

A guide to 'the Saltydog data'

Welcome to Saltydog!

Here at Saltydog Investor we promote an active approach to investment decision making, based on the most up-to-date fund performance data. This is for both the adviser and direct investor communities.

If you have a pension plan, PEP, ISA or an Investment Bond then the chances are it is, or could be, invested in Unit Trusts or OEICs. What's more you should be able to choose which funds they invest in.

Are you ready?

To use the Saltydog system, you need some money invested in OEICs (open ended investment companies), Unit Trusts, Investment Trusts or ETFs - ideally in a tax efficient wrapper like an ISA, SIPP or Investment Bond.

You also need to know:

- Which funds are available to you through your provider
- How to make switches between funds

For more information on making your initial investments see our 'Guide to getting started'.

Are you sitting comfortably

Right - here we go!

There's no getting around it - there are a lot of numbers and graphs, which at first sight look daunting. However take one section at a time and they're not as bad as they look - with a bit of practice you'll soon be able to flick through them to glean the information you need.


It's a bit like learning to drive - there are lots of interrelated sections to concentrate on and it seems impossible to do it all at the same time. But, with a little perseverance, things slowly fall into place until suddenly it clicks and becomes second nature.

I will explain the data, point out what I look for, and then go through how the information can be used to manage a portfolio. In this guide we will focus on Unit Trusts and OEICs, once you understand the principles these can be applied to our ETF and Investment Trust analysis

Step 1. Group Comparison – page 1 of the ‘Weekly Data’

On this page we remind you of the steps involved in using the Saltydog data and show the Group Comparison chart.

This chart shows the relative performance of the saltydog Groups, based on the average of the leading funds in each of the Sectors within the Group.

 *The key question here is - ‘are the more volatile groups significantly out-performing the less volatile groups?’ If not, why would you invest in them?*

This will make more sense when I’ve explained about Groups and Sectors.

Safe Haven Group – Decile History Report

The funds in this group invest primarily in cash, and near cash, such as bank deposits, certificates of deposit, very short term fixed interest securities or floating rate notes.

You’re never going to make your fortune in these funds, but they can be useful when you believe that the markets may collapse and your prime aim is preserving your capital.

There’re only a handful of funds, and we report on them every week in the Decile History reports that are posted onto the members area of the website.

Step 2. Sector Performance – pages 2 & 3 of the ‘Weekly Data’

This is where the fun really starts. There are over 30 IA sectors defined by the Investment Association (IA). Each of these sectors has a very clear definition which lays down rules which a fund must stick to if it wants to belong to that sector. All the funds that we report on belong to one of these sectors, and most funds available in the UK will be members of the Investment Association.

To further simplify the analysis, we band together these sectors into the Saltydog Groups. The funds within each Group tend to invest in the same underlying asset types e.g. cash, bonds & gilts, or equities. The Saltydog Groups also broadly reflect the historic volatility of the sectors that they contain, going from Safe Haven with the least volatility, up through Slow Ahead, Steady as She Goes, and finally to the Full Steam Ahead Groups (Developed & Emerging) which in the past have been the most volatile.

The least volatile group Safe Haven only includes one sector, Money Markets, and is not reported on here – we use this as a ‘holding’ area when conditions determine that we should not be invested in any of the other groups.

Here is an example of the performance data that we provide for each of the other groups.

Sector	Percentage Return Data										
	4wks	12wks	26wks	Wk -1	Wk -2	Wk -3	Wk -4	Wk -5	Wk -6	Wk -7	Wk -8
Global Equity Income	2.2%	3.0%	8.2%	1.9%	0.8%	2.1%	-1.5%	1.0%	1.1%	1.3%	1.3%
Global	1.4%	2.9%	7.9%	2.5%	0.1%	1.7%	-1.5%	1.1%	1.1%	1.4%	1.4%
Flexible Investment	0.9%	1.8%	6.6%	2.1%	0.4%	0.9%	-0.9%	0.8%	1.0%	1.2%	1.3%
Mxd Inv 0-60% Shrs	0.6%	2.0%	5.3%	1.1%	0.4%	0.3%	-0.5%	0.5%	0.6%	1.0%	0.8%
Mxd Inv 40-85% Shrs	0.6%	1.9%	6.7%	1.6%	0.3%	0.8%	-1.2%	0.7%	0.6%	1.3%	1.2%
UK Equity & Bond Inc	-0.2%	1.9%	7.8%	1.3%	0.2%	0.5%	-1.5%	0.1%	0.5%	1.9%	1.5%
UK Equity Income	-0.3%	2.4%	10.5%	2.0%	0.1%	0.8%	-2.2%	0.3%	0.6%	2.2%	2.1%
Average:	0.7%	2.3%	7.6%	1.8%	0.3%	1.0%	-1.3%	0.6%	0.8%	1.5%	1.4%

Each week we calculate the average % return of the leading funds in each sector. Only the leading funds are considered as this is where we aim to be invested. We then arrange the sectors according to the sum of the last 4 weeks average returns. We also show the sum of the last 12 and 26 weeks, along with the last 8 individual weeks.

