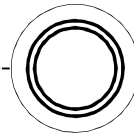
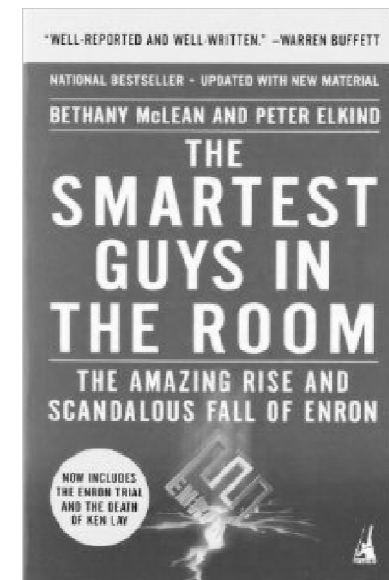


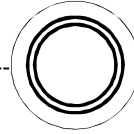
# The Tale of Enron



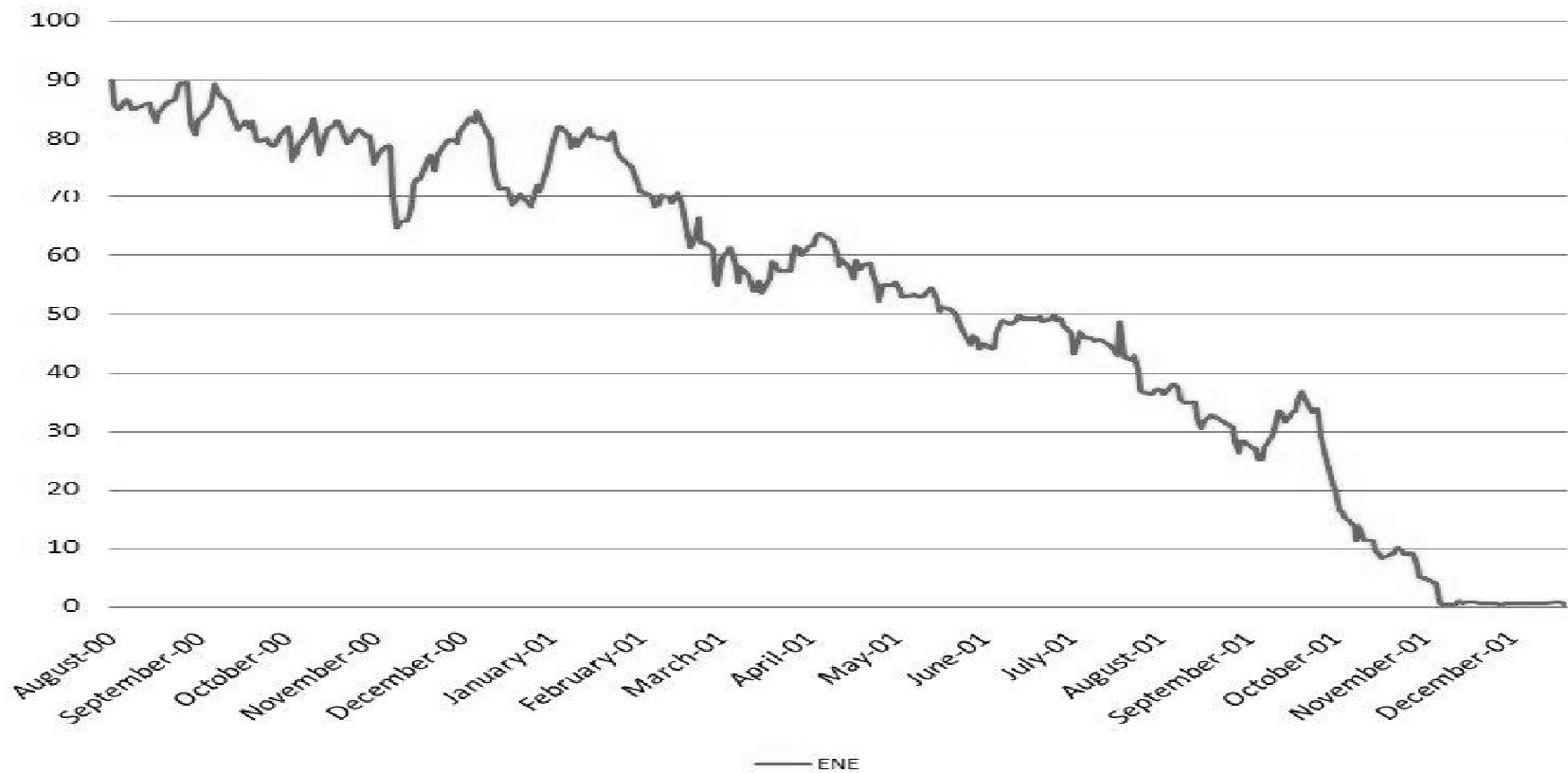
WHAT "THE SMARTEST  
GUYS IN A ROOM" CAN  
TEACH US ABOUT  
CONCENTRATIONS!



