

# THE UPGRADER

Insights from the FUNDX UPGRADER FUNDS

## Dear Investor,

Welcome to our second edition of *The Upgrader*, where we share insights into your funds. In this issue you'll learn:

- ★ How FUNDX UPGRADER FUNDS outperformed their benchmarks lately.
- ★ Why focusing on fund expenses can leave you with lower returns.
- ★ How to be alert to year-end distributions and avoid redemption fees.

## Navigating "Directionless" Markets

The challenge of navigating the prevailing investment climate remains our focus, despite what many call a "directionless" market. For stocks, 2004 has been a see-saw, with four upswings and four reversals. Ten months into the year, the broad market is back where it started.

An enduring leadership change has yet to materialize so far this year. Value investment styles continued to outperform growth funds in all size categories, reflecting investor's reduced appetite for risk. For several months, gains have been fueled by conservative stocks like natural resources (mainly oil companies), REITs, and utilities. In times of uncertainty and rising interest rates, investors seeking stability favor dividend paying companies.

Small- and mid-cap funds have slightly outperformed large company funds this year, and, as is typical, have

been more volatile. During this year's declines, small-caps were far weaker than large-caps. Thinking that a leadership takeover from small-caps was overdue, many were quick to call the end of the five-year small-cap trend. However each time stocks rebounded, small-caps gained far more than large-caps. So much for forecasting. We'll stick with letting the market itself tell us what to do. We have been weighted toward small- and mid-cap funds for several years, and will continue our concentration for as long as their good relative performance endures.

Foreign and global stock funds continued to enjoy strong gains during the third quarter, and we are currently holding approximately 30% of our equity allocations in global and international funds. Refer to Quarterly Update on page 2 for details.

Also, don't miss the Q & A on page 2 to understand why focusing on fees can lead to lower returns. I was recently interviewed for an *Investors Business Daily* article on fund expenses. *IBD* confirmed our years of research when it concluded that performance is the most important criteria for selecting funds.

## The Strength of Upgrading

As we near year-end, broad market gains are small and dominant trends have yet to emerge. Yet, we remain alert to capture the next prevailing wind.

Fortunately, the Upgrading discipline is a logical system that keeps us from second guessing the markets. Rather than becoming discouraged by a directionless market, we just keep using the tools that have proven themselves over 35 years. The strategy will get us in sync with the next enduring market leadership trend.

The strength of Upgrading comes from detecting and exploiting sustained trends in market leadership. We believe that consistently employing a disciplined strategy provides far better results than reacting impulsively to the market's every whim.

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Remember, successful investing is a result of recognizing dynamic change in the market and adhering to a disciplined strategy. As shareholders in the UPGRADER FUNDS you can rest assured that we remain committed to the discipline that will help us harness the power of the next prevailing wind.



Janet Brown, President  
DAL INVESTMENT COMPANY  
Publisher of NoLoad Fund★X  
Advisor to FUNDX UPGRADER FUNDS

*Past performance is no guarantee of future results.*



## Fund News

### Year End Considerations

★ The FUNDX Funds pay distributions annually to shareholders of record on the last trading day of the year. Estimates are posted at [www.fundxfund.com](http://www.fundxfund.com) beginning late November through December so that taxable investors can make informed decisions.

You may want to make new purchases before Thanksgiving. This will ensure that you have held past the one month redemption fee period as of the record date in case you wish to sell before the distribution.

### Redemption Fee Policy

★ The Funds currently impose a short-term redemption fee of 2% on shares held less than one calendar month. This redemption fee went into effect on September 1, 2004. Any fees paid, of course, stay in pooled fund assets to benefit all remaining shareholders.



## Quarterly Update

### Q3 2004 in perspective

The three equity funds—HOTFX, FUNDX, and RELAX—along with the benchmark S&P 500 index all lost ground modestly last quarter, but all three UPGRADER FUNDS outpaced the index during the last quarter.

July through mid-August 2004 was especially weak for both the funds and the market. Only RELAX outperformed the S&P 500 index. Since the market bottomed on Aug. 12, 2004, however, all three equity UPGRADER FUNDS have handily beaten their benchmark. HOTFX led from the bottom followed by FUNDX and RELAX. The same trend continued through the end of the third quarter, with dramatic outperformance by all three of the equity UPGRADER FUNDS versus the index for September.

