

# Financial Intelligence

Produced Exclusively for Members of the  
**Senior Executives Association**

# Mike Miles



- 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](http://www.federaltimes.com)

# Advanced Decision Support Services

- Capable
- Concerned
- Conflict-Free
- Cost-Effective & Affordable

# SEA Member Benefits

- \$49 Benchmark™ Portfolio Review – **Save \$250**
- Free Hour of Consulting / Analysis – **Save \$205**
  - \$250 Vantage Discount – **Save \$250**
- Email Questions to me at [mmiles@variplan.com](mailto:mmiles@variplan.com)

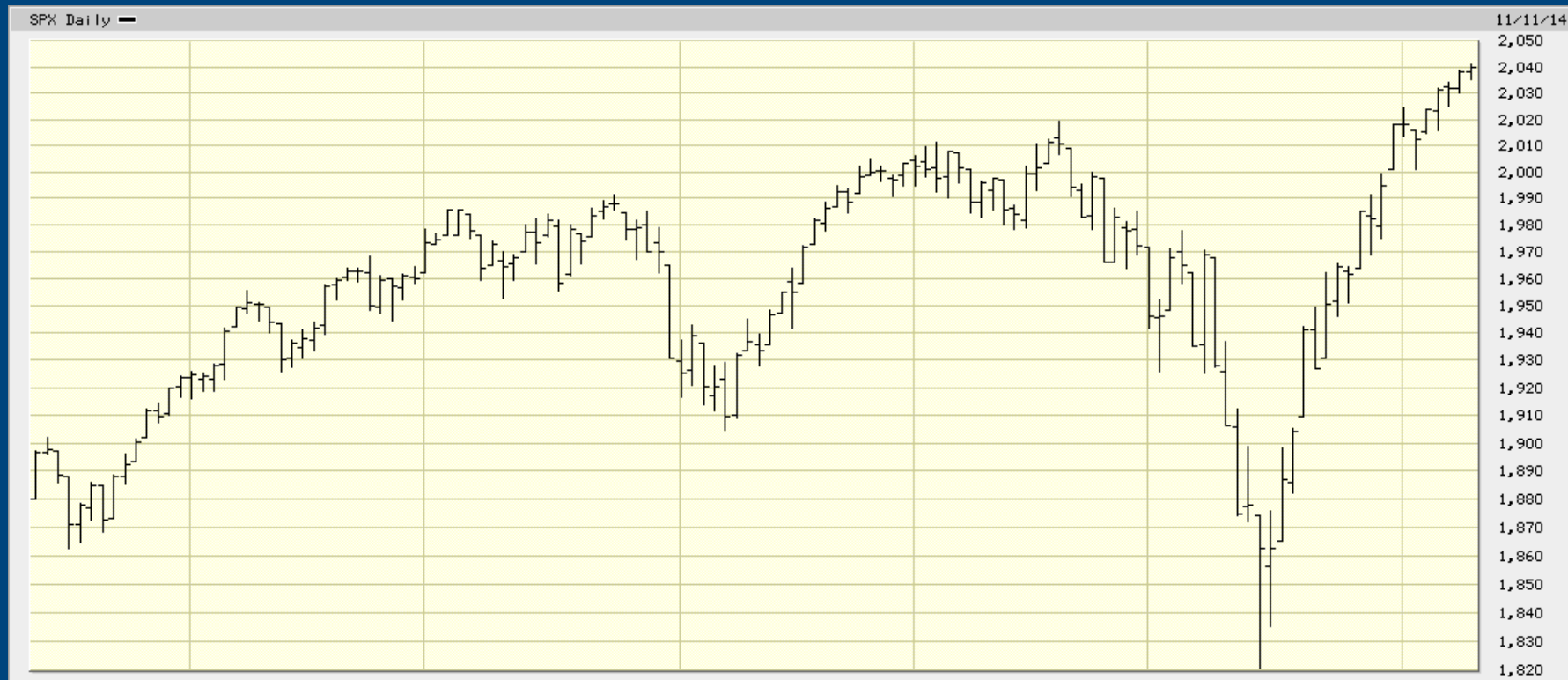
# Contents

---

1. Market Review
2. Tactical Recommendations
3. Understanding Portfolio Diversification
5. Questions & Answers

## How to Submit Your Questions

# Market Review – Stocks (6 months)

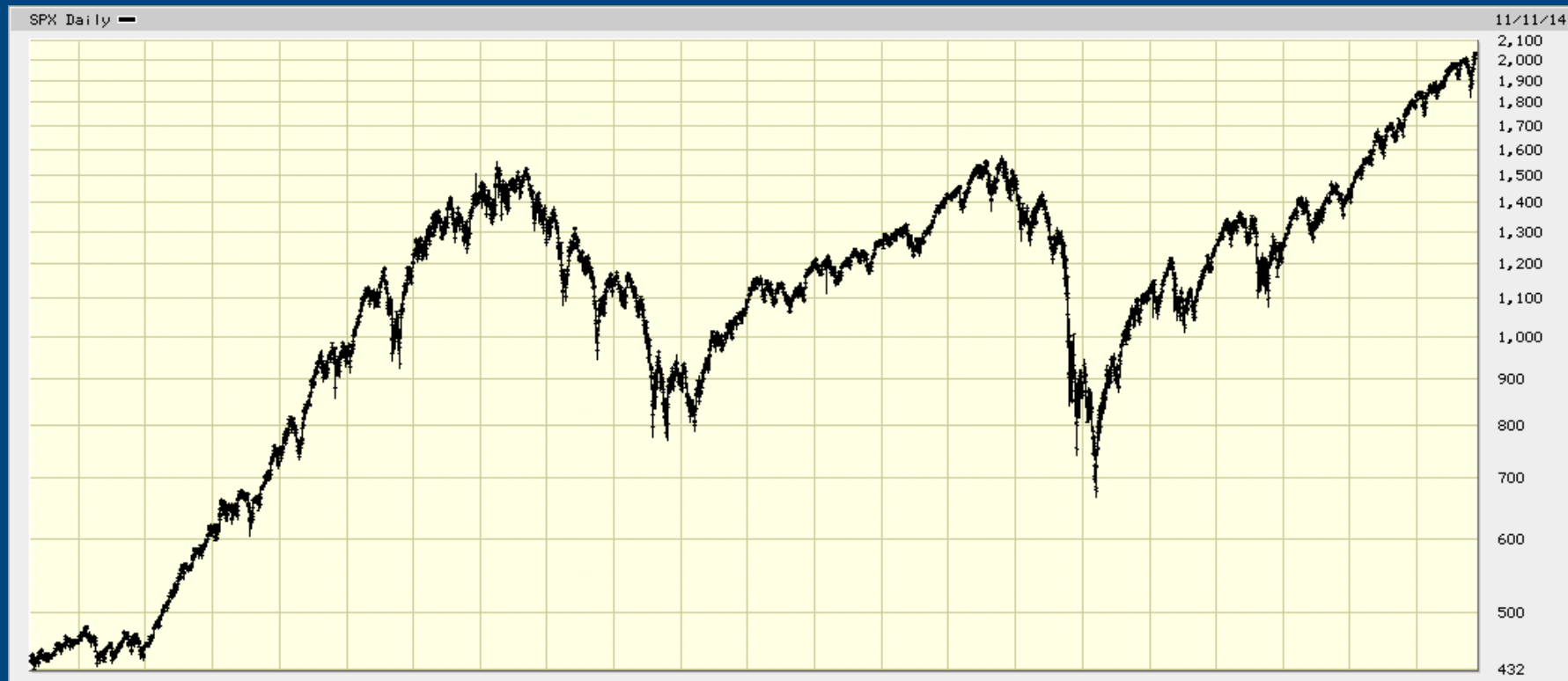


# Market Review – Stocks (5 Years)





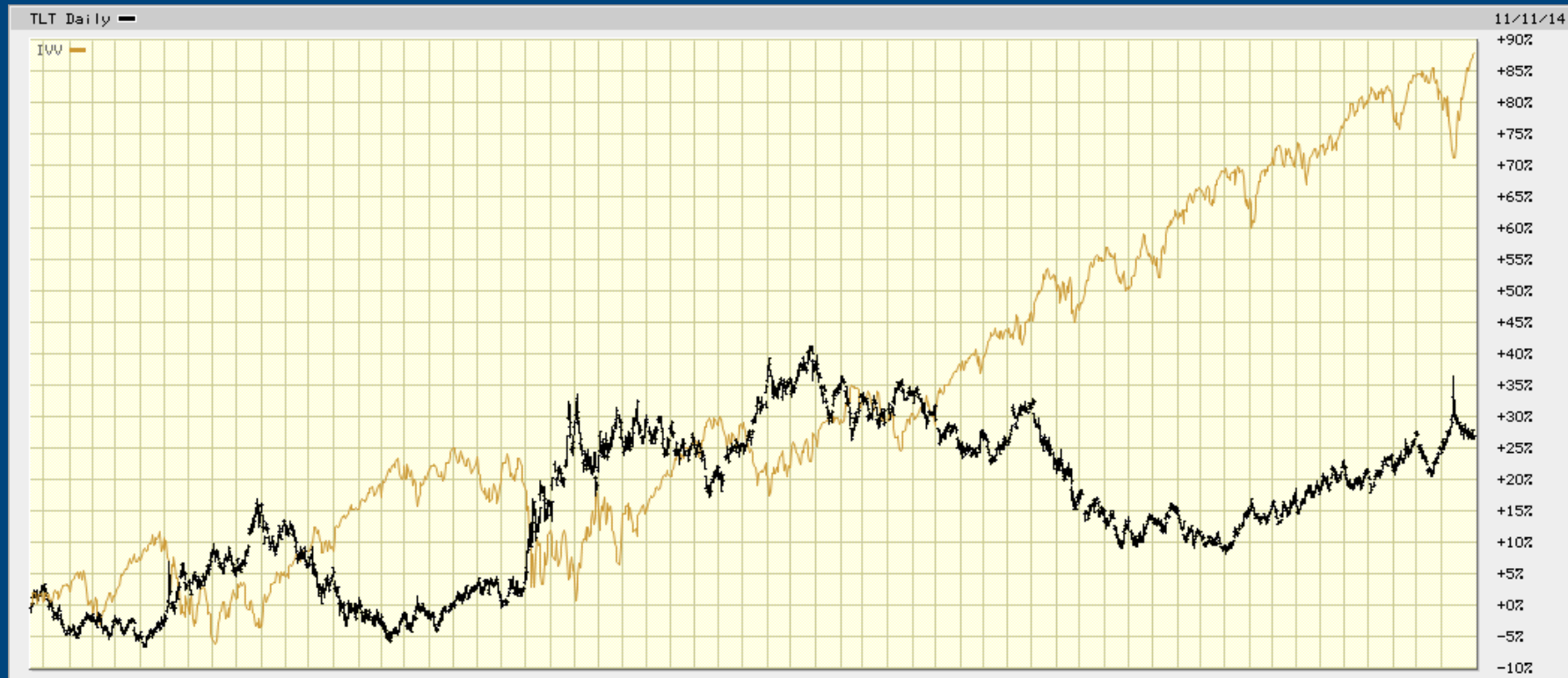
# Market Review – Stocks (20 Years)



