Investors Guide:
Our Investment Advisory Process

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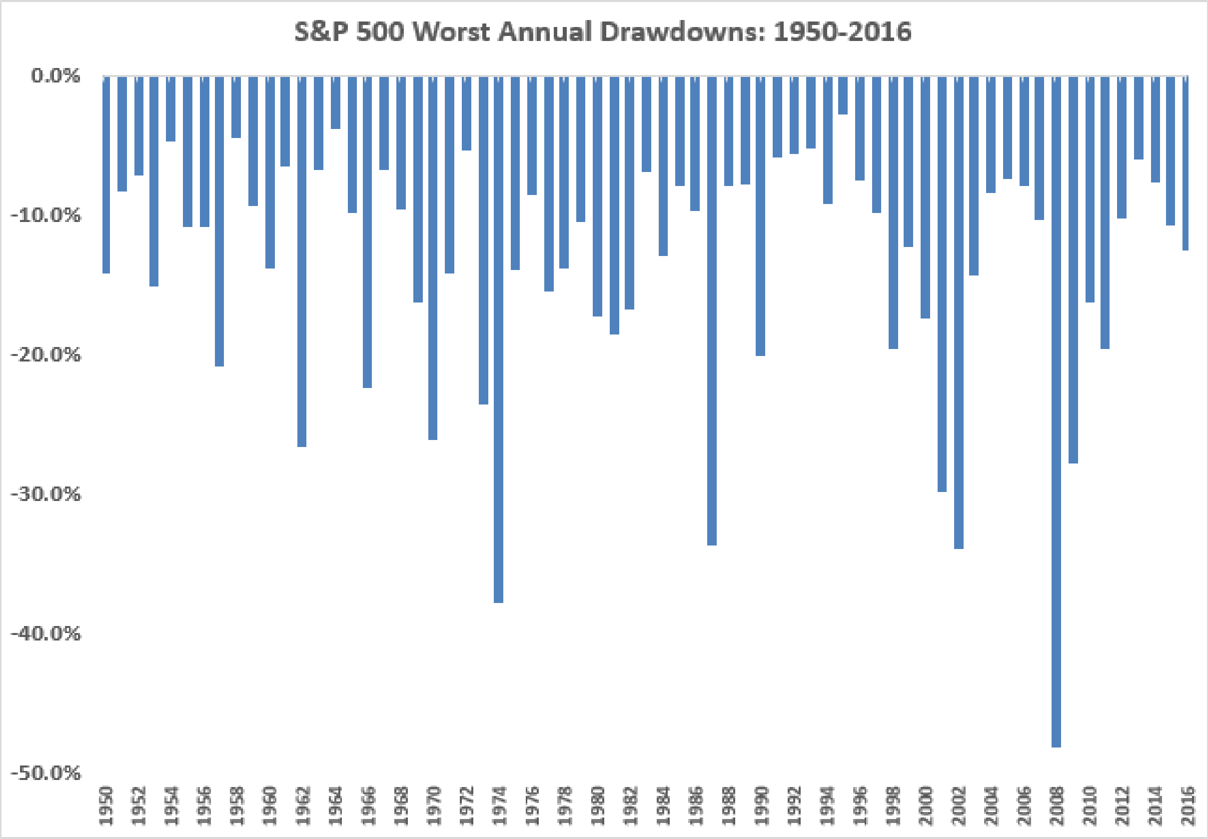
THE REALITY OF INVESTMENT VOLATILITY

"The key to money management; It's making a lot of money when you're right and minimizing it when you're wrong."

– Stan Druckenmiller

MARKET RECESSIONS:

Volatility is more relevant to your investment portfolio than average annual returns. Substantial tumbles are more common than many investors realize. The S&P 500 Index has experienced 18 drawdowns of 20 percent or more since 1950, averaging one about every 3-1/2 years. Volatility can cost you money and recovery time. It is also the new normal and reality when it comes to investing. The real question is how will you manage investment risk during volatile markets?

