

Advisor focus

In this quarter of “Advisor focus,” we spotlight Keith C. Goddard, CFA, President and CEO of Capital Advisors, Inc., a money management firm based in Tulsa, Oklahoma, with \$900 million in assets under management for high-net-worth individuals and small and medium-sized institutions. They manage stock and bond portfolios, and a series of asset allocation models using ETFs.

Keith oversees investment strategies at Capital Advisors and has been President since 2003. He joined Capital Advisors in 1991 after graduating from the University of Colorado, Boulder, with a BA in journalism.

How would you define your investing philosophy?

Keith Goddard: Capital Advisors specializes in tactical investment strategies. We believe the risk/reward tradeoff in the asset markets is not static through time—sometimes market conditions support a more aggressive asset allocation design, other times it is best to reduce risk in a portfolio. As a consequence, the optimum asset allocation for every investor is dynamic; it changes as conditions in the asset markets change over time. Our investment process combines rigorous fundamental analysis with quantitative disciplines to direct a strategy for tilting the risk profile of client portfolios higher or lower as market conditions change over time.

Can you tell us a little bit about your outlook for the fixed income market?

KG: Like a lot of people, we’re frustrated because interest rates are so low. It’s hard to know what to do for your clients. You can extend your maturities out beyond 10–20 years and take the risk of getting clobbered if interest rates go higher. Or you can stay in short-term bonds and watch your clients lose money month after month, net of inflation.

So, our preference right now is to take credit risk instead of maturity risk. And we’re doing that with corporate bonds instead of treasuries. We’re diversifying into sectors like emerging

market debt and high-yield bonds to try to salvage some yield for our clients in this low interest rate environment.

How has your fixed income strategy evolved to include ETFs?

We are comfortable with our ability to control the maturity level and the credit quality of bond portfolios using ETFs. The tipping point for us was the development of very specific ETFs to target maturity ranges in credit slices of the bond market. So, we have begun in the last few years to incorporate ETFs more and more for our specialty areas of the bond market that we can’t capture as well with individual bonds.

Can you tell us which iShares ETFs you’re using and the role that they play in your portfolios?

We’re using three bond ETFs right now, primarily, to complement our bond portfolios. One is short-term corporate bonds. Another area is high-yield bonds. And then we’re also using some emerging market debt. The specific iShares ETF tickers are CSJ, HYG and EMB.

And the typical way we’ll use those is when a bond matures in a client’s portfolio, rather than reinvest that money into another bond that yields typically less than two percent today, we can use a basket of these ETFs and maintain the cash flow yield of our clients’ portfolios without taking too much incremental risk because of the diversification we’re getting with the ETF structure.

Many advisors ask us when they should use a fixed income ETF versus an individual bond. Can you talk about that?

We use ETFs for two reasons. One is to access specialty areas of the bond market where we really couldn’t provide the expertise in-house. Emerging market debt and high-yield bonds are two examples that we’re using today. And the other area is for smaller bond portfolios. We work with a lot of high-net-worth individuals, and even



Keith C. Goddard, CFA

President/CEO of Capital Advisors, Inc.

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though they have sizable portfolios, it takes a very large portfolio to get diversification in the bond market. ETFs allow us to get hundreds of bonds into a client portfolio in just a few securities in a way that we really couldn't previously, and it benefits both the client and us.

And a third benefit is cash flows. One of the great things about ETFs is their monthly distribution of income—retired clients in particular really appreciate that consistency of income that you don't get from a typical one-bond-at-a-time portfolio.



Hear more about how Keith uses fixed income ETFs in his strategies.

What's new at iShares?

New iShares ETFs

New ways to manage risk in a portfolio. iShares has launched four new minimum volatility funds that can help you retain equity market exposure while helping to reduce overall equity risk in a portfolio:

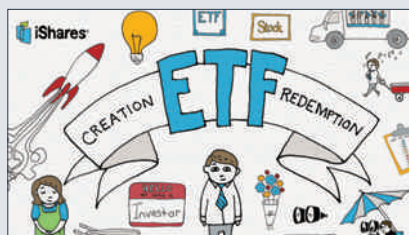
- ▶ iShares MSCI Emerging Markets Minimum Volatility Index Fund (**EEMV**)
- ▶ iShares MSCI EAFE Minimum Volatility Index Fund (**EFMV**)
- ▶ iShares MSCI USA Minimum Volatility Index Fund (**USMV**)
- ▶ iShares MSCI All Country World Minimum Volatility Index Fund (**ACWW**)

More ways to broaden your international exposure. The iShares Emerging Markets Local Currency Bond Fund (**LEMB**) offers another way to harness the potential of emerging market economies, and achieve currency diversification away from the US dollar and the potential for more attractive yields.

The iShares S&P International Preferred Stock Index Fund (**IPPF**) can provide a different source of yield through access to local currency, non-USD preferred securities that trade on developed market exchanges outside the US.

The “Aha!” moment for understanding ETF Liquidity

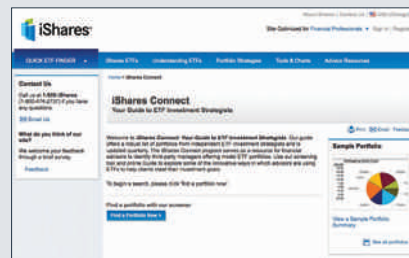
Ever wonder what allows ETFs to be liquid? The answer is “creation and redemption,” the process that lets ETFs trade even when volume is low. Using simple illustrations and a metaphor about flowers, this seven-minute animated video will change the way you look at ETFs.



See the story of ETF Creation and Redemption.

A one stop shop for ETF-based strategies

With ongoing uncertainty in the market, more advisors are turning to ETF Investment Strategists as a resource for portfolio management, freeing up time to focus on what matters most: their clients. iShares Connect is our online resource to help connect you with experienced ETF investment managers who offer strategies designed to meet a variety of investment goals. Search and screen by multiple criteria to find the right fit for you and your clients.



Find an ETF Portfolio.