Investment Plan for the Single Index ETF Buy-and-hold Strategy

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 Plan 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 until December 31, 2035, by between 0% at worst case and 13% compounded per year.

The specific dollar target is $1,543,000 using the Method described in this Plan.

Goals and Objectives

The overall objectives are to:

- Use a simple, efficient and structured process for passive investing using Exchange Traded Funds (ETFs) that ***takes no longer than fifteen minutes a quarter*** to 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 -** nest egg performance goal - is to:

> *To achieve **2.8% CAR better** than the CAR of the S&P500 Total Return index. That is, to achieve **11.71% 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 3.8% (11.71% – 7.91%) compounded per year, better than the Vanguard Balanced Fund, VBINX, and
- Around 4.8% to 5% (11.71% - 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 11.71% CAR is the Reward Objective, 10.4% CAR plus monthly IRA contributions and reinvesting dividends should achieve the Mission of $1,543,000 as of December 31, 2035, for a comfortable independent retirement.
    a. 10.4% CAR without IRA contributions would achieve around $1,162,300.
    b. 10.4% is roughly the same CAR achieved by the MDY ETF with reinvesting dividends.
2. Achieving 11.71% CAR, plus monthly IRA contributions, would reach $1,915,854, without indexing IRA contributions for inflation.
3. If the Plan achieves $1,915,854, what to do with the additional retirement savings of $372,854 is considered at the end of Chapter 18.

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

This portfolio will not have any Risk Objective as it will accept whatever drawdowns result from using the strategy described under Method. The portfolio is a passive one that doesn't include any selling at any stage; unless the Investment Plan is modified to do so.

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

To achieve investing skills improvements 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 add a Satellite strategy alongside the Core.

Method

Buy and Hold the Applicable ETF, according to the following actions:

- Start the portfolio with $162,000 on January 4, 2016.
- 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.
- Reinvest all dividends by purchasing more units in the Applicable ETF, which pays dividends quarterly.
    - Use a Dividend Re-Investment Plan (DRIP), if available. A DRIP should be a prerequisite for selecting the broker-dealer if available, combined with the availability of commission-free ETF buying.
- Reinvest all regular IRA contributions.
    - Buy additional ETF units the next trading day after the quarterly Dividend is received, to the value of the Dividend plus 3 x months of IRA contributions.
    - Currently, no Automatic Investment Plan (AIP) is available for the Applicable ETF. Monitor this with various broker-dealers to simplify the regular investing process further.
    - Purchasing quarterly instead of monthly ***reduces effort considerably to just fifteen minutes a quarter rather than fifteen minutes a month***.
- The purchase of additional ETF units will use a Market on Open (MoO) order.
    - The Applicable ETF is a liquid ETF that should attract multiple bids and asks on the Open; this will hopefully reduce the spread for additional purchases.
- Consider TD Ameritrade, Fidelity or Firstrade, which all offer commission-free ETF investing for the Applicable ETF.

[**Explanation of outperformance**:

2.8% CAR is the outperformance that the S&P MidCap 400 ETF MDY, achieved, including reinvestment of dividends and payment of ETF fees, over the S&P500 Total Return index, i.e. 11.71% - 8.91% over twenty years from 1995 to 2015.

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 just one ETF, the Applicable ETF:

- IJH

Follow the Method in this Investment Plan as depicted in the Core Satellite diagram in Figure IP-1, i.e. there are no Satellites.

