

#### ENRICHING YOUR CROSS-BORDER LIFESTYLE

#### The KeatsConnelly Difference

# Why the KeatsConnelly Approach?



# Why The KeatsConnelly Approach?

- Grounded in academic research, not investment fads
- Helps avoid common investing mistakes
- Customized to address your specific financial situation
- Tax sensitive and low cost so you keep more of your returns
- Transparent



# The Myth of Active Management

- It is intuitive to believe that if you hire the smartest people, give them the best training and tools, that those people should be able to pick stocks better than the rest of us.
- The empirical evidence shows that is not true!
- Active stock picking does not outperform a pool of passively managed stocks, after expenses.



Warren E. Buffett Chairman and CEO, Berkshire Hathaway, Inc.

> "Most investors, both institutional and individual, will find that the best way to own common stocks is through an index fund that charges minimal fees."



#### The Failure of Active Management Percentage of Active Public Equity Funds That Failed to Beat the Index

Five Years as of December 2012



Equity Fund Category



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Source: Standard & Poor's Indices Versus Active Funds Scorecard, year-end 2012. Index used for comparison: US Large Cap—S&P 500 Index; US Mid Cap—S&P MidCap 400 Index; US Small Cap—S&P SmallCap 600 Index; Global Funds—S&P Global 1200 Index; International—S&P 700 Index; International Small—S&P World ex. US SmallCap Index; Emerging Markets—S&P IFCI Composite. Data for the SPIVA study is from the CRSP Survivor-Bias-Free US Mutual Fund Database.

#### The Failure of Active Management Percentage of Active Fixed Income Funds That Failed to Beat the Index

Five Years as of December 2012



**Fixed Income Category** 



Source: Standard & Poor's Indices Versus Active Funds Scorecard, year-end 2012. Index used for comparison: Government Long—Barclays Capital US Long Government Index; Government Intermediate—Barclays Capital US Intermediate Government Index; Government Short—Barclays Capital US 1-3 Year Government Index; Investment Grade Long— Barclays Capital US Long Government/Credit; Investment Grade Intermediate—Barclays Capital US Intermediate Government/Credit; Investment Grade Short—Barclays Capital US 1-3 Year Government/Credit; National Muni—S&P National AMT-Free Municipal Bond Index; CA Muni—S&P California AMT-Free Municipal Bond Index. Data for the SPIVA study is from the CRSP Survivor-Bias-Free US Mutual Fund Database. Barclays Capital data, formerly Lehman Brothers, provided by Barclays Bank PLC.

#### Subsequent Performance of Top 25% of US Equity Funds

As of December 31, 2011



KEATS

The left column represents all US equity funds in the CRSP Mutual Fund Database with a complete return history for 2002–2006. The funds are sorted by performance relative to their benchmarks. Funds in the top quartile are then tracked and directed to their subsequent performance quartiles in the following 5-year period (2007–2011), or to the "Did Not Survive" category. Quartiles in the following period reflect all funds with a complete return history. Percentages may not total 100% due to rounding.

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Source: CRSP Survivor-Bias-Free US Mutual Fund Database.

#### Subsequent Performance of Top 25% of US Bond Funds

As of December 31, 2011



KEATS

The left column represents all US bond funds in the CRSP Mutual Fund Database with a complete return history for 2002–2006. The funds are sorted by performance relative to their benchmarks. Funds in the top quartile are then tracked and directed to their subsequent performance quartiles in the following five-year period (2007–2011), or to the "did not survive" category. Quartiles in the following period reflect all funds with a complete return history. Percentages may not total 100% due to rounding.

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Source: CRSP Survivor-Bias-Free US Mutual Fund Database.

