

The Case for Index Investing

- Founder and Principal Advisor, Variplan, LLC
 - Certified Financial Planner
 - Registered Investment Advisor
 - SEA Benefit Provider Since 1999
- Federal Times' "Money Matters" Columnist
- "Ask the Experts" Panelist at www.federaltimes.com

Fundamentals of Investing for Retirement Income

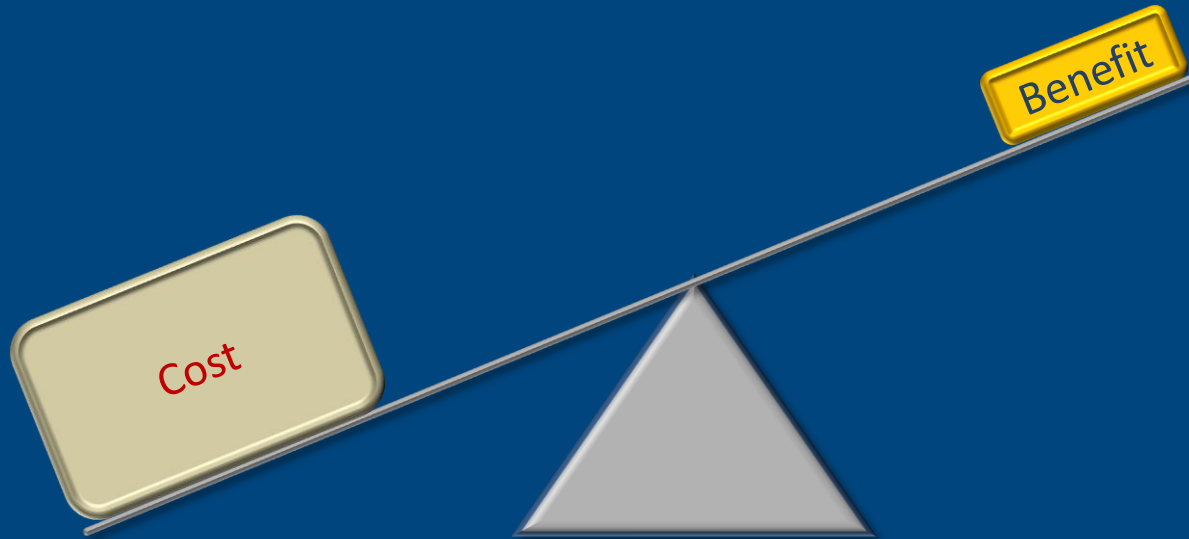
1. Success and Failure in Retirement Investing
2. Defining Retirement Resources, Goals and Constraints
3. Understanding Investment Risk and Return
4. How Diversification Really Works
5. Asset Classes and Types – Diversification and Concentration
6. Understanding Asset Allocation and Hedging
7. Setting Investment Performance Expectations
8. Managing Investment Costs
- 9. The Case for Index Investing**
10. Accounting for Inflation in Retirement Planning
11. Managing Portfolio Liquidity
12. Organizing Your Portfolio

SEA Member Benefits

- Free Hour of Consulting / Analysis
 - \$250 Vantage Discount
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Managing Investment Costs

