

# **ALPA Retirement Committee 401k Workshop**

A presentation designed for Express Jet employees to better understand, analyze, and implement a successful strategy for investing.



Portfolio Management - Tax Preparation - Financial Planning - Estate Legal Services

[www.wiserinvestor.com](http://www.wiserinvestor.com)

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## **Disclosures**

This presentation has been created and is presented by Wiser Wealth Management, Inc. The purpose of the information contained here is to educate Express Jet employees about the basics of investing and relating this information to the Express Jet JP Morgan 401K plan. This information is not intended to be individual advice, but a way for the plan participant to take basic investment knowledge and form his or her own analysis of their situation. Any opinions within this presentation are of Wiser Wealth Management, Inc and may not be the opinion of JP Morgan, Express Jet and or Express Jet/ASA ALPA.

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# About the Presenter

- **Casey T. Smith**

- President of Wisier Wealth Management, Inc / Captain CRJ 200, Express Jet.
- Finance Degree from Berry College 2000, Tax Preparation School 2005, Master of Estate Preservation in 2005.
- Speaking Engagements: Inside ETF Conference, FL 2008,2009,2010,2012; Europe ETF Conference Amsterdam 2010, Art of Indexing Summit, NY 2010; Singapore ETF Conference 2009, S&P Atlanta Advisor Workshop 2011,2012, ETF Asia, Shanghai, 2012.
- Awards: Atlanta Magazine's Wealth Manager of the Year 2011, 2012; Cobb Life Magazine's Top 20 Rising Stars Under 40; Berry College Young Alumni of the Year 2011, Top 20 Pioneer in the Usage of ETFs in the USA.
- Quoted in: Wall Street Journal, Kiplinger Magazine, CNN Radio, Atlanta Journal and Constitution, Marietta Daily Journal, New York Times, Your Trading Edge Magazine, IndexUniverse.com, SeekingAlpha.com, Dallas New Era Paper and more.
- Board Member: Berry College Board of Visitors, Berry College Campbell School of Business, Laona M. Kitchen Foundation, ASA ALPA 401k Specialist.

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# Wiser Wealth Management, Inc.

- **Fiduciary + Fee Only**

- **Services**

- Portfolio Management, Financial Planning, Tax Preparation, and Estate & Business Legal Services

- **Our Professionals**

- Casey Smith, President - Principal
- Sonja Gonzalez, Client Management & Planning
- Cam Wilbur, Business Development
- LaTrelle Allen, Client Services
- Kim MacConnell, CPA, Tax Preparation & Accounting
- Michael Burnett, Attorney, Estate Legal Services

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Sunday, February 10, 13

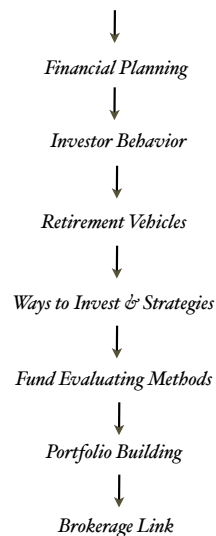
## Today's Presentation

- There is a lot of information being shared within this presentation in a relative short period of time.
- Our objective is to give you the tools necessary to manage your JP Morgan 401k plan more effectively to meet your goals.
- You can contact us at anytime for clarifications and questions at 678.905.4450 ext 1 or 3.



## Today's Agenda

*The Business of Financial Advice*



*Professional Panel*  
*Your Questions; Our Answers*

# The Business of Financial Advice

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Fiduciary + Fee Only = Your Best Interest

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# The Business of Financial Advice

**There are two standards in the business of financial advice**

**Suitability** - Are you suitable for the product being sold to you?

- Advisor being paid by commissions, usually from the product that he or she is selling.

**Fiduciary** - The product being used must be in the best interest of the client. Any conflicts in interest must be disclosed to the client (Form ADV Part II).

- Advisor being paid by the client by the hour, for a flat % of assets under management (AUM) or a flat fee. This business model is fee only. Fee based advisors offer products that generate a commission but will also work under the terms above.

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# Financial Planning

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“You need a plan to build a house. To build a life, it is even more important to have a plan or goal.” *Zig Ziglar*

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## Retirement Planning

- Who is saving for retirement?
  - 56% of Americans nearing retirement are reported to have less than \$25K in retirement savings\*.
  - 42% of retirees say that their current debt level is a problem\*. \*Employee Benefit Research Institute as reported in USA Today
  - Many pensions are being reported as severely underfunded.
  - Social Security is severely underfunded and may not be available for your retirement.

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# How Much Do I Need to Save?

- If you retire at age 65 you should expect to live until age 95.
- A 45 year old will need \$2,347,839 saved by age 65 to provide \$80K a year in today's dollars (FV \$118,876) to last until age 95.
- A 25 year old will need \$3,488,756 saved by age 65 to provide \$80K a year in today's dollars (FV \$176,643) to last until age 95.
- A person starting to save at age 25 will need to save \$1,329 monthly to reach his or her retirement goal of 80k annually post retirement.
- A person starting at age 45 will need to save \$4,500 monthly to reach the same retirement goal.

Assumes 7% rate of return during accumulation phase, 5% return during retirement and 2% inflation.

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## Monthly Savings Needed to Reach \$1 million by age 65

7% Hypothetical Rate of Return

\$6,000					<b>\$5,778</b>
5,000					
4,000					
3,000					
2,000					<b>\$1,920</b>
1,000					
	<b>\$381</b>	<b>\$820</b>			
0	25-year-old	35-year-old	45-year-old	55-year-old	

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# Financial Planning - Debt

- Saving for retirement while paying 11% in interest or more on credit cards does not make for good math. Paying off debt is a guaranteed return on your money.
  - Example: If you have a credit card with a balance of \$5,000 at a rate of 11% interest and you pay it off, you are saving future interest payments, increasing your cash flow for retirement savings.
- If you need to pay down debt:
  - Unless you have a large amount of debt, we recommend contributing the minimum to get the maximum matching from the 401k. Don't walk away from free money.
  - Manage cash flow to pay down debt quickly. Make drastic changes as necessary.

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# Financial Planning - Debt

- From Dave Ramsey's new book "Total Money Makeover"
  - Create and maintain a family budget
  - Get \$1,000 in a emergency fund
  - Aggressively attack and payoff debt
  - Save 15% for retirement while increasing your emergency fund
  - Pay off your home
  - Aggressively save for retirement

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## Can You Fill In the Blanks?

I need to save \_\_\_% of my paycheck to reach my financial independence goal to make working optional at age\_\_\_. My retirement nest egg needs to be built to \$\_\_\_\_\_ to achieve this goal.

Wiser Wealth Management can help you create a financial blueprint for your future.

678-905-4450

## Investor Behavior

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“The investor’s chief problem – and even his worst enemy – is likely to be himself.” *Benjamin Graham*



# Behavioral Finance

- This term was coined in the early 1990's.
- Term means social sciences applied to finance.
- “There has been a lot of volatility in the stock market. This volatility in the stock market is not related to anything fundamental. It is a reaction to outside factors.” - *Class Lecture Notes - Robert Shiller, Author and Yale Professor.*
- Stocks should be valued as the present value of their future cash flow. If this is true, then volatility in price has to come from outside factors.

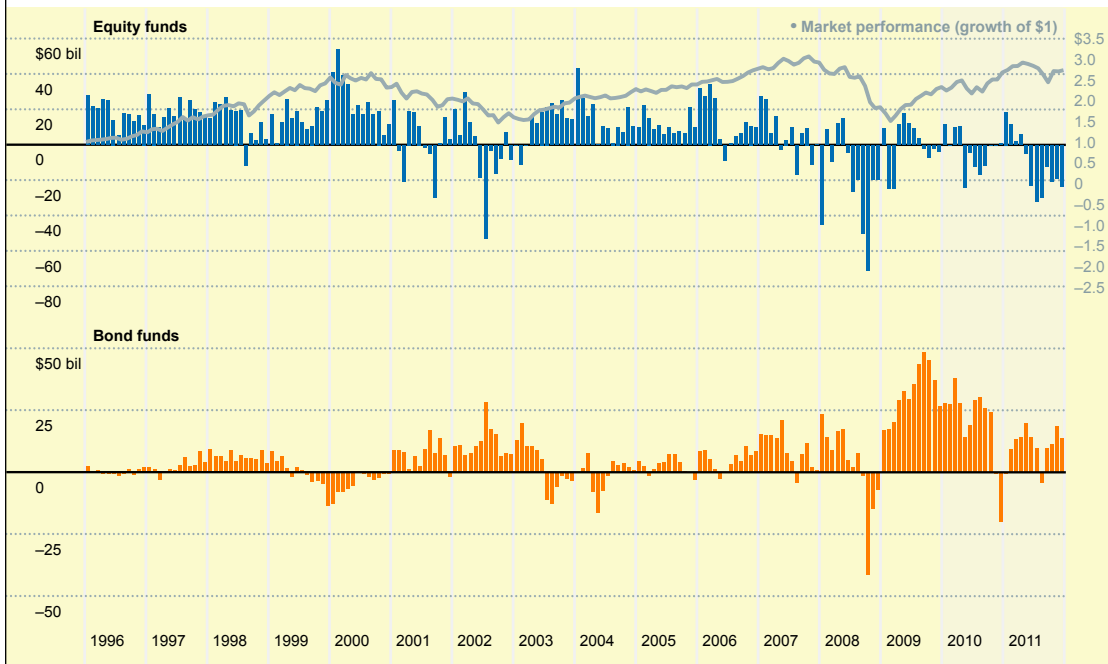
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## Bad Behavior = Less \$\$\$ for You

- We tend to make investment decisions based on how we feel rather than what we know.
- History shows that we tend to buy high and sell low.
- To have good investment behavior:
  - Focus on the long term. Don't get caught selling out of fear based on short term events.
  - Build a portfolio that has an appropriate risk tolerance based on your age, objective and risk (volatility) tolerance.