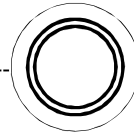
# Enron Stock



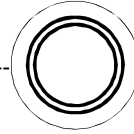
**Enron Stock Price from August 23, 2000 to January 11, 2002**



# Bank of America

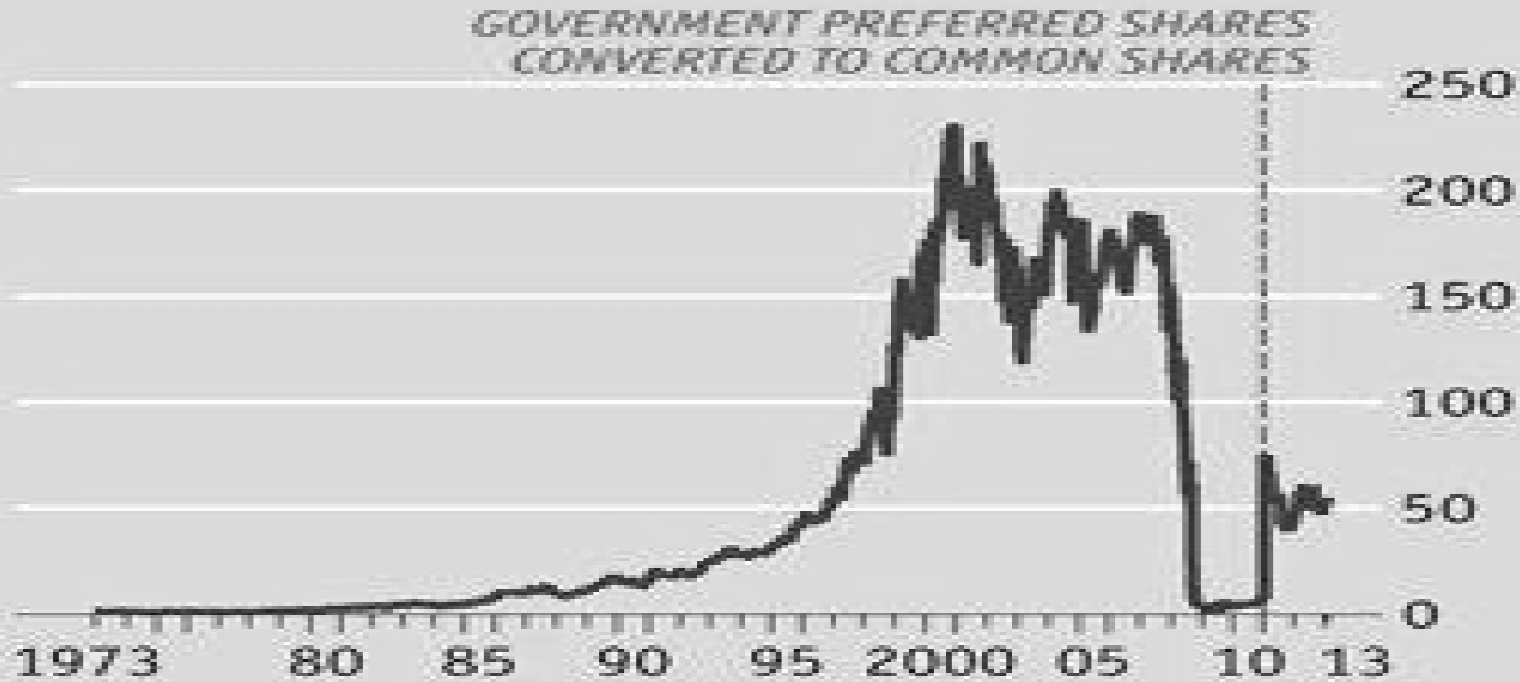


# AIG Stock



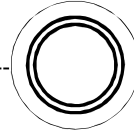
## Just another boring insurer

AIG's market value, \$bn



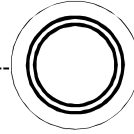
Source: Thomson Reuters

# Overview



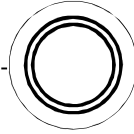
- DEFINE the Duty of Prudence
- Clarify the role of asset allocation as the MAJOR driver of account performance
- Explain the importance of DIVERSIFICATION across sectors, industries and asset classes
- Discuss how to effectively reduce concentration RISK while managing taxes and emotional attachments

