



The Heart of Investing

In today's global financial markets, there are almost infinite ways to seek investment advice, ranging from professional investment advisors to broker/dealers placing your trades, to the popular financial media, to your next-door neighbor or your horoscope. How do you separate good advice from bad?

One way is to identify allies who have your best interests at heart, who themselves take the advice offered by Greek lawmaker Solon around 600 B.C.: "In giving advice, seek to help, not please, your friend." This issue of *The Educated Investor* explores what we consider helpful advice worth heeding:

- ▲ **Accountable Advice** — Who's keeping your best interests at heart?
- ▲ **Taking Good Care of Your Wealth** — How do you know your assets are being carefully administered?
- ▲ **Assessing Your Investor Quotient (IQ)** — What are some simple questions you can ask to ensure your investment plan is on track?

Accountable Advice

Imagine an investment industry in which you have two choices:

Option A — Brokerage firms who do NOT register as investment advisors.

Such firms are expected to recommend investments that are suitable to your needs, but they are not required to act in your best interest.

Option B — Brokerage and other firms who DO register as investment advisors.

Registered Investment Advisor firms must select suitable investments for you. Plus, they are required to ensure that your best interests are being met.

It might come as a surprise that you don't have to imagine such a scenario — it already exists. In April 2005, the Securities and Exchange Commission (SEC) voted unanimously in favor of the "Merrill Lynch Rule." Because the ruling is controversial, the SEC continues to study it as we go to press, and may yet make revisions. Regardless, it is important to understand the issues upon which the controversy hinges: (1) What are the differences between **suitability standards** versus **fiduciary obligation**? (2) When is investment advice considered "**incidental**" to the role of trading?

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Suitability Standards

Defined by the National Association of Securities Dealers (NASD), the suitability standard requires that a product or service must meet the standard of being suitable for an investor — it does not have to be in his or her best interest. For example, a brokerage firm is not required to obtain best execution pricing for trades. It can sell similarly suitable funds that cost the investor more, but provide higher commissions or meet sales production quotas.

Fiduciary Obligation

The fiduciary duty standard is a much higher standard than that of suitability. It is generally considered the highest legal duty that one party can have to another. Under the Investment Advisers Act of 1940, Registered Investment Advisor firms must meet suitability standards *and* fiduciary obligation. They must act with the utmost good faith in their client's best interests. For example, if the advisor knows of a comparable lower-cost option, he or she is obligated to select it on behalf of the client.

Taking Good Care of Your Wealth

It's one thing to state that we are a Registered Investment Advisor firm and that we must meet the highest standard of fiduciary duty (see "Accountable Advice," page 1). What exactly does that mean, and of what benefit is it to you?

At the broadest level, being a Registered Investment Advisor simply means that we must be able to demonstrate that the business decisions we make and the advice we offer serve your best interests, which in turn translates to a comprehensive system of policies and procedures.



Responsible Allies

Beyond our investment approach designed to meet our fiduciary obligation to you (see below) our firm is dedicated to providing you with independent, objective advice grounded in a fee-only pricing structure. We get to know you, so we can help you build your portfolio to meet your unique financial goals.

Responsible Procedures

You will find this same commitment to your best interests in the administrative details that we and our strategic alliances oversee on your behalf.

Some of our procedures are dictated by government regulations to which we and all Registered Investment Advisor firms must adhere. We also have implemented many procedures to deliver excellent client service,

as well as to anticipate — and minimize — service disruptions before they occur. Following are a few examples.

Arm's length asset management —

While we serve as your investment advisor, your assets are held in your name with one of our custodial strategic alliances. This secure system of checks and balances ensures you maintain control of your own assets. You also benefit from account protection available via Securities Investor Protection Corporation (SIPC) insurance as well as excess-SIPC additional protection carried by the custodian.

Business continuation processes — We and our custodial allies also maintain business continuation ("disaster recovery") procedures, should damaging events such as floods or fires result in unexpected



Responsible Investing

Perhaps foremost, our fiduciary obligation speaks directly to why we recommend building a globally diversified passive asset class investment portfolio designed to achieve your long-term investment objectives. Let's take a look at the components:

Asset class investing — is based on principles defined by the American Law Institute's Prudent Investor Law, the tenets of Modern Portfolio Theory and a host of supporting academic studies. Together, the evidence has demonstrated that, by far, the biggest part of your investment return comes from the asset class you invest in (riskier asset classes are expected to result in higher returns), as opposed to efforts to pick winning stocks or time the market. Thus it is in your better interest to focus on capturing asset class returns.

Global diversification — helps reduce the volatility of your portfolio. By helping you maintain diversification in a disciplined manner, we can guide you in setting and achieving reasonable financial goals.

A passive approach to investing — among other advantages, helps keep your expenses to a minimum, while still enabling us to manage for tax efficiency and implement a portfolio engineered to maximize returns for your chosen level of risk.

service disruptions. Maintaining routines such as duplicate, off-site copies of your critical records; staff call-lists and assignments during crises; and periodic testing of the business continuation processes we have in place are all par for the course, to help ensure our ongoing availability to serve you.

Compliance regulations — Advisor firm obligations to comply with more and stricter government regulation is a clear trend in the financial industry. We have long recognized the importance of protecting your assets by remaining compliant with government regulations designed to protect you. As such, we maintain a compliance program within our firm, and we revisit it as needed to ensure that it remains current with new requirements.

Electronic record management — Your important records (documents, transaction records and more) are scanned for electronic storage, with back-up copies stored off-site. These procedures ensure that your paperwork will be quickly, reliably and accurately available — to you and to your investment advisor.

Trade management — Via proprietary, custom-designed trade management software, we have integrated nearly two dozen “checks” to detect and eliminate errors that can otherwise result from manual trade submissions. Electronic trading significantly reduces the number of times information is exposed to data-entry errors, as well as providing us with more rapid access to the status of any given trade.

It takes a team — When you become a client, you benefit from the expertise of your investment advisor as well as our entire strategic team — including our network of carefully selected alliances designed to bring you enhanced service levels in a manner most convenient for you. We are all dedicated to service-minded excellence, accessibility and readiness to respond to your particular needs.



Accountable Advice (Cont.)

As the Merrill Lynch Rule stands today, broker/dealers can charge investors an asset-based fee rather than commissions on non-discretionary accounts (i.e., accounts for which the broker/dealer must obtain your authorization before placing trades for you). Under this arrangement, the broker/dealer is considered by the NASD to be an “order taker” so it is not required to register as an investment advisor, nor to meet a fiduciary obligation. In theory, the broker/dealer is simply executing your instructions, and any advice offered is considered “solely incidental.” Moving forward, enforcement of the rule will hinge on the SEC’s interpretation of what is meant by solely incidental advice.

While the SEC grapples with the issue, it makes sense to be aware of the source of any investment advice you may choose to act upon — and whether it is coming from someone who is obligated to act solely in your best interests. Knowing the answers to these types of questions makes it quite a bit easier to make a decision when considering with whom to entrust your life’s savings.

Worth Repeating Worth Repeating

“The most important investment lesson I can convey to you comes down to this: Ask questions. What kind of questions should you ask? Some are about products — some are about those who sell them. ... The answer can be found in something folksinger Pete Seeger once said when explaining the difference between education and experience. ‘Education,’ he said, ‘is when you read the fine print; experience is what you get when you don’t.’”

— ARTHUR LEVITT
CHAIRMAN OF THE SEC, 1993–2001

Assessing Your Investor Quotient (IQ)

Beyond simply watching your assets, a good advisor can add value to your investment experiences by addressing numerous critical related issues.

While this quick-reference list is by no means exhaustive, if you find yourself answering “no” to any of the following questions, it may be time for a financial checkup. We can advise you on any or all of these issues.

1. Do you have an investment strategy?

Is your strategy a carefully planned approach, targeted to your and your family’s unique objectives? Or is it a variety of ideas, patched together over the years?

2. Do you know what your returns are for your entire portfolio?

What has your *after-cost* investment performance been (after-tax) for the last one, three or five years, or longer? What returns information, if any, do you receive from your financial consultant?

3. Do you have a written Investment Policy Statement (IPS)?

Does your written IPS clearly state your financial goals, time horizon, cash-flow needs, risk tolerance, investment strategy and the types of investments you are willing to make?

4. Do you work with your financial consultant on a fee-only basis?

A fee-only structure instead of transactions based on commission helps keep your investment advisor’s interests aligned with yours (see “Accountable Advice” for additional discussions).

5. Have you incorporated appropriate steps toward risk management?

Are you prepared should death or long-term health care needs arise?

6. Do you know what it will take to achieve financial independence and/or retire in the style you desire?

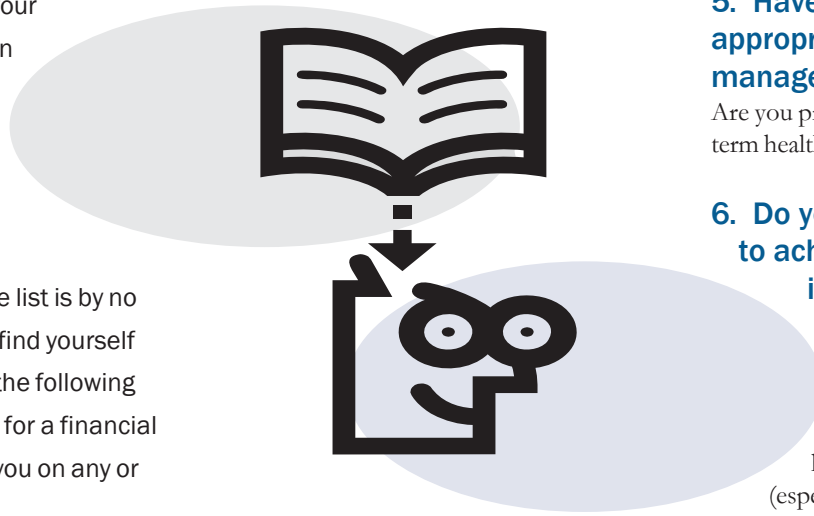
Have you planned for the impact that return volatility can have on your nest-egg assets (especially if you experience negative returns during the early years of retirement)? If you own a business, do you have a succession plan in place?

7. Could you or your spouse outlive your money?

Are you aware that by definition more than half of us outlive our life expectancy?

8. Does your spouse have the professional advice needed to manage financial affairs in your absence?

Does he or she know how to contact your trusted advisors?



Our Basic Tenets

Our objective is to design portfolios using passive asset class funds that maximize investors’ returns within their tolerance for risk. Here is what sets us apart:

- ▲ Fee-only investment management
- ▲ A disciplined investment strategy
- ▲ Access to institutional no-load passive asset class funds
- ▲ Fixed income expertise

- ▲ An academic Nobel Prize-winning investment approach
- ▲ Continued access to academic research
- ▲ A tax-efficient focus, with valuable tax and estate-planning ideas
- ▲ Risk tolerance assessment
- ▲ Periodic portfolio rebalancing
- ▲ Regular communications and state-of-the-art reporting
- ▲ **MOST IMPORTANT ...**
A TRUSTED ADVISOR RELATIONSHIP



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