Legal and Financial Planning for the Special Needs Family

Riley's Warriors Lecture Series

Determinants of Performance

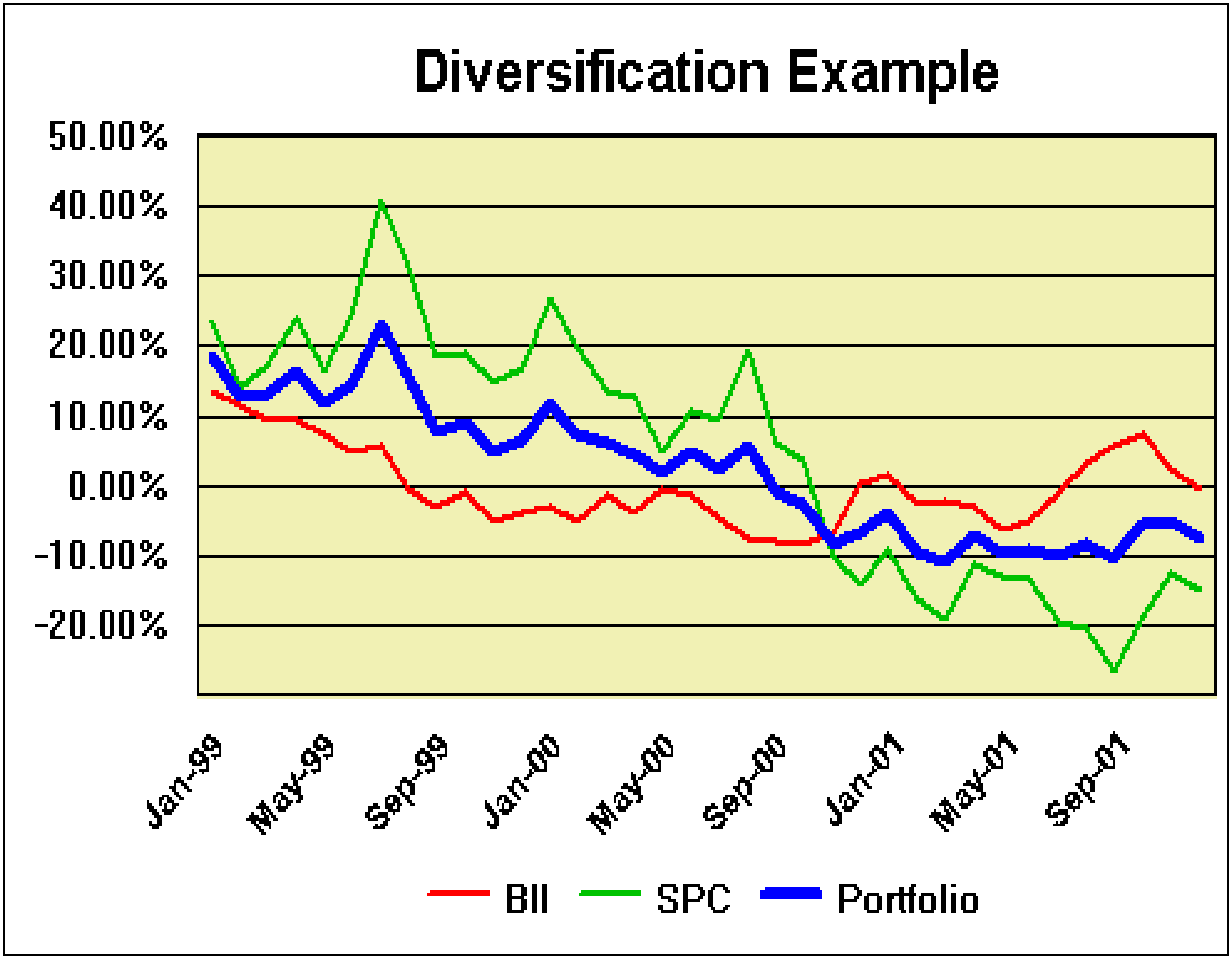
The Importance of Asset Allocation

Source: Brinson, Beebower & Singer
Determinants of Portfolio Performance II: An Update,1991

