



AMBROSE
WEALTH MANAGEMENT

[Partners in Managing, Protecting,
and Distributing Wealth.]

7 Principles of Portfolio Management

Investment portfolio management comes in all shapes and sizes, ranging from the most conservative to the very aggressive approaches, proven methods to innovative ones, and the choices continue. Deciding on your own which strategy is appropriate for your needs is a daunting task for sure.

Choosing a portfolio management strategy is just the beginning. Tracking results, making necessary changes, and keeping your strategy in line with a defined investment plan are just as important, if not more, to the long term success of your investment plan.

The following pages will provide you some basic guidelines that any portfolio management approach should follow.

7 Principles of Portfolio Management

1. Emphasize a **Disciplined Process** to eliminate response to short-term market volatility
2. Deliver **Great Capability** to all investment management solutions
3. Align your investment strategy with your **Objectives and Risk Tolerance**
4. Emphasize the importance of **Asset Allocation**
5. Implement a plan using the most **Appropriate Investment Strategies**
6. **Monitor and Adjust** your portfolio on an ongoing basis
7. **Assess your Progress** regularly

#1 Disciplined Process

Industry research indicates that investors often make poor decisions that contribute to underperformance, including:

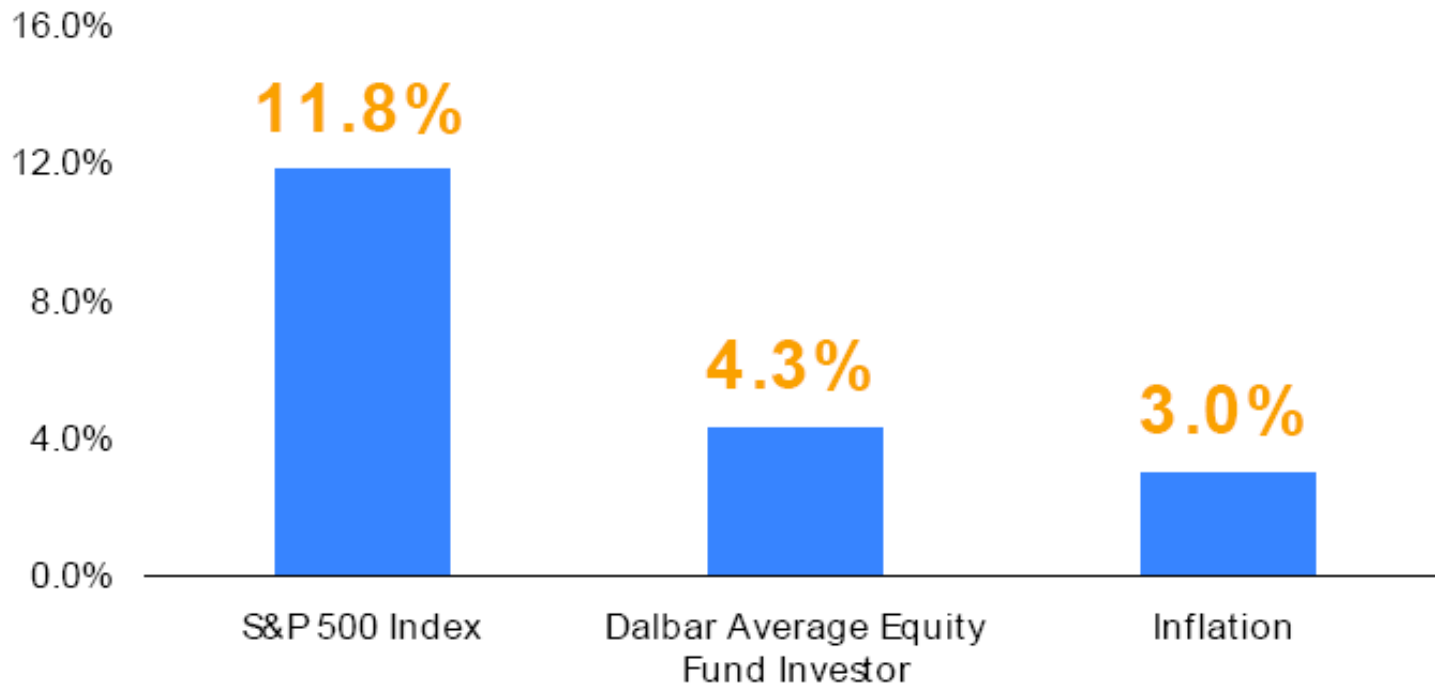
- **Allowing emotion to guide their investment decisions**
- **Abandoning a long-term approach to chase last year's winners**
- **Buying relatively overvalued investments while ignoring relatively undervalued investments**

In fact, investors often under perform the very funds in which they're invested.

