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(54) **Title:** APPARATUS AND METHOD FOR ENABLING LONG-TERM INVESTMENT PRODUCTS
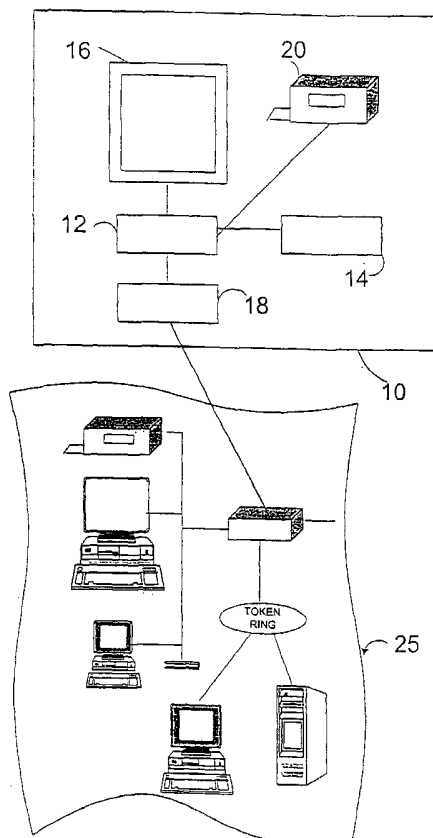
(57) **Abstract:** A computer system (10) is connected to a communications network (25) for automatically setting up and managing various investment products (e.g., trusts, funds or similar investment vehicles). The computer system (10) includes a processor (12), a memory (14), a display (16), an interface card (18), and a printer (20). Using interface card (18) connected to the communications network (25), the computer system (10) can connect to an electronic bulletin board or the NYSE super DOT (Direct Order Turnaround) system for trading or other computerized databases that provide share prices, bond prices, bond ratings, categories of shares, and other data related to publicly traded companies. The computer system enables a method or product based on selecting or grouping a number of individual financial instruments together into a portfolio (e.g., a fund or trust) and assigning weight coefficients to the selected financial instruments based upon a predetermined scale. After assigning the weight coefficients, the computer purchase for each instrument (i.e., the total price of each instrument reflects is the price per unit x number of units, which correspond the predetermined weight coefficient).

APPARATUS AND METHOD FOR ENABLING
LONG-TERM INVESTMENT PRODUCTS

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This application claims priority from U.S. Application 10/015,003 filed on December 11, 2001 and U.S. Provisional Application 60/306,082 filed on July 16, 2001, all of which are incorporated by reference.

Background of the Invention

10   The present invention relates to apparatuses and methods for enabling long term investment products.

For centuries businesses have issued publicly traded securities to fund the business' operating capital or enable growth. There are two basic types of securities: bonds that represent debt, and stocks that represent ownership or

15   equity interest in the issuing business. Bonds represent the promise of the business to pay a fixed sum at a specified maturity date plus interest at regular intervals until such date. There are numerous types of bonds such as convertible bonds, income bonds, or linked bonds. Stocks (or units) give an owner a right to a share of dividends and other distributions of the underlying

20   business, to vote for directors and fundamental corporate changes, to inspect the accounting books of the business, and other rights defined by the charter and bylaws of the business as well as by the laws of the country or state in which it is chartered.

Overall, stock markets have provided an efficient way to raise capital.

25   Performance of the entire market or individual market sectors may be monitored using different stock indexes. A stock index includes a selected group of stocks, wherein each stock affects the index in proportion to its relative weight. The relative weight can be selected based on market capitalization, market-share (i.e., number of outstanding shares), or price of the stocks. Thus, there are

30   capitalization weighted indexes, market share-weighted indexes, or price-weighted indexes. Capitalization weighted indexes include NASDAQ Composite Index ®, S&P 500®, Wilshire indexes, Equity Index®, Russell Indexes®, and

numerous other indexes. Price-weighted indexes include Dow Jones Industrial Average®, Dow Jones Transportation®, and Dow Jones Utilities®.

Stocks, bonds and numerous other financial instruments (e.g., derivatives, stock options, commodity futures or other options) can be held in

5 various types of investment funds and trusts. An investment fund includes a portfolio of securities managed by a management company that serves as an investment adviser (and may also serve as a custodian, shareholder, servicing agent, transfer agent or provide some other secondary service). The management company or the investment advisor selects the financial

10 instruments depending on the type of fund or trust. That is, there are various types of funds including stock funds (e.g., funds that invest in domestic or international stocks, growth or value stocks, small, medium or large capitalization stocks, etc.), bond funds (e.g., funds that invest in U.S government or foreign government bonds, mortgages, convertible bonds, low quality "junk" bonds, etc.),

15 hedge funds, or funds that invest in two or more types of securities such as both stocks and bonds.

Mutual funds, also called open-end investment funds, have existed for decades. In a mutual fund, a shareholder owns a portfolio of financial instruments and receives dividends on the shares that he or she holds. Any day,

20 a shareholder can sell or redeem any of its outstanding shares at net asset value (i.e., the price of a share equals total assets minus liabilities divided by the total number of shares) calculated at the end of a trading day. Similarly, an investor can also buy additional shares of a mutual fund, which in turn will invest the money. Thus an open-end fund can continue to increase its asset base by

25 selling its shares to new shareholders and investing the influx of money in more shares.

There are "actively" managed mutual funds, where the advisor buys and sells securities based on his or her opinion about expected future performance. Here, the turnover ratio and thus the cost can be relatively high

30 compared to index funds. There are also "passively" managed mutual funds where the fund advisor does not have much discretion and invests in a portfolio

of securities that mirror a selected market index. Thus, in these funds, the cost

is usually fairly low, but the funds have limitations related to the type of index

followed, as described below.

      Closed-end funds include actively managed or passive portfolios of

5 stocks grouped according to an investment objective. Usually, after the initial

sale, shares of closed-end funds are sold on a stock exchange the same way as

stocks. Closed-end funds differ from open-end funds in that the number of

shares is fixed. There are closed-end funds where a shareholder cannot

exchange shares for underlying stock, which contributes to fluctuation of the

10 price of the shares sometimes significantly above or below the net asset value.

Low demand for a closed-end fund causes closed-end shares to trade at

discounts to net asset value, and high demand creates premiums to the net

asset value. In these funds, a shareholder cannot directly take advantage of the

discount since he or she cannot exchange the fund shares for the underlying

15 stocks. An investment advisor actively manages the fund, and the fund value

(including any discounts or premiums) changes depending on the market

conditions and skills of the advisor. Depending on the fund management, these

funds may have a high turnover rate and thus high cost.

      Passively managed funds are usually low cost, as mentioned above,

20 because the advisor does not have much discretion to trade and thus does not

have to have a team of highly compensated managers and analysts. There are

numerous index funds that hold a portfolio of securities that mirror a selected

market index. The advisor buys and sells the individual securities only when

their representation in the underlying index changes, when investors redeem

25 fund shares for cash or when investors purchase additional fund shares. These

funds provide investment results that, before expenses, generally correspond to

the price and yield performance of the index. As explained below, most indexes

are heavily weighted toward large and midsize stocks. Furthermore, the indexes

are periodically rebalanced, and the relative stock representation is reduced as a

30 company grows and its stock moves from a micro cap index fund to a small cap

index fund or to a mid cap index fund. Thus, the index funds do not effectively

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accumulate the best performing stocks because they are effectively sold as they move to a larger index fund.

Perhaps the oldest market index is the Dow Jones Industrial Average®. This index presently includes common stocks of 30 large companies. There are

5   also other Dow Jones indexes such as the Dow Jones 20 Transportation Average®, or the Dow Jones 15 Utilities Average®, or the Dow Jones Composite Average®. The Dow Jones averages are calculated by adding together the prices of each stock's trading on a primary exchange and dividing the sum by a divisor, which is of course different for each index. The index divisor depends on

10 the stock splits and is designed to maintain "continuity." When a new stock is included, or corporate actions are taken (such as spin-offs, company purchases, stock splits, etc.), the divisor is changed so that the index remains unaffected. The individual Dow Jones averages basically include issues of large companies each having market capitalization of several billions if not hundreds of billions of

15 US dollars. Therefore, mutual funds or trusts based on the Dow Jones Averages do not include small cap or micro cap stocks discussed below.

The Wilshire index family provides a good example of indexes that track the entire market and the individual market segments. Wilshire 5000® equity index is a market value weighted index that includes all NYSE and AMEX stocks

20 and the most active stocks traded on NASDAQ (the total includes over 6,500 securities). The included issues are common stocks, REITs and limited partnerships, all of which are selected based on volume, institutional holdings, and conversion criteria. For a company with multiple classes of stock, all shares are combined into the primary issue's shares to reflect the total market

25 capitalization of the company. The index measures the performance of all U.S. headquartered equity securities with readily available price data. Thus, the Wilshire 5000 index encompasses virtually all of the entire U.S. stock market.

The Wilshire 4500® equity index measures the performance of all small and mid cap stocks. This index includes the Wilshire 5000 securities with the

30 companies in the Standard & Poor's 500 Index removed thus including over

6,000 stocks. The Wilshire 4500® equity index includes capitalization-weighted representation of the included stocks.

The Wilshire large cap 750 index measures stocks of large companies with market capitalization of more than about $5 billion (an approximate value

5   also depending on the overall market conditions). This index is a subgroup of the Wilshire 5000 index because it represents a market capitalization-weighted portfolio of the 750 largest companies in the Wilshire 5000 index.

The Wilshire mid cap 500 index measures stocks of mid-sized companies with market capitalization of less than about $5 billion. This cap-

10   weighted index is a combination of 500 relatively large and midsize stocks ranked based on market capitalization from 501 to 1,000 in the Wilshire 5000 index.

The Wilshire small cap 1750 index measures stocks of companies with market capitalization of less than about $1 billion. This index is comprised of the

15   next 1,750 stocks ranked by market capitalization from 751 to 2,500 taken from the Wilshire 5000 index. The Wilshire micro cap index measures stocks of companies with market capitalization of less than about $350 million. This cap-weighted index includes all stocks in the bottom half of the Wilshire 5000 Index, that is, stocks below the capitalization ranking of 2,501.

