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13F – Have You Counted All Of Your Assets?

Use of Sub-Advisers and Hedge Fund Managers

BY ANTONINO CIAPPINA
STARK & STARK

THERE IS NO CONSTANCY TO COUNTING ASSETS under management. The calculation varies depending upon the regulatory environment and filing requirement at issue. The only certainty is that an erroneous calculation exposes an adviser to unwanted regulatory scrutiny. This is particularly true under Section 13(f) of the Securities and Exchange Act of 1934.

Section 13(f) of the 1934 Act requires that an investment manager with \$100 million of qualifying 13(f) securities under its discretionary management (see below) file a Form 13F. For purposes of Section 13(f) an investment manager is any person or entity exercising investment discretion over another person's account.

When determining if it has \$100 million in "13(f) securities," the adviser should count all assets representing

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From the President



John McClure

THE NEW YEAR IS ACCELERATING rapidly toward NAAIM's annual conference, undoubtedly the highlight of our organization's year. The agenda is one of the best I've seen since becoming a NAAIM member. Top sponsorship opportunities at the 2007 event sold out in record time. We're delighted to welcome ProFunds Group as our 2007-2008 National Sponsor. ProFunds has

made a two-year commitment to NAAIM that includes helping us grow our organization and improve member benefits. And, they are not alone in indicating their support.

Rydex/RFS will be the 2007 Platinum Sponsor and has stepped up as sponsor of the Active Exchange Focus Session following the conclusion of the conference on Wednesday. Additional sponsor commitments have been received from:

- Direxion Funds
- Trust Company of America
- Ameritas Direct
- Foliofn Institutional
- Security Benefit
- Jefferson National
- Orion Advisor Services LLC

Victor Vuskalns and his Agenda Committee did a bang-up job on the agenda, completing it in record time with a great line up of speakers and topics. The Active Exchange Focus Session is back at the 2007 conference by popular demand, so plan to extend your stay in Orlando by a day to take part in this exchange of trading strategies for alternative investments.

There's still room for more sponsors. We're asking the help of our membership to introduce new firms to the benefits of NAAIM sponsorship and bring new products and services to the attention of the NAAIM members. In fact, if you refer a new sponsor firm to NAAIM, you will be eligible to receive NAAIM "bucks" that you can use to offset the cost of conference registration, membership and more.

With the gracious support from sponsors, new opportunities are opening up for NAAIM to give back to its members. Part of that effort is a brand new, re-designed website with expanded membership services. We anticipate offering tours of the new site by the annual conference. In addition to an expanded, more informative "public" portion of

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NAAIM NEWS

Annual NAAIM Conference Fast Approaching

Make certain you have set aside May 6-10, 2007 to attend the annual NAAIM conference and the follow-up Active Exchange Focus Session on trading alternative investments.

The conference kicks off with the NAAIM Golf Classic on Sunday, followed by three days of conference activities, complete with an offsite cocktail party Monday night and Tuesday night reception. In addition to NAAIM's 2007-2008 National Sponsor ProFunds Group, the conference will give you an opportunity to meet with sponsoring firms who want your business as an active manager.

Individuals who develop trading strategies for their firms and are active in the selection of investment alternatives should plan to stay for another 24 hours to take part in the follow-up focus session, sponsored by Rydex/RFS. Running from the close of the conference to noon on Thursday, the session brings trading experts together to focus on the challenges and opportunities of trading derivative instruments.

Because conference attendance is key to optimizing your involvement in NAAIM, the association offers a number of incentives for first-time attendees.

- New regular, emerging or special members are eligible to receive ONE free registration to their first conference.
- Members managing under \$10 million are eligible for one half-price conference registration. Second, third, etc. members from the same firm pay \$425 per person.
- 2006 members who attended their first national meeting last year qualify for a 50% reduction on their first attendee registration for the 2007 conference.

If you have not received conference information, visit www.naaim.org to visit the conference page and make certain your name has been added to the association's mailing list.

Sector Trading CRAM Session Will Follow AmiBroker Conference in February

NAAIM will hold its Winter CRAM Session – Sector Trading – on Sunday, February 18 and Monday, February 19 at the Houston Marriott West Loop in Houston, Texas, following the second annual AmiBroker Conference. Back by popular demand, the CRAM Session will focus on successful strategies for trading sector funds.

Speakers will include a number of traders who operate highly successful and profitable sector programs for their clients and institutions. Their presentations are designed to include information and techniques not explored during the AmiBroker Conference.

Many NAAIM members are already planning to attend the AmiBroker Conference prior to the CRAM Session, where there will be a day and a half of programs on systems and investing techniques you can use in your practice. Tomasz Janeczko, the developer of AB, will be here from Poland. He's the one who coined the phrase, "A Community of People" because he was so impressed with the exchange of information by all the people at last year's AmiBroker conference.

At the AmiBroker Conference, Bruce Robinson of Houston will discuss the benefit of using ETFs in place of mutual funds because of funds' loss of Alpha. Daniel Ervi of Toronto will discuss a trading system based on ETFs. Other speakers are Jeff Parent of Toronto, Jimmy Hixson of Lake Charles, LA., and Howard Bandy, who is writing a book titled "Quantitative Trading Systems using AmiBroker and Dakota".

Don Wilson of Dallas will be doing a workshop on his Tango 5 system with an emphasis on its use. Several money managers are already using his system.

If you are not well versed in using AmiBroker, you may want to attend Bill Barack's workshop - AmiBroker 101. Bill is a NAAIM member and many of you are already familiar with his teaching ability. The conference and workshops are from February 14 to 18, 2007, at the Houston (Texas) Marriott West Loop – by the Galleria followed by NAAIM's CRAM session.

More information, pricing, agenda, and registration are available at the Monitor website. <http://www.ftmonitor.com>. NAAIM CRAM session information can be found at www.naaim.org.

