



Managing Risk in Modern Portfolios

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Volatility

- Portfolio Killer
 - Psychological damage
 - Realistic recovery?
 - 10% loss needs?
 - 20% loss needs?
 - 50% loss needs?

Real Life Volatility

- Average Returns vs. Compounded Returns
- Clients can only use (consume) compounded returns!
- So, degree and timing of returns count!

Real Life Volatility

• Case A		Case B	Case C
– Year 1	5%	9%	30%
– Year 2	5%	5%	-25%
– Year 3	5%	1%	10%
– Average Return	5%	5%	5%
– Compounded Return	5%	4.949%	2.361%

This is a hypothetical example used for illustrative purposes only, and does not represent the return of any specific investment.

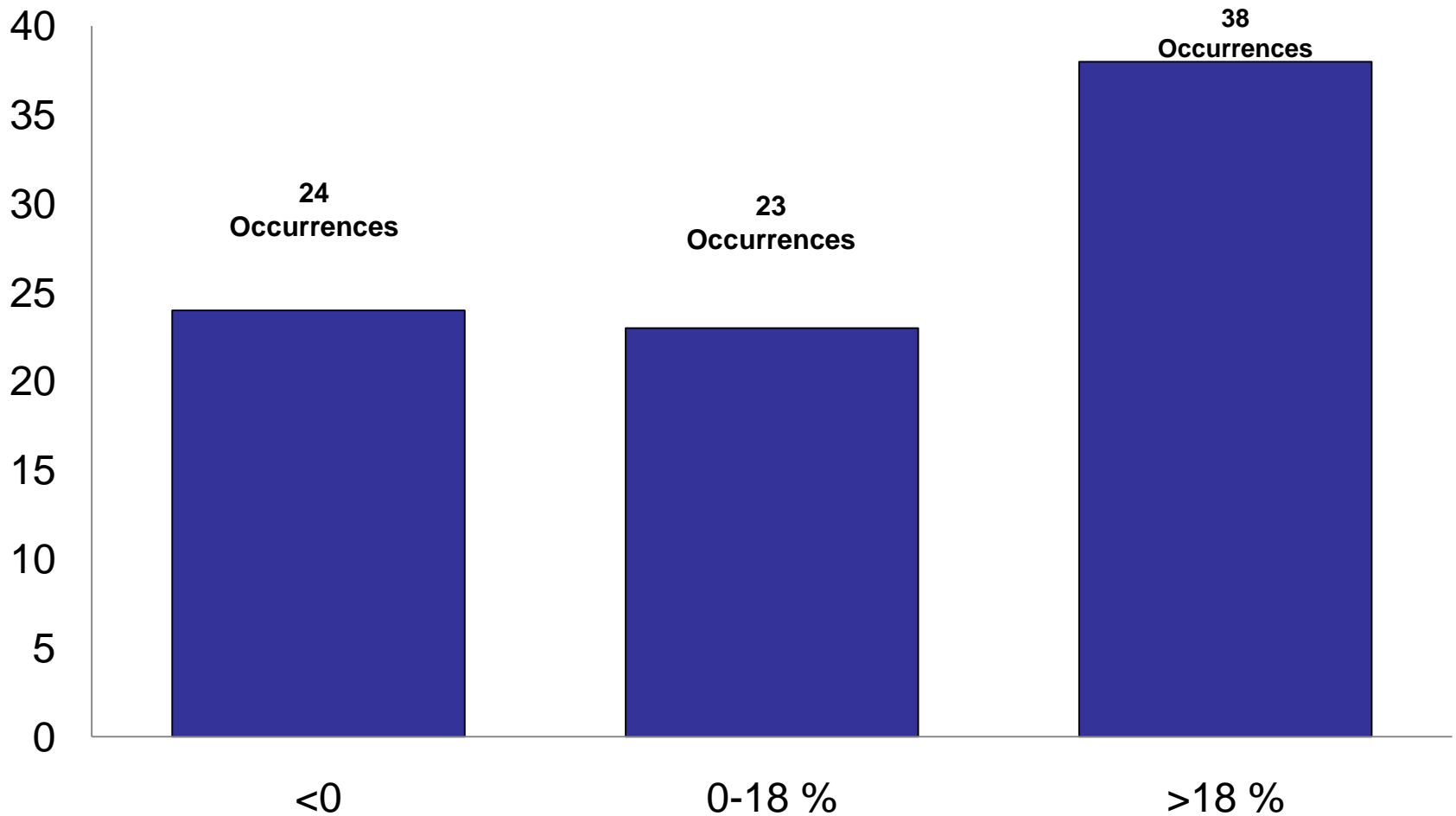
Source: Crestmont Research

Real Life Volatility

- Dow Jones Industrial Average Returns
- 1901-2010

Range	Frequency
– <-16%	15%
– -16%+16%	50%
– >16%	35%

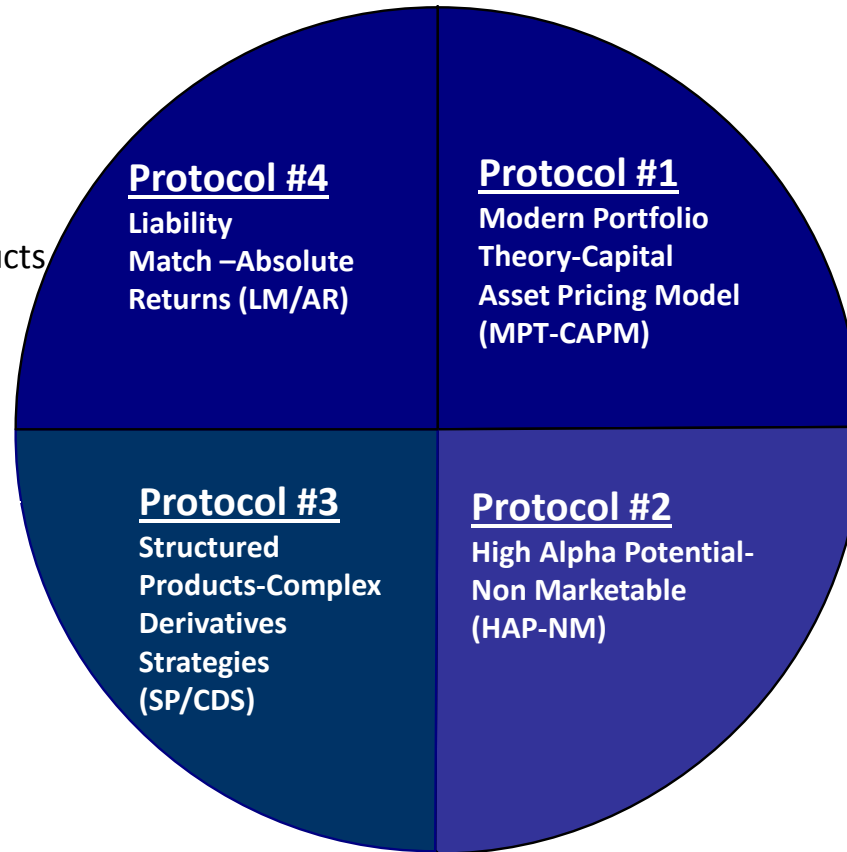
Calendar-Year Stock Market Returns: 1927-2010



Source: John Hancock Mutual Funds

Past performance is not an indicator of future results.

UNIFIED PORTFOLIO THEORY™ (UPT)



