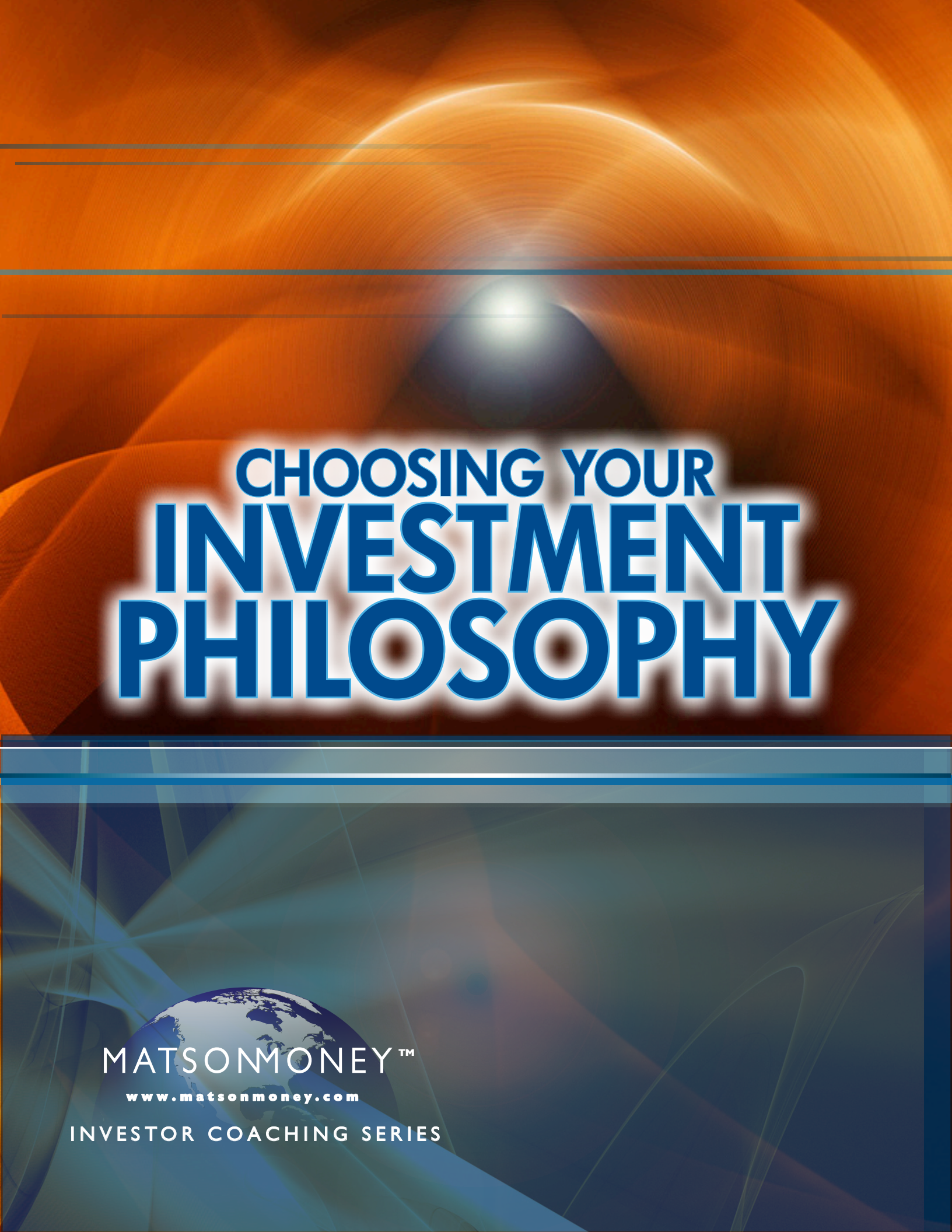




CHOOSING YOUR INVESTMENT PHILOSOPHY



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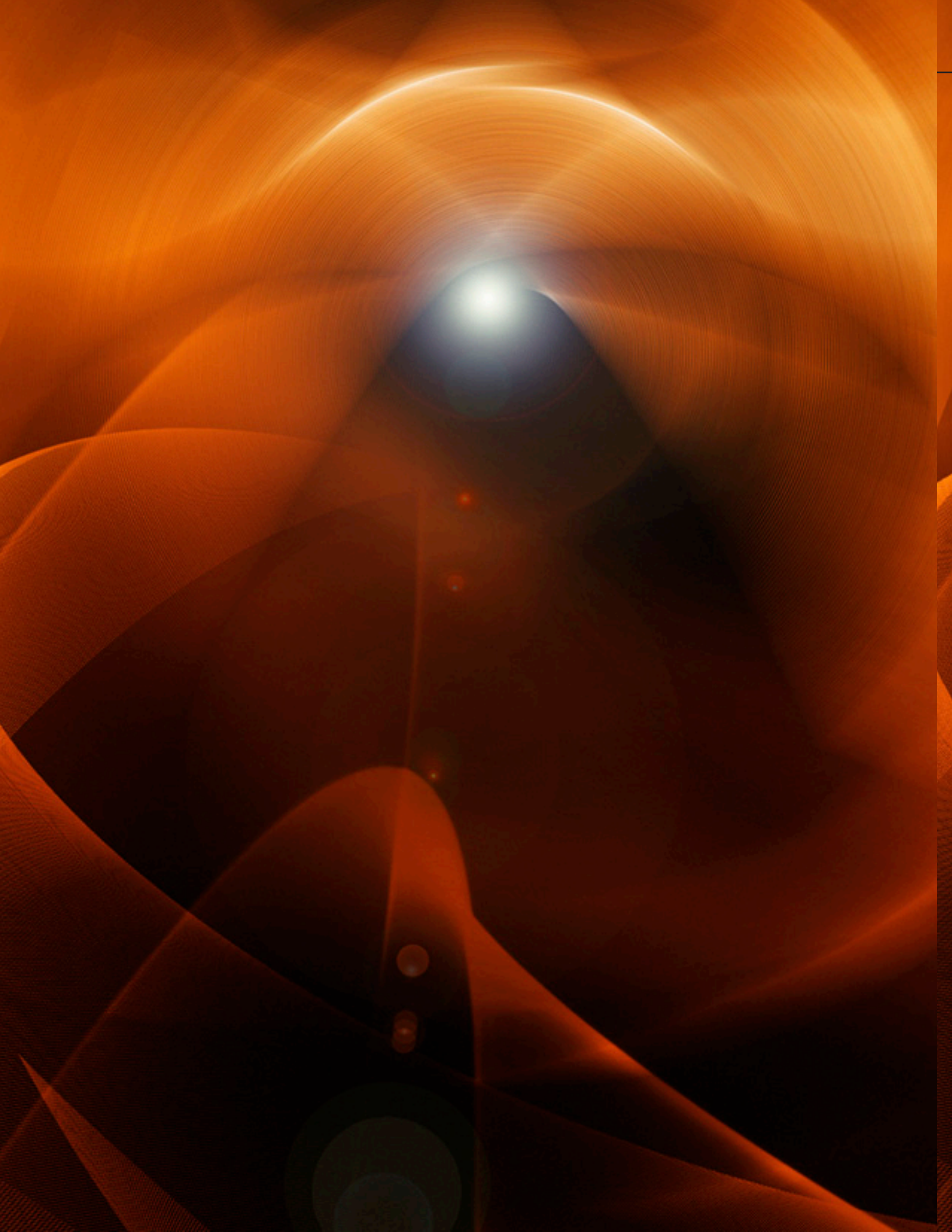


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All investing involves risks and costs. Your advisor can provide you with more information about the risks and costs associated with specific programs. No investment strategy (including asset allocation and diversification strategies) can ensure peace of mind, assure profit, or protect against loss.

This booklet is based on the views of Matson Money, Inc. Other persons may analyze investments and the approach to investing from a different perspective from that reflected in this booklet. Nothing included herein is intended to infer that the approach to investing espoused in this booklet will assure any particular results.

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THE INVESTORS' ARE YOU CAUGHT IN... DILEMMA

Investing is usually done in an effort to have money to accomplish life goals and realize dreams. Knowing we have money for the future can offer a sense of peace in the present. However, instead of bringing peace of mind, investment decisions are often complex and confusing, leading to overwhelming feelings such as distress, worry, and anxiety. These concerns often plague the minds of investors:

Have you ever worried about...

- ☐ Getting high enough returns on your investments?
- ☐ Maintaining your standard of living at retirement?
- ☐ Affording high quality education for your children?
- ☐ The next market crash?
- ☐ The next market boom?
- ☐ Missing out on the latest, greatest stock tip?
- ☐ Making sense of all of the investment information available?
- ☐ Someone else having a better portfolio than you?
- ☐ Not having money to care for loved ones?
- ☐ Getting bad investment advice and, worse yet, paying for it?
- ☐ Buying high and selling low?

**If you can answer “YES” to any of these questions,
you have been caught in The Investors’ Dilemma.**

