Structured Investing

In An Unstructured World

Structured Investing

In An Unstructured World

Structured Investing
is based on:

80+ years of financial market data

Nobel Prize-winning economic research

In-depth studies of investor psychology and behavior

Markets Work → **Risk & Return Are Related** → **Diversify With Structure** → **Customize Your Portfolio** → **Invest For The Long Term**

Accept Market Efficiency

Efficient Markets Hypothesis — 1965 *Eugene F. Fama, University of Chicago*	**Behavior of Securities Prices — 1965** *Paul Samuelson, MIT* *1970 Nobel Prize in Economics*
• Current prices incorporate all available information and expectations and are the best approximation of intrinsic value • Price changes are due to unforeseen events • Mis-pricings do occur but not in predictable patterns	• Market prices are the best estimates of value • Price changes are random • Future share prices are unpredictable

Structured Investing Approach

Don't Try to Beat the Market

- Active management cannot consistently add value through security selection and market timing

Capture Market Rates of Return

- We seek to capture market rates of return by investing in large numbers of stocks in selected asset classes, resulting in portfolios with thousands of stocks

Exclude Certain Groups of Stocks with Heightened Risk or Inefficiency

- We exclude new stocks (IPOs), financially distressed and bankrupt companies, and illiquid stocks

Minimize Trading Costs

- We own representation in the selected asset classes and hold onto them, rather than frequently buying and selling
- We don't attempt to track indexes as this can result in significant trading costs
- Our portfolio managers have flexibility on when to add or remove individual stocks from asset classes

Active Money Managers Have Difficulty Beating the Market

Mutual Fund Manager Performance from 2007 – 2011

61%
of intermediate fixed income managers underperformed the Barclays Intermediate Government/ Credit Bond Index

62%
of large-cap managers underperformed the S&P 500 Index

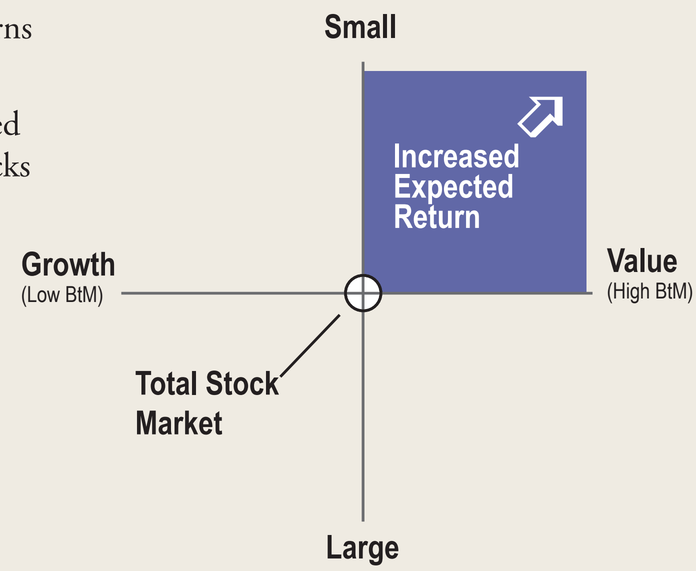
73%
of U.S. small-cap managers underperformed the S&P SmallCap 600 Index

78%
of international managers underperformed the S&P700 Index

Source: Standard and Poor's Index Versus Active Group, March 2012
Indexes are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. The fund returns used are net of fees, excluding loads. Returns are based upon equal-weighted fund counts. The data assumes reinvestment of income and does not account for taxes or transaction costs. The risks associated with stocks potentially include increased volatility (up and down movement in the value of your assets) and loss of principal. Bonds are subject to risks, including interest rate risk which can decrease the value of a bond as interest rates rise. Investing in foreign securities may involve certain additional risks, including exchange rate fluctuations, less liquidity, greater volatility, different financial and accounting standards and political instability. Passive money management, like active money management, cannot guarantee a profit or protect against a loss. Past performance is not a guarantee of future results.

Multi-Factor Asset Pricing Model* — 1992
Eugene F. Fama & Kenneth R. French, University of Chicago

- Stocks have higher expected returns and risk than fixed income
- Small company stocks have higher expected returns and risk than large company stocks
- Lower-priced "value" stocks have higher expected returns and risk than higher-priced "growth" stocks
- The research identified benefits of assuming the additional risk associated with these three factors over long investing periods



Structured Investing Approach

Take 3 risks identified by academic research as worth taking

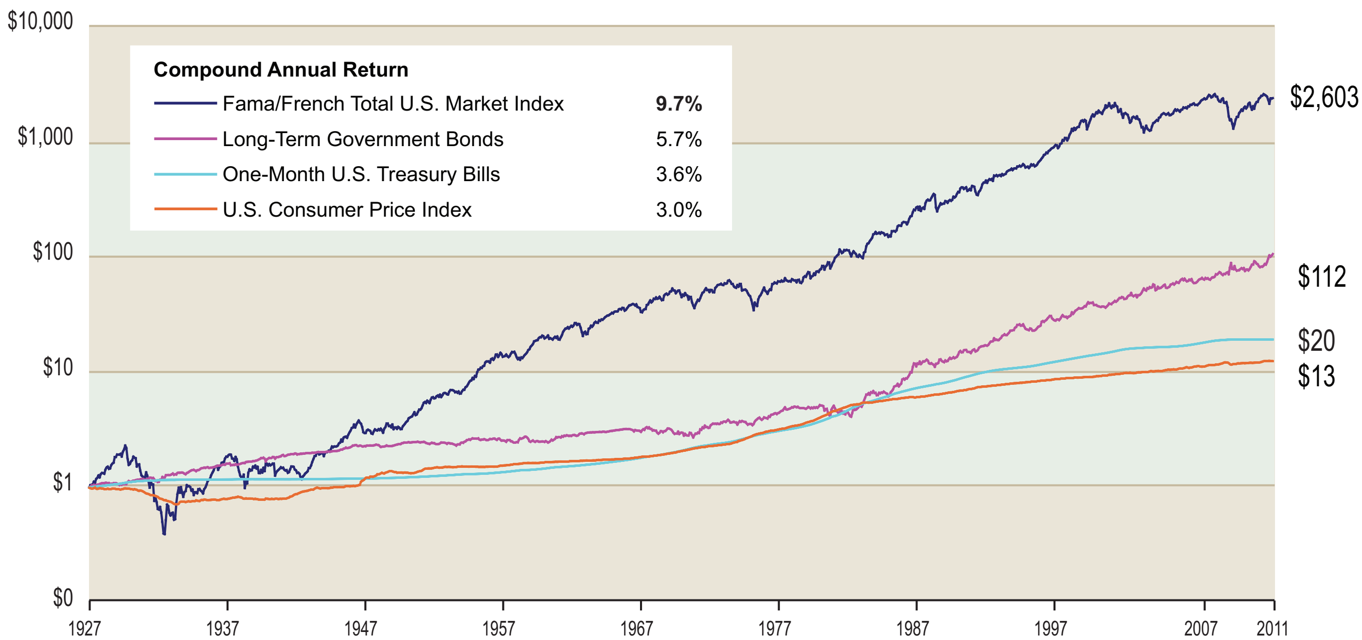
1. Invest in stocks
2. Emphasize small companies
3. Emphasize value companies

