

U.S. One's Investing Philosophy: One ETF Is All You Need

SeekingAlpha.com Interview With Chief Investment Officer Paul Hrabal - May 28, 2010

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Paul sat down with Seeking Alpha's Jonathan Liss to explain his goals in recently launching the One Fund ETF, who ONEF is meant for and what U.S. One's plans are for the future.

Jonathan Liss [JL]: Congrats on the fund launch Paul. Can you explain to our readers how the One Fund ETF (ONEF) works?

Paul Hrabal [PH]: One Fund takes a mildly active approach to passive index investing on a global scale. The goal is to provide all of an investor's equity needs via a single fund-of-funds ETF that holds approximately 5,000 global equities. We believe that for long-term investors (people with a 15 year time horizon or more), the way to achieve outperformance is via buy-and-hold index-based asset allocation that keeps costs low. We charge 35 basis points for our management and acquired fund costs of the underlying ETFs adds another 16 bps for a total expense ratio of 0.51% - less than half what the average actively managed open-ended mutual fund charges.

JL: How actively is One Fund managed?

PH: We plan to make changes only once per year. This can include rebalancing the weightings of the underlying funds, altering the target allocations within a 5% band or swapping out a fund for a similar one that we feel better achieves its stated objectives or simply because there's a new option out there that is cheaper and is essentially the same (for example, VWO vs. EEM). The main purpose of only making these changes once a year is to limit trading costs.

JL: Why is it so heavily skewed towards U.S. markets (70% allocation)? Why the heavy focus on small-caps (25%)? Why such minimal exposure to Emerging Markets (5%)?

PH: I am bullish on the U.S. long-term and think it will perform better than most global markets. That being said, owning large U.S. companies also gives significant international exposure through their overseas operations, so the U.S. allocation is a bit less than 70%. Also, the fund is for U.S. investors. Since most U.S. investors earn their wages in dollars, and will retire needing their income in dollars, it makes sense to be tied to companies that also earn their money in dollars.

The heavy focus on small-caps comes from my belief, supported by the data, that small-caps outperform large- and mid-caps over the long haul.

In terms of Emerging Markets, that 5% direct exposure is misleading. Many of the multi-national corporations found in the developed market funds in ONEF do a good amount of their business with Emerging Market economies. If Emerging Markets continue to do well, these companies will benefit nicely from it. And this gives you some Emerging Market exposure without all the volatility that can come with the EMs. I'm talking from experience here. I lived in various EM countries for seven years so I saw this first-hand - these aren't the most stable of economies and their markets can suffer huge swings as a result.

JL: If it's global equity exposure an investor is after, why would he or she not opt for a fund like Vanguard's Total World Stock ETF (VT), which holds a multi-cap basket of U.S. and international stocks for just 30 basis points as opposed to the 51 bps ONEF charges?

PH: An investor certainly could do that. But they'd be missing out on the management we provide, the specific allocations that tilt the balance towards U.S. and small-cap equities. If you're bullish long-term on those two areas, then ONEF makes a lot more sense than VT, even for the extra 21 basis points.

JL: Who is the target market for ONEF?

PH: Our firm wants to give small investors (under \$100K in investable assets) access to the same professional portfolio management that high net worth investors receive from their dedicated advisors, but at a fraction of the cost, packaged in a way that is easy to understand and buy and which follows the time tested approach of passive index investing.

ONEF would be suitable for someone looking for an all-in-one buy-and-hold stock fund that handles the asset allocation and securities selection for them. This single fund gives exposure to nearly the entire investable global equity market. It's geared towards the 30-50 crowd - people that are still far from retirement - and most in need of long-term growth through stocks. Obviously anyone who buys this fund is still on their own for fixed income exposure. U.S. One hopes to also launch similar 'one-and-done' bond and balanced ETFs to provide a full range of investment solutions to small investors.

JL: Let's move over to the macro side of things. Do you think global markets are in the process of entering a long-term correction right now? Do you ever plan on using inverse or leveraged ETFs to mitigate the effects of a long-term sell-off?

PH: I'm glad you asked that, because this is a significant investing philosophy of mine. In my view, it is impossible to predict exactly where markets are headed. ONEF is an anti-stock picking fund. It's also a buy-and-hold fund. There is no tactical decision making in the case of a downturn or any attempt at market timing. It's impossible to time markets and doing so is almost always a losing game. That's why the vast majority of stock-picking funds underperform the market over time.

Because historical returns for stocks are better than for other asset classes over the long haul, I actually believe an investor's best bet is to hold equities for the long-term and not try and outsmart the market. Anything you need for the next 15 years should be in bonds anyway due to the length of time it can take for buy-and-hold to outperform. This is admittedly on the conservative side but it's important to only play (equities) with capital you can afford to see shrink over the short- and mid-term. Anything longer than 15 years should be in stocks.

JL: How are you benchmarking ONEF's performance exactly?

PH: ONEF is meant to track somewhere between the S&P 500 and MSCI World Index.

