FINANCIAL PLAN

John & Jane Doe

November 2017

Introduction

This document examines the financial condition of John and Jane Doe through an analysis of their personal balance sheet and cash flows, with the goal of determining where the Does currently find themselves in relation to their financial goals. In addition, we address the issue of managing equity compensation (stock options and restricted stock units) that John and Jane receive from their respective employers by establishing a systematic divestiture plan. Lastly, we project the Does' future financial position and provide asset allocations and other recommendations that should assist them in reaching their short and long term financial goals.

Summary of Financial Goals

Based upon conversations that we have had with John and Jane, their primary financial goals include the following:

- Establish a plan for managing their equity compensation in a tax-efficient manner
- Develop and implement an overall asset allocation that will help to offset the risk of concentrated equity positions
- Accumulate enough assets to allow them to retire comfortably

It is with these primary goals in mind that we will assess the Does' financial condition and provide recommendations to help achieve these goals.

Additional points to consider:

- John is 36 years old and Jane is 45 years old. Their two children, Sally and Sam, are 9 and 7 years old, respectively.
- John is a partner at ABC Company.

Jane is Director of Compensation & HRIS at XYZ Company.

Balance Sheet

To properly understand the Does' current financial situation, we compiled a balance sheet below that lists all of their assets and liabilities:

BALANCE SHEET

	11/1/2017		11/1/2017
Cash & Liquid Assets		**Other Liabilities**	
Checking (Joint)	$50,000	Mortgage	$572,000
Checking (John)	$3,500	Home Equity Line	$121,000
Checking (Jane)	$3,500	Auto Loans	$63,000
Savings (Joint)	$403,500	**Total Other Liabilities**	**$756,000**
Savings (John)	$95,900		
Total Cash & Liquid Assets	**$556,400**	**TOTAL LIABILITIES**	**$756,000**
Taxable Investments			
Jane Stock Options (vested)	$747,543 *		
Jane Stock Options (unvested)	$303,330 *		
Jane RSUs (unvested)	$226,784 *		
John RSUs (unvested)	$310,131 *		
Joint (PSS)	$388,488		
Total Taxable Investments	**$1,976,276**		
Retirement Savings			
John 401(k)	$407,000		
John Supplemental Savings Plan	$19,000		
Jane 401(k)	$77,400		
John IRA (PSS)	$91,052		
Jane IRA (PSS)	$161,135		
Jane Roth IRA (PSS)	$16,309		
Total Retirement Savings	**$771,896**		
Education Savings			
529 Plan	$275,000		
Total Education Savings	**$275,000**		
Real Estate/Private Equity			
Residence	$1,250,000		
Total Real Estate	**$1,250,000**		
TOTAL ASSETS	**$4,829,572**	**NET WORTH**	**$4,073,572**

