March 8, 2014

the X-factor Report

by Lance Roberts

Market Strategies, Economic Analysis, Risk Management

Market Confirms Breakout

*(**Note:** Next week we are converting the newsletter to a full HTML version. **No more downloads.** You will be able to simply link to the section you want to read, email it, share it, print it or just read it.*

This change is due to your many suggestions and comments that have continued to improve our website, commentary and products. I urge you to keep sending me your suggestions, comments and criticisms about everything I produce. It is because of you that I continue to improve. Thank you.

My deepest appreciation goes to Eric Theriot of Theriot Creative for developing a really fantastic product that I know you are going to enjoy. [If you need a web designer – you will find no one better than Eric. I cannot recommend him highly enough.]

*However, due to the change over there will be **no newsletter next week**. This is also due to the fact that I am taking my lovely wife on a quick weekend getaway as I have been neglecting her as of late due to an increased workload.*

***I will be updating the website daily** for any issues that occur that would require additional portfolio changes. The easiest way to stay up to date on website postings is to follow me on Twitter (@lanceroberts) or on Facebook (facebook.com/stawealth).*

So, with the housekeeping portion of the newsletter now complete we will discuss two primary issues this week. First, the market DID confirm its breakout last week which requires an increase in portfolio models back to full equity allocations. The breakout has confirmed that the bullish trend remains in place and we must honor that trend for now.

Inside This Issue:

There is also mounting evidence that market exuberance is getting extreme. I had a long talk with a money manager in California who works for a major firm who laid out 10 basic issues with the markets that has him concerned.

Raising Portfolio Allocations To Equities

The ongoing bull market was confirmed last week at stock prices not only moved above the previous resistance levels, but also sold off last Tuesday retesting support and then broke out a second time. The chart below is a weekly chart showing the breakout above resistance.

This breakout above resistance confirms that the ongoing bull market trend remains intact for the time being.

Regardless that markets are overly extended, overly bullish and excessively complacent which increases investment risk substantially, as I will discuss below, it does not mean that a crash is imminent. As I discussed in Friday's missive *"Things To Ponder:"*

"After a brief respite early this year, the markets are hitting new highs confirming the current bullish trend. As a money manager, this requires me to increase equity exposure back to full target weightings. After such an extended run in the markets, this seems somewhat counter-intuitive. It is, but as Bill Clinton once famously stated; "What is....is."

*However, while the current market "IS" within a bullish trend currently, it doesn't mean that this will **always** be the case. This is why, as investors, we must modify **Clinton's line to:"What is...is...until it isn't."** That thought is the foundation of this weekend's "Things To Ponder." **In order to recognize when market dynamics have changed for the worse, we must be aware of the risks that are currently mounting."***

Therefore, for now, *"what is…is"* and that requires that we now follow through with the increase in the portfolio model back to 100% equity exposure. The following is a recap *from last week*:

"However, the chart below illustrates the pending change to the portfolio allocation model. (Review previous newsletter for more details on WHY I use the model allocation below.)

The table below shows the upgrade to the allocation model below in terms of *"where"* to allocate funds.

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

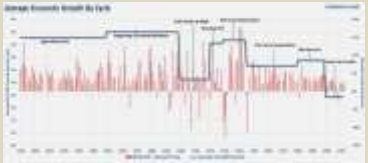
RECOMMENDED READING

5 Things To Ponder

Great insights from Howard Marks, Seth Klarman, Jeff Gundlach and what Bernanke couldn't say as Fed Chairman.

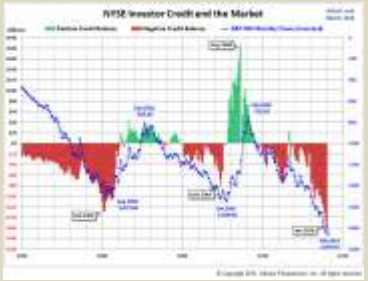
Slowest Economy In History

These two charts go to explain the slowest economic growth rate in the history of the U.S.



Technical Look At Margin Debt

Using technical analysis to look at the rate of growth in margin debt.



