The Four Pillars of Wealth

How to achieve your financial goals in the new millennium

Dear Fellow Oxfordian:

If you're like most Oxfordians, you came by your wealth the old-fashioned way. You earned it. You did it through success in your career, or starting your own business, or through education – augmented, of course, by a program of careful investing and financial planning.

So the last thing that you want to have happen as you seek to establish a solid financial future for your family, plan for your retirement years, or begin to enjoy the fruits of your life's work is to see your wealth leached away or, worse, disappear due to an unforeseen financial situation.

You need to protect what you have. And that's why we've created this report. With it, you'll learn about the four corners of *The Oxford Club's* investment philosophy. They are:

Stick to the Oxford Asset Allocation Model: One factor in investing outweighs every other in dictating your portfolio's performance. It's asset allocation. And we'll show you how we're doing it right now, enabling us to profit while others' portfolios plunge.

Adhere to the Oxford Safety Switch: At *The Oxford Club*, we never make a recommendation without knowing our exit strategy. That's the beauty of the safety switch. It lets our winners run and cuts our losers short.

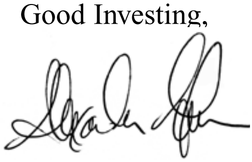
Understand Position-Sizing: Knowing how much to invest in each and every situation is crucial to building long-term wealth. Position-sizing ensures that even if a number of your investments turn sour, you'll never lose your shirt again.

Cut Investment Expenses: We've said it before, it's not how much you make, it's how much you keep. We'll show you easy-to-understand ways to keep the tax man at bay and stiff-arm greedy brokers.

At *The Oxford Club*, we fondly refer to these four objectives as our "Pillars of Wealth." They lay the foundation for everything we do to build and preserve our members' wealth.

We've prepared this special report specifically for new Oxfordians like you, to introduce you to our investment philosophy and to start you off on building your wealth along with us.

Good Investing,



Alexander Green
Investment Director
The Oxford Club

The Four Pillars of Wealth

Our philosophy of investing is this: You can't go too far wrong if you get the big questions right. The big questions are not, *"When will the economy recover?"* or *"Where will the market go next?"* True, these are the questions that most investors obsess over. But it's a misallocation of your time.

The big questions – the important ones that you can take action on – are these:

1. How can I get the highest return with the least amount of risk?
2. How can I protect both profits and principal?
3. What can I do to GUARANTEE my investment portfolio will be worth more in the future?

The answer to these questions are found in *The Oxford Club's Four Pillars of Wealth*. Here's how this philosophy can make this year – and your future ones – very prosperous.

Pillar I: Stick to *The Oxford Club's* Asset Allocation Model

Successful investing begins by conceding that – to a degree – uncertainty will always be your companion.

You can guess what the market is going to do and be right or you can guess and be wrong. Or you can let some self-styled "expert" do the guessing for you. But no one guesses right consistently, so we don't waste time here.

Instead, we follow an investment formula that won Dr. Harold Markowitz the Nobel Prize in finance in 1990. His paper promising *"portfolio optimization through means variance analysis"* demonstrates how you can maximize your profits and minimize your risk by properly asset allocating and rebalancing your portfolio.

Diversity Doesn't Mean Three Different Tech Stocks

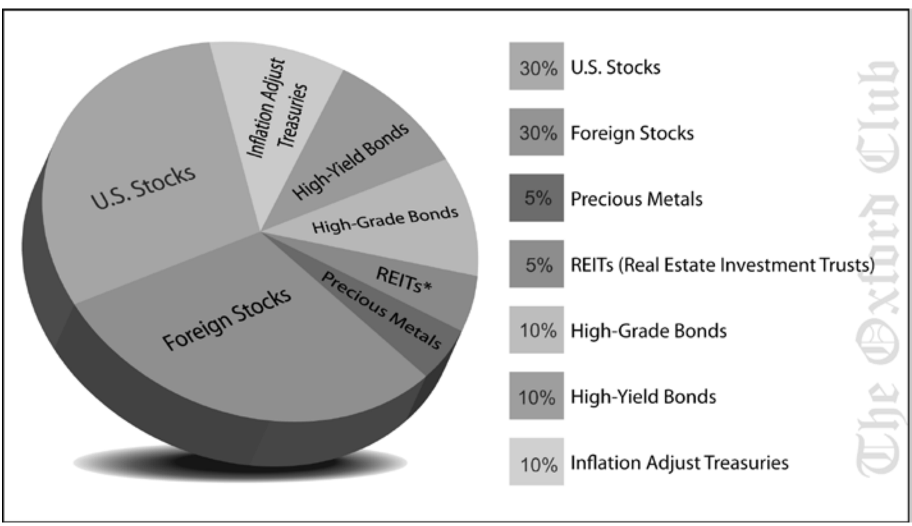
Sometimes members tell me: *"Oh, that means diversify. I already do that."* But that's not what asset allocation is about. When the tech bubble burst, you could have been diversified in Microsoft, Intel and Yahoo and gone right off the cliff.