#1 Disciplined Process

How can investments do so well and the average investor do so relatively poorly?

Average annual total returns: 1987-2006



Source: Lipper, Inc. and Dalbar; used with permission. For illustrative purposes only. Past performance does not guarantee future results. Performance calculated assuming reinvestment of all dividends and capital gains. The S&P 500 Index is an unmanaged, weighted index comprising 500 widely held common stocks varying in composition and is unavailable for direct investment. The Dalbar Average Equity Fund Investor is the rate of return investors earned, based on the length of time shareholders actually remain invested in equity mutual funds. Over the time period 1987-2006, the equity mutual fund shareholders held their mutual funds for an average of 3.0 years. Mutual fund sales, redemptions, exchanges, reinvested dividends and assets under management are based on monthly data provided by the Investment Company Institute. The average annual return of the Dalbar Average Equity Investor is based on all equity funds, represented by the Dalbar Equity Index which was comprised of the S&P 500 Index and the Ibbotson Small Company stock Index.

#2 Great Capability to all Investment Solutions

Access to institutional asset management expertise via an independent investment advisor provides a disciplined investment approach not followed by the retail consumer.

- **Measure and manage investment decisions based on long-term results versus short term retail consumer greed and fear.**
- **Stable (sometimes privately-held) management and research teams versus overpaid, job-hopping fund managers.**
- **Stable cash flow and investment process designed for consistent growth and preservation of capital over multiple market cycles versus high turnover portfolios susceptible to cash flow instability and investment process breakdown.**
- **Tactically managed portfolio designed to capture past gains and reposition for future opportunity versus stagnant allocation models of funds susceptible to short-term risk and volatility.**

#3 Align your Investment Strategy with your Objectives and Risk Tolerance

Prior to making any specific investment decisions, we divide money into three basic financial need time horizons; short term (0-2 years), mid-term (2-10 years), and long-term (10+ years).

The objective for each “bucket” of money is to achieve an historically achievable return on investment while significantly reducing the likelihood of investment loss over the given time horizon. Ambrose Wealth Management has called this our Red, Yellow, and Green (RYG) Money Strategy.

This strategy is intended to achieve the following:

- Meet short-term distribution needs such as retirement, home or auto purchases.
- Maintain a manageable level of risk and volatility over a given time horizon.
- Prolong the longevity of retirement assets in anticipation of longer life expectancies.
- Reduce point in time retirement risk.
- Simplify the planning process.
- Set realistic performance expectations.
- Put our client’s mind at ease.

#3 Align your Investment Strategy with your Objectives and Risk Tolerance

A Three “Bucket” Asset Division Strategy:



- **Red Money – Short-Term Target Distribution:**
Designed to provide two years of current cash flow and principal liquidity by investing in short-term bonds and cash instruments.



