McAdam Investment Advisory

Portfolios Designed for You

Your | Life Goals Plan

Investors today are overwhelmed.

Twenty-four hour news-cycle.
Information overload.
Decision fatigue.

In an ever-changing world, you need a time-tested investment strategy to help you reach your financial goals.

McAdam SDS is a solution designed to provide you with a core investment strategy based on decades of portfolio research to help you reach your investment objectives.

We seek to provide...

- Consistent risk adjusted investment returns.
- A personalized portfolio based on your investment objectives and tax situation.
- A disciplined investment approach with advanced portfolio rebalancing.
- Customization based on your current investments.

McAdam Strategic Diversification Service (SDS) is a portfolio management program based on our implementation of Strategic Asset Allocation.

Only available for McAdam clients.

What is Strategic Asset Allocation?

Investment strategy derived from decades of research on portfolio theories starting with the Modern Portfolio Theory (MPT). The primary focus is on asset allocation and broad diversification. Market risk (or systematic risk) is mitigated through broad diversification and downside risks are managed through exposure to various asset classes. This strategy tries to maximize portfolio returns for each risk level through a technique called "mean variance optimization."

Designed to Help You Avoid Common Investor Mistakes

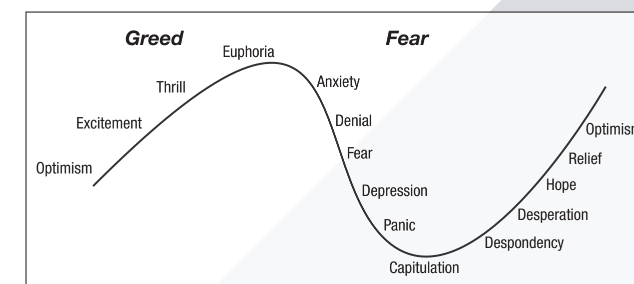
S | D | S
Strategic Diversification Services

Common Investor Mistake #1

Buying High and Selling Low

"Be fearful when others are greedy and greedy when others are fearful." - Warren Buffett

Emotions During Market Cycles



Overcoming The Greed-Fear Cycle

Working with your McAdam Advisor and the SDS program can help you avoid this cycle.

Understanding your emotional reactions to market cycles and setting a clearly identified investment objective is the first step towards overcoming this cycle.

Studies on investor behavior consistently show that average investors have a tendency to buy and sell at the wrong time. A recent report shows a wide gap (ranging from 2.41% to 8.19%) between market return and average investor return[1].

Why Do Investors Buy High and Sell Low?

Insights from Behavioral Finance

1. Emotion Over Intention

When investors make investment decisions based on emotional reactions to a gain or a loss, it often results in buying towards the top and selling near the bottom of a market cycle (see the "Emotions During Market Cycles").

Behavioral research shows that a majority of our everyday decisions are made through heuristics, resulting in various systematic cognitive and emotional biases[2]. These biases, when left unchecked, often cause our emotions to override our intentions.

2. Investing in the Past (Performance Chasing)

Many investors are drawn to the highest past investment returns. This strategy often leads to buying overvalued assets or investing with managers at the peak. Similar to the famous "Sports Illustrated Curse," where an athlete who is featured on the magazine cover is "cursed" with a slump in the next season, a period of poor performance often follows a period of extraordinary performance due to mean reversion.

Whether the investment is in small cap stocks, gold, energy or a five star mutual fund manager, investment selection solely based on past performance will often result in excess portfolio risk and poor returns.

The SDS program is designed to take advantage of broad market opportunities without chasing performance.

[1] Source: Dalbar's 26th Annual Quantitative Analysis of Investor Behavior (2019) This gap measures the estimated difference between the market return and actual investor returns. For example, while the S&P 500 had an annualized return of 11.06%, the average equity fund investor only had 3.79% over the past 30 years for a gap of 7.27%. The performance gap in other periods are as follows: 20 years (4.66%), 10 years (2.41%), 5 years (5.26%), 3 years (5.59%), 1 year (8.19%). The average equity investor return is an estimate of dollar weighted investment return using mutual fund inflows, outflows, and change in total mutual fund assets. This method captures realized and unrealized capital gains, dividends, interests, trading costs, sales charges, fees, expenses and any other costs.

[2] A heuristic is a set of rule that we follow without actively engaging higher brain function that may account up to 90% of our everyday decisions. Behavioral research shows that heuristics based decision-making helps us make efficient decisions without becoming overwhelmed with hundreds of decisions we face every day. Well known systematic behavioral biases influencing investment decisions include: loss aversion, overconfidence, endowment bias, mental accounting, confirmation bias and hindsight bias. (Simons, Tversky & Kahneman)

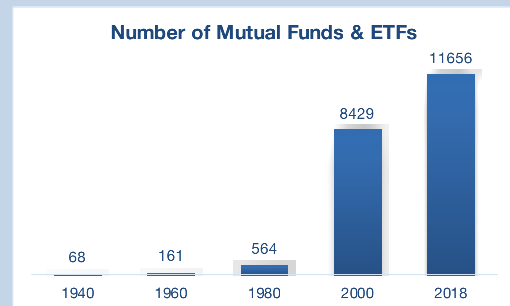
Designed to Help You Avoid Common Investor Mistakes

S | D | S
Strategic Diversification Services

Thousands of mutual funds, ETFs, stocks, and bonds...

