



# **Building Trust While Building Wealth: Financial Strategies for a Crisis-Prone World**

**85 Broads Power Lunch  
January 28, 2010**



**Artemis**  
FINANCIAL ADVISORS

# Session Objectives

- ❖ Introduce you to a strategic framework for making sound financial choices
- ❖ Equip you to evaluate, hire and manage a financial advisor

# Motivation

- ❖ Recurring financial crises are teaching many that making sound financial choices is hard – we want to make it a little easier
- ❖ Bernie Madoff’s treachery has left many wondering whom they can trust. We’ll give you some tools that will help you “trust but verify”
- ❖ Good investment strategy is multi-faceted. We’ll help you focus on what really matters

# A Strategy for Success



- ❖ Develop a financial plan

- ❖ Balance diversification with value investing
- ❖ Consider where active management adds value
- ❖ Go global
- ❖ Understand performance reporting

- ❖ Understand what is a good fiduciary

# 1. Develop A Financial Plan

## Definition:

- ❖ A financial plan is a comprehensive strategy to achieve an individual's financial goals

## Benefits:

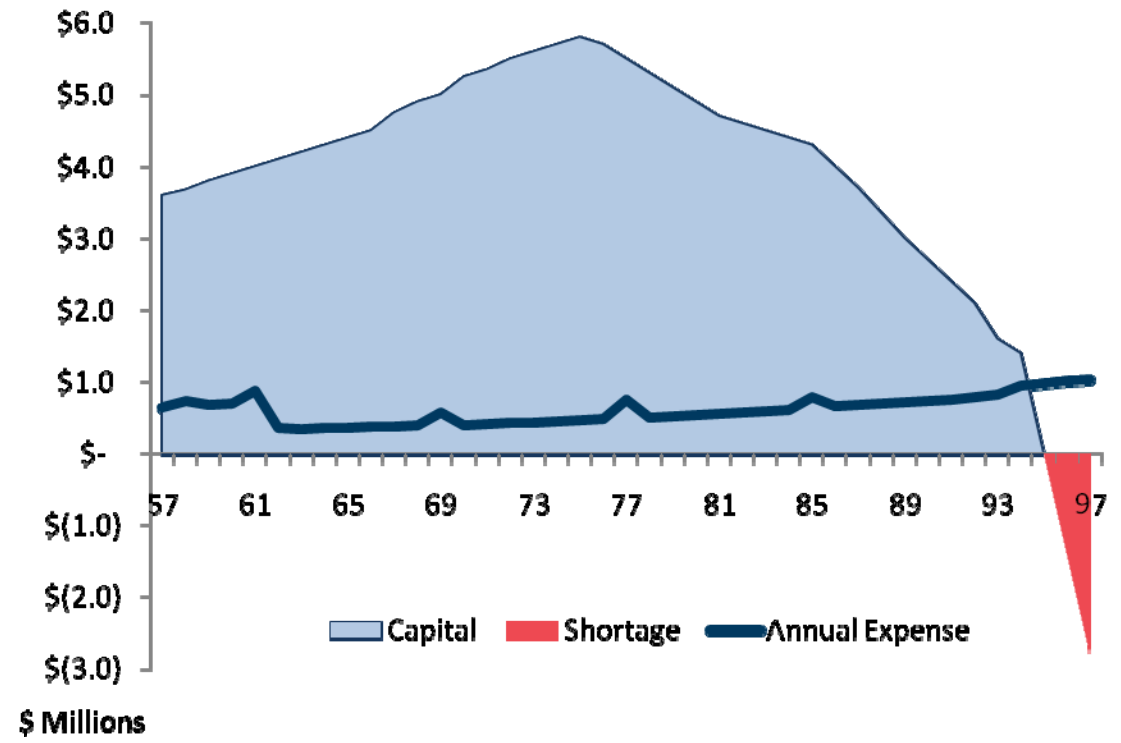
- ❖ Lays out the trade-offs between saving, spending, investment risk and returns, retirement age, etc.
- ❖ Helps identify how much investment risk you need (or don't need) to take
- ❖ Enables smarter tax, estate, and insurance planning
  - ❖ Should I do a Roth conversion?
  - ❖ What is the best way to remove assets from my estate?
  - ❖ How much life insurance do I need?
- ❖ Provides a framework for adapting to change

# 1. Develop A Financial Plan

## Choices

- ❖ Retirement Age: 62
- ❖ Pre-retirement Savings\*: `` \$30k
- ❖ Educational Savings: \$40k
- ❖ Post-retirement Spending: \$200k
- ❖ Annual Gifting: \$26k
- ❖ Portfolio ROR: 6.5%
- ❖ Inflation: 3.0%
- ❖ Capital Gains Tax Rate: 20%
- ⋮
- ⋮
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## Retirement Capital Estimate