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NAAIM Event Calendar

- Feb. 18-19** Winter CRAM Session – Sector Trading – Houston (Texas) Marriott West Loop, immediately following the AmiBroker Conference
- May 6-9** NAAIM Annual Uncommon Knowledge Conference, Rosen Centre Hotel, Orlando, Florida
- May 9-10** NAAIM Active Exchange Focus Session on using alternative investments, Rosen Centre Hotel, Orlando, Florida

The Four Year Presidential Cycle

BY JOHN MCCLURE

I'D LIKE TO READDRESS A TOPIC THAT WE'VE discussed in the past but one that has become timelier of late –the election cycle.

For the purposes of this discussion, the election or presidential cycle begins on December 1 of each new U.S. presidential administration and runs for the next four years. What impact does it have on the markets? As you see from Figure 1, showing 28 composite election cycles from 1888 through 2004, there is a very clear pattern.

Much has been written but little I've seen involved testing it. We decided to do just that by asking the following question. If someone had bought the Dow at each mid-term election low in September (green arrow Figure 1) and sold on the election year high in November (red arrow Figure 1), 26 months later, how would he or she have done? We started with the first cycle of the 20th century beginning December 1, 1900 through the latest cycle beginning December 1, 2004.

We then tested to see what would have happened if someone had done the opposite – bought the Dow at the election year high (November) and sold at the mid-term September 22 months later. What we discovered was quite interesting.

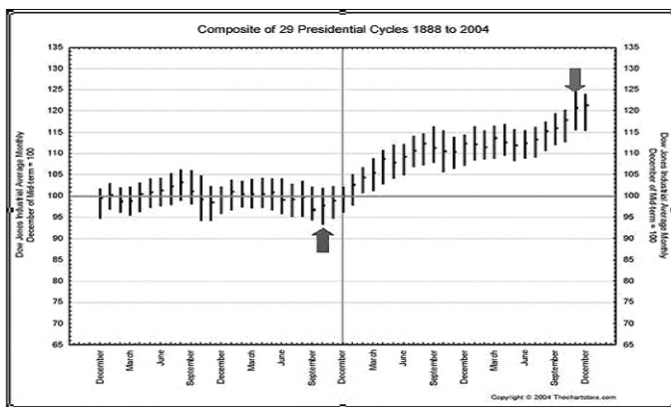


Figure 1 – Composite of 28 presidential cycles from 1888-2004 showing what the cycle looks like with mid-term low in September of year 2 and high in November of the election year. Chart by www.thechartstore.com

In back-testing the Dow for the period from January 4, 1902 though Sept 29, 2006, buying in September of each mid-term election year and selling two years later, in November of an election year, would have earned the savvy investor 10,884 points versus a total buy & hold over the same period of 11,612 points. In a total of 27 round trip trades, the return worked out to capture more than 93% of the Dow's total move during the period.

The best part of the strategy, however, was the time invested. A buy & hold (B&H) investor would have been invested for a total of 104 years or 26,134 trading days versus 56 years or 14,101 days for the election cycle trader – just 54% of the time of his B&H counterpart.

Of the total of 27 trades (longs only) made between 1902 and 2006 (last buy in Sept 2006), 23 or 85% of trades were profitable. There was no allowance for commissions or slippage included these results. Average profit per profitable trade = 479 points versus an average loss per unprofitable trade = 46 points. From a trading perspective, that is one heck of a trading system. To make sure we weren't making any errors we even ran the tests numerous times on another machine but we got the same results.

Performing an inverse test (buy the election year Novembers and sell in mid-term election Septembers) the system captured slightly less than 7% of the total Dow moves or 780 points out of 11,612 points for B&H.

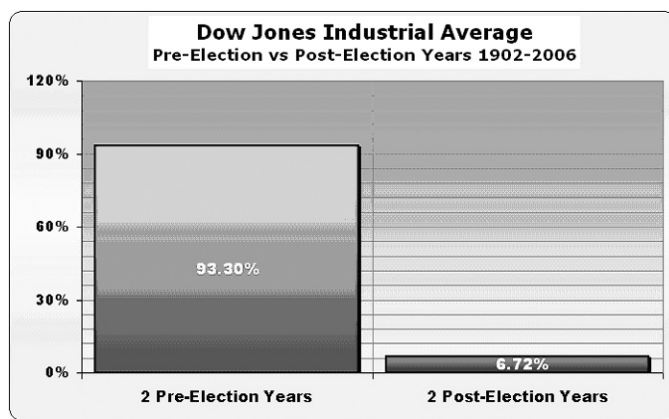


Figure 2 – Comparison between buying the mid-term low in September and selling the election year high 26-months later, versus buying the election year high in November and selling the mid-term September low 22 months later. Chart by www.Equitytrend.com

Circumstantial evidence would suggest that governments certainly have a habit of juicing the economy and markets leading up to each election in an effort to put the voter in a good mood at the right time. This is not news but I wonder how many realize just how significant the discrepancy between pre-election and post-election years really is? The difference works out to a ratio of more than 93:7 or 13:1 in favor of the pre-election investor. Not only is the election cycle investor reducing the risk of being caught in a large drawdown by always being in the market, he or she is free to place funds

“If someone had bought the Dow at each mid-term election low in September and sold on the election year high in November, 26 months later, how would he or she have done?”

elsewhere to earn a return the other 46% of the time. Let’s face it; it shouldn’t be hard to beat just 7% of the Dow return over more than 100 years!

Then and Now

On the flip side, as anyone who has followed the markets from an election cycle perspective is all-too painfully aware, the strategy has not worked nearly so well of late so we decided to see what had changed. We compared the four-years of the election cycle over the 104-year period (1902 – 2006) versus the most recent four-year period and this is what we found.

As expected from studying Figure 1, the pre-election year or third year of the election cycle performed best generating 60% of Dow returns since 1902. Next was the election year with a return of 17% of the total, followed by the post-election year or first year of the cycle (15.6%) with the mid-term year coming in last (4%) (see Figures 2 and 3).

showing a dramatic change in the cycle. Chart by www.Equitrend.com

But as you see from Figure 4, something strange happened during the last four-year period. Returns for the mid-term year have miraculously increased from last to second place causing the election and post election years to shift to the right in terms of performance.

First in comparing overall monthly returns over the 104-year period versus the most recent four-year period, November was the best performing month and September the worst. However, October had moved from seventh to second place.

