Our Investment Philosophy
Our Investment Philosophy and Approach
We use a highly diversified investment strategy derived from decades of academic research in financial and market theory.

This approach has seven key components:

1. We believe that markets work. The capital markets do a good job of fairly pricing all available information as well as incorporating investor expectations about publicly traded securities.

2. We believe that only long-term investing in the equity markets offers you a return that outpaces the effects of both inflation and taxes on your portfolio.

3. We believe that risk and return are related. Our portfolios are structured to take advantage of the dimensions of risk offered by investing a measured portion in the small and value asset classes. These size and value effects are strong across global markets.

4. We use two important methods for managing risk and moderating volatility:
   - Adding fixed income
   - Diversifying globally across more than 11,000 securities in about 50 countries

5. We believe that structured investing along with disciplined portfolio rebalancing help individuals achieve their long-term financial goals and mitigate the damage that might be caused by investing emotionally.

6. We use low-cost, institutional, asset class mutual funds.

7. We use a third-party custodian to hold your investments, and, as a Registered Investment Advisor, we have a fiduciary relationship with all our clients, which means we always put your interests first.
Emotional Investing Leads to Underperformance
Individuals who manage their own money tend to invest emotionally.
They buy previous winners and sell out of investments that do not seem to be doing well. They worry about the ups and downs of the stock market. Ideally, an investor wants to buy low and sell high.

For the 20-year period ending December 31, 2019, individuals investing on their own failed to do as well as the market.

Annualized Returns
(for the 20-year period ending December 31, 2019)

<table>
<thead>
<tr>
<th>Stock market S&amp;P 500 Index</th>
<th>6.1%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average U.S. stock mutual fund investor</td>
<td>4.3%</td>
</tr>
</tbody>
</table>


Indexes 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.
Stock Picking Does Not Work
Traditional investment managers attempt to outperform the market by taking advantage of so-called mispricing in the markets trying to predict which individual securities will perform better in the future.

However, there is no evidence that any individual investor or professional manager can identify in advance the few stocks that account for much of the market’s return each year, and spending your time trying to pick those few stocks may result in missed opportunity. We believe that investors should diversify broadly and stay fully invested to capture the return of the market as a whole.

Strong performance among a few stocks is what accounts for much of the market’s return each year. This makes the job of picking stocks difficult because the odds are weighted against you.

Only 21% of equity managers beat their benchmarks over 10 years

10 Years as of December 31, 2019

Equity Managers That Beat Their Benchmarks

21%

Source: Dimensional Fund Advisors, using Morningstar and CRSP data provided by the Center for Research in Security Prices, University of Chicago. Information contained herein is compiled from sources believed to be reliable and current, but accuracy should be placed in the context of underlying assumptions.
Active Management Is Expensive
Make no mistake: Fund expenses are subtracted directly from your investment return.

While the record for active investment managers is dismal, their advice is expensive in two main ways:

- The expense ratio of the fund (i.e., fees paid to the mutual fund manager)
- Transaction costs (i.e., the cost of buying and selling stocks within a fund, which are not included in the expense ratio)

Every buy or sell a manager sends to market has a cost. These transaction costs are not reported, and average 1.44% per year in expense in addition to the stated expense ratio.2

As shown in the table, passively managed funds have much lower expenses due to both lower fund management fees and lower turnover. The Dimensional funds we use in our program have some of the lowest overall expenses in the industry due to their investment strategy, trading protocols and value-added trading techniques.
We Use Asset Classes to Manage Risk
Asset classes can be defined in very broad terms, such as equity or fixed income. They can also be defined through specific categories, such as small cap stock or large cap growth stock. The asset class holds all securities that satisfy the asset class definition irrespective of fund managers’ opinions about the future performance of individual stocks or sectors. We use asset classes as the building blocks of our asset allocation strategy because each asset class represents different risk/reward characteristics that can be combined into a truly diversified portfolio.

Even during times of great economic turmoil, many asset classes will have positive returns. A crisis of some kind may result in some or many equity asset classes turning negative, but how do you know which ones? For how long? This appears to be random. That is the point of efficient markets and why active management does not work.

