

Wiser Wealth Management

A Presentation Designed For ASA Flight Crews To Better Understand, Analyze, and Implement a Successful Strategy For Investing.



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- This presentation has been created and is presented by Wiser Wealth Management, Inc. The purpose of the information contained here is to educate Atlantic Southeast's crew members about the basics of investing and relating this information to the Atlantic Southeast 401K plan. This information is not intended to be individual advice, but a way for the plan participant to take basic investment knowledge and form his or her own analysis of their situation.

Disclosures

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- Casey Smith
 - Grew up in Marietta, GA
 - Finance Degree from Berry College
 - Entered brokerage business in 2000
 - Unhappy in the commission world; created a fee only fiduciary investment advisory firm that eventually became Wiser Wealth Management.
 - Tax Prep School 2005
 - Estate Planning Certification (MEP) 2005
 - Started flying in 2002
 - Came to ASA in 2004

Wiser Wealth Management

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- Casey Smith
 - Captain CRJ 200
 - President of Wiser Wealth Management (2001)
 - Berry College Board of Visitors (2010)
- Recent Speaking Engagements
 - ASA Pilot 401K Workshop 2010
 - Europe ETF Conference, Amsterdam 2010
 - Inside ETF Conference, Boca Raton 2010
 - Art of Indexing Summit, New York 2010
- Recent Quotes and Publications
 - Wrote article for AJC on advisor fiduciary duty
 - Recent interviews on SeekingAlpha.com, ETFshub.com
 - Quoted or featured in recent articles for the Wall Street Journal, Kiplinger Magazine, CNN Radio, Berry College Alumni Magazine, the Marietta Daily Journal and the New York Times.

Wiser Wealth Management

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- Fee only investment advisory firm
- Wealth Management services includes
 - Asset Management
 - Tax Preparation
 - Estate Planning
- Our Professionals
 - Casey Smith - Principal/Lead Advisor
 - Cam Wilbur - Financial Advisor
 - Kim MacConnell - CPA
 - Doug Shaddix - Estate Planning/Business Attorney
 - Dawn Levine - Estate Planning/VA Services
 - LaTrelle Allen - Client Services

Wiser Wealth Management Overview

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- Maintain a diversified portfolio
- Keep the cost of investing low
- Always invest for the long term

Our Investing Philosophy

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Financial Planning/Behavior

Risk Analysis

Investment Vehicles

Fund Evaluating Methods

Portfolio Building

Today's Agenda

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Who is Saving for Retirement?

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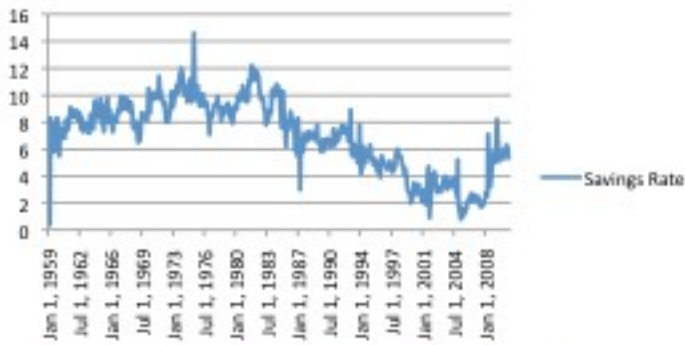
- 57% of Americans have at least one retirement account
- The avg. balance is \$50K, however the median is \$2K
- Many Pensions are being reported as severely underfunded.
- Social Security is severely underfunded and may not be available for your retirement

Retirement Savings

Most Americans aren't doing this...

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Savings Rate



US Household Savings Rate

Data from the US Government

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- From Dave Ramsey's new book "Total Money Makeover"
 - Create and maintain a family budget
 - Get \$1,000 in a emergency fund
 - Aggressively attack and payoff debt
 - Save 15% for retirement while increasing your emergency fund
 - Pay off your home
 - Aggressively save for retirement

Financial Planning

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- If you retire at age 65 you should expect to live until age 95.
- A 45 year old will need \$2,801,935 saved by age 65 to provide \$80K (FV 144,488) a year in today's dollars to last until age 95.
- A 35 year old will need \$3,765,565 saved by age 65 to provide \$80K (FV 194,180) a year in today's dollars to last until age 95.

