Using the Portfolio X-Ray Report with Clients

Overview

This document explains the different sections of the Portfolio X-Ray report, and how to use it with clients.

The Portfolio X-Ray Report shows you detailed information on a portfolio's holdings. It does not provide information on a portfolio's performance.

The variety of graphs and statistics can provide numerous talking points on how a portfolio's diversification (or lack thereof) is likely to affect its performance.

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

This report can help you illustrate all of the different ways you bring value to a client's portfolio by offering them diversification in the following areas:

- Broad asset classes
- Stock sectors
- Style box diversification
- Geography, and
- Number of holdings.

Point out that a diversified portfolio is stronger than one concentrated in just one or two areas. Proper diversification brings both reduced volatility and less risk than an over- or under-allocated portfolio.

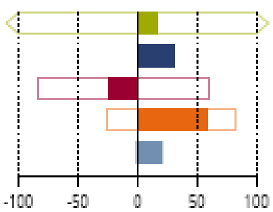
What information does the Portfolio X-Ray report show?

The table below lists the different sections of the Portfolio X-Ray report. Each of these sections will be discussed in detail.

Sections in the Portfolio X-Ray Report
Asset Allocation
Stock Sector
Style Box Diversification
World Regions
Top 10 Holdings

Long/Short/Net Bar Chart

Before looking at individual sections of the Portfolio S-Ray 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.



Analysis 01-31-2008

Asset Allocation	Portfolio Long %	Portfolio Short %	Portfolio Net %	Bmark Net %
Cash	196.76	180.49	16.27	0.00
US Stocks	30.84	0.00	30.84	99.94
Non-US Stocks	60.16	84.72	-24.56	0.00
Bonds	83.63	25.42	58.22	0.00
Other	21.69	2.46	19.23	0.06
Total	393.09	293.09	100.00	100.00

How do I interpret the new composition bar chart?

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.

What does "Long" mean?

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.

What does "Short" mean?

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.

What does "Net" mean?

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

What does “Re-scaled Long” 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:

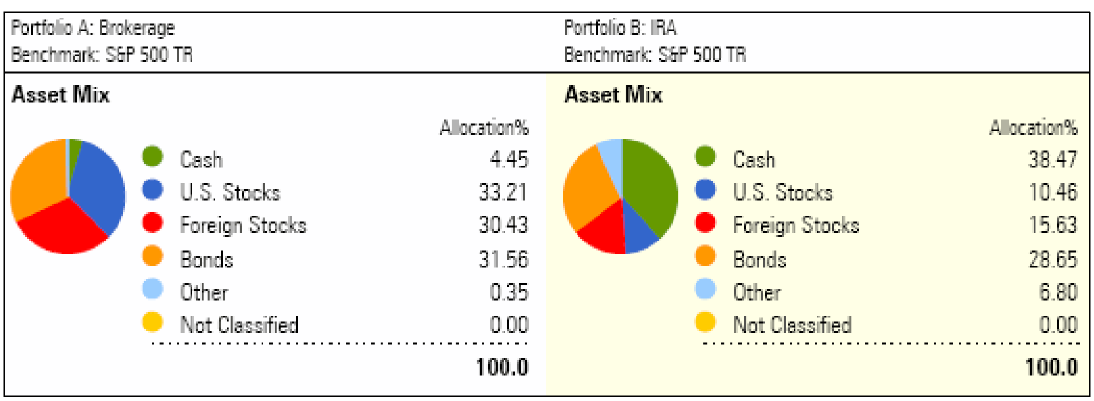
- (50%/(50%+70%)) = 42% long stocks and
- 70%/(50%+70%) = 58% long bonds.

