INVEST IN YOUR LIFE

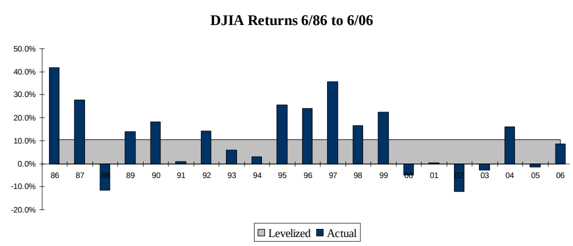
PORTFOLIO HEDGE STRATEGY FOR INDIVIDUALS

CLIENT PROFILE	
Age	Any
Status	Wealthy individuals with assets not needed for lifetime use.
Goals	To provide heirs with a higher return "AND" to protect those investments from market loss.

THE PERFECT INVESTMENT

Attributes of the "perfect investment" include high return and low risk. The reality, of course, is that this kind of investment is next to impossible to find.

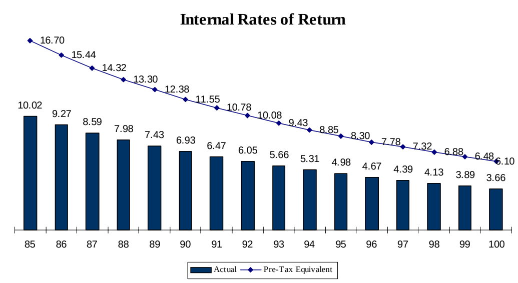
You need look no further than the stock market for proof. Historically, the market produces a modest 10% rate of return over any given 20 year period.[1] Shorter term performance, however, can produce dramatic swings.



HEDGING AGAINST THE RISK

Institutional investors are paid to outperform the market and look for investments with higher earnings potential. Because history has demonstrated that this strategy can produce volatile results, these investors protect ("hedge") against short-term loss by purchasing guaranteed or countercyclical products.

One asset gaining popularity as a hedge strategy is life insurance. The hedge fund purchases polices from individuals who no longer want them. Due to the guaranteed nature of these products, the expected result is enhanced investment performance and less volatility for the entire portfolio.[2]



Hedge funds have successfully acquired large positions in life insurance. The strategy, however, can now be employed at the individual investor level as well.

REPRESENTATIVE BENEFITS

<u>High Internal Rates of Return</u>. Proceeds can produce competitive returns for a small percentage of investable assets.

<u>Reduced Portfolio Volatility</u>. The "guaranteed" nature of the policy reduces overall portfolio volatility.

<u>Survivor Benefits</u>. Proceeds can be used to provide a guaranteed pool of money for the health and support of a surviving spouse and other dependents.

<u>Estate Tax Savings</u>. Properly structured, proceeds are not subject to estate tax. This benefit is not illustrated.

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[1] Returns are before taxes and do not represent a guarantee of future performance.

[2] Returns based on $5,000,000 face amount. Male 66 and female 64, preferred non-smokers. A 40% marginal income tax rate is used to calculate pre-tax equivalents.

Creditor Protection. Cash accumulating within a life insurance contract and its death benefit can be free from the claims of creditors.

PROVING THE THEORY

Assumptions

- Female aged 75, preferred non-smoker
- $5,000,000 of investments
- Investments earn 6% after taxes
- $2 million policy has $70 thousand annual premium
- Life expectancy is age 87

Projected Value to Heirs

end of year *$millions*	**80**	**90**	**100**
Invest Only	7.1	12.7	22.7
Invest & Hedge	9.0	13.1	20.5
Premium as % Investments	1.2%	0.7%	0.4%

Principal Observations

- The "Invest & Hedge" strategy outperforms the "Invest Only" strategy 18 of the first 25 years
- The "Invest & Hedge" strategy outperforms the "Invest Only" strategy 6 years past life expectancy to age 93.
- The "Invest & Hedge" strategy represents a very small percentage of total assets which is less than the projected annual income.

EXIT STRATEGIES

Options in the event life insurance is no longer wanted or needed may include:

Sell the Policy. Owners may be able to sell for an amount in excess of cash value (i.e., profit) on the secondary market.

Surrender. The policyowner can cancel the policy for its cash surrender value.

Premium Finance. Future premium obligations may be financed.

Reduce the Guaranteed Period. The policyowner can reduce the premium by reducing the guaranteed coverage period.

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