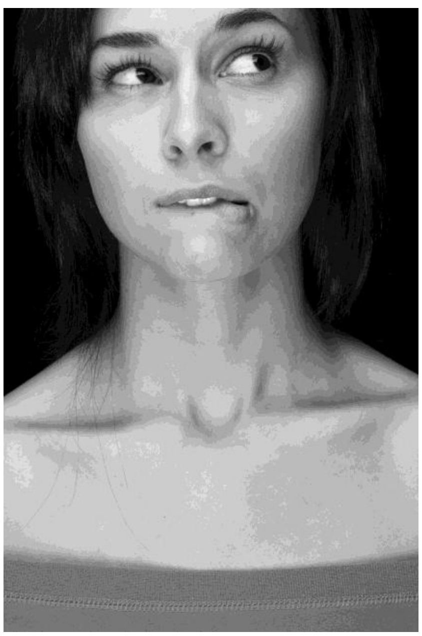
Are Your Investments Working The Way You Expected?

Facilitators Manual

Introduction: Monitoring your Investments: Doing Well by Doing Poorly[1]

Investing is a funny business, full of paradoxes and strange twists that often confuse and mislead newcomers. Even casual observers are probably familiar with the contrary market behavior often associated with good economic news, and *vice versa*. Those experienced in the ways of Wall Street also know that being early and being wrong look the same. Mistakes and opportunities can also look very similar. Perhaps oddest of all — *in order to do well, you have to do poorly*. The failure to understand this — one of the most basic facts of investment life — is probably the single most important cause of genuinely poor results, excessive risk taking, high costs, and wasted brainpower in the investment business.



Doing well by doing poorly is not as paradoxical an idea as it may seem at first glance. What we really mean is that *it is sometimes necessary to do poorly in the short run in order to do well in the long run*. At this point, it is essential to emphasize that it is the long run which concerns us as investors in securities such as common stocks. When of necessity the focus is on the short term, the emphasis should be on safety and stability — money funds, treasury bills and such. Short-term thinking involving what should be long-term assets like stocks leads quickly into the realm

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[1] Source: Doing Well by Doing Poorly, by Dennis C. Butler, President Centre Street Cambridge Corporation *Private Investment Counsel, http://www.businessforum.com/cscc38.html*

of speculation, and practices which are not conducive to building value over time — not to mention posing an immediate risk to capital — for most who engage in those activities. These are critical distinctions when thinking about investments. Their examination provides insights into what we might consider the appropriate "investment temperament," and reveals what is really meant by "doing poorly" in the investment context.

Extreme examples frequently help to clarity issues concerning investment thinking and practice. Let's take the NASDAQ market in 1999, a year still living in the memory of most current market participants. In that year, the NASDAQ Composite stock index returned an incredible 85%. Imagine being in the position of having to think short term, with the goal being to match or beat this index on a year-to-year basis (a job description commonly found in the fund management business)! Your choices are few: you either buy an index fund, or load up on some of the most popular technology names of the day. Failure to do so will most likely cause you to seriously "underperform" the NASDAQ index (and, if you are an investment professional, most of those with whom you are in competition). In reality, either choice made you a wild-eyed speculator. At the beginning of 1999, the NASDAQ stocks were seriously overpriced — at year-end, absurdly so. Acquiring exposure to the NASDAQ index stocks at the beginning of that year was simply making a wager that the market's momentum would carry the day despite the risk. The bet worked in 1999.

It was possible to view the same situation and choose an entirely different course of action. True investors recoiled in horror at the idea of making such an outrageous wager, knowing that, in the long run, such moves would almost certainly undermine the investor's duty to preserve capital. Their refusal to play this game meant they would underperform the NASDAQ and do poorly *relative to speculators*. It goes without saying that such a move would be considered suicidal in the money management and mutual fund crowd. Nevertheless, it was unavoidable for the true investor, who, ***by definition***, must think beyond the short term. One year's "underperformance," as we now know, paid off handsomely soon thereafter, as it turned out, as the investor avoided the NASDAQ collapse after 1999. Furthermore, those who made sensible choices during the boom years of the late 1990s (for which they were roundly condemned at the time) enjoyed sizable gains in the new decade. "Doing poorly," in the context of the investment business is seen for what it really is — a relative concept having more to do with short-term competitive pressures than real investment considerations. The actual paradox is that ***really*** doing poorly in investing is often an outcome of not being willing to "do poorly" in the short term, and relative to others who take undue risks.

