WEALTHWISE
FINANCIAL SERVICES

Investment Philosophy

January 2020

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WealthWise Financial Services – Our Investment Philosophy

The question of *how* we invest always originates from the *why* you invest. We always start by learning about your *why* and then we align your goals with the wide array of investment options that we are able to offer to you.

The Foundation of *Why*

Our investment approach begins with several consultative meetings with our financial advisors in order to gain an understanding of your financial goals and what is important to you about money.

A few of the financial goals we see include:

- Retirement income for life
- Large purchases, such as a vacation home
- Desire to reduce income tax obligations
- Legacy planning through gifting
- Multi-generational wealth management

Each objective comes with its own time horizon and dollar amount so that a cash flow analysis can determine the likelihood of success. This paper seeks to explain how we view moving from where you are today to where you want to be in relation to your goals, timeline and risk tolerance.

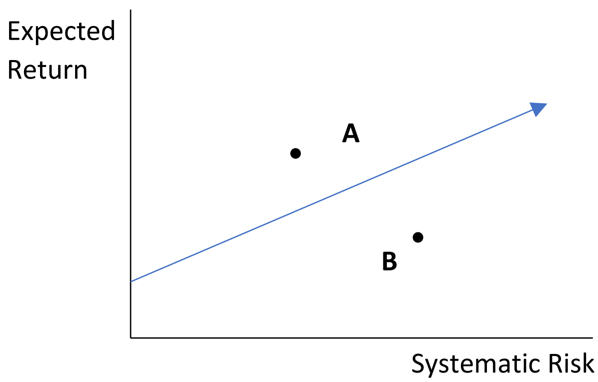
The Consideration of Risk

We employ long-term strategic and short-term tactical approaches to pursue investment objectives given the investor's tolerance for risk. We refer to this particular tolerance for risk as our *Risk Budget* which we can spend on a particular arrangement of investment vehicles. We determine the *Risk Budget* by having clients fill out a *Risk-Tolerance Questionnaire (RTQ)*. The questionnaire is developed by the company Riskalyze which specializes in understanding investor emotional responses to market volatility. The detailed questionnaire begins with establishing your definition of a 'catastrophic loss'. The system then provides you with a series of propositions that are between a certain gain and a risky scenario. The system continues to provide the binary propositions between certainty and risk until it has determined with a mathematical certainty where the investor lies on the risk spectrum. The position on the risk spectrum is illustrated by a *risk number*. We input all of our core investment models into the Riskalyze tool to help determine which model fits most closely to your risk tolerance measured by your *risk number.*

Spending the Risk Budget on a *Reasonable* Rate-of-Return

Some believe that good investment management is simply beating the indices and generating an incredible amount of abnormal returns. While generating returns over benchmarks (*Alpha*) is definitely an objective, there exists fundamental values that we focus on when managing assets for the long-term beyond just returns. Following are two important concepts that we employ to try and maximize the value of your *risk budget*.

The first is the idea of asymmetric risk/reward profiles across investments. In simple terms, the *required return* of an investment should be positively related to its *perceived risk*. The US Government 1-year Treasury Bill (T-Bill) can be thought of as the safest U.S. based investment. The T-Bill may pay enough to keep up with inflation but the returns are on the lower end of the spectrum. We refer to this lower level of return as the *risk-free rate.* The difference between the *required return* of non-riskless investments and the *risk-free rate* is known as the *Risk Premium*. The *Risk Premium* is what the issuer/seller of the investment must provide to incentivize an investor to take on risk with their funds. An established corporation might provide a risk premium of a few percent over the T-Bill rate to spur investment. A start-up firm with no track record of revenue would have to offer an even higher risk premium given a higher probability of default. Active managers of investments look for situations where the market has priced assets in a way that makes the return potential well worth the perceived risk. This is often referred to as a positive asymmetric risk/reward profile. Looking for these opportunities isn't only focused on generating higher returns but also about lowering downside risk when the entire market faces a correction.



The blue line to the left is referred to as the Security Market Line. It illustrates the positive relationship between systematic risk and the expected return across the entire market. The intersect of the blue line on the Y axis represents the risk-free rate. Investments that fall above the line (A) represent attractive risk/reward profiles while those below (B) do not.

