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WHITE OAKS "THREE FLAVORS"

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Fee-only planning and wealth management firms play a vital role for individuals seeking to assure long-term financial security for themselves and future generations. Quite different than firms that manufacture and distribute financial products, a fee-only firm's sole mission is to help clients meet their objectives and not to see how fast they can scale a new product or how deep they can cross-sell their products and services through their customer base. Not that "selling" is a bad thing, but having conflicts with other departments whose objective is to maximize the asset base and develop compensation and incentive systems to "encourage" the sale of those "internal" products is a potential conflict in the business of providing objective advice.

Our firm, White Oaks Wealth Advisors, Inc., is a fee-only firm whose bread and butter is only in providing advice. We have no sales department and no one is on commission. There are no outside parties that we pay money to for referring business to us nor do we accept any compensation from third party sources. Our business grows when clients and allied advisors, such as attorneys and CPA's, think enough of our work to refer someone who we may be a good fit with.

In the process of helping clients meet long-term objectives White Oaks does assist clients with investing to meet their objectives, provides ongoing advice and manages portfolios as part of its core purpose and mission to "Simplify The Complexities of Wealth" for our clients. We understand that one size does not fit all and offer various ways of doing so, in an effort to maximize our impact, while taking into account individual biases and preferences for a certain and acceptable way of managing assets. These "models" or "flavors" of investing are all acceptable and useful ways for clients to meet their long-term needs for capital. The balance of this piece is to explain and differentiate them to those who have an interest in the topic and to understand the differences.

Decision 1: Passive or Active

The decision to use a "Passive" or "Index" fund is one of the primary decisions of portfolio design. The proponents of the "Passive" approach basically have two positions they take: 1) That 80% of active managers underperform the market and 2) that the costs associated with index fund investing is much lower therefore reducing returns less.

Both positions are true and both strategies work well when implemented and ongoing over sight is rigorously employed. So why don't most people use a passive approach? Simply because they believe they can find and access "active" managers and thereby outperform indexes. That being said, some do not and that is why we have the **Strategic Minimalist™** model to meet ***the client's objective*** in the way they want to do it. Studies have shown that most of the return comes from allocation decisions and this model implements that approach. White Oaks also recognizes that it requires less work on the fund selection process so our fee for this approach is the lowest at .50%.

Active:

It should not be surprising that 80% of the managers underperform a benchmark. After all it simply follows the centuries old "Pereto Principle" where it was observed that 80% of success comes from 20% of the effort. We see it all the time in endeavors such as performers, athletics, corporate teams and virtually everything we see. Imagine a professional sports team where every member of the team was the top tier athlete. Stunning results would occur consistently. While a team, or two, may appear to have the top star at every position that is seldom the true outcome.

Active investing is for those who prefer and seek "above average" results. This is much more work than just looking at a list of index funds or ETF's and making a selection. It requires a deeper and broader search and investigation to ascertain if the outstanding performance can, and is, likely to continue. This work by necessity must be highly process oriented and be an ongoing effort to be successful. Doing a lot of work once, and not continuing the process on a monthly or quarterly basis, will eventually end up with a portfolio that will be the equivalent of a 1970's kitchen decorating scheme with those "harvest gold" or "avocado" colored appliances.

White Oaks offers three broad active process approaches. One using mutual funds and ETF's, a second using separately managed account platforms and third, a pooled investing approach.

There are differences among the three approaches in order to meet client needs and expectations. The first two are very familiar and commonly used approaches that can be found with some variation and a great many financial planning and wealth management firms. We view the first two approaches as "retail" in nature since they involve picking product offerings off the shelf. Since these approaches are widely used there can be a feeling of comfort by some who like to feel they are doing things in a mainstream fashion. These approaches are common on platforms like Schwab, Fidelity, TD Ameritrade and the large warehouse firms like Merrill Lynch, Morgan Stanley, etc. Using platforms such as these often have higher costs at the product level. The reason is that virtually all the platforms ask for and receive a form of compensation to "have the product available to their representatives". These higher cost products are the ones most clients have in their portfolios since they are on the "approved product list" without transaction fees. For the most part the customers are not aware that the trade off is
.25-.50% of their portfolio balance to avoid a $25 fee. Usually not a good trade off! White Oaks avoids these excess costs in our **Mindful Traditionalist™** approach. The **Mindful Traditionalist™** models are best suited for those individuals who are looking for a more traditional, active approach to portfolio management.

Over ten years ago White Oaks saw a change happening in the investing marketplace where the platforms mentioned above were adding more costs to the process without adding much in the way of client value. Access for high quality investment opportunities has always been one where the Ultra High Net Worth individual/family had an advantage for both access and costs. Those individuals/families with $100,000,000 to deploy clearly had an advantage. We also observed that the large firms/platforms were telling us they would provide access for us. While in some cases it appeared to be true, the reality turned out to be that those firms we were being presented with as opportunities, in actuality had decided to "pay to play" on the platforms. When we evaluated performance against our own, using the **Mindful Traditionalist™** approach as our benchmark, we saw disappointing results. Why would this be true? Turns out our more "open architecture approach of screening all opportunities turned up better choices than the ones that had gone through the "compensation committee" of the large firms/platforms.