A quick note about portfolio management:

As you will note above I suggest only buying ONE fund to represent each area of the portfolio. This is for several reasons:

1. *The MAJORITY of mutual funds track their underlying index. You are NOT gaining diversification by owning 5 different large cap stock funds.*

2. *By owning multiples of the same type of fund (ie large cap growth) you increase what is known as "overlap" risk where you own the same stock multiple times. For example, you own 5 funds all of which overlap with each fund holding IBM.*

3. *By owning multiples of the same fund you potential increase internal costs with no underlying change in performance.*

4. *Rather than buy a specific fund to address a specific portfolio need – most individuals buy which funds performed best LAST year. This strategy never works out very well in the long run.*

5. *The more funds that you own, the more difficult it becomes to understand and manage the internal allocation.*

With this in mind it is important that any additions to portfolios in the coming days ahead be done cautiously. The sample table below shows how to potentially transition your current portfolio into a more streamlined model."

Current Allocation Model	Wgt.	Transition	New Model	Wgt.
Stable Value Fund	15.00%	→	*Stable Value*	5.00%
Retirement Savings Fund	5.00%			
Intermediate Bond Fund	10.00%			
Long Duration Bond Fund	10.00%			
Total Return Bond Fund	15.00%	→	*Total Return Bond Fund*	35.00%
Large Cap Growth Fund	5.00%			
Large Cap Value Fund	5.00%			
S&P Index Fund	5.00%	→	*S&P Index Fund*	20.00%
Equity Income Fund	5.00%	→	*Equity Income Fund*	20.00%
Small/Mid Cap Growth Fund	5.00%			
Small Cap Growth Fund	5.00%			
Emerging Markets Fund	5.00%			
Mid Cap Growth Fund	2.50%	→	*Mid Cap Growth Fund*	10.00%
Mid Cap Value Fund	2.50%			
International Growth Fund	2.50%			
International Value Fund	2.50%	→	*International Value Fund*	10.00%
Total	100.00%			100.00%

As I stated previously, such a major revamp ***should be done slowly and deliberately.*** *With the markets overbought, extended and overvalued the risks to the downside outweigh the potential upside reward. However, in the example above:*

- *Reduce Stable Value to 5%. The difference is then split into the MidCap Growth Fund and International Value Fund.*

RECOMMENDED READING

50% Profit Growth And Historical Realities

Is it possible for earnings to grow by another 50% over the next two years. This is what current estimates suggest.

Weather Causes Spending To Rise, Welfare Drives Incomes

The latest report on incomes and spending showed an increase which spurred the bulls. Unfortunately, spending increased on utilities and incomes rose due to welfare.

- *Retirement Savings Fund is moved into the S&P 500 Index Fund*
- *The Intermediate and Long Duration Bond Funds are collapsed into the Total Duration Bond Fund.*
- *Large Cap Growth and Large Cap Value are consolidated into the S&P 500 Index Fund*
- *Small Cap and Emerging Market Funds are reallocated into the Equity Income Fund (This move lowers the overall volatility of the portfolio to reduce downside risk.)*
- *MidCap Value is combined with the MidCap Growth Fund.*
- *International Value is combined with the International Value Fund.*

As you can see the new streamlined model is much easier to understand, and manage, as market risks change. It is suggested that such a major revamp to a portfolio model be done on dips in the market over the next couple of months.

It is likely that as we approach summer we will begin seeing signs, once again, of a market under pressure and the restructuring of the portfolio will have reduced overall volatility and exposure to downside risks."

Portfolio Reallocation Guidelines

With the *"buy signals"* likely to be reinitiated in the coming week, here are the guidelines to follow in adjusting your portfolio allocation model.

1. Move slowly. There is no rush in adding equity exposure to your portfolio. Use any small dips to add equity exposure.

2. If you are heavily UNDER-weight equities do NOT try an move to the full allocation model in one move. This could be a disastrous move if the market reverses sharply in the short term. Move slowly.

3. Begin by selling laggards and losers. These positions are dragging on performance as the market rises and tend to lead when markets fall. Like *"weeds choking a garden,"* pull them.

4. Add to sectors, or positions, that are performing with, or outperforming, the broader market. *(See sector analysis below for suggestions.)*

5. Move *"stop loss"* levels up to current break out levels for each position. Managing a portfolio without *"stop loss"* levels is not prudent.

6. While the technical trends are still intact, risk considerably outweighs reward. If you are not comfortable with potentially having to sell at a LOSS what you just bought, then wait for a larger correction to add

exposure more safely. There is no harm in waiting for the *"fat pitch"* as the current market setup is not one.

7. If none of this makes any sense to you – please consider hiring someone to manage your portfolio for you. It will be worth it over the long term.