\*All dollar figures are annual

# 1. Develop A Financial Plan

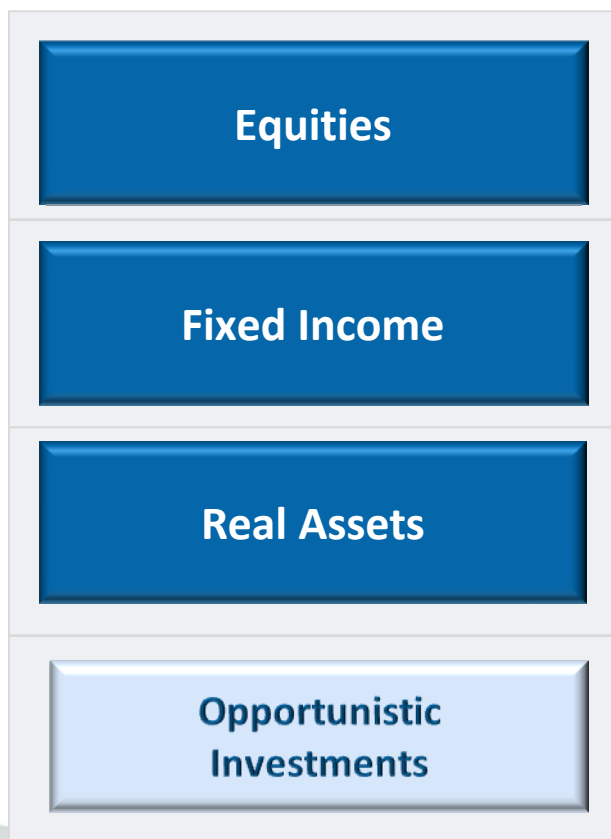
## Adapting to Change: Safe Withdrawal Rate\* Research

Author	Payout Period	Asset Allocation	Safe Rate	Decision Rule
<b>Bengan 1994</b>	30	60:40	4.1%	<ul style="list-style-type: none"> <li>Maintain a uniform (inflation-adjusted) withdrawal rate throughout payout period</li> </ul>
<b>Guyton 2004</b>	40	Multi-asset	5.8–6.2%	<ul style="list-style-type: none"> <li>Adjust amount withdrawn each year based on recent inflation and asset returns</li> </ul>
<b>Kitces 2008</b>	30	60:40	4.5–5.5%	<ul style="list-style-type: none"> <li>Adjust base 4.5% safe rate as follows:               <ul style="list-style-type: none"> <li>- to 5.0% if P/E 10 between 12-20</li> <li>- to 5.5% if P/E 10 below 12</li> </ul> </li> </ul>

\*Initial annual withdrawal rate that does not exhaust the investment portfolio during a specified payout period (payout adjusted for inflation after year 1)

## 2. Balance Diversification With Value Investing

### Asset Classes: the Building Blocks of a Diversified Portfolio



- ❖ Large-cap value stocks
- ❖ Large-cap growth stocks
- ❖ Mid-cap stocks
- ❖ Small-cap value stocks
- ❖ International stocks
- ❖ Emerging market stocks

- ❖ US Treasuries
- ❖ Mortgage-backed securities
- ❖ Municipal bonds
- ❖ International bonds
- ❖ Emerging market bonds

