

## Investment Policy Statement

### Investment Policy Statement

John Smith

Optimal (Proposed)

The following report and preliminary evaluation of your current portfolio and recommendations is intended to provide some guidance in your decision regarding the allocation of capital in your investment portfolio. These recommendations were structured to be statistically consistent with the policies and goals as outlined by you in our discussions and as represented in the enclosed personal Statement of Policies and Objectives. The approach used in making the attached portfolio recommendations was based on these perspectives and assumptions: (i) an evaluation of your risk preference and rate of return objectives; (ii) asset selections, liquidity, and cost constraints required in the development of the long-term portfolio strategy and; (iii) an attempt to match established policies and objectives with your risk and return preferences. This method of formalizing policies and objectives, establishing risk/reward parameters, selecting asset classes, defining allocation constraints, and setting guidelines for performance evaluation is of paramount importance in maintaining your long-term investment strategy and portfolio growth. This report has been prepared using historical performance data for the investments included therewith. The data was obtained from outside sources and is believed to be reliable, but there can be no guarantees as to its accuracy or reliability. Estimates presented herein are based upon historical performance data and there is no stated or implied guarantee that a rate of return will be realized or that the investments presented will perform as indicated in future years. The performance displayed herein is hypothetical and was compiled after the end of the time period (Time Horizon) advertised. Such results do not represent actual trading and may not reflect the impact that material economic and market factors might have had on the advisor's decision making if the advisor were actually managing your money. This analysis has been prepared strictly for the purposes of recommending a portfolio which is believed will meet the investment objectives indicated in the Investment Policy Statement. Actual portfolio returns will depend on the performance of the actual portfolio investments. Differences between portfolio returns and volatility presented herein and actual results could arise and these differences may be material resulting in a portfolio value which may be more or less than original cost. Indexes are not available for investment and they are not indicative of any particular investment. Additional considerations which should be taken into account with regard to investment alternatives considered therein may include, among other items, guarantees of principal or income, fluctuation of income and/or principal, insurance characteristics, tax features, tax consequences (if any) of proposed transactions, sales fees, management fees and expenses, and other investment strategies (such as hedging techniques). The use of these methods and historical performance information is no guarantee of future performance.

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## Information and Assumptions:

This report is based on assumptions and information you have provided, which is assumed to be accurate and complete. The information displayed below is for illustrative purposes solely.

|                                |        |                              |              |
|--------------------------------|--------|------------------------------|--------------|
| <b>Current Age:</b>            | 0      | <b>Retirement Age:</b>       | 0            |
| <b>Management Fee:</b>         | 0.00%  | <b>Apply Management Fee:</b> | No           |
| <b>Income Tax Rate:</b>        | 0.00%  | <b>Apply Taxes:</b>          | No           |
| <b>Capital Gains Tax Rate:</b> | 27.20% |                              |              |
| <b>Inflation:</b>              | 3.00%  | <b>Apply Inflation:</b>      | No           |
| <b>Probability Range:</b>      | 90%    | <b>Portfolio Value:</b>      | \$500,000.00 |

## Investment objective:

The investment objective for your portfolio has been developed in conjunction with a review of your financial resources and goals, an evaluation of your risk preference and rate of return objectives, asset selections, liquidity, and cost constraints required in the development of the long-term portfolio strategy.

### Objective: Growth and Income

Primarily oriented toward growth of principal with a minor emphasis on portfolio income. Could include equities, debt instruments, cash. Default downside ROR is -5.25%.

## Risk Tolerance:

Your ability to tolerate the uncertainties, complexities and volatility inherent in the investment markets has been considered in the development of your investment program. Some of the factors considered include: (1) your age; (2) your financial condition; (3) your future financial goals; (4) your ability to accept any real or nominal loss of capital in any 12 month period; and several other factors. Based on these considerations, your risk tolerance range is **Growth and Income**.

