

FINANCIAL ARTISTS, LLC

Business Plan
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Financial Artists, LLC
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1. EXECUTIVE SUMMARY

Financial Artists, LLC is an investment firm that will offer low-cost, tax-sensitive management of accounts as small as \$10,000, thus allowing millions of people to reap the benefits of sophisticated asset management.

What is the service?

Financial Artists plans to offer portfolios of exchange-traded funds (ETFs) tailored to fit each investor's risk tolerance and investment horizon. Our automated trading and rebalancing system allows us to implement a variety of tax-sensitive strategies while drastically reducing trading costs. These features will give clients exposure to a broad class of assets at an effective cost much lower than that of mutual funds.

What is the market size?

The approximately 90 million American households with financial assets of less than \$500,000 are potential sales candidates. We anticipate initial adoption by thousands of medium net-worth professionals as well as several small institutions. Over time, low-cost, tax-sensitive investment using ETFs will replace the mutual fund as the vehicle of choice for most investors.

What is our competitive advantage?

A. Our principle advantage is the low cost of the service we provide. Financial Artists provides savings to the client in three ways:

1. Lower expense ratio: ETFs have an inherently low expense ratio. The average expense ratio for the ETFs we will use is 0.16%; it is 1.28% for mutual funds.
2. Lower tax bill: Our tax-sensitive trading will increase the effective annual return by typically 1%. Currently, there is no company offering tax-sensitive managed investing for clients with less than \$300,000.
3. Lower fees: the automated trading and rebalancing system we are developing will enable us to serve large numbers of customers at very low marginal costs. Therefore, our asset management fee can be low. We plan to charge a fee of 0.5% of assets under management, which is half of that charged by the cheapest competitor.

The compound effect of these savings is illustrated in Figure 1 below. The growth (after-tax and net of fees) for an S&P500 fund of \$50,000 at Financial Artists is compared with that of analogous mutual funds. After 10 years, the net value of the assets at Financial Artists is \$94,803, while it is \$84,537 at Fidelity and only \$65,704 at Smith Barney. Since all three funds tracks the same underlying asset (the S&P500 Index), the better return of the investment with Financial Artist is due to the three factors described above: lower expense ratio, lower tax bill and lower management fees.

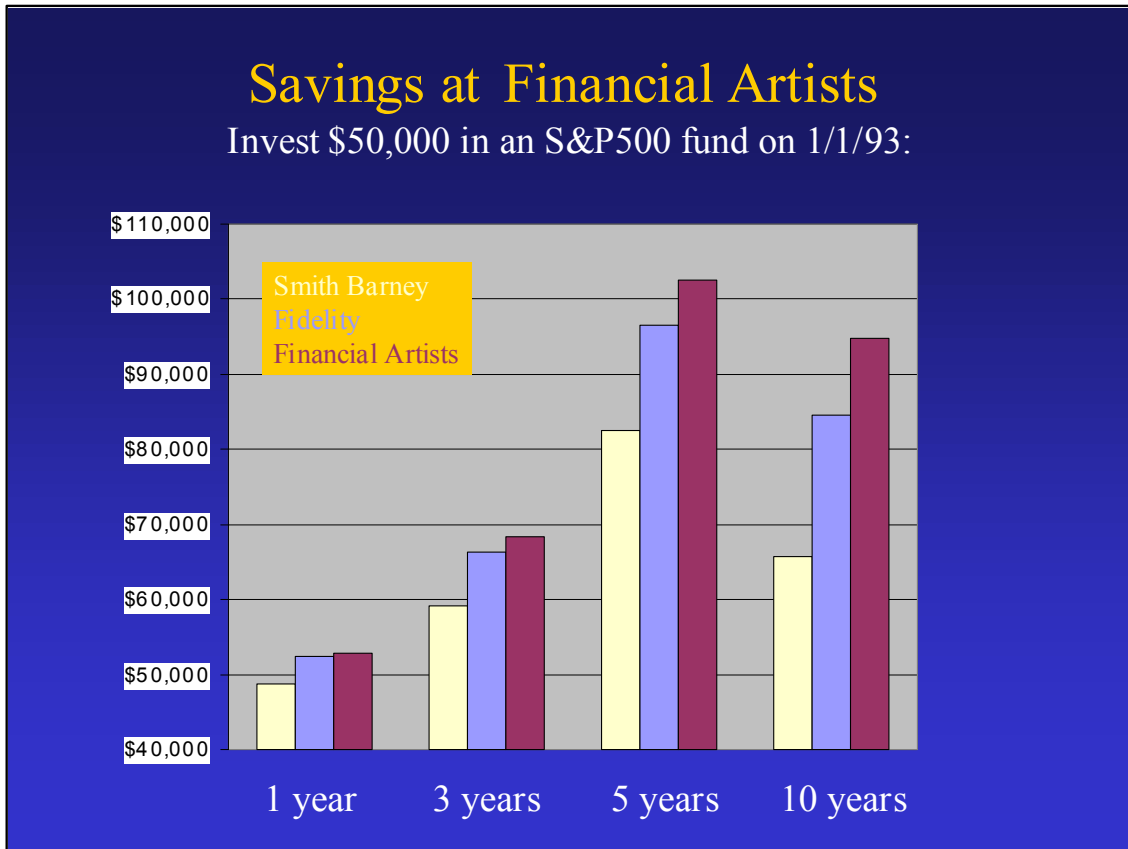


Figure 1. Nets assets after liquidation (including all taxes and fees) for Financial Artists, Fidelity and Smith Barney. Historical data from 1/1/93 to 1/1/03 was used with the highest tax rates in effect at the time.

B. An additional advantage we offer to clients is through our asset allocation models. We will use these models to construct a diversified portfolio of ETFs appropriate for each investor's risk tolerance and investment horizon. For example, consider an investor who, on 1/1/98, wishes to invest \$50,000 for 5 years and is comfortable with a moderate amount of risk. The growth of this investment (after-tax and net of fees) at Financial Artists is shown in Table 1. For comparison, the growth of the same initial investment in several mutual funds representing different asset classes is also shown.

The results illustrate the importance of diversification. Even in a bear market, the portfolio at Financial Artists has a positive return. Without this diversification, investing becomes a much riskier proposition, and often generates lower returns, as can be seen from Table 1. Although some investors were fortunate enough to have invested in bonds during the period 1/1/98 to 1/1/03, many chased technology stocks and suffered the consequences.

	Net assets (5 years)	Effective annual return	Asset class	Management fee	Expense ratio	Load
Financial Artists	\$53,256	0.63%	diversified	0.5%	0.158%	none
Dreyfus	\$50,531	0.07%	fixed income	1.0%	1.08%	4.50%
Vanguard	\$43,841	-1.31%	US equities	1.0%	0.2%	none
Templeton	\$41,265	-1.90%	international	1.0%	1.22%	5.75%
ProFunds	\$8,782	-15.96%	technology	1.0%	2.8%	none

Table 1. The nets assets after liquidation (including all taxes and fees) for an initial investment of \$50,000. The diversified portfolio at Financial Artists is rebalanced monthly; the other funds are not diversified. Historical data from 1/1/1/98 to 1/1/03 was used with the highest tax rates in effect at the time.

What are the startup costs?

Financial Artists anticipates requiring \$2.0 million to complete the complete the financial models, finish the technological development, provide legal and infrastructure expenses related to startup and to cultivate potential customers. We do expect to need further capital after the initial investment.

What is the payoff?

Financial Artists anticipates to break-even within 3 years. In addition to our financial services, we expect royalty revenues from licensing our tax-efficient trading and rebalancing software technology. Within 4 to 6 years, Financial Artists anticipates significant profits. We expect sale of the company to fuel further growth and to offer liquidity to investors.

Management Team

Ludwig Chincarini (President and Chief Investment Officer) has B.A. from UC Berkeley and a Ph.D. from MIT in economics. He is a financial economist with over 10 years experience in the investment business.

