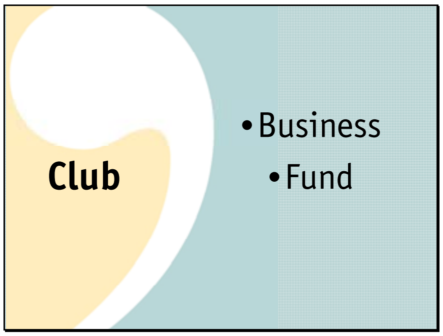
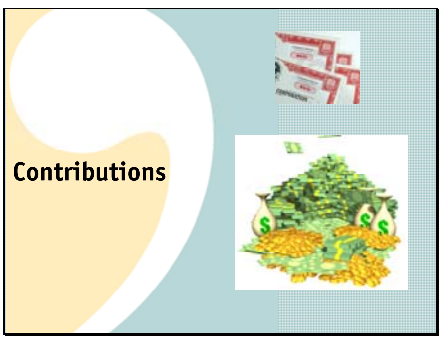


Many people like to think about their investment club as a group of people running a

little business.

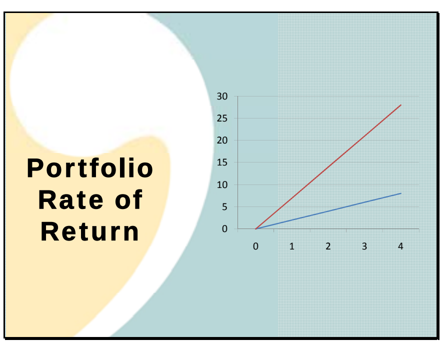
In fact, you are a group of people managing a mutual fund. It's important to manage your investments as a portfolio rather than just as a collection of individual stocks.



When you make a

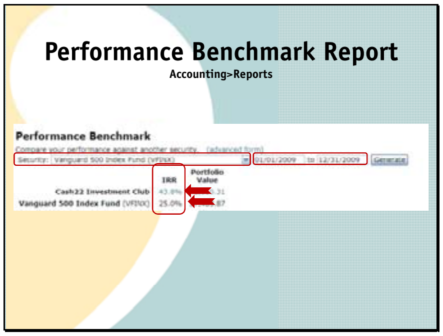
contribution to your club, you are purchasing shares of your fund

You, of course, do that with the intent that those shares will increase in value, just like anything else you invest in



If you are actively managing your own portfolio, you want the amount of effort you put into managing your investments to produce an increase in the rate of growth you achieve.
You'd like your growth to follow the red line rather than the blue one.

That's why we're all trying to learn how to do what we do.



Comparing your portfolio rate of return to another investment is called benchmarking.

There is a report in bivio that lets you do this. It is called the Portfolio Benchmark report. You get to it on the Accounting>Reports page.

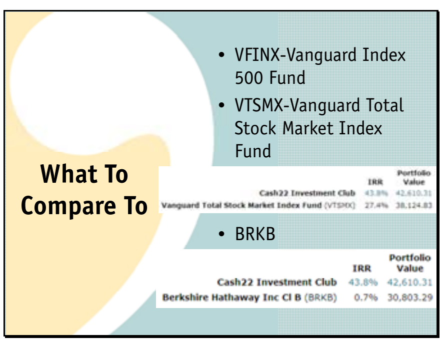
You select the investment you want to compare to and

the time period over which you want to make the comparison

The comparison that is made is between IRR or Annualized Internal Rate Of Return for the two investments.
Making a comparison using IRR will give you a birds eye view of how good you are at making investing decisions

A higher number means during the period of the report, your investments grew faster than

if you'd put the money into whatever investment you are comparing with.

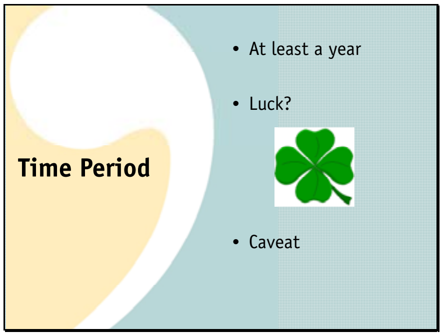


How do you pick what to compare to?

A common selection is the Vanguard Index 500 fund. Why is this? Because it is commonly recommended as an investment choice for those who want to be invested in the stock market but do not want to have to choose investments. As we all know, it is not easy to beat. Most active mutual fund managers do not beat it.

You actually can compare to investing in almost anything that has a ticker symbol. Another popular investment to compare to is the Vanguard Total Stock Market Index

Of course, it's always good to see how you're doing compared to Warren Buffet. You can even compare the return your club achieved with your investments to how you would have done if you had just purchased Berkshire Hathaway stock with your contributions.

