Merrill Lynch
Wealth Management
Bank of America Corporation

Behavioral Finance, an often overlooked tool to enhance investment returns for Physicians and Healthcare Professionals.

Presented to: 19th Annual Ambulatory Surgery Centers Conference

Presented by: Joseph M. Scandariato, Jr., CIMA®

10/26/2012

General Disclosures

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This material is provided for discussion purposes only and does not constitute an offer to purchase any security or investment. An offer of interests in any particular investment can only be made pursuant to the prospectus or disclosure document for such investment, which contains important information concerning risk factors, performance and other material aspects of the investment and must be carefully read before any decision to invest is made.

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Related Disclosures

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Alternative Investments

Some or all alternative investment programs may not be suitable for certain investors. No assurance can be given that any alternative investment's investment objectives will be achieved. Many alternative investment products are sold pursuant to exemptions from regulation and, for example, may not be subject to the same regulatory requirements as mutual funds. In addition, each product will be subject to its own specific risks, including strategy and market risk. Certain alternative investments require tax reports on Schedule K-1 to be prepared and filed. As a result, investors will likely be required to obtain extensions for filing federal, state, and local income tax returns each year.

Annuities

Annuities are long-term investments designed to help meet retirement needs. A variable annuity is a contractual agreement where a client makes payments to an insurance company, which, in turn, agrees to pay out an income stream or a lump sum amount at a later date. Annuities typically offer (1) tax-deferred treatment of earnings; (2) a death benefit; and (3) annuity payout options that can provide guaranteed income for life. Early withdrawals may be subject to surrender charges and taxed as ordinary income, and in addition, if taken prior to age 59½ an additional 10% federal income tax penalty may apply.

Variable annuity contract values will fluctuate and are subject to market risk including the possible loss of principal. There are contract limitations, fees and charges associated with variable annuities, which include, but are not limited to, mortality and expense risk charges, sales and surrender charges, administrative fees, charges for optional benefits as well as charges for the underlying investment options.

It is possible to lose money in a variable annuity purchased with an optional protection rider. Variable annuities have holding periods, limitations, withdrawal charges, exclusions, termination provisions, and terms for keeping them in force. Optional riders may be irrevocable and expire without use.

All contract and rider guarantees, optional benefits and any fixed subaccount crediting rates or annuity payout rates, are backed by the claims paying ability of the issuing insurance company. **They are not backed by Merrill Lynch or its affiliates, nor do Merrill Lynch or its affiliates make any representations or guarantees regarding the claims paying ability of the issuing insurance company.**

A Guaranteed Minimum Withdrawal Benefit (GMWB) is an optional benefit that typically must be elected at issue if the owner(s)/annuitant(s) are within the age specifications as set forth in the contract rider and prospectus. GMWB riders require an additional charge (could be applied to the contract value or benefit base) and may be irrevocable once elected. Withdrawals that exceed the annual withdrawal limit may incur applicable surrender charges, negatively affect the GMWB Base, and reduce the contract value and death benefit. Typically any portion of the annual withdrawal limit not withdrawn during a contract year may not be carried over to the next contract year. Clients may be required to allocate assets within specified investment options as set forth in the contract rider and prospectus. Income taxes may apply to annuity distributions to the extent of gain.

A Guaranteed Minimum Income Benefit (GMIB) is an optional benefit available at contract issue provided the oldest annuitant is not over a certain age at issue. A GMIB can provide a safety net for retirement assets in the form of a guaranteed minimum income stream—no matter how the underlying annuity investments perform—as long as no withdrawals are taken. You must annuitize the contract under the terms and conditions of the GMIB in order to receive a guaranteed minimum annual payment for life. GMIB riders require an additional charge and may be irrevocable once elected.

A Guaranteed Minimum Accumulation Benefit (GMAB) is an optional benefit that typically must be elected at issue. GMAB riders require an additional charge and may be irrevocable once elected. Generally, a GMAB rider guarantees purchase payments made under the contract, less withdrawals, regardless of investment performance. At the end of the waiting period, typically 10 years, if the contract value is less than the total net purchase payments, the carrier will increase the contract value to equal the total net purchase payments made under the contract. All optional GMAB riders terminate upon annuitization.

The Guaranteed Minimum Death Benefit (GMDB) is the **s**tandard death benefit under most annuity contracts is equal to the greater of: 1) the current contract value; or 2) the total purchase payments adjusted for any withdrawals. The insurance company may also offer optional guaranteed death benefit riders for an additional charge at contract issue if the owner(s)/annuitant(s) are within the age specifications as set forth in the contract rider and prospectus and are irrevocable once elected.

For non-qualified and standalone qualified annuity contracts, annuitization must occur by the annuitant's age 95 and at that date any Guaranteed Minimum Death Benefit ("GMDB") will no longer apply. Clients should contact the issuing insurance company prior to the maturity date to discuss options including changing the annuitant, if permitted by the annuity contract. For custodially held qualified contracts, as a distributor, Merrill Lynch will not require annuitization at age 95.

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There is no monthly account fee for Beyond Banking and CMA Plus Accounts provided one of the following requirements is met:

a) The account, together with eligible accounts linked through our statement-link service, has assets equal to $100,000 or more, as valued by the prior month's statement. Any outstanding mortgage and home equity line/loan balances with Merrill Lynch Credit Corporation will be treated as "assets" and will be added to the asset total; or

b) The account itself has an Average Deposit Balance in the Merrill Lynch bank deposit program of $5,000 or more, as valued by the previous month's statement. The Average Deposit Balance is calculated by aggregating all daily Merrill Lynch bank deposit program balances from the first day in the prior month's statement period to the last day of the prior month's statement period, divided by the number of days in the prior month's statement period. Other cash or money account balances, such as the CMA Money Funds, do not count toward this calculation.

Related Disclosures (continued)

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Beyond Banking and CMA (continued)

If either requirement (a) or (b) is not met, a $15 per month fee will apply. Establishment and maintenance of a Merrill Lynch CMA or retirement account and payment of the annual or custodial fee is required to maintain a Beyond Banking account.

Additional Beyond Banking accounts linked to the same CMA or retirement account will incur an annual fee of $75 (in addition to the Beyond Banking monthly fee, if applicable).

There is an annual $125 fee for the CMA account enrolled in the CMA Plus service. This is in addition to the monthly fee, if applicable.

We may terminate your enrollment in CMA Plus without notice if you are not incurring the monthly fee; but we determine, in our sole discretion, that you are not receiving the benefits of CMA Plus. Please note this termination will also terminate your enrollment in our electronic bill payment service.

Beyond Banking, Beyond Rewards, Business Signature Rewards, Cash Management Account, CMA and WCMA are registered trademarks of Bank of America Corporation.

Cash Management Account and CMA are covered by U.S. patent numbers 4,597,046 and 4,774,663.

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Commodities

Trading in commodities is speculative and can be extremely volatile. Market prices of the commodities may fluctuate rapidly based on numerous factors, including changes in supply and demand relationships; weather; agriculture; trade; fiscal, monetary and exchange control programs; domestic and foreign political and economic events and policies; disease; technological developments; and changes in interest rates. Certain commodity indexes may be concentrated in only a few industries or even a single industry (e.g., energy) and are thus likely to be more volatile than those comprising a variety of commodities.

Commodities (continued)

The commodity markets are subject to disruptions due to various factors, including the lack of liquidity in the markets and government regulation and intervention. In addition, U.S. futures exchanges and some foreign exchanges have regulations limiting the amount of fluctuation in futures contract prices that may occur during a single business day. Limit prices have the effect of precluding trading in a particular contract or forcing the liquidation of contracts at disadvantageous times or prices.

A commodity index publisher can add, delete or substitute the components included in the index or make other methodological changes that could change the value of such index. You should realize that the changing of commodities included in such index may affect the index, as a newly added component may perform significantly better or worse than the component it replaces.

A commodity index may include futures contracts on physical commodities on exchanges located outside the U.S. Commodity Futures Trading Commission (CFTC) regulations do not apply to trading on foreign exchanges, and trading on foreign exchanges may involve different and greater risks than trading on U.S. exchanges.

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Merrill Lynch Home Loans™ residential mortgage programs are offered and funded by Bank of America, N.A., 4804 Deer Lake Drive East, Jacksonville, FL 32246-6484; toll-free telephone: 800-854-7154.

Merrill Lynch, Pierce, Fenner & Smith Incorporated, 4 World Financial Center, New York, NY 10080, toll-free telephone: 800-338-2814, Member, Securities Investor Protection Corporation (SIPC), does not make commitments for or fund loans.

Residential mortgage programs, options, and property types are not available in all states and jurisdictions and are subject to change without notice. Loans are offered on properties in all 50 states, the District of Columbia, the U.S. Virgin Islands, and Puerto Rico. Additional terms, conditions, restrictions, and costs may apply. Bank of America Corporation, its subsidiaries, and their employees may receive compensation for its products and services.

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Equity investments are affected by stock market fluctuations that occur in response to economic and business developments. Value stocks may also be subject to specific business risks that have caused the stocks to be out of favor. Dividend payments on

Related Disclosures (continued)

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Equities (continued)

preferred securities are not guaranteed, and are paid only when declared by an issuer's board of directors. The amount of a dividend payment, if any, can vary over time. Capital gains, if any, are taxable.

Financial Foundation Report

The Financial Foundation report is an investment advisory service. Clients have sole responsibility for deciding whether, and how, to implement any aspect of the financial plan. There is no obligation to do so or to use Merrill Lynch for this purpose.

Fixed Income

This presentation on fixed income contains general information on fixed-income investing and is for informational purposes only. It should not be construed as investment advice and shall not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of any particular retail financial product or service that may be available through the Merrill Lynch family of companies, in any jurisdiction in which such an offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. Information regarding specific products or services is available upon request.

Unlike CDs, which are insured up to certain limits and offer a fixed rate of return, bond values fluctuate in price so the value of your investment can go down depending on market conditions. The two main risks related to fixed income investing are interest rate risk and credit risk. Typically, when interest rates rise, there is a corresponding decline in the market value of bonds. Credit risk refers to the possibility that the issuer of the bond will not be able to make principal and interest payments. There may be less information available on the financial condition of issuers of municipal securities than for public corporations. The market for municipal bonds may be less liquid than for taxable bonds. A portion of the income may be taxable. Some investors may be subject to Alternative Minimum Tax (AMT).

Insurance

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This presentation was prepared to support the promotion and marketing of long-term care insurance. Long-term care insurance coverage contains benefits, exclusions, limitations, eligibility requirements and specific terms and conditions under which the insurance coverage may be continued in force or discontinued. Not all insurance policies and types of coverage may be available in your state.

