



# Integrated's Alternatives - Current Income portfolio

*For investment goals positioned five to ten years in the future*

# Investment objective

## Investment Objective

The Alternatives - Current Income portfolio has as its investment objective to maintain the highest possible probability of earning at least 4.0% net to the investor measured over any and all rolling time periods of 7½ years in length. The following six observations help us to better understand this investment objective:

- There is no performance benchmark for the Current Income portfolio.
- The portfolio does not seek to track or otherwise mimic any third-party index benchmark.
- The portfolio does not seek “outperformance” or to “out-perform an index.”
- The investment objective is defined in terms of “earning at least 4.0%.” This is in marked contrast to “earning 4.0%.”
- This portfolio is intended to serve needs positioned between five and ten years in the future.
- The investment objective is defined in terms of “rolling time periods 7½ years in the future.” This length period was chosen because it is the midpoint between five and ten years.

# A unique investment approach

## Investment Approach

The portfolio is allocated 50% to bonds and 50% to real estate.

### Bonds

- The bonds are structured as a buy and hold until maturity bond ladder.
- The bond ladder will at all times maintain a minimum of five rungs diversified across time.
- The bond portfolio will be well diversified across more than 1,000 individual positions<sup>1</sup>.

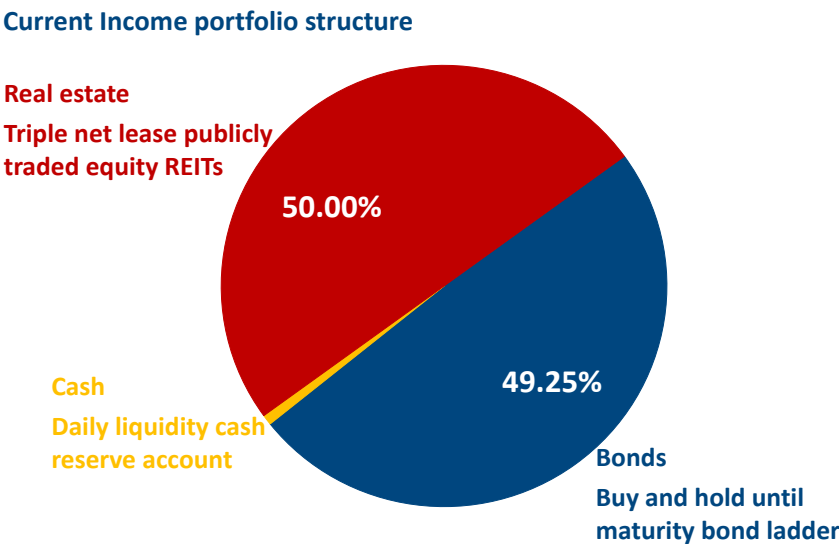
### Real Estate

- The portfolio obtains its real estate exposure through the purchase of publicly-traded, exchange-listed equity REITs.
- These equity REITs are restricted to companies who focus on triple net lease properties located in the United States.
- A triple net lease is a lease agreement on a property whereby the tenant or lessee promises to pay all the expenses of the property including real estate taxes, building insurance, and maintenance. These payments are in addition to the fees for rent and utilities.
- Key takeaways concerning triple net lease REITs
  - With a triple net lease, the tenant agrees to pay the property expenses such as real estate taxes, building insurance, and maintenance in addition to rent and utilities.
  - Triple net leases tend to have a lower rent charge because the tenant assumes more of the ongoing expenses for the property.
  - Triple net leased properties have become popular investment vehicles for investors seeking steady income with relatively low risk.
  - Triple net lease investments are typically a portfolio of properties with three or more high-grade commercial properties fully leased by a single tenant with existing in-place cash flow.
  - The commercial properties could include office buildings, shopping malls, industrial parks, or free-standing buildings operated by banks, pharmacies, or restaurant chains.
  - The typical lease term is for 10 to 15 years, with built-in contractual rent escalation.
  - The benefits for investors include long-term, stable income with the possibility of capital appreciation of the underlying property.
  - Investors can invest in high-quality real estate without concern for management operations including vacancy factors, tenant improvement costs or leasing fees.

