ASSET MANAGEMENT

"The way in which we manage investments."

Bottom line, investors want to know their advisor has a strategy and discipline in place for their investments. We accomplish this 3 ways:

1. Dynamic Asset Allocation
2. Strategic Rebalancing
3. Core and Satellite Portfolios

It has been my experience that most investors do not have a strategy and certainly lack investing discipline. It is this lack of fortitude that gets investors in trouble and often leads to results they would rather not experience.

Investors are too often led by their heart and driven by greed when markets are up and fear when they decline. Physiologically, we as humans seem to be wired the exact opposite of what it takes to be a good investor. We buy when investments are expensive (attracted to candy) but run in fear and sell when investments decline (burned by touching fire).

By striving to maintain a defined strategy and a disciplined management of your assets helps us increase the likelihood of staying on Path One, avoiding the BIG MISTAKE and reaching your financial goals and dreams.

DYNAMIC ASSET ALLOCATION (DAA)

My principle of Dynamic Asset Allocation (DAA) states that there is no one permanent allocation an investor should always maintain. Rather there is a TARGET Allocation that serves as a benchmark during neutral market times. Employing DAA means setting a RANGE of different allocations per asset class and managing the overall allocation within that range.

For example the allocation in equities for a typical investor may range between 25% and 75% with a target allocation of 60%:

	Stocks	Bonds	Cash
Bearish:	25%	25%	50%
Target:	60%	30%	10%
Bullish:	75%	20%	5%

A core portfolio is constructed first. Then it is tweaked and changed to fit the current tactical allocation always remembering to stay within the range of the dynamic allocation. Different investment levers are employed to increase or decrease any specific investment area.

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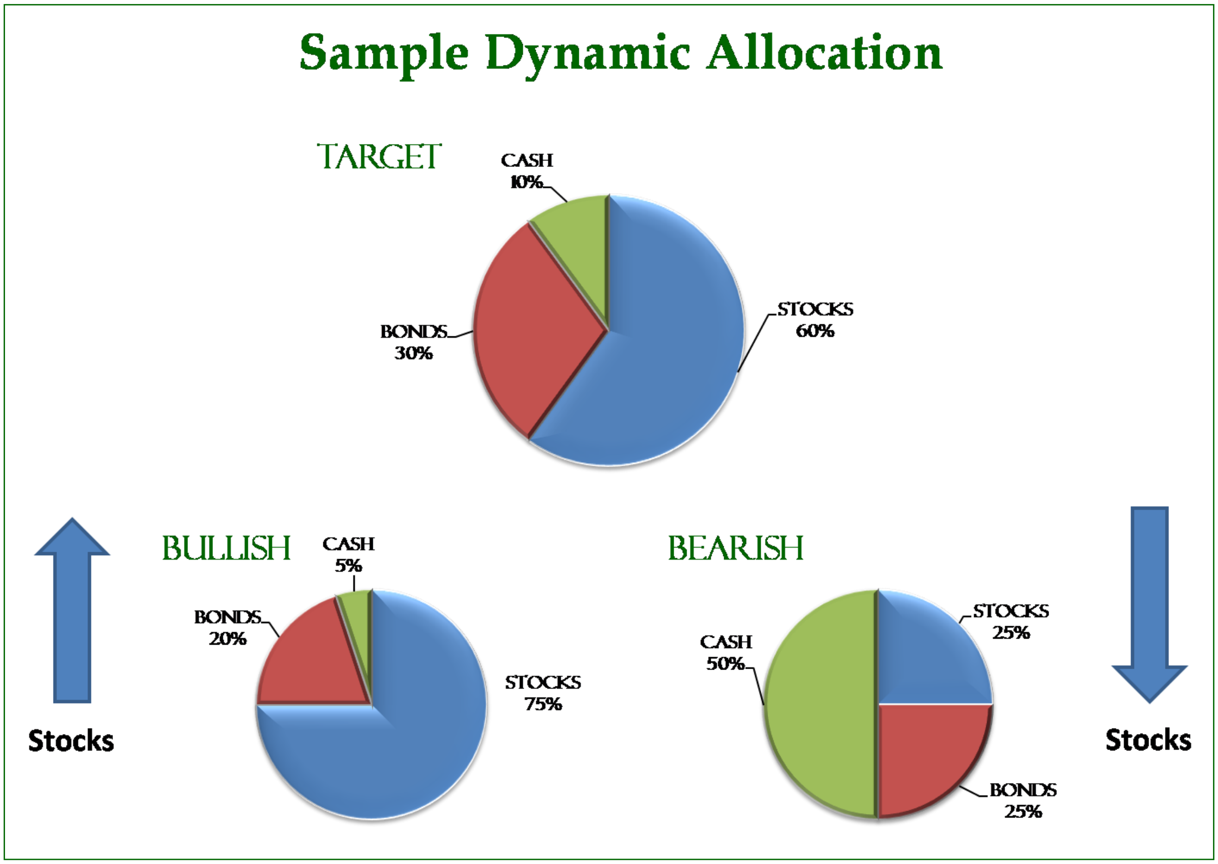

