



*Rational Investing + Independent Thinking™*

# HELP YOUR CLIENTS TO “STAY WEALTHY” IN A TREACHEROUS WORLD

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*Wealth Planning – Asset Management – Alternative Investments*

*Presented By:*

**Gary Furukawa**

*Founder & Senior Partner*

*Freestone is an independent, Seattle-based wealth advisor and asset management boutique built upon a dedication to delivering outstanding results and exceptional service. Our clients rely on us for a comprehensive solution to managing their wealth based upon unbiased, rational advice and innovative strategies.*

[WWW.FREESTONECAPITAL.COM](http://WWW.FREESTONECAPITAL.COM)

**JANUARY 27 2015**

# IMPORTANT DISCLOSURES

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# AGENDA

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## ■ Overview

- » *Who is Freestone?*
- » *What do we do?*

## ■ Staying Wealthy in a Treacherous World for Wealth

- » Sky High Asset Prices
- » Historically Low Returns for “Safe” Investments
- » Devaluation of a Dollar
- » Pitfalls of Inherited Wealth
- » Fending off New Media and the Internet

## ■ How Can You Add Value to Your Client’s Lives in Today’s Treacherous Environment?

## ■ Q&A



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# OVERVIEW

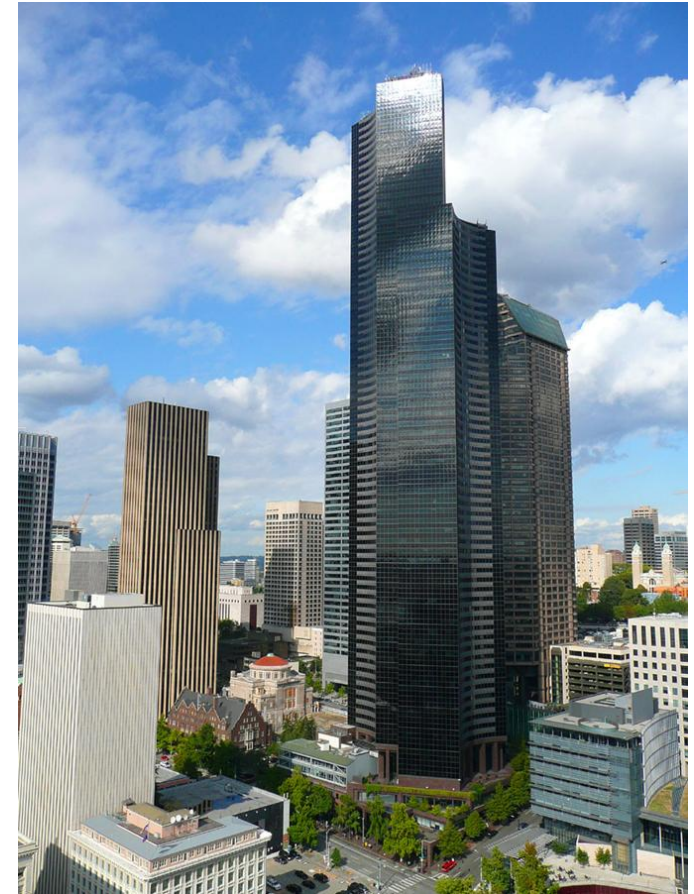
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*Who is Freestone?*

# OVERVIEW

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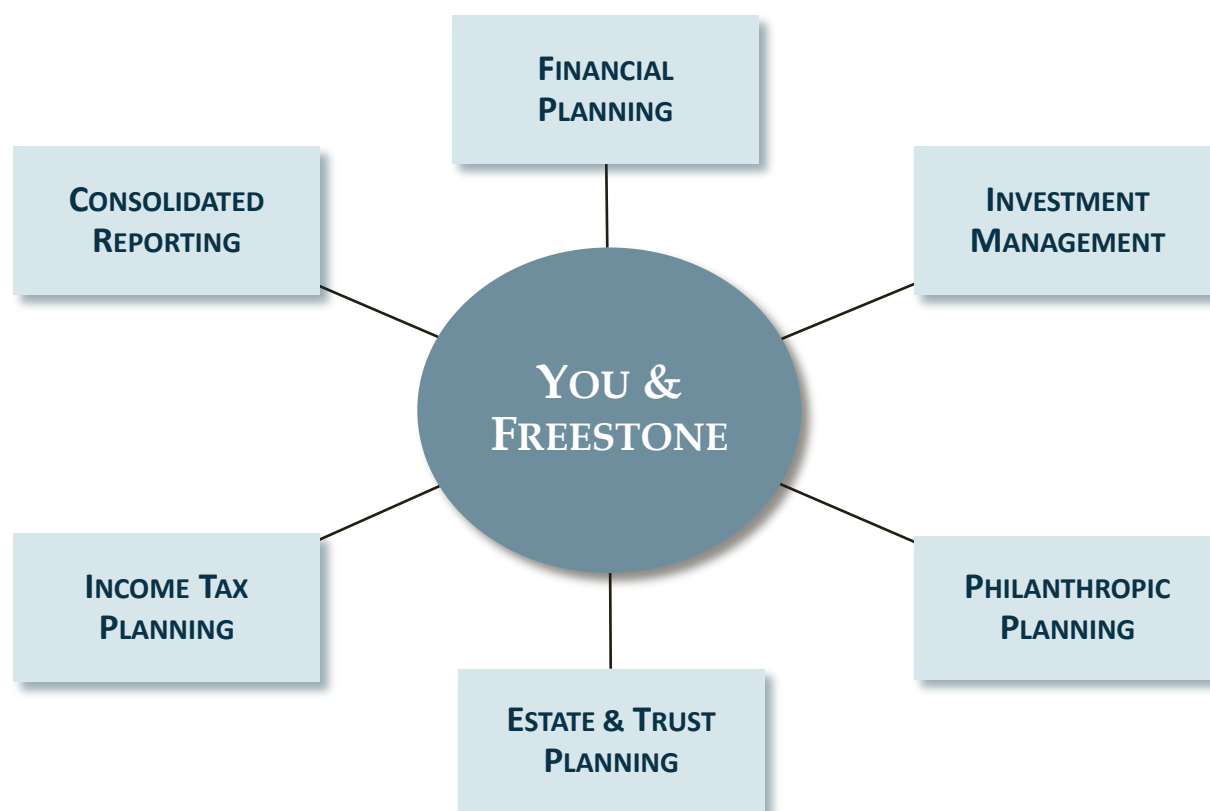
- Founded in 1999
- 100% Employee-owned  
Registered Investment Advisor
- Headquartered in Seattle with offices in  
Santa Barbara, San Francisco, and Portland
- \$3.3 Billion in Assets Under Management
  - » Top 50 in US
  - » 2<sup>nd</sup> Largest in the Tri-County area if we were  
based in California