Asset allocation refers to spreading your investments among different asset classes, not just different securities or market sectors. Doing this has allowed us to survive and prosper during the longest bear market since the Great Depression.

We've had money invested over the last five years in high-grade bonds. While the stock market has gone down, these have gone up. We've also had money invested in real estate investment trusts (REITs). They've also given us a positive return. The same is true with our high-yield investments, our inflation-adjusted treasuries and our precious metals recommendations.

Because different asset classes are imperfectly correlated – some zig while others zag – our model (as shown on this page) allows you to boost returns while reducing your portfolio's volatility.

In layman's terms, proper asset allocation means you sleep better.



The Foundation of Our Philosophy

Asset allocation should be the foundation stone of your whole investment program. It's critical to your long-term financial health. To learn more about it, pick up a copy of William Bernstein's excellent book, *The Intelligent Asset Allocator*.

Pillar II: Adhere to the Oxford Safety Switch

Anyone can buy a stock or publicly traded fund. The real art of investing is knowing when to sell.

The Oxford Club doesn't rely on point-and-figure charts or tarot cards or Elliott Waves. Instead, we adhere to a time-tested trailing stop strategy. That means no member takes one of our stock recommendations without knowing in advance exactly where we'll get out.

This takes the guesswork out of investing. And guarantees that both your profits and your principal are always protected. Here's a quick review.

Let Your Winners Ride

We start all of our trading positions with a recommendation that you place a sell stop 25% below your execution price. As the stock rises, we raise the trailing stop. In other words, if you buy a stock at $20, your stop loss is at $15. When the stock hits $32, your stop loss (still trailing at 25%) will be at $24.

As long as the stock keeps trending up, we're happy to hang on. If the stock pulls back 25% from its closing high, we sell. No questions asked.

And Cut Your Losses Early

You protect the profits you've earned on the way up and also protect your principal when things go awry. Everyone knows you should cut your losses early, and let your profits run. But very few investors actually do it. <u>The Oxford Safety Switch – our trailing stop strategy – guarantees that you do</u>.

During the bull market of the 1990s, many investors watched as their stock portfolios grew bigger and bigger. There was only one problem. They never took any profits. They had no sell discipline whatsoever. And, they watched many of those profits evaporate entirely. Sometimes they even turned into losses.

Other investors bought stocks early in the bear market with high expectations. And they were crushed to see those shares drop to levels they never would have imagined.

In both cases, the fault was the same: They failed to have a sell discipline. Investors without one are simply flying by the seat of their pants. And that rarely ends in award-winning results.

Use a trailing stop on all your individual stocks and have the gumption to stick with it.

Pillar III: Size Does Matter... Understand Position-Sizing

Often when I recommend a particular stock at a chapter meeting or seminar, someone in the audience will ask how much he or she should invest in it.

Of course, I know nothing about that individual's net worth, investment experience, risk tolerance, or time horizon. But I do have a position-sizing formula you can use to determine how much to invest in a particular stock: 4% of your equity portfolio. If you want to be conservative, invest less. If you want to be aggressive, invest more. But not too much more.

Don't Fall in Love with an Investment

The saddest stories I hear in the financial press are those of people who took a serious financial hit late in life because they were overconfident. In short, they liked an investment so much they plunked too much in it. Big mistake.

Yes, you could hit the jackpot that way, and I suppose some people have. But that's a roll of the dice, and I don't recommend it.

Look at the thousands of people devastated during the recent bear market because their entire pension was tied up in their employer's stock. More often than not, these folks had the option of putting the money into a diversified stock fund or safer alternatives.

Not spreading the risk might have felt like the right thing when the stock was rising... but it sure hurts on the way down.

You Can Afford the Hit

That's why position-sizing is important. It's not just about the size of your initial position, it's also about how much of your portfolio the position becomes.

As a money manager, I had clients who refused to diversify even when a single stock became a substantial percentage of their entire portfolio. They always had the same excuse: "I just can't afford the tax hit."

But taxes should never be the first priority in running your investment portfolio. Former blue chips like WorldCom, Enron and United Airlines have taught us – in hindsight – that the federal tax bite can look like a kiss on the cheek.

