

Index of Investment Services and Terms

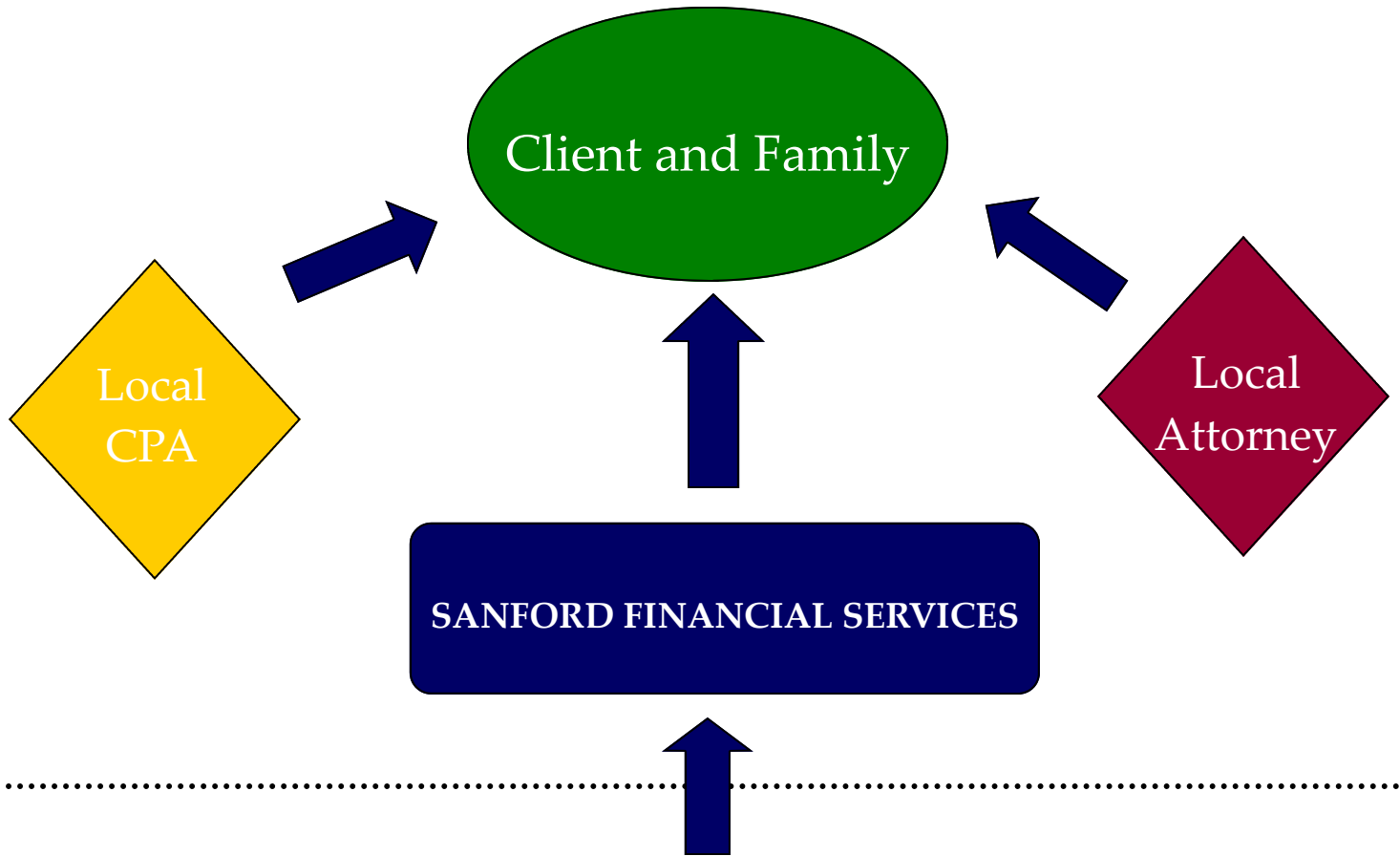
The following pages are meant to supplement our discussions and help our clients gain a further understanding of the strategies and plans that we frequently implement. Oftentimes we will reference these concepts, thus you may wish to refer back to these concepts periodically.

We feel that a significant component of our role as financial advisors is to educate our clients. Many of the discussions we have will not lead to a firm answer. Instead, many discussions are related to the potential advantages and disadvantages of making particular decisions. We strive to provide our clients with timely and relevant information to aid in the financial planning process.

Should you have questions relating to this information, please never hesitate to ask.



