Destination vs Journey investing - Why it matters

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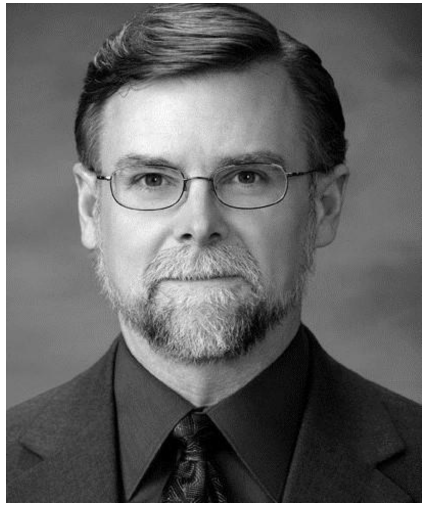

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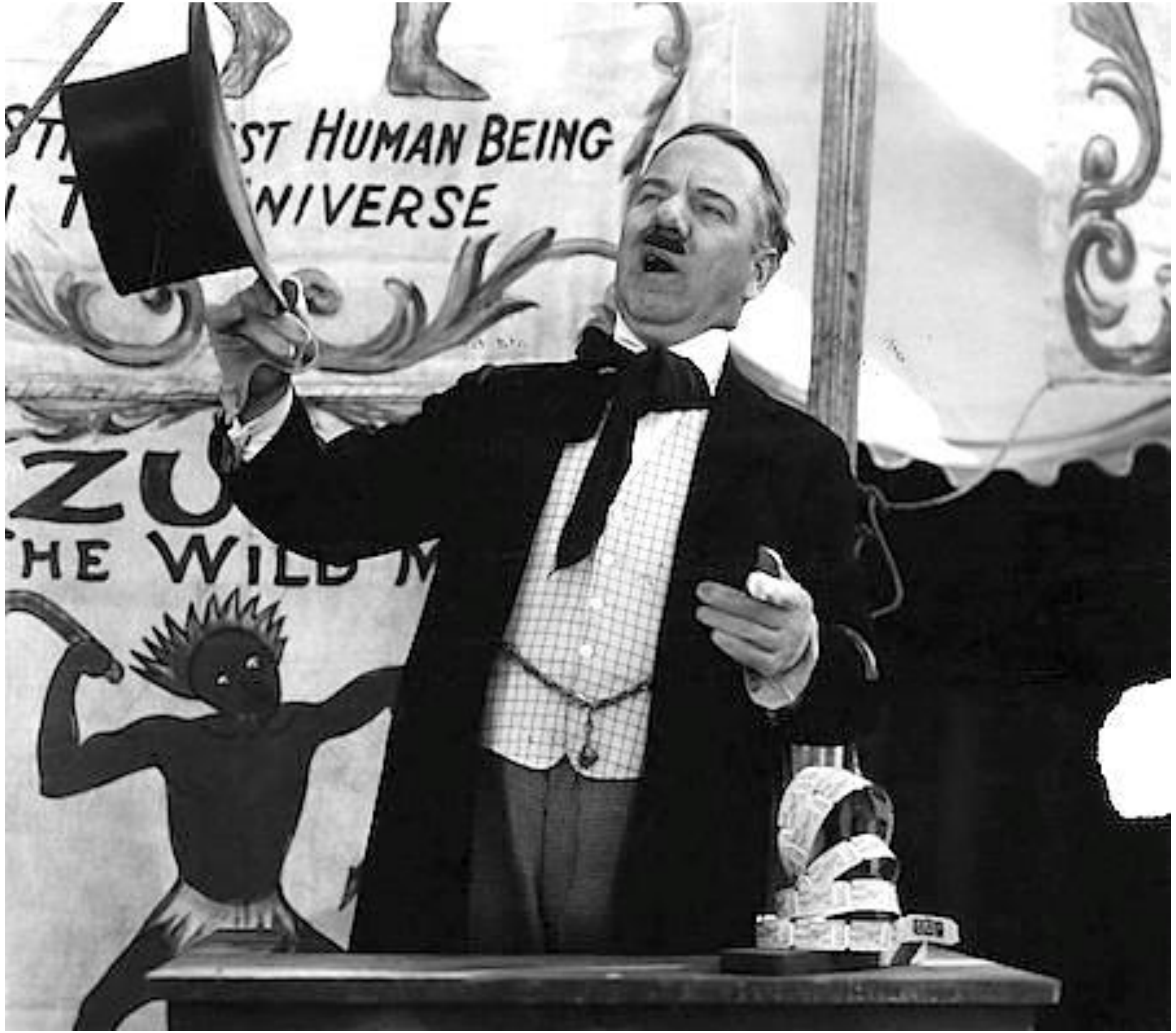
Industry