Harry Markowitz, PhD
1990 Nobel Laureate, Economics

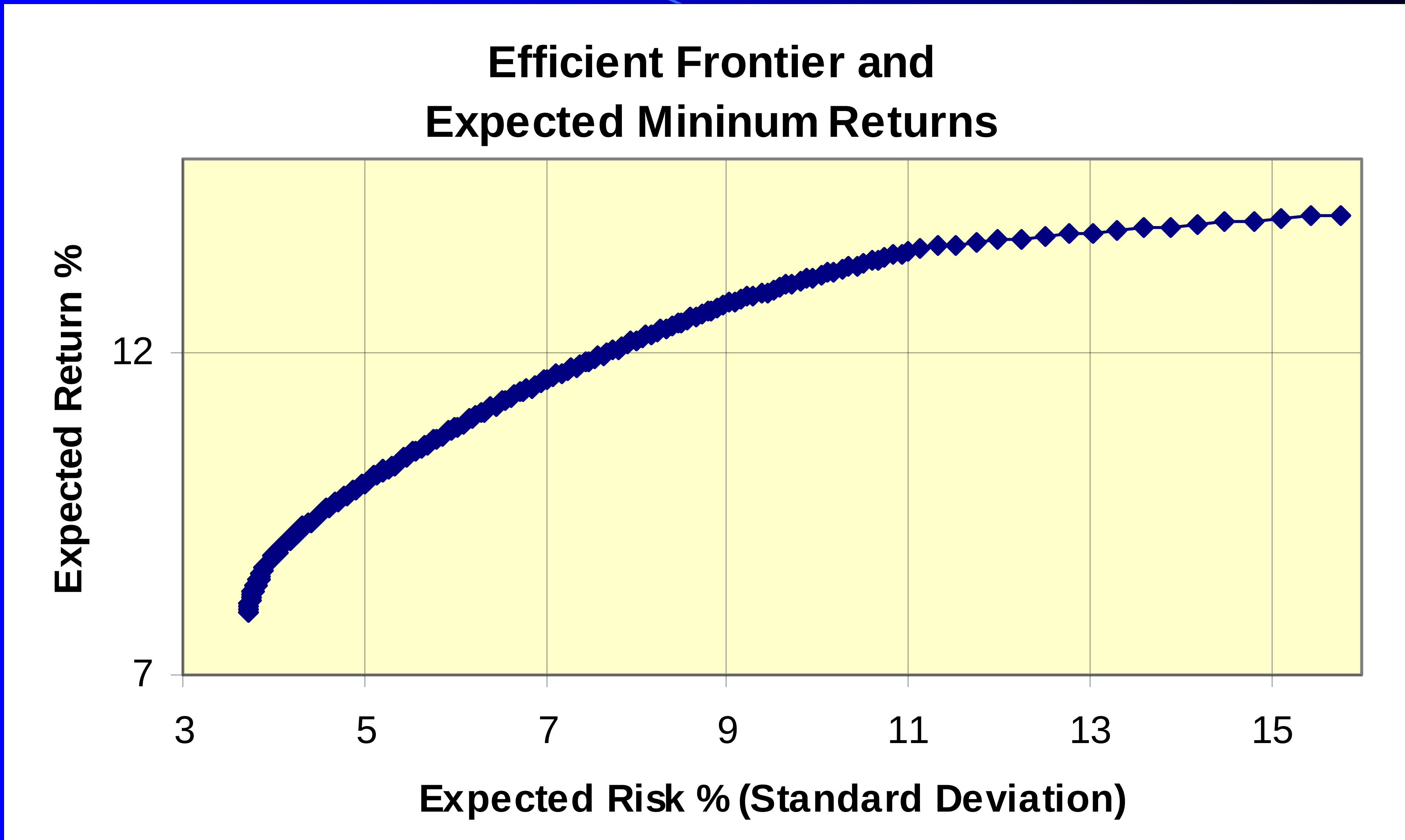
The Father of Modern Portfolio Theory

- Developed in 1952
- Awarded the 1990 Nobel Prize in Economics
- Uses Key Statistics of Mean, Standard Deviation and Correlation to Define the Portfolio
- Creates a More Predictable Result in Terms of Return **and** Risk

