

# Ames Planning Associates

**Registered Investment Advisors  
Accredited Investment Fiduciaries**

**800-258-9939 [www.amesplanning.com](http://www.amesplanning.com)**

*Presented by*

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# Fiduciary Trust Management

2011



CERTIFIED FINANCIAL PLANNER™



The certification marks above are owned by the Certified Financial Planner Board of Standards, Inc., and are awarded to individuals who successfully complete the CFP Board's initial and ongoing certification requirements.

# Ames Planning Overview

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- 100% management owned for independent advice
- 3 fiduciary advisors use a **team approach** in providing fee-only comprehensive financial planning and investment management
- Serving individuals, trustees, and institutional clients with assets of \$120M+ under management
- Co-fiduciary investment approach using **indexed investments** and a focus on cost, allocation and risk
- Financial life planning services since 1988

# Ames Planning Services

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1. Fee-Only Financial Planning.
2. Fiduciary Training and Process Consulting.
3. Trust and Investment Asset Management.
4. Retirement Planning.
5. Estate Planning.
6. Tax Planning.
7. Benefits Planning.

# Overview

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- Responsibility
- Process
- Investment Details

# Who is a Fiduciary?

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Any person or entity who has the power to select, manage, acquire, or dispose of an asset on behalf of another person or entity

- Attorney in Fact
- Trustee
- Registered Investment Advisor
- Bank Trust Company
- Corporate Officers/Board Members

# Investment Fiduciaries

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Stewards – Manage the investment decision making process (trustees, investment committee members, plan sponsors)

Advisors – Provide comprehensive and continuous investment advice (wealth managers, financial advisors, trust officers, financial consultants, investment consultants, financial planners)

Managers – Make investment decisions, and selects the individual securities to implement a specific investment mandate (such as large cap growth).

# Fiduciary Legislation and Duty of Prudence

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ERISA

Employee Retirement Income and Securities Act  
(Qualified retirement plans, some 403(b)s)

UPIA

Uniform Prudent Investor Act  
(Trusts, foundations, State Adopted Common Law)

MPERS

Uniform Management of Public Employees Retirement  
Systems Act  
(State, county, and municipal retirement plans)

# UNIFORM FIDUCIARY STANDARDS OF CARE

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1. Know standards, laws, and trust provisions.
2. Diversify assets to specific risk/return profile of client.
3. Prepare investment policy statement.
4. Use “prudent experts” – money managers – and document due diligence.
5. Control and account for investment expenses.
6. Monitor money managers and service vendors.
7. Avoid conflicts of interest and prohibited transactions.

# SAFE HARBOR RULES

- Use “prudent experts.”
- Apply a due diligence process for selecting “prudent experts.”
- Give selected “prudent experts” investment discretion.
- Have “prudent experts” acknowledge co-fiduciary status in writing.
- Monitor activities of the “prudent experts.”

