

Feng Shui of Defined Contribution Menu Construction

How Investment Menu Impacts Behavior and Therefore Outcomes

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Agenda

- Investment Philosophies
- Participants are Wacky
- The Real Math of Asset Accumulation and Adequacy
- The Mistakes

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Erik is the Managing Principal for Multnomah Group. He is a member of Multnomah Group's Investment Committee and leads the firm's tax-exempt practice, focusing on higher education and healthcare organizations. Erik consults regularly with clients on a variety of retirement plan related topics to help manage their fiduciary risks. He is a speaker on retirement plan issues at the local, regional, and national level.

Prior to founding the Multnomah Group in 2003, Erik served as a Vice President of Retirement Services and led the Portland, Oregon practice of a national retirement services firm. In that position Erik was a founding member of the firm's national Investment Committee and had oversight for business development in the western United States.

Erik is a member of the CFA Institute, the CFA Society of Portland, the CFA Society of Seattle, the American Society of Pension Professionals and Actuaries, the Portland Chapter of the Western Pension & Benefits Council, and the Society for Human Resource Management. Erik holds a B.B.A. from the University of Iowa.

Introduction

Feng Shui is the simple interaction of humans and their environments. Changing your environment changes your energy and changes your thoughts and behaviors.

Similarly, investment menu construction has an impact on the thoughts and behaviors of participants and therefore their outcomes.

Investment Philosophies

- Markets are Efficient
- Risk and Return are Highly Correlated
- Different Asset Classes have Different Risk Profiles
- Investment Style Drives Performance
- Expenses Matter

Markets are Efficient

Efficient Market Hypothesis

What does Efficiency Mean:

- Current prices incorporate all available information and expectations
- Current prices are the best approximation of intrinsic value
- Price changes are due to unforeseen events
- “Mispricings” can occur but not in predictable patterns that can lead to consistent outperformance

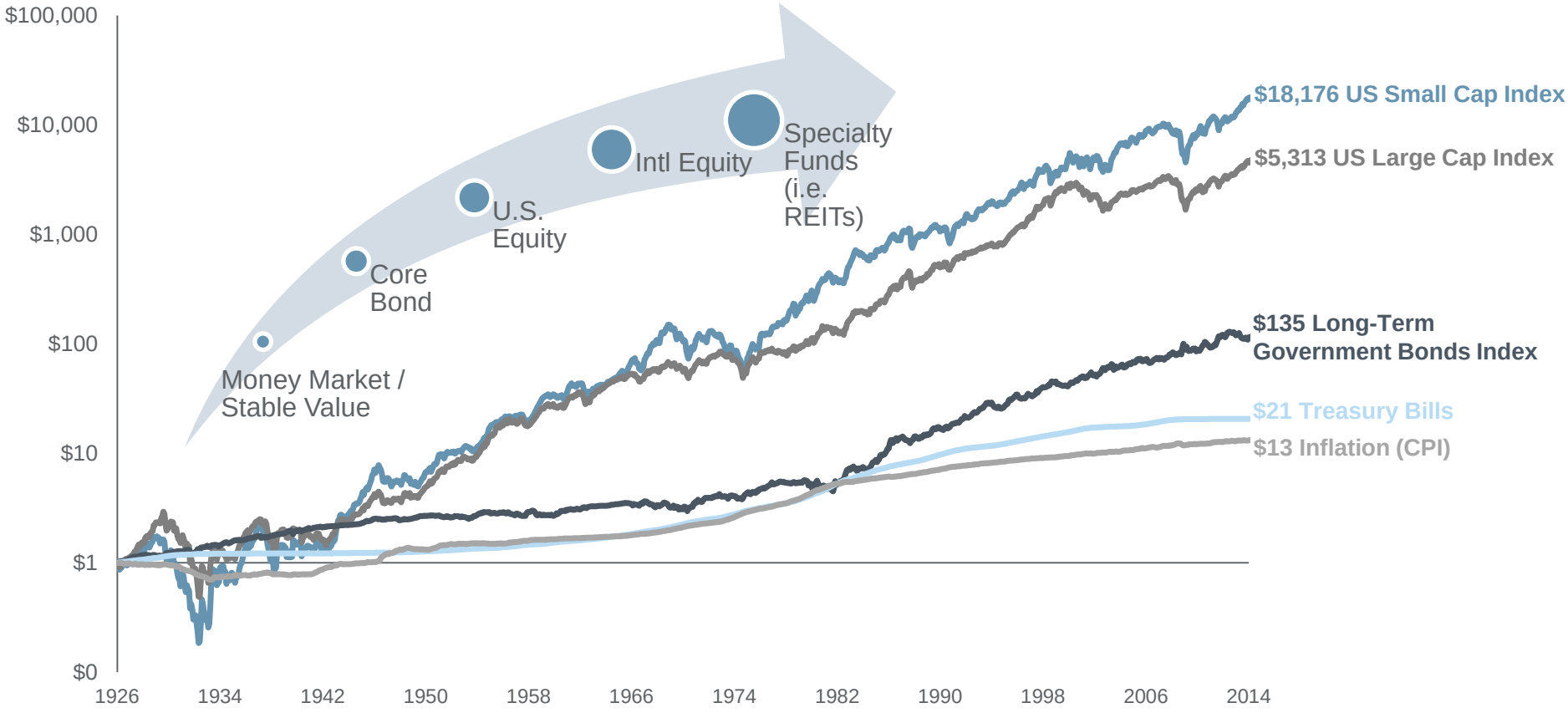
What Efficiency Does Not Mean:

- All investors are rational
- Prices are always “right”
- Prices are stable
- Professional money managers can’t earn higher than market returns

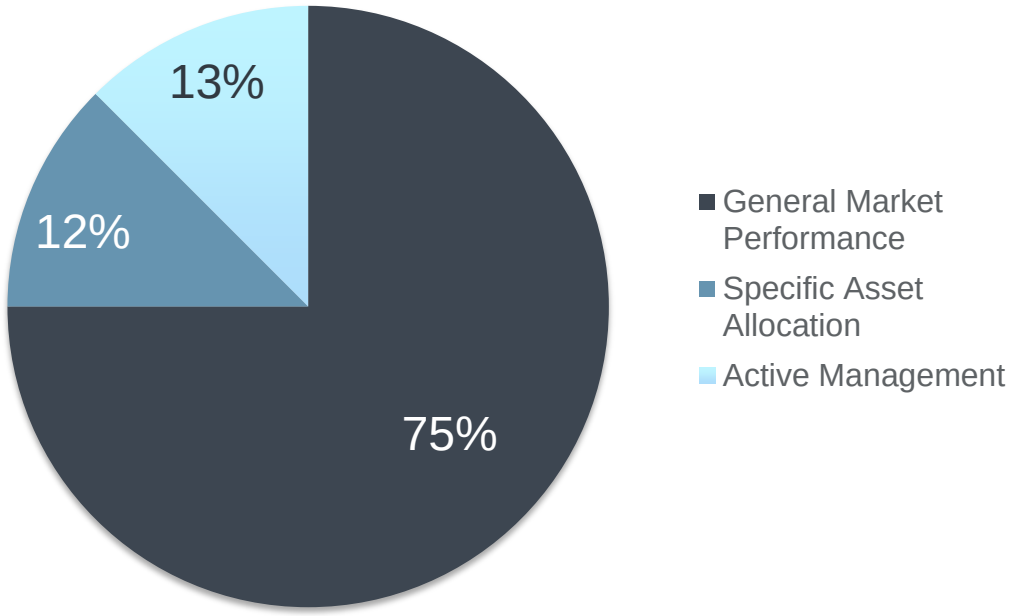
Eugene F. Fama, “Efficient Capital Markets: A Review of Theory and Empirical Work,” *Journal of Finance* 25, no. 2 (May 1970): 383-417.
Eugene F. Fama, “Foundations of Finance,” *Journal of Finance* 32, no. 3 (June 1977): 961-64.

