Portfolio Management
Do-It-Yourself vs. Working with an Advisor

Presented by…
Savant Capital Management, Inc.
Brent A. Lindell CTFA
Tawn M. Jacobs MST, CPA, CFP®
What is the Cardinal Rule of Investing?

“Buy Low - Sell High”
What Do People Actually Do?
What Do People Actually Do?

Data from Yahoo Finance. Reflects total return of Vanguard 500 Index Institutional Fund (VINIX).
Why Most Investors Fail Miserably

- Bad Market Timing
- Poor Stock Picking (Active Management)
- Excessive Costs
- Unaware of Tax Efficient Investing Techniques
- Ineffective Diversification
- Lack of Discipline – Failure to Routinely Rebalance
- Excessive Volatility Risk - Speculative
**Growth of $1 (1926-2009)**

- **Small Stocks**: 11.9%
- **Large Stocks (S&P 500)**: 9.8%
- **Long-term Treasury**: 5.4%
- **Treasury Bills**: 3.7%
- **U.S. Inflation**: 3.0%

*Source: Ibbotson & Associates*
## The Callan Periodic Table of Investment Returns

### Annual Returns for Key Indices (1990–2009) Ranked in Order of Performance

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>1990</td>
<td>-6.66%</td>
<td>51.19%</td>
<td>32.57%</td>
<td>7.78%</td>
<td>42.16%</td>
<td>43.09%</td>
<td>22.83%</td>
<td>14.02%</td>
<td>10.26%</td>
<td>48.54%</td>
<td>22.25%</td>
<td>13.54%</td>
<td>26.34%</td>
<td>11.17%</td>
<td>5.24%</td>
<td>34.47%</td>
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<tr>
<td>1991</td>
<td>45.40%</td>
<td>10.61%</td>
<td>18.88%</td>
<td>6.64%</td>
<td>30.04%</td>
<td>29.88%</td>
<td>14.69%</td>
<td>21.26%</td>
<td>-3.02%</td>
<td>38.59%</td>
<td>15.71%</td>
<td>4.71%</td>
<td>18.37%</td>
<td>6.57%</td>
<td>-34.92%</td>
<td>27.17%</td>
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<td></td>
<td></td>
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<tr>
<td>1992</td>
<td>-3.11%</td>
<td>41.70%</td>
<td>10.52%</td>
<td>13.37%</td>
<td>24.52%</td>
<td>22.00%</td>
<td>31.78%</td>
<td>20.00%</td>
<td>26.96%</td>
<td>6.08%</td>
<td>2.49%</td>
<td>-15.94%</td>
<td>46.03%</td>
<td>18.33%</td>
<td>4.91%</td>
<td>20.81%</td>
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<tr>
<td>1993</td>
<td>-6.65%</td>
<td>30.47%</td>
<td>7.63%</td>
<td>13.37%</td>
<td>24.52%</td>
<td>22.00%</td>
<td>31.78%</td>
<td>20.00%</td>
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<td>6.08%</td>
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<td>-15.94%</td>
<td>46.03%</td>
<td>18.33%</td>
<td>4.91%</td>
<td>20.81%</td>
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<tr>
<td>1994</td>
<td>17.17%</td>
<td>30.47%</td>
<td>7.63%</td>
<td>13.37%</td>
<td>24.52%</td>
<td>22.00%</td>
<td>31.78%</td>
<td>20.00%</td>
<td>26.96%</td>
<td>6.08%</td>
<td>2.49%</td>
<td>-15.94%</td>
<td>46.03%</td>
<td>18.33%</td>
<td>4.91%</td>
<td>20.81%</td>
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<td></td>
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</tr>
<tr>
<td>1995</td>
<td>-19.48%</td>
<td>25.75%</td>
<td>7.40%</td>
<td>10.08%</td>
<td>1.82%</td>
<td>25.75%</td>
<td>11.82%</td>
<td>12.90%</td>
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<td>12.90%</td>
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<td></td>
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<tr>
<td>1996</td>
<td>-11.00%</td>
<td>5.00%</td>
<td>9.75%</td>
<td>2.43%</td>
<td>18.46%</td>
<td>6.05%</td>
<td>9.64%</td>
<td>-2.55%</td>
<td>-0.82%</td>
<td>-2.55%</td>
<td>-2.55%</td>
<td>-2.55%</td>
<td>-2.55%</td>
<td>-2.55%</td>
<td>-2.55%</td>
<td>-2.55%</td>
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<tr>
<td>1997</td>
<td>11.21%</td>
<td>6.34%</td>
<td>1.69%</td>
<td>12.90%</td>
<td>11.82%</td>
<td>12.90%</td>
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<tr>
<td>1998</td>
<td>-23.45%</td>
<td>6.34%</td>
<td>1.69%</td>
<td>12.90%</td>
<td>11.82%</td>
<td>12.90%</td>
<td>12.90%</td>
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<td>12.90%</td>
<td>12.90%</td>
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</tr>
</tbody>
</table>

- **S&P 500 Index** measures the performance of large capitalization U.S. stocks. The S&P 500 is a 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.

- **S&P/Citigroup 500 Growth** and **S&P/Citigroup 500 Value Indices** measure the performance of the growth and value styles of investing in large cap U.S. stocks. The indices are constructed by dividing the market capitalization of the S&P 500 Index into Growth and Value indices, using style “factors” to make the assignment. The Value Index contains those S&P 500 securities with a greater-than-average value orientation, while the Growth Index contains those securities with a greater-than-average growth orientation. The indices are market-capitalization-weighted. The constituent securities are not mutually exclusive.

- **Russell 2000 Index** measures the performance of small capitalization U.S. stocks. The Russell 2000 is a market-value-weighted index of the 2,000 smallest stocks in the broad-market Russell 3000 Index. These securities are traded on the NYSE, AMEX and NASDAQ.

- **Russell 2000 Value** and **Russell 2000 Growth Indices** measure the performance of the growth and value styles of investing in small cap U.S. stocks. The indices are constructed by dividing the market capitalization of the Russell 2000 Index into Growth and Value indices, using style “factors” to make the assignment. The Value Index contains those Russell 2000 securities with a greater-than-average value orientation, while the Growth index contains those securities with a greater-than-average growth orientation. Securities in the Value index generally have lower price-to-book and price-earnings ratios than those in the Growth index. The constituent securities are not mutually exclusive.

- **MSCI EAFE** is a Morgan Stanley Capital International Index that is designed to measure the performance of the developed stock markets of Europe, Australasia and the Far East.

- **BC Agg** is the Barclays Capital Aggregate Bond Index (formerly the Lehman Brothers Aggregate Bond Index). This index includes U.S. government, corporate and mortgage-backed securities with maturities of at least one year.

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Determinants of Investment Performance

- Asset Allocation: 91%
- Market Timing: 2%
- Security Selection: 5%
- Other: 2%


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. Dimensional Fund Advisors is an investment advisor registered with the Securities and Exchange Commission. Information contained herein is compiled from sources believed to be reliable and current, but accuracy should be placed in the context of underlying assumptions. This publication is distributed for educational purposes and should not be considered investment advice or an offer of any security for sale. Past performance is not a guarantee of future results. Unauthorized copying, reproducing, duplicating, or transmitting of this material is prohibited.

Date of first use: June 1, 2006.
Actively Managed Stock Funds Fail to “Beat the Market”

(Annual Returns 15 Years Ending 12/31/09)

Source: Morningstar Direct. Mutual fund averages reflect Morningstar category averages. Returns were adjusted for Survivor Bias by adding in funds that have disappeared over the period.
Past Performance Fails to Predict Future Manager Ability to “Beat the Market”

From 2005-2010, very few funds managed to consistently repeat top performance each year.