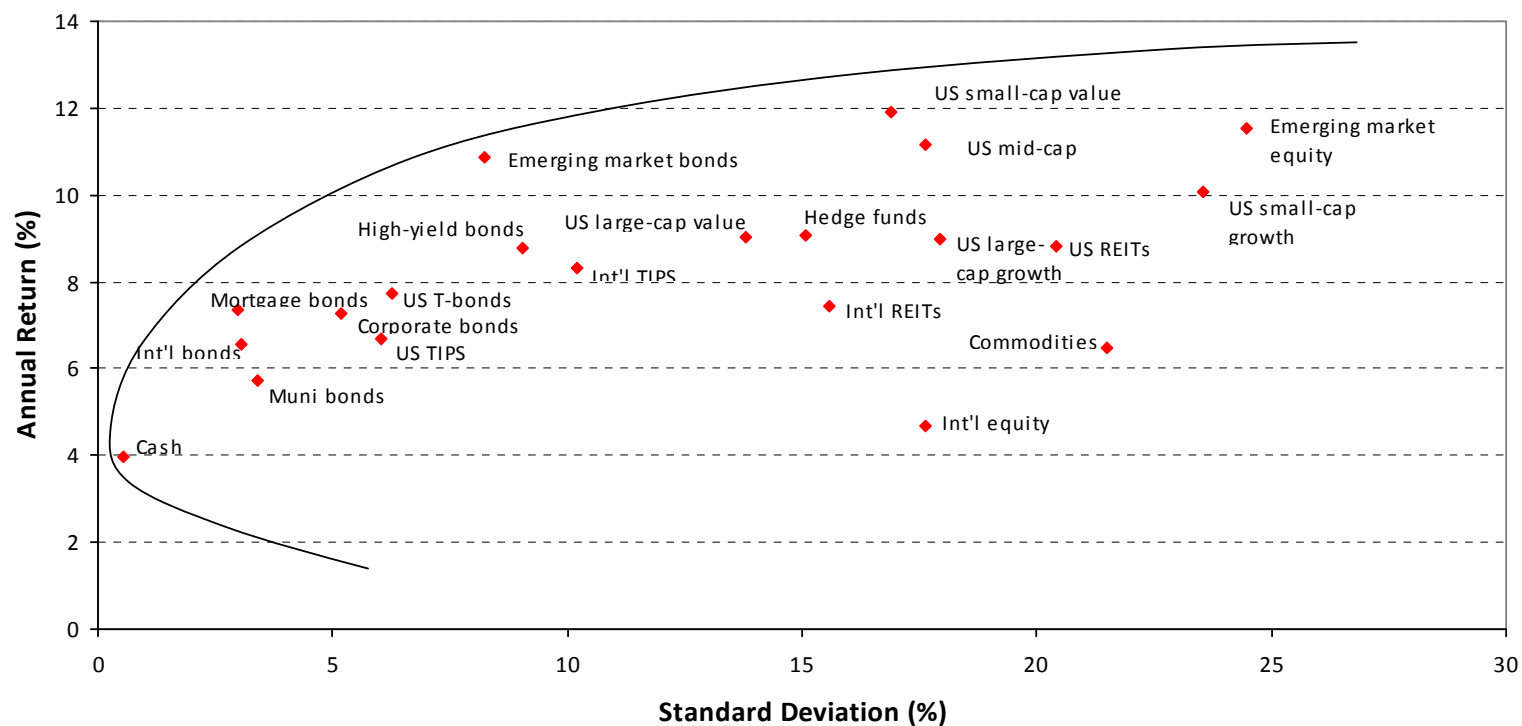
- ❖ US real estate
- ❖ US inflation-linked bonds
- ❖ Int'l inflation-linked bonds
- ❖ International real estate
- ❖ Natural resources

- ❖ Investment-grade credit
- ❖ High-yield credit
- ❖ Alpha strategies
- ❖ Private equity

## 2. Balance Diversification With Value Investing

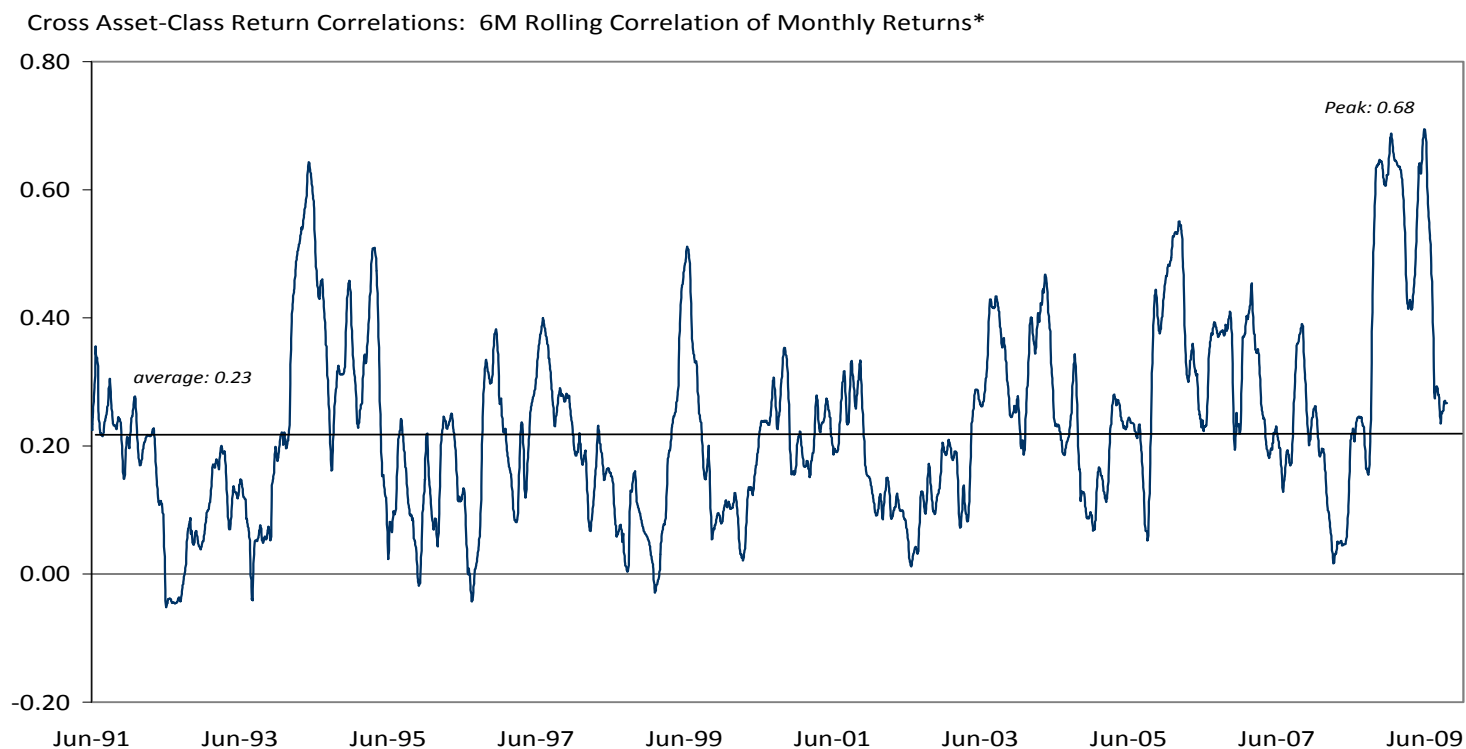
### Investing Along the Efficient Frontier

