

# *the* Research Report

1ST QUARTER 2008



## EVALUATING YOUR INVESTMENT PROGRAM

By Scott Middleton, CFA®, CIMA®, Senior Consultant

Even though your New Year's resolutions may seem like distant memory, here is a friendly reminder to give your investment program an annual check-up. Because neglect can have a devastating effect on your net worth, your investment program should be evaluated at least annually. Whether you are an institutional investor or a taxable investor, the following recommendations apply.

- Review your portfolio's design. Effective diversification does not necessarily gathering numerous investment products, but owning asset classes that do not move in tandem with one another to lower risk and/or enhance returns in your portfolio. Essential to portfolio design is having a clear rationale for your allocation of stocks versus bonds, domestic investments versus foreign, small stocks versus large stocks, and growth stocks versus value.
- Review your investment expectations. A long-term rate-of-return expectation for your overall portfolio is a prerequisite to designing or reviewing your investment plan. Some investors may have an expectation to outperform "the market." While there may be satisfaction in exceeding benchmark returns on the upside, many investors wouldn't be satisfied with losing 20% when stocks fall 25%. We believe that a long-term return expectation should be a firm figure expressed in percentage terms (i.e., 8%) or a figure relative to inflation (i.e., CPI plus 5%).

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Performance Powered by People



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- Review your risk assumptions. Overall portfolio risk should be quantified just like return expectations. One question to ask is “What is the maximum draw-down, or negative return from the portfolio’s peak, that can be tolerated, and for how long?” Bear markets are less painful for those investors who have a diversified portfolio designed around reasonable downside risk expectations.
- Formulate reasonable market expectations. Capital markets’ expectations, used in modeling rate-of-return and risk expectations, must be realistic. Relying too much on a rearview approach is often a big mistake in formulating expectations. For example, from 2001 to 2007 the appreciation of non-U.S. currencies versus the dollar generated more than half of the total return of the EAFE index (the stock markets of the developed economies outside North America). We believe that it would be imprudent to expect an ongoing decline in the dollar to provide the same boost to international equities over the next five to seven years.
- Rebalance your investments. Rebalancing your portfolio’s allocations at least annually is an excellent way to implement the goal of selling high and buying low. For example, many investors today may be overallocated to emerging markets equities as strong economic growth and lofty expectations have taken those allocations higher. Alternatively, the relative underperformance of large cap growth stocks over the past seven years may have led to their underallocation in your portfolio. Rebalancing would take some profits out of the areas that have performed well, and add to those areas that may be poised for outperformance. Important factors to keep in mind are to view all of your investment accounts as if one portfolio and to minimize transaction costs. Ideally, individual investors should take care to minimize short-term taxable gains in favor of long-term realized gains.

Additional benefits of rebalancing include helping investors not to place too much reliance on their own financial market predictions and avoiding becoming complacent in good markets. A disciplined rebalancing program can be immensely helpful tactic to combat the enemies of fear and greed.

- Review your advisor. A quality advisor should be able to guide you through the review process to meet your goals. There is no substitute for an advisor’s experience in the markets and in helping clients similar to you. But beware: commissions and hidden revenue streams that flow into advisors’ pockets taint objectivity. You should clearly understand how your advisor is compensated and have full confidence that your interests are always placed first.

*Here’s to a healthy investment program for 2008!* •

## THANKS FOR AN EXCEPTIONAL YEAR

Calendar 2007 marked our 11th year in business and the 11th consecutive year of revenue growth for Innovest. We deeply appreciate the loyalty of our clients and know that they are the reason for our success. Consistent growth is important to us. Our success will keep us at the forefront of technology and research and will allow us to continue to bring great quality professionals to Innovest.

We had a successful year in business development. New clients in 2007, included a number of defined contribution plans, foundations, and families, as well as a Taft Hartley health-and-welfare plan. Insight Employee Benefit Communication, a division of Innovest, had significant growth working with both new and existing Innovest/Insight clients.

**People and Partners** We added four professionals in 2007.

**Scott Middleton**, a Chartered Financial Analyst (CFA) with over 20 years of investment experience, joined us from Northern Trust. Scott is a consultant, and a member of Innovest's Research Committee and the Leadership Team.