How Much is needed for Retirement?

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• IRA

- In 2011 you can save up to \$5000 per year in an IRA, \$6000 if you are over age 55.
- Money saved is tax deductible
- Earnings and contributions are tax deferred until withdrawal.
- Withdraw penalty free after age 59 ½
- Must make withdrawals by age 70 ½
- Household income limitations apply
- Open an account with any Mutual Fund Company, Brokerage Firm, or Independent Advisor
- Limitations
 - Married: \$160K AGI
 - Single: \$110K AGI

IRA

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• ROTH IRA

- In 2011 you can save up to \$5000 per year in an IRA, \$6000 if you are over age 55.
- Money saved is NOT tax deductible
- Earnings and contributions are TAX FREE at withdrawal.
- Withdraw principal with no penalty after 5 years
- Withdraw earnings penalty free after age 59 ½
- Must make withdrawals by age 70 ½
- Household income limitations apply
- Open an account with any Mutual Fund Company, Brokerage Firm, or Independent Advisor
- Limitations: 105K Single Income
 - 167K Married Filing Jointly Income

Roth IRA

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- Contributions are NOT tax deductible, but earnings are tax deferred.
- The variable annuity is most popular, but there are also fixed annuity's or index annuity's.
- Client chooses "separate accounts" to invest in (similar to mutual funds).
- **CAUTION:** Wiser Wealth does not recommend most annuity's because of **HIGH** hidden fees. In some cases where an annuity would be beneficial we suggest a no load annuity.

Tax Deferred Annuity

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Ways To Invest

What are the types of options available to us?

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Active → Passive Involvement

Stocks
Bonds

Mutual
Funds

Index
Funds

Ways to Invest

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- Purchasing an Individual Stock or Bond
 - Google
 - Enron
- Investing in a Mutual Fund
 - Vanguard
 - Fidelity
- Investing in an index
 - S&P 500
 - MSCI EAFE

Options

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Timing
Markets

Buy & Hold



Two Opposing Investment Strategies

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Market Timing

- Technical Analysis
- Following market trends
- Constant buying and selling

Buy & Hold

- Fundamental Analysis is most commonly associated with this strategy
- Dollar Cost Averaging
- Buying and investing in quality managers or assets for the long Term

Market Timing v. Buy & Hold

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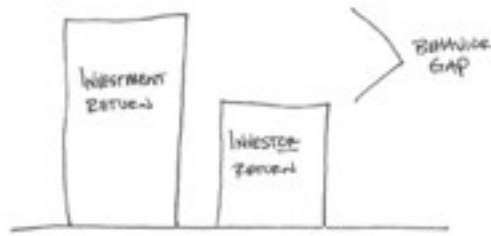
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Risk & Behavior

Investing involves risk but you may be surprised at **who** the largest risk to your nest egg is...

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Behavior Gap.com

How Your behavior effects Your returns.

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- Investor behavior takes away from investment returns
- Investors as a whole pour money into the market when everything is rising and sell when everything is falling
 - This is a buy high and sell low strategy

Behavior Gap



Net Cash Flow to Funds Often Relates to Market Performance 1996–2007



Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly or indirectly. © 2008 Wiser Investor, Inc. All rights reserved. 2/1/08



Fund Analysis

Fund Analysis focusing on the options within the ASA
Employee 401K Plan

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- Standard Deviation (Average Return)
- Sharpe Ratio
- Alpha
- Cost
- Unique considerations

Analysis Tools

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- Standard Deviation
 - Standard deviation measures the variation of data from its average. In finance, standard deviation is applied to the annual rate of return of an investment to measure its volatility (risk). A volatile stock would have a high standard deviation. With mutual funds, the standard deviation tells us how much the return on a fund is deviating from the expected returns based on its historical performance.

How to Evaluate a Fund and

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• **Sharpe Ratio**

Developed by Nobel laureate economist William Sharpe, this ratio measures risk-adjusted performance. It is calculated by subtracting the risk-free rate of return. (US Treasury Bond) from the rate of return for an investment and dividing the result by the investment's standard deviation of its return.

