

## Finding the Achilles Heel in an Asset Allocation Plan

There are typically four ways you can approach an asset allocation plan to find weaknesses from a style perspective.

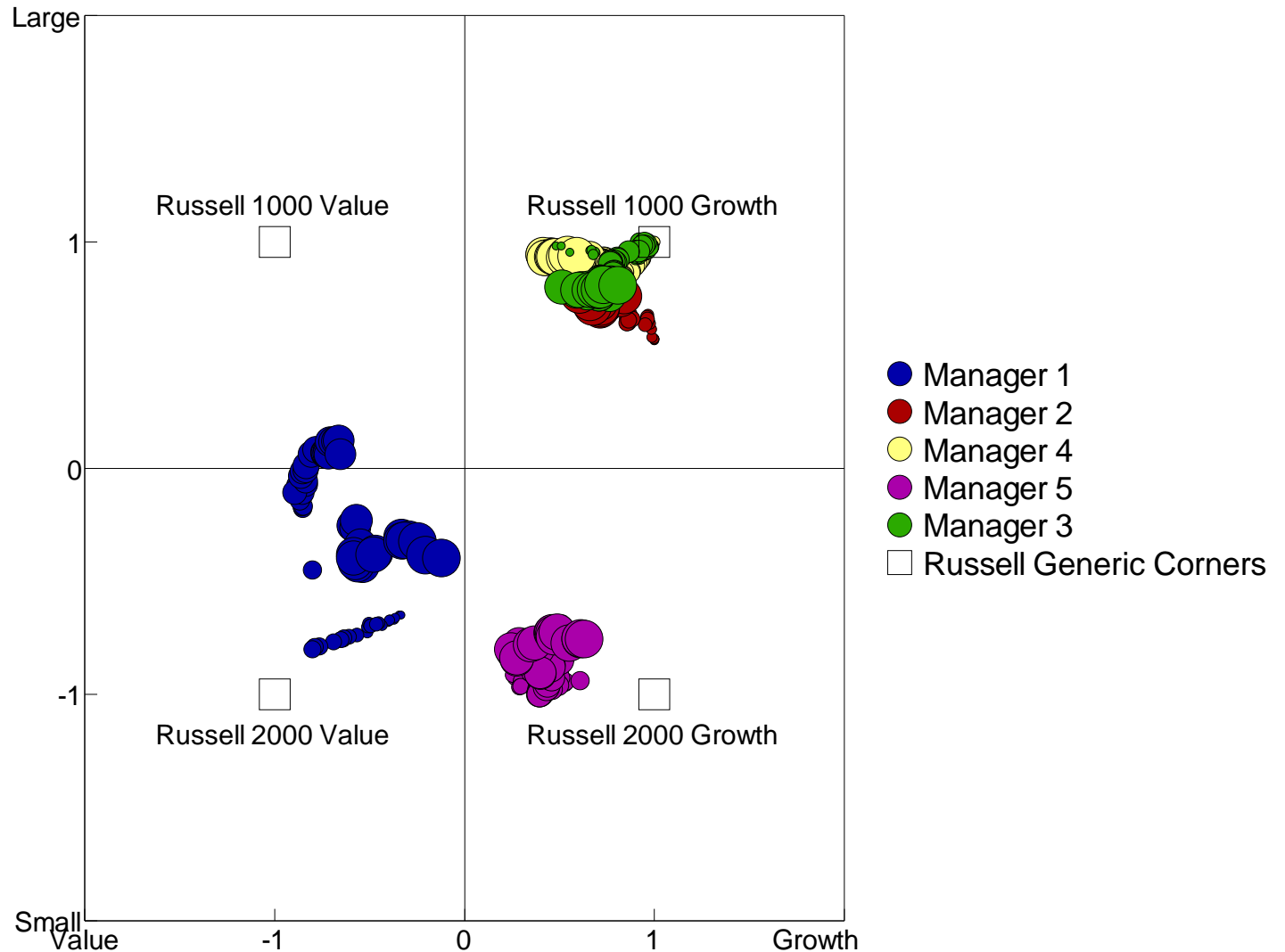
1. Overlap- Multiple managers covering the same asset class
2. Gaps- Lack of coverage of an asset class
3. Style Drift- Lack of style consistency for a particular manager
4. One-on-One Analysis- Running your managers versus theirs attempting to find the weak spots