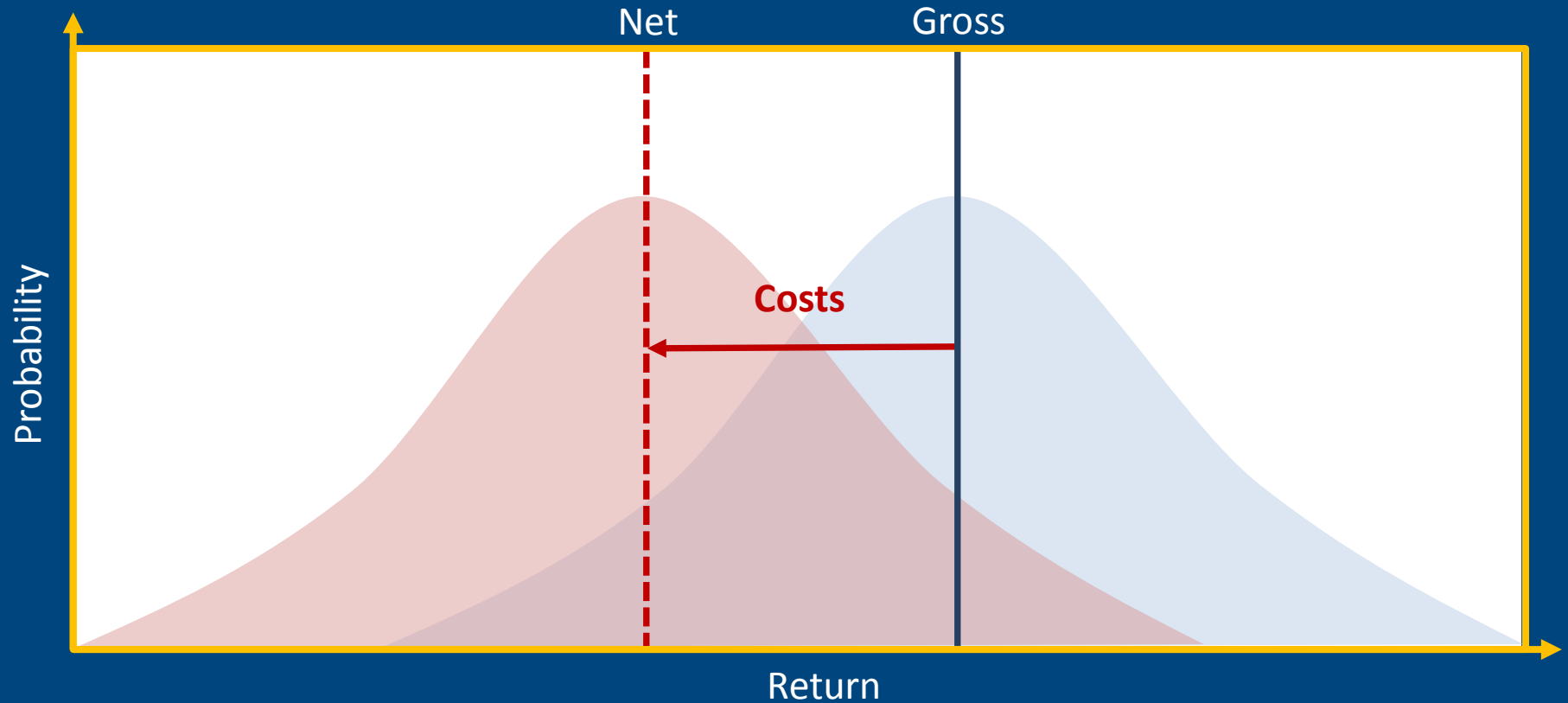
Cost-Heavy Investing



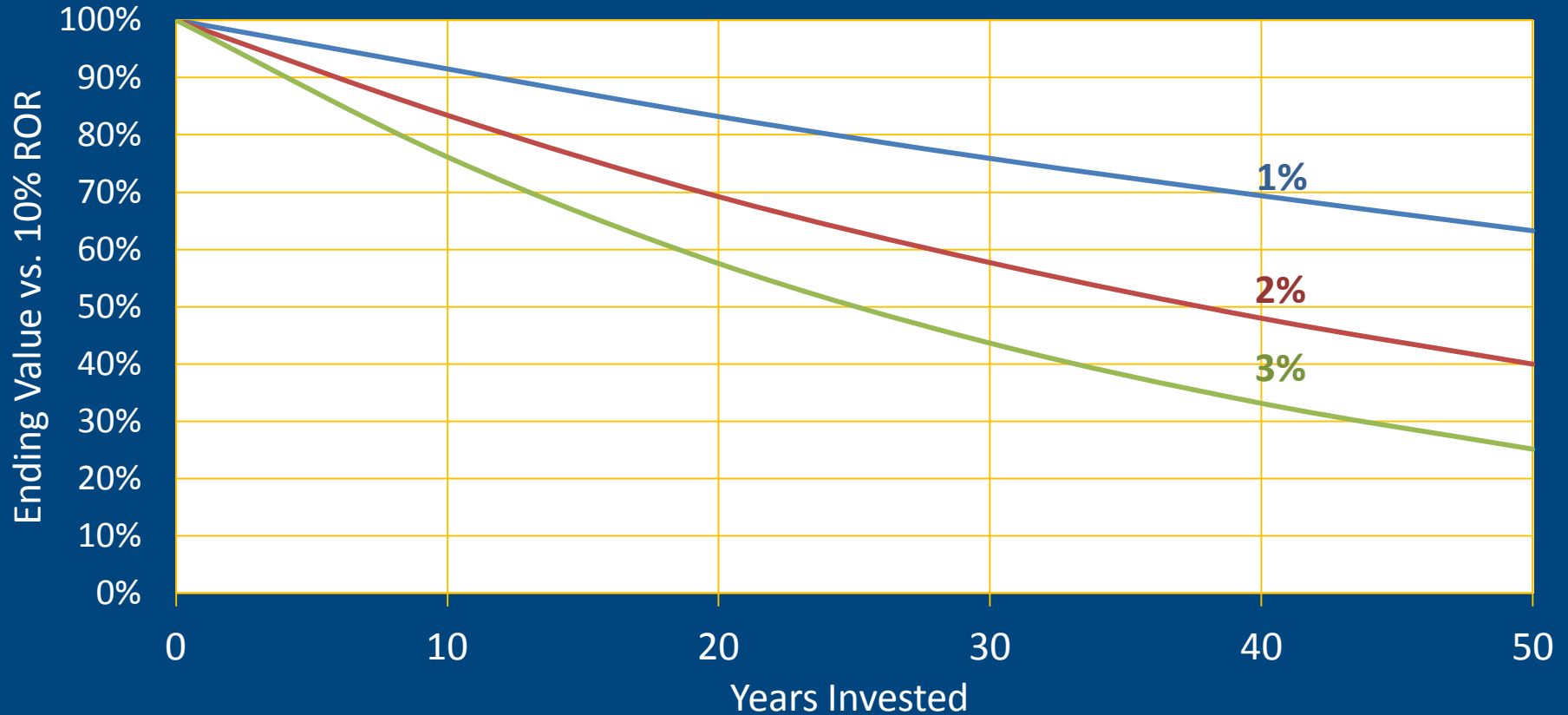
Cost-Effective Investing



The Effect of Excess Costs on Expected Return



The Effect of Excess Costs on Expected Value



Types of Investment Costs

Category	Description	Example
Selling	Convincing You to Buy	Loads, 12b-1 Fees, DCSC
Administration	Business Overhead	Expense Ratios
Navigation	Planning and Analysis	Fees
Performance	Securities Selection and Timing	Expense Ratios
Transactions	Brokerage Commissions	Trading Commissions
Taxes	Excess Taxes Generated By Turnover	1099
Lifestyle	Reduced Standard of Living	Underperformance

Investment Costs - Mutual Fund Example

Investment Cost	Annual
Selling	0.25%
Administration	0.40%
Navigation	
Performance	1.00%
Transactions	0.10%
Taxes	1.30%
Lifestyle	
Total	3.05%

Investment Costs – Deferred Variable Annuity Example

Investment Cost	Annual
Selling	1.00%
Administration	1.00%
Navigation	
Performance	1.00%
Transactions	0.10%
Taxes	1.30%
Lifestyle	
Total	4.40%

