GERSTEINFISHER
RealLifeFinance

Creating Investment Excellence

Optimizing Structure, Process and Resources to Drive Results

By Gregg S. Fisher, CFA, CFP®
President & Chief Investment Officer, Gerstein Fisher

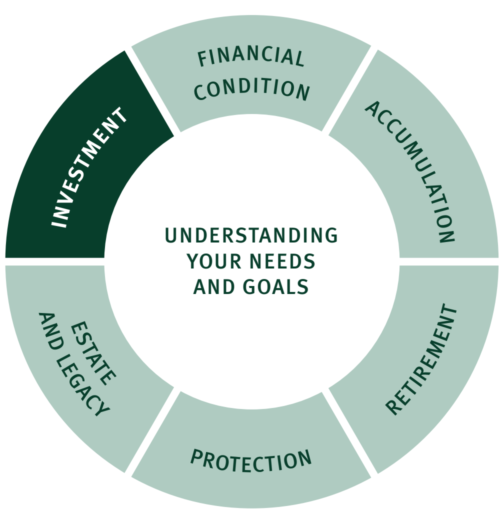
At Gerstein Fisher, we take a comprehensive, proactive approach to managing our clients' total financial picture. A critical component of our mandate is managing their investments.

Since 1994, Gerstein Fisher has had the good fortune of growing from a firm with just over 20 clients to one with clients numbering in the hundreds and nearly three-quarters of a billion dollars in assets under management. As our business has grown, we have made thoughtful and measured investments in people, research, and technology. But we have also remained a focused and nimble firm. This sometimes begs the question, particularly from clients who have been with us since the beginning, of "How do you do it?"

The answer is that Gerstein Fisher is an organization with the structure, processes, and resources to scale our investment expertise to the benefit of all of our clients.

We recognize that our "investment engine" is something that most of our clients do not directly see, even though it's humming along daily on their behalf. In the next few pages, we hope to shed some light on not just "how we do it", but how the structure, processes and methods we use to manage our clients' investments translate into tangible results.

Exhibit 1: Components of the Total Financial Plan



Building Our Team with You in Mind

Many of our clients have worked with firms in which their "relationship person" was also making investment decisions on their behalf. At Gerstein Fisher, we follow a different model.

Each of our clients has a dedicated **Client Advisor** who acts as their day-to-day contact and serves as a conduit to the broader resources of our firm. While a client's advisor will, at any point in time, be aware of what changes may be taking place in the client's portfolio or what the current thinking is on possible portfolio repositionings, that individual is not the one making those investment decisions.

Why this distinction? For us it is a simple belief in aligning function with expertise. We believe we can optimize each team member's value by allowing him or her to focus on what he/she does best. For clients, this means that their "relationship person" can focus solely on managing the relationship as a whole and staying apprised of any developments that might need to be factored into the investment process. Meanwhile, their portfolio is getting the undivided attention of Gerstein Fisher's team of experienced investment professionals. Everybody wins.

Exhibit 2: Gerstein Fisher Team Structure

Centralizing Investments to Create Focus

The day-to-day management and oversight of all of our client portfolios is the responsibility of Gerstein Fisher's **Investment Policy Committee (IPC)**. This senior, core team, chaired by myself as the firm's **Chief Investment Officer**, includes individuals with significant experience in investment management for both individuals and institutions.

The IPC's sole focus is on managing our clients' investment portfolios, including structuring, investment, and rebalancing. As such, much of the group's time and energy is spent evaluating macroeconomic fundamentals and the relationships and correlations among different asset classes. Once structure is in place, the IPC conducts extensive research to select the appropriate investment products, vehicles, or securities for implementation. Active strategies are often considered for asset classes in which active management has demonstrated a post-fee added value. In other areas, we will consider index funds, exchange-traded funds, and other asset class-based vehicles that deliver core exposure in a cost- and tax-efficient manner.

It's important to note that the activities of the IPC do not take place in a vacuum. Through sophisticated technology platforms and regular dialogue with our team of Client Advisors, we have all the tools and information we need to leverage our best ideas across all client portfolios, while also respecting individualized objectives and constraints. (For more on how we do this, see Leveraging Ideas with Smart Technology, below.) The IPC also interacts regularly with Gerstein Fisher's **Financial Planning Committee**, a team of specialists with deep expertise in core disciplines such as estate planning, charitable giving, or tax planning – to ensure that our clients' investments are working in concert with their total financial plan.

The beauty of a centralized investment "engine" is that it ensures that the research insights and best thinking of our organization can be applied (as appropriate) to each and every one of our clients' portfolios.