# Fiduciary Key Concepts

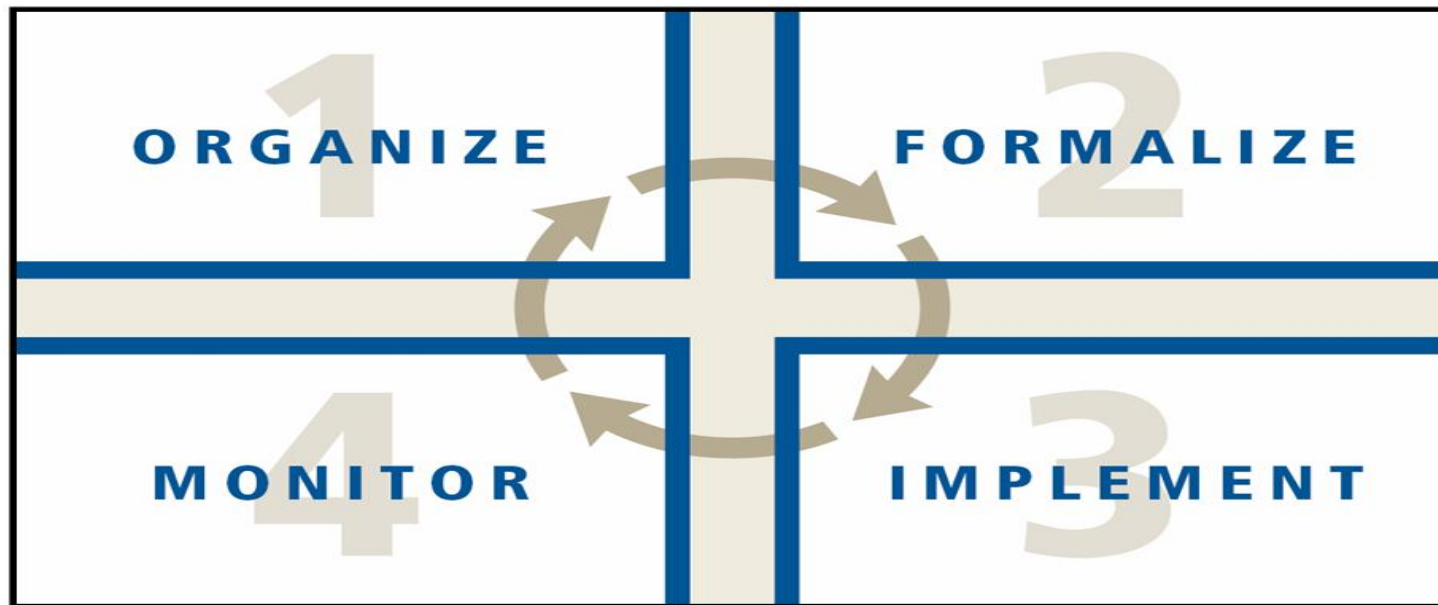
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Role of Fiduciary is to manage the process – not to make investment decisions.

Fiduciary liability arises when the process is not defined and/or is inconsistently applied.

# Fiduciary Quality Management Series

Analogous to the ISO 9000 QMS Continual Improvement Process



# THE MANAGEMENT OF INVESTMENT DECISIONS

## VERTICAL AND HORIZONTAL INVESTMENT PROCESS



## UNIFORM FIDUCIARY STANDARDS OF CARE

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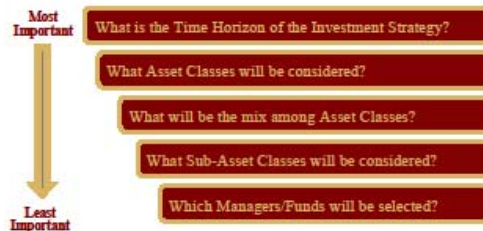
## THE FIVE-STEP INVESTMENT MANAGEMENT PROCESS



## DUE DILIGENCE FOR MANAGER SELECTION

1. Performance relative to peer group.
2. Performance relative to assumed risk.
3. Inception date of product.
4. Correlation to peer group.
5. Assets under management.
6. Holdings consistent with style.
7. Expense ratios or fees.
8. Stability of the organization.

## THE HIERARCHY OF DECISIONS



## ASSET ALLOCATION VARIABLES

|          |                        |
|----------|------------------------|
| <b>T</b> | Tax Status             |
| <b>R</b> | Risk Tolerance         |
| <b>E</b> | Expected Return        |
| <b>A</b> | Asset Class Preference |
| <b>T</b> | Time Horizon           |

## “SAFE HARBOR” RULES

1. Use “prudent experts.”
2. Apply a due diligence process for selecting “prudent experts”.
3. Give selected “prudent experts” investment discretion.
4. Have “prudent experts” acknowledge co-fiduciary status in writing.
5. Monitor activities of the “prudent experts.”

## UNBUNDLING FEES AND EXPENSES

“Bundled fees” should be broken down so that a proper evaluation can be made – various costs can be obscured or moved to create apparent savings.





# BENEFITS OF HAVING PRACTICES

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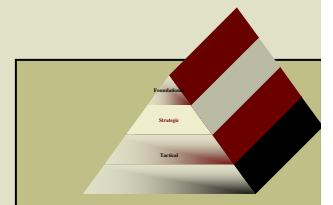
1. Reduce fiduciary liability by uncovering risks and omissions.
2. Provides educational outline.
3. Should improve long-term performance.
4. Enable fiduciaries to compare practices and procedures.
5. Assist in prioritizing projects.
6. Establish benchmarks to measure progress.
7. Negotiate lower “E&O” premiums.

