WHO IS DICK FABIAN?

Dick Fabian is considered the "father of mutual fund trading." He is one of the most sought after financial speakers in America and has made multiple appearances on Wall Street Week and the Cable News Network. He has also been featured in the Wall Street Journal, Barron's, Money Magazine, USA Today, New York Times and many other national and local publications.

Dick was president and editor of the Fabian Mutual Fund Newsletter which began in 1977. His son, Doug Fabian, is now the editor. The Fabians are probably best known for calling a sell signal before the 1987 stock market crash, advising more than 40,000 subscribers to be out of the market before Black Monday. In the September 2001 AAII Journal, Mark Hulbert, the watchdog of investment newsletters, had this to say about the Fabians : "The Fabian's market timing is in first place over the past 21 years among all the timing systems the Hulbert Financial Digest has tracked over this period."

It didn't take long for the people who believe in the Fabian Compounding Plan to ask Dick to manage their portfolios. Dick Fabian is currently Chairman of the Board of Fabian Financial Services Inc., which is a professional money management firm that manages over $200 million for individual and corporate accounts.

Dick's new book, "The Mutual Fund Wealth Builder" (McGraw Hill), is a legacy to his grandchildren. In the book, he describes how the power of compounded growth, time, and the use of the Fabian trend-following plan will make his 15 grandchildren and one great grandchild tax-free millionaires by 2022.

PART TWO – Take Control of Your Financial Future

PART TWO
HOW THE FABIAN PLAN BEGAN

When I began my financial career in the late 1960's, a very impressive Bull Market was in progress. With the market rising steadily, the individual investor "discovered" mutual funds as the surefire way to get rich.

Unprecedented amounts of new money poured into mutual funds. To meet this demand the mutual fund companies began creating new funds in unbelievable numbers. It was during this time I became a stockbroker.

Armed with the knowledge of the power of compounding, I sold mutual funds advocating the traditional long-term "buy and hold" strategy. Unfortunately, that Bull Market ended in late 1968. After I experienced the Bear Market of 1969-70, and saw many of the mutual funds I owned, and had sold to others, decline by 30%, 40% and more, I realized I had to re-evaluate my investment approach.

This significant loss in my nest egg was a painful experience but it made me aware that it was important to put in place steps to ensure it would never happen to me again. I started looking for "Bear Market Protection" insurance and to regain control of my financial future.

The first thing I did was to remind myself that a 30% to 40% decline in my holdings would require a rebound of between 40% and 70% just to break even. Wasting that much growth just to get back to where I had been convinced me that just playing "catch-up" during the next uptrend was not the way to go if I was going to attain my goal of 20% annualized compounded growth over the long term.

In early 1970 I came to the conclusion, based on my own personal bear market experience, that I did not have control of my financial future following a "buy and hold" strategy. I knew I wanted to use the power of compounding, and I was still convinced that mutual funds were the most appropriate investment tool.

But I had a dilemma. I needed an investment strategy that would both avoid devastating losses in bear markets and also had the potential for meaningful growth during bull markets.

To solve my dilemma I explored alternative approaches to the buy-and-hold strategy. Through my studies I observed that the market moves in trends, up and down, for periods ranging from a few months to several years. I also discovered the 200-day moving average and its value to identify the trend of the market.

As a result of my studies, in 1970 I gave up my stockbroker license and obtained from the Securities and Exchange Commission a license to be a Registered Financial Advisor. In this new capacity I was able to manage investment dollars for others, using my new mutual fund trend-following trading plan.

After I completed the research on my new trading approach and with my new license in hand, I went back to all of the people to whom I had sold mutual funds and pointed out that they had three choices:

 # 1 They could accept their recent losses and abandon the stock market.
 # 2 They could continue to invest following a buy-and-hold strategy and run the risk of losing money again.
 # 3 They could join me and follow my new trend-following plan that could protect them from devastating losses and give them control of their financial future.

The majority of them chose to adopt my new trend-following approach.

FABIAN PHILOSOPHY

My philosophy puts people first, offering an investment approach that is easy to understand and simple to follow.

In 1976, I wrote my first book on mutual fund investing: ***"How To Be Your Own Investment Counselor."*** In the book I described my recommended trading rules. In addition, I said that at a later date I would write a mutual fund advisory newsletter, supporting those who wanted to follow the Fabian Compounding Plan.

I outlined what the newsletter would be called, what it would contain, and how much it would cost. A few months after my book was published, I started receiving checks in the mail asking for subscriptions to the newsletter. To meet this enthusiastic response, I wrote the first issue of the Fabian Mutual Fund Newsletter in April of 1977.

To show how strongly I felt about simplicity, when I started the Newsletter, I recommended the use of only one mutual fund--44 Wall Street. Couldn't be simpler than that.

My original subscribers were in the California area. As time went by, and we received publicity, some residents from Florida became subscribers. I soon heard from those Florida subscribers that 44 Wall Street was not available for sale in their state.