Supplementing Success through Strategic Partnerships

Another outgrowth of our belief in focusing on what one does best is our use of strategic partnerships to supplement our core in-house capabilities. As an independent firm, we can objectively select "best-in-class" individuals and firms with whom to partner – including academics, economists, and research analysts – and gain the benefit of specialized expertise through a flexible platform. By remaining nimble, we can bring the necessary resources to bear on client investment issues on an as-needed basis as the markets evolve. Our broad and deep network of practitioners and thought leaders in the investment arena can also be a valuable sounding board for us, helping us think through investment issues and challenges with a broader perspective and avoid myopia or "groupthink".

Our best-in-class approach also extends to the quantitative tools and research databases that support our process. To supplement our proprietary resources, we objectively select from among the best research databases, tools, and reports in the marketplace, using a "buy-and-build" approach to create a highly customized, user-friendly platform that aligns precisely with the way we research and implement investment ideas.

Using Knowledge to Drive Results

There is an expression, "It's not what you know, it's how you use it." We would concur that while it's certainly difficult to eke out an informational edge today in terms of *what* you know, *how you use that knowledge* can set you apart. At Gerstein Fisher, the five key beliefs that drive our process are grounded in time-tested academic knowledge:

At Gerstein Fisher, the tremendous amount of time we spend getting to know our clients enables us to structure the most appropriate strategies for them.

We start with a thorough up-front analysis of a client's financial condition and an exploration of his or her goals and objectives. Often, we work together with clients to define their objectives and quantify their true tolerance for risk. Once we have structured an investment plan that takes all of this into account, we help clients stay on track through disciplined rebalancing and factoring in any life changes that might affect their financial picture along the way.

Exhibit 3: The Beliefs that Drive Our Process

Belief	Application
1. Markets Work: The Efficient Market Hypothesis states that a company's stock price incorporates all available information about the company and is the best approximation of its fair value.	Since markets are generally efficient, we focus on **careful portfolio engineering** to ensure adequate structure and diversification – not on guessing at which securities or sectors are mispriced or headed for near-term appreciation.
2. Risk and Return are Related: Award-winning financial economists Eugene Fama and Kenneth French identified three systematic sources of risk that explain over 90% of portfolio performance: market (premium for being in equities vs. bonds), size (small cap premium), and price (value premium).	Our **focus on risk factors that have proven to work** and are underpinned by sound economic reasoning increases the likelihood that our portfolios will consistently add value and help our clients achieve their financial goals.
3. Diversification is Essential: Portfolios containing a broad mix of asset classes have proven to deliver higher compound returns with less risk than those more concentrated in only a few asset classes or market segments.	We **build broadly diversified portfolios** that typically include (subject to client guidelines) allocations to commodities, real estate, and international securities, in addition to the traditional mix of domestic stocks, bonds, and cash.
4. Structure Drives Performance: Academic research indicates that portfolio structure – the mix of stocks, bonds, and cash in a portfolio – is the key determinant of long-term performance.	The critical decision of **how much to allocate to stocks, bonds, real estate, cash and alternative assets** forms the foundation of every client portfolio that Gerstein Fisher designs.
5. Control What You Can: If not carefully managed, taxes and expenses can have highly adverse effects on portfolio performance.	We **incorporate our clients' overall tax issues** and holdings into our thinking and tax optimization process. We **select cost- and tax-efficient investment vehicles** to implement portfolio structure.

Working with academics, or more precisely within a scientific process, is a powerful advantage when it comes to investing. Like professional investors, academics work under intense competition, competing for recognition like investors compete for assets. Because they are removed from the market, however, academics cater less to "consumer demand" than to the pursuit of fact. Our approach is structured to bridge the gap between academic research and investment practice, delivering the benefits of both while minimizing their respective limitations.

Making it Relevant by Knowing Our Clients

All the academic knowledge in the world is useless without the ability to understand clients as individuals.

Beating Behavioral Biases with Smart Portfolio Structure

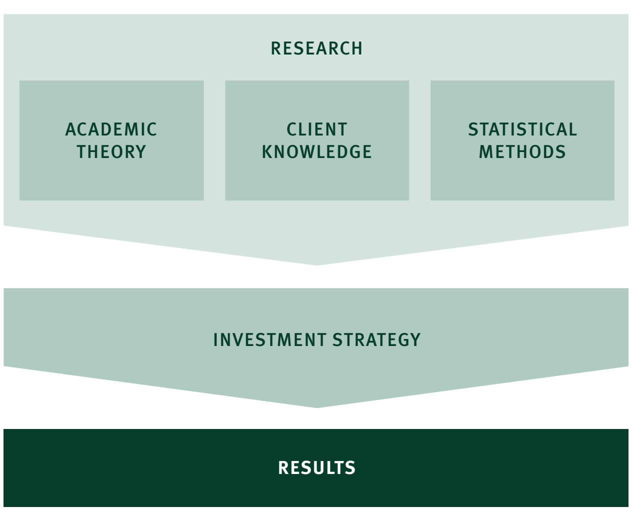
One of the disciplines that we rely on when trying to help our clients meet their end objectives is that of behavioral finance. While textbook descriptions of Modern Portfolio Theory seem cut and dried, behavioral finance argues that in reality, investors are human beings who are subject to emotions and prone to making systematic errors.

