

“It’s Your Money”

A Financial Planning Workshop: Part 2

May 15, 2020

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Gina Chironis, CPA/PFS

Gina Chironis is the CEO of Clarity Wealth Management, an independent, fee only, fiduciary Registered Investment Advisory firm based in Irvine, CA.

Gina obtained her MBA from Vanderbilt University. She has worked with KPMG, and with Met Life's Private Placements group. She served on the AICPA PFP Exec Committee, chaired the CalCPA PFP State Committee, and volunteers with Impact Giving, a womens' collective giving nonprofit.

Gina and her husband live in Laguna Beach, CA. They share four adult children and an amazing yellow lab. Her ideal weekend: a morning hike or bike ride followed by time in the garden and dinner with family and friends (with wine).

DEVELOP YOUR INVESTMENT POLICY STATEMENT (IPS)

Now that you've developed your:

- ✓ Specific financial goals – SMART goals
- ✓ Balance sheet
- ✓ Spending needs

The next steps:

- ☐ Understand and Assess Your Risk Tolerance
- ☐ Determine your Asset Allocation
- ☐ Select Your Investments
- ☐ Rebalance Your Portfolio

WHY TAKE RISK WITH YOUR INVESTMENTS?

- ◆ Risk and Expected Return are Related
- ◆ Compensate for inflation
- ◆ Ensure assets last a lifetime
- ◆ Ensure assets remain for heirs

WHAT IS YOUR RISK TOLERANCE?

Your risk tolerance is a unique balance among your *ability*, *willingness* and *need* to accept market risk.

There is no right answer for everyone.
There is one right answer for you.

Higher Risk
Tolerance

Lower Risk
Tolerance

Ability

I have a long time to invest. I can recover if the market stumbles.

I have income needs now or in the near future. I cannot afford a big portfolio drop.

Willingness

Severe markets don't scare me. I will stay the course no matter what.

Market downturns might cause me to lose sleep and sell at the wrong time.

Need

My portfolio needs to grow significantly if I want to achieve my goals.

I have achieved financial independence. Growth is nice, but not essential.

How do I decide my risk profile?

ARE YOU ABLE TO TAKE RISK?

Measure your current situation. How old are you? When do you want to retire? How much change in value can your portfolio endure without endangering your goals?

You can't afford to risk much anymore – this is your time to find focus.

You've been saving for a few years, but may have started to fall short of the "ideal" benchmark.

You have many years until you retire – and you're already on your way toward your goals.

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ARE YOU WILLING TO TAKE RISK?

Here we help you gauge your emotional responses to market fluctuations. Are you a nervous investor? How closely do you listen to financial media? How do you react when the market goes up – or down?

The market's ups and downs keep you up at night.

You might get a little jittery from time to time.

The talking heads don't know anything – you're in this for the long haul.

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DO YOU NEED TO TAKE RISK?

And finally, we study your needs and goals. Do your current balances and savings rates put you in line with where you should be? What can you do to save more?

You're getting close to your goals, and may not need to risk much anymore.

You still have several years until retirement, but everything is on track.

You're saving well – but you may need to take on some risk to make up for lost time.

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Add up your score to determine which of the five managed profiles is for you.

3-5

Risk Averse

6-11

Conservative

12-20

Moderate

21-26

Aggressive

27-30

Highly Aggressive

* This questionnaire is provided as a tool to help determine managed portfolio may be best suited to meet your needs as an investor. This exercise is intended only as a guideline; your investment decision would be based on your investment objectives, time horizon and investment risk profile, as well as any other income, assets investments you have outside the retirement plan.

The Power of **Asset Allocation**

91.5%

of performance is
determined by...

**Asset
Allocation**

8.5% is
determined by
other factors



Source: Brinson, Singer, and Beehower, "Determinants of Portfolio Performance II: An Update." The Financial Analysts Journal, 1991. Past performance does not guarantee future results. Asset allocation is an approach to help manage investment risk. It does not eliminate the risk of loss if security prices decline.

STOCKS AND BONDS ARE CONDUITS FOR CAPITAL



Bondholders are **lenders** to a company.
Stockholders are **equity owners** in the business.
Both expect an adequate return for the terms
and risk of their investment.

STOCKS VS. BONDS: WHICH IS RISKIER?

STOCK: An ownership interest

Risk: You lose some or all of your investment if the company does not perform as expected. The value of your interest depends on the market's expectations of future earnings. There is no promise to repay you.

In **return** you expect to receive:

- ♦ Growth in the value of your ownership interest = Capital Gain
- ♦ Dividend payments

BOND: A loan

Risk: That the company or government will not repay you. Longer term loans are riskier than shorter term loans.

In **return** you are guaranteed to receive:

- ♦ Repayment of your original loan amount
- ♦ Interest payments

DIMENSIONS POINT TO DIFFERENCES IN EXPECTED RETURNS

Academic research has identified these dimensions, which are well documented in markets around the world and across different time periods.



Diversification does not eliminate the risk of market loss. 1. Relative price as measured by the price-to-book ratio; value stocks are those with lower price-to-book ratios.

2. Profitability is a measure of current profitability, based on information from individual companies' income statements.

