

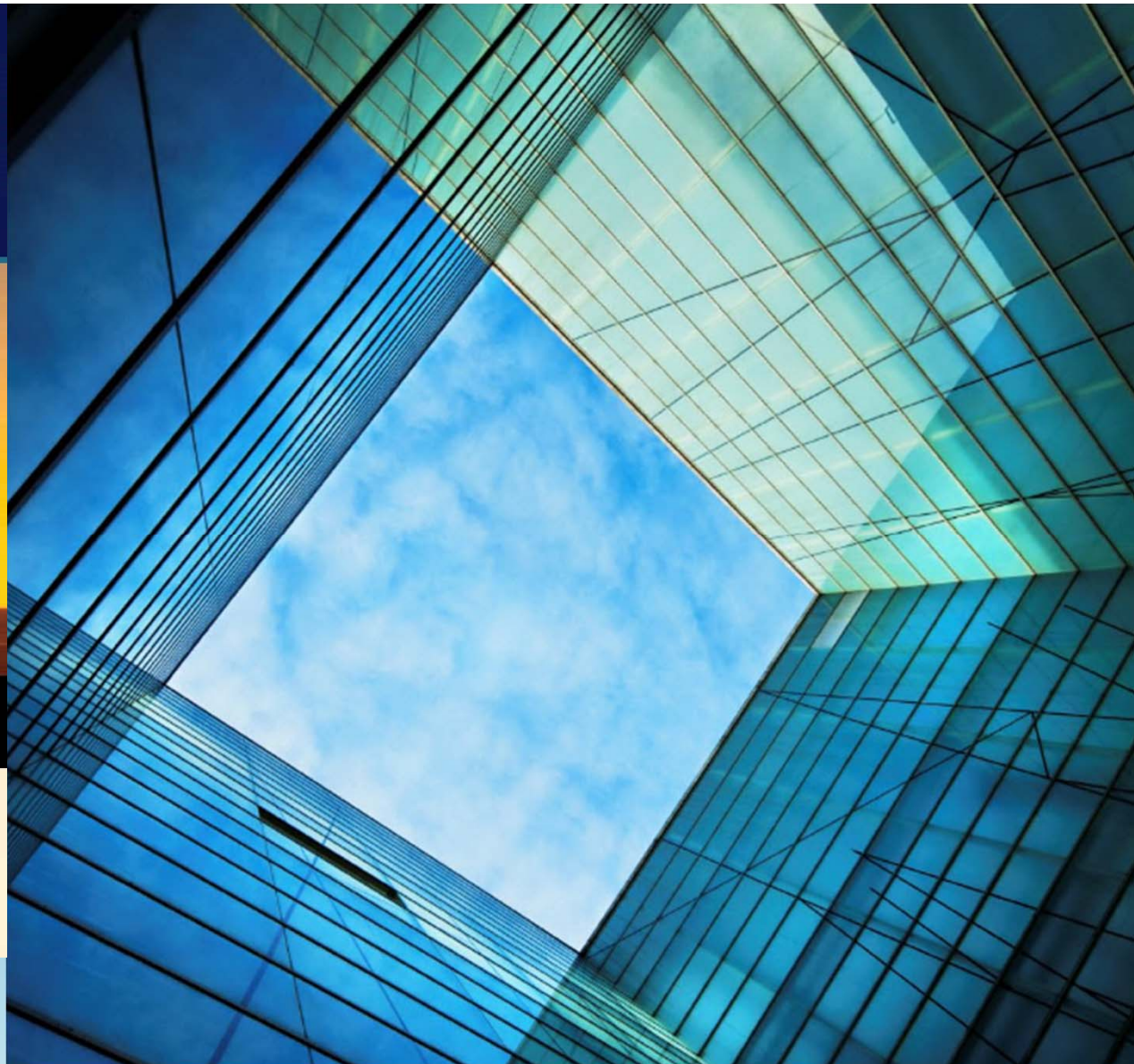
**Wealth is the absence  
of financial worry.**



**Our Investment Philosophy**



Securities offered through Cadaret, Grant & Co., Inc., member FINRA/SIPC.  
Advisory services offered through Waterford Advisors LLC, an SEC Registered Investment  
Advisor. Waterford Advisors, LLC and Cadaret, Grant & Co., Inc. are separate entities.