## Perils of Market Timing





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Returns are from market-close to market-close. Indices are not available for direct investment; their performance does not reflect the expenses associated with the management of an actual portfolio. The S&P data are provided by Standard & Poor's Index Services Group. Dow Jones data provided by Dow Jones Indexes. Russell data copyright © Russell Investment Group 1995-2010 all rights reserved. Mutual fund universe statistical data and non-Dimensional money managers' fund data provided by Morningstar, Inc. Nasdaq Composite Index data provided by The Nasdaq Stock Market, Inc. KBW Bank Index data provided by Keefe, Bruyette & Woods, Inc. (KBW). Past performance is not a guarantee of future results.

#### The Market's Response to Crisis

Performance of a Normal Balanced Strategy: 60% Stocks, 40% Bonds





Balanced Strategy: 7.5% each S&P 500 Index, CRSP 6-10 Index, US Small Value Index, US Large Value Index; 15% each International Value Index, International Small Index; 40% BofA Merrill Lynch One-Year US Treasury Note Index.

The S&P data are provided by Standard & Poor's Index Services Group. The Merrill Lynch Indices are used with permission; copyright 2010 Merrill Lynch, Pierce, Fenner & Smith Incorporated; all rights reserved. CRSP data provided by the Center for Research in Security Prices, University of Chicago. US Small Value Index and US Large Value Index provided by Fama/French. International Value Index provided by Fama/French. International Small Cap Index compiled by Dimensional from StyleResearch securities data; includes securities of MSCI EAFE countries in the bottom 10% of market capitalization, excluding the bottom 1%; market-cap weighted; each country capped at 50%; rebalanced semiannually. 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. Not to be construed as investment advice. Returns of model portfolios are based on back-tested model allocation mixes designed with the benefit of hindsight and do not represent actual investment performance.

### Growth of Wealth

Monthly: July 1926–December 2011





In US dollars. Indices 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. US small, small value and large value index data (ex utilities) provided by Fama/French. The S&P data are provided by Standard & Poor's Index Services Group. CRSP data provided by the Center for Research in Security Prices, University of Chicago. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefield).

## The Randomness of Returns

Annual Return (%)