# WEALTH MANAGEMENT

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- We believe that an effective strategy for managing wealth represents the convergence of many independent, but related plans



*Freestone does not provide tax or legal advice. Rather, we work with your existing tax and estate planning professionals to provide a coordinated approach.*

# WEALTH MANAGEMENT

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- Effectively managing wealth involves far more than just investing well
  - » Having a plan helps clients make rational vs. emotional decisions during difficult markets.
- Investing has always been a key focus at Freestone. It is the core of what we do
  - » After all, a financial plan isn't worth much if you can't execute on it
  - » Freestone employees invest alongside our clients
- In the end, wealth is not what matters most
  - » It simply provides the flexibility to help deliver things that truly matter. Letting our clients spend time on what they value most
  - » Wealth increases complexity and responsibility



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# ENDOWMENT-STYLE INVESTING

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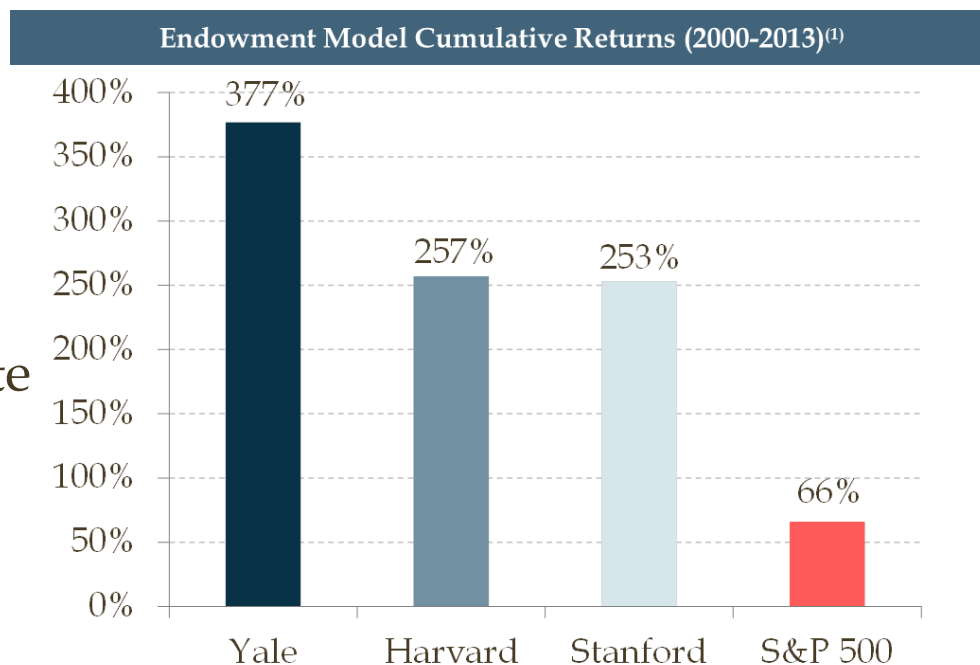
The Freestone Way



# “THE MARKET” VS. ENDOWMENTS

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- Major University Endowments are *the* most successful investors
- Individual Investors cannot duplicate endowment portfolios



Endowments typically need to generate 4-5% annually to cover university operations  
→ Similar to what our clients need to cover living expenses

(1) Yale University Investments Office Annual Reports 2001-2013, Stanford Management Company Annual Reports 2001-2013, Harvard College Financial Report To The Board Of Overseers 2004-2010, Harvard Management Company Annual Report 2002, 2011-2013. Nothing in this document is intended to assert or imply that our investment solutions or funds will resemble or behave like the Yale, Stanford or Harvard endowments. Past performance is not a reliable indicator of future results.