** All option and RSU asset values are shown after-tax, assuming a 40% ordinary income tax rate.*

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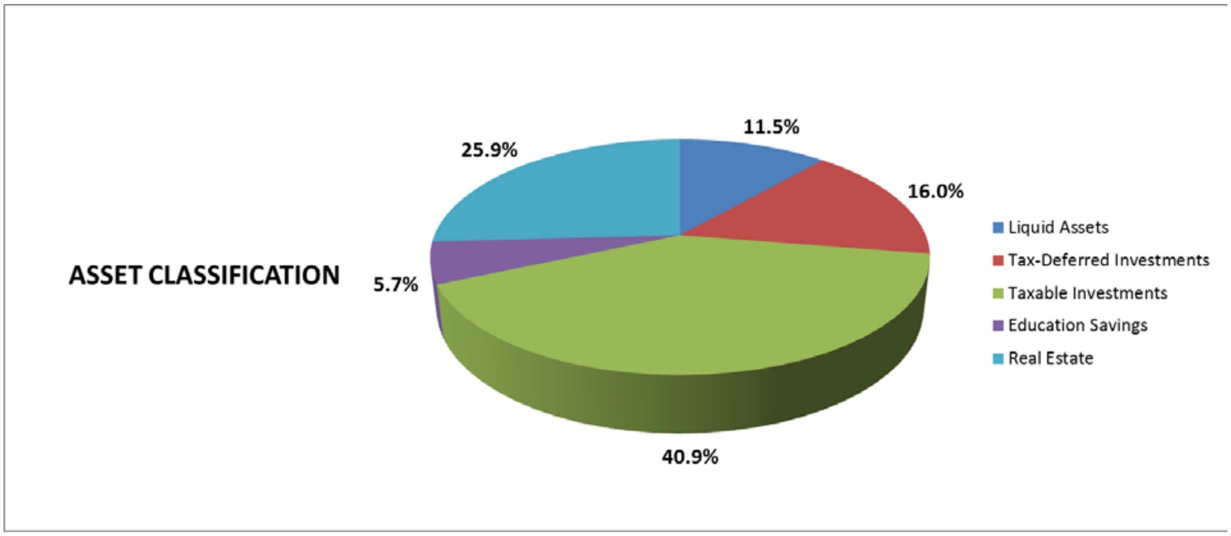
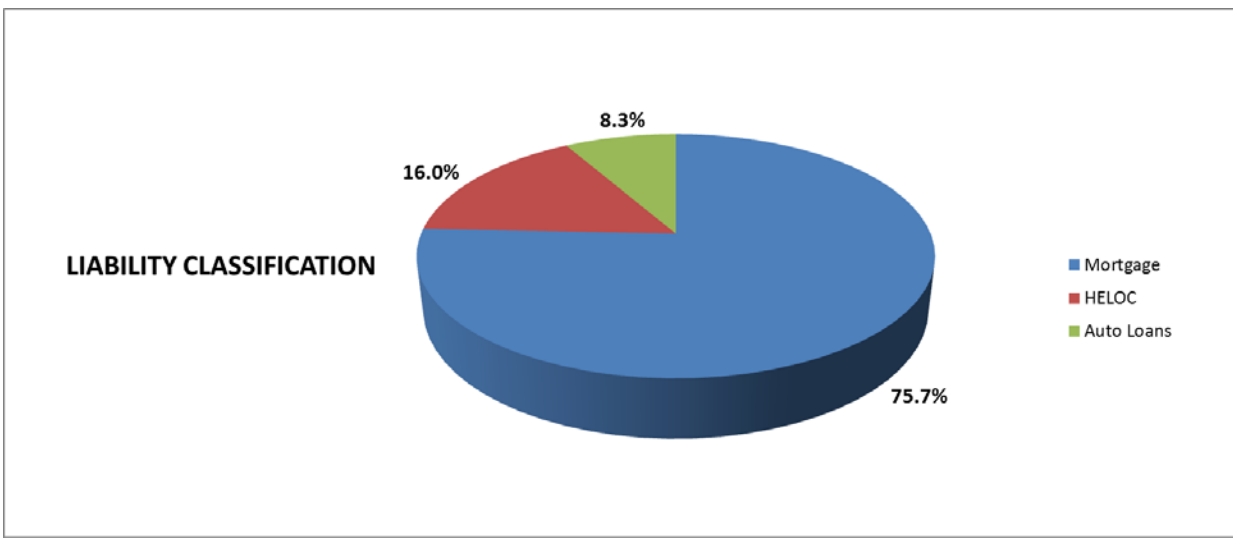
As can be seen on the previous page, John and Jane currently have a net worth of approximately $3.7mm. Their assets are comprised of cash and retirement savings, which each account for approximately half of their total assets. The Does' overall asset allocation is shown in the figure below:



The Does have various liabilities totaling approximately $756,000. The following figure shows how the Does' liabilities are currently allocated.



Additional points to consider:

- John and Jane are aggressively paying down their home equity line of credit and hope to eliminate it entirely in the relatively near future.

Equity Compensation Divestiture Plan

One of the biggest financial challenges that the Does face is management of their equity compensation, which they both receive from their employers each year - John's in the form of restricted stock units (RSUs) and Jane's in the form of both stock options and RSUs. These awards can carry significant tax consequences that must be managed in an intelligent and efficient manner. At the same time, it is important that the Does limit their exposure to their respective employers' stocks so as not to take on unnecessary levels of risk. It is with these two goals in mind that we have developed the following plan for John and Jane to systematically diversify their equity compensation over time.

