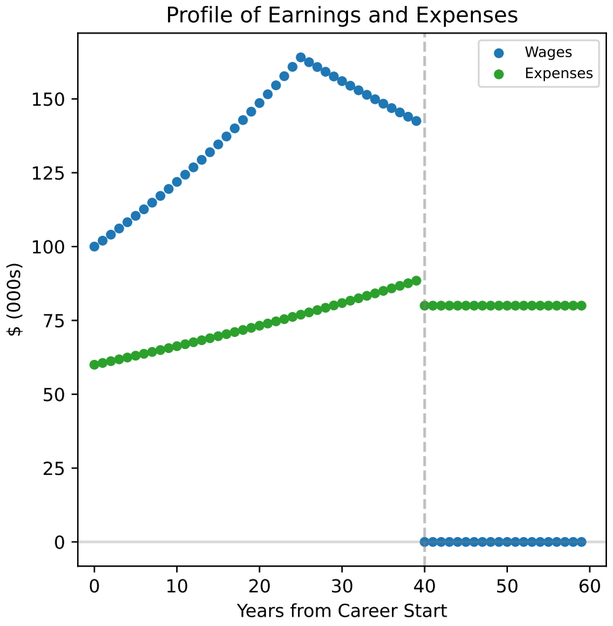
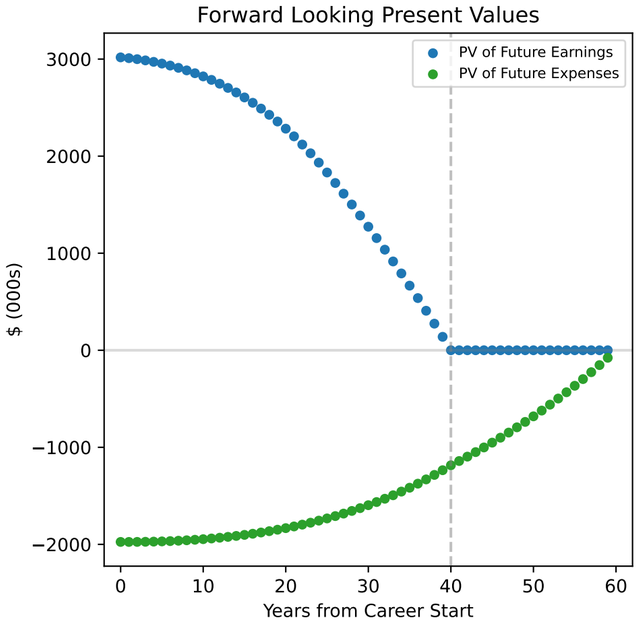
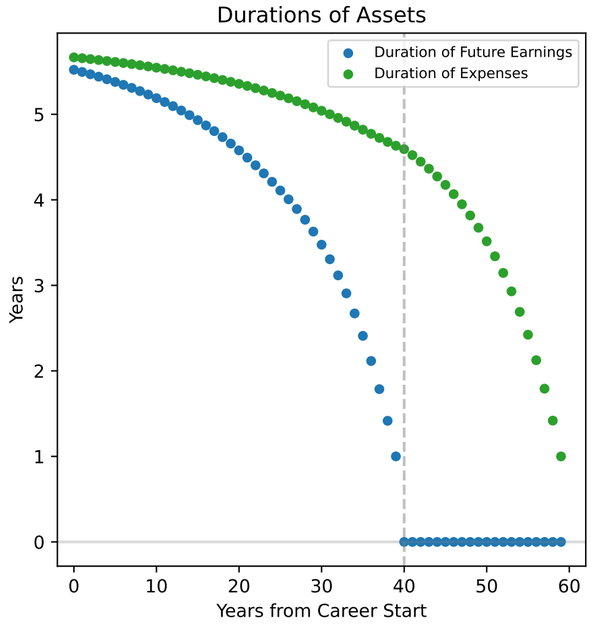
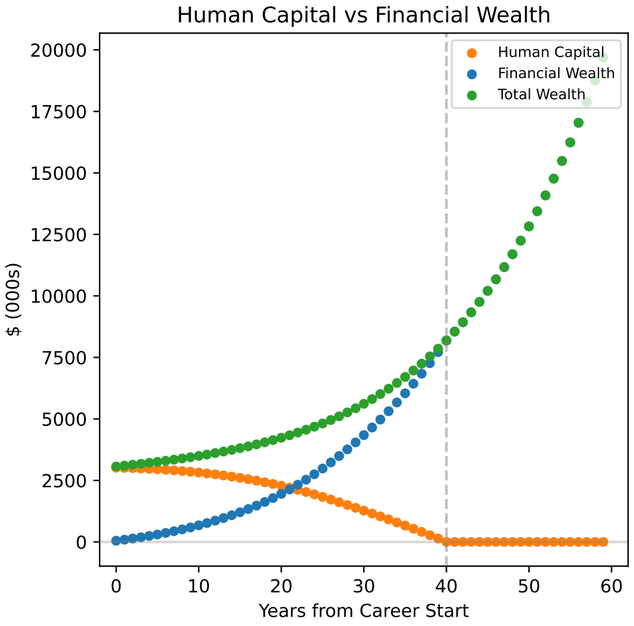
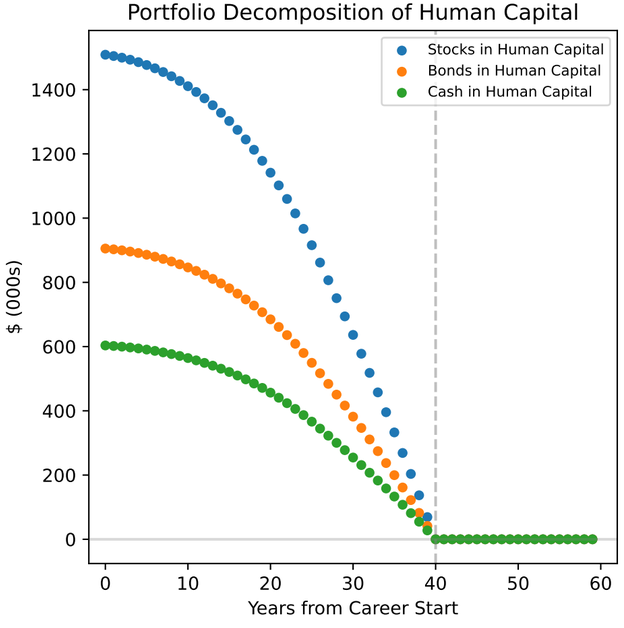
Lifecycle Investment Strategy - Median Path Analysis