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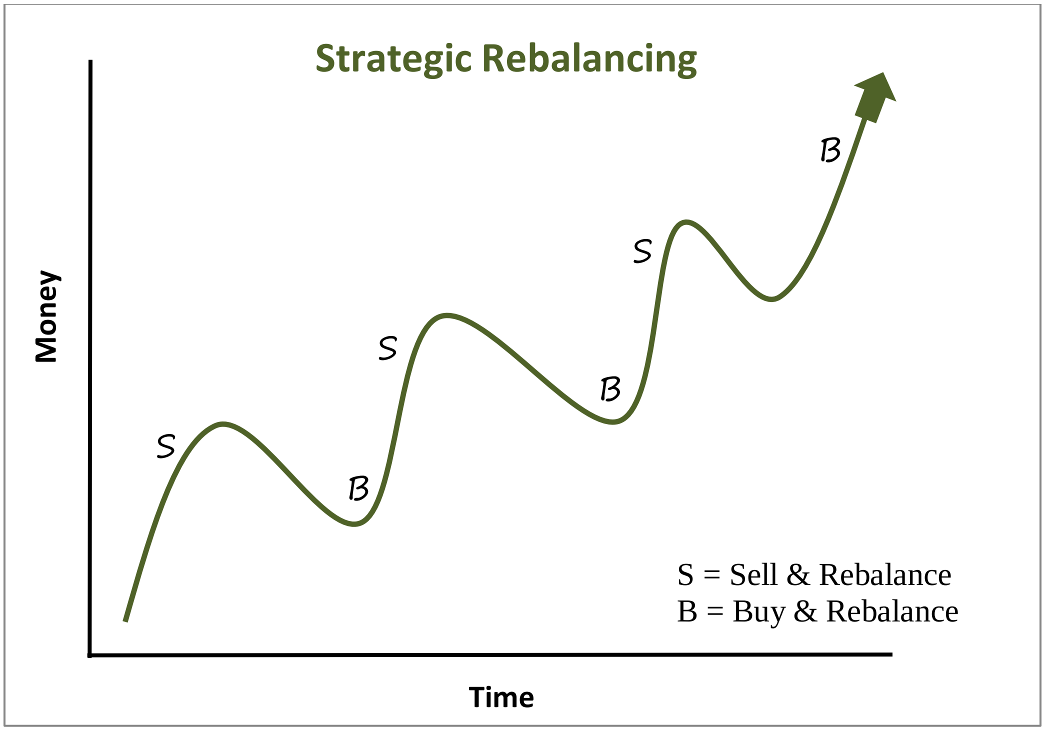
STRATEGIC REBALANCING

Within an investor's DAA there are certain it makes sense to rebalance the portfolio and change the overall allocation. One technique many investors deploy is rebalancing their portfolio. When you rebalance a portfolio you are taking assets from a section that is outperforming and putting it into a section that is underperforming. I like this strategy because mathematically the investor is "buying lower" on a relative basis (investing in the underperforming sector) and "selling higher" on a relative basis (taking investments out of the outperforming sector). No surprise but it is my experience for most investors this is not done with any strategy or discipline but rather whenever "the mood strikes."

One of the techniques I have developed and use I call strategic rebalancing. Simply put when equity markets are up a certain amount I strive to sell a certain percent in a given portfolio and rebalance. If equities continue to rise I strive to continue to sell more. Conversely, when equity markets decline a certain percent I strive invest a certain percentage more. This is a systematic, mathematical process I strive to employ. No one can predict the future so it is impossible to always buy at the lowest and sell at the highest but this method potentially allows the investor to capture some of the but low, sell high philosophy.

It is important to note that rebalancing a portfolio does not inherently protect against investment losses at any given point in time.