Asset Class Returns and Volatilities, 1990-2009



## 2. Balance Diversification With Value Investing

### Correlation Spikes Can be Persistent...and Painful

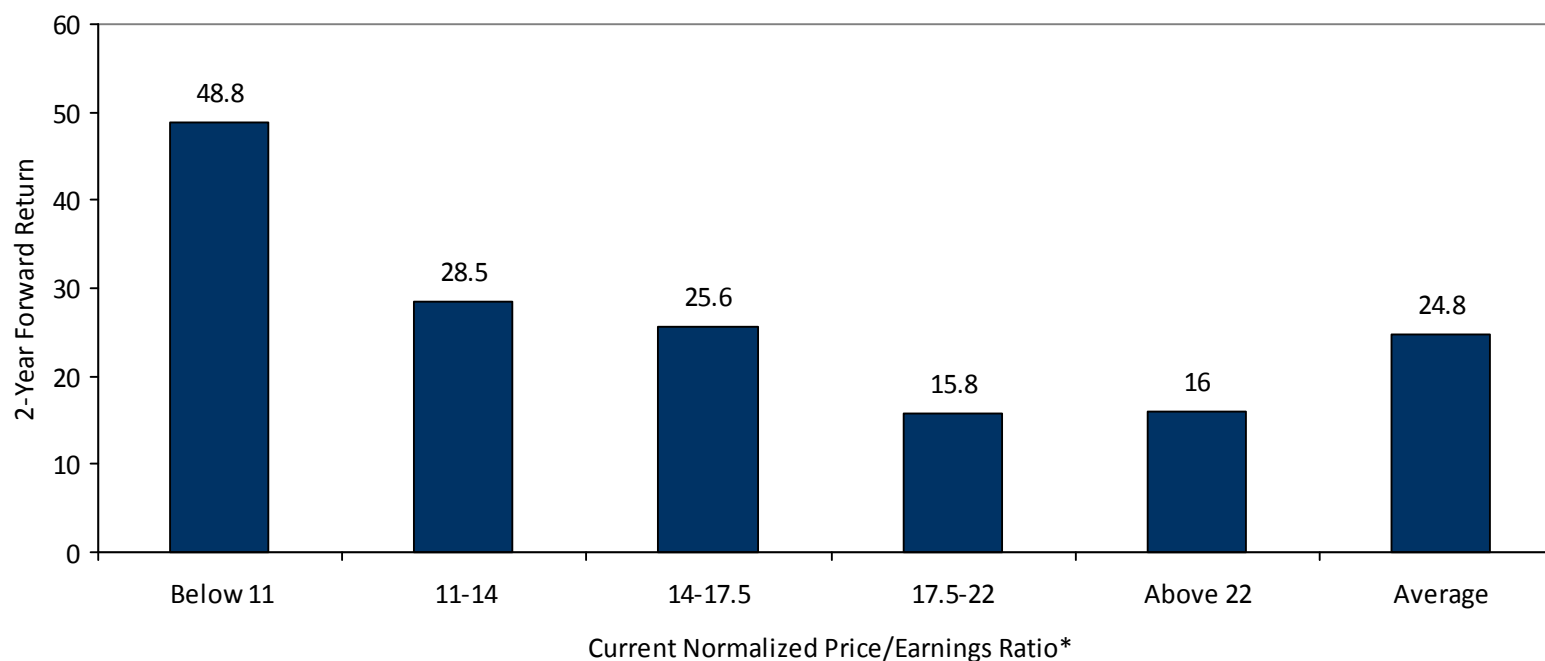


\*Includes, commodities, global bonds, high yield, investment grade, global equities, EM equities, and S&P500

