

# How To Begin To Use Good Fortune

by **Bill Ragsdale, Editor**

## How Good Fortune Works For You

**T**he Good Fortune Advisory Letter gives you a systematic way to invest. It is designed for busy people who can't take time away from their other activities to become investment experts. It uses mutual funds from the largest fund family in the US, Fidelity Investments.

Our system has been validated over the last eighteen years using real-money in real-time. For three years, starting in 1989, I ran the mutual fund Sunshine Growth Fund. I started *Good Fortune* at the same time. After three years *Good Fortune* was producing about double the cash-on-cash investment return so I sold the mutual fund management contract and focused solely on the *Good Fortune* methods.

The results were so substantial I was able to retire from daily business at age 55. I now publish this advisory letter as a way to share my good fortune with you.

## The Simple Basis Of Good Fortune

**G**ood Fortune is published weekly with 52 issues a year. US subscribers receive it by US Mail, email text and email in the Adobe Acrobat PDF format. International subscribers receive it by text and PDF format. The PDF format gives you the exact replica of the mail edition with faster, world-wide delivery.

We have three investment plans, Maximum Compounding (MC Plan), Diversified and Income. As you will read below, I suggest you start only with the MC Plan and, even then, start slowly. The MC Plan holds one Fidelity Select sector fund. It typically exchanges at about two month intervals. That means six actions a year for fund exchanges which certainly is a small time commitment on your part.

With larger investment amounts you may also use our Diversified Plan, holding four funds, and the Income Plan, which holds one bond or money fund.

Good Fortune invests (almost always) in Fidelity sector funds showing the highest return over the last four weeks as a prediction of near future returns. We make our strong returns about twice a year as we catch and outperform major up-moves. In flat to down periods we attempt to break even.

There is a direct trade-off between risk (value fluctuations) and reward (investment return). We suggest people start with our Maximum Compounding Plan for highest return at the cost of a higher short term volatility. By diversifying across all three plans the annual return drops in half; The target MC Plan return of 20% drops to 11% in the Diversified Plan but our volatility drops from 130% of buy and hold to just 70%. This diversification gives 85% more return per unit of risk (volatility) than a buy and hold stock portfolio.

### **What Has The System Produced?**

The eighteen year performance result for the MC Plan has averaged 20.6% annualized. Our best year (1991) gained 71%; the poorest year (2001) lost -13.9%. Years 2001 and 2002 were losing years. While we beat buy and hold investing these losses showed our system is not invincible. Our largest cash-on-cash single holding loss was -9%. Two of three holdings are profitable; one in three shows a modest loss. We have had a draw-down from a short-term, high-value point of 30% (ouch). These values are from our history and not assured in the future.

I wish the returns were more consistent but the investment markets are not that supportive. If any investment system made over 15% a year with no dips it would become so popular the method would fail. So, the fact we have some losses and some dry spells means our methods can continue.

Investors do leave our system, usually in the first few months. Some become discouraged if they aren't profitable in a short time period. I suggest you start slowly following the letter for several months. Then start cautiously, as given below, and you'll be with us for the long term.

### **There Should Be No Rush To Start**

There simply is no way to determine the best time to start. Frustratingly, new subscribers often join just as we've completed a significant gain and are disappointed they've missed out.

Therefore your best move is to complete the trial period before making any changes to your present portfolio, just to be sure our letter fits your style. Only begin to follow it after you have come to the decision the \$147 a year cost is worthwhile and you have a paid subscription. This is a motivational issue. If you start too soon you will likely have doubts. Better to hold off investing until you are certain to continue for a year. Of course, we offer you a 100% refund at any time, even after all the issues have been received!

I strongly suggest an account directly at Fidelity. Exchanges by Internet or Touch-Tone phone are free. At other brokers, such as Charles Schwab, you could pay as much as \$100 per exchange. In the MC Plan that commission cost will be about \$250 a year. In the Diversified Plan it could run as much as \$900 a year. On a \$100,000 account this cost is less than 1%. But on a \$20,000 account your expenses would be several percent.

Fidelity's paperwork and statements are much clearer than Schwab's. I have accounts both firms and much prefer Fidelity. As a small point, Fidelity is putting in place tax lot linked transactions for better substantiation for the IRS. Not a major point, but they are leading the industry here.

### **If You Are New To Fidelity**

Fidelity has thousands of toll-free telephone lines, over 3,000 service representatives and one of the busiest Internet sites. Their staff is on duty to serve you 24 hours a day, 365 days a year. Try calling them at 2 PM on Thanksgiving Day, just before your big dinner. They'll be there.

To open an account simply call 1-800-544-8888 and request an account application. If you

# How To Read Good Fortune In 2 Minutes 30 Seconds

The five numbered items are critical and must be read each week. The rest of Good Fortune is background material. Delve into it only if you are interested in the logic behind our strategy.

**Good Fortune**  
 Mar. 7, 2008  
 Thursday 11:16 PM  
 Assuming Prosperity To Fidelity Investors Vol. 20, No. 10

**SUMMARY:** We have no exchanges this week. Fireworks again to the downside. Note that only one fund, Select Gold, has a decent Strength (table below) value above 1.025. While bond funds strengthened, none have positive gains over the last six weeks. With Sentiment swinging to the downside we will very likely have to wait a few more weeks. To buy we'll need \$1 moving upward and TI above zero.