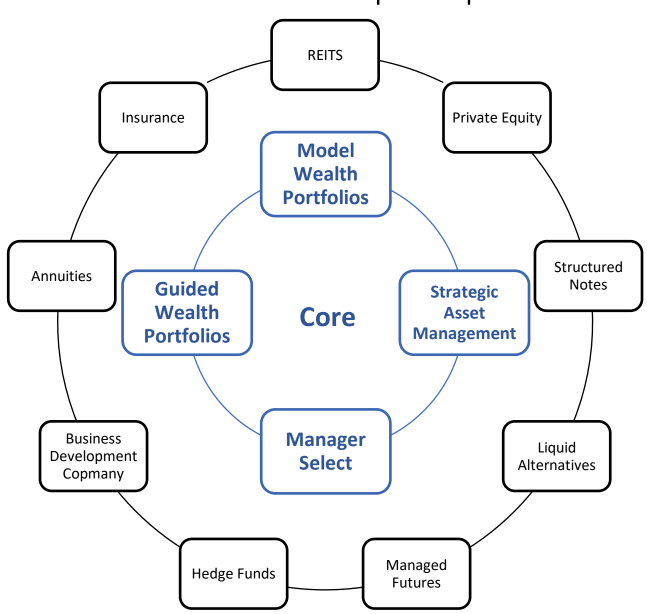
The second idea involves improving the risk/reward profile of an entire portfolio through diversification. Let's say an investor would like to generate an average return of 6% a year. To potentially generate the 6% average annualized return the investor purchases four items, each with an expected return of 6% annually[1]. If the markets are efficient at incorporating information into prices then each asset would be along the same spot on the Security Market Line, and thus the entire portfolio would have that level of risk. According to *Modern Portfolio Theory*, however, the less correlated each of the assets are with one another, the lower the overall risk of the portfolio while the expected return remains the same. This is due to the fact that assets possess short-term up and down cycles that follow a long-term trend. Less correlated assets will have up and down cycles that occur at different times. The combination of less correlated assets with similar long-term returns expectations can produce a smoother rise in overall portfolio value with less unique risk.

The key takeaway is this: in our view proper investment management isn't solely about picking the asset that performs extremely well over a short period of time but rather investing in a diverse portfolio of assets that generates consistent, reasonable returns over the long-run.

<u>Asset Allocation</u>[2]

Core-Satellite Investing

Our entire investment approach centers around diversifying into various investment vehicles, all with the purpose of benefiting the objective. Core-Satellite Investing can be interpreted differently based on who is managing your assets. Some advisors interpret the core as being your more conservative assets, and the satellite assets as your riskier bets. Others interpret the core as the passively managed investments and the satellite as the actively managed investments. At WealthWise Financial, we view the core-satellite differently. For us the core is the selection of assets that are more traditional and more correlated with the major equity and bond indices. The core is primarily filled with items that benchmark to the major indices such as mutual funds and stocks. The satellite goes beyond the core to strategically mitigate downside risk, provide further diversification and to help meet particular income, liability and tax needs.



Core Asset Allocation Decision

We offer access to four main platforms for core and satellite investment strategies:

Platform	Manager	WWF Investment Thresholds
Guided Wealth Portfolios[3]	Future Advisor (BlackRock)	$5,000[4]
Model Wealth Portfolios	LPL Research	$10,000
Strategic Asset Management	WealthWise Financial Services	$100,000
Manager Select	3rd Party Managers	$1,000,000

The core asset allocation is primarily strategic in its weighting between equity (stocks) and debt (bonds) with the long-term objective in mind. The tactical element occurs at the sub-asset class level where we allocate to particular asset classes within equity and debt.