How do you choose your investments?

From the humble beginnings starting with the Investment Company Act of 1940, the number of mutual funds exploded in the past thirty years.



*Total number of open-ended mutual funds and exchange trade funds excluding funds that primarily invest in other mutual funds such as target dated funds.
Source: 2019 Investment Company Fact Book: A Review of Trends and Activities in the U.S. Investment Company Industry: 59th Edition.

Example of Inertia Bias & Over-Diversification

Recent research into 401(k) participant behavior reveals that the most popular investment choice is the plan default*. In other words, most 401(k) participants are not making investment decisions based on their own risk tolerance or financial goals. Rather, they are passively allowing the plan default to dictate the path of their future retirement. Furthermore, the study found the likelihood of inaction increased as the number of investment options increased.

The second most popular investment choice was to equally allocate between all available fund options. As a result, a plan's average allocation to stocks increased as the ratio of stock/bond funds increased. This shows that many participants practiced "naive diversification" instead of portfolio optimization.

*Thaler and Benartzi: Save more tomorrow, Choi, Laibson, Madrian and Metrick: multiple journal articles.

Common Investor Mistake #2
Ineffective Diversification

One of the key components of a successful investment strategy is through effective diversification. However, many investors today are not properly diversified.

Potential problems leading to ineffective diversification:

- Concentrated holdings
- Position overlap across multiple mutual funds
- Excessive exposure to sector/credit/duration
- "Naive diversification"

Choice Overload - New Challenge for Today's Investors
Investors today have access to more investment options than ever before, but the vast number of choices may be contributing to poor investor behavior. When investors are confronted with too many choices, they often make suboptimal decisions in one of two ways: inertia bias or over-diversification.

Inertia Bias
Inertia bias describes our tendency to stay with our past decisions or not make a decision. Behavioral research suggests that the inertia bias increases as the number of choices rise.

Over-diversification
Another common behavior when confronted with a complex decision is to choose some of everything. Instead of making an optimal choice by carefully analyzing each of the given options, many people practice what some researchers call "naive diversification."

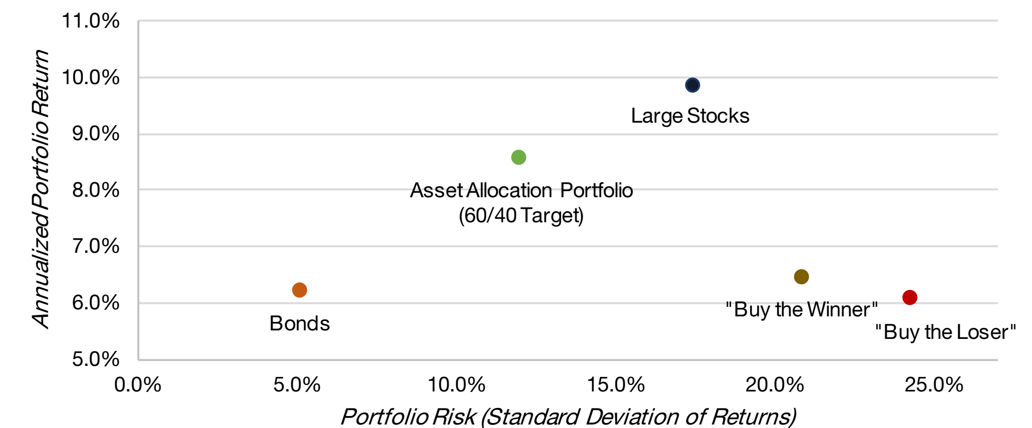
The tendency towards inertia bias and over-diversification bias are both forms of passive indecision. With the exponential increase in the choices in every facet of the modern life, the resulting information overload and decision fatigue may be causing many investors to make ineffective diversification decisions.

Common Investor Mistake #3
Ineffective Strategies

The most common strategy mistake is not having a coherent investment strategy. Many investors invest in something they don't understand and hope that it will work out. Some equate investing with gambling, and adopt ineffective strategies which often result in large unexpected losses and high portfolio volatility.

Examples of ineffective strategies:
The graph below shows hypothetical results of two popular but generally ineffective strategies compared with a standard asset allocation portfolio:

1. Buy last year's winner (return chasing)
2. Buy last year's loser (contrarian)



Using asset class return data from 1990 (shown on the next page), the "Buy the Winner" strategy invested in the best performing asset class of the previous year and the "Buy the Loser" strategy invested in the worst performing asset class of the previous year.

Compared to the risk/return profile of US stocks, bonds, or a globally allocated 60/40 asset allocation portfolio[3], both of these ineffective strategies have increased portfolio risk without additional investment returns.

"Hope is Not a Strategy"
- Vince Lombardi

The SDS program is designed to give you a global diversification based on your objectives and risk tolerance.