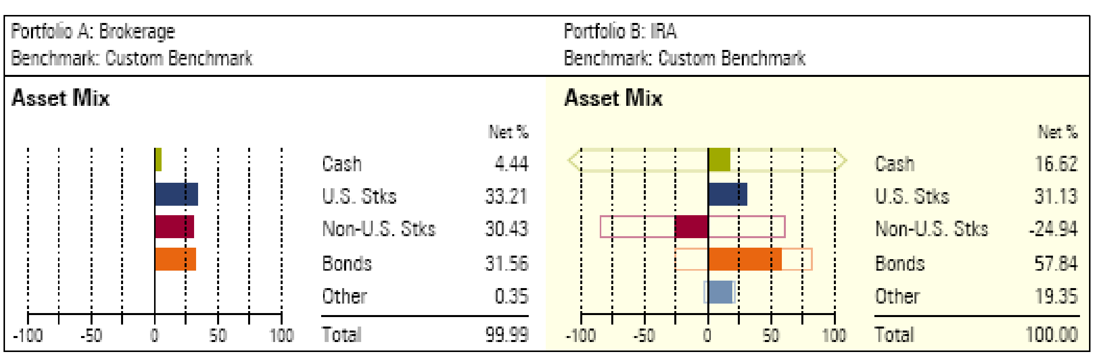
As you can see, 42% stocks and 58% bonds does not present the whole picture. The new long, short, and net data provides investors with a more robust description of the fund’s exposure and risk.

Why was the pie chart replaced?

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.

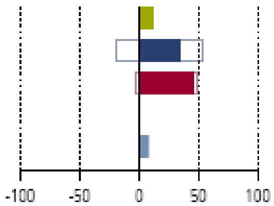




Sample 1 - Long/ Short fund that is net long

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.

Asset Allocation

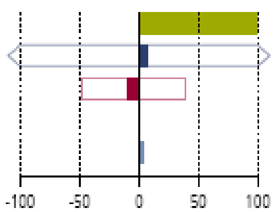


	Portfolio Long	Portfolio Short	Portfolio Net %	Bmark Net %
Cash	12.26	0.00	12.26	0.00
US Stocks	54.30	19.55	34.75	99.94
Non-US Stocks	48.85	3.37	45.49	0.00
Bonds	0.00	0.00	0.00	0.00
Other	8.51	1.00	7.51	0.06
Total	123.92	23.92	100.00	100.00

Sample 2 - Market-Neutral fund

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%.

Asset Allocation

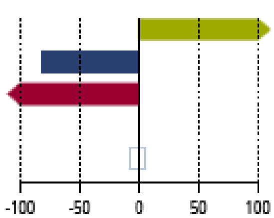


	Portfolio Long	Portfolio Short	Portfolio Net %	Bmark Net %
Cash	99.36	0.00	99.36	0.00
US Stocks	495.63	488.93	6.69	99.94
Non-US Stocks	39.66	48.53	-8.88	0.00
Bonds	0.00	0.00	0.00	0.00
Other	2.82	0.00	2.82	0.06
Total	637.47	537.47	100.00	100.00

Sample 3 - Bear Market 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%.

Asset Allocation



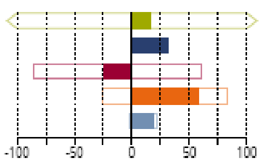
	Portfolio Long	Portfolio Short	Portfolio Net %	Bmark Net %
Cash	350.70	0.00	350.70	0.00
US Stocks	0.00	82.68	-82.68	99.94
Non-US Stocks	0.00	165.29	-165.29	0.00
Bonds	0.00	0.00	0.00	0.00
Other	5.98	8.71	0.00	0.06
Total	356.68	256.68	102.73	100.00

Asset Allocation

The Asset Allocation section includes an Asset Allocation bar chart, showing the diversification among the following broad asset classes:

- Cash
- U.S. Stocks
- Foreign Stocks
- Bonds
- Other
- Not Classified

The bar chart immediately demonstrates whether a portfolio is overly concentrated in any one area, or if an area is lacks representation at all. These values are also compared to the S&P 500 as a benchmark, but you can use a custom benchmark as well. The outlined area shows you the extent of both the long and short positions for each asset calss. The filled-in portion for each asset class' bar chart represents the net positions.



	Port Net %	Bmark Net %
Cash	16.53	0.00
U.S. Stks	31.02	99.94
Non-U.S. Stks	-24.70	0.00
Bonds	57.95	0.00
Other	19.20	0.06
Total	100.00	100.00

This portfolio has both long and short postions.

The portfolio's values among these broad asset classes are also shown in whole dollars, as well as their percentage of the portfolio.

If the portfolio includes any short or margined positions, these are listed in the Liabilities section.

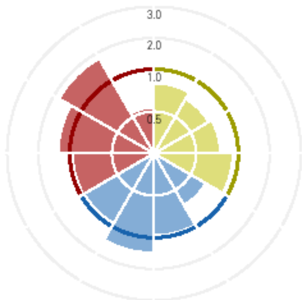
Stock Sector

This section shows you the weightings in both the three supersectors (Information, Service and Manufacturing), as well as each sub-sector. The portfolio's weightings are also compared to the benchmark being used for the report.