Risk and Return are Highly Correlated

Monthly growth of wealth ($1), 1926-2014



Investment Style Drives Performance



"The Equal Importance of Asset Allocation and Active Management"
Roger G. Ibbotson, James X. Xiong, CFA, Thomas M. Idzorek, CFA and Peng Chen CFA (2010)

Different Asset Classes have Different Risk Profiles

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Highest Return	31.0	14.0	7.6	62.6	34.2	34.5	36.0	39.8	8.8	79.0	28.1	9.4	20.1	38.8	32.0
	22.8	12.3	5.1	60.4	33.2	25.5	32.6	8.2	6.6	53.3	26.9	3.4	18.6	34.5	13.7
	9.0	8.4	3.6	56.3	29.9	21.1	30.0	7.5	4.7	51.4	24.9	2.3	18.1	32.5	13.5
	8.3	7.3	3.4	47.3	26.0	15.1	27.4	6.3	-28.9	37.6	24.5	2.1	18.1	32.4	4.9
	7.3	6.4	2.2	46.6	25.0	13.8	23.5	5.9	-33.8	28.5	21.2	0.6	17.9	28.3	4.2
	7.0	2.5	-6.0	46.0	22.3	7.0	22.2	5.5	-36.8	27.2	19.2	0.4	17.5	26.0	1.9
	-1.6	-2.4	-7.1	36.2	18.3	4.9	19.8	3.6	-37.0	26.5	15.5	-4.2	17.1	22.2	1.2
	-3.0	-5.6	-11.4	30.0	16.5	4.7	18.4	2.4	-39.2	20.6	15.1	-5.5	16.3	1.2	0.2
	-4.5	-7.7	-15.5	28.7	10.9	4.6	15.8	-0.2	-43.9	19.7	5.4	-11.1	16.0	0.6	-1.8
	-6.9	-10.2	-15.6	2.0	2.7	3.1	4.3	-1.6	-45.6	2.3	3.7	-15.5	2.1	0.3	-4.9
	-9.1	-11.9	-20.5	1.9	1.3	2.4	4.1	-9.8	-47.8	0.8	2.0	-16.4	0.9	-0.1	-5.0
Lowest Return	-30.6	-17.5	-22.1	1.5	0.8	1.3	3.8	-17.6	-53.2	0.2	0.8	-18.2	0.2	-2.3	-5.4

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
US Large Cap	-9.1	-11.9	-22.1	28.7	10.9	4.9	15.8	5.5	-37.0	26.5	15.1	2.1	16.0	32.4	13.7
US Large Cap Value	7.0	-5.6	-15.5	30.0	16.5	7.0	22.2	-0.2	-36.8	19.7	15.5	0.4	17.5	32.5	13.5
US Small Cap	-3.0	2.5	-20.5	47.3	18.3	4.6	18.4	-1.6	-33.8	27.2	26.9	-4.2	16.3	38.8	4.9
US Small Cap Value	22.8	14.0	-11.4	46.0	22.3	4.7	23.5	-9.8	-28.9	20.6	24.5	-5.5	18.1	34.5	4.2
US Real Estate	31.0	12.3	3.6	36.2	33.2	13.8	36.0	-17.6	-39.2	28.5	28.1	9.4	17.1	1.2	32.0
International Large Cap Value	-1.6	-17.5	-15.6	46.6	25.0	15.1	30.0	7.5	-43.9	37.6	5.4	-11.1	18.1	22.2	-4.9
International Small Cap	-6.9	-10.2	-7.1	62.6	29.9	25.5	19.8	3.6	-47.8	51.4	24.9	-15.5	17.9	26.0	-5.0
International Small Cap Value	-4.5	-7.7	2.2	60.4	34.2	21.1	27.4	2.4	-45.6	53.3	21.2	-16.4	20.1	28.3	-5.4
Emerging Markets	-30.6	-2.4	-6.0	56.3	26.0	34.5	32.6	39.8	-53.2	79.0	19.2	-18.2	18.6	-2.3	-1.8
One-Year US Fixed	7.3	7.3	3.4	1.5	0.8	2.4	4.3	5.9	4.7	0.8	0.8	0.6	0.2	0.3	0.2
Five-Year US Government Fixed	9.0	8.4	7.6	2.0	1.3	1.3	3.8	8.2	8.8	0.2	3.7	3.4	0.9	-0.1	1.2
Five-Year Global Fixed	8.3	6.4	5.1	1.9	2.7	3.1	4.1	6.3	6.6	2.3	2.0	2.3	2.1	0.6	1.9

In US dollars. US Large Cap is the S&P 500 Index, provided by Standard & Poor's Index Services Group. US Large Cap is the S&P 500 Index, provided by Standard & Poor's Index Services Group. US Large Cap Value is the Russell 1000 Value Index. US Small Cap is the Russell 2000 Index. US Small Cap Value is the Russell 2000 Value Index. Russell data copyright © Russell Investment Group 1997-2015, all rights reserved. US Real Estate is the Dow Jones US Select REIT Index, provided by Dow Jones Indexes. International Large Cap Value is the MSCI World ex USA Value Index (gross dividends). International Small Cap is the MSCI World ex USA Small Cap Index (gross dividends). International Small Cap Value is the MSCI World ex USA Small Cap Value Index (gross dividends). Emerging Markets is the MSCI Emerging Markets Index (gross dividends). MSCI data copyright MSCI 2015, all rights reserved. One-Year US Fixed is the BofA Merrill Lynch One-Year US Treasury Note Index, used with permission; copyright 2015 Merrill Lynch, Pierce, Fenner & Smith Incorporated; all rights reserved. Merrill Lynch, Pierce, Fenner & Smith Incorporated is a wholly owned subsidiary of Bank of America Corporation. Five-Year US Government Fixed is the Barclays Capital Treasury Bond Index 1–5 Years, formerly Lehman Brothers, provided by Barclays 2015. Five-Year Global Fixed is the Citigroup World Government Bond Index 1–5 Years (hedged), copyright 2015 by Citigroup.

Different Asset Classes have Different Risk Profiles

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Highest Return	54.05	3.63	-6.31	50.32	38.05	40.83	39.41	32.88	-16.09	61.85	30.53	18.46	32.39	42.85	27.29
	45.67	1.41	-6.63	41.04	23.25	14.75	21.76	27.51	-23.35	53.60	24.87	13.39	29.05	42.82	25.89
	38.42	1.31	-9.09	37.62	19.24	8.11	19.74	17.18	-28.11	50.17	24.16	11.90	24.56	42.68	19.00
	26.76	0.86	-13.09	34.83	17.94	6.03	17.57	16.56	-38.17	35.63	23.38	5.05	19.32	42.03	16.79
	7.24	-7.11	-21.08	32.09	15.39	5.96	15.44	12.58	-38.39	33.97	23.16	4.06	16.46	28.45	11.64
	0.29	-12.77	-23.58	26.07	14.39	5.17	15.12	11.95	-39.41	24.05	14.46	0.64	15.28	27.95	9.28
	-14.16	-14.86	-23.78	24.71	12.53	3.69	14.98	8.05	-41.22	20.97	13.39	-0.38	13.30	27.34	8.57
	-25.78	-16.67	-23.84	19.84	10.10	3.01	11.90	0.20	-41.99	15.62	11.81	-0.71	10.08	26.28	5.43
	-35.38	-17.44	-37.31	18.87	3.51	-1.40	10.87	-8.69	-48.14	14.55	7.31	-14.12	4.32	20.38	4.64
Lowest Return	-40.14	-28.40	-38.33	17.43	0.79	-6.04	6.65	-17.88	-51.35	11.76	5.11	-16.51	2.19	14.44	-8.83

