

Using the Portfolio Snapshot Report with Clients

This document explains the different sections of the Portfolio Snapshot report.

Overview

The Portfolio Snapshot Report is the most sophisticated portfolio report available. It provides information on both holdings and performance for a portfolio. This makes it ideal for portfolio analysis, making recommendations, and ongoing client reporting.

The variety of graphs and statistics can provide numerous talking points on how to improve a portfolio's construction, and how diversification can effectively lower risk.

The table below shows what information is shown in each section of the Portfolio Snapshot report. Each of these sections will be discussed in detail.

What information does the Portfolio Snapshot report show?

Main Section	Subsection(s)
Analysis	Asset Allocation
	Current Investment Style (Equities)%
	Fixed-Income Investment Style%
Stock Analysis	Sector Weightings
	Regional Exposure
Performance	Investment Activity Graph
	Best/Worst Time Periods
	Trailing Returns
	Performance Yield
Holdings	Top x holdings out of x holdings
Risk Analysis	Risk/Reward Scatterplot
	Performance History Graph
	Risk and Return Statistics
	MPT Statistics

Main Section	Subsection(s)
Fundamental Analysis	Market Maturity
	Type Weightings
	Geometric Avg Capitalization (\$Mil)
	Valuation Multiples
	Profitability
	Interest Rate Risk
	Credit Quality
	Fund Statistics
Non-Load Adjusted Returns	Top x holdings as of mm/dd/yyyy

☞ The Portfolio Snapshot report also includes several pages of disclosure information.

Each section in this report has important statistics that can help inform and educate a client as to what is happening in a particular portfolio. Are you using this report to reflect weaknesses in an existing portfolio, or to demonstrate the strengths of a new or enhanced portfolio that you have devised?

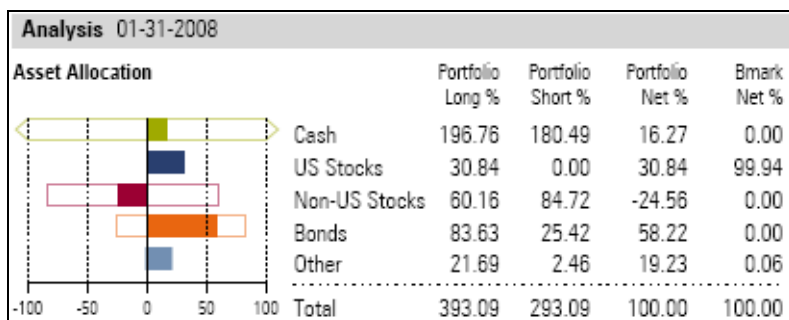
What is the best way to use this report with clients?

Note the following when using this report with clients:

- In the Analysis section, point out the diversification the portfolio provides across broad asset classes, the style boxes, stock sectors and geographically.
- In the Performance section, note whether the portfolio has outperformed its benchmark for each of the time periods.
- In the Fundamental Analysis section, check the P/E score for the portfolio vs. the benchmark, and whether the portfolio has a higher return on assets and a lower debt/capital ratio than the benchmark.
- The Risk Analysis section can instantly demonstrate whether the portfolio has both outperformed the benchmark and taken on less risk for the trailing three-year period.

Understanding the Long/Short/Net bar chart

Before looking at the individual sections of the Snapshot Report, it might be useful to understand the data presented on the Long/Short/Net bar chart. A sample of this graphic is below, and other samples will follow as well.



The bar outline to the right of zero represents the long position for each asset class, while the bar outline to the left of zero represents the short position for each asset class.

The shaded portion of the bar represents the Net position, which can be positive or negative (to the right or the left of zero). If a position exceeds +/- 100%, the bar ends in an arrow.

Most conventional investment portfolios take long positions in securities. Long positions involve buying the security first and then selling it later, with the anticipation that the security price will rise over time.

Short positions involve selling borrowed securities and receiving cash immediately with the obligation to buy the securities at a later date. If the price falls after the short sale, the investor profits from selling high and buying low. However, if the price rises after the short sale, the losses are theoretically unlimited. The broker will demand more collateral and the investor may have to close out the short position at an inopportune time in order to limit any further losses.

The net position is simply the long position minus the short position.