**Pam Cruz** is the Accounting Manager at Innovest. Pam's prior accounting experience was with the accounting firms of Beethe & Associates and Snyder & Snyder.

**Julie Kennedy** joined Innovest as an Operations Analyst. She has over 20 years of experience in accounting, taxes and customer service, primarily with Manville Corporation.

**Garry Beaulieu** joined us as a Principal from Northern Trust Company. Garry is responsible for marketing the wealth management business at Innovest. He has over 20 years of experience and is a member of Innovest's Leadership Team.

Our existing team has seen significant developments as well. Principal **Laura Hamilton** was promoted to Director of Operations. **Donna Patch** was promoted to Consultant and was named a Principal. **Peter Mustian** was promoted to Senior Analyst. **Steve Karsh** was promoted to Director of Research. **Colin Servis** was promoted to Marketing and Technology Specialist. **Margarita Hughes** passed the Certified Retirement Counselor (CRC) examination and was promoted to Education Counselor at Insight. **Karla Maris** was promoted to Office Manager. **Wendy Dominguez** has increased her Innovest ownership stake and has become the second largest shareholder at our firm.

**Citywide Banks** acquired a 20% stake in Innovest, and we are excited about the partnership. Innovest is the engine behind Citywide's Wealth Management division.

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## AROUND THE FIRM 1ST QUARTER 2008

### WELCOME

As Innovest continues to grow, we have committed to our clients that we will add talented, dedicated people to our team to maintain the highest level of customer service to which they've become accustomed. We would like to introduce you to our newest editions:

*Gordon Tewell, CFA, CPC* – Gordon is a Senior Research Analyst and is a member of Innovest's research committee. He is responsible for both the quantitative analysis of investment products and the qualitative due diligence reviews of the asset management firms behind those products. Prior to joining Innovest, Gordon was a governmental plan sponsor, managing the retirement plans for the City of Westminster in Colorado. Before becoming a plan sponsor he was an Assistance Vice President with the Retirement Group at Merrill Lynch. His time at Merrill Lynch included investment, implementation and relationship work with Merrill's defined contribution plan clients.

*Eric Overby* – As a Research Assistant, Eric's responsibilities include the design and production of client performance reports, manager analysis reports, asset allocation reports and other client reporting needs. He also provides assistance to the Innovest Research Committee. Eric graduated from Washburn University where he earned a BBA in Finance and Accounting. While in school, Eric was enlisted in the United States Marine Corps Reserve and served in Operation Iraqi Freedom. He

specialized in Nuclear, Biological, and Chemical Defense, as well as earned promotions to his role as the Non-Commissioned Officer in Charge/Platoon Sergeant. Prior to joining Innovest, he worked for CoreFirst Bank & Trust where his responsibilities included consumer lending, credit analysis, credit protection sales, depository product sales, and Certificate of Deposit product comparison. Eric is currently in the process of obtaining his Chartered Financial Analyst designation.

*Carla Sanns* – Carla is an Operations Assistant at Innovest. She is responsible for producing client performance reports, performing asset allocation studies, cash flow analysis and financial plans. Carla also calculates after-tax performance as well as portfolio accounting. Carla works with Innovest consultants, clients, and their outside advisors on understanding complex tax and estate plans. Carla is a graduate of Virginia Wesleyan College with a BA in Liberal Arts Management with an emphasis in Accounting, and the University of Denver with a Masters of Taxation degree. Prior to joining Innovest, Carla was a Consultant and Team Manager at The 1031 Exchange Experts, consulting to clients on the IRS regulations and rules of a 1031 Exchange.

### EVENTS

On February 7th Innovest sponsored another Fiduciary Education Breakfast. Innovest's InSight Employee Benefits Division, **Genworth Financial**, and **Hueler Companies** teamed to present: "How Can Fiduciaries

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**Research** We are excited about the changes that we've made on client report cards. Although much of our investment product analysis is qualitative, the old report cards in client performance reports were primarily quantitative. While performance is carefully analyzed and reflected in our analysis, our new approach also shares our thoughts about the qualitative aspects of each organization, including their people, process, philosophy, and fees.