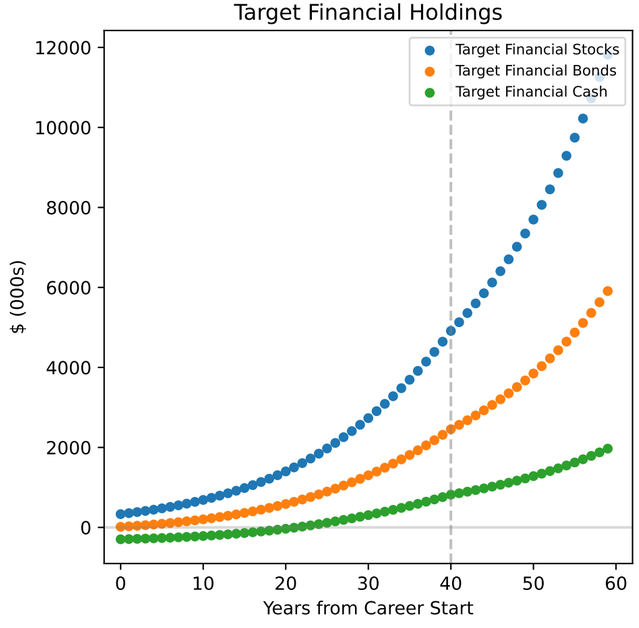


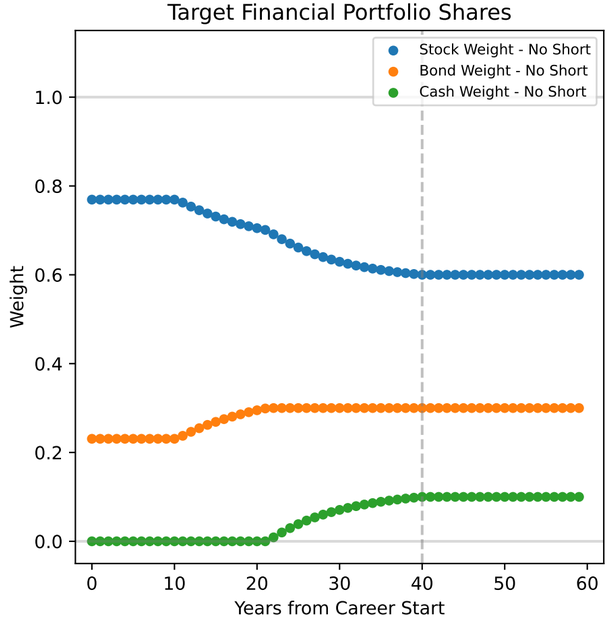