Overview

How do I interpret the new composition bar chart?

What does "Long" mean?

What does "Short" mean?

What does "Net" mean?

Before this change, we were displaying the "Re-scaled Long" composition data which consists of the long positions scaled to represent 100% of the portfolio. For example, if the portfolio consisted of:

- 50% long stocks
- 70% long bonds, and
- 20% short stocks

the re-scaled long values would be:

- $(50\% / (50\% + 70\%)) = 42\%$ long stocks and
- $(70\% / (50\% + 70\%)) = 58\%$ long bonds.

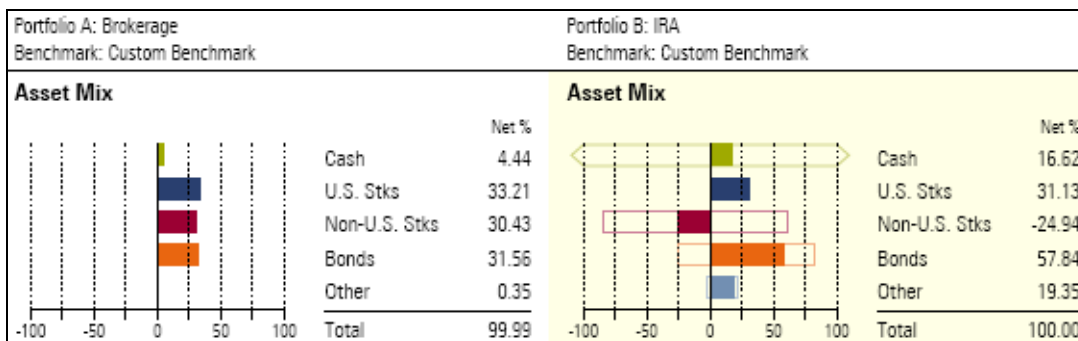
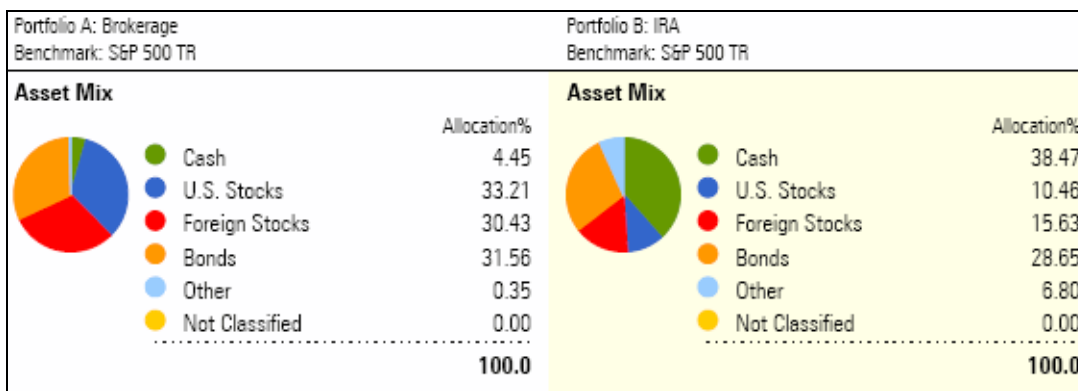
As you can see, 42% stocks and 58% bonds does not present the whole picture. The new long, short, and net data provides investors with a more robust description of the fund's exposure and risk.

What does "Re-scaled Long" mean?

A pie chart cannot represent negative positions or positions that exceed 100%. The new long, short, net composition bar chart is able to represent three levels of data (long, short, and net).

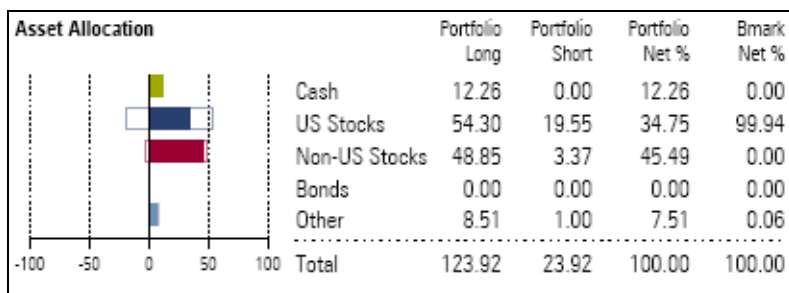
Additionally, the bar chart provides an easier comparison of compositions across portfolios. In the images below you can see that the bar chart is visually more informative than the pie chart when comparing Portfolio A against Portfolio B.