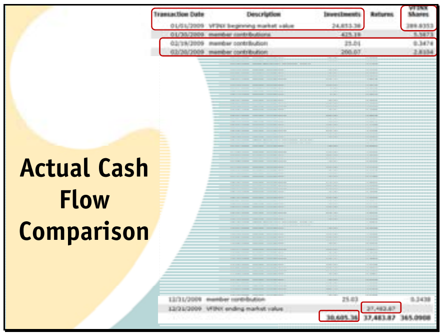


To run a benchmark analysis you need to pick a time period over which to make your comparison.

It should be at least a year. Since IRR is an annualized return, it can be misleading if you extrapolate short term changes out over a year time frame.

The longer the time period you select, the better you have a chance that you are seeing your expertise in managing a portfolio rather than just luck.

One thing to be aware of. If you have switched to bivio using the Edit Opening Balances method (possibly because you were previously doing manual accounting), you can only calculate IRR for the time period since you've switched. If you've switched by importing your data from another program, you do not need to worry about this.



What is good about this tool is that you are comparing the same cash flows into each investment.

In the bottom half of the report, you will see the cash flows you had for the time period you selected. You will also see how many hypothetical shares of your comparison investment the cash purchased.
It's very important to make the comparison this way. Cash flow will have an effect on investment return. The beauty of this report is that it allows you to make a true apples to apples comparison.

Here's what else you see on the report. At the top,

you start with your club value on the first day.

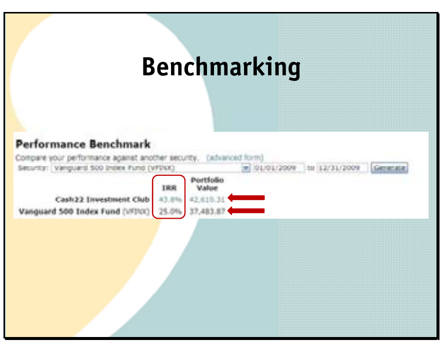
That will be equivalent to a certain number of shares of your benchmark investment.

On the dates you made you contributions to your club, hypothetical investments in the same amounts are made in the benchmark investment.

At the bottom of the page,

you'll find the total contributions to your club for the period and

the ending market value the benchmark investment would have reached.

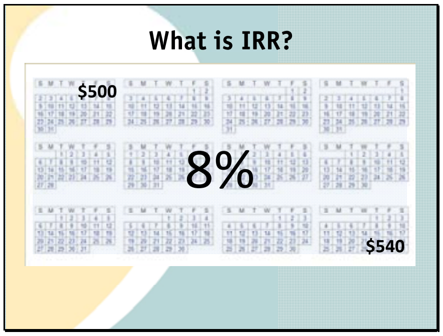


Based on the beginning and ending values of your account and the cash flows that you had,

an IRR or Internal rate of return is calculated for each of the two investments.

One for the investment in your club and

one for the investment in the security you are comparing to.



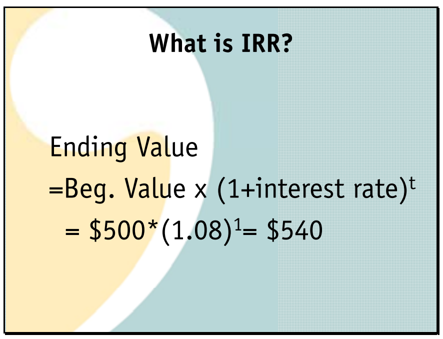
So now we get to the question I'm sure a lot of you have. What exactly is IRR?
I Think of IRR as a magic CD rate. I'll explain why.

Suppose I had $500

and I invested it on January 1

in a CD which paid 8% interest ,

At the end of the year I'd have $540

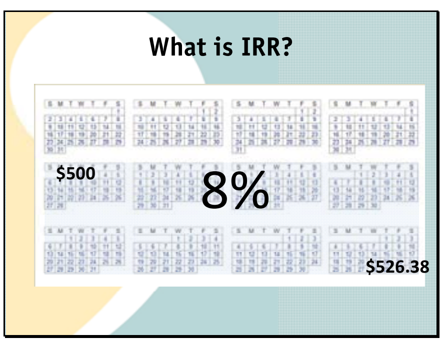


I'd calculate that using this simple formula:

The ending value

Equals the initial value times 1 plus the interest rate for the time period we are calculating. In this case t is 1 year.

At an 8% interest rate for 1 year, $500 grows to $540

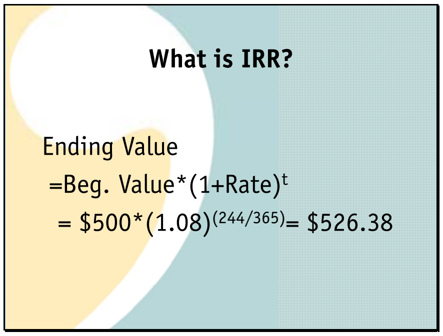


But what if you only had the money in the CD for part of the year?

For example, suppose you deposited it on May 1 rather than Jan. 1

The money would only grow for for 244 days or about 2/3 of the year.

