



**LOS ANGELES CHAPTER, AMERICAN
ASSOCIATION OF INDIVIDUAL INVESTORS**

**COMPUTERIZED INVESTOR SPECIAL INTEREST
GROUP**

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BUILDING YOUR OWN INVESTMENT PLAN

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What are we going to do today?

We are going to talk about the need for an investment plan and demonstrate a plan that tells you:

- **When to be in a market (7 one-click timing systems that work),**
- **The degree to which you ought to be in US markets,**
- **How to pick hot markets (Sharpe's Ratio ranking),**
- **How to allocate your investments (EffMVO)**

What do you want from a plan?

- It must be profitable.
- It ought to be easy to use.
- It must be rational and explainable.
- It should tell you what and when and how to buy and when and how to sell.
- Your plan should tell you how to allocate your investments.
- It would be nice if it were also tax efficient vbut that's another story.

How do you win at Blackjack?

- The odds of winning at Blackjack are almost 50-50.
- You win at Blackjack by waiting for those times when the odds are in your favor and then betting heavily.
- Even then, it can be tough work.

How do you make money investing?

One way to go is to borrow an investment plan ... try one of the 56 offered by Fidelity.

You go there by:

- (1) Enter personal.fidelity.com
- (2) Select: Retirement & Guidance
- (3) Select: Independent Research
- (4) Pick: Ind. Expert Stock Strategies
- (5) If you are a client: Log in
- (6) If not: Try it free for 30 days

Here is what you'll find:

Independent selection strategies
managed by Argus, S&P and others.

14 Growth Strategies

8 Value

15 Additional

13 Growth/Value Blend

6 Sector Strategies

Here's some names:

Aim Lower, Elephants that Dance,
Inside Information, Small & Cheap,
Falling Stars, Phoenix Rising,
Running with the Bulls, Double Plays,
First to the Party, Under-followed &
Unloved, Take it to the Bank ... and
more.

Find one that:

- Makes sense to you ... ie., matches your investment style.
- Lets you feel comfortable ... matches your risk requirements.
- Satisfies your earnings needs.

My cousin Pinkie has a plan

Here is what she does:

- She lives near Silicon Valley.
- She uses a fancy gas station also used by very successful executives who pass tips to the station manager.
- She is a good customer so the manager passes on the tips to her.
- What does she do if she doesn't need an oil change when it's time to sell?**

Here's an old picture of Cousin Pinkie



I JUST BOUGHT THIS SPECULATIVE STOCK

So what do I do?

- Even though I'm retired and have a lot of time, I don't want to spend what time I've got picking investments.
 - I'm willing to take a risk.
 - I want my portfolio to be very liquid.
 - My plan must be logical and explainable.
 - I'm not ready to use an investment advisor even though I know some good ones.
- (ManagerReview.com)

I'm a Trend-following Market Shifter

- (1) Once a week, on Monday morning, I try to identify the current “hot” markets, markets that are trending up well.
- (2) I do that by ranking markets with Sharpe's Ratio. This ranks excess return by unit of risk.
- (2) I invest in equities in the top 5 markets.
- (3) I rebalance using VisualMVO (Modern Portfolio Theory) Why?

What's special about Sharpe's Ratio?

- Sharpe's Ratio is the excess return of a security per unit of risk.
- It identifies those investment opportunities furthest to the north-west on the Capital Market chart.
- Those are the securities that deliver the “most bang for the buck” according to Modern Portfolio Theory.
- Are there other ranking methods? Yes, and they yield about the same results but without the benefits

What does this do for me?

- With one click of an icon, once a week, I can identify when to buy or sell securities in 8 important markets.
- This requires about 2 minutes.
- Market ranking takes another 2 minutes.
- As long as a security is reasonably good, I do not need to spend time on selecting securities. “A rising tide lifts all ships.”

