

# THE WEALTH ADVISOR

Issue 3

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## Our Clients Are Our Priority

With the recent market changes, we realize that it has left investors feeling uneasy; however, it is important to remember that long term investing involves weathering the ups and downs of the market. During these times, it is so important to maintain your long-term perspective.

Part of being prepared for these times involves research. We thoroughly research funds that we recommend to our client. While no one can predict the market, we closely monitor our clients' investments, and if need be, make recommendations for change. We also encourage our clients to consult with us in regards to their investments, especially if there has been a change in their life situation, investment goals, or risk tolerance. Our concern is always what is best for our client. Our number one priority is making sure our clients get the service they deserve and advice they need to make financial decisions.



Donald N. Hoffman, MS, CPA  
President

A significant Supreme Court ruling about retirement plans took place last month. We have included information about that ruling in this newsletter. It is very important to note the change, and if you have any questions, or would like us to evaluate your current plan, please contact us.

We were recently recognized by 1st Global, our broker/dealer as one of their top 50 firms in the country for October, November and December. We are proud of the recognition and will continue to work to provide world class service.

We are committed to the wealth management of our clients, and we welcome the opportunity to meet with you and review your accounts at any time.

### OUR MISSION STATEMENT

To provide comprehensive wealth management solutions tailored to meet the unique needs of our clients that emphasizes value added services aligned with our clients' best interests. We are committed to our clients' success.

*Our Best Compliment is a Referral From You.*

### Contact Us

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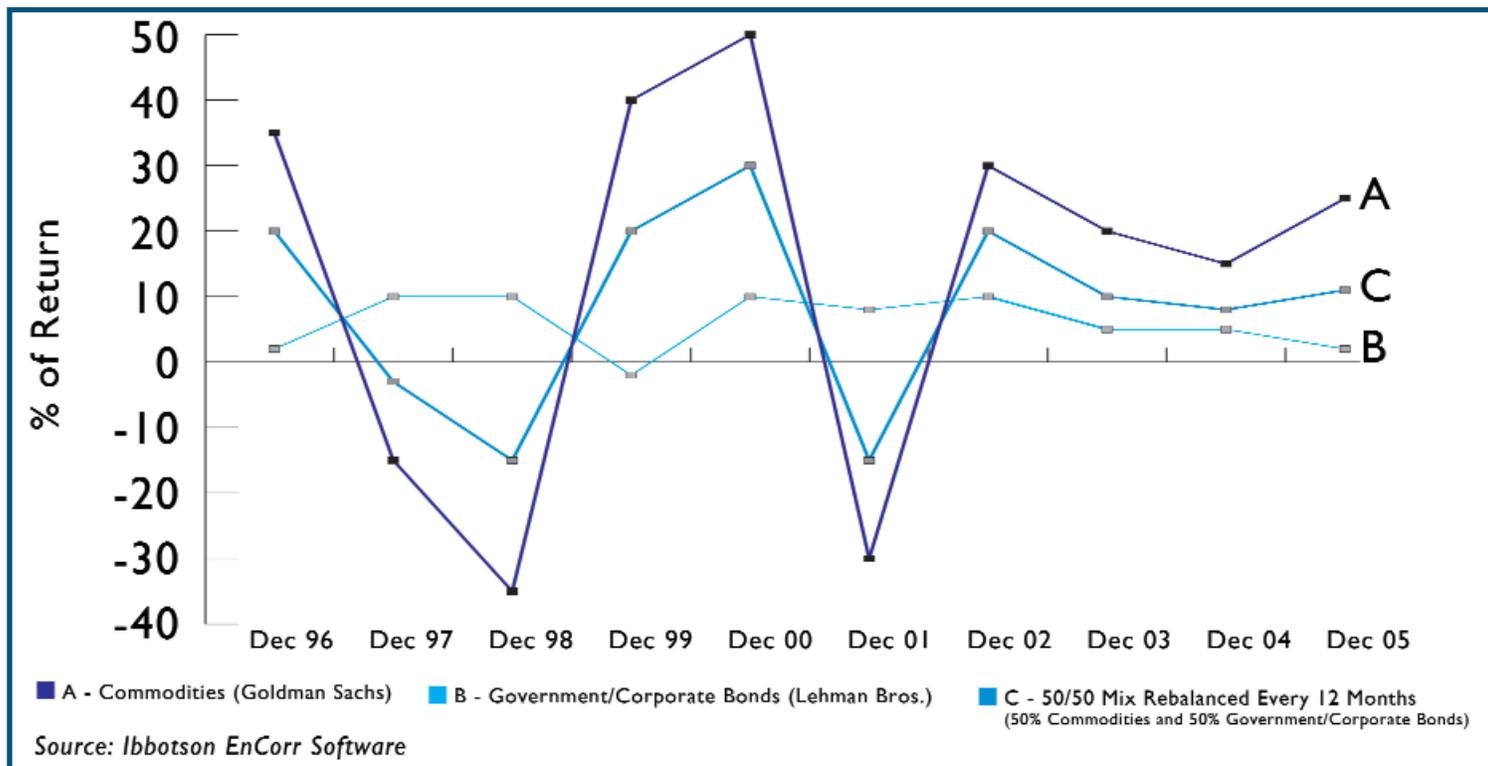
## Diversification and Risk Management