**MAXIMUM COMPOUNDING PLAN:** No action this week. Continue to hold Select Money Market. Year-to-date gain is 0.8%.

**DIVERSIFIED PLAN:** No action this week. Continue to hold Select Money Market. Year-to-date plan gain is 0.8%.

**INCOME PLAN:** No action this week. Continue to hold Select Money Market Fund. The year-to-date loss is 0.8%.

**INDICATOR STATUS:** Our Indicator of the NYSE trend (TI) declined sharply to -0.6, a continuing stock market sell signal. It will signal a buy upon rising above zero. TI signaled last sell on 10/18/2007. TI is based on the number of issues up vs. down-trending on the NYSE. \$I, our Sentiment Indicator, softened to 31, and is now rated as 'OK to buy'. Above 50 we become concerned with market excesses while below 30 we look for a new buying opportunity. Our Value Indicator (VI) held about even at 2.19 (rated a 'strong buy' driven by short-term interest rates). Below 0.95 it will become rated as a sell. VI is the ratio of S&P 500 Index earnings and dividends to the T-bill interest rate. VI has been on a buy since 8/17/2007. The outlook is for an upward bounce which may have just begun.

**ASSET ALLOCATION:** Large portfolios should allocate 1/4 of total assets to the Maximum Compounding Plan, 1/4 to the Diversified Plan and 1/2 to the Income Plan. For the allocation details see our How To Begin guide.

**FUND RANKING:** A mixed week. One fund became up-rated and two became down-rated. Here is an evaluation of high-ranked funds by their own trends. For buy or sell guidance see our specific plans. As of 3/6/08:

Fund	Symbol	FAST	NAV	Strength	Rank	Trend
Sel. Gold	FGOLD	041	1.085	1	1	Up
Sel. Energy	FSENX	090	33.60	1.021	2	Up
Fid. Gov't Income	FGOVX	002	10.54	1.017	3	Flat
Sel. Chemical	FSCHX	069	80.80	1.009	4	Up
Sel. Money Market	FMMX	045	1.00	1.004	5	Up
Fid. Strategic Income	FSTIX	368	10.38	1.003	6	Down
Fid. Inv. Gr. Bond	FIBDX	026	7.04	0.998	7	Down
Fid. Mgmt. Sec.	FMSFX	040	10.17	0.994	8	Down
S&P 500 Index	SPX		1304.34	0.955	16	Down

**FUNDS TO AVOID:** Fidelity Blue Chip Growth, Growth Cos., Investment Grade Bond, Morning Security, DTC, Overseas, Pacific Basin, Strategic Income, Trend, Value and Technology, Biotechnology, Computers, Consumer Staples, Electronic, Energy Services, Financial Services, Health Care, Leisure, Paper & Forest Products, Medical Delivery, Retailing, Software, Technology, Telecommunications, Transportation, Utilities Growth and Rydex Inv. GL. Bond rank below average money market fund.

Market Outlook: Up Shortly

S&P 500 Year Gain -10.81%  
 Money Fund Year Gain 0.82%  
 MC Plan 2008 year-to-date gain is 0.8%.  
 New capital may be placed into any plan.  
 We have no exchanges this week.

1 Exactly what mutual fund to hold, buy or sell for best compounded returns.

2 Results so far this year.

3 A quick summary of any action for week.

4 A summary of each plan's holdings and performance.

Mar. 7, 2008 Good Fortune Number 918

**Maximum Compounding Plan - 3/6/08**

Status	Fund	Rank	Strength	Bought	Shares	NAV	Value	GL
Hold/RS	Sel. Money Mkt	5	1.007	10/23/07	25,204.10	1.00	\$25,204	0.82%
(Original value 1/1/08 \$25,000) Year 2008 Gain 0.82%								
Action: No action this week. Continue to hold Select Money Market.								

**Diversified Plan**

Status	Fund	Rank	Strength	Bought	Shares	NAV	Value	GL
Hold/RS	Sel. Money Mkt	5	1.007	10/23/07	50,409.10	1.00	\$50,409	0.82%
(Original value 1/1/08 \$50,000) Year 2007 \$50,409 0.82%								
Action: No action this week. Continue to hold Select Money Market.								

**Income Plan**

Status	Fund	Rank	Strength	Bought	Shares	NAV	Value	GL
Hold/RS	Sel. Mkt	5	1.007	11/19/07	25,204.10	1.00	\$25,204	0.82%
(Original value 1/1/08 \$25,000) Year 2008 Gain 0.82%								
Action: No action this week. Continue to hold Select Money Market.								

**So Who Benefits?**

Over the last 33 years we have seen the internal dynamics of stock trading evolve dramatically. After May 1, 1975, nicknamed "May Day" (also the international distress call), the US Securities and Exchange Commission no longer set the commission rates for stock trades. Was it for better or worse?

Originally the average commission was about 1% of trade value or about \$0.50 on a \$50 share; today it runs \$0.01 to \$0.08. Daily volume was about 19 million shares in 1975; now it's 4 billion. The chart at the right shows that growth in volume on an annual basis. During this time the minimum 'tick' or change in share price has gone from \$0.125 (1/8) to \$0.01.

There have been general results. First the door was opened for Charles Schwab to start the first discount brokerage.