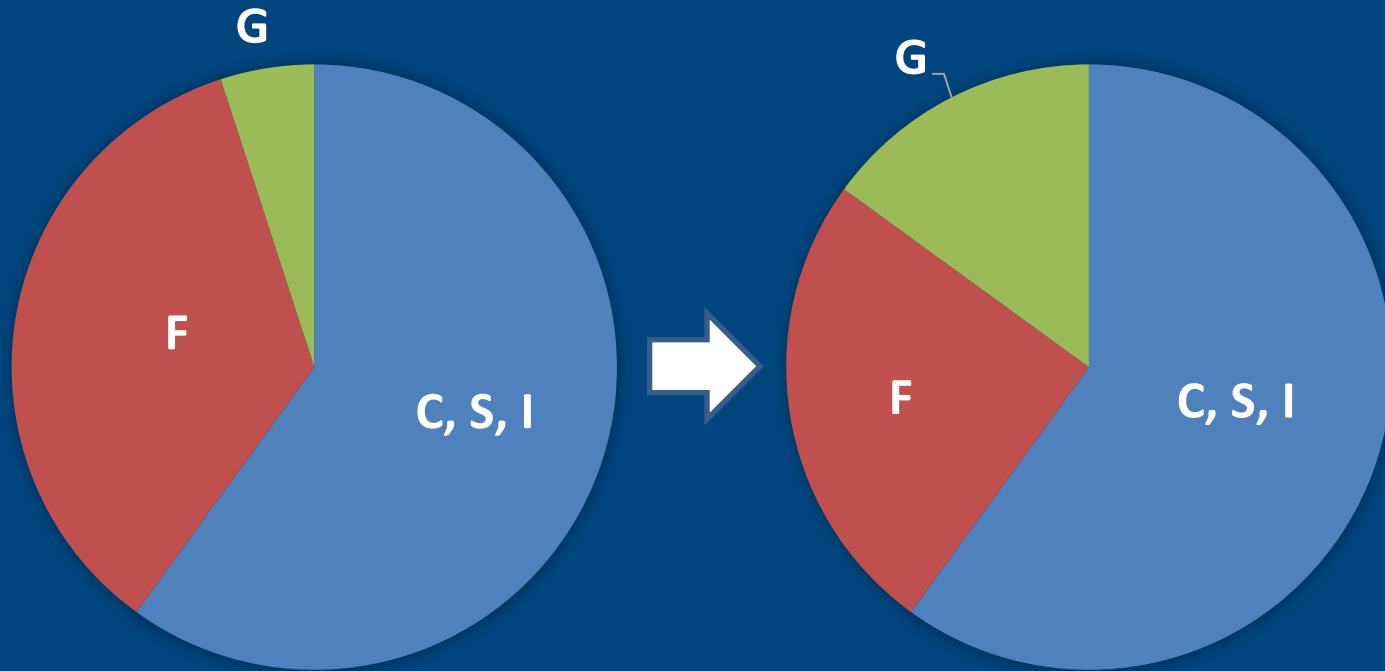
# Market Review - Interest Rates (20 Years)