The investment industry works hard to encourage DIY folk to focus on all of the wrong things

Sales based on the last 1-, 3-, 5-, and 7-year performance numbers



Our industry's tricks

- Bad
  - Touting performance over the last 1-, 3-, 5-, and 7-years versus the S&P 500 Index
  - Cherry picking performance highlighted
  - Implying that past performance will continue into the future

  - Purposefully conflating beta with alpha

"You too can beat the market . . . just use our stuff"

Investment management firms

Their objectives

Famous study - out of Goldman Sachs

- The investment management firms

- They are in the business of
  - Attracting and retaining clients
  - Not in the business of making money for their clients

- Or more sharp-edged
  - They exist to make money from your clients . . . not for your clients

How do they approach this objective?

Sell product

The easiest and surest why of selling product

- Convince clients (and their advisors) to focus on past performance relative to an index benchmark

- Look at the product's performance over the last 1-, 3-, 5-, 7-year periods
- Compare to a benchmark that makes the product look good

- And when it doesn't
  - Just change the benchmark . . . or
  - Focus on a different product

Trend chasing

- Believe past performance indicates future performance

- Believe they can “invest in the past”

This encourages the manufacture and distribution of Journey portfolios

Journey portfolio

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Intended Benefit

Experience a smoother, more pleasing Journey

Possible Cost

Unfortunately, your Journey portfolio might lead you to this Destination

Mr. Market's behavior

Is there a different approach?

But what if you had a different objective

- An objective that strongly aligned with your real world needs

Time Segment	Used for needs that are this far in the future	**Required Return** (measured net to the investor, and only at the final Destination)	**Destination** (number of years in the future at which seek to have earned at least the Required Return)
1	0 - 5 years	3%	2½ years
2	6 - 10 years	4%	7½ years
3	11 - 15 years	5%	12½ years
4	16 - 20 years	6%	17½ years
5	21 and greater years	7%	22½ years

Objective would then be . . . .

- Never earn less than the Required Return . . . but measured only at the Destination

- OR

- Maintain the lowest possible probability of earning less than the Required Return over any and all future Rolling Time Windows (of a length matching the Destination)

Is this an “absolute return” portfolio?

- Nope
- Not in the slightest

- Absolute return strategies only exist in Disney films
- They’re just a cruel joke by the over-excited salesperson

- The Destination portfolio strictly ignores the journey . . . . And stays focused on its destination

The old Chinese proverb

- If you have one year, plant rice
- If you have ten years, plant trees
- If you have one years, educate children

The old Chinese proverb

- Different investments take different amounts of time to
  - Germinate
  - Sprout
  - Grow
  - Mature
  - Be successfully harvested

- The bank CD . . . . a pretty short period
- The venture capital fund . . . . a pretty darn long period . . . use multiple vintages
- If all you've got is 3 years . . . don't use
  - Tactical asset allocation
  - Call option overwriting
  - Put option protected stocks
  - Preferred stocks

