PDM Investment Services
An Independent Registered Investment Advisor

Products & Services

Wealth Plan Development & Support
Portfolio Design & Management
Focused Growth Investor Newsletter

What's Most Important?

Maximize your Investment Portfolio Size for the Start of Retirement to meet your Retirement Income Needs (Financial plan, contribution rate, investment strategy, investment performance, advisor fees and portfolio fees)

Generate Enough Retirement Income from your Investment Portfolio to Meet your Spending Needs and not Run Out of Money Before the End (All of above plus social security filing strategy and tax efficient distributions)

Advisor performance to benchmark typically varies from -2% to +2%. Advisor fees typically varies from 0.5% to 1.5% of AUM. A low-cost performance focused advisor can have a significant effect on the size of your investment portfolio at retirement and at the end of your plan.

Our Process

1. Wealth Building Plan
A Wealth Building Plan is a written long-term plan to guide you to meet your retirement goals and maintain income in retirement. A plan provides peace of mind to your family, defines goals, monitors progress and drives adjustments. Plans make you less likely to overreact to market volatility and increase one's confidence and effectiveness in managing income, spending, saving, debt and investing.

2. Focused Growth Investor Newsletter (Strategy)
The Focused Growth Investor is an outlook on the stock market, asset classes and mutual funds. Our goal is to be in the market at the right time, select the best sectors and asset allocation for the market conditions, then select the best mutual funds in each asset class. The newsletter also provides investor education.

3. Portfolio Design & Management
Thru our experience, we believe the attributes of a good professional portfolio design are diversification, strategic asset allocation, security selection, implementation, management and discipline. Your portfolio is designed to meet your long-term retirement goals based on your risk tolerance and time horizon.

4. Portfolio Performance Analysis (Feedback & Improvement)
Each quarter you receive a simple portfolio performance report that contains market analysis, portfolio performance & analysis, investments, asset allocation, cash movements and management fees.

We are a Registered Investment Advisor that put clients' interests before our own. We are an independent advisor that personally invests in our strategy along with our clients. Our model portfolio performance is reported and verified annually by an independent party. Each January we update our ADV2 SEC filing that is posted below and on the SEC website. Clients should always review their Investment Advisor and Firm Public Disclosure on the SEC website.

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See our website or brochure for our disclosure, fee schedule & privacy policy

Our Financial Advisor Value Proposition

We put our clients interest first, investing our client's money in the same investments we invest our personal money. Performance is monitored and verified by an independent party.

If you answer NO to any of the following questions, it is likely a good financial advisor can add value.

- Do you feel you have the proper investment training?
  (Asset allocation, security selection, portfolio implementation and portfolio management)
- Do you have the proper investment tools?
  (Market forecast, fundamental, technical, valuation, psychology and cycles & seasonality)
- Will you make the time to keep up with the complex and changing investment environment?
- Are you putting in enough time to design, manage and monitor your portfolios?
- Are you measuring your portfolios performance each year against its benchmark?
  The average investor lagged the S&P 500's 11.1% return by 7.4% per year from 1993 to 2013 due to poor timing decisions particularly during down markets. (DALBAR research)
- Do you sell at market tops when everyone else is buying and buy at market bottoms?

If an advisor can improve your portfolio performance annually over time by at least the management fee, then the portfolio is performing well. Trust & Confidence are very important.

Wealth Building Plan Development and Support

- Identify goals and risk tolerance, income, spending, saving and debt service.
- Investment portfolio allocation and analysis, investment and income projections.
- Value comes from applying discipline to the unpredictable, chaotic and complex financial world. A Wealth Plan is a written long-term investment plan to guide you to meet your retirement goals. It provides peace of mind to your family, defines goals, monitors progress and drives adjustments. Projections to goals and retirement income cash flow.
- Plans make you less likely to overreact to market volatility and increase one's confidence and effectiveness in managing income, spending, saving, debt and investing.
- Our plans have measured goals with investment and income projections along with portfolio allocation & analysis. The plans are reviewed annually.
- Benchmark comparison of your progress to goals compared to others in your situation.

Investor Education

- Focused Growth Investor Newsletter
  An educated investor increases one's confidence and effectiveness in investing.
- Guidance through the Transition into retirement, retirement income and complex IRA rules.

Investment Research & Strategy

- Keeping your strategy current with the complex and changing investment environment.
- <u>Tactical strategies to control risk and strategic asset allocation and sectors to improve return</u>.

Professional Portfolio Design and Management

- Market outlook, strategic asset class & sector allocation and mutual fund selection.
- Efficient portfolio management and implementation with timely execution of trades.
- Free annual 401(k) design for portfolio management clients.

Behavior Coach & Fraud Detection

- Behavior coach for disciplined emotional support through bull & bear markets and bubbles.
- Help investors stick to their strategy and avoid low returns from jumping in and out of funds.
- A trusted advisor monitors account activities for fraud, account titles and beneficiaries.

Portfolio Performance Analysis with Quarterly Performance Reports

- Investments, asset allocation, cash movement, management fees and performance.

About Us

<u>PDM Investment Services is a Registered Investment Advisor acting as a fiduciary under ERISA code, putting client's interest first.</u> Philip Michalek is the president and owner of PDM Investment Services. Mr. Michalek has a past career in engineering and engineering management with strong analytical skills. Mr. Michalek has acquired knowledge from studies in behavioral finance to help control emotions during market tops and bottoms. Mr. Michalek is dedicated to bringing analysis of the stock market to the average investor. Philip Michalek puts his personal money into his investment strategies. His motivation comes from his passion toward investing and helping others.

Mr. Michalek has been developing investment strategies and designing and managing personal and family portfolios since 2000. Mr. Michalek has been editor of the Focused Growth Investor Newsletter since 2004.

Philip Michalek is a self-taught investor reading over 50 investment books written by the designers of the most successful investment strategies, subscribing to the best investment newsletters and reading Barron's since 1994. Some of the most successful strategies over the past 100 years were developed by Benjamin Graham, Warren Buffett, Philip Fisher, Kenneth Fisher, Martin Zwieg, Ned Davis, Peter Lynch, James Stack, William O'Neil and Donald Hays.

