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TO: CAPITAL STRATEGIES CLIENTS

***SUBJECT: PORTFOLIO RETURNS Vs.
CSFC MODEL PORTFOLIOS***

To provide our clients and potential clients the means for evaluating our skills at portfolio management, we created the Capital Strategies model portfolios to provide the basis for most of our client's actual investment portfolios. We have utilized these model portfolios for the past five years tracking two different risk and return objectives; aggressive and balanced. These model portfolios are designed to be representative of the actual assets that we manage. They are a reliable guide for the investment returns that our clients have received or would have received under our investment management during the time periods specified.

However, there are certain reasons why a client's actual investment portfolio may differ from the Capital Strategies model portfolios returns in any given period of time:

- 1) Model portfolio returns are calculated before fees, so that they are comparable to indices such as the Dow Jones Industrial Average, which do not have fees taken out. Actual client portfolios will have fees deducted quarterly.
- 2) Model portfolio returns assume no inflows or outflows during the time period. Actual client portfolio may have additional contributions or withdrawals. To the extent that contributions put generate cash in the portfolio (at least until it is invested), extra cash will reduce gains in an up market or reduce losses in a down market. Withdrawals will use up cash, which will have exactly the opposite effect (magnifying gains or losses).
- 3) The buying or selling of securities during a quarter, unless it is done in exact proportion to the composition of an actual portfolio, may slightly raise or lower returns. This is unavoidable, even if you calculated them to the penny; you can only buy or sell a mutual fund at that day's close, and the fund's price likely most will have changed.

- 4) For certain portfolios that we manage (especially Roth IRAs or custodial accounts for minors) they may have lower balances, and as such cannot purchase the normal ten to thirteen mutual funds that we typically hold in our models and in the majority of our clients' actual portfolios, due to minimum investment amounts that are required by some mutual funds.
- 5) Certain fund families, such as Vanguard, do not reimburse Waterhouse for fund trading costs, so Waterhouse passes those to investors. While these costs are quite low (\$24) they are not reflected in model portfolio returns.

At Capital Strategies, we try to be very conscientious about managing our client's investment portfolios and accurately representing your investment results. We want to be sure you that are aware of the factors that may cause a divergence between the CSFC model portfolio returns and your account(s) investment returns. We wanted to address this directly so that if you saw a discrepancy between your portfolios investments returns and the model portfolios you would not think there was any lack of our attention to your investment portfolio.

Before we began managing your investment assets, we determined together your risk and return objectives. We then constructed an investment portfolio that reflected our discussions and your investment objectives. As investment managers for your assets we want to know that we take this responsibility seriously.

Capital Strategies Financial Corporation

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