A word of warning for those keeping tally, total returns over shorter periods do not necessarily equal 100% for the full period due to major fluctuations in the index. As you see for the period from 2002-2006, the pre-election year 2003 generated 112% of the total Dow return over the 4-year period because it started after the bear had run its course so well below the starting point of the period. This is the reason that the four election-year totals do not equal 100%.

Next we decided to compare the two periods from 2002-2006 examining October mid-term election cycle returns. How did mid-term returns in October over the long haul compare to October performance in the last four years?

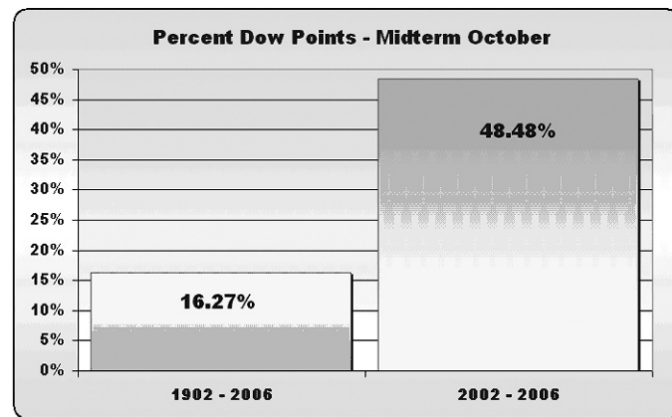
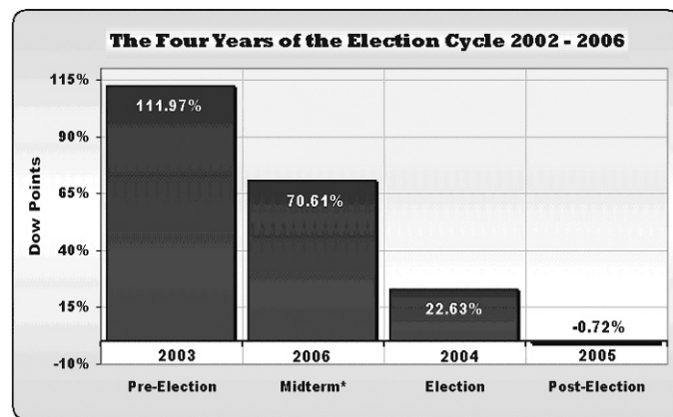
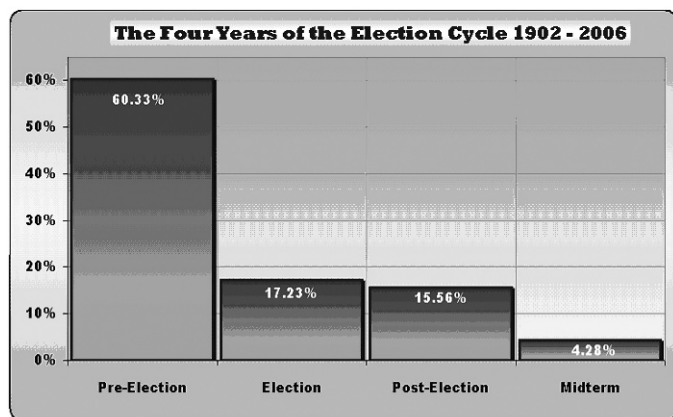


Figure 3 and 4 – Comparison of Dow returns for each of the four election years from 1902-2006 versus the period 2002-2006

Figure 5 – Difference between buying on the first trading day and selling on the last trading day of a mid-term election year October for the period 1902-2006 versus 2002-2006. Chart by www.Equitrend.com

As we see from Figure 5, October returns have dramatically changed jumping nearly 300%. Why? Using circumstantial evidence and looking at what’s at stake in the upcoming mid-term elections, here is a theory.

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Choose Your Weapon

The Importance of Committing to an Investment Approach

BY ROGER J. SCHREINER

INVESTORS WILL NEVER FORGET THE BULL MARKET that started in the mid-'80s and blasted right through the '90s. During that period many investors adopted a passive investment approach and were making more money than they ever expected. Of course, that ended in the second quarter of 2000, when the markets reeled off three years of double-digit losses. For many passive investors the losses were too much to endure. Technology-heavy portfolios lost 70% or 80% of their value. Hundreds of dot-com companies closed their doors and investors threw in the towel.

Then, out of the blue, came one of the biggest bear market rallies of all time. The Nasdaq rallied over 60%, while the S&P gained nearly 40% in just fifteen months. What should have been great news to passive investors turned out to be a non-event, because they had given up on their approach. They pulled their assets out of the market in 2001 and 2002 to stop the bleeding and were not there to participate in the recovery. In 2003, the party on Wall Street was a small one.

Few investors ever make a conscious decision as to whether to take an "active" or "passive" approach to investing. It is frustrating to see investors shift between active and passive approaches. Those who waffle back and forth seem to do it exactly at the wrong time, and their results are nothing short of dismal. So, whether you choose to be passive or active, it is imperative that you stick with your decision and give it a chance to perform over the long term.

The popular perception is that active management is speculative and passive management is conservative, but that's a myth. We believe the opposite is true. In fact, there is no compelling evidence that owning stocks for long periods of time is the best way to achieve success. The golden rule, whether you are "active" or "passive," is the same: "Don't lose so much money that you have to abandon your investment approach altogether."

While we are much more comfortable with an active approach, we have to admit that passive investing may work for those who have the mental toughness to weather the storms. However, you have to ask yourself if passive investing, which by definition accepts losses of any magnitude, is really appropriate for you. So again, the key to investment success—whether you choose an active approach or a passive one—is sticking with it!

The Passive Perspective

In researching this topic, I came across a number of articles that summarized what most financial institutions believe are the keys to investment success. The common

thread among most institutions that endorse passive investing is the belief that:

- a) Successful investing is accomplished by following time-tested methods of broad diversification and staying fully invested over the long term in order to capture the average return of the markets.
- b) Diversification among many assets is always better than concentrating in just a few.
- c) "Asset allocation" and "stock selection" are the keys to superior performance. (Somewhat in contradiction of the statement above.)
- d) Historical averages are a good indication of future returns.
- e) To increase your return you need to increase your risk.
- f) If you become disappointed with your passive approach during steep market declines, stay focused on the long term because the historical averages will eventually pay off.

