

LITMAN GREGORY
PORTFOLIO STRATEGIES

Managing Portfolios in a Low-Return Environment



April 2013

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Our independence sets us apart.

- Objective, high-conviction fund portfolios
- Unconstrained thinking
- A boutique firm with total client dedication

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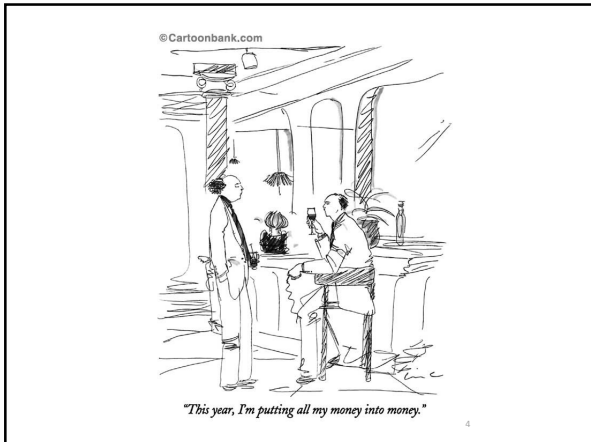
Litman Gregory Overview

- Established in 1987, we provide investment management services to high-net-worth individuals, families, nonprofits, and investment professionals.
- Independent and employee-owned, with offices in Larkspur and Orinda, CA
- Currently 13 partners and 44 employees
- Significant research focus with ten research professionals
- \$8.7 billion in total assets under management**

**The Litman Gregory companies that manage assets include Litman Gregory Asset Management, LLC and Litman Gregory Fund Advisors, LLC. Assets as of 12/31/2012.

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An Environment for Active Management

- Downside risk management
- Opportunistic, valuation-sensitive tactical strategy
- Research-driven manager selection
- *Litman Gregory's 25-year performance track record is a result of these key strengths.*

		INVESTMENT MANAGEMENT APPROACH	
		Active	Passive/Indexing
ASSET ALLOCATION APPROACH	Tactical		
	Static		

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Portfolio Management Framework

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A Disciplined Approach is the Foundation



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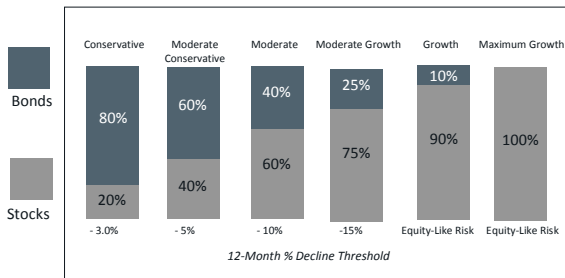
Importance of the Strategic Allocation

- It's a starting point for our portfolio allocations
- It provides a sensible long-term target allocation absent of "fat-pitch" opportunities.
- It offers a constant frame of reference against which to measure the impact of our tactical decisions
- It ensures a consistent discipline in decision-making

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Risk-Defined Strategic Allocations



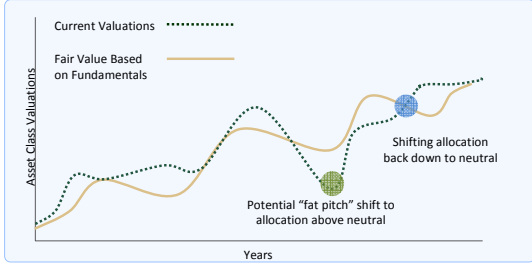
Strategic Allocations determined by Litman Gregory Asset Management, LLC based on guidelines provided by Genworth Financial Wealth Management, Inc. Portfolios are designed to perform within established loss thresholds over a 12-month period with 95% confidence. There is no guarantee that losses will not exceed thresholds, particularly during shorter time intervals.

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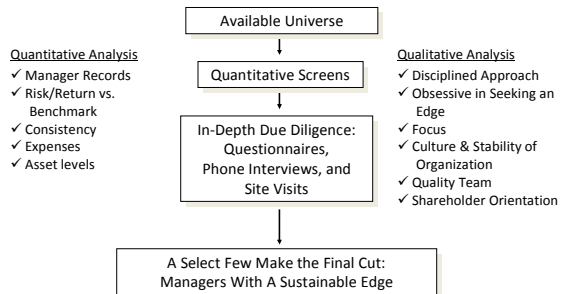
Our "Fat Pitch" Tactical Allocation Strategy

When Long-Term Fundamentals and Current Valuations Diverge We May Find a "Fat Pitch" Investment Opportunity



Over the long term we expect valuations and fundamentals to converge.

