Iain's Investment Plan

This Investment Plan is relevant from January 4, 2016, and supersedes all other versions of this Investment Plan.

This Investment Plan assumes the investment entity to be a traditional IRA, but other retirement entities can also use it as is.

Mission Statement

This Investment only covers investment capital that is focused on ***growing retirement savings*** by as much as possible over the long term, for a minimum of twenty years.

To grow the current investment capital of $162,000 by between 0% at worst case and 15% compounded per year until December 31, 2035.

The specific dollar target is $2,332,000 using the Method described in this Plan.

Goals and Objectives

The overall objectives are to:

- Use a simple, efficient and structured process for long-term active investing using Exchange Traded Funds (ETFs) and large-cap stocks that ***takes no longer than fifteen minutes a week to execute and manage***. (Skills goals will take longer if pursued.)
- To accumulate a nest egg and maximize growth for the stakeholders:
    - Invest $162,000 starting capital according to this Plan beginning on January 4, 2016, with no capital withdrawals.
    - The Method will not make use of any leverage.

The **Reward Objective,** or performance goal, for the portfolio, is to:

*To achieve **4% CAR better** than the CAR of the S&P500 Total Return index. That is, to achieve **12.91% CAR** over twenty years.*

The S&P500 Total Return index is the benchmark for this Investment Plan. (This is the comparative reference for the majority of capital invested in active equity mutual funds and Balanced Funds.

[See Method below for an explanation of outperformance.]

To put this further into perspective, based on research over twenty years, and similar market conditions in the future, this Reward Objective could then also be:

- Around 5% (12.91% – 7.91%) compounded per year better than the Vanguard Balanced Fund, VBINX, and
- Around 6% (12.91% - 6.9%) compounded per year better than any of the current 2035 Target Date funds, such as Fidelity's FFTHX and Vanguard's VTTHX, up until that time.

Notes:

1. While 12.91% CAR is the Reward Objective, 10.4% CAR plus monthly IRA contributions and reinvesting dividends should achieve the comfortable independent retirement of $1,543,000 as of December 31, 2035.
   a. 10.4% CAR without IRA contributions would achieve around $1,162,300.
   b. 10.4% is roughly the same CAR that the MDY ETF achieved with reinvesting dividends.
2. Achieving 12.91% CAR, plus monthly IRA contributions, would reach $2,332,000, without indexing IRA contributions for inflation.
   a. With indexing of IRA contributions or contributing at a higher rate through, say, a SIMPLE or SEP IRA, or Solo 401(k), a much larger financial goal could be achieved.
3. If the Plan achieves $2,332,000, consider what to do with the additional retirement savings of $789,000 as discussed at the end of Chapter 18.

The **Risk Objective** for the portfolio is:

This portfolio has a Risk Objective of a maximum of -25% drawdown as a result of using the strategy described under Method.

Calculate the -25% drawdown from the highest peak reached by the portfolio.

[Everyday investors could add this rule to the Risk Objective:

If a -25% drawdown occurs, then execute a portfolio 'shut-off valve' by closing all positions, going 100% into cash and await the next Buy signal to restart the strategy.

Calculate the -25% drawdown from the highest peak reached by the portfolio, or from the most recent entry signal for the Applicable ETF]

Notes:

1. Based on research, this Risk Objective should be around half of a severe bear market and suffer less drawdown, and hence less risk, than a balanced active mutual fund, such as a relevant Target Date fund, which can suffer drawdowns of between -25% and -45%.
2. The real money portfolio that Share Wealth Systems executes that strictly follows this Investment Plan will not operate with a 'shut-off valve,' which will allow investors to see what an unrestricted drawdown can be for this strategy.

The **Skills Objective** for the portfolio is:

To achieve skills with respect to investing mindset, purchasing additional ETF units, market environment understanding, investing knowledge, journaling, strategy design and any other skills that may be identified to potentially add another Satellite strategy, or to potentially use a little leverage similar to Warren Buffett.

Method

Use SPA3ETF as the timing and risk management methodology to execute this Investment Plan.

