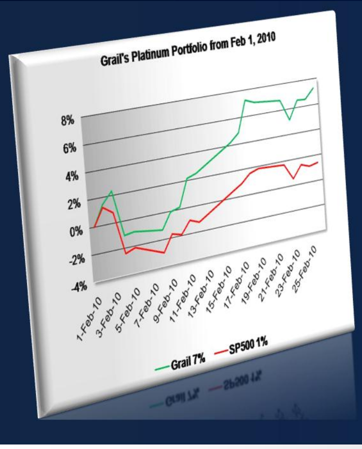
DEDICATED TO GROWING INVESTOR WEALTH

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## DIVERSITY IN GREAT STOCKS LEADS TO VERY SUPERIOR GAINS

For most investors, the practice of diversification is often nothing more than an exercise in diluting their portfoliosôresults. Of course, Modern Portfolio Theory requires you to spread your investment risks by not putting all your assets into one basket. Addressing the defensive issues alone does not solve the other side of the investment equation, however. Namely that of seeking out worthy returns! Consequently, careful thought must also be given as to what stocks to include in your portfolio that could generate an attractive and commensurate profit rather than focusing simply on avoiding large losses. After all the purpose of your engagement in the stock market it to make money. Fortunately this is very possible as an equity market is so richly structured with various grades of stocks, from which a portfolio can be put together, at least in part, of high-performing growth stocks.

In a purely risk avoidance strategy, you can expect to have some gains, particularly in a bullish environment, but if your strategy is weighted too much towards defence, you are most likely to saddle yourself with a bunch of laggards that do more harm than what it's worth. For example, these Dow Jones 30 favourites that can be found lacing most index funds:

| Stock | Year-to-date performance per Sep 24, 2010 |
|---|---|
| **Alcoa** | -24% |
| **Hewlett-Packard** | -20% |
| **Microsoft** | -19% |
| **Exxon Mobile** | -9% |

To reap the just benefits of market risk, research shows that it is better to own a predominant mixture of high-quality stocks with proven growth pedigrees, such as can be found in Grailôs Platinum Portfolio:

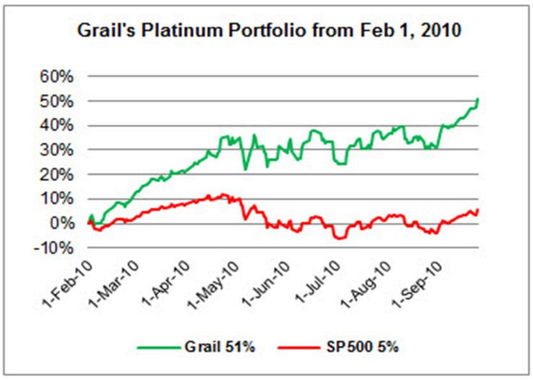
| Stock | Year-to-date performance per Sep 24, 2010 |
|---|---|
| **Acme Packet** | 249% |
| **Netflix** | 194% |
| **Baidu** | 138% |
| **51 Job** | 115% |

For none-users of the Grail Report, you should cast a wide net that focuses this genre of stocks, which are breaking away from the rest of the field, and not the Alcoaôs of the marketplace with trudging performances. Once you think you have found such an athletic stock, it is advisable at first to take a small holding in it, which you could then add to when it starts to make money ð or if it shows laggardness you can get rid of with little lost. In this respect, be sure to sell any stock that falls 7% or 8% from its buying price. With the proceeds you can add to the stocks that are working out well when they give you a secondary buying opportunity, such as on completion of a properly-formed base or a low-volume pullback to the 50 day moving average.

This process of starting wide and weeding out losers gives the winners more soil for their roots to grow.

So why then is a mutual fund packed with so many stocks? Obviously to behave like the market, since the ónaiveô stuffing of a portfolio with 50 stocks or more will diversify away specific company risks, leaving as a residue the systemic risk of the market. The Fidelity Contrafund, one of the historically top-performing funds, is made up of hundreds of stocks with the end effect that its performance mirrors an index such the SP 500. The end result is that Contrafundôs year-to-date performance is a loos of 3%. Its result is as you know no exception, since it proxies the general performance of the index funds market.

In direct contrast, Grail, in pursuit of its diversification strategy, pays close attention to momentum/growth combinations that do not unduly diversify away sought after high performance, as shown here in the graph of Platinumôs 32 stocks.




Conventional wisdom claims that above all large cap companies are the safest to invest in and this is reflexed in the composition of mutual funds and ETFs. However the table below refutes this hard-wired hypothesis by showing that growth stocks in Grailôs portfolio lost less in the last bear market and gained more in the proceeding bull market. The reason for this is that these companies continued to churn out product lines that generated sustainable demand across the full economic cycle. On the other hand Kellogg Co, the corn flakes giant is down 6% so far this year. Yes, its brand is on everyoneôs breakfast table, but the ability to bring some new, innovative and appealing product has been limited just like its growth record.

| | **Bear Market From 11 Oct 07 to 8 Mar 09** | **Bull Market From 9 Mar 09 to 30 Jul 10** | **Bear and Bull Markets From 11 Oct 07 to 30 Jul 10** |
|---|---|---|---|
| **Platinum** | -33.6% | +227.9% | +95.4% |
| **SP500** | -56.0% | +62.8% | -29.1% |
| **Better by** | +22.4% | +165% | +124.5% |

It must be said that Grail operates in a specific area of the market applying the very strict metrics of certain legendary investors, so that it cannot be said that Platinumôs results reflect a general rule about every category of growth stocks. This makes it difficult for the majority of private investors to do their own stock-picking, and thus are left with no alternative but to place their trust in their banks and other financial advisors who are more likely to be the very harbingers of this óyou-canôt-beat the marketôkind of conventional wisdom.

My only wish is that the more passive investors may one day realize in continually count their losses that they will go from keep their eyes wide shut to widen open in their search for commensurate returns.