

# ACTIVE RETIREMENT INVESTING

---

## THE PROCESS

*What every investor, client  
and advisor should know  
about this complex process*

**Hunter William Bailey,**

MSFS, CTS, CES, CFS, CIS, CAS



# ACTIVE RETIREMENT INVESTING

## THE PROCESS

*What every investor, client  
and advisor should know  
about investing.*

by

**Hunter William (Bill) Bailey**

Financial Advisor

MSFS, CTS, CES, CFS, CIS, CAS

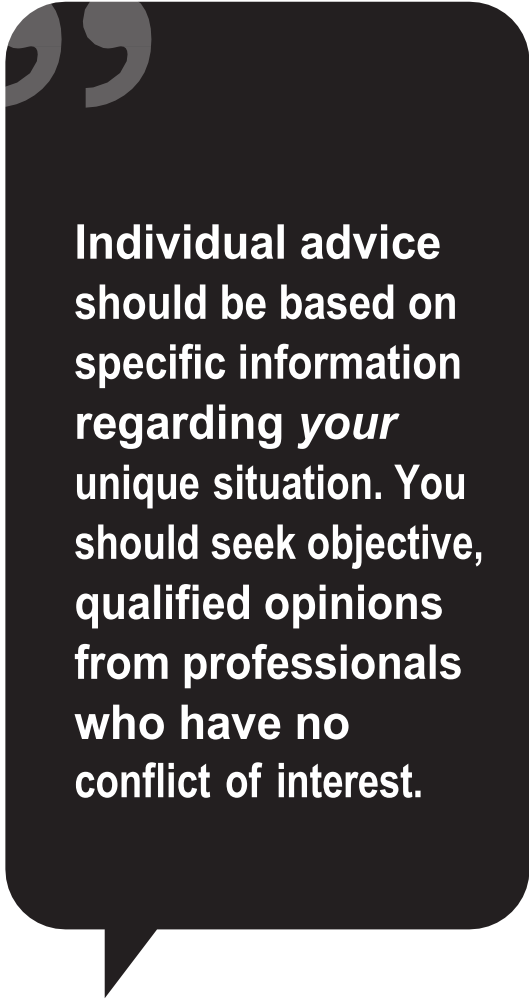


**WEALTH STRATEGIES**

RETIREMENT ASSET MANAGEMENT

---

©Copyright 2024 by Hunter William Bailey



**Individual advice  
should be based on  
specific information  
regarding *your*  
unique situation. You  
should seek objective,  
qualified opinions  
from professionals  
who have no  
conflict of interest.**

**We will share our process to educate you  
about what you need to know, and what you  
should expect from the process.**

---

## **WE ARE HERE TO HELP YOU:**

Learn how to do your own investing

– or –

Assess if your Advisor is acting in your best interest

– or –

Determine how, when, and where to seek  
professional help

**We believe...**

*You should either hire a Financial Advisor  
or become one yourself.*

---



**Although you could simply buy the investments we recommend on your own, we hope you will understand the value planning will bring to the process.**

---

# DEDICATION

This booklet is dedicated to every investor who is willing to take the time to research the massively important issues and decisions necessary to survive a long and happy retirement. Rather than just doing it yourself, or assuming you are in good hands when seeking advice from financial professionals, you are willing to take the time and effort to get a second opinion. You are mature enough to accept you might not be capable of doing your own planning and investing, but wise enough to know “Not to Trust Anyone.” Or at least practice the old adage, “Trust but Verify.”

If opting to do your own investing, you are willing to take on the large volume of research and information necessary to make the important decisions required to protect your financial future. In the process, it's not *what you invest in* that's important, but rather *how you invest*. What's right for one investor may be inappropriate for another.

In this booklet you will be exposed to the vast amount of data and subjects you must know if planning and investing on your own. If you already have an advisor, you will learn what we believe he or she should be doing for you. If seeking our services, you will learn the process our firm follows. Not every investor needs to hire an advisor for ongoing planning and investment advice. You might only need “one-time advice,” where it might be cheaper in the long run to pay one-time planning fee or a commission and take on the process yourself.

Remember, if you DO hire an advisor, it's not because he or she is smarter than you are, it's because you don't have the time or desire to cultivate the vast knowledge, depth of wisdom, and experience that an advisor might offer.

We are not here to sell you anything. You should be either satisfied with taking on the heavy burden of planning for your needs on your own or see the value of hiring an advisor to assist you. As the old saying goes, “price is only an issue in the absence of value.” If you pay an advisor a fee, the value should be easily apparent in the services and advice you receive.

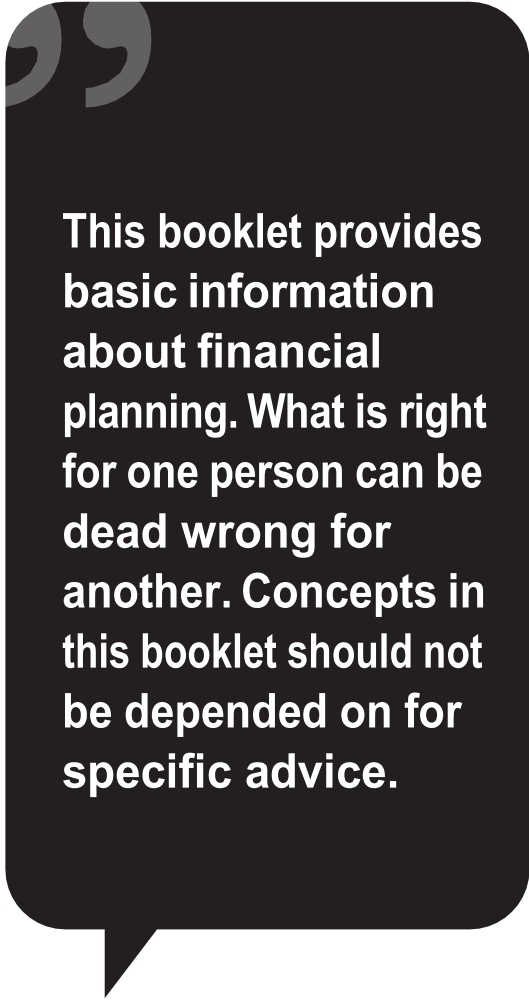
This guide contains in-depth and detailed information designed for the do-it-yourself investors, clients, or advisors wanting to know the specifics of every step.

---



# TABLE OF TOPICS

● “The Discovery Stage” What Happens When You First Begin the Process .....	1
● <b>Multiple Analyses Must Be Performed, Which Are Referred to as Diagnostic Reports</b> .....	2
• Personal Cash Flow Diagnostic	
• Insurance Diagnostic	
• Estate Planning Diagnostic	
• Taxation Diagnostic	
• Existing Investments Diagnostic (a complex, deep dive)	
• Other Investments and Concerns	
• Existing Portfolio Diagnostics	
● <b>Post Diagnostics</b> – “Punch list” examples of items to which you may need to give attention .....	12
● <b>Post Punch List</b> – continuously monitored for completion .....	13
● <b>New Portfolio Construction Process</b> .....	15
• Managing Your Old Appreciated Funds	
• The <i>New Portfolio</i> - Diversification is key	
● <b>Portfolio Investment Concepts</b> .....	16
• Lateral Integration - Short term vs. long term investing	
• Vertical Integration - Bottom up investing	
• New Portfolio Design - Using both Lateral and Vertical Integration, the magic happens	
• Portfolio Construction Monitoring	
• Ongoing Planning & Investment Service time table	
● <b>Ongoing Administrative Activities Which May Arise</b> .....	21
● <b>Fee for Services</b> .....	23
● <b>Obtaining Our Financial Advice</b> .....	24
● <b>Portfolio Diagnostics / Mutual Fund &amp; ETF Criteria</b> .....	26
● <b>Self-Test</b> .....	36
● <b>Readiness Checklist</b> .....	40



**This booklet provides basic information about financial planning. What is right for one person can be dead wrong for another. Concepts in this booklet should not be depended on for specific advice.**

---

## ● The “Discovery Stage” – What Happens When You First Begin the Process

### *As an example, here is our process:*

We will send you a financial questionnaire and a welcome letter indicating our team’s appreciation for the opportunity to work for you. The welcome letter will detail the process of what you can expect, along with a biography of your advisor, our organization’s staff and qualifications.

You will be asked to provide information and details of your financial life. Items such as your current and future sources of income, all applicable insurance policies you own, whether you have the various legal documents like a Will, Durable Power of Attorney, Trust, etc. In addition, you’ll be asked to list all investments you have accumulated, and those you are currently purchasing on a regular basis. Do you expect to receive an inheritance or make gifts yourself? Are taxes now -- or will become -- a concern? How you feel about investing, and do you prefer specific areas of investing? What level of discomfort do you experience when the market drops? You’ll also want to describe your personal investing preferences, what level of knowledge you have with investments, and whether you have any specific values or beliefs regarding your overall situation and investments (i.e. socially responsible, environmentally sensitive investing, etc.). We will ask a lot of questions since everyone is different.

With the information gleaned from your financial questionnaire, along with your investment statements and legal documents, various analyses will be performed during your meeting which will allow a present-day picture of your financial situation. These analyses are referred to as individual **Diagnostics**, and they encapsulate your personal financial situation, insurance, estate planning, tax situation, investments and portfolios. These are individually briefly analyzed in person at your first visit, or if necessary, provided in writing at a future meeting.