The best figures in each column are highlighted by having a darker background.



Here are two key things that I look for:

- Are the recent returns in the more volatile groups consistently higher than those in the less volatile Groups? This is what you would hope for when markets are steadily rising, and the only circumstances under which I will invest in the more volatile groups.
- Within each Group, have the leading sectors remained the same or are they chopping and changing? If they are reasonably constant then it is possible that there is an underlying reason and I would be more persuaded to invest.

Step 3. Fund Performance – pages 4 to 17 of the ‘Weekly Data’.

For each Group we have two pages of data.

Before going any further a quick explanation of decile rankings and why we use them.

Decile (pronounced Dess-isle) is a method of indicating the performance of an investment fund over a period of time compared to its peer group, rated on a scale of 1-10. 1 indicates that the fund is in the top 10% of funds being compared, whilst 10 would indicate that the fund is in the bottom 10%. We use decile ranking instead of the more common quartile ranking because it more accurately pinpoints the leading funds.

The left hand page shows the performance of the leading funds in the top sectors based on the last 4 weeks. For each sector we list the top performing funds selected by first looking at the 4 week decile, and then the most recent individual weekly deciles.

The right hand page focuses on the longer term performance . The funds are selected based on their decile ranking over the last 26 weeks as a whole.



There is a lot of data on these pages and this is where I shortlist the funds I might invest in. Here's what I consider:

- *What are the relative returns between the leading funds in each of the sectors. Are the returns from the top sector significantly higher than the others, or are they similar?*
- *Which funds feature in both the 4 week and 26 week tables, normally a good sign.*
- *Are there any funds in the sectors at the bottom of the page that have only started doing well in the last couple of weeks? If there are I'll be looking out for these funds next week.*
- *Are the % returns in the more volatile Groups significantly higher than those in the less volatile groups? Does the increased return justify the increased risk?*
- *As well as the decile rankings, I also look at the % return over the last 4, 12 and 26 weeks.*

The Specialist Sector – Weekly Data, page 18

This sector is made up of a real mixed bag of funds that do not meet the requirements of the other IA sectors. This means that the leading funds are nearly always performing well, because the sector is so diverse that it contains funds that suit almost any circumstances.

This is why it does not appear in any of our groups, although it does contain funds that often perform well, but can be very volatile.

To help make more sense of this sector we have created the saltydog Sub-Zones. These Sub-Zones consist of funds which have something in common – e.g. gold, agriculture, Latin America. On this page we track the relative performance of the leading funds in this sector, and track the Sub-Zones.

That's it for the data – now how to build a portfolio.

The three main elements that determine a portfolio are:

- Attitude to risk
- Current Market conditions
- Any extraordinary circumstances

I will look at these separately.

Attitude to risk

This will depend on many factors including:

- Age
- Family circumstances
- Employment Status
- Wealth
- Income
- Financial Understanding

Usually the more wealth you have, the greater your financial knowledge, and the longer you can invest for, the more risk you may be able to take – whether you choose to is a different matter!

Your attitude to risk should be reflected in the mix of investments within your portfolio.

What does that mean?

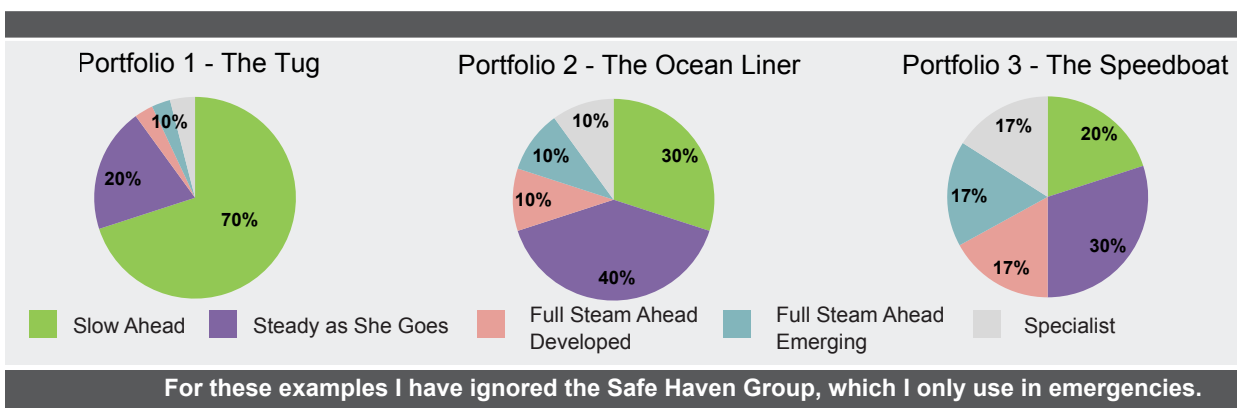
Well, in Saltydog language, the more you invest in the Safe Haven and the Slow Ahead Groups the better you should sleep at night!