# Market Review – Stocks vs. Bonds (5 Years)

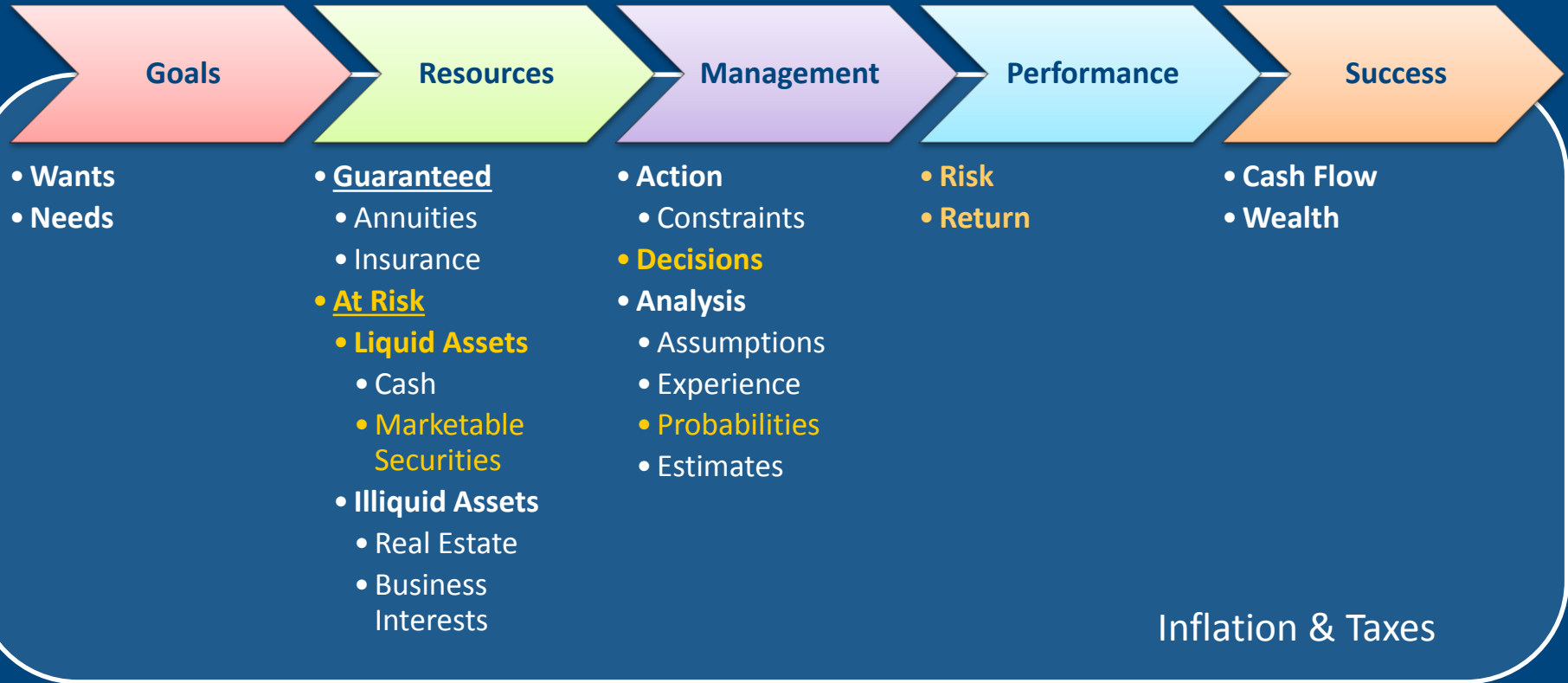


# Tactical Recommendation



## The Case for Index Investing

# Financial Planning and Management



# A Few Outspoken 