The Sharpe ratio tells investors whether an investment's returns are due to smart investment decisions or the result of excess risk. This measurement is very useful because although one portfolio or security can reap higher returns than its peers, it is only a good investment if those higher returns do not come with too much additional risk. The greater a portfolio's Sharpe ratio, the better its risk-adjusted performance.

How to Evaluate a Fund and Risk

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Morningstar.com

Dodge & Cox International Stock DODFX | ★★★

Period	Return	Standard Deviation	Sharpe Ratio
3-Year	Above Average	Above Average	★★★
5-Year	Above Average	Above Average	★★★
10-Year	Above Average	Above Average	★★★
Overall	Above Average	Above Average	★★★

Standard Deviation: 20.12 (Worse than Peer Market Dodge Fund)

Alpha: 3.94 (Better than Peer Market Dodge Fund)

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Alpha

Simply stated, alpha is often considered to represent the value that a portfolio manager adds or subtracts from a fund portfolio's return. A positive alpha of 1.0 means the fund has outperformed its benchmark index by 1%. Correspondingly, a similar negative alpha would indicate an underperformance of 1%. For investors, the more positive an alpha is, the better it is.

How to Evaluate a Fund and Risk

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Morningstar.com



Mutual Fund Costs

- Management Fees
paid directly to the company that manages the funds portfolios (managers)
- Distribution Fees
Paid to the sales rep
- Transaction Cost
Cost incurred by the fund as its trades its assets. 100% turnover can mean and extra 1% annually in fees
The average Large Cap Blend Mutual Fund has a 72% average Turnover. Data: Morningstar, Inc.
- Taxes
All capital gains are passed through to investors (no tax paid by you inside a 401K)
- All expenses here reduce the investors rate of return

How to Evaluate a Fund and Risk

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JP Morgan Equity Index

ASA 401k Large Cap Blend Options



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- Only Large Cap Blend Fund in the plan
 - Index fund covering the S&P 500 Index.
- What makes this effective...
 - Zero Manager risk
 - Low Cost
 - Extreme diversity within asset class
 - Low Business, Sector, and Industry Risk
- When we study indexes, we can look more at the index and the index's characteristics.
 - If the index fund tracks the index fairly well, we can generally trust the index fund to perform like the index.

An Indexing Approach to Large Cap Stocks



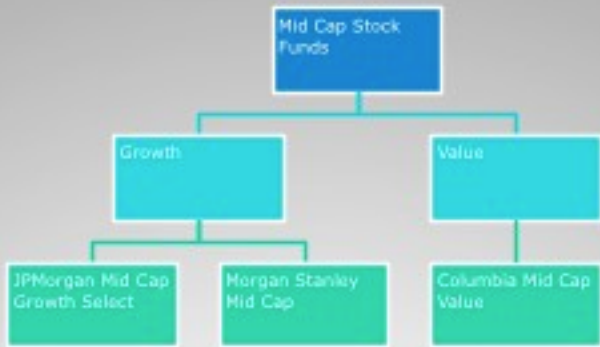
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- American Funds Growth Fund of America
 - Holds 8% Cash, 3% Bonds, 17% International, 72% US Stock. Note: All the Large cap funds in the ASA 401k do not just hold large caps.
- American Century Equity Income
 - While this fund has a Large Cap ranking the funds takes an "all cap" approach to investing.
- American Century Ultra
 - This fund has 151 Billion in assets under management, causing problems within its investment strategy.

