

Value Averaging Investing The Strategy for Enhancing Investment Returns



What is Value Averaging?

- It is a combination of **Dollar Cost Averaging** and **Portfolio Rebalancing**
- It is an averaging technique where the portfolio value increases in a defined way <u>irrespective of stock market direction.</u>



What is Value Averaging?

- First developed by former Harvard University professor Dr. Michael Edleson in 1988
- Edleson defines the value averaging concept as: "... make the value <u>not</u> the market price of your stock go up by a fixed amount each month."



THEY INVESTMENTICES!

It is a strategy that works regardless of the economic times.



VA Advantages

- A formula based system that forces investors to be disciplined when they invest and removes emotions.
- It invests more money when markets are low and less when markets are higher (buy low/ sell high).
- In most cases of back-testing it generates higher returns and lower average cost per share than Dollar Cost Averaging.
- A monthly growth rate higher than 0.7% but lower than 1% for the stocks is optimal in executing value averaging.



VA Advantages

- VA favors a higher compensation of reward for bearing a higher downside risk.
- VA generates a higher terminal value for investment accounts than dollar-cost-averaging
- The probability of achieving the target value for a portfolio is much higher and hence ideal for financial / retirement planning.
- Performance does not rely on forecasting or timing.



VA Challenges

- In constantly falling markets the investment amount may increase much beyond the investor's cash flow.
 Addressed by limiting the maximum investment per trade
- In rising markets it generates a sell which may result in unwarranted short term taxation and transaction charges.
 Addressed by using delayed selling or a no sell rule for taxable accounts
- If the market price of the investment continuously decreases, the absolute loss to the investor would be more than what the investor would have incurred by investing in DCA.
 Addressed by having a diversified portfolio with sector allocation limits



VA versus DCA

Parameters	Value Averaging	Dollar Cost Averaging			
Performance	Better compared to DCA in most scenarios	Lower compared to VA in most scenarios			
Cost of acquisition of units	Lower compared to DCA in most scenarios	Higher compared to VA in most scenarios			
Monthly investment amount	Variable	Fixed			
Portfolio volatility	Lower compared to DCA	Higher compared to VA			
Expected growth rate of portfolio	Known before starting the investment	Unknown			
Target amt for meeting financial goals	Can be achieved	Hit and Miss			



How VA works

Investment amount is calculated based on the following formula:

Investment Amt =Target Portfolio Value – Actual Portfolio Value

- Target Portfolio Value is calculated based on the long term historical market return for the asset class
- The investment amount for each period is different
- It is driven solely by mathematics



Simple VA Example

	DO	LLAR COS	T AVERAG	ING						
Month	NAV	Amount invested	Units bought	Total units	Target Value	Units bought	Total units	Total invested		
1	\$10	\$1,000	100	100	\$1,000	100	100	\$1,000		
2	\$10.50	\$1,000	95.24	195.24	\$2,000	90.48	190.48	\$950		
3	\$13	\$1,000	76.92	272.16	\$3,000	40.29	230.77	\$532		
4	\$8	\$1,000	125	397.16	\$4,000	269.23	500	\$2,153		
5	\$9.25	\$1,000	108.11	505.27	\$5,000	40.54	540.54	\$375		
6	\$10	\$1,000	100	605.27	\$6,000	59.46	600	\$594		



VA Results

	Average cost	Total cost	Current Value	Gain \$	Gain %
DCA	\$9.91	\$6,000	\$6 <i>,</i> 052	\$52	0.88%
VA	\$9.32	\$5,604	\$6,000	\$396	7.0%

Value Averaging Fund



How VA differs

- A large upward price swing often results in the sale of shares, instead of a purchase.
- VA results in an average cost per share that lower than DCA
- The return is enhanced greatly by the larger purchases at low prices and by the profit taking as shares are sold at higher prices.
- VA forces you to avoid big moves into a peaked market or panic selling at the bottom



Fund Features

- The objective of the VA Fund is to generate capital appreciation through investments in ETF's / Index Funds
- Proprietary software used to calculate buy/sell indicators
- Responsive to changing market conditions
- Enables enhanced returns without excessive risk
- Reduced Fund Manager risk.



Why ETFs and Index Funds?