Why was the pie chart replaced?



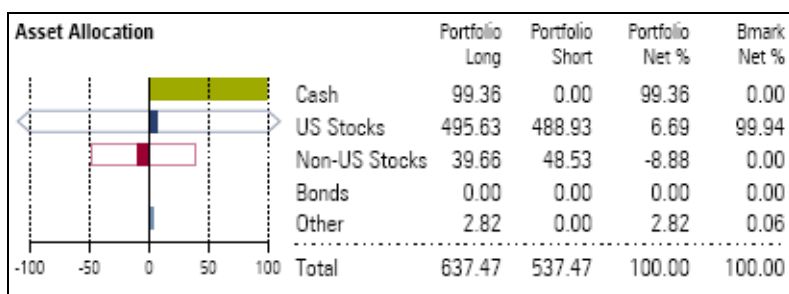
Below is the asset allocation for a long-short fund with a net long exposure to stocks. Cash is relatively high because it contains proceeds from the short sale and the collateral for the broker for these short positions.

Sample 1 - Long/Short fund that is net long



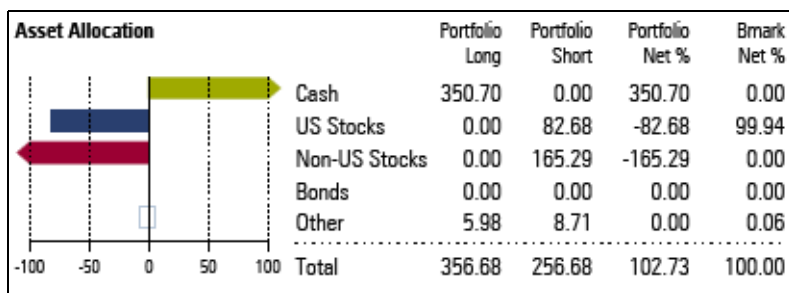
A typical market-neutral fund (below) balances its allocations to long and short stocks. The remaining assets are in cash. The arrow at the end of the bar (for US Stocks) indicates an allocation that exceeds +/- 100%.

Sample 2 - Market-Neutral fund



- A bear market fund (below) typically offers double the inverse exposure to a stock index. This means that it aims to offer twice the return of the index in the opposite direction. So, if the index falls by 5% one day, this fund aims to earn +10%.

Sample 3 - Bear Market fund



Each page of the Portfolio Snapshot report contains header information, as seen below. Note the Release date in the upper left corner, and the benchmark being used in the upper right corner.

Header information on the Portfolio Snapshot Report

Note the release date here.

Release date 03-31-2008	
Paul A. Cobb: Brokerage Funds	
Portfolio Snapshot	Portfolio Value \$66,977.23
	Benchmark S&P 500 TR

Note the benchmark being used for this report.

Analysis

This section details the information available in the Analysis section of the Portfolio Snapshot Report. The Analysis section contains the following subsections:

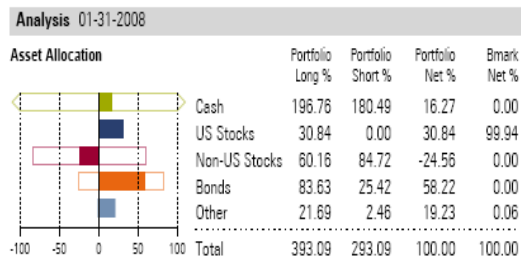
- Asset Allocation Analysis
- Equity Style Box
- Fixed-Income Style Box
- Sector Weightings, and
- Regional Exposure.

Overview

The Analysis section contains a Long/Short/Net bar chart that represents the breakdown of portfolio between the Long, Short and Net positions for each asset class. The outlined area shows you the extent of both the long and short positions for each asset class, while the filled-in portion for each asset class' bar chart represents the net position.

Analysis

This information is also compared to the benchmark (net percentage) being used for the report. How diversified is the portfolio among these broad asset classes? Does it match the client's risk tolerance?

