

BAY CITY FINANCIAL SERVICES, INC.

INVESTMENT APPROACH

Bay City Financial Services (BCFS) has a successful and time-tested approach to investing. We are your *financial coach* and approach investing as only one prong on our multi-faceted plan to your financial success. We take many inputs (risk, goals, constraints, account type...) and formulate an investment strategy that is based on sound investment principles and objectives. Given our plan, a time-tested investment strategy utilizing multiple asset classes, investment styles and professional expertise will help to build long-term wealth with appropriate levels of risk. We have the proprietary technology, customer support, investment experience and personal service needed in order to accomplish the client *and* advisor objectives.

BCFS Investment Approach Objectives

1. Follow a specific financial plan in selecting your investments—as formulated by client and advisor.
2. Diversification among various asset classes is part of our plan to reduce risk and increase return.
3. Investment styles can be in or out of favor at any given moment and our plan includes a multi-style approach to investing.
4. A team of the best professional managers available will be hired to manage our investment styles.
5. Monitor the process so that we stay focused and aligned with client goals.
6. Communicate the financial plan's progress, results and updates with the client.

Long Term Investing

Our approach to investing is based on a disciplined, unemotional and long-term oriented process. Markets have always had their ups and downs, there have always been wars and corporate fraud, but the United States has always recovered and reached new “highs”. BCFS remains focused on implementing a plan for prosperity that can weather the storms and participate in market recoveries and market successes. We do not “chase returns” or pretend to know the future, but *do* use our resources to learn from history, analyze the present and prepare for the future. A long-term investment approach that is flexible to accommodate short-term changes is key for financial success. *Long-term investing means five years or more.*

Allocation Strategy

We believe that superior returns can be earned over time using a *tactical asset allocation*. This means that we may emphasize or de-emphasize particular asset classes and/or styles based on our fundamental research. We believe that the relationship of valuation between markets over long periods will be reasonably efficient and will correspond to fundamentals, but acknowledge that over shorter periods some markets will become overvalued, which can diminish our long-term return potential, while other asset classes become undervalued, which enhances their return potential from that point forward. As part of our investment approach, we may over-weight or under-weight certain asset classes to enhance long-term return potential. The expert fund managers we choose also have

the option to emphasize or de-emphasize investment styles within their prospectus objectives and constraints. Events that may determine our emphasis or de-emphasis include market cycles, the interest rate effect, asset valuations, U.S. dollar value and market “bubbles”.

Investment Model Portfolios

A target portfolio model is selected based on answers to the risk questionnaire, stated goals/objectives, financial profile, time frame and other important criteria. Our selected models include Aggressive Growth, Capital Growth, Moderate Growth, Balanced Growth, Conservative and Fixed Income. A client relationship can include a combination of portfolio models depending on the circumstances. These models are created, evaluated, maintained and updated in accordance with our Investment Approach Objectives. They are designed to meet our needs of diversification, style exposure and professional expertise.

