Motley Fool™ Wealth Management

FROM THE DESK OF TOM GARDNER, PRESIDENT AND CEO, THE MOTLEY FOOL HOLDINGS, INC.

In the 23 years since my brother David and I first launched The Motley Fool, an awful lot of things have changed — and in some truly incredible ways…

Perhaps the most noticeable for us is that accessing investment research on the Internet has gone from an excruciatingly loud and slow process (*remember 14.4k modems?*) reserved for a privileged few…

To something that anyone anywhere in the world can accomplish in mere seconds by simply pulling their *phone* out of their pocket.

Of course, there have been more than a few changes around the Fool itself, as well. Like the fact that we've gone from publishing an investment newsletter for 300 or so subscribers out of the shed behind David's house…

To serving millions of hard-working investors like you around the globe from offices in countries as far flung as Australia, Germany, Singapore, and The United Kingdom.

But there is one thing that *hasn't* changed over the years and never will…

Namely, that the mission at The Motley Fool is — and always will be — to do everything in our power to help you reach your personal financial goals as quickly and efficiently as possible *on your own terms* (and, of course, have a little fun along the way!)

For many of our Fools, this simply means providing them with the kind of well-researched stock picks that our publishing company, The Motley Fool, LLC, does month after month in services like *Motley Fool Stock Advisor*, *Rule Breakers*, and *Hidden Gems*.

For others, it means providing a good deal more information beyond stock selection when it comes to combining our hundreds of diverse investment recommendations into a diversified portfolio like we do in *Motley Fool Million Dollar Portfolio* and *Supernova*.

And for still others, it even means providing specific examples of how to potentially maximize upside, while simultaneously limiting downside risk, by using more complex options and hedging strategies like we do in *Motley Fool Options* and *PRO*.

Yet, as we're discovering, for more and more of our members it actually means helping them to find ways to spend *less* time focusing on their investments — so they can spend *more* time focusing on their businesses, their careers, their families, and everything else that really matters to them.

In fact, this drastic shift in the makeup of our members is one of the single biggest changes — and *challenges* — we have faced over the past few years.

But it's one we're meeting head on with a determined smile day after day. Which is why I'm incredibly proud to provide the following information from The Motley Fool, LLC's sister company, Motley Fool Wealth Management, LLC…

And why I'm so excited for you to learn more about how the Separately Managed Accounts they are offering can help you take advantage of the Foolish investment philosophies you know and trust — *without* having to deal with all of the hard work and tedious tasks that typically go along with building and managing your own portfolio.

For well over two decades now, The Motley Fool has been leveraging technology to help individual investors like you in unique and valuable ways that many of our competitors simply can't.

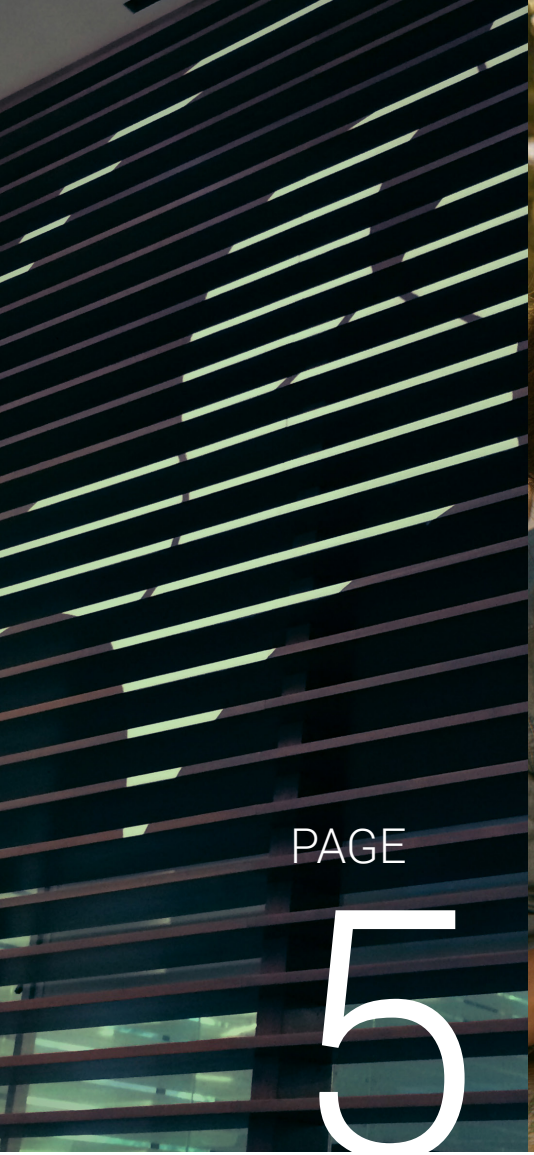
In keeping with this tradition, Motley Fool Wealth Management is now seeking to use technology to service investors in ways that traditional money managers and Wall Street firms simply can't…

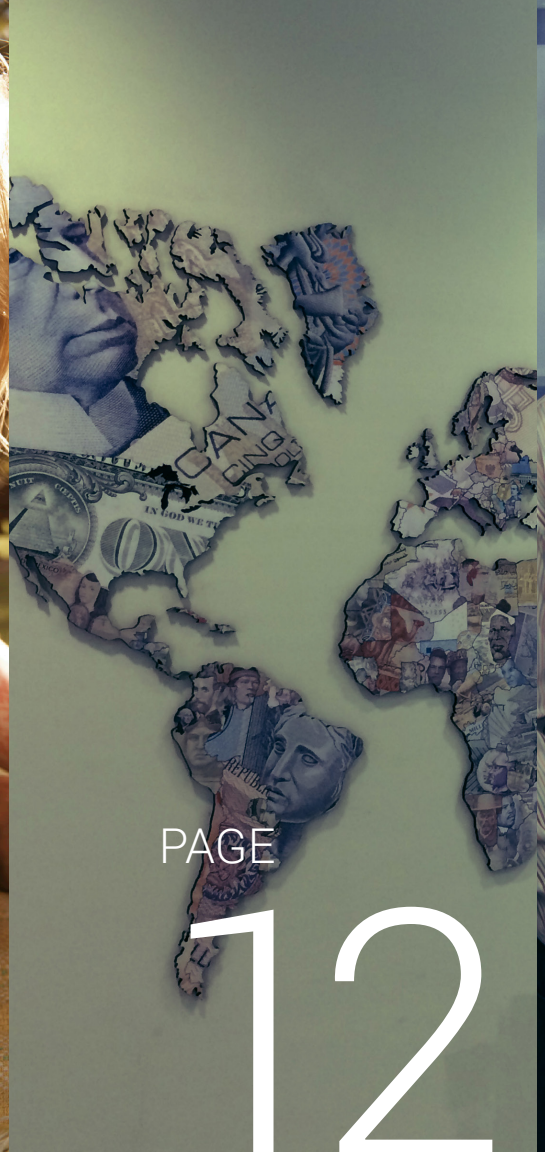
And I couldn't be more thrilled to show you what their financial solutions look like.

Sincerely,

Tom Gardner
President and CEO
Motley Fool Holdings, Inc.

Tom Gardner, President and CEO,
Motley Fool Holdings





FOOLISH SEPARATELY MANAGED ACCOUNTS: AN INTRODUCTION

Separately Managed Accounts (or SMAs, for short) have been around since the 1970s, and are currently offered by everyone from T. Rowe Price and Janus Capital Group to Wells Fargo and J.P. Morgan.

In the words of Motley Fool Wealth Management President Nick Crow, a Separately Managed Account is…

> *"Simply your brokerage account that we manage for you on a discretionary basis. That's all it is — it's just your account, and you still own the stocks. They're 'separately managed' because each one allows us to personalize within your account for you based on your own situation."*

Put another way, an SMA is just a regular brokerage account that you own, but that someone else (in this case, our team here at Motley Fool Wealth Management) manages on your behalf.

Meaning you don't have to worry about all the "heavy lifting" that goes along with running a portfolio — such as the buying, selling, and rebalancing, not to mention the timing *and* decision-making that go into each of those.

If that sounds a bit like a mutual fund, that's because it is. Albeit with a few *crucial* differences.

For example, unlike with a mutual fund, you'll have the option of logging into your Separately Managed Account anytime — day or night — from the comfort of your home or office to see exactly which securities you own, what trades the Motley Fool Wealth Management team has made lately on your behalf, and of course, how your portfolio is performing overall.

What's more, if there are any securities you can't buy or sell for either personal or professional reasons, you can quickly and easily instruct the Motley Fool Wealth Management team not to trade them on your behalf and they never will.

(For instance, if you work for Coca-Cola and aren't allowed to own stock in Pepsi, or if you're morally opposed to particular oil companies, you can easily block those tickers.)

Additionally, while mutual funds can be forced to sell securities in order to raise cash for client withdrawals, which incurs capital gains taxes that are distributed across every investor, SMAs are truly *separately managed*… meaning you only pay capital gains taxes on activity that occurs within your account.

But where Foolish SMAs really shine is in *customization* and *personalization*.

You see, whereas mutual funds (or index funds) give you the opportunity to invest into a predetermined basket of securities, SMAs actually allow you to build a portfolio specifically tailored to your unique investment goals, financial needs, risk tolerance, and situation in life.

And with our Foolish Separately Managed Accounts, we can actually custom-build you a portfolio allocated across a precise blend of seven investment strategies, many of which have been inspired by the investment philosophies that laid the groundwork for The Motley Fool, LLC's services you already know and trust — including *PRO*, *Supernova*, and *Million Dollar Portfolio*.

Other strategies include International, US Small and Mid-Cap, Fixed Income, and Everlasting — which is inspired by a similar investment philosophy to what you'll find in the Everlasting Portfolio that Tom Gardner runs inside of his premier, all-access *ONE* service.

Full details on all seven of the strategies we can put to work for you within your Foolish SMA — including their objectives, goals, and philosophies — can be found below.