[REDACTED] (Chief Technology Officer) [REDACTED]

[REDACTED] (Chief Marketing and Operating Officer) [REDACTED]

2. COMPANY DESCRIPTION

2.1 Mission

How should you invest your money? This is a difficult question for any investor, but it is particularly difficult for those with less than \$500,000 in financial assets. These investors cannot turn to professional asset managers, since most managers work exclusively with very rich individuals. Investing independently is an option and many people did so during the boom of the 1990's. The crash taught these people a costly lesson: it takes time and knowledge to invest wisely. So, if you can't invest on your own and you can't get help, what should you do?

It is to solve this dilemma that Financial Artists, LLC is being created. Financial Artists is an investment firm that will offer low-cost, tax-sensitive management of accounts as small as \$10,000, thus allowing millions of people to reap the benefits of sophisticated asset management. We believe that the investments we provide will eventually replace the mutual fund as the vehicle of choice for most individuals.

2.2 Products and Services

Financial Artists will offer the following products and services:

- i. Portfolios of exchange-traded funds (ETFs) tailored to fit each investor's risk tolerance and investment horizon.
- ii. Asset management. This includes monthly rebalancing of the portfolio and tactical (short-term) asset allocations based on proprietary economic models.
- iii. Tax-sensitive investments. Unlike mutual funds, the ETFs which we will use do not make capital gain distributions. Also, our trading strategies minimize capital gains on the principal.
- iv. IRAs. The customer will have the option to designate part or all of the portfolio as a Traditional, Roth or Rollover IRA, so as to maximize the benefit of our tax-sensitive trading strategies.
- v. Internet access to individual accounts. The information on each account will be updated daily. An investor can monitor her portfolio, but no discretionary trading will be permitted.
- vi. Monthly newsletters. Each investor will receive a detailed analysis of the performance of his account; discussions and explanations of important economic issues will be given as well.

The annual fee for these products and services will be 0.5% of the assets under management. This low fee, which will be charged in monthly installments, includes all trading expenses. Furthermore, there will be no additional fee for opening or closing an account.

To offer low-cost investment, we will keep the company's costs low. We plan to create as small an organization as possible. The automated trading and rebalancing system we are developing will enable us to serve large numbers of customers at very low marginal costs. To reduce even further the operating costs, we will minimize interactions with the customers by telephone, answering questions and delivering the newsletter by email.

2.3 Legal Status

Financial Artists will be a limited liability company located in McLean, VA. The initial sharing ratios of the members will be as follows: Ludwig Chincarini [REDACTED], [REDACTED] and [REDACTED]. These three people will also be managing members.

3. MARKET RESEARCH AND ANALYSIS

3.1 Market Definition

The principal market for the services and products of Financial Artists are the millions of investors who are currently paying too much for inefficient and inappropriate investment advice. Although many wealthy investors are being poorly served by their financial advisors, the problem is particularly acute for the 95 million US households with less than \$500,000 in financial assets.¹ This is because most advisors will only offer services to large accounts. The mean value of the financial assets of the less affluent households is \$54,700.¹ Therefore, the US market for effective, low-cost, tax-efficient financial advice is \$5.2 trillion.

Although the retail market is our largest source of customers, we plan to offer our products and services to the institutional market as well. In particular, we will target those businesses which manage many small accounts, since they can reap the most benefit from our automated trading, rebalancing and systems. These businesses include financial planners, trust companies and small companies looking to offer pension plans to their employees.

3.2 Target Markets

Our strategy is to achieve modest profitability by providing our products and services in several target markets. Once we have reached this point we will begin to expand into the mass market.

The initial target market is the residents of the greater Washington, DC area. In particular, we will focus on households which live within 50 miles of the company's location in McLean, VA and whose income exceeds \$100,000. According to the 2000 U.S. Census, there are over 530,000 such households, with approximately \$28.9 billion in financial assets.

Another target market is the almost 1,000 financial advisors or planners who work or live within 50 miles of the McLean, VA.² The bull market of the 1990s, together with the ensuing "double-whammy" of capital gains taxes, has prompted many financial planners to search for alternatives to mutual funds as the principal investment vehicle of their clients' portfolio.³ These planners are looking for diversified, low-cost and tax-efficient investments which they can incorporate into the investment strategy.

A third target market is trust companies with less than \$100 million dollars in total assets. The trust assets of the companies in this category consist of 30 to 300 separate accounts in the range \$80,000 to \$200,000.⁴ Over two-thirds of these are discretionary accounts. The recent bear market has made the trust companies (most of which are banks) aware of the difficulties of proper asset management. These companies are therefore looking for an economical and efficient way to manage a large number accounts. The accounts are too small to be serviced by the current asset-management industry.

We anticipate that success in our target markets will provide us with the name-recognition necessary to penetrate the mass market.

¹ *Federal Reserve Bulletin* (January 2003) pp. 1-32, "Recent Changes in U.S. Family Finances: Evidence from the 1998 and 2001 Survey of Consumer Finances" by A.M. Aizcorbe et al.

² *Getting Started as a Financial Planner* by Jeffrey H. Rattiner (Bloomberg Press, Princeton, 2000).

³ *Have Financial Planners Lost Faith in Mutual Funds?* by Nancy Opelia, *Journal of Financial Planning*, February 2003.

⁴ Federal Financial Institutions Examination Council (FFIEC) 2000, *Trust Assets of Financial Institutions: Trust Assets by Size of Trust Institution (Table A-4)* [www2.fdic.gov/structur/trust/index.asp]

3.3 Industry Analysis

“Mr. Steven Niemczyk, an investment banker at Morgan Stanley in New York...dreams about a new [asset] management product customized to the needs of individual clients. It would use sophisticated computer techniques now available to give better risk-adjusted returns. [Someone] with the skills to develop suggest a product and the courage to invest in it, he says, could transform the [asset management] industry.”⁵

Investors, both retail and institutional, have lost a lot of money in the financial markets over the past three years. As a result, all financial services, and in particular investment banks and mutual funds, have come under closer scrutiny. In addition to uncovering several instances of fraud, this scrutiny revealed that for many companies, marketing issues have overwhelmed the fiduciary obligations for managing money. Investors were saddled with high costs (both open and hidden) and in return received only poor management of their assets.

For many years the financial services industry has played on the ignorance, greed and fear of individual investors by peddling products that were inappropriate for many customers. Because of the industry’s practices, most investors believe that chasing high returns is the best way to make money. These investors do not understand the riskiness of their investments and are unaware of the full costs they are paying.

We believe that customers should understand the cost and risk associated with their investments. They should be made aware of the benefits of diversification and tax-sensitive trading strategies. Most importantly, they should know that following a hot stock tip is not the best way to maximize the expected return. Rather, good investments are made by reducing costs and taxes and by constructing a portfolio of assets which is the appropriate for the customer’s risk tolerance and investment horizon.

3.4 The Competition

There are three main types of competitors for Financial Artists: (i) mutual funds, (ii) independent financial advisors and (iii) software for portfolio management.

3.4.1 Mutual Funds

A mutual fund invests in cash, bonds, stocks and other investments. The purchaser of a fund’s shares owns a portion of each investment owned by the fund. At year-end 2002, the value of the total assets in mutual funds was \$6.39 trillion, three-quarters of which was owned by U.S. households.⁶ There are over 8,200 mutual funds which are grouped into approximately 200 mutual fund families. The five largest fund families are shown in Table 2.

All mutual funds companies offer very similar products and services. A few try to compete on price, but the majority tries to compete on service and the array of funds offered. As an example we analyze below the products and services offered by the largest mutual fund company Fidelity.⁷

⁵ *Other people’s money: A survey of asset management*, The Economist, July 5th 2003, p.9

⁶ *Mutual Fund Fact Book*, 43rd edition, Investment Company Institute (2003).

⁷ The data that follow is based on printed material distributed by Fidelity, online information available at www.fidelity.com and several telephone conversations with Fidelity representatives during the process of opening an account.

