



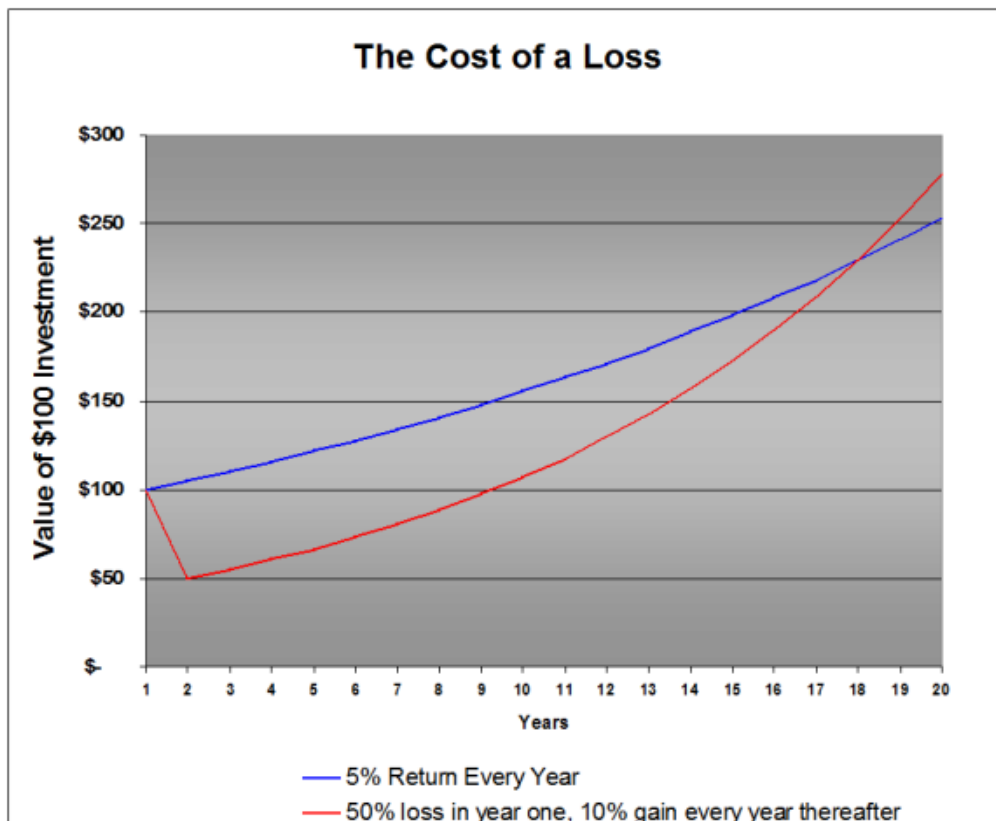
The Stonegate Wealth Management Investment Process

What we do:

Portfolio Construction:

Stonegate Wealth Management constructs globally diversified portfolios based upon the level of risk tolerance that you choose based on your situation. Your portfolio's holdings are allocated across a broad set of asset classes. At Stonegate, we believe in the active management of your assets and use a proven, and rigorous selection process to identify the best money managers in each asset class. Here are the key criteria we use to select managers:

1. **Performance:** We identify managers whose returns exceed the market relative to an applicable benchmark. (Positive Alpha)
2. **Track Record:** Consistency is a key indicator of a manager's ability to maintain their performance over a long period of time. We typically look for track records of 10 years or more.
3. **Minimal Downside Capture:** We look for managers who manage their risk effectively and perform better than the markets in bad years. The reason we place a heavy emphasis on performing better than the market in bad years is that it's much more difficult to recover from a loss than it is to achieve steady consistent growth. The chart below illustrates the cost of a loss over a 20-year time period:



4. Standard Deviation: is a measure of risk of a security and/or portfolio. Stonegate Wealth Management selects only managers whose performance shows the least amount of risk relative to the asset class and investment strategy they use.

