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Stewart Wealth Management: Strategic Wealth Builder

Unique & Powerful Wealth Management
Strategies

Investment Philosophy for Liquid Investments

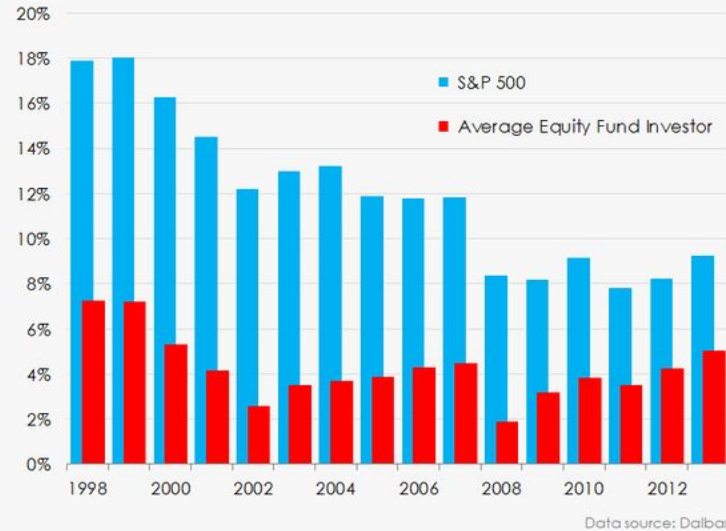
Focus on Exchange Traded Funds (ETFs)

- Our philosophy is 80% of investment returns will be a byproduct of asset allocation and client behavior. Taxes, fees, and ability to continually add to portfolio through all market cycles are also contributing factors that impact returns.
- Traditional Active Management, defined by picking individual stocks or active mutual funds, has been proven to be a less profitable strategy than dollar cost averaging into a diversified portfolio allocated to several passive index funds. (ETFs) Data shows only 20% of managers beat an intended index over a 20 year period (gross of tax). If we measure the after-tax performance (net number), it decreases substantially because mutual funds are NOT tax efficient.
- Modern Portfolio Theory states that several index funds of different correlation is how the foundation of each portfolio should be built. (Markowitz, 1952) These 11 ETFs/asset classes can be defined as “The 11 Pillars of Wealth Building”.

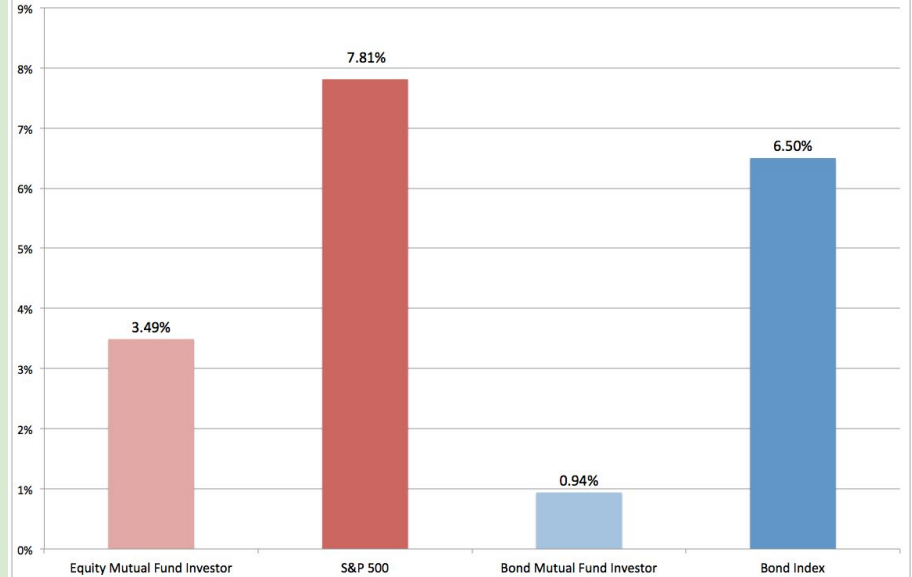
DALBAR Study on Investor Returns & Behavior