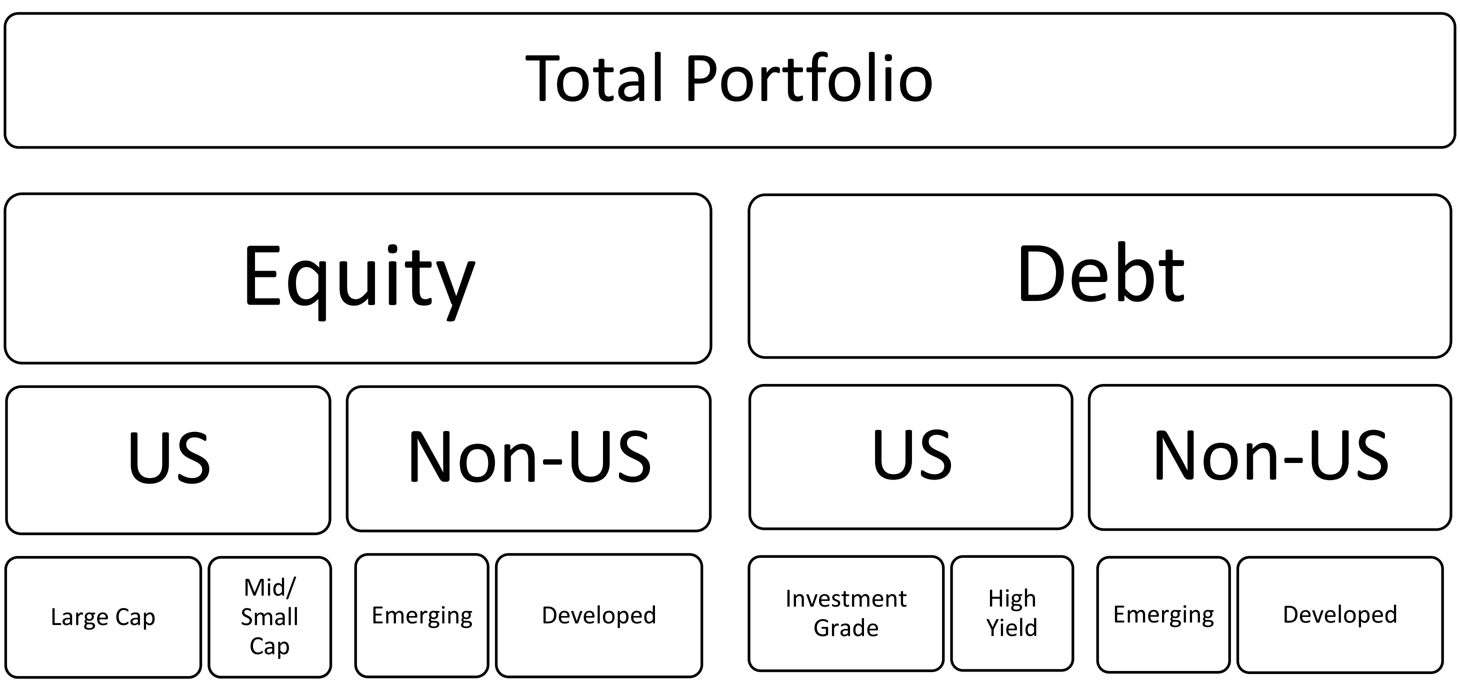
Platform selection is determined through a consultation with our financial advisors. On the Strategic Asset Management platform (SAM) we take full discretion over trading and asset selection decisions.

Strategic Asset Management

Currently, our firm develops five broad models that we use as a foundation for selecting a client's asset mix. The models (shown below) are stratified from most conservative (left) to most aggressive (right).