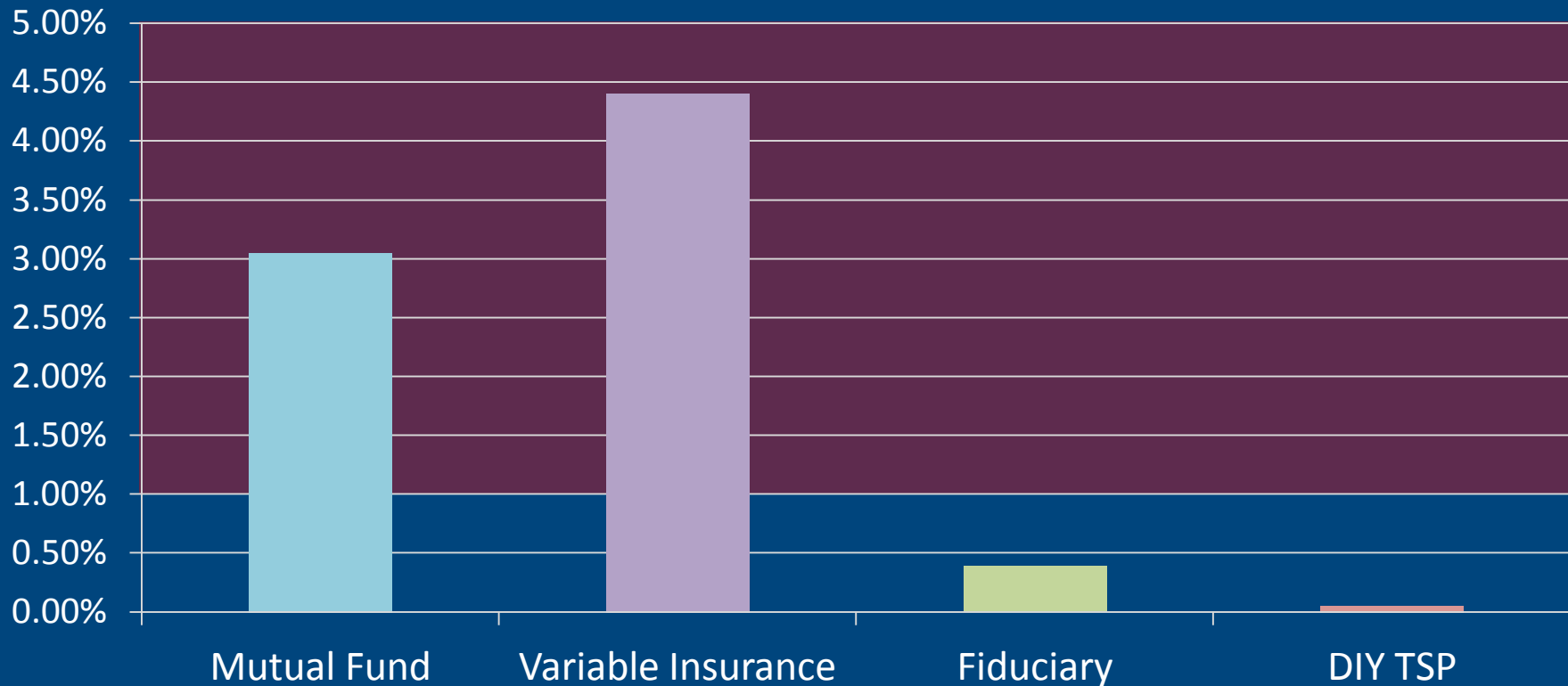
Investment Costs – Low-Cost Fiduciary Example

Investment Cost	Annual
Selling	0.00%
Administration	0.12%
Navigation	0.17%
Performance	0.08%
Transactions	0.02%
Taxes	0.00%
Lifestyle	
Total	0.39%

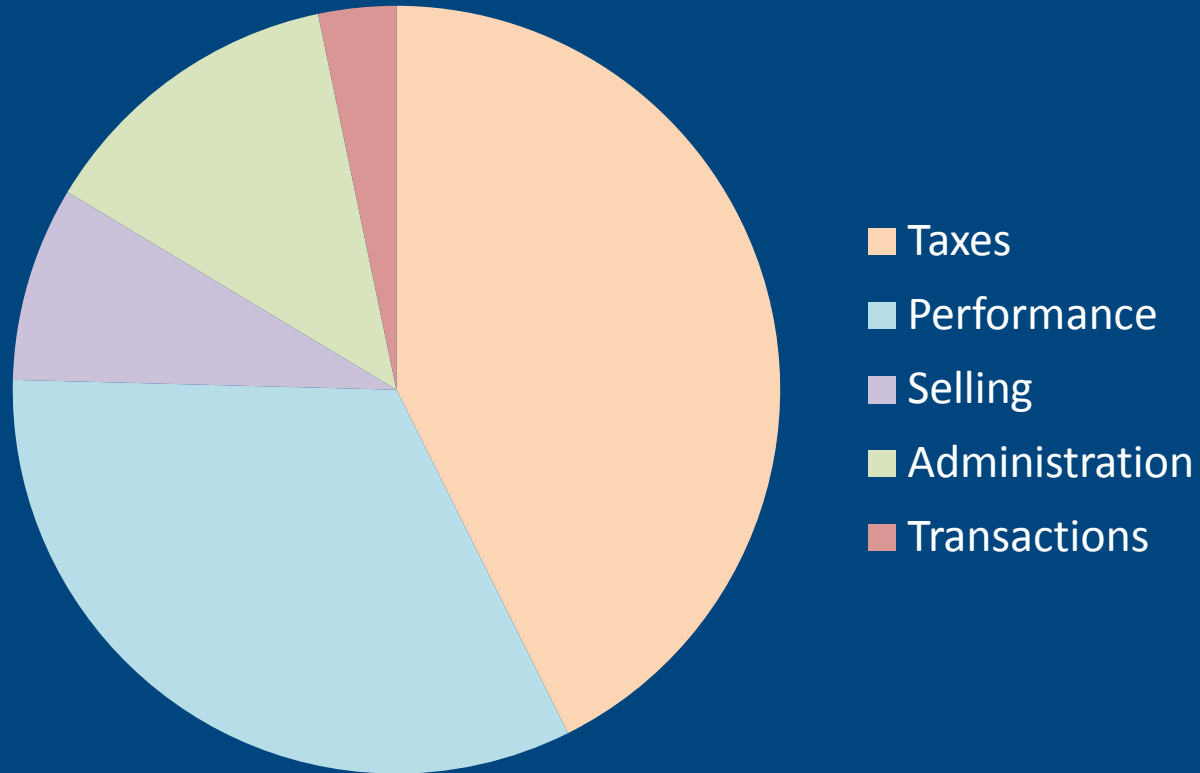
Investment Costs – DIY TSP Example

Investment Cost	Annual
Selling	0.00%
Administration	0.05%
Navigation	0.00%
Performance	0.00%
Transactions	0.00%
Taxes	0.00%
Lifestyle	?
Total	0.05%