# Perils of Asset Concentration



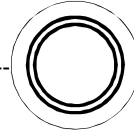
- U.S. seeing a rise in the number of lawsuits against trustee's concerning concentrated positions
- Notable cases:
  - Knox family trust, where trustee failed to diversify out of Woolworth and HSBC
  - Dumont Trust funded entirely of Kodak stock with a retention clause and Chase chose to retain
- Breaching the Duty of Prudence - Uniform Prudent Investor Act requires diversification

# Prudent Man/Investor Rule



- Observe how men of PRUDENCE, discretion and intelligence manage their own affairs, not in regard to speculation but in regard to PERMANENT DISPOSITION of their funds
- Entire portfolio is considered
- Diversification is explicitly required
- No category or type of investment is deemed inherently imprudent
- A fiduciary is permitted to delegate investment management

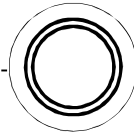
# Trustee's Investment Challenge



- Acquisition of an non-diversified portfolio
  - Unapproved assets
  - Positions with sizable gains
  - Emotional attachment
  - Concentrated positions

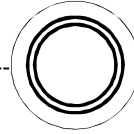


# Return Expectations



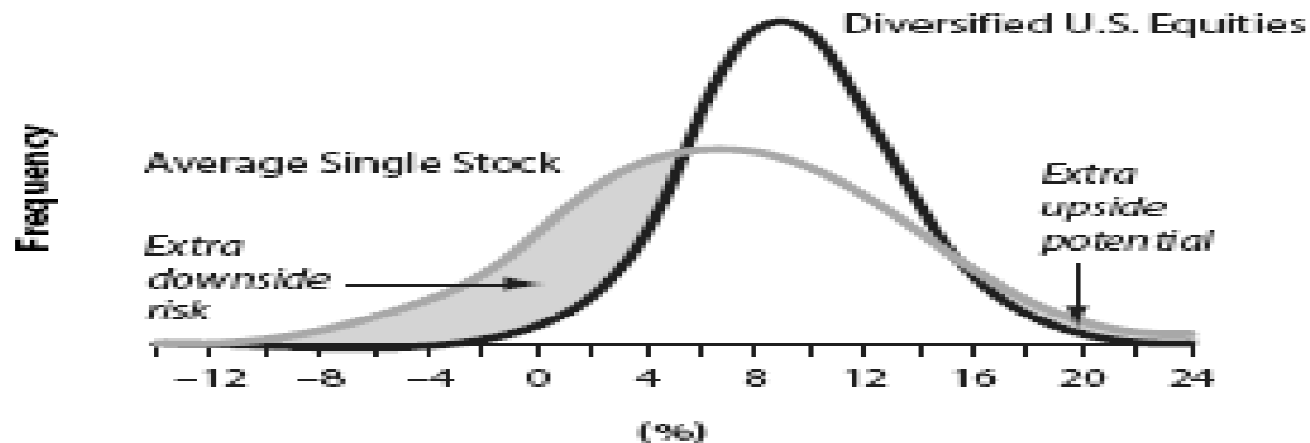
- Bernstein's showed the average compound return generated by a single stock is likely to be lower than a diversified portfolio
- A single stock return tends to be far less predictable than a diversified portfolio
- The potential for a single stock to perform better than a diversified portfolio is small. *"Investor may get paid more for taking extra risk but the odds are stacked against them"*

# Expected Return



DISPLAY 5

## 20-Year Expected Returns (Annualized)



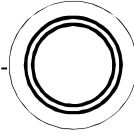
Based on Bernstein's estimates of the range of returns for the applicable capital markets over the next 20 years. Data do not represent any past performance and are not a promise of actual future results. See *Notes on Wealth Forecasting System*, pages 33-34, for further details.

## General Guideline for Trustee's to Limit Uncompensated Risk

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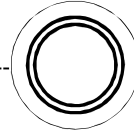
- The more volatile the stock the greater the risk borne by the portfolio and the lower the long term growth – higher sale amount is prudent
- The shorter the time horizon - higher benefit of staged selling to sell down the position
- The lower the cost basis – a benefit of staged selling over a longer time period to manage tax liability

# Options for Concentrated Positions



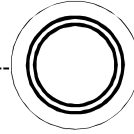
- Hold
- Sell all upfront
- Staged selling
- Hedge
- Other
  - Gifting
  - Charitable Remainder Trusts

# Driver of Portfolio Returns



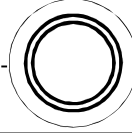
- Strategic asset allocation mix is the major driver of variability of returns ✓
- Tactical asset allocation ✕
- Individual security selection ✕
- Other ✕