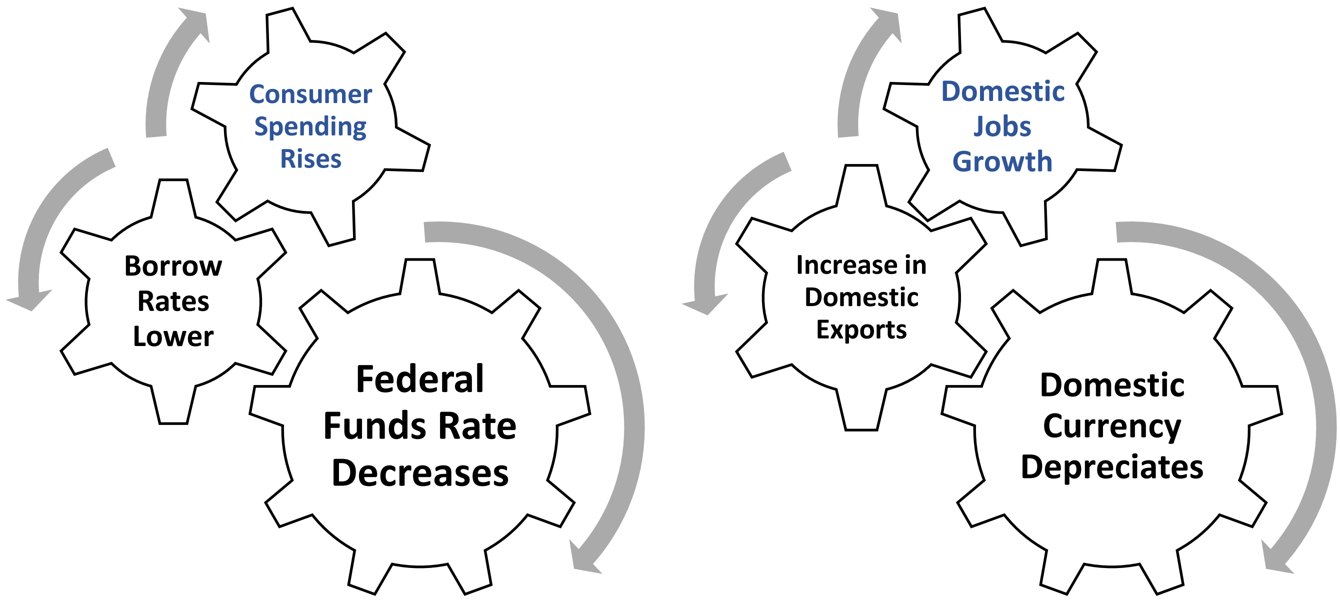
Income with Capital Preservation	Income with Moderate Growth	Growth with Income	Growth with Income Plus	Growth
25% Equity, 75% Debt	40% Equity. 60% Debt	60% Equity, 40% Debt	70% Equity, 30% Debt	80% Equity, 20% Debt

Asset classes are distinct groupings of assets that share similar economic exposures. For example, *Municipal Bonds* can be considered an asset class because there exist certain underlying economic factors that can affect the value of all items within the asset class. Mutual funds cannot be considered an asset class because there does not exist particular economic factors that affect all mutual funds similarly. The asset selection decision begins with the major asset classes, equity and debt, narrowing down through the sub-asset classes of equity and debt.



Determinates of Sub-Asset Class Weighting

Each sub-asset class has external economic factors that create headwinds and tailwinds for the category. Our firm consistently has in-person and over-the-phone conversations with fund managers, economists, and capital market strategists to gain their perspectives on what is over the horizon both near and long-term.



We aggregate various industry capital market perspectives with our own to create expectations for the future. The conviction of these expectations determines the amounts weighted to each sub-asset class.

Indicators monitored by WealthWise Financial include but are not limited to:

Central Bank Policy	**Consumer Confidence Indices**	**Manufacturing Indices**	**Floating Exchange Rates**	**Business Cycle Expectations**	**Employment and Wage Growth**
Business Confidence	**Capital Expenditures**	**International Capital Flows**	**Commodities Prices**	**Inflation Rates**	**Building Permits and Housing Starts**

Asset Selection

The SAM platform offers a wide variety of investment options. This section will describe in general terms the process by which the investment committee decides what specific asset/s we select for each sub-asset class. The Investment Committee is comprised of the Director of Investment Strategy (CFA Charterholder) and the Financial Advisors.

At WealthWise Financial, we employ a combination of top-down and bottom-up analysis to asset selection. We begin by looking at exposures to large macro-economic factors and then narrow down to more acute exposures. From there we create a pool of investment candidates and analyze the fundamentals of each one to determine which investment to select.