Small-Cap Funds

Top 50%

4.6% maintained top-half ranking over 5 years

Bottom 50%

March 2005 - March 2010

Source: S&P Indices’ Global Research & Design
Active Bond Funds vs. Bond Indexes

(Annual Returns 15 years ending 12/31/09)

Source: Morningstar Direct. Mutual fund averages reflect Morningstar category averages. Returns were adjusted for Survivor Bias by adding in funds that have disappeared over the period.
### Sample of Companies in the Study

<table>
<thead>
<tr>
<th>Company</th>
<th>Plan Size (2006)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delta Airlines</td>
<td>$10.1 Billion</td>
</tr>
<tr>
<td>IBM</td>
<td>$79.6 Billion</td>
</tr>
<tr>
<td>Verizon</td>
<td>$62.6 Billion</td>
</tr>
</tbody>
</table>

### Large Pension Plans Perform Poorly vs. Index Strategies

*(Results of 192 Corporate Pension Plans 1988-2005)\(^1\)*

**Graph: Index Portfolios vs. Median Pension Plan**

- **Index Portfolios**
  - Median Active 90: 11.5%
  - Broadly Diversified\(^2\): 10.8%

- **Median Pension Plan**
  - Broadly Diversified\(^3\): 10.1%

**Source:** FutureMetrics (2006, December); all companies with fiscal year ending December with complete return data from 1988-2005. Provided by Dimensional Fund Advisors. See Endnotes 1, 2, and 3.
Actively Managed Stock Funds Failed To Outperform During The Current “Bear Market”

(12 Months Ending 12/31/2008)

<table>
<thead>
<tr>
<th>Avg. US Active Fund</th>
<th>Wilshire 5000 Index</th>
<th>Avg. Int’l Active Fund</th>
<th>EAFE Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>-38.9%</td>
<td>-37.2%</td>
<td>-46.6%</td>
<td>-43.1%</td>
</tr>
</tbody>
</table>

Source: Dimensional Fund Advisors; Morningstar EnCorr
Internal Fund Expenses Reduce Net Returns

(Assumes 10.0% Gross Annual Return)

Indexed Mutual Funds
- 9.80% Net Return
- 0.18% Expense Ratio
- 0.02% Transaction Costs
- 0.20% Total Annual Costs

Conventional Mutual Funds
- 8.22% Net Return
- 1.29% Expense Ratio
- 0.49% Transaction Costs
- 1.78% Total Annual Costs

Assumes trading costs = .50% per year per 100% portfolio turnover.

Conventional funds reflect average of all U.S. equity funds (excluding index funds) as of July 2010. Indexed funds reflect the Vanguard Total Stock Market Index (Investor Class). Data from Morningstar Direct.
Expected Annualized After-Tax Returns of Different Equity Fund Strategies

Pre-Tax Estimated Equity Returns\(^4\)

Tax-Managed Equity Index or ETF (After-Tax)\(^5\)

Low Turnover Active (25%) (After-Tax)\(^6\)

Typical Turnover Active (100%) (After-Tax)\(^6\)

High Turnover Active (200%) (After-Tax)\(^8\)

(Assumes 20-year holding period with liquidation at end)

Source: Savant Analysis, Morningstar Principia; See Endnotes 4, 5, and 6.
Cost Can Diminish Return

The **only** thing Guaranteed in Investing is that you make more if you Spend less!
## The Mutual Fund Expense Ratio Game
**Growth of America – Loaded Fund**

### Security Name
- American Funds Growth Fund of Amer 529A
- American Funds Growth Fund of Amer 529B
- American Funds Growth Fund of Amer 529C
- American Funds Growth Fund of Amer 529E
- American Funds Growth Fund of Amer 529F

### American Funds Growth Fund of Amer A
- American Funds Growth Fund of Amer B
- American Funds Growth Fund of Amer C

<table>
<thead>
<tr>
<th>Security Name</th>
<th>Gross Expense Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>American Funds Growth Fund of Amer 529A</td>
<td>.77</td>
</tr>
<tr>
<td>American Funds Growth Fund of Amer 529B</td>
<td>1.58</td>
</tr>
<tr>
<td>American Funds Growth Fund of Amer 529C</td>
<td>1.58</td>
</tr>
<tr>
<td>American Funds Growth Fund of Amer 529E</td>
<td>1.07</td>
</tr>
<tr>
<td>American Funds Growth Fund of Amer 529F</td>
<td>.57</td>
</tr>
<tr>
<td><strong>American Funds Growth Fund of Amer A</strong></td>
<td><strong>.76</strong></td>
</tr>
<tr>
<td>American Funds Growth Fund of Amer B</td>
<td>1.50</td>
</tr>
<tr>
<td>American Funds Growth Fund of Amer C</td>
<td>1.50</td>
</tr>
</tbody>
</table>

- American Funds Growth Fund of Amer F-1
- American Funds Growth Fund of Amer F-2
- American Funds Growth Fund of Amer R1
- American Funds Growth Fund of Amer R2
- American Funds Growth Fund of Amer R3
- American Funds Growth Fund of Amer R4
- American Funds Growth Fund of Amer R5
- American Funds Growth Fund of Amer R6

Data as of June 30, 2010.
## The Mutual Fund Expense Ratio Game

**Fidelity Equity Income Fund – No Load**

<table>
<thead>
<tr>
<th>Security Name</th>
<th>Prospectus Gross Expense Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fidelity Advisor Equity Income A</td>
<td>1.07</td>
</tr>
<tr>
<td>Fidelity Advisor Equity Income B</td>
<td>1.84</td>
</tr>
<tr>
<td>Fidelity Advisor Equity Income C</td>
<td>1.83</td>
</tr>
<tr>
<td>Fidelity Advisor Equity Income I</td>
<td>.79</td>
</tr>
<tr>
<td>Fidelity Advisor Equity Income T</td>
<td>1.28</td>
</tr>
<tr>
<td><strong>Fidelity Equity-Income</strong></td>
<td><strong>.74</strong></td>
</tr>
<tr>
<td>Fidelity Equity-Income II</td>
<td>.78</td>
</tr>
<tr>
<td>Fidelity Equity-Income II K</td>
<td>.56</td>
</tr>
<tr>
<td>Fidelity Equity-Income K</td>
<td>.54</td>
</tr>
</tbody>
</table>

Data as of June 30, 2010.
### Asset Location
**Asset Returns Are Taxed Differently**

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>Taxation Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term Capital Gains</td>
<td>15% for most investors / 0% for investors in the 10% and 15% tax brackets</td>
</tr>
<tr>
<td>Short-term Capital Gains</td>
<td>Ordinary income tax rates up to 35%</td>
</tr>
<tr>
<td>Qualified Dividends</td>
<td>Same as long-term capital gains</td>
</tr>
<tr>
<td>Ordinary Dividends</td>
<td>Ordinary income tax rates up to 35%</td>
</tr>
</tbody>
</table>

Note: In order for a dividend to be considered “Qualified,” it must be paid by a U.S. corporation and have been held for at least 60 days.

Reflects current IRS tax code.
### Asset Location in Different Types of Accounts

<table>
<thead>
<tr>
<th>Roth IRA</th>
<th>Traditional IRA</th>
<th>Taxable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets grow tax-free with</td>
<td>Assets grow tax-deferred with</td>
<td>Both Income and Capital gains taxed</td>
</tr>
<tr>
<td>no tax at withdrawal</td>
<td>withdrawals taxed at ordinary</td>
<td></td>
</tr>
<tr>
<td></td>
<td>income rates</td>
<td></td>
</tr>
<tr>
<td><strong>Ideal Asset Characteristics:</strong></td>
<td><strong>Ideal Asset Characteristics:</strong></td>
<td><strong>Ideal Asset Characteristics:</strong></td>
</tr>
<tr>
<td>• High Ordinary Income</td>
<td>• High Ordinary Income</td>
<td>• Low Ordinary Income</td>
</tr>
<tr>
<td>• Highest Expected Growth</td>
<td>• Lowest Expected Growth</td>
<td>• High Growth OK (Taxed at Capital Gains Rates)</td>
</tr>
<tr>
<td>• High Distributions</td>
<td>• High Distributions</td>
<td></td>
</tr>
<tr>
<td><strong>Examples:</strong></td>
<td><strong>Examples:</strong></td>
<td><strong>Examples:</strong></td>
</tr>
<tr>
<td>• Small Value Stocks</td>
<td>• Bonds</td>
<td>• U.S. Large Stocks</td>
</tr>
<tr>
<td>• Emerging Market Stocks</td>
<td>• Commodities</td>
<td>• Municipal Bonds</td>
</tr>
</tbody>
</table>

Examples:
- Small Value Stocks
- Emerging Market Stocks
- Bonds
- Commodities
- U.S. Large Stocks
- Municipal Bonds
The Concept: Sell investments with “unrealized” capital losses and buy back “nearly” identical investments to “book” the tax deduction.