# Our Investment Philosophy

Our Investment Philosophy is goal-focused and plan-driven, in a world that is market-focused and performance-driven. We believe that an investment portfolio is not a financial plan, but rather that a portfolio serves a financial plan. We comprehensively manage portfolios at a consolidated level, enabling you to achieve your long-term financial goals. To accomplish this we:

- Perform extensive due diligence in selecting a portfolio's investment securities.
- Minimize downside fluctuation through asset allocation and security selection.
- Construct the portfolio to be as tax-efficient as possible.
- Believe that the dominant factor in long-term, real-life financial outcomes is not investment performance, but investor behavior. Our real value lies in establishing and guiding investor behavior, not managing portfolio performance.
- Will not make economic or market predictions; instead we will insist on aligning the portfolio with your long-term financial goals.

*If your goals haven't changed, your portfolio shouldn't change.*



**“At Waterford, we  
take a different  
approach.”**



# Mutual Funds and Exchange-Traded Funds (ETFs)

The preponderance of our Model Portfolios have a combined composition of actively managed mutual funds, as well as, exchange-traded funds (ETFs) for their investment selections. Through the use of mutual funds and ETFs, we can design asset allocation portfolios that are suitable for an investor with multiple objectives including capital preservation, income-producing, income and growth, long-term growth, etc. while being as tax-efficient and cost-effective as possible.

## Mutual Fund

A mutual fund is a pooled investment vehicle that collects funds from many shareholders or investors to be professionally managed across diversified holdings such as stocks, bonds, money market instruments, etc.

## Exchange-Traded Fund (ETFs)

An exchange-traded fund (ETF) is a security designed to track the performance of a market benchmark or specific index (such as the S&P 500).

Investing in mutual funds and ETFs involves risk, including loss of principal. Funds are offered and sold by prospectus only. You should carefully consider the investment objectives, risks, expenses and charges of the investment company before you invest. ETFs trade like stocks, fluctuate in market value and may trade at prices above or below the ETF's net asset value. Brokerage commissions and ETF expenses will reduce returns. For more complete information about any funds, including risks, charges and expenses, please contact your financial professional to obtain a prospectus. The prospectus contains this and other information. Read it carefully before you invest.



Avoid timing  
the market



WATERFORD ADVISORS  
*Relationships Beyond Investing*

# Proven Principles

We believe that investors should follow a set of proven principles and appropriate practices in order to achieve long-term success. This often will require investors to adjust their investment behavior; our value as a “behavioral coach” is in educating the investor so that they can understand, follow, and ultimately benefit from these principles and practices.

**Faith in the Future:** The ability to look beyond what is happening today and focus on your long-term financial goals.

**Patience:** The ability to ask not what is working today, but what has always worked.

**Discipline:** The ability to follow the appropriate principals and practices and avoid inappropriate beliefs and behaviors. This means not allowing your emotions to guide your behavior.



Investment behavior—  
successful principles  
and practices

**“It won’t be the economy that  
will do the investors in, it will be  
the investors themselves.”  
- Warren Buffet<sup>1</sup>**

# Appropriate Practices

**Asset Allocation:** This involves dividing an investment portfolio among asset categories such as stocks, bonds, and cash. Asset allocation is the second primary determinant of the long-term rate of return a portfolio will earn – *investor behavior is the first*.

