

Investment Approach



**ROCKBRIDGE INVESTMENT
MANAGEMENT, LLC**

Efficient Market Hypothesis



The Hypothesis States:

- Current prices incorporate all available information and expectations.
- Current prices are the best approximation of intrinsic value.
- Price changes are due to unforeseen events.
- “Mispricings” do occur but not in predictable patterns that can lead to consistent outperformance.

Implications:

- Active management strategies cannot consistently add value through security selection and market timing.
- Passive investment strategies reward investors with capital market returns.



Principles



Markets work

- Capital markets do a good job of fairly pricing all available information and investor expectations about publicly traded securities.

Diversification is key

- Comprehensive, global asset allocation can neutralize the risks specific to individual securities.

Risk and return are related

- The compensation for taking on increased levels of risk is the potential to earn greater returns.

Portfolio structure explains performance

- The asset classes that comprise a portfolio and the risk levels of those asset classes are responsible for most of the variability of portfolio returns.



Our Investment Philosophy



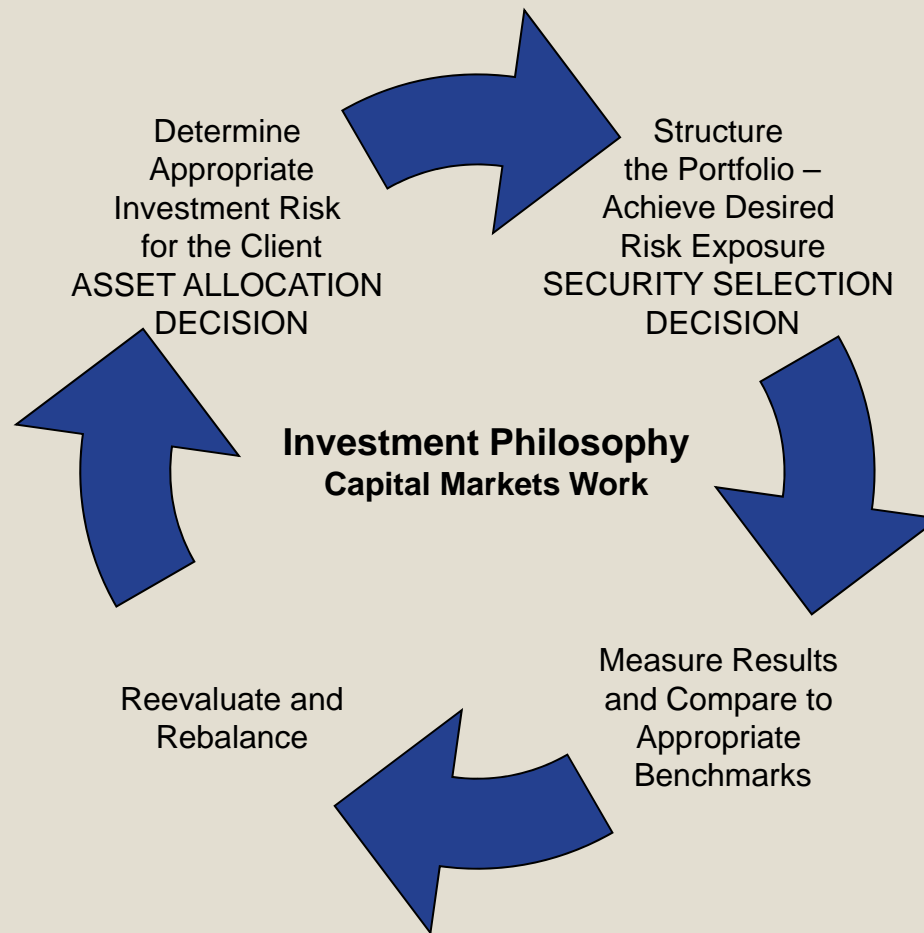
Rockbridge Investment Management- ***“Building wealth with simple disciplines”***

Simple Disciplines:

- Believe markets work
- Understanding Risk
- Rebalance
- Control Costs



Applying the Science of Capital Markets to the Investment Process



What Sets Us Apart



A Trusted Advisor

- We take pride in helping people achieve their long-term investment goals and provide our clients with the ongoing investment support they need.

A Focus on Asset Allocation

- Most of the variation in a portfolio's return is explained by its allocation among several broad asset classes.
- The strategic asset allocation defines risk.