# CORE TENETS OF ENDOWMENT-STYLE INVESTING

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- Diversify more broadly than traditional stock and bond market investments. Especially timely today when stocks and bonds are priced near historic highs
- Invest as closely to the underlying asset as possible
- Balance liquidity and maximizing returns. You can't have both
- Think about where wealth is really created

*Nothing in this presentation is intended to assert or imply that our investment solutions or funds will resemble or behave like the Yale or Harvard endowments. Investing in one of our solutions or funds is not the same as or similar to investing in an endowment. Investing in our solutions and funds involves risk of loss. You should not make any investment decision based upon this information.*

# TRADITIONAL INVESTORS VS. ENDOWMENTS

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ASSET CLASS	"TRADITIONAL" INVESTORS	HARVARD (2014 TARGET)	YALE (2013 ACTUAL)
Domestic Equity	45%	11.0%	6%
Foreign Equity	10%	11.0%	10%
Emerging Markets Equity	5%	11.0%	
Fixed Income	35%	11.0%	5%
Cash	5%	0.0%	1%
Private Equity		16.0%	32%
Public Commodities		2.00%	
Absolute Return		15.0%	18%
Real Estate		10.0%	20%
Natural Resources		13.0%	8%
<b>TOTAL</b>	<b>100%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: Yale and Harvard endowments websites as of November 2014. Numbers rounded for illustrative purposes. Nothing in this presentation is intended to assert or imply that our investment solutions or funds will resemble or behave like the Yale or Harvard endowments. Investing in one of our solutions or funds is not the same as or similar to investing in an endowment. Investing in our solutions and funds involves risk of loss. The Traditional Investor column is merely an example intended to illustrate how a traditional investor might allocate its portfolio. It does not, and is not intended to, represent an actual allocation of assets or asset classes in which an traditional investor might invest. You should not make any investment decision based upon this information.

# THINGS ARE NOT ALWAYS AS THEY APPEAR

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INVESTMENT STRATEGY	COMMON APPROACH	FREESTONE APPROACH
Real Estate	REITs	Direct Ownership That We Underwrite
Energy	ETFs or Mutual Funds that buy Energy Company Stocks	Direct Ownership in Pipeline Businesses
Hedge Funds	A Fund-of-Fund-of-Funds or an Alternative Investment Mutual Fund	Fund of Funds where we directly select all the Managers
Private Equity	Stocks of Private Equity firms, or Don't Offer At All	Direct Investment in Underlying Businesses
Equities	ETFs, Mutual Funds or SMAs Managed by an Outside Manager	Proprietary Unified Managed Account; Individual Securities-focused
Fixed Income	ETFs or Mutual Funds that own bonds	Direct Ownership of individual bonds with specific maturity dates

*The Common Approach column is merely an example intended to illustrate common approaches to access these investment strategies. It does not, and is not intended to, include all of the ways in which an investor might access these strategies. The Freestone Approach column is intended to provide illustrative examples of how Freestone might access these investment strategies. Freestone has not accessed all of these investment strategies in the manner presented in the Freestone Approach column.*

# FREESTONES VALUE PROPOSITION

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- We provide in-depth Financial Planning and Wealth Management Services that client's need to make rational decisions
- Our clients have access to our excellent Traditional Investments including our All-Cap Core Equity strategy which has dramatically outperformed the S&P 500
- In addition, Freestone manages over \$1 billion in direct alternative investments including:
  - » Direct Real Estate, (not REITS)
  - » Direct Private Equity investments
  - » Direct Senior Loan investments with high yields and a history of very low defaults

