John and Jane Sample

PKS Investment Advisors, LLC
Salisbury Ocean City Lewes
1-800-274-2564
www.pksadvisors.com

Introduction

As with any investment, whether it's a family, a home, or a college education, the best results are achieved when you carefully construct a plan and follow that plan consistently over time.

First, we discover. Our prior meetings with you gave us the opportunity to begin learning about your key values, goals and concerns. Based on what we have learned, we have prepared a Family Profile. We encourage your assistance in keeping the information current as our relationship evolves.

Next we strategize. The following Investment Plan and Investment Policy Statement (IPS) provides a broad context for making important financial decisions. We will use these tools and others to:

- Recommend a prudent overall investment strategy
- Identify asset classes and corresponding investment vehicles appropriate for your unique objectives
- Establish a set of investment management procedures for pursuing your long-term financial goals

There are a number of important benefits to adopting an IPS:

1. **It helps provide long-term discipline to your investment decision-making.** Well-conceived plans, policies and procedures help assure that rational analysis is the basis for your investment decisions, making you less likely to act on emotional responses to short-term or one-time events.
2. **It encourages effective communication.** Because it clarifies both the issues that are most important to you and the investment approach and strategy that will be used, it minimizes any misunderstandings that may arise.
3. **It allows you and us to review the probability of achieving your goals as they may change over time.** Periodic evaluations may indicate that corresponding changes to your investment plan are required.

We will consider and help you understand the potential transition issues, as you move from initial to planned accounts, and a range of possible costs and tax consequences.

Finally, we build. This Investment Plan and IPS represents the cornerstone of your experience with us, but it is only the beginning. As our relationship unfolds, we look forward to introducing additional resources to complement your IPS. For example, if there are advanced planning components that might enhance your overall strategies — such as wealth enhancement, wealth transfer, wealth protection or wealth sharing considerations — we will continue to explore new opportunities with you.

Our Investment Approach: An Overview

- **Investment Theory —** We incorporate the academic evidence regarding the importance of (1) allocating your wealth among various asset classes and (2) minimizing the costs related to investing. These two factors will have a far greater impact upon portfolio performance than security selection and market timing.
- **Investment Vehicles —** We use low-cost institutional managers who provide passively managed asset class and/or core equity mutual funds.
- **The Role of Diversification —** We diversify globally to reduce non-market risks. We view the fixed income portion of a portfolio as a diversifier and risk-dampener for the equity portion.
- **The Role of Market Risk —** We factor in your personal willingness, ability and need to accept market risk to enhance expected returns.
- **The Importance of Tracking Error —** We caution you to avoid changing your plans because of "tracking error regret," which can occur when your portfolio's performance may differ substantially (and sometimes at length) from major market indexes. You should measure success by how well your overall portfolio enables you to pursue your stated investment objectives, not by how well it matches a popular benchmark.

Wealth Analysis

Future rates of return on investments cannot be predicted with any degree of precision. The best we can do is to estimate the odds (or probability) that returns will be within a given range. We use Monte Carlo simulation software to generate 3,000 lifetimes of hypothetical investment returns. With this projection we can present you with an estimate of the odds that your particular strategy will succeed or fail (depending upon your personal definitions for each). We can also compare and contrast multiple strategies to help determine which one might make sense for you.

Each client's projection is different; therefore, we enter your personal assumptions related to how much wealth you have accumulated, how much you expect to save, and how much you expect to spend. We also use a predetermined set of assumptions such as inflation, tax rates and expected asset class returns in the analysis.

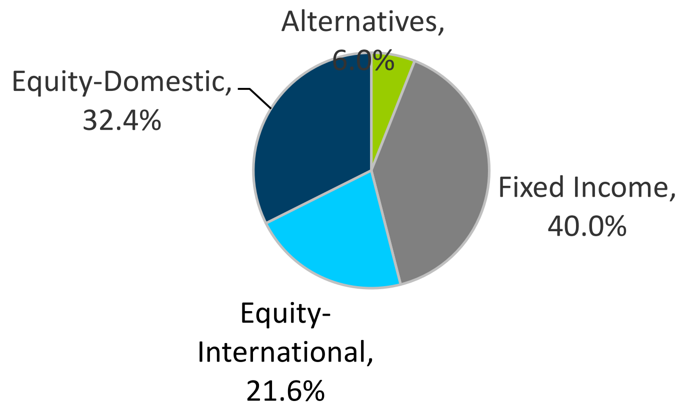
This projection can give you peace of mind that your plan appears to be on track – that you are saving and spending in a way that complements your personal goals and risk tolerances. On the other hand, if your odds for success are too low, the analysis can serve as an important alert, an indication that you – and we – have additional work to do before your plan meets your needs.

Repositioning Your Portfolio

In the next several sections, we present our recommendations for building your portfolio, including diversification into broad and specific asset allocations, as well as asset location considerations.