Combining the risk/return characteristics of multiple asset classes in one portfolio serves to optimize returns and lower overall risk. This disciplined asset allocation program is a prudent way to manage your investments in volatile markets.
## The Importance of Diversification

<table>
<thead>
<tr>
<th>U.S. Stock Market</th>
<th>World Trade Center and Pentagon Attacks</th>
<th>Corporate Scandals</th>
<th>War in Iraq</th>
<th>Escalating Oil Prices</th>
<th>Two Major Hurricanes Escalating Natural Resources Prices</th>
<th>Iran/North Korea Nuclear Crisis</th>
<th>Credit Meltdown</th>
<th>Commodity Bubble Banking Crisis Global Recession</th>
<th>Struggling Economic Recovery</th>
</tr>
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<tbody>
<tr>
<td>Dimensional U.S. Adjusted Market 2 Index</td>
<td>Dimensional U.S. Small Cap Value Index</td>
<td>Dimensional U.S. Micro Cap Index</td>
<td>Dimensional U.S. Large Cap Index</td>
<td>Dimensional U.S. Large Cap Value Index</td>
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<td>Dimensional U.S. Large Cap Value Index</td>
<td>Dimensional U.S. Large Cap Index</td>
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<td>U.S. Real Estate</td>
<td>Dimensional U.S. Small Cap Value Index</td>
<td>Dimensional U.S. Micro Cap Index</td>
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<td>Dimensional U.S. Large Cap Value Index</td>
<td>Dimensional U.S. Micro Cap Index</td>
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<td>U.S. Short-Term Government Bonds</td>
<td>ICE BofAML 1-Year U.S. Treasury Note Index</td>
<td>ICE BofAML 1-Year U.S. Treasury Note Index</td>
<td>ICE BofAML 1-Year U.S. Treasury Note Index</td>
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<td>Global Government Bonds</td>
<td>FTSE World Government Bond Index 1-3 Years (hedged)</td>
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Gold Reaches Record Highs
Downgrade of U.S. Credit Rating
Fiscal Cliff
High Frequency Trading
ISIS Agitates the Middle East
Chinese Economy Falters
Brexit
Bitcoin Bubble
Tariffs
Central Bank Rate Cuts

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</tbody>
</table>

Our approach to portfolio construction seeks to widely diversify across many different asset classes. This chart is an illustration in which generic asset classes are represented by indexes. Client portfolios may hold different asset classes than those shown and will invest in mutual funds to gain exposure to those asset classes. Per Annum (annualized): January 1, 2000 to December 31, 2019. All Dimensional index data provided by Dimensional Fund Advisors. ICE BofAML 1-Year U.S. Treasury Note Index, copyright 2020 Merrill Lynch, Pierce, Fenner & Smith Incorporated; all rights reserved. Bloomberg Barclays U.S. Credit Bond Index Intermediate provided by Bloomberg. Bloomberg Barclays U.S. TIPS Index provided by Bloomberg. FTSE World Government Bond Index 1-3 Years (hedged), copyright 2020 by FTSE Russell. MSCI data copyright MSCI 2020, all rights reserved. Indexes are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.
The Stock Market Consists of More Than the S&P 500 Index
Investing globally offers more diversification.

Individual investors have an overwhelming preference for investing at home. Behavioral research suggests that familiarity makes stocks from our home country seem less risky. Financial professionals refer to this preference as home bias. Whatever the reason for home bias, we want to move beyond it in our investments. For those of us who live in the United States, investing only in the United States would mean giving up approximately half of the available diversification.

Adding to a portfolio any investment that is not highly correlated with its other investments provides an opportunity to reduce risk, and the different regions and countries of the world may not be highly correlated to U.S. investments. Even stressed economies in the emerging world offer opportunities to invest in non-correlated assets that can improve the risk/reward profile of a U.S. portfolio.

