


BEACON POINTE

ADVISORS

**BEACON POINTE RESEARCH
WHITE PAPER**

**BENEFITS OF REBALANCING
OCTOBER 2002**

CONFIDENTIAL – PROPRIETARY



These materials are confidential and being furnished solely to clients and prospective clients for informational purposes only and are not to be distributed. The materials may not be reproduced or disseminated without the express prior consent of Beacon Pointe Advisors, LLC. This information is obtained from internal and external research sources that are considered reliable, but the information's accuracy is not guaranteed by Beacon Pointe Advisors. Neither the information nor any opinion that may be expressed constitutes a solicitation or advertisement by Beacon Pointe Advisors, LLC.

610 Newport Center Drive, Suite 750 Newport Beach, CA 92660
TEL 949.718.1600 FAX 949.718.0601 www.bpadvisor.com

HIGHLIGHTS

- *Background:* The first phase of analyzing the integrity of a portfolio is evaluating the client's investment policy statement and guidelines. Asset allocation studies are normally completed during this phase as advisors work with a client to determine the risk and return objectives of the portfolio. The target asset allocation that offers the optimal trade-off between return and risk is then selected and the portfolio is expected to adhere to the established targets.

Strict adherence to the target asset allocation may lead to excessive trading and transaction costs. To balance out the trading transaction costs with the benefits of adhering to the optimal allocation along the efficient frontier, variance bands are normally placed around a portfolio's target asset allocation.

There are two basic rebalancing methodologies: Time Rebalancing and Range or Normal Mix Rebalancing. The portfolio will rebalance assets to the target asset allocation on a pre-specified time period, such as rebalancing every quarter end or on calendar year end with the Time Rebalancing approach. The Normal Mix approach will rebalance the total portfolio when an investment style's allocation range is violated.

Beacon Pointe recommends clients implement the Normal Mix Rebalancing approach. The Time Rebalancing methodology may lead to unnecessary transaction costs and turnover as the difference between a portfolio's target asset allocation and actual present allocation maybe minimal.

- *Summary:* A rebalancing policy is an integral component of any fund's investment policy statement. Asset allocation targets should be supported by a rebalancing policy that helps preserve the target asset allocation. A portfolio may incur unintended risk if a rebalancing policy has not been established.

Total portfolio rebalancing helps keep a portfolio's investments in line with its investment strategy by selling asset classes/styles and investment managers that have outperformed and by investing in investment styles and managers that have underperformed.

The following simulation identifies the benefits of having a rebalancing policy. The analysis shows that a implementing a rebalancing policy, in this case, not only increased the total portfolio's performance, but also decreased total portfolio risk (as measured by standard deviation). Beacon Pointe believes that it is imperative that all portfolios establish a rebalancing policy. Rebalancing policies, although at times counterintuitive, should be an integral component of the portfolio's investment policy statement.

Rebalancing Variables

- *Target Asset Allocation:* The assumed target asset allocation:

Exhibit 1

<u>Asset Class/Style</u>	<u>Index</u>	<u>Allocation%</u>
Large Cap Value	Russell 1000 Value	20%
Large Cap Growth	Russell 1000 Growth	20%
Small Cap Value	Russell 2000 Value	10%
International Equity	MSCI EAFE	10%
Fixed Income	Lehman Aggregate	40%

- *Rebalancing Policy:* The assumed asset allocation ranges are:

Exhibit 2

<u>Asset Class/Style</u>	<u>Minimum %</u>	<u>Target %</u>	<u>Maximum %</u>
Large Cap Value	10%	20%	30%
Large Cap Growth	10%	20%	30%
Small Cap Value	5%	10%	15%
International Equity	5%	10%	15%
Fixed Income	30%	40%	50%

- *Transaction Costs:*

Costs associated with trading securities do have an impact on total portfolio performance. Trading costs normally consist of trading commissions, fees, and taxes. These are often categorized as the explicit costs of trading.

This paper will show the annual return over a 10-year and 20-year period before and after deducting transaction costs, which are assumed to be 0.35% for large cap growth stocks, 0.35% for large cap value stocks, 0.55% for small cap value stocks, 0.75% for international stocks, and 0.10% for bonds.

Rebalancing Simulation – 10 Year

- Exhibit 3 below shows several measures derived from the rebalancing simulation (as shown in Exhibit 4). The results are calculated for a 10-year period ending September 30, 2002.

The Portfolio values are calculated based on the rebalancing ranges given in Exhibit 2. The Drifting Mix values contain the portfolio results where the initial asset allocation weights are set to the target asset allocation and never rebalanced.

The analysis shows that the portfolio, with a rebalancing policy, not only produced a higher annual return (before and after costs), but the portfolio with a rebalancing policy also lowered overall risk (as measured by standard deviation). The transaction costs lowered the annual return by 2 basis points as rebalancing was triggered a total of 4 times over the 10-year period.

Exhibit 3

September 30, 1992 – September 30, 2002

	<u>Portfolio</u>	<u>Drifting Mix</u>
Return (before costs)	9.30	8.09
Return (after costs)	9.28	8.09
Risk	8.58	10.16
Return/Risk (before costs)	1.08	0.80
Return/risk (after costs)	1.08	0.80
# of Trades	4	0
Annual trading cost	0.02	0.02

Exhibit 4 identifies the monthly allocations of the total portfolio and the periods of rebalancing (as shown in yellow). The portfolio was rebalanced to the target asset allocation each time the rebalancing procedure was triggered. The benchmark return represents the monthly return of the portfolio rebalanced to the target asset allocation on a monthly basis.

