



You Define Success....We Get You ThereSM

Estate Planning Council of Greater Miami
January 10th 2013

Portfolio Construction & Asset Location

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Typical Investment Advisor Approach to Estate Plan Integration



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Clearing up the asset location decision?

Do we make it complex?

Asset Allocation
Expected Return
Risk
Time Horizon
Liquidity
Income
Sharpe Ratio @ 0%
Sortino Ratio @ 0%
Standard Deviation
Alpha

Downside Deviation @ 0%
Down Capture Ratio
APT
CLUT
Correlation
IRA
Beta
Worst Period
% Losing Periods
Recovery
GRAT

GRUT
FLP
Profit/Loss Ratio
CRAT
Correlation
Average Gain/Loss
Best Period
NIMCLUT

Skew
Kurtosis
Calmar Ratio
Up Capture Ratio
CLAT
Average Gain/Loss
Falling Market Ratio
Rising Market Ratio
Profitable Ratio
R Squared

Alpha
CRUT

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Our Good Intentions Can Often Get in the Way

- ❑ Intelligent estate plan and investment plan without asset location discipline can undermine the brilliance of the work
- ❑ Objectively evaluate the net ROIC
- ❑ Balance brilliance and sophistication with logic and simplicity

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Where Do We Start?

- ❑ Stay wealthy journey
- ❑ Balancing control and flexibility for the Grantor
- ❑ Do the interested parties understand the plan (benefits and limitation)
- ❑ Determine asset location options and efficiency
 - ❑ Long horizon structures (GST, Dynasty, etc) hold highest expected return and/or least liquidity
 - ❑ Short horizon structures hold liquid and more conservative investments
 - ❑ Definition of income flexibility

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Client compensated for risk-taking

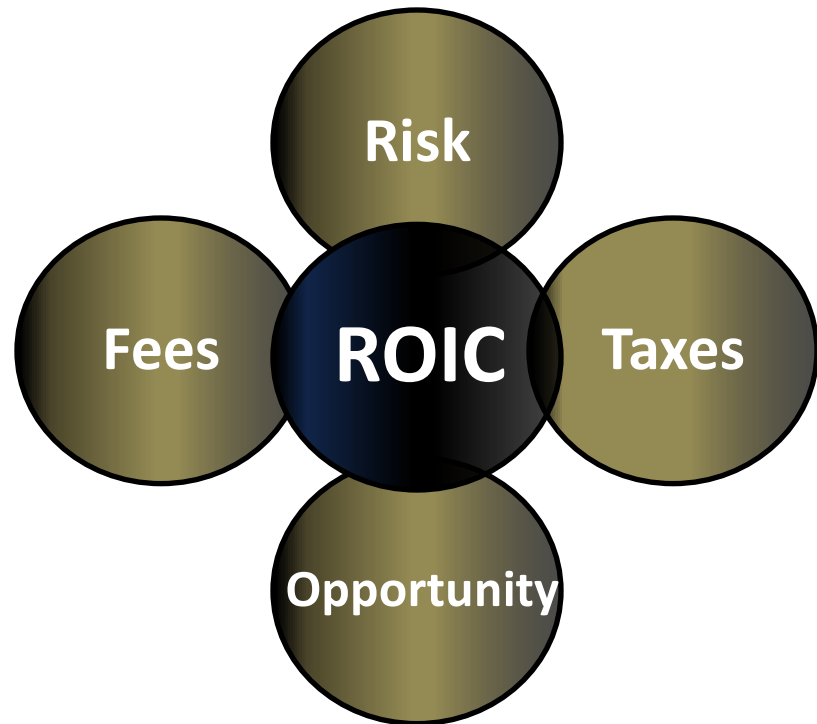
Tax impact on returns is considered

Grantor and Beneficiary needs and objectives are considered

Determining the optimal location of the investment is important to ROIC

Competitive returns measured net of fees

Opportunities are sought that have compelling value



Accounting for these four factors enables investors to understand the various risks and build reasonable expectations for investment returns