- Start the portfolio with a Portfolio Value of $162,000 on January 4, 2016.
- The Core strategy is the Single Index ETF Timing strategy. Only one position in the Applicable ETF will be open at any given time based on being:
    - An open trade according to SPA3ETF.
    - When the SPA3ETF entry/exit signal occurs for the Applicable ETF, the Applicable ETF Position Size ***must*** be invested/closed.
    - In the case of missing a recent entry signal, a new position may be taken providing its current price is lower than the close price of the bar one day after the original signal. That is, the current price is below the Action Price as shown in Beyond Charts and the SWS App.
- The Satellite strategy is a large-cap stock Equal Weighting strategy. Five positions in any of the Applicable Stocks will be open at any given time based on being:
    - An open trade according to SPA3ETF.
    - Fill the five Satellite positions on a first-come-first-served basis using SPA3ETF entry signals.
    - When a SPA3ETF entry/exit signal occurs for any of the Applicable Stocks, the Applicable Stocks Position Size ***must*** be invested/closed.
    - In the absence of new entry signals or missing a recent entry signal, new positions may be taken in any currently open trade providing its current price is lower than the close price of the bar one day after the original signal. That is, the current price is below the Action Price as shown in Beyond Charts and the SWS App.

      In the event where there are multiple opportunities under this scenario the following criteria will be applied:

        - A candidate whose price is within 2% of the ATR_TS line will be selected first.
            - In the instance of multiple opportunities under this scenario, priority will be given to the candidate closest to the ATR_TS line.
        - Candidates whose prices are more than 2% above the ATR_TS line will be selected on a Relative Strength basis where the candidate with the highest Relative Strength will be selected.

- Contribute $5,500 per annum, or $458.33 per month, to retirement savings until the age of fifty (2021 for Iain). After age fifty, contribute $6,500 annually, or $541.67 per month.
    - Adjust these amounts accordingly as the IRA contribution limits are increased by the government and are affordable.
    - Contributions will total $125,000 over the twenty years, excluding inflation adjustments.
- The monthly IRA contribution is to be deposited directly into the IRA broker-dealer account. Leave the cash there until SPA3ETF signals to open a new position. Use the cash according to the Money Management rules in this Investment Plan.
- After the Applicable ETF or Applicable Stocks deposit dividends as cash into the IRA broker-dealer account, leave the cash there until SPA3ETF signals to open a new position. Use the cash according to the Money Management rules in this Investment Plan.
- Purchase Applicable ETF units or Applicable Stocks on the next trading day after a SPA3ETF Buy signal occurs using a Market on Open (MOO) order.
- Sell Applicable ETF units or Applicable Stocks on the next trading day after a SPA3ETF Sell signal occurs using a Market on Open (MOO) order.

[**Explanation of outperformance**:

4% CAR is at least the outperformance that the Single Index ETF timing strategy with IJH achieved, including reinvestment of dividends and payment of ETF fees, over the S&P500 Total Return index in stress-tested simulation research of ETFs, as did the Equal Weighting strategy with stocks, over periods of around fifteen years.

The S&P500 ETF SPY achieved 8.8% CAR, including reinvestment of dividends and payment of ETF fees.]

Instruments used

This portfolio will focus on one Applicable ETF and Twenty Applicable Stocks:

- IJH is the Applicable ETF.
- AAPL, AGN, AMGN, AMZN, BA, BIIB, CELG, CMCSA, FCX, FDX, GILD, GOOGL, INTC, MS, MSFT, NFLX, NVDA, QCOM, RTN & SBUX are the Applicable Stocks.

Follow the Method in this Investment Plan as depicted in the Core Satellite diagram in Figure IIP-1.