To overcome this situation, I went back to the drawing board and decided to recommend five mutual funds. This enabled anyone to purchase at least one of the recommended funds, no matter where they lived. This also enhanced the probability of achieving the goal of 20% annualized compounded growth.

However, having five recommended mutual funds could cause a potential problem. In the real world each of our recommended mutual funds would not accommodate us by always moving above or below their individual trendlines at the same time. Conceivably, this could have the effect of generating five different buy or sell signals.

This would not be acceptable because it would cause confusion. I had to keep the plan simple. To accomplish this, I combined the five recommended funds, as if they were a single mutual fund, and created the original Mutual Fund Composite (MFC).

THE FABIAN INDICATOR COMPOSITE (FIC)

The current Fabian Indicator Composite (FIC) has replaced the MFC and is made up of the following five major stock market indexes: Dow Jones Industrials, S&P 500, Nasdaq 100, Russell 2000 and the Wilshire 5000. The FIC represents more than 7,000 stocks, making it a good reflection of the general domestic market.

FIC HISTORICAL PERFORMANCE

Appendix A on page 6 is a table containing the performance figures for the Fabian Compounding Plan since 1981.

The performance figures listed in Appendix A are the figures quoted by the media to depict the past performance for the FIC alone. However, these results do not represent the actual performance results that could have been obtained by actual Fabian Trend-Followers. Let me explain.

In February 1999, I participated in a Money Show Conference in Orlando, Florida. During my presentation I mentioned that Mark Hulbert in August 1997, in an article he wrote in Forbes celebrating the 17th anniversary of his own newsletter, gave "The Best Market Timing Award" to the Fabian Compounding Plan. (In September 2001, Mark Hulbert once again gave the Fabian Compounding Plan the same award covering 21 years.)

After my presentation one of the people in the audience went to talk to Mr. Hulbert, who was also appearing at the Money Show. She asked him if what I had said was correct. She came back the next day and told me that what I said was true, our buy and sell signals was what earned us the award, however, Mr. Hulbert went on to say that the performance of the Fabian Indicator Composite itself was mediocre.

She questioned me about Mr. Hulbert's comment about the past performance of the FIC. I explained to her that followers of the Fabian Compounding Plan **DO NOT** invest only the five general market indicators that make up the FIC. Mr. Hulbert's performance statistics measure only the performance of the FIC because that is the only information available to him. Once she realized the limited data he was using, she said she could see the overall profit potential of the Fabian Compounding Plan.

NEW TOOLS TO HELP THE FABIAN TREND-FOLLOWERS OUTPERFORM THE GROWTH OF THE FIC

The overall growth in the number of funds, along with many new types of funds, has created new and exciting opportunities. **Enhanced Index Funds** are the newest type of mutual fund.

Enhanced Index Funds offer the advantages of leverage without incurring debt. In Appendix B on pages 8 and 9, we have described the creation and function of Enhanced Index Funds. We have also included a listing of the currently available Enhanced Index Funds.

Can you see how easily Fabian Trend-Followers can outperform the growth of the FIC itself?

CLOSING THOUGHTS

So let's go back to the most frequently asked question: "What Do I Do Now With My Investments?"

Remember, I'm not worried about what the MARKET is going to do in the next three months. I'm more concerned about what YOU are going to do to get yourself positioned to take control of your financial future for the rest of your life.

If you're still not sure what to do, revisit Part One of this special report. The ideas presented in the report may not only be new to you but most likely contradict many of the things you have come to believe over the years. I challenge what many people consider the conventional wisdom. **It takes time for new ideas to be accepted.**

Take control of your financial future by adopting the Fabian Compounding Plan.

If you may be thinking about possibly using a personal money manager and have at least $300,000 to put to work, you can learn more about the specific process that Fabian Financial Services, Inc. follows for their management clients. These details are included in a free printed report entitled *Enhancing Your Financial Future*. It describes how we select mutual funds for our management clients and how we monitor to work for above average growth returns.

You can receive a copy of *Enhancing Your Financial Future* by calling (949) 852-9800. After business hours, please leave your name, address, and phone number on our voice mail. If you prefer, you may fax your request to (949) 852-9840.

APPENDIX A

PERFORMANCE HISTORY – FABIAN COMPOUNDING PLAN

The table below shows how the simple Fabian Compounding Plan would have generated buy and sell signals using the FIC (Fabian Indicator Composite) as the primary measurement.

