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RISK TOLERANCE AND TIME HORIZON

Linda, as we discussed in our info gathering meeting, based on your answers to the Investor Profile Questionnaire, we determined that you fall under the “assertive” category regarding your investment style. You are willing to assume additional risk in order to achieve higher returns. We further determined that your time horizon is long term indicating that you are able to assume additional risk because you are a long term investor. You also expressed your firm belief in international growth and requested that your personalized portfolio allocation be over-weighted in this area. In order to minimize your risk exposure, we have included a healthy balance of Value stocks in your proposed portfolio.

ASSUMPTIONS

From our conversations, we have assumed that you have an adequate cash reserve set aside of 3 – 6 months of your living expenses. You expressed that you would like to have your money working harder for you and you do not feel that your current portfolio of $100,000 consisting of 20% Money Market and 80% Certificate of Deposit is enabling you to keep up with inflation and meet your future financial needs. Therefore, we assumed that the entire $100,000 is available for repositioning. Based on this information, we have put together the following personalized portfolio that best fits your needs.
RECOMMENDED PORTFOLIO

**Fixed Income:**
- Cash and MoneyMrkt 10% 1-3 year SHY
- Treasury Bonds (funds) 5% TIP
- Corporate Bonds (funds)
- International Bonds
  - Subtotal

**Equity**
- Balanced Fund
- Equity Index Fund
- Large Cap Value 10% MCI EMU EZU
  - Dow Jones US
- Large Cap Growth 10% Total IYY
- Mid/Small Cap Value 10% Russell Mid-Cap IWR
- Mid/Small Cap Growth 10% SmallCap 600 IJT
- International Specialty 10% Pacific ex-Japan EPP
- Sector Funds 10% Natural Resource IGE
- International Equity 15% EAFE EFA
  - Subtotal

**Real Estate**
- REITs (funds)
  - Subtotal

**Commodities/Metals**
- Precious Metal (fund)
  - Subtotal

**Total Investment** 100%

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1 PLEASE SEE APPENDIX FOR A COMPLETE BREAKDOWN OF ASSET ALLOCATION
RATIONALE BEHIND RECOMMENDATIONS

Linda, with you being an assertive investor and over-weighed in international investments, we felt it was prudent to ensure that your portfolio is well diversified. Therefore, we wanted to balance your need for growth with value. Please note that your recommended portfolio does not adhere to the traditional rule of thumb that we discussed of 20% bonds and 80% equity. Because of your long term investment horizon, and our belief the market conditions will hold stable or continue to improve, we have chosen a mix of 15% bonds and 85% equity. Please note that your recommended portfolio has little overlap, which reduces your risk exposure. Although the recommended portfolio does include several underlying stocks shared by two separate ETF holdings, most underlying issues are held by only one of the ten funds. In the case of the largest overlap player, Exxon/Mobile Corporation, only 1.02% of the entire portfolio is involved. We consider the net overlap of the entire recommended portfolio to be insignificant.

Even though the last CPI index came in as expected, there is still the risk of the Fed raising interest rates, which will lower bond prices. So we felt it was appropriate to include shorter term bonds as well as bonds that have some inflation growth to minimize the potential for interest rate risk. Also, our choice to include value equities is due to the market being at an all time high. It is our position that this is a good time to include some defensive measures and still achieve a nice rate of return. Value has a lower correlation to the S&P 500 than regular growth. It has been noted that large value has provided more diversification benefits than large growth, and large value has usually outperformed both the index and large growth in down markets. Large growth's consistently strong relationship to the S&P 500 raises a question of whether it is helpful to combine large growth with the index because the diversification benefits have been low.
We have included a percentage of your portfolio to be allocated to natural resources because this sector has a low correlation to the market and positive gains in down markets. The connection between natural resources and the S&P 500 was 0.49 or less for all 5-year periods, was negative in 17 of the past 35 years, and the 35-year correlation was 0.01. Also, in six of the past eight years that the S&P 500 declined, natural resources earned positive returns. Even though we believe that the market will continue to rise, we do not know when it may take a downturn and we want to ensure that your portfolio remains well balanced at all times.

Our investment expert on the team chose your investment choices through the following methodology: First, he looked at all the investments in a given sector or asset allocation such as Large Cap Growth. Next, he looked at past returns. The historical rate of return was not as important as how volatile the investment has been in the past. If an investment has gone from the top fund one year to the worst the next and then top the next and so forth, then it was excluded. Consistent performance outweighed past returns as we want to avoid any investment choice that has the “yo-yo effect.” Finally, he looked at the risk ratios. He researched each investment to ensure that it has a low standard deviation; a high Sharpe ratio, preferably, 1.5 or higher; a positive and high Alpha, preferably 1 or higher. He then looked at the beta and the \( r^2 \). The \( r^2 \) is a statistical measure of how much of a security’s movement is explained by the benchmark index. Therefore, the closer the \( r^2 \) is to 100, the better.

We have also analyzed your suggested portfolio via Morningstar\(^2\), and the analysis returned the following feedback: “1) Your portfolio is aggressive. An asset mix such as yours normally generates high long-term returns but can be very volatile. Financial planners typically recommend these types of mixes for investors who have investment horizons longer than 10 years, need high returns, and are comfortable with a high level of risk.

\(^2\) Analysis taken from Morningstar.com based on current information as of June 16, 2007.
Cash: 1.83%

US Stocks: 47.28%

Foreign: 37.4%

Bonds: 13.35%

Other: 0.14%

2) Your portfolio’s stock exposure is spread evenly across the market and includes a good mix of small, medium, and large companies, as well as a fairly even mix of conservatively priced value stocks and high-flying growth stocks. For most investors, maintaining such broad-based market exposure is a prudent way to invest.