This prompted me to make my own list of beliefs to see what makes our active approach different. Some of the ideas presented in our active perspective (below) are also valued in a passive approach. We present them all here so you'll understand that we value them too.

So here goes, a candid look at why we choose active management here at Schreiner Capital.

The Active Perspective

The best strategies are actively managed.

Actively managed disciplines that rely on probabilities can produce better returns than broad-based passive allocations that rely solely on the markets going higher. Mechanical strategies that utilize non-emotional, quantitative methods can earn more consistent returns. Actively managed portfolios are a safer and more sensible solution for most conservative investors.

Changing environments require the flexibility to adapt.

The best way to navigate the stock market is to move with it. If you're standing still, eventually you get run over. The penalty for taking a passive approach to investing is (at best) taking unnecessary risk, and (at worst) experiencing a devastating loss. As prudent managers we make non-emotional decisions based not only on probability, but also on the consequences of experiencing something unexpected.

Good managers have a plan for both bull and bear markets.

If your plan doesn't include an "exit strategy" for the stocks, then it isn't a bona fide plan. Every major market in

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Choose Your Weapon

CONTINUED FROM PAGE 6

the world experienced a decline of 70% to 90% during the last century. Our stock market, and others around the world, will likely experience similar declines in the future.

There is no such thing as a good (or bad) stock.

A stock will perform well for a while, then it will not. Stocks constantly cycle in and out of favor; they become overvalued, then undervalued. There has never been a perpetually good stock. There are no consistent outperformers over the long term. The fact is, every unmanaged asset underperforms roughly half the time.

Exceptional performance requires concentrated exposure.

We manage our clients' assets using quantitative strategies that are designed to concentrate assets in favorable market segments when the odds are favorable. However, when opportunities are limited or the odds are unfavorable, we seek the shelter of money market funds to reduce exposure.

It takes time for good process to succeed.

You shouldn't judge the results of an investment process in a few months or in a few trades. It is best to evaluate the process over a complete up and down cycle. Some of the very best investment strategies underperform the market while it is rising, and outperform while it is falling. That's because good strategies emphasize asset preservation over growth.

More risk doesn't always mean higher returns.

Over the long term, avoiding volatility and exposure can actually enhance returns. We are at odds with the popular premise that "investors maximize their returns by accepting greater risk." High-risk strategies (given enough time) often result in serious loss. Most fortunes are built by consistent application of a process grounded in sound risk management.

What "everyone knows" is probably not worth knowing.

There is no reward for discovering something that others already know. There is comfort in the crowd – which makes it difficult to shun – but success is often found when you're all alone. If you are doing what's popular, or if you are doing what most investors are doing, you're going to perform poorly in the long run. The most successful investors avoid what is popular and do something different from the majority.

The key to long-term investment success is avoiding significant loss.

While some losses are inevitable and are a part of any successful process, significant losses must be avoided, even at the cost of missing out on the upside. Successful investing is a humbling process. It requires doing what's necessary to get your assets aligned with the market and, more importantly,

correcting mistakes before they cause heavy losses. In the investment game, it's not so much about being "right"; it's about not being "too wrong."

Among financial institutions there is too much optimism about the stock market.

Much of the optimism of institutions is self-serving, since it encourages investors to increase their exposure to stocks and to take a passive approach to investing. Remember that the market and its indices are a composite of survivors; stocks that have failed and gone to zero are no longer visible.

The fundamental law of investing is the uncertainty of the future.

When it comes to investing, there are always a greater number of unknowns than knowns. That doesn't mean that you should avoid risk altogether, because uncertainty creates opportunity. Simply investing in the markets doesn't assure financial victory. No matter what your time horizon, markets are not assured of producing positive returns. The greatest risk is to do nothing.

History is a guide, not a guarantee.

Understanding probabilities can make us better investors, but it is important to recognize that investing has limitless outcomes. History offers a range of outcomes, but it does not include all future possibilities. Play the odds, but always be willing to do what's necessary to avoid financial disaster.

Investors need to free themselves of thinking in terms of "averages."

The real world is controlled by extremes. Averages mask volatility and can mislead investors into thinking that the journey will be smooth and uneventful.

Diversification is important, but overrated as a means of controlling risk.

There is no way to insulate yourself from risk through diversification alone. You simply cannot diversify your way to prosperity. Unfortunately, during catastrophic events most assets become highly correlated, so diversification does very little to protect your portfolio. The success of a portfolio is not just the result of its holdings, but more likely the result of the quality of the underlying process.

Time in the market does not reduce risk.

The idea that holding an investment long enough will somehow reduce risk is greatly flawed. The risk associated with one's wealth does not decline by extending your time horizon. This has been verified by mathematical calculations. Nobel Laureate Paul Samuelson, Ph.D., probably said it best: "The longer you hold an investment, the greater your chances

“Successful investing in the stock market takes more than a single decision to buy a mutual fund or a basket of stocks. It requires making important adjustments as market conditions change.”

are of suffering a crash or a series of crashes.” Risk increases with time, it does not decrease.

Autopilot investing doesn't work.

Accept the fact that there are no successful “set it and forget it” investments. Most investments marketed to the public are geared for a bull market. One-decision investing — the kind the mutual fund industry has been trying to sell us — doesn't work over the long haul because most investors will bail out when they can't stomach the volatility. Successful investing in the stock market takes more than a single decision to buy a mutual fund or a basket of stocks. It requires making important adjustments as market conditions change.

The stock market is not for everyone.

No matter how much potential the market offers, there are risks that certain individuals just cannot comprehend or accept. Too many investors enter the stock market concerned only with how much they can make and without an understanding that controlling losses is the real key to long-term success.

Similar Objectives – A Different Approach

As you can see from this rather lengthy list of perspectives, there are significant differences between the active and passive approach. The success or failure of your

investment portfolio may rest on whether or not your adviser's philosophy is aligned with your philosophy. The financial road is a long one, so it's important that you are on the same path and that you are committed to allowing your plan to work.