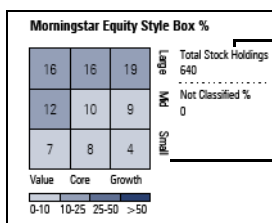


Note the arrows pointing left and right on the cash position within the bar chart. This means the cash positions have both over 100% long and short cash positions.

The Morningstar Equity Style box also demonstrates diversification within a portfolio. Two factors to consider are:

Current Investment Style (Equities)%

- The number of segments that have representation in the portfolio, and
- The weighting of the largest holdings.



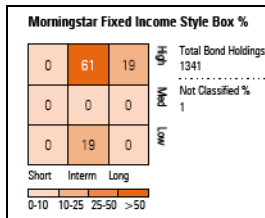
The Total Stock Holdings and Not Classified percentages are listed next to the Style Box.

The darker area represent a heavier weighting in that particular investment style.

Does the portfolio lack exposure to a particular style or market capitalization? Does it have representation in just most segments, but find 80% of its assets allocated to just two areas?

The Fixed-Income Style box is less likely to have exposure in as many areas as the Equity Style box, but for a balanced portfolio it is important to see some representation here.

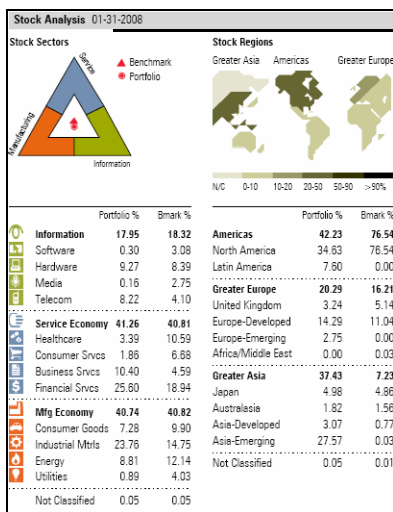
Fixed-Income Investment Style%



This section contains both information on Stock Sectors and information on Regions.

Stock Analysis

The Stock Sector section allows you to demonstrate diversification across various segments of the economy. The Region section shows you a portfolio's diversification around the globe. Is the portfolio exposed to one sector? Does the client have representation in more than just the U.S.?



Is this portfolio too weighted in one particular sector?

This portfolio has both domestic and international exposure.

Performance

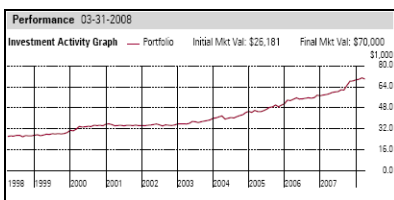
This section details the information available in the Performance section of the Portfolio Snapshot Report. The Performance section contains the following subsections:

- Investment Activity Graph
- Trailing Returns
- Best/Worst Time Periods
- Portfolio Yield

Overview

This graph shows the 10-year history of the portfolio. It takes the portfolio's current value as the starting value, and projects its growth over the past 10 years.

Investment Activity Graph



A couple of notes about this graph:

- If all of the portfolio's investments lack at least 10 years of history, the time period will be reduced to the longest time period possible for the investments in the portfolio.
- When monthly returns are unavailable for a holding (e.g., due to it not being in existence during the historical period being reported), the remaining portfolio holdings are re-weighted to maintain consistent proportions.

This section shows you the Pre-Tax Portfolio Return, and compares this to the benchmark being used for the following periods:

Trailing Returns

- 3 months
- 1 year
- 3 years
- 5 years, and
- 10 years.

Trailing Returns	3Mo	1Yr	3Yr	5Yr	10Yr
Pre-Tax Portfolio Return	-4.77	-2.90	6.36	10.83	6.64
Benchmark Return	-9.44	-5.08	5.85	11.32	3.50
+/- Benchmark Return	4.67	2.18	0.51	-0.49	3.14

This portfolio has outperformed the benchmark in most historical periods.

This section shows you the best and worst performance periods for the portfolio over the following time periods:

- 3 months
- 1 year, and
- 3 years.

Best/Worst Time Periods

This section is a great tool for showing clients new to investing that all investments will experience both up and down times. It can also be a good aid in demonstrating the downside protection your portfolio can offer them in protracted bear markets.