BEACON POINTE RESEARCH

Rebalancing Simulation – 10 Year

Exhibit 4

Date	% Allocation R1000G	% Allocation R1000Y	% Allocation EAFE	% Allocation R2000Y	% Allocation Aggregate	Portfolio Return	Benchmark Return
Oct-92	20.00	20.00	10.00	10.00	40.00	-0.50	-0.50
Nov-92	20.40	20.12	9.53	10.28	39.67	2.28	2.25
Dec-92	20.81	20.32	9.40	10.68	38.79	1.80	1.78
Jan-93	20.65	20.43	9.29	10.92	38.71	1.68	1.65
Feb-93	20.08	20.68	9.14	11.31	38.80	1.41	1.43
Mar-93	19.48	21.10	9.28	11.20	38.93	2.40	2.40
Apr-93	19.39	21.22	9.86	11.35	38.18	-0.11	-0.06
May-93	18.64	20.97	10.81	11.09	38.49	1.70	1.68
Jun-93	18.97	21.03	10.86	11.25	37.89	0.91	0.92
Jul-93	18.62	21.30	10.59	11.25	38.23	0.69	0.62
Aug-93	18.16	21.39	10.89	11.37	38.18	3.22	3.18
Sep-93	18.32	21.48	11.12	11.44	37.64	0.03	0.01
Oct-93	18.18	21.50	10.87	11.72	37.73	1.24	1.23
Nov-93	18.46	21.23	11.07	11.84	37.41	-2.14	-2.01
Dec-93	18.74	21.25	10.33	11.79	37.90	2.03	1.96
Jan-94	18.68	21.22	10.86	11.89	37.35	3.08	2.96
Feb-94	18.54	21.36	11.42	11.95	36.72	-1.77	-1.80
Mar-94	18.53	21.00	11.60	12.13	36.73	-3.62	-3.58
Apr-94	18.30	20.98	11.52	12.02	37.17	0.80	0.68
May-94	18.24	21.22	11.92	12.04	36.58	0.43	0.46
Jun-94	18.44	21.37	11.80	11.97	36.42	-1.28	-1.27
Jul-94	18.12	21.12	12.12	11.81	36.81	2.35	2.39
Aug-94	18.31	21.28	11.96	11.76	36.68	2.42	2.37
Sep-94	18.88	21.37	11.96	11.93	35.86	-2.00	-1.95
Oct-94	19.00	21.09	11.82	12.04	36.05	0.88	0.87
Nov-94	19.28	21.19	12.11	11.72	35.70	-2.60	-2.42
Dec-94	19.16	20.88	11.84	11.55	36.58	1.24	1.21
Jan-95	19.24	20.86	11.77	11.75	36.38	1.27	1.40
Feb-95	19.41	21.23	11.18	11.55	36.64	2.92	2.92
Mar-95	19.64	21.45	10.83	11.63	36.44	2.00	1.94
Apr-95	19.82	21.49	11.29	11.46	35.94	2.38	2.31
May-95	19.79	21.65	11.44	11.53	35.60	3.09	3.19
Jun-95	19.86	21.88	10.97	11.42	35.87	1.53	1.51
Jul-95	20.32	21.85	10.62	11.63	35.59	2.62	2.43
Aug-95	20.62	22.03	10.99	11.75	34.60	0.68	0.71
Sep-95	20.51	22.19	10.50	12.02	34.78	2.47	2.38
Oct-95	20.93	22.44	10.45	11.90	34.27	-0.51	-0.33
Nov-95	21.06	22.33	10.23	11.49	34.90	3.22	3.07
Dec-95	21.19	22.73	10.19	11.57	34.32	1.94	1.89
Jan-96	20.91	22.86	10.40	11.70	34.13	1.76	1.67
Feb-96	21.23	23.16	10.26	11.57	33.77	0.20	0.02
Mar-96	21.58	23.29	10.28	11.73	33.11	0.66	0.51
Apr-96	21.47	23.54	10.43	11.90	32.67	1.10	0.94
May-96	21.79	23.37	10.62	12.09	32.13	1.10	0.94
Jun-96	22.31	23.40	10.31	12.26	31.72	0.39	0.52
Jul-96	22.25	23.33	10.33	12.07	32.02	-3.04	-2.64
Aug-96	21.60	23.15	10.35	11.79	33.11	1.70	1.48
Sep-96	21.79	23.42	10.20	12.09	32.50	3.69	3.49
Oct-96	22.55	23.48	10.10	11.98	31.89	1.79	1.80
Nov-96	22.28	23.96	9.82	11.91	32.02	4.99	4.57
Dec-96	22.82	24.48	9.73	11.95	31.02	-0.78	-0.82
Jan-97	22.55	24.35	9.68	12.44	30.98	2.71	2.30
Feb-97	23.49	24.86	9.10	12.30	30.25	0.55	0.52
Mar-97	23.20	25.09	9.20	12.34	30.16	-2.79	-2.48
Apr-97	22.58	24.88	9.50	12.36	30.68	3.24	2.97
May-97	23.32	25.11	9.25	12.15	30.17	4.95	4.39
Jun-97	23.83	25.27	9.39	12.50	29.02	3.14	3.19
Rebalance:	-3.83	-5.27		-1.89	10.98		
Jul-97	20.16	20.21	9.61	10.80	39.22	4.97	4.94
Aug-97	20.90	20.70	9.30	10.72	38.38	-2.81	-2.81
Sep-97	20.25	20.54	8.86	11.20	39.15	4.06	4.01
Oct-97	20.41	20.93	8.99	11.48	38.18	-1.79	-1.76
Nov-97	20.02	20.72	8.45	11.37	39.44	1.99	1.93
Dec-97	20.46	21.21	8.21	11.27	38.85	1.70	1.64

