INVESTMENT RISKS

Market Risk

Inflation Risk

Tax Risk

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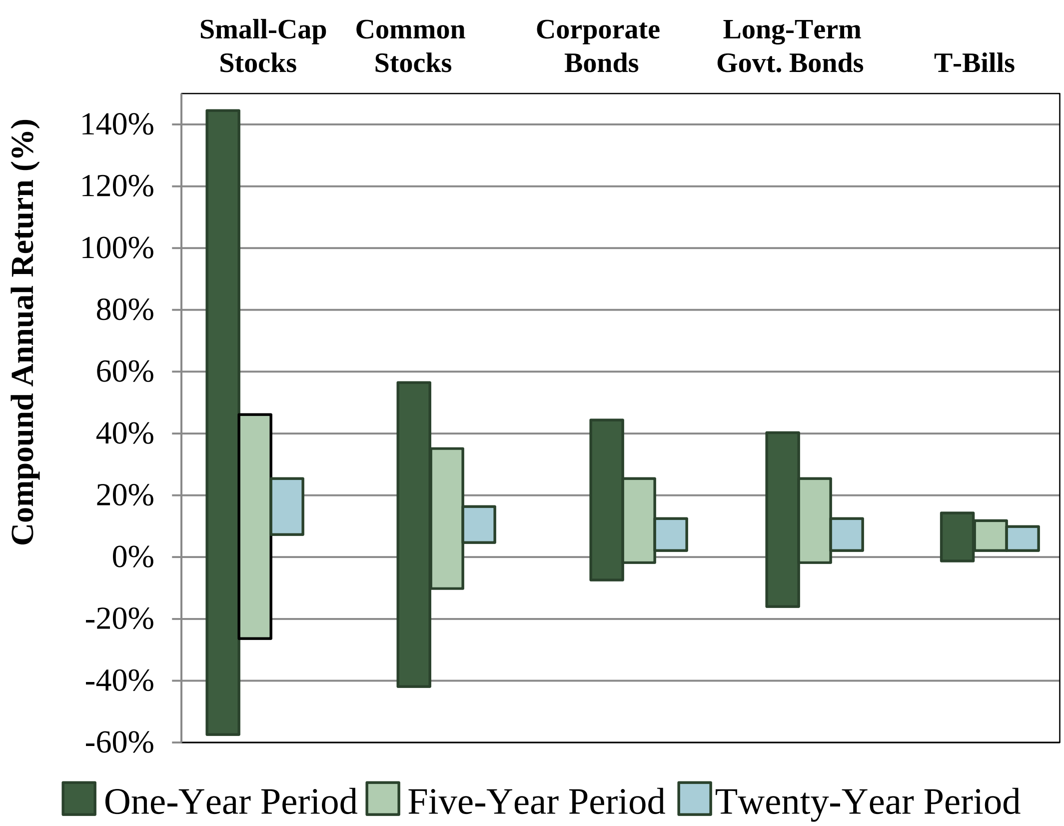
MARKET RISK

Market Risk is short-term. It diminishes as the time horizon lengthens.

S&P 500 Volatility by Investment Time Frame, 1926-2017

Increments	Up (periods)	Down (periods)
One year	68	24
Five years	76	12
Ten years	79	4
Twenty years	73	0

Reduction of Risk over Time, 1926-2017



Source: 2018 SBBI Yearbook

INFLATION RISK

Inflation reduces the purchasing power of assets over time.

Inflation and Investment Returns: Percentage of Time Asset Class Beat Inflation, 1926-2017

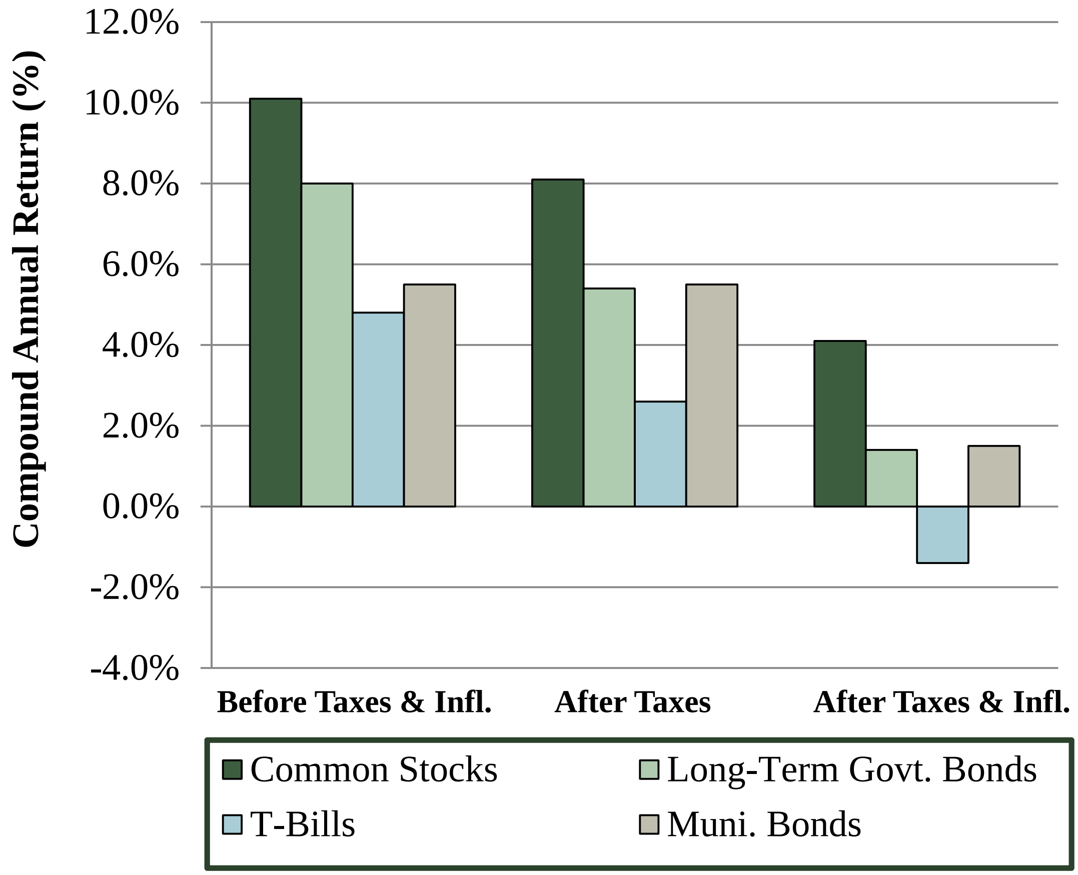
Holding Period	Stocks	Bonds	T-Bills
One year	70%	60%	59%
Five years	75%	65%	58%
Ten years	88%	60%	58%
Twenty years	100%	53%	70%

