Ranstrom Financial Planning Services, LLC

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Thoughts and Comments Winter 2012

All the individuals at our firm had a very busy summer this past year. I, on the other hand, bicycled across America. In addition to all their normal responsibilities, they were in the process of establishing a new structure for our firm and enhancing the options we provide our clients. Both are intended to meet what I believe are the challenges and opportunities of a new financial planning and money management world.

While I biked, the rest of our staff, led by Ryan and Courtney who did most of the heaving lifting, established a new Registered Investment Advisor (RIA), Ranstrom Financial Planning Services, LLC. The new RIA meets two objectives:

- We have a very talented group here and it allows me to have partners or other owners in the firm which we have done. In addition to me, Ryan, Courtney, and Morgan are now owners of the firm. The structure also allows us to add additional partners in the future. I have always said that financial planning and money management is an ongoing process, not a one-time event. We believe in long-term relationships and have worked with many of our clients for over 20 years. Our goal is to continue to serve your financial needs now and into the future. This structure assures a commitment to both our present and future.
- I believe the investment world changed after 2000 and I believe it changed again after 2008. In my estimation, the investment world will be increasingly global, volatile, and fast-paced. We will continue to recommend a broadly diversified portfolio allocated among a wide variety of asset classes providing investors with the best combination of long-term return balanced against reasonable risk or volatility. At the same, opportunities, fundamentals, and economic conditions can change rapidly. To meet this challenging new world, in addition to individual accounts, we will be offering models which, within the framework of the model, will give us flexibility to make rapid changes in allocation when either perceived opportunities or risks suggest we do so. Below is additional information on the models.

The one thing that has not changed is our objective of providing you with the combination of the best financial planning and money management services we can.

Enclosed is a Household Performance Statement for 2011. It provides summary information for your portfolio and a comparison to two benchmarks — the Morgan Stanley Capital International (MSCI) World Index and Barclays Capital 1-3 Month T-Bill. (Note: You may not invest directly in an index.) The MSCI World Index benchmark reflects a 100% stock allocation and the Barclays Capital 1-3 Month T-Bill a very conservative investment. A specific portfolio return is related to the allocation for that portfolio. Regarding the report, please note the following:

- 2011 was an interesting year, though not a particularly good one. Conservative interest rates were virtually zero and the stock market was volatile. The global stock market as measured by the MSCI World Index at one time in April had a gain of about 8%, then declined to -20% in early October and recovered somewhat the last quarter to -10% for the year. We expect this type of volatility to continue short-term, but long-term we believe the global stock market will continue to grow and it is important to maintain a presence in it.
- A second report reflects the return for the last three calendar years, 2009-2011. As you can see, we were very competitive with the upside of the Index during the three year time period despite being greatly diversified and only partially invested in equities, thus reducing the overall risk in the portfolio. This report also reflects the need to maintain a long-term perspective. The market value of your portfolio both increased and decreased at different times but has increased significantly since the end of 2008.
- Note: There are a wide variety of comparative stock market indices, two of the most common are the

S&P Index and the Dow Jones Industrial Average. We primarily use the MSCI World Index because it reflects the global stock market. The MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI World Index consists of 45 country indices comprised of 24 developed and 21 emerging market country indices.

If you have questions on the enclosed reports or your portfolio, be sure to call or email.

An Update on Refinancing Your Mortgage and Taxes from Ryan

Depending on individual circumstances, we suspect most people have refinanced their mortgage in the last two years. Even if that is the case, it may be worth your while to see if refinancing will save you some money.

As Morgan points out in his market update, the yield on the 10-year Treasury has been driven down to under 2%. As investors continue to pile into US Treasuries, mortgage rates continue to fall. In February the average 30-year mortgage would have carried a rate around 5%. Rates are now closer to 4%, with solid borrowers at an average of 3.95% (some of the lowest figures on record).

One of the consequences of the recent real estate bust is that to qualify for these great rates you will be required to show more documentation and jump through more hoops than ever before with your banker. But on the flip side, demand for your refinance business is also at all time highs. The number of people refinancing is relatively low, because of the aforementioned fact that most people have already taken advantage of already historically low rates over the last two years. That factor is leading some lenders to try and win your business.

Of course, closing costs and how long you plan to stay in your current home may not make refinancing a smart decision. We are happy to help you calculate if a refinance is the right move for you.

See the enclosed "2012 Tax Update" for our thoughts on current and proposed tax legislation.

On an unrelated note, I am very excited about the future of Ranstrom Financial Planning and our newly created RIA. I am very fortunate to work with great clients and colleagues. Becoming a partner with Doyle, Courtney, and Morgan in our new entity solidifies my goal of being a part of RFP for the indefinite future. I truly enjoy helping all of you with your financial goals.

An Update on Our Discretionary Investment Models from Courtney

As part of our transition to the RIA, we wanted to offer discretionary models. We built three core models in which our clients can invest. Because the models are discretionary, we are able to make trades without prior approval or additional paperwork, allowing us to make changes quickly in investment selection and overall allocation. Below is an overview of our three core models.

