

THE BENEFITS OF "CORE" FLEXIBILITY

FLEXIBILITY

As an advisor you have witnessed the benefits of separately managed accounts (SMA) from several perspectives. The most commonly recognized benefits are individual tax management and customization to meet clients' needs. **But we would argue that the greatest benefit of a Core SMA strategy in a volatile market is Tactical flexibility (the ability to adjust).**

Style boxes became popular in the 1980's, labeling portfolio managers and prescribing investment limitations they were required to follow. One of the consequences of strict adherence to style boxes has been the guarantee of "average" performance since managers could not escape an area of low opportunity (their box) to make a difference. Market returns were considered beneficial when stock market returns on average were high (15% range), but today consultants need to outperform mediocre market averages to justify the risk of equity investments.

We believe a Core strategy in a SMA should make up a large portion of any investors portfolio and that *the use of multiple Core managers instead of style-specific managers will be the emerging trend in our industry.* The stock market has been characterized by vast divergences in the performance of growth and value styles as well as dangerous sector overweightings within indices (e.g. S&P500). The Tech ('99) and Financial ('07) over-weightings in the S&P500 index hurt clients and therefore consultants due to constraints enforced by sector matching and therefore inflexibility. Sector monitoring and alignment is important, but it should not be to the detriment of the clients' risk and performance profile.

The benefit of a true Core manager as the backbone of a portfolio is the ability to recognize and re-weight in periods of market extremes. While it is extremely difficult to precisely catch the top or bottoms of any move, our research pointed to reasons to under-weight both Tech and Financials before their meltdowns.

Most important to this discussion is the issue of flexibility within a strategy. For instance our Diversified Core Strategy allows us to be flexible between growth and value and also to add additional asset classes though the use of ETF's in one Core portfolio. Within this style we have provided attractive overall returns while preserving capital in difficult markets.

This is an important time for investors as many will decide to make decisions now that can affect their long-term rate of growth. The worst mistake people make is to react "only emotionally", buying at an emotional top or selling at an emotional bottom. While we cannot predict the outcome of the markets, historically markets offer better forward returns after periods of weak performance just like they underperform after periods of stellar returns.

We hope this information is beneficial to your decision making process and be sure to review the description of our discipline on our website at: <http://www.twadvisors.com/processes.asp>

OUR CURRENT THEME – GLOBAL GROWTH

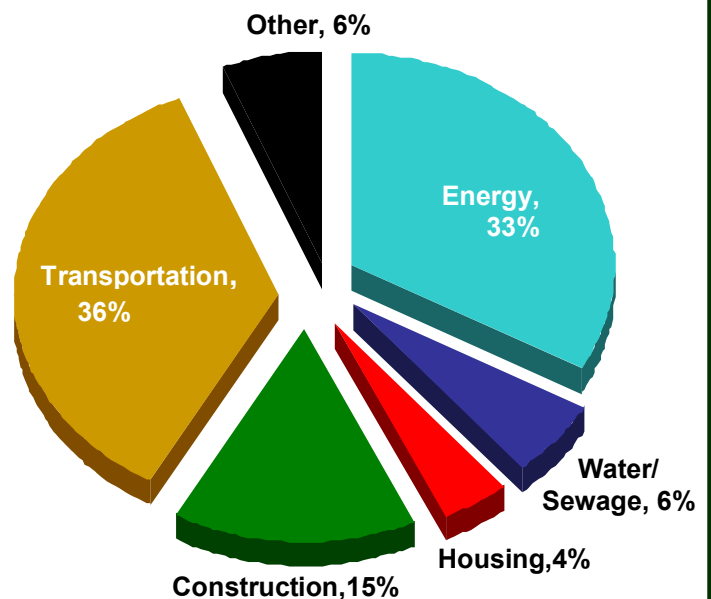
We continue to be committed to the premise that Global Economic Activity, especially in developing markets will be the driving force behind economic growth. U.S. and foreign multinational companies as well as companies in emerging markets will benefit.

Our Focus:

I. Commitment to the Global Economic Growth story

- Emerging markets continue to grow
- Growth in global infrastructure investments estimated to exceed \$20 trillion in next 10 years* (see chart)

GLOBAL INFRASTRUCTURE GROWTH EXPECTED TO EXCEED \$20 TRILLION*



II. Financials have largely adjusted to negative fundamentals

- Selective buying opportunities
- Price volatility likely to continue

As always we appreciate your business.

Steve Wenstrup and Jim Tillar, CFA

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