	1998	1999	2000	2001	2002	2003	2004	2005	5 20	06 2	007	2008	2009	2010	2011	2012
Highest Return	28.6	66.4	31.0	14.0	7.6	69.2	35.1	34.5	5 3(	6.0 3	39.8	8.8	79.0	28.1	9.4	21.2
$\uparrow$	23.1	33.0	22.8	12.3	5.1	66.8	33.2	24.1	3	3.0	8.2	6.6	48.6	26.9	3.4	18.6
	15.6	30.2	9.0	8.4	3.8	60.2	32.1	22.6	3	2.6	8.0	4.7	47.8	24.5	2.3	18.2
	10.2	21.5	8.3	7.3	3.6	56.3	30.6	<b>15.</b> 1	2	7.5	6.3	-28.9	44.8	20.7	2.1	18.1
	9.7	21.3	7.3	6.4	3.4	47.3	26.0	13.8	3 <b>2</b> (	6.3	6.3	-33.8	28.5	19.2	0.6	17.5
	8.4	21.0	7.0	2.5	-2.9	46.0	22.3	7.0	) 2:	3.5	6.2	-36.8	27.2	19.2	0.4	17.1
	7.8	7.4	4.0	-2.4	-6.0	36.2	18.3	4.9	2	2.2	5.9	-37.0	26.5	15.5	-4.2	16.8
	5.9	4.0	-2.0	-5.6	-11.4	30.0	16.5	4.7	7 18	8.4	5.5	-39.2	20.6	15.1	-5.5	16.4
	-2.6	3.6	-3.0	-6.5	-13.8	28.7	10.9	4.6	5 1 <b>!</b>	5.8	-0.2	-42.5	19.7	13.3	-15.1	16.0
	-6.4	1.9	-9.1	-11.9	-15.5	2.0	2.7	3.1		4.3	-1.6	-45.1	2.3	3.7	-15.6	2.1
V	-17.0	-1.5	-12.3	-15.4	-20.5	1.9	1.3	2.4	1 4	4.1 ·	-9.8	-47.1	0.8	2.0	-17.1	0.9
Lowest Return	-25.3	-2.6	-30.6	-16.7	-22.1	1.5	0.8	1.3	3 :	3.8 -1	7.6	-53.2	0.2	0.8	-18.2	0.2
		1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
US La	rge Cap	28.6	21.0	-9.1	-11.9	-22.1	28.7	10.9	4.9	15.8	5.5	-37.0	26.5	15.1	2.1	16.0
US Large Ca	ap Value	15.6	7.4	7.0	-5.6	-15.5	30.0	16.5	7.0	22.2	-0.2	-36.8	19.7	15.5	0.4	17.5
US Sr	nall Cap	-2.6	21.3	-3.0	2.5	-20.5	47.3	18.3	4.6	18.4	-1.6	-33.8	27.2	26.9	-4.2	16.4
US Small Ca	ap Value	-6.4	-1.5	22.8	14.0	-11.4	46.0	22.3	4.7	23.5	-9.8	-28.9	20.6	24.5	-5.5	18.1
US Rea	al Estate	-17.0	-2.6	31.0	12.3	3.6	36.2	33.2	13.8	36.0	-17.6	-39.2	28.5	28.1	9.4	17.1
Intl Large Ca	ap Value	23.1	33.0	4.0	-15.4	-13.8	69.2	30.6	15.1	33.0	6.3	-45.1	48.6	13.3	-17.1	21.2
Intl Sr	nall Cap	10.2	30.2	-12.3	-16.7	-2.9	60.2	32.1	22.6	26.3	8.0	-47.1	44.8	20.7	-15.6	16.8
Intl Small Ca	ap Value	9.7	21.5	-2.0	-6.5	3.8	66.8	35.1	24.1	27.5	6.2	-42.5	47.8	19.2	-15.1	18.2
Emerging	Markets	-25.3	66.4	-30.6	-2.4	-6.0	56.3	26.0	34.5	32.6	39.8	-53.2	79.0	19.2	-18.2	18.6
One-Year U	JS Fixed	5.9	4.0	7.3	7.3	3.4	1.5	0.8	2.4	4.3	5.9	4.7	0.8	0.8	0.6	0.2
Five-Year US Governme	nt Fixed	7.8	1.9	9.0	8.4	7.6	2.0	1.3	1.3	3.8	8.2	8.8	0.2	3.7	3.4	0.9
	0 /	26	0 2	61	<b>5</b> 1	10	27	21	11	6.2	66	2 2 2	20	23	2 1	



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investment.

Index performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

In US dollars. US Large Cap is the S&P 500 Index, provided by Standard & Poor's Index Services Group. US Large Cap Value is the Russell 1000 Value Index. US Small Cap is the Russell 2000 Value Index. Russell data copyright © Russell Investment Group 1997-2012, all rights reserved. US Real Estate is the Dow Jones US Select REIT Index, provided by Dow Jones Indexes. International Value data provided by Fama/French from Bloomberg and MSCI securities data. International Small Cap data compiled by Dimensional from Bloomberg, StyleResearch, London Business School, and Nomura Securities data. International Small Cap Value data compiled by Dimensional from Bloomberg and StyleResearch securities data. Emerging Markets is the MSCI Emerging Markets Index (gross dividends), copyright MSCI 2012, all rights reserved; see MSCI disclosure page for additional information. One-Year US Fixed is the BofA Merrill Lynch One-Year US Treasury Note Index, used with permission; copyright 2012 Merrill Lynch, Pierce, Fenner & Smith Incorporated; all rights reserved. Five-Year US Government Fixed is the Barclays Capital Treasury Bond Index 1-5 Years, formerly Lehman Brothers, provided

by Barclays Bank PLC. Five-Year Global Fixed is the Citigroup World Government Bond Index 1-5 Years (hedged), copyright 2012 by Citigroup. Indexes are not available for direct

