

SENIOR CONSULTANT

The Voice of the Investment Management Consultant

Part III: Are You An Advisor Or Reporter?

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CEO, Financeware and Wealthcare Capital Management

In [Part I](http://www.srconsultant.com/Articles/2004-07-Loeper-Advisor-Reporter1.pdf) (<http://www.srconsultant.com/Articles/2004-07-Loeper-Advisor-Reporter1.pdf>) and [Part II](http://www.srconsultant.com/Articles/2004-08-Loeper-Advisor-Reporter2.pdf) (<http://www.srconsultant.com/Articles/2004-08-Loeper-Advisor-Reporter2.pdf>) of this trilogy, we examined how and why performance reporting became an industry standard service and how objectivity was a necessary element of the value it provided. We also reviewed how the packaging of our services, whether performance reviews or our advice services, touted a lot of customization that perhaps clients valued less than what one might assume and which, often in reality, was essentially absent. Then, like the objectivity that Elliot Spitzer has been pushing, we asked advisors to objectively examine whether their services with existing clients were as customized as they initially presented they would be, at least from a basis on which the client could relate and connect. Finally, we ask advisors who were objective enough to recognize the gap between what was being delivered and what was being sold, to read this article so they can learn how to connect with clients and deliver customization that really is valued and understood by the client.

If any of the previous content in this series resonated with you, remember it as you read because custom advice and service to which a client can personally relate requires you to let go of the past “sacred cows” of your services. Unless you are willing to change and let go of the advisory services of the past that you have now recognized as far removed from the client, you will lose the future and along with it, the opportunity offered by leading change; or you can keep disconnecting from change.

While this series started with a discussion of on-going service long after the client hired you, the prior content exposed us to the reality that our on-going service is tied all the way back to the very beginning of

what we pitch to prospects — what we exposed as customization and personalization that, in practice, isn’t valued or actually being delivered. So, if we are to start here in a new advisory service designed to solve this “disconnect”, should we perpetuate the notion of customization? YES, we should because personalized service is of high value.

The problem with how we have attempted to deliver customized personal advice is that the product we customized was a portfolio and a benchmark based on a risk tolerance, none of which the client can relate. So, could it be that perhaps our value shouldn’t be a portfolio? I fully recognize this is the equivalent of asking

fish not to swim, but if you have been objective enough to get this far, perhaps you are also objective enough to evolve out of the industry oceans and walk upright upon the land of this wild idea. Is customizing a portfolio the right place for us to be customizing if the client cannot observe or relate to a material difference or benefit to themselves? Perhaps we should first consider what the client would value and use that as the basis for what we customize, and use it to demonstrate the value of our customization?

What do your clients value? Do you really know? If you have the courage, try surveying them by asking them the following:

As your advisor, if I could provide only ONE of the following alternatives as part of

my services, which would you regard as providing you the highest personal value?

- a) A portfolio with some risk of underperforming the market (perhaps significantly) that also has some chance of exceeding the returns of the market (perhaps significantly).
- b) A portfolio that does not risk significantly underperforming the markets and provides

UNLESS YOU ARE WILLING TO CHANGE AND LET GO OF THE ADVISORY SERVICES OF THE PAST THAT YOU HAVE NOW RECOGNIZED AS FAR REMOVED FROM THE CLIENT, YOU WILL LOSE THE FUTURE AND ALONG WITH IT, THE OPPORTUNITY OFFERED BY LEADING CHANGE; OR YOU CAN KEEP DISCONNECTING FROM CHANGE



rational confidence of achieving your unique goals as they change throughout your life.

Okay, I know you hate the way it is phrased and you would like it to include the words normally used to sell your current value proposition, like “based on diligent research,” “proven track records,” etc. It is, however, the explicit, non-sugar coated Elliot-Spitzer-type disclosure of the choice that is offered between what most advisors sell and what can be delivered.

Now, we have not yet done a statistically sound study to conclude which choice most clients would prefer. However, I suspect there are at least some of your clients who would personally value “b” over “a.” If you share in that suspicion, this requires more change. It requires us to change our value proposition to helping the client make the most of the one life they have. To do this, we must also have rational confidence of achieving the goals the client personally values. This also requires us to avoid any unnecessary sacrifice to their lifestyle; and finally, it compels us to avoid any investment risk that does not buy the client something they value with rational confidence.

The first step, therefore, is to redefine the value we provide if we are going to make this connection to our clients. So far, so good. We have a new value proposition that is delivering the best lifestyle to the client, based on what they value. The next step is, of course, learning what the client personally values, noting that traditional profiling methods will not help us to deliver this value proposition. We need less information than what is normally extorted from the client in the typical financial planner data-gathering form. (It is destructive to talk about immaterial detailed types of things like cable bills and disability income policy waiting periods when we are attempting to get the client to create an image of their life for us ... ask any psychologist. One is left brain function, and the other is right.) We also need far more information about choices the client would prefer than exists in typical goal questionnaires or even worse, risk tolerance exams.

