

# Agenda For RMC & 3MC Financial Groups

Joint Session Of March 15, 2010

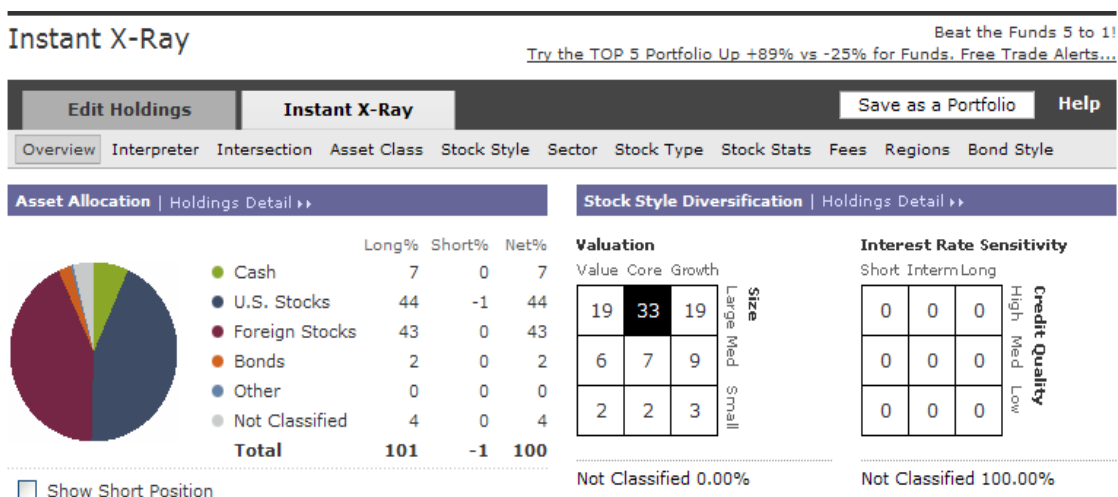
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- 1 Provide guidance on availability/use of Internet information
- 2 Carl Scala will start with Morningstar's X-Ray Service
- 3 Next the Financial Industry Regulatory Authority (FINRA)
- 4 And finally an ETF guide from Stock-Encyclopedia.com
- 5 I will then discuss some Internet sites I use for investing
- 6 My favorite Yahoo-finance.com and what it contains
- 7 Use of Yahoo interactive charts for restructuring studies
- 8 Vanguard.com; Finance.Google.com/finance; AAll.com
- 9 Google.com to find where you get more information
- 10 Number of years to double portfolio value vs. annual return
- 11 Table for annual return, investment period & increased value
- 12 Next scheduled 3MC session on April 19, 2010
- 13 Next scheduled RMC session on April 20, 2010

# Morningstar.com's X-Ray Service

## ❖ Morningstar

- **Morningstar** provides detailed analysis and ratings of mutual funds and stocks. Their Mutual Fund Reports are available at many Libraries and also on-line.
  - **Morningstar's** on-line service is two tiered.
    - Fee based membership: Premier Service
    - Some aspects are available free, but require registration.
      - ◆ Registration.
        - E-mail address.
        - Password.
- **Instant X-Ray Service**
  - This service analyzes, in detail and in depth, the stock holding of a mutual fund and stock portfolio with comparisons to the S&P 500.
    - **Reports:**
      - ◆ Asset Allocation
      - ◆ Style Box Diversification
      - ◆ Stock Sectors
      - ◆ Stock Type
      - ◆ World Regions
      - ◆ Fees and Expenses
      - ◆ Stock Stats
      - ◆ Top 10 Holdings
    - **Accessing Instant X-Ray.**
      - >*Morningstar.com*>*Tools*>*Instant X-Ray*>*Enter Holdings*
        - ◆ *Enter:*> *Ticker Symbol and* >*Holdings Value: \$ value or %.*
        - ◆ >*Show Instant X-Ray*
          - Entered data can be saved as a Portfolio.
    - **Results**
      - Following is the Instant X-Ray of Dick's Model Portfolio of Managed Equity Mutual Funds as of February 12, 2010.