THE INVESTORS' DILEMMA CHART



Definition

The Investors' Dilemma: A cycle explaining the human side of investing.

The Investors' Dilemma is a cycle that explains why many investment decisions are driven by emotional and psychological biases that may be inconsistent with an investor's long-term financial goals. On the one hand, investors want assets to grow to the point where enough wealth has been accumulated to meet personal financial goals. Yet, for most, this will only happen by investing money prudently. Therefore, investors need to make decisions and select strategies to maximize investments year after year. Unfortunately, the actions investors frequently take are likely to be self-defeating. Let's look at how each step of this counterproductive cycle interferes with an investor's ability to develop and maintain a prudent investment strategy.

1. Fear of the Future

The cycle begins with a sense of uncertainty about the future, characterized by questions like: “Will there be enough money to maintain my standard of living? How much do I need to save? How do I know what is the best investment?” The media and advertisers prey upon this fear of the future in an effort to sell products.

2. Forecast and Predict

Because of this fear of the future, investors have a strong desire to comprehend and predict future events. If someone could tell what is going to happen with inflation, long-term interest rates, share prices, overseas markets, then there would be less to fear about the future from an investment perspective. Along these lines, investors are frequently convinced that someone has the information, power, and insight to forecast the future.

3. Track-Record Investing

The primary method investors employ to convince themselves that the future can be foretold is through track-record investing. This means they look for stock managers who have performed better than the market in the past with the hope that they will continue to have superior performance in the future.