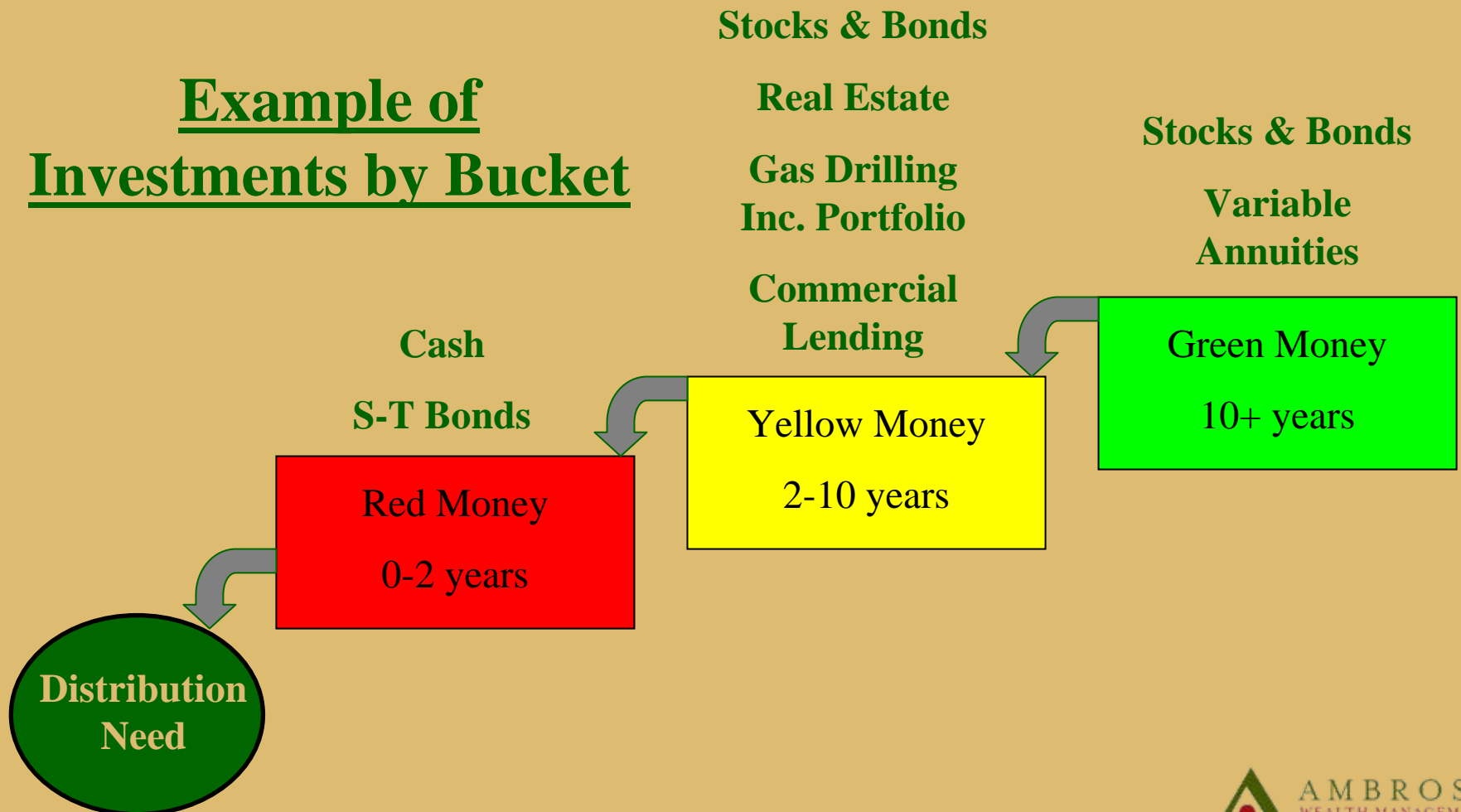
- **Yellow Money – Mid-Term Target Distribution:**
Designed to provide moderate growth over a two to ten year period by investing in a balanced mix of stocks, bonds and other non market dependent solutions.



- **Green Money – Long-Term Growth:**
Designed to provide long-term growth and inflation protection from year ten to life expectancy by investing in a diversified, equity-driven portfolio.