BEACON POINTE RESEARCH

Rebalancing Simulation – 10 Year

Exhibit 4 (continued)

Date	% Allocation R1000G	% Allocation R1000V	% Allocation EAFE	% Allocation R2000V	% Allocation Aggregate	Portfolio Return	Benchmark Return
Jan-98	20.34	21.47	8.14	11.46	38.58	0.96	1.11
Feb-98	20.75	20.96	8.44	11.15	38.70	4.16	4.07
Mar-98	21.42	21.48	8.62	11.35	37.13	3.02	2.87
Apr-98	21.62	22.13	8.63	11.46	36.16	0.76	0.75
May-98	21.76	22.11	8.63	11.43	36.08	-1.05	-0.88
Jun-98	21.36	22.01	8.68	11.14	36.80	1.91	1.84
Jul-98	22.25	21.87	8.59	10.87	36.42	-1.22	-1.08
Aug-98	22.37	21.75	8.78	10.14	36.95	-8.67	-8.13
Sep-98	20.82	20.27	8.43	9.37	41.11	4.00	3.88
Oct-98	21.56	20.61	7.86	9.52	40.46	4.22	4.29
Nov-98	22.35	21.31	8.33	9.40	38.62	3.60	3.47
Dec-98	23.21	21.53	8.45	9.32	37.49	3.57	3.32
Jan-99	24.43	21.49	8.48	9.28	36.30	1.63	1.36
Feb-99	25.45	21.32	8.32	8.93	35.98	-2.90	-2.82
Mar-99	25.01	21.65	8.37	8.57	36.40	2.25	2.03
Apr-99	25.75	21.61	8.53	8.31	35.80	3.27	3.34
May-99	24.97	22.88	8.60	8.78	34.77	-1.50	-1.39
Jun-99	24.57	22.97	8.28	9.19	34.99	2.93	2.61
Jul-99	25.54	22.96	8.36	9.25	33.89	-1.60	-1.33
Aug-99	25.13	22.65	8.75	9.18	34.29	-0.75	-0.76
Sep-99	25.73	21.98	8.85	8.91	34.53	-1.00	-0.75
Oct-99	25.45	21.42	9.03	8.82	35.28	3.45	2.99
Nov-99	26.46	21.90	9.06	8.35	34.23	1.61	1.32
Dec-99	27.44	21.38	9.23	8.26	33.69	3.88	3.19
Jan-00	29.16	20.68	9.68	8.20	32.27	-2.98	-2.62
Feb-00	28.65	20.62	9.35	8.23	33.16	1.03	0.86
Mar-00	29.74	18.90	9.50	8.64	33.22	5.28	4.84
Apr-00	30.27	20.14	9.38	8.25	31.96	-1.83	-1.77
Rebalance:	-10.27		0.62	1.75	7.90		
May-00	19.39	20.26	9.65	10.24	40.46	-1.17	-1.21
Jun-00	18.63	20.72	9.52	10.20	40.92	1.99	2.12
Jul-00	19.65	19.39	9.71	10.30	40.96	-0.27	-0.30
Aug-00	18.88	19.68	9.33	10.67	41.44	3.96	4.04
Sep-00	19.81	19.98	9.05	10.72	40.44	-1.94	-2.00
Oct-00	18.29	20.56	8.78	10.87	41.50	-0.33	-0.46
Nov-00	17.48	21.14	8.60	10.87	41.91	-3.22	-3.61
Dec-00	15.40	21.03	8.56	11.00	44.01	2.87	2.55
Jan-01	14.50	21.47	8.62	11.84	43.58	2.12	2.38
Feb-01	15.18	21.10	8.43	11.91	43.37	-3.43	-4.37
Mar-01	13.05	21.25	8.08	12.32	45.30	-2.68	-3.50
Apr-01	11.95	21.06	7.75	12.46	46.78	3.47	4.51
May-01	13.01	21.35	8.02	12.60	45.02	0.61	0.31
Jun-01	12.74	21.70	7.70	12.84	45.02	-0.40	-0.76
Jul-01	12.49	21.31	7.41	13.41	45.37	0.22	-0.05
Aug-01	12.15	21.21	7.26	13.08	46.29	-1.54	-2.26
Sep-01	11.34	20.68	7.19	13.24	47.55	-4.22	-5.05
Oct-01	10.65	20.07	6.75	12.30	50.23	2.18	2.23
Rebalance:	9.35		0.88		-10.23		
Nov-01	20.59	19.47	7.65	12.34	39.95	3.73	3.62
Dec-01	21.76	19.86	7.65	12.76	37.98	1.01	0.85
Jan-02	21.50	20.12	7.62	13.40	37.36	-0.46	-0.58
Feb-02	21.22	20.06	7.25	13.64	37.83	-0.35	-0.28
Mar-02	20.41	20.16	7.32	13.77	38.33	2.45	2.27
Apr-02	20.61	20.61	7.54	14.45	36.79	-1.11	-1.12
May-02	19.14	20.13	7.68	15.13	37.93	-0.29	-0.24
Rebalance:	0.86		2.32	-5.13	1.94		
Jun-02	19.56	20.27	10.16	9.69	40.31	-3.24	-3.27
Jul-02	18.35	19.75	10.09	9.80	42.02	-4.79	-4.95
Aug-02	18.21	18.81	9.55	8.76	44.67	0.89	0.82
Sep-02	18.10	18.79	9.44	8.64	45.02	-4.87	-5.44