Long-Term Annualized Investor Returns

Based on 20-year time periods except for 1998-2002



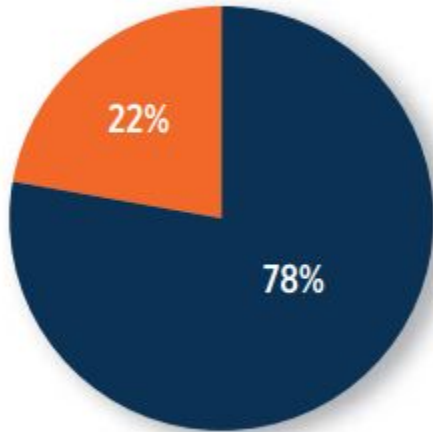
Actual Investor Returns vs. Benchmarks 1991 - 2011



Taxation of ETFs vs Mutual Funds

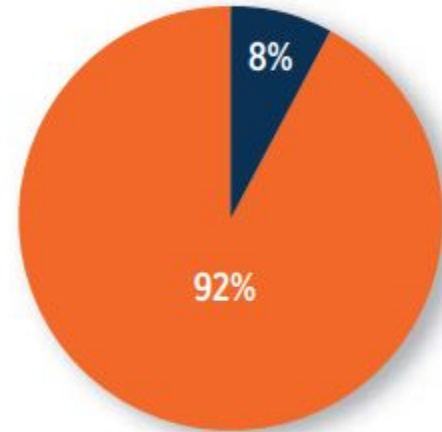
SWM

Chart 1
Total US Equity Open-End Funds



■ % Mutual Funds with 2014 Capital Gains Distribution
■ % Mutual Funds without 2014 Capital Gains Distribution

Chart 2
Total US Equity ETFs



■ % U.S. ETFs with 2014 Capital Gains Distribution
■ % U.S. ETFs without 2014 Capital Gains Distribution

Expense Ratios of ETFs vs Mutual Funds

ETFs .04% -.18%

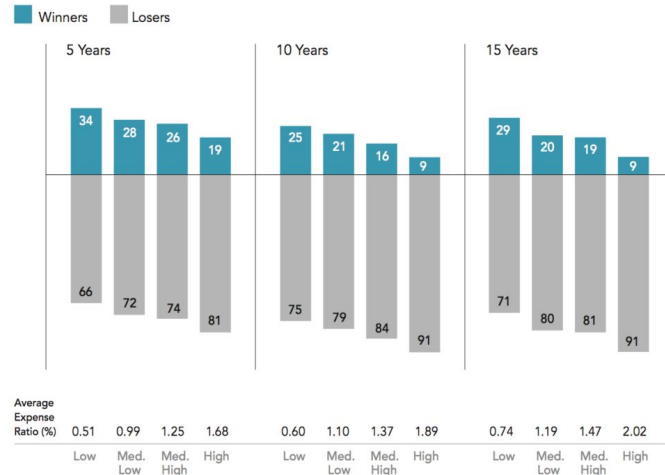
Mutual Funds .5% to 1.8%

ETF EXPENSE RATIOS		
Category/Fund	Ticker	Expense Ratio
U.S. Stock		
Vanguard Total Stock Market ETF	VTI	0.06%
Schwab US Broad Market ETF	SCHB	0.04%
iShares Core S&P Total U.S. Stock Market ETF	ITOT	0.07%
International Stock		
Vanguard Total International Stock Index ETF	VXUS	0.18%
Schwab International Equity ETF	SCHF	0.09%
iShares Core MSCI Total International Stock ETF	IXUS	0.16%
Bond		
Vanguard Total Bond Market ETF	BND	0.10%
Schwab US Aggregate Bond ETF	SCHZ	0.05%
iShares Core Total U.S. Bond Market ETF	AGG	0.08%

Source: Vanguard, Schwab, iShares

Exhibit 4.1 High Costs Make Outperformance Difficult—Equity Funds

Winners and losers based on expense ratios (%)



The 11 Pillars to Build Wealth-Macro Index Funds

US STOCKS

Capital growth, long-run inflation protection, tax efficiency

FOREIGN DEVELOPED STOCKS

Capital growth, long-run inflation protection, tax efficiency

EMERGING MARKET STOCKS

Capital growth, long-run inflation protection, tax efficiency

DIVIDEND GROWTH STOCKS

Capital growth, income, long-run inflation protection, tax efficiency

US GOVERNMENT BONDS

Income, low historical volatility, diversification

CORPORATE BONDS

Income, low historical volatility, diversification

EMERGING MARKET BONDS

Income, diversification

MUNICIPAL BONDS

Income, low historical volatility, diversification, tax efficiency

TREASURY INFLATION-PROTECTED SECURITIES (TIPS)