But first, please have a quick look at the following table for a more comprehensive rundown of exactly how Motley Fool Wealth Management stacks up against more traditional financial advisors… "robo-advisors"… and mutual funds across a wide variety of crucial categories like fees… taxes… service… and actual *human* contact.

	Motley Fool Wealth Management SMAs	RoboAdvisors	Financial Advisors	Mutual Funds
Personalized Allocation Advice	Motley Fool Wealth Management will ask you a series of questions to judge your wealth-building goals, investment interests, and unique situation in life to build a diverse, risk-adjusted portfolio comprised of our proprietary model strategies — personalized for *you*.	Yes	Yes	Mutual funds allow you to put your money in a pre-determined basket of investments, with no individual personalization options.
Individual Stock Ownership	One of the great features of Foolish separately managed accounts is that unlike a mutual fund, you still personally own each and every one of the individual securities held. The security and its allocation within your portfolio show up in your Interactive Brokers account. Certain strategies within MFWM's SMAs utilize ETFs (such as the International strategy), with the Fixed Income strategy utilizing ETFs almost exclusively.	Robo-advisors primarily place their clients' money in ETFs, meaning they don't actually own the individual securities. It is, however, possible for robo-advisors to buy individual securities.	Financial advisors primarily place their clients' money in mutual funds and ETFs, although some do include individual securities.	Mutual fund investor money is pooled and then distributed across a portfolio of investments. As such, you do not actually own the underlying companies, but rather shares of the fund(s).
Voting Your Own Proxies	Foolish SMAs allow you to hold securities directly held in your brokerage account. As such, you are still a part owner of the companies and can cast your vote about the direction of their businesses. Certain strategies within MFWM's SMAs utilize ETFs, which may hold companies whose proxies you cannot vote.	Because most robo-advisor investments are ETF-based and generally do not hold individual securities, you are not able to represent yourself as a shareholder for your investments.	Yes	Because mutual fund shareholders own shares of the fund, they may vote proxies regarding the fund. However, the proxies for the underlying securities are voted by the fund management team, as shares are owned by the funds, not the individual shareholders.
No Embedded Capital Gains	With Foolish SMAs, you directly own all of the securities you're invested in. As such, you are never responsible for capital gains incurred by other investors cashing out of a fund.	Yes	Yes	Capital gains taxes are usually distributed to all of the shareholders of a fund without regards for who actually turned a profit on a particular investment and how much that profit was. These are called "embedded tax gains," and mutual funds are not required to disclose them.
Ability to Block Specific Securities	Say you aren't allowed to invest in Coca-Cola because you work at Pepsi. Foolish Separately Managed Accounts provide an option to restrict those tickers.	Robo-advisors primarily invest your money into ETF baskets, so you cannot generally choose to restrict your assets from particular companies or industries.	Yes	All shareholder money is pooled and then put into various investment vehicles, so investors cannot restrict particular securities that they are uncomfortable with or ethically oppose.
Real People Working Directly on Your Portfolio	What really makes Foolish Separately Managed Accounts stand out is that real people are making portfolio allocation decisions tailored to your individual investment goals and financial needs.	Robo-advisors allocate your money based on computer algorithms. Generally, there is no human interaction with your account after the algorithm is initially constructed.	Yes	While mutual funds do have portfolio managers making investment decisions, they are not making these decisions according to your particular goals or objectives, but rather the goals of the fund.

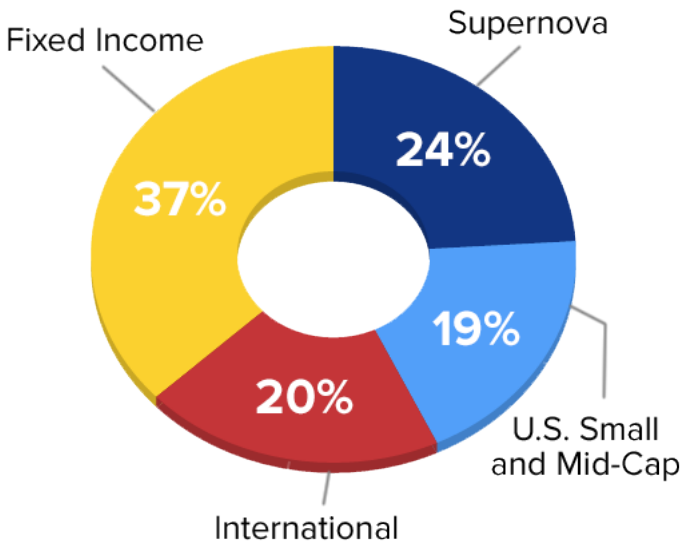
A SNEAK PEEK AT WHAT YOUR FOOLISH SMA COULD POTENTIALLY LOOK LIKE

After becoming a client of Motley Fool Wealth Management and answering a handful of brief questions so that we can get to know you and your financial situation better, you'll be presented with a proposed portfolio allocation that has been custom-designed with your specific financial needs, retirement goals, and risk tolerance in mind.

This allocation will represent a precise blend of the seven Foolish SMA strategies that we can put to work for you. And, as you'll see from the three hypothetical portfolios we've put together below, will vary greatly depending on your specific financial situation.

Meet Olivia

Now 65 and already in retirement with more than a half million dollar portfolio, Olivia was calm, cool, and collected throughout the 2008 financial crisis and loves investing in high growth stocks. That said, without the previous large and consistent stream of revenue from her successful career as an environmental attorney, she fully understands the need to effectively manage her risk and not take too many chances with her portfolio in order to leave a lasting legacy for her three grandchildren.

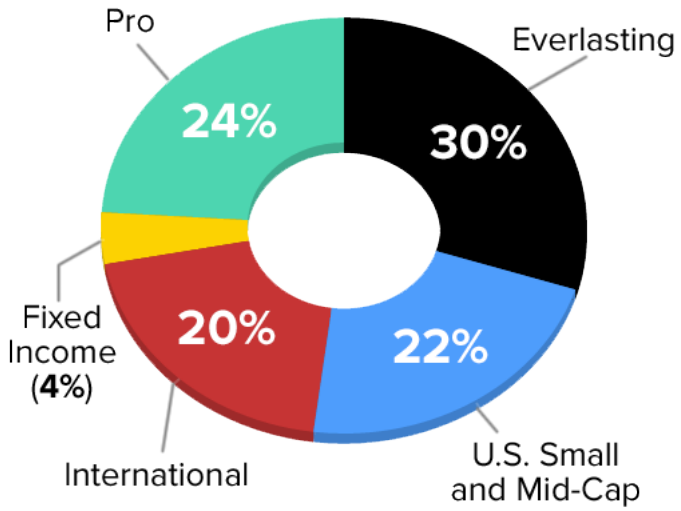


Account minimums may apply. All investments involve risk and may lose money. MFWM makes no assurance that investment objectives will be met. Clients should be aware that their individual account results may not exactly match the performance of the Model Portfolios. Past performance is no guarantee of future results.

Motley Fool Wealth Management retains the right revise or modify portfolios and strategies if it believes such modifications would be in the best interests of its clients.

Meet Phillip

Although Phillip's still about two decades out from retirement, his hugely successful career as an up-and-coming investment banker at J.P. Morgan has already allowed him to amass a portfolio worth $1.25 million at the age of just 37. Even though he tends to get uncomfortable when the market drops, Phillip avoided selling any stock during the 2008 pullback. He embraces a solid amount of risk, and is well on his way to his goal of $3-5 million portfolio, or more, by the time he retires.



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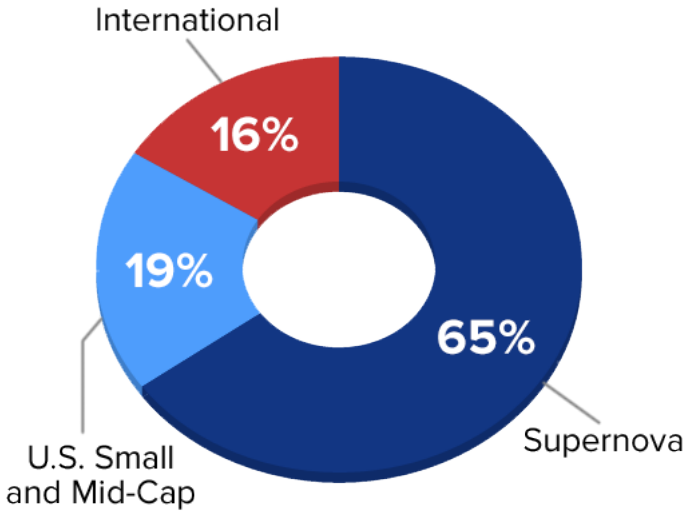
Meet Darian

Darian's level-headed and hugely risk-tolerant approach to investing has netted him a more than $600,000 portfolio, even though he's only 52 and still roughly a decade out from retirement after a quarter century running his own local grocery store. He's fully composed when his stocks drop, and happily bought more at a bargain price when the market tanked in 2008. With his aggressive investment approach, coupled with an ability to keep calm during (and even take advantage of) rough market times, he's well on his way to not only topping a million dollar portfolio by the time he retires, but also leaving a lasting legacy for his newborn granddaughter.



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AN IN-DEPTH LOOK AT THE NINE FOOLISH STRATEGIES WE CAN PUT TO WORK FOR YOU

Below are full details on each of the nine Foolish SMA strategies that our Motley Fool Wealth Management team can put to work for you — including each strategy's objectives, goals, specific philosophies, portfolio management process, and portfolio managers.

Further information on each of our professional portfolio managers — and other key players on the Motley Fool Wealth Management team — can be found just below this section.

EVERLASTING

PHILOSOPHY AND STRATEGY

Our investing philosophy hinges on five core objectives:

1. Investing with quality management teams that build strong corporate cultures
2. Owning businesses that take care of all of their stakeholders: customers, suppliers, employees, society, and shareholders
3. Investing in businesses with sustainable competitive advantages
4. Maintaining a commitment to long-term investing and very low turnover
5. Paying a reasonable price for the company's stock

It is difficult to quantify a strong management team, a thriving culture, and a sustainable competitive advantage. Instead, we try to qualify them using various frameworks in order to determine which companies are the true standouts. For example, one tool we use is the "Say-Do" ratio. We'll look for the things managers say to investors in all of the communications we analyze, and then compare those to what management actually does. The higher the ratio, the more confident we can be when assessing what the management team is doing, why they are taking such actions, and how effectively they are running the business. In addition, we look at Glassdoor ratings, reviews, and comments as an indication of the health of a company's culture.