At the end of the year you'd only have $526.38. It makes sense, it's the same rate of growth or interest rate but your money doesn't have as long to grow.

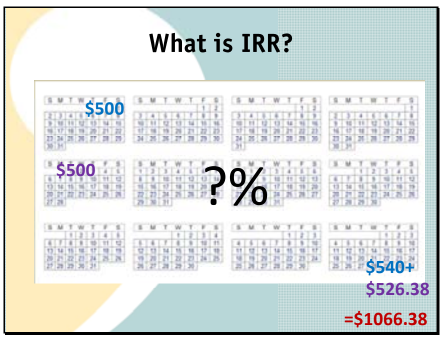


In that case

The ending value

Is calculated in the same way as before but t is only a fraction of the year. It can be determined by dividing the number of days the money is invested by 365 days in a year.

At an 8% interest rate for this amount of time \$500 grows to \$526.38



In your club, you have different times during the year

when you add cash to your account.

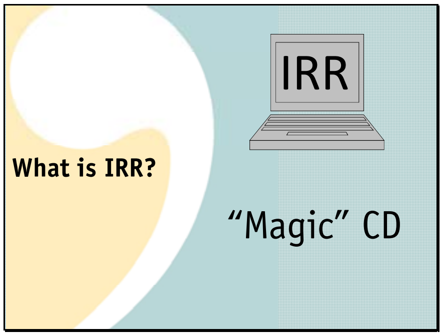
There is a similar equation for each of them.

Each deposit will grow at some rate

to arrive

at your

total club value at the end of the year.

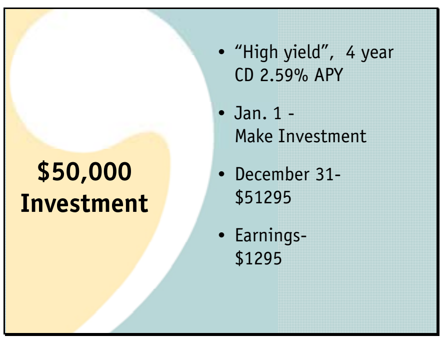


We call this rate of return your

IRR or Internal Rate of Return. We know how much you have contributed and when. We also know the ending value of your account. We use this information to determine your IRR by solving for an unknown in a series of equations.

It's a complicated trial and error process which fortunately is handled by our computer. You may be familiar with a function in Excel called XIRR which can make this calculation also.

If you'd like a visual, I find it helpful to think of IRR as a "Magic" CD rate. Every time you invest money in your club during the time period you are looking at, it is as if you have found a CD which pays the IRR rate of interest to put your money into.



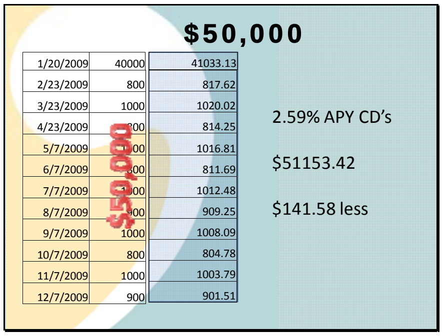
Here's an example. Suppose we have $50,000 to invest

We can find a "high yield" 4 year CD that will pay 2.59% APY

On Jan 1, we put our $50,000 into this CD.

At the end of a year, using the formula we discussed, we can calculate that we will have $51295 (50,000*1.0259)

We've earned $1295



Suppose we didn't have the entire $50,000 available on the first of the year.

Instead, we started with $40,000 invested on one of the 2.59 % CD's in January.

At the end of the year it was worth $41033.13

Then, each month we put in various other amounts.

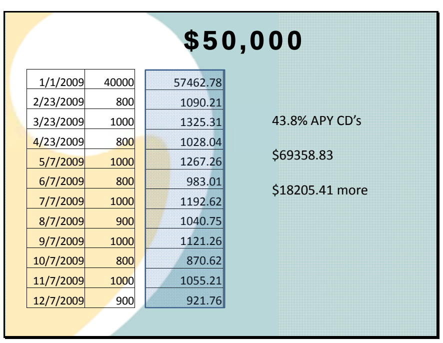
The total of all the amounts contributed during the year was still $50,000 but we spread out the contributions over the year instead of putting it all in at one time at the beginning.
Each months contribution was invested in one of those CD's earning 2.59% APY. We ended up with 12 CD's.

At the end of the year, we figured out how much each one was worth

we added them together.

The total is $51153.42

This was $141.58 less than the amount we earned when we put all our money in in the beginning. Cash flow has had an effect on our investment returns.



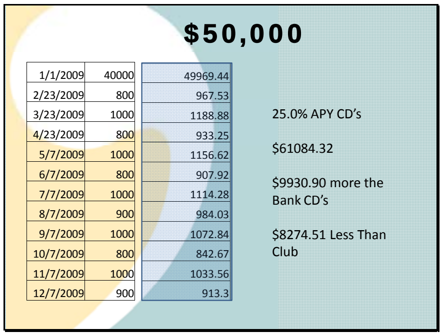
Now, suppose instead we had put those same amounts into our club.