5. Re-Evaluation - Stonegate Wealth Management's investment committee is always evaluating its selection of managers and monitoring their performance. If a selected manager begins to under-perform our selection criteria, or a better alternative arises, we replace the manager in all Stonegate accounts. As a result, our dedicated screening and evaluation process adds value to your portfolio

Portfolio Management:

We review your portfolio on a regular basis to ensure that the allocations are properly balanced. We are able to do this for all of your accounts and for all of our clients by utilizing a process called **contingent rebalancing**.

What is Contingent Rebalancing?

Contingent rebalancing is the use of a group of assets whose correlations are different from one another to create a systematic process for "buying low" and "selling high". The next part of the equation is using a tolerance threshold because rebalancing too often, or not enough will have an adverse effect on your portfolio. To elaborate further, a portfolio's tolerance threshold for rebalancing purposes is how much more or less an asset class's value has become relative to the original asset allocation. At Stonegate Wealth Management, we have read various studies as well as conducted them, and we have found that using a +/-20% tolerance threshold for assets in your portfolio best ensures that your asset allocation remains balanced over time.

Example:

Your portfolio allocates 40% to Stocks and 60% to Bonds. A rise in interest rates causes a drop in demand for Stocks and an increase in demand for Bonds. As a result, in 2010, the Stocks in your portfolio depreciate 25%, and the Bonds appreciate 25%.

The table below illustrates what would happen if such an event were to occur and triggered the 20% threshold signaling it is time to rebalance your portfolio:

2010 Stocks +25%, Bonds -25%
(Based upon a \$100,000 Portfolio, Example Only)

Original Allocation:

Asset Class	Allocation	\$ Amount
Stocks	40%	\$ 40,000.00
Bonds	60%	\$ 60,000.00
Total	100%	\$100,000.00

Asset Levels at the end of 2010:

Asset Class	Allocation	\$ Amount	Plus 20% Threshold Amount	Minus 20% Threshold Amount
Stocks	28.6%	\$ 30,000.00	\$ 48,000.00	\$ 32,000.00
Bonds	71.4%	\$ 75,000.00	\$ 72,000.00	\$ 48,000.00

In this instance, the portfolio's percentage of Stocks exceeds -20% of the amount that the portfolio's asset allocation called for, thus rebalancing is triggered.

Post Rebalance Allocation:

Asset Class	Allocation	\$ Amount
Stocks	40.0%	\$ 42,000.00
Bonds	60.0%	\$ 63,000.00
Total	100%	\$105,000.00

As you can see above, we restored our original asset allocation of 40% Stocks, and 60% Bonds which allowed your portfolio to sell Bonds at a "high" price, and buy Stocks at a "low" price; the ideal situation.

What is the value of rebalancing?

Rebalancing is like pruning a shrub in your front yard. If you let it grow uncontrolled, eventually you find that some of the branch(es) will have grown faster than the others. The result is a shrub tilted heavily in one direction. It appears "out of balance" and hampers the growth of the entire plant as a whole.

However, if you trim the shrub back on a regular basis, all of its branches are able to grow in unison over time for the greater good of the entire plant. Keep in mind, just as you don't want to prune your shrub too little, you also don't want to prune too often as both carry the effect of stunting meaningful growth

The same principle applies to rebalancing in portfolio management.,

For simplicity's sake, we will use two asset classes, Stocks, and Bonds. These two asset classes in any given year are either negatively correlated, or have a weak positive correlation. (Note: Correlation is used to measure the degree of relationship between two assets and/or asset classes. A positive correlation means the asset classes move in the same direction in any given market. A negative correlation means they move in opposite directions of one another in any given market)

For the purpose of our example, we will use two portfolios, Portfolio A and Portfolio B. Both portfolios will originally be allocated to 50% Stocks / 50% Bonds. At the end of each year, with Portfolio A, we will do nothing, with Portfolio B, we will rebalance to restore back to the original asset allocation.

The tables and graphs below illustrate the value derived from rebalancing a \$1,000,000 portfolio on an annual basis at the end of each year over a period of 10 year:

Figure 1: This is what both Portfolio A and Portfolio B look like in our original asset allocation.

