cost basis?

#### **Performance**

- Does the client receive personalized performance reporting on their accounts?
- Has the historical performance peer rankings of funds in the portfolio been high?
- Is the historical level of volatility of the current portfolio acceptable going forward?

#### **Current Portfolio Weaknesses**



#### Weaknesses

- Relatively high weightings to international equities, cyclical sectors and value stocks
- Redundancy in funds with similar objectives (i.e. 3 Emerging Markets Equity Funds)
- Massive number of holdings (almost 60,000 holdings) including a large number of overlapping holdings in the various funds.
- Securities turnover % is low but transaction level is high due to large number of holdings
- Large portion of the bonds are non-investment grade
- Significant part of bond portfolio is invested in long-term bonds
- Low cash flow yield on portfolio (1.59%)
- Little to no opportunity to take advantage of tax-loss harvesting or donating appreciated securities
- High down capture potential in market corrections as indicated by the stress test
- Mutual funds have very average peer performance rankings over the last 5 and 10 years.

# **Proposed Portfolio**



#### **Joint Account \$92k**

- •\$30k Stable Income BRIX
- •\$30k High Income BRIX
- •\$32k High Growth Equity BRIX

#### **Trust Account \$98k**

- •\$49k Polen Focus Growth SMA
- •\$49k Logan Concentrated Value SMA

\* Realized half of unrealized gains in 2017 and half in 2018 at 15% rate

#### **Current Portfolio Weaknesses**



#### Weaknesses

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