DIMENSIONS OF EXPECTED RETURNS

Historical premiums and returns (annualized): US, Developed ex US, and Emerging Markets

Company Size

Relative performance of small cap stocks vs. large cap stocks (%)

Relative Price

Relative performance of value stocks vs. growth stocks (%)

Profitability

Relative performance of high profitability stocks vs. low profitability stocks (%)



Information provided by Dimensional Fund Advisors LP. Past performance is no guarantee of future results. Actual returns may be lower. In USD. Indices are not available for direct investment. Index returns are not representative of actual portfolios and do not reflect costs and fees associated with an actual investment. MSCI indices are gross div. For US stocks, indices are used as follows. Small Cap minus Large Cap: Dimensional US Small Cap Index minus the S&P 500 Index. Value minus Growth: Fama/French US Value Research Index minus the Fama/French US Growth Research Index. High Prof minus Low Prof: Fama/French US High Profitability Index minus the Fama/French US Low Profitability Index. For developed ex US stocks, indices are used as follows. Small Cap minus Large Cap: Dimensional International Small Cap Index minus the MSCI World ex USA Index. Value minus Growth: Fama/French International Value Index minus the Fama/French International Growth Index. High Prof minus Low Prof: Fama/French International High Profitability Index minus the Fama/French International Low Profitability Index. For Emerging Markets stocks, indices are used as follows. Small Cap minus Large Cap: Dimensional Emerging Markets Small Cap Index minus MSCI Emerging Markets Index. Value minus Growth: Fama/French Emerging Markets Value Index minus Fama/French Emerging Markets Growth Index. High Prof minus Low Prof: Fama/French Emerging Markets High Profitability Index minus the Fama/French Emerging Markets Low Profitability Index. S&P and S&P/TSX data © 2020 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. MSCI data © MSCI 2020, all rights reserved. See "Index Descriptions" in the appendix for descriptions of Dimensional and Fama/French index data.

FIXED INCOME INVESTING

A Different Strategy

The role of fixed income in a portfolio is not to maximize returns; rather it is typically to reduce risk. Our approach is:

- ◆ Focused on reducing broker markups
 - Often hidden
 - Often unreasonably high
- ◆ Developed with high-quality, short-term holdings
 - Complementing fixed income's risk-reducing role
- ◆ Designed to meet your investment goals and risk tolerance profile

The Major Tenets of Modern Portfolio Theory

MARKETS ARE EFFICIENT

New information is incorporated into stock prices so quickly, it is extremely difficult to exploit market anomalies.

RISK AND EXPECTED RETURN ARE RELATED

Riskier assets provide higher expected returns as compensation for that greater risk.

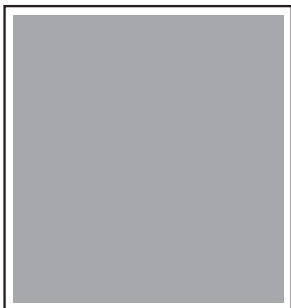
DIVERSIFICATION IS KEY

Adding higher-risk, low-correlating assets to a portfolio can reduce volatility and increase expected rates of return. Structure explains performance.

Passive asset class portfolios can be designed to offer the highest expected returns for a given level of risk.

Practice Smart Diversification: The Free Lunch

Home Market Index Portfolio



S&P 500 Index
**1 country,
500 stocks**

Global Market Index Portfolio



MSCI ACWI
Investable
Market Index (IMI)
**46 countries,
8,628 stocks**

Diversification helps reduce risks that have no expected return, but diversifying within your home market is not enough. Global diversification can broaden your investment universe.

CAN YOU PICK THE NEXT WINNER?

Annual Returns by Market Index (%): 2005-2019

You never know which markets will outperform from year to year.

By holding a globally diversified portfolio, investors are well positioned to seek returns wherever they occur.

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Higher Return	34.5	36.0	39.8	8.8	79.0	28.1	9.4	18.7	38.8	32.0	5.4	21.3	37.8	2.1	31.5
	24.9	32.6	8.2	6.6	48.8	26.9	3.4	18.6	32.4	13.7	4.5	12.0	31.9	1.9	25.5
	13.8	25.6	6.3	4.7	28.5	22.6	2.3	17.1	27.7	4.9	1.4	11.6	21.8	1.5	24.3
	4.9	18.4	5.9	-33.8	27.2	19.2	2.1	16.3	1.2	1.9	1.0	6.7	14.6	-4.2	23.1
	4.6	15.8	5.5	-37.0	26.5	15.1	0.6	16.0	0.6	1.2	0.9	5.8	3.8	-4.4	18.9
	3.1	4.3	5.3	-39.2	2.3	3.7	-4.2	2.1	0.3	0.2	0.2	1.5	1.1	-11.0	4.2
	2.4	4.1	-1.6	-46.6	0.8	2.0	-13.3	0.9	-0.1	-1.8	-4.4	1.0	0.7	-14.2	3.9
Lower Return	1.3	3.8	-17.6	-53.2	0.2	0.8	-18.2	0.2	-2.3	-5.8	-14.6	0.8	0.6	-18.6	2.9

	S&P 500 Index
	Russell 2000 Index
	Dow Jones US Select REIT Index
	Dimensional International Small Cap index
	MSCI Emerging Markets Index (gross div.)
	ICE BofA One-Year US Treasury Note Index
	Bloomberg Barclays US Treasury Bond Index 1-5 Years
	FTSE World Government Bond Index 1-5 Years (hedged to USD)

Let's look at five managed portfolios, each at different risk levels.

**Highly
Aggressive
100/0**

**Aggressive
80/20**

**Moderate
60/40**

**Conservative
40/60**

**Risk Averse
20/80**

A good advisor will help you identify yours, and to pick the profile that fits your life and goals.