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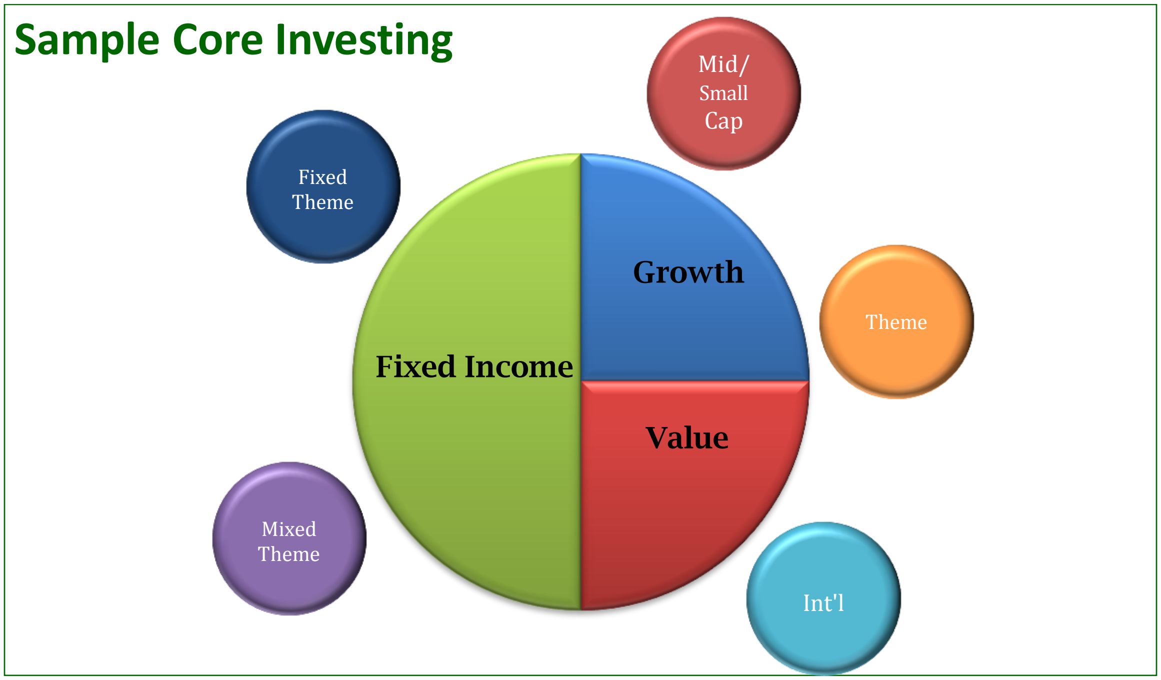
CORE PORTFOLIO INVESTING

Basically, I believe the largest holdings in an investment portfolio (Core holdings) need to be the least risky RELATIVE to your other holdings (Satellite holdings). Here are 2 examples:

1. A basket of large company stock investments with a $100K balance may be considered a core holding RELATIVE to a $5k holding in an aggressive international equity investment (satellite).

2. A government bond investment (core) vs. a high yield corporate bond investment (satellite).



While all investments carry risk, additional risks may be incurred with international equities such as greater economic, political, or currency fluctuations. In addition high yield bonds face higher risk of default due to lower credit ratings.

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Portfolio Construction

1. Determine the ***Strategic Allocation***-this is what I refer to as the Target Allocation.

2. Determine the ***Tactical Allocation***- Where are we at in the business cycle and how we want to be allocated relative to the *Target Allocation?*

3. Actual portfolio construction. There are 3 main areas to consider:

The CORE portfolio:
These will generally include long-term equity and fixed income investments.

The SATELLITES (or orbits):
These are smaller investments that may change from time to time as conditions change. If the core is the broth then the satellites are the spices added.

The OTHER category:
This area is for alternative and special investments. It has 2 functions:

a. **Alternative Investments**- these may include commodities, metals, market neutral investments and tactical investments to certain economic areas (ex. Overweighting consumer staples).
b. **Cash to Invest**- this can used to increase or decrease the tactical allocation to better match the current circumstances. Think of it as **using levers to adjust any allocation or investment category up and** down as situations dictate.

4. Evaluate the current portfolio on what to hold or sell.

5. Evaluate asset allocation and portfolio for each account.

6. Customize the portfolio for each client.

7. Ongoing monitoring and due diligence.

Important notes:

- We are not restricted to what types of investments we use. Focus Financial has no proprietary investment vehicles so we can scour the investment universe to see what fits best for you.

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- I work with clients in setting up the portfolio by either easing into the markets or becoming fully invested right away.

  Investing involves risk including the potential loss of principal. No investment strategy can guarantee a profit or protect against a loss in periods of declining values. When rebalancing a non-retirement account, taxable events will be created that may increase your tax liability.

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