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### Cash Flow Goals

In developing your investment program you have indicated that the following contributions to and withdrawals from your investment portfolio may occur:

| Goal                | Type | Amount      | of        | Inf<br>Rate | Begin<br>Date | End<br>Date | # Times |
|---------------------|------|-------------|-----------|-------------|---------------|-------------|---------|
| Income At Objective | With | \$42,000.00 | Future \$ | 3.00%       | 3/2012        | 3/2037      | 0       |
| Monthly Funding     | Cont | \$500.00    | Future \$ | 0.00%       | 12/2002       | 12/2012     | 121     |

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## Investment Constraints

Your portfolio was developed subject to certain investment limitations you have expressed regarding the minimum or maximum percentage investment permitted for each asset class.

| Asset Name                        | Max     | Min   | Income Tax | CapGain Tax | Taxable | Turnover Rate         | Yield |
|-----------------------------------|---------|-------|------------|-------------|---------|-----------------------|-------|
| <b>Domestic Equites: Indices.</b> | 100.00% | 0.00% |            |             |         |                       |       |
| <b>Wilshire Large Co Value</b>    | 100.00% | 0.00% | 39.48%     | 27.20%      | Yes     | 100.00%               | 0.00% |
| AIM Large Cap Basic Value A       | 100.00% | 0.00% |            |             |         | <i>By asset class</i> |       |
| MFS Strategic Value A             | 100.00% | 0.00% |            |             |         | <i>By asset class</i> |       |
| <b>Wilshire Large Co Growth</b>   | 100.00% | 0.00% | 39.48%     | 27.20%      | Yes     | 100.00%               | 0.00% |
| AIM Large Cap Growth A            | 100.00% | 0.00% |            |             |         | <i>By asset class</i> |       |
| <b>Wilshire Small Co Value</b>    | 100.00% | 0.00% | 39.48%     | 27.20%      | Yes     | 100.00%               | 0.00% |
| DFA Small Cap Value I             | 100.00% | 0.00% |            |             |         | <i>By asset class</i> |       |
| <b>Domestic Bonds</b>             | 100.00% | 0.00% |            |             |         |                       |       |
| <b>Corp. Bonds - High Yield</b>   | 100.00% | 0.00% | 39.48%     | 27.20%      | Yes     | 100.00%               | 0.00% |
| American Century High-Yield Inv   | 100.00% | 0.00% |            |             |         | <i>By asset class</i> |       |
| <b>Corp. Bonds - High Qual.</b>   | 100.00% | 0.00% | 39.48%     | 27.20%      | Yes     | 100.00%               | 0.00% |
| Oppenheimer Bond Fund A           | 100.00% | 0.00% |            |             |         | <i>By asset class</i> |       |
| <b>International Equities</b>     | 100.00% | 0.00% |            |             |         |                       |       |
| <b>International Equities</b>     | 100.00% | 0.00% | 39.48%     | 27.20%      | Yes     | 100.00%               | 0.00% |
| Fidelity Adv Global Equity A      | 100.00% | 0.00% |            |             |         | <i>By asset class</i> |       |
| <b>Emerging Markets Free</b>      | 100.00% | 0.00% | 39.48%     | 27.20%      | Yes     | 100.00%               | 0.00% |
| MFS Emerging Mkt Equity Fund A    | 100.00% | 0.00% |            |             |         | <i>By asset class</i> |       |
| <b>Cash Equivalents</b>           | 100.00% | 0.00% |            |             |         |                       |       |
| <b>Donoghue Money Mkt.</b>        | 100.00% | 0.00% | 39.48%     | 27.20%      | Yes     | 100.00%               | 0.00% |
| Liberty Floating Rate Advantage A | 100.00% | 0.00% |            |             |         | <i>By asset class</i> |       |