Use Low Cost Investment Options

Investment Holdings as of March 31, 2020

		EXPENSE RATIO	CATEGORY AVERAGE EXPENSE RATIO
DFA US Core Equity 2 DFQTX	US Equity	0.20%	.93%
DFA International Core Equity I DFIEX	International Equity	0.28%	1.01%
DFA Emerging Markets Core Equity I DFCEX	Emerging Markets	0.48%	1.33%
Vanguard REIT Index Admiral VGSLX	US Real Estate	0.12%	1.21%
DFA International Real Estate Sec DFITX	Intl Real Estate	0.27%	1.27%
Vanguard ST Inflation Prot Sec Idx Adm VTAPX	ST Inflation-Protected Bond	0.06%	0.85%
DFA 5-Year Global Fixed Income I DFGBX	Intermediate Bond	0.26%	0.77%
DFA Inflation-Protected Securities I DIPSX	Intermediate Infl-Protected Bond	0.11%	0.85%

Average Total Investment Fund Expenses for Model Portfolios are .26%

Risk and Return are Related

Investment Performance as of March 31, 2020

(after mutual fund fees and investment advisor fees)

Portfolio	YTD	1 Year	3 Years	5 Years	10 Years
Highly Aggressive	-26.69%	-18.35%	-2.99%	0.11%	5.02%
Aggressive	-21.34%	-13.88%	-1.69%	0.60%	4.70%
Moderate	-15.91%	-9.53%	-0.60%	0.93%	4.01%
Conservative	-10.54%	-5.44%	0.29%	1.04%	3.32%
Risk Averse	-5.55%	-2.19%	0.69%	.86%	2.43%

PLEASE NOTE: Performance returns shown above are blended historical returns for the mutual funds used in the BAM Retirement Solutions Managed Portfolios, or the representative index for the periods prior to commencement of operations by the selected fund, net of its corresponding fund fee. Returns are shown net of fund fees and the maximum advisory fee of 1.00% annually. For certain portfolios, BAM Advisor Services, LLC (BAM), commenced operation in 2010. These hypothetical returns were calculated after the end of the periods shown and reflect the reinvestment of dividends and other earnings. These returns do not represent actual investment decisions by BAM, and thus may not reflect the impact that material economic and market factors might have had if BAM were actually managing the money. Past performance is no guarantee of future results.

VANGUARD RETAIL OPTION: Lifestrategy Funds

Decide how you want to divide your money between stocks and bonds – then let the fund do the work.

Less risk through broader diversification

Each fund invests in Vanguard's broadest index funds, giving you access to thousands of U.S. and international stocks and bonds

Automatic rebalancing

Each fund is professionally managed to maintain its specific asset allocation, freeing you from the hassle of ongoing rebalancing.

Low costs

The average Vanguard LifeStrategy fund expense ratio is 79% less than the industry average.

PROACTIVE TAX MANAGEMENT

Because taxes can dramatically affect portfolio performance, we apply an aggressive, multi-level tax management strategy:

PROVIDER LEVEL	PORTFOLIO LEVEL	ADVANCED PLANNING LEVEL
Access to tax-managed mutual funds for taxable accounts	Incorporating techniques such as proper asset location and year-round tax-loss harvesting	Considering issues such as generation and transition planning