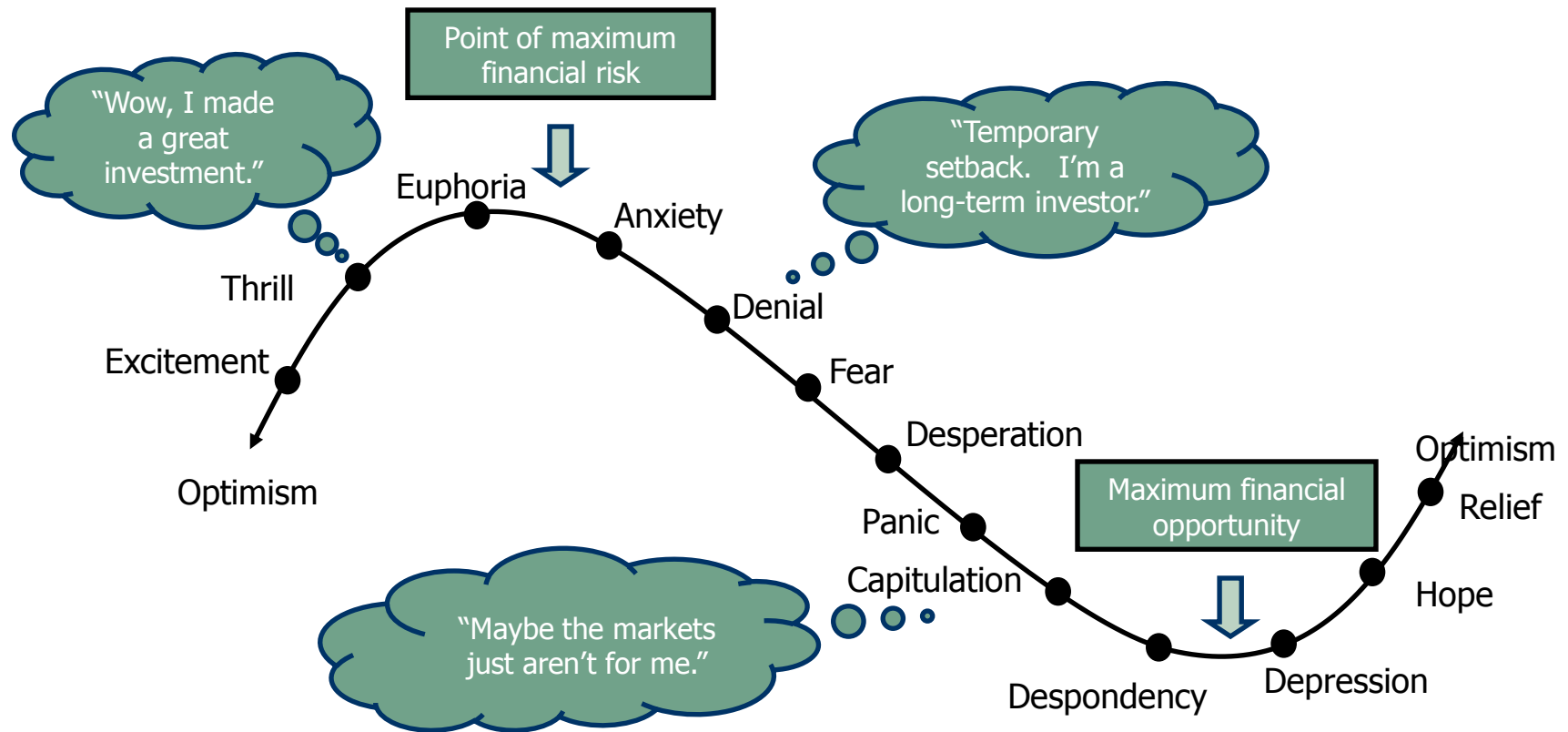
*ROIC: Return on Invested Capital

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*Most Common Investment Mistake
Made by Investors*

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The Cycle of Market Emotions