# STAYING WEALTHY IN A TREACHEROUS WORLD

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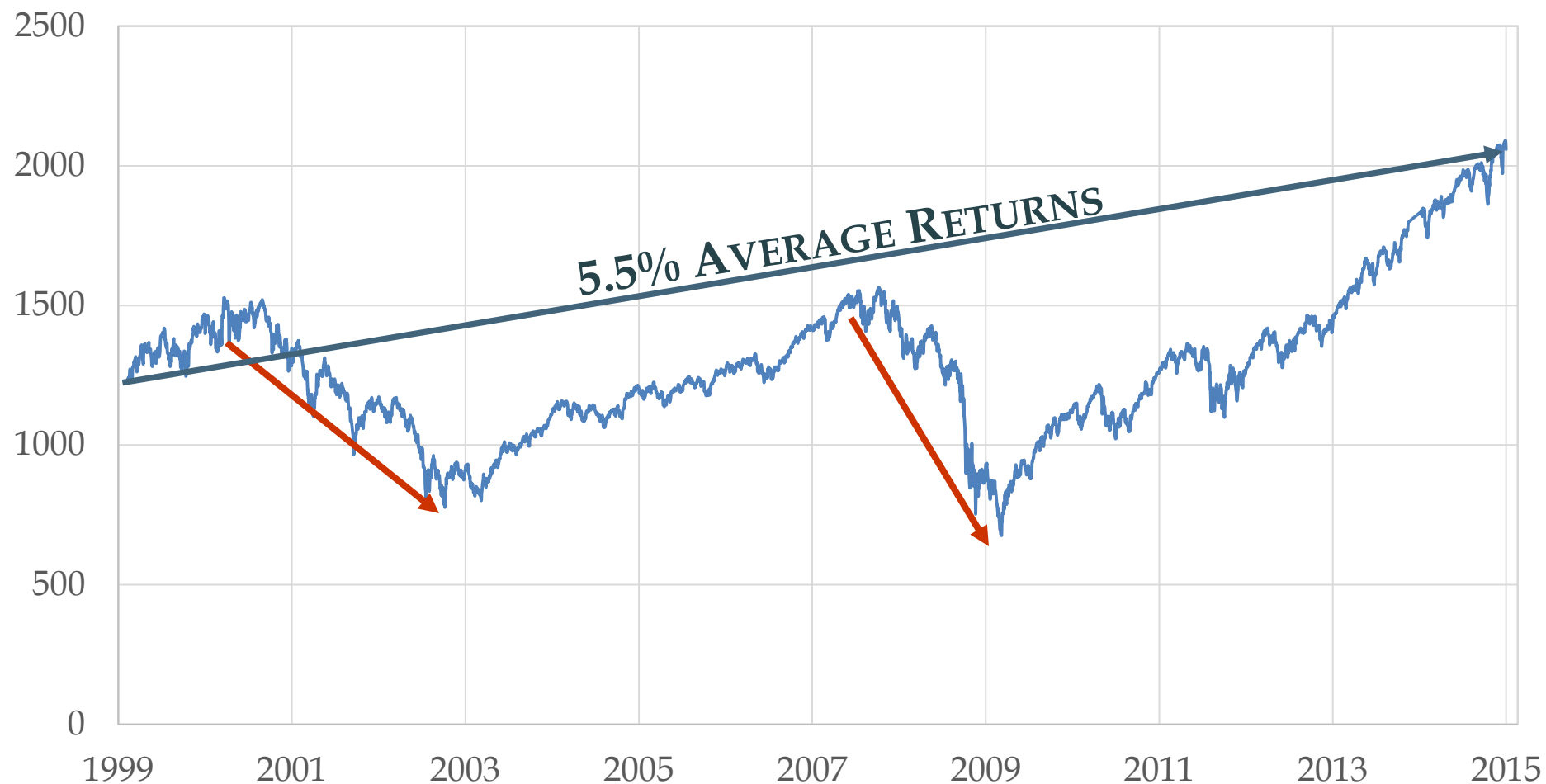
*Sky High Asset Prices and Historically Low Yields*

*“In Economics, things take longer than you think they will, and then they happen faster than you thought they could”*

*Rudiger Dornbusch, Economist MIT*

# U.S. LARGE-COMPANY STOCKS (CONT.)

## S&P 500 Index: 1999 - 2014



Source: Bloomberg

Past performance is not a reliable indicator of future performance. It is not possible to invest in an index.

# PERSPECTIVE ON BULL MARKETS

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Bull Market	Duration (Months)	% Move in S&P
Current	71	195%
Average	62	186%
Shortest	19	74%
Longest	148	582%

Source: Bloomberg



# US OUTPERFORMANCE (IN US \$)

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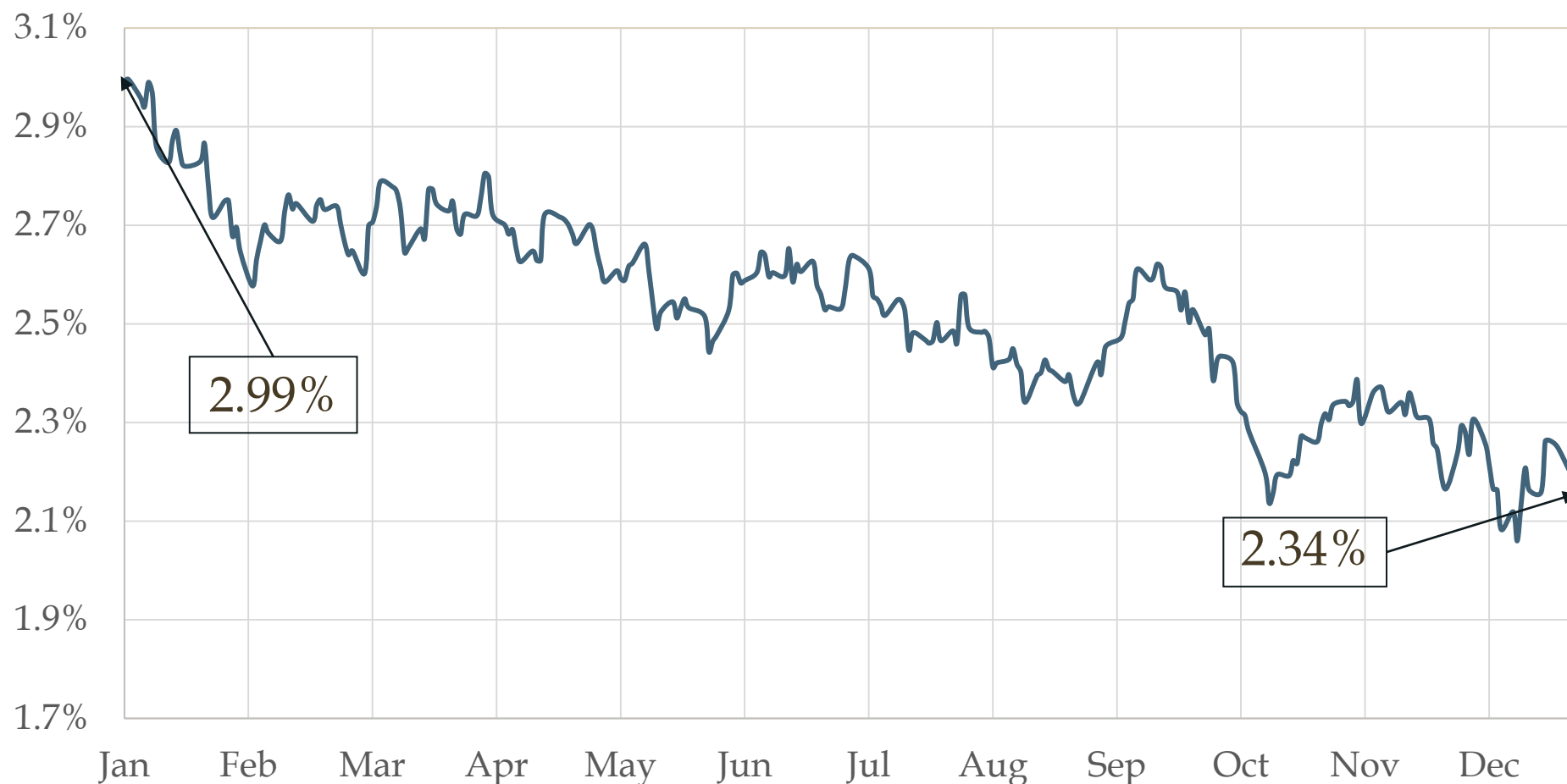
Country	3 Year Performance	2014 Performance	P/E Ratio
US	73.7%	13.5%	17.9
UK	32.8%	-5.0%	18.8
Germany	55.9%	-9.6%	18.0
Japan	39.6%	-4.4%	20.6
China	60.9%	52.2%	14.9
Russia	-35.0%	-42.2%	8.6

