Precision Investing

synergy
FINANCIAL
MANAGEMENT™

When you invest your money, you want two things to happen: **you want your money to stay safe, and you want it to grow.** Most people prefer financial safety more than they desire growth with high returns. With Synergy Financial Management you can have both at the same time.

Contents

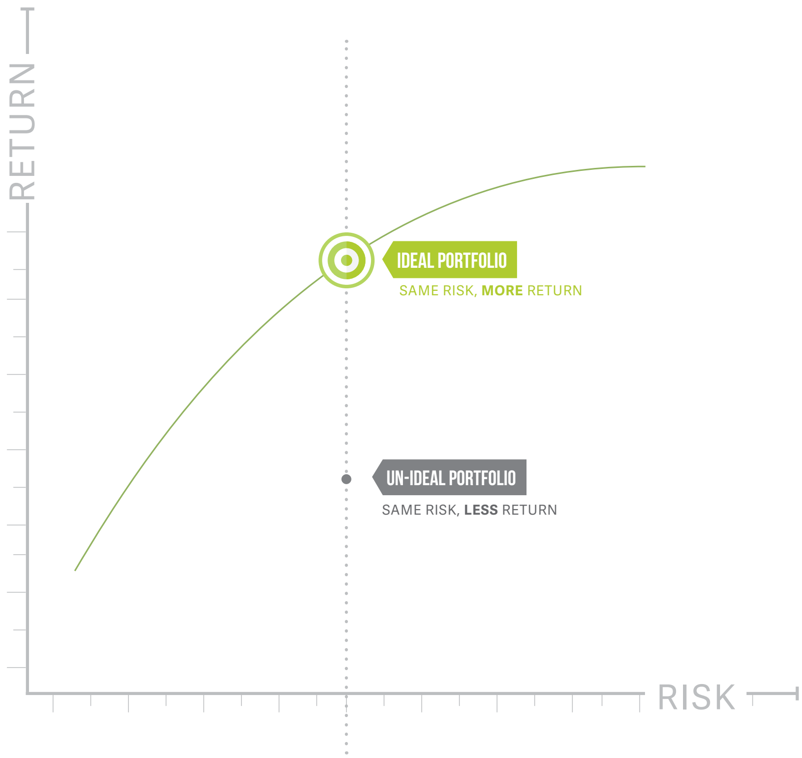
There are several basic concepts to know, which may already be familiar. In the few short paragraphs that follow, these concepts are briefly outlined so you can more completely see the value of investing with Synergy Financial Management.

INTRODUCTION

There are two primary investment strategies. One is asset allocation, and the other is focus investing. These two methods can be regarded as the two sides of a coin. Asset allocation seeks to manage risk, while focused investing seeks to maximize return. The dynamic is always the interplay of risk and return; the greater your money is at risk, the higher the return. Similarly, the lower the risk, the lower the return. Some investments favor return-generating characteristics, while others favor risk-management characteristics. Finding the right combination of these two types of assets for your portfolio is the factor that consistently leads to our clients' success. Monitoring your portfolio and adjusting its assets on a continual basis is another important feature contributing to our clients' satisfaction.

ASSET ALLOCATION VERSUS FOCUS INVESTING

Simply stated, asset allocation is the selection of investments that diversifies, or spreads, your investment funds among different classes of assets with the purpose of reducing risk. In traditional asset allocation, a well-diversified portfolio will include mixes of asset classes that are fundamentally different (have a lower correlation) which provides diversification; as one asset class declines, others may offset the decline by increasing in value. Asset allocation is based on a process that applies a mathematical analysis called the Modern Portfolio Theory; Harry Markowitz won a Nobel Prize for his work in this field. The analysis he developed identifies the best mix of selected asset classes for achieving anticipated return rates with the least possible risk. This range of selected investments is shown as a curve on a graph, and is known as the efficient frontier.



Focus investing views the market in a different manner. In focus investing, the investor seeks to place more money in fewer assets with a higher mathematical probability for a successful outcome. The investor accepts the concentrated risk because of the potential for higher returns, provided that a carefully structured plan is in place to close the position when the features that made the investment attractive begin to erode. This allows the focus investor to enjoy the rewards of high expected returns while still maintaining the benefit of some diversification. Academic studies show that investors can reach optimal diversification by holding as few as 15-20 stocks. This is the point at which all the risk specific to individual stocks has been removed. What remains is market risk, frequently referred to as beta. Warren Buffett is a proponent of this investment style.

In both asset allocation and focus investing, the investor is able to limit his or her exposure to risk via diversification, and each accomplishes this in a different way. The asset allocation investor chooses to limit their risk by selecting a combination of investments that work together to achieve a diversified portfolio while expecting a return that is the weighted average return of the assets. The focus investor seeks a higher return by accepting the risks of a concentrated portfolio.

For those investors who want to enjoy the benefits of having both a secure investment through asset allocation as well as receive the rewards provided by the high potential returns of focus investing, it is now possible to do so with Synergy Financial Management.

TWO PRIMARY TYPES OF INVESTMENT ANALYSIS

The two types are **fundamental analysis,** and **technical analysis**. Fundamental analysis studies the company's management, its financial statements, its assets, liabilities, revenue, earnings, and growth, and other fundamental factors. Technical analysis, on the other side of the coin, studies trends, momentum, relative strength, volume, price resistance and support channels, moving averages, stochastic processes, Bollinger Bands, etc. Both types of analysis have value and are meaningful in determining whether an investment should be included in your portfolio. Synergy Financial Management employs both analysis types, using many of the top institutional investment research firm's data platforms and world class investment tools and techniques to acquire the most relevant and accurate data necessary to make precise and timely decisions when necessary.

