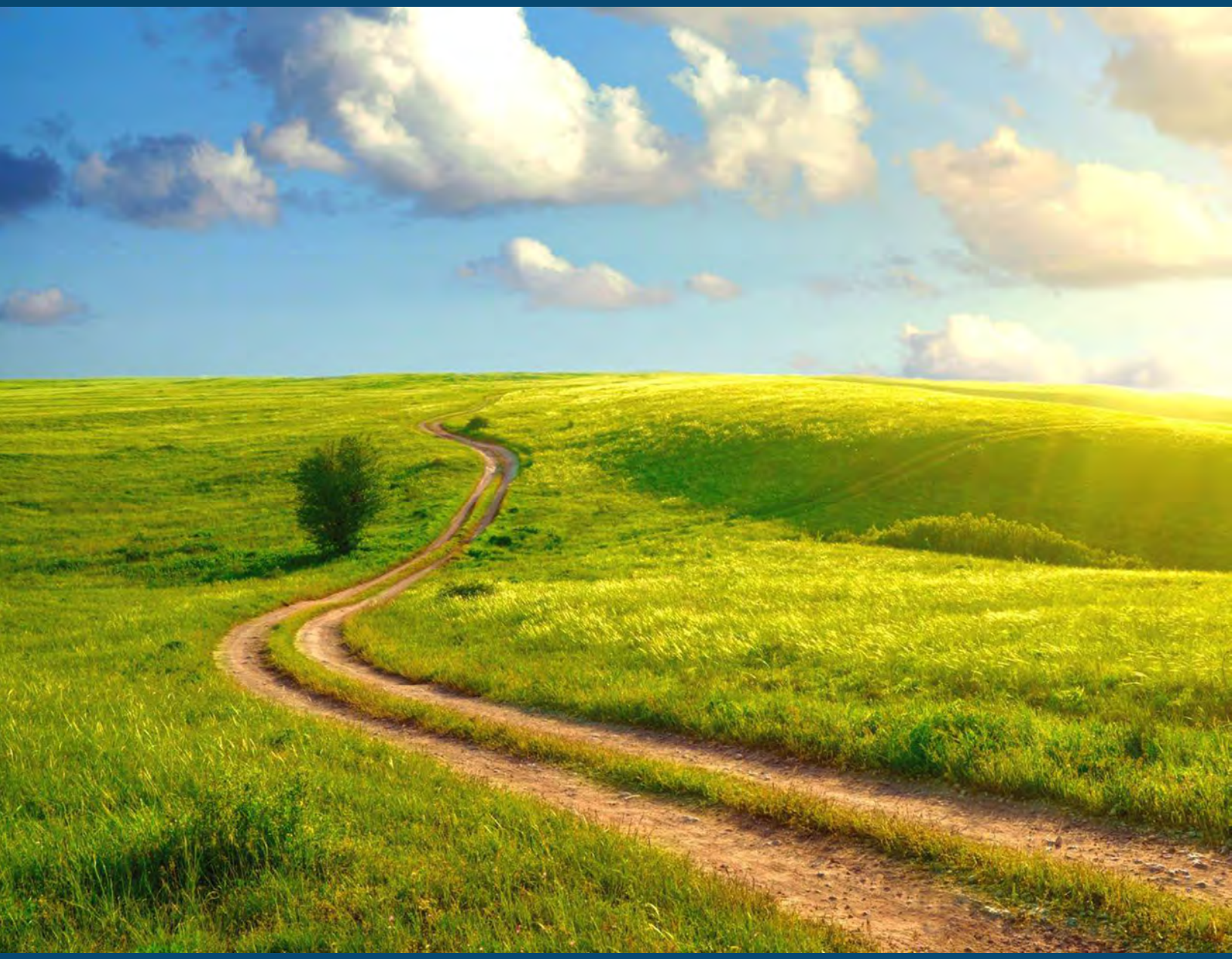
What to Expect



Your Relationship with Camelot Portfolios LLC

by
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"There is only one day left,
always starting over:
it is given to us at dawn
and taken away
from us at dusk."

