

Fiduciary Financial Services Wealth Management (FFSS) Investment Philosophy

We attempt to implement an investment program consistent with the client's risk tolerance determined through initial and subsequent meetings. It always has been our belief that no two clients have the identical risk tolerance levels for a variety of reasons. We believe our efforts in working with a varied group of clients is an attribute.

Structuring a portfolio requires experience in selection and retention of some 30 to 35 issues in each portfolio. One has to know how each responds to various stages of the U.S. economic cycle and, more recently, the global economic picture. Further factors which influence investment returns are the activities of the Federal Reserve Board, presidential and congressional elections and again, more recently, activities which affect directly or indirectly our national prestige and internal security.

We believe a fully-invested diversified portfolio of securities should produce higher total returns than an unmanaged index. The media and many investors compare their respective figures with the Dow Jones Industrial Average (DJIA). We would point out that the DJIA does not provide a true reading because it represents only 30 common stocks, an insufficient sampling of the entire investment spectrum. Further, periodically securities are added to the DJIA and others are deleted so it is not a consistent yardstick. We report the DJIA only due to the fact that the media continues to use it as their only yardstick.

Researching investments is a tedious process. One ferrets them out from various sources. Fortunately in today's technology, there are ample avenues to obtain information without having to meet personally with the management of companies. In fact, as a result of well-publicized securities violations in Wall Street, managements are under great pressure to release information on widely used media vehicles, so the day of ascertaining information that is not available elsewhere is over. Further, should any such information be received, one is compelled ethically to not act upon it.

We find sectors that are not appreciated by Wall Street, the retail investor or others. We investigate and measure the risks involved and where appropriate, we start to use them in clients' accounts. Clients who have been with FFSS for over a decade will remember investments in U.S. government guaranteed loan participations with huge yields in poor equity markets, the so-called SBA and GNMA participations.

Subsequently, we have utilized Pipeline Companies (MLPs), Real Estate Investment Trusts (REITS), Convertible Preferred Securities and more recently, Royalty Trusts. All of these income-oriented securities produced a higher yield than investment grade fixed-income securities. In many instances, these securities produced a better total return than common stocks because of their ability to grow their companies organically and through industry acquisitions.

Today we call this various group of securities "Enhanced Income Securities" as it is our opinion and experience that they produce more income and total return than bonds or certificates of deposit. Most accounts have some allocation of Enhanced Income Securities because of the cash flow to the account. Ultimately bills are paid with cash and FFSS would prefer to see a steady cash flow coming into the account rather than selling common stocks in down markets to meet withdrawals. Some accounts, especially those of retirees, have as their investment goal a large percentage of Enhanced Income Securities.

Selection of common stocks here at FFSS is different from the norm. It is not our intent to have a fully-diversified portfolio of securities that matches the sector allocation of the Standard & Poor's 500 equity index. If that is the goal, then it will perform accordingly with the Index and one might as well purchase the Exchange Traded Fund which replicates the S&P 500 Index. Our investment strategy is to have our equity



portfolio exceed that level. We do so by following the concept of “thematic” investment where we attempt to ascertain which industries/sectors will have the potential to grow their businesses above their historical growth pattern. “Where the profits grow, the investors’ cash will be going” is a test we use on all our purchases.

There is a common saying in the investment world that the stock markets predict what the economy will look like in six months. We are in a business that is replete with conflicting signals and trends. Many times we feel obliged to sell securities that are doing well because we recognize that ultimately everything changes and it is better to sell early before everyone else attempts to do so. Why buy a security that does not look as though it has performed well over the past few years? Since we believe that the economic cycle is being changed by events that will make the non-performer into a Wall Street darling, one has to be early to participate fully.

In summary, there is no formula or software program that will assure success in the investment management industry. We believe our investment philosophy of utilizing enhanced-income securities and thematic sector investments will produce the long-term returns clients are seeking.