A Conviction that Costs Matter

- By keeping investment costs at an absolute minimum, clients realize substantial benefits in their accounts over time.



Risk and Return Are Related



Equity Market

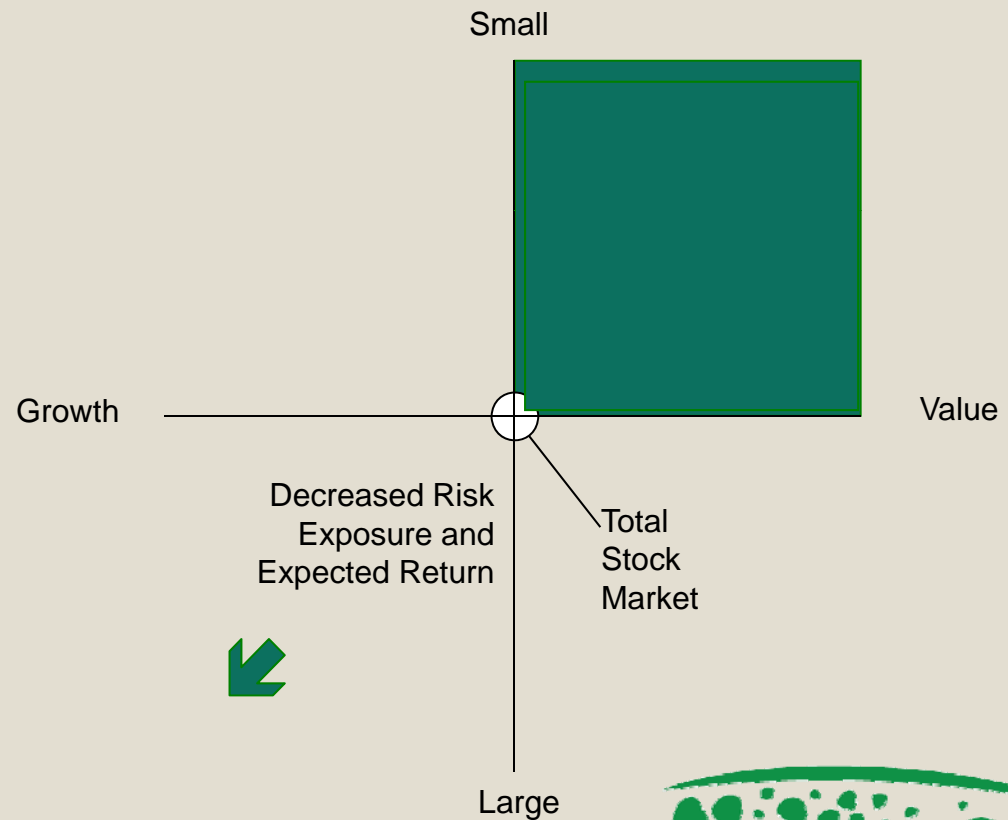
- (complete value-weighted universe of stocks)
- Stocks tend to have higher expected returns than fixed income over time.

Company Size

- (measured by market capitalization)
- Small company stocks tend to have higher expected returns than large company stocks over time.

Company Price

- (measured by ratio of company book value to market equity)
- Lower-priced “value” stocks tend to have higher expected returns than higher-priced “growth” stocks over time.

