



OUR INVESTMENT STRATEGY

A Beacon of Light in a Status Quo World

The Status Quo

"You're in for the long-term, so don't worry about this temporary down market." Words to that effect are what you will hear most financial advisors repeating when your investment accounts are down. We like to call them asset gatherers, because the focus seems to be more on gathering new assets versus pro-actively managing your account.

Has Asset Allocation been Over-hyped for the Benefit of Asset Gatherers?

Typical asset allocation is the process of determining which percentage of a client's portfolio should be in stocks, bonds and/or cash, with the intention of maintaining that allocation for at least five years, barring some major change in the client's investment objectives.

What will not force a change in the allocation is market activity (the ups and downs). In fact, proponents of static asset allocation see that as its main benefit. The discipline that holds the allocation to stocks at 60%, for example, while the market is going through the roof – or the floor – keeps clients from getting whipsawed as they try to chase the top-performing investments. Periodic rebalancing maintains that discipline as the original allocations are restored without regard to which asset class is currently on the upswing.

Asset allocation has been the standard operating procedure among financial planners for more than 10 years now. Although it is based on the work of economist Harry Markowitz, whose paper "Portfolio Selection" was published in the Journal of Finance in 1952 and formed the basis of modern portfolio theory, it was not until the 1990s that the concept really took off.

The pivotal study that unleashed the trend was published in the July/August 1986 issue of Financial Analyst Journal. In "Determination of Portfolio Performance," Gary Brinson and colleagues concluded that 93.6% of portfolio returns can be explained by asset allocation policy. Their analysis was brought about through the foundations of asset allocation theory with a body of work called the Capital Asset Pricing Model (CAPM) using beta as a measure of risk, which evolved into Modern Portfolio Theory (MPT) using standard deviation as a measure of risk. With this newfound "scientific" evidence, advisors could justify allocating a clients assets to stocks, bonds, and cash based on their risk tolerance and time horizon, and the job would be virtually done.

*Asset allocation:
Tried – but true?*

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Individual Securities Matter More than Asset Class

In direct contradiction to the Brinson study, James B. Cloonan, chairman of the American Association of Individual Investors (AAII), had this to say about the idea of putting a certain percentage in bonds or stocks: "Which bonds, which stocks?" He said that if he's considering a portfolio that is 70% invested in an S&P 500 index fund and 30% in a bond fund; he can always find a 100% stock portfolio that carries less risk and a 100% bond portfolio that carries more risk. What matters more are the individual securities within the asset class. Here are some of the **problems with the usual approach to asset allocation**, according to Cloonan:

- The correlation (movement together is "high" or apart is "low" correlation) between stocks and bonds changes all the time – over the last 70 years the correlations have run from -0.3 to +0.6. How can you have an asset allocation plan that does not adjust for these differences?
- Diversifying between value and growth stocks is hard to do when, according to his estimation, only 15% of all stocks are true value and 15% are true growth; what do you call the rest of them?
- Most stock indexes will have over 20% of their assets invested in the largest 10 stocks; not only is this too much concentration, but the largest stocks often have high correlations.

Consider this

If I have three clients, each with a 60/40 split between stocks and bonds, and I put one with the best-performing managers, one with the worst-performing managers, and one in index funds, their returns will be vastly different, even though the asset allocation for each portfolio is the same. How can it be declared that asset allocation is responsible for 93.6% of a portfolio's returns when three clients with the same allocations can have such widely varying results?

My Conclusion (Cynicism or Reality... you be the judge)

The overwhelming majority of brokerage companies, banks, and individual financial advisors have you answer a series of questions to determine your risk tolerance. It is then determined by the representative which (of typically eight) asset allocation models you should be put into. The broker's job at this point is essentially done and he is off to look for the next account. The models are typically managed by third party entities (that add more internal fees to your account which you don't see), who provide the reports and annually rebalance the portfolio for the broker. The broker's dilemma? Getting a report from the third party prior to meeting with the client and deciding how best to spin the conversation – take credit for the good returns when the market is up or the familiar... "you're in for the long-term, so don't worry about this temporary down market."

*The real question:
Which stocks,
which bonds?*

*One size
(or even eight)
does not fit all.*



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ACADEMY
WEALTH MANAGEMENT™

TACTICAL ASSET ROTATION STRATEGIES

Styles... Sectors... Countries...

There is an Alternative

Typically managers invest according to a certain type of style – defined as growth companies or value companies. The second criteria is the size of the companies the manager invests in – defined as large, mid, or small. Every analyst has his approach, and he believes his style is best, for example – large growth versus small value.

