OUR APPROACH TO INVESTING

Confidence Driven by Conviction

LEELYN SMITH

Our entire approach to investing is designed to give our clients confidence that is driven by conviction.

Successful investing isn't a math problem in which investors are variables that get plugged into an equation. It's an exercise in finance, economics, and human psychology.

As students of financial markets and human behavior, we know that successful investing requires more than having just the right strategies and tools. It requires the discipline and conviction to continue executing the plan even in times of market turbulence.

At Leelyn Smith, our entire approach to investing is designed to give our clients confidence that their wealth is being managed in a way that is designed to pursue their goals across market cycles. This approach is built on seven core beliefs that we have developed, refined, and affirmed over our careers as investors.

Seven pillars of our investment strategy.

1. Economic progress is the engine that builds long-term wealth.
2. Planning and investing create a positive feedback loop.
3. Emotions are among the greatest risks facing investors.
4. Indexing is helpful, but it is only a starting point.
5. Volatility management and competitive advantages improve risk-adjusted returns.
6. Fees and taxes matter—a lot.
7. True diversification comes from multiple angles.

Pillar No. 1:

Economic progress is the engine that builds long-term wealth

At our core, we are optimists who believe that wealth is a positive-sum game. Innovations in technology, healthcare, and manufacturing fuel economic growth that, over the long term, improves quality of life for all people.

Although there are periodic disruptions, history has shown that the U.S. stock market reflects this economic progress and generally goes up over time. As a result, we believe that staying invested and not trying to "time the market" is the best way to build wealth.

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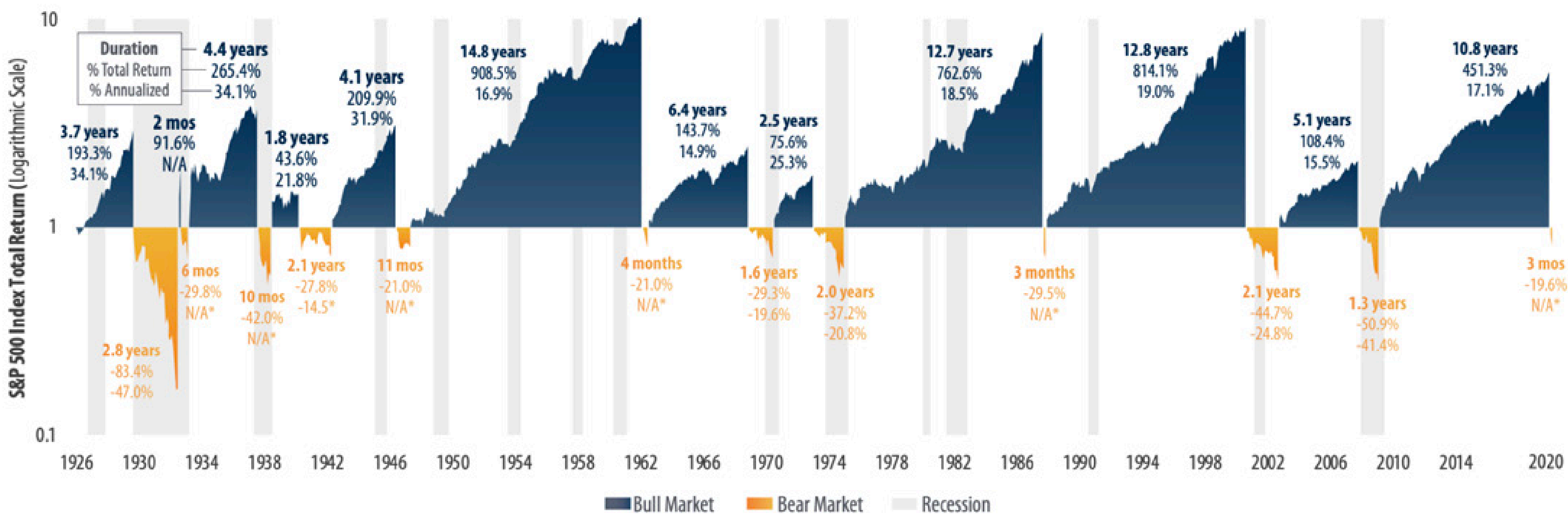
Why we are long-term bulls

While markets inevitably cycle through bull and bear phases, history shows that periods of growth for the U.S. equity market are, on average, significantly longer and more pronounced than periods of contraction. According to First Trust Advisors, the average Bull Market period lasted 6.6 years with an average cumulative total return of 339%, and the average Bear Market period lasted 1.3 years with an average cumulative loss of -36%. This historical data, as well as our belief that economic progress is a positive-sum game, drives our optimism about the long-term prospects for U.S. equities.