# Key Determinates for Asset Allocation



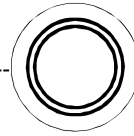
- Identify investors goals and objectives
- Quantify income needs
- Define time horizon
- Determine investors tolerance for risk
- Ascertain tax position
- Discuss investors interest in leaving a legacy

# Sample Asset Allocation Guidelines

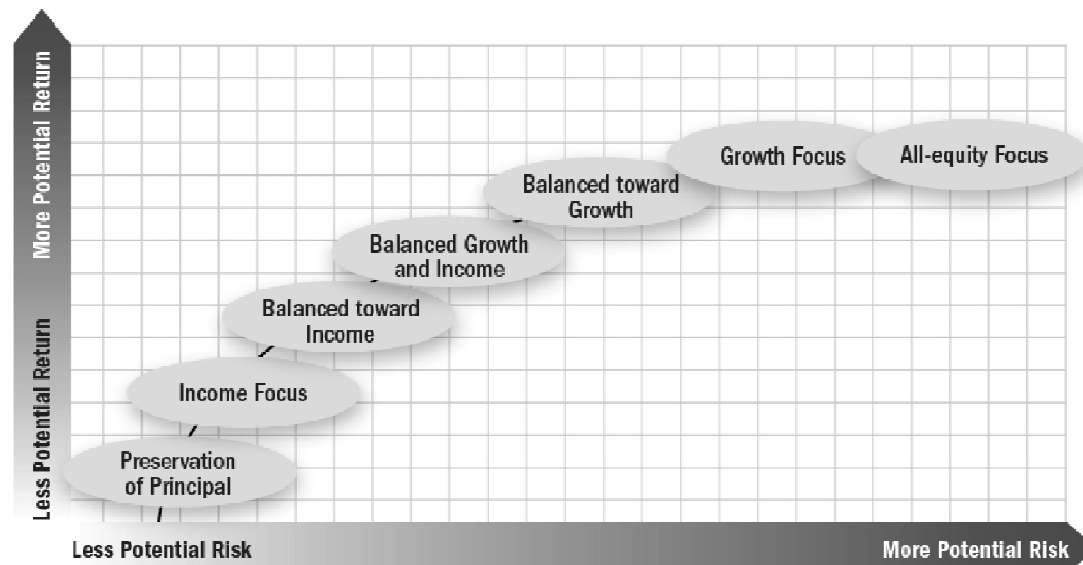


	Balanced toward Income	Balanced Growth & Income	Balanced toward Growth
<b>Equity Targets</b>	<b>35</b>	<b>50</b>	<b>65</b>
Equity Ranges	25-40	40-55	55-70
<b>Aggressive Growth Targets</b>	<b>2</b>	<b>5</b>	<b>10</b>
Aggressive Growth Ranges	0-5	0-15	5-15
<b>Growth Targets</b>	<b>8</b>	<b>15</b>	<b>25</b>
Growth Ranges	0-15	10-25	15-35
<b>Growth and Income Targets</b>	<b>25</b>	<b>30</b>	<b>30</b>
Growth and Income Ranges	20-40	25-40	25-40
If Using Real Estate Mutual Funds	0-3	0-4	0-5
<b>Fixed-income Targets</b>	<b>60</b>	<b>45</b>	<b>30</b>
Fixed-income Ranges	55-70	40-55	25-40
Aggressive Income (High Yield)	0-10	0-10	0-10
<b>Cash Targets</b>	<b>5</b>	<b>5</b>	<b>5</b>
Cash Ranges	0-10	0-10	0-10

# Portfolio Objective

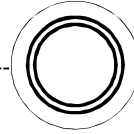


## PORTFOLIO OBJECTIVE: HISTORICAL PERFORMANCE



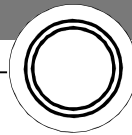


# Portfolio Construction Guiding Principles



- Long-term focus on investing
- Diversification among asset classes:
  - Equities: Diversified by size (market capital-small, mid and large cap), investment style (growth vs. value), geography (domestic, international –developed or emerging market), and industry sectors
  - Fixed Income: Laddered portfolio of domestic and international securities diversified by sector and geography and quality.

# Questions



**THE VIEWS EXPRESSED TODAY ARE  
MY OWN AND DO NOT NECESSARILY  
REFLECT THOSE OF THE JONES  
FINANCIAL COMPANIES, L.L.L.P., OR  
ANY OF ITS AFFILIATED  
ORGANIZATIONS, INCLUDING  
EDWARD JONES TRUST COMPANY.**