BUILDING YOUR PORTFOLIO

A PORTFOLIO STRATEGY FOR MANAGING YOUR INVESTMENTS IN GOOD TIMES AND BAD TIMES

The most important – PRIMARY - Investment Objective at this time (March 2009) is for your Portfolio to be in accord with your Investment profile **and** to be as well positioned as possible to recover when the securities markets improve. All stocks, regardless of their future value, are down and you have to do everything you can to be sure you are in the right ones now. This may mean some shifting and reallocating.

With everyone in shock because of the 2008 meltdown, it is especially difficult to look closely at your current portfolio. We suggest you do just that.

Portfolios based on the time-tested practices shown below are in the best possible shape for future recovery.

ONCE YOU HAVE DECIDED WHAT KIND OF INVESTOR YOU ARE, BASED ON YOUR RISK TOLERANCE

HERE IS HOW YOUR INVESTMENTS SHOULD BE ALLOCATED.

1. **Very Conservative**: The only investments you should consider are high quality bonds maturing in 3 to 20 years. These would be US Government bonds and AAA or AA corporate bonds. Your yearly gains will primarily be the income/Interest you receive. If interest rates have increased you will have unrealized losses. It is important that the maturity dates of your bonds be `laddered' With `laddering' any losses will be minimal. No Margin Debt. Very very little trading.

2. **Conservative:** Appropriate Investments

   50% High Quality Bonds, maturing in 3 to 20 years and Laddered
   40% Blue Chip, Value, High Quality Stocks
   10% Speculative stocks that make sense to you, where you understand the business they are in.

   Your Goal is Safety, Income and some Growth.

   No in-and-out trading. No Margin Debt.

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3. **Willing to take Moderate Risk**: Appropriate Investments

20% High Quality Bonds, maturing in 3 to 20 years.
10% High Yield Bonds
40% Blue Chip, Value, High Quality Stocks
25% Growth Stocks, Established Companies, not Startups
5% Speculative Stocks

Your Goal is to do slightly better than the Dow Jones/S&P 500 Indexes with less risk.
Very little trading. Possibly some Margin Debt.

4. **Speculative:** Appropriate Investments

50% Midsized Companies that have grown at least 15%-20% in the last 2 years.
30% Stocks that are the latest fad. These are expected to go up just because they are in the right industry.
10% High Yield Bonds
10% Stocks that are hopeful takeover candidates

Your goal is to substantially beat the Dow Jones/S&P 500 Indexes, by 50% or somewhat more. Your risk tolerance is high.

Trading is OK. Use Margin Debt to the extent you want to take on more risk.

5. **Very Speculative**: Appropriate Investments

Just about anything.

Your goal is to hit the jackpot <u>and you know the odds are against you.</u>

NOTES:

- In the first 4 categories stocks and bonds should be diversified. Overweighting in any one security or any one industry increases your risk exposure tremendously.
- Mutual Funds are not necessarily diversified.
- The Very Speculative category does not require diversification and often over-weights specific stocks and/or industries.
- See the attached glossary.

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GLOSSARY

(of terms used above)

Blue Chip Stocks
Value Stocks
High Quality Stocks

Large well established companies with A to AAA rankings (Moody's or Standard and Poor) that pay dividends and have had consistent earnings.

Growth Stocks

Companies whose earnings are expected to grow at an above average rate relative to the market.

High Quality Bonds

Ranked A to AAA by Moody's and Standard & Poor**.**

High Yield Bonds

Ranked Ba to B by Moody's, BB to B by Standard & Poor. *Because of a higher risk of default, these bonds pay a higher interest rate than high quality bonds.*

The chart below illustrates the different bond rating scales from the major rating agencies in the U.S.: Moody's, Standard and Poor's and Fitch Ratings.

Bond Rating		Grade	Risk
Moody's	**S&P/ Fitch**		
Aaa	**AAA**	**Investment**	**Highest Quality**
Aa	**AA**	**Investment**	**High Quality**
A	**A**	**Investment**	**Strong**
Baa	**BBB**	**Investment**	**Medium Grade**
Ba, B	**BB, B**	**Junk**	**Speculative**
Caa/Ca/C	**CCC/CC/C**	**Junk**	**Highly Speculative**
C	**D**	**Junk**	**In Default**

Laddered bonds

A collection of bonds that are usually divided equally between 5 different maturity dates, each date 3 years apart.

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Margin Debt	Money the brokerage house lends you so you can buy more securities. The house is willing to lend you half the cost of most purchases. You pay interest on the debt. Margin Debt increases the amount of securities you own and increases your potential risk…and gain. It is a very speculative step. For instance, if you have borrowed ½ the cost of a stock you buy, a 10% increase in the price of the stock means a 20% gain for you; a 10% decrease means a 20% loss for you.
Markup/ Markdown	The profit the house makes when they, as a principal, buy securities from you or sell securities to you. These charges are always supposed to be disclosed.
Maturity Date	The date when the bonds will be paid off, redeemed, by the issuer.
Limited Trading Authorization	A written agreement giving your broker authority to buy and sell securities in your account.

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