How the GBC Blue Chip Value Averaging Fund Works

The Fund's investment objective is to preserve capital and seek consistent long term income and growth by investing primarily in a diversified basket of Exchange Traded Funds (ETFs) that provide direct or indirect exposure to global fixed income and equity markets.

The assets of the fund will be invested primarily in ETFs, the securities of which trade on a recognized North American stock exchange. The ETFs may be managed by us, our affiliates, or independent fund managers. ETFs that will be considered to be included in the portfolio will provide exposure to Canadian equity, US equity, International equity, Canadian and US fixed income and Global fixed income securities.

HOW THIS FUND WORKS

The VA investment program is a formula based technique that is mathematically driven using computer software to determine the dollar amount to invest or sell periodically. It is an averaging technique where the portfolio value increases in a defined way irrespective of the movement of the stock market.

The GBC Blue Chip Value Averaging Fund uses a "side fund" which is essentially a money market fund into which periodic dollar amounts from investors are deposited prior to investment. The side fund also allows for the accumulation of money from the VA software's sell signals and provides the funds to implement VA software's buy signals in amounts exceeding the periodic amounts deposited from investors. Although there is a small lag between periodic deposits from investors and the implementation of the VA buy/sell signals, it is likely that over a reasonable time horizon, the side fund will experience periods when a not insignificant portion of the investor's portfolio will be in the money market fund rather than invested in the market.

HOW THIS FUND IS MANAGED

The idea behind the **GBC Blue Chip Value Averaging Fund** is simple. The Portfolio Manager sets a predetermined worth of the portfolio in each future time period, as a function of the size of the current portfolio, the size of periodic investments into the fund and the long term yield expected.

The Portfolio Manager then buys or sells sufficient "shares" or units of the underlying investment holdings (ETF's) such that the pre-determined portfolio value is achieved at each revaluation point. The yield expectation for the fund is calculated as, the long term 10yr return of the S&P500 Index or 12%, whichever is higher. Re-evaluation of the funds portfolio is done on a monthly basis.

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Considering movements in the fund's market price and the size of periodic investments, the Portfolio Manager then either acquires or disposes of sufficient shares/units of the holdings such that the fund's required value is achieved at each subsequent revaluation point. During periods of market price decline, the Portfolio Manager is required to purchase relatively many units to maintain the fund value. Conversely, during rising markets the technique requires the purchase of relatively few shares to achieve required value. During extended bull markets or during unusually large upward spikes in market price, the technique requires that units be sold to maintain portfolio value at the desired level.

Fig. 1 - Value Averaging Example

		Value Averaging				Dollar Cost Averaging		
Period	Market Price	Value Required	Shares Owned	Shares Bought	Period Invest	Period Invest	Shares Bought	Shares Owned
1	$10	$400	40	40	$400	$400	40	40
2	8	800	100	60	480	400	50	90
3	5	1200	240	140	700	400	80	170
4	8	1600	200	(40)	(320)	400	50	220
5	$10	$2000	200	0	$0	$400	40	260
AVG:	$8.20				$1260	$2000		
		Average Cost: $6.30				Average Cost: $7.69		
		IRR: 15.22%				IRR: 13.15%		

WHAT MAKES THIS FUND DIFFERENT AND WHY IT WORKS

- Value Averaging results in a net average cost per share that is much lower than the average cost per share with Dollar-Cost Averaging.
- There is often a tendency to sell shares when the share price is high; the best Dollar-Cost Averaging can do is buy fewer of the more expensive shares.
- Value Averaging takes a more extreme response to market dips and rises than does Dollar-Cost Averaging. The return is enhanced greatly by the larger purchases at low prices and by the profit taking as shares are sold at generally higher prices.
- Value Averaging forces the fund to avoid big moves into a peaked market or panic selling at the bottom
- Value Averaging tends to provide the highest returns in the stock market over short to immediate term investment periods.