Here's the software list:

- Data: Investor's FastTrack (~\$26/month)
- Analysis: TRADE and its modules (Free)
- Ranking: FastTrack preset (Free)
- Cross-Correlation Calculator: Gummy-
Stuff.org 30-Correlations.xls (Free)
- Asset Allocation: VisualMVO (~\$85)

Here is where to find the software:

FastTrack: <http://www.FastTrack.net>

Eff. Solutions: <http://www.effsols.com/>

TRADE: <http://home.earthlink.net/!dexf/>

You will also need:

- A FT family of 40 market proxies (Markets.fam).
- Nine TRADE name.ini modules.
- The TRADE.exe file.
- A FT preset that calculates Sharpe's Ratio.
- Short lists of good funds in each market.

This is the instruction set:

TRADE dbmicro.ini >note.txt
TRADE Beasley.ini >Note2.txt : S&P 500 allocation
TRADE NCAAlpha.ini >Note1.txt
TRADE newjunk.ini >new.txt ; Junk Bonds
TRADE RutDFS0.ini >rutdfs0.txt ; OTC
TRADE T17db.ini >T17db.txt ; Timing Signal
TRADE itime.ini >itime.txt ; Int-Domestic Rot.
TRADE Merf2.ini >merf.txt : Merger Fund
TRADE RYSRX.ini >rysrx.txt : Sectors
TRADE GHAAX.ini >ghaax.txt : Hard Assets
TRADE 1allDJG5.ini >ghaax.txt
EDIT SumUp5.txt

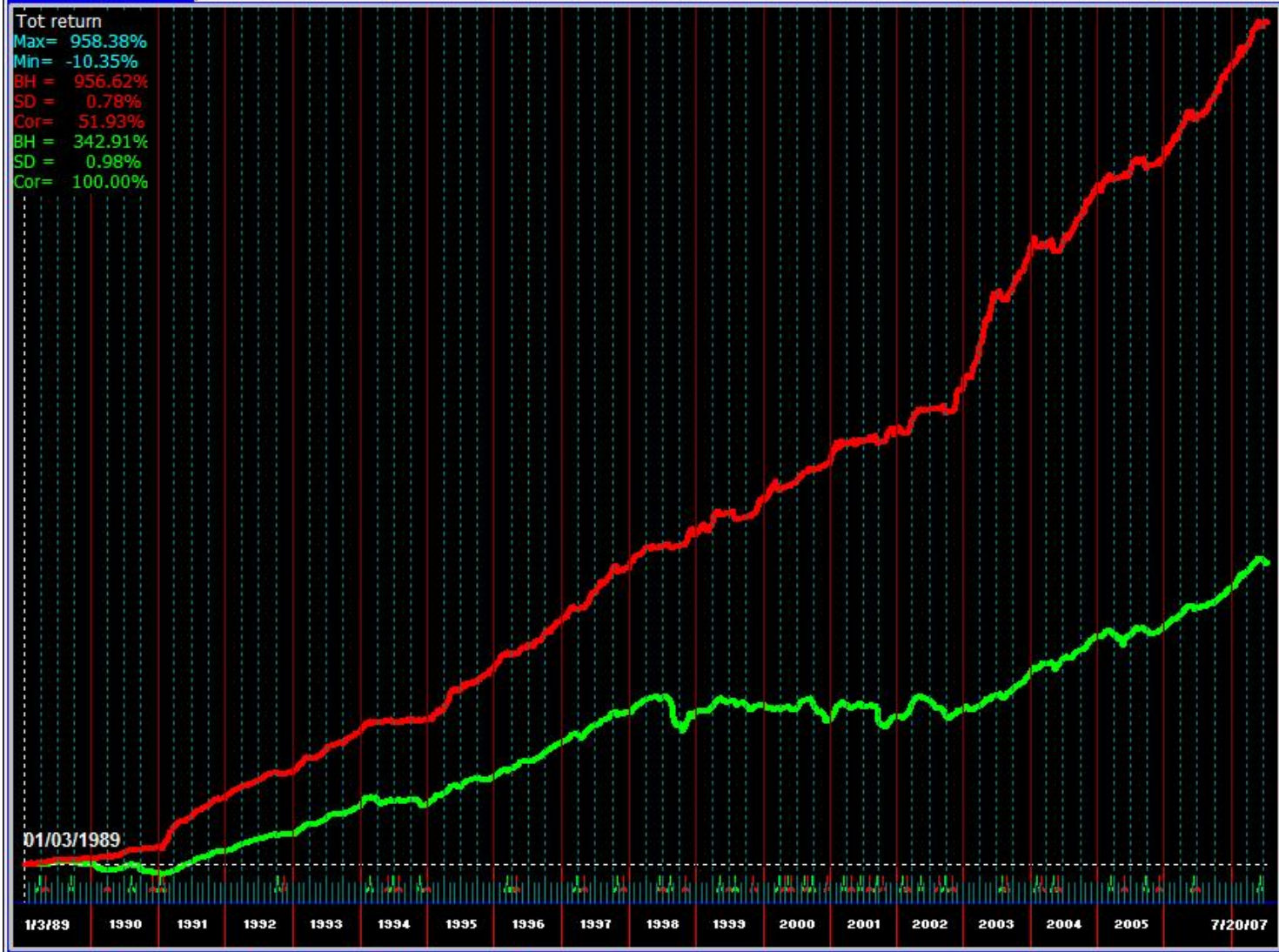
Here's what you get:

Junk Bonds: Signal from NewJunk hold 2	(Sell, 06/08/07)
OTC Market: Using RUTDFS0	(Sell, 07/19/07)
US Market: Using T17db	(Buy, 07/02/07)
Int. to Domestic: Using iTime	(Buy, 01/27/98)
Merger Fund: Using Merf2	(Buy, 10/13/06)
Sectors: Using RYSRX	(Buy, 10/13/06)
Hard Assets: Using GHAAAX	(Sell, 06/26/07)

Is T17db any good as a timing signal?

You betcha!

How about 500 additional basis points per year over a 15 year back-test with 88% profitable years and with a livable number of trades per year. And its easy to compute.



JUNK2 - junk trading
CP = \$100.000
BP = 956.62% < \$956.62
Ann = 13.55%
NTHEX - Northeast Inv
CP = \$11.900
BP = 342.91% < \$13.69
Ann = 8.35%
Calendar Stat
MDY = 4676
Years = 18.56
CDY = 6772
CMD = 85
Sig/Trade = JUNK/DEFAULT
Trnd = DEFAULT
CDF = SHARPES RATIO
PARAM = DEFAULT



Should you be in the market?

Try Beasley.ini for the answer.

What does it tell you?

- To what degree should you be in the NYSE and in the NASDAQ.
- Is the market likely to go up (when the NASDAQ is dominant).

What markets are hot right now:

IRX-X	Index family US Treasury	18.10
VEIEX	Vanguard Emerging Market	12.05
FIUIX	Fidelity Utility	9.24
VGYSX	Vanguard Total International	9.08
VEURX	Vanguard Europe	8.91

There is such a thing as a free lunch!

- Allocation to put your portfolio on the Efficient Frontier is a free lunch.
- Better yet, allocating for The Efficient Portfolio is the best that you can do.

It's a piece of cake if you have the right software such as VisualMVO.