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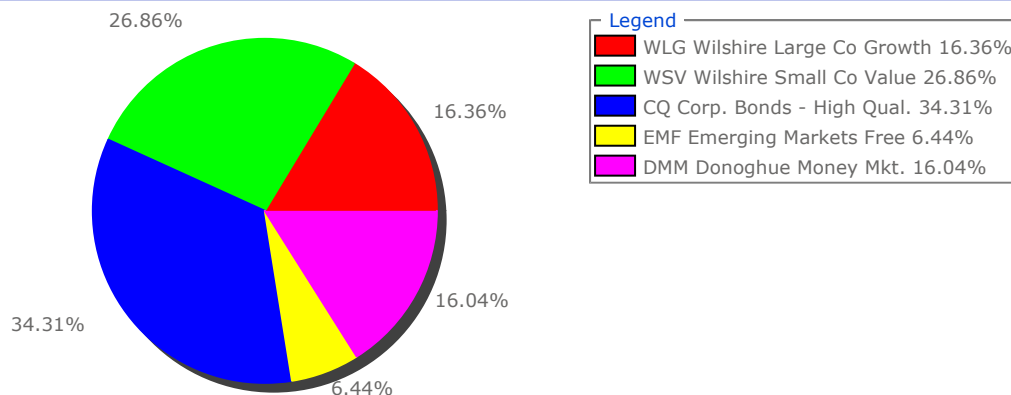
Optimal (Proposed)

## Portfolio Recommendation by Asset Class

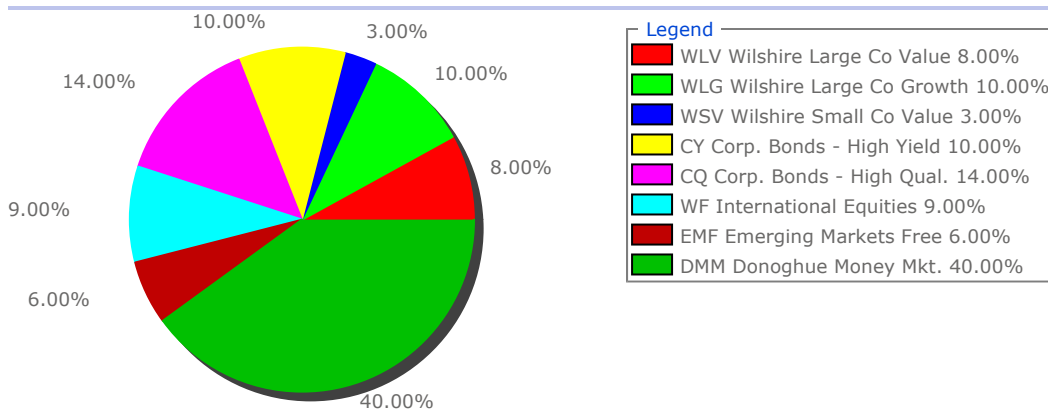
The proposed investment strategy aims to reduce investment risk, while maintaining an acceptable rate of return by spreading an individual's investments over a range of asset types. By choosing a mix of different investments you may not get the full impact of rising markets, but you will cushion your risk if the markets decline. Over a long-term period you will likely do better than if you had invested solely in the safest investments.

Based on your financial goals and finances, tax status, asset constraints, risk tolerance and investment objective a recommended portfolio has been developed. The portfolio balances risk and reward and attempts to achieve the stated objectives of the investment program. Your current asset mix and the recommended portfolio are displayed below:

### Optimal (Proposed)



### Current (Current)



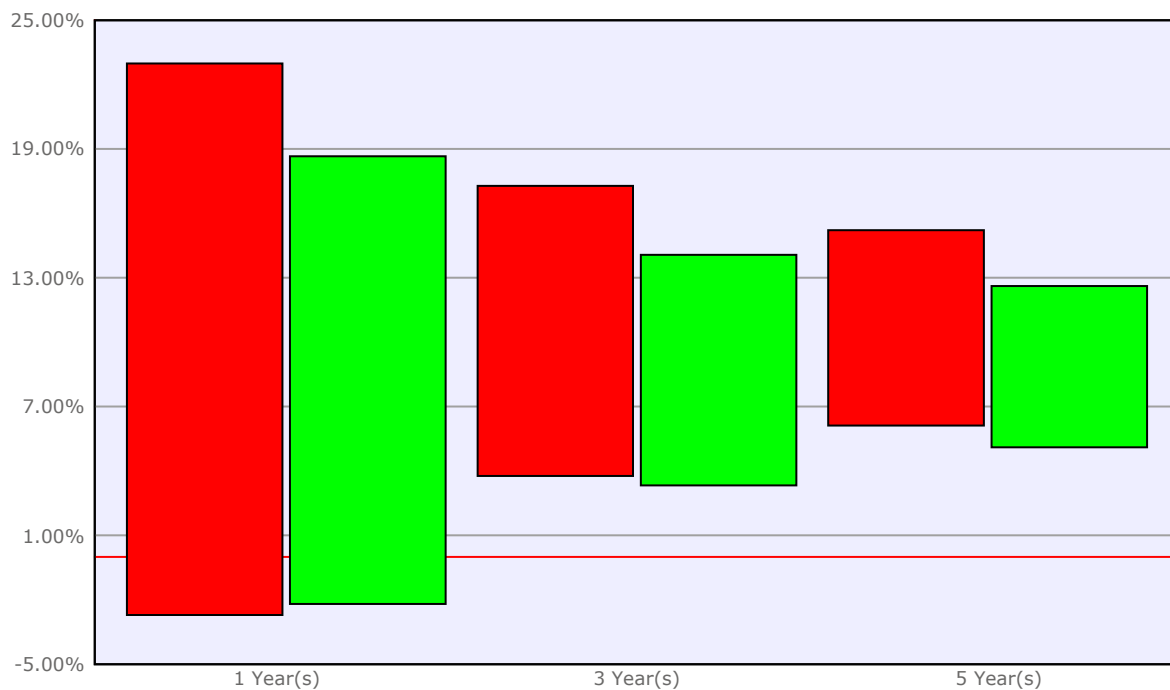
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## Rolling Period Performance

The graphic below exhibits the historical range of returns associated with your recommended and current portfolios. The 1,3 and 5 year mean returns represent the average return for all of those rolling time periods (January to January, February to February and so on) in the time horizon specified. For example, during a 10-year time horizon there are 108 one-year holding periods and calculations. The Maximum and Minimum Rates of Return represent the upper and lower boundaries of those returns.



| Legend |                    |
|--------|--------------------|
|        | Optimal (Proposed) |
|        | Current (Current)  |

|                                 | 1 Year | 3 Years | 5 Years |
|---------------------------------|--------|---------|---------|
| <b>Portfolio Rate of Return</b> | 10.14% | 10.52%  | 10.67%  |
| <b>Standard Deviation</b>       | 7.81%  | 4.11%   | 2.77%   |
| <b>90% Probability Range</b>    |        |         |         |
| <b>Maximum</b>                  | 22.98% | 17.28%  | 15.22%  |
| <b>Minimum</b>                  | -2.71% | 3.77%   | 6.12%   |
| <b>95% Probability Range</b>    |        |         |         |
| <b>Maximum</b>                  | 25.44% | 18.57%  | 16.09%  |
| <b>Minimum</b>                  | -5.17% | 2.48%   | 5.25%   |

**99% Probability Range**

|                |        |        |        |
|----------------|--------|--------|--------|
| <b>Maximum</b> | 30.24% | 21.09% | 17.79% |
| <b>Minimum</b> | -9.97% | 0.00%  | 3.55%  |

**HISTORICAL MEAN RATE OF RETURN**

The historical mean rate of return represents the mid-point between the extreme high and low of the rates of return based on the distribution of the historical data.

**STANDARD DEVIATION**

Standard deviation is a measure of volatility, i.e. a relative measure of how frequently actual results varied from the mean rate of return for a given historic time period. One standard deviation will include 68.4% of all observations within the dispersed population of results. In general, assuming the same time period is used, the greater the standard deviation of one asset in relation to another, the more volatile that asset has been in relation to the other.

**MAXIMUM and MINIMUM RETURN**

The portfolio's range of returns is calculated using a common statistical procedure applied to the portfolio's historical mean rate of return and standard deviation. It is important to bear in mind that the Minimum and Maximum rates of return referred to in this report are relative figures based on a range established by the selected Probability Range. As such, they are figures derived from common statistical calculations applied to the historical performance of indexes which are not available for investment, are not indicative of any particular investment and, most likely, have not actually been experienced in reality. It should also be understood that higher and lower returns might have actually been experienced outside of the frequency range selected for this study.