When you adopt this Investment Plan and IPS it serves as our roadmap to managing your portfolio.

Your Recommended Broad Asset Allocation



*The allocation between nominal fixed income and inflation protected fixed income may vary due to fixed income market conditions from time to time, as well as client preference.

Related Constraints (if any):

Allocation and Rebalancing Guidelines

Asset Class	Percentage of Portfolio		
EQUITY			
Domestic Equities	Min	Target	Max
U.S. Market Equity	10.8	14.4	18.0
U.S. Large-Cap Neutral	0.0	0.0	0.0
U.S. Large-Cap Value	3.4	4.5	5.6
U.S. Small-Cap Neutral	0.0	0.0	0.0
U.S. Small-Cap Value	10.1	13.5	16.9
TOTAL DOMESTIC EQUITIES	27.4	**32.4**	37.4
International Equities			
International Market Equity	2.5	3.3	4.1
International Large-Cap Growth	0.0	0.0	0.0
International Large-Cap Value	4.7	6.3	7.9
International Small-Cap Growth	0.0	0.0	0.0
International Small-Cap Value	5.0	6.6	8.3
Emerging Market Equity	4.1	5.4	6.8
Emerging Markets Large	0.0	0.0	0.0
Emerging Markets Value	0.0	0.0	0.0
TOTAL INTERNATIONAL EQUITIES	16.6	**21.6**	26.6
TOTAL EQUITY	49.0	**54.0**	59.0
ALTERNATIVES			
Commodities	2.3	3.0	3.8
Real Estate			
Domestic REITS	1.4	1.8	2.3
International REITS	0.9	1.2	1.5
Real Estate (directly owned)	0.0	0.0	0.0
TOTAL ALTERNATIVES	1.0	**6.0**	11.0
FIXED INCOME*			
Fixed Income (Nominal, TIPS, Cash)	35.0	40.0	45.0
TOTAL FIXED INCOME	35.0	**40.0**	45.0
TOTAL		**100.0**	

*The recommended allocation between nominal fixed income and inflation protected fixed income may vary from client to client. It depends on fixed income market conditions and the client's true need to protect him- or herself from exposure to high unexpected inflation.

Portfolio Risk Characteristics

Seeking higher returns generally requires you to accept increased investment risk. Our recommendation is based partially on recognizing your risk tolerance, which should be compared against the risk characteristics shown below.

Since January 1, 1973, a portfolio with the approximate asset allocation recommended in this Investment Plan and IPS experienced the following (results do not include investment advisor fees or transaction costs, which would have reduced the return numbers):

Worst single calendar year total return	-23.7%
Worst 24-month total return	-31.3%
Worst 3-year total return	-7.3%
% of calendar quarters with negative returns	25%
Longest streak of consecutive negative quarters	6

For example, a 10 percent loss in a single year would represent a $100,000 loss for every $1 million in your portfolio.

By adopting our recommendations, you acknowledge that risk is inherent in investing in marketable securities, and future results could be better or worse than indicated above. You are prepared to tolerate negative performance to meet your longer-term objectives as a result of expected long-term returns.

Your acknowledgement of the risk inherent in this Investment Plan and IPS is an indication that you are unlikely to abandon the investment strategy set forth in the plan, if negative performance is no worse than indicated here. You understand that maintaining a consistent strategy during good and bad markets is an important factor in achieving longer-term objectives.

Your Asset Location

Your investments can be classified into various asset classes as described above: equity, fixed income, etc. Asset *location* is the process of dividing these different kinds of assets among tax-free, tax-deferred and taxable accounts to maximize the after-tax return of your overall portfolio. Asset location is not to be confused with asset *allocation*, which is the process of investing your dollars across various asset classes (regardless of the kind of account in which the assets are held).

Based on the information you provided, the table below shows the initial recommended location of your assets. These locations were carefully considered to ensure appropriate continuity and to further improve the tax efficiency of your portfolio.

Initial Recommended Asset Location

	Equity		**Alternatives**		**Fixed Income**		
	Domestic	International	Commodities	REITs	Nominal	TIPS	Total
Tax-Free Account(s)							
Joe Roth	20,620						$20,620
Jane Roth	20,224						$20,224
Tax-Deferred Account(s)							
Joe IRA			296,867	296,867	3,255,269		$3,849,003
Joe 401(k)	732,720				702,955		$1,435,675
Taxable Account(s)							
Joe RLT	1,424,217	891,049					$2,315,266
Joe RLT	1,005,591	949,525					$1,955,116
Jane RLT		299,656					$299,656
Totals	$3,203,372	$2,140,230	$296,867	$296,867	$3,958,224	$0	$9,895,560
% of Total	32%	22%	3%	3%	40%	0%	100%

Investment Vehicles

In this section, we describe the most common investment vehicles we use to implement our recommended investment approach. We also may use vehicles not described here.