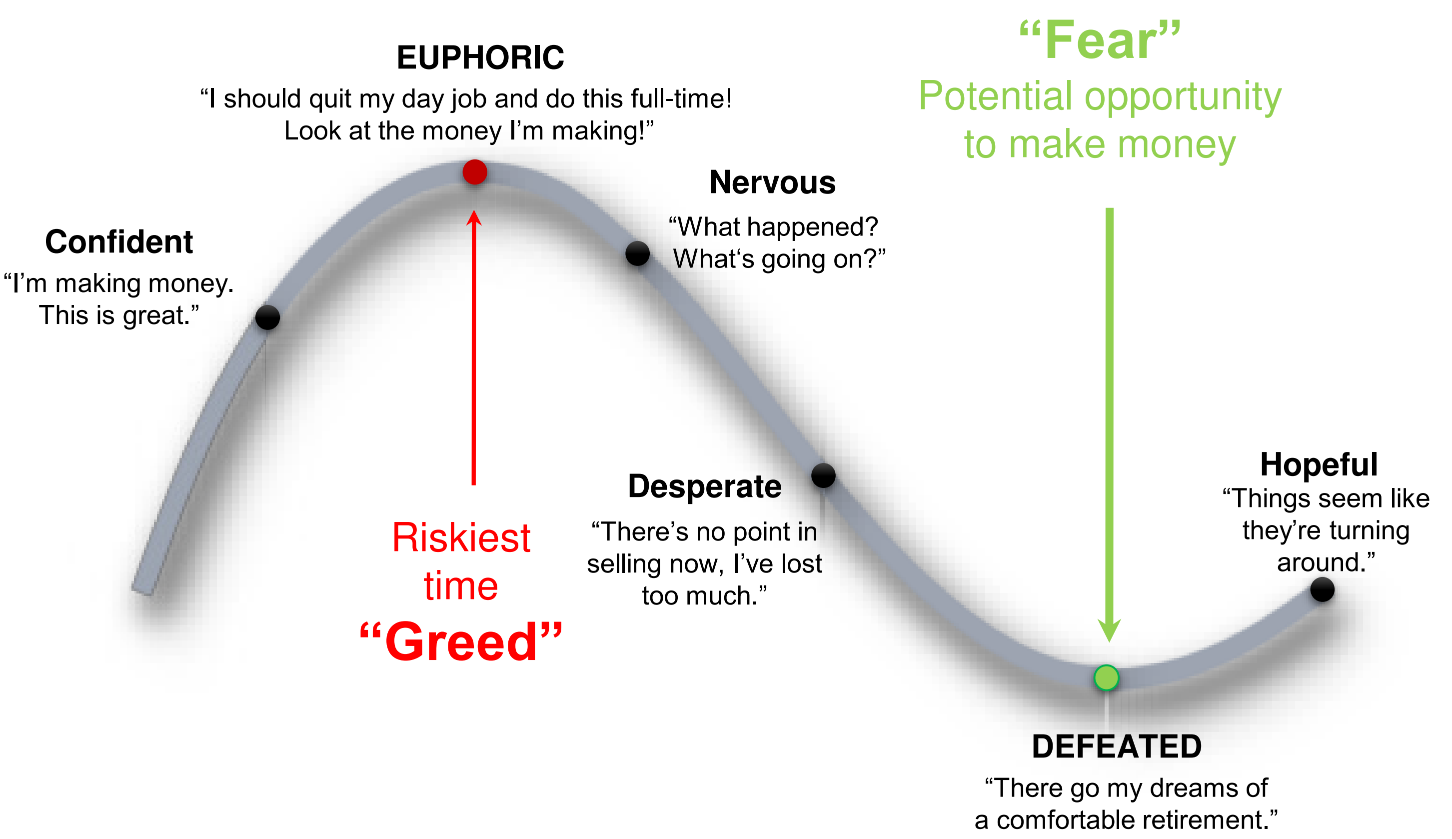


Source: abnormalreturns.com

The EFFECTS of HUMAN EMOTIONS on PERFORMANCE

Conventional wisdom tells us to buy stocks low and sell high. Unfortunately, study after study shows that when the stock market goes up, investors put more money in it. And when it goes down, they pull money out. The problem is the human reaction, to good news or to bad news, is to overreact. This emotional reaction causes illogical investment decisions.

