Wealth Management Plan, Part One: The Investment Plan

Prepared for Mr. and Mrs. Affluent Client

March 1, 2011

Todd R. Anderson

AFG Private Client Group
6400 E. El Dorado Circle, Suite C200
Tucson, AZ 85715
520.886.8686

ANDERSON FINANCIAL
PRIVATE CLIENT GROUP

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Introduction

As with any investment made in life—a family, a home, a college education—the best results are achieved by carefully constructing a plan and then following that plan consistently over time. A well-crafted investment plan and investment policy statement provides a broad context for making important financial decisions and then prescribes a prudent investment philosophy and set of investment management procedures for achieving your long-term financial goals.

This document will clearly describe a range of critical factors that affect your financial decisions, including your investment goals and time horizons, your tolerance for risk (as measured by returns in bear markets and historic volatility), and the prudence and diversification standards you wish to maintain. Taking these critical factors into account, this document will also set forth an investment structure that details permitted asset classes and the desired allocation among those asset classes.

Clearly articulating your critical factors and our recommendations for achieving your financial goals in an investment plan and an investment policy statement has a number of important benefits:

1. **It helps provide long-term discipline to your investment decision-making.** A well-conceived plan helps assure that rational analysis is the basis for your investment decisions, making you less likely to act on emotional responses to short-term or one-time events.
2. **It encourages our effective communication.** Because it clarifies both the issues that are most important to you and the investment approach and strategy that will be used, it minimizes any misunderstandings that may arise.
3. **It allows both of us to accurately review your critical factors as they may change over time.** Such evaluations may indicate that corresponding changes to your investment plan are called for.

In addition, this investment plan and investment policy statement will provide the foundation for *wealth management*—our ability to address the range of your financial challenges beyond your investments. Having a comprehensive wealth management plan in place allows us to systematically manage each of your major financial issues, which in turn maximizes our ability to help you achieve your most important financial goals.

The complete wealth management plan consists of three parts:

Part One is your investment plan. It provides an overview of your client profile, our consulting process and our investment recommendations. It also includes brief descriptions of our fees, as well as our firm's background and philosophy.

Part Two is your investment policy statement, or IPS. It delves into substantially more detail on our investing approach and our strategic portfolio management process. It also provides summaries of the returns of key indices and of a range of hypothetical portfolios, as well as important disclosures, including the asset classes used to construct hypothetical portfolios, sources and description of data used and treatment of certain data.

If, during our Mutual Commitment Meeting, we both decide to work together, we will create **Part Three** of this document. This will be your advanced plan. It will deal with the four key areas of your financial life beyond your investments: wealth enhancement, wealth transfer, wealth protection and charitable giving. We will present this plan to you during our first Regular Progress Meeting.

Client Profile

No two investors are alike. Each has different circumstances and aspires to different dreams. As financial advisors, we can meet your needs well only when we know you and your unique life situation well. As we discussed during our Discovery Meeting, we believe it is important for us to deeply comprehend not only your investments and other assets, but your most important values, goals, relationships and interests.

This level of insight provides several important benefits:

1. It allows us to construct an investment plan that will maximize the probability of achieving all that is most important to you and your family.
2. It sets the foundation for our long-term relationship.
3. It enables us to work with you in precisely the ways which you prefer.

Summary of Your Profile

In our Discovery Meeting of **February 1, 2011**, you shared with us many important insights into your financial situation, the challenges you face and the goals you seek to accomplish. The summary below reflects our understanding of these issues.

Financial Values

You described the importance of money to you as follows:

1. Money is important to you in that it allows you to ensure the current financial security of your family.
2. Money is important to you in providing for the financial futures of your three children.
3. Money is also important to you for providing a legacy for your children.

Goals

You described your key goals (life and/or financial) as follows:

1. To work less so that you may spend more time with your children
2. To be able to send all three children to the first-rate colleges of their choice
3. To leave a substantial legacy for your children that will have a lasting impact both on their lives and the lives of their own children
4. To ensure the current financial security of Dan's mother
5. To sell Dan's firm within the next ten years in order to realize the substantial equity in the business
6. To travel and take up charitable work after the sale of Dan's business

Relationships

You described your most important relationships as follows:

1. Your three children, Michael, Jessica and Jordan (key relationships for the children include their pets—a dog, Max, and a cat, Scarlet)
2. Dan's mother, Sylvia

Assets

You identified the following major assets:

1. Dan's engineering consulting firm, valued at approximately $2 million
2. Dan's Keogh account, valued at $1.8 million
3. Lauren's 401(k) account, valued at $450,000
4. Two brokerage accounts with a total value of $1.9 million
5. College fund of $600,000
6. Your primary residence
7. Your lake house

Advisors

You stated that you are currently working (or have worked) with the following professional advisors:

1. CPA: William Soren (Soren & Associates, P.C., 618-555-5555). Handles Dan's business taxes and assists with tax planning.
2. Attorney: Steven Palmer (Pearce, Little & McGrew, LLP, 307-555-5555). Currently handling probate for Lauren's parents' estate.
3. Broker: James Litner (National Brokerage Co., 888-555-5555). Not proactive in managing investments. Only talks to you when you contact him.
4. Life insurance agent (can't recall name of agent or firm). Sold Dan his whole life policy ten years ago and has not been in contact since.

Process

You described your preferred process for working with your financial advisor as follows:

1. You prefer a collaborative approach, but don't want to get "bogged-down" in details. Because your most important focus in life is family and work, you are less interested in details of management of your finances.
2. You prefer to work within the framework of a comprehensive, long-term plan that enables you to see your progress toward achieving your goals.

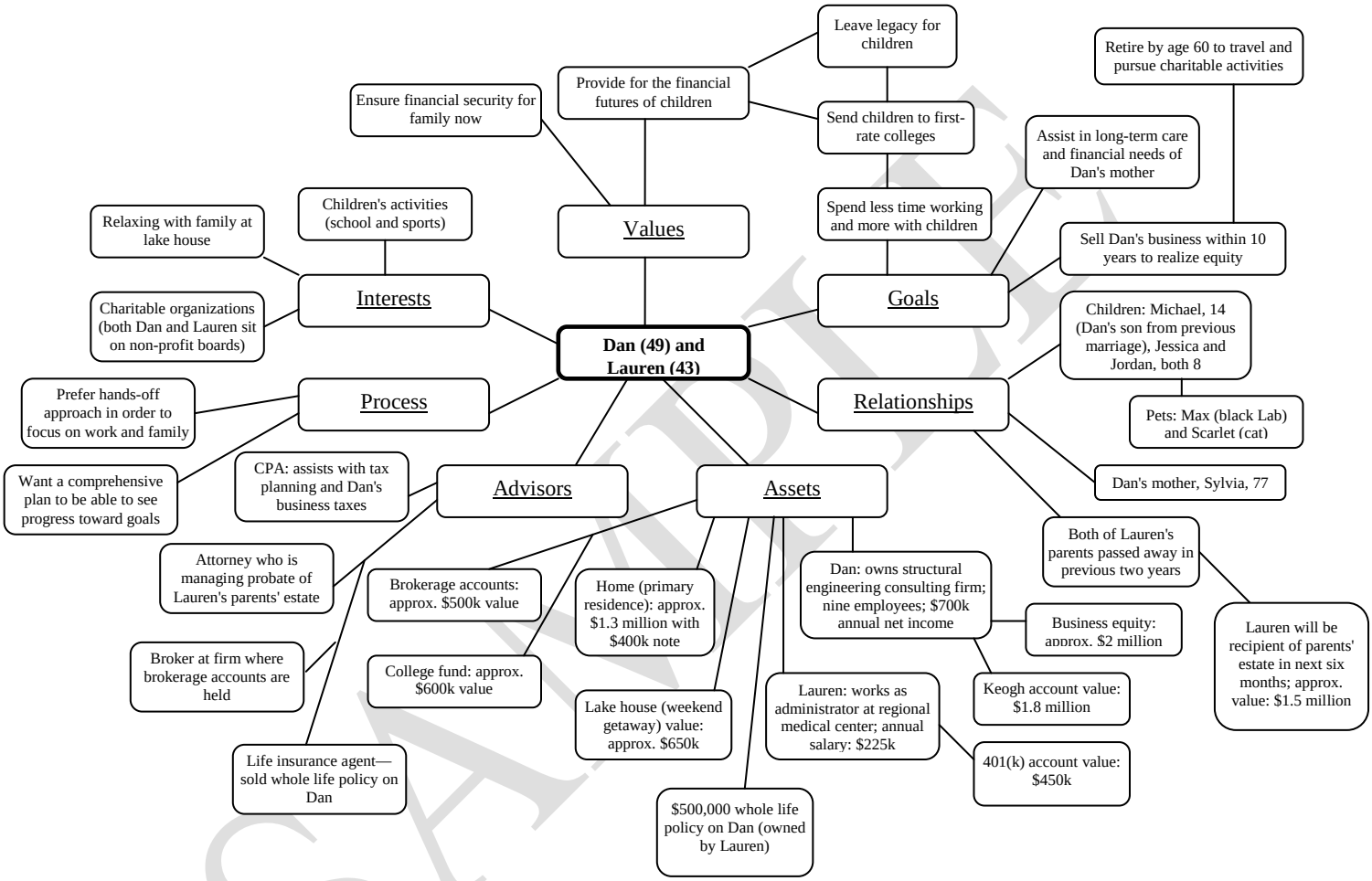
Interests

You described the following personal interests as being most important to you:

1. Spending quality time with your family. In particular, being involved with your children's sports and school activities, as well as relaxing on weekends at your lake house.
2. Contributing to the community through various charitable organizations, especially the two organizations on which you serve on the board of directors.

Your Total Client Profile

As you will recall, during our Discovery Meeting we discussed the things that are most important to you in seven areas of your financial life: your values, goals, relationships, assets, advisors, process and interests. From this discussion, we created a Total Client Profile, which we have reproduced here.



Our Wealth Management Consulting Process

At Elite Financial Advisory Services, we use the following systematic consulting process for uncovering your most important goals and for designing and implementing appropriate solutions.

1. **Discovery Meeting.** At our initial meeting, we conduct a discovery interview. This helps us identify the challenges you face in achieving all that is important to you. We examine your current situation, the goals you would like to achieve and how we can maximize the possibility of achieving those goals.

2. **Investment Plan Meeting.** At this meeting, we present our diagnostic of your current situation and our recommendations for how we can bridge the gaps in order for you to reach your goals. This plan forms the foundation for all of our work together.

3. **Mutual Commitment Meeting.** At this meeting, we are ready to make a mutual decision about whether our firm can add substantial value and whether we should proceed. Should we both choose to work together, we commit to each other to work toward achieving everything that is important to you and your family. We also execute the documents necessary to put your investment plan into motion.