## OVERVIEW

To the right is a style map of a poorly constructed asset allocation plan. There are many opportunities to build a case as to why this is a flawed plan.

# Manager Style

36-Month Moving Windows, Computed Monthly  
November 1994 - October 2004

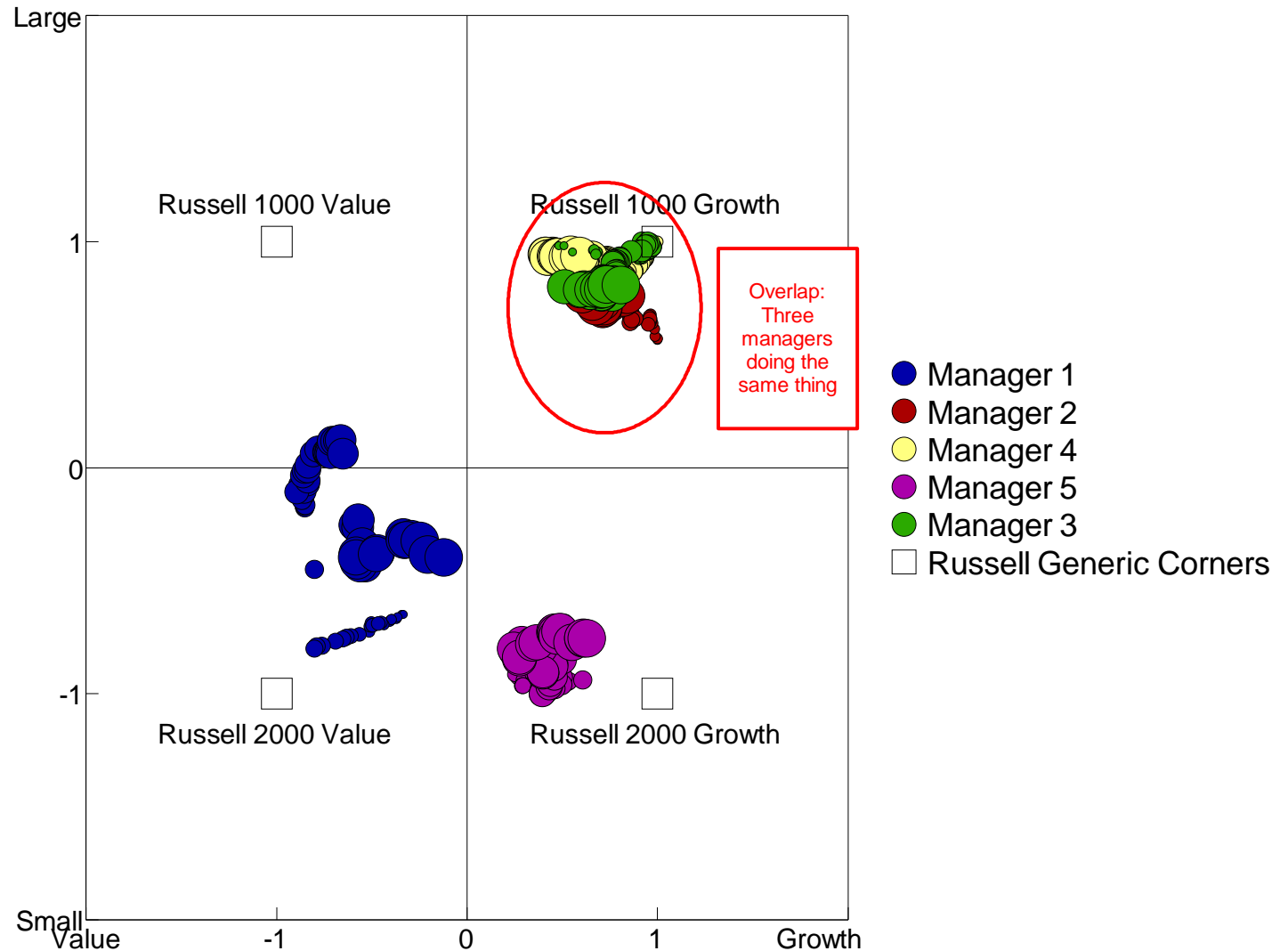


## OVERLAP

This is a situation that was not uncommon during the late 1990's. People forgot about the meaning and the value of diversification, and wound up populating a certain asset class with redundant managers.

# Manager Style

36-Month Moving Windows, Computed Monthly  
November 1994 - October 2004



## DEVELOP THE STORY

One may ask why this is important. Using StyleADVISOR, you can build graphs to show why this flaw is a fatal one. In this instance, the returns of all three redundant managers are plotted against each other to illustrate a lack of diversity. It is a simple way to get the point across.