The Goal: Create tax deductions that offset other taxable gains and inventory excess losses (that cannot be used in current year) to reduce future year’s tax bill.

The Benefit: Reduce taxes with relatively no cost and/or risk.
Examples of “Loss Harvesting”

- Sell Vanguard 500 & buy iShares S&P 500 = $12,500 loss.
- Sell Vanguard Europe Index, sell Vanguard Pacific Index & buy Vanguard Developed Markets Index = $12,500 loss.
- “Loss Harvesting” generated a total of a $25,000 long-term loss.
## Historical Returns During Bear Markets

<table>
<thead>
<tr>
<th>S&amp;P 500 Decline [%]</th>
<th>Year</th>
<th># of months Decline</th>
<th># of months until Breakeven</th>
<th>Subsequent Return From Trough [%]</th>
<th>3 mos.</th>
<th>12 mos.</th>
<th>3 years</th>
<th>5 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>-20.7%</td>
<td>1957</td>
<td>3</td>
<td>9</td>
<td></td>
<td>2.6%</td>
<td>30.0%</td>
<td>13.1%</td>
<td>10.3%</td>
</tr>
<tr>
<td>-22.2%</td>
<td>1966</td>
<td>8</td>
<td>6</td>
<td></td>
<td>6.0%</td>
<td>30.6%</td>
<td>10.2%</td>
<td>8.7%</td>
</tr>
<tr>
<td>-27.1%</td>
<td>1980-82</td>
<td>20</td>
<td>3</td>
<td></td>
<td>26.7%</td>
<td>59.4%</td>
<td>27.1%</td>
<td>29.7%</td>
</tr>
<tr>
<td>-28.0%</td>
<td>1962</td>
<td>6</td>
<td>10</td>
<td></td>
<td>3.7%</td>
<td>31.2%</td>
<td>19.2%</td>
<td>14.3%</td>
</tr>
<tr>
<td>-28.6%</td>
<td>1946-47</td>
<td>12</td>
<td>30</td>
<td></td>
<td>9.7%</td>
<td>12.4%</td>
<td>14.6%</td>
<td>17.4%</td>
</tr>
<tr>
<td>-33.5%</td>
<td>1987</td>
<td>3</td>
<td>18</td>
<td></td>
<td>17.2%</td>
<td>23.2%</td>
<td>15.8%</td>
<td>17.2%</td>
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<tr>
<td>-36.1%</td>
<td>1968-70</td>
<td>18</td>
<td>11</td>
<td></td>
<td>16.9%</td>
<td>41.9%</td>
<td>16.3%</td>
<td>9.3%</td>
</tr>
<tr>
<td>-48.4%</td>
<td>1973-74</td>
<td>21</td>
<td>21</td>
<td></td>
<td>9.4%</td>
<td>38.1%</td>
<td>20.0%</td>
<td>16.8%</td>
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<tr>
<td>-49.1%</td>
<td>2000-02</td>
<td>31</td>
<td>49</td>
<td></td>
<td>8.4%</td>
<td>24.4%</td>
<td>16.7%</td>
<td>15.5%</td>
</tr>
<tr>
<td>-32.6%</td>
<td>Avg. Normal Bear</td>
<td>14</td>
<td>17</td>
<td></td>
<td>11.2%</td>
<td>32.4%</td>
<td>17.0%</td>
<td>15.5%</td>
</tr>
<tr>
<td>-56.8%</td>
<td>2007-09</td>
<td>18</td>
<td>?</td>
<td></td>
<td>11.2%</td>
<td>32.4%</td>
<td>17.0%</td>
<td>15.5%</td>
</tr>
<tr>
<td>-58.7%</td>
<td>2007-09</td>
<td>18</td>
<td>?</td>
<td>3-5 years?</td>
<td>11.2%</td>
<td>32.4%</td>
<td>17.0%</td>
<td>15.5%</td>
</tr>
<tr>
<td>-83.4%</td>
<td>1929-1932</td>
<td>34</td>
<td>151</td>
<td></td>
<td>85.0%</td>
<td>162.9%</td>
<td>39.3%</td>
<td>34.8%</td>
</tr>
</tbody>
</table>

Source: Yahoo Finance, Morningstar EnCorr; See Endnotes 7, 8, and 9.
What is rebalancing?
- Systematic buying low and selling high
- Maintaining assets to target allocation within tax efficient parameters

Why is rebalancing critical?
- Commitment to long-term risk-reduction strategy
- Discipline over human emotion
- Increased return
## Asset Allocation Summary Report

**Model: Allocation Model 70-30Q**

<table>
<thead>
<tr>
<th>Class Name</th>
<th>Target</th>
<th>Actual</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and Equivalents</td>
<td>0.00%</td>
<td>0.37%</td>
<td>-0.37%</td>
</tr>
<tr>
<td>U.S. Large Cap</td>
<td>15.00%</td>
<td>14.83%</td>
<td>0.17%</td>
</tr>
<tr>
<td>U.S. Large Value</td>
<td>13.70%</td>
<td>13.82%</td>
<td>-0.12%</td>
</tr>
<tr>
<td>U.S. Small Cap</td>
<td>8.00%</td>
<td>8.07%</td>
<td>-0.07%</td>
</tr>
<tr>
<td>U.S. Small Value</td>
<td>9.10%</td>
<td>9.09%</td>
<td>0.01%</td>
</tr>
<tr>
<td>International Large Cap</td>
<td>3.10%</td>
<td>3.15%</td>
<td>-0.05%</td>
</tr>
<tr>
<td>International Large Value</td>
<td>4.20%</td>
<td>4.32%</td>
<td>-0.12%</td>
</tr>
<tr>
<td>International Small Company</td>
<td>3.60%</td>
<td>3.71%</td>
<td>-0.11%</td>
</tr>
<tr>
<td>International Small Value</td>
<td>3.70%</td>
<td>3.89%</td>
<td>-0.19%</td>
</tr>
<tr>
<td>International Emerging Markets</td>
<td>5.00%</td>
<td>4.88%</td>
<td>0.12%</td>
</tr>
<tr>
<td>Fixed Income – Intermediate</td>
<td>10.10%</td>
<td>9.76%</td>
<td>0.34%</td>
</tr>
<tr>
<td>Fixed Income – Short Term</td>
<td>10.10%</td>
<td>9.79%</td>
<td>0.31%</td>
</tr>
<tr>
<td>Fixed Income – Inflation Adjusted</td>
<td>6.80%</td>
<td>6.63%</td>
<td>0.17%</td>
</tr>
<tr>
<td>Real Estate – Domestic</td>
<td>3.00%</td>
<td>3.49%</td>
<td>-0.49%</td>
</tr>
<tr>
<td>Real Estate – International</td>
<td>1.60%</td>
<td>1.19%</td>
<td>0.41%</td>
</tr>
<tr>
<td>Commodities</td>
<td>3.00%</td>
<td>3.00%</td>
<td>0.00%</td>
</tr>
</tbody>
</table>

| Total                          | 100.00%| 100.00%|            |

*Information provided is for illustrative purposes only.*
Diversified 60/40 Portfolio (No Rebalancing)

January 2000 – December 2009

Source: EnCorr, Savant Analysis; See Endnotes 10, 11, and 12. For illustrative purposes only. Actual results may differ.
Diversified 60/40 (5% Rebalancing Trigger)

Source: EnCorr, Savant Analysis; See Endnotes 10, 12, and 13.
For illustrative purposes only. Actual results may differ.
Adding Value Through Rebalancing

