

FastTrack

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Getting Started with FastTrack for the Web

Many investors are market timers. Unfortunately, for most this is a difficult challenge. In bull markets, timers lose return by being out of the market. In bear markets, timing is only partially successful.

Problem is the Manias

Mania: A period of irrationality during which most people share a common, extreme view.

- The 1999 Internet Revolution: "This time the whole world has changed". *Henry Blodget, formerly respected Internet analyst.*
- The 2000-2003 Bear Market: 9/11, thievery, war, immorality, weapons of mass destruction. "The world has changed." *George Bush, President.*

Manias disrupt markets. Stable markets require a balance of buyers and sellers with strong differences of opinion.

Diversification, a Solution

Don't laugh! Diversification is conventionally misunderstood to be an exercise in asset allocation: small cap, large cap, bonds, etc.

But to FastTrackers diversification means pursuing different investing strategies some of which are buying, some of which are selling . . . your portfolio stabilizes as several strategies proceed independently.

Bob from Ohio


Bob called yesterday with several issues:

- Despite being diversified, my financial advisor had me losing a lot of money.
- I am primarily a market timer.
- How do I use FastTrack?

This paper is what we discussed . . . with a few additions for general audiences and to cover the topic more broadly.

What do you own, Bob?

First thing to do with FT4Web is to look at what you own. To do this you must read the manual.

Click the Help Tab. Click the  button then select the "Cross Reference to the printed manual" link. If you have the actual manual, good, but here we assume you will be learning using our Online Help.

The Cross Reference link takes you to an ordinary table of contents. Page 12 tells how to change the lines displayed on the chart. Continue reading once you have loaded the symbols,

- VFINX in the red line,
- NYVTX in the green,
- AEPGX in the yellow
- ACAAX in purple
- PIVAX in the Cyan (light blue)
- Change the time period to be 2/12/98 - 2/12/2003. (The current 5-year period as this paper was being written.) Page 15, "Appearance Dialog", tells how to change the dates.

YOU HAVE TO DO THIS ON YOUR COMPUTER TO SEE THE COLORS. THE DISCUSSION BELOW RELIES ON COLOR.

The Obvious Problem

Everything looks the same, they all top and bottom at the same time. The red VFINX is the consummate S&P 500 Index fund from Vanguard, falls in the middle of his holdings, the other lines follow it.

Bob's, diversification is nil. He holds four funds (not including VFINX) which follow the same pattern of ups and downs.

Move the cursor over the ColorBar at the bottom of the screen. The fund names pop-up.

Surprisingly, the purple line is an international fund, not invested in the US like all the other funds. Yet it too follows the pattern.



but, the Pattern is fine.

I should have made a fortune in PIVAX . . . but I

- Was greedy & undisciplined.
- Held it too long.
- Sold it way past the top thinking technology would snap back. The Internet boom had just begun!
- Aren't you supposed to buy and hold?

Teach me to sell at the top!

Hold on!

The first thing we have to do is to come up with a strategy to actively balance and diversify your portfolio. If we diversify well

- Timing may not be necessary.
- What timing is done will be simpler to do and infrequent.

Establishing an Average

Create an average as a base line of performance. Just average all your holdings together for the entire period assuming equal weighting. The rest of this paper,

- Devises strategies that have more return and less risk than this base line.
- Tests the strategies for many years in bull and bear markets.

See page 57 to learn how to display an average.

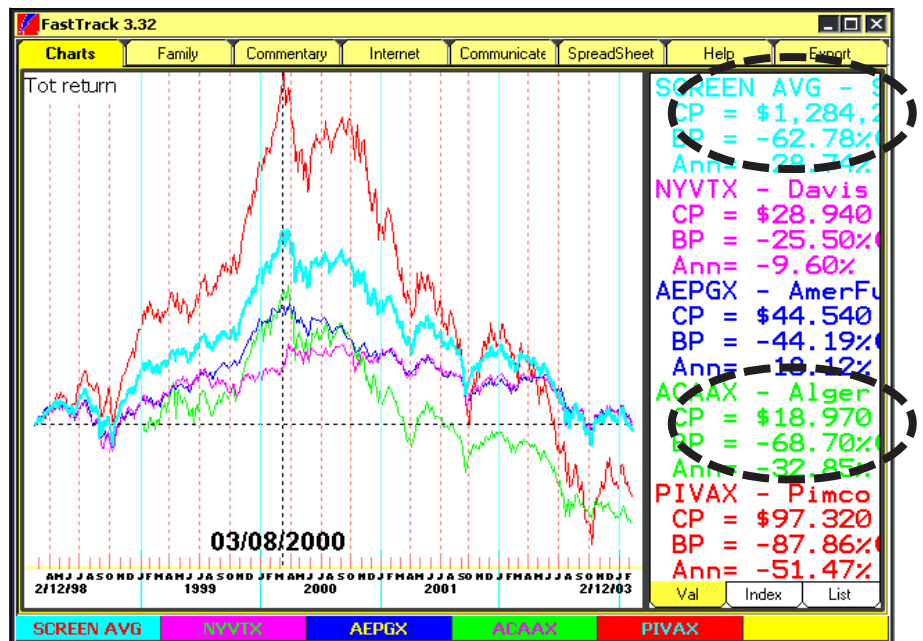
- 1 In the red line place the Annual/None SCREEN AVG.

