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SPECIAL REPORT

Telling You What Wall Street Doesn't Want You To Know

STREETTALKADVISORS

Conservative • Disciplined • Different

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ABOUT MARKET MYTHS

THESE ARE ARTICLES THAT WILL ADDRESS INVESTING STRATEGIES, UNCOVER TRUTHS ABOUT MONEY MANAGEMENT AND HELP GUIDE YOU THROUGH THE TRAPS AND PITFALLS OF PLANNING AND SAVING FOR RETIREMENT.

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The "Smart Money" Step By Step Investment Guide

"If you want to be rich – do what rich people do."

It seems like such a simple statement, yet everyday, people do everything they can to keep themselves from becoming wealthy. They spend more than they make, which leads to credit expansion, they fail to plan for future events that cost them financial setbacks, and they invest in financial markets without education or expertise.

So, the question is why? Why do we use credit cards and build debt when we know that debt by its very nature reduces our net worth? Why do we fail to plan for future events like college educations, weddings, and life's little emergencies that drain our savings when we least expect it? Most importantly, why we speculate in the financial markets on a daily basis while listening to the droning of the financial media which encourages us to take risks that we don't even understand?

"When playing poker, if you look around the table and can't identify the pigeon…it's you"

Is this how you are to become rich OR are you the victim of advertising and media hype? How are you supposed to know the difference? If you read the WallStreet Journal, Barron's, IBD or watch CNBC or listen to the radio, you will get a daily dose of *"if you aren't investing in the equity markets then you are missing the opportunity of a lifetime."* The WallStreet Brokerage firms have basic asset allocation models that are 65-75% equity investments and 25-35% bonds while most retail "financial advisors" have you invested in 100% equities. Where is the disconnect?

Are You A Player Or The Pigeon?

Every so often we get questions about our investment strategy versus what has been traditionally handed down to retail investors from the financial media and WallStreet over the past 20 years or so. *"Buy and Hold", "Dollar Cost Averaging" and "Long Term Investing"* are all sayings that have been promulgated by the WallStreet Brokerage Firms to their retail clients in order to keep those individuals invested in the financial market place during good times and bad. However, the question that we need to answer is what were these same firms telling their High Net Worth Individuals (HNWI) and what were they doing maintain these relationships. *Remember the old saying – 80% of your business comes from 20% of your clients.* ***Therefore, where does WallStreet want to spend the majority of their time – on clients with more that $1,000,000 in investible assets (the 20%) or on you?***

Here is the question for you to answer: If HNWI's are the "smart money" – then what are you, the retail investor? Is WallStreet interested in your financial well being OR are you nothing more to WallStreet than the dumping ground of investments that WallStreet needs money for? Is the retail investor the seed on which the HNWI's, and Institutions alike, are selling too in times of *"irrational exuberance"* and buying from in times of *"exceptional pessimism"*.

It is the basic goal of this article to bring a habit changing thought process to bear so that you begin to take the necessary steps to invest like the "smart money" rather than being taken advantage of by the markets.

Step 1 – Asset Allocation

Let's start with the most basic premise about money management – Asset Allocation. First of all we need to define what Asset Allocation is: **Asset Allocation** is the process of **determining optimal allocations for the** broad categories of assets that suit your investment **time horizon** and **risk tolerance**.

Asset allocation is probably THE MOST important decision and may account ***for more than 80 % of the return of the portfolio.***

Each asset class should generally have different levels of return and risk and should be non-corollary in nature so that they also behave differently. Non-correlation means that at the time one asset is increasing in value, another may be decreasing or not increasing as much and vice versa.

For more information on Asset Allocation refer to our ***Streettalk University Report***