#### Equity Returns of Developed Markets

Annual Return (%)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Highest Return	Belg.	Austria	UK	H.K.	H.K.	H.K.	Norway	Switz.	Spain	Switz.	Belg.	Sing.	Switz.	Austral.	Austria	Sweden	Austria	Can.	Spain	H.K.	Japan	Norway	Sweden	US	Belg.
$\wedge$	53.63	103.91	10.29	49.52	32.29	116.70	23.57	44.12		<i>4</i> 4.25	67.75	99.40	5.85	168	16.55	64.53	71.52	28.31	49.36	41.20	-29.21	87.07	33.75	1.36	39.55
	Den.	Ger.	H.K.	Austral.		Sing.	Japan		Sweden	Italy	Italy	Sweden	Can.	Austria	Austral.	Ger.	Belg.	Japan	Sing.	Ger.	Switz.	Austral.	Den.	UK	Den.
	52.67	46.26	9.18	33.64	17.23	67.97	2144		37.21	35.48	52.52	79.74	5.34	-5.65	-134	63.80	43.53	25.52	46.71	35.21	-30.49	76.43	30.73	-2.56	3127
	Sweden	Norway	Austria	US	US		Sweden	Sweden	H.K.	Den.		Japan	Den.	Belg.	Norway		Norway	Austria	Norway	Norway	US	Sing.	H.K.	Switz.	Sing.
	48.33	45.53	6.33	30.07	6.39	45.79	18.34	33.36	33.08	34.52	49.90	61.53	3.44	-10.89	-7.26	58.46	38.39	24.64	45.12	31.43	-37.57	73.96	23.23	-6.77	30.96
	Norway	Den.	Norway	Sing.	Sing.	Norway	Neth.		Norway	US	France	H.K.	Norway		Italy	Austria	Sweden	Den.	Sweden	Can.		Sweden	Sing.	Norway	Ger.
	42.40	43.94	0.65	24.96	6.28	42.04	11.70	29.83	28.63	33.38	41.54	59.52	-0.89	-11.36	-7.33	56.96	36.28	24.50	43.39	29.57	-40.60	64.16	22.14	-10.01	30.90
	France	Sing.	Den.	France	France	Sweden	Italy		Can.	Spain	US	Can.	Italy	Norway	Japan	Can.	Italy	Norway	Den.	Sing.	France	H.K.	Can.	Belg.	H.K.
	37.87	42.26	-0.91	17.83 Noth	2.81	36.99	TL56	27.71 Dolg	28.54	25.41	30.14	53.74	-133	-12.22	-10.28	54.60	32.49 Don	24.26	38.77 Dolg	28.35	-43.27	60.15 Dola	20.45	-10.62	28.27 Austria
	Austral.		05	17.00			Deig.	Dely.	Neth.	Ger.	Ger.	1101Way	1 00	10.00	SWILZ.	Austral.	20.00	SWILZ.	веig.			Беly.	Japan	Austral.	Austria
	30.40	JO. D	-3. D	17.00 Don	Z.30	JJ.04	0.24 Sing	20.00	27.51	24.57 Noth	29.43 Stait 7	SL/U	-4.09	- 12.39	- U.ST Sing	49.40 Don	SU.02	D.SS Austral	SO.00	20.34 Don	-40.01	57.49 Con	10.44	- 0.95	25.90
	35 30	35.70	-3 10	16.56	_147	35.28	6.68	□.N. 22.57	27.42	23.77	3WILZ. 23.53	20.27	-4 31	-14.05	-1105	49.25	20 24	16 02	36 54	25 50	-45.87	56 18	14.77	-10 10	22 07
	Sing	Sweden	Switz	LIK		Austral	Austral							Den	Can	Nonway	Spain	Sing	Ger	Snain	Sing	Spain		Snain	Sweden
	33.32	3179	-6.23	16.02	-3.65	35 17	540	2127	23.24	22.62	23.23	2192	-9.95	-14.81	-13 19	48 11	28.93	14.37	35.99	23.95	-47.35	43.48	14.52	-12.28	2107
	H.K.	US	Ger.	Switz	Ger.	Den.	Ger.	Den.	Den.	Bela.	UK	Ger.	UK	H.K.	Bela.	France	H.K.	Neth.	France	Neth.	Den.	UK	Switz.	Can.	France
	28.12	30.01	-9.36	15.77	-10.27	32.81	4.66	18.78	2179	13.55	17.80	20.04	-11.53	-18.61	-14.97	40.22	24.98	13.85	34.48	20.59	-47.56	43.30	1179	-12.71	2129