# Asset mix and Sources of return

## Asset mix

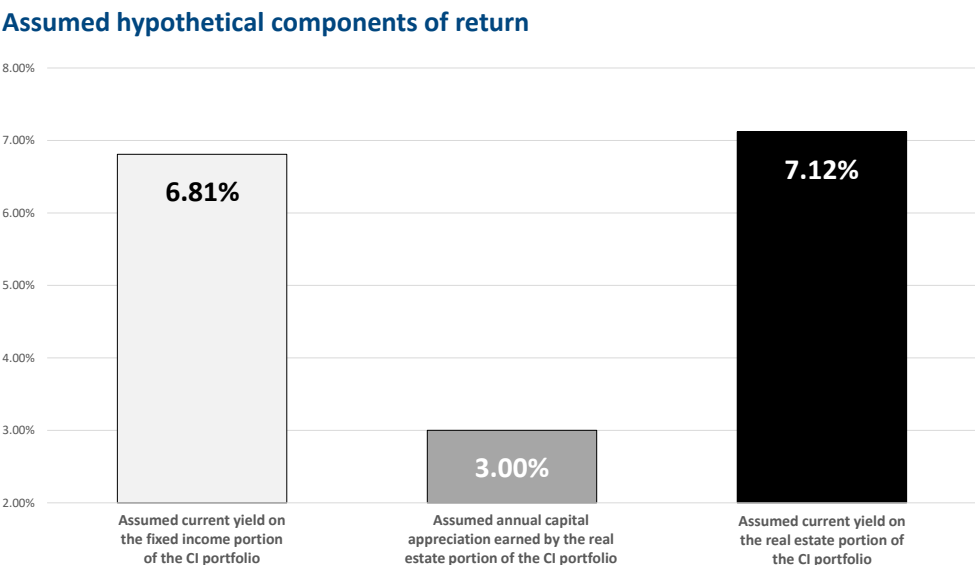
The portfolio maintains a relatively constant asset allocation consisting of 50% fixed income and 50% real estate.



## Sources of return

The portfolio has three primary sources of return: (a) interest income paid by the bonds, (b) capital appreciation on the real estate, and (c) dividend income flowing from the equity REITs.

To better understand the likelihood or probability of earning “at least 4%,” it is useful to make a series of simplifying hypothetical assumptions. The following chart shows the assumptions<sup>2</sup> that are made for a hypothetical investment called the “CI portfolio.”

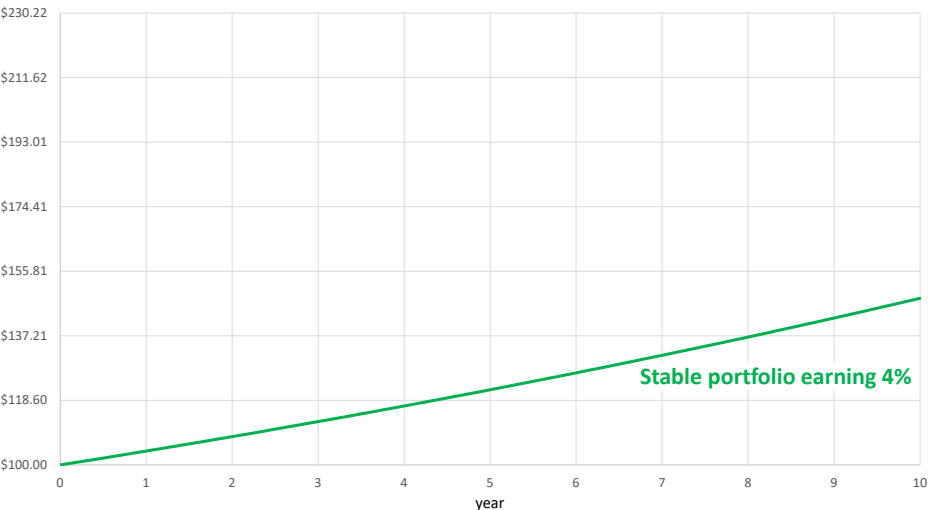


# Objective vs Best-case scenario

## Objective

The objective is to “earn at least 4.0%.” If the hypothetical CI portfolio were to earn exactly 4.0%, at a steady and continuous pace, earning a positive return each month, then an initial \$100 investment grows to become \$148.02 by the end of the tenth year<sup>4</sup>.