Large Cap Notes

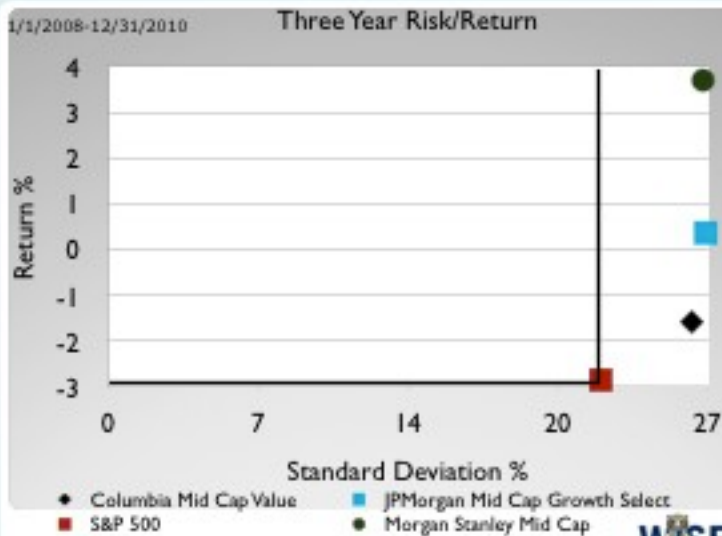
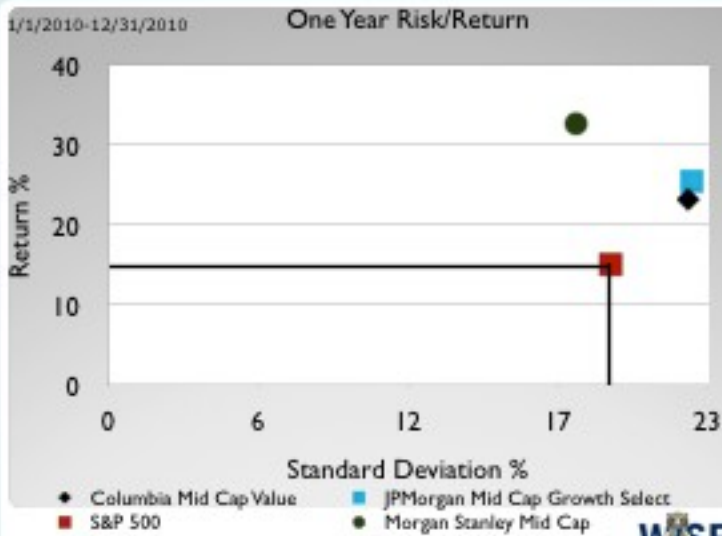


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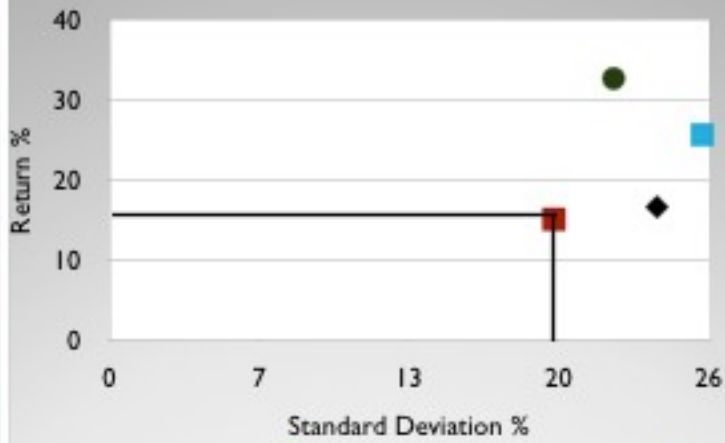
Mid Cap Break Down

