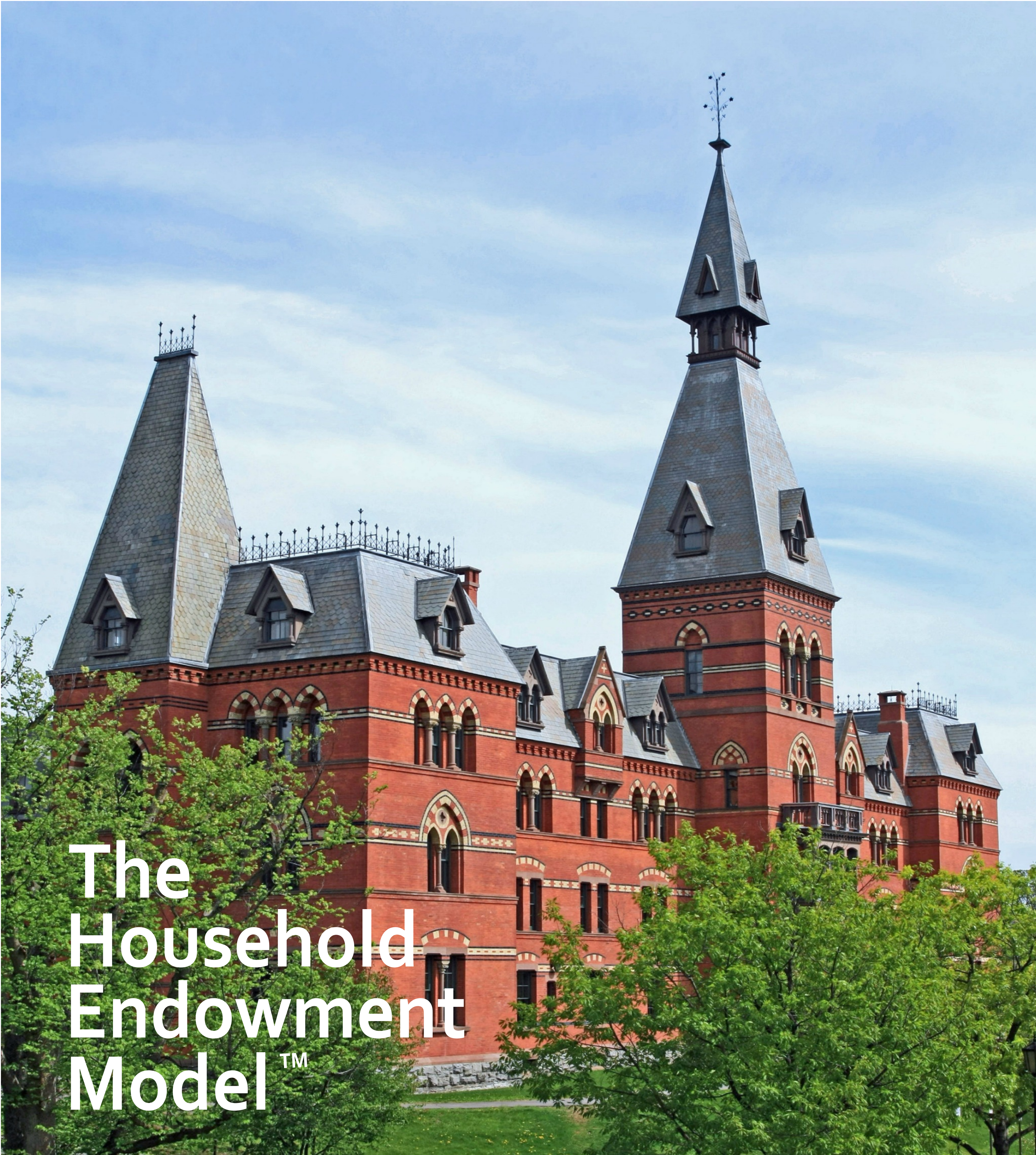


The Household Endowment Model™

Adopting Lessons Learned from the Nation's Top Educational Endowments

WEALTH STRATEGIES
ADVISORY GROUP

CLARAPHi
Illuminating Financial Security™

Wealth Strategies Advisory Group (WSAG) and Claraphi Advisory Network LLC (Claraphi) have joined forces to provide a comprehensive, high level, institutional style wealth management platform. What makes WSAG and Claraphi distinctly different is our philosophy of collaborative financial planning. How we distinguish ourselves from many other advisors is our portfolio design, emulating the Yale Endowment Model. We refer to this as The Household Endowment Model™.