If we are to connect to what the client values, we need to understand what they value.

It sounds obvious, but think about the choices the client might make and what is missing from our typical profiling session. They may have typically stated they’d like to retire at 62 on a \$100,000 retirement income, but if they could retire a year earlier, might they prefer that, if the price was only \$5,000 of their retirement income? Should you know this? They might also prefer to reduce their savings (how often do you ask this question?) so they could use some vacation time if the price of doing so was only delaying retirement for one year. Should you know this? There is probably a client or two out there who may be willing to risk dipping into principal if necessary, if it meant they could take less investment risk even

WE NEED TO CHANGE THE WAY WE PROFILE CLIENTS AND ASKING THEM TO TELL US A NUMBER WITHOUT KNOWING WHETHER OR HOW FAR THEY MIGHT ALTER IT ... IS NOT THE SAME AS UNDERSTANDING HOW THEY VALUE IT RELATIVE TO THEIR OTHER GOALS

though they could tolerate more. Should you know this?

We need to change the way we profile clients and asking them to tell us a number without knowing whether or how far they might alter it – be it a dollar amount that buys a dream or date that defines a deadline – is not the same as understanding how they value it relative to their other goals. Likewise, just ranking goals that is so much in vogue today accomplishes nothing, other than predetermining those goals that will be sacrificed, regardless of the choices the client might make to compromise a bit of one to buy a portion of another or delaying a goal a bit instead of automatically eliminating it by its low rank.

Having changed our value proposition to confidently achieving that which the client personally values, and likewise having changed our profiling to actually determine what they

value, one can only conclude that these steps require us to change how we create and hence, what we present as, our recommendations. What is material in creating the recommendations is the advisor’s skill in making decisions about the all of the thousands of choices the client might have to make for most of their life, based upon what they value. The portfolio is but a tiny element in this process, not the Xanadu of our advice. Instead, the portfolio becomes a means to an end of making the most of the client’s life versus a dead-end solution in itself.

This means the presentation of our recommendation must change. Let’s see ... I can present my advice about what choices in the client’s lifestyle I determined made the most sense based on what I understood that they valued, or I can focus on the portfolio that is only a means to accomplishing it, IF I really understood them AND made the right choices. Do you think you might want to connect to the client that you made the right choices about how they can make the most of their life BEFORE you get into the portfolio that ONLY makes sense based on those decisions?

Of course, this means that we will have to change another old habit of focusing our recommendations on current versus proposed. Having this discussion ... the end TO THE MEANS is pre-mature, if you have not yet determined whether the choices you made were the right ones for the client. This will be a challenge for many of you.

But, think about the client connection that is happening when their life is what you are giving advice about. Do you think the client can connect to and perceive VALUE in being able to retire a couple of years earlier than what was acceptable to them? Might they recognize your advice as valuable if it resulted in a travel budget during retirement, when previous advisors eliminated it as a “frivolous low ranked goal?” Could they perceive some comfort in your objectivity in advising them to have a portfolio that is heavily weighted toward bonds because they have so much money, accepting more investment risk doesn’t buy them anything they value, even though they could tolerate more investment risk? Once you have connected to the client in this way and really



defined for them the best choices in how to make the most of their life and they agreed your advice does so, ONLY THEN is it time to see what changes are needed in their portfolio to confidently deliver that lifestyle.

Of course, when we built our recommendation we had to model a portfolio that delivered rational confidence of making those goals a reality. When we measure the impact of the portfolio decisions over which we had previously labored in an attempt to “customize it” for the client, we learn that all that tweaking for risk tolerance and customizing the benchmark had no meaningful impact on the client’s confidence. It may look like it does in the abstraction of a risk/return chart, but by measuring the confidence we learn that a 5%-10% “allocation mistake” invariably will have less than a 1%-2% impact to the client’s confidence of making the most of their only life. No wonder clients couldn’t discern the value; statisticians couldn’t even see it!

The portfolio we modeled was based on the market returns (hopefully less our fees) and now we are about to implement it. Let’s see, what choice do I make here? I could implement it in the actual portfolio that I used to create the advice that provides rational confidence of exceeding their goals. But why would the client pay me for that?! Do you really think the client would prefer to pay you to implement a portfolio that subjects them to a risk you did not model, mainly, some chance of materially underperforming the markets? Elliot Spitzer may get around to reviewing your disclosures about this. This is by far the hardest thing for advisors to relinquish but is the choice they make every day, because the supposed value of your past services were based only on the portfolio. Our new value though, which includes avoiding investment risks that are not necessary to the extent they do not confidently buy something the client personally values, would contradict accepting a risk of materially underperforming, wouldn’t it?

We are almost back to the original topic of on-going reviews and becoming an advisor instead of a reporter.

- We have changed our value proposition to deliver rational confidence of what the client values.
- We have changed how we profile clients to actually determine what it is they do value.