FUNDAMENTAL ANALYSIS	TECHNICAL ANALYSIS
What to buy	When to Buy
Company management	Trend Analysis
Qualitative Assessment	Relative Strength
Discounted Cash Flow Analysis	Momentum
Financial Statement Analysis	When to Sell

YOUR INVESTMENT GOALS

More is usually accomplished when goals are set. The more precise your goals, the more likely you will achieve them. It's assumed you have already created your financial goals for the short-term, midterm, and long-term horizons, and it's also assumed you have created your Investment Policy Statement which guides your philosophy of investment and investment decisions. If this is not something you've yet done, Synergy Financial Management can explain how to do this, and will help you with the process so you can be comfortable knowing how and when your goals will be achieved.

STRATEGIC INVESTMENT VERSUS TACTICAL INVESTMENT

A necessary decision before you invest is determining your portfolio design, which is described in your Investment Policy Statement. If you prefer a strategic long-term approach to investment that carefully considers your risk tolerance, time horizon and the estimated returns for the different asset classes, you may prefer asset allocation. Or you may be a-buy-and-hold investor who is willing to ride up and down with the fluctuations of the market, accepting returns and losses through the years.

ASSET ALLOCATION INVESTING RELIES ON CORRELATIONS AND ASSET MIXES

Correlation Matrix

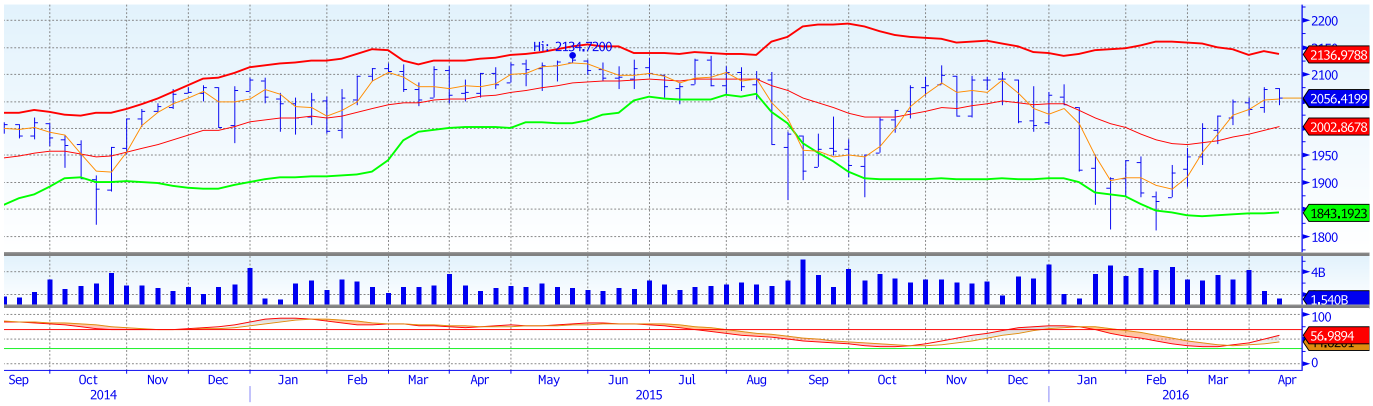
Time Period: 1/1/2006 to 12/31/2015

		1	2	3	4	5	6
1	Real Estate	1.00					
2	Large Cap	0.77	1.00				
3	Agg Bond	0.24	0.04	1.00			
4	Int'l Equity	0.70	0.90	0.14	1.00		
5	Cash	-0.04	-0.04	0.03	0.04	1.00	
6	60% Equity 40% Bond	0.79	0.98	0.20	0.90	-0.04	1.00

Notice that the line in the middle of the chart is highlighting a simple hypothetical 60% equity, 40% bond allocation, and it is never the best performer, nor the worst. This is the intention and result of asset allocation.

By contrast, a tactical investor tends to be more opportunistic, taking advantage of changing market conditions by investing a greater percentage in the asset classes that are currently outperforming relative to other asset classes, or that are currently reducing risk. Please note that tactical investing is a trend-following approach, not a trend-predicting approach. No method can predict the future.

TACTICAL INVESTING RELIES ON TECHNICAL STUDIES AND CHARTS



Synergy Financial Management has developed a collection of unique and effective investment portfolios that protect investments from unnecessary risk while aspiring to deliver above-average risk-adjusted returns. These will be presented later in this chapter, after a brief review on the nature of active and passive management.

PASSIVE PORTFOLIO MANAGEMENT VERSUS ACTIVE PORTFOLIO MANAGEMENT

- A passively managed portfolio attempts to **match the performance of a benchmark index**, and in the process, minimize expenses that can reduce an investor's net return.
- With an actively managed portfolio, a manager tries **to exceed the performance of a benchmark index** by using his or her judgment in selecting securities and deciding when to buy and sell them. In doing so, the manager can deploy both bottom-up fundamental analysis and/or technical analysis.

PASSIVE INVESTING

Advocates of unmanaged passive investing, sometimes referred to as indexing, argue that the best way to capture overall market returns is to use low-cost market-tracking index investments. This approach is based on the concept of the efficient market, which states that because all investors have access to all the necessary information about a company and its securities, it's difficult if not impossible to gain an advantage over any other investor. As new information becomes available, market prices adjust to reflect a security's true value. That market efficiency, proponents say, means that reducing investment costs is the key to improving net returns.