Mutual Funds

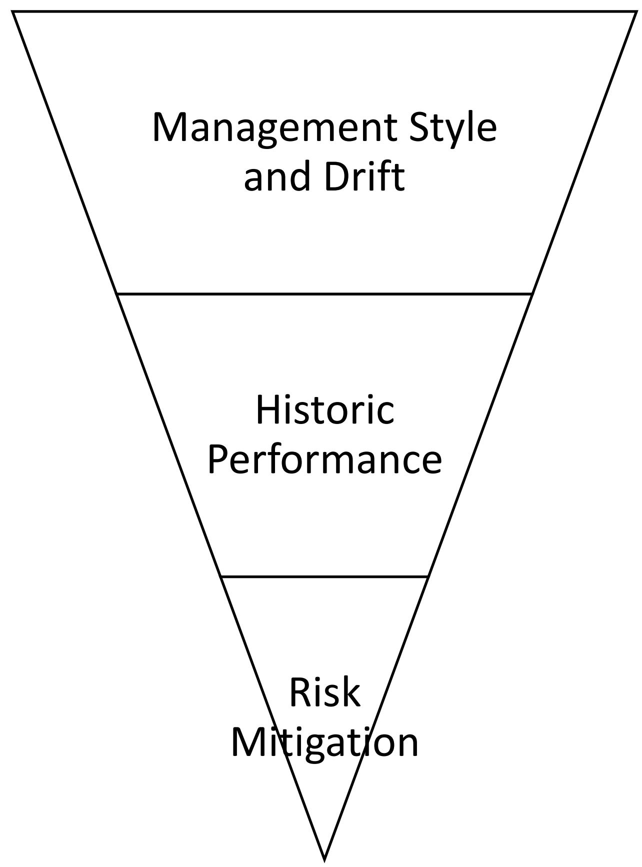
Mutual funds offer a liquid and efficient way to invest in a diverse set of strategies from some of the world's leading asset management firms. Each mutual fund can contain anywhere from a few dozen to hundreds of securities. At WealthWise Financial, mutual fund selection is primarily a top-down approach narrowing down to the best candidates.

There are approximately 9,600 mutual funds available in the United States. At WealthWise Financial, our process begins with screening the large universe of mutual funds. We narrow down the thousands of funds to a handful based on historical performance and current qualities that we are seeking to add to our portfolios going forward.

- Since we employ a top-down method of asset selection, it is important that the fund closely exhibits the qualities deemed necessary. Specifically, we look at manager tenure with the fund and how well they have maintained their stated style over the long run (10+ years).

- We look for consistency in performance over the entire business cycle. Particularly, in times where the entire category performed well to help determine if the manager exhibits skill in their particular style of investing. Performance is primarily measured by alpha, defined as returns in excess of an asset-class benchmark.

- In addition, we look at the track record of risk mitigation for the fund. We consider how the fund has performed in times when the market declined by observing the historical percentage of downside participation. We compare potential investments with existing investments to determine the impact of diversification. We aim for volatility targets within each model, as measured by portfolio standard deviation, that are slightly lower than the volatility measurements of the assigned benchmark.



After analyzing the data, we narrow the candidates down to the highest screening options. We input each candidate into a simulation of our models utilizing third-party software. This software measures the effects of diversification that the candidate will have on the existing portfolio. We also speak with individuals directly involved in the management of the fund including portfolio managers, strategists, and regional representatives. Following extensive conversations concerning the going-forward strategies for each fund, the Investment Committee makes a decision on which fund to include in the model.

Equity Securities (Stocks)

At WealthWise Financial, we apply a long-term focus when selecting equity securities. Diligent analysis of equity securities requires many hours of listening to earnings calls, reading SEC filings, and modeling pro-forma financial statements. Therefore, a top-down, bottom-up approach is applied to identify potential candidates and then take the required time to analyze each security both in relative terms and their intrinsic value.

Understanding the Business – Generally, the first step in determining the value of an equity security involves developing a strong understanding of what the business does that provides value to their customers. At WealthWise Financial, we listen to earnings calls with company management to gather their perspective on the opportunities and challenges that their business faces. We gather information from SEC filings and third-party resources to characterize the operating segments of the firm. We analyze the balance sheet and make judgments on the quality of the assets and liabilities of the firm. We compare the operations to competitors to determine if the firm exhibits strong competitive qualities.

Determining a Price – Historically, the total return of the SP500 has been driven by capital appreciation, which is another way of saying an increased stock price. Therefore, it is very important to understand the price that you are paying for a share of stock. We value our equity targets using two methods: relative valuation and discounted cash flow. Relative valuation is looking at how the firm is priced in relation to competitors and discounted cash flow is determining an intrinsic value for the firm.

Relative Valuation – Relative valuation requires developing an understanding of the target company's marketplace. Using third-party data, we determine the growth prospects of these particular markets in which the company operates. We compare the major participants in the market to determine which ones are best poised for growth. We then compare the price ratios of each competing firm. The price ratios we observe include price-to-sales, price-to-book value, and price-to-earnings, which enables us to determine how 'expensive' each company appears relative to one another. If we determine that a firm has a strong possibility of growth in relation to its peers, but is relatively 'cheaper', then it improves the outlook as a potential investment.