# Finra

❖ The Financial Industry Regulatory Authority (FINRA) is the largest independent regulator for all securities firms in the United States. It was created in 2007 by consolidating NASD, National Association of Security Dealers and the regulation, enforcement and arbitration functions of the New York Stock Exchange, FINRA is dedicated to investor protection and market integrity.

❖ [Finra.org](http://www.finra.org)

➤ The [finra.org](http://www.finra.org) website contains a host of information of interest to investors including tutorials relating to many aspects of investing.

➤ >[www.finra.org](http://www.finra.org)>Investors

▪ >BrokerCheck

- Background check of brokers and firms.
- Define over 50 professional designations: CFA, QFP etc.
- Search for SEC regulated firms.

▪ >Bonds and Fixed Investments

• >Smart Bond Investing

Bond Basics	Understanding Risk	Individual Bonds
Buying & Selling Bonds	Smart Strategies	Bond Funds

• >Bond Market Activity

◆ Sales                      Yield Curve

• Bond Search

◆ Treasury & Agency                      Corporate                      Municipal

◆ >Corporate                      >Yield: 5% - 10%                      Maturity: 0 – 3 years

• Stocks

◆ General Information on Stocks                      Managing Risk                      Evaluating Performance

◆ Avoid Problems with Your Broker                      Understanding Analyst Recommendations

• Mutual Funds

Fund Tutorial                      Active vs. Passive Management                      Fund Objectives

Understanding Fees                      Understanding Loads                      Open-End vs. Closed-End Funds

❖ Fund Analyzer

➤ >Tools and Calculators>Fund Analyzer

- E Compare different funds and share classes. Evaluate the impact of fees, returns and investment on future values and costs.

- Enter fund symbols for comparison.

- >TAVFX                      >DODGX                      >FPACX

❖ “Based on the funds you select and the investment amount you enter, the Fund Analyzer will assess a fund’s front-end load schedule and deduct the appropriate load from your investment. The Analyzer then calculates returns and deducts expenses on a daily basis through each holding period from one to twenty years. It calculates contingent deferred sales charges (CDSCs) automatically. It also handles convertible shares, such as Class B shares.

The Analyzer assumes that the funds are redeemed in full at the end of each year. The results are displayed on the Chart Details area of the tool. For example, the results calculated for year 7 assume that the fund was held through year 7 and then redeemed at the end of that year. The values displayed in the Report Summary and Chart Details portions of the Expense Analysis reflect the deduction of all fees and expenses.”

## ❖ [Stock-Encyclopedia.com](http://Stock-Encyclopedia.com)

### ETF Guide

#### ❖ Exchange-Traded Funds

➤ An exchange-traded fund (ETF) is an **investment** that represents a pool of securities and can be **bought and sold on a stock exchange** in the same manner that company stocks are. The first ETFs were designed to follow stock market indices such as S&P 500 or the NASDAQ 100, Today There are hundreds of ETFs, tracking areas such as **stock futures, short selling, global stock exchanges, corporate bonds, currency trading and commodity trading**. In concept, an ETF is much like a mutual fund. Fees are much lower there is no front- or back-end load, and the majority of ETFs charge low management fees in the range of 0.25% and 0.75% per year. Advantages of ETFs are that they can be bought and sold at any time, and, as with trading stocks, costs of brokerage fees and the bid-ask spread must be considered.

#### ➤ >[Stock-Encyclopedia.com](http://Stock-Encyclopedia.com)

##### ▪ **ETFs sorted by category**

Stock ETFs by Industry

ETFs by Investment Strategy

ETFs by Market Capitalization

Stock ETFs by Region

Bond ETFs

Asset Allocation ETFs

- >**ETF by investment Strategy >High Dividend ETFs> WisdomTree Total Dividend Fund (DTD)>Yahoo.com**

- **ETF by investment Strategy >High Dividend ETFs> WisdomTree High-Yielding Equity Fund (DHS)>Yahoo.com**

##### ▪ **Related Investment Types**

- **Exchange Traded Notes: ETN**

◆ ‘These are **unsecured debt securities** issued by underwriting banks and traded on U.S. exchanges: in effect, the bank is promising to pay back the note holder the full amount of the benchmark being tracked, less fees and expenses. ETNs function in much the same way as ETFs, with a couple of notable differences.