- Bond ladders
- Fixed income UITs
- Some structured debt products
- SPIAs

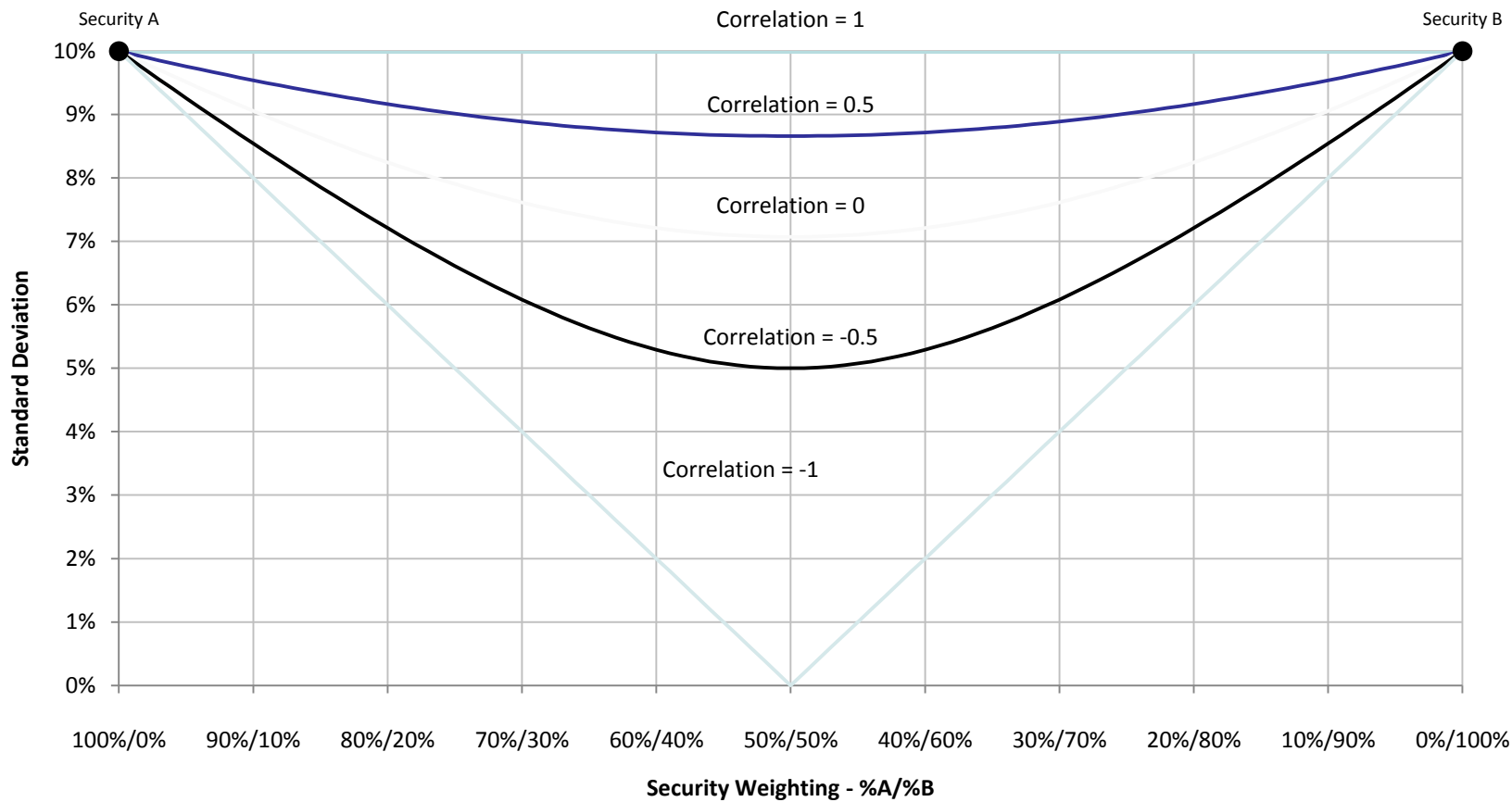
- Equity indexed annuities
- Enhanced zeroes
- Hedge funds
- Prepaid forward contracts
- Structured notes

- U.S. stocks
- Fixed income
- Commodities
- Foreign stocks
- Real estate
- Variable & fixed annuities
- Oppenheimer Portfolio Builder™

- Oil & gas DPPs
- Private REITs
- Securitized venture capital
- Private equity
- U.S. strategic infrastructure
- Emerging markets RE
- Timberland & other DPPs