International Investing (continued)

International investing presents certain risks not associated with investing solely in the U.S. These include, for instance, risks related to fluctuations in value of the U.S. dollar relative to the value of other currencies, custody arrangements made for a fund's foreign holdings, political and economic risk, differences in accounting procedures, and the lesser degree of public information required to be provided by non-U.S. companies. Foreign securities may also be less liquid, more volatile and harder to value, and may be subject to additional risks relating to U.S. and foreign laws relating to foreign investment. These risks are heightened when the issuer of the securities is in a country with an emerging capital market.

Loan Management Account

The Loan Management Account (LMA account) is provided by Bank of America, N.A. Member FDIC. Equal Opportunity Lender. The LMA account requires a brokerage account at Merrill Lynch, Pierce, Fenner & Smith Incorporated and sufficient eligible collateral to support a minimum credit facility size of $100,000. All securities are subject to credit approval and Bank of America, N.A., may change its collateral maintenance requirements at any time. Securities-based financing involves special risks and is not for everyone. When considering a securities-based loan for a client, consideration should be given to individual requirements, portfolio composition and risk tolerance, as well as capital gains, portfolio performance expectations and investment time horizon. The securities or other assets in any collateral account may be sold to meet a collateral call without notice to the client, the client is not entitled to an extension of time on the collateral call, and the client is not entitled to choose which securities or other assets will be sold. The client can lose more funds than deposited in such collateral account. A complete description of the loan terms can be found within the LMA agreement. Clients should be advised to consult their own independent tax advisor. Some restrictions may apply to purpose loans, and not all managed accounts are eligible as collateral. All applications for LMA accounts are subject to approval by Bank of America N.A. For fixed rate and term advances, principal payments made prior to the due date will be subject to a breakage fee.

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Managed Account Solutions

The information presented is intended to be an introduction to Merrill Lynch's Managed Account Solutions which offers the flexibility and scale in seeking the right investment solution to help you meet your needs. The nature and degree of advice and guidance, array of account options, services, fees structures and investments will differ among these services.

This material is provided for discussion purposes only and does not constitute an offer to purchase any security or investment. An offer of interests in any particular investment can only be made pursuant to the prospectus or disclosure document for such investment, which contains important information concerning risk factors, performance and other material aspects of the investment and must be carefully read before any decision to invest is made.

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Margin Lending

Margin is not appropriate for all investors. Borrowing on margin and using securities as collateral involve certain risks. When considering a margin loan, you should take into account your individual requirements, portfolio composition and risk tolerance, as well as capital gains taxes, portfolio performance expectations and investment time horizon. The risks you should be aware of include:

- If the value of your securities declines, you may be required to deposit additional securities and/or cash into your account.
- Your securities may be sold to meet a “maintenance” call and we may do so without contacting you.
- You can lose more funds than you deposit in your margin account.
- We can increase our “maintenance” margin requirements at any time, and we are not required to provide you with advance written notice.
- You are not entitled to an extension of time on a margin call.
- You should carefully read your account agreement to be sure that you understand your risks and obligations.

Mutual Funds, Exchange-Traded Funds (ETF), Unit Investment Trusts (UIT)

Mutual Funds, Exchange-Traded Funds (ETF) and Unit Investment Trusts (UIT) investing involves risk. Mutual Fund, CEF, ETF or UIT shares are not guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. Investment returns may fluctuate and are subject to market volatility, so that an investor's shares, when redeemed or sold, may be worth more or less than their original cost.

Money Market Funds

Money Market Funds typically invest in government securities, certificates of deposit, commercial paper of companies, or other highly liquid and lower-risk securities. They attempt to keep their net asset value (NAV) at a constant $1.00 per share – the yield goes up and down. But a money market’s per share NAV may fall below $1.00 if the investments perform poorly. While investor losses in money markets have been rare, they are possible.

Retirement Income Service

The projections or other information shown in the Retirement Income Service report regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results and are not guarantees of future results. This report uses a probabilistic approach to determine the likelihood that you may be able to achieve your stated goals and to identify a range of potential wealth outcomes that could be realized. It involves generating thousands of scenarios, each simulating the growth of assets over a specified period of time, based on assumptions that include potential forward-looking rates of return, asset allocation, portfolio value, cash flow and market volatility.

This analysis neither analyzes specific security holdings nor presents the results that could occur from an extreme market event, either positive or negative, due to the low probability of such an occurrence. The results of the analysis may vary over time and with each use if any of the underlying assumptions or profile data is adjusted. Actual results may vary materially from those shown in this analysis.

Securities-Based Loans

Securities-based financing involves certain risks. We can help you take into account your individual requirements, portfolio composition and risk tolerance, as well as capital gains taxes, portfolio performance expectations and investment time horizon. Securities-based financing may not be suitable for all clients. The loan is secured by assets in your Merrill Lynch account(s). Market fluctuations may result in a collateral call, and you may need to deposit additional cash and/or securities to meet the call or risk liquidation of your securities at an unfavorable price. In some cases, the securities pledged as collateral may be liquidated. Among other things, this may have negative tax implications for you, especially if the liquidation price of the securities liquidated exceeds your basis. The firm can sell your assets to meet a collateral call without notifying you, and you are not entitled to choose which securities in the account will be sold. You are not entitled to an extension of time to meet a collateral call.

Credit facilities may be provided by Bank of America, N.A., Member FDIC, or one of its subsidiaries, including ML Private Finance LLC, each an Equal Opportunity Lender. All loans and collateral are subject to credit approval and may require the filing of financing statements or other lien notices in public records. Asset-based and securities-based financing involves special risks and is not for everyone. When considering an asset-based and/or securities-based loan, consideration should be given to individual requirements, asset portfolio composition, and risk tolerance, as well as capital gains, portfolio performance expectations and investment time horizon. For any loan with securities collateral, the securities or other assets in any collateral account may be sold to meet a collateral call as provided in the definitive loan documents and the client is not entitled to choose which securities or other assets will be sold. A complete description of the loan terms will be found in the individual credit facility documentation and agreements. Clients should consult with their own independent tax and legal advisors.

Securities Lending Program

Securities that are on loan on which dividends are paid will receive substitute payment which will be grossed up for the loss of federal tax benefits only, if any. Your Financial Advisor can provide you with information about Merrill Lynch's policy on grossing up substitute payments for the loss of federal income tax benefits. You will lose your right to vote the securities while they are on loan and until they are returned to your account. Securities you loan to Merrill Lynch are not protected by the Securities Investor Protection Corporation, although you are protected instead by the pledge of liquid, high-quality assets as collateral. Merrill Lynch may use the borrowed securities for a variety of purposes, including its own delivery needs or to cover short sales by itself or others.

Structured Lending

Structured lending may involve special risks and may not be appropriate for all clients. In particular, structured lending may be subject to additional credit and legal approval because of special risks and restrictions that need to be carefully considered. Real estate financing and specific program options and property types may not be available in all states and may be subject to change from time to time. As a general rule with respect to each client, consideration must be given to capital gains tax implications, portfolio makeup and risk tolerance, portfolio performance expectations and investment time horizon.

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Depth of Experience

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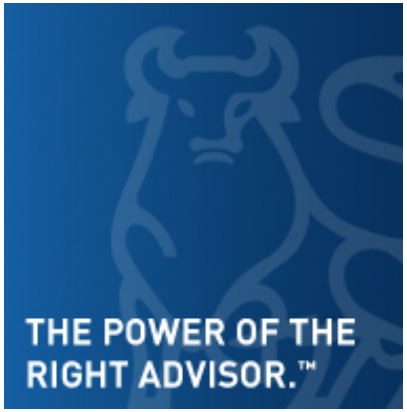
Joseph M Scandariato



The Scandariato Group
The Scandariato Group supports entrepreneurs, corporate executives and physicians with sophisticated guidance and customized wealth management strategies. Our team understands affluent investors' unique challenges and opportunities, and we focus on serving clients whose complex planning needs and ambitious goals demand much more than cookie-cutter guidance. Led by Managing Director – Wealth Management Advisor Joseph Scandariato, we strive to support clients' legacies, pursue their greatest goals and help them enjoy their ideal financial lives.

The Financial Service Triad
Unlike financial advisors who attempt to fit clients into predefined asset allocations or investment models, Joe creates each strategy and portfolio from scratch — based on his deep understanding of the client's unique goals, circumstances and timeline. He refers to his approach as "The Triad," because he addresses more than typical financial guidance to provide clients a full breadth of support through:

- Custom tailored wealth management
- Discretionary portfolio management
- Investment banking services

From offering wealth management solutions to individuals who grow and sell privately held companies to supporting families in managing multigenerational wealth, Joe uses this comprehensive approach to address clients' objectives at every life and financial stage.

World-Class Resources
The Scandariato Group provides clients with access to industry-leading research, specialists and investment opportunities through our affiliation with Merrill Lynch. No matter how complex your needs may be, we will combine these world-class resources with The Triad and help forge a path to pursue your objectives.

Sophisticated Service
Our registered support staff — Elan Jacoby, Blake Beebe, Paul Ochoa and Sara Schmidt — are an experienced team whose focus on superior service provides clients the knowledgeable, caring attention they deserve. As the direct contacts for all administrative, operational, banking and lending inquiries, they provide the daily account support that enables Joe to focus on upholding clients' evolving wealth management needs.

Joseph M Scandariato*(continued)*

Joseph M. Scandariato, Jr., CIMA®
Managing Director – Wealth Management

Joe joined Merrill Lynch in 1990 and has spent his entire financial services career with the Firm. As a PIA Portfolio Manager, he is among an exclusive group of Financial Advisors able to manage portfolios with discretionary authority.

• Bachelor of Business Administration in finance from Loyola University in Baltimore, Md.
• Certified Investment Management Analyst designation through the Investment Management Consultants Association. The educational component for this designation was completed through the Wharton School of Business
• Alliance for Mergers and Acquisition Advisor membership
• Eagle Scout rank from the Boy Scouts of America
• Founder, Chicago Chapter of the National Eagle Scout Association

The Scandariato Group – Registered Support Staff

Elan M. Jacoby, CRPC®
Registered Senior Client Associate

Elan has over eight years of experience working within the financial services industry and joined the Scandariato Group in 2008. He focuses on high-level administrative and operational functions with an emphasis on marketing and client reviews.

• Bachelor of Arts degree in political science from Tulane University in New Orleans
• Chartered Retirement Planning Counselor designation from The College of Financial Planning
• Eagle Scout rank from the Boy Scouts of America
• Officer and Board Member, Chaine des Rotisseurs, the world's oldest and largest international gastronomic society

Blake Beebe
Registered Client Associate

Blake joined Merrill Lynch in 2011. He helps support the Scandariato Group's high-level administrative and operational needs, and brings an analytical, detail-oriented perspective to his work.

• Bachelor of Science degree in finance from DePaul University in Chicago

Paul Ochoa
Client Associate

Depth of Experience

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Joseph M Scandariato*(continued)*

A recent college graduate, Paul joined Merrill Lynch in 2012. He supports our team's analysis and research while helping to serve clients' daily needs.

• Bachelor of Science degree in finance from Cornerstone University in Grand Rapids, Michigan.