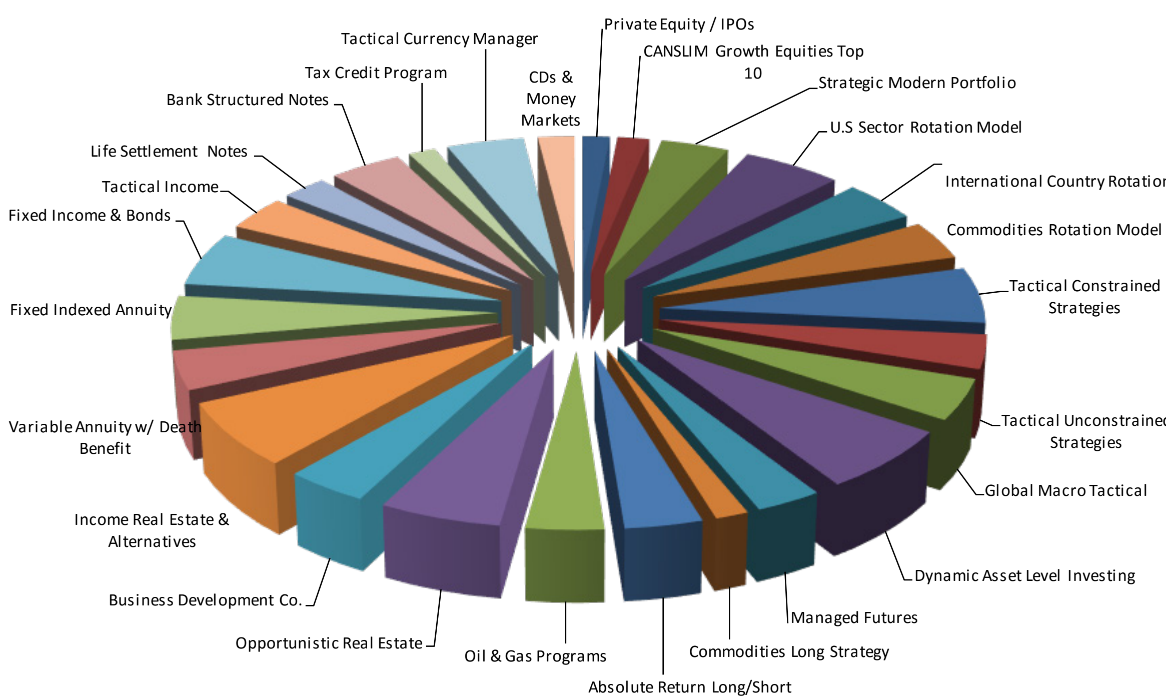
The Household Endowment Model™ is Built On Three Basic Principles

1. Similar to Yale's Endowment Model we believe in using outside managers to manage our client portfolios. We believe that qualified external managers should be used and given considerable autonomy to implement strategies as they see fit.