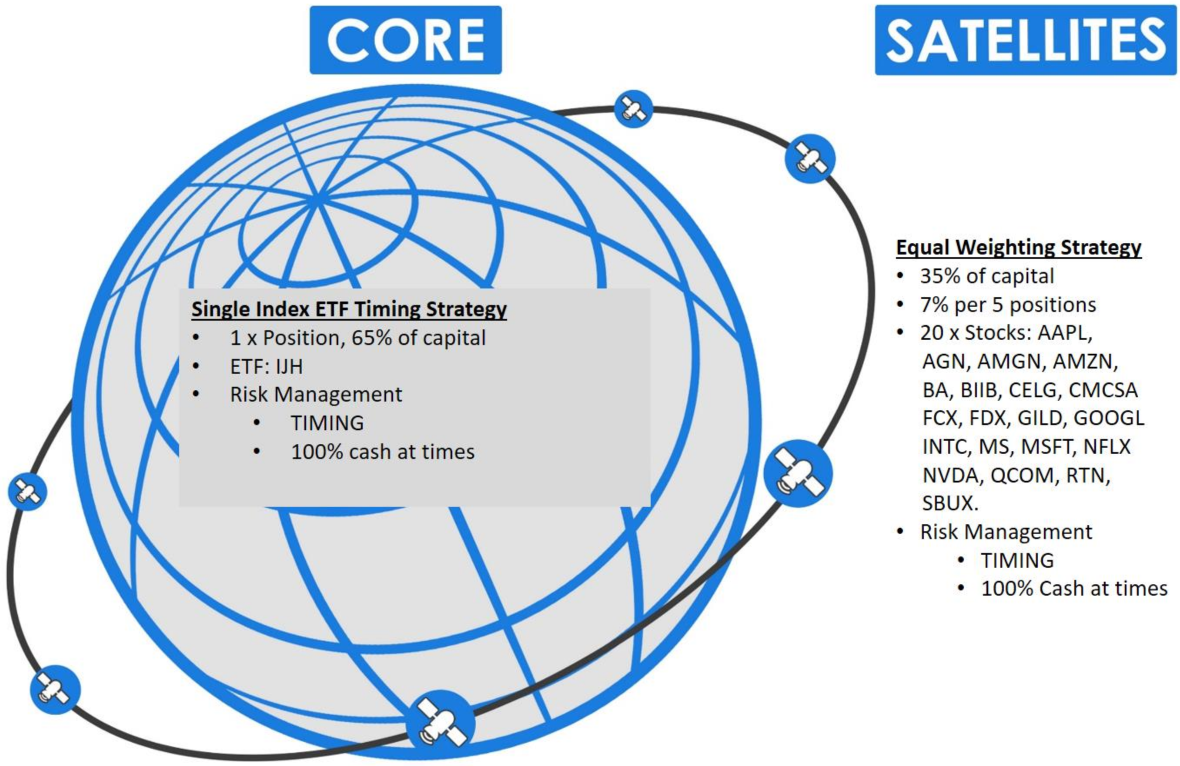


Figure IIP-1

Reviewing Instruments in which to invest

From time to time, or at least every year on July 1, review the Applicable ETF/Stocks compared to other available ETFs/Stocks. Use the following criteria:

- A significant change in the characteristics of the Applicable ETF. For example, the relationship between the ETF and its underlying index changes and large tracking errors result.
    a. Use a chart similar to Chart 9-1 to determine this.
- A significant shift in the business prospects for the ETF providers, e.g. iShares, PowerShares and Guggenheim, which may endanger the existence of an applicable ETF. While this may be inconceivable at the moment, "anything can happen."
- The liquidity of the Applicable ETF/Stocks falls dramatically for a few contiguous months.
- The annual management fees for the Applicable ETF change to be high relative to other available ETFs.
- The characteristics change of an Applicable Stock, such as it is merged, becomes illiquid or loses its trending capabilities.

- The list of available ETFs or stocks supported by SPA3ETF changes.

AGN, AMGN, BA, CELG, CMCSA, GOOGL, INTC, NFLX, NVDA and SBUX were added to the universe on 28th February 2018 because they create greater opportunity for exposure to a rising market.

- The investing skills of the investor improve or more time is available to extend the lists of Applicable ETF and Applicable Stocks.

If any of these conditions arise, the Investment Plan will be revisited in its entirety to find similar Applicable ETF/Stocks in which to invest the total funds accumulated to date.

These conditions are no different from investing in any other mutual fund.

Fees and Costs

- Commission-free ETFs are preferred where there is a choice, e.g. IJH and MDY; and use flat fee commissions for stocks, not cents per share.
- Choose from TD Ameritrade, Fidelity or Firstrade, which offer commission-free ETF investing for IJH.
- Minimize all percentage costs that scale on a FuM basis and seek fixed costs wherever possible to execute the Investment Plan.
- An ongoing fixed cost of $900 per year (or $85 per month) will be paid to continue accessing SPA3ETF signals and functionality.

Risk Management

Market Risk

- Monitor Market Risk at all times with the SPA3ETF timing of the Applicable ETF and Applicable Stocks.
- Adhere to SPA3ETF exit signals such that when the Applicable ETF and Applicable Stocks are all ‘closed trades,’ the portfolio will be 100% in cash.

Definition of Market Risk

The definition of **Market Risk** is: the possibility of an investor experiencing significant portfolio drawdown due to any factor(s) that negatively affect the overall performance of financial *markets.*

Diversification cannot eliminate Market risk, also called "systematic *risk*." There are a number of methods to hedge against and to minimize risk, including going into cash from time to time.