Philip Michalek is the Advisor, Analyst, Portfolio Manager, Trader, Newsletter Editor, Compliance Manager and Business Manager. Philip Michalek is engaged in PDM Investment Services full-time and is not involved in any other business activity. Neither the firm, nor Philip Michalek has a material relationship or arrangement with any issuer of securities.

Our primary focus is portfolio analysis, design and management, not a broad range of financial products. What makes us different is that we offer a customized solution based on your needs. Most advisors want to sell you their complete portfolio management product and other products you may not need. The products we sell are the products that we use with our personal portfolios and have worked well for us.

PDM Investment Services, LLC was formed in 2005. PDM Investment Services, LLC is a Registered Investment Advisor and has been registered with the State of Michigan since 2011. A Registered Investment Advisor is required to apply for registration with the Investment Adviser Registration Depository (IARD) and submit an ADV 1 and ADV 2 form.

Philip Michalek is an Investment Advisor Representative and has been registered with the State of Michigan since 2011. An Investment Advisor Representative is required to apply for registration through the Central Registration Depository (CRD) with a U4 Form and pass the Uniform Investment Advisor Law Exam (Series 65 Exam), or Series 66 Exam. The Series 65 Exam is regulated through the Financial Industry Regulatory Authority (FINRA). Firms with less than $100 million of assets under management (AUM) are regulated and audited by the state. PDM is registered with the State of Michigan with an audit schedule of every 3 to 5 years. Our last audit was in 2015. Firms with more than $100 million of AUM are regulated and audited by the SEC. According to an SEC study in 2015, SEC regulated firms were audited on average every 11 years.

Formal Education:
Bachelors' of Science in Electrical Engineering, University of Michigan Dearborn, 1981
Management II, Manager of Managers, University of Michigan, 1995, 1998
Finance for the Non-Financial Manager, University of Michigan, 2001

Business Background:
Jabil Circuit, Engineering Manager,
1988 to 2010

President, Philip Michalek
Investment Advisor Representative

Why Work with Us?

- **We Put Our Client's Interests First**
  PDM Investment Services is a Registered Investment Advisor with a fiduciary responsibility to put its client's interests first. We focus on problem solving, not sales. We act with skill, care, diligence and good professional judgment. We will not mislead you and avoid conflicts of interest. If you are not happy with your financial advisor due to poor performance, high fees, poor service or lack of trust, it is time to change advisors.
- **Customer Service & Integrity**
  We strive to serve our clients with the highest standards of ethics, integrity and professionalism. We focus on your needs, offering different levels of service to meet individual needs and budget.
- **Independent Advice**
  We are an independent firm, not linked financially with any bank, insurance company or brokerage firm. Since we are independent, we are not pressured into pushing high cost commission products like loaded mutual funds and annuities. Our income is derived from only portfolio management fees.
- **Investor Education**
  We focus on educating our clients and our youth so they can make better investment decisions.
- **Open Architecture & Transparency**
  Our open architecture allows us to purchase the best stocks and mutual funds, without limitations. Your investments are held with a discount broker as custodian for transparency and low cost.
- **Management Owns the Products Recommended to Clients**
  President, Philip Michalek, invests his own personal money in our strategy along with our clients. We put our clients interest first, investing our client's money in the same investments we invest in our own portfolios. Performance is monitored and verified by an independent party.
- **Liquidity**
  We do not invest in illiquid investments like limited partnerships, penny stocks and hedge funds.
- **Low Cost Structure**
  We invest in low cost strategies using a discount broker as custodian, purchasing no-load mutual funds with low transaction fees and paying reasonable portfolio management fees.
- **Investment Strategy**
  1. Our Long-Term Market Indicator sets up the stock market exposure for our portfolios around there define base risk level. We attempt to reduce stock market exposure during periods of high risk and recessions and raise exposure during periods of low risk. We also use other top timing models to confirm our model signals.
  2. Our Strategic Asset Class & Sector Allocation Model sets up the percent of cash allocated to each asset class and sector in a portfolio.
  3. Our Mutual Fund Selection Model rates each active managed mutual fund and passive managed exchange traded fund. Portfolios are designed and managed using higher rated funds and market leaders.
- **Simple Portfolio Performance Reports**
  Each quarter you receive a simple portfolio performance report that contains market analysis, portfolio performance & analysis, investments, asset allocation, cash movements and management fees. Our model portfolio performance is reported and verified annually by an independent party.
- **Different Product Levels to Meet Your Individual Needs and Budget**
  Do-It-Yourself Investor Support. (Investor Education, Focused Growth Investor Newsletter)
  Wealth Building Plans with Portfolio Management Services.
- **Advantages of Working with a Small RIA (NAAIM 2016)**
  More satisfying experience, greater responsiveness, personal level of attention, work with founding manager, portfolio models for smaller accounts and client-centric service model.
- **We Manage the Portfolios We Recommend, Not Outsource Them**

PDM Investment Services

PDM Investment Services Process

Gather Client Information

Define Goals & Risk Tolerance
Income, Spending, Saving, Debt, Investments
Account Statements

Wealth Plan Development

Investment Goals & Risk Tolerance
Wealth Building Guidelines
(Income, Spending, Saving, Investing & Debt Service)
Investment Summary
Investment and Income Projections
Portfolio Allocation & Analysis
Benchmarking

Portfolio Design & Implementation

Setup Brokerage Accounts
Portfolio Design, Allocation & Analysis
Portfolio Implementation

Portfolio Management

Active Portfolio Management
Portfolio Performance and Analysis Reports (Quarterly)
Investor Education (Focused Growth Investor)

Portfolio Performance Contributors

Total Stock Market

Alpha +0%

The largest contributor to a portfolio's performance is the total stock market, something you have no control over because of the many unpredictability variables that affect it. Your portfolio performance should be judged relative to the total stock market and the appropriate benchmark based on your risk level.

Some of the key variables that affect the market are a global crisis, the economy, inflation, interest rates, valuations, investor psychology, cycles & seasonality, earnings and the point in the market cycle.

Asset Allocation

Alpha +x%

Asset allocation is the percent of the portfolio in stocks, bonds, cash and the amount in each asset class.

Portfolios are designed with a diversified mix of asset classes and sectors based on your goals, risk tolerance and time horizon.