Fund Family	Total net assets
Fidelity	536.0
Vanguard	532.6
American Funds	383.4
Franklin Templeton	164.9
Putnam ⁸	131.4

Table 2. The five largest fund families ranked by total net assets (in billions of dollars).⁹

Fidelity offers its customers over 100 of its own funds (average expense ratio: 1.4%) and, for an additional fee, the option to purchase funds managed by other companies. Like all mutual fund companies, it discloses to its investors only general information about the fund and its style of investing. At any given time, the customer knows only the top ten holding of his fund; these rarely amount to more than 40% of all holdings. The quarterly reports which reveal total holdings are out of date by the time the customer receives them.

The levels of service which Fidelity provides depends on the size of the account (see Table 3).

Account size	Additional services offered
below \$30,000	None (basic account)
\$30,000 or more	Certain fees are waived e.g. Small Balance Fee
\$50,000 or more	Asset management provided. Fee: 1.1% of assets; if asset management is used, expense ratio of funds is capped at 0.75% and all loads are waived.
\$100,000 or more	“Preferred Customer”: customer receives a special telephone number to call for advice; senior representatives deal with the account; commissions reduced by 50%.
\$300,000 or more:	Tax-sensitive funds are offered; telephone contact is one specific person.
\$500,000 or more	“Premium Customer”: a team of ten people manages the account; active tax management is performed.

Table 3. Services for a mutual fund investor at Fidelity.

For a customer to have any form of tax-sensitive asset management, she must have at least \$300,000 in her account. Full tax management for Fidelity customers is performed only at \$500,000, and this amount is at the lower end of what is offered by the mutual fund industry. Many companies will only provide tax management for accounts over \$1 million.

Thus, small accounts are not invested as efficiently as large ones. It is true that a customer with a basic account can use the on-line asset allocation planner and construct for himself a diversified portfolio. However, he will have little control over the capital gains tax liabilities which are an inherent part of mutual funds. Furthermore, he will have to monitor constantly his account to rebalance it. Not only will this be time-consuming, but costly as well, since trading commissions for small account balances are high.

⁸ The data for Putnam do not reflect the outflow of over \$4 billion in October 2003, which occurred after federal and state charges were filed against Putnam for trading abuses. [*The Boston Globe*, Monday, Nov. 3, 2003, page A1]

⁹ Data as of Sept. 30, 2003 from Morningstar [<http://www.morningstar.com/Cover/Funds.html>].

Since Fidelity does not offer optimal investing for customers with small accounts, it tries to attract these customers by offering a variety of other financial products and services. For example, it offers annuities and life insurance as well as the bundling of personal and employer-sponsored retirement accounts (Fidelity also manages many 401(k) plans). This strategy is not unique to Fidelity. It reflects a trend in the financial industry towards consolidation of all services and products in a few companies. Although customers do perceive that there is benefit in such services and tend to be loyal to companies they invest with, they are still very concerned with the return on their investments. Thus, the recent bear market led to a net outflow of assets from mutual funds in 2002.¹⁰

Strengths:

- (i) Offer a large selection of investment products from many different assets classes.
- (ii) Almost 24/7 phone service is available.
- (iii) Websites provide abundant information with financial calculators and planning tools.
- (iv) Discretionary trading by investor is possible both on-line and by phone.
- (v) Name recognition and national presence.

Weaknesses:

- (i) High expense ratio.
- (ii) High management fee.
- (iii) No tax-sensitive investing is available for less affluent customers.
- (iv) Lack of transparency: customer does not know what exactly she is investing in and is not given clear information about risks and costs (both open and hidden) of investment.

3.4.2 Independent Financial Advisors

We use “Financial Advisors” to include both registered investment advisors (RIAs) who manage assets directly and financial planners, who help clients determine investment strategies, but do not manage the assets themselves. We consider here independent advisors or planners i.e. an individual entrepreneur or a small firm that caters primarily to the retail investor, since those affiliated with a large company fall under the category of mutual funds discussed above. There are over 60,000 formally recognized financial planners¹¹ and over 12,000 registered investment advisors¹¹ in the U.S.

Independent financial advisors rely heavily on mutual funds as an investment vehicle for their clients. For example, RIAs with less than \$250 million in total assets have an average of 45% of their assets in mutual funds.¹² Therefore, an investor who uses an independent financial advisor pays all mutual fund fees as well as the management fee (typically 1% of assets under management). Even if the investment is made directly in equities and bonds, the customer is responsible for all custodial fees and trading commissions which are added to the management fee. Hence, the total cost of using a financial advisor can exceed 2% of assets.

Strengths:

- (i) Personal contact with advisor
- (ii) Customer can choose between just investment advice and full asset management.
- (iii) May provide specialized financial planning (e.g. cash-flow management).

¹⁰ *Mutual Fund Fact Book*, 43rd edition, Investment Company Institute (2003).

¹¹ *Getting Started as a Financial Planner* by Jeffrey H. Rattiner (Bloomberg Press, Princeton, 2000).

¹² *RIAs: The State of the Fee-Based Financial Advisor Market*, The Cerulli Report, Cerulli Associates (1999).

Weaknesses:

- (i) High management fee which does not include mutual fund costs or trading fees.
- (ii) No tax-sensitive investing is available for less affluent customers.

3.4.3 Software Programs and Newsletters

Software programs and newsletters are sources of advice for investors who do not have the assets or income levels that many advisors require before examining a portfolio. The software programs are usually on-line tools which, for free or for a fee, measure a person's risk tolerance, help set goals and then suggest a portfolio. The results range from a pie chart showing a distribution of asset classes to full-fledged advice recommending the purchase and sale of specific financial instruments.¹³ The newsletters, which are distributed either online or in print, give specific suggestions for how to construct a portfolio. The newsletters usually offer a limited (30 or 60 days) free trial subscription after which a fee is charged.

There are dozens of software programs and thousands of newsletters available.¹⁴ A sample of the products which exists is listed in Tables 4 and 5. For the newsletters, we have selected those which focus on ETFs, as these compete most directly with Financial Artists.

Name	Service	Annual Fee
Financial Engines (www.FinancialEngines.com)	Examines whether current asset allocation is suitable for retirement; if not, offers better choices.	\$300 [\$149.95 to examine only tax-deferred accounts]
FinPortfolio (www.FinPortfolio.com)	Shows current asset allocation contrasted with optimum blend. Presents likelihood of meeting financial goals.	Basic service is free. Premium service is \$350.
Morningstar [Premium Membership] (www.morningstar.com)	Asset allocator with a risk analyzer; will only examine retirement accounts and only uses mutual funds.	\$109
Mpower (www.mPower.com)	Evaluates current asset allocation, recommends target asset allocation and estimates if money will be enough for retirement	Basic service is free. Advanced service is \$20.

Table 4. Software programs for investment management.

Name	Service	Annual Fee
Agile Investing (agileinvesting.com)	Makes specific portfolio recommendations for long-term investments.	\$250
Sector Trend Advisor (www.bigtrends.com)	Identifies short-term buying opportunities with sector ETFs.	\$495
The ETF Digest (www.etfdigest.com)	Helps long-term investors construct diversified portfolios.	\$395.95
The ETF Authority (www.streetauthority.com)	Suggest short-term trades for ETFs	\$297

Table 5. Newsletters which examine investment options using ETFs.

¹³ *A guide to some of the best online investment-management tools*, The Wall Street Journal, July 16th, 2003 page R9.

¹⁴ Numbers from an online search with Google [www.google.com]

Whether an investor uses a software program or a newsletter, the fee charged only covers the advice given. The investor is responsible for implementing all of the suggestions, i.e. she must use her time and money to purchase the financial instruments.

Strengths:

- (i) Low cost.
- (ii) Investor makes independent choices.
- (iii) Software programs examine whole spectrum of customer's investments.

Weaknesses:

- (i) No tax-sensitive investing
- (ii) Investor has to implement the asset-management suggestion on his own, which can be time-consuming and costly.