- Numerous studies indicate that active managers may underperform their index-based benchmarks
- Seeks to closely track an index benchmark
- Cover a wide range of market segments, investment styles, sectors and industries
- Provide transparency of underlying fund holdings
- Offer potential tax-efficiency due to low turnover
- Feature low expenses compared to actively managed funds



Investment Strategy

- Target portfolio growth of between 8% to 12% annually
- Exchange Traded Fund (ETF) and/or Index Fund holdings
- Maximum 9 asset classes
- Trades done Monthly not daily
- Lower volatility and Low risk



Portfolio Framework

- 1. Determine Portfolio Objective
- 2. Identify the Market Sectors and determine Asset Allocation
- 3. Identify Securities for Portfolio
- 4. Back-test using the Value Averaging Methodology
- 5. Weight Portfolio to Maximize Returns and Yield
- 6. Implement Portfolio Holdings
- 7. Monitor and adjust to meet Portfolio Objective



Market Sectors

	VALUE AVERAGING GROWTH - ASSET ALLOCATION MODEL											
		CORE		EXPLORE								
Cash	BONDS	U.S. STOCKS	INT'L Stocks	REAL ESTATE	NATURAL RESOURCES	COMMODITIES	Emerging Markets	TECHNOLOGY				
Money Market	Long Bonds	Large Cap	Europe	Global Real Estate	Metals	Agriculture	BRIC	Internet				
			Asia	Construction and Materials	Energy		Emerging Markets	Telecom				
			Far East		-			Å				



Identify Securities

Date								
Category	INTERNATIO	NAL STOC	KS					
Security	Symbol	Av 1 year	erage Return 3 year	% 5 year	Risk Std Dev	Yield %	MER %	
Vanguard FTSE All World x US	VEU	1.68	-1.94		16.17	1	0.22	
² iShares MSCI x US	ACWX	0.89	-3.12		15.36	2.65	0.35	
SPDR S& P World x us	GWL	2.40	-2.58		16.44	3.00	0.34	
Wisdom Tree World x us	DNL	4.53	3.95	0.50	15.30	3.06	0.60	*
₅ Vanguard Total World	VT	3.60	-1.63		14.81		0.25	
Averages		2.62	-1.06	0.00	15.62	2.90	0.35	
 Date								
	-							
Category	EMERGING	MARKETS						
Category Security	EMERGING Symbol	MARKETS Av 1 year	erage Return 3 year	% 5 year	Risk Std Dev	Yield %	MER %	
Category Security	EMERGING Symbol	MARKETS Av 1 year 8.59	erage Return 3 year 8.14	% 5 year	Risk Std Dev 15.39	Yield %	MER %	*
Category Security Wisdom Tree Emerging Mkts 2 iShares MSCI Emerging Mkts	EMERGING Symbol DEM EEM	MARKETS Avi 1 year 8.59 -1.12	erage Return 3 year 8.14 2.51	% 5 year 6.06	Risk Std Dev 15.39 16.17	Yield %	MER %	*
Category Security 1 Wisdom Tree Emerging Mkts 2 iShares MSCI Emerging Mkts 3 Powershares FTSE RAFI	EMERGING Symbol DEM EEM PXH	MARKETS Av. 1 year 8.59 -1.12 -1.48	erage Return 3 year 8.14 2.51 2.42	% 5 year 6.06	Risk Std Dev 15.39 16.17 14.44	Yield %	MER % 0.63 0.69 0.85	*
Category Security 1 Wisdom Tree Emerging Mkts 2 iShares MSCI Emerging Mkts 3 Powershares FTSE RAFI 4 SPDR S & P Emerging Mkts	EMERGING Symbol DEM EEM PXH GMM	MARKETS Av. 1 year 8.59 -1.12 -1.48 0.34	erage Return 3 year 8.14 2.51 2.42 3.71	% 5 year 6.06	Risk Std Dev 15.39 16.17 14.44 15.73	Yield % 1.84 0.81 1.82	MER % 0.63 0.69 0.85 0.59	*
Category Security 1 Wisdom Tree Emerging Mkts 2 iShares MSCI Emerging Mkts 3 Powershares FTSE RAFI 4 SPDR S & P Emerging Mkts 5 Vanguard Emerging	EMERGING Symbol DEM EEM PXH GMM VWO	MARKETS Av. 1 year 8.59 -1.12 -1.48 0.34 -0.57	erage Return 3 year 8.14 2.51 2.42 3.71 2.82	% 5 year 6.06	Risk Std Dev 15.39 16.17 14.44 15.73 16.1	Yield % 1.84 0.81 1.82	MER % 0.63 0.69 0.85 0.59 0.22	*



