

Financial Intelligence

Produced Exclusively for Members of the
Senior Executives Association

Mike Miles

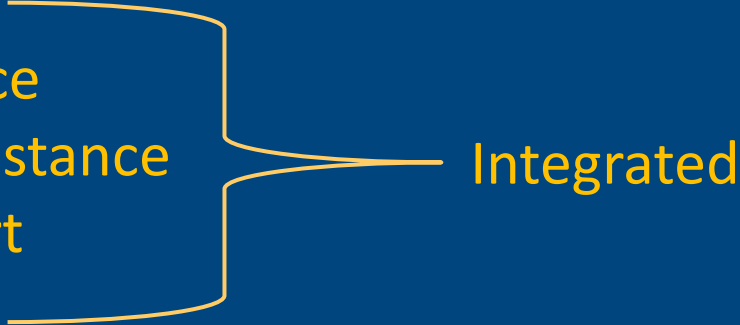


- Founder and Principal Advisor, Variplan, LLC
- Certified Financial Planner
- Registered Investment Advisor
- SEA Benefit Provider Since 1999
- Federal Times' "Money Matters" Columnist
- "Ask the Experts" Panelist at www.federaltimes.com

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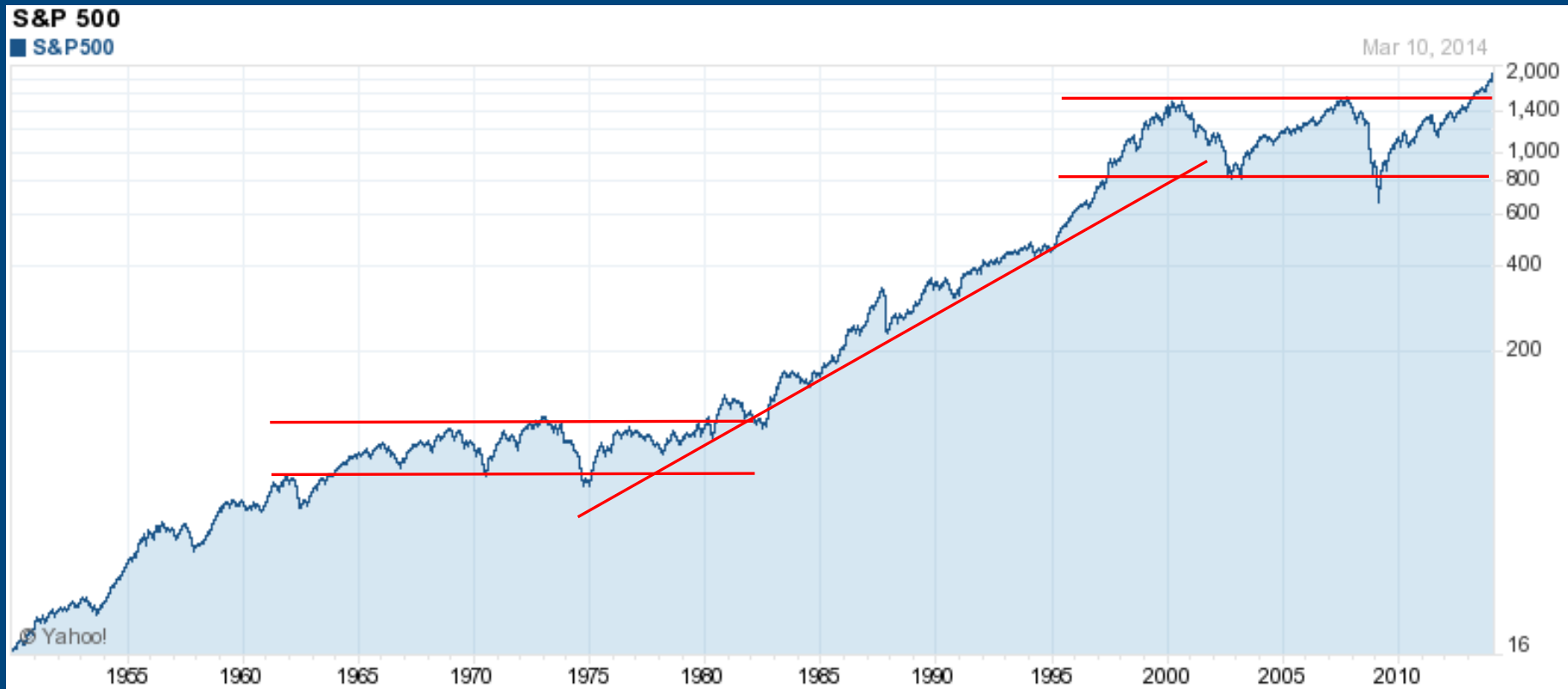
Contents