The advantages ETNs have over ETFs is that they will track the benchmark index without error (whereas ETFs have to actually mimic a benchmark and might not be able to reproduce its behavior exactly), and that they are designed to be more tax efficient. However this tax efficiency is somewhat speculative, dependent upon how the U.S. Internal Revenue Service chooses to treat them, and it may not have a beneficial effect for foreign investors.

A significant **disadvantage** of ETNs is that they are subject to **counterparty risk**, i.e. their value is dependent upon the credit rating of the issuing bank. In theory the issuing bank could become insolvent and the notes become worthless.”

- **Closed End Funds: CEF**

◆ “...These funds also represent pools of securities and trade on stock exchanges, but they have a fixed number of shares outstanding so there is no arbitrage mechanism keeping their share price close to their net asset value. **Such funds can trade at either a discount or premium to their underlying value** of as much as 20% or more. Thus each CEF is subject to significant swings that reflect imbalances in the supply and demand of it as an investment vehicle -- over and above any change in the intrinsic value of its holdings.”

## **Internet Sites For Investors**

### **Yahoo.finance.com**

Excellent site for obtaining historical prices on any security that has a ticker symbol. Under historical pricing it provides daily, weekly and monthly prices. It also shows dividends paid and any stock splits. The far right column of prices shows prices adjusted for dividends reinvested and stock splits. This price reflects the total return of the security over the period in question since it is based on reinvestment of dividends paid. For example, if the current adjusted price is \$73.25 per share and the adjusted price ten years earlier was \$14.65 per share the cumulative total return realized for the security is 500% for an annualized total return of 17.5%. Price appreciation based on closing prices would be less since it does not take into account dividends paid or reinvested.

This site also features charts for any security with a ticker symbol. It shows the price behavior of the security over any period of time you select. It also allows you to compare the security in question with other securities or indexes. It is important to note that the chart does not show what effect distributions have since they are not included. You can view dividends separately by clicking on EVENTS and checking DIVIDENDS on the interactive chart. This chart represents the ultimate in a graphical representation of all the important investment considerations.

### **Use Of Yahoo Interactive Charts For Portfolio Restructuring**

I find the interactive chart particularly helpful in judging one security against another and seeing how a particular security behaved during times of financial stress and during bull markets. For example during the credit crunch bonds did not lose as much value as stocks. Within the bond universe the highest credit quality bonds fell the least while low quality bonds (high yield) declined the most. For stocks the decline was greater than for bonds (higher volatility reflecting greater risk). When the market started to recover bonds increased in value at a lower rate than stocks.

Having noted this behavior raises the question of how this information can be used to protect against a double dip. However a double dip is not certain and there is a reasonable chance that the market could continue to improve and therefore the portfolio requires protection against a rise in interest rates. Bonds do not perform very well when interest rates are rising due to a potential loss of capital. Keeping bond duration low and limiting holdings to the highest credit quality minimize loss of capital. Finally there is a long-term likelihood of a substantial increase in inflation in the US. Protection against this threat comes with investment in real assets (assets that hold their value). And investment in the developing countries where there are higher rates of gross domestic product growth and significant trade surpluses with global trading partners. These investments are most profitable when made in the currency of the developing area rather than being hedged in US dollars.

As is obvious from the foregoing there is no single threat going forward to concentrate our efforts on. It is necessary to be prepared for all likely occurrences. However to do so will require compromise and with that a lower potential return than what otherwise might be available. The only way that I know to deal with this situation is to hedge my bets through diversification that recognizes and accommodates all of these threats in the best way possible.