Rebalancing Simulation – 20 Year

- Exhibit 5 below shows several measures derived from the rebalancing simulation (as shown in Exhibit 6). The results are calculated for a 20-year period ending September 30, 2002.

The Portfolio values are calculated based on the rebalancing ranges given in Exhibit 2. The Drifting Mix values contain the portfolio results where the initial asset allocation weights are set to the target asset allocation and never rebalanced.

The 20-year analysis has similar results with the 10-year rebalancing simulation. This analysis shows that the portfolio, with a rebalancing policy, not only produced a higher annual return (before and after costs), but the portfolio with a rebalancing policy also lowered overall risk (as measured by standard deviation). The transaction costs lowered the annual return by 2 basis points as rebalancing was triggered a total of 6 times over the 20-year period.

Exhibit 5

September 30, 1982 – September 30, 2002

	<u>Portfolio</u>	<u>Drifting Mix</u>
Return (before costs)	12.52	11.74
Return (after costs)	12.50	11.72
Risk	9.74	11.08
Return/Risk (before costs)	1.29	1.06
Return/risk (after costs)	1.28	1.06
# of Trades	6	0
Annual trading cost	0.02	0.02

BEACON POINTE RESEARCH

Rebalancing Simulation – 20 Year

Exhibit 6

Date	% Allocation R1000G	% Allocation R1000V	% Allocation EAFE	% Allocation R2000V	% Allocation Aggregate	Portfolio Return	Benchmark Return
Oct-82	20.00	20.00	10.00	10.00	40.00	8.03	8.03
Nov-82	20.76	20.57	9.30	10.39	38.99	3.87	3.84
Dec-82	21.36	20.33	9.67	10.73	37.91	2.29	2.33
Jan-83	21.14	20.24	10.21	10.62	37.80	2.09	2.01
Feb-83	21.23	20.69	9.91	11.07	37.09	3.10	3.07
Mar-83	21.35	20.46	9.88	11.30	37.01	2.50	2.39
Apr-83	21.45	20.77	10.02	11.56	36.20	5.47	5.31
May-83	21.65	21.28	10.04	11.75	35.28	0.43	0.25
Jun-83	21.60	21.34	9.95	12.44	34.67	2.39	2.20
Jul-83	22.31	21.30	9.95	12.55	33.90	-2.20	-2.21
Aug-83	21.75	21.43	10.17	12.81	33.84	0.21	0.30
Sep-83	21.57	21.96	9.99	12.48	34.01	2.61	2.68
Oct-83	21.41	21.72	10.12	12.51	34.24	-1.35	-1.16
Nov-83	20.89	21.90	10.25	12.13	34.83	2.38	2.25
Dec-83	20.88	22.01	10.25	12.45	34.41	0.02	0.05
Jan-84	20.62	21.85	10.68	12.38	34.47	0.64	0.69
Feb-84	19.43	22.07	11.09	12.46	34.95	-2.29	-2.17
Mar-84	18.93	21.87	11.45	12.15	35.59	1.49	1.27
Apr-84	19.00	21.81	12.35	12.17	34.67	-0.13	-0.09
May-84	19.13	21.93	12.16	12.13	34.65	-5.03	-4.82
Jun-84	19.06	21.88	11.51	12.20	35.35	1.71	1.73
Jul-84	19.47	21.78	11.30	12.25	35.20	-0.23	0.17
Aug-84	19.18	21.51	10.61	11.84	36.87	7.41	7.14
Sep-84	19.89	22.35	10.72	12.14	34.90	0.94	0.99
Oct-84	19.38	22.51	10.53	12.18	35.40	1.79	1.99
Nov-84	19.18	22.09	10.60	11.87	36.25	0.22	0.28
Dec-84	18.75	22.07	10.62	11.74	36.82	1.99	1.98
Jan-85	18.85	22.20	10.63	11.69	36.63	5.76	5.57
Feb-85	19.47	22.44	10.28	12.39	35.43	0.16	-0.02
Mar-85	19.73	22.79	10.21	12.62	34.65	1.30	1.41
Apr-85	19.33	22.64	10.86	12.27	34.90	0.59	0.67
May-85	18.93	22.76	10.76	12.13	35.42	5.20	5.24
Jun-85	19.08	22.93	10.67	11.90	35.42	1.60	1.57
Jul-85	19.14	22.99	10.77	11.86	35.24	0.49	0.41
Aug-85	18.96	22.71	11.28	12.10	34.94	0.85	0.89
Sep-85	18.63	22.57	11.55	11.95	35.30	-1.19	-1.11
Oct-85	18.19	22.00	12.37	11.50	35.94	3.91	3.76
Nov-85	18.26	22.26	12.72	11.45	35.31	4.99	4.92
Dec-85	18.89	22.37	12.62	11.68	34.44	3.90	3.85
Jan-86	19.12	22.30	12.72	11.69	34.16	1.07	1.00
Feb-86	19.08	22.36	12.91	11.67	33.99	6.77	6.47
Mar-86	19.29	22.50	13.43	11.70	33.09	5.76	5.33
Apr-86	19.37	22.26	14.49	11.63	32.26	0.70	0.49
May-86	19.26	21.60	15.34	11.61	32.20	1.42	1.27
Rebalance:	0.74		-5.34		4.60		
Jun-86	20.85	22.35	9.42	11.81	35.57	2.21	2.33
Jul-86	20.84	22.12	9.85	11.48	35.72	-2.37	-2.06
Aug-86	19.88	21.68	10.71	10.82	36.91	5.43	5.25
Sep-86	19.72	22.55	11.16	10.69	35.88	-4.42	-4.27
Oct-86	18.59	21.98	11.56	10.70	37.17	2.26	2.37
Nov-86	19.23	22.59	10.55	10.76	36.87	1.86	1.84
Dec-86	19.22	22.58	10.96	10.54	36.70	-0.67	-0.64
Jan-87	18.88	22.05	11.62	10.35	37.09	8.09	7.85
Feb-87	19.97	22.75	11.90	10.58	34.80	3.14	3.03
Mar-87	20.68	22.48	11.88	10.99	33.97	1.99	1.72
Apr-87	20.60	22.57	12.61	11.06	33.16	-0.53	-0.92
May-87	20.32	22.42	14.02	10.82	32.42	0.18	0.13
Jun-87	20.50	22.46	14.00	10.81	32.24	2.33	2.40
Jul-87	20.98	22.99	13.24	10.84	31.94	2.29	2.09
Aug-87	21.49	23.37	12.93	11.01	31.20	2.99	2.50
Sep-87	21.83	23.53	13.50	11.01	30.14	-2.04	-2.06
Oct-87	21.70	23.58	13.56	11.05	30.11	-13.75	-11.48
Nov-87	19.32	21.82	13.52	9.19	36.15	-3.12	-3.09
Dec-87	18.22	20.99	14.10	9.08	37.61	4.31	4.38