Each of the four UPGRADER FUNDS has some exposure to commodities which have contributed substantially to recent performance. Class 3 Oppenheimer Real Asset (QRAAX) gained over 8% in the six weeks since we purchased it. With high oil prices weighing on the economy

and the stock market, funds like QRAAX and Class 4 Pimco Commodity Real Return (PCRAX) provide an opportunity to gain from higher oil prices while adding diversification to our portfolios.

Other top performing holdings for the quarter included:

- ★ Icon Energy (ICENX)
- ★ State St Glo Nat Res (SSGRX)
- ★ AllianceBern Int Val (ABIAX)
- ★ Strong Mid Cap Discip (SMCDX)
- ★ Matthews Asn Gro & Inc (MACSX)

Recent Upgrades increased our exposure to energy, real estate and commodities. Internationals have weakened, but most remain highly ranked. Value continues to outperform growth and small and mid-cap funds continue to beat large companies.

Our portfolios are broadly diversified and recent market action has confirmed the value of moving incrementally as several funds fell and rebounded over the course of the quarter.

CONTINUED ON NEXT PAGE . . .

## Q&A

### BY OWNING A FUND OF FUNDS LIKE THE FUNDX UPGRADER FUND, AM I BEING CHARGED EXTRA FEES?

FUNDX, like other funds of funds, has two levels of expenses: those built into the underlying funds in the portfolio, plus the costs of running FUNDX. (Fees for any of the FUNDX UPGRADER FUNDS are capped at 1.50%, for the FUNDX FLEXIBLE INCOME FUND 0.99%, annualized).

The costs of running a mutual fund are taken directly from the daily share price or Net Asset Value (NAV). So as a shareholder, you'll never be "billed" separately for such expenses. And most important, all performance figures are calculated net of all fund operating costs.

## QUARTERLY UPDATE CONTINUED

The FUNDX FLEXIBLE INCOME FUND (INCMX) gained for the quarter, but underperformed its benchmark. Sharply declining interest rates pushed the 10- year treasury yield to below 4% despite the Fed raising short term rates 0.25%. Since the start of the year, the Fed has raised rates twice totaling 0.5%, but the 10-year treasury yield has actually declined from 4.3% to roughly 4% today.

The current quarter's drop in rates gave a boost to traditional bond performance. While INCMX lagged early in the quarter, it clearly gained momentum as the quarter came to an end.

With the 10-year treasury rate (a proxy for the broader bond market) holding near its low of roughly 4%, the environment for the bond index remains pressured. Due to its flexible strategy, however, INCMX remains well positioned regardless of the future direction of interest rates.

We reduced exposure to very short-term bond funds, and added to strategic, intermediate-term and select Class 4 positions. Real estate funds that were hammered in the first quarter have returned to favor. Fidelity Real Estate Income (FRIFX) and Kensington Select Income (KIFAX) provide less volatile exposure to real estate versus traditional REIT funds by investing mainly in preferred stocks which

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*Past performance is no guarantee of future results.*

*Small- and medium-capitalization companies tend to have limited liquidity and greater price volatility than large-capitalization companies. Growth stocks typically are more volatile than value stocks; however, value stocks have a lower expected growth rate in earnings and sales.*

provide a significantly higher yield but less appreciation potential. High yield bonds continue to lead and we maintain our target exposure to high yield funds at 30% of portfolio value.

We know that not all trades add value, but the cumulative effect of consistently and incrementally selling low ranking funds and replacing them with higher ranking alternatives keeps us on track. With high oil prices, the country at war, the election tight and global tensions high, it is comforting to rely on a strategy based on observations as opposed to forecasting.

 Q&A

### WHAT'S THE DIFFERENCE BETWEEN UPGRADING ON MY OWN VERSUS HAVING YOU UPGRADE FOR ME WITH THE FUNDX UPGRADER FUNDS?

*Are you a "Do-It-Yourselfer," or a "Pay-Someone Else?"*

*We designed the Upgrading system so that subscribers to NoLoad Fund★X newsletter can manage their own investment portfolios. If you do it yourself, your costs include: the expenses for any fund you own; any possible transaction fees; and any possible redemption fees*

*When you buy the FUNDX UPGRADER FUNDS, We do the Upgrading for you. Each of the four FUNDX UPGRADER FUNDS consists of a portfolio of underlying mutual funds. DAL's team of portfolio managers employs its quantitative discipline to continually monitor and Upgrade the portfolios when necessary to stay with market leadership. That's what you pay for through the expenses of the FUNDX UPGRADER FUNDS.*

