

Helping You Live Your ONE BEST FINANCIAL LIFE™

NOT A TIME FOR INVESTMENT SOLUTIONS

We have been trained by a generation of extraordinary stock and bond market returns to rely on investment performance to help us to achieve our financial goals. We have had an investing tailwind at our backs for most of our financial lifetimes, but what if we cannot count on investment solutions alone to secure our financial goals? What if the great secular bull market that started in 1982 and has formed most of our ideas and attitudes about investing is over? What if the future is nothing like the past?

In these markets, it is normal to focus on investment performance but what should we reasonably expect from a market that may well be the worst we will experience in our lifetimes? The market disintegration of 2008 has taught us one very valuable lesson: sometimes diversification is not the answer. Across every asset class and investment type, the results were the same; Stocks and bonds, large companies and small companies, growth stocks and value stocks, US and international, the markets all declined in tandem. Even gold and other commodities, the traditional “safe haven” investments collapsed, and supposedly safe hedge funds, whose job was to protect portfolios from markets such as these, imploded. It is natural in markets like this to want to seek shelter and prevent additional losses to our nest eggs but is that really the best course of action?

RISK IS NOT THE ONLY LEVER

Recall back to how your investment portfolio was first constructed. Odds are, you completed a “Risk Tolerance Questionnaire”. Some of these questionnaires are very basic, yet some go as far to involve psychometrics and other complex theories. Regardless of the substance of the questionnaire, they are all attempting to answer one question: What is your threshold for risk (or better stated - pain) in your investment portfolio? With that information, many individuals make assumptions about what to expect with their investments over the long term.

But what happens if you feel you can “tolerate” a certain level of risk, but everything you want to accomplish financially can be done with less risk? What happens if the expected growth you were hoping to receive for the risk you were taking didn’t materialize for several years? What happens if in fact you experience a period where history is no guide, and none of the old rules apply?

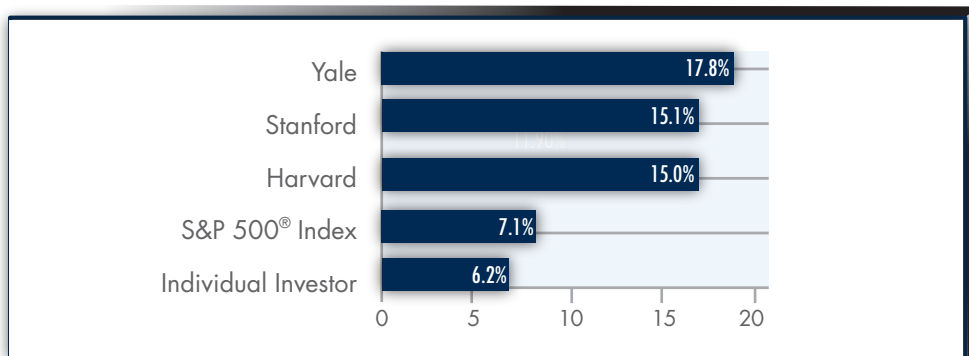
Here is the problem. Wall Street didn’t know the answer to these questions because they only considered one factor – your risk (*at a single moment in time*), and most of these tools have been developed and used while we have been in a bull market. The problem with this is that there are more factors, or control levers, than simply risk tolerance that can affect your ability to achieve the financial and lifestyle desires of you and your family. In essence, by focusing on only one aspect of your financial life and ignoring these other levers, you have fewer alternatives and less flexibility to adapt to unusual circumstances.

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THE MASTER PLAN

By far, some of the most successful investors in the world are large endowments, foundations and pensions. Their track records for success significantly outweigh those of individual investors. So what is the key to their outsized success compared to individual investors?