History of U.S. Bear & Bull Markets

1926 – March 31, 2020



Source: First Trust Advisors L.P., Bloomberg. Returns from 1926 - 3/31/2020. *Not applicable since duration is less than one year. **Past performance is no guarantee of future results.** These results are based on monthly returns–returns using different periods would produce different results. The S&P 500 Index is an unmanaged index of 500 stocks used to measure large-cap U.S. stock market performance. Investors cannot invest directly in an index. Index returns do not reflect any fees, expenses, or sales charges. This chart is for illustrative purposes only and not indicative of any actual investment. These returns were the result of certain market factors and events which may not be repeated in the future.

The information presented is not intended to constitute an investment recommendation for, or advice to, any specific person. By providing this information, First Trust is not undertaking to give advice in any fiduciary capacity within the meaning of ERISA, the Internal Revenue Code or any other regulatory framework. Financial advisors are responsible for evaluating investment risks independently and for exercising independent judgment in determining whether investments are appropriate for their clients.

Pillar No. 2:

Planning and investing create a positive feedback loop

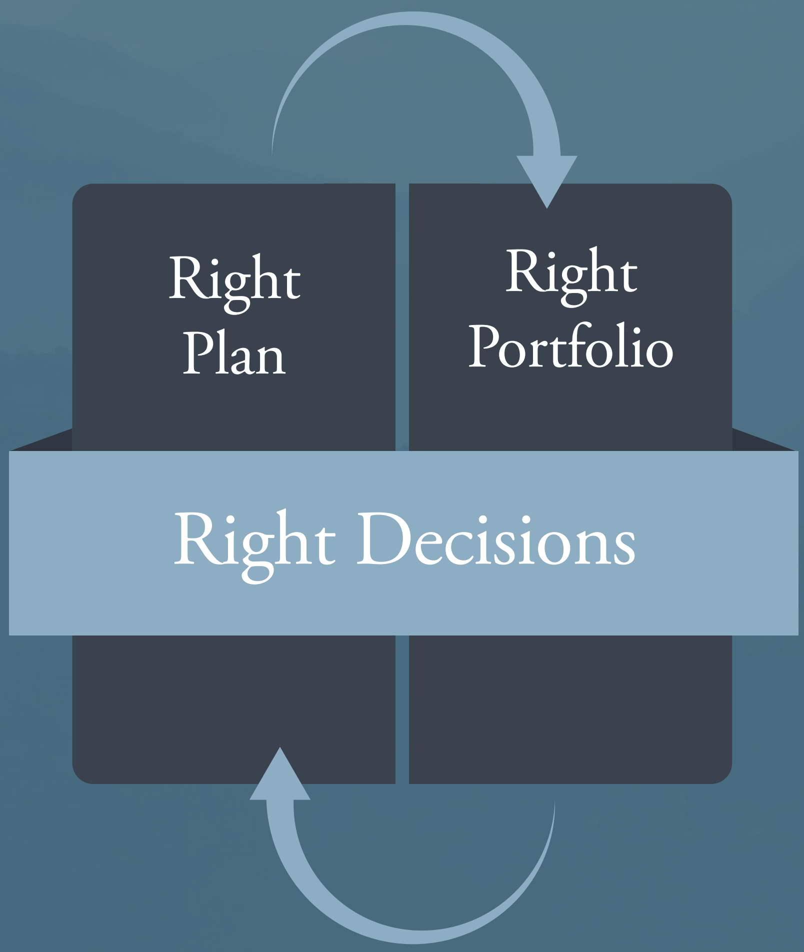
Some firms view financial planning and portfolio management as separate exercises that take place in different departments. Others treat planning as an add-on service. This isn't how we operate.

We believe that a customized financial plan—one that includes a robust assessment of each client's risk tolerance, timeline, and goals—is the starting point for determining the appropriate investment strategy for pursuing those goals. Just as importantly, our risk-focused investment approach is designed to create portfolios that give clients the confidence they need to remain committed to the plan even when markets are challenging.

This creates a positive feedback loop in which the right plan, the right portfolio, and the right decisions all reinforce each other.

Right plan + right portfolio = right decisions

Combining a customized financial plan with an investment strategy that accounts for each investor's unique risk tolerance and goals creates a positive feedback loop—and leads to decisions that support long-term success.



Pillar No. 3:

Emotions are among the greatest risks facing investors

As stewards of your family's wealth, managing risk on your behalf is our top priority. In addition to market risk, we also pay very close attention to managing the emotions that can derail an investment strategy.

Numerous studies have shown that investors' returns typically trail their benchmarks. There are many contributors to this under-performance, but research in the growing field of behavioral finance has shown that loss aversion, confirmation bias, and other biases contribute to behaviors that hurt investment performance.

Our job is to give our clients confidence so they don't succumb to the temptation to chase returns, exit investments during market downturns, and choose investments that are inappropriate for their risk tolerance.

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Managing risk through a behavioral lens

While the financial risks of investing are well known—including market risk, interest rate risk, and company risk—we believe that behavioral biases can be every bit as damaging to investment performance.