The Destination portfolio

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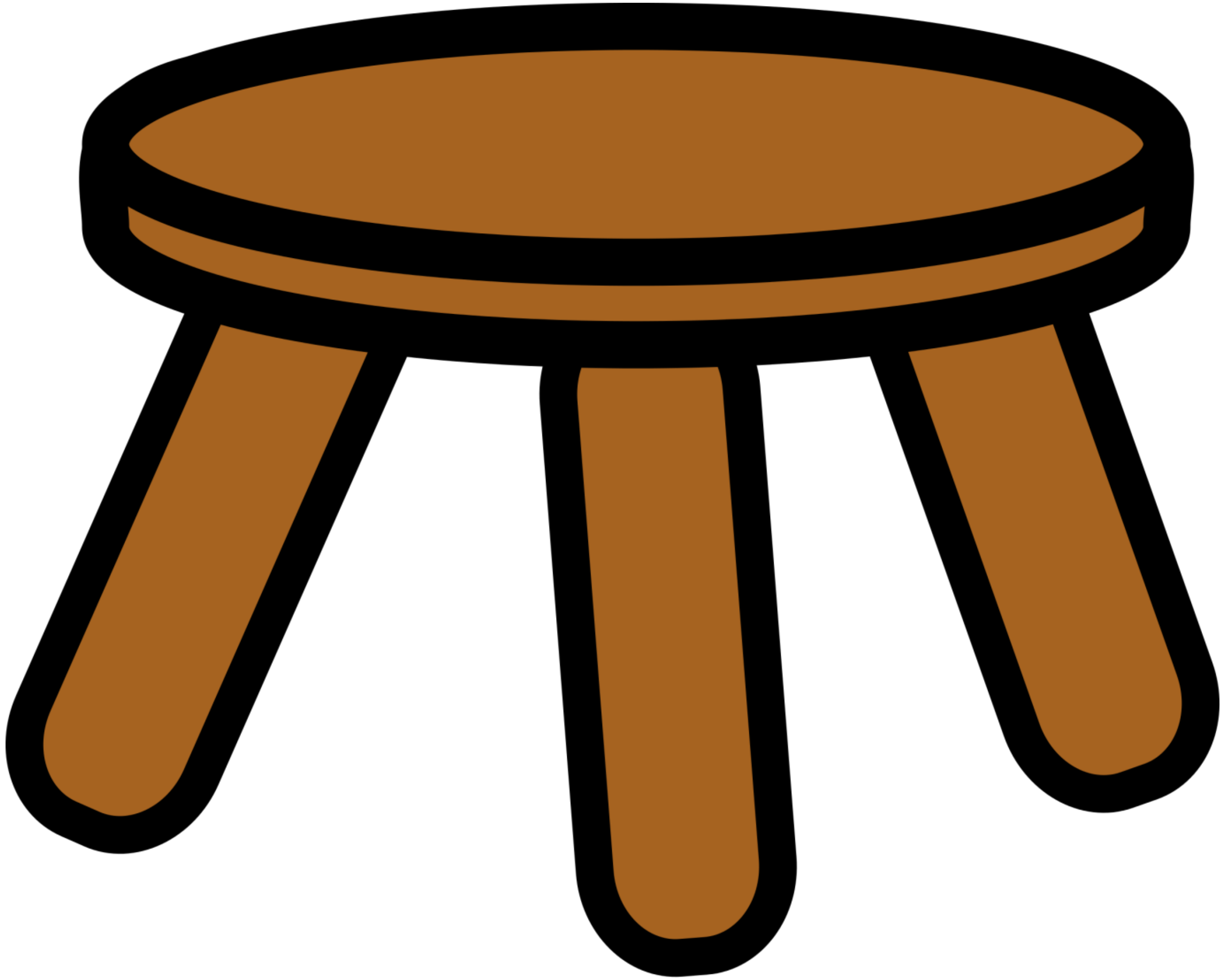
Intended Benefit

Reach a more favorable Destination

Possible Cost

Unfortunately, your Destination portfolio might take you on this type of Journey

Three legs of the stool



Buckets

Always adapting and evolving

Forward-looking investments

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Time Segmentation Investing - and optimal portfolio design

Friday

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Important Disclosures

All data and statistics were provided by Global Financial Data, Inc. and NDR, Inc. (unless otherwise indicated in the exhibit)

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