

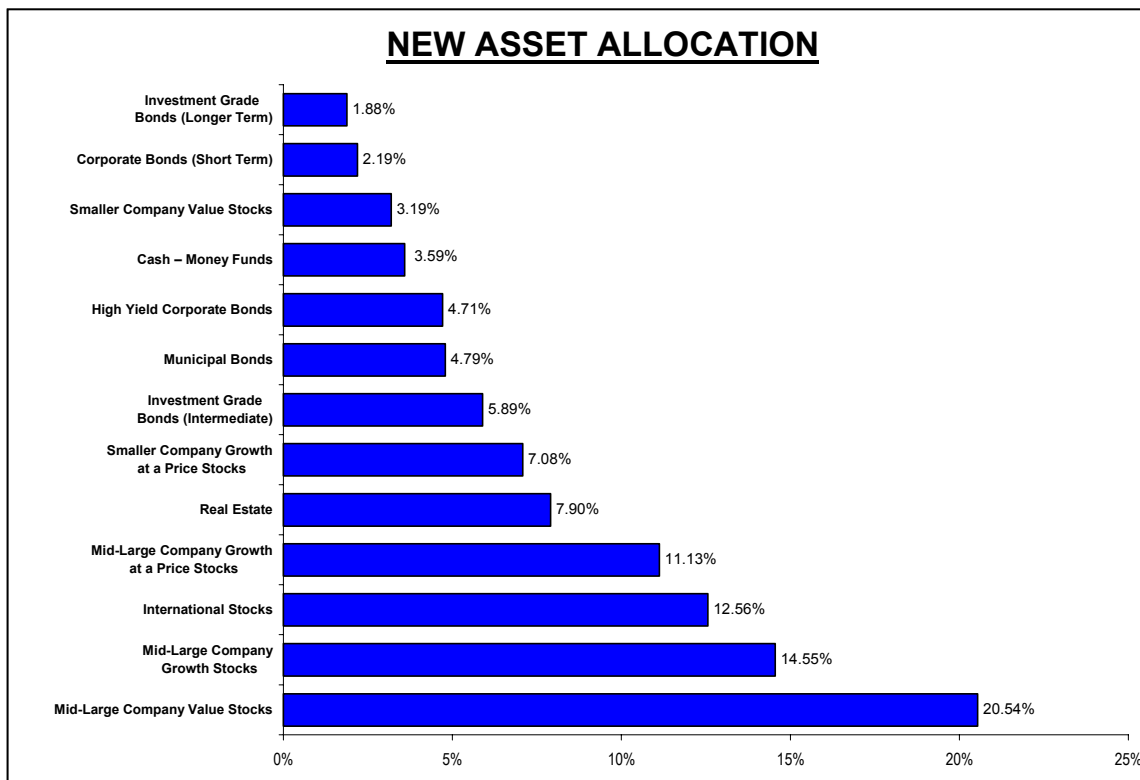
Asset Allocation Process

Many people assume that financial planning is primarily a process of selecting specific investments, but it is our conviction that “stock picking” or “bond picking” should be one of the final steps in the process. Consistent with our Investment Philosophy, our emphasis focuses on the distinctive role each asset class plays in your entire investment theater. Several respected studies concur that the predominant determinant of investment returns is this same process – the one we call “asset allocation” - as opposed to timing techniques and securities selection. This is an essential concept underlying modern portfolio theory.

Our approach is “global”, meaning we consider your whole financial picture to determine the risk and reward characteristics of all your investments as they relate to each other. For example, we routinely review and provide advice on a whole array of investments including standard brokerage accounts, employee stock options, employer 401(k) and 403(b) retirement plans, IRAs and real estate.

An Example.

Here is a graphic example of what we mean by asset allocation:



The Process.

No two of our clients have the same asset allocation, although clients with similar goals and tolerances for risk may have comparable allocations. The model pictured above is derived from a process that can be summarized as follows:

1. Estimating short-term and long term financial requirements.

We estimate your liquidity requirements for the near and long term. The outcome of this process is to establish a flexible model that serves as a guide in establishing your financial goals.

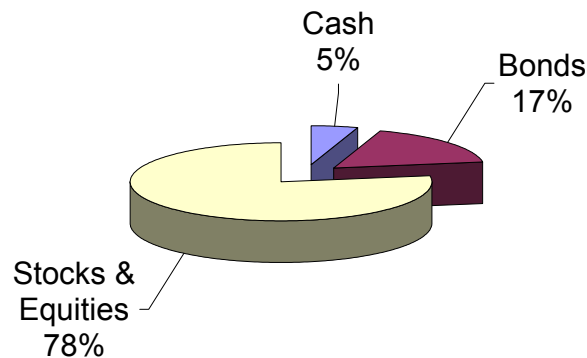
2. Determining your tolerance for investment risk.

Investment professionals often use the term “risk” in the context of predictability. For example, the return on a “risky” investment is more unpredictable than the return on a “risk-free” investment that provides a certain return. We assess the level of risk you feel is tolerable and comfortable. We also discuss the tradeoffs involved with not tolerating risk. For example, by accepting more risk you may obtain higher investment returns. Typically a lower return is expected over the long term as a consequence of assuming lower risk. Determining an investor's risk tolerance is a very important process. Our models provide estimates of returns for given levels of risk based on historical data, but the future is uncertain and it's human nature not to know exactly how we will feel when market returns are negative or produce lower returns than what was expected. Long-term success will be determined by the ability to continue to stay invested during periods of uncertainty or even despair. Therefore, gauging an accurate level of risk tolerance prior to market fluctuations may make the difference between long-term success or failure.

3. Establishing an Investment Policy.

We formulate an “investment policy” describing your expectations about investment performance and how much volatility you are willing to accept in achieving your investment goals. In a sense, your policy embodies long-term guiding principles that, once established, should be retained unless your long-term investment goals change. We anticipate that your policy will remain fairly consistent from year to year, with intermittent changes in response to your financial circumstances.

Your policy is expressed in terms of your portfolio's ratios of cash equivalents, bonds, and equities (stock and real estate). Here is an example:



4. Performing asset allocation analysis.

The final step of the process - which is typically performed at least annually - is dividing your investments among various asset classes in a manner that is consistent with your investment policy. For example, within the bond category, you may hold a mix of high-yield bonds, mortgage-backed bonds and intermediate corporate bonds. In recommending this tactical asset allocation, we endeavor to strike the appropriate balance between achieving your goals for investment returns and reducing risk. This balance is unique to each investor. Critical to the process is our research on what lies ahead in the capital markets and how various asset classes behave together to moderate risk.

Since asset allocation is far more important than security selection, timing (or luck), we put a great deal of emphasis and effort into analyzing the information gathered during the previous steps to derive an appropriate asset allocation. Our asset allocation model provides us with a guide for investment in certain asset classes. At the conclusion of this step, we review and recommend investment managers who are most likely to outperform other managers in their chosen management style over the next three to five years. We then recommend specific steps that we can take to implement the allocation for you.