If you remember, our club IRR was 43.8% for this time period.
It was as if, each time we invested in the club, we put the money in a CD with a 43.8% Return.

At the end of the year, we calculated how much each CD was worth and

We totaled them up. It was $69358.83

We ended up with $18205.41 more by investing in our own club than the Bank CD's



1/1/2009	40000	49969.44
2/23/2009	800	967.53
3/23/2009	1000	1188.88
4/23/2009	800	933.25
5/7/2009	1000	1156.62
6/7/2009	800	907.92
7/7/2009	1000	1114.28
8/7/2009	900	984.03
9/7/2009	1000	1072.84
10/7/2009	800	842.67
11/7/2009	1000	1033.56
12/7/2009	900	913.3

Now, suppose instead we had put those same amounts on the same dates into the Vanguard Index 500 fund, VFINX.

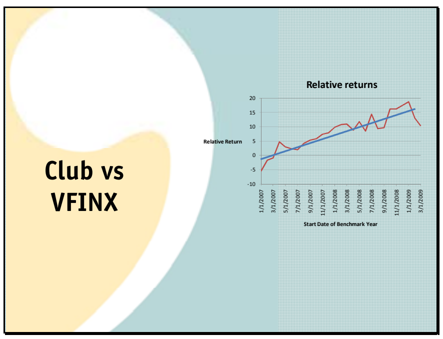
The IRR during this time period for that investment was 25.0.%

So that was the "magic" CD interest rate each of these investments grew at.

Our ending total for the year was $61084.32

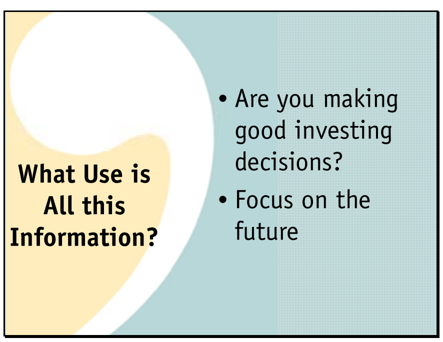
$9930.90 more than the bank CD's

$8274.51 Less than investing in our club



It is interesting to plot relative return over a period of time. If your returns are consistently higher than your benchmark returns, you're making investing decisions that are paying off.

If you see a nice upward slope like this in the magnitude of your relative returns that may be an indication that you're learning something and getting better at making investing decisions.



So what use is all this information? It's a lot of work to manage a portfolio. Having a goal of producing a return that is better than putting the money in a Bank CD or in the Vanguard Index 500 mutual fund, gives you something to shoot for if you are learning how to invest and allows you to monitor your success if you are more experienced.

As you manage your portfolio, you should be thinking, how can I optimize it to maximize my rate of return.

One way to do that is to focus your decision making on the future, not on the past. We suggest you structure your discussion about choosing investments around a portfolio review where you use projected return to make your investing decisions.

I think many of us tend to look at reports like this about our investments and one of the first things we do is go over to the

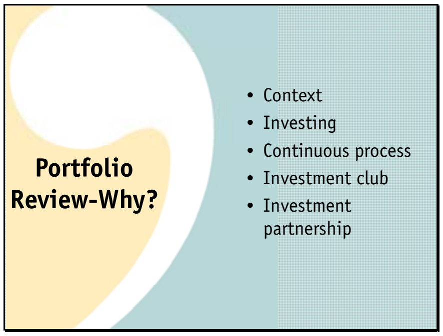
gains and losses column.

When we see a positive number, we are happy, we “like” that stock.

When we see a negative number, we are not so happy, that stock is not our friend.
So, we tend to want to keep the stocks that make us happy and get rid of the ones that we don’t like looking at.

We need to try not to do this, This report shows historical information.

There is actually no information here that tells us how to invest the $51004.76 in assets we currently have, to achieve optimal results.



It's important to look forward.

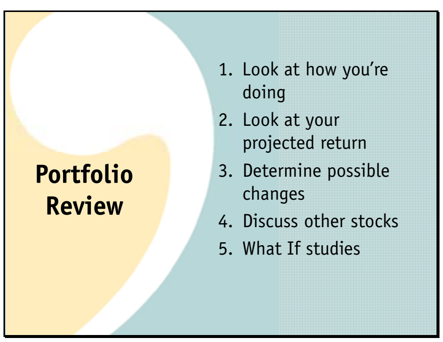
Start your investing discussion with a portfolio review so you are making investment decisions in the context of how they affect your projected portfolio return.

Investing is not just about buying individual stocks. It's about managing a portfolio. We've been taught to go shopping and pick new stocks but that's only part of what you need to understand to make money. For example, you need to buy enough of an investment to impact your returns if it does pan out. You need to purchase good investments at prices where there is still room for the price to grow. You also need to lett go of stocks whose projected returns have diminished. This is as important as buying good stocks in the first place.