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Morningstar SEC/Basic Materials	-14.16	0.86	-9.09	37.62	17.94	5.96	14.98	27.51	-48.14	53.60	24.87	-14.12	16.46	20.38	4.64
Morningstar SEC/Communication Svcs	-40.14	-17.44	-37.31	19.84	14.39	-6.04	39.41	0.20	-38.17	35.63	23.16	0.64	32.39	26.28	5.43
Morningstar SEC/Consumer Cyclical	-25.78	3.63	-23.78	41.04	15.39	-1.40	11.90	-8.69	-41.22	50.17	30.53	4.06	24.56	42.85	8.57
Morningstar SEC/Consumer Defensive	7.24	1.41	-6.31	17.43	10.10	3.01	15.12	12.58	-16.09	15.62	14.46	13.39	10.08	27.95	16.79
Morningstar SEC/Energy	45.67	-14.86	-6.63	26.07	38.05	40.83	19.74	32.88	-38.39	33.97	23.38	5.05	4.32	27.34	-8.83
Morningstar SEC/Financial Svcs	26.76	-7.11	-13.09	32.09	12.53	6.03	17.57	-17.88	-51.35	14.55	11.81	-16.51	29.05	42.82	11.64
Morningstar SEC/Healthcare	38.42	-12.77	-21.08	18.87	3.51	8.11	6.65	8.05	-23.35	20.97	5.11	11.90	19.32	42.68	25.89
Morningstar SEC/Industrials	0.29	1.31	-23.58	34.83	19.24	5.17	15.44	11.95	-39.41	24.05	24.16	-0.71	15.28	42.03	9.28
Morningstar SEC/Technology	-35.38	-28.40	-38.33	50.32	0.79	3.69	10.87	16.56	-41.99	61.85	13.39	-0.38	13.30	28.45	19.00
Morningstar SEC/Utilities	54.05	-16.67	-23.84	24.71	23.25	14.75	21.76	17.18	-28.11	11.76	7.31	18.46	2.19	14.44	27.29

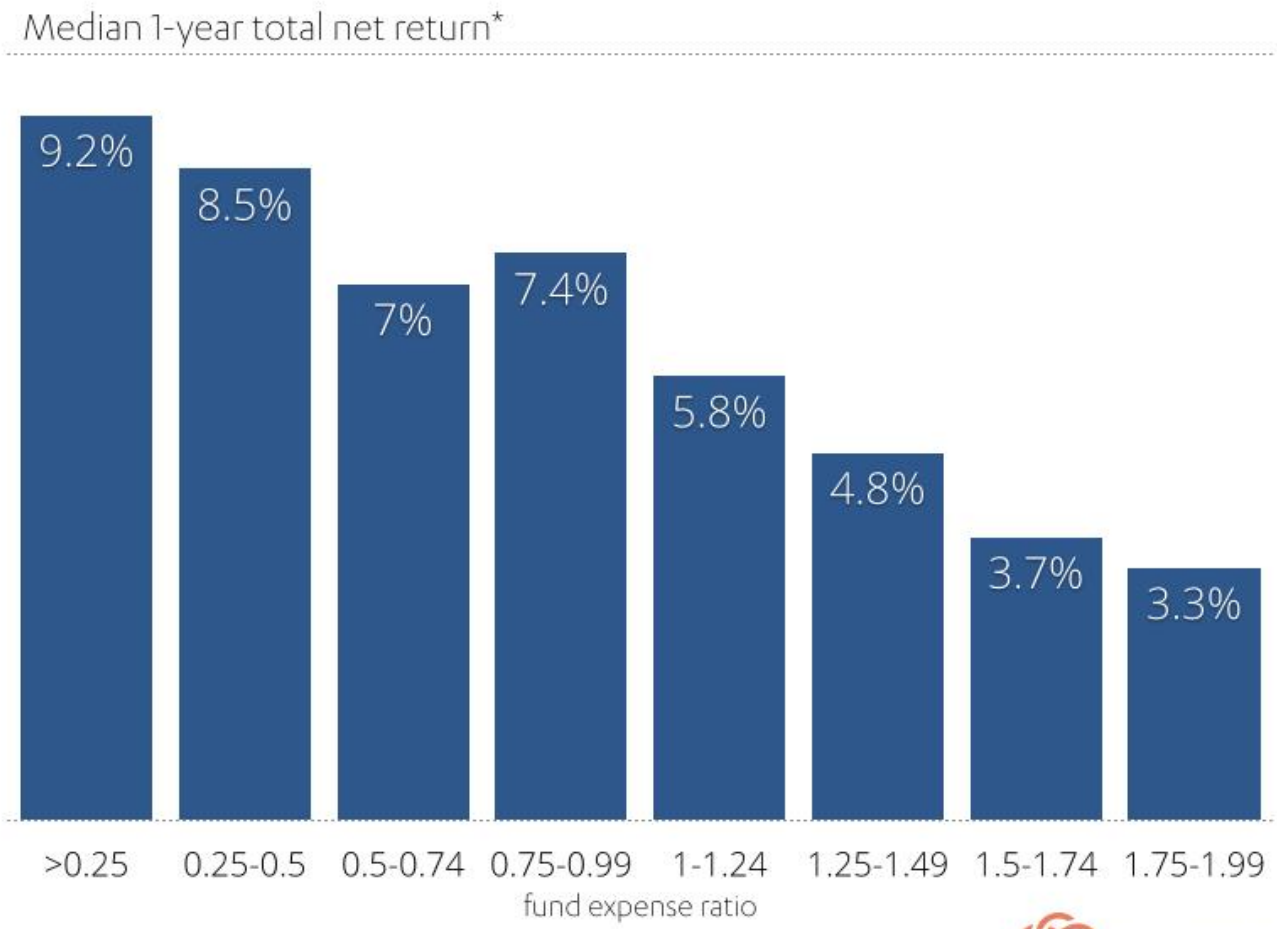
Mutual fund universe statistical data and non-Dimensional money managers' fund data provided by Morningstar, Inc. Morningstar's Sector Index family consists of 11 sector indices that track the US equity market using a consumption-based analysis of economic sectors in a comprehensive, non-overlapping structure. Index constituents are drawn from the available pool of US-domiciled stocks that trade on one of the three major US exchanges. Real Estate Sector Index is not included in the above illustration. Index performance does not reflect the expenses associated with the management of an actual portfolio.
Past performance is not a guarantee of future results.