1. Market Review
3. Active Versus Passive Investing
5. Questions and Answers

Market Review - Stocks



Market Review - Stocks



Market Review - Interest Rates

CBOE Interest Rate 10-Year T-No

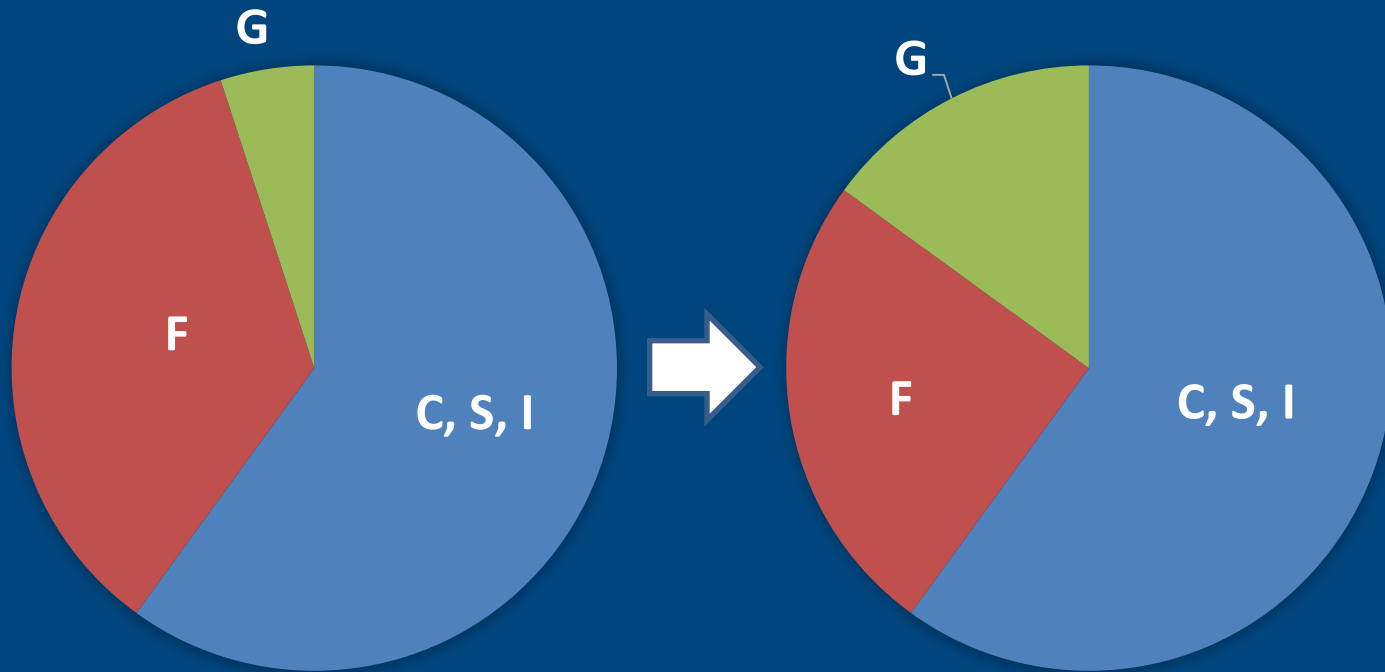
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Asset Allocation