Income, low historical volatility, diversification, inflation protection

REAL ESTATE

Income, diversification, inflation protection

NATURAL RESOURCES

Diversification, inflation protection, tax efficiency

Investment Philosophy for Liquid Investments

- Building the core (11 Pillars) of your retirement portfolio with low cost ETFs from Schwab/Vanguard/Powershares is the prudent way to go for the pragmatic investor. Warren Buffett is now preaching this strategy to all investors regardless of the investor's net worth. The 2 and 20 hedge fund world and the 2% mutual fund/managed account account programs are facing price compression.
- The trends in assets under management in ETFs have exploded while separately managed accounts and high fee mutual funds have been bleeding assets at rapid and alarming rates.
- Robo advisors who manage an ETF allocation for an extremely low .35% aum fee annually (Wealthfront, Betterment) have had growing success, but they don't have a solution for the bond bubble and they have a DIY dashboard with zero service.
- Active management in the bond space have had better results as ETFs do not get the same tax efficiencies as equity ETFs.

Investment Philosophy for Liquid Investments

- SWM will help investors make small plan adjustments and avoid extreme emotional moves. DALBAR studies revealed that individual investors tend to pull money from the markets at inopportune times and have received only 50-60% returns of intended benchmark returns of US Stock, US REIT, US Bond or INTL Stock over the last 30 years. The studies, that track inflow and outflow of funds in both equities and fixed income, show poor market timing as investors continually “panic sell” during market corrections and “panic buying” back in too late as markets have already rebounded.
- SWM will start portfolio construction using low cost core foundations in Large cap, Mid cap, Small cap, Dividend, International, and Emerging market stock etfs instead basket of managed stocks or managed mutual funds. This is primarily due to low costs as well as beneficial tax treatment of ETFs vs annual capital gains managed mutual funds and heavy turnover with stock picking/trading.
- Core/satellite portfolio management is a strategy which builds the portfolio using a large “core” group of investments with a complement of smaller “satellite” positions. SWM uses a combination of exchange traded funds and income producing index funds to build the core. The core or foundation of each portfolio is strategically designed for long term investment, with relatively low turnover. The satellite positions are smaller opportunistic holdings that tend to be shorter term investments than its core holdings. Together, the strategies seek to deliver consistent performance, diversification, and a portfolio with several non-correlating assets.

The 12th Pillar- Real Estate

Investment Philosophy for Non-Liquid Investments

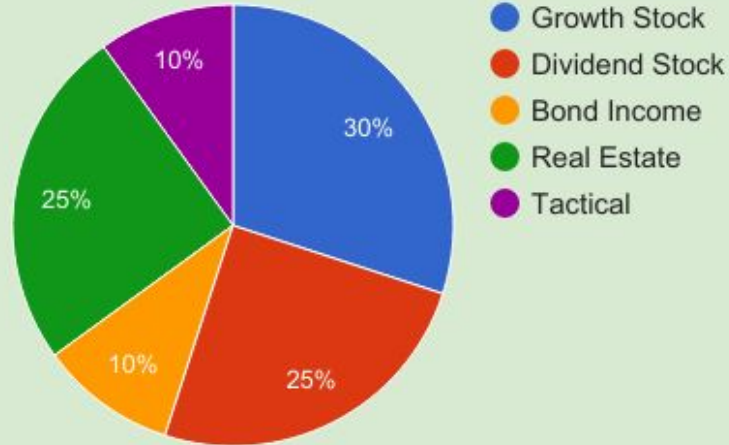
For accredited investors, Stewart Wealth Management has the ability to recommend private real estate investments that complement a portfolio of liquid ETFs. We feel like we have a competitive advantage over big Wall Street firms by incorporating low volatility income producing assets in a portfolio. We are fiduciaries who advise based on client needs and receive no compensation from any investment. Partnering with real estate firms that have like minded goals in both philosophy and execution is something that can make a tremendous difference in a client's allocation, total returns, taxation, and level of portfolio drawdown in market corrections. We know that tangible real estate can be illiquid over the course of several years and therefore advise accordingly with this particular asset class.

Most financial planners, brokers, or advisors will most likely recommend investments in insurance based products. Annuities, permanent insurance, or variable annuities have extremely high hidden fees, and are not liquid. In addition, they have high penalties if money is needed before the 7-10 year holding periods. Most policies are written with inflexible rules hidden in pages of jargon. They are, for the most part, good for the planners, and not the client. We very rarely will turn to annuities, and if the client requests it, we refer it to outside sources. If one is to make substantial monetary commitments to illiquid investments, tangible real estate is a far superior investment for a client than insurance products.