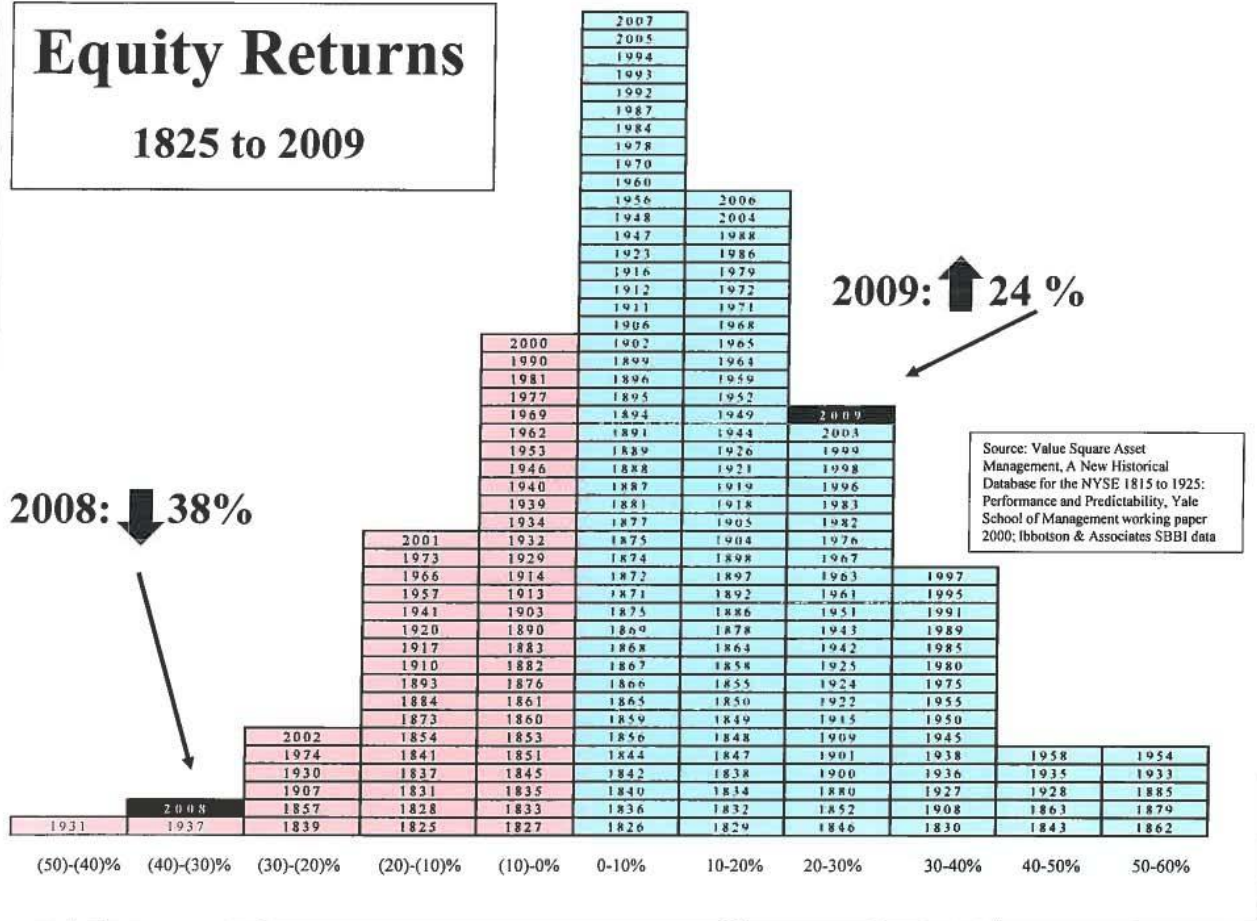
First Step

- Proper traditional investing
- Modern Portfolio Theory
- Dr. Harry Markowitz
- Asset allocation
- Diversification
- Disciplined rebalancing
- 1st Global white papers



Equity Returns

1825 to 2009



For Broker/Dealer Use Only

Second Step

- Utilize non-equity market correlated assets
- Utilize non- marked-to-market assets