4. Information Overload

In the past, gathering information was the best way to guide prudent investment decisions. However, the current Information Age has created access to so much information that it is easy to become overloaded. Investors feel compelled to understand all of the information: the Internet, books, newspapers, magazines, TV talk shows, advertisements, friends’ experiences, etc. Indeed, instead of reducing fears, this deluge of information often intensifies doubts about investing.

5. Emotion-Based Decisions

As investors, we never overcome our own humanity. Even though most investors prefer to think that they make investment decisions based upon logic, typically emotions such as trust, loyalty, hope, greed, and fear drive our investment decisions.

6. Breaking the Rules

There are three commonly accepted rules of investing: 1) Own equities 2) Diversify and 3) Rebalance. And, the golden rule of investing is: Buy when prices are low and sell when prices are high. It sounds simple. However, when investors make decisions based on emotions, they wind up breaking these seemingly simple rules, thereby sabotaging their portfolios.

7. Performance Losses

Performance loss means investors fail to capture the returns they expected. Unfortunately, because investors so frequently break the golden rule of investing, they do not receive the rate of return they expected. Investor performance does not equal investment performance. When this effect is compounded over a period of years, an investor’s potential for reaching financial goals is significantly decreased. Such loss creates additional frustrations and fears about the future, once again initiating the cycle.

THE RESULT: Not Enough Money and No Peace of Mind

The end result of the Investors’ Dilemma is not having enough money combined with worry, frustration, and anxiety about the inability to accomplish meaningful life goals.

INVESTMENT THREE PRINCIPLES PHILOSOPHY

THREE PRINCIPLES:

True Purpose for Money

Market Belief

Investment Strategy

Definitions

Philosophy: Theory of the principles underlying thought, knowledge, and conduct.

Principle: A fundamental truth, law, or motivating force.

For most investors, the Investors' Dilemma remains undefined and continues over a lifetime. The first step to operating outside of this cycle is becoming aware of it. (You've already done that!) The next step is to choose an investment philosophy in which you believe. An investment philosophy is made up of three fundamental principles: your True Purpose for Money, your Market Belief, and your Investment Strategy.

THREE PRINCIPLES

PRINCIPLE 1

Your True Purpose for Money

A statement of the most important value that you want to express through the way you use money.

+ PRINCIPLE 2

Your Market Belief

Identifying exactly what you believe about how the market works.

+ PRINCIPLE 3

Your Investment Strategy

The method you want to utilize as you create an investment portfolio for the future.

= Your Personal Investment Philosophy

Your guide for all future investing decisions.

Your Personal Investment Philosophy

Choosing your Investment Philosophy involves defining these three principles for yourself: (1) your True Purpose for Money, (2) your Belief about how the market works and (3) your Strategy for investing.

It will take time, information, personal thought, and a gut check to determine what is true for you in each of these areas. This worksheet is designed to help you think about each principle separately. The first step is to Discover your True Purpose for Money. Next, analyze the options and choose your Market Belief. Then, determine which Investment Strategy best suits your True Purpose and Market Belief. Finally, bring it all together to define your own Investment Philosophy.

The time and effort involved in this process is more than worth it. With a clear Investment Philosophy, the confusion, concern, and anxiety so prevalent in the Investors' Dilemma can disappear. The goal is to get one step closer to peace of mind about your financial future.

PRINCIPLE 1

TRUE PURPOSE FOR MONEY

Definition

True Purpose for Money: The underlying value, priority, and commitment expressed through the use of money.

The first step in determining your investment philosophy is discovering your True Purpose for Money. This is a specific process designed to help each individual reveal the most important internal value that guides the use of money. Your True Purpose for Money is at the heart of all financial decisions and, once identified, serves as a compass to consistently help you focus in the right direction.

If you have already completed the *Discovering Your True Purpose for Money™* exercise and are confident about your personal True Purpose for Money, then write it below. If you are uncertain about your own True Purpose for Money, you may complete this exercise using the *Discovering Your True Purpose for Money* audio and workbook either on your own or with the guidance of your Financial Advisor/Coach.

What is your True Purpose for Money?

My True Purpose for Money is:

**Discovering your True Purpose for Money is crucial to Choosing Your Investment Philosophy.
It is central to all other choices you will make with your money.**

PRINCIPLE 2

MARKET BELIEF

Definitions

Belief: *A state of the mind in which trust or confidence is placed.*

Market: *The buying, selling, and trading of all goods, stocks, and services.*

The second step to *Choosing Your Investment Philosophy™* involves examining beliefs about the market. Our beliefs, whether conscious or subconscious, are the root of action. Beliefs about the market and how it works are largely responsible for dictating decisions made regarding investments. Formed for many reasons and based upon numerous factors, beliefs may be changed instantaneously based on new information or new understanding. For this reason, it is important to consciously examine your beliefs about the market.

TWO VIEWS OF MARKETS

There are two diametric views about the nature of markets.
Either markets set prices for goods and services efficiently or they fail to set prices quickly and accurately.



MARKETS WORK

The Markets Work hypothesis sees the market as random and unpredictable. Amazingly, the randomness of the market actually indicates that prices quickly and accurately reflect new information.