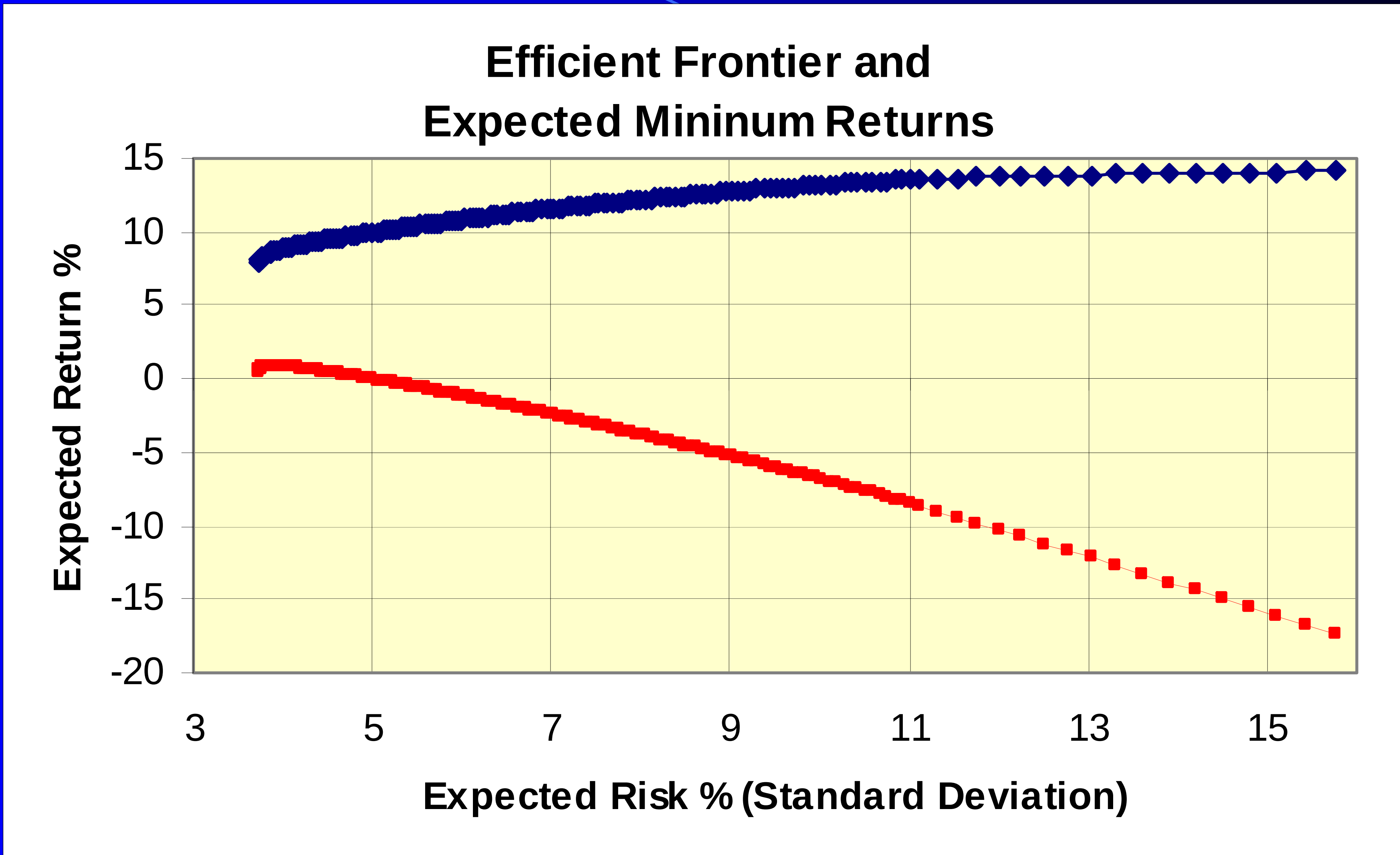


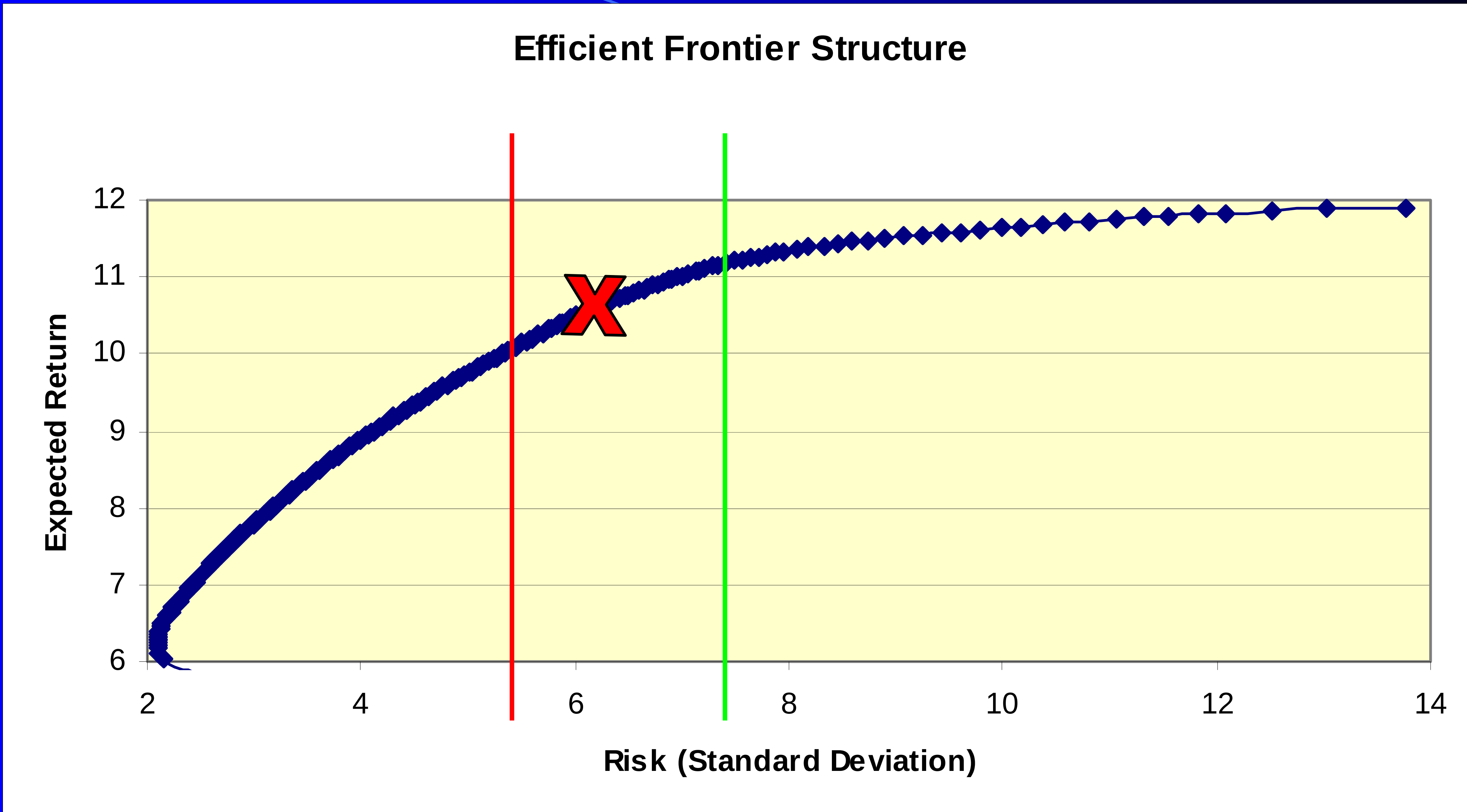
Diversification Example
50.00%
40.00%
30.00%
20.00%
10.00%
0.00%
-10.00%
-20.00%
Jan-99
May-99
Sep-99
Jan-00
May-00
Sep-00
Jan-01
May-01
Sep-01
BII
SPC
Portfolio