Source: 2018 SBBI Yearbook

TAX RISK

Tax Risk is the most significant risk to compounding investment returns over time.

The Effects of Inflation and Taxes, 1969-2017



Source: 2018 SBBI Yearbook

Additional Considerations

Turnover
Long-term gains vs. income
Mutual fund risk
Control over timing tax consequences

PORTFOLIO STRATEGY

A. Conservative – income-oriented

B. Moderate Growth – balanced portfolio

C. Aggressive Appreciation – minimal income

Portfolio Strategies

A.		B.		C.
Current Income (0-2 years)	Capital Preservation (2-4 years)	Moderate Growth (5-7 years)	Wealth Building (8-14 years)	Aggressive Appreciation (15 years)
Liquidity and income 100% short-term (80% bonds; 20% cash)	Two-year horizon 50% cash 20% stocks 30% fixed-income	Five-year horizon 20% cash 40% stocks 40% fixed-income	Ten-year horizon 5% cash 65% stocks 30% fixed-income	Unlimited horizon 100% equity

Source: AIMR Publications, October 1995

INVESTMENT POLICY

- **Investment Objective**
- **Risk Tolerance**
- **Appropriate Investments**
- **Asset Allocation**
- **Expected Return**
- **Investment Style**
- **Tax Considerations**
- **Administrative Set-up**
- **Monitoring and Review**

Factors in Selecting an Investment Objective

Strategy	Very Important	Somewhat Important	Not Important
Maximum growth	Growth Outperform inflation		Income Stable market value Liquidity
Growth with moderate income	Growth Outperform inflation	Income	Stable market value Liquidity
Growth and income	Growth Income	Stable market value Outperform inflation	Liquidity
Income with moderate growth	Income	Growth Stable market value	Liquidity Outperform inflation
Income	Income	Liquidity Stable market value	Growth Outperform inflation
Stable value	Stable market value Liquidity	Income	Growth Outperform inflation

Source: AIMR Publications, October 1995

INVESTMENT POLICY

Expected Return

Historical Investment Returns

	1926-2017 92-Yr. Avg.	2013-2017 5-Yr. Avg.	Best Year	Worst Year
Stocks	10.2%	15.8%	54.0%	-43.3%
Bonds	5.5%	3.2%	40.4%	-14.9%
Cash	3.4%	0.2%	14.7%	0.0%

Source: 2018 SBBI Yearbook

Asset Allocation Stocks / Bonds	STOCK MARKET PERFORMANCE -40%	-20%	0%	20%	40%	Projected Returns (Based on Historical Assumptions)	
	Portfolio Performance (given stock market performance indicated above)						
0% / 100%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
20% / 80%	-5.60%	-1.60%	2.40%	6.40%	10.40%	3.50%	3.90%
40% / 60%	-14.20%	-6.20%	1.80%	9.80%	17.80%	4.00%	4.80%
60% / 40%	-22.80%	-10.80%	1.20%	13.20%	25.20%	4.50%	5.70%
80% / 20%	-31.40%	-15.40%	0.60%	16.60%	32.60%	5.00%	6.60%
100% / 0%	-40.00%	-20.00%	0.00%	20.00%	40.00%	5.50%	7.50%

Projected return on bonds: *3.00%*

* *Historical returns on stocks:* *5.5%* *7.5%*

* *The historical range of average annual returns on stocks is 5.5% - 7.5% over long periods of time, although annual performance varies widely (see table above).*

This table depicts the risk and return potential for a portfolio comprised of various equity and fixed income weightings, assuming returns of -40.0% to +40.0% in the stock market and 3.0% for bonds. The table is presented for illustrative purposes only to facilitate a risk/return analysis. Actual performance may differ and could be worse than the illustration depending upon the percentage decline in stocks during negative market years and upon the actual returns earned on bonds.