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Behavioral Finance

What is Behavioral Finance?

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Behavioral finance is the study of human behavior in a financial context. It acknowledges that the human side of investing is critical to investment success.

Traditional Finance

Behavioral Finance

Behavioral Finance and the Cycle of Market Sentiment

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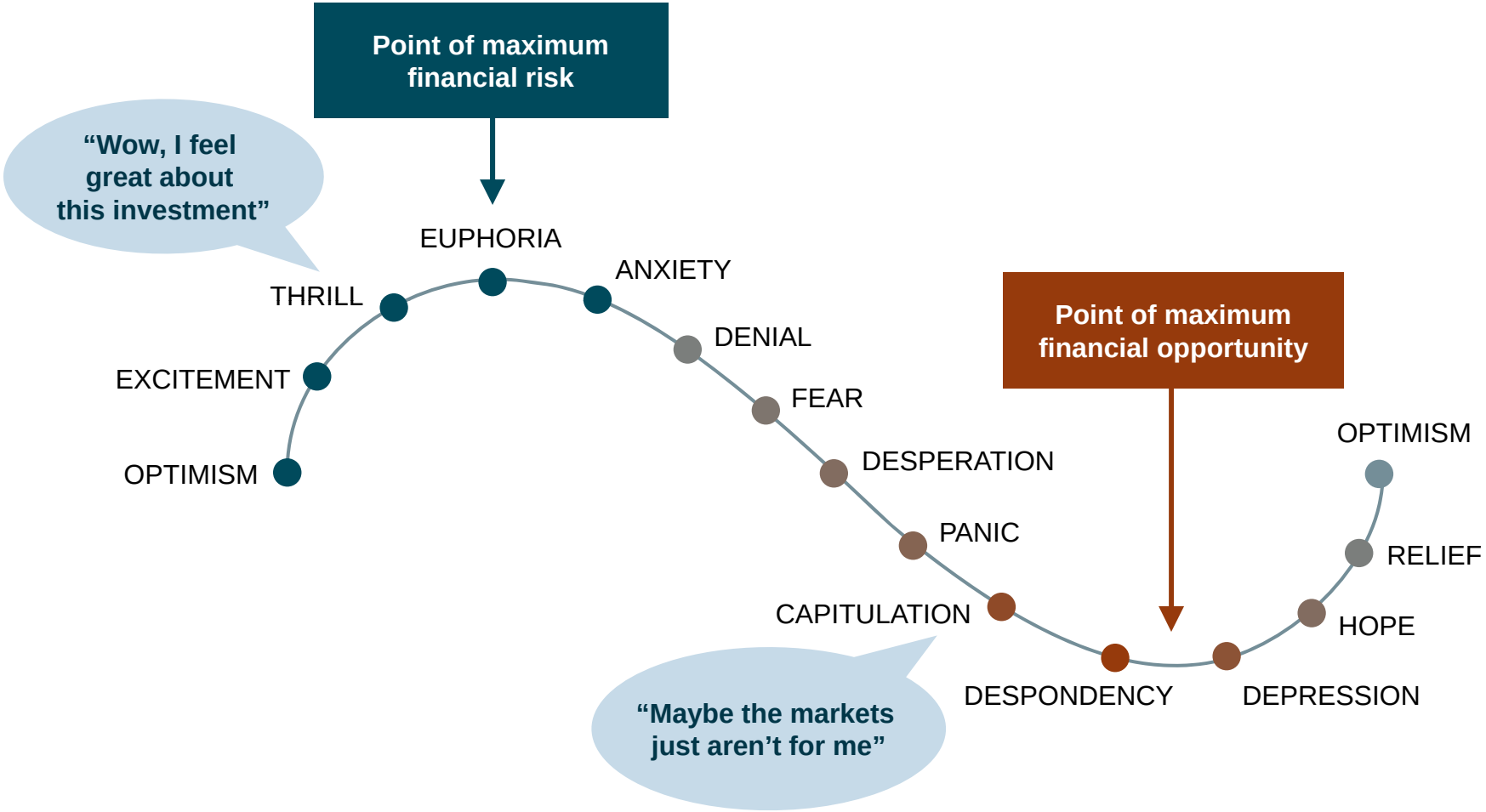

Chart source: Westcore Funds/Denver Investment Advisers LLC 1998

Behavioral Finance and Market Reactions

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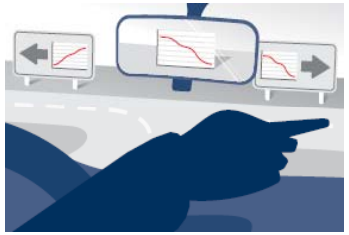
Behavioral scientists have discovered that investors can react to market movements in predictable ways.

Overconfidence

- Extreme confidence in investment abilities
- Linked to overtrading, and diminished returns due to higher transaction costs

Recency



- Predicting future performance from past
- Linked to being invested during the worst days, and not being invested during the best days

Emotions

- Impulsive, reactive decision-making
- Linked to “buy high, sell low” behavior due to exuberance at market highs (buy) and anxiety at market lows (sell)

Herd Behavior

- Following others’ investment strategies
- Linked to being a late mover—in terms of both entering and exiting markets

Getting to the Right Approach

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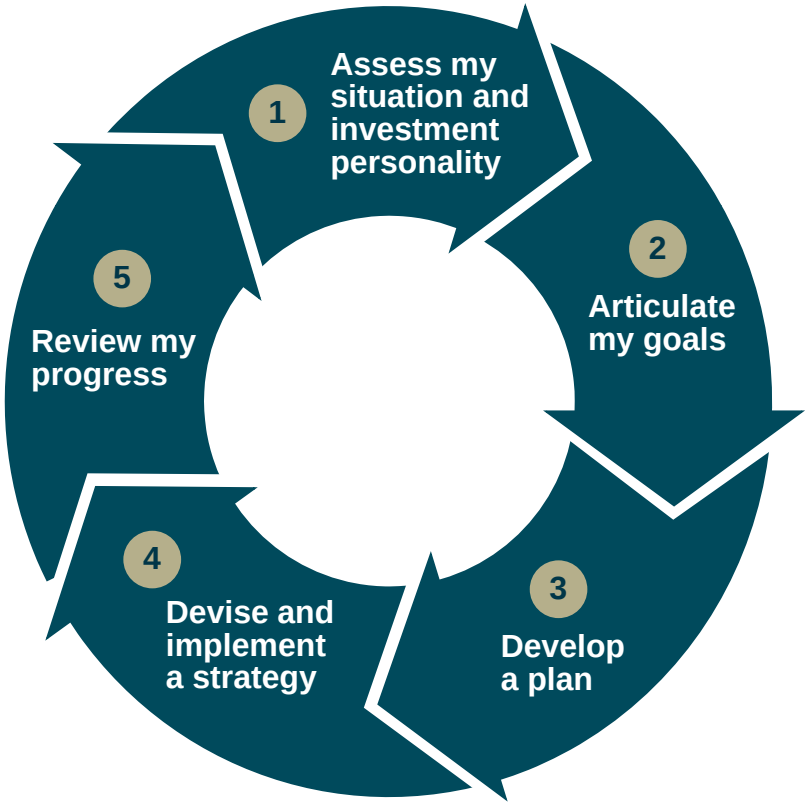
Before evaluating the markets to make investment decisions—look at yourself.



1. Define your attitudes toward investing and assess your financial situation.
2. Articulate and prioritize your needs and goals.
3. Create an investment plan to meet your objectives.
4. Devise a strategy and implement it.
5. Review progress, adjusting the strategy as appropriate.

Behavioral Finance and Investing

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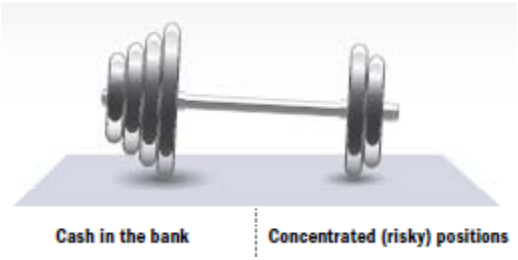
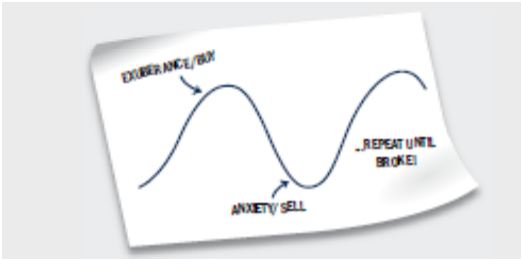
Does your investment approach match your objectives or goals?





Barbell Approach

- Heavily weighted toward conservative investments
- Small proportion in risky, opportunistic investments
- Inflation, longevity risks

Attachment Approach

- Desire to hold on to all assets
- Especially difficult to let go of “losing” assets
- Cash flow, illiquidity risks

Emotional Approach

- Invest based on “gut”
- Classic “buy high, sell low” investor
- “Churn and burn” risks

Starting Off on the Right Foot

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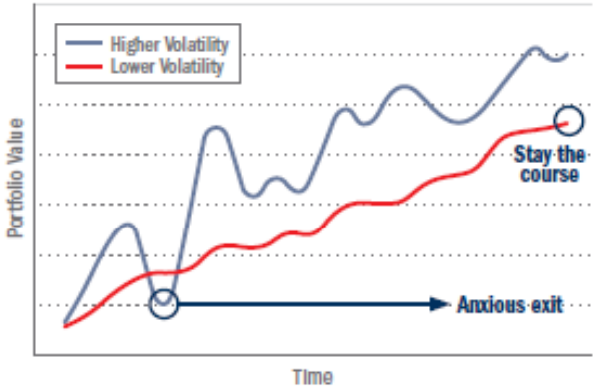
Volatility may cause premature exit



Assessing Your Investment Personality

- Acknowledge that objective considerations are not all that matters
- Incorporate your style and beliefs into the investment solution

  Example: Reducing volatility to avoid an untimely exit

Setting up a plan can help you stay the course

Defining Your Goals and Developing a Plan

- Many potential goals
- Identify goals, and prioritize/recognize trade-offs

  Example: You may want to balance a variety of goals, such as sending your children to school, purchasing a home or funding your retirement