20   There are also numerous other Wilshire indexes such as the Wilshire large value index, the Wilshire large growth index, the Wilshire mid cap value index, the Wilshire mid cap growth index, and other indexes. The Wilshire large value index measures large-cap stocks that exhibit value characteristics (e.g. low price to book ratio). The Wilshire large growth index measures large-cap stocks

25   that exhibit growth characteristics (e.g. high price to book ratio). Periodically, the above indexes are modified or "rebalanced" by adding and removing stocks. The rebalancing enables the indexes to provide a better reflection of stock market activity and performance. That is, rebalancing is done in an effort to have growth stocks included in the growth index, etc. Furthermore, rebalancing

30   ensures that changes in valuation or market cap are periodically updated. The

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corresponding mutual funds then change their portfolio based on the index rebalancing.

The Russell index family is another widely recognized example of indexes that track the entire market and the individual market segments. Russell 3000®

5   Index measures the performance of the 3,000 largest U.S. companies based on their total market capitalization, which represents approximately 98% of the investable U.S. equity market by market capitalization. This index has a total market capitalization range of approximately $480 billion to $140 million (on July 1, 2001, but values depend on the market conditions).

10   Russell 1000® Index measures the performance of the 1,000 largest companies in the Russell 3000® index, which represents approximately 92% of the total market capitalization of the Russell 3000® Index. The smallest company in the index has an approximate market capitalization of about $1.3 billion. Russell 2000® Index measures the performance of the 2,000 smallest

15   companies in the Russell 3000® Index; this represents approximately 8% of the total market capitalization of the Russell 3000® Index. In July 2001, the average market capitalization of a stock in Russell 2000® Index was approximately $530 million and the median market capitalization was approximately $410 million. The largest company in the Russell 2000® Index had an approximate market

20   capitalization of $1.4 billion.

There are also other Russell indexes. For example, Russell 200® Index measures the performance of the 200 largest companies in the Russell 1000® Index, which represents approximately 75% of the total market capitalization of the Russell 1000® Index. Russell Midcap® Index

25   measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 25% of the total market capitalization of the Russell 1000® Index. Russell 2500® Index measures the performance of the 2,500 smallest companies in the Russell 3000® Index, which represents approximately 17% of the total market capitalization of the Russell 3000® Index.

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Russell Small Cap Completeness® Index measures the performance of the companies in the Russell 3000® Index excluding the companies in the Standard & Poor's 500 Index.

Since index funds like the Wilshire 5000® and Russell 3000® are market
5   cap weighted, usually only 10% - 15% or less of an investor's money is allocated into the smallest 90% companies ranked by market capitalization. The 100 largest stocks receive an allocation of above 50% of the total amount invested. Generally, investors in index funds have no meaningful exposure to micro cap, small cap or even some medium sized companies, and frequently no exposure
10 to many small cap or micro cap companies since they are not components of they index funds own.

There are index funds that invest in micro cap, small cap and medium sized companies, but these funds have an inherent disadvantage. As a high performing stock grows, its rank increases. When a high performing stock
15 "graduates" from the Wilshire micro cap index, it is added to the Wilshire small cap index. Similarly, when a high performing stock "graduates" from Russell 2000®, it is added into Russell 1000®. In this "rebalancing", the high performing stock is "effectively sold" because its weighting in the new index is small compared to other members of the index. Moreover, when a stock graduates
20 from Russell 2000® to Russell 1000®, investors in Russell 2000® no longer have any ownership interests of that particular security. Furthermore, in each index, only a small amount of money is allocated into the smaller components due to the disparity in market capitalization between the largest and smallest companies. Thus, in an index fund, an investor cannot effectively buy a
25 meaningful amount of a micro cap or a small cap stock and "hold" the stock as is it grows and moves from one index to another. That is, in the above-described funds, an investor cannot fully take advantage of some high performing stocks by long-term ownership in a tax efficient way.

Actively managed, open-ended mutual funds generally dilute the impact of
30 some of the best performing stocks because most active funds restrict the percentage weighting for an individual stock or sector. This too translates into

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effective selling of high performing stocks because they are not allowed to grow substantially in weight (increased ownership is artificially restricted) relative to the other stocks in the fund. To maintain investments in high performing companies, (i.e., allow nature to take its course) managers of open-end mutual funds would

5   have to increase the dollar allocation into winning stocks as new money is invested into the fund in direct proportion to their existing relative weight to avoid dilution by new shareholders.

Frequently, most actively managed funds that specialize in investment in small or mid cap stocks sell the companies when they do well (e.g. their market

10 cap exceeds a certain limit). Therefore, investors typically do not hold micro cap to medium sized stocks for a long enough period to "let the winners run". Most investment managers (advisors) usually do not hold individual stock for long periods of time. The holding period of most stocks in "managed" funds tends to be significantly less than 3 years because investment advisors try to predict

15 future performance of a stock and/or they sell any stocks that no longer fit their select criteria. Frequently, they sell stock of growing small companies that no longer have characteristics in accord with the fund's objectives. For example, company's market cap is too large or stock is no longer a "value" stock. Thus, actively managed funds do not provide a solution that ensures long-term

20 ownership of the best performing micro cap to medium sized stocks. In turn, the investors do not accrue the benefit that derives form long-term ownership of micro cap, small cap, or mid cap stocks that grow to achieve appreciably larger market capitalization.

A portfolio of stocks may also be arranged in a unit trust that operates

25 differently than a mutual fund. A unit investment trust issues securities that represent an undivided ownership interest in the portfolio of stocks held by the trust. (For example, there are publicly traded shares of the DIAMONDS Trust®, which holds all of the 30 common stocks of Dow Jones Industrial Average.) In a unit trust, a trustee issues creation units to anyone who deposits with the trustee

30 a specified portfolio of the securities and a cash payment generally equal to accumulated dividends. In general, the investment trust only issues Creation

Units in specified large-sized minimum numbers (for example for the DIAMONDS
Trust it is 50,000 DIAMONDS or multiples thereof). A creation unit holder can,
however, purchase and sell the units on the secondary trading market in lots of
any size. The unit holders are paid regularly an amount corresponding to the

5   amount of any cash dividends on the Trust's portfolio of securities during the
applicable period (minus the fees and expenses associated with operation of the
Trust).

      Some types of unit investment trust are structured so that the units are
not individually redeemable, and can be redeemed only by tendering to the Trust

10 the entire amount of the creation units (i.e., the creation unit-sized minimum
number) or a multiple thereof). Upon delivery of the creation units, the Trust
delivers a portfolio of the underlying securities (together with a cash payment
generally equal to accumulated dividends as of the date of redemption). The
trust always maintains the correspondence between the composition and

15 weightings of securities held by the trust and the stocks in the corresponding
index. Specifically, the DIAMONDS Trust includes 30 common stocks that are
included in the Dow Jones Industrial Average. These stocks are adjusted to
conform to periodic changes in the identity of the Dow Jones Industrial Average.
Importantly, each of these 30 stocks have a much larger market capitalization

20 than any small cap or micro cap stock (or even most mid cap stocks).

      There are other investment trusts that hold a stock portfolio of a
particular industry, sector or group designed to provide a diversified exposure to
the industry, sector or a group. For example, Merrill Lynch provides HOLDRs®
that are trust-issued receipts representing a beneficial ownership of a specified

25 group of stocks. The owner of a particular HOLDR owns a group of stocks as
one asset, but can also unbundle the HOLDR any time to own each of the
underlying stocks. The unbundled stocks can be traded individually to meet
specific tax or investment goals. HOLDRs are taxed only on gains and income
that the owner actually realizes. Thus, HOLDRs allow the owner to take tax

30 losses in any individual stock that declines and allow the owner to defer capital

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gains indefinitely on the best performing stocks. Furthermore, HOLDRs have a buy-and-hold feature that limits taxes resulting from portfolio turnover.

The individual HOLDRs are exchange-traded and are priced just like any other stock to provide liquidity. The owner retains the voting and dividend rights

5   on the underlying stocks. HOLDRs provide a relatively inexpensive way to own about 19 to 20 stocks. The owner doesn't pay management fees, but pays a transaction costs and an annual custody fee taken against cash dividends and distributions, when they are issued.

An example of a HOLDR trust is a Biotech HOLDR trust, which holds the

10 following 20 stocks (with the approximate initial weighting provided in parentheses): Applied Biosystems Group (6.67%), Affymetrix Inc (2.02%), Alkermes Inc. (0.76%), Amgen Inc. (19.76%), Biogen Inc. (9.92%), Chiron Corp. (4.78%), Celera Genomics (0.77%), Genentech Inc. (18.29%), Enzon Inc. (0.93%), Genzyme Corp. (2.99%), Gilead Sciences Inc. (2.97%), Human

15 Genome Sciences Inc. (1.77%), ICOS Corp (1.29%), IDEC Pharmaceuticals Corp. (2.49%), Immunex Corp. (8.9%), MedImmune Inc. (6.03%), Millennium Pharmaceuticals Inc. (2.35%), Qlt Inc (2.42%), Sepracor Inc. (2.68%), and Shire Pharmaceuticals Grp. (2.2%). Thus, the Biotech HOLDR trust holds midsize to large stocks (stocks above $1.5 billion to tens of billion). In short, each of the

20 existing HOLDS provides a relatively limited diversification and do not enable systematic investment in micro cap, small cap, mid cap and large cap stocks across the entire market.

There are also other unit investment trusts. For example, Nike Securities L.P. creates periodically First Trust® portfolios that are unit investment trusts

25 holding a fixed diversified portfolio of typically about 20 to 25 stocks in one industry or market sector. The individual closed-end trusts trade on public exchanges to provide daily liquidity. The trusts typically have a life of 13 months to 5 years. Investors invest a minimum of about $10,000 (usually corresponding to 100 units). At the end of the term, the investors can get securities "in kind"

30 without incurring tax liability or can get the corresponding monetary value. The trustee does not rebalance or does not otherwise manage the trusts over its

lifetime. The First Trust® portfolios hold generally large to medium size stocks typically purchased initially at an equal dollar amount of each security. Basically, each of the First Trust® portfolios provides a relatively limited diversification and does not enable systematic investment in small cap or micro cap stocks.