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### Portfolio Implementation

The table below displays the recommended portfolio allocation by asset class, dollar amount and percent. The securities used to implement the portfolio are also displayed. The advisor will review this portfolio periodically to determine the appropriate allocation to various securities, and these determinations may result in allocations being different from those stated below. Investment products will be monitored for adherence to your investment policy guidelines, major changes in the product, and comparative performance with similar investment products. Please review carefully the information and/or prospectus(s) accompanying this Investment Policy Statement.

| Asset ID                                    | Asset/Security Title              | Asset Pct. | Asset Amt.   | Security Pct. | Security Amt. |
|---|-----------------------------------|------------|--------------|---------------|---------------|
| WLV   | <b>Wilshire Large Co Value</b>    | 0.00%      | \$0.00       |               |               |
| LCBAX                                       | AIM Large Cap Basic Value A       |            |              | 0.00%         | \$0.00        |
| MSVTX                                       | MFS Strategic Value A             |            |              | 0.00%         | \$0.00        |
| WLG   | <b>Wilshire Large Co Growth</b>   | 16.36%     | \$81,783.12  |               |               |
| LCGAX                                       | AIM Large Cap Growth A            |            |              | 16.36%        | \$81,783.12   |
| WSV   | <b>Wilshire Small Co Value</b>    | 26.86%     | \$134,290.98 |               |               |
| DFSVX                                       | DFA Small Cap Value I             |            |              | 26.86%        | \$134,290.98  |
| CY  | <b>Corp. Bonds - High Yield</b>   | 0.00%      | \$0.00       |               |               |
| ABHIX                                       | American Century High-Yield Inv   |            |              | 0.00%         | \$0.00        |
| CQ  | <b>Corp. Bonds - High Qual.</b>   | 34.31%     | \$171,535.25 |               |               |
| OPIGX                                       | Oppenheimer Bond Fund A           |            |              | 34.31%        | \$171,535.25  |
| WF  | <b>International Equities</b>     | 0.00%      | \$0.00       |               |               |
| FGEAX                                       | Fidelity Adv Global Equity A      |            |              | 0.00%         | \$0.00        |
| EMF   | <b>Emerging Markets Free</b>      | 6.44%      | \$32,189.28  |               |               |
| MEMAX                                       | MFS Emerging Mkt Equity Fund A    |            |              | 6.44%         | \$32,189.28   |
| DMM   | <b>Donoghue Money Mkt.</b>        | 16.04%     | \$80,201.36  |               |               |
| XSFRX                                       | Liberty Floating Rate Advantage A |            |              | 16.04%        | \$80,201.36   |
| <b>Total Portfolio Amount: \$500,000.00</b> |                                   |            |              |               |               |

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### Monitoring and Review

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Investment performance will be monitored and reported to you on a quarterly basis. The investment performance of your portfolio shall be compared against the appropriate benchmarks. The investment program will be reviewed at least annually to assure that it continues to achieve your stated investment objectives and is within your tolerance for risk. Since this investment program is long-term in nature, we will continually review changes in your financial circumstances and investment profile to maintain equilibrium with your investment objectives.

### Rebalancing

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The percentage weighting assigned to each asset class within your portfolio can and will vary. The percentage weighting for each asset class will be allowed to vary within reasonable ranges depending upon market conditions. If rebalancing or reoptimization is required, investment yield and net cash flows will be used to meet the strategic asset allocation targets. If cash flow is insufficient to meet the target allocation for any asset class, we will review the situation in consultation with you and decide whether to effect transactions in order to rebalance the asset allocation.

This quantitative and qualitative approach to designing your portfolio will, we believe, improve your portfolio performance over time. However, the use of these methods and historical performance information is no guarantee of future performance. We hope you find this evaluation and the enclosed recommendations helpful and look forward to serving you.