Direct Participation Programs

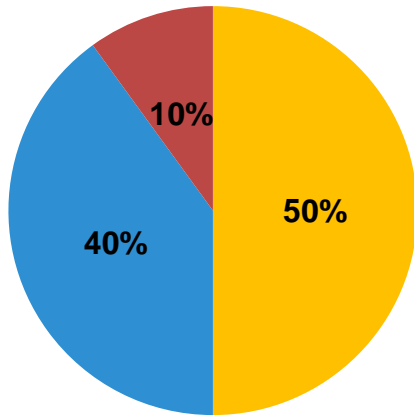
- Real Estate Investment Trusts
- Real Estate Limited Partnerships
- Real Estate 1031 Exchanges
- Equipment Leasing Programs
- Oil & Gas Developmental LLPs

Real Estate

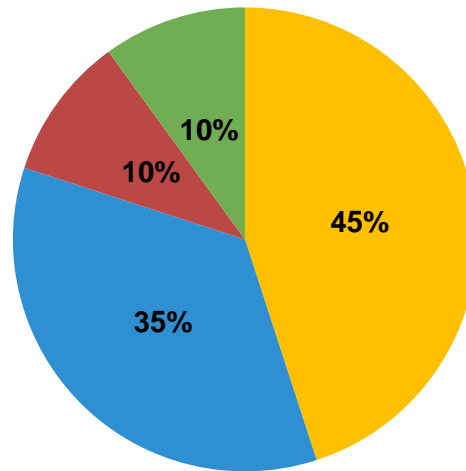
- Non-Traded Real Estate Investment Trusts (REITS)
- Land Banking
- 1031 Exchange Programs

Diversification Benefits of REITs

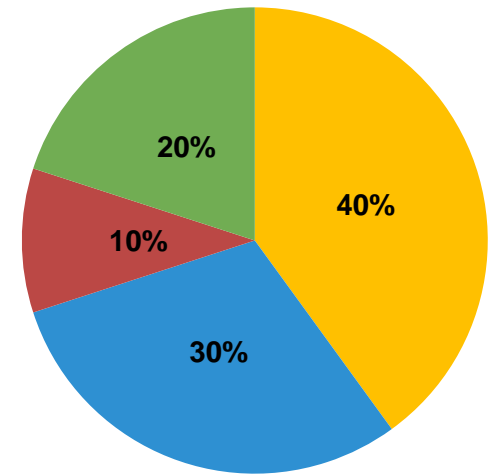
**Portfolio with Stocks,
Bonds & T-Bills**



with 10% REITs



with 20% REITs



- Stocks
- Bonds
- Cash
- REITs

Return	7.9%	Return	8.1%	Return	8.2%
Risk	8.39%	Risk	7.7%	Risk	7.3%

Sources: 2011 COLE Capital Advisors, Inc.

Past performance is not a guarantee of future results.

Oil & Gas Developmental Partnerships

- Tax Advantages
- Structure
- Liability

Significant First-Year Tax Savings

	<u>No Energy Investment</u>	<u>Energy Investment</u>
Taxable Income	\$250,000	\$250,000
Energy Investment	0	30,000
Intangible Drilling Cost Deductio	0	30,000
New Taxable Income	250,000	220,000
Federal Income Tax	69,124	59,353
State Income Tax (6%)	15,000	13,200
Total Tax (36%)	84,124	72,553
Tax Savings	0	\$11,571