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

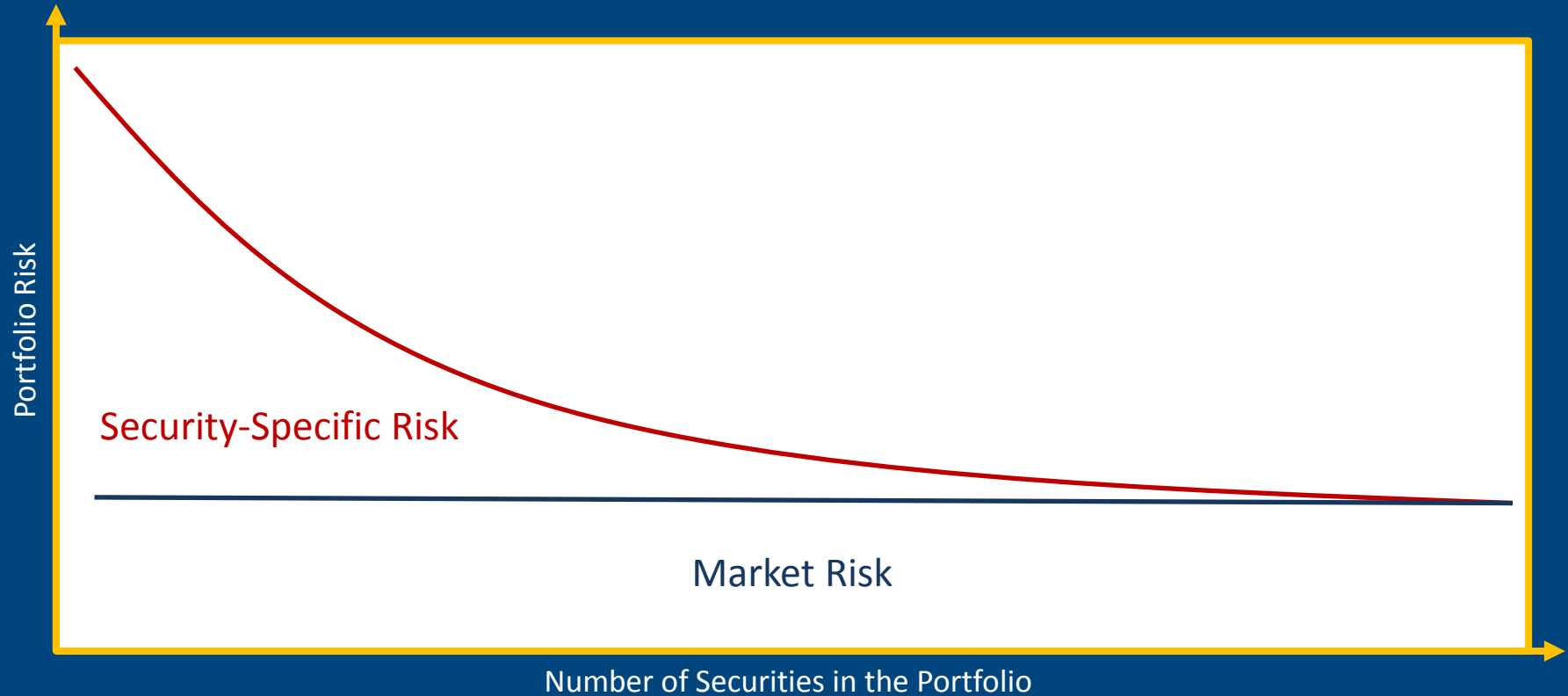
## Risk-Adjusted Rate of Return

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

