June 29, 2013

the X-factor Report

by Lance Roberts

Market Strategies, Economic Analysis, Risk Management

Confirming "Sell" Signal Approaches

In *last weekend's missive* I discussed, at length, the initial "sell" signal that was triggered by the markets decline. I also specifically stated that:

"[The] initial 'Sell Signal' is a warning that a further correction is likely to come. This is a wakeup call to pay attention to your portfolio. However, this is not a signal to 'panic sell' and make emotional based investment mistakes. When all of these signals align it is always in conjunction with a more significant market correction. Currently, the indicators are issuing a very strong 'warning' and it is likely that within the next couple of weeks we will see a deeper correction occur."

However, this past week the market rallied strongly mid-week to push the market higher by .87% for the week. As I stated last week it would take a VERY strong rally to keep the secondary sell signal from being triggered.

This week's missive will cover ***"how bonds really work"*** in your portfolio, as well as, update our sell signals and portfolio instructions and recommendations.

If you missed last week's missive I wanted to repeat last week's updates:

- *"Streettalklive.com" is merging into "STAWealth.com." Only the look is changing – all the great features will remain the same.*
- *This weekly newsletter will actually become (3) different HTML documents that you will be able to print, read on your tablet and phone, share with friends and post to your social network.*
  - ***Portfolio Management**: Market analysis & Investing Strategy*
  - ***Market/Sector Analysis:** Analysis of 15 major sectors /markets*
  - ***401k Plan Manager:** Expanded and improved model/analysis*
- *Also, more frequent postings to the daily blog that are short reads, quick analysis or video/audio analysis of investing ideas, economics, strategies or tips.*

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Disclaimer & Contact Info.

Bonds – How They Really Work

It often amazes me that people invest their hard earned savings into things without having the slightest clue as to how they work. This same amazement also applies to people who *"panic sell"* holdings simply because something moves in price without understanding the internal workings of the specific holdings.

Bonds, and by extension bond funds and ETF's, fall into this category. According to a recent *New York Times article*:

"Investors have been fleeing bonds in droves; a record $76.5 billion poured out of bond funds and exchange-traded funds during the month of June through Wednesday. That exceeds the previous record, according to TrimTabs, when $41.8 billion streamed out of the funds in October 2008 and the financial crisis was in full force."

This is nothing but unadulterated panic selling caused by a media whirlwind of misstated facts. I want to spend a few minutes today explain some of the basic principles of bonds and how they work within a portfolio.

A *"bond"* is nothing more than the representation of a *"loan"* made between a lender and a debtor. The debtor agrees to repay the loan in full by a certain date in the future and pays to the lender an agreed amount of interest at regular intervals for the privilege of using the lenders money. That's it. It is not any more complicated than that. You loan money to an entity and they promise to pay you back in full at maturity with interest.

Here is an example:

XYZ Corporation wants to build a new plant to expand production. XYZ has essentially three choices: 1) use current cash holdings, 2) borrow the money from the bank; or 3) issue public debt.

In the current economic environment XYZ feels that it would be safer to keep their current cash holdings to support operations, therefore, utilizing debt seems to be a better choice. The expected rate of return from the project is 8% annually over the next 10 years. XYZ goes to their bank and is offered loan rate of 6% for 10 years versus a 5% interest rate if they borrowed from the public market. XYZ decides to float a bond issue at 5% for 10 years to fund their project.

XYZ Bond = 5% for 10 years with a face amount of $1000 per bond.

As an investor you decide to loan XYZ a $1000 for 10 years. Here is what your return will look like:

- *Initial Investment: $1000*
- *Interest Payment: $50 per year for 10 years = $500*
- *Principal Repaid At Maturity: $1000*
- *Total Return = $1000 + $500 interest = $1500 or 5%*

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FEEDBACK

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This is a very basic example but you get the idea. The great thing about bonds is that you receive cash flow every year which you can spend, or reinvest, and receive you principal investment back at maturity.

The ONLY thing that matters to you as a bond buyer is your **"yield to maturity"** which is the total return based on the coupon, duration and price of the bond at the time of purchase. This is the EXACT return, to the penny, that you will receive during the holding period. You can't do that with an equity related investment.

Interest Rates, Bond Values & Your Portfolio

"But Lance, the recent rise in interest rates has made the value of my portfolio go down."

So what?

The rise and fall of **interest rates is only of concern if you own bond funds or bond related ETF's**.

Bond funds and bond related ETF's (exchange traded funds) ***ARE NOT BONDS.*** *Funds and ETF's are a* ***BET on the DIRECTION of interest rates*** *just as stocks are a bet on the direction of the market.* **There is no return of principal function for bond funds or bond related ETF's** and therefore must be managed in a portfolio just as you would manage a stock position.

However, the rise and fall of interest rates **is of very little concern in a portfolio of individual bonds that are being held until maturity**. The only time that the level of interest rates becomes of concern is when a bond owner wishes to liquidate a bond position due to changes in the borrower's fundamentals, credit worthiness or the bond owner needs to raise liquidity.

Example:

You still own the XYZ bond from the example above but are now just 12 months from maturity. You decide that you need to buy a new home and need to liquidate some bond holdings to raise the capital for the purchase.

The prevailing *"yield to maturity"* for similar bonds in the market is now 6% versus the XYZ bond which is at 5%.

Question: Why would someone buy your XYZ bond when they could buy a different bond that would yield 6%?