MARKETS FAIL

The Markets Fail premise presumes that prices react to information slowly enough to allow some individuals to analyze and predict the future.

Most investors do not realize that there is a choice to be made about market beliefs, nor that this decision significantly affects investment strategies. Without this knowledge, it is easy to be manipulated by media, advertisers, and investment professionals eager to sell products. The stock market, the media, and popular culture, by and large, encourage behavior consistent with the belief that markets fail. In order for you to make your own choice, let's look at both sides of the spectrum.

EXAMINING MARKET BELIEFS

MARKETS WORK

MARKETS FAIL

Random price movements

Predictable price movements

What Does It Mean?

This refers to the underlying premise that markets, left to their own devices, are efficient. Based on supply and demand, free markets are the best determinant of market prices. This means that all knowable and predictable information about market prices and movements are already factored into the current price. Therefore, only new and unknowable information and events change pricing. In this context, the randomness of markets makes it impossible for any individual or entity consistently to predict market movements and capture additional returns unrelated to risk. Markets that are overvalued or underpriced are not identifiable in advance.

The premise is that markets fail to price goods and services accurately. Because there are flaws in the system, it is possible for some individuals to identify in advance which prices are inaccurate and, in effect, predict the future. Simply put, overvalued or underpriced markets can be forecast and predicted.

By systematically finding mispricings, either in stocks or market sectors, it is possible to both increase returns and avoid losses in investments.

What's the Story?

In his book, *The Wealth of Nations*, written in 1776, Adam Smith was the first to offer a comprehensive statement that markets work and that a free market is the best way for a social order to allocate resources. F.A. Hayek, 1994 Nobel laureate, went on to explain the power of the pricing system as a mechanism for communicating information.

Fundamentally, the same principles apply to the theory of market efficiency as to the concept of capitalism; specifically that prices, incomes and industrial production are determined by the workings of markets. As Rex Sinquefeld, author of *Stocks, Bonds, Bills and Inflation*, stated, "*The notion of efficient markets can be seen as a specific application to the financial markets of the more general idea that free and competitive markets work.*"

Wall Street was born in 1792, legitimizing the work "stock jobbers" had been doing in taverns and over kitchen tables for years. Speculation in the market and in the lottery was pervasive in the 1800s, as it remains today. After the stock market crash in 1929, Graham and Dodd wrote *Security Analysis*, often referred to as the "stock picking bible." This book defined and justified the effort to analyze securities to find mispricings in markets and predict future winners and losers.

Theoretically, the foundation of market failure correlates with the premise of socialism and communism, espoused by Karl Marx, which says that individuals intelligently designing and managing prices can do so better than markets themselves.

Is there Proof?

The debate about the efficiency of markets has resulted in hundreds of empirical studies attempting to determine whether specific markets are, in fact, "efficient." Many investors are surprised to learn that a tremendous amount of evidence supports the efficient market hypothesis. Further, academic research over the past 50 years in the field of economics strongly supports the theory that markets work. The 1990 Nobel Prize in Economics was awarded to Harry Markowitz, Merton Miller, and William Sharpe for their role in developing the concept of Modern Portfolio Theory (MPT). MPT is a long-term investment strategy that includes diversification and asset allocation.

Empirical evidence supporting inefficient markets is poor. Indeed, statistical studies show that professional money managers who use speculative techniques designed to take advantage of mispricings in the market are only able to provide higher returns than their market index at a level commensurate to what would be expected based on random luck. On the other hand, it is easy to find anecdotal evidence to support this view. Individuals who have "beat the market" are often found on magazine covers, radio and TV talk shows, or Internet chat rooms. There is an allure to this method of investing that is compelling to our basic instincts as human beings.

WHAT DO YOU THINK?

Now you know that there is a choice and you have examined two views of the way markets work. Many investors never realize that there are choices to make. They are trapped in the Investors' Dilemma, trying to rationalize beliefs on both sides of the continuum. While this may be comfortable and uncontested by media and advertisers, it only leads to internal chaos and uncertainty.

It is time to make a choice.

What makes most sense to you?

(Place a check in the box next to your choice below.)

☐	MARKETS WORK	MARKETS FAIL	☐
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PRINCIPLE 3

Investment Strategy

Definitions

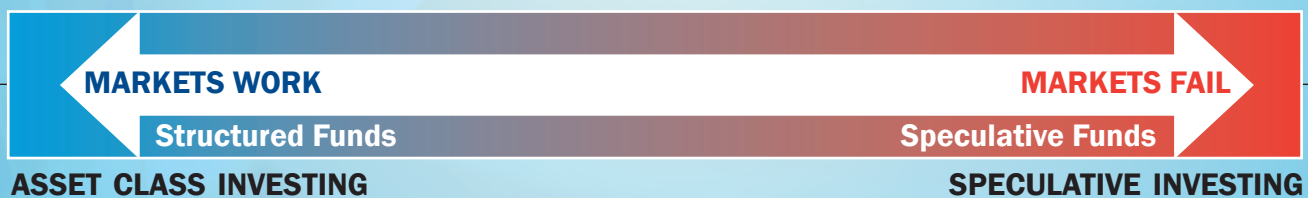
Strategy: The art of devising or employing a careful plan or method toward a goal.