Setting Your Macro Asset Allocation

Example

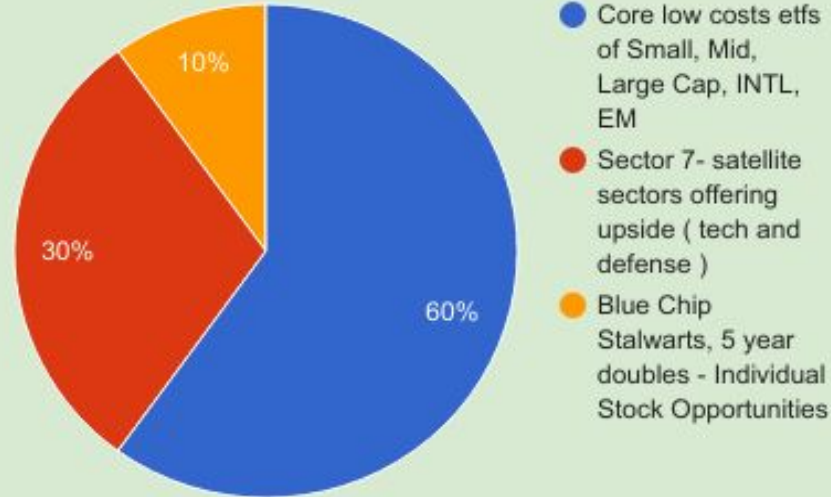
MACRO



Growth Stock Allocation

Example

Growth Stock



Growth ETF Universe

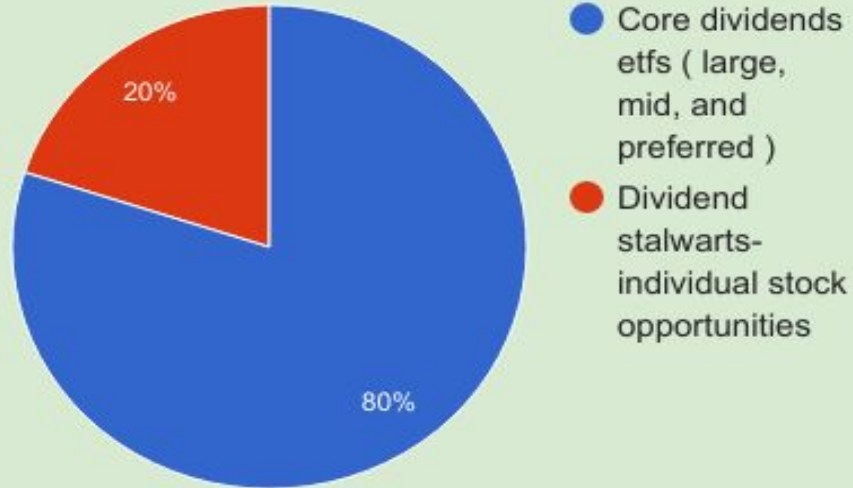
Core 4 ETFs with Satellite Sector Universe

Large Cap S&P 500 (SCHB & RSP)	Nasdaq 100 (QQQ)	Mid Cap 400 (SCHM)	Small Cap 600 (SCHA)	Emerging Markets (SCHE)	INTL (SCHF)	Insider Buying (KNOW)
Momentum (PDP)	Health Care (VHT)	Financial (RYF)	Defense (PPA)	Construction (PKB)	Buyback (PKW)	Semis (PSI)
Insurance (KBWP)	Software (PSJ)	Leisure (PEJ)	Natural Resources (GNR)	Biotech (PBE)	Retail (PMR)	Utilities (XLU)
Energy (XLE)	Media (PBS)	Drugs (PJP)	Industrials (XLI)	Water (FIW)	Food (PBJ)	Internet & Tech (PNQI)