# Manager Performance

Single Computation

November 1999 - October 2004

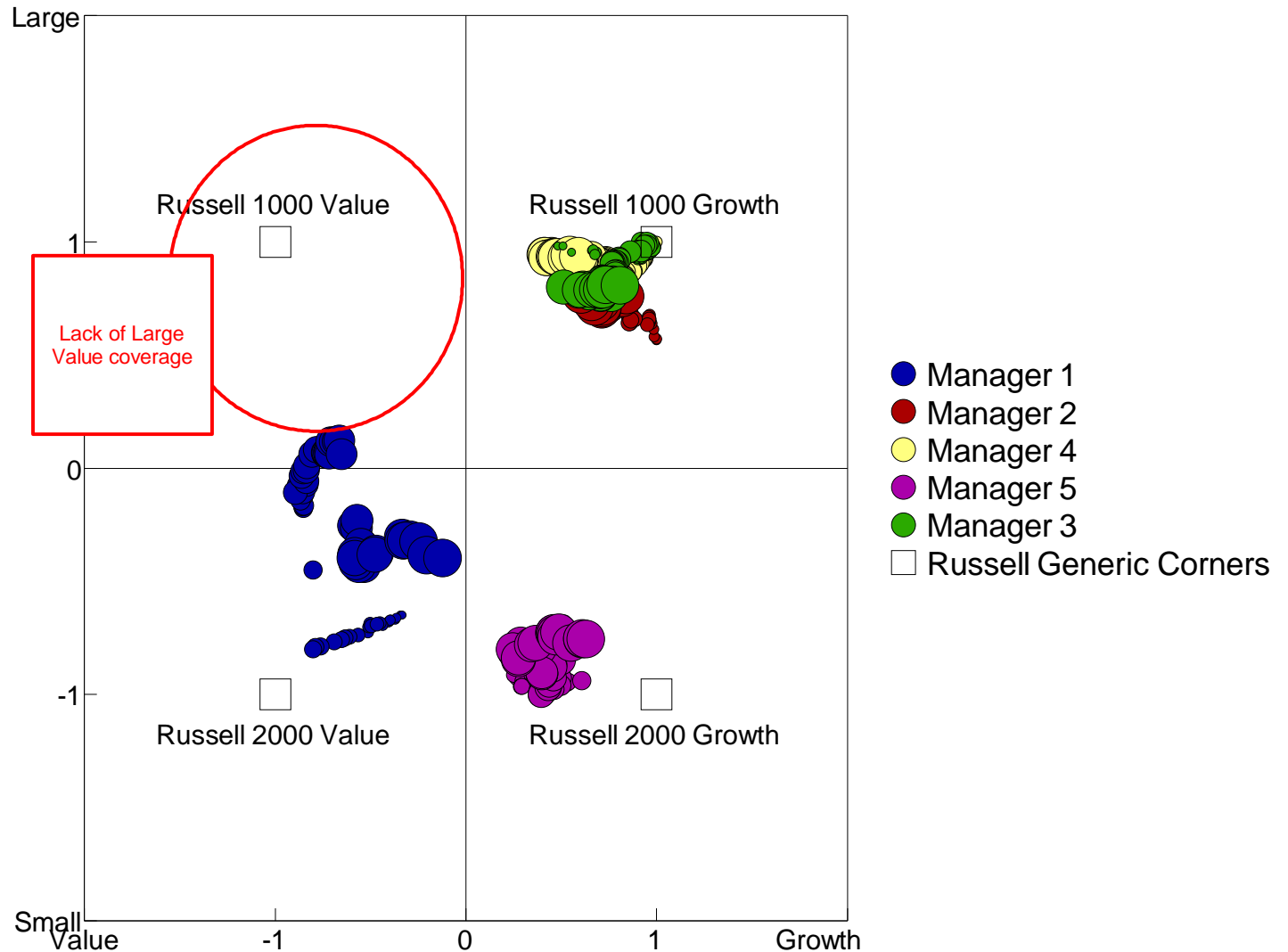


## GAPS

A style map can be just as useful to show what elements are missing. In this case, there is no Large Value option.