10 Signs Of A Stock Market Bubble

On Monday, I am going to do a much more detailed version of the following. However, I wanted to discuss this with you first.

Over the last month the markets have continued to rally higher as "bad economic data" has raised hopes that the Federal Reserve will *"taper"* their current *"tapering"* of the liquidity programs.

This past week I was discussing the markets with a money manager in California who works for a major firm. *(He asked that I keep his identity confidential)* During one of our email exchanges he sent me a list of 10 typical characteristics of a stock market bubble.

1. *Expected strong OR acceleration of GDP and EPS (40% of 2013's EPS increase occurred in the 4th quarter)*

2. *Large number of IPOs of unprofitable AND speculative companies*

3. *Parabolic move up in stock prices of hot industries (not just individual stocks)*

4. *High valuations (many metrics are at near-record highs, a few at record highs)*

5. *Fantastic high valuation of some large mergers (e.g., Facebook & WhatsApp)*

6. *High NYSE margin debt*

   Margin debt/gdp
   (March 2000: 2.7%, July 2007: 2.6%, Jan 2014: 2.6%)

   Margin debt/market cap
   (March 2000: 1.8%, July 2007: 2.3%, Jan 2014: 2.0%)

7. *Household direct holdings of equities as % of total financial assets at 24%, second-highest level (data back to 1953, highest was 1998-2000)*

8. *Highly bullish sentiment (down slightly from year-end peaks; still high or near record high, depending on the source)*

9. *Unusually high ratio of selling to buying by corporate senior managers (the buy/sell ratio of senior corp officers is now at the record post-1990 lows seen in Summer 2007 and Spring 2011)*

10. *Stock prices rise following speculative press releases (e.g., Tesla will dominate battery business after they get partner who knows how to build batteries and they build a big factory)*

All are true today, and it is the third time in the last 15 years these factors have occurred simultaneously which is the most remarkable aspect of the situation.

David Kostin, Chief US Strategist of Goldman Sachs recently noted the same:

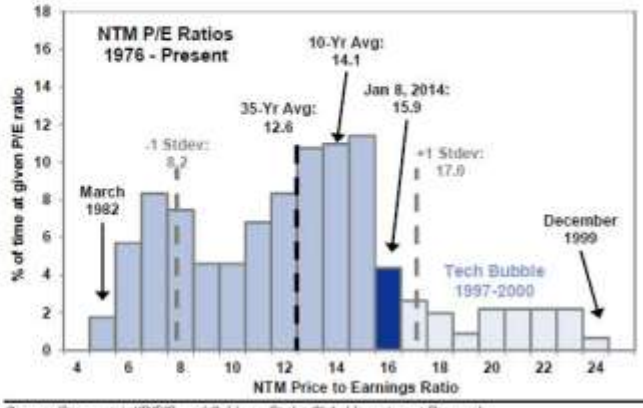
> ***"The current valuation of the S&P 500 is lofty by almost any measure, both for the aggregate market as well as the median stock**:*
>
> *(1) The P/E ratio;*
> *(2) the current P/E expansion cycle;*
> *(3) EV/Sales;*
> *(4) EV/EBITDA;*
> *(5) Free Cash Flow yield;*
> *(6) Price/Book as well as the ROE and P/B relationship; and compared with the levels of inflation; nominal 10-year Treasury yields; and real interest rates.*

Charts we are watching: Valuation – P/E multiples

Exhibit 1: S&P 500 median and consensus NTM P/E
as of January 9, 2014

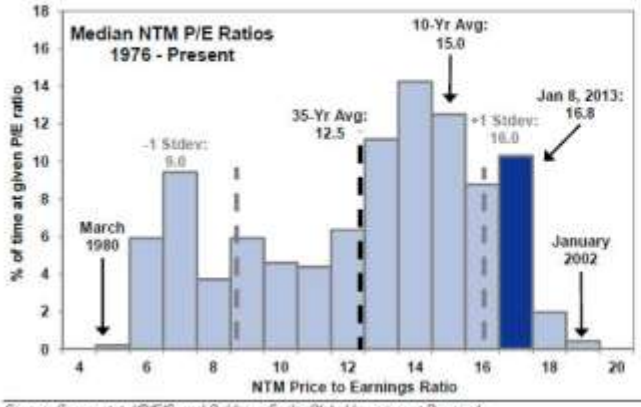
Source: Compustat, I/B/E/S, and Goldman Sachs Global Investment Research.

