

PART 1

Why Do We Need to Look at Investing Differently?

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CHAPTER 1

Freedom in the Market and Advisor Responsibility

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Between stimulus and response, there is a space. In that space is our power to choose our response. In our response lies our growth and our freedom.

—Viktor E. Frankl, *Man's Search for Meaning* (1959)

Within the securities market, investors have great freedom in that they are able to take risks through investments in exchange for the right to receive and keep interest, dividends, and appreciation. Yet, in the midst of this freedom, they experience various perils, such as volatility and subsequently, fear and anxiety. They may receive questionable advice. And ultimately, they often make costly and even devastating errors.

In the midst of the freedom of capital markets emerges responsibility. As advisors, we know our economic system is designed to create prosperity and that, properly guided, investors can successfully participate in its rewards. Thus, we have the responsibility to help investors engage with the world on the basis of clear, constructive thinking in search of positive outcomes. We have the responsibility of helping investors understand but not be overcome by emotional and behavioral pitfalls. In the words of Don Phillips, Managing Director of Morningstar, Inc., on April 8, 2014 at the Tiburon conference in New York City, “We gotta manage the behavior gap.”

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This chapter examines why and how we do that, as well as how we may have fallen short on this responsibility. First, we discuss the financial markets in terms of the freedoms and opportunities they offer and what these imply for investors and advisors. Next, we examine the problem and opportunity of investor behaviors. We then review what we have been doing for investors and what outcomes we have achieved. Next, we discuss what investors really want and need. Finally, we introduce Brinker Capital's Personal Benchmark solution as a means for helping us rise to the call of responsibility.

The Financial Markets

At some level of consciousness, all of us may comprehend that we live in a time of mass flourishing. These are the good times in human history. Today there are fewer wars, higher standards of living, better educational systems, and fewer people living in poverty than at any time in human history (Zakaria 2012). The good times are not an accident. They are the work product of the lessons of history and the evolved systems and cultural beliefs that support these systems. Compared to ages past, prosperity abounds, as does the opportunity to participate in it.

The central reason for the prosperity is a greater emphasis on human freedom. Human freedom, as defined by Professor Henry Louis "Skip" Gates Jr. (2014), Chair of African American Studies at Harvard University, is the ability to do as one pleases. The ability to do as one pleases requires economic freedom.

Economic freedom requires assets that generate the cash flow required to sustain each person's definition of wellbeing. For more than 200 years, the market economies of the West, Europe, and North America have been supported by democratic governments that protect individual human rights (including economic freedom) through the rule of law. These governments have been guided by cultural values that encourage and promote material wellbeing and applaud innovation and entrepreneurship. This virtuous system of governance, informed by cultural values supporting the spirit of individual exploration and

innovation has spawned a standard of living unimaginable prior to the 19th century (Phelps 2013). Moreover, it is this market-based system that has brought hundreds of millions out of poverty into the middle class in Asia and Latin America over the last 30 years.

It is this system that inspired the people of Western Ukraine and spurred them in the natural human desire of all people for a better life. Secretary of State John Kerry, who flew to Ukraine's capital city of Kiev when Russia seized the Crimea in March 2014, shared the story of one man he met in Kiev. The man told Kerry he had been to Australia and had seen firsthand how others live a prosperous life and that he wanted to live as they do. Rather than having his wealth stolen by a corrupt government, he wanted the rule of law, markets, elections and the proper institutions of liberty. In short, he wanted freedom.

Central to providing the freedom and prosperity the man in Kiev witnessed are the financial markets. In America, we depend on the credibility of financial markets. The source of America's greatness is its capital markets. It's not debatable (Kauffman 2014).

The Purpose of the Securities Industry

The post-World War II American economy has been largely financed by providing individual and institutional investors with access, through capital markets, to the equity and fixed income returns generated by economic growth.

However, as the American economy continued its industrialization on a large scale into the 20th century, wealthy families could no longer provide enough capital to finance the remarkable American economic growth "machine." Investment was now needed by large numbers of smaller investors as individuals, through vehicles like pension plans, fueled continued economic expansion and increased standards of living for the American population.

Win Smith, in *Catching Lightning in a Bottle* (2013), his excellent written history of Merrill Lynch, explains, "By bringing Wall Street to Main Street and democratizing investing, Merrill Lynch helped countless

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middle-class individuals save and invest, and, in turn, helped thousands of companies, municipalities, and governments fund their growth.” Merrill Lynch, along with other similar institutions, executed the financial intermediation process that helped the United States to grow into an economic powerhouse.

Creating wealth on a small and large scale is the purpose of the securities industry. The Securities Industry and Financial Markets Association (2013) explains that through the medium of capital markets, the purpose of the securities industry is to match the investment capital of private investors with the opportunities offered in a dynamic, free market economy, powered forward by entrepreneurial and innovative private enterprise (SIFMA 2013).

In turn, our capitalist, market-based economic system has produced significant economic growth and wealth for many millions of Americans who may not have otherwise participated. And economic growth means a higher standard of living and attractive returns on capital. Attractive returns on capital through interest, dividends, and capital appreciation are the incentives that a market system offers to investors to support entrepreneurs and innovators as well as existing enterprises. Attractive returns are intended.

Real Wins . . . and Losses

Over the last 30 years, both the economy as measured by real gross domestic product and the stock market as measured by the S&P 500 Index grew considerably. Real gross domestic product has grown from \$6.99 trillion as of December 31, 1983 to \$15.94 trillion as of December 31, 2013 (U.S. Bureau of Economic Analysis 2014). During that same period, the market capitalization of the S&P 500 Index grew from \$1.22 trillion as of December 31, 1983 to \$16.5 trillion as of December 31, 2013 (Haver Analytics 2014). Seen as a straight line these numbers are impressive.

However, the economy does not advance in a straight line. In fact, a free market economy is characterized by change and disruption. Today’s goods and services become tomorrow’s rubbish, as producers innovate, entrepreneurs introduce change, and consumer demand shifts. Capital markets also innovate and some investment innovations fail.

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Government periodically get macroeconomic policy wrong. The result is swings, sometimes massive, in the value of securities. Volatility happens as disruption, discovery and change bring innovation and efficiency to the production of goods and services in a dynamic economy.

When economic growth lags or falls into recession as a result of capital market excesses or flawed governmental macroeconomic maneuvers, the imperative for a democratic government is to pursue policies that will produce economic growth, prosperity and a rising standard of living for its citizens. Moreover, in post-World War II America, with its rising tide of entitlement programs, the government must produce economic growth and tax revenues to finance its obligations. After economic downturns, when growth is restored, attractive capital market returns generally follow. The ebb and flow of economic growth and capital market performance act badly on the mind of investors. As mentioned earlier, over the 30-year period ending December 31, 2013, the S&P 500 Index performed at an annualized revenue of 11.11 percent, real gross domestic product has grown from \$6.99 trillion to \$15.94 trillion (U.S. Bureau of Economic Analysis 2014), and market capitalization of the S&P 500 Index grew from \$1.22 trillion to \$16.5 trillion (Haver Analytics 2014).

Disturbingly, investors did not keep pace. In fact, they lagged by a substantial margin. Despite the exciting story indicated by the amazing performance of the economy and stock market over the last 30 years the actual experience of many investors, individual and institutional, has been different, and often disappointing as participation in capital market returns has lagged. Why?

The Rot in Denmark

Anecdotally, all skilled advisors and investment managers know from personal experience that individual investors by and large are unwilling or unable to engage in the intentional study required to understand the often arcane language used in disclosure and inscrutable concepts that guide successful investing.

When this happens, inexperienced investors may rely on the media, friends, or the claims of investment firms touting investment funds with

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attractive recent returns and high ratings to make their investment decisions. Moreover, as discussed in greater detail later in this book, investors (okay, and advisors, too) unconsciously strive to keep things simple. In the pursuit of simple, we recall our most recent experiences, and tend to respond emotionally to those experiences and weigh short-term predictions heavier than long-term predictions.

The result? Often, investors end up with a mix of products that don't result in a cohesive strategy that achieves their personal goals and, in an even more brilliant move, they expertly act on emotion to sell low and buy high. Take the case of "George," a seasoned, 65-year-old lawyer client of ours. In March 2009, he proclaimed, "Move me out of stocks! I want bonds!" We don't want to be too hard on him: it is understandable that, given a \$500,000 portfolio of which 60 percent (\$300,000) is allocated to stocks, the anxiety of a 30 percent (\$90,000) decline may be emotionally untenable. Many investors, like George, cried uncle: "I can't take it! Get me out!" And their advisors did.

This has been particularly true amid the increasingly risk-averse era of 2008–2009, as many investors fled the scene like a house afire, waiting for the all-clear signal to re-enter the market. They waited and they watched. They didn't miss a minute of watching for meaningful returns to happen for risky assets . . . and they watched all the way up to a 100 percent gain in the stock market from March, 2009 to April, 2013. The only problem is, they watched it happen for other investors.