When interest rates fluctuate the prices of bonds must be adjusted so that their specific yields to maturity match what is available in the general market place at that given time.

(Note: This is a very basic example and there are many other factors that affect bond prices other than just the movement of interest rates.)

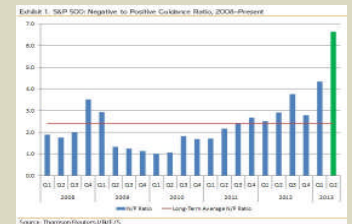
Therefore:

A bond buyer is looking to buy a bond with a 6% yield to maturity.

RECOMMENDED READING

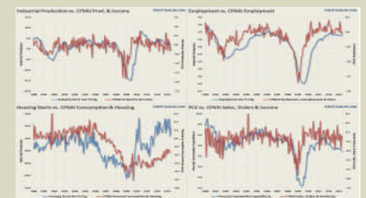
Earnings Set To Disappoint

The ratio of negative to positive preannouncements has surged to historically high levels.



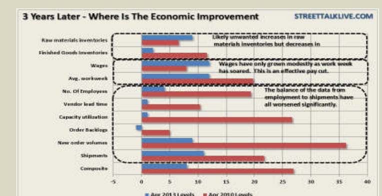
CFNAI: Improved But Weak

One of the best economic indicators and least watched; improved but is still pointing to a weaker economic environment.



Economic Data Improves

Recent economic data has shown some improvement but the question is whether it can break the negative trends.



In order for the XYZ bond to have a 6% yield to maturity in the next 12 months the price of the bond must be adjusted as follows:

Face Value: $1000
Coupon: 5% or $50
Yield To Maturity: $1000 (return of principal) + $50 interest = $1050 or 5%

Note: This transaction is occurring between two individuals. XYZ has an obligation to repay $1000 at maturity to whoever is the owner of the bond at that time.

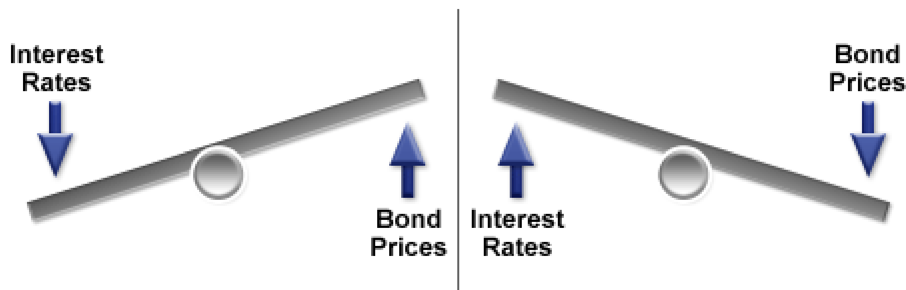
Therefore, in order to increase the yield to maturity the sell price of the bond is **LOWERED** to: $990

Adjusted Yield To Maturity Is Now:

	$1000 (return of principal from XYZ to the new owner of the bond)
+	*$10 (capital appreciation between sell price of $950 and maturity value of $1000)*
+	*$50 (final interest payments)*
=	*$1060 (total return)* ***OR 6% Yield To Maturity***

The bond buyer is now willing to buy the XYZ bond from you as it is now equivalent to other bonds within the market place.

The same thing applies to when interest rates fall. The illustration below diagrams the effect of interest rates on bond prices.



Source: Franklin Templeton

IMPORTANT TO UNDERSTAND: While your portfolio of individual bonds may have declined in recent weeks due to the spike in interest rates it has very little to do with the outcome of your portfolio.

Example:

You come to me and say *"Lance, I have $1 million dollars and I need $50,000 a year in income to live on."*

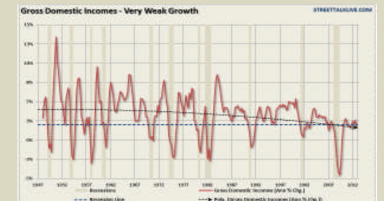
$1 million dollars invested in a bond portfolio yielding 5% = $50,000/year.

Beg. Portfolio Value	Annual Income	Interest Rate	Ending Port. Value	Value At Maturity	Annual Income
$ 1 million	$50,000	5%	$1 million	$ 1 million	$50,000
$ 1 million	$50,000	4%	$1.25 million	$ 1 million	$50,000
$ 1 million	$50,000	6%	$0.9 million	$ 1 million	$50,000

RECOMMENDED READING

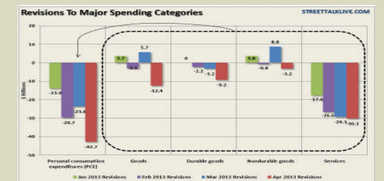
"Code Blue" For GDP

Sharp negative revision to PCE removes a quarter of the growth from GDP.



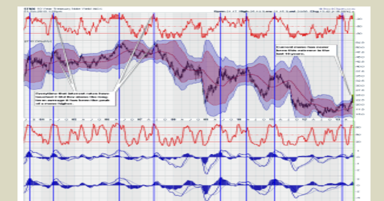
Personal Income & Spending Improved But Still Negative

The PCE report showed improvement but the long term trends still show a weakening environment.



Bonds & Stocks: Investors Continue To Make Mistakes

"Buy High, Sell Low" Investors continue to do the opposite of what they should.



Regardless of the variation in interest rates there are two outcomes with bonds that a critical to understand. At maturity principal is returned in full and the income from the bonds never changes.