5   In summary, the above-described funds or trusts have at least some disadvantages. Most market cap weighted funds or trusts allocate most of the invested money in large or very large companies. Passive, open-end index funds allocate new money in direct proportion of the market cap of each company, as specified for the corresponding index. Thus, investors money is

10 usually allocated in an overwhelming fashion to companies having large to extremely large market capitalization. These companies tend to be more mature (and thus frequently have lower earnings growth) or tend to have higher relative valuations (i.e., very "popular" companies) than some younger, smaller, less "popular" companies. As explained above, small cap and micro cap index funds

15 "effectively" sell small stock of fast growing companies.

       Actively managed funds also tend to allocate investors' money based upon narrow characteristics or on market capitalization and tend to have a high turnover ratio. They also do not hold small cap and micro cap companies for many years to let "the winners run." These funds also tend to restrict the relative

20 weighting of the individual stocks. Therefore, there is a need for apparatuses and methods that enable creation of investment products for systematic, long-term investing in various market sectors or segments including mid size, small cap, or micro cap companies.

25   **Summary of the Invention**

       The present invention is an apparatus or a method for creating investment products according to a selected allocation or structurre for investment assets (such as marketable securities, bonds, mortgages, or other property interests, options or derivatives). The apparatus, method or product enables selection or

30 grouping a number of individual financial instruments together into a portfolio (e.g., a fund or trust) and assigning relative weighting to the selected financial

instruments. That is, the total purchase of each instrument (i.e., per unit price x number of units) is allocated based on a weight coefficient. The weight coefficients for the selected financial instruments are based upon a predetermined scale. After assigning the relative weighting (i.e., weight

5   coefficients), the apparatus or method purchases the selected instruments based on the allocated total price for each instrument. Then the purchased individual financial instruments are allowed to fluctuate and perform for a predetermined period without any further significant adjustments to the initial portfolio. The portfolio is passive, but there may be insignificant adjustments when there are

10   cash dividends (or interest payments on the instruments) or capital market transactions (e.g., mergers, acquisitions, spinoffs, and the like).

According to one aspect, the described apparatus, method enable creation of investment products that provide improved returns when compared with many prior art passive investment strategies, by systematically investing in

15   different market cap stratas based on a preselected weighting and then maintaining the selected portfolio for many years. The present method, system and investment product enables a long ownership of most successful securities without inherent problems associated with basing the allocation on relative market capitalization as done in market cap weighted indexes.

20   The present method, system and investment product provide a substantially passive portfolio holding financial instruments for a long period of time. The portfolio is substantially passive (and not necessarily 100% passive) since a manager may allow reinvestment of dividends, or receipt of new shares, or sale of some minor amounts of shares from spin-offs, mergers or the like.

25   Minor proceeds may be distributed to shareholders, or put into a money market fund. If a certain company goes out of business, it is not replaced by another stock in the portfolio as is done with the index funds. If a security is exchanged for another security in the event of an acquisition, investors would then own the new (acquirer's) shares.

30   The present method, system and investment product provide investors with the ability to invest in a large number or all mid cap or small cap stocks and

then over time realize the aggregate investment result that these stocks generate. The selected stocks or securities are kept in the created fund or trust and are not sold due to a large increase in value (e.g., are not sold when moving from one index fund to another), nor are they be sold because they no longer are

5   deemed to have merit by one or more investment managers (that is, managers may sell a security because it no longer has a selected characteristic, e.g., has lost momentum, is too expensive, too large market cap, etc.). The present method, system and investment product enable investors to know that they will own a medium size or large, diversified portfolio of securities for a predefined,

10   known minimum time period.

The present method, system and investment product enable diversification or improvement of investment performance and lower volatility by periodically investing at regular intervals in the trusts or funds created according to construction and selection criteria described herein.

15   According to another embodiment, when the portfolio is held as an investment trust dividends can be reinvested to replicate the experience of an owner who purchased and held and reinvested the proceeds of any stock. For example, the trust can reinvest any cash generated via "all cash" acquisitions of any company in the portfolio. Alternatively, the trust can distribute any "all cash

20   proceeds" directly to investors, or can deposit (i.e., re-invest) any "all cash" proceeds into a money market fund until the trust terminates. These transactions are considered insignificant adjustments.

According to another aspect, an asset portfolio includes a number of publicly traded financial instruments purchased according to corresponding

25   individual weight coefficients allocated by giving the largest allocation to an instrument (or several instruments) having the largest market capitalization and giving the smallest allocation to an instrument (or several instruments) having the smallest market capitalization in the group of selected financial instruments, wherein the ratio of the largest weight coefficient and the smallest weight

30   coefficient is limited by a selected maximum, wherein the individual financial instruments are then maintained for a selected number of years regardless of

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market conditions. Preferably, one, two or several additional weight coefficients (being in size between the largest weight coefficient and the smallest weight coefficient) are allocated to individual instruments.

According to yet another aspect, an asset portfolio includes a number of
5   publicly traded stocks purchased according to individual weight coefficients allocated by giving the largest weight coefficient to a stock (or several stocks) having the largest market capitalization and giving the smallest weight coefficient for a stock (or several stocks) having the smallest market capitalization among the selected number of the stocks, wherein the ratio of the largest weight
10 coefficient and the smallest weight coefficient is limited by a selected maximum being less than 400 and preferably less than 300 or 200, and more preferably less than 100, wherein the individual stocks are maintained for an initially selected number of years regardless of performance of any one of the stocks. Importantly, when the portfolio is created, there is always a selected maximum
15 ratio that assures meaningful representation of mid cap, small cap and even micro cap stocks. In some cases, the ratio may be 75, 50, 25 or even less depending on the criteria based on which the stocks were selected.

According to yet another aspect, an asset portfolio includes a number of at least fifty publicly traded stocks purchased according to individual weight
20 coefficients representing relative values between the stocks, wherein the purchased stocks are substantially maintained for an initially selected number of years regardless of any relative change in the market capitalization of any of the stocks.

According to yet another aspect, an asset portfolio includes a number of
25 at least fifty publicly traded stocks purchased according to individual weight coefficients allocated by arranging the selected stocks based on their market capitalization, wherein one third of the selected stocks with the smallest market capitalization is allocated corresponding weight coefficient (or weight coefficients) that assure at least fifteen percent of the entire value of all the
30 stocks for the one third of the selected stocks.

According to yet another aspect, a computer program product stored on a

computer readable medium includes a representation of a number of at least fifty publicly traded stocks purchased according to corresponding individual weight coefficients allocated by arranging the selected stocks based on their market capitalization, wherein one third of the selected stocks with the smallest market

5   capitalization is allocated corresponding weight coefficients that assure at least fifteen percent of the entire value of all the stocks for the one third of the stocks.

According to yet another aspect, a method of investing in marketable securities includes the acts of grouping a number of individual publicly traded securities on an exchange; assigning relative individual weight coefficients to the

10   selected securities by giving a security (or securities) with the largest market capitalization a higher weight coefficient than the securities that have smaller market capitalization, wherein the relative weighting does not conform to actual market capitalization differences among the selected securities. This method also includes purchasing the selected securities based on the weight coefficients

15   representing relative values between the securities along a predetermined proportional scale; and then allowing the individual securities to fluctuate for a predetermined number of years without any further adjustments to the initial allocation.

According to yet another aspect, a method of creating an investment

20   portfolio includes the acts of selecting a number of individual financial instruments publicly traded on an exchange; allocating individual weight coefficients to the selected financial instruments by giving the largest allocation to an instrument (or several instruments) having the largest capitalization and giving the smallest allocation to an instrument (or several instruments) having the

25   smallest capitalization for the selected number of the financial instruments, wherein the ratio of the largest weight coefficient and the smallest weight coefficient is limited by a selected maximum. The method also includes purchasing the selected financial instruments based on the weight coefficients representing relative values between the individual financial instruments; and

30   maintaining substantially the purchased financial instruments for a selected number of years regardless of market conditions.

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Preferably, the financial instruments include one or more of the following: common stocks, derivatives, stock options, commodity futures, or bonds. The selected maximum ratio assures meaningful representation for all selected instruments.

5   According to yet another aspect, a method of creating an investment portfolio includes the acts of selecting a number of stocks publicly traded on a stock exchange, the number of stocks being larger than 50 (and more preferably larger than 100); allocating individual weight coefficients corresponding to the selected stocks; purchasing the selected stocks based on the weight coefficients

10   representing relative values between the individual stocks; and maintaining substantially the purchased stocks for a selected number of years regardless of a market capitalization of any of the stocks.

Preferably, the selected number of years is more than 2 years, and more preferably more than 3 years and as long as 10, 15 or even 30 years.

15   Alternatively, the selected number of years is the number of years to retirement of an individual (or an average number for a group of individuals). Alternatively, the selected number of years is the number of years remaining until college attendance for an individual (or an average number of years remaining for a group of individuals). The purchasing act includes purchasing the selected

20   stocks based on the allocated weight coefficients.

Preferably, the act of maintaining substantially includes allowing reinvestment of dividends into the same securities that paid the dividends. The act of maintaining substantially includes receiving new shares from spin-offs, mergers, acquisitions or the like. The act of maintaining substantially includes

25   putting cash portion of proceeds into a money market fund. Alternatively, the act of maintaining substantially includes distributing proceeds to investors. Alternatively, the act of maintaining includes reinvesting the proceeds of an acquisition into the appropriate number of shares of the acquirer.

Preferably, the selecting act includes identifying stocks of about 1000,

30   2000, 3000, 4000, 5000, 6000, or 7000 largest publicly traded companies.

Preferably, the selecting act includes identifying stocks of publicly traded

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companies in a particular market segment or in a particular market sector. The sector is one of the following: technology, biotechnology, health case, information technology, telecommunications, semiconductor, energy, utilities, transportation, or any other sector (another sector).