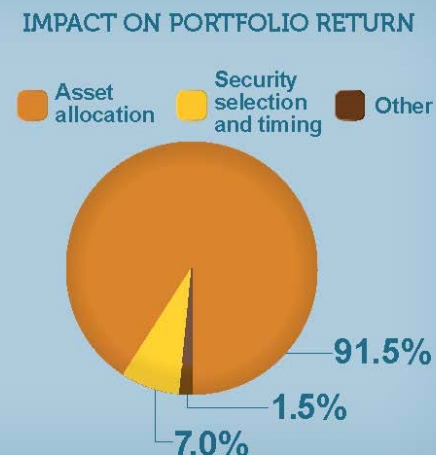
**Disciplined Diversification:** In addition to allocating your investments between stocks, bonds and cash, you will also need to spread out your investments within those asset categories (i.e., domestic stocks, international stocks, large company stocks, small company stocks, etc.).

**Rebalancing:** This involves moving the current asset allocation back in line with the originally planned asset allocation. Investments in a portfolio will change in value according to the market. Over time, a portfolio's current asset allocation can move away from an investor's original targeted asset allocation. Left unadjusted, the portfolio could either become too risky or too conservative relative to the investor's stated risk tolerance.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not ensure against market risk. There is no guarantee that any particular asset allocation or mix of funds will meet your investment objectives.

## fact>

*The updated Brinson study concluded that 91.5% of a portfolio's long-term return is determined by Asset Allocation. Security selection, timing, etc. account for less than 7% of a portfolio's return.<sup>2</sup>*



**“If you would like to feel rich,  
count your blessings.”**

# Behaviors to Avoid

We believe investors need to avoid or change certain detrimental behaviors and beliefs in order to continue their success. These include:

**Under-diversification:** The fatal narrowing of a portfolio, essentially down to one or two holdings (i.e., owning only what is currently working).

**Euphoria/Greed:** Thinking that “no price is too high, as the price can only go higher,” which leads to the complete loss of discipline and sense of risk.

**Panic:** The loss of long-term perspective. The incorrect belief that “this time is different” with a “get me out at any price” mentality. Panic can turn a temporary decline into permanent loss.

**Speculation:** Chasing rising prices, even as prices increase beyond reasonable values, and waiting until the market is higher before investing funds. Speculators chase price; investors embrace value.



**“Stocks are the only thing I know  
of that people avoid when they  
go on sale.”  
- Warren Buffet<sup>3</sup>**

## Behaviors to Avoid (cont'd.)

**Investing for yield instead of total return:** Many investors mistakenly view interest and dividend yield as the only source of total return. The highest yielding investments tend to have the lowest total returns. Total return includes the income received (dividends and interest), as well as capital appreciation, as illustrated in *Figure A* below.

**Letting cost basis dictate investment decisions:** Putting the portfolio at risk to avoid paying taxes currently, or the reluctance to sell an investment until it goes back up to the original purchase price.



FIGURE A: FORMULA FOR TOTAL RETURN





# Bear Markets

**Market corrections and bear markets are normal and should be expected.** Long-term investors who have stayed invested have been rewarded for their patience, even after significant temporary market declines.

**Frequency of bear markets:** Bear markets, defined as periods when the market goes down 20% or more from a peak to trough, happen frequently. In the last 116 years (1900 to 2016), bear markets have occurred 32 times – or about one out of every three and a half years. The average length of a bear market is 367 days.<sup>4</sup>

**The year after a bear market:** In the last 82 years (1934 to 2016), as measured by calendar year, the S&P 500 stock index has suffered total return losses of at least 20% in four different years. The most recent was a 37% decline in 2008. The index gained an average of +32% during the year after each of these four 20%+ tumbles.<sup>5</sup>

**Time to recover from a bear market:** Since 1926, it has taken an average of only 3.3 years for stocks to surpass their high set before the typical bear market began.<sup>6</sup>



**“Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in corrections themselves.”  
- Peter Lynch<sup>7</sup>**



## Bear Markets (cont'd.)

In the long run, the market cycle is an irregular pattern of excessive optimism followed by excessive pessimism and back again, cycling around a secularly rising trend line.