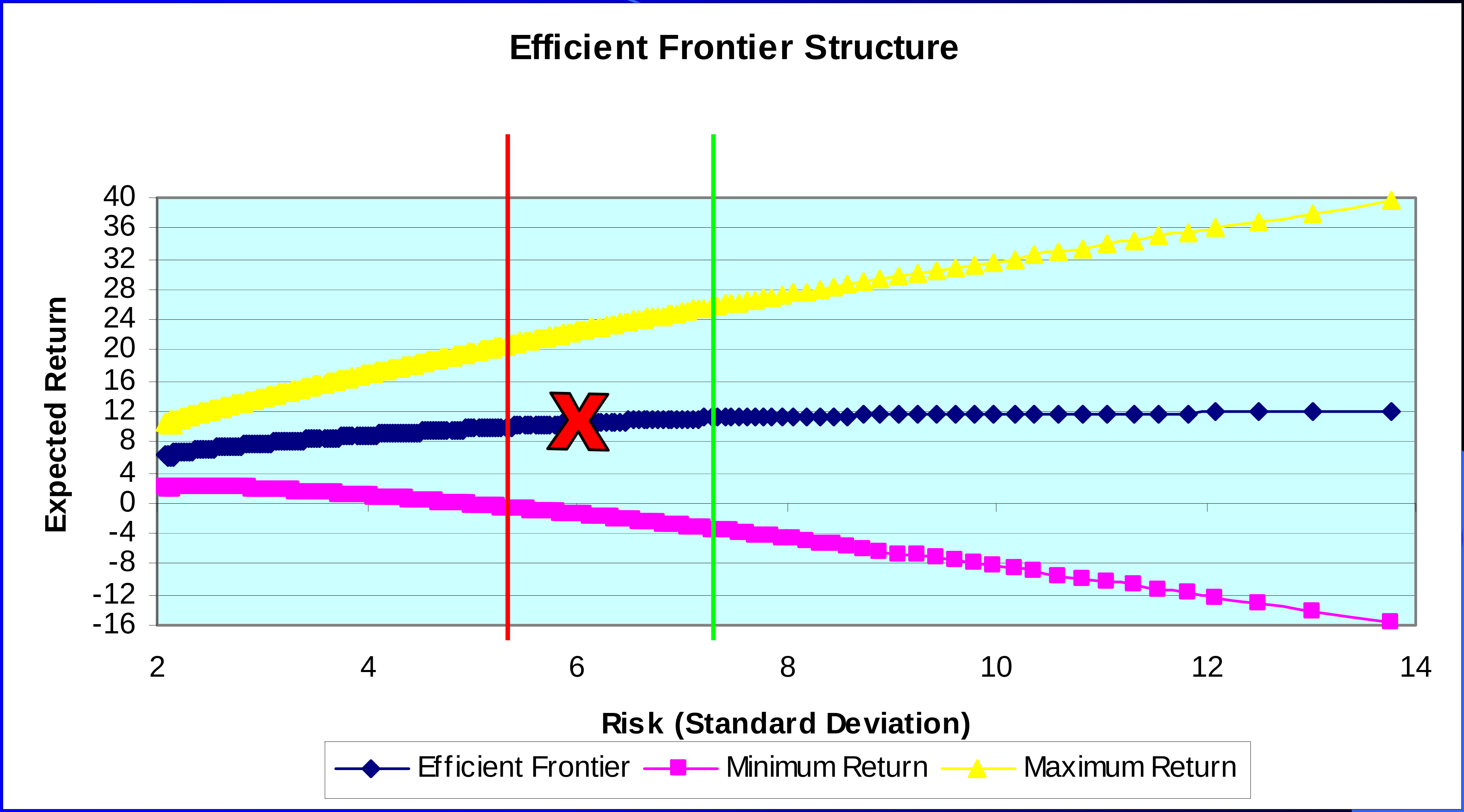
It’s the Losses, Stupid!



It’s the Losses, Stupid!