#3 Align your Investment Strategy with your Objectives and Risk Tolerance

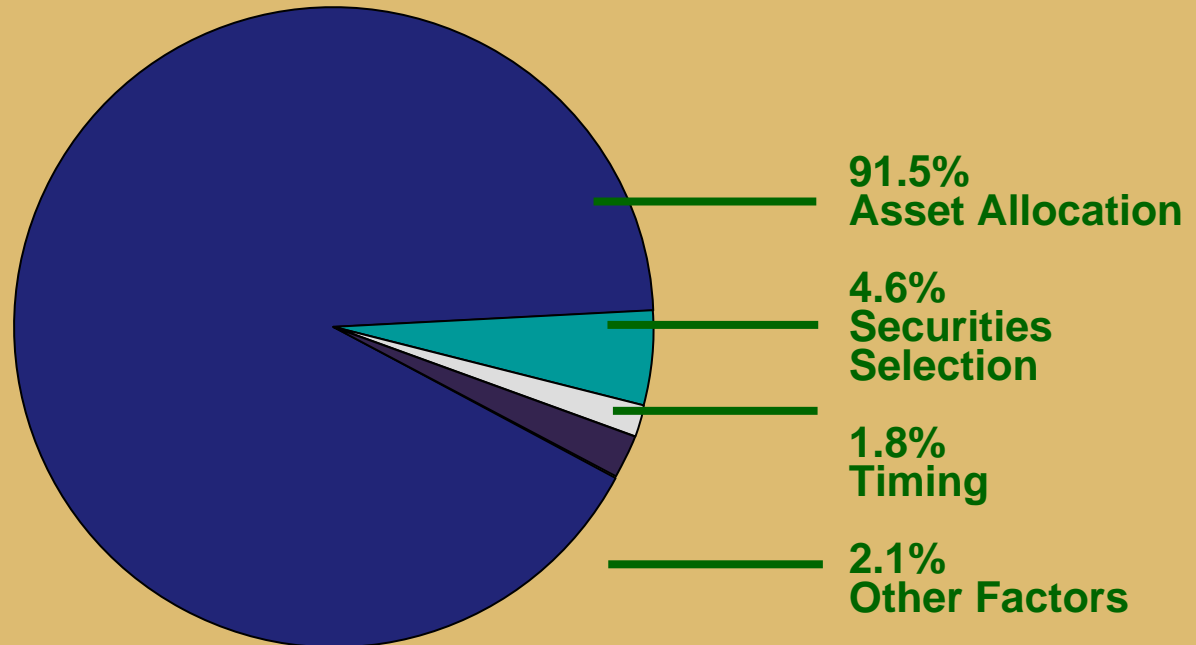
Example of Investments by Bucket



#4 The Importance of Asset Allocation

Once your Red Yellow Green buckets have been established, the proper blend (or allocation) of assets is essential in positioning your portfolios to receive your expected return and acceptable risk over the given time horizon.

According to a respected academic study, asset allocation is responsible for over 90% of variations in portfolio performance.



#4 The Importance of Asset Allocation

Markets Review Asset Class Performance over History

1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
65.0%	29.1%	59.9%	29.1%	74.8%	8.1%	38.4%	37.1%	35.2%	38.7%	66.4%	49.7%	14.0%	32.1%	56.3%	33.2%	34.5%	36.0%	39.8%
38.3%	15.7%	51.2%	21.7%	32.9%	5.3%	37.2%	33.9%	34.4%	20.3%	51.3%	31.0%	12.4%	21.9%	48.5%	26.0%	25.6%	32.6%	16.2%
35.9%	9.0%	47.0%	15.1%	23.8%	5.3%	34.9%	23.1%	31.8%	18.2%	43.1%	22.8%	8.4%	10.3%	46.0%	23.7%	14.0%	26.9%	11.8%
31.5%	7.9%	41.7%	13.8%	18.1%	4.2%	34.0%	21.6%	30.5%	17.9%	40.9%	19.2%	4.1%	3.6%	42.7%	22.3%	13.8%	23.5%	11.6%
25.2%	-0.3%	41.2%	11.4%	15.6%	2.7%	31.0%	21.4%	22.5%	15.6%	33.2%	11.6%	2.3%	1.7%	39.2%	20.7%	12.7%	22.3%	11.4%
22.7%	-5.1%	37.9%	8.7%	15.1%	2.7%	25.8%	20.3%	19.7%	8.7%	27.3%	7.0%	-2.4%	-6.0%	38.1%	17.3%	12.1%	20.2%	10.9%
20.2%	-8.1%	24.6%	7.8%	13.8%	-1.6%	21.5%	17.5%	13.0%	5.1%	7.4%	6.0%	-4.0%	-9.6%	36.2%	16.5%	7.1%	13.4%	7.1%
14.5%	-10.5%	23.8%	7.4%	13.4%	-2.0%	20.3%	11.3%	9.7%	5.1%	4.7%	-2.8%	-5.6%	-11.4%	30.0%	15.5%	5.3%	10.7%	7.0%
12.4%	-16.1%	16.0%	5.0%	11.2%	-2.1%	18.5%	6.5%	5.3%	1.2%	-0.1%	-11.8%	-9.2%	-15.5%	29.8%	14.3%	4.7%	9.1%	4.7%
10.8%	-17.4%	16.0%	4.4%	9.8%	-2.2%	12.2%	6.4%	2.1%	-6.5%	-0.8%	-14.0%	-20.2%	-15.7%	20.7%	12.1%	4.2%	7.3%	-0.2%
8.6%	-21.8%	12.5%	3.6%	3.1%	-2.4%	11.6%	6.0%	-4.0%	-17.0%	-1.5%	-22.4%	-20.4%	-27.4%	18.2%	6.3%	3.0%	4.8%	-1.4%
2.7%	-23.2%	5.8%	3.0%	2.9%	-2.9%	5.8%	5.3%	-11.6%	-25.3%	-2.6%	-22.4%	-21.2%	-27.9%	4.1%	4.3%	2.4%	4.3%	-9.8%
-2.1%	-23.4%	-6.1%	-11.9%	-12.3%	-7.3%	-5.2%	3.6%	-14.1%	-35.8%	-6.4%	-30.6%	-31.9%	-30.3%	1.1%	1.2%	-8.8%	-15.1%	-17.6%