[3] Source: Standard & Poor's, Russell, MSCI, Bloomberg, J.P. Morgan Asset Management, Barclays Capital, FactSet. The asset returns are the total returns of following market indexes: Stocks: S&P 500, Bonds: Barclays Capital Aggregate. The "Asset Allocation Portfolio" shown represents a basic asset allocation strategy with 60% stocks and 40% bonds with simple annual rebalancing. Returns for "Buy the Winner" strategy was calculated by choosing the best asset class during the previous year (e.g. the best asset class for 2013 was Small Cap Growth (43.3%), so Small Cap Growth was selected for 2014 return (5.6%). Returns for the "Buy the Winner" strategy was calculated by choosing the worst asset class during the previous year The Asset Allocation portfolio return is based on the following allocation: Large Cap Stocks (10%), Large Growth (10%) Large Value (10%), Small Cap Stocks (5%), Small Growth (5%), Small Value (5%), International (10%), Emerging Markets (5%), Bonds (30%), and HY Bonds (10%). See disclosures on next page for specific indexes to represent these asset classes. Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. No representation is made that any client will or is likely to achieve profits or losses similar to those shown. The performance numbers do not include advisory fees, trading costs, or other fees or charges incurred by an investor.

Steps Towards a Better Portfolio

Starts with A Disciplined Investment Process

S D S
Strategic Diversification Services

Your Financial Objectives - The Foundation of Your Investment Strategy

The first step in developing a sound investment strategy is for you and your Financial Advisor to have a clear understanding of your investment objectives, time horizon, attitude toward risk and liquidity needs. Starting with a clear investment objective will help avoid some of the common investment mistakes and will serve as the foundation in developing your investment strategy.

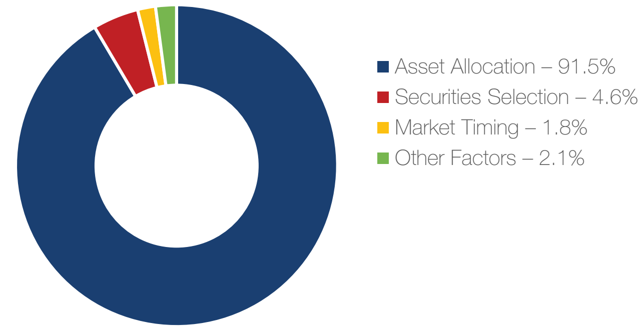
Asset Allocation - Determining the Right Mix

After understanding your investment objective, your Financial Advisor will be able to assist you in selecting the most appropriate portfolio. Each portfolio within the program is constructed using principles of asset allocation.

Put simply, asset allocation is the division of assets among stocks, bonds and cash. According to several academic studies, asset allocation decision is responsible for over 90% of a portfolio's results*.

* Source: Brinson, Hood and Beebower (1986), Brinson, Singer and Beebower (1991)

* For mutual fund returns, Ibbotson and Kaplan (2000) concludes that while asset allocation explains about 40% of variability among mutual funds when using cross-sectional data, it explains about 90% when using time-series data.



The Importance of Diversification

Equally as important as asset allocation is diversification. Diversification involves incorporating different investment styles such as large cap value, small cap value, international and emerging market stocks into your portfolio. Even for the bond asset class, adding various fixed income style such as TIPS, high yield bonds, and floating rate bonds can add diversification benefits. The goal of diversification is to mitigate risk associated with a single type of security in your portfolio.

A Case for Diversification

The chart below shows the annual asset class returns over the past 30 years. Each color represents an asset class and they are ordered from the highest return on top to the lowest return on the bottom for each year.

The chart shows that asset class returns are generally unpredictable from year to year. By investing in a diversified portfolio with consistent rebalancing, an investor is able to systematically buy when asset classes are relatively cheap and sell when they are relatively expensive.