Unfortunately, market environments change and the up and down cycles of small, large, value and growth managers are well documented. Instead of being locked into one trading style or all of the trading styles, as previously mentioned in the typical asset allocation models, wouldn't it be better to employ a strategy that has flexibility?

That is what our Tactical Asset Rotation Strategies (TARS) are all about – rotating to segments of the market that we believe will have the best performance. During the bullish years, of the late nineties, the TARS portfolio included the strength of growth stocks. During the bearish years, the TARS portfolio outperformed because it exited growth and rotated to a position in Small-Cap Value. Small-cap stocks actually rose in value during 2001 when the infamous "Tech Bubble" occurred. Of course, keep in mind that past performance is no indication of future results.

This is where we add Alpha to a portfolio. Alpha is the amount of return you get from an investment for the risk you are taking. Here are some examples of possible tactical rotations:

1. Style Rotation: S&P MidCap Value, S&P Small Cap 600 Index, and S&P 500 Growth.
2. Sector Rotation: Utilities, Regional Banks, Basic Materials, Technology, Healthcare, Natural Resources, and Biotechnology.
3. Country Rotation: Brazil, Germany, Australia, Spain, Malaysia, China, France, Canada, Netherlands, United Kingdom, and Hong Kong.

We utilize the TARS with a core portfolio of traditional assets and alternative investments, as appropriate, depending upon if we're investing to seek growth, income or both.

Academy Wealth Management proactively serves a select group of clients with their wealth management needs by offering a disciplined and thorough process in order to deliver a higher level of predictability. Without a purpose, success cannot be measured. Therefore, our unique planning process integrates not only your wealth, but also your core values in three comprehensive steps.

*What is your
strategy for
reducing risk
and uncertainty?*

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We are Pro-active in Three Ways

1) DISCOVER - What are your dreams and ambitions? Your hopes and concerns? Your values and life purpose? During the initial phase of our process, we work with you to identify the things that constitute your definition of a life well lived. If you've ever tried to do this alone, you know how difficult it can be to search deep inside yourself for meaningful answers to these questions. By guiding you through this step, and serving as an objective partner, we can help you achieve clarity on what you wish to do with your wealth – and your life.

2) CHART A COURSE - Once we've worked with you to establish your goals, we develop a plan for pursuing them. We begin by constructing portfolios based upon your objectives, current financial situation and feelings. We then review these models with you to select the most appropriate one and start charting your course. Believing the best clients are knowledgeable clients, we work to make this step entirely transparent and understandable, so that by the time we implement your plan, you will have a clear vision of where you are, where you intend to go, and the strategy to get there.

3) NAVIGATE - Some wealth management firms put their clients' financial plans on autopilot with minimal oversight and monitoring. At Academy, we do precisely the opposite. We review your accounts daily. We manage them proactively. We perform ongoing analysis of your portfolio and its performance. And we communicate meaningful information and meet with you regularly to review your situation for potential course changes if your situation warrants. With our diligent oversight and daily commitment of your plan, you can be confident that you have a partner you can trust to help you navigate life's unpredictable circumstances.

The History of our Current Investment Process

I began investing for clients under the old broker commission format in the early 90's. Due to the limitations of investment options available and finding myself constrained from the objectivity I desired with my clients, I left for a fee-only firm after 15 months.

Initially, the fee-only format in which I worked for four years seemed to be the perfect answer. We charged a percentage of assets under management that decreased as the client's assets increased. We utilized money managers in a variety of asset classes so that we had a great deal of diversification. The third party program we used had eight investment portfolios and depending upon how a client answered an investment risk questionnaire determined which portfolio they went into. The problem for me with this approach was that I was relegated to being the "front person" for the third party managers and my role became one of keeping clients in the investment when performance was down. There was only one investment firm we could utilize and there was another layer of expenses for the client in utilizing this third party.

*I identify
where new client
portfolios are
vulnerable.*



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With five years in the financial services business behind me and having completed my CFP®, I joined a producer group that provided a platform in which I could choose from six different third party investment managers or design my own investment portfolio for clients. I built a foundation with that group and then started my own firm, honing my investment style as I have described, as well as my practice into one which I believe captures the most important elements clients look for:

- Objective recommendations
- Comprehensive planning
- Proactive investment management
- Disciplined service
- Accountability

With these characteristics, far from the status quo, we believe we offer consistent value while building long-lasting, trustworthy relationships, purposed toward helping you to achieve your vision of a life well lived.

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"Radical Thoughts on Asset Allocation," Elaine Floyd, CFP®, 2007.