- We have changed where we spend our effort in designing our recommendations by focusing on the best choices the client has, based on our understanding of what they value.
- We changed the presentation of our recommendations to focus on determining whether the decisions we made were the best choices and demonstrated our value to the client based on what they value.
- We implemented a portfolio that actually matches the recommendation that the client agreed was what they valued.

Now let’s see. Do you suppose our reviews and on-going service are going to be focused on reporting the performance of a portfolio invested identically to the benchmark relative to the benchmark? If it avoids the unnecessary

THE CLIENT WILL NO MORE CONNECT TO GOALS YOU HAVE IN THE REPORT THAN THE “CUSTOM BENCHMARK” USED IN THE PAST, IF THOSE GOALS ARE NOT TRULY BASED UPON WHAT THEY PERSONALLY VALUE

risk of materially underperforming and matches our recommended benchmark, the portfolio return will equal the benchmark less our fees. I suppose we could monitor that that is actually happening. But is that where the client connected to us? That benchmark portfolio? Or did they connect to us on the basis of what that portfolio meant to their life and what they value. Understand that with this process (“Wealthcare”), it is the latter.

Based on the attached sample “Wealthcare” report (<http://www.financeware.com/ruminations/sample.status.report.pdf>), you will observe that what we are discussing with the client is connected all the way back to the beginning of the relationship. It measures whether they have rational confidence of exceeding their goals. It measures what those goals are, based on the value we provided of making the right decisions about those goals. It shows them future warning flags, both in the

short term and long term of where we, as their advisor, would be needed again, should the markets perform favorably or extremely poorly. It recognizes the client is not clairvoyant about their future goals or what they might one day value, and each time we meet with them they may need more advice because their goals or priorities changed. It offers clients the opportunity to share with us new things they value about their life, as well as informing us of old things that are no longer important. It offers advisors the opportunity to become advisors (all the time) instead of reporters (most of the time).

Now, many of you loved the idea of monitoring goals because you understood there was a “disconnect” between what the client personally valued and that abstract benchmark you selected and assigned to the client without their explicit understanding of its meaning. But do not make the same mistake as we have in the past.

The client will no more connect to goals you have in the report than the “custom benchmark” used in the past, if those goals are not truly based upon what they personally value. Even further,

- They will not perceive your value as delivering those goals, if the value you sold them was a portfolio instead of your advice about the choices about those goals that make the most of the only life they have.
- You won’t know what they personally value unless you profile them in a manner that focuses on determining the price they’d pay in dollars or deadlines in one goal to achieve another they value more or want sooner.
- They will not perceive you as making the most of the only life they have if they end up living with a portfolio based on risk they can tolerate, instead of only the risk that confidently buys them what they value.
- They will not perceive your value as advising them about their goals if what you present in your recommendation is a portfolio before you know whether or not the goals that portfolio confidently buys are the right goals for what they value.
- They will not perceive your objectivity in doing everything you can to meet their unique personal goals if you subject them to risks of underperforming that are not necessary to having rational confidence of

exceeding their goals. (This is especially true if you do not disclose the reason for you subjecting them to this risk isn't based upon buying the client something they value with confidence but instead, is based on your fear of the client being unwilling to pay you if you avoid subjecting them to this risk.)

- Clients will not perceive your value as ongoing choices about how to make the most of their life if your reviews are focused on getting them to stick to decisions they made long ago, that they no longer value as they perhaps once did.

As a technological advancement, it would be easy for the industry to merely treat the "disconnect" problem with performance reports as they have in the past – by merely slapping some pages into the report and pitching it as monitoring "your unique and personalized goals." There is no technology barrier to adding this simple page outlining client's goals. Even the difficult challenge of calculating the confidence level for the client is now easy with products like our Financeware Division's stateless simulation engine. Such technology can be utilized to crunch the numbers and spit the client's current confidence level to an existing performance reporting system for 1/20th of the cost of what firms are paying for their nearly useless performance monitors, and it adds less than two seconds of processing time per report.

Why has no one, except for us and some our clients, done this yet? It is because if the client actually understands and connects to what is in that report – if it isn't what they value and if the advisor lacks an advising process centered around those goals instead of portfolios – the report will have the opposite effect. Instead of demonstrating how we are focused on meeting the unique goals each client personally values, it will expose how little we understand about our clients, what they want and value, and how disconnected our advice is to what the client truly expects from their relationship with their advisor. Before you are tempted to include such a page in your reports, you had better make

sure you are ready to make all the other changes that are needed to prevent that page from exposing to your clients what some of you might now realize. Or, you can contact us to help you learn how you can incorporate all these changes into your practice. These changes are the future of financial advising. ■

About the Author

Prior to founding Financeware in 1999, David B. Loeper, CIMA, CIMC, was Managing Director of Strategic Planning for the retail brokerage division of Wheat First Union. During his 10 years there, he served as Director of Investment Consulting and Managing Director – Technology and Strategic Planning, in addition to creating and managing the Profit Formula program (a semi-independent representative business). David's past experience also includes serving on the Investment Advisory Committee of the approximate \$30 billion Virginia Retirement System.