10-YEAR AVERAGE ANNUALIZED RETURN OF UNIVERSITY ENDOWMENTS



Source: Yale University Office of Public Affairs, Stanford Management Company, Harvard Management Company and DALBAR. According to DALBAR, the average equity fund investor earned 10-Year Average Annualized Returns of 4.5% as of December 31, 2007. Average stock investor performance was used from a DALBAR study. Quantitative Analysis of Investor Behaviour (QAIB 12/2007). 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. The 10-year Average Annualized Returns for the S&P 500® Index was 3.50% as of 3/31/08. Past performance is no guarantee of future results.

The answer for the most successful institutions in the world is not the investment solutions they use. *The major contributor to their success is the process they use to make decisions. It is in the development and implementation of a Master Plan.*

It is a *strict, ongoing discipline* that *focuses exclusively on factors that they can control.*

As most pensions, endowments or foundations start by designing a Master Plan, a similar approach can be established for individuals and their families. This living document, that includes assumptions about contributions, spending, timing and risk (factors that can be controlled), provides a financial snapshot of the current structure and funding status of the Plan.

Over time, the Plan is measured and “stress-tested” against an array of market conditions – even those seen in 2008 and worse. This roadmap allows for changes to assumptions, whether foreseen or unforeseen, and shows the consequences of every decision made. It helps make the appropriate trade-offs of the factors that can be controlled and that you and your family value most.

For most investors, both institutions and individuals, there are only five aspects of their financial life that they truly control. These five levers make up the assumptions for the Master Plan.

SPENDING	Lifestyle level
SAVINGS	Money dedicated for investment
TIMING	When you want the event to occur
RISK	The level of volatility in your investment portfolio
LEGACY	Assets you want to transfer to heirs

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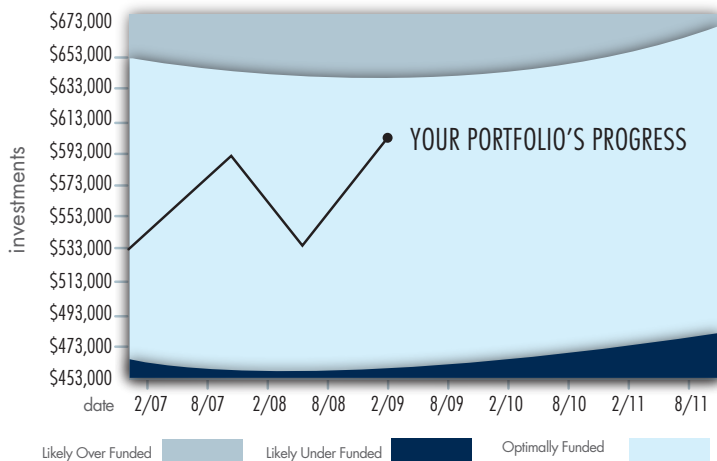
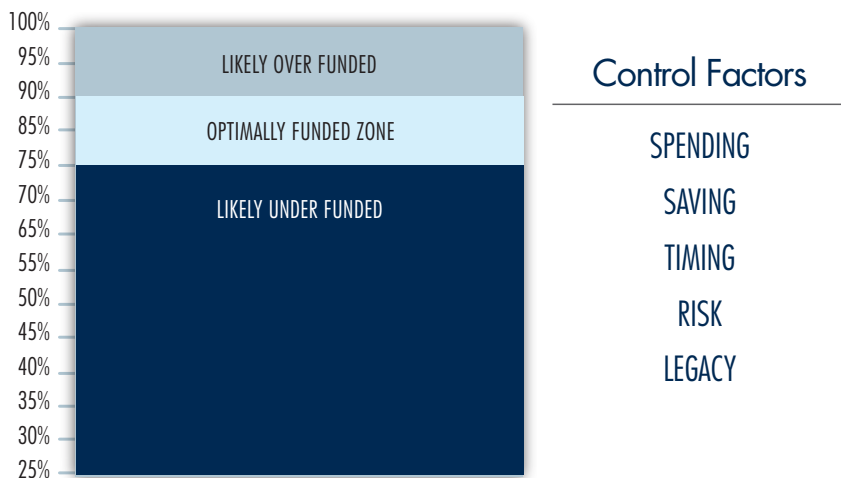
THE INTERACTIVE TRADE-OFF