Investment Strategy: The method you want to use to create an investment portfolio for the future.

The third principle involves defining the method you want to use to create an investment portfolio. Identifying an Investment Strategy consistent with Your True Purpose for Money and Market Beliefs can constitute to long-term peace of mind about your financial future.

TWO STRATEGIES FOR INVESTING

There are two clearly defined strategies for investing, one associated with each particular belief about how markets work.





ASSET CLASS INVESTING

Asset Class Investing refers to a buy and hold approach to asset management. If you think markets work efficiently, then buying and selling securities in an attempt to outperform the market is effectively viewed as a game of chance rather than skill. Instead of trying to forecast the future, this approach involves applying scientific, academically proven strategies of Modern Portfolio Theory.

Three Tenets of Asset Class Investing:

Market Returns

Use structured or index-type funds to deliver market returns for the asset classes in the portfolio.

Asset Allocation

Expose the portfolio to multiple types of investments including: equities and fixed income instruments, domestic and international markets, and growth and “value” investments to provide maximum diversification and correlation effects. The goal is to maximize returns for a given level of risk.

Lifelong Investing

A step beyond “long-term,” investing is seen as a lifelong process. Instead of attempting to get in and out of the market at the “right time,” staying in the market all of the time is a fundamental part of success in Asset Class Investing.

“In short, asset class investing is consistent with what we know about how free and fair markets function. Active management is not. Asset class investing is supported by the results of scores of empirical studies of fifty years of professionally managed portfolios. Active management is not. Finally, asset class investing allows reliable planning and implementations of portfolio strategies. It’s demonstrably successful and the most prudent way to invest money.”

— Rex Sinquefeld, Dimensional Fund Advisors
Debate with Donald Yackman, 1995

SPECULATIVE INVESTING

Speculative Investing or active management means actively buying and selling securities with the assumption that securities bought are worth more than the price paid, while securities sold are worth less than the selling price. According to Webster’s dictionary, “speculation” means buying and/or selling in the hope of taking advantage of an expected rise or fall in price. Active management is analogous to speculating in the market.

Three Tenets of Speculative Investing*:

*These three methods are the most commonly used and accepted forms of investing among retail investors. They are associated with the term “investing,” and are portrayed extensively in all forms of media—magazines, books, Internet, news, radio, commercials, banks, Wall Street, etc.

Stock Selection

Pick stocks that will get high returns in the future and invest in them. This technique can be implemented in both individual stocks, as well as within other investment vehicles such as mutual funds.

Track-Record Investing

Utilize an investment’s previous performance to determine whether or not to invest in it for the future.

Market Timing

Any attempt to alter or change a portfolio based on a prediction about the future.

“Finding the truth is critical because analyzing mistakes is fundamental to growth in all life’s challenges. In the markets, moreover, you can be right for the wrong reasons, and wrong even though you made a great odds-on investment. The reason is subtle, but simple: The markets are not consistently objective. At times, they are emotional, subjective, and psychological.”

— Victor Sperandio, Active Manager, Author
Trader Vic II—Principles of Professional Speculation

Aligning Your Strategy With Your Belief

To escape the Investors' Dilemma, not only must you identify a method of creating your investment portfolio, you must also line it up with your Market Belief. When your Market Belief and Investment Strategy are aligned, the result is a sense of internal confidence, control, and peace of mind. However, when belief and strategy conflict, the result is confusion, anxiety, and despair. To achieve toward peace of mind, it is crucial to align your Investment Strategy with your Market Belief.

What is your Investment Strategy?

It's time to make a choice again. Before choosing your Investment Strategy, examine the chart below to line up your Market Belief and Investment Strategy. If the two conflict, you will need to reassess your belief and strategy. Once you understand all of the choices, put a check in the box next to the belief and strategy you want to apply to future investing.

ALIGNING YOUR INVESTMENT STRATEGY WITH YOUR MARKET BELIEF

☐ Markets Work/Asset Class Investing

Align:

When you think that markets reflect all knowable and predictable information in current prices, then the best approach is to diversify, allocate assets, and invest for a lifetime. There is no need to be concerned with short-term, get-rich-quick schemes. You can disregard media hype and continuous stock market updates, knowing that with a buy-and-hold strategy, you will have the money you need to reach your goals.

Confidence, Peace of Mind

☐ Markets Work/Speculative Investing

Conflict:

If you believe that markets set prices accurately, then attempting to pick stocks, time the market, or utilize track-record investing doesn't make sense. You are going against your inherent trust in market efficiency when you try to take advantage of it for short-term results.

Confusion, Anxiety

☐ Markets Fail/Asset Class Investing

Conflict:

If you believe that it is possible to identify mispricings in advance, then utilizing diversification and asset allocation over the long-term is inappropriate. Believing that markets fail to set prices accurately, it follows that you would want to stay connected to short-term market fluctuations and analyze information so that you can take advantage of the inefficiencies in the market.

Despair, Resentment

☐ Markets Fail/Speculative Investing

Align:

If you presume that inefficiencies exist in the market, then you are practically compelled to apply speculative techniques to discover them. This means that you must find a way to stay plugged into market analysis and learn about how to take advantage of the current mispricings in order to make money and decrease risk.