Things get a bit more exciting in the Steady as She Goes Group, and if you have no fear then the place to look is the two Full Steam Ahead Groups and the Specialist Sector– they can generate the best returns, but also the biggest losses.

To illustrate this, consider 3 hypothetical portfolios.

For now I have ignored the Safe Haven Group, which I only use in emergencies. This Group will reappear when we look at how the markets affect our portfolios.

The portfolios are shown in their most aggressive state, i.e. when the markets are performing well.



The Tug

Slow Ahead – Minimum 70%, Full Steam Ahead & Specialist – Maximum 10%

This is the least volatile of the portfolios. The majority of the investments are always in the Slow Ahead Group. When conditions are favourable up to 20% may be invested in Steady

as She Goes funds and 10% may end up split across the Full Steam Ahead Groups (Developed & Emerging) and the Specialist Sector.

The Ocean Liner

Slow Ahead – Minimum 30%, Full Steam Ahead & Specialist – Maximum 30%

For a more adventurous ride this portfolio allows a greater proportion of the fund to flow into the Steady as She Goes and Full Steam Ahead Groups / Specialist Sector. This portfolio is inherently more volatile than 'The Tug', though under the right conditions should give higher returns.

The Speedboat

Slow Ahead – Minimum 20%, Full Steam Ahead & Specialist – Maximum 50%

For the adrenaline fuelled thrill seeker this portfolio may give some impressive returns, but be prepared for some bumps and bruises on the way.

If the markets suddenly drop, you may not be able to de-risk quickly enough and your losses could be significant.

Full Steam Ahead Groups & Specialist Sector – in each of these examples I have split the most volatile allocation equally between the Full Steam Ahead Emerging and Developed Groups and the Specialist Sector. In reality the split would vary depending on the relative performance on these Groups.



I'm often asked how often you need to look at your portfolio. It is entirely up to you. I look every week when the latest figures are loaded onto the website, though I don't necessarily make any changes.

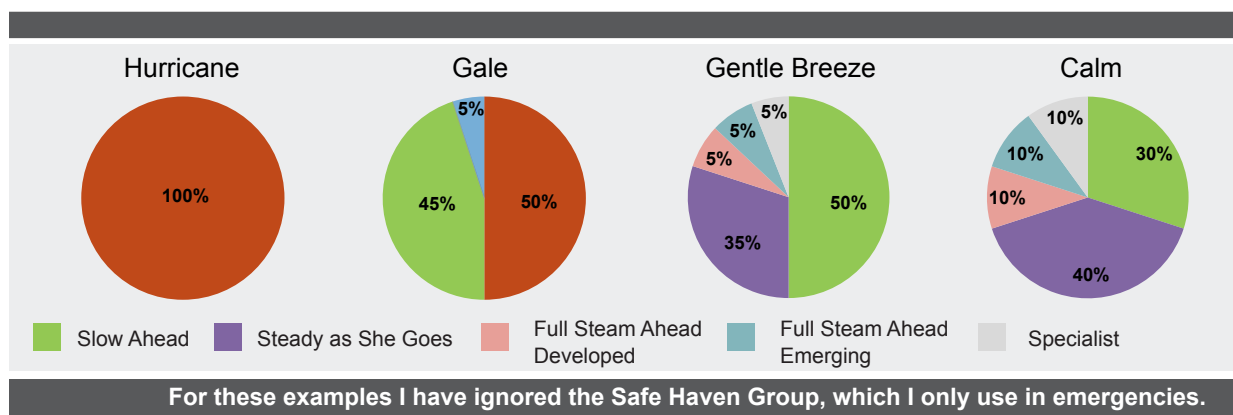
Monitoring your portfolio every day is fine, but be careful of the temptation to try and trade funds too frequently, as this can cause as many problems as inactivity.