Our Tactical Asset Allocation, Asset Class and Sector Class rating systems help us select a strategic allocation for the economic and market conditions.

Security Selection

Alpha +x%

Security selection is the selection of each stock, mutual fund, bond, etc.

Stocks and mutual funds are selected based on our security selection system employing fundamental, technical and valuation analysis. We look for consistent growth at a reasonable price.

Management & Structure

Alpha +x%

Portfolio management includes the items listed below. Portfolios are designed and managed employing sound management principles within a low-cost structure.

- Manager Skills
- Manager Ownership
- Efficient Implementation
- Timely Trade Execution
- Discipline
- Emotional Control
- Performance Feedback
- Independent RIA structure
- Open Architecture
- Fee-only structure
- Low management fees
- Low transaction fees

Portfolio Performance

Alpha is the percent the portfolio outperforms its benchmark. Since the Total Stock Market Index is the benchmark we used above, its alpha is +0%. The Total Stock Market is the largest contributor to your portfolio performance. All the factors listed in the columns affect a portfolio's performance relative to its benchmark each year. By incorporating strong asset allocation, good security selection, sound management and a solid structure you can increase the odds of outperforming the Total Stock Market by the sum of the alpha's in the columns. A consistent alpha above +2 each year is considered very good. You can manage your own portfolio and try to generate a positive alpha, buy the Total Stock Market Index and perform at the market or hire a good advisor and hope to generate a positive alpha.

<u>For each good or bad investment decision, ask yourself how much did luck play and how much did skill play in the outcome? Your strategy will move in and out of favor. Skill is more repeatable than skill.</u>

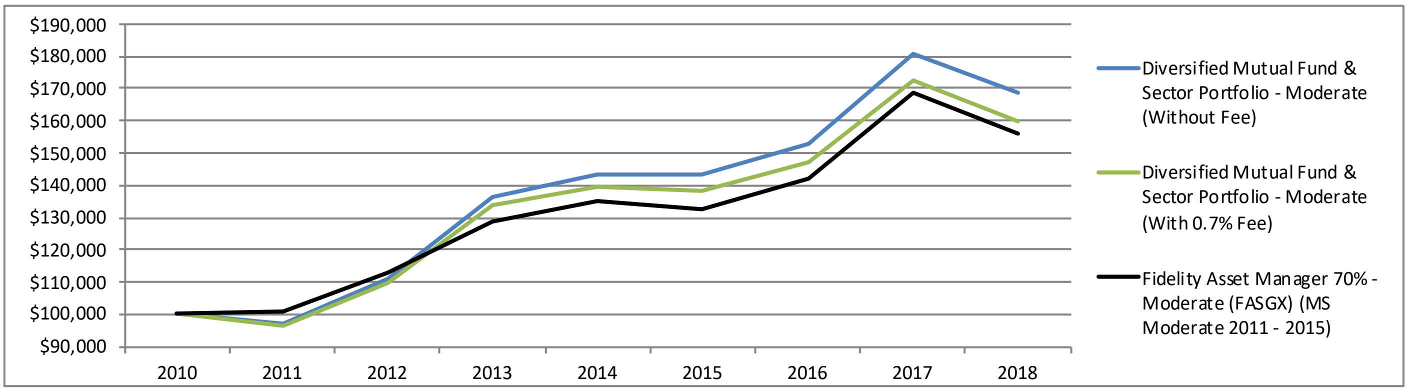
Performance

We use sound investment strategies that have been used for years by successful investors. Our strategy includes strategic asset allocation, sector class allocation, tactical asset allocation, security selection and a low-cost structure.

Diversified Mutual Fund & Sector Portfolio – Moderate

- The model portfolio produced a 6.8% annual return from 2011 thru 2018, 1.1% better per year than the 5.7% return of the Fidelity Asset Manager 70% Benchmark. (Last 8 years)
- The model portfolio produced an 4.3% annual return from 2014 thru 2018, 0.4% better per year than the 3.9% return of the Fidelity Asset Manager 70% Benchmark. (Last 5 years)
- The model portfolio produced an 5.7% annual return from 2016 thru 2018, 0.2% better per year than the 5.5% return of the Fidelity Asset Manager 70% Benchmark. (Last 3 years)
- 70% of the 8 years the portfolio outperformed its benchmark.
- The worst performing year of the portfolio saw a -6.5% drop before fees compared to a -7.7% drop for its benchmark.

  The performance calculation includes capital gains, dividends and custodial transaction fees (0.2%) Performance is listed before portfolio management fees.



PDM PORTFOLIO ANNUALIZED RETURNS	2011	2012	2013	2014	2015	2016	2017	2018	3 Year	5 Year	8 Year
Diversified Mutual Fund & Sector Portfolio - Moderate (Before Fee)	-3.0%	14.5%	22.8%	5.2%	-0.3%	7.0%	17.9%	-6.5%	5.7%	4.3%	6.8%
Diversified Mutual Fund & Sector Portfolio - Moderate (After 0.7% Fee)	-3.8%	13.7%	22.0%	4.4%	-1.1%	6.2%	17.2%	-7.2%	5.0%	3.6%	6.1%
Fidelity Asset Manager 70%-Moderate (FASGX) (MS Moderate 2011 - 2015)	0.6%	12.1%	14.3%	4.9%	-1.8%	7.1%	18.7%	-7.7%	5.5%	3.9%	5.7%

PDM Model Diversified Mutual Fund & Sector Portfolio Performance. The model is a real cash account managed like portfolio management client portfolios. The model portfolio is moderate risk, large size and uses mostly active managed funds with sector funds.

Performance calculations are updated annually and are verified by Alpha Performance Verification Services. The performance graph is updated monthly and verified annually. Brokerage transaction fees and dividends are included in performance calculations. Performance is calculated without our portfolio management fee and with our portfolio management fee of 0.7% annually for an average household portfolio of $525,000 Assets Under Management (AUM). Portfolio management fees vary from 1.0% of $100,000 AUM to 0.5% of $1,500,000 AUM.