Also shown is the Sector Graph, which compares the portfolio's sector allocation to the Morningstar Broad Market Index. Has the portfolio taken on additional risk by allocating too many assets to a single sector?

Stock Sector

Sector Graph Benchmark=1.0



% of Stocks	Portfolio%	Bmark%	Rel Bmark
Information	**15.74**	**20.33**	**0.77**
Software	2.81	3.46	0.81
Hardware	7.34	10.15	0.72
Media	2.56	3.39	0.76
Telecommunication	3.04	3.33	0.91
Service	**41.59**	**45.95**	**0.91**
Healthcare Services	8.76	12.95	0.68
Consumer Services	7.76	8.15	0.95
Business Services	5.73	4.03	1.42
Financial Services	19.34	20.82	0.93
Manufacturing	**42.61**	**33.64**	**1.27**
Consumer Goods	7.82	8.31	0.94
Industrial Goods	16.03	12.32	1.30
Energy	17.11	9.84	1.74
Utilities	1.66	3.17	0.52
Not Classified	0.06	0.08	0.75

This portfolio is over allocated in Business Services, Industrial Goods, and Energy.

Style Box Diversification

This section shows you each portfolio's allocation among equities and fixed-income investments. The shaded areas are those with the highest concentrations.

A number of other statistics on the equity and fixed-income side are also provided to help you value the portfolio.

Style Box Diversification

Equity

	Value	Core	Growth
Large	23	35	28
Mid	2	3	4
Small	0	1	2

2% Not Classified

	Portfolio	Rel Bmark
P/E Ratio	17.66	1.01
P/B Ratio	3.24	1.15
ROA	10.39	0.98
ROE	21.17	1.09
3-yr earn growth %	19.61	1.18
Geo Avg Cap ($ mil)	29,138.70	0.62

Fixed-Income

	Short	Interm	Long
High	0	100	0
Med	0	0	0
Low	0	0	0

0% Not Classified

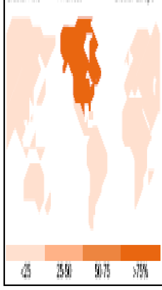
Avg Eff Duration Yrs	4.55
Avg Eff Maturity Yrs	6.81
Avg Credit Quality	AAA
Avg Wtd Coupon %	5.53
Avg Wtd Price %	100.21

This column is relative to the S&P 500. Therefore, we can see that this portfolio has a higher P/E Ratio, and a lower ROA than the S&P 500.

World Regions

This section provides information on the portfolio's exposure to stocks around the world. Does the portfolio have little or no exposure to international stocks? Is it over-allocated in an international position?

World Regions



Greater Europe	Stock % 12.76	Americas	Stock % 80.14	Greater Asia	Stock % 7.10
United Kingdom	3.88	North America	77.75	Japan	1.82
Europe-Developed	8.32	Latin America	2.39	Australasia	1.51
Europe-Emerging	0.00			Asia-Developed	0.73
Africa/Middle East	0.56			Asia-Emerging	3.04

This portfolio has very little international exposure.

Top 10 Holdings

This section shows the following:

- The top 10 holdings in the portfolio
- The weighting (by assets) of each holding in the portfolio
- Stock Industry/Fund Category for each investment, and
- Market Value.

Top 10 Underlying Holdings

Assets %	Name	Type	Sector	Country
0.80	Brazilian Petroleum Corporation ADR	ST	Energy	Brazil
0.73	Pfizer Inc.	ST	Healthcare Services	United States
0.72	GlaxoSmithKline PLC ADR	ST	Healthcare Services	United Kingdom
0.65	ConocoPhillips	ST	Energy	United States
0.63	The Dow Chemical Company	ST	Industrial Materials	United States
0.63	Kimberly-Clark Corporation	ST	Consumer Goods	United States

This portfolio owns six funds, but almost 60% of its value is tied into a a single fund category (large blend).

Here are some questions to ask when analyzing this section:

- Does the portfolio have more than just one or two holdings?
- Does the portfolio have multiple holdings, but is dominated by just one or two of them?
- How much overlap can be seen in the Stock Industry/Fund Category column?