Proprietary Back Test Software

Value Averaging Calculator

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Market Data:	Historical Mark	et Data 🔹	Value Path Type:	Money Market Conversion 🔹	Equity Sale Rule:	Immediate	•]
Ticker:	rwx	Fetch Data	Current Value:	0.00 🛊	Tax Rate:	0.0	
End Date:	03/06/2012	15	Future Value:	134885.02 :	MM Initial Value:		100000.00
	SPDR DJ Wils	iire	Cash in First Period:	1651.59 📜	MM Return Rate:	0.0+	
Duration (periods)	: 60	*	Value Path Growth Rate:	12.0	MM Alows Overdraft:	Rate:	8.0 ‡
Period:	Monthly	•]	Payment Growth Rate:	0.0 0	New Cash (min):	0.0 ÷ × 16	51.59 = \$0.00
Tool Tips:			Board Lot Rounding:	None •	New Cash (max):	0.0 ‡ x 16	51.59 = \$0.00
Export Settings	Import Settings		Board Lot Size:	100	MM Transfer (max):	5.0 × 16	51.59 = \$8,257.96
Export Data	Report						

Value Averaging Dollar Cost Averaging Charts VA vs. DCA Data Help

Period	Date	NAV	Avg. NAV	Inv. Growth	Pmt. Growth	Value Path	Shares Before	Shares To Buy	Shares After	Inv. Before	Req. To Invest	Inv. After	MM Before	MM After	MM Invested	Cash to MM	Cash Invested	Total Invested	ACE
1	04/02/2007	\$54.16	\$54.16	\$0	\$1,652	\$1,652	0.000	30.495	30.495	\$0	\$1,652	\$1,652	\$100,000	\$98,348	\$1,652	\$0	\$0	\$1,652	\$1,6 *
2	05/01/2007	\$55.13	\$54.64	\$17	\$1,652	\$3,320	30.495	29.721	60.216	\$1,681	\$1,639	\$3,320	\$98,348	\$96,710	\$1,639	\$0	\$0	\$1,639	\$3,:
3	06/01/2007	\$51.68	\$53.52	\$33	\$1,652	\$5,004	60.216	36.620	96.836	\$3,112	\$1,893	\$5,004	\$96,710	\$94,817	\$1,893	\$0	\$0	\$1,893	\$5,:
4	07/02/2007	\$48.59	\$52.05	\$50	\$1,652	\$6,706	96.836	41.178	138.015	\$4,705	\$2,001	\$6,706	\$94,817	\$92,816	\$2,001	\$0	\$0	\$2,001	\$7,:
5	08/01/2007	\$49.00	\$51.45	\$67	\$1,652	\$8,425	138.015	33.920	171.934	\$6,763	\$1,662	\$8,425	\$92,816	\$91,154	\$1,662	\$0	\$0	\$1,662	\$8,8
6	09/04/2007	\$51.57	\$51.46	\$84	\$1,652	\$10,161	171.934	25.092	197.026	\$8,867	\$1,294	\$10,161	\$91,154	\$89,860	\$1,294	\$0	\$0	\$1,294	\$10
7	10/01/2007	\$52.78	\$51.63	\$102	\$1,652	\$11,914	197.026	28.700	225.726	\$10,399	\$1,515	\$11,914	\$89,860	\$88,346	\$1,515	\$0	\$0	\$1,515	\$11
8	11/01/2007	\$48.40	\$50.98	\$119	\$1,652	\$13,685	225.726	57.013	282.739	\$10,925	\$2,759	\$13,685	\$88,346	\$85,586	\$2,759	\$0	\$0	\$2,759	\$14
9	12/03/2007	\$46.10	\$50.21	\$137	\$1,652	\$15,473	282.739	52.901	335.640	\$13,034	\$2,439	\$15,473	\$85,586	\$83,148	\$2,439	\$0	\$0	\$2,439	\$16
10	01/02/2008	\$43.71	\$49.23	\$155	\$1,652	\$17,279	335.640	59.677	395.317	\$14,671	\$2,609	\$17,279	\$83,148	\$80,539	\$2,609	\$0	\$0	\$2,609	\$19
11	02/01/2008	\$43.03	\$48.55	\$173	\$1,652	\$19,104	395.317	48.645	443.962	\$17,010	\$2,093	\$19,104	\$80,539	\$78,446	\$2,093	\$0	\$0	\$2,093	\$21
12	03/03/2008	\$43.03	\$48.06	\$191	\$1,652	\$20,946	443.962	42.822	486.784	\$19,104	\$1,843	\$20,946	\$78,446	\$76,603	\$1,843	\$0	\$0	\$1,843	\$23
13	04/01/2008	\$45.13	\$47.96	\$209	\$1,652	\$22,807	486.784	18.587	505.371	\$21,969	\$839	\$22,807	\$76,603	\$75,764	\$839	\$0	\$0	\$839	\$24
14	05/01/2008	\$44.29	\$47.61	\$228	\$1,652	\$24,687	505.371	52.025	557.396	\$22,383	\$2,304	\$24,687	\$75,764	\$73,460	\$2,304	\$0	\$0	\$2,304	\$26
15	06/02/2008	\$38.66	\$45.92	\$247	\$1,652	\$26,586	557.396	130.279	687.675	\$21,549	\$5,037	\$26,586	\$73,460	\$68,424	\$5,037	\$0	\$0	\$5,037	\$31
16	07/01/2008	\$38.51	\$45.39	\$266	\$1,652	\$28,503	687.675	52.469	740.144	\$26,482	\$2,021	\$28,503	\$68,424	\$66,403	\$2,021	\$0	\$0	\$2,021	\$33
17	08/01/2008	\$36,48	\$44.39	\$285	\$1,652	\$30,440	740.144	94.274	834.418	\$27,000	\$3,439	\$30,440	\$66,403	\$62,964	\$3,439	\$0	\$0	\$3,439	\$37
18	09/02/2008	\$31.80	\$42.11	\$304	\$1,652	\$32,396	834.418	184.310	1018.729	\$26,535	\$5,861	\$32,396	\$62,964	\$57,103	\$5,861	\$0	\$0	\$5,861	\$42
19	10/01/2008	\$23.75	\$37.44	\$324	\$1,652	\$34,371	1018.729	347.704	1366.432	\$24,195	\$10,176	\$32,453	\$57,103	\$48,845	\$8,258	\$0	\$0	\$8,258	\$51 -