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### Acceptance and Adoption

I (we) have reviewed and adopted this Investment Policy Statement for the investment program prepared with the assistance of Thomas Widget of Widget Financial, Inc..

\_\_\_\_\_  
Investor's Signature

\_\_\_\_\_  
Date

\_\_\_\_\_  
Investor's Signature

\_\_\_\_\_  
Date

\_\_\_\_\_  
Advisor's Signature

\_\_\_\_\_  
Date

This asset allocation report is provided to assist you in determining the most appropriate asset allocation strategy for your investment portfolio. It is a statistical analysis that has been prepared from the information you have provided about your investment goals, current investment assets, anticipated cash flow patterns, tax brackets, investment time horizon, and tolerance for investment risk. The investment return and principal of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. Programs of regular investment cannot assure profit nor protect against loss in declining markets. Any references to recent or historical risk or rates of return are for illustration purposes only and is not intended to be either an expressed or implied guarantee of actual or future performances. This report is not intended to supply tax or legal advice, but for information purposes only. The report uses information which is deemed to be reliable.

## Disclosure Statement

This report compares your current investments to a portfolio recommended by the advisor. This is done by reviewing historical performance in terms of Total Returns and Volatility as measured by the Standard Deviation of Returns. This process is known as Asset Allocation, i.e. the selection of a mix of appropriate asset classes and the efficient allocation of capital to those assets by matching rates of return to a specified and quantifiable tolerance for risk.

The performance displayed therein is hypothetical and was compiled after the end of the time period (Time Horizon) advertised. Such results do not represent actual trading and may not reflect the impact that material economic and market factors might have had on the advisor's decision making if the advisor were actually managing your money. No attempt has been made to predict how these investments will perform in the future. Rather, this study attempts to compare the historical relationship between specific investments and/or general investment categories, with the hope of improving your overall portfolio balance and diversification. As such, there is no specific claim or warranty being implied regarding future performance. Thus, past performance cannot guarantee future results.

### SPECIAL RISKS

**International Investments:** There may be specific risks associated with investing internationally such as changes in currency rates, foreign taxation, differences in auditing and financial standards, and other risks which may be associated with specific country investments.

**High-Yield Bonds:** There may be specific risks associated with investing in high-yield bonds related to credit worthiness, limitation on marketability of the bonds, and the ability of the borrower to repay the debt.

**Concentration of Investments:** There may be increased risk and volatility in concentrating investments in one economic sector or geographical region.

### INDEXES

Indexes are not available for investment and they are not indicative of any particular investment.

Certain terms were used in this study, the definitions for which follow:

### 1, 3 and 5 YEAR RETURNS

The 1, 3 and 5 year mean returns represent the average return for all of those rolling time periods (January to January, February to February and so on) in the time horizon specified. For example, during a 10-year time horizon there are 108 one-year holding periods and calculations.

### HISTORICAL MEAN RATE OF RETURN

The historical mean rate of return represents the mid-point between the extreme high and low of the rates of return based on the distribution of the historical data. The 1, 3 and 5 year mean returns represent the average return for all of those rolling time periods (January to January, February to February and so on) in the time horizon specified. For example, during a 10-year time horizon there are 108 one year holding periods and calculations. No guarantees can be given about future performance and rates of return shall not be construed as offering such a guarantee. It should be recognized that the portfolio may invest in both passive and actively managed accounts and securities, that the actual weightings of these investments can and will vary and, as a result, actual returns and volatility characteristics can be higher or lower than those presented in this report.

### ROR

The abbreviation ROR used in these reports refers to the historical mean rate of return which represents the mid-point between the extreme high and low of the rates of return based on the distribution of the historical data (see Historical Mean Rate of Return).

### STANDARD DEVIATION

Standard deviation is a measure of volatility, i.e. a relative measure of how frequently actual results varied from the mean rate of return for a given historic time period. One standard deviation will include 68.4% of all observations within the dispersed population of results. The wider the spread of measurements within one standard deviation, the greater the variability of returns. Therefore, the greater the historic variability from the mean rate of return, the greater the risk associated with the investment. The validity of correlating standard deviations among several asset classes will depend upon using the same time period of measurement. In general, assuming the same time period is used, the greater the Standard deviation of one asset in relation to another, the more volatile that asset has been in relation to the other.