The risks associated with investing in stocks and overweighting small company and value stocks potentially include increased volatility (up and down movement in the value of your assets) and loss of principal. Investors with time horizons of less than five years, should consider minimizing or avoiding investing in common stocks. Although the Fama/French research findings identified the above three risks as worth taking, that does not necessarily mean these are the only risks worth taking.

**Cross Section of Expected Stock Returns,* Eugene F. Fama and Kenneth R. French, *Journal of Finance 47* (1992)

Invest in Stocks

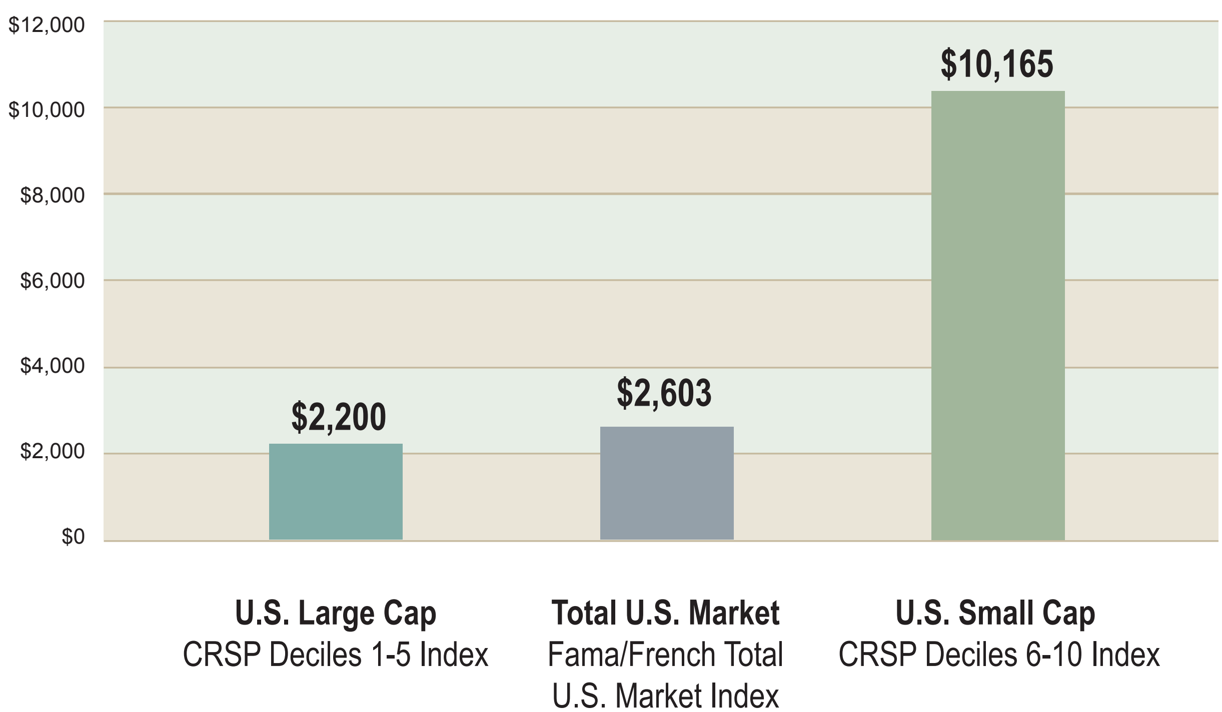
Growth of $1 Jan. 1, 1927 – Dec. 31, 2011



Risks associated with investing in stocks potentially include increased volatility (up and down movement in the value of your assets) and loss of principal. Indexes are unmanaged baskets of securities that investors cannot directly invest in. Past performance is no guarantee of future results. Hypothetical value of $1 invested at the beginning of 1927 and kept invested through December 31, 2011. Assumes reinvestment of income and no transaction costs or taxes. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. Total returns in U.S. dollars. Long-Term Government Bonds, One-Month U.S. Treasury Bills, and U.S. Consumer Price Index (inflation), source: Morningstar's 2011 Stocks, Bonds, Bills, And Inflation Yearbook (2012); Fama/French Total U.S. Market Index provided by Fama/French from Center for Research in Security Prices (CRSP) data. Includes all NYSE securities (plus Amex equivalents since July 1962 and NASDAQ equivalents since 1973), including utilities.

Emphasize Small Companies

Growth of $1 Jan. 1, 1927 – Dec. 31, 2011



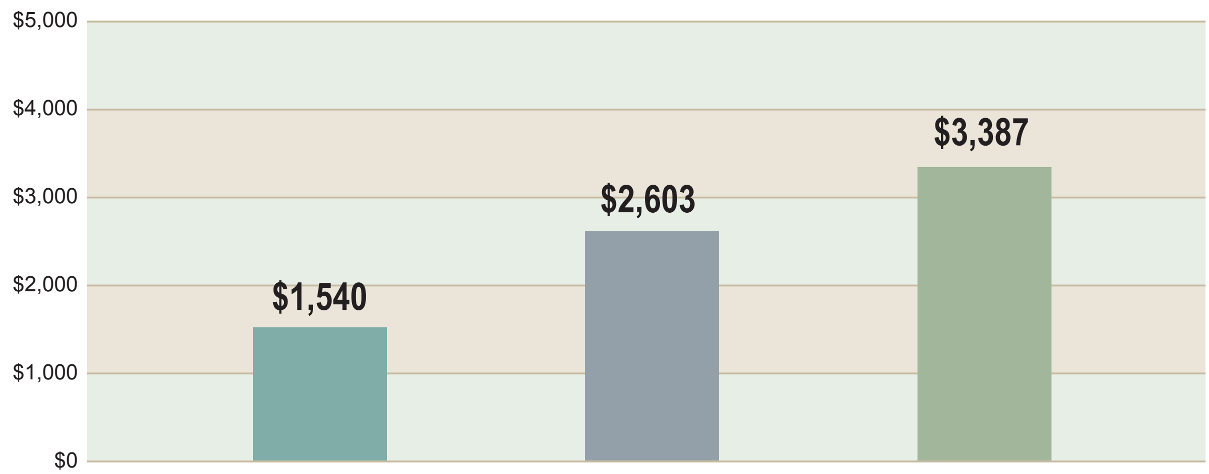
	U.S. Large Cap	Total U.S. Market	U.S. Small Cap
Annualized Compound Return	9.5%	9.7%	11.5%
Annualized Standard Deviation	18.5%	18.8%	27.5%

