

POLICY STATEMENT ON FINANCIAL PLANNING
AND ASSETS UNDER MANAGEMENT

Is the bull market finally over? Have stocks had their day? Does an ominous slide in the stock market mean that it is time for weary investors to take to the hills? Are interest rates going to rise or fall? Is inflation going up or down? What about the tax Law? Will tax rates end, increase, decrease or remain the same or will we have a flat tax or a VAT tax?

Do not ask Clark Associates. We do not have the foggiest idea what the market will do next nor the answer to any of the previous questions. Furthermore, we do not think anybody else does either including security selectors or market timers.

We do not think such questions are the ones that thoughtful investors should be posing, anyway. Instead, investors should ask themselves what kind of risks they must take to meet their financial needs. How can they develop a financial plan to meet those needs? That, of course, is where we come in.

CLARK ASSOCIATES OFFERS A SPECIFIC FINANCIAL PLAN FOR THE MANAGEMENT OF INDIVIDUAL ASSETS BASED ON EACH INVESTORS ASSETS, SPENDING NEEDS, AND THE HISTORIC RISK REWARD RELATIONSHIP OF CASH AND CASH ALTERNATIVES, DEBT, AND EQUITY. INVESTMENTS, CASH FLOW, RETIREMENT PLANNING, LIFE, DISABILITY INCOME, AND LONG TERM CARE INSURANCE, EDUCATION, BUSINESS, TAX, AND ESTATE PLANNING ARE TAKEN INTO CONSIDERATION IN THIS FINANCIAL PLANNING PROCESS.

Clark Associates manages your
EXPECTATIONS
about your money
then
manages your money

PEACE OF MIND AND FINANCIAL INDEPENDENCE

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What types of clients do we deal with? Clark Associates Financial Planning, Inc. generally provides financial planning and investment advice to individuals, families, business entities, trusts, estates and charitable organizations.

At any time, investing is a risky business. We make that point over and over. Our first admonition to you is: “Know your investment goals and risks.” You cannot avoid taking risk. The question is how much risk is appropriate for you. Do not take any more risks than you have to take.

Clark Associates divides risk into four levels. For each of these levels Clark Associates uses portfolio models. We ask you what level you have to be to meet your needs. That is the single most important decision that you make as an investor. That decision is a **personal decision**, and a non-delegatable decision which means **you must make the decision**, **NOT** the Investment Advisor.

You would be surprised how few people ever get beyond saying that the purpose of their investment program is to make the most money with the least amount of risk. Investors worry more about a one dollar paper loss than they are excited about a ten dollar real gain.

We control risk even further by our **FOCUSED INVESTMENT POLICY**, and by practical **DIVERSIFICATION**. Clark Associates has the responsibility to select the building blocks for your Risk Reward Relationship. This focused investment policy is **NOT** your responsibility. To maintain the Risk Reward Relationship that you selected we **REBALANCE AND/OR REALLOCATE** your assets on a regular basis according to your Risk Reward Relationship. We also provide income when needed according to your Risk Reward Relationship.

Implicit in the selection of equities and the market timer’s world view is the notion that money is made in equities despite the risk. In contrast, **OUR WORLD VIEW** presented here rests on the notion that **MONEY IS MADE IN EQUITIES BECAUSE OF THE RISK. USE MARKET FORCES, DO NOT FIGHT THEM**. Now, the question becomes, “Under what condition is the risk worth assuming?” Clark Associates helps you decide.

IF THE EQUITY MARKET VOLATILITY IS THE DISEASE, TIME IS THE CURE.

Investors generally tend to underestimate their relevant time horizons. They confuse their retirement horizons with their investment portfolio time horizons. The tendency for investors to underestimate their time horizons leads to portfolios that are inappropriately under-weighted in equities and therefore over-exposed to inflation.

The technique of rebalancing the portfolio helps to control risk by SELLING STRENGTH AND BUYING WEAKNESS. Asset rebalancing is the process of returning the percentage to each asset class to equal the initial portfolio allocation, and it is generally handled at the same time as the regular review.

Rebalancing is a form of dollar cost averaging. Rebalancing will help maintain the portfolio's structure in line with your objectives and eliminate the two diseases of investing - fear at the bottom and greed at the top.

NOTE: "At the end of your investing lifetime, it will not matter how your funds performed relative to other funds. What your funds do is not the critical variable. **WHAT MATTERS MOST IS WHAT YOU DO**. What you do (e.g., adding money when your funds are sagging, not when they are soaring) will probably be a pure function of the quality of the advice you get and **GOOD, CARING, PERSONAL ADVICE IS NEVER FREE.**" -
Gathering Assets: The Best of Nick Murray

Two-Asset Scenario Forces Awareness of Risk

Your most important investment decision is how to balance your portfolio between interest generating and equity investments. It is a decision you must make for yourself - with a little help from your Investment Advisor.

First Step: **Clark Associates converts your entire investment portfolio into cash and cash alternatives.** What this does, among other things, is to start to free you from attachments to particular investments and get you to look at the totality of your portfolio that you want us to manage. Prudence is always taken into consideration.

Consider the person who has a large percentage of his investment portfolio allocated to one stock or one category. That person obviously has retained much diversifiable risk which is not priced by the market place to reward him or anyone else.

The general rule is that investment issues take precedence over cost and tax considerations. In other words, the client should not hold investments simply because their liquidation would trigger costs and tax liabilities.

Unless you expect to hold the appreciated investment until you die, the taxes due on the gain will have to be paid sooner or later. It may be advisable to carry the investment on your balance sheet at a lower value that adjusts for the anticipated taxes due upon sale. This accomplishes two things. First, it generates your awareness that the investment should not be

retained merely because its sale will trigger a payment of income taxes. Second, it avoids the perception of a decrease in net worth as a result of the sale.

Second Step: Clark Associates creates a two-asset category investment world where your only choice is to **loan** your money in interest generating assets or **own** equity assets. This is done in a context where historical data relating to the returns and fluctuation of various investments are explained to you.

Third Step: In the two-asset scenario you are shown how varying proportions of either asset will affect the expected returns and fluctuations.

In deciding how you divide your investment funds between loaning in interest generating assets and owning equity assets, **you are forced to acknowledge and deal with the risk/reward trade-off issue.**

Focus on your risk tolerance rather than return requirements, but remember the longer the time horizon, the more worthwhile it is to bear high levels of short-run fluctuation.

Clients often believe that as professional advisors, we should have some method to eliminate the uncertainties that are so difficult for you to live with. But as we focus on the uncertainties inherent in asset management, all we can hope to accomplish is to get a better picture of the uncertainties - we cannot eliminate them.

As difficult as it is to live with, uncertainty is not necessarily bad. For the client with a long time horizon, short-run uncertainty is the engine that drives the higher returns of equity investing. There is a difference though between intellectually understanding something and living with the results on a day-to-day basis. Successful investing will therefore always be as much of a psychological process as it is an investment management endeavor.

It is one thing to read the book, War and Peace, it is another thing to have the bullets flying over your head in a foxhole.

THE MOST IMPORTANT CONCLUSION is portfolio diversification among multiple asset categories will in the long run deliver **MORE RETURN WITH LESS RISK** than traditional approaches that utilize fewer asset categories. Much of the improvement in portfolio performance flows from the simple **decision** to utilize a number of asset categories. This is contrasted with improvements in portfolio performance which require the exercise of superior management **skill**.

Clark Associates then expands the scenario a bit by breaking down the interest generating portion of the portfolio into short-term and long-term debt so that now you have three major categories to consider – **Cash and Cash Alternatives, Debt, and Equity.**

Once the Risk Reward Relationship is established by you and how you want your assets taxed then Clark Associates' responsibility is our focused investment policy, diversification and asset rebalancing and/or reallocation.

COMPENSATION

Comprehensive portfolio management and financial planning in today's world requires **two separate levels of decision making. Each level can add value for the client if done properly, and each level therefore justifies appropriate compensation.** **The first level**, which is the more important of the two, involves the development of a realistic Financial Plan. Financial Planning would include such things as investments, cash flow, retirement planning, life, disability income and long-term care insurance*, education, business, tax, and estate planning. Investment objectives, asset allocation, and rebalancing for accumulation, conservation and the distribution of assets are taken into consideration. **The second level** of decision making involves the selection of securities, insurance, and other products within each of the categories mentioned above. What makes objectivity is NOT the method of compensation, NOT being on a fee only or commission only or combination of fee and commission basis but knowledge, ethics and the ability to present many procedures and products for the benefit of your client. **Our remuneration is comprised of fees plus commission.**

In the long run, while the selection of securities and other products is important, more important are the investment objectives and asset allocation with respect to their impact on long-term portfolio results which is known as the **INVESTMENT POLICY.**

* Clark Associates does not get involved with any type or kinds of property casualty insurance.

CONCLUSION

Investment management is not easy, because without a very firm commitment to long-term investment policies within an asset allocation framework, it is easy for you to be distracted by investment schemes that promise high returns with little or no risk. Those who depart from long-term strategy in order to pursue these investments will in the end build portfolios in the same way they collect shells at the beach – picking up whatever catches their eye at the moment. The bottom line is that no safe, quick, and easy way exists to build wealth. As an old saying reminds us: “If wishes were horses, beggars would ride.”

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In the evolving investment environment, you do not need sporadic investment suggestions. You need, and will value, our financial planning and the comprehensive management of your portfolios by knowledgeable investment professionals committed to your **PEACE OF MIND** and **FINANCIAL INDEPENDENCE**.

Summary:

<u>INVESTMENT POLICY</u>	<u>Risk</u>	<u>Reward</u>
<u>CASH AND CASH ALTERNATIVES</u> (Shorter Term Interest)	Inflation	Stability
<u>DEBT</u> (Long-Term Interest - Bonds)	Interest Rate	Higher Return
<u>EQUITY</u> (Business Ownership - Stocks)	Market Pricing Fluctuation	Highest Return

FIVE STEPS TO PEACE OF MIND AND FINANCIAL INDEPENDENCE

YOUR RESPONSIBILITY:

1. **ASSET ALLOCATION DECISION:**
YOU SELECT YOUR allocation **BETWEEN** Cash and Cash Alternatives, Debt, and Equity.
2. **TAXATION:**
YOU SELECT whether you want your assets **TAXED, TAX CONTROLLED,** or prefer some type of **TAX FOREGIVENESS.**

OUR RESPONSIBILITY:

3. **FOCUSED INVESTMENT POLICY** - The selection of investment management will help determine the **TOTAL RETURN** on Cash and Cash Alternatives, Debt, and Equity.
4. **DIVERSIFICATION** will determine **OUR** allocation **WITHIN** Cash and Cash Alternatives, Debt, and Equity.
5. **REBALANCING AND/OR REALLOCATION** will be done on a regular basis to **MAINTAIN** your Risk Reward Relationship and to provide income when needed.

THE CHALLENGE:

For most investors the challenge is the **ASSET ALLOCATION DECISION** which selects a Risk Reward Relationship to limit the risk without placing severe limitations on the reward and to choose what **TAXATION** is proper for them. For most Investment Advisors the challenge is to have a focused investment policy, diversification, and rebalancing and/or reallocation according to sound financial principles while taking into consideration the financial planning process.