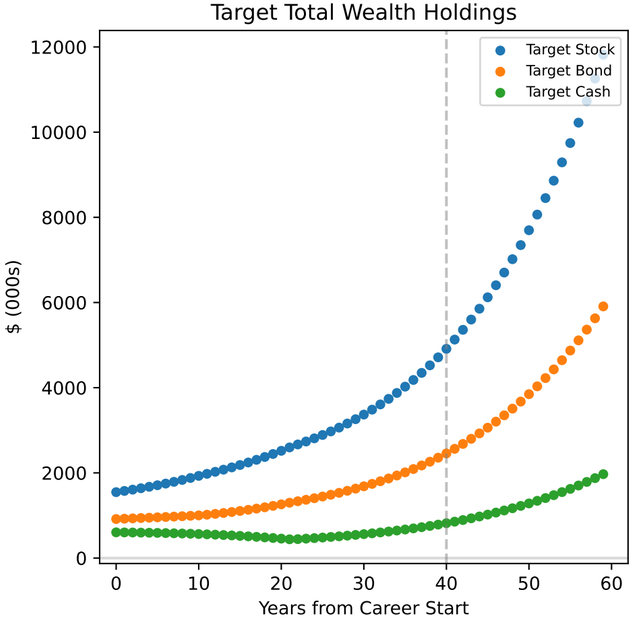




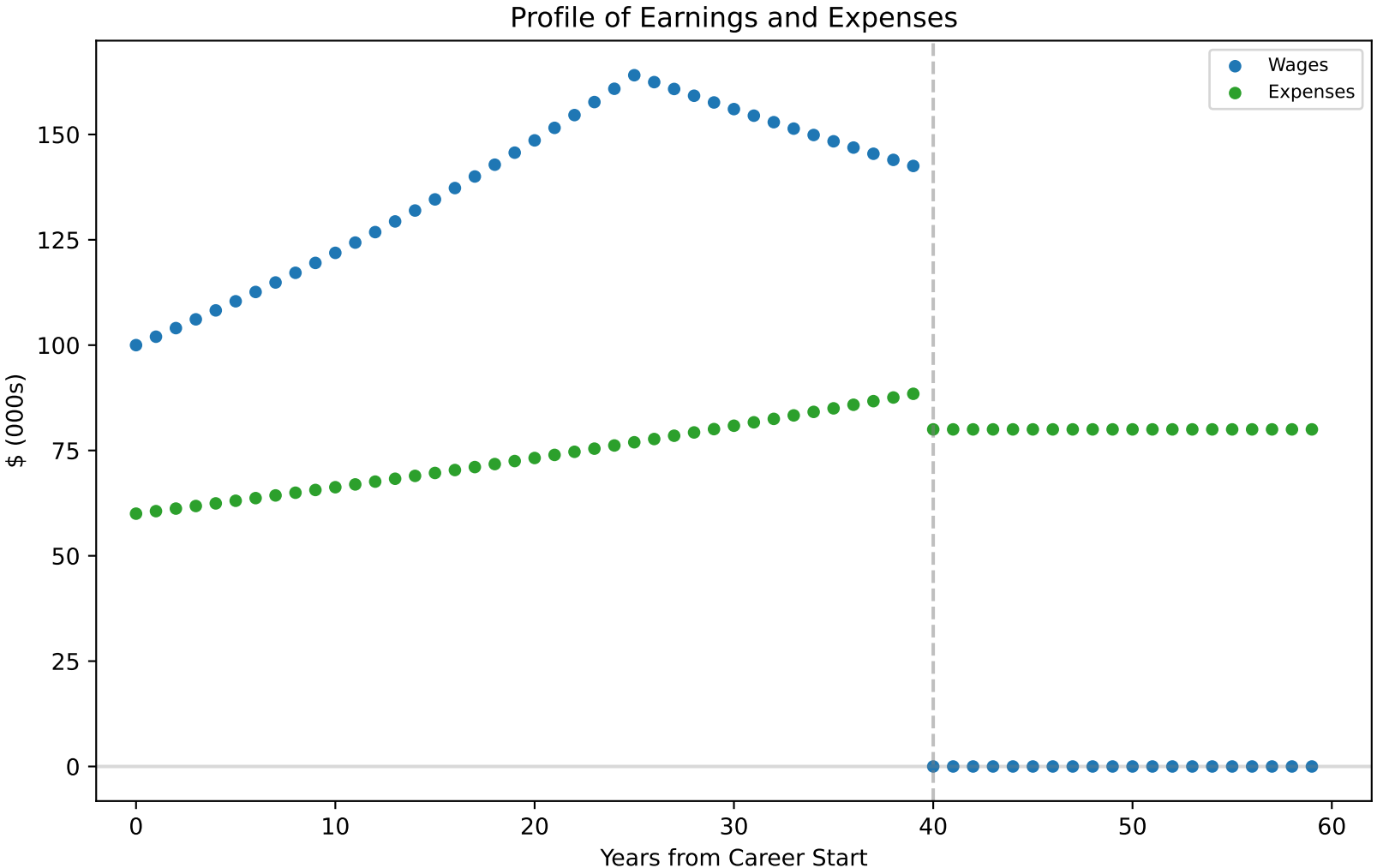




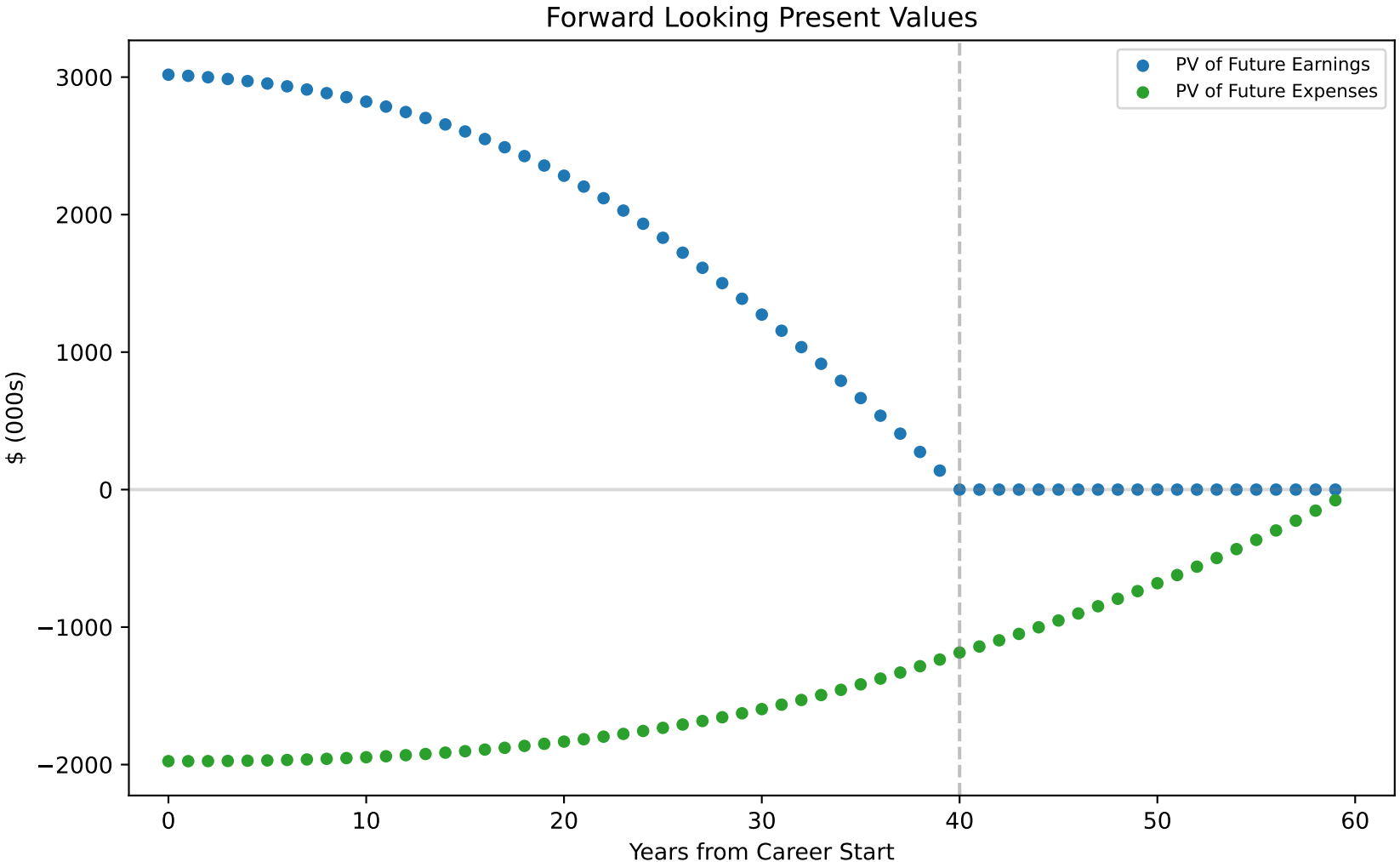