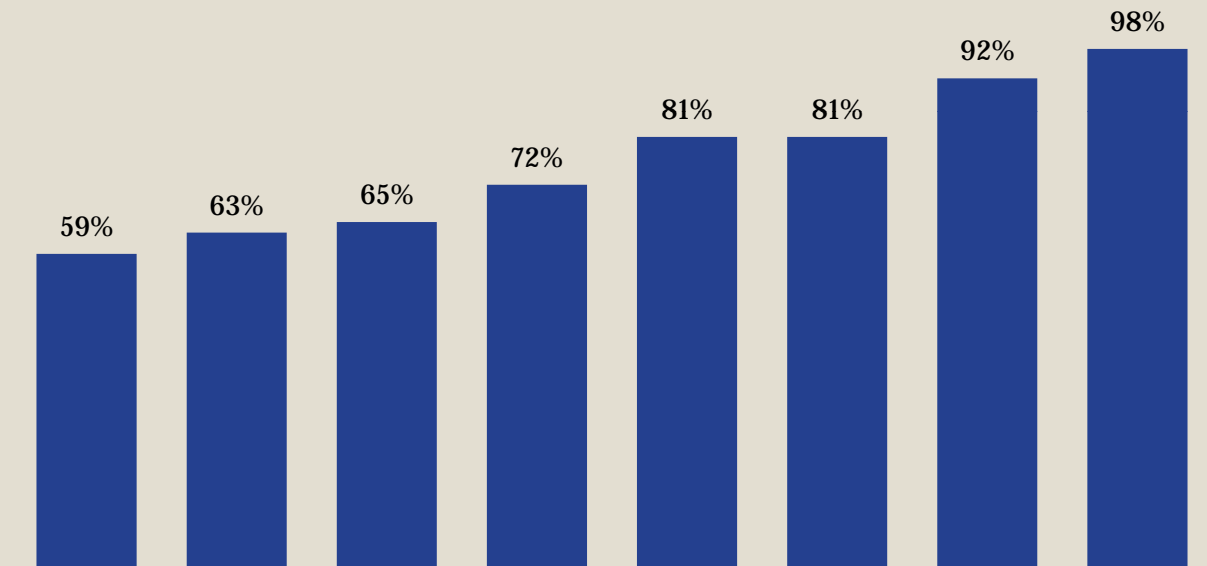


Value Stocks vs. Large Stocks

Monthly: July 1926-December 2008



Rolling Time Periods	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years	30 Years	40 Years
Total Number of Periods	979	955	931	871	811	751	631	511
Number of Periods US Large Value Index Outperformed S&P 500 Index	576	599	601	627	655	609	579	499



Percentage of All Rolling Periods Where US Large Value Index Outperformed S&P 500 Index

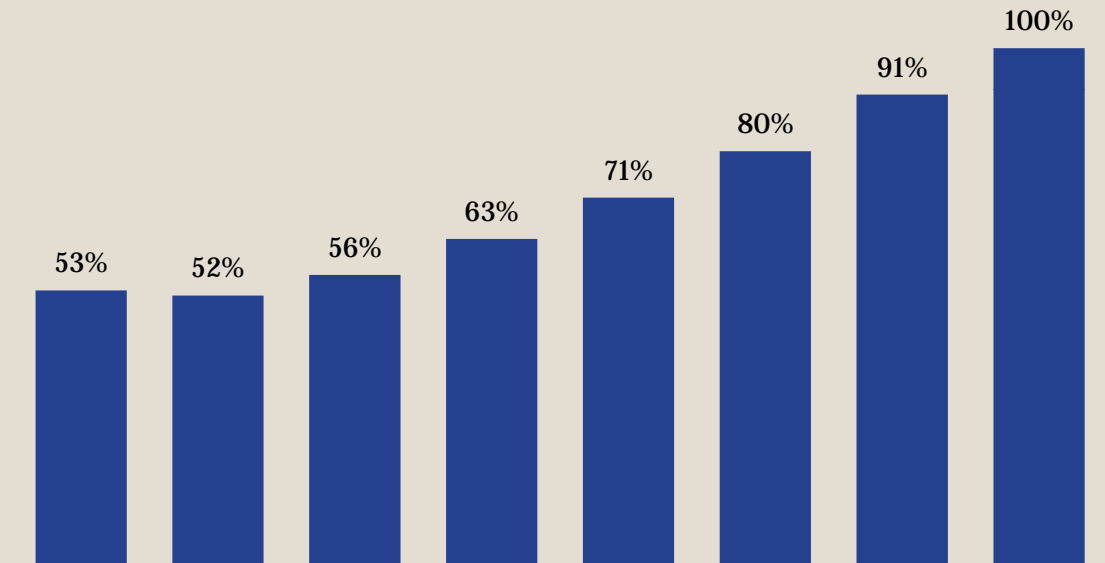


Small Stocks vs. Large Stocks

Monthly: July 1926-December 2008



Rolling Time Periods	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years	30 Years	40 Years
Total Number of Periods	979	955	931	871	811	751	631	511
Number of Periods US Small Cap Index Outperformed S&P 500 Index	520	495	525	546	574	604	575	511



Percentage of All Rolling Periods Where US Small Cap Index Outperformed S&P 500 Index



Optimal Portfolio



Asset Class	Market Benchmark	Current Optimal Weighting
Domestic Large-cap stocks	S&P 500	36%
Domestic Small-cap stocks	Russell 2000	24%
International equities	MSCI EAFE	40%