Wall Street was dragged kicking and screaming into increased volumes at lower prices. Many firms prospered; some failed. Many of the former owned specialist firms, who were the middlemen at the exchange, sold out to brokerage houses. More failed when electronic trading came. The New York Stock Exchange began consolidating into a smaller physical space as trading moved "upstairs."

So are we better off? We have a mixed answer. The brokerage and now has six times the revenue of 1980 while the economy has only doubled.

Competitive trading is the norm for many hedge funds who mostly trade among each other. They probably are fooling themselves. The long term investor is better off from lower costs. I do see the major loser as the naive investor who thinks active share trading adds value.

We mutual fund investors are modestly better off as funds have a lower transaction cost but also might tend to trade too actively.

This piece is drawn from a recent Forbes editorial. You may see the original at <http://rbyuri.com/forbes>

Bill Magardale

5 An editorial on investing, saving, taxes, risk, retirement or legacy.

plan for simple saving and investing, their “mutual fund account” will work best. Your account will hold your specific mutual funds as you follow the exchanges suggested in *Good Fortune*. The account minimum is \$2,500 for a taxable and retirement accounts (IRA).

If you intend to hold non-Fidelity mutual funds or stocks, then request an application for a brokerage account. The best value is the basic USA Account with an optional debit card. There is no monthly service charge. There is a \$10,000 minimum investment required.

Include your starting investment with the account application for at least the account minimum. If you have an investment account at another firm, Fidelity will arrange the funds transfer with no additional effort on your part. The account application has a section "Funding Your Account" on which you specify the details. Instruct Fidelity to place your investment amount in the Fidelity Cash Reserves money fund at the start.

### Comments On Style

**W**e're not discussing how to pick your wardrobe, but the investing methods available to systematic investors. There are three overarching styles:

1. Aim for average performance by matching your portfolio to a market index.
2. Aim to beat the market on a relative performance basis. And,
3. Aim not to lose money by achieving better absolute performance.

Average performance, Method #1, is the easiest to achieve but the hardest to maintain. Simply buy a no-load fund (Fidelity Total Market Index) tracking a diversified index and hold for the long term. The benefit is you will outperform about 80% of other investors and investment newsletters. The down-side is you may have declines as large as 60% (1974) or take as long as thirteen years to recover losses (1929 to 1942). If the market is flat for the next ten years you will show no net return. It just might happen. There were essentially zero market gains from 2000 to 2006. The return from 2000 to 2008 was only equivalent to a money market fund yet had full stock market risk.

Relative performance, Method #2, is the goal of most investment newsletters and market advice sources. When it works you consistently outperform the gains of the market and your friends. The down-side occurs in a bear market. Sure, you beat the market, but that means you simply lost less than the index investor. It is rather like being on the top deck of a sinking luxury liner. You drown last and you drown in nicer company. The core difficulty is that you may lose confidence in the method after a couple of years and sell out just as the strategy resumes its profitability.

Method #2 is generally momentum based. That is, it invests in stocks or funds which show the greatest price rate of change during up-moves and hopes the down periods don't consume your accumulated profits. Another possibility is that you beat the market on the up-moves and lose more than the market on the down-moves. This was the outcome of the high-tech stock bubble which wiped out eight years of gains in the decline from 2001 to 2003.

Absolute performance, Method #3, takes a more conservative approach. It forgoes some potential up-side gain during bull markets in order to reduce or eliminate losses during bear markets. A simple absolute return portfolio has a high proportion of income funds (bonds) and defensive components (money market, gold). A typical mix would be 30% stock index

fund, 60% bond index fund, 10% international fund, 10% gold fund and 10% money market fund. Such a mix doesn't guarantee no loss years but it does have a dramatically reduced volatility and more consistent gains. The overall market has gained about 11% annualized over the last 70 years but with losses of as much as 30%. A well performing, absolute performance portfolio would have shown losses of only a few percent but average gains of only about 6% a year. My conclusion: most strategies give up a major amount of potential gain to achieve comfort. We the old investment dilemma, "Over the long term, do you want to eat well or sleep well?"

### **So Where Is Good Fortune In Style?**

**F**or our first thirteen years, from 1990 to 2002 we followed a strict momentum strategy which put us in the relative return camp, Method #2. By selecting funds with a strong recent price trend our MC Plan generated gains averaging about 30% a year, twice that of the overall market. We had years with a gain as high as 71% in our Maximum Compounding Plan and no losses through 2000. But the bear market which started in mid-2000 showed the weakness in a pure momentum strategy. Up-trends which had been twelve to twenty weeks long shortened to eight weeks. The down-trends lengthened to several months. Simply, there wasn't enough time in the up moves to overcome the drag of the down months. We beat buy and hold in years 2001 and 2002 by a total of 5% but still experienced losses.

Further consideration of the fundamentals of the US economy and investment dynamics convinced me the bear market which started in March, 2000, would continue for at least seven years, possibly for fifteen years, in a generally flat to down direction. Certainly there can and will be strong periods, such from 2004 to 2007, of recovery gains of 20 to 40%. But I conclude we will not have again in our lifetimes the dramatic gain of 1,433% (Aug. 1982 to March 2000) or even the 404% gain from October, 1990, to March, 2000.

Stated another way, the S&P 500 Index bottomed at 776 on Oct. 9, 2002. In 2012 I do not expect to see it at 3,910 nor have seen it reach that point in the interim. The basis for this conclusion can be found in the book *Stock Cycles* by Michael A. Alexander, published 2000, iUniverse Inc.