Equity — For equity exposure we primarily use passive asset class and/or core equity funds, which we describe in greater detail in our Investment Methodology White Paper.

Developed using academic research on capital markets, the structure of these funds reflects the belief that markets are efficient and that the vast majority of investors' returns is determined by asset allocation decisions, not by market timing or stock picking. Each fund employs a structured strategy designed to capture desired characteristics of an entire asset class or an entire market.

Asset class funds are similar to conventional index funds, but they differ in some important respects. Asset class funds most often do NOT track popular market benchmarks, such as the S&P 500, the Russell 1000 or the Wilshire 5000 indexes; instead, they are designed to capture specific dimensions of risk and expected return, while still effectively tracking the targeted asset class or market.

There are at least two advantages to this approach over an index fund strategy: (1) It enables greater exposure to the size and value risk factors, along with their higher expected return; and (2) it eliminates pressure to trade at the generally disadvantageous pricing required to remain on track whenever an index "reconstitutes" itself (changes the companies included in the index).

Fixed Income — Our goal for any portion of your investments is simple: to manage your portfolio in a manner designed to maximize net returns (after taxes, fees and expenses) consistent with your objectives and risk tolerance. For most investors, this goal includes fixed income.

Whether you are best served by owning a fixed income mutual fund (or funds) or a customized individual bond portfolio, we believe that the proper role of fixed income within a portfolio is to reduce overall portfolio risk; provide an ongoing, stable income source; or provide some combination of both. To accomplish this vital role, our approach to fixed income investing is entirely passive regardless of the vehicles used. We do not believe in selecting mispriced securities, timing the market, guessing either the direction of interest rates or the future shape of the yield curve, or making similar attempts to "beat" the market.

While we apply a consistent approach, we recognize that each investor's specific needs are different. Our Fixed Income team incorporates a breadth of services, resources and expertise to ensure that your fixed income allocation reflects your individual investment goals.

When a customized bond portfolio is recommended, our Fixed Income team purchases high-quality individual bonds for your account that meet your specific objectives. Because we buy fixed income in sufficient volume, the many broker/dealers through which we trade bonds treat us as an established and important institutional buyer. We are not registered as a broker/dealer, so we can-not and do not carry an inventory of individual bonds, and we cannot and do not mark up bond prices. Because we seek trades from multiple broker/dealers on behalf of our clients, we are able to obtain better pricing through competition. We do not charge additional management fees for the fixed income portion of client portfolios. Fixed income, however, is included in the assets on which we charge our investment advisor fees.

Ongoing Care and Maintenance

Periodic Reporting

We produce and send customized performance reports to you periodically. In addition, you receive periodic account statements, usually monthly, from your custodian.

Included in our periodic reporting are appropriate benchmarks for different asset classes, allowing for the evaluation of manager performance.

Explanation of Rates of Return — The Portfolio Performance Review report included in your quarterly packet will show portfolio-level rates of return for the current quarter, year-to-date, trailing one-, three-, five- and 10-year returns (when applicable), and since inception. All returns are calculated net of all fees and costs, including advisor fees.

The review reports **internal rates of return** and **time-weighted returns**. As you read your quarterly reports, it will be helpful to understand the meaning of these two different ways to calculate returns.

Internal rate of return is influenced both by the performance of your investments and the timing and size of additions and withdrawals (either in cash or in securities). If you add assets to your portfolio right before a market run-up, you benefit more from the favorable returns. This added benefit will be reflected in your internal rate of return. Conversely, if you remove assets from your portfolio before a market run-up, or if you add assets before a market drop, your internal rate of return will be lower than the time-weighted return.

Time-weighted return is a measure of portfolio performance, disregarding the effect of cash flows. Time-weighted returns are best used for performance comparisons between different money managers; between mutual funds and their appropriate benchmarks; or between your portfolio and the synthetic benchmark used for performance comparisons.

In other words, time-weighted return shows the “pure” performance of your investments (the time-weighted return of several investors over the same time period should be the same, if they all had the same funds allocated in the same ratios), while the internal rate of return depends on the performance of your investments and the effect of your contributions to and/or withdrawals from the portfolio over time.

Rebalancing

Differences in performance among the various asset classes are likely to eventually cause your portfolio’s exposure to various risk factors to deviate from the allocation guidelines established in this document. To prevent your allocation from straying too far from its stated goals, we periodically compare your portfolio allocation against targets and may, when appropriate, rebalance it back to the recommended weighting. We will typically rebalance when either of the two following events occur:

- **Either** the weighting of an individual asset class deviates by ±25 percent of its recommended weighting
- **Or** the major components within your portfolio (domestic equity, international equity, total equity, alternatives and/or total fixed income) deviate by ±5 percent (500 basis points) from those components’ target weightings

We will typically use available cash to rebalance, as this is usually the most cost-effective method. In the absence of cash flows, we may execute transactions to rebalance the portfolio. Some funds hold multiple asset classes in one fund. These funds will rebalance internally at the fund level. Income tax considerations may influence the extent or even the appropriateness of rebalancing activity.