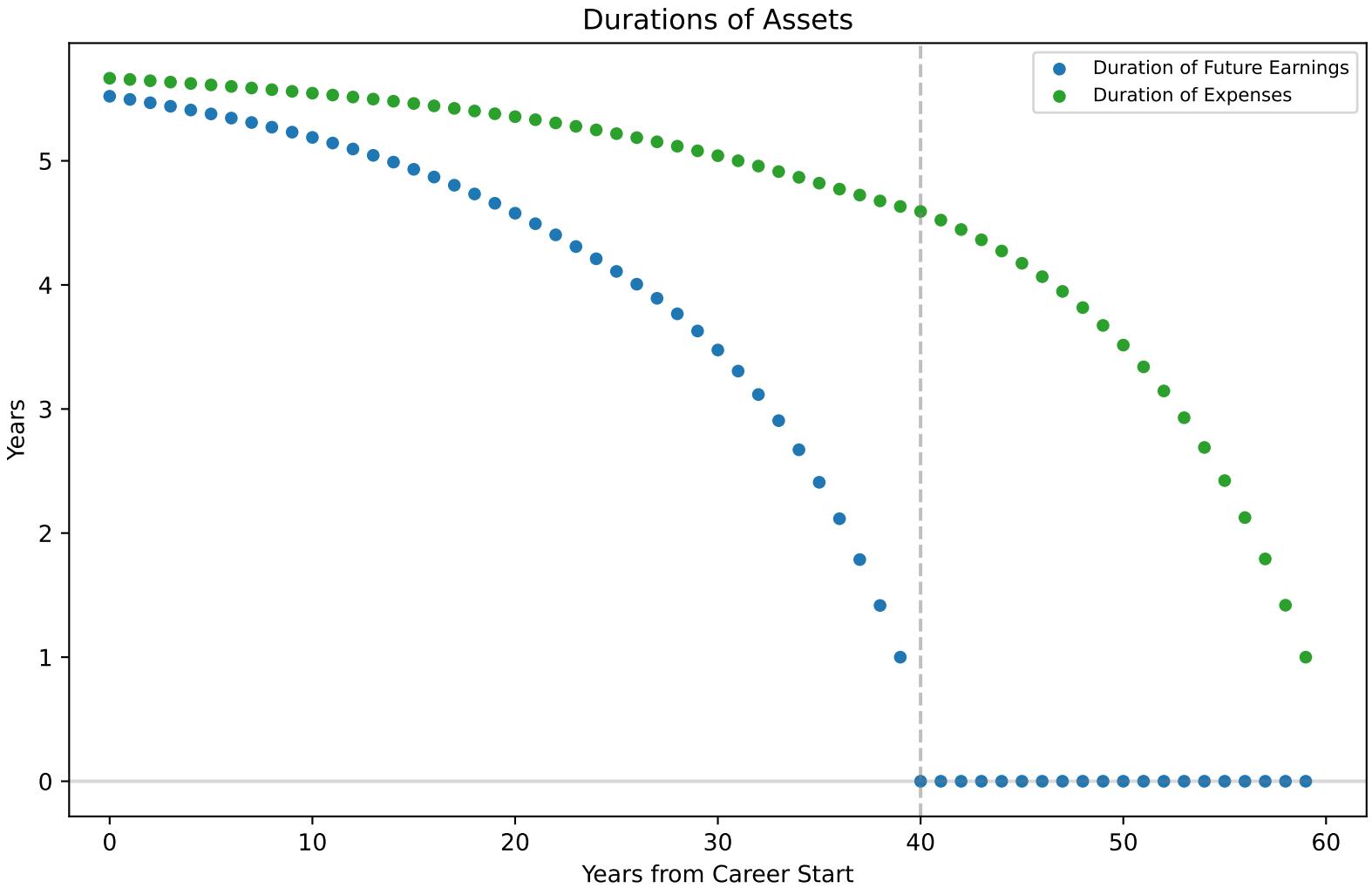
Earnings and Expenses Profile



