

Objective and Experienced Investment Management

Our Firm

The Financial Advisory Group is a registered investment advisor headquartered in Houston, Texas. The founders of the firm have over 35 years of investment management experience. We are a *Fee-Only*© firm, focused on providing *investment management* and *financial planning services* to individuals and institutions.

The firm's client base includes approximately 200 individuals and professional corporations, with collective assets of almost \$400 million under management. Our clients reside in 18 states across the U.S. and overseas.

Our Philosophy

We believe that successful investment management begins with a clear understanding of the client's "investment profile," or basic preferences for risk and reward. Then, we apply constant attention to ensure that each client achieves the best returns within that risk profile.

Many investors focus on "chasing the highest return," in the short-term, without rationally assessing their ability to handle high degrees of volatility. A prudent investment strategy is one that considers the investor's full time horizon, potentially spanning one or more full economic cycles. We are committed to establishing long-term goals with our clients, and reinforcing the discipline necessary to fulfill these goals.

Investment Committee

A committee headed by Steve Estrin guides investment policy. Steve began investing professionally in 1971 and has a breadth of expertise rarely found today. Both *Worth Magazine* and *Medical Economics Magazine* have recognized him as one of the top financial advisors in the country.

Investment Management Process

Investment Policy Statement

The investment management process begins with a client Investment Policy Statement (IPS). By means of personal questionnaires and interviews, we will define your investment objectives in terms of expected total return (capital gains and current income) and risk tolerance. The IPS will also address investment constraints such as,

- Liquidity needs – near-term obligations
- Time horizons – expected holding periods
- Tax considerations – taxable vs. non-taxable accounts
- Regulatory and Legal issues – governing requirements for Trusts, Pensions and other qualified retirement plans
- Unique needs and preferences

The IPS and personal interviews provide a basis for setting the investment strategy for client portfolios, as well as providing the framework for evaluating investment performance.

Asset Allocation

Each investor is placed in a “risk profile” which determines the mix of invested assets. Traditionally, the portfolios of more aggressive investors, including those with longer time horizons, are weighted with a bias toward U.S. and foreign equities. More conservative investors are placed in fixed-income and short-term money market instruments as well. The asset allocation decision is applied to clients’ aggregate holdings, including taxable and non-taxable accounts, to achieve proper diversification.

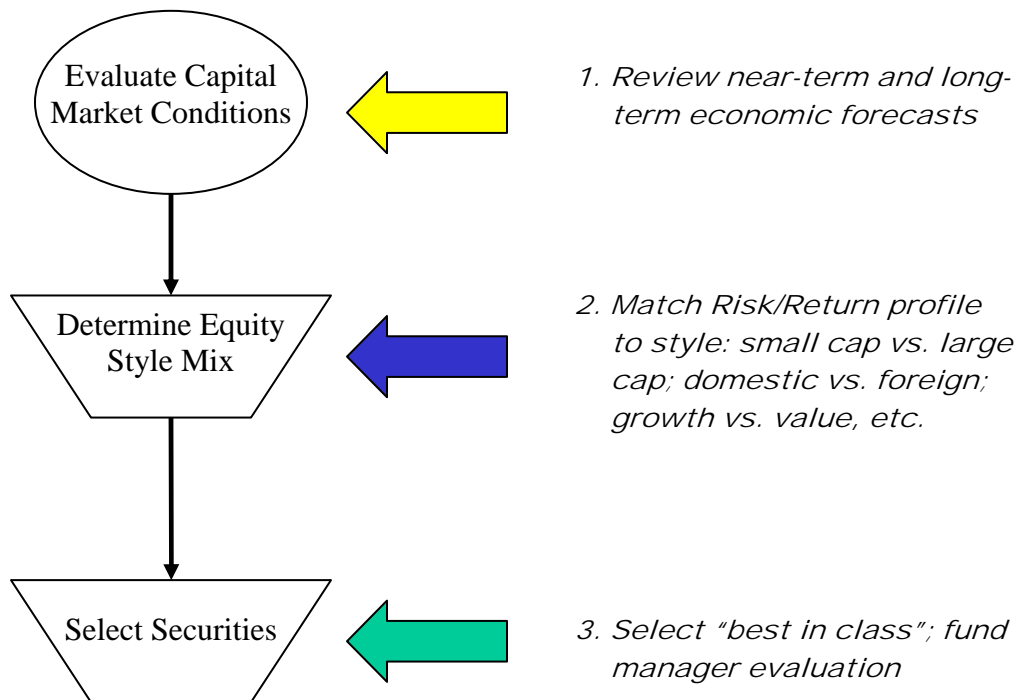
Security Selection – Equity Securities

In most cases, client portfolios are invested in the shares of open-end investment companies (mutual funds) and exchange-traded unit investment trusts (UITs). We also utilize shares of closed-end funds and individual common equities. The UITs are useful in minimizing the tax consequences of portfolio turnover in taxable accounts.