Key:

US Large Cap Growth
US Large Cap Value
US Mid Cap Growth

US Mid Cap Value
US Small Cap Growth
US Small Cap Value

International Equity
Emerging Market Equity
US Fixed Income

International Fixed Income
US Real Estate
Commodities

Cash

Source: Zephyr Style Advisor. Performance through December 2007

The Two Primary Approaches to Asset Allocation

STRATEGIC

TACTICAL

Both approaches are founded on the Nobel-Prize winning principles of Modern Portfolio Theory, which:

- **Analyzes the historical performance attributes of each of the asset classes selected for the portfolio.**
- **Creates an “optimal” asset mix to maximize the expected return for each level of risk.**

Strategic Asset Allocation

STRATEGIC

**Asset Class Selection
& Weighting**



Asset Mix

- The strategic approach utilizes Modern Portfolio Theory to develop a long-term target asset mix.
- The target asset mix remains relatively consistent throughout the investment period.
- Periodic rebalancing to the target asset mix controls risk and promotes disciplined selling of winners and buying of losers.

Tactical Asset Allocation

TACTICAL

**Asset Class Selection
& Weighting**



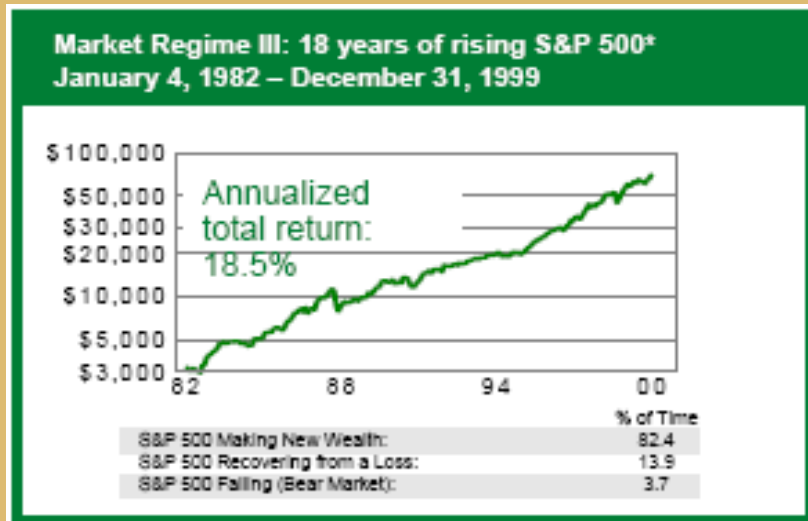
**Proprietary Market
Research**



Asset Mix

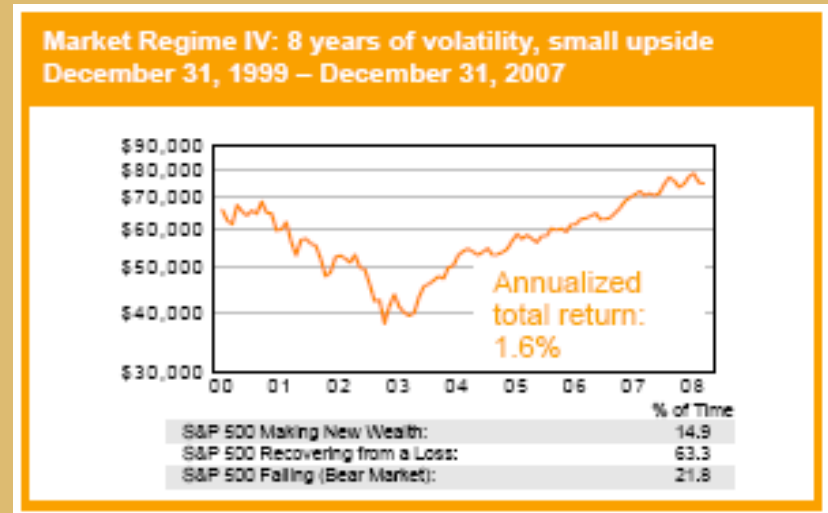
- Establish long-term target asset mix by applying the principals of Modern Portfolio Theory
- Gather proprietary capital market research from investment analysts
- Determine where the most attractive opportunities currently exist
- Adjust asset mix accordingly, within permissible ranges for each Risk/Return profile

#5 Implement a Plan using the Most Appropriate Investment Strategies



Secular Bull

Long Stock Strategies
Broadly Diversified
Indexed Investing



Secular Bear

Absolute Return Strategies
Concentrated Portfolios
Stock & Bond Investment Alternatives
Guaranteed Income Portfolios

#5 Implement a Plan using the Most Appropriate Investment Strategies

One size does not fit all. In fact the specific investment solutions that you choose to implement within your three buckets of money depend on a variety of factors such as:

- Net Worth and Portfolio size
- Income tax bracket
- Sensitivity to costs
- Level of investment knowledge
- Need for liquidity
- Current asset allocation
- Type of account (IRA, Individual, Trust, etc)
- Anticipated frequency of investment changes
- Tolerance for volatility and risk

If these factors haven't been taken into account prior to investing, you have been sold something, not advised.

#6 Monitor & Adjust your Portfolio

“The only things that are certain in life are death, taxes...
and CHANGE”