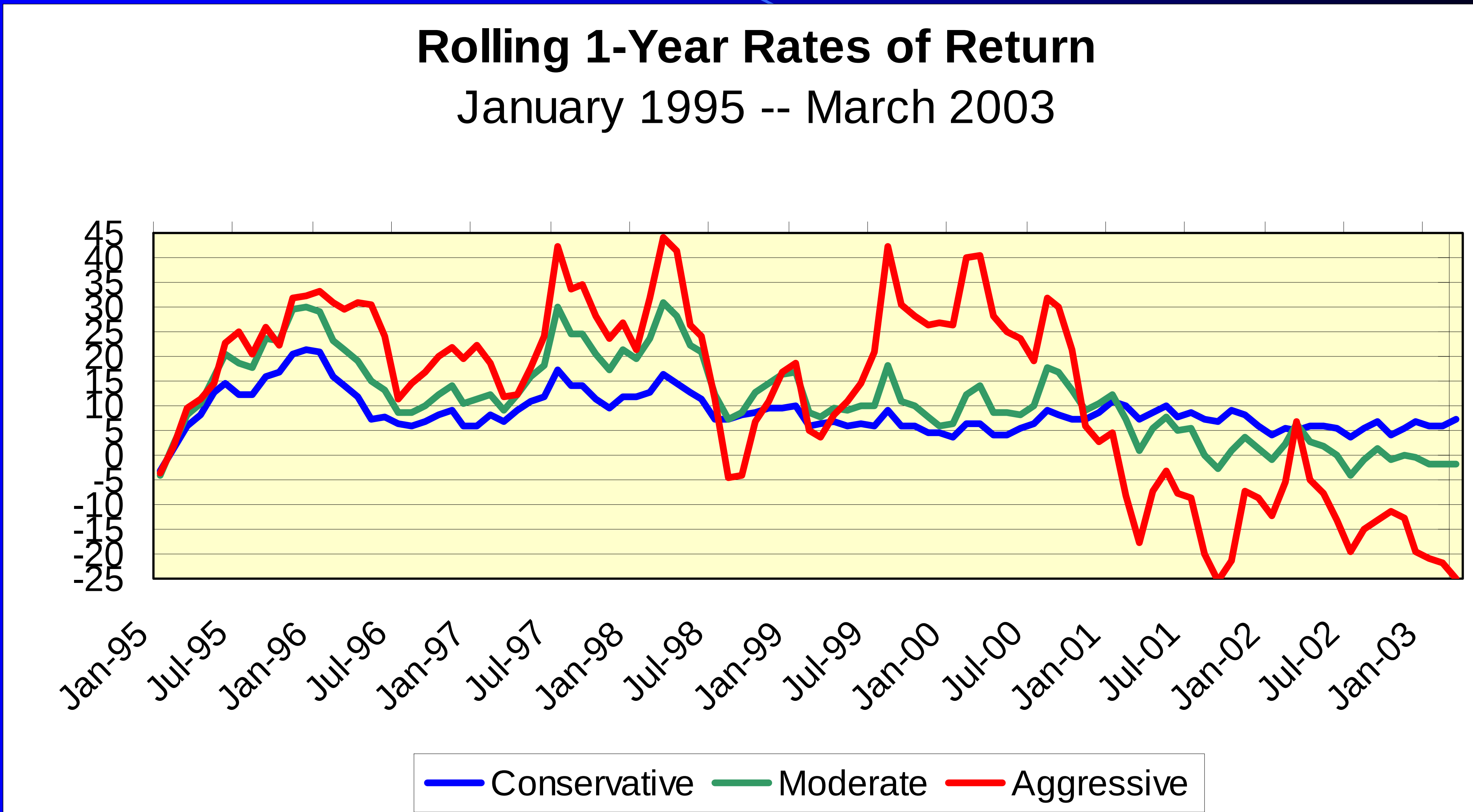



Efficient Frontier Structure
Expected Return
12
11
10
9
8
7
6
2
4
6
8
10
12
14
Risk (Standard Deviation)
X