Time Period Return	Best %	Worst %
3 Months	9.66 (04-03/06-03)	-5.55 (12-07/02-08)
1 Year	25.85 (04-03/03-04)	-2.94 (04-02/03-03)
3 Years	16.03 (04-03/03-06)	0.95 (04-00/03-03)
Portfolio Yield		Yield %
Trailing 12 Month		2.91

Note the Portfolio Yield is also provided.

Holdings

This section details the information available in the Holdings section of the Portfolio Snapshot Report. The Holdings section does not have any subsections.

Overview

This section of the report will show up to the top 10 holdings in a portfolio. You can also see the following:

- the type of holding for each of the top 10 investments
- the assets allocated to each holding
- the percentage they contribute to the portfolio, and
- the ticker symbol.

Holdings 01-31-2008				
Top 7 holdings out of 7	Ticker	Type	Holding Value \$	% Assets
Waddell & Reed Adv Asset Strategy A	UNASX	MF	14,000.00	20.00
Ivy Asset Strategy A	WASAX	MF	14,000.00	20.00
Target Conservative Allocation A	PCGAX	MF	10,500.00	15.00
Wilmington Multi-Manager Real Asset A	WMMRX	MF	10,500.00	15.00
PMCO All Asset All Authority A	PALAX	MF	7,000.00	10.00
PMCO Real Return A	PRTNX	MF	7,000.00	10.00
PMCO Total Return A	PTTAX	MF	7,000.00	10.00

The top holding in this portfolio makes up 20% of the assets.

Risk Analysis

This section details the information available in the Risk Analysis section of the Portfolio Snapshot Report. The Risk Analysis section contains the following subsections:

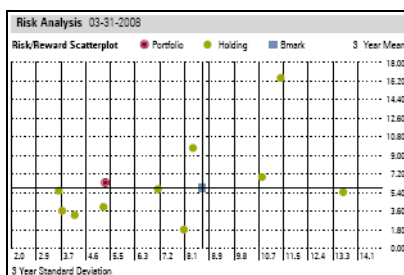
- Risk/Reward Scatterplot
- Performance History Graph
- Risk and Return Statistics
- MPT Statistics

This section shows you the returns and standard deviation of both the holdings in the portfolio (as a hollow circle) and the portfolio itself (as a solid circle), compared to the benchmark being used for the report for the trailing three-year period.

The ideal situation is to have the solid black circle for the portfolio appear in the upper left quadrant of the graph; this would mean that the portfolio both outperformed the benchmark, and took on less risk.

- ☞ You can determine which holding is represented by each circle by comparing its 3Yr Ret% value from the Non-Load Adjusted Returns section on the third page of the Portfolio Snapshot report.

The other element to consider with this graph is to use a custom benchmark for the report, rather than simply relying on the S&P 500 as the default. Using a custom benchmark will allow you to demonstrate a better apples-to-apples comparison to your client given the investments you have recommended.



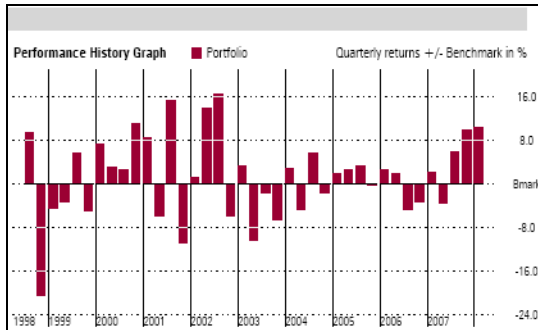
The portfolio circle in this graph is in the upper left quadrant. It has outperformed the benchmark and taken on less risk to do so.

Overview

Risk/Reward Scatterplot

This section shows you a quarter-by-quarter history of the portfolio's performance for the past 10 years, compared to the benchmark. How often did the portfolio outperform the benchmark? What kind of downside protection did the portfolio offer in a bear market?

Performance History Graph



The center line represents the benchmark.

This section shows you the 3-, 5-, and 10-year information for the following statistics:

- Standard Deviation
- Mean, and
- Sharpe Ratio.