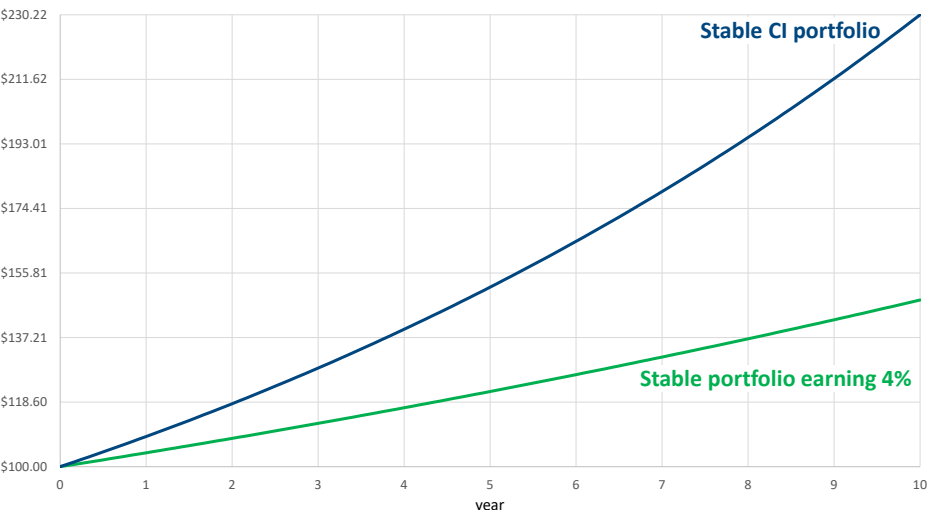
Growth of \$100 over ten years with no withdrawals



## Best-case scenario

A best-case scenario might be described by the hypothetical CI portfolio earning the three sources of return identified on the previous page, in a steady and continuous fashion, earning a positive return each and every month. Under such a favorable scenario, our initial \$100 investment grows to \$230.22 by the tenth year.

Growth of \$100 over ten years with no withdrawals

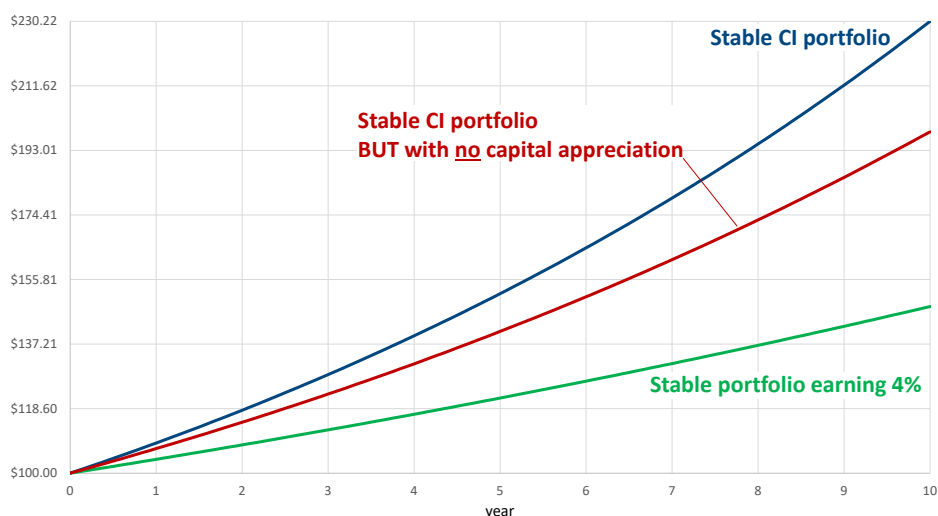


# But what if . . .

## Capital appreciation is ZERO for ten years

Let's determine if we can still earn our "at least 4.0%" objective if capital appreciation on the equity real estate is ZERO. In such an unfavorable circumstance, our initial \$100 investment grows to become \$198.38. In other words, we still handily achieve our objective.