Maintaining a club portfolio is a continuous monitoring and improvement process.

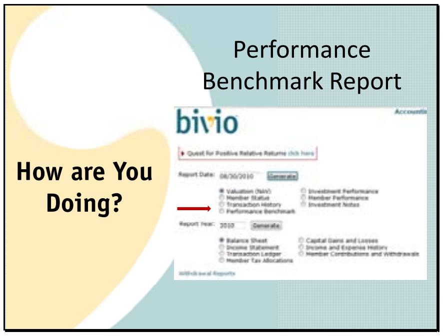
Your club is probably a group of friends with a common interest.

But it is also important to think of yourselves as an investment partnership which is managing a portfolio for maximum return. Each one of you is an analyst researching and following specific companies. As a group, you are putting together all the pieces to develop the best portfolio you can.



These are the steps you should follow to structure your portfolio review

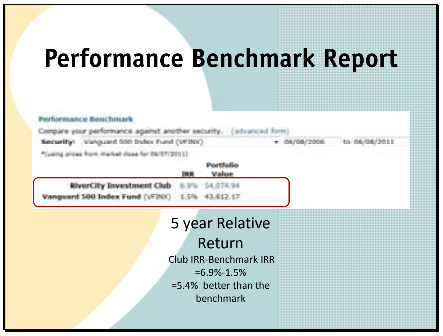
- Look at how you're doing
- Look at how your portfolio is projected to perform
- Determine possible changes
- Study other stocks
- Do some what if studies to see the impact of your changes on your portfolio before you take action.



Step one is a very important step. For some reason, (perhaps fear), we don't do this often enough. But you need to be able to measure to determine if you are making progress.

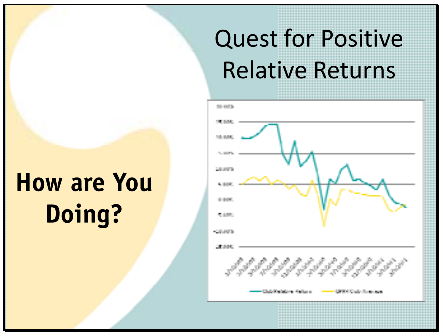
As we've discussed, the place to go in bivio to see how you're doing is the Performance Benchmark Report.

You get to it from the reports page.



As you look at the information on this report, think of the investing decisions you made during the time period covered.

If your results are good, as they are for this club, it means the process you were using to make your choices was fruitful. Think about what you might want to do more of.



It’s interesting to keep an eye on the trend in your club’s relative return.

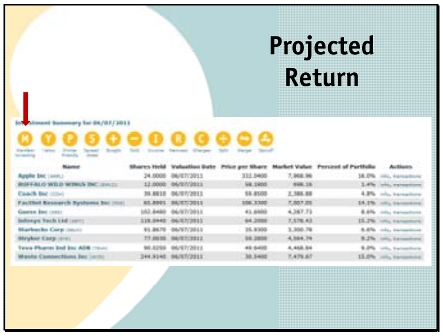
Here’s a graph for the same club for successive 12 month periods since the beginning of 2008. The green line shows their return relative to the Vanguard Index 500 benchmark. As I mentioned earlier, we are encouraging clubs to join our Quest for Positive Relative Returns. If you’d like to participate, we’ll make a graph like this for your club and add a link to your club pages to see it. Just email us at support@bivio.com to request this.

You’ll notice that the trend in relative return for this club recently has been downward but is still positive. It would be extremely difficult to maintain the level of relative returns that is seen in the earlier time periods on this graph. Again, it is interesting to look at your trend and think about what investing decisions you were making during different time periods and what was going on in general in the stock market.

One thing I’ve noticed when making lots of these graphs, is that many clubs performed better than the market when it was doing badly in late 2008 but have had a harder time beating the current market which is doing much better.

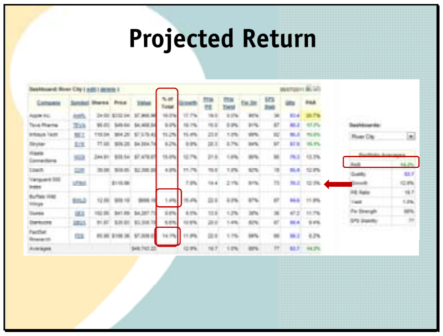
While their trend in relative return is a little down lately, it’s not necessarily because their stocks haven’t been doing well. It’s probably more because the market is particularly hard to beat at this point. Different types of investments will do well in different types of markets.

The yellow line has been recently added to these graphs because of requests from clubs to get a sense of how their club is doing compared to other clubs. The yellow line is the average relative return for all the clubs participating in the Quest for Positive relative returns. So far, it looks like this club is soundly ahead of the pack.