Liquidity Risk

Do not open a position in any ETF whose daily liquidity averaged over the prior three months is less than 25 multiplied by 65% of the Portfolio Value.

Do not open a position in any Stock whose daily liquidity averaged over the prior three months is less than 25 multiplied by 7% of the Portfolio Value.

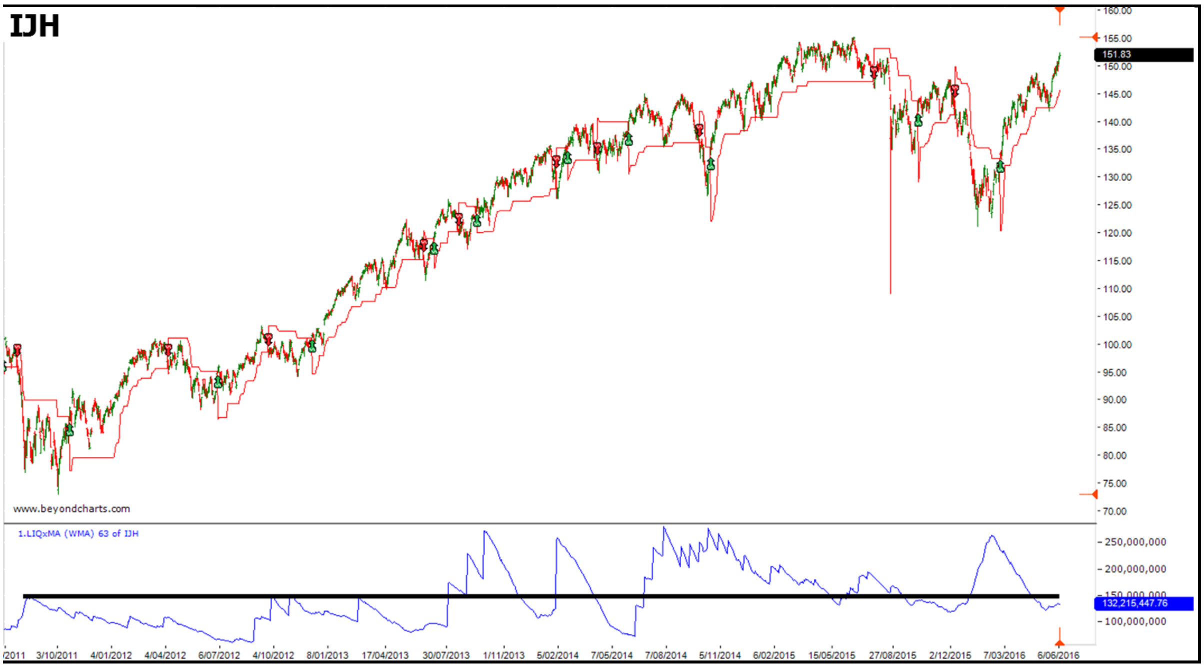
Portfolio Value is the total current value of the retirement nest egg.

Calculate the liquidity by using the ‘Liq xMA’ indicator in Beyond Charts. Or thus: the sixty-three-day Simple Moving Average of price is multiplied by the sixty-three-day Simple Moving Average of volume and then plotted daily.

View the example in Chart IIP-1 where graph one at the top is the IJH price movement, and graph two at the bottom shows that IJH averages US$160 million per day (the thick horizontal line) and oscillates between US$100M and US$250M in traded value per day.

Note:

> This calculation is an indication of the tradability for the Applicable ETF. The traded value of all the constituents in the underlying index that the Applicable ETF tracks determines the actual liquidity for an ETF.



Printed with permission from Beyond Charts Chart IIP-1

Money Management

- Allocate 65% of the initial capital to the Core strategy.
- Allocate 35% of the initial capital to the Satellite strategy.
- From time to time, the entire portfolio will be 100% in cash - due to there being no open trades in either the Core or the Satellite. If one strategy has performed better than the other, which has resulted in the 65%/35% changing, reallocate the capital to the 65%/35% split.
- The 65%/35% split between Core and Satellite can be reviewed depending on improvements in the investing skills of the investor and on portfolio performance.
- If a stakeholder wishes to add a Satellite, the necessary research must be presented as evidence to support the change to this Investment Plan.

Open Positions and Risk Distribution

The planned maximum number of Open Positions will be six, one for the Core strategy and five for the Satellite strategy.