Small company stocks have higher expected returns and risk than larger company stocks

Indexes are unmanaged baskets of securities that investors cannot directly invest in. Past performance is no guarantee of future results. Hypothetical value of $1 invested at the beginning of 1927 and kept invested through December 31, 2011. Assumes reinvestment of income and no transaction costs or taxes. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. Total returns in U.S. dollars. Fama/French Total U.S. Market Index provided by Fama/French from Center for Research in Security Prices (CRSP) data. Includes all NYSE securities (plus Amex equivalents since July 1962 and NASDAQ equivalents since 1973), including utilities. The Center for Research in Security Prices (CRSP) ranks all NYSE companies by market capitalization and divides them into 10 equally-populated portfolios. AMEX and NASDAQ National Market stocks are then placed into deciles according to their respective capitalizations, determined by the NYSE breakpoints. CRSP Portfolios 1-5 represent large caps. CRSP Portfolios 6-10 represent small caps. Standard deviation is a statistical measurement of how far the return of a security (or index) moves above or below its average value. The greater the standard deviation, the riskier an investment is considered to be.

Emphasize Value Companies

Growth of $1 Jan. 1, 1927 – Dec. 31, 2011



	U.S. Large Growth Fama/French U.S. Large Growth Index	**U.S. Total Market** Fama/French Total U.S. Market Index	**U.S. Large Value** Fama/French U.S. Large Value Index
Annualized Compound Return	9.0%	9.7%	10.0%
Annualized Standard Deviation	18.8%	18.8%	26.3%

"Value" stocks have higher expected returns and risk than "Growth" stocks

Indexes are unmanaged baskets of securities that investors cannot directly invest in. Past performance is no guarantee of future results. Hypothetical value of $1 invested at the beginning of 1927 and kept invested through December 31, 2011. Assumes reinvestment of income and no transaction costs or taxes. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. Total returns in U.S. dollars. CRSP is the Center for Research in Security Prices. CRSP ranks all NYSE companies by market capitalization and divides them into 10 equally-populated portfolios. AMEX and NASDAQ National Market stocks are then placed into deciles according to their respective capitalizations, determined by the NYSE breakpoints. Value is represented by companies with a book-to-market ratio in the top 30% of all companies. Growth is represented by companies with a book-to-market ratio in the bottom 30% of all companies. The CRSP Value and Growth divisions within the CRSP 1-5 Portfolios are employed to formulate the Fama/French U.S Large Value Index and Fama/French U.S Large Growth Index. Fama/French Total U.S. Market Index provided by Fama/French from Center for Research in Security Prices (CRSP) data. Includes all NYSE securities (plus Amex equivalents since July 1962 and NASDAQ equivalents since 1973), including utilities. Fama/French U.S. Large Growth Index provided by Fama/French from Center for Research in Security Prices (CRSP) data. Includes the upper-half range in market cap and the lower 30% in book-to-market of NYSE securities (plus Amex equivalents since July 1962 and NASDAQ equivalents since 1973), excluding utilities. Fama/French U.S. Large Value Index provided by Fama/French from CRSP data. Includes the upper-half range in market cap and the higher 30% in book-to-market of NYSE securities (plus Amex equivalents since July 1962 and NASDAQ equivalents since 1973), excluding utilities. Standard deviation is a statistical measurement of how far the return of a security (or index) moves above or below its average value. The greater the standard deviation, the riskier an investment is considered to be.

Effectively Diversify

Diversification and Portfolio Risk – 1952
Harry Markowitz, University of Chicago
1990 Nobel Prize in Economics

- Diversification reduces risk
- Assets should be evaluated not by individual characteristics but by their effect on a portfolio
- An optimal portfolio can be constructed to maximize return for a given risk level

Structured Investing Approach

Combine Multiple Asset Classes

- Seek to combine multiple asset classes that have historically experienced dissimilar return patterns across various financial and economic environments. Diversification does not guarantee a profit or protect against a loss

Diversify Globally

- More than 53% of global stock market value is non-U.S., and international stock markets as a whole have historically experienced dissimilar return patterns to the U.S.

Invest in Thousands of Securities

- Compared to a portfolio concentrated in a small number of securities, investing in thousands of securities around the world can limit portfolio losses during a severe market decline by reducing company-specific risk

Invest in High-Quality, Short-Term Fixed Income

- Fixed income's role in our portfolios is to reduce volatility. We seek to accomplish this by employing:
  - Shorter maturities that have low correlations historically with stocks
  - High-quality instruments to lower default risk

Past performance is no guarantee of future results.