BEACON POINTE RESEARCH

Rebalancing Simulation – 20 Year

Exhibit 6 (continued)

Date	% Allocation R1000G	% Allocation R1000Y	% Allocation EAFE	% Allocation R2000Y	% Allocation Aggregate	Portfolio Return	Benchmark Return
Jan-88	19.07	21.25	13.92	9.22	36.55	4.03	4.05
Feb-88	18.54	22.01	13.62	9.46	36.36	4.15	3.99
Mar-88	18.77	22.07	13.96	9.87	35.33	-0.13	-0.41
Apr-88	18.17	21.67	14.84	10.29	35.04	0.59	0.46
May-88	18.09	21.85	14.97	10.44	34.65	-0.68	-0.58
Jun-88	18.15	22.32	14.59	10.29	34.65	3.23	3.46
Jul-88	18.56	22.65	13.76	10.65	34.38	-0.05	-0.22
Aug-88	18.26	22.66	14.20	10.65	34.21	-2.11	-1.82
Sep-88	17.97	22.70	13.57	10.72	35.04	3.30	3.26
Oct-88	18.28	22.69	13.71	10.63	34.69	2.64	2.40
Nov-88	18.16	22.61	14.51	10.30	34.43	-0.45	-0.79
Dec-88	17.90	22.43	15.44	10.05	34.17	1.19	1.21
Rebalance:	2.10		-5.44		3.34		
Jan-89	20.32	22.43	9.93	10.23	37.09	4.15	3.99
Feb-89	20.87	23.01	9.71	10.28	36.13	-0.93	-0.89
Mar-89	20.58	22.86	9.85	10.50	36.21	1.15	1.08
Apr-89	20.82	23.10	9.55	10.58	35.95	3.44	3.33
May-89	21.34	23.25	9.32	10.61	35.48	2.73	2.59
Jun-89	21.71	23.53	8.58	10.72	35.45	0.56	0.71
Jul-89	21.45	23.31	8.39	10.52	36.32	5.90	5.79
Aug-89	22.30	23.50	8.92	10.25	35.03	0.24	-0.02
Sep-89	22.62	24.02	8.50	10.43	34.43	0.38	0.51
Oct-89	22.63	23.70	8.86	10.33	34.47	-1.41	-1.12
Nov-89	22.55	23.19	8.62	9.81	35.83	1.67	1.68
Dec-89	22.76	23.07	8.91	9.69	35.57	1.33	1.26
Jan-90	22.88	23.27	9.12	9.53	35.20	-4.72	-4.41
Feb-90	22.08	22.90	9.22	9.29	36.51	0.43	0.32
Mar-90	22.14	23.38	8.54	9.47	36.47	0.56	0.31
Apr-90	22.90	23.48	7.61	9.73	36.29	-1.96	-1.84
May-90	23.05	23.02	7.70	9.56	36.67	6.76	6.58
Jun-90	23.83	23.35	8.04	9.42	35.36	0.22	0.31
Jul-90	24.04	22.77	7.95	9.39	35.86	-0.20	-0.08
Aug-90	23.87	22.62	8.08	9.01	36.42	-6.65	-6.41
Sep-90	23.12	22.10	7.82	8.47	38.50	-3.79	-3.94
Oct-90	22.73	21.86	7.00	8.07	40.34	0.86	1.21
Nov-90	22.63	21.37	8.02	7.47	40.51	3.86	3.61
Dec-90	23.25	22.00	7.27	7.63	39.84	2.36	2.31
Jan-91	23.52	22.04	7.22	7.68	39.53	3.58	3.61
Feb-91	23.87	22.24	7.20	8.06	38.64	5.36	5.43
Mar-91	24.46	22.51	7.57	8.48	36.98	1.69	1.46
Apr-91	25.00	22.46	6.99	8.92	36.62	0.58	0.66
May-91	24.74	22.50	7.02	8.94	36.80	2.65	2.45
Jun-91	25.17	22.74	6.92	9.12	36.06	-3.10	-3.01
Jul-91	24.75	22.48	6.62	8.97	37.19	3.35	3.22
Aug-91	25.23	22.66	6.72	8.90	36.49	2.18	2.00
Sep-91	25.52	22.58	6.44	8.98	36.48	0.51	0.90
Oct-91	24.95	22.30	6.77	8.94	37.04	1.37	1.35
Nov-91	24.99	22.37	6.78	8.92	36.94	-2.12	-2.04
Dec-91	24.88	21.68	6.60	8.75	38.09	7.37	6.86
Jan-92	26.45	21.88	6.47	8.67	36.53	-0.51	-0.37
Feb-92	25.94	22.03	6.37	9.45	36.22	1.04	0.90
Mar-92	25.71	22.34	6.08	9.80	36.08	-1.73	-1.83
Apr-92	25.45	22.40	5.78	9.86	36.51	1.30	1.21
May-92	25.31	23.07	5.73	9.60	36.30	1.63	1.95
Jun-92	25.08	22.81	6.02	9.70	36.39	-0.87	-0.87
Jul-92	24.67	22.87	5.79	9.47	37.21	2.96	2.61
Aug-92	25.03	23.07	5.48	9.54	36.88	-0.48	-0.02
Sep-92	24.85	22.47	5.85	9.40	37.43	1.11	0.98
Oct-92	24.86	22.53	5.67	9.48	37.46	-0.18	-0.50
Nov-92	25.28	22.59	5.39	9.71	37.03	2.50	2.25
Dec-92	25.73	22.76	5.31	10.06	36.14	1.82	1.78

BEACON POINTE RESEARCH

Rebalancing Simulation – 20 Year

Exhibit 6 (continued)