The graph illustrates the US Consumer Price Index (CPI) from 1962 to 2018. The Y-axis represents the index value, ranging from 0 to 2500 in increments of 500. The X-axis represents the year, ranging from 1962 to 2018 in increments of 4 years. The index shows a general upward trend over the period, with significant fluctuations. Key features include a sharp peak around 1980 (reaching approximately 1500), a sharp decline around 1982 (dropping to around 1000), a sharp peak around 2000 (reaching approximately 1500), a sharp decline around 2002 (dropping to around 1000), and a sharp peak around 2008 (reaching approximately 1500) followed by a sharp decline around 2009 (dropping to around 1000). The index ends at approximately 2000 in 2018.

# INTEREST RATES

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## 10 Year U.S. Treasuries: 2014



Source: Bloomberg

Past performance is not a reliable indicator of future performance. It is not possible to invest in an index.

# INTEREST RATES

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## 10 Year U.S. Treasuries: 1963 Through 2014



Source: Bloomberg

Past performance is not a reliable indicator of future performance. It is not possible to invest in an index.

# YOUR CHOICES IN LOW-RISK INVESTMENTS

INVESTMENT	CURRENT YIELD	% LOSS IF RATES INCREASE 1%
Cash/Money Mkt. Fund	0.00%	0.0%
2-Yr Tax Free Municipal	0.47%	1.9%
2-Yr U.S. T Bond	0.51%	1.9%
10-Yr Tax-Free Municipal Bond	1.55%	8.5%
10-Yr U.S. T Bond	1.8%	8.5%
30-Yr U.S. T Bond	2.37%	18.0%

Source: Bloomberg

All investments involve risk of loss, even relatively "low risk" investments like money market funds and U.S. Treasury bonds. No investment is risk-free.

# GOVERNMENT BOND RATES AROUND THE WORLD

22

Nation	2 Year Bond	5 Year Bond	10 Year Bond
US	.51%	1.33%	1.81%
UK	.36%	.98%	1.51%
Japan	-.02%	.01%	.22%
Germany	-.15%	.01%	.39%
Spain	.28%	.75%	1.37%
Switzerland	-1.34%	-.84%	-.24%