Global Market Breakdown

- S&P 500 Index
  - Approximately 500 of
  - 13,205 Stocks Globally

- United States
  - 55.4%

- International Developed
  - 33.5%

- Emerging Markets
  - 11.1%

Our Portfolios Tilt Toward Multiple Factors
Academic research has changed the way people invest and offered an entirely new way to view the stock market.

In 1992, Professor Eugene Fama and Professor Kenneth French created the three-factor model. This model identified that investors could expect higher long-term returns than the stock market by investing in smaller companies and companies with high book value relative to stock value. Their research led to the discovery of other factors and a quiet revolution in the way people invest. The most meaningful expansion of their research was led by Professor Robert Novy-Marx who added a profitability factor, which looks at a company’s operating profits relative to price. What is most striking is that these investment principles came from academia, not from Wall Street.

The primary mutual fund company we use, Dimensional Fund Advisors, was co-founded in 1981 by David Booth with the idea of implementing these academic principles in the real world. David Booth has said of his company: “The set of ideas around which we built the firm are bigger than the firm itself.” The fact that four Nobel Laureates in Economic Sciences have served as directors on its mutual fund board is one more manifestation of how directly academics have inspired Dimensional.
Multifactor Portfolios Have Delivered Higher Returns
We build diversified portfolios that capture these dimensions of return. The world is an uncertain place, and we do not know which factors will be positive at any given point in time. Taking this into consideration, we engineer our portfolios to deliver a balanced exposure to each factor.

The mutual funds we use to build our portfolios start with a broad market portfolio then buy more of small company stocks, value stocks and high-relative profitability stocks. The returns below show the result of a hypothetical portfolio that has a greater exposure to each factor within a portfolio fully invested in stocks. This is not meant to represent any specific strategy but rather illustrate a generic example of how an investor might combine these factors into a multifactor portfolio.

The Global Stock Market* 7.20%  
Multifactor Exposure** 1.20%  
Multifactor Stock Portfolio 8.40%

Small  
Value  
Profitability

Performance data shown represents past performance. Past performance is no guarantee of future results and current performance may be higher or lower than the performance shown. The investment return and principal value of an investment will fluctuate so that an investor’s shares, when redeemed, may be worth more or less than their original cost. Average annual total returns include reinvestment of dividends and capital gains. The data is not representative of actual Forum portfolios.

* The Global Stock Market  
The global stock market as proxied by MSCI All Country World Index (gross div.) from 01/01/1994 to 12/31/1998 and MSCI All Country World Index (net div.) from 01/01/1999 to 12/31/2019.

** Multifactor Exposure  
This is a simple weighted average consisting of the following indexes while taking the net of the two associated indexes to show the outperformance of the factor tilts implemented by Dimensional Fund Advisors, all of which are using data annualized returns from 01/01/1994 to 12/31/2019, which is the earliest reporting of the Emerging Markets Index used. 50% Dimensional U.S. Adjusted Market 2 Index minus Dimensional U.S. Market Index, 40% Dimensional International Adjusted Market Index minus Dimensional International Market Index and 10% Dimensional Emerging Markets Adjusted Market Index minus Dimensional Emerging Markets Index.

Factor tilts will vary through time and by client. This example is for illustrative purposes only and is not intended to be representative of any specific portfolio or strategy. Indexes are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Index returns are not representative of actual portfolios and do not reflect costs and fees associated with an actual investment. Actual returns may be lower. See the Sources and Disclosures section on Page 28 for the Small, Value and Profitability information referenced above.
The Role of Bonds
Bonds can be risky, too.
The days of living solely on interest from a bond or CD have long passed. Lower interest rates have our clients asking, “Where can I get yield?” The temptation to stretch for high yield could lead an otherwise cautious investor to a bond portfolio that, unintentionally, is as risky as an equity portfolio.

Bond investing fundamentally involves two forms of risk:
- Credit risk is the risk that a bond issuer will not fully pay the interest or principal of the bond due to financial distress or bankruptcy.
- Interest rate risk is the risk that an increase in interest rates will cause the current market value of existing bonds to decrease. If you buy a bond and then interest rates rise, other investors will demand a discount to buy that bond because it now has a below-market interest rate.