Sense of Power, Control

YOUR INVESTMENT PHILOSOPHY

You have done the work to discover your True Purpose for Money, examine your Market Belief, and identify your Investment Strategy. Now, let's bring it all together for a look at your Personal Investment Philosophy.

Re-write your True Purpose for Money statement, your Market Belief, and your Investment Strategy below:

PRINCIPLE 1 Your True Purpose for Money	
+ PRINCIPLE 2 Your Market Belief	
+ PRINCIPLE 3 Your Investment Strategy	
= Your Personal Investment Philosophy	

CONGRATULATIONS!

How To Use Your Investment Philosophy

Your Investment Philosophy can help you focus on what is really important, especially when faced with difficult or tempting financial decisions.



Listed below are some appropriate actions to take based on your investment philosophy.

- | | |
|---|---|
| <ul style="list-style-type: none">☐ Eliminate speculative investment techniques (stock selection, track-record investing, and market timing)☐ Work with a financial professional who believes that markets work, offers asset class investing, and provides education, discipline, and coaching☐ Ignore media hype☐ Set lifelong financial goals that help you to realize your True Purpose for Money☐ Focus on capturing market returns☐ Utilize asset class or structured funds☐ Diversify prudently☐ Identify your risk tolerance | <ul style="list-style-type: none">☐ Pursue speculative techniques to capture inefficiencies in the market☐ Work with a financial professional who believes in and implements active management strategies☐ Stay connected to all sources of financial information (the Internet, magazines, talk shows, news, etc.)☐ Read every article about stocks and options that you can find☐ Wonder and worry about what might happen next☐ Whatever you do, don't miss the next hot stock tip! |
|---|---|

CONGRATULATIONS!

Now you have completed Choosing your Investment Philosophy.

THE 20 MUST-ANSWER QUESTIONS FOR YOUR JOURNEY TOWARD PEACE OF MIND

1. Have you discovered your True Purpose for Money, that which is more important than money itself?

☐ YES ☐ NO

2. Are you invested in the Market?

☐ YES ☐ NO

3. Do you know how markets work?

☐ YES ☐ NO

4. Have you defined your Investment Philosophy?

☐ YES ☐ NO

5. Have you identified your personal risk tolerance?

☐ YES ☐ NO

6. Do you know how to measure diversification in your portfolio?

☐ YES ☐ NO

7. Do you consistently and predictably achieve market returns?

☐ YES ☐ NO

8. Have you measured the total amount of commissions and costs in your portfolio?

☐ YES ☐ NO

9. Do you know where you fall on the Markowitz Efficient Frontier?

☐ YES ☐ NO

10. When it comes to building your investment portfolio, do you know exactly what you are doing and why?

☐ YES ☐ NO

11. Are you working with a financial coach versus a financial planner?

☐ **YES** ☐ **NO**

12. Do you have a customized lifelong game plan to guide all of your investing and spending decisions?

☐ **YES** ☐ **NO**

13. Do you have an Investment Policy Statement?

☐ **YES** ☐ **NO**

14. Have you devised a clear-cut method for measuring the success or failure of your portfolio?

☐ **YES** ☐ **NO**

15. Do you fully understand the implications and applications of diversification in your portfolio?

☐ **YES** ☐ **NO**

16. Do you have a system to measure portfolio volatility?

☐ **YES** ☐ **NO**

17. Are you aware of the incentives brokerage firms and the financial community have when selling commission-based products?

☐ **YES** ☐ **NO**

18. Do you know the three warning signs that you are gambling and speculating with your money versus prudently investing it?

☐ **YES** ☐ **NO**

19. Can you identify the cultural messages and personal mind-sets about money that destroy your peace of mind?

☐ **YES** ☐ **NO**

20. Are you ready to shift your personal experience of money and investing from a scarcity mode to an abundance mode?

☐ **YES** ☐ **NO**

When you have achieved the ability to answer “yes” to all of these questions, you will be on your way to a high level of peace of mind.