The Need for Diversification

Asset Class Index Performance 1997 – 2011

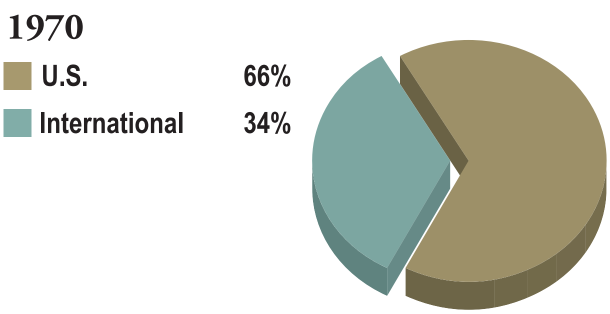
1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Annualized Returns	
Small Value 36.94%	Large Growth 36.65%	Emerging Markets 66.49%	REITs 26.37%	Small Value 40.59%	5 Year Gov't 12.95%	Small Value 74.48%	REITs 31.58%	Emerging Markets 34.00%	REITs 35.06%	Emerging Markets 39.39%	5 Year Gov't 13.11%	Emerging Markets 78.51%	Small Value 34.59%	5 Year Gov't 9.46%	Small Value 9.76%	Highest Return
Large Value 33.75%	S&P 500 Index 28.58%	Small Growth 54.06%	5 Year Gov't 12.60%	REITs 13.93%	REITs 3.82%	Emerging Markets 55.82%	Small Value 27.33%	EAFE 13.54%	Emerging Markets 32.17%	Large Growth 15.70%	Inflation (CPI) 0.09%	Small Value 70.19%	Small Growth 31.83%	REITs 8.29%	REITs 8.91%	
S&P 500 Index 33.36%	EAFE 20.00%	Large Growth 30.16%	Inflation (CPI) 3.38%	5 Year Gov't 7.61%	Inflation (CPI) 2.39%	Small Growth 54.72%	Emerging Markets 25.55%	REITs 12.16%	EAFE 26.34%	EAFE 11.17%	S&P 500 Index -37.00%	Large Growth 38.09%	REITs 27.96%	Large Growth 6.42%	Emerging Markets 6.87%	
Large Growth 31.67%	Large Value 11.95%	EAFE 26.96%	Small Value -3.08%	Inflation (CPI) 1.55%	Emerging Markets -6.17%	EAFE 38.59%	EAFE 20.25%	Large Value 9.70%	Large Value 21.87%	5 Year Gov't 10.05%	REITs -37.73%	Small Growth 38.09%	Large Value 20.17%	Inflation (CPI) 2.96%	5 Year Gov't 6.31%	
REITs 20.26%	5 Year Gov't 10.22%	S&P 500 Index 21.04%	Large Value -6.41%	Emerging Markets -2.62%	Small Value -11.72%	REITs 37.13%	Large Value 17.74%	Small Growth 6.02%	Small Value 21.70%	S&P 500 Index 5.49%	Large Growth -39.12%	Large Value 37.51%	Emerging Markets 18.88%	S&P 500 Index 2.11%	S&P 500 Index 5.45%	
Small Growth 14.88%	Small Growth 4.08%	Large Value 6.99%	S&P 500 Index -9.10%	Large Value -2.71%	EAFE -15.94%	Large Value 36.43%	Small Growth 11.16%	S&P 500 Index 4.91%	S&P 500 Index 15.80%	Small Growth 4.99%	EAFE -43.38%	EAFE 31.78%	Large Growth 17.64%	Small Growth -4.43%	Large Growth 4.89%	
5 Year Gov't 8.38%	Inflation (CPI) 1.60%	Small Value 4.37%	EAFE -14.17%	Small Growth -4.13%	Large Growth -21.93%	S&P 500 Index 28.69%	S&P 500 Index 10.88%	Small Value 4.46%	Small Growth 9.26%	Inflation (CPI) 4.09%	Small Growth -43.41%	REITs 27.99%	S&P 500 Index 15.06%	Small Value -10.78%	Small Growth 3.98%	
EAFE 1.78%	Small Value -10.04%	Inflation (CPI) 2.68%	Large Growth -14.33%	S&P 500 Index -11.89%	S&P 500 Index -22.10%	Large Growth 17.77%	Large Growth 5.27%	Inflation (CPI) 3.42%	Large Growth 5.97%	Large Value -12.24%	Small Value -44.50%	S&P 500 Index 26.46%	EAFE 7.75%	EAFE -12.14%	EAFE 3.39%	
Inflation (CPI) 1.70%	REITs -17.50%	5 Year Gov't -1.76%	Small Growth -24.50%	Large Growth -21.05%	Large Value -30.28%	5 Year Gov't 2.40%	Inflation (CPI) 3.25%	Large Growth 3.39%	5 Year Gov't 3.15%	REITs -15.69%	Large Value -53.14%	Inflation (CPI) 2.72%	5 Year Gov't 7.12%	Emerging Markets -18.42%	Inflation (CPI) 2.38%	
Emerging Markets -11.59%	Emerging Markets -25.34%	REITs -4.62%	Emerging Markets -30.83%	EAFE -21.44%	Small Growth -34.63%	Inflation (CPI) 1.88%	5 Year Gov't 2.26%	5 Year Gov't 1.35%	Inflation (CPI) 2.55%	Small Value -18.38%	Emerging Markets -53.33%	5 Year Gov't -2.40%	Inflation (CPI) 1.50%	Large Value -19.90%	Large Value 1.16%	Lowest Return

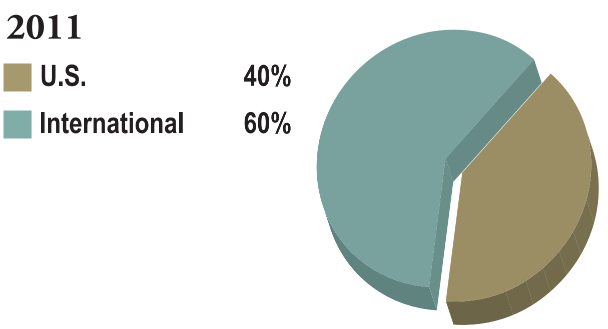
Diversification does not guarantee a profit or protect against a loss

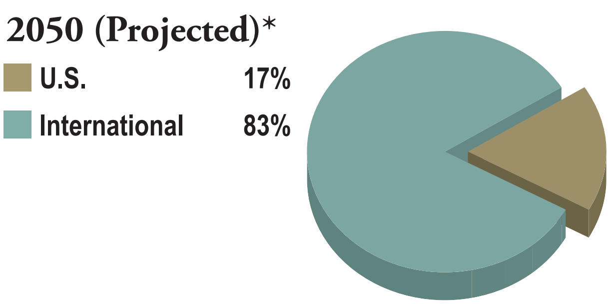
Data Sources: Center for Research in Security Prices (CRSP), BARRA Inc. and Morgan Stanley Capital International, January 2012 All investments involve risk. Foreign securities involve additional risks, including foreign currency changes, political risks, foreign taxes, and different methods of accounting and financial reporting. Past performance is not indicative of future performance. Treasury bills are guaranteed as to repayment of principal and interest by the U.S. government. This information does not constitute a solicitation for sale of any securities. CRSP ranks all NYSE companies by market capitalization and divides them into 10 equally-populated portfolios. AMEX and NASDAQ National Market stocks are then placed into deciles according to their respective capitalizations, determined by the NYSE breakpoints. CRSP Portfolios 1-5 represent large-cap stocks; Portfolios 6-10 represent small caps; Value is represented by companies with a book-to-market ratio in the top 30% of all companies. Growth is represented by companies with a book-to-market ratio in the bottom 30% of all companies. S&P 500 Index is the Standard & Poor's 500 Index. The S&P 500 Index measures the performance of large-capitalization U.S. stocks. The S&P 500 is an unmanaged market value-weighted index of 500 stocks that are traded on the NYSE, AMEX and NASDAQ. The weightings make each company's influence on the index performance directly proportional to that company's market value. The MSCI EAFE Index (Morgan Stanley Capital International Europe, Australasia, Far East Index) is comprised of over 1,000 companies representing the stock markets of Europe, Australia, New Zealand and the Far East, and is an unmanaged index. EAFE represents non-U.S. large stocks. Foreign securities involve additional risks, including foreign currency changes, political risks, foreign taxes and different methods of accounting and financial reporting. Consumer Price Index (CPI) is a measure of inflation. REITs, represented by the NAREIT Equity REIT Index, is an unmanaged market cap-weighted index comprised of 151 equity REITS. Emerging Markets index represents securities in countries with developing economies and provide potentially high returns. Many Latin American, Eastern European and Asian countries are considered emerging markets. Indexes are unmanaged baskets of securities without the fees and expenses associated with mutual funds and other investments. Investors cannot directly invest in an index.