This is not an exercise aimed at using market timing in the future. It simply recognizes trends going forward that should be taken into account in any readjustment of the portfolio. It also takes into account that during periods of decline (recessions and significant financial stress) portfolio capital must be protected so that a reasonable recovery is possible during subsequent periods of economic growth. Keep in mind a long-term portfolio should not require major changes once structured. If it does then it was not structured properly from the beginning.

### **Vanguard.com**

This site is an excellent source of data for mutual funds. Much of the data comes from morningstar.com; however, Vanguard does a much better job of presenting it in a more comprehensive form. It presents data on all of its own funds as well as those of other low-load fund families. They provide annual returns for each of the past ten years, ten largest holdings, turnover rates. etc. You also have the ability to compare different mutual funds using data from the site. It is not very comprehensive in providing information on stocks or exchange traded funds.

### **Finance.google.com/finance**

This site is distinctive in that it provides on a single sheet all of the key data on a given security. It is not as extensive as Yahoo in its approach. A novel feature, their interactive graph, spurred Yahoo finance to provide the same.

### **AAII.com**

This site is available for members of the American Association Of Individual Investors. You must be a member to have access to most of its features. An excellent source of information on mutual funds is presented each year by AAI in their Mutual Funds Guide book. It is forwarded to members in the first quarter of each year. This book only covers low-load mutual funds that are still open to new investors. A more comprehensive listing of these funds including closed funds is available online from the AAI site. It consists of more than 1400 pages compared to 450 pages for the book. The online version can be downloaded in pdf format to your computer for later reference.

### **Google.com**

This site is very good for finding where you might get information on just about any subject. It is ideal for finding the location of any mutual fund's web site. Once located you can contact the site and obtain extensive information on the target fund. This information includes annual reports, prospectus, past performance data, distributions, how to proceed to purchase shares, etc.

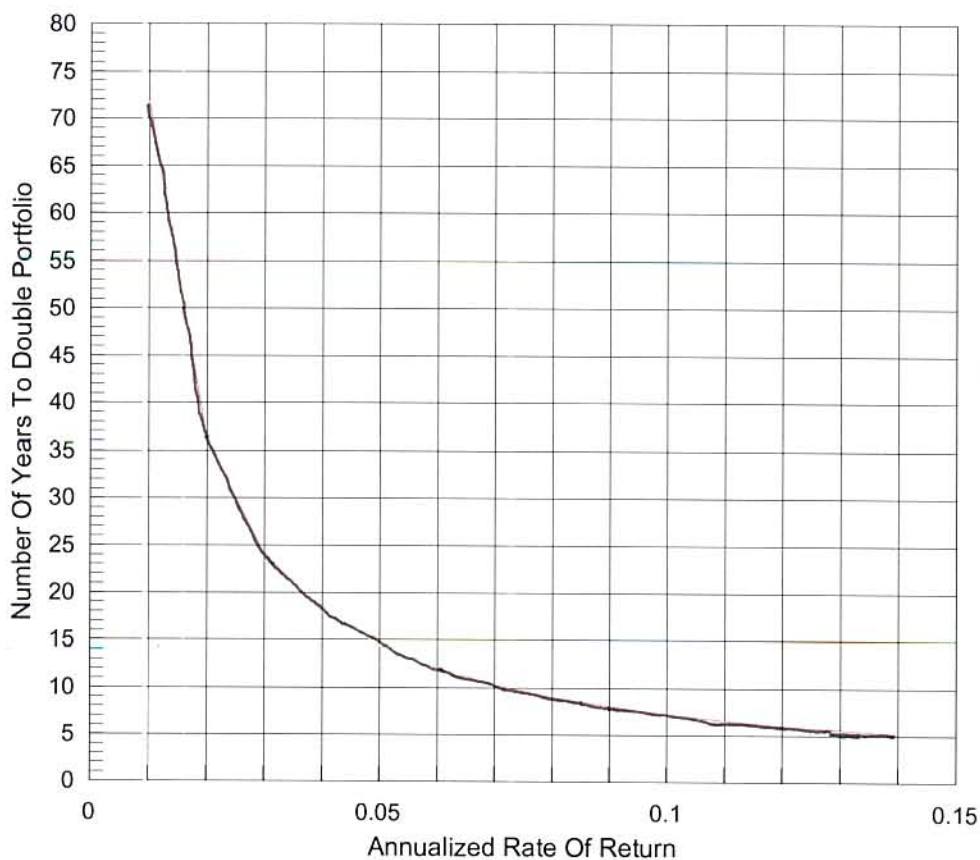
## Number Of Years Needed To Double Portfolio Value For A Given Annualized Rate Of Return