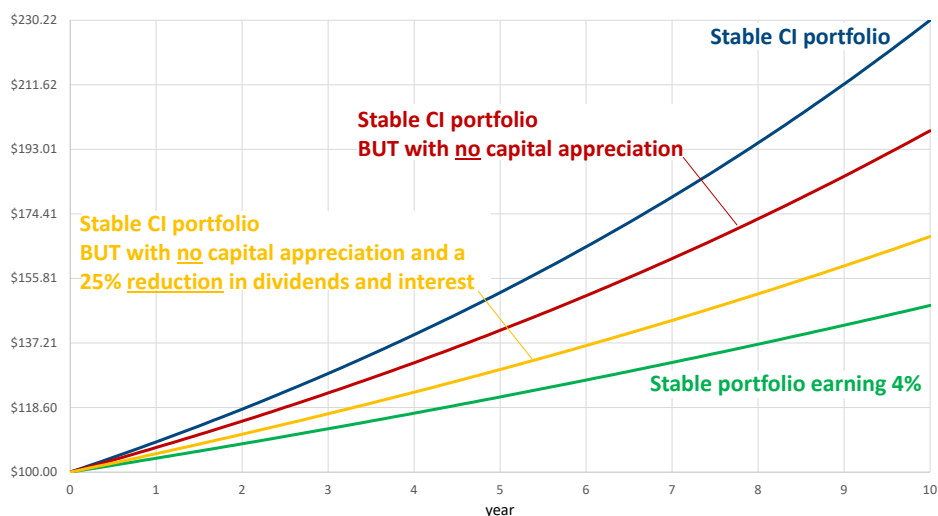
Growth of \$100 over ten years with no withdrawals



## Interest and dividend payments collapse

But let's make the situation even worse. Let's assume that not only is capital appreciation ZERO, but that all interest and dividend payments are permanently reduced by -25% over the entire ten-year investment period. Even with these two dire outcomes (no capital appreciation over ten years and a permanent collapse in both dividends and interest), our initial \$100 still grows to become \$167.88 by the tenth year. We still achieve our objective.

Growth of \$100 over ten years with no withdrawals

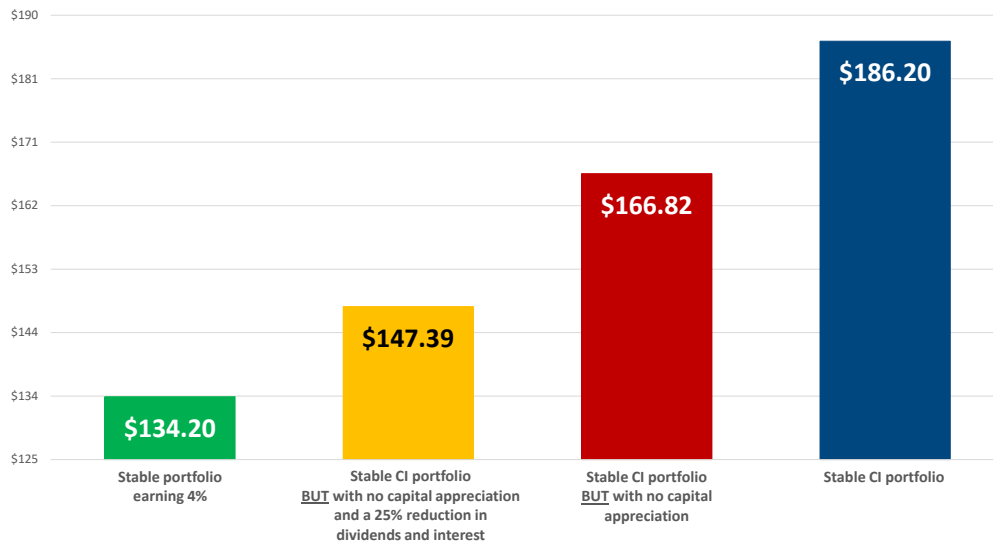


# Success even when challenged

## Monthly withdrawals during the last five years

If we used our initial \$100 investment to support even, level monthly withdrawals during the last five years (sixty equal-sized withdrawals), what would the cumulative withdrawals<sup>5,6</sup> sum to under each of the scenarios just examined?