Indexing actually does create certain cost efficiencies. Because the investment simply reflects an index, no research is required. Also, because trading is relatively infrequent, as passively managed portfolios typically buy or sell securities only when the index itself changes, trading costs are often lower. In addition, infrequent trading typically generates fewer capital gains distributions, which means relative tax efficiency.

ADDING VALUE WITH ACTIVE INVESTING

However, it's just as important to increase wealth as it is to protect wealth. Proponents of active management believe that by picking the right investments, taking advantage of market trends, and managing risk, a skilled investment manager can more completely protect investment funds from risk and unnecessary losses in down markets, as well as increase returns in up markets. When an investment loses money (negative compounding), it can take a long time, or require higher rates of return, to be restored to its original value. As an example, a manager might reduce a portfolio's overall risk by increasing the percentage devoted to more conservative investments, such as cash alternatives. By actively protecting an investment portfolio, a manager can limit losses so when the market improves, the portfolio has retained more of its value so it can now effectively take advantage of the market's growth.

NEGATIVE COMPOUNDING

When a portfolio loses 10% of its value, it must earn 11.1% to return to its break-even point.

	PERIOD ONE	PERIOD TWO
Beginning Value	$100,000	$90,000
Return	-10%	+10%
Ending Value	$90,000	$99,000

BREAK-EVEN **11.1%**

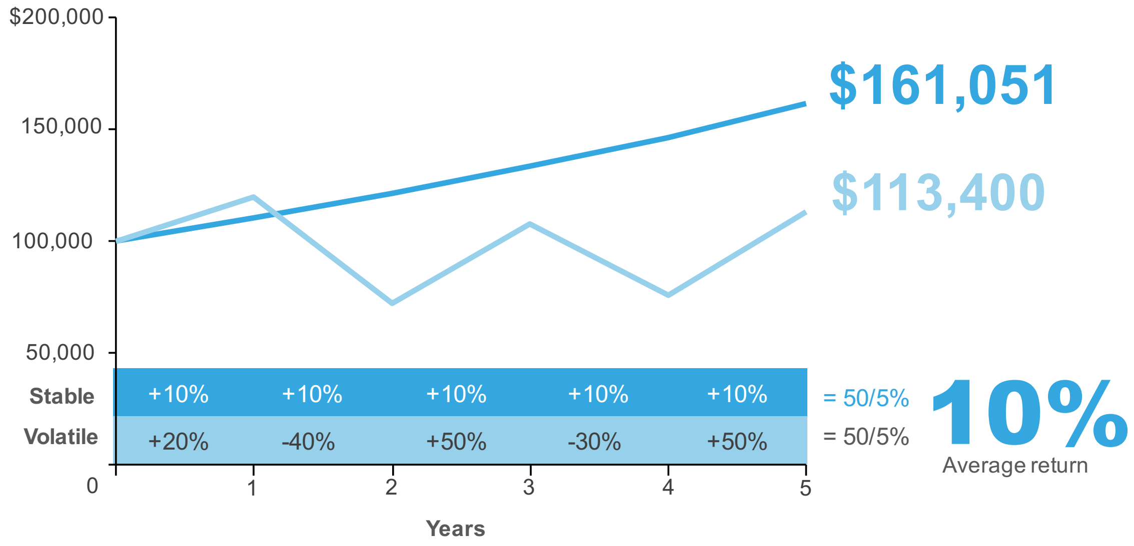
BREAK-EVEN

If your portfolio lost 40%, such as happened to many investors in 2008, and then you could earn a 7% return, it would take 7.55 years before your portfolio would recover its original value.

BEGINNING VALUE **$100K**

Percentage Loss	Ending Value	Percent to Break-Even	Years to Break-Even (assumes 7% annual return)
-5%	$95,000	5.26%	0.76
-10%	$90,000	11.11%	1.56
-15%	$85,000	17.64%	2.40
-20%	$80,000	25%	3.30
-30%	$70,000	42.86%	5.27
-40%	$60,000	66.67%	7.55
-50%	$50,000	100%	10.24

GROWTH OF A DOLLAR



Based on an initial investment of $100,000 with earnings compounded annually. Assumes no taxes, fees or other costs of investing. This is a hypothetical example for illustrative purposes only, and does not represent an actual investment.

Two investments that average 10% are not equal. The one with less volatility is the one achieving greater wealth.

A skilled investment manager can also generate returns that outperform a benchmark index. For example, an active manager whose benchmark is the Standard & Poor's 500 Index (S&P 500) might attempt to earn better-than-market returns by overweighting certain industries or individual securities, allocating more than the index does. An actively managed portfolio also permits its manager to consider tax issues. For example, a separately managed account can harvest capital losses to offset any capital gains realized by its owner, or time a sale to minimize capital gains.