Statistical data shows human emotions can create havoc on investment performance. According to Dalbar's 2015 Quantitative Analysis of Investor Behavior, the Average Investor earned 3.79% vs. the S&P 500 performance of 11.06% from years 1984 – 2014. That is an underperformance average of - **7.27%** over the past 30 years.



Source: forbes.com

CHALLENGE:

Strategy to Effectively Manage Investment Risks

“The essence of investment management is the management of risk, not the management of returns.”

- *Benjamin Graham*

“The Dean of Wall Street” and Mentor to Warren Buffet

COMMON STRATEGY: AVOID RISK

The easiest way to lower investment risk is to consider products with protection strategies built in. Investments with fixed interest earnings such as CD’s and fixed annuities provide minimal risk to principal. If you want the certainty of never outliving your retirement income, there are products with retirement income benefits features.

Trade Off:

With all protection based investments, there is the tradeoff of security for lower performance and higher fees.

CHALLENGE:

STRATEGY TO EFFECTIVELY MANAGE INVESTMENT RISKS

“Maximum complacency is easy in raging bull markets, risk management is about disaster avoidance and not giving all the gains back in bear markets”

COMMON STRATEGY: ASSET ALLOCATION (STATIC DIVERSIFICATION)

In 1952 Harry Markowitz devised the modern portfolio theory which became the foundation for “The 60/40 Balanced Asset Allocation Portfolio”. This has become the industry-standard method for managing Investment Risk. Asset allocation is based on the theory of what “ought” to occur when you spread your risk over various asset classes.

The “Risk Management” in a 60/40 balanced “STATIC” allocation is the 40% held in bonds. Bonds are expected to act as a buffer to stocks during bear markets because they are traditionally considered less risky and non correlated.

THE REALITY:

A traditional portfolio of 60% equity, 40% fixed income derives more than 85 percent of portfolio risk from the equity component— so, true portfolio risk is highly concentrated and highly correlated.

For example, the last two peak-to-trough market drawdowns of 20 percent or more for a 60/40 balanced index portfolio were:

-32.54 % *from October 2007 to February 2009*
-22.82 % *from August 2000 to September 2002.**

*Source: Article – Aug 20, 2016, IBJ.com, Paul Coan

OUR PROCESS FOR MANAGING THE CHALLENGES

WHAT ARE THE LESSONS FROM THESE CHALLENGES?

- The understanding that all investment asset classes are cyclical.
- Emotions can have a significant impact on performance.
- Managing investment risk is more important than managing for performance.

At Frazie Wealth Management, we believe in order to overcome these challenges, you must breakdown investing into discipline steps.

I. Establish Clear Objectives

II. Determine Risk Capacity

III. Strategy for Managing Risk

- Identify Market Conditions
- Adjust Portfolio Composition
- Investment Selection Criteria

I. ESTABLISH CLEAR OBJECTIVES:

As investment advisors, the 1st step of our fiduciary responsibility is taking the time to get to know you. We start by helping you identify key elements such as:

- What is your purpose for investing?
- What are the time horizons you plan to invest?
- What are your liquidity needs and expected performance rate of return?
- When will you need to start taking income or distributions?
- Are you looking for any tax benefits?
- Would you like to have guaranteed income and death benefits?
- Are there any special circumstances that need to be considered?

Once this information is gathered, it helps us establish an appropriate investment policy guideline. This affords us the opportunity make confident recommendations we believe offer the best chance of meeting your family's financial goals and dreams.

Define "WHY *You* INVEST MONEY?