In his book *Firms of Endearment*, Professor Raj Sisodia found that companies that do "good" by taking care of all of their stakeholders tend to outperform the stock market by a considerable margin over the long term. Using the framework developed in the book, as well as the plethora of frameworks to assess the sustainability of a company's competitive advantage, we can make judgments about whether a company deserves a spot in the portfolio.

Once we find a company that meets this criteria, we are willing to pay a reasonable price, as opposed to waiting for a bargain price, for its stock. And we're very reluctant to sell. History has shown that wonderful businesses with great management teams and cultures of success have the ability to create tremendous amounts of value. By acting like business owners instead of stock traders, we allow the portfolio to have very low turnover. The most likely reasons we'll sell a stock out of the portfolio will be that the investing thesis has changed for the worse or we have found an even more compelling idea.

PORTFOLIO MANAGERS

David Meier

Bryan Hinmon, CFA

INVESTMENT OBJECTIVES

The Everlasting Strategy seeks to create wealth through capital appreciation.

To meet this objective, the team will focus on:

1. Inspiration from the investment philosophy of Motley Fool co-founder and CEO Tom Gardner
2. Taking meaningful positions in the team's best ideas
3. Acting like owners of a business by being very reluctant to sell

WHO SHOULD INVEST

The Everlasting Strategy is for investors who think like owners and understand the benefits that come with a long-term mindset, and are looking to build wealth, over many years, via capital appreciation.

PORTFOLIO MANAGEMENT PROCESS

Portfolio Construction

The Everlasting Strategy will look to own 20-40 stocks at any given time, depending on the opportunities available in the marketplace. Within that range, the best ideas will receive larger allocations. The idea is to find a balance of concentration and diversification that will give us the best opportunity to outperform the market over the long run. Although we don't have limits, one could expect the top five investments to make up 30% of the portfolio or more.

Investment Selection

We select companies for the portfolio using fundamental research, with specific attention paid to the factors in the portfolio's goals and objectives. Although we do perform valuation work, it is not the dominant factor in the investment decision. The team uses a combination of the qualitative and quantitative analyses to determine the risk/reward profile of each company.

Position Sizing

We want to allocate the most capital to our best ideas, defined by the qualitative and quantitative factors above that lead to an assessment of the risk and reward associated with each investment idea. As such, we have set loose guidelines around position sizes:

	Reward	
Risk	Low	High
High	Avoid	4%
Low	2%	6%

Actual allocations can vary, but we will not initiate a position of less than 2%.

Position Management

As stated above, we expect the portfolio to have very low turnover. Once we find a great business that meets the criteria discussed above and trades at a reasonable price, we would prefer to hold that position forever, if possible.

We will make adjustments to the portfolio over time, as new information about each individual company becomes available. But we do not expect to make frequent, significant changes to the portfolio. The most likely actions to be taken over time are:

1. Purchasing additional shares of a stock already in the portfolio, based on improving risk/reward characteristics
2. Selling portions of current positions in order to add a new position to the portfolio

Finally, we expect to be close to fully invested at all times. The team will hold a small cash position (2%-4%) at all times in order to be able to quickly take advantage of opportunities that arise in the marketplace.

SUPERNOVA

PHILOSOPHY AND STRATEGY

The portfolio's investing philosophy hinges on three key beliefs:

1. Investing in innovative companies in crucial emerging industries.
2. Investing in strong management teams that are pursuing large markets.
3. Investing in businesses that are building long-term, sustainable competitive advantages.

Entrepreneurs are turning bold, new ideas into new companies every day. Some of those companies move from the private markets to the public markets. Many of them simply fade away. The team looks for the companies that are pushing forward important new industries. Take social media, for example. Ten years ago, it was really just a dream. But today, social media is having a tremendous impact on how people manage their lives, their businesses, and even their careers. We want to explore all of the investment opportunities available in emerging industries. And fortunately, with the pace of technological change, new industries are popping up almost overnight.

In order to assess the quality of the management team, we start with the history of the executives. What have they done in the past? How did they start the company they manage today? Who has invested in the company, be it venture capitalists or fund managers? Most importantly, we want managers to be thinking big. Finding little niches can be lucrative. But we prefer to invest in leaders who are building businesses that go after big problems with big solutions. It may take a while for some of these companies to ultimately make big impacts, but the payoffs for investors can be tremendous.

Along the way, it's vital for a company to build a sustainable competitive advantage. After all, there are probably 10 more entrepreneurs looking to go after the same markets with innovative solutions (which of course gives us additional investment opportunities). So we use a number of different analytical tools to determine if a company is actually building an advantage. And we use the company's financial statements and stock price as indicators of whether that advantage is truly taking hold. If we see positive signs, we will not be reluctant to add to our winners, even at higher prices than we previously paid for their stocks.

PORTFOLIO MANAGERS

Tony Arsta

David Meier

INVESTMENT OBJECTIVES

The Supernova Strategy seeks to create wealth through capital appreciation. To meet this objective, the team will focus on:

1. Taking inspiration from the investment philosophy of Motley Fool co-founder David Gardner.
2. Building a diversified portfolio of what we believe to be some of the most innovative companies of our time.
3. Acting like owners of a business by being very reluctant to sell.

WHO SHOULD INVEST

The Supernova Strategy is for investors who want a portfolio of businesses that are looking to move the world forward. These companies are creating new business models and new products and services, and developing new technologies that are changing the status quo. To make the most of a portfolio like this, investors need to have a long-term mindset, as some of the innovations may take as much as a decade to truly take hold in the marketplace.

Once we find what we believe to be a truly great company, we are willing to pay a reasonable price, as opposed to waiting for a bargain price, for its stock. And we'll be very reluctant to sell. History has shown that wonderful businesses with great management teams and cultures of success have an affinity for creating tremendous amounts of value. By acting like business owners instead of stock traders, we expect the portfolio to have very low turnover. The most likely reasons for selling a stock out of the portfolio will be that the investing thesis has changed for the worse or we have found an even more compelling idea.

PORTFOLIO MANAGEMENT PROCESS

Portfolio Construction

The portfolio will look to own 30-50 stocks at any given time, depending on the opportunities available in the marketplace. Within that range, the best ideas will receive larger allocations. The idea is to find a balance of concentration and diversification that will give us the best opportunity to outperform the market over the long run. Although we don't have limits, one could expect the top five investments to make up 25% of the portfolio. Given the volatility associated with innovative companies, the team will generally be reluctant to be concentrated much more than 25%.

Investment Selection

We select companies for the portfolio using fundamental research, with specific attention paid to the factors in the portfolio's Objective & Goals. Although we do valuation work, it is not the dominant factor in our investment decision, and traditional valuation techniques may not be applicable for many of the younger companies that we'll be evaluating. As such, we require a higher investment return upside — typically on the order of 15% or more. The team uses a combination of these qualitative and quantitative factors to determine the risk/reward profile of each company.

Position Sizing

The team prefers to allocate the most capital to our best ideas, defined by the combination of the qualitative and quantitative factors above that lead to an assessment of the risk and reward associated with each investment idea. As such, we have set loose guidelines around position sizes:

	Reward	
Risk	Low	High
High	Avoid	3%
Low	2%	5%

Actual allocations can vary, but we will not initiate a position of less than 2%.

Position Management

We expect the portfolio to have low turnover. Once we find a business that meets the aforementioned criteria, we would prefer to hold that position forever, if possible. However, we understand that not every disruptive/innovative business actually "makes it." So we will not hesitate to sell a stock if the company is showing signs that it will not capture a large portion of the market and/or is unable to build a sustainable advantage.

We will make adjustments to the portfolio over time, as new information about each individual company becomes available. But we do not expect to make frequent, significant changes.

The most likely actions to be taken over time are:

1. Purchasing additional shares of a stock already in the portfolio, based on improving risk/reward characteristics.
2. Selling portions of current positions in order to add a new position to the portfolio.
3. Selling entire positions of companies that are not showing the right signs of progress and investing in new ideas with a better risk/reward profile.

Finally, we expect to be close to fully invested at all times. The team will hold a small cash position (2%-4%) at all times in order to be ready for opportunities that arise in the marketplace.

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PRO

PHILOSOPHY AND STRATEGY

Our investing philosophy hinges on three key beliefs:

1. Diversified strategy: We believe that the Foolish use of untraditional strategies and investments (like shorts, hedges, ETFs, and options) can provide risk mitigation as well as consistent, attractive, and resilient real returns.
2. Mental matters: We believe that lessening maximum drawdowns (the largest peak-to-trough fall of the portfolio over any period of time) provides behavioral and practical benefits. The human tendency is to disproportionately feel the sting of losses, which can lead to emotion-driven selling. Mathematically, the long-term compounding of returns is easier and more powerful with smaller drawdowns.
3. Discipline: We believe that disciplined portfolio management and fundamental analysis are key to respecting risk and seeking return.

A note on volatility: We don't believe volatility equates to risk and that few investors care about upside volatility. We care about volatility, as it pertains to the first two tenets of our philosophy. We care that we've chosen a portfolio of investments whose risk drivers provide idiosyncratic and diversifying exposures to other investing strategies, and we care that our downside is attended to strategically, not just tactically (we do our best to manage maximum drawdown).

To achieve its Objective and Goals, the Pro Strategy uses a combination of long and short stocks, options, and ETFs (of all asset classes) to construct a reasonably diversified portfolio with an intentional exposure to market risk. The portfolio has a long bias, maintains a long-term business mindset in its analysis, and is intently focused on managing risk.