So what are we to do if the 'Golden Years of Investing' truly are history? The answer is simple. **We must be prepared to prosper under all outcomes.**

Our proven momentum strategy is late to enter a position and late to exit. That is the nature of trend following. But since we generally would hold high volatility sector funds their gain would outpace the market. The imprecision of trend following was more than made up for by the impressive short-term gains of the likes of Select Biotechnology and Select Computers.

However, the trends are now proving to be insufficiently short for this basic momentum-based method to prosper. Thus I have added another component targeted to catch reversals off of market bottoms and lead us into a momentum based position earlier than in the past. Likewise, the method aims to exit topping markets more precisely than in the past. It has an internal 'fail-safe' to exit a position if the original trend resumes.

All of this is carried with it a degree of error and uncertainty. The goal is for the winning positions to produce 4% to 8% more gain than the losing positions and occur twice as often. At the same time the strategy has been tailored to favor Method #3, absolute returns. Thus

we may exit what turns out to be a significant up-trend but which also carries an above average risk. In contrast to the booming 1990s, the 'eat well decade' I will be targeting the 'sleep well decade' of the 2000s.

This combination of Method #2 and #3 is controlled by following indicators of market conditions, so-called "market timing." More about that later.

### **How Should You Start A Good Fortune Investment?**

**H**ere's how to start your Good Fortune investment plan with the least risk and most peace of mind. The secret is to work on Fidelity's money. This process is not quite "dollar cost averaging." It is time-allocation, a way of making a significant portfolio change over time in harmony with market conditions.

This process is suitable for capital of about \$20,000 to \$200,000. If you have less than about \$20,000 I'd suggest simply placing the full amount in the the Maximum Compounding Plan. Above about \$200,000 I suggest diversifying across all three Good Fortune plans as given below in "How Should I Allocate Funds?"

So, for a middle-range investment amount, invest 1/3 of your funds in the MC Plan, and the rest in Select Money Market, a money market fund. When the MC Plan value rises 3% transfer another 1/3 into the MC Plan (this would be half the money fund amount). When the total rises another 3% then transfer the rest. Maybe this all takes a month; it might take six. Along the way, you'll get skillful at executing according to the clear Good Fortune style.

One possible irritation. Fidelity has imposed a minimum thirty day holding period in all funds. This is discussed later in detail. For now be aware that you should complete at least a thirty day holding period after you add new money to a fund holding.

The idea is for my investing system to prove itself for you week by week. If we have a down period, the bulk of your money sits a money fund, until the system kicks in.

Fidelity funds all became no-load (no sales charge) in mid-2003. If you exchange by voice telephone with one of their representatives you will be charged \$7.50 fee. The best value is to use their TouchTone Express (1-800-544-5555) or Internet (<http://www.fidelity.com>) which eliminates the exchange fee.

If we have an exchange while you are you are getting started the strategy may call for an exchange within 30 days. If you have made an additional purchase within 30 days you will be charged a 0.75% fee. This is reasonable to keep in synch with our system. However do NOT make more than once such short-term exchange in 80 days. See the details later under "Activity Limitations."

### **Here's an example:**

**F**irst, transfer your initial investment to Fidelity with instructions to buy the Select Money Market Fund. Next, after you verify by phone Fidelity has received the money, exchange 1/3 of the total amount to the top ranked Maximum Compounding Plan fund. This is given on the first line of the first page of Good Fortune, each week.

Note the purchase value (price x number of shares) in the MC Plan. Multiply by 1.03 (same as adding 3%). When your MC Plan value passes that amount transfer half of the money

fund amount to the MC Plan. You can determine your value at any time by calling Fidelity's FAST automated phone service at 1-800-544-5555. This process is not time or dollar critical. Don't call more than once a week; you could set a threshold higher than 3%. The idea is that you will increase your investment only in a rising market. See the note below on Trading Restrictions. After you have made this transfer multiply the new MC Plan value (shares x price) by 1.03. Later, when the MC Plan passes this second target, transfer the balance of the money fund to the MC Plan. You are on your way to the future you expect.

By phasing into the Maximum Compounding plan any short term losses only affect part of your capital and some of it is offset by profit. Sure, you give up some potential gain. In return you will be exposed to a much smaller chance of short term loss. There is nothing magic about waiting for a 3% gain. It is simply a reasonable, modest gain to prove our system is working for you.

### **It Isn't Complicated**

Occasionally a new subscriber says, "Your system is too complicated for me." Nothing could be further from the truth. Let me tell you why. Good Fortune was created for the busy professional who doesn't have time to build a second career as a financial manager.

In our Maximum Compounding Plan we hold one fund at a time, and tell you the exactly day to buy and sell. Read the letter carefully. There is no choice or discretion offered the subscriber. You either follow one or more of the three plans or nothing. MC Plan exchanges occur about six times a year. What could be simpler?

Good Fortune was created to combat the problem of the usual investment advisory letter which has two pages of fund data covering, say, 200 funds, with several evaluations (buy, hold, accumulate, aggressive buy, etc.) and requires the subscriber to select his own holdings. Then, there are about four pages of market analysis and a couple of pages on fund management. None of this leads to improved results. It is fundamentally provided as entertainment and to make the author look skilled.

