

## THE IMPORTANCE OF MANAGING RISK

A fundamental idea in finance is the relationship between risk and return. The greater the amount of risk that an investor is willing to take on, the greater the potential return. The reason for this is that investors need to be compensated for taking on additional risk.

For example, a U.S. Treasury bond is considered to be one of the safest investments and, when compared to a corporate bond, provides a lower rate of return. The reason for this is that a corporation is much more likely to go bankrupt than the U.S. government. Because the risk of investing in a corporate bond is higher, investors are offered a higher rate of return. However, a U.S. Treasury bond is exposed to different types of risk which could include inflation or purchasing power risk, and political risk.

Since every investment is exposed to some form of risk, working with an expert who manages those risks is important. The three primary systematic risks are Market risk, Interest rate risk, and Inflation or purchasing power risk. There are also four primary unsystematic risks, they are business risk, liquidity risk, political risk, and regulatory risk. Fusion Capital Management focuses on building values-based investment strategies for our clients focusing on what is important to our clients, and then implanting a plan that aims to achieve a sound risk-adjusted return



## HOW DO WE MEASURE RISK-ADJUSTED RETURNS?

One measure of risk adjusted returns is Sharpe Ratio. The Sharpe ratio tells us whether a portfolio's returns are due to smart investment decisions or a result of excess risk. This measurement is very useful because although one portfolio or fund can reap higher returns than its peers, it is only a good investment if those higher returns do not come with too much additional risk. The greater a portfolio's Sharpe ratio, the better its risk-adjusted performance has been. A negative Sharpe ratio indicates that a risk-less asset would perform better than the security being analyzed.

The two portfolios detailed below have an almost identical stock-to-bond ratio, yet have wildly different risk characteristics. Fusion believes that the best way to manage risk is to actually measure it. This provides an optimal starting point for portfolio analysis and maximizes precision in Fusions' client suitability recommendations.

### PAST PERFORMANCE DOES NOT GUARANTEE FUTURE RESULTS

All data in this marketing piece was delivered by Morningstar as of 11-30-2009. The performance figures illustrated in this Performance Update represent the model portfolio returns only for the time periods indicated. These model portfolios do not reflect the actual investment results of any individual client participating in the asset allocation program, but represent the hypothetical performance of the models as initially established. All investments, including investments in the mutual funds included in the model portfolios, involve the risk of potential investment losses as well as the potential for investment gains. Prior performance is no guarantee of future results and there can be no assurance, and clients should not assume, that future performance of any of the model portfolios will be comparable to past performance. Further, the prior performance figures indicated herein represent portfolio performance for only a short time period, and may not be indicative of the returns or volatility each model portfolio will generate over a long time period. The performance of the models should also be viewed in the context of the broad market and general economic conditions prevailing during the periods covered by the performance information. The performance indicated for each model portfolio does not include any deduction for the advisory fees charged by each individual advisor utilizing the portfolios (which generally range from 1.00% - 2.00% per annum depending upon, among other things, the size of the client account) or any custodial fees charged by the custodian selected by the client. Actual client returns would have been reduced by the amount of these advisory and custodial fees. The actual results for the comparable periods would also have varied from the model portfolio results based upon the timing of contributions and withdrawals from individual client accounts. The performance figures contained herein should be viewed in the context of the various risk/return profiles and asset allocation methodologies utilized by the asset allocation strategists in developing their model portfolios, and should be accompanied or preceded by the model portfolio descriptions for each strategist. For further information concerning the calculation of prior performance figures contact your representative.

	Portfolio A <small>30/70 Stock to Bond Ratio</small>	Portfolio B <small>30/70 Stock to Bond Ratio</small>
3 Yr. Standard Deviation	12.73	16.57
3 Yr. Sharpe Ratio	0.23	0.03
Best 3 Yr. Return	11.14%	14.75%
Worst 3 Yr. Return	-2.98%	-8.03%
3 Yr. Avg. Return	4.41%	1.30%



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