Fabian Indicator Composite Performance Table

Buy Date	Sell Date	Gain (Loss)	Interest Earned While in Money Funds	
05/20/80	07/06/81	24.49	1.30	
08/06/81	08/19/81	-2.07	15.30	
08/26/82	11/08/83	40.57	0.25	
11/11/83	12/15/83	-1.70	0.60	
01/05/84	01/23/84	-2.26	5.10	
08/06/84	10/08/85	11.53	0.25	
10/14/85	09/15/86	23.75	1.30	
10/24/86	11/19/86	-0.72	0.25	
01/05/87	10/16/87	15.36	4.20	
06/02/88	11/17/88	-1.70	0.50	
12/06/88	01/16/90	20.92	2.40	
05/14/90	08/06/90	-6.85	3.60	
01/28/91	06/18/92	27.18	0.10	
06/30/92	08/25/92	-1.05	0.10	
09/04/92	09/28/92	-0.11	0.10	
10/27/92	03/30/94	14.82	1.00	
08/18/94	10/05/94	-0.50	0.10	
10/12/94	11/23/94	-3.72	0.40	
12/30/94	07/16/96	37.33	0.40	
08/02/96	08/28/98	48.17	0.80	
11/03/98	10/18/99	23.51	0.10	
10/29/99	05/22/00	9.23	0.10	
05/31/00	07/31/00	3.27	0.20	
08/04/00	09/19/00	1.74	5.60	
12/31/01	02/06/02	-5.68	1.25	Thru 12/31/02
GAIN SINCE INCEPTION		**275.51%**	**45.30%**	**320.81%**
Divided by years				**22.58**
AVERAGE ANNUAL COMPOUNDED GROWTH				**14.21%**
Average Annual Return on Initial Investment				**69.92%**

The above example assumes that all dividends are reinvested and does not reflect the effect of taxes or other charges. Past performance is not indicative of future results.

APPENDIX B

ENHANCED INDEX FUNDS (EIF)

Here are some highlights regarding the newest mutual funds called ENHANCED INDEX FUNDS (EIF). Introduced in 1997, these new funds can enable mutual fund investors to generate growth whether the market is going UP or DOWN. This should make it easier to attain our 20% annual growth objective.

Prior to 1997, the most common of the long-term index funds had been those that duplicated the movement of the Standard & Poor's 500 Index. Because the S&P 500 had been one of the primary performance leaders in the 1990's, mutual funds based on this index became very popular. The objective of enhanced index funds is to outperform the well-known indices -- not only the S&P 500, but also the NASDAQ 100 and the Russell 2000. The EIF's have different strategies with different funds to achieve growth whether the index is in an UPTREND or in a DOWNTREND.

The table on the next page shows the currently available Enhanced Index Funds (EIF). The funds in the first group strive to out-perform the indexes they are following during an UP market. The funds in the second group strive to produce gains while the indexes they are following decline during a DOWN market. For example, in 1998, the Profunds Ultra OTC produced a gain of 100%, well in excess of the Nasdaq 100's performance for that year. If a serious market decline caused the NASDAQ 100 to fall as much in one year as it gained in 1998, the Profund Ultra OTC Short has the potential to duplicate the 100% gain attained by its cousin. Do you see why I believe it could be easier to realize 20% annual growth in the future, now that we have these new tools available to us?

Selling Short

What is Selling Short? It is selling first and buying second, exactly the reverse of conventional investing. It is used when the investor believes the market in general or a particular fund or stock is headed down. For an investor to sell an individual stock short, he must borrow shares of that stock from a stock broker and then immediately sell them. At some time in the future, these borrowed shares must be returned. If the market declines, the investor makes money because he can buy the shares at a lower price before returning them. If the market rises after an investor sells the borrowed shares, he will suffer a loss because he will have to buy the shares at a higher price before returning them. Short selling is essentially the principle behind the Profunds Ultra OTC Short fund.

ENHANCED INDEX FUNDS

The objective of an Enhanced Index Fund (EIF) is to outperform its related market index during both up markets and down markets. During down markets they strive to produce gains equal to or greater than the decline of its related index.

During Up Markets

EIFs related to the S&P 500 Index :
The objective of **Ultra Bull Profund** and **Rydex Titan 500 Fund** is to outperform by a factor of 2. The objective of **Rydex Nova** is to outperform by a factor of 1.5. The objective of **Potomac US Plus** is to outperform by a factor of 1.25.

EIFs related to the Nasdaq 100 Index :
The objective of **Ultra OTC Profund** and **Rydex Velocity 100 Fund** is to outperform by a factor of 2. The objective of **Potomac OTC Plus** is to outperform by a factor of 1.25.

EIFs related to the Russell 2000, Dow Industrials and Internet Index:
The objective of **Potomac 2000**, **Potomac Dow 30 Plus Fund** and **Potomac Internet Plus Fund** is to outperform by a factor of 1.25.

During Down Markets

EIFs related to the S&P 500 Index:
The objective of **Ultra Bear Profund** and **Rydex Tempest 500 Fund** is to produce gains twice as great as the decline in the index. The objective of **Potomac US Short** and **Rydex Ursa** is to produce gains equal to the decline of the index.

EIFs related to the Nasdaq 100 Index:
The objective of **Ultra Short OTC Profund** and **Rydex Venture 100 Fund** is to produce gains twice as great as the index decline. The objective of **Potomac OTC Short** is to produce gains with a factor of 1.25 greater than the decline in the index. The objective of **Rydex Arktos** is to produce gains equal to the decline of the index.