3.5 Competitive Advantages

Financial Artists provides several advantages over competing alternatives for asset management:

1. Our asset management services are much less expensive than those of the competitor. Consider a customer who has an account worth \$50,000. Her annual costs at Financial Artists would be \$330, while with a mutual fund or a financial advisor it would be \$1140. Even if she chose to use a software program or follow a newsletter, she would pay at least \$400 a year and this figure does not include trading commissions or the opportunity costs of managing her money on her own.¹⁵
2. We provide tax-sensitive asset management for accounts as small as \$10,000. There are no companies or planners that offer active tax management for accounts below \$500,000.
3. We deliver monthly newsletters with detailed analysis of the performance of a customer's portfolio. Also, in these newsletters we will examine the behavior of markets and other general topics of interest to all customers. Most mutual funds and financial advisors provide barren quarterly statements which give only numbers, but do not try to explain the results or educate the investor.
4. Financial Artists has one goal: the customers' portfolios should perform well. The only charge for the customer is a management fee. Unlike some financial advisors, we receive no commission for using a particular ETF or other financial instrument. Since we do not create the ETFs we use, there is no incentive for us to peddle a specific product or portfolio, as some mutual funds do. The transparency and integrity of the service that we deliver contrast with the widespread abuse in mutual funds, whose recent behavior has been hurting small investors.^{16,17}

¹⁵ The costs are calculated from the figures presented in the previous sections : (a) Financial Artists--0.5% management fee and 0.16% expense ratio; (b) Mutual Fund or Financial Advisor---1% management fee and 1.28% expense ratio; (c) Software or Newsletter----\$320 subscription fee and 0.16% expense ratio.

¹⁶ *For Staid Mutual-Fund Industry Growing Probe Signals Shake-Up*, The Wall Street Journal, October 20, 2003, Page A1, Column 5.

¹⁷ *Mutual-Fund Scandal Clouds Bottom Lines*, The Wall Street Journal, October 20, 2003, Page C1, Column 3.

3.6 Marketing Plan

We believe that there is a market for an inexpensive, tax-sensitive asset-management service. Our marketing strategy is to propose our services as a more transparent and less costly alternative to mutual funds and traditional financial advisors. To attract customers with less than \$500,000 to invest, most companies that offer financial services market them by emphasizing two things: the experience of the company and the array of services offered. Financial Artists, on the hand, knows that the customer is most concerned about how much money she will have at the end of the investment period.

Financial Artists addresses this concern in all its marketing efforts. The slogan “When it comes to investing, are you at a loss?” recognizes that many customers have suffered losses in the market and are uncertain as to how to invest their money. Also, [new name of company] is designed to be memorable, with the implication that the company relieves the customer of his worries about his assets.

Financial Artists emphasizes long-term investments. The marketing material will stress that low fees and small tax liabilities translate into more money for the customer at retirement. We will further encourage customers to establish a long-term relationship with us, by promoting the tax benefits of opening an IRA as part of their portfolios.

To attract retail customers, we will conduct a direct advertising campaign in local newspapers, local radio stations and on-line. In addition, we will give regular free seminars (with light food and cocktails) in the greater Washington, DC area. These seminars will be given by the Chief Investment Officer and will explain in simple language the services we offer. Investors will have the opportunity to open an account with us at the seminar. The seminars will be advertised by distributing company brochures at local retail stores and by placing ads in local newspapers.

Financial Artists will market to financial advisors and planners through direct mail, direct email and telephone calls. In addition, we will participate in trade shows for financial advisors and planners.

For trust companies, most of the marketing will be done by face-to-face solicitation. The Chief Marketing Officer and the Chief Investment Officer will call on the vice-presidents for investing of the trust companies to introduce Financial Artists and make sales presentations. An additional avenue for entering this target market will be local attorneys who specialize in trust services. These attorneys will be approached by direct email and telephone calls.

4. OPERATIONS

At the core of Financial Artists' strategic concept is a highly automated asset management system (see Figure 2). This system handles all aspects of the asset management process as well as much of the interactions with customers. None of our competitors currently has such a system.

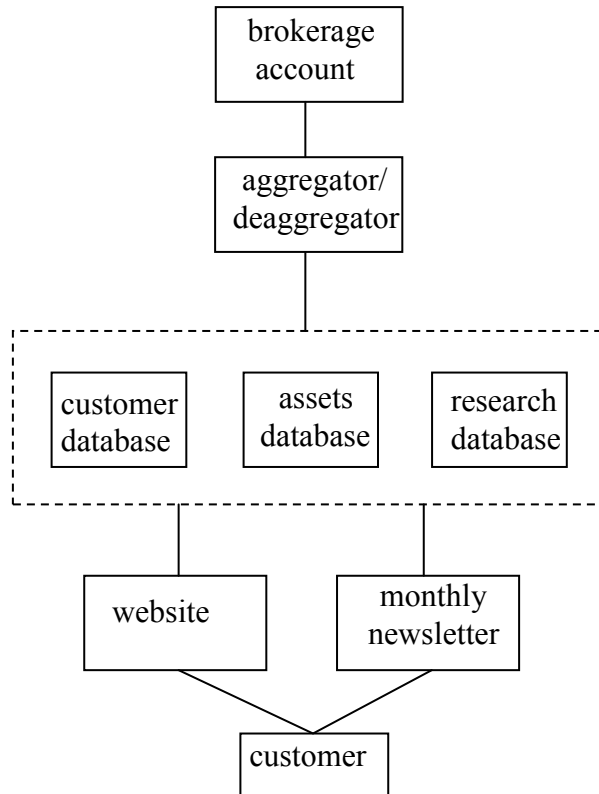


Figure 2. A schematic representation of the asset management operations at Financial Artists.

At the heart of this system are three databases: the customer database, which stores the profiles of all customers; the assets database, which performs the asset allocations; and the research database, which contains the asset allocation models and the general research data. These databases are interconnected and allow the following functions to be performed automatically:

- (a) A customer can open an account through the company's website and immediately receive her optimal asset allocation.
- (b) Once a month, each investor receives by email a customized newsletter contained a detailed analysis of the performance of his account and well and a discussion of important economic issues.
- (c) Monthly rebalancing of all accounts using an aggregator/deaggregator which minimizes trading commissions for the company.

The automated asset-management system is vital for it allows us to keep our operating expenses low and gives us the ability to add customers at very small marginal costs. Furthermore, it permits us to levy the management fee in monthly increments, ensuring an adequate cash flow for the company. Given the importance of the asset management system, there will be a completely redundant off-site backup of all three databases.

5. MANAGEMENT TEAM

Ludwig B. Chincarini, President and Chief Investment Officer

Ludwig conceived the idea for Financial Artists. He has over 10 years of experience in the financial industry. In 1999, he helped build FOLIO*fn*, an online investment firm specializing in personal accounts. As Director of Research, he managed over 120 portfolios, designed the asset allocation system and created a monthly newsletter for clients. In 2002, Ludwig joined Rydex Global Advisors, a mutual fund company, as Director of Research. At Rydex, he developed the new S&P 500 Equal-Weight Index. This index forms the basis of the Rydex S&P Equal Weight ETF that was launched on the American Stock Exchange (AMEX: RSP) on April 30, 2003.

From 1995 to 1996, Ludwig was a Research Analyst for Schrodgers, an asset management company, where he developed models to help manage fixed income portfolios and determine asset allocation. From 1996 to 1999, he worked at the Bank for International Settlements (BIS), known commonly as “the Central Bank of Central Banks”. At the BIS, Ludwig was a Research Analyst for the trading operations (over \$80 billion in assets) and the portfolio management division (over \$10 billion in assets). In addition, he managed a U.S. Treasury portfolio of [REDACTED] in assets. Under his tenure, the annual return of the portfolio was [REDACTED] ---much greater than the average value of [REDACTED] for similar portfolios at the company.

Ludwig is currently an Adjunct Professor of Finance at Georgetown University. He earned his Bachelor of Arts from UC Berkeley and a Ph.D. in economics from the Massachusetts Institute of Technology.

[REDACTED], Chief Technology Officer

[REDACTED]

[REDACTED]

[REDACTED], Chief Marketing and Operating Officer

[REDACTED]

[REDACTED]

6. DEVELOPMENT AND RISK ANALYSIS

6.1 Development

Financial Artists plans to grow steadily over the next five years, becoming a significant provider of asset management to residents of the greater Washington, DC area. We also plan to have a presence in the institutional market, managing assets for several trust companies and other corporation. Our short-term goals are the following:

- (a) In the first two months of operations, we will hire a technology specialist who will help complete the asset management system.
- (b) In the first six months, we will hire a research analyst and an additional person with experience in sales and marketing.