Past performance is no guarantee of future results. Market and economic conditions have the largest impact on a portfolio's performance. Strategies can go in and out of favor in different market environments. Some periods will see losses. Investment strategies evolved over the past and will continue to evolve in the future. Client investment results may vary from the model due to the timing of implementation, implementation transaction fees, portfolio size, risk profile and actual investments. For a copy of the Independent Verifier Reports, visit our website and click on the link on the home page. For details on calculations see our disclosure page. Our Diversified Mutual Fund & Sector Portfolio is an actual portfolio that does not receive or distribute cash.

Achieving goals based on a long-term plan is more important than maximizing returns. To participate in bull market gains, you must also endure the risk of corrections and bear markets. Without some risk, reward will likely by small.

Investment Strategy

Traditional Portfolio Asset Allocation Strategy
Typical asset allocation strategies invest mostly in Large Cap, International and Intermediate Term Corporate Bonds. There equity position and sector allocation positions stay consistent with their risk level thru the year.

PDM Investment Strategy
Our strategy has higher positions in Mid Cap, Small Cap, <u>Technology, Financial, Healthcare, Asia</u> and High Yield Bonds than traditional asset allocation strategies. We apply <u>tactical asset allocation</u> for risk management, <u>strategic sector asset allocation</u> through the year as conditions change and use mostly active managed funds. Our strategies perform best when more asset classes are outperforming the S&P 500, more sectors are outperforming the S&P 500, value is outperforming growth, small is outperforming large, high yield bond is outperforming intermediate term corporate bond and active is outperforming passive.

PDM Investment Services has a pro-investor structure. We are independent and have an open architecture. We are not pressured into pushing high cost investment products like loaded mutual funds and annuities. We do not have limitations on which stocks and mutual funds we can purchase. Your investments are held in your custodian account for transparency.

Our strategy is based on growth at a reasonable price. We seek out managers of sound investment strategies that consistently outperform the market without taking on additional risk. We use investment strategies that have been used for years by the most successful investors. We are always searching for the best investment research to enhance our strategies. We are always searching for the best fund managers, advisors and newsletters and read investment books looking for ways to enhance our strategy. From experience, it is our belief the best way to get rich is to use good time-tested investment strategies and stick with them.

We do not use risky strategies like derivatives, margin, options, shorting stocks, leverage and penny stocks. We only use strategies and invest in securities we would personally invest in for ourselves. PDM Investment Services practice a pro-investor structure offering independent advice, open architecture, transparency, liquidity and low-cost solutions. Client portfolio transactions and holdings are accessible to them thru their custodial account.

Thru our experience, we believe the total stock market, asset allocation, security selection, portfolio management and advisor structure all affect portfolio performance.

Our strategies employee low-cost custodians to keep transaction costs low and no-load mutual funds.

- Our tactical model sets up our stock, bond and cash allocation.
- The allocation model sets up our sector and asset allocation.
- Our stock and mutual fund rating systems tell us which stocks and mutual funds to invest in.

To create and manage a portfolio that outperforms its benchmark requires luck and skill. Luck is needed to overcome all the uncontrollable variables like the economy, world markets and company manager decisions. Skill comes from strategy, analysis, behavioral understanding and sticking with a solid investment plan.

We use the time-tested strategies listed below.

- Tactical Market Asset Allocation for Risk Management
- Strategic Asset Allocation, Strategic Sector Allocation, Concentrated Strategy, Growth Trends
- Security Selection, More Active Managed Investments
- Fundamental Analysis, Valuation Analysis, Technical Analysis
- Investor Psychology, Market Cycle Indicator, Cycle & Seasonality
- Low Cost Investments, Low Turnover, Management Ownership

PDM Investment Services does not in any way guarantee the portfolio from loss, nor guarantee any minimum investment performance for client portfolios. Investing in securities involves risk of loss that clients should be prepared to bear. PDM Investment Services shall be responsible only for the satisfactory performance of all duties expressly assumed. Past performance is no assurance of future results. All investments involve individual security risk and market risk. Recommendations and advice are given with the understanding that the client assumes all risks involved. Always consider investment objectives and risk before investing. Investing in individual stocks generally carries more risk than diversified mutual funds. It is not recommended to invest more than 3% of a portfolio into any individual stock.

Portfolio Management Strategy

We use a multi-strategy approach to add strategy diversification.
Strategies come in and out of favor as market conditions change.

Tactical Market Asset Allocation for Risk Management

Our Long-Term Market Indicator sets up the stock market exposure for our portfolios around the define base risk level. We attempt to reduce stock market exposure during periods of high risk and recessions and raise exposure during periods of low risk. We also use other top timing models to confirm our model signals.

The model is based on inflation, interest rates, economic growth, earnings, technical, relative strength, sentiment, valuations, cycles & seasonality and global crisis.

Strategic Asset Class & Sector Allocation

Our Strategic Asset Class & Sector Allocation Model sets up the percent of cash allocated to each asset class and sector in a portfolio.

The model is based on fundamental, valuation, technical, relative strength and past performance.

Mutual Fund Selection

Our Mutual Fund Selection Model rates each active managed mutual fund and passive managed exchange traded fund.

We overweight high relative strength leaders in each asset class in our portfolios.

The model is based on fundamental, valuation, technical, relative strength and past performance. Mutual fund analysis also includes Morningstar ratings, manager, strategy, expense ratio, risk, valuation and risk adjusted return.

Portfolio Management

Portfolios are setup based on tactical asset allocation, strategic asset class & sector allocation and mutual fund selection. Smaller portfolios use more passive exchange traded funds and are less diversified. Larger portfolios use more active managed funds and are more diversified.

Our Correction Buy & Sentiment Warning Indicator is used to help manage a portfolio’s cash inflows and outflows. The indicator is used to time the purchase and sale of equities.

Investment Strategy Elements

Tactical Market Asset Allocation and Risk Management

Our Long-Term Market Indicator sets up the stock market exposure for our portfolios around the define base risk level. We attempt to reduce stock market exposure during periods of high risk and recessions and raise exposure during periods of low risk. We also use other top timing models to check against our model signals.

The model is based on inflation, interest rates, economic growth, earnings, technical, relative strength, sentiment, valuations, cycles & seasonality and global crisis.