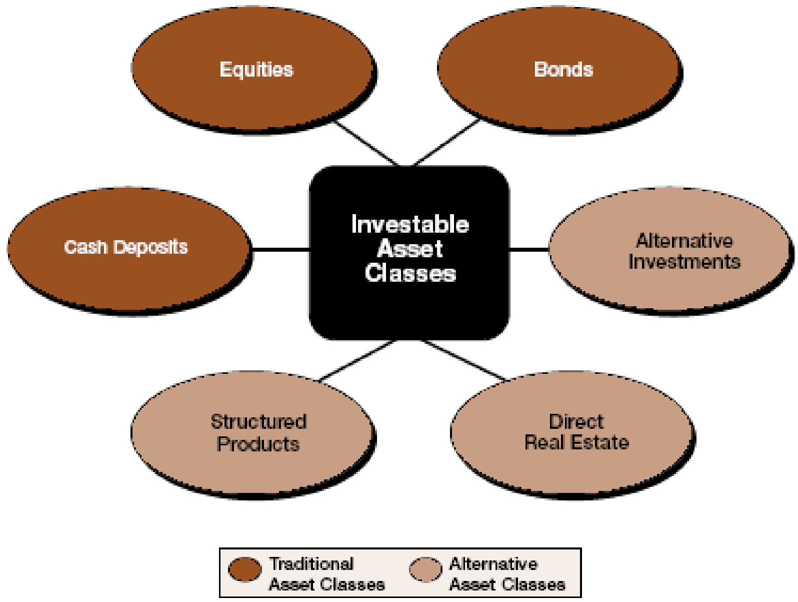
The problem that we see with most investors that we meet with is that they have been taught by WallStreet that proper asset allocation means Large, Mid, and Small Capitalization and International Stocks and Corporate or Municipal Bonds. Furthermore, the stock portion of the portfolio should always be 60-80% of the portfolio.

However, is this what the "smart money" is doing? Do HNWI's have 60-80% of their money in equities?

According to a recent research study on HNWI's by Capgemini and Merrill Lynch; *"…HNWIs were able to absorb the negative consequences of an economic bust, then have illustrated their dexterity in capitalizing on the opportunities in a market rally.*

Many of the gains reaped…were the results of their strategic diversification of holdings achieved through ***close collaboration with advisors*** *and moves into a* ***broader range of asset classes and geographies…",***

HNWI's were ***among the first investors*** *to begin shifting their focus from low-yielding fixed-income securities back into* ***equities, specialized products*** *and* ***alternative investments****."*



Read that last sentence again and then think about your own portfolio. HNWI's were among the first to shift out of cash and back into higher yielding products. That is interesting because that action by it's very nature means that HNWI's were **NOT** using the **"Buy & Hold"** and **"Dollar Cost Averaging"** method of managing their wealth.

Also, as you will notice in the chart above, when HNWI's began to shift their assets from cash back into higher yielding investments it did not flow only into equities – but a variety of other investment strategies to create diversification and reduce investment risk.

Smarter diversification by asset class has been accompanied by diversification across geography. For example, according to the study by CapGemini and Merrill Lynch; *"North American HNWI's historically have preferred to invest domestically during difficult economic times. This behavior now shows signs of changing…American HNWI's doubled their, albeit small, foreign holdings and demanded access to better global advice."*

*"It appears that successive years of domestic economic upheaval have produced an investor that seeks **stability and balance over aggressive returns**."*

HNWI's Act Like Institutions

The study also showed that HNWIs take a well-balanced and sophisticated approach to their investments by exhibiting investment behavior similar to that of institutions. HNWI's have embraced **financial planning**, **risk management** and **strategic asset allocation**. Such tactics allow them to approach investing in an **unemotional way—buying low and selling high**.

By looking ahead and using a regularly updated asset allocation strategy HNWI's and their financial advisors work with the following five guidelines:

Stocks. For the next 5 to 10 years HNWI's expect an average annual return of between 6-8% on stocks, compared with 5% for bonds and 2% for cash. Valuations are high which implies more risk, however, the choice is **not** between today's stocks and yesterday's stocks but among stocks, bonds and cash — and there is no comparison to the long term equity returns. However, HNWI's believe it is time to move to higher-quality equities.

Think Global. The global recovery is under way, however, success will hinge on in-depth research and professional guidance.

Rethink Bond Portfolios. Though the spreads have narrowed expectations are that corporate and high-yield bonds will modestly outperform Treasuries and therefore HNWI's will most likely under-weight the latter and also reduce the duration and maturity of their holdings.

Consider Commodities And Non-Correlated Investments. Non-correlated commodities such as gold, oil, coal and copper are beneficiaries of the global recovery, and while the pace of returns will slow, they will nonetheless outperform cash and bonds and also help HNWI's continue to diversify their portfolios. Allocations to **alternative investments** such as **managed futures** and **hedge funds** can provide this added diversification.

Alternative Investments. HNWI's have moved more and more money into alternative investments, private placements and private equity transactions in order to continue to diversify risk and single investment exposure.

However, while asset allocation is important in the overall scheme of risk management and capital conservation for HNWI's – they also demand institutional type services.