5   Preferably, the act of allocating includes dividing the selected stocks into three groups based on their capitalization and allocating the same weight for all the stocks in each of the groups. For example, the first, second and third group includes 20 percent, 60 percent and 20 percent of the number of stocks in each group, respectively. The relative weight within each group enables further

10   differentiation, wherein, for example, the largest companies placed in the first group receive 3x the weight coefficient of the smallest companies placed in the third group, and the middle companies placed in the second group receive 2x the weight coefficient of the smallest companies placed in the third group.

        Preferably, the method further includes creating a mutual fund, a closed-

15   end fund, a trust, a unit investment trust, or an individually constructed portfolio.

        The present investment products can be structured as trust-issued receipts that represent a beneficial ownership of a specified group of stocks. The trust receipts are exchange-traded securities that are priced just like any other publicly traded stock. The owner owns a group of stocks as one asset, but

20   may also unbundle the receipts at periodic, predefined intervals in order to own each of the underlying stocks. This option, if desirable, would be initially specified when a trust or a fund is created. When held as trust-issued receipts, the owner still retains the voting and dividend rights on the underlying stocks. The owner can tailor the ownership according to his or her tax needs by timing

25   the capital gains or losses. The owners of trust-issued receipts can unbundle the receipts at periodic intervals to own each of the underlying stocks. The unbundled stocks can be traded individually to meet specific investment goals or tax goals (realize capital gain or capital loss, or donate the securities).

        The present trust includes one or several unmanaged stock portfolios that

30   are not significantly altered over several years by additional purchases, exchanges or sales of the individual stocks

18

The present method, system and investment product provides the ability to systematically invest in the entire market overtime without investing 90% of the money in the top 1000 (or less) companies or having the future best performing stocks sold out of a small cap or mid cap stock fund, as these stocks

5   grow. The present method, system and investment product envisions formation of similar trusts at regular time intervals. The present method, system and investment product helps to ensure optimal returns because more shares of future "winners" are acquired when their prices are low and fewer when they are high (as is done using another method called "dollar cost averaging").

10   The present method, system and investment product ensures that investors can systematically invest their money so that they do in fact have significant and long-term ownership of all future winners. The future winners are often younger companies that generate substantially above average earnings gains over many years. Younger companies that achieve a stream of increased

15   earnings, sales, dividends and/or cash flow often are accorded a rising investment appraisal (P/E expansion) over time. The combination of healthy earnings gains plus enhanced valuation parameters translates into high stock performance. The present method, system or investment product enables investors who desire long-term growth of principal to systematically allocate their

20   money in a significant way to large number of micro cap, small cap and midsize companies thereby ensuring the investors' ability to capture systematically the rewards of long-term ownership of tomorrow's high performance stocks.

The present method and system provide investment products that are tax efficient since they allow growth of the invested capital without taxable events

25   (except corporate dividends or when a security is acquired for cash by another corporation).

Brief Description of the Drawings

Fig. 1 shows a computerized system for setting up and managing one

30   or several long-term investment portfolios.

Fig. 2 shows a high level flow diagram illustrating a method for setting

up a long-term investment portfolio.

Fig. 3 includes Table I depicting a first example of a long-term investment portfolio.

Fig. 4 includes Table II depicting a second example of a long-term 5 investment portfolio.

Fig. 5 includes Table III depicting a third example of a long-term investment portfolio.

Fig. 6 includes Table IV depicting a fourth example of a long-term investment portfolio.

10 Fig. 7 includes Table V depicting a fifth example of a long-term investment portfolio.

Description of Preferred Embodiments

Figure 1 illustrates a computer apparatus for constructed and arranged to 15 execute and manage the present investment product. Computer system 10 is connected to a communications network 25 for automatically setting up and managing a long-term investment portfolio (e.g., trusts, funds or similar investment vehicles) described below. Computer system 10 includes a processor 12, a memory 14, a display 16, an interface card 18, and a printer 20. 20 Using interface card 18 connected to communications network 25, computer system 10 can connect to an electronic bulletin board or the NYSE super DOT (Direct Order Turnaround) system for trading. Computer system 10 can also connect to other computerized databases that provide share prices, bond prices, bond ratings, categories of shares, and other data related to publicly traded 25 companies.

Computer 10 may be a laptop or a hand-held (palmtop) computer arranged for wired or wireless communication. For example, computer 10 may be a hand-held computer system including a screen display area used for displaying information to a user and including a touch-sensitive digitizer pad 30 constructed and arranged for user interaction using a stylus or a finger. The screen display area may also include a user input area used to input text in a

Graffiti ® writing area. In general, the entire user interface is designed for easy, user intuitive communication

The processor can interact with one or several application buttons (graphical created on the screen or hardware) designed specifically for selecting

5 or displaying stocks or other instruments. There are other application buttons designed specifically for the funds or trusts described below. The system may dynamically create application buttons (or reassign existing application buttons) depending on the proposed or created funds or trusts. Computer system 10 may also include one or several scrolling buttons used to scroll information in the

10 display area to view the proposed or created funds or trusts, or other financial information

Preferably, computer system 10 allows users to communicate from anywhere to anywhere at any time over communications network 25, using wireless communication. The transmitted information may be encrypted using

15 the public-private key (e.g., the RSA system) or other encryption methods before transmission. These communications may involve single or multiple service providers. Multiple users can view financial information directed to proposed funds or trusts, can subscribe of contribute to the funds or trusts, or initiate other financial transactions.

20   Referring to Fig. 2, based on a user's input, computer system 10 initiates purchase of financial instruments (e.g., stocks, bonds, options) when initially creating an investment portfolio according to an algorithm 30. In step 32, the user specifies the types of one or several investment portfolios including the sizes and types of companies, the types of financial instruments and other

25 information discussed below. A user may initiate identification of a market segment, for example, 5000 largest companies or 2000 smallest companies according their market capitalization. A user can also request computer system 10 to identify companies in a particular market sector such as telecommunication, pharmaceuticals, biotechnology, steel, transportation,

30 semiconductors, computer hardware, computer software, oil and gas, chemicals, cosmetics, food and beverage, retail etc.

21

In step 34, computer system 10 automatically identifies possible
candidates, calculates their market capitalization (price-to-earning, price-to-
sales, book-to-price, etc.) and provides their names, and other related
information.   Computer system 10 creates candidate portfolio database (step
5   36). The user selects from the candidate portfolio database a number of specific
stocks to be included in the investment portfolio (step 38).

Based on the user's input (or predefined criteria), computer system 10
allocates individual weights corresponding the selected financial instruments.
Computer system 10 can allocate the selected financial instruments into several
10   groups based on their market capitalization (step 40) or other characteristics and
can allocate the same weight coefficient or different weight coefficients for each
group (step 42).

For the selected financial instruments, computer system 10 may use
several weighting schemes such as giving a larger weight coefficient to an
15   instrument having a larger capitalization and giving a smaller weight coefficient
for an instrument having a smaller capitalization. This weighting scheme usually
includes a selected limit for the ratio of the largest weight coefficient and the
smallest weight coefficient. This ratio has a limit of about 500, and preferably a
limit of about 250, and preferably a limit of about 100. However, there are
20   portfolios where the desired preselected limit of this ratio is about 50, or 30, or as
low as 20, depending on the way the instruments are selected (e.g., a market
segment or sector) and depending on the number of selected instruments. The
selected limit assures a "meaningful" representation of mid size, small cap and
micro cap stocks.   Alternatively, another weighting scheme may also be based
25   on bond ratings, amount of debt cash flow, growth rate, price-to-earnings ratio
(P/E), P/E to growth ratio, and other criteria of the selected companies.

Computer system 10 purchases the selected financial instruments
based on their assigned weights (step 46). In addition to large and mid size
companies, the purchased portfolio includes small cap or micro cap companies
30   having significant relative representation (based on the limit of the ratio of the
largest weight to the smallest weight). This financial portfolio is maintained in the

form of a selected structure (e.g., fund, investment trust) for a number of years initially selected in step 44. This number of years is at least two years, but preferably 4, 5, 6 or 7 years, or even 10 to 15 years.

5   The created portfolio is substantially passive for the selected number of years. That is, the original purchase is kept for the selected number of years regardless of market conditions or individual stock performance (i.e., stocks are left untouched by a manager thus allowing nature to take its course). The portfolio is essentially passive but the fund or trust rules (registration, prospectus) may allow reinvestment of dividends or receipt of new shares or sale

10   of some minor amounts of shares from spin-offs or mergers. Minor proceeds may be distributed to shareholders or put into a money market fund. If a certain company goes out of business, it is not replaced by another stock in the portfolio as is done with the index funds. Computer system 10 provides periodic updates about the net asset value of the portfolio.

15   Computer 10 collects current price and number of shares outstanding for all companies in the relevant group (e.g. 2500 largest companies by market value, all companies in a particular economic sector, all companies with a certain credit rating, all companies sorted by capitalization of balance sheet within each industry, or other types of groups as described below). Next, after companies

20   have been sorted by primary criteria, computer 10 assigns the initial allocation weighting to each member/security in the portfolio (e.g. the initial allocation factor for each security is determined) Next, computer 10 apportions each investor's investment across the relevant group (for example, for every $1 million invested, the investor owns 31.6 shares of company "A', 11.4 shares of company "B" or

25   other apportionments described below).

        Computer 10 can also ensure a proper re-allocation of any money that is generated by the portfolio (e.g., dividends or cash and other securities received as a result of mergers/acquisitions, spin-offs) is either distributed to the underlying investors on a pro-rata basis or that the monies are properly re-

30   invested via the purchase of additional shares in the company that paid the dividends). Computer 10 also determines each investor's share of income

(dividends) and short-term and long-term capital gains realized each calendar year. Computer 10 provides access to databases that developed and utilized, according to one aspect of the present system to provide accurate performance information (return and volatility) on a periodic basis (e.g. daily, weekly, monthly

5   or quarterly) for each unique investment trust or fund. Computer 10 calculates results on at least a quarterly basis, which accurately calculate performance net of all fees/expenses to manage the funds/trusts including pre-tax and after-tax results.