---

## ● Performing Your Analysis: A Look at Diagnostic Reports

### □ Personal Financial Cash Flow Diagnostic

Cash flow refers to your daily living expenses, retirement plan contributions and current income sources, mortgages, etc. We will review your overall cash flow and general expenses, and how those affect your ability to live the life you desire. By calculating your present and future income we will evaluate how to plan current or future income needs and determine their sources. Will you need additional income today? Or can we invest *for growth* for more income in the future? If you need future income, we will need to create a distribution plan that is designed to provide the needed income to last your expected lifetime. What is the right amount to liquidate? Many advisors suggest a portfolio liquidation amount of 3 to 4% per year in order to avoid running out of money. **The reality is *no one knows*.**

**Concerns and questions that may arise:** If retiring from a company or government career, should you take the fixed income retirement annuity if offered, or keep your investments invested for future growth? Should you leave the funds with your previous employer or take possession of your nest egg by rolling the funds on a tax deferred basis to a self-directed IRA? Should you manage the funds yourself or hire a professional manager? Should you begin withdrawing money to supplement other retirement income, or allocate the funds for long term growth? Should you refinance your home or pay down the mortgage? Should you take Social Security at age sixty-two or seventy? Should you activate or delay your benefit if you qualify for half of your spouse's benefit, etc.?

### □ Insurance Diagnostic

It is imperative to review the overall risk to your financial security. What's the point of working a lifetime to accumulate enough income and assets to carry you through retirement, only to have an unforeseen accident occur where you are found responsible for someone else's serious injury? Do you have adequate liability insurance? Is your car or home insured for not only the full replacement cost, but the maximum levels of liability coverage?

If you are a business owner, are you taking advantage of tax beneficial medical insurance plans with tax deductible contributions? Or tax deferred cash reserve accumulations? Do you have the proper liability, error and omission and malpractice coverages?

---

What would happen if you or a partner experienced an unfortunate brain injury or illness? Who would pay long-term care expenses (which are not covered by traditional insurance plans or Medicare)? For the younger investor, a disability can fully destroy plans to make a living and contribute to a retirement plan. Do you have disability insurance?

For young families, do you have the proper life insurance? For wealthy older investors, do you own insurance to cover the high cost of estate taxes on large estates? If you travel, do you buy travel insurance?

These are just a few of the questions and concerns we review with you to determine if you are properly insured or whether you need the insurance at all.

#### **Estate Planning Diagnostic**

Beyond the basics of cash reserve, cash flow, investments and insurance coverages, estate planning is a high priority. Making sure you have people in place with the legal authority to take care of you when you are incapacitated, or care for your loved ones after you die, requires close attention to the details in your legal documents.

We would ask many questions: Do you have a Will to pass on your personal possessions if you died? Do you have a Durable Power of Attorney for Healthcare and Financial concerns, which allows someone you trust to sign for you if incapacitated? And finally, do you have a Trust to avoid probate with larger assets you own when you die? If so, is it the right kind of Trust for your situation?

Regularly reviewing your Will is important. You should confirm that all your appointees, legal advisors and beneficiaries are current and ensure that items you've designated to pass on to various beneficiaries are still appropriate and you haven't changed your mind.

The Durable Power of Attorney document is probably the most important document every American should possess. ***There is the risk that we all could be incapacitated.*** If the question of life support comes up, what would you want done? What if you recovered? Who would you trust to manage your affairs while you were unconscious?

---

Do you have a Trust? The Living Trust is less important if two people own assets in Joint Tenancy with Rights of Survivorship, meaning one would inherit everything if the other died. But did you know that tax implications can occur? Also, serious probate issues could arise if both people died at the same time, such as in a car crash.

Reviewing your Trust is especially important if you are an individual owner of investments, retirement plans, real estate, your home and so on. Having the right person manage your estate after you die is critical. Also, if you die without a proper Trust the state could require probate which could last for years and cost thousands of dollars.

Having this document is imperative, but you should be wary of potential mistakes you might make such as forgetting to change the title of your non-retirement assets to the name of the Trust or forgetting to name a living person as the beneficiary of retirement accounts. For example, if you have a large taxable retirement nest egg and leave the Trust as your beneficiary instead of actual individual person, taxes might be due within five years. If you made an individual person the beneficiary, depending on the relationship to the deceased they may be able to take money out of the retirement account over the course of their lifetime (thus spreading the tax liability over that life time), or they may only have 10 years from your date of death.

The other side of the argument to this concept is that the beneficiary gains direct control of the plan and its assets, which in some cases could be a mistake.

With these concerns in mind, we like to review all your estate planning desires and confirm that your investments and overall plan are in line with your wishes.

### **Taxation Diagnostic**

A review of your current and expected tax levels can help determine which direction to take your ultimate investment plan. Non-retirement, low taxation plans can be developed if taxes are high. Non-taxable, tax-deferred or lower-taxed investments like municipal bonds, index funds, and tax managed funds can be combined, therefore limiting your tax exposure. By managing our client's portfolio *in house*, we can perform *tax harvesting*, which involves selecting the best assets to hold long term and which assets to sell in the short term when you need cash.

We'll want to discuss any (non-retirement plan) appreciated assets such as stocks, real estate or businesses that hold accumulated deferred capital gains. Would it be wise to sell the assets and pay the capital gains when the need for cash arrives?

---

---

Or should you do a non-taxable exchange? Or simply wait to leave the asset to your beneficiaries free of capital gains using the **Stepped-up Basis** at your death? This tax-free benefit would be lost if you put the beneficiary on the asset as a joint owner, hence the need for the living trust.

We would then review any previously purchased tax-deferred annuities, where the gains are taxable at ordinary income tax rates when surrendered. This review will bring up several questions: Is the annuity charging high fees or withdrawal penalties? Are there ways to access the cash over time, consequently spreading out the tax liabilities? Which beneficiary has the lowest tax bracket? In some cases, we advise the client to plan on taking taxable withdrawals in later years in hopes of offsetting the taxable withdrawal with deductible long-term care expenses.

We'll also assess whether tax-free bonds are better than taxable bonds, and if tax-efficient stock funds are better than managed, less tax-efficient stock funds. Or, if you are feeling charitable, simply contribute appreciated assets directly to charity and you can avoid the taxes all together.

By reviewing all the investments, a more efficient plan can be developed to insure everything is in sync.

□ **Existing Investments Diagnostic (a complex, deep dive)**

Before making any recommendations to keep or change existing investments, we first must know whether the investment fits your need and whether it's of good quality. We'll look at each stock, bond or fund individually, regardless of it being owned separately or inside your retirement portfolio. To determine the quality and appropriateness of any single investment, we must review the following components:

- **Investment Structure, Allocations and Category** - Most investors use investment funds, which are a **basket** of stocks, bond, cash, etc. We look at their method of investing, the asset turnover, and managed or passive structure, which allows us to understand more of what the investment fund does.
- **Investment-Index Fund, Managed Fund or ETF** - Although every fund has its own asset mix, we need to know how it does business. An index fund primarily buys a group of securities that represent a desired index. A few examples of these indexes might be the Dow Jones Industrial which holds thirty stocks,

---

the S&P 500, total bond or stock market indexes, and various specialty indexes such as Utilities, Preferred Stocks, Oil, etc. A managed fund holds a different mix of securities that represent what the fund manager believes will outperform its index by using various management strategies. An ETF (Exchange Traded Fund) is usually allocated like its counterpart index fund; however these funds can be traded throughout the trading day like an individual security, versus at the end of a trading day like a mutual fund.

- **Investment's Historical Performance** - We'll need to know the historical performance of the fund in relation to other funds in its category. However, past results are no assurance of future performance.
- **Investment's Ranking** - We'll need to know how the fund has historically ranked compared to other funds in its category, and whether this fund has exhibited better or worse management skills in the past. If the fund is a passive index fund, how big is it and what are the expenses? We primarily use the investment analysis services of Morningstar, Inc.
- **Investment's Historical Standard Deviation** - Think of this parameter as a side profile of a roller coaster. How do the historical ups and downs average? Knowing how the fund has performed in bad times is as important as in good times. Past performance and volatility are no guarantee for the future, but it gives us an idea of what to expect in comparison to its category and various indexes.
- **Investment's Historical Beta, Alpha, R-Squared, Sharpe Ratio and Sortino Ratio** - These individual analyses give us a view as to how the fund is structured compared to other fund categories or indexes.
  - **Beta** - This is a relative risk comparison to an index, usually the S&P 500. The index has a numerical valuation of 1.0. Your fund is compared to this index and will have a number that is higher or lower. If your fund has fifty percent less historical risk, it will show a valuation of .50 in the report. This will help you determine whether your fund meets your needs. A lower beta than the index and better return would be the desired outcome. If your fund has higher risk levels and lower returns, you might become unsatisfied.

- 
- **Alpha** - An indication of how your fund has performed compared to other funds with the same beta risk levels. A positive number above zero is desired, which indicates how much better your fund has performed.
  - **R-Squared** - Indicates how similar your fund is to the overall market, usually the S&P 500. Lower similarity or correlation is usually desired to reduce overall market volatility.
  - **Sharpe Ratio** - Indicates the fund's risk/reward levels relative to other funds in its category.
  - **Sortino Ratio** - Uses downside risk (downside deviation) in determining a fund's risk compared to the market.
  - **Investment's Historical Up and Downside Capture Ratio** - These results will indicate how much of the upside and how much of the downside of the market the fund has captured compared to its category over various time frames.
  - **Fund's Turnover Ratio** - Here you will have an idea of how active the fund is at buying and selling various securities inside the fund. High turnover funds tend to charge higher management fees, and low to no turnover funds would be expected to charge very low management fees.
  - **Fund's Total Assets Held** - The total assets held in the fund, as well as total shares held by investors, is important to know when an investor wishes to sell shares either back to the fund company or in the open market. An ETF fund could suffer a lack of buyers if there are few investors using the fund. A large amount of assets in the fund represents popularity in the market and less difficulty selling the share in the market.
  - **Fund's Expense Ratio Compared to its Category** - What the fund charges as an expense will affect the net performance. It's important to know what the costs are and determine if the performance can justify the fee.
  - **Fund's Performance Compared to its Index** - Although the reason we might choose some funds is that they are not the index, it's important to know how the fund's performance has compared to its index or category to decide whether the expenses of the fund give value or not.