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## Net Cash Flow to Funds Often Relates to Market Performance 1996–2011



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## Patterns of Investor Irrationality

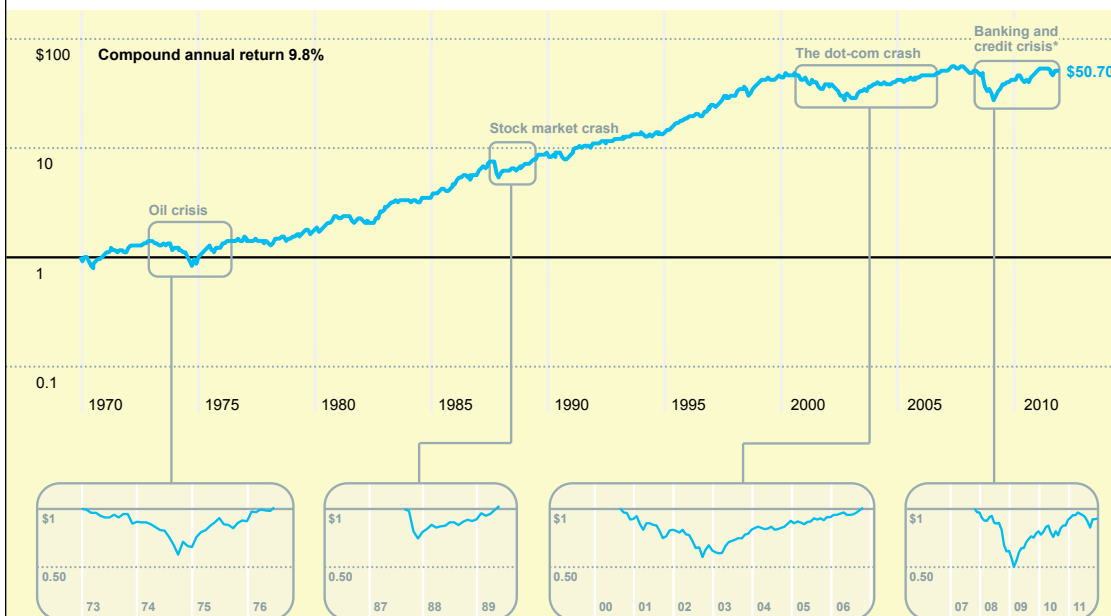
- Overconfidence - Rating oneself as above average when it comes to selecting investments.
- Hindsight Bias - Believing that unpredictable past events, in retrospect, were obvious and predictable.
- Short-term Focus - Inappropriately focusing on short-term risk versus long-term risk.

# Patterns of Investor Irrationality

- Regret - Having illogical feelings of guilt because of a poor outcome.
- Mental Accounting - Mentally compartmentalizing investments while ignoring the aggregate portfolio.
- Hot-hand Fallacy - Perceiving trends where none exist and consequently taking action on this faulty observation.

## Crises and Long-Term Performance

Market declines in historical context, Jan. 1970–Dec. 2011

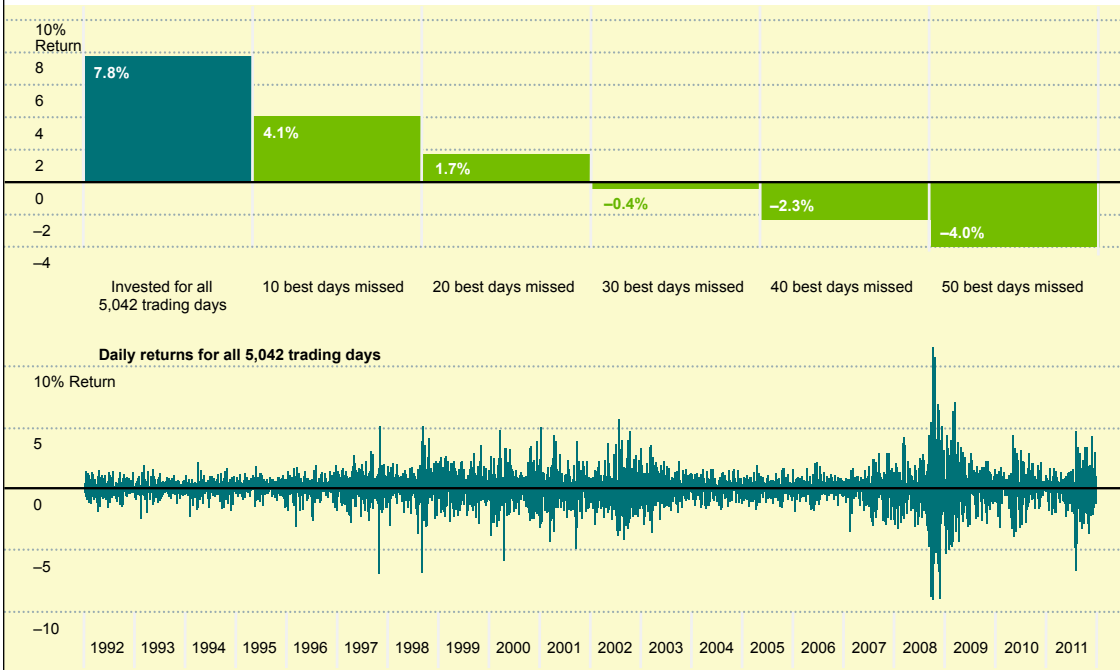


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## The Cost of Market Timing

### Risk of missing the best days in the market 1992–2011

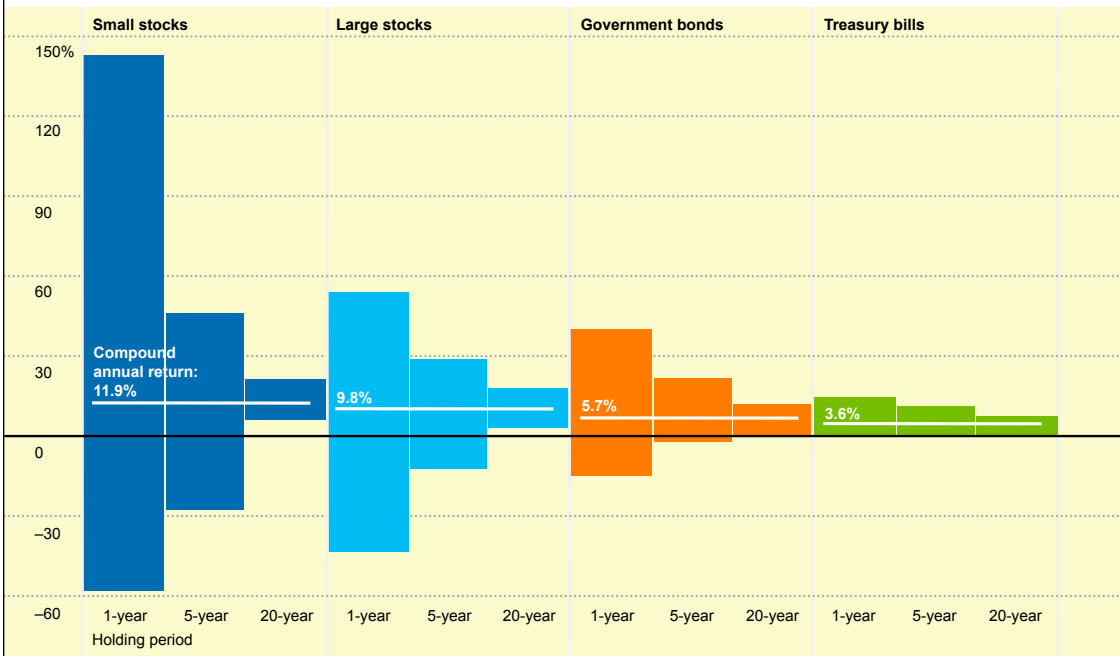


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## Reduction of Risk Over Time

### 1926–2011



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# Vehicles For Retirement

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IRA, ROTH IRA, 401k, ROTH 401K,  
& Tax Deferred Annuities

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## IRA

- In 2013 you can save up to \$5,500 per year in an IRA, \$6,500 if you are over age 50.
- Money saved is tax deductible.
- Earnings and contributions are tax deferred until withdrawal.
- Withdraw penalty free after age 59 ½.
- Must make withdrawals starting at age 70 ½.
- Household income limitations apply.
- Open an account with any mutual fund company, brokerage firm, or independent advisor.
- Limitations: Married \$188K AGI; additional limitations apply if you have a 401k available at work.

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# ROTH IRA

- In 2013 you can save up to \$5,500 per year in a Roth IRA, \$6,500 if you are over age 50.
- Money saved is NOT tax deductible.
- Earnings and contributions are TAX FREE at withdrawal after 5 years and age 59 1/2.
- Withdraw principal only penalty free.
- Exempt from minimum withdrawal rules as long as original owner is alive.
- Household income limitations apply.
- Open an account with any mutual fund company, brokerage firm, or independent advisor.
- Limitations: Married \$188K AGI; Single \$127 AGI.

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# Annuity

- Contributions are NOT tax deductible, but earnings are tax deferred.
- The variable annuity is most popular, but there are also fixed annuities or indexed annuities.
- Client chooses “separate accounts” to invest in (similar to mutual funds).
- **CAUTION:** Wiser Wealth does not recommend most annuities because of **HIGH** hidden fees. In some cases where an annuity would be beneficial we suggest a no load annuity.