# Manager Style

36-Month Moving Windows, Computed Monthly  
November 1994 - October 2004



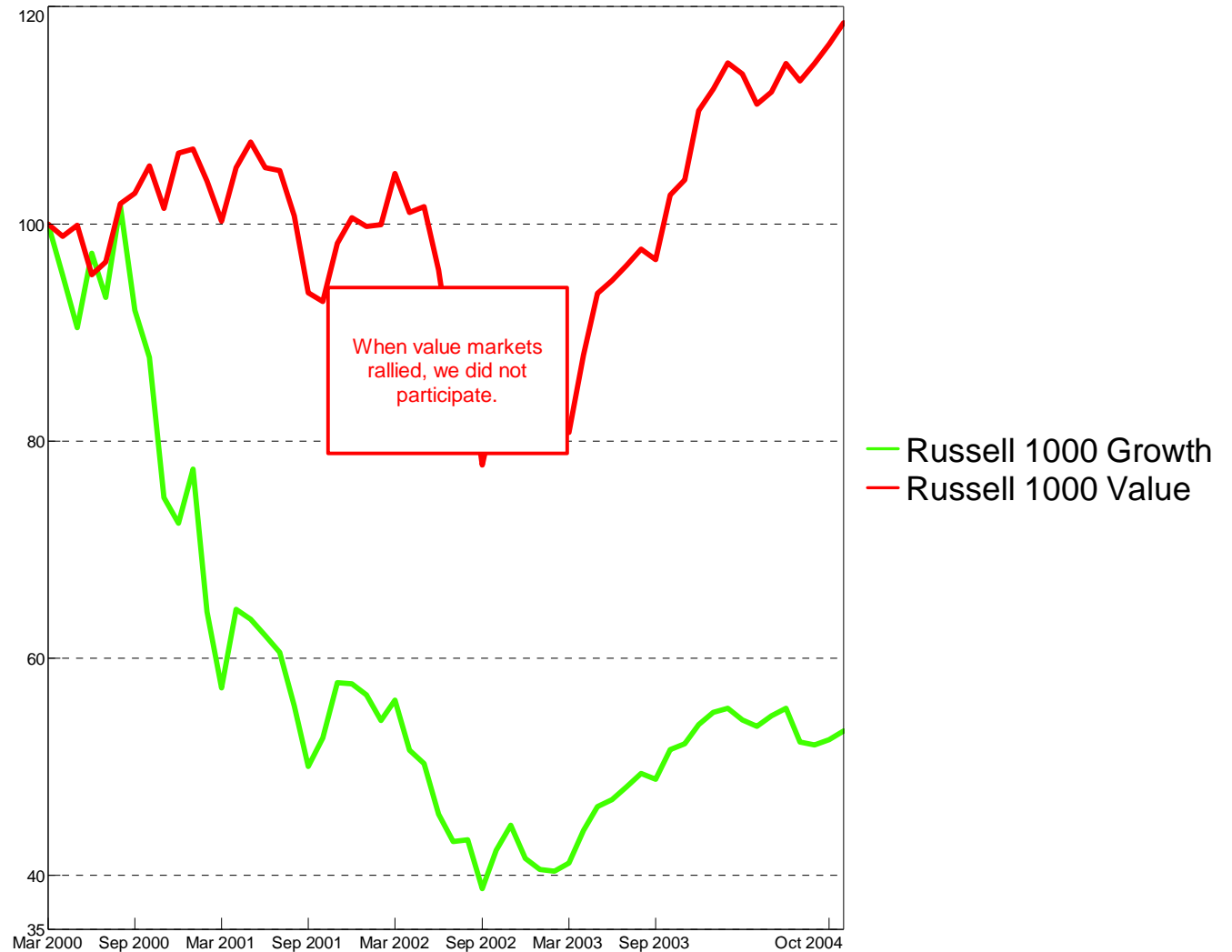
## DEVELOP THE STORY

Again, you can use StyleADVISOR to illustrate why this is important. The graph to the right shows how severely growth corrected, and how nice it would have been to have had value available during the bear market.