Being in the market at the right time can help avoid bear markets and control risk. We do not try to time corrections because they are impossible to time consistently. Short-term timing can be costly due to transaction fees and taxes. The S&P 500 Total Return (PREIX) has seen negative return years 27% of the years from 2000 thru 2014. We only focus on timing major bear and bull markets, not corrections. We have seen 1 or 2 bear markets (20% or greater decline) each decade since the 1970's.

The indicator is used to signal the risk of a Recession Bear Market (> 20% prolonged losses, 2000, 2008), not Correction Bear Markets (>20% loss, 1987, 1998, 2011, 2016) and not Corrections (10% to 20% loss). A positive reading means an increased probability of positive stock market returns. A negative reading means a decreased probability of positive stock market returns. These indicators are not a forecast, but more of a probability of future returns. The indicator may not work in this post debt bubble environment.

The primary risk to portfolio performance with tactical allocation is you must be correct when to reduce equity exposure and correct when to increase equity exposure to see its benefit after transaction costs. It takes one type of brain to sell at the top and another type of brain to buy at the bottom, making this difficult to execute. Timing models that worked in the past, often do not work in the future. Very few mutual funds and investment newsletters rated by Morningstar and Timer Digest outperform the market using timing. Most Tactical Allocation funds do not outperform Moderate Asset Allocation funds. (GTAA, IASRX, PASDX) Leuthold Core Investment (LCORX) and Horizon Active Asset Allocation (AAANX) have performed well.

Tactical asset allocation is rarely successful because it takes a different mindset to buy at the bottom then it does to sell at the top. The strategy typically underperforms during bull markets and outperforms during bear markets. From experience, we believe very few indicators have predictive powers. Market timing systems have a way of breaking down if not constantly evaluated and adjusted for changing world economic and investment conditions. The low and negative interest rate environment we are seeing now could make bear markets more difficult to predict. The world continues to evolve and flatten and new investment methods and systems are added. A better strategy for most is to build a portfolio that you can live with through the market's ups and downs. Even if you had the holy grail of a timing system, you may not act properly on the sell and buy signals due to your emotions.

Strategic Asset Class & Sector Allocation

Our Strategic Asset Class & Sector Allocation Model sets up the percent of cash allocated to each asset class and sector in a portfolio.

The model is based on fundamental, valuation, technical, relative strength and past performance.
Asset allocation is a systematic way of diversifying a portfolio among different asset classes with varying correlations to each other. Asset allocation determines the mix of asset classes and sectors used to create a portfolio to meet its specified goals and risk level. The most common asset classes are large cap growth, large cap value, mid cap growth, mid cap value, small cap growth, small cap value, international, sectors, bonds and cash. Some sectors perform better in some parts of the economic cycle and worse in other parts. Diversification of non-correlated asset classes will help reduce volatility in a portfolio. Diversification is not a return-enhancement tool it is a risk-reduction tool.

Our portfolios invest in growth sectors like technology, healthcare, financial and Asia. Why invest in the S&P 500 and mutual funds that contain all sectors, including the slow growth ones. Our top-rated sector mutual funds and stocks are used for each sector. Sector mutual fund managers are more focused in each sector compared to one manager that knows a little about each sector in diversified funds.

The primary risk to portfolio performance is selecting the wrong asset class or sector at the wrong time.

Mutual Fund and Stock Selection
Our Mutual Fund Selection Model rates each active managed mutual fund and passive managed exchange traded fund.

The model is based on fundamental, valuation, technical, relative strength and past performance. Mutual fund analysis also includes Morningstar ratings, manager, strategy, expense ratio, risk, valuation and risk adjusted return. We overweight the high relative strength leaders in each asset class in our mutual fund portfolio.

The goal is to select the best investments in each asset class. We look for high performance (alpha), consistent performance, high-risk adjusted returns (sharp ratio) and a solid strategy in mutual funds, ETFs and stocks.

For individual stocks, we look for growth companies with strong and consistent revenue and earnings growth, an expanding or steady pretax profit margin and a return-on-equity that is steady or growing. Companies are purchased at a reasonable price and at a favorable reward-risk ratio.

The primary risk to portfolio performance is selecting a security that underperforms its expectations.

Low Cost Investments
We invest in no-load mutual funds and stocks using a discount broker as custodian.

Fundamental Analysis (What to buy)
Fundamental analysis is an approach that is primarily concerned with earnings, revenue and cash flow. This approach examines factors that try to determine expected future earnings of a company. Some of the key fundamental indicators to consider are consistent revenue and earnings growth, earnings surprises, earnings expectations, cash flow, valuation and a fundamental price target.

Valuation Analysis (When to Buy)
Value analysis involves investing in equities you believe are undervalued using the price-to-earnings ratio, price-to-book ratio and price-to-cash flow analysis.

Technical Analysis and Relative Strength (When to Buy)
Technical analysis is an approach that tries to predict the future direction of equities based on past price and volume changes. The assumption is that equities follow a pattern. Some of the key technical indicators are trend lines, moving averages, support and resistance lines and momentum oscillators. Trend lines show support and resistance for the stock price.

Investor Psychology
Investor psychology shows the mood of investors. Investor psychology can help determine stock market peaks and valleys. At market bottoms, investor psychology is at extreme low levels. At market tops, investor psychology is high. Some of the investor psychology indicators we use are the High/Low Logic Index, Investor Intelligence, Volatility, Insiders, Smart Money, Sentiment and the Overbought/Oversold Indicator.

Growth Trends
Getting in and out of an explosive growth trend can enhance your portfolio returns substantially. Identify new disruptive technologies and the dominant players to invest in as the growth trend takes off. Once the growth trend matures, exit the trend. Some of the most significant growth trends of the past were the personal computer, cell phone, internet, biotechnology, the mutual fund, hand held GPS and smart phones. How would you like to have invested in the market dominators in these industries when their prices were low? You could have bought Apple, Google, Amazon, Facebook, Microsoft, and Netflix just as they started their huge rise.

Market Cycle Indicator
Economic cycles follow similar patterns. Like John Templeton once said: “Bull markets are born from pessimism, grow on skepticism, mature on optimism and die on euphoria”. In secular bull markets, cycles are longer and in secular bear markets they are shorter. They start with a <u>Recovery</u>, seeing a sharp increase in stock prices off the oversold recession bottom. Then comes the <u>Transition Phase</u> where the market consolidates. Next comes the <u>Capital Goods Phase</u> where the economy is growing strong. Then the cycle ends in <u>Recession</u>. It is common to see corrections during a cycle. See the chart below of the market cycle that started in 2008 and will end in recession in the next few years.

