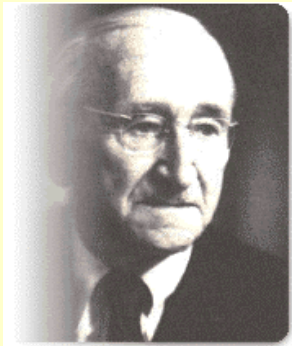




“What use could this company make of an electric toy? [the telephone]”

***William Orton,
President, Western Union***



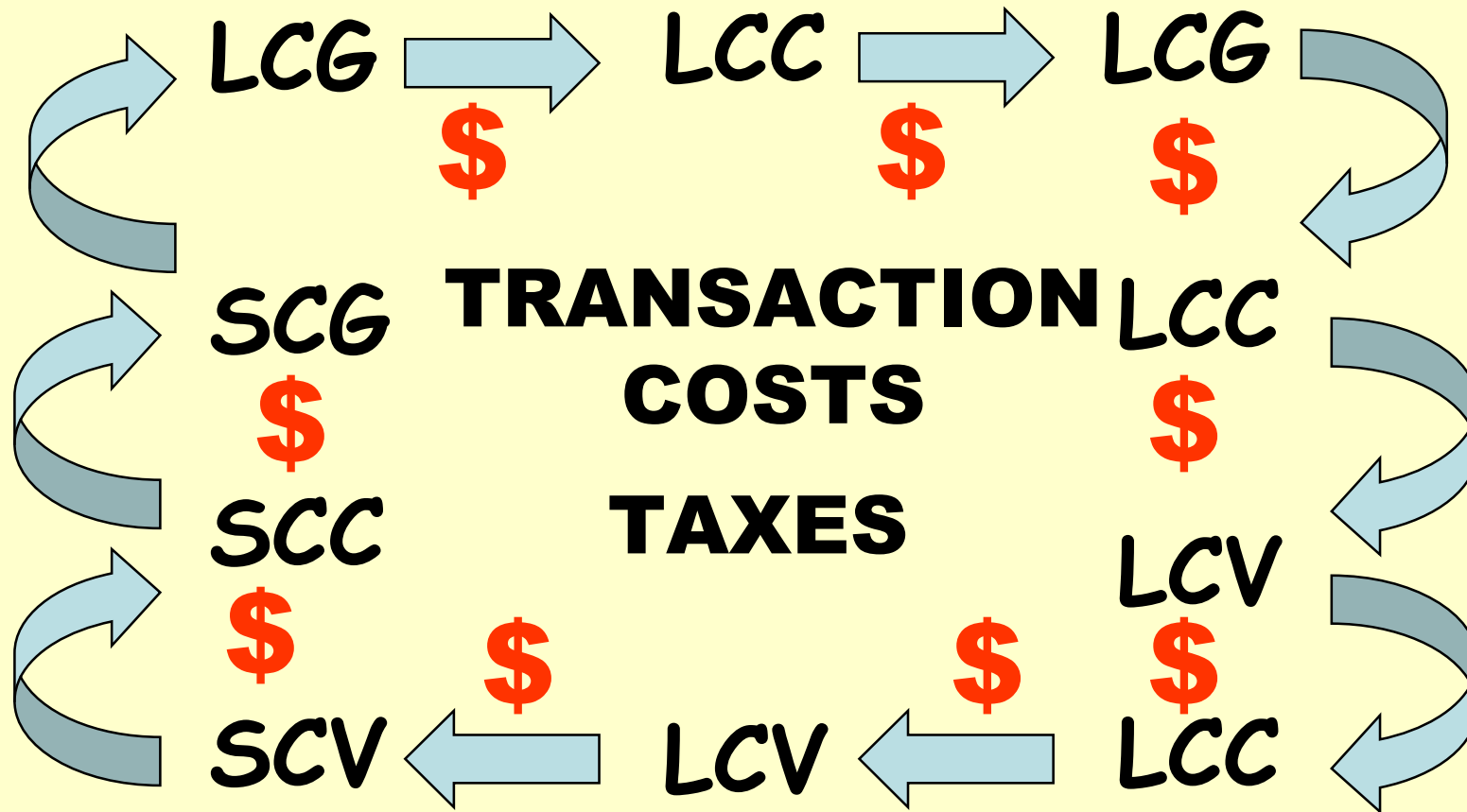
“I think there is a world for maybe five computers.”

***Thomas Watson,
Chair IBM, 1943***



“We don’t like their sound and guitar music is on the way out”

***Decca Recording regarding the Beatles,
1962***

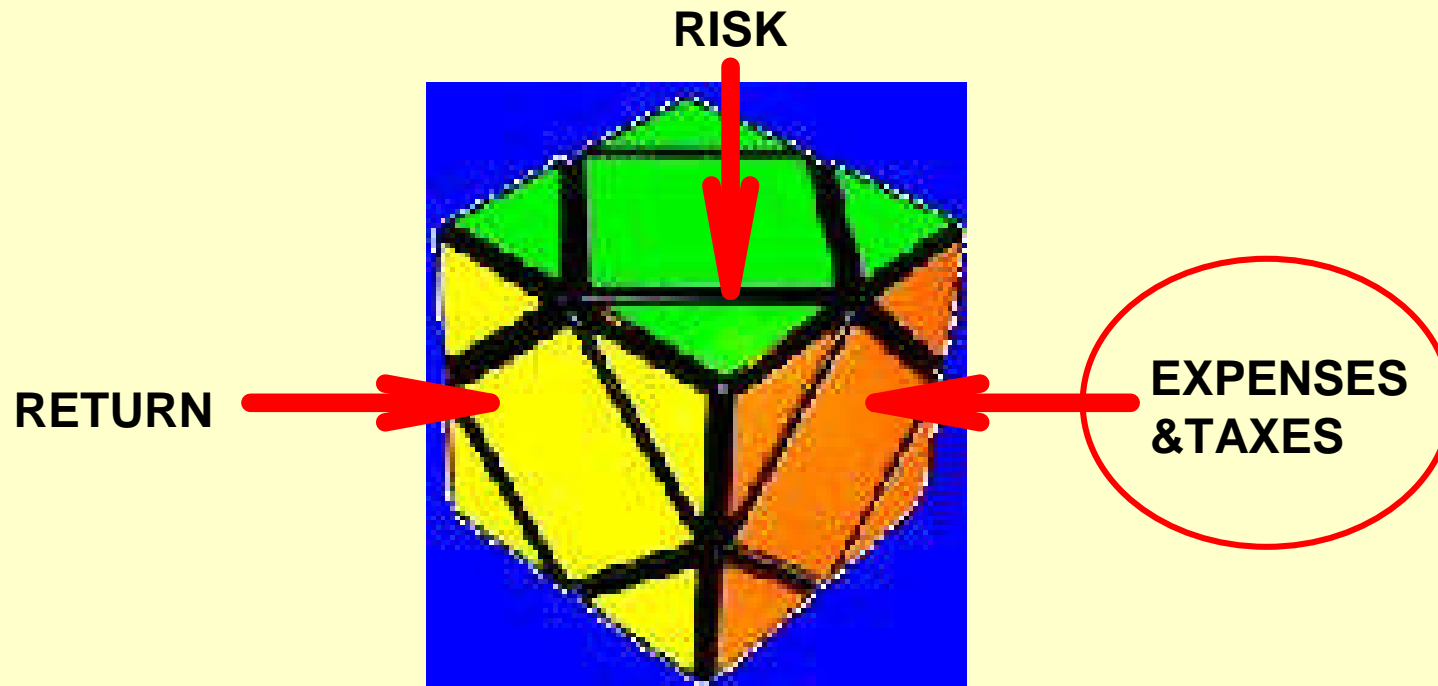


- **Multi-manager portfolios are inherently tax inefficient - lack of tax coordination between the managers.**
- **Rebalancing is an intrinsic contradiction for taxable investors**

- **Most asset class and style managers (active and passive) are tax inefficient.**
- **Tax payments do not necessarily come from the portfolio generating the taxable event.**

**“Portfolios don’t pay
people do.”**

Retail Efficient Frontier is 3-Dimensional



Viable efficient frontier analysis does not exist on an after tax basis

EXPENSE & TAX DRAG

	<u>CURRENT RETURN*</u>	<u>FUTURE RETURN</u>
GROSS	14.0%	7.8%
Less Expenses (1%)	1.0	1.0
Less Taxes (20%)	<u>2.6</u>	<u>1.4</u>
NET GROSS RETURN	10.4	5.4

After Inflation

What Do You Have to Spend?