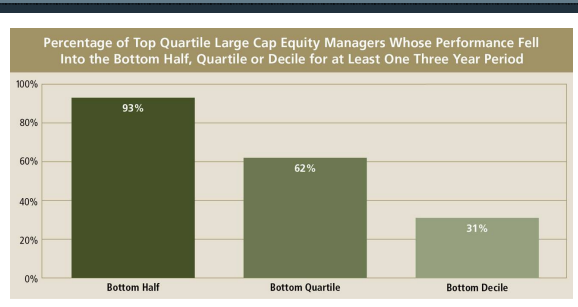
Research Process



- Quantitative Analysis**
- ✓ Manager Records
 - ✓ Risk/Return vs. Benchmark
 - ✓ Consistency
 - ✓ Expenses
 - ✓ Asset levels

- Qualitative Analysis**
- ✓ Disciplined Approach
 - ✓ Obsessive in Seeking an Edge
 - ✓ Focus
 - ✓ Culture & Stability of Organization
 - ✓ Quality Team
 - ✓ Shareholder Orientation

Great Managers Typically Underperform at Some Point



Current versus Past: Tailwinds Replaced by Headwinds

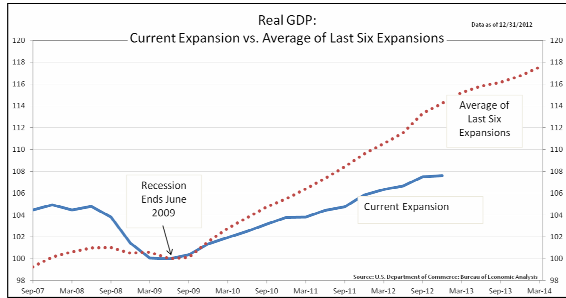
Debt Growth
Falling Interest Rates
Rapid Consumption
Rising Housing Market
Risk Taking

Debt Reduction
Very Low Rates (Likely To Rise)
High Unemployment
Weak Housing Market
Risk Aversion
Macroeconomic Uncertainty
High Government Deficit, Debt
Likely Higher Taxes

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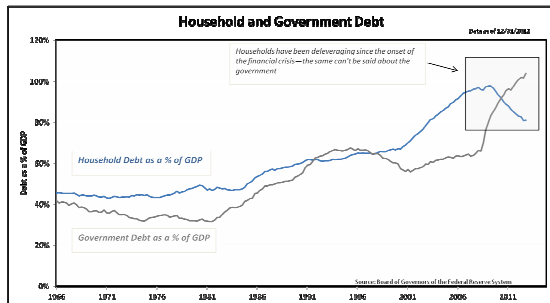
Deleveraging Has Consequences to the Overall Economy



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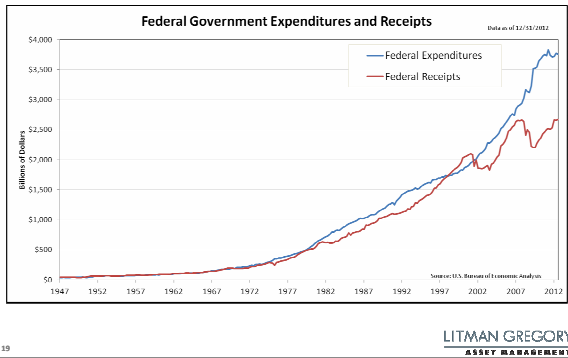
Debt Has Been Transferred From Consumers to the Government



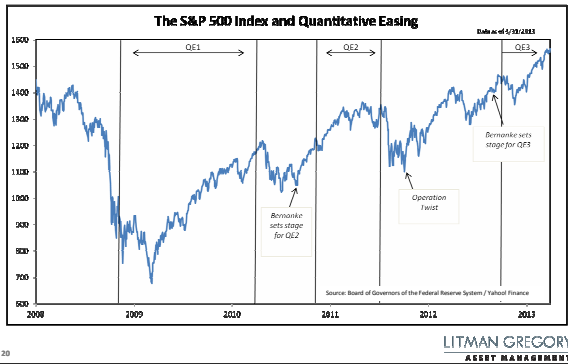
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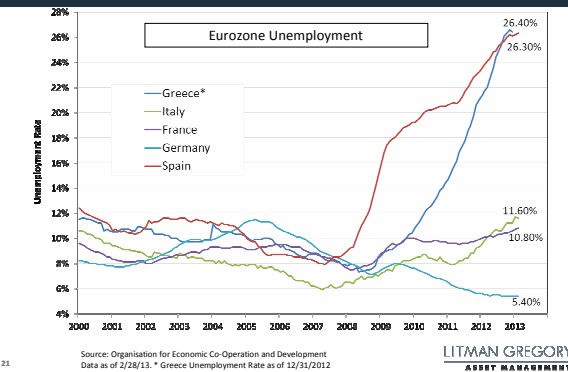
Washington's Ability to Manage Debt is a Key Risk Going Forward