Discounted Cash Flow – A discounted cash flow model is a model that is based on projected financial conditions for a single firm. We develop pro-forma financial statements based on sales projections, projected capital expenditures and margin expansion/ contraction projections. We then discount the projected cash flows to present value and divide by the total number of shares outstanding to get an intrinsic value per share. If we determine that the intrinsic value is higher than the current market value then it improves the outlook as a potential investment.

Structured Products

We offer structured notes. Please contact us for more details.

Performance Appraisal and Attribution

Building a portfolio of assets is only part of the investment process. Another very important part of the process is measuring the quality of our decision-making process and adjusting to new information. The process of performance evaluation and attribution is:

- How did the portfolio perform?
- What specifically drove the performance?
- Can we attribute the performance to our decision-making process?

How did the portfolio perform?

We utilize the *time-weighted return* method of calculating portfolio returns. The time-weighted return method is not sensitive to contributions and withdrawals in and out of the account and allows clients to better compare performance against other money managers. We benchmark our SAM portfolios to multiple benchmarks including: LPL Diversified Benchmark, iShares Target Risk Portfolios, Dow Jones Target Risk Indices, and LPL Research Mutual Fund Portfolios.

What specifically drove the performance?

Daily we pull over 1,000's of data points into a custom terminal that allows us to observe portfolio performance, portfolio volatility, alpha generation, portfolio beta, portfolio duration, and current yield in real-time. We evaluate this information on an entire portfolio level as well as on specific sub-levels. Sub-levels include market capitalization, geography, sectors, credit quality, and style.

Can we attribute the performance to our decision making?

Our investment process begins with the asset allocation decision and then into selecting specific investments to fill each category. Alpha that we observe at the portfolio level can be attributed to the decisions made at the asset allocation and security selection level. For example, if we are overweight large capitalization value stocks to the benchmark and that category is outperforming the benchmark then our decision to overweight this area, and the alpha generated, can be measured and attributed to our decision making. Also, we observe every individual asset, relative to its asset-class benchmark, and look for outperformance. For example, if we select an individual stock to fill our allocation to small capitalization growth, then we will measure the returns of that stock against a small capitalization growth benchmark to determine if our decision resulted in a positive impact. The sum of the alpha generated at each sub-level should approximate to the overall portfolio alpha. Understanding the sources of performance will ultimately assist us in improving our processes going-forward.

In Summary

At WealthWise Financial our goal is to assist you through every stage of life, helping you pursue your financial goals. We employ the fiduciary standard by keeping our client's interest in mind knowing that financial well-being is essential to you and your family. Therefore, it is our responsibility to communicate our investment process in a clear and concise manner. We cannot control the markets; however, we can navigate the fluctuations in the markets by implementing tactical portfolios grounded in long-term fundamentals. And while the markets are constantly changing, our commitment to you as our client is unwavering. As such, we hope that by reading this document, you have a better understanding of our investment philosophy and the in-depth approach we take in delivering value to you.

Disclosures

1. This is a hypothetical example and is not representative of any specific situation. Your results may vary. The hypothetical rates of return do not reflect the deduction of fees and charges inherent to investing.
2. Asset Allocation does not ensure a profit or protect against a loss.
3. Guided Wealth Portfolios (GWP) is a centrally managed, algorithm-based, investment program sponsored by LPL Financial LLC (LPL). GWP uses proprietary automated, computer algorithms of FutureAdvisor to generate investment recommendations based upon model portfolios constructed by LPL. FutureAdvisor and LPL are nonaffiliated entities. If you are receiving advisory services in GWP from a separately registered investment advisor firm other than LPL or FutureAdvisor, LPL and FutureAdvisor are not affiliates of such advisor. Both LPL and FutureAdvisor are investment Advisors registered with the U.S Securities and Exchange Commission, and LPL is also a Member FINRA/SIPC. All investing involves risk including loss of principal. No strategy assures success or protects against loss. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.
4. 4. An annual small account fee is applied to accounts with less than $10,000 invested.