What works today may not work tomorrow, for a number of reasons. It is essential that you meet with your advisor on a regular basis to discuss a variety of potential changes that may affect how your portfolio should be allocated and managed.

Have there been:

- Changes in family
- Changes in work status or anticipated retirement age
- Major purchases
- Major economic changes that might affect your portfolios
- Market or portfolio performance that needs to be reviewed and addressed.
- New investment opportunities to be considered.
- Old investment solutions that need to be improved.

#7 Assess your Progress

“Don’t compare yourself with anyone except yourself. This is not about winning or losing. This is about making your life better – whatever that means for YOU.”

It is your investment advisor’s responsibility to report to you the progress of your plan.

- Are your investments performing as we expected?
 - How do they compare to your predetermined benchmarks?
- Are we on target to comfortably retire when we want?
 - If so, must we make any changes to remain on target?
- Are we running out of money too soon?
 - Should we revisit cash flow and investment allocations?
- Are we not getting the most out of our assets?
 - Where are we missing opportunities?
- Are we exposed to any unnecessary risk?
 - Are we too aggressively allocated for our given time horizons?
- Are you paying too much in income taxes?
 - Are there new strategies we can implement to ease the tax burden?

The Missing “8th Principle”

Find a “Fiduciary” as your Financial Advisor

The word is "fiduciary," and in the world of money it means someone who's committed to putting your financial interests ahead of his or her own. The word is important because true fiduciaries are harder to find than you might think. Most of the people who want to give you advice about your money aren't held to that high standard. At best, they're held to a "suitability" standard, which means they're supposed to reasonably believe that the investment and insurance products they want you to buy are appropriate for your situation. Just "appropriate" -- not "the best choice" or "in your best interests," as they are recommended at Ambrose Wealth Management, Registered Investment Advisor.

There are three job titles that automatically connote a fiduciary standard:

Attorney

Certified public accountant (CPA)

Registered investment advisor (RIA)

There are several other job titles that indicate the opposite. People who are stock brokers (also known as "registered representatives") or insurance agents are allowed to put their own interests, or those of their firm, ahead of yours.

Source: MSN Money, April 3, 2008