*i*nvesting 101

WISER
WEALTH MANAGEMENT

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Wiser Wealth Management is a private FEE ONLY investment advisory firm located in Marietta, Georgia. As a fee only firm, we do not receive commissions or sell any financial products. We are held to a fiduciary standard to act in the best interest of our clients.

The Wealth Management Difference

The financial industry generally defines true wealth management as developing a long term relationship through a consultative process, delivering customized service for a broad spectrum of financial needs in close consultation with the client.

A Wealth Management Firm

Wiser Wealth is true to its name. Our services include portfolio management, financial planning, estate planning, tax preparation, and business retirement plans. All research is done, and all portfolio management decisions are made by our in-house staff. Our team includes an asset manager, a financial planner, a CPA, and an attorney to enable us to provide comprehensive services.

Fiduciary Responsibility

Fiduciary responsibility is what sets Wiser Wealth apart from banks and brokerage houses. Having an advisor who takes on fiduciary responsibility ensures that you receive unbiased advice. We have worked hard to make sure that our business practices are in line with our clients' best interest.

Fiduciary responsibility mandates that Wiser Wealth do the following:

- Find the most efficient and cost effective investment options.
- Act prudently in the client's best interest.
- Abide by a code of ethics.
- Disclose any conflicts of interest.

In contrast, brokerage firms and banks are not held to the same high standards. This is the difference and value we can add as an independent registered investment advisor.

"Brokers are not fiduciaries. They only have to find something suitable for you. As a fiduciary, Wiser has to find the best for you."

Casey Smith
President, Wiser Wealth Management

"..my impression is that trying to do market timing is likely, not only not to add value to your investment program, but to be counterproductive."

John Bogle

Founder, Vanguard Group of Investment Companies

Diversify

When investing in the stock and bond markets, there are two kinds of risk to be concerned with:

- **Systematic Risk**: the risk of the entire world economy and stock market, which cannot be reduced.
- **Non-Systematic Risk** (business risk): the risk of owning a individual security. This risk can be eliminated through diversification.

An example of business risk is Enron. The CEO of Enron was on the cover of *Forbes Magazine* just one year before his company collapsed because of accounting fraud. To avoid this kind of risk, it is necessary to be diversified throughout all sectors and asset classes worldwide.

Keep Costs Low

Many investors look at a potential investment's historical return but fail to understand the cost of investing. Each penny that a client pays in investment fees is a penny lost, never to be recovered. With industry standard investment costs upwards of 2%, if an investor can maintain a diversified portfolio with low fees, that investor will see a much larger return over the long term. At Wiser Wealth, our portfolio investment cost average is less than 0.4% annually. Added to our annual management fee, this makes Wiser Wealth an ideal alternative for professional asset management.

Invest Long Term

It is easy to get caught up in the short term emotional moves of the financial markets, which is why it is so important to understand that market timing is a losing game. It is virtually impossible to time when a stock or the overall market is bottoming out or reaching its peak. While short term market swings are unpredictable, long term market results are very clear. Investors who invest for periods of five years or more are much more likely to see positive results. This is why we stress the importance of investing for the long term.

While in Rhode Island in 1885, William Travers, a New York business man, saw a long line of yachts and was informed they were all owned by stock brokers from Wall Street. This led him to ask, "Where are their clients' yachts?" Still relevant today, this is a great example of how financial product salespersons and brokers rarely have an incentive to put their clients' interests first. We and many academics have researched and studied this disconnect, and discovered the following:

- *Picking stocks and timing the market has low long term success.*
- *Mutual funds and separate managed accounts are generally expensive, and after fees rarely beat their appropriate benchmark.*
- *Using index funds is the most efficient long term strategy.*

Our investment philosophy is to maintain a diversified portfolio, keep costs of investing low, and always invest for the long term.

A Case for Indexing

What is an Index?

An index is a basket of securities that represent a segment of the stock market. For example:

- The S&P 500 represents the 500 largest companies in the United States.
- The MSCI EAFE Index is a foreign index that holds companies incorporated in Europe, Australasia, and the Far East (EAFE). The index totals over 800 securities.
- The S&P 600 represents 600 stocks that are all considered small companies.

Why Index?

Indexing is an alternative to stock picking and mutual fund investing. There is a lot of data supporting the advantages of index investing. One recent study shows that between 1975 and 2006, 99% of active mutual fund managers covering the US large cap category failed to beat the S&P 500.[1] Indexing removes human behavior, inaccurate market timing, and poor stock picking, all of which lead to the under performance of fund managers.

[1] *"False discoveries in Mutual Fund Performance: Measuring Luck in Estimated Alphas" University of Maryland Robert H. Smith School of Business.*

Indexing Through ETFs

An exchange traded fund (ETF) is an investment vehicle that allows investors to directly invest into an index, at a much lower cost than traditional mutual funds. Since 1993, the ETF industry has responded to the incompetence of active fund managers and the limitations of index mutual funds. Since their introduction in 1993, ETFs have experienced tremendous growth in total assets compared to mutual funds.