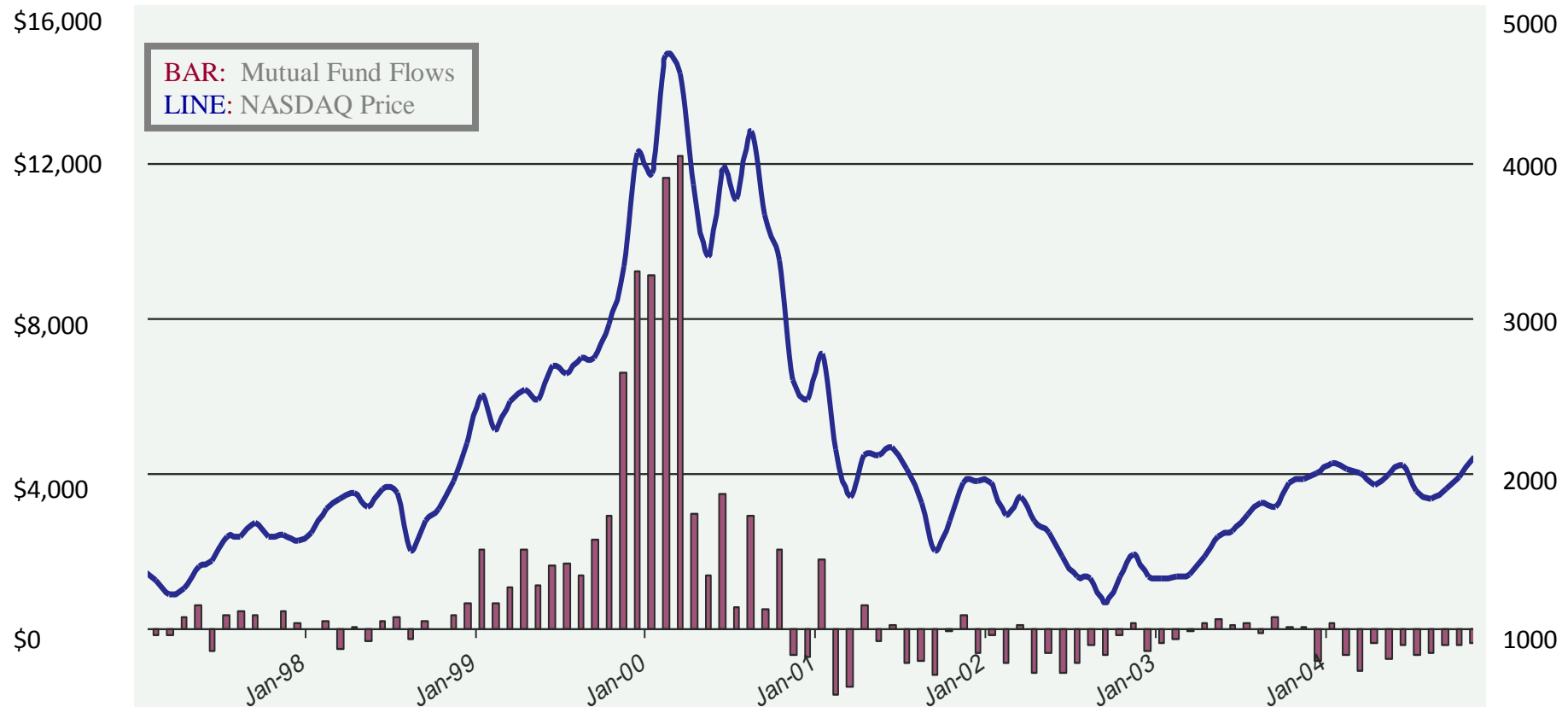


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NASDAQ and New Economy Edge

TECHNOLOGY MUTUAL FUND NET ASSET FLOWS (1997-2004)

Source: Investment Company Institute



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DALBAR Inc. - "Quantitative Analysis of Investor Behavior." DALBAR's 2003 Update to its seminal work showed that from 1984 - 2002, the S&P 500 returned 12.2% per annum, but the average mutual fund investor took home 2.6% annually.

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Coming Challenge to Investors

10 Year U.S. Treasury Bond

Current Yield	1.63%
Historical Average Yield	6.65% (Since 1962) 3.60% (Since 2002)
Historical Inflation	4.2%, 4.1% Core (Since 1962) 2.4%, 1.9% Core (Since 2002)
Modified Bond Duration	9 <i>* As of 10/1/2012</i>

Are the Fundamentals Attractive?