As of January through May 2013, the S&P 500 Index was up more than 15 percent, apparently the signal investors were waiting to renew their interest in putting more money in stocks and other risky assets. George recently urged me, "Just talk to me about stocks. I don't want any more bonds." Accordingly, in June and July 2013, the Federal Reserve discussed "tapering" its bond purchases. Many bond investors, seeing the value of their bonds decline, have responded by selling their bonds. (I'm starting to see a pattern here . . .)

Selling low and buying high is one of the many pitfalls or behavior gap traps that investors fall into. The unfortunate consequence of the behavior gap trap is the serious misallocation of resources, leading to the

failure to create the purchasing power needed to pay for our personal, financial, or lifestyle goals. The behavior gap is why the average investor meaningfully underperforms the average returns for asset classes over time. Yet, many can't resist the temptation of irrational behavior during nerve-racking volatility and irrational exuberance.

What we need to do as advisors is help investors close the behavior gap. In other words, help them actually do what we (and sometimes they) know they should do. We'll discuss that in detail later in this chapter (and throughout this book). First, let's take a look at what we've been doing and what we have to show for it.

What We've Been Up to as Advisors

Over the last 30 years, the interaction between academics and investment practitioners, as they have collectively and collaboratively assessed investors' capital market experiences, has produced a wealth of information. Experience is studied. Lessons are learned through inductive and deductive reasoning. Best practices are developed, and we as advisors rely on these tested principles and best practices to structure and execute financial plans and investment strategies that, in theory, helps our clients achieve their important personal goals.

Many of the current best practices have their roots in the 1970s. Two notable examples are asset allocation frameworks for portfolio investment strategies and fitting investment managers into style boxes and assigning the investment managers roles within the asset allocation. These two practices are at the heart of the principles and best practices used by institutional investors, consultants, and advisors. To individual investors, these are key tools used to manage risk or the volatility inherent in investing in capital markets while accessing return.

Another example is the efficient frontier concept, identified by Harry Markowitz in 1952. This concept teaches investment practitioners how to efficiently allocate portfolios into the different asset classes that make up an investment portfolio's strategy. David Swensen used this concept to pioneer the multi-asset class or endowment model at

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Yale University in the 1980s. Simply said, returns are maximized and risk is minimized when using the efficient frontier concept. You are solving for the optimal combination of risk and return. (This is different than allocating capital to the most inefficiently priced asset classes.) However, the lessons of the 2008 financial crisis taught us that the optimal combination of risk and return must be augmented by factors such as liquidity needs and client objectives as well as opportunities created by market inefficiencies.

And so it is, through the application of tested principles and proven best practices, that talented, educated, and seasoned advisors experience meaningful success in serving their clients. This creates a positive feedback loop of helping clients achieve their personal goals, and advisors in turn develop a belief in their principles and practices they use, which rises to the level of professional conviction. John Moore, founder of wealth management firm John Moore and Associates of Albuquerque, New Mexico, explained, “Once you’re in practice for a time, you experience delivering the positive outcomes clients seek. For me, as a practitioner, these positive outcomes are proof statements for the principles and best practices we follow as a firm. Successful outcomes are a positive feedback loop which reinforces advisors in the work we do for clients.”

Successful advisors also become more persuasive over time because of their ever-growing grasp of market economies and the capital market system, which is integral to market economies. Imbued with understanding of the capital market system and how to benefit by participation in it, advisors become optimistic. They can serve investors at a high level.

I have observed over my 37-year career in working with advisors that the best advisors have pursued what I consider “the good life.” The best take satisfaction in new insights, are thrilled by meeting challenges, take pride in making their own way as entrepreneurs, and find satisfaction in their personal and professional growth. They also recognize, in Moore’s words, “it’s a privilege to be allowed into a client’s life. Once you’ve been let in, you apply tested principles and best practices to plan for and achieve client goals.”

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Despite our confidence and past successes as advisors, recent research suggests that the picture may not be as sunny as we think. The Center for Applied Research (2012); an independent organization funded by State Street Bank, conducted an extensive survey of 2,725 investors and gathered additional insights about what investors want from 403 investment providers and government officials. The researchers found that investors wanted something much different than the institutional mix of performance and services that have been developed over the last 30 years. They concluded that what investors want will determine the shape of the investment management industry in the coming years.

Providers of investment management performance and services as well as advisors to investors would do well to heed these insights. The researchers elaborated, “One thing is clear: When it comes to performance, one size does not fit all. The industry’s value proposition must evolve to one that defines performance as personal. The current benchmark model does not speak to the needs of the investor. Relative performance-based peer groups or indices may serve the provider, but the investor’s view of value is more complex and reflects their own personal blend of alpha seeking, Beta generation, downside protection, liability management and income management. In the future, the investor will be the benchmark.”

We are not completely behind the eight ball, however. Over the last 15 years, investment advisory services have evolved to deliver these desired elements of perceived value. But, the actual products and services provided by investment advisors often fail to align with investor goals.

As a result of 30 years of professional guidance emphasizing index-oriented investing, many individual and institutional investors design and implement investment strategies which are not designed to achieve their goals. In most other commercial endeavors, investors are encouraged to believe they are unique and need personalized, customized products and services that treat them as the unique individuals they are. Like their burgers, they want to have their investments “their way.” This brings us to an important frontier in serving our investors: Just what is it that investors want?

What Investors Really Want and Need

The current system for providing investment advice is premised on the belief that education and disclosure will lead to rational investor behavior and prudent decision-making. The *Dalbar Effect* proves the system hasn't worked. This suggests that what we are offering as advisors isn't what investors really want or need. In reflecting on our experiences as advisors and investors in the market, we've come up with what we believe are the key and often unspoken wants and needs of our investors.

Help Me Resolve My Conflicts

Investors bring conflicts to advisors for advisors to solve:

- Investors want safety and, on the other hand, growth.
- When markets are volatile, investors want advisors to do something to stabilize the swing in the value of their portfolios.
- Investors want an adequate pool of investment dollars in the future and, on the other hand, to enjoy consumption today.
- When the stock market is high, investors don't want bonds until the market corrects.
- Investors want equity-like returns without the volatility.
- Investors want to perform favorably against selected capital market indices while making steady increases in purchasing power.

These conflicting desires and the behaviors they inspire often lead to disappointing and even devastating results. It is our task as advisors to resolve these and many other conflicts that investors bring.

Help Me Achieve My Personal Goals

To encourage and create successful participation, advisors and investors should ask the question, what is it investors want? And in turn, develop the investment offerings that deliver what investors want. Unfortunately, this has not been a focus of the advice delivery system until recently.

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One way to define “what investors want” is in terms of the personal financial goals they want to achieve. Goals may include:

- setting money aside for near-term spending or an emergency or rainy day fund.
- current income.
- some appreciation in investment value with reduced volatility.
- long-term growth to fund retirement.

Financial services industry leaders, such as the Money Management Institute (MMI), the \$3.5 trillion industry association for sponsors (e.g. Morgan Stanley, Merrill Lynch, UBS, Edward D. Jones) and investment managers participating in the managed solutions industry (e.g., Lord Abbett, Nuveen, Lazard) have increasingly recognized that goals-based investing delivers a better investment experience for investors. For example, at the April 2014 (MMI) board meeting, members overwhelmingly approved the MMI’s mission to embrace this approach as their primary focus in providing investment advice. At the April 8–9, 2014 Tiburon Conference in New York City, well-known industry leaders also emphatically embraced goals-based investing. Tiburon conference attendees are limited to C-Suite executives from prominent financial services firms. Chip Roame, Tiburon’s CEO, emphasized, “We need to care about the fund owner doing well.”

Mark Casady, CEO of LPL Financial, echoed Chip’s message during his panel presentation at the conference when he said, “We should be about outcomes, not returns.” On the same panel, Mary Mack, President of Wells Fargo Advisors, continued the argument for shifting from a relative return focus to outcomes. Mary identified raising risk consciousness as a significant opportunity for advisors. She noted, “It’s no longer about keeping up with the Joneses. It’s about keeping up with the plan.” Present on another panel at the Tiburon conference was Don Phillips, Managing Director of Morningstar, Inc. Don amplified the emphasis on focusing on investor outcomes. “What matters is the investor experience. We as an industry will only thrive to the extent of good investor outcomes.”

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One way to define “what investors want” is in terms of the experience investors seek. This may include competitive returns, returns that are competitive with a capital market index, managed volatility, or return per unit of risk. This concept also can be understood in terms of what investors value, such as:

- returns: both alpha and beta.
- income management: the creation and management of income independent of earned income.
- managed volatility (too much is simply too much).
- transparency.
- objectivity.
- more predictable outcomes.
- communication.

Delivering an investment experience that contains the mix of these elements and which fits the investor’s personal goals or desired outcomes is what advisors must do. Whatever the investors’ personal goals and desired experience, these serve as the personal benchmark for the investing strategy advisors must develop and execute. Lee Gordon, CEO of Mesirow’s Private Wealth Group and a 22-year veteran advisor, oversees \$5 billion in assets and seeks to help investors finance the lifestyle they have worked hard to achieve. In Gordon’s words, “To achieve your financial goals, you’ve got to get on and stay on the train, otherwise you’ll never reach your destination.”

