



Quantitative Equity and Fixed Income Portfolio Management

HIGH NET WORTH and TRUSTS-ESTATES

INVESTING OVERVIEW

2021

HIGH NET WORTH and TRUST- ESTATE INVESTING

Global stock and bond forecasts from 2021 to 2030 are 6.4% and 1.2% per annum, *before inflation, fees, and taxes*.¹

Both estimates are meaningfully lower than their 10.4% and 5.3% averages from 1926 to 2020,² and we believe these levels are prudent - especially under current circumstances. Accordingly, investors are encouraged to allocate at least 50% of their publicly held assets to conservative or moderate portfolios. Additionally, many accounts should be managed in a passive, low-cost manner. The reasons are that most actively managed portfolios underperform investable indices over the long-term due to high/unnecessary fees and subjectivity, there is a higher uncertainty of investment returns, and administrative functions and expenses are increased.

Midwest customizes portfolios mostly with Vanguard funds based on client conservative, moderate, or aggressive goals.

The reasons are derived from the following observations:

- ❖ Over the past fourteen years the majority of Vanguard's funds outperformed their peer-group averages³ - and this should continue.
- ❖ Their research shows that properly balanced portfolios earned similar inflation-adjusted returns during both expansions and contractions from 1926 to 2009.⁴
- ❖ Most portfolios are highly diversified and tax efficient, and can be tailored to owner-beneficiary circumstances.
- ❖ Their direct and non-direct fee control structure is impressive and transparent.
- ❖ Their services are considered among the best and safest with respect to their fiduciary, compliance, and other responsibilities.

Midwest manages all portfolios in an unbiased, cost efficient, and easy-to-understand manner.

The return difference on an efficiently managed \$1 million low-cost vs. high-cost portfolio from ten to forty years can be \$130,000 to \$1,180,000 or more (see chart on page 2).

Contact us for a telephone conference or meeting (\$250,000 minimum please).

¹ Benz, C. *Experts Forecast Long-Term Stock and Bond Returns: 2021 Edition*, Morningstar.com, January 20, 2021, and others.

² Vanguard 2017 economic and market outlook: *Stabilization not stagnation*, December 2016, pp. 20-25, for 1926 to 2016 period. From 2017 to 2020 various indices compiled by Midwest Asset Management, Inc.

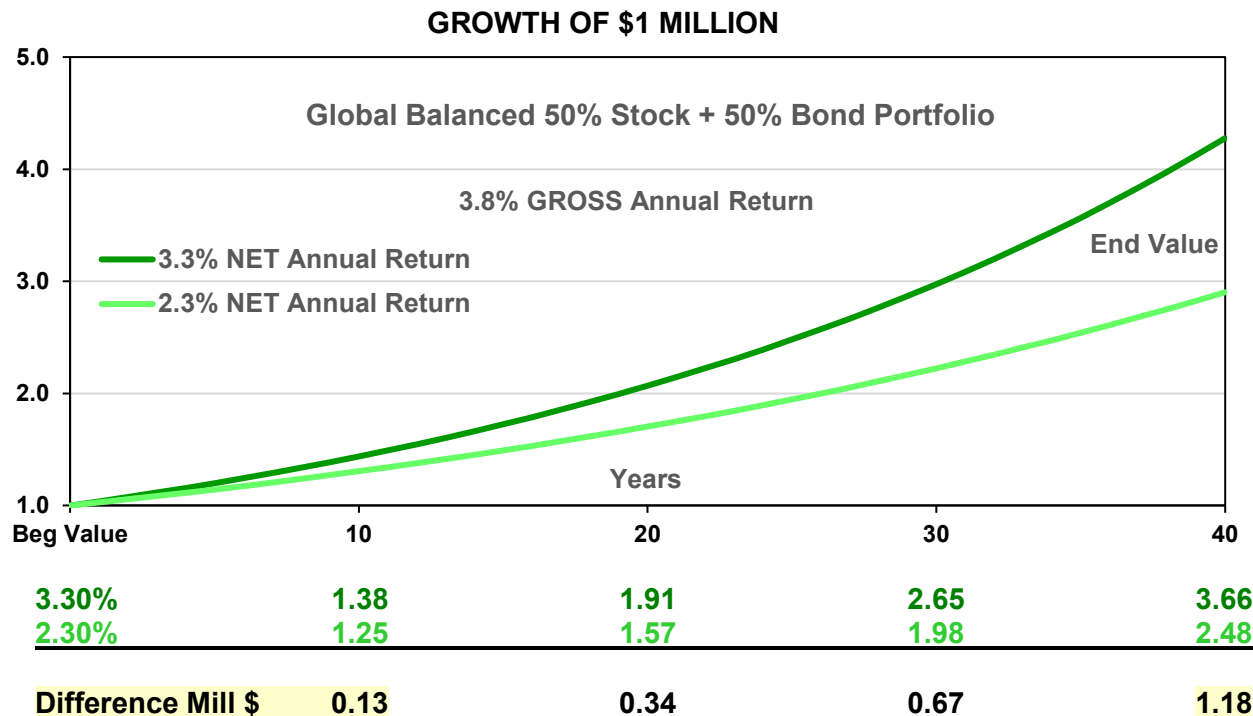
³ Vanguard performance report: *Vanguard funds outperformed peers over long haul*, 10 years to September 30, 2020, p. 1, and others.