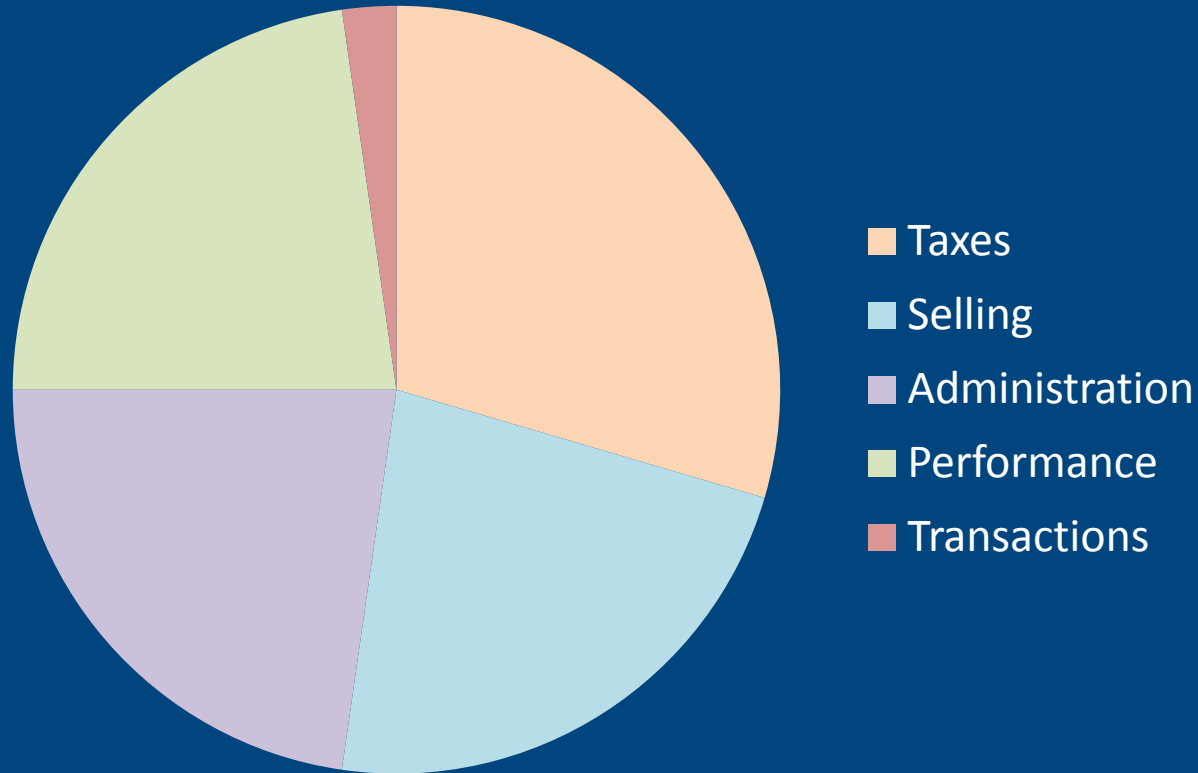
Investment Costs Comparison



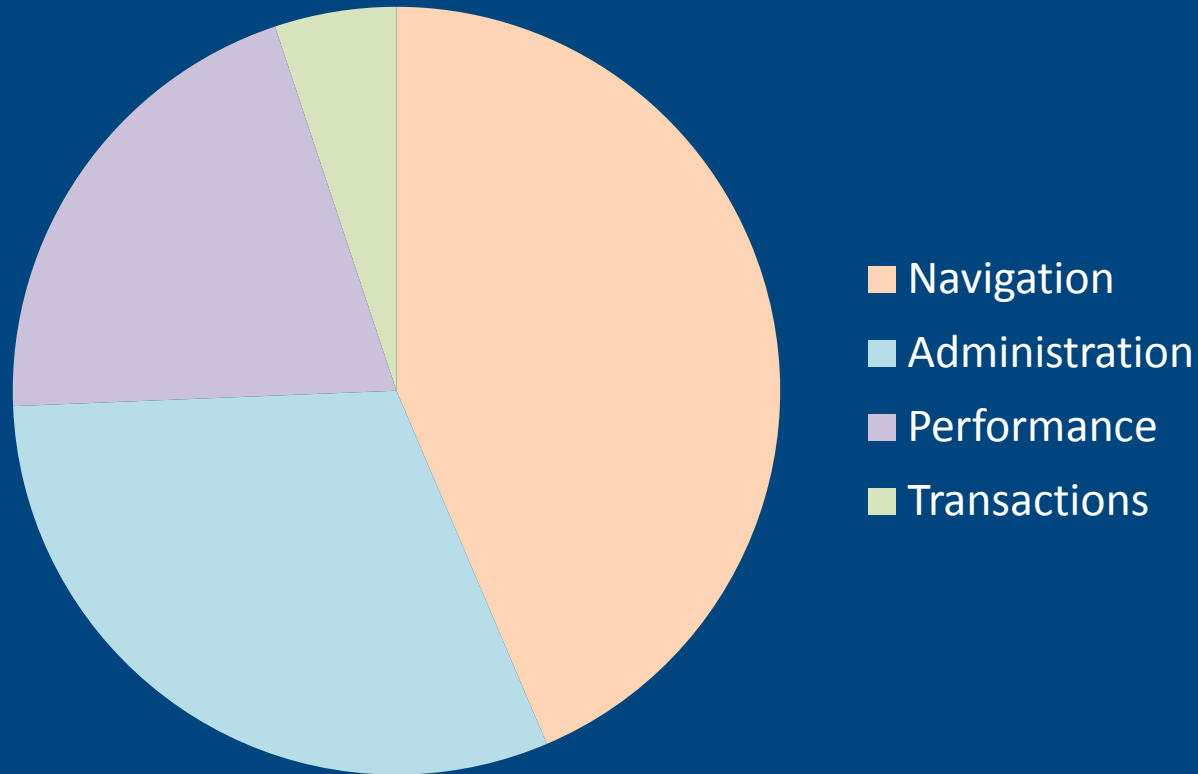
Investment Cost Allocation - Mutual Fund Example