YOU HAVE TO READ THIS HELP SECTION IN SOME DETAIL. AVERAGING IS ESSENTIAL TO THE POINT OF THIS PAPER.

- 2 Move the Dashed pole to the top of the tech rally on 3/8/2000 (page 10).
- 4 Be sure the Value SubTab is showing (page 11).

What you see . . .

Cyan-colored PIVAX lost 87.86% of its value in the current bear market, and for the entire period



lost money ending up well below the horizontal white line of 0%. (See Page 55 for BP =).

The red Screen Average lost only 62% of its value and ended the period nearly even. With an annual rebalancing period, the momentum model let the PIVAX heavy

allocation ride for 9 months. Simple averaging, confers some protection in a long bear market. But there is plenty of room for improvement.

Sell the Losers . Let the Winners Ride.

This is basic rule of FT4Web's built-in momentum model.

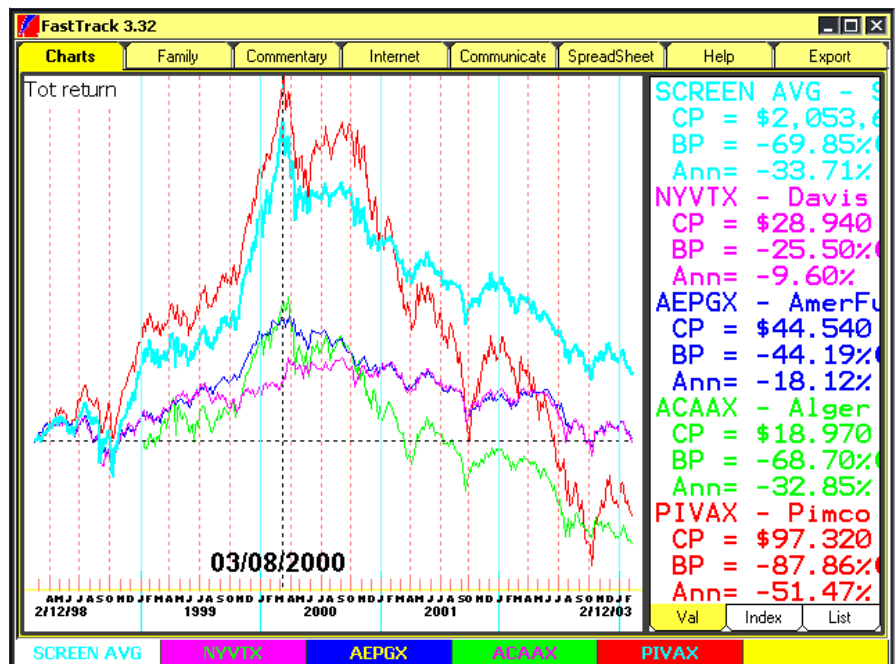
See Page 15. Online Help is far more expansive on this topic than the manual. Use Online Help.

- 1 Select Monthly Rebalancing.
- 2 Select the Momentum Strategy.
- 3 Click Draw Now.
- 4 Click on the Red ColorBar cell and hit to recompute the Screen AVG

The red line model AVG captures much more of the Tech rally by overweighting PIVAX at the right time . . . and then repositions as the bear market begins.

But There is still a 69% Draw Down


TheScreen AVG ends well in positive territory besting all of its component funds . . . but still with dramatic losses because the portfolio



lack diversity. Every component went down in the Bear market. The next step will show how to diversify the holdings.