In addition to his practical business experience, Mr. Loeper has been active in several industry associations. A member of Investment Management Consultants Association (IMCA) for over a decade, David has also served on IMCA's Advisory Council for several years, most recently being named as Chairman.

David was granted the Certified Investment Management Analyst designation in 1990 by completing a program offered through Wharton Business School, in conjunction with IMCA. Prior to the merger of the Institute for Certified Investment Management Consultants (ICIMC) with IMCA, David was an active member of ICIMC and had served on the Asset Consulting Roundtable. He has been a featured speaker at numerous industry events and often contributes to industry publications as well as appearing on CNBC, Bloomberg TV and Yahoo Finance-vision.

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Notes

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1st Quarter Progress Report

Created

Tuesday, April 27, 2004

Prepared By

David B Sample

Prepared for

Arvin and Alice Client

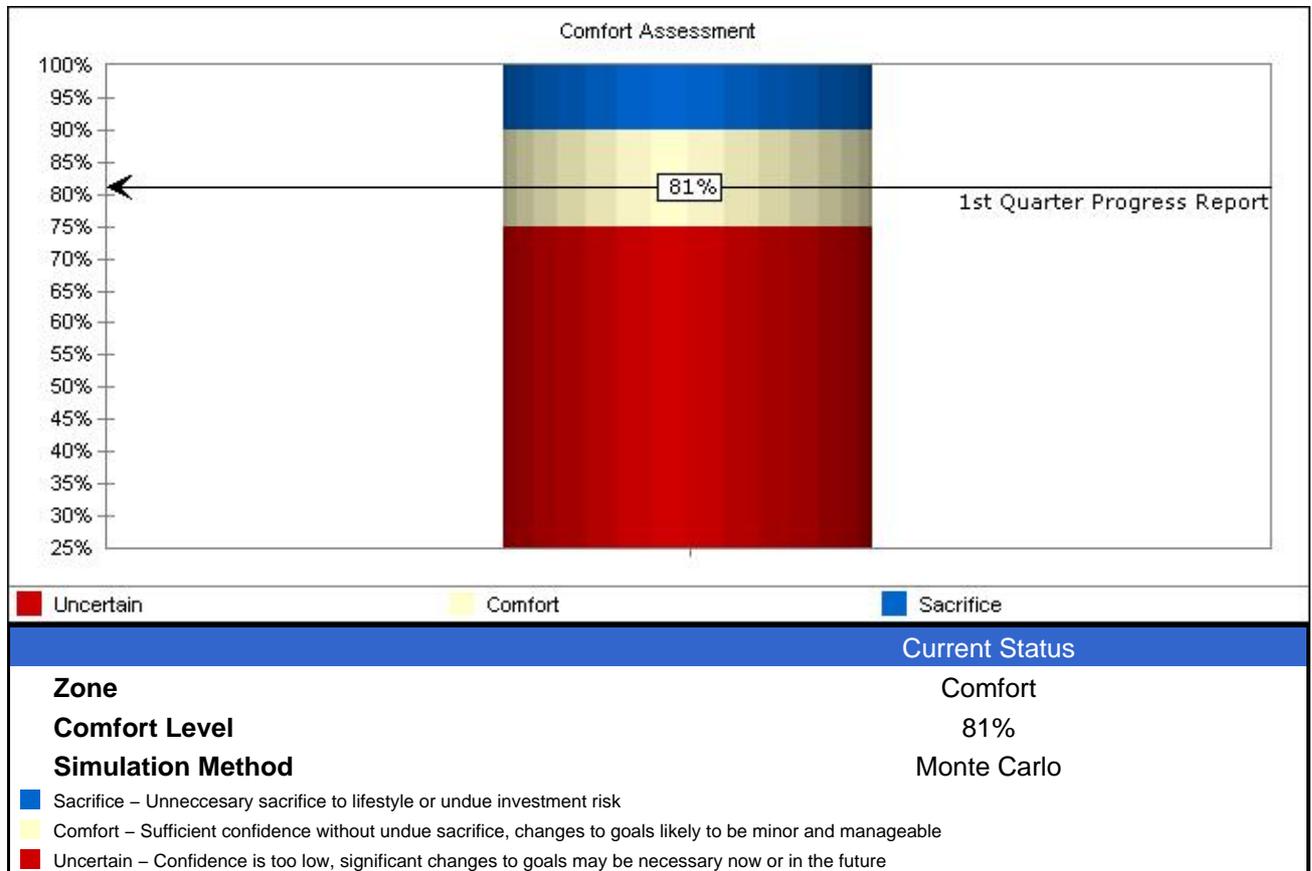
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Wealthcare Status Report