Domestic Large Cap Market		Domestic Small Cap Market		International Equity Market	
Total large cap	36%	Total small cap	28%	Large cap	23%
High book-to-market	34%	High book-to-market	33%	High book-to-market	26%
REIT market	30%	Micro cap	39%	Small cap	18%
				Emerging markets	33%



How it Works



Rockbridge Model/Alternative	Quarter	One Year	Three Years	Five Years	Ten Years	Expected Return	Risk	Sharpe Ratio
<u>Conservative*</u>	<u>1.0%</u>	<u>11.6%</u>	<u>3.9%</u>	<u>4.9%</u>	<u>5.6%</u>	<u>7.52%</u>	<u>5.1%</u>	<u>0.615</u>
Additional markets**	0.8%	9.6%	4.7%	5.4%	6.9%	8.10%	5.1%	0.729
<u>Moderate*</u>	<u>1.8%</u>	<u>16.5%</u>	<u>1.6%</u>	<u>4.3%</u>	<u>4.6%</u>	<u>8.51%</u>	<u>8.1%</u>	<u>0.516</u>
Additional markets**	1.7%	17.6%	2.6%	5.4%	7.2%	9.65%	8.2%	0.648
<u>Aggressive*</u>	<u>2.5%</u>	<u>20.7%</u>	<u>-0.9%</u>	<u>3.6%</u>	<u>3.5%</u>	<u>8.85%</u>	<u>11.1%</u>	<u>0.405</u>
Additional markets**	2.6%	25.6%	0.1%	5.1%	7.3%	10.54%	11.4%	0.545
<u>All Equity*</u>	<u>3.7%</u>	<u>27.4%</u>	<u>-4.9%</u>	<u>2.2%</u>	<u>1.59%</u>	<u>8.89%</u>	<u>15.4%</u>	<u>0.294</u>
Additional markets**	4.0%	37.3%	-4.2%	4.2%	7.0%	11.87%	16.3%	0.461