<u>Past</u>	<u>Future</u>
7.2%	2.4%

* 40% Fixed / 60% Equity – 20 Years

OUR CLIENTS' REALITY

**Taxes & Expenses
Are Certain**

Returns Are Uncertain

TAX MANAGEMENT

\$ Alpha tax

\$ Rebalancing tax

\$ Manager hiring/firing

\$ Multi Manager Tax (non –
coordinated)

Pascal's Wager

Does God Exist?

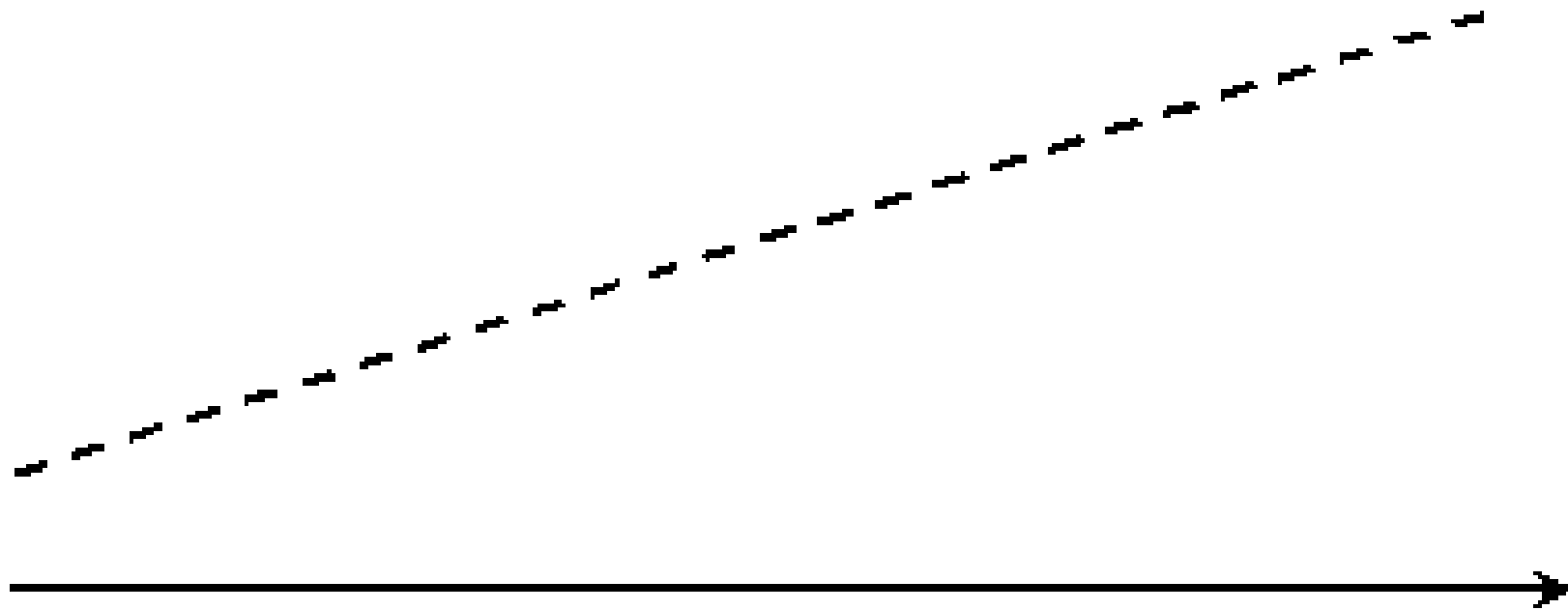
The consequences of a choice are as important, or even more important, as the odds of something happening.

Pascal's Retirement Wager

Consider not only the likelihood of living well past normal life expectancy or experiencing high inflation or a market downturn but also the consequences of each.

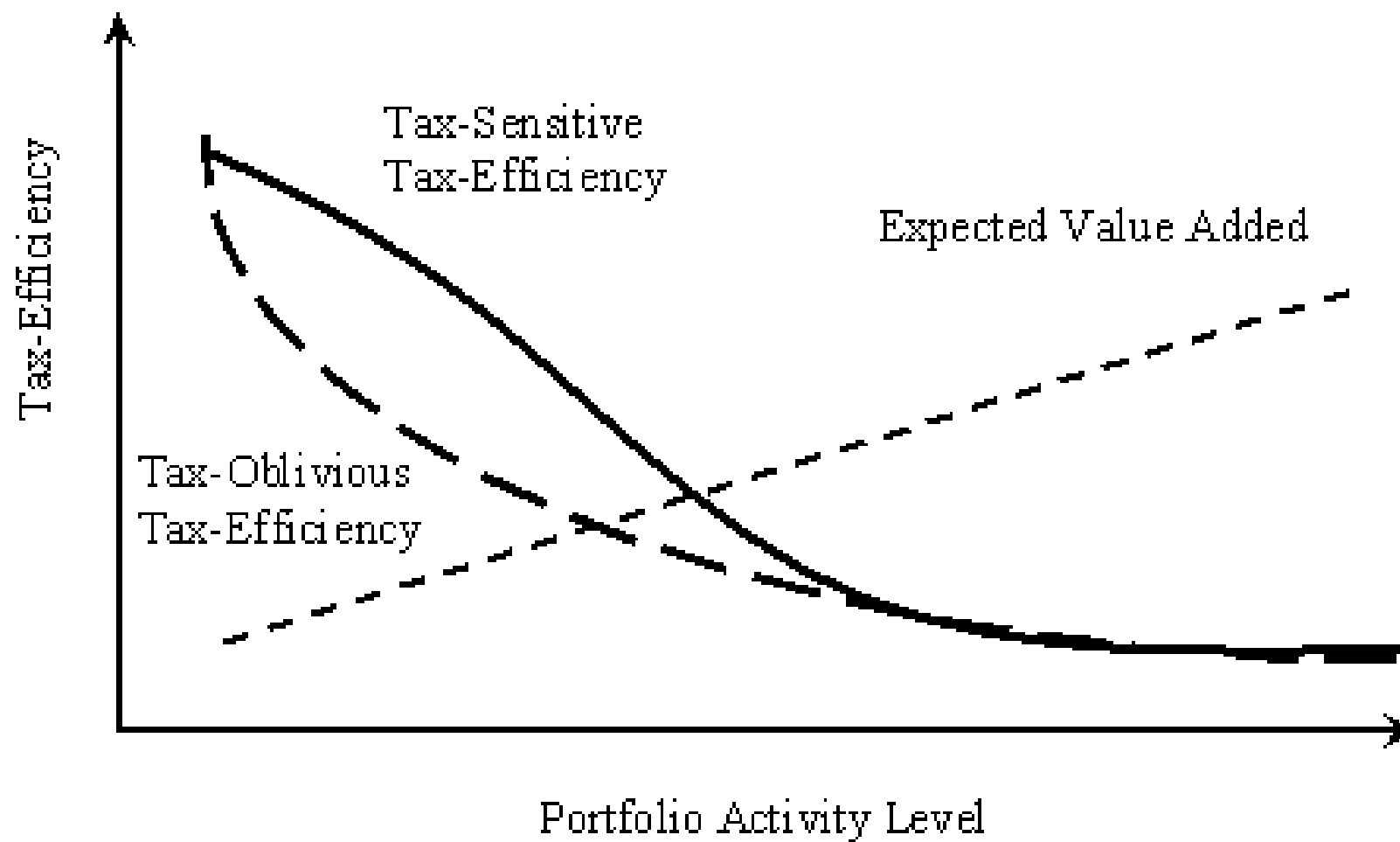
Portfolio Activity and Expected Value Added