YOUR CHOICE

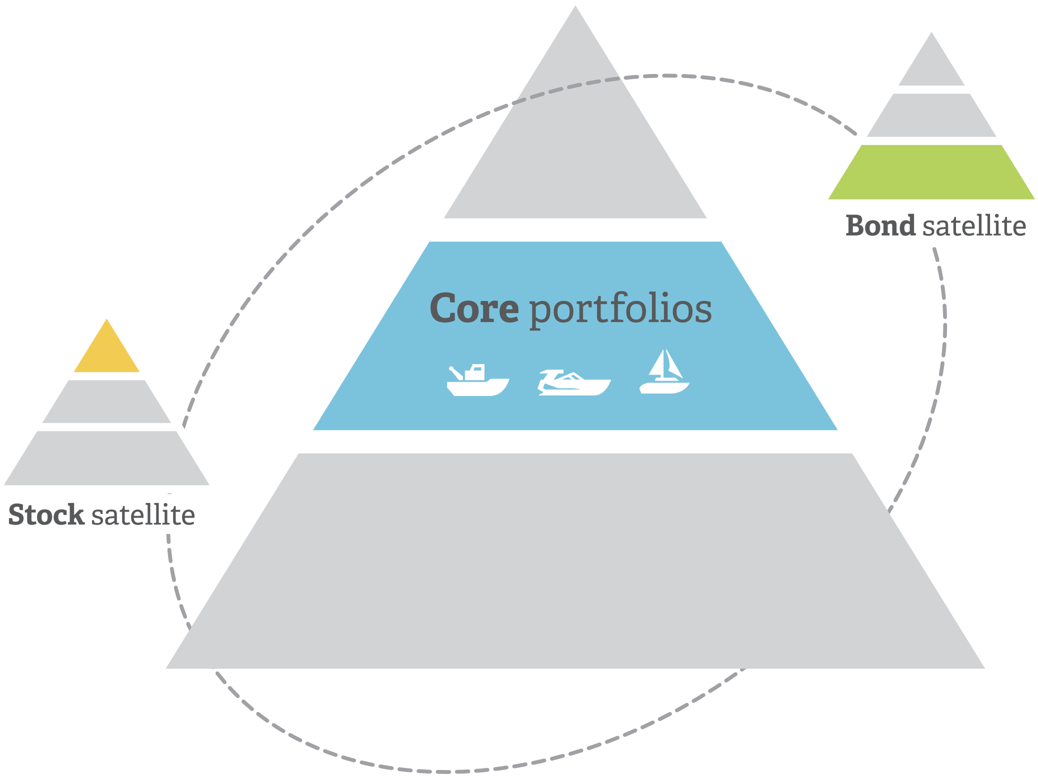
It's now possible to protect your investment funds from risk and unnecessary losses, while benefiting from risk-adjusted returns that allow you to build your wealth prudently. Your decision is whether to subscribe to passive management, active portfolio management, or a combination of both.

If you prefer the compelling benefits offered by active management, you should be prepared to personally dedicate the time necessary for conducting research, and possess sufficient experience as a master technician with proven strategies for securing wise and timely trades…or have someone with more experience handle the process for you by investing in actively managed portfolios through the professional services of a Chartered Financial Analyst (CFA), the industry's gold standard in investment management. Synergy Financial Management provides this value and service with its active portfolio management program.

Synergy Financial Management has developed a unique, thoroughly tested method of portfolio construction that combines the advantages of both the strategic and tactical investment process by employing a mix of asset allocation principles with focus investing principles. The benefit of this proprietary application of combined principles with fundamental and technical analysis results in achieving both diversification and wealth building, which minimizes your risk while maximizing your returns.

THE CORE AND SATELLITE PORTFOLIO CONCEPT

A compromise between the asset allocation method and the focus investing method is the core-and-satellite approach. An investor places a portion of their portfolio, based on the investor's strategic goals, in a core investment such as a strategic or tactical asset allocation strategy. In addition, the investor establishes a smaller percentage of the portfolio in a focused strategy. The focused strategy could be a tactical asset allocation portfolio, a focused stock strategy, a focused bond strategy, or a focused portfolio build on whatever asset class the investor wants to highlight.



While the core investment funds are carefully secured by holding securities designed to meet the essential goals of the investment portfolio, the satellite investment funds are designed instead to either advance the value of the portfolio through concentrated investments, or protect the portfolio with risk-averse investments. The key is having an active manager with the proven experience and skills to consistently monitor the fluctuating markets, prepared to make decisions that benefit your entire portfolio when the market signals the potential for increased gains, or signals the need to withdraw into safer investments.

As an example of how to take advantage of the market tactically, the investor could shift some of the tactical funds of the portfolio into small-cap stocks if the indicators suggested that small-cap stocks were poised to do well. The investor could then move out of small-cap stocks if the signal proves incorrect, runs its course, or another type of investment presents a better opportunity.

PORTFOLIOS OFFERED BY SYNERGY FINANCIAL MANAGEMENT

Our goal is to provide our clients with adaptive portfolios built for all market conditions. We accomplish this through a sophisticated blend of advanced focused tactical asset allocation mathematics, bottom-up fundamental analysis, and professional technical analysis.

Portfolios are updated as the facts change. We are reluctant to make these changes unless they are absolutely valid. Mindful of the cost of trading expenses, we always base our decisions on the effect to the different Synergy portfolios. Our primary obligation is the preservation and expansion of our clients' wealth.

