



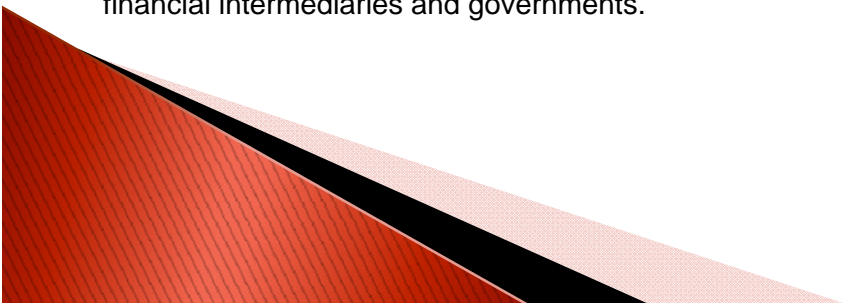
The Passive vs Active Debate: Achieving Your Investment Goals With Passive Investment Vehicles

Investing is not about finding the next hot stock or hot investment manager, although there are plenty of people who would like you to believe this. Investing is all about understanding your long-term goals, structuring a portfolio to help you achieve the goals, and adhering to a prudent investment strategy; investing is a disciplined process, not entertainment or a hobby.

Conclusions:

- 1) *Most active managers underperform* their appropriate passive benchmark (Source: Lipper, MSCI, The Vanguard Group).
- 2) There is *no reliable method to consistently identify, in advance, the future successful active managers.*
- 3) There is *no persistence in outperformance* (Source: Standard & Poor's Persistence Scorecard); outperforming during one period of time does not increase your odds of outperforming in subsequent periods. In other words, relative performance of active managers is random and unpredictable.
- 4) Given the facts listed above, we believe that *manager selection risk is a risk for which you may not be compensated.*
- 5) Most importantly, *you do not have to assume manager selection risk in order to enjoy a successful investment experience.*

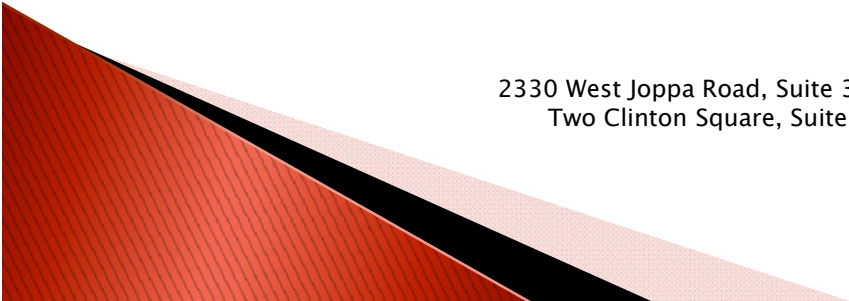
The independent advisors at Passive Capital Management believe that investors can have a successful investment experience and improve their chances of achieving their goals by structuring a low-cost, globally-diversified portfolio of passive investments (asset class funds, index funds, ETFs). By eschewing active management, investors can avoid the underperformance and market-timing penalties that are inherent with active managers. Additionally, actively-managed portfolios are generally more expensive and less tax efficient than passively-managed alternatives. High fees and high taxes will make it even more difficult to maximize your returns for a given level of risk. Investors are taking the investment risk so they need to make sure that a disproportionate amount of the returns do not go to financial intermediaries and governments.



The good news is that investors can accomplish their goals and objectives by adequately managing those things that can be controlled (asset allocation, diversification, costs, tax efficiency) and by not spending a lot of time or money on things that will generally not add value (market timing, manager selection). We believe that capitalism provides a return on capital commensurate with the risk taken. We focus upon the systematic risks that get priced by the capital markets and avoid undiversified risks (company-specific, sector-specific) that generally do not get priced by the capital markets. In other words, we believe that the capital markets will not consistently provide returns for risks that can be easily diversified. Passive investment vehicles provide investors with the means to enjoy the returns provided by global capital markets at relatively low cost.

We evaluate thousands of passive investment vehicles, structure portfolios according to each client's individual risk profile, and rebalance portfolios when necessary to maintain that risk profile throughout all phases of the market cycle. The team at Passive Capital Management would like to implement our disciplined investment philosophy on your behalf in order to help you accomplish your financial goals.

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