Overconfidence is one common example. Overconfident investors think they have better information than their fellow investors. They are also overly certain of their ability to control outcomes, which often leads them to underestimate the risks associated with their investments. (To understand how prevalent overconfidence is, consider this: how many people, if asked if they were an average or an above-average driver, would answer "average"?)

The fear of regret often leads investors to hold on to a losing stock for too long in the hopes that its price will return to at least its purchase level so it can be sold without regret. Conversely, many investors sell strong performers too early, eager for the "bragging rights" associated with having picked a winner. What they forget is that those bragging rights often bring capital gains along with them, particularly if they can't part with the losers they need to sell to offset those gains.

So how do we use our understanding of these human cognitive biases to our clients' benefit? First, we spend a great deal of time with our clients trying to cultivate realistic attitudes about the ability of any investor to consistently earn outsized returns through such activities as searching for improperly valued securities. Second, we focus our time on more important issues like portfolio structure (asset allocation), diversification, and expense control. Not only are these areas over which we have much greater control, but we have found that they also have a considerably greater impact on portfolio performance in the long run.

Exhibit 4: Using Knowledge to Drive Results



Enhancing Insight with Statistical Techniques

The insights we gather about our clients – from their long-term investment objectives to their attitudes toward risk and return – form the core of the investment strategies we build on their behalf. And while we structure their portfolios to meet clearly defined return targets, we also understand that long-term average returns, by definition, do not take into account the *path* of those returns year-by-year.

The reality is that most investors need to draw on their investments periodically to cover living and other expenses. And where there are inflows or outflows, the path-dependency of investment returns becomes a critical factor in the likelihood of an investor ultimately meeting his or her long-term return target.

We build this understanding into our process through the use of statistical techniques that estimate probabilities: most notably Monte Carlo Simulation ("MCS"). Based on extensive proprietary and industry research and using expected return and risk (standard deviation) targets agreed up on with our clients as constraints, we use MCS to execute thousands of trials to simulate the expected results for a client's financial strategy. The simulation, run on a computer, randomly generates values for uncertain variables like equity and bond returns or interest rates for each trial to come up with a series of potential possible outcomes.

MCS plays an integral role in the planning process we work through with our clients, allowing us to assemble the portfolio with the highest likelihood of meeting their objectives subject to their return requirements, their tolerance for risk, and their lifestyle (i.e. spending) needs.

The table to the right outlines additional statistical techniques that are part of Gerstein Fisher's analytical "toolkit".

Exhibit 5: Quantitative Analysis – Techniques and Metrics

Portfolio Analysis
Correlation Analysis
Regression Analysis
Time Series Analysis
Hypothesis Testing
Trend Models
Mean Variance Analysis
Macroeconomic Factor Models
Fundamental Factor Models
Statistical Factor Models
Monte Carlo Simulation
Markowitz Portfolio Theory
Probability Analysis
Asset Valuation
Discounted Dividend Valuation
Free Cash Flow Valuation
Market Based Valuation (Price Multiples) P/E, P/B, P/Sales, etc.
Competitive Forces
Capital Asset Pricing Model
Fixed Income Analysis
Yield Spreads
Duration
Credit Quality
Asset-Liability Matching
Currency Management
Convexity

Leveraging Ideas with Smart Technology

When firms talk about scalability, their clients often hear "cookie-cutter". Certainly, scalable processes and systems mean efficiencies for the companies that use them, but we like to think about scalability as something that enables us to ensure that every one of our clients can benefit from our best thinking. We have found technology to be a tremendous "lever" in this regard.

Creating Efficiencies through Smart Trading

Trading is a critical component of the investment process – one that, if not properly managed, can be a high-maintenance (for investment managers) and high-cost (for their clients) proposition.

At Gerstein Fisher we have invested considerable resources into our proprietary trading system in order to turn it into a distinct advantage to our process. As an independently owned firm, we have the ability to manage client assets held in other locations, in multiple account formats. Every day, our trading system aggregates data from all of the custodians that hold our clients' assets, enabling us to place trades across all client accounts (where applicable) as if we were trading a single portfolio. This allows us to place trades in a cost- and time-efficient manner for our entire client base, while also incorporating individual tax considerations.