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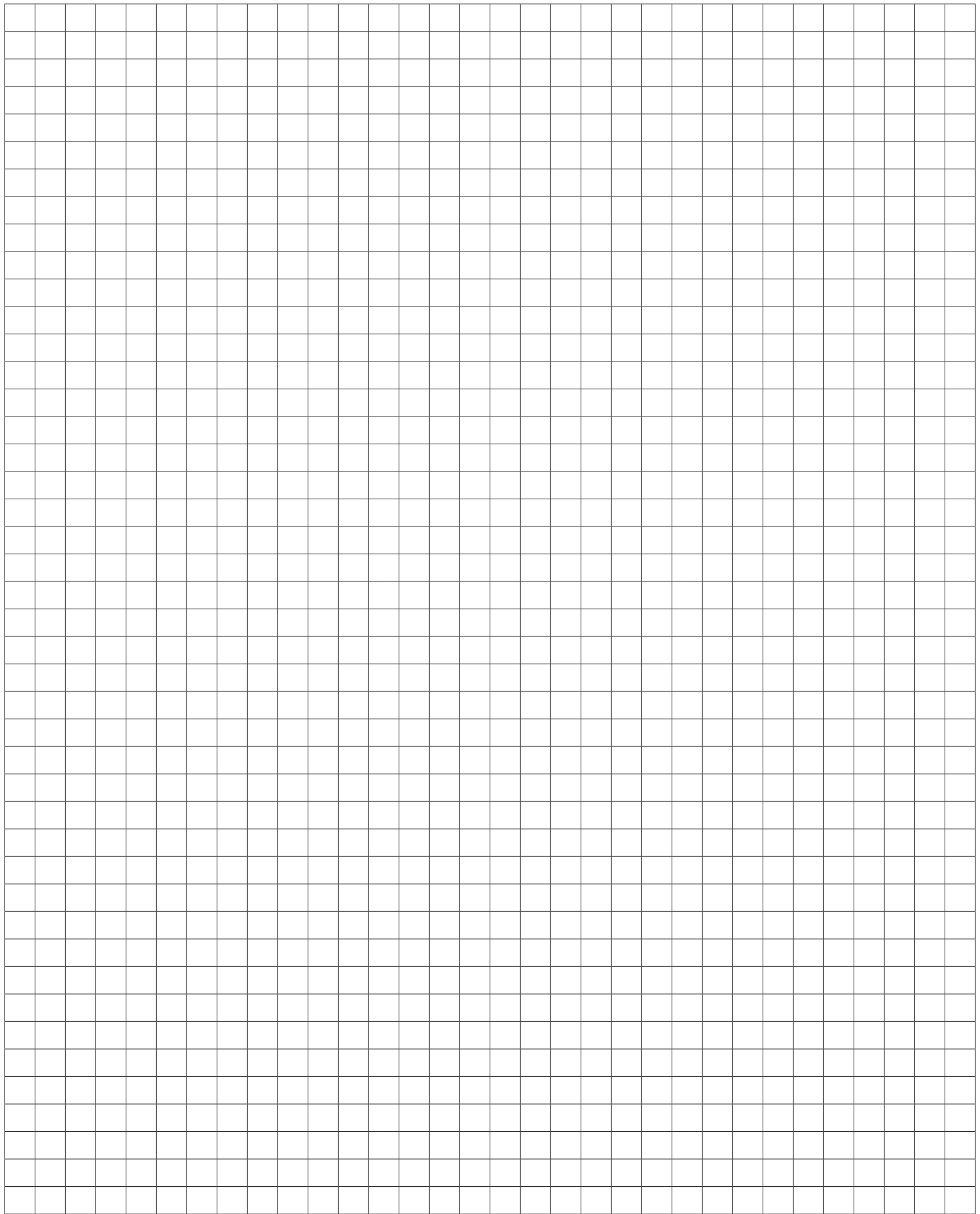
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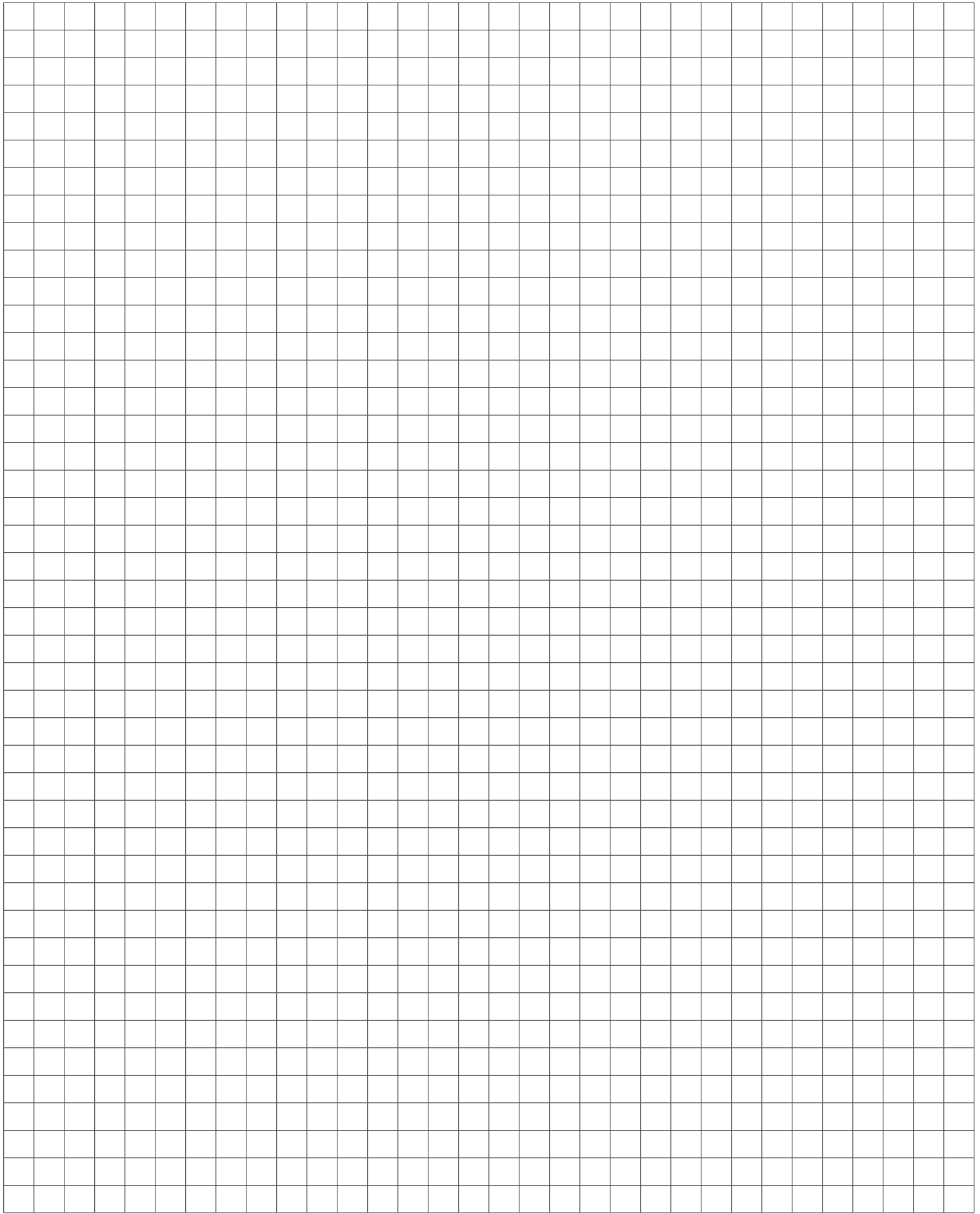