Source: Board of Governors of the Federal Reserve System

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Mark Twain Said –

“I was seldom able to see an opportunity until it ceased to be one.”

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Keys to a Successful
Investment Experience

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Asset Allocation - Building the Foundation

Setting Goals & Expectations - IPS

- What is the purpose of the financial capital?
- What is the goal and over what period?
- Determine Return & Risk Objectives
- Determine optimal allocation and asset location
- Set risk exposure acceptance levels

Tighten the Performance Channel

- Increase chance of success for meeting family goals
- Incorporate diverse mix of strategies to reduce volatility
- Exposures by Strategy, Geography, Market

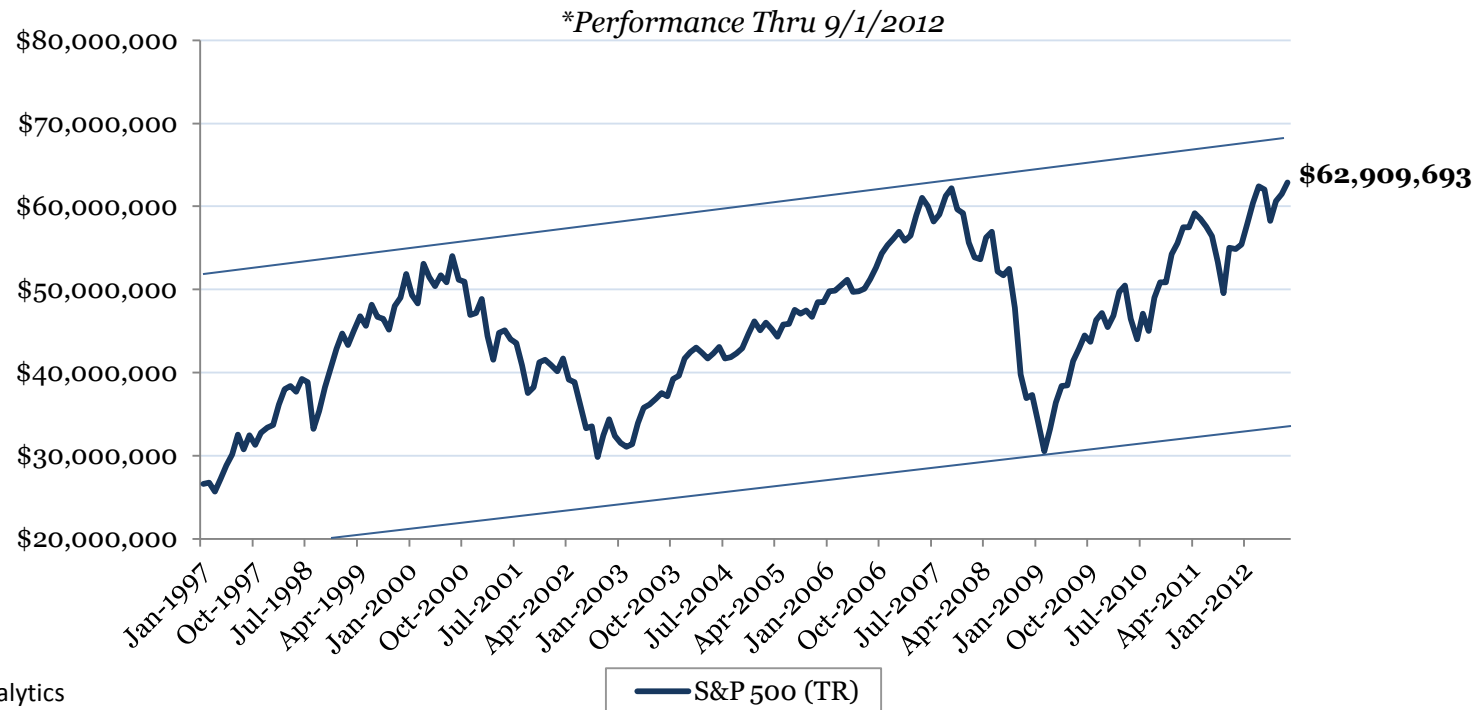
Monitor Risks

- Risk assessment beyond style based methodology
- Identify unintended risks that may be expressed
- Maintain purchasing power – think in real dollars (not nominal)