We Do Timing Now?

Patience. The portfolio is not complete. We need funds that offer alternatives for bear markets . . . that's what diversification means.

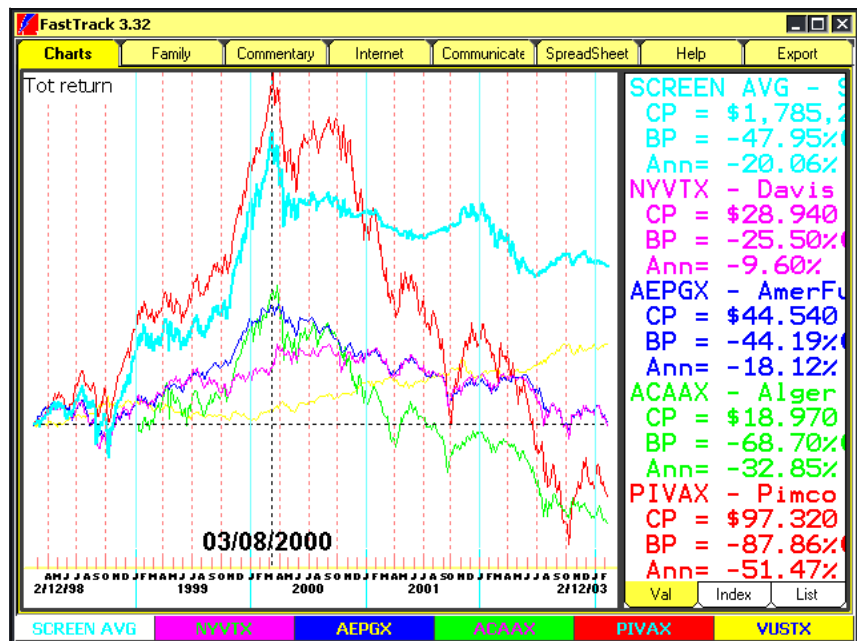
- 1 Make VUSTX the dark blue line. (Page 12).
- 2 Click on the Red ColorBar cell and hit  to recompute the Screen AVG.

What you see is a dramatic improvement in the bear market performance. This comes from holding in VUSTX, a long-term bond fund. The BP= decline in the AVG is down from over -69% to -47.9%.

Timing has a Place

Most of that decline happened the first month before the model traded out of technology.

Well before the end of March 2000, moving averages, MACD and a variety of indicators suggested SELL. Reducing exposure issues with huge gains is prudent in such circumstances.




Limitations

FT4Web's model is simplistic . . . intended to prove a point, not be the ultimate trading tool. Follow the model BUT never let it get a nondiversified position as it did holding exclusively PIVAX through much of 1999.

What to Trade?

Each time an AVG is computed a file named REBALANCE.LOG is created. View this file with a text editor. See page 15 for details.

Now Timing . . . but by Diversification

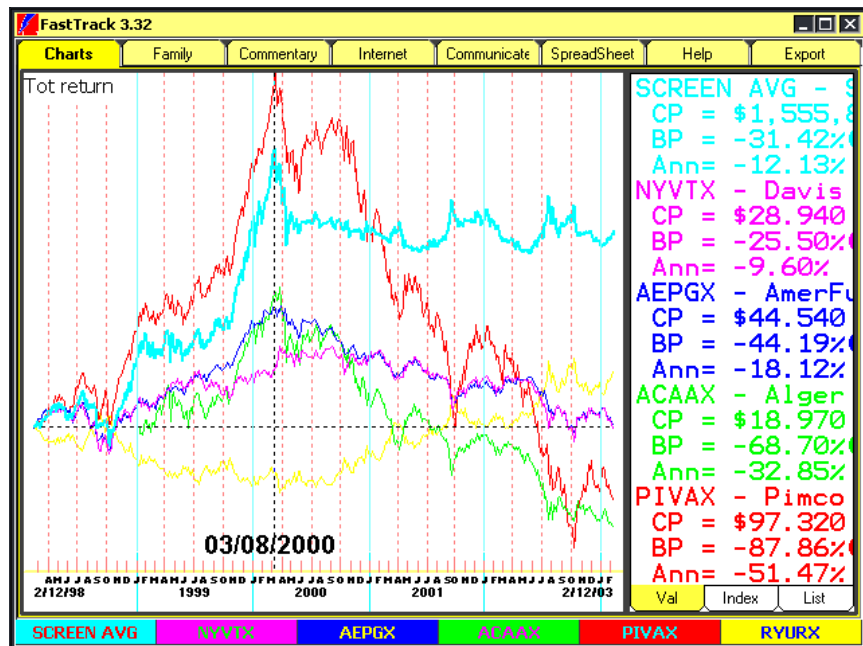
- 1 Make RYURX the dark blue line. (Page 12).
- 2 Click on the Red ColorBar cell and hit  to recompute the Screen AVG.