The above-described portfolio can have several different forms (and thus

10   the creation process will involve different formalities). A portfolio (as shown for example in Table I) is structured as a closed end investment trust. The shares of this investment trust may be sold by private placement or are traded on a stock exchange. The shares are either redeemable in the form of the cash value of the underlying securities or are redeemable "in kind" in the form of securities, or

15   both. When redeeming the shares in kind, the shareholder receives the actual securities with the original cost basis so that capital gains taxes may be deferred. Portfolios may possibly be structured to offer "in kind" distribution at regular intervals (e.g., once per year or quarter). This would enable a shareholder to sell selected received securities to realize a tax loss or realize tax gain at their

20   election. Alternatively, the portfolio (for example shown in Table II) could be structured as a closed end mutual fund. The shares of this closed end mutual fund are traded on a stock exchange, but the stocks would not be redeemable in kind.

Computer system 10 can set up several different investment portfolios

25   over time, directed to different market segments or different market sectors (e.g., telecommunication, pharmaceuticals, biotechnology, steel, transportation, semiconductors, computer hardware, computer software, oil and gas, chemicals, cosmetics, food and beverage, retail etc.). These investment portfolios can be bundled together.

30   The created long-term investment portfolio provides a platform for capturing the long-term performance of future winners. Preferably, the

24

investment portfolio invests in each stock found in two, three or more market cap

strata. The trusts include long duration substantially passive, non-managed

stock portfolios. In the created trusts, over lengthy periods, the impact of stocks

that generate above average performance is significantly greater than those

5 stocks that contribute modestly or lose value. Furthermore, the long-term

investment portfolio ensures that a significant amount of an investor's money is

more widely allocated among a larger number of companies compared to the

market cap weighted index funds that concentrate investors' capital on the basis

of current capitalization.

10   The above-described trusts are established on a regular basis and each

unique trust has duration of a pre-selected number of years. The trust may

include one type of shares covering all included funds or several types of shares

separately corresponding to different funds (e.g., shares A, B, and C

corresponding to Fund A, B, and C described in connection with Table I. The

15 shares may be sold by private placements, on a public stock exchange, etc.

Financial advisors can put these stocks into "wrap" fee-based accounts.

       Referring to Table I provided in Fig. 3, for example, an advisor or trustee

allocates money among three funds that encompass the 2500 largest stocks by

market capitalization in the U.S. market (and/or international stocks or stock of

20 any country having an exchange). In the present investment system, method or

product, the term fund is used generically as a portfolio of stocks and is not

limited to an investment trust or mutual fund.

       Referring still to Table I, the following are some of the characteristics of

the three trust funds. An advisor or trustee allocates one third of the total

25 invested funds into each of the three Funds "A", "B" and "C". Fund A is made up

of the 150 largest companies by market capitalization in the U.S. market. Fund

B is comprised of the next 550 largest companies (i.e., companies 151 to 700).

Finally, Fund C contains the next 1800 largest companies (i.e. companies 701 to

2500). In this example, the largest 20% of the companies in each Fund (i.e.,

30 Funds A, B and C) get a weighting of 3x compared the smallest 20% while the

middle 60% are each allocated 2x that of the smallest 20% in each fund as

shown in Table I. That is, the allocated total purchase (stock price x number of
shares) for each of the 20% largest companies is 3x the allocated total purchase
(stock price x number of stocks) for each of the 20% smallest companies and the
weight coefficients are 3:1.

5   For example, each Fund A, B and C has an initial capital allocation of
$250,000. Referring to Table 1 in Fund A, each Tier 1 company receives an
allocation of $2,500.00 (i.e., the total purchase of this company's stock is its
stock price x number of shares). Based on this allocation, each company in
Fund A, Tier 1, receives 1.0% of the initial capital of Fund A, and allocation of

10   0.33% of the total of Funds A, B and C. Therefore, the 30 companies in Fund A
have $75,000 allocated into them, which is 10% of the total of Funds A, B and C
and 30.0% of the Fund A's allocation. ·   ·

          In Fund A, each Tier II company receives an allocation of $1,666.67 (i.e.,
the total purchase of each company's stock is $1,666.67). Based on this

15   allocation, each company in Fund A, Tier II receives 0.66% of Fund A's
allocation or 0.22% of the total of Funds A, B and C. Therefore, the 90
companies in Tier II of Fund A have $150,000 allocated into them which is 20%
of the total of Funds A, B and C, and 60.0% of Fund A's allocation.

          In Fund A, each Tier III company receives an allocation of $833.33. That

20   is, each company in Fund A, Tier III receives .33% of Fund A's allocation or
0.11% of the total of Funds A, B and C. Therefore, the 30 companies in Tier III
have $25,000 allocated into them which is 3.33% of the total of Funds A, B and
C, and 10.0% of Fund A's allocation.

          Referring still to Table I, in Fund B, each Tier I company receives an

25   allocation of $681.82. Therefore, the 110 companies in Fund B have $75,000 ·
allocated into them, which is 10% of the total of Fund A, B and C, and 30.0% of
Fund B's allocation. In Fund B, each Tier II company receives an allocation of
$454.55. Therefore, the 330 companies in Tier II of Fund B have $150,000
allocated into them which is 20% of the total of Fund A, B and C, and 60.0% of

30   Fund B's allocation. In Fund B, each Tier III company receives an allocation of
$227.27. Therefore, the 110 companies in this group of Fund B have $25,000

allocated into them which is 3.33% of the total of Fund A, B and C, or 10.0% of Fund B's allocation.

Referring still to Table I, in Fund C, each Tier I company receives an allocation of $208.33. Therefore, the 360 companies in this group of Fund C

5 have $75,000 allocated into them which is 10% of the total of Fund A, B and C, and 30.0% of Fund C's allocation. In Fund C, each Tier II company receives an allocation of $138.89. Therefore, the 1080 companies in this group of Fund C have $150,000 allocated into them which is 20% of the total of Fund A, B and C, and 60.0% of Fund C's allocation. In Fund C, each Tier III company receives an

10 allocation of $69.44. Therefore, the 360 companies in this group of Fund C have $25,000 allocated into them which is 3.33% of the total of Fund A, B and C, and 10.0% of Fund C's allocation.

In summary, companies 1-30 in Fund A, Tier I have $75,000 invested in them, which is 3.0 times more than $25,000 invested in companies 2141 to 2500

15 located in Fund C, Tier III. Therefore, regarding the weighting with respect to the company size, the largest ratio is $36 invested in each company in Fund A, Tier I for each $1 invested in each company Fund C, Tier III. That is, the ratio of the largest weight coefficient and the smallest weight coefficient is 36. This is dramatically different than the weighting in the Russell 3000 ® or Wilshire 5000®

20 index.

The above described Funds A, B and C include another important advantage. An investor can invest separately into Funds A, B or C. For instance if an investor already had significant holdings in large capitalization stocks via ownership of a S&P 500 index fund (or a Wilshire 5000® index fund), she may

25 just choose to invest just in Fund C. This enables an investor to diversify her holdings vis-à-vis a one time contribution into all three Funds A, B or C or via making contributions into a series of these "closed end trusts" over time.

An investment trust that includes Funds A, B and C illustrates the proposed buy and hold approach. An investor can buy separately Funds A, B, or

30 C. Funds A, B and C enable systematic investment across the broad market and then enable time and the laws of compounding work for long-term investors.

That is, the trust includes unmanaged stock portfolios that are not significantly altered over several years.

Referring to Fig. 4, Table II shows an example of a total market investment trust. This total market investment trust includes four funds that
5   include 8000 largest stocks by market capitalization in the U.S. market. (Eight thousand stocks is likely the upper limit from a practical standpoint.) Specifically, the investment trust includes four Funds "A", "B", "C" and "D" having a comparable amount of money invested in stocks. Fund A includes the 120 largest companies in the U.S. market. Fund B includes the next 480 largest
10 companies (i. e., companies 121 to 600). Fund C includes the next 1400 companies (i. e., companies 601 to 2000), and Fund D includes the next 6000 companies (i. e., companies 2001 to 8000). In this example, the largest 25% of the companies in each fund get a weighting of 4x compared the smallest 25% (i.e., the weight coefficients are 4:1), while the next 25% companies are each
15 allocated 3x (i.e., the weight coefficients are 3:1), and the next 25% companies 2x the amount of the smallest 25% in each fund as shown in Table II.

Referring still to Table II, Fund A has companies divided into four tiers each tier having 30 companies. In Fund A Tier I, each of the 30 largest companies receives an allocation of $4000.00, in Tier II each of the 30
20 companies receives an allocation of $3,000.00, in Tier III each of the 30 companies receives an allocation of $2,000.00, and in Tier IV each of the 30 companies receives an allocation of $1,000.00.

Fund B has companies divided into four tiers each tier including 120 companies. In Fund B, Tier I, each company receives an allocation of $900, in
25 Tier II each company receives an allocation of $675, in Tier III each company receives an allocation of $450, and in Tier IV each company receives an allocation of $225. Similarly, Fund C has 1400 companies divided into four tiers each tier including 350 companies. In Fund C, Tier I, each company receives an allocation of $300, in Tier II each company receives an allocation of $225, in Tier
30 III each company receives an allocation of $150, and in Tier IV each company receives an allocation of $75. Finally, Fund D has 6000 companies equally

divided into four tiers. In Fund D, Tier I, each company receives an allocation of $64.00, in Tier II each company receives an allocation of $48.00, in Tier III each company receives an allocation of $32.00, and in Tier IV each company receives an allocation of $16.

5   The investment trust shown in Table II divides 27.9% to the 120 largest companies, 25.1% to the next 480 largest companies, 24.4% to the next 1400 companies, and 22.65% to the next 6000 companies.   Furthermore, the ratio of the largest weighting and the smallest weighting is 250. Therefore, the small cap and micro cap companies included in Fund C and Fund D have a significant

10   representation. This representation is much larger than for most index funds. For example, in Russell 3000® Index, the bottom 2000 stocks represent only 8% of the total funds invested. The investment trust shown in Table II is maintained without any rebalancing for several years, usually more than five years. Thus, the best performing medium cap, small cap and micro cap companies can grow

15   without being effectively sold as they grow. Furthermore, this investment trust has a relatively large representation of small cap and micro cap companies.