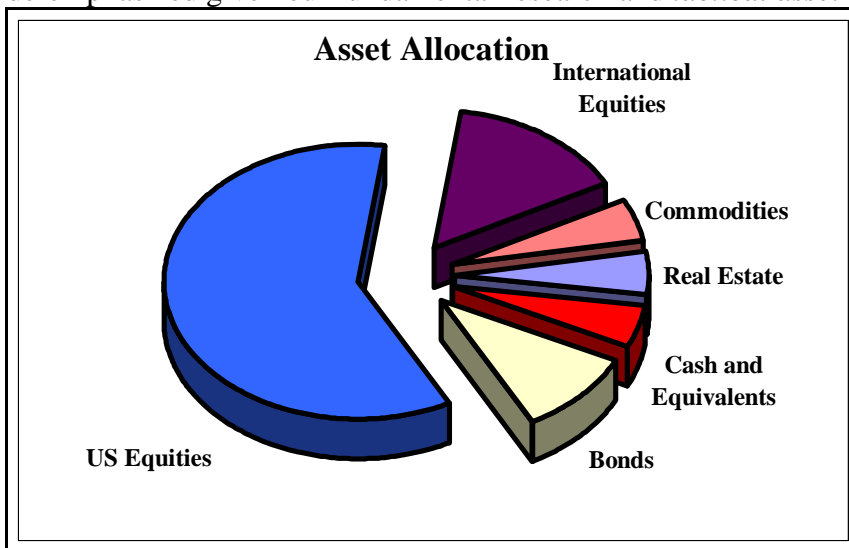
Investment Vehicles

We have access to a wide array of investment vehicles including stocks, exchange traded funds (ETFs), mutual funds and bonds. Our investment approach primarily utilizes *mutual funds*. Mutual funds are “pools” of investments, which may include stocks, bonds and even real estate. This pool may be filled with hundreds of investments, but we can purchase them all at once by buying a share of the mutual fund. By purchasing shares of this pool, we can diversify and take advantage of expert money managers from around the world inexpensively. Mutual funds come in all shapes and styles. As part of the BCFS Investment Approach, we select mutual funds for our model portfolios using a stringent screening process, while constantly scrutinizing our selections.

Diversification

Asset Class

The major asset classes used include Real Estate, Cash, Commodities, Fixed Income, U.S. Equities and International Equities. Our portfolio models can allocate to one or all of the classes, but BCFS is a strong proponent of multi-asset class investing. The major advantage to using multiple asset classes is diversification. “Don’t keep all your eggs in one basket,” as the saying goes. Combinations of asset classes help to spread out the risk. Asset classes may be emphasized or de-emphasized given our fundamental research and *tactical asset allocation*.



Asset Style

Once a set of asset classes are selected for a portfolio model, we further diversify across asset styles. We use Morningstar®, a leader in investment research tools, to quantify the style types in our portfolio models into “style boxes”. BCFS’s various portfolio models emphasize different styles.

Equities Style Box:

Styles vary from growth emphasis to value emphasis and from large capitalization companies to small capitalization companies. Styles can be in or out of favor. For example, 1998 and 1999 saw Large Cap Growth out perform other styles while in 2000, Small Cap Value out performed. A common mistake made by investors is to have all their equities in one or two styles. Our approach is to diversify across several styles, but we may tactically emphasize some styles over others.

EQUITY STYLE BOX			
	Value	Core	Growth
Large	Large-Cap Value	Large-Cap Core	Large-Cap Growth
Medium	Mid-Cap Value	Mid-Cap Core	Mid-Cap Growth
Small	Small-Cap Value	Small-Cap Core	Small-Cap Growth

Fixed Income Style Box:

Styles vary from long-term maturity to short-term maturity and from high quality to low quality fixed income. With fixed income, it may not make sense to have all style boxes represented in a portfolio. Certain fixed income styles may be appropriate while others are not given the relationship between interest rates, maturities and bond prices.

BCFS’s blending of investment styles can help to manage risk as well as provide more consistent performance in line with our long-term approach to investing.

Professional Expertise

BCFS devotes considerable resources to identifying, hiring and managing some of the best money managers in the world. We have high expectations for the managers we select and have consistent contact with them or their representatives. We give our fund managers flexibility to use their expertise. In other words, they can make changes as long as they continue to meet their prospectus objectives. We reserve the right to hire or fire fund managers that don't meet our expectations and criteria. These money managers add expertise and experience to our model portfolios. We expect them to add value to our investment approach. In selecting these managers and their funds, we have a complex screening process—taking into consideration many types of criteria.

Screening Criteria

BCFS has the technology and resources to select the best mutual funds available today. We have thousands of mutual funds to select from across all investment styles. Our database has the most current information on over 24,000 mutual funds of all share classes. We can further narrow that down to those that are available free of charge from the custodian. At Charles Schwab & Co., that still includes almost 9,500 funds. Our screening process utilizes quantitative and qualitative research to narrow the field down to the few that are considered for our portfolios.