Sartre

INTRODUCTION

We believe that each person with whom we work, from clients to colleagues, should know exactly what to expect from their relationships with us. As a company and as individual professionals we share an absolute commitment to do what is right. Always. That is what we expect from ourselves, from the team that works alongside us on your behalf, and from every allied professional whose services we employ to help you to achieve the outcomes that matter most to you.

Helping you to achieve your ideal outcomes requires the development of a relationship in which your expectations of us, and our expectations of you, are always placed front and center in everything we do. We all know that planning can be a complex process, and that sometimes the noise created by the maze of regulatory language, market gyrations, and the endless speculations of media 'experts' can make what should be a relatively straightforward client experience seem more like a plunge into a heavy fog bank.

We'd like to change that.

In this paper we share our investment philosophy, how we believe success should be measured, and how you can expect us to operate in a wide range of market conditions. We address the perennial question: *"why did my cousin Bob's portfolio perform better than mine last quarter?"* and we provide a list of life circumstances (both expected and unexpected) which you should share with your advisor.

We will add more 'what to expect' categories as time goes on. As we do, please feel to contact your advisor with any question about what you can expect in your relationship with Camelot Portfolios. After all, our first expectation of you is that you will have plenty of questions.

Camelot Portfolios Investment Philosophy Overview

Building a portfolio to generate cash flow so that it is available when you need it is our primary focus. We are guided by the belief that all investing is done for the purpose of generating a current or future cash stream. Therefore, we focus on cash flow metrics as the primary driver of the investment decisions we make.

Our intention is to deliver your target annual return over a normal business cycle of 5-7 years. We also acknowledge that you may wish to measure your success across a shorter time period. In that instance, we offer our *Cash Flow Benchmark* solution.

What is a Cash Flow Benchmark?

The Cash Flow Benchmark is a tool that we use to track the short-term success of particular investments. It quantifies the cash flow an investor should be able to generate year to year if the value (though not necessarily the balance) of their account is increasing in line with the desired average annual return they are seeking.

Across the course of a normal market cycle this can also produce the desired target annual return for a portfolio. And, it provides the investor with a tangible method by which to determine if their account is on track year to year–without having to rely on short-term total return figures, which can be unpredictable.

Quick Tip

We define the "value" of an account as the utility that is required to supplement the investor's desired outcome. An example of this could be expressed as determining $x per year in cash flow to supplement the investor's retirement income. In basic terms, the "value" is what will be used to achieve the investor's future outcomes. It is possible (and common) for an individual account "balance" to decrease while the account "value" remains the same, or even increases. This can occur during the course of volatile markets when we sell one position for another that we believe has been recently 'oversold' by investors.

How should I set my benchmark?

The most relevant benchmark for many investors is the measurement of how successfully they achieve the outcomes their investments were designed to deliver. We recommend that you work in concert with your advisor to quantify the future stream of cash that may be required to meet your (unique) desired outcomes. This will enable you to determine whether or not your current plan will meet your future needs. If the projections developed in this process show a possible cash shortfall in the future, there may be alternate solutions that your advisor can recommend to help your plan get back on track.

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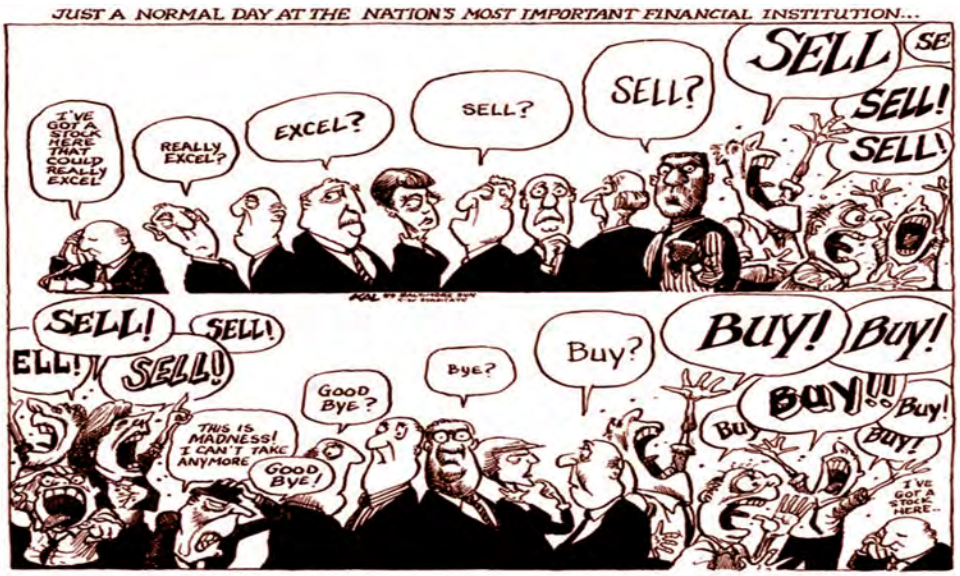
Why is short-term total return unpredictable?