After six months, we will be ready to recruit customers. To continue expanding our customer base, we will hire further employees in sales and marketing.

As part of the long-term growth of Financial Artists, we plan to offer special financial products in addition to asset-managements services. These products will include leveraged index funds and principal-protected funds. These products will be offered at a lower cost than those currently available and will be marketed principally to financial advisors.

6.2 Risk Analysis

One risk is the health of the economy: during strong bull markets, investors care less about costs and may wish to chase high returns as many did during the last bull market. Another risk is the tax law related to capital gains distributions from mutual funds changes, reducing our competitive advantage as far as costs are concerned. A third is that the mutual fund business cuts costs drastically to offer cheaper investments. A fourth risk is that another small group of people starts a similar business. Finally, a fifth potential risk is that one of the senior managers leaves the company while it is still in its infancy.

To minimize these risks, we will carry out a strong educational effort as part of our client recruitment. We believe that an informed customer will realize the long-term benefits of prudent asset management and will not be lured into speculative investments even during a bull market. We feel that the risk from a change in tax law is small. A bill proposing such a change (House Resolution 1989) has languished in Congress for over six months.¹⁸ Furthermore, if even such a bill were to pass, our tax-sensitive trading strategies would still offer savings as compared to mutual funds.

Although the mutual fund industry claims that the cost of the average equity mutual funds has dropped over recent years,¹⁹ more objective reports show that the median expense ratio has been steadily rising throughout the past decade.²⁰ It is possible that mutual fund companies will lower their fees in the future. However, over half of a fund management firm's cost base consists of salaries.²¹ Therefore, for mutual funds to significantly cut costs, they will have to erode one of their major competitive advantages, namely the high level of service.

¹⁸ *Thomas: Legislative Information on the Internet* [<http://thomas.loc.gov>]

¹⁹ *Total Shareholder Cost of Mutual Funds: An Update, Fundamentals* [Investment Company Institute Research in Brief], col. 11, No. 4, September 2002.

²⁰ *Mutual-Fund Expenses Keep Rising*, *The Wall Street Journal*, Monday, November 5, 2003, page R1, column 1.

²¹ *Other people's money: A survey of asset management*, *The Economist*, July 5th 2003, p.9

It is possible for another group of people to start a similar business, but they would require about two years to reach the stage of development we have currently reached. To minimize this risk, we want to begin operations as soon as possible to be the first to market. A prompt beginning for our operations will also allow us to benefit from the recent negative publicity surrounding the investment banking and mutual fund industries.

The departure of a senior manager, in particular that of Ludwig Chincarini, would seriously affect the business if the departure occurred while the company was starting up. To reduce this risk, the Operating Agreement includes strong penalties for an early departure of the senior management.

7. FINANCIAL STATEMENTS

In the following pages we present several pro forma financial statements: Income Statements, Cash Flow and Balance Sheets. We assume that the company will begin operations in January 2005 and the financial statements cover the five-year period through December 2009.

In calculating the gross sales we assume that the average customer of Financial Artists will join with an account size of \$50,000. We do not explicitly introduce institutional customers in our calculation, since our primary market is the retail investor. However, an institutional account can be considered in terms of its equivalent in number of retail customers. For example, acquiring the business of a trust company with \$50 million dollars in discretionary accounts would be equivalent to 1000 customers.

The financial projections we have made show that Financial Artists breaks even in the fourth quarter of its third year of operations (2007).

Financial Artists

Income Statements													2005
	January	February	March	April	May	June	July	August	September	October	November	December	TOTAL
INCOME													
Gross Sales	\$833.20	\$1,666.40	\$2,499.60	\$3,332.80	\$4,374.30	\$5,415.80	\$6,457.30	\$7,498.80	\$8,540.30	\$9,581.80	\$10,623.30	\$11,456.50	\$72,280.10
(Commissions)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
(Returns and allowances)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Net Sales	\$833.20	\$1,666.40	\$2,499.60	\$3,332.80	\$4,374.30	\$5,415.80	\$6,457.30	\$7,498.80	\$8,540.30	\$9,581.80	\$10,623.30	\$11,456.50	\$72,280.10
(Cost of Goods)	\$8.33	\$16.66	\$25.00	\$33.33	\$43.74	\$54.16	\$64.57	\$74.99	\$85.40	\$95.82	\$106.23	\$114.57	\$722.80
GROSS PROFIT	\$824.87	\$1,649.74	\$2,474.60	\$3,299.47	\$4,330.56	\$5,361.64	\$6,392.73	\$7,423.81	\$8,454.90	\$9,485.98	\$10,517.07	\$11,341.94	\$71,557.30
EXPENSES - General and Administrative													
Salaries and wages	\$20,000.01	\$24,166.68	\$24,166.68	\$32,500.02	\$32,500.02	\$32,500.02	\$32,500.02	\$32,500.02	\$32,500.02	\$32,500.02	\$32,500.02	\$32,500.02	\$360,833.55
Employee benefits	\$1,250.00	\$1,666.67	\$1,666.67	\$2,500.00	\$2,500.00	\$2,500.00	\$2,500.00	\$2,500.00	\$2,500.00	\$2,500.00	\$2,500.00	\$2,500.00	\$27,083.33
Payroll taxes	\$0.00	\$625.00	\$625.00	\$1,875.00	\$1,875.00	\$1,875.00	\$1,875.00	\$1,875.00	\$1,875.00	\$1,875.00	\$1,875.00	\$1,875.00	\$18,125.01
Professional services	\$1,041.67	\$1,041.67	\$1,041.67	\$1,041.67	\$1,041.67	\$1,041.67	\$1,041.67	\$1,041.67	\$1,041.67	\$1,041.67	\$1,041.67	\$1,041.67	\$12,500.00
Rent	\$2,000.00	\$2,000.00	\$2,000.00	\$2,000.00	\$2,000.00	\$2,000.00	\$2,000.00	\$2,000.00	\$2,000.00	\$2,000.00	\$2,000.00	\$2,000.00	\$24,000.00
Maintenance	\$100.00	\$100.00	\$100.00	\$100.00	\$100.00	\$100.00	\$100.00	\$100.00	\$100.00	\$100.00	\$100.00	\$100.00	\$1,200.00
Equipment rental	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$2,400.00
Furniture and equipment purchase	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Depreciation and amortization	\$100.00	\$100.00	\$100.00	\$100.00	\$100.00	\$100.00	\$100.00	\$100.00	\$100.00	\$100.00	\$100.00	\$100.00	\$1,200.00
Insurance	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Interest expenses	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Utilities	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$2,400.00
Telephone service	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$2,400.00
Office supplies	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$2,400.00
Postage and shipping	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$200.00	\$2,400.00
Marketing and advertising	\$6,450.00	\$6,350.00	\$6,350.00	\$6,350.00	\$6,350.00	\$6,350.00	\$6,350.00	\$6,350.00	\$6,350.00	\$6,350.00	\$6,350.00	\$6,350.00	\$76,300.00
Travel	\$500.00	\$500.00	\$500.00	\$500.00	\$500.00	\$500.00	\$500.00	\$500.00	\$500.00	\$500.00	\$500.00	\$500.00	\$6,000.00
Entertainment	\$500.00	\$500.00	\$500.00	\$500.00	\$500.00	\$500.00	\$500.00	\$500.00	\$500.00	\$500.00	\$500.00	\$500.00	\$6,000.00
Technology	\$1,379.17	\$1,379.17	\$1,379.17	\$1,379.17	\$1,379.17	\$1,379.17	\$1,379.17	\$1,379.17	\$1,379.17	\$1,379.17	\$1,379.17	\$1,379.17	\$16,550.00
Other (change title here)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Other (change title here)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
TOTAL EXPENSES	\$34,320.84	\$39,429.18	\$39,429.18	\$49,845.85	\$49,845.85	\$49,845.85	\$49,845.85	\$49,845.85	\$49,845.85	\$49,845.85	\$49,845.85	\$49,845.85	\$561,791.90
Net income before taxes	-\$33,495.98	-\$37,779.44	-\$36,954.58	-\$46,546.38	-\$45,515.30	-\$44,484.21	-\$43,453.13	-\$42,422.04	-\$41,390.96	-\$40,359.87	-\$39,328.79	-\$38,503.92	-\$490,234.60
Provision for taxes on income	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
NET PROFIT	-\$33,495.98	-\$37,779.44	-\$36,954.58	-\$46,546.38	-\$45,515.30	-\$44,484.21	-\$43,453.13	-\$42,422.04	-\$41,390.96	-\$40,359.87	-\$39,328.79	-\$38,503.92	-\$490,234.60