Of course I've presented more reasons to choose our active investment process over a passive one. I'm certainly biased in presenting the active argument. It might be more accurate to say I'm passionate about using an active solution! However, I'm sure this narrative won't overwhelm the passive argument — there seems to be no shortage of financial institutions out there promoting their “set it and forget it” approach.

Make a Conscious Decision & Stick With it

As I said in the beginning of this article, what's really important is that you actually choose a path. Jumping back and forth between an actively managed process and a passive buy-and-hold approach is not going to get you where you want to go. Choose an active solution or choose a buy-and-hold approach, but don't vacillate back and forth.

Roger Schreiner is chief executive of Schreiner Capital Management in Exton, Pa. SCM uses a computer-generated model based on market momentum to allocate funds in different stock-market sectors and subsectors.

The Four Year Presidential Cycle

CONTINUED FROM PAGE 5

Republicans have a lot to lose should the Democrats triumph at the polls in November. Most importantly, they stand to lose control of the House of Representatives. A Democrat majority means a Dem as house leader and this would jeopardize the Bush tax cuts and challenge Republican bills in all shapes and sizes. This prospect would be serious motivation to stimulate the economy leading into the mid-terms if it were possible. (Based on the above test results, it is not only possible but highly likely.)

But what would this mean for the stimulus leading into the next presidential election? Just how long can they keep the gravy train going and if so at what cost to the rest of the economy?

Takeaway

It's hard to argue with the fact that throughout history, governments have shamelessly stimulated the economy leading into each election and investors who recognized this have done very well in trading the cycle.

However, there is a strong likelihood that mid-term government stimulus is being done at the expense of the pre-election year (2007), which historically has been the best of the four-year cycle. In lieu of a miracle, we are not expecting stellar performance next year since a continuation of current stimulative policies would risk a dramatic rise in inflationary pressure. An important caveat is that desperate governments can take desperate action so we will be keeping a keen eye on policy initiatives and inflation metrics. A dead giveaway that the powers that be have chosen to keep the good times rolling instead of taking a more prudent hawkish stance on inflation would be an early easing in interest rates.



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Jeff A. Wagner

Jeff Wagner
New Business Coordinator,
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“Whether it’s giving people a better understanding of a piece of art or demonstrating our trading capabilities to them, I get a lot of satisfaction from anticipating their needs. When they’re happy and have a better understanding, then I know I have done my job well.”

When he’s not assisting visitors at the art museum where he volunteers, Jeff Wagner is establishing relationships and offering support for our newest clients. And for our clients, it’s associates like Jeff Wagner who make us good at what we do by delivering the highest level of personal service. We’re Fiserv Investment Support Services (Fiserv ISS) and we’ve built our business by providing back office support for financial advisors. Our goal is giving you the attention and support you need so you can better serve your clients. We’re the ‘institutional only’ custodian, so you can always be sure we’ll never compete with you for your clients. To find out how we can help you, call 800-328-2596, option 7, or visit fiserviss-advisorservices.com. At Fiserv ISS—a unit of Fiserv, Inc., a Fortune 500 company—we take your business personally.

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With DEMS Controlling Capitol Hill, the Need for Tax-Deferral Becomes Paramount

BY TODD M. SCHOENBERGER

WHETHER IT'S GLOBALIZATION, MINIMUM wage, healthcare or energy, expect to see the Democrats push hard for more 'trickle down' and populist policies in the next two years. There is likely nothing that the DEMs would like more than to send a host of 'benefit the small guy' bills to then have the President pull the veto pen out of his pocket — and use that as ammo for the 2008 Presidential election.

In this sense, perhaps it pays to review which sectors benefited from the pro-globalization, pro tax-cut, pro-market policies since the GOP took over control of everything from the governorships to the House, Senate and White House back in November, 2000, and which sectors lagged behind; because we could be in for some mean reversion in the next two years.

The best-performing sectors during the past six years included energy, casino/gambling, homebuilding, managed health care, hotels, tobacco, leisure products, restaurants, and luxury and specialty stores. The laggards included food retailing, automobile manufacturers, communications equipment, drug retailing, beverage producers, dollar stores, movies/entertainment, and insurance.

While it can be argued that Democratic policies would work against defense, utilities and cable/media/telecom, this group had underperformed the broad market since November 2000 in any event. Now with this in mind, we are now seeing how prescient Alan Greenspan was (not on his housing view), with this comment he made near the end of his July, 2005 Humphrey-Hawkins testimony:

"In a democratic society, such a stark bifurcation of wealth and income trends among large segments of the population can fuel resentment and political polarization. These social developments can lead to political clashes and misguided economic policies that work to the detriment of the economy and society as a whole."

You may just want to alter your client's portfolios to reflect the possibility that we end up seeing some reversal in this "bifurcation" of the past six years. But such action wouldn't be prudent without taking advantage of another government gift: Tax-Deferral.

The Power of Tax-Deferral

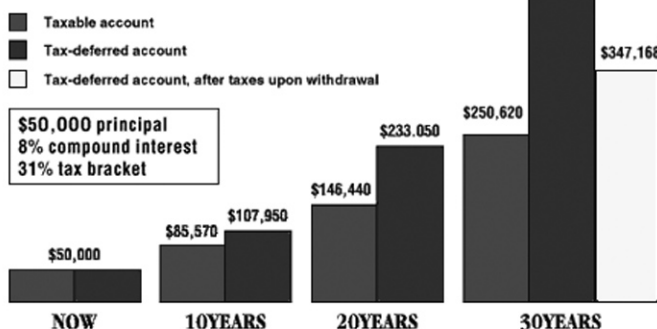
The following chart shows the tremendous difference tax deferral can make in the rate at which your money grows. If we assume that a single sum of \$50,000 will be invested for 30 years at a hypothetical interest rate of 8%, we see that the tax-deferred vehicle provides better long-term accumulation.

If you are in the 31% tax bracket, you may be able to accumulate about \$250,620 in a taxable account. However, if

you used a tax-deferred account for the same investment, you may accumulate over \$503,100. (Please note that a 10% IRS tax penalty may be imposed on withdrawals from annuities, some insurance products, IRAs or 401(k) plans, when these withdrawals are made before the purchaser has reached age 59½.)