We have also re-focused on career paths for our research professionals. It's important that we keep our high quality people and they understand the benefits of our growth.

**Innovest evaluations** Constant client feedback is an important element of our firm's growth in excellence. While we will always have room for improvement, we are proud of the 4.6 score on a 5.0 scale that our clients gave us last year in our annual client survey. The highest rank (4.8) was the experience and advice of our consultants. This highest rank has been constant year after year. After we were nominated as one of the best places to work in Denver, the Denver Business Journal surveyed Innovest employees about working at our firm. The survey's cumulative score was 5.44 on a 6.0 scale. While we are satisfied with our score, we were able to identify areas that we can improve to make Innovest an even better place to work.

Wendy Dominguez was nominated as one of the "Outstanding Women in Business" by the Denver Business Journal. Rich Todd was ranked by Barron's magazine as one of the top 100 independent advisors in the country. He was also chosen by the Denver Business Journal as one of the top 10 advisors in Denver.

Innovest was recognized by Plan Sponsor magazine as one of the country's top 10 defined contribution consultants, a core element of our business.

**Writing and Public Speaking** We developed a blog as part of our website – [www.innovestinc.com](http://www.innovestinc.com). Throughout each month, we post our own perspectives as well as others' articles and comments that we think are pertinent. Investing and fiduciary issues dominate the entries by our professionals thus far.

Rich Todd continues to write his monthly Denver Business Journal column. In addition, our professionals wrote or were interviewed in 12 different publications during the year. Innovest professionals spoke at seven conferences and events in 2007.

"Getting Better" is our theme for 2008. We had a retreat for the entire firm in December. The focus was developing our business plan for 2008 and beyond, as well as discussing the importance of the Innovest Bedrock Principles. In addition, each Innovest team member has developed goals for personal improvement.

Thanks to our clients and friends for another successful year at Innovest!  
We look forward to a great 2008. •

## AROUND THE FIRM 1ST QUARTER 2008 (CONTINUED)

Help DC Plan Participants with the Distribution Phase?" Rick Rodgers discussed considerations pertaining to educating plan participants about retirement income options.

The Western Pension Benefits Conference Specialty Session, "Qualified Default Investment Alternative: Not Just Another Fun Acronym For Retirement Plans" was presented by Rick Rodgers on February 28th.

The 8th annual Rocky Mountain Endowment and Foundation Conference was held at Cherry Hills Country Club on March 13th. Susan Gary, reporter for the Uniform Prudent Management of Institutional Fund Act was the keynote speaker. Scott Middleton presented "Milestones and Trends in Asset Allocation." This annual conference developed and orchestrated by Innovest is presented by the **University of Northern Colorado Foundation**. More information and copies of presentations can be requested by emailing colins@innovestinc.com.

### RECOGNITION

Innovest was selected by **Plan Sponsor Magazine** as one of the 8 The Most Successful Retirement Plan Advisers (Advisor Teams \$2.5 B - \$5 B) in their December 2007 publication.

"We want to recognize advisers who make a difference through increasing participation, boosting deferral rates, enhancing asset allocation, and/or providing better programs through expanded service or

expense management." **Plan Sponsor Magazine**

In late December, Rich Todd was selected by the *Denver Business Journal* as a top 10 Wealth Advisor in Denver.

### ARTICLES AND INTERVIEWS

Brad Brewer was interviewed by *Plan Sponsor Magazine* regarding qualified default investment alternatives (QDIA), particularly the use of managed accounts as the QDIA. Brad noted that while managed accounts made the cut when the U.S. Department of Labor issued final regulations in October of 2007, our plan sponsor clients have expressed little interest in using managed accounts as the default. Most Innovest clients use a target date or risk based lifecycle product.

Wendy Dominguez and Rich Todd co-authored the article, *Best Practices for 403(b) Plans* which was published in *Benefits and Compensation Digest* in January.

Scott Middleton's Article, *Charitable-giving Strategies* was published by *The Monitor (IMCA)* at the end of 2007.