Diversified 60/40 Portfolio
Rebalancing Added Return and Reduced Risk

<table>
<thead>
<tr>
<th></th>
<th>Diversified 60/40 (Not Rebalanced)</th>
<th>Diversified 60/40 (5% Rebalancing Target)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return (Annualized)</td>
<td>7.7%</td>
<td>8.6%</td>
</tr>
<tr>
<td>Standard Deviation (Annualized)</td>
<td>11.8%</td>
<td>10.6%</td>
</tr>
</tbody>
</table>

0.9% Advantage

Maximum Decline

-42.6%  -33.3%

Source: Morningstar EnCorr, Savant Analysis
### Value Added: Rebalancing and Asset Location

| Advantage from Asset Location | 0.20% - 1.00% |
| Advantage from Rebalancing    | 0.50% - 0.90% |
| **Total**                     | **0.70% - 1.90%** |

If you find all of the corridors of Free Return, your portfolio becomes…efficient!
The Efficient Frontier

- Less Return
- More Return
- Less Risk
- Historical Risk
- More Risk

20/80
30/70
40/60
50/50
60/40
70/30
80/20
90/10
100/0
Building Better Portfolios

The Basic Portfolio
(Passively Invested)

Portfolio 1

<table>
<thead>
<tr>
<th>Portfolio 1</th>
<th>1973-2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Annual Return (%)</td>
</tr>
<tr>
<td>Portfolio 1</td>
<td>9.5</td>
</tr>
</tbody>
</table>

Source: Savant Analysis and Morningstar EnCorr
Five Key Diversification Strategies

Strategy #1: Shorten Bond Maturities
Short & Intermediate-Term Bonds Offer The Optimal Risk/Return Tradeoff

(1964–2009)

<table>
<thead>
<tr>
<th>Maturity</th>
<th>1 Month</th>
<th>6 Month</th>
<th>1 Year</th>
<th>5 Year</th>
<th>20 Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Return (%)</td>
<td>5.6%</td>
<td>6.3%</td>
<td>6.3%</td>
<td>7.3%</td>
<td>7.3%</td>
</tr>
<tr>
<td>Risk (Std. Deviation)</td>
<td>0.8%</td>
<td>1.2%</td>
<td>2.0%</td>
<td>5.8%</td>
<td>11.2%</td>
</tr>
</tbody>
</table>

Source: Morningstar EnCorr; One Month T-Bills: Ibbotson U.S. 30 Day T-Bill Index; Six Month T-Bills: Merrill Lynch Six-month U.S. T-Bill Index; One Year Treasury Bonds: Ibbotson U.S. 1 Year Treasury Constant Maturity Index; Five Year Treasury Bonds: Ibbotson U.S. Intermediate-term Govt Index; Twenty Year Treasury Bonds: Ibbotson U.S. Long-term Govt Index
Three-Legged Bond Stool Strategy

- Short-term Bonds: 37.5%
- Intermediate-Term Bonds: 37.5%
- Inflation-Protected Bonds (TIPS): 25.0%
Building Better Portfolios

The Basic Portfolio / Short-Term Bonds (Passively Invested)

Portfolio 2

- S&P 500 70%
- I/T Term Bonds 11.25%
- 1-Year Bonds 11.25%
- Inflation Bonds 7.5%

1973-2009

<table>
<thead>
<tr>
<th>Portfolio</th>
<th>Annual Return (%)</th>
<th>Annual Worst Standard Deviation (%)</th>
<th>10 Year Return (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolio 1</td>
<td>9.5</td>
<td>12.7</td>
<td>-0.4</td>
</tr>
<tr>
<td>Portfolio 2</td>
<td>9.3</td>
<td>12.3</td>
<td>-0.5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Portfolio</th>
<th>S&amp;P 500 Index Stocks</th>
<th>Lehman Gov/Corp Index</th>
<th>1-Year Bonds</th>
<th>I/T Term Bonds</th>
<th>Inflation Bonds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolio 1</td>
<td>70%</td>
<td>30%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Portfolio 2</td>
<td>70%</td>
<td></td>
<td>11.25%</td>
<td>11.25%</td>
<td>7.5%</td>
</tr>
</tbody>
</table>

Source: Savant Analysis and Morningstar EnCorr
Five Key Diversification Strategies

Strategy #1: Shorten Bond Maturities
Strategy #2: Invest Globally
Where is the World’s Wealth Located?

Global Market Capitalization

2010 (actual)
- U.S. Stocks: 43%
- Emerging Market Stocks: 14%
- Developed Foreign Stocks: 43%

2040 (estimate)
- Emerging Market Stocks: 57%
- U.S. Stocks: 21%
- Developed Foreign Stocks: 21%

Source: Dimensional Fund Advisors, November 2010; 2040 reflects estimates based on study by Goldman Sachs Global Economics
World Market Capitalization
$28.6 Trillion as of December 31, 2009

In US dollars. Map reflects countries in the MSCI All Country World IMI Index and MSCI Frontier Markets Index.
Market cap data is free-float adjusted. MSCI data copyright MSCI 2009, all rights reserved. Vietnam data provided by MFMI. Many small nations not displayed. Totals may not equal 100% due to rounding. For educational purposes; should not be construed as investment advice. 1. An example large cap stock provided for comparison.

MSCI Index
Affiliation
- Developed Markets
- Frontier Markets
- Emerging Markets
Comparing U.S. and International Stocks
(Difference in Annual Returns From 1970 to 2009)

Source: Morningstar EnCorr; U.S. Stocks: S&P 500 Index; International Stocks: MSCI EAFE Index
Global Strategies Earn More With Less Risk
(Annual Returns 1973 - 2008)

Annual Risk Return (Std. Dev.)
10.3% 16.0%
9.2% 17.1%
9.0% 19.0%

Source: Savant Analysis and Morningstar EnCorr
Building Better Portfolios

The Basic Portfolio / Short-Term Bonds / International Stocks (Passively Invested)

Portfolio 3

1973-2009

<table>
<thead>
<tr>
<th>Portfolio</th>
<th>Annual Return (%)</th>
<th>Annual Worst Standard Deviation (%)</th>
<th>10 Year Return (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolio 1</td>
<td>9.5</td>
<td>12.7</td>
<td>-0.4</td>
</tr>
<tr>
<td>Portfolio 2</td>
<td>9.3</td>
<td>12.3</td>
<td>-0.5</td>
</tr>
<tr>
<td>Portfolio 3</td>
<td>9.8</td>
<td>11.6</td>
<td>0.7</td>
</tr>
</tbody>
</table>

S&P 500: 49%

I/T Term Bonds: 11.25%

1-Year Bonds: 11.25%

Inflation Bonds: 7.5%

Emerging Markets: 15.7%

1-Year Bonds: 11.25%

Inflation Bonds: 7.5%

Emerging Markets: 5.3%

Source: Savant Analysis and Morningstar EnCorr
Five Key Diversification Strategies

Strategy #1: Shorten Bond Maturities
Strategy #2: Invest Globally
Strategy #3: Own Some Small Stocks
Long-Term Growth of Small Stocks
(1926 – 2008)

US Large Stocks: 9.6%
US Small Stocks: 11.7%

$2,045
$9,549

Source: Morningstar EnCorr
## Blending Large & Small Stocks Enhances Diversification