TOTAL RETURN VS INVESTING FOR INCOME

- ◆ **Dividend Paying Stocks vs. Capital Gain**

- ◆ **Tax-Free Bonds vs Taxable**

- ◆ **Types of Investment Income:**

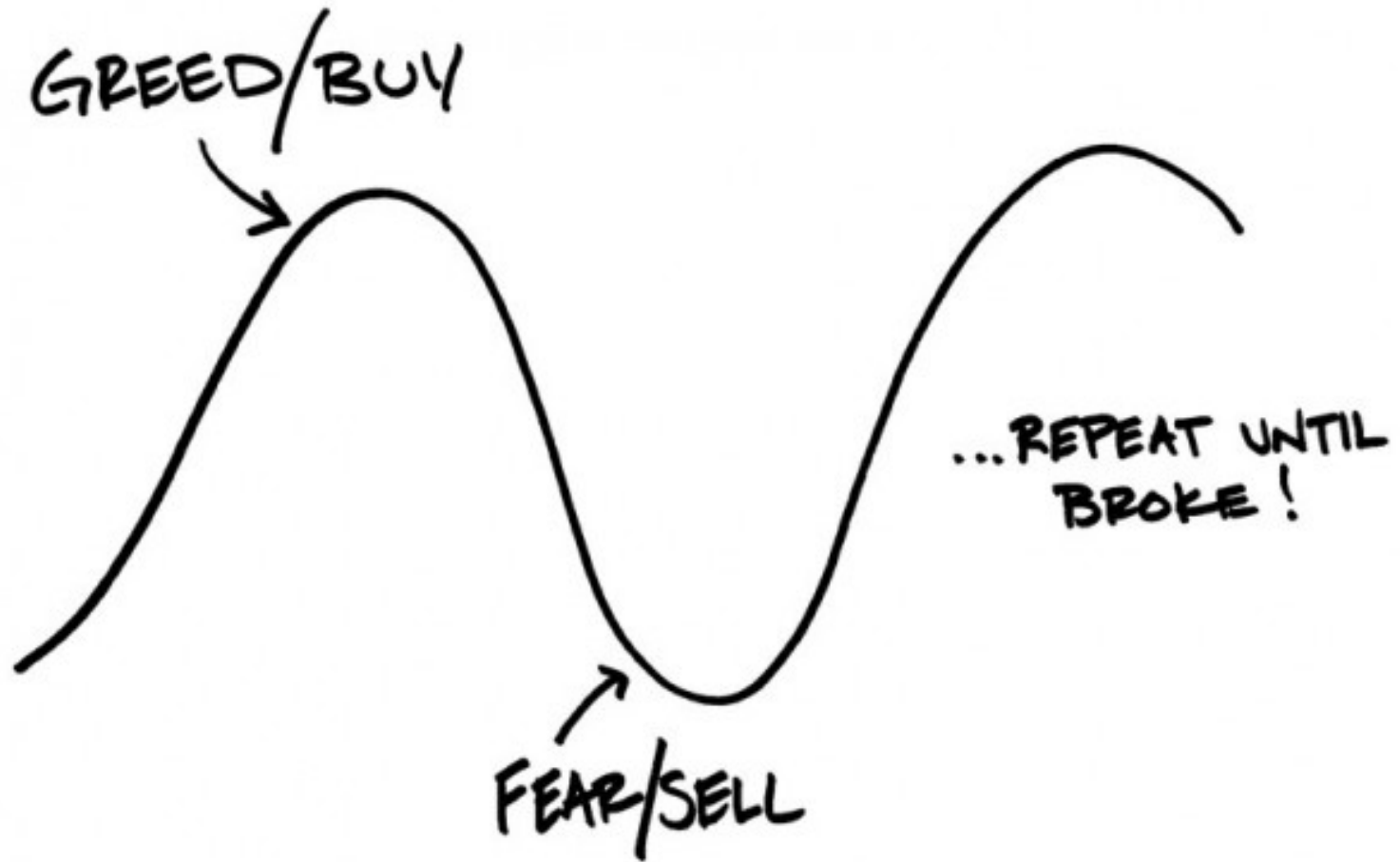
 - Capital Gain: LT vs ST

 - Dividends: Qualified vs Nonqualified

 - Interest Income: Tax Free vs Taxable

The Key to Successfully Investing for and in Retirement: ***Your Behavior***

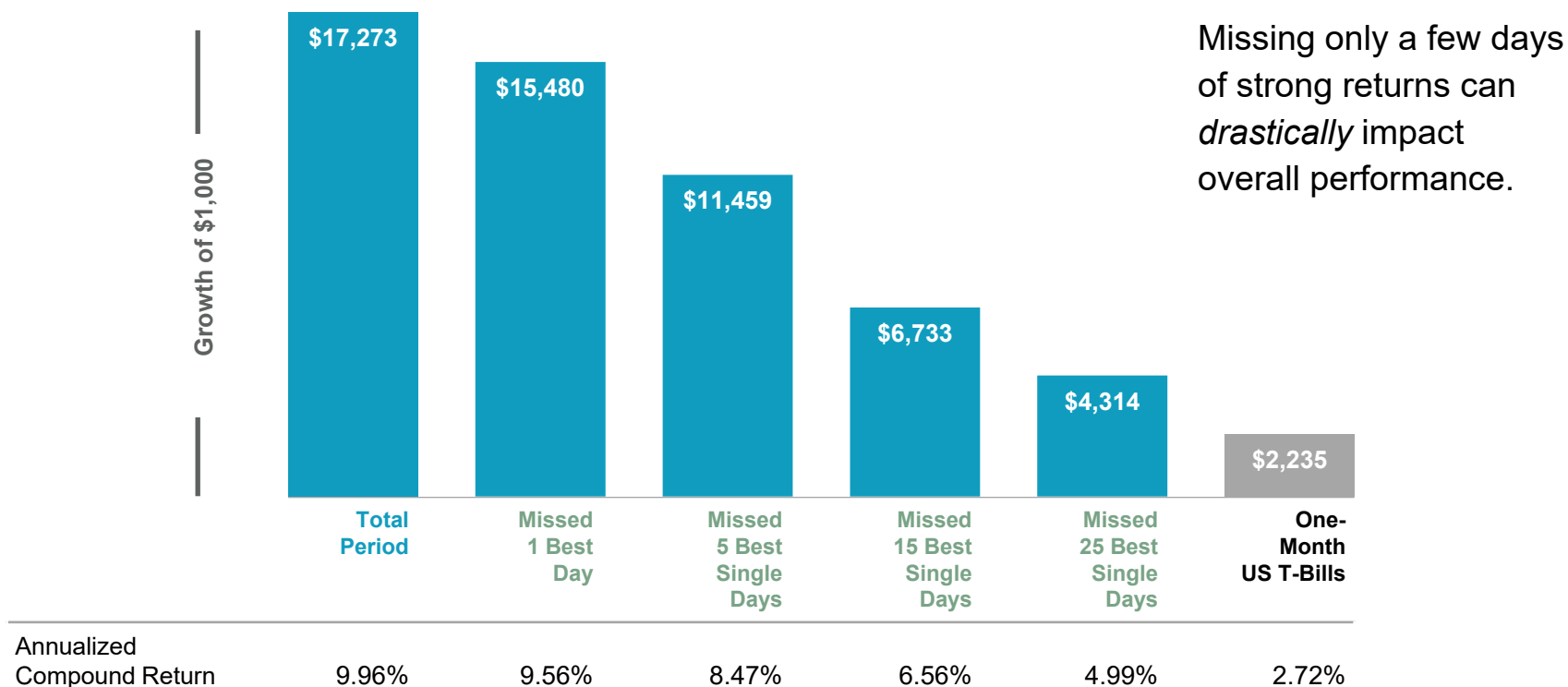




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REACTING CAN HURT PERFORMANCE