Value Averaging Fund



VA illustration – Portfolio Value



Value Averaging Fund



Back-testing results

Value Averaging Calculator

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Market Data:	Historical Mark	et Data 🔹 🔻	Value Path Type:	Money Market Conversion	Equity Sale Rule:	Immediat	e •]
Ticker:	rwx	Fetch Data	Current Value:	0.00	- Tax Rate:	0.0	
End Date:	03/06/2012	15	Future Value:	134885,02	MM Initial Value:		100000.00
	SPDR DJ Wilsh	ire	Cash in First Period:	1651.59	MM Return Rate:	0.0	
Duration (periods):	60}	1	Value Path Growth Rate:	12.0	MM Alows Overdraft:	Rate:	8.0 0
Period:	Monthly	-	Payment Growth Rate:	u.u 📜	New Cash (min):	U.U 📜	× 1651.59 = \$0.00
Fool Tips:			Board Lot Rounding:	None •	New Cash (max):	0.0 ‡	× 1651.59 = \$0.00
Export Settings In	nport Settings		Buard Lul Size:	100 🤤	MM Iransfer (max):	5.0	x 1651.59 = \$8,257.96
Export Data	Report						

Average Cost Per Share

Equity Rates of Return*

Holding Period Total Return

Time-Weighted Total Return

Dollar Weighted Total Return

Annualized Time-Weighted Return

Annualized Dollar Weighted Return

Adjusted Cost Base

Final Equities Value

Annualized Return

VA vs. DCA Data Value Averaging Dollar Cost Averaging Charts Help

Value Averaging

Equity Data Average Cost Per Share \$31.49 Adjusted Cost Base \$100,359.48 **Final Equities Value** \$116,318.51 Equity Rates of Return* Holding Period Total Return 15.90 % Annualized Return 3.05 % **Time-Weighted Total Return** -32.61 % Annualized Time-Weighted Return -7.71 % **Dollar Weighted Total Return** 28.95 % Annualized Dollar Weighted Return 5.31 % Money Market Data **Final Money Market Value** \$0.00 **Overall Portfolio Data Final Portfolio Value** \$116,318.51

Money Market Data **Final Money Market Value** \$901.15 **Overall Portfolio Data**