Help Me Increase My Purchasing Power

Investors often talk about and think about comparing their investment strategy performance to capital market indices to assess their investment experience. The problem is, capital market return and risk is not relevant for achieving personal goals. Capital market indices measure speed, not the actual progress toward the goal. To determine progress toward goals, another metric is required: purchasing power. What gets measured gets

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done. Capital market indices have risk/return characteristics that tell investors of their rate of speed and the potholes (level of volatility) they may encounter, not their destinations.

The near-term tendency of focusing on capital market indices has been reinforced for more than 30 years as advisors adopted a common practice of guiding the development and measurement of investment strategies by these measures. A simple index might typically be a 60/40 blend of the S&P 500 Index and the Barclay's Aggregate Bond Index. The historical risk/return characteristics of these indices are well known, and, are typically seen as the best guide to the likely future investment experience. So, the theory goes, capital market index outcomes, or experience, will produce the desired return and acceptable risk for individual investors.

However, this theory simply hasn't played out in reality. Many investors do not want the risk experience or outcome that market indices at times provide. All too often the practice of using capital market indices to create investment strategies leads to a beat-the-index mentality. All investment advisors have had clients ask, "How am I doing in comparison to the S&P 500 Index? Did I beat it?" This leads to a discussion of relative return not absolute return. Relative return analysis is about comparing the client's investment return (and risk) to the S&P 500 Index's return for given periods. This is the wrong question and it leads to the *Dalbar Effect*.

David Poole, an advisor based out of Columbia, South Carolina, has built a very successful advisory practice through financial planning. In establishing client personal goals through the financial planning process, David emphasizes that the recommended investment strategies are designed to achieve purchasing power. Even though he emphasizes purchasing power, investor clients want to compare strategy performance to the S&P 500 Index rather than the purchasing power goals. David relates, "The consumer is so bombarded. It's in the water." He goes on to note, "Too much index comparison is a distraction from focusing on the goals developed in the financial plan."

The right questions investors should ask are: "Am I comfortable with the level of volatility in my portfolio and am I able to stick to my

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long-term plan?” Market indices can be used to provide context in various market environments, but the real performance comparison should be to the investor’s long-term goals and objectives.

In short, articulated or not, the achievement of desired purchasing power is the investment experience most investors want. This makes purchasing power the objective and destination of a long-term investment strategy. Bill Wallace, a talented and successful advisor from Northern California, recently remarked that reasonably affluent and high net worth investors understand purchasing power. These investors say, “We like this world. What do we need to do to remain here? Give us strategies which will keep us here.”

Help Me Weather Volatility

Potholes happen. Death and taxes do, too. But our focus here is potholes. And what happens when our investor’s well-planned and well-implemented investment hits one?

Take the case of highly volatile markets like 2000–2002 and 2008–2009, when markets declined more than 40 percent. Investors developed a newfound intolerance for risk. They rushed to sell their risky assets (stocks) and moved into conservative assets (bonds). Whew, crisis averted. Or, was it?

The paradox is that the risky assets they dumped recovered because, in market-based economies, governments must pursue policies that promote economic growth. As we have witnessed in recent years, in order to remain in power, governments in democratic countries with market-based economies promote economic growth to sustain social benefits promised to their populations. To have sustainable economic growth, there must be investment, and in order to have investment there must be return on (and of) capital.

Capital market returns within recent years demonstrate these dynamics. Since March 2009, the Federal Reserve has pursued monetary policies designed to stimulate economic growth. Its two key monetary policies have been (a) a near-zero discount rate to stimulate lending by

banks, and (b) the expansion of its balance sheet by buying U.S. Treasuries and mortgage-backed securities.

The large purchases of government securities have pushed down the yields on fixed-income securities to very low levels. Investors seeking income, or yield, are thus forced to buy or invest in riskier assets like high dividend paying stocks. The result is the value of riskier assets is “forced” up, while yields on less risky assets are “repressed.” This monetary policy is called financial repression. It is a policy tool which monetary authorities, like the Federal Reserve, use when the ratio of the government’s debt-to-GDP ratio is too high. Lower interest rates make it easier for the government to service its debt while increased prices for riskier assets encourage investment and consumption; increased investment and consumption are likely to produce, hopefully sustainable, economic growth.

So, although they were well-intentioned, the government’s tactics didn’t quite work out for those investors that fled from riskier stocks for safer havens. The result? Dramatic underperformance. From the equity market bottom in March 2009, the S&P 500 Index has returned an annualized 25.8 percent compared to a return of 4.9 percent for fixed income. Figure 1.1 reveals that for the 30-year period ending December 31, 2013, the average fixed income fund investor yielded a paltry 0.7 percent annualized return, in comparison to Barclays Capital Aggregate Bond Index (+7.67 percent) and the S&P 500 Index (+11.11 percent). This reveals a substantial performance gap between average individual investors and well-known asset classes.

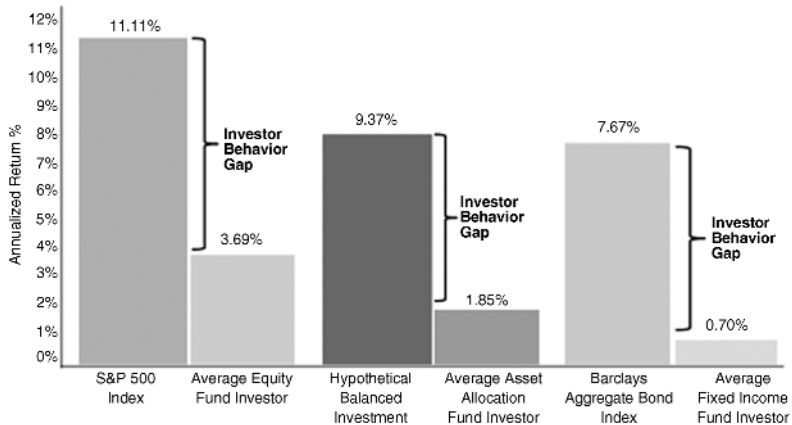
This investor behavior during the 2008–2009 financial crisis is an example of why the *Dalbar Effect* exists.

The lesson from the last 12 or so years is that investors do not want high volatility. They did not enjoy nor do they want to repeat the bear market experiences of 2000–2002 and 2008–2009. These big potholes disrupted many plans for creating purchasing power, the desired destination.

Investment strategies guided by, or measured in comparison to capital market indices, delivered an investment experience like the

FIGURE 1.1

Performance of the Markets vs. an Average Mutual Fund Investor



Source: Quantitative Analysis of Investor Behavior (QAIB), 2014, Dalbar, Inc. www.dalbarinc.com. Data from January 1, 1984 to December 31, 2013. Average equity fund investor and average bond fund investor performance results are based on the DALBAR 2014 QAIB study. DALBAR is an independent, Boston-based financial research firm. Using monthly fund data supplied by the Investment Company Institute, QAIB calculates investor returns as the change in assets after excluding sales, redemptions and exchanges. This method of calculation captures realized and unrealized capital gains, dividends, interest, trading costs, sales charges, fees, expenses and any other costs. After calculating investor returns in dollar terms, two percentages are calculated for the period examined: Total investor return rate and annualized investor return rate. Total return rate is determined by calculating the investor return dollars as a percentage of the net of the sales, redemptions, and exchanges for the period. Hypothetical balanced investment based on the performance of an investment weighted 50% to the S&P 500 index and 50% to the Barclays Aggregate Bond Index and rebalanced monthly. Equity benchmark performance is represented by the Standard & Poor's 500 Composite Index, an unmanaged index of 500 common stocks generally considered representative of the U.S. stock market. Fixed income benchmark performance is represented by the Barclays Aggregate Bond Index, an unmanaged index of bonds generally considered representative of the bond market. Indexes do not take into account the fees and expenses associated with investing, and individuals cannot invest directly in any index. Performance of an index is not illustrative of any particular investment. Past performance is no guarantee of future results.

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S&P 500 Index, which included declines of more than 40 percent in both of the aforementioned bear market periods. These declines meant that even if investors weathered the precipitous drops, they still required more time to accumulate or grow principal to create the needed purchasing power.

What this boils down to is that advisors must develop and oversee the execution of an investment strategy that anticipates the inevitable potholes and stays the course of efficiently compounding the investment portfolio to create purchasing power. This requires both the management of the investment portfolio and the management of investor behavior. Skilled, experienced advisors know that one of their most important responsibilities is to help investors avoid making emotional decisions when volatility is high or when markets are irrationally exuberant.