Active Versus Passive Investing - What Every Investor Should Know

Either Invest in the Entire Market

Or

Invest in Selected Components of that Market

Index Funds
Or
Managed Funds or Accounts

The Purpose of Investment Management

What Matters

Risk-Adjusted Rate of Return

The Key Attributes of an Investment Portfolio

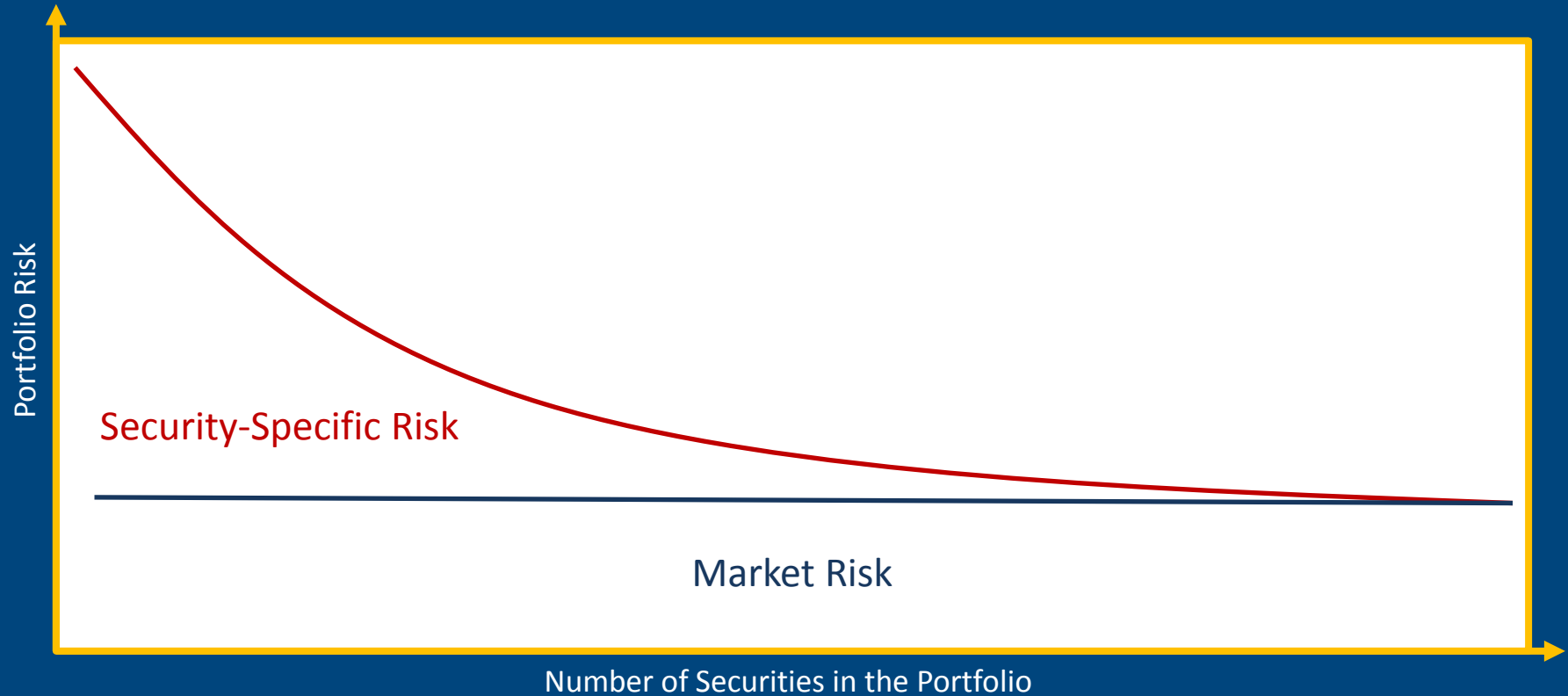
Risk-Adjusted Rate of Return

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

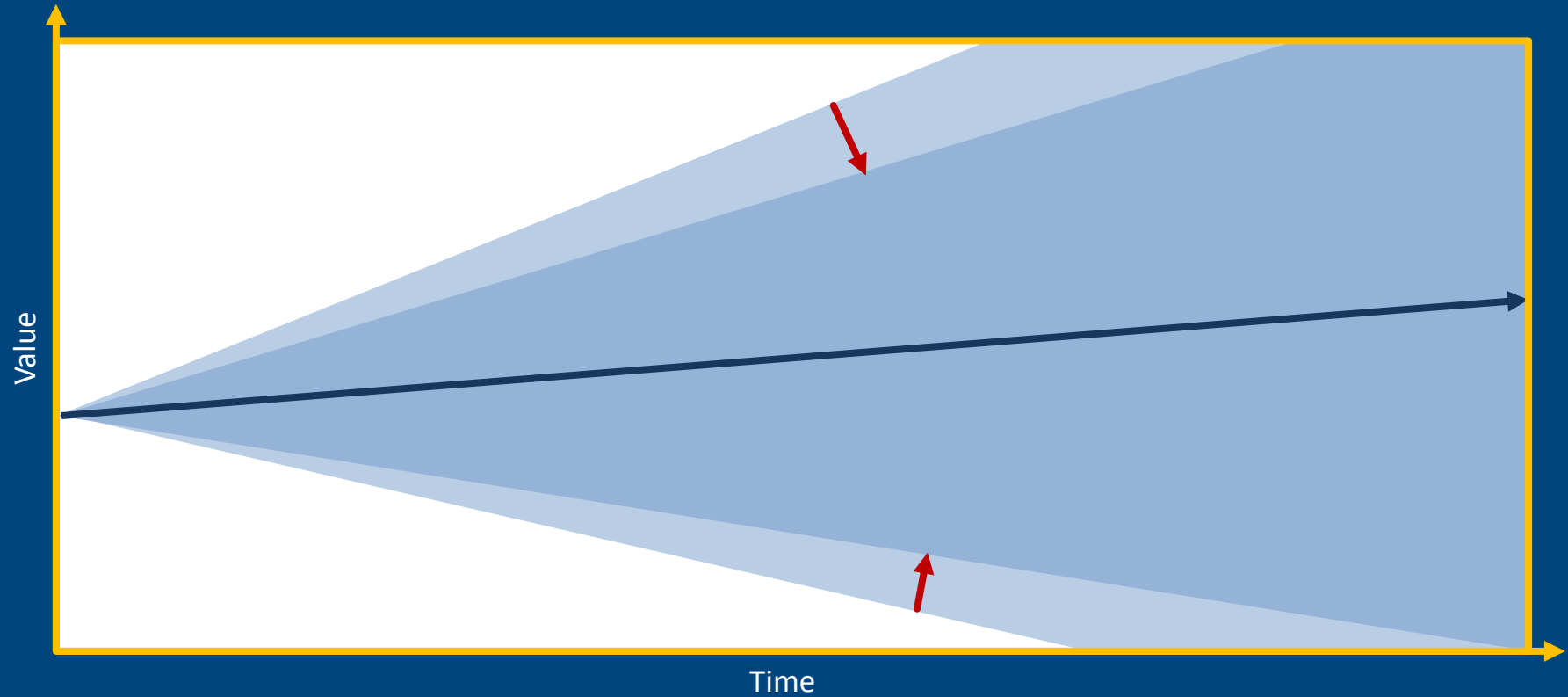
Standard Deviation of Returns

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

The Benefit of Intra-Market Diversification