Your Wealth Services Team

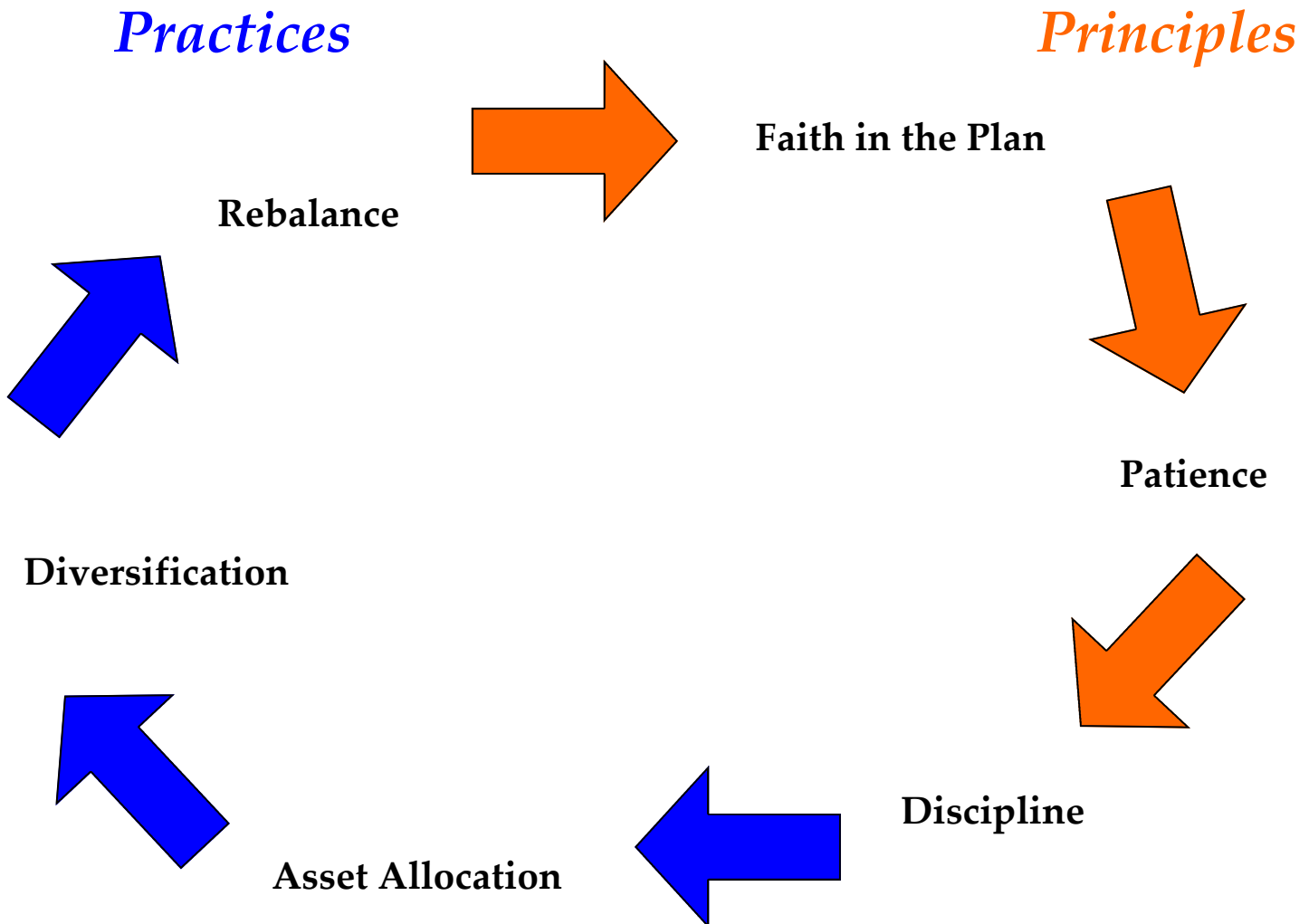


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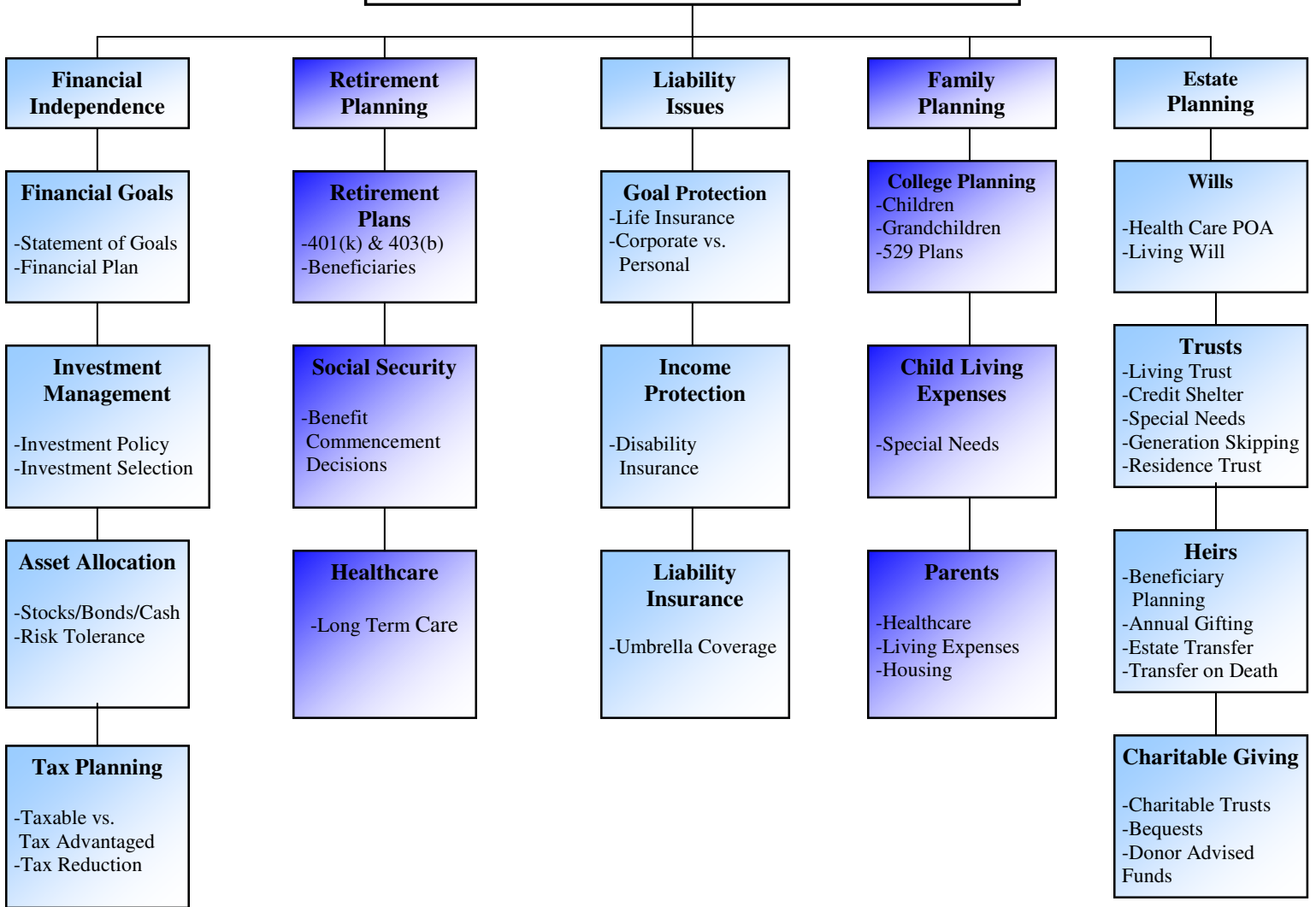


Building and Monitoring Portfolios



Our advisor's wealth management process is based on three principles and three practices intended to assist clients in making logical decisions while removing emotional biases.

Family Wealth Management



The Bucket Plan



Arranging assets based on priority and maximum risk tolerances can help individuals maintain discipline during challenging or volatile markets. Some assets should be exposed to very little or only nominal risk, some assets are intended only to produce income, and other assets should be viewed for long term growth. Dividing assets based on their future use can help keep long term goals in perspective during good and bad market cycles.

Emergency Fund: Money that should be exposed to nominal risk and have limited fluctuation in value. Money that could be accessed anytime.

Investment examples:

CD's, Money Market, High quality/short term bonds, Treasury bonds

Conservative—Moderate Risk: Money that may fluctuate in value modestly throughout the year or during extreme market events, but is designed to have lower volatility in the short term (1-3 years).

Investment examples:

High or medium quality/Intermediate term bonds, Hard assets, i.e. gold
High quality dividend paying stocks, Convertible Bonds, Preferred Stocks

Long Term Investments: Money that is intended for long term growth. These are assets which may fluctuate in value significantly from year to year but are intended for long term growth over a full market cycle. This bucket should not be allocated to until all other buckets are appropriately funded.

Investment examples:

US Stocks, Commodities, High yield bonds, International holdings

Income Stream: Money that is intended to produce an income stream throughout your lifetime. Asset value fluctuation is of less importance than the ability to produce a reliable stream of income over long periods of time and through various market cycles.

Investment examples:

Fixed annuities, High quality/Long term bonds, Municipal bonds



“Lower Highs & Higher Lows”

ALPHA vs BETA

Behind the Numbers

The push and pull of the markets presents a constant battle of wills, and everyday the winners are sorted out from the losers. In the investment industry, there are many ways to assess how investments have performed versus the market and their peers. Both alpha and beta provide insight into investment performance, and advisors may use each to help choose the appropriate investments for their clients.

The fact is that alpha and beta are actually intertwined. Before diving into how to use the two, let's review the underlying differences that stem from the construction of these key performance measures.