So White Oaks engaged in a process to ascertain how we could gain an advantage for our clients based on our size, values and mission to "Simplify the Complexities of Wealth" for clients. We examined a number of different methodologies and firms to implement ways to gain advantage for our clients. If we could do that we would ensure our place with them and plant the best seeds possible for future organic and sustainable growth.

Many very wealthy families pool assets to enjoy the wider access and lower costs for their portfolios. The **Mindful Progressive™** approach is one developed by White Oaks to serve the needs of our clients. Let's start the discussion with **access**. The notion that someone with a larger sum of money can access more ideas may be possible for many. First, there are quite a few that, due to regulatory requirements, require an investor to be an *accredited investor* as defined by the SEC. An accredited investor needs to represent that they have a minimum of $1,000,000 of net worth *excluding* the value of personal residences used as residences. Institutions need to have $5,000,000 and that

excludes many people from the get go. While this is an issue, most of White Oaks clients meet this requirement. The bigger issue is the minimum for the investment idea itself. Let's say for example an investor wanted to allocate 10% of a portfolio to Real Estate. Let's further say that the portfolio value is $3,000,000. That would suggest an allocation of $300,000. Now you find the "perfect" investment vehicle but, it has an investment minimum of $1,000,000. Good idea but, can't do it. Family Offices pool the assets of the family to be able to invest in high quality ideas and not overexpose themselves to one idea. The five White Oaks pooled strategies have buying power of $250,000,000 plus. That means a 10% allocation to Real Estate could access $25,000,000 of these ideas with $1,000,000 minimums. It is very unlikely to access 25 ideas since that would be overkill but, certainly could access a number to increase exposure to great ideas. Yet, at the same time, there are ideas/managers that have $5,000,000 and higher minimums. As you might easily conclude these are very high quality ideas/mangers that command that type of minimum. Also it allows access to "private" approaches that offer many advantages. As many asset classes have become more liquid via ETF's and Mutual Funds the impact of the diversification has been muted. Our belief is, the more you make something look like a stock and provide ease of trading in and out of a position, the more you will likely increase its volatility. This is the exact opposite of what diversification is intended to do. By adding these "private" ideas the portfolio's returns tend to be less "market" like and deliver more consistent performance over time than relative to a specific benchmark like the S&P 500. This will benefit those seeking to minimize the impact of market volatility. Of course, there will be times when the market volatility will appear to be a positive. Using these approaches are long-term in nature and their performance should be judged that way. An investment that is designed to provide consistent returns of 9% per year should not be compared to the market when it goes up 20%. That is also true when the market is -20%. Yes, the 9% looks pretty good but, diversification reduces risk and improves results over the long-term. Those who are looking to track such a benchmark will likely be both frustrated and joyous at times with a truly diversified approach. Diversification works consistently over the long-term and is a design element that improves the probability of success over the long-term.

The **White Oaks Mindful Progressive™** process has five strategies designed to bring a level of diversification and is usually only possible with portfolios of $100,000,000 or more.

Costs are also an important consideration. As one can imagine, if one can bypass the *compensation committee* of the large platforms mentioned above, and negotiate with larger sums of money, significant costs can be shaved from the process. It is not uncommon to negotiate significant savings from the retail pricing of separate accounts and mutual funds often as high as .50-.80%. This narrows the price differential between the "passive" and "active" approaches significantly.

Trade offs:

Few would not want to avail themselves with increased access and lower costs. There are trade offs that need to be considered. First, the liquidity is once per month in the **Mindful Progressive™** strategies. Since the strategies are only valued once per month there is less liquidity and visibility to values intra-month. While this is not a problem for the long-term investor it certainly does not fit the needs of the closet market timer who feels the need to make a change with each hiccup of the markets. This works to the advantage of the long-term investor since there is little need to react to the liquidity needs of the retail marketplace. We place the underlying holdings for our strategies on our web site in a password, protected area for investors to view on a monthly basis to give interim visibility. Another feature is that the strategies are all audited each year by Mayer, Hoffman and McCann and the audit results are delivered to clients. Combined with an independent trust company that does the monthly valuations and provides custody and independent client account statements assures that the maximum level of safety and security are employed for clients.

Summary:

Each of our three broad investing models, **Strategic Minimalist™, Mindful Traditionalist™ and Mindful Progressive™** have their advantages and disadvantages. Which is best? The one you feel most comfortable with since it is "your money" after all. Each offers a pathway to a successful outcome in oder to meet goals and objectives. The following chart summarizes some of the high level advantages and disadvantages of each. We will happily employ the one that offers the best fit.

Chart continues on next page.

	Strategic Minimalist	**Mindful Traditionalist**	**Mindful Progressive**
Advantages	Lowest absolute cost	Daily liquidity and Valuation	Access to unique ideas
	Assures average result	Potential to outperform	Lower cost active approach
	Daily Liquidity	Public Information	Access to high minimum managers
	Public Information		Independent audit
			Tax information summarized of K-1
			Less overall interim paperwork
			Potential to outperform
			Less tracking to market movements

	Strategic Minimalist	Mindful Traditionalist	Mindful Progressive
Disadvantages	Liquid Market exposure	Liquid Market Exposure	Monthly Valuation and Liquidity
	Retail ideas	Retail ideas	
	Confirms, reports prospectus	Confirms, reports, prospectus	
	Overall performance not subject to audit	Overall performance not subject to audit	