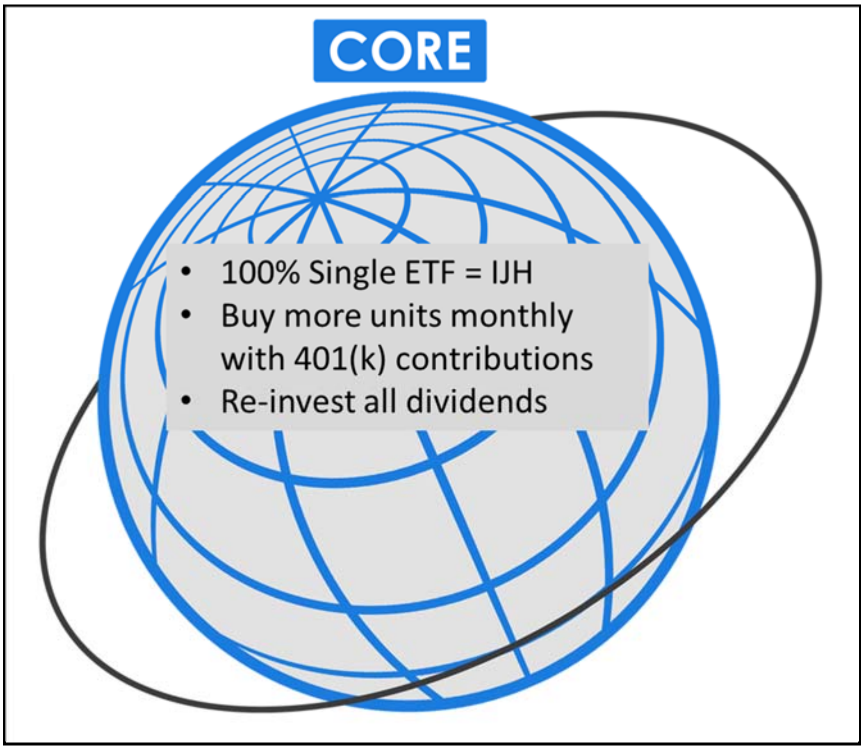


Figure IP-1

Reviewing Instruments in which to invest

From time to time, or at least every year on July 1, review the Applicable ETF compared to other available S&P MidCap 400 ETFs. Use the following criteria:

- A significant change occurs in the characteristics of the Applicable ETF. For example, the relationship between the ETF and the underlying S&P MidCap 400 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 iShares that may endanger the existence of the Applicable ETF. While this is inconceivable at the moment, "anything can happen."
- The liquidity of the Applicable ETF falls dramatically for a few contiguous months.
- The annual management fees for the Applicable ETF change to be high relative to other S&P MidCap 400 ETFs.
- The Applicable ETF is no longer commission-free, and other S&P MidCap 400 ETFs are.

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

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

Risk Management

Market Risk

- As this is a passive buy-and-hold strategy, no Market Risk management will be considered until January 1, 2031 (which is five years' before the start of retirement). At this time a timing strategy may be considered to assist in reducing a potentially significant drawdown in a severe bear market in relatively close proximity to retirement.
- Review this in light of improved investing skills and knowledge every three years as per the Skills Objective in the Investment Plan.

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 25x the Portfolio Value.