If interest rates jump sharply bond portfolios **will go down** in current value, however, regardless of where interest rates are at the time of maturity the full principal value is redeemed to the current owner. The only way to lose money in bonds (not withstanding bankruptcy or defaults) is to sell them in a panic because the media tells you it's time to jump into stocks.

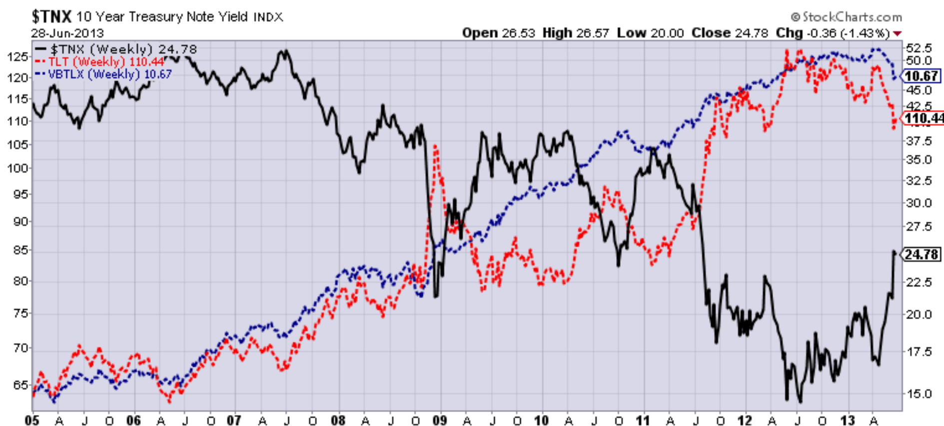
Bond Funds & Bond ETF's

As stated above bond funds and bond related ETF's are nothing more than a bet on the direction of interest rates. These are **NOT BONDS.**

Bond funds and bond related ETF's ***do NOT mature at face value and return principal*** back to the owner.

Therefore, in 401k plans *(where you generally cannot buy individual bonds),* or for individuals trying to manage money on their own, you must manage your bond exposure relative to the direction of interest rates. This is the same fundamental premise as managing your equity related exposure in your portfolio relative to the direction and trend of the stock market.

The chart below is a long term view of a bond fund and bond ETF versus 10-year interest rates.



There is a much heavier **negative** correlation between exchange traded funds and interest rates, however, bond funds are also is impacted from the rise and fall of rates.

Currently, the spike in interest rates has made bond funds and bond related ETF's much more attractive for a short term trading opportunity. However, for individual bond investors the spike in yields has made bonds much more attractive from a longer term perspective with higher yields to maturity.

As I stated in my recent blog post *["5 Reasons Why Now Is The Time To Buy Bonds:"]*

"For all of these reasons I am bullish on the bond market through the end of this year. Furthermore, with market volatility rising, economic weakness creeping in and plenty of catalysts to send stocks lower - bonds will continue to hedge long only portfolios against meaningful market declines while providing an income stream.

Will the 'bond bull' market eventually come to an end? Yes, it will, eventually. However, the catalysts needed to create the type of economic growth required to drive interest rates substantially higher, as we saw previous to the 1980's, are simply not available currently. This will likely be the case for many years to come as the Fed, and the administration, comes to the inevitable conclusion that we are now in a 'liquidity trap' along with the bulk of developed countries. While there is certainly not a tremendous amount of downside left for interest rates to fall in the current environment - there is also not a tremendous amount of room for them to rise until they begin to negatively impact consumption, housing and investment. It is likely that we will remain trapped within the current trading range for quite a while longer as the economy continues to 'muddle' along."

Why You Should Own Bonds

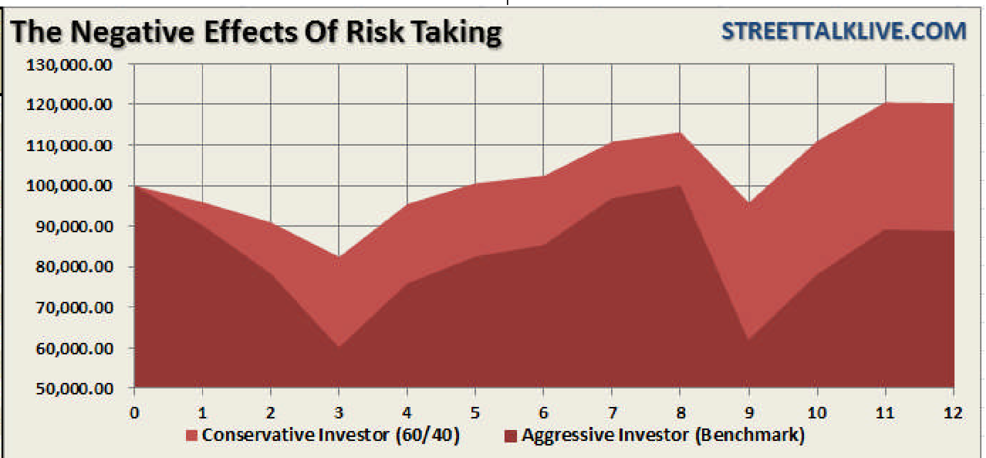
There are many reasons why you should own bonds in your portfolio. However, here are my 5 primary reasons:

- *Reduces portfolio volatility*
- *Creates an income stream*
- *Preserves principal*
- *Reduces emotional mistakes*
- *Creates long term returns in portfolios*