Financial Artists

Income Statements	2006					2007					2008	2009
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	TOTAL	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	TOTAL		
INCOME												
Gross Sales	\$43,743.00	\$53,116.50	\$62,490.00	\$71,863.50	\$231,213.00	\$87,486.00	\$103,108.50	\$121,855.50	\$156,225.00	\$468,675.00	\$750,000.00	\$1,000,000.00
(Commissions)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
(Returns and allowances)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Net Sales	\$43,743.00	\$53,116.50	\$62,490.00	\$71,863.50	\$231,213.00	\$87,486.00	\$103,108.50	\$121,855.50	\$156,225.00	\$468,675.00	\$750,000.00	\$1,000,000.00
(Cost of Goods)	\$437.43	\$531.17	\$624.90	\$718.64	\$2,312.13	\$874.86	\$1,031.09	\$1,218.56	\$1,562.25	\$4,686.75	\$7,500.00	\$10,000.00
GROSS PROFIT	\$43,305.57	\$52,585.34	\$61,865.10	\$71,144.87	\$228,900.87	\$86,611.14	\$102,077.42	\$120,636.95	\$154,662.75	\$463,988.25	\$742,500.00	\$990,000.00
EXPENSES - General and Administrative												
Salaries and wages	\$99,375.00	\$99,375.00	\$99,375.00	\$99,375.00	\$397,500.00	\$101,343.75	\$101,343.75	\$101,343.75	\$101,343.75	\$405,375.00	\$413,646.00	\$422,328.00
Employee benefits	\$7,800.00	\$7,800.00	\$7,800.00	\$7,800.00	\$31,200.00	\$8,112.00	\$8,112.00	\$8,112.00	\$8,112.00	\$32,448.00	\$33,745.92	\$35,095.76
Payroll taxes	\$5,906.25	\$5,906.25	\$5,906.25	\$5,906.25	\$23,625.00	\$6,201.56	\$6,201.56	\$6,201.56	\$6,201.56	\$24,806.25	\$26,046.90	\$27,349.20
Professional services	\$3,125.00	\$3,125.00	\$3,125.00	\$3,125.00	\$12,500.00	\$3,125.00	\$3,125.00	\$3,125.00	\$3,125.00	\$12,500.00	\$12,500.00	\$12,500.00
Rent	\$6,000.00	\$6,000.00	\$6,000.00	\$6,000.00	\$24,000.00	\$6,000.00	\$6,000.00	\$6,000.00	\$6,000.00	\$24,000.00	\$24,000.00	\$24,000.00
Maintenance	\$300.00	\$300.00	\$300.00	\$300.00	\$1,200.00	\$300.00	\$300.00	\$300.00	\$300.00	\$1,200.00	\$1,200.00	\$1,200.00
Equipment rental	\$600.00	\$600.00	\$600.00	\$600.00	\$2,400.00	\$600.00	\$600.00	\$600.00	\$600.00	\$2,400.00	\$2,400.00	\$2,400.00
Furniture and equipment purchase	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Depreciation and amortization	\$300.00	\$300.00	\$300.00	\$300.00	\$1,200.00	\$300.00	\$300.00	\$300.00	\$300.00	\$1,200.00	\$1,200.00	\$1,200.00
Insurance	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Interest expenses	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Utilities	\$600.00	\$600.00	\$600.00	\$600.00	\$2,400.00	\$600.00	\$600.00	\$600.00	\$600.00	\$2,400.00	\$2,400.00	\$2,400.00
Telephone service	\$600.00	\$600.00	\$600.00	\$600.00	\$2,400.00	\$600.00	\$600.00	\$600.00	\$600.00	\$2,400.00	\$2,400.00	\$2,400.00
Office supplies	\$600.00	\$600.00	\$600.00	\$600.00	\$2,400.00	\$600.00	\$600.00	\$600.00	\$600.00	\$2,400.00	\$2,400.00	\$2,400.00
Postage and shipping	\$600.00	\$600.00	\$600.00	\$600.00	\$2,400.00	\$600.00	\$600.00	\$600.00	\$600.00	\$2,400.00	\$2,400.00	\$2,400.00
Marketing and advertising	\$19,050.00	\$19,050.00	\$19,050.00	\$19,050.00	\$76,200.00	\$19,450.00	\$19,450.00	\$19,450.00	\$19,450.00	\$77,800.00	\$77,800.00	\$77,800.00
Travel	\$1,500.00	\$1,500.00	\$1,500.00	\$1,500.00	\$6,000.00	\$1,500.00	\$1,500.00	\$1,500.00	\$1,500.00	\$6,000.00	\$6,000.00	\$6,000.00
Entertainment	\$1,500.00	\$1,500.00	\$1,500.00	\$1,500.00	\$6,000.00	\$1,500.00	\$1,500.00	\$1,500.00	\$1,500.00	\$6,000.00	\$6,000.00	\$6,000.00
Technology	\$3,437.50	\$3,437.50	\$3,437.50	\$3,437.50	\$13,750.00	\$3,562.50	\$3,562.50	\$3,562.50	\$3,562.50	\$14,250.00	\$16,550.00	\$3,750.00
Other (change title here)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Other (change title here)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
TOTAL EXPENSES	\$151,293.75	\$151,293.75	\$151,293.75	\$151,293.75	\$605,175.00	\$154,394.81	\$154,394.81	\$154,394.81	\$154,394.81	\$617,579.25	\$630,688.82	\$629,222.96
Net income before taxes	-\$107,988.18	-\$98,708.42	-\$89,428.65	-\$80,148.89	-\$376,274.13	-\$67,783.67	-\$52,317.40	-\$33,757.87	\$267.94	-\$153,591.00	\$111,811.18	\$360,777.04
Provision for taxes on income	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
NET PROFIT	-\$107,988.18	-\$98,708.42	-\$89,428.65	-\$80,148.89	-\$376,274.13	-\$67,783.67	-\$52,317.40	-\$33,757.87	\$267.94	-\$153,591.00	\$111,811.18	\$360,777.04