The letter does become more involved but only for people with assets in the \$200,000 and above area who diversify across all three plans. But, again, there is simplicity as the exchanges are exact and unambiguous.

The whole of the letter is expressed in the first four paragraphs of page one. The rest of the material on market indicators, fund rankings, status, avoids, etc. are offered as background information for the curious and involved market watchers. None of that information is used by subscribers. Again, the critical, actionable content of the letter is given only in the instructions for the three plans at the top of page one.

### **Our Publication Schedule**

Good Fortune is sent by US Mail on each Friday with delivery between Saturday and the following Wednesday, depending on the delivery location and Post Office work load. The email edition is sent between 4:00 PM Friday and 4:00 PM Sunday. Most often you'll receive the email copy late Friday. About twice a year it will slide until Saturday or Sunday if I'm travelling and cannot arrange an Internet link. The exact email time varies as I do a significant amount of volunteer work with the Boy Scouts of America and sometimes am

away from an Internet connection.

If you are travelling you may arrange a duplicate issue for up to four weeks or a short-term change of address. We are happy to fax to hotels anywhere in the world by prior arrangement. We do not offer an automated phone hot-line but are happy to respond to phone calls from travellers.

### **On-Going Weekly Monitoring and Exchanges**

Once you're fully invested, just read the top of page one of each weekly issue of Good Fortune. You will see simply: "We have no exchange in any plan" or else "We have an exchange in XX Plan." Check the specific plan for instruction as "Exchange from Fund YY into Fund ZZ." Just visit Fidelity's web site or pick up the phone and pass the instructions to Fidelity. For automated phone exchanges call 1-800-544-5555. That's all; it is just that simple.

Some people raise a concern of investing taking too much time. Good Fortune reduces your effort to a one minute weekly scan of the issue and a phone call about every two months. I do hope you spend a couple of extra minutes reading my editorial at the bottom of page two on a timely investment topic.

I suggest you exchange at the earliest opportunity. An analysis of the last four years' results suggest that each day you wait past Monday will reduce you long term profit by 0.43% a day of delay.

To make an exchange pick from these three alternatives

- Touch-Tone telephone: call 1-800-544-5555, 24 hours a day. Establish a PIN number on your first call. Follow the voice prompts. It is easiest to identify funds by their three digit (FAST) number noted in Good Fortune with each exchange instruction. Call Fidelity for a booklet on using the wealth of information offered on their FAST system.
- Internet: visit <http://www.fidelity.com> Select the Log-In button, enter your tax ID (Social Security) number and PIN number. Recently Fidelity has shifted to an alphanumeric ID and password system.
- Voice telephone. Call 1-800-544-6666 24 hours a day. Enter your tax ID number and PIN number and give the exchange instruction to the Fidelity representative. There is a \$7.50 exchange cost for this method. At the end of the call you will be given a confirmation number which you should write down. They use this number to locate the telephone tape recording in case of error.

### **So, How Does The System Work?**

My system is driven by a computerized ranking of thirty-two Fidelity mutual funds based on their four to six week total return, including price change and any dividends paid.

Our three plans buy from that list according to a simple rule set. The Maximum Compounding Plan holds the single, top ranked fund; the Diversified Plan holds four higher ranked funds and the Income Plan holds the single top ranked income fund. The exchange

rules are slightly more involved for short holding periods and at the rare times our market timing indicators (TI & VI) are both on a sell signal. After a significant market decline we will use an 'early buy-in' which will select funds further down the ranking list but that have shown particular price strength.

This ranking method has three benefits: 1) there is a degree of persistence by sector, i.e. industry trends can continue over time, 2) the higher performing funds tend to automatically align with market conditions (defensive funds during flat markets and aggressive funds during major bull market moves) and 3) we favor funds with a high volatility (beta) during market uptrends.

The last point bears expansion. High beta funds gain more than the overall market during up moves and lose proportionately more during down moves. If we are successful in holding high beta funds during up moves we receive the benefit of what I call 'hidden margin.' If a fund has a beta of 1.30 it gains or loses 30% more than the general market. In an up-move the effect is the same as buying 30% more shares with borrowed money (margin). However, we don't borrow, we don't pay margin interest and we don't buy the extra shares. The inherent volatility of the fund is working for us for this extra boost.

When a trend has run to exhaustion, our ranking system reveals the next best choice. In a flat to down market we often move to defensive funds (energy based or consumer cyclical) or an income fund. We do a modest amount of market timing to avoid down spells.

Over our history, about two of three holdings are profitable and one of three shows a loss.

There are two irritations to this method. First, our greatest benefit is from bull market moves over several months. However, in the market environment after year 2000 these moves occur much less often. Now we expect to routinely encounter trends of four to twelve weeks and adapt to them. Second, we have a trend following system augmented with a component to detect trend reversals as early as practical.

### **Who Is Bill Ragsdale?**

I have been fascinated with mathematics, finance and computers from age 16 onward. I graduated from the University of California, Berkeley, in 1962 with BS in Electrical Engineering. For twenty-five years I ran my own electronics manufacturing company making security products. Along the way I received an MS in Management from the Stanford Graduate School of Business and did three years of post-graduate work in Statistics at Cal. State Hayward, managed the mutual fund Sunshine Growth Fund and was a Registered Investment Advisor.