30 Years of Asset Class Returns (1990 to 2019)

Annual Return

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Highest Return	Bonds 9.0%	Emerging Mkt. Stocks 59.9%	Small Cap Value 29.1%	Emerging Mkt. Stocks 74.8%	Int'l Stocks 7.8%	Large Cap Growth 38.1%	Large Cap Growth 24.0%	Large Cap Growth 36.5%	Large Cap Growth 42.2%	Emerging Mkt. Stocks 66.4%	Small Cap Value 22.8%	Small Cap Value 14.0%	Bonds 10.3%	Emerging Mkt. Stocks 56.3%	Emerging Mkt. Stocks 26.0%
	Large Cap Growth 0.2%	Small Cap Growth 51.2%	Small Cap Stocks 18.4%	Int'l Stocks 32.6%	Large Cap Growth 3.1%	Large Cap Stocks 37.6%	Large Cap Stocks 23.0%	Large Cap Stocks 33.4%	Large Cap Stocks 25.6%	Small Cap Growth 43.1%	Bonds 11.6%	Bonds 8.4%	HY Bonds -1.4%	Small Cap Growth 48.5%	Small Cap Value 22.3%
	Large Cap Stocks -3.1%	Small Cap Stocks 46.0%	HY Bonds 18.3%	Small Cap Value 23.8%	Large Cap Stocks 1.3%	Large Cap Value 37.0%	Large Cap Value 22.0%	Small Cap Value 31.8%	Int'l Stocks 20.0%	Large Cap Growth 28.2%	Large Cap Value 6.1%	HY Bonds 5.3%	Emerging Mkt. Stocks -6.0%	Small Cap Stocks 47.3%	Int'l Stocks 20.3%
	Large Cap Value -6.9%	HY Bonds 43.2%	Emerging Mkt. Stocks 11.4%	Small Cap Stocks 18.9%	Large Cap Value -0.6%	Small Cap Growth 31.0%	Small Cap Value 21.4%	Large Cap Value 30.0%	Large Cap Value 14.7%	Int'l Stocks 27.0%	Small Cap Stocks -3.0%	Small Cap Stocks 2.5%	Small Cap Value -11.4%	Small Cap Value 46.0%	Small Cap Stocks 18.3%
	HY Bonds -8.5%	Small Cap Value 41.7%	Large Cap Value 10.5%	Large Cap Value 18.6%	Small Cap Value -1.5%	Small Cap Stocks 28.5%	Small Cap Stocks 16.5%	Small Cap Stocks 22.4%	Bonds 8.7%	Small Cap Stocks 21.3%	HY Bonds -5.9%	Emerging Mkt. Stocks -2.4%	Int'l Stocks -15.9%	Int'l Stocks 38.6%	Large Cap Value 15.7%
	Emerging Mkt. Stocks -10.6%	Large Cap Growth 38.4%	Small Cap Growth 7.8%	HY Bonds 18.3%	Small Cap Stocks -1.8%	Small Cap Value 25.6%	HY Bonds 11.4%	Small Cap Growth 13.0%	HY Bonds 1.9%	Large Cap Stocks 21.0%	Large Cap Stocks -9.1%	Small Cap Growth -9.2%	Small Cap Stocks -20.4%	Large Cap Value 31.8%	Small Cap Growth 14.3%
	Small Cap Growth -17.4%	Large Cap Stocks 30.5%	Large Cap Stocks 7.6%	Small Cap Growth 13.4%	Small Cap Growth -2.4%	HY Bonds 19.2%	Small Cap Growth 11.3%	HY Bonds 12.8%	Small Cap Growth 1.2%	Large Cap Value 12.7%	Int'l Stocks -14.2%	Large Cap Value -11.7%	Large Cap Value -20.8%	HY Bonds 29.0%	HY Bonds 11.1%
	Small Cap Stocks -19.5%	Large Cap Value 22.6%	Bonds 7.4%	Large Cap Stocks 10.1%	HY Bonds -2.6%	Bonds 18.5%	Int'l Stocks 6.1%	Bonds 9.6%	Small Cap Stocks -2.6%	HY Bonds 2.4%	Large Cap Growth -22.1%	Large Cap Stocks -11.9%	Large Cap Stocks -22.1%	Large Cap Stocks 28.7%	Large Cap Stocks 10.9%
	Small Cap Value -21.8%	Bonds 16.0%	Large Cap Growth 5.1%	Bonds 9.8%	Bonds -2.9%	Int'l Stocks 11.2%	Emerging Mkt. Stocks 6.0%	Int'l Stocks 1.8%	Small Cap Value -6.4%	Bonds -0.8%	Small Cap Growth -22.4%	Large Cap Growth -12.7%	Large Cap Growth -23.6%	Large Cap Growth 25.7%	Large Cap Growth 6.1%
Lowest Return	Int'l Stocks -23.5%	Int'l Stocks 12.1%	Int'l Stocks -12.2%	Large Cap Growth 1.7%	Emerging Mkt. Stocks -7.3%	Emerging Mkt. Stocks -5.2%	Bonds 3.6%	Emerging Mkt. Stocks -11.6%	Emerging Mkt. Stocks -25.3%	Small Cap Value -1.5%	Emerging Mkt. Stocks -30.6%	Int'l Stocks -21.4%	Small Cap Growth -30.3%	Bonds 4.1%	Bonds 4.3%

