

REVVING UP THE AMP OVERHAUL



David Moenning
Chief Investment Officer

At Sowell Management Services, we are committed to designing, managing and maintaining top quality investment management solutions for our advisor partners.

Unlike many investment management firms, this commitment goes beyond the initial selection of portfolio strategies and managers. SMS also takes on the responsibility of monitoring the strategies for effectiveness as well as making adjustments to strategies and/or managers as needed. We call this “taking on the selection risk” for advisors.

In short, our goals are to first help advisors in the selection of the appropriate portfolio strategy for their clients and then to remain responsible for that selection whenever the road gets bumpy.

The SMS Investment Committee prides itself on having both the experience and the expertise necessary to (a) properly gauge the performance of portfolios in varying market conditions and (b) differentiate between a strategy that is simply out of favor and one that is broken. In other words, our advisor partners can rest assured that SMS is “on the job,” monitoring and/or adjusting portfolios as needed – on an ongoing basis.

Today I am writing to inform you of some changes that will be taking place within our Portfolio Solutions Platform.

WHY THE CHANGES?

When Heritage Capital Management became part of Sowell Management Service in 2015, a number of investment management strategies and managers came with it. After a period of careful analysis and review, the committee has decided to consolidate the SMS offerings. The objective is to:

- Eliminate Portfolio Overlap
- Create Uniform Offerings
- Focus on Core Strategies (I.E. What We Do Best)
- Make the Sowell Solutions Platform Easier to Use

The bottom line is we believe the consolidated lineup is easier to understand and explain to clients.

For example, we’ve eliminated portfolios with similar methodologies as well as programs that were not heavily utilized by our partners, we’ve added a passive sleeve, and created MPD™ Models according to risk tolerance and investing objective.

THE CHANGES TO THE SOWELL SOLUTIONS LINEUP

On July 1, 2016, the SMS Investment Committee will offer a consolidated lineup of portfolio solutions. Below is a summary of the changes that will go into effect.

Introducing SMS Classic Portfolios: Nine classically designed asset allocation models using ETFs. The passive approach to portfolio management utilizes pre-determined allocations to asset classes, little-to no management input/risk, and periodic, pre-determined portfolio rebalancing. The offerings target investor objective/risk tolerance and include: Classic Bond, Total Return, Income & Growth, Conservative, Balanced, Moderate Growth, Growth, Global Growth and Aggressive Growth.

Introducing MPD™ Models: In an effort to make Sowell’s trademarked Modern Portfolio Diversification™ methodology available to more investors, the committee has designed seven multi-strategy, multi-manager, and multi-methodology models targeting various risk profiles. The offerings include: MPD™ Total Return, MPD™ Income & Growth, MPD™ Conservative, MPD™ Balanced, MPD™ Growth, MPD™ Global Growth, and MPD™ Aggressive.

AMP Overhaul: As detailed in our recent correspondence, the AMP models have been returned to their strategic allocation roots and are once again being run by Mr. William Sowell. We are very excited about the upgrade to the programs. Feel free to contact us for a Morningstar Snapshot of the current AMPs!

Long-Term Risk Manager Models Become TAP Models: In the process of redesigning the TAP models in 2015, we “borrowed” two of the core market models from the LTRM. As such, there was a fair amount of overlap between the two programs. And since we believe the new TAP program is a superior, more modern design, we decided the LTRM would be converted to TAP. The LTRM Conservative and Moderate will become TAP Stock/Bond and the LTRM Growth will become TAP 2X.

TAP 3X Being Eliminated: The TAP 3X model has been deemed too aggressive for the vast majority of investors and will be eliminated. Accounts in TAP 3X will be moved to TAP 2X.

Changes to the Flagship Offerings: Due to the overlap of the two portfolios, Flagship Income will be merged into Flagship Dividend. We believe Flagship Insiders portfolio is too concentrated to justify use as a standalone portfolio. However, the selection strategy is sound and will become a component in the Flagship Top Stocks portfolio. Next, Flagship Small Cap is being eliminated due to lack of use by advisors. And finally, the selection strategies employed by Flagship Midcap are currently under review.

Global Leaders Becomes Global Allocation: Due to the overlap of the strategies, the Global Leaders portfolio is being eliminated. Accounts will be moved to Global Allocation.

Risk Parity Becomes Global Macro: Given the similarity in the approaches of the Risk Parity and Global Macro programs, the committee decided to eliminate the more actively traded Risk Parity program. Accounts will be moved to the corresponding Global Macro models.

SmartMix Becomes Diversified RMS: Due to the short-term nature of the SmartMix program and Sowell’s focus on a longer-term approach to risk management, SmartMix will be moved to the Diversified RMS program.

UNIFORM MINIMUM ACCOUNT SIZES

In an effort to make our solutions platform easier to use and understand, we have reviewed the minimum account sizes for each program, which will be published on the Solutions Platform. Each “sleeve” of the solutions platform has a stated minimum account size that applies to the programs in the sleeve, except where noted.

Below is a list of the minimum account sizes for SMS offerings:

TAPs: \$5,000

AMP Strategic Series, Classic Passive Series, Diversified RMS: \$25,000

Global Macro, Focus High Yield, Global Allocation, NextGen, Alts: \$50,000

Flagship Portfolios, Custom Bond Portfolios: \$100,000

PPP and MPD™ Models: \$250,000

Custom Portfolio: \$500,000

What about small accounts, you ask? We have established small account versions of several programs and are working on a solutions platform specific to accounts under \$25,000. We will update you when this project is completed.

THE PORTFOLIO DESIGN TEAM IS HERE TO HELP!

Service remains the cornerstone to the value proposition at Sowell Management. A key component of what we like to call “outrageous” advisor service is access to our Portfolio Design Team. To review, the design team is available to all advisors to assist with strategy selection and/or portfolio design.

It doesn’t matter whether your client’s account is \$25,000 or \$2.5 million, the Portfolio Design Team stands ready to help you select the most appropriate strategy or strategies for your client’s goals and risk tolerance.

Unlike some of our competitors, the SMS Portfolio Design Team isn’t the sales department in disguise. No, SMS advisors have access to a team that includes the Chief Investment Officer as well as portfolio managers. The goal isn’t to sell the latest “hot dot” performer, but rather to help advisors build robust, well diversified, modern portfolios.

It is my sincere hope that this communicate is helpful and that the changes being implemented will make investing with SMS