Bull	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Bull	2003				2007					
Bull	1991								1999	
Bull	1983						1989			

Active & Passive Managed Investments
We use mostly active managed funds that have a sound investment strategy, strong management, management tenure, a low expense ratio, smaller size, lower turnover, outperforms its benchmark over 60% of the years, have a good risk adjusted return and is at a reasonable valuation.

We use passive ETF’s and index funds in some asset classes where it makes sense. It is very difficult to find active managers who consistently add value relative to its appropriate benchmark. Only about 20% of active funds outperform their passive benchmark funds each year and only 5% of these active outperform passive funds consistently each year. Active funds have higher costs, but provide the opportunity to outperform their benchmark. Portfolios with passive ETF funds are easier to implement
and manage than active fund portfolios.

Low turnover
Morningstar research suggests low turnover tends to outperform high-frequency trading strategies. Higher fees, transaction costs, taxes and poor judgment cause high-frequency trading strategies to suffer.

Concentrated Strategy
Morningstar research suggests strategies with less-than fifty stocks offer a greater chance of outperforming their benchmark. Over diversified strategies tend to perform at or below their benchmark.

Management Ownership
Morningstar research suggests strategies with high insider and manager ownership tend to outperform their benchmarks. Managers that believe in their strategy will invest their own money in the strategy.

Cycles and Seasonality
Our research suggests, there are distinct cycles that tend to affect the stock market. The market moves in long-term secular cycles creating and removing excess. The market cycle indicator is used to determine the stage of the economic cycle. The decade cycle shows the years within the decade the stock market tends to perform best. During the four-year election cycle, some years have better stock market performance than others. There are time periods like October through April that the stock market tends to outperform. Some months outperform other months during the year. A positive January often leads to a positive year.

Wealth Building Plan Development & Support

- Investment Goals & Risk Tolerance
- Wealth Building Guidelines
- Investment Summary
- Investment and Income Projections
- Portfolio Allocation & Analysis

A Wealth Building Plan is a written long-term plan to guide you to meet your retirement goals and maintain income in retirement. A plan provides peace of mind to your family, defines goals, monitors progress and drives adjustments. Plans make you less likely to overreact to market volatility and increase one's confidence and effectiveness in managing income, spending, saving, debt and investing. Your wealth is determined by how well you execute to the plan and the total stock market performance.

Wealth Building Plan Goals

Keep your family on the same page
Provide peace of mind to family
Goals and investment summary all in one place
Consolidation of accounts
Drive improvement to meet retirement goals
When can we retire?
How much income can I generate in retirement?

Investment Goals & Risk Tolerance

- Retirement date and retirement income expectations
- Define risk tolerance from a risk table and Riskalize

Wealth Building Guidelines

- Financial Planning (Income, Spending, Saving, Investing and Debt Service)

Investment Summary

- Document risk tolerance, contributions, performance to benchmark and balance for each account
- Total investment allocation for all accounts

Investment and Income Projections

- Retirement income projections from projection table and Riskalize
- Retirement income sources

Portfolio Allocation & Analysis

Investment portfolio design and analysis with performance to benchmark

Other

- PDM portfolio management gains in dollars each year
- Mutual fund analysis example
- Retirement Preparation and other professional services
- Cyber security and credit protection
- PDM activity calendar
- Benchmarking

Portfolio Design & Management

- Investment Goals and Risk Tolerance
- Strategic Asset Class & Sector Allocation
- Mutual Fund Selection
- Portfolio Management (Design, Implementation and Management)
- Portfolio Performance & Analysis

Thru our experience, we believe the attributes of a good professional portfolio design are diversification, strategic asset allocation, security selection, implementation, management and discipline. Your portfolio is designed to meet your long-term retirement goals based on your risk tolerance and time horizon.

The investment process is complicated and requires strict discipline without emotion. You should always seek professional advice unless you receive the proper training, invest in the tools and are willing to put the time into managing your portfolio. We find, most investors find it difficult to implement and maintain an asset allocation strategy, reducing the likelihood of success.

The major contributors to the performance of an investment portfolio, in our belief, are listed below.

- Total Stock Market Performance (Total stock market and asset class performance)
- Asset Allocation (Percent in stocks, bonds, cash and each asset class)
- Security Selection (Stocks, mutual funds, bonds, etc.)
- Portfolio Management (Implementation, discipline, emotional control and performance)
- Portfolio Management Fees and Custodian Transaction Fees

Strategic Asset Class & Asset Allocation
Our Strategic Asset Class & Sector Allocation Model sets up the percent of cash allocated to each asset class and sector in a portfolio. The model is based on fundamental, valuation, technical, relative strength and past performance.

Mutual Fund Selection
Our Mutual Fund Selection Model rates each active managed mutual fund and passive managed exchange traded fund. Portfolios are designed and managed using higher rated funds and market leaders. The model is based on fundamental, valuation, technical, relative strength and past performance. Mutual fund analysis also includes Morningstar ratings, manager, strategy, expense ratio, risk, valuation and risk adjusted return.

Our portfolios are designed with no-load mutual funds, ETFs and stocks with strong management, sound investment strategies, strong and consistent performance and high risk-adjusted returns. We use an allocation of diversified and focused sector investments, tactical and asset class allocation, fundamental and technical analysis, growth and value, large and small companies.

Your assets are held in a TD Ameritrade brokerage account for transparency and your safety. You can always see where your money is invested. We provide independent advice in an open architecture. Open architecture means you are not limited to a defined set of funds and stocks. We use solid investment strategies, pro-investor structure and have management ownership, integrity, passion for investing and strong customer service. Below is a list of our offerings.