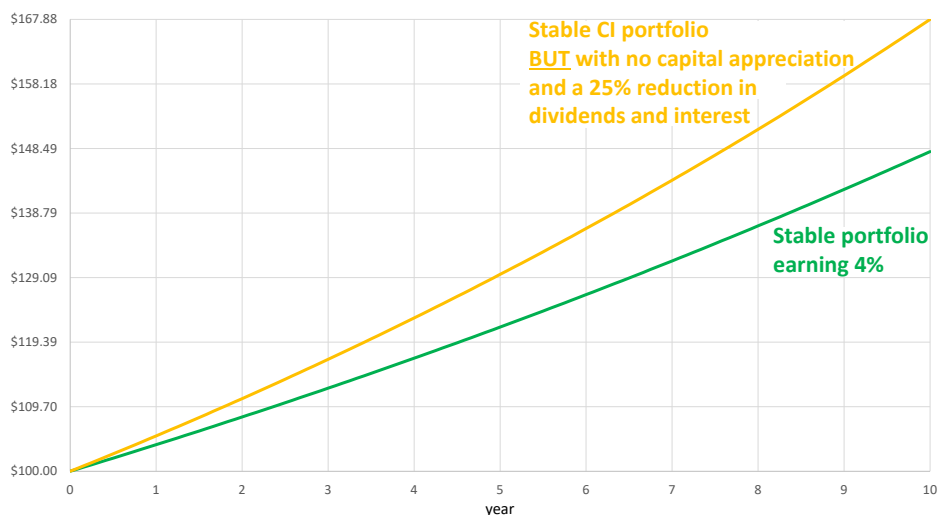
Cumulative withdrawals during the last five years for an initial \$100 investment



## Could we consider an even more challenging environment?

Even when we assumed no capital appreciation over ten years and the permanent collapse of both dividend and interest payments, we still exceeded our objective. But what would happen if the hypothetical CI portfolio experienced profound volatility?

Growth of \$100 over ten years with no withdrawals

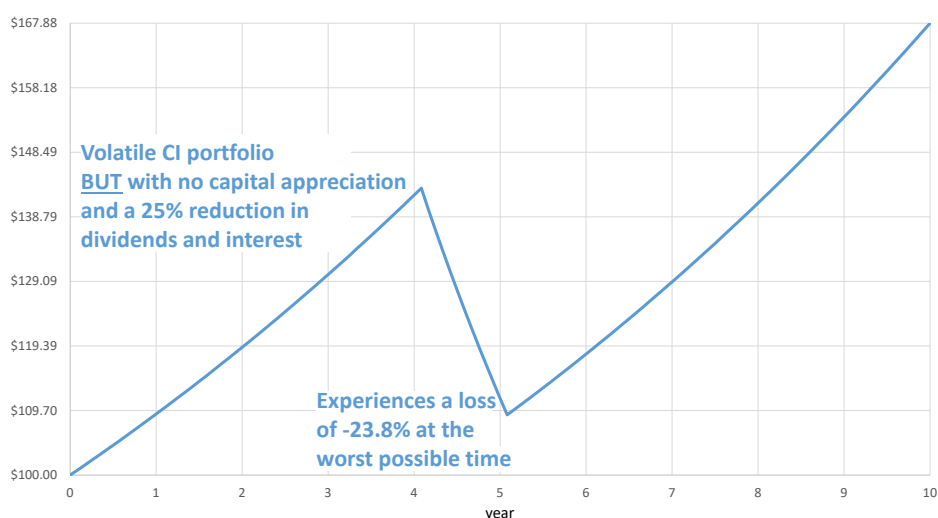


# The impact of profound volatility

## Extreme volatility - A hypothetical scenario

Previously, we showed that despite the elimination of all capital appreciation and the permanent collapse of both dividend and interest income, we were still able to realize our intended investment objective. Now, let us make the hypothetical situation even more challenging by overlaying an extreme level of volatility. To make this scenario even worse, we assume that the unprecedented volatility applies to both the equity real estate and to the bonds (and is on top of and in addition to the loss of capital appreciation and collapse of both dividend and interest income).