Enhancing an Investment Strategy

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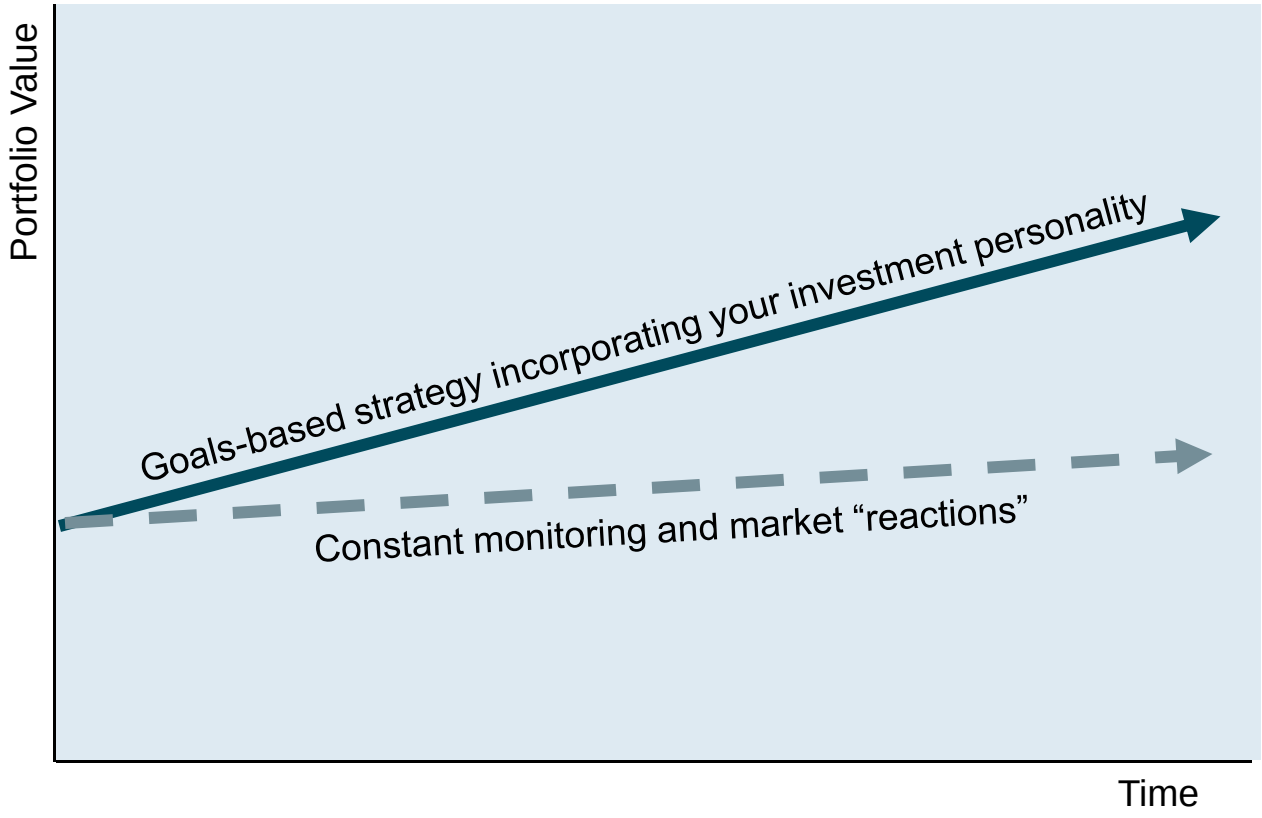
A goals-based approach can be the key to meeting your objectives.



Recent Market Volatility May Cause Conservatism in Younger Investors

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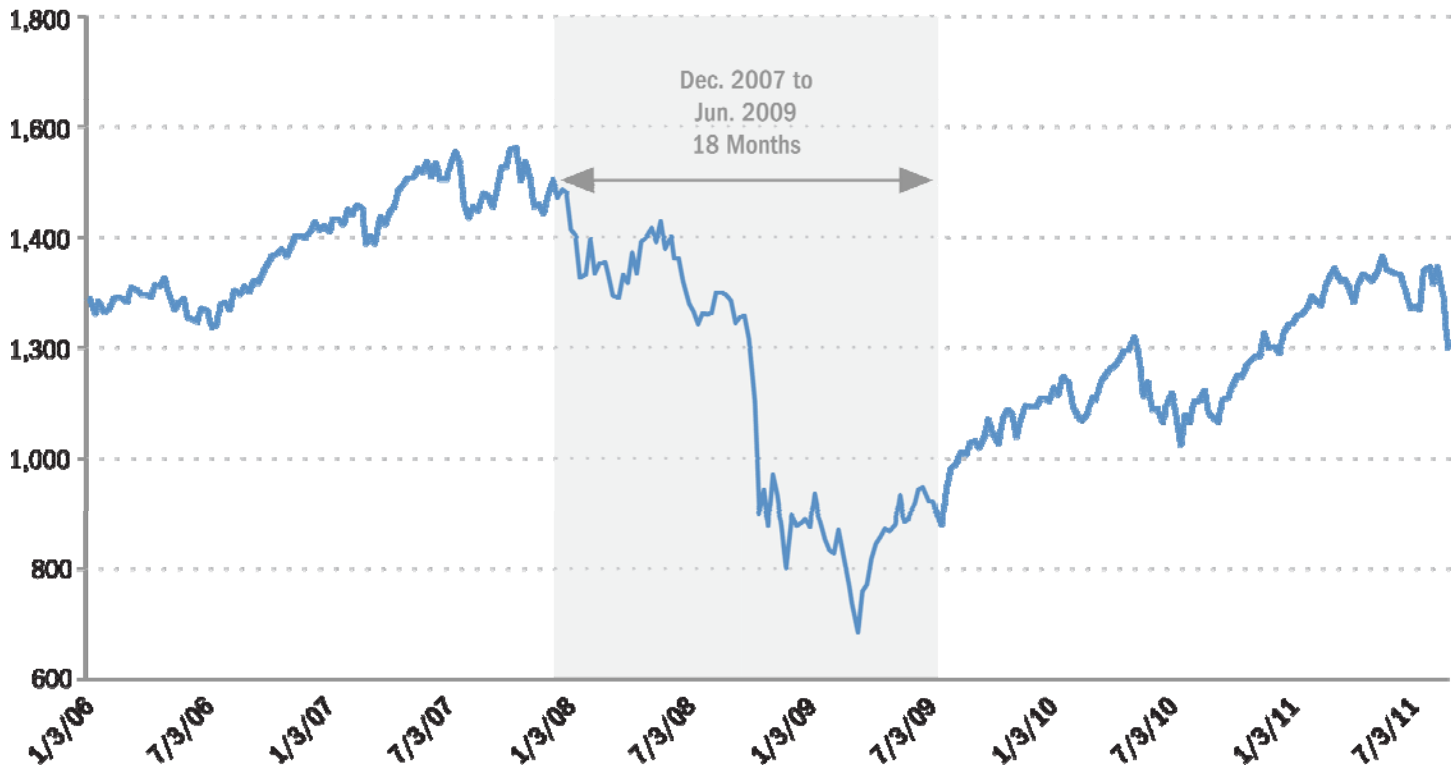
Evaluating historical data critically — including past downturns and their subsequent upticks — can help younger generations objectively consider potential risks and rewards that investing can offer, rather than relying on recent experience alone

Younger Generations' Recent Experience: S&P 500



Source: Merrill Lynch Investment Management & Guidance.

Exposure to Past Market Cycles May Contribute to Older Investors' Willingness to Take on Risk

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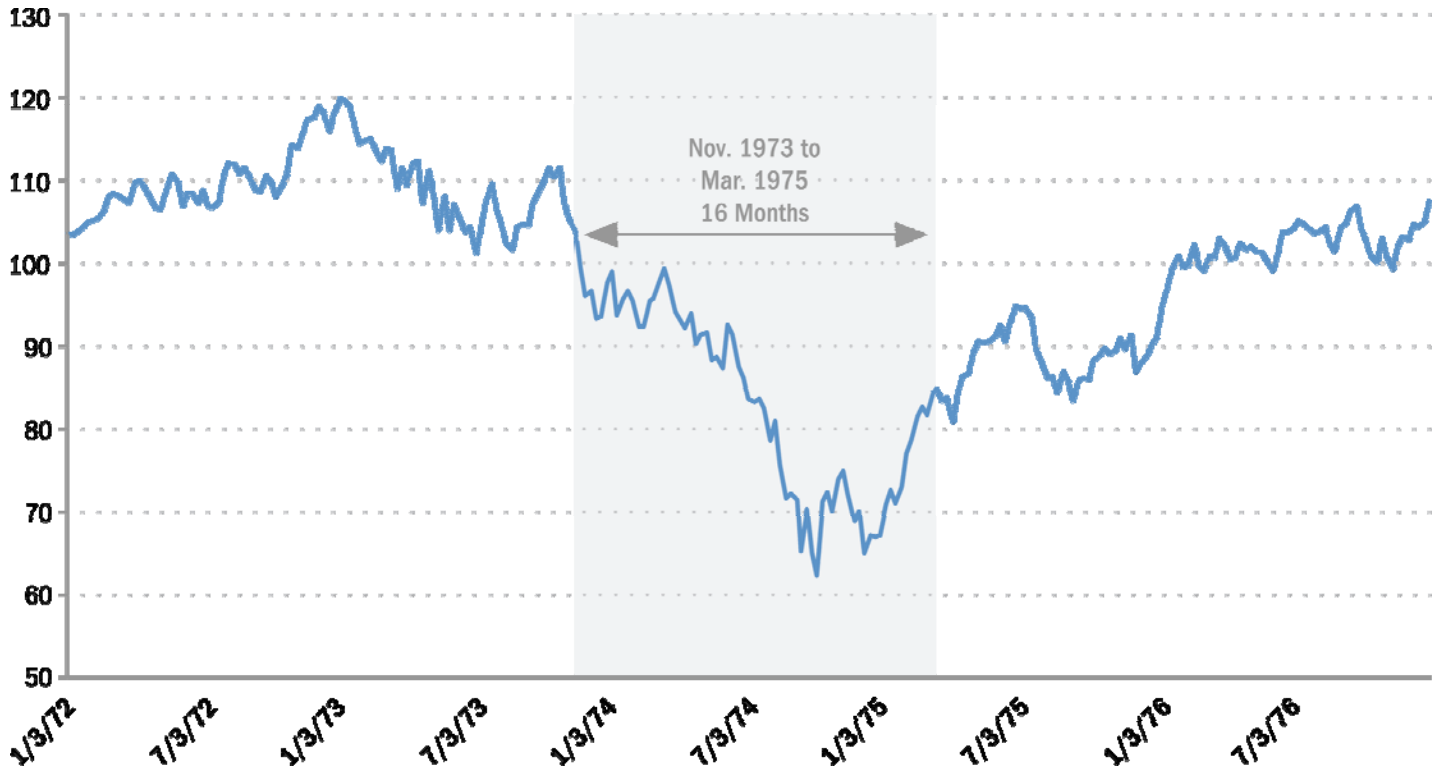
Older investors may be less conservative, or more willing to take risk, because they have the benefit of supplementing recent events with exposure to other market cycles

Older Generations' Historical Experience: S&P 500



Source: Merrill Lynch Investment Management & Guidance.