Invest Internationally

Global Market Capitalization



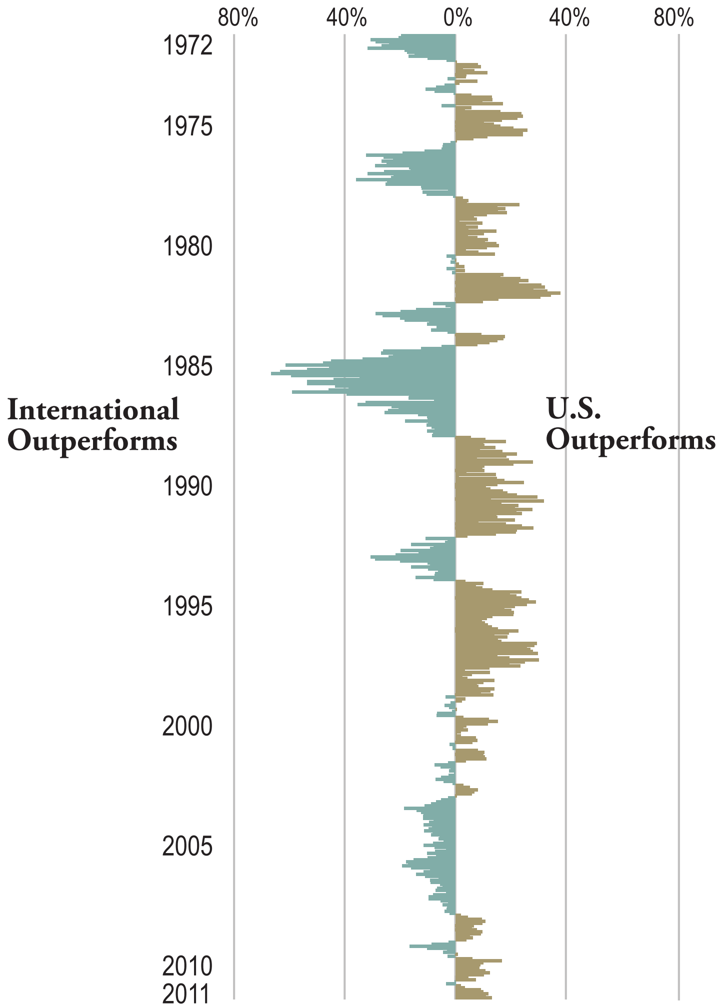




*Source: *Impact of an Aging Population on the Global Economy*
Jeremy J. Siegel *CFA Institute Conference Proceedings Quarterly* (09/07)

U.S. and International Markets Perform Differently

Rolling 12-month Variance (Jan. 1972 – Dec. 2011)



Source: Center for Research in Security Prices (CRSP) January, 2012

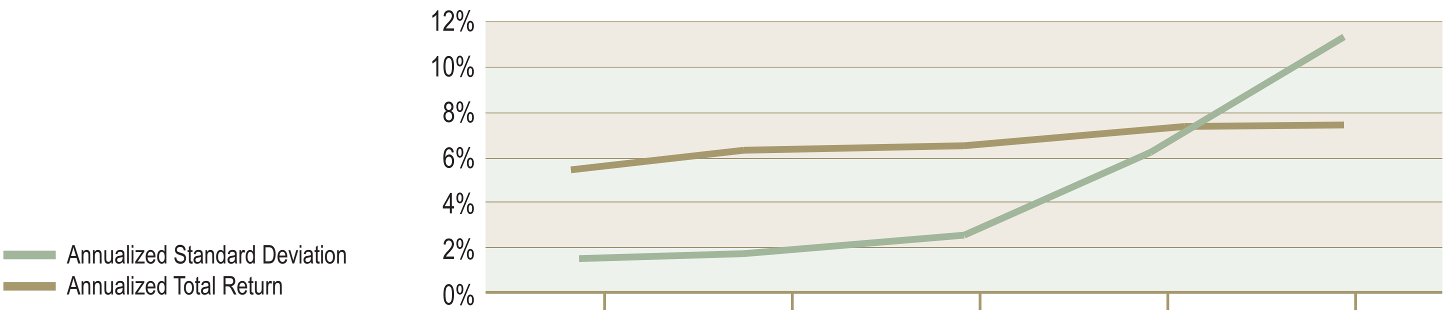
Past Performance is not indicative of future results. All investments involve risk. Foreign securities involve additional risks including foreign currency changes, taxes and different accounting and financial reporting methods. International market performance represented by the MSCI EAFE Index (Morgan Stanley Capital International Europe, Australasia, Far East Index), comprised of over 1,000 companies representing the stock markets of Europe, Australia, New Zealand and the Far East, and is an unmanaged index. EAFE represents non-U.S. large stocks. U.S. market performance represented by the Standard & Poor's 500 Index, an unmanaged market value-weighted index of 500 stocks that are traded on the NYSE, AMEX and NASDAQ. The weightings make each company's influence on the index performance directly proportional to that company's market value.