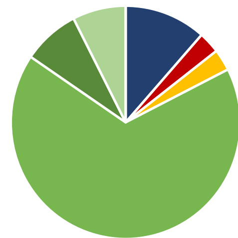
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Long-Term Average Return	Long-Term Average Risk (σ)
Highest Return	Emerging Mkt. Stocks 34.5%	Emerging Mkt. Stocks 32.6%	Emerging Mkt. Stocks 39.8%	Bonds 5.2%	Emerging Mkt. Stocks 79.0%	Small Cap Growth 29.1%	Bonds 7.8%	Emerging Mkt. Stocks 18.6%	Small Cap Growth 43.3%	Large Cap Growth 14.9%	Large Cap Growth 5.5%	Small Cap Value 31.8%	Emerging Mkt. Stocks 37.3%	Bonds 0.0%	Large Cap Value 31.9%	Emerging Mkt. Stocks 15.0%	Emerging Mkt. Stocks 33.2%
	Int'l Stocks 13.5%	Int'l Stocks 26.3%	Int'l Stocks 11.2%	HY Bonds -26.2%	HY Bonds 58.2%	Small Cap Stocks 26.9%	HY Bonds 5.0%	Small Cap Value 18.1%	Small Cap Stocks 38.8%	Large Cap Stocks 13.7%	Large Cap Stocks 1.4%	Small Cap Stocks 21.3%	Large Cap Growth 27.4%	Large Cap Growth 0.0%	Large Cap Stocks 31.5%	Small Cap Value 13.7%	Small Cap Growth 21.8%
	Large Cap Value 5.8%	Small Cap Value 23.5%	Large Cap Growth 9.1%	Small Cap Value -28.9%	Small Cap Growth 34.5%	Small Cap Value 24.5%	Large Cap Growth 4.7%	Large Cap Value 17.7%	Small Cap Value 34.5%	Large Cap Value 12.4%	Bonds 0.6%	Large Cap Value 17.4%	Int'l Stocks 25.0%	HY Bonds -2.1%	Large Cap Growth 31.1%	Large Cap Growth 13.4%	Int'l Stocks 21.7%
	Large Cap Stocks 4.9%	Large Cap Value 20.8%	Small Cap Growth 7.1%	Small Cap Stocks -33.8%	Int'l Stocks 31.8%	Int'l Stocks 19.2%	Large Cap Stocks 2.1%	Int'l Stocks 17.3%	Large Cap Growth 32.8%	Bonds 6.0%	Int'l Stocks -0.8%	HY Bonds 17.1%	Small Cap Growth 22.2%	Large Cap Stocks -4.4%	Small Cap Growth 28.5%	Large Cap Stocks 13.1%	Small Cap Stocks 18.5%
	Small Cap Value 4.7%	Small Cap Stocks 18.4%	Bonds 7.0%	Large Cap Growth -34.9%	Large Cap Growth 31.6%	Bonds 15.1%	Large Cap Value -0.5%	Small Cap Stocks 16.4%	Large Cap Stocks 32.4%	Small Cap Growth 5.6%	Small Cap Growth -1.4%	Large Cap Stocks 12.0%	Large Cap Stocks 21.8%	Large Cap Value -9.0%	Small Cap Stocks 25.5%	Large Cap Value 12.7%	Large Cap Growth 18.5%
	Small Cap Stocks 4.6%	Large Cap Stocks 15.8%	Large Cap Stocks 5.4%	Large Cap Stocks -37.0%	Small Cap Stocks 27.2%	Large Cap Value 15.1%	Small Cap Growth -2.9%	Large Cap Stocks 16.0%	Large Cap Value 32.0%	Small Cap Stocks 4.9%	HY Bonds -2.7%	Small Cap Growth 11.3%	Large Cap Value 15.4%	Small Cap Growth -9.3%	Small Cap Value 22.4%	Small Cap Stocks 12.3%	Small Cap Value 18.2%
	Small Cap Growth 4.2%	Small Cap Growth 13.4%	Large Cap Value 2.0%	Small Cap Growth -38.5%	Large Cap Stocks 26.5%	Large Cap Stocks 15.1%	Small Cap Stocks -4.2%	HY Bonds 15.8%	Int'l Stocks 22.8%	Small Cap Value 4.2%	Large Cap Value -3.1%	Emerging Mkt. Stocks 11.2%	Small Cap Stocks 14.1%	Small Cap Stocks -11.0%	Int'l Stocks 22.0%	Small Cap Growth 11.2%	Large Cap Stocks 16.5%
	Large Cap Growth 4.0%	HY Bonds 11.9%	HY Bonds 1.9%	Large Cap Value -39.2%	Large Cap Value 21.2%	Large Cap Growth 15.0%	Small Cap Value -5.5%	Large Cap Growth 14.6%	HY Bonds 7.4%	HY Bonds 2.5%	Small Cap Stocks -4.4%	Large Cap Growth 6.9%	Small Cap Value 7.8%	Small Cap Value -12.9%	Emerging Mkt. Stocks 18.4%	Int'l Stocks 11.1%	Large Cap Value 15.9%
	HY Bonds 2.7%	Large Cap Growth 11.0%	Small Cap Stocks -1.6%	Int'l Stocks -43.4%	Small Cap Value 20.6%	HY Bonds 7.8%	Int'l Stocks -12.1%	Small Cap Growth 14.6%	Bonds -2.0%	Emerging Mkt. Stocks -1.8%	Small Cap Value -7.5%	Bonds 2.7%	HY Bonds 7.5%	Int'l Stocks -13.8%	HY Bonds 14.3%	HY Bonds 10.2%	HY Bonds 14.5%
Lowest Return	Bonds 2.4%	Bonds 4.3%	Small Cap Value -9.8%	Emerging Mkt. Stocks -53.2%	Bonds 5.9%	Emerging Mkt. Stocks 6.5%	Emerging Mkt. Stocks -18.2%	Bonds 4.2%	Emerging Mkt. Stocks -2.3%	Int'l Stocks -4.9%	Emerging Mkt. Stocks -14.9%	Int'l Stocks 1.0%	Bonds 3.5%	Emerging Mkt. Stocks -14.6%	Bonds 8.7%	Bonds 7.9%	Bonds 6.9%

Source & Disclosures: Standard & Poor's, Russell, MSCI, Bloomberg, J.P. Morgan Asset Management, Barclays Capital, FactSet. The asset class returns are the total returns of following market indexes: Large Cap Stocks: S&P 500, Large Cap Value: S&P 500 Value, Large Cap Growth: S&P 500 Growth, Small Cap Stocks: Russell 2000, Small Cap Value: Russell 2000 Value, Small Cap Growth: Russell 2000 Growth, Emerging Mkt Stocks: MSCI Emerging Market, Int'l Stocks: MSCI EAFE, HY Bonds: Barclays HY Index, Fixed Income: Barclays Capital Aggregate. Long-term averages were calculated using 40 years of annual data from 1980 to 2019 except for Emerging Mkt. Stocks which began in 1988. Past performance is no guarantee of future results. Asset allocation and diversification do not guarantee a profit or eliminate the risk of loss. Average return is calculated as an arithmetic mean. Risk is measured as the standard deviation of annual returns. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. No representation is made that any client will or is likely to achieve profits or losses similar to those shown. The performance numbers do not include advisory fees, trading costs, or other fees or charges incurred by an investor.