The role of long equity positions is to drive returns through dividends, capital gains from purchase prices below intrinsic value, and appreciation from faster-than-expected increases in intrinsic business value. The first source of return rarely gets mispriced, and the second hinges primarily on market conditions, but the third most often results from taking a long-term, business-focused mindset and investing alongside wonderful businesses.

PORTFOLIO MANAGERS

Bryan Hinmon, CFA

Bill Barker, CFA

INVESTMENT OBJECTIVES

The Pro Strategy seeks to make a diversified portfolio better by improving its risk-adjusted return. In pursuing this objective, we will focus on achieving three goals:

1. Long-term capital appreciation, with an emphasis on positive real returns over every rolling three-year period.
2. Modest correlation to other asset class returns.
3. Lower maximum drawdowns than other equity allocations.

WHO SHOULD INVEST

Investors who may be interested in this option include those searching for…

- Potential for a more attractive return/risk profile.
- Reduced maximum drawdowns that offer numerous benefits, including: Behavioral (Easier to stay invested through an entire cycle) and Mathematical (Returns compound over the long term off of a higher trough).

All else equal, we prefer our long book to be stacked with the greatest businesses imaginable because they surprise the world by compounding their value at unexpectedly high rates.

The role of short positions is to achieve positive returns through declines in value above the cost of carry. Additionally, during precipitously falling markets, shorts will cushion the fund's downside by reducing overall net exposure.

The role of market hedges is to achieve a desired net market exposure in a cost- and time-efficient manner. The role of option positions is to flexibly and efficiently express an investing thesis, eliminate unwanted risk, or achieve a desired net market exposure. The role of ETF positions is generally to access idiosyncratic risk/return exposures and maintain a higher resilience to diverse market conditions.

PORTFOLIO MANAGEMENT PROCESS

Portfolio Construction

The Pro Strategy is an opportunistic hedged equity investment program, but it will remain disciplined in strategically maintaining a hedged net exposure profile. The portfolio also seeks to achieve a modest net long exposure (around 70%) during most market periods. There will be a natural window around that baseline net exposure whereby we believe the goals and objectives can be achieved. During periods of market extremes, the net exposure may differ significantly — but these occurrences should be rare.

Although our target exposure is strategically set, we construct our portfolio from the bottom up. Our ability to find attractive long and short ideas will heavily influence the number of long and short positions as well as the gross market exposure.

We seek reasonable diversification through position size limits, diversification across investment themes, and, most important, through careful analysis of core risk drivers. We also use equity substitutes (options and ETFs) if we believe they offer the opportunity to enhance our risk/reward. The portfolio does not focus on diversification through quantity. Instead, it seeks to hold enough positions so that good ideas contribute meaningfully, but not so few that a single bad outcome, bad luck, or bad timing could severely impair our ability to achieve our goals.

	Target	Minimum/ Maximum
Gross Exposure	90%-170%	50%-200%
Net Exposure	50%-75%	0%-100%
Long Exposure	70%-120%	50%-125%
Short Exposure	20%-50%	0%-100%
Number of Longs	20-30	15-45
Number of Shorts	6-15	0-45

Investment Selection

Our investment decisions are based on in-depth, bottom-up, fundamental research and a commitment to respecting the Pro Strategy's goals and objectives. The dissection of competitive landscapes, company strategies, and secular trends uncovers quality companies poised to benefit – but also companies failing to adapt, with misplaced focus, or with valuations inconsistent with competitive reality. We analyze and estimate the value of businesses and then assess which investing vehicle best expresses our opinions with the optimal

reward and risk profile. We then combine these investments in a manner that supports the goals outlined above.

On the long side, we look to invest in defensible, advantageous businesses with continually strengthening positions in industries benefiting from secular tailwinds or improving competitive dynamics. Financial durability and strong management are additional hallmarks of our core long holdings. We seek to purchase longs with a margin of safety relative to our conservative appraisal of intrinsic value. Obviously, the greater the company overall, the less focused we become on valuation.

On the short side, we look to invest in companies with deteriorating businesses in industries suffering from secular headwinds or challenging competitive dynamics. Financial strain and subpar management are additional hallmarks of short holdings. We seek to sell shorts at elevated prices and in the presence of catalysts.

Position Sizing

Position sizing will be positively correlated to conviction, diversification attributes, and the ratio of expected returns to the range of outcomes. We will tolerate larger position sizes for longs than for shorts. We view options positions in terms of notional exposure and capital at risk.

	Longs	Shorts
Market Exposure (hedge)	Up to 10%	Up to 100%
Best Ideas	6.0%-7.0%	3.0%-4.0%
Great Ideas	4.0%-6.0%	2.0%-3.0%
Good Ideas	2.0%-4.0%	1.0%-2.0%
Speculative Ideas	0.5%-2.0%	0.5%-1.0%

Position Management

Positions are managed according to the Objective and Goals of the Pro Strategy. Each position is regularly monitored and appraised on its ability to 1) achieve long-term capital appreciation, with a focus on providing positive real returns over the next three years, 2) provide diversification benefits relative to other holdings, and 3) reduce portfolio drawdown. Monitoring is dynamic, and our willingness to act is driven by business quality and contribution to portfolio risk.

While we embrace the idea that every decision is unique and situation-dependent, we have guidelines in place that call attention to instances in which a position should be considered for adjustment. We think having a consistent "flagging" framework built into our process will keep us from over-transacting and micromanaging positions.

1. The first flag is allocation-related; when the actual weighting in the portfolio deviates more than 0.5% from its target allocation, we take note. If the average position size is ~4%, a 0.5% deviation is 25% of the position size, which is sizable enough that we should acknowledge and discuss its appropriateness.
2. The second flag relates to our risk and return expectations and alerts us with a trim/add flag when certain expected return levels are breached. Importantly, this flag is aligned with our rolling three-year return horizon and desire to manage maximum drawdown, and it is influenced directly by the quality of the company.

MILLION DOLLAR PORTFOLIO

PHILOSOPHY AND STRATEGY

The MDP Strategy seeks to identify, buy, and tenaciously hold great companies. For us, great companies have at least three of the following traits:

- **A clearly defined and compelling mission — not just making a substantial profit**: Great companies are also out to reshape markets, deliver wonderful customer experiences, reward shareholders, and sometimes even improve the world.
- **Significant competitive advantages**: Whether it's valuable intellectual property, irreplaceable assets, economies of scale, high switching costs, or vast network effects, great companies have strong and durable competitive advantages.
- **Superior growth in revenue, cash flow, or dividends**: Great companies can grow faster than inflation and the overall economy, using pricing power, operational efficiency, and smart capital allocation in positioning themselves to beat the market.
- **Capable, incentivized leaders with capital allocation chops**: Well-run companies have managers with intrinsic and extrinsic incentives to run the business with shareholders in mind, and who can allocate capital to grow the business, enhance competitive advantages, and reward shareholders.
- **Large and growing market opportunities**: Great companies own significant or increasing shares of large and growing markets and have substantial business optionality. A great company can become an especially great investment when its current market size is dwarfed by its addressable market.
- **Financial fortitude**: A company can stay or become great only if it has the financial strength — a healthy balance sheet, sustainable cash flows, and/or easy access to cost-efficient capital — to invest and grow the business at high rates of return and, when appropriate, return capital to shareholders.

The MDP Strategy employs a balanced investment philosophy with respect to value and growth philosophies. In addition to the traits listed above, the portfolio managers require a valuation that is attractive relative to their assessment of future company performance, though their investment decisions are not dictated by the outputs of valuation modeling. We employ a long-term buy and hold approach, and the ideal holding period for an individual stock is at least several years — ideally compounding value for shareholders over long periods of time.

PORTFOLIO MANAGERS

Tony Arsta

David Meier

INVESTMENT OBJECTIVES

The investment objective of the MDP Strategy is to achieve long-term capital appreciation by owning a diversified portfolio of great businesses. The model pursues its objective by investing primarily in common stock of U.S. companies.

WHO SHOULD INVEST

The MDP Strategy is for investors who are seeking a Foolish take on domestic company exposure for their portfolio and have a long-term investment horizon of at least three years.

We believe that buying and holding sound companies goes hand in hand with sound investing, and we'll fit these companies together into a diversified portfolio with the aim of beating the S&P 500's total returns.

The MDP Strategy can hold companies with any market cap. Great businesses come in all shapes and sizes, and we look to invest across the entire spectrum of the domestic market.

We also will not attempt to time the market, and we will seek to stay fully invested, which we define as a cash position of less than 10% of assets following the model.

PORTFOLIO MANAGEMENT PROCESS

The MDP Strategy is generally composed of at least 20 positions. To limit the risks associated with highly concentrated holdings, the MDP Strategy does not allocate more than 10% of the model to shares of any one company.

We'll regularly review and adjust the MDP Strategy's allocations to particular companies and sectors to maintain a diversified mix of investments that offer the best overall potential for long-term growth of capital. Companies will be sold if there are unfavorable developments affecting the company's long-term prospects, if the value of the shares is no longer attractive, or if capital is needed to purchase a more compelling opportunity.

Positions at time of purchase will range in size from 2% to 5% of the model. The upper limit on the position size for shares in any individual company is 10% to allow room for successful investments to appreciate in value. On the lower end of the range, capital will be added to positions that fall below a 2% allocation if we remain confident in the company's prospects. Otherwise the position will be sold and the proceeds invested elsewhere.

We'll maintain target allocations for each stock in the MDP Strategy and monitor deviations of actual allocation from the target on a regular basis to ensure that desired exposures are maintained. The aim of managing exposures is balanced against the MDP Strategy's long-term buy and hold philosophy, which includes us being mindful about minimizing unnecessary transactional costs.

U.S. SMALL & MID-CAP

PHILOSOPHY AND STRATEGY

The U.S. Small & Mid-Cap Strategy pursues its investment objective by investing primarily in common stocks of companies based in the United States that are engaged in a broad range of industries. Under normal market conditions, we'll invest at least 80% of our net assets (plus the amount of any borrowings for investment purposes) in securities issued by U.S. companies.