Date	% Allocation R1000G	% Allocation R1000V	% Allocation EAFE	% Allocation R2000V	% Allocation Aggregate	Portfolio Return	Benchmark Return
Jan-93	25.53	22.89	5.24	10.29	36.05	1.61	1.65
Feb-93	24.83	23.18	5.16	10.67	36.16	1.26	1.43
Mar-93	24.14	23.69	5.25	10.58	36.34	2.18	2.40
Apr-93	24.08	23.87	5.59	10.75	35.71	-0.74	-0.06
May-93	23.29	23.74	6.17	10.57	36.23	1.80	1.68
Jun-93	23.68	23.79	6.19	10.71	35.64	0.96	0.92
Jul-93	23.24	24.09	6.03	10.70	35.94	0.46	0.62
Aug-93	22.72	24.25	6.22	10.84	35.98	3.20	3.18
Sep-93	22.92	24.34	6.35	10.91	35.48	0.08	0.01
Oct-93	22.72	24.36	6.20	11.17	35.54	1.19	1.23
Nov-93	23.08	24.06	6.32	11.29	35.25	-1.79	-2.01
Dec-93	23.35	23.99	5.87	11.20	35.59	1.81	1.96
Jan-94	23.33	24.01	6.19	11.32	35.15	2.85	2.96
Feb-94	23.21	24.23	6.53	11.40	34.63	-1.90	-1.80
Mar-94	23.23	23.86	6.64	11.59	34.69	-3.67	-3.58
Apr-94	22.95	23.84	6.59	11.49	35.12	0.68	0.68
May-94	22.90	24.14	6.83	11.53	34.61	0.57	0.46
Jun-94	23.12	24.28	6.75	11.45	34.41	-1.54	-1.27
Jul-94	22.78	24.07	6.96	11.32	34.87	2.50	2.39
Aug-94	22.99	24.21	6.85	11.25	34.70	2.62	2.37
Sep-94	23.65	24.27	6.84	11.39	33.85	-1.96	-1.95
Oct-94	23.79	23.93	6.76	11.50	34.02	0.88	0.87
Nov-94	24.14	24.05	6.92	11.19	33.69	-2.60	-2.42
Dec-94	23.99	23.70	6.77	11.02	34.52	1.29	1.21
Jan-95	24.09	23.66	6.73	11.21	34.31	1.61	1.40
Feb-95	24.21	24.01	6.37	10.98	34.44	3.17	2.92
Mar-95	24.45	24.19	6.15	11.04	34.17	1.89	1.94
Apr-95	24.70	24.26	6.42	10.88	33.74	2.35	2.31
May-95	24.66	24.45	6.51	10.95	33.43	3.34	3.19
Jun-95	24.69	24.66	6.22	10.82	33.60	1.80	1.51
Jul-95	25.19	24.55	6.01	11.00	33.25	2.61	2.43
Aug-95	25.58	24.76	6.22	11.11	32.33	0.86	0.71
Sep-95	25.38	24.89	5.94	11.34	32.45	2.67	2.38
Oct-95	25.86	25.12	5.90	11.21	31.91	-0.42	-0.33
Nov-95	25.99	24.98	5.76	10.81	32.46	3.36	3.07
Dec-95	26.13	25.39	5.73	10.87	31.88	1.80	1.89
Jan-96	25.81	25.57	5.86	11.01	31.75	1.97	1.67
Feb-96	26.16	25.86	5.77	10.87	31.34	0.32	0.02
Mar-96	26.55	25.97	5.77	11.00	30.70	0.62	0.51
Apr-96	26.42	26.25	5.86	11.17	30.30	1.10	0.94
May-96	26.82	26.06	5.97	11.35	29.80	1.03	0.94
Rebalance:	-6.82	-3.38			10.20		
Jun-96	20.48	22.72	5.80	11.51	39.49	0.47	0.52
Jul-96	20.41	22.64	5.80	11.32	39.83	-2.71	-2.64
Aug-96	19.75	22.39	5.79	11.02	41.06	1.57	1.48
Sep-96	19.94	22.67	5.72	11.32	40.35	3.52	3.49
Oct-96	20.67	22.77	5.67	11.23	39.66	1.96	1.80
Nov-96	20.39	23.20	5.50	11.14	39.76	4.71	4.57
Dec-96	20.94	23.76	5.47	11.21	38.62	-0.78	-0.82
Jan-97	20.69	23.64	5.44	11.67	38.56	2.71	2.30
Feb-97	21.56	24.13	5.11	11.54	37.66	0.50	0.52
Mar-97	21.30	24.37	5.17	11.59	37.57	-2.74	-2.48
Apr-97	20.72	24.15	5.34	11.59	38.20	3.16	2.97
May-97	21.42	24.39	5.20	11.40	37.58	4.51	4.39
Jun-97	21.97	24.65	5.30	11.78	36.30	3.26	3.19
Jul-97	22.13	24.89	5.42	11.99	35.57	5.38	4.94
Aug-97	22.86	25.40	5.23	11.85	34.67	-2.74	-2.81
Sep-97	22.12	25.18	4.98	12.38	35.34	4.18	4.01
Rebalance:	-2.12	-2.90	5.02				
Oct-97	20.13	22.67	10.13	12.67	34.40	-2.00	-1.76
Nov-97	19.78	22.48	9.55	12.57	35.62	2.04	1.93
Dec-97	20.21	23.01	9.26	12.46	35.06	1.76	1.64

BEACON POINTE RESEARCH

Rebalancing Simulation – 20 Year

Exhibit 6 (continued)