Invest in High-Quality, Short-Term Fixed Income

- Generally, longer maturity bonds entail more risk
- Investors are typically not properly compensated for that additional risk (see chart below)
- However, higher-quality, shorter maturities can help dampen portfolio volatility

Risk and Rewards Examined for Bonds

1964 – 2011



Maturity	**One-Month U.S. Treasury Bills**	**Six-Month U.S. Treasury Bills**	**One-Year U.S. Treasury Notes**	**Five-Year U.S. Treasury Notes**	**Long-Term Government Bonds**
Annualized Compound Return (%)	5.33	6.07	6.28	7.32	7.77
Annualized Standard Deviation (%)	1.46	1.80	2.35	6.17	11.51

Source: One-Month U.S. Treasury Bills, Five-Year U.S. Treasury Notes, and Twenty-Year (Long-Term) U.S. Government Bonds provided by Ibbotson Associates. Six-Month U.S. Treasury Bills provided by CRSP (1964-1977) and Merrill Lynch (1978-present). One-Year U.S. Treasury Notes provided by the Center for Research in Security Prices (1964-May 1991) and Merrill Lynch (June 1991-present). Morningstar data © 2011 Stocks, Bonds, Bills, and Inflation Yearbook (2012), Morningstar. The Merrill Lynch Indices are used with permission; copyright 2012 Merrill Lynch, Pierce, Fenner & Smith Incorporated; all rights reserved. Assumes reinvestment of dividends. Past performance is not indicative of future results. All investments involve risk. Standard deviation annualized from quarterly data. Standard deviation is a statistical measurement of how far the return of a security (or index) moves above or below its average value. The greater the standard deviation, the riskier an investment is considered to be.

Your Portfolio Should Reflect Your Unique Situation

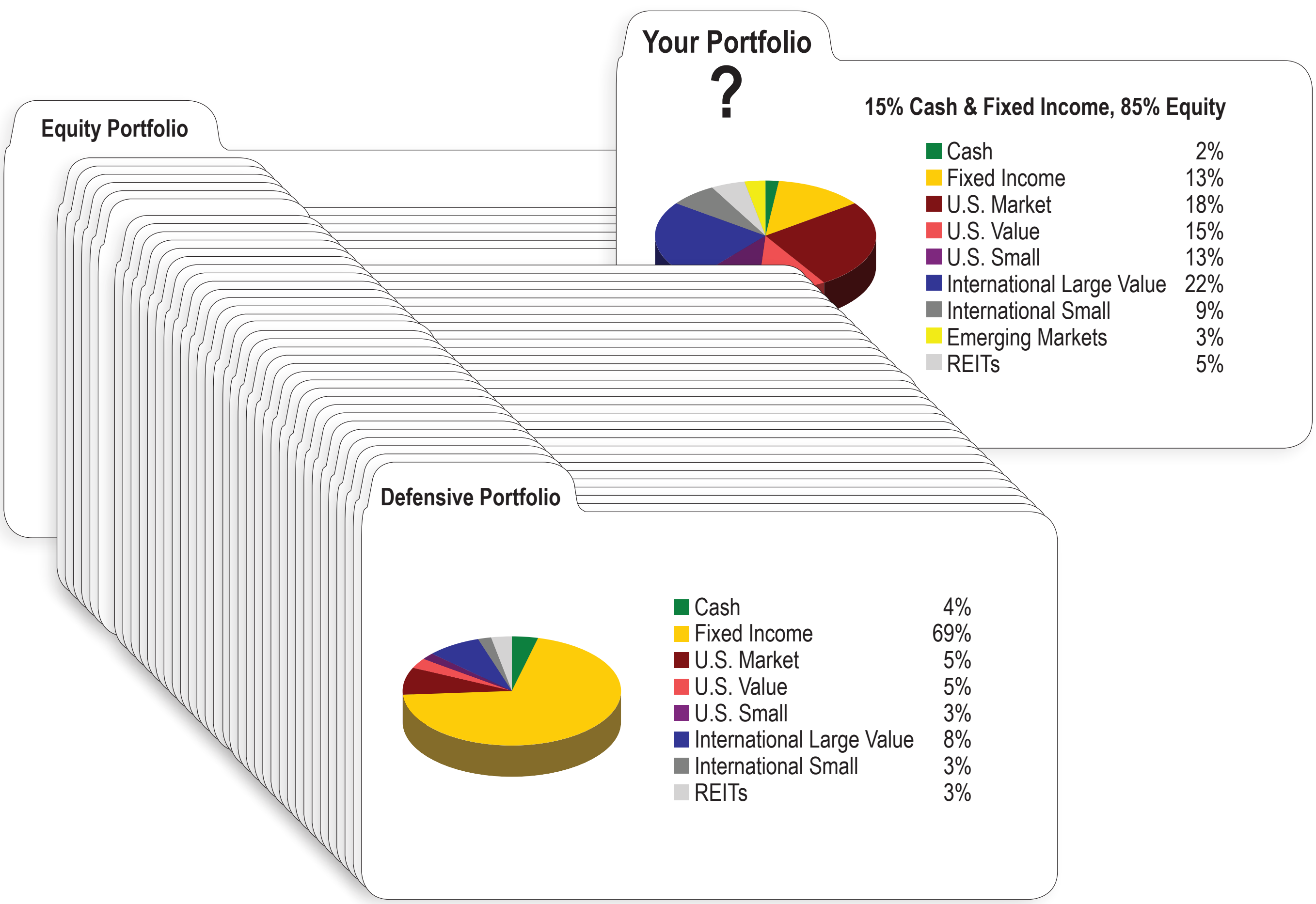
- What is your time horizon?
- What is your tolerance for risk?
- Do you need income or liquidity?
- How comfortable are you with:
  - International investing?
  - Small company stocks?
  - Value stocks?
- Other considerations?

Using our Investor Profile Questionnaire we will work with you to answer these questions

Constructing Your Portfolio

- *Structured Investing* portfolios cover a wide range of investor goals and risk tolerances. All of these portfolios are constructed using our investment philosophy and methodology
- Based on your answers to the Investor Profile Questionnaire, we will identify which portfolios suits you and your investment objectives, comfort with risk and time horizon
- *Structured Investing* portfolios vary in terms of composition and asset class weighting, but they all share the goal of capturing market returns while minimizing volatility for the selected level of risk

Once your portfolio is constructed, we will work with you to keep aligned with your long-term goals



The extensive diversification achieved through the Structured Investing approach does not guarantee a profit or protect against a loss. The investment return and the principal value of your portfolio will fluctuate, and at any point, may be worth more or less than your original investment

Exercise Patience & Discipline

Behavioral Finance
Daniel Kahneman, Princeton
Nobel Prize in Economics, 2002

- Applies scientific research on human and social cognitive and emotional biases to better understand economic decisions and how they affect market prices, investment returns, allocation of resources
- Concerned with the economic rationality/irrationality of human psychology. The more emotional an event, the less sensible people are