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1/1/2010-12/31/2010

One Year Risk/Return



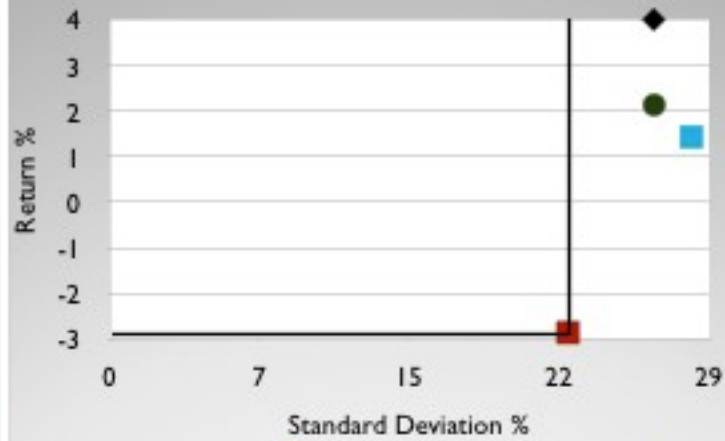
◆ Buffalo Small Cap
■ S&P 500

■ Columbia Small Cap Value
● LKCM Small Cap Equity Advisor

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1/1/2008-12/31/2010

Three Year Risk/Return



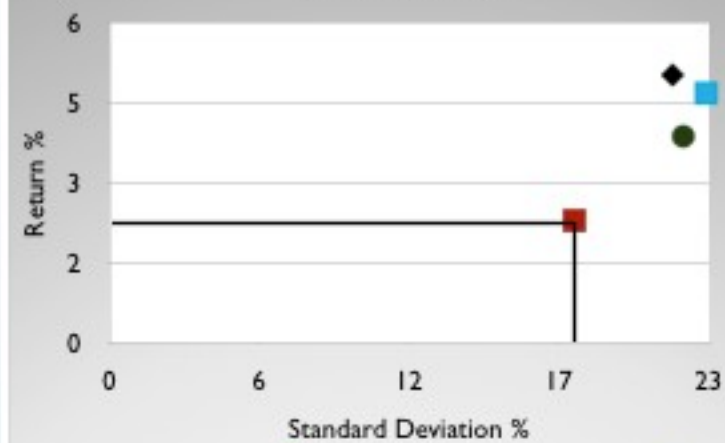
◆ Buffalo Small Cap
■ S&P 500

■ Columbia Small Cap Value
● LKCM Small Cap Equity Advisor

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1/1/2006-12/31/2010

Five Year Risk/Return



◆ Buffalo Small Cap
■ S&P 500

■ Columbia Small Cap Value
● LKCM Small Cap Equity Advisor

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- All three small cap funds look similar in performance. Over the years Buffalo has had the consistent performance.

Small Cap Notes

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5 year Statistics

Name	Return	Standard Deviation	Sharpe Ratio	Alpha
Buffalo Small Cap	0.60	21.59	0.23	3.26
Columbia Small Cap	0.60	22.88	0.22	3.03
LKCM Small Cap Equity	0.52	22.00	0.18	2.19

Small Cap Recap

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International

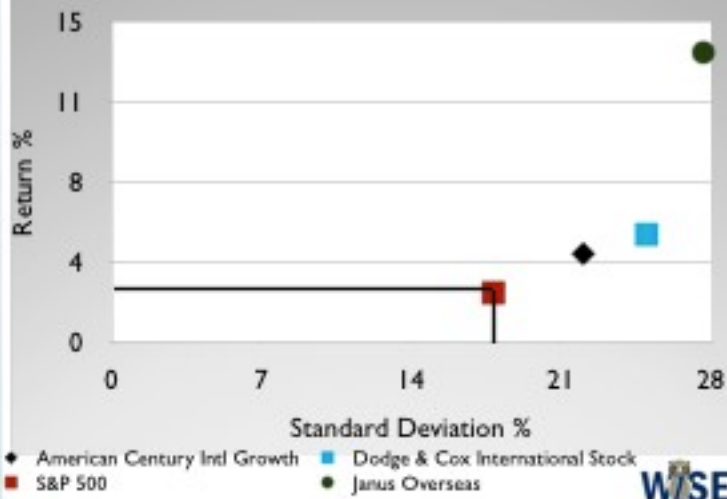
Capturing the growth of overseas markets

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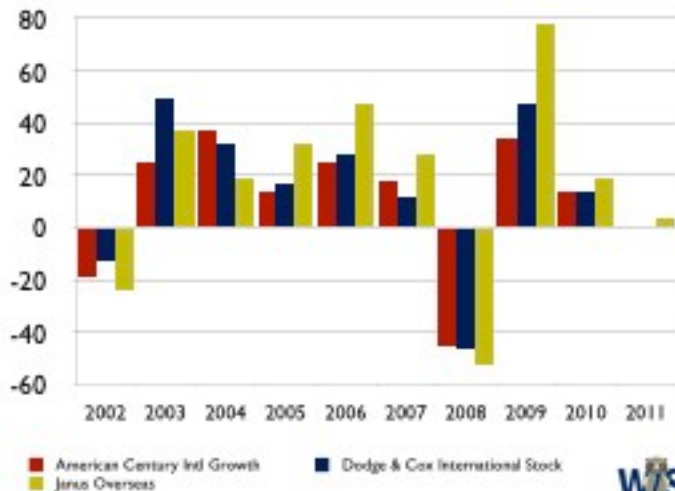
1/1/2006-12/31/2010

