

Dear Journal of Financial Planning Editors,

I wanted to drop a note to you about the “Using World Equity Benchmark Shares to Achieve International Diversification” article that was published in the June 2000 issue of the Journal of Financial Planning. The paper was meant to analyze comparable investment types to Webs and then to justify the rationale for investing in a global portfolio because of the risk/reward trade offs.

I am writing you to point out that the article did not discuss an additional investment type. This investment is called “Equity Index Futures”. I have conducted much research in the arena of investing in equities markets through the usage of equity index futures and have concluded that futures have superior characteristics to that of Webs.

I ran a mutual fund that invested in equity markets throughout the developed countries of the world. I did so by investing in equity index futures and options of these countries major indexes. The style of management that I implemented was called “Enhanced Yield Curve Synthetic Indexing”. At the heart of this strategy is indexing. However, it is indexing in the most efficient method possible.

As a rebuttal to the claim that Webs are the best investment option:

**Tracking Error-** Webs are supposed to track the MSCI composite for each of the countries. However, we did research and found that the correlation relationships of the Webs to their respective benchmarks were as follows:

Web vs. MCSI Country Composite	Correlation Coefficient 3/96-9/99
EWA vs. Australia	80.40%
EWO vs. Austria	87.58%
EWK vs. Belgium	70.58%
EWC vs. Canada	94.28%
EWQ vs. France	83.41%
EWG vs. Germany	84.97%
EWH vs. Hong Kong	94.49%
EWI vs. Italy	91.29%
EWJ vs. Japan	71.14%
EWM vs. Malaysia	84.30%
EWN vs. Netherlands	83.09%
EWS vs. Singapore	87.26%
EWP vs. Spain	89.63%
EWD vs. Sweden	86.30%
EWL vs. Switzerland	86.48%
EWU vs. United Kingdom	72.31%

**Trading Cost-** The cost of trading an equity index future is very inexpensive relative to Webs. The round trip cost of an equity index future can be in the range of \$10-20. If an

investment advisor wanted \$80,000 worth of the Japanese equity market, he/she would need to purchase 5,925 Japanese Webs. The round trip trading cost would be \$237 (when the per share trading cost is \$0.02).

**Tax Efficiency and invisible trading cost-** Although Webs are tax efficient, they are designed for easy trading. However, John Bogle, of the Vanguard Funds, in recently published articles was quoted for saying that actively they webs offsets the benefits associated with the We. The vary nature of a mutual fund is that it should be a long term investment, but they are treated as a trading tool. Futures have less invisible cost, i.e. Bid/Ask spreads.

**Currency exchange rate risk concerns-** Webs have 100% currency exchange rate risk, futures do not. Futures only have the amount held in margin as the amount subject to currency exchange rate risk. The margin amount is approximately 5-7%.  
Additional benefits of investing through futures- When investing overseas futures can offer benefits that Webs cannot. This benefit comes from the interest rate disparities that occur between countries. The most extreme case is the example of Japan. Futures have a premium. Premium is the cost that the market prices in for the amount of interest that will be earned on the amount of money unused for the position, i.e. Nikkei 225 requires \$5,600 margin for \$80,000 of exposure. There is a residual of \$74,400 that is invested in risk free securities. In the case of Japan, the premium is based on their risk free rate of 0.15% while the U.S. risk free rate is 5.5%. Therefor, Japan futures are acquired for a discount of over 5%. Using more sophisticated strategies can enhance this strategy, but for now I have touched on some of the benefits.

I would like to share more about the usage of Futures and portfolio management. Perhaps an article about equity index futures would be of interest to your readers. Please contact me if you have any interest.

Respectfully

Mitchell M. Maynard CFS, CIMC  
Senior Portfolio Manager  
Leveraged Index Management Company