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Understanding Risk

Personal Risk

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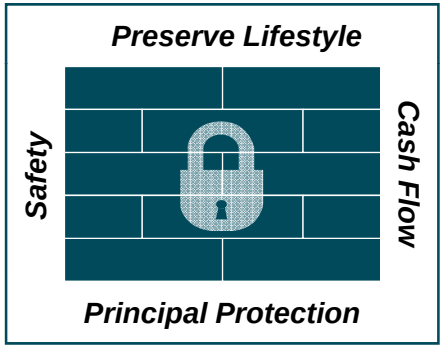
Have you protected your basic standard of living?

- Cash and equivalents
- Your primary residence
- Short-term treasury bills and bonds
- Annuities and insurance for longevity and mortality risk

Typical risk factors:

- Inflation risk (loss of purchasing power)
- Loss of earning power (loss of job, disability, death)
- Health care risk (potential human and financial costs as a result of catastrophic illness)
- Tax risk
- Litigation risk
- Lack of liquidity

Protect basic standard of living



Market Risk

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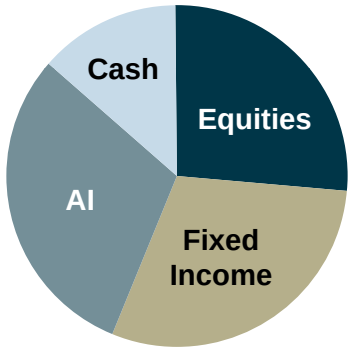
Have you adequately diversified to maintain your current lifestyle?

- Equities
- Fixed income
- Diversified alternative investments*
- Cash reserved for opportunistic investing

Maintain lifestyle



Typical risk factors:

- Portfolio volatility
- Shocks to the financial markets and economy
- Geopolitical conditions
- Interest rate fluctuations
- Currency volatility (in the case of foreign investments)
- Tax risks (due to changes in tax laws)

***Diversification does not ensure a profit or protect against loss in declining markets. Alternative investments are intended for qualified and suitable investors only. Alternative Investments such as derivatives, hedge funds, private equity funds, and funds of funds can result in higher return potential but also higher loss potential. Changes in economic conditions or other circumstances may adversely affect your investments. Before you invest in alternative investments, you should consider your overall financial situation, how much money you have to invest, your need for liquidity, and your tolerance for risk. Alternative Investments are speculative and involve a high degree of risk.**

Aspirational Risk

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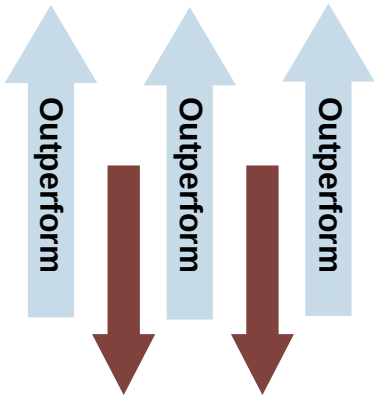
Have you balanced your high-risk, high-reward aspirational assets?

- Stock concentration and stock options
- Real estate concentration
- Speculative hedge fund and private equity concentration*
- Ownership interest in private businesses
- Investments of passion, e.g., art/antique collections

Enhance lifestyle



Typical risk factors:

- Increased volatility due to asset concentration
- Loss of principal
- Loss of liquidity
- Higher taxation or change in tax laws

***An investment in a hedge fund involves a substantially more complicated set of risk factors than traditional investments in stocks or bonds, including the risks of using derivatives, leverage, and short sales which can magnify potential losses or gains. Restrictions exist on the ability to redeem units in a hedge fund. Hedge funds are speculative and involve a high degree of risk.**

Investments in private equity involve a high degree of risk and therefore should only be undertaken by qualified investors whose financial resources are sufficient to enable them to assume these risks and to bear the loss of all or part of their investment. Investments in private equity include significant risks not otherwise present in public market investments. Furthermore, private equity investors are afforded less regulatory protections than investors in registered public securities.

Understanding Investment Risk

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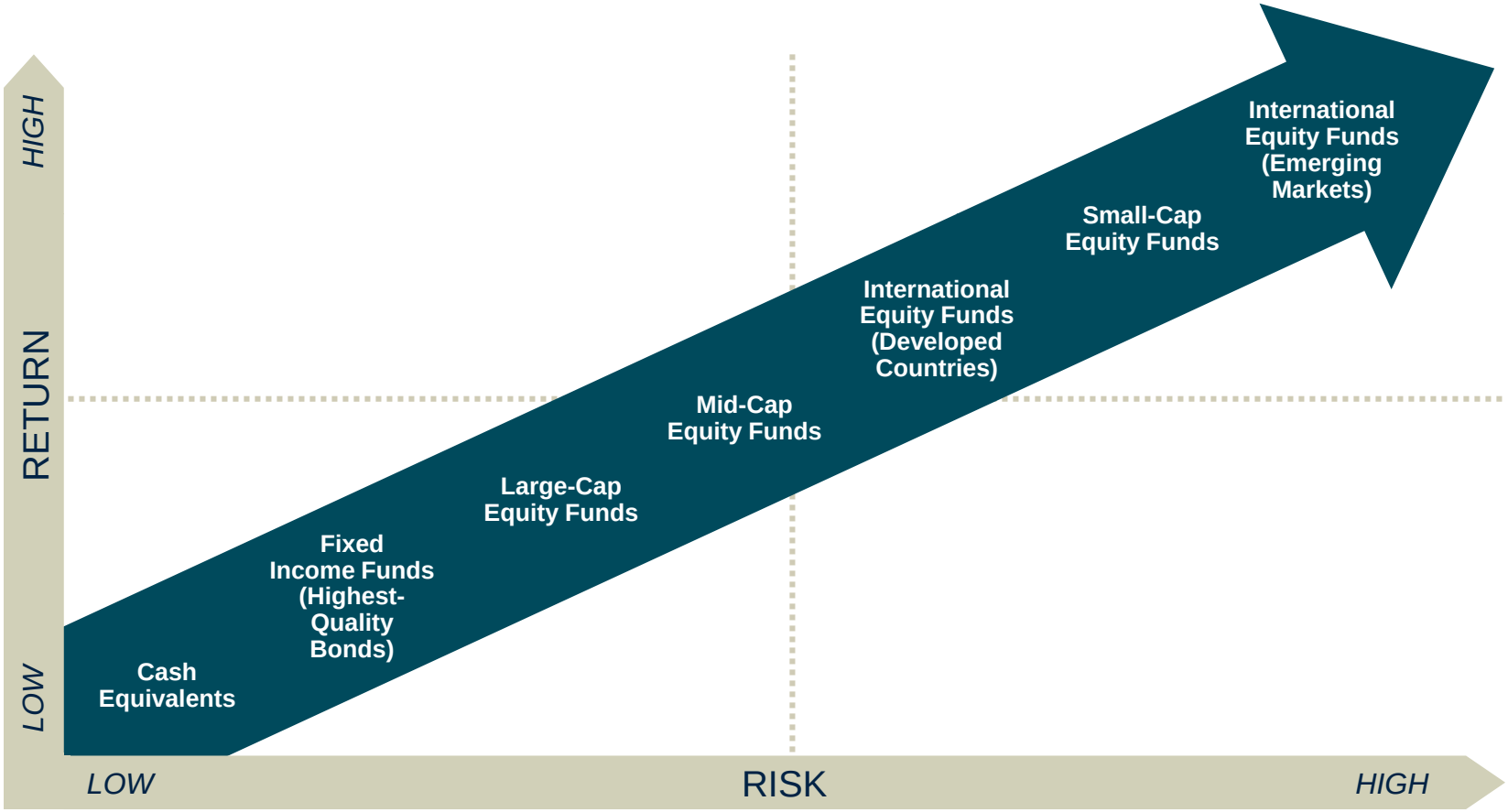
All investments reward investors for taking risk, and opportunities for greater rewards often carry a higher degree of risk.



This chart is intended to provide a general evaluation of the risk and potential return of each investment category.
It is not meant to predict future performance or the volatility of any asset category.

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Market Cycles

Volatility Cuts Into Growth Potential

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Because periods of loss erode value…

Percentage Decline
10%
30%
50%
70%
90%

… gains have to work much harder, first to restore the value lost and then to grow principal.

Percentage Decline	Recovery Return Needed
10%	11%
30%	43%
50%	100%
70%	233%
90%	900%

About Stocks

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- Historically, long-term returns outperform other asset classes
- Short-term volatility encourages a long-term strategy

Stocks Have Historically Outperformed Other Asset Classes

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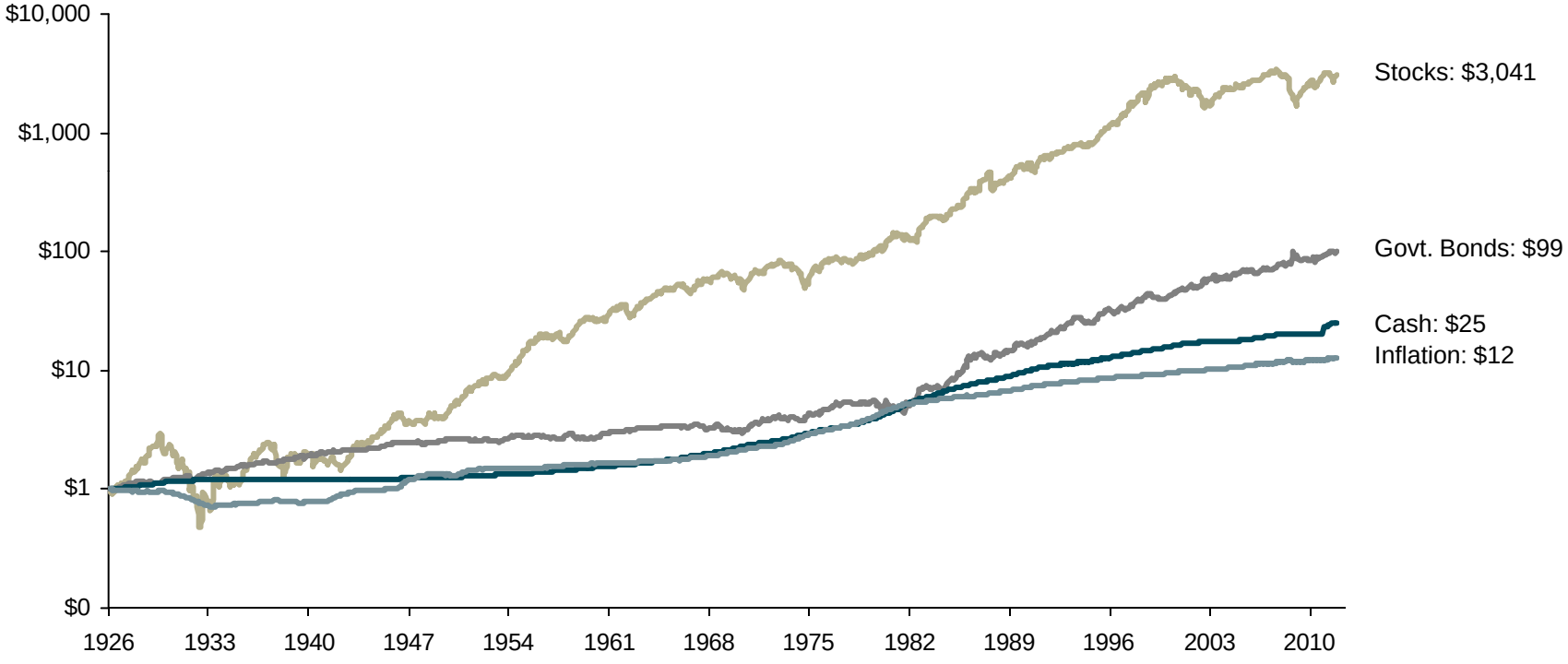
1926–2011