Now Explain It to Me Like I'm a Four-Year-Old

Listening to all of these requests, let's assume we helped our investors resolve their conflicts, work toward achieving their personal goals, increasing their purchasing power, and weathering volatility. One more vital request is left. In the words of Joe Miller, the attorney played by Denzel Washington in the 1993 movie, *Philadelphia*, when he wanted to thoroughly understand something, he (and our investors) say: "Now, explain it to me like I'm a four-year-old . . ." Or, for aficionados of crime dramas, our investors, like Paul Newman's character in the 1967 movie, *Cool Hand Luke* may quip, "What we got here is a failure to communicate."

In any case, the dilemma for many investors is that they do not receive the sophisticated investment advice they need in an easy-to-understand, intuitive format that helps them discipline their emotional biases. Many years ago, Rollie Martin, a talented advisor from Minnesota, offered his approach by explaining his value proposition to clients. Rollie impressed upon me that his goal is to help clients and prospects avoid three disastrous decisions over their investment

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lifetime, referring to the all-too-enticing urge to sell at the bottom of the three bear markets any given individual likely will experience in his or her lifetime.

These various concepts reflected in investors' wants and outlined in this section are reflected in Dalbar's (2014) four recommendations to advisors:

- 1.** Reframe the advice discussion to properly set investor expectations. Reframing begins by emphasizing capital preservation through allocation to lower volatility investments, as safety is desired by all investors.
- 2.** Reframe investing in comparison to investor goals rather than to average market returns. The Dalbar report explains, "Linking the investment to a personal desire keeps the attention focused on that desire and avoids the distraction of market volatility that leads to bad investment decisions." In short, a goal helps advisors and investors manage risk.
- 3.** Monitor risk tolerance, understanding that investors' risk tolerance varies over time and is based on investors' purposes. In other words, an investor's portfolio likely will reflect a range of different risk tolerance levels, depending upon each group of resources allocated and its purposes.
- 4.** Use probabilities rather than certainties when discussing risk and return outcomes. Possible outcomes for specific asset classes vary widely. Probabilities give investors a rational basis for making allocation decisions.

The challenge is to design an advice delivery system that incorporates the Dalbar recommendations while addressing investor wants, needs, and biases.

A New Investment Advice Delivery System

In order to satisfy a complex set of investor wants and needs, while remedying the shortfall known as the *Dalbar Effect*, a new investment advice delivery system needs to be created. Successful explanation and

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implementation of investment advice requires an investment advice delivery system that incorporates the Dalbar recommendations and includes a choice architecture that nudges investors in the direction of choices that control their behavioral biases.

A nudge is to push mildly in the ribs to alert, remind, or gently warn. A choice architecture is an organized approach for making decisions, an approach that focuses on the small details and points people in a particular direction that will have beneficial effects (Thaler and Sunstein, 2009 p. 4).

Thaler and Sunstein illustrate the choice architecture concept with a story about a school district dietician. The school district dietician and a friend with an expertise in statistics developed a theory about arranging the presentation of the food in school cafeterias to encourage students to make healthy food choices. The dietician, as a choice architect, realized that if she put the desserts first and the fries at eye level students would tend to pick the desserts and fries rather than vegetables, fruits, and other healthy choices. After experimenting with various arrangements in different schools, the dietician created a choice architecture, or arrangement of food choices, that improved student diets by 25 percent (Thaler and Sunstein, 2009 p. 1–3).

The use of choice architecture to create a positive influence on people's choices is characterized in *Nudge: Improving Decisions About Health, Wealth, and Happiness* as libertarian paternalism. It is libertarian in the sense, as Milton Friedman might have put it, that people are “free to choose.” It is paternalistic in the sense that the choice architecture is designed to influence people to make choices that are likely to have a positive effect on their lives. Six principles should guide the design of an effective choice architecture. The six principles are:

- 1.** Avoid inertia or status quo bias by establishing a default option that is generally perceived to produce positive effects, or by establishing a required choice.
- 2.** Expect error at times and incorporate the opportunity for people to correct their decisions.

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3. Provide feedback.
4. Map the consequences of people's choice in ways they understand.
5. Structure complex choices to affect outcomes.
6. Make incentives salient.

Thaler and Sunstein (2009, p. 74) recognize that constructing and managing portfolios is a complex task that average people do not face in the flow of everyday life. Moreover, most people lack the tools necessary to create the appropriate feedback as well as the capacity to translate investment concepts and tools into easily understood terms.

As a consequence, people make a lot of mistakes in constructing and managing portfolios. They can benefit from a helpful and forgiving investment choice architecture, which, for example, manages the tendencies to think short-term and not long-term and use inapplicable rules of thumb. A managed account can be a helpful solution (Thaler and Sunstein, 2009, p. 121–122).

Brinker Capital has built a solution that incorporates the Dalbar recommendations and includes a choice architecture that nudges people toward the successful management of their behavioral biases. This new solution is called Personal Benchmark. Following the Dalbar recommendations, it reframes investor expectations through an emphasis on allocations that manage volatility by focusing on investor goals, managing a range of risk preferences, and discussing the probabilities of different risk and return outcomes.

This new solution provides a choice architecture that avoids inertia, or status quo bias, by establishing a system for investors to easily understand and make required choices.

The complex choices to be made are structured to affect outcomes. The consequences of these choices are mapped or shown through intuitive graphics. The incentives for each alternative choice are salient. And, the choice architecture is flexible, creating the opportunity for correction through a feedback system.

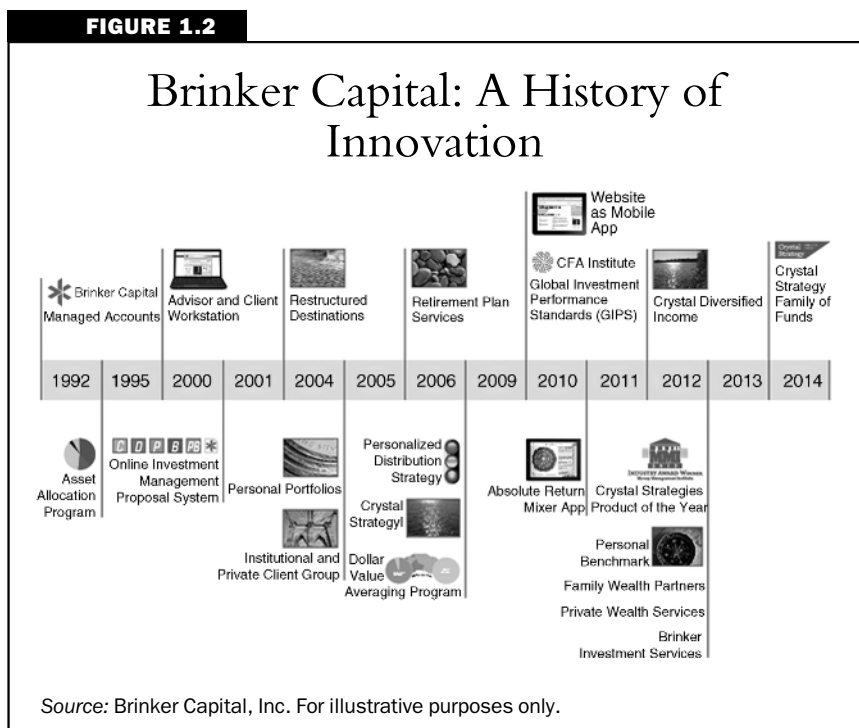
This new solution, Personal Benchmark, creates a new advice delivery system. Let's take a look.

Brinker Capital and Personal Benchmark

Throughout Brinker Capital's 27-year history as a firm, it has been and will continue to be an innovator and entrepreneur. Founded as a platform to provide investors with access to high quality, top performing separate account investment managers, Brinker Capital has evolved to be one of the nation's finest independent investment management firms.

A History of Innovation

Its history is accentuated by innovations (see Figure 1.2) that improve the advisor and investor investment experience. Included among its innovations are being one of the first independent fee-based clearing arrangements (1989), one of the first multi-asset class mutual fund offerings (1995), a fully automated proposal system (among the first, in 1995), an automated monthly distribution system for retirement accounts (2005), and the award-winning Crystal Strategy I Absolute Return portfolio (2009).



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One of Brinker Capital's most recent innovations is the Personal Benchmark solution, which was introduced in 2013. Personal Benchmark has been designed and developed to help investors manage their emotional biases while achieving the attractive returns needed to finance the lifestyle they seek.

We believe this scalable solution is a multi-faceted tool that will enable advisors to efficiently sort through the conflicts and confusion investors bring to advisors in their search to find the appropriate strategy for achieving their personal financial goals.

The solution is founded upon Brinker Capital's theory of investing which is multi-asset class investing. It is made up of a body of principles that have been studied, tested, and formalized over a long period of time, some of which are rooted in hundred-year-old observations and insights. These core principles frame Brinker Capital's multi-asset class investment theory and include diversification, innovation, active management, and equity-like bias.

The Personal Benchmark Solution

Personal Benchmark is an elegant (simple to grasp yet sophisticated) solution for advisors to use in designing and communicating investment strategies both which create purchasing power and manage the investment and behavioral conflicts which surface while advising investors.