Final Portfolio Value \$110,635.99

* See Help page for explanation of the rates of return

Dollar-Cost Averaging

Donar	COSt	Avei	ayınış
Equity Data			

\$32.96

10.73 %

-32.61 %

-7.71 %

22.20 %

4.16 %

2.10 %

\$99,095.55

\$109,731.54

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Weight for Maximum Returns

PORTFOLIO CONSTRUCTION

						1			
Portfolio Name	HEIRLOOM VALUE AV	ERAGING FUNE)			1			
Portfolio Size	\$ 1,000,000								
Core Segment Allocation	60.00%					-			
CORE Reamont Allocation	e eee eee	60.00W							
CORE segment Anocation	\$ 500,000	00.00%							
Coourity.	Castar	Ormhol	Funcated	Dividond	11/ of		Amount	Deturn	Mield
Security	Sector	Symbol	Return	Yield	Portfolio		Invested	Contribution	Contribution
Cash	Cash	0.000	0.00%	0.00%	20%	\$	200,000	0.00%	0.00%
Vanguard REIT	Real Estate	VNQ	8.50%	0.00%	5%	\$	50,000	0.43%	0.00%
SPDR DJ Global Real Estate	Real Estate	RWO	8.50%	0.00%	5%	\$	50,000	0.43%	0.00%
Wisdom Tree World x US ETF	Int'l Stocks	DNL	10.00%	0.00%	15%	\$	150,000	1.50%	0.00%
	an and a second second		12.00%	0.00%	0%	\$	and the second	0.00%	0.00%
S&P Small Cap 600	U.S.Small Cap	IJT	12.00%	0.00%	5%	\$	50,000	0.60%	0.00%
iShares Russel 3000	US Stocks	IWZ	11.00%	0.00%	10%	\$	100,000	1.10%	0.00%
				-	0014		000.000	4.05%	0.000
					60%	*	600,000	4.05%	0.00%
						-			
TARGET Segment Allocation	\$ 400,000	40.00%							
Socurity	Sector		Evnoctod	Dividend	W. of	_	Amount	Poturn	Vield
Security	360101		Return	Yield	Portfolio		Invested	Contribution	Contribution
						1			
iShares S&P Global Energy	Energy	IXC	8.00%	0.00%	10%	\$	100,000	0.80%	0.00%
Powershare Agriculture ETF	Agriculture	DBA	10.00%	0.00%	5%	\$	50,000	0.50%	0.00%
Market Vector Agri Business	Agriculture	MOO	10.00%	0.00%	5%	\$	50,000	0.50%	0.00%
SPDR S&P BRIC 40	BRIC	BIK	15.00%	0.00%	5%	\$	50,000	0.75%	0.00%
Wisdom Tree Emerging Mkts ETF	Emerging Mkts	DEM	15.00%	0.00%	5%	\$	50,000	0.75%	0.00%
Powershares Nasdaq	Technology	PNQI	15.00%	0.00%	10%	\$	100,000	1.50%	0.00%
		TOTALS			40%	\$	400,000	4.80%	0.00%
		PORTFOLIC	TOTAL		100%	\$	1,000,000		-
		Dividend Y	ield						0.00%
		Total Retur	n					8.85%	

Value Averaging Fund



Available Research

- Marshall, P.S., "A Statistical Comparison of Value Averaging vs. Dollar Cost Averaging and Purely Random InvestingTechniques".
- Paul S. Marshall, "A Multi-market Historical Comparison of the Investment Returns of Value Averaging, Dollar Cost Averaging and Random Investment Techniques".
- Edleson, M.E., "Value Averaging: The Safe and Easy Investment Strategy".
- Haiwei Chen, "A Monte Carlo Study of the Strategies for 401(k) Plans: Dollar-Cost-Averaging, Value-Averaging and Proportional Rebalancing"
- Bruce Ramsey, "HOW VALUE AVERAGING ADDS VALUE -Achieving Investment Goals Even in Tough Economic Times"



Summary

- It is a strategy that works well regardless of the economic times
- Fund performance does not rely on forecasting or timing.
- Can be applied to any investment strategy
- Value Averaging is a simple but promising method of investment that savvy investors can chose to adopt as part of a well-rounded financial plan.



About us



Bruce Ramsey, Portfolio Manager

- 20+ years experience in financial services
- 13 years as a licensed investment advisor
- 15 years experience in financial software design
- Former AVP at one of the largest mutual fund companies in Canada



Disclaimer

- Backtesting is the process of evaluating a core strategy by applying it to historical data. Backtested
 performance results are provided for purposes of illustrating historical performance had a core strategy
 had been available during the relevant period. Backtested performance results are hypothetical and have
 inherent limitations. We make no representation that the Value Averaging strategy will achieve
 performance similar to any backtested performance results. Actual results could differ materially from
 backtested performance and future results could differ materially from backtested performance. Past
 performance is no indication or guarantee of future results.
- Backtested performance results: (i) do not reflect the deduction of any management fees or trading commissions; (ii) are not based on actual trading and do not reflect any market impact of buying and selling securities, trade timing and security liquidity; (iii) reflect prices that are fully adjusted for dividends and corporate actions (e.g., stock splits).
- We do not represent that backtested performance information is accurate, complete or current, and we have no liability with respect thereto.
- The strategies outlined are subject to change without notice and we have no obligation to update you as to any such changes. The information provided herein comes from what we believes to be reliable sources however we makes no representations as to its reliability or accuracy, and you should undertake independent analysis to ensure the accuracy of the information.