RSUs

John and Jane both receive RSUs from their respective employers on pre-determined, multi-year vesting schedules. From a tax perspective, RSUs are relatively simple, as they are taxed at ordinary income rates upon vesting. To make things even simpler, both John and Jane are enrolled in programs that automatically sell enough shares upon vesting so as to cover any tax liabilities that result from vesting of the shares. Because the timing of tax liabilities is outside of the Does' control and is instead determined by the vesting schedule, we recommend that they both sell any vested RSUs immediately upon vesting. This will help to reduce exposure to either spouse's employer.

Stock Options

Jane receives stock option grants each year from her employer, XYZ Company, in addition to her RSU grants. These stock option grants create a taxable event when they are exercised, and the amount of tax depends upon the exercise price of the options and the market price of XYZ stock at the time of exercise. Assuming she pursues a cashless exercise, the realized gain (the difference between market price and exercise price) is taxed at her ordinary income tax rate.

We recommend that the Does limit their exposure to XYZ stock to no more than 20% of their total net worth. At its current price, XYZ stock represents **nearly 35% of the Does' net worth**, so it is important that John and Jane begin divesting in order to reduce risk. We suggest that John and Jane begin to exercise vested options, starting with the highest exercise price options (lowest capital gains). They should pursue cashless exercises of these options until exposure to XYZ stock is below 20% of their net worth (we suggest a target of 15%). Given the material tax burden that will be created by the exercise of these options, we understand that John and Jane may want to spread this process out over a long period of time. However, we would strongly urge them to consider reducing their exposure to XYZ to no more than 25% by the end of 2018, and then further reduce their exposure to the target level of 15% by the end of 2019. We believe it is especially prudent to start this process in earnest in the immediate future as XYZ is trading very near its all-time high and XYZ Company's industry as a whole is very richly valued. There is significant risk in waiting to reduce this exposure.

With this in mind, we have provided the table below that outlines the specific option exercise transactions that John and Jane should pursue before the end of 2018 in order to reduce their XYZ exposure to 25% of net worth.

Exercise Date*	Exercise Type	Grant Date	Grant Price	# of Options	Exercise Price*	Gross Proceeds	Cost Basis	Gross Profit	Estimated Tax	Net Proceeds
11/1/2017	Cashless	3/5/2013	$59.13	333	$136.80	$45,554.40	$19,690.29	$25,864.11	$10,345.64	$15,518.47
11/1/2017	Cashless	3/5/2013	$59.13	280	$136.80	$38,304.00	$16,556.40	$21,747.60	$8,699.04	$13,048.56
11/1/2017	Cashless	3/1/2012	$51.83	84	$136.80	$11,491.20	$4,353.72	$7,137.48	$2,854.99	$4,282.49
11/1/2017	Cashless	3/10/2011	$27.46	250	$136.80	$34,200.00	$6,865.00	$27,335.00	$10,934.00	$16,401.00
11/1/2017	Cashless	3/8/2010	$11.48	1073	$136.80	$146,786.40	$12,318.04	$134,468.36	$53,787.34	$80,681.02
11/1/2017	Cashless	10/3/2008	$4.62	2000	$136.80	$273,600.00	$9,240.00	$264,360.00	$105,744.00	$158,616.00

** All transactions assume an exercise date of 11/1/2017 and are based on the price of XYZ stock on that date.*

While the table above assumes that all options are exercised at one time, we understand the emotional difficulty that these large transactions may create for John and Jane. Therefore, if the two of them feel more comfortable spreading these transactions out over the entirety of 2018, that would be an acceptable strategy. However, it should be noted that doing so would not change anything from a tax perspective, and it would expose them to increased risk of a decline in the value of XYZ's stock price.

Once these initial transactions have been completed, we recommend that John and Jane reduce debt by paying down their auto loan and HELOC and then redeploy the remaining proceeds into their taxable investment account so that the assets can be used to further diversify their portfolio. Also, as mentioned previously, we recommend that the Does continue to exercise options throughout 2019 until their total exposure to XYZ is around 15% of their net worth. We can assist them with identifying specific transactions (similar to above) as we get closer to 2018.

