ROSECAP INVESTMENT PHILOSOPHY SUMMARY

I. Prioritize the controllable variables within a portfolio. These include:

   a. The fees incurred by the client.

   b. The taxes paid by the client. Portfolio decisions should be made on an after-tax basis.

   c. The portfolio/market risk incurred by the client.

      i. Portfolios should be rebalanced periodically to control risk.

      ii. Rebalancing a portfolio does not result in a higher probability of positive/excess returns. Rebalancing with too much frequency or too narrow of tolerance band lowers expected future returns.

II. Markets are not perfectly efficient; however, they are highly efficient.

   a. The earlier portfolio assets are invested, the higher the probability of accumulating future wealth (get invested).

   b. The longer portfolio assets are invested, the higher the probability of accumulating future wealth (stay invested). This is due to the power of compounding returns.

   c. Paying a higher fee for active management will lower an inestor's probability of accumulating future wealth.

III. Portfolio/Market volatility is normal.

   a. Market swings are not a cause for change in a portfolio risk target.

   b. Changes in financial goals and/or the investors' financial situation may require a change in a portfolio risk target (i.e. change in time horizon).

IV. Diversification Works

   a. Diversification of primary asset classes (i.e. U.S. Equity, U.S. Bond, International Equity, etc.) will have the most impact on the expected return/risk of a portfolio.

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b. Diversification across sectors within an asset class (i.e. Energy, Telecomm, Utilities, etc.) has a more significant impact than diversifying by size and/or style (i.e. Large-Cap Value, Mid-Cap Growth).

V. Avoid Investment Bias. Common investment biases include:

a. Home Country Bias – The tendency to only want U.S. securities in an investment portfolio. This limits the ability to diversify a portfolio and increases the amount of risk that must be taken to seek a certain level of returns.

b. Familiarity Bias – The tendency to invest in the securities of companies that an investor is familiar with (i.e. an employee of Exxon Mobile wants to hold all energy stocks in their investment portfolio).

c. Gambler's Fallacy – The mistaken belief that if something happens more frequently than normal, it will occur less frequently than normal in the future (or vice versa). This causes investors to change their risk tolerance based upon market performance (i.e. the stock market hits an all-time high, so the investor wants to sell out of stocks).

d. Overconfidence – The mistaken belief that an investor has superior insight into the short-term future performance of a portfolio (i.e. an investor picked a certain stock that has outperformed the market, so they want to be more aggressive with picking stocks in the future).

VI. Use the Power of Compound Interest/Returns

a. Dividends and interest should be reinvested in a portfolio as soon as possible if they are not distributed.

b. Excess cash should not be held in a portfolio. Cash should either be distributed to the client and spent or invested in the portfolio. This includes excess cash held inside of investment funds (i.e. mutual funds), which must be monitored.

VII. Investing is a long-term activity. Be Patient.

a. Historical performance is not a predictor of future performance. Chasing performance (i.e. buying recent winners and selling recent losers) will lower an inestor's probability of accumulating future wealth.

b. Persistence of out-performance among funds/fund managers is not predictable. While some funds do outperform over certain time periods, there is no consistent and predictable indicator of which those will be.