## 2. Balance Diversification With Value Investing

### Low Current Valuations => Higher Future Returns

Future Equity Returns Reflect Current Valuations: S&P 500, 1930-2008

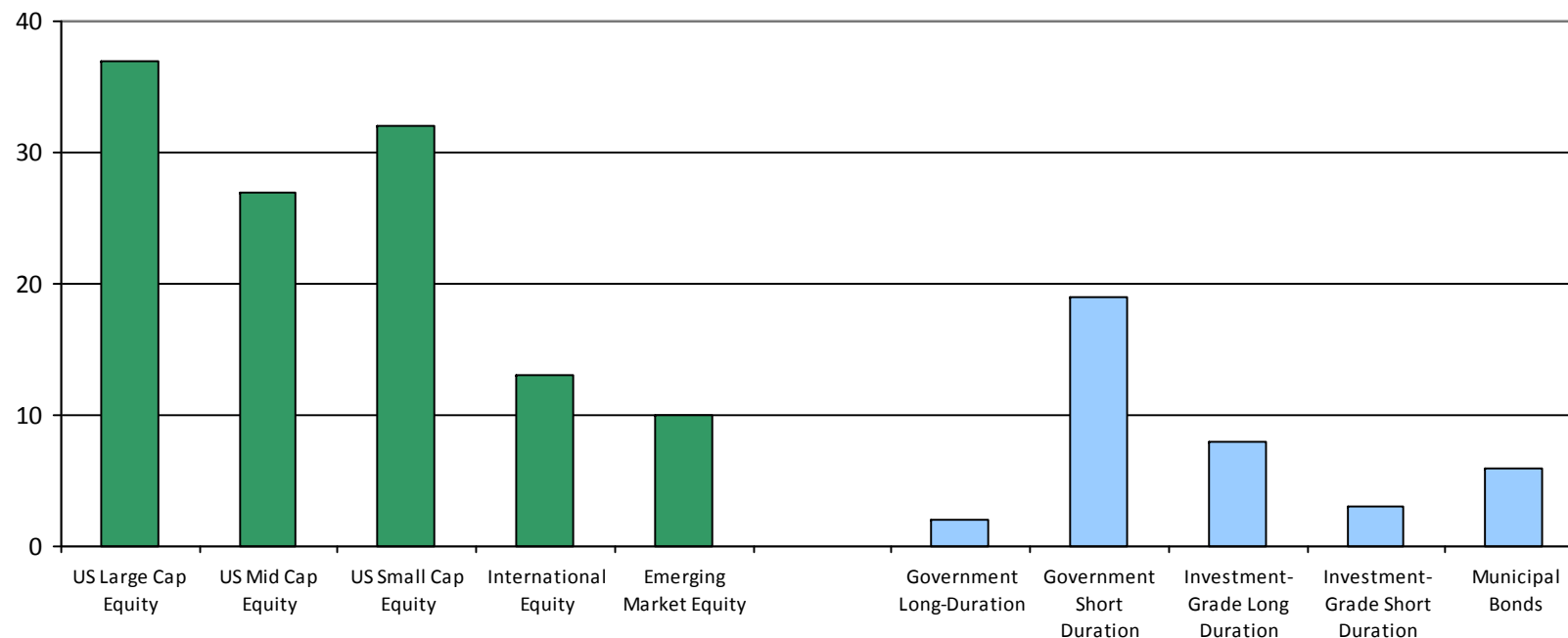


Standard & Poors, Fidelity Management & Research. Normalized earnings use a 10-year moving average for operating earnings.