The price of publicly traded investments (other than IPOs) are determined by buyers and sellers in a secondary market. In fact, prices are constantly being negotiated to determine what a single share of a company is worth. The price of a share of a company should be determined by the value that the company produces through its normal business operations, based both on past performance and future forecasting. In reality, the price of a share can also be impacted by many other factors and forces, such as (but not limited to):

- World events
- Interest rates
- Key employee changes
- Competition
- Weather
- Fear related events/developments

"Everything we hear is an opinion, not a fact. Everything we see is a perspective, not the truth."
Marcus Aurelius

Bottom line: the price of a share can be influenced by factors other than the actual 'book value' of a company. Some of these factors are authentic and should be taken seriously when determining the future value of a given investment. In some instances, though, unsubstantiated factors (ones whose economic impact are difficult-if not impossible-to quantify) can also influence the market price fluctuations of a particular company's shares. Such unsubstantiated price movements have the potential to reduce a company's share price even in a market environment where the share price should probably be increasing. The cartoon below encapsulates this phenomenon nicely:



Source: International Herald Tribune, October 27, 1989. Kal, Cartoonist and Writers-Syndicate, 1989.

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Measuring Success During Various Time Periods

The ability to properly evaluate short, mid, and long-term success is an important skill-set for the prudent investor to possess. We believe that the process of making fair and relevant evaluations of investment performance requires looking at performance from multiple vantage points. In such a process the investor weights the importance of each perspective differently, based upon the time frame in which the 'snapshot' of the evaluation is made. To quote the classic Dinah Washington song: *"What a difference a day makes!"*

Each data point used in the evaluation process is important, of course, but that does not mean that it is relevant for every time period. Here are what we consider to be four very important data points, and what we believe to be their relevance at specific points in time:

Measuring Short-Term Performance 1-3 Years

How We Evaluate Success 1-3 Years				
	Buying Power	**Risk/Volatility**	**Total Return**	**Account Balance**
Relevance as Indicator of Short-Term Success	Very Relevant	Relevant	Less Relevant	Less Relevant
Measured By	Current Cash Flow or Potential Cash Flow	Price Fluctuation Relative to Client Risk Profile	Percentage Growth	Account Balance
Measurement Tool	Cash Flow Benchmark	Performance Report	Performance Report	Statement or Performance Report

A given investment strategy's ability to outperform an index in the long run is dependent upon that strategy acting differently than a benchmark index during shorter periods of time. This means that there will be short periods (generally 1-12 months) where a strategy could under perform its stated index benchmark from a return percentage standpoint. However, over the normal 5-7 year business cycle a well-designed strategy should begin to outperform an appropriate index benchmark from an annualized total return perspective.

We would love to achieve each client's total return objectives in the first 3 years, of course. In reality, no one can predict what will happen in the markets in the short-term.

Because we focus on cash flow fundamentals, we are comfortable with the price fluctuation of assets as long as cash flow metrics support that your buying power is consistent and rising, even in a down market.