The Financial Advisory Group believes that funds provide an effective and cost-efficient means for achieving equity returns in a portfolio. The firm is not affiliated with any marketer, distributor or underwriter of mutual fund or UIT products. We do purchase independent research products and services that assist us in evaluating and selecting the most appropriate funds for our clients.

There is a large (approximately 12,000 and growing) universe of open-end funds available for investment. We closely monitor the style and investment objective of all client-invested funds, including personal interviews with fund managers, and make portfolio re-balancing decisions based on the relative strengths of a particular fund and/or investment style. ***The end result is that client investment objectives will be met, regardless of the given fund mix at any time.*** Investment Managers are rarely best in all styles and categories. By utilizing funds, we can select the best of class for client needs.

The following diagram summarizes the equity selection process.



Security Selection – Fixed Income Securities

The Financial Advisory Group will construct balanced portfolios by combining individual debt securities with equity positions. We typically purchase municipal and corporate bonds in the secondary markets. Our fixed income strategy is to “ladder” maturities of bonds in order to receive a blended coupon rate. We also target diversification across issuers and quality. The laddered maturity of a portfolio will change depending on current and expected economic conditions.

We employ a buy-and-hold strategy with most debt instruments, in order to minimize trading costs and capital losses. In this regard, our fixed-income strategy does not favor the use of bond mutual funds in most instances.

Security Selection – Other Assets

We are constantly evaluating the merits of investments in other asset classes such as real estate investment trusts, venture capital and private equity. In some cases, these investments are suited for our clients and we will pursue the best available opportunities.

Monitoring and Re-Balancing

Just as our clients’ needs are dynamic, so is the investment process. We review each portfolio, on a regular basis, to adjust investment positions. The following factors contribute to the need to review and re-balance.

- Change in client risk profile
- Significant contribution or withdrawal of funds
- Change in market conditions or security selection

The Financial Advisory Group employs *strategic asset allocation* for most client portfolios. This method is often referred to as a “constant mix” strategy. This means the portfolio must be periodically re-balanced to maintain the desired portfolio weights. The need for re-balancing is due to the change in asset values over time.

Measurement and Reporting

The Financial Advisory Group uses a state-of-the-art portfolio management system to manage client assets. Our systems provide real-time information that enables us to accurately and effectively manage accounts.

Clients receive clear and concise investor reports at the end of each quarter. In these reports, performance is compared to four key indicators:

- **Consumer Price Index** – measure of general price changes in the U.S. This can also be viewed as the minimum return required for an investor to maintain purchasing power.
- **Standard & Poor's 500 Composite Index** – widely regarded as the standard for measuring large-cap U.S. stock market performance, this index includes a representative sample of leading companies in leading industries. The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. This benchmark should be used to evaluate the equity portion of client portfolios.
- **Lehman Brothers Aggregate Bond Index** – an unmanaged market-index of fixed-rate debt issues rated investment grade or higher with a year to maturity and an outstanding par value of at least \$100 million, regarded as generally representative of the total U.S. bond market. This benchmark should be used to evaluate the fixed-income portion of client portfolios.

The actual return to a client will likely be bounded by these four benchmarks, with deviations to any one index attributable to the portfolio mix (i.e., asset allocation).

Tax Considerations

Naturally, periodic re-balancing in client portfolios results in the sale of some securities. We are intimately familiar with our clients' tax position, as a result of our unique approach to financial planning, and our decision to sell securities always incorporates tax considerations. The goal is to maximize after-tax returns, and cash flow, over the entire investment horizon.

Investment Management Procedures

Under our standard *Investment Management Agreement*, the client will authorize The Financial Advisory Group to execute trades on the client's behalf. The client will establish custodial account(s) with a brokerage firm such as Schwab Institutional, and trades will be executed through these account(s). The Financial Advisory Group is not a brokerage firm, and we do not take possession of a client's cash or securities at any time.

The Financial Advisory Group has no compensatory relationship with any brokerage firm whatsoever. Our recommendation to use Schwab Institutional is based on considerations for *the client*, including research and commission costs, quality of trade execution, product availability and breadth, and economy-of-scale considerations for our firm.

NAPFA Membership

The Financial Advisory Group is a member of The National Association of Personal Financial Advisors. NAPFA is the largest professional association of comprehensive, Fee-only financial planners in the U.S. The Association has over 700 members and affiliates in 45 states, each of whom is devoted to providing high-quality comprehensive and objective financial advice to individuals and institutions.