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# 401(k)

- Provided by employer (Plan Sponsor).
- The plan administrator is JP Morgan (for Express Jet).
- In 2013 a participant can save \$17,500 each year, \$23,000 if over age 50.
- Earnings and contributions are tax deferred until withdrawal.
- If a participant leaves the company, 100% of his or her contribution can be rolled in to an IRA.
- Many employers match a percentage of the participant's contribution

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## Express Jet 401(k) Matching

<b>Years of Service</b>	<b>Matching Contributions</b>
1	20% of the first 6% a pilot contributes to the plan
2	30% of the first 6%
3	40% of the first 6%
4-6	50% of the first 6%
7-9	75% of the first 6%
10+	75% of the first 8%

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# Express Jet Vesting Schedule

Years of Service	Percent Vested
0-1	0%
2	20%
3	40%
4	60%
5	80%
6+	100%

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## 401(k) Breakdown

- Employer match may also be rolled into an IRA should the participant leave the company. See the company's vesting schedule for more information.
- 401k plans, named for the section of the tax code that governs them, arose during the 1980s as a supplement to pensions.
- A 401k is a retirement savings plan sponsored by an employer.
- Participants control how their money is invested. Most plans offer a spread of mutual funds comprised of stocks, bonds, and money market investments.

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## **401(k) Breakdown**

- Brokerage links allow 401k participants to invest outside the plan's template of investment options and into stocks, ETFs, and/or mutual funds of their own choosing.
- **CAUTION:** Attempts at market timing and stock picking can cause massive losses in your life savings account (your 401k).

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## **ROTH 401(k)**

- Contributions are taxed at today's tax rate.
- Money within a Roth 401k grows tax free and can be withdrawn tax free.
- Paying taxes now is a good way to beat rising tax rates or to relieve future tax burdens.
- Limits on traditional 401k contributions include contributions made to a Roth 401k or visa versa.
- If a participant invest 100% into the Roth 401k, company matching will be made to the traditional 401k.

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# JP Morgan Brokerage Link

- Allows the participant to move 75% of his or her balance to a brokerage account linked to the 401k.
- Inside the brokerage account the participant can purchase index funds, mutual funds and stock not available in the 401k plan.
- A brokerage link is self managed and the participant takes on all investing risks.
- Wiser Wealth offers a professionally managed 401(k) brokerage link. The cost is \$250 per year and is designed to lower portfolio volatility and costs.
- More about the brokerage link later in the presentation.

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## Investment Vehicles

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Stocks, Mutual Funds, Index Funds &  
Your Mattress

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# Ways to Invest

Stocks  
Bonds

Mutual  
Funds

Index  
Funds

Active to Passive Involvement

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# Options

- Purchasing an individual stock or bond
  - Google
  - Enron
- Investing in a mutual fund
  - Vanguard
  - Fidelity
- Investing in an index
  - Vanguard S&P 500
  - iShares MSCI EAFE

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# Mutual Fund

- A mutual fund is an investment vehicle that pools investors money together to then invest into the market as one entity.
- The mutual fund hires a manager or group of managers to invest the fund's assets according to the fund's objective.
- Examples: A large cap value fund; small cap growth fund; international fund.
- A management fee, 12b-1 and trading fees are charged to the shareholders.

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# Index Fund

- An index fund is similar to a mutual fund in that it pools investors money together and diversifies over many companies. However the similarity stops here.
- Index funds simply purchase all the companies with an index (such as S&P 500) and do not try to time the trading of individual securities. The cost of ownership is usually around 0.25% compared to mutual funds at 1.8%
- Long term buy and hold strategies are best used with index funds such as ETFs.

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# Investment Strategies



"Wall street is the only place that people ride to in a Rolls Royce to get advice from those who take the subway."

*Warren Buffet*

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## Two Opposing Investment Strategies

Timing Markets



Buy and Hold

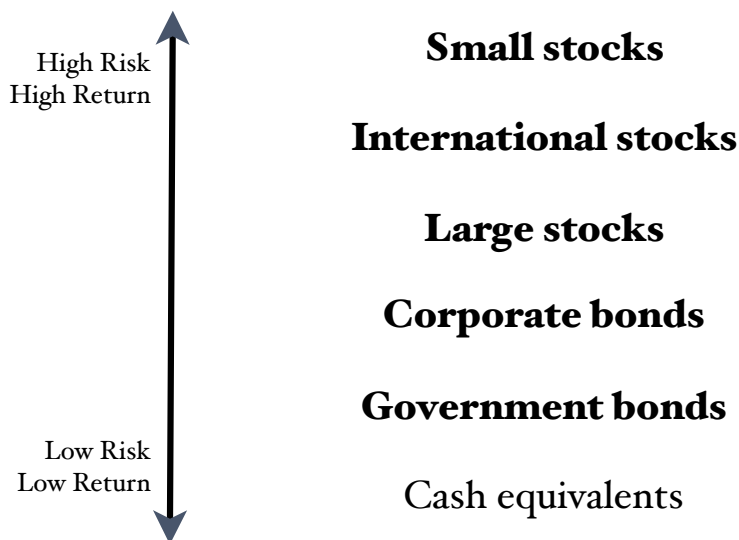
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# Market Timing vs. Buy & Hold

- Market Timing
  - Technical analysis.
  - Following market trends.
  - Constant buying and selling.
- Buy and Hold
  - Fundamental analysis most common.
  - Dollar cost averaging.
  - Buying and investing in quality manager or assets for the long term.

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# Risk Tolerance Spectrum



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# **An Investor's Objective**

- An investor's objective should be to assemble a portfolio of funds to achieve the highest rate of return for the least amount of risk.
- For those approaching retirement, we modify this objective to achieve the highest rate of return for a given amount of risk.
- How do we go about achieving our objective?  
Asset allocation.

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# **Basic Portfolio Construction**

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Looking at building portfolios  
through asset allocation

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# Fund Analysis

Portfolio  
Construction

Analyze Funds  
Within Categories

Asset Allocation

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## Asset Class Breakdown

### US Stocks

Large Cap  
Mid Cap  
Small Cap

### International Stocks

Developed  
Emerging

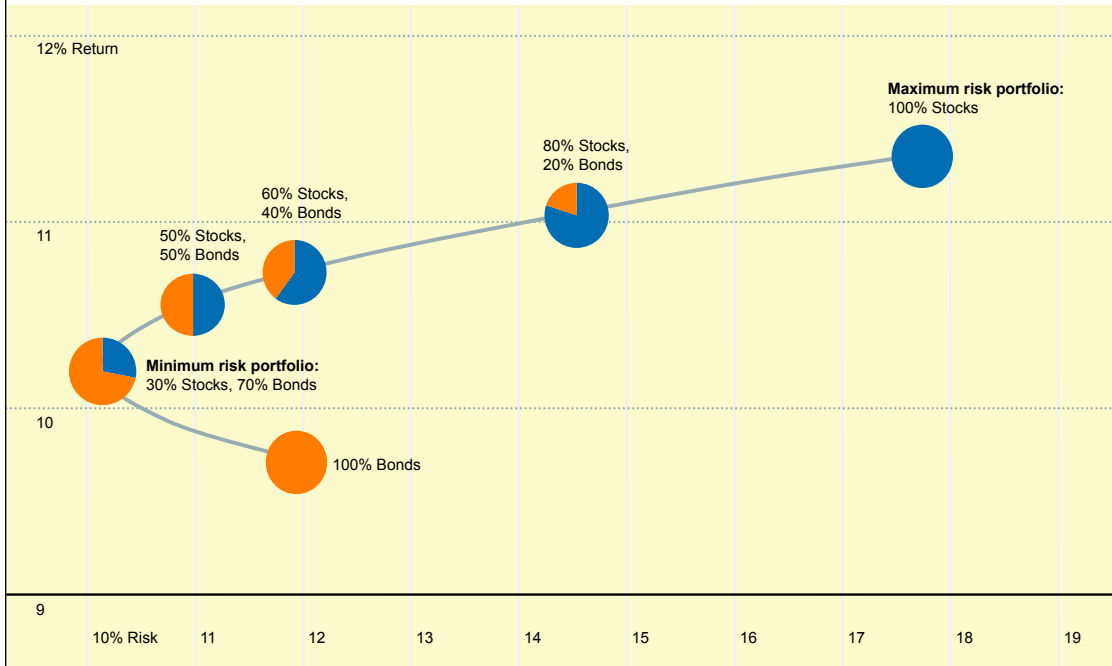
### Bonds

US Treasury  
Corporate

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## Stocks and Bonds: Risk Versus Return 1970–2011



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# Fund Analysis

Fund analysis focusing on the options within the  
JP Morgan Employee 401K Plan

# Analysis Tools

- Mean - Rate of Return 3, 5 & 10 Year
- Alpha
- Standard Deviation - Measure of Risk
- Sharpe Ratio
- Cost
- Other unique considerations

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# How to Evaluate Performance

- Historical Rate of Return
  - Rate of return is usually published net of fund fees. You can find our funds' rate of return on free financial websites such as [finance.yahoo.com](http://finance.yahoo.com) and within [retireonline.com](http://retireonline.com)
  - If available look at a fund's 3, 5 and 10 year return.
  - Compare returns to other funds in the plan that are in the same asset class and objective
  - Compare funds to their assigned index

## Large Cap Rate of Return

	3 Year	5 Year	10 Year
<b>Core</b>			
JP Morgan Equity Index	10.66%	1.52%	6.89%
<b>Value</b>			
American Century Equity Income	9.59%	3.46%	7.63%
American Century Value	9.6%	2.93%	7.34%
JP Morgan Intrepid Value Select	9.98%	0.91%	-
<b>Growth</b>			
JP Morgan Large Cap Growth R6	12.46%	2.99%	8.08%

## How to Evaluate Performance

- Alpha
  - Simply stated, alpha is often considered to represent the value that a portfolio manager adds to or subtracts from a fund portfolio's return. A positive alpha of 1.0 means the fund has outperformed its benchmark index by 1%. Correspondingly, a similar negative alpha would indicate an underperformance of 1%. For investors, the more positive an alpha is, the better it is.