Once you have a good idea of how you've been doing, you want to focus on what rate of return you might expect from your portfolio in the future. You can also compare your portfolio projected return to the projected return of the benchmark to get a sense of what your relative returns might be going forward. One of the ways you can do this is by looking at a list of your club holdings in a Manifest Investing dashboard.

You can access this using the Manifest button on the Accounting>Investments page.



This is a Manifest Investing dashboard. They compile analysts projections about company fundamentals to come up with a projected return for each of the stocks you own. When combined and weighted by the amounts you own of each,

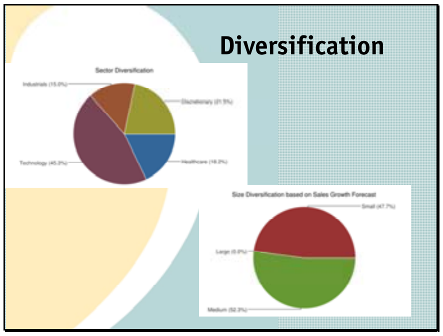
A Projected Annual Return or PAR is calculated for your entire portfolio. To beat the benchmark, you want your portolio projected return to be

greater than the projected return for the benchmark. You can see that is the case for this club, despite the fact that some of their individual stocks have a slightly lower projected return than the benchmark.
This club has the same question many clubs have which is how do you decide when it's time to sell a stock. If you want to look for candidates to sell, you might start with whether you need to sell anything. The projected return for this portfolio looks pretty good. If that is not the case, you might look at those with projected returns significantly lower than the benchmark. If you want to look for those to buy, you might start with holdings you already have with the highest projected returns or holdings with a good projected return that you don't have enough of.

The percentage of Buffalo Wild Wings shown here is pretty small compared to the other stocks and it still shows a good potential return projection. This might show you a place where you should accumulate some additional shares.

The percentage of FDS, (whose PAR is still good but is the lowest in this portfolio), is a bit high. Probably because FDS has done really well lately. This is the type of information you might use determine where you might sell some shares. Manifest allows you to do what if studies to determine the effects on your portfolio of making different changes. You should evaluate buy and sell decisions in the context of what it does to your portfolio projected return.

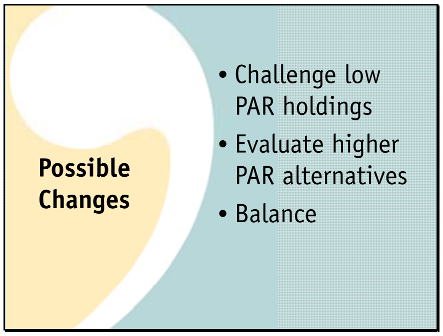
There are other portfolio considerations you might think about as you analyze your portfolio. This column shows the percentage of each of your holdings. Don't forget the rule of 5. Out of every 5 stocks you own, one will probably do better than you expect, one will probably do worse and the remaining 3 will probably perform as you expected. It's important to keep the size of each holding large enough that it will have an impact if it works out but not so large that it will decimate your portfolio if it doesn't. It's also important that you not have more stocks than you can do a good job following.
Don't forget that if you're looking for stocks to buy, it might make more sense to buy some more of a company you are already familiar with than to add an entirely new company to your portfolio.



When managing a portfolio, you can help to reduce risk by diversifying. When you pull up your club portfolio in Manifest, you will also see diversification charts.

Here's the sector diversification for this club. It's good to keep somewhat diversified by sector since at different times, different sectors will be "in favor". Sector diversification often happens naturally if you are picking stocks based on projected return. As sectors rotate out of favor for whatever economic reason, the projected returns of many of the companies in them increase. It's often a good time to buy so that you can take advantage of the increase in prices as the economy changes and the sector rotates back into favor. If you become overweighted in a sector, it might be because it has been doing pretty well. That might be a signal that it's time to pare back some of your holdings.

You can diversify in different ways. It's also good to have a balance of steady growing, reliable, "core" stocks that will provide stability and consistency to your portfolio along with companies that are growing much faster and may have higher potential for return but whose business activities are probably a bit more volatile. The faster growing stocks might require a bit more sophisticated monitoring and attention each quarter to make sure you can still count on them to provide a benefit, but they do have a place and will help to "juice" up your return when it gets harder to beat the broader market.

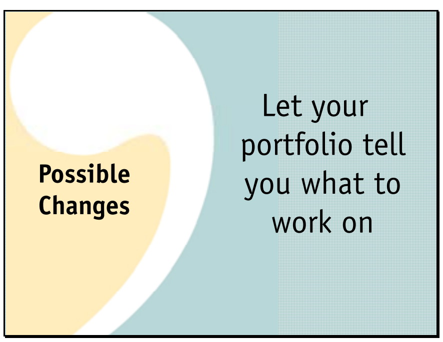


This type of portfolio analysis will tell you what types of stocks you need to look for.