4. **45-Day Follow-up Meeting.** When you have multiple investment accounts, it's easy to become overwhelmed with the amount of paperwork you receive. At this meeting, we help you organize all that paperwork in a notebook that we provide. We also answer any questions you may have so that you understand exactly what is happening with your money.

5. **Regular Progress Meetings.** These meetings, which we schedule at intervals convenient to you, provide us an opportunity to review any major changes in your personal or financial situation since our last meeting. If these changes mean that we need to make adjustments to your investment plan, we do so. We also review your overall progress toward your long-term financial goals. This meeting is also our opportunity to implement advanced planning recommendations that may be appropriate for your situation. We will present to you our advanced plan at our first Regular Progress meeting so that we can prioritize those areas of greatest importance to you and then begin to address them systematically.

Our Role as Your Personal Chief Financial Officer

This consulting process serves as our framework, but it is only the beginning. To ensure that your family's most important financial issues are addressed as needed, we serve as your personal chief financial officer.

As your personal chief financial officer, we set the foundation of your financial house through this investment plan. Once this is in place, we address additional components of your financial picture as needed. With your wealth management plan to guide us, we focus on four broad areas of your financial life:

1. **Wealth enhancement** aims to produce the best possible investment returns consistent with your level of risk tolerance and to minimize the tax impact on those returns.
2. **Wealth transfer** intends to find and facilitate the most tax-efficient way to pass assets to

succeeding generations, and to do so in a way that meets your wishes.

3. **Wealth protection** is aimed at protecting your wealth against potential creditors, litigants, children's spouses and potential ex-spouses.
4. **Charitable giving** helps fulfill your charitable goals. It is most effective when coordinated with the three services above.

In accordance with your stated priorities, we will raise these issues and make our recommendations to you during our Regular Progress Meetings. Over time, this allows us to address all of your advanced planning needs.

Our Network of Professional Advisors

To gain the precise expertise we need to serve as your personal chief financial officer and effectively manage all aspects of your financial affairs, we work with a network of professional advisors. These carefully selected professionals provide us with a high level of knowledge and skill in key aspects of your finances. As your wealth manager, we review your complete financial picture and identify any needs. As appropriate, we then turn to our network in order to evaluate your specific financial challenges and devise appropriate recommendations.

