

The Lam Group

Investment Management

Frequently Asked Questions:

Q: What does The Lam Group do?

A: The Lam Group, Inc. is an independent, fee-only, Registered Investment Advisor (RIA) located in Lake Oswego, OR. We specialize in providing investment advisory and management services for taxable high net worth individuals, foundations, endowments and select institutions.

Our investment services are focused on the design, construction and management of investment portfolios specifically tailored to the return objectives and risk tolerances of our clients. Our investment philosophy is based on explicit *asset allocation planning, investment manager research and selection*, and the *minimization of taxes and transaction costs*.

The actual management of investment accounts is driven by each client's *investment policy statement*, formulated with the client prior to investment implementation. It is this investment policy statement that sets the objectives and risk parameters for the portfolio, as well as defining the types of asset classes and investment vehicles to be used.

Q: Why is being an independent registered investment advisor important?

A: Being an independent advisor means The Lam Group accepts no fees or commissions from any brokers or mutual fund companies.

Our sole source of compensation is paid by our clients. This compensation arrangement ensures we give *objective advice* and make *impartial investment decisions*. A large part of the value we add to the investment process is our ability to measure and understand investment performance and to “strip away” all the marketing expenses, emotion and hype from the investment decision. Extraneous marketing fees imbedded in mutual fund expenses and emotional investment decisions based on media hype can be detrimental to the performance of investment portfolios.

Q: What is The Lam Group's investment philosophy?

A: The cornerstone of The Lam Group's investment philosophy is disciplined asset allocation. A well-defined asset allocation strategy is essential to constructing a diversified portfolio that will optimize investment returns and minimize portfolio risk.

Academic studies¹ have shown that for long-term investors, asset class selection in the context of disciplined asset allocation is the most important determinant of investment portfolio performance. The contributions to investment portfolio performance can be broken down as follows:

Asset class selection	94%
Security selection	4%
Market timing	2%

¹ Brinson, Hood and Beebower, "Determinants of Portfolio Performance," *Financial Analyst Journal*. July/August 1986

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The Lam Group focuses much of its efforts on educating its clients as to the importance of asset class selection in the context of disciplined asset allocation planning and portfolio rebalancing. It is important to remember that the concept of diversification can only decrease portfolio risk and increase portfolio return to the degree the asset classes included in the portfolio have *low* relative correlation return characteristics.

We devote substantial resources to researching investment managers and analyzing fund returns in the context of asset class performance, their relative correlations, and overall suitability. Finally, we diligently look for ways to minimize our client's costs and expenses by using the most efficient asset class investments and focus on minimizing our client's portfolio taxes by taking advantage of tax-loss and gain harvesting opportunities.

Q: *What is your fee structure?*

A: With regard to investment management fees, it is important for investors to know what they are paying for. Our philosophy on fees is: *pay for management, not for marketing.*

At The Lam Group, our clients are paying for our:

Approach: Our asset allocation expertise and knowledge.

Process: Our investment manager research and performance measurement analysis (our ability to peel away the marketing and hype).

Execution: Our access to lower cost, institutional-class mutual fund families such as Dimensional Fund Advisors (DFA), Pacific Investment Management (PIMCO), and others.

The annual investment advisory or management fee The Lam Group charges is dependent on the complexity and size of the portfolio(s) managed. Included in our fee are the development of a portfolio investment policy and an individualized long-term asset allocation plan, and the use (in most asset classes) of tax-efficient, passive investment products to construct an investment portfolio with risk and return characteristics consistent with a client's investment horizon and risk tolerance.

Our standard fee for investment management services is 1% of assets under management (AUM) for portfolios of \$1 million or less. This fee is negotiable downward for larger portfolios. We can aggregate our fees for families with multiple accounts or for family offices.

Q: *How do your fees compare to those of other investment managers, brokers, or financial planners?*

A: It is likely our aggregate fee is equal to, or lower than what many potential clients are already paying every year to their current brokers, investment managers, financial planners or mutual fund companies. At The Lam Group, we believe it is important for investors to be educated on what the investment fees they are being charged are for. Our clients are paying for an investment approach, a research and analytical process, and effective execution in the management of a customized investment portfolio.

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As our approach employs the use of lower-cost, passively-managed asset class strategies, our portfolios are not subject to the higher expenses of actively-managed funds, nor do they suffer from any imbedded marketing fees and/or sales charges that are commonplace in many retail-class mutual funds.

The majority of the mutual funds employed by The Lam Group are passive asset class strategies that have significantly lower annual expenses (by 25bps to 100bps) than other actively-managed mutual funds in the same asset class categories. In the long run, few actively-managed mutual funds outperform the appropriate passively-managed strategy. Also, in most asset class categories, we have access to the institutional-class of certain mutual fund families that can also have lower expenses and better historical performance than retail-class funds.

At a minimum, by using The Lam Group's investment approach, process and execution, all non-investment related marketing fees are minimized or eliminated. This is important because marketing-related fees, expenses and/or sales loads have nothing to do with the actual management or performance of an investment portfolio or mutual fund; these marketing-related fees go directly to salesmen and brokers, and pay for non-investment related fund expenses (such as advertisements and fancy lunches). The fees paid to The Lam Group are for investment management, not for marketing expenses.

A final note regarding our fees: explicitly paid investment management fees can be tax-deductible. Implicitly paid investment fees, such as imbedded mutual fund expenses, are not tax-deductible.

Q: *What is your track record?*

A: All portfolios constructed and managed by The Lam Group are designed for an individual client's specific risk tolerances, income requirements and investment horizon. The Lam Group provides value in the design of a client-specific asset allocation plan, the research and selection of the most efficient and appropriate asset class investments for a client's specific investment policy, and the monitoring and annual rebalancing of the aggregate portfolio to optimize return, manage risk, and minimize taxes.

As different clients have different goals, risk profiles and investment horizons, it is not useful to publish a track record of specifically managed portfolios. For the majority of the asset classes included in our managed portfolios, The Lam Group utilizes the institutional-classes of mutual funds managed by Dimensional Fund Advisors (DFA), and Pacific Investment Management (PIMCO), as well as some of the Vanguard Group's index and tax-managed funds.

The performance of our managed investment portfolios will generally reflect the return of a strategically determined, risk-adjusted combination of a range of specifically chosen asset classes, which are rebalanced and tax-loss harvested annually.

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Q: *How does one become a client of The Lam Group?*

A: Aside from having investable long-term assets, the prerequisite for becoming a client is a belief in, or at least a willingness to understand passive investment management in the context of a disciplined asset allocation strategy.

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The Lam Group, Inc.
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