Risk and Return Statistics

The Sharpe Ratio indicates whether a fund (or, in this case, a portfolio) has supplied an appropriate amount of return for the excess risk it has taken on; the higher the Sharpe Ratio, the better.

These values are also compared to those of the benchmark being used for the report.

Risk and Return Statistics	3Yr		5Yr		10Yr	
	Portfolio	Bmark	Portfolio	Bmark	Portfolio	Bmark
Standard Deviation	8.24	7.42	11.09	10.34	11.46	11.01
Mean	23.32	18.55	13.02	8.62	11.72	9.51
Sharpe Ratio	2.33	2.03	0.97	0.65	0.71	0.55

Although this portfolio's Standard Deviation is routinely higher than that of its benchmark, its Sharpe Ratio indicates that the returns outstrip this additional risk.

This section shows you the 3-, 5-, and 10-year information for the following statistics:

MPT Statistics

- Alpha
- Beta, and
- R-squared.

Alpha indicates the value a fund manager brings by outperforming the additional risk taken on by not accepting just the market return. Alpha should always be positive.

Beta indicates how much risk a portfolio takes in relation to the benchmark being used for the portfolio. A Beta of 1 indicates that the portfolio will move in tandem with the benchmark. A Beta lower than 1 indicates the portfolio will be less volatile than the benchmark.

R-squared measures how much of the portfolio's returns are explained by movements in the benchmark being used. The value ranges from 1 to 100. An R-squared score of 100 means all of the portfolio's movements can be explained by the benchmark. If the R-squared score is lower than 80, the benchmark is generally considered to be irrelevant in explaining the movements of the portfolio.

Using a custom benchmark that best fits the investments in a portfolio can help boost the figures in this section, because you will be making a fairer comparison between what the client holds and what they should be compared against. For instance, a portfolio of fixed-income holdings should not be compared to the S&P 500, which is the default benchmark for this report.

MPT Statistics	<u>3Yr</u> Portfolio	<u>5Yr</u> Portfolio	<u>10Yr</u> Portfolio
Alpha	2.72	3.74	2.14
Beta	1.09	1.05	0.99
R-squared	96	96	89

This portfolio has a positive Alpha, and a strong R-squared score.

Fundamental Analysis

This section details the information available in the Fundamental Analysis section of the Portfolio Snapshot Report. The Fundamental Analysis section contains the following subsections:

- Market Maturity
- Type Weightings
- Geometric Avg Capitalization (\$Mil)
- Valuation Multiples
- Profitability
- Interest Rate Risk
- Credit Quality
- Fund Statistics

Overview

This section shows the portfolio's exposure to both developed and emerging markets. You can also compare these weightings to the benchmark being used for the report. All underlying stocks in the portfolio are considered in this table.

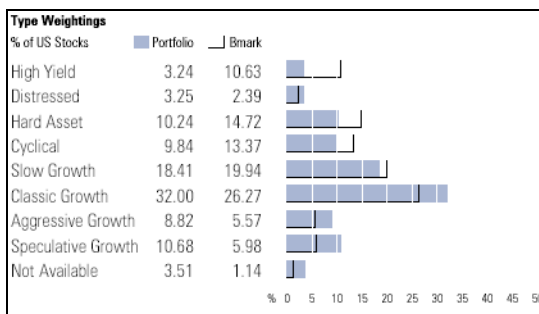
Market Maturity

Market Maturity		
% of Stocks	Portfolio	Bmark
Developed Markets	94.45	99.97
Emerging Markets	5.55	0.02
Not Available	0.00	0.01

This portfolio has a greater weighting toward emerging markets than the benchmark does.

This section shows you the stock types of the underlying holdings in the portfolio. The holdings are also compared to the benchmark being used for the report. This graphic considers only underlying U.S. stocks in the portfolio, and not international holdings.

Type Weightings



This portfolio is underweighted in high-yield stocks, and overweighted in classic growth and speculative growth.

This section shows you the average market capitalization of the underlying holdings for the portfolio, and compares it to the average weighting for the benchmark being used for the report. How close is the average weighting for the portfolio compared to the benchmark?

Geometric Avg Capitalization (\$Mil)

Geometric Avg Capitalization (\$Mil)	
Portfolio	7,748.34
Benchmark	8,244.41

The portfolio and benchmark are relatively close in this category.