Financial Artists

Cash Flow												
2005												
	January	February	March	April	May	June	July	August	September	October	November	December
CASH RECEIPTS												
Income from Sales												
Cash Sales	\$833.20	\$1,666.40	\$2,499.60	\$3,332.80	\$4,374.30	\$5,415.80	\$6,457.30	\$7,498.80	\$8,540.30	\$9,581.80	\$10,623.30	\$11,456.50
Collections	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Total Cash from Sales	\$833.20	\$1,666.40	\$2,499.60	\$3,332.80	\$4,374.30	\$5,415.80	\$6,457.30	\$7,498.80	\$8,540.30	\$9,581.80	\$10,623.30	\$11,456.50
Income from Financing												
Interest Income	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Loan Proceeds	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Total Cash from Financing	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Other Cash Receipts	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
TOTAL CASH RECEIPTS	\$833.20	\$1,666.40	\$2,499.60	\$3,332.80	\$4,374.30	\$5,415.80	\$6,457.30	\$7,498.80	\$8,540.30	\$9,581.80	\$10,623.30	\$11,456.50
CASH DISBURSEMENTS												
Cost of Goods	\$8.33	\$16.66	\$25.00	\$33.33	\$43.74	\$54.16	\$64.57	\$74.99	\$85.40	\$95.82	\$106.23	\$114.57
Operating Expenses	\$34,320.84	\$39,429.18	\$39,429.18	\$49,845.85	\$49,845.85	\$49,845.85	\$49,845.85	\$49,845.85	\$49,845.85	\$49,845.85	\$49,845.85	\$49,845.85
Commissions>Returns & Allowances	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Loan Payments	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Income Tax Payments	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Other Expenses/Equip Purchases	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Reserve	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Owner's Draw	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
TOTAL CASH DISBURSEMENTS	\$34,329.18	\$39,445.84	\$39,454.18	\$49,879.18	\$49,889.60	\$49,900.01	\$49,910.43	\$49,920.84	\$49,931.26	\$49,941.67	\$49,952.09	\$49,960.42
NET CASH FLOW	-\$33,495.98	-\$37,779.44	-\$36,954.58	-\$46,546.38	-\$45,515.30	-\$44,484.21	-\$43,453.13	-\$42,422.04	-\$41,390.96	-\$40,359.87	-\$39,328.79	-\$38,503.92
Opening Cash Balance	\$2,000,000.00	\$1,966,504.02	\$1,928,724.58	\$1,891,770.00	\$1,845,223.62	\$1,799,708.32	\$1,755,224.11	\$1,711,770.98	\$1,669,348.94	\$1,627,957.98	\$1,587,598.11	\$1,548,269.32
Cash Receipts	\$833.20	\$1,666.40	\$2,499.60	\$3,332.80	\$4,374.30	\$5,415.80	\$6,457.30	\$7,498.80	\$8,540.30	\$9,581.80	\$10,623.30	\$11,456.50
Cash Disbursements	\$34,329.18	\$39,445.84	\$39,454.18	\$49,879.18	\$49,889.60	\$49,900.01	\$49,910.43	\$49,920.84	\$49,931.26	\$49,941.67	\$49,952.09	\$49,960.42
ENDING CASH BALANCE	\$1,966,504.02	\$1,928,724.58	\$1,891,770.00	\$1,845,223.62	\$1,799,708.32	\$1,755,224.11	\$1,711,770.98	\$1,669,348.94	\$1,627,957.98	\$1,587,598.11	\$1,548,269.32	\$1,509,765.40

Financial Artists

Cash Flow	2006				2007				2008	2009
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter		
CASH RECEIPTS										
Income from Sales										
Cash Sales	\$43,743.00	\$53,116.50	\$62,490.00	\$71,863.50	\$87,486.00	\$103,108.50	\$121,855.50	\$156,225.00	\$750,000.00	\$1,000,000.00
Collections	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Total Cash from Sales	\$43,743.00	\$53,116.50	\$62,490.00	\$71,863.50	\$87,486.00	\$103,108.50	\$121,855.50	\$156,225.00	\$750,000.00	\$1,000,000.00
Income from Financing										
Interest Income	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Loan Proceeds	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Total Cash from Financing	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Other Cash Receipts	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
TOTAL CASH RECEIPTS	\$43,743.00	\$53,116.50	\$62,490.00	\$71,863.50	\$87,486.00	\$103,108.50	\$121,855.50	\$156,225.00	\$750,000.00	\$1,000,000.00
CASH DISBURSEMENTS										
Cost of Goods	\$437.43	\$531.17	\$624.90	\$718.64	\$874.86	\$1,031.09	\$1,218.56	\$1,562.25	\$7,500.00	\$10,000.00
Operating Expenses	\$151,293.75	\$151,293.75	\$151,293.75	\$151,293.75	\$154,394.81	\$154,394.81	\$154,394.81	\$154,394.81	\$630,688.82	\$629,222.96
Commissions>Returns & Allowances	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Loan Payments	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Income Tax Payments	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Other Expenses/Equip Purchases	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Reserve	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Owner's Draw	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
TOTAL CASH DISBURSEMENTS	\$151,731.18	\$151,824.92	\$151,918.65	\$152,012.39	\$155,269.67	\$155,425.90	\$155,613.37	\$155,957.06	\$638,188.82	\$639,222.96
NET CASH FLOW	-\$107,988.18	-\$98,708.42	-\$89,428.65	-\$80,148.89	-\$67,783.67	-\$52,317.40	-\$33,757.87	\$267.94	\$111,811.18	\$360,777.04
Opening Cash Balance	\$1,509,765.40	\$1,401,777.22	\$1,303,068.81	\$1,213,640.16	\$1,133,491.27	\$1,065,707.60	\$1,013,390.20	\$979,632.33	\$979,900.27	\$1,091,711.45
Cash Receipts	\$43,743.00	\$53,116.50	\$62,490.00	\$71,863.50	\$87,486.00	\$103,108.50	\$121,855.50	\$156,225.00	\$750,000.00	\$1,000,000.00
Cash Disbursements	\$151,731.18	\$151,824.92	\$151,918.65	\$152,012.39	\$155,269.67	\$155,425.90	\$155,613.37	\$155,957.06	\$638,188.82	\$639,222.96
ENDING CASH BALANCE	\$1,401,777.22	\$1,303,068.81	\$1,213,640.16	\$1,133,491.27	\$1,065,707.60	\$1,013,390.20	\$979,632.33	\$979,900.27	\$1,091,711.45	\$1,452,488.49

Balance Sheet

Financial Artists

First Quarter
2005

ASSETS

Current Assets

Cash	\$1,891,770.00	
Accounts Receivable	\$0.00	
Inventory	\$0.00	
Prepaid Expenses	\$0.00	
Total Current Assets		<u>\$1,891,770.00</u>

Fixed Assets

Land	\$0.00	
Buildings	\$0.00	
Furniture/Equipment	\$57,237.50	
Fixtures	\$0.00	
(Less Accumulated Depreciation)	\$300.00	
Total Fixed Assets		<u>\$56,937.50</u>

Other Assets

\$0.00

TOTAL ASSETS

\$1,948,707.50

LIABILITIES

Current Liabilities

Accounts Payable	\$0.00	
Accrued Payroll	\$0.00	
Taxes Payable	\$0.00	
Short-Term Notes Payable	\$0.00	
Total Current Liabilities		<u>\$0.00</u>

Long-Term Liabilities

Long-Term Notes Payable	\$0.00	
Total Long-Term Liabilities		<u>\$0.00</u>

NET WORTH

Shareholder's Equity	\$0.00	
Retained Earnings	\$1,948,707.50	
Total Net Worth		<u>\$1,948,707.50</u>

TOTAL LIABILITIES AND NET WORTH

\$1,948,707.50

Financial Artists

Balance Sheet

Financial Artists
 Second Quarter
 2005

ASSETS

Current Assets

Cash	\$1,755,224.11	
Accounts Receivable	\$0.00	
Inventory	\$0.00	
Prepaid Expenses	\$0.00	
Total Current Assets		\$1,755,224.11

Fixed Assets

Land	\$0.00	
Buildings	\$0.00	
Furniture/Equipment	\$60,475.00	
Fixtures	\$0.00	
(Less Accumulated Depreciation)	\$600.00	
Total Fixed Assets		\$59,875.00

Other Assets

\$0.00

TOTAL ASSETS

\$1,815,099.11

LIABILITIES

Current Liabilities

Accounts Payable	\$0.00	
Accrued Payroll	\$0.00	
Taxes Payable	\$0.00	
Short-Term Notes Payable	\$0.00	
Total Current Liabilities		\$0.00

Long-Term Liabilities

Long-Term Notes Payable	\$0.00	
Total Long-Term Liabilities		\$0.00

NET WORTH

Shareholder's Equity	\$0.00	
Retained Earnings	\$1,815,099.11	
Total Net Worth		\$1,815,099.11

TOTAL LIABILITIES AND NET WORTH

\$1,815,099.11

Financial Artists

Balance Sheet

Financial Artists

Third Quarter
2005

ASSETS

Current Assets

Cash	\$1,627,957.98	
Accounts Receivable	\$0.00	
Inventory	\$0.00	
Prepaid Expenses	\$0.00	
Total Current Assets		\$1,627,957.98

Fixed Assets

Land	\$0.00	
Buildings	\$0.00	
Furniture/Equipment	\$63,712.50	
Fixtures	\$0.00	
(Less Accumulated Depreciation)	\$900.00	
Total Fixed Assets		\$62,812.50