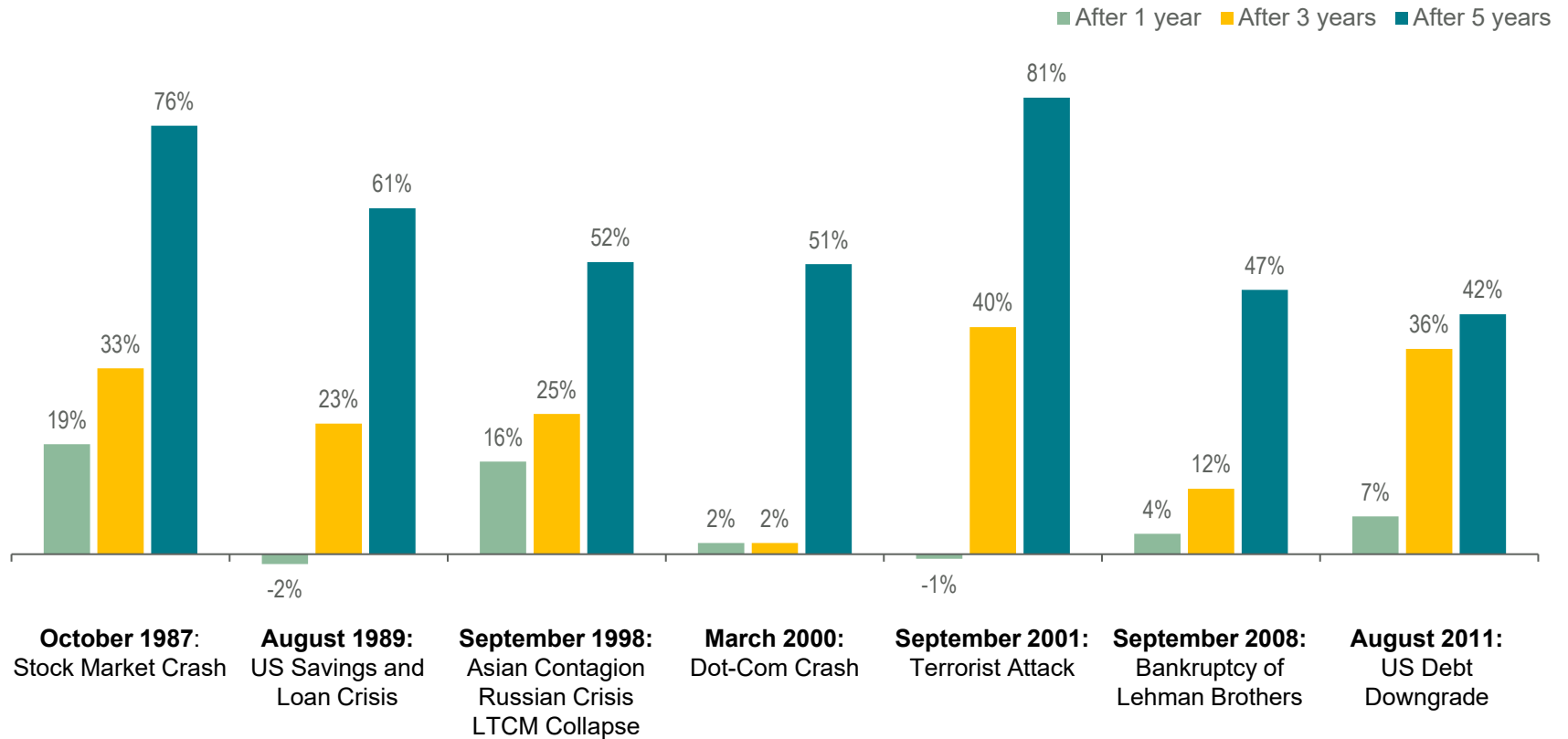
Performance of the S&P 500 Index, 1990–2019



Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results. In US dollars. For illustrative purposes. The missed best day(s) examples assume that the hypothetical portfolio fully divested its holdings at the end of the day before the missed best day(s), held cash for the missed best day(s), and reinvested the entire portfolio in the S&P 500 at the end of the missed best day(s). Annualized returns for the missed best day(s) were calculated by substituting actual returns for the missed best day(s) with zero. S&P data © 2020 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. "One-Month US T-Bills" is the 1A SBB1 US 30 Day TBill TR USD, provided by Ibbotson Associates via Morningstar Direct. Data is calculated off rounded daily index values.