- 
- **Fund's Bond Duration and Credit Ratings** - These are the most important parameters of a fund that holds bonds. The duration calculation tells us how much the bonds in the fund should fall or rise in value if interest rates rise or fall. The credit rating of the bonds tells us how strong the ratings are of the issuer and thus the bonds. Rising interest rates can harm the bonds in the fund if they are sold before maturity, and falling credit ratings of the bonds can cause investors to get nervous, thus reducing the bonds' resale value. The opposite is true if confidence goes up and interest rates fall.
  - **Fund's Yearly Yield vs SEC Yield** – This gives the last year's total trailing yield of the fund compared with the SEC yield, which gives a return for the last thirty days. If the fund's share price had risen in the last thirty days, the fund's overall yield would show a smaller return than the yearly number. The reverse might be true if the yield payout stays the same, but the share price dropped.

□ **Other Investments and Concerns**

- **Monthly Contributory Investment Plans** - In addition to analyzing the investments, we must also determine whether you are adding to the appropriate funds. Buying more volatile funds at various prices might be better to reduce stress than all at once. This is also referred to as **Dollar-Cost Averaging** or DCA.
- **Real Estate** - As a part of your investment portfolio, real estate must also be carefully analyzed to determine how it affects the other investments, your liquidity, taxes and estate plan. What is the cost basis of the property? Have you depreciated the property? Do you plan to sell any time soon? If so, will you pay the capital gains taxes or perform a tax deferred exchange to another property? Will you depend on the income from the property and are you protected from tenant lawsuits or other risk running such a business? Is the property owned as a sole proprietor, LLC or corporation, etc.?
- **Family Business** - A family business can be one of the most profitable investments in your portfolio. It can also be a large liability. In helping clients understand the various elements of business ownership, management methods and tax ramifications, we can analyze all the investments you own and determine the most efficient way to hold them.

---

□ **Existing Portfolio's Diagnostic**

- **Asset Allocations, Sector Weightings and Cash Balances** - It's important to have an idea of how your portfolio is allocated, meaning how much is invested in stocks, bonds or cash. It gets much deeper than this. Do you own stocks inside the United State or abroad? Are they concentrated in one area of the market or are they diversified? What percentage of your holdings do you have in bonds, and do you plan to liquidate any bonds to provide present or future income needs?
- **Total Securities Inside the Portfolio** - The primary purpose of owning investment funds within a portfolio is to reduce the risk of owning any one area of the market. Our plan is not to beat the market on the way up, but to reduce the risk on the way down. The combined amount of stocks, bonds and cash related securities among all the various funds in the portfolio is important. One fund might contain up to a hundred securities, but with many different funds your portfolio should hold thousands. A physician's credo is "do no harm," ours is "lose no shares." Values will fluctuate, but we want to avoid total losses -- or even bankruptcy -- for stocks, and default with bonds. The only cost (other than a fund expense) this hyper diversification has on the portfolio is slight dilution of the returns, which in the long run is a small sacrifice.
- **Equity and Fixed Income Style Box Ratios** - It's important to know where your stocks and bonds in the portfolio are from. What percentage of stock holdings are with large companies vs. small? What percentage are dividend paying stocks and what percentage are more growth oriented? With the bonds, what percentage have long term maturities vs. intermediate term and short term? What is the average credit rating of the bonds?
- **Historical Three Month, One Year, Three Year, Five Year and Ten-Year Performances** - We need to know how the portfolio has performed during various time frames. How did the portfolio perform compared to the overall stock market? If you hold a balance of stock and bond funds, did you perform better in down markets and understandably less in up markets?
- **Best/Worst Time Periods for Three Months, One Year and Three Years** - It's important we know how your portfolio reacted to down markets as well as up. How much more or less were you down when the market was down. Was the level of diversification worth the lower return?

---

We call this back testing. Even if you have not owned your portfolio for the same time frame analyzed, we can get some idea of the past results (which is, of course, no guarantee for the future performance).

- **Portfolio Yield** – This is the combined average cash payout for all the funds in the overall portfolio. Any quoted yield of a fund or portfolio may relate to a different time frame than when you may have held the asset(s), so only use this data as a tool.
- **Total Number of Funds in the Portfolio** - By listing the number of funds and their individual names, we'll have an idea of how many companies and different funds we are working with. This is important to reduce *redundancy* or holding funds with the same holdings as the others.
- **Risk/Reward Scatterplot** - This chart indicates how the portfolio is placed on a chart compared to the S&P 500. A rectangle box chart showing your portfolio's left to right risk level, and vertical placement indicating return. As far left and as high as possible is desired.
- **Modern Portfolio Statistics of Portfolio for Beta, Alpha and R-Square**
  - **Beta** (Risk related to the overall market) - With a large group of investment funds in the portfolio, we need to know the combined market risk level. With the portfolio's beta level, we can reallocate the proposed portfolio to match the desired levels. We do this by adding or reducing stock funds vs cash and bond funds.
  - **Alpha** - Indicates the portfolio's average performance over time compared to other portfolios with the same beta levels. We would like to create a portfolio holding funds with a history of better performance than other funds with similar beta levels. We can view the average alpha levels by analyzing this portfolio of combined funds with various software programs available in the market today.
  - **R-Squared** - Because R-Squared is a measure of similarity of movement, that doesn't necessarily mean that a value different than the index indicates less risk. A low R-Squared simply means it moves in a way that is not predictable when comparing it to the index. The fund could be incredibly risky, even though the R-Squared is very low in comparison to the index.

- 
- **Valuations Using Multiples** is a process that consists of:
    - Identifying comparable assets (the peer group) and obtaining market values for these assets.
    - Converting these market values into standardized values relative to a key statistic, since the absolute prices cannot be compared. This process of standardizing creates valuation multiples.
    - Applying the valuation multiple to the key statistic of the asset being valued, controlling for any differences between asset and the peer group that might affect the multiple.
  - **Geographic Average Capitalization** – This measures the average size of a fund's U.S. and non-U.S. stock holdings.
  - **Account Registration** – In addition to making sure your portfolio is not only designed to meet your individual needs, but we also make certain that the investment account is held in the proper registration. If you have a family trust, should the investment be held in the name of the trust? What if it's a retirement account? We need to investigate the options and make sure everything is correct.
  - **Check Beneficiary Designations** - There are various ways to pass the account on to beneficiaries. Retirement accounts usually can't be owned by a trust, so a beneficiary provision is an important feature to assure control and direction of the proceeds. For non-retirement accounts, however, a trust *can* be the owner. Other pass-through provision can be selected. These titles range from Transfer Upon Death (TOD), Joint Tenants, Tenants in Common, Community Property, etc. Each have very important impacts on your estate and must be closely analyzed.
  - **Track Mandatory Retirement Plan Distribution begin at Age 73** (reserve assets for liquidation etc.) - When you reach the age of 73, a yearly distribution will be required by your retirement fund. Selling off shares of an asset that is down substantially could cause unnecessary losses. Planning and reserving assets in cash helps to ensure that cash is available when needed, regardless of market conditions.

---

## **Post Diagnostics**

After meeting with your advisor and assessing your personal finances, investments and portfolios during the Diagnostic Process, you will need to do a follow-up to any recommendations provided to you. We call this the **Punch List**, which is simply a list of concerns we discovered which require your immediate attention. You either take a few notes during our meeting, or if needed, we will detail and document the list for you to follow.

### **Examples of items on this list:**

- Increase your cash reserve
  - Maximize all liability insurance levels
  - Purchase Disability and/or Long-Term Care Insurance
  - Purchase or cancel Life Insurance as needed
  - Review or setup Wills, Durable Power of Attorney and Trust
  - Re-register certain assets in the name of a trust
  - Review or change beneficiaries to certain accounts
  - Delete deceased Trustee when needed
  - Maximize existing retirement plan contributions if working
  - Reallocate existing retirement plans to appropriate levels
  - Rollover existing plan to a self-directed IRA if appropriate
  - Payoff or refinance residence
  - Replace certain investments found to be flawed
  - Reallocate retirement plans at your workplace if needed
  - Visit your accountant to perform a yearly tax estimate
- Etc., etc., etc.

---

## □ **Post Punch List**

After you receive the punch list, you will go home and begin your assignment to complete as many items on the list as possible, as soon as possible. Remember: if you are not properly insured or lack the correct legal documents, you could be handing over your investments to someone else in a lawsuit or to an undesirable relative after your death.

For example, in our process if you receive recommendations to exchange investments, we will help you do so with your current investment company, if appropriate. However, if we recommend you create a *new* portfolio to diversify among several well-known investment companies and funds, our process is unique. If you wish to work with us, you must meet various requirements. These requirements will allow for a more successful and satisfactory relationship for both you, the investor, and us, the service team and financial advisor.

It's important that you understand the processes detailed in this document. It's also important to understand that the process does not end when the diagnostics are complete, and the new investments are made. You must recognize the areas and level of risk that come along with investing. We will continue to educate you in the construction of your portfolios and help you appreciate the downside planning, as well as the upside potential.

It's also imperative that you have a clear understanding of the value our team provides, which not only includes the financial advisor, but also the administrative staff. You'll understand the extensive efforts we'll give to assist you with setting up your plan. You'll learn about our Registered Investment Advisor Representative's role in supervising our process, and activities to protect your rights as an investor and client.

Although you could simply buy the investments we recommend on your own, we hope you will understand the value we bring to the planning process, diagnostic reviews, investor suitability, asset research and portfolio allocations, to list just a few items.