Our approach or solution focuses on the investor's purchasing power and risk management goals throughout the advisory process. The investor's purchasing power and risk management goals each guide the design and execution of the investor's investment strategy and make up of his or her Personal Benchmark.

The investment strategy design begins by framing the discussion with the investor with an easy to grasp model. Behavioral finance tells us people naturally account for mathematical or financial activity through mental accounting, or buckets. We naturally account for, or keep track of, our basic banking and investing tasks through a checking account, a savings account, and an investment account. If this is how we naturally account for numerical activity, then why not "mentally account" for or frame our investment strategy in a similarly, simple, easy to understand fashion?

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Most investors will have four basic goals. Each of these goals can be “mentally accounted” for as separate accounts, or buckets, as defined:

- Safety: To preserve principal and reduce overall portfolio volatility.
- Income: To generate cash flow while limiting volatility.
- Tactical: To manage volatility and focus on opportunity for appreciation.
- Accumulation: Appreciation and acceptance of greater volatility for the purpose of increasing future purchasing power.

Obviously, each of these buckets meet a tangible investment goal such as income for spending and/or income for spending needs and less risk. Not as obvious, but just as important, each bucket also solves for intangible investor misbehaviors. In the next chapter we will introduce common investor mistakes/tendencies under three pillars described as Simple, Safe, and Sure. These pillars provide the motive or the answer to the question why four buckets make for the best investor experience.

Brinker Capital offers a range of portfolios and has determined with reasonable accuracy the risk/return characteristics of each strategy. This enables his or her Personal Benchmark to guide the selection of the strategy most fitting for the investor’s goals, as indicated by the bucket allocations. Taken as a whole, the investment strategies for each bucket constitute the investor’s portfolio strategy. Following implementation, the advisor reports to the investor on whether the strategy for each bucket is achieving the goal set for each bucket.

The Case of Jim and Jane Dodd

Let’s look at a simple hypothetical example to illustrate how Brinker Capital’s new solution and advice delivery system works. Assume an advisor’s client is a couple, Jim and Jane Dodd. Jim and Jane are each age 50, both work, and each has maintained a personal savings program. Jim has \$300,000 in a personal savings account and \$100,000 in an IRA. Jane has \$500,000 in a personal savings account and \$100,000 in an IRA. Jim and Jane are still concerned about investing in capital markets because of the 2008–2009 Financial Crisis and the Great Recession. While they want their

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investment portfolio to grow, management of the portfolio's volatility is very important to them. Currently the couple is drawing about \$20,000 each year for personal cash flow needs and wants to continue these distributions from the investment portfolio. Jim and Jane want to keep track of their investment portfolio on a combined basis at the household level.

This data provides the advisor with the essential information needed to create a portfolio investment strategy for Jim and Jane Dodd. The advisor can then turn to Brinker Capital's proprietary proposal system either with Jim and Jane present, or on his or her own, to develop the appropriate sophisticated multi-asset class investment strategy that is presented in an easy-to-communicate format of mental accounts or buckets.

Creating the Proposal


Figure 1.3 depicts the Brinker Capital proposal screen that the advisor uses to intuitively determine the appropriate asset allocation for Jim and Jane. In the center of the screen is a continuum slider bar labeled "More Conservative" on the left and "More Aggressive" on the right. By moving the slider along the continuum, the advisor visually identifies the mix of risk and reward they are most comfortable with. Part of the visual experience is that as the slider is moved along the continuum, the content of the cylinder at the lower right of the screen changes. If the slider is moved toward More Conservative, for example, the percentage of portfolio assets to the Income and Safety accounts, or buckets, will increase while the percentage allocated to the Accumulation and Tactical accounts will decrease.

Next, the advisor confirms the answers to the classic questions in a risk tolerance questionnaire presented by the system, clicks "Next," and is presented with the visual depiction of how Jim and Jane's assets are allocated on a combined basis or household level (see Figure 1.4). At the same time, the Brinker Capital systems and the custodian maintain separate registration of each of the specified accounts.

This screen also displays a description of the investment strategy selected for each of the four buckets. For example, the Accumulation bucket, which has \$500,000 of allocated assets, is executed by a Brinker Capital investment strategy called "Destinations Moderate."

FIGURE 1.3


Proposal for Jim Dodd



Proposal Options | Rep Info | Registration | Product | Objective | Client | Add Info | Distribution Info | Summary | Asset Allocation | Fees | Documents

Select	Registration Name	Registration Type	Proposal Amount	Product
Personal Benchmark - Total Account Overall				
<input checked="" type="radio"/>	Jim Dodd	Individual	\$300,000.00	Personal Benchmark
<input type="radio"/>	Jane Dodd	Individual	\$500,000.00	Personal Benchmark
<input type="radio"/>	Jim Dodd IRA	IRA	\$100,000.00	Personal Benchmark
<input type="radio"/>	Jane Dodd IRA	IRA	\$100,000.00	Personal Benchmark

Please use the slider to select the portfolio that best meets your needs.



More Conservative ← |
 Preservation and Income |
 Conservative Income |
 Conservative Growth and Income |
 Stable Growth |
 Stable Growth and Income |
 Balanced Growth |
 Balanced Growth and Income |
 Growth |
 Growth and Income |
 Accumulation |
 More Aggressive

Stable Growth and Income Portfolio


Designed to meet your investment goals

- Strategic target of 40% growth assets and 60% stable assets
- Provides current income with an opportunity for growth
- Modest potential for capital appreciation

Investor should have the following risk profile:

- Primary financial objective is current income with an opportunity for growth
- Investor is currently taking withdrawals or will likely be in the next three years
- Time horizon is over five years
- Prefers an investment with some fluctuation in value and is looking for a modest growth of purchasing power

Allocations Across Four Investment Categories




<< Previous | Save | >> Next

I confirm that the answers to these questions reflect my Client's Risk Tolerance & Investment Objectives.

FIGURE 1.4

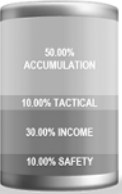
Proposal for Jim Dodd



Proposal Options | Rep Info | Registration | Product | Objective | Client | Add Info | Distribution Info | Summary | Asset Allocation | Fees | Documents

Select	Registration Name	Registration Type	Proposal Amount	Product	Investment Strategy
Personal Benchmark - Total Account Overall					
<input checked="" type="radio"/>	Jim Dodd	Individual	\$300,000.00	Personal Benchmark	Stable Growth and Income
<input checked="" type="radio"/>	Jane Dodd	Individual	\$500,000.00	Personal Benchmark	Stable Growth and Income
<input checked="" type="radio"/>	Jim Dodd IRA	IRA	\$100,000.00	Personal Benchmark	Stable Growth and Income
<input checked="" type="radio"/>	Jane Dodd IRA	IRA	\$100,000.00	Personal Benchmark	Stable Growth and Income

The asset allocation recommendation is for Jim Dodd, Jane Dodd, Jim Dodd IRA, Jane Dodd IRA



Investment Category/Investment Strategy	Percentage	Amount
Accumulation	50.00%	\$500,000.00
Destinations Moderate - Taxable	50.00%	\$500,000.00
Tactical	10.00%	\$100,000.00
Crystal Strategy I	10.00%	\$100,000.00
Income	30.00%	\$300,000.00
Crystal Diversified Income	30.00%	\$300,000.00
Safety	10.00%	\$100,000.00
Destinations Defensive - Qualified	10.00%	\$100,000.00
Total	100.00%	\$1,000,000.00

Source: Brinker Capital, Inc. Hypothetical example for illustrative purposes only.

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Destinations Moderate allocates up to 60 percent to equities (domestic U.S. and international). The balance of the strategy is allocated to the other four asset classes (fixed income, private equity, absolute return, and real assets). The purpose of the accumulation mandate for the bucket is to grow purchasing power by achieving annualized returns of CPI plus 4 percent over a 10-year period. To obtain current portfolio performance, contact your financial advisor or a member of the Brinker Capital Service Team.

We also see in Figure 1.4 that \$100,000 has been allocated to the Tactical bucket. The strategy selected to implement the Tactical bucket is Brinker Capital's "Crystal Strategy I Absolute Return Portfolio."

Crystal Strategy I is a multi-asset class global macro strategy which hedges to reduce volatility. Its goal is to produce absolute return not relative return. Its purpose is to deliver returns which exceed CPI plus 2 percent over a three year period. To obtain current portfolio performance, contact your financial advisor or a member of the Brinker Capital Service Team.

The Income bucket is funded principally from the \$300,000 allocation to this bucket. The strategy selected to execute the Income bucket is "Crystal Diversified Income."

Crystal Diversified Income is a multi-asset class strategy that uses hedges to reduce volatility. Its return goal is a yield of greater than CPI. To obtain current portfolio performance, contact your financial advisor or a member of the Brinker Capital Service Team.

Jim and Jane want muted volatility, provided by the 10 percent allocation to the Safety bucket. The strategy selected for this bucket is "Destinations Defensive."