The key members of our network of professional advisors are listed below.

In these sections, provide brief biographical information about each member of your professional network and the contribution each makes toward addressing the client's financial challenges.

Trusts and Estates Lawyer

Life Insurance Specialist

Accountant

Other Professional

Other Professional

The Investment Plan

Your investment plan consists of three key parts:

1. An analysis of your current situation
2. A detailed description of your most important financial goals
3. Our recommendations for achieving those goals

Current Situation

All figures as of March 1, 2011

Income and Expense Analysis

Dan's annual income: $700,000
Lauren's annual income: $225,000
Total annual income: $925,000

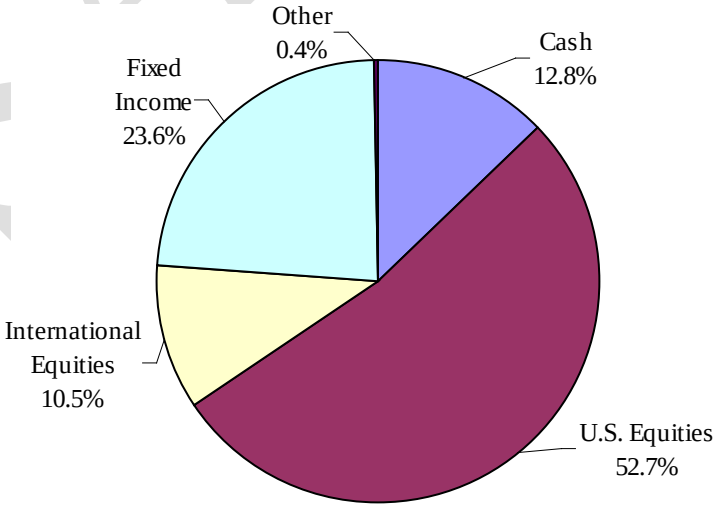
Monthly expenses, including taxes: $47,500
Annual expenses, including taxes: $460,000

Annual discretionary income: $110,000

Annual investment contributions—tax-deferred retirement accounts: $55,000
Annual investment contributions—taxable accounts: $240,000
Annual 529 plan contributions: $60,000

Asset Allocation Analysis

Current Asset Allocation



Current Investment Style—Equities

	Value	Blend	Growth
Large Cap	21.5%	25.3%	26.1%
Mid Cap	2.8%	3.7%	7.2%
Small Cap	4.0%	2.9%	6.5%

Current Investment Style—Fixed Income

	Short Term	Intermediate Term	Long Term
High Quality	15%	85%	0%
Medium Quality	0%	0%	0%
Low Quality	0%	0%	0%

Trailing Returns (pre-tax)

3 Months	1 Year	3 Years	5 Years	10 Years
-1.5%	5.14%	5.88%	6.17%	9.65%

Financial Goals

Short Term

Goal: Ensure financial security and provide for long-term care needs of Dan's mother
Time horizon: Immediate
Risk tolerance for this time horizon: Very low

Intermediate Term

Goal: Fund college for three children, Michael (14), Jessica (8) and Jordan (8)
Time horizon: 4–15 years
Risk tolerance for this time horizon: Low

Long Term

Goal: Retire by age 60
Time horizon: Ten years
Risk tolerance for this time horizon: Low to medium

Goal: Leave legacy for children
Time horizon: 20–40 years
Risk tolerance for this time horizon: Medium

Our Recommendations

We used five steps to develop our recommendations for your investment plan:

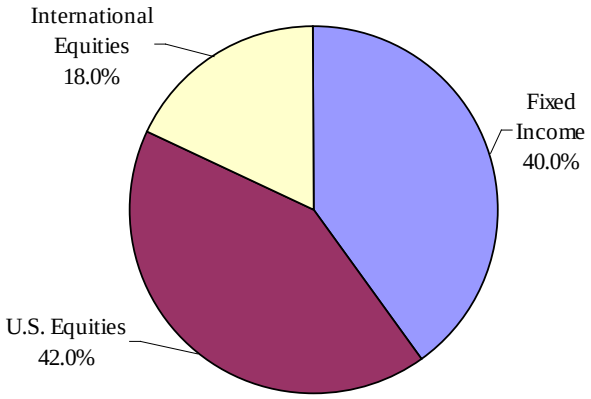
1. Assess your goals and circumstances.
2. Set long-term investment objectives.
3. Plan your asset allocation.
4. Select your investment approach.
5. Build your portfolio.