Once exposure to XYZ has been reduced to around 15% of the Does' net worth, the following rules should be adhered to on an ongoing basis:

- We will monitor the real-time price of XYZ stock and the resulting percentage of the Does' net worth that it represents.
- If and when XYZ stock surpasses 20% of the Does' total net worth (due to appreciation in stock price and/or additional option grants), we will recommend the cashless exercise of options such that the exposure to XYZ is brought back down to approximately 15% of net worth.
- We will conduct quarterly calls with John and Jane to assess their positions and discuss any additional actions that might be in their best interest.

By tying divestiture rules to the price of XYZ stock, we essentially ensure that sales will take place at times when XYZ stock is more fully valued, thereby maximizing the value of the option grants.

Asset Allocation

One of the primary issues that John and Jane need to address is that of overall asset allocation among their various portfolios. Establishing and maintaining an optimal asset allocation across multiple platforms and account types can be a daunting task, given the broad variety of account types and the investments available within each. We have tried to dramatically simplify that task for John and Jane by establishing a strategic asset allocation goal for their total portfolio and then providing account-by-account asset allocations that take into consideration the specific investments that are available within each account. All of the account-level allocations combine to approximate the total portfolio goal allocation.

For the purpose of this asset allocation analysis, we assume that John and Jane keep approximately $150k in their checking and savings accounts while paying down their home equity and auto loans and deploying the remaining cash into taxable investments. We also assume that Jane will sell down her exposure to XYZ so that it represents approximately 15% of the Does' net worth (as described in the Equity Compensation Divestiture Plan). We assume that the cash that is generated from these sales will also be deployed into taxable investments. With these assumptions in mind, the tables in Appendix B provide a break-out of the various asset allocations that we recommend for John and Jane. The bar graph that follows the tables provides a graphical representation of these allocations to better illustrate how each account-level allocation builds to the total portfolio asset allocation.

Portfolio Projection and Modeling

While our focus thus far has been on understanding the Does' current financial position and establishing an employer equity divestiture plan, this section of the document will focus on the Does' financial future. We do this by projecting the Does' investment portfolio into the future using certain assumptions about inflation, investment returns, and income.

Every model relies on certain assumptions regarding unknown factors that are likely to have an effect on the model's output. Below we outline the key assumptions upon which our model relies:

- **The Does' portfolios will grow at an average annual real rate of 2%.** By using a real return figure, we have attempted to take into account the effects of inflation, which we assume will remain constant at its historical level of 3.58%. Therefore, all asset values in our model are in constant 2015 dollars.
- **John and Jane will both continue to contribute the maximum of $17,500 to their respective 401(k) plans each year, and John will receive $15,000 in matching company funds, while Jane will receive $2,000 in matching funds.**
- **John's employer will continue to contribute $7,500 per year to his deferred compensation plan.**
- **John and Jane will begin contributing $5,500 each year to their respective IRAs.**

- **John and Jane will continue to save approximately $210,000 in taxable savings each year.**[1]
- **The Does will retire fully when Jane reaches age 65 and John reaches age 56.**
- **Sally's and Sam's college educations will be fully covered by the assets currently held in their respective 529 plans.** Any unfunded education expenses will be paid out of current income at the time they are incurred.
- **John and Jane will be subject to a 40% effective income tax rate for the foreseeable future**.

Model Results

Our analysis consisted of 2000 forward-looking simulations. For this projection we have generated three data points at 10-year intervals going out twenty years (until John and Jane reach retirement). These data points are the 5th, 50th, and 95th wealth percentiles. Of the 2000 simulations that were run, 5% of the simulations resulted in a value below the 5th percentile, 50% resulted in a value below the 50th percentile, and 95% of the simulations resulted in a value below the 95th percentile. Generally speaking, this means that you can have a high level of confidence that you will achieve at least the 5th percentile value, a moderate level of confidence that you will achieve at least the 50th percentile value, and a low level of confidence that you will achieve the 95th percentile value. These three data points are shown in the table at each 10-year interval.[2]