*Why have someone else do it for you? Some investors choose to buy FUNDX UPGRADER FUNDS because they found themselves saying:*

- ★ *"I don't have time to Upgrade myself."*
- ★ *"Even when I know what I should do, I have trouble acting on my decisions."*
- ★ *"I'd like to know someone is watching my portfolio even when I can't."*

*If you find yourself saying any of the above, perhaps you're a "Pay-Someone Else" too.*

## FUNDX: FUNDX UPGRADER FUND

The original FUNDX UPGRADER FUND (FUNDX -Inception 11/1/01) is designed for moderately aggressive investors seeking long-term growth. Though not necessarily correlated to the U.S. stock market, FUNDX is expected to display a similar level of risk. It will consist mostly of Class 3 growth funds, though it may utilize funds from the other equity classes when they appear more attractive.

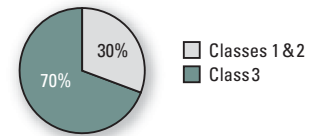
Designed not to exceed a weighting of 30% in Classes 1 and/or 2, the fund is also limited to 30% in Class 4. FUNDX could be a core equity fund for most investors.

### TOP 5 HOLDINGS

AllianceBern Intl Value	ABIAX	6.11%
Ariel Fund	ARGFX	6.16%
Causeway Intl Value	CIVIX	6.07%
Excelsior Val & Restr	UMBIX	6.17%
Open Real Asset	QRAAX	6.49%

Total % in Top 5 Holdings **31.00%**  
Total # of Positions **27**

### CLASS ALLOCATION

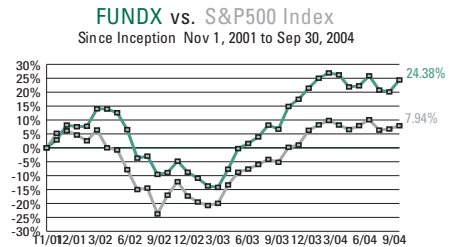


Fund holdings and class allocations are subject to change and should not be considered a recommendation to buy or sell any of the underlying funds.

### PERFORMANCE

#### FUNDX vs. S&P 500 Index

SINCE INCEPTION  
NOV 1, 2001 TO SEP 30, 2004



The advisor has an agreement in place to waive fees. Currently, the expense levels have not been exceeded.

PERFORMANCE	Since Inception of fund 11/01/01					
Data current to 9/30/04	1 mo	3 mo	6 mo	12 mo	Avg Ann	Actual Ret
<b>Fundx Upgrader Fund (FUNDX)</b>	3.56%	-1.18%	-1.47%	16.58%	7.77%	24.38%
<b>S&amp;P 500</b>	1.09%	-1.96%	-0.25%	13.84%	2.66%	7.94%

Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the fund may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by calling 866-455-3863 or visiting [www.fundxfund.com](http://www.fundxfund.com). The S&P 500 Index is a broad based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general. You cannot invest directly in an index.

Please refer to page 7 for the risks associated with investing in the funds.

## HOTFX: FUNDX AGGRESSIVE UPGRADER FUND

The FUNDX AGGRESSIVE UPGRADER FUND (HOTFX - Inception 7/1/02) is designed for investors willing to take on above-average risk in the hopes of achieving higher returns over time. The portfolio may shift between Classes 1, 2, or 3 at the manager's discretion, and will not invest in Classes 4 or 5. The Fund could be 100% in the more speculative Class 1 and 2 funds if they appear more attractive. This may cause the fund to experience dramatic price swings.

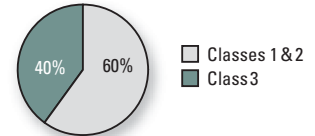
HOTFX could be a core holding if you're an aggressive investor, but more likely is more suitable as a speculative component of a diversified portfolio for long-term growth.

### TOP 5 HOLDINGS

Columbia Acorn Intl	ACINX	5.25%
Excelsior Sm Cap	UMLCX	5.80%
Fidelity Intl Sm Cap	FISMX	5.37%
Fidelity Japan Sm Co	FJSCX	5.17%
State Street Global Nat Res	SSGRX	5.19%

Total % in Top 5 Holdings **26.78%**  
Total # of Positions **25**

### CLASS ALLOCATION

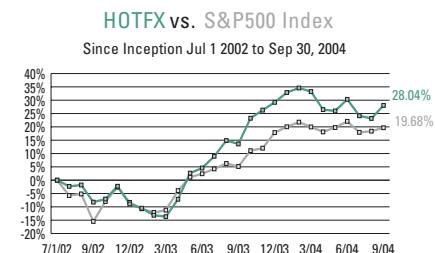


Fund holdings and class allocations are subject to change and should not be considered a recommendation to buy or sell any of the underlying funds.