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S&P 500 – Tighten the Performance Channel

- \$25mm Portfolio grows to \$62.9mm from 1997 through 2012
- Volatile return stream; families likely become fearful at the wrong time
- Performance channel is too wide – risk of not meeting family objectives

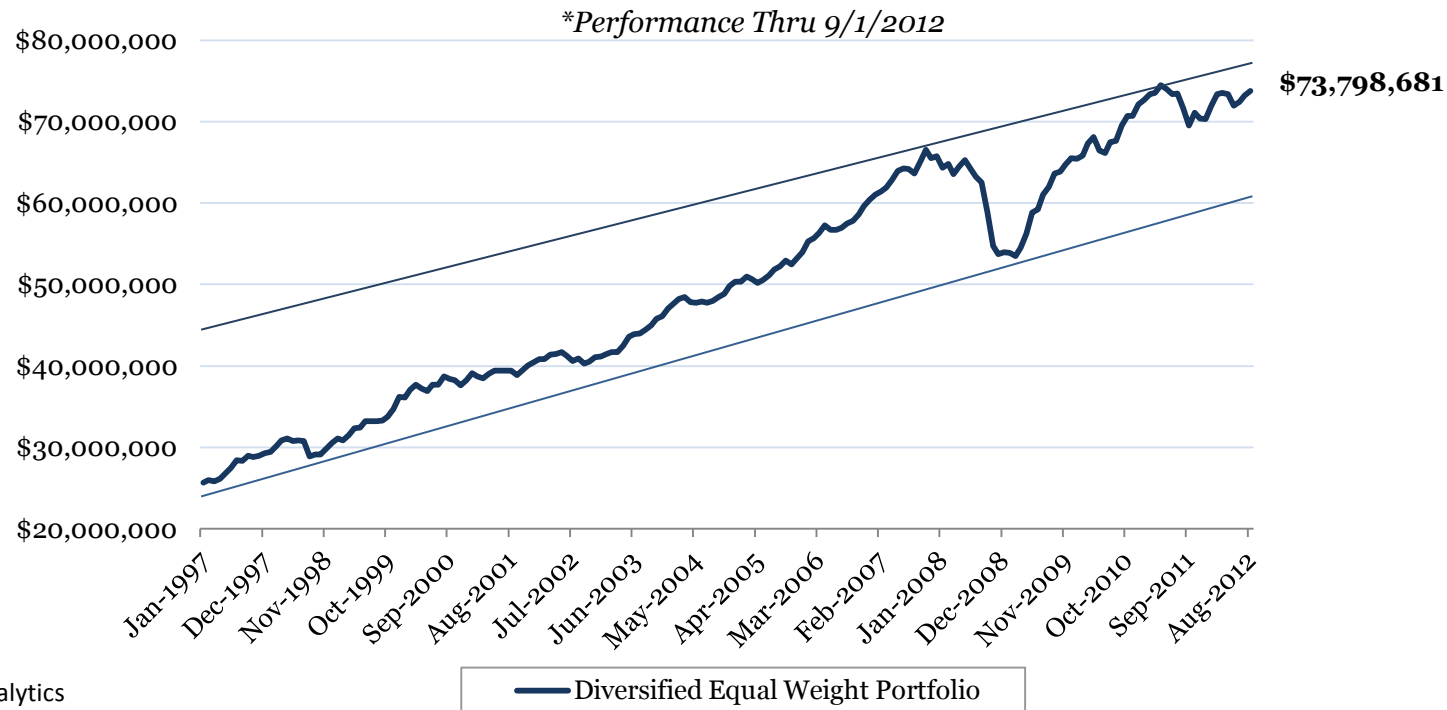


Data: PerTrac Analytics

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Diversified Portfolio – Tighten the Performance Channel

- \$25mm Portfolio grows to \$73.79mm from 1997 through 2012
- Includes ~11 different strategy types; including alternatives
- Performance Channel tightens – volatility dramatically reduced
- Dramatically reduces the risk of failing to meet family objectives