2. Maintain an allocation to correlated and noncorrelated private and public asset classes.

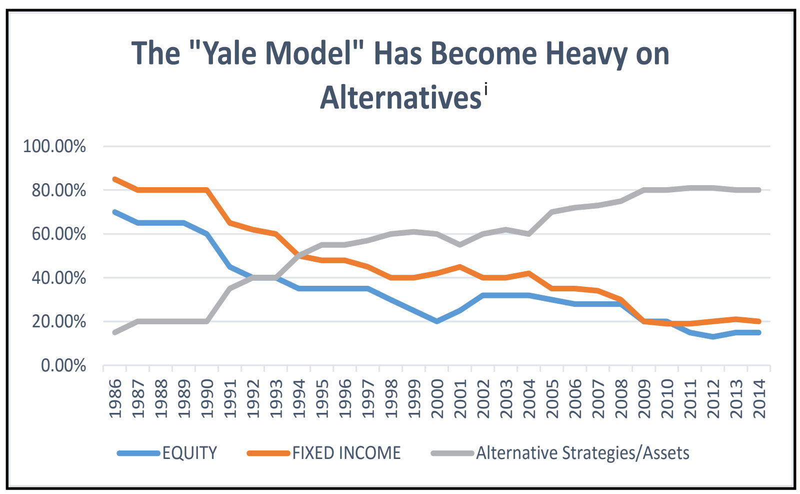
3. Where inefficient markets exist and where there is illiquidity, opportunity abounds for the patient investor. Yale has long believed that incremental risk adjusted returns could be increased by selecting superior managers in non-public markets.

A Portfolio of Possibilities



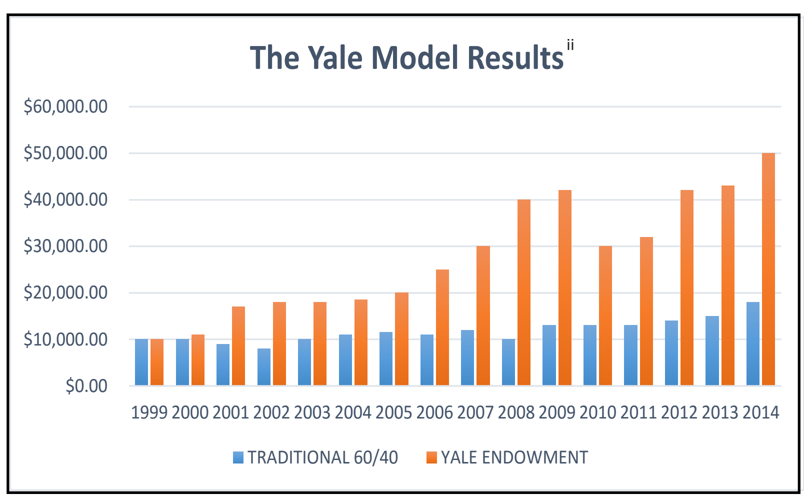
Portfolio Construction

In emulating the Yale Endowment Model, and through its industry relationships, WSAG's Household Endowment Model™ has access to a multitude of alternative investment strategies. These alternative strategies are used during the portfolio construction. As shown in the graph "The Yale Model Results", Yale has significantly increased its allocation to alternative investments over the past 20+ years.



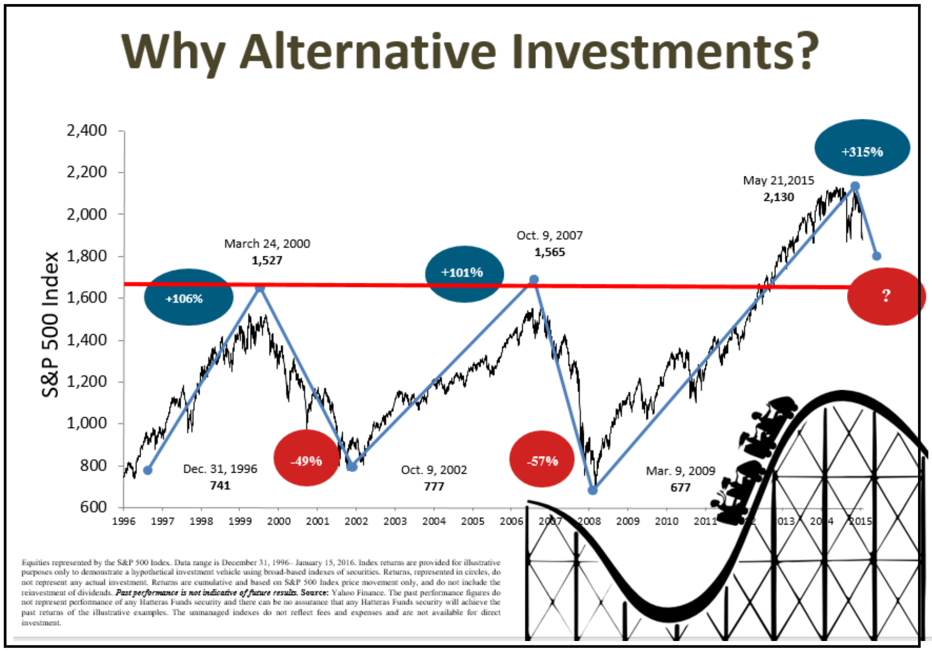
Over the past two decades as of June 30, 2015 Yale's endowment generated returns of 13.7% per annum, outperforming the classic 60/40 Model. (source: Yale Endowment 2014 Annual Report)