---

Unlike many firms, we do not charge your account for various expenses assessed while working for you. For expenses such as trading costs, IRA fees, investment holding platform fees, etc., we cover the cost for you.

**For example, in our case,** after completing the required prospective client/advisor review and various diagnostics (verbally or in writing), we would then be equipped to develop a relationship with you. With those activities behind us, we can concentrate on your investments and our portfolio construction process.



---

## □ **New Portfolio Construction Process**

Developing a new portfolio is a very serious endeavor. We will have the ability to manage and allocate your portfolio, but only based on strict criteria relating to your liquidity needs, philosophies and risk tolerance.

## □ **Managing Your Old Appreciated Funds**

For non-retirement portfolios, deferred capital gains can cause significant pain if positions are sold. Determining the cost basis of funds sold or exchanged is critical. If taxes will be due, the advisor will take this into consideration. We will work with you to develop an acceptable plan to move from the old funds to the new funds, with the least amount of taxes due in any one year. For funds held inside and outside retirement plans, early withdrawal penalties and other fees will be researched before old securities are sold or exchanged.

## □ **The New Portfolio – Diversification is Key**

When the need for a new portfolio is determined, it will contain only no-load funds from well-known investment companies and lesser-known companies that have been vetted and monitored. Cash waiting to be invested inside your portfolio will never be assessed a management fee, since these dollars are inactive and require no monitoring or management. On the other hand, cash investments like money market funds are considered valuable short-term investment positions.

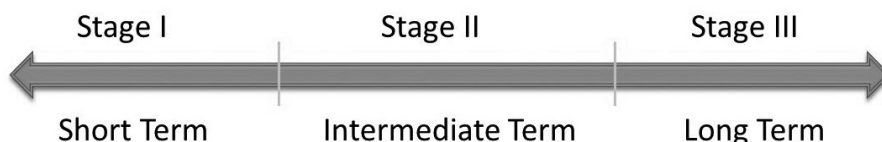
Included in the next section are just a few of the concepts we take into consideration while constructing your personalized custom portfolio. Unlike many companies, we will not combine your portfolio plan with other investors. Other companies may program computers to determine when to reallocate your funds. We manage your funds inside our office with your needs and desires always in mind. Our objective is not to “beat the Market” but survive it and provide an appropriate risk/reward return suitable for you.

---

## ● Portfolio Investment Concepts (Here's How We Do It)

□ **Lateral Integration** - Consider this a plan when you might need to withdraw funds and determine which securities should be sold. Here, the concept of time and need for liquidity (cash availability) is imperative for constructing an investment portfolio. This provides the opportunity to leave some of the securities untouched for a longer life span and time to grow, while at the same time maintain available cash to withdraw without concerns of market conditions.

In creating the new portfolio(s), we must not only invest for tax efficiency and inflation but having an emergency plan is critical. We must think about whether there's a need developed for cash, or which area of the portfolio would need to be sold off. With this concern in mind, we break the portfolio into three distinct phases. These stages need not be equal in allocation but represent amounts of money and time frames of when the investment might be needed. Stage One is the funds that can be liquidated with little or no losses. Stage Two funds would be those that would suffer acceptable levels of losses (as indicated but not guaranteed from historical data) if liquidated in a down market. And finally, Stage Three would be those funds that are held for long term objectives and not liquidated in down markets.

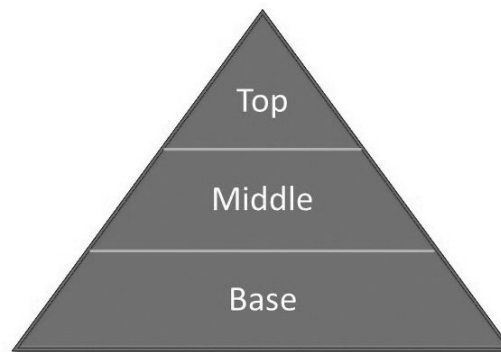


Short term, intermediate term and long-term objectives *may* use funds like the examples listed below:

- **Stage One** - (short term needs such as unforeseen emergencies): Money market funds, short term government funds, short term bond funds, etc.
- **Stage Two** - (intermediate term such as when additional income or opportunity cash is needed): Short term investment grade funds, intermediate term bond funds (taxable & tax free), balanced funds, total return funds, asset allocation funds, etc.

- 
- **Stage Three** - (long term needs intended to accumulate for long term appreciation to supplement things like late retirement or long term care needs in the distant future): Stock funds, international stock funds, sector funds, real estate funds, etc. Next is the determination of which types of funds to use and where to place them. We have constructed an integrated, yet critical process listed below.

□ **Vertical Integration** - There are three levels of a portfolio utilizing three distinct different types of no-load investment funds which we keep in mind while constructing a portfolio. Imagine a pyramid in three horizontal levels. In creating this pyramid, our objective is to provide the maximum level of diversification among not only the individual securities inside the fund (cash, bonds and/or stocks), but among different funds by their objectives and managers to avoid redundancy. Finally, we want to diversify among different fund companies to avoid a “too big to fail” or today, more specifically, “too big to hack” concern.



- **Level One, Base of Pyramid** - The largest portion of the pyramid consists of a variety of low-cost index funds which are chosen from many different well-known investment fund companies with large selections of index funds in all categories. This will provide future opportunities to exchange in and out of various funds when needed. An example of a fund in this level is known as a **Total Market Index fund** for both bonds' indexes, stock indexes, international, global, etc.
- **Level Two, Midsection of Pyramid** - This middle section is reserved for more specific categories of low-cost index funds and exchange traded funds. These categories narrow down the objective of the fund into a more specific index or sector of the market. These are funds that hold segments of an index such as value stock index, small company index, preferred stock index, REIT index, etc.

- 
- **Level Three, Top of the Pyramid** - The smallest part of the portfolio is a handful of well managed funds chosen based on their historical performance, or history of lower volatility, history of superior management, etc. These funds usually have higher management fees than the index funds, however they might offer defensive management techniques. Simply by holding different positions than the index they might avoid declines. These managed funds are suggested more for downside measures than beating any one index.

#### □ **New Portfolio Design**

Using the Lateral and Vertical Integration concepts, we will use ten to twenty different funds from the areas discussed. By combining no-load passive index, exchange traded and active managed funds, the portfolio will achieve the needed diversification necessary to reduce individual risks that one investment security would pose. We are maintaining a balance of fixed income securities (bonds) and equity positions (stocks), different types of funds and different fund companies to maintain diversification and negative correlation among securities, funds and fund companies.

#### **Reasons to Diversify:**

- Among fund companies - to avoid “too big to fail” or targets of hacking
- Among individual funds - to reduce redundancy of positions and managers
- Among internal securities - to avoid or reduce the effects of bankruptcy or bond defaults

We follow fund maximum allocation limits to avoid over-concentration in one fund. As detailed in the investment and portfolio diagnostic process, the client’s need for personal risk levels, liquidity and investor suitability are all considered. Through the use of sophisticated programs that combine all the funds and determine the characteristics of the newly constructed portfolio, the advisor and the client get a historical picture of the funds and portfolio’s prior performances (past results are no indication or assurance of future performance).

---

## □ **Portfolio Construction Monitoring**

While your financial, insurance and estate plans are critical and required urgent attention in the original analysis, the investments are secondary in the process. In this post-planning process, those concerns have already been addressed, and now the future investments take priority with constant monitoring for risk, liquidity, performance and allocations. Determining the ultimate allocation will depend on your potential need for **when or if** you might need to liquidate funds. The other determinate is the amount of volatility you can tolerate in the short term to achieve a long-term goal.

After the Financial Planning Process is completed and a new portfolio has been constructed, ongoing investment research, portfolio reallocations and investor profile monitoring are required. See the list of portfolio and fund monitoring below.

## □ **Ongoing Planning & Investment Service Timetable**

- **Daily** – We monitor financial and political news to determine changes in expected interest rates, monetary easing, tax law changes and regulatory issues. With this updated information, our clients' investments and portfolios are assessed to determine whether changes in their portfolios are necessary.
- **Weekly** – We monitor Morningstar's Independent Research Service Alerts, which are announcements provided by Morningstar and pertain to changes in funds that clients might currently hold. Changes such as fund internal expenses, fund managers, investment styles, performances, Morningstar ratings, regulatory issues, etc.
- **Monthly** – We research and shop for new funds offered to investors that might have lower expenses or provide unique structures of internal investments that might be beneficial to investors.
- **Quarterly** – We review and monitor existing funds held by clients for accumulated performance, expenses, ranking and manager tenure, as well as changes in holdings.
- **Biannually** – We monitor clients' portfolios for substantial increase in value of a single fund. Next determine whether it seems to be short lived, and possibly sell off a portion of excess value. This would occur to prevent a loss from correction of share price due to changes in market conditions.

- 
- **Annually** – We contact our clients in writing, telephone or in person. We update any changes to needed income paid out by the portfolio, investment objectives, risk tolerance, etc. With this information, a portfolio diagnostic is performed to assure the funds held and the allocations of the portfolio are in line with the client’s current needs.

These ongoing reviews and monitoring are done with the groups of funds our clients own. Clients’ individual portfolios are reviewed annually, or when a specific fund reallocation requires attention.

We’ll also review your current tax status as it relates to your investment accounts, such as Roth conversions, deferred capital gains, real estate sales, family gifts, etc.

Family changes will be reviewed and updates to your accounts will be made. Details such as joint owners, beneficiaries, and changes to Trustees will also be examined.

Finally, we will inquire about completion of your Punch List items and encourage you to finish any project left incomplete.