- Training, Tools, Discipline and Time
- Professional Portfolio Design with Strategic Asset Allocation
- Efficient Portfolio Implementation with Discipline and Timely Execution of Trades
- Investment Plan with a Consistent Strategy
- Portfolio Summaries are sent quarterly (Market analysis, portfolio performance & analysis, investment holdings, asset allocation, cash movements and management fees)
- Annual Tax Summary for Taxable Accounts
- Emotional Guidance During Bubbles and Bear Markets
- Stock Purchase Plan & Stock Option Management
- Free Focused Growth Investor Newsletter ($120 per year value)

Our Portfolio Models

The models below are guidelines for our portfolio creation and management.
The models are based on portfolio size.

Strategy Elements

Fixed Equity Allocation (Fixed to risk level)	Tactical Equity Allocation (Changes to market conditions)
Fixed Asset Allocation	Strategic Asset Allocation (Changes to market conditions)
Diversified Asset Classes (8)	Diversified Asset Classes (8+4 sectors)
Passive Managed Funds (ETF's)	Active Managed Funds
ETF Selection	Mutual Fund Selection

Model 10k
Fixed Asset Allocation Fund and Passive Funds
1-3 Mutual Funds

Model 25k
Fixed Asset Allocation
Passive Investments
1 Mutual Munds Per Asset Class
10 Mutual Funds

Model 50k
Tactical Asset Allocation
Strategic Asset Allocation
Sectors
Active & Passive Investments
1 Mutual Fund Per Asset Class
20 Mutual Funds

Model 100k
Tactical Asset Allocation
Strategic Asset Allocation
Sectors
Active & Passive Investments
2 Mutual Fund Per Asset Class
30 Mutual Funds

Model 300k
Tactical Asset Allocation
Strategic Asset Allocation
Sectors
Active & Passive Investments
3 Mutual Munds Per Asset Class
40 Mutual Funds

Focused Growth Investor - Newsletter

- Market Outlook
- Strategic Asset Class & Sector Allocation
- Mutual Fund Selection
- Portfolio Management
- Investor Education

The Focused Growth Investor is an outlook on the stock market, asset classes and mutual funds. Our goal is to be in the market at the right time, select the best sectors and asset allocation for the market conditions, then select the best mutual funds in each asset class. The newsletter also provides investor education.

The Focused Growth Investor is an all-in-one newsletter with everything you need to design and manage your investment portfolios.

Market Summary
A summary of what is driving the stock market and investor concerns.

Market Dynamics
Market Dynamics show how inflation, interest rates, the economy, earnings, investor psychology, market valuations, cycles & seasonality and global crisis's affect the stock market.

Market Outlook
Our Long-Term Market Indicator sets up the stock market exposure for our portfolios around there define base risk level. We attempt to reduce stock market exposure during periods of high risk and recessions and raise exposure during periods of low risk. We also use other top timing models to confirm our model signals.

The model is based on inflation, interest rates, economic growth, earnings, technical, relative strength, sentiment, valuations, cycles & seasonality and global crisis.

Portfolio Performance
The performance of our model portfolios is displayed and compared to its benchmark. Performance calculations are derived from our actual cash accounts and independently verified annually. Portfolio and sector/asset class analysis.

Investment Strategy Analysis
Analysis of the market and our strategy.

Strategic Asset Class Allocation Model
Our Strategic Asset Class & Sector Allocation Model sets up the percent of cash allocated to each asset class and sector in a portfolio. The model is based on fundamental, valuation, technical, relative strength and past performance.

Mutual Fund Selection
Our Mutual Fund Selection Model rates each active managed mutual fund and passive managed exchange traded fund. Portfolios are designed and managed using higher rated funds and market leaders. The model is based on fundamental, valuation, technical, relative strength and past performance. Mutual fund analysis also includes Morningstar ratings, manager, strategy, expense ratio, risk, valuation and risk adjusted return.

Diversified Mutual Fund & Sector Portfolio
Our model Diversified Mutual Fund & Sector Portfolio is displayed with the funds we monitor in each asset class, fund minimums, availability, transition fees, grades and fund performance relative to its benchmark.

Focused Sector Stocks & Mutual Fund Portfolio
Our model Focused Sector Stock & Mutual Fund Portfolio is displayed with the stocks we monitor in each sector. Fundamental, valuation, technical, total score, buy-hold-sell ratings and stock performance relative to its benchmark are displayed for each stock. Current news on each stock we follow is also displayed.

Investment Management Options

Below is a list of Investment Management Options. Characteristics will vary depending on the plan. The information below is our opinion. You are advised to do your own research.

Hire an Investment Advisor to Manage your Portfolios (See appendix B)
Professional Portfolio Design and Management
Performance Below or Above Benchmark
Unlimited Investment Choices and Strategies
Management Fees between 0.5% and 1.5% (Fund and advisor management fees)
Minimum Amount of your Time

Professional Investment Advice
Wealth Plan Development and Support
Investor Education
Ongoing Investment Research
Behavior Coach for Emotional Control
Portfolio Performance Analysis

Buy a Target or Asset Allocation Funds
Professional Portfolio Design and Management
Performance near Benchmark
Limited Investment Choices and Strategies
Management Fees between 0.5% and 1.0% (Fund management fees)
Minimum Amount of your Time

Manage your Own Investment Portfolios
Performance below Benchmark Based on Studies (See appendix A)
Unlimited Investment Choices
Management Fees 0.3% to 1.0% (Fund management fees)
Maximum Amount of your Time (Takes a lot of your Time to Research and Manage Properly)

Buy Annuities
Professional Portfolio Design and Management
Performance near or below Benchmark
Limited Investment Choices and Strategies
Management Fees between 2.0% and 3.0% (Fund and annuity fees)
Minimum Amount of your Time

VA - Variability Annuity / GLWB (Guaranteed Lifetime Withdrawal Benefit) or Equity Indexed Annuity)
Insurer guarantees a baseline amount income stream like 5%, more flexibility with some investment choices, you retain control of your money so there is a death benefit, some stock market growth participation but high costs from investment fees, insurance costs, rider cost and other expenses.

FA - Fixed Immediate Annuity
A Fixed Immediate Annuity is an annuity contract that is purchased with one payment and has a specific payout plan which starts immediately. A fixed immediate annuity is like setting up a pension with fixed guaranteed payments. A fixed annuity is more like an insurance policy you pay into guaranteeing a fixed pay out amount. Monthly payments are calculated based on initial lump sum, your age, interest rates and other factors at the time of purchase. Your money is in a pool of funds that make payments to you and other annuity holders. Annuity holders that pass away at a younger age are subsidizing the income streams of those who live longer than them.