Exhibit 2: S&P 500 P/E historically high, only lower than tech bubble levels
as of January 9, 2014



Source: Compustat, I/B/E/S, and Goldman Sachs Global Investment Research.

Exhibit 3: Median P/E near record levels
as of January 9, 2014



Source: Compustat, I/B/E/S, and Goldman Sachs Global Investment Research.

Exhibit 4: P/E multiple expansion cycles historically peak at 15x
as of January 9, 2014

			S&P 500 Forward P/E			Change	
Trough	Peak	Months	Trough	Peak	Expansion	10yr Yield	Core CPI
Mar-82	Dec-83	21	5.1x	8.2x	60 %	↓	↓
Jun-84	Jul-87	37	6.3	13.2	111	↓	↓
Aug-88	Dec-89	16	8.8	11.5	31	↓	=
Sep-90	Dec-91	15	9.5	15.0	57	↓	↓
Nov-94	Dec-99	61	11.3	24.3	115	↓	↓
Sep-02	Jan-04	16	13.8	17.8	29		↓
Jul-06	Apr-07	9	14.1	15.5	10	↓	↓
Oct-08	Sep-09	11	10.5	15.5	48	↓	↓
Aug-10	Jan-11	5	11.6	13.3	15		
9 cycle median		16	10.5x	15.0x	48 %		
Current							
Sep-11	Jan-14	27	10.6	15.9	50	↑	↓

Source: FactSet, Compustat, FirstCall, I/B/E/S, Goldman Sachs Global Investment Research.

Furthermore, the cyclically-adjusted P/E ratio suggests the S&P 500 is currently 30% overvalued in terms of (9) Operating EPS and (10) about 45% overvalued using As Reported earnings.

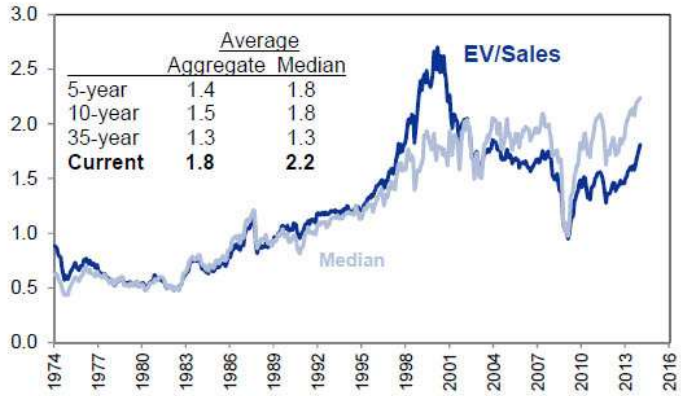
Reflecting on our recent client visits and conversations, ***the biggest surprise is how many investors expect the forward P/E multiple to expand to 17x or 18x****. For some reason, many market participants believe the P/E multiple has a long-term average of 15x and therefore expansion to 17-18x seems reasonable.* ***But the common perception is wrong****. The forward P/E ratio for the S&P 500 during the past 5-year, 10-year, and 35- year periods has averaged 13.2x, 14.1x, and 13.0x, respectively. At 15.9x, the current aggregate forward P/E multiple is high by historical standards.*

Most investors are surprised to learn that since 1976 the S&P 500 P/E multiple has only exceeded 17x during the 1997-2000 Tech Bubble and a brief four-month period in 2003-04 (see Exhibit 1). Other than those two episodes, the US stock market has never traded at a P/E of 17x or above.

A graph of the historical distribution of P/E ratios clearly highlights that outside of the Tech Bubble, the market has only rarely (5% of the time) traded at the current forward multiple of 16x.

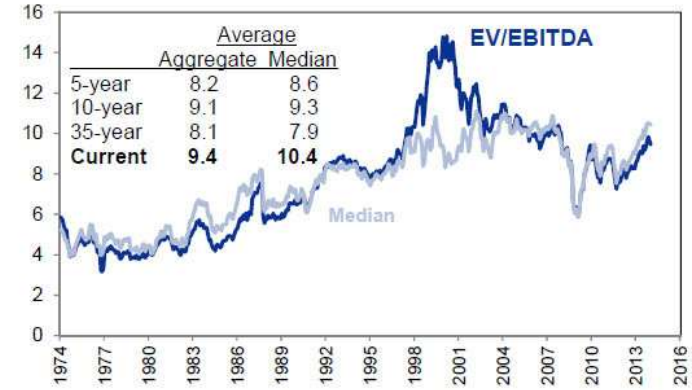
Charts we are watching: Valuation – EV/Sales, EV/EBITDA, FCF Yield, and P/B

Exhibit 5: S&P 500 EV/Sales – Median of 2.2% sets a new record
as of January 9, 2014



Source: Compustat and Goldman Sachs Global Investment Research.