Building beta

Beta illustrates an investment's systematic risk as compared to a benchmark. For instance, if an investment has a beta of 1.5 versus the S&P 500 Index and the index gains 10%, the investor expects the investment to gain 15% over the same period. In an up market, the investment would be expected to outperform its index, while the investor expects the investment to underperform in a down market. Strictly speaking, beta offers investors a quick, passive measure of an investment's expected volatility as it pertains to a benchmark.

Analyzing alpha

$$\alpha = y - \beta (x)$$

Alpha Symbol

Average
Return

Beta

Average
Benchmark Return

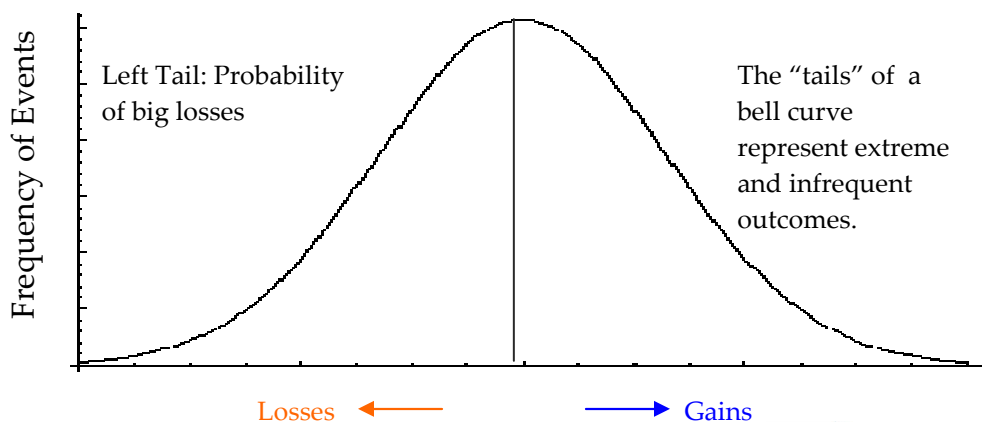
The first step in calculating alpha is locating an index that is highly correlated to a given fund. Begin by looking for an index whose correlation (as measured by R-Squared) ranges from 0 to 1. The higher the value of R-squared, the better the correlation to a given benchmark, which will make alpha and beta more relevant.

Positive alpha indicates excess fund returns over the benchmark that cannot be attributed to beta, or systematic risk. This excess is attributed to the active management of the fund. Negative alpha indicates the fund may have lost return due to active management.



Tail Risk

“Tail risk” hedging techniques seek to preserve portfolios during severe market crises. We evaluate a wide range of extreme scenarios, and then identify instruments that can help to mitigate portfolio downside against these risks. In doing so, we attempt to hedge investors’ assets during times of market stress and enable investors to take advantage of opportunities that follow market crises.



Stock Market Storms...

Here is a rundown on how frequently various types of stock market Declines, as measured by the S&P 500, have occurred since 1900, how deep they have been, and how long they lasted.

...From Squalls to Tornadoes

	Routine Decline (5% or More)	Moderate Correction (10% or More)	Severe Correction (15% or More)	Bear Market (20% or More)
Number of times since 1900	324	110	50	30
How often to expect this	About 3 times a year	About once a year	About every 2 years	About every 3 years
Last time it happened	Jul-96	Aug-90	Aug-90	Sep-08
Average loss before decline ends	11%	19%	27%	38%
Average length	40 days	109 days	217 days	364 days
Chance of decline turning into a bear market	9%	27%	58%	100%



Sequence of Returns

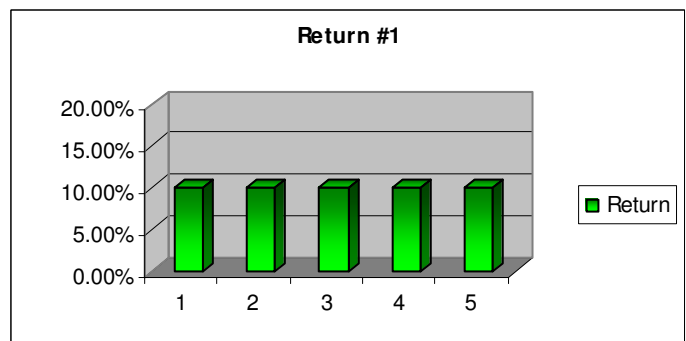
The Importance of the sequence of investment returns:

The sequence of returns plays a critical role in determining total return after a given period of time. This explains why it is crucial to look beyond annualized rates of return when evaluating a potential investment.