RYURX was the first of a growing fund category. These funds kinda short sell. RYURX's contrarian pattern is produced by futures trading, not shorting.

Short selling requires no cash outlay but the potential for loss is unlimited. In contrast, bear funds are bought just like other funds, but your potential loss is only the amount originally invested.

Better return, but ...

The red Screen AVG draw down is now -31% down from -47%, but the red line has become uncomfortably Jagged.



Download FT4WEB and all databases at www.fasttrack.net.

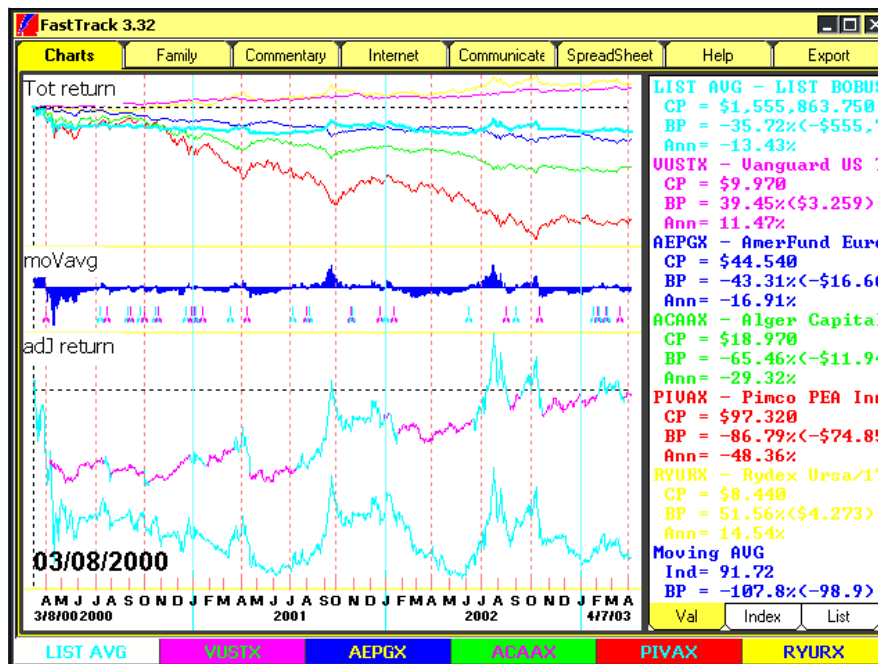
Call 800-749-1348 for a free 30-day trial account.
Call for assistance to get started quickly.

Selection + Timing

The prior strategy had too much volatility. This exercise uses timing to reduce the volatility.

- 1 Use the Appearance Dialog. Right-click the Chart (page 15).
- 2 Change the Chart to TTVJJJ.
- 3 Right click on a chart label and set Moving average parameters to 50 and .005.
- 4 Set the Trading Delay to 5.
- 5 Make VUSTX the green line (page 12).
- 6 Click on the List SubTab (Page 20) to show the Issue List.
- 7 Right-click on the Issue List and load The BobUsingFT4WEB Family from the Funds/Assorted category (Page 20).
- 8 Zoom in to the period between the poles, the bear market 3/8/2000 - 2/12/2003. (Page 54 "Hot Keys".)
- 9 Put LIST AVG in the red line. (Page 57).

BobUsingFT4WEB contains all the funds used in this exercise. List AVG averages all the members of this list whereas Screen AVG uses only the five visible lines.



The V Chart in the Center

Generates trading signals based on a 5-day delayed (like, but better than, a weekly chart), 50-day moving average with a .5% filter. For more details on the V Chart see page 28. For a discussion of signals see page 18.

The J Chart at the Bottom

Shows the impact of the V's signals by charting trades between the T's red and green lines. The J's red line is a reproduction of the T's red line. The J's red/green line is a composite showing the return of the trading strategy. For more details see page 25.

What you see . . .