---

## ● **Ongoing Administrative Activities Which Will Arise After the Investment Process**

- **Mandatory Required Distributions from Retirement Plans** - Here we assist in the calculation and disbursement of the yearly required distributions. We fill out the forms, obtain your signature, then guarantee your signature. Next, we establish where you wish the funds to be sent, instruct if you wish taxes to be withheld, and how often you desire the distribution be withdrawn. With this information, we then process your request.
- **Manage Reallocation of Funds to Be Used for RMD Liquidations** - As the years go by and more annual distributions are necessary, we plan which funds will be repositioned in preparation for liquidation to satisfy your need for funds.
- **Process Any Regular or Occasional Cash Distributions You Might Need** - Examples might be additional income or unforeseen lump sum needs not related to mandatory retirement distributions from retirement plans. We will take your request, calculate which funds should be liquidated, determine tax consequences and whether they can be reduced, and determine where you need the funds to be sent. We may also be required to reallocate your total portfolio to maintain the desired allocation.
- **Updating Registration of Nonretirement Accounts to a New Trust** - Every year we review with you the designated title of your investments. If you have established a new trust, we like to make sure the appropriate investments are in the name of that trust. Or, on rare occasions, the trust might be designated the beneficiary, as with retirement accounts, where there is no actual human designee available.
- **Confirm and Update Your Desired Beneficiaries** - Every year we review with you your designated beneficiaries to all your accounts. We can make any changes you might need at that time. Frequently, clients add or remove beneficiaries which requires extensive paperwork, or they may forget to list a person vs. a trust to their retirement accounts, which could reduce taxes.

- 
- **Assist in Distribution of Beneficiary Accounts** - When an account holder passes away, our staff processes all necessary forms and applications required to either cash out inherited accounts or, if desired, re-register the account into the beneficiary's name.
  - **Set Up Education Funding Investment Accounts, 529 Plans, etc.** - We will research the most appropriate state sponsored plans, process all paperwork and applications, and recommend how to invest.
  - **Research Tax Information** - We research your cost basis of stocks or mutual funds when they are sold. This is to assist you and your tax preparer to determine how much of the profit is taxable. For managed accounts where we determine when and what to sell, we research the tax liability before we act.
  - **Setting Up New Accounts** - Setting up a new account can require substantial paperwork, regardless of the company. Government rules require information regarding not only your identity but your source of funds, investor suitability, and risk tolerance while investing. Several questions must be answered on your applications, allowing for more appropriate mixtures of investments and levels of risk.
  - **Rolling Over Outside Investments** - If rolling over your retirement plan from a prior employer or from an investment company, there are extensive applications and questionnaires that are required. We will confirm your identification, proper ownership of the plan's assets (a spousal release may be required), tax treatment of the rollover, beneficiary designations, and the appropriateness of doing a rollover. Meaning, we make certain this rollover is in the best interest of the owner, which is you.

---

## ● Fee for Services

Unlike many advisors, we don't charge hundreds or thousands of dollars for our financial reviews and diagnostics. We prefer to positively affect your process by being paid only to manage your investments. All workups, analysis, diagnostics or reports are performed at no additional cost to you. These services are offered to you as our way of committing our time and resources to you in good faith. We hope you will appreciate and trust what we have to offer you by allowing us to place your investments in **Managed Accounts**, where we are paid a very small fee (percentage of assets under management) to continue our asset management service.

Example of fees that might be assessed on managed accounts (yours may vary):

- First \$250,000 1.20%
- Next \$250,000 1.10%
- Next \$500,000 1.00%
- Next \$1,000,000 .80%
- Next \$1,000,000 .60%
- Thereafter .40%

All services and costs related to the managed account are combined inside this singular management fee. Other advisors might add additional charges outside of this management for things such as financial planning fees, trading fees, platform fees, IRA fees, 12b1 fees, etc.

The actual fee is based on the advisor's anticipated workload and activities planned for the client. Also, the type of portfolio may affect the fee. An all-bond portfolio – which requires less monitoring and management than an all stock portfolio -- may qualify for a reduced fee.

When clients consolidate outside accounts, the combined assets may bring the fee down. Lastly, clients that attend one of our lengthy investment classes may qualify for a slight discount.

---

## ● Obtaining Our Financial Advice

**If You Are Managing Your Own Money** - You can schedule a free "one time" office visit or telephone review and we will give you our support and opinion of your investment choices. Hopefully, we will confirm what you are already doing and add some insight to your planning. On the other hand, we might point out some critical areas you should research, follow-up on or reconsider. Just one oversight or missed opportunity could lead to great disappointment.

**If You Currently Have an Advisor** - We are happy to look at your plan and investments to confirm the appropriateness or inappropriateness of the advice you are currently receiving, at no cost to you. Your advisor should be working in your best interest and disclosing details and facts that will impact your overall risk level, cost and satisfaction. We will simply confirm you are in good hands or bring up concerns you should raise with your advisor. We will help you determine the value of this relationship and help you understand your portfolio(s).

**How and Where to Receive Financial Planning and Investment Assistance** - Our mission is to help you obtain the appropriate level of assistance when planning your finances and investment management. Should you take on the challenge yourself or ask for help from an advisor? Full disclosure! We are in the business of acquiring and maintaining client relationships where our client is happy, and in return we earn compensation for our services – usually less than one tenth of one percent per month of managed assets.

The services an advisor provides a client are research, planning and investing activities, which you can surely do yourself if you take the time. The self- investor, however, needs to learn, do research and analyze vast areas and disciplines related to all aspects of financial planning. In the long run, the question to ask yourself is, do you have the time or interest in spending the significant time and resources necessary to plan future cash flow, insurance, estate documents, asset review and portfolio management?

---

Another option is to invest in computer assisted programs referred to as a “Robo Advisor.” As the term implies, you are only gaining access to various combinations of investment portfolios of funds. Without an advisor working with you, face to face, you will need to become *your own* financial planner. The investment part, as you have learned throughout this document, is only one of several disciplines you will still need to master. Robo Advisors often advertise “Automatic Rebalancing.” If you prefer to have a computer determine when and what to sell in your portfolio, you will be content. However, not everyone likes the idea of automated investing. What if you need modifications? What if your risk tolerance changes? What if you are scared and need to talk with someone who knows you? Many investors choose to enjoy their money and not become a slave to the process.

***Whichever is your chosen path, we are happy to help you!***



# Portfolio Diagnostic Report

Client Name: \_\_\_\_\_ Account Number: \_\_\_\_\_

Date: \_\_\_\_\_ Investment Objective: \_\_\_\_\_

Registration: \_\_\_\_\_ Risk Tolerance: \_\_\_\_\_

Time Horizon: \_\_\_\_\_

## Analyst Observations:

The portfolio has been reviewed by the analyst for:

- Individual Funds     Allocations     Objectives     Risk Parameters     Expenses

Summary: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

## **Recommendations:**

- Hold existing positions as allocations are within desired parameters. Funds are performing well relative to their respective categories and market conditions.
- Reallocate - Sell/Buy/Exchange

Notes: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Disclosure: The figures and time frames referred to in this portfolio diagnostic refer to the last 10 years as provided by Morningstar Advisor Workstation's software program. Although these figures and parameters apply to the portfolio you may currently own, you most likely did not own the same funds and/or allocations for the full 10 years. Therefore, this report gives us research data for a better prospect for planning purposes only. Historical data, standards and performance are no guarantee of future positions, parameters or performance.

# Portfolio Diagnostic Report

Client Name: \_\_\_\_\_ Account Number: \_\_\_\_\_

Benchmark Index: NYSE Composite PR, Bloomberg Barclays Capital US Aggregate Bond TR USD

## Current Portfolio Details:

Overall Portfolio Allocations:

Cash	<input type="text"/>	%	US Stocks	<input type="text"/>	%	Non-US Stocks	<input type="text"/>	%	Bonds	<input type="text"/>	%	Others	<input type="text"/>	%
------	----------------------	---	-----------	----------------------	---	---------------	----------------------	---	-------	----------------------	---	--------	----------------------	---

Total securities in the portfolio	<input type="text"/>	Total holdings	<input type="text"/>	Total fund companies	<input type="text"/>
(We prefer to have a minimum of 5 different fund companies in a portfolio)					

Top five holdings with percentage allocation (Generally, we suggest an upper limit of 25% allocation to a particular fund):	
1) _____	_____ %
2) _____	_____ %
3) _____	_____ %
4) _____	_____ %
5) _____	_____ %

Combined Portfolio Yield  % (Yield represents the annual percentage measure of income (dividends and interest) earned for the most recent 12 months. Does not include capital gains distribution or capital appreciation. This figure is net of fund's expenses).

Average net portfolio expenses  (The expense ratio refers to the fees charged by mutual fund companies to operate a mutual fund. Client's total expense includes the above expense ratio plus the investment management fee charged by the advisor).

## Portfolio Diagnostic Report

Client Name: \_\_\_\_\_

Account Number: \_\_\_\_\_

Risk/Return Statistics:

<u>Standard Deviation:</u>	Portfolio	3yrs	<input style="width: 80%;" type="text"/>	5yrs	<input style="width: 80%;" type="text"/>	10 yrs	<input style="width: 80%;" type="text"/>
	Benchmark	3yrs	<input style="width: 80%;" type="text"/>	5yrs	<input style="width: 80%;" type="text"/>	10 yrs	<input style="width: 80%;" type="text"/>

(Standard Deviation measures the volatility of an investment's return for a certain period of time. A high standard deviation implies high fluctuations in returns over a time period while a low standard deviation implies more consistent returns over the time period)  
 We prefer the standard deviation to be less than 9. (This is relative pattern of risk and fluctuation over the prior years).

Risk Tolerance:

Conservative (SD < 5)	Moderately Aggressive (SD 11-15)
Moderately Conservative (SD 5-8)	Aggressive (SD > 15)
Moderate (SD 8-11)	

If the portfolio standard deviation value lies outside the range by 1 point or less, we do not recommend any reallocations.