### 3. Consider Where Active Management Adds Value

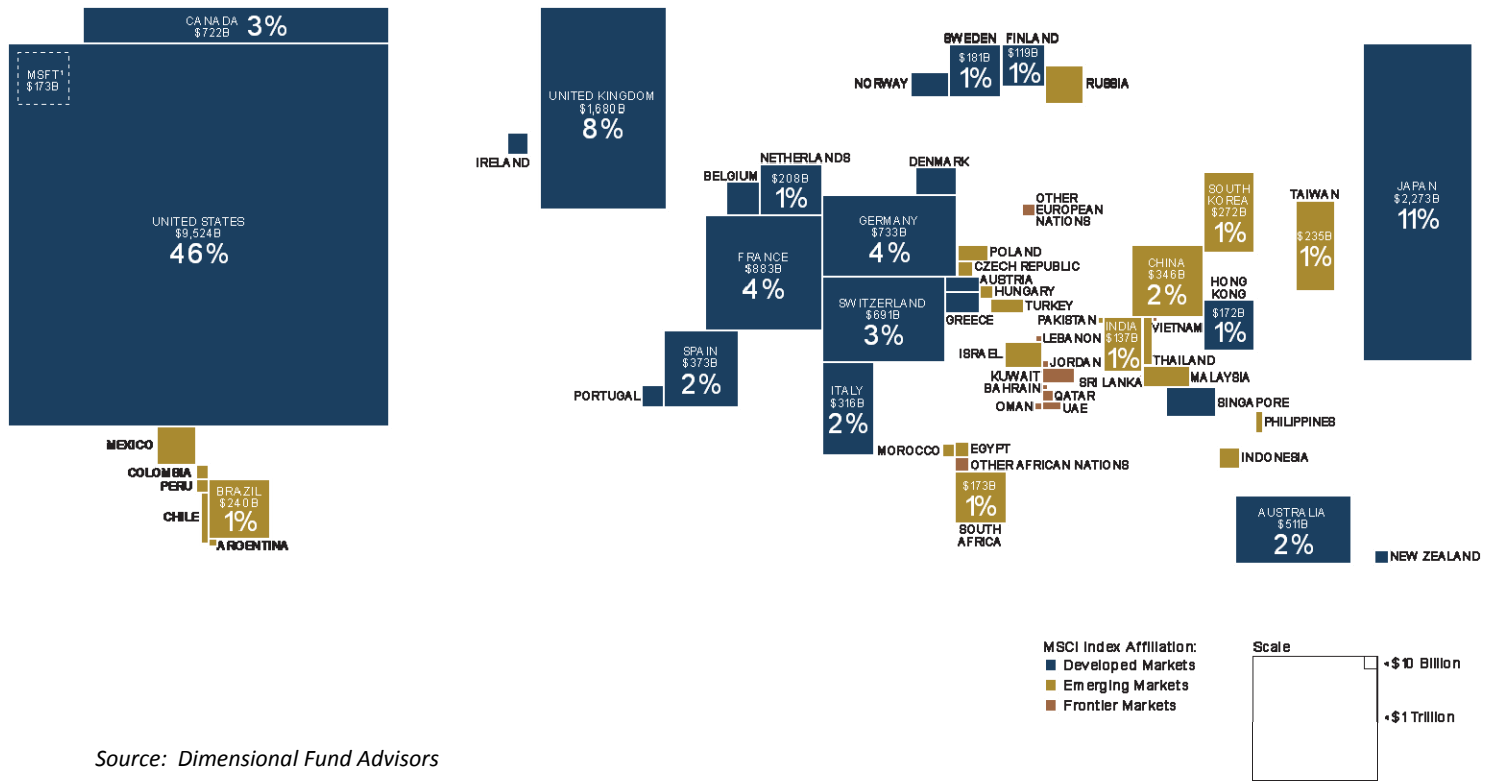
#### Lake Wobegone Redux: All Below Average?

Percentage of Active Public Equity & Fixed Income Funds that Beat the Index: 2004-2009



Source: Dimensional Fund Advisors. Equity Indices: US Large Cap—S&P 500 Index; US Mid Cap—S&P MidCap 400 Index; US Small Cap—S&P SmallCap 600 Index; International—S&P 700 Index; Emerging Markets—S&P IFCI Composite. Fixed Income Indices: Government Long Duration—Barclays Capital US Long Government Index; Government Short Duration—Barclays Capital US 1-3 Year Government Index; Investment Grade Long Duration—Barclays Capital US Long Government/Credit; Investment Grade Short Duration—Barclays Capital US 1-3 Year Government/Credit; National Muni—S&P National Municipal Bond Index. Mutual fund performance data are from the CRSP Survivor-Bias-Free US Mutual Fund Database.