# Manager Performance

## Single Computation

### April 2000 - October 2004

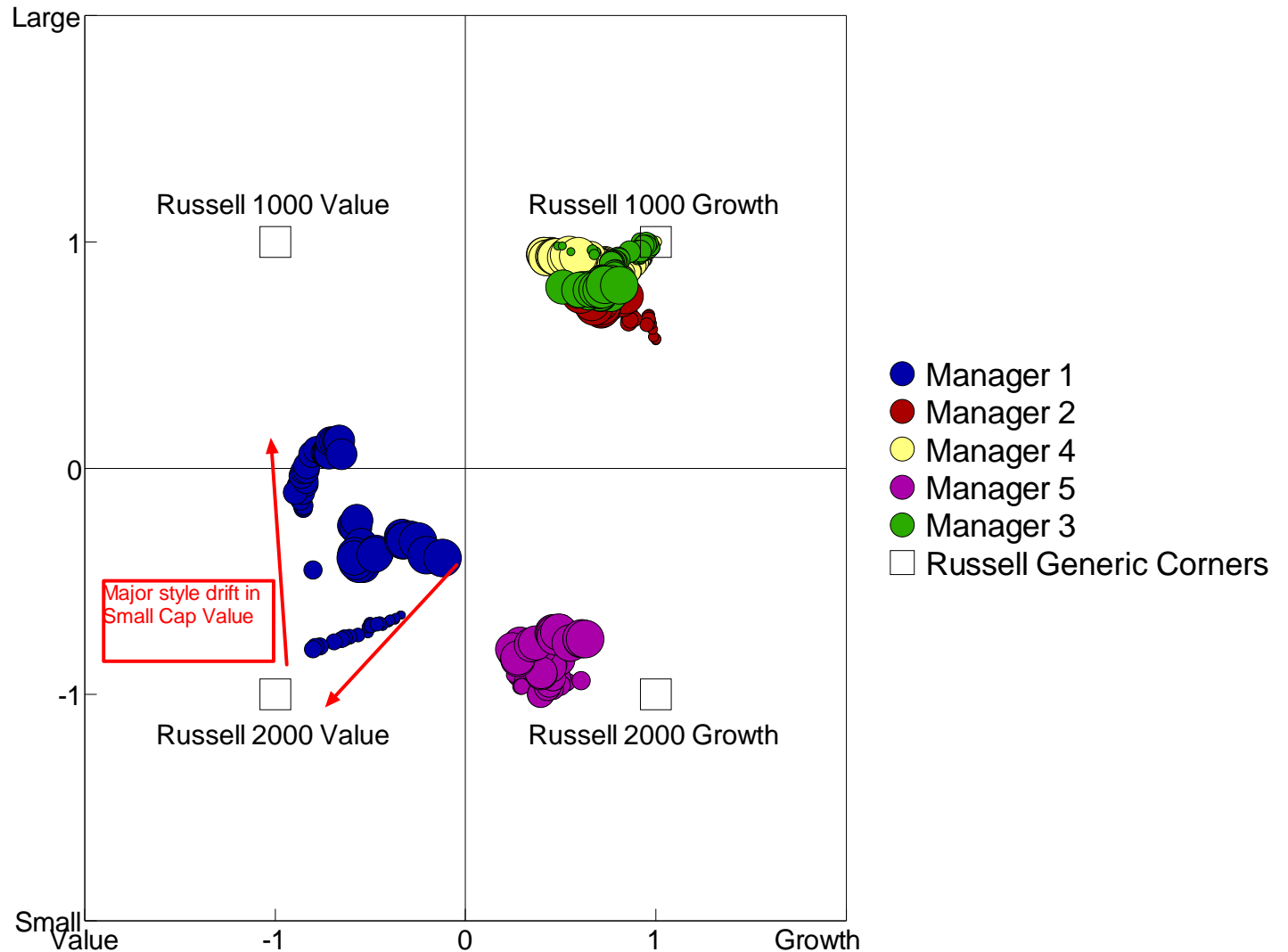


## STYLE DRIFT

A plan may be flawed due to no fault of the person who assembled it. It could be that one of the individual manager has