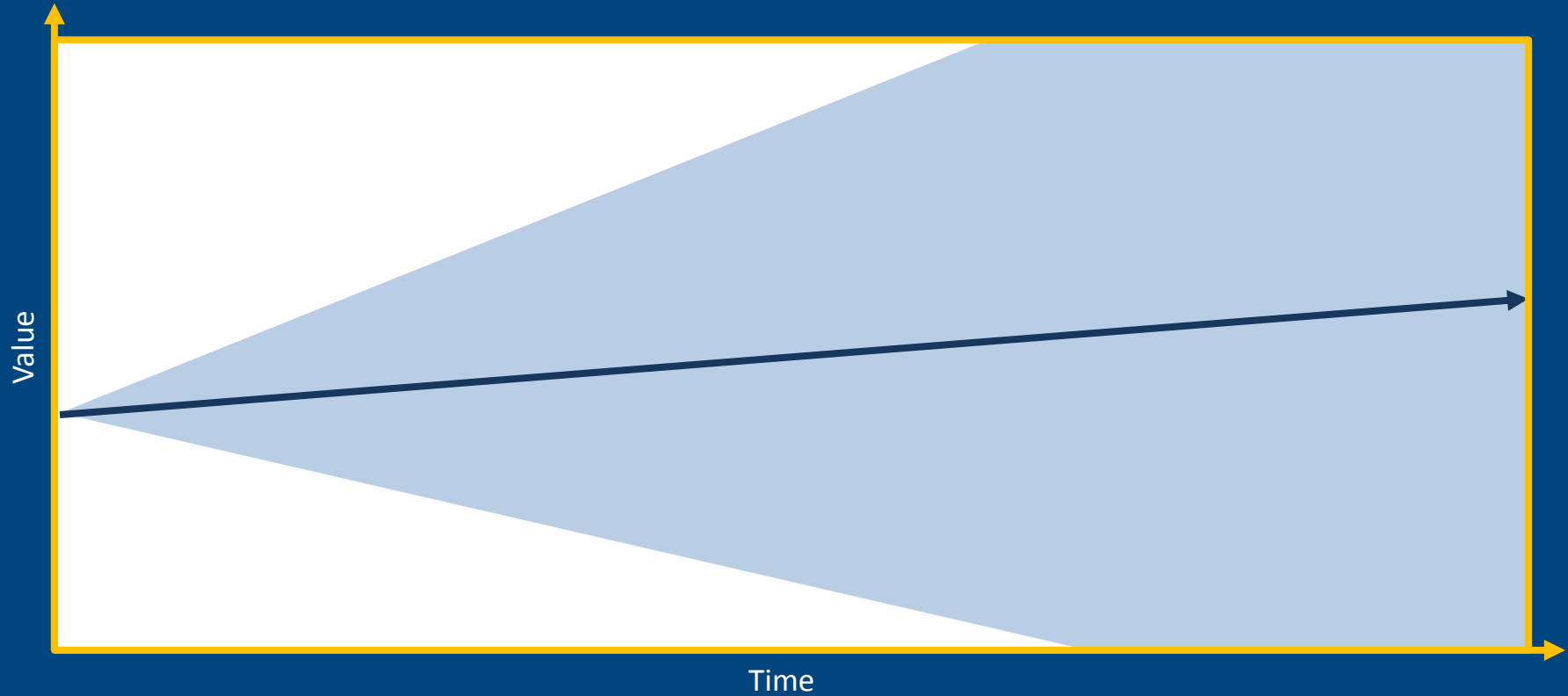
## Standard Deviation of Returns

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

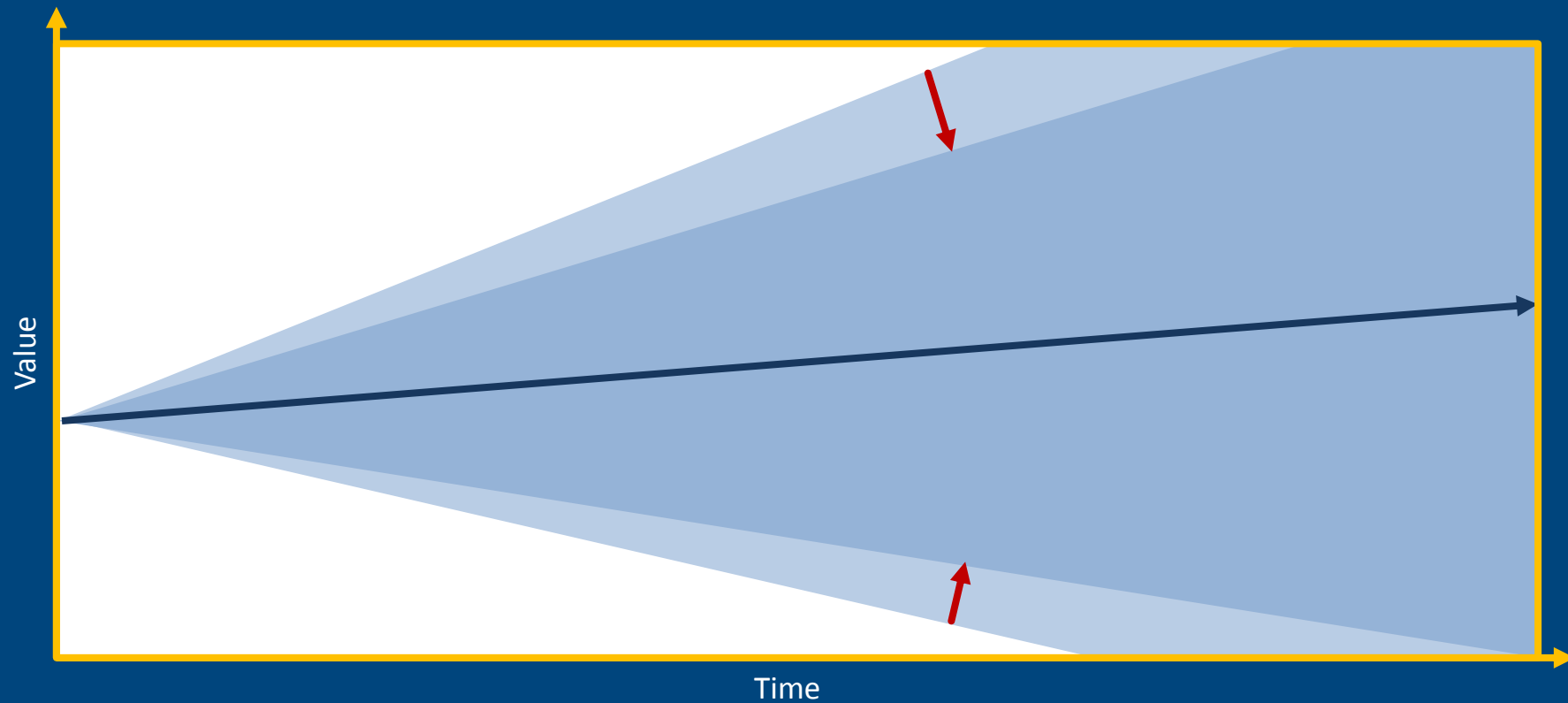
# The Benefit of Intra-Market Diversification