Different Asset Classes have Different Risk Profiles

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Highest Return	UK 10.29	H.K. 49.52	H.K. 32.29	H.K. 116.70	Norway 23.57	Switz. 44.12	Spain 40.05	Switz. 44.25	Belg. 67.75	Sing. 99.40	Switz. 5.85	NZ 8.42	NZ 24.24	Swede 64.53	Austria 71.52	Can. 28.31	Spain 49.36	H.K. 41.20	Japan -29.21	Norway 87.07	Swede 33.75	NZ 5.54	Belg. 39.55	US 31.79	US 12.69
	H.K. 9.17	Austral. 33.64	Switz. 17.23	Sing. 67.97	Japan 21.44	US 37.14	Swede 37.21	Italy 35.48	Italy 52.52	Swede 79.74	Can. 5.34	Austral. 1.68	Austria 16.55	Ger. 63.80	NZ 49.69	Japan 25.52	Sing. 46.71	Ger. 35.21	Switz. -30.49	Austral. 76.43	Den. 30.73	US 1.36	Den. 31.27	Ger. 31.37	NZ 7.34
	Austria 6.33	US 30.07	US 6.39	NZ 67.73	Swede 18.34	Swede 33.36	H.K. 33.08	Den. 34.52	Spain 49.90	Japan 61.53	Den. 3.44	Austria -5.65	Austral. -1.34	Spain 58.46	Belg. 43.53	Austria 24.64	Norway 45.12	Norway 31.43	US -37.57	Sing. 73.96	H.K. 23.23	UK -2.56	Sing. 30.96	Spain 31.32	Den. 6.18
	Norway 0.65	Sing. 24.96	Sing. 6.28	Switz. 45.79	Nether. 11.70	Spain 29.83	Norway 28.63	US 33.38	France 41.54	H.K. 59.52	Norway -0.89	Belg. -10.89	Norway -7.26	Austria 56.96	Norway 38.39	Den. 24.50	Swede 43.39	Can. 29.57	Spain -40.60	Swede 64.16	Sing. 22.14	Switz. -6.77	Ger. 30.90	Nether. 31.30	H.K. 5.07
	Den. -0.91	NZ 18.26	France 2.81	Norway 42.04	Italy 11.56	Nether. 27.71	Can. 28.54	Spain 25.41	US 30.14	Can. 53.74	Italy -1.33	Spain -11.36	Italy -7.33	NZ 55.43	Swede 36.28	Norway 24.26	Den. 38.77	Sing. 28.35	France -43.27	H.K. 60.15	Can. 20.45	Norway -10.01	NZ 29.26	Belg. 27.61	Belg. 4.12
	US -3.15	France 17.83	Nether. 2.30	Swede 36.99	NZ 8.92	Belg. 25.88	Nether. 27.51	Ger. 24.57	Ger. 29.43	Norway 31.70	Nether. -4.09	Norway -12.22	Japan -10.28	Can. 54.60	Italy 32.49	Switz. 16.33	Belg. 36.66	Austral. 28.34	Can. -45.51	Belg. 57.49	Japan 15.44	Belg. -10.62	H.K. 28.27	Japan 27.16	Sing. 3.03
	Nether. -3.19	Nether. 17.80	NZ -1.43	Ger. 35.64	Belg. 8.24	H.K. 22.57	UK 27.42	Nether. 23.77	Switz. 23.53	France 29.27	France -4.31	US -12.39	Switz. -10.31	Austral. 49.46	Den. 30.82	Austral. 16.02	Austria 36.54	Den. 25.59	Ger. -45.87	Can. 56.18	US 14.77	Austral. -10.95	Austria 25.90	Switz. 26.61	Can. 1.50
	Switz. -6.23	Den. 16.56	Belg. -1.47	Nether. 35.28	Sing. 6.68	UK 21.27	US 23.24	UK 22.62	Nether. 23.23	US 21.92	Austral. -9.95	UK -14.05	Sing. -11.05	Den. 49.25	Austral. 30.34	Sing. 14.37	Ger. 35.99	Spain 23.95	Sing. -47.35	NZ 50.40	Austral. 14.52	Nether. -12.12	Austral. 22.07	France 26.33	Switz. -0.09
	Ger. -9.36	UK 16.02	UK -3.65	Austral. 35.17	Austral. 5.40	NZ 20.85	Den. 21.79	Belg. 13.55	UK 17.80	Ger. 20.04	UK -11.53	Den. -14.81	Can. -13.19	Norway 48.11	Spain 28.93	Nether. 13.85	France 34.48	Nether. 20.59	Den. -47.56	Spain 43.48	Switz. 11.79	Spain -12.28	Swede 21.97	Den. 25.25	Austral. -3.41
	Belg. -10.98	Switz. 15.77	Ger. -10.27	Den. 32.81	Ger. 4.66	Den. 18.78	France 21.20	Swede 12.92	Swede 13.96	Austral. 17.62	Austria -11.96	H.K. -18.61	Belg. -14.97	France 40.22	H.K. 24.98	Swede 10.31	Italy 32.49	France 13.24	Nether. -48.22	UK 43.30	Norway 10.95	Can. -12.71	France 21.29	Swede 24.50	Nether. -3.46
	Sing. -11.66	Spain 15.63	Austria -10.65	Spain 29.78	Den. 3.77	Can. 18.31	NZ 17.16	Can. 12.80	Den. 8.99	NZ 12.90	US -12.84	Can. -20.43	UK -15.23	H.K. 38.10	Sing. 22.27	Ger. 9.92	Nether. 31.38	NZ 8.90	UK -48.34	Austria 43.20	Austria 9.88	Japan -14.33	Nether. 20.59	UK 20.67	Japan -4.02
	Can. -13.00	Swede 14.42	Austral. -10.82	Italy 28.53	Switz. 3.54	Ger. 16.41	Austral. 16.49	France 11.94	Austral. 6.07	UK 12.45	H.K. -14.74	Switz. -21.38	Spain -15.29	Italy 37.83	Can. 22.20	France 9.88	Austral. 30.86	UK 8.36	Swede -49.86	Nether. 42.25	UK 8.76	Swede -15.98	Switz. 20.35	Italy 20.43	Spain -4.65
	France -13.83	Belg. 13.77	Can. -12.15	Austria 28.09	US 1.13	France 14.12	Ger. 13.58	Norway 6.24	Japan 5.05	Den. 12.06	Ger. -15.59	Nether. -22.10	Den. -16.03	Sing. 37.60	UK 19.57	Belg. 9.05	UK 30.61	Italy 6.06	Italy -49.98	Den. 36.57	Ger. 8.44	Den. -16.02	Norway 18.65	Austria 13.42	UK -5.39
	Spain -13.85	Can. 11.08	Swede -14.41	Japan 25.48	UK -1.63	Austral. 11.19	Italy 12.59	Austria 1.57	Austria 0.35	Nether. 6.88	Spain -15.86	France -22.36	H.K. -17.79	Japan 35.91	France 18.48	H.K. 8.40	H.K. 30.35	US 5.44	Austral. -50.67	France 31.83	NZ 8.32	H.K. -16.02	US 15.33	NZ 11.27	Swede -7.55
	Austral. -17.54	Japan 8.92	Japan -21.45	UK 24.44	Can. -3.04	Sing. 6.45	Belg. 12.03	Austral. -10.44	H.K. -2.92	Spain 4.83	Belg. -16.85	Ger. -22.39	Nether. -20.83	Belg. 35.33	Ger. 16.17	UK 7.35	Switz. 27.40	Switz. 5.29	H.K. -51.21	Italy 26.57	Nether. 1.74	France -16.87	UK 15.25	H.K. 11.09	Italy -9.53
	Italy -19.19	Ger. 8.16	Spain -21.87	Belg. 23.51	Spain -4.80	Norway 6.02	Austria 4.51	NZ -14.15	Can. -6.14	Italy -0.26	Swede -21.29	Sing. -23.42	France -21.18	Switz. 34.08	Japan 15.86	US 5.14	Can. 17.80	Austria 2.17	NZ -53.79	US 26.25	Belg. -0.42	Sing. -17.92	Italy 12.48	Norway 9.40	France -9.92
	Swede -20.99	Italy -1.82	Italy -22.22	France 20.91	France -5.18	Italy 1.05	Switz. 2.28	H.K. -23.29	Sing. -12.88	Switz. -7.02	Sing. -27.72	Italy -26.59	US -23.09	UK 32.06	Switz. 14.96	Spain 4.41	NZ 16.56	Swede 0.62	Norway -64.24	Switz. 25.31	France -4.11	Ger. -18.08	Can. 9.09	Can. 5.63	Ger. -10.36
	Japan -36.10	Austria -12.23	Norway -22.29	Can. 17.58	Austria -6.28	Japan 0.69	Sing. -6.86	Japan -23.67	NZ -22.62	Austria -9.11	Japan -28.16	Swede -27.18	Swede -30.49	US 28.41	Nether. 12.24	Italy 1.90	US 14.67	Belg. -2.73	Belg. -66.48	Ger. 25.15	Italy -15.01	Italy -23.18	Japan 8.18	Austral. 4.16	Norway -22.04
Lowest Return	NZ -37.67	Norway -15.50	Den. -28.25	US 9.15	H.K. -28.90	Austria -4.72	Japan -15.50	Sing. -30.05	Norway -30.06	Belg. -14.26	NZ -33.55	Japan -29.40	Ger. -33.18	Nether. 28.09	US 10.14	NZ 1.74	Japan 6.24	Japan -4.23	Austria -68.41	Japan 6.25	Spain -21.95	Austria -36.43	Spain 3.00	Sing. 1.70	Austria -29.77

In US dollars.
Source: MSCI developed markets country indices (net dividends) with at least twenty-five years of data. MSCI data © MSCI 2014, all rights reserved.
Indices are not available for direct investment. Index performance does not reflect expenses associated with the management of an actual portfolio.
Past performance is not a guarantee of future results.