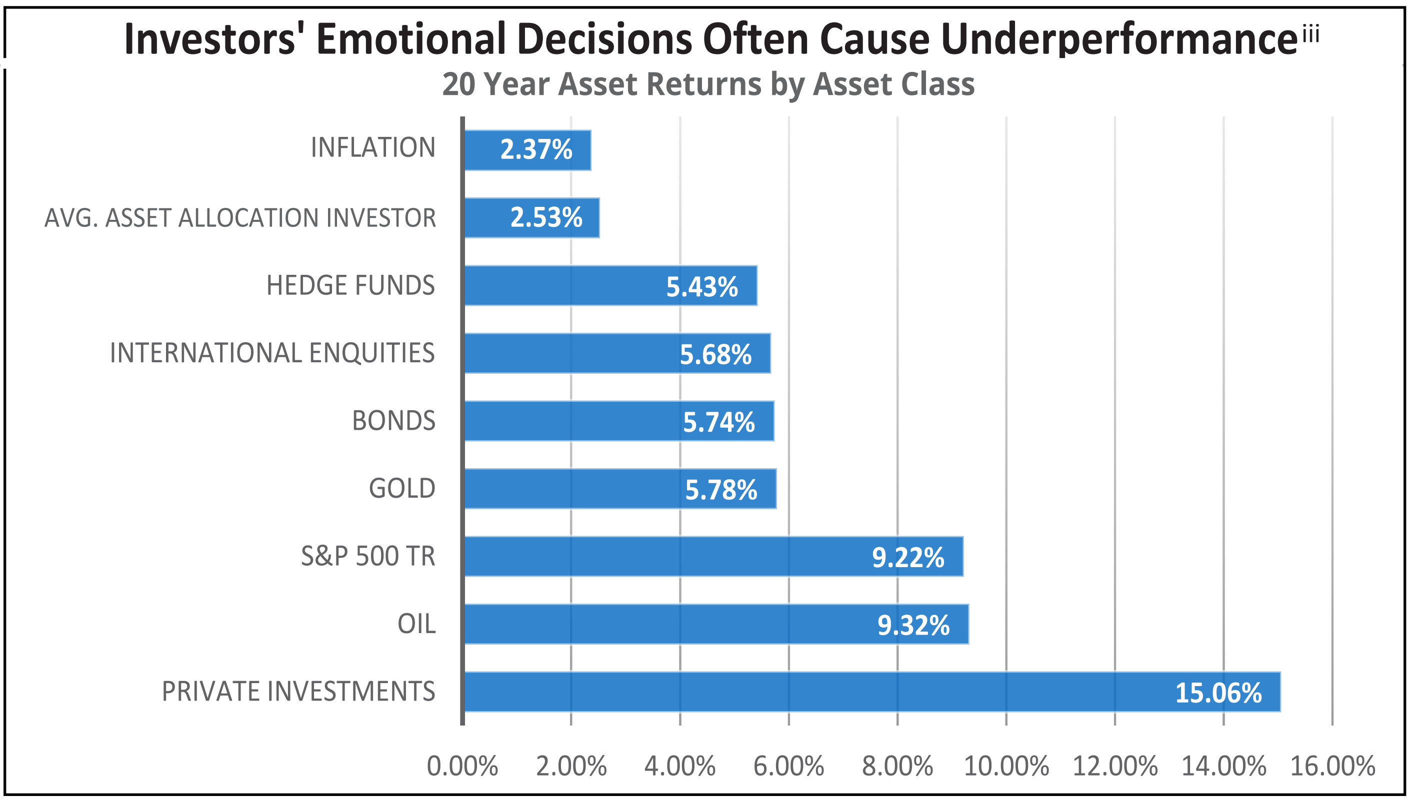
Investments under the Yale Endowment Model are composed of 8% of bonds, 15% of stocks and 77% of alternative investments.