Date	% Allocation R1000G	% Allocation R1000Y	% Allocation EAFF	% Allocation R2000Y	% Allocation Aggregate	Portfolio Return	Benchmark Return
Jan-98	20.08	23.27	9.18	12.66	34.81	0.91	1.11
Feb-98	20.50	22.73	9.52	12.32	34.93	4.40	4.07
Mar-98	21.11	23.24	9.71	12.51	33.43	3.19	2.87
Apr-98	21.27	23.90	9.70	12.61	32.51	0.76	0.75
May-98	21.40	23.88	9.70	12.58	32.43	-1.14	-0.88
Jun-98	21.04	23.80	9.77	12.28	33.12	1.88	1.84
Jul-98	21.91	23.66	9.66	11.98	32.78	-1.33	-1.08
Aug-98	22.06	23.55	9.90	11.19	33.30	-9.25	-8.13
Sep-98	20.66	22.09	9.56	10.40	37.29	4.02	3.88
Oct-98	21.39	22.46	8.91	10.56	36.69	4.51	4.29
Nov-98	22.11	23.15	9.41	10.41	34.92	3.73	3.47
Dec-98	22.94	23.36	9.54	10.31	33.85	3.67	3.32
Jan-99	24.12	23.30	9.57	10.25	32.75	1.58	1.36
Feb-99	25.14	23.12	9.40	9.86	32.47	-2.94	-2.82
Mar-99	24.72	23.49	9.45	9.47	32.87	2.29	2.03
Apr-99	25.44	23.44	9.63	9.18	32.31	3.56	3.34
May-99	24.60	24.74	9.68	9.68	31.30	-1.50	-1.39
Jun-99	24.21	24.85	9.32	10.12	31.50	3.05	2.61
Jul-99	25.14	24.81	9.40	10.18	30.47	-1.61	-1.33
Aug-99	24.74	24.48	9.84	10.10	30.84	-0.85	-0.76
Sep-99	25.36	23.77	9.96	9.82	31.09	-1.10	-0.75
Oct-99	25.10	23.20	10.18	9.73	31.80	3.54	2.99
Nov-99	26.07	23.69	10.20	9.21	30.83	1.62	1.32
Dec-99	27.04	23.13	10.39	9.11	30.33	3.99	3.19
Jan-00	28.70	22.35	10.89	9.03	29.03	-2.70	-2.62
Rebalance:	-8.70	-2.27			10.97		
Feb-00	19.58	19.96	10.48	9.03	40.95	0.81	0.86
Mar-00	20.37	18.33	10.67	9.50	41.12	4.70	4.84
Apr-00	20.85	19.64	10.59	9.12	39.79	-1.84	-1.77
May-00	20.23	19.78	10.23	9.35	40.42	-1.22	-1.21
Jun-00	19.45	20.23	10.10	9.32	40.90	2.07	2.12
Jul-00	20.50	18.92	10.29	9.39	40.90	-0.36	-0.30
Aug-00	19.72	19.22	9.89	9.74	41.42	3.98	4.04
Sep-00	20.68	19.52	9.60	9.79	40.42	-2.04	-2.00
Oct-00	19.11	20.11	9.32	9.94	41.52	-0.39	-0.46
Nov-00	18.28	20.68	9.14	9.94	41.96	-3.32	-3.61
Dec-00	16.12	20.60	9.10	10.07	44.11	2.75	2.55
Jan-01	15.19	21.05	9.18	10.85	43.73	2.14	2.38
Feb-01	15.90	20.69	8.98	10.92	43.51	-3.58	-4.37
Mar-01	13.69	20.86	8.62	11.31	45.52	-2.75	-3.50
Apr-01	12.55	20.69	8.27	11.44	47.04	3.51	4.51
May-01	13.66	20.97	8.55	11.57	45.25	0.54	0.31
Jun-01	13.38	21.33	8.21	11.80	45.28	-0.47	-0.76
Jul-01	13.13	20.95	7.92	12.33	45.67	0.23	-0.05
Aug-01	12.78	20.86	7.76	12.03	46.58	-1.58	-2.26
Sep-01	11.92	20.34	7.68	12.18	47.87	-4.19	-5.05
Oct-01	11.20	19.74	7.21	11.31	50.55	2.17	2.23
Rebalance:	8.80	0.26	1.48		-10.55		
Nov-01	20.59	19.40	8.72	11.35	39.94	3.69	3.62
Dec-01	21.77	19.79	8.72	11.73	37.99	0.95	0.85
Jan-02	21.52	20.07	8.69	12.33	37.39	-0.53	-0.58
Feb-02	21.25	20.02	8.27	12.56	37.90	-0.35	-0.28
Mar-02	20.44	20.12	8.36	12.68	38.40	2.43	2.27
Apr-02	20.65	20.57	8.61	13.31	36.86	-1.14	-1.12