### PERFORMANCE

#### HOTFX vs. S&P 500 Index

SINCE INCEPTION  
JULY 1, 2002 TO SEP 30, 2004



Investment performance reflects fee waivers in effect. In the absence of such waivers, total return would be reduced.

PERFORMANCE	Since Inception of fund 7/01/02					
Data current to 9/30/04	1 mo	3 mo	6 mo	12 mo	Avg Ann	Actual Ret
<b>Fundx Aggressive Upgrader Fund (HOTFX)</b>	3.96%	-1.75%	-3.90%	12.72%	11.60%	28.04%
<b>S&amp;P 500</b>	1.09%	-1.96%	-0.25%	13.84%	8.31%	19.68%

## RELAX: FUNDX CONSERVATIVE UPGRADER FUND

The FundX CONSERVATIVE UPGRADER FUND (RELAX -Inception 07/01/02) is designed for investors seeking long-term growth, but with only average risk. Here we are less concerned with beating the market, or performing consistently with the NoLoad Fund★X Class 3 track record, and are willing to err on the side of caution.

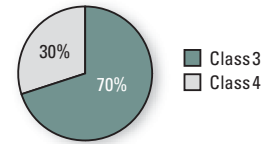
This fund avoids Class 1 and 2 funds entirely. Moreover, when stocks are doing particularly poorly, or Class 4 funds are performing at least as well as Class 3 funds, we may shift as much as 50% of the portfolio into these more defensive Class 4 funds.

### TOP 5 HOLDINGS

Ariel Fund	ARGFX	7.06%
Causeway Intl Value	CIVIX	6.46%
Matthews Asian Gro & Inc	MACSX	6.85%
PIMCO PEA Value D	PVLDX	6.33%
Tweedy Browne GIB Val	TBGVX	6.46%

Total % in Top 5 Holdings **33.16%**  
Total # of Positions **20**

### CLASS ALLOCATION

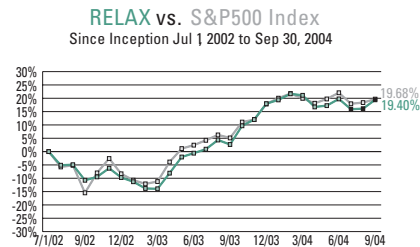


Fund holdings and class allocations are subject to change and should not be considered a recommendation to buy or sell any of the underlying funds.

### PERFORMANCE

RELAX vs.  
S&P 500 Index

SINCE INCEPTION  
JULY 1, 2002 TO SEP 30, 2004



Investment performance reflects fee waivers in effect. In the absence of such waivers, total return would be reduced.

PERFORMANCE	Since Inception of fund 7/01/02					
Data current to 9/30/04	1 mo	3 mo	6 mo	12 mo	Avg Ann	Actual Ret
Fundx Conservative Upgrader Fund (RELAX)	2.87%	-0.27%	-1.37%	16.32%	8.19%	19.40%
S&P 500	1.09%	-1.96%	-0.25%	13.84%	8.31%	19.68%

Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the fund may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by calling 866-455-3863 or visiting [www.fundxfund.com](http://www.fundxfund.com). The S&P 500 Index is a broad based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general. The Lehman Aggregate Bond Index is an unmanaged index generally representative of intermediate-term government bonds, investment grade corporate debt securities and mortgage-backed securities. You cannot invest directly in an index.

Please refer to page 7 for the risks associated with investing in the funds.

## INCMX: FundX Flexible Income Fund

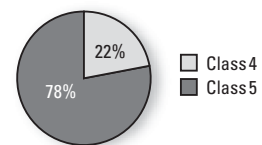
The FundX FLEXIBLE INCOME FUND (INCMX - Inception 7/1/02) is geared toward investors seeking a component to reduce the volatility of their overall portfolio. The fund seeks a reasonable total return with minimal risk. The core of this fund consists of Class 5 bond funds, with the average maturity and duration depending on the current interest rate environment. But when traditional fixed-income instruments appear less attractive, INCMX has the flexibility to utilize funds from Class 4 for up to 50% of its portfolio. Class 4 funds may include REITs, convertible bonds, preferred stock, or even a blend of bonds with common stock.