Destinations Defensive is a multi-asset class strategy and its goal is to generate positive returns in each rolling 12-month period. To obtain current portfolio performance, contact your financial advisor or a member of the Brinker Capital Service Team.

The advisor proceeds through several more screens after what we see in Figure 1.4 in the Brinker Capital proposal system before clicking on the proposal Print button.

The individual investor proposal and the institutional investor investment policy serve the same purpose or function. Each intermediates or connects the investors personal or institutional goals with the risk, return, and other statistical measures of the selected investment strategy. In other words, for the individual investor the proposal personalizes the mathematical expression of the level of risk and return created by the selected investment strategy. The Personal Benchmark proposal transforms the mathematical description of return and risk into a statement of the investor's goals by framing the description of investor goals as individual mental accounts or buckets. Through the proposal, the investor is focused on his or her goals and views the investment strategy as the means for achieving the several separate investor goals.

Presenting the Proposal

Just as the proposal system is intuitive and easy-to-use, so is the proposal itself. The proposal communicates Brinker Capital's investment philosophy, the combined recommended investment strategy for Jim and Jane, and the strategy's historical performance. The first page of the proposal presents Brinker Capital's multi-asset class investment philosophy in a clear, succinct fashion (see Figure 1.5).

The next page of the proposal displays the calendar showing annual performance of Brinker Capital's six asset classes, illustrating that a multi-asset class philosophy presents a broad opportunity set and various ways to win (see Figure 1.6).

Next, Jim and Jane's proposal presents the empirical proof statement for multi-asset class investing. Figure 1.7 shows that for the 42-year period ending December 2013, a multi-asset class investment strategy compounds more wealth or purchasing power than either the S&P 500 Index or a blended 60/40 index. The multi-asset class strategy outperforms because it compounds off higher lows. The top line represents the equally weighted six asset class index. The fact that it compounds off higher lows is clearly indicated within the circles, which are the 2000–2001 and 2008–2009 bear markets.

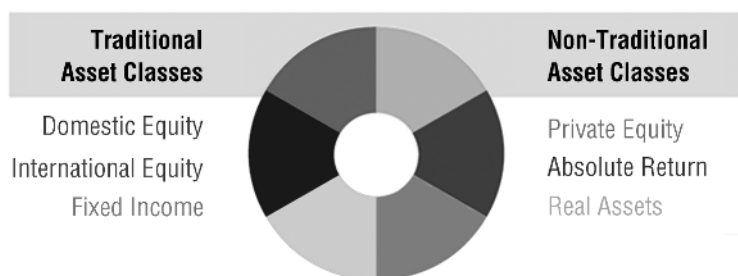
Up to this point, the proposal has included standard educational pieces that all investors receive. The remainder of the proposal presents

FIGURE 1.5

Brinker Capital's Multi-asset Class Investment Philosophy

**There is more than one way to be successful in investing.
In fact, there are at least six.**

We help protect and build wealth through a broadly diversified approach, using a strategy typically employed by endowments seeking to grow their investments over the long term.



Source: Brinker Capital, Inc. For illustrative purposes only.

information customized for the investor, based upon the selected investment strategies.

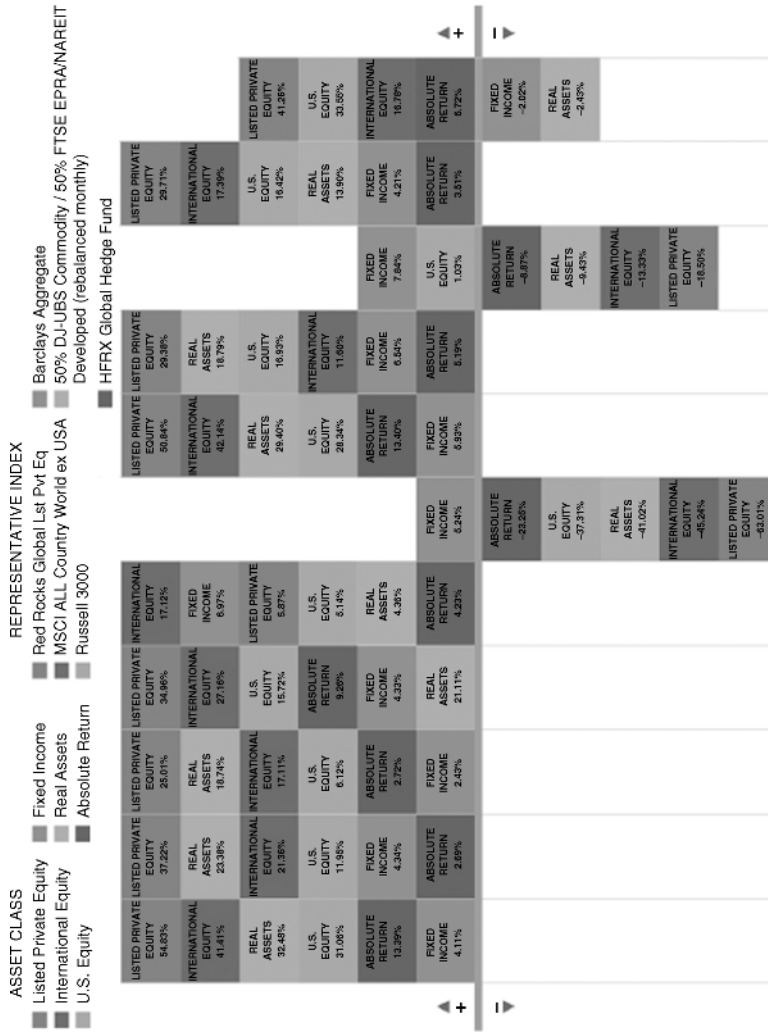
Figure 1.8 presents a summary of the recommended combined investment strategy, including funds allocated, strategies chosen, and overall diversification.

Figure 1.9 communicates the strategy through the mental accounting framework of the four buckets. Just as humans account for their basic financial activities through their checking account, savings account, and investment account, Personal Benchmark establishes a mental accounting framework for communicating Jim and Jane's investment portfolio. This page also displays the overall investment objective, goals, and risk profile.

Of course, Jim and Jane want to know how the combined recommended investment strategy has performed in the past. Figure 1.10 depicts year-to-date, one-year, and three-year annualized performance, as well as the performance since the strategy was launched for them (upon

FIGURE 1.6

Annual Performance of Brinker Capital's Six Asset Classes

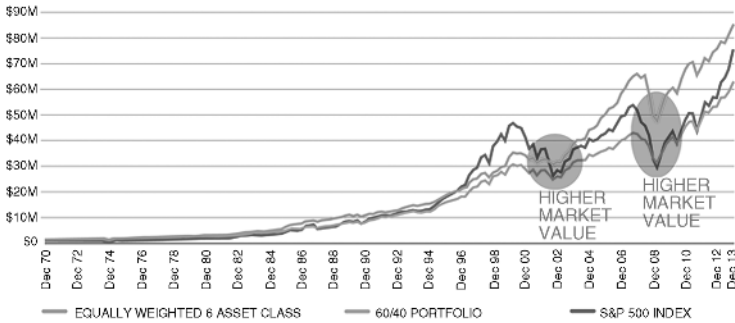


Source: FactSet and Brinker Capital, Inc. For illustrative purposes only.

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FIGURE 1.7

Presentation That Additional Diversification Compounds Wealth



Source: Brinker Capital, Inc., Fact Set, Cambridge Associates, NCREIF. This Growth of \$1M chart is for illustrative purposes only. No representation that the results represent performance of actual client accounts is intended. The chart is intended to demonstrate the impact on a traditional portfolio of diversification through the inclusion of additional asset classes over a long-term investment horizon. Data from January 1, 1971 through December 31, 2013.

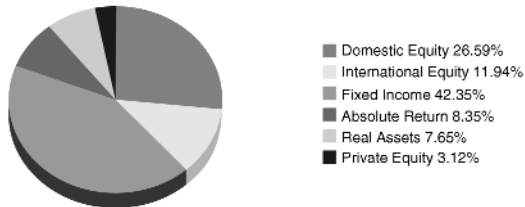
FIGURE 1.8

Dodd’s Combined Recommended Strategy

Detailed Investment Strategies

Account Registration	Brinker Program	Assets
Jim Dodd	Personal Benchmark - Crystal Diversified Income	\$300,000
Jane Dodd	Personal Benchmark - Destinations Moderate - Taxable	\$500,000
Jim Dodd IRA	Personal Benchmark - Crystal Strategy I	\$100,000
Jane Dodd IRA	Personal Benchmark - Destinations Defensive - Qualified	\$100,000
Total		\$1,000,000

Overall Diversification



Source: Brinker Capital, Inc. Hypothetical example for illustrative purposes only.