The reason I mention this now is because the more volatility you choose to build into your portfolio, the closer you will need to monitor it!

Adjusting the portfolio to reflect current market conditions.

Having determined the parameters within which the portfolio will operate, the pie chart needs to be modified to take into account current market conditions. I believe that the only time to invest in the more volatile groups is when the returns consistently outperform those in the less volatile groups.

Returning to our hypothetical portfolios. Let's consider how 'The Ocean Liner' pie chart might vary with market conditions.



Hurricane

Safe Haven – 100%

This is the default 'mayday' position that all portfolios resort to in times of emergency. The only concern is capital preservation.

Gale

Safe Haven – 50%, Slow Ahead – 45%, Specialist Sector – 5%

When markets are falling, but the end of the world is not nigh the portfolio may take this position. The exact composition would depend on actual market conditions.

A significant proportion of the portfolio is still in Safe Haven. When the equity markets are struggling, some of the funds investing in bonds and gilts may still be providing steady positive returns as may some of the Absolute Return funds – if this is the case then it could be worth investing in these in the Slow Ahead Group.

Gold funds, which appear in the Specialist Sector, often do well when equity markets are falling and so could form a small part of the portfolio. Hence the 5% shown in the Specialist Sector.

Gentle Breeze

Slow Ahead - 50%, Steady as She Goes 35%, Full Steam Ahead & Specialist 15%

When the markets are relatively stable, but are not rising or falling, the portfolio can move out of the Safe Haven Group into the Slow Ahead Group. There are many funds in this group which have historically shown little volatility and yet produced significantly higher returns than can be achieved in the Safe Haven Group.

The funds in The Steady as She Goes Group may also do well. They have increased exposure to the equity markets and yet tend to focus on the more established companies,

paying higher dividends, and the 'managed' funds have the advantage of a fund manager who should control the level of risk.

In the longer term growth will come from the 'Full Steam Ahead Groups and Specialist Sector' and if the numbers start showing some strong performing funds now could be the time to dip a toe in the water.

Calm

Slow ahead – 30%, Steady as She Goes – 40%, Full Steam Ahead & Specialist – 30%

The sky is blue, the sun is shining and all markets have returned to a period of sustained growth. Now, is the time to 'fill your boots'.

The portfolio will take its most aggressive stance, with the minimum amount in the Slow Ahead Group and the maximum amount in Full Steam Ahead & Specialist. You should already have set these minimums and maximums when determining your attitude to risk.

Exceptional Circumstances.

The saltydog data is refreshed every week and posted on the website. Under normal circumstances looking weekly should be more than adequate, however vary rarely there may be occasions when you need to act in between updates. These will be when major world event take place and all the markets react immediately. You will no doubt pick these up through the general news. If something catastrophic has happened, which you believe will affect your investments, then you need to decide if there is still time to head for the safe have or is it too late! If the markets have already tumbled then you may be better off riding the storm. The markets often overreact, fearing the worst, and then quickly bounce back.

Fund Selection.

Once you have decided how your pie chart should look based on your attitude to risk and the prevailing market conditions, you need to choose funds in the appropriate Groups. How many funds you choose in each Group will depend on how much money is going to be invested, but it's best not to put everything into one fund – not all your eggs in one basket!

Depending on the provider you use you may, or may not, be able to find all the funds on our lists, but some should be available. Switching charges also vary from one provider to another and some individual funds may have additional initial charges – it's worth taking this into account before making your final decision.

What happens if my fund is no longer showing in the tables?

Don't panic! We only show the leading funds each week, and it's not unusual to see funds coming in and out of the tables. As long as the sector that the fund is in is doing OK, then it's usually worth sticking with the fund for a few weeks. If after a few weeks it has not reappeared then consider changing it. You should be able to use the online analysis tools supplied by your provider to compare the performance of your fund with one of the leading ones. We also publish a 'decile history' sheet on the website showing the recent decile rankings of any funds which have been in the top three deciles during the last eight weeks.

One common mistake, when first starting, is to switch funds too often.

What returns will I get?

Who knows?

Despite what some experts may say no one knows. The key thing is to stay active and maximise your returns when the markets are doing well and minimise losses when they are doing badly – keep on the ladders and off the snakes!