Other Assets

\$0.00

TOTAL ASSETS

\$1,690,770.48

LIABILITIES

Current Liabilities

Accounts Payable	\$0.00	
Accrued Payroll	\$0.00	
Taxes Payable	\$0.00	
Short-Term Notes Payable	\$0.00	
Total Current Liabilities		\$0.00

Long-Term Liabilities

Long-Term Notes Payable	\$0.00	
Total Long-Term Liabilities		\$0.00

NET WORTH

Shareholder's Equity	\$0.00	
Retained Earnings	\$1,690,770.48	
Total Net Worth		\$1,690,770.48

TOTAL LIABILITIES AND NET WORTH

\$1,690,770.48

Financial Artists

Balance Sheet

Financial Artists
Fourth Quarter
2005

ASSETS

Current Assets

Cash	\$1,509,765.40	
Accounts Receivable	<u>\$0.00</u>	
Inventory	<u>\$0.00</u>	
Prepaid Expenses	<u>\$0.00</u>	
Total Current Assets		<u>\$1,509,765.40</u>

Fixed Assets

Land	<u>\$0.00</u>	
Buildings	<u>\$0.00</u>	
Furniture/Equipment	<u>\$66,950.00</u>	
Fixtures	<u>\$0.00</u>	
(Less Accumulated Depreciation)	<u>\$1,200.00</u>	
Total Fixed Assets		<u>\$65,750.00</u>

Other Assets

\$0.00

TOTAL ASSETS

\$1,575,515.40

LIABILITIES

Current Liabilities

Accounts Payable	<u>\$0.00</u>	
Accrued Payroll	<u>\$0.00</u>	
Taxes Payable	<u>\$0.00</u>	
Short-Term Notes Payable	<u>\$0.00</u>	
Total Current Liabilities		<u>\$0.00</u>

Long-Term Liabilities

Long-Term Notes Payable	<u>\$0.00</u>	
Total Long-Term Liabilities		<u>\$0.00</u>

NET WORTH

Shareholder's Equity	<u>\$0.00</u>	
Retained Earnings	<u>\$1,575,515.40</u>	
Total Net Worth		<u>\$1,575,515.40</u>

TOTAL LIABILITIES AND NET WORTH

\$1,575,515.40

Financial Artists

Balance Sheet

Financial Artists
2006

ASSETS

Current Assets

Cash	\$1,133,491.27	
Accounts Receivable	<u>\$0.00</u>	
Inventory	<u>\$0.00</u>	
Prepaid Expenses	<u>\$0.00</u>	
Total Current Assets		<u>\$1,133,491.27</u>

Fixed Assets

Land	<u>\$0.00</u>	
Buildings	<u>\$0.00</u>	
Furniture/Equipment	<u>\$77,100.00</u>	
Fixtures	<u>\$0.00</u>	
(Less Accumulated Depreciation)	<u>\$2,400.00</u>	
Total Fixed Assets		<u>\$74,700.00</u>

Other Assets

\$0.00

TOTAL ASSETS

\$1,208,191.27

LIABILITIES

Current Liabilities

Accounts Payable	<u>\$0.00</u>	
Accrued Payroll	<u>\$0.00</u>	
Taxes Payable	<u>\$0.00</u>	
Short-Term Notes Payable	<u>\$0.00</u>	
Total Current Liabilities		<u>\$0.00</u>

Long-Term Liabilities

Long-Term Notes Payable	<u>\$0.00</u>	
Total Long-Term Liabilities		<u>\$0.00</u>

NET WORTH

Shareholder's Equity	<u>\$0.00</u>	
Retained Earnings	<u>\$1,208,191.27</u>	
Total Net Worth		<u>\$1,208,191.27</u>

TOTAL LIABILITIES AND NET WORTH

\$1,208,191.27

Financial Artists

Balance Sheet

Financial Artists
2007

ASSETS

Current Assets

Cash	\$979,900.27	
Accounts Receivable	<u>\$0.00</u>	
Inventory	<u>\$0.00</u>	
Prepaid Expenses	<u>\$0.00</u>	
Total Current Assets		<u>\$979,900.27</u>

Fixed Assets

Land	<u>\$0.00</u>	
Buildings	<u>\$0.00</u>	
Furniture/Equipment	<u>\$87,750.00</u>	
Fixtures	<u>\$0.00</u>	
(Less Accumulated Depreciation)	<u>\$3,600.00</u>	
Total Fixed Assets		<u>\$84,150.00</u>

Other Assets

\$0.00

TOTAL ASSETS

\$1,064,050.27

LIABILITIES

Current Liabilities

Accounts Payable	<u>\$0.00</u>	
Accrued Payroll	<u>\$0.00</u>	
Taxes Payable	<u>\$0.00</u>	
Short-Term Notes Payable	<u>\$0.00</u>	
Total Current Liabilities		<u>\$0.00</u>

Long-Term Liabilities

Long-Term Notes Payable	<u>\$0.00</u>	
Total Long-Term Liabilities		<u>\$0.00</u>

NET WORTH

Shareholder's Equity	<u>\$0.00</u>	
Retained Earnings	<u>\$1,064,050.27</u>	
Total Net Worth		<u>\$1,064,050.27</u>

TOTAL LIABILITIES AND NET WORTH

\$1,064,050.27

Financial Artists

Balance Sheet

Financial Artists
2008

ASSETS

Current Assets

Cash	\$1,091,711.45	
Accounts Receivable	\$0.00	
Inventory	\$0.00	
Prepaid Expenses	\$0.00	
Total Current Assets		<u>\$1,091,711.45</u>

Fixed Assets

Land	\$0.00	
Buildings	\$0.00	
Furniture/Equipment	\$100,700.00	
Fixtures	\$0.00	
(Less Accumulated Depreciation)	\$4,800.00	
Total Fixed Assets		<u>\$95,900.00</u>

Other Assets

\$0.00

TOTAL ASSETS

\$1,187,611.45

LIABILITIES

Current Liabilities

Accounts Payable	\$0.00	
Accrued Payroll	\$0.00	
Taxes Payable	\$0.00	
Short-Term Notes Payable	\$0.00	
Total Current Liabilities		<u>\$0.00</u>

Long-Term Liabilities

Long-Term Notes Payable	\$0.00	
Total Long-Term Liabilities		<u>\$0.00</u>

NET WORTH

Shareholder's Equity	\$0.00	
Retained Earnings	\$1,187,611.45	
Total Net Worth		<u>\$1,187,611.45</u>

TOTAL LIABILITIES AND NET WORTH

\$1,187,611.45

Financial Artists

Balance Sheet

Financial Artists
2009

ASSETS

Current Assets

Cash	\$1,452,488.49	
Accounts Receivable	<u>\$0.00</u>	
Inventory	<u>\$0.00</u>	
Prepaid Expenses	<u>\$0.00</u>	
Total Current Assets		<u>\$1,452,488.49</u>

Fixed Assets

Land	<u>\$0.00</u>	
Buildings	<u>\$0.00</u>	
Furniture/Equipment	<u>\$100,850.00</u>	
Fixtures	<u>\$0.00</u>	
(Less Accumulated Depreciation)	<u>\$6,000.00</u>	
Total Fixed Assets		<u>\$94,850.00</u>

Other Assets

\$0.00

TOTAL ASSETS

\$1,547,338.49

LIABILITIES

Current Liabilities

Accounts Payable	<u>\$0.00</u>	
Accrued Payroll	<u>\$0.00</u>	
Taxes Payable	<u>\$0.00</u>	
Short-Term Notes Payable	<u>\$0.00</u>	
Total Current Liabilities		<u>\$0.00</u>

Long-Term Liabilities

Long-Term Notes Payable	<u>\$0.00</u>	
Total Long-Term Liabilities		<u>\$0.00</u>

NET WORTH

Shareholder's Equity	<u>\$0.00</u>	
Retained Earnings	<u>\$1,547,338.49</u>	
Total Net Worth		<u>\$1,547,338.49</u>

TOTAL LIABILITIES AND NET WORTH

\$1,547,338.49