**Morningstar.com**

Dodge & Cox International Stock Report (DODFX) | Morningstar Rating - Windows Internet Explorer

http://quicktake.morningstar.com/FundNet/RatingsAndRisk.aspx?symbol=DODFX&country=USA

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Nadaq 2269.15 -22.13(-0.97%) S&P 500 1115.10 -11.32(-1.00%) DJIA 10428.05 -120.46(-1.14%) Gold 1095.70 0.50(0.05%) Light Crude 75.62 0.26(0.33%)

Information from [dodgeandcox.com](http://dodgeandcox.com)

**Dodge & Cox International Stock DODFX | ★★★**

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Quote Chart Fund Analysis Performance **Ratings & Risk** Management Stewardship Portfolio Expenses Tax Purchase Filings

**Morningstar Rating (Relative to Category)** 11-30-09

	Morningstar Return	Morningstar Risk	Morningstar Rating™
3-Year	Above Average	Above Average	★★★
5-Year	Above Average	Above Average	★★★
10-Year	Above Average	Above Average	★★★
Overall	Above Average	Above Average	★★★

Morningstar Category: Foreign Large Value [Click here to see our Methodology](#)

**Volatility Measurements** Trailing 3-Yr through 12-31-09 | \*Trailing 5-Yr through 12-31-09

	Standard Deviation	Sharpe Ratio	Bear Market Decile Rank*
	28.32	-0.08	---
	-0.24		

**Modern Portfolio Theory Statistics** Trailing 3-Yr through 12-31-09

	Standard Index MSCI EAFE NR USD	Best Fit Index MSCI AC World NR USD
R-Squared	97	97
Beta	1.16	1.24
Alpha	<b>3.94</b>	3.32

S&P 500 index data: S&P 500 Copyright © 2009

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**FIND A GREAT JOB NOW**  
The Ladders

Term Life Insurance Quote

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## International Alpha

	3 Year	5 Year	10 Year
Dodge & Cox International	1.32	2.89	2.73
American Century International	3.45	1.87	0.11
Janus Overseas	-6.97	-0.75	1.36

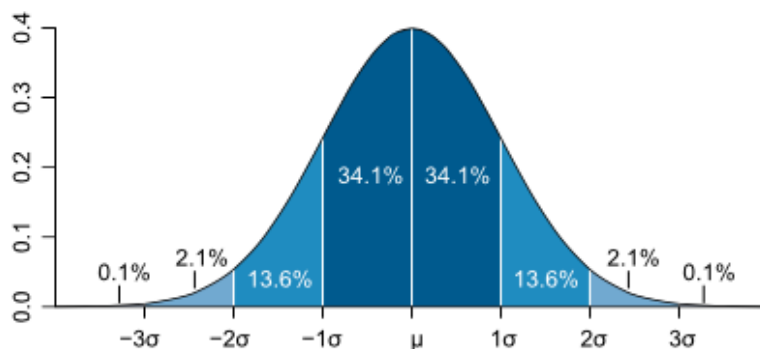
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# How to Evaluate Risk

- Standard Deviation
  - Standard deviation measures the variation of data from its average. In finance, standard deviation is applied to the annual rate of return of an investment to measure its volatility (risk). A volatile stock would have a high standard deviation. With mutual funds, the standard deviation tells us how much the return on a fund is deviating from the expected returns based on its historical performance.

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# Standard Deviation



In statistics and probability theory, standard deviation (represented by the symbol sigma,  $\sigma$ ) shows how much variation or "dispersion" exists from the average (mean, or expected value). A low standard deviation indicates that the data points tend to be very close to the mean; high standard deviation indicates that the data points are spread out over a large range of values.

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## Applying Standard Deviation

	5 Year	
	Rate of Return	Standard Deviation
PIMCO Total Return Bond Fund	7.65	4.24
JP Morgan Equity Index Select	1.13	19.02
Buffalo Small Cap	4.75	23.8
Janus Overseas	-5.74	30.82

## How to Evaluate a Fund and Risk

- Sharpe Ratio
  - Developed by Nobel laureate economist William Sharpe, this ratio measures risk-adjusted performance. It is calculated by subtracting the risk-free rate of return. (US Treasury Bond) from the rate of return for an investment and dividing the result by the investment's standard deviation of its return.

The Sharpe ratio tells investors whether an investment's returns are due to smart investment decisions or the result of excess risk. This measurement is very useful because although one portfolio or security can reap higher returns than its peers, it is only a good investment if those higher returns do not come with too much additional risk. The greater a portfolio's Sharpe ratio, the better its risk-adjusted performance.

**Morningstar.com**

http://quicktake.morningstar.com/FundNet/RatingsAndRisk.aspx?symbol=DODFX&country=USA

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Dodge & Cox International Stock Report (DODFX) | M...

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Information from [dodgeandcox.com](#)

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Morningstar Rating (Relative to Category)			11-30-09
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5-Year	Above Average	Above Average	★★★
10-Year			
Overall	Above Average	Above Average	★★★

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Beta	1.16	1.24	
Alpha	3.94	3.32	

S&P 500 Index data: S&P 500 Copyright © 2009

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## Applying Sharpe Ratio

	5 Year	
	Sharpe Ratio	Rate of Return
JP Morgan Mid Cap Growth	0.07	1.06
Morgan Stanley Mid Cap	0.09	2.09
JP Morgan Mid Cap Value	0.25	4.89

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# How to Evaluate Cost

- Mutual fund costs.
  - Management fees.
    - Paid directly to the company that manages the funds portfolios (managers).
  - Distribution fees (12b-1).
    - Paid to the sales rep.
- Mutual fund costs can be found at Morningstar.com, Yahoo Finance and Retireonline.com

## 401k Fund Fees at Retireonline.com

PERFORMANCE PRICES REDEMPTION FEES									
Average annualized total return <span style="float: right;">Collapse all</span>									
As of date	7 day* yield	3 mos**	1 yr	3 yr	5 yr	10 yr	Life	Inception date	Obs expens ratio %
<a href="#">JPMCB Stable Asset Income Fund-F</a>								09/01/2006	0.47
12/31/2012		0.39	1.62	1.91	2.51	3.49	5.52		
11/30/2012		0.38	1.65	1.93	2.57	3.52	5.53		
10/31/2012		0.39	1.66	1.93	2.63	3.54	5.54		
<a href="#">American Century Short-Term Government Inv</a>								12/15/1982	0.56
12/31/2012		-0.05	0.30	1.37	2.30	2.52	5.34		
11/30/2012		-0.11	0.39	1.10	2.39	2.62	5.36		
10/31/2012		-0.13	0.40	1.30	2.63	2.57	5.37		
<a href="#">PIMCO Total Return - Admin</a>								09/08/1994	0.71
12/31/2012		1.11	10.09	7.49	8.08	6.56	7.47		
11/30/2012		1.76	11.73	7.09	8.11	6.74	7.49		
10/31/2012		1.71	10.12	7.34	8.50	6.73	7.49		
<a href="#">American Century Equity Income-Inst</a>								07/08/1998	0.75
12/31/2012		-0.08	11.58	9.60	3.47	7.63	7.59		
11/30/2012		1.01	13.59	10.13	3.12	7.30	7.58		
10/31/2012		2.83	14.04	11.44	2.41	7.83	7.64		
<a href="#">JPMorgan SmartRetirement Income-Inst</a>								05/15/2006	0.75



## How to Evaluate Cost

- Transaction cost.
  - Cost incurred by the fund as assets are traded. 100% turnover can mean an extra 1% annually in fees.
  - The average large cap blend mutual fund has a 72% average turnover. Data: Morningstar, Inc.
- Taxes.
  - All capital gains are passed through to investors (no tax paid by you inside a 401K).
- All expenses here reduce the investor's rate of return and will not show up in the funds expense ratio.

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## Other Factors

- Concentration of top holdings.
- Management and strategy.
  - Look at a Morningstar.com fund analysis reviews.
- Asset allocation.
  - Just because a fund has Large Cap or International in its name does not mean that this is all that it holds.

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# Asset Allocation & Style Breakdown

## Asset Allocation AVLIX



Type	% Net
Cash	1.73
US Stock	87.35
Non US Stock	9.22
Bond	0.00
Other	1.69

As of 09/30/2012

## Style Details JLGMX

Avg Market Cap USD	Benchmark Market Cap USD
41,871 mil	45,092 mil

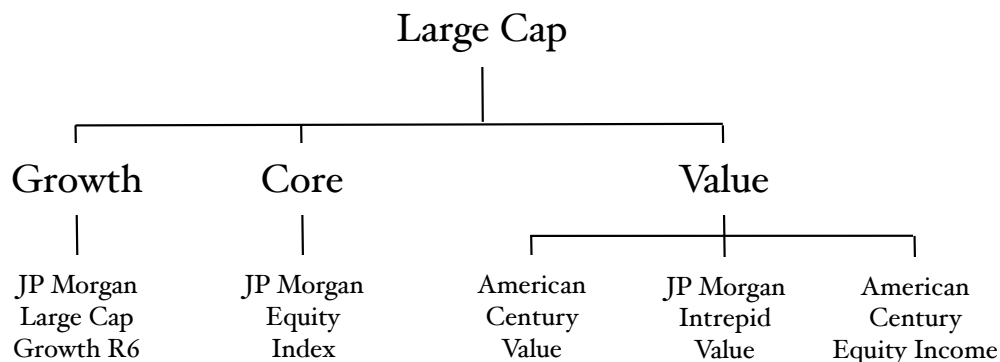
## Market Capitalization

Size	% of Portfolio
Giant	40.45
Large	43.55
Medium	16.00
Small	0.00
Micro	0.00

# Using Your Tools

How to Apply Alpha, Standard Deviation and Sharp Ratio to Your Investment Choices.

# Large Cap Analysis



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## What are Growth and Value Stocks?

### Growth Stocks

- High growth rate of earnings, sales.
- Low book-to-price, high price-to-earnings ratios.
- Paying lower or no dividends.

### Risks

- Future growth does not occur as expected.
- Book-to-price ratio rises unexpectedly, price-to-earnings ratio declines unexpectedly.