# Straight Talk: Differentiators

- Accredited Investment Fiduciaries: We are trained in the legal aspects of fiduciary investment application.
- We only use indexes/benchmarks. No actively managed funds.
- We have no “model portfolios”. No cookie cutter recommendations. No two clients are alike.
- We like to meet with our clients.

# Next Steps

1. Client/Advisor Relationship established
2. Client/Advisor Data-gathering meetings
3. Investment Policy Statement - Draft
4. Investment Policy Statement – Signed
5. Investment Recommendations
6. Quarterly Investment Reviews
7. Annual independent Morningstar analysis



# Final Thoughts

- You are in charge
- You are encouraged to speak up and ask questions
- You may terminate our relationship at any time
- The best partnerships thrive on cooperation, honesty and open communication

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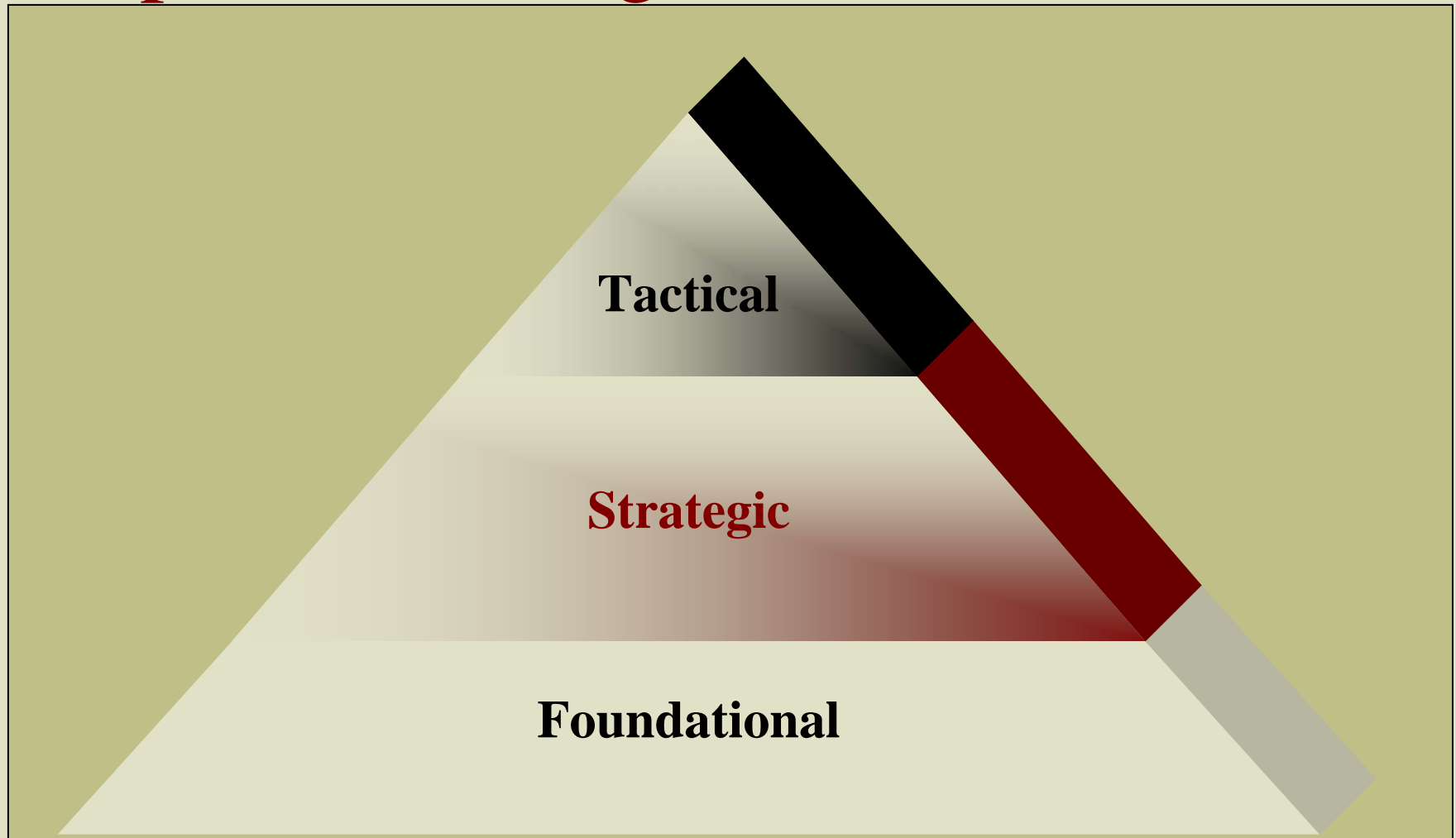
*CARL A. JOHNSON, MBA, CFP<sup>®</sup>, AIF<sup>®</sup>*