*(Three-year Rolling Returns – Highest & Lowest)*

<table>
<thead>
<tr>
<th>Size Decile</th>
<th>Largest</th>
<th>Smallest</th>
<th>Correlation w/ S&amp;P 500</th>
</tr>
</thead>
<tbody>
<tr>
<td>1926-1928</td>
<td>28.6</td>
<td>21.4</td>
<td>0.99</td>
</tr>
<tr>
<td>1929-1931</td>
<td>-26.7</td>
<td>-34.5</td>
<td>0.97</td>
</tr>
<tr>
<td>1932-1934</td>
<td>9.9</td>
<td>24.1</td>
<td>0.95</td>
</tr>
<tr>
<td>1935-1937</td>
<td>7.8</td>
<td>9.8</td>
<td>0.93</td>
</tr>
<tr>
<td>1938-1940</td>
<td>6.8</td>
<td>5.5</td>
<td>0.92</td>
</tr>
<tr>
<td>1941-1943</td>
<td>7.7</td>
<td>15.5</td>
<td>0.89</td>
</tr>
<tr>
<td>1944-1946</td>
<td>13.2</td>
<td>21.0</td>
<td>0.87</td>
</tr>
<tr>
<td>1947-1949</td>
<td>9.1</td>
<td>8.1</td>
<td>0.84</td>
</tr>
<tr>
<td>1950-1952</td>
<td>21.4</td>
<td>21.4</td>
<td>0.81</td>
</tr>
<tr>
<td>1953-1955</td>
<td>24.4</td>
<td>21.4</td>
<td>0.73</td>
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<td>1956-1958</td>
<td>11.3</td>
<td>10.4</td>
<td>0.72</td>
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<td>1959-1961</td>
<td>12.5</td>
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<td>0.71</td>
</tr>
<tr>
<td>1962-1964</td>
<td>9.0</td>
<td>5.5</td>
<td>0.69</td>
</tr>
<tr>
<td>1965-1967</td>
<td>6.0</td>
<td>16.0</td>
<td>0.67</td>
</tr>
<tr>
<td>1968-1970</td>
<td>1.2</td>
<td>3.0</td>
<td>0.65</td>
</tr>
<tr>
<td>1971-1973</td>
<td>7.0</td>
<td>0.5</td>
<td>0.63</td>
</tr>
<tr>
<td>1974-1976</td>
<td>4.6</td>
<td>17.0</td>
<td>0.61</td>
</tr>
<tr>
<td>1977-1979</td>
<td>3.8</td>
<td>13.5</td>
<td>0.60</td>
</tr>
<tr>
<td>1980-1982</td>
<td>13.3</td>
<td>18.2</td>
<td>0.59</td>
</tr>
<tr>
<td>1983-1985</td>
<td>19.8</td>
<td>18.8</td>
<td>0.58</td>
</tr>
<tr>
<td>1986-1988</td>
<td>12.5</td>
<td>13.6</td>
<td>0.58</td>
</tr>
<tr>
<td>1989-1991</td>
<td>19.8</td>
<td>17.1</td>
<td>0.57</td>
</tr>
<tr>
<td>1992-1994</td>
<td>4.6</td>
<td>8.2</td>
<td>0.56</td>
</tr>
<tr>
<td>1995-1997</td>
<td>32.5</td>
<td>25.7</td>
<td>0.55</td>
</tr>
<tr>
<td>1998-2000</td>
<td>13.3</td>
<td>10.6</td>
<td>0.54</td>
</tr>
<tr>
<td>2001-2003</td>
<td>-6.2</td>
<td>2.8</td>
<td>0.53</td>
</tr>
<tr>
<td>2004-2006</td>
<td>9.0</td>
<td>14.9</td>
<td>0.52</td>
</tr>
<tr>
<td>2007-2009</td>
<td>-5.2</td>
<td>-5.0</td>
<td>0.51</td>
</tr>
</tbody>
</table>

*Source: Morningstar EnCorr, Dimensional Fund Advisors, and Savant Analysis.*

*Lowest Return* | *Highest Return*
Building Better Portfolios

The Basic Portfolio / Short-Term Bonds / International Stocks / Small Stocks (Passively Invested)

Portfolio 4

1973-2009

<table>
<thead>
<tr>
<th>Portfolio</th>
<th>Annual Return (%)</th>
<th>Annual Worst Standard Deviation (%)</th>
<th>10 Year Return (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolio 1</td>
<td>9.5</td>
<td>12.7</td>
<td>-0.4</td>
</tr>
<tr>
<td>Portfolio 2</td>
<td>9.3</td>
<td>12.3</td>
<td>-0.5</td>
</tr>
<tr>
<td>Portfolio 3</td>
<td>9.8</td>
<td>11.6</td>
<td>0.7</td>
</tr>
<tr>
<td>Portfolio 4</td>
<td>10.9</td>
<td>12.2</td>
<td>2.5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Portfolio</th>
<th>S&amp;P 500 Index Stocks</th>
<th>Lehman Gov/Corp Index</th>
<th>1-Year Bonds</th>
<th>I/T Term Bonds</th>
<th>Inflation Bonds</th>
<th>Int'l Large Stocks</th>
<th>Emerging Markets</th>
<th>U.S. Small Stocks</th>
<th>Int'l Small Stocks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolio 1</td>
<td>70%</td>
<td>30%</td>
<td>11.25%</td>
<td>11.25%</td>
<td>7.5%</td>
<td>15.7%</td>
<td>5.3%</td>
<td>18.3%</td>
<td>7.8%</td>
</tr>
<tr>
<td>Portfolio 2</td>
<td>70%</td>
<td>11.25%</td>
<td>11.25%</td>
<td>7.5%</td>
<td>15.7%</td>
<td>5.3%</td>
<td>18.3%</td>
<td>7.8%</td>
<td></td>
</tr>
<tr>
<td>Portfolio 3</td>
<td>49%</td>
<td>11.25%</td>
<td>11.25%</td>
<td>7.5%</td>
<td>15.7%</td>
<td>5.3%</td>
<td>18.3%</td>
<td>7.8%</td>
<td></td>
</tr>
<tr>
<td>Portfolio 4</td>
<td>30.7%</td>
<td>11.25%</td>
<td>11.25%</td>
<td>7.5%</td>
<td>15.7%</td>
<td>5.3%</td>
<td>18.3%</td>
<td>7.8%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Savant Analysis and Morningstar EnCorr
Five Key Diversification Strategies

Strategy #1: Shorten Bond Maturities
Strategy #2: Invest Globally
Strategy #3: Own Some Small Stocks
Strategy #4: Tilt Towards Value Stocks
Large Value vs. Large Growth
1927-2009

Source: Morningstar EnCorr; Reflects Fama French Large Value and Large Growth Indices
Small Value vs. Small Growth
1927-2009

Small Value 14.0% annual return
Small Growth 9.2% annual return

Source: Morningstar EnCorr; Reflects Fama French Small Value and Small Growth Indices
## Value Effect Is Strong Around the World

### Annual Index Data

<table>
<thead>
<tr>
<th>Category</th>
<th>Annualized Compound Returns (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>US Large Capitalization Stocks 1927-2009</strong></td>
<td>S&amp;P 500: 9.8, U.S. Large Value: 10.3</td>
</tr>
<tr>
<td><strong>Non-US Developed Markets Stocks 1975-2009</strong></td>
<td>MSCI EAFE: 11.5, Int'l Large Value: 15.9</td>
</tr>
</tbody>
</table>

Source: Dimensional Fund Advisors. US value and growth index data (ex utilities) provided by Fama/French. CRSP data provided by the Center for Research in Security Prices, University of Chicago. Int'l Value data provided by Fama/French from Bloomberg and MSCI securities data. Int'l Small data compiled by Dimensional from Bloomberg, StyleResearch, London Business School, and Nomura Securities data. Emerging markets index data simulated by Fama/French from countries in the IFC Investable Universe; simulations are free-float weighted both within each country and across all countries.
# Building Better Portfolios

The Basic Portfolio / Short-Term Bonds / International Stocks / Small Stocks / Value Stocks
(Passively Invested)

## Portfolio 5

<table>
<thead>
<tr>
<th>Component</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P 500</td>
<td>16.1%</td>
</tr>
<tr>
<td>I/T Term Bonds</td>
<td>11.25%</td>
</tr>
<tr>
<td>1-Year Bonds</td>
<td>11.25%</td>
</tr>
<tr>
<td>Inflation Bonds</td>
<td>7.5%</td>
</tr>
<tr>
<td>Emerging Markets</td>
<td>5.3%</td>
</tr>
<tr>
<td>Int’l Small Stocks</td>
<td>7.85%</td>
</tr>
<tr>
<td>Int’l Large Value Stocks</td>
<td>9.7%</td>
</tr>
<tr>
<td>U.S. Small Stocks</td>
<td>8.6%</td>
</tr>
<tr>
<td>U.S. Large Value Stocks</td>
<td>14.6%</td>
</tr>
</tbody>
</table>