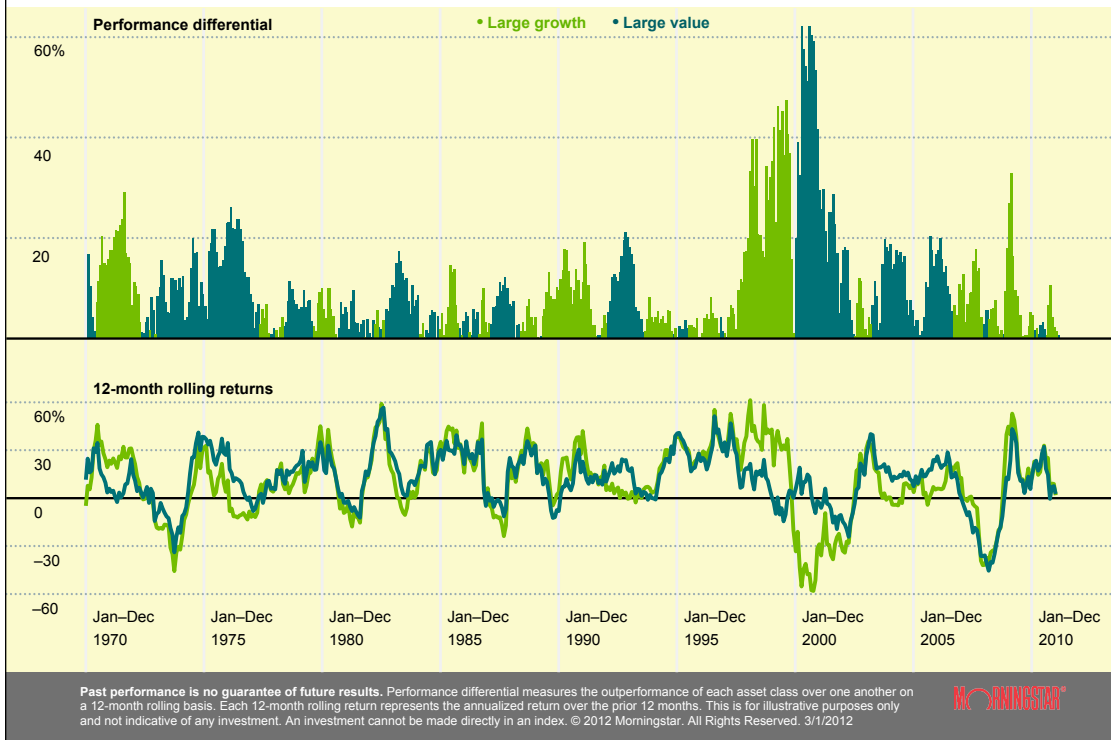
### Value Stocks

- Slower growth rate of earnings, sales.
- High book-to-price, low price-to-earnings ratios.
- Higher dividend yields.
- Turnaround opportunities.

### Risks

- Evaluation of stocks as good value is misread.
- Difficult to stick to value policy when prices are beaten down.

## One-Year Growth and Value Cycles 1970–2011



# Large Cap Summary

5 Year Statistics				
Name	Return	Standard Deviation	Sharpe Ratio	Alpha
<b>Core</b>				
JPMorgan Equity Index	1.13	19.02	0.06	-0.14
<b>Growth</b>				
JPMorgan Large Cap Growth R6	2.59	20.17	0.13	-0.04
<b>Value</b>				
American Century Equity Income	3.06	12.91	0.24	2.3
JPMorgan Intrepid Value Select	0.52	20.09	0.03	0.32
American Century Value	2.53	17.25	0.15	1.87

# Large Cap Summary

<b>10 Year Statistics</b>				
<b>Name</b>	<b>Return</b>	<b>Standard Deviation</b>	<b>Sharpe Ratio</b>	<b>Alpha</b>
<b>Core</b>				
JPMorgan Equity Index	5.05	14.75	0.35	-0.20
<b>Growth</b>				
JPMorgan Large Cap Growth R6	6.23	15.78	0.40	0.56
<b>Value</b>				
American Century Equity Income	5.78	10.53	0.56	1.87
JPMorgan Intrepid Value Select	-	-	-	-
American Century Value	5.5	13.83	0.40	0.56

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## An Indexing Approach to Large Cap Stocks

- **JP Morgan Equity Index**
  - What makes this effective:
    - Zero manager risk.
    - Low cost.
    - Extreme diversity within asset class.
    - Low business, sector, and industry risk.
  - When we study indexes, we can look more at the index and the index's characteristics.
    - If the index fund tracks the index fairly well, we can generally trust the index fund to perform like the index.
  - Cost 0.11%. Yield - not published.

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## Large Cap Fund Notes

### • **JP Morgan Large Cap Growth R6**

- The fund currently holds 72 stocks and is benchmarked to the Russell 1000 Index. Its top holding is Apple at 8.2% of the portfolio.
- The portfolio is made up of all growth stocks.
- The fund has done a good job of beating its assigned index over a long time period.
- The fund being top heavy with its top 10 holdings and the tilt towards growth will have very little downside market protection.
- Cost 0.63%. Yield 0.63%<sub>75</sub>.

## Large Cap Fund Notes

### • **American Century Equity Income**

- Fund is benchmarked to the Russell 3000 Value Index.
- Holds 20% in convertible bonds, which cushions a fall in down markets but lags in up markets.
- Fund seeks high quality value large companies. Sells when it thinks company is over priced. Turnover is over 100% each year.
- Good defensive pick for a portfolio.
- Cost 0.75%. Yield 2.75%<sub>76</sub>.

## Large Cap Fund Notes

- **American Century Value**

- Large cap value, but holds 24% in mid cap stocks.
- Fund's benchmark is the Russell 1000 Value Index.
- Managers focus on companies that are cheap based on two of five valuation measures used.
- Cost 0.81%. Yield 1.74%.

77

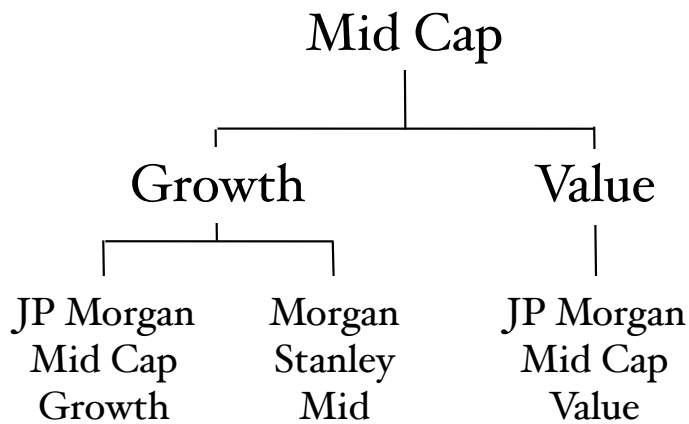
## Large Cap Fund Notes

- **JP Morgan Intrepid Value Select**

- Large cap value fund that also has 5% in small caps and 19% in mid caps, 4% is in European companies.
- Fund's benchmark is the Russell 1000 Value Index.
- Fund's top holdings are very similar to the American Century Value fund.
- Cost 0.80%. Yield 1.73%.

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# Mid Cap Breakdown



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# Mid Cap Summary

<b>5 Year Statistics</b>				
<b>Name</b>	<b>Return</b>	<b>Standard Deviation</b>	<b>Sharpe Ratio</b>	<b>Alpha</b>
JP Morgan Mid Cap Value	7.06	19.78	0.36	1.66
Morgan Stanley Mid Cap Growth	5.78	23.31	0.21	-0.82
JP Morgan Mid Cap Growth	5.18	23.69	0.22	-0.67

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# Mid Cap Summary

<b>10 Year Statistics</b>				
<b>Name</b>	<b>Return</b>	<b>Standard Deviation</b>	<b>Sharpe Ratio</b>	<b>Alpha</b>
JP Morgan Mid Cap Value	9.29	15.11	0.63	0.93
Morgan Stanley Mid Cap Growth	10.71	19.12	0.57	1.53
JP Morgan Mid Cap Growth	7.71	18.7	0.42	-1.33

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## Mid Cap Notes

- **JP Morgan Mid Cap Growth**
  - Several factors do not warrant this fund much attention.
  - Relative to peers the fund is considered higher risk with lower returns.
  - Fund is mostly mid cap growth but also holds 20% in large cap growth and 15% in small cap growth.
  - Cost 0.93%. Yield none.

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# Mid Cap Notes

- **Morgan Stanley Inst Mid Cap Growth**

- Recent performance has been disappointing but long term performance is strong.
- Funds benchmark is the Russell Mid Cap Growth index but manager is known for straying from the benchmark's sector allocations, helping performance overall.
- Cost 0.96%. Yield 0.28%.

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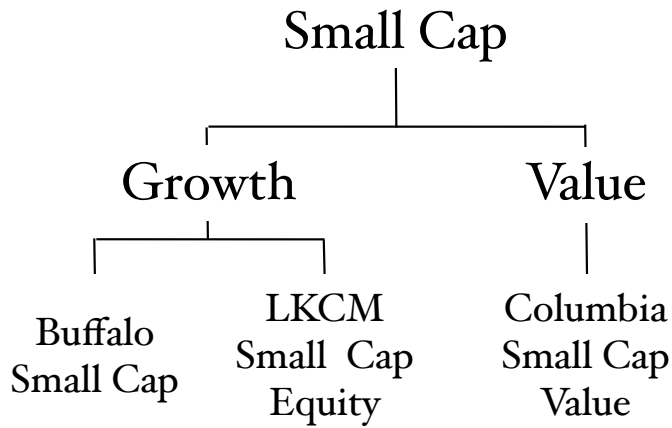
# Mid Cap Notes

- **JP Morgan Mid Cap Value**

- Fund performance and below average risk makes this fund a good compliment to a mid cap growth allocation.
- Fund is benchmarked to the Russell Mid Cap Value Index.
- Cost 0.65%. Yield 1.37%.