<u>Beta:</u>	Portfolio	3yrs	<input style="width: 80%;" type="text"/>	5yrs	<input style="width: 80%;" type="text"/>	10yrs	<input style="width: 80%;" type="text"/>
	Benchmark	3yrs	<b>1.0</b>	5yrs	<b>1.0</b>	10yrs	<b>1.0</b>

(Beta is a measure of risk arising from market movements. The beta of the market is 1 by definition. A beta greater than 1 indicates that the investment is riskier than the market while a beta less than 1 indicates that an investment's market related risk is low. Beta is a useful measure only when the portfolio has high correlation with the benchmark, i.e, the portfolio has a high R squared value when compared to the benchmark).  
 We prefer the portfolio beta to be less than 1. A lower number tells us that the risk is lower than that of the market.

<u>Alpha:</u>	Portfolio	3yrs	<input style="width: 80%;" type="text"/>	5yrs	<input style="width: 80%;" type="text"/>	10yrs	<input style="width: 80%;" type="text"/>
---------------	-----------	------	--	------	--	-------	--

(Alpha is often considered to represent the value that a portfolio manager adds to or subtracts from a fund's return. A positive alpha of 1.0 means the fund has outperformed its benchmark index by 1% while a similar negative alpha would indicate an underperformance of 1%. Again, alpha is a useful measure only when the portfolio has high correlation with the benchmark, i.e, the portfolio has a high R squared value when compared to the benchmark).  
 Value greater than 0 is always desired.

## Portfolio Diagnostic Report

Client Name: \_\_\_\_\_

Account Number: \_\_\_\_\_

<u>Sharpe Ratio:</u>	Portfolio	3yrs	<input style="width: 80%;" type="text"/>	5yrs	<input style="width: 80%;" type="text"/>	10yrs	<input style="width: 80%;" type="text"/>
----------------------	-----------	------	--	------	--	-------	--

(Sharpe ratio measures the portfolio's risk adjusted performance, meaning, the ratio describes the excess return earned for the additional risk taken).  
Higher the sharpe ratio of an investment, better it is.

<u>R Squared:</u>	Portfolio	3yrs	<input style="width: 80%;" type="text"/>	5yrs	<input style="width: 80%;" type="text"/>	10yrs	<input style="width: 80%;" type="text"/>
-------------------	-----------	------	--	------	--	-------	--

(R squared measures the percentage of the portfolio's performance explained by the movements in the Benchmark Index. It is measured on a scale of 0 to 100. 100 indicates that the portfolio's movement is completely determined by the movement in the Benchmark Index while 0 indicates no correlation).  
We do not prefer the portfolio to be highly correlated with the market.

Largest Bond Holdings:    AAA    AA    A    BBB    BB    B    Below B    Not Rated

(Higher rating indicates high quality investment grade bonds that have low risk of default. AAA and AA are considered high credit quality, A and BBB are medium credit quality and the bonds below these designations are low credit quality or junk bonds).  
We prefer at least 50% of the bonds to be rated BBB or above.

Average Effective Duration	<input style="width: 80%;" type="text"/>	Average Effective Bond Maturities	<input style="width: 80%;" type="text"/>
Total Bond Market Avg Duration	<input style="width: 80%;" type="text"/>	Total Bond Market Avg Maturity	<input style="width: 80%;" type="text"/>

(Duration measures the change in the value of a bond for a 1% change in interest rates. When interest rates rise, bonds will fall in value and when interest rates fall, bond value increases. The lower/shorter the duration/maturities, lower the risk of price decline).  
We prefer the duration to be less than 5.

Recommendations made by: \_\_\_\_\_ Date \_\_\_\_\_  
(Senior Portfolio Analyst)

Recommendations made by: \_\_\_\_\_ Date \_\_\_\_\_  
(Financial Advisor)

## Mutual Fund & ETF Selection Criteria

The most important part of Mutual Fund Analysis process is to conduct thorough research. It starts from talking to the managers/ product specialists at the fund company to obtain information about their investment process, strategy and philosophy. The next step is to review fund's annual reports, prospectuses, manager commentaries and reading through the company's websites for more information. Obtaining firsthand information whenever possible from the fund's specialists is very important. The below mentioned points are considered after ensuring that the fund's investment mandate suits the investment objective.

Have you or your advisor considered the following criteria when choosing the investment funds?

*(Please check the appropriate boxes and enter comments)*

1. **Fund's Star Rating:** Star rating forms a good starting point to select funds. Morningstar assigns this rating based on the fund's risk adjusted returns compared to its peers. But this should not be the only criteria to choose funds. It's a historical reference only.

Yes    No    N/A   Comments: \_\_\_\_\_  
\_\_\_\_\_

2. **Medal/Analyst Rating:** Though not a guarantee, it is an opinion by the Morningstar's analysts about the fund's future performance based on their research.

Yes    No    N/A   Comments: \_\_\_\_\_  
\_\_\_\_\_

3. **Rank in The Category:** Funds with higher percentile ranking have been better performers as compared to its peers. This information is available on the fund's overview page under the heading 'performance'.

Yes    No    N/A   Comments: \_\_\_\_\_  
\_\_\_\_\_

4. **Fund's Long Term Standard Deviation/Volatility (for equity funds):** Measure to gauge the fund's volatility. Compare the fund's Standard deviation with its benchmark to determine whether the fund is more/less volatile than the market. Also use this measure to determine whether the fund fits within your risk tolerance levels. Interpreting standard deviation with an example: If your 3 year standard deviation is 15 and your mean return for 3 years is 8%, then your returns will be between -7% and +23%, 67% of the time i.e, in about 2 years for every 3 years.

Yes    No    N/A   Comments: \_\_\_\_\_  
\_\_\_\_\_

## Mutual Fund & ETF Selection Criteria

5. **Average Duration (for bond funds):** Bonds with higher duration indicate higher sensitivity to interest rate changes. The funds with intermediate duration must generate higher yield than the short term bonds. The credit quality of the bonds largely determines the yield. Call the fund company to enquire about the hedging techniques they have in place to manage interest rate volatility.

Yes  No  N/A    Comments: \_\_\_\_\_  
\_\_\_\_\_

6. **12 Month Yield:** Per Morningstar, it is a measure of the fund's income distribution as a percentage of the fund's price. Income distribution includes dividends from stocks, interest from bonds and realized gains from currency transactions.

Yes  No  N/A    Comments: \_\_\_\_\_  
\_\_\_\_\_

7. **Bear Market Percentile Rank:** Indicates the fund's performance in bear market. The best performing fund is ranked 1. (Not reported for ETFs on Morning Star)

Yes  No  N/A    Comments: \_\_\_\_\_  
\_\_\_\_\_

8. **Fund's Expense Ratio as Compared to its Peers:** This information is available on Morningstar. Funds with higher expenses will be a drag on the returns over the long run. Only exception is long term performance exceeding its peers. While ETFs are mostly cost effective, be wary of some ETFs with high fees. Closed end funds have higher management fees than the traditional ETFs.

Yes  No  N/A    Comments: \_\_\_\_\_  
\_\_\_\_\_

9. **Number of Holdings in The Fund:** Determine if the fund is concentrated only in few stocks/bonds. Look for funds with a greater number of holdings diversified across different sectors.

Yes  No  N/A    Comments: \_\_\_\_\_  
\_\_\_\_\_

10. **No-Load Funds:** Look for No-Load funds. These funds do not have any sales charge or commission when purchasing or selling thereby improving the net returns. Avoid 12B-1 fees. Choose the share class with lowest expenses based on availability. (Not applicable to ETFs)

Yes  No  N/A    Comments: \_\_\_\_\_  
\_\_\_\_\_

## Mutual Fund & ETF Selection Criteria

11. **Long Term Performance Chart:** Consider 5 or 10 years performance history. Especially look for the fund's performance during market downturn as in 2008.

Yes  No  N/A    Comments: \_\_\_\_\_  
\_\_\_\_\_

12. **Fund Total Returns:** Compare the fund's returns with its benchmark/category average. It is always important to consider the risk when evaluating returns to determine whether a fund is assuming more risk than the benchmark to generate excess returns.

Yes  No  N/A    Comments: \_\_\_\_\_  
\_\_\_\_\_

13. **Average Bond Credit Quality:** Higher quality bonds indicate lower credit risk.

Yes  No  N/A    Comments: \_\_\_\_\_  
\_\_\_\_\_

14. **Sharpe Ratio:** It is a measure of risk adjusted returns. Considers standard deviation as a measure of risk. Standard deviation is a measure of total risk (systematic and unsystematic) Higher the fund's sharpe ratio, better it is. When comparing two funds, the fund with a higher Sharpe ratio has better returns for the risk it has assumed.

Yes  No  N/A    Comments: \_\_\_\_\_  
\_\_\_\_\_

15. **Sortino Ratio:** A risk adjusted measure similar to Sharpe ratio except it considers downside deviation (volatility) as a risk measure. Useful in analyzing volatile funds. A stable fund may not have many data points for downside deviation making a sortino ratio less reliable. A high sortino ratio is better as it means low probability of incurring a loss.

Yes  No  N/A    Comments: \_\_\_\_\_  
\_\_\_\_\_

16. **Treynor Ratio:** Similar to Sharpe ratio but uses beta as the risk measure. Beta is a measure of systematic risk. Treynor ratio makes more sense when analyzing a balanced fund/diversified fund as most of the unsystematic risk is reduced due to diversification and the fund is mostly exposed to market risk. For undiversified funds like sector funds, Sharpe ratio must be used as the fund is exposed to both systematic and unsystematic risk. Higher the ratio, better it is.

Yes  No  N/A    Comments: \_\_\_\_\_  
\_\_\_\_\_

## Mutual Fund & ETF Selection Criteria

17. **R Squared:** It is used to determine the percentage of the fund's movement that can be explained by market movements. It ranges from 0 to 100. R Squared of 100 means that the fund is moving in lockstep with the benchmark. According to Morningstar R squared value above 85 has a close correlation with the benchmark.