CHILD'S EDUCATION

RETIREMENT

TRAVEL

VACATION HOME

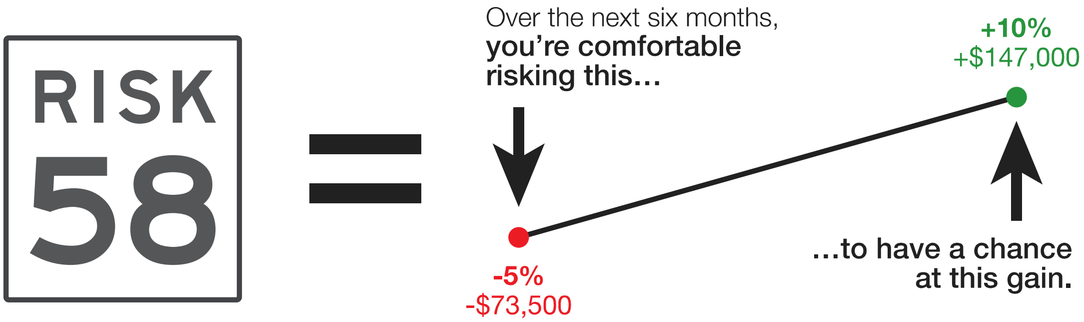
II. DETERMINE RISK CAPACITY

Traditionally advisors only use a subjective risk questionnaire to assign risk tolerance. Subjectivity suggests that if you are young you must be chasing aggressive growth and, if you are of retirement age you must be extremely risk averse, etc.

We use an award-winning technology known as Riskalyze. Its scientific framework won the Nobel Prize for Economics. Riskalyze allows us to pinpoint your exact risk capacity by using quantitative math and psychological theory that measures your true individual risk tolerance.

Your Risk Capacity will be quantified into a simple risk number (e.g. 1 - 99). This is based on the actual dollars that you have today, to assess how much you are willing to risk (or lose) in exchange for an opportunity at a specific gain. This results in a quantified and objective outcome which is customized for your individual circumstances.

Once we quantify your risk number, we then select which one of our many portfolios are the most appropriate for you. Each of our investment advisory portfolios have been engineered to match the unique risk number preferences and expectations of our clients.



POWERED BY riskalyze

III. Identify MARKET CONDITIONS

ACTIVELY MONITOR MARKETS:

We actively monitor markets daily keeping an eye on market conditions, economic developments, and political issues. We summarize this information using a quantitative assessment of three different market time frames (short, medium and long term). Our extensive research permits us to create indicators that we believe represent the current trends and overall health of the market.

Invest like A Scientist

Short –Term Indicator (Weeks to Months)
Constructed from measurements of market internals within 36 Sectors of the US Market

Medium-Term Indicator (Quarter to Quarter)
Uses the trend status of the US and International Equities. The cyclical trend labeling is derived by creating a graph of the closing data prices.

Long-Term Indictor (Months to Years)
Constructed from measurements of market internals.

"We tend to hang onto our views too long simply because we spent time and effort coming up with those views in the first place. This leads to confirmation bias and an anchoring to strongly held beliefs even if the evidence fails to support them anymore."

