IMPACT® daily

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IMPACT Awards

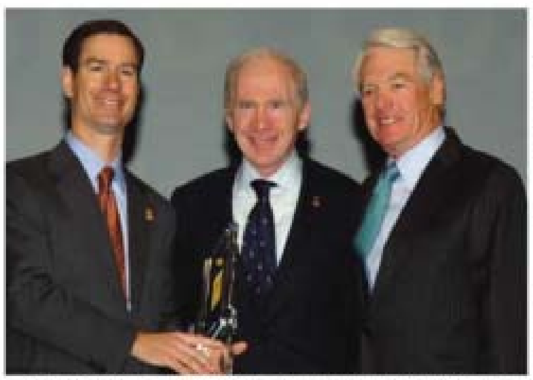
The annual IMPACT Awards showcase some of the best firms in our industry. At last year's IMPACT awards were a conference highlight, this year's awards, presented by Charles Goldman, EVP of Schwab Institutional to honor independent firms, were no exception.

Judges Daniel O. Leemon, former executive vice president and chief strategy officer for The Charles Schwab Corporation; Edythe "Dede" McClatchy Pahl, executive director of the Investment Management Consultants Association (IMCA); David G. Tittsworth, executive director and executive vice president of the Investment Advisor Association (IAA); and Marvin W. Tuttle, Jr., CAE, executive director and CEO of the Financial Planning Association (FPA) had their work cut out for them as they reviewed entries. So many firms demonstrated the "spirit of independents" in fostering powerful client relationships, illustrating best practices in human capital management, giving back to the community and meeting business challenges head on.

New this year was the 2007 Pacesetter Award presented to an up-and-coming firm successfully pairing accelerated growth with best practices into a winning formula. This year's recipient, Abacus Planning Group of Columbia, S.C., is a firm with a unique thumbprint of four Fs: fast, focused, flexible and fun. Cheryl Holland, president, accepted the Pacesetter Award on behalf of her firm.

Charles Schwab & Co. will donate $10,000 to Bryn Mawr College (Bryn Mawr, PA) on behalf of Abacus Planning Group.

The Best-in-Tech Award went to Friedman & Associates of Novato, CA for their "laser-like" focus on using technology to improve efficiency and better serve their clients. The firm makes use of cutting-edge technology such as Web conferencing to connect with clients and has eliminated quarterly reporting in favor of online monthly reports available to clients via the Web.



Charles Goldman and Chuck Schwab congratulate Lewis J. Altfest of New York-based L.J. Altfest & Co., on winning the Charles R. Schwab IMPACT Award

To meet their own needs for servicing clients, Friedman & Associates developed Junxure, a client relationship management software program. Between 1998 and 2004, Friedman & Associates doubled the number of clients it served and tripled assets under management without adding administrative staff.

Goldman presented the award to president Greg Friedman and announced a $10,000 donation to the American Cancer Society on behalf of the firm.

The Best-in-Business Award honors a firm displaying a myriad of best practices that raise the bar in terms of servicing clients. This year's recipient, Moneta Group of St. Louis, MO, focuses on turning clients into "raving fans."

Moneta Group's principals believe that all employees are important to the firm's success and relies on its partners to provide practical knowledge to support the firm's goal of serving as "family CFOs" to its clients.

Chairman Peter G. Schick and CEO Joe Sheehan accepted the award from Goldman, along with a $10,000 donation to the University of Missouri CFP Program.

Chuck Schwab joined Goldman on stage for the Charles R. Schwab IMPACT Award. "I'm proud to put my name on this award and present it to someone with many years of hard work and a commitment to ethics and independence."

This year's recipient, Lewis J. Altfest of New York-based L.J. Alftest and Company, Inc. was honored for his passion and commitment to mentoring others, improving the profession, and doing the right thing for his clients.

Despite his many years in the industry, Alftest said he had no intention of retiring. "The last few years have been the most rewarding. Why give it up?"

Charles Schwab donated $25,000 to New York's Pace University Lubin School of Business to establish a scholarship in Altfest's name. ■

Conference Highlights

Morning General Session
8:00 – 9:00 a.m.

Mandalay Bay F/H
Featured speakers at the morning general session will be Vanessa Berlowitz and Mark Linfield, co-producers of Planet Earth. Attendees will be fascinated with their stories from the years spent filming some of the most captivating and phenomenal sights ever captured on film.