Tax-Deferred Accumulation

A POWERFUL FINANCIAL TOOL



*Hypothetical rate used for illustrative purposes only. Not intended to predict nor guarantee any actual product results in the Genesis No-Load Variable Annuity. This illustration does not reflect the effect of Mortality and Expense charges and Administrative fees. These fees would reduce the performance shown in the above illustration.

DEMS Push the Need for Tax-Deferral

The Democrats have no clear position on which of the Bush tax cuts they like or don't like. Some, like Democrat Senate winner James Webb of Virginia, say they want to retain the lower tax rate on capital gains and dividends, because they realize more middle-class people occasionally have capital gains on homes, farms, small businesses, but more importantly, more than half of all Americans own some form of a financial investment (i.e., stock, mutual fund, REIT, etc.)

Many Democrats want to increase the capital-gains tax rate, claiming it is a benefit for the rich. They are unable to understand that most people, several times in their lives, have a major capital gain (which makes them appear "rich" for that year, according to Democrat folklore), but are, in fact, not rich at all.

By contrast, more than 85 members of Congress (all Republicans) have signed on as co-sponsors of a bill introduced by Republican Reps. Mike Pence of Indiana and Eric Cantor of Virginia to index capital gains for inflation. This would protect taxpayers from paying tax on imaginary gains

continued on page 12

With DEMS Controlling Capitol Hill...

CONTINUED FROM PAGE 11

due solely to inflation. (Assume your client sells a stock whose price has doubled in 25 years, but in reality there has been no gain at all because the entire increase in price has been due to inflation. Under current law, your client would pay a tax on that imaginary gain, but under the Pence-Cantor proposal you would only pay a tax on the amount above the imaginary inflation gain.)

And why is all of this relevant? Because the Democrats love to play the shell game and pretend none of us will suffer because of their higher taxes; but in the real world, thinking

people know better. So, as a result, the necessity for tax-deferred investment accounts for your clients is as critical as ever.

Todd M. Schoenberger is President and CEO of Genesis Partners, Inc., a marketer and promoter of the high-quality, low-cost Genesis No-Load Variable Annuity. Todd is a frequent contributor on CNBC and the FOX News Channel and can be seen regularly on Bulls & Bears, Cavuto on Business, Forbes on FOX and Cashin' In. For questions or comments, please feel free to contact Todd at tms@GenesisPartners.us.



NAAIM Sector Trading CRAM Session

Immediately following the AmiBroker Conference

Sunday, February 18 and
Monday, February 19

Houston Marriott West Loop
Houston, Texas

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How to Convert Investor Leads Into Clients: The Follow-up Kit

BY CRAIG HUEY

ONCE YOU GENERATE A LEAD, WHAT HAPPENS? Are you maximizing your contacts or are you losing potential clients?

Timing and quick action are critical in any effort to convert a qualified prospect into a valued client. A prospect is most likely to commit if you follow-up within 2 days. If you wait until the third day, you are likely to lose up to 30% of the prospects you could have acquired. After 2 weeks, the loss rises to 50%.

And you know what? They become someone else's client.

Financial services are a complicated and difficult decision for most investors. Their skepticism needs to be overcome. An important first step is sending a follow-up kit, which can be complimented by postal mail, email and telemarketing efforts.

The follow-up kit is critical to the success or failure of most campaigns. It is the major impression your prospect has of your organization. Whether sent in the mail, accompanied with a sales call or delivered electronically, it is vital that you produce your follow-up kit correctly.

An efficient follow-up kit looks and feels professional. It incorporates proper direct response copy and graphic techniques to maximize readership and motivate response.

The follow-up kit will normally consist of:

The envelope

The outer envelope for a mailed follow-up kit should clearly state something like:

"Enclosed is the FREE information you requested"

This will help ensure that your follow-up will get past the mailroom if mailed to a business. If sent your prospect's home it ensures it's opened...and read.

Use first-class postage only. This will speed delivery during this crucial window of opportunity. It will also look more appealing and valuable to your prospect. And it will receive better delivery, because 12%–15% of all standard-class mail is either lost or destroyed by the post office.

The letter

This is the most important component of your follow-up kit because it recreates the excitement that convinced the prospect to originally respond. It should be either attached to the outside of the kit, or appear as the first and only component seen when the kit is opened.

The letter should expand on the original message that sparked the inquiry. It should stress the high points of your product or service, be conversational and informational in tone and style, and be personalized.

The response device

Do you want your prospect to sign a contract, send a check, place an order, make an appointment or come to your location? This is where the offer is clearly stated and the time of decision has arrived. Will your prospect respond or not?

It is essential that your response device clearly states to the prospect your best possible offer. Clearly and beneficially recap the premium.

A positive acceptance statement spells out the offer in terms of benefits to the prospect, and emphasizes your Unique Selling Proposition (USP), which states why you are better than the competition.

Applications that require legal material (such as insurance or financial offers) require special care. But they still need to be as simple and non-threatening as possible.

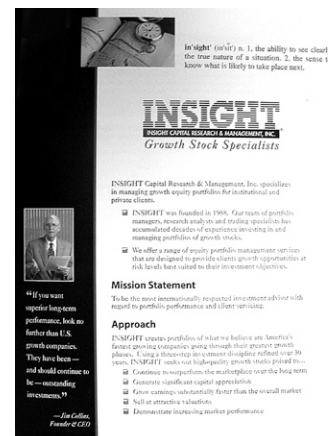
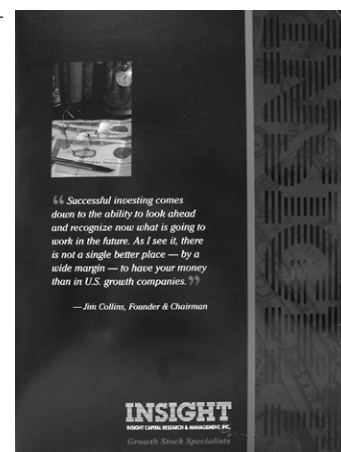
Avoid the temptation of offering too many choices or asking for too much additional information. It will depress response.