Investing demands consistency in the rigorous application of analytical tools and decision-making criteria, or, as a leading investor has put it, operating within a "sound intellectual framework." Interestingly enough, investing, when conducted along these lines, is an activity that essentially governs itself. The work of the investor is to a large extent concerned with just two things: the price of an asset and its underlying value (note that this is not simply a matter of so-called "growth" and "value" stocks or approaches). There are times when opportunities abound and the difficulty lies in selecting the best from among many alternatives. This cheerful type of environment is typically found during depressed markets, or during market aberrations, such as that which occurred during the late 1990s dot-com boom, when attention and money was focused on a few favorite companies and sectors, while a broad spectrum of securities was being ignored. In-between times are like Goldilocks' choice of porridge — neither hot nor cold. Opportunities are fewer, though not especially rare, and investment activity slows. Finally, there are times when investment opportunities are few and far between. Investors are seldom active during these periods; however, the financial markets are far from quiet — Wall Street is in the news, trading very heavy, and prices high and rising. At such times the temptation to speculate is greatest, middlemen and deal makers get rich, and dealing in securities seems an easy way to wealth.

For the investor who has consistently followed sound principles, wonderful things tend to happen during the latter frothy periods. Having built a portfolio at advantageous prices, whether during depressed markets or as individual

opportunities appeared from time to time, the investor can now reap the rewards. Security prices rise strongly. Credit tends to be plentiful, feeding merger and acquisition activity that may liquidate holdings advantageously. Solid business conditions and bright prospects lead companies to increase dividends or announce share buybacks. Having fewer opportunities to commit capital, the investor's cash reserves tend to rise, providing a cushion for the inevitable downturn to come, and firepower to use when favorable buying conditions return. The investor doesn't have to anticipate market moves or make predictions of any sort, and rapid turnover of portfolio holdings to capture expected price changes is unnecessary. The cycle is self-regulating, both enriching and protecting the investor during unruly periods, and providing the resources for advantageous moves during favorable times — provided, of course, that principles are consistently applied with a long-term perspective. "Poor" short-term performance is not an issue.

Module Objectives

After completing this module you should be able to:

- Understand how to assess if your investment portfolio is performing the way you need it.
- Understand how to monitor assets allocation and diversification.
- Understand how to rebalance your allocations.
- Understand how to monitor the quality of your stocks and mutual funds.
- Recognize what indexes are and how to use them as indicators of your portfolio performance.

Recommended Time on Task by Lesson

Lesson No.	Lesson Title	Time Required
	Introduction	20 minutes
M6.1	Assessing the performance of your investment portfolio	40 minutes
M6.2	Indexes	20 minutes

Suggested Module Instructional Duration: **1.20 hours**

About This Manual

This manual contains the same information provided in the instructional manual that the participants will have during the workshop. For each section, we provide specific suggestions and resources selected to help you deliver the classroom instruction. These include teaching tips, questions to generate classroom discussion, and a module PowerPoint presentation. In addition every section or subject has additional reference materials which provide supplementary online instructional materials and resources. These were selected to provide the facilitator more information about the subject or materials which could be used to enhance the delivery of instruction.

Before the workshop session:

- Before conducting the workshop, take time to familiarize yourself with the participant manual, exercises, additional learning resources, teaching tips and questions to generate discussion and PowerPoint presentation.
- For classroom use it is highly recommended to secure a flip chart, color markers, projector, and laptop. Familiarize with setting up the equipment and with its operation.

At the workshop:

- Welcome the participants Ask participants to introduce themselves, and share what their expectations are for this program, and what they hope to get out of the seminar. Write these down on a flip chart as they share. (This activity will help participants get to know each other and feel more comfortable and give you an idea of what they are expecting from the session.)
- Review the objectives of the session and the agenda. If applicable, hand out materials to participants. Using the module PowerPoint presentation review the module objectives:

- Use this time to listen as well as to manage expectations as to what will be accomplished during the lesson. Let participants know that their specific personal situations may not be able to be addressed directly in the lesson but that the information should be valuable to them.
- Make sure to schedule breaks after 1.5 hours of instruction.
- Encourage participants to ask questions; try to create an interactive-participatory learning environment. If you do not have the answer to a question, be honest and say: "*I don't know the answer but I will research it for you".* Bring the answer next day and explain where and how you found the answer.
- Do not ask personal questions to participants which could potentially disclose personal or confidential financial information. It is strongly recommended to always use hypothetical scenarios.
- Always use a flip chart to write down key concepts At the end of the day, review the key learning concepts.