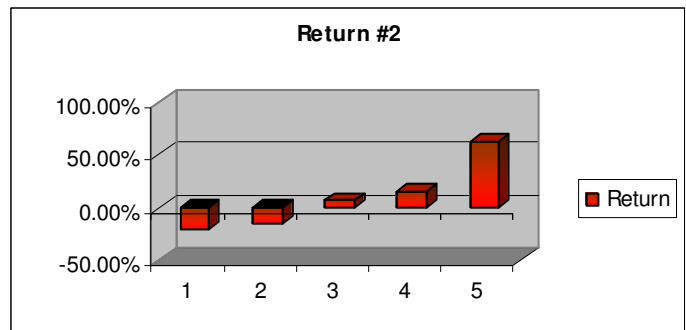
Example:

While both models averaged a return of 10% over 5 years, the investment with less volatility earned substantially higher gains over the 5 yr. period. This illustrates how consistent returns will impact long term investments significantly.

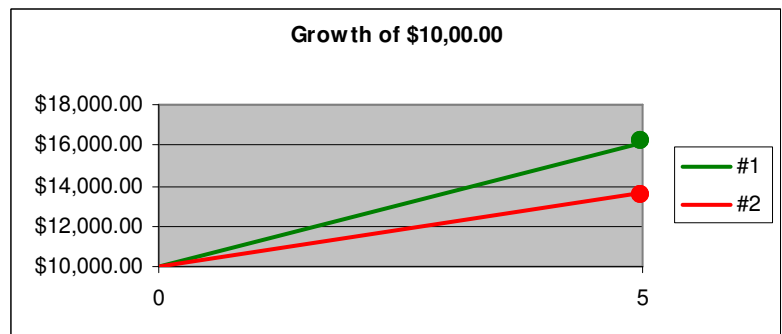
Year	Return
1	10.00%
2	10.00%
3	10.00%
4	10.00%
5	10.00%
Average:	10%



Year	Return
1	-20.00%
2	-15.00%
3	7.00%
4	15.00%
5	63.00%
Average:	10%



Growth of \$10,000		
	#1	#2
Start Value	\$10,000.00	\$10,000.00
End Value	\$16,105.10	\$13,638.86



**This is a hypothetical illustration and is not intended to reflect the actual performance of any particular security. Dividends/compounding/transaction fees would lower returns. Taxes are not included in this example.*

In For The Long Run

Maintaining A Long Term Perspective

Total Return of Stocks: 1926-2009

Year	Total Return*	Year	Total Return*	Year	Total Return*
1926	11.62%	1954	52.62%	1982	21.41%
1927	37.49%	1955	31.56%	1983	22.51%
1928	43.61%	1956	6.56%	1984	6.27%
1929	-8.42%	1957	-10.78%	1985	32.16%
1930	-24.90%	1958	43.36%	1986	18.47%
1931	-43.34%	1959	11.96%	1987	5.23%
1932	-8.19%	1960	0.47%	1988	16.81%
1933	53.99%	1961	26.89%	1989	31.49%
1934	-1.44%	1962	-8.73%	1990	-3.17%
1935	47.67%	1963	22.80%	1991	30.55%
1936	33.92%	1964	16.48%	1992	7.67%
1937	-35.03%	1965	12.45%	1993	9.99%
1938	31.12%	1966	-10.06%	1994	1.31%
1939	-0.41%	1967	23.98%	1995	37.43%
1940	-9.78%	1968	11.06%	1996	23.07%
1941	-11.59%	1969	-8.50%	1997	33.36%
1942	20.34%	1970	4.01%	1998	28.58%
1943	25.90%	1971	14.31%	1999	21.04%
1944	19.75%	1972	18.98%	2000	-9.11%
1945	36.44%	1973	-14.66%	2001	-11.90%
1946	-8.07%	1974	-26.47%	2002	-22.10%
1947	5.71%	1975	37.20%	2003	28.69%
1948	5.50%	1976	23.84%	2004	10.88%
1949	18.79%	1977	-7.18%	2005	4.91%
1950	31.71%	1978	6.56%	2006	15.79%
1951	24.02%	1979	18.44%	2007	5.49%
1952	18.37%	1980	32.42%	2008	-37.00%
1953	-9.9%	1981	-4.91%	2009	26.57%

Since 1926, the stock market has declined on average in nearly one out of three years, and all bull markets have experienced periods of substantial volatility. Yet over longer time horizons, stock returns have dominated all other financial assets. Importantly, after each of the previous bear markets, the total return of the stock market rebounded.

Bear markets are shaded.



* Return of the S&P500: A widely used barometer of U.S. stock market performance; as a market-weighted index of leading companies in leading industries, it is dominated by large-capitalization companies. Past performance may not be indicative of future results. Individual results will vary. One cannot invest in an index.

When Will I Get My Money Back?

Break Even Analysis

Calculations for the time needed to recoup prior investment losses.

	Fixed Returns			Equity Returns		
	4%	5%	6%	8%	10%	12%
-30%	9 yrs	7 yrs	6 yrs	5 yrs	4 yrs	3 yrs
-40%	13	10	9	7	6	5
-50%	18	14	12	9	7	6
-60%	23	19	16	12	10	8

Example: An investor who experienced a 30% decline in portfolio value expecting to earn a return of 8% should allow for 5 years to recoup investment losses.