This section shows you the scores for the portfolio vs. the benchmark for the following metrics:

Valuation Multiples

- Price/Earnings
- Price/Book
- Price/Sales, and
- Price/Cash Flow.

Valuation Multiples	Portfolio	Bmark
Price/Earnings	20.01	17.92
Price/Book	2.70	2.66
Price/Sales	1.39	1.26
Price/Cash Flow	12.48	10.72

This portfolio is largely in line with the benchmark for these metrics.

This section compares the strength of your portfolio to the benchmark being used for the report for the following metrics:

Profitability

- Net Margin
- ROE (Return on Equity)
- ROA (Return on Assets), and
- Debt/Capital.

☞ This table considers only U.S. based stocks in the underlying portfolio.

Profitability	Portfolio	Bmark
% of US Stocks	2005	2005
Net Margin	9.12	11.09
ROE	13.07	13.27
ROA	6.57	7.60
Debt/Capital	31.13	33.13

This portfolio has a lower Debt/Capital ratio than the benchmark.

This section shows you the following:

- Average Maturity (in years) of the fixed-income holdings
- Duration for the total portfolio, and
- Average Credit Quality for the portfolio's fixed-income holdings.

Duration is a measure of a bond's interest-rate sensitivity, and should always be shorter than Maturity (except in the case of zero-coupon bonds, where Maturity and Duration are the same.)

The average credit quality is derived by taking the weighted average of the credit rating for each bond in the portfolio.

Interest Rate Risk	Portfolio
Maturity	6.50
Duration (total portfolio)	3.63
Avg Credit Quality	AAA

This portfolio's fixed-income holdings have the highest average credit quality possible.

Interest Rate Risk

This section shows you the percentage of bonds in the portfolio in each rating class. Note that U.S. government bonds are always classified as AAA, but other government bonds might not be.

Credit Quality			
% of Bonds			
AAA	21.98	BB	7.42
AA	5.83	B	2.13
A	9.34	Below B	0.59
BBB	15.88	NR/NA	1.19

Over 20% of the bonds in this portfolio are rated AAA or better.

Credit Quality

This section is weighted for the asset allocation for the funds in the portfolio, and shows you the following information:

- Potential Capital Gains Exposure
- Average Net Expense Ratio, and
- Average Gross Expense Ratio.

This section is particularly useful for gauging whether you are paying too much for the funds in your portfolio.

Fund Statistics	
Potential Cap Gains Exposure	18.53
Avg Net Expense Ratio	1.26
Avg Gross Expense Ratio	1.31

Fund Statistics

Non-Load Adjusted Returns

This section details the information available in the Non-Load Adjusted Returns section of the Portfolio Snapshot Report. The Non-Load Adjusted Returns section does not have any subsections.

Overview

This section shows you the percentage of assets of each holding in the portfolio, and the non-load adjusted returns (by percentage) for the following periods:

- 1 year
- 3 year
- 5 year, and
- 10 year.

What can I do with the information in this section?

You can also see the Max Front Load and Max Back Load for each investment.

This section is also helpful in determining which holding is being represented by a particular circle on the Risk/Reward graph. Reference the 3Yr Ret% column, then compare this value for an investment to the Risk/Reward scatterplot.

Non-Load Adjusted Returns										
Total 10 holdings as of 03-31-2008	Type	Holdings Date	% of Assets	Holding Value \$	7-day Yield	1Yr Ret %	3Yr Ret %	5Yr Ret %	10Yr Ret %	
DWS Global Bond A - SZGAX	MF	12-2007	10.61	10,242	—	11.54	5.58	5.67	5.65	
DWS California Tax-Free Income A - KCTAX	MF	12-2007	10.30	9,944	—	0.93	3.22	3.13	4.19	
DWS MA Tax-Free A - SQMAX	MF	12-2007	10.29	9,936	—	3.06	3.64	3.55	4.37	
Goldman Sachs High Yield A - GSHAX	MF	01-2008	9.91	9,570	—	-5.90	4.01	8.90	5.25	
Marathon Value Portfolio - MVFFX	MF	02-2008	9.88	9,542	—	-3.63	5.73	11.75	—	