As I wrote in *"4 Keys To Successful Long Term Investing:"*

*"Risk does not equal reward. Too often I get emails with statements of 'I'm young so I want to be really aggressive.' **This is a huge mistake.** The reason is **RISK** is a function of how much money you will **lose when you are wrong** - and you will be wrong more often than you can imagine. The problem with being wrong is that the loss of principal creates a negative effect to compounding that can never be recovered. The table and chart below provides an example. (A portfolio of all stocks versus 60% stocks and 40% bonds)*

Year	S&P 500 2000-2011	Aggressive Investor (Benchmark)	Conservative Investor (60/40)
0	0.0	100,000.00	100,000.00
1	-10.1	89,890.00	95,956.00
2	-13.0	78,168.34	90,950.94
3	-23.4	59,900.40	82,448.84
4	26.4	75,702.13	95,498.84
5	9.0	82,492.61	100,638.59
6	3.0	84,967.39	102,450.09
7	13.6	96,539.95	110,822.31
8	3.5	99,947.81	113,169.52
9	-38.4	61,567.85	95,786.69
10	26.5	77,858.70	110,993.78
11	14.3	89,008.07	120,530.37
12	-0.4	88,643.13	120,332.70



The problem with following Wall Street's advice to be 'all in - all the time' is that eventually you are going to dealt a bad hand. By being aggressive, and chasing market returns on the way up, the higher the market goes the greater the risk that is being built into the portfolio. Most investors routinely take on more 'risk' than they realize which exposes them to greater damage when markets go through a reversion process.

These corrections, as you can see in the example above, have two very negative effects on investors. The first is that the reduction of principal keeps the portfolio from meeting its original investment objectives due to the destruction of the 'compounding effect'. Secondly, the commodity of 'time' is forever lost. While investors will eventually be able to work themselves back to 'even' after suffering a brutal loss - the time component, and the subsequent lost return on invested dollars - is forever gone.

The next time a person trots out a chart of the return of the markets over the last 100 years - just remember that you will not live that long.

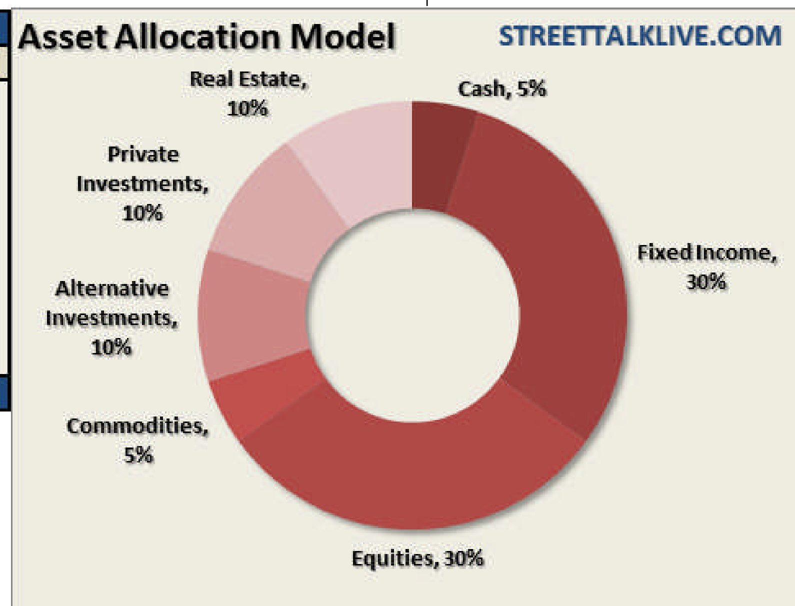
Asset Allocation Does Matter

Today the correlation between many asset classes has never been higher. With the increases in the flow of data cut down to milliseconds the reaction of markets to news has become amplified. The days where diversification in stocks between international and domestic, capitalization and growth versus value no longer provide the lower risk profiles that could once be achieved.

In the market today it is no longer simply a choice of what stocks to buy. Rather it is the understanding of the inter-relationships between stocks, commodities, bonds, cash, alternative and private investments and the risk profiles of each.

Asset Allocation Model

Asset	Risk Profile	Liquidity	Allocation
Cash	Low	High	5%
Fixed Income	Low	Med	30%
Equities	High	High	30%
Commodities	High	High	5%
Alternative Investments	Med	Med	10%
Private Investments	Med	Low	10%
Real Estate	Low	Low	10%
	Med	Med	100%



The hypothetical allocation model above shows the expected risk profile of several different asset classes. By blending assets together, and modeling the volatility of each asset class relative to the whole portfolio, the investor

should be able to generate 'risk adjusted' returns over the projected investment horizon.

The term 'risk adjusted' returns is critical to the reframing the mindset of expectations from the portfolio. While the media/Wall Street speak in terms of 'relative performance' related to an all equity benchmark index such as the S&P 500 - for investors it is important to adjust those expectations to what the portfolio is designed to return. If we assume that the above allocation model is designed to deliver 60% of market returns during an advance, but only 40% of the declines, then expectations must be adjusted so that during a +/- 10% market movement the portfolio will deliver 'risk adjusted' returns of 6% and -4% respectively.

However, while Wall Street will chastise investors who fail to beat the benchmark index in any given year on the upside - it is avoiding the drawdowns that inures to the long term performance of the portfolio. The mitigation of losses will significantly increase the probabilities of obtaining the original investment goals."