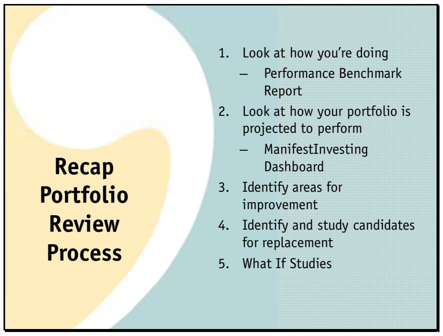
Do you need to increase the growth projections for your portfolio by replacing lower growth potential stocks with higher quality alternatives? What stocks might be dragging your projected return down? These are possible sell candidates!

What higher potential return stocks might you add to your portfolio? These are your stock study candidates. Don't be afraid to add to holdings you already own. You are familiar with following those companies already so adding additional shares doesn't create an additional stock watcher burden.

Keep an eye on trying to stay nicely diversified by holding percentage, industry and growth rate
Don't stress about this too much but keep an eye on how things stand. This thought process might also lead you to possible sell candidates or help guide your search efforts for new stocks.



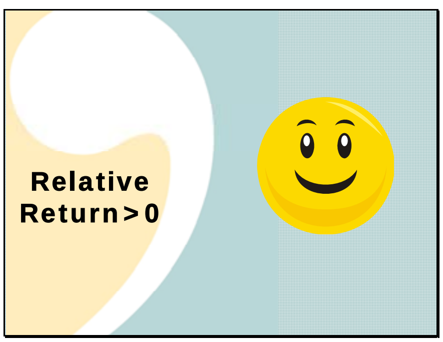
In general, look for companies that will fill needs in your portfolio. Let your portfolio tell you what you need to focus on. Don't look for companies first and then just stuff them into the mix.



In summary, that is the portfolio review process.

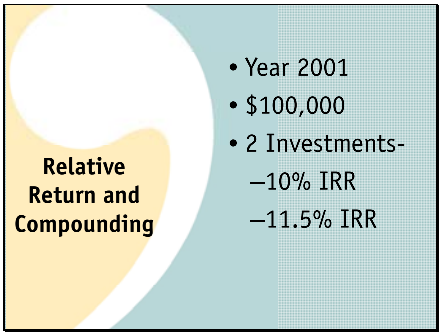
- Look at how you're doing
  Performance Benchmark Report
- Look at how your portfolio is projected to perform
  ManifestInvesting Dashboard
- Identify areas for improvement
- Identify and study candidates for replacement
- Do some what if studies to see the impact of making proposed changes

Keep the visual of you all around the big conference table. You want to manage your fund (aka your club portfolio) to achieve maximum return for your investors (aka The members of your club)
Structure your thought process and your stock selection process around a portfolio review and you should find that your portfolio will tell you when to buy and sell and what to buy and sell.



If you can achieve a rate of return greater than the benchmark return, that is something you should be proud of. Due to the magic of compounding, even small differences will add up to large amounts over time. Compounding means that each year you will earn the IRR rate on not just your original contributions but also on the amount you earned the previous year. Some say Einstein called compounding "The Most powerful force in the universe".
If your relative return is greater than zero,

your investing decisions are paying off.



Here’s an example:

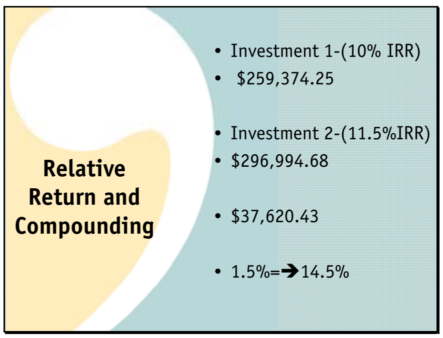
Suppose you had started your investing 10 years ago with

$100,000.

You had the choice of two different investments,

one where you achieved a 10% IRR

and the other where you achieved “only” a “little bit” better return of 11.5% IRR.



At the end of 10 years, this is what you would have had in your accounts:

In Investment 1, with the 10% IRR, your $100,000 would have

grown to $259,374.25

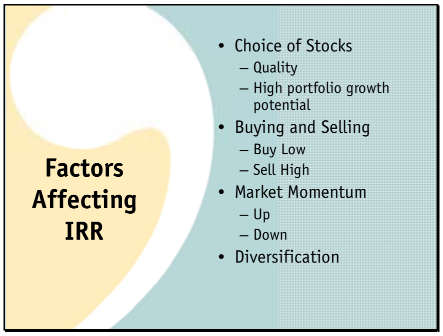
In Investment 2, with a 11.5% IRR, your $100,000 would have

grown to $296,994.68

You would have $37,620.43 more from choice number 2 than from choice number 1.

The 1.5% yearly difference in your IRR has meant that you have ended up with 14.5% more money.
When you look at your club returns related to your benchmark returns, please pat yourselves on the back for any increase over the benchmark that you see. Your efforts are paying off more than it might seem.

It works the other way too. If you are paying mutual fund fees of “only” 1%, it will add up to a lot less income on your investment over time. This is a good argument for putting in the time you do in your club to learn to pick stocks yourself!