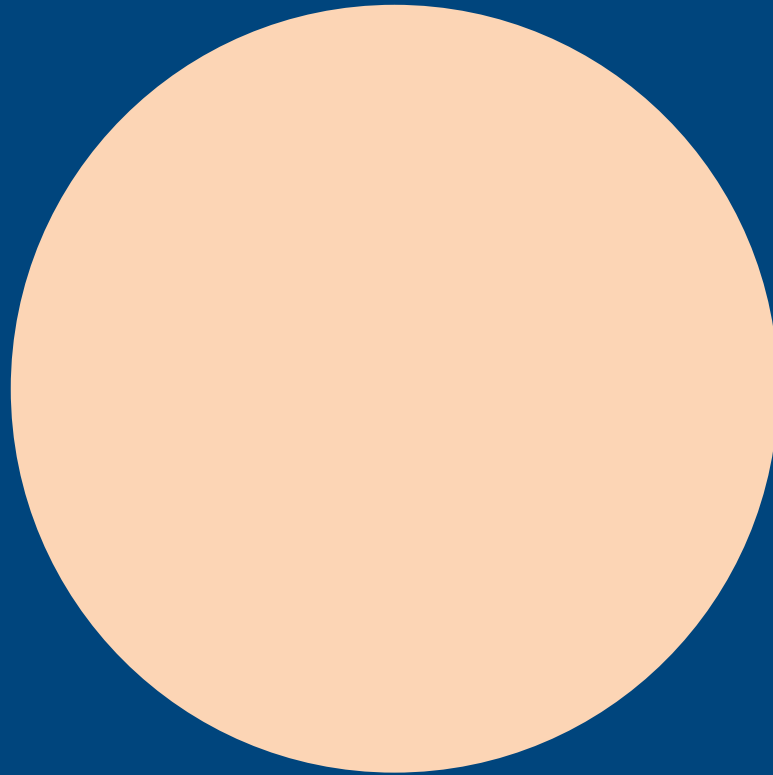
Investment Cost Allocation – Deferred Variable Annuity Example



Investment Cost Allocation – Low-Cost Fiduciary Example











Investment Cost Allocation – DIY TSP Example



■ Administration

Example Summary

Program	Total Cost	Cost Allocation
Managed Mutual Fund w/ Advisor		
Deferred Variable Annuity w/ Advisor		
Low-Cost Fiduciary		
DIY TSP		

The success of your retirement investment program depends upon how much you spend ...

Conclusions

... and how you spend it.

The Case for Index Investing

Financial Planning and Management



- Wants
- Needs

- **Guaranteed**
 - Annuities
 - Insurance
- **At Risk**
 - **Liquid Assets**
 - Cash
 - Marketable Securities
 - **Illiquid Assets**
 - Real Estate
 - Business Interests

- **Action**
 - Constraints
- **Decisions**
- **Analysis**
 - Assumptions
 - Experience
 - Probabilities
 - Estimates

- **Risk**
- **Return**

- Cash Flow
- Wealth

Inflation & Taxes

A Few Advocates of Index Investing

John Bogle, Founder of the Vanguard Group

Burton Malkiel, Economist

Charles Ellis, Investment Executive

Warren Buffet, Legendary Investor

Index vs. Component Investing

Key Characteristics	Index	Component
Objective	Own the Market	Beat the Market
Expenses	Cost Efficient	Cost Inefficient
Taxes	Tax Efficient	Tax Inefficient
Diversification	Diversified	Concentrated
Risk	Risk Efficient	Risk Inefficient
Reliability	Predictable	Speculative
Complexity	Simple	Complex