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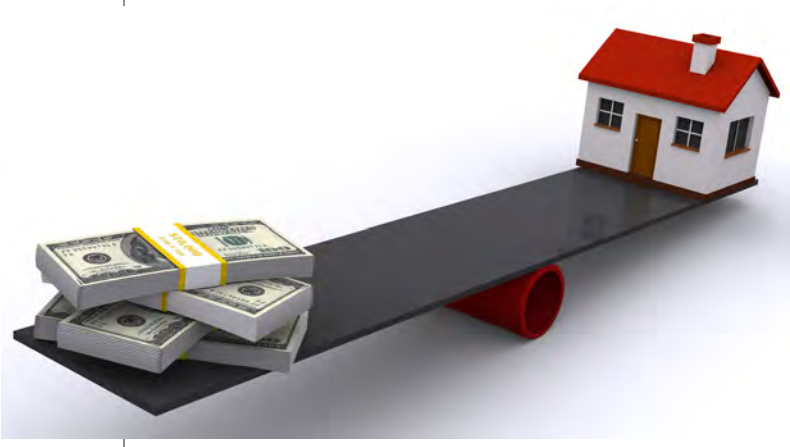
In the short-term, our goal is to limit the amount of volatility in each client's account to the level they stated they are comfortable with in the investment risk profile that we developed with them during the account setup process. We also aim to keep the buying power of each client's assets consistent and rising. An analogy that we use to describe this strategy illustrates the point using the market value of a rental property: the value of that property may seesaw from year to year, not unlike an investor's daily account balance. But the rents that the owner receives are consistent (and probably rising over time), and will remain so until housing prices recover. This simplified example assumes that the tenant continues to rent the house and pays on time. Those risk factors can be mitigated with the judicious application of background and credit checks, a process that is not unlike some of the due diligence investors use to evaluate a stock.



Over time we expect the housing market (and the stock market) to increase in value. In the short-term, then, the price at any given moment is not as important to us as the fact that we are consistently and dependably receiving the rent, and that the rent is increasing over time.

We view an investment portfolio in the same way. The daily account balance in the short-term (1-3 years) is less important in most cases than the portfolio's ability to generate cash flow. That is why we consider buying power the most important metric for measuring short-term performance.

Measuring Performance 3-5 years

How We Evaluate Success 3-5 Years				
	Buying Power	**Risk/Volatility**	**Total Return**	**Account Balance**
Relevance as Indicator of Mid-Term Success	Very Relevant	Relevant	Relevant	Relevant
Measured By	Current Cash Flow or Potential Cash Flow	Price Fluctuation Relative to Client Risk Profile	Percentage Growth	Account Balance
Measurement Tool	Cash Flow Benchmark	Performance Report	Performance Report	Statement or Performance Report

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We begin to consider account value and total return more relevant after the passage of a moderate time period, usually about 3-5 years. However, given that time frame (3-5 data points) to evaluate average annual return, we continue to put greater emphasis on measuring cash flow relative to desired outcomes. Account value is important, of course, but we believe it should still be evaluated as a less important measurement of success at this stage. Depending on the market conditions leading up to a client's review period, their account balance at any given point could lead them to experience a gamut of emotions, from unsubstantiated fear to misplaced euphoria.

At this stage, regardless of how the account value or total return metrics compute, we believe that investors should stay grounded in the most important metric for determining success for actual outcomes–***cash flow metrics.***

Measuring Long-Term Performance 5-7+ Years

How We Evaluate Success 5-7+ Years				
	Buying Power	**Risk/Volatility**	**Total Return**	**Account Balance**
Relevance as Indicator of Long-Term Success	Very Relevant	Relevant	Very Relevant	Relevant
Measured By	Current Cash Flow or Potential Cash Flow	Price Fluctuation Relative to Client Risk Profile	Percentage Growth	Account Balance
Measurement Tool	Cash Flow Benchmark	Performance Report	Performance Report	Statement or Performance Report

When an individual investor decided to buy a specific investment or strategy, they probably based their decision to some degree on an evaluation of a 5+ year track record of performance. They may also have relied on their advisor to assess that performance. Notwithstanding exceptional market anomalies like we saw in 2008, after 5-7 years the investor should see the performance metrics referenced above begin to meet or exceed their original expectations. Identifying and sharing a clear understanding of those expectations with the advisor from the very beginning is critical. Such a process will only increase the investor's chances of success.

I have accounts elsewhere that are performing better; why is that?

If you manage a portion of your own wealth, or hire multiple asset managers through one or more advisors, it is important to evaluate each strategy or portfolio separately on its own merits, within the parameters of the specific expectations you set for that particular strategy or investment.