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# Investments Overview

- 5 year forward planning forms the basis of our disciplined, rational, and objective financial advice
- Comprehensive financial plan aligned with your individual circumstances
- Highly **tax-efficient** planning
- Indexed investments
- Success measured against benchmarks
- Total return calculated *after fees*
- Highly successful results for our clients

# Purpose Planning



# Building Solid Decisions (Planning)

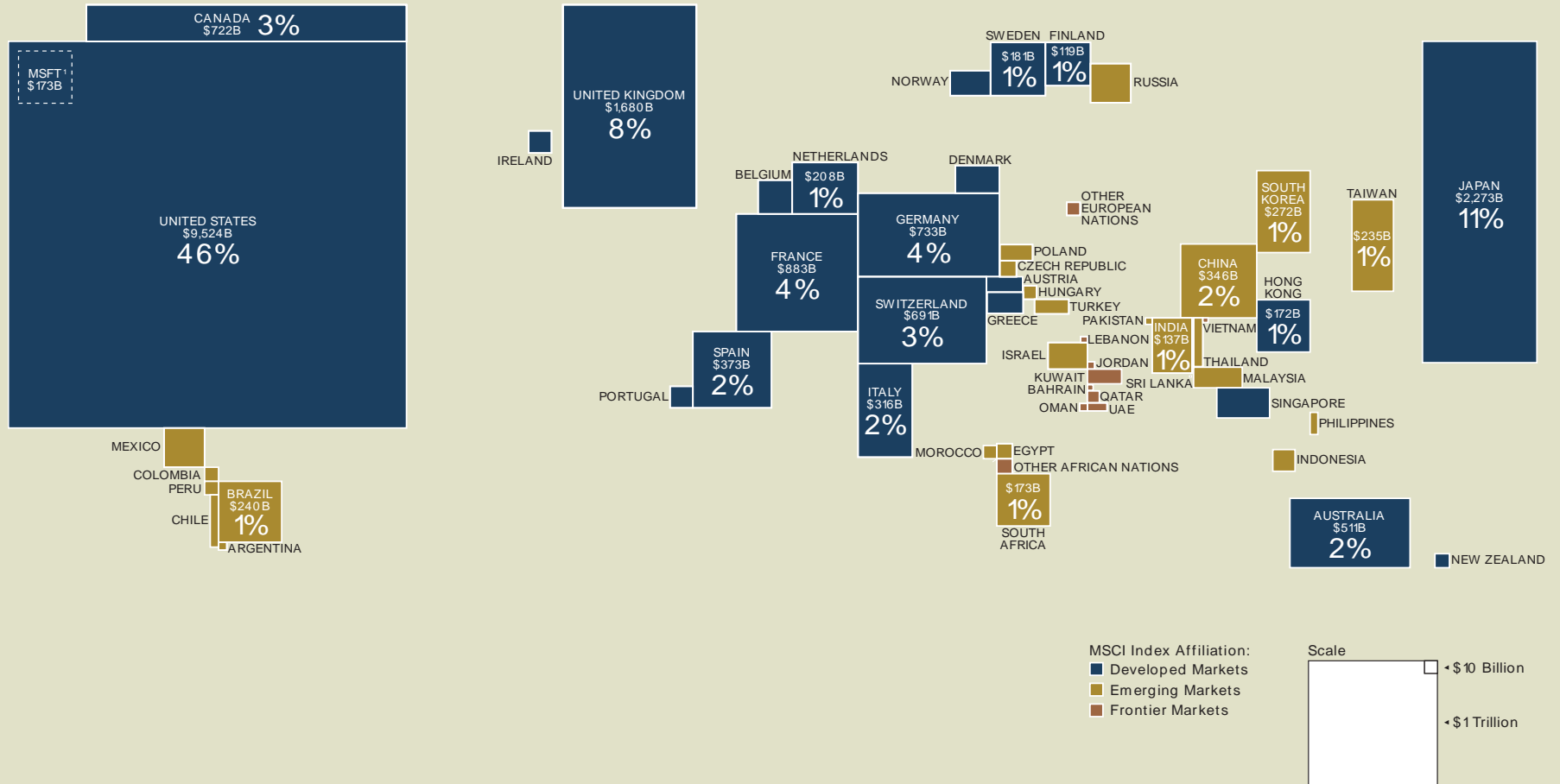


# Investments Overview

1. We apply a successful “Perspective”
  - Investment intelligence from the noise of information
2. We focus our energy on the “Control Factors”