Yes  No  N/A    Comments: \_\_\_\_\_  
\_\_\_\_\_

18. **Capture Ratio:** Measures manager's performance during up and down markets relative to the market (benchmark) Calculated as Upside Capture ratio/Downside Capture ratio. Higher the ratio better it is. A ratio of 1 indicates that the manager has moved in sync with the market. A ratio less than 1 indicates a manger mostly capturing the downside more than the upside.

Yes  No  N/A    Comments: \_\_\_\_\_  
\_\_\_\_\_

19. **Alpha:** In simple terms, alpha measures the excess returns generated by the portfolio manager as compared to the fund's benchmark. Alpha is valid as long as the beta is meaningful. (Beta measurement is meaningful for funds with high R Squared)

Yes  No  N/A    Comments: \_\_\_\_\_  
\_\_\_\_\_

20. **Number of Managers:** Funds managed by more than one manager is preferable as the fund would be better positioned to function in case any manager departs.

Yes  No  N/A    Comments: \_\_\_\_\_  
\_\_\_\_\_

21. **Manager Tenure:** Longer the manager tenure, better it is as the long term performance of the fund can be attributed to the manager managing investments. If the manager is new, fund's past performance will not be of much value.

Yes  No  N/A    Comments: \_\_\_\_\_  
\_\_\_\_\_

22. **Information Ratio:** It is used to determine the consistency of the portfolio managers. Higher the ratio, better it is. When comparing the information ratio of two managers of similar funds, the manager with a higher information ratio is considered to be more consistent in generating excess returns.

Yes  No  N/A    Comments: \_\_\_\_\_  
\_\_\_\_\_

## Mutual Fund & ETF Selection Criteria

23. **Turnover Ratio:** Compare the turnover ratio of a fund with other funds of similar category. A high turnover ratio indicates high trading costs and high tax costs due to capital gains distribution. Generally T/O ratio of 20 or 30 is considered low indicating buy and hold strategy while T/O ratio above 100 is considered high. But bond funds and small cap funds will naturally have a high turnover ratio (close to 100). Therefore, it is important to compare the ratio within a similar category of funds.

Yes  No  N/A    Comments: \_\_\_\_\_  
\_\_\_\_\_

24. **Potential Capital Gains Exposure:** This indicates the capital gains embedded in the fund. It is good idea to call the company to determine the likelihood of the fund making capital gains distribution during the year. Also the turnover ratio can give some idea about the fund's capital gains distribution. Capital gains distributions have tax consequences for the investor. TIP: Avoid buying high capital gains exposure funds in Taxable Accounts at the end of the year.

Yes  No  N/A    Comments: \_\_\_\_\_  
\_\_\_\_\_

25. **Third Party Research:** Research reports from companies such as Morningstar includes analysis on performance, process, people, price and parent company. They also provide stewardship grades which includes ratings provided for corporate culture, manager incentives, fees, regulatory history and board quality grade.

Yes  No  N/A    Comments: \_\_\_\_\_  
\_\_\_\_\_

26. **GIPS Compliant:** (GIPS stands for Global Investment Performance Standards) While it is not mandatory for investment firms to comply with GIPS, the ones that choose to do so demonstrate their commitment towards ethical practices and discipline in their performance presentation.

Yes  No  N/A    Comments: \_\_\_\_\_  
\_\_\_\_\_

27. **Leveraged Funds:** These funds attempt to increase returns by using leverage in the portfolio. While these funds enhance returns, they also magnify losses. Leveraged funds are risky and not suitable for all types of investors. Look for names such as 'Ultra', 'Bull', '2X', '3X' to identify these funds.

Yes  No  N/A    Comments: \_\_\_\_\_  
\_\_\_\_\_

## Mutual Fund & ETF Selection Criteria

28. **Premium/Discounts:** As ETFs trade like stocks, their actual price can be above or below their NAV. Buy ETFs that are selling at a discount or at lower premiums to their NAV. Do not over pay to buy an ETF. The premium/discount information is available on Morningstar.

Yes    No    N/A   Comments: \_\_\_\_\_  
\_\_\_\_\_

29. **Bid/Ask Spread:** This is a measure of liquidity. Always choose funds with lower bid/ask spread. The funds that have wide bid/ask spreads are thinly traded.

Yes    No    N/A   Comments: \_\_\_\_\_  
\_\_\_\_\_

30. **Tracking error:** Measures how closely a fund tracks its benchmark. A fund with a lower tracking error deviates less from its benchmark.

Yes    No    N/A   Comments: \_\_\_\_\_  
\_\_\_\_\_

31. **Benchmark:** We recommend investing in a fund that has a broad, widely followed underlying index. These funds are less volatile than those based on a narrowly followed index.

Yes    No    N/A   Comments: \_\_\_\_\_  
\_\_\_\_\_

32. **ETF Asset Base:** An ETF with smaller asset base will have larger spreads due to liquidity problems. Look for funds with a minimum asset base of at least \$100M.

Yes    No    N/A   Comments: \_\_\_\_\_  
\_\_\_\_\_

33. **Commissions:** Consider the cost of commissions when buying and selling an ETF. Paying an \$8 commission to invest just \$100 may not be a worthy investment. Hence dollar-cost-averaging may not be a suitable strategy for ETFs unless purchases are free.

Yes    No    N/A   Comments: \_\_\_\_\_  
\_\_\_\_\_

34. **Semi-Standard Deviation:** Per Morningstar, it is the standard deviation of returns for those months where the returns are BELOW average returns. Reported for ETFs.

Yes    No    N/A   Comments: \_\_\_\_\_  
\_\_\_\_\_

---

## ● SELF-TEST

***Do you know enough about the process to do it yourself or determine if your advisor is serving your best interest? Test your knowledge about the subjects you have learned in this workbook.***

1. What is the responsibility of a Fiduciary?
    - a. Sell you the most popular investment?
    - b. Invite you to a complimentary steak dinner and seminar?
    - c. Put your needs and best interest first?
  
  2. What does beta mean?
    - a. The historical return of a fund
    - b. The fund's market risk level
    - c. Price indicator
  
  3. What is Standard Deviation?
    - a. Average bond rating
    - b. Historical market trends
    - c. Historical fund volatility measurement
  
  4. Stepped up basis
    - a. Indicates the investment's cost basis increase at the death of an owner resulting the elimination of taxable capital gains tax
    - b. An increase of death benefit of an annuity contract at the death of its owner
    - c. A home exercise using stairs
  
  5. Index fund
    - a. A low-cost fund simulating the same holdings of a desired market index
    - b. A fund that invests in a specific sector of the market
    - c. A fund that guarantees the original investment
  
  6. Tracking error
    - a. Lost performance data
    - b. Risk of underperformance compared to desired index
    - c. Incorrect buy/sell order input
  
  7. Elimination period
    - a. The waiting period before long-term care insurance benefits begin
    - b. Declining investment lifespan
    - c. Date the income of a portfolio runs out
-

- 
8. Roth IRA Conversion
    - a. The mandatory date in which you must withdrawal funds
    - b. The process of transferring a Roth account to beneficiaries
    - c. The process of transferring money from an old taxable IRA to a nontaxable Roth IRA
  
  9. Fiduciary Standard
    - a. Required income calculations at age 73
    - b. legal standards for financial advisors to follow
    - c. Level of risk for retiree
  
  10. Rebalancing
    - a. Bouncing from one investment to another
    - b. Correcting an original trade request mistake
    - c. Reallocating back to original portfolio balances
  
  11. Durable power of attorney
    - a. Legal document giving a trusted person legal authority over medical, financial or legal decisions in the case of a medical incapacity
    - b. Long lasting medical equipment
    - c. Give your trustee fully freedom to change your trust
  
  12. 1031 Exchange
    - a. 1031 tax free trades
    - b. Tax free exchange of stocks for bonds
    - c. Tax deferred real estate exchange
  
  13. Stretch IRA
    - a. IRA payout over lifetime of beneficiary
    - b. Lifetime income investment in bonds
    - c. Rising and falling dividends over time
  
  14. Bond duration
    - a. Lifespan of a bond
    - b. A measure of calculating risk to a bond when interest rates rise. For every one percent interest rate rise the bond will fall in value by its duration parameter
    - c. Bond credit rating over many years
-

- 
15. Lateral integration
    - a. Staging out investment from short term, intermediate term and long-term holding patterns
    - b. Portfolio construction method
    - c. Weaving cash, bond and stocking into a portfolio
  16. Multifactor ETF
    - a. A fund with multiple investments inside it
    - b. A portfolio full of multiple ETFs
    - c. Exchange traded fund targeting specific factors of an index
  17. Smart Beta ETF
    - a. An ETF that attempts to reduce market risk
    - b. An ETF that smart people invest in
    - c. An ETF that is not available to the public
  18. Sharpe Ratio
    - a. Sharp looking allocations
    - b. Risk reward value and parameter
    - c. Efficient share pricing
  19. Time series momentum
    - a. Momentum accumulation in value and market trends
    - b. Investing regularly over time
    - c. Trend of an asset in relation to its own past performance
  20. SEC yield
    - a. Sector fund's yield
    - b. Yield based on the most recent thirty-day fund price then calculated as an annualized yield.
    - c. Total return based on yield and share price appreciation
  21. Negative correlation
    - a. Negative rate of return resulting in losses
    - b. Historical volatility calculations
    - c. Positions in a fund or portfolio which are opposite the index or market it is being compared to
-

---

22. Modern Portfolio Theory

- a. Modern investment style
- b. Study of risk, return, correlation and diversification, the basics of the “efficient frontier” concept
- c. A belief that diversification is a good method of investing