⁴ Vanguard performance report: *Recessions and balanced portfolio returns*, October 2011, p. 2.

EXPENSES DO MATTER

To demonstrate the 3.8% expected global forty-year annual balanced return below, ten-year estimates were used as a base. For lack of viable data, the same assumptions were used for the next thirty years. See footnote notes on page 4.

Midwest passive fees range from 0.1% to 0.5% depending on size and complexity, and external fees are generally less than 0.2%. Accordingly, Midwest's aggregate expense estimates were 0.5%.⁵ Peer aggregate estimates were 1.5%.⁶



Note: Slight differences due to rounding.

⁵ Depending on passive portfolio size (\$250,000 minimum), this will range from 0.3% to 0.7%.

⁶ Depending on active or passive style and portfolio structure (comingled or separately managed) this will generally range from 1.0% to 3.0%.

PAST PERFORMANCE DOES NOT GUARANTEE FUTURE SUCCESS, and all data are estimates. © 2021 Midwest Asset Management, Inc. Various sources and methods were used to create the forty-year assumptions.

PORTFOLIO STRUCTURE COMPARISON High Net Worth and Trusts-Estates Accounts

% Annual Fees Est	MIDWEST* passive	FUND Sample** passive & active	SMA Sample*** passive & active
Global Forecasted Annual Balanced Return = 3.8%		0.5	
Transaction charge +		0.5	0.5
Fund management charge +	0.1 0.1		
Adviser management charge +	0.3	1.0	0.5
% Annual Fees Est Total =	0.5	2.0	1.0
Fiduciary responsibility required	yes	?	?
Personal adviser experience	high	?	?
Indirect fees	none	?	?
Transparency	high	?	?
Probability of outperforming peers over rolling ten-year periods	high	?	?
Probability of above-average volatility	low	?	?
Probability of above-average returns in up markets (with all else equal)	high	?	?
Probability of above-average returns in down markets (with all else equal)	high	?	?
Basic net tax efficiency	high	?	?
Advanced net tax efficiency	high	?	?
Integrity of custodian	high	?	?
Safety of custodian	high	?	?

***Midwest sample = \$1,000,000 portfolio. External transaction (commissions and markups/markdowns) and fund management expenses are generally meaningfully below their stated 0.1% each. Midwest management expense as adviser is 0.1% to 0.5%, depending on size and complexity. Assets are held at Vanguard or segregated at another custodian.**

**Fund Sample = Mutual, Exchange Traded, and Hedge Funds.

***SMA Sample = Separately Managed Accounts.

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[Contact us for details.](#)

ARE YOU GETTING YOUR FAIR SHARE OF THE MARKET RETURNS?

Fair Share ModelSM Analysis For High Net Worth and Trusts-Estates

Return / Risk Comparative Example (50% Stock + 50% Bond Global Balanced)

\$ Amount Invested	=	\$1,000,000	\$1,000,000
# Years	=	40	40
% FORECASTED GROSS ANNUAL RETURN	=	3.8	3.8
% Aggregate Investment Expenses	=	0.5	1.5
RIA, Fund, Stated & Opaque Transaction (commissions and/or markups/markdowns), Etc.		Midwest	Peer
% NET ANNUAL RETURN	=	3.3	2.3
% Difference	=		1.0
<hr/>			
\$ Total Gross Gain	=	3,445,229	3,445,229
\$ Owner Gain	=	2,664,484	1,483,278
\$ Difference	=		1,181,206
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% Owner Gain	=	77	43
% Difference	=		34
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% Owner Capital Allocated	=	100	100
% Owner Capital at Risk	=	100	100
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% Forecasted Annual Inflation	=	1.8	1.8
<hr/>			
% NET ANNUAL INF-ADJ RETURN	=	1.5	0.5
% Difference	=		1.0

SOURCES: Risk Factor Components - By John Bogle, as cited in *Why Mutual Funds are Lousy Long-Term Investments* interview with Robert Kiyosaki, www.yahoo.com, June 27, 2006.

Return Ratio Calculations - By Midwest Asset Management, Inc. as of January 1, 2021.

NOTES: Expected Return and Inflation % - Various sources and methods were used to calculate the consensus global balanced return and inflation assumptions. To clearly document and illustrate the potential outcome, no cash flows were included in the calculations. **The reader may provide different \$ amounts, periods, and expected expenses and inflation for customized analyses.**

Expected Expenses % - Actual global annual aggregate portfolio management expenses can range from 0.1% to 3.0% or more, depending on many factors. Most plans can reduce expenses by 25% to 50% or more to meaningfully increase returns and decrease risk.

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Managing Your Portfolio is our Only BusinessSM

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