The number of years can be approximated by the following relationship: Number of years times the annualized rate of return times 100 equals 72. The graph below provides this information in graphical form

What it clearly illustrates is that at low annualized rates of returns the value of your portfolio grows at a very slow rate while the opposite is true at the higher rates. Interpreting this in terms of securities this means bonds which have low rates are not vehicles for growth but rather preservers of portfolio value. On the other hand equities with their higher rate of growth are primarily used to grow portfolio value. This higher growth rate however comes with a greater risk of loss of portfolio value during times of financial stress.

### Number Of Years To Double Portfolio Value

For A Given Annualized Rate Of Return



Based on number of years times annualized rate of return times 100 equal to 72

There are times when it is useful to have access to a simple table showing the relationship among average annualized return, the period for the investment in years and the resultant increase in the value of the investment. The equation below represents this relationship and is used to generate the values shown in the table below.

$$N = (1+r)^n$$

where: **N** equals increase in value of original investment  
**r** equals the average annualized return of the investment  
**n** equals the number of years for the investment

The table below shows the increase in value of the original investment for a given average annualized return and a set investment period (years).

Return r	Years n										
	1	3	5	7	9	11	13	15	17	19	
<b>0.01</b>	1.01	1.03	1.05	1.07	1.09	1.12	1.14	1.16	1.18	1.21	
<b>0.02</b>	1.02	1.06	1.10	1.15	1.20	1.24	1.29	1.35	1.40	1.46	
<b>0.03</b>	1.03	1.09	1.16	1.23	1.30	1.38	1.47	1.56	1.65	1.75	
<b>0.04</b>	1.04	1.12	1.22	1.32	1.42	1.54	1.67	1.80	1.95	2.11	
<b>0.05</b>	1.05	1.16	1.28	1.41	1.55	1.71	1.89	2.08	2.29	2.53	
<b>0.06</b>	1.06	1.19	1.34	1.50	1.69	1.90	2.13	2.40	2.69	3.03	
<b>0.07</b>	1.07	1.23	1.40	1.61	1.84	2.10	2.41	2.76	3.16	3.62	
<b>0.08</b>	1.08	1.26	1.47	1.71	2.00	2.33	2.72	3.17	3.70	4.32	
<b>0.09</b>	1.09	1.30	1.54	1.83	2.17	2.58	3.07	3.64	4.33	5.14	
<b>0.10</b>	1.10	1.33	1.61	1.95	2.36	2.85	3.45	4.18	5.05	6.12	
<b>0.11</b>	1.11	1.37	1.69	2.08	2.56	3.15	3.88	4.78	5.90	7.26	
<b>0.12</b>	1.12	1.40	1.76	2.21	2.77	3.48	4.36	5.47	6.87	8.61	
<b>0.13</b>	1.13	1.44	1.84	2.35	3.00	3.84	4.90	6.25	7.99	10.20	
<b>0.14</b>	1.14	1.48	1.93	2.50	3.25	4.23	5.49	7.14	9.28	12.06	
<b>0.15</b>	1.15	1.52	2.01	2.66	3.52	4.65	6.15	8.14	10.76	14.23	
<b>0.16</b>	1.16	1.56	2.10	2.83	3.80	5.12	6.89	9.27	12.47	16.78	
<b>0.17</b>	1.17	1.60	2.19	3.00	4.11	5.62	7.70	10.54	14.43	19.75	
<b>0.18</b>	1.18	1.64	2.29	3.19	4.44	6.18	8.60	11.97	16.67	23.21	