

Primer on InvestWELL Financial model portfolios

Q: InvestWELL Financial initiated four simple portfolios on October 31, 2005. What are the expected benefits for your clients?

A: We have constructed simple diversified portfolios which will be measured against the most recognizable indices and benchmarks. We intend to show that a simple strategy supported by credible research can be very effective and successful.

Why did you choose to use ETFs (Exchange Traded Funds) only?

A: We used ETFs for three reasons:

1. Return potential and risk reduction i.e. exposure and diversification with respect to different sectors, geographical regions and currencies
2. Cost and tax efficiency
3. ETFs help investors focus on the long term picture. This eliminates a need for frequent trading and chasing investment fads allowing an investor to pursue other activities and enjoy life

Q: What are the return-risk profiles of these four portfolios?

A: The return-risk profiles range from conservative to aggressive:

1. Simple 40/60 (target: 40% equity, 60% fixed income)
2. Simple 60/40 (target: 60% equity, 40% fixed income)
3. Simple 80/20 (target: 80% equity, 20% fixed income)
4. Simple 100 (target: 100% equity) long/short opportunity

Q: What is the specific equity and fixed income breakdown?

A: The equity portion in all portfolios is divided into 60% EFA and 40% VTI while the fixed income portion consists of AGG. To clarify further,

- EFA stands for Morgan Stanley Index that covers Europe, Australia and Far East
- VTI covers Wilshire 5000 Total US Market Index
- AGG is a symbol for Lehman Aggregate Bond

Some of our investments are international but our calculations are based on US currency because of the international recognition of the US dollar as well as the size and importance of the US economy.

Q: You seem to favor asset-class investing yet you excluded certain asset classes from the four portfolios. Why?

A: We have excluded certain asset classes for the following reasons:

- Alternative Assets - Real Estate. We believe that real estate investments should normally be a part of every portfolio due to its return potential and risk reduction characteristics (i.e. diversification benefits due to low correlations with other asset classes). At the present time, however, we feel that real estate is abnormally overvalued and we have excluded it from our portfolios. We will consider including real estate ETFs once market conditions become favorable

- Alternative Assets - Hedge Funds. In the future, we may consider including some hedge funds if they can effectively add value to portfolios and their management fees become lower
- Cash (or near cash). At present, it is not a part of the portfolios because of the low return potential and high liquidity of other asset classes that are included in the portfolio.

Q: How will you compare your model portfolios?

A: We will compare our four model portfolios against benchmarks represent the most efficient and widely followed indices (e.g. Dow Jones Industrial, S&P 500 and TSX – Canada). Also, it includes four different asset classes in a form of ETFs (Exchange Traded Funds): equity (EFA and VTI), fixed income (AGG), real estate (IYR) and cash (SHY). Finally, our benchmarks include three of the best and largest balanced mutual funds (e.g. FBALX, FFALX and VBINX). In short, we are going to compare our simple portfolios against the top indices, four asset classes and top balanced mutual funds.

NAME	TICKER SYMBOL
Dow Jones Industrial	INDU
S&P 500	SPX
ishares MSCI EAFE	EFA
Vanguard Total Stock	VTI
ishares Lehman Aggr. Bond	AGG
ishares Real Estate	IYR
ishares Lehman 1-3 yr Treasury	SHY
Fidelity Balanced	FBALX
Franklin Templ. Founding	FFALX
Vanguard Balanced	VBINX
Canadian\$ – TSX Index	TSX

Re: table 1. We will compare our model portfolios in three categories:

1. Returns (higher is more desirable)
2. Risks as defined by volatility (lower is more desirable), which means that with lower volatility investors sleep better at night
3. Risk-adjusted returns (higher is more desirable). This would be the most optimal measure which indicates that an investor is investing well and sleeping well.

Table 1.

	Return (one week) %	Return (since inception) %	Risk as volatility (since inception) %	Risk-adjusted Return (since inception)	Oct. 31, 2005
Dow Jones					10440.07
S&P 500					1207.01
EFA					56.25
VTI					118.50
AGG					99.85
IYR					62.30
SHY					80.10
FBALX					17.97
FFALX					12.46
VBINX					19.38
Simple 40/60					92.55
Simple 60/40					88.81
Simple 80/20					85.06
Simple 100					81.31

Re: table 2. In investing we strive to achieve high returns, low risk and keep our costs down. As shown in the attached table, our model portfolios have very low annual costs.

Table 2.

Total Costs Per Year %	
EFA	0.35
VTI	0.13
AGG	0.2
IYR	0.6
SHY	0.15
FBALX	0.64
FFALX	0.6
VBINX	0.2
Simple 40/60	0.22 + 0.2 (initial commission)
Simple 60/40	0.24 + 0.2 (initial commission)
Simple 80/20	0.25 + 0.2 (initial commission)
Simple 100	0.26 + 0.2 (initial commission)

Canadian Portfolios

Re: table 3. This table will appeal to our Canadian clients who wish to compare our model portfolio against the Toronto Stock Exchange index. The same criteria apply as in the description for table 1.

Table 3. Canadian Portfolio

	Return (one week) %	Return (since inception) %	Risk as volatility (since inception) %	Return (risk adjusted since inception)	Oct. 31, 2005
TSX – Canada					10336.4
XIN – MSCI EAFE					22.29
XSP – S&P 500					15.00
XBB – Fixed Income					29.12
Simple 40/60					25.30
Simple 60/40					23.34
Simple 80/20					21.39
Simple 100					19.43

Re: table 4. As shown in the attached table, our model portfolios have very low annual costs.

Table 4. Canadian Portfolio

Total Costs Per Year %	
XIN – MSCI EAFE	0.15
XSP – S&P 500	0.15
XBB – Fixed Income	0.30
Simple 40/60	0.24 + 0.3 (initial commission)
Simple 60/40	0.21 + 0.3 (initial commission)
Simple 80/20	0.18 + 0.3 (initial commission)
Simple 100	0.15 + 0.3 (initial commission)