- **Fund Style**—We look for funds that are reasonably “style consistent” and stay within their objectives, but do allow for some style movement dependent on market conditions.
- **Fund Composition**—We screen for fund holding characteristics including type of, statistics and sector membership to find funds that are diversified and fit our diversification needs.
- **Risk Criteria**—We screen for funds that are taking appropriate amounts of risk given our objectives. We measure risk using the “standard deviation” statistic, “Sharpe ratio”, “beta”, and the “alpha” statistic. These measure volatility, risk adjusted performance, a funds sensitivity to market movements, and value added by money managers. We look at credit ratings and duration for fixed income investments.
- **Performance Criteria**—Past performance is no *guarantee* of future performance, but it does give us a way to measure a fund's success in implementing their investment approach over time. Ibbotson Associates, a leading authority on asset allocation, conducted a study in 2002 on mutual fund performance and found that U.S. equity mutual funds that performed well (as measured by “alpha”) in the past tend to also perform well in the future. We screen for a fund's performance over short and long periods of time as well as comparing them to their peer group and benchmarks.
- **Expenses**—These can eat up returns so we only use low expense ratios, no loads (or load waived) and no transaction fee mutual funds. Most mutual funds do have redemption fees if they are used for short term trading.
- **Taxes**—We screen for tax costs as well as after-tax performance.
- **Management**—We look for experienced and time-tested professional expertise. This includes reading their published articles and newsletters, listening to media interviews, manager personality and evaluation of their staff. We send due diligence questionnaires to our fund managers. Our comprehensive questions help us to evaluate the expertise we have hired. Management must be supported by a parent company that has values and objectives that match those of BCFS.
- **Portfolio Value**—One of the most important criteria is that the fund adds value to our portfolio models. Does the fund complement or detract from our model portfolio? We look at correlation as well as stock overlap between portfolio holdings.

We reserve the right to “fire” a fund manager if they fail to meet our criteria. We also may make changes when a fund style is de-emphasized according to our *tactical allocation* approach.

Benchmarks and Model Portfolio Performance

Each model that is created and implemented should have a benchmark against which its performance can be tracked. One reason for this is to allow an assessment as to whether the approach is adding value. We use combinations of the Russell 2000 and Russell 1000 for U.S. Equities, Morgan Stanley’s EAFE for International Equities, Lehman Brothers’ Aggregate Bond Index for Fixed Income, and the 3-month T-Bill for cash and cash equivalents. These benchmarks can be combined for “blended benchmarks” for more relevant comparisons to our model portfolios. In addition to our model portfolios, we also check our individual mutual funds against their appropriate benchmarks. We are constantly monitoring our model portfolios and underlying funds. Our model portfolios are designed for long-term investors, and are measured/compared on a long-term basis. Performance over a five-year time frame is the most typical frame of reference, but we monitor our funds weekly. *Our continual monitoring and analysis helps us identify trends so BCFS and our clients can take advantage of the best securities and asset classes available. This sets us apart from most other advisors.*

Rebalancing

Inevitably, over time a client portfolio’s actual allocation will drift from its original targets as mutual fund and asset classes perform in relation to each other. While weightings drift away from targets, we do allow “winners” to ride their success, but do reallocate to laggards in order to stay diversified and maintain a consistent risk profile. Our time frame and decision to rebalance is determined by many factors including taxes, investment outlook, incoming or outgoing investments, degree off of target and the date in which we last rebalanced. Rebalancing helps to protect investments from loss, but also helps to position a portfolio for gains.

End Result

The BCFS Investment Approach is based on sound and time-tested investment principles. It is derived from years of experience, extensive research, proprietary resources and a long-term outlook. The BCFS Investment Approach will add value with appropriate levels of risk to a client investment portfolio as a part of the client’s overall financial plan.