Depending on the specific circumstances surrounding each plan, and where the plan participants are in their lives, the control levers will behave and have different effects with different outcomes. For those in retirement, the level of spending may have the most effect on the plan. For those still working full time, timing may be the greatest driver. When one lever is pulled, it ultimately affects the others. *In any event, risk without the context of the other factors, is almost never the greatest driver behind a successful plan.*

Each and every conversation regarding your investments should begin with an analysis of the Plan and the assumptions, and every major financial decision or unexpected change should prompt a review of the Plan. Unforeseen events drive the majority of financial decisions that individuals and families make, often causing emotion to cloud and influence decisions. Think about the way institutions operate, *they have a board of trustees that evaluate their plan and make calm, informed decisions that take into account all of the aspects and consequences of the decisions they are making. Emotions are typically not a part of the mix.* A Master Plan helps you put the changes into context and make prudent trade offs, based on what you value most and what you can control. There will be times when the choices are easy and the conversations will be exciting; yet there will also be challenging conversations that force us to make difficult decisions. Sometimes changes will be market driven; while at other times they will be lifestyle driven. The Master Plan allows for the “what-ifs” in life and helps you prepare for the challenges and opportunities that may arise.

Along the way, you must track your “funded status” and continually re-check your assumptions. This way, you can make incremental changes as appropriate to your control factors and *check your emotions at the door.*

MEASURING YOUR UNIQUE FINANCIAL CONTROL SCORE *Are you in the optimally funded zone?*

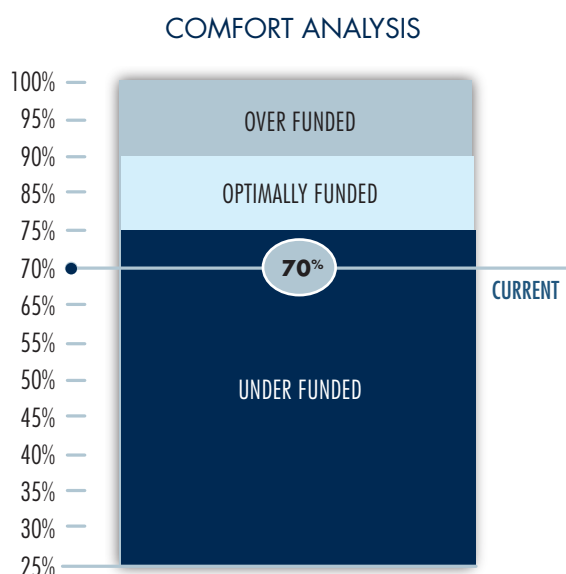


Chance of Falling Outside of the Optimal Funding Zone			
	Over Funded	Under Funded	Outside Optimal
1 Year	\$639,817 11.0% chance	\$463,707 4.6% chance	15.6% chance
3 Years	\$642,705 31.6% chance	\$470,659 14.7% chance	46.3% chance
5 Years	\$669,271 39.1% chance	\$496,393 21.9% chance	61.0% chance

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AN EXAMPLE: USING CONTROL LEVERS IN A MASTER PLAN

Let's start by looking at an executive couple, 58 years old, who are looking to retire in four more years. The value of their portfolio has gone from \$1,360,000 to \$1,088,000 (down approximately 20%) in a matter of months. With the move in the markets, that no one could have predicted nor had any control over, they are now likely to be underfunded and not able to confidently achieve the goals they set forth. They have a 70% confidence that their financial life would unfold as they'd like but they want to have confidence above 80%.