The brochure

The brochure can vary in size—fitting into a standard No. 10 business envelope or an oversize 9" x 12" envelope. The size will depend upon your budget, the number of leads and the image you wish to project.

There are two major styles:

- **A traditional brochure:** This will normally contain benefit-oriented copy, pictures (always with captions), graphs or charts. This is usually designed for lighter budgets.
- **A folder kit:** This particular approach will have an inside flap for holding modular inserts, reprints and other material. This is probably one of the most abused approaches because of the ease of enclosing



“An important first step is sending a follow-up kit, which can be complimented by postal mail, email and telemarketing efforts.”

non-coordinated and sloppy material.

This format works best when it is designed so the letter is viewed first. All other material is size-coordinated so the major topics or subjects can be seen for quick reference.

Here is an example of a kit I did for Jim Collins' Insight Capital Research & Management:

I often recommend layering key sections, stacked on the left, bound in 4-6 pages of sales copy:

In your main sales piece, make sure to use proper direct response copy and graphics as well as a strong close at the end of the piece. Here are examples of both.

Here's an example how items such as reports and applications can be put in the right hand pocket:

Other supportive items

These might include a “buck slip” (a coupon-sized certificate) for a special premium, an article reprint or a “lift note” (a small folded message).

Once the follow-up kit is sent, an email campaign and a direct mail ad campaign will help further maximize conversion.

If at first you don't succeed...

You've generated a quality lead, sent the appropriate premium and follow-up kit and—if possible—called. And no response. What now?

Sales people find that first efforts often do not result in an immediate response. I've found most financial marketers need a conversion series. And, of course, a powerful direct marketing microsite that reflects the follow-up kit material. In the next issue, we will cover what happens after the follow-up kit is received.

Thousands of dollars are wasted every year by the improper execution of a follow-up kit conversion series. A properly executed campaign, however, can be a major key in the growth and development of new clients.

If you'd like to see some follow-up kit case histories, email me at craig@cdmginc.com.

Craig Huey is president of Creative Direct Marketing Group, Inc., and publisher of Direct Response and Direct Marketing Update. Recognized as one of the top direct response marketing experts in the U.S., he has won 57 major industry awards, including 5 each in 2005–2006 from the Web Marketing Association and The Newsletter Clearinghouse. Mr. Huey specializes in financial marketing, helping market Money Management for Zacks, Jim Collins, Donald Rowe, James Stack and dozens of others.

From the President

CONTINUED FROM PAGE 1

www.naaim.org with a “FIND An ACTIVE MANAGER” search function, the members-only portion of the site will include a number of new features including:

- Products and Services Active Exchange – offering associate member firms an opportunity to post news of new products and services and respond to member queries.
- Member-to-Member Classifieds.
- Downloads of educational resources such as CRAM session recordings.
- RIA business plans including compliance requirements, marketing and business development plans and more.
- Marketing materials that can be customized for your firm.
- On-line member profiles and directory.

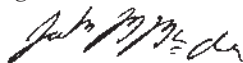
You should have received your membership renewal forms in the mail recently. Make certain you get those back in to avoid missing any benefits of membership and to be eligible to take part in NAAIM's new membership drive. Through April 3, employees of all NAAIM Regular, Emerging, Special and Associate firms can earn \$100 in NAAIM “bucks” for each new member they refer to our organization. You can use those credits toward conference registrations, membership dues or for an American Express gift card. Details of the contest will be emailed to you. If you need additional information, please give our administrator, Susan Truesdale a call at 888-261-0787.

NAAIM's first CRAM Session for 2007 is coming in February. You can find out more on page 3 of this newsletter. Two more sessions are being planned for the year, with the potential to add a fourth given demand.

The association is stronger today than it has been in years. Our style of management is clearly in vogue - witness the Schwabs of the world coming out with actively managed mutual funds – membership is up and there's never been a better time to be a member of NAAIM. We have a lot of reasons to stick our chests out.

I hope you will give your best in bringing in new members and sponsors. When NAAIM wins, we all win.

Regards,



John McClure
President 2006 - 2007
NAAIM

Warning on Free Wi-Fi Connections

BY JON VAN

Published September 4, 2006 in the *Chicago Tribune*.
Reprinted with permission.

ABOUT 90 PERCENT OF THE FREE WIRELESS broadband connections available at O'Hare International Airport are not true Wi-Fi hotspots and some could be traps laid by fraudsters, a computer security firm asserts.

In a recent study, engineers from Authentium Inc., a Florida-based security software developer, found that the vast majority of free Wi-Fi connections at O'Hare originated from other computers rather than stand-alone Wi-Fi hotspots. This doesn't mean they are all dangerous, but some might be, said Corey O'Donnell, Authentium's marketing vice president.

“It means that for 90 percent of the free connections at O'Hare everything you do will go through someone else's computer where it's possible to record passwords and other information for identity theft,” O'Donnell said. Hacker Web sites provide instructions in how such frauds can be accomplished, he said.

A hacker with a laptop can go to O'Hare and sign on to a wireless broadband service that may be a free or subscriber-based Wi-Fi service at the airport or a fast data connection supplied by a wireless mobile carrier like Verizon Wireless or Sprint, O'Donnell said.

The hacker laptop then broadcasts the wireless signal as free Wi-Fi, hoping to lure travelers as they log online to read their e-mail, check their bank balances or otherwise catch up with work. As more people carry laptops while traveling and the laptops have Wi-Fi access built-in, airports, hotels and coffee shops become increasingly attractive to hackers as places to trap the unwary, O'Donnell said.

“Once your computer logs on, you're on the hacker's turf,” said O'Donnell. “It makes the hacker's job much easier than trying to break into your computer.”

Even people who don't go online but just turn on their computers to write a report or make a spreadsheet, may be vulnerable, he said. Unless that function is turned off, laptops automatically look for Wi-Fi connections so they are ready to go online, which means that hackers can slip into your computer as you work off-line, O'Donnell said.