BEHAVIORAL RISK	HOW WE ADDRESS IT
Confirmation Bias: the tendency to interpret new information as supporting one's existing views.	Our Investment Committee comprises people with diverse backgrounds and perspectives. We constantly question our assumptions and engage in spirited debate about whether our conclusions are still valid in light of new economic and market data.
Loss Aversion: decision-making that is influenced by the tendency of people to feel twice as much pain from losing as they do from winning an equal amount.	This phenomenon causes some people to choose overly cautious investment allocations. For others, it causes them to exit the market during downturns—causing irreparable harm to investment performance. Our risk-management approach is designed to reduce the fear that can cause some investors to make decisions that undermine their long-term success.
Overconfidence: failing to recognize the limits of one's knowledge or ability and under-appreciating the role that luck or randomness plays in one's success	While we invest with conviction and focus intensely on controlling the controllable, we respect the role that randomness plays in investing. This helps us avoid the blind spots and overconfidence that can end in disaster. No strategy can be more than 25% of our allocation, a guardrail that forces us to diversify across strategies.

Pillar No. 4:

Indexing is helpful, but it is only a starting point

Passive investment strategies that simply seek to mirror the returns of an index have soared in popularity over the past decade. Investors have been drawn to the opportunity to capture market returns while minimizing costs.

While we wholeheartedly agree with the importance of reducing costs, we disagree with an approach that essentially guarantees that the investor will under-perform the market once the advisor's compensation is accounted for. Furthermore, indexing leaves the investor completely exposed to market fluctuations, as well as the potential for the portfolio to tilt toward the most overvalued stocks.

We use low-cost, factor-based exchange-traded funds (ETFs) as building blocks for our portfolios and construct a collection of ETFs that is designed to maximize risk-adjusted returns. We often complement these tools by adding individual stocks to our clients' portfolios.

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Pillar No. 5:

Volatility management and competitive advantages improve risk-adjusted returns

We are continually researching ways to reduce the amount of risk investors must assume to pursue returns that approximate the broader equity market. Our research has identified two factors that are most strongly correlated with such an outcome: volatility management and sustainable competitive advantages (or "moats").

- **Volatility management** involves using stocks that, when combined in a portfolio, demonstrate lower volatility than the index
- **Moat funds** focus on companies that are highly rated in terms of having built competitive advantages (or "moats" around their businesses) that are expected to protect the company from losing market share and give the company pricing power over the next 10–20 years

In addition to delivering better risk-adjusted returns over time, we have found that these factors also help investors sleep better at night—and avoid making the types of fear-driven decisions that can be so detrimental to long-term performance.

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Pillar No. 6:

Fees and taxes matter—a lot

There are many uncontrollable variables in investing.
That is why we focus on controlling the things that we can influence.

By paying close attention to transaction costs and taxes, we focus on maximizing the amount that our clients get to keep. We believe in lowering the cost of investing as much as possible, and that is why we primarily use ETFs in our Core Equity strategy. Purchasing individual stocks is another way that we look to eliminate unnecessary costs.

Many team members at our firm began their careers in accounting.
Our in-house CPAs help us identify the most tax-efficient ways to pursue our clients' goals.

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Pillar No. 7:

True diversification comes from multiple angles

We believe in the power of diversification to reduce risk. This applies not just to diversification among companies, sectors, and asset classes, but to diversification among strategies as well.

We also believe that over-diversification does not necessarily reduce risk, and it limits an investor's potential to outperform the market. That is why our Core Equity strategy comprises up to six slots to reflect our views about the best mix of strategies for the current market environment. None of these strategies can represent more than 25% of the total portfolio.

Each quarter our Investment Committee reevaluates that lineup of strategies in light of new developments in the macroeconomic and geopolitical environment. We are very aware of the risks of overconfidence and confirmation bias, so we constantly question our assumptions. The diversity of our team's professional experience allows us to bring multiple perspectives to each decision.

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Characteristics of our portfolios

The seven pillars described on the previous pages shape every decision we make on behalf of our clients. This leads us to build portfolios that are defined by the following characteristics.

Sustainable competitive advantage

- Bias toward companies rated highly for having sustainable competitive advantages–or “moats” around their businesses

Volatility management

- Bias toward using stocks that, when combined, demonstrate lower price fluctuations than the index

Diversification of investments and strategies

- 5-6 slots, none of which can represent more than 25% of the total portfolio

Cost-effective execution

- Low-cost ETFs and individual stocks are used to minimize management and transaction fees

Tax aware

- Focus on avoiding unnecessary taxes for re-balancing, withdrawls, and other transactions

The confidence of our convictions

The seven pillars of our investment philosophy aren't just platitudes that we preach. They are beliefs that guide every aspect of how we invest—both for our clients and for ourselves.

We invest in the same strategies that we recommend for our clients, and our firm is made up of owners and aspiring owners. This allows us to always focus on our clients' long-term success and the craft of investing.

Learn more about Leelyn Smith

To learn more about how we approach wealth management:

- Schedule a time to talk with your Leelyn Smith advisor
- Visit www.leelynsmith.com
- Contact us at info@leelynsmith.com or 630.232.8995