

HISTORY & GOAL



Frank Volkers authored the Top Stock System in 1993. He and his son, Kyle, are the primary continuing developers of this stock selection system. Both are managers of IPI Asset Management and their work is supported by several of their staff.

In 1992, Frank experienced the difficulties that can arise when one relies heavily on the research recommendations of one or two top analysts. After two specific investments generated a significant loss and a missed opportunity for clients, Frank was convinced that recommendations should come from all different viewpoints (fundamental, technical, and momentum), and from a larger consensus of opinions. He observed two major failings of brokers and investors: 1) selling successful stocks too soon and 2) holding on to unsuccessful stocks too long. Taking an analytical approach, he began writing his own computer program, setting the criteria that would create a filtering process for stock selections, and the Top Stock System was born. He integrated the stock system with his computerized economic model, on which he began work in 1974.

The goal of the Top Stock System is to invest in fundamentally sound mid-sized companies having potential to significantly outperform the market averages, exiting as quickly as possible those companies failing to sustain a minimum of the selection criteria. At times, the market and the Top Stock system will heavily favor one industry or sector over others. Since inception, the Top Stock portfolio has at times been 70% or more in one particular industry. The strategy is to 1) select companies with fundamental long-term prospects as reported by four sources, 2) isolate the mid-sized companies with strong one-year performance ratings by two other research firms, 3) invest only in those companies with relative strength in earnings growth, price movement, and volume, varying the selection criteria by industry, and 4) sell any security experiencing a significant degradation in any of the three “filters”.

RESULTS

Returns for the Top Stock System have been impressive. Results are primarily shown by tracking how our actual recommendations have performed, as shown in the chart. The Actual Recommendation returns track all purchase and sell transactions that were actually endorsed and documented since June of 1997. We also calculate a hypothetical Model Portfolio return (not included), which tracks how the current model version would have performed from the system’s inception in 1993. The model helps us test out new ideas to see what enhancements or revisions can be made to improve the current system. The eighth release was completed in June 2004. We believe the system can only get better as the massive historical database grows.

COMPARISONS

Top Stock Performance <i>As of 3/31/2010</i>	YTD	1 year	3 year Avg.	5 year Avg.	10 year Avg.	Inception Avg.
Actual Recommendations	8.69%	44.28%	-0.72%	2.97%	-4.42%	6.47%
Stock Indices						
NASDAQ Composite	5.68%	56.87%	-0.33%	3.70%	-6.25%	4.07%
S&P 500 Composite	4.87%	46.57%	-6.29%	-0.19%	-2.45%	2.21%
Dow Jones Industrials	4.11%	42.68%	-4.22%	0.66%	-0.06%	2.76%

Losses, as well as gains, may occur when investing in the Top Stock system. Inception date is 6/30/1997 for performance purposes. The Actual Recommendations represents the actual history of recommendations made by the system. Cash flow needs, sector diversification, and other factors may have influenced the actual implementation of recommendations by investors. The performance assumes transactions are done on the date of the recommendation at the average of the high and low price and assumes a 1.50% annual management fee as well as a \$20 transaction charge on all buy and sell transactions. The above assumes a \$10,000 investment in each recommended stock. All performance is measured using a Time Weighted Return calculation which minimizes the impact of cash flows on performance. Dividends, interest, and cash from realized gains are not included in performance data. Since trade dates, prices, transaction costs, and other factors do not necessarily illustrate what investors may have experienced, the performance data displayed is not representative of any actual account and your results may vary from what is illustrated here.

Experience shows that the Top Stocks tend to fall faster than the market average, but also tend to rebound faster. The beta of the Top Stock system vs. S&P Industrials is calculated to be about 1.06 compared to a market beta of 1.00 over the last three years. Normally, the system tends to behave as does an aggressive growth fund. Therefore, this system should be used as part of a diversified financial plan.

THE INVESTOR

There are several key issues to address when clients choose to participate in the Top Stock System. Because the system cannot determine which stocks will become “home runs” and which stocks will become a loss for the investor, it is important to fully participate in the system. If a stock becomes a “Buy Recommendation”, buy it. If it becomes a “Sell Recommendation”, sell it. The authors of the system believe performance is enhanced by following a structured approach to selling stocks. Little success has been seen when an investor has second-guessed the sell recommendations. With a system in place, the human emotion is removed from the situation and the investment is treated objectively.

How does the investor determine the number of shares of a particular security to purchase? The average number of holdings in the system has been around thirteen. Therefore, the dollar amount to be allocated to the Top Stock System is divided by 13. The same dollar increment is used for every buy recommendation. (Example: \$65,000 to be invested in Top Stocks divided by 13 equals a \$5,000 purchase of each “Buy Recommendation”.) The model portfolio along with a history of all stocks sold by the system model since inception is available on request.

The System is an actively managed approach to investing, generating 30 to 35 trades per year. It has an average turnover rate of 72% the last three years, but the system would normally trade comparable with the average aggressive growth mutual fund. When stocks become “Sell Recommendations”, the security will generate short/long term capital gain/losses. Considerations for tax consequences are not made unless the client initiates a specific request. But again, the key is to follow the system. Keep in mind the system is designed to “exit as quickly as possible those companies failing to sustain a minimum...criteria.” Most likely, the first several securities an investor sells will be at a loss, since the system will tend to “keep the winners and sell the losers.”

As a registered representative, your consultant is able to place investments on a commission basis. As an investment advisor representative, your consultant could instead conduct a fee-based business, where clients are charged an annual percent of assets under management in exchange for the consultant’s responsibility and obligation to fulfill the terms of the management agreement. Investors should discuss the choice of fees with their consultant.

NOTE: Please speak with your financial advisor to determine if the Top Stock System should be incorporated into your diversified portfolio. Advisory services are provided through IPI Wealth Management, Inc.



Wealth Management, Inc.

THE TOP STOCK SYSTEM

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