23. Leveraged ETFs

- a. Multiple securities inside an ETF
- b. Low cost ETFs
- c. A fund that borrows additional money to magnify your investment, increasing the potential for gain or loss

24. Vertical integration

- a. Constant increasing in share price
- b. A fund allocation method of combining total market, index and managed funds within a portfolio
- c. Calculation to average the total funds portfolio expenses

*Answers to this quiz will be revealed after you also complete the “Readiness Checklist” on the following pages.*

---

## ● READINESS CHECKLIST

*Now that we have checked your knowledge about the process, let's examine your readiness. Check off each item listed by selecting the answer that best describes your current level of readiness.*

**Emergency contact(s)/trustee/trusted family member or friend available to step in and help in an emergency or death**  yes  no  n/a

**Adequate cash reserves** are immediately accessible  yes  no  n/a

**Safe deposit box & home safe** for holding legal documents  yes  no  n/a

**Home survival supplies** for power outage or other emergencies (Food, Water, Medical Supplies etc.)  yes  no  n/a

**Home safety inspection:** Inspect electrical, gas, water, fireplace, trip hazards, criminal prevention & emergency contact measures  yes  no  n/a

**Proper Medical insurance,** deductibles, co-pays & supplements  yes  no  n/a

**Long term care insurance,** waiting periods, coverages if needed (disability insurance for younger employed investors)  yes  no  n/a

**Supplemental Liability insurance** coverages (umbrella, professional liability, E&O, rental liability coverage etc.)  yes  no  n/a

**Life insurance** if needed, planning to cash or convert to long term care insurance  yes  no  n/a

**Plan to purchase travel insurance** when traveling  yes  no  n/a

**Current Will (s)**  yes  no  n/a

**Current Durable Power of Attorney** for Medical (end of life)  yes  no  n/a

**Current Durable Power of Attorney** for Legal and Financial  yes  no  n/a

**Current Living Trust(s)**  yes  no  n/a

Planned & implemented “**Lateral integration**” investment plan  yes  no  n/a

Planned & implemented Portfolio “**Vertical integration**” plan  yes  no  n/a

**Re-evaluated** tax strategies and investment positions  yes  no  n/a

---

---

**Plan to payoff (paid off)** home mortgage and use old monthly mortgage payment to invest into the market for future inflation protection  yes  no  n/a

**Daily, monitoring** of interest rates  yes  no  n/a

**Weekly**, evaluating investment fund news  yes  no  n/a

**Monthly**, monitoring new investment funds opportunities  yes  no  n/a

**Quarterly**, monitoring performance of existing investments  yes  no  n/a

**Biannually**, evaluating high performing funds to harvest gains  yes  no  n/a

**Annually**, re-evaluating everything  yes  no  n/a

*Now it's time to check your test results. Let's see how you did...*

### **SELF-TEST ANSWERS:**

- |      |       |       |       |
|------|-------|-------|-------|
| 1) a | 7) a  | 13) a | 19) c |
| 2) b | 8) c  | 14) b | 20) b |
| 3) c | 9) b  | 15) a | 21) c |
| 4) a | 10) c | 16) c | 22) b |
| 5) a | 11) a | 17) a | 23) c |
| 6) b | 12) c | 18) b | 24) b |

How did you do? Ready to take it on yourself? Or are you appreciating your advisor even more? Remember, if you need advice or assistance feel free to contact us – it's what we do.

You already know how you fared on the “readiness questions” ...

***So, it's time to get to work an address those deficiencies!***

---

## **Disclosure**

This booklet is intended to provide basic information about financial planning, including details of specific investment vehicles. What is right for one person can be dead wrong for another. Fee based asset management may be beneficial for many investors who desire professional management and advice. Concepts in this booklet are guidelines only and should not be depended on for specific advice.

If, however, you're only interested in investing in one fund or just within one company, a better choice could be to seek investment guidance by paying a one-time commission to create an investment portfolio. A second alternative is to call the investment company directly and get guidance on which funds to purchase and avoid commissions or fees altogether.

You may also hear or read the warning, "Past results are no indication or guarantee of future performance." Most investment prospectuses will issue this warning. The rationale for this type of warning is to prevent investors from placing their hard-earned funds into over-touted investments that may have experienced good performance in previous years but might be highly inappropriate for that investor.

Because the investing public is susceptible to emotions, the Securities and Exchange Commission (SEC), a government agency, attempts to protect investors from overzealous financial salespeople and companies. I must counsel you to seek professional advice to determine which parts of this booklet apply to your situation. You should *always* research as much as possible before investing your money in any venture or product. Carefully read a current investment prospectus before investing. You should consider speaking to a professional who is acting as a **Fiduciary**, with specialized training and education in areas such as investments, insurance, banking, real estate, wills, trusts and retirement plans.

The general advice given within this booklet is intended as an educational aid. Individual advice is inappropriate without having specific information regarding your situation. You should also seek objective, expert opinions from people who have no conflict of interest.

For regulator research and information, contact these two regulatory agencies:

Financial Industry Regulatory Authority (FINRA), (301) 590-6500, <http://www.finra.org>

Securities and Exchange Commission (SEC), (800) 877-8339, <http://www.sec.gov>

This document is published for residents of the United States and is for informational purposes only and does not constitute an offer to sell or a solicitation of an offer to buy any security or product that may be referenced herein. Persons mentioned in this document may only offer services and transact business and/or respond to inquiries in states or jurisdictions in which they have been properly registered or are exempt from registration. Not all products and services referenced in this document are available in every state, jurisdiction or from every person listed. Neither the Osaic Wealth Inc. companies nor its representatives provide tax or legal advice; therefore, it is important to coordinate with your tax or legal advisor regarding your specific situation. Diversification does not guarantee a profit or protection from losses in a declining market.

We are licensed to sell Insurance Products in California. CA Insurance License #0589198

For more information about us go to [hunterwilliambailey.com](http://hunterwilliambailey.com) and for a detailed background of our advisor, go to [Brokercheck.FINRA.org](http://Brokercheck.FINRA.org)

---

## **About Us**



**Hunter William (Bill) Bailey**, MSFS, CTS, CES, CFS, CIS, CAS

*Author, Financial Advisor*

As an Investment Advisory Associate at Wealth Strategies, I specialize in retirement planning, estate planning, and asset management. I have been working in the financial services industry since 1980, and my responsibilities include meeting with new and existing clients, providing financial planning reviews, suggestions, and follow-ups.

Before joining the financial industry, I worked at the Sacramento Sheriff's Department as a paid on-call reserve deputy sheriff and volunteer for 37 years. I earned my associate degree from American River Junior College in 1975, my bachelor's degree in criminal justice from California State University Sacramento in 1978, and my master's degree in financial services from the Institute of Business & Finance in 2013. I am also the author of several books, including "The Aspiring Millionaire" in 1988, "Wealth Strategies: Investing for Your Retirement" in 2008, and "Active Retirement Investing: Investing for Your Retirement" in 2020.

When it comes to my job, I most enjoy sharing my life "trials and tribulations" as well as knowledge and education to help my clients navigate the challenges in their lives that don't necessarily relate to investing. I believe that the greatest values I can provide for my clients are honesty, integrity, and a strong commitment to put my client's interest first.



**Nashoba (Nash) Bailey**, ChFC®, CTS, CFS, CIS, CES, CAS

*Financial Advisor*

As an Investment Advisory Associate at Wealth Strategies, my responsibilities include portfolio analysis, in-depth individual security analysis, and assisting clients in making sure that their investments align with their objectives, goals, and ideals. I have worked in the financial services industry for over 7 years, specializing in portfolio and security analysis. I understand the metrics through which we measure performance, risk, and suitability. I take

the time to learn what matters to each client, so I can prioritize properly and keep a client's interests front and center in the process.

What motivates me the most is assisting people in an area of life that I feel is neglected by our standardized education system and often overlooked by a vast majority of the public. It is satisfying to help educate people without having to make a sale and truly acting in a client's best interest in order to see them flourish, with or without my professional help. I most enjoy communicating complicated topics in simple ways. I get incredible joy when I can translate the unnecessarily complicated jargon of our industry and help those who want to learn and understand how we can be valuable as professionals and as well as how individuals can do this all on their own.



**Amy L. Sunderland**, CTS, CES

*Client Service Executive, Securities Licensed*

I have served as the Office Manager and Client Service Executive for Wealth Strategies for over 16 years and have experience in banking and insurance going back to 1985. I studied Architecture at the University of Oregon and spent a number of years in design before joining Bill Bailey's team.

As Office Manager, I oversee the daily operations of the business and wear many hats; from new client onboarding, to managing the trading desk, to keeping up with compliance and implementing new technology. My most important responsibility, however, and the main source of pride in my work is my commitment to client service. I am motivated by a strong desire to provide professional, yet kind and caring assistance in every client interaction. It is my great honor to be a source of support and service for our clients during both the happy times and the challenging times.

---





# **WEALTH STRATEGIES**

## **RETIREMENT ASSET MANAGEMENT**

**Hunter William (Bill) Bailey,**  
**MSFS, CTS, CES, CFS, CIS, CAS**  
*Financial Advisor*

7509 Madison Avenue  
Suite 107  
Citrus Heights, CA 95610

and

134 East Main Street  
Grass Valley, CA 95945

916-863-1266

800-603-1393

[Hunter.Bailey@OsaicWealth.com](mailto:Hunter.Bailey@OsaicWealth.com)

[HunterWilliamBailey.com](http://HunterWilliamBailey.com)

Securities and investment advisory services offered through **Osaic Wealth, Inc.** member FINRA/SIPC.

**Osaic Wealth** is separately owned and other entities and/or marketing names, products or services referenced here are independent of **Osaic Wealth**.

Hunter Wm. Bailey, CA Insurance License #0589198