RFPS Absolute Return Portfolio

- The objective of this Portfolio is to achieve maximum total return with an emphasis on preservation of capital.
- The Portfolio invests in Exchange Traded Funds (ETFs), Exchange Traded Notes (ETNs), mutual funds, and bonds at the discretion of the portfolio manager.
- The Portfolio is benchmarked to the BofA Merrill Lynch 3-Month US Treasury Bill Index.
    - The BofA Merrill Lynch 3-Month US Treasury Bill Index is an unmanaged index of US Treasury securities maturing in 90 days. It is not possible to invest directly in an index. Historical performance of the index illustrates market trends and does not represent the past or future performance of the fund.
- The Portfolio allocates among a wide variety of global bond sectors, bond-related strategies, and non-traditional asset classes. Non-traditional asset classes may include global currency strategies or managed futures. There will be no direct equity investment within the Portfolio. The Portfolio will not invest over 50% of assets in any given investment and under normal market conditions will be widely diversified. However, under certain market conditions the Portfolio does have the ability to move 100% to cash. The Portfolio does have the ability to invest in individual bonds; however, under most market conditions

the Portfolio will be invested in underlying mutual funds and ETFs.

RFPS Global Spectrum Portfolio

- The objective of this Portfolio is to achieve long-term real return over a full market cycle while attempting to reduce volatility by investing in a broadly diversified portfolio of global assets.
- The Portfolio invests in ETFs, ETNs, mutual funds, stocks, and bonds at the discretion of the portfolio manager.
- The Portfolio is benchmarked to 50% MSCI World Index/50% Barclays Capital US TIPS 1-10 Year Index.
    - The MSCI World Index is a free-float-adjusted market capitalization index which is designed to measure global developed market equity performance. It is not possible to invest directly in an index.
    - The Barclays Capital US TIPS 1-10 Year Index is an unmanaged market index comprised of US Treasury Inflation Linked Indexed securities having a maturity of at least 1 year and less than 10 years.
- The Portfolio allocates among a wide variety of global equity and bond sectors as well as non-traditional asset classes. Non-traditional asset classes may include global currency strategies, inflation-related strategies such as commodities, managed futures, long/short equity strategies, and short strategies (funds or ETFs that have a net short position on the market). The Portfolio will never invest over 15% of assets in any given investment and under normal market conditions will be widely diversified. However, under certain market conditions the Portfolio does have the ability to move 100% to cash. Additionally, the Portfolio has the ability to invest in individual bonds and stocks; however, under most market conditions the Portfolio will be invested in underlying mutual funds and ETFs.

RFPS Unconstrained Spectrum Portfolio

- The objective of the Portfolio is to achieve long-term real return by investing in a wide array of global assets.
- The Portfolio invests in ETFs, ETNs, mutual funds, stocks, and bonds at the discretion of the portfolio manager.
- The Portfolio is benchmarked to the MSCI World Index.
- The Portfolio allocates among a wide variety of global equity and bond sectors as well as non-traditional asset classes. Non-traditional asset classes may include global currency strategies, inflation-related strategies such as commodities, managed futures, long/short equity strategies, and short strategies (funds or ETFs that have a net short position on the market). The Portfolio has the ability to take large positions in any of the 'best ideas' of the Portfolio Management Team. Specifically, the Portfolio can invest up to 50% in any given investment. Additionally, under certain market conditions the Portfolio does have the ability to move 100% to cash. The Portfolio can also invest in individual bonds and stocks; however, under most market conditions the Portfolio will be invested in underlying mutual funds and ETFs.

An Update on the Markets from Morgan

First and foremost, I hope you had a blessed and mindful holiday season. I suspect that 2012, similar to 2011 and for that matter every year before it, will be full of events both welcome and unwelcome. May we all have the strength and serenity to sit with both. I write this not to be a fatalist; in fact, quite contrary to that my intention is to acknowledge the limits of our very knowing. Indeed, within the investment world it has become quite obvious that we live at the nexus of that which is known and unknown. The newest buzzword I keep reading is 'multiple equilibria' – the idea that there are various equilibriums into which the present economic environment could revert to. Put simply, no one knows what 'normal' is anymore and the confidence intervals which we place around our 'base scenarios' have become smaller and smaller. Indeed, uncertainty exists. To that end, my prediction for 2012 is simple: more of the same.

The sins of the decade leading up to the recent financial crisis and Great Recession were many, but one facet of the housing bust was the certainty with which we all believed home prices would continue to increase. Quite obviously, this was untrue and the future was much more uncertain than any carefully put together financial model could have forecast. The same could be said for the Tech Boom in the late 90s or the stock market crash of 1929-32. More recent examples include the well propagated forecasts of unheralded inflation due to Federal Reserve quantitative easing (the latest core-CPI reading was 2.2% and trending downward) as well as the impending US Treasury bust (the 10-year Treasury Bond was sitting at 1.89% as of December 30th). In fact, given these examples, we may be sure of one thing: the consensus blows.

My reluctance to give the traditional list of predictions has less to do with any fear of being wrong (I am quite certain I would be) and more to do with the uselessness of such an endeavor. Better to focus on the current environment, study the series of events that got us here, and acknowledge the opportunities and risks present. With these facets in mind, though there are no guarantees, we will attempt to prudently allocate capital to the best of our abilities. For 2012, our promises to you are simple—we shall continue to think differently, we will strive to uncover the areas where consensus beliefs may be wrong, we will not get caught up in predictions, and we will be students of the past. Most importantly, we will come to work every single day mindful of your efforts in accumulating your savings as well as the trust you have instilled in us. Regarding the investment branch of RFPS, our New Year's resolution is simple: to humbly earn that trust every single day.

Here is to a joyous and peaceful 2012!