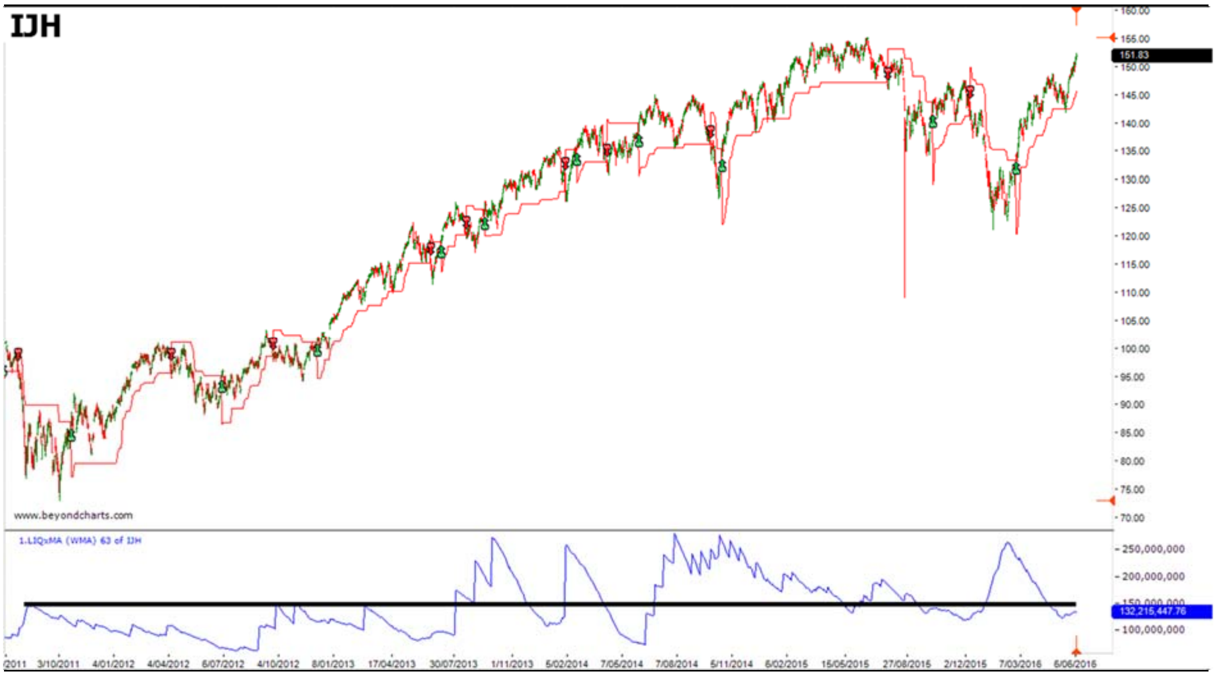
Portfolio Value (i.e. the total current value of the retirement nest egg) is used for this calculation because just a single position will be open at any given time in the portfolio. However, it won't be sold for many years since it is a buy-and-hold strategy.

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 Chart IP-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 IP-1

Money Management

This Portfolio does not require Money Management as the single ETF position has all the capital invested in it.

Open Positions and Risk Distribution

The planned number of Open Positions will only ever be one.

Money in the Market

The objective is to expose all capital to the stock market at all times.

Position sizing

There is only ever one open position with 100% of capital invested.

Starting the Portfolio

Once the investor deposits the money into the IRA account, invest it straight away by purchasing units in the Applicable ETF. That is January 4, 2016.

This is a passive Investment Plan, so do not attempt timing at any stage (until five years before retirement starts or the Plan is changed to being more active), including when to start.

Process Management

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

- This Investment Plan and all future versions.
- Account administration such as communications with the broker-dealer, including regular broker-dealer statements.

- Records of regular quarterly Applicable ETF purchases from IRA contributions.
- Records of quarterly dividend reinvestments.

If the investor pursues further skills, consider starting an Investment Journal to maintain as part of meeting the Skills Objectives; though they are not necessary to execute this Investment Plan.

Not any deviation from the Investment Plan in the Journal.

- If the deviation results in a modification to the Investment Plan, it will be formalized in a newer updated version of the Investment Plan.
- Implement Version Control for this Investment Plan.
- If the deviation was an error, action will be taken to ensure that it does not recur, by, for example, journaling or making additional notes in the Process Management section of the Investment Plan.

The Quarterly Process

- **Step 1** – Dividends reinvested AND buy more ETF units with 3 x monthly IRA contributions

  If a DRIP is not available:

  - buy more ETF units with a Market on Open order when the dividend is deposited into the broker-dealer account, to the value of the dividend plus 3 x monthly IRA contributions.

  If a DRIP is available:

  - ensure that the DRIP is executed with a Market on Open order on the next trading day after the Dividend Date Payable at the end of March, June, September, and December.
  - place a Market on Open order to purchase additional ETF units in the Applicable ETF on the first trading day after every third IRA contribution is received.

END OF INVESTMENT PLAN