Here is a table showing the average return for all the funds in each sector from 2005 to 2010 – not just the leading ones that we use for our sector analysis. This should at least give a feel for what could be achieved in each group.

saltydog Group	IMA Sector	2010	2009	2008	2007	2006	2005
Safe Haven	Money Market	0.4	1.1	3.2	4.9	4.2	4.2
Slow Ahead	£ Corporate Bond	8.7	15.9	-9.1	0.5	0.4	8.0
Slow Ahead	£ High Yield	13.8	49.9	-25.7	1.1	7.7	8.1
Slow Ahead	£ Strategic Bond	9.7	23.7	-12.9	1.0	2.8	8.0
Slow Ahead	Absolute Return	4.7	11.7	0.5	8.6	3.2	9.4
Slow Ahead	Global Bonds	9.6	6.4	23.5	5.2	-3.1	6.3
Slow Ahead	UK Gilts	7.0	-1.9	12.9	4.1	-0.2	7.9
Slow Ahead	UK Index Linked Gilts	8.4	6.0	3.1	7.7	2.1	8.7
Steady as She Goes	Active Managed	15.0	24.5	-25.3	7.1	10.9	24.5
Steady as She Goes	Balanced Managed	12.6	20.3	-20.9	5.1	10.3	20.5
Steady as She Goes	Cautious Managed	9.4	16.2	-15.3	1.6	7.5	13.0
Steady as She Goes	Global Growth	16.1	23.0	-24.3	10.0	8.1	26.2
Steady as She Goes	UK Equity & Bond Income	12.8	19.9	-21.9	1.0	13.9	17.9
Steady as She Goes	UK Equity Income	15.1	24.6	-28.9	-1.3	18.4	20.9
Full Steam Ahead - Developed	Europe Excluding UK	9.0	19.6	-24.3	12.8	19.1	25.1
Full Steam Ahead - Developed	Europe Including UK	12.6	22.9	-27.0	11.9	17.7	22.7
Full Steam Ahead - Developed	European Smaller Cos	26.0	37.3	-34.5	9.3	33.2	33.1
Full Steam Ahead - Developed	Japan	19.4	-3.3	-1.8	-10.9	-13.6	43.1
Full Steam Ahead - Developed	Japanese Smaller Cos	22.8	3.1	-6.8	-18.3	-32.1	62.4
Full Steam Ahead - Developed	North America	17.5	18.9	-18.5	5.1	-1.0	19.3
Full Steam Ahead - Developed	North American Smaller Cos	32.9	23.5	-16.1	10.3	-2.5	23.0
Full Steam Ahead - Developed	Property	13.0	13.9	-29.3	-14.8	25.4	15.9
Full Steam Ahead - Developed	UK All Companies	17.5	30.9	-31.5	2.5	17.9	21.3
Full Steam Ahead - Developed	UK Smaller Companies	30.8	52.1	-40.2	-6.5	25.7	20.6
Full Steam Ahead - Emerging	Asia Pacific Excluding Japan	22.2	53.1	-33.3	37.0	18.3	33.6
Full Steam Ahead - Emerging	Asia Pacific Including Japan	21.3	35.6	-21.3	16.9	4.3	39.7
Full Steam Ahead - Emerging	China/Greater China	14.0	57.7	-33.7	56.1	43.4	22.9
Full Steam Ahead - Emerging	Global Emerging Markets	23.6	58.9	-35.6	35.3	15.7	49.2
Full Steam Ahead - Emerging	Technology & Telecoms	23.4	49.9	-26.6	11.7	-2.9	17.0
Specialist Sector	Specialist	19.5	35.5	-26.1	14.4	14.4	36.6

If in 2010, on average, you had 50% in 'Slow', 30% in 'Steady', 10% in 'Developed', and 10% in 'Emerging, and you manage to achieve the average return for the leading sector in each group; then you would have made the following return.

Slow Ahead	50% of portfolio x 13.8% = 6.9%
Steady as She Goes	30% of portfolio x 16.1% = 4.8%
Full Steam Ahead – Developed	7% of portfolio x 32.9% = 2.3%
Full Steam Ahead – Emerging	7% of portfolio x 23.6% = 1.7%
Specialist Sector	6% of portfolio x 19.5% = 1.2%

Portfolio Return = 16.9%

The top performing sectors vary throughout the year and so you could do better by switching at the appropriate times. You will also be looking for the best funds in each sector and not the average.

And finally...

There are almost as many different investment strategies as there are investors - everyone has a slightly different take on the best way to do things. At the Saltydog Investor we don't believe in telling you how to invest. Our role is to encourage you to take a real interest in your investments and give you the latest, most up-to-date, performance data so you can take control of your own financial future.

For additional information have a look at the frequently asked questions (FAQs) section of our website. www.saltydoginvestor.com

I hope you now have a clearer understanding of how the data can be used, and good luck with your investments.



Richard Webb

Managing Director

Saltydog Investor Ltd

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