gone chasing after returns in a different asset class.

# Manager Style

36-Month Moving Windows, Computed Monthly  
November 1994 - October 2004



# Zephyr StyleADVISOR

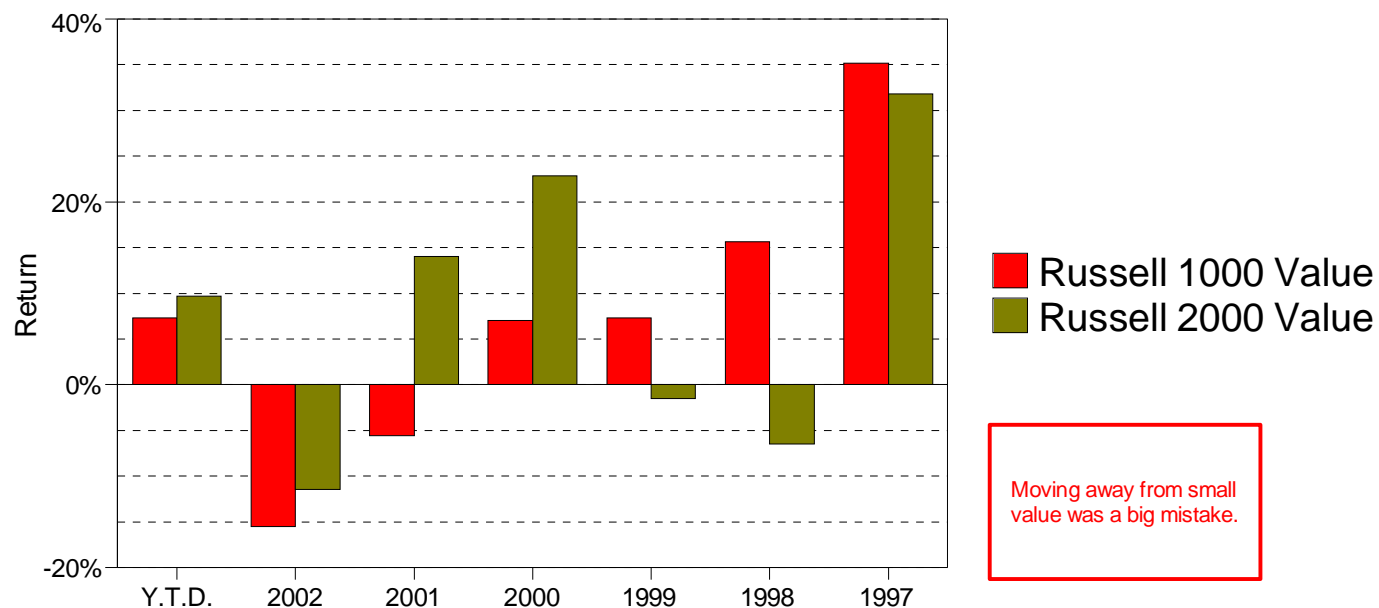
Zephyr StyleADVISOR: Zephyr Associates, Inc.