	Ger.	Switz.	Belq.	Spain	Austria	Spain	Den.	Can.	France	Sweden	Sweden	Austral.	Austria	Can.	UK	H.K.	Sing.	Sweden	Italy	France	Neth.	Austria	Norway	Japan	Neth.
	20.60	26.21	-10.98	15.63	-10.65	29.78	3.77	18.31	2120	12.92	13.96	17.62	-11.96	-20.44	-15.23	38.10		10.31	32.49	13.24	-48.22	43.20	10.95	-14.33	
	Can.	Can.	Sing.	Sweden	Austral.	Italy	Switz.	Ger.	Austral.	Can.	Den.	UK	US	Switz.	Spain	Italy	Can.	Ger.	Neth.	UK	UK	Neth.	Austria	Sweden	
	17.07	24.30	-11.66	14.42	-10.82	28.53		16.41	16.49	12.80	8.99	12.45	-12.84	-2138	-15.29	37.83	22.20	9.92	3138	8.36	-48.34	42.25	9.88	-15.98	20.35
	US	UK	Can.	Belg.	Can.	Austria		France	Ger.	France	Austral.	Den.	H.K.		Den.	Sing.	UK	France	Austral.	Italy	Sweden	Den.	UK	Den.	Norway
	14.61		-13.00	13.77	-12.15	28.09		14.12	13.58	11.94	6.07	12.06	-14.74	-22.10	-16.03		19.57	9.88	<u>30.86</u>	6.06	-49.86	36.57	8.76	-16.02	18.65
	Neth.	Italy	France	Can.	Sweden	Japan	UK	Austral.	Italy	Norway	Japan	Neth.	Ger.	France	H.K.	Japan	France	Belg.	UK	US	Italy	France	Ger.	H.K.	US
	14.19	19.42	-13.83	11.08	-14.41	25.48	-163	11.19	12.59	6.24	5.05	6.88	-15.59	-22.36	-17.79	35.91	18.48	9.05	30.61	5.44	-49.98	31.83	8.44	-16.02	15.33
	Spain	Belg.	Spain	Japan	Japan	UK	Can.	Sing.	Belg.	Austria	Austria	Spain	Spain	Ger.	Neth.	Belg.	Ger.	H.K.	H.K.	Switz.	Austral.	Italy	Neth.	France	UK
	13.53	17.29	-13.85	8.92	-21.45	24.44	-3.04	6.45	12.03	1.57	0.35	4.83	-15.86	-22.39	-20.83	35.33	16.17	8.40	30.35	5.29	-50.67	26.57	174	-16.87	15.25
	Italy		Austral.	Ger.		Belg.		Norway	Austria	Austral.	H.K.	Italy	Belg.	Sing.	France	Switz.	Japan	UK	Switz.	Austria	H.K.	US	Belg.	Sing.	Italy
	11.46	9.76	-17.54	8.16	-21.87	23.51	-4.80	6.02	4.51	-10.44	-2.90	-0.26	-16.85	-23.42	-21.18	34.08	15.86	7.35	27.40	2.1/	-51.21	26.25	-0.42	-17.92	12.48
	Switz.	Austral.	Italy	Italy	Italy	France	France	Italy	Switz.	H.K.	Can.	Switz.	Sweden	Italy			SWIZ.	US	Can. ∉ ôô	Sweden	Norway	SWITZ.	France	Ger.	Can.
	0.16	9.30	- B. B	- 1.82	-22.22	20.90	-5.18	1.05	2.28 Cing	-23.29	-0.14 Cing	-7.02	-21.29 Cing	-20.59 Sweden	-23.09	32.06	14.96	5.14	17.80	0.62 Dolg	-04.24	25.31	-4.11	- 18.08	9.09
$\checkmark$	5.95	п.к. 8 30_	-20 00	-12.23	-22 20	-Can. 17.58_	-6.28	-Japan 0.60	-6.86	Japan -23.67	-12.88	-0 11	-27 72	-27 18	-30 40	28.41	12 24		14.67	вену.	-66.48	25 15	_15.01_	-23.18	- 3 apan 8 18
Lowest Return	Austria	Janan	Janan	Norway	-22.29 Den		0.20	Austria	Janan	Sing	Norway	Bela	Janan	Janan		Neth	LIS	Italy	Janan	Janan	Austria	Janan	Snain	Austria	Spain
	0.57	171	-36 10	-15 50	-28 25	9.15	-28.90	-4 72	-15.50	-30.05	-30.06	-14 26	-28.16_	-29.40	-33.18	28.09	10.14	190_	624_	-4 23	-68 41	6 25_	-2195	-36.43	
Keats 👾	- 0.07			0.00	20.20	0.0	20.00	-1.72	0.00	00.00		-11.20	20.10	20.10	-00.15	20.00	N. H			-1.20		0.20	2100	00.10	0.00

