

Sample Scatter Graph Illustration

Risk of Loss vs. Returns Scatter Graph For the Period Ended on XXX XX, 20XX

**REMOVE UNCOMPENSATED RISK
FROM YOUR PORTFOLIO OR
BE IN BREACH OF YOUR
FIDUCIARY DUTIES!**

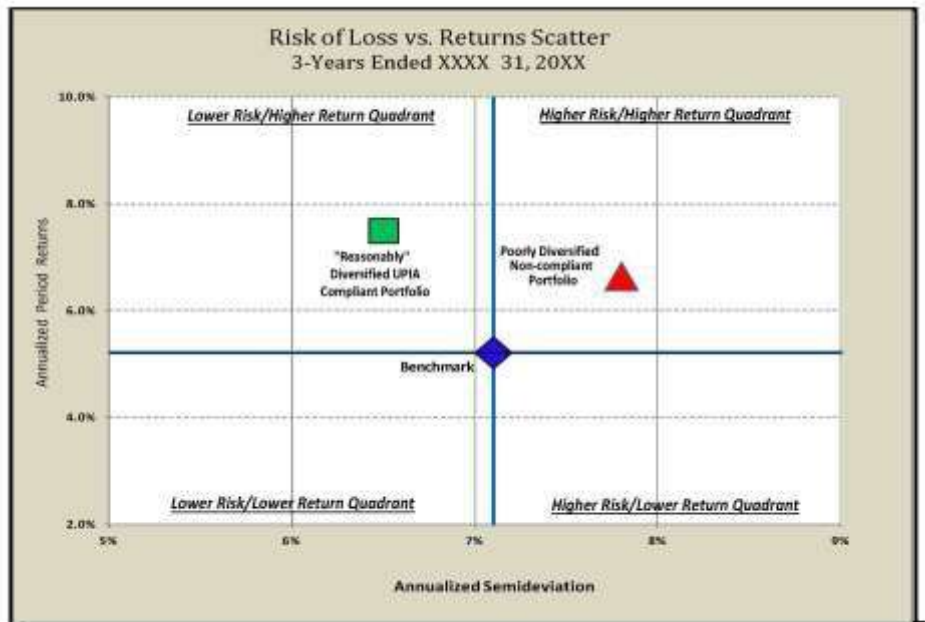
Risk that can be eliminated by adding unlike investments is uncompensated risk and the objective of diversification is to minimize uncompensated risk.*

Scatter charts are a tool that can greatly facilitate the management of fiduciary accounts in accordance with the mandates of Uniform Prudent Investors Act (UPIA) which is based on the 3rd Restatement of Trusts 1992. The simplicity of oversight made possible by scatter charts is demonstrated by a mere glimpse.

However, before anything can be managed, it must first be identified. The Scatter Graph is a useful tool that easily identifies portfolios that contain more uncompensated risk than their portfolio's benchmark and allows all observers (including stakeholders, fiduciaries, attorneys, jurors, and judges) to simultaneously see the historical risk of loss assumed by a given portfolios when compared to the benchmark and achieved return.

In the above Scatter Graph, the data point of the "appropriate" benchmark is represented by the purple diamond. The red triangle sits on the data point of an "improperly" diversified portfolio while the green square sits on the data point of a "reasonably" diversified portfolio. The crosshairs centered on the purple diamond mark the risk and return of the "benchmark."

The further right a portfolio's risk point is located anywhere on the graph, the greater is its risk of incurring loss. The crosshairs break the scatter plot into four convenient quadrants. The upper-left quadrant can appropriately be called the "prudent quadrant" since portfolios falling into that quadrant have exhibited higher returns yet they have exposed investors to less risk of loss than the benchmark.



The "Poorly Diversified Portfolio" is deeply into the upper-right (high-risk, high-return) quadrant. Occasionally, one finds a portfolio in the lower right-hand corner which is even worse.

Finally, even more rewarding performance risk reduction can be achieved by removing the uncompensated risk that may still remain in a portfolio. We often find results further north and west of a 'compliant' portfolio when the portfolio is designed to eliminate a majority of the uncompensated risk.

* RESTATEMENT OF TRUSTS 3rd VOL. 8 1992

"In understanding a trustee's duties with respect to the management of risk, it is useful to distinguish between diversifiable (or "uncompensated") risk and market (or non-diversifiable) risk that is, in effect, compensated through pricing in the marketplace. Failure to diversify on a reasonable basis in order to reduce uncompensated risk is ordinarily a violation of both the duty of caution and duties of care and skill." www.precisionfiduciary.com/restatement/

Take the Diversification Challenge

Where Does Your Portfolio Reside
On The Scatter Chart?

www.precisionfiduciary.com/challenge/

Assistance by email ben@benvcpa.com

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