### TOP 5 HOLDINGS

Columbia High Yield	CMHYX	10.13%
Eaton Vance Floating Rate	EIBLX	7.34%
Fidelity Capital Inc	FAGIX	8.32%
Loomis Sayles Bond	LSBDX	5.04%
Mainstay High Yld Corp	MHCAX	5.84%

Total % in Top 5 Holdings **36.67%**  
Total # of Positions **26**

### CLASS ALLOCATION

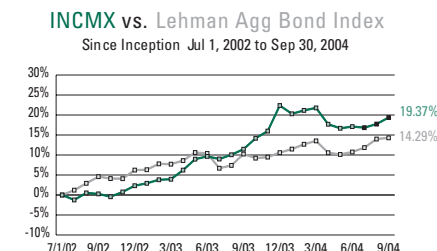


Fund holdings and class allocations are subject to change and should not be considered a recommendation to buy or sell any of the underlying funds.

### PERFORMANCE

INCMX vs.  
Lehman Agg Bond Index

SINCE INCEPTION  
JULY 1, 2002 TO SEP 30, 2004



Investment performance reflects fee waivers in effect. In the absence of such waivers, total return would be reduced.

PERFORMANCE	Since Inception of fund 7/01/02					
Data current to 9/30/04	1 mo	3 mo	6 mo	12 mo	Avg Ann	Actual Ret
Fundx Flexible Income Fund (INCMX)	1.40%	1.94%	-1.97%	7.11%	8.18%	19.37%
Lehman Agg Bond Index	0.27%	3.20%	0.68%	3.68%	4.77%	14.29%



## Select a portfolio that's right for you with the FUNDX UPGRADER FUNDS

The FUNDX UPGRADER FUNDS are managed portfolios generally consisting of more than 20 underlying mutual funds. For many investors, the FUNDX UPGRADER FUNDS replace the need to build a diversified portfolio on their own. But while there are only four FUNDX UPGRADER FUNDS, you are not limited to just four options.

Our Risk Spectrum of Investor Profiles (right) identifies four basic types of investors. The accompanying boxes show 13 examples of portfolios that use the FUNDX UPGRADER FUNDS to arrive at interim points along the spectrum. All of these options involve some risk of principal loss. Depending on your goals, time frame, and personal inclination toward risk, you may find an option that is right for you, or for a subset of your overall investments. Investors should consult an investment advisor for advice and information concerning their particular situation. Neither the Fund nor any of its representatives may give investment advice.

### Aggressive

The aggressive investor has a long-term outlook and is willing to accept substantial risk to pursue higher returns. The aggressive investor is comfortable with portfolio volatility and willing to withstand even severe market corrections.