JL: The current state of the ETF market is one of extreme competitiveness. How do you plan to gather significant assets in this market?

PH: I agree that it's very competitive out there right now. However, if you look at the entire fund universe, which includes Mutual Funds and ETFs, ETFs only control about 10% of all assets. So there's still plenty of room for growth as ETFs take a bigger slice of the pie from mutual funds.

Also, U.S. One has advantages as a small, nimble start-up in terms of providing a personal touch that larger issuers can't be bothered with. And we take a long-term view of things. I certainly expect it to be a dog-fight every day gaining assets in this industry - at least in the beginning.

In terms of experience, I have started, successfully grown and sold two previous companies, so I know what it takes to see a business successfully through to fruition. We have investors who believe in our mission in the meantime. We aren't looking to become profitable anytime soon. It's more important to grow the business, reinvesting in sales, marketing, product development. This is first and foremost a labor of love for me. The money isn't primary. I want to simplify investing for the average mom and pop investor, get them away from stock-picking funds which almost always lose out to indexed funds long-term and strip out the exorbitant fees they have to pay in the average mutual fund they're in - fees that really add up over a lifetime. That's my primary motivation in doing this.

JL: Regarding your experience managing investments, I have a quote from Seeking Alpha contributor Ron Rowland from shortly after you launched ONEF earlier this month:

"One Fund's fact sheet states that its investment approach is based on its three beliefs that 1) stocks outperform, 2) market timing does not work, and 3) stock selection does not work. This sounds like something a passive indexed product would say, but ONEF will be actively managed and not track an index.

The Advisor has no prior experience managing, or administering, an investment company. One Fund also has no prior

experience with assets under management and no track record. The portfolio manager currently does not manage any other accounts. When buying an actively managed fund, most investors base part of their decision on the manager's experience. In the case of ONEF, there does not appear to be any."

This is a serious question about what investors can expect from ONEF's management team. How would you respond?

PH: Ron is right. This is my first foray into the portfolio management industry. That being said, my methods are time-tested and supported by long-term data analysis in terms of being a buy-and-hold follower of passive indexing, with minimal portfolio activity. People can go see for themselves how the underlying components have performed. I'm not trying to be the best stock picker out there. My aim here is simply to track the global equity market as cheaply as possible. Having a single fund which limits the commissions you'd pay to own each of the underlying components separately and then to have to rebalance annually, we are offering a very compelling value proposition to small scale investors.

JL: What are U.S. One's plans for the future? Do you plan to launch other ETFs? As much as you can get into it, what does your product pipeline look like at the moment? Any plans to launch a product with both stocks and bonds?

PH: We haven't filed for any other funds. But ultimately, we'd like to put out a bond ETF that provides for all an investor's fixed-income needs in the way ONEF does with equities, taking a global view. Then, we'd also like to offer a balanced ETF that combines a broad view of equity and bond markets in a single fund.

JL: Thanks for taking the time to speak with me today Paul, and good luck with all your future endeavors in the ETF industry.

Paul Hrabal is President of U.S. One and the Chief Investment Officer of One Fund (ONEF). Paul is a 20-year veteran of financial management and business development in emerging markets, online marketing and quantitative data analysis. As Director of Finance and Business Development for Dell Computer, Paul managed financial operations in emerging markets, including in the former Soviet Union, Poland and China. Paul holds a Bachelor's Degree in Economics from Occidental College and a Master's in Business Administration from the University of Chicago. He holds FINRA Series 7, 63 and 65 licenses.

■ *About U.S. One, Inc.*

U.S. One, Inc. is an SEC registered investment advisor. The firm is the investment advisor to the One Fund® (NYSE Arca: ONEF), a globally diversified stock Exchange-Traded Fund (ETF) launched in May 2010.

The firm strives to improve the results of individual investors through information and products that hold true to the time honored conservative principles of buy-and-hold, low cost index investing.

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Join our email list for further information and updates at: www.OneFund.com/email.

■ *Important Disclosure*

Before investing you should carefully consider the Fund's investment objectives, risks, charges and expenses. This and other information is in the prospectus, which may be obtained by visiting www.onefund.com. Please read the prospectus carefully before you invest. Foreside Fund Services, LLC, Distributor.

An investment in the Fund is subject to risk, including the possible loss of principal amount invested. Other Fund risks include asset allocation risk, foreign securities and currency risk, emerging markets risk, small-cap, mid-cap and large-cap risk, trading risk, and turnover risk that can increase Fund expenses and may decrease Fund performance. The Fund is, also, subject to the risks, which can result in higher volatility, associated with the underlying ETFs that comprise this "fund of funds". Newly organized, actively managed Funds have no trading history and there can be no assurance that active trading markets will be developed or maintained. Brokerage costs will reduce returns. When the Fund invests in Underlying ETFs, in addition to directly bearing the expenses associated with its own operations, it will bear a pro rata portion of the Underlying ETFs' expenses (including operating costs and management fees). Consequently, an investment in the Fund entails more direct and indirect expenses than a direct investment in the Underlying ETF.

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