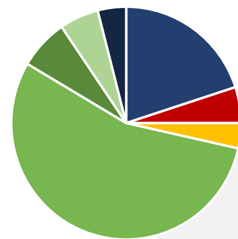
Choosing a Portfolio Allocation

Which SDS Portfolio is Right For You?

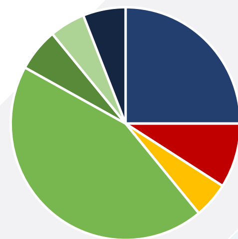
In helping you choose the right portfolio allocation, your McAdam financial planner will work with you to help clarify your financial objectives, determine the time horizon, and understand your risk tolerance.



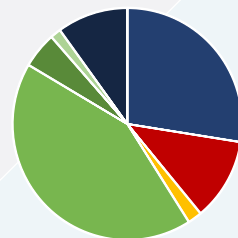
Conservative
Equity Target: 15%
Domestic Stocks: 11.5%
International Stocks: 3.0%
Fixed Income: 75.0%
ST Bonds/Cash: 7.5%
Alternatives: 3.0%



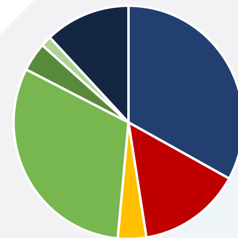
Conservative+
Equity Target: 30%
Domestic Stocks: 24.0%
International Stocks: 5.0%
Fixed Income: 62.0%
ST Bonds/Cash: 5.5%
Alternatives: 3.5%



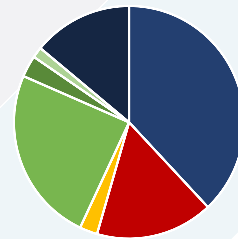
Cons-Moderate
Equity Target: 40%
Domestic Stocks: 31.5%
International Stocks: 7.5%
Fixed Income: 52.5%
ST Bonds/Cash: 4.5%
Alternatives: 4.0%



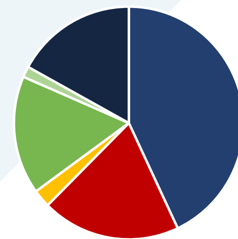
Moderate 50
Equity Target: 50%
Domestic Stocks: 37.5%
International Stocks: 11.5%
Fixed Income: 47.5%
ST Bonds/Cash: 1.5%
Alternatives: 2.0%



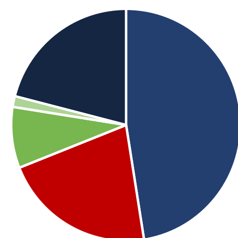
Moderate 60
Equity Target: 60%
Domestic Stocks: 44%
International Stocks: 14.5%
Fixed Income: 37.5%
ST Bonds/Cash: 1.5%
Alternatives: 2.5%



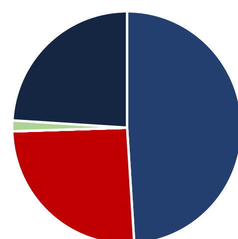
Moderate 70
Equity Target: 70%
Domestic Stocks: 52%
International Stocks: 16.5%
Fixed Income: 27.5%
ST Bonds/Cash: 1.5%
Alternatives: 2.5%



Mod-Aggressive
Equity Target: 80%
Domestic Stocks: 60%
International Stocks: 19.5%
Fixed Income: 16.5%
ST Bonds/Cash: 1.5%
Alternatives: 2.5%



Aggressive
Equity Target: 90%
Domestic Stocks: 68.5%
International Stocks: 21.5%
Fixed Income: 8.5%
ST Bonds/Cash: 1.5%
Alternatives: 0%



Aggressive+
Equity Target: 100%
Domestic Stocks: 73%
International Stocks: 25.5%
Fixed Income: 0%
ST Bonds/Cash: 1.5%
Alternatives: 0%

*Portfolio composition is for the advanced models and is current as of 2/1/2020 and is subject to change without notice.
The target allocation shown is for illustration purposes only and may not accurately reflect actual account allocations. For an updated target allocations, please contact us or your McAdam advisor. Actual account composition may deviate from the target due to market fluctuations but will generally be within a specified drift tolerance from the target. Please review the McAdam ADV brochures and applicable investment policy statement for a complete description of any variances or drift tolerance permitted in your account.

S | D | S
Strategic Diversification Services

SDS Portfolio Variations

Choose from four portfolio variations

Advanced Portfolio Series

Core active-passive asset allocation portfolio built using a combination of actively managed mutual funds and index ETFs. Each portfolio contains 12 to 20 asset classes.

Tax Sensitive Series

This portfolio is a tax sensitive version of the advanced portfolio. Most taxable bonds are replaced with tax-free municipal bonds and funds are further screened for historical tax costs and potent taxable gains.

ETF Series

Portfolio implementation using only passive exchanged traded funds (ETF). ETF only portfolios have lower internal expenses but typically experience more volatility compared to active-passive portfolios.

McAdam Investment Philosophy

Cornerstone investment philosophies that guide our investment strategies.

Objective Dependent

We believe, for most investors, beginning with a specific objective leads to better investment decisions. Whether the objective is funding a specific goal, long-term liability matching, or accumulating a short-term reserve; we begin our client engagements by understanding our client's objectives. A clearly articulated investment objective also benefits our investors by helping them better frame their risk tolerance, liquidity needs, and return expectations.