May-02	19.18	20.10	8.77	13.94	38.01	-0.38	-0.24
Jun-02	18.79	20.27	8.92	13.53	38.48	-3.22	-3.27
Jul-02	17.62	19.75	8.86	13.67	40.11	-5.23	-4.95
Aug-02	17.57	18.90	8.42	12.28	42.83	0.85	0.82
Sep-02	17.47	18.88	8.33	12.12	43.19	-4.97	-5.44

Conclusion

- A rebalancing policy is an integral and necessary component of a client's investment policy statement. We understand that rebalancing can be counterintuitive and does not seem like a logical process. Rebalancing simulations, however, over 10- and 20-year periods show that *rebalancing a portfolio can increase annual returns as well as lower overall portfolio risk*. Portfolios that are allowed to "drift" in asset allocation *do not* have a return or risk advantage.

Our analysis shows that the portfolio with a rebalancing policy had a higher return/risk ratio *before and after* transaction costs.

Portfolios that have a rebalancing policy normally achieve higher returns and lower levels of risk. These portfolios remain closer to the target asset allocation which is normally set to an optimal mix along the efficient frontier. Portfolios that are allowed to "drift" in asset allocation and do not have a rebalancing policy will likely fall away from the efficient frontier and produce inferior risk and return results.

Please feel free to call your Beacon Pointe advisor if you have any questions.

These materials are confidential and being furnished solely to clients and prospective clients for informational purposes only and are not to be distributed. The materials may not be reproduced or disseminated without the express prior consent of Beacon Pointe Advisors, LLC. This information is obtained from internal and external research sources that are considered reliable, but the information's accuracy is not guaranteed by Beacon Pointe Advisors. Neither the information nor any opinion that may be expressed constitutes a solicitation, an offer to sell, or advertisement by Beacon Pointe Advisors, LLC. This material has been prepared for the general information only. It does not take into account the particular investment objectives, financial situation or needs of individual or the institutional investors. Before acting on any advice or recommendation in this material, you should consider whether it is suitable for your particular circumstances. Opinions expressed are the author's current opinions as of the date appearing on this material only. While the author may strive to update on a reasonable basis the information discussed in this material, there may be some factors or reasons that may prevent the author from doing so.