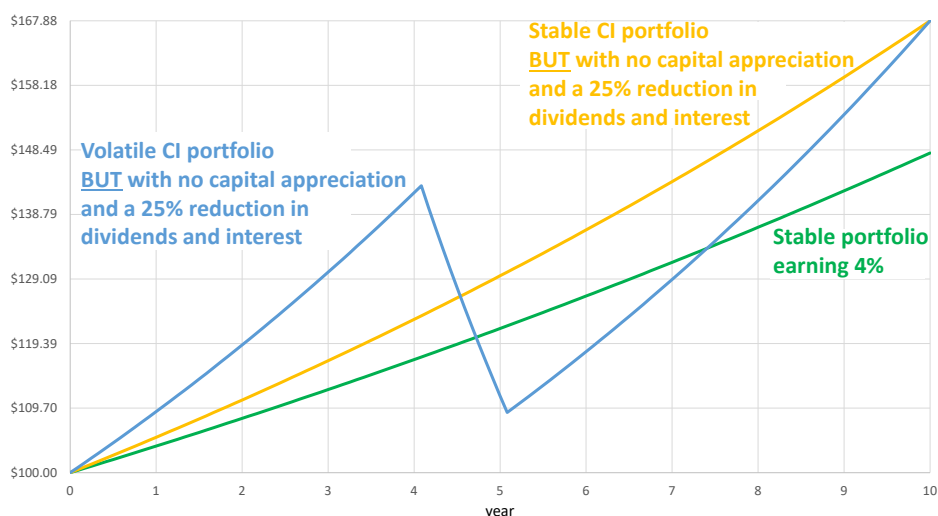
Growth of \$100 over ten years with no withdrawals



## Positioned at the worst possible time

To make this a true worst-case scenario, we position the volatile collapse at the worst possible time, where it will do us the greatest possible harm. We position the collapse just before we first begin taking withdrawals.

Growth of \$100 over ten years with no withdrawals



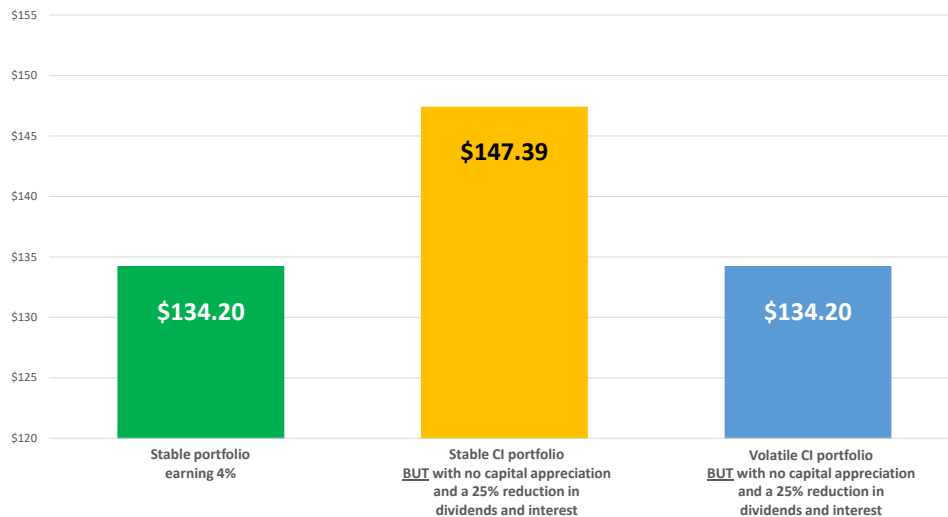


# Worst-case scenario examined

## Impact on cumulative withdrawals during the last five years

Even after (a) eliminating all capital appreciation for ten years, (b) permanently reducing both dividend and interest income by -25%, (c) imposing extreme volatility on both equity real estate and on the bonds, and (d) positioning the downdraft at the worst possible time, the hypothetical CI portfolio is still able to achieve its investment objective.

