THOMAS SMITH
AND ASSOCIATES

DESIGNING YOUR INVESTMENT STRATEGY

Designing Your Investment Strategy

Thomas Smith & Associates provides private portfolio management services tailored to meet the specific investment goals and objectives of each client we serve. This brochure will allow us to properly identify your return objectives, risk tolerance, liquidity needs, income requirements, tax considerations, and legal constraints, thus enabling the design and implementation of your customized investment strategy.

The Importance of Asset Allocation

Rigorous academic studies performed over the last half-century have clearly identified the overwhelming importance of the asset allocation decision in diversified portfolio management. Over time, 90%-95% of the performance of any given diversified investment portfolio is determined by its particular exposure to various asset classes. Investors have many asset classes in which they can invest including, but not limited to, stocks, bonds, cash, precious metals, and real estate. History has demonstrated that each asset class has particular long-term return and short-term volatility characteristics. The unique characteristics of each asset class and the interplay that occurs when they are combined must be the primary considerations when designing a proper investment strategy. Individual security selection, trading costs and the timing of various buy and sell decisions will also impact performance over time, but their impact is merely incremental relative to the critical asset allocation decision.

While the asset class choices are virtually endless, we have found that most all of our clients can successfully meet their investment objectives utilizing the two asset classes with which they are most familiar and comfortable – stocks and bonds. Therefore, these are the asset classes we utilize in constructing diversified investment portfolios.

The Five General Investor Types

While Thomas Smith and Associates specializes in customized portfolio management tailored to meet the specific needs of each and every client served, experience has taught us that people tend to have more similarity in their needs than differences. On balance, investors typically fall into one of five general investor "types." We have labeled these five types as follows:

The Equity Investor
The Growth Investor
The Balanced Growth Investor
The Conservative Growth Investor
The Capital Preservation Investor

The Process

Over the following pages we will help you identify which investor type from the list above is most descriptive of you. Then we will customize your general investment type by taking into account other secondary, but nonetheless important, considerations. The result will be the design of your own unique investment strategy.

So let's get started!

The Equity Investor

Objective: The objective of Equity investors is long-term growth of capital through the sole utilization of equity securities. Short-term volatility is of little or no concern to these investors. At Thomas Smith and Associates, we meet the needs of our Equity investors through diversified portfolios that consist entirely of domestic stocks.

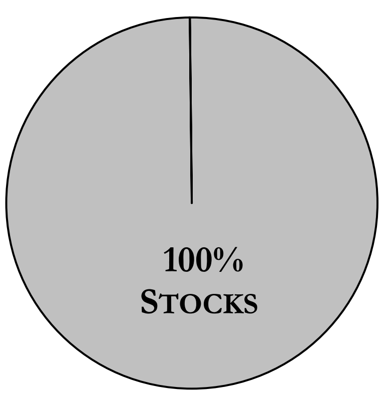
Downside Volatility: Equity investors can expect a downturn in their account value an average of three out of every 10 years. Short-term drops of as much as **30%** can occur.

Minimum Time Period: Equity Investors should be committed to an investment time period of at least 12 years.

Target Return: The average annual long-term pre-tax return goal of Equity investors should be approximately 11% after deduction of all fees and expenses.

Short-Term Volatility Potential On $1,000,000 Account Value

Normal Asset Allocation



Growth of $1,000,000 at 11% Average Annual Return	
Term	**Value**
1 year	$1,110,000
3 years	$1,367,631
5 years	$1,685,058
10 years	$2,839,421
20 years	$8,062,312

THE GROWTH INVESTOR

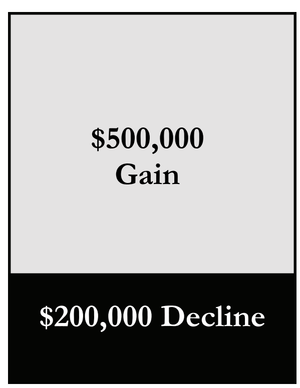
Objective: Growth Investors seek long-term growth of capital, but unlike Equity Investors, Growth investors are willing to sacrifice a bit of return potential in exchange for somewhat less short-term volatility. As a result, though domestic stocks are the primary investment asset class, 10% to 30% of the portfolio is invested in short-duration fixed-income investments.