## DEVELOP THE STORY

A different way to illustrate the importance of diversification. Here we look at the wide gaps between LC Value and SC Value over the last several years. A manager must be very good or very lucky to capitalize on these shifts- otherwise the investor could be hung out to dry.

## Calendar Year Return

As of October 2004



## Calendar Year Return

As of October 2004

	Y.T.D.	2003	2002	2001	2000	1999	1998
Russell 1000 Value	7.30%	30.03%	-15.52%	-5.59%	7.02%	7.35%	15.63%
Russell 2000 Value	9.66%	46.03%	-11.42%	14.02%	22.83%	-1.49%	-6.45%

# Zephyr StyleADVISOR

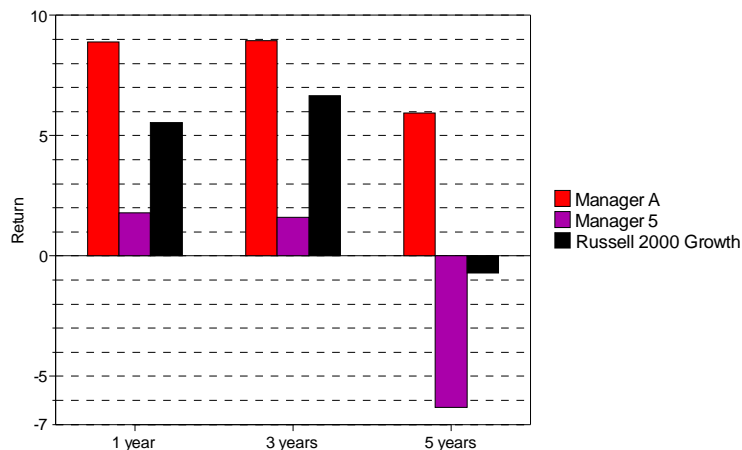
Zephyr StyleADVISOR: Zephyr Associates, Inc.

## HEAD-TO-HEAD

The fourth and final tactic would have your proposed managers square off against their current managers. In such as case you would likely use the "Manager Analysis" template or a similar such template you may have created. Find the weak spots in a current fund's performance, and then build the story around that.

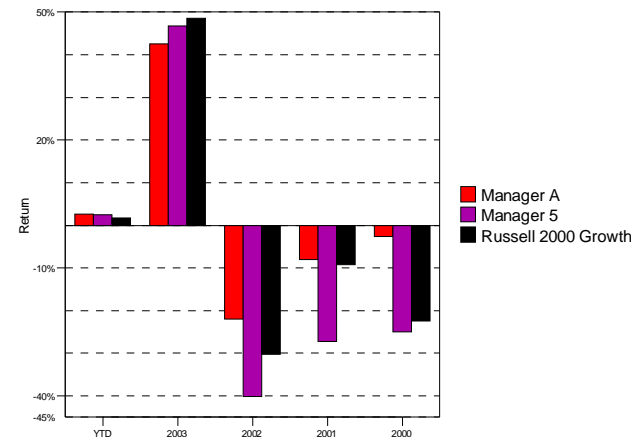
In this case the recommended fund, Manager A, outperforms the incumbent fund, Manager 5, on an absolute and risk-adjusted basis.