John & Jane Doe	Percentile		
	95th	50th	5th
Doe Allocation			
10 Year	15,482,499	8,552,806	5,055,013
20 Year	27,046,158	12,256,294	5,810,178

Summary of Conclusions and Recommendations

The primary objectives of this financial planning exercise are to determine where John and Jane stand with respect to their financial goals and to provide them with actionable steps that they can take to reduce their exposure to risk and structure their total portfolio in the most optimal way. Our recommendations are as follows:

[1] This figure includes the tax-affected value of all equity compensation received in a given year, regardless of vested status.
[2] Full model output can be found in the appendix.

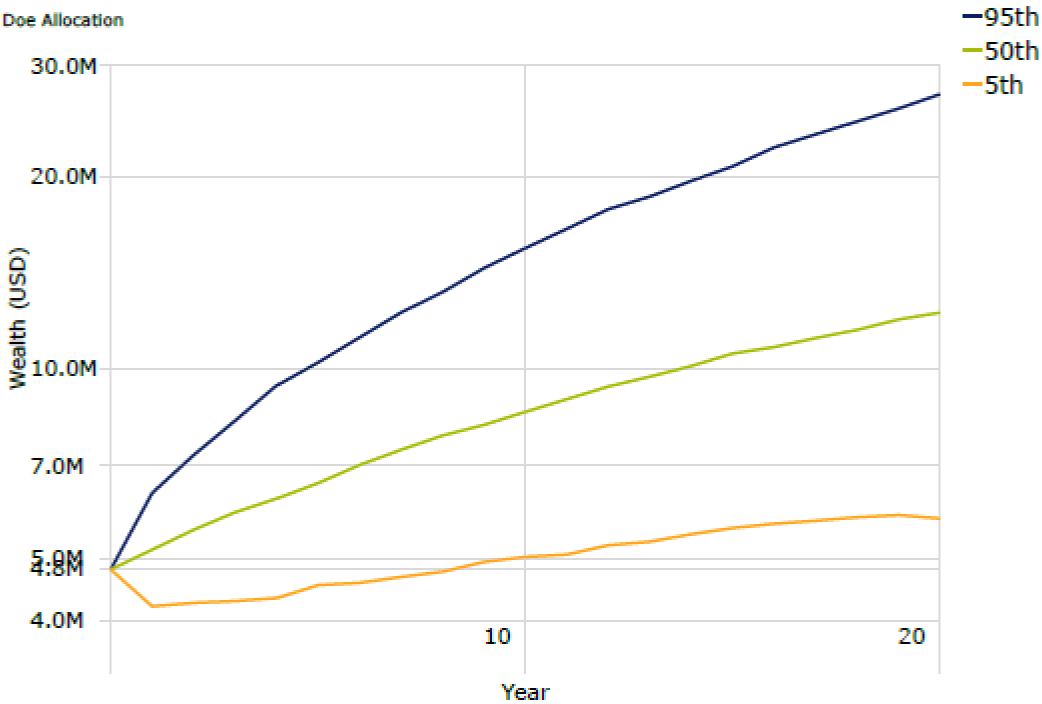
- John and Jane should sell all RSUs as soon as they vest. Vesting of RSUs is a taxable event, whether the shares are retained or not. Therefore it makes sense for John and Jane to sell these vested shares immediately so as to limit exposure to their employers' stocks without creating any additional tax consequences.
- The Does should, over time, sell down Jane's XYZ exposure to approximately 15% of their net worth. They should then reinvest the proceeds of these sales in a diversified taxable investment account or use the cash to aggressively tackle their home equity line of credit or their auto loans.
- John and Jane should sell XYZ options any time that their total exposure to XYZ exceeds 20% of their net worth. They should reduce their exposure to approximately 15% of their net worth.
- With the proceeds from the RSU & options sales, they should pay down their auto loan and HELOC.
- Both John and Jane should continue to make maximum annual contributions to their respective 401(k) plans.
- Both John and Jane should begin contributing $5,500 to IRAs each year in order to maximize their tax-sheltering opportunities.
- The Does should reallocate their various accounts as we prescribe in the table shown in Appendix B.