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# Small Cap Breakdown



85

# Small Cap Summary

<b>5 Year Statistics</b>				
<b>Name</b>	<b>Return</b>	<b>Standard Deviation</b>	<b>Sharpe Ratio</b>	<b>Alpha</b>
Buffalo Small Cap	4.75	23.8	0.20	1.84
Columbia Small Cap Value	2.74	24.68	0.11	-0.33
LKCM Small Cap Equity Advisor Growth	3.57	23.28	0.15	0.55

86

# Small Cap Summary

<b>10 Year Statistics</b>				
<b>Name</b>	<b>Return</b>	<b>Standard Deviation</b>	<b>Sharpe Ratio</b>	<b>Alpha</b>
Buffalo Small Cap	9.74	19.84	0.49	2.16
Columbia Small Cap Value	8.56	19.68	0.44	1.13
LKCM Small Cap Equity Advisor	8.04	18.87	0.43	0.83

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## Small Cap Notes

- **Buffalo Small Cap**

- Fund looks for big picture trends like cloud computing or the aging population, has a particular interest in US firms that get growth from overseas.
- Good long term performance but there are periods where the fund has underperformed compared to its peers.
- Low portfolio turnover in holdings.
- Cost 1.0%. Yield none.

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# Small Cap Notes

- **LKCM Small Cap Equity**

- Overall a good small cap growth fund, however the Buffalo small cap fund has overall better performance.
- Cost 1.2% (high). Yield 0.26%.

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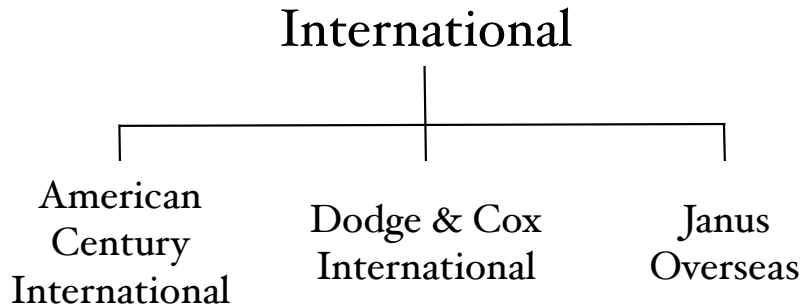
# Small Cap Notes

- **Columbia Small Cap Value**

- This fund could complement a small cap growth fund but we would not use it as a core holding.
- Cost 1.06%. Yield 1.0%.

90

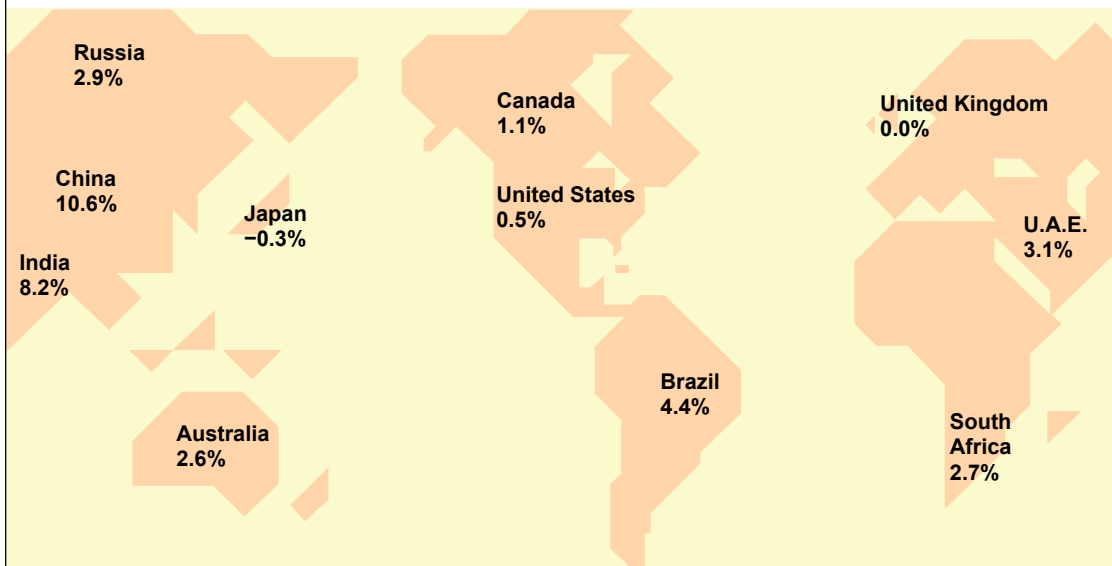
# International Breakdown



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## GDP Growth by Region

Five-year average annual percentage change 2007–2011



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## The Impact of Currency Fluctuation 2011

	Return to local investors	Currency impact	Return to U.S. investors
<b>United States</b>	2.1%	0.0%	2.1%
<b>Pacific region</b>	-16.5%	2.9%	-13.6%
<b>Japan</b>	-18.6%	4.4%	-14.2%
<b>European region</b>	-8.8%	-1.7%	-10.5%
<b>United Kingdom</b>	-1.8%	-0.7%	-2.5%

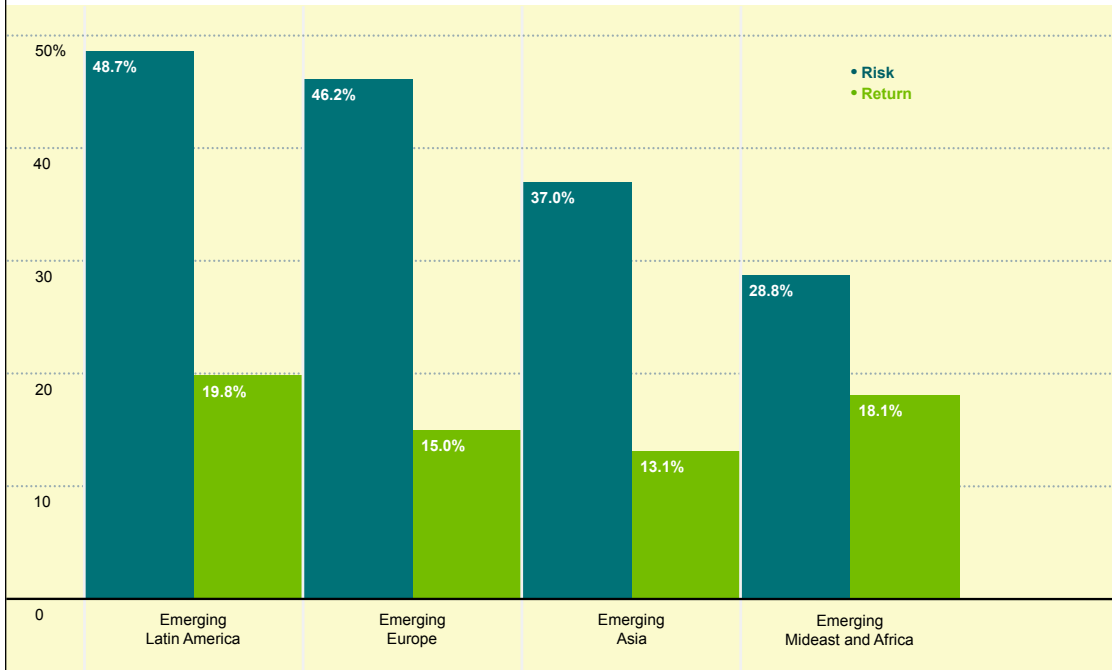
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## Key Differences between Developed and Emerging Markets

- Developed countries:
  - Established and stable economies with strong consumption activities and ample resources.
  - Ex: Australia, Canada, Japan, Germany, UK.
- Emerging countries:
  - Countries that are starting to participate globally by implementing reform programs and undergoing economic improvement.
  - Ex: Brazil, Russia, India, China, Mexico, Thailand.

## Emerging Market Performance Risk and return 2002–2011



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## Telling the Story through Allocation

- **Janus Overseas**
  - 57% developed markets (18% North America)
  - 42% emerging markets
- **American Century International Growth**
  - 93% developed markets
  - 7% emerging markets
- **Dodge & Cox International**
  - 83% developed markets
  - 17% emerging markets



# International Summary

<b>5 Year Statistics</b>				
<b>Name</b>	<b>Return</b>	<b>Standard Deviation</b>	<b>Sharpe Ratio</b>	<b>Alpha</b>
Janus Overseas	-5.74	30.82	-0.19	-0.75
Dodge & Cox International	-2.27	26.89	-0.08	2.89
American Century International	-2.32	23.74	-0.10	1.87

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# International Summary

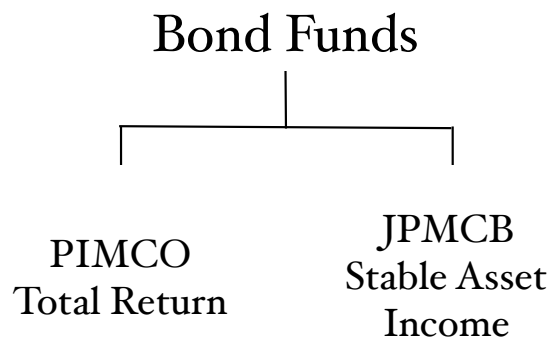
<b>10 Year Statistics</b>				
<b>Name</b>	<b>Return</b>	<b>Standard Deviation</b>	<b>Sharpe Ratio</b>	<b>Alpha</b>
Janus Overseas	9.93	24.79	0.41	1.36
Dodge & Cox International	9.71	21.14	0.47	2.73
American Century International	6.34	18.67	0.35	0.11

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# International Notes

- Each of JP Morgan's 401k international funds has its own risks, thus we are not comparing apples to apples here. For those with a higher risk tolerance you may consider Janus Overseas.
- For those within 5 years of retirement you may consider American Century International or Dodge & Cox International.