The *Denver Business Journal* ran Rich Todd's monthly column (the first Thursday of the month) with, *Basic Investment Principles Can Help Build Portfolio, Street Yields to "When Ducks Quack, You Feed Them"*, and *RAND Report Shows Confusion about Advisers, Brokers*. Articles can be found on our website, [www.innovestinc.com](http://www.innovestinc.com).

## NEW CLIENTS JOIN INNOVEST

Both **Denver Housing** and **Denver Health** re-hired Innovest as their Investment Consulting Services consultant. We were also hired this quarter to provide ongoing investment and retirement consulting services to the **City of Mesa, AZ, Summit County, City of Littleton, and Republic Steel** in Akron, OH. In addition, we will be providing retirement plan project services to the **City of Arvada, the City of Lakewood, and Yampa Valley Medical Center.**

## WHY INNOVEST?

By Garry Beaulieu

As the newest member of the Innovest team I would like to introduce myself, tell you a bit about my new role here and why I chose to join Innovest. I have been

working with high net worth individuals and families for twenty years in many different capacities. My background includes positions at large retail banks, trust banks and private banks in Boston and in Colorado since 1993.

As I think back about the reasons why I joined Innovest and the qualities that differentiate us from the competition, three immediately come to mind. We are independent, we are truly a trusted advisor to our clients and we are research not product focused. When I talk about being independent I mean that we are employee owned which means we really do have a stake in the success of this company. It means Innovest has no conflicts with money managers and that 100% of our revenues come from consulting fees. We have no proprietary products to sell, only customized investment solutions, always sitting on the same side of the table as you.

As a trusted advisor you can be assured we will take a partnership approach with your other advisors. Our exclusive focus will be asset and wealth management providing unbiased expertise to you and your advisors. We will provide unparalleled client service including dedicated consultants and a 20:1 client to consultant ratio which is far below the average for our competition. We are investment bankers or brokers, not bankers or insurance agents, and not stock pickers. You can rest assured that we will never be in conflict with your best interests or those of your advisors.

Lastly, Innovest is very research focused. We provide truly customized portfolio design and construction. We have robust, independent in house research, state of the art analytical tools and institutional best practices. In addition, we have deep relationships with over twenty well respected economic and investment research organizations which provide outstanding research to our internal specialists. Our manager selection process and philosophy is time tested and proven and our performance reporting and benchmarking capabilities are outstanding. You will always know where your portfolio stands, how your managers have performed and the progress in meeting your goals.

I hope this gives you a picture of why I believe our approach to investment management and consulting is superior in the industry; most certainly always in the best interest of our clients. If you would like more information about Innovest please do not hesitate to call. I would look forward to meeting you personally. •

# MAKING A DIFFERENCE



Energy Outreach Colorado

Established in 1989, Energy Outreach is Colorado's only independent, not-for-profit organization that raises funds for energy assistance. As energy costs continue to rise, it is increasingly difficult for Colorado's most vulnerable residents to afford their home energy expenses. Families with children, senior citizens and individuals with special needs must allocate more of their limited resources to pay their energy bills. Sometimes they do without necessities like medical care and food in order to keep the lights on.

Energy Outreach Colorado is dedicated to keeping Colorado homes warm, healthy and safe by raising money for energy assistance. They assist people in emergency situations by helping pay the balances on their utility bills and also help limited income families to be more self-sufficient by funding energy efficiency measures that lower energy costs in affordable housing across Colorado. Thanks to the generous support of thousands of donors, Energy Outreach Colorado is providing \$9.5 million in 2007-08 for its energy assistance programs through more than 100 partner agencies. Innovest is proud to have Energy Outreach Colorado as a client. To learn more go to [www.EnergyOutreach.org](http://www.EnergyOutreach.org).

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## INNOVEST BLOG

**Please visit our blog through our website: [www.innovestinc.com](http://www.innovestinc.com)**

This is designed for our clients and friends to read our thoughts on a variety of investment and fiduciary issues. We have links to websites, research, and other blogs that can be helpful navigating the world of investments and stewardship. Keep us informed of your thoughts.



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