That is why you own bonds in a portfolio. They return principal at maturity providing protection of investment capital. Bonds create an income stream which enhances portfolios total returns. Finally, they lower portfolio volatility which reduces emotional investment mistakes and allows the portfolio to compound over the long term.

Confirming "Sell" Signal Approaches

Okay, with the understanding of bonds now done we can move on to the technical update from the markets last week.

The good news is that the market rallied off of some very minor support last week after getting oversold on a daily basis as shown in the chart on the next page.

However, the bad news is that, on a daily basis *(which is very short term and more for traders rather than investors),* the market has registered all three critical short term *"SELL"* signals with the short term moving average cross below the long term moving average. This suggests that the most likely trend of prices in the short term – is lower.

Furthermore, though the market did rally last week it failed to break above resistance at the downward trending short term moving average (blue dashed line.)

The market is still oversold, although less so, on a short term basis which could provide fuel for a continued rally in stocks next week. However, as we will discuss in a moment, the current downward trend is still intact and any advance above the short term moving average will be met by the longer term moving average, which is also now trending lower, at 1630.

With all three primary sell signals in place on a short term basis this is a rally that should be *"sold"* into currently.

This analysis will change on the short term if the market is able to clear 1650 and turn the moving average trends back to positive.

However, that is what to expect next week. Unfortunately, for longer term investors, the picture remains much more negative at the moment.

The chart on the next page is our WEEKLY chart of the market which reduces the daily volatility of the markets to reveal the longer term directional trends of the markets.

As you can see the market broke below the short term weekly moving average and failed to get above it last week. This keeps the current downward trend in the market in place as denoted by the dashed green lines.

These downtrends are notable as they tend to predict the direction of prices in the coming weeks ahead. With the markets grossly extended and overbought the current correction could be potentially larger than the last two that we have witnessed. However, with the Federal Reserve on tap to inject

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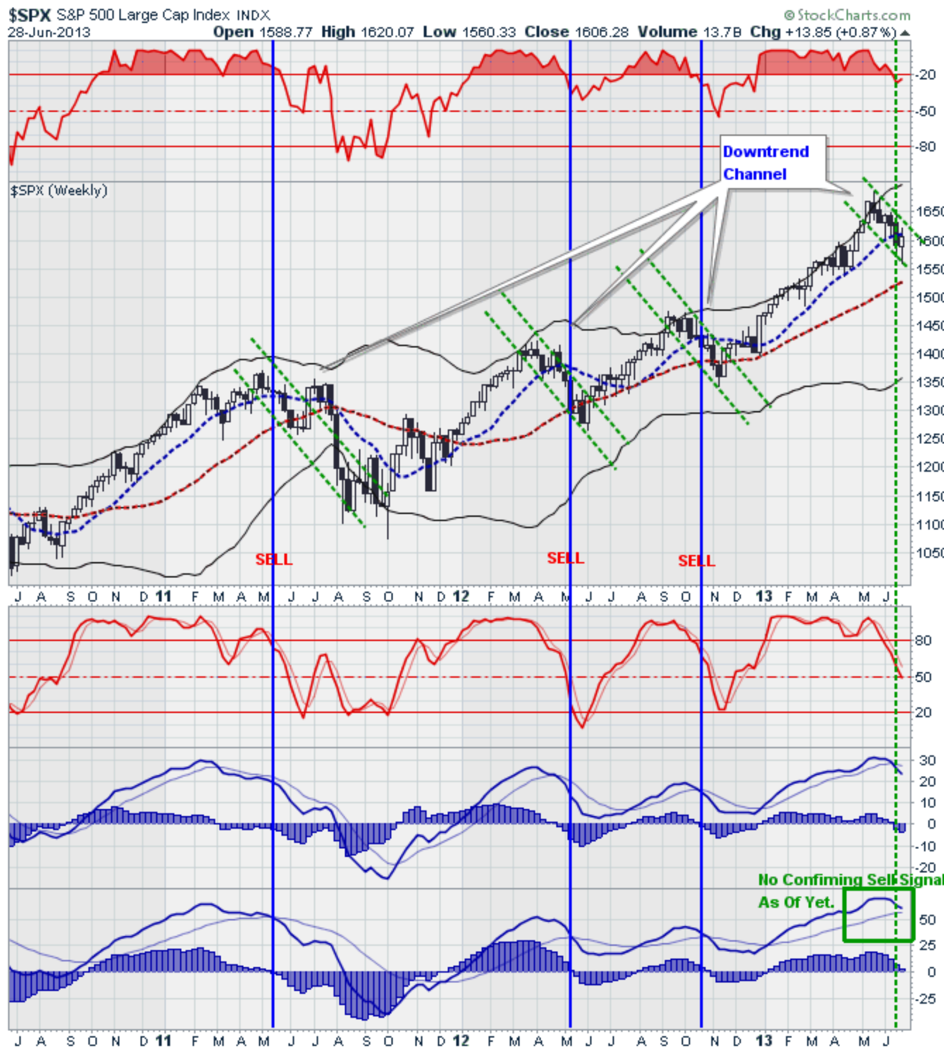
$45 billion in bonds in July it is unclear just how large the current correction might be.

Considering that the previous two corrections were relatively shallow suggests that the current correction likewise could be shallow given the current levels of artificial support from the Fed. However, the next week will likely give us a majority of the answers to that question.