Closing General Session
11:00 a.m. – 12:30 p.m.

Mandalay Bay F/H
Known worldwide primarily as U2's lead singer, in recent years Bono has been dedicated to fighting AIDS, poverty, and other global problems. In 2005, he shared *Time* magazine's Person of the Year with Bill and Melinda Gates. Bono received an honorary British knighthood in 2007.

See You Next Year in Atlanta
September 23-26, 2008

Mark your calendars now.
IMPACT 2008 will be held at the Georgia World Congress Center, September 23-26, 2008 in Atlanta Georgia

Alpha and Asset Allocation Evolution

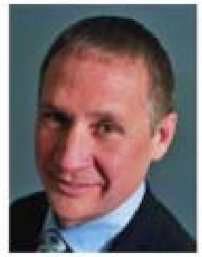
Don't follow the old rules

The *Farmer's Almanac* has long been using historical patterns to predict the weather. Unfortunately many in the financial services industry use the same kind of approach when predicting stock market performance. During yesterday's session, Alpha and Asset Allocation: Evolution of Asset Allocation Models, Bryce James, president of Seattle-based Smart Portfolios LLC, played myth-buster and shared his thoughts on how the oft-used rules for portfolio asset allocation are often based on dated and inaccurate assumptions.

James has more than 24 years of experience in portfolio management, asset allocation and risk management. He specializes in building portfolio optimization solutions, custom trading algorithms, financial content-delivery systems and performance-measurement software solutions. James has also served as a managing member of the Foundation & Endowment Fund, L.P., a hedge fund specializing in fixed income fund of funds. He's been a portfolio manager with Dain Bosworth, Prudential Securities, and Drexel Burnham Lambert.

You simply can't make assumptions based on only historical data, said James. "If you use the wrong period of historical data, you won't be accurate." James cited the *Farmer's Almanac* and its hurricane predictions as an illustration of why historical averages don't work. "The *Farmer's Almanac* predicts two hurricanes a year based on historical data. You then have a year like 2005 where you have a whole alphabet of hurricanes. Just because things happen on average that doesn't mean that is what will happen in a given year."

That historical-data analogy works in the stock market. "If you look at the ten years of data from 1990 to 2000 and believe that the next ten years will look the same, you would have bludgeoned to death in the last five years," said James. "The problem with historical data is that like the *Farmer's Almanac*, it only uses time snapshots."


Bryce James

Instead, James suggested that financial advisors take a lesson from physics and look at data clusters rather than averages. "Stocks have a certain pattern. You can identify those patterns mathematically using complex algorithms," he said. Yet most asset allocation solutions are decades old and don't take advantage of new technologies, processing power and advances in mathematics.

James provided a brief history of asset allocation modeling which began when Harry Markowitz created Modern Portfolio Theory (MPT) in 1959. Although he's a fan of Markowitz, James discussed how MPT, brilliant in its day, falls short today. "MPT was one of the biggest advancements in investing because it demonstrated that investors could reduce risk through diversification," explained James. "However, it's a theory that's not modern any more. While the concept of diversification and using forecasted earnings and dividend growth was solid, Markowitz didn't have the computing power we have today."

James warned investors not to rely on MPT to drive their investing decisions. "Don't try to win at investing using a 45-year old methodology. In other words, don't bring a vintage vehicle to compete with the newest and the best."

James is a proponent of Extreme Value Theory (EVT) which was created in 2002. He compared EVT to MPT. "MPT incorrectly makes several assumptions," said James. The first is that markets are static and don't change. The second is that securities follow normal distributions. And the third is that past performance predicts future results. In contrast, EVT is based on the assumption that markets are dynamic and in constant change and that securities follow stable distributions and that market activity predicts future results.

James said he believes that investors can achieve superior portfolio optimization by using dynamic portfolio optimization. Flexing his theoretical and linguistic muscles he added that this best-of-breed solution combines accurate data with dynamic data analysis using exponentially weighted moving averages and generalized auto-regressive conditional hetero-scedasticity, expected shortfall with Student T distributions to forecast variance and expected return, and Monte-Carlo simulation using multivariate distributions and asset diversification using non-linear dependence.