Manager vs Benchmark: Return through October 2004  
(not annualized if less than 1 year)



	1 year	3 years	5 years
Manager A	8.89%	8.95%	5.95%
Manager 5	1.80%	1.60%	-6.29%
Russell 2000 Growth	5.53%	6.65%	-0.71%

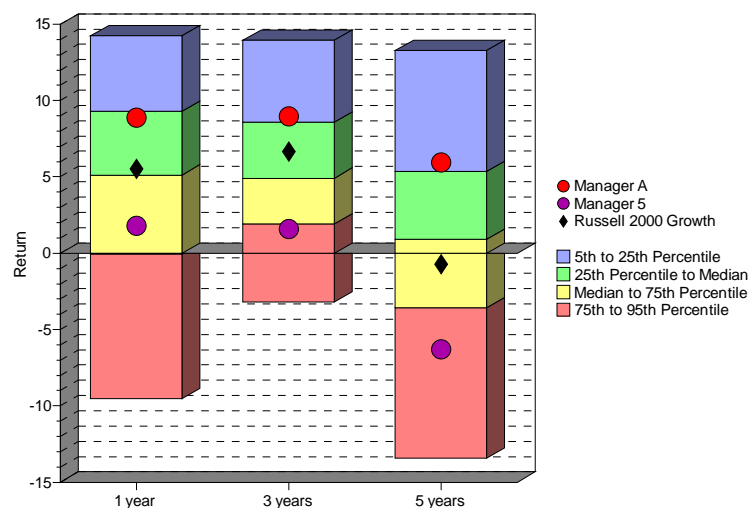
Calendar Year Return  
As of October 2004



	YTD	2003	2002	2001	2000
Manager A	2.69%	42.50%	-21.98%	-8.07%	-2.56%
Manager 5	2.46%	46.74%	-40.16%	-27.31%	-25.04%
Russell 2000 Growth	1.74%	48.54%	-30.26%	-9.23%	-22.43%

Manager vs Universe: Return through October 2004  
(not annualized if less than 1 year)

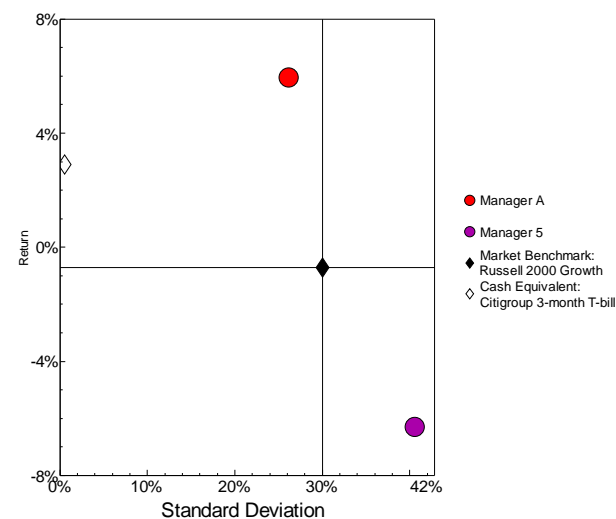
Zephyr Small Growth Universe (Morningstar)



Manager Risk/Return

Single Computation

November 1999 - October 2004



## SUMMARY

No plan is ever perfect. StyleADVISOR's vast array of statistics, unparalleled flexibility, and ease of use allows you to find and exploit your competitors weaknesses and win business.