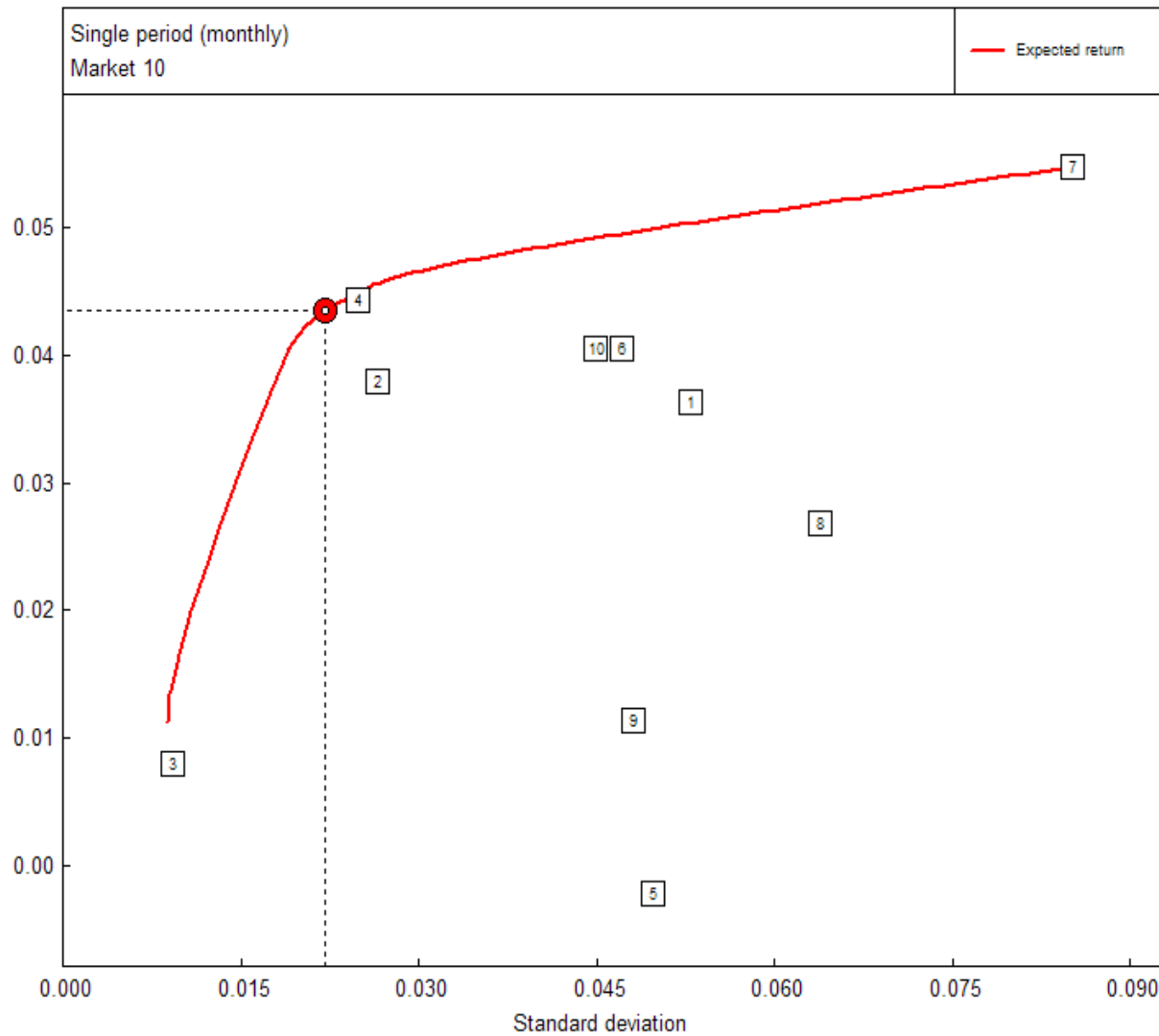
Show me!

OK! I'll show you.

To compute asset allocation you need :

- The cross-correlation matrix between all markets.
- The expected return of each market.
- The 3-year standard deviation of returns for each market.

Asset Allocation with VisualMVO



●	Expected return = 0.0435	
1	SP-CP	
2	STBI-	0.1
3	NTHSX	
4	FNMI	0.7
5	ICAR	
6	VEIE	
7	FSAG	0.0
8	XLE	
9	VGTS	
10	VGSIX	0.0
	Standard deviation	0.0
	Expected return	0.0