No "Perfect" Investment

There is no single investment or investment strategy that will provide optimal results through all market scenarios for achieving our clients' objectives. Our experiences tell us most investors make poor investment decisions when they are constantly swayed by promises of best short-term gains. Rather than striving for the "best" investment solution, we strive to provide consistent advice and investment strategies tailored towards our clients' goals.

Process is Primary, Results are Secondary

Superior short-term investment return without a clear and understandable process is generally not repeatable. When crafting or recommending investment strategies, we believe that having a clear understanding of the underlying process and its assumptions is more important than results alone.

On Market Efficiency

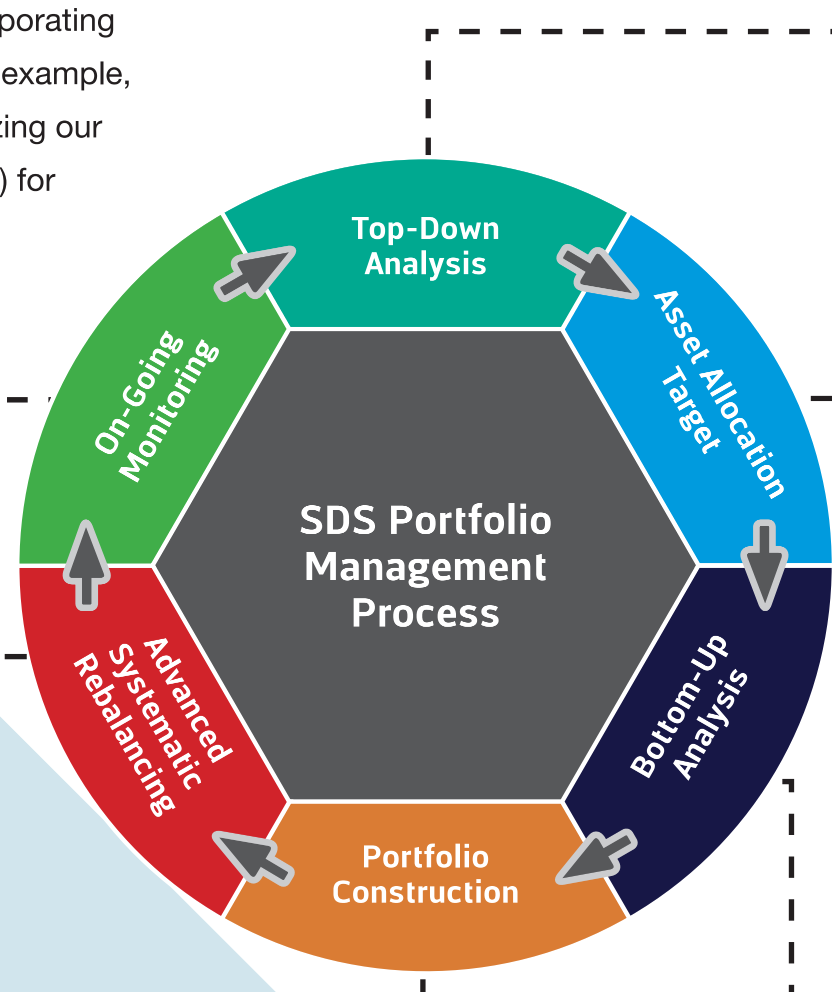
We believe the EMH (Efficient Market Hypothesis) only partially describes the market (stock market, bond market, etc.). While the market may be more efficient during certain periods, the market efficiency may not be consistent across time. During times of economic crisis or "irrational exuberance," the market may become much more inefficient. By combining actively managed strategies and passive indexing strategies, our goal is to provide better risk adjusted investment returns while reducing cost.

SDS Portfolio Management Process

SDS | Strategic Diversification Services

Disciplined. Research-Driven. Systematic

Starting with the Modern Portfolio Theory, we improve our process by incorporating other research and advancements in the field of portfolio management. For example, we use insights from the Arbitrage Pricing Theory (Fama-French) for optimizing our asset allocation and Post-Modern Portfolio Theory (Fishburn, Chen, Sortino) for improving our risk analysis framework.



Top-Down Analysis
(Economic & Market Conditions)

Our portfolio construction starts with the analysis of economic factors known to influence the stock market and the bond market.

- Macroeconomic Trends & Indicators
- Fiscal Outlook
- Monetary Policy Environment
- Interest Rate Expectation
- Inflation Expectation
- Business Cycle

Asset Allocation Target
(Select Asset Classes & Set Target)

90% Strategic, 10% Tactical

For each portfolio, stock/bond mix and asset classes are selected based on the portfolio's risk tolerance. Starting from a neutral allocation, a small tactical shift is made based on the results of the top-down analysis.

Steps for setting asset allocation targets:

Step	Details	
Select Broad Stock/Bond Mix	The broad stock/bond mix is determined by the client's risk tolerance and return objectives.	
Asset Class Selection	For each portfolio, 12 to 20 asset classes are selected for inclusion for portfolio design.	
Equity (Stock) Allocation	• Domestic vs. International • Large Cap Stocks vs. Small/Mid • Growth vs. Value	• Developed vs. Emerging • Traditional vs. Alternatives • Sector/Region Specific
Fixed Income Allocation	• Maturity: Long vs. Short • Credit Quality: High vs. Low • Fixed vs. Variable	• Standard vs. Hybrid • Strategy: Traditional vs. Alt.