# 4. Go Global



## 4. Go Global

### Currencies Have a Big Impact on US\$ Returns to Foreign Investment

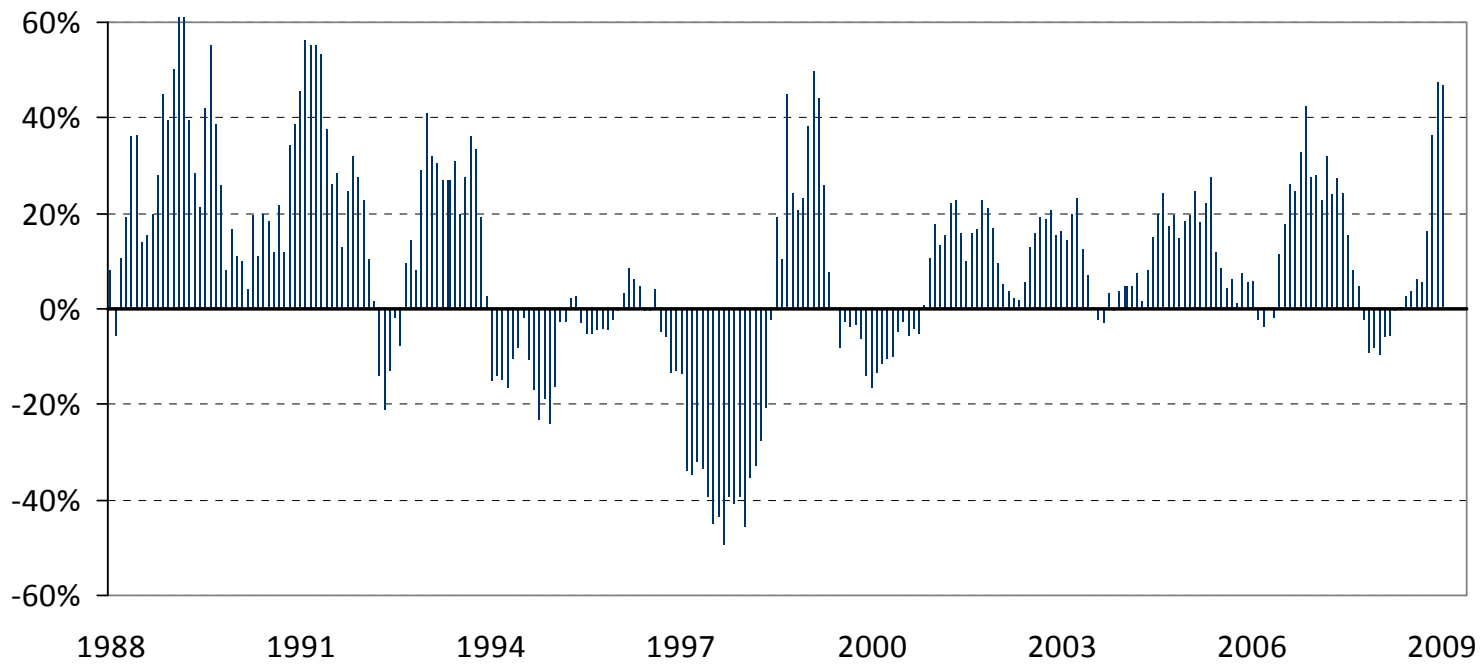
#### Foreign Developed Market vs US Equity Returns (in percent)

	Foreign Equity Return	US Equity Return	Foreign vs US Return	US\$ Impact
2000	-14	-9	-5	-7
2001	-21	-12	-9	-5
2002	-16	-22	6	10
2003	39	29	10	18
2004	21	11	10	8
2005	14	5	9	-16
2006	27	16	11	10
2007	12	5	7	8
2008	-43	-37	-6	-3
2009	28	26	1	4

# 4. Go Global

## Emerging Market Outperformance is Persistent

Relative Performance of MSCI Emerging Markets vs Europe, Africa & the Far East  
(% change y/y, in US\$)



# 5. The Hows and Whys of Performance Reporting

## Sources of investment performance

- ❖ Your performance: income, spending and saving
- ❖ Market performance: asset class total returns
- ❖ Advisor/manager performance: custom benchmark & relative returns

## Performance measurement concepts

- ❖ Internal vs. time-weighted returns
- ❖ Total return vs. benchmark-relative return
- ❖ Performance before and after fees & taxes
- ❖ Wealth accumulation: integrating investment performance into financial plan

## 6. Understand What is A Good Fiduciary

### Financial Advisors Come in Many Stripes

#### Investment Managers

- ❖ Legal term that describes people who are in the business of providing investment advice
- ❖ Must be registered with the SEC or state securities division
- ❖ CFA is the most widely respected designation

#### Stockbrokers

- ❖ Legal term that refers to people who buy and sell securities for clients
- ❖ Must be registered with a broker-dealer and take a test administered by FINRA

#### Financial Planners

- ❖ Not a legal definition
- ❖ Refers to providers who develop and help execute financial plans
- ❖ Plans include investing but also estate and tax planning, insurance, retirement planning
- ❖ CFP® is the most widely respected designation

## 6. Understand What is A Good Fiduciary

### How Advisors Are Compensated

	Fee Only	Commissions	Fee-based
Definition	Compensated solely by client	Compensated by product commissions, distribution fees, and trading spreads	Compensated by both client and by product distributors
Typical Structure	% of AUM, flat retainer, project, hourly fee	Depends on product sold	Fee based on investments; commissions for annuities, insurance, some products sold
Where Found	Some Registered Investment Advisory (RIA) firms; all NAPFA* - registered advisors	Big wire houses, independent broker-dealers, insurance agencies	Some RIA firms; 'dual registered' reps at broker-dealers