I sold my company in 1995 to focus on Good Fortune. I am also an Assistant Scoutmaster with the Boy Scouts and am District Chairman for our local Scout District. I occasionally speak at investment conferences using the proceeds to support our local Boy Scout Troop.

### **Fund Prices And Tracking**

The Fidelity Select Funds are once a day at 4 PM Eastern time. Before 2007 these funds were priced hourly and you may see references to that method in earlier publications. Your exchanges will be priced at the next announced fund price after your trade is received,

either at the daily close if received before 4 PM Eastern or the next day if after that time.

For our performance record, we use the 4 PM, Eastern time, closing prices on the Monday following Good Fortune publication unless otherwise noted. With the advent of email at least 90% of our subscribers have our exchange information before Monday morning.

Questions occur occasionally when a subscriber receives an exchange confirmation at a price different from that published in Good Fortune. If you exchange a fund on a market day, during trading hours you will receive the 4 PM Eastern. If you make an exchange after 4 PM or over the week-end the exchange will be made at the next market day's closing price.

### **Good News - No More Sales Charges**

**M**utual funds historically have had a sales charge used to pay sales representatives. Thirty years ago you would pay an 8.5% sales charge for the privilege of buying a mutual fund. Fortunately, the advent of no-load mutual funds in the early 1970s changed all that. By advertising in print and using toll-free phone numbers fund managers bypassed the cost of sales representatives. This pressure also brought down the cost of full-load funds.

The typical broker sold funds now have a sales charge of 4.5% to 5.5%. However the broker sold funds have become ingenious in disguising charges. They use various schemes of deferred charges and conditional charges usually noted by fund series of A, B, C etc.

Until mid-2003 many of Fidelity's specialized funds had a one-time sales charge, generally 3%. Such funds included Contrafund, Low-Priced Stock, Emerging Markets, Latin America, all Select funds, etc. Due to competitive pressures in the investment industry these charges have been removed.

We do face some on-going costs. If you make exchanges from fund to fund by the FAST Touch-tone telephone system or Fidelity's Internet website there is no exchange charge. If you use a voice telephone to call a representative the cost is \$7.50. On Select fund holdings of under 30 days we pay a 0.75% short term exchange fee.

### **Activity Limitations**

**F**idelity now imposes holding period limits on all their funds except for money market funds. These limits are in addition to any short-term exchange fees. Good Fortune observes these limitations but our investors should pay particular attention if purchases have been made on the dates other than as specified in our exchange instructions.

Fidelity defines a "roundtrip" as the purchase and sale of a fund within 30 days. If you have made a series of purchases in one fund they use the shortest buy-sell period.

Shareholders with two or more roundtrip transactions in a SINGLE fund within a rolling 90-day period will be blocked from making additional purchases or exchange purchases of each fund for 85 days. This will not be a limit as we simply would not repurchase within the 90-day period.

Shareholders with four or more roundtrip transactions across all Fidelity funds within any rolling 12-month period will be blocked for at least 85 days from additional purchases or exchange purchases across all Fidelity funds. Any roundtrip within 12 months of the expiration of a multi-fund block will initiate another multi-fund block. Historically we have

only had about one short-term exchange every two years and would never approach these limits.

Finally there are some exceptions for transactions under \$1,000 and retirement plans. For the full details refer to each fund prospectus.

### **How Should I Allocate Funds?**

**T**he following allocation aims for aggressive gains in the early years when your capital is lower. As your capital grows, the allocation then shifts to a more conservative and diversified approach. Such diversification evens out a lot of the short term fluctuations in the individual investment plans.

In exchange for less volatility and more peace of mind, you give up some annual gain. Diversification also adds a bit more work in exchanges and record keeping. Review your proportions in each plan twice a year and rebalance. You may also choose a larger number than \$100,000 at which to diversify.

Below \$100,000: Follow the Maximum Compounding Plan as given at the top of page one in Good Fortune. Hold the top ranked selection.

Above \$100,000: Place \$100,000 in the Maximum Compounding Plan single holding. Place the rest in the Diversified Plan divided evenly into its four fund holdings up to a total of \$200,000.

Above \$300,000: Place \$100,000 in the Maximum Compounding Plan single holding. Place \$200,000 evenly divided in the four Diversified Plan selections. Place the rest in the Income Plan to \$100,000.

Above \$400,000: Divide your capital between the three plans in the proportion:

MC Plan = 25%; Diversified Plan = 50%; Income Plan = 25%.

For example, for \$400,000 over all of year 2000, you would have had a combined gain of 12.27%, less than the MC Plan alone (25.48%), but much better than the Income (10.83%) or the Diversified Plan (6.38%) alone. And your combined 12.27% was significantly better than the S&P 500 Index loss of -9.10%.

More importantly, short term equity fluctuations would have been substantially reduced.

### **Then Continue Week By Week**

**J**ust scan each issue of Good Fortune for the plan holdings and exchanges clearly given at the top of page one. Then check the top of page two for the investment status and return of each of the three plans since the first of the year. shown in percentage and dollars. You should be tracking right along with those results.

That's it. Profitably using just 10 minutes a month, you are in control and on your way.

### **If You Are Travelling...**

If you are travelling we will fax, email or mail duplicate issues anywhere in the world for up to four weeks. Your regular copies will be at home upon your return. Beyond that period we make a temporary address change. We are not able to offer fax for your basic subscription.

