

The Moni Research Dynamic Tracker

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Tracking Dynamic Asset Allocators

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NOTICE

This newsletter, printed on ivory paper, tracks "dynamic asset allocators."

A companion newsletter, printed on white paper, is devoted to tracking classic market timers, including Rydex timers and ProFunds timers.

Classic market timers use only domestic equity mutual funds plus, of course, a money fund during defensive periods.

Dynamic asset allocators also practice market timing, but use multiple asset classes such as international equities, bonds, gold.

There are other differences, as well. These are more fully explained in material sent to all new subscribers. To obtain a free copy, contact us at the address below and ask for "green sheet."

Steve Shellans, Editor

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Wall & Company

During my interview with Warren Wall, president of Wall & Company, I was struck by the contrast between Wall's 'purpose and direction' in his early career, versus the later portion of his career. Wall's undergraduate degree was in Economics. After graduation, he decided to get an MBA degree, and I asked why he chose that particular field. He replied: "I didn't know what I wanted to do in life, and an MBA degree seemed to be the next thing to do." Contrast this with his determined (and sometimes controversial) purpose and direction discussed later in this interview. Later in his career, Wall also earned CFP and CSA designations.

After graduating in 1982 with an MBA degree from Western Carolina University, Wall interviewed with several banks and companies, seeking employment in a field consistent with his education. He accepted a position in the management training program of a national distributor of plumbing equipment. But Wall was about to be married and he arranged with his new employer that he would report for work following his honeymoon. But during his honeymoon in the Bahamas, an event occurred that was an important turning point in Wall's career — he met a stockbroker who regaled him with stories about his career. In Wall's words: "I was captivated."

Upon returning home to North Carolina, he apologized to the plumbing distributor and explained that he had found his career, and it was not in the plumbing industry. The manager at a small local brokerage firm in Spartanburg, South Carolina was impressed by Wall's eagerness and enthusiasm, and decided to take a chance on him, even though he had zero brokerage experience.

It was a good decision and over the next five years, Wall pulled his weight at the firm.

During this time, his interests gradually moved from pure sales to financial planning. But in 1987, the management told him that he had to abandon financial planning activities and confine himself to "transactional business." The reason given was that financial planning exposed the firm to litigation risk. Thereupon, Wall resigned, approached A.G. Edwards, told them of his interests and experience, and asked if there was a place for him. A.G. Edwards had begun emphasizing financial planning, and gave Wall a charter to open and manage an office in Ashville, NC. Wall hired a secretary, opened the doors, and the branch prospered. Nine years later, Wall was managing 20 employees.

But let us return to the events of 1987 — more specifically, the crash of '87, which would turn out to be another watershed event in Wall's career. Many of Wall's clients were retired people and Black Monday, October 19, 1987 brought a flood of phone calls from frightened clients whose financial security had just been put into jeopardy.

This event caused what is known as a 'paradigm shift.' For his entire professional life, Wall had been taught that a carefully-selected and well-diversified portfolio was the correct approach to investing. Now he had to question the wisdom of that philosophy. He approached a senior analyst in the firm, seeking reassurance, but instead was told: "We are very good at selecting stocks relative to other companies, but we have no way of reacting to market events. [You need to tell your clients that] they just have to sit it out and wait for a recovery."

To Wall's way of thinking, this was not the answer. At his urging, A.G. Edwards embarked on a nationwide search for third-party money managers who were sensitive to, and equipped for, reducing the risks of

market fluctuations. The four primary firms selected by A.G. Edwards were Schield Mgmt. Co, Flexible Plan Investments Ltd, LBS Capital Mgmt, and MRM Asset Allocation Group, all firms we have tracked in this newsletter since the early 1980s. Not wanting to be tarred with the "market timing" brush, Edwards promoted these programs as "alternative money management programs by active asset allocators."

But all was still not well. As the years went by, Wall noticed that market timers generally produced mediocre performance during bull markets, holding out the promise that clients would be protected during bear markets. Gradually Wall realized that he could do better for clients, not only by avoiding bear markets, but also by achieving superior returns, relative to buy-hold, in bull markets.

To pursue this goal, Wall left A.G. Edwards in 1996 and formed a Registered Investment Advisor firm and a broker-dealer firm. He said that he had no particular desire to be a broker-dealer, but that was the only way he could have complete control over compliance, and in promoting and advertising the concept of market timing.

There followed a period of intense research into market timing methods, culminating in the models in use today. However, Wall acknowledges his roots by stating: "I owe my philosophy — that you don't have to be fully invested all the time — to Schield, MRM, LBS, and Flexible."

I inquired about Wall's methodology and his response was very simple and straightforward: "I do short-term (days) trend-following." This is true of both programs we are

tracking for Wall & Company: "International Plus Program," and "Diversified Growth I." Both programs have been open to clients for five quarters. For this period, the International Program has produced a compound annualized rate of return of 41.82%, net of fees. This figure is even more remarkable when it is realized that the fee structure is a 1% management fee plus 20% of profits. This program was the performance leader for the one-year period in the performance table with 40.4%. The bad news is that the International Plus Program is open to accredited investors only. In contrast, Diversified Growth I is open to anyone having the minimum investment of \$100,000, and it is fixed-fee, varying from 2-4%, depending on account size.

Both programs are open to new money at this time, but Wall is always scrambling for capacity, especially for the international program. At the international fund used for this program, Wall has \$2-3 million more capacity available. Anticipating the day when this becomes exhausted, Wall has arranged for capacity at another international fund. The bottom line is that, in my opinion, Wall may be close to the borderline between our 'open' and 'closed' performance table. Anyone wishing to place money in Wall & Company's International Program would be well-advised to move quickly. (Again, my opinion)

To conclude the interview, I asked Wall for his outlook for market timing down the road. He responded: "With the markets getting slammed, more and more investors and financial professionals have been awakening to the importance of market timing and active management. I can't think of any better market environment to be in, if you are a market timer and you are producing [profits]." ■

Performance Table for Dynamic Asset Allocators

Period ending : December 31, 2001

Firm Name or benchmark	Program Name	Objective	Asset Classes	Annualized returns after fees						See notes following tables		
				10-yr	5-yr	3-yr	2-yr	1-yr	4Q'01 return	Ulcer Index	Audited ?	Notes
BENCHMARKS												
Money Market	Benchmark		Low-risk short-term instruments	4.8	5.1	4.9	5.0	4.0	0.6	0		
S&P 500 Total Return	Benchmark		Large-cap domes. equit.	12.9	10.7	-1.0	-10.5	-11.9	10.7	24.7		
NASDAQ Composite	Benchmark		Small-cap domes. equit.	12.8	8.6	-3.8	-30.8	-21.1	30.1	67.8		
Morgan Stanley EAFE	Benchmark		International equities	4.8	1.2	-4.8	-17.7	-21.2	7.0	35.0		
THE FOLLOWING FIRMS ARE SEQUENCED ALPHABETICALLY												
Wall & Company	Diversified Growth I	Meet/exceed S&P 500 with less risk	Domestic & intl equity funds					12.7	11.8		Yes	
Wall & Company	International Plus	Aggress. growth with low risk	Intl. equity funds					40.4	15.5		Yes	
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