The Benefit of Intra-Market Diversification

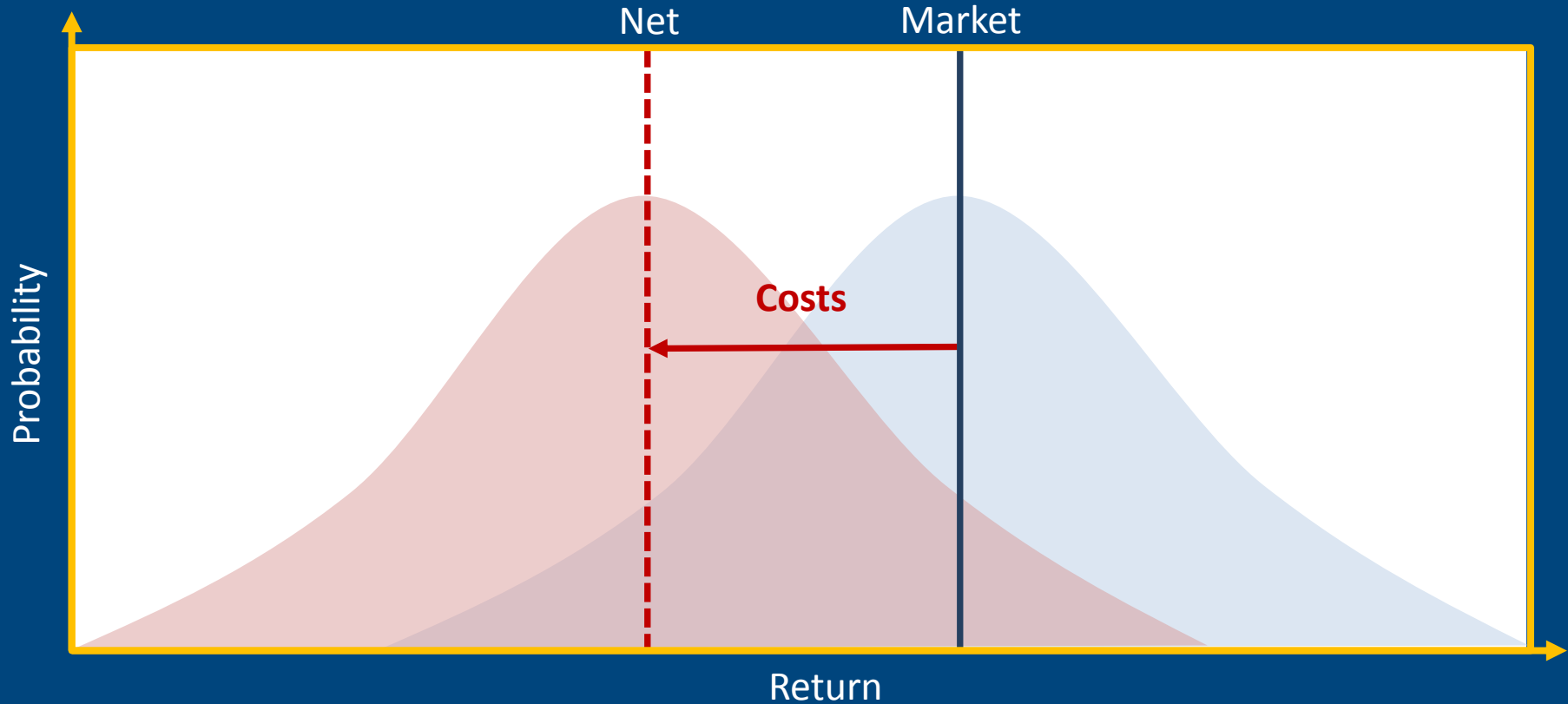


Expected Rate of Return

Expected Rate of Return

Reduced by Costs and Taxes

Investment Costs



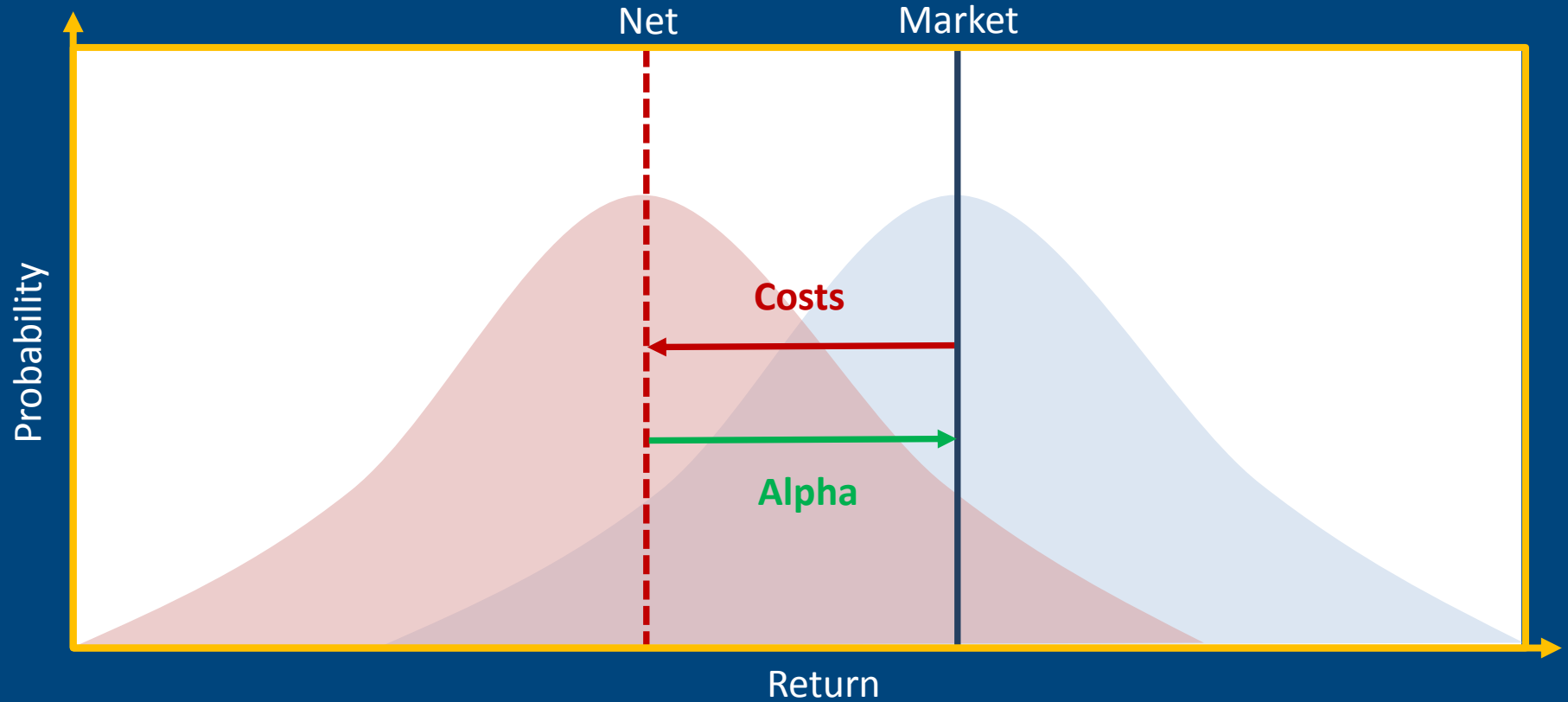
The Cost Handicap

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”