Expenses Matter



Participants are Wacky

Markets

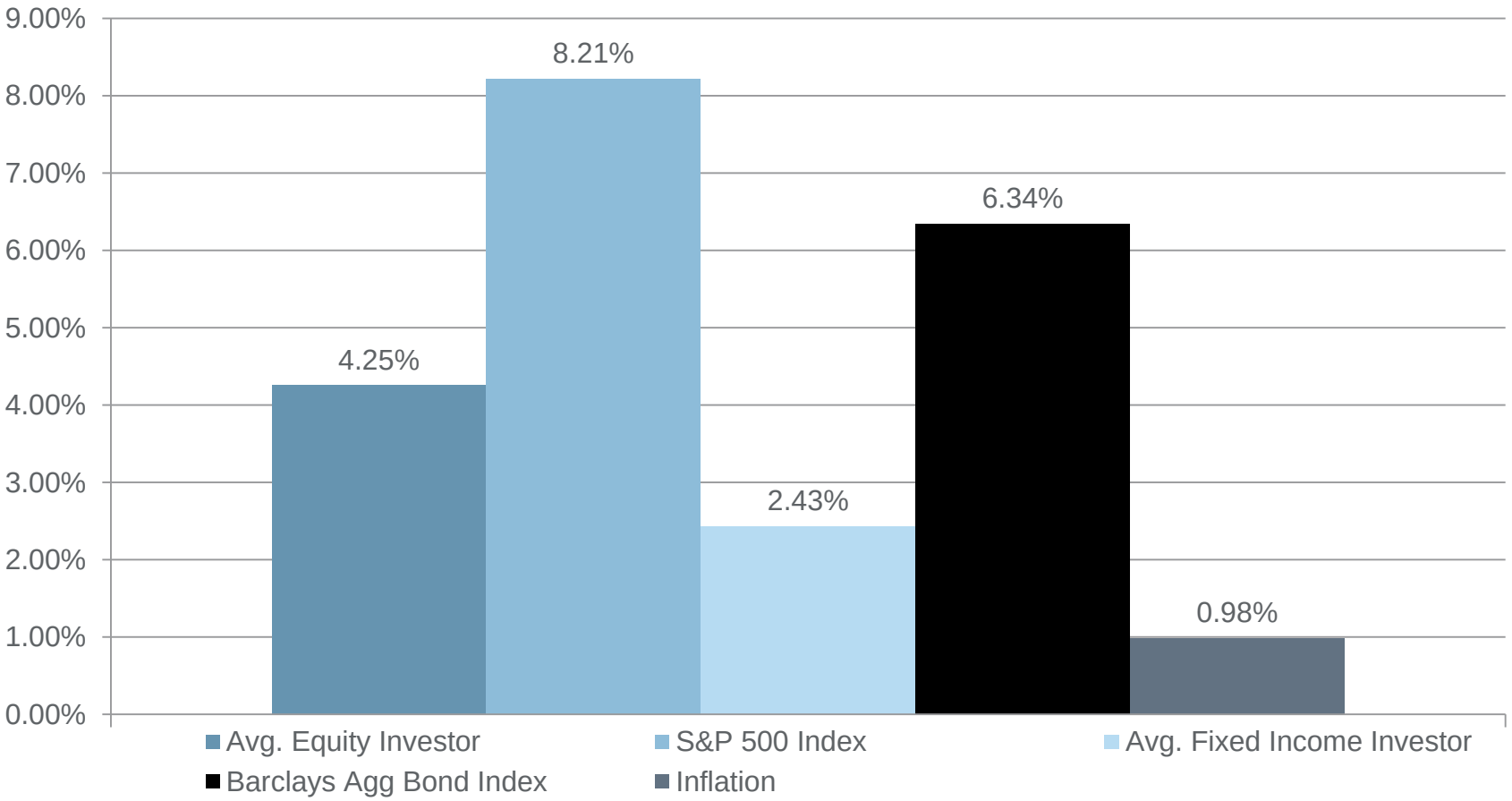
- Markets are Efficient
- Risk and Return are Highly Correlated
- Investment Style Drives Performance
- Expenses Matter

Participants

- Participants are Inefficient
- Participants Fear Risk more than they Value Return
- Participants Have Low Financial Literacy
- Participants Don’t Understand Expense and Will Pay Anything for Help

Participants are Inefficient

Annualized Returns for the 20 Years Ended 12/31/2012

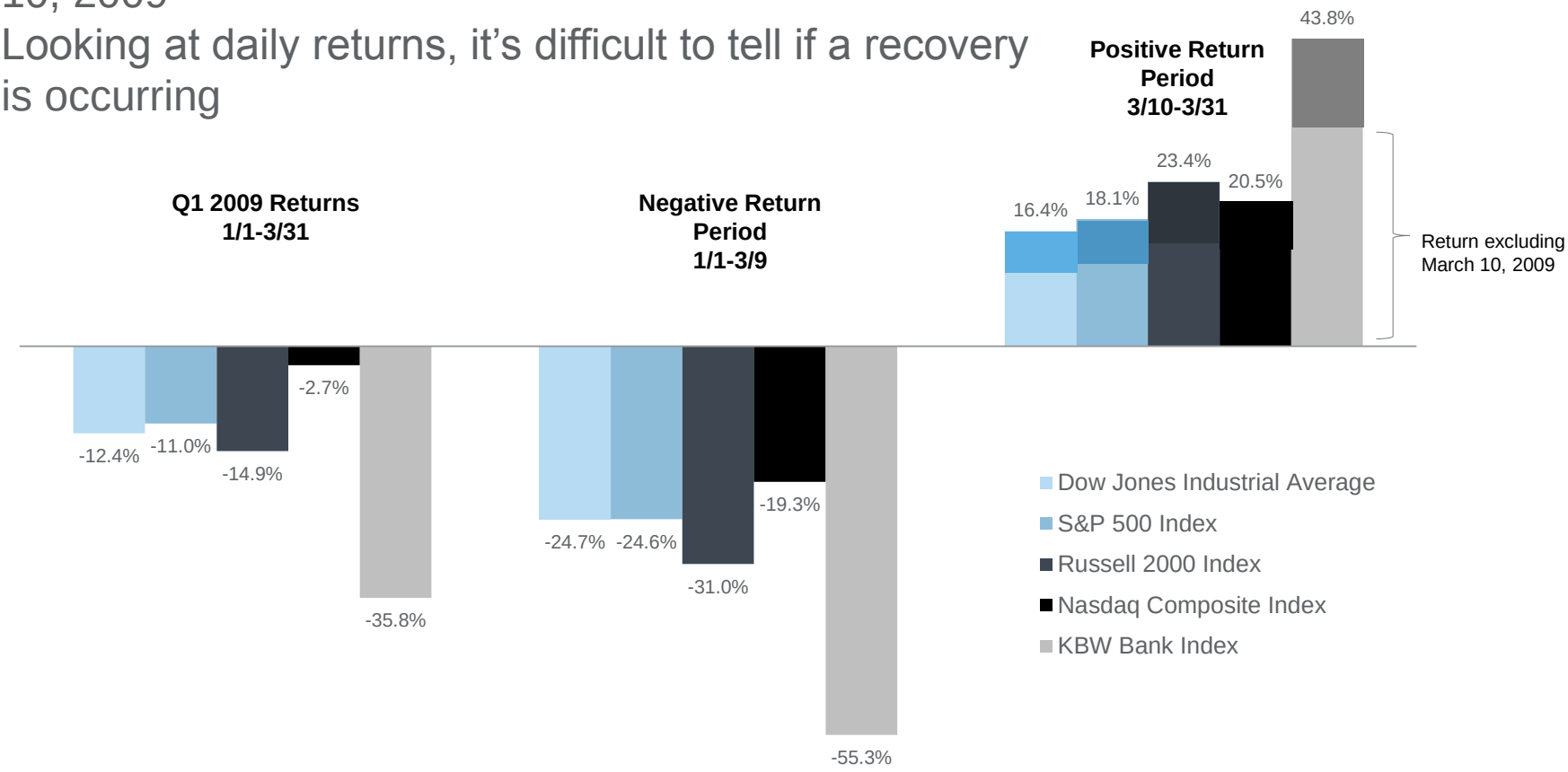


Source: Dalbar, Inc. 2013 Quantitative Analysis of Investor Behavior

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Participants Fear Risk more than they Value Return