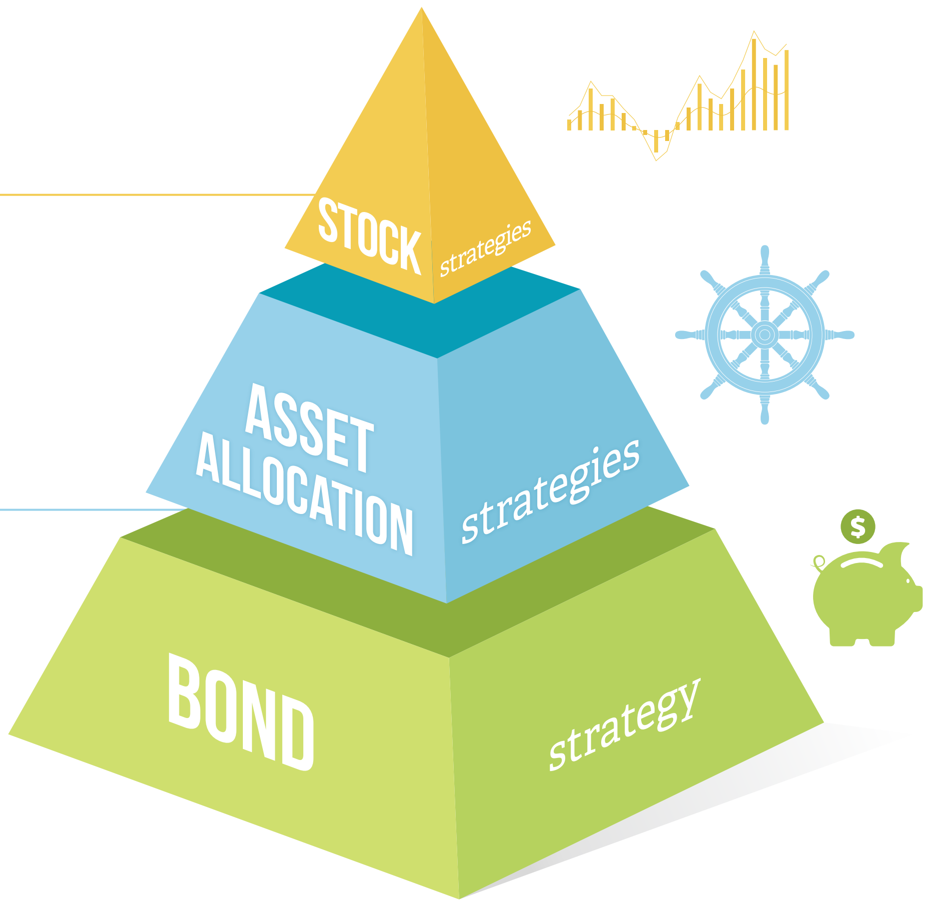
Our process also provides a sell-discipline that is as clearly defined as the buy-discipline. Most investors don't have a problem deciding on which securities to buy...but when it comes to knowing when to sell, it's a different story. Many investors learn that losing positions can become a serious detriment, eliminating the gains that were so enthusiastically earned. The lesson is that what you don't own is every bit as important as what you do own. This is why Synergy portfolios are so carefully monitored; we work to preserve your wealth as much as we work to increase it.

Investors can entrust their wealth to any one of Synergy's 18 portfolios because our methodology is based on duplicable, systematic, and logical management systems that accelerate success.

PORTFOLIO CONSTRUCTION

We have created 18 portfolios built for all risk and return temperaments. One of these portfolios or combination of portfolios (core-satellite approach) is the right one for you. **These 18 portfolios are structured in five categories:**

1. Stocks
2. Tugboats
3. Speedboats
4. Sailboats
5. Bonds



CATEGORY 1, STOCKS

We offer two stock strategies; one is a focused dividend income portfolio, and the other is a focused growth portfolio.

Although our two strategies are uniquely different, they share a few market commonalities. In general, stock markets go up when inflation is low, interest rates are going down and/or are low, and when corporate earnings are going up and or/are strong. The opposite is also true. Moreover, the relationship between supply and demand for an asset is also a major contributor to the trend of the asset.

Our strategies will go in and out of favor with the overall market and economic cycles; however, since we are acutely aware of these relationships, we continually and dynamically optimize and adjust our strategies to keep them on track. We do not follow a set-it-and-forget-it philosophy.

FOCUSED DIVIDEND INCOME PORTFOLIO This strategy is ideally suited for buy-and-hold investors. This strategy contains well-established companies that pay a dividend, and may be close to their intrinsic value, or fully valued. The risk and return expectations are in line with the S&P 500 Index, however, over full market cycles, the dividend yield is expected to outperform the index.

FOCUSED GROWTH PORTFOLIO This strategy seeks to identify alpha opportunities through event-driven, opportunistic and/or intrinsic value principles and blends bottom-up research with top-down considerations. It looks for companies which have had strong historical performance and continue to have prospects for sustainable performance (momentum) in several key value drivers, i.e., return on invested capital, growth, cash flows, and valuations. In addition to fundamental analysis, technical analysis is used to help identify price momentum as well as aid in execution decisions.

At any given time, the active equity strategy may contain stocks in various sectors or it may contain concentrated sector allocations as well as various or concentrated market capitalizations. For small-cap companies, the discount from intrinsic value we look for is larger than the discount for mid-cap companies, and the mid-cap category requires a higher discount than the large-cap companies.