\*National Association of Personal Financial Advisors

## 6. Understand What is A Good Fiduciary

### Understand What You Can Expect to Pay

<b>Advisor Fee</b>	Typical range 0.5 – 2.0%	<ul style="list-style-type: none"><li>❖ Higher fees typically with hedge fund/private equity managers</li><li>❖ Fee typically declines as AUM increases</li></ul>
<b>Fund Expense Ratio</b>	0.1 – 2.2%	<ul style="list-style-type: none"><li>❖ Applicable to mutual funds and ETFs; netted from fund returns</li><li>❖ Low-fee products are almost always indexed</li></ul>
<b>Transaction and Other Hidden Costs</b>	Varies: 0.01 – 0.5%	<ul style="list-style-type: none"><li>❖ Includes trading and market impact costs</li><li>❖ Also netted from fund returns – not included in expense ratio</li></ul>
<b>Performance Fees</b>	10-20% of outperformance	<ul style="list-style-type: none"><li>❖ Typically levied by hedge fund/ private equity managers</li></ul>

## 6. Understand What is A Good Fiduciary

**Only certified financial planners and investment managers have full fiduciary responsibility**

### Fiduciary Standard

- ❖ A legal standard requiring advisors to:
  - ❖ Put the client's interest first
  - ❖ Act with prudence - skill, care, and good judgment of a professional
  - ❖ Provide full disclosure of all important facts, including how compensated
  - ❖ Avoid conflicts of interest
  - ❖ Disclose and manage unavoidable conflicts in client's favor

### Suitability Standard

- ❖ Applies to all brokers
- ❖ Not a legal standard, only requires a broker to recommend suitable investments
- ❖ Broker does not have to put client's needs first
- ❖ No required disclosure of methods, conflicts of interests or costs

# Appendix

# Pay Attention to Taxes, Fees & Trading Costs

## Taxes Matter--A Lot

Projected After-Tax Returns on a 10% Total Return in Common Stocks

Year	Average Stock Yield	Tax on Dividends	Tax on LT Gains	One Year		Five Years	
				Pre-Liq.	Post-Liq.	Pre-Liq.	Post-Liq.
1978	5.0%	50.0%	39.0%	7.25%	5.00%	6.97%	5.50%
1994	3.0%	39.6%	28.0%	8.53%	6.04%	8.26%	6.81%
2000	1.2%	39.6%	20.0%	9.18%	6.04%	8.93%	7.46%
2009	1.6%	15.0%	15.0%	9.47%	6.82%	9.29%	8.17%

\*Source: Douglas S. Rogers

# Pay Attention to Taxes, Fees & Trading Costs

## Elements of Tax-Aware Investing

### Instrument/Manager Selection

- ❖ Select tax-efficient vehicles (Index funds, ETFs, low turnover/tax-managed mutual funds, some SMAs) for taxable accounts

### Asset Allocation

- ❖ Utilize after-tax returns in allocating assets

### Asset Location

- ❖ Place high return, tax-inefficient investments (REITs, high-yield bonds, EM equity and bonds) in tax-deferred accounts

### Tax Loss Harvesting/Smart Rebalancing

- ❖ Offset realized gains with losses to neutralize the tax impact
- ❖ Rebalance only when deviations from target are large enough that potential returns compensate for capital gains & trading costs

# About Us



**Artemis**  
FINANCIAL ADVISORS

# Leigh Bivings



## ***Experience***

- ❖ Artemis Financial Advisors, Chief Executive Officer, 2008-
- ❖ Stax Inc., Managing Director, 2003-06
- ❖ Monitor Group, Partner, 1992-02
- ❖ U.S. Peace Corps, Dominican Republic

## ***Education***

- ❖ Stanford University, Ph.D. , Applied Economics
- ❖ University of Sussex, M.A. , International Trade and Finance
- ❖ London School of Economics, Diploma in Economics
- ❖ Pomona College, A.B., International Relations

## ***Affiliations***

- ❖ Certified Financial Planning (CFP), Candidate
- ❖ National Association of Personal Financial Advisors
- ❖ Boston Estate Planning Council
- ❖ Financial Planning Association
- ❖ Big Sisters Organization, Boston

# Karen Parker Feld



## ***Experience***

- ❖ Artemis Financial Advisors, Chief Investment Officer, 2008-
- ❖ Harvard Management Co., Managing Director, 2006-08
- ❖ Wellington Management Co., Associate Partner, 2000-06
- ❖ Chase Manhattan Bank, Managing Director, 1997-00
- ❖ International Monetary Fund, Economist, 1991-97

## ***Education***

- ❖ Stanford University, M.A., Ph.D. , Applied Economics
- ❖ Princeton University, A.B., *summa cum laude*, Public Policy

## ***Affiliations***

- ❖ Council on Foreign Relations, Investment Committee (2003-2008)
- ❖ Federal Reserve Bank of New York, Foreign Exchange Committee
- ❖ Boston Economic Club, President
- ❖ Princeton University, Advisory Council for Latin American Studies
- ❖ Seacoast Hospice, Board of Directors & Investment Committee
- ❖ *Journey Song* Hospice Choral Group, Director