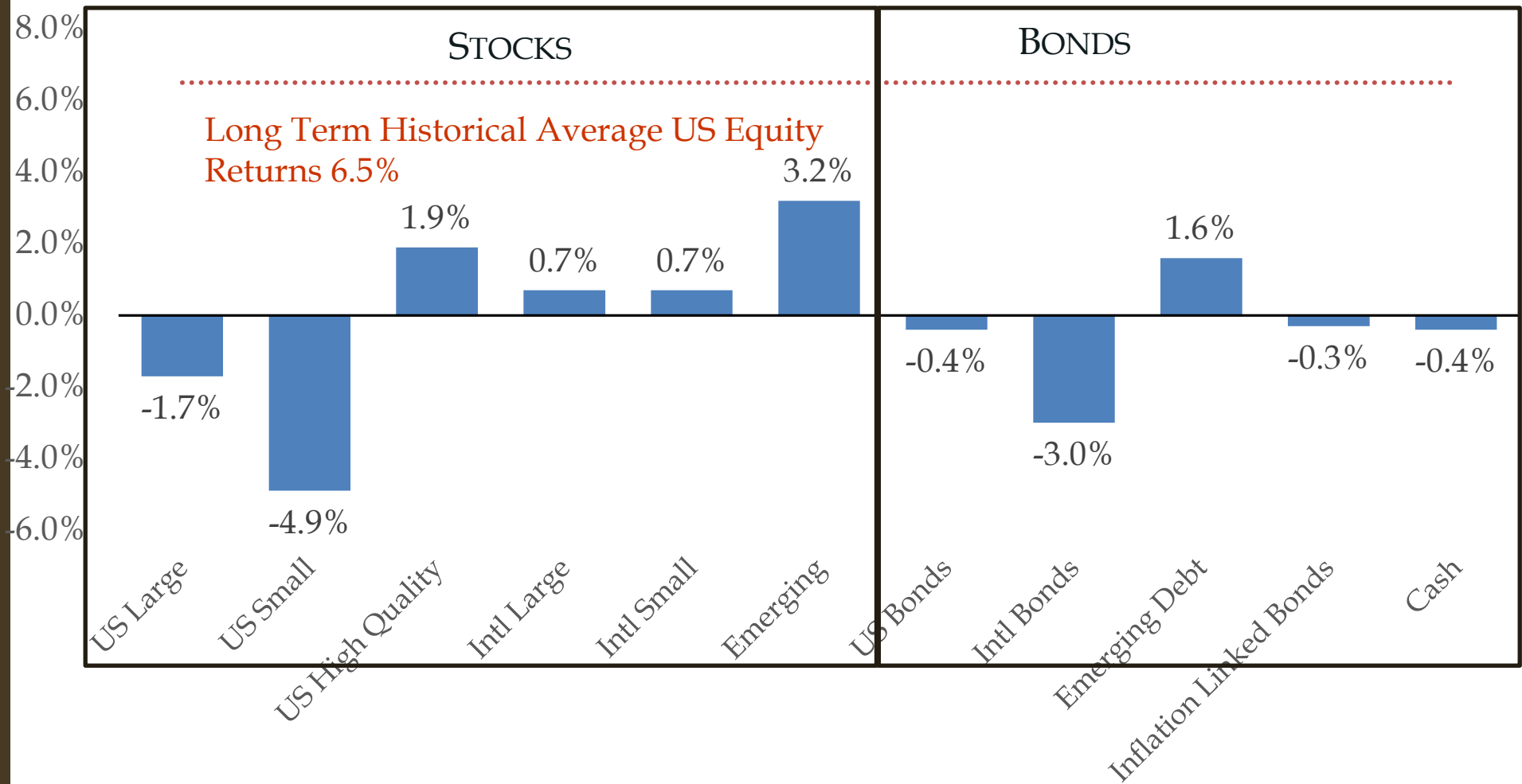
# OVERVALUATION SIGNS – RATIOS NEAR PEAKS

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- Margin debt at all time highs
- IPO activity in 2014 hit an all-time high
- Shiller P/E ratio and price to GDP are at their highest recent points
- Bubble-like behavior with certain “love affair stocks”
  - » Tesla valued at \$32 billion; only sell \$2 billion of cars and losing money
  - » GoPro valued at \$6.2 billion; 172x earnings

# FUTURE RETURNS ARE EXPECTED TO STAY LOW

## GMO 7- Year Asset Class Real Return Forecasts



(1) This chart represents real return forecasts of GMO for several asset classes and not for any GMO fund or strategy. These forecasts are forward-looking statements based upon the reasonable

beliefs of GMO and are not a guarantee of future performance. Forward-looking statements speak only as of the date they are made, and GMO assumes no duty to and does not undertake to update forward-looking statements. Forward-looking statements are subject to numerous assumptions, risks, and uncertainties, which may differ materially from those anticipated in forward-looking statements. US inflation is assumed to mean revert to long-term inflation of 2.2% over 15



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# STAYING WEALTHY IN A TREACHEROUS WORLD

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*Devaluation of the US Dollar*

*“The Purchasing Power of the US Dollar has lost 86% since  
1965”*

*-Warren Buffett*

# LOSS OF PURCHASING POWER IS SNEAKY

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Date	Postage Stamp	McDonald's Hamburger	OREO Cookies	US \$ Buying Power	S&P 500	Gold (Ounce)
1970	\$.08	\$.20	\$.45	\$1.00	92	\$35
1980	\$.15	\$.38	\$.99	\$.50	108	\$512
1990	\$.25	\$.75	\$2.52	\$.30	353	\$401
2000	\$.33	\$.89	\$2.80	\$.25	1,469	\$288
Today	\$.49	\$1.00	\$4.59	\$.15	2,055	\$1,281

# STAYING WEALTHY IN A TREACHEROUS WORLD

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## *The Pitfalls of Inherited Wealth*

# THIRTY TWO YEARS OF OBSERVATION

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- There is little correlation between Wealth and Happiness
- In general, Men seem to have a more difficult time dealing with inherited wealth than Women
- Our most unhappy clients seem to be the ones who inherited money at a young age
- The lesson is don't give people under the age of 40-50 any significant money.

# STAYING WEALTHY IN A TREACHEROUS WORLD

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*Fending off New Media and the Internet*

# THINGS TO REMEMBER

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- The Media has a different set of goals than you
  - » Performance is judged by # of eyeballs
  - » No accountability. Goal is to get you to watch
  - » Encourages short-term thinking - disastrous for long-term investing
- The Internet has changed the way we consume media
  - » Short sound bites
  - » Catchy photos and video grab your attention
  - » Less thinking, more gawking!