Now that we know why bonds can experience losses, let us put those losses into historical perspective. Since 1928, there has only been one year where 10-year government bonds and stocks each lost more than 5% in the same year. In fact, since 1928, 10-year government bonds have lost 5% or more in only five calendar years.

The relatively low return of bonds makes it very difficult for active managers to beat their category benchmark after fees.
Active bond managers believe they can better identify bonds that will increase yield without taking on additional risk. In reality, only 31% of bond managers were able to beat their benchmark over the past 10 years (as of December 31, 2019), and an average of just 21% of active equity managers beat their benchmark.

Looking at the Bond Allocation in Detail

The core bond holding for most investors should be a diversified bond market approach modified to take into account the level of equities an investor holds in the portfolio.

For investors with a smaller allocation to equities and larger allocation to bonds, the lower return of bonds puts the portfolio at risk of being outpaced by inflation. As a result, these investors should buy more inflation protected securities to protect against unexpectedly high inflation.

For investors with a higher equity allocation and smaller allocation to bonds, the primary role of bonds is to provide diversification when the equity portion of the portfolio experiences a loss. In these portfolios, investors should consider buying long-term, high-credit-quality bonds because they historically have gone up and down at different times than equities.
Rebalancing Maintains Portfolios
A disciplined rebalancing strategy is an important part of a diversified investment strategy. In a given period, asset classes experience different performance, which is both inevitable and desirable. As some assets appreciate in value and others lose value, your portfolio’s allocation changes, which affects its risk and return qualities, a condition known as *asset class drift* or *style drift*. If you let the allocation drift far enough away from your original target, you may end up taking on more or less risk than you intended.

We typically think of rebalancing asset classes, but we rebalance our portfolios in terms of three factors:
1. Equities versus bonds
2. Domestic versus international
3. Asset class allocation

The purpose of rebalancing is to move a portfolio back to its original target allocation by following the first rule of investing: buy low and sell high. By selling assets that have risen in value and buying assets that have dropped in value, rebalancing realigns the portfolio back to its original allocations. We set percentage bands and rebalance a portfolio when asset levels exceed those predefined limits.

The discipline of rebalancing can reduce portfolio volatility. Remember that you chose your original asset allocation to reflect your personal risk and return preferences for the long term. Rebalancing keeps your portfolio aligned with these priorities by using structure, rather than recent performance, to drive investment decisions. There is a cost to rebalancing because every buy and sell is a trade, but we believe the long-term benefits far outweigh the costs.
Creating Retirement Cash Flow
Many retirees cannot live on the current yields of CDs, bonds and stock dividends. Those who attempt to satisfy their needs by using high-yield bonds or dividend-paying stocks may take on risks they do not understand. There seems to be a widespread belief, pumped up by the financial press, that dividend-paying stocks offer some inherent edge in creating income. Recent history points out the flaw in this strategy. Individuals have historically looked for dividend income from a few sectors, such as utilities, banking institutions and automakers. However, during the recent financial crisis, not only did bank stocks suffer every bit as much as other stocks, the dividends were often suspended. It took several years to recover principal across the sector and a few individual stocks may never fully recover.

To overcome these problems, many advisors have advocated using a portfolio withdrawal rate of 4% from a diversified portfolio, based on William Bengen’s 1994 research. He concluded that a portfolio of 50% stocks and 50% bonds could sustain a 4% withdrawal of the initial balance adjusted for inflation each year without fully depleting the portfolio. The idea was not to focus on preservation of principal but to focus on making the money last one’s lifetime.

This withdrawal rate methodology has been criticized due to the historically higher interest rates used in the original research, which cannot be expected in today’s market. Thus, some argue for using an even lower withdrawal rate. Nevertheless, we advocate withdrawing a portion of one’s assets to fund retirement spending, although it requires the retiree to focus on cash flow rather than income from investments.

The challenge for many retirees is creating a sustainable cash flow in a low interest rate market.
A New Approach to Creating Retirement Cash Flow
We recommend a bucket approach to deal with these three risks.