The Purpose of Investment Management

What Matters

Risk-Adjusted Rate of Return

The Key Attributes of an Investment Portfolio

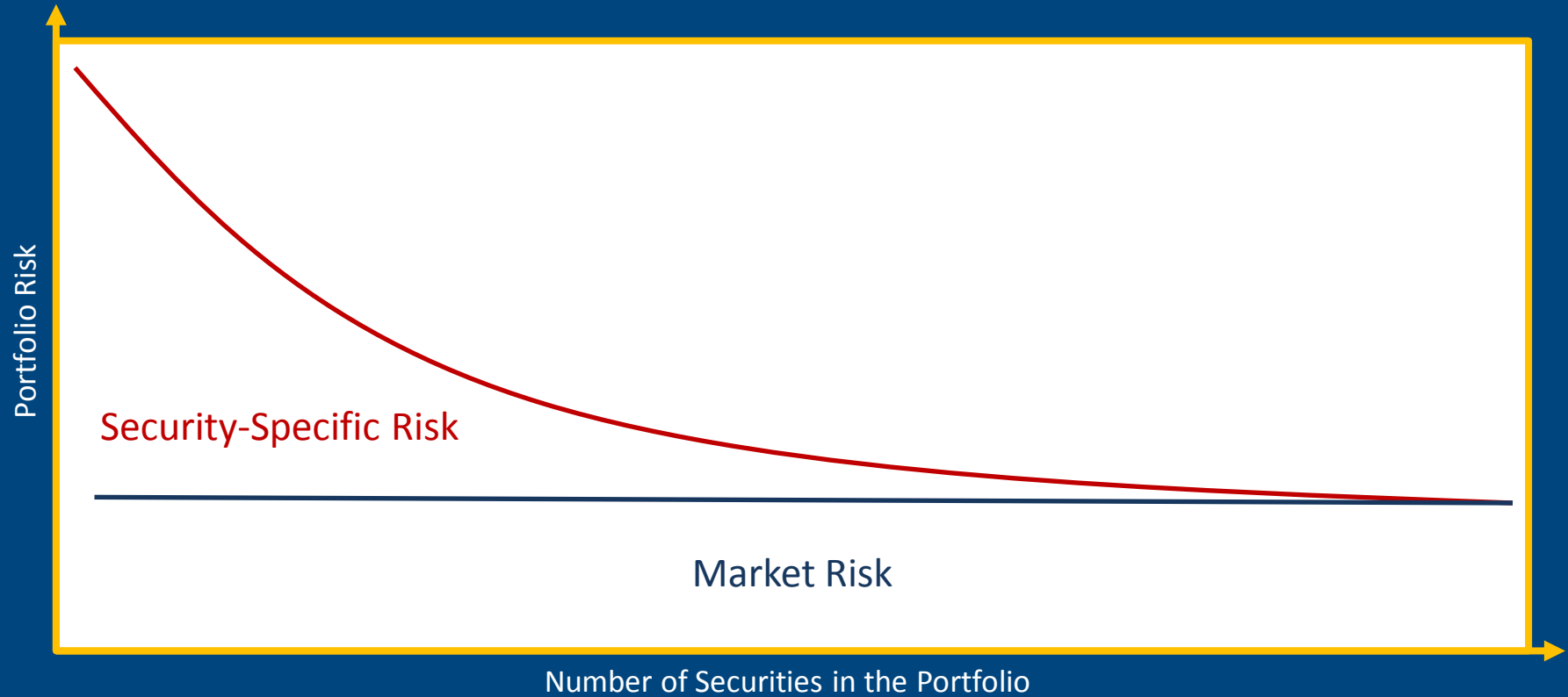
Risk-Adjusted Rate of Return

1. Expected Rate of Return
2. Standard Deviation of Returns

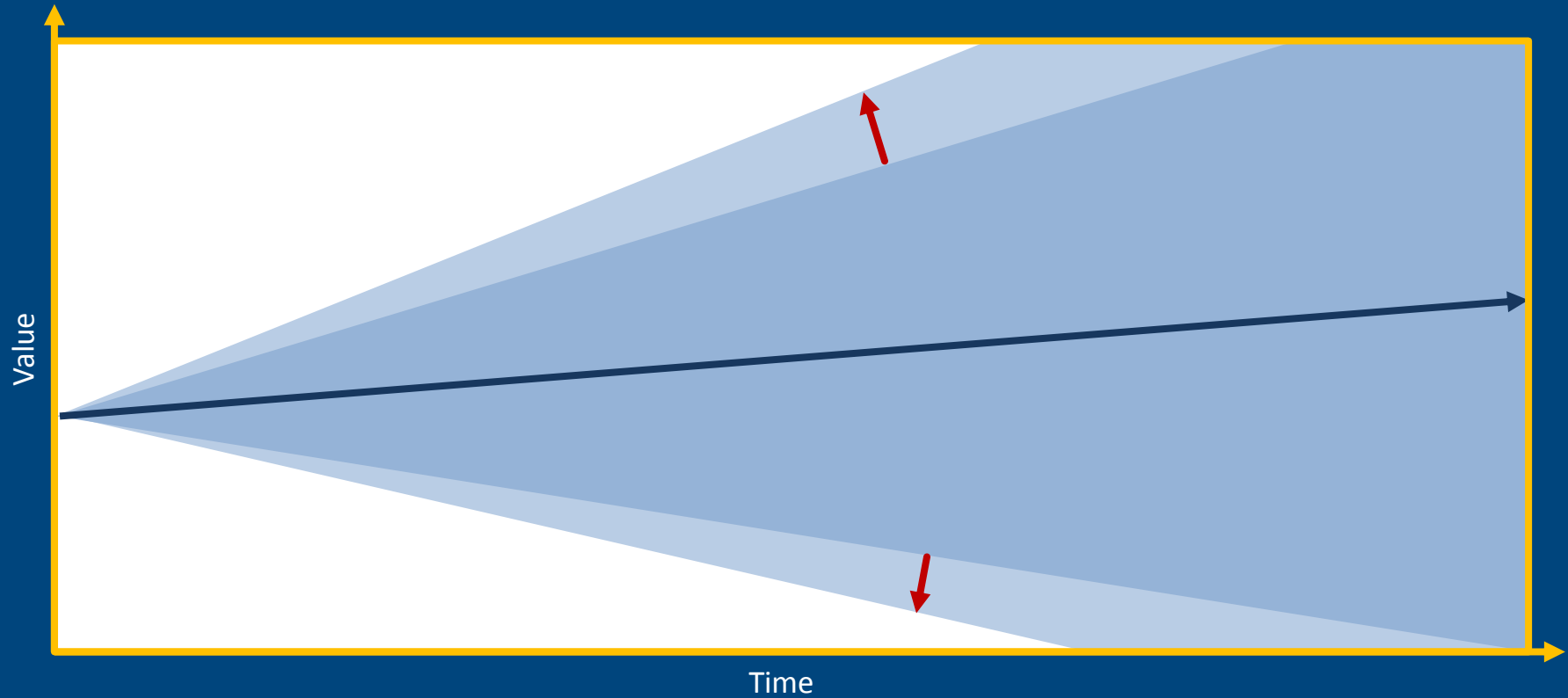
Standard Deviation of Returns

Always greater when a portfolio is
less-than-fully diversified

The Benefit of Intra-Market Diversification



The Benefit of Intra-Market Diversification

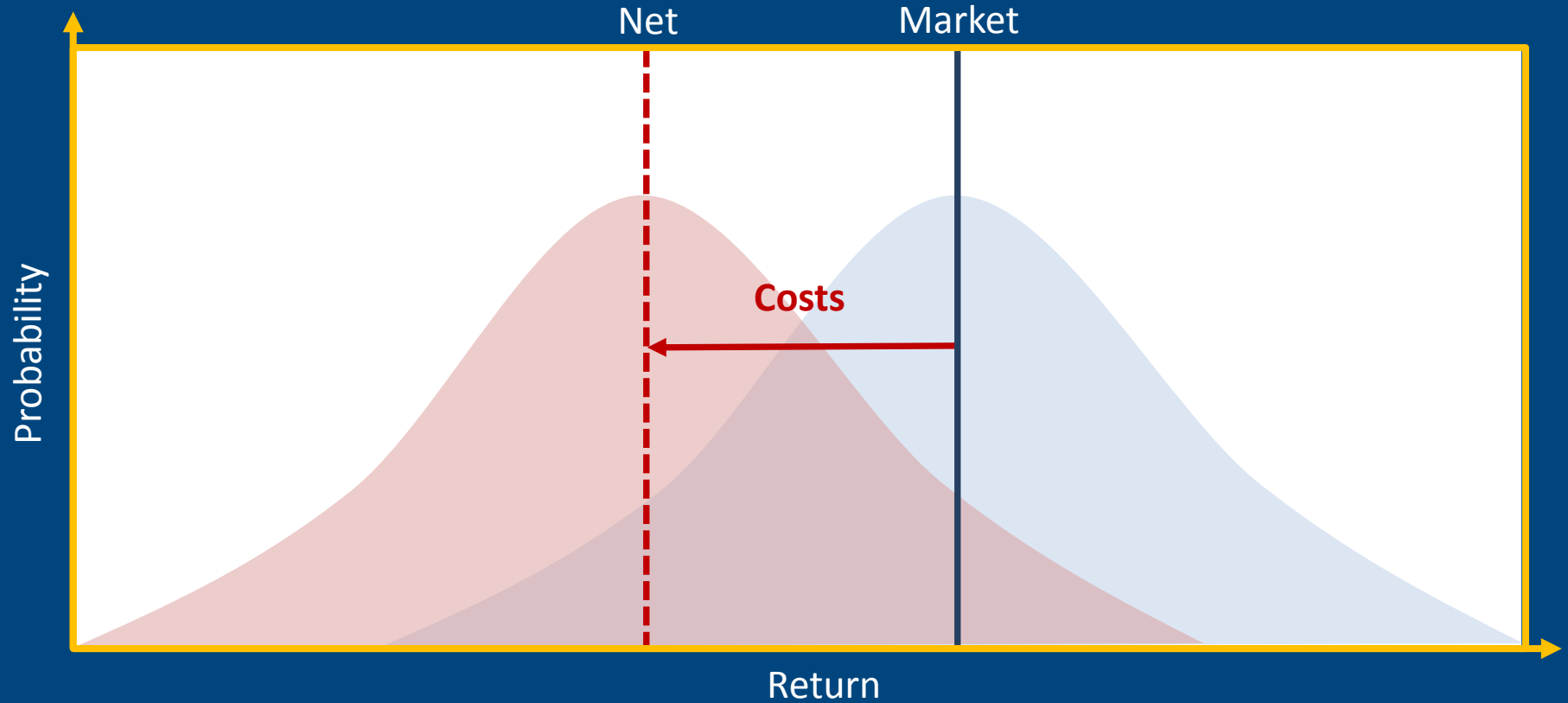