Monetary Policy Has Boosted Stocks but Also Creates Uncertainty

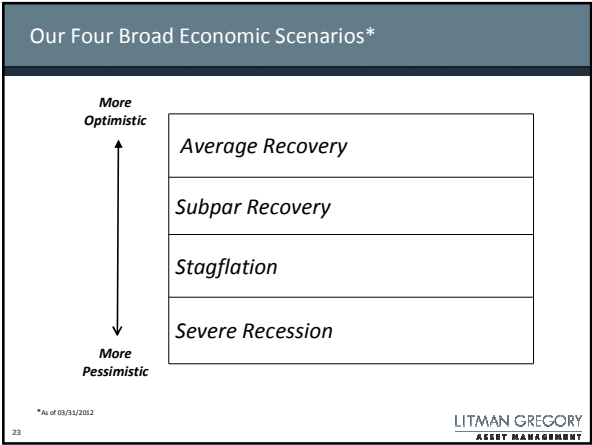


Europe Remains a Risk



Managing Portfolios

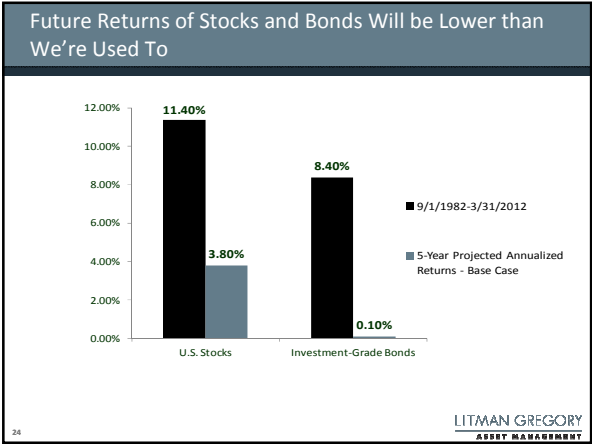
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*As of 03/31/2012

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Low Yields Could Mean Limited Upside for Bonds

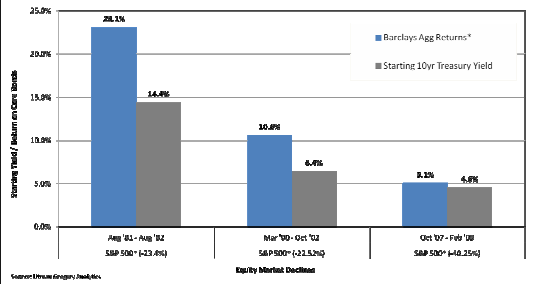
HISTORICAL YIELD ON 10-YEAR TREASURY BONDS (1962-2012)



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In a Low Yield Environment, Core Bonds Don't Offer the Historical Level of Downside Protection

Core Bond Returns in Equity Bear Markets



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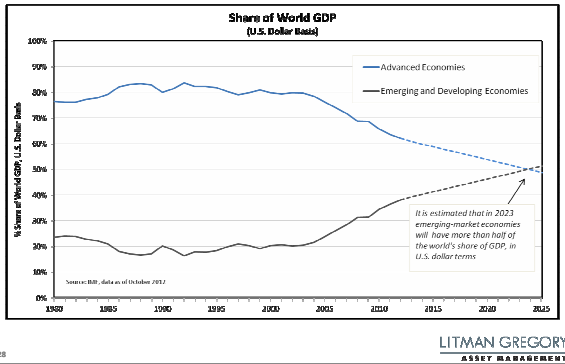
Using Tactical Positioning to Improve Risk/Return Potential

Asset Class	Portfolio Position vs. Strategic Allocation
Fixed-Income:	
Traditional Investment-Grade	Underweighted
Absolute-Return Oriented	Overweighted
Floating-Rate Loans (conservative strategies)	Overweighted
Emerging-Markets Local-Currency	Overweighted
Equities:	
Larger-Cap U.S. Stocks	Underweighted
Smaller-Cap U.S. Stocks	Underweighted
Foreign Stocks – Developed Markets	Underweighted
Foreign Stocks – Emerging-Markets	Neutral - Overweighted
Alternative Investments:	
Alternative Strategies	Overweighted