# The Benefit of Intra-Market Diversification



# The Benefit of Intra-Market Diversification



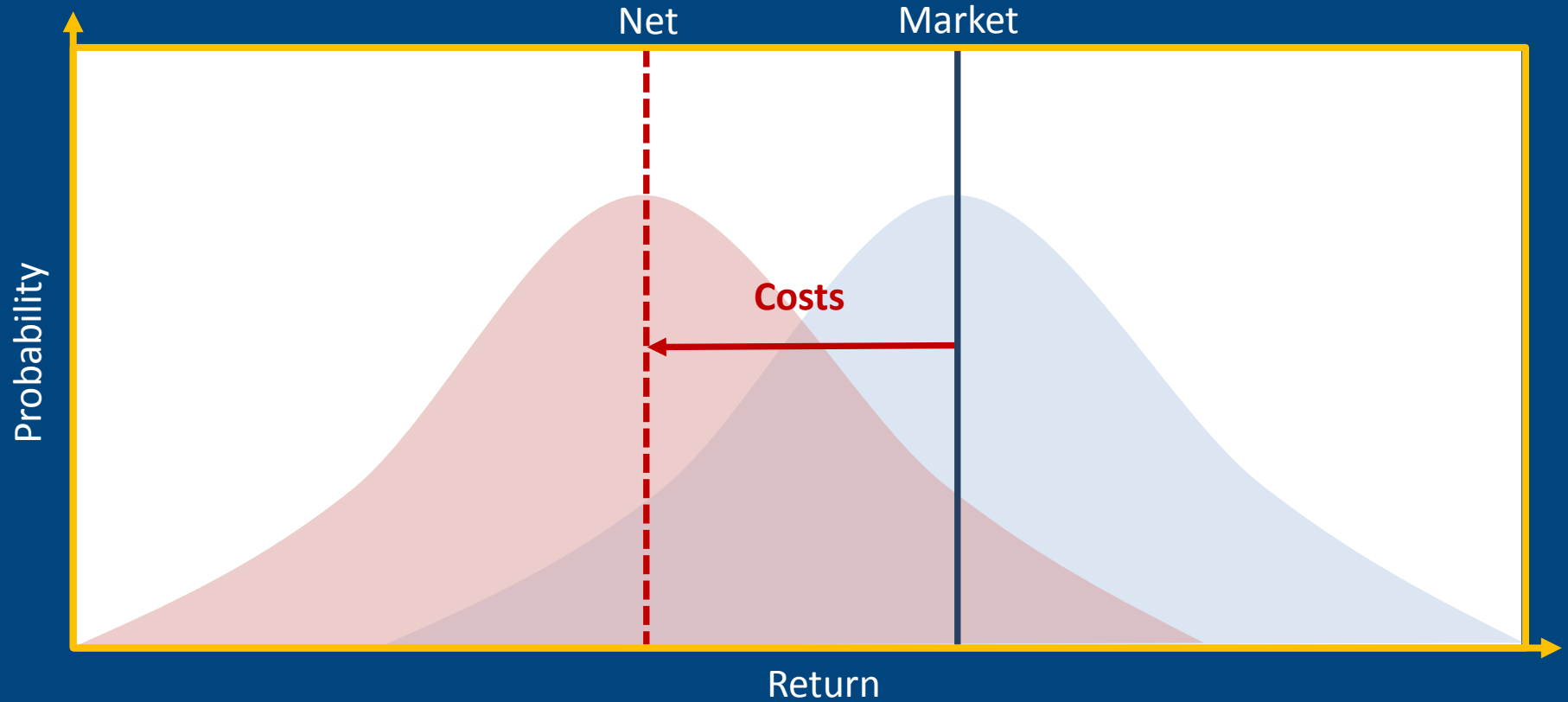
# Expected Rate of Return

---

Expected Rate of Return

Reduced by Costs and Excess Taxes

# Investment Costs



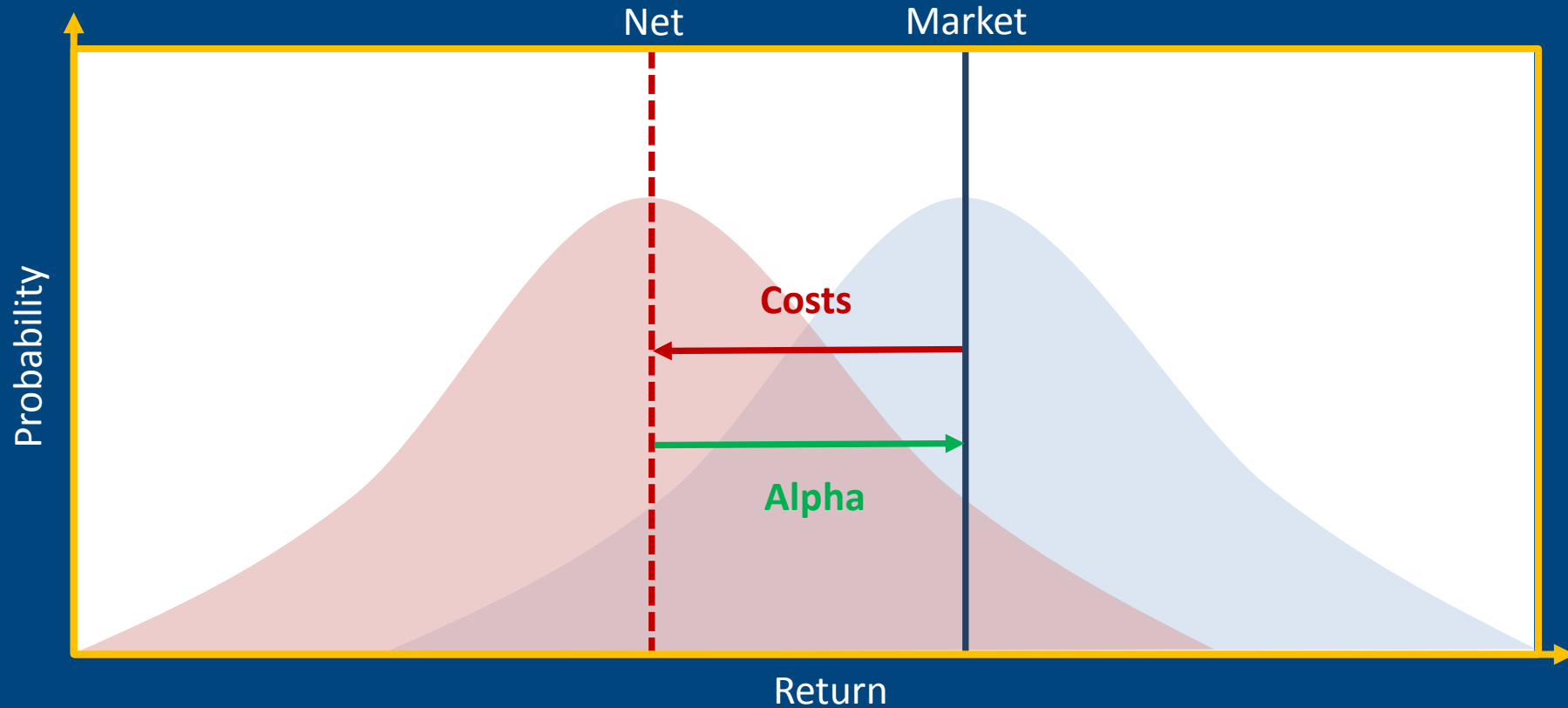


Performance Must Overcome Increased Costs  
Just to Break Even with An Index  
Investment

# The Cost Handicap

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