Downside Volatility: Growth investors can anticipate a downturn in their account value an average of three out of every 10 years. Short-term drops of as much as **20%** can occur.

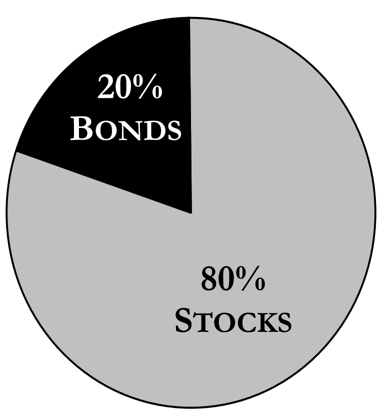
Minimum Time Period: Growth investors should be committed to an investment time period of at least 10 years.

Target Return: The average annual long-term pre-tax return goal of Growth Investors should be approximately 9% after deduction of all fees and expenses.

SHORT-TERM VOLATILITY POTENTIAL ON $1,000,000 ACCOUNT VALUE



NORMAL ASSET ALLOCATION



Growth of $1,000,000 at 9% Average Annual Return	
Term	**Value**
1 year	$1,090,000
3 years	$1,295,029
5 years	$1,538,624
10 years	$2,367,364
20 years	$5,604,411

The Balanced Growth Investor

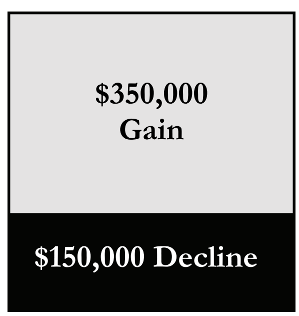
Objective: The primary objective of Balanced Growth investors is also long-term growth of capital. However, they have a heightened sensitivity to short-term drops in account value, which leads them to an even greater acceptance of more moderate long-term return potential. While domestic stocks still make up the majority of these investors' portfolios, exposure to short-duration fixed-income investments will range from 30% - 50% of portfolio values.

Downside Volatility: Balanced Growth investors can anticipate a downturn in their account value an average of 2 out of every 10 years. Short-term drops of as much as **15%** can occur.

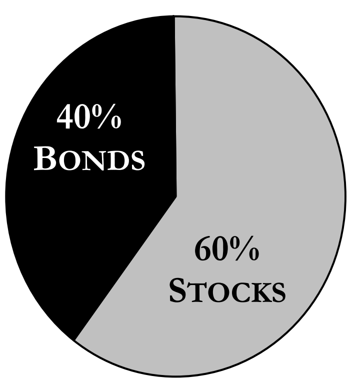
Minimum Time Period: Balanced Growth investors should be committed to an investment time period of at least 8 years.

Target Return: The average annual long-term pre-tax return goal of Balanced Growth investors should be approximately 7% after deduction of all fees and expenses.

Short-Term Volatility Potential On $1,000,000 Account Value



Normal Asset Allocation



Growth of $1,000,000 at 7% Average Annual Return	
Term	**Value**
1 year	$1,070,000
3 years	$1,225,043
5 years	$1,402,552
10 years	$1,967,151
20 years	$3,869,684

The Conservative Growth Investor

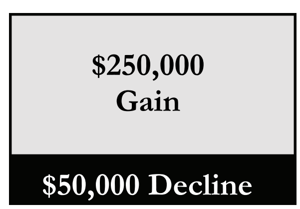
Objective: Though Conservative Growth investors do want their capital to grow, they are much more willing to forgo greater growth opportunities if doing so will decrease the severity of short-term dips in account value. With Conservative Growth investors, short-duration fixed-income securities normally comprise the majority of portfolio holdings, while domestic stocks comprise between 30% - 50% of the portfolio.

Downside Volatility: Conservative Growth investors can anticipate a downturn in their account value an average of three out of every 20 years. Short-term drops of as much as **5%** can occur.