Past performance is no guarantee of future results. Hypothetical value of $1 invested at the beginning of 1926. Assumes reinvestment of income and no transaction costs or taxes. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. © 2011 Morningstar, Inc. All rights reserved. 12/31/2011. Returns shown are based on indexes and are illustrative; and that the allocation for each model remained consistent. The allocation models shown are current as of 12/3/11. Merrill Lynch has changed the models in the past and may do so in the future. Index sources: Stocks—Standard & Poor's 500®, which is an unmanaged group of securities and considered to be representative of the stock market in general; Bonds—20-Year U.S. Government Bond; Cash—30-Day U.S. Treasury Bill. Direct investment cannot be made in an index. Source: Merrill Lynch Investment Strategy and Product Group/Strategic Planning. © 2011 Morningstar, Inc. All rights reserved. 12/31/2011 [Certain portions of this work were derived from the work of Roger G. Ibbotson and Rex Sinquefield.]. See glossary for index definitions.

Stock Performance During Recessions

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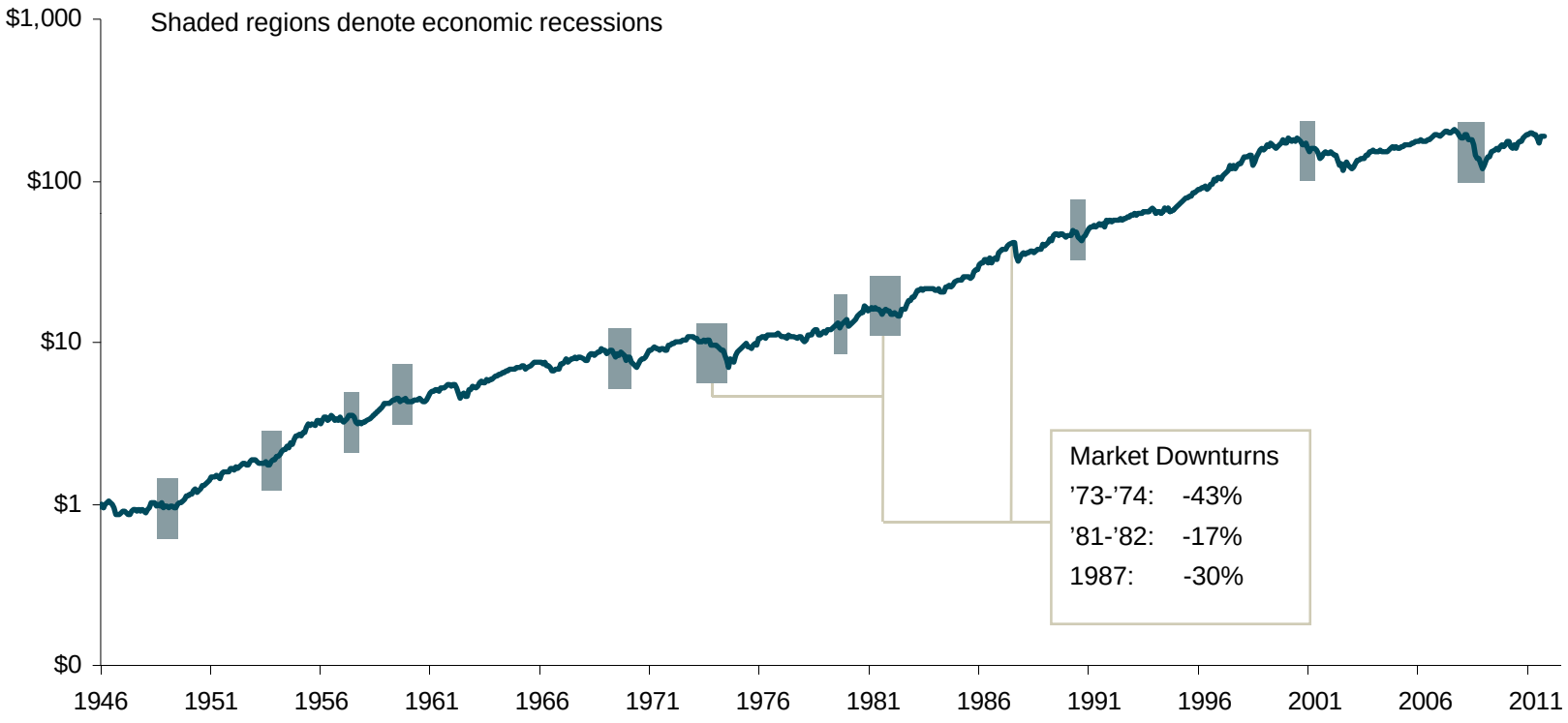
1946–2011



Hypothetical value of $1 invested at the beginning of 1946. Results shown are based on indexes and are illustrative; they assume reinvestment of income and no transaction costs or taxes. Past performance is no guarantee of future results. Index sources: Stocks—Standard & Poor's 500®, which is an unmanaged group of securities and considered to be representative of the stock market in general; Recessions—National Bureau of Economic Research. Direct investment cannot be made in an index. Used with permission. © 2011 Morningstar, Inc. All rights reserved. 12/31/2011 [Certain portions of this work were derived from the work of Roger G. Ibbotson and Rex Sinquefield.]. See glossary for index definitions.

Five-Year Performance Begins to Stabilize

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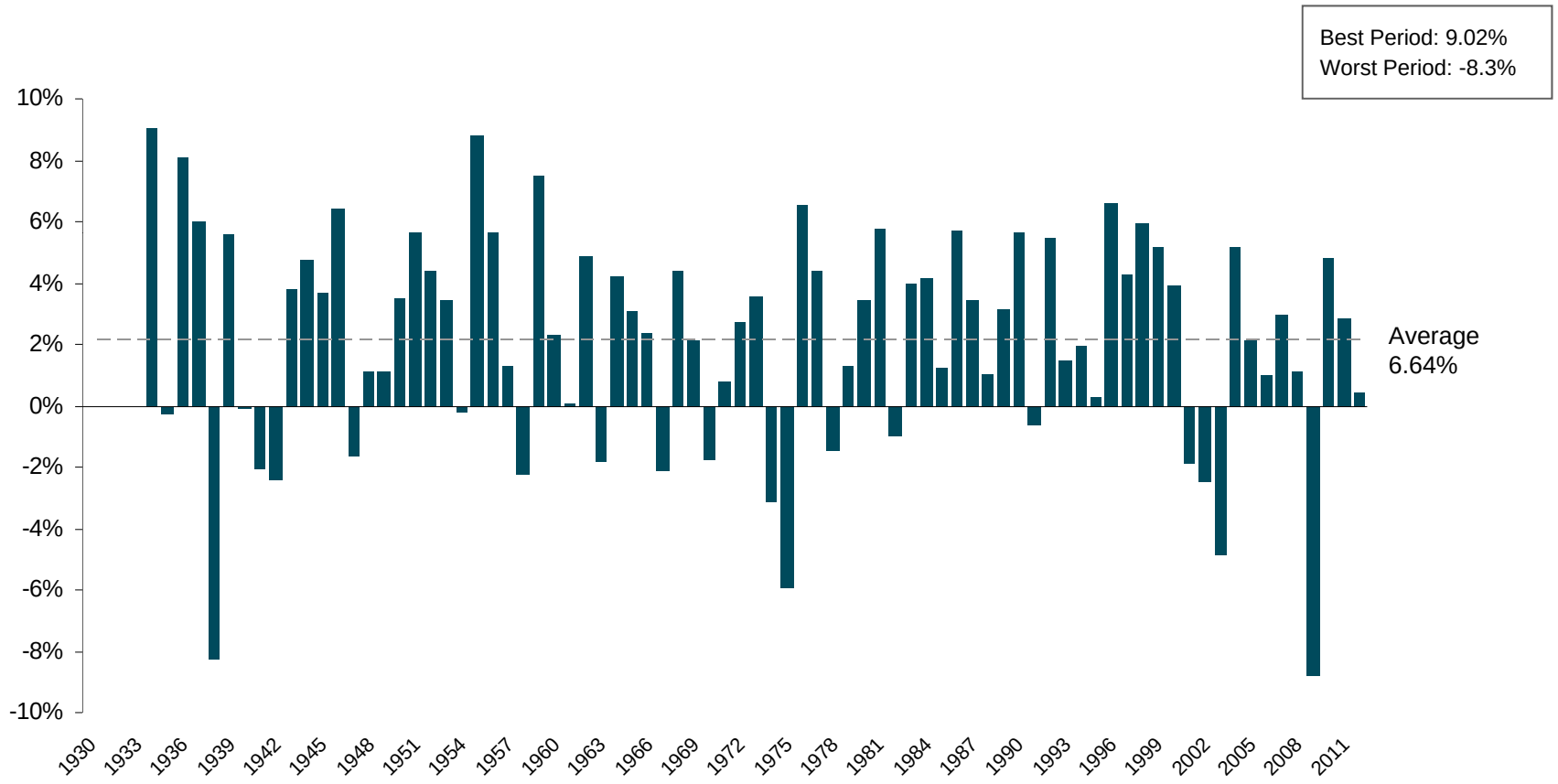
S&P 500: Rolling Five-Year Periods (Annualized) 1929–2011



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Stocks Have Not Lost Money Over the Long-Term