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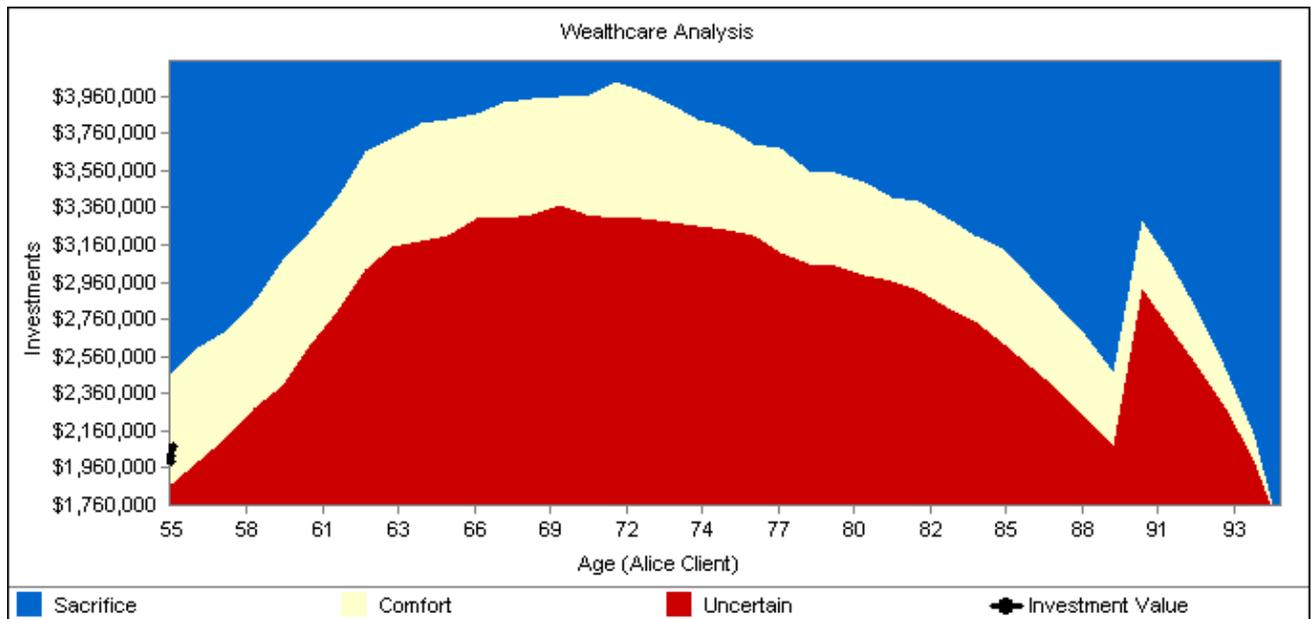
Comfort Assessment



1st Quarter Progress Report	
Retirement Age	
Arvin	65
Alice	61
Retirement Need	
Arvin	\$120,000
Target End Value	
Today's Dollars	\$500,000
Actual Dollars	\$1,631,019
Avg. Annual Savings	
Pre-Retirement	\$31,475
Default Inflation Rate	3%
Education	Yes
Median Return	8.39%
Risk	
Std. Deviation	12.11%
Downside (95%-tile)	-9.71%
Other Goals	
Gifting to Son	No
Travel	\$25,000

Wealthcare Analysis

results shown in actual dollars



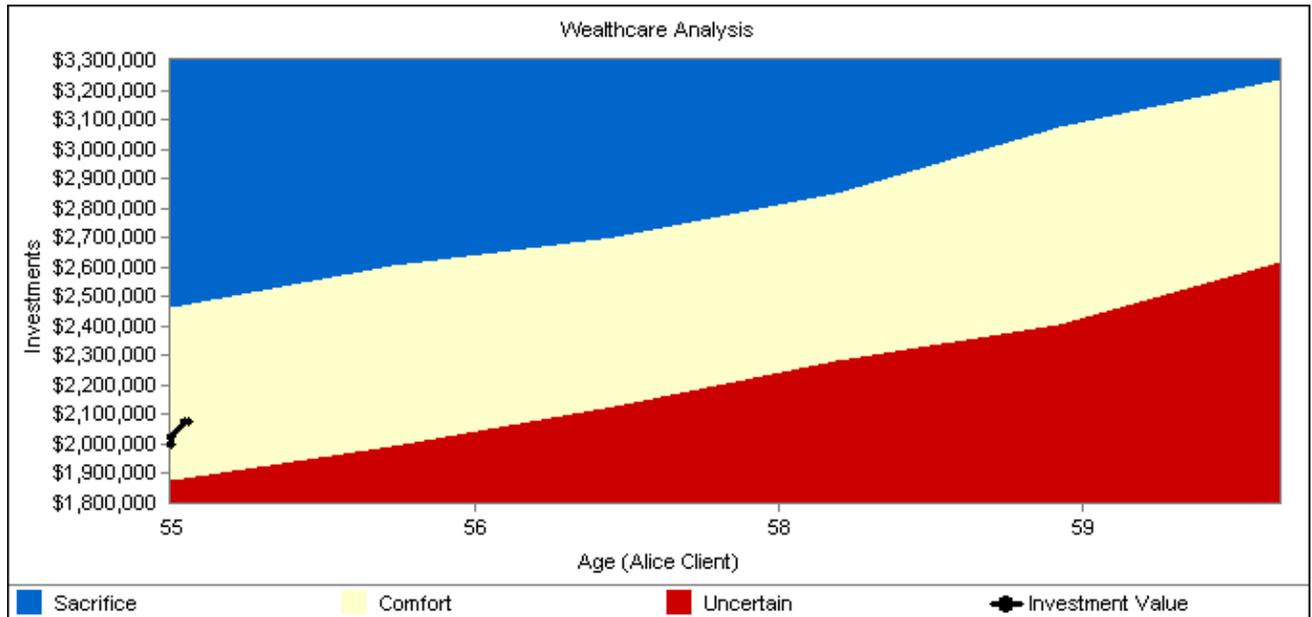
The Wealthcare Analysis is not a projection of future portfolio values because future values are uncertain. If the current value of your portfolio(s) falls outside the comfort range, you may want to consider examining your investment risk or otherwise modify your goals. The upper range (sacrifice) represents portfolio values needed for greater than 90% confidence of exceeding your current goals. The lower range (uncertain) represents values needed for less than 75% confidence of exceeding your current goals. The unpredictability of future investment returns for your recommended allocation determines the range of values between sacrifice and uncertainty.