Five Year Risk/Return



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Seven Year Return Bar Chart



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- Each of ASA's 401k International funds has its own risks, thus we are not comparing apples to apples here. While Janus Overseas is the clear winner, it also took on additional risk (which paid off) to achieve its gains. For those within 5 years of retirement you may consider American Century International.
- Dodge and Cox International has a 5 year standard deviation of 23 but over its history it is 28. This fund holds more emerging market companies (higher risk) than its peers in the past, but currently holds less than Janus.
- Janus Overseas holds 21% of its fund in US Stock.

International Notes

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5 year Statistics

Name	Return	Standard Deviation	Sharpe Ratio	Alpha
Janus Overseas	1.39	27.63	0.52	11.42
Dodge & Cox International American	0.67	24.55	0.23	2.94
Century	0.54	22.02	0.18	1.71

International Recap

Alpha calculated against MSCI EAFE Index



Bond Portfolios

Looking at fixed income as a diversifier and risk reducer.

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Bond Funds



Bond Fund Break Down

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- Fixed income is complicated
 - Very diverse category, can include many different structures and counter-party risks.
 - Generally, fixed income involves some kind of flow of cash, effected by interest rates, time, and credit risks.
- Studying bond funds simplifies fixed income products, since we can look at broad characteristics.

Bond Fund Analysis

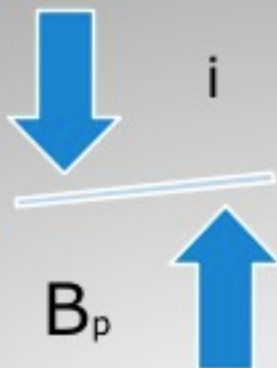
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- Duration
 - A measure of interest rate sensitivity
 - Example: a duration of 5 means if interest rates move 1%, the fixed income investment will move 5% in the opposite direction.
 - Interest rates are the independent variable and since bond cash flows are mostly fixed, the bond price must change to reflect the markets value of the future cash flows.
- Duration measures the risk you have to price changes...the smaller the number, the safer.

Bond Fund Analysis

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- How this works
 - As interest rates fall, the cash flow from a bond investment become more valuable and the bond price must rise
 - In the same way, if interest rates rise, the cash flows from the bond are less valuable and the bond price must fall.

Bond price movements

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- Stocks & Exchange-Traded Funds
 - \$14.95 per electronic trade
- Mutual Funds
 - No transaction fee to buy
 - 24.95 per electronic trade to exchange or sell
- Options - Trade at your own risk!!!
 - \$24.95 per electronic trade and \$1.75 per contract
- Annual Fees
 - \$100 per account per year

ASA Brokerage Link Breakdown



- When investing within the brokerage link use caution
 - Mutual funds outside the plan will be more expensive. Before investing you need to fully understand 12b-1 fees, front loaded, back loaded and no load fund fees.
 - Individual Stocks carry company risk. Information about the company is not the same on wall street and main street
 - ETFs should be traded using limit orders, and the investor should research the index methodology of the ETF prior to investing.

CAUTION: Brokerage Link Ahead

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Investing Outside the 401(K)

- At some point you will leave ASA, either through retirement or other opportunities.
- Lets take a look at how you investing style should look outside your 401(K)



- Invest Directly into Stocks
 - Low long term success rate
- Hire a fund manager to invest for you in the form of Separate Managed Accounts or Mutual Funds.
 - Expensive and 95% of managers do not track or beat the market after fees
- Purchase Index Funds
 - Most efficient long term strategy

Investment Options

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- Maintain a diversified portfolio
- Keep the cost of investing low
- Always invest for the long term

Our Investing Philosophy

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- Wiser Wealth Management believes proper diversification is obtained by allocating assets across many different asset classes
- Optimizing the type of funds in a portfolio is essential to reducing risk.
- This is why at Wiser Wealth Management we create our portfolios to capture the entire world market
- The most effective way to gain exposure to market diversification is through index funds via exchange traded funds.

DIVERSIFICATION

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❑ An index is a basket of securities that represents a segment of the stock market.