Pillar IV: Cut Investment Expenses... and Leave the IRS in the Cold

Unless you run or sit on the board of the companies you invest in, there's nothing you can do to affect your stocks' performance once you own them. But there is a way to guarantee that your stock-portfolio value will be worth more five, 10 and 20 years from now.

Cut your expenses... and stiff-arm the tax man.

Let's start with expenses. If you look at our Oxford All-Star Portfolio, you'll see we've done an end-run around Wall Street's outlandish fees.

Just Say No... to High Fees

Instead of buying the nation's largest and best-performing bond fund, the Pimco Total Return Fund, we're recommending the **Managers PIMCO Bond Fund** (MBDFX). You still get the nation's top-performing bond fund manager, Bill Gross, but you forego the high fees and expenses associated with Pimco Total Return. Fremont is a no-load fund.

Likewise, we selected the closed-end **Templeton Emerging Markets Fund** (NYSE: EMF) instead of the open-end Templeton Developing Markets Fund. Both funds invest exclusively in emerging markets. Both are run by Mark Mobius, the top manager in the sector.

But the Templeton Developing Markets Fund has a 5.75% front-end load. The Templeton Emerging Markets Fund – like all closed-end funds – has none. And it sells at a discount to its net asset value.

In fact, there is nothing in our portfolio that has a front-end load, back-end load, 12b-1 fees, or surrender penalties. Furthermore, you can act on any of our recommendations through a no-load fund company or an online broker that charges you no more than $8 a trade.

In short, we're cutting portfolio expenses to the bone. Lower investment costs are the one sure-fire way to increase your net returns.

Five Tax-Managing Tips

The second way is to tax-manage your investments. That means handling your portfolio in such a way that there is simply nothing there for the IRS to take.

Here's how you do it:

1. **Stick to quality.** Higher quality investment means less turnover. And less turnover means less capital gains taxes. The less you trade your core portfolio, the less tax liabilities you incur. As Warren Buffett warns, "The capital gains tax is not a tax on capital gains, it's a tax on transactions."

2. **Try to hang on for 12 months.** Anything sold in less than 12 months is a short-term capital gain. And short-term gains are taxed at the same level as earned income, which can be as high as 38%. But long-term gains are taxed at a maximum rate of 20%. Even better, do your short-term trading in your IRA, where the gains are tax-exempt.

3. **When you stop out in less than 12 months, offset your capital gains with capital losses.** The IRS allows you to offset all of your realized capital gains by selling any stocks that have joined the kennel club. You can even take up to $3,000 in losses against earned income. Not selling your occasional losers is not only poor money management, it's poor tax management.

4. **Avoid actively managed funds in your non-retirement accounts.** Managed funds often have high turnover and Federal law requires them to distribute at least 98% of realized capital gains each year. You can get hit with a big capital gains distribution even in a year when the fund is down. In parts of Texas, this is known as "the double whammy."

5. **Own high-yield investments in your IRA, pension, 401(k), or other tax-deferred account.** There's no provision in the tax code to offset your dividends and interest. So do the smart thing. Own big income-payers like bonds, utilities and real estate investment trusts (REITs) in your IRA.

Your remaining choices are simple ones like owning tax-free rather than taxable bonds if you're "fortunate enough" to reside in the upper tax brackets.

If you reduce your annual investment expenses and tax-manage your portfolio, the effect will be dramatic. For example:

The Vanguard Group of mutual funds conducted a study that indicates that the average investor gives up 2.4% of his annual returns to taxes. If you trade frequently, it's likely much higher. We can also estimate that most investors give up at least 1.9% a year in commissions, management fees, 12b-1 expenses and other costs.

By reducing your expenses to .3% annually and tax-managing your portfolio, you'll retain an additional 4% of your portfolio's return each year.

Here's how our strategy will affect your portfolio over time. The difference is not subtle.

	Average Portfolio	Oxford Portfolio
5 Years	$140,255	$168,505
10 Years	$196,715	$283,942
15 Years	$275,903	$478,458
20 Years	$386,968	$806,231

The U.S. market has returned roughly 11% a year over the past 200 years. The previous chart reflects how a $100,000 stock portfolio grows at this rate – with the drag of taxes and high expenses, and without.

<u>In other words, after 20 years, our cost-efficient, tax-managed portfolio is worth $419,000 more</u>. (A million dollar stock portfolio, of course, would be worth almost $4.2 million more.) This is without factoring in any superior investment performance whatsoever! It's simply the difference achieved when watching investment costs and taxes.

Armed with our Four Pillars of Wealth, a little diligence and the discipline to stick with the program, we can all look forward to substantially higher real world returns. OC

Note: Use our new asset allocation planning tool on the Club's website: www.oxfordclub.com. Log in and click on asset allocation model.

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