Structured Investing Approach

Stay focused on the long term

- Lack of discipline, emotion and trying to time the market can affect your long-term investing success
- Make sure you are guided by an investment policy

Regularly review your portfolio

- Make adjustments depending on changes in your life
- Rebalance periodically to keep your portfolio aligned with your goals

Don't go it alone

- An independent Financial Advisor can help you stay on track and focused on your long-term goals

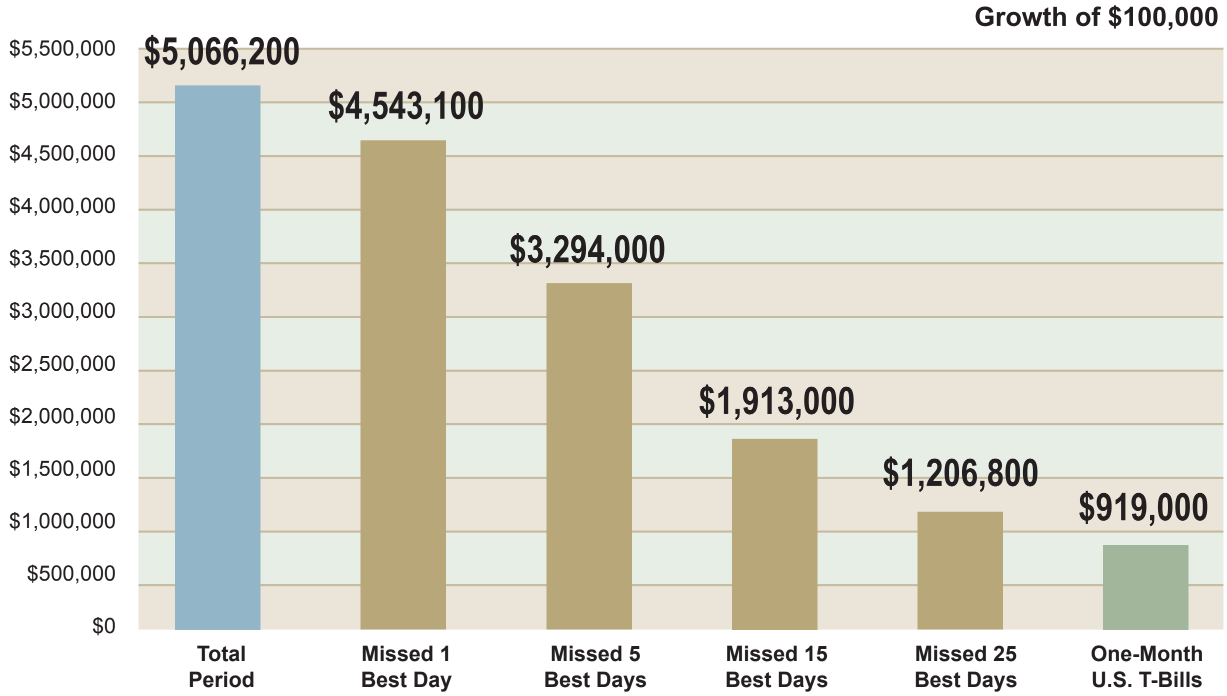
The Cycle of Market Emotions

Emotion often leads to trying to time markets

For illustration purposes only.

"Time in" vs. "Timing" the Market

Performance of the S&P 500 Index 1970 – 2011

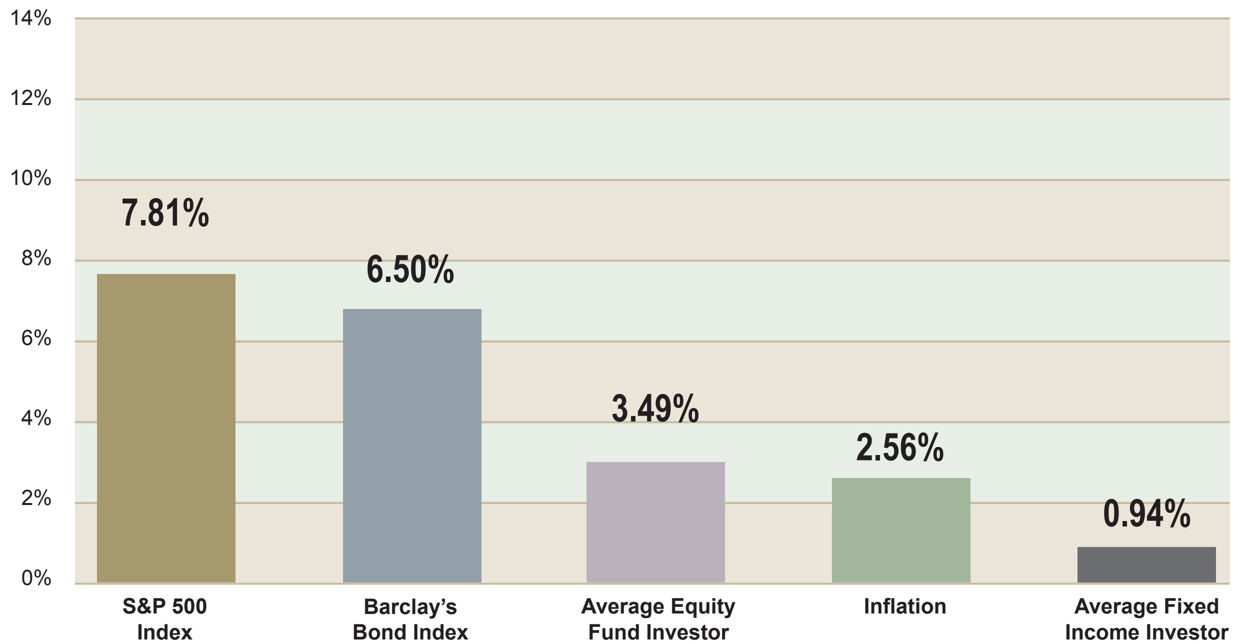


Annualized Compound Return	9.80%	9.51%	8.68%	7.28%	6.11%	5.42%

Performance data for January 1970-August 2008 provided by CRSP; performance data for September 2008-December 2011 provided by Bloomberg. The S&P data are provided by Standard & Poor's Index Services Group. US bonds and bills data © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefield). Indexes are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results. Values change frequently and past performance may not be repeated. There is always the risk that an investor may lose money.