To guard against fraud, people should turn off the automatic connection function and select “access point networks only,” O'Donnell said. Of course, if they also use encryption software, such as that produced by Authentium, so much the better.

O'Donnell stressed that it's likely that most free wireless connections floating about at O'Hare originated by laptops used by people who didn't even know their machines were transmitting connectivity to the rest of the world.

Introducing a New Way to Access Currency.



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NAAIM NEWS

CONTINUED FROM PAGE 3

2007 NAAIM Membership Drive Underway

The best sources of new NAAIM members are our existing NAAIM members. To give you a little more incentive to refer fellow advisers to NAAIM, we've launched a membership contest for 2007. For every new member firm you refer to NAAIM prior to our annual conference in May, you will receive \$100 in NAAIM credits that can be applied to (1) membership dues, (2) conference registrations or (3) an American Express gift card.

The top three new member referrers – who bring in the most new members – will in addition receive a free massage and 2007 NAAIM conference registration.

Joining NAAIM is a win-win opportunity for any investment adviser using or just interested in learning more about active management. In addition to the opportunity to meet exceptional speakers at the 2007 conference for FREE (as new members), they gain access to what we believe is one of the most innovative groups in the industry – the NAAIM members themselves!

Growing NAAIM means more value for our sponsors, more sponsor dollars to build benefits for our members, more opportunities for members to network with members with different approaches to active management and a vital, expanding organization with the ability to influence the world in which we operate.

Find out more about the NAAIM Membership drive by visiting our web site at www.naaim.org.

2007 NAAIM Membership Renewals Due

2007 Membership Renewals were mailed the first week of January. Renewals are due January 31. If you have not received your Membership Renewal form, or have misplaced it, please contact Susan Truesdale at naaim@mindspring.com or 888-261-0787. We appreciate your support and look forward to working for you in 2007!

Membership Updates

New Members:

Gary Harris
Bedfield Asset Management LLC
P.O. Box 11608
Bainbridge Island, WA 98110
Phone: 206-842-2214
Email: GLHView@aol.com

Brenda Wenning
Capital Advisors, LLC
111 Speen S.t Ste. 101
Framingham, MA 01701
Phone: 508-879-5009
Email: bwenning@capadvisors.net

John Kuykendall
GulfCoast Financial Services Inc.
248 N. Marion Ave., Ste. 1
Lake City, FL 32055
Phone: 386-755-9018
Email: jkuykendall@gulfcoastfinancial.net

William Barnett
Security Asset Management, LLC
1708 S. 28th Place
Rogers, AR 72758
Phone: 479-936-8650
Email: wtbarnett@gmail.com

Contact Information Changes:

Derek Bilcik
Critical Math Advisors
29 Emmons Dr., Suite A-20
Princeton, NJ 08540
Phone: 609-734-9280
Email: dbilcik@unusualfund.com

If you would like an updated copy of NAAIM's membership directory in Excel, contact Susan Truesdale at naaim@mindspring.com

Penson Worldwide, Inc. Acquires Futures Clearing Company

NAAIM ASSOCIATE MEMBER, PENSON WORLDWIDE, Inc. (NASDAQ: PNSN), a leading provider of execution, clearing and technology for global financial markets, has agreed to purchase privately-held Goldenberg, Hehmeyer & Co. (GHCO) of Chicago, IL, a leading international futures clearing and execution firm.

13F – Have You Counted All Of Your Assets?

CONTINUED FROM PAGE 1

equity securities that are admitted to trading on a national securities exchange or quoted on the automated quotation system of a registered securities association. The term “equity security” means any equity security of a class that is registered, or any equity security of any insurance company that would have been required to be so registered except for an exemption, or any equity security issued by a registered closed-end investment company. In addition to traditional equities, closed-end mutual funds and closed-end bond funds, 13(f) securities include exchange-traded funds. An adviser can confirm it has \$100 million in 13(f) securities by cross-checking the securities that the firm manages with those on the 13(f) list published by the SEC on a quarterly basis: <http://www.sec.gov/divisions/investment/13flists.htm>. In addition, if the adviser has discretion to allocate assets among sub-advisers, the securities purchased by these sub-advisers may need to be included when determining if the adviser has reached the \$100 million threshold.

In determining the total amount of assets under management, an adviser should include those client assets that the adviser has engaged (on a discretionary basis) sub-advisers to actively manage. Thus, a discretionary investment manager cannot avoid its Form 13F filing requirement because it utilizes sub-advisers to actively manage any or all of the \$100 million asset threshold. Instead, the use of sub-advisers will dictate the type of 13F filing that is required.

Similarly, private investment managers such as hedge fund managers are not generally exempt from the 13F-filing requirement. These managers may be considered an “institutional manager” for purposes of 13F regardless of SEC registration. Thus, for example, any hedge fund that exercises

investment discretion over (or owns) \$100 million or more in securities traded on stock exchanges and/or the NASDAQ must report its holdings quarterly via a Form 13F.

The initial Form 13F filing is due by February 14th following the initial year when the assets under management first reach \$100 million. Thus, if the adviser first reaches \$100 million on the last trading day of the calendar year (e.g. 12/31/05), the initial Form 13F filing is required by February 14th of the following year (e.g. 2/14/06). Thereafter, a Form 13F filing is required within 45 days after the end of each calendar quarter. The timing for discontinuing Form 13F filings would be the last quarter of the calendar year subsequent to the calendar year in which the adviser no longer has \$100 million in qualifying 13(f) discretionary assets under its management. Thus, if on December 31, 2005, an adviser’s qualifying discretionary assets dipped below \$100 million, and remained below \$100 million during the entirety of 2006, the last required filing would be due on February 14, 2007.

Form 13F filings require EDGAR registration. Thus, a firm approaching \$100 million in 13(f) securities should register with EDGAR. While the EDGAR registration process is underway, it is prudent to begin compiling and formatting the required 13(f) securities information.

Antonino Ciappina, Associate, is a member of the Securities Practice Group where he concentrates his practice on investment related matters, including the representation of investment advisers, financial planners, broker-dealers, CPA firms, and registered representatives throughout the United States. He advises claimants and respondents in securities regulatory, arbitration and litigation matters.



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