Data: PerTrac Analytics

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Asset Allocation in the Context of Risk Control

- ❑ Acknowledge there is risk in every investment decision
 - Market
 - Security
 - Inflation
 - Leverage
 - Illiquidity
 - Opportunity cost
- ❑ Understand your expectations

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Bear Market: Peak to Trough AM Global Composite vs. S&P 500

Beginning Value - \$25m

Market Cycle I	Value	Bear Market	Sept-00 thru Sept-02	Recovery	Oct-02 thru Sept-07
	<u>Beginning Portfolio: \$25m</u>	Return	Portfolio Value	Return	Portfolio Value
	AM Global	19.5%	\$ 29,863,394	65.5%	\$ 49,427,063
	S&P 500	-41.7%	\$ 14,587,393	105.1%	\$ 42,965,334
	Added Value		\$ 15,276,000		\$ 6,461,728

Market Cycle II	Value	Bear Market	Oct-07 thru Mar-09	Recovery	Apr-09 thru Dec-10
	<u>Beginning Portfolio: \$25m</u>	Return	Portfolio Value	Return	Portfolio Value
	AM Global	-16.2%	\$ 20,945,959	19.4%	\$ 25,015,032
	S&P 500	-45.8%	\$ 13,549,129	63.5%	\$ 22,155,664
	Added Value		\$ 7,396,830		\$ 2,859,368

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Keys to Successful Investment Experience

- ❑ Focus on portfolio construction and risk control
- ❑ Valuation and ROIC must be the focus
- ❑ Recognize cognitive limitations
- ❑ Avoid Herd Mentality

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Planning Idea: Common Trust Consequence – The Leaky Bucket

- ❑ Old Trust where beneficiaries are required to take trust income distributions making their taxable estate a challenge to minimize
- ❑ Investment options may be limited for the Trust, the Beneficiary, and other family members
- ❑ Possible Solution – Family LP (FLP)
 - ❑ Eliminate the unwanted forced income distributions
 - ❑ Reduced investment constraints to improve available investment options
 - ❑ Enhance risk control and expected returns
 - ❑ Provide access to investment solutions beneficiaries or family members that can not quality on their own



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AM Global Wealth Management

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- **Barclays Aggregate Bond:** Composed of U.S. investment grade fixed rate bond market, including government and credit securities, agency mortgage pass through securities, asset backed securities, and commercial mortgage based securities.
- **Barclays 5 year Municipal Bond:** Composed of state and local general obligation bonds, revenue bonds, and insured bonds.
- **Citigroup SB High Yield:** Covers much of the below investment grade U.S. corporate bond market. To be included in the index, an issue must be rated speculative (BB+/Ba1) by S&P or Moody's. An issue must miss a scheduled interest payment and allow the 30 day grace period to lapse before it is removed from the index.
- **Merrill Lynch 91 Day U.S. Treasury Bill Index:** Is comprised of a single issue purchased at the beginning of the month and held for a full month. At the end of the month, that issue is sold and rolled into a newly selected issue. The issue selected at each month-end is then re-balanced and becomes the outstanding Treasury Bill with the longest maturity. To qualify for selection, an issue must have settled on or before the re-balancing (month-end) date.
- **Morgan Stanley Capital International (MSCI) Europe, Australia, and the Far East (EAFE) Equity Index:** MSCI EAFE acts as a benchmark for 23 developed markets stock markets, approximately 1000 publicly traded companies. The average company has a market capitalization of over \$3 billion. The index is presented with net dividends in US dollars.
- **S&P 500:** The S&P 500 consists of 500 widely held common stocks, consisting of four broad sectors (industrials, utilities, financial and transportation). It is a market-value weighted index (stock price times shares outstanding), with each stock affecting the index in proportion to its market value. This index is a total return index with dividends reinvested.
- **HFRI Hedge Fund Index:** HFR utilizes an objective, rules-based methodology that includes over 2000 hedge funds across four main strategies, each with multiple sub-strategies. The index seeks to combine and weight these strategies to provide a representation of the composition of the global hedge fund universe.