Stay the Course

Average Investor vs. Major Indices 1992 – 2011



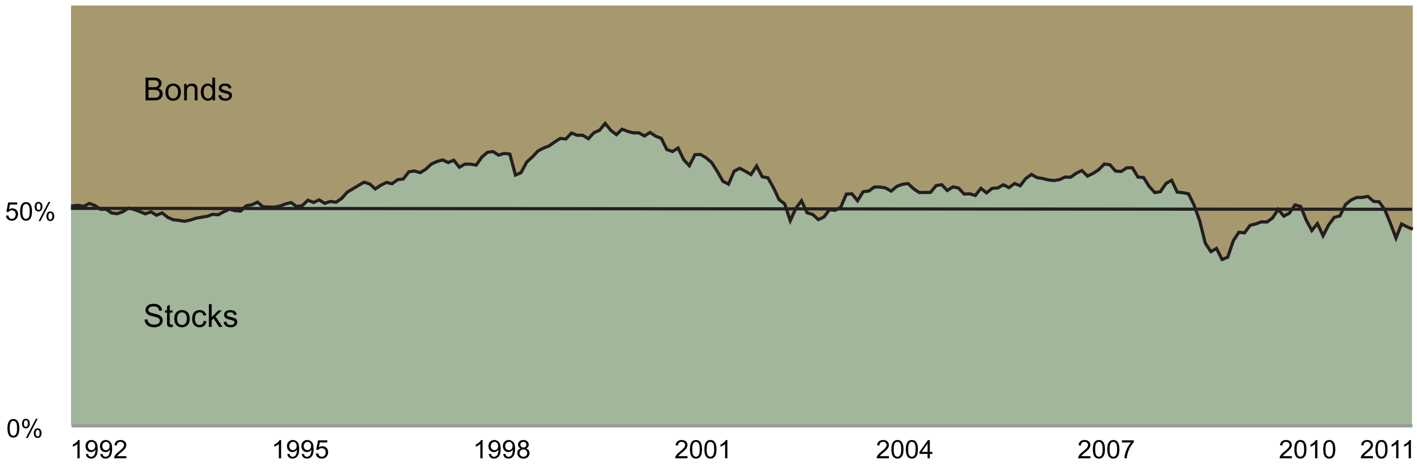
Average stock investor and average bond investor performances were used from a DALBAR study, Quantitative Analysis of Investor Behavior (QAIB), 03/2012. QAIB calculates investor returns as the change in assets after excluding sales, redemptions, and exchanges. This method of calculation captures realized and unrealized capital gains, dividends, interest, trading costs, sales charges, fees, expenses, and any other costs. After calculating investor returns in dollar terms (above), two percentages are calculated: Total investor return rate for the period and annualized investor return rate. Total return rate is determined by calculating the investor return dollars as a percentage of the net of the sales, redemptions, and exchanges for the period. The fact that buy-and-hold has been a successful strategy in the past does not guarantee that it will continue to be successful in the future.

Rebalance to Maintain Selected Asset Class Ranges

- Helps ensure that your portfolio remains aligned with your goals, risk tolerance and time horizon
- Designed to prevent portfolio "drift"
- Without rebalancing, changes in value of a portfolio's assets over time can impact portfolio's asset allocation

Sample 50% Stocks/50% Bonds Portfolio Without Rebalancing

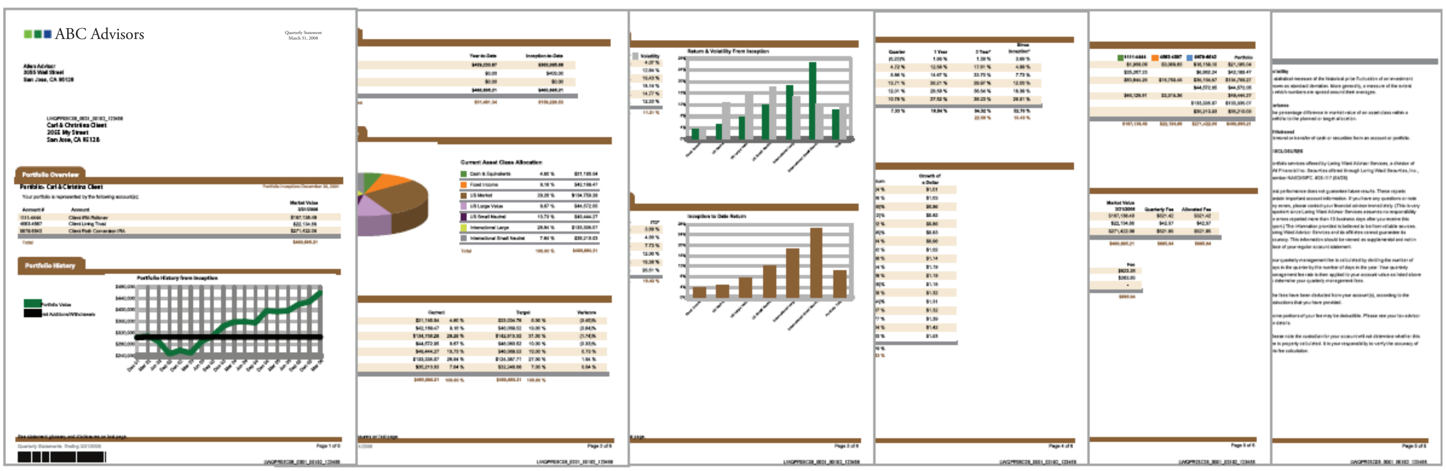
1992 - 2011



Data source: Center for Research in Security Prices (CRSP), January 2012. Past performance is no indication of future results. All investments involve risk, including loss of principal. Stocks are represented by the S&P 500 Index. Bonds are represented by the SBBI Long-Term Bond Index. Indexes are unmanaged baskets of securities in which investors cannot invest and do not reflect the payment of advisory fees associated with a mutual fund or separate account. Returns assume dividend and capital gain reinvestment. Rebalancing does not guarantee a return or protect against a loss.

Monitor Regularly

- Helps answer: “How am I doing?”
- Designed to ensure changes in your life or financial situation are reflected in your investment plan
- Includes regular communications and clear and concise reporting



Work with an Independent Financial Advisor

- Provides you with advice, guidance, monitoring and discipline
- Can help you address a wide range of investment and financial needs
- Independent Financial Advisors who offer the *Structured Investing* approach have a legal responsibility to:

1. Act in each client's best interests with the skill, care and diligence of a prudent expert
2. Provide qualifications and compensation in writing
3. Disclose conflicts of interest

Independent Financial Advisors who offer the Structured Investing approach have a duty of loyalty, care and competence and are held to a high standard of trust

Structured Investing
In An Unstructured World

STRUCTURED INVESTING
In An Unstructured World