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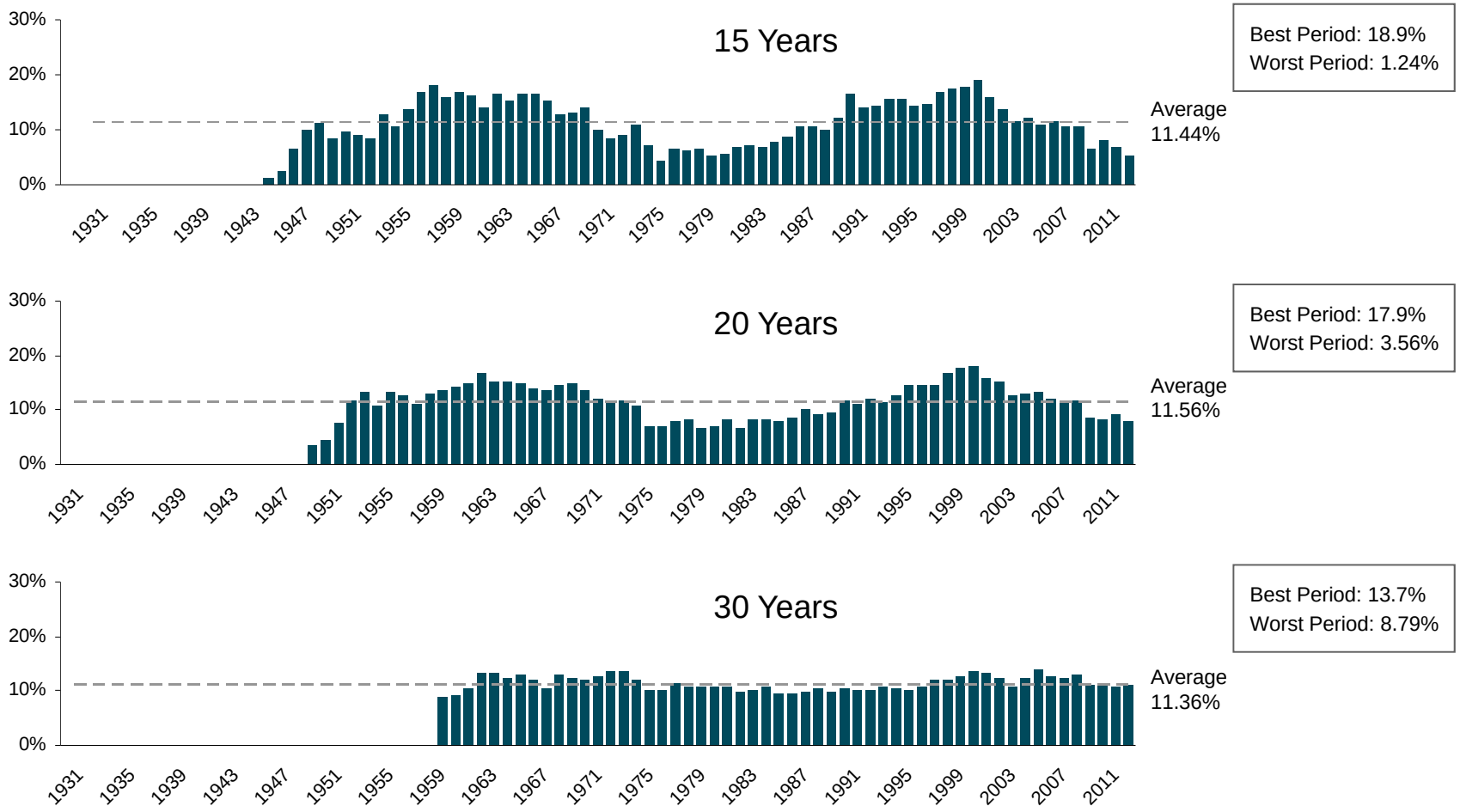
S&P 500: Rolling Periods (Annualized) 1929–2011



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Planning for Individuals

Wealth Allocation Framework Overview

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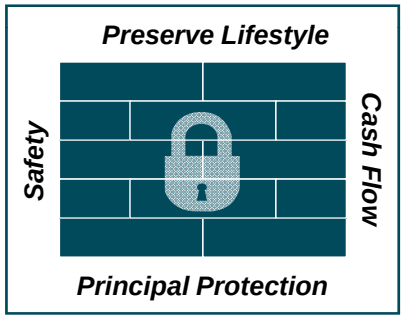
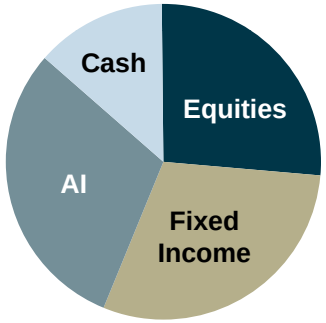
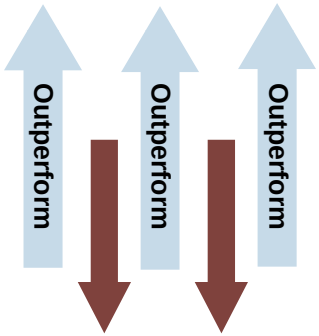
"Personal" Risk	"Market" Risk	"Aspirational" Risk
Protect basic standard of living	***Maintain lifestyle***	***Enhance lifestyle***







- Reduce downside risk
- Willing to accept below-market returns in return for less volatility
- Safety

- Balance risk and return to attain market-level performance from a broadly diversified portfolio

- Take measured but significant risk to potentially enhance return
- Increase upside

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Morningstar Charts

Dangers of Market Timing

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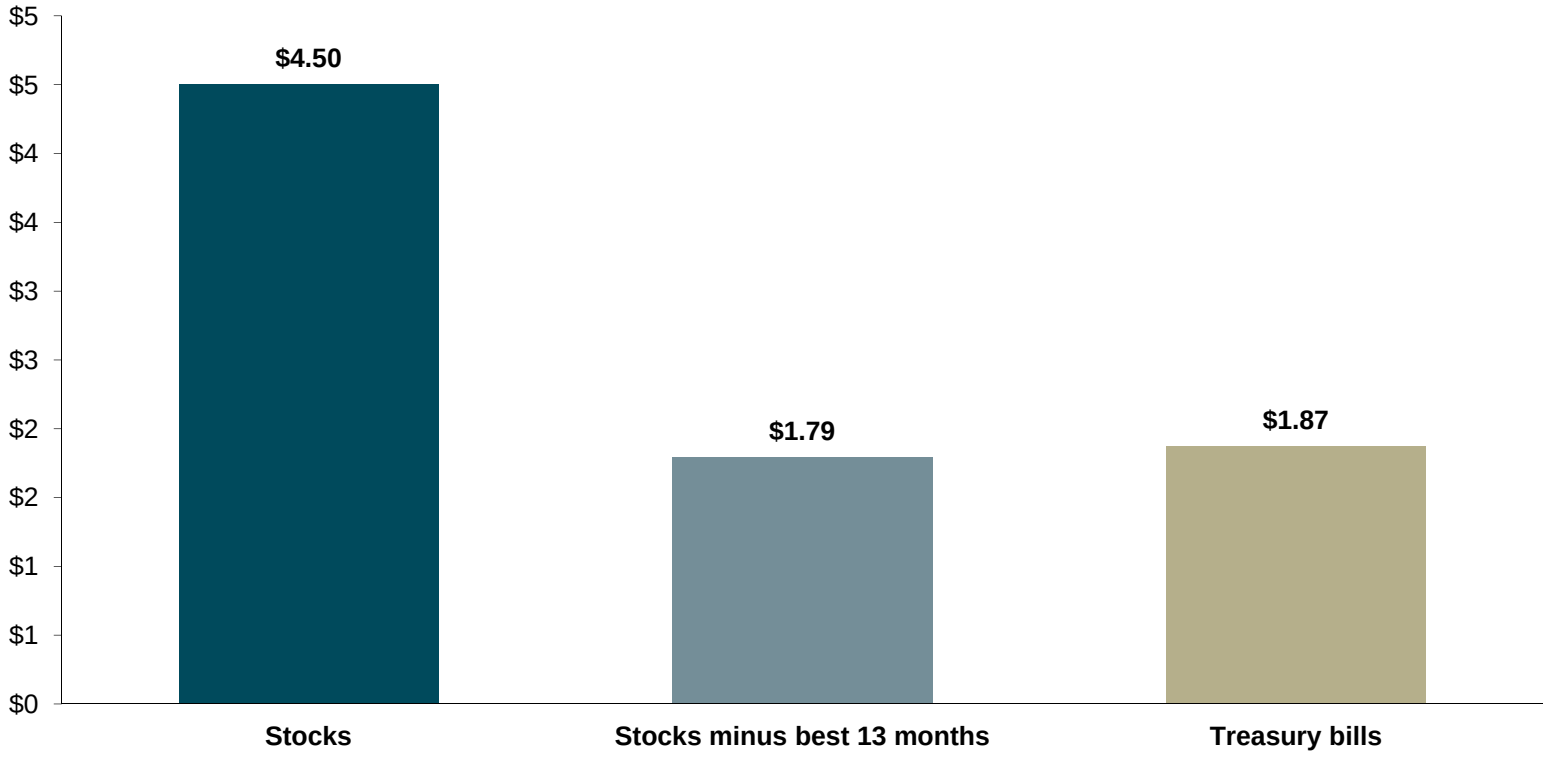
Hypothetical value of $1 invested from 1992 to 2011



About the data
Stocks are represented by the Standard & Poor's 500®, which is an unmanaged group of securities and considered to be representative of the stock market in general. Treasury bills are represented by the 30-day U.S. Treasury bill. An investment cannot be made directly in an index. The data assumes reinvestment of income and does not account for taxes or transaction costs.
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Long-Term Dangers of Market Timing

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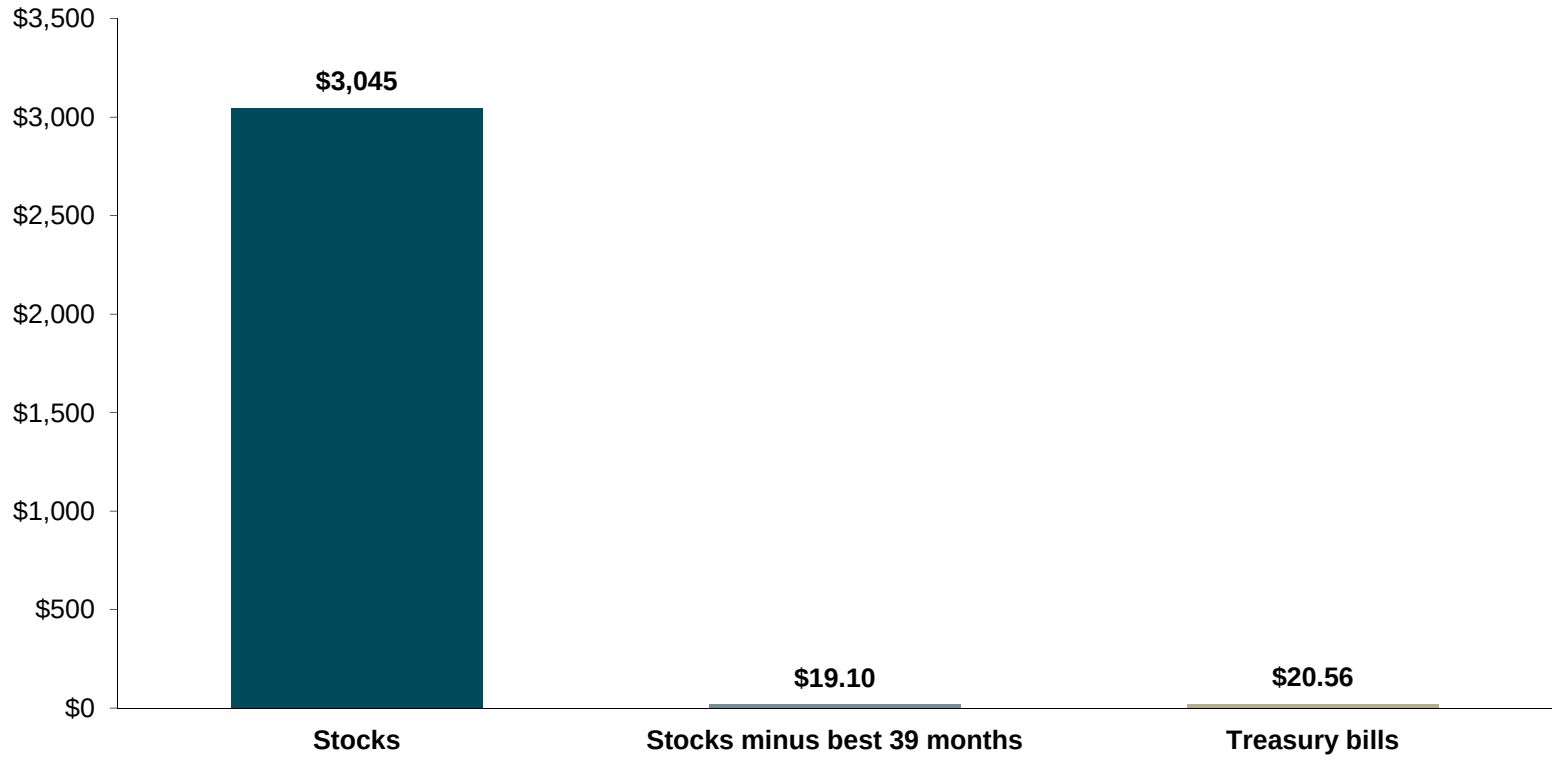
Hypothetical value of $1 invested from 1926 to 2011