International stocks. U.S. small-cap stocks. Real estate. Alternative investments and commodities. Do these investments sound risky to you? In and of themselves, each of these asset classes is volatile – that is, subject to a relatively wide variation of returns. However, when these risky investments are combined with more “conservative” investments – for example, U.S. large-cap stocks and fixed income – the result is a portfolio that, as a whole, can be less risky.

Nobel laureate Harry Markowitz’s economics work asserted that portfolio risk falls\* when certain risky asset classes are combined with more conservative asset classes, if the return patterns are less than perfectly correlated. Risky asset classes like U.S. small-cap equity and international equity have higher expected returns, but also have higher expected risk compared to cash and high-quality fixed income assets. A smoother portfolio result can potentially be accomplished by combining these asset classes of varying volatility. An example of the benefits of properly combining certain asset classes is illustrated in the graph below. Line A illustrates the broad performance variations of an index of commodities over 10 years. Line B illustrates the narrow 10-year

performance variations of a high quality fixed income index. Line C combines the two relatively diverse asset classes in 50-50 weightings. This last line shows how portfolio volatility could have been reduced by utilizing a combination of two asset classes with different variations of return.

Selecting asset classes properly lies at the foundation of a long-term investment philosophy. Portfolios designed utilizing this philosophy may help you achieve the long-term return objectives that are in line with your investor profile, whether ultra-conservative, conservative, moderate, growth or aggressive growth. A sensible investment strategy can help protect your investments from the brunt of market fluctuations. Having an asset allocation strategy and a properly diversified portfolio will help you stay the course over the long term, regardless of short-term market behavior and economic and political swings. Investment discipline and proper portfolio structure are key tools to help protect your current and future lifestyle. We are available to discuss how a sound multi asset class asset management program can help you reach your investment objectives.



\*As measured by variation of returns around average performance. Past performance is no guarantee of future results. The above-listed indexes are unmanaged. It is not possible to invest directly in an index. Each investor’s portfolio must be constructed based on the individual’s financial resources, investment goals, risk tolerance, investing time horizon, tax situation and other relevant factors. Diversification of your overall investment portfolio does not assure a profit or protect against a loss in declining markets. Investing in micro, small or mid-sized companies involves risks not associated with investing in more established companies. Since equity securities of small companies may not be traded as often as equity securities of larger, more established companies, it may be difficult or impossible to sell. Investing in emerging markets involves greater risk than investing in more established markets. Such risks include exchange rate changes, political and economic upheaval, the relative lack of information about these companies, relatively low market liquidity, and the potential lack of strict financial and accounting controls and standards.

# Passive vs. Active Management: There's Room for Both

The main objective of building an investment portfolio with defined structure is to help you attain your investment goals over time. A properly diversified portfolio may better withstand unexpected inflation, deflation and other economic and political shocks to the financial system.

In order to attain this resiliency, the asset classes selected for a portfolio should derive their returns from fundamentally different economic factors. This quarter, we will examine the role of active investment management and passive investment management approaches inside a multi-asset class investment portfolio.