The Lifetime Income Portfolio is our proprietary product designed to allocate, optimize and rebalance client portfolios into three buckets for qualifying investors.

The first bucket will have a fixed dollar amount to cover the first several years of living costs. It acts as an umbrella for rainy days that provides the peace of mind to stay invested for the long term.

The second bucket will have a varying balance that will initially have several more years of living costs, but may rebalance to the growth bucket to avoid the point-in-time risk associated with locking in buckets at the beginning of the retirement period.

The third bucket acts as the engine that enables the portfolio to overcome, or at least offset, the withdrawals.

<table>
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<th>Short Term</th>
<th>Midterm</th>
<th>Long Term</th>
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<td>Behavioral Risk</td>
<td>Point-in-Time &amp; Behavioral Risk</td>
<td>Longevity Risk</td>
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<td>3-5 years of spending needs</td>
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1. **Behavioral Risk**
   Emotions convince us to react to market losses or gains.

2. **Point-in-Time Risk**
   A portfolio’s value drops when it is time to withdraw money.

3. **Longevity Risk**
   Living longer than there is money saved for living costs.
The Value of Working With Us
Our advisors counsel clients to **take a long-term approach** to their financial goals and avoid making short-sighted moves based on current market conditions. Our firm gets to know your goals and risk tolerance levels so we can help you achieve these goals. We strive to take the emotions out of investing by sticking to a long-term plan, while being flexible enough to change the plans if your personal situation changes.

We add value by properly using **asset location strategies**. Placing less-tax-advantaged asset classes in tax-deferred accounts and tax-efficient asset classes in taxable accounts definitely adds value. We manage your overall allocation strategy by employing these asset location strategies.

Cost-effective investing strategies can increase returns. Too many individuals focus on a single investment to the exclusion of fundamentally sound financial strategies. We use **low-cost, institutional mutual funds** and trade efficiently to keep your costs down.

Maintaining asset allocations by **strategic rebalancing** is another way advisors can add value. Our firm monitors your allocations continually, and we trade whenever your allocations are outside a predetermined range. We use dividend and capital gain payouts whenever possible to avoid realizing capital gains in the rebalancing process.

We also add value during the spend-down phase of your investment plan by implementing a **sound withdrawal strategy**. Our Lifetime Income Portfolio program protects the downside risk of the funds you need for the short and medium term, while helping you beat inflation over the long term.

Our **deep bench of highly credentialed professionals** have decades of experience across portfolio management, retirement planning, estate planning, insurance analysis and income tax planning. We believe that a wise approach is to hire an advisor based on trust, confidence, integrity and experience. Our mission is to develop a sustainable strategy for each client linked directly to his or her risk tolerance, stage in life and personal financial goals.

We invite you to meet with one of our advisors to discuss in detail our investment philosophy and your financial goals.
Sources and Disclosures

Align Wealth Management, LLC is a Registered Investment Advisor. There are two offices: Oklahoma City & Tampa Bay. The Home Office is located at 13921 Quail Pointe Drive, Oklahoma City, OK 73134, ph: 405.607.4820. The Tampa Bay Office is located at 125 5th Street South, Suite 201, St. Petersburg, FL 33701, ph: (727) 455-0033 | fax: (405) 294-3340 | toll free: (800) 401-6477 | web: www.alignmywealth.com. Before making an investment decision, please contact our office at 405.607.4820 to receive a copy of Align’s Form ADV Part 2A and the Investment Advisory Agreement, both of which include Align’s fee schedule. This information is intended to serve as a basis for further discussion with your professional advisers.

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Please consult your personal advisor and investment prospectus before making an investment decision.

1 Based on data for all stocks, top 10% and top 25% of performers each year (compound average annual returns for the period 1994 to 2018). Dimensional Fund Advisors, Performance data compiled from Bloomberg, London Share Price Database, and Centre for Research in Finance.
4 Ibid.
5 Dimensional Fund Advisors, using CRSP data provided by the Center for Research in Security Prices, University of Chicago.