In US dollars.

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Source: MSCI developed markets country indices (net dividends) with at least twenty-five years of data. MSCI data copyright MSCI 2012, all rights reserved; see MSCI disclosure page for additional information. Indexes are not available for direct investment. Index performance does not reflect expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

## World Market Capitalization



- Developed Markets
- Emerging Markets
- Frontier Markets





### Five Factors Help Determine Expected Return

Annual Average Returns

1927–2012





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Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Equity premiums provided by Fama/French. Maturity premium and credit premium data (1927–1972) provided by © Stocks, Bonds, Bills, and Inflation Yearbook©, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefield). Credit premium data (1973–present) provided by Barclays Bank PLC.

## Size and Value Effects in the US

Annual: 1927–2012

#### US Large Capitalization Stocks

**US Small Capitalization Stocks** 





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Fama/French data provided by Fama/French. The S&P data are provided by Standard & Poor's Index Services Group. CRSP data provided by the Center for Research in Security Prices, University of Chicago.

Small company risk: Securities of small firms are often less liquid than those of large companies. As a result, small company stocks may fluctuate relatively more in price. 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. Not to be construed as investment advice. See cover page for additional information.

## Size and Value Effects Abroad

Annual: 1975–2012

14.85 14.79 10.69 Annualized Compound Return (%) Fama/French International MSCI World International Small Cap ex USA Index Value Index Index Average Annual Return (%) 17.54 18.19 12.83 Standard Deviation (%) 21.41 24.48 27.93 Annual Correlation Coefficient 0.540 0.423 0.638 to S&P 500 Index



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Fama/French data provided by Fama/French from Bloomberg and MSCI securities data. International Small Cap Index data compiled by Dimensional from Bloomberg, Style Research, London Business School, and Nomura Securities data. MSCI data copyright MSCI 2013, all rights reserved; see MSCI disclosure page for additional information. The S&P data are provided by Standard & Poor's Index Services Group.

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Non-US Developed Markets Stocks

The Risk Dimensions Delivered							
OVERLAPPING PERIOD	US Value vs. US Growth	US Small vs. US Large					
In 25-Year Periods	Value beat growth 100% of the time.	Small beat large 97% of the time.					
In 20-Year Periods	Value beat growth 100% of the time.	Small beat large 88% of the time.					
In 15-Year Periods	Value beat growth 95% of the time.	Small beat large 82% of the time.					
In 10-Year Periods	Value beat growth 91% of the time.	Small beat large 75% of the time.					
In 5-Year Periods	Value beat growth 80% of the time.	Small beat large 60% of the time.					