Closing Thoughts

John and Jane are in an enviable financial position. Through hard work and prudent living, they have accumulated a significant asset base at a relatively young age, while also keeping their liabilities to a very manageable level. Their high incomes and modest lifestyle allow their assets to continue growing at a high rate, putting them in a position to eventually retire relatively early and then live very comfortably throughout retirement. With that said, the Does' financial situation is somewhat complex. We have provided a number of recommendations that we believe will help John and Jane to better manage their various forms of compensation while striking an optimal balance between risk and return across their portfolios, all with an eye toward tax efficiency. If John and Jane are able to put our recommendations into practice, we are confident that they and their children will have few financial worries in the years ahead.

Wealth Percentiles

Doe Allocation



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APPENDIX

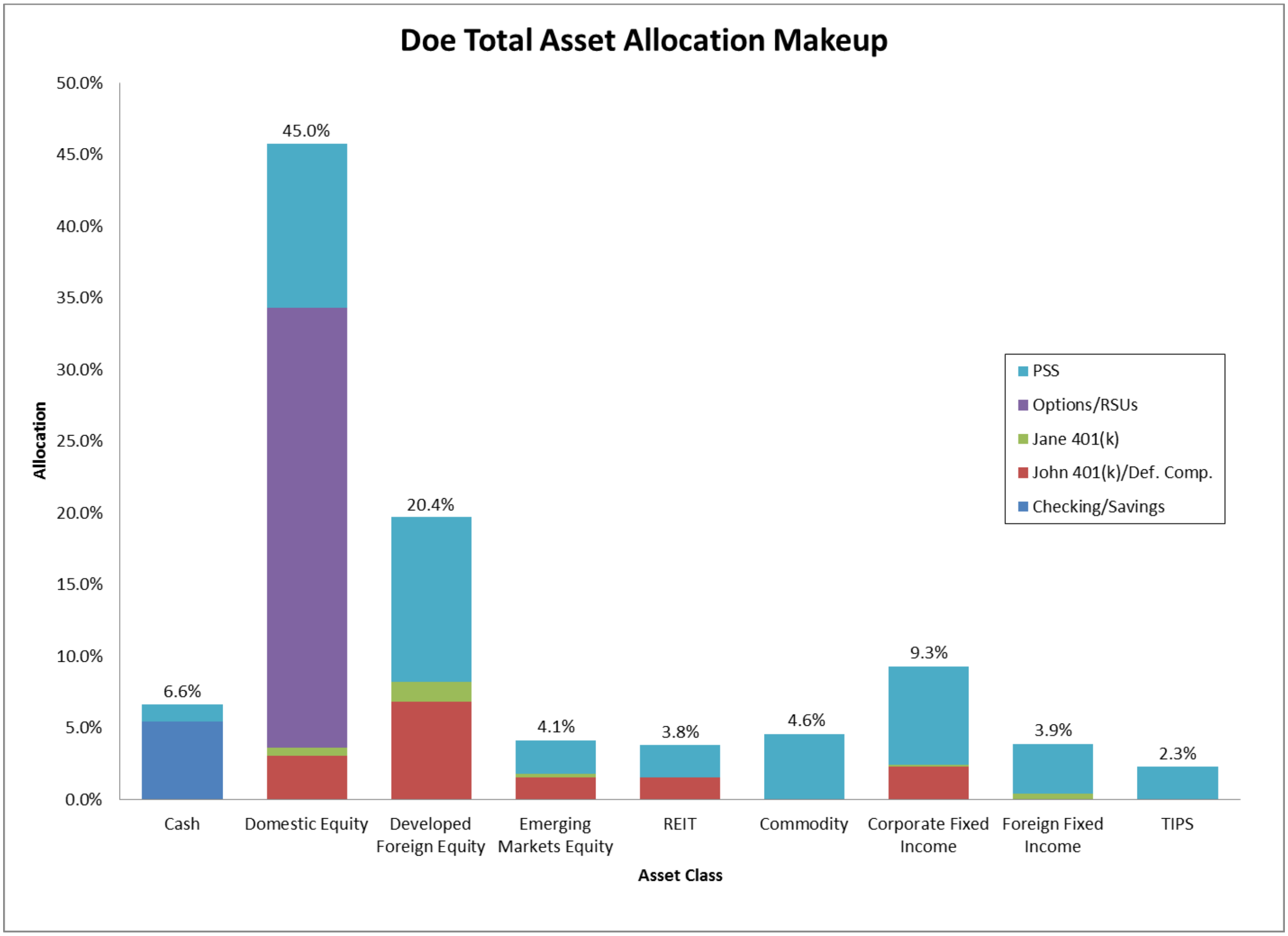
Proposed Total Portfolio Asset Allocation