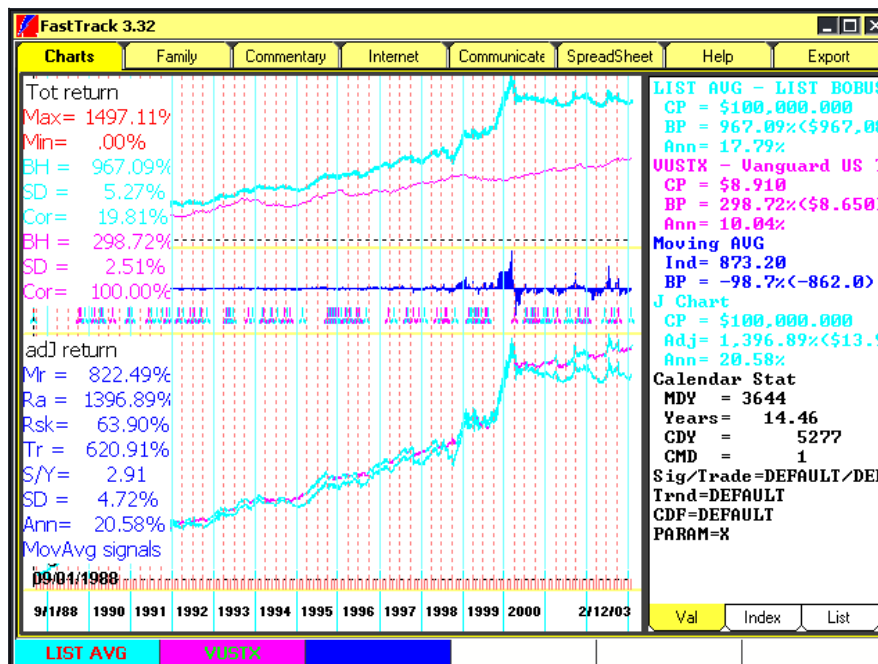
Is that when the volatile RYURX comes off a spike the moving average switches you to the green line, VUSTX.

Display the entire data span. Remove AEPGX, ACAAX, PIVAX, RYURX (Page 16).

The Ann = (page 55) is nearly 20% while its SD = 4.72% volatility (page 56) is modest. In contrast (not shown) VFINX sports SD = 4.74% with only Ann = 10.7%.

Shifting part of assets every month is not a problem within most families of funds. The moving average trades (S/Y = 2.77) (page 56) are infrequent.

. . . and you ought to see how this works on sector funds and large cap stocks.



. . . and this WHOLE exercise works just as well with quarterly trades instead of monthly trading.

. . . and this WHOLE exercise works just as well with virtually any starting group of funds.