Investor Dilemma

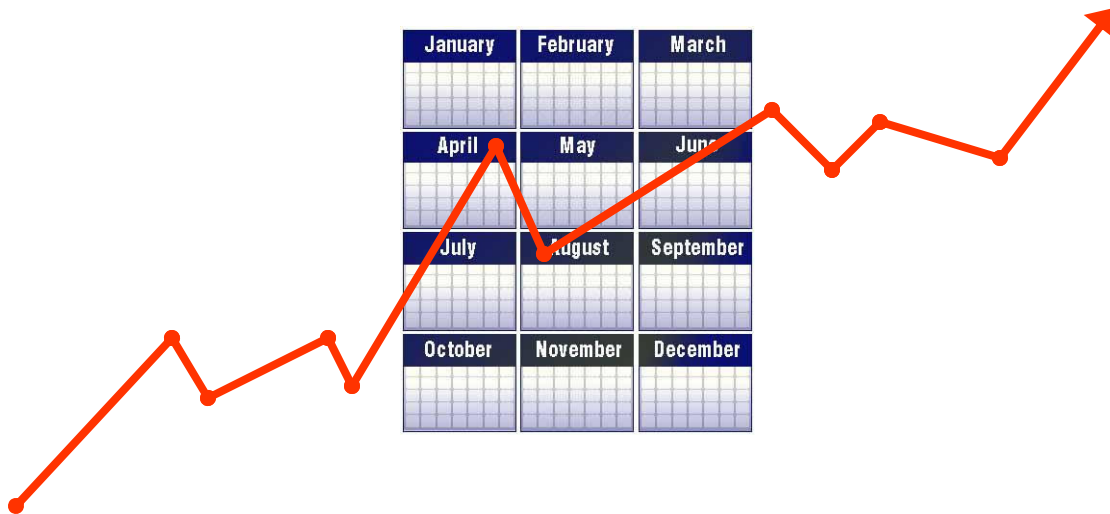
The natural tendency of most investors who experienced significant erosion of their portfolio values is to advise their financial consultants to reallocate capital to more risk-averse strategies to avoid any future losses. Given current yields on money market funds and CDs, the time line to recoup losses extends to over 20 years (e.g. recouping a 40% decline at a 2% return would take 26 years!). Seeking higher yields through individual bonds may prove detrimental should interest rates rise.



The TRUE Time Value of Money

- 250 trading days per year × 30 years = 7,500 trading days
- Average S&P 500 Return for those 7,500 days = **13.9%** for continuously invested dollars

→ Miss the 60 best days...



...And the average return dwindles to **6.3%**

- 2 best trading days per year = + 50% of your total return
- 90% of return occurs within 2 months of the market bottom



Asset Class Returns

Chasing last year's "winner" can oftentimes produce poor results. A diversified portfolio can help stabilize investment returns.