## 1973-2009

<table>
<thead>
<tr>
<th>Portfolio</th>
<th>Annual Return (%)</th>
<th>Annual Worst Standard Deviation (%)</th>
<th>10 Year Return (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolio 1</td>
<td>9.5</td>
<td>12.7</td>
<td>-0.4</td>
</tr>
<tr>
<td>Portfolio 2</td>
<td>9.3</td>
<td>12.3</td>
<td>-0.5</td>
</tr>
<tr>
<td>Portfolio 3</td>
<td>9.8</td>
<td>11.6</td>
<td>0.7</td>
</tr>
<tr>
<td>Portfolio 4</td>
<td>10.9</td>
<td>12.2</td>
<td>2.5</td>
</tr>
<tr>
<td>Portfolio 5</td>
<td>11.5</td>
<td>12.5</td>
<td>2.4</td>
</tr>
</tbody>
</table>

## Portfolio Component Details

<table>
<thead>
<tr>
<th>Component</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P 500</td>
<td>16.1%</td>
</tr>
<tr>
<td>Lehman Gov/Corp Index</td>
<td>30%</td>
</tr>
<tr>
<td>1-Year Bonds</td>
<td>11.25%</td>
</tr>
<tr>
<td>I/T Term Bonds</td>
<td>11.25%</td>
</tr>
<tr>
<td>Inflation Bonds</td>
<td>7.5%</td>
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<tr>
<td>Int’l Large Value Stocks</td>
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<td>8.6%</td>
</tr>
<tr>
<td>U.S. Large Value Stocks</td>
<td>14.6%</td>
</tr>
<tr>
<td>Int’l Small Stocks</td>
<td>7.85%</td>
</tr>
<tr>
<td>Emerging Markets</td>
<td>5.3%</td>
</tr>
</tbody>
</table>

**Source:** Savant Analysis and Morningstar EnCorr
Five Key Diversification Strategies

Strategy #1: Shorten Bond Maturities
Strategy #2: Invest Globally
Strategy #3: Own Some Small Stocks
Strategy #4: Tilt Towards Value Stocks
Strategy #5: Incorporate Alternative Investments
Stocks, Bonds, Bills, REITs, and Commodities

1973-2008

- REITs: 11.3%
- Large Stocks: 9.2%
- Commodities: 8.7%
- Intermediate-Term Bonds: 8.0%
- Treasury Bills: 5.9%
- Inflation Bonds: 4.5%

Source: Morningstar EnCorr
Equity REITs Invest Across A Broad Array of Real Estate Sectors \(^{[14]}\)

(\textit{as of December 2008})

- Self Storage, 8.8%
- Industrial, 4.9%
- Office, 12.2%
- Mixed Office/Industrial, 2.8%
- Health Care, 14.4%
- Shopping Centers, 11.1%
- Lodging/Resorts, 4.0%
- Regional Malls, 8.8%
- Diversified, 7.3%
- Free Standing Retail, 3.3%
- Manufactured Homes, 0.7%
- Apartments, 14.6%
- Specialty, 7.2%

Source: FTSE NAREIT Equity REIT Index; National Association of Real Estate Investment Trusts. See Endnote 14.
International REITs

By Sector

- Diversified, 22.3%
- Real Estate Operating Companies, 34.3%
- Regional Malls, 19.1%
- Office, 14.8%
- Mixed Industrial/Office, 2.5%
- Industrial, 1.2%
- Other Retail, 1.0%
- Other, 1.2%
- Strip Malls, 3.8%

By Country

- Japan, 28.0%
- Australia, 16.5%
- United Kingdom, 9.8%
- Hong Kong, 9.7%
- Canada, 8.0%
- Singapore, 6.7%
- Netherlands, 3.0%
- Switzerland, 1.9%
- Sweden, 1.5%
- Austria, 1.3%
- Other, 3.1%

Based on allocations in the SPDR DJ Wilshire International Real Estate ETF (RWX) as of 1/22/2009
REIT Performance Cycles Vary Compared to the S&P 500

(REITs compared to S&P 500 – One-year Rolling Returns 1972-2008)

Source: Savant Analysis and Morningstar EnCorr
Commodity Cycles Vary Significantly From Stocks and Bond Assets Classes

*(Annual Returns For Selected Cycles 1973 – 2008)*

<table>
<thead>
<tr>
<th>Period</th>
<th>Commodity Index (Goldman Sachs)</th>
<th>Fixed Income (LB Intermediate G/C)</th>
<th>US Equity (S&amp;P 500)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973-1981</td>
<td>12.8%</td>
<td>5.1%</td>
<td>11.9%</td>
</tr>
<tr>
<td>1982-1986</td>
<td>18.0%</td>
<td>8.0%</td>
<td>8.0%</td>
</tr>
<tr>
<td>1987-1990</td>
<td>19.9%</td>
<td>8.0%</td>
<td>14.4%</td>
</tr>
<tr>
<td>1991-2001</td>
<td>11.9%</td>
<td>1.3%</td>
<td>8.1%</td>
</tr>
<tr>
<td>2002-2008</td>
<td>5.0%</td>
<td>6.1%</td>
<td>17.6%</td>
</tr>
</tbody>
</table>

Source: Savant Analysis and Morningstar EnCorr
### Building Better Portfolios

The Basic Portfolio / Short-Term Bonds / International Stocks / Small Stocks / Value Stocks / Equity REITs / Commodities (Passively Invested)

#### Portfolio 6

<table>
<thead>
<tr>
<th>Component</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P 500</td>
<td>15%</td>
</tr>
<tr>
<td>I/T Term Bonds</td>
<td>10.1%</td>
</tr>
<tr>
<td>1-Year Bonds</td>
<td>10.1%</td>
</tr>
<tr>
<td>S&amp;P 500 1-Year Bonds</td>
<td>15%</td>
</tr>
<tr>
<td>Inflation Bonds</td>
<td>6.8%</td>
</tr>
<tr>
<td>Commodities</td>
<td>3%</td>
</tr>
<tr>
<td>U.S. Small Value Stocks</td>
<td>8%</td>
</tr>
<tr>
<td>U.S. Large Value Stocks</td>
<td>13.7%</td>
</tr>
<tr>
<td>U.S. Small Value Stocks</td>
<td>9.1%</td>
</tr>
<tr>
<td>Int’l Large Value Stocks</td>
<td>7.3%</td>
</tr>
<tr>
<td>Int’l Small Stocks</td>
<td>7.3%</td>
</tr>
<tr>
<td>Emerging Markets</td>
<td>5%</td>
</tr>
<tr>
<td>REITs</td>
<td>4.6%</td>
</tr>
<tr>
<td>Net Benefit</td>
<td>+2.2%</td>
</tr>
</tbody>
</table>

#### 1973-2009

<table>
<thead>
<tr>
<th>Portfolio</th>
<th>Annual Return (%)</th>
<th>Annual Worst Standard Deviation (%)</th>
<th>10 Year Return (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolio 1</td>
<td>9.5</td>
<td>12.7</td>
<td>-0.4</td>
</tr>
<tr>
<td>Portfolio 2</td>
<td>9.3</td>
<td>12.3</td>
<td>-0.5</td>
</tr>
<tr>
<td>Portfolio 3</td>
<td>9.8</td>
<td>11.6</td>
<td>0.7</td>
</tr>
<tr>
<td>Portfolio 4</td>
<td>10.9</td>
<td>12.2</td>
<td>2.5</td>
</tr>
<tr>
<td>Portfolio 5</td>
<td>11.5</td>
<td>12.5</td>
<td>2.4</td>
</tr>
<tr>
<td>Portfolio 6</td>
<td>11.7</td>
<td>12.4</td>
<td>2.7</td>
</tr>
</tbody>
</table>

| Net Benefit | +2.2% | -0.3% | +3.1% |

#### Source: Savant Analysis and Morningstar EnCorr
Broadly Diversified Portfolios Outperformed

2000 – 2009
Annualized Returns

- S&P 500
- 100/0 Global Equity
- 60/40 Global Balanced

S&P 500
100/0 Global Equity
60/40 Global Balanced

-1.0%
5.3%
5.6%

Source: Morningstar EnCorr, Savant Analysis; See Endnotes 10, 11, 15, and 16. For illustrative purposes only. Actual results may differ.
Thinking About Working with a Financial Advisor?