Appendix A - The Average Investor

The 10-year gap between the average investor and average fund ballooned to 2.5% by the end of 2013. (Morningstar study) The typical investor gained 4.8% annualized over the 10 years ended December 2013 versus 7.3% for the typical fund. The biggest gaps were in the more volatile sectors of international equity. Poor timing was the largest contributor. In 2012, taxable bonds saw the largest inflow of $270 billion, then in 2013 the category returned a -2%, one of the worst performers. In 2012, U.S. equity saw a -$94 billion outflow only to see the category return 34% in 2013. Much of the damage is from investors chasing performance and listening to news coverage.

The average annual return of the do-it-yourself investor from 1984 to 2013 was 3.7%. The average portfolio manager saw a 9.1% return and the S&P 500 an 11.1% return. (Dalbar Research) A buy and hold diversified portfolio would have done much better.

People inherently make irrational investment decisions. The huge difference between investors' returns and market returns is most likely due to individual behavior, particularly during down markets. Poor diversification, poor timing, performance following, passive portfolio management, poor emotion-based decisions at market tops and bottoms, bad investment strategies, poor asset class allocation, closed architecture, poor security selection and high costs are a drag on their performance.

A good Investment Advisor underperforming the S&P 500 by 2% per year and with a 1% management fee still adds +4.4% value over the do-it-yourself investor. Advisors add more value than just portfolio performance. They also provide wealth building plans, discipline, piece of mind and investment advice.

After reviewing portfolios for the past 10 years, it has become apparent that the individual investor should not try to manage their own investments without the proper training, tools and dedication. The investment world continues to get more confusing and complicated. Most people find it difficult to even construct and maintain a recommended portfolio. Investors purchase a few investments and create a poorly designed portfolio that underperforms. Buying individual stocks is much more difficult than mutual funds and not recommended for most individuals. You should always seek professional advice unless you get the proper training, invest in the tools and are willing to put the time into portfolio design and management.

Achieving goals based on a long-term plan is more important than maximizing returns.

Appendix B – Financial Advisor Types

The term "Financial Advisor" is used in the industry to cover many different designations. The most common designations recognized by the SEC and state are: Broker, Financial Planner, Investment Advisor and Chartered Financial Analyst. The Broker and Investment Advisor are registered at the state or SEC level and the Financial Planner and Chartered Financial Analyst are certified by an independent body that is recognized by the state and SEC. It is important to know the designations of a Financial Advisor before you hire them.

You can check to see designations, education and any disputes against advisors by going to www.finra.org. Enter advisor name under Broker Check to find out info on an advisor or enter company to review the business with the ADV2 or ADV1. You can also go to the SEC website https://adviserinfo.sec.gov Select "Investment Advisor Search", insert Investment Advisor Firm or CRD# and click State or SEC. View the ADV I. Next select Part 2 Brochures on the left side then click on ADV2 Company Name to bring up the ADV2. You can also ask your advisor for a copy of their ADV 2 Form or U-4 Registration Form if they are a broker.

An Independent Registered Investment Advisor is often the best choice of financial advisor. The goal of the RIA is to help find solutions that are closely aligned with client needs and objectives. Their advice is based on what's best for the client. They have a deeper understanding of the client's situation and goals. They often can give advice on complex needs like stock option management. The asset based fee structure is simple and easy to understand. Assets are held by outside custodians for transparency and safety.

2016 Department Labor Rule (Q2 2017)
Brokers are now required to put their client's interest ahead of their own (fiduciary) when dealing with retirement accounts like 401 (k), IRAs. The rule will reduce recommendations in heavily commissioned products like variable annuities and non-traded real estate trusts. Management fees may rise as commission fees fall. Advisor AUM minimums may rise forcing some to use Robo advisors. Products sold on commission will require a Best Interest Exemption (BICE) extensive contract between advisor and client must be drafted and signed. The contract contains all disclosure including detailed fees, fiduciary duty, no misleading statements and conflict of interest mitigation plan.

FINANCIAL ADVISOR DESIGNATIONS

	BROKER/DEALER (Agent)	FINANCIAL PLANNER	INVESTMENT ADVISOR (Representative)
REGISTRATION	Registered with the state or SEC.	Certified by an independent body. Recognized by the state or SEC.	Registered with the state or SEC.
EDUCATION	Pass the Series 6 or 7 exam.	Pass the CFP exam.	Pass the Series 65 exam.
FIDUCIARY RESPONSIBILITY	Sell you investments suitable for you. More sales and less disclosure. Looking out for their own interest first. Higher level of customer disputes.	Sell you investments suitable for you. More sales and less disclosure. Looking out for their own interest first. Some customer disputes.	Advice must put the clients' interests ahead of their own. Full Fiduciary Responsibility. High level of disclosure. Lower level of disputes.
DISCRETIONARY POWER	Each transaction requires client approval.	Each transaction requires client approval.	Most advisors have discretionary power to select, purchase and sell securities.
PRODUCTS	All securities. No portfolio management.	Advice on mutual funds, insurance, annuities, estate planning and retirement planning. Portfolio design and management outsourced.	Investment advice, investment selection and portfolio design & management.
FEE STRUCTURE	Commission based. Transaction fees and commissions for securities sold.	Fee and Commission based. Hourly fees for advice or front-loaded commission products.	Fee-Only Based. Flat fees, hourly fees, asset-based fees. (0.6% to 2.0%)

The Need for a Financial Advisor

A financial advisor should help keep clients engaged and focused on rational decision making to maintain alignment with their financial goals and protect long-term security. You should always seek professional advice unless you receive training, invest in the proper tools, and are willing to put the time into managing your portfolio. The investment process is complicated and requires strict discipline without emotion. Without professional guidance, you will likely produce mediocre returns, and may not meet your retirement goals.

Reasons to hire a financial advisor.

- You do not have the time, knowledge or tools to design & manage a portfolio
- You are worried about having enough money to retire
- You do not have a written long-term investment plan to get you to retirement
- Are only using basic investment strategies, producing mediocre returns
- You panic and sell at market bottoms