



## Colby Davis

Portfolio Analyst



Colby Davis has completed all three levels of the CFA exam. He is currently a portfolio analyst for RHS Financial in San Francisco.

## Risley Sams

CFP® MBA

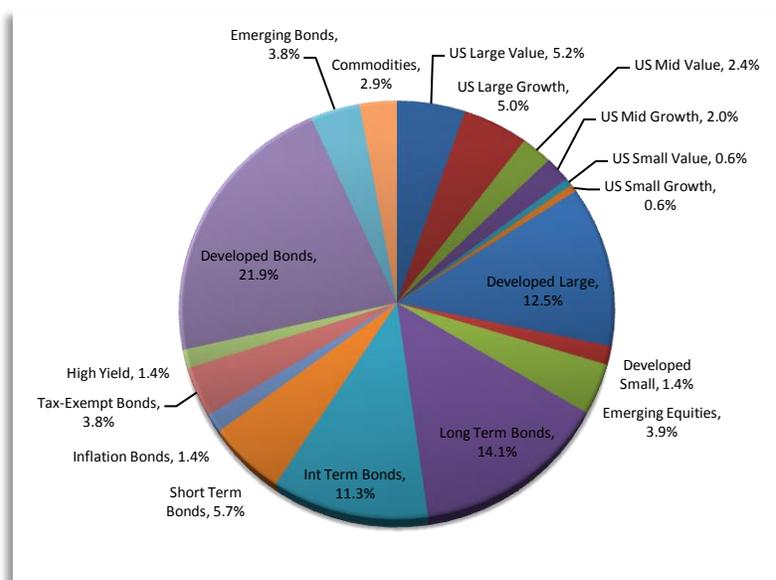


Risley Sams is the creator of the *Invest with Purpose™* process as well as Principal and founder of RHS Financial. He helps executives and business owners think bigger about their personal finances.

## RHS Financial: Our Investment Process

“On matters of style, swim with the current, on matters of principle, stand like a rock.” - *Thomas Jefferson*

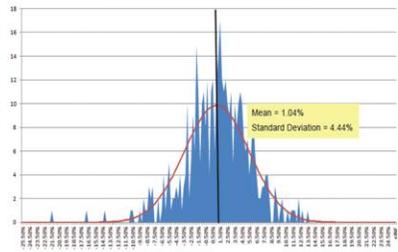
At RHS, we start with the big picture: a systematic mapping of all the publicly available investments on earth.



Using historical data, market forecasts, and in-house fundamental analysis, we develop projections for the return and riskiness of each asset class. This provides us with a very broad, but sound picture of overall investment options.