Expected Rate of Return

Expected Rate of Return

Reduced by Costs and Excess Taxes

Investment Costs

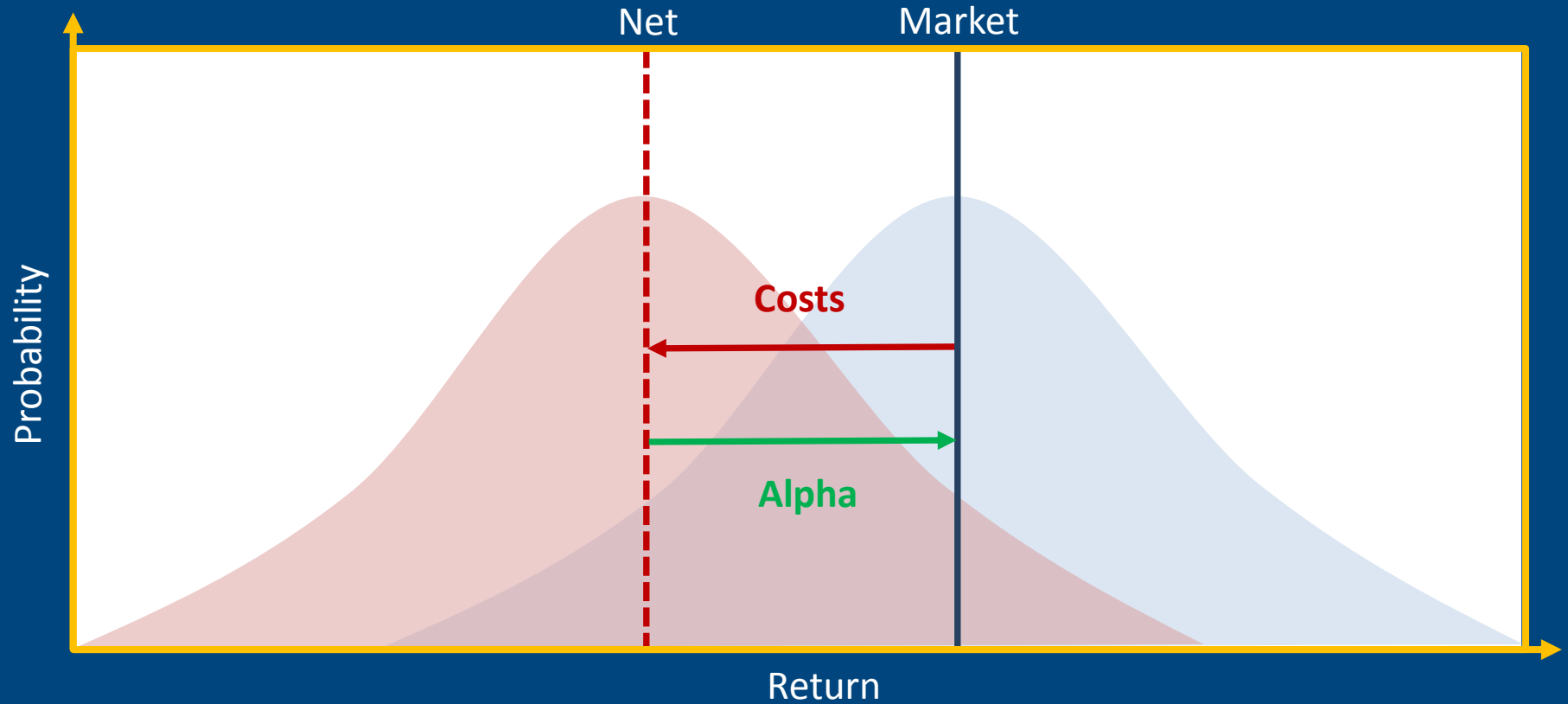


Performance Must Overcome Increased Costs
Just to Break Even with An Index
Investment

The Cost Handicap

To beat index investing, an investment manager must create “Alpha”

Investment Costs



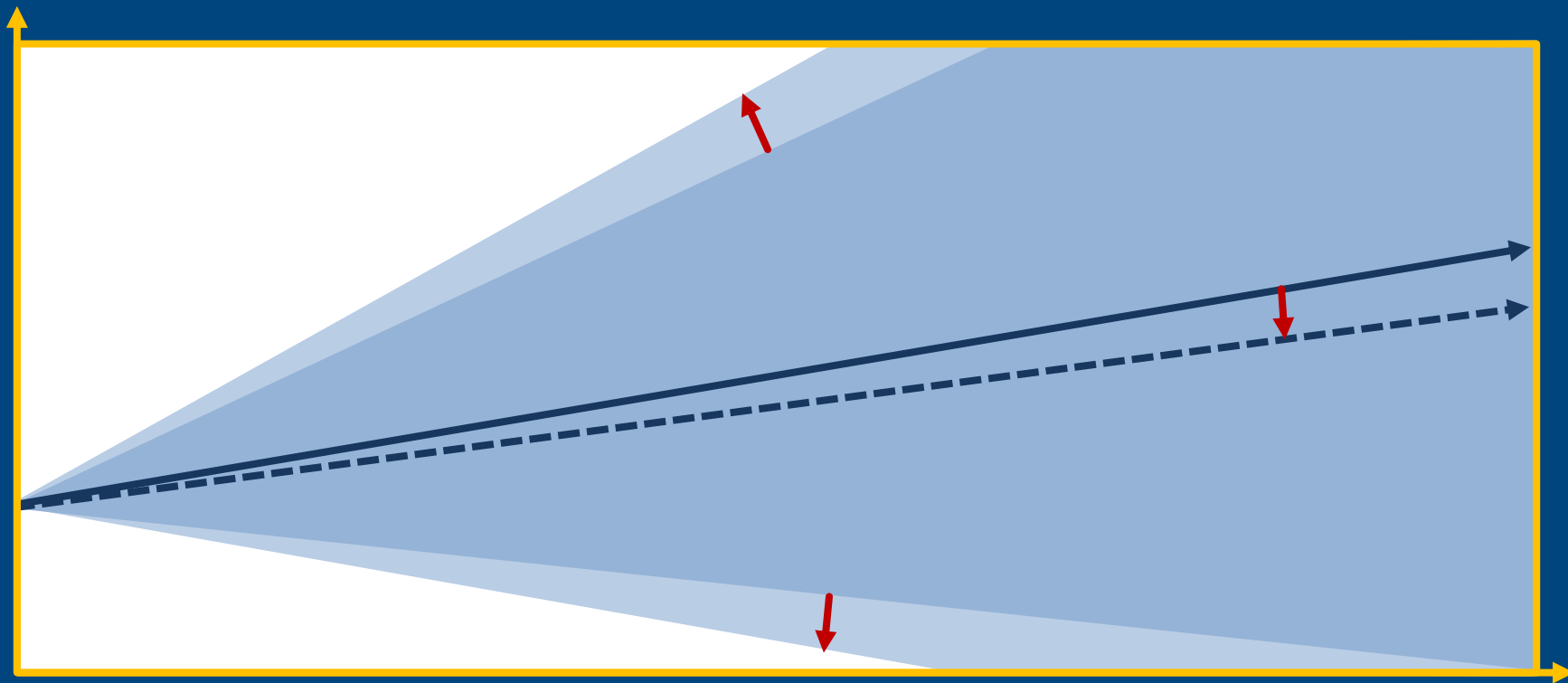
Probability of Creating Alpha



The Zero-Sum Game



Index vs. Component Investing



Index vs. Component Investing



Resources

Common Sense on Mutual Funds: New Imperatives for the
Intelligent Investor, Bogle

A Random Walk Down Wall Street: The Time-Tested Strategy
for Successful Investing, Malkiel

Winning the Loser's Game: Timeless Strategies for Successful
investing, Ellis

The Little Book of Common Sense Investing: The Only Way to
Guarantee Your Fair Share of Stock Market Returns, Bogle

Next Week's Webinar

1. Success and Failure in Retirement Investing
2. Defining Retirement Resources, Goals and Constraints
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