Major Differences Between Mutual Funds and ETFs

Mutual funds are traded at net asset value (NAV) after the markets close and only have to report their holdings quarterly. In contrast, ETFs trade during market hours just like a stock and their holdings are reported virtually in real time. Mutual funds depend on a fund manager to pick stocks, where as an ETF simply purchases and holds the stocks as listed in its assigned index. Another difference is in cost. The average ETF investment cost is 0.25% per year, where the mutual fund industry average is 1.5%.

What Mutual Funds Don't Tell You

Mutual funds incur additional unreported fees from trading securities in the marketplace. These transactions are deducted from the mutual fund's master account and are reflected in poorer reported performance.

How Much Can This Cost You?

It depends on the turnover rate of the fund. For example, if a fund manager turns over the securities in the portfolio 100% during the year, this means he never held a security for more than 12 months. 100% turnover can equal roughly 1.0% in additional unreported fees. Likewise, 25% turnover ratio will

"Indexing is not as thrilling as picking the next Google. But in the long run, research shows that diversification and a long term time horizon wins the race."

Casey Smith
President, Wiser Wealth Management

"Professors Richard Woodward and Jess Chua of the University of Calgary...conclude that a market timer would have to make correct decisions 70 percent of the time to outperform a buy-and-hold investor. I've never met anyone who can bat .700 in calling market returns."

Burton Malkiel

Author, *A Random Walk Down Wall Street*

roughly equal 0.25% in additional fees, while 300% turnover could cost an investor 3% in unreported fees. In contrast, ETFs usually have very little turnover, making your cost much lower.[2]

[2] *"Mutual Funds: Risk without Reward" PersonalFund.com*

If You Index, Will You Just Be Average?

We use an indexing strategy because history tells us it performs better than stock picking and market timing over the long run. We employ this strategy by investing in indexes across many different asset classes. This allows us to either track the S&P 500 with less risk, or beat it over the long run with the same amount of risk.

Diversification Through Indexing Wins

Here is a sample of the holdings in a moderate risk portfolio:

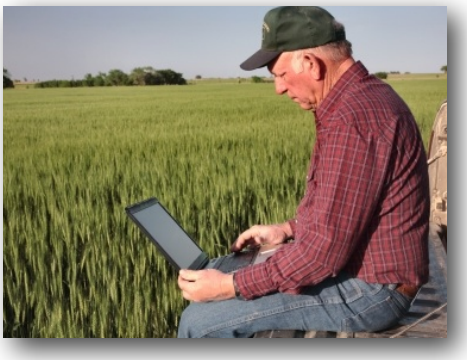
- Treasury Inflation Protected Securities (TIPS) Index.
- International Treasuries Index.
- Barclays Aggregate Bond Index.
- High Yield Bond Index.
- Emerging Market Bond Index.
- S&P 500 Index (large companies).
- S&P 400 Index (mid-sized companies).
- S&P 600 Index (small companies).
- MSCI EAFE Index (developed international).
- Emerging Market Index.
- Dow Jones Commodity Index.

This moderate risk portfolio has had an annualized return of 6.78% over the last 10 years. In contrast, the S&P 500 has had an annualized rate of return of 2.91% over the same time period.[3] This portfolio yielded returns greater than the market index with significantly lower volatility of returns during the worst bear market of our time.

[3] *Return calculated from 10 years prior to 11/30/2011. Please remember past performance is not indicative of future results. Returns are based on the performance of the underlying indexes and does not include management fees. Returns are gross of advisor fees and transaction charges.*

Indexing Is For Income Investing, Too

Most financial institutions will place you in expensive annuities, non-diversified bond holdings, or mutual funds to achieve income. Wiser Wealth purchases indexes, holding high yield stock, Treasury and corporate bonds, REITs, and preferred stock. This creates income and risk management for those in search of diversification and regularly scheduled withdrawals.



WISER Model Portfolios

How Our Model Portfolios Were Developed

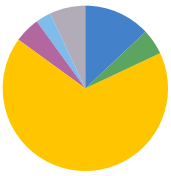
Every year a list gets published of the top stocks or mutual funds from the previous year. This is interesting to look at, perhaps, from an economic standpoint or to see if your stock or fund is on the list. However, by no means should we invest in last year's performance today with the expectation that this year's performance will be the same. Yet we see individual investors and financial advisors take this approach all the time.

When building portfolios, it is better to focus on risk rather than chasing returns. Historically we have seen time periods where additional risk has not paid off with higher returns. Very rarely do we see time periods when there is a high rate of return with no risk.

Risk can be measured several ways, all of which include looking at historical volatility (not returns) and determining future risk based on economic indicators. Volatility is the measure of the amount of variance (positive and negative) from zero risk and performance.

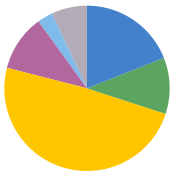
Wiser Wealth builds portfolios by looking globally for what we consider to be longterm healthy asset classes. Each asset class is assigned a risk number when weighted within the portfolio to achieve the client's desired risk tolerance. Because Wiser Wealth is a fiduciary fee only asset manager, we search for the best investment vehicles for our clients with no conflicts of interest.