The U.S. Small & Mid-Cap Strategy employs a nonstatistical (by "nonstatistical," we simply mean that we do not place limits on the types of companies we can buy), value-based investment approach and seeks long-term growth of capital by acquiring securities of companies at prices we believe to be significantly below their intrinsic value. While statistical-value investors might say they would only buy companies at a price-to-earnings below some set level or a price-to-book below 1, we believe any company that is cheaper than it should be is a value.

We seek to beat the market over the long term, which requires that we employ unconventional methods. Our philosophy demands careful selection of securities, painstaking research, and patience. Oftentimes we will be investing in companies at the very time that the market has identified (and presumably overreacted) to something that is wrong with them. We are not attempting to scalp for a few pennies. We are fishing in deeper water than that.

Our model is somewhat simple. We seek to buy companies that are trading below what we believe they are worth, have good balance sheets, offer superior competitive advantages, and are run by smart, honest people. We make these determinations solely through our own proprietary research, including visiting the companies themselves.

Although the model contemplates investing in companies that are technically large-capitalization stocks, and can hold foreign stocks, the managers expect that we will only buy companies that fit our investing criteria. We have built in carve outs so that we are not forced to sell a company in the event that it grows to be defined as a large cap, or if corporate events cause a current holding to be reclassified as foreign.

Consequently, under normal market conditions, the portfolio will comprise small and mid-cap companies based in the United States. For this purpose, the portfolio managers define large-capitalization companies as the largest 200 companies in the U.S. by market

PORTFOLIO MANAGERS

Charly Travers

Bill Barker, CFA

INVESTMENT OBJECTIVES

The investment objective of the U.S. Small & Mid-Cap Strategy is to achieve long-term capital appreciation. The model pursues its objective by investing primarily in common stocks of U.S. companies. We seek to earn market-beating returns by searching for high-conviction, high-quality companies among the small and mid-cap companies based in the United States.

WHO SHOULD INVEST

We believe that all long-term investors benefit from investing in smaller and mid-cap companies in the United States, as they tend to be less followed than their large-cap peers. Since the adoption of Regulation Fair Disclosure in 2000, the number of companies in the United States that have more than one Wall Street analyst covering them has dropped precipitously. We believe that this lack of coverage lowers the level of efficiency in pricing among smaller companies, as evidenced by their wider price swings relative to their larger compatriots. In time, investors with a significant enough time horizon should benefit from being able to buy (and sell) at advantageous periods.

capitalization, as calculated and ranked at the end of each calendar quarter by a third-party aggregator of market data, such as Bloomberg or Reuters. We generally invest in companies that possess attractive balance sheets and high internal rates of return. The portfolio managers believe that investors in the small and mid-cap model should have a long-term investment horizon of at least three years.

PORTFOLIO MANAGEMENT PROCESS

We are long-term investors looking to find companies that we can own for many years to come, so you should not anticipate much activity on a day-to-day basis. If you think about it, a three-year holding period would correspond to our turning over the portfolio a maximum of 33% per year. We hope to do a lot better than this, as taxes and trading costs such as commissions and spreads are real expenses.

On the other hand, we cannot anticipate when a stock will surpass our estimate of full value, nor can we anticipate when an even better opportunity might come along. So we will be maintaining, tweaking, and updating our positions in the portfolio based on our estimates of fair value and on each company in our portfolio. We may not be in any hurry to sell a stock that appears overvalued, but instead we may consider that position to be a source of capital for new or better ideas, which we define as companies that offer better risk/return profiles.

For portfolio management purposes, we limit our exposure to any one holding to 8% of the portfolio's total value. While we do not intend to invest in all industries at any one time, we will not put more than 40% of the portfolio into any one industry, so that we might limit our exposure to any exogenous factors (or our own errors in judgement).

Investors should recognize that liquidity is often lower in smaller-capitalization stocks, which sometimes manifests itself as higher volatility than with larger, more efficiently traded companies. While we are cognizant that many investors find high levels of volatility discomforting, you should understand that we do not seek to dampen the volatility in this sleeve of the portfolio, as we believe fully that optimized investing in smaller-capitalization companies demands that we seek out misunderstood (and therefore potentially more volatile) positions. Our view is that risk is best measured by the potential for a permanent loss of capital. As such, investors should be well aware of the nature of the investments to which they will likely be exposed.

This strategy is only available as part of a blended portfolio. Account minimums may apply. All investments involve risk and may lose money. MFWM makes no assurance that investment objectives will be met. Clients should be aware that their individual account results may not exactly match the performance of the Model Portfolios. Past performance is no guarantee of future results.

Motley Fool Wealth Management retains the right to revise or modify portfolios and strategies if it believes such modifications would be in the best interests of its clients.

INTERNATIONAL

PHILOSOPHY AND STRATEGY

We pursue our investment objective by focusing on identifying companies that can help deliver market-beating returns over every rolling three-year period.

We believe that great companies are not found solely in America or on U.S. stock exchanges, and that anyone who limits their investing search to U.S. markets is creating artificial restraints that will harm their long-term investing returns.

Additionally, we believe that in the coming decades a significant portion of global growth will be driven by the rise of the middle class in emerging markets; while U.S.-listed multinationals will benefit from this trend, investors may have greater opportunities to benefit by investing in companies that call these markets home.

Not only do these companies know their home markets better than foreign multinationals do, their direct exposure to dynamic markets means they should see outsized gains as domestic consumers climb the economic ladder (their generally smaller size should mean progress has a greater impact on the overall value of the companies). To be blunt, it takes a lot of growth to move the needle for the Wal-Marts, IBMs, and Coca-Colas of the world.

Finally, we believe investors have a better chance of finding misunderstood or undervalued companies in markets that aren't highly scrutinized. Similar to the theory that U.S. small caps offer better opportunities because they are generally less covered by Wall Street, we think investing in markets less frequented by your average investor (or index-based ETF) increases the chances of uncovering value and outsized returns.

Strategically, we are bottom-up investors looking for great companies rather than making macroeconomic calls (although we do consider macroeconomic trends in evaluating companies). Ideally we would find companies that we think offer attractive value propositions — companies with large and/or growing markets, sustainable competitive advantages, clear paths to solid cash flow generation, and the ability to compound shareholder value over the course of many years — regardless of their listed market.

We are generally long-term investors with theses formed around three to five-year horizons, although from time to time we will execute more "trade-like" transactions

PORTFOLIO MANAGERS

Bill Mann

Nate Weisshaar, CFA

INVESTMENT OBJECTIVES

The International Strategy seeks to improve the performance of a diversified portfolio by exposing it to assets located in markets around the globe that have markedly different characteristics than markets of the United States. We seek to earn market-beating returns by searching for high-conviction, high-quality companies based in countries around the globe.

WHO SHOULD INVEST

We believe international exposure is appropriate for nearly every investor with an equity portion of their portfolio and a three to five-year investing horizon. By adopting a global perspective, investors gain access to a larger pool of potentially great companies, more direct exposure to economic growth potential outside the U.S., the potential for exposure to less-covered (and therefore potentially more undervalued) companies, and the demonstrable diversification effects created by currency exposure (as well as the natural gives and takes of economic activity around the globe). Simply put, not unlike a game of Whac-A-Mole, strong businesses and investing opportunities pop up in different places at different times.

in order to take advantage of opportunities we think have attractive risk/reward payoffs (e.g. merger arbitrage, event-driven price moves, or short-term market overreactions).

We do not hedge currency exposure, as our research suggests that this is a difficult game to win with consistency. Further, we believe that in the long run, currency fluctuations will balance out and provide a portion of the diversification benefit of international investing.

Because we are unable to trade in any currency other than U.S. dollars for accounts without margin capabilities, our international investing universe is currently restricted to U.S.-listed foreign companies and foreign-focused ETFs.

While this isn't our ideal situation, it doesn't alter our approach to investing. We are still looking for companies that we believe have strong growth opportunities and dominant competitive positions that we can hold for years and will grow the value of our investment. They simply have to be listed on U.S. exchanges and have enough daily volume to handle our rapidly growing SMA funds.

PORTFOLIO MANAGEMENT PROCESS

As mentioned above, we're long-term investors looking to find companies we can own for many years to come, so we don't anticipate much activity on a day-to-day basis. We will, however, maintain and update, as necessary, estimates of fair value for all the companies in our portfolio. Stocks that appear overvalued may not be sold immediately, but will be considered a source of capital for new or better ideas (those which we think have better risk/reward profiles).

Admittedly, international investing brings additional risks (corporate governance, exchange rates, and sovereign risks, to name a few). By being forced (for the time being) to invest solely in U.S.-listed companies, we can reduce some of these, though many still remain.

To address these added risks, we will limit our investment in any single company to 8% and will diversify across industries within the same country, so as not to hold more than 15% of our portfolio in any single industry in a country (e.g. "Chinese banks" or "South African miners").

We will also attempt to diversify across industries throughout the portfolio, but this may not always be possible, as some emerging markets with less mature stock markets will have fewer companies in which to invest than U.S. investors may be used to (note that less-mature stock markets are often dominated by banks and utilities).

As a trade-off for investing in less well-traveled markets, international investors should recognize that liquidity is often lower in international markets — particularly emerging markets. This means they can be more volatile than U.S. markets. While we don't think using volatility as a proxy for risk is appropriate (we view risk as the potential for permanent loss of capital), investors should be well-aware of the nature of the investments to which they will likely be exposed.

This strategy is only available as part of a blended portfolio. Account minimums may apply. All investments involve risk and may lose money. MFWM makes no assurance that investment objectives will be met. Clients should be aware that their individual account results may not exactly match the performance of the Model Portfolios. Past performance is no guarantee of future results.

Motley Fool Wealth Management retains the right to revise or modify portfolios and strategies if it believes such modifications would be in the best interests of its clients.

FIXED INCOME

PHILOSOPHY AND STRATEGY

There are many different types of fixed income instruments available: corporate investment grade, high-yield corporates, federal government, municipals, and mortgage-backed securities, to name the most common. Additionally, bonds can be issued with different maturities, some returning principal to investors within a few years, and some extending to 30 years or even longer.