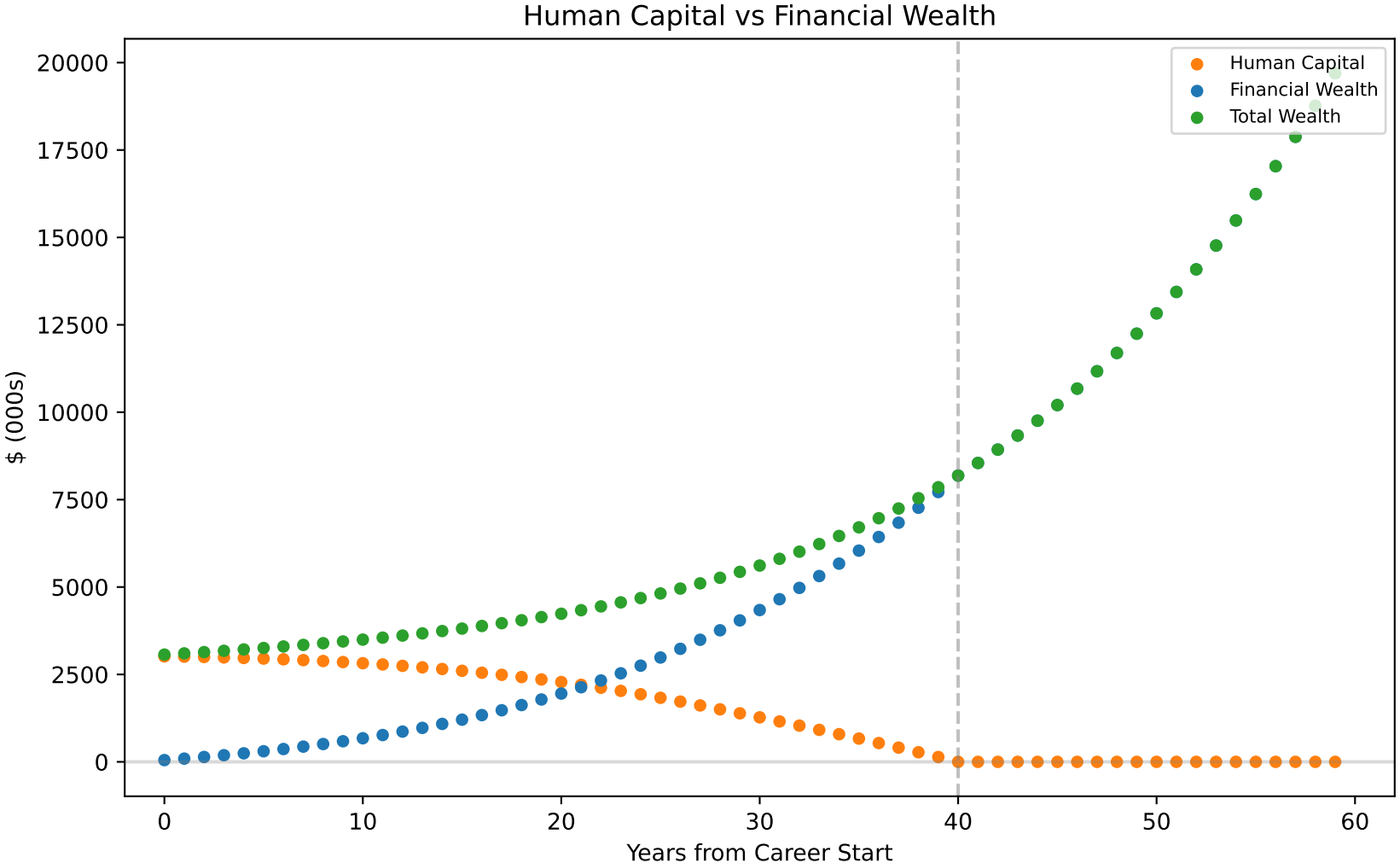
Forward Looking Present Values



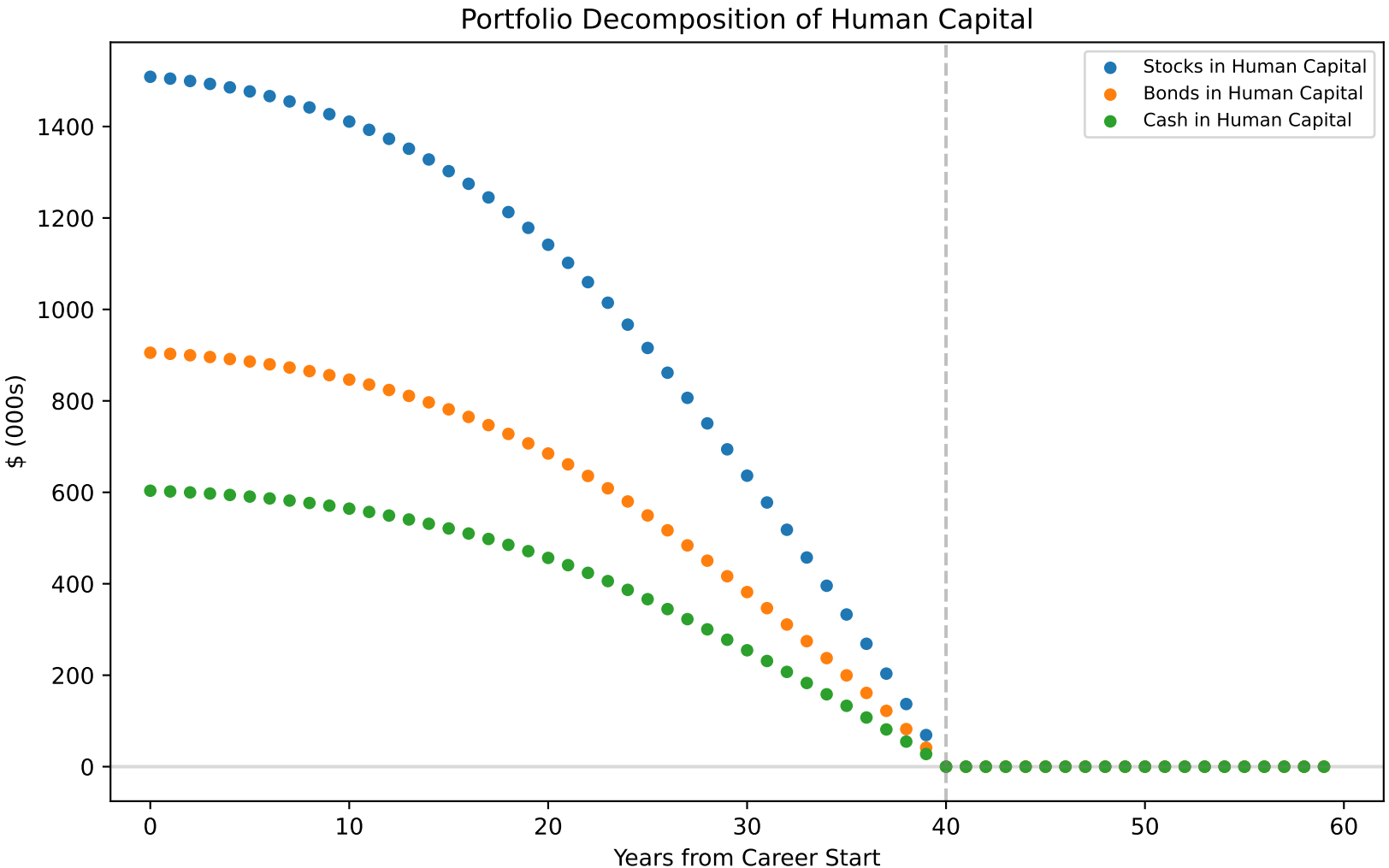