Exhibit 6: S&P 500 EV/EBITDA
as of January 9, 2014

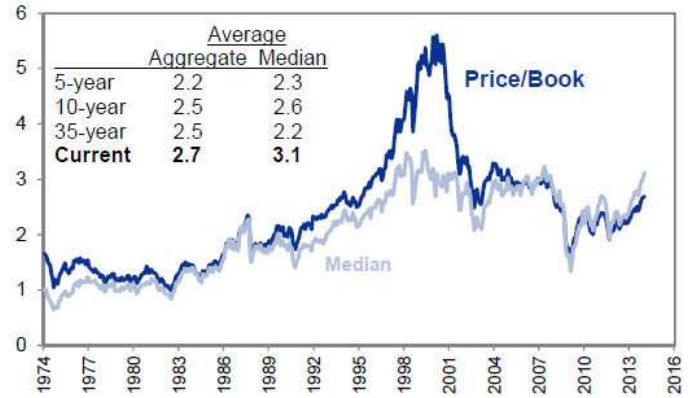


Source: Compustat and Goldman Sachs Global Investment Research.

Exhibit 7: S&P 500 FCF Yield
as of January 9, 2014

Source: Compustat and Goldman Sachs Global Investment Research.

Exhibit 8: S&P 500 Price/Book
as of January 9, 2014



Source: Compustat and Goldman Sachs Global Investment Research.

***The elevated market multiple is even more apparent when viewed on a median basis**. At 16.8x, the current multiple is at the high end of its historical distribution.*

*The multiple expansion cycle provides another lens through which we view equity valuation. There have been nine multiple expansion cycles during the past 30 years. The P/E troughed at a median value of 10.5x and peaked at a median value of 15.0x, an increase of roughly 50%. **The current expansion cycle began in September 2011 when the market traded at 10.6x forward EPS and it currently trades at 15.9x, an expansion of 50%.** However, during most (7 of the 9) of the cycles the backdrop included falling bond yields and declining inflation. In contrast, bond yields are now increasing and inflation is low but expected to rise.*

Simply put, the earnings yield gap between the S&P 500 and ten-year Treasury yields currently equals about 325 bp. Goldman Sachs Economics forecasts bond yields will creep higher to 3.25% by year-end 2014, a rise of just 25 bp. If the earnings yield gap remains unchanged, then the 'fair value' multiple according to the Fed model would be 15.2x at year-end 2014. The implied index level would be 1900 assuming our 2015 EPS forecast of $125. However, bond yields could rise by more than we expect and hit 3.75% while the yield gap could narrow to perhaps 275 bp. The resulting EPS yield of 6.5% represents a forward P/E of 15.4x implying a S&P 500 level of 1923. Exhibit 4 of the Dec 6th Kickstart shows valuation using various yields and yield gaps.

*Incorporating inflation into our valuation analysis suggests S&P 500 is slightly overvalued. When real interest rates have been in the 1%-2% band, the P/E has averaged 15.0x. Nominal rates of 3%-4% have been associated with P/E multiples averaging 14.2x, nearly two points below today. **As noted earlier, S&P 500 is overvalued on both an aggregate and median basis on many classic metrics, including EV/EBITDA, FCF, and P/B."***

Wrapping It Up

Howard Marks summed it up best:

*"If I ask you what's the risk in investing, you would answer the risk of losing money. But there actually are two risks in investing: **One is to lose money and the other is to miss opportunity. You can eliminate either one, but you can't eliminate both at the same time.** So the question is how you're going to position yourself versus these two risks: straight down the middle, more aggressive or more defensive.*

I think of it like a comedy movie where a guy is considering some activity. On his right shoulder is sitting an angel in a white robe. He says: 'No, don't do it! It's not prudent, it's not a good idea, it's not proper and you'll get in trouble'.