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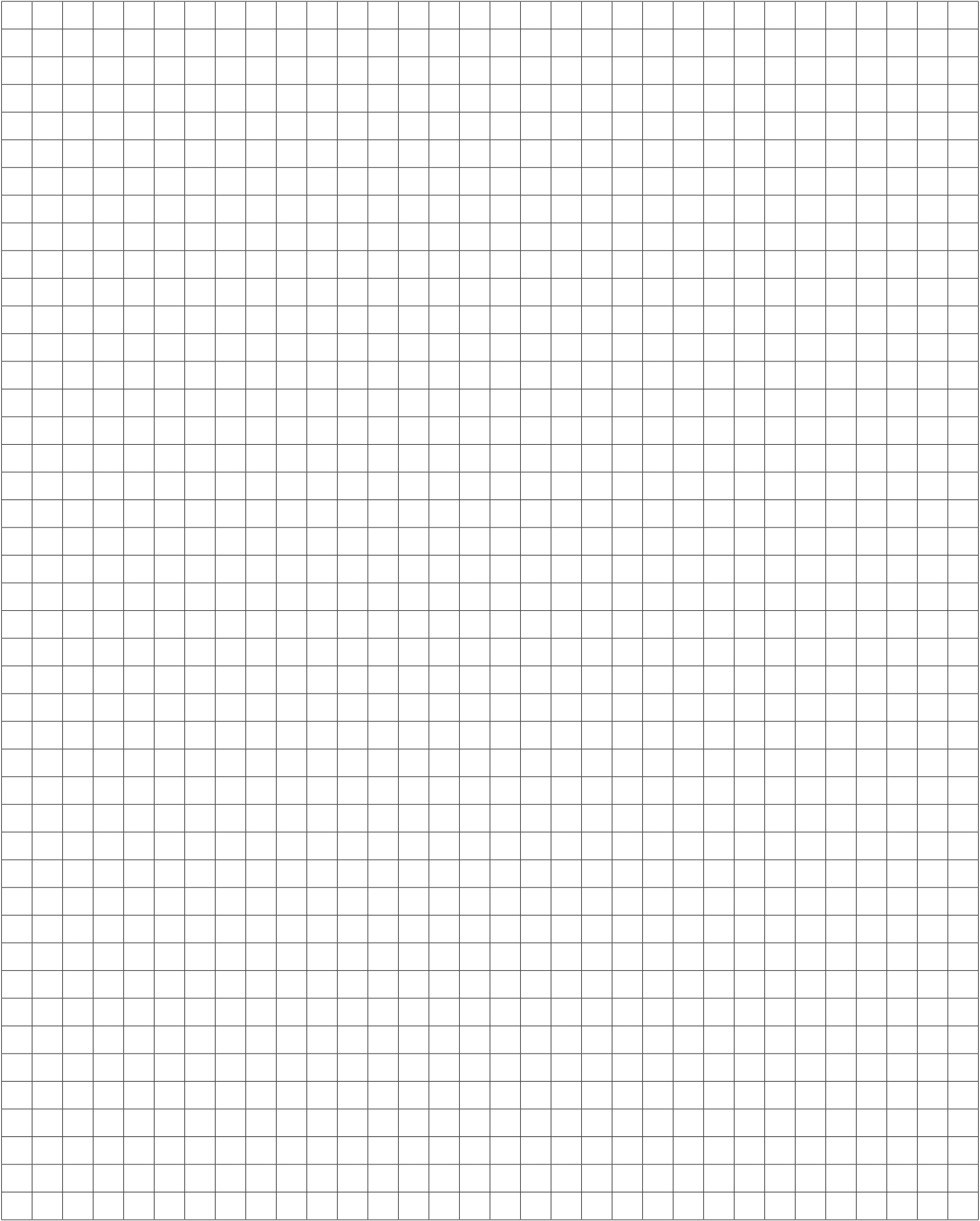
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