Periods based on rolling annualized returns. 739 total 25-year periods. 799 total 20-year periods. 859 total 15-year periods. 919 total 10-year periods. 979 total 5-year periods.

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Performance based on Fama/French Research Factors. Securities of small companies are often less liquid than those of large companies. As a result, small company stocks may fluctuate relatively more in price. Mutual funds distributed by DFA Securities LLC.

# **Mutual Fund Expenses**

"After costs, the return on the average actively managed dollar will be less than the return on the average passively managed dollar for any time period."

-William F. Sharpe, 1990 Nobel Laureate





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William F. Sharpe, "The Arithmetic of Active Management," *Financial Analysts Journal* 47, no. 1 (January/February 1991): 7-9. Mutual fund expense ratios as of August 23, 2012. Asset weighting based on net assets as of July 31, 2012. Data provided by Morningstar, Inc. Passive funds are those coded by Morningstar as Index Funds.

#### **Fees Matter**

#### Assumed 6.5% Annualized Return over 30 Years

- Fees matter.
- Over long time periods, high management fees and related expenses can be a significant drag on wealth creation.
- Passive investments generally maintain lower fees than the average actively managed investment by minimizing trading costs and eliminating the costs of researching stocks.





#### **MSCI** Disclosure

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## **Investment Philosophy**

• An appropriate asset allocation and a well-diversified portfolio are fundamental to long-term investment success.

The right mix of assets (like stocks, bonds, cash, real estate, etc.) helps limit your short-term investment risk. We build portfolios to reflect your overall financial situation while targeting the least possible amount of risk needed to reach your goals.

• In public capital markets, profitable short-term opportunities are quickly traded away.

Well-capitalized and informed traders act quickly on new information, so we view the current price of a security as the best unbiased estimate of its true value. Active trading tends to increase costs, so we believe "passive" investments such as index mutual funds and ETFs offer the best long-term investment experience.



## Investment Philosophy Cont.

• Investors should focus on long-term average performance and not chase short-term trends.

Equity markets move toward long-term average return levels over time, and when you invest can greatly affect realized returns; however, investors who try to time when to get in and out of markets usually harm their long-term returns. Therefore, an appropriately built and rebalanced portfolio represents the best way to reach long-term investment goals. Occasional tactical emphases may help boost returns but should be undertaken very carefully.

• Small company stocks and "value" stocks offer higher longterm performance both domestically and internationally.

Historically, stocks of smaller companies and stocks whose prices reflect deep discounting by the market have provided premium returns over long periods of time. We attempt to emphasize these types of assets within an overall portfolio context.



## Investment Philosophy Cont.

• Fixed income investments should reduce a portfolio's volatility, so it is important to emphasize safety through high credit quality and shorter-term maturities.

The allocation to fixed income (bonds and cash) represents a key risk management tool. While long-term and low-quality bonds can increase current yields, they can also carry significant volatility. For this reason, we generally target safety first, and yield second when building the fixed income portfolio.

• Costs detract from returns, so investors should look to limit fund and trading expenses.

Abundant research indicates that funds with lower costs often have superior relative performance. Infrequent trading can also help keep costs down and boost returns.





- Risk Questionnaire
- FactFinder
- •Spending and Income Data
- •Personal preferences
- •Liquidity needs
- Tax Situation
- •Global investment holdings

- Return needed
- •Realistic forecasts
- •Ability to take risk
- •Comfort levels
- •Monte Carlo analysis

- •Draft investment policy
- Client review
- •Revisions and customizations
- •Final signatures

- •Transfer assets
- •Analyze selling consequences
- Consider tax impact
- Deploy portfolio
- •Monitor holdings
- •Rebalance and review
- •Maintain cash
- •Tactical moves
- Performance reports

# Four-part Harmony





#### Investment Policy Statement (IPS)





# Communication



#### Quarterly reports



#### Email updates



#### **Topical articles**



#### Meetings





Availability to answer questions



# Bringing it All Together



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