# Bond Breakdown



# Bond Funds

- Fixed income is complicated.
  - Very diverse category, can include many different structures and counter-party risks.
    - Generally, fixed income involves some kind of flow of cash, affected by interest rates, time, and credit risks.
- Studying bond funds simplifies fixed income products, since we can look at broad characteristics.

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# Bond Funds

- Duration
  - A measure of interest rate sensitivity.
  - Example: a duration of 5 means if interest rates move 1%, the fixed income investment will move 5% in the opposite direction.
  - Interest rates are the independent variable, and since bond cash flows are mostly fixed, the bond price must change to reflect the market value of the future cash flows.
- Duration measures the risk you have to price changes.
  - The smaller the number, the safer.

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# Bond Price Movements

$i$



$B_p$

- How this works:
  - As interest rates fall, the cash flow from a bond investment becomes more valuable and the bond price must rise.
  - In the same way, if interest rates rise, the cash flows from the bond are less valuable and the bond price must fall.

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# Bond Fund Choices

- **PIMCO Total Return Fund**
  - “Total Return” refers to a fixed income strategy for using leverage to gain a return outside of normal market conditions.
  - The funds manager, Bill Gross, will invest 90% of assets in investment grade fixed income with 10% in high yield below grade bonds. He will place bets within the fund based on his market projections.

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# Bond Fund Choices

- **JPMCB Stable Asset Income Fund**

- Seeks to conserve principal at a yield better than a money market.
- Your principal is at risk within this fund, but it is the most conservative fund within the 401k plan.
- Portfolio backed by U.S. Treasury, agency, investment grade corporates, and mortgage-backed and asset-backed securities.

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# Bond Breakdown

<b>5 Year Statistics</b>						
<b>Name</b>	<b>Return</b>	<b>Standard Deviation</b>	<b>Sharpe Ratio</b>	<b>Alpha</b>	<b>Average Duration</b>	<b>Credit Quality</b>
PIMCO Total Return	7.65	4.24	1.81	2.6	4.0 Yrs	A
JPMCB Stable Asset Income	2.69	-	-	-	2.73 Yrs	AA+

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# Bond Breakdown

10 Year Statistics						
Name	Return	Standard Deviation	Sharpe Ratio	Alpha	Average Duration	Credit Quality
PIMCO Total Return	4.72	4.04	1.19	1.39	4.0 Yrs	A
JPMCB Stable Asset Income	3.57	-	-	-	2.73 Yrs	AA+

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# Building a Portfolio

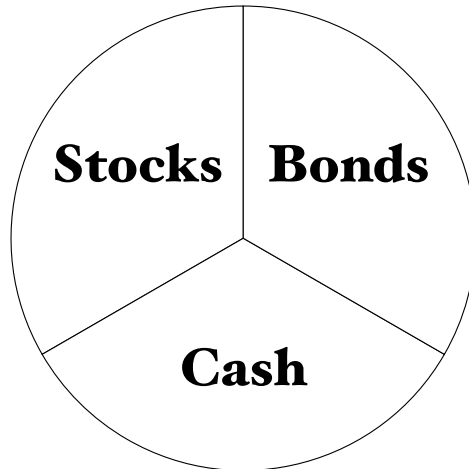
—◆—  
Asset Allocation & Fund Selection

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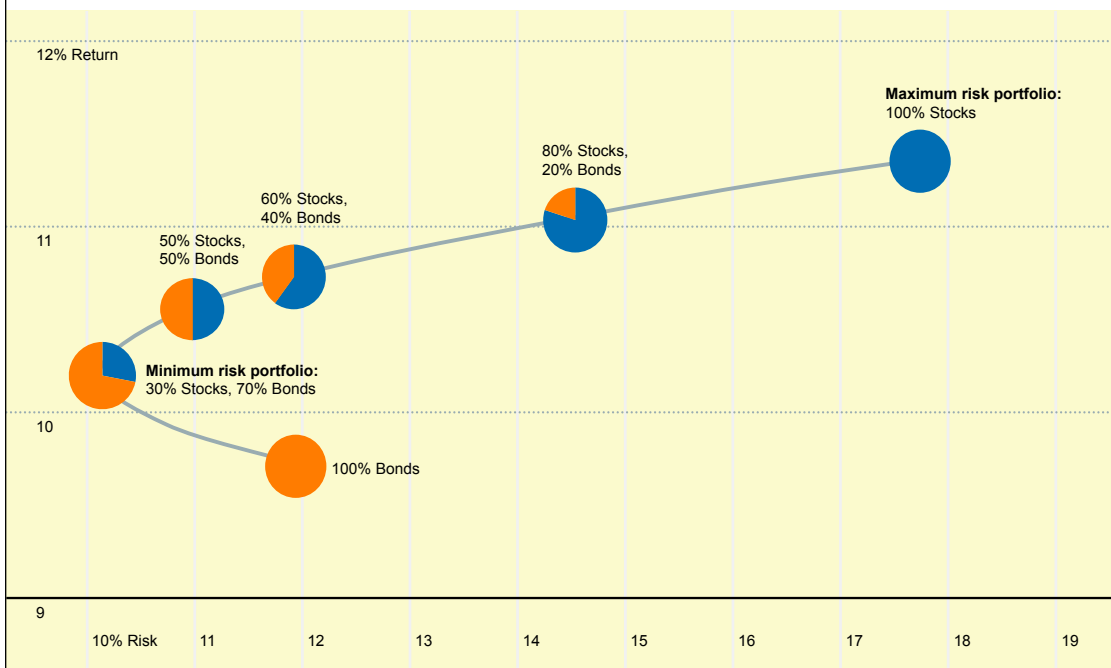
# What is Asset Allocation?

- Asset Allocation is the process of combining asset classes such as stocks, bonds, and cash in a portfolio in order to meet your goals.



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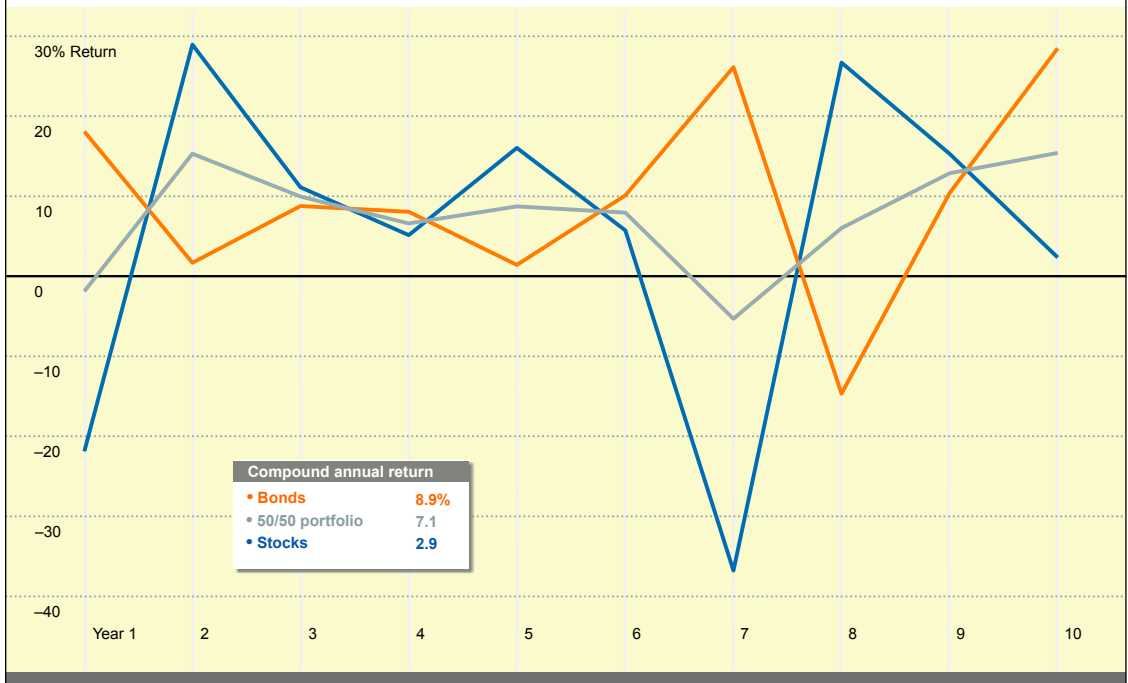
## Stocks and Bonds: Risk Versus Return 1970–2011



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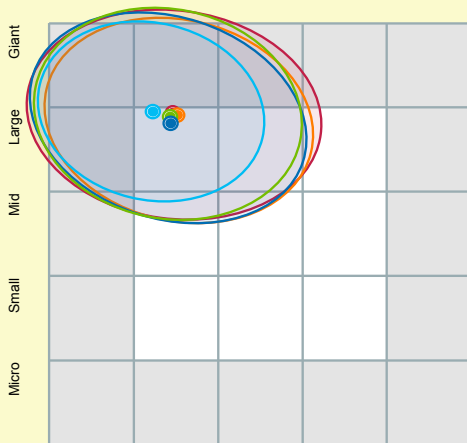
## The Case for Diversifying 2002–2011



## More Funds Do Not Always Mean Greater Diversification Identifying potential security type overlap

Equity portfolio A

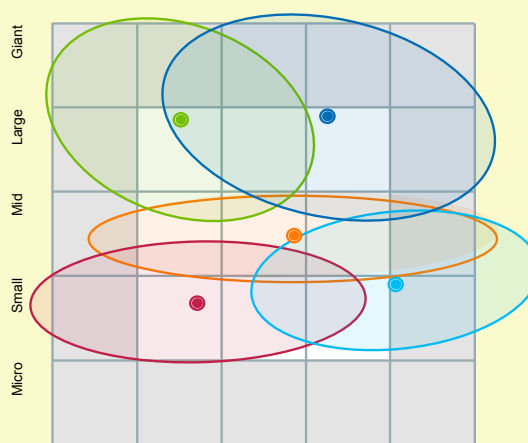
Deep-value Core-value Core Core-growth High-growth



**NO :(**

Equity portfolio B

Deep-value Core-value Core Core-growth High-growth



**YES!**

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# Asset Allocation

- What is your risk tolerance?
  - You will build different asset class weights for different risk levels.
  - As you approach retirement, your risk should be lowered so that a large market downturn will not affect your retirement date.
- Bonds are useful in reducing risk.
- Get advice!!!
  - Advice and professional management pay off.