HNWI's Demand Institution-Like Services

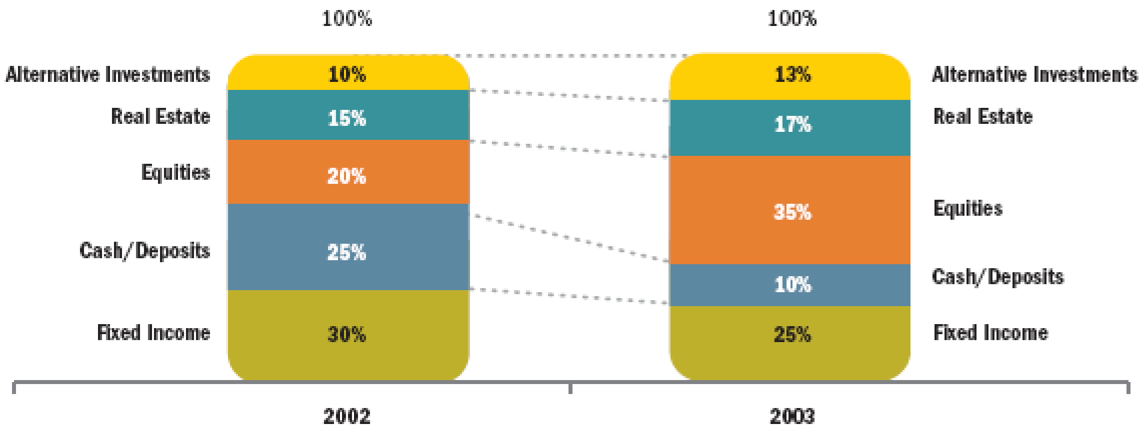
HNWI's have consistently increased expectations regarding portfolio risk management, strategic asset allocation and objective investment advice and are demanding the adoption of an institution-like investment approach that follows a structured process, looks for financial solutions, rather than products to buy, and takes an unemotional approach to investing

In the table below you will see how behavior shifts between "bull" and "bear" markets.

Behavior	Bull Market	Bear Market
Asset Allocation	Balanced Approach	Conservation Of Principle
Investment Needs	Wealth Growth, Risk Management	Conservation Of Principle, Advice
Services	Structured Products & Investments	Tailored Offerings, Custom Solutions
Growth Of Wealth	Primary	Secondary to Conservation Of Wealth
Advisor Demands	Objective Advice & Expertise	Objective Advice & Expertise

As you will notice as markets cycle between "bull" and "bear" so does the needs and demands of HNWI's. As a "bull" market cycle ensues HNWI's shift more towards a balanced approach of asset allocation, however, as markets begin to deteriorate assets are shifted towards more of a "capital conservation" stance.

What is most important is that you will see that HNWI's primary goal is the conservation of wealth which drives the majority of their asset allocation decisions. In the years of 2002, a "bear" market, and 2003 which was a "bull" market cycle you can see the shifts in asset allocation from a conservation mode to a more aggressive posture.



Source: Capgemini/Merrill Lynch Relationship Manager Survey, March 2003 & April 2004

As you will see, while most retail investors maintained an equity portfolio weighting of more than 60% during 2002 and let the 2003 market recovery only slightly heal the damage caused to the retail investors net worth, the HNWI's weathered 2002 with little damage and increased their net worth in 2003.

What is most interesting in the chart above is that while the media and the WallStreet salesman, ie financial advisors, continue to promote increased exposure to equities, HNWI's only had roughly 35% of their invested wealth in equities during the 2003 "bull" market which was only a 15% increase from their 2002 "bear" market holdings.

"Our latest primary research shows a cautious return to optimism and a concerted move by HNWIs to grow their families'wealth through proactive portfolio risk management—albeit within the structures of balanced portfolios

and hedged risks—and broad access to advisory specialists. We also see HNWIs taking a greater and more active interest in devising wealth-accumulation and transfer scenarios to facilitate the passage of assets from one generation to the next. This is the HNWI response to accepting the "new market realities" and learning to live and adapt to a changing environment. "

These planning moves are further evidence that HNWIs are now mirroring the investment approach of professional investors. This change further reflects HNWIs' growing awareness of the spectrum of sophisticated products currently available — a result of two important market forces coming together:

- ☑ The financial industry's push to market wealth-management products and services
- ☑ HNWIs' own high average education levels

Among HNWIs' other frequently mentioned financial goals:

- ☑ 84% cite an interest in maintaining their *"current standard of living before retirement"*
- ☑ 80% say they want to *"ensure a comfortable standard of living during retirement"*

Clearly,HNWI's recognize that professional advice must play an important role in their continuous planning activities. In fact, 66% of HNWI's say they have increased expectations of their advisors' roles in their financial planning—which, in turn, points to these individuals adopting a more structured approach to investing.

