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Investment Philosophy

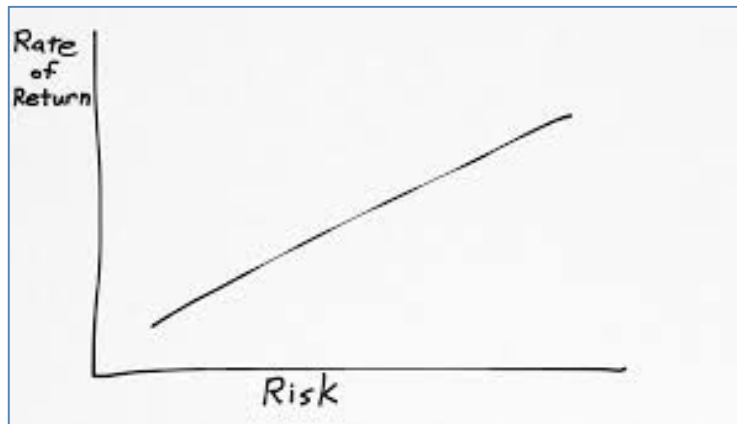
INTRODUCTION

There are many different variables that affect an investment account, like *risk*, *diversification*, *asset allocation*, *return*, *active management*, *passive management*, and on and on. These should be important to your Wealth Advisor¹ and who should have a position of where they stand on these and variables. This document is to help explain our approach to managing accounts.

FOCUS ON RISK

You've probably seen a graph like the following graph. What stands out to you, rate of return or risk? The difference is subtle but very important.

We say, "*While I can mathematically calculate the 'Risk' of a portfolio, I can never **know** the risk of the portfolio.*"



In other words, a formula can create a "risk" value for a portfolio. But, the actual risk of the portfolio is based on what happens in the future.

For successful, long-term investing, we believe it is very important to focus on risk.

¹ Investment advisory services offered through Eagle Strategies LLC, a registered investment adviser.

DIVERSIFICATION*

Hopefully, you have heard or read on *diversification*. This is a very simple concept – namely, "Don't put all your eggs in one basket."



Taking Turns at the Top – Key U.S. Equity Sectors Annual Total Returns for Key U.S. Equity Sectors—Ranked In Order of Performance

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Best	Oil & Gas 32.43	Oil & Gas 34.09	Telecom 36.83	Oil & Gas 34.84	Health Care -22.80	Basic Materials 65.51	Basic Materials 31.73	Utilities 19.15	Financial 26.85	Consumer Services 42.17	Utilities 28.09
	Utilities 24.04	Utilities 15.35	Oil & Gas 22.77	Basic Materials 32.86	Consumer Goods -25.69	Technology 64.48	Industrial 26.02	Health Care 11.75	Consumer Services 24.17	Health Care 41.98	Health Care 25.76
	Telecom 18.70	Health Care 8.32	Utilities 21.28	Utilities 17.76	Utilities -30.25	Consumer Services 33.68	Consumer Services 23.72	Consumer Goods 8.80	Health Care 19.26	Industrial 40.61	Technology 20.04
	Industrial 17.25	Financial 6.46	Financial 19.42	Technology 15.70	Consumer Services -30.82	Industrial 26.07	Oil & Gas 19.70	Consumer Services 7.14	Telecom 18.79	Financial 34.22	Financial 14.59
	Financial 13.39	Basic Materials 4.96	Basic Materials 17.63	Industrial 13.57	Telecom -32.93	Consumer Goods 23.86	Consumer Goods 19.50	Oil & Gas 4.11	Industrial 17.87	Consumer Goods 30.55	Consumer Services 14.53
	Basic Materials 13.05	Industrial 4.82	Consumer Goods 14.91	Telecom 10.04	Oil & Gas -35.77	Health Care 21.71	Telecom 17.74	Telecom 3.97	Consumer Goods 12.80	Technology 26.96	Consumer Goods 12.11
	Consumer Goods 13.02	Technology 3.31	Consumer Services 14.36	Consumer Goods 9.69	Industrial -39.55	Oil & Gas 17.26	Financial 12.72	Technology 0.16	Technology 12.08	Oil & Gas 26.14	Industrial 7.30
	Consumer Services 10.27	Consumer Goods 2.04	Industrial 13.87	Health Care 8.36	Technology -42.87	Financial 17.11	Technology 12.58	Industrial -0.79	Basic Materials 10.49	Basic Materials 20.38	Basic Materials 3.39
	Health Care 4.55	Consumer Services -1.93	Technology 10.10	Consumer Services -7.18	Financial -50.40	Utilities 12.58	Utilities 7.80	Financial -12.84	Oil & Gas 4.71	Utilities 15.20	Telecom 2.39
Worst	Technology 1.76	Telecom -4.00	Health Care 6.88	Financial -17.66	Basic Materials -50.82	Telecom 9.85	Health Care 4.52	Basic Materials -14.72	Utilities 1.76	Telecom 14.13	Oil & Gas -9.27

The Dow Jones U.S.

- Basic Materials: Producers of raw materials, who may also make finished or semi-finished products from raw materials.
- Consumer Services: Measures the performance of consumer spending in the services industry of the U.S. equity market.
- Consumer Goods: Measures the performance of consumer spending in the goods industry of the U.S. equity market.
- Oil & Gas: Measures the performance of the energy sector of the U.S. equity market.
- Financial: Companies whose primary source of profits is the return on financial assets.
- Health Care: Includes medical products, pharmaceuticals, and health care providers.
- Industrial: Capital goods manufacturers and companies that provide industrial services.
- Technology: Industries experiencing rapid product changes due primarily to scientific advances.
- Telecom: Includes fixed-line communications and wireless communications.
- Utilities: Electrical, water, natural gas, and telephone utilities.

Past performance is no guarantee of future results.

The chart above represents the fluctuating performance for various indices that represent certain asset classes, ranking them from highest to lowest based on annual total returns. Source: Morningstar, December 31, 2014. Indices are unmanaged, and one cannot invest directly in an index. The indices above do not represent the performance of any specific investment.

This chart is called the "Callan Periodic Table of Investments". It shows the actual return of different asset classes for a given calendar year. What is important are the colors. While trends exist (certain color boxes tend to stay in certain ranges) you see wild movements of the boxes. Also note the cyclical nature of the movement of the boxes.

We believe all portfolios need appropriate diversification.

* Diversification does not guarantee profit or protect against loss in declining markets

ACTIVE VERSUS PASSIVE MANAGEMENT

Some might be asking, "What's Active versus Passive?" while others of you have read about this and fall into the camp of Passive. *Passive Management* simply means that the manager buys and sells based on a specific *benchmark* or *index*². The *benchmark* is the price for one share of all the assets in a specific asset class (The S&P 500 is an example). *Active Management* means there is a fund manager or team that decides what to buy/sell, how much and when with a goal of beating the benchmark's return.



We believe there are pros and cons to both and do not base our recommendations on whether a manager follows an active or passive approach.

MONITOR THE ACCOUNT

Clients care about whether or not their advisor is monitoring their account.

Weekly, we take a "30,000 foot level" view of every account. We are looking for abnormalities in the balances of the accounts. Once a month we do a "10,000 foot level" view of the account, considering the risk and return of each fund within the account and comparing it to other similar funds. Each quarter we delve at a low level on the account, looking more into the funds and whether we should recommend any modifications to the portfolio.



BE THERE FOR THE CLIENT

We meet with our clients as often as they like, but not less than as least once a year. Generally, when an account is new, clients prefer to meet quarterly. After a comfort level is built, this is reduced to annually.



² It is not possible to invest directly in an index.

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