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Key Terms

Blue chip stock: A blue chip stock is the description of the stock of well-established companies having stable earnings and no extensive liabilities. Most blue chip stocks pay regular dividends, even when business is faring worse than usual. They are valued by investors seeking relative safety and stability, though prices per share are usually high. Typically, such stocks are perceived to offer reliable returns, low yield, and low risk.

Domini 400: KLD's Domini 400 Social Index (DS400) is a float-adjusted market capitalization weighted common stock-index modeled on the S&P 500® Index. The DS400 is the first benchmark for equity portfolios subject to multiple social screens. It is a widely recognized benchmark for measuring the impact of social screening on financial returns and the performance of socially screened portfolios.

Dow Jones Industrial Average (DJIA): The DJIA is a measure of the relative price of 30 widely held stocks traded on the New York Stock Exchange. The value of the DJIA is determined by dividing the sum of the per share prices of the 30 stocks in the index by an adjusted denominator that accommodates for splits and changes in stock composition. Therefore the index values represent equal weighted calculations.

Index: Statistical composite that measures changes in the economy or in financial markets, often expressed in percentage changes from a base year or from the previous month. Indexes measure the ups and downs of stock, bond, and some commodities markets, in terms of market prices and weighting of companies the index.

NASDAQ 100: The NASDAQ 100 Index tracks the 100 largest stocks listed by the NASDAQ Composite Index. It is the most widely traded Exchange Traded Fund (ETF) in the world, with 91 million shares moving each day. The NASDAQ 100 is often treated as an index of "tech stocks" simply because its components are mostly new technology companies.

Portfolio: In finance, a portfolio is a collection of investments held by an institution or a private individual. Holding a portfolio is part of an investment and risk-limiting strategy called diversification. By owning several assets, certain types of risk (in particular specific risk) can be reduced. The assets in the portfolio could include stocks, bonds, options, warrants, gold certificates, real estate, futures contracts, production facilities, or any other item that is expected to retain its value.

Rebalancing: Rebalancing is the process of reallocating the investment holdings in a portfolio in order to return the composition of the portfolio to its original investment mix by asset class, sub-asset class, sector, industry, etc.

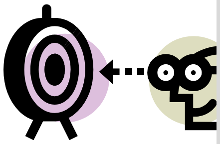
Russell 2000: The Russell Indexes (note that Russell uses "Indexes" rather than "Indices") are a set of stock indexes of listed U.S. companies. The main index is the Russell 3000 Index, which is divided into several sub-indexes. The list of stocks in the Russell 3000 is managed by the Russell Investment Group. Russell forms its indexes by listing all U.S. companies in descending order by market capitalization. The top 3,000 stocks (those of the 3,000 largest companies) make up the broad Russell 3000 Index.

S&P 500: Considered to be a benchmark of the overall stock market. This index is comprised of 500 widely-held Blue Chip stocks representing industrial, transportation, utility and financial companies with a heavy emphasis in industrials.

Wilshire 5000: The Wilshire 5000 total market index represents the broadest index for the U.S. equity market, measuring the performance of all U.S. headquartered equity securities with readily available price data. The index was originally named after the nearly 5,000 stocks it contained when it was first created, but it has grown to include over 6,500 issues (reflecting the growth in U.S. equity issues as a whole).

Assessing the Performance of Your Investment Portfolio

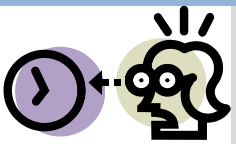
Lesson No. M6.1



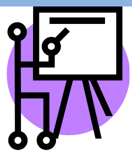
Lesson Objectives:

After completing this lesson participants should be able to:

- Understand the fundamentals of how to assess their investments portfolio
- Recognize the importance of monitoring asset allocation and diversification
- Recognize how rebalancing can support the process of adjusting allocations based on the performance of their portfolio



Time Required: 30 Minutes

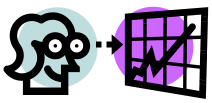


Lesson Teaching Tips

- Review the concepts of time horizon, risk level, allocation, and diversification.

Questions to Generate Discussion

- If investing is our vehicle for our journey to reach our financial goals, how do we know we reached our destination?
- How do we know if our investing strategy is helping us reach our goals?