Many things affect your portfolio performance.

First of all, of course is your choice of stocks

> You want to pick quality companies so you can have increased confidence in predictions of future performance.
>
> You want a high projected return for your entire portfolio. Statistically, you have more chance of "getting it right" if you are making a projection for a group of stocks than for an individual stock.

Even if you pick good companies, you still need to make good investing decisions.

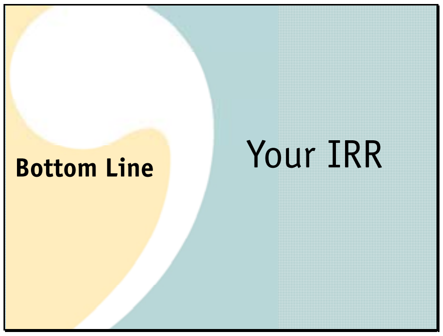
> You want to know you are buying them when their growth potential is high. This means both a good price and good expectations for their future growth.
>
> And replacing them when growth potential is not as high. This may mean the price has gone up too much. It may also mean the expectations for their future growth have diminished for some reason.

Economic, political and other macro factors can affect the market as a whole.

Are you invested when the market is rising in general or are you sitting on cash?

If the market seems high, have you captured some profits by selling some stocks whose growth potential has been played out? Under certain conditions, it makes sense to keep higher levels of cash. Inevitably a correction will occur that will provide you with a good opportunity to reinvest it.

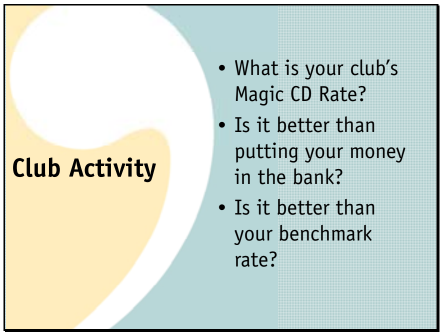
Diversity-Are you minimizing your risk and your portfolio volatility by spreading out your investments amongst sectors, different size companies and specific stocks?



All of these things affect what

your “Magic CD” Rate will end up being.
They are all things you’ve heard before. You can learn a lot by taking the time to look at your relative returns graph and think about these factors in relation to what your graph shows. I know my club’s relative returns during the time period the market was down in 2008 till the beginning of 2009 look very good. But this is probably because we have trouble coming to a consensus and are usually sitting on a lot of cash. This was a good thing under those market conditions, but it hurt us as the market recovered. It’s hard to beat an improving market if you are sitting on cash.

I worked with another club who had transferred appreciated stock to a withdrawing member. Sometimes the thing that hurts us most is that we want to keep stocks that have done well because they make us happy. Yet, they may also be the ones with the lowest potential for future growth. Taking advantage of the tax breaks that come along with transferring appreciated stock in a withdrawal gave this club the discipline to let go of a stock that it made good portfolio sense to part with anyway. It really paid out for them. Their relative returns after that really improved.

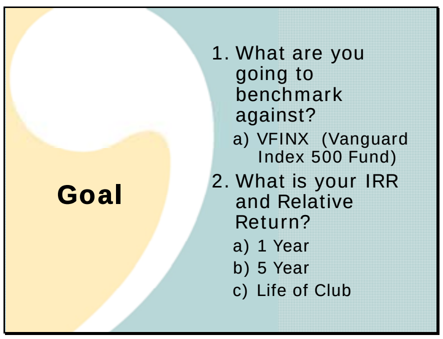


So here are some things you can talk about in your next club meeting.

What is your clubs IRR? What is your Magic CD Rate?

Is it better than putting your money in the bank?

Is it better than your benchmark rate?
If not, what is your portfolio telling you to do to try and improve it?



I suggest you set a goal for your club (or yourself)

Take the first steps. Decide what you want to benchmark against.

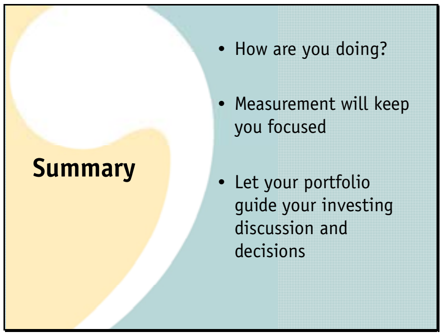
You might try starting with the default benchmark, the Vanguard Index 500 fund.

Then, check how you've been doing. Look at your IRR and Relative returns for different time frames such as

1 year,

5 years and

the life of your club.
Use what you find as the beginning of a club discussion. If you need improvement, where is your portfolio telling you to make changes?



I hope I’ve encouraged you to use the bivio performance benchmark report as an integral part of your investment decision making.

Start tracking your relative return. Join the Quest for Positive Relative Returns.

By measuring your progress, you’ll help maintain your focus on your goal.

Let your portfolio guide your investing discussion and decisions.