Dividend Stock Allocation

Example

Dividend Stock



Dividend ETF Universe

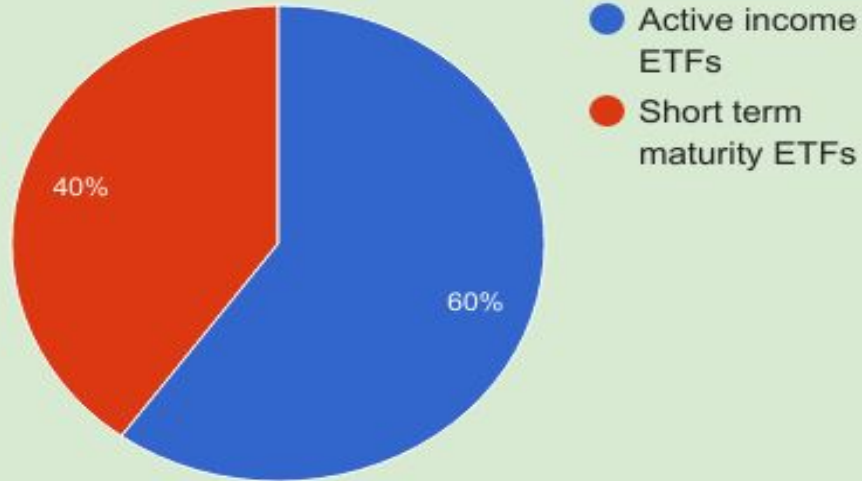
Dividend & Value ETFs

S&P 500 High Dividend (SPHD)	Schwab Built to Last Index (SCHD)	Value Line Dividend & Safety (FVD)	Preferred Stock Index (PGX/PFF)	Emerging Markets Dividend (DEM)
International Dividend (VYMI)	Multi-asset Dividend (MDIV)	Financial Dividend (KBWD)	Vanguard Value/Div (VTV)	REITS (VNQ & KBWY)

Bond - Income Allocation

Example

Bond Income



Bond ETF Universe

Bond Income ETFs

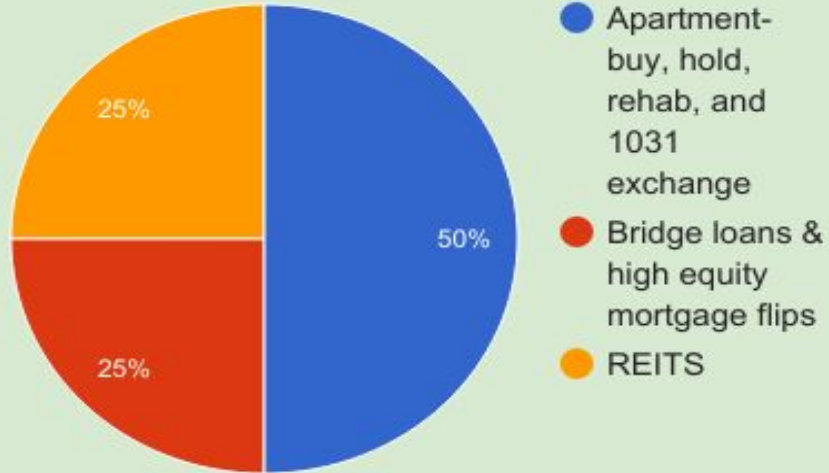
Yield Curve Management & Proceeding with Caution

Government (TLT)	Emerging Market Debt (PCY)	High Yield (HYG/HYLS)	International Bond (BNDX)
Total Return (BOND/TOTL)	Municipal (MUB)	Corporate (VCSH & LQD)	Inflation protected (TIP)

Real Estate Investments

Example

Real Estate



Real Estate Investment Universe

Real Estate Investment Trust ETFs

Private Real Estate Investments 12th Pillar

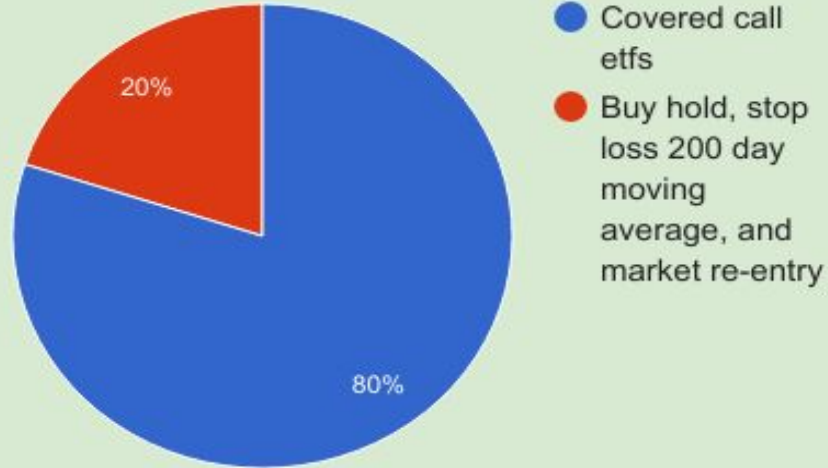
Large Cap REIT ETF (VNQ/SCHH)	Global REIT ETF (RWO)	Private 1st Notes	Value Add Apartment LLCs
Small Cap REIT ETF (KBWY)	Mortgage REITs (REM)	Secured Bridge Loans	Preferred Return Investments