Rebalance Log

01/31/2000 Sold: \$ 286,597.15 of PIVAX
01/31/2000 Total Sold \$286,597.16 of bottom 1 issues
01/31/2000: Bought \$286,597.16 of RYURX which now has \$ 286,597.16
02/01/2000 All Asset Total= \$1,146,388.656
02/29/2000 Sold: \$ 294,333.53 of RYURX
02/29/2000 Total Sold \$294,333.53 of bottom 1 issues
02/29/2000: Bought \$294,333.53 of PIVAX which now has \$ 1,481,806.04
03/01/2000 All Asset Total= \$1,481,806.039
03/31/2000 Sold: \$ 298,100.56 of PIVAX
03/31/2000 Total Sold \$298,100.56 of bottom 1 issues
03/31/2000: Bought \$298,100.56 of NYVTX which now has \$ 298,100.56
04/03/2000 All Asset Total= \$1,192,402.250
04/28/2000 Sold: \$ 287,110.46 of PIVAX
04/28/2000 Total Sold \$287,110.47 of bottom 1 issues
04/28/2000: Bought \$287,110.47 of NYVTX which now has \$ 583,163.51
05/01/2000 All Asset Total= \$1,148,441.886
05/31/2000 Sold: \$ 274,519.83 of PIVAX
05/31/2000 Total Sold \$274,519.84 of bottom 1 issues
05/31/2000: Bought \$274,519.84 of NYVTX which now has \$ 856,583.42
06/01/2000 All Asset Total= \$1,098,079.340
06/30/2000 Sold: \$ 279,346.06 of NYVTX
06/30/2000 Total Sold \$279,346.06 of bottom 1 issues
06/30/2000: Bought \$279,346.06 of PIVAX which now has \$ 553,906.17
07/03/2000 All Asset Total= \$1,117,384.233
07/31/2000 Sold: \$ 265,720.97 of PIVAX
07/31/2000 Total Sold \$265,720.97 of bottom 1 issues
07/31/2000: Bought \$265,720.97 of RYURX which now has \$ 265,720.97
08/01/2000 All Asset Total= \$1,062,883.863
08/31/2000 Sold: \$ 253,036.59 of RYURX
08/31/2000 Sold: \$ 32,142.88 of NYVTX
08/31/2000 Total Sold \$285,179.47 of bottom 2 issues
08/31/2000: Bought \$285,179.47 of PIVAX which now has \$ 578,900.03
09/01/2000 All Asset Total= \$1,140,717.904
09/29/2000 Sold: \$ 268,128.52 of PIVAX
09/29/2000 Total Sold \$268,128.53 of bottom 1 issues
09/29/2000: Bought \$268,128.53 of RYURX which now has \$ 268,128.53
10/02/2000 All Asset Total= \$1,072,514.049
10/31/2000 Sold: \$ 241,922.52 of PIVAX
10/31/2000 Sold: \$ 19,255.65 of NYVTX
10/31/2000 Total Sold \$261,178.16 of bottom 2 issues
10/31/2000: Bought \$261,178.16 of RYURX which now has \$ 532,860.18
11/01/2000 All Asset Total= \$1,044,712.647
11/30/2000 Sold: \$ 266,589.61 of NYVTX
11/30/2000 Total Sold \$266,589.59 of bottom 1 issues
11/30/2000: Bought \$266,589.59 of RYURX which now has \$ 844,435.57
12/01/2000 All Asset Total= \$1,066,358.399
12/29/2000 Sold: \$ 274,993.00 of RYURX
12/29/2000 Total Sold \$274,993.00 of bottom 1 issues
12/29/2000: Bought \$274,993.00 of NYVTX which now has \$ 505,542.97
01/02/2001 All Asset Total= \$1,099,972.032
01/31/2001 Sold: \$ 271,748.58 of RYURX
01/31/2001 Total Sold \$271,748.56 of bottom 1 issues
01/31/2001: Bought \$271,748.56 of PIVAX which now has \$ 271,748.56
02/01/2001 All Asset Total= \$1,086,994.306
02/28/2001 Sold: \$ 204,222.78 of PIVAX

02/28/2001 Sold: \$ 48,265.82 of NYVTX
02/28/2001 Total Sold \$252,488.59 of bottom 2 issues
02/28/2001: Bought \$252,488.59 of RYURX which now has \$ 571,234.27
03/01/2001 All Asset Total= \$1,009,954.394
03/30/2001 Sold: \$ 257,906.62 of NYVTX
03/30/2001 Total Sold \$257,906.63 of bottom 1 issues
03/30/2001: Bought \$257,906.63 of RYURX which now has \$ 878,405.44
04/02/2001 All Asset Total= \$1,031,626.500
04/30/2001 Sold: \$ 239,076.54 of RYURX
04/30/2001 Total Sold \$239,076.53 of bottom 1 issues
04/30/2001: Bought \$239,076.53 of PIVAX which now has \$ 239,076.53
05/01/2001 All Asset Total= \$956,306.119
05/31/2001 Sold: \$ 221,731.45 of PIVAX
05/31/2001 Sold: \$ 14,552.02 of NYVTX
05/31/2001 Total Sold \$236,283.47 of bottom 2 issues
05/31/2001: Bought \$236,283.47 of RYURX which now has \$ 792,491.65
06/01/2001 All Asset Total= \$945,133.867
06/29/2001 Sold: \$ 147,506.28 of NYVTX
06/29/2001 Total Sold \$147,506.28 of bottom 1 issues
06/29/2001: Bought \$147,506.28 of RYURX which now has \$ 958,159.19
07/02/2001 All Asset Total= \$958,159.194
10/31/2001 Sold: \$ 272,958.29 of RYURX
10/31/2001 Total Sold \$272,958.28 of bottom 1 issues
10/31/2001: Bought \$272,958.28 of PIVAX which now has \$ 272,958.28
11/01/2001 All Asset Total= \$1,091,833.094
11/30/2001 Sold: \$ 272,505.95 of RYURX
11/30/2001 Total Sold \$272,505.97 of bottom 1 issues
11/30/2001: Bought \$272,505.97 of PIVAX which now has \$ 575,853.80
12/03/2001 All Asset Total= \$1,090,023.833
12/31/2001 Sold: \$ 278,714.48 of RYURX
12/31/2001 Total Sold \$278,714.47 of bottom 1 issues
12/31/2001: Bought \$278,714.47 of PIVAX which now has \$ 891,734.75
01/02/2002 All Asset Total= \$1,114,857.917
01/31/2002 Sold: \$ 270,475.22 of PIVAX
01/31/2002 Total Sold \$270,475.22 of bottom 1 issues
01/31/2002: Bought \$270,475.22 of RYURX which now has \$ 499,576.81
02/01/2002 All Asset Total= \$1,081,900.876
02/28/2002 Sold: \$ 253,074.86 of PIVAX
02/28/2002 Total Sold \$253,074.86 of bottom 1 issues
02/28/2002: Bought \$253,074.86 of AEPGX which now has \$ 253,074.86
03/01/2002 All Asset Total= \$1,012,299.435
03/28/2002 Sold: \$ 259,335.70 of RYURX
03/28/2002 Total Sold \$259,335.70 of bottom 1 issues
03/28/2002: Bought \$259,335.70 of PIVAX which now has \$ 547,421.95
04/01/2002 All Asset Total= \$1,037,342.808
04/30/2002 Sold: \$ 238,699.32 of PIVAX
04/30/2002 Total Sold \$238,699.33 of bottom 1 issues
04/30/2002: Bought \$238,699.33 of RYURX which now has \$ 478,819.33
05/01/2002 All Asset Total= \$954,797.286
05/31/2002 Sold: \$ 190,242.66 of PIVAX
05/31/2002 Sold: \$ 47,443.84 of AEPGX
05/31/2002 Total Sold \$237,686.50 of bottom 2 issues
05/31/2002: Bought \$237,686.50 of RYURX which now has \$ 737,361.91
06/03/2002 All Asset Total= \$950,745.969
06/28/2002 Sold: \$ 202,499.52 of AEPGX