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Controlling Risk With Portfolio Rebalancing

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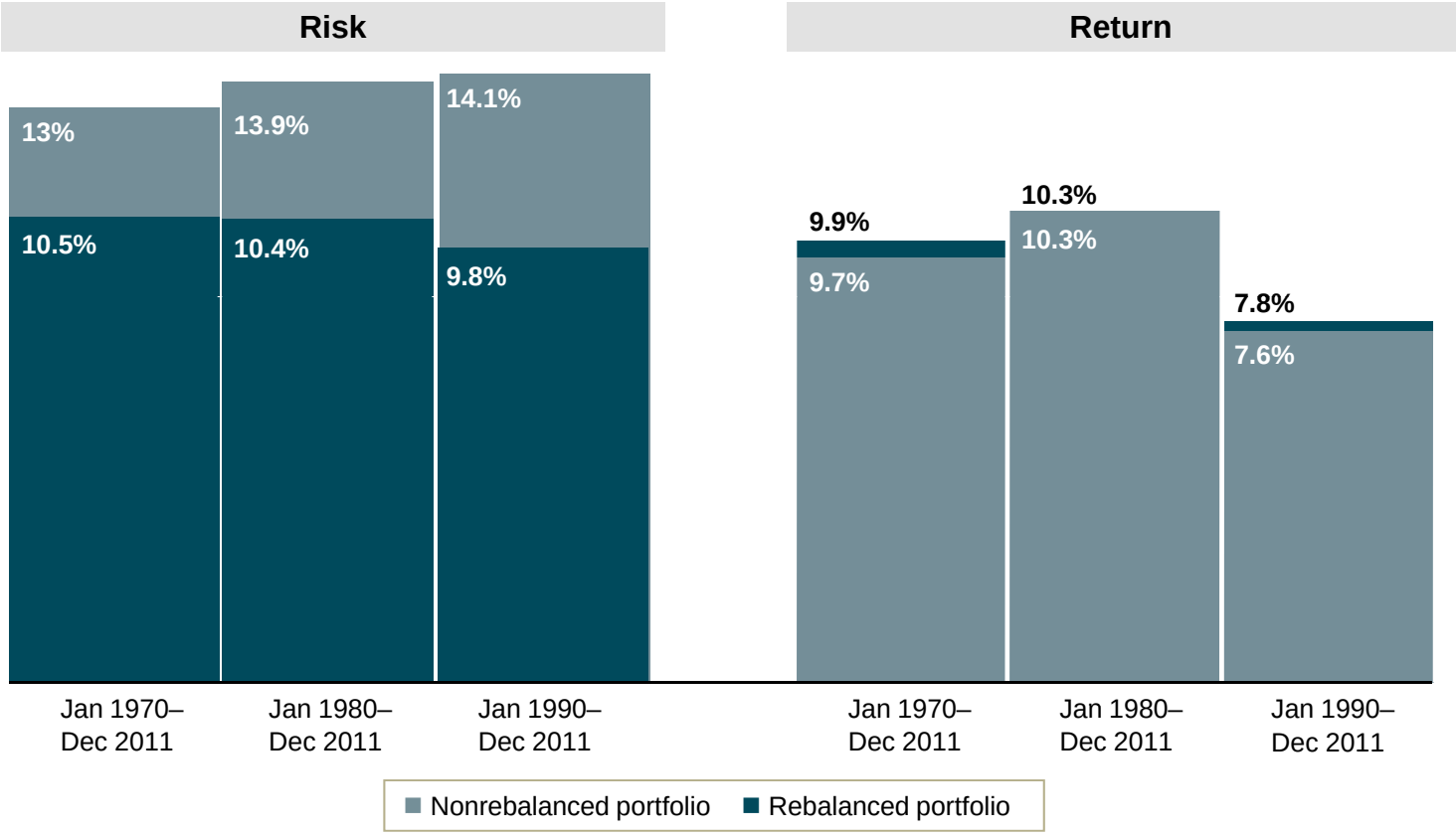
The risk and return of rebalanced versus nonrebalanced portfolios



About the data
Each portfolio consists of 60% stocks, 30% bonds, and 10% cash at the portfolio begin date. The 60% stock allocation consists of 30% large, 15% small, and 15% international stocks at each portfolio begin date. The bond allocation consists entirely of five-year U.S. government bonds, while the cash allocation consists of 30-day U.S. Treasury bills. The portfolios have been rebalanced annually.
Large stocks in this example are represented by the Standard & Poor's 500®, which is an unmanaged group of securities and considered to be representative of the stock market in general. Small stocks are represented by the fifth capitalization quintile of stocks on the NYSE for 1970–1981 and the performance of the Dimensional Fund Advisors, Inc. (DFA) U.S. Micro Cap Portfolio thereafter, international stocks by the Morgan Stanley Capital International Europe, Australasia, and Far East (EAFE®) Index, government bonds by the five-year U.S. government bond, and cash by the 30-day U.S. Treasury bill. An investment cannot be made directly in an index. The data assumes reinvestment of income and does not account for taxes or transaction costs.
Past performance is no guarantee of future results. Risk and return are measured by annualized standard deviation and compound annual return, respectively. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. © 2012 Morningstar. All Rights Reserved. 3/1/2012

Stocks, Bonds, Bills and Inflation 1926–2011

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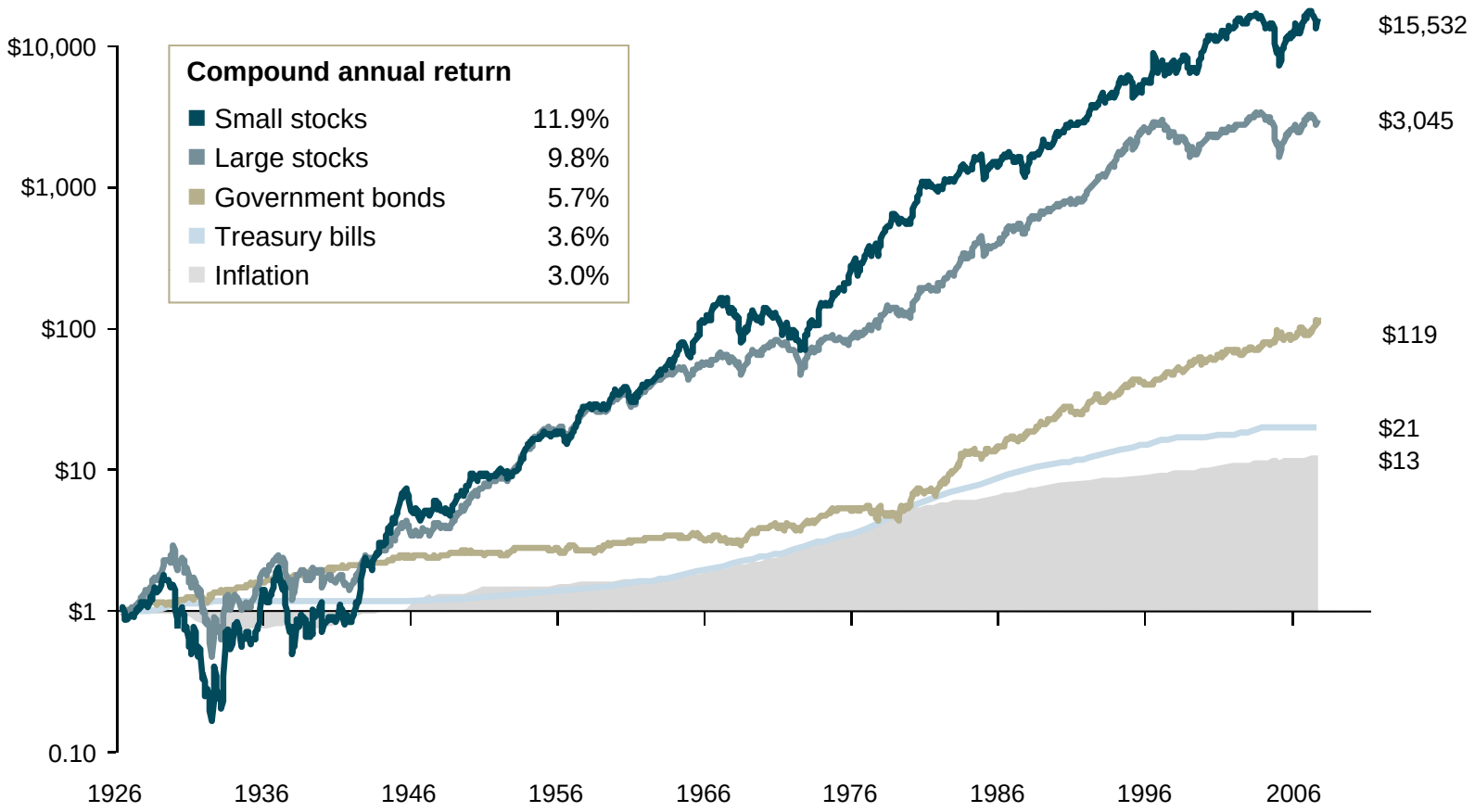

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Q&A