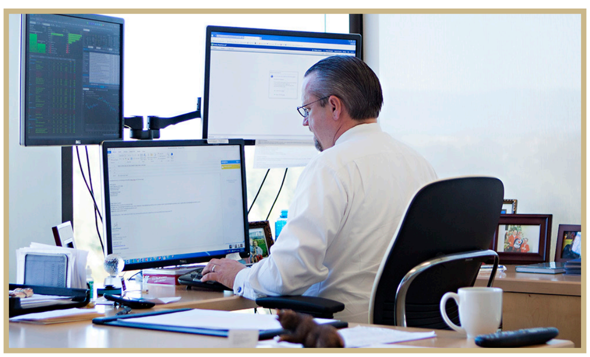
THE BAHNSEN GROUP

INVESTMENT PRINCIPLES

1 **The fundamental foundation** of the relationship we have with clients is based on trust. We seek to continually earn and maintain that integrity by telling the truth, and in return, ask clients to depend on or rely on us as it pertains to long-term outcomes and strategies for getting to those outcomes. We realize, the basis on which we ask for your loyalty is not the assertion that we will always be right about a given investment decision (and certainly not the timing of one), but rather that we will work tirelessly towards achieving the results we have committed to, and that we have put your interests above all else.

2 **One of the most important ingredients** in the wealth advisory relationship is the plan that serves as its basis. Investment management, in and of itself, is not an end to itself; it is a means to the end of an agreed upon plan. Clients who utilize our services to their full extent are clients who allow us to produce comprehensive financial and estate strategies, and do our work towards those planning objectives.



3 **The real definition of money** is "purchasing power." One million dollars, if insufficient to buy a burrito, is not more desirable than $100 that can buy 50 burritos. (Everyone intuitively should know this.) Currency is not money; it is the product used to exchange money. The objective of investing is not to create or preserve a fixed dollar amount; it is to facilitate the adequate ability to purchase what one wants with their funds. Therefore, to ignore inflation in defining risk is financial malpractice.

4 **We favor asset allocation** when it comes to constructing client portfolios. Meaning, we want to optimally mix stocks, bonds, cash, and a host of various asset classes. We do not believe we can put all of our client money in just stocks, or all of our client money in just bonds, and get the results clients need. While the mix of various assets needs to be determined by the risk tolerance and performance needs of each individual client, we do incorporate an understanding of the long-term benefits equities have provided relative to bonds when it comes to this asset allocation process.

5 **Properly diversified investment strategies** that have expected rates of return which surpass the "safe rate" (say, a short-term treasury or CD yield) will have volatility. In fact, the expectation for a rate of return higher than the "safe rate" is a by-product of that volatility. To confuse volatility with "risk" is a cardinal error, and results in all kinds of investment mistakes. We aim to manage client assets to avoid the permanent erosion of capital. We even manage client assets to somewhat limit volatility (for psychological reasons). However, we do not manage client assets to eliminate volatility. To do so would also mean eliminating the possibility of a return.

6 **The short-term direction of the markets** and the relative performance of a given investment in a short-term window cannot be consistently predicted or timed. In fact, any financial plan that requires the consistent and accurate timing and prediction of the short-term direction of the markets is a deeply flawed financial plan. What ought to be controlled within a portfolio is the behavior of the investor (avoidance of the big mistakes, primarily panic and euphoria), as well as valuation and consistent adherence to an investment discipline. We attempt to add value through tactical allocation of assets that is valuation-based, not timing-based. The rest, as they say, is futile.

7 **Short-term timing of the markets** is not something anyone has ever been able to do consistently. Of course, dumb luck exists, but the odds for such dumb luck with the stock market are much lower than other gambling alternatives. We believe in valuation-based

weighting of assets in a client portfolio, but to time an entrance into the stock market or an exit out of the stock market based on our perceptions of how the market may react to a news headline is dramatically outside of our own philosophy and investing world view. We believe current events (by definition) are unpredictable. We certainly believe the market's response to "current" events is really unpredictable. This principle can be summarized as follows: We do not do market timing.

8 **The fee our clients pay** is for the Wealth Management experience we deliver. We define this as a combination of Investment Management, Advanced Planning, and Relationship Management. We believe the most important component our clients pay us for is the guidance we provide in difficult market periods (which is different than saying we magically make clients immune from difficult market periods). Advising our clients to avoid the big financial mistakes is worth the entire fee as we see it, and then some. This is not to say that the portfolio management, financial planning and client service are not important — we obsess over these things. However, the unique value-add will always be in behavior modification.

9 **We have seen more mistakes** made from investors believing that "this time it is different" than anything else in our careers. We do not believe that a permanent destruction of the profit motive (and therefore the capital markets) is coming, and so we do not manage money as if we do. We expect periods of uncertainty, and, in fact, are grateful for them because they add to the equity risk premium which means they add to the long-term expected return of the equity investor. We believe in staying rational during periods of uncertainty, and not turning short-term volatility into the permanent erosion of capital. Put differently, history is important to our asset management philosophy.

10 **At the end of the day**, we will have various short-term outlooks on the market and we will have various intermediate term outlooks on the market. But our long-term perspective on the market is, always and forever, an optimistic outlook. This is because we believe in the profit motive, we believe in free markets, and we believe the ability of markets to (eventually) price these things. Ultimately, the progress of human history is to the upside. There were 300 million middle class people around the world in 1980. There are over 2 billion today. Whether it be the ongoing advances in technology, medicine, and innovation, or just the nature of the human spirit itself, we believe in the fundamentals of market advancement as a by-product of the profit system. Therefore, we are long-term optimists, and we are such, because we are realists.