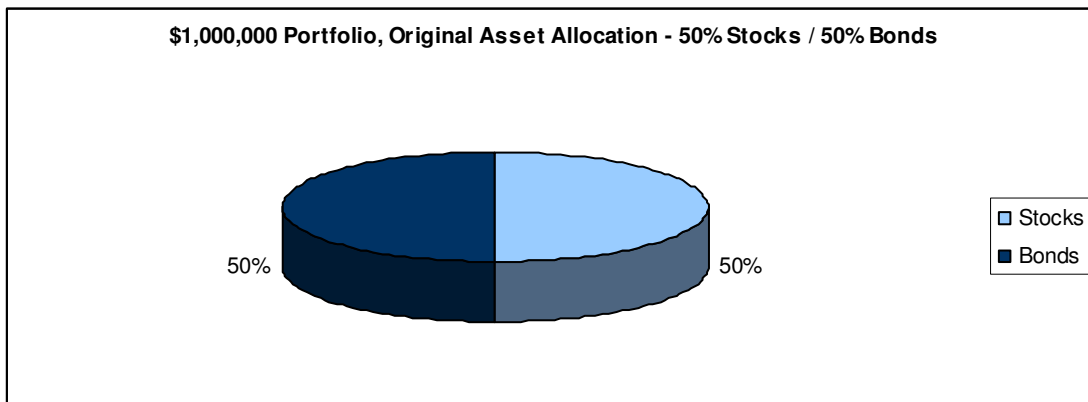


Figure 2: The table below illustrates the outcome of Portfolio A.

Returns	Asset Classes		Fair Market Value (FMV)	
	Stocks	Bonds	Stocks	Bonds
2010	10%	5%	\$ 550,000.00	\$ 525,000.00
2011	-10%	7%	\$ 495,000.00	\$ 561,750.00
2012	20%	6.00%	\$ 594,000.00	\$ 595,455.00
2013	40%	2.50%	\$ 831,600.00	\$ 610,341.38
2014	-22%	11%	\$ 648,648.00	\$ 677,478.93
2015	7%	5%	\$ 694,053.36	\$ 711,352.87
2016	15%	2%	\$ 798,161.36	\$ 725,579.93
2017	50%	-5%	\$1,197,242.05	\$ 689,300.93
2018	17%	10%	\$1,400,773.19	\$ 758,231.03
2019	-10%	3%	\$1,260,695.87	\$ 780,977.96
Total Assets		\$2,041,673.83		
Total 10-Yr Return		104.2%		

As you can see from the above table, Portfolio A no longer has its original asset allocation and has become weighted more heavily towards our riskier asset; Stocks. This result can be detrimental to a client who is nearing retirement if the stock market decides to take a dive, driving stock values down and the portfolio's value down with it. This is why we put an emphasis on rebalancing and maintaining your investment strategy.

Figure 3: The graph below shows how Portfolio A's asset allocation has deviated from our model after 10 years without the utilization of rebalancing.