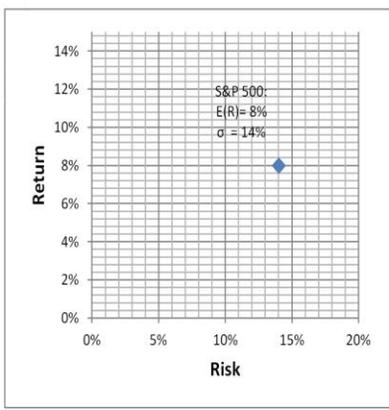


Figure 3: Distribution of Monthly Returns for the S&P 500



Risk Analysis

Return Analysis

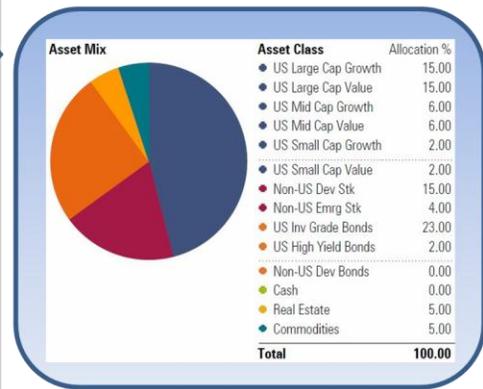
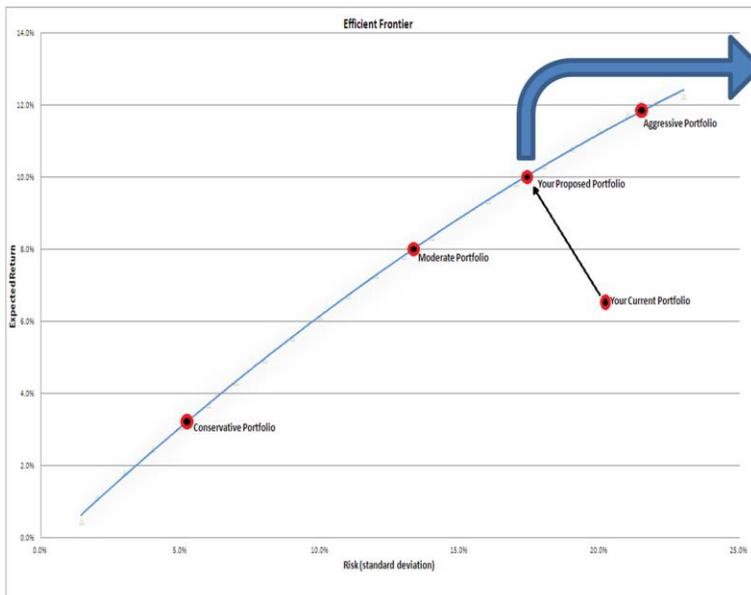
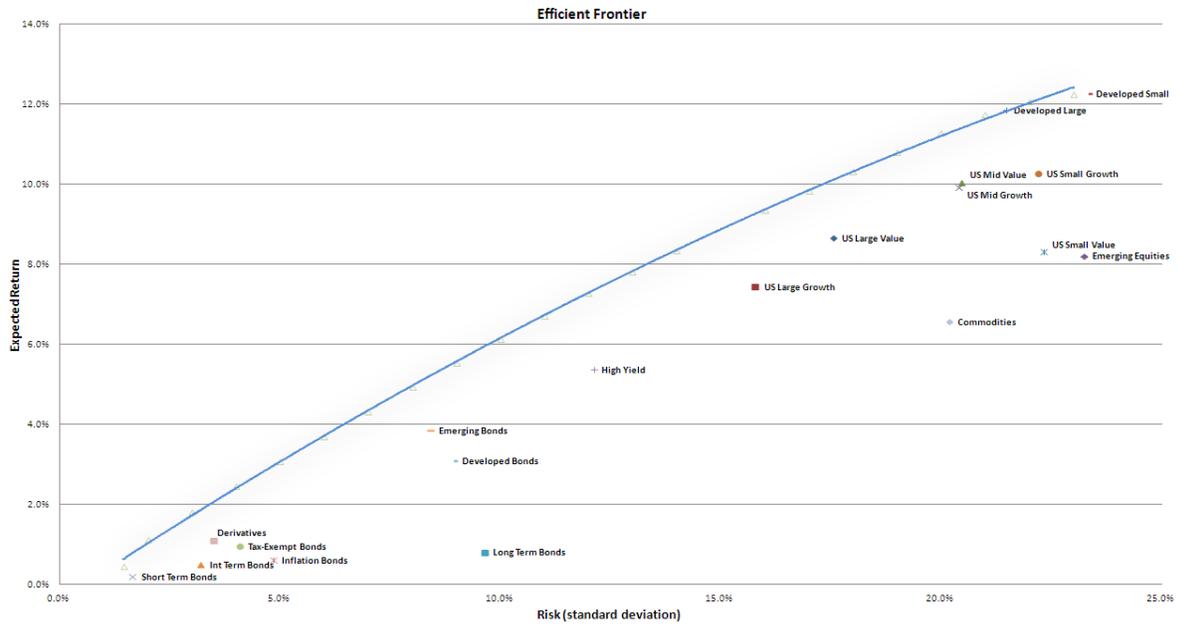