        As with the prior example, the investment trusts including funds A, B, C and D enables systematic investment across several segments of the market. After purchasing the above-described stock portfolio, the trust is basically

20   passive (no significant stock purchases, sales or exchanges of individual companies) in order to enable time and the laws of compounding to work for long-term investors.

        According to another example, an investment trust has five funds, i.e., Funds A, B, C, D, and E. Fund A has top 50 companies according to market

25   capitalization. Fund B has next 150 companies, Fund C has next 400 companies, Fund D has next 1,000 companies, and Fund E has the bottom 2000 companies from the selected 3,600 companies. In each of the funds, the dollar allocation for all companies is the same (i.e., the companies receive the same weight coefficient). In Fund A, each of the 50 largest companies receives a

30   dollar allocation of 25 x allocation of a company from Fund E; in Fund B, each of the 150 companies receives an allocation of 15x; in Fund C each of the 400

companies receives an allocation 8x; and in Fund D, each of the 1000

companies receives an allocation of 3x the allocation of a company from Fund E.

That is, the respective weight coefficients for funds A, B, C, D, and E are 25, 15,

8, 3 and 1. If the total of 1,170,000 is invested into this investment trust, for

5   example, each company in Fund A will be allocated $2500; each company in

Fund B will be allocated $1500; each company in Fund C will be allocated $800;

each company in Fund D will be allocated $300; and each company in Fund E

will be allocated $100.

Referring to Fig. 5, Table III provides another example of an investment

10   trust. This investment is based on 11 economic sectors and may include the

largest 1000 or 2000 or 3000 by market capitalization. For example, the largest

1000 companies are placed into 11 different economic sectors (i.e., Sector 1

through 11 shown in Table III). This investment trust includes three separate

funds, wherein Fund A includes the top decile companies for each sector, Fund

15   B includes the next 3 deciles of the selected 1000 companies for each sector,

and Fund C includes the remaining 60% of companies for each sector.

The present investment trust does not have in each Sector (or Tier) the

same number of companies, nor does each stock get the same dollar allocation.

Furthermore, each sector gets a different total allocation. This allocation

20   provides, for each economic sector, a different relative weight for each of the

Funds A, B and C. In general, a sector based investment trust does not need to

have as many as 11 sectors, or can have more than 11 sectors. Furthermore, a

sector based investment trust can include broad sectors instead of including all

sectors.

25   As described above, the investment trust includes funds A, B and C that

enable systematic investment across several sectors of the market. After

purchasing the above-described stock portfolio, regardless of the market

conditions, the trust is basically passive (no significant stock purchases, sales or

exchanges of individual companies) to enable time and the laws of compounding

30   to work for long-term investors.

Referring to Fig. 6, Table IV illustrates another example of an investment

trust that can focus on one particular sector such telecommunication, pharmaceuticals, biotechnology, steel, transportation, semiconductors, computer hardware, computer software, oil and gas, chemicals, cosmetics, food and beverage, retail, etc. For example, the investment trust shown in Table IV

5   includes only pharmaceutical and biotechnology stocks. This trust includes only one Fund divided into three tiers.

In the investment trust of Table IV, Tier 1 includes 30 stocks with the largest market capitalization starting with Pfizer Inc. and GlaxoSmithKline having market capitalization of about $250 billion and $170 billion, respectively. Tier 2

10   includes next 60 companies ranked by market capitalization, and Tier 3 includes the next 120 companies. Each tier uses a different weighting. In Tier 1, the stocks are weighted according to their bond rating (provided, for example, by Standard & Poor's), wherein the largest weighting is, for example, 4x the smallest weighting of stocks. The total purchase price for all stocks in Tier 1 is

15   $300,000. In Tier 2, the stocks are weighted equally each having the purchase price of $2,500. In Tier 3, the stocks are weighted based on the strength of their balance sheet ranking, i.e., the ratio of debt and total capitalization. In Tier 3, the largest weighted stock for the strongest company is 2x the smallest weighted stock. The total purchase price for all stocks in Tier 3 is $100,000.

20   This investment trust enables systematic investment across several segments of the pharmaceutical and biotechnology sector. After purchasing the above-described stock portfolio, regardless of the market conditions, the trust is substantially passive to enable time and the laws of compounding to work for long-term investors.

25   Referring to Fig. 7, Table V illustrates another example of an investment trust, wherein most of the US market (or another foreign market) is segmented into three (or more) funds based the companies' capitalization (i.e., the ratio of debt to total capitalization), and each fund is divided into three (or more) tiers based on market capitalization. The companies are first ranked and then divided

30   into Funds A, B, and C as follows: Fund A includes the top 20% capitalized companies, that is, companies with the strongest balance sheets measured by

the ratio of debt to total capitalization (i.e., the lowest ratio of debt to total capitalization). Fund B includes the next best 30% capitalized companies, and Fund C includes the bottom 50% capitalized companies from the selected group of US companies. In Fund A, Tier 1 includes the largest 15% of the market by

5   market capitalization, Tier II includes the next 25% companies, and Tier III includes the remaining 60% of companies by market capitalization. Funds B and C include a similar differentiation of the Tiers I, II and III, which is shown in Table V.

The investment trust shown in Table V enables systematic investment

10 across several segments based on the balance sheet strength of the individual companies. Thus a "popular" company with a very large market cap but a large relative debt will be less represented than another company with a smaller market cap but a smaller debt to total capital ratio. After purchasing the above-described stock portfolio, regardless of the market conditions, the trust is

15 substantially passive to enable time and the laws of compounding to work for long-term investors.

The following illustrates another example of a long-term investment trust. This investment trust is divided into funds A, B, and C, and includes a selected number of industries or sectors (e.g., 11 economic sectors that comprise the

20 S&P sectors). The individual funds and sectors are arranged in a similar way as shown in Table III. Fund A includes the largest 10% of companies within each sector, wherein the ranking is based on one or several of the following: the annual sales, annual earnings, market capitalization, or book value. Fund B includes the next 30% of companies within each sector, and similarly Fund C

25 includes the remaining 60% of companies within each sector determined the same way as for Fund A. The individual stocks within each fund and sector may be weighted equally or as done in Table I, II or III.

In this investment trust, for example, if a sector constitutes 30% of the market capitalization of the entire stock market then, 1/3 of the invested money is

30 allocated into this sector is invested into Fund A, 1/3 is invested into Fund B, and the final 1/3 is invested into Trust C.

32

The following illustrates another example of a long-term investment trust based on price-to-earnings ratio. This long-term investment trust includes four funds. The trust is constructed to invest strategically in the entire market without having a "growth" or "value" bias, or invest in predominantly growth or value

5   stocks. Specifically, the investment trust includes Funds A, B, C, and D. Fund A contains the most expensive 25% companies ranked by the ratio of price-to-earnings for each industry group or economic sector. Fund B includes the next 25% companies ranked by the ratio of price-to-earnings for each industry group or economic sector. Fund C includes the next 25% companies ranked the same

10 way for each industry group or economic sector. Finally, Fund D includes the least expensive (lowest) 25% companies ranked by the ratio of price-to-earning for each industry group or economic sector.

Alternatively, this investment trust includes Funds A, B, C, and D ranked by the ratio of price-to-sales. Specifically, Fund A includes the most expensive

15 25% companies ranked by the ratio of price-to-sales for each industry group or economic sector. Fund B includes the next most expensive 25% companies ranked by the ratio of price-to-sales for each industry group or economic sector. Fund C includes the next 25% companies ranked the same way for each industry group or economic. Finally, Fund D includes the least expensive

20 (lowest) 25% companies ranked by the ratio of price-to-sales for each industry group or economic sector. Alternatively, the companies in any fund or several funds may be selected or may be ranked by the price-to-book ratio.

This investment trust enables systematic investment across several segments based on the ratio of price–to-earnings or price-to-sales (or price-to-

25 book) for the individual companies. After purchasing the stock portfolio of Funds A, B, C or D, regardless of the market conditions, the trust is substantially passive to enable time and the laws of compounding to work for long-term investors. The trust can offer a single type of shares, or can offer four types of shares corresponding to Funds A, B, C or D. The single type shares offer a

30 systematic investment across the broad market based on a value measure. Alternatively, an investor can buy only shares of Fund A (or only shares of Funds

A and B) to acquire in order to allocate her/his money just into a "growth"
portfolio, or can buy only shares of Fund D (or only shares of Funds C and D) to
acquire an in order to allocate her/his money just into a "value" portfolio.

     According to another example, an investment trust has five funds, i.e.,

5   Funds A, B, C, D, and E. Fund A has top 50 companies according to market
capitalization. Fund B has next 150 companies, Fund C has next 400
companies, Fund D has next 1,000 companies, and Fund E has the bottom
2,000 companies from the selected 3,600 companies. In each of the funds, the
dollar allocation for all companies is the same. In Fund A, each of the 50 largest

10 companies receives a dollar allocation of 25 x allocation of a company from Fund
E; in Fund B, each of the 150 companies receives an allocation of 15x; in Fund
C each of the 400 companies receives an allocation 8x; and in Fund D, each of
the 1000 companies receives an allocation of 3x the allocation of a company
from Fund E. If the total of $1,170,000 is invested into this investment trust, for

15 example, each company in Fund A will be allocated $2500; each company in
Fund B will be allocated $1500; each company in Fund C will be allocated $800;
each company in Fund D will be allocated $300; and each company in Fund E
will be allocated $100.

     According to another example, in any of the above-described funds, the

20 allocation of the individual securities is based on weight coefficients assigned
using geometric series or arithmetic series (or other series such as Fourier
series, Taylor series, or other math algorithms). For example, one possible array
of weight coefficients could entail a doubling in weight coefficient from one group
to the next (e.g. 1x, 2x, 4x, 8x, 16x and 32x). The inverse of this geometric

25 series could be utilized to determine the number of securities in each of the
prospective groups. Specifically the number of securities in the group with the
32:1 weight coefficient would be just 1/32 of the number of securities found in the
group with the 1:1 weight coefficient.