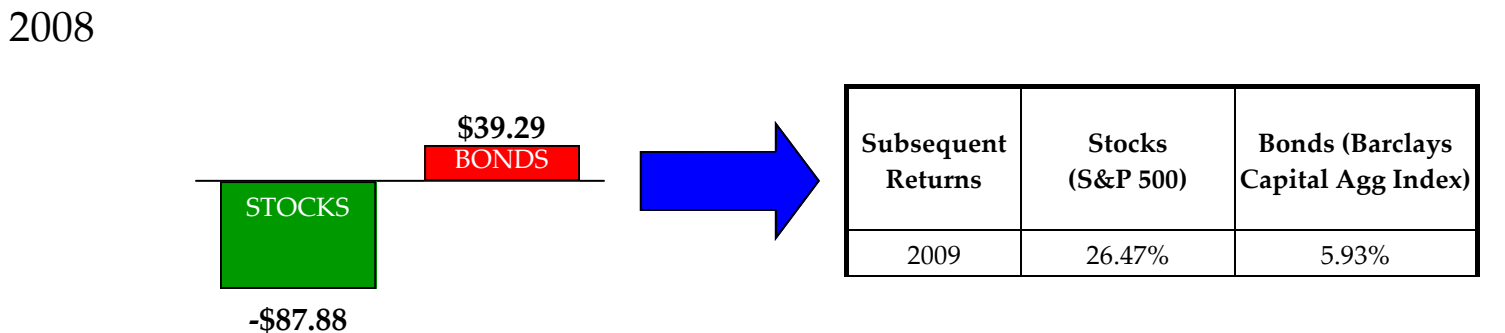
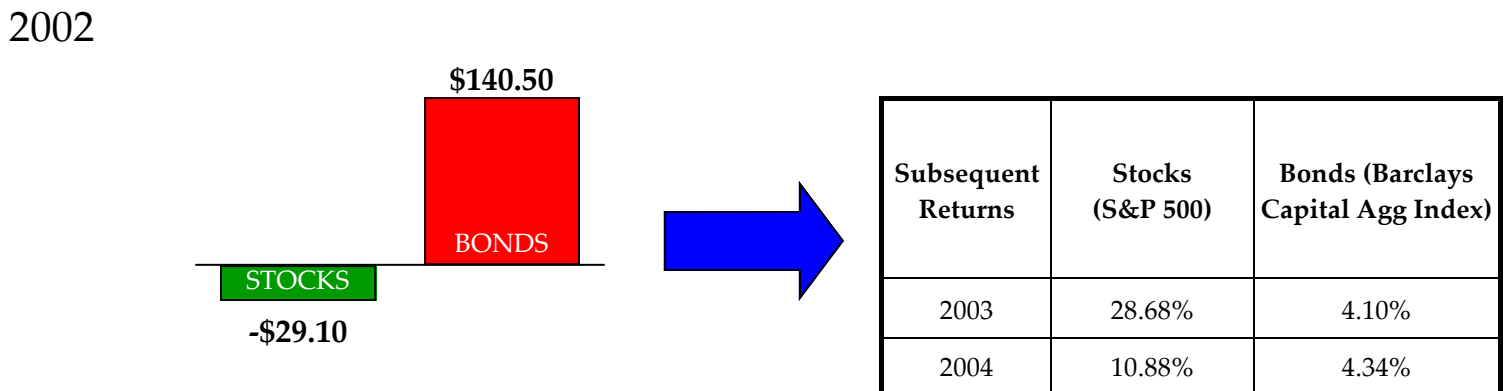
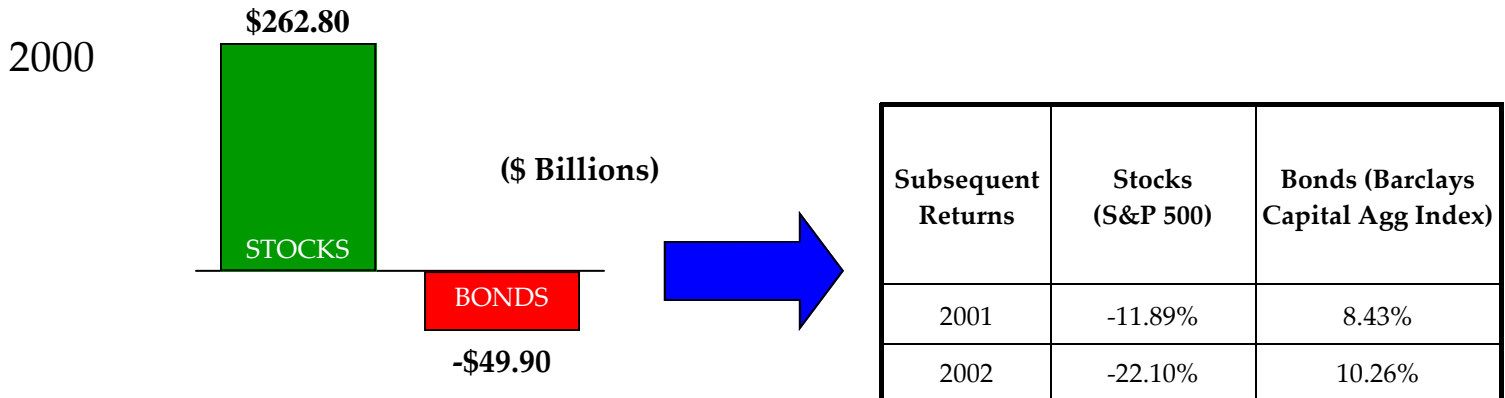
2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Alternatives/ Commodities 31.8%	Fixed Income 8.4%	Alternatives/ Commodities 25.9%	Real Estate 40.7%	Real Estate 38.0%	Alternatives/ Commodities 21.4%	Real Estate 42.3%	Alternatives/ Commodities 16.2%	Fixed Income 5.2%	Real Estate 38.3%
Real Estate 13.8%	Cash Alternatives 4.1%	Fixed Income 10.3%	Non-U.S. Equity 40.0%	Non-U.S. Equity 20.8%	Real Estate 15.4%	Non-U.S. Equity 26.2%	Non-U.S. Equity 12.9%	Cash and Equivalents 1.8%	Non-U.S. Equity 34.4%
Fixed Income 11.6%	Real Estate (3.8%)	Real Estate 2.8%	U.S. Equity 31.1%	U.S. Equity 11.9%	Non-U.S. Equity 15.0%	U.S. Equity 15.7%	Fixed Income 7.0%	Alternatives/ Commodities (35.6%)	U.S. Equity 27.6%
Cash Alternatives 6.0%	U.S. Equity (11.5%)	Cash Alternatives 1.7%	Alternatives/ Commodities 23.9%	Alternatives/ Commodities 9.1%	U.S. Equity 6.1%	Cash Alternatives 4.8%	U.S. Equity 5.1%	U.S. Equity (37.3%)	Alternatives/ Commodities 18.9%
U.S. Equity (7.5%)	Alternatives/ Commodities (19.5%)	Non-U.S. Equity (15.5%)	Fixed Income 4.1%	Fixed Income 4.3%	Cash Alternatives 3.0%	Fixed Income 4.3%	Cash Alternatives 4.7%	Non-U.S. Equity (43.2%)	Fixed Income 5.9%
Non-U.S. Equity (13.2%)	Non-U.S. Equity (21.2%)	U.S. Equity (21.5%)	Cash Alternatives 1.1%	Cash Alternatives 1.2%	Fixed Income 2.4%	Alternatives/ Commodities 2.1%	Real Estate (6.9%)	Real Estate (47.7%)	Cash Alternatives 0.2%