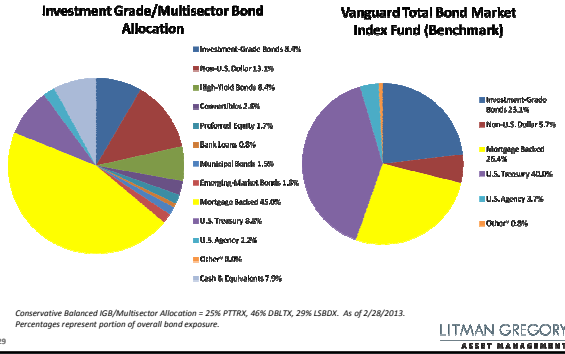
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Portfolio Example: Our Equity Positioning Favors Emerging-Markets



Portfolio Example: Seeking Value Away From Core Bonds



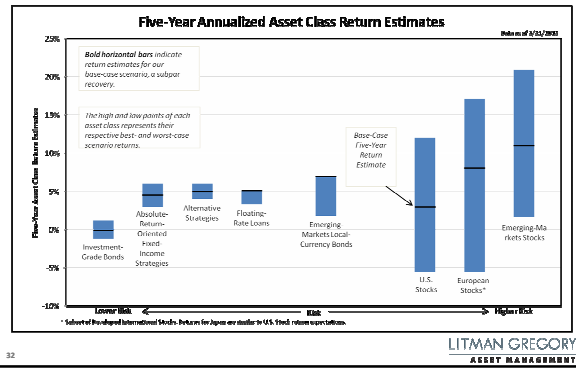
Our Positioning Reflects Several Considerations

- We remain cautious due to elevated risks and low expected returns in our base case subpar recovery scenario
- We recognize the real possibility of a better environment and expect stocks to outperform bonds over five years in all but our most pessimistic scenarios
- This is why, while underweight, our portfolios continue to hold material allocations to stocks
- Within our stock allocation, we are tilted toward emerging-markets where we expect higher returns
- We expect paltry returns for core bonds, particularly given our outlook for rising rates over our five-year investment horizon
- Flexible bond funds and alternative strategies provide relatively attractive risk/return potential

Thank you for your time!

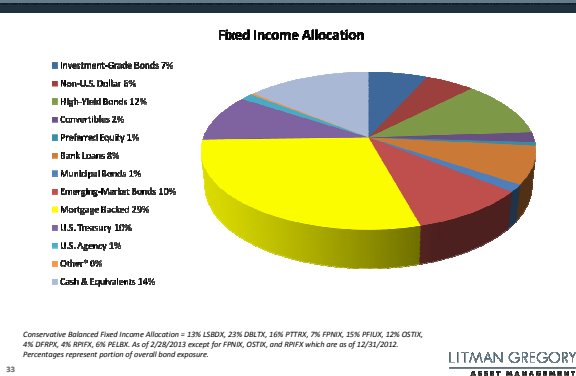
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Asset Class Return Estimates Reflect a Wide Range of Outcomes



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Tactically Managing Risk Within Fixed-Income Portfolios



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Strategic Allocations as a Blueprint

Strategic Allocations/Benchmarks						
	Domestic Investment Grade Bonds	Domestic Larger-Cap Stocks	Domestic Smaller-Cap Stocks	International Developed-Market Stocks	International Emerging-Market Stocks	Cash
	Barclays Capital U.S. Aggregate Bond Index	S&P 500 Index	Russell 2000 Index	MSCI EAFE Index	MSCI Emerging Markets Index	Citigroup 3-Mth T-Bill
Profile 1- Conservative	78%	10%	2%	4%	4%	2%
Profile 2- Moderate Conservative	58%	20%	4%	8%	8%	2%
Profile 3- Moderate	38%	30%	6%	12%	12%	2%
Profile 4- Moderate Growth	23%	37%	8%	15%	15%	2%
Profile 5- Growth	8%	45%	9%	18%	18%	2%
Profile 6- Maximum Growth	0%	48%	10%	20%	20%	2%

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Asset Class Ranges

Asset Class Ranges for Tactical Allocations								
	Investment-Grade Bonds	High-Yield Bonds	Large-Cap Stocks	Small-Cap Stocks	Developed International	Emerging Markets	REITs	Alternative Investments
Profile 1- Conservative	70-100%	0-20%	0-30%	0-25%	0-25%	0-25%	0-15%	0-30%
Profile 2- Moderate Conservative	50-80%	0-20%	0-40%	0-25%	0-30%	0-30%	0-15%	0-30%
Profile 3- Moderate	30-65%	0-20%	10-50%	0-30%	0-35%	0-35%	0-15%	0-30%
Profile 4- Moderate Growth	10-45%	0-20%	15-60%	0-30%	0-40%	0-40%	0-15%	0-30%
Profile 5- Growth	2-30%	0-20%	20-70%	0-30%	0-40%	0-40%	0-15%	0-30%
Profile 6- Maximum Growth	2-10%	0-20%	20-80%	0-30%	0-40%	0-40%	0-15%	0-30%

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