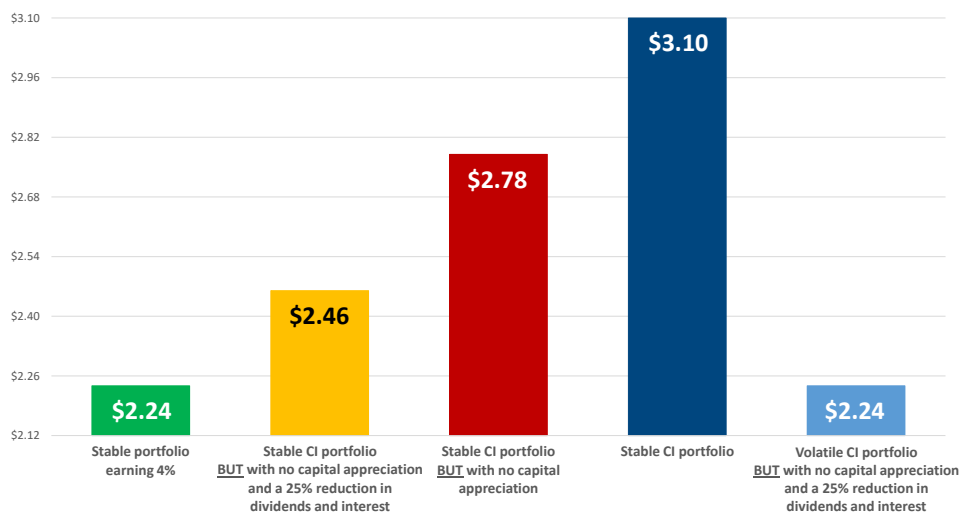
**Cumulative withdrawals during the last five years for an initial \$100 investment**



## Impact on the monthly withdrawal rate

The monthly withdrawal rate for the CI portfolio suffering from near-impossible volatility, permanent decline in dividend and interest income, and zero capital appreciation over ten years, still matches that of the fixed-rate 4.0% hypothetical portfolio.

**Monthly withdrawals during the last five years for an initial \$100 investment**



# A practical question

## How likely is it . . .

The prior discussion examined the impact on the hypothetical CI portfolio of experiencing:

- ZERO capital appreciation for ten years.
- Permanent reduction in all bond interest payments by -25%.
- Permanent reduction in all real estate dividend payments by -25%.
- The introduction of extreme volatility during which both the bonds and the equity real estate fall by -23.8%.
- Positioning the downdraft at the worst possible time, when it will do the investor the greatest harm.

Based on the assumptions made, even after these five remarkably unfortunate outcomes, the hypothetical CI portfolio was still able to achieve its objective. It was still capable of supporting an attractive and reasonable<sup>3</sup> level of withdrawals during the last five years of the portfolio's ten-year life.

**The practical question becomes: “How likely is it that the actual experienced investment journey would be even worse than that described above?”**

## FOOTNOTES

1. The requirement to provide exposure to a minimum number of bond positions is based on a “look through” the structure of the individual Bond Term Funds that are used to construct the portfolio. In other words, the use of Bond Term Funds, provides an effective method for obtain ultra-broad diversification across numerous individual bond positions, with the advantage of not having to trade those individual bond positions.
2. This is a hypothetical example. We present this hypothetical example in order to examine the impact of a series of negative events. The sources of return correspond in rough proximity to what one might expect from the marketplace in general. But they are only hypothetical.
3. Attractive and reasonable is defined to mean that, in effect, the equivalent of at least a steady/constant 4.0% annualized return was earned.
4. This is a hypothetical example. Integrated does not offer a stable portfolio that pays 4.0% per annum. Such a hypothetical investment might or might not exist. Today, money market mutual funds are generally yielding between 0.0% and 0.7%.
5. This is a hypothetical example. Many additional factors affect the level of monthly withdrawals that can be supported by any actual investment.
6. This is a hypothetical example. It assumes that the account balance is brought down to zero by the end of the five-year time window.

## DISCLOSURES

Indices are unmanaged and cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Unmanaged index returns do not reflect actual market trading. Such actual market trading could materially and adversely impact Index returns. Index performance is not indicative of the performance of any investment. Past performance is no guarantee of future results.

No strategy, including asset allocation and diversification, can assure success or protect against loss. Ideas and concepts are for illustrative purposes only. Investment advice offered through Integrated Wealth Concepts LLC (a Registered Investment Adviser), d/b/a Integrated Financial Partners, Inc.

Stock investing involves risk, including loss of principal. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price. International debt securities involve special additional risks. These risks include, but are not limited to, currency risk, geopolitical and regulatory risk, and risk associated with varying settlement standards. These risks are often heightened for investments in emerging markets. International debt securities involve special additional risks. These risks include, but are not limited to, currency risk, geopolitical and regulatory risk, and risk associated with varying settlement standards. These risks are often heightened for investments in emerging markets. The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings.