System Explanation

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The Investment Process

The Wealth Designers promotes the accepted investment process that seeks low risk (low volatility) and high relative returns by diversifying clients= investments between the four core assets. These core assets of property, interest bearing deposits, cash and direct shares, form the underlying investments within the managed funds in which The Wealth Designers specialises.

Additional performance and security is then sought through accessing some of these assets internationally. In this way the movements of the different assets stabilise each other, while the exposure to world wide opportunities in growth assets can gain additional returns.

As a general rule, **no one of these core assets is excluded at any particular time.** All four have been recommended to be held even if in varying amounts.

By tailoring the mixture of assets to each client and their specific situation, and by regular reviews, rebalancing of the portfolio using the process described above can deliver very worthwhile investment returns to clients.

The Investment Process - Its Past Performance

Historic evidence points to the overwhelming success of the investment process described above in providing a measure of security whilst achieving worthwhile returns.

As we know however, times continually change, and the move towards a global economy and a global village through the incredible speed of the world wide communication network, and the abandonment of financial controls between different countries, may have diminished some of the benefits of the process.

In considering the impact of the world wide devaluation of shares in 1987, we also then noted the similarly wide spread devaluation of property that occurred from 1989 to 1993.

In February 1994 the US bond market led the whole world into a devaluation of long term interest bearing deposits which was unprecedented in its uniformity. The bond markets of different countries increased interest rates with no consideration given as to at what point that specific economy was in its cycle, an event which, like the 1987 share declines and early 1990's property slumps, saw the world act as one market.

1994 also saw an unusual situation where, led by the fall in bond markets world wide, equities generally, and even property, performed in a disappointing fashion over the whole calender year.

Introduction

While the traditional investment process seeks to avoid future forecasting by maintaining an exposure to each of the core asset types at all times, an alternative process does exist.

Primary based on the view that 80% of our returns will come from being in the right asset mix regardless of fund manager and specialist stock picking.

Secondly, is a nominated return needs to be established so that the asset mix reflects the mix that will generate the return in the easiest method (e.g: if an investor requires a 7% return, 80% of the portfolio will be invested in cash, giving us a return of 5%. The remaining 20% of funds will be invested as to attain the balance of 2% return).

The advantage to the investor is that we can now measure a result that is not based against an index. We can also measure the downside, so the investor is aware of the expected negative performance of their portfolio.

By concentrating the attention on the asset mix the client has agreed to an expected return or loss.

The Investment Process

Benchmark Aims

Asset Weighting	Up-Side	Down-Side
Low	9% Return	-3%
Moderate	12% Return	-6%
High	15% Return	-7%
Anytime	2% Higher than Cash Rate	-1%

Benchmark is the accumulation of growth and income but ignores tax consequences, it does allow for a 2% transaction fee.

Economic data and asset weighting details determine the yield of the 10 year bond and also cash rates.

Asset modelling is designed to achieve these rates the simplest way (eg as rates rise to 9% (low risk model is to achieve 9%) we would stay in cash/fixed interest).
(As rates reduce other asset classes would be purchased).

The advantage of this system is that by knowing what we want to achieve means we can measure our performance.

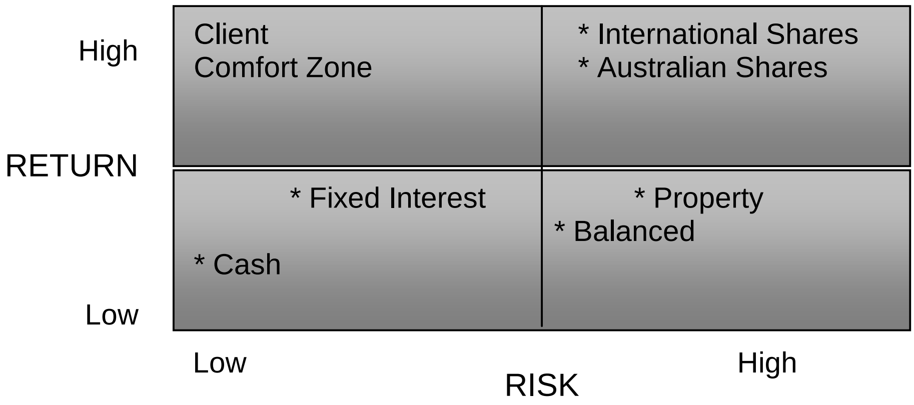
The entire modelling process is based on measuring the risk against the 10 year bond which is the risk free rate of return. For us to deviate to gain a higher rate of return we need to be able to measure risk versus reward.

The benefits of a defined asset allocation is to overcome the greed/fear cycle.

The Greed/Fear Cycle

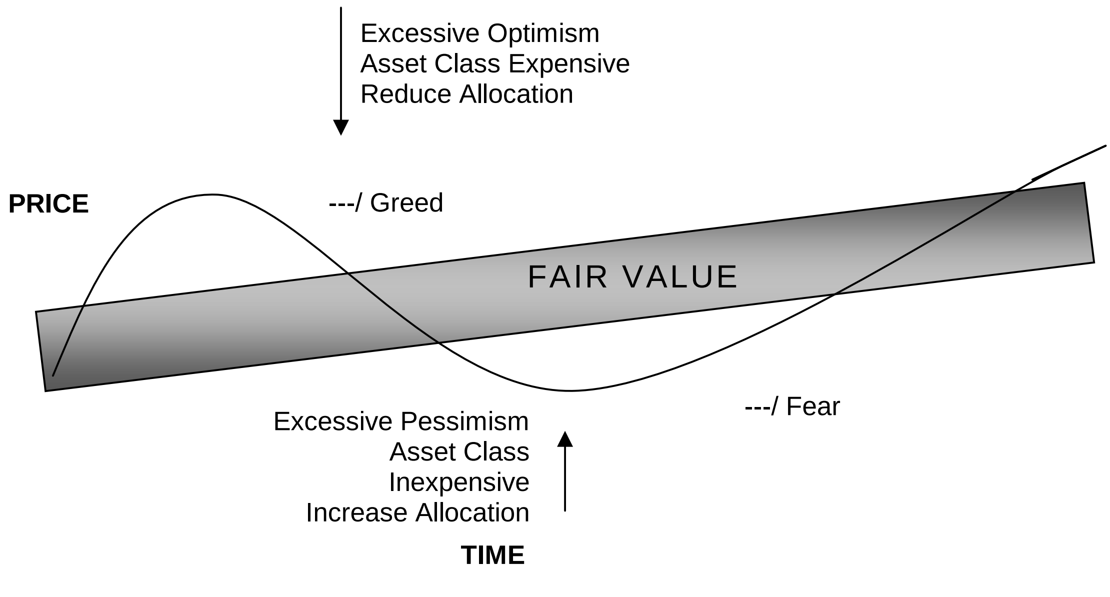
1986 - 87	Shares
1987 - 90	Unlisted Property
1988 - 91	Capital Guaranteed
1991 - 92	Cash
1991 - 94	Capital Stable
1993	S.E. Asia Shares
1995 - Nov 97	Shares
1997 - 98	Balanced
1999 - 2000	Technology
2000 - 02	Property

What Clients Want



A Market Cycle

Our modelling is designed to give a constant return allowing for the excess positive/negatives in the market.



How does the System Work?

The system uses economic fundamentals, statistical data combined with an enormous data base, and specifically designed software, to generate simple graphs that can tell you at a glance the implied trend of your investments= performance. It can be used to indicate a time during which an investment will underperform the benchmark (interest bearing cash investments) and therefore indicate a sale and reinvestment to cash.

Conversely, it can indicate that a buying opportunity is evolving through an asset seemingly increasing in value, so that cash can be better applied to owning that investment rather than accepting the cash rate.

The two main modules for assessing risk and return for each asset class and recommending portfolio asset weighting. A long term valuation module values assets against long term pricing fundamentals and a short term model that identifies short-medium term asset price movements by examining the short-term asset price history.

The long term module compares the current price of the asset with long term asset price averages. For bonds this is long term real interest rates. Equities use conventional valuation metrics such as price to earnings (P/E) ratio, price to book, equity risk premium and dividend yield. Property yields are compared to their long term averages against bond yields. Finally, cash is valued by predicting future Reserve Bank policy.

The weakness of a long term valuation model is that while there is a strong expectation that asset valuations will revert to long term valuation averages, in the short to medium term, significant market opportunities may appear in asset classes contrary to long term valuation signals. A powerful example of this has been the Dow Jones, which although overvalued on long term valuation fundamentals, has had substantial positive short and medium performance. Any fund manager that underweights this asset class because of long term valuation concerns would have seriously under-performed competitor managers.

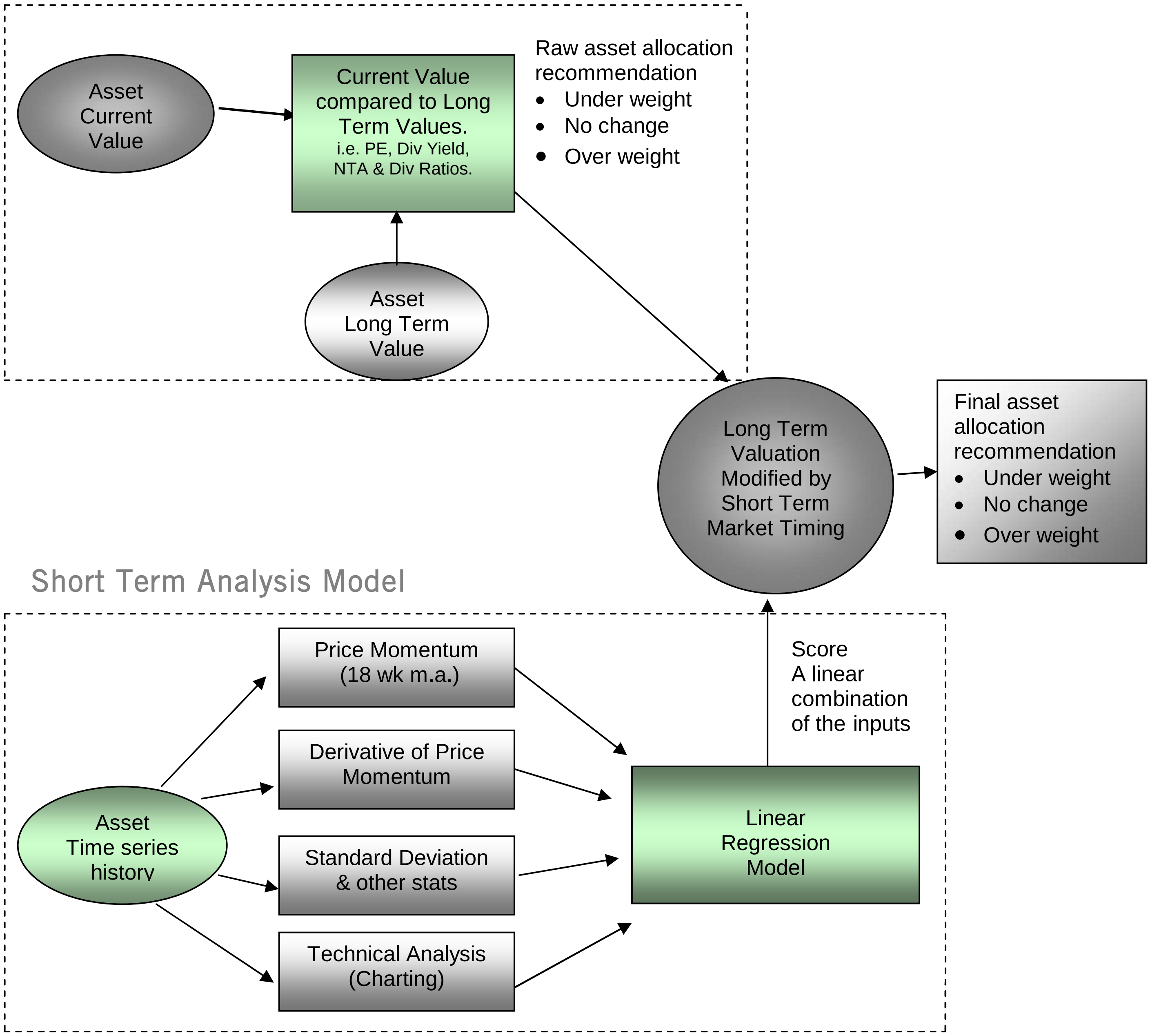
The technical trading model addresses this problem by incorporating a short term valuation model which examines the behaviour of the asset price history over the short-medium term (typically 18 weeks). From the asset price history, the price momentum (moving average), the first derivative of the price momentum, conventional descriptive statistics (such as std. dev.) And technical analysis (charting) are combined in a constant linear regression model and this produces a positive or negative score.

Main Investment Areas

BONDS	Australian Fixed Interest International Fixed Interest Mortgage Trust Hybrid Securities
SHARES	Australian International
PROPERTY	Australian (Listed and Unlisted) International (Listed and Unlisted)
CASH	Cash Management Trusts Term Deposits

Long Term Analysis Model - Benchmark to the 10 Year Bond

Short Term Analysis Model



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This score is then used to override the output of the long term valuation model. For example, the long term valuation is recommending an underweight stance on U.S. equities since this market is overvalued on long term fundamentals. However, the short term market timing signal model, by examining the asset price history, modifies this raw recommendation to a hold.

It is therefore quite different to traditional advice which sees portfolios maintained for the full investment cycle and subject to re-balancing, but not total disposal, of the particular asset class (eg traditional investment theory includes maintaining an exposure at all times to shares and property investments, even though the outlook may, in the short term, be negative).

Simply described our system seeks to allow you to see when your investments are rising and to maintain or buy more of them. At the same time our system may tell you that one of your investments is falling, and indicates when that sector of your portfolio could be brought to cash.

When any part of your portfolio is at rest you can be assured that it is earning the short term interest rate applicable at the time, and in this way our system guarantees that your monies are trending forward.

The following pages give a brief overview of how the system operates.

Steps

- Analyse a clients personal position and risk profile and determine anticipated rate of return.
- Using the long term asset weighting models select a benchmark for the clients recommendation.
- Using short term analysis model make any adjustments necessary to client recommendations, in view of short term outlook for investment markets and the economy.

What All This Means For You...

- **Confidence** That your investments are not only with leading managers and diversified for security, but also that they are actively monitored for profits.
- **Reduced Relative Risk** You'll know of significant downturns that suggest a change.
- **Increased Profits** You'll know of significant upturns that offer buying opportunities.
- **Knowledge** of actual investment events.
- **Timely Communication** of actual events in your portfolio.
- **Reassurance** that your investments are being closely reviewed.