Please refer to Part Two of the wealth management plan, the investment policy statement, for a comprehensive description of this five-step process.

Target Asset Allocation

To meet your goals, we recommend investing in a broadly diversified portfolio with approximately 60 percent allocated in equities. We recommend allocating 70 percent of the equities to U.S. stocks and 30 percent to international stocks with the objective of providing additional global portfolio diversification.

To provide for long-term growth consistent with your risk portfolio, as well as to meet current liquidity needs, we would recommend the following target asset allocation for your investment portfolio:



Tax Considerations

When contemplating a major portfolio restructure, one key consideration is the potential tax impact of the restructuring itself. If you are holding positions with substantial unrealized gains, it may be advantageous to stage or defer the restructuring. In your case, your portfolio has sufficient unrealized losses to provide flexibility in restructuring your portfolio. As the table below shows, at current levels, it should be possible to restructure your portfolio substantially without incurring capital gains tax.

Aggregate Position	Unrealized Gains	Unrealized Losses
Long Term	$14,500	$54,100
Short Term	N/A	$44,800

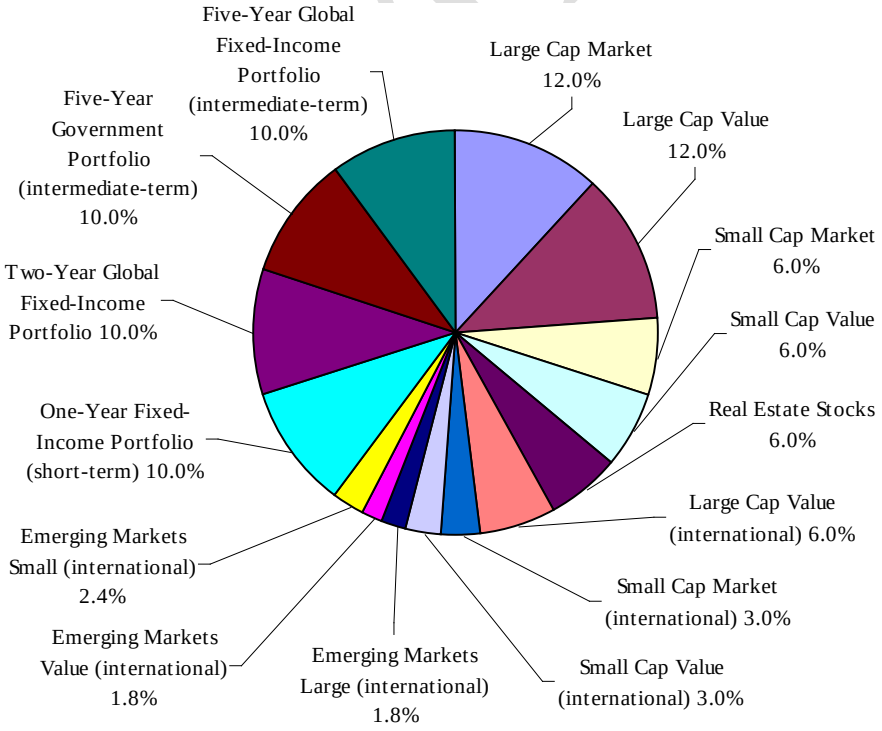
Cost Ratio Considerations

Your portfolio includes approximately $4,123,000 in mutual fund holdings. For sizable accounts, retail mutual funds often represent an unnecessarily costly way to create portfolio diversification and access professional portfolio management. The ongoing cost of mutual fund investments is commonly found in three forms: the fund's expense ratio, the transaction costs associated with portfolio turnover and the tax impact of the portfolio distributions in taxable accounts. The table below summarizes your fund holdings.[1]

Mutual Fund	Approximate Holdings	Expense Ratio	Turnover	Tax Cost Ratio (3 year)
MFS New Discovery A	$386,000	1.41%	167%	0.53%
Putnam International Equity A	$119,000	1.40%	96%	0.50%
Dodge & Cox Stock	$1,496,000	0.52%	12%	0.52%
Vanguard Total Bond Index	$1,121,000	0.22%	75%	1.39%
Vanguard International Growth	$380,000	0.83%	44%	0.83%
White Oak Growth Stock	$621,000	1.25%	14%	0.00%
Total	$4,123,000			

Recommended Repositioning of Portfolio: Global Normal Portfolio

We believe that a significant restructuring of your portfolio will maximize the probability of you reaching your goals, as outlined to us in our Discovery Meeting. Given your investment objectives and using the available asset classes, the following portfolio repositioning has been calculated as optimal for you.