- March 9, 2009 was the low closing date for four of the five featured indices year-to-date
- The Dow Jones Industrial Average rose 5.8% on March 10, 2009
- Looking at daily returns, it's difficult to tell if a recovery is occurring



Returns are from market-close to market-close. Indices are not available for direct investment; their performance does not reflect the expenses associated with the management of an actual portfolio. The S&P data are provided by Standard & Poor's Index Services Group. Dow Jones data provided by Dow Jones Indexes. Russell data copyright © Russell Investment Group 1995-2010 all rights reserved. Mutual fund universe statistical data and non-Dimensional money managers' fund data provided by Morningstar, Inc. Nasdaq Composite Index data provided by The Nasdaq Stock Market, Inc. KBW Bank Index data provided by Keefe, Bruyette & Woods, Inc. (KBW). Past performance is not a guarantee of future results.

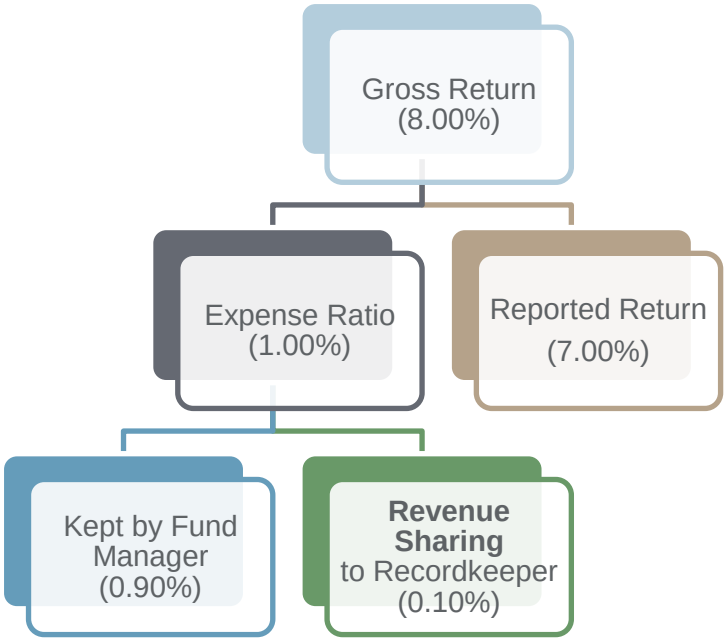
Participants Have Low Financial Literacy

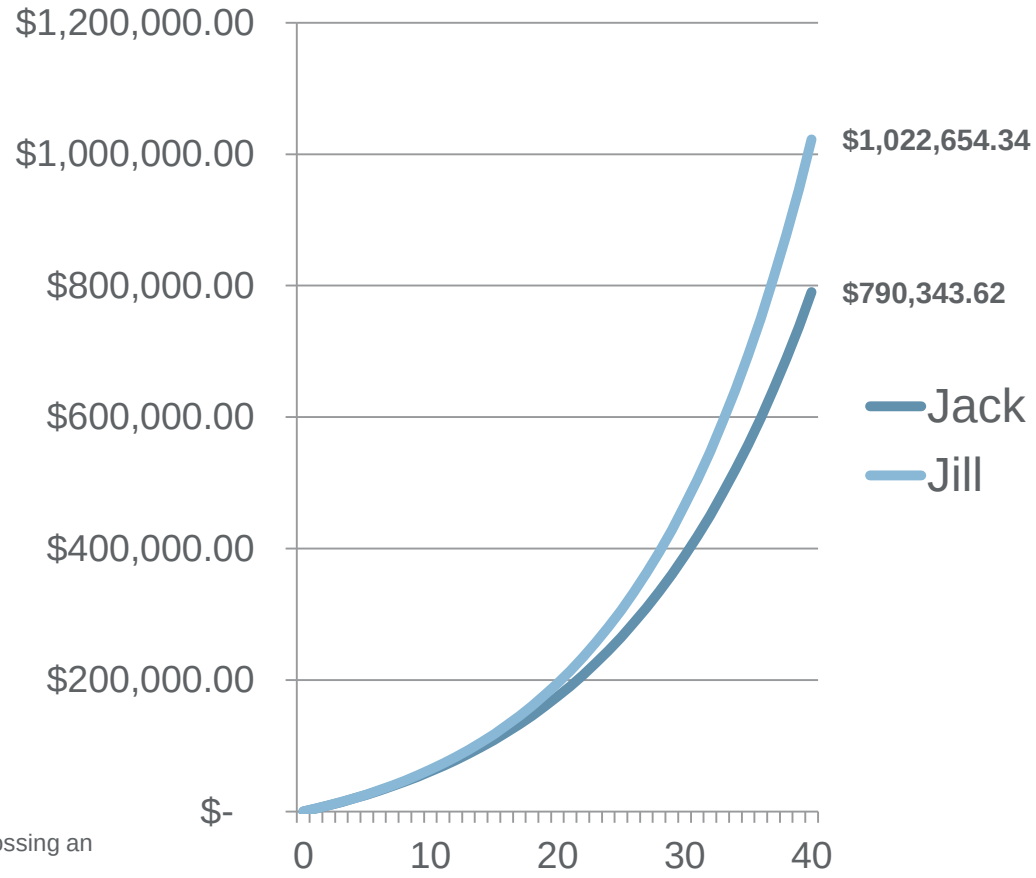
1. A 2008 Health and Retirement Survey concluded that older Americans "lack even a rudimentary understanding of stock and bond prices, risk diversification, portfolio choice, and investment fees."
2. Across multiple studies, there was considerable uncertainty by respondents about whether stocks were the best long-term asset class.
3. In a 2010 Northwestern Mutual Life Insurance study to determine Americans' general financial knowledge, 69% of the 1,664 participants failed the quiz
4. In the Northwestern Mutual study, only 32% of the participants could accurately define the term "index fund"
5. In a 2009 Financial Industry Regulatory Authority (FINRA) study, only 21% of the respondents were correct in knowing that bond prices typically will fall when interest rates rise
6. Only 52%, in the FINRA study, correctly answered "False" to the following: "Buying a single company stock provides a safer return than a stock mutual fund."
7. In a Moneytrack/IPT Investing Survey from 2007, only 39% of the participants could correctly define the term "diversification"
8. An alarming 43% of investors in a 2007 MoneyTrack/IPT Investing Secrets Survey demonstrated a susceptibility to fraud
9. In the 2008 survey of high-school seniors and college students, scores sank to an all-time low (students began taking the annual survey in 1997)

19 Alarming Things We Learned About Financial Literacy in America – The Motley Fool. September 5, 2012

Participants Don't Understand the Impact of Expenses

58.6% of online survey respondents incorrectly answered a question about calculating standard mutual fund fees





*Assumes gross contributions of $4,500 annually into a portfolio grossing an 8% return.
*Jack pays 1.5% in expenses
*Jill pays 0.5% in expenses