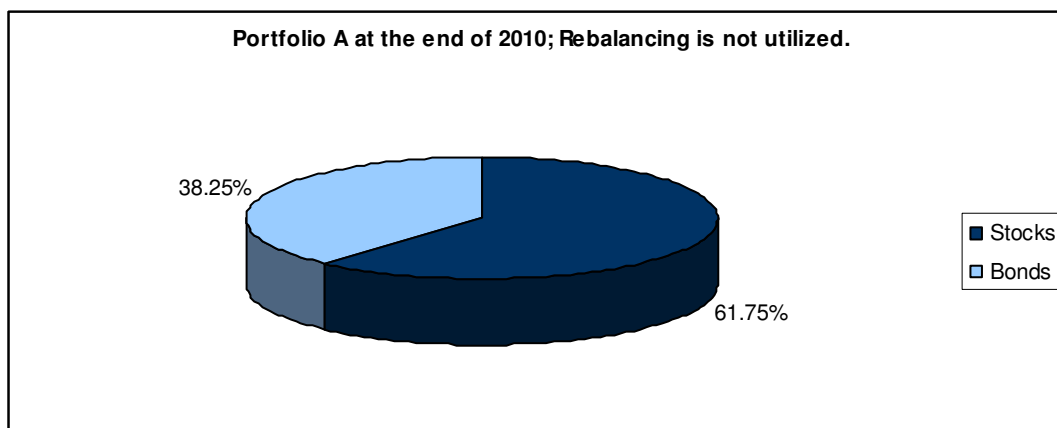
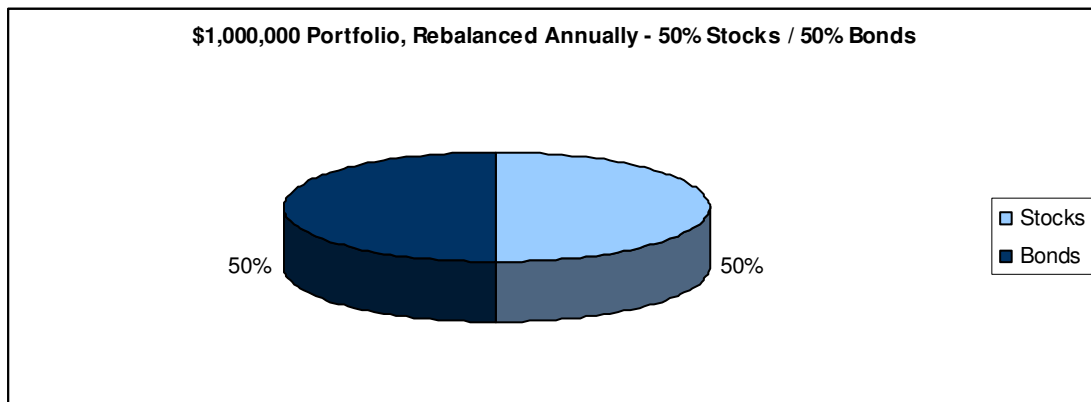


Figure 4: The table below illustrates the outcome of Portfolio B which rebalances at the end of each year.

Returns	Asset Classes		Fair Market Value (FMV)		Post-Rebalance FMV	
	Stocks	Bonds	Stocks	Bonds	Stocks	Bonds
2010	10%	5%	\$ 550,000.00	\$ 525,000.00	\$ 537,500.00	\$ 537,500.00
2011	-10%	7%	\$ 483,750.00	\$ 575,125.00	\$ 529,437.50	\$ 529,437.50
2012	20%	6.00%	\$ 635,325.00	\$ 561,203.75	\$ 598,264.38	\$ 598,264.38
2013	40%	2.50%	\$ 837,570.13	\$ 613,220.98	\$ 725,395.55	\$ 725,395.55
2014	-22%	11%	\$ 565,808.53	\$ 805,189.07	\$ 685,498.80	\$ 685,498.80
2015	7%	5%	\$ 733,483.72	\$ 719,773.74	\$ 726,628.73	\$ 726,628.73
2016	15%	2%	\$ 835,623.04	\$ 741,161.30	\$ 788,392.17	\$ 788,392.17
2017	50%	-5%	\$1,182,588.25	\$ 748,972.56	\$ 965,780.41	\$ 965,780.41
2018	17%	10%	\$1,129,963.08	\$1,062,358.45	\$1,096,160.76	\$1,096,160.76
2019	-10%	3%	\$ 986,544.69	\$1,129,045.58	\$1,057,795.14	\$1,057,795.14
Total Assets \$2,115,590.27 Total 10- Year Return 111.56%						

Here you can see that Portfolio B has maintained its original asset allocation on an annual basis at the end of each year, due to systematic rebalancing. As a result Portfolio B has outperformed Portfolio A over the past 10 years by 7.36% total return. Rebalancing has added additional value to Portfolio B by approximately 0.74% per year.

Figure 5: The graph below shows Portfolio B's asset allocation has remained balanced after 10 years utilizing rebalancing on an annual basis.