You can select either active or passive investment strategies to represent each asset class in your portfolios. "Active" investment strategies utilize professional money managers, with the expectation that, over time, they can deliver returns in excess of the asset class average return, as measured by an index representative of an asset class, e.g. S&P 500 Index for U.S. large-cap equities.

Active asset managers seek to outperform their asset class benchmark, usually an index, using security selection and trading skill. Active managers can help to enhance your portfolio over the long-term by seeking to deliver returns in excess of the asset class benchmark.

Of course, this pursuit of excess returns (i.e. returns above the index) does not come free of risk. In some cases, active portfolio managers may deliver returns below those of the

underlying asset class benchmark index. This underperformance is referred to as "active risk."

"Passive" investment strategies seek to replicate the relevant asset class benchmark. One example is the SPY or Spyder, an exchange traded fund that seeks to mirror the S&P 500 Index.



by Donna C. Gestl, CFP®  
Senior Vice President

Many passive vehicles with low portfolio turnover are designed to provide capital gain tax efficiency. While passive investment strategies avoid active risk, they cannot be expected to ever deliver returns over the benchmark index. Passive investment strategies are often implemented through exchange traded index funds (ETFs).

One effective portfolio approach is to combine passive and active investment strategies in a single portfolio. You can seek active managers to enhance overall portfolio returns, while mitigating the active risk component by complementing these active managers with passive exchange traded index funds (ETFs).

Diversification at the asset class level lies at the foundation of our investment philosophy. The most important factor in successful investing is making sure your asset allocation matches your time horizon and tolerance for risk – your investor profile.

Having an asset allocation strategy and a properly diversified portfolio will help you stay the course over the long term, regardless of short-term market behavior and economic and political swings. Investment discipline and proper portfolio structure are key

tools to help protect your current and future lifestyle.

We are available to meet with you to see how a diversified, multi-asset class portfolio structure utilizing active and/or passive investment strategies can help you reach your investment objectives.

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*\*Past performance is not indicative of future results. Each investor's portfolio must be constructed based on the individual's financial resources, investing goals, risk tolerance, investing time horizon, tax situation and other relevant factors. Diversification of your overall investment portfolio does not assure a profit or protect against a loss in declining markets. The S&P 500 Index is a market capitalization weighted index of 500 widely held stocks often used as a proxy for the stock market. An investment cannot be made directly into an index. ETFs are sold by prospectus.*

*\*An investor should consider the investment's objectives, risks, charges and expenses. A prospectus may be obtained from your financial advisor. Please read the prospectus carefully before investing.*

## Did You Know...

The first "green backs" were issued by the Union in 1862. The smallest denomination was \$5. This led to the use of postage stamps for change.

The NYSE ticker symbols I and M are currently unused. Reportedly they are being held in reserve in case Intel and Microsoft decide to join the NYSE.

In 1886 the NYSE had its first million share day. In 1984 the NYSE had its first 200 million share day. In 1997 the NYSE had its first billion share day.

Source:

<http://www.financeprofessor.com/trivial/FinanceProfessorcomtrivia.html>



## Wakeup Call for Retirement Plan Sponsors

On Wednesday, February 20, 2008 the Supreme Court of the United States decided that employees could sue their employer to recover losses when their retirement plan was not handled in their best interest. If you are a plan trustee, you have the fiduciary responsibility to review the plan's investment offerings on a regular basis, transfer funds on a timely basis and diversify the plan's investment portfolio.

The law previously referred to the plan as being able to recover money for breach of fiduciary responsibility, rather than the individual. The latest ruling opens the door for the individual to seek monetary damages for a breach of fiduciary responsibility that may result in the loss of retirement assets.

As your trusted wealth management firm, The Prosperity Consulting Group, LLC can assist you in developing a plan to help ensure you are abiding by the guidelines established for you as a fiduciary of your employee benefit plans. If you would like assistance in reviewing your plan or have any questions, please contact your wealth management professional at (410) 363-7211.

*Securities offered through 1st Global Capital Corp., member FINRA/SIPC. Investment advisory services offered through The Prosperity Consulting Group LLC. The Prosperity Consulting Group LLC and 1st Global Capital Corp. are unaffiliated entities.*

**If you know of others who should regularly receive this newsletter, or should you like to be removed from this mailing list, please email [cpf@prosperityconsult.com](mailto:cpf@prosperityconsult.com).**