06/28/2002 Total Sold \$202,499.52 of bottom 1 issues
06/28/2002: Bought \$202,499.52 of RYURX which now has \$ 989,873.74
07/01/2002 All Asset Total= \$989,873.742
08/30/2002 Sold: \$ 266,209.95 of RYURX
08/30/2002 Total Sold \$266,209.94 of bottom 1 issues
08/30/2002: Bought \$266,209.94 of NYVTX which now has \$ 266,209.94
09/03/2002 All Asset Total= \$1,064,839.750
09/30/2002 Sold: \$ 256,448.89 of NYVTX
09/30/2002 Total Sold \$256,448.89 of bottom 1 issues
09/30/2002: Bought \$256,448.89 of RYURX which now has \$ 1,075,633.86
10/01/2002 All Asset Total= \$1,075,633.857
10/31/2002 Sold: \$ 250,650.49 of RYURX
10/31/2002 Total Sold \$250,650.48 of bottom 1 issues
10/31/2002: Bought \$250,650.48 of PIVAX which now has \$ 250,650.48
11/01/2002 All Asset Total= \$1,002,601.922
11/29/2002 Sold: \$ 253,592.98 of RYURX
11/29/2002 Total Sold \$253,592.97 of bottom 1 issues
11/29/2002: Bought \$253,592.97 of PIVAX which now has \$ 543,400.46
12/02/2002 All Asset Total= \$1,014,371.929
12/31/2002 Sold: \$ 240,707.49 of PIVAX
12/31/2002 Total Sold \$240,707.48 of bottom 1 issues
12/31/2002: Bought \$240,707.48 of RYURX which now has \$ 721,605.67
01/02/2003 All Asset Total= \$962,829.967
01/31/2003 Sold: \$ 232,036.83 of PIVAX
01/31/2003 Total Sold \$232,036.83 of bottom 1 issues
01/31/2003: Bought \$232,036.83 of RYURX which now has \$ 992,174.83
02/03/2003 All Asset Total= \$992,174.832
Final Positions on 02/14/2003
RYURX \$ 1,018,846.23 Rydex Ursa/17
NYVTX \$.00 Davis NY Venture-A
PIVAX \$.00 Pimco PEA Innovation-A
ACAAX \$.00 Alger Capital Appreciation-A
AEPGX \$.00 AmerFund EuroPacific Growth-A/16
Final Total assets = \$1,018,846.25