– James Montier, The Little Book of Behavioral Investing

III. ADJUST PORTFOLIO COMPOSITIONS

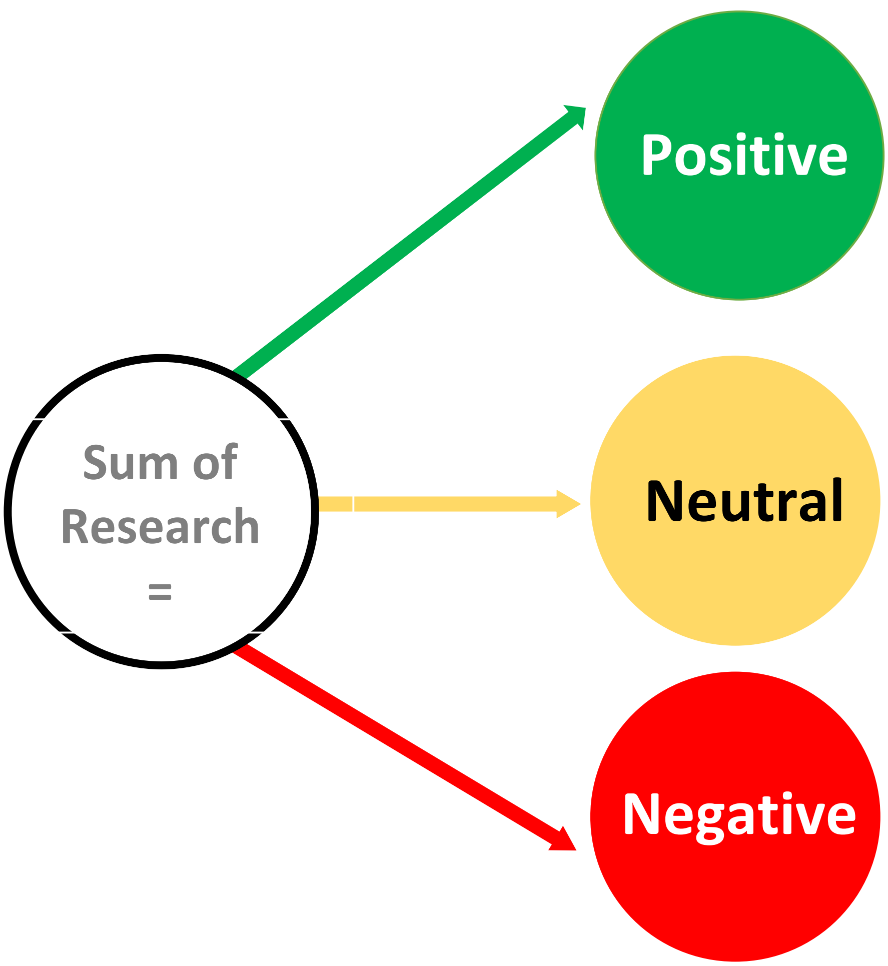
WE DO NOT SUBSCRIBE TO A STATIC INVESTMENT STRATEGY

We believe markets move in and out of favor over time. We maintain a flexible and active response in our tactical portfolio management in accordance to everchanging of conditions of the markets.

Our market indicators are the sum of our research. This process identifies opportunities available or recognizes the risk factors we must address. We look at the probabilities that certain opportunities either will or won't unfold, purely via market supply and demand. We adjust our portfolio composition of equities and alternatives vs. fixed income and hedging strategies as our forward looking views evolve with time.

We understand the power of fixed income, hedging strategies and cash positions in a bear market and use them unapologetically. Cash positions can be used as an important tool to help stabilize portfolios in unsettling times.

Market Condition Indicator



Positive: Our portfolio compositions will shift to a large majority in equities or equity equivalents in an attempt to capitalize on opportunities.