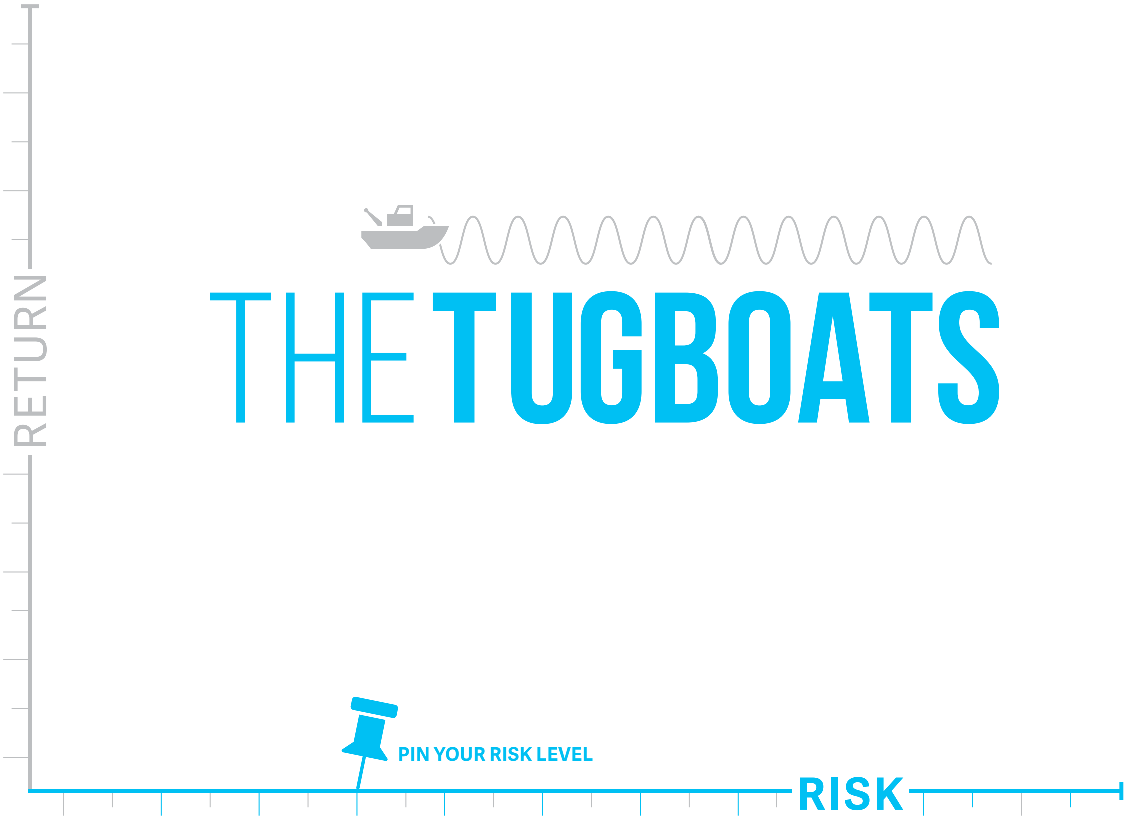
To aid in the exit strategy of positions, we have several sell disciplines, some of which are soft rules and others are hard rules. The following are some reasons we may want to exit a securities position:

- Deteriorating fundamentals
- Price has risen well above its intrinsic value
- The position has become overweighed relative to the other positions
- Better investment opportunities have been identified
- A mistake was made in the original equity selection
- A stop loss or trailing stop trigger was executed

FUNDAMENTAL ANALYSIS
Discounted cash flow analysis
Project cash flow
Discount rate
CAPM
Dividend yield & growth
Multi-factor models
Qualitative assessment

TECHNICAL ANALYSIS
Moving averages
Volume
Supply & demand

THE TUGBOATS



CATEGORY 2, TUGBOATS

We offer five "Tugboat" portfolios whose explicit purpose is to limit risk.

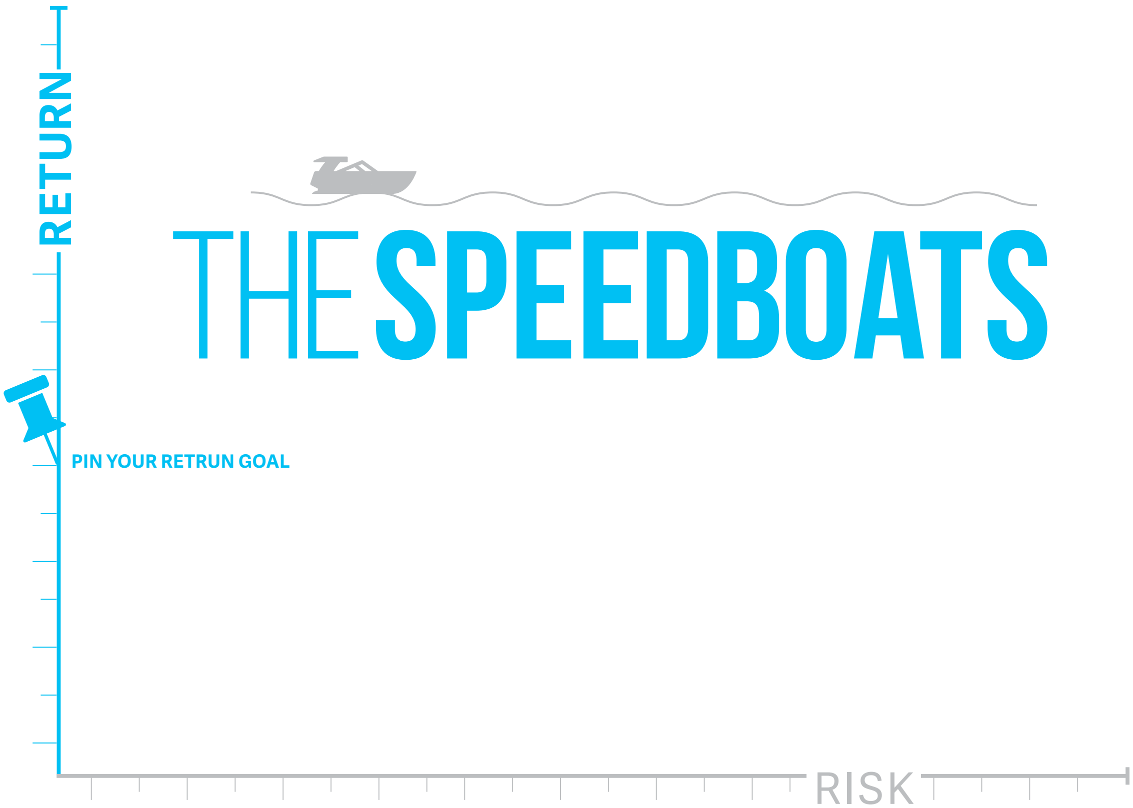
In essence, the Tugboat portfolios are structured on asset allocation principles designed to protect against risk, are dynamically monitored to assure constant fidelity to their assigned risk limitations, and tactically adjusted as needed to stay on target with our clients' expectations. Clients are assured that their portfolio never exceeds the amount of risk they select.