Durations of Assets



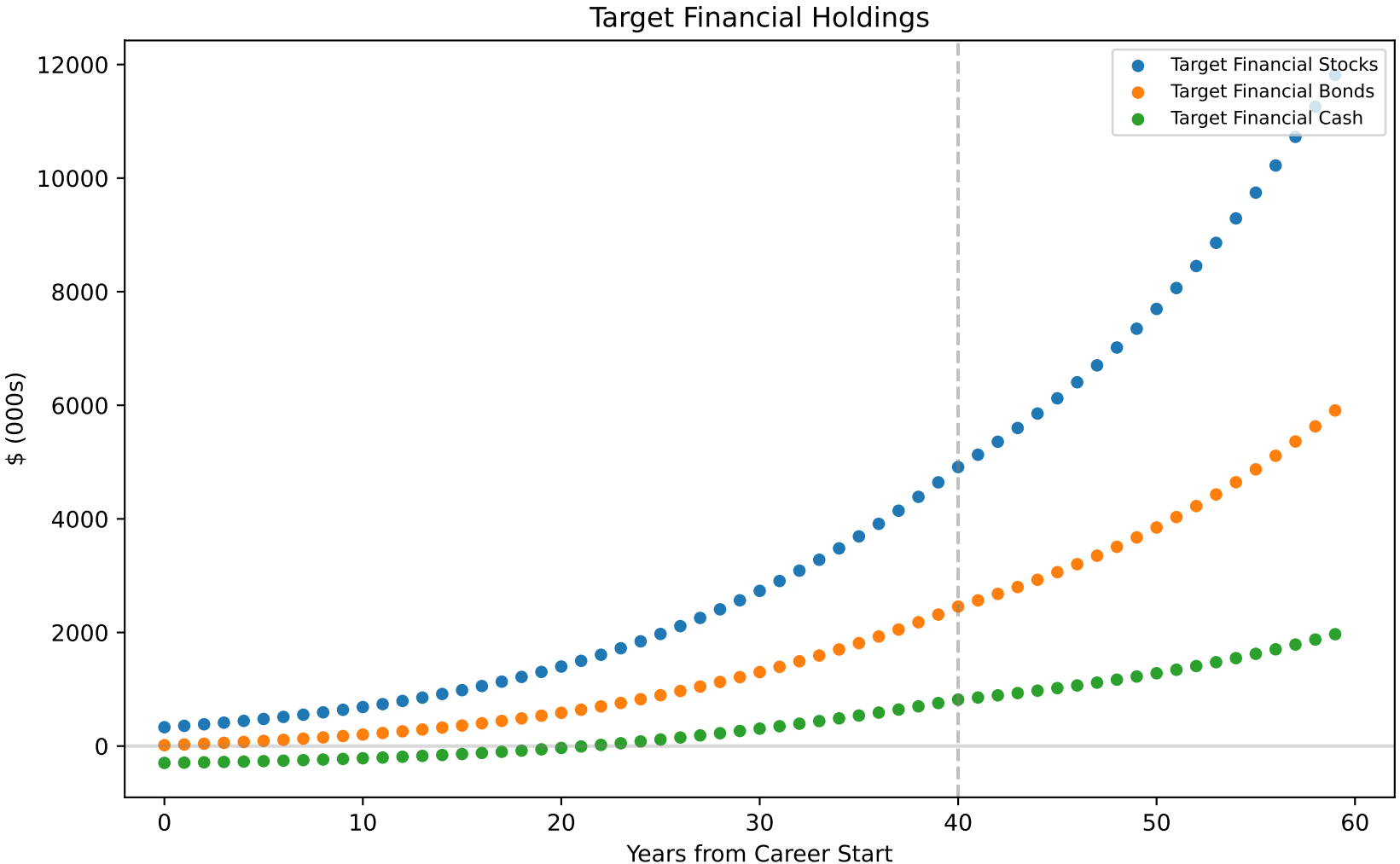
Human Capital vs Financial Wealth