  - Cost, Allocation, Risk
3. To Yield the correct “Result”
  - Stability of returns over time = compounded growth

# Perspective: World Market Capitalization

\$20.9 Trillion as of December 31, 2008

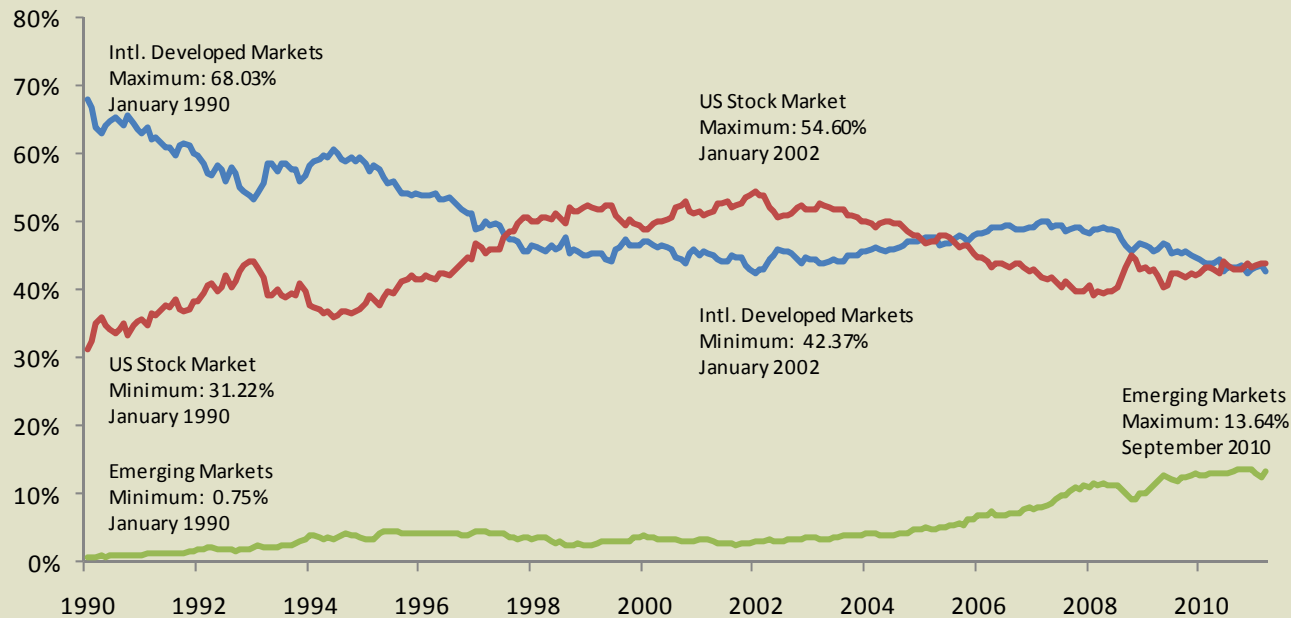


In US dollars. Map reflects countries in the MSCI Provisional All Country World Index, MSCI All Country World Small Cap Index, and MSCI Frontier Markets Index. Market cap data is free-float adjusted. MSCI data copyright MSCI 2009, all rights reserved. Vietnam data provided by MFMI. Many small nations not displayed. Totals may not equal 100% due to rounding. For educational purposes; should not be construed as investment advice. 1. An example large cap stock provided for comparison.