We also designed the trading system to be "smart" by pre-programming client constraints directly into the system. The system not only prevents trades from happening that would violate a client's guidelines, but it also alerts us if a client's portfolio is out of balance or has hit a risk or return threshold.

This approach allows us to manage our clients' assets in an efficient and scalable way, enabling us to be nimble and also equitable in applying our best research ideas systematically to the broadest base of our clients.

Using Technology to See the Big Picture

A trading system that pre-programs client guidelines is smart, but one that integrates with a client relationship management (CRM) system is even smarter. Technology has enabled us to link valuable data on our clients that resides in our robust CRM system directly to their portfolios. When changes to clients' profiles or documentation from conversations with their Client Advisors on qualitative issues can be streamed seamlessly to our investment platform, our clients' portfolios can continue to evolve and change, as necessary, along with their changing life circumstances and objectives.

We also have used technology to weave in another key "big picture" element into our investment process: tax management. We have purchased or created a number of applications that help us manage portfolios as tax-efficiently as possible by building in certain tax considerations such as the wash sale rule or loss harvesting strategies. And because our system integrates all of our clients' accounts into a single view, we can uncover opportunities to use losses from one account to offset gains in another – and to eliminate any potential disconnects that might result from activities across multiple accounts. The system also allows us to incorporate taxable events occurring outside a client's investment portfolio, for example capital gains resulting from the sale of a home or business, or loss carryforwards from prior years.

It's one thing to be able to see all of the elements of the "big picture" of a client's investments, but it's quite another to have all of the data behind all of those elements come together in one place. Smart technology, in our opinion, makes for smarter investment decisions – and for our clients, ultimately better results.

Conclusion

While sound portfolio structure is one critical determinant of long-term investing success, at Gerstein Fisher we believe that sound business structure is equally essential.

Even though much of the work goes on "behind the scenes," our clients can rest assured that all day, every day, our entire organization is working on their behalf. From an investment approach rooted in time-tested academic research to smart technology platforms that scale our investment ideas to the benefit of all of our clients, we have built Gerstein Fisher's team, processes, and resources with our clients' success as the ultimate objective.

We believe we owe much of our own growth and success as a firm to hiring individuals who are not only highly talented in their areas of expertise but also highly caring; to instituting a collaborative client advisory team structure; and to our commitment to strong and ongoing client communications.

In that spirit of communication and information sharing, we hope that we have shed some light not only on how we are organized, but *why* we have chosen this structure, and most importantly, why it's good for our clients.

Pursuant to the ongoing written disclosure requirement placed upon registered investment advisers, and if you have a contract for advisory services through Gerstein, Fisher & Associates, Inc., we are required to make available to you, on an annual basis, our most recent written disclosure statement as set forth on Part II of Form ADV. If you desire a copy of our most recent written disclosure statement, please e-mail our office at operations@gersteinfisher.com or sign and date this letter at the bottom and return the letter to us at your earliest convenience. Factual information presented has been obtained from sources believed to be reliable; however Gerstein, Fisher & Associates, Inc. has not verified the information and makes no representations as to its accuracy or completeness. Non factual statements made constitute only opinions, which are subject to revision.
Market indices referenced are unmanaged and representative of large and small domestic and international stocks and bonds, each with unique risks. Information about them is provided to illustrate market trends and does not represent the performance of any specific investment. You cannot invest directly in an index. International investments may be subject to currency fluctuations, potential political unrest, and other risks not associated with domestic investments. Remember, past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product made reference to directly or indirectly in this document, will be profitable or equal any corresponding indicated historical performance level(s). Diversification cannot eliminate the risk of investment loss. Investments related to gold and other precious metals are considered speculative and are affected by a variety of world-wide economic, financial and political factors." Due to various factors, including changing market conditions, the content may no longer be reflective of current opinions, positions, or recommendations. Moreover, you should not assume that any discussion or information contained herein serves as the receipt of, or as a substitute for, personalized investment advice from Gerstein Fisher & Associates, Inc. Please remember to contact Gerstein Fisher & Associates, Inc. if there are any changes in your financial situation or investment objectives or if you wish to impose, add or to modify any reasonable restrictions to our investment advisory services. Securities offered through GFA Securities, LLC Member FINRA, SIPC. This letter is distributed for educational purposes and should not be considered investment advice or an offer of any security for sale. Past performance is not indicative of future results and no representation is made that the stated results will be replicated. The above summary/prices/quotes/statistics have been obtained from sources deemed to be reliable, but we do not guarantee their accuracy or completeness.

GERSTEINFISHER
RealLifeFinance

Gerstein, Fisher & Associates, Inc.
100 William Street, Suite 1825
New York, New York 10038

phone: 212-968-0707
info@GersteinFisher.com
www.GersteinFisher.com