### STD

The abbreviation STD used in these reports refers to the Standard Deviation of returns which is a measure of volatility, i.e. a relative measure of how frequently actual results varied from the mean rate of return for a given historic time period see Standard Deviation).

### MAXIMUM RETURN

The portfolio's maximum return is calculated using the portfolio's historic mean rate of return, standard deviation and a statistical probability multiplier. The maximum return represents the upper boundary of a specified range of returns. It is important to understand that the Minimum and Maximum rates of return referred to in this report are relative figures based on a range established by the selected Probability Range. As such, they are figures derived from statistical calculations and, most likely, have not actually been experienced in reality. It should also be understood that higher and lower returns might have actually been experienced outside of the frequency range selected for this study. No guarantees can be given about future performance and this value shall not be construed as offering such a guarantee. It should be recognized that the portfolio may invest in both passive and actively managed accounts and securities, that the actual weightings of these investments can and will vary and, as a result, actual returns and volatility characteristics can be higher or lower than those presented in this report.

Maximum Return 18.0%

Mean Return 10.0% Range of returns

Minimum Return 2.0%

Mean return + (std.)(probability multiplier)

### MINIMUM RETURN

The portfolio's minimum return is calculated using the portfolio's mean rate of return, standard deviation and a statistical probability multiplier. The minimum return represents the lower boundary of a specified frequency range of returns. It is important to bear in mind that the Minimum and Maximum rates of return referred to in this report are relative figures based on a range established by the selected Probability Range. As such, they are figures derived from statistical calculations and, most likely, have not actually been experienced in reality. It should also be understood that higher and lower returns might have actually been experienced outside of the probability range selected for this study. No guarantees can be given about future performance and this value shall not be construed as offering such a guarantee. It should be recognized that the portfolio may invest in both passive and actively managed accounts and securities, that the actual weightings of these investments can and will vary and, as a result, actual returns and volatility characteristics can be higher or lower than those presented in this report.

Maximum Return 18.0%  
Mean Return 10.0% Range of returns  
Minimum Return 2.0%  
Mean return + (std.)(probability multiplier)

### PROBABILITY RANGE

The Probability Range expresses how often a certain range of returns occurred during a given historical time period. It is bounded by a minimum and maximum rate of return for that period. In any statistical sample 68.4% of all observations will be included in one standard deviation from the mean; 95.4% within two standard deviations; and 99.7% within three standard deviations. Therefore, at the 90% probability range 90% of all prior observations fell within the minimum and maximum rates of return displayed for the designated holding period during the selected time horizon. Conversely, 5% of the returns fell below and 5% fell above the minimum and maximum returns respectively. Therefore, it is important to bear in mind that the maximum and minimum rates referred to within this study are not absolute and that they only describe the relative high and low range for the given probability range and holding period selected. Probability Ranges expressed in the system represent the percentage of times the portfolio return fell within a range of historic rates of return over the past period being examined. This does not, in any way, guarantee that any of the displayed returns or standard deviations will actually be realized.

Probability Range = Mean return + (std.)(probability \* multiplier) Multipliers may be found in a standard statistical t table, the numbers for which are as follows for each probability level displayed in the reports.

| Probability Level | Multiplier |
|-------------------|------------|
| 90%               | 1.645      |
| 95%               | 1.960      |
| 99%               | 2.575      |

### PROSPECTUS DISCLOSURE

For more complete information, including all fees and charges on any mutual fund or variable annuity mentioned in the foregoing report, a prospectus has been included and should be read carefully before investing.

### MUTUAL FUND HISTORICAL INFORMATION

For more complete historical information on any mutual fund or variable annuity mentioned in this proposal, including 1, 3, 5, and 10 year average annual total returns, please refer to the attached Wilson ScanData or other pertinent reports attached hereto.