Your Portfolio Values

Description	Account No.	Last Updated	Last Valuation
Joint	111222333	4/21/2004	\$1,100,000
Total Managed Accounts			\$1,100,000
Description	Account No.	Last Updated	Last Valuation
Arvin's	23456789	3/31/2004	\$400,000
Alice's	987654	3/31/2004	\$350,000
Arvin's Rollover	123456789	3/31/2004	\$225,000
Total Unmanaged Accounts			\$975,000
Total Value			\$2,075,000
Total Values – If your Total Value does not fall between these amounts, contact your advisor immediately.			
SACRIFICE: more than \$2,464,108 (greater than 90% confidence) UNCERTAIN: less than \$1,874,176 (less than 75% confidence)			
Your Wealthcare plan may include assets that are not managed by your advisor but are considered in your plan. While managed assets have up-to-date valuations, unmanaged account values require manual updates that you should regularly provide to your advisor. Fax the update form with the current values if you wish to run the analysis with more recent valuations for any unmanaged assets.			
Unmanaged Account Values – Contact your advisor immediately if your Unmanaged account values are either:			
More than \$1,364,108		Less than \$774,176	

Wealthcare Analysis (short term)

results shown in actual dollars



The Wealthcare Analysis is not a projection of future portfolio values because future values are uncertain. If the current value of your portfolio(s) falls outside the comfort range, you may want to consider examining your investment risk or otherwise modify your goals. The upper range (sacrifice) represents portfolio values needed for greater than 90% confidence of exceeding your current goals. The lower range (uncertain) represents values needed for less than 75% confidence of exceeding your current goals. The unpredictability of future investment returns for your recommended allocation determines the range of values between sacrifice and uncertainty.

Your Portfolio Values

Description	Account No.	Last Updated	Last Valuation
Joint	111222333	4/21/2004	\$1,100,000
Total Managed Accounts			\$1,100,000
Description	Account No.	Last Updated	Last Valuation
Arvin's	23456789	3/31/2004	\$400,000
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Total Unmanaged Accounts			\$975,000
Total Value			\$2,075,000
<p>Total Values – If your Total Value does not fall between these amounts, contact your advisor immediately. SACRIFICE: more than \$2,464,108 (greater than 90% confidence) UNCERTAIN: less than \$1,874,176 (less than 75% confidence)</p>			
<p>Your Wealthcare plan may include assets that are not managed by your advisor but are considered in your plan. While managed assets have up-to-date valuations, unmanaged account values require manual updates that you should regularly provide to your advisor. Fax the update form with the current values if you wish to run the analysis with more recent valuations for any unmanaged assets.</p>			
<p>Unmanaged Account Values – Contact your advisor immediately if your Unmanaged account values are either:</p>			
More than \$1,364,108		Less than \$774,176	

Status Update – Current Values

results shown in today's dollars

	1st Quarter Progress Report	Updates*
Retirement Age		
Arvin	65	
Alice	61	
Retirement Need		
Arvin	\$120,000	
Target End Value		
Today's Dollars	\$500,000	
Actual Dollars	\$1,631,019	
Avg. Annual Savings		
Pre-Retirement	\$31,475	
Default Inflation Rate		
	3%	
Education		
	Yes	
Median Return		
	8.39%	
Risk		
Std. Deviation	12.11%	
Downside (95%-tile)	-9.71%	
Other Goals		
Gifts to Son	No	
Travel	\$25,000	

*Please update any changes to your goals

Your Portfolio Values

Description	Account No.	Last Updated	Last Valuation	
Joint	111222333	4/21/2004	\$1,100,000	
Total Managed Accounts			\$1,100,000	
Description	Account No.	Last Updated	Last Valuation	Enter Recent Value*
Arvin's	23456789	3/31/2004	\$400,000	
Alice's	987654	3/31/2004	\$350,000	
Arvin's Rollover	123456789	3/31/2004	\$225,000	
Total Unmanaged Accounts			\$975,000	
Total Value			\$2,075,000	

* Please update balances on accounts that we do not directly manage in the **Enter Recent Value*** box

Updated as of: _____

Status Update – Priorities

results shown in today's dollars

Below, you will find a list of priorities outlined by you in our last meeting. Please take a moment to review your choices and note any changes.