Our bond portfolio will seek to invest in those instruments that provide an attractive return, but do so without taking on higher levels of risk. Higher levels of risk are generally associated with longer-term bonds when interest rates are currently low and deemed likely to go up in the future, as well as low credit quality bonds.

The portfolio will rely heavily, and at times exclusively, on corporate bonds (particularly investment-grade corporate bonds) when we deem them to be a superior risk-reward equation compared with bonds issued by the federal government. We intend to use government bonds, municipals, mortgage-backed securities, and other fixed-rate instruments in a tactical manner when they offer rates that are sufficiently attractive. High-yield corporate bonds may also be used to gain modest exposure to higher-yielding maturities, though the portfolio is unlikely to hold a large percentage of high-yield bonds, especially those of longer duration.

We'll be widely diversified in terms of the total number of bonds the portfolio is invested in. The best way for us to achieve this is to use widely diversified ETFs issued from well-capitalized providers.

The philosophy of this portfolio is not oriented around taxes, which might be a concern in particular for higher-net-worth individuals and for some investors at or near retirement (municipal bonds can be used effectively by investors to get tax-free income). That said, we expect to manage the purchase and sale of ETFs along general long-term Foolish investing norms, and for there to be limited capital gains incurred within the strategy.

PORTFOLIO MANAGERS

Bill Barker, CFA

Nate Weisshaar, CFA

INVESTMENT OBJECTIVES

The Fixed Income Strategy seeks to improve the total risk-adjusted performance of a portfolio by adding a different asset class, bonds, to an equity portfolio – and to mitigate some of the inherent risk in having an overly stock-centric portfolio, with the overall goal of making net portfolio losses from peak to trough less severe.

First, we'll focus on considering the risks within the bond market, and pursuing appropriate returns from the perspective of the risk taken. The Fixed Income Strategy will not seek the highest returns available in the bond market if those returns happen to be attached to higher than acceptable risks.

Also note: The portfolio is specifically tailored to complementing the various equity choices available through Motley Fool Wealth Management.

WHO SHOULD INVEST

As with any investment, investors should have a long-term horizon in mind before committing money. If you will need the money in less than a year, keeping funds in a cash account is more appropriate than taking on the risk inherent in investing in fixed income.

That said, investments in fixed income are not generally as volatile as investing in stocks. Neither do they have the same upside rewards as equities, and therefore are more appropriate as a greater percentage of the holdings in a portfolio (the older one gets, the less time one has to recover from the downside of a bear market in equities).

PORTFOLIO MANAGEMENT PROCESS

Portfolio Construction

The overall portfolio is constructed based on top-down, rather than bottom-up, selection, with the primary considerations being current interest rates, the shape of the yield curve, spreads between corporates and government bonds, and spreads between investment-grade and high-yield corporates.

The portfolio will be constructed with a ladder of individual-year-targeted ("bullet"), low-cost, highly diversified ETFs, each of which holds positions in hundreds of individual bonds.

Corporate bonds will typically be held in a ladder of corporate bond ETFs, each of which is designed to correspond to the performance of investment-grade corporate bond indices. The indices themselves are designed to represent the performance of a held-to-maturity portfolio of investment-grade corporate bonds with effective maturities in one specific year (e.g. an index of bonds maturing in 2016).

High-yield bonds will typically be held in a similar ladder, though with fewer individual ETF positions, as the total exposure to high-yield bonds is likely to be more modest.

The portfolio is not restricted to holding fixed income instruments through ETFs but given the strategy of the portfolio, is unlikely at the present time to use other instruments.

Position Sizing

No individual ETF is likely to make up more than 15% of the portfolio. As each ETF is composed of hundreds of individual bonds, no individual bond will be a meaningful position in the overall portfolio. Exposure to any one publicly traded company's bonds is unlikely to be very high. Exposure to a particular sector, such as financials, is likely to be significant.

Position Management

Individual ETFs are monitored on a consistent basis to ensure that they are fully invested, and that the ETF is managed consistently with the description of the ETF in its individual prospectus.

Every month, typically at the beginning of the month, each ETF will make a cash distribution of the coupon payments made by the individual bonds into the ETF. These monthly payments are fairly small as a percentage of the portfolio. The distributions will be invested in existing ETF positions or to open an ETF position on an extended rung of the ladder.

Significant changes, such as selling out completely of an ETF position within the existing ladder, or significantly restructuring the ladder, will occur infrequently — though active portfolio management includes the responsibility to act on significant opportunities when interest rates move dramatically.

This strategy is only available as part of a blended portfolio. Account minimums may apply. All investments involve risk and may lose money. MFWM makes no assurance that investment objectives will be met. Clients should be aware that their individual account results may not exactly match the performance of the Model Portfolios. Past performance is no guarantee of future results.

Motley Fool Wealth Management retains the right to revise or modify portfolios and strategies if it believes such modifications would be in the best interests of its clients.

DIVIDEND

PHILOSOPHY AND STRATEGY

Our philosophy stems from the belief that (a) great businesses that adopt a meaningful dividend-growth capital allocation preference can generate wonderful investing outcomes over time and (b) dividends are a more reliable part of total return than capital gains.

We aim to maximize yield without jeopardizing the safety of principal, the income stream, or long-term total return potential. Our strategy is guided by three principles:

- **Business first:** Own great businesses that happen to pay dividends
- **Dividends second:** Provide a safe, significant, and growing stream of cash
- **Be Foolish:** Maintain a long-term, ownership mentality

Most dividend investing is narrowly focused on maximizing yield, which results in sector concentration, ownership stakes in deteriorating businesses, and ignoring funding and business risks. Our Dividend SMA strategy is about owning great businesses that happen to have great dividend policies and holding them for the long term.

We will invest in stocks (large cap, domestic, and dividend-paying), preferred stocks (super high-quality, large cap, domestic companies that may or may not pay a dividend), and Exchange Traded Funds (or ETFs). Holdings will be combined in an effort to achieve the objective, uphold our philosophy, and provide diversification.

PORTFOLIO MANAGEMENT PROCESS

Portfolio Construction

The Dividend SMA strategy will typically hold 15-30 investments and be near fully-invested at all times. We seek to achieve diversification the following ways:

Asset Type: Typically, at least 75% of the strategy's allocation will be to high-quality, dividend-paying, domestic stocks, with a minority allocated to preferred stocks and ETFs. The common and preferred stocks will be issued by domestic companies with a market cap greater than the cap identified by the S&P Midcap 400 index (currently about $13 billion). If any ETFs are owned in the strategy, they will be classified as large cap on a holding-weighted market capitalization basis.

PORTFOLIO MANAGERS

Bill Mann

Bryan Hinmon, CFA

INVESTMENT OBJECTIVES

The Dividend SMA strategy seeks to provide a safe, significant, and growing stream of dividend income from large domestic companies.

In pursuit of this objective, the team will focus on achieving three goals, which we believe will result in better risk-adjusted returns than the benchmark over the long-term:

- Offer peace of mind by owning quality businesses that deliver lower-than-market volatility and don't cut their dividend
- Provide a higher yield than the benchmark
- Provide dividend growth above the rate of inflation to grow purchasing power

WHO SHOULD INVEST

This strategy fits in the large-cap domestic equity slice of an asset allocation. Investors who identify as "conservative" or who prefer dividends should consider the Dividend SMA strategy.

We will select investments that are appropriate for taxable and tax-deferred account types (avoiding partnerships. While not a substitute for fixed income, this strategy can play a role in meeting income withdrawal needs as part of a larger income-based plan.

Sector: The portfolio will be structured to achieve adequate sector diversification, with no single sector accounting for more than 35% of assets.

Style: We believe stylistic diversification within the dividend-producing investment universe is important. The primary distinctions across this "style" framework are the balance between dividend yield and dividend growth and the stability of financial performance.

Foundational	• Very high-quality business • Sweet-spot yield and payout (currently 3–5%) • Stable financial performance
Complementary	• Very high-quality business • Attractive dividend growth or special dividend profile • Moderately stable financial performance
Opportunistic	• Yield-boosters — higher yield, lower dividend coverage • Challenged real dividend growth • Offer business risk or sector diversification benefits

We believe a portfolio built upon core "Foundational" dividend payers, augmented with "Complementary" dividend growers, and topped off with occasional "Opportunistic" positions has the best chance of achieving the Dividend SMA strategy's objective and goals. In addition, this stylistic diversification affords the ability to construct a portfolio with a total return profile driven by dividend yield, supported by dividend growth, and exposed to capital appreciation potential.

Investment Selection

Our investments will be chosen based on in-depth, bottom-up, fundamental research and a commitment to respecting the Strategy's goals and objectives. Our research will be pointed at identifying wonderful businesses that have adopted a capital allocation policy committed to dividends. We give particular care to:

- **Dividend Safety:** cash flow coverage, dividend philosophy, competitive advantage and stability of financial performance
- **Dividend Growth Potential:** end market demand, cash flow growth and payout characteristics, financial flexibility, reinvestment needs
- **Attributes of the entire portfolio:** dividend yield, dividend growth, sector diversification, style diversification

Ultimately, we will select a mix of investments that have an attractive combination of dividend yield and dividend growth potential to drive satisfactory total returns over time. We seek to pay reasonable prices for these investments.

Position Sizing

The strategy will typically have 15-25 positions that vary in size based on their style classification and dividend yield-plus-growth attractiveness.

Style	Typical Portfolio Weight	Maximum Portfolio Weight	Typical Position Size	Position Size Maximum
Foundational	60%	100%	4–8%	10%
Complementary	30%	55%	2–4%	5%
Opportunistic	10%	15%	1–2%	3%

Foundational holdings are those which we expect remarkably resilient operational performance and therefore have a high degree of confidence in our assessment of dividend safety and dividend growth. These positions, therefore, will support larger allocations. Complementary holdings are subject to the same level of analysis and held to the same high standards, but the nature of their operations or dividend profiles leave us less confident in our assessment of dividend safety or dividend growth. Accordingly, these positions will be restricted to smaller allocations. Opportunistic holdings won't generally fit the Foundational or Complementary framework, will be used sparingly, and will be awarded smaller allocations.