     Alternatively, according to another example, the weight coefficients are

30 assigned based on an algorithm that entails assigning a larger weight coefficient
to groups with smaller number of stocks, but the weight coefficient and group

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size coefficients would not be specified as a function of an arithmetic series, geometric series, or other series. For instance, if 4 separate trusts were formed (e.g. companies 1 through 100, 101 to 300, 301 to 700 and 701 to 1800) and the top 25 percent in each group could receive weight coefficients of 7:1, and the

5   smallest 25% in the group and the middle 50% could receive weight coefficients 3:1.

The entire process of creating and managing the above described funds or trusts can be computerized requiring only a minimal input by a user. The computer system includes a dynamic management system arranged to create

10 and manage the investment portfolios. The computer system connects, for example, to a trade execution computer. The computer system generates a list of trades to be made through execution of appropriate conventional software. The trades are transmitted via the communications network for execution. The computer system provides data processing for monitoring and recording the

15 information flow and data and making all calculations necessary for maintaining set of different portfolios. Data processing system provides for a daily calculation of assets for the individual funds or trusts. The data processing system also tracks all the relevant data determined on a periodic basis (month, week, day, or an hour) for the portfolio, determines aggregate year-end income (including

20 capital gains or losses) for accounting and for tax purposes for the portfolio and for each fund.

The individual portfolios may be part of a pension or retirement account such as IRA, Keogh, S.E.P., or corporate pension plan. The investments may also include the purchase of tax-favored investments such as life insurance or

25 annuities which earnings on premium payments or insider buildup and not taxed until they are withdrawn. Furthermore, due to the possible diversification and/or other above-described features, the present method, system and investment product are well suited for investing social security funds by the government, or individuals once enabled by a statute.

30   The above-described funds or trusts use a novel, buy and hold approach that takes advantage of compounding over many years or even decades. The

above-described investment approach is passive since it is based on fixed portfolio. Furthermore, the above-described investment approach is also dynamic since new funds and trusts can be created using the same methodology at regular intervals so that investors get a practical way of systematically

5   investing over time using a consistent strategy. In short, new funds can be created over regular periodic intervals and they can include companies that meet specified market capitalization, geographic and/or valuation criteria.

Based on different creation times, the funds and trusts include new potential "winners". In general, "winners" overwhelm "losers" over long periods of

10   time (e.g. 2, 3, 4 or more years) and drive performance. While it is impossible to know the future investment returns for individual stocks and thus select only small companies that perform at an above average rate the above approach enables systematic inclusion of all future "winners" at much larger representations than other investment vehicles. Note that no stock is limited to

15   grow over time relative to other stocks in the portfolio (i.e., there is no relative weighting limit for a high-performing stock relative to other stocks).

The above approach enables these high-performing "winners" to run without effectively selling them when they become too large to qualify in index funds as "micro cap" or "small cap" stocks. The above approach also enables

20   low cost investing and takes advantage of the magic of compounding, wherein the geometric average is always greater than the arithmetic and is driven by the above average growth component(s).

Numerous other embodiments not described in detail here can apply the principles described to particular applications and are within the scope of the

25   claims.

What is claimed is:

Claims

1.   A computer system for creating an investment portfolio, comprising an interface for connecting to a database including a number of publicly
5   traded financial instruments;

a processor for determining individual weight coefficients allocated by giving a largest weight coefficient to an instrument having a largest market capitalization and giving a smallest weight coefficients to an instrument having a smallest market capitalization in said number of said financial instruments,
10   wherein the ratio of said largest weight coefficient and said smallest weight coefficient is limited by a selected maximum; and

said computer system being arranged to perform a purchase of selected financial instruments according to said individual weight coefficients.

15   2.   The computer system of claim 1 wherein said computer system is arranged to calculate a net asset value of said financial instruments.

3.   The computer system of claim 1 or 2 wherein allocation includes dividing said instruments into three groups based on their market capitalization
20   and allocating the same weight coefficient for all said instruments in each said group.

4.   The computer system of claim 3 wherein the first, second and third group includes 20 percent, 60 percent, and 20 percent, respectively, of said
25   number of said instruments.

5.   The computer system of claim 4 said weight coefficients of said instruments in said first group and said third group provide 3 to 1 purchase price allocation.

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6.   The computer system of claim 4 said weight coefficients of said

instruments in said second group and said third group provide 2 to 1 purchase price allocation.

7.   A computer program product stored on a computer readable
5   medium comprising a representation of a number of at least fifty publicly traded stocks purchased according to corresponding individual weight coefficients allocated by arranging said selected stocks based on their market capitalization, wherein one third of said selected stocks with a smallest market capitalization is allocated corresponding weight coefficients that assure at least fifteen percent of
10   the entire value of all said stocks for said one third of said stocks.

8.   A method of creating an investment portfolio, comprising:
selecting a number of individual financial instruments publicly traded on an exchange;
15   allocating individual weight coefficients corresponding said selected financial instruments by giving a larger allocation to an instrument having a larger capitalization and giving a smaller allocation for an instrument having a smaller capitalization in said number of said financial instruments, wherein the ratio of a largest weight coefficient and a smallest weight is limited by a selected
20   maximum;
purchasing said selected financial instruments based on said weight coefficients representing relative values between said individual financial instruments; and
maintaining substantially said purchased financial instruments for a
25   selected time period regardless of market conditions.

9.   A method of creating an investment portfolio, comprising:
selecting a number of stocks publicly traded on a stock exchange, said number of stocks being larger than about 50;
30   allocating individual weight coefficients corresponding said selected stocks;

purchasing said selected stocks based on said weight coefficients representing relative values between said individual stocks; and

maintaining substantially said purchased stocks for a selected time period regardless of a market capitalization of any of said stocks.

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10.   The method of claim 8 wherein said selected maximum is 100.

11.   The method of claim 8 or 9 wherein said maintaining substantially includes allowing reinvestment of dividends.

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12.   The method of claim 8 or 9 wherein said maintaining substantially includes receiving new shares from spin-offs, mergers or acquisitions without subsequent selling for said selected time period.

15   13.   The method of claim 8 or 9 wherein said maintaining substantially includes putting cash proceeds into a money market fund.

14.   The method of claim 8 or 9 wherein said maintaining substantially includes distributing proceeds to investors.

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15.   The method of claim 8 or 9 wherein said selecting includes identifying stocks of 1000 largest publicly traded companies.

16.   The method of claim 8 or 9 wherein said selecting includes
25 identifying stocks of 3000 largest publicly traded companies and choosing a market segment.

17.   The method of claim 8 or 9 wherein said selecting includes identifying stocks of 5000 largest publicly traded companies and choosing a
30 market segment.

18.   The method of claim 8 or 9 wherein said selecting includes identifying stocks from a particular sector.

19.   The method of claim 18 wherein said sector is one of the following: technology, biotechnology, health case, information technology, telecommunications, semiconductor, energy, utilities, transportation, or other sectors.

20.   The method of claim 8 or 9 wherein allocating includes dividing said selected stocks into three groups based on their market capitalization and allocating the same weight coefficient for all said stocks in each said group.

21.   The method of claim 20 wherein the first, second and third group includes 20 percent, 60 percent, and 20 percent, respectively, of said number of stocks.

22.   The method of claim 21 said weight coefficients of said stocks in said first group and said third group provide 3 to 1 purchase price allocation.

23.   The method of claim 22 said weight coefficients of said stocks in said second group and said third group provide 2 to 1 purchase price allocation.

24.   The method of claim 8 wherein said financial instrument includes one of the following: common stocks, derivatives, stock options, commodity futures, or bonds

25.   The method of claim 8 or 9 further including creating a mutual fund.

26.   The method of claim 8 or 9 further includes creating a closed-end fund.

27. The method of claim 8 or 9 further includes creating a unit investment trust.

28. An asset portfolio, comprising a number of publicly traded financial instruments purchased according to corresponding individual weight coefficients allocated by giving a largest weight coefficient to an instrument having a largest market capitalization and giving a smallest weight coefficients to an instrument having a smallest market capitalization in said number of said financial instruments, wherein the ratio of said largest weight coefficient and said smallest weight coefficient is limited by a selected maximum; said initially purchased financial instruments are substantially maintained for a selected number of years regardless of market conditions.

29. An asset portfolio, comprising a number of at least fifty publicly traded stocks purchased according to corresponding individual weight coefficients representing relative values between said stocks, wherein said initially purchased stocks are substantially maintained for an initially selected number of years regardless of a market capitalization of any of said stocks.

30. The asset portfolio of claim 28 wherein said selected maximum is 100.

31. The asset portfolio of claim 28 wherein said instruments are purchased over time based on said initially allocated weights.

32. The asset portfolio of claim 29 wherein said stocks are purchased over time based on said initially allocated weights.