[1] Morningstar Direct Mutual Fund Database, December 2010. Tax cost ratio is Morningstar's estimate of the total return loss to taxes by high-bracket investors in mutual funds. Turnover and tax cost ratio will vary over time.

Factors Considered in Portfolio Construction

1. The recommended repositioning of your portfolio would have generated an annual return of 8.70 percent from January 1995 to December 2010. This would have assisted you significantly in offsetting the loss of purchasing power due to inflation.
2. The volatility of each asset class is measured by its standard deviation. Your repositioned **Global Normal Portfolio** has an annualized standard deviation of 10.14 percent for the 16-year period ending in 2010.
3. For all of the 12-month periods in the last 10 years, (2001-2010) our **Global Normal Portfolio** before fees experienced a maximum loss of –32.13 percent and a maximum gain of +43.99 percent.
4. Additionally, over the last 16 years, our **Global Normal Portfolio** before fees experienced a minimum 12-month annual gain of -32.13 percent (compounded annualized return) and a maximum gain of +43.99 percent (compounded annualized return).
5. Given these factors, your repositioned portfolio was statistically optimized to establish the highest rate of expected return at this level of risk.

For returns and information regarding the **Global Normal Portfolio Balanced Index Strategy** from 1995 to 2010, please see ***Hypothetical Returns Before Fees*** in **Wealth Management Plan, Part Two: Investment Policy Statement**.

Future Liquidity Requirements

Careful consideration of cash flow requirements is essential to the success of any long-term financial plan. We have calculated the following cash flow requirements for two of your primary long-term goals: funding your children's college educations and your own retirement. We have also calculated the total portfolio amount required to meet these needs and still enable you to leave the substantial legacy that you desire.

The following are placeholders for Monte Carlo simulations for cash flow and withdrawal rates, as well as any needed supporting text:

Required Annual Cash Flow from Portfolio During Children's College Years (2014–2026)

Required Annual Cash Flow from Portfolio at Retirement (2021) and at Ten-Year Intervals Postretirement

Portfolio Amount Required to Provide Sufficient Cash Flow, with Range of Withdrawal Rates

Short- and Intermediate-Term Cash Management

It is important to note that our recommended portfolio is designed to help you achieve your long-term goals—that is, goals with a time horizon of five years or longer. To provide for the liquidity required to meet your short-term (five years or less) goals, we recommend the use of a cash management account. The money in this account would be managed separately from your long-term portfolio.

Investment Advisory Fees

Our investment advisory fees are deducted quarterly in advance from your account, as follows.

Value of All Managed Accounts with Firm	Per Quarter	Annualized
First $1 million	0.3125%	1.25%
Next $1 million to $2.5 million	0.2500%	1.00%
Next $2.5 million to $5 million	0.2000%	0.80%
Next $5 million to $10 million	0.1750%	0.70%
$10 million to $25 million	0.1500%	0.60%
More than $25 million	0.1250%	0.50%

Our minimum quarterly investment advisory fee is $3,125.

Firm's Background and Philosophy

In this section, provide a short history of the firm, brief biographical information about each principal and a concise explanation of the firm's approach to client service and wealth management.

Duties and Responsibilities

You, the Client, should always be cognizant that you have the ultimate responsibility for the investment of your own assets. We shall assist you to discharge this responsibility with the care, skill, prudence and diligence under the circumstances then prevailing, that a prudent person, acting in a like capacity and familiar with such matters, would use in such conduct with like aims.

We are responsible for assisting you in making an appropriate asset allocation decision based on your particular needs, objectives and risk profile, implementing such decisions, reporting portfolio performance and rebalancing the portfolio, as necessary.

Elite Financial Advisor is a Registered Investment Advisor and shall act as your investment advisor, pursuant to the Client Agreement between you and Elite Financial Advisor.

You should provide us with all relevant information on financial condition, net worth and risk tolerances and shall notify us promptly of any changes to this information. Failure to disclose all such relevant information will limit our ability to provide prudent investment advice. Your duties, rights and responsibilities are set forth in the attached Client Agreement.

You have elected the Global Normal Portfolio for your accounts in aggregate.

Adopted this _____ day of _____, 20_____.

Client:_____

Client:_____

Financial advisor: _____

Comments or modifications: _____

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