Expected Value Added

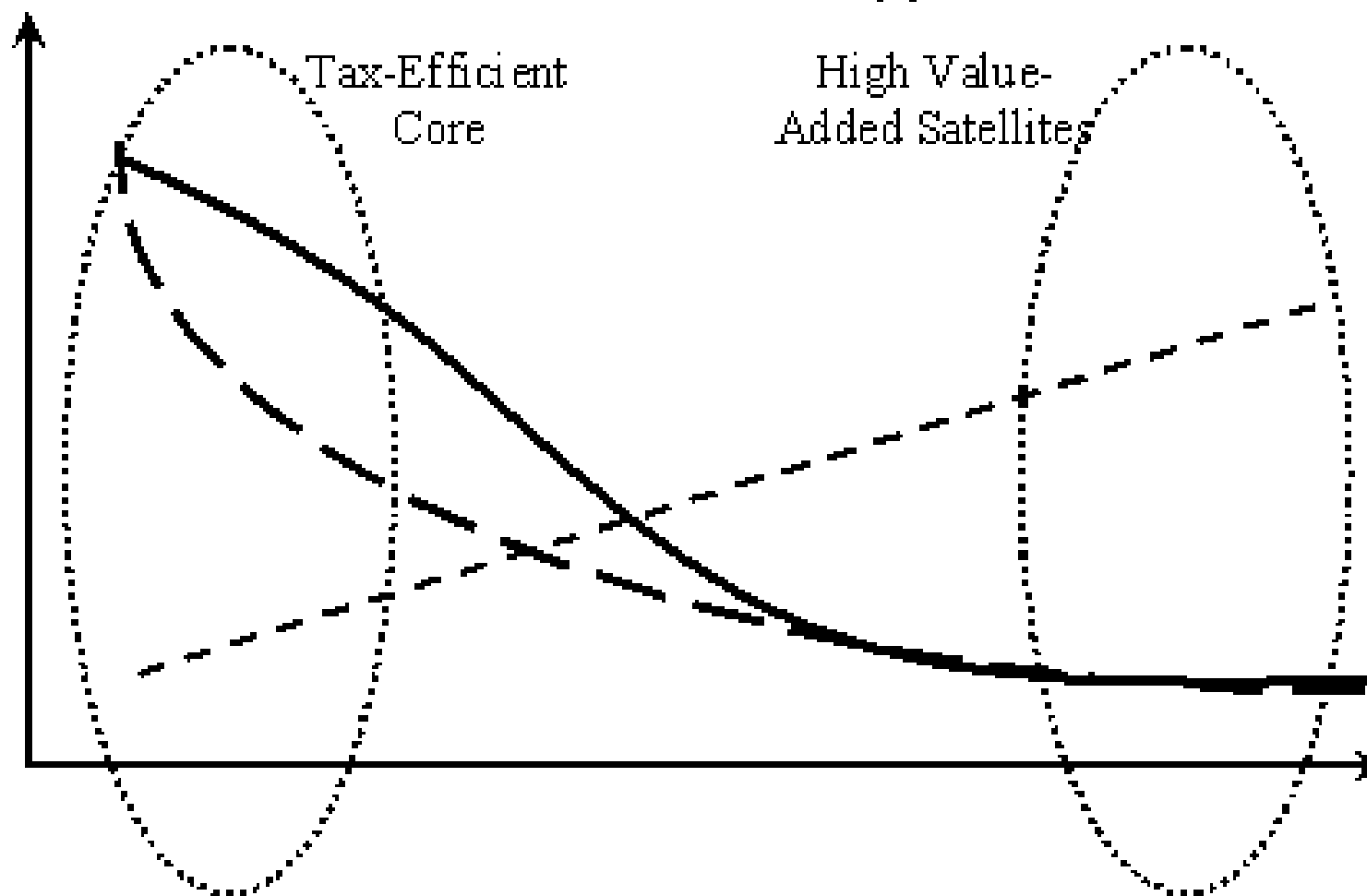


Portfolio Activity Level

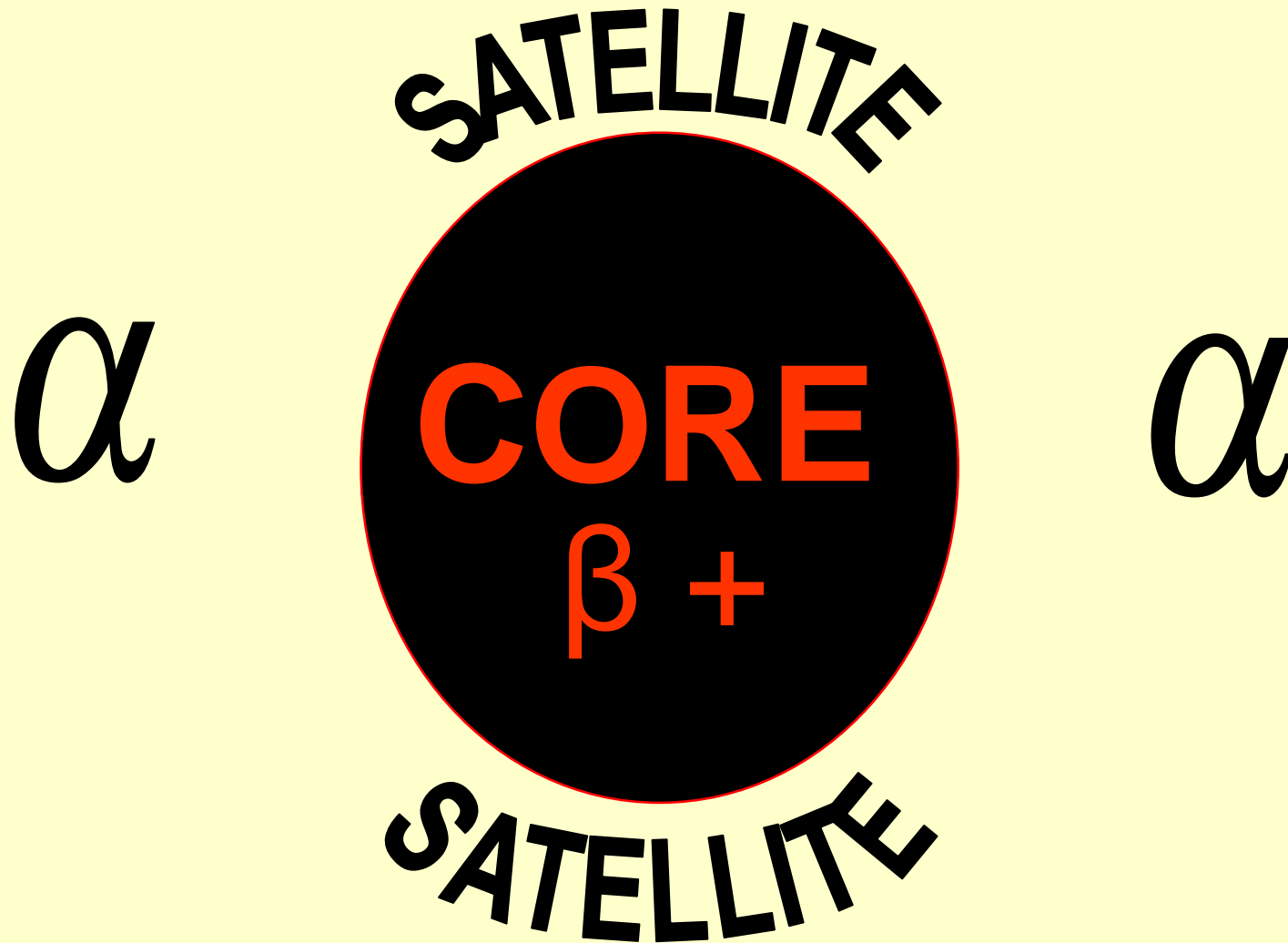
Portfolio Activity and Tax-Efficiency



Moving Away from the "Murky Middle:" A Core and Satellite Approach



CORE & SATELLITE



THE CORE

**Equity Allocation – Remains
consistent with past practice**

Selection of Core Investments

**Determination of Rebalance
Parameters**

THE SATELLITE

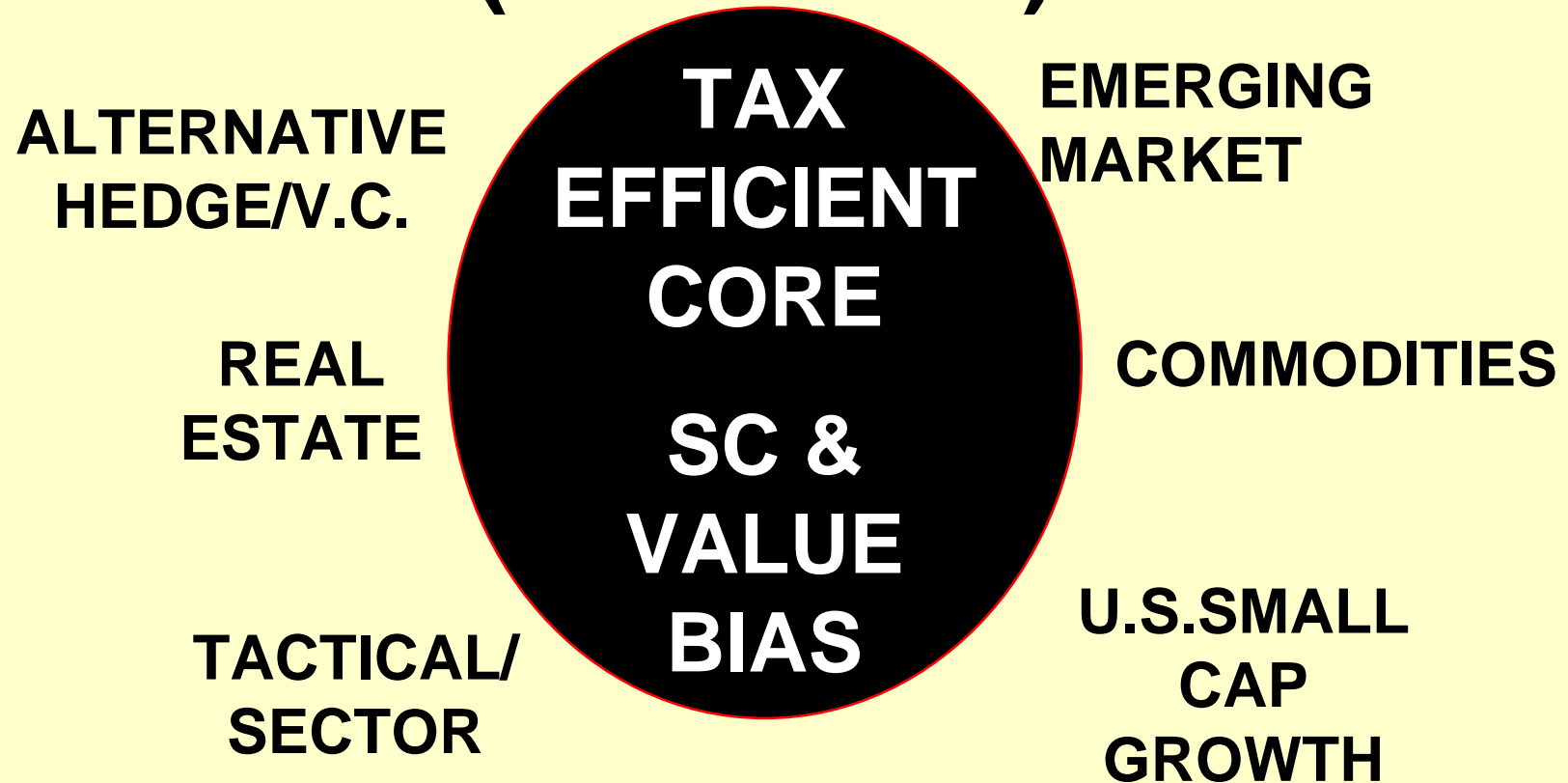
Concentrated Risk Budget

Fundamentally Sound

Expected Alpha – 2% net, net

Diversification

CORE & SATELLITE (TACTICAL)



STRATEGY ANALYSIS

POLICY	STYLE	TOTAL	
FIXED		\$7,500,000	33.0%
		\$7,500,000	25.2%
CORE	CORE	\$7,500,000	31.0%
	L/M VALUE	\$1,000,000	4.0%
	SMALL VALUE	\$2,100,000	9.0%
	INT'L	\$2,500,000	11.0%
		\$0	0.0%
SATELLITE		\$2,700,000	12.0%
		\$15,800,000	74.8%
		\$23,300,000	100%


Russell 3000
S&P 400 Value
DFA Small Value

SATELLITE

S&P 500 Growth

Emerging Markets MMA

Short Long Treasury

Asia-Pacific

REBALANCE PARAMETERS

Fixed/Equity 8%

BENEFITS

- Management of Expenses & Taxes
- Large core allocations benefit by use of ETFs
- Large core allocations may allow for institutional rate/break point investments
- Large core allocations may allow for direct access to managers

BENEFITS

- Fewer positions makes providing for unplanned additions & withdrawals more cost efficient
- Fewer positions & satellite framing reduces the risk of “problem” investments
- Significant core allocation reduces “tracking error” risk

