

Efficient Frontier Surfing

WATS provides a new method of portfolio validation that enhances the established methodology of Efficient Frontiers. We'd like to invite you into the water.

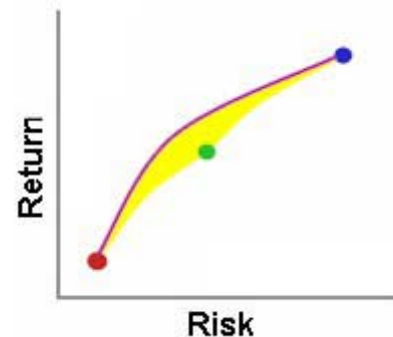
Efficient Frontiers

The Efficient Frontier represents portfolios that achieve the highest level of return for their level of risk, or conversely, the lowest level of risk for their level of return.

Consider the graph to the right:

The red dot (bottom left) represents a conservative investment such as a bond. The blue dot (top right) represents an aggressive investment such as a stock. The green dot represents some other type of investment, maybe international stocks.

The lowest level of risk and return is in the lower left portion of the graph.



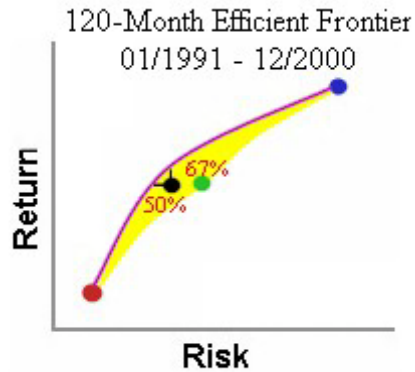
The yellow region (the Feasible Region) represents every combination of portfolios that can be made using these three investments. The purple line represents the Efficient Frontier. Portfolios on the Efficient Frontier are those which achieve the highest return for their level of risk, and the lowest level of risk for their level of return.

Choosing a Portfolio that is On the Efficient Frontier

The investor's goal is to use a portfolio that falls on the Efficient Frontier. How do you do that? How do you choose an asset allocation that, going forward in time, will be as efficient as possible?

Many people get paid well to try to answer that question. WATS cannot answer the question directly, probably no one can. What WATS can do, however, is to show historically how closely your portfolio tracks to the Efficient Frontier. We do this with a technique called Efficient Frontier Surfing (EFS).

The prior graph made no mention of time. To understand EFS, you need to set things in motion. Continuing the example, suppose the graph above represents the 10-year period from January 1991 to December 2000. Also suppose that we have chosen our portfolio to be 50% bond, 30% stock and 20% international. An updated version of the graph is on the following page:



Our portfolio is represented by the black dot. With WATS, we can measure the portfolio's efficiency, which is the relative distance from the Efficient Frontier. WATS measures efficiency by checking two things: 1) How many portfolios whose risk is equal to our own have higher returns, and 2) How many portfolios whose return is equal to our own have lower risk?

By averaging these two numbers we can determine how close our portfolio is to the Efficient Frontier. The lower the rating, the better the portfolio. In the example, 67% of portfolios with the same level of risk as our portfolio have higher returns. Going the other way, 50% of portfolios with the same level of return have lower risk. Overall, our portfolio is not terribly efficient, at least not for this particular 10-year period.

A question that arises is, how efficient was our portfolio for the prior 10-year period, and the one before that? If we think about overall efficiency of a portfolio, we'd like to have one that stays consistently close to the Efficient Frontier through recent history.

Time To Surf

With WATS, you can test portfolio efficiency for every historical time period. You can step through history, seeing how the shape of the Efficient Frontier changes over time, and measuring how far your portfolio falls off the Efficient Frontier.

We liken this process to surfing: the feasible region is the ocean. The Efficient Frontier is the best wave on the ocean. Your portfolio is the surfboard. Your goal, as the surfer, is to catch as many big waves as you can.

Using WATS, you can check your efficiency. You can test how efficient your portfolio has been in the past, which will help you make a determination as to the quality of the portfolio moving forward. Maybe it's time you got out your swimsuit.

Pricing, Demo and Customer Satisfaction

There are two versions of WATS, the Advisor Edition for \$199 and the Personal Edition for \$49.95. The Personal Edition uses the same simulation engine as the Advisor Edition but does not have 1) Morningstar import, 2) Black Box, 3) IRR Calculator or 4) Efficient Frontier Modeling.

Certain affiliates save 10% or more off the regular price of \$199. Call toll-free 1-888-863-0221 or email info@zunna.com to see if you qualify for special pricing.

To run an on-line demo of WATS using your web browser, please visit our website at www.zunna.com. For more information call toll-free 1-888-863-0221 or email info@zunna.com.

Our goal is total customer satisfaction. All of our products have a 30-day money back guarantee. We invite you to try our products risk-free. If you are unhappy for any reason we will refund the full purchase price.