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# Aggressive Allocation

- Large Cap      40%
- Mid Cap        23%
- Small Cap      9%
- International 17%
- Bond - Core    11%

*Source: S&P Target Risk Index Series*

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## Growth Allocation

- Large Cap 29%
- Mid Cap 11%
- Small Cap 5%
- International 12%
- Bond - Short Duration 11%
- Bond - Core 32%

*Source: S&P Target Risk Index Series*

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## Moderate Allocation

- Large Cap 18%
- Mid Cap 4%
- Small Cap 2%
- International 11%
- Bond - Short Duration 25%
- Bond - Core 40%

*Source: S&P Target Risk Index Series*

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# Conservative Allocation

- Large Cap 13%
- Mid Cap 3%
- Small Cap 1%
- International 3%
- Bond - Short Duration 31%
- Bond - Core 49%

Source: S&P Target Risk Index Series

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## Recommended Models Based on This Presentation

The screenshot shows the Wiser Wealth Management website. At the top, there is a navigation bar with the URL [www.wiserinvestor.com/](http://www.wiserinvestor.com/), a "Reader" button, and a Google search bar. Below the navigation bar, the Wiser Wealth Management logo is on the left, and a "FIVE STAR PROFESSIONAL" badge is in the center. To the right, there is a "ASK CASEY" section with a photo of Casey and the text "Have a question? We'd love to help." and a phone number "678.905.4450". Below the navigation bar, there is a "Welcome to Wiser Wealth Management" section with a photo of a forest path. A blue navigation menu is open, showing options like "Resources", "Articles", "Brochures", "Calculators", "Podcasts", "The Everyday Investor", "Web Links", "Wiser Seminars & Workshops", "Financial Planning", "Estate Planning", and "Tools to make you a smarter investor". To the right of the navigation menu, there is a "Personal Finance" section with a photo of a family and the text "The Burden of Debt". Below that, there is a "THE VIGILANT INVESTOR" section with a photo of a gold coin and the text "PAT WOODLESTON". At the bottom right, there is a "Sign Up For Wiser's Market Update!" section with a form for "Your Name" and "E-Mail Address" and an "Enroll" button. Below that, there is a "Are you on track for retirement?" section with a "Next Step" button and the text "Take our survey to see if you are prepared."

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# Target Date Funds

- Target Date funds came into existence through legalization to address the issue of poor investment allocation by individual investors.
- The year within the name of each fund would be your approximate retirement year
- The idea is that you would invest all of your funds into a target date fund
- As your retirement approaches the fund will self allocation to an appropriate risk tolerance.

## Target Date Funds Asset Allocation

- Income = 16% Cash | 51% Bonds | 33% Stock
- 2010 = 16% Cash | 51% Bonds | 33% Stock
- 2015 = 7% Cash | 48% Bonds | 45% Stock
- 2020 = 7% Cash | 40% Bonds | 53% Stock
- 2030 = 7% Cash | 25% Bonds | 68% Stock
- 2040 = 6% Cash | 16% Bonds | 78% Stock

## Smart Retirement Target Date Funds Summary

<b>5 Year Statistics</b>				
<b>Name</b>	<b>Return</b>	<b>Standard Deviation</b>	<b>Sharpe Ratio</b>	<b>Alpha</b>
Income	4.23	9.14	0.45	0.63
2010	3.59	10.37	0.35	0.48
2015	3.54	13.12	0.27	0.52
2020	3.40	14.95	0.23	0.71
2030	2.55	18.39	0.14	0.66
2040	2.48	19.37	0.13	1.15

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## The JP Morgan Self-Directed Brokerage Account

- Part of the JP Morgan 401K.
- A brokerage link allows you to invest in things like:
  - Stocks.
  - Mutual funds.
  - Exchange traded funds (ETFs).
  - Bonds.
  - Some options with restrictions.

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## **JP Morgan Brokerage Link Breakdown**

- Stocks and ETFs.
  - \$14.95 per electronic trade.
- Mutual funds.
  - 24.95 per trade to buy no-load funds. No transaction fee to buy load funds.
  - 24.95 per electronic trade to exchange or sell.
- Options - Trade at your own risk!!!
  - \$24.95 per electronic trade and \$1.75 per contract.
- Annual fees.
  - \$100 per account per year inside plan.

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## **CAUTION: Brokerage Link Ahead**

- When investing within the brokerage link use caution:
  - Mutual funds outside the plan will be more expensive. Before investing you need to fully understand 12b-1 fees, and front-load, back-load and no-load fund fees.
  - Individual stocks carry company risk. Information about the company is not the same on Wall Street as it is on Main Street.
  - ETFs should be traded using limit orders, and the investor should research the index methodology of the ETF prior to investing.

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## **Investing Outside the 401k or within the Brokerage Link**

- At some point you will leave Express Jet, either through retirement or other opportunities.

OR

- You would like to use the JP Morgan Brokerage Link to better allocate your portfolio.
- Lets take a look at how your investing style should look outside your 401k.

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## **Investment Options**

- Invest directly into stocks.
  - Low long-term success rate.
- Hire a fund manager to invest for you in the form of separate managed accounts or mutual funds.
  - Expensive and 95% of managers do not track or beat the market after fees over the long term.
- Purchase index funds.
  - Most efficient long term strategy.

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# Our Investing Philosophy

- Maintain a diversified portfolio.
- Keep the cost of investing low.
- Always invest for the long term.

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## Diversification

- Wiser Wealth Management believes proper diversification is obtained by allocating assets across many different asset classes.
- Optimizing the type of funds in a portfolio is essential to reducing risk.
- This is why at Wiser Wealth Management we create our portfolios to capture the entire world market.
- The most effective way to gain exposure to market diversification is through index funds via ETFs.

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# What is an Index?

- An index is a basket of securities that represents 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, Australia, and the Far East, totaling over 1,400 securities.

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# Why Index?

- A recent study shows that between 1975 and 2006, 99% of active Domestic US Mutual Fund Managers failed to beat the S&P 500.\*
- Indexing removes human behavior, inaccurate market timing and poor stock picking which leads to the under performing of fund managers.
- Through indexing we can obtain less business risk through diversification and higher returns from lower cost.

\* "False Discoveries in Mutual Fund Performance: measuring Luck in Estimated Alphas"  
University of Maryland Robert H Smith School of Business.

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# Indexing Through ETFs

- An ETF (exchange traded fund) is an investment vehicle that allows investors to invest directly 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.
- ETFs have experienced tremendous growth in assets under management compared to mutual funds since their introduction in 1993.

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## Major Differences: Mutual Funds and ETFs

- Mutual funds are traded at NAV (net asset value) after market close and only have to report their holdings quarterly.
- ETFs trade during market hours just like a stock and their holdings are reported virtually real time.
- Mutual funds depend on a fund manager to pick stocks, where an ETF simply purchases and holds the stocks in its assigned index.
- The average cost of an ETF is .25% where as the mutual fund average is 1.8%.

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## **Am I just going to be average if I index?**

- We use an indexing strategy because history tells us it performs better than stock picking and market timing over the long term.
- We invest in indexes across many different asset classes. This allows us to either track the S&P 500 with less risk, or beat the S&P 500 over the long run with the same amount of risk.
- If you only buy the S&P 500 index, you will just be average, but the average is what the mutual fund managers can't seem consistently beat over the long term.

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## **What is in a Index Portfolio**

- Here is a sample of our Moderate Risk portfolio:
  - Short Term Government Bond Index
  - Treasury Inflation Protected Securities (TIPS) Index
  - Barclays US Aggregate Bond Index
  - High Yield Bond Index
  - Emerging Market Bond Index
  - S&P 500 Index (large companies)
  - S&P 400 Index (mid size companies)
  - S&P 600 Index (small companies)
  - MSCI EAFE Index (developed international)
  - MSCI EAFE Small Cap Index
  - Emerging Markets Index
  - Dow Jones Commodity Index
  - Global Real Estate

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## **Indexing Is for Income Investing, Too**

- Most financial institutions will place you in expensive annuities, un-diversified bond holdings or mutual funds to achieve income.
- Wiser Wealth Management purchases indexes holding high yield stock, bonds, REIT'S, and/or preferred stock, creating income for those in search of diversification and regularly scheduled withdrawals.

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## **Wiser Investing 101**

- Indexing is certainly not as thrilling as picking a stock your friend or colleague said is the next Google, but in the long run academic and professional research shows us that diversification and a long term time horizon wins the race.
- Remember:
  - Keep cost low.
  - Stay diversified.
  - Invest for the long term.

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## Wiser Wealth Managed Brokerage Link

- For a small annual fee Wiser Wealth will build, trade and manage your brokerage link using Exchange Traded Funds (Index Funds). These are the same portfolios that we use in our practice with our clients.
- You open the brokerage link, Wiser will access the brokerage link through a third party agreement with Chase. We will place trades on your behalf and monitor the account.
- Objective is to get better diversification, more return efficiency (higher Sharpe ratio) and lower investment cost.
- Especially beneficial to those within 5 years of retirement.

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## Professional Panel

Answers to your will, trust, financial planning, and portfolio building questions.



Casey Smith - President,  
Wiser Wealth Management



Michael Burnett  
Estate Planning and Business Attorney



Sonja Gonzalez - Financial Planner,  
Wiser Wealth Management

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Sunday, February 10, 13



***ASA Master Executive Council***  
**Retirement and Insurance Committee**



Portfolio Management - Tax Preparation - Financial Planning - Estate Legal Services

[www.wiserinvestor.com](http://www.wiserinvestor.com)