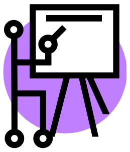


PowerPoint Slides Thumbnails	Slide Notes
	• Review first step, which was presented on a previous lesson. • Participants must asses after a certain time how their assets accumulation is progressing toward reaching their goals; • If they are not reaching the desired benchmarks, they will need to rebalance their portfolios.

- This slide presents the rebalancing process as result of evaluating the performance of their portfolio.

- The key message is to monitor the performance of the stocks and/or mutual funds selected as part of a portfolio.

- Remind participants of the importance of "time on the market" for allowing their investments to compound.
- Portfolios should be reviewed at least once a year.

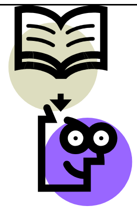


Closure:

- Review lesson objectives with participants.
- In this lesson, we have started to understand the importance of assessing the performance of our portfolios; next we will learn how to evaluate the performance of our stocks, mutual funds, and how to compare the performance of our securities against industry standards.

Learning Assessment:

- Ask participants to define the steps when assessing if their investment portfolio is helping them reach their financial goals.
- Ask "how often you should review your portfolios performance"?



Reference Materials

- USA Today Stock Meter: Stock Meter is designed to help you decide whether a stock fits your investment goals and risk tolerance. To do that, Stock Meter rates each stock on a scale of 1 (a most conservative investment) to 5 (a most aggressive investment). Scores are based on up to six key indicators, including the stock's price volatility and the company's past financial performance. Visit: http://www.usatoday.com/money/markets/2003-03-20-stock-meter_x.htm

Constructing your investment portfolio based on a carefully selected asset allocation plan is an important start to achieving your financial goals. But having

done so—even if you consider yourself a long-term investor with a sound plan—you can't simply consider yourself "finished" and ignore your investments. You need a framework for monitoring and maintaining your portfolio.

Monitoring your portfolio is like a long sailing journey. Before embarking, you must chart a course to your final destination. This is akin to understanding the goals and risk tolerance of your portfolio—you need to understand where you're going and the risks involved with getting there. With sailing, currents and wind patterns affect your speed and position, so periodic adjustments are necessary to stay the course. These forces of nature are similar to movements in the market that may take your portfolio off course.

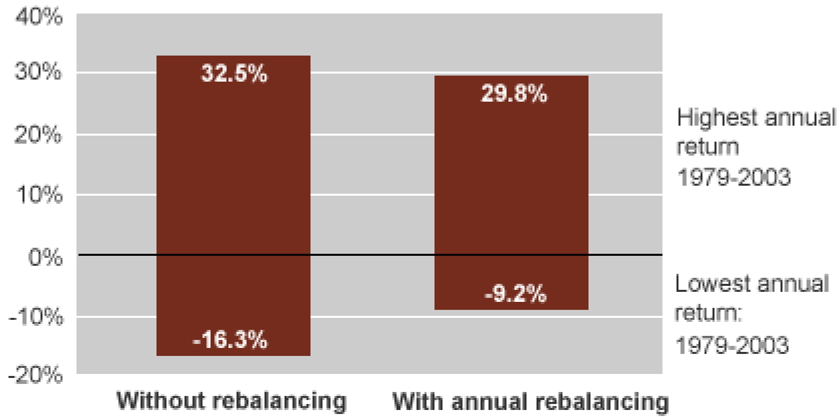
Monitor Asset Allocation and Diversification

Asset allocation and diversification are the building blocks of your portfolio. Your target asset allocation should be determined by your risk tolerance. While your personal risk tolerance shouldn't change, the risk profile of your portfolio can and will change based on movements in the market and individual securities. You need to ensure the risk profile you originally chose is consistently reflected in your portfolio, which you can do by rebalancing back to your target asset allocation.

Portfolios that are not rebalanced can be much more volatile over time than portfolios that are periodically rebalanced. Schwab (one of the nation's largest financial services providers of securities, brokerage, wealth management, and related financial and investment services) looked at two portfolios invested in 60% stocks and 40% bonds 25 years ago. The first portfolio was never rebalanced, while the second was rebalanced back to 60% stocks at the beginning of each year.

At the end of 2003, the ending dollar value of the two portfolios was less than 4% apart. However, when we looked at what each investor experienced during those 25 years, we found the range of annual returns varied dramatically. The first portfolio ended up with a final allocation of nearly 80% stocks, and the difference between the highest and lowest annual return was 25% wider than the rebalanced portfolio.