Proposed Asset Allocation												
		Checking/Savings		John 401(k)/Def. Comp.		Jane 401(k)		Options/RSUs		PSS		
Asset Class	**Goal Allocation**	**Account**	**Total Port.**	**Account**	**Total Port.**	**Account**	**Total Port.**	**Account**	**Total Port.**	**Account**	**Total Port.**	**Total**
Cash	5.0%	100.0%	5.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.5%	1.1%	6.6%
Equity	75.0%	0.0%	0.0%	85.0%	12.9%	80.0%	2.2%	100.0%	30.7%	60.0%	27.5%	73.4%
Domestic	*45.0%*	*0.0%*	*0.0%*	*20.0%*	*3.0%*	*20.0%*	*0.6%*	*100.0%*	*30.7%*	*25.0%*	*11.5%*	*45.8%*
Intl Developed	*20.0%*	*0.0%*	*0.0%*	*45.0%*	*6.8%*	*50.0%*	*1.4%*	*0.0%*	*0.0%*	*25.0%*	*11.5%*	*19.7%*
Emerging Markets	*5.0%*	*0.0%*	*0.0%*	*10.0%*	*1.5%*	*10.0%*	*0.3%*	*0.0%*	*0.0%*	*5.0%*	*2.3%*	*4.1%*
REIT	*5.0%*	*0.0%*	*0.0%*	*10.0%*	*1.5%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*5.0%*	*2.3%*	*3.8%*
Commodity	5.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	10.0%	4.6%	4.6%
Fixed Income	15.0%	0.0%	0.0%	15.0%	2.3%	20.0%	0.6%	0.0%	0.0%	27.5%	12.6%	15.4%
Corporate	*10.0%*	*0.0%*	*0.0%*	*15.0%*	*2.3%*	*5.0%*	*0.1%*	*0.0%*	*0.0%*	*15.0%*	*6.9%*	*9.3%*
Foreign	*5.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*15.0%*	*0.4%*	*0.0%*	*0.0%*	*7.5%*	*3.4%*	*3.9%*
TIPS	*2.5%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*5.0%*	*2.3%*	*2.3%*
Total	100.0%	100.0%	5.5%	100.0%	15.2%	100.0%	2.8%	100.0%	30.7%	100.0%	45.9%	100.0%

Employer-Sponsored Retirement Plan Recommended Allocations

	John 401(k)/Def. Comp.		Jane 401(k)	
Asset Class	**Allocation**	**Fund Name**	**Allocation**	**Fund Name**
Cash	0%	N/A	0%	N/A
Equity	85%		80%	
Domestic	*10%*	US Large Company Value	*10%*	Spartan Tot Mkt Idx Adv
	10%	US Small/Mid Company	*10%*	Artisan Mid Cap Value
Intl Developed	*45%*	Foreign All Company	*50%*	Oakmark Intl I
Emerging Markets	*10%*	Foreign Emerging Markets	*10%*	Spartan EM Mkts Idx Adv
REIT	*10%*	Global Real Estate	*0%*	N/A
Commodity	0%	N/A	0%	N/A
Fixed Income	15%		20%	
Corporate	*15%*	Diversified Bond	*5%*	PIMCO Total Return
Foreign	*0%*	N/A	*15%*	Templeton Global Bond
TIPS	*0%*	N/A	*0%*	N/A
Total	100%		100%	

APPENDIX



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