# Perspective: Value of Stock Markets Around the World

January 1990–March 2011

|                   | Number of Countries | Number of Stocks | Total Value    | March 31, 2011 | Change from Previous Quarter | 01/90–3/11 Average |
|-------------------|---------------------|------------------|----------------|----------------|------------------------------|--------------------|
| United States     | 1                   | 2,920            | 15.02 Trillion | 43.97%         | 0.59%                        | 44.63%             |
| Developed Markets | 23                  | 3,649            | 14.61 Trillion | 42.77%         | ▼ -0.25%                     | 50.30%             |
| Emerging Markets  | 21                  | 2,758            | 4.53 Trillion  | 13.25%         | ▼ -0.35%                     | 5.07%              |
| Total             | 45                  | 9,327            | 34.16 Trillion | 100.00%        |                              |                    |



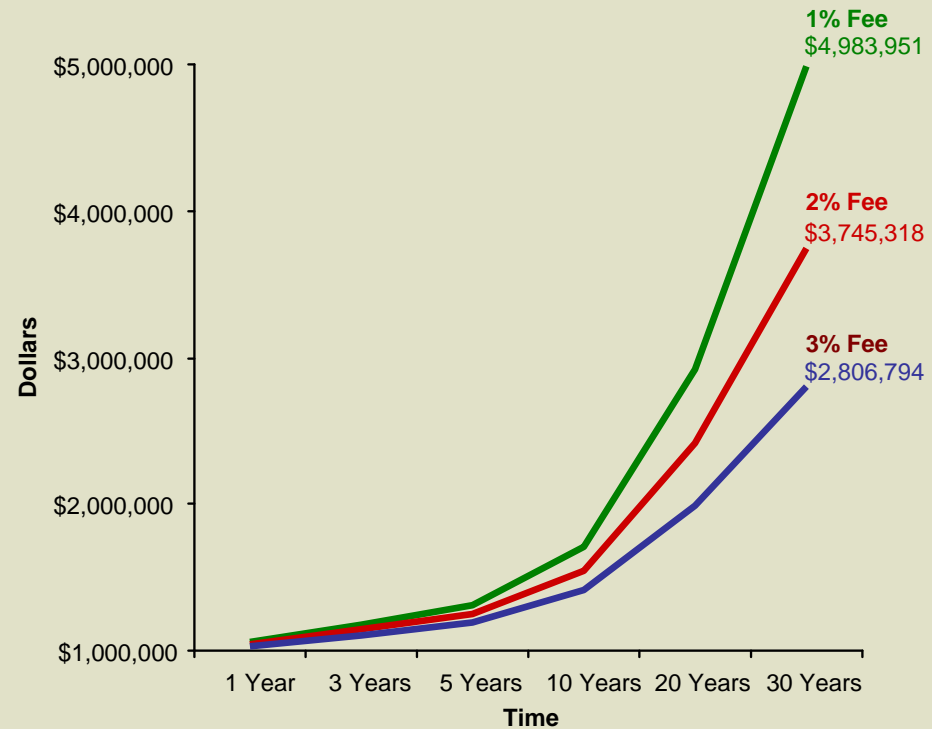
- Global market capitalization weights are not static; they vary across time.

Developed markets' securities and commodities data provided by Bloomberg. Emerging markets' data provided by International Finance Corporation. The Russell 3000 Index is used as the proxy for the US market. The proxies for the non-US developed and emerging markets are the respective developed country and emerging country portions from the MSCI All Country World IMI ex USA Index. The proxies for the UK, Canada, and Australia are the relevant subsets of the developed market proxy.