### **Position Limits**

Fidelity reserves the right to limit large fund holdings. By SEC regulation you may always redeem any position. But, Fidelity may limit large purchases, especially in smaller funds. Their limits are 1% of a fund's total assets or single purchases in the \$500,000 range, subject to interpretation by them. Large exchanges, over several hundred thousand dollars, may have been made by voice telephone for added verification. The representative may put you on hold while he checks with the fund manager that a large purchase will not be disruptive to the fund strategy.

I have had no difficulty with purchases in the \$350,000 range but have had reports of difficulty by subscribers for single investments of \$900,000. I judge Good Fortune effective for a total portfolio up to \$1,500,000 but suggest you consider other methods for amounts above that.

### **Our Investment Universe**

There are over 6,500 mutual funds. Fidelity Investment sponsors about 300 funds. Some investors feel their success depends upon discovering that one special fund which will outdo all the rest. Let me share a little-appreciated investment principle. Among diversified funds the correlation is usually over 90%. That means there is barely a 10% difference between funds and even that difference averages out randomly over time. Sure, Fidelity Magellan was a leading fund for 20 years. But, just when millions of investors discovered it, its results became quite average.

With a fund exchange system, as used by Good Fortune, the more funds tracked the more often exchanges occur. So in our case, fewer funds mean a reduced activity level. We started with 26 funds in 1988 chosen for the minimum correlation between them and expanded the list to the current 32.

The important lesson is funds should be as varied as possible in their investment method and target stock investments. To outperform the over-all market we must hold funds which are different from the over-all market. Thus we are drawn to the industry based sector funds such as those in the Fidelity Select fund group. Fidelity's Select fund family was established in 1984 and we have tracked it weekly since 1988.

Here is the current list of funds tracked by Good Fortune:

#### **Sector Funds**

Select Biotechnology  
Select Brokerage  
Select Chemical

#### **Diversified Funds**

Fidelity Blue Chip  
Fidelity Growth Co.  
Fidelity OTC

#### **Income Funds**

Fidelity Gov't Income  
Fidelity Investment Grade  
Select Money Market

Select Computers	Fidelity Overseas	Fidelity Mortgage Sec.
Select Consumer Staples	Fidelity Pacific Basin	Fidelity Strategic Income
Select Electronics	Fidelity Trend	
Select Energy	Fidelity Value	
Select Energy Service		
Select Financial Services		
Select Gold		
Select Health Care		
Select Leisure		
Select Medical Delivery		
Select Paper and Forest Prod.		
Select Retailing		
Select Software & Comp.		

### **Taking The Issue Apart**

**L**et's look at the components within each issue of Good Fortune. We'll reprint the individual parts here. Or, you can refer to your latest Good Fortune issue.

Most importantly, the information critical to read each week is contained only in the first four sections labeled: SUMMARY, MAXIMUM COMPOUNDING PLAN, DIVERSIFIED PLAN & INCOME PLAN. They express our current holdings and any portfolio changes. All the remaining material of Good Fortune is background on our methods, market conditions and my editorial comments.

In particular, avoid reading table listing funds at the bottom of page one and then feeling you must deviate from the exact portfolio instructions in the first four paragraphs. I present this fund data as a way to spot possible new holdings. No action is needed on your part.

### **Page One Fund Table**

**R**emember, the fund data is provided only for general reference of the curious. You need not read it nor take action based on its contents. The lower ranked funds are omitted as they are insignificant to our system.

The "No." entry is the number Fidelity used to identify funds on their automated telephone system called FAST. Call 1-800-544-5555 try it. FAST may be used for single quotes, your custom list of quotes, account information and fund exchanges.

"Strength" is the strength of trend for each fund. It is approximately the fund's gain or loss relative to 1.00 over the last four weeks. A value of 1.040 means the fund has gained about 4%. A value of 0.960 means the fund has lost about 4%.

The "Rank" value is the relative position of each fund based on its Strength. When an exchange is called for we pick funds from the top of this list which have a "Up" Trend.

The "Trend" value is the 4 week direction of trend for each fund. If increasing it is "Up." If decreasing it is "Down." If within a 2% band it is "Flat." The only use we make of the Status is at the time an exchange from fund to fund occurs. We ignore the Downs and Flats and will

only buy an Up rated fund. This means that on occasion we will skip the #1 fund (if a Down) and buy a lower ranked fund (if an Up). The intend is to skip buying into a newly declining fund.

### **Funds To Avoid**

**T**he Avoid box at the bottom of page one notes the funds with a recent returns below that of holding a money fund. It is a firm reminder if you owned one of these funds and skipped selling it now is a final reminder. Some of the technology funds have been on this list for two years losing 80% of their value along the way.

### **Mix And Match? No Way**

**Y**ou may dress in style if you match a sport coat and slacks or a blouse and skirt. Mixing is not stylish when it comes to investing.

A prospective subscriber emailed to ask if Good Fortune would help his strategy. He subscribes to four investment letters, places their recommendations on a spread sheet and looks for common factors. Then he picks funds from what he judges to be the best choices in common. I respectfully suggested Good Fortune would not help him.

He is trying to add value from his efforts and to be personally involved. The trouble with this method is by combining four strategies into one, he has created a totally unique fifth strategy, not improved on the originals. Each of the four letter strategies has documented performance over many years. His combination has no such record as he just started one year ago.