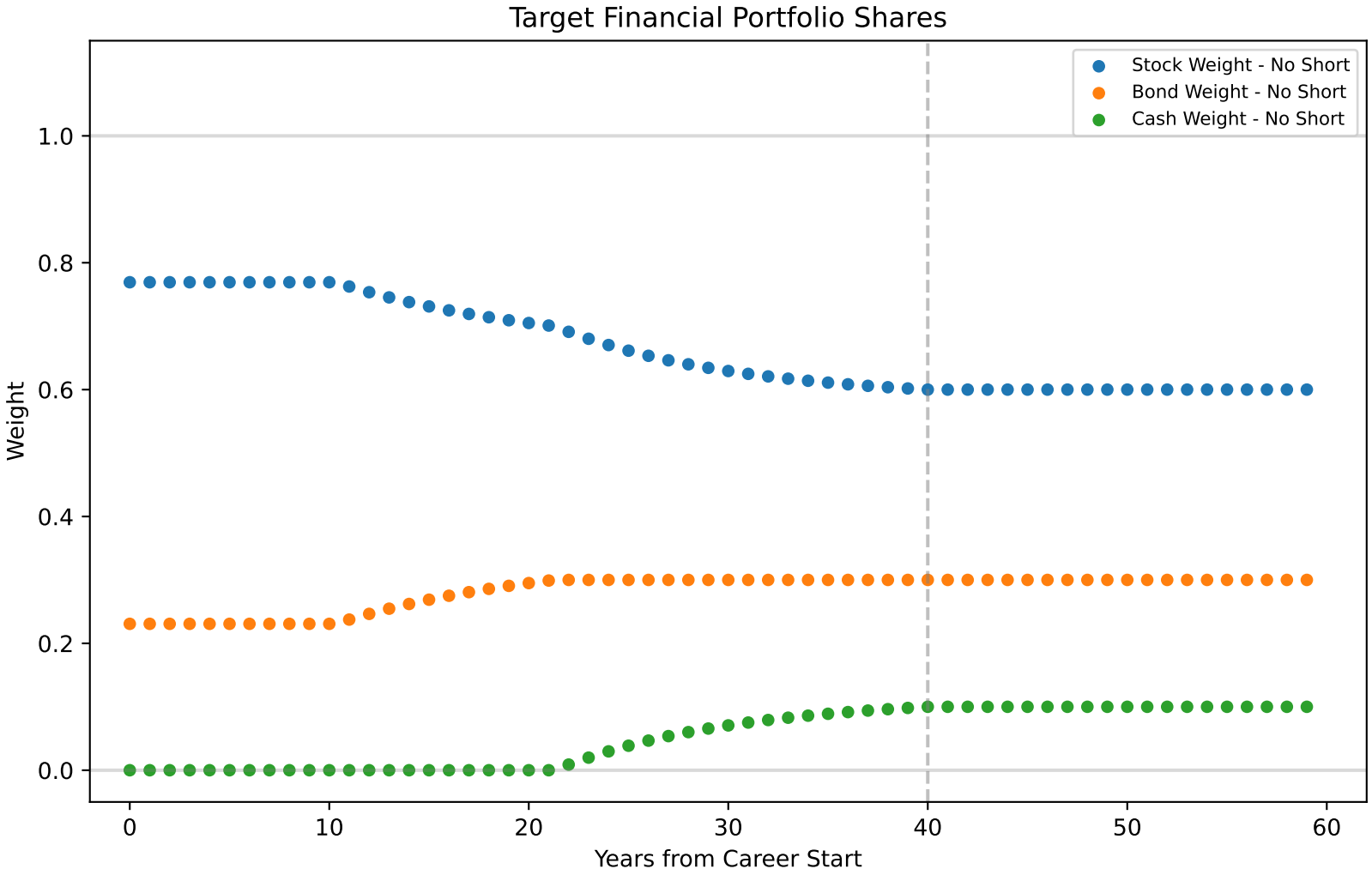
Portfolio Decomposition of Human Capital