When constructing these tactical asset allocation portfolios, an optimal number of asset classes are selected. Academic studies have determined that optimal portfolio diversification can be attained with as few as eight asset classes. We then graph the risk and return values of these asset classes on an efficient frontier chart to determine the most appropriate asset classes for achieving the five different risk levels of our five Tugboat portfolios.

Each Tugboat portfolio is associated with a specific percentage of risk; our clients can select the level of risk with which they are comfortable. Here are the classifications of the five levels of risk:

1. Conservative
2. Moderately Conservative
3. Moderate
4. Moderate Aggressive
5. Aggressive

THE SPEEDBOATS



CATEGORY 3, SPEEDBOATS

We also offer five “Speedboat” portfolios, but unlike the Tugboats which are risk-averse, these portfolios are designed to capture higher returns without the restraint of risk concerns. It’s important to note that these five Speedboat portfolios, like the five Tugboat portfolios, are also asset allocation portfolios, and, in a sense, is the other side of the asset allocation coin.

When constructing these tactical asset allocation portfolios, just as with the Tugboat portfolios, an optimal number of asset classes are selected, however this time the asset classes are selected for high returns. We then graph the risk and return values of these asset classes on an efficient frontier chart to determine the most appropriate asset classes for achieving high returns. The Speedboat portfolios are tactically dynamic on a quarterly basis, which means their performance is monitored regularly, but analyzed for potential adjustment only every three months.

Here is the range of investment styles for our Speedboat portfolios:

1. Conservative
2. Moderately Conservative
3. Moderate
4. Moderate Aggressive
5. Aggressive

THE 5-STEP PROCESS

Both the Tugboat and Speedboat portfolios follow a 5-Step process:

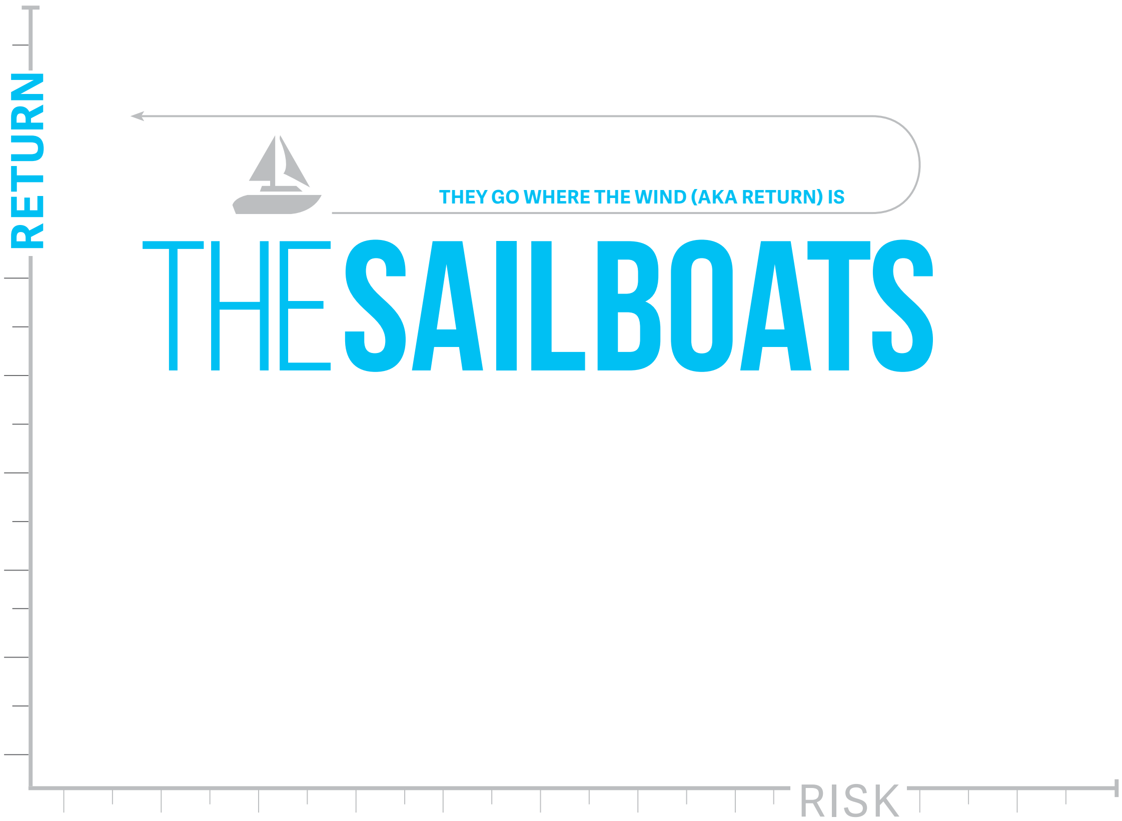
STEP 1 Develop Asset Class Inputs

STEP 2 Create Asset Class Models

STEP 3 Analyze Investment Vehicles

STEP 4 Construct the Portfolio

STEP 5 Monitor the Portfolio



CATEGORY 4, SAILBOATS

We offer five "Sailboat" portfolios built on what we call Focused Tactical Allocation (FTA). FTA is a form of what many managers call tactical portfolio management.