CASH FLOW

THE

TRADITIONAL

SOLUTION



THE
“INCOME”
PORTFOLIO

DIVIDENDS & INTEREST

**“INCOME” vs.
REAL CASH
FLOW**



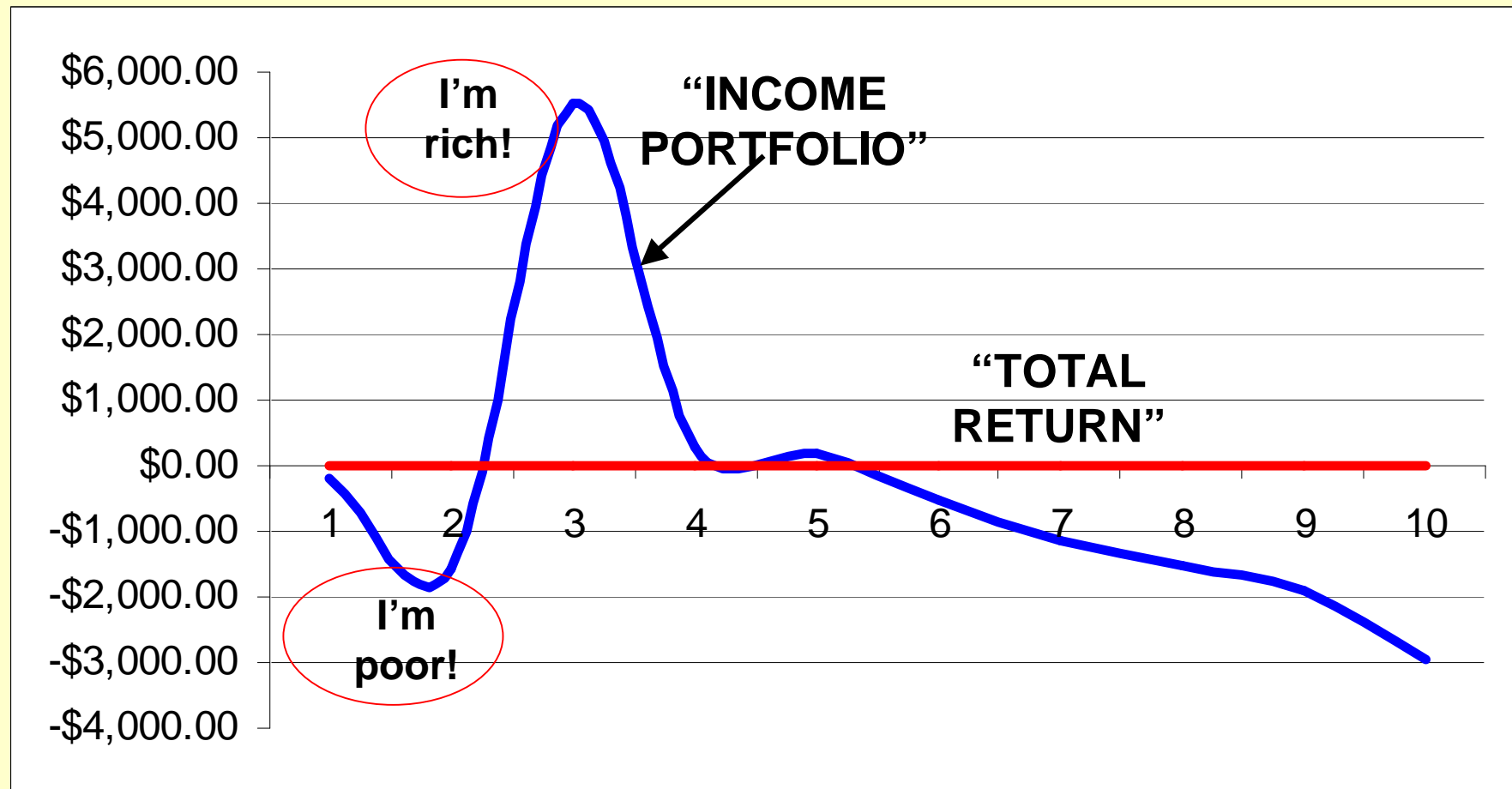
REAL

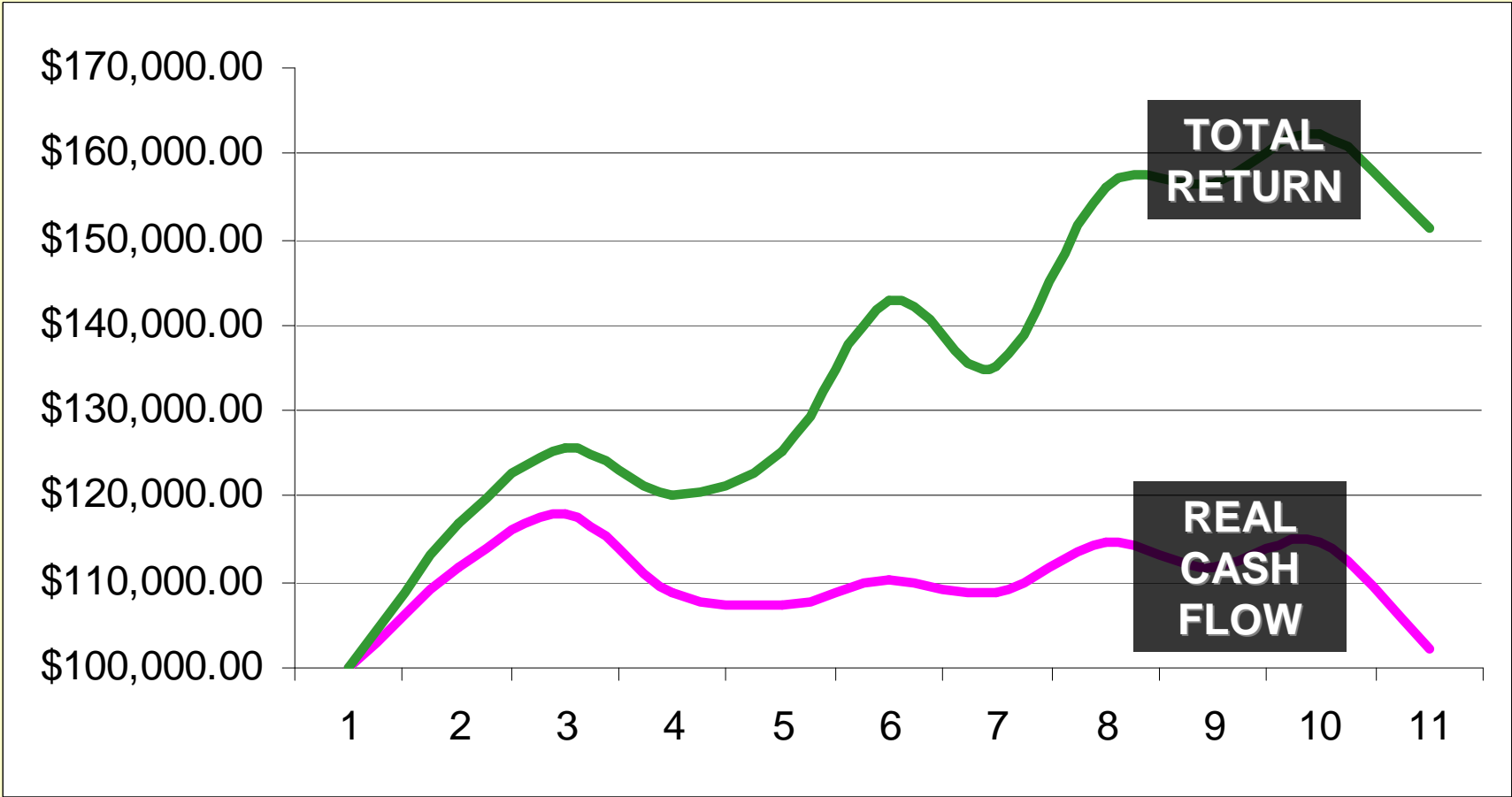
NOMINAL

MRS BOONE NEEDS 5% INCOME

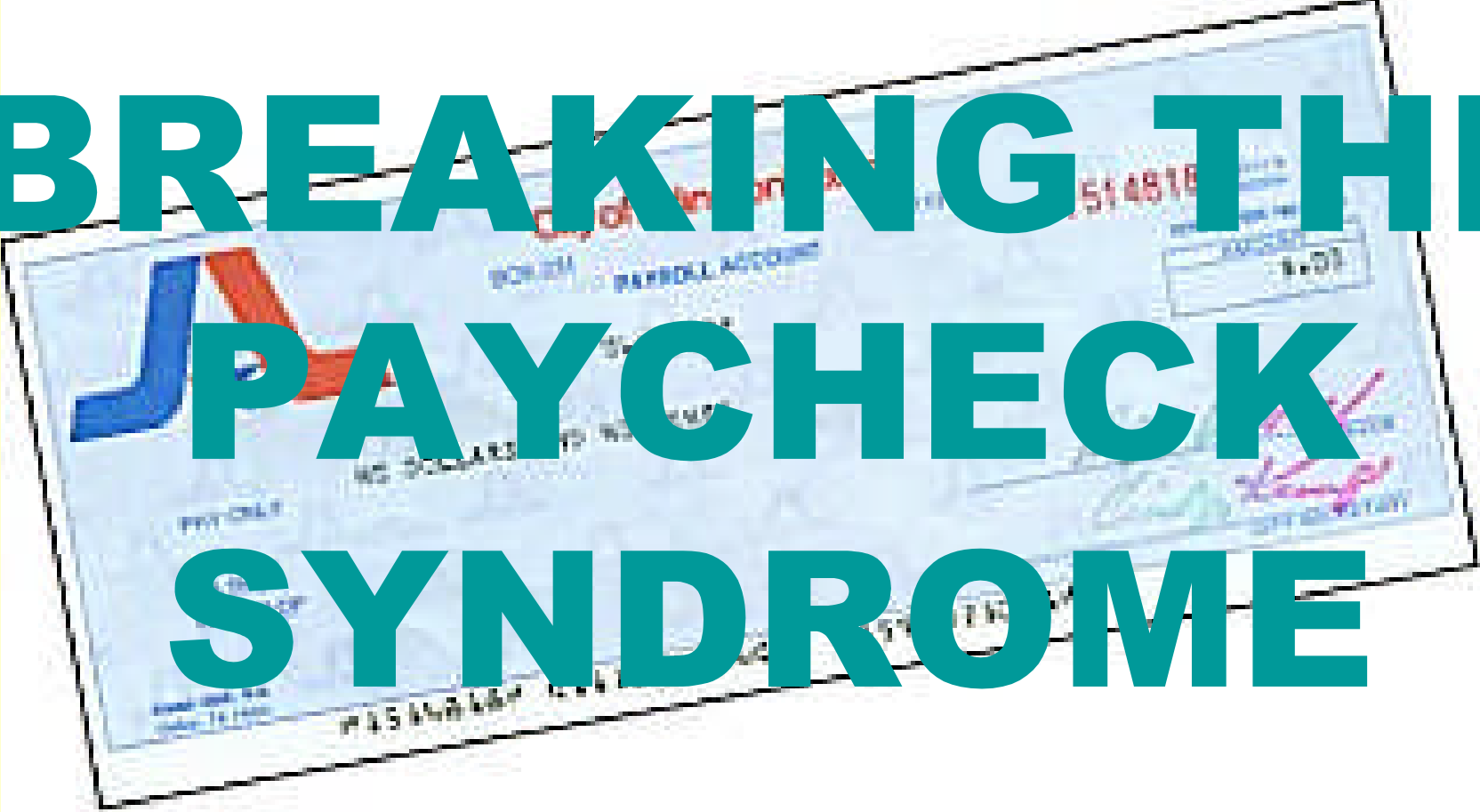
Bond Allocation	Cash Flow from Bonds	Stock Allocation	Cash Flow from Stock	Total Cash Flow
100%	7%	0%	0%	7%
90%	6.3%	10	0.3	6.8%
80%	5.6%	20	0.6	6.2%
70%	4.9%	30	0.9	5.8%
60%	4.2%	40	1.2	5.4%
50%	3.5%	50	1.5	5.0%
40%	2.8%	60	1.8	4.6%

“EXCESS” ANNUAL CASH FLOW





**THE E&K
CASH FLOW
STRATEGY**

A stack of several paychecks is shown, slightly offset to create a sense of depth. The top check is from 'WORLD PARADISE ACCOUNTS' and has the number '514818' visible. The text 'BREAKING THE PAYCHECK SYNDROME' is overlaid in large, bold, teal capital letters across the center of the image.

BREAKING THE PAYCHECK SYNDROME

The diagram consists of three main elements on a light yellow background. On the left is a large black oval containing the text 'THE TOTAL PORTFOLIO' in white. To its right is a white curly bracket that spans the vertical height of the oval. To the right of the bracket is a black circle containing the text 'THE INVESTMENT PORTFOLIO' in white. Above the top of the black circle is a smaller yellow oval containing the text 'CASH FLOW RESERVE' in blue. The overall structure suggests that the total portfolio is composed of an investment portfolio and a cash flow reserve.