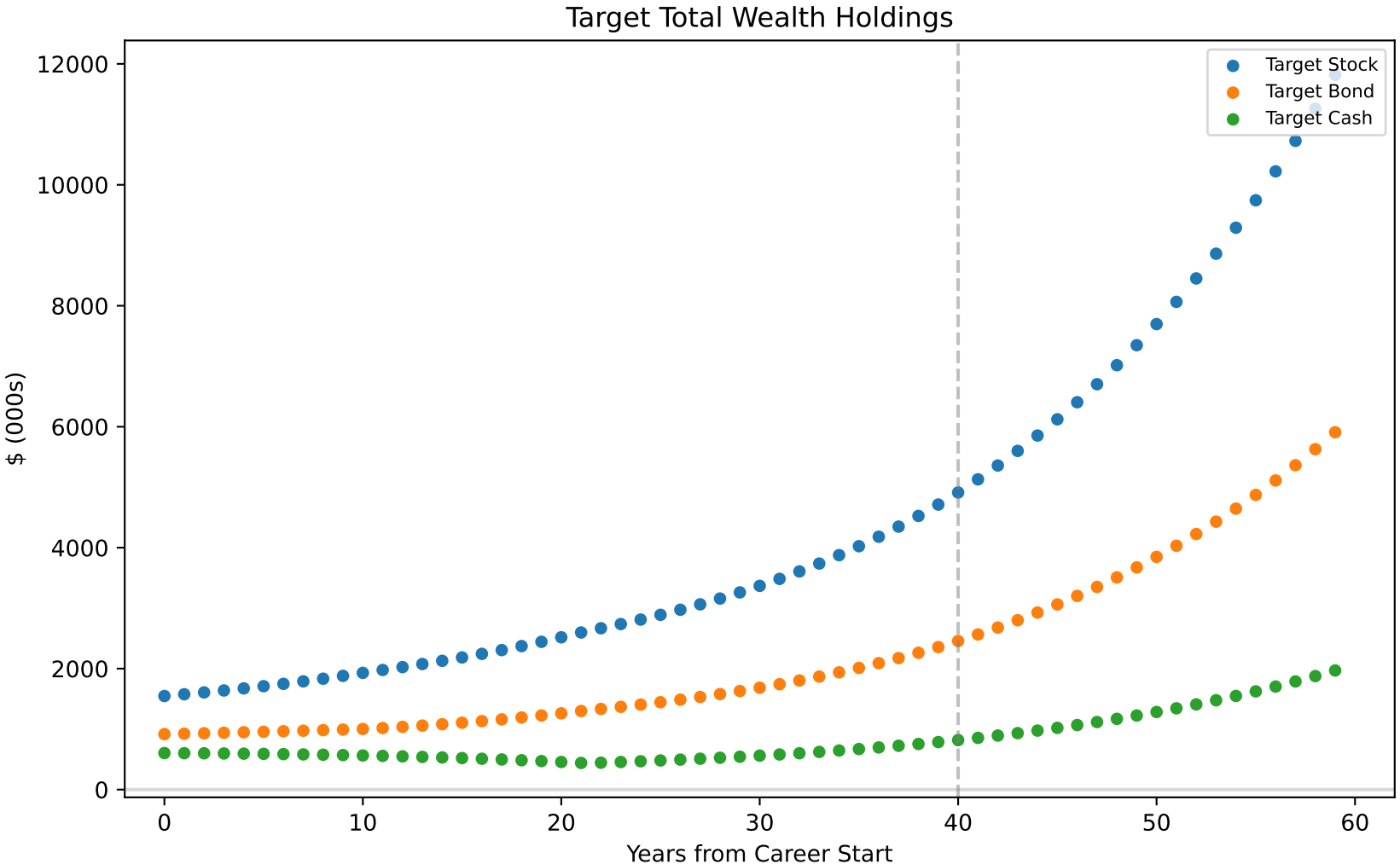
Target Financial Holdings



Target Financial Portfolio Shares



Target Total Wealth Holdings



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Lifecycle Investment Strategy Parameters
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Age Parameters:
  - Career Start: 25
  - Retirement Age: 65
  - Planning Horizon: 85

Income Parameters:
  - Initial Earnings: $100k
  - Earnings Growth: 2.0%
  - Peak Earnings Age: 50

Expense Parameters:
  - Base Expenses: $60k
  - Retirement Expenses: $80k

Human Capital Betas:
  - Stock Beta: 0.50
  - Bond Beta: 0.30
  - Cash Beta: 0.20

Target Total Wealth Allocation:
  - Stocks: 60%
  - Bonds: 30%
  - Cash: 10%

Economic Parameters:
  - Risk-Free Rate: 3.0%
  - Equity Risk Premium: 4.0%
  - Rate Persistence (phi): 0.85

Key Insights:
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1. Human capital dominates early in life, making total wealth
   equity-like even with conservative financial portfolio.

2. Financial portfolio should start with HIGH stock allocation
   (even 100%) to offset bond-like human capital.

3. As human capital depletes near retirement, financial
   portfolio naturally shifts toward target allocation.

4. Duration matching becomes critical in retirement when
   human capital is exhausted.
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