Market Volatility

Public markets are continually exposed to high levels of volatility. Individual investors' behavior can dramatically change during times of volatility in the public markets and, as history has shown, causes investors to panic and allow emotions to dictate investment decisions e.g., buy high and sell low. In our portfolio construction, we use correlated and non-correlated investments to smooth out and reduce the volatility.





Volatility can provoke fear-based selling that could be damaging to portfolios. As seen in the chart above, the average investor returns are dramatically reduced when compared to investment indexes held for long term. It is important to note that the highest returning category is shown to be Private Investments, which are not subject to the volatility in the public markets.

Lessons from the Financial Crisis[iv]

The financial crisis highlighted a number of important issues and lessons that investors would be wise to heed. The crisis made clear the importance of a long-term orientation and underscored the need to support a diversified, equity-oriented, active management strategy with adequate organizational resources and capabilities.

Organizations, investment teams, and committees that lack commitment to a long time horizon make sub-optimal decisions during periods of tumult and uncertainty. For example, during 2008 and 2009 some institutions overreacted to short-term concerns surrounding portfolio performance and volatility, choosing to reduce equity exposure near the market's nadir. Yale instead sought to maintain equity exposure, aggressively managing liquidity and prudently employing debt. After the October 1987 stock market crash, Yale made a rebalancing purchase of nearly $100 million of equities (representing more than 5% of Endowment value) funded by a corresponding sale of nearly $100 million in bonds. In the context of crisis- induced gloom, Yale's actions appeared rash, particularly as many institutions responded to market declines by further reducing their already diminished equity exposure. In both cases, however, as markets rebounded, Yale's equity positions produced outsized returns. Those that chose an untimely reversal of strategy missed the benefits of the recovery.

The crisis emphasized that the Yale model is only appropriate for organizations with a strong, dedicated, and skilled investment staff. Although the fundamental principles of the Yale model are straightforward, execution of an active management strategy demands a significant commitment of resources, particularly during chaotic and uncertain times. Identifying high-quality active managers with the ability to generate alpha consistently requires dedicated sourcing, researching, and monitoring of investment funds. Demands on management are amplified during market dislocations when sensibly reallocating funds between managers and making challenging rebalancing decisions depend upon the knowledge and input of experienced investment staff. Establishing and maintaining an unconventional investment profile require acceptance of uncomfortably idiosyncratic portfolios, which can, at times, appear imprudent. Unless institutions maintain contrarian positions through difficult times, the resulting damage of buying high and selling low imposes severe financial and reputational costs.

The financial crisis highlighted the importance of understanding, forecasting, and managing portfolio liquidity, which can change dramatically during periods of turmoil. Investors with large allocations to illiquid assets must possess a sophisticated understanding of the liquidity tools at their disposal and must dedicate sufficient organizational resources to modeling, tracking, and stress-testing portfolio liquidity.

The Yale model of endowment investing is not appropriate for everyone. Investors must address the particular investment policy needs of their institutions and take into consideration their resources and temperament. Only those organizations with a true long-term perspective and sufficient staff resources should pursue an active, equity-oriented, alternatives-focused investment strategy. The costly game of active management guarantees failure for the casual participant.