The previous two corrections did revert back to the longer term moving average which is currently around 1540 on the S&P 500. Given the current downtrend I suspect that at some point during the course of this summer we are likely to, at a minimum, complete a reversion to that level.

The bottom of the chart shows that the **confirming "sell" signal** **has not** occurred as of yet but is rapidly approaching. Any weakness in the markets this coming week would likely trigger that signal.

Therefore, the best course of action currently is a reiteration from the last two weeks which is:

- *Review all holdings in the portfolio fundamentally to determine if anything has changed within the fundamental storyline.*

- *Review each positions weight relative to the portfolio. Assume that each position in a portfolio was 5%. Trim back positions that are now greater than 5% back to portfolio weight. (It is not uncommon that when a warning is issued that the market will continue to rise – therefore, we only want to trim profits currently and sell positions on bounces if trends become broken.)*

- *Positions that are **fundamentally broken**, lagging or otherwise not performing should be sold in their entirety UNLESS they are a hedge against a correction. Positions that are lagging during a market rally tend to lead on a market decline. (This includes gold, gold miners, precious metals, etc.)*

- ***Do not sell winners to buy losers.** Hold cash as a hedge against the coming correction. Notice that all warnings above are eventually followed by a sell signal and a market correction.*

The market currently remains overextended, overbought and overvalued. Bonds are extremely over sold on the short term. Reweighting portfolios on this rally to reduce overweight exposure in equities and increase underweighting in bonds is technically a good idea at the current time.

Could things change? Absolutely. However, this is why I write a newsletter every week for you. There is no long term *"buy and forget"* solution to investing and if you don't pay attention to your money – no one else with either.

If the market rallies extremely strongly next week and breaks out to the upside we will revise our recommendations accordingly. However, currently, the path of least resistance for prices remains downward.

Have a great week.

Lance Roberts

the X-factor Report by Lance Roberts

STREETTALK ADVISORS

What makes us different?
It's really pretty simple. We believe that managing risk is the key to long term success. Conserve the principal and the rest will take care of itself.

Risk = Loss
Seems like a simple concept – yet most people take way too much risk in their portfolio which is fine as long as the market goes up. The problem comes when it doesn't.

Managed Risk = Returns
By applying varying levels of risk management to a portfolio of assets the potential for large drawdowns of capital is reduced thereby allowing the portfolio to accumulate returns over time.

Total Return Investing
We believe that portfolio should be designed for more than just capital appreciation. There are times when markets do not rise. During those periods we want income from dividends and interest to be supporting the portfolio.

If you are ready for something different then you are ready for common sense approach to investing.

Get Started Today!

Sector Analysis

Major Markets

Index: S&P 500

Action: Sell On Rallies

The S&P 500, while oversold on a daily basis, is still very overbought on a longer term basis. The current downtrend is very similar to the last two corrections. The expectation is that we should see an initial test of the longer term moving average around 1550.

Index: MSCI EAFE (International)

Action: Sell On Rallies

As opposed to the S&P 500 the international index is much further along a broader correction. The recent break of the long term moving average sets the index up to retest long term support around 1517.

There is nothing fundamentally working for the EAFE index. I would not own industrialized international holdings at this time.

Index: MSCI Emerging Markets

Action: Hold – To Late To Sell

Not so long ago **I warned investors not to own emerging markets indexes because of the economic drag they would experience from the global slowdown in growth.** This was in direct contrast to what was being stated by the media. Now, I get to say ***"I Told You So.."***

The unraveling of the emerging markets has been very tough on investors and it is likely to get worse before it gets better. **If you are long emerging markets you may want to hold for now but sell into any rallies back to the long term moving average.** If you don't own any – now is **NOT THE TIME** to start buying emerging market shares.

Index: Utilities

Action: Hold

Utilities have been under pressure as of late due to the rise in interest rates and the choppiness of the markets. Utilities are currently trapped between their long term uptrend line and the long term moving average.

The best thing to do right now is to hold onto current positions and wait for some clarity before trying to buy or add to existing positions.

Index: Financials

Action: Take Profits

Financials are overbought after a substantial rally so it is time to take some profits. This does not mean sell entire holdings it just means to trim back the positions to the original position weighting when you bought it.

Index: Technology

Action: Take Profits

The same advice goes for the technology sector. With general market weakness currently it is a good idea to simply take a little money off the table after a substantial run to protect gains.

S&P 500 Sectors (Cont.)

Index: Energy

Action: Take Profits/Hold

The energy sector has had a decent run since the beginning of this year but the recent correction has taken it back to its long term mean at the current time. With general market weakness there is a risk we could see energy stocks trade lower.

If you are overweight energy in your portfolio taking profits in this area is a good idea. If you are underweight hold current positions for now.

Index: Staples

Action: Take Profits

Staples have had a monstrous rally since the beginning of 2010. The sector is grossly overbought and value but the trend is still very positive. Trim back current positions lock in gains and hold original weightings for now. A break of the long term trend line will be critical to watch for.