On-Going Monitoring

Each of the selected investments are monitored for material changes that could potentially reduce their effectiveness.

Advanced Systematic Rebalancing

Unbalanced portfolios are subjected to greater losses during market downturns. Our proprietary rebalancing strategy is designed to maintain the target asset allocation with features that reduce transaction costs, increase efficiency and improve portfolio returns.

Volatility Based Drift Tolerance Threshold

Maintaining a portfolio with zero rebalancing threshold increases the number of transaction and reduces portfolio efficiency.

Our rebalancing strategy attempts to reduce the number of sell transactions by assigning a separate rebalancing threshold to each asset class. The threshold is determined by the return volatility of the asset.

Smart Reinvestment

Most mutual fund investors automatically reinvest interests and dividend. However, in an asset allocation program, this practice tends to increase portfolio drift.

By using the fund distributions to help keep the portfolios balanced, our implementation helps to reduce sell transactions while keeping the portfolios near the target allocations.

Portfolio Construction
(Putting It All Together)

Once the asset allocation target and the fund selection is complete, the portfolio construction is finalized with the following steps.

- Check for correlations between the investment selections.
- Assign selected Mutual Funds & ETFs to model sets (Basic, Advanced, Tax Sensitive, ETF Only).
- Ensure consistency in risk exposures across the risk spectrum.
- Upload and maintain the model portfolios with the custodian.

Bottom-Up Analysis
(Analyze and Select Investments)

For each asset class, we start with the investable universe of mutual funds and ETFs (Exchange Traded Fund) for the selected custodian. The funds are put through a rigorous set of analyses before being selected as potential candidates for the SDS Program.

Stage		
Preliminary Filter	• Minimum Asset Under Management • Operating History (5 years minimum) • Open to New Investments • Manager Tenure (5 year minimum)	• Lower than average fees • Fund Minimum Investments • Avg. Discount/Premium (ETFs) • Liquidity & Spread (ETFs)
Quantitative Analysis	**Risk Statistics** • Beta, R-Squared, Alpha • Standard Deviations • Skewness, Kurtosis • Downside Capture Ratio	**Performance Statistics** • Above Average Category Performance • Consistency of Returns • Sharpe Ratio, Sortino Ratio • Treynor Ratio, Information Ratio
Qualitative Analysis	**Investment Process** • Consistency & Style Purity • Stewardship • Due Diligence Process • Tax Sensitivity	**Company & People** • Regulatory History • Manager Incentives • Board Quality • Corporate Culture

McAdam
Financially Advanced™

SDS
Strategic Diversification Services

SECURITIES PRODUCTS		
NOT FDIC INSURED	NO BANK GUARANTEE	MAY LOSE VALUE

The investment return and principal value of an investment will fluctuate, and an investor's shares, when redeemed, may be worth more or less than their original cost. Past performance is no guarantee of future results. Funds that invest in stocks of small-cap or mid-cap companies involve additional risks. The securities of these companies may be more volatile and less liquid than the securities of larger companies. Smaller companies typically have a higher risk of failure, and are not as well established as larger blue-chip companies. Historically, smaller company stocks have experienced a greater degree of market volatility than the overall market average. Funds that invest in international securities involve special additional risks. These risks include, but are not limited to, currency risk, political risk, and risk associated with varying accounting standards. Investment in emerging markets may accentuate these risks. Bonds are subject to interest rate risk. As the prevailing level of bond interest rates rises, the value of bonds already held in a portfolio declines. Funds that hold bonds are subject to declines and increases in value due to general changes in interest rates. Funds that invest in lower-rated debt securities (commonly referred to as high-yield or junk bonds) involve additional risks because of the lower credit quality of the securities in the portfolio. Investors should be aware of the possible higher level of volatility, and increased risk of default. Investors who invest a significant percentage of their assets in a single holding may incur additional risks, including share price fluctuations, due to the increased concentration of investments.

Mutual funds are subject to market, exchange rate, political, credit, interest rate, and repayment risks, which vary depending on the type of mutual fund.

ETFs can entail risks similar to direct stock ownership, including market, sector, or industry risks. Some ETFs may involve international risk, currency risk, commodity risk, and interest rate risk. Trading prices may not reflect the net asset value of the underlying securities

There is no assurance that the investment process will consistently lead to successful investing. Asset allocation and diversification do not eliminate the risk of experiencing investment losses.

Some mutual funds may assess short-term redemption or trading fees. While the SDS program will attempt to avoid short term redemption fees, it may not be possible with short account holding periods or with large distribution requests.

McAdam is an SEC registered investment adviser that maintains a principal place of business in the Commonwealth of Pennsylvania. The Firm may only transact business in those states in which it is notice filed or qualifies for a corresponding exemption from such requirements. For information about McAdam's registration status and business operations, please consult the Firm's Form ADV disclosure documents, the most recent versions of which are available on the SEC's Investment Adviser Public Disclosure website at www.adviserinfo.sec.gov.

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Advisory Services offered through McAdam, LLC., a Registered Investment Advisor.
McAdam, LLC. has selected Charles Schwab & Co., Inc. as primary custodian for our clients' accounts.
Schwab Advisor Services, which includes the custody, trading and support services of Charles Schwab & Co., Inc. ("Schwab"), is the leading provider of those services to independent investment advisors. [2/22]