Institutions Versus Individuals[v]

The most important distinction in the investment world does not separate individuals and institutions; the most important distinction divides those investors with the ability to make high-quality active management decisions from those investors without active management expertise. Few institutions and even fewer individuals exhibit the ability and commit the resources to produce risk-adjusted excess returns.

The correct strategies for investors with active management expertise fall on the opposite end of the spectrum from the appropriate approaches for investor's without active management abilities. Aside from the obvious fact that skilled active managers face the opportunity to generate market-beating returns in the traditional asset classes of domestic and foreign equity, skilled active managers enjoy the more important opportunity to create lower-risk, higher-returning portfolios with the alternative asset classes of absolute return, real assets, and private equity. Only those investors with active management ability sensibly pursue market- beating strategies in traditional asset classes and portfolio allocations to nontraditional asset classes.

No Middle Ground Exists

Low-cost passive strategies suit the overwhelming number of individuals and institutional investors without the time, resources, and ability to make high-quality active management decisions. The framework of the Yale model applies to only a small number of investors with the resources and temperament to pursue the grail of risk-adjusted excess returns.

In summary at Wealth Strategies Advisory Group we believe that portfolio management success results from suitable strategy and exceptional investment management skills and the access to best of breed investment products.

[i]Yale Endowment Reports. Target asset allocation as of June 30 for each year. Excludes cash.

[ii]BlackRock; Information Investment Solutions; Yale Endowment Reports 2005-2014. Performance as of June 30 for each year. Past Performance is no guarantee of future results. The information provided is for illustrative purposes only and is not meant to represent

[iii]PerTrac. January 1,1994- December 31, 2013. Past performance is no guarantee of future results. Index returns are provided for illustrative purposes to demonstrate a hypothetical investment vehicle using broad-based indexes of securities. Returns do not represent any actual investments. The unmanaged indexes do not reflect fees and expenses and are not available for direct investment. No investment is risk free; loss of principal is possible. Stock [S&P 500 TR] values fluctuate in price so the value of your investment can go down depending on market conditions. International equities [MSCI EAFE] present additional risks due to currency fluctuations, economic and political factors, government regulations, differences in accounting standards and other factors. Bonds [Barclay's Capital U.S Aggregate Bond Index] are subject to interest rate risk and can lose principal value when interest rates rise. Bonds are also subject to credit risk in which the bond issues may fail to pay interest and principal in a timely manner or that negative perception of the Issuer's ability to make such payments may cause the price of that bond to decline. Investments in gold [Gold Price Index] presents certain risks, including political and economic risks affecting the price of gold and other precious metals like changes in U.S AAor foreign tax, currency or mining laws, increased environmental costs, international monetary and political policies, economic conditions within an individual country, trade imbalances and trade or currency commodities markets, weather, disease, embargoes, political and economic developments, taxes and other government regulations. Private Equity [Cambridge Assoc. LLC U.S Private Equity Index] and Hedge funds [HFRI FoF Composite Index] Involve Index] involve specific risks that may be greater than that associated with traditional investments. Inflation [Consumer Price Index] Avg. Asset Allocation Investor return is based on an analysis by Dalbar, Inc which utilizes the net of aggregate mutual funds sales redemptions and exchanges each month as a measure of investor behavior. You should consider the special risks with Private Equity and Hedge Funds including limited liquidity, tax considerations, incentive fees structures, potentially speculative investments strategies and different regulatory and reporting requirements. There can be no assurance that any investment will meet its performance objectives or that substantial losses will be avoided. For performance of the Hatteras Fund please call 866.388.6293.

[iv]The Yale Endowment 2013 Annual Report

[v]The Yale Endowment 2013 Annual Report

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For more information or to arrange a complimentary consultation to learn how The Household Endowment Model™ might fit as part of your long-term investment strategy, contact Wealth Strategies Advisory Group or Claraphi today!

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