# MARKET “EXPERTS” AREN’T ALWAYS RIGHT

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# MARKET “EXPERTS” AREN’T ALWAYS RIGHT

S&P 500 Index: 1/1/11 – 12/31/14



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Source: Bloomberg

All investments involve risk of loss, even relatively “low risk” investments like money market funds and U.S. treasury bonds. Rational Investing + Independent Thinking

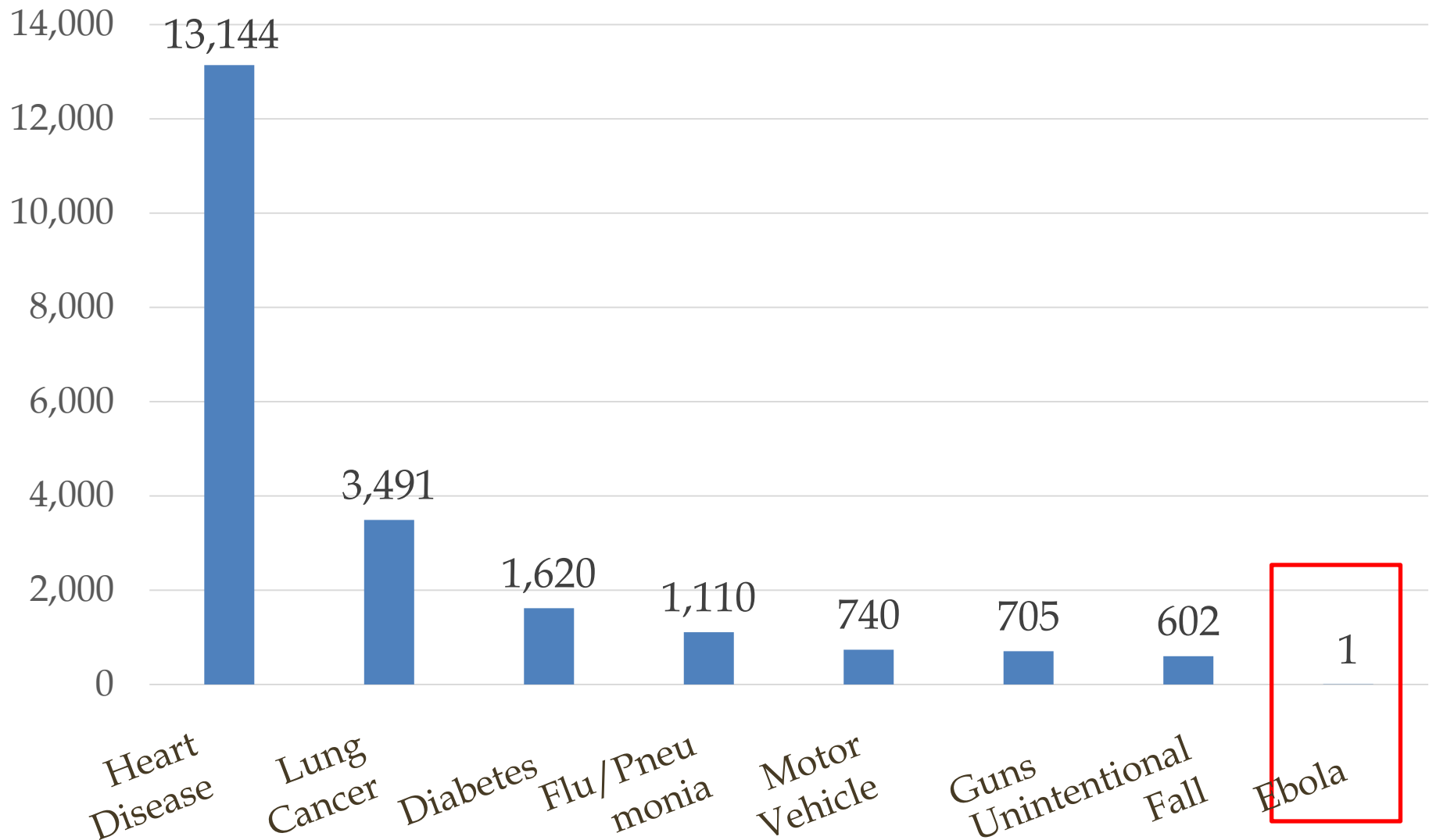
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# FEAR IS THE MEDIA'S FAVORITE TOOL

33

Estimated US Deaths, Sept. 30, 2014 - Oct. 8, 2014



# Investors Are Getting Nervous

CHRIS VELLACOTT, REUTERS

Oct. 2, 2014 4:20 PM

6,892 | 7

Oct. 2, 2014 4:20 PM



# Markets Are Staging A Nice Rally

MIKE BIRD

OCT. 3, 2014 1:05 AM



485



0

Oct. 3, 2014 1:05 AM  
9 Hours Later!