Comparing the performance of multiple accounts that are allocated and managed differently (and that may actually be designed to achieve completely different objectives) is a bit like the proverbial comparison of apples to oranges. The process of wealth management can vary from one professional management firm to another, and each strategy will likely perform differently as market forces impact them in unique ways, and at different times.

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Making snap decisions based on the comparative performance of separate accounts managed by separate firms based only upon the balance in the separate accounts on a given day is usually not a productive course of action for the investor. In fact, in our experience, comparisons that do not take into account all of the reasons the accounts performed differently can lead to decision-making that can border on the irrational.

If multiple advisors are managing your money, here is what we recommend so that you can have the best opportunity to achieve the best outcomes:

1. Be open with each advisor about the other accounts. Make sure each advisor understands how the other account is being managed. This will help them manage as a team, and it can limit the possibility that you are under or over diversified in your investment selection.

2. Evaluate your success according to your achievement of desired outcomes, not according to the performance of individual advisors. Using two advisors to "determine who is best" so that you can eventually allocate all assets to "the winner" is a poor strategy. Not only do you create a competitive environment that is more conducive to taking risk, but you take away the focus from what truly matters–your desired outcomes–and place it on something that is less relevant, like total return of Advisor A vs Advisor B.

About Generosity

Operating in an industry where success is regularly measured by accumulation of wealth can distract us from what truly matters. We believe that generosity should be a regular and intentional part of an investor's journey. We are all called to be generous givers, and our experience is that there is great joy to be had from holding money with an open hand. By offering investment solutions and expertise that allow investors to leverage their wealth for generosity, we aim to give all clients the opportunity to experience the joy that comes from generosity.

As a client of Camelot Portfolios, you can expect to have the opportunity to use your assets to leverage your desire to give. We offer clients the opportunity to give a portion of their investment management fee to charitable causes that we have prescreened for effectiveness and efficiency. We also have a team of professionals that specialize in helping you strategically structure your portfolio so that you can make the most of your generosity.

Our team is committed to leading by example when it comes to generosity. We encourage employees to give personally by offering a gift matching program, we direct a portion of our profits to various charitable causes, and we encourage staff to donate their time and talent through local volunteer opportunities.

"And whoever gives one of these little ones even a cup of cold water because he is a disciple, truly, I say to you, he will by no means lose his reward." - Matthew 10:42

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What to expect – Various Market Conditions

Down Market – Historically, strategies that focus on cash flow have outperformed in down markets relative to their benchmark. This does not mean that a given account will not experience downside risk, of course. Instead, it typically means that risk is reduced compared to the relative benchmark. If the strategy has the ability to reduce downside risk then it will contribute positively to the clients' ability to outperform in the long run.

Keeping a Healthy Perspective – *Down Markets* – Down markets often provide opportunities for prudent investors to take advantage of irrational decisions made by other investors. Many people fear down markets because they correlate any decrease in their account balance with a "loss" of value or buying power. We recommend that clients avoid this trap by tracking their cash flow (or potential cash flow for growth clients). That's one of the best ways for the investor to determine the true value of their portfolio at any point in time.

Sideways Market – A sideways market experiences regular volatility but does not move consistently in one direction or the other. These markets can also create opportunity for longer-term out performance. A cash flow strategy attempts to take advantage of these markets by using accumulated cash, or by shifting current holdings into investments that are selling at a discount to the their long run value, and/or that are paying a higher cash flow for a similar risk adjusted return expectation.

Keeping a Healthy Perspective – ***Sideways markets*** are often marked by roller coaster rides of emotional ups and downs. We often see this when the market is trying to achieve equilibrium, often after an extended period of price appreciation. Opportunities exist in sideways markets, but they are more difficult to find than in a glaring down market. Some sectors of the market move in positive directions, while at the same time others fall flat. This is one of those times where keeping a long-term focus on success is important, particularly when it comes to staying alert to the fact that short-term price movements have the tendency to make many investors second guess what could be some good strategies.

Up Market – We evaluate performance in appreciating markets based on whether it is a long term appreciation (or "up" market) or a short-term "up" market. In many cases we expect cash flow strategies to lag in a long-term appreciating market. This is because a cash flow focused portfolio generally includes investments that are less speculative and are focused on companies that are more established and less constrained by debt. At the same time, in shorter up markets we seek to outperform, because a short-term up market is normally preceded by a down and/or sideways market where we attempt to purchase positions that sell at a discount to their long term value.