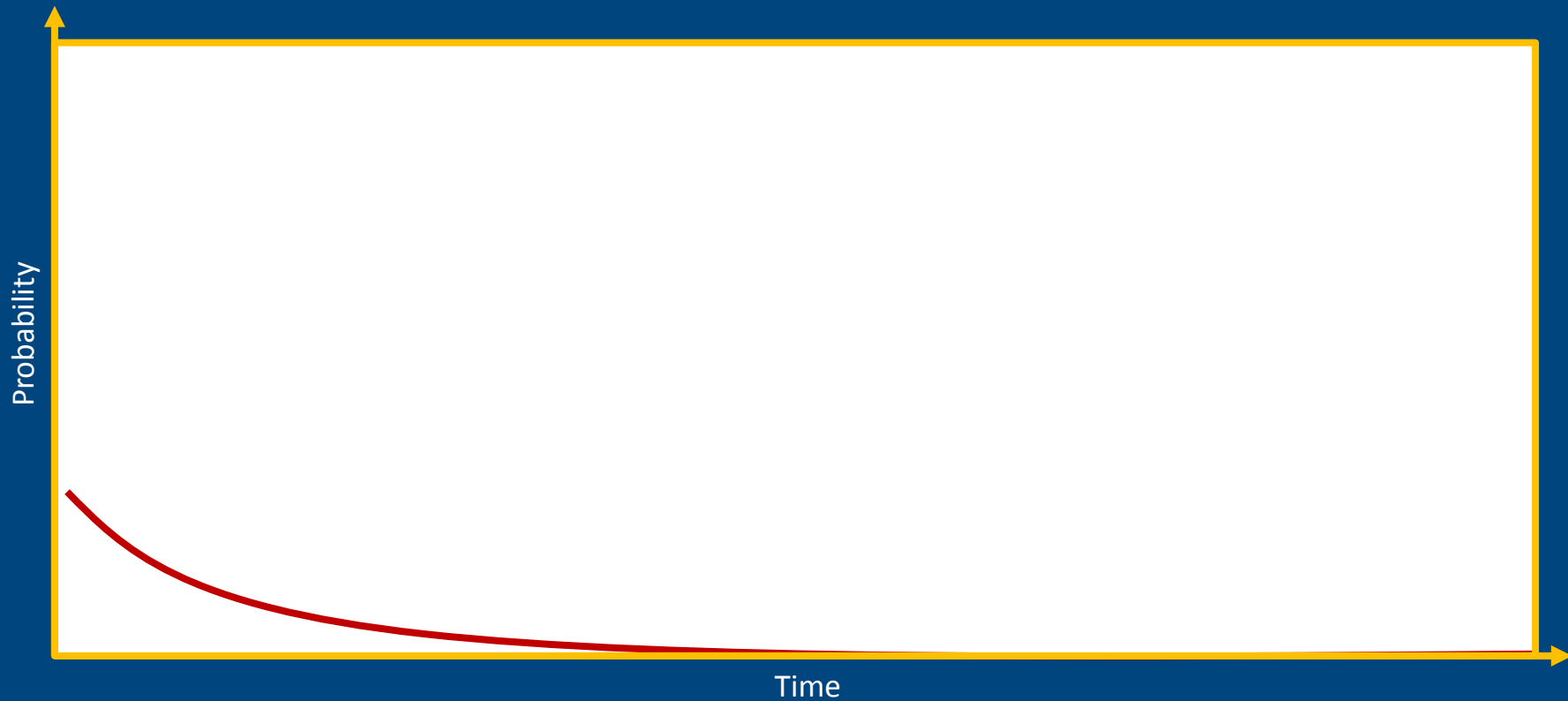
Investment Costs



Probability of Creating Alpha



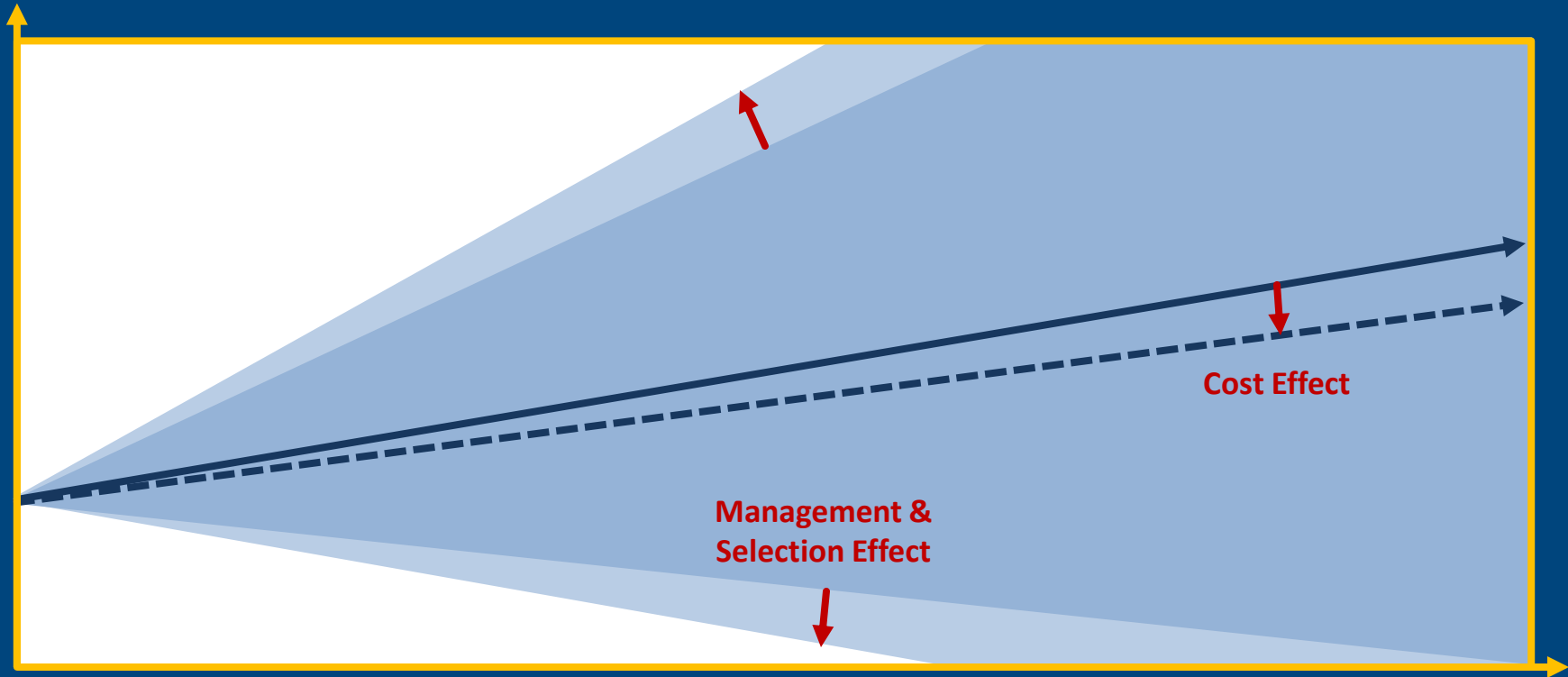
Probability of Creating Alpha Over Time



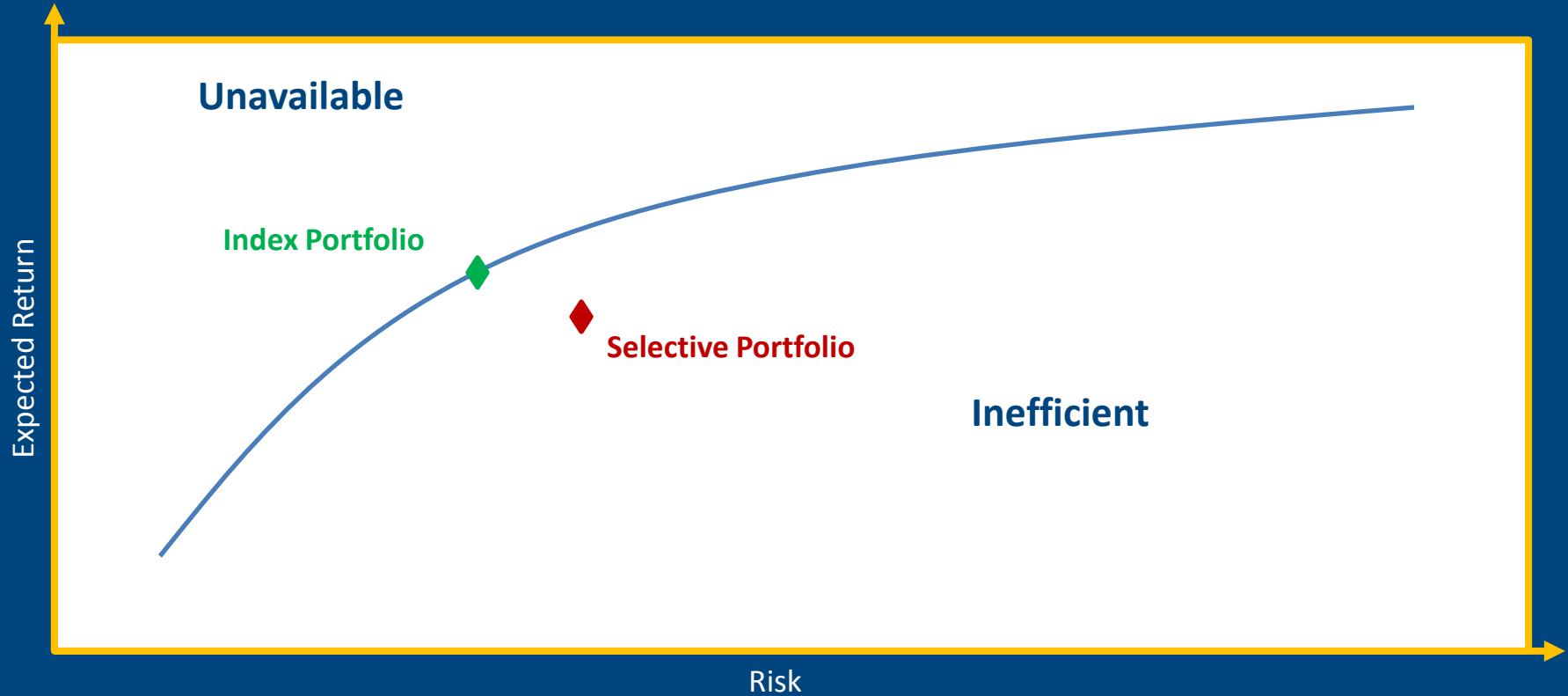
The Zero-Sum Game



Index vs. Selective Investing



Index vs. Selective Investing



Index vs. Selective Investing

Key Characteristics	Index	Selective
Objective	Own the Market	Beat the Market
Expenses	Lower	Higher
Taxes	Less	More
Diversification	More	Less
Risk	Less	More
Reliability	More	Less
Complexity	Less	More

A Few Notable Advocates of Index Investing

John Bogle, Founder of the Vanguard Group

Burton Malkiel, Economist

Charles Ellis, Investment Executive & Consultant

Warren Buffet, Legendary Investor

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

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