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What Really Matters

$$FV = S\left(\frac{(1+r)^n - 1}{r}\right)$$

FV = Future Value of Portfolio

**S* = Savings Amount

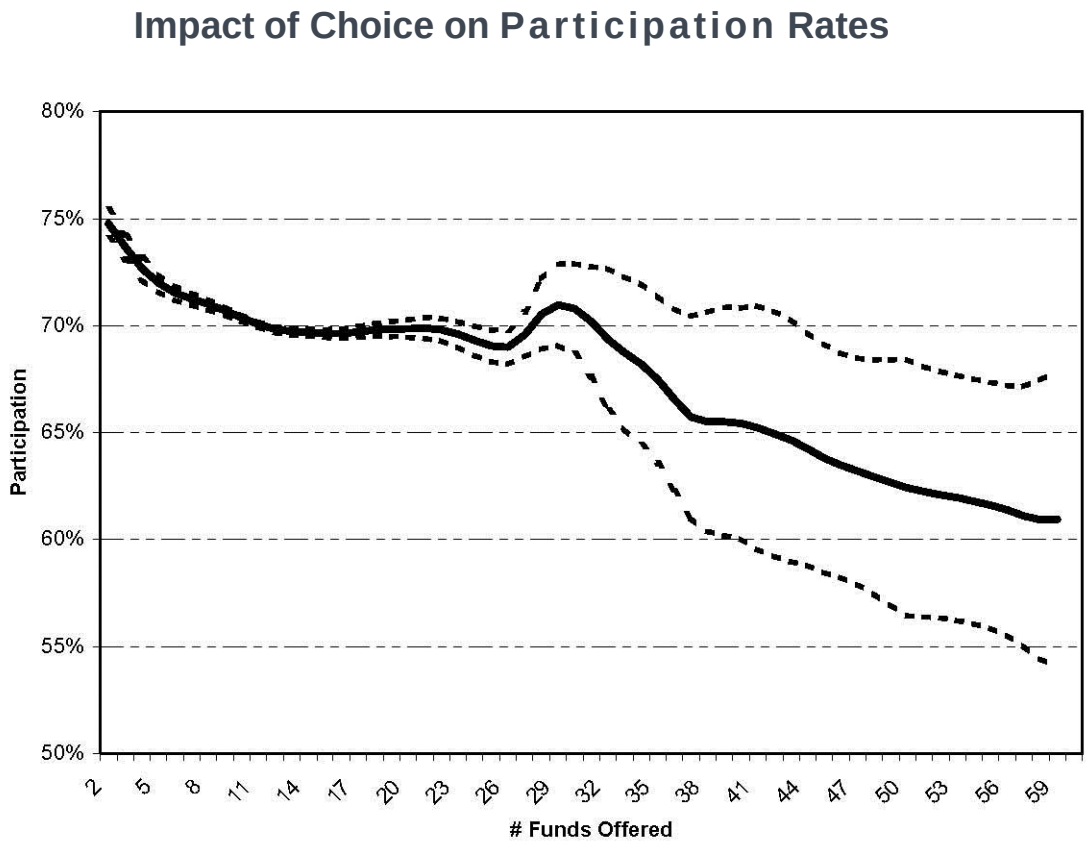
r = Rate of Return

**n* = Number of Years

Impact on Success

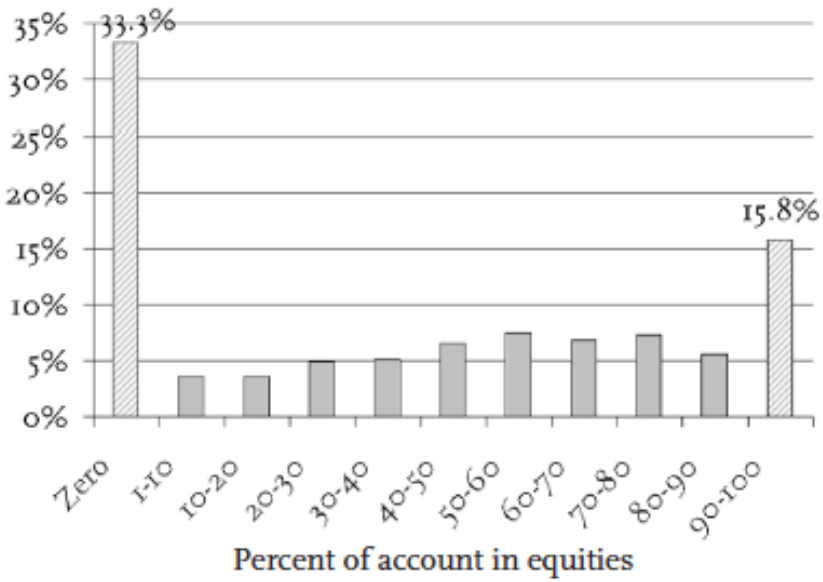
1. Savings Amount
2. Number of Years
3. Rate of Return

Savings Rate

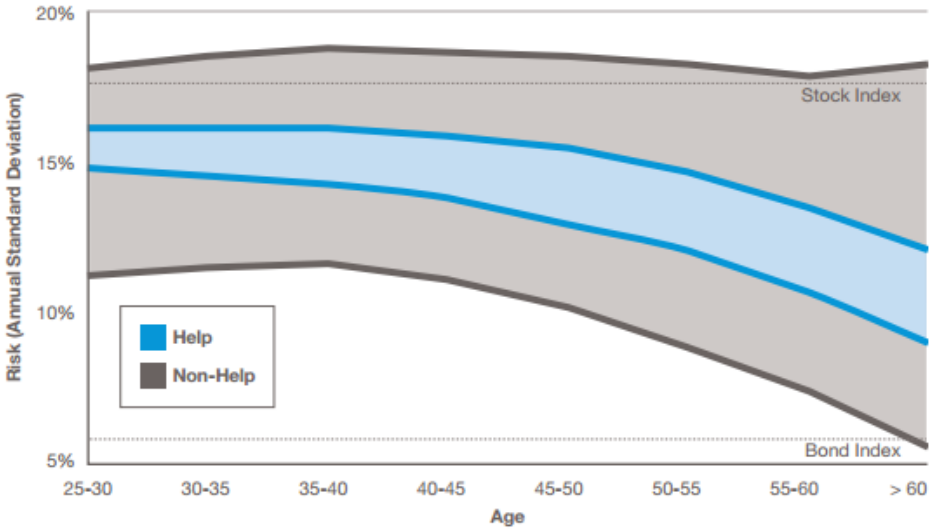


Source: Iyengar, Sheena S.; Jiang, Wei; Huberman, Gur "How Much Choice is Too Much?: Contributions to 401(k) Retirement Plans"

Rate of Return



Investment Returns: Defined Benefit vs. 401(k) – Center for Retirement Research at Boston College



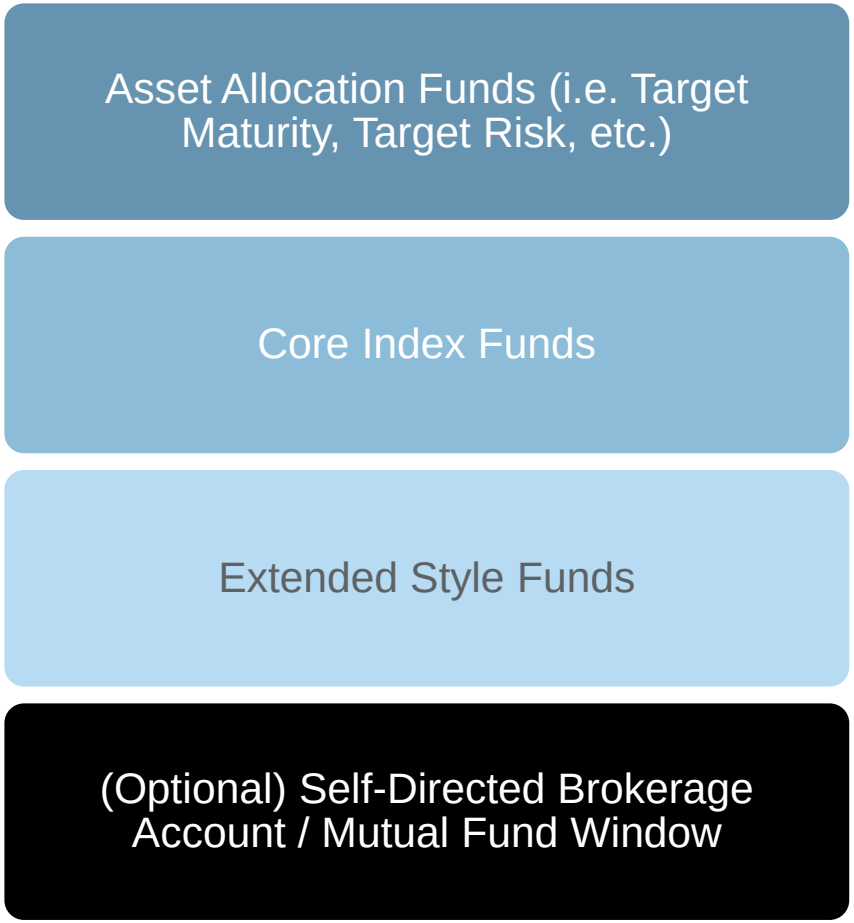
Help in Defined Contribution Plans: 2006-2012 Financial Engines and Aon Hewitt