THE MARKET'S RESPONSE TO CRISIS

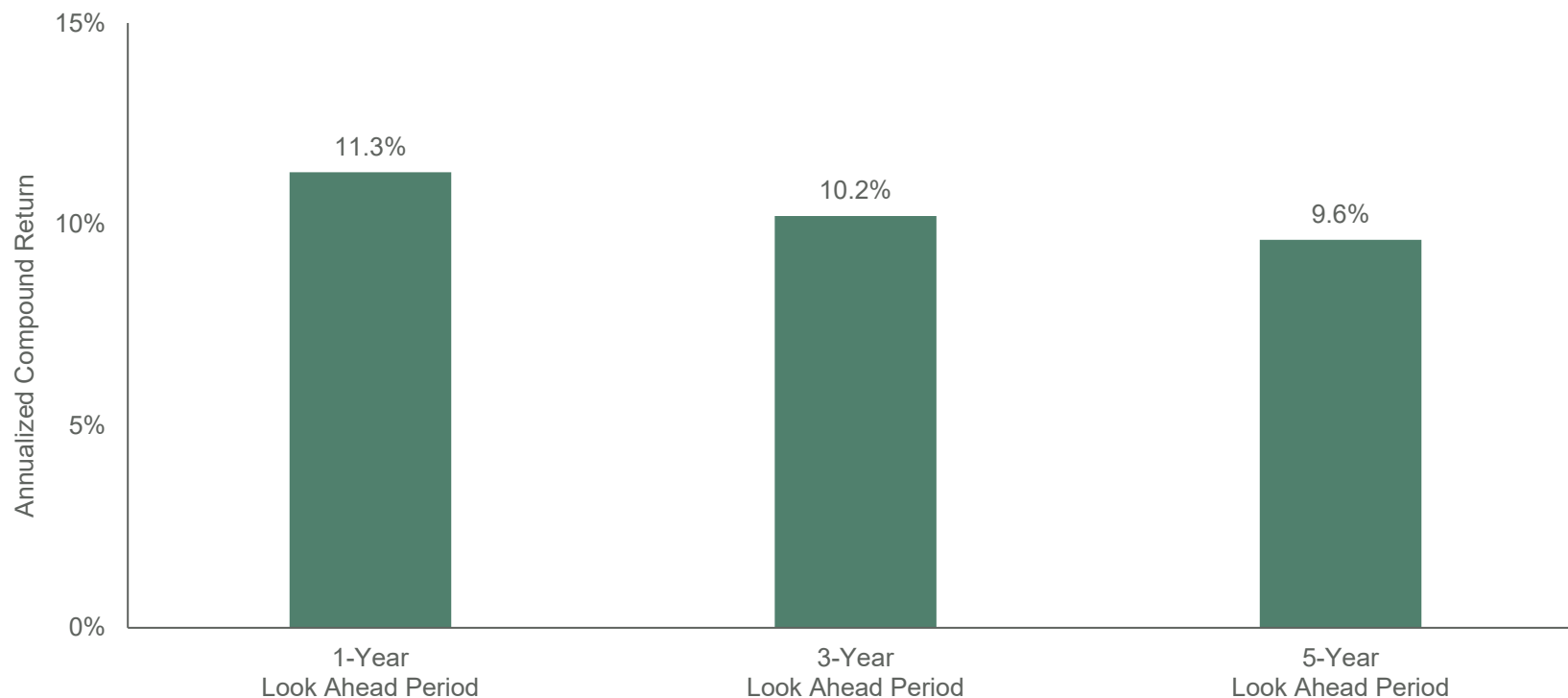
Performance of a Balanced Strategy: 60% Stocks, 40% Bonds (Cumulative Total Return)



In US dollars. Represents cumulative total returns of a balanced strategy invested on the first day of the following calendar month of the event noted. Balanced Strategy: 12% S&P 500 Index, 12% Dimensional US Large Cap Value Index, 6% Dow Jones US Select REIT Index, 6% Dimensional International Value Index, 6% Dimensional US Small Cap Index, 6% Dimensional US Small Cap Value Index, 3% Dimensional International Small Cap Index, 3% Dimensional International Small Cap Value Index, 2.4% Dimensional Emerging Markets Small Index, 1.8% Dimensional Emerging Markets Value Index, 1.8% Dimensional Emerging Markets Index, 10% Bloomberg Barclays Treasury Bond Index 1-5 Years, 10% FTSE World Government Bond Index 1-5 Years (hedged), 10% FTSE World Government Bond Index 1-3 Years (hedged), 10% ICE BofA 1-Year US Treasury Note Index. Assumes monthly rebalancing. For illustrative purposes only. S&P and Dow Jones data © 2019 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. ICE BofA index data © 2019 ICE Data Indices, LLC. FTSE fixed income indices © 2019 FTSE Fixed Income LLC. All rights reserved. Bloomberg Barclays data provided by Bloomberg. Dimensional indices use CRSP and Compustat data. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results. Not to be construed as investment advice. Returns of model portfolios are based on back-tested model allocation mixes designed with the benefit of hindsight and do not represent actual investment performance. See "Balanced Strategy Disclosure and Index Descriptions" pages in the Appendix for additional information.

