



Understanding Quarterly Statements

We provide you with reports every three months:

A brief description of the reports follows:

Portfolio Holding Statement: The holding statement provides a summary of all or your accounts consolidated and broken down by asset class and type of security. Thus you will see assets broken into major asset class categories such as bond funds and US stock funds, etc. Within each major category they are broken down into sub-classes such as domestic large cap growth, or domestic large cap value, or small cap value.

The columns in the report include:

1. **Weight:** This indicates the percent weight each individual category, sub category and actual security represents of your total portfolio.
2. **Description:** Includes the category, sub category and actual name of the security; for example “Clipper” fund.
3. **<1>,<2>, etc:** Corresponds to the actual account that holds the asset; for example Deborah Barnes IRA, a summary of each account’s titling and type is at the end of the report.
4. **Quantity:** Indicates the number of shares of each type of security held.
5. **Cash Invested:** Shows the amount of money actually invested in each security and asset class.
6. **Cost Basis:** Indicates the actual tax basis of each security. This figure is usually different from cash invested if distributions, and dividends have been automatically reinvested increasing your cost basis. For IRA’s and other tax-deferred accounts this data is not important.
7. **Current Value:** Is of course the value of the security, asset class and category based on prices on the date indicated at the date below the title of the report. Note that totals for asset classes, categories, and your entire portfolio are provided.
8. **Actual Net (IRR):** Indicates the actual, net internal rate of return for each security since it was purchased. Return is provided for each asset category and asset class since you have been invested in them. The total return for your account is shown at the end of the report that is the total return since we have been managing your portfolio.
9. **Annual Net (IRR):** Is the same as above but is averaged over the period of time to indicate the average return per year.

Transaction Summary: The transaction summary shows all activity for all of your accounts for the three months reported. The columns which should not need any explanation include: Trade Date, Activity, Description, Quantity, Principal Amount, and Portfolio Number. This summary will include all trades, distributions, reinvestment activity, and expenses to your accounts. It will also show our management fee begin billed against your account.

Billing Statement: The billing statement will indicate the value of your portfolio when the fee is drawn. It will also show what rate is used to generate the total amount billed. The total amount billed will always be adjusted for flows into and out of your account, the prorating for such amounts is deducted from the total amount billed to indicate the actual amount billed. Then a breakdown of the fee for each of your accounts is shown. Please note that computation of the total fee is based on the value of your account at the end of the three months.

17-17 Route 208, Suite 250, North, Fair Lawn, NJ 07410 ♦ Phone: 201-791-0085 Fax: 201-625-6303

www.stonegatewealth.com

Registered Investment Advisors

Portfolio Performance Review: The Portfolio Performance Summary report shows time-weighted and/or internal rates of return (either net or gross of fees) at the portfolio level for up to 8 time periods, such as current quarter, year to date, since inception, current year, trailing 12 months.

For each report period, the report includes a summary of activity for each report period that includes the beginning and ending values, total deposits and withdrawals, and net investment gain or loss. The summary can also include all internal activity: interest, dividends, realized gains, unrealized gains, management fees, and other expenses.

This report can also show market index returns for comparisons, including a blended index matching the asset allocation policy of the portfolio (portfolio target).

Frequently Asked Questions:

1. For some of the items in the Portfolio Holding Statement, we see IRR's that are positive even though there is an unrealized loss. For example: a fund shows a loss of (\$1584.60), but the statement shows an IRR that is 10%.

When a fund makes a distribution and the distribution is reinvested your cost basis in the fund increases since that distribution is considered an additional investment from a tax standpoint. Let's assume you invest \$100 in a fund and the fund distributes \$10 which is reinvested in the fund so now your cost basis is \$110. If the fund is priced at \$107 you have made money in the investment and it has a positive IRR but if you sold it you will show a loss from a tax standpoint.

2. We don't always see a meaningful or consistent correlation between annual and actual Net IRR. We thought when the percentage was "annualized" that the "actual" amount was applied over the remainder of the 12-month period. We know that the annual IRR is only a projection, but there are cases where the Actual is high but the Annual is lower, or a negligible difference between the two. Is there some other formula that you use to convert actual into annual? For example: XYZ fund is showing an actual IRR of 1.34% and an annual IRR of 14.46%. Fund ABC shows an actual IRR of 23.84% but an Annual of 11.84%. As a third example fund UVW has an actual of -5.33% and an annual of -42.71%.

We'll take these one at a time.

- For XYZ and UVW funds when the actual IRR for an investment is less than the annual IRR it generally means you've owned the investment for less than a year and the annual IRR is a projection of what you would earn if you held the investment for an entire year and its performance continued at the rate it has.
 - Fund ABC is an example of an investment that has been held for more than one year. For those investments the software merely takes the total return or actual IRR and effectively computes what the average annual return has been.
3. How come the value shown in my Stonegate statement does not match the amount shown in Schwab's statements?

Very simple! If you own individual bonds in your account our software calculates the accrued (but not paid) interest due on the bond. Schwab does not include that on their statements. The true value of a bond if you sell it always must include a prorated amount for the unpaid coupon. Thus if you have a bond that makes a biannual coupon payment say January 1 and July 1 and sell it on April 1 the purchaser of the bond must include the prorated interest payment in their purchase price. So if the bond has \$100 coupon and makes two payments of \$50 on April 1 you are owed half of the payment of \$25 from the purchaser of the bond.

4. How come the cost basis for some of my holdings is zero?

Usually if this is the case it means you had the holding transferred to our custodian from another brokerage firm and you did not provide us with cost basis information. If you have it available to you we are happy to hand enter it into our system. This is a “best practice” since once we sell the holding we can provide a report showing you your gain from a tax standpoint.

5. How is the “cash invested” figure on my reports calculated?

For securities that allow reinvested dividends (equities, mutual funds, and user defined), cash invested is the average price per share multiplied by the current quantity of shares held, where average price per share is:

Total Cost of All Shares Bought

Total Shares Held

For all other securities, cash invested is the same as the cost basis.

Note

Only additional purchases affect Cash Invested. Dividends, reinvested or not, do not affect the calculation except for the total amount of shares held.

6. What is the difference between IRR and TWR on performance reports?

The IRR provides a measure of the growth of a portfolio in absolute terms, so it is useful for determining if a portfolio is growing fast enough to meet a future need or goal. The TWR measures investment performance (income and price changes) as a percentage of capital "at work," eliminating the effects of capital flows into and out of the portfolio.

Because an IRR is influenced by the timing and size of capital flows and a manager typically has no control over the timing or size of contributions and withdrawals, the IRR is not suitable for determining the relative skill of the manager.

Also, because it is influenced by the timing and size of capital flows, the IRR cannot be compared to a market index or the results of other asset managers. The market index does not include the impact of the capital flows. Therefore, the TWR is a better measure to compare with indexes.

7. How come the actual net IRR and the annual net IRR for an asset category are positive yet when I look at the individual return figures for the funds the numbers are negative?

When our performance software calculates the performance for an asset class it does not just incorporate the performance for the current holdings, it also incorporates the performance for all prior historical holdings for that asset class. Thus if you held ABC fund and it was up 35% when it was sold the performance for the asset class may be 33% even though the performance for the new holdings may be -5%.