Since they have absolutely no control over where the market goes from here and because they know that they cannot afford to miss a market rebound, they visit with their adviser and review their Master Plan. Their adviser reminds them of the five financial levers that they have total control over:

1. *How long you continue to work (Timing)*
2. *How much you save prior to retirement (Contributions)*
3. *How much risk you take (Risk / Portfolio Allocation)*
4. *How much you wish to spend during retirement (Spending / Outflows)*
5. *What safety net value you are uncomfortable falling below (Legacy / Safety Net)*

CURRENTLY UNDERFUNDED	
Retirement Age	
John	62
Jane	62
Retirement Need	
John	\$65,000
Jane	\$65,000
Safety Net Value	
Today's Dollars	\$500,000
Actual Dollars	\$1,890,798
Avg. Annual Savings	
John	\$12,000
Jane	\$12,000
Default Inflation Rate	3%
Median Return	9.77%
Risk	
Std. Deviation**	13.30%
Downside (95%-tile)**	-9.88%

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Working together with their adviser, they developed the scenario's you see in the chart below:

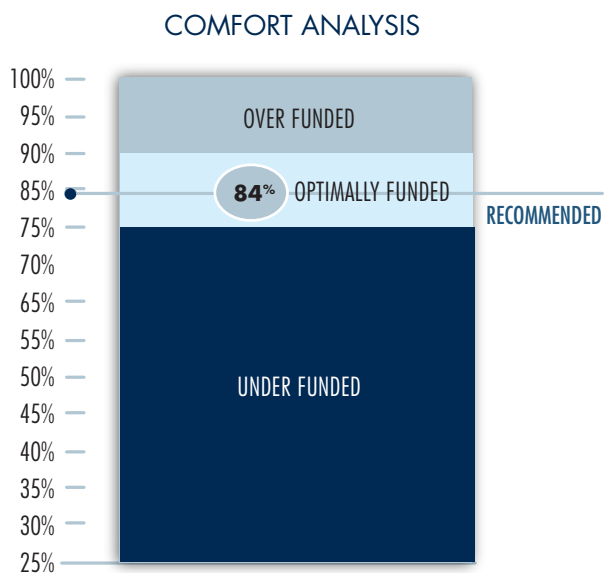
SCENARIO NAME	Increase Savings	Increase Stocks	Reduce Spending	Work Longer	Sufficient confidence without undue sacrifice, means that changes to goals are likely to be minor and manageable.
COMFORT LEVEL	77%	78%	79%	82%	
STATUS	Optimally Funded	Optimally Funded	Optimally Funded	Optimally Funded	

- The family could try to save an additional \$20k per year and that would result in adequate funding but only at 77%. Besides, the family wasn't sure that they wanted to make the lifestyle sacrifice now.
- Next they reviewed increasing their allocation to stocks from 60% to 80%. While the family agreed that buying low was a sensible strategy, it still only got them to 78% confidence, and frankly they couldn't stand the thought of increasing their risk at a time of such uncertainty.
- A 10% decrease in retirement spending would raise their funded status to 79% but that would mean less travel and lifestyle choices at retirement.
- Working an additional two years would have the benefit of both extending savings and deferring withdrawals and would raise funded status to 82%, but it would also mean deferring their time together.

A COMFORTABLE AND CONFIDENT SOLUTION

Finally, by working together, the family and their adviser came up with the combination that they all felt comfortable with:

- Working one additional year
- Saving an additional \$5k each year
- Spending 5% less in retirement
- Reducing their safety net goal by \$200k, and
- Increasing their stock allocation by 10%.



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With a world turned upside down and financial malaise and conflict around every corner, we believe that now is not the time to simply hope the market will bail you out. Now is not the time for someone telling you how well your investments are doing “relative to everyone else” without clear understandable ways in which you need to adapt to this new environment so that your financial future is not at risk. You understand the needs and precious desires of your family better than anyone else. With all of the uncertainty in the world, it’s time to take charge of all of your personal control levers and to design a plan that gives you real confidence you can live the financial life you want. United Capital is one of the few national firms that helps individuals design and implement completely customized Master Plans because we know that without a complete strategy, individuals make bad tactical decisions. Our overarching goal is to help people live their One Best Financial Life™, and our exceptionally talented people work every day to help make that come true.

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