FIGURE 1.9

Recommended Investment Strategy: Personal Benchmark

Portfolio Holdings

Investment Category/Strategy	Registration Name	Target Allocation	Target Allocation
Accumulation		\$500,000	50.00%
Destinations Moderate - Taxable	Jane Dodd	\$500,000	50.00%
Tactical		\$100,000	10.00%
Crystal Strategy I	Jim Dodd IRA	\$100,000	10.00%
Income		\$300,000	30.00%
Crystal Diversified Income	Jim Dodd	\$300,000	30.00%
Safety		\$100,000	10.00%
Destinations Defensive - Qualified	Jane Dodd IRA	\$100,000	10.00%
TOTAL		\$1,000,000	100.00%



Overall Investment Objective: Stable Growth and Income

Designed to meet the following investment goals:

- Strategic target of 40% growth assets and 60% stable assets
- Provides current income with an opportunity for growth
- Modest potential for capital appreciation

Investor should have the following risk profile:

- Primary financial objective is current income with an opportunity for growth
- Investor is currently taking withdrawals or will likely be in the next three years
- Time horizon is over five years
- Prefers an investment with some fluctuation in value and is looking for a modest growth of purchasing power

Source: Brinker Capital, Inc. Hypothetical example for illustrative purposes only.

implementation). This figure also depicts the varying performance of the asset classes executed by the strategy. This quilt chart offers perspective on asset class performance trends as well as nearer-term variability in performance.

The proposal also illustrates the growth of a \$100,000 investment of the previous five years, as illustrated in Figure 1.11.

Once the Dodds accept the recommended strategy, investment advisory agreements are executed and assets are transferred to an independent custodian. Brinker Capital then directs the investment of the Dodd's assets in accordance with their investment strategy.

FIGURE 1.10

Performance of Recommended Investment Strategy: Personal Benchmark

Performance Through 06/30/2014

Annualized	QTD	YTD	1 Year	3 Year	Since Inc. (1/1/2009)
Recommended Investment Strategy	2.59%	3.77%	11.62%	7.40%	9.93%
CPI	0.87%	1.32%	2.08%	1.85%	2.15%
Calendar Year	2013	2012	2011	2010	2009
Recommended Investment Strategy	11.06%	9.92%	1.49%	9.43%	19.66%
CPI	1.51%	1.76%	3.02%	1.42%	2.81%

Historical Table of Investment Returns

2010	2011	2012	2013	3Q2013	4Q2013	1Q2014	2Q2014
Accum 10.96%		Accum 11.69%	Accum 15.67%	Accum 4.83%	Accum 5.28%		
Income 8.80%		Tactical 9.38%	Tactical 7.95%	Income 1.04%	Income 4.62%	Accum 1.62%	Accum 3.31%
Tactical 7.18%	Income 7.43%	Income 8.37%	Income 7.59%	Safety 0.77%	Tactical 3.60%	Safety 1.31%	Income 2.66%
Safety 5.95%	Safety 2.04%	Safety 6.29%	Safety 1.53%	Tactical 0.68%	Safety 1.15%	Income 1.11%	Safety 1.91%
	Accum -1.57%					Tactical -1.23%	Tactical -0.68%
	Tactical -1.61%						

Source: Brinker Capital, Inc. Hypothetical example for illustrative purposes only. The performance information for the Personal Benchmark strategies presents back-tested performance of a hypothetical account invested with the specific investment strategies (or a proxy thereof) included in the Recommended Investment Strategy and not the historical performance of actual accounts invested in the Recommended Investment Strategy. Calculations assume annual rebalancing of the account to the target allocations in the Recommended Investment Strategy. No representation that any actual account has achieved such performance is intended. The performance information does not reflect the deduction of advisory fees payable to Brinker Capital or other expenses for services not covered by the advisory fee. These fees and expenses will reduce an investor's return.

Reporting Performance

Each quarter following implementation, Brinker Capital provides a performance report of the investment strategy and its progress in creating purchasing power.

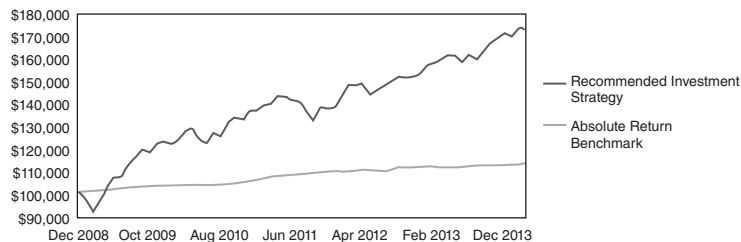
FIGURE 1.11

Historical Performance of Recommended Investment Strategy: Personal Benchmark

Jim Dodd, Jane Dodd, Jim Dodd IRA, Jane Dodd IRA

Growth of \$100,000

January 2009 - June 2014



Calendar Year Gross Performance

	YTD	2013	2012	2011	2010	2009
Recommended Investment Strategy	3.77%	11.06%	9.92%	1.49%	9.43%	19.66%
Absolute Return Benchmark	1.32%	1.51%	1.76%	3.02%	1.42%	2.81%

Gross Annualized Return though Jun 2014

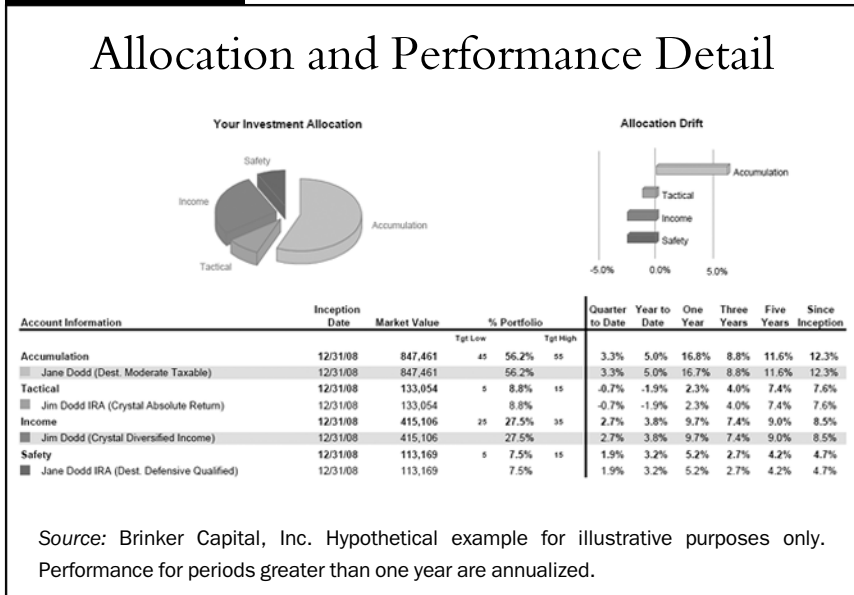
	YTD	1 Year	3 Year	5 Year	Std.Dev.
Recommended Investment Strategy	3.77%	11.62%	7.40%	9.70%	7.00%
Absolute Return Benchmark	1.32%	2.08%	1.85%	2.05%	0.67%

Source: Brinker Capital, Inc. Hypothetical example for illustrative purposes only. The performance information for the Personal Benchmark strategies presents back-tested performance of a hypothetical account invested with the specific investment strategies (or a proxy thereof) included in the Recommended Investment Strategy and not the historical performance of actual accounts invested in the Recommended Investment Strategy. Calculations assume annual rebalancing of the account to the target allocations in the Recommended Investment Strategy. No representation that any actual account has achieved such performance is intended. The performance information does not reflect the deduction of advisory fees payable to Brinker Capital or other expenses for services not covered by the advisory fee. These fees and expenses will reduce an investor's return. The standard deviation shown is for the length of time displayed on the Growth of \$100,000 Chart.

Figure 1.12, consistent with the proposal, presents the investment strategy in terms of its mental accounts in the upper-left portion of the figure. The lower-left portion identifies the strategies that execute each bucket, including amounts allocated in absolute, percentage, and target terms. The bottom-right portion reports performance for the bucket and