Money in the Market

The objective is to expose all capital to the market as much as possible. However, research of the timing strategies deployed shows that capital will be in the market around 68% to 71% of the time and the remaining time the capital will be in cash during potentially adverse market conditions.

The Reward Objective has not included the receipt of interest for periods when the portfolio is in cash.

Position sizing

There will be just the two position sizes, measured as a percentage of the total portfolio value:

- Applicable ETF Position Size: this Plan allocates 65% of the Portfolio Value to the Core strategy.
- Applicable Stocks Position Size: this Plan allocates 7% each to five open positions, totaling 35% of the Portfolio Value to the Satellite strategy.

Starting the Portfolio

Once the stakeholder deposits the initial capital of $162,000 into the IRA account invest it by purchasing units in the Applicable ETF and shares in the Applicable Stocks, according to the following criteria:

- Core: Open a position in the Applicable ETF using the Applicable ETF Position Size when the next entry signal occurs after the start date of the Investment Plan.
- Satellite: Open positions in the first five entry signals that occur for the stocks on the list of Applicable Stocks after the start date of the Investment Plan, using the Applicable Stocks Position Size.

Maximum Brokerage Percentage Rule

If the commission for any transaction, for whatever reason, is equal to or greater than 0.5% of the position value, then do not execute the transaction until the position is large enough to reduce the commission at most to this percent level.

Process Management

Keep a readily available hard-covered file which will contain all paper records of:

- This Investment Plan and all future versions thereof.
- Account administration such as communications with the broker-dealer, including regular broker-dealer Statements.
- Records of regular receipts of IRA contributions.

- Records of quarterly dividend receipts.
- Records of Applicable ETF and Applicable Stock buys and sells.

Use a Portfolio Management software tool to:

- Record all buy and sell transactions.
- Record all re-invested dividends.
- Record all IRA contributions.
- Monitor annual and to-date growth statistics.
- Plot a portfolio equity curve for comparison against the S&P500 Total Return index.
- Use the SPA3ETF Portfolio Manager or a separate tool such as Excel if preferred.
- The SPA3ETF Portfolio Manager will automatically update the following statistics on which to conduct analysis on a quarterly basis:
    - Total profit trades versus loss trades, i.e. winning rate.
    - Average profit/loss per trade
    - Average hold period
    - Profit/loss percentage
    - Maximum Drawdown %
    - Compounded Annual Return % (CAR%)

Start and maintain an Investment Journal as part of meeting the Skills Objective.

- Document every transaction noting whether the executor followed the Investment Plan process, or not.
- Note any deviation from the Investment Plan in the Journal.
    - If the deviation results in a modification to the Investment Plan, formalize it in a newer version of the Investment Plan with the changes tracked.
    - If the deviation was an error, take action to ensure that it does not recur. For example, journaling or additional notes will be made in the Process Management section of the Investment Plan.
    - Report deviations to an Accountability Buddy, typically a spouse.

The Daily Process

- **Step 1** – Await an alert notification from the SPA3ETF App for the Applicable ETF or Applicable Stocks. Preferably, also conduct this analysis in Beyond Charts by scanning or viewing each chart individually in the list of Applicable Stocks:
    - Buy or Sell according to the *Method* and *Money Management* rules.

- **Step 2** – Close and Open a new position, if applicable.

  If a Sell signal occurred in the Daily Step 1, then a new Applicable Stock position must be sought to be opened.

  The current open position for which the Sell signal occurred must be closed on the next trading day after the Sell signal occurred, using a MOO (Market on Open) order.

  If there is a replacement trade, then open that position on the same trading day as the previous position was closed, using a MOO (Market on Open) order.

The Monthly Contributions Process

- **Step 1** – Automatic deposit of monthly IRA contribution into broker-dealer account.

  Only deploy this cash injection in the market when the next Buy signal occurs for either of the Core or Satellite strategy.

  Maintain the 65%/35% split between the Core and Satellite strategies. If an imbalance has resulted from market price action, then this cash can be used to help restore the 65%/ 35% balance.

The Dividend Process

- **Step 1** – Deposit of dividend into the IRA account.

  The cash should remain in the broker-dealer account until the next Buy transaction.

  Maintain the 65%/35% split between the Core and Satellite strategies. If an imbalance has resulted from market price action, then this cash can be used to help restore the 65%/35% balance, i.e. the dividend from the Applicable ETF or Applicable Stock does not have to apply to that ETF/stock, apply to the overall Core Satellite portfolio.

END OF INVESTMENT PLAN