This reminds me of a recent appearance on the Jay Leno show of a hybrid lion-tiger. It turns out these species rarely cross breed. But when they do a freak is produced. If the father is a lion the offspring is a 9 foot long giant. If the father is a tiger the offspring is a dwarf. And the offspring are sterile.

So it is with a hybrid strategy. You won't know what you'll get unless you have six to ten years of data on the entire strategy. My bet is the subscriber will try to add some 'improvement' to his strategy in the mean time, which will negate his history and require a restart for six more years.

There is some hope for those who happen to subscribe to several advisory letters. Simply partition your investment capital into equal amounts and allocate one of these sub-portfolios to each advisory service. Then precisely follow each advisory, trade by trade, keeping meticulous records. At each year end you can make three evaluations:

- 1) Did each of your sub-portfolios obtain the result claimed by the advisory letter? If not find why. You certainly are entitled to a strategy which can be implemented in real life.
- 2) Compare each portfolio against the major market indices. Have you beaten buy and hold? Why do all this work if you aren't getting better results than an index mutual fund?
- 3) If one sub-portfolio consistently under-performs its peers, say over three years, then discontinue it and replace it with another.

The above process will ensure that over time you will move toward better advisory strategies. The acid test would be to make one of the sub-portfolios the Fidelity Spartan Total Market Index Fund. You will find that only one advisory in ten will beat that fund. Over time you will either find those better services or will end up with the Market Index Fund as your major holding.

I can offer this advice on using my competitor's services as the Good Fortune Maximum Compounding plan has beaten the S&P 500 Index by over 10% a year over the last eighteen years. So I'm confident we will be on your list of "keepers."

### **Fine Points of Starting**

If you are transferring an existing TIAA/CREF account, 401(k) or similar company sponsored retirement account to Fidelity go slowly, to synchronize with the Good Fortune style.

If your current account is in Fidelity mutual funds you may have the transfer made "In Kind" or "Liquidate To Cash." This financial term means the fund shares will be transferred from account to account, or else liquidated into cash and the cash value transferred. The transfer is initiated at the receiving company. But check with the sending company to see if they have any special restrictions. If you are holding non-Fidelity mutual funds you may have to liquidate to cash before the transfer.

Re-read the section above "How Should You Start A Good Fortune Investment?" about starting with 1/3 increments and wait for at least a 3% profit, etc.

### **Rebalancing For Risk Reduction**

Rebalancing - Over time some funds or plans will grow out of their proportion in your initial allocation. Taken to the extreme, one holding could some day be 95% of your assets. It is prudent to remain diversified across our three plans to reduce volatility and produce more consistent returns. We'll discover a hidden investment benefit from rebalancing, that is, restoring the plans to a base-line allocation.

During bull markets the Maximum Compounding Plan will generally grow the fastest. During bear markets the Income Plan will likely be strongest. We will never know which, in advance. Our secret advantage is that rebalancing will automatically perform the investors goal: buy low and sell high. Most investors react emotionally and sell securities that are down in value and buy a rising investment. Oddly, they are buying high and selling low. Our method requires no decisions other than how often to rebalance.

I suggest you rebalance at least once or twice a year. The Hulbert Financial Digest actually does a monthly rebalancing in its performance calculations. Again there is no magic answer other than to pick an interval and stick with it. Twice a year is an excellent compromise between effort and benefit.

The best way to start rebalancing is to wait for the next exchange six months from your last rebalancing. To rebalance, simply list your holdings, their dollar value, and your target values in percentage and dollar terms. When an exchange is called for in an over-weighted fund exchange a portion of its value into an underweight fund and the balance into the specified new holding. To comply with Fidelity's trading restrictions be sure the fund you

sell from has been held at least thirty days. Also note you have started a new thirty day holding period in the two funds purchased.

Here is a hypothetical example assuming you have holdings in all three of our plans. If you have a smaller number of holdings simply assign the individual percentages so they total 100%. If following only the MC and Diversified Plans I'd allocate 36% to the MC Plan and 16% to each of four funds in the Diversified Plan. This need not be rocket science. If you are within a couple percent of the targets, fine.

Plan	Fund	Dollars	Target	Target	Action
		Held	Percent	Dollars	
MC	Fund A	\$55,000	25.0%	35,000	sell \$20,000
Diversified	Fund B	10,000	12.5	17,500	buy \$7,500
	Fund C	12,000	12.5	17,500	buy \$5,500
	Fund D	9,000	12.5	17,500	buy \$8,500
	Fund E	14,000	12.5	17,500	buy \$3,500
Income	Fund F	40,000	25.0	35,000	sell \$5,000
	Total	\$140,000	100.0%	\$140,000	

### More Information

You will automatically receive a Prospectus for any fund in which you invest. I don't expect you to read it cover to cover but you should become generally familiar with the information it contains. If you ever have a dispute with Fidelity they will cite information from the Prospectus as a starting point. On your request they also will send you the fund's Statement of Additional Information which contains even more detailed minutiae.

Fidelity Investment's Mutual Fund Guide is a much more readable and useful publication. It is very large, over 500 pages. This guide covers all Fidelity's funds with performance information, current investment holdings, dividend history, costs, investment minimums and much more. It costs \$135 a year and is published every month or quarterly. A quarterly subscription is quite sufficient. Call 1-800-908-0068 to subscribe.

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