February, 2006

# Interesting Investment Issues

In finance, the "Rule of 72" and "Rule of 70" refer to methods for estimating the *doubling times* for exponential growth and *halving times* for exponential decay, respectively. If you divide the number given by the expected growth rate, expressed as a percentage, the answer is approximately the number of periods required in order to double the original quantity. For instance, if you were to invest $100 at 9% per annum, then your investment would be worth $200 (double the original value) after 8.0432 years, using an exact calculation. The Rule of 72 gives 72/9 = 8 years, which is close to the exact answer. The same applies to exponential decay. Thus to determine the time it takes for the value of money to halve due to a given inflation rate, financiers simply take the current inflation rate (approx 3.5%) and divide 70 by that number. Thus, 70/3.5 would give 20. This means that at 3.5% inflation it should take 20 years for the value of a dollar to halve.

Since investment return and inflation are two of the most important considerations for any investment, understanding the above formulas gives us a rule of thumb for calculating how quickly we can make/double our money. Say we were to maintain an average long term rate of return of 8%, applying the rule of 72 means in 9 years time, the amount invested will be double. The risk of trying to get a higher return would entail higher risk or volatility of returns. The biggest risk of all is the risk of loss of capital. In fact, this risk is disproportional on the upside versus the downside. To illustrate, if one has $1million but lost 50% (or $500,000) in one year, it would take a 100% gain from the new base of $500,000 (remaining amount after 50% loss) to get back to the original value of $1 million. So by getting a steady 8% return would be much preferred to a volatile return from one year to the next. Another observation is that the utility or marginal cost/benefit is unequal on the upside versus the downside. Apparently, the pain of a loss is more than the potential gain on the upside for most people, from their personal point of reference such as their original cost of investment. To protect against loss, we have added diversity to the portfolio.

# Market & Portfolio Update

While this year started out with gains in most equity markets, the Canadian market (TSX) has started to give up some of its gains as resource prices retreat from its heady gains since the beginning of the year. Equity investments in foreign markets (Asia, US and Europe) have maintained their gains. Our decision to put a higher weighting into foreign market AGF European Class (YTD gain of 6.09%) and Mac Cundill Recovery Class C (YTD gain of 7.29%) since last year has helped to mitigate these recent losses.



938 Howe Street, Suite 308
Vancouver, BC V6Z 1N9
Web Site: www.investaflex.com
Email: info@investaflex.com
Tel: 604-331-2520 Fax: 604-331-2540
Toll Free Tel: 1-888-496-3539

We do not know how long this correction could last but our mandate takes an active approach to investing. Therefore, any further corrections may involve shifting of funds back to money market funds for temporary refuge or another asset (fund) that is not correlated to the TSX.

We seek to maintain an absolute return objective and will try our best to achieve it this year.

In the meantime, if you have any questions, or would like to discuss any of these issues with us, we encourage you to call us.

Sincerely,

Victor Whang & Malcolm Ross
604-331-2524 604-331-2521

***DISCLAIMER:***

*E&OE : INVESTMENT FUND VALUES CHANGE FREQUENTLY AND PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE PERFORMANCE. NO GUARANTEE IS GIVEN OR IMPLIED AND THERE IS RISK OF LOSS AS WELL AS THE OPPORTUNITY FOR GAIN WHEN INVESTING IN MUTUAL FUNDS.*