Understanding your priorities is very important to the advice process. Please take a moment to review your acceptable compromises.						
		Acceptable Compromises				
		Take More Investment Risk	Save More	Retire Later	Reduce Size of Estate	Reduce Retirement Spending
G O A L S	To reduce the investment risk in our portfolio, we would be willing to:	N/A		X	X	
	We would like to reduce our current savings and to achieve this we would prefer to:		N/A	X	X	
	To achieve our early retirement age, we would be willing to:			N/A	X	
	In order to achieve our larger estate goal, we would be willing to:			X	N/A	
	To achieve our higher spending target in retirement, we would prefer to:	X		X	X	N/A

We understand that your goals and priorities may change. If you have any new goals or changes to your priorities since we last met, please explain below.

Your Current Notes:

Make sure son is educated. College for Arvin Jr., 8k a year undergrad, 10k grad. Willing to compromise grad school if needed. Travel goal is very important. Both would like to spend a month in Jamaica each year...now if possible, definitely in retirement, ideally a month, five days minimum. Month costs 25k, five days = 5k minimum. They would save an additional 25k annually from now until retirement instead of traveling if they had to. Gifting (10k annually) to son when too old to travel, at Arvin age 80, would be nice to have, but not at the expense of other goals.

Updated as of: _____

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Important Performance Disclosures:

THERE ARE MANY LIMITATIONS INHERENT IN SIMULATED RESULTS, PARTICULARLY THE FACT THAT SUCH RESULTS DO NOT REPRESENT ACTUAL TRADING AND THAT THEY MAY NOT REFLECT THE IMPACT THAT MATERIAL ECONOMIC AND MARKET FACTORS MIGHT HAVE HAD ON THE ADVISER'S DECISION-MAKING IF THE ADVISER WERE ACTUALLY MANAGING THE CLIENTS' MONEY.

THE RESULTS CONTAINED IN THIS REPORT ARE MATERIALLY AFFECTED BY THE CAPITAL MARKET ASSUMPTIONS USED. MANY SYSTEMS INCLUDE STATEMENTS THAT INCLUDE THE GENERAL PERFORMANCE OF AN APPLICABLE MARKET INDEX WHEN DISCLOSING RETURN ASSUMPTIONS UTILIZED FOR A CLIENT'S ACCOUNT(S). HOWEVER, DISCLOSING RETURNS OF SPECIFIC MARKET INDICES MAY RESULT IN MATERIALLY MISLEADING PROBABILITIES OR A FALSE SENSE OF CONSERVATISM DEPENDING UPON THE TIME FRAME SELECTED. THIS UNCERTAINTY IS APPLICABLE EVEN OVER LONG PERIODS OF TIME. FOR EXAMPLE, THE TABLE BELOW DEMONSTRATES THE HIGHEST AND LOWEST COMPOUND RETURN, INCLUDING THE REINVESTMENT OF DIVIDENDS AND INTEREST, REBALANCED ANNUALLY, BEFORE MANAGEMENT FEES AND TRANSACTION COSTS, OVER 30 YEAR PERIODS FOR VARIOUS ASSET CLASSES AND BLENDS OF ASSET CLASSES FROM THE CENTER FOR RESEARCH IN SECURITY PRICES INFORMATION FROM 1926 THROUGH 2003:

Range of 30 Year Compound Returns – 1926–2003
Source: Center for Research in Security Prices

Asset Class:	100% Large Cap Stocks	100% Small Cap Stocks	50% Large Cap/ 50% Small Cap	60% Large Cap Stock 40% Taxable Bonds	100% Taxable Bonds
Highest 30 Year Compound Return:	13.72%	18.38%	16.14%	11.97%	8.75%
Lowest 30 Year Compound Return	8.47%	8.84%	9.26%	6.96%	2.21%
Median 30 Year Return	10.82%	14.62%	12.92%	8.99%	3.91%
Time period for highest 30 Year Return	1970–1999	1939–1968	1942–1971	1970–1999	1973–2002
Time period for lowest 30 Year Return	1929–1958	1928–1957	1928–1957	1929–1958	1940–1969
Time period for median 30 Year Return	1948–1977	1950–1979	1957–1986	1957–1986	1950–1979