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FIGURE 1.12



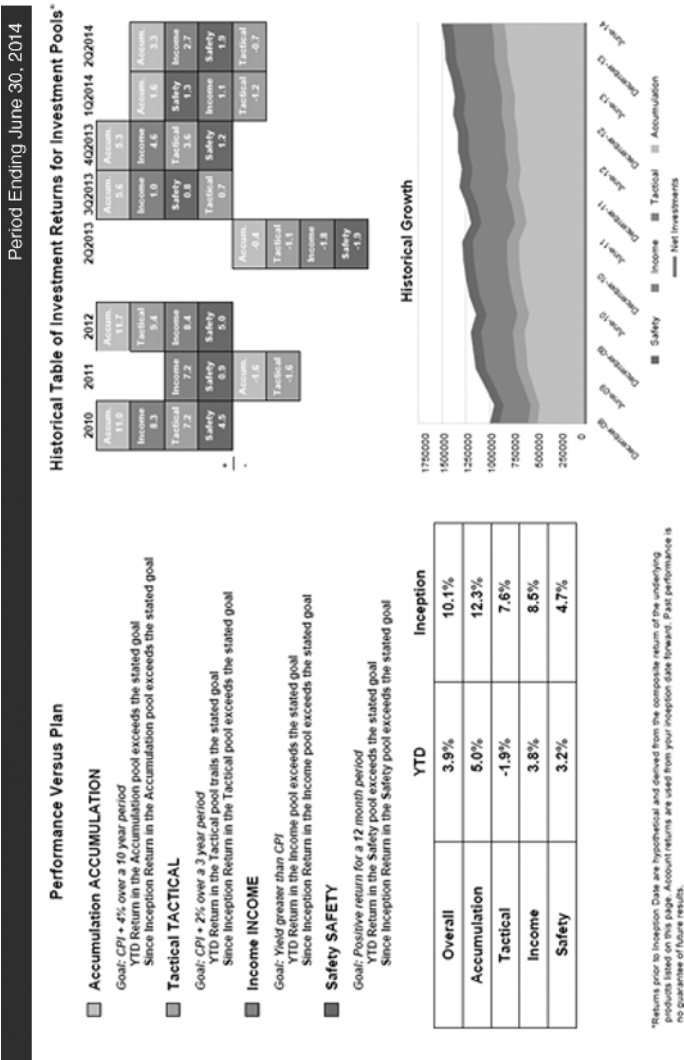
each of its strategies. The upper-right portion of the screen shot depicts the direction of drift from the target for each bucket's value and identifies the need to reallocate among the buckets.

Figure 1.13 provides an additional tool for performance evaluation. Here, the advisor and the investor concentrate on performance of the mental accounts, or buckets, against their plan and within the context of the performance of the buckets in the current year's quarters and in three prior calendar years. The upper-left portion provides conclusions on achievement of CPI goals while the lower-left reports the year-to-date and since-inception return. The lower-right offers an area chart which pictures how each bucket is trending over time. Safety, for example, at the bottom is preserving capital as it is supposed to do while the accumulation account is growing ever larger, creating more purchasing power.

Figure 1.14 depicts the next performance report page, which graphically illustrates how each bucket has been performing in terms of its stated purpose. For example, the black line in the upper left portion shows the Safety bucket maintains value, while risky assets

FIGURE 1.1.3

Personal Benchmark Evaluation

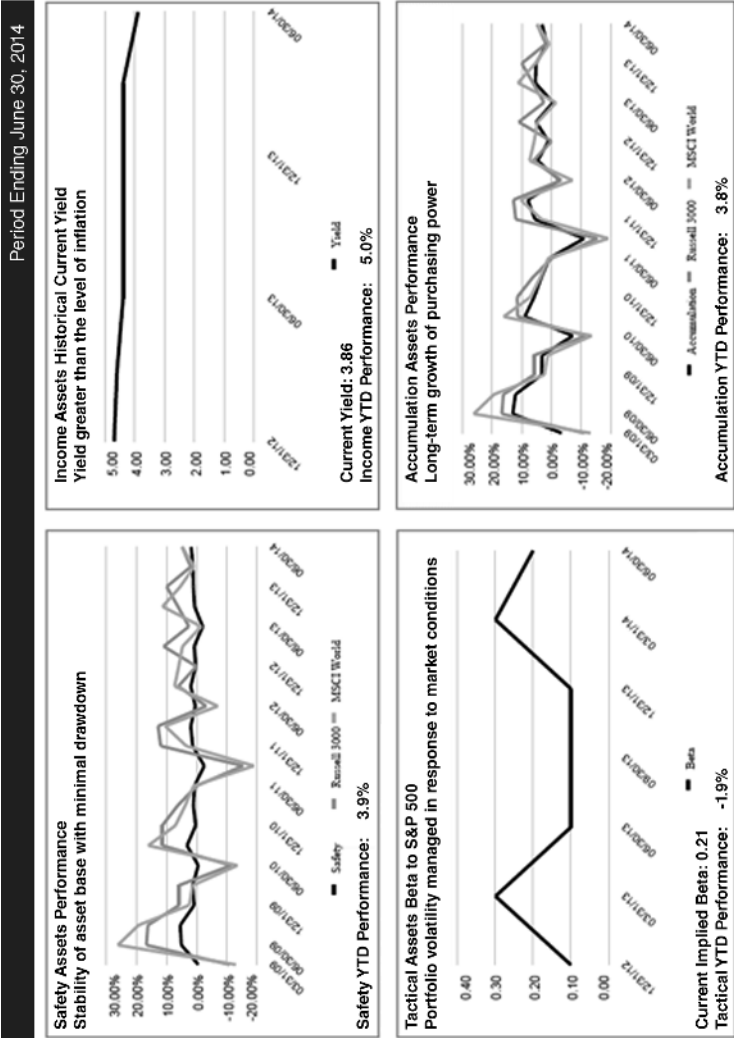


*Returns prior to Inception Date are hypothetical and derived from the composite return of the underlying investments. All account returns are used from prior inception date forward. Past performance is no guarantee of future results.

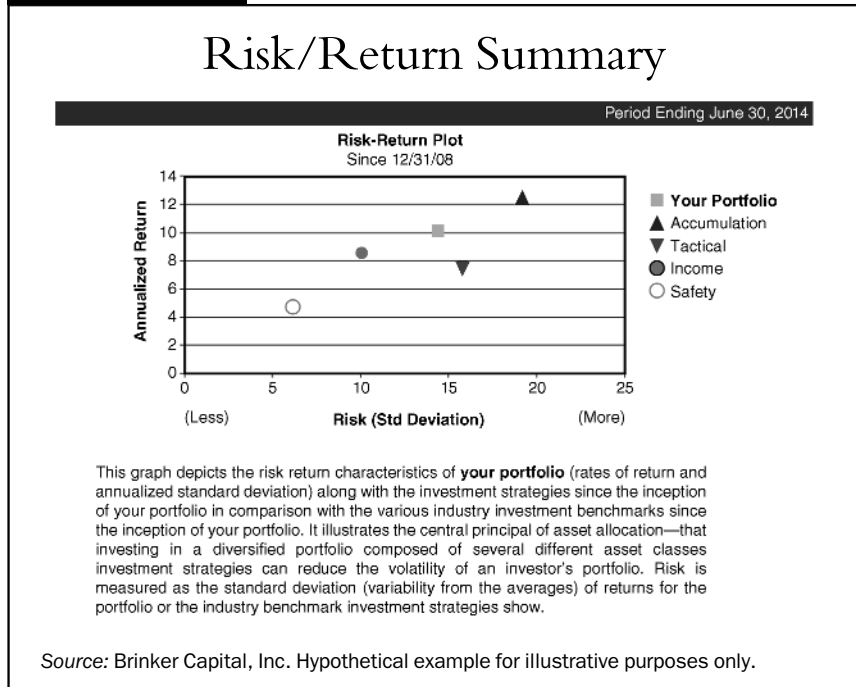
Source: Brinker Capital, Inc. Hypothetical example for illustrative purposes only. *Returns prior to inception date are hypothetical and derived from the composite return of the underlying products listed in this chart. Account returns are used from the investors inception date forward. Past performance is no guarantee of future results.

FIGURE 1.14

Personal Benchmark Analytics



Source: Brinker Capital, Inc. Hypothetical example for illustrative purposes only.

FIGURE 1.15

fluctuate. The black line in the upper right shows that the Income bucket's yield exceeds inflation. In the lower left, the Tactical bucket shows low Beta as a result of hedging. In the lower right, the black line illustrates accumulation is ongoing with the portfolio's risky assets.

After the first year, Brinker Capital's performance report includes a risk/return plot, as illustrated next in Figure 1.15. The square plots the performance of Jim and Jane's investment strategy. Here, the square shows that the portfolio, as anticipated, has more return than the Tactical, Income, and Safety buckets, while posting less return and less risk than the Accumulation bucket.

Summary

In the financial markets, we have great freedom, and this freedom necessitates great responsibility to identify our goals, create effective investment strategies, and weather the inevitable ups and downs en route to the goal. The behavior gap trap indicates that this mission may not be

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as easy or straightforward as it sounds. And, all too often, individual investors have failed to participate in the attractive capital market returns generated by America's economic growth machine in the twentieth and twenty-first centuries.

Personal Benchmark, Brinker Capital's solution, is a market-tested and elegant innovation to aid advisors in designing and communicating investment strategies that both create purchasing power and manage the investment and behavioral conflicts which surface while advising investors. This makes Personal Benchmark a game changing innovation and important tool for closing the investor behavior gap trap.

Dan Whittenburg, a Salt Lake based advisor, has built an extremely successful practice by always having a sharp focus on the investor's needs. "Serve first" is the guiding principle for many advisors who were trained at Connecticut General Life Insurance Company. (In 1981, Connecticut General merged with INA and became known as CIGNA.) Dan says all of these concerns (conflict resolution, achieving personal goals, increasing purchasing power, and managing volatility) are floating around in people's heads. Personal Benchmark organizes it. It makes it simple.

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