Rebalancing Smoothes Out Returns And Keeps You Closer to Your Target Asset Allocation[1]

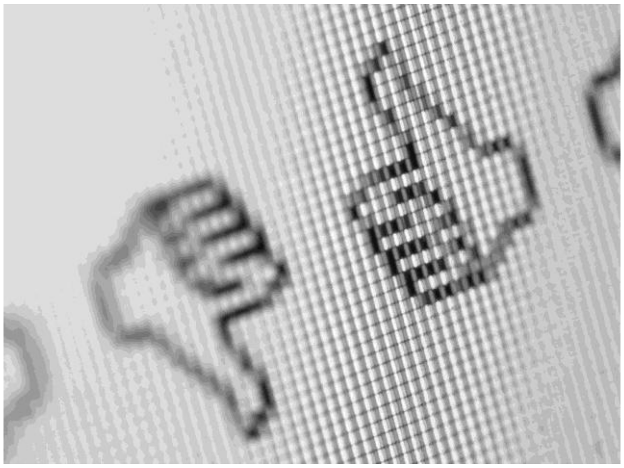


A portfolio with a higher percentage of stocks is one that's subject to greater risk. Unfortunately, many investors only realize their portfolio has taken on more risk when the market starts to retreat, and they end up making poorly timed decisions—the opposite of the mantra, "buy low, sell high."

Another key is monitoring your portfolio to make sure you're properly diversified within each asset class. Make sure no security, style; sector or industry within a particular asset class has grown unduly large, thereby throwing off the risk and return characteristics of the asset class—which then impacts your overall plan.

Monitor the Quality of Your Stocks and Mutual Funds

Companies change over time; a scan of the headlines shows how quickly it can happen. When you initially pick individual equities, you want to look for highly



rated stocks, but it's important you monitor companies over time since today's blue chip can lose its competitive edge or become tomorrow's scandal.

Mutual funds can change over time as well, so it's good to periodically monitor their quality and style to make sure they match the rationale you used when you first selected the fund. Your progress toward your financial goals depends on your investment plan and the quality of the investments you own, since they impact the return your portfolio generates.

Time for a change?

In addition to portfolio return, your ending wealth depends on two very important factors: the amount you save and the amount of time your money and investments compound. You may need to make midcourse corrections to keep your goals within reach. Just as it's impossible to sail in a straight line without some tacking, your portfolio occasionally requires small adjustments to get back on course. When you actually make changes to your portfolio will vary depending on the market and your personal situation. At the very least, you should undertake a summary review of your portfolio twice per year, and a more in-depth review at least once per year. And if you primarily invest in stocks, you may want to check more frequently for news items that may dramatically impact a company.

Don't wait to act

The reason why you monitor—and if necessary, change—your portfolio is to meet your long-term investment goals. You should be informed about your investments and what's going on the markets and world at large so you can take corrective action before it's too late. Sadly, we often see investors who need help but have limited time to make the necessary changes to their portfolios, which can affect their ultimate wealth[2].

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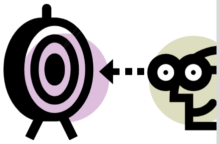
[2] Source: Smart ways to monitor your portfolio Bryan Olson, CFA Vice President, Head of Portfolio Consulting, Charles Schwab & Co., Inc.: http://www.schwab.com/public/schwab/research_strategies/market_insight/investing_strategies/portfolio_planning/smart_ways_to_monitor_your_portfolio.html

Indexes: How Can They Help You Monitoring Your Portfolio Performance

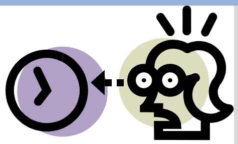
Lesson No. M6.2



Lesson Objectives:

After completing this lesson participants should be able to:

- Understand what indices are
- Understand how indices can help monitor portfolio performance



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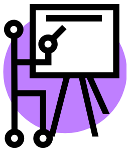
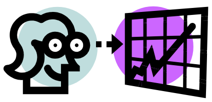


Lesson Teaching Tips

- Participants must be reminded of their financial goals and the time-frame for each of the goals and how these relate to the need to generate financial resources to support them.
- If you have Internet access in the classroom, we suggest you visit FINRA Market Data Web site: http://cxa.marketwatch.com/finra/MarketData/Default.aspx
- Bring the newspaper business section and use the stock market section to discuss indexes.

Questions to Generate Discussion

- How do we know how our stocks are performing?
- Who can define what a benchmark is[3]?
- What are indexes?