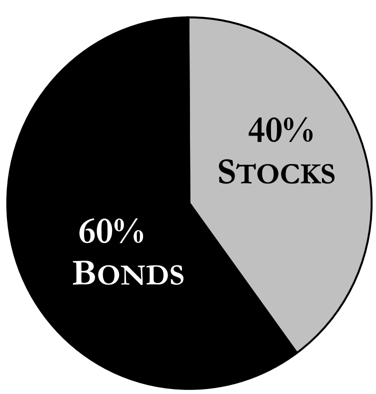
Minimum Time Period: Conservative Growth investors should be committed to an investment time horizon of at least 5 years.

Target Return: The average annual long-term return goal of Conservative Growth investors should be approximately 5% after deduction of all fees and expenses.

Short-Term Volatility Potential On $1,000,000 Account Value



Normal Asset Allocation



Growth of $1,000,000 at 5% Average Annual Return	
Term	**Value**
1 year	$1,050,000
3 years	$1,157,625
5 years	$1,276,282
10 years	$1,628,895
20 years	$2,653,298

The Capital Preservation Investor

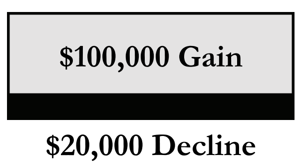
Objective: Capital Preservation investors want to make certain that, at a minimum, the purchasing power of their principal is always preserved. There is little tolerance for downside volatility of any magnitude, even in the short-term. At all times, short-duration fixed-income investments make up the entirety of Capital Preservation investor portfolios.

Downside Volatility: Capital Preservation investors rarely experience a downturn in their account value and when it does occur it is usually of very limited magnitude and for a very limited period of time.

Minimum Time Period: There is practically no minimum investment time horizon for Capital Preservation investors.

Target Return: The average annual long-term return goal of Capital Preservation investors should be approximately 3% after deduction of all fees and expenses.

Short-Term Volatility Potential On $1,000,000 Account Value



Normal Asset Allocation

Growth of $1,000,000 at 3% Average Annual Return

Term	Value
1 year	$1,030,000
3 years	$1,092,727
5 years	$1,159,274
10 years	$1,343,916
20 years	$1,806,111

Disclosures

The return and volatility statistics for each of the five investor types are based on the historical performance characteristics of domestic stocks and short-duration, fixed-income securities over the past 20 years, under normal market conditions. While the long-term past gives us an indication as to how asset classes may perform in the future, in no way should that history be construed as a guarantee of future performance.

Average annual returns do not mean fixed returns. They are the long-term averages of fluctuating annual returns. The more stock exposure, the greater the short-term fluctuation potential.

All Thomas Smith and Associates portfolios maintain a minimum amount of cash, normally no more than 2%, to provide needed liquidity to easily cover management fees.

Choosing Your Investor Type

Now that you have closely reviewed the five investor types, give careful consideration as to which one best describes your return objectives and your ability to withstand short-term decreases in account value. Please understand that there is no "free-lunch" in investing. History has demonstrated that withstanding greater levels of short-term volatility is the price you pay for having an opportunity to achieve higher long-term returns. Consider carefully, in terms of your own investment account, the potential short-term drop you might experience in each portfolio type. It is better to choose a more conservative asset allocation and stay the course than to choose a more aggressive allocation and find yourself tempted to abandon that allocation at what will most likely end up being the worst possible time.

Completing the Process

Now that you have determined your general investor type, it is time to take into account specifics that are unique to you so that a customized investment strategy can be developed. At the end of this brochure is a questionnaire that allows us to gather particulars regarding tax concerns, legal constraints, current income needs, liquidity needs and other issues of which we need to be aware in order to complete the process. After you finish this questionnaire we will create an investment policy statement which we will review with you to confirm that an appropriate investment strategy has been devised. After this review and the completion of any final adjustments to the strategy, we feel certain that you will want to begin, what we all hope will be, a long and successful investment relationship with Thomas Smith and Associates.