As with our other portfolios, there are five risk classifications:

1. Conservative
2. Moderately Conservative
3. Moderate
4. Moderate Aggressive
5. Aggressive

Focused Tactical Allocation (FTA): The FTA method is designed to take advantage of shifting market conditions by increasing the level of investment in asset classes that are expected to outperform, or, as appropriate, in investments that we have identified are likely to reduce the portfolio's risk. The FTA model is tactically responsive to immediate market movements and trends.

Synergy Focused Tactical Allocation (FTA) portfolios are designed to outperform the U.S. equity and bond markets in all environments, whether advancing or declining, and they are built uniquely different than most of the models you'll find on Wall Street. Our portfolios do not try to predict the market's outcomes, nor are they based on the opinions of analysts. Instead, our FTA portfolios are built on an innovative mathematical blend of technical and fundamental facts, and are constantly monitored.

Moreover, our FTA models do not require the markets to be efficient or for investors to be rational. If fact, we use this to our advantage and is one of the reasons we do not require our models to remain fully invested during bear markets, sometimes choosing, as circumstances merit, to wait in safe cash investments until market indicators change.

The exact science behind our FTA models is an intellectual property trade secret; however, we can tell you that the essence of our system predicates on measurements that reveal inconsistencies in the continuous tug-of-war between supply and demand imbalances. In addition to supply and demand, we use a weighted blend of specific fundamental factors/facts to guide our portfolio construction.

Our unique fusion of factors/facts helps us take advantage of current market trends and significantly increases the probability of being on the right side of the trade. Although there is no guarantee that the current factors/facts will lead to success, our experience with trading the trends supported by momentum and volume and performing within selected cycle indicators have repeatedly won the satisfaction of our clients.

The FTA models seek performance persistency based on the acknowledged fact that the strength and weakness of the trend are more likely to continue than reverse. Researchers have labeled this phenomenon as momentum, and have documented its widespread existence in the markets over a span of many decades. Momentum can be found in both bull and bear markets. For example, in the stock market, higher performance has been shown more likely to continue at any given time than to reverse. The same is true for low performance as it, too, has been proven more likely to continue at any given time than reverse.

Regardless of the market's direction, our FTA models are positioned to take advantage of the factors/facts present in the market. We make no attempt to predict changes in the market; instead, our process relies on the rigorous and continuous measurement of actual performance.

We implement our focused tactical portfolios by selecting high-performing candidates from our deeply researched and continuously updated universe of electronically traded funds (ETFs). Each day, hundreds of calculations are done to support our tactical portfolio research so we can identify which asset classes have emerged as leaders, or are showing signs of falling from favor.

Momentum, relative strength, rate-of-change, nearness-to-52-week-highs, and other measurements of performance characteristics are all combined to produce rankings of portfolio candidates. Moreover, we examine these factors with a multitude of technical studies and charts. The following are only a few of the indicators we use daily:

- Relative Strength Index (RSI)
- Moving Average Convergence Divergence (MACD)
- Bollinger Bands (BOLL)
- Stochastic (STO)
- Directional Movement Indicator
- Volume Studies

Some investment managers prefer to use just one technique, but this method is very limiting, like applying a hammer to do every task, including those requiring a screwdriver. To achieve the best results, an investor must use the right tool for the job, and this is why we take a 360-degree perspective before we trade, looking at many factors through the lens of a wide variety of technical tools.

With our FTA portfolios, in which we are always seeking the "best of the best" securities, high-performers are selected and low-performers are discarded using a multifactor ranking algorithm, and this process is repeated regularly at monthly, quarterly, or even weekly intervals. Most importantly, the process is repeated every time one of our technical alarms alerts us. This process of continuous self-renewal is intended to capture the benefits of long-term winners, without being weighed down by the unnecessary inclusion of underperformers.

Combining trend identification with advanced portfolio construction gives us a simple yet complete strategy, and provides clear guidance on when to be defensive and when to be aggressive. Our clients achieve their financial objectives by staying on track with portfolios designed to minimize risk and maximize compounding wealth.

CATEGORY 5, INDIVIDUAL FOCUSED BOND STRATEGY

We offer one focused bond portfolio that seeks the highest risk-adjusted returns available from a universe of global bonds. This strategy is built on a thorough analysis of a variety of factors including economic analysis, general trends in fixed income markets, yield curve analysis, credit analysis, spread analysis, risk adjusted returns, quality, sector analysis, and total return projections. We seek companies which have had strong historical performance and continue to have prospects for sustainable performance.

At any given time, the active bond strategy may contain bonds in various sectors, such as Government, Municipal, Corporate, Agency Mortgaged-Backed, Non-Agency Mortgage, Cash and Equivalents, and others, or it may contain concentrated sector allocations as well as various or concentrated industries. The quality of the portfolio strives to be investment grade.

ACTIVE MANAGEMENT	PASSIVE MANAGEMENT
Interest rate anticipation	Horizon matching
Sector rotation	Immunization

Quality →

Duration →

Total return →

Shape of yield curve →

Spreads →

Maturity review →

Whether you prefer our Tugboat, Speedboat or Sailboat portfolios, or the stocks or bond portfolios, we have an investment portfolio that will serve your financial needs. Rigorous monitoring and tactical rebalancing provides the increased probability of your financial success and reaching your main goal: financial independence.