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Sample Tax Calculation

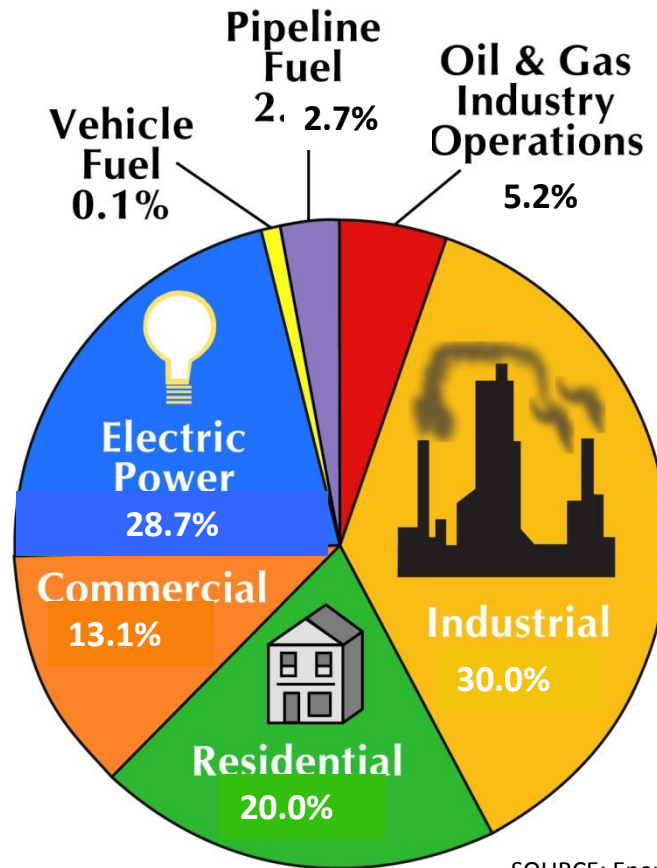
REGULAR TAX	NO INVESTMENT	\$125,000 INVESTMENT
Ordinary Income & Short-term Gains	\$300,000	\$300,000
Long-term Capital Gain	0	0
IDC on Investment	0	(111,875)
Adjusted Gross Income	300,000	188,125
Itemized Deductions	(40,692)	(44,048)
Personal Exemptions – 2	<u>(3,128)</u>	<u>(6,800)</u>
Taxable Income	256,180	137,277
FEDERAL INCOME TAX	63,740	27,430
Alternative Minimum Tax	<u>0</u>	<u>0</u>
TOTAL FEDERAL TAXES	\$ 63,740	\$27,430
TAX SAVINGS		\$36,309
% OF TOTAL INVESTMENT		29.05%

Sample Tax Calculation

ALTERNATIVE MINIMUM TAX	NO INVESTMENT	\$125,000 INVESTMENT	
Taxable Income	\$256,180	\$137,277	
Itemized Deduction Phase-Out	(4,308)	(952)	
Adjustments:			
Taxes State & Property	15,000	15,000	
Miscellaneous	0	0	
Personal Exemptions	3,128	6,800	
Tax Preferences: Excess IDC	0	0	
Alternative Min Tax Income (AMTI)			
Alternative Minimum Exemption	270,000	158,125	Est.
	(32,550)	(60,519)	
26% up to \$175,000, 25% thereafter	<u>237,450</u>	<u>97,606</u>	
ALTERNATIVE MINIMUM TAX	x .28	x .26	
	<u>\$ 62,986</u>	<u>\$ 25, 378</u>	Can be reduced by no more than 40% AMTI
TAX SAVINGS		\$36,309	
% OF TOTAL INVESTMENT		29.05%	

