

THE RETIREMENT INCOME COMPASS

BECAUSE THERE ARE BIG RISKS ON THE ROAD AHEAD

Investing Challenge/Compass Advantage

The Strategy Used in Madden-Managed Portfolios Can Make a Big Difference in Returns

A snapshot of the three fund management strategies

Active Fund Management

- Assumes markets don't work.
- Attempts to beat the market through security selection and market timing.
- Generates higher turnover, transaction costs, and taxes due to speculative trading.

Index Fund Management

- Assumes markets work with no liquidity cost.
- Allows commercial benchmarks to dictate strategy.
- Accepts high transaction costs and turnover to achieve tracking.

Dimensional Fund Management

- Assumes markets work.
- Captures specific dimensions of risk identified by financial science.
- Minimizes transaction cost and enhances returns through fund design and patient trading.

Getting the Facts on Fund Mgmt. Strategies —a **FREE** Offer

It's impossible to catalog the extensive research supporting the superiority of Dimensional's fund management strategy in a few paragraphs of a newsletter.

The knowledge gap can be closed with a simple read of *The Investment Answer* by Dan Goldie and Gordon Murray.

We'll be glad to send you a copy. Just ask by phone or email.

The box above summarizes key features of the three strategies used in managing mutual funds. We elaborate on the features:

Active Fund Management

- Active managers spend time and resources attempting to identify mispriced securities in the market, even though historical studies show the difficulty in exploiting these perceived 'mispricings.'
- An active manager's stock picking and market timing efforts will result in frequent trading and higher turnover, which can undermine asset class exposure and generate higher portfolio costs and fees.

Of course, it is easy to find a top performer after the fact. They are then held out as 'geniuses' by the media. Mutual fund companies are quick to advertise their best performing 'hot funds' despite the countless studies that show there is little evidence to suggest past performance is indicative of future performance.

Two passive management strategies can be expected to outperform the active strategy.

Index Fund Management

- Indexing will provide more consistent asset class exposure at a lower cost.
- But emphasis on reduced tracking error forces the manager to buy and sell when the published benchmark, the index, is reconstituted, resulting in higher transaction costs and reduced returns.

Dimensional Fund Management

This is the strategy used for equity funds in the Madden-managed portfolios.

- A strategy based on scientific evidence rather than on speculation or indexes.
- Small cap funds target small stocks and achieve the 'size premium' more consistently.
- Value funds target value stocks and achieve the 'value premium' more consistently.

As a result, investors can expect better returns.

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What to know...
and how to go

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