Average Annualized Returns after Market Decline of More than 10%

S&P 500, 1/1926–12/2019



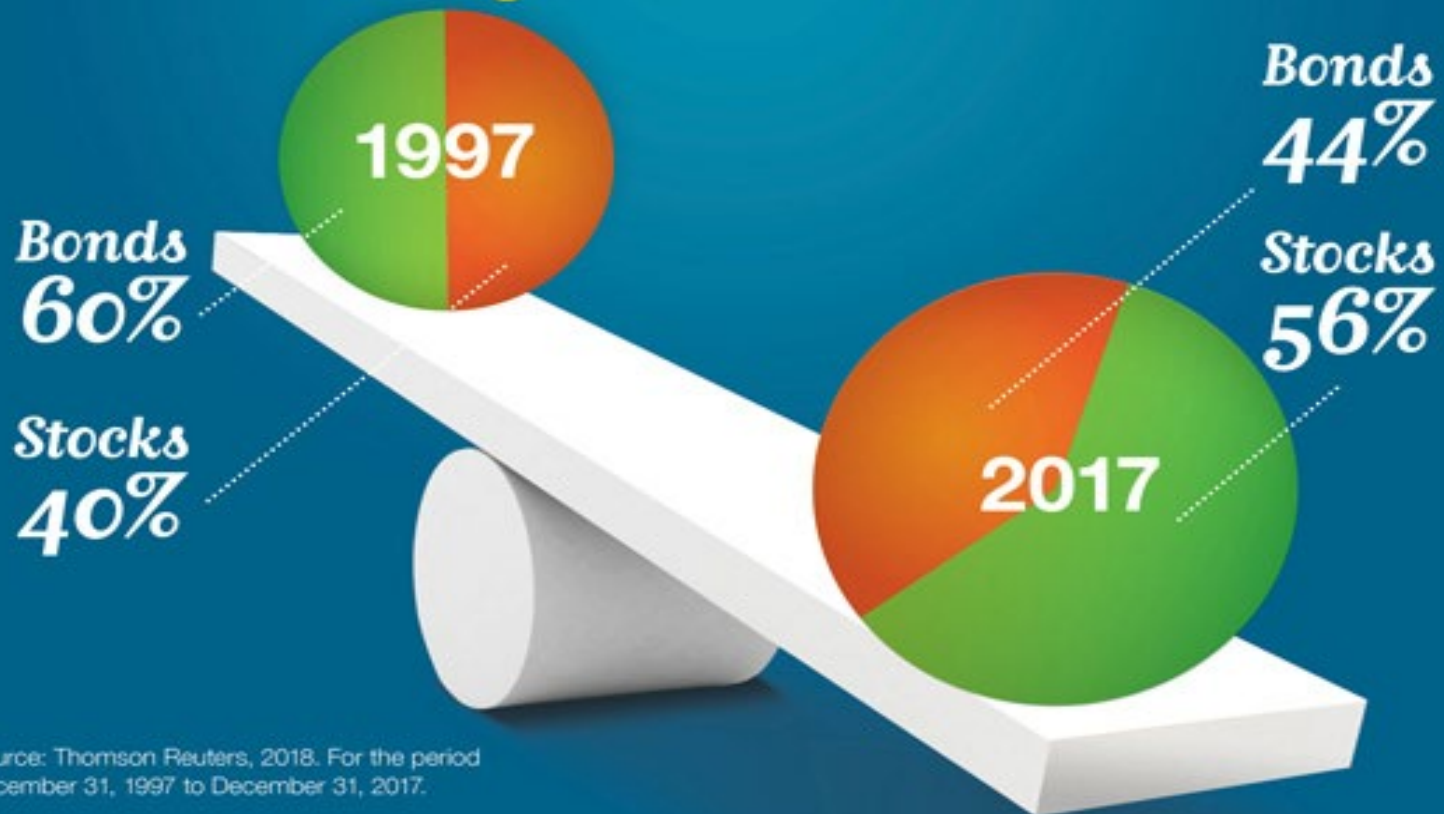
In US dollars. Past performance is no guarantee of future results. Declines are defined as months ending with the market below the previous market high by at least 10%. Annualized compound returns are computed for the relevant time periods after each decline observed and averaged across all declines for the cutoff. There were 1,127 observation months in the sample. January 1990–Present: S&P 500 Total Returns Index. S&P data © 2020 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. January 1926–December 1989; S&P 500 Total Return Index, Stocks, Bonds, Bills and Inflation Yearbook™, Ibbotson Associates, Chicago. For illustrative purposes only. Index is not available for direct investment; therefore, its performance does not reflect the expenses associated with the management of an actual portfolio. There is always a risk that an investor may lose money.

Once I've chosen a portfolio, how often should I adjust it?

- ◆ Adjust your investment allocation if your needs change
- ◆ Adjust your investment allocation to rebalance



Rebalancing: Time And Intent



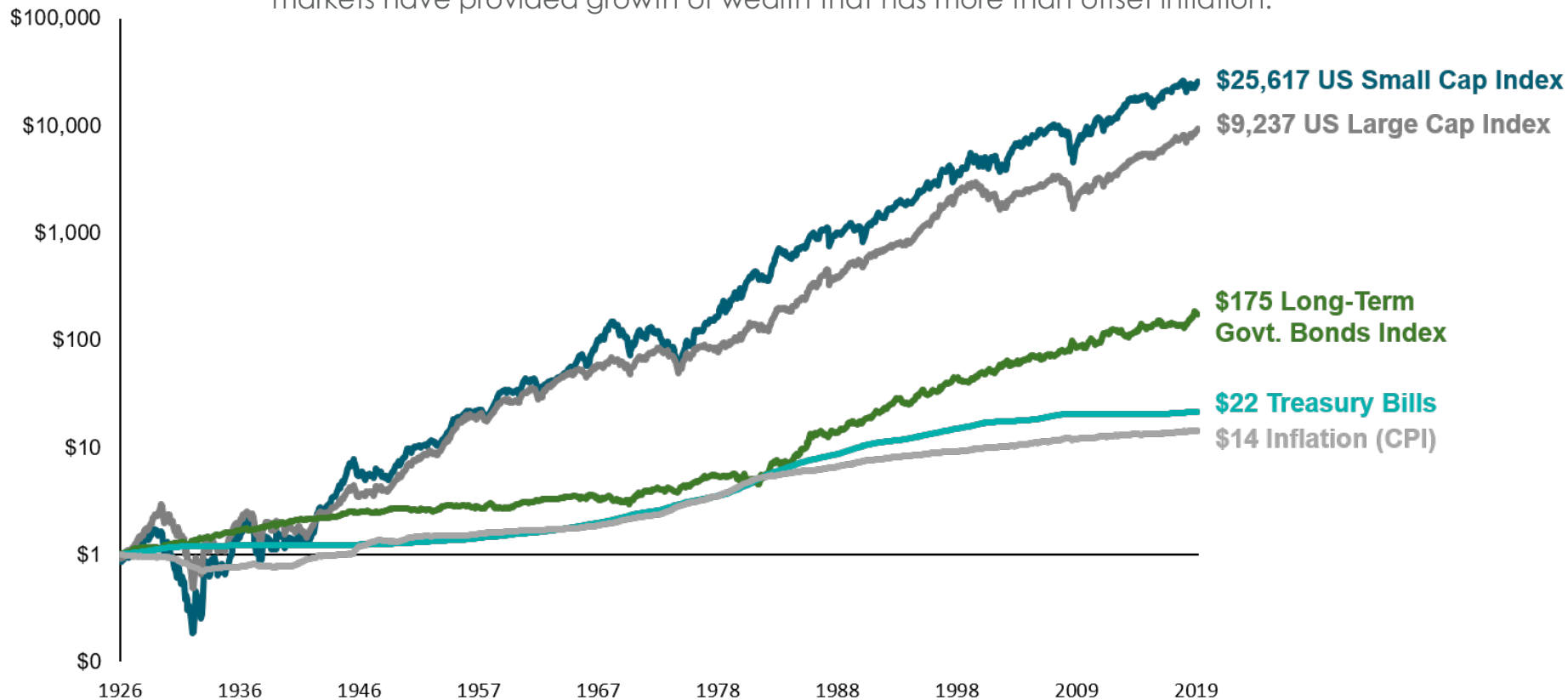
Source: Thomson Reuters, 2018. For the period December 31, 1997 to December 31, 2017.