### Growth

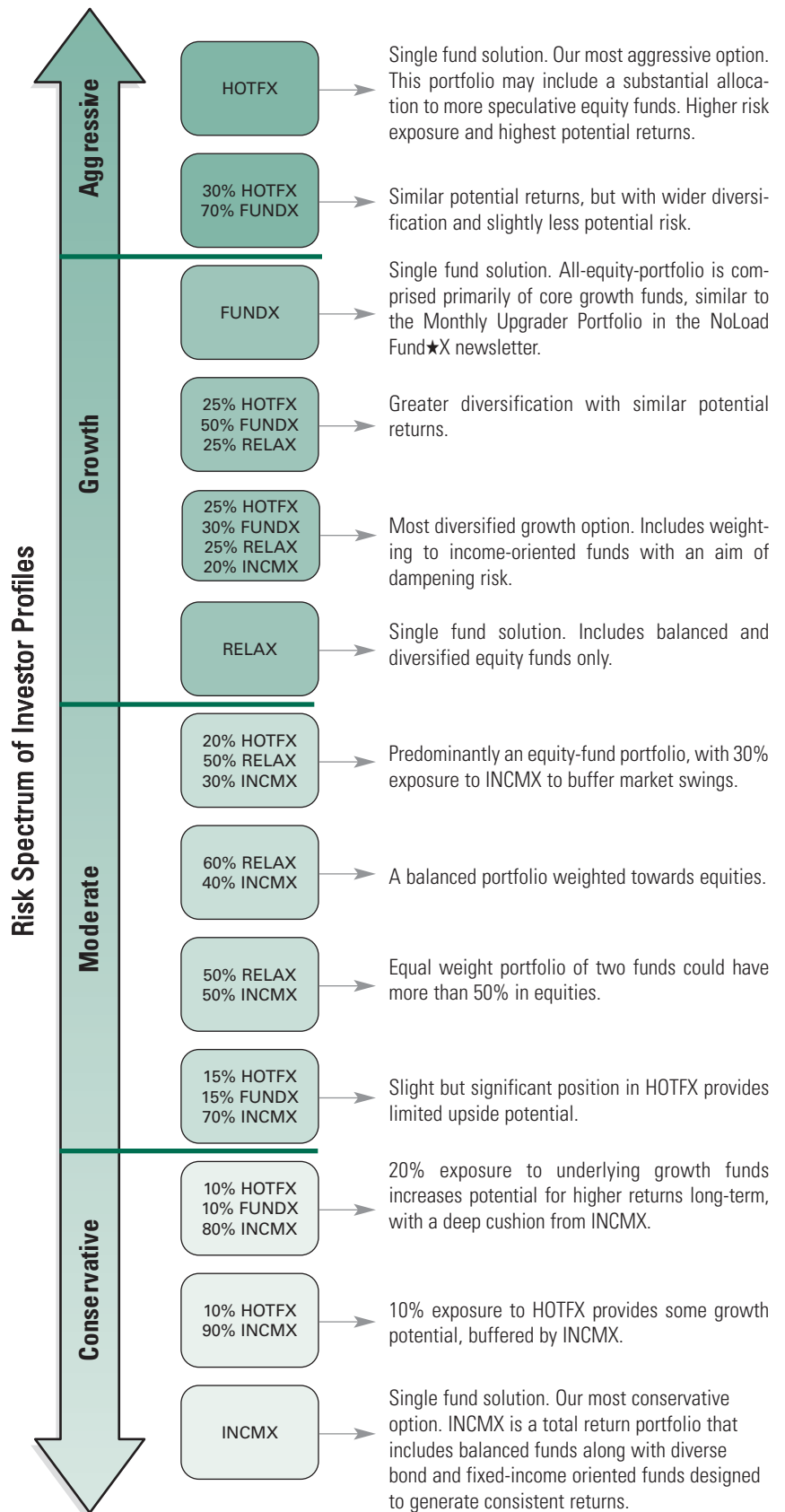
The growth investor is interested in accumulating wealth over time rather than generating current income. The growth investor has long-term goals and is willing to withstand significant market fluctuations, but not willing to take on as much risk as the aggressive investor.

### Moderate

The moderate investor seeks a balance between equity funds for long-term growth and income funds to dampen volatility. This investor must be willing to assume some risk of possible loss of principal in order to reach long-term goals.

### Conservative

The conservative investor seeks relatively stable capital growth. This investor is cautious and wants to avoid substantial volatility, but is willing to accept some short-term risk and moderate fluctuations in portfolio value. Modest exposure to equities provide growth potential to reach long-term goals; significant allocations to income-generating funds are intended to smooth returns, rather than provide current income.





## About Upgrading

Upgrading is a systematic approach to investing in the top-performing no-load mutual funds, holding those funds as long as they continue to outperform their peers, selling them when they fall in rank and Upgrading to the current winners. DAL INVESTMENT COMPANY has developed this strategy over the past 35 years.

Unlike market timers, we don't attempt to predict the market or switch back and forth from stocks to cash. Upgrading is also unlike a typical buy-and-hold approach. Instead, Upgrading moves us flexibly among those areas of the market showing the best relative performance.