On the other shoulder is the devil in a red robe with his pitchfork. He whispers: 'Do it, you'll get rich'. ***In the end, the devil usually wins.***

Caution, maturity and doing the right thing are old-fashioned ideas. ***And when they do battle against the desire to get rich, other than in panic times the desire to get rich usually wins. That's why bubbles are created*** *and frauds like Bernie Madoff get money.*

How do you avoid getting trapped by the devil?

I've been in this business for over forty-five years now, so I've had a lot of experience. In addition, I am not a very emotional person. ***In fact, almost all the great investors I know are unemotional. If you're emotional then you'll buy at the top when everybody is euphoric and prices are high. Also, you'll sell at the bottom when everybody is depressed and prices are low. You'll be like everybody else and you will always do the wrong thing at the extremes.***

Therefore, ***unemotionalism is one of the most important criteria for being a successful investor.*** *And* ***if you can't be unemotional you should not invest your own money, period.*** *Most great investors practice something called contrarianism. It consists of doing the right thing at the extremes which is the contrary of what everybody else is doing. So unemtionalism is one of the basic requirements for contrarianism."*

Being unemotional when it comes to your money is a very hard thing to do. It is times, such as now, where logic states that we must participate with the current opportunity. However, emotions are screaming that risk is high and a crash could come at any time. The emotional argument is correct, however, there is no way to KNOW exactly when that crash is coming. It could be in a month, 6 months or another year or more.

The artificial interventions from the Federal Reserve will eventually fail to prop up asset prices any longer. When that end finally comes, the resulting *"mean reversion"* will be of a spectacular nature. But that could be from levels 20% or higher from here. Market exuberance can drive prices further than could ever be rationally expected – that is why they are called bubbles.

Move cautiously. Pay attention. Keep a watch on the website for updates and I will be back with you week after next. Please *email me* with questions if you need help.

Have a great week.

Lance Roberts

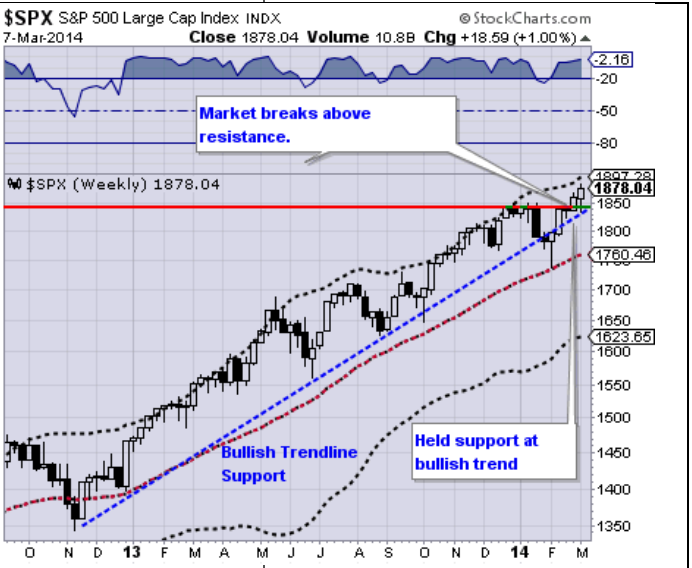
Sector Analysis

Major Markets

S&P 500
Analysis: Hold / Reallocate

The confirmed breakout above resistance now makes the S&P 500 attractive from a technical standpoint in the short term. Currently, any pullbacks to 1850 that hold should be bought with an expectation that the market could advance to a current target of 1897.

Current stop is 1840.



International Markets
Analysis: Hold

Unlike domestic markets, the international markets have not broken above resistance as of yet. This makes international a more risky bet at the moment. However, with a high correlation to domestic markets it is likely that if US stocks continue their advance next week we will see a breakout in the international markets.

Current Stock is 1840.

Emerging Markets
Analysis: Sell - Still

Since March of last year we have recommended getting out of emerging market stocks. The economics, fundamentals, and technicals are reminiscent of a late night horror movie with evil spirits whispering *"Get Out!"*

Emerging markets are not extremely oversold at the moment and there is risk to a downside move to 920.

The *"Get out of Dodge"* stop is currently 915.

S&P 500 Strong Sectors

(Sectors That Outperformed The S&P 500 Over The Last 90 Days)

Health Care

Analysis: Hold / Add

If you are looking add to current equity exposure in portfolios then healthcare is a clear outperformer. However, in the short term the sector is trading at the top of its bullish trend. Additions should be done around 57.5.