	Current Composite Index	Current			
		Fwd. P/E	P/B	P/CF	Div. Yld.
World (ACWI)	0.09	13.4	1.9	8.3	2.6%
EAFE Index	-0.58	13.2	1.6	7.5	3.2%
France	-1.28	12.6	1.4	6.2	3.5%
Germany	-1.11	11.7	1.5	6.2	3.1%
U.K.	-0.72	12.0	1.8	8.3	3.8%
Canada	-0.23	13.9	1.8	7.0	3.0%
Australia	0.13	14.4	2.0	10.5	4.5%
Japan	0.29	14.4	1.3	6.8	1.8%
Switzerland	0.93	14.7	2.5	10.0	3.1%
United States	1.41	14.5	2.5	9.1	2.0%



Source: MSCI, IMF, FactSet, J.P. Morgan Asset Management.

We then try to find how each of these different asset classes best fit together in a portfolio by asking, “for a given amount of risk taken, what is the best possible return we could expect?” Using the statistical framework known as Mean-Variance Optimization, developed by Nobel-prize winning economists Henry Markowitz and William Sharpe, we simulate many thousands of different possible portfolios to arrive at the single optimal investment allocation for a given risk level. Then we repeat the process many times over for different levels of risk to derive the Efficient Frontier, a continuous function describing how the allocation will shift as more or less risk is assumed to create the theoretically best portfolio for a stated goal.



After assessing a client's risk tolerance, time horizon, cash flow, liquidity, and other factors, we determine an appropriate level of portfolio volatility and the corresponding asset allocation from the Efficient Frontier.

We then put theory into practice by choosing the securities to make up the portfolio asset allocation. We scour mutual fund databases to find funds in each asset class with long-term track records of superior performance, a consistent and economically sound investment strategy, and fees that are commensurate with the value provided.

**Morningstar Analyst Rating**  **Gold**

**Morningstar Pillars**

Process	 Positive
Performance	 Positive
People	 Positive
Parent	 Positive
Price	 Positive

**Morningstar Analyst Rating**  
Morningstar evaluates mutual funds based on five key pillars, which its analysts believe lead to funds that are more likely to outperform over the long term on a risk-adjusted basis.

Analyst Rating Spectrum

 Gold    Silver    Bronze   Neutral   Negative

Sometimes we can't find an actively managed fund that meets our criteria in a particular asset class, so we invest in index funds, very low-cost funds that invest in a broad selection of securities within a given asset class according to some simple, rules-based formula.

For clients for which it's appropriate, we also may purchase individual stocks to represent parts of their equity allocation, using our in-house Global Equity Alpha Strategy to identify the stocks of high-quality, undervalued companies with the potential for superior returns.

**NO LOAD NO FEE**   **Schwab Mutual Fund OneSource®**  
(no-load, no-transaction-fee)

**FUND PROFILE**  
as of 09/30/13

Available at Schwab	Yes
Inception Date	04/02/2007
Status	Open
Category	Foreign Large Value
Index Fund	Yes
Fund Company	Schwab Funds
Portfolio Turnover	61%

Once the investments are made, we start the continuously ongoing process of monitoring and rebalancing. As markets naturally fluctuate and some asset classes perform better than others, the portfolio will tend to drift away from its target allocation. Once the disparity between target and reality passes a certain threshold we rebalance the portfolio, selling securities we're over-allocated to and buying ones that are under-weighted. This process keeps the portfolio within specified risk parameters while automatically introducing a "buy low, sell high" discipline to the investment process by trading recent outperformers for recent underperformers.

Description	Current Market Value	Portfolio Asset Allocation(%)	Target Asset Allocation (%)	Difference	Approximate Transaction Value
US Small Cap Value	6,616.77	1.21	6.00	-4.79	26,135.15
Non-US Dev Stock	56,067.49	10.27	18.00	-7.73	42,188.25
Non-US Dev Small-Cap Stock	6,545.80	1.20	4.00	-2.80	15,288.81
Non-US Emrg Stock	39,911.53	7.31	6.00	1.31	-7,159.61
US Txbi Long Term Bonds	16,909.47	3.10	1.00	2.10	-11,450.82

## **Important Disclosures**

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