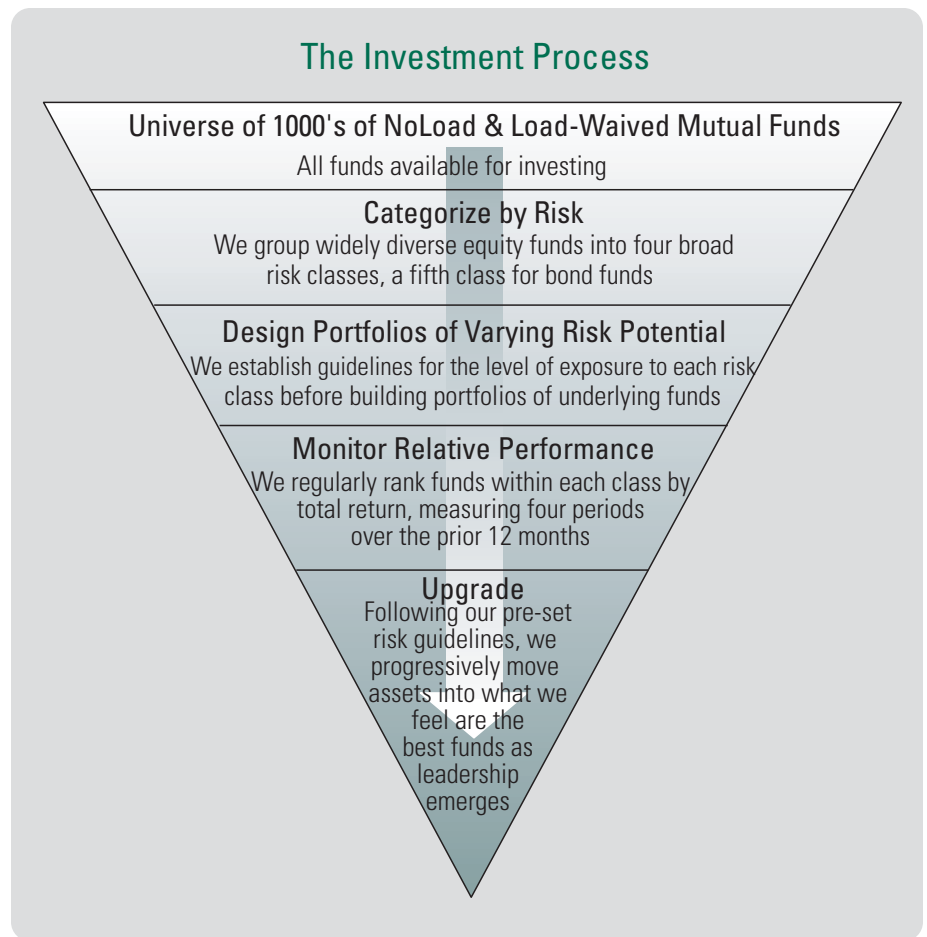
### Put your portfolio on Autopilot

#### Invest Direct!

Visit [www.fundxfund.com](http://www.fundxfund.com) for:

- Prospectus
- Users Guide
- Application

Or, simply call 866-455-3863



### What's Online at [www.fundxfund.com](http://www.fundxfund.com)

- Monthly performance updates
- Current fund holdings
- Historical share prices
- Dividend distributions
- How we classify funds
- More on the investment process

#### FUNDX UPGRADER FUNDS

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[www.fundxfund.com](http://www.fundxfund.com)

**Disclosures:** *The fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The prospectus contains this and other important information about the investment company, and it may be obtained by calling 866-455-3863, or visiting [www.fundxfund.com](http://www.fundxfund.com). Read it carefully before investing.*

**Mutual fund investing involves risk. Principal loss is possible. Because each of the Funds is a "fund of funds", an investor will indirectly bear the principal risks of the underlying funds, including but not limited to, risks associated with smaller companies, foreign securities, emerging markets, non-diversification, high yield bonds, fixed income investments and short sales. Small- and medium-capitalization companies tend to have limited liquidity and greater price volatility than large-capitalization companies. Growth stocks typically are more volatile than value stocks; however, value stocks have a lower expected growth rate in earnings and sales. Investments in foreign securities involve greater volatility and political, economic and currency risks and differences in accounting methods. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities.**

*Quasar Distributors, LLC, Distributor. (10/04)*

**CALL YOUR BROKER, OR 866-455-FUND (3863)**

# FUNDX UPGRADER FUNDS: *A Simpler Way to Upgrade*

In this second issue of *The Upgrader*, you'll find news, insight and practical advice from the managers of the FUNDX UPGRADER FUNDS.

- ★ Find out what changes the investment team made in your fund's portfolios.
- ★ Take a peek inside our investment process.
- ★ Learn the benefits of staying flexible.

DAL INVESTMENT COMPANY is publisher of the monthly investment newsletter NoLoad Fund★X and advisor to the FUNDX UPGRADER FUNDS.

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**FUNDX**

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**DAL Investment Company** *Since 1969*

**NoLoad Fund★X** *Since 1976*

**FUNDX UPGRADER FUNDS** *Since 2001*

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