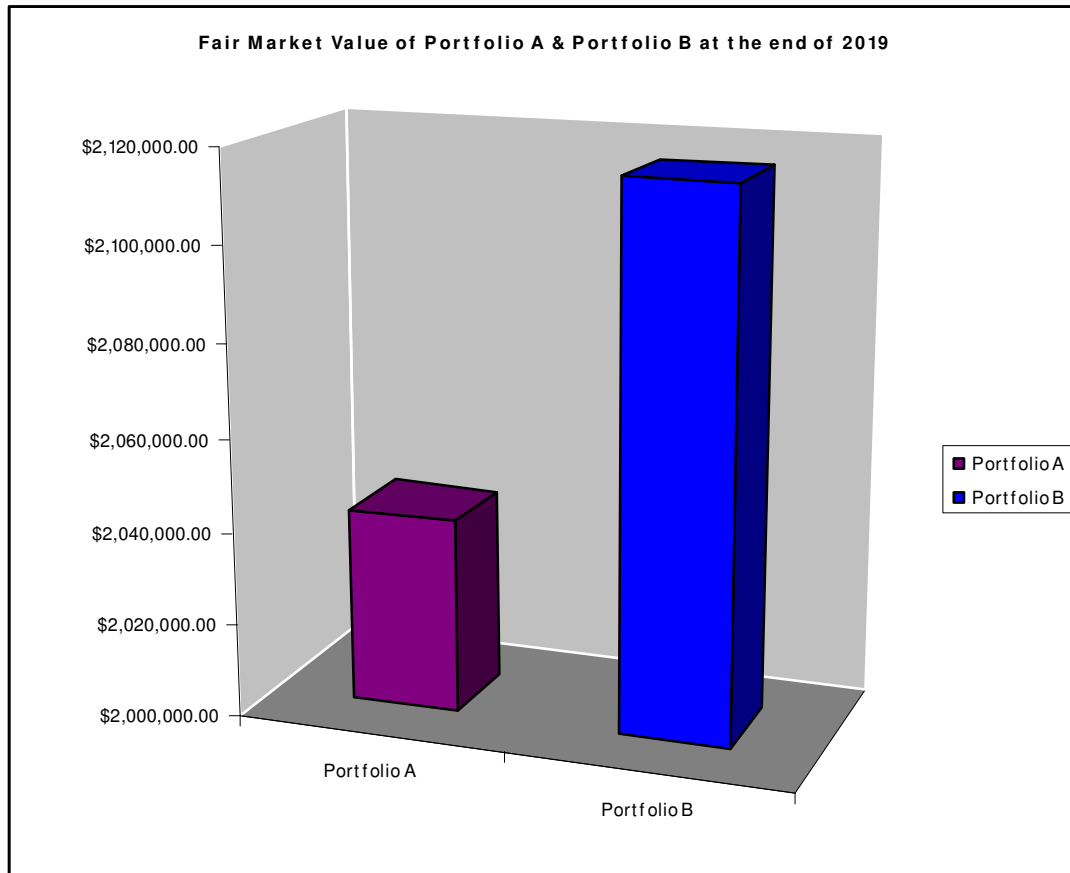
Bottom Line:

As you will see below by comparing the end result of the two tables below, even though we used the same two asset classes and the exact same return assumptions over a 10-year period of time, the portfolio value of Portfolio B ended up being significantly higher than Portfolio A because of periodic rebalancing.

Figure 6: Difference in Performance between Portfolio A and Portfolio B

	Portfolio A	Portfolio B	Difference
Total Assets	\$2,041,673.83	\$2,115,590.27	\$73,916.44
Total 10-Yr Return	104.2%	111.56%	7.39%

Figure 7: The graph below shows the difference in fair market value between Portfolio A and Portfolio B.



Facilitating Rebalancing

Rebalancing works best for portfolios that include:

- Assets that are not completely correlated with each other for example international bonds and domestic bonds or commodities and equity.
- Assets that have higher volatility; for example commodities and REIT's

Perhaps Michael Kitces said it best:

“Rebalancing introduces a genuine opportunity to create excess return in a diversified portfolio, as a systematic active management process of rebalancing volatile assets that do not always move in the same direction can indirectly create buy-low-sell-high opportunities over time. Consequently, a rebalanced multi-asset class portfolio can actually outperform a portfolio that is invested 100% in the highest returning asset, while a merely diversified-but-not-rebalanced portfolio cannot.”¹¹