# SHARK ATTACKS IN THE NEWS

36



# SHARK ATTACKS

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- 16 average shark attacks annually in the US
- 9 shark related US deaths from 2000-2009
- 215 horse related US deaths from 2000-2009



# MARKET EXPERTS CALMLY EXPLAIN THE OPPORTUNITIES

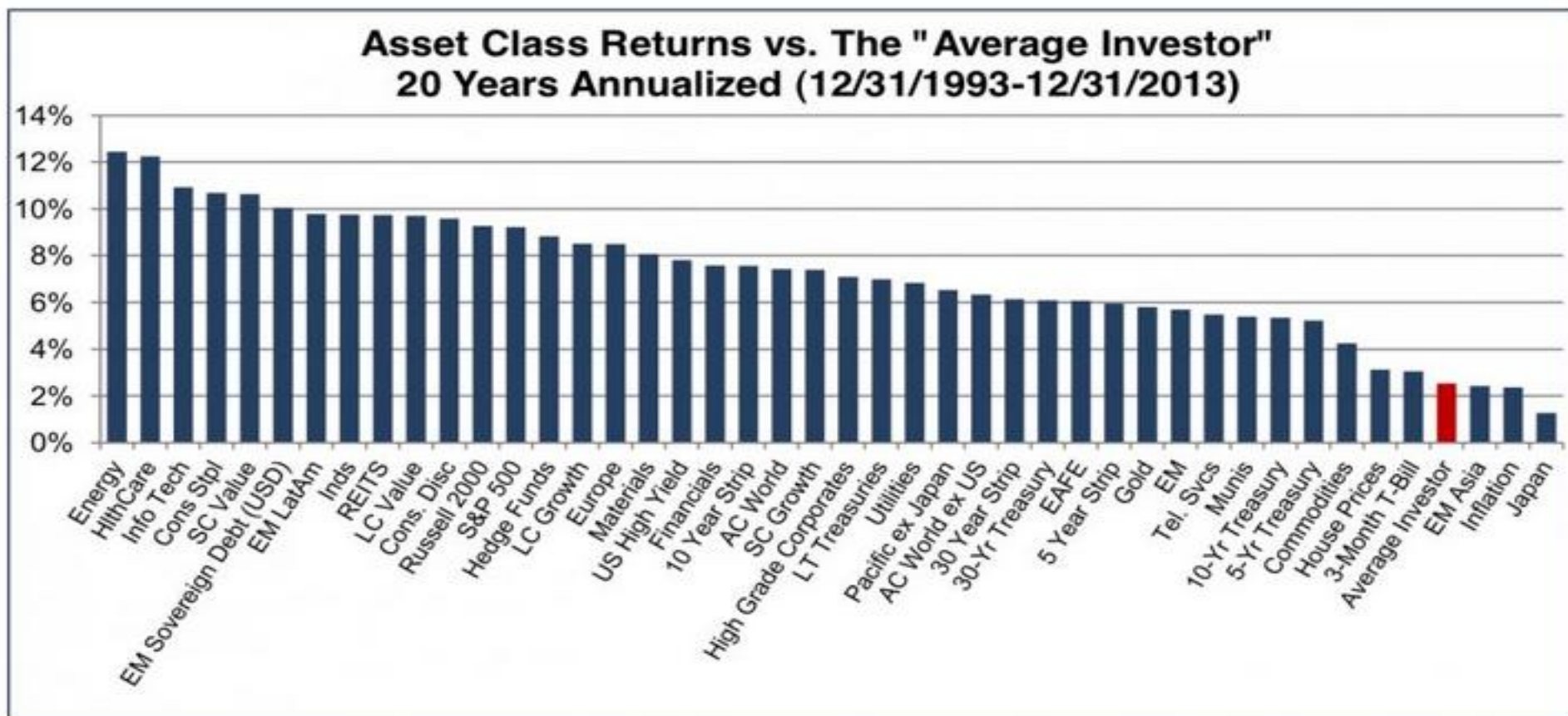
38





# MISINFORMATION+EMOTION = POOR RETURNS

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Source: Richard Bernstein Advisors LLC., Bloomberg, MSCI, Standard & Poor's, Russell, HFRI, BofA Merrill Lynch, Dalbar, FHFA, FRB, FTSE. Total Returns in USD.

Average Investor is represented by Dalbar's average asset allocation investor return, which utilizes the net of aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior.

For Index descriptors, see "Index Descriptions" at end of document.

Richard Bernstein Advisors

# WHAT CAN YOU DO?

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- We believe the greatest single advantage is to have a long-term approach
- Focus on things that help gain long term perspective
  - » Non-fiction authors ie. Daniel Kahneman, Michael Lewis, Malcolm Gladwell
  - » Investment newsletters: Howard Marks, Paul Singer, David Einhorn etc.
  - » Focus on fact-based ideas instead of opinion
  - » Longform.org curates interesting well written articles
- Understand the motive behind what you consume



# WHAT CAN YOU DO FOR YOUR CLIENTS?

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- Emphasize a long term viewpoint with the correct return expectations that reflect the realities that we face
- Help them to make decisions rationally, not emotionally
- Remind them that the financial markets don't care about your client's needs
- Understand the obstacles that face wealthy clients in today's environment of:
  - » High Asset Prices
  - » Low Yields
  - » Loss of Purchasing Power
  - » Pervasive Influence of New Media

## Q&A

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*“Happiness is good health and a bad memory”*

*-Ingrid Bergman*



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THANK YOU FOR COMING!

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