Tactical Investments

Income

Alternatives

Tactical



Tactical Investment Universe

ETFs using non buy and hold strategies

Nasdaq 100 Covered Calls (QYLD)	Hedge Fund Holdings ETF (ALFA)	200 DAY Moving Average Stop loss (PTNQ)	Dividend Stocks & Covered Call ETF (FTHI)
S&P 500 Covered Call (HSPX)	Put Writing ETF (PUTW)	High Vol index Put Writing (HVPW)	Tactical Allocation (HTUS)

Develop Goals, Risk, Budget & Allocation

- SWM risk & behavior assessment on website
- Long-term net worth goals
- Passive Income goals
- MACRO Pillars and MICRO Sectors allocation
- Expectations & capital market assumptions
- Analyze asset class valuation vs historic valuations
- Tax Strategy
- Take action with “Core Satellite” strategy

SWM Goal- Each unique client receives ongoing ideal allocation for current economic environment

- Asset class selection
- Client behavior & trust
- Overcoming the Dalbar effect- (half of intended benchmark!)
- Dollar cost averaging
- Tax loss harvesting & rebalancing
- Tracking & reporting
- Weathering the market cycles, having the resources to hold real estate and stocks during the trough
- Buying “core 4” during 3-7% corrections
- Satellite sector -quant trend analysis
- Monitor, make small adjustments, wait for opportunities

Stewart Wealth Management

Equity Capital Market Assumptions- Next 10 Years

	US Stock	US Stock	US Stock	US Stock	US Stock	INTL	INTL
	Large Cap	Mid Cap	Small Cap	Dividend	Option Income	Developed	Emerging
Forecast-growth	7.000%	8.000%	8.000%	5.00%	3.500%	5.500%	6.000%
Forecast-income	1.500%	1.00%	1.000%	3.50%	4.000%	1.500%	2.000%
Volatility	High	High	High	Moderate	Low	High	High
total return forecast	8.50%	9.00%	9.00%	8.5%	7.500%	7.00%	8.00%

Stewart Wealth Management

Income Capital Market Assumptions- Next 10 Years

	BONDS- ST	BONDS-IT	BONDS	Preferred	Real Estate	Real Estate	Real Estate
	High Quality	High Quality	High Yield	Stock	REITS	Equity -Apt. Ownership	Debt Ownership
Forecast-growth	-.25%	-.75%	-.250%	-.5%	1.50%	5.000%	0.000%
Forecast-income	1.75%	3.20%	5%	6%	4.500%	7.000%	7.500%
Volatility	Low	Low	Moderate	Low	Moderate	Low	Low
total return forecast	1.5%	2.75%	4.50%	5.5%	6%	12%	7.5%

Stewart Wealth Management

Long Term Partnership

Looking for clients/ partners who share similar philosophy

Understand & trust our process

Mutual respect & service

Willing to pay a fee higher than a robo advisor but lower than big Wall Street firms

Investor Challenges

Lowered capital market assumptions with traditional 60/40 allocation/target date funds

Income generation in current Bond Bubble

Overcoming behavior Gap (Greed & Fear)

Inflation

Longevity

Taxation

Capital market assumptions

Strong dollar environment

5% rule in retirement-sticking to budget

Investor Opportunities

The US Dollar is strong and both emerging and international markets continue to lag in performance since the great recession

The US stock market is strong in comparison to all other markets and the valuations are slightly above historical valuations

Rates on the 10 year bond are low, which gives stand alone property in real estate favorable borrowing rates

Bond investors are buying into a bubble, keep maturities short

Banks are still pretty tight in regards to lending, which gives private real estate funds opportunity to lend to investors/flippers

The U.S is no longer dependant on middle east for oil production

Tax reform could be a significant catalyst in years ahead for Corporations