To reach these goals, HNWI's believe that they will have to apply *proactive risk management to balance their portfolios and consider liquidity and cash flow when completing their strategic asset allocations.*

HNWIs Are Mirroring Institutional Investor Behavior

Characteristics	Institutions	Sophisticated HNWIs
Mindset:	• Unemotional attitude toward investing • Ratio/fundamentals driven • Long-term goals while realizing short-term gains • Close relationships with investment objects (B2B) • Solution approach vs. product approach	• Rational, increasingly less emotional attitude toward investing • Service and access to advice and solutions key • Cash flow and liquidity important (vs. overall yield for institutions) • Price pressure – greater transparency, e.g., through "RFP" • Financial solution approach vs. product approach
Methodology:	• Documented strategy to reach specific goals • Consistent approach, following a strict discipline • Goals-driven approach to reach long- and medium-term objectives • Strategic asset allocation for balanced risk management and appropriate diversification • Frequent rebalancing (dynamic asset allocation) • Frequent consolidated-performance reporting	• Greater adherence to "wealth management process" • Rigorous financial planning to set goals and allocate assets • Diversification across asset classes, sectors and geographies • More frequent tracking of progress to goals (closer to dynamic asset allocation) • Run family/business like an institution with mission statements, communication guidelines, continuity plans, etc.
Products and Services:	• Preferred access to advanced products and markets to better balance portfolios (execution as important as idea generation) • Demanding solutions; product and service customization • Higher ratio of alternative investments to balance portfolios and yield higher returns • Close attention to tax sensitivity	• Increasing demand for comprehensive solutions • Non-correlated product classes to balance portfolios to achieve higher total return: alternative investments; managed products; real estate • Tax efficiency services • Wealth transfer – estate planning, trust • Global wealth structuring (across jurisdictions) • CFO services (tax/legal/accounting)

Source: Capgemini and Merrill Lynch Executive Briefing, March 2004; Capgemini Analysis, 2004

Do Like I Do…Not As I Say

Between the 'bear" market of 2002 and the "bull" market of 2003, more than 48% of HNWI's around the world increased their appetite for risk. However, at the same time, nearly three-quarters (73%) increased their demand for **risk management.** Therefore, while the WallStreet brokerages told you to buy and hold equities for the long term – they performed quite the opposite for their HNWI clientele. **Why?**

HNWI's are taking on risk with their eyes wide open, adapting to the new market volatilities that organizations have been dealing with over the past. **HNWI's are taking a calculated risk to proactively leverage short-term market opportunities and balance portfolios.** They are not buying and holding investments that contain risk with the attitude that someday in the future the investment will grow to some anomalous value. This attitude of asset and risk management was clearly demonstrated by the shifts in asset allocation from 2002 to 2003 as discussed above. This shift paralleled with increased focus on risk management and strategic asset allocation. HNWI expectations in this new environment are increasing, with demand centered on five key criteria —all of which are consistent with institution-like behavior:

- ☑ Rational and Unemotional Investing
- ☑ Service & Access To Advice
- ☑ Cash Flow & Liquidity
- ☑ Pricing Transparency
- ☑ Financial Solutions versus Products

HNWI's use three primary criteria to choose their financial advisors:

- ☑ Ability
- ☑ Service Quality
- ☑ Reputation.

This is quite different than what is espoused to the retail investor who is constantly on the search for the lowest price. For HNWI's, cost efficiency, while important was secondary on their list of needs for an advisor as HNWI's realize that "you pay for what you get". This suggests that access to "best-in-breed" is a baseline requirement and that true differentiation on service excellence is more important than the underlying cost within reason.

Sell Them – Forget Them

The attitude towards the retail investor has been and continues to be – *"sell them the products and then move on to the next sell."* This attitude towards the 80% of the clientele that generates 20% of the revenue continues in force today. Think about it from the WallStreet perspective – if they have to spend time actually "managing" your money that leaves less time for them to concentrate on the needs of the 20% that make them the most money. Therefore, the best way is to promote "buy and hold" and "dollar cost averaging" strategies for the retail investor because once the strategy is implemented it is a "hands off" approach.

