

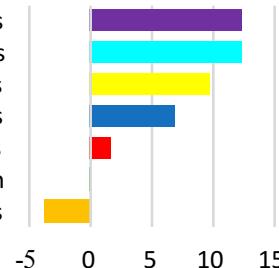
Markets Recap

International Stocks showed strong outperformance, with European (12.4% YTD, 4.1% for April) and EM stocks (12.4% YTD, 1.4% for April) leading the way. Commodities have lagged all other asset classes, dropping 1.5% in April and 3.8% YTD.

YTD Return (%) as of 4/30

Asset Classes

| | |
|----------------|--------------|
| Euro Stocks | [purple bar] |
| EM Stocks | [cyan bar] |
| Pacific Stocks | [yellow bar] |
| US Stocks | [blue bar] |
| US Bonds | [red bar] |
| US Cash | [orange bar] |
| Commodities | [yellow bar] |



Sweet Symphony

Did you know that if your employer sponsors a 401(k) or 403(b) plan, Cape Ann Capital can help find investments from the plan menu that fit best into your overall investment strategy?

Too often, investors think of the various "buckets" of their portfolio separately. When sitting down with prospective clients, we frequently see a hodge-podge of company stock, 401(k)'s (some active through current employers, others orphaned from previous employers), blue chips, and perhaps a few individual bonds as well. It is almost always the case that each portion of the portfolio was created in a vacuum. Inevitably the various nooks in the portfolio step on each other with concentrations in a single asset class, sector or style category.

In a world where 80% of professional

| # Fund | Consolidated Buy List | | | | | |
|--|-----------------------|----------------|---------------|------|-------|------|
| | 401(k) | 457(b) | 403(b) | XRtn | I | Yrs |
| 1 TIAA Traditional | | | 403(b) | 2.44 | 20.81 | 10.0 |
| 2 Fidelity® Low-Priced Stock K | 401(k) | 457(b) | | 3.64 | 6.36 | 27.2 |
| 3 Fidelity® MMT Retirement Govt Mny Mkt II | | 457(b) | | 0.10 | 4.02 | 27.2 |
| 4 PIMCO Total Return Instl | 401(k) | | | 0.91 | 3.92 | 27.2 |
| 5 MFS Value R6 | 401(k) | | | 2.16 | 3.66 | 21.1 |
| 6 Fidelity® Contrafund® K | 401(k) | 457(b) | | 2.32 | 3.33 | 27.2 |
| 7 PIMCO Low Duration Admin | | 457(b) | | 0.66 | 3.03 | 27.2 |
| 8 PIMCO Total Return Admin | | 457(b) | | 0.66 | 2.86 | 27.2 |
| 9 Fidelity® Extended Market Index Premium | 401(k) | 457(b) | | 1.63 | 2.66 | 19.3 |
| 10 Fidelity® Growth Company K | 401(k) | 457(b) | | 2.81 | 2.63 | 27.2 |
| 12 Fidelity® Blue Chip Growth K | | 457(b) | | 1.52 | 2.53 | 27.2 |
| 13 TIAA-CREF Mid-Cap Value Retire | | | 403(b) | 1.66 | 2.53 | 14.3 |
| 14 Fidelity® Small Cap Value | 401(k) | 457(b) | | 2.72 | 2.38 | 12.3 |
| 15 Fidelity® OTC K | | 457(b) | | 2.96 | 2.15 | 27.2 |
| 16 Alger Mid Cap Growth Institutional I | | 457(b) | | 2.78 | 2.09 | 23.3 |
| 18 TIAA-CREF High-Yield R | | | 403(b) | 2.40 | 1.77 | 10.9 |
| 19 Fidelity® Diversified International K | 401(k) | 457(b) | | 0.81 | 1.45 | 25.2 |
| 20 Janus Global Research T | | 457(b) | | 1.18 | 1.44 | 12.0 |
| Selected Funds (Available Funds) | 8 (27) | 13 (42) | 3 (46) | | | |

Figure 1: Consolidated Buy List Funds with T-Stat at least 2.0 for at least 10 years. Bottom 3 funds are slightly less desirable statistically, but bring exposures the optimizer may need to keep tracking error under 2.0

managers fail to outperform their passive alternative in the long run, it is no wonder retirement plan menus mostly offer bad choices. It is not at all clear what criteria are used for creating these menus, but a long track record of adding value is surely not one. In situations where a large slice of a portfolio has limited good choices, it is critically important to coordinate the diversification across the entire portfolio.

We just finished creating a portfolio that spans three employer-sponsored retirement

plans; a 401(k), a 457(b) and a 403(b). The 401(k) has eight good choices and comprises 65% of the portfolio. The 457(b) has thirteen good choices, but is only 8% of the portfolio. The 403(b) has only three good choices and is 26% of the portfolio. This client's long term asset allocation target is: 45% US bonds, 26% US stock, 22% foreign stock and 7% commodities.

Optimizing simultaneously across the three plans makes an intractable problem quite tractable. The optimizer cherry-picks across

| # Symbol | Fund | Optimal Portfolio | | | | | | |
|----------|----------|---------------------------------------|-----------|----------|-----------|-------------|-------------|-----------|
| | | Portfolio Weights | Exposures | US Bonds | US Stock | Int'l Stock | Cmdty | |
| # | Symbol | 401(k) | 457(b) | 403(b) | US Bonds | US Stock | Int'l Stock | Cmdty |
| 1 | TIAA.mng | TIAA Traditional | - | - | 24 | 99 | 1 | - |
| 2 | FLPKX | Fidelity® Low-Priced Stock K | 15 | 3 | - | 9 | 83 | 4 |
| 3 | PTTRX | PIMCO Total Return Instl | 23 | - | - | 91 | - | 9 |
| 4 | MEIKX | MFS Value R6 | 7 | - | - | 2 | 96 | - |
| 5 | FCNKX | Fidelity® Contrafund® K | 3 | 2 | - | 10 | 68 | 21 |
| 6 | TIHRX | TIAA-CREF High-Yield R | - | - | 3 | 53 | 20 | 17 |
| 7 | FDIKX | Fidelity® Diversified International K | 17 | 3 | - | 2 | 11 | 86 |
| | | Portfolio | 65 | 8 | 27 | 49 | 28 | 1 |
| | | Asset Allocation Target | | | | 45 | 26 | 22 |
| | | | | | | | | 7 |

Figure 2: Optimal Portfolio Holds 7 of 20 funds on the Buy List, including 2 of 3 with T-Stats below 2.0.

the three plans while respecting the budget for each plan to arrive at the desired overall asset allocation target. It would be impossible to build three separate portfolios that would meet the primary objectives: (1) targeting the desired asset allocation and (2) doing so by investing only in statistically strong fund managers. However, it is quite easy to build one portfolio that in aggregate comes very close to these desired goals.

Did you know that if your employer sponsors a 401(k) or 403(b) plan, Cape Ann Capital can help find investments from the plan menu that fit best into your overall investment strategy?

We have recently spoken with clients who were unaware that we could also manage their employer-sponsored 401(k) in lockstep with their other taxable and tax-advantaged accounts. This would be done similar to the example in this letter, taking a holistic approach to mix and match the best choices in each bucket to meet your overall risk profile. We think it makes little sense to treat each bucket of investments individually, akin to a jumbled orchestra with no maestro at the helm. For those interested, we are available to discuss how to reap the benefits of this approach and uncover a sweet symphony.

Dave, Jim & Jeremy

Send any feedback to:
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