Jeremy J. Siegel, Professor of Finance at The Wharton School of Business and author of *Stocks for the Long Run* (3<sup>rd</sup> Edition) state that, “Bear markets, which frighten so many investors, are insignificant when compared to the upward movement of total stock market returns over time.”<sup>8</sup>

FIGURE B: THE 13 BEAR MARKETS IN THE S&P 500 SINCE THE END OF WWII<sup>9</sup>

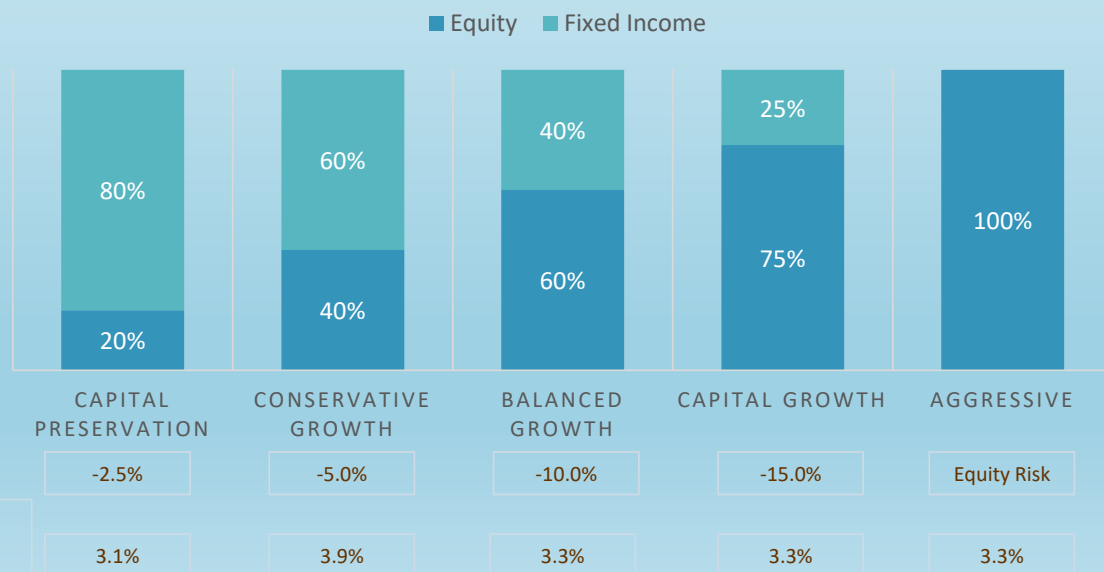
Bull Market Peak	Bear Market Trough	Duration (Months)	Return of S&P 500 (%)
5/29/46	6/13/49	36.5	-30%
8/2/56	10/22/57	14.5	-22%
12/12/61	6/26/62	6.5	-28%
2/9/66	10/7/66	8.0	-22%
11/29/68	5/26/70	18.0	-36%
1/11/73	10/3/74	20.5	-48%
9/21/76	3/6/78	17.5	-19%
11/28/80	8/12/82	20.5	-27%
8/25/87	12/24/87	4.0	-34%
7/16/90	10/11/90	3.0	-20%
7/17/98	8/31/98	1.5	-19%
3/24/00	10/9/02	30.5	-49%
10/9/07	3/9/09	17.0	-57%

# Loss Thresholds

Though we don't believe it is likely the maximum loss threshold would be breached in a typical market cycle, losses in excess of the threshold do occur, and breaches of this loss threshold can be expected during extreme bear markets. The above allocations represent our neutral portfolio weightings.



## LOSS THRESHOLDS



**Example:** A \$1,500,000 investor in our Global Balanced Portfolio Model (60/40 Asset Allocation) can experience portfolio value declines of 10%, or **\$150,000**, during any 12-month rolling period of normal market conditions (excluding bear markets and recessions; these periods of time will likely reflect temporary declines in excess of said "Loss Threshold").

Total Periods of data are > 300 rolling 12 month periods (over the last 25 years)

# Lump Sum vs. Dollar-Cost-Averaging

There are multiple strategies that an investor can implement when looking to invest in equity and fixed income markets. Of those strategies, lump sum investment and dollar-cost-averaging are two of the most common.