Tax Management

Because unnecessary taxes can hurt your returns, we will manage your portfolio with attention to tax efficiency. This can be done through various tax-management techniques, including:

- Practicing proper asset location (locating assets appropriately within tax-free, tax-deferred and taxable accounts)
- Harvesting tax losses throughout the year
- Minimizing short-term capital gains
- Using tax-managed funds where appropriate
- Remaining sensitive to mutual fund distribution dates
- Implementing specific lot identification to minimize realized gains
- Maximizing the advantages when charitable giving opportunities are desired

Monitoring for tax-loss harvesting opportunities is a year-round process for two reasons. First, an investment that shows a loss in April may recover by the end of the year. If the loss is not harvested in April, it may no longer be available in December. Second, even if the loss still exists at year-end, a short-term loss in April may have become long-term by December. (Short-term losses are generally more useful to the taxpayer than long-term losses.)

In the tax-loss harvesting process, we will consider transaction costs, as well as the possible tax consequences of holding a “substitute” fund for 31 days to avoid the wash sale rule. (The IRS may disallow the deduction if the investor sells and buys two investments that are considered “substantially identical” in nature — a wash sale — within 30 days of each other.) We will use our professional judgment to set minimum amounts and percentages for trading costs as well as loss within each equity and fixed income transaction. These figures will determine when tax-loss harvesting activities are reasonably warranted within your portfolio. The percentage hurdle will be lower for less volatile asset classes such as fixed income, and higher for more volatile asset classes, such as emerging market equities, or commodities.

Ongoing Review of Investment Plan

- During our Regular Progress Meetings, we will ask you about any specific events in your life that may call for a change in your portfolio construction. For example, these events may include the birth of a child or grandchild, the death of a parent or a change in your marital status. As we learn about changes in your situation, we will reallocate your portfolio as warranted.

- We will also review changes in your portfolio that may have resulted from market movements. For example, unless your goals change, a sustained period of strong market performance may result in less need to take risk. From a total asset level that is then greater than anticipated, you may be able to increase the odds of achieving your goals by reducing the risk exposure of your portfolio going forward. Conversely, long periods of market underperformance may increase your need to take risk, resulting in a higher recommended allocation to stocks and other risky assets.

- In addition to possible adjustments to your asset allocation, changes in your personal situation and/or unusual market performance may make it necessary to re-examine your cash flow requirements.

- Because such changes are difficult to evaluate directly, we will periodically update the inputs and rerun your Wealth Analysis to assist us in making our recommendations.

Duties and Responsibilities

You, our client, should always be aware that you have the ultimate responsibility for the investment of your own assets. We shall assist you to discharge this responsibility with the care, skill, prudence and diligence under the circumstances then prevailing, that a prudent person, acting in a like capacity and familiar with such matters, would use in such conduct with like aims.

We, PKS Investment Advisors, LLC, are responsible for answering any questions you may have; offering client educational opportunities to the extent warranted; assisting you in making appropriate asset allocation decisions based on your particular needs, objectives, and risk profile; implementing such decisions; reporting portfolio performance; and rebalancing your portfolio, as necessary.

We are a Registered Investment Advisor firm and shall act as your investment advisor, pursuant to the Investment Advisory Agreement between you and us.

You should provide us with all relevant information on financial condition, net worth and risk tolerances and shall notify us promptly of any changes to this information. Failure to disclose all such relevant information will limit our ability to provide prudent investment advice. Your duties, rights and responsibilities are set forth in the Investment Advisory Agreement.

You have elected the portfolio described in this Investment Plan and IPS, which encompasses the investment accounts presented below.

Investment Accounts Covered by This Investment Plan and IPS

Account Title	Account Number (-xxxx)
[Name]	[-xxxx]
[Name]	[-xxxx]
[Name]	[-xxxx]
[Name]	[-xxxx]
[Name]	[-xxxx]
[Name]	[-xxxx]

Accounts listed below (which may change from time to time as accounts are added or closed) will be treated as one aggregate portfolio. This should provide the most efficient method (i.e., reduced cost and income tax consequences) for designing and managing the portfolio. In doing so, each account may have different asset class representation and each account's growth may vary over time. This should not detract from the overall investment policy.

Approvals

Adopted this ____________ day of ____________, 20______ *By*

Client(s) signature(s): ________________________________ ______________________________

Printed: ________________________________ ______________________________

And by

PKS Investment Advisors, LLC

Advisor signature: ____

Printed: ____

Comments or modifications:

____

____

____