

# PORTFOLIO WATCH



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Fee **FO** Only

## Risking Your Retirement

I had a tough time narrowing down the topics I wanted to comment on this month, so I'll address the ones that didn't make it this month in my blog ([veripax.wordpress.com](http://veripax.wordpress.com)). Although the topic of risk might make me sound like a paranoid Eeyore, I think it's pretty important given where the market is currently.

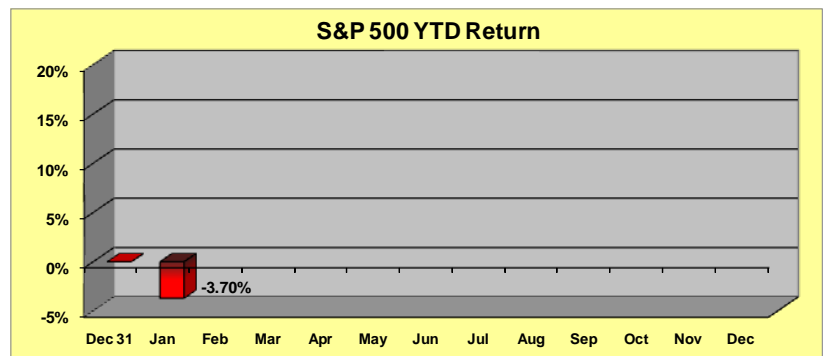
### The Market Is Risky

Duh. And past performance is not a guarantee of future returns, blah, blah, blah. Saying these things has about the same effect as telling your kid to "be careful". After all, the market rewards the patient investor. The market has averaged a 10.2% per year return for the last 80 years. There has never been a 20 year period where the U.S. market lost money. So What!!! How do any of these tired sayings comfort the guy who retired in 1998 and is looking at a market that is lower now than it was 12 years ago? Fortunately, if he stuck to his buy-and-hold strategy he would have participated in the great recovery of 2009 which took his equity portfolio all the way from 1996 levels to 1998. The market does not care when your retirement is, it has no timeframe it needs to follow, and it is under no compulsion to repeat anything it's done before. I suppose we can take comfort in the fact that these are unique times, and the market collapse of 2008 was a "once-in-a-hundred-year event". Although, so was 2001, and in fact, 2008 had a couple of them. Those who jumped into the market in January 2009 saw their stocks drop 28% by early March. The market is risky like walking on a tightrope without a net is risky. Sometimes it makes sense to have a net.

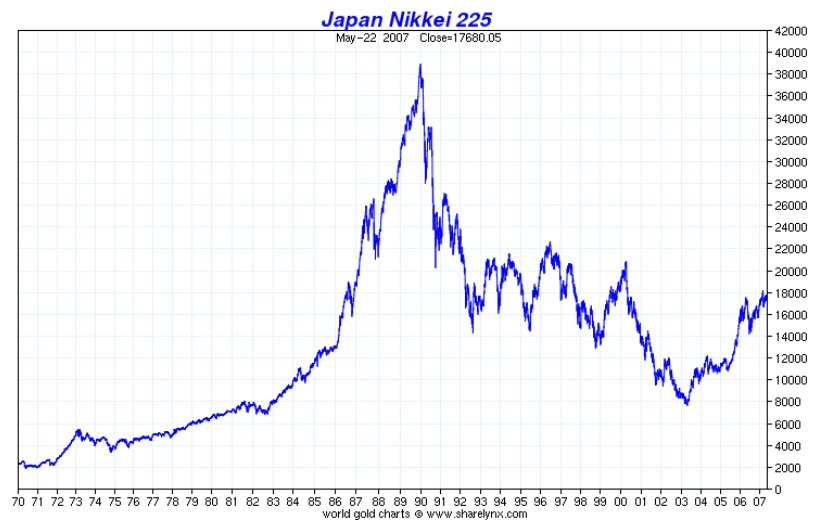
### The Market Always Comes Back

So far this is true. At times it took something like WWII to stimulate growth, but the market always came back. The stock chart of the second largest economy in the world is worth taking a look at. Japan was the hottest economy in the world in the 1980's. Unfortunately, this chart stops in 2007 when the Nikkei Index was about 18,000.

2006 return: 13.62%    2008 return: -38.49%  
 2007 return: 3.53%    2009 return: 23.45%



Today, the Nikkei 225 is at 10,396 following a 50% recovery since last March (sound familiar?).

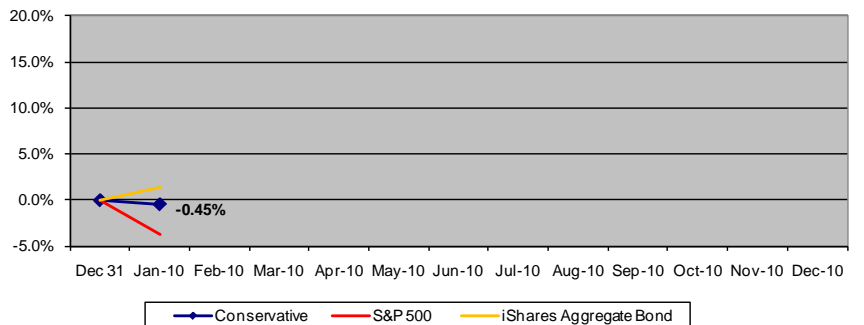
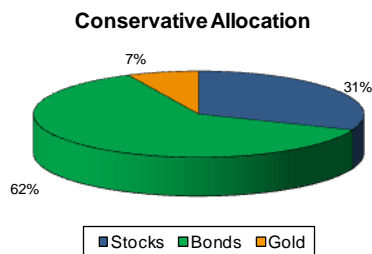
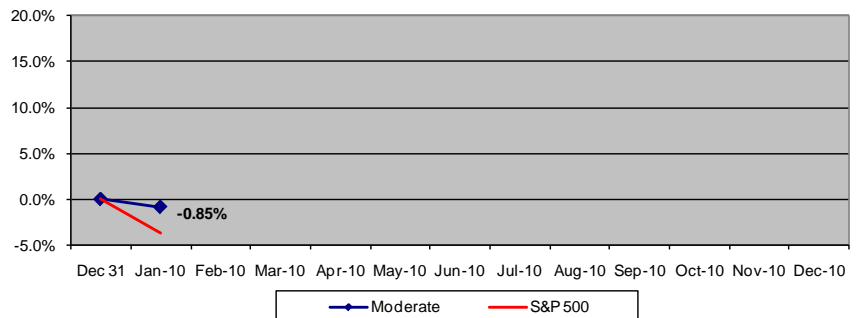
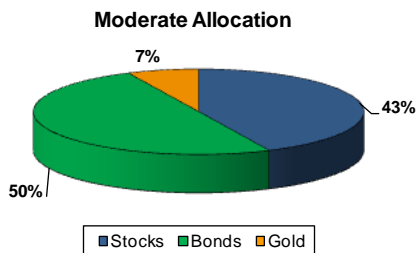
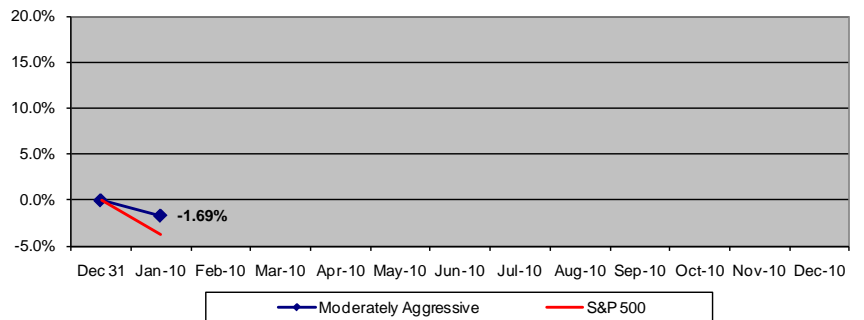
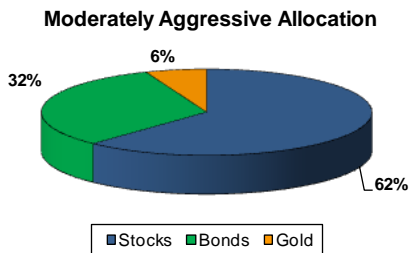
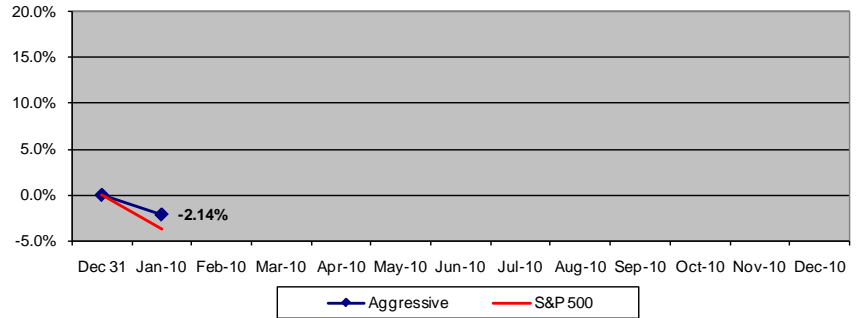
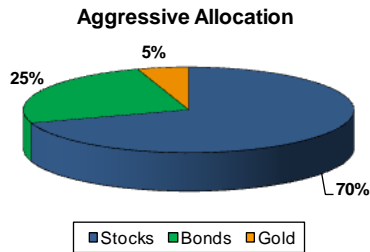


### Don't Risk Your Savings Out Of Principle

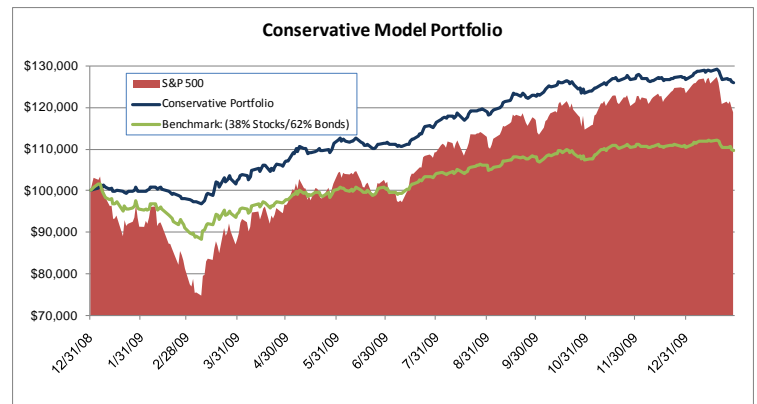
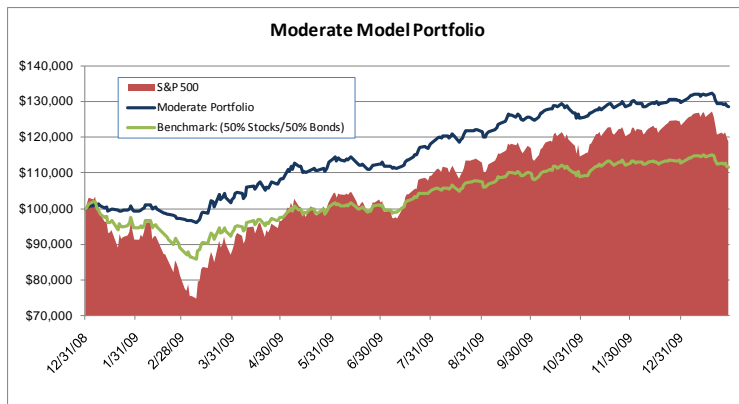