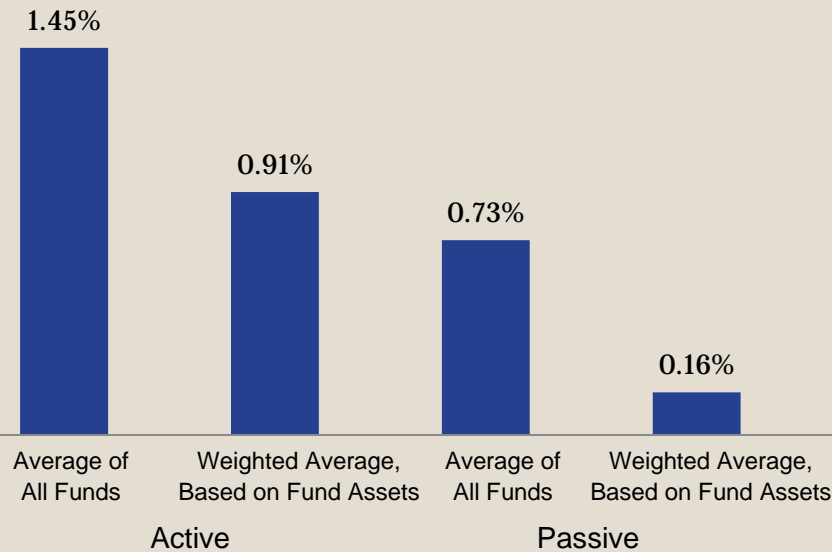
Mutual Fund Expenses



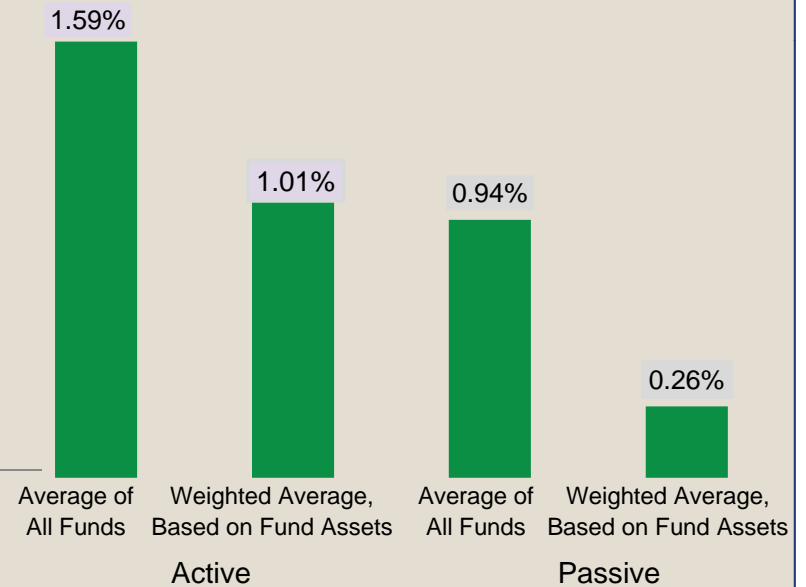
“After costs, the return on the average actively managed dollar will be less than the return on the average passively managed dollar for any time period.”

—William F. Sharpe, 1990 Nobel Laureate

Domestic Mutual Fund Expense Ratios



International Mutual Fund Expense Ratios

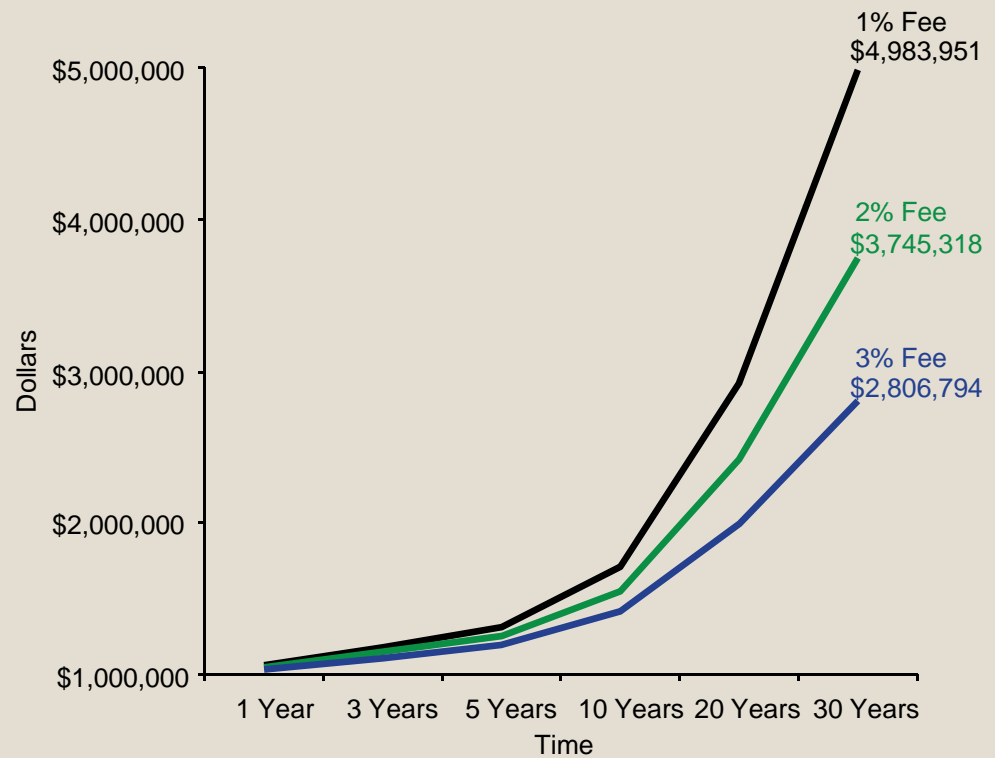


Fees Matter



Assumed 6.5% Annualized Return over 30 Years

- Fees matter.
- Over long time periods, high management fees and related expenses can be a significant drag on wealth creation.
- Passive investments generally maintain lower fees than the average actively managed investment by minimizing trading costs and eliminating the costs of researching stocks.



Why Hire a Financial Manager?



1. **The importance of the fiduciary relationship**

- We work for you – in your best interest as
- Acting as your agent

2. **The importance of discipline**

- Most individual investor act on both knowledge and emotion, tempting them to invest in sub-optimal ways.
- Serving as your agent, we employ only knowledge and scientific principle – purely rational decision making.
- We use time tested, scientifically based, well defined process to achieve superior results.

3. **The importance of costs**

- Because our services are fee based, we never take commissions
- Commissions significantly degrade your portfolio over time