Index: Basic Materials

Action: Take Profits/Hold

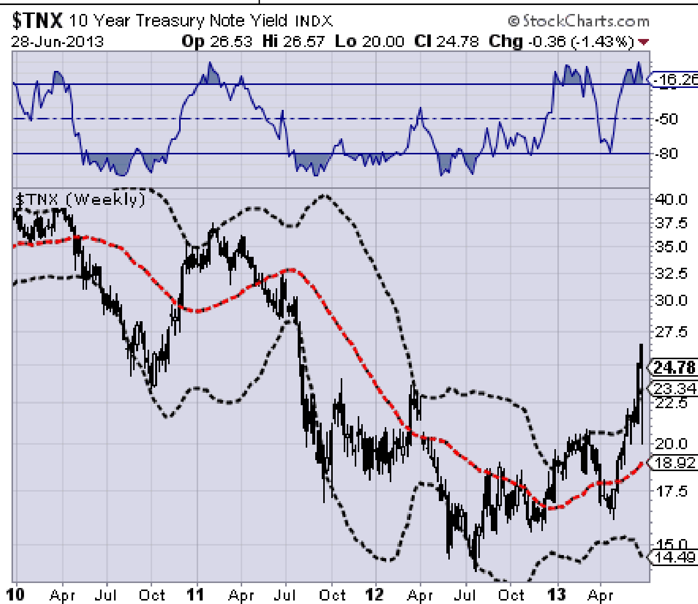
Basic materials have been selling off as of late but are currently testing their long term trend line. After a decent run from the beginning of the year it is a good time to take some profits and reduce portfolio risk until we see a better entry opportunity.

Index: Interest Rates

Action: Buy Bonds

Interest rates have soared in recent weeks on the back of panic selling by investors. The bond market has had a severe correction and is now ripe with decent opportunities for the intermediate term.

Read: *Bonds & Stocks: Investors Make Mistakes*



Index: US Dollar

Outlook: Back In The Trading Range

As expected the US Dollar fell back into its trading range. The brief fear in the market created by Bernanke's FOMC speech sent the dollar soaring. It is likely that we will see the dollar fall by the end of the year along with interest rates.

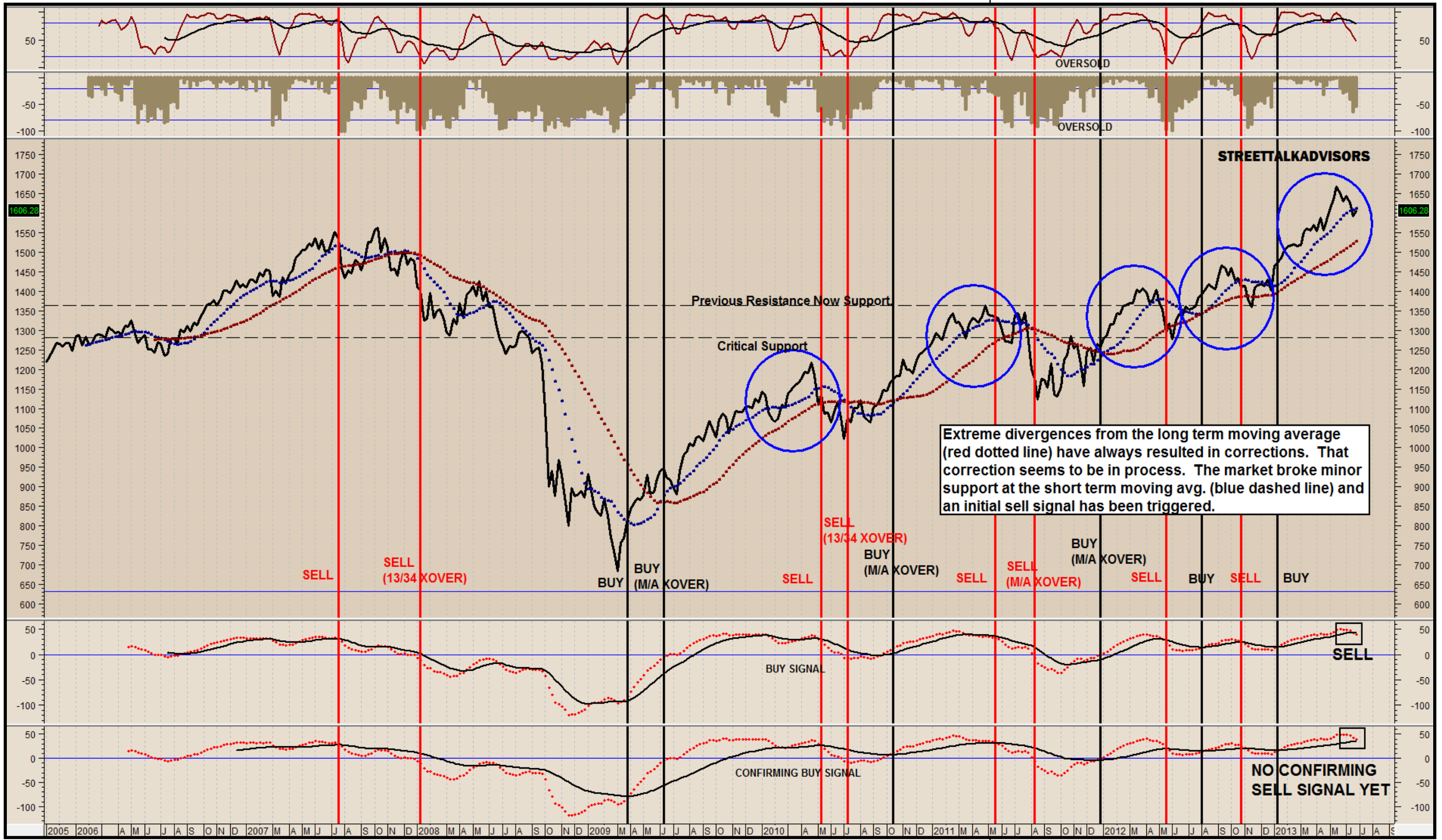
Index: Gold

Action: Sell On Rallies

As I stated last week gold is fundamentally and technically broken. Sell gold on any rally to reduce holdings to zero for the current time. If, and when, gold returns to a more normalized trend we will recommend adding gold back into portfolios at that time.