**THE
TOTAL
PORTFOLIO**

**CASH FLOW
RESERVE**

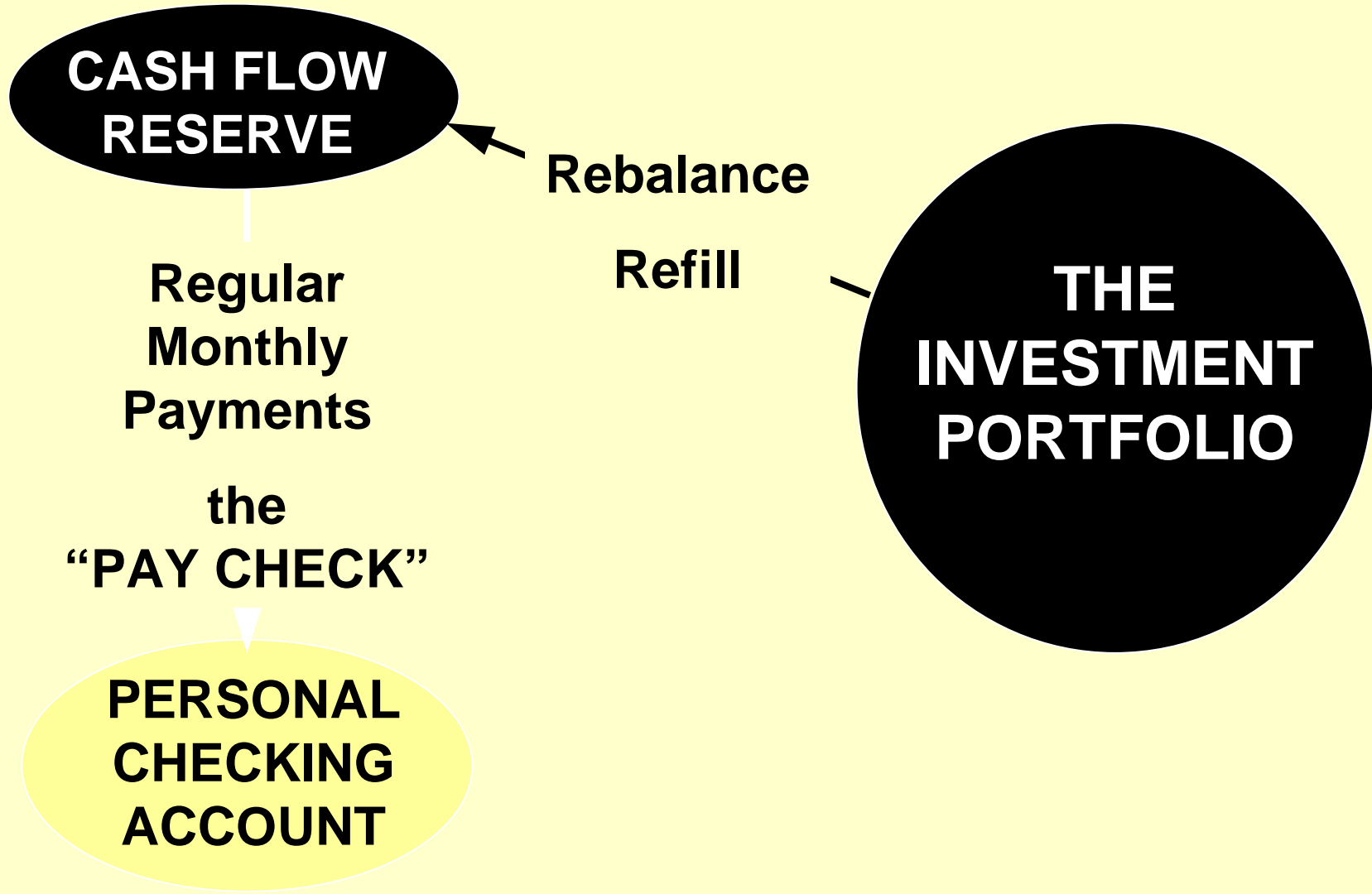
**THE
INVESTMENT
PORTFOLIO**

**CASH FLOW
RESERVE**

**2 YEARS CASH FLOW
5 YEARS LUMP SUM**

**THE
INVESTMENT
PORTFOLIO**

**BALANCE OF PORTFOLIO
REINVESTMENT OF ALL
INTEREST & DIVIDENDS
ADJUSTED AS NECESSARY
FOR OPPORTUNITY COSTS**



**THE
TRADITIONAL
SOLUTION**



THE
“INCOME”
PORTFOLIO

DIVIDENDS & INTEREST

**“INCOME” vs.
REAL CASH
FLOW**



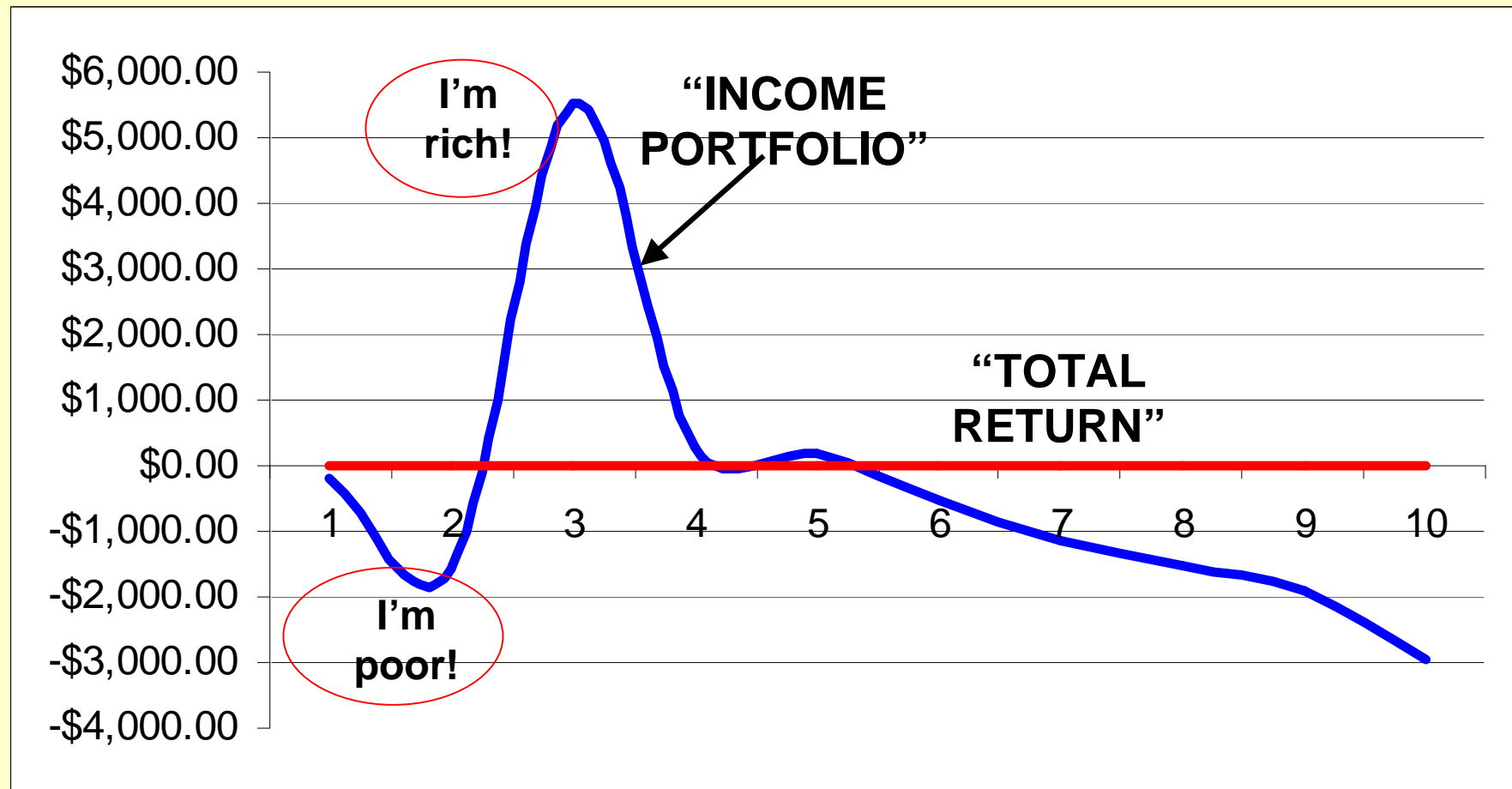
REAL

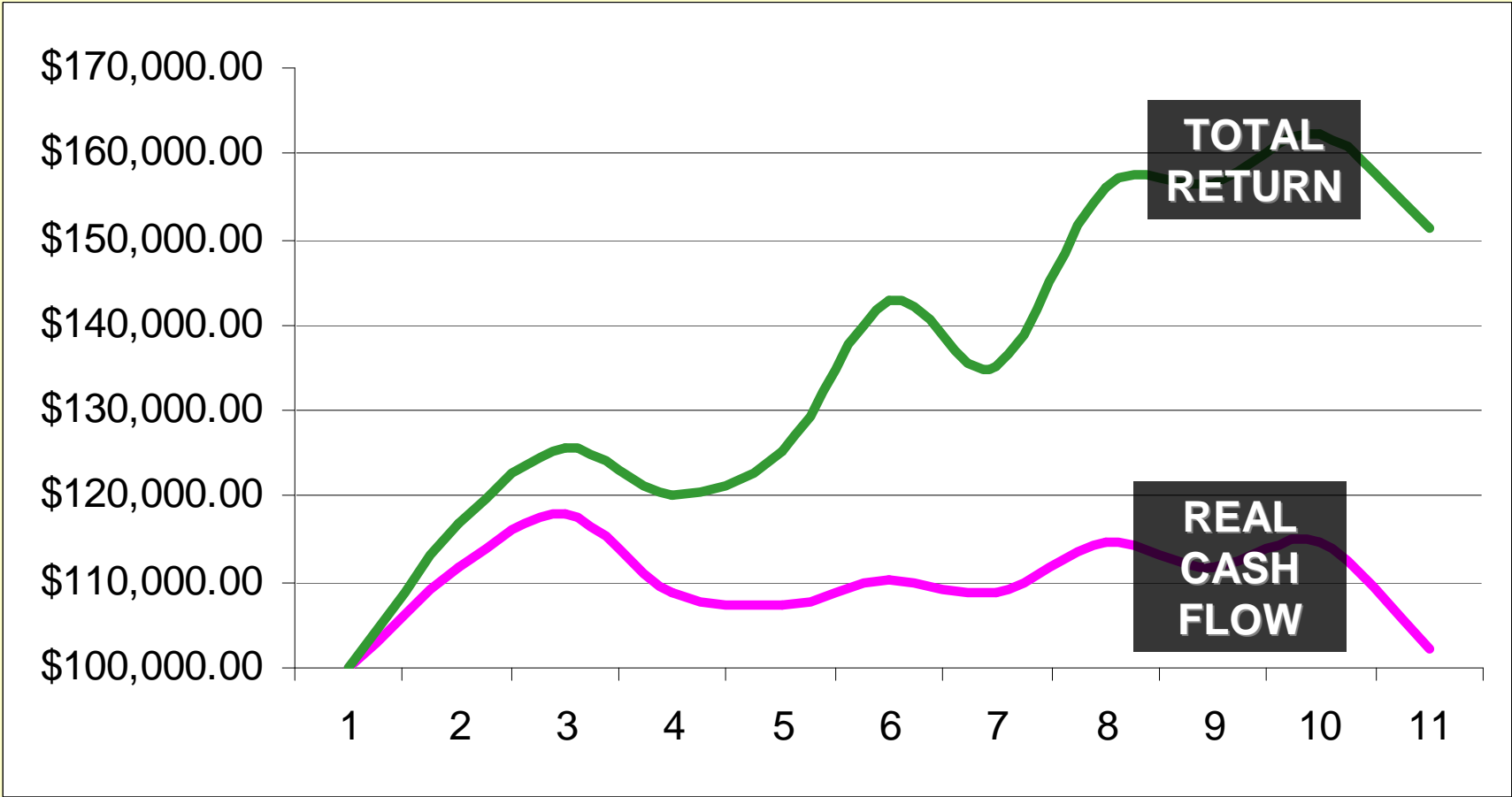
NOMINAL

MRS BOONE NEEDS 5% INCOME

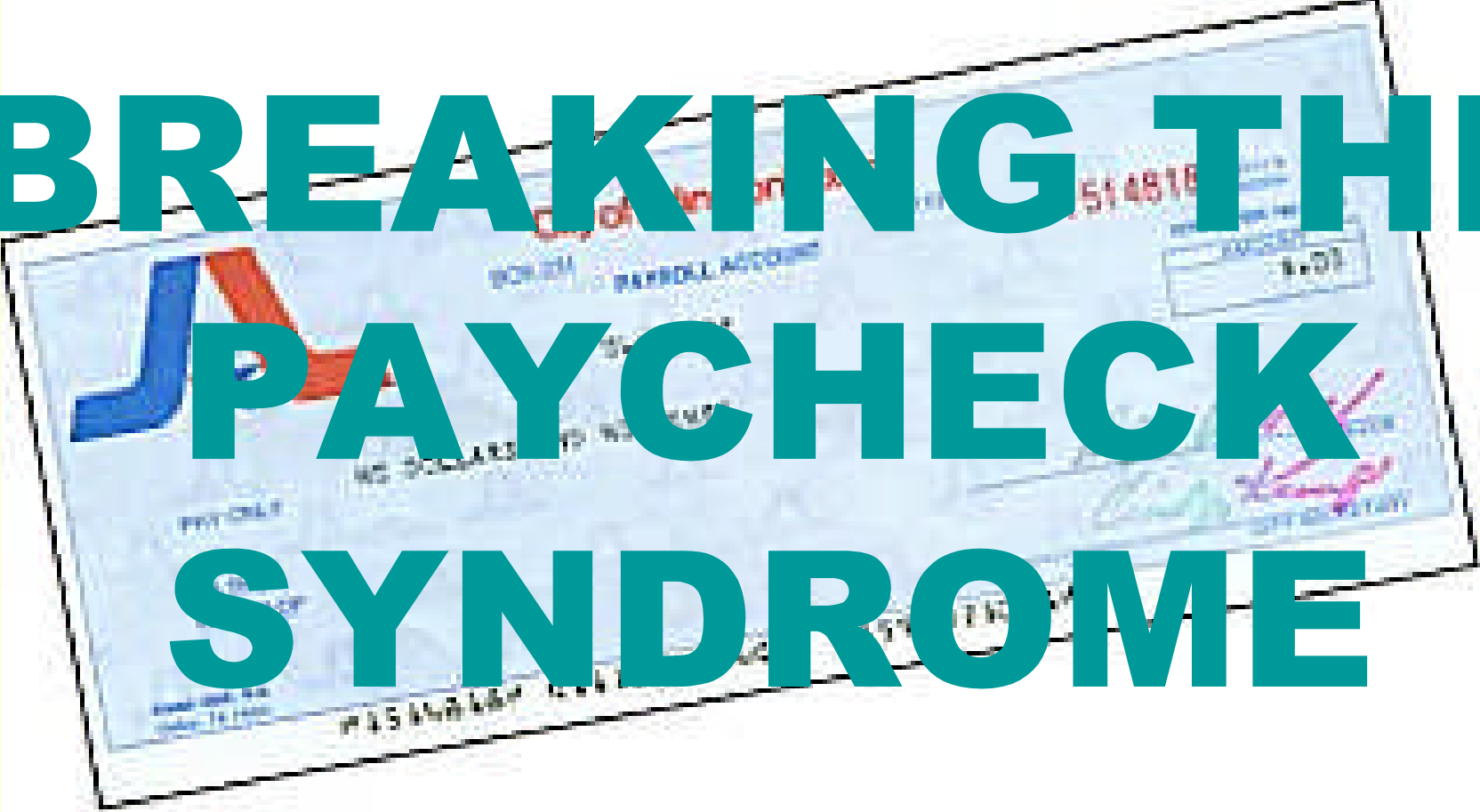
Bond Allocation	Cash Flow from Bonds	Stock Allocation	Cash Flow from Stock	Total Cash Flow
100%	7%	0%	0%	7%
90%	6.3%	10	0.3	6.8%
80%	5.6%	20	0.6	6.2%
70%	4.9%	30	0.9	5.8%
60%	4.2%	40	1.2	5.4%
50%	3.5%	50	1.5	5.0%
40%	2.8%	60	1.8	4.6%

“EXCESS” ANNUAL CASH FLOW





**THE E&K
CASH FLOW
STRATEGY**

A stack of several paychecks is shown, slightly offset to create a sense of depth. The top check is from 'WORLD PARADISE ACCOUNTS' and has the number '514818' visible. The text 'BREAKING THE PAYCHECK SYNDROME' is overlaid in large, bold, teal capital letters across the center of the image.

BREAKING THE PAYCHECK SYNDROME