**Index performance is shown for illustrative purposes only and does not reflect the deductions of fees, trading costs or other expenses, which will affect actual investment performance. Indexes are unmanaged and cannot accommodate direct investments. Past performance may not be indicative of future results.*

Individual Investors Tend to React

Net flows by broad investment categories at major inflection points in the market and subsequent performance:



Notes

- **The Bucket Plan:**

CDs offer FDIC or FSLIC insurance and a fixed rate of return whereas both principal and yield of investment securities will fluctuate with changes in market conditions. Dividends are not guaranteed and must be authorized by the company's board of directors. There is an inverse relationship between interest rate movements and bond prices. Generally, when interest rates rise, bond prices fall and when interest rates fall, bond prices generally rise. High-yield (below investment grade) bonds are not suitable for all investors. When appropriate, these bonds should only comprise a modest portion of your portfolio. Commodities are generally considered speculative because of the significant potential for investment loss. Commodities are volatile investments and should only form a small part of a diversified portfolio. There may be sharp price fluctuations even during periods when prices overall are rising. Gold is subject to the special risks associated with investing in precious metals, including but not limited to: price may be subject to wide fluctuation; the market is relatively limited; the sources are concentrated in countries that have the potential for instability; and the market is unregulated. Please note that international investing involves special risks, including currency fluctuations, differing financial accounting standards, and possible political and economic volatility. Real estate investments can be subject to different and greater risks than more diversified investments. Declines in the value of real estate, economic conditions, property taxes, tax laws and interest rates all present potential risks to real estate investments. Futures trading is speculative, leveraged, and involves substantial risks.
- **Hypothetical Rate of Return:**

This is a hypothetical illustration and is not intended to reflect the actual performance of any particular security. This hypothetical illustration is not indicative of any security's performance and is based on information believed reliable. Future performance cannot be guaranteed and investment yields will fluctuate with market conditions. Past performance is not a guarantee of future results.
- **No Guarantee:**

The information is not guaranteed and should not be relied on for tax or investment purposes. Because of the constantly changing nature of the Internal Revenue Service tax code and state tax regulations, the figures shown here should be treated as estimates only and subject to change or revision.
- **Benchmark:**

S&P 500 and the Dow Jones Industrial Average (DJIA) are the two benchmarks most frequently used for our analysis. These two benchmarks represent standards against which a performance of a security or portfolio can be measured.
- **Illustrations:**

Illustrations are based on historical data and financial research and are no guarantee for future results. Market conditions constantly change, and therefore illustrations can only estimate future outcomes, not predict them.
- **In for the Long Run:**

The source used is Ibbotson Associates. Stocks Bear Market is a market in which there is a prolonged period of falling prices. A bear market in stocks is usually brought on by the anticipation of declining economic activity, and a bear market in bonds is caused by rising interest rates. A Bull Market is a market in which there is a prolonged rise in the prices of stocks, bonds, or commodities. Bull Markets usually last at least a few months and are characterized by high trading volume.
- **Stock Market Storms...From Squalls to Tornadoes:**

Averages are means. Days are calendar days, including weekends. The source is Ned Davis Research, Inc.
- **Assets to Hold In Various Economic Scenarios:**

Any information is not a complete summary or statement of all available data necessary for making an investment decision and does not constitute a recommendation. There is no assurance any strategy will be successful. Please consult your financial advisor before implementing any investment strategy.
- **Assets Class Returns:**

Benchmark asset classes—US Equity: Russell 3000, Non-US Equity: MSCI World Ex-US, Fixed Income: BC Aggregate, Real Estate: FTSE EPRA NAREIT, Commodities: DJ UBS Commodity Index, Cash Alternatives: Citi 3-month T-Bill.
- **Sanford Financial Services, Inc:**

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