For example:

- ❑ The S&P 500 represents the 500 largest companies in the United States
- ❑ The MSCI EAFE Index is a foreign index that holds companies incorporated in Europe, Australia, and the Far East, totaling over 1,400 securities.

WHAT IS AN INDEX?



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❑ A recent study shows that between 1975 and 2006, 99% of active Domestic US Mutual Fund Managers failed to beat the S&P 500.*

❑ Indexing removes human behavior, inaccurate market timing and poor stock picking which leads to the under performing of fund managers.

❑ Through indexing we can obtain less business risk through diversification and higher returns from lower cost

WHY INDEX?



* "False Discoveries in Mutual Fund Performance: measuring Luck in Estimated Alphas" University of Maryland Robert H Smith School of Business.

Indexing Through Exchange Traded Funds (ETFs)

❑ An ETF (Exchange Trade Fund) is an investment vehicle that allows investors to invest directly into an index, at a much lower cost than traditional mutual funds.

❑ Since 1993, the ETF industry has responded to the incompetence of active fund managers and the limitations of index mutual funds.

❑ ETFs have experienced tremendous growth in assets under management compared to mutual funds since their introduction in 1993.



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- Mutual Funds are traded at NAV (Net Asset Value) after market close and only have to report their holdings Quarterly.
- ETF's trade during market hours just like a stock and their holdings are reported virtually real time.
- Mutual Funds depend on a fund manager to pick stocks, where an ETF simply purchases and holds the stock in its assigned index.
- The average cost of an ETF is .25% where the Mutual Fund average is 1.5%.

Major Differences between

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❑ Mutual Funds incur additional unreported fees from trading securities in the market place. These transactions are deducted from the funds master account.

❑ How much does this cost you?

It depends on the turnover rate of the fund. For example if a fund manager turns over the securities in the portfolio 100% during the year, this means he never held a security for more than 12 months. 100% in turnover can equal roughly 1.5% in additional fees. This is why when you track your fund performance in MS Money or Quicken, the rate of return will not match the prospectus. Recently there have been some funds that will disclose this cost, but a formula must be used to determine it and it is always rearward looking. In contrast, Exchange Traded Funds usually have no to very little turn over, making your cost much lower.*

**Mutual Funds: Risk Without Reward* PersonalFund.com

What Mutual Funds DON'T Tell

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- We use an indexing strategy because history tells us it performs better than stock picking and market timing over the long term.
- We invest in indexes across many different asset classes. This allows us to either track the S&P 500 with less risk, or beat the S&P 500 over the long run with the same amount of risk.
- If you only buy the S&P 500 index, you will just be average, but the average is what the mutual fund managers can't seem consistently beat over the long term.

So if I index, am I just going to be average?

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- Here is a sample of our Moderate Risk portfolio:
 - Short Term Government Bond Index
 - Treasury Inflation Protected Securities (TIPS) Index
 - Barclays US Aggregate Bond index
 - High Yield Bond Index
 - Emerging Market Bond Index
 - S&P 500 Index (Large Companies)
 - S&P 400 Index (Mid Size Companies)
 - S&P 600 Index (Small Companies)
 - MSCI EAFE Index (Developed International)
 - MSCI EAFE Small Cap Index
 - Emerging Markets Index
 - Dow Jones Commodity Index

What is in a Index Portfolio

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- This Moderate Portfolio has a annualized 5 year rate of return of 5.39% and a Standard Deviation of 12.87
- In Contrast the S&P 500 has had an annualized rate of return of 2.29% and a standard deviation of 17.82 over the same period

* Return calculated from January 2005 to December 2010

Diversification Through Indexing Wins!

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- Most financial institutions will place you in expensive annuities, un-diversified bond holdings or mutual funds to achieve income.
- Wiser Wealth Management purchases indexes holding High yield stock, bonds, REIT'S, and or Preferred Stock, creating income for those in search of diversification and regularly scheduled withdrawals.

Indexing Is for Income

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- Indexing is certainly not as thrilling as picking a stock your friend or colleague said is the next Google, but in the long run academic and professional research shows us that diversification and a long term time horizon wins the race.
- Remember: Keep Cost Low, Stay Diversified, and Invest For the Long Term.

Wiser Investing 101

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Fly Safe

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