The diagram consists of three main elements on a light yellow background. On the left is a large black oval containing the text 'THE TOTAL PORTFOLIO' in white. To its right is a white curly bracket that spans the vertical height of the oval. To the right of the bracket is a black circle containing the text 'THE INVESTMENT PORTFOLIO' in white. Above the top of the black circle is a smaller yellow oval containing the text 'CASH FLOW RESERVE' in blue. The overall structure suggests that the total portfolio is composed of an investment portfolio and a cash flow reserve.

**THE
TOTAL
PORTFOLIO**

**CASH FLOW
RESERVE**

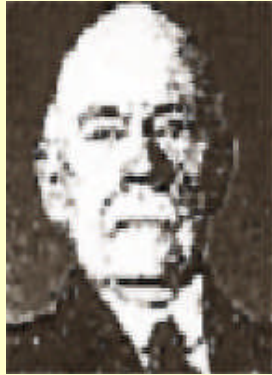
**THE
INVESTMENT
PORTFOLIO**

**CASH FLOW
RESERVE**

**2 YEARS CASH FLOW
5 YEARS LUMP SUM**

**THE
INVESTMENT
PORTFOLIO**

**BALANCE OF PORTFOLIO
REINVESTMENT OF ALL
INTEREST & DIVIDENDS
ADJUSTED AS NECESSARY
FOR OPPORTUNITY COSTS**



***“Everything that can be invented
has been invented.”***

***Charles H. Duell,
Director of US Patent Office, 1899***



***“Sensible and responsible women
do not want to vote.”***

Grover Cleveland, 1905



***“Who the hell wants to hear actors
talk?”***

***Harry M. Warner, Warner Bros. Pictures,
1927***