1. Many trusted institutions in turmoil or no longer in business.

2. Recent bear market has left many investors second guessing their investment approach.

3. Even do-it-yourself investors are now considering hiring a professional.
Why Making the Right Choice is So Important

Choosing the Right Advisor Brings:

- Simplicity & Ease
- Confidence & Clarity
- Peace of mind
- Financial success
- Ability to focus on family and other personal interests
- Protection to your family
Why Making the Right Choice is So Important

Making the Wrong Choice Brings:

• Poor financial outcome
• Needless stress and frustration
• Excessive cost
• Additional complexity
• Excessive risk
Five Different Types of Financial Advisors

1. Global/National Bank Holding Company
2. Traditional Bank with Trust Department
3. National Brokerage / Wirehouse
4. Independent Brokerage
5. Registered Investment Advisory Firm
1. Standard of Care – Fiduciary vs. Suitability
2. Primary Business / Core Competency
3. Ownership Structure & Decision Making
4. Financial Planning Capabilities
5. Tax Advisory Capabilities – Estate & Income
6. Trust Capabilities
7. Advisor’s Compensation Model
Financial Advisors – The 7 Critical Differences

1. Standard of Care – Fiduciary vs. Suitability
Critical Differences – Standard of Care

A **fiduciary** is a person or company that stands in a special relation of trust, confidence, or responsibility to others.

**Fiduciary Standard of Care**

1. Put the client’s interests first
2. Act with utmost good faith
3. Provide full and fair disclosure of all material facts
4. Not mislead clients
5. Expose all conflicts of interest

**Suitability**

1. Far less stringent standard
2. Only assures suitability even if potentially better options exist
A **fiduciary** is a person or company that stands in a special relation of trust, confidence, or responsibility to others.

<table>
<thead>
<tr>
<th>Type of Wealth Manager</th>
<th>Standard of Care</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent Brokerage</td>
<td>Suitability</td>
</tr>
<tr>
<td>Global Bank Holding Company</td>
<td>Fiduciary or Suitability</td>
</tr>
<tr>
<td>Traditional Bank with Trust Department</td>
<td>Fiduciary or Suitability</td>
</tr>
<tr>
<td>National Brokerage / Wirehouse</td>
<td>Suitability</td>
</tr>
<tr>
<td>Registered Investment Advisory Firm</td>
<td>Fiduciary</td>
</tr>
</tbody>
</table>
Financial Advisors– The 7 Critical Differences

1. Standard of Care – Fiduciary vs. Suitability

2. Primary Business / Core Competency
National & Local Banks – Primary Business

Core Competency
Commercial & Retail Banking

Second Focus
Trust Department

Third Focus
Investment Management

Fourth Focus
Financial Planning
National Brokerage Firms – Primary Business

Core Competency
Investment Banking, Market Making & Proprietary Trading

Second Focus
Retail Brokerage

Third Focus
Investment Management
Registered Investment Advisors – Primary Business

Core Competency
Wealth Management, Investments & Financial Planning Services

Supporting Capability: Trust Services
Financial Advisors – The 7 Critical Differences

1. Standard of Care – Fiduciary vs. Suitability
2. Primary Business / Core Competency
3. Ownership Structure & Decision Making
Critical Differences – Local Control/Decision Making

Where and how are decisions made?

1. Local Decisions
2. Centralized (Out of Town) Decisions
3. Outsourced Decisions

Local decision making helps assure you receive a customized solution that meets your needs.
Critical Differences – Ownership Structure

Who owns your financial advisory firm?

1. Publicly Traded
2. Privately Owned Company
   - Private Investors
   - Employee Owned

Public ownership requires large banks and brokerages to manage short-term quarterly earnings to appease investors and analysts.
Financial Advisors—The 7 Critical Differences

1. Standard of Care – Fiduciary vs. Suitability
2. Primary Business / Core Competency
3. Ownership Structure & Decision Making
4. Financial Planning Capabilities
5. Tax Advisory Capabilities – Estate & Income
Type of Advice Offered

Financial Advisor Capabilities

- Multi-Generational Planning
- Risk Management
- Retirement Planning
- Investment
- Philanthropic Planning
- Educational Planning
- Cash Flow Management

Financial Planning
Type of Advice Offered

Financial Advisor Capabilities

- Integrated Tax Management
- Tax-Loss Harvesting
- Asset Location
- Tax Planning
- Estate Planning
- Educational Planning
- Cash Flow Management
- Philanthropic Planning
- Investment
- Retirement Planning
- Multi-Generational Planning
- Risk Management

Financial Planning
Financial Advisors– The 7 Critical Differences

1. Standard of Care – Fiduciary vs. Suitability
2. Primary Business / Core Competency
3. Ownership Structure & Decision Making
4. Financial Planning Capabilities
5. Tax Advisory Capabilities – Income & Estate
6. Trust Capabilities
Type of Advice Offered

Financial Advisor Capabilities

Trust
- Trust Accounting
- Trust Administrator
- Bill Paying
- Multi-Generational Planning
- Risk Management

Estate Administration

Integrated Tax Management

Tax-Loss Harvesting

Asset Location

Tax Planning

Estate Planning

Educational Planning

Philanthropic Planning

Cash Flow Management

Financial Planning
Financial Advisors—The 7 Critical Differences

1. Standard of Care – Fiduciary vs. Suitability
2. Primary Business / Core Competency
3. Ownership Structure & Decision Making
4. Financial Planning Capabilities
5. Tax Advisory Capabilities – Estate & Income
6. Trust Capabilities
7. Advisor’s Compensation Model
Critical Differences – Compensation Model

- **Sales Commissions** – Commissions received to sell specific products or place trades.

- **Fee Only** – Compensation received directly from client for providing a service not tied to a product sale.

- **Revenue Sharing** – Revenue shared by mutual fund companies for recommending certain investments.

- **Proprietary Products** – Investment products managed and sold by banks or brokers.
Understanding your financial advisor’s compensation model is critical to identifying potential conflicts of interest.

<table>
<thead>
<tr>
<th>Type of Wealth Manager</th>
<th>Compensation Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent Brokerage</td>
<td>Fees, Commissions, Revenue Sharing, Proprietary Products</td>
</tr>
<tr>
<td>Global Bank Holding Company</td>
<td>Fees, Commissions, Revenue Sharing, Proprietary Products</td>
</tr>
<tr>
<td>Traditional Bank with Trust Department</td>
<td>Fees, Commissions, Revenue Sharing</td>
</tr>
<tr>
<td>National Brokerage / Wirehouse</td>
<td>Fees, Commissions, Revenue Sharing, Proprietary Products</td>
</tr>
<tr>
<td>Registered Investment Advisory Firm</td>
<td>Fee-Only</td>
</tr>
</tbody>
</table>
The Art of Selecting an Advisor

• Personal chemistry?
• Compatible style?
• Do you trust the advisor?
• Do they give you confidence?
• What is your “Gut Feel”?
The Science of Selecting an Advisor

The Five R Method

- Reputation
- References
- Regulatory Standing
- Recognition
- Retention Rate
Questions
References, Notes, Sources of Data, and Methodology

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Index returns assume reinvestment of all distributions and unlike mutual funds, do not reflect fees or expenses. It is not possible to invest directly in an index.

Indexes used in analysis throughout the presentation (unless otherwise noted).

