

INTRODUCING NETFOLIO: A POWERFUL NEW PROGRAM FOR AAIL MEMBERS

By John Markese, president of AAIL

HOW TO ACCESS NETFOLIO

As part of your AAIL membership, you are eligible to receive Netfolio's suite of investor-friendly tools at no cost. And for a limited time, Netfolio's premium service is also being offered to members at no cost. Just go to www.netfolio.com, click the AAIL Netfolio Subscription button, and enter your 10-digit AAIL member number (found on the mailing label of your *AAIL Journal*; do not enter any spaces) for both your user name and password. If you have changed your member number to a unique user name and password on your own, the Netfolio system is programmed to recognize this.

After registering, you will have unlimited access to the Netfolio Profiler, portfolio recommendations, The Hulbert Financial Digest, and Netfolio news, analysis, and interviews.

For any investment plan to be a success over the long term, all investors need to regularly address four key questions:

1. What are my financial goals, my personal situation, and my investment preferences?
2. What should my portfolio asset allocation be?
3. How can I populate my portfolio with investments that meet my goals and are the most efficient in terms of return relative to risk?
4. When should I make changes to my asset allocation and my individual investments?

These questions are simple to ask, of course, but they are complicated and all-important to answer.

Where can you turn to help you find these answers?

For one, Netfolio—a powerful new program for AAIL members that can help you successfully create and manage your own investment portfolio.

Here is what Netfolio offers at no cost to AAIL members (to access this new on-line service, see the accompanying box):

- **Netfolio Profiler**—A tool that examines your goals, risk tolerance, and investing style in order to create an asset allocation model and personal profile of you as an investor.
- **Portfolio Recommendations**—Computer-based recommended stock portfolios that are tailored to your investment goals, plus over 50 additional stock portfolios that you can choose from on your own, each with a unique investment strategy. These investment portfolios were all developed and tested using Standard and Poor's most comprehensive database, Compustat.
- **The Hulbert Financial Digest**—Objective ratings on 165 investment advisory newsletters.
- **Insights**—News and analysis, tips on financial topics, and exclusive interviews with experts.

THE FINANCIAL BACKBONE

Remember those four important questions?

The first two deal with financial goals, investment preferences, your personal situation, and asset allocation.

The Netfolio Profiler tool, through a series of questions, develops a financial and personal profile for you that answers these questions and can serve as the backbone of your financial plan.

Here are the key points that the Netfolio Profiler takes into consideration:

- *Assessing the amount of portfolio risk you are most comfortable with.* If your portfolios contain more risk than you are comfortable with, you are more likely to break your long-term investment plan when markets correct in the short term.
- *Determining the likely time horizon for your investments.* The more time you have to invest, the more risk you can take in your portfolios. Short-term portfolio variations are not a risk for long-term investors. The length of time until you intend to withdraw funds from an investment shapes your investment choice.
- *Your income levels and your current portfolio size to determine your*

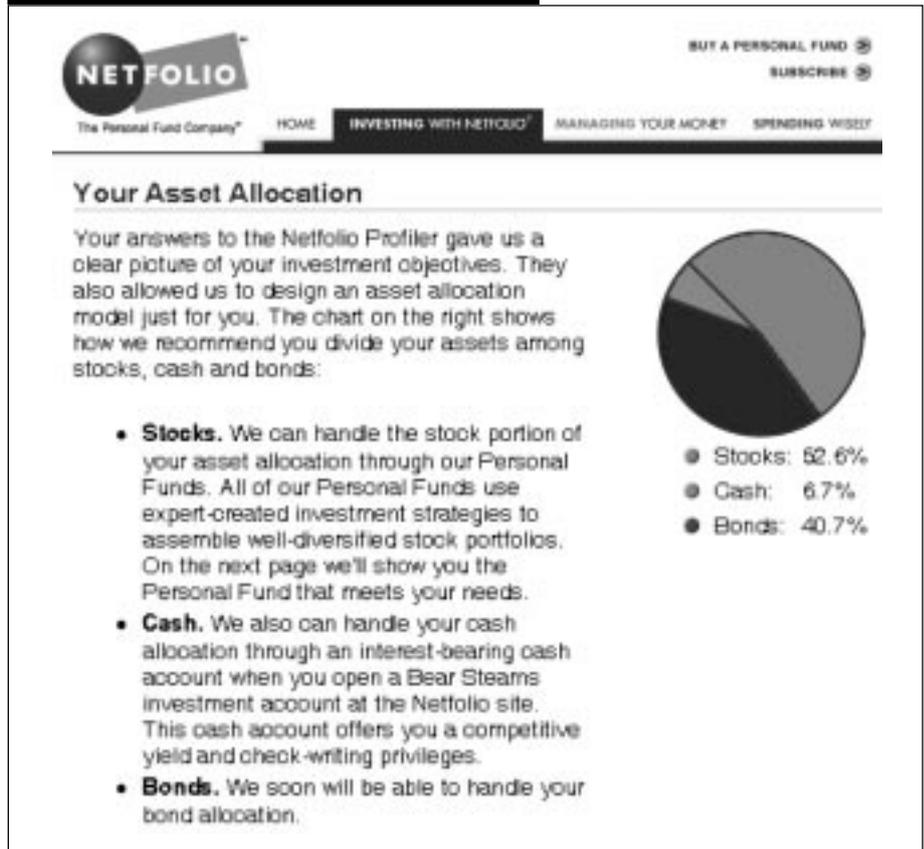
flexibility in portfolio composition. The greater your investable wealth, the more individual stock positions you can economically hold. Larger portfolios, for example, might consider extending portfolio diversification to a larger pool of stocks.

- *Your tax status and how the tax treatment of your investments affects your investment selections.* The higher your tax bracket, the more sensitive your investment decisions should be to the generation of income versus capital gains. And investments held in IRA, Keogh, 401(k), or 403(b) accounts may be invested differently than those in fully taxable accounts.

Your answers to the questions posed by the Netfolio Profiler provide the basis for an asset allocation recommendation, consisting of stock, bond, and cash categories, that reflects your investment objectives and your personal financial situation (see Figure 1).

Unsure of any of your answers? Go back and perform your own

FIGURE 1. YOUR ASSET ALLOCATION



sensitivity analysis—answer the questions in the Profiler again and

see how different answers affect the recommended asset allocation.

FIGURE 2. YOUR PERSONAL FUND

Symbol	Company Name (Exchange)	Market Price	No. Shares	Est. Total Investment
<input type="checkbox"/> AHC	AMEREN ENERGY CORP (NYSE)	77.43	17	\$1,316.31
<input type="checkbox"/> ADSE	AUTODESK INC (NASDAQ)	39.75	33	\$1,311.75
<input type="checkbox"/> ADSE	AUTODESK INC (NASDAQ)	39.75	12	\$477.00
<input type="checkbox"/> AZO	AUTOCZONE INC (NYSE)	27.04	60	\$1,622.40
<input type="checkbox"/> BSG	BEAR STEARNS COMPANIES INC (NYSE)	52.91	31	\$1,640.21
<input type="checkbox"/> BGEN	BIODEN INC (NASDAQ)	66.00	20	\$1,320.00
<input type="checkbox"/> BURL	BURLINGTON NORTHERN SANTA FE (NYSE)	29.00	74	\$2,138.00
<input type="checkbox"/> BR	BURLINGTON RESOURCES INC (NYSE)	50.11	27	\$1,352.97
<input type="checkbox"/> CERN	CEPHALON INC (NASDAQ)	58.94	9	\$530.46
<input type="checkbox"/> CE	CHESAPEAKE ENERGY CORP (NYSE)	10.23	48	\$491.04
<input type="checkbox"/> CIT	CIT GROUP INC (NYSE)	24.02	55	\$1,321.10
<input type="checkbox"/> DCA	DANA CORP (NYSE)	19.07	65	\$1,239.55
<input type="checkbox"/> DGS	DILLARDS INC (NYSE)	19.00	66	\$1,254.00
<input type="checkbox"/> DPM	DUPONT PHOTOIMAGING INC (NASDAQ)	61.19	8	\$489.52
<input type="checkbox"/> EMI	ELECTRONICS FOR IMAGING INC (NASDAQ)	28.31	17	\$481.27
<input type="checkbox"/> F	FORD MOTOR CO DEL (NYSE)	29.03	78	\$2,264.34
<input type="checkbox"/> FRC	FREDDIE MAC HOLDING COMMON (NYSE)	66.49	20	\$1,329.80
<input type="checkbox"/> GM	GENERAL MOTORS CORP (NYSE)	55.32	29	\$1,604.28

YOUR PERSONAL FUND

Your results from the Netfolio Profiler allow Netfolio to assist you with answers to the remaining questions—populating your portfolio and making asset allocation changes—by recommending a “Personal Fund,” matched to your investment situation and ideal asset allocation (see Figure 2).

A Personal Fund is simply a portfolio of stocks—your own fund—that you would control individually and collectively. Of the total that it recommends be invested in stocks, Netfolio details the percentage that should be invested in large-cap growth stocks, large-cap value stocks, and small-cap stocks, and it lists the specific stock investments that make up the recommended personal fund. Click on any of the stocks in the recommended

Personal Fund and Netfolio provides additional information.

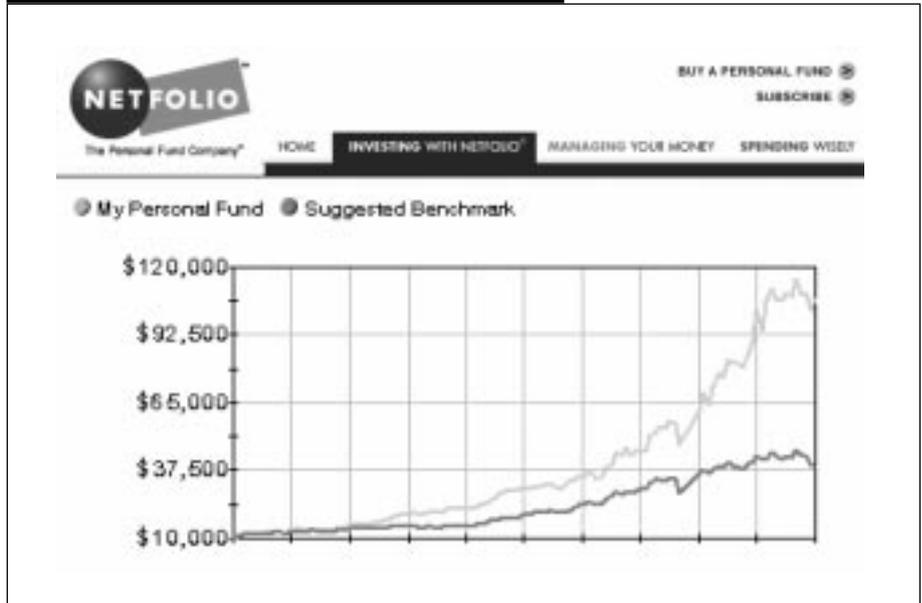
To give you a better feel for the recommended portfolio, you can select a historical period, as well as a benchmark, to see how this portfolio performed in the past: How volatile it was and how it behaved relative to the benchmark you selected (Figure 3). (Of course, you should always keep in mind that no matter what the investment, past performance may not be indicative of future performance.) This historical record is presented graphically, accompanied by useful statistics such as best-year return, worst-year return, and average annual returns over various periods, as well as risk measures of volatility.

You can further customize your personal fund by substituting stocks, or by changing the relative portfolio dollar weights for any stock.

POWERFUL ALTERNATIVES

Netfolio also offers you powerful

FIGURE 3. HISTORICAL PERFORMANCE



alternative ways to help you select Personal Funds. For instance, you may want a Personal Fund that is based on a historically tested strategy rather than one based on your profile. Just a few of the many

historically-tested strategies offered by Netfolio include: concentrated growth, market value, momentum growth, and a blended market index (Figure 4).

In addition to individual stocks, Netfolio also will recommend exchange-traded funds (ETFs), index funds that can boost diversification and exposure to different market segments, which can be traded and controlled just like a stock. These alternative strategies—their composition, behavior, and performance—are all presented for you to examine and analyze as an invaluable component of investment education.

And you can take the next step—investing in as many Personal Funds as you have selected or custom-built—with simply one click and no trading commissions, for a flat annual discounted fee for AAI members. You'll also benefit from additional features and tools.

No matter what level of investor you are or what shape your portfolio is in, take the time to log onto Netfolio.com; Netfolio will help you find the right answers to the four critical questions that all investors face. ♦

FIGURE 4. PERSONAL FUND INVESTMENT STRATEGIES: A SELECT FEW

Rank ¹ Score	Personal Fund Strategy	Avg. Annual ² Return	Volatility ³	Sharpe ⁴ Ratio	Best Year	Worst Month	Beta ⁵ Benchmark	Minimum Investment \$
98	Diversified Stocks I	26.8	18.4	1.19	49.2	-12.9	80.0	5,000
98	Diversified Stocks IV	24.8	17.3	1.15	46.3	-13.4	80.0	15,000
98	Diversified Stocks VI	26.8	18.2	1.20	74.0	-15.7	90.0	30,000
98	Mid Cap Blend	33.5	19.6	1.46	137.4	-13.2	80.0	20,000
91	Diversified Stocks II	27.2	18.4	1.21	50.1	-12.7	80.0	5,000
91	Diversified Stocks V	27.2	18.4	1.21	50.1	-12.7	80.0	15,000
91	Diversified Stocks VIII	27.3	17.9	1.25	70.1	-14.3	80.0	30,000
88	Diversified Stocks XI	19.3	17.5	0.82	42.1	-19.4	70.0	40,000
88	Mid Cap Growth	39.0	21.6	1.57	152.9	-13.4	90.0	20,000
87	Mid Cap 10	38.6	22.6	1.48	183.0	-14.4	80.0	10,000
87	Mid Cap 20	34.0	19.0	1.53	108.8	-14.5	80.0	20,000
86	Diversified Stocks III	27.8	18.6	1.23	50.9	-12.6	80.0	5,000
86	Diversified Stocks IX	27.4	18.0	1.25	69.2	-14.4	80.0	30,000
86	Diversified Stocks VII	27.3	18.4	1.22	50.4	-13.0	80.0	15,000
84	Blended Growth	18.8	19.2	0.72	45.1	-21.0	60.0	20,000
83	Blended Market Index	17.4	15.1	0.82	38.6	-15.2	50.0	20,000
80	Blue Chip Nasdaq 10	35.2	20.6	1.47	59.7	-17.8	60.0	10,000