# Cost - Fees Matter

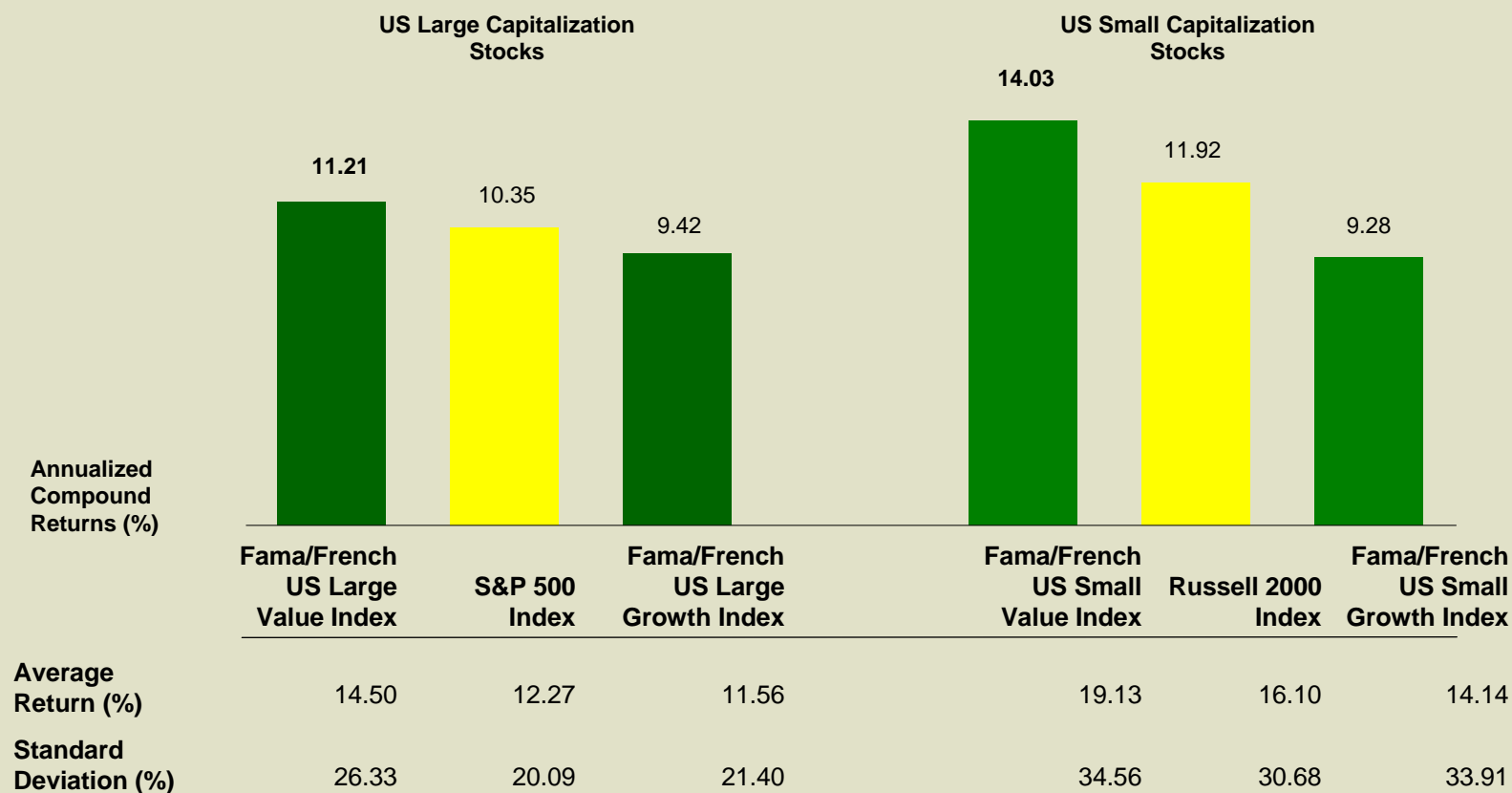
- Fees matter.
- Over long time periods, high management fees and related expenses can be a significant drag on wealth creation.
- Passive investments generally maintain lower fees than the average actively managed investment by minimizing trading costs and eliminating the costs of researching stocks.