401K Plan Manager

the X factor Report by Lance Roberts



As I stated last week: *"The rally that begin in December of 2012 came to an end this past week as the correction triggered an initial sell signal and broke support at the short term moving average (blue dashed line in the chart above.)"* We gave specific instructions last week, and repeated this week in the missive above, on where to reduce exposure to equity risk.

With the failure of the market to clear resistance last week the current trend of prices is still to the downside bringing critical support at the longer term moving average (red line) into focus which is currently around 1525.

As earnings season gears up, still lofty expectations for corporate earnings, and a confirming SELL signal rapidly approaching - it is advised the portfolios be rebalanced on this rally. Next week will be critical that the markets clear resistance and break out of the negative trend.

However, as stated in this week's missive above, it is time to take some actions within your portfolio. We continue to highly recommend that you rebalance this week to the current allocation levels if you have not done so already if you are overweight equities and/or underweight fixed income.

If you need help after reading the alert; don't hesitate to ***contact me***.

[Suggestions Wanted]

I am in the process of revamping the newsletter and the 401k plan manager for the new website. If there is anything that you would like to see added to the 401k plan manager please email me.

Common 401K Plan Holdings By Class

Class	Funds
Cash	*Stable Value* *Money Market* *Retirement Savings Trust* *Fidelity MIP Fund* *G-Fund* *Short Term Bond*
Fixed Income	*Pimco Total Return* *Pimco Real Return* *Pimco Investment Grade Bond* *Vanguard Intermediate Bond* *Vanguard Total Bond Market* *Babson Bond Fund* *Lord Abbett Income* *Fidelity Corporate Bond* *Western Asset Mortgage Backed Bond* *Blackrock Total Return* *Blackrock Intermediate Bond* *American Funds Bond Fund Of America* *Dodge & Cox Income Fund* *Doubleline Total Return* *F-Fund*
Equity Large Cap	*Vanguard Total Stock Market* *Vanguard S&P 500 Index* *Vanguard Capital Opportunities* *Vanguard PrimeCap* *Vanguard Growth Index* *Fidelity Magellan* *Fidelity Large Cap Growth* *Fidelity Blue Chip* *Fidelity Capital Appreciation* *Dodge & Cox Stock* *Hartford Capital Appreciation* *American Funds AMCAP* *American Funds Growth Fund Of America* *Oakmark Growth Fund* *C-Fund (Common Assets)* *ALL TARGET DATE FUNDS 2020 or Later*
Balanced Funds	*Vanguard Balanced Index* *Vanguard Wellington Fund* *Vanguard Windsor Fund* *Vanguard Asset Allocation* *Fidelity Balanced Fund* *Fidelity Equity Income* *Fidelity Growth & Income* *American Funds Balanced* *American Funds Income Fund* *ALL TARGET DATE FUNDS 2020 or Sooner*
Small/Mid Cap	*Vanguard Mid Cap Growth* *Fidelity Mid Cap Growth* *Artisan Mid Cap* *Goldman Sachs Growth Opportunities* *Harbor Mid Cap Growth* *Goldman Sachs Small/Mid Cap Opp.* *Fidelity Low Price Stock Fund* *Columbia Acorn US* *Federated Kaufman Small Cap* *Invesco Small Cap*

The above represents a selection of some of the most common funds found in 401k plans. *If you do not see your SPECIFIC fund listed simply choose one that closely resembles the examples herein.* All funds perform relatively similarly within their respective fund classes.

I will modify this list over time as the asset allocation model changes to reflect international holdings, emerging markets, commodities , etc. as the model changes to reflect the addition of those holdings.

***Email me* if you need further assistance.**

Current 401k Allocation Model

5.00% **Cash + All Future Contributions**

Primary concern is the protection of investment capital

Examples: Stable Value, Money Market, Retirement Reserves

35.00% **Fixed Income (Bonds)**

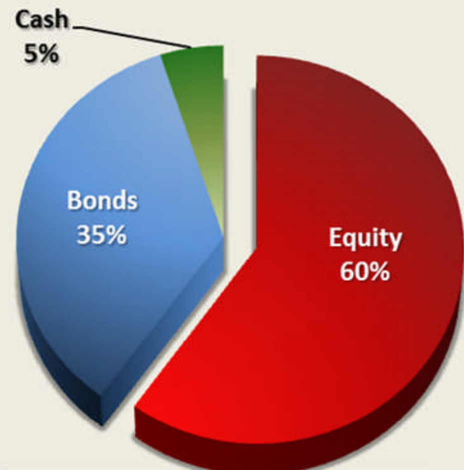
Bond Funds reflect the direction of interest rates

Examples: Short Duration, Total Return and Real Return Funds

60.00% **Equity (Stocks)**

The vast majority of stock funds track an index. Therefore, select on ONE fund from each category. Keep it Simple.

30% Equity Income, Balanced or Conservative Allocation
20% Large Cap Growth (S&P 500 Index)
10% Mid Cap Growth



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the X factor Report by Lance Roberts

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