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS AND SIMULATED RESULTS MAY BE HIGHER OR LOWER THAN THESE RESULTS. SINCE THE CAPITAL MARKET ASSUMPTION REPRESENTS THE MIDDLE OF A DISTRIBUTION OF OUTCOMES WHERE HALF OF THE SIMULATED OUTCOMES WOULD BE HIGHER AND HALF LOWER, IT IS EASY TO SEE HOW ANY ONE ACTUAL HISTORICAL TIME PERIOD MAY BE UTILIZED EITHER UNINTENTIONALLY OR MALICIOUSLY TO MANIPULATE THE OUTCOME OF THIS TYPE OF ANALYSIS. FOR EXAMPLE, IF A FIXED INCOME MANAGER USED THE LAST 30 YEARS ENDING IN 2002, LESS A 1% MANAGEMENT FEE, THEIR RETURN ASSUMPTION WOULD BE 8.75% MINUS 1% OR 7.75%. WHILE REGULATIONS FIND IT ACCEPTABLE TO MERELY DISCLOSE THIS INFORMATION (ALONG WITH THE MARKET INDEX

RETURN OF 8.75%), ONE SHOULD CONSIDER THAT THE MEDIAN OF ALL HISTORICAL 30 YEAR RETURNS WAS MORE THAN 3.7% LOWER THAN THAT ASSUMPTION; YET THE SIMULATION RESULTS WOULD CALCULATE HALF OF ALL THE SIMULATIONS AS BEING HIGHER THAN THAT RESULT.

ANY RETURNS SHOWN IN THIS REPORT REPRESENT THE GEOMETRIC MEDIAN OR COMPOUND RETURN AT THE 50TH PERCENTILE NET OF ALL PORTFOLIO MANAGEMENT FEES AND TRANSACTION COSTS. CLIENTS SHOULD CLOSELY EXAMINE THE PORTFOLIO RISK AND RETURN ASSUMPTIONS FOR ANY ALLOCATION OR SERIES OF ALLOCATIONS UTILIZED IN THIS ANALYSIS AND DISCLOSED THROUGHOUT THE REPORT AND MAKE SURE THEY ARE COMFORTABLE THE ASSUMPTIONS USED ARE NOT EXCESSIVELY OPTIMISTIC (FOR EXAMPLE NEAR THE HIGHEST RETURNS SHOWN IN THE PREVIOUS TABLE) OR EXCESSIVELY CONSERVATIVE (NEAR THE LOWEST RETURNS) UNLESS THEIR INTENT IS TO MODEL THESE HISTORICAL EXTREMES AS NORMAL MARKET ENVIRONMENTS.

WEALTHCARE CAPITAL MANAGEMENT HAS DEVELOPED CAPITAL MARKET ASSUMPTIONS FOR USE WITH THE FINANCEWARE TOOLS THAT HAVE BEEN DESIGNED WITH THE INTENT OF ATTEMPTING TO AVOID THESE EXTREMES AND MORE INFORMATION ABOUT THE IMPORTANCE OF BUILDING CAPITAL MARKET ASSUMPTIONS CAN BE FOUND AT:
www.financeware.com/ruminations/WP_Areyoumodeling.pdf

RESULTS MODELED ASSUME ANNUAL REBALANCING OF THE PORTFOLIO TO STRATEGIC ASSET CLASSES ASSUMING THE REINVESTMENT OF DIVIDENDS AND INTEREST UNLESS CASH NEEDS FOR CLIENT GOALS IN A PARTICULAR YEAR OF A PARTICULAR TRIAL REQUIRED SUCH CASH BALANCES TO BE UTILIZED FOR SUCH GOALS AND/OR THE PAYMENT OF TAXES. PLEASE ASK TO REVIEW THE TAX ASSUMPTIONS UTILIZED IN THIS ANALYSIS IF NOT PREVIOUSLY DISCLOSED AND AGREED UPON. TAX ASSUMPTIONS CAN ALSO HAVE A MATERIAL IMPACT ON SIMULATED RESULTS.

BECAUSE RESULTS MODELED ARE BASED ON CAPITAL MARKET ASSUMPTIONS THAT ARE USED TO CREATE SIMULATIONS; NO SPECIFIC TRACK RECORD FROM THE ADVISER WAS USED IN THIS ANALYSIS AND THE ADVISER'S CLIENTS HAD INVESTMENT RESULTS THAT MAY HAVE BEEN MATERIALLY DIFFERENT THAN THE SIMULATED RESULTS.

FOR ALL OF THE ABOVE REASONS, IT SHOULD BE UNDERSTOOD THAT THE INVESTMENT STRATEGY THE SIMULATED RESULTS WERE BASED UPON CAN BE CHANGED AT ANY TIME IN ORDER TO SHOW BETTER SIMULATED PERFORMANCE AND THE STRATEGY CAN CONTINUE TO BE TESTED AND ADJUSTED UNTIL THE DESIRED RESULTS ARE ACHIEVED.