Large cap Value: 35.75%

Large Cap Growth: 29.47%

Mid/Small Value: 14.5%

Mid/Small Growth: 20.26%

3) The mutual funds in your portfolio tend to have below average expense ratios, which is good because expense ratios have been shown to be a major factor in mutual-fund performance over the long term.

Portfolio Exp Ratio: 0.33%

Hypothetical Portfolio avg: 0.35%

4) You have a fairly healthy stake in foreign stocks.

Primarily invested in developed markets in Europe and the Pacific Rim.
SUMMARY

• Linda, we consider the recommended portfolio to be an excellent way to achieve your long-term goals.

• Your answers to the questionnaire demonstrate a long term investment horizon. Further, your responses indicate that you have a greater tolerance for risk, a level which is appropriate for a long term perspective. This portfolio addresses your specific profile.

• The bond-equity allocation provides an assertive approach to long-term growth while dampening volatility with short-term debt and inflation-protecting securities.

• Your portfolio’s stock exposure is spread evenly across the market and includes a good mix of small, medium, and large companies, as well as a fairly even mix of conservatively priced value stocks and high-flying growth stocks.

• International growth is important to you and such exposure can add a multiplicative benefit to the overall performance. The recommended portfolio is over-weighted in international funds.

• Diversification is maximized through minimal overlap of underlying securities.

Our team will continue to monitor your portfolio and we will revisit the fund selection quarterly the first year, and then annually to ensure that we make appropriate adjustments based upon our long term view and adjust accordingly as fluctuations in the economy and markets occur.

Linda, thank you again for placing your confidence in Build Your Financial Security, LLC – Team One.
## Risk Tolerance Profiles and Asset Allocation**

<table>
<thead>
<tr>
<th>Assets / Investment Horizon</th>
<th>New Portfolio</th>
</tr>
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### Asset Allocations:

<table>
<thead>
<tr>
<th>%</th>
<th>Name</th>
<th>Symbol</th>
<th>$ Amnt of</th>
<th>Current $</th>
<th># of</th>
<th>Actual</th>
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<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Total Port.</td>
<td>6/14/07</td>
<td>Shares</td>
<td>Total $ Amnt</td>
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#### Fixed Income:

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<tr>
<th></th>
<th>Cash and MoneyMrkt</th>
<th>10%</th>
<th>SHY</th>
<th>$10,000.00</th>
<th>$79.70</th>
<th>125</th>
<th>$ 9,962.50</th>
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<tbody>
<tr>
<td></td>
<td>Treasury Bonds (funds)</td>
<td>5%</td>
<td>TIP</td>
<td>$5,000.00</td>
<td>$97.75</td>
<td>51</td>
<td>$ 4,985.25</td>
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#### Corporate Bonds (funds):

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<tr>
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<th>International Bonds</th>
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<th></th>
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<tr>
<td></td>
<td>Subtotal</td>
<td>$15,000.00</td>
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<td>$ 14,947.75</td>
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#### Equity

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<th></th>
<th></th>
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<tbody>
<tr>
<td></td>
<td>Equity Index Fund</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Large Cap Value</td>
<td>10%</td>
<td>MSCI EMU</td>
<td>EZU</td>
<td>$10,000.00</td>
<td>$116.78</td>
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<td></td>
<td>Large Cap Growth</td>
<td>10%</td>
<td>Dow Jones US Total</td>
<td>IYY</td>
<td>$10,000.00</td>
<td>$74.64</td>
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<td></td>
<td>Mid/Small Cap Value</td>
<td>10%</td>
<td>Russell Mid-Cap</td>
<td>IWR</td>
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<td>Mid/Small Cap Growth</td>
<td>10%</td>
<td>SmallCap 600</td>
<td>IJT</td>
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<td></td>
<td>International Specialty</td>
<td>10%</td>
<td>Pacific ex-Japan</td>
<td>EPP</td>
<td>$10,000.00</td>
<td>$145.37</td>
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<td></td>
<td>Sector Funds</td>
<td>10%</td>
<td>Natural Resource</td>
<td>IGE</td>
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<td>International Equity</td>
<td>15%</td>
<td>EAFE</td>
<td>EFA</td>
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<td>$ 75,023.89</td>
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#### Real Estate

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<tr>
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<th>REITs (funds)</th>
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<tbody>
<tr>
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<td>Subtotal</td>
<td>10%</td>
<td>Cohn and Steers</td>
<td>ICF</td>
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<td>$95.49</td>
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#### Commodities/Metals

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<th>Precious Metal (fund)</th>
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<tbody>
<tr>
<td></td>
<td>Subtotal</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Total Investment</td>
<td>100%</td>
<td></td>
<td>$100,000.00</td>
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<td>$ 99,998.09</td>
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There are no international small / mid cap value or growth ETF
Compare to: Morningstar Large Cap

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<tr>
<td>✔️ Total Return</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>14.78</td>
<td>8.41</td>
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<tr>
<td>✗ Index Return</td>
<td>—</td>
<td>50.31</td>
<td>42.12</td>
<td>-33.53</td>
<td>-29.24</td>
<td>-33.46</td>
<td>29.72</td>
<td>-0.47</td>
<td>2.74</td>
<td>4.92</td>
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**Please the accompanying Correlation Analysis on your portfolio.**