- **Treasury Bills** – Ibbotson U.S. 30 Day T-Bill Index
- **Short-Term Bonds** – Ibbotson U.S. 1 Year Treasury Constant Maturity Appreciation Index
- **Aggregate Bond** – Barclays Aggregate Bond Index
- **Intermediate-Term Bonds** – Barclays Intermediate Government/Credit Bond Index
- **Long-term Bonds** – Ibbotson U.S. Long-term Government Index
- **Inflation Protected Bonds** – 50% Barclays Intermediate Government/Credit Bond Index and 50% Ibbotson U.S. 1 Year Treasury Constant Maturity Appreciation Index (1/73 – 2/97), Merrill Lynch U.S. Treasury Inflation-Linked Securities Index (after 2/97)
- **U.S. Large Stocks** – Standard & Poor’s 500 Total Return Index
- **U.S. Large Value Stocks** – Fama French Large Value Index
- **U.S. Small Stocks** – Ibbotson Small Stock Index
- **U.S. Small Value Stocks** – Fama French Small Value Index
- **Int’l Large Stocks** – MSCI EAFE Index
- **Int’l Large Value Stocks** – MSCI EAFE Index (1/73-12/74), MSCI EAFE Value Index (after 12/74)
- **Int’l Small Stocks** – DFA International Small Company Index (1/73 – 9/96), S&P/Citigroup EPAC EMI Index (after 9/96)
- **REITs** – FTSE NAREIT Equity REIT Index
- **International REITs** – Dow Jones Global ex-US REIT Index
- **Commodities** – S&P GSCI Commodity Index
1 FutureMetrics (2006, December); all companies with fiscal year ending December with complete return data from 1988-2005. Provided by Dimensional Fund Advisors.

2 Broadly diversified 70/30 is an index portfolio that consists of 15.0% S&P 500 Index, 13.7% U.S. Large Value Stocks, 8.0% U.S. Small Stocks, 9.1% U.S. Small Value Stocks, 3.1% Int’l Large Stocks, 4.2% Int’l Large Value Stocks, 7.3% Int’l Small Stocks, 5.0% Emerging Markets Stocks, 10.1% Short-Term Bonds, 10.1% Intermediate-Term Bonds, 6.8% Inflation Protected Bonds, 3.0% Domestic REITs, 1.6% Int’l REITs, 3.0% Commodities.

3 Broadly diversified 60/40 is an index portfolio that consists of 12.7% S&P 500 Index, 11.7% U.S. Large Value Stocks, 6.8% U.S. Small Stocks, 7.7% U.S. Small Value Stocks, 2.7% Int’l Large Stocks, 3.6% Int’l Large Value Stocks, 6.2% Int’l Small Stocks, 4.2% Emerging Markets Stocks, 13.8% Short-Term Bonds, 13.9% Intermediate-Term Bonds, 9.3% Inflation Protected Bonds, 3.0% Domestic REITs, 1.4% Int’l REITs, 3.0% Commodities.

4 We assumed a gross equity return (before expenses) of 9.62% for all equity performance calculations. This applies to index funds and actively managed funds. This return is based on the total return of the S&P 500 Index from 1926-2008 from Morningstar EnCorr.

5 The after-tax return for index funds or exchange-traded funds (ETFs) assumes investors earn gross equity returns of 9.62% (see endnote #4). We assumed a turnover of 4% and a dividend yield of 1.70%, based on actual values for the Vanguard Total Stock Market Index (Investor Class) from Morningstar Principia as of 12/31/2008. We assumed an expense ratio of .15% again based on the Vanguard Total Stock Market Index (Investor Class), which we took directly from Vanguard’s website at www.vanguard.com as of 12/31/2008. We also assumed the entire position is liquidated at the end of twenty years and that low turnover would generate very small capital gains that would all be taxed at long-term rates. We believe this is a reasonable assumption based on the historical experience of index funds.
To calculate the after-tax return and excess alpha needed by active strategies to match the index strategy, we assumed that investors earn gross equity returns of 9.62% (see endnote #4) reduced by fund expenses, trading costs, and taxes. The estimated after-tax returns are calculated using an algorithm developed in Working Paper 7007 in the *National Bureau of Economic Research* by John B. Shoven titled “The Location and Allocation of Assets in Pension and Conventional Savings Accounts (March 1999).” Using Morningstar Principia as of 12/31/2008, active domestic equity funds (excluding index funds, exchange-traded funds, funds of funds, and balanced funds) were divided into quartiles. Funds that did not report a turnover ratio were also excluded. “Low Turnover Funds,” reflect an average of the funds in the lowest quartile in terms of turnover. “High Turnover Funds” reflect an average of the highest quartile. “Average Turnover Funds” reflect the total average of all active funds in the study. These groupings were used to calculate average values used throughout the study:

- **Low Turnover Funds** – Turnover = 22%, Expense Ratio = 1.19%, Dividend Yield = 1.54%
- **High Turnover Funds** – Turnover = 235%, Expense Ratio = 1.31%, Dividend Yield = 0.90%
- **Average Turnover Funds** – Turnover = 100%, Expense Ratio = 1.22%, Dividend Yield = 1.11%

We further estimate that additional trading costs are equal to .50% per annum per 100% portfolio turnover. We also assumed that investors realized both long and short-term capital gains each year, and they are taxed accordingly.

- **Low Turnover Funds** – assumed 90% long-term / 10% short-term
- **High Turnover Funds** – assumed 10% long-term / 90% short-term
- **Average Turnover Funds** – assumed 75% long-term / 25% short-term

For all actively managed strategies, we assumed the entire position is liquidated at the end of twenty years, and the investor pays the maximum long-term capital gains tax on any unrealized appreciation.

Calculated using daily closing values of the S&P 500 Index. Does not include dividends. Decline reflects return from market peak to market bottom.

Calculated using monthly returns including dividends due to data availability.

Global data reflects an index portfolio using the following allocations:

- **S&P 500** 22.5%
- **Russell 1000 Value** 18.9%
- **Russell 2000** 12.4%
- **Russell 2000 Value** 12.8%
- **MSCI EAFE** 4.6%
- **MSCI EAFE Value** 6.0%
- **MSCI EAFE Small** 10.6%
- **MSCI Emerging Markets** 7.2%
- **DJ Equity REIT** 5.0%

Due to data availability of the indices Global Portfolio decline for 2000-02 bear market reflects monthly returns including dividends from portfolio peak in September 2000 to portfolio bottom in September 2002.
Endnotes

10  60/40 Global Balanced portfolio reflects the following:
S&P 500 Index 12.7%
MSCI U.S. Prime Market Value Index 11.7%
MSCI U.S. Small Cap 1750 Index 6.8%
MSCI U.S. Small Cap Value Index 7.7%
MSCI EAFE Index 2.7%
MSCI EAFE Value Index 3.6%
S&P/Citi EPAC Small Cap Index 3.1%
S&P/Citi EPAC Small Value Index 3.1%
S&P/IFCI Emerging Market Composite Index 4.2%
FTSE NAREIT Equity REIT Index 4.4%
S&P GSCI Commodity Index 3.0%
Ibbotson 1Yr Treasury Constant Maturity Index 13.8%
Barclays Aggregate Bond Index 13.9%
Merrill Lynch U.S. Treasury Inflation-Linked Bond Index 9.3%

11  Portfolio begins January 2000 and is never rebalanced.

12  Asset Classes are grouped as follows:
Fixed Income = Short-Term Bonds, Intermediate-Term Bonds, Inflation-Protected Bonds
Domestic Equity = U.S. Large Stocks, U.S. Large Value Stocks, U.S. Small Stocks, U.S. Small Value Stocks

13  Portfolio begins January 2000 and is rebalanced anytime an asset class group deviates more than 5% from the target allocation.


15  500 Index reflects the total return of the Vanguard 500 Institutional Fund (VINIX)
100/0 Global Equity Portfolio reflects the following:

- S&P 500 Index: 22%
- MSCI U.S. Prime Market Value Index: 18.5%
- MSCI U.S. Small Cap 1750 Index: 12.1%
- MSCI U.S. Small Cap Value Index: 12.5%
- MSCI EAFE Index: 4.5%
- MSCI EAFE Value Index: 5.9%
- S&P/Citi EPAC Small Cap Index: 5.2%
- S&P/Citi EPAC Small Value Index: 5.2%
- S&P/IFCI Emerging Market Composite Index: 7.1%
- FTSE NAREIT Equity REIT Index: 5.0%
- S&P GSCI Commodity Index: 2.0%

Portfolio begins January 2000 and is never rebalanced.