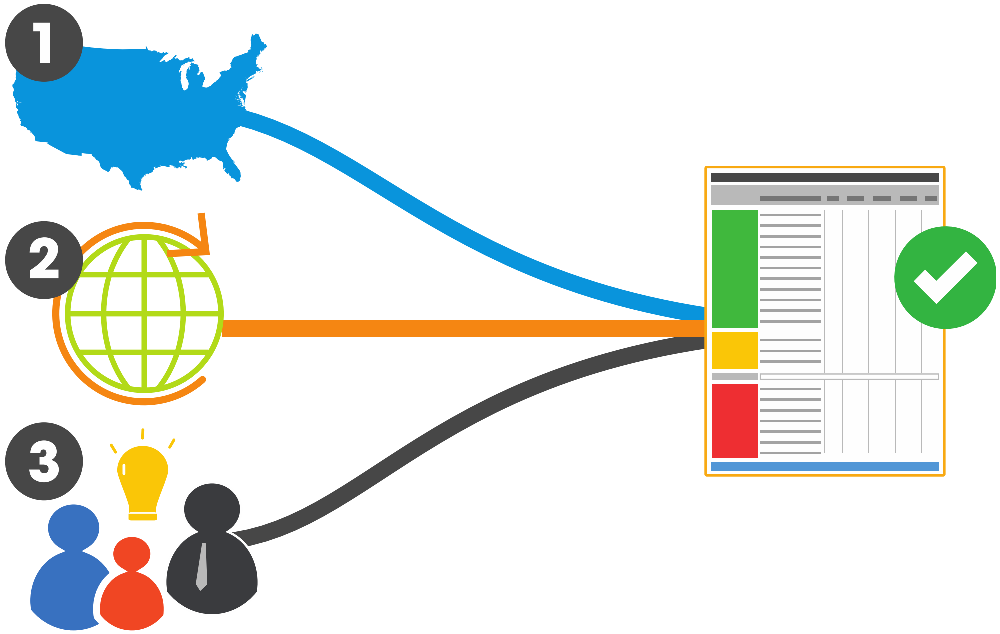
Neutral: Our portfolio compositions will be split between equities, fixed income or hedging strategies.

Negative: Our portfolio composition will shift to a large majority out of the equities market into a defensive position of fixed income, cash or hedging strategies.

III. SELECTION CRITERIA FOR INVESTMENTS

HOW WE SELECT “WHAT” WE INVEST IN:

Our research team monitors the supply and demand performance of all asset classes on a daily basis to create a ranking table from highest to lowest. Each of the asset classes are then tagged as either over or under performers relative to their respective benchmark. This provides us a pool of possible buy opportunities. We then invest our portfolios into different asset class types based on the identification of current conditions.



ASSET CLASS TYPES:

Our investment portfolios are primarily constructed of cost-effective index ETF’s or mutual funds. These investments are designed to mimic a certain asset class or market index such as the S&P 500, International, Technology, Real Estate, Energy, etc…..

We break investment asset classes into four categories:

- **Type 1** – US Equities (Large Cap Value, Midcap, Small Cap Blend, etc.)
- **Type 2** – Global and Alternatives (International, Real Estate, Emerging Markets, Basic Materials, etc.)
- **Type 3** – Individual Sectors (Energy, Financial, Healthcare, Telecom, etc.)
- **Type 4** – Fixed Income and Hedging Strategies (Government Bonds, Cash, Inverted, etc..)

DISCLOSURES:

Securities offered through Cambridge Investment Research Inc., Broker Dealer, member FINRA/SIPC. Investment advisory services offered through Cambridge Investment Research Advisors, a Registered Investment Adviser. Frazie Wealth Management operates independently of Cambridge.

There are certain additional risks associated when investing in securities through our investment management portfolio strategies.

Diversification and asset allocation strategies do not assure profit or protect against loss. Investing in securities (including the strategies advertised herein) involves risk of loss. Further, depending on the different types of investments there may be varying degrees of risk. Clients and prospective clients should be prepared to bear investment loss including loss of original principal. Because of the inherent risk of loss associated with investing, we are unable to represent, guarantee, or even imply that our services and methods of analysis can or will predict future results, successfully identify market tops or bottoms, or insulate you from losses due to market corrections or declines.

Market Risk - Either the stock market as a whole, or the value of an individual company, goes down resulting in a decrease in the value of client investments.

Management Risk - Your investment with Cambridge varies with the success and failure of the Advisor's investment strategies and the Advisor's research, analysis, and determination of portfolio securities. If the Advisor's investment strategies do not produce the expected results, the value of the investment will decrease.

Equity Market Risk - Common stocks are susceptible to general stock market fluctuations and to volatile increases and decreases in value as market confidence in and perceptions of their issuers change. If you held common stock, or common stock equivalents, of any given issuer, you would generally be exposed to greater risk than if you held preferred stocks and debt obligations of the issuer.