Let Markets Work for You

Growth of a Dollar, 1926 – 2019

(Compounded Monthly)

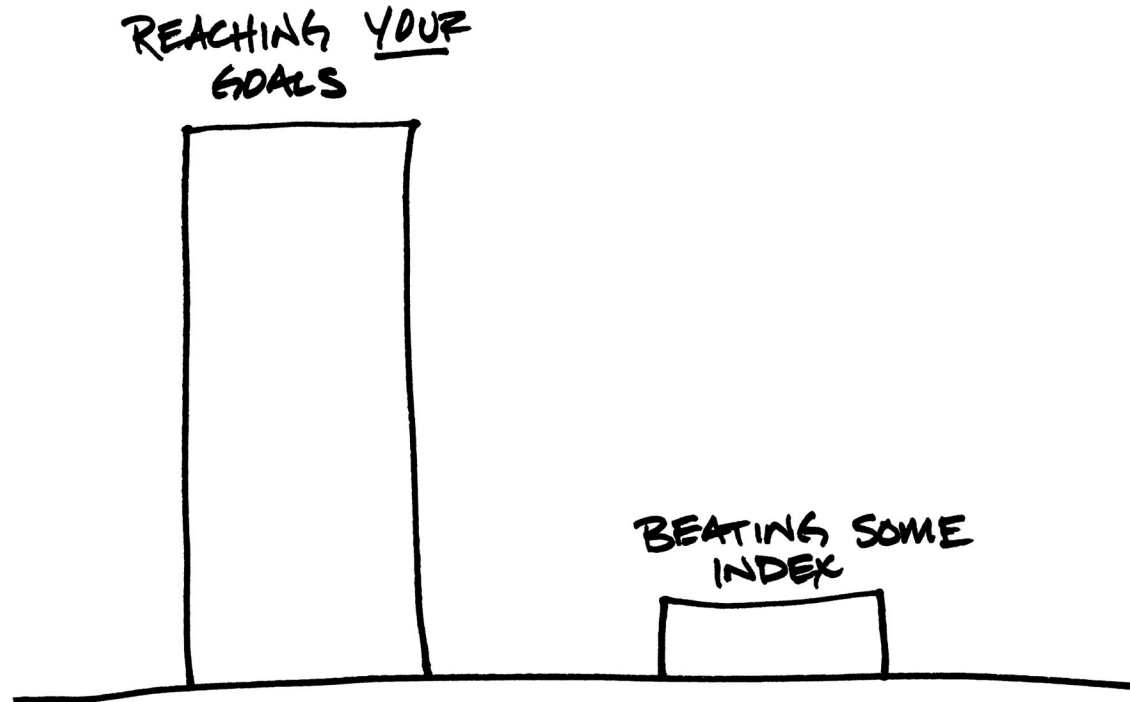
The financial markets have rewarded long-term investors. People expect a positive return on the capital they supply, and, historically, the equity and bond markets have provided growth of wealth that has more than offset inflation.



In US dollars. US Small Cap Index is the CRSP 6–10 Index; US Large Cap Index is the S&P 500 Index; Long-Term Government Bonds Index is 20-year US government bonds; Treasury Bills are One-Month US Treasury bills; 1-Month Treasury Bills Index is the IA SBB1 US 30 Day TBill TR USD. Treasury Index data sourced from Ibbotson Associates, via Morningstar. Direct Inflation is the Consumer Price Index. CRSP data provided by the Center for Research in Security Prices, S&P data © 2020 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Bonds, T-bills, and inflation data provided by Morningstar.

Past performance is no guarantee of future results. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.

FOCUSING ON YOUR GOALS



WHAT YOU SHOULD BE TALKING ABOUT...

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QUESTIONS



A blurred background image of an office environment. Several people are visible, some standing and some sitting at desks, engaged in work. The lighting is bright, and the overall atmosphere is professional and busy.

THANK YOU.