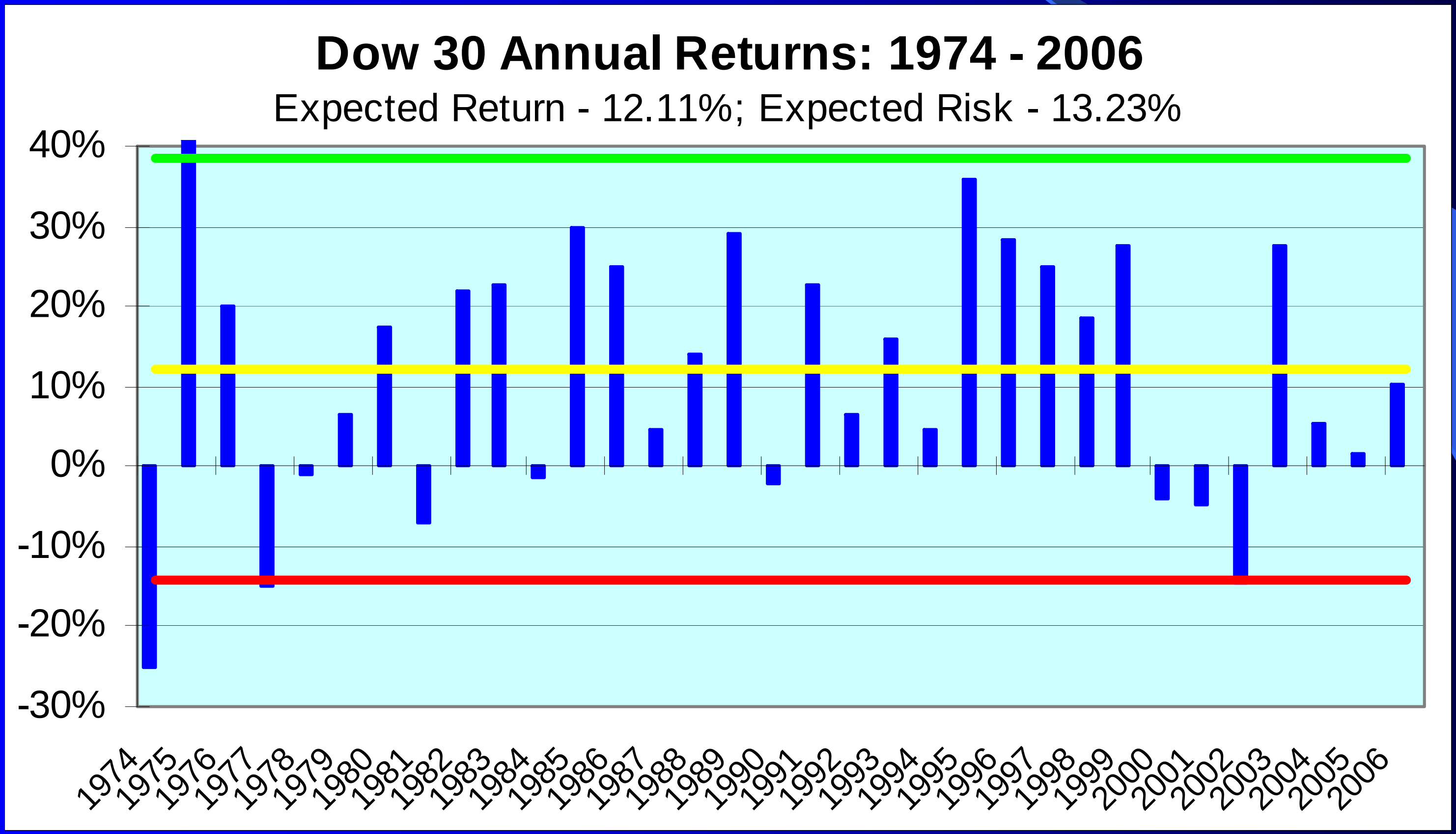


Efficient Frontier Structure
Expected Return
40
36
32
28
24
20
16
12
8
4
0
-4
-8
-12
-16
2
4
6
8
10
12
14
Risk (Standard Deviation)
X
Efficient Frontier
Minimum Return
Maximum Return

How Do You Like Your Roller Coasters?



Change in Dow 30: 1974 – 2006 "Statistical Reality"



Key Issues

- “Bird in the Hand” vs. “Two in the Bush”
- Yield vs. Total Return
- Portfolio Withdrawal Rates
- Portfolio “As a Whole”
- Applying the Theory

Questions?