33. A computer program product stored on a computer readable medium comprising an algorithm arranged to perform the method of claim 8 or 9.
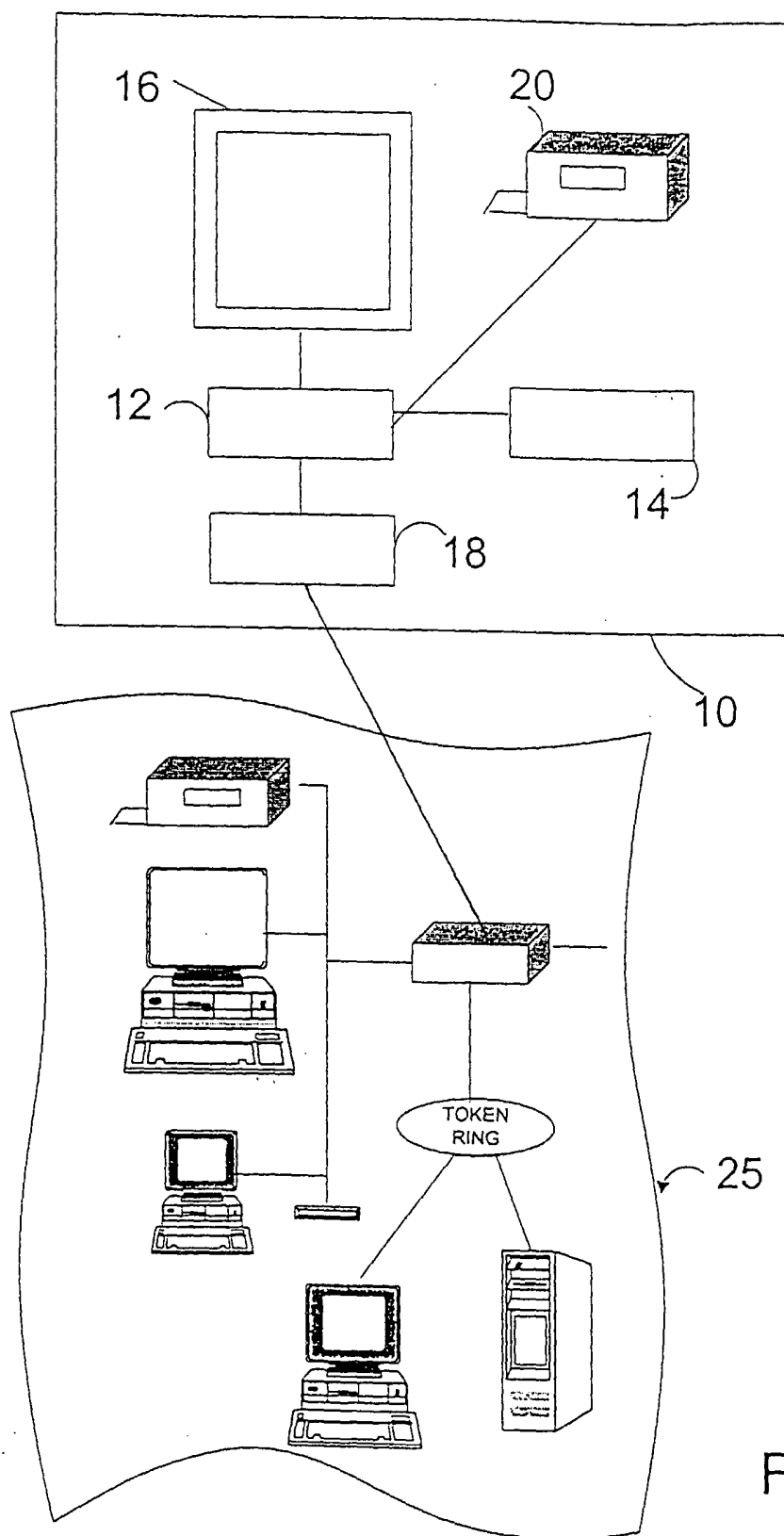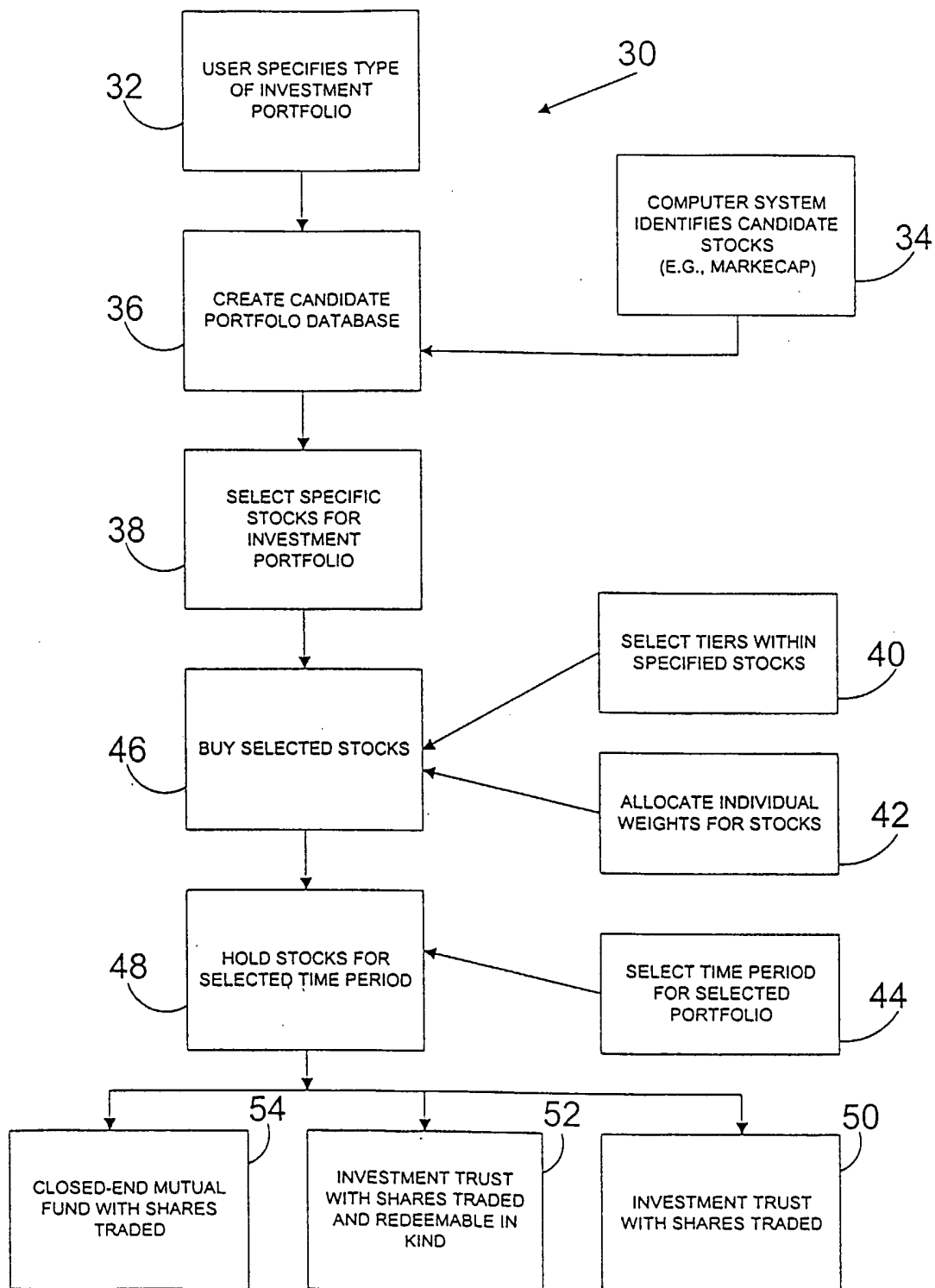
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FIG. 1

FIG. 2

TABLE 1

		Tier 1	Tier II	Tier III
Fund A	companies	1-30	31-120	121-150
	$ per company	$2,500.00	$1,666.67	$833.33
	Sub total	$75,000.00	$150,000.00	$25,000.00
Fund B	companies	151-260	261-590	591-700
	$ per company	$681.82	$454.55	$227.27
	Sub total	$75,000.00	$150,000.00	$25,000.00
Fund C	companies	701-1060	1061-2140	2141-2500
	$ per company	$208.33	$138.89	$69.44
	Sub total	$75,000.00	$150,000.00	$25,000.00

FIG. 3

TABLE II

		Tier I 1-30	Tier II 31-60	Tier III 61-90	Tier IV 91-120	Total
Fund A	Companies	1-30	31-60	61-90	91-120	
	$ per company	4,000.00	3,000.00	2,000.00	1,000.00	
	Sub total	120,000.00	90,000.00	60,000.00	30,000.00	$300,000.00
Fund B	Companies	121-240	241-360	361-480	481-600	
	$ per company	900.00	675.00	450.00	225.00	
	Sub total	108,000.00	81,000.00	54,000.00	27,000.00	$270,000.00
Fund C	Companies	601-950	951-1300	1301-1650	1651-2000	
	$ per company	300.00	225.00	150.00	75.00	
	Sub total	105,000.00	78,750.00	52,500.00	26,250.00	$262,500.00
Fund D	Companies	2001-3500	3501-5000	5001-6500	6501-8000	
	$ per company	65.0000	48.0075	32.0050	16.0025	
	Sub total	97,500.00	73,125.00	48,750.00	24,375.00	$243,750.00

FIG. 4

TABLE III

		Economic Sector 1	Economic Sector 2	Economic Sector 3	Economic Sector 4	Economic Sector 5	...	Economic Sect. 11
Fund A	Companies	4	2	7	3	6	...	5
	$ per company	$11,000	$3,500	$2,500	$14,000	$6,000	...	$5,000
	Sub total	$44,000	$7,000	$17,500	$42,000	$36,000	...	$25,000
Fund B	Companies	15	11	36	28	45	...	30
	$ per company	$900	$1,000	$750	$1,100	$750	...	$750
	Sub total	$13,500	$11,000	$27,000	$30,800	$33,750	...	$22,500
Fund C	Companies	65	47	112	98	167	...	150
	$ per company	$150	$160	$115	$212	$87	...	$65
	Sub total	$9750	$7520	$12880	$20676	$14529	...	$9750

FIG. 5

TABLE IV

Fund P&B		Tier I	Tier II	Tier III
	companies	1-30	31-90	91-210
	$ per company	according to bond rating	$2,500.00	according to balance sheet strength
	Total	$300,000.00	$150,000.00	$100,000.00

FIG. 6

TABLE V

	Tier I	Tier II	Tier III
Fund A Best 20% capitalized Companies	Largest 15% by market cap	Next largest 25% by market cap	Remaining 60% by market cap
Fund B Next 30% capitalized Companies	Largest 15% by market cap	Next largest 25% by market cap	Remaining 60% by market cap
Fund C Bottom 50% companies by capitalization	Largest 15% by market cap	Next largest 25% by market cap	Remaining 60% by market cap

FIG. 7