Natural Gas

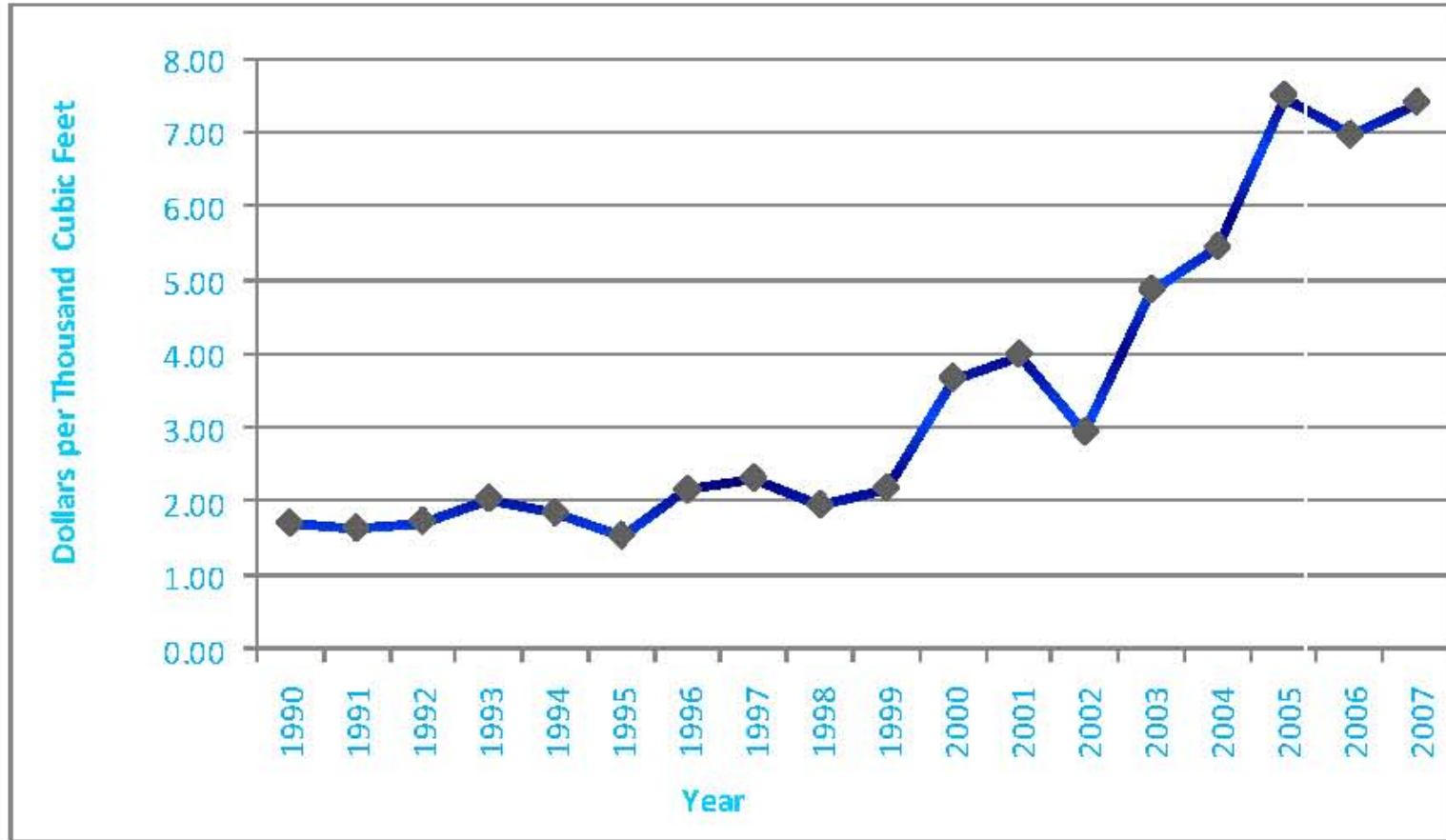
NATURAL GAS USE



SOURCE: Energy Information Administration, October 2008

Natural Gas

Wellhead Natural Gas Prices, 1990-2007



Source: EIA Short-Term Energy Outlook, July 2006

Limited Partner Liability Protection

- Workers' compensation
- Drilling contractor's liability policy
- Operator's liability policy
- Drilling contractor's assets
- Operator's assets
- Thousands of general partners are scattered across the U.S. with limited resources

Limited Partner Liability Protection

- Be aware that this investment carries the risk of losing the principal amount invested.
- This investment is very illiquid, and you may not be able to redeem units.
- Cash used for operations may cause monthly cash distributions to be deferred or decrease permanently.

Limited Partner Liability Protection

- A decrease in the price of the underlying commodity (oil, gas, rents, leases, etc.) may cause a distribution to be deferred or decrease permanently.
- If the partnership is audited, there is a risk that the IRS will reduce or eliminate deductions.

Limited Partner Liability Protection

- You could incur a greater tax liability if the IRS should successfully challenge the allocation provisions contained in the partnership agreement.

Thank You!

Questions?