Position Management

Given our preference for high quality businesses trading at reasonable prices, we expect the Dividend SMA strategy to exhibit low turnover. Within our style characterization, we anticipate slightly higher turnover for Opportunistic than Complementary positions, and slightly higher turnover for Complementary than Foundational positions.

We will make adjustments to the portfolio over time as new information about each company's business and dividend prospects becomes available. We look to add to positions in businesses with improving competitive positions, business performance financial profiles, and payout philosophies which in turn improve the prospects for the dividend's safety and growth. We will sell positions in businesses with deteriorating competitive positions, business performance, financial profiles, and payout philosophies likely to negatively impact the dividend's safety and growth.

We may trim or add to positions in an effort to achieve more balanced sector and business risk diversification. However, we will not mechanically sell a position that exceeds our position size maximum guideline. Business, quality, and dividend considerations will always remain the primary drivers of position management actions. As noted above, no sector will account for more than 35% of total assets.

INVESTMENT RISKS

The value of investments in the Dividend SMA strategy may increase or decrease, which will cause the value of the investor's portfolio to increase or decrease. The investor may lose money on their investment and there can be no assurance that the strategy will achieve its investment objective and goals.

We define risk as the permanent loss of capital. Our primary efforts to manage risk will center around (1) paying reasonable prices for companies that meet the criteria laid out above and (2) avoiding dividend cuts at all costs.

Risks inherent in this strategy are:

- **Dividend income risk:** Companies that issue common or preferred stocks that pay dividends are not required to continue to pay dividends, therefore, there is the possibility that a company could reduce or eliminate its dividend.
- **Potential changes to dividend tax rates:** This could impact a corporation's willingness to pay dividends.
- **Sector concentration:** High dividend payers tend to cluster in certain sectors (financials, utilities, telecommunications), so it is reasonable to believe the Dividend SMA strategy will have significant exposure to these sectors at any given time.
- **Interest rate risk:** Dividend stocks often compete with other income-producing investments that are linked to interest rates, if yields on those other investment choices increase the relative attractiveness of dividend paying stocks may decline.

This strategy is only available as part of a blended portfolio. Account minimums may apply. All investments involve risk and may lose money. MFWM makes no assurance that investment objectives will be met. Clients should be aware that their individual account results may not exactly match the performance of the Model Portfolios. Past performance is no guarantee of future results.

Motley Fool Wealth Management retains the right to revise or modify portfolios and strategies if it believes such modifications would be in the best interests of its clients.

U.S. SMALL & MID-CAP DIVIDEND

PHILOSOPHY AND STRATEGY

Our philosophy stems from the belief that (a) great businesses that adopt a meaningful dividend-growth capital allocation preference can generate wonderful investing outcomes over time, (b) dividends are a more reliable part of total return than capital gains, and (c) investing in smaller capitalization companies provides the opportunity to gain exposure to less efficient components of the stock market.

We aim to maximize yield without jeopardizing the safety of principal, the income stream, or long-term total return potential. Our strategy is guided by three principles:

- **Business first:** Own great businesses that happen to pay dividends and be smaller
- **Dividends second:** Provide a safe and growing stream of cash
- **Be Foolish:** Maintain a long-term, ownership mentality

Most dividend investing is narrowly focused on maximizing yield, which results in sector concentration, ownership stakes in deteriorating businesses, and ignoring funding and business risks. Our SMID Dividend SMA strategy is about owning great businesses that happen to have great dividend policies, be smaller in size, and holding them for the long term.

We will invest in stocks (small and mid cap, domestic, and dividend-paying), preferred stocks (super high-quality, small and mid cap, domestic companies that may or may not pay a dividend), and Exchange Traded Funds (or ETFs). Our market capitalization ceiling is set dynamically by the largest company in the strategy's benchmark, the S&P MidCap 400 (which has recently been $13 billion). Holdings will be combined in an effort to achieve the objective, uphold our philosophy, and provide diversification.

PORTFOLIO MANAGERS

Charly Travers

Nate Weisshaar, CFA

INVESTMENT OBJECTIVES

The SMID Dividend SMA strategy seeks to provide a growing and safe stream of dividend income from smaller domestic companies.

In pursuit of this objective, the team will focus on achieving three goals, which we believe will result in better risk-adjusted returns than the benchmark over the long-term:

- Offer peace of mind by owning quality smaller businesses that pay reliable dividendsvv
- Provide dividend growth above the rate of inflation to grow purchasing power
- Provide a higher yield than the benchmark

WHO SHOULD INVEST

This strategy fits in the small and mid-cap domestic equity slice of an asset allocation. Investors who identify as "conservative" or who prefer a "dividend growth" approach should consider the SMID Dividend SMA strategy.

We will select investments that are appropriate for taxable and tax-deferred account types (avoiding partnerships). While not a substitute for fixed income, this strategy can play a role in meeting income withdrawal needs as part of a larger income-based plan. It is a natural complement to our Dividend SMA strategy.

Portfolio Construction

The SMID Dividend SMA strategy will typically hold 25-45 investments and be near fully-invested at all times. We seek to achieve diversification the following ways:

Asset Type: Typically, at least 75% of the strategy's allocation will be to high-quality, dividend-paying, domestic stocks, with a minority allocated to preferred stocks and ETFs. The common and preferred stocks will be issued by domestic companies with a market cap lower than the cap identified by the S&P MidCap 400 index. If any ETFs are owned in the strategy, they will be classified as small or mid cap on a holding-weighted market capitalization basis.

Sector: The portfolio will be structured to achieve adequate sector diversification, with no single sector accounting for more than 35% of assets.

Style: We believe stylistic diversification within the dividend-producing investment universe is important. The primary distinctions across this "style" framework are the balance between dividend yield and dividend growth and the stability of financial performance.

Foundational	• Very high-quality business • Sweet-spot yield (currently 2–4%) and payout (below 65%) • Stable financial performance
Complementary	• Very high-quality business • Attractive dividend growth or special dividend profile • Moderately stable financial performance
Opportunistic	• Yield-boosters — higher yield, lower dividend coverage • Challenged real dividend growth • Offer business risk or sector diversification benefits

We believe a portfolio built upon core "Foundational" dividend payers, augmented with "Complementary" dividend growers, and topped off with occasional "Opportunistic" positions has the best chance of achieving the SMID Dividend SMA strategy's objective and goals. In addition, this stylistic diversification affords the ability to construct a portfolio with a total return profile driven by dividend growth, supported by dividend yield, and exposed to capital appreciation potential.

Investment Selection

Our investments will be chosen based on in-depth, bottom-up, fundamental research and a commitment to respecting the Strategy's goals and objectives. Our research will be pointed at identifying wonderful smaller businesses that have adopted a capital allocation policy committed to dividends. We give particular care to:

- **Dividend Safety:** cash flow coverage, dividend philosophy, competitive advantage and stability of financial performance
- **Dividend Growth Potential:** end market demand, cash flow growth and payout characteristics, financial flexibility, reinvestment needs
- **Attributes of the entire portfolio:** dividend growth, dividend yield, sector diversification, style diversification

Ultimately, we will select a mix of investments that have an attractive combination of dividend growth potential and dividend yield to drive satisfactory total returns over time. We seek to pay reasonable prices for these investments.

Position Sizing

The strategy will typically have 25-45 positions that vary in size based on their style classification and dividend growth-plus-yield attractiveness.

Style	Typical Portfolio Weight	Maximum Portfolio Weight	Typical Position Size	Position Size Maximum
Foundational	60%	100%	2.5–5.0%	10%
Complementary	40%	50%	1.5–3.0%	5%
Opportunistic	10%	15%	1.0–2.0%	3%

Foundational holdings are those which we expect remarkably resilient operational performance and therefore have a high degree of confidence in our assessment of dividend growth and dividend safety. These positions, therefore, will support larger allocations. Complementary holdings are subject to the same level of analysis and held to the same high standards, but the nature of their operations or dividend profiles leave us less confident in our assessment of dividend growth or dividend safety. Accordingly, these positions will be restricted to smaller allocations. Opportunistic holdings won't generally fit the Foundational or Complementary framework, will be used sparingly, and will be awarded smaller allocations.

Position Management

Given our preference for high quality businesses trading at reasonable prices, we expect the SMID Dividend SMA strategy to exhibit low turnover. Within our style characterization, we anticipate slightly higher turnover for Opportunistic than Complementary positions, and slightly higher turnover for Complementary than Foundational positions.

We will make adjustments to the portfolio over time as new information about each company's business and dividend prospects becomes available. We look to add to positions in businesses with improving competitive positions, business performance financial profiles, and payout philosophies which in turn improve the prospects for the dividend's growth and safety. We will sell positions in businesses with deteriorating competitive positions, business performance, financial profiles, and payout philosophies likely to negatively impact the dividend's growth and safety.

We may trim or add to positions in an effort to achieve more balanced sector and business risk diversification. However, we will not mechanically sell a position that exceeds our position size maximum guideline. Business, quality, and dividend considerations will always remain the primary drivers of position management actions. As noted above, no sector will account for more than 35% of total assets.

INVESTMENT RISKS

The value of investments in the SMID Dividend SMA strategy may increase or decrease, which will cause the value of the investor's portfolio to increase or decrease. The investor may lose money on their investment and there can be no assurance that the strategy will achieve its investment objective and goals.

We define risk as the permanent loss of capital. Our primary efforts to manage risk will center around (1) paying reasonable prices for companies that meet the criteria laid out above and (2) avoiding dividend cuts at all costs.