Characteristics of the “Right” Investment Menu

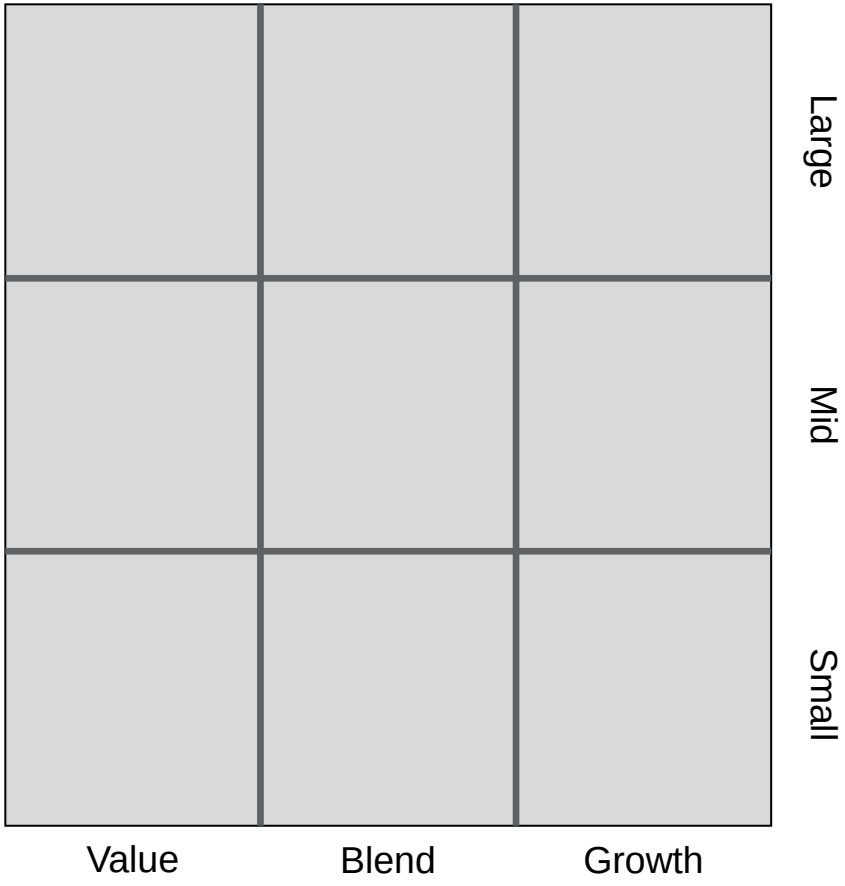
1. Encourages Participation
2. Discourages return chasing, risk avoidance, and tactical approaches to investing
3. Minimizes impact of cost drag
4. Is easy to understand and utilize for least sophisticated participants
5. Allows sponsor to focus limited time and resources on high impact and higher risk elements of plan management

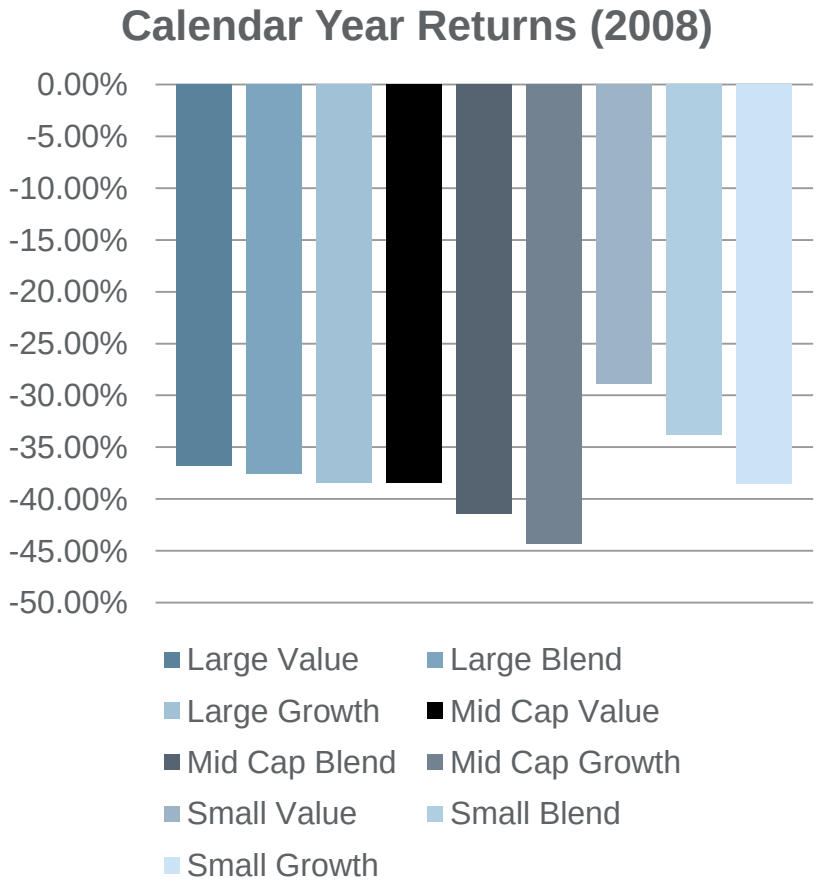
Tiered Option

- Ability to Build Globally Diversified Index Portfolio
- Low Cost
- Broad Diversification
- Style Specific Actively Managed Funds for Active Participants
- Optional Self-Directed Brokerage Account for Most Active Participants



Style Boxes ≠ Asset Classes





7 Biggest Feng Shui Mistakes

1. Smooshing one side of your bed tight up against the wall
2. Dark hallways & entrances are really sad and even terrifying!
3. TV in the bedroom is a no-no
4. Leaving your slightly faulty plumbing as it is for a while
5. Terrifying art in gathering places
6. Mirrors facing one another
7. Dead plants in your home or on the patio

Dana Claudat of mindbodygreen
mindbodygreen.com

1. Smooshing investment products from every crack and crevice of the global asset marketplace
2. Nothing is more terrifying, and easy to overlook, to participants than a blank enrollment form
3. Short-term returns on benefit statements distract participants from life
4. Leaving your slightly faulty retirement plan leaking fees to expensive investment managers and platform providers
5. What's my number in the enrollment process
6. Multiple investments designed to accomplish the same objective
7. Freezing investment options to new contributions

Erik Daley, CFA
MultnomahGroup.com

Disclosures

Multnomah Group, Inc. is an Oregon corporation and SEC registered investment adviser.

Investment performance and returns are based on historical information and are not a guarantee of future performance. Investing contains risk. Some asset classes involve significantly higher risk because of the nature of the investments and the low liquidity/high volatility of the securities.

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