

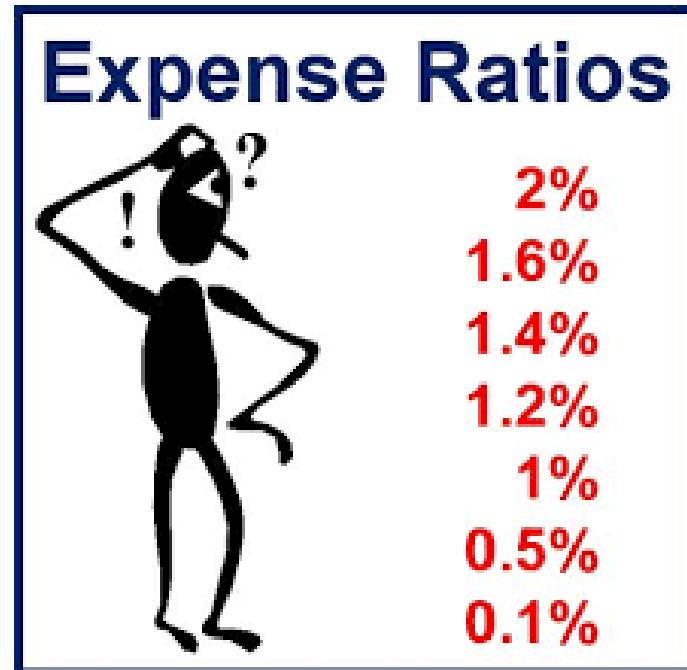


*Trustmont
Group*

Weekly Open
Forum

Mutual Fund Due Diligence

- Consider Expenses
 - Purchase
 - Redemption
 - Account Management
 - Distribution Fee
- Fund Volatility
 - Standard Deviation
 - Return Numbers
 - Risk-adjusted Returns

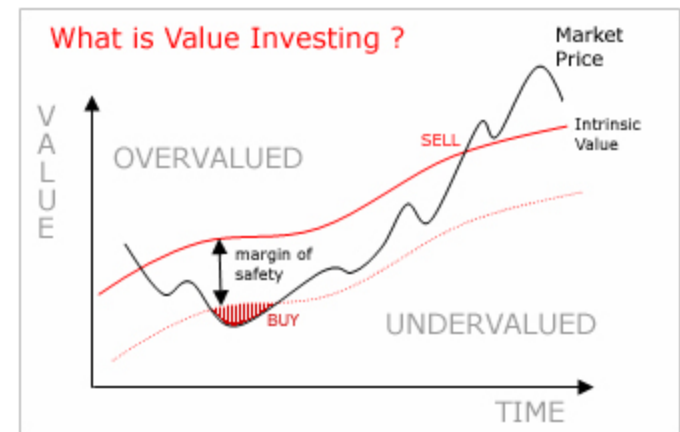


Mutual Fund Due Diligence

- Long-term returns
 - The higher the better.
 - Small shops- manager leaves, the fund's record is virtually meaningless.
- Turn over ratios
 - The percentage of the portfolio that is bought and sold each year.
 - Not as large a concern in tax-free accounts such as 401k, Roth IRA or Traditional IRAs.

Mutual Fund Due Diligence

- Fund philosophy matches investor
 - Value investors
 - Growth investors
- Diversification of Assets
 - Heavy sector or industry bets
 - Fund families
 - Different types of funds



Mutual Fund Due Diligence

- Benchmarks
 - Know the appropriate benchmark.



ETF Due Diligence

- Evaluate the Index/Fund- does the index and/or fund objectives align with a client's portfolio?
 - How long has the index existed?
 - Is the index concentrated in particular sectors, companies or countries?
 - What is the index weighting methodology?
 - How often is the index rebalanced?



ETF Due Diligence



- Examine the fund provider.
 - How experienced is the ETF provider in developing and managing ETFs?
 - What are the firm's total assets under management and total ETF AUM?
 - Does the firm enjoy good relationships with index providers and the advisory community?
 - How does the firm manage risk?
 - Does the firm provide valuable trading support and ongoing education?

ETF Due Diligence

- Examine the ETF's product structure.
 - How many stocks or bonds are in the index and what are the fund's diversification guidelines?
 - What is the investment approach? Does the ETF hold everything in the index?
 - What are the fund's top holdings?
 - Do the ETF's holdings make sense in terms of the objectives of the fund?
 - Do the index's holdings overlap significantly with existing strategies in the client's portfolio?
 - Does the ETF follow a traditional market capitalization weighting scheme or is it equal weighted?
 - What are the ETF's assets under management?
 - What is the regulatory designation of the ETF (unit investment trust, open-end fund, grantor trust, exchange traded note)?
 - If the ETF lends securities, what is the collateralization process and how is risk managed?
 - Are there redemption fees?
 - How well does the ETF track its benchmark?
 - What's the difference over time between the fund's return and the index's return?

ETF Due Diligence

- Consider the total cost. Does the ETF minimize expenses?
 - What is the fund's total expense ratio?
 - Are there guidelines to minimize the fund's rebalancing costs?
 - What are the trading costs (commissions and transaction costs) associated with buying the ETF shares?
 - What is the average bid-ask spread?
 - What is the tracking error of the fund?



ETF Due Diligence

- Gauge Liquidity. Can you trade when you want to?
 - What is the ETF's average daily volume?
 - How does the ETF maintain liquidity?
 - Has liquidity been impacted due to market volatility?
 - Does trading activity cause dramatic price swings?