"The Asset Allocation Hoax," William Jahnke, Journal of Financial Planning, Feb. 1997.

"The Asset Allocation Myth," David B. Loeper, CIMA, April 1999.

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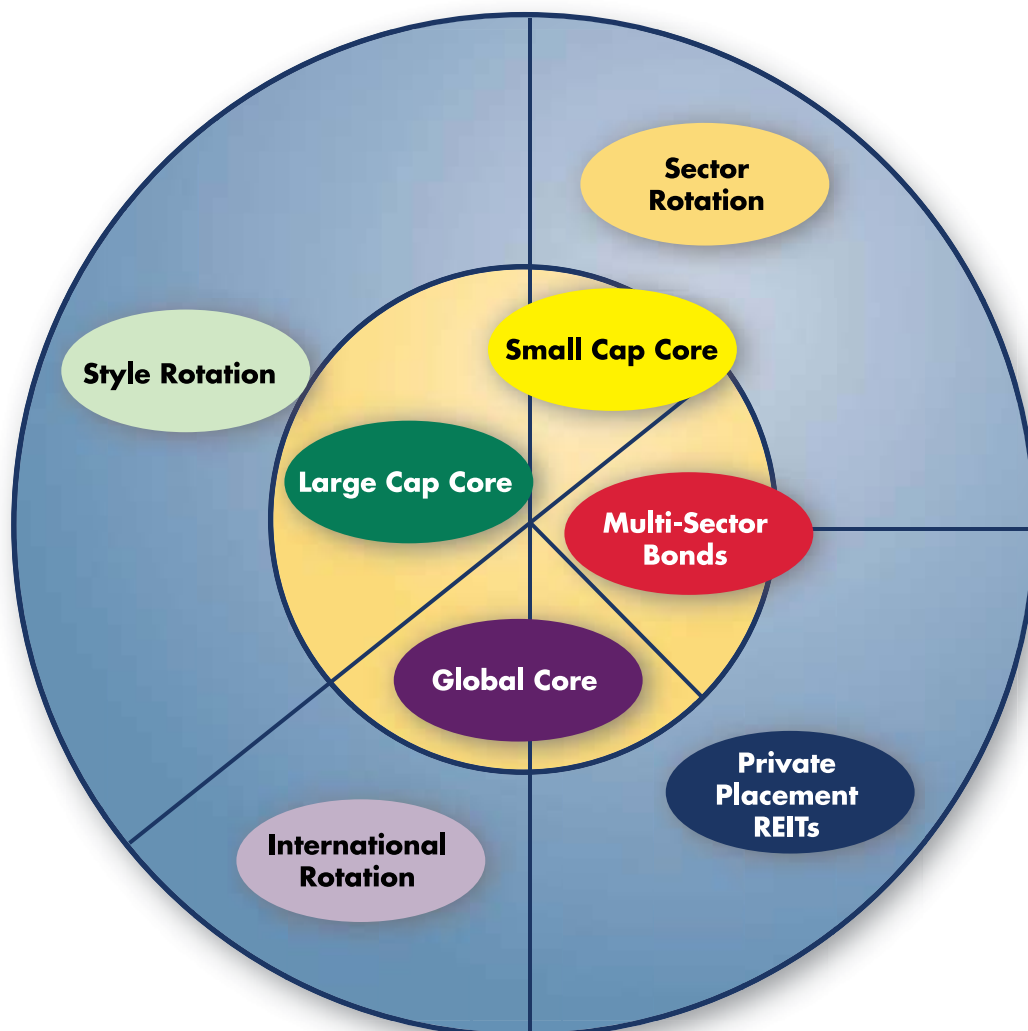
Active Core & Tactical Asset Rotation

Styles

Large Cap Growth
 Large Cap Value
 Mid Cap Growth
 Mid Cap Value
 Small Cap Growth
 Small Cap Value
 International Developed Mkts
 International Emerging Mkts

Sectors

Energy	Software	Software
Regional Banks	Transportation	Networking
Telecomm	Financial Svc	Technology
Real Estate	Aerospace	Industrial
Healthcare	Pharmaceuticals	Biotech
Utilities	Home Construction	Med Devices
Real Estate	Oil & Gas Exploration	Insurance
Natural Resources	Oil & Gas Equipment & Svcs	



Countries

China	Mexico	Switzerland
Singapore	Brazil	Australia
Spain	Austria	South Korea
Germany	Italy	Hong Kong
Belgium	Japan	Netherlands
France	Sweden	Canada
Malaysia	South Africa	Taiwan