Keeping a Healthy Perspective – ***Up Markets*** – It's not unusual for some investors to be gripped by the "greed bug" in an up market. However, our cash flow strategies focus on removing risk during these markets by allowing cash positions to build. We work the fundamentals, and nothing is more fundamental to investing strategy than "buy low, sell high." The time to "double down" is not after things have already gone well. What investors often miss during an up market is similar to the situation we described in a down market:

An increase in account balance does not mean an increase in value or buying power for investors.

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One might think that if there are certain market conditions in which we expect our cash flow investment philosophy to outperform (down market, some sideways markets, short up market), then it follows that we would want to change our strategy during the market conditions where we expect to underperform (some sideways markets and long up markets). There are two important reasons we do not attempt to do that, and we believe that they are both extremely important for the achievement of long-term success:

1. **Our track record of long-term success** – Our long-term track record (5+ years) speaks for itself. We view the process of investing as a marathon, not a sprint. In our experience, a focused and disciplined approach leads to out-performance across the long haul. We believe that we will be able to meet and/or exceed our investors' desired outcomes in the short-term using cash flow, and that our clients will also be rewarded in the long run for adhering to this discipline.

2. **We don't think anyone can consistently "time" the market** – We do not believe that it is possible to consistently predict the precise beginning and end points of various market conditions. That futile quest has brought about the demise of several investment management firms. The possibility of enjoying the rewards of out-performance if market timing is perfected is what draws other managers to market timing strategies. However, the consequences of what can–and consistently does– happen to portfolios when these strategies are proven wrong, even some of the time, is the reason Camelot avoids them. We aim to reduce timing risk to the greatest degree possible by avoiding timing strategies.

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When should I consider making changes to my account?

We recommend that you contact your advisor should any significant life event occur, including the following:

- A change in your desired outcomes / objectives
- A change in your job, including the loss of your job
- You and / or your spouse retire
- You, your spouse, child, etc. become disabled
- You plan to make significant purchases (home, vacation home, etc.)
- You get married
- You have a child
- You receive an inheritance, bonus or unexpected money
- A serious illness occurs in your family
- You divorce
- Your spouse dies
- You wish to sell (or have just sold) your business
- It's time for college planning
- You wish to plan to make major gifts

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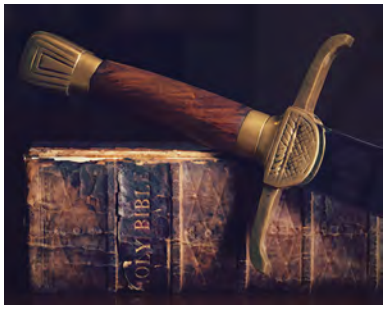
The fact that one or more of these events takes place in your life does not necessarily mean that a change is necessary, but, any one of them could have a significant impact on your existing plan, and therefore it would be prudent to consider what impact a given life event may have on your plan.



Conclusion

The bedrock of any good relationship is constructed with the clear expectations that all parties have of one another. It's not enough to simply have a set of vague expectations in the back of our minds, of course, or to assume that the other parties intuitively know what it is that we expect of them.

The more clearly and unambiguously we communicate our expectations, and the more consistently we hold one another accountable for the expectations to which we mutually agree, the stronger, more enduring and more rewarding our relationship will be.

That's what you can expect from us.

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Important Disclosures

Past performance may not be indicative of future results. Therefore, no current or prospective client should assume that the future performance of any specific investment, investment strategy (including the investments and/or investment strategies recommended by the adviser), will be profitable or equal to past performance levels.

The discussion of investment strategy and philosophy found in this brochure is not intended as any form of substitute for individualized investment advice. The discussion is general in nature, and therefore not intended to recommend or endorse any asset class, security, or technical aspect of any security for the purpose of allowing a reader to use the approach on their own. Before participating in any investment program or making any investment, clients as well as all other readers are encouraged to consult with their own professional advisers, including investment advisers and tax advisors. Camelot Portfolios LLC can assist in determining a suitable investment approach for a given individual, which may or may not closely resemble the strategies outlined herein.

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