Assumed 6.5% Annualized Return over 30 Years



# Allocation

## Size and Value Effects in the US Annual: 1927-2007

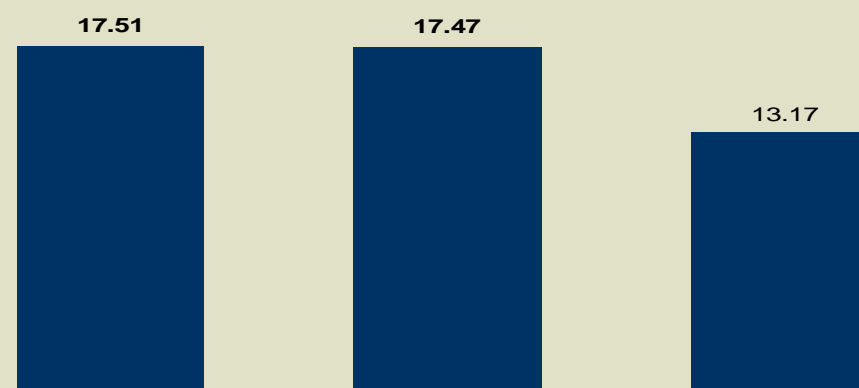


Fama/French data provided by Fama/French. The S&P data are provided by Standard & Poor's Index Services Group. CRSP data provided by the Center for Research in Security Prices, University of Chicago. *Small company risk:* Securities of small firms are often less liquid than those of large companies. As a result, small company stocks may fluctuate relatively more in price. Indexes are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results. Not to be construed as investment advice. See cover page for additional information.

# Allocation

## Size and Value Effects Abroad Annual: 1975-2007

### Non-US Developed Markets Stocks



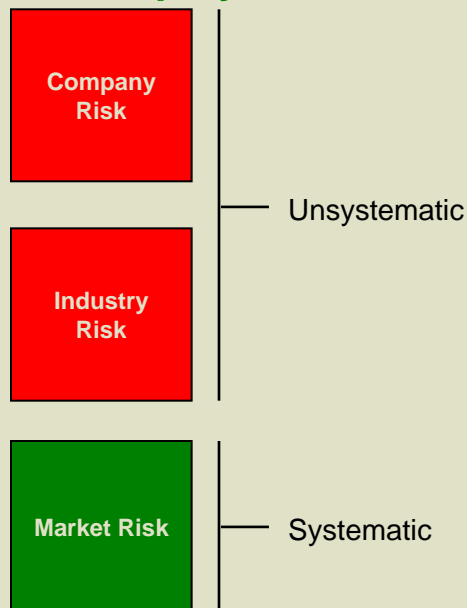
| Annualized<br>Compound<br>Returns (%)                              | Fama/French<br>International<br>Value Index | International<br>Small Cap<br>Index | MSCI EAFE<br>Index<br>(gross) |
|--|---|-------------------------------------|-------------------------------|
| <b>Average Return (%)</b>  | 19.52                                       | 20.31                               | 14.98                         |
| <b>Standard Deviation (%)</b>                                      | 22.29                                       | 26.75                               | 20.72                         |
| <b>Annual Correlation<br/>Coefficient<br/>to S&amp;P 500 Index</b> | 0.383                                       | 0.256                               | 0.502                         |

Fama/French data provided by Fama/French. International Small Cap Index data: 1970-June 1981, 50% UK small cap stocks provided by the London Business School and 50% Japan small cap stocks provided by Nomura Securities; July 1981-present, compiled by Dimensional from StyleResearch securities data; includes securities of MSCI EAFE Index countries, market-capitalization weighted, each country capped at 50%; rebalanced semiannually. MSCI data copyright MSCI 2008, all rights reserved; see MSCI disclosure page for additional information. The S&P data are provided by Standard & Poor's Index Services Group. Indexes are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results. Not to be construed as investment advice.

# Risk - Capital Asset Pricing Model

William Sharpe: Nobel Prize in Economics, 1990

## Total Equity Risk



### Unsystematic

- Specific to firm or industry (lawsuit, fraud, etc.).
- Diversifiable.
- No compensation.

### Systematic

- Marketwide, affects all firms (war, recession, inflation, etc.).
- Non-diversifiable.
- Investor compensation.
- Measured by beta.

## Volatility = Need for Stability of Returns

| Hypothetical<br>\$100,000<br>portfolio | Year 1<br>Return | Year 2<br>Return | Average<br>Return | Compound<br>Return | Value at<br>End<br>of Year 2 |
|--|------------------|------------------|-------------------|--------------------|------------------------------|
| Portfolio #1                           | <b>50%</b>       | <b>-50%</b>      | <b>0%</b>         | <b>-13.4%</b>      | <b>\$75,000</b>              |
| Portfolio #2                           | <b>10%</b>       | <b>-10%</b>      | <b>0%</b>         | <b>-0.5%</b>       | <b>\$99,000</b>              |

*Any Questions?*