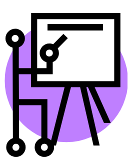


PowerPoint Slides Thumbnails	Slide Notes
	• Present the definition of index. • The next slides will present the different indexes.

[3] A performance comparator used to determine the relative rate of increase/decrease in a market or security. A benchmark is often a target against which investment performance is measured.

- This slide presents the most widely used indexes.
- Notice the types of companies and or industrial sectors represented on each index.

- Continue the presentation of the indexes.
- Participants must identify the type of industry or company from which they own shares to determine the best benchmark (index) they should use to compare the performance of their stocks against the industry average.
- If their stock is not performing as expected, they will need to research more about that stock and make a decision.

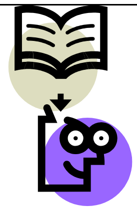


Closure:

- Review lesson objectives with participants.
- Ask participants that in order to decide whether to engage in a short- or long-term investment strategy they should always have present their financial goals, the time frames associated to each of them, and the level of risk they are willing to take in order to reach their goals.

Learning Assessment:

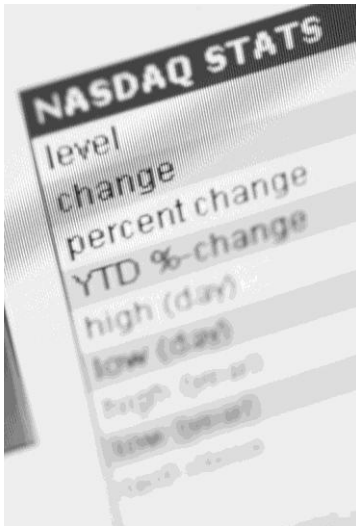
- Ask participants which are the main differences between short- and long-term investments.



Reference Materials

- Market Indices: SEC http://www.sec.gov/answers/indices.htm
- FINRA Market Data: http://cxa.marketwatch.com/finra/MarketData/Default.aspx

How do you measure the relative performance of your portfolio? You compare your portfolio to an index, which is a statistical measure of change in a certain segment of the securities market. Think of an index as a portfolio that represents a whole market (say, the U.S. stock market) or a portion of a market. Changes in indexes show the percentage change (positive or negative) in a market. If you compare the percentage change in the value of your portfolio against the percentage change of an index, you can evaluate the performance of your portfolio.



For example, you may think you're doing well if your portfolio is up 10%. But if the indexes you have chosen for comparison are up by 20%, something is wrong. There are many indexes to compare your portfolios returns with. (You can actually invest in funds representing most of those indexes.) There may be as many as 600 indexes, although it's impossible to know for sure, because there is no central listing, new ones are often being created, and some institutions create custom indexes for their clients. But there are less than a dozen that you need to become familiar with. Here are some indexes you can ask your investment advisor about:

Dow Jones Industrial Average is widely reported, but not very useful for investment purposes because it contains only 30 of the largest industrial companies (and a few service companies).

S&P 500 is probably the most widely watched and used index, containing the 500 largest publicly traded companies in the U.S.

Wilshire 5000 is a broader index, and its 5,000 companies include practically every publicly traded company in the U.S., including those found in the S&P 500.

Domini 400 was the first index of socially screened stocks. It begins with the S&P 500 companies, takes out companies with bad records on pollution, employment practices, nuclear weapons manufacturers, and other areas, and adds in companies with particularly good social and community practices. It generally matches up very well—and often beats—the S&P 500.

Russell 2000 is an index of smaller companies. There are several Russell indexes—ask your broker about them.

NASDAQ 100 Index is comprised of 100 of the largest nonfinancial companies listed on NASDAQ. The index reflects companies across major industry groups including computer hardware and software, telecommunications, retail/wholesale trade, and biotechnology. For example, it contains Microsoft, Dell, and Starbucks. It does not contain financial companies, including investment companies.[4]

[4] Source: Building Native Communities:

Additional Learning Resources

Investments Performance

- What is Indexing: The Fundamentals http://www.indexfunds.com/learn.php
- CNN Money Indexes http://money.cnn.com/data/markets/dow/
- The NASDAQ Stock Market Quotes and Index http://www.nasdaq.com/
- S & P 500 Indices http://www2.standardandpoors.com/portal/site/sp/en/us/page.topic/indices_500/2,3,2,2,0,0,0,0,0,5,1,0,0,0,0,0.html
- Dow Jones Industrial Average http://www.djindexes.com/mdsidx/index.cfm?event=showAverages