# Investment Costs



# The Zero-Sum Game for Alpha



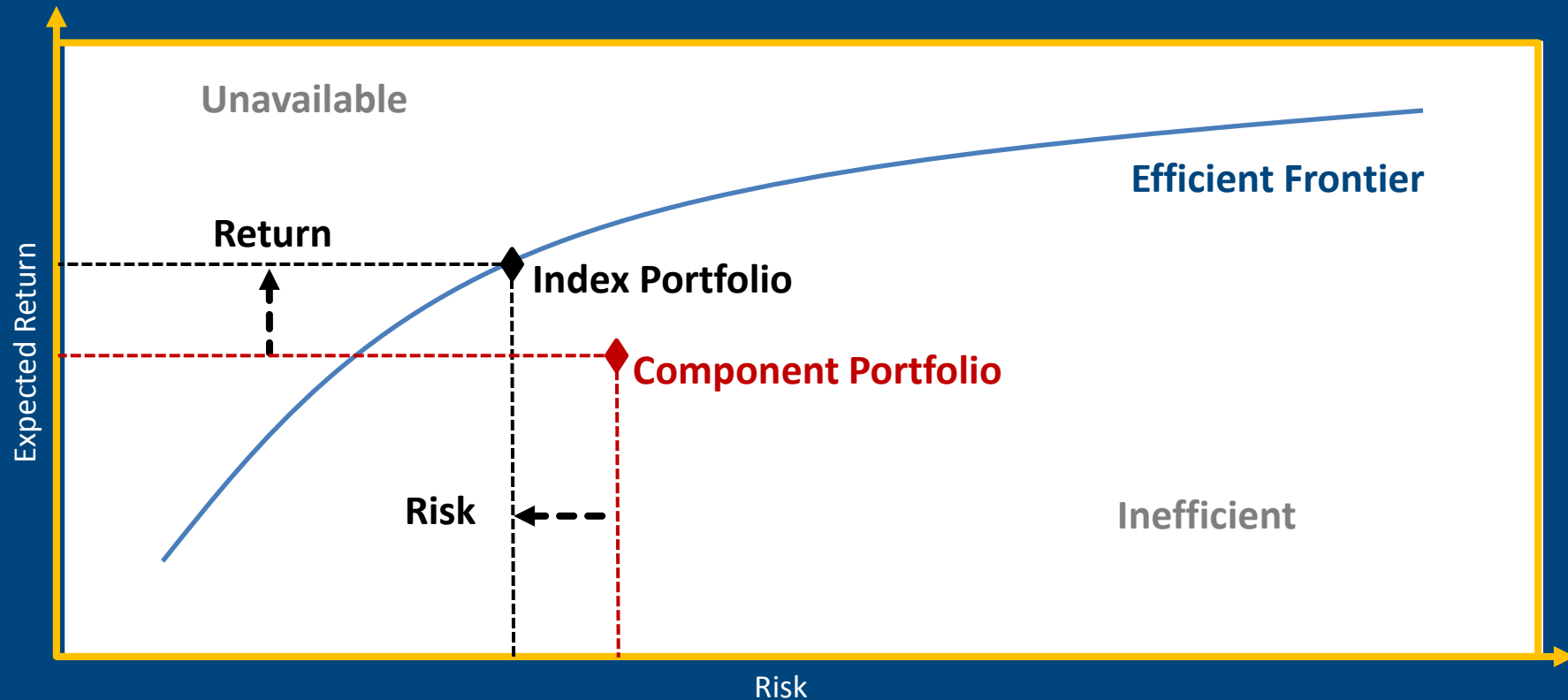
# Probability of Creating Alpha by Amount



# Probability of Creating Alpha Over Time



# 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



Questions / Comments / Suggestions



---

V A R I P L A N

Advanced Retirement Planning and Management

[mmiles@Variplan.com](mailto:mmiles@Variplan.com) • [www.Variplan.com](http://www.Variplan.com)