Conservative



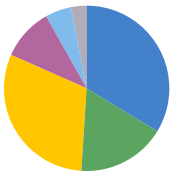
- 13% US Stock
- 5% Intl Stock
- 67% US Bonds
- 5% Intl Bonds
- 3% Commodities
- 7% Cash

Income Growth



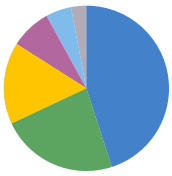
- 19% US Stock
- 11% Intl Stock
- 49% US Bonds
- 11% Intl Bonds
- 3% Commodities
- 7% Cash

Moderate



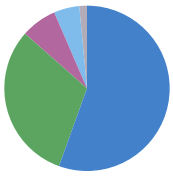
- 33% US Stock
- 17% Intl Stock
- 30% US Bonds
- 10% Intl Bonds
- 5% Commodities
- 3% Cash

Moderate Aggressive

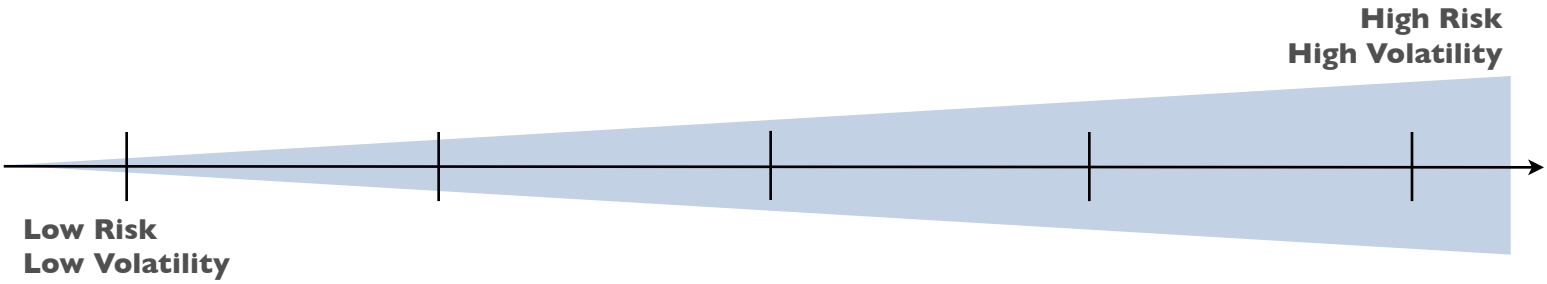


- 45% US Stock
- 23% Intl Stock
- 16% US Bonds
- 8% Intl Bonds
- 5% Commodities
- 3% Cash

Aggressive



- 55.5% US Stock
- 31% Intl Stock
- 0% US Bonds
- 7% Intl Bonds
- 5% Commodities
- 1.5% Cash



Conservative

The Conservative portfolio is designed to minimize risk and volatility, and protect against inflation and interest rate adjustments. This is done through careful diversification into a wide range of fixed income ETFs, including Treasury bonds, inflation-linked government bonds (TIPS), mortgage-backed bonds, investment grade corporate bonds, high yield bonds, emerging market government issued debt in US Dollars, and high-yielding money market accounts. This portfolio covers 12 asset classes, includes 2,314 stocks and 6,162 bonds, has 18% equity exposure, and has a 0.23% average portfolio cost.

Income Growth

The Income Growth portfolio is designed to generate income through dividends and interest, while also allowing for long-term growth with limited stock market exposure. This is done with a mix of global fixed income, domestic and international dividend paying stocks, growth stocks, and alternative asset classes to create yield and balance income with future growth potential. This portfolio covers 15 asset classes, includes 2,631 stocks and 6,672 bonds, has 30% equity exposure, and has a 0.33% average portfolio cost.

Moderate

The Moderate portfolio is designed to provide growth while managing risk. This is accomplished through careful diversification into the US and international bond and stock markets, including emerging markets. This portfolio covers 11 asset classes, includes 3,349 stocks and 9,533 bonds, has 50% equity exposure, and has a 0.25% average portfolio cost.

Moderate Aggressive

The Moderate Aggressive portfolio holds many of the same assets classes as the aggressive portfolio, with reduced volatility due to the addition of domestic bonds. The portfolio holds US, developed international, and emerging market stocks and bonds, as well as commodities. This portfolio covers 10 asset classes, includes 3,907 stocks and 5,095 bonds, has 68% equity exposure, and has a 0.38% average portfolio cost.

Aggressive

The Aggressive portfolio concentrates on asset classes where rapid growth is expected. It is designed to have heavy allocations in emerging areas of the world where growth potential is enormous, and in asset classes where lower correlations make the portfolio components move separately and in sometimes opposite directions, to smooth out volatility. This portfolio covers 12 asset classes, includes 5,423 stocks and 107 bonds, has 91.5% equity exposure, and has a 0.46% average portfolio cost.

Portfolio Management Financial Planning Estate Planning Tax Preparation

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