Current stop is 53

Industrials

Analysis: Buy / Hold

Industrials just recently bounced off of support and is heading to the top of its bullish trend line.

This is another sector that has been leading the overall market higher. Pull backs toward 50 will provide decent entry points as long as the bullish trend remains intact.

Current stop is 48.50

Technology

Analysis: Hold / Add

Same as industrials.

Buy on dips that pull the sector back towards 35.

Current stop is 33.50

S&P 500 Weak Sectors

(Sectors That Underperformed The S&P 500 Over The Last 90 Days)

Energy

Analysis: Hold / Reduce

Energy continues to lag on all fronts. The recent break of the bullish trend has not been reversed as the sector has now rallied back to resistance (previous support.)

If you are overweight energy this is a good time to reduce holdings in portfolios in favor of sectors that are outperforming.

Current stop is 84.

Consumer Staples

Analysis: Hold / Reduce

Staples were unable to hold their recent breakout and are now once again testing new overhead resistance.

A break above 43 will return this sector back a "buy" status but underperformance relative to the broad market remains an issue.

This sector should be market weight at the most in portfolio allocations for now.

Current stop is 41

Utilities

Analysis: Hold

Utilities broke out of their consolidation pattern recently as interest rates fell during the end of last year. This sector is current extremely overbought and lagging.

Reduce utilities in portfolios to market weight for now.

The sector is struggling hold its breakout momentarily. If the sector moves higher in the week ahead it will confirm a bull breakout and will move this sector back to a "buy."

Current stop is 38.

Interest Rates

Analysis: Back To Resistance

Interest rates have rallied only a small fraction over the last several weeks as the stock market has rocked to new highs.

The lack of confirmation by interest rates suggests that the recent rise in the stock market may be fleeting.

Currently at resistance in a downtrend, if the markets sell off next week we will likely see rates retest the recent levels of 2.5%

Gold

Analysis: An Opportunity To Sell

The recent "scare" by the Ukraine and Russia caused gold to spike from much oversold levels. The short covering rally is likely done and the current rally give investors trapped in gold to sell at better prices.

The current bear trend is still intact and there is no reason to own gold at the current time. There are no zombies as of yet, and with the realization that hackers can steal all of your bitcoins, the US dollar is still the reserve currency of choice.