Historically, Investing Immediately Has Maximized Returns  
Average One-Year Returns



*"Investing Immediately" is S&P 500 return. "Dollar-Cost Averaging" assumes level investments for 12 months into the S&P 500 while holding the balance in cash. "Holding Cash" is the three-month Treasury bill return.*

*Source: FactSet; Roger G. Ibbotson and Rex A. Sinquefeld, "Stocks, Bonds, Bills, and Inflation: Year-by-Year Historical Returns," University of Chicago Press Journal of Business (January 1976); S&P and AllianceBernstein*

*Past performance does not guarantee future results. Historical returns based on 12-month rolling periods from 1926-2013.*



A relationship  
based on trust

# Advisory Fees

We are compensated based on a percentage of investable assets that we manage. Our fee covers ongoing comprehensive financial planning and investment advisory services related directly to achieving your financial goals and objectives.

Our fees are calculated as a percentage of investable assets and are applied on a regressive breakpoint schedule as shown below:

Asset Under Management	Annual Fee
Up to \$500,000	1.20%
\$500,001 to \$999,999	0.90%
\$1,000,000 to \$1,499,999	0.70%
\$1,500,000 to \$4,999,999	0.50%
Over \$5,000,000	0.35%

Our annual fee is prorated and deducted quarterly, in advance, based upon the market value of the assets on the last day of the quarter. Our minimum quarterly fee is usually \$1,500.

**Example:** A \$1,500,000 investor would have a blended fee of 0.93% per year or **\$14,000**. If the same investor's portfolio balance was exactly \$1,500,000 on the last day of each quarter throughout a calendar year, a management fee of **\$3,500** would be directly billed to the portfolio on the first business day of the subsequent quarter beginning. Therefore, regular billing dates throughout the year are on January 1<sup>st</sup>, April 1<sup>st</sup>, July 1<sup>st</sup> and October 1<sup>st</sup>.





# Recap: What We Do / How We Earn Our Fee

- 1/3 - Quantifying your financial goals and matching your portfolio to your long-term financial goals
- 1/3 - Coaching you to continue working with your plan through all cycles of the economy and all of the fads and fears of the market
- 1/3- Addressing and Coaching you through other areas of your finances: Estate Planning and Distribution, Risk Management, Income Tax Planning and Compliance, etc.
- 0 - Analyzing / interpreting the economy and current events
- 0 - Timing the market, calling tops and bottoms

“Those who judge their portfolio by its performance relative to some narrow benchmark are focusing on an issue that is largely irrelevant to their ultimate financial success” Nick Murray

# Sources

<sup>1</sup> Warren Buffet, BRK Annual Meeting 2004 Tilson Notes.  
<http://www.thebuffet.com>

<sup>2</sup> Gary P. Brinson, Brian D. Singer, and Gilbert L. Beebower, *Determinants of Portfolio Performance II: An Update*, *The Financial Analysts Journal*, 47, 3 (1991)

<sup>3</sup> Warren Buffet

<sup>4</sup> Dana Anspach, *Bear Markets – and Their Subsequent Recoveries*, About.com, <http://moneyover55.about.com/od/howtoinvest/a/bearmarkets.htm>.

<sup>5</sup> Dana Anspach, *Bear Markets – and Their Subsequent Recoveries*, About.com, <http://moneyover55.about.com/od/howtoinvest/a/bearmarkets.htm>.

<sup>6</sup> Mark Hulburt, *How to prepare for the next bear market*, Market Watch.  
<http://www.marketwatch.com/story/how-to-prepare-for-the-next-bear-market-2014-03-07>.

<sup>7</sup> Peter Lynch

<sup>8</sup> Siegel, Jeremy. *Stocks for the Long Run: The Definitive Guide to Financial Market Returns and Long Term Investment Strategies*. McGraw-Hill. 2002.

<sup>9</sup> Murray, Nick. *Simple Wealth, Inevitable Wealth*. The Nick Murray Company. 2013.





**Thank you for reviewing this presentation.**

**Please feel free to contact our office if you have any questions.  
We can be reached at: 716-580-3906 or [glk@waterfordadv.com](mailto:glk@waterfordadv.com)**