Risks inherent in this strategy are:

- **Dividend income risk:** Companies that issue common or preferred stocks that pay dividends are not required to continue to pay dividends, therefore, there is the possibility that a company could reduce or eliminate its dividend.
- **Potential changes to dividend tax rates:** This could impact a corporation's willingness to pay dividends.
- **Sector concentration:** High dividend payers tend to cluster in certain sectors (financials, utilities, telecommunications), so it is reasonable to believe the Dividend SMA strategy will have significant exposure to these sectors at any given time.
- **Interest rate risk:** Dividend stocks often compete with other income-producing investments that are linked to interest rates, if yields on those other investment choices increase the relative attractiveness of dividend paying stocks may decline.
- **Small company risk:** Smaller companies have less absolute financial wherewithal to navigate changing economic, geopolitical, and competitive landscapes.
- **Liquidity risk:** Smaller capitalization stocks generally have lower liquidity on major exchanges, which sometimes manifests itself as higher volatility than large capitalization stocks.

This strategy is only available as part of a blended portfolio. Account minimums may apply. All investments involve risk and may lose money. MFWM makes no assurance that investment objectives will be met. Clients should be aware that their individual account results may not exactly match the performance of the Model Portfolios. Past performance is no guarantee of future results.

Motley Fool Wealth Management retains the right to revise or modify portfolios and strategies if it believes such modifications would be in the best interests of its clients.

GET TO KNOW THE TEAM THAT WILL BE TAKING CARE OF ALL OF YOUR FOOLISH INVESTING FOR YOU

Perhaps the single most "Foolish" thing about our Separately Managed Account offering is that every single professional who selects the investments behind Foolish SMAs came up through the ranks of The Motley Fool *before* joining Motley Fool Wealth Management to work on this "auto-pilot" investment solution...

Not to mention a number of the other key team members who you may already be familiar with — and who you can get to know even better below — including:

Nick Crow, CFA

President, Motley Fool Wealth Management

Nick is one of the most eclectic investors to have ever come up through the ranks of The Motley Fool, LLC. As a senior analyst, he contributed to the portfolio-management decisions and security selection for *Motley Fool Pro*, *Motley Fool Options*, and various other newsletter services. Tasked with identifying and developing the next generation of investing talent, Nick led a team that retooled and decentralized The Motley Fool's selective Analyst Development Program.

As president of Motley Fool Wealth Management, Nick is responsible for overseeing the trading and operational teams who support SMAs. He works closely with the portfolio managers to develop and oversee the investment strategies — and develop future wealth management offerings.

Though both a lifelong investor and Fool, before joining The Motley Fool and then Motley Fool Wealth Management, Nick learned valuable leadership skills by proudly serving as a paratrooper in the U.S. Army. Later he used these skills to advise clients, manage teams, and create a development program serving bankers who provided investment advice at a major bank.

Nick has a B.A. in business administration and earned the right to use the Chartered Financial Analyst designation.

Ariana Tobias

Director of Client Experience, Motley Fool Wealth Management

Ariana Tobias donned her first jester hat in 2014, when she joined The Motley Fool's Member Services team. Prior to being named Director of Client Experience for Motley Fool Wealth Management, she specialized in assisting the Fool's premium members on the phone, via email, and at member events across the country. At Fool Wealth, Ariana focuses on making your experience a little easier — from optimizing our client communications to streamlining the process of account creation.

Ariana graduated from Macaulay Honors College at Hunter College with a B.A. in political science.

Bill Mann

Chief Investment Officer, Motley Fool Wealth Management; Portfolio Manager: Dividend, International

Bill specializes in identifying companies with underappreciated competitive advantages and assets. He has experience analyzing a wide range of industries, and his expertise in corporate governance led the U.S. Senate Committee on Commerce, Science, and Transportation to ask him to be an expert witness at a 2001 hearing regarding the collapse of Enron. Before coming to work on Foolish SMAs for Motley Fool Wealth Management, he served as a co-advisor for The Motley Fool's *Hidden Gems* small-cap investment newsletter service, and he was also the founding advisor for The Motley Fool's international stock newsletter service, *Global Gains*.

A sought-after public speaker, Bill has appeared frequently on CNBC, Bloomberg, Fox News Channel, CNN, BBC, CBS, and numerous business radio programs. Before joining The Motley Fool in 1999, Bill was a co-founder of a specialty international telecommunications carrier, and prior to that worked in the energy and telecommunications industries.

Bill holds a degree in international service from American University.

Tony Arsta

Portfolio Manager: Million Dollar Portfolio, Supernova

Tony's focus on statistical analysis and investor psychology complements his value-investing mindset. After joining The Motley Fool in 2008, he worked on *Motley Fool Million Dollar Portfolio*, as well as several other Foolish newsletter services, before moving to work for Motley Fool Wealth Management's Foolish SMAs.

Tony earned his M.B.A. from DePaul University, with a concentration in finance, and also holds a B.S. in computer science from the University of Wisconsin-Madison.

Bill Barker, CFA

Portfolio Manager: Fixed Income, Pro, U.S. Small & Mid-Cap,

Bill initially joined The Motley Fool from 1998 to 2001, specializing in value-stock analysis. After rejoining the company in 2005, he wrote extensively for The Motley Fool online, as well as for three of the company's investing newsletter services: *Stock Advisor*, *Hidden Gems*, and *Pay Dirt*. He also contributed to three published Motley Fool books, before moving to work for Motley Fool Wealth Management.

Before coming to The Motley Fool, Bill worked for the Securities and Exchange Commission in their Office of Investor Education and Assistance, as well as for the U.S. Department of the Treasury in their Office of Foreign Assets Control (Foreign Terrorism Division). Prior to his work in finance, Bill was a trial lawyer for the Commercial Litigation division of the City Solicitor's Office in Philadelphia, and also an associate for Patton Boggs, LLP, in Washington, D.C. He's also been published in *Newsweek* and has appeared as a commentator on CNN, CNBC, CNBC Europe, MSNBC, and The Today Show on NBC.

He earned his undergraduate degree in political philosophy from Yale University and his J.D. from the University of Virginia, followed by his CFA designation in 2008.

Bryan Hinmon, CFA

Portfolio Manager: Dividend, Everlasting, Pro

Bryan has more than a decade of investing experience, specializing in absolute-return, long/short, and options-focused portfolio management. He began working on Foolish SMAs for Motley Fool Wealth Management in 2014 after more than four years at The Motley Fool, where he helped manage the Fool's long/short and options portfolio service, *Motley Fool Pro*. Bryan also served as a senior analyst on *Motley Fool Options* for more than four years, and led the Fool's prestigious Analyst Development Program for two years.

Before life at The Motley Fool, Bryan was a portfolio manager at Bulwark Capital Management, a hedge fund with an approach that balanced fundamental long-term equity investing, options income, and special situations. Earlier in his career, he worked as a research analyst for an asset manager in Florida who provided portfolio management and operated a covered-call hedge fund.

Bryan graduated from Stetson University with a bachelor's degree in finance. He holds the Chartered Financial Analyst designation and is a member of The Boston Security Analysts Society.

David Meier

Portfolio Manager: Everlasting, Million Dollar Portfolio, Supernova

David specializes in identifying the greatest growth opportunities of both today and tomorrow. He's comfortable with both the physics and economics of a wide variety of technologies, which gives him an edge when making long-term investments in companies in the tech field. David joined The Motley Fool in 2005, working alongside Motley Fool co-founder David Gardner as an analyst on *Motley Fool Rule Breakers* and as a mission leader for *Motley Fool Supernova*, as well as an associate advisor for *Motley Fool Million Dollar Portfolio* — before moving on to work for Motley Fool Wealth Management. He's appeared on CNBC Asia, CNN International, and Bloomberg Radio, as well as in publications such as MarketWatch and *Forbes*.

Before working for The Motley Fool, David spent more than a decade as an engineer, designing and developing gas turbines at both Rolls-Royce and General Electric.

He graduated from Virginia Tech with bachelor's and master's degrees in mechanical engineering, and earned his M.B.A. from Wake Forest University.

Charly Travers

Portfolio Manager: U.S. Small & Mid-Cap, U.S. Small & Mid-Cap Dividend

After joining The Motley Fool in 2005, Charly contributed research on biotechnology companies to *Motley Fool Rule Breakers*. He subsequently became an associate advisor for *Motley Fool Million Dollar Portfolio*, and was also one of the founding advisors on the UK investment newsletter *Motley Fool Share Advisor*. In 2014, Charly moved to work for Motley Fool Wealth Management, and focuses on identifying companies that are doggedly committed to reinvesting their profits and earning a high return on capital.

He earned his M.A. in psychology from Illinois Wesleyan University and also holds an M.S. in pharmacological and physiological sciences from St. Louis University.

Nate Weisshaar, CFA

Portfolio Manager: Fixed Income, International, U.S. Small & Mid-Cap Dividend

Nate specializes in international and banking stocks, so it's easy to see why after joining The Motley Fool in 2007 as an equity research analyst for *Motley Fool Global Gains* and several other newsletters, he subsequently moved to London to become a co-advisor on *Motley Fool Champion Shares Pro* and *Motley Fool Share Advisor* (The Motley Fool's newsletter products targeted to the UK market) from 2011-2014, before coming to work for Motley Fool Wealth Management's Foolish SMAs.

After graduating from the University of Arizona with a B.S. in finance, Nate worked as a banking consultant at United Bankers' Bank in Minnesota.

If You Need Additional Information on Foolish SMAs — or You'd Like to Become a Client of Motley Fool Wealth Management…

You can visit our Fool Wealth homepage any time day or night from your laptop, PC, smartphone, or tablet at:

www.FoolWealth.com

Or, if you'd rather to speak with one of our friendly, eager-to-be-of-service Client Care Experts during normal business hours (9 a.m. - 5 p.m. ET Monday though Friday), you can call them toll-free at:

844-408-4391

And should you have any questions about what you've read here… our Foolish SMAs… or Motley Fool Wealth Management in general, you can always e-mail them to:

AskUs@foolwealth.com

And someone will be happy to get back to you right away.

We look forward to showing you how we can help you make Foolish investing easier, more personalized and less time consuming than you ever thought possible.

On behalf of everyone here at Motley Fool Wealth Management, thank you again for your interest. And, as always, Fool on!

Motley Fool™ Wealth Management

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