Current stop is 1195

US Dollar

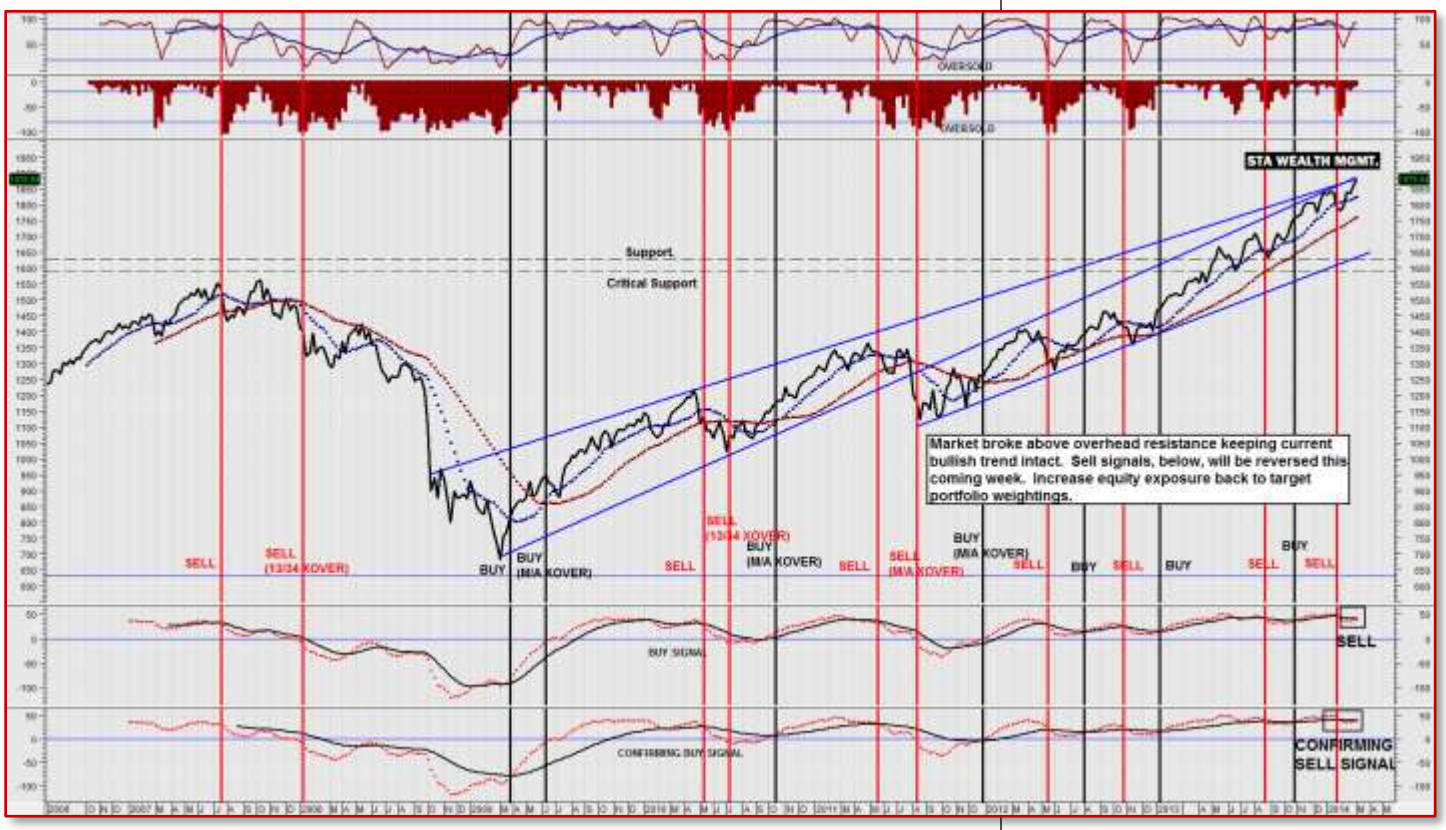
Analysis: Pushing To Target

As the Fed's interventions and deflationary pressures continue to push the dollar lower, the dollar almost reached my target of 79 last week.

Current support remains at that level and the dollar is now oversold enough for a short term bounce to 80.

A close below 79 would suggest the recessionary pressures are quickly mounting.

401K Plan Manager



This past week the market confirmed the recent breakout and maintained the current bullish trend. Therefore, as we discussed last week it is now time, with the recent sell signals now being reversed, that the portfolio allocation model is revised back to full target weightings.

However, as is always the case, since we use WEEKLY sell signals to reduce long term portfolio turnover the markets are once again overbought short term. This means that increases to equity (risk) exposure should be done cautiously (small steps) and on pullbacks in the markets.

The current bull market cycle is very long in the tooth and volatility is likely to increase making returns harder to come by. While the suggested allocation below is historically the best performing allocation model over the long haul – it should be adjusted to meet your own personal risk tolerance. If you are in, or close to, retirement and don't pay regular attention to your portfolio it is perfectly acceptable to adjust the equity risk in your allocation to lower levels.

Also, be careful of chasing assets based on *"yield."* The yield chase is very extended and, historically, has always ended badly.

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

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.**

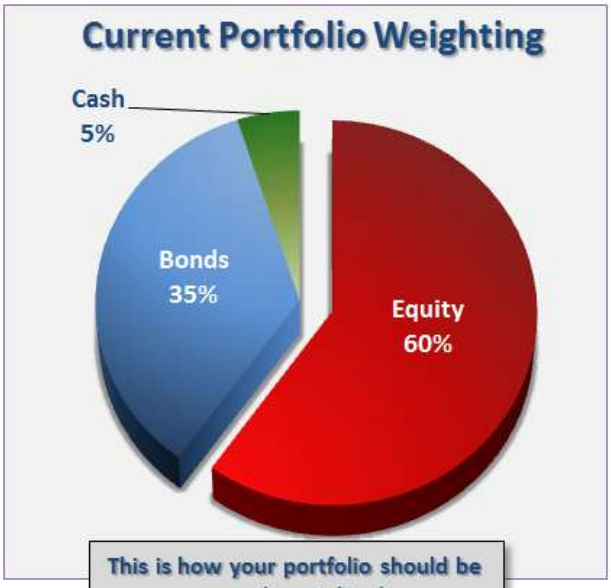
Current 401k Allocation Model

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.

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



This is how your portfolio should be currently weighted.

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