Don't believe me? Here is a quote from the HNWI report:

"HNWIs are demanding higher levels of service—i.e., platinum treatment - with each market segment steadily adopting the behaviors and demands of the group directly above it:

- ☑ *Lower wealth bands are showing more interest in financial planning: Traditionally, a service offered solely to HNWI's, it is now being pushed out to less affluent* ***and even retail customer segments*** *in a modified form, enabled by self-directed channels.*

- ☑ *HNWIs are diversifying into alternative investments: Originally this category of strategies and hedging products was solely the domain of Ultra-HNWIs, given the high minimum investments required. In the past few years, however, these have become mainstream products for all HNWI's."*

There it is, in black and white and red. The disdain for the lower class, the less affluent, "even the retail customer segment" – you can almost hear them laughing at the retail investor all the way to the bank.

HNWI's have already stepped-up their demands for proactive portfolio risk management, holistic reports covering the complete balance sheet and access to specialists. They also have shown interest in various management capabilities, such as dynamic asset allocation and tactical investing. Now, they are looking at institutional investors for ideas on how to take better advantage of these (and other) services and products such as:

- ☑ Value-added services and products that cross segments.
- ☑ Cost-efficient distribution channels that use technology to increase service levels

Among other influences, these developments are making fee-based business models viable for use in segments that, historically, have been purely transaction-driven.

Institutions Are New Role Models

In the 1990s, individual investors widely believed they could grow a portfolio simply by investing in equities and holding on to them for the "long term" typically acting as "self-directed portfolio managers."

Conversely, HNWI's are more disciplined investors. Advisors are responsible for the asset allocation strategies, risk management and conservation of principle tactics that are key to the HNWI's satisfaction particularly as interests and behaviors are becoming more and more like those of institutional investors and demanding:

- ☑ A disciplined investment methodology; one that closely aligns asset allocations with underlying investment objectives.

- ☑ Balancing risk, reward and liquidity to set overall investment objectives.

- ☑ Basing investment selections on fundamental analysis and due diligence.

- ☑ Making sure asset management is continuous and centered on rigorous risk management and ongoing market analysis.

- ☑ Leveraging consolidated performance reporting.

- ☑ Frequently rebalancing holdings to keep within strategic asset allocations — a shift from static to dynamic asset allocation.

- ☑ Putting wide faith in alternative investments.

As interviews with relationship managers show, HNWIs across several regions have taken notice of institutions' best practices, which are based on close business-to-business relationships; professional advice and ideas garnered from multiple specialists, and thorough analysis of investment products and goals.

The Streettalk Advisor Difference

There it is. Everything that HNWI's are doing. How many of those things are you doing in your portfolio right now? Are you still primarily invested solely in equities and "hoping" that the market will continue to grow year after year? Are you still making your investment decisions based on what you hear on CNBC or what you read in some publication?

When people ask us how we manage money – the answer is simple. We manage money for our clients like HNWI's manage theirs. We "do what rich people do" and therefore strive to achieve the growth of wealth conservatively while controlling risk. In fact, this is the basic premise from which Streettalk Advisors operates on behalf of ALL of its clients.

Streettalk Advisors has consistently brought non-traditional thinking and asset allocation practices to its clients in order to conserve principle, create total returns and maintain cost efficiency. While these concepts are radical to most retail investors, these are the same principles by which HNWI's make their investment decisions.

The question you have to ask yourself is this:

Do I believe what I am reading here and make a change for the future OR do I continue to be sheep and follow the herd in front of me to my untimely demise?

If you ask us – it is not much of a choice. We simply remind you of our opening statement.

"If you want to be rich – do what rich people do."

STREETTALK ADVISORS

What makes us different?

It's really pretty simple. We believe that managing risk is the key to long term success. Conserve the principal and the rest will take care of itself.

Risk = Loss

Seems like a simple concept – yet most people take way too much risk in their portfolio which is fine as long as the market goes up. The problem comes when it doesn't.

Managed Risk = Returns

By applying some simple risk management to a portfolio of assets the potential for large draw downs of capital is reduced thereby allowing the portfolio to accumulate returns over time.

Total Return Investing

We believe that portfolio should be designed for more than just capital appreciation. There are times when markets do not rise. During those periods we want income from dividends and interest to be supporting the portfolio.

If you are ready for something different the you are ready for common sense approach to investing.

Get Started Today

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