



Teton Wealth Management, Inc.

Registered Investment Advisor

INVESTMENT PHILOSOPHY

The following summarizes our firm's core beliefs. These provide the basis for your Investment Policy. Teton Wealth Management, Inc. is committed to its consistent implementation. Policy design, implementation, continuous monitoring and, as necessary, modification, are integral parts of the wealth management process. Our success is measured not by performance statistics but rather by our clients' success in achieving their goals.

CLIENT RELATED ISSUES

Goal Setting

We believe that clients must set their own goals. It is our responsibility to educate them in the process and to assist them in defining, quantifying, and prioritizing their goals

Cash Flow

We believe that clients need total return, not dividends or interest. The traditional concept of an 'income' portfolio is archaic and places unnecessary and inappropriate restrictions on portfolio design.

Expectations

We believe that 'conservative' assumptions are a dangerous myth. Return requirements should be based on real rates of return. An investment policy should not be prepared based on a client's unrealistic expectations (either overly aggressive or conservative). If necessary, we will refuse the engagement.

Risk Tolerance

We believe that a client's risk tolerance is a significant constraint in the wealth management process. Success can be measured by our clients' ability to sleep well during turbulent markets.

Tax Constraints

We believe that tax considerations must be considered. However, the goal of tax planning should be to maximize after-tax returns, not to minimize taxes. Neither reported turnover nor holding period calculated from reported turnover is a useful measure of tax efficiency.

Transaction Costs and Return

We believe that transaction costs, fund manager fees and investment manager fees are important aspects affecting portfolio return. We seek to control these costs in a responsible manner to increase the return for the client.

INVESTMENT THEORY

Risk and Return Measures

We believe in the use of appropriate mathematical measures of risk and return. The primary measure of risk should be standard deviation. The primary measure of risk adjusted return is the Sharpe Ratio. Duration, not maturity, is the appropriate measure of a bond's exposure to interest rate risk (within narrow rate changes).

Efficient Market Hypothesis (EMH)

We believe in the weak form of the EMH. We reject the use of classic technical analysis and market timing.

Growth versus Value

We believe in the conclusion of the Fama/French research that, over time, value equity portfolios worldwide will provide superior performance. However, we also believe that eliminating growth allocations will result in interim divergence from the broad markets that our clients would find unacceptable. We believe in slight over-weighting for value and under-weighting for growth is the most appropriate weighting to balance these conflicting issues.

Small Cap versus Large Cap

We also believe in the conclusion of the Fama/French research that, over time, smaller capitalized companies worldwide will provide superior performance than larger companies. However, we also recognize smaller companies experience more volatility than larger companies. We believe in slight over-weighting for smaller capitalized companies and under-weighting for larger companies worldwide is the most appropriate weighting to balance these conflicting issues.

Active Versus Passive

We believe that the choice between active and passive management is not either/or. We use both.

Asset Allocation

We believe that the portfolio policy is a significant determinant of long-term portfolio performance. Because we believe in the overriding importance of the strategic allocation, we reject managers who do not have clearly defined philosophies or who diverge from their stated policies. Because we do not believe in market timing, we reject sector managers.

We believe in maintaining a strategic allocation and only infrequently revise that allocation. We believe in rebalancing to the strategic allocation. However, the influence of taxes and transaction costs leads us to conclude that contingent rebalancing with fairly wide bands is the most appropriate solution. We use a very modest tactical allocation overlay as we believe it is an appropriate strategy.

INVESTMENT PHILOSOPHY

Optimization

We believe that mathematical optimization is the appropriate method for designing a strategic asset allocation model. We also believe that an optimizer is simply a tool to be used by a knowledgeable wealth manager. The primary controls over the optimizer are the development of logical input data (expected returns should not be historical projections), an awareness of the optimizer's sensitivities to the input and other appropriate constraints. The final recommendations should not be based on the optimizer's unconstrained optimal solution but rather the optimal, sub-optimal solution.

Time Diversification

We believe that the relative risk of increasing equity exposure decreases as the time horizon of the goal increases. We do not believe that any 'investment' should be made for a goal with less than a five-year time horizon. Funds required in fewer than five years should be placed in money markets or fixed income securities (e.g., CDs, Treasuries) with maturity dates equal to or less than the goals' time horizons.

IMPLEMENTATION

Managers

We believe that professional money managers will generate results far superior to a client's or wealth manager's direct security selection and management. With rare exception, separate account management (including wrap accounts) is inefficient and expensive. The universe of public and institutional funds offers the best alternative for the superior management of multiple asset class portfolios. We believe that underlying management fees and portfolio turnover ratios are important aspects reducing after-tax portfolio return. We prefer managers with reasonable expenses and relative low turnover rates.

We believe that managers should be selected and evaluated based on their philosophies, processes and people. Once selected, a manager should be allowed periods of poor performance if he remains consistent with his philosophy and process. He or she should be replaced immediately if their implementation strays significantly from the stated philosophy or process.

Evaluation of managers should entail a detailed review of all available pertinent information, including both fundamental qualitative and return factor analyses. However, the ultimate decision to hire or fire should be based on fundamental data. Performance measurement should be against appropriate benchmarks, not broad market indices.

On-going Management

We believe that there should be regular review of a client's situation to determine if he or she is continuing to move in the direction of achieving his/her goals. This includes revisions in strategic allocations as a result of revised assumptions or changing client circumstances or goals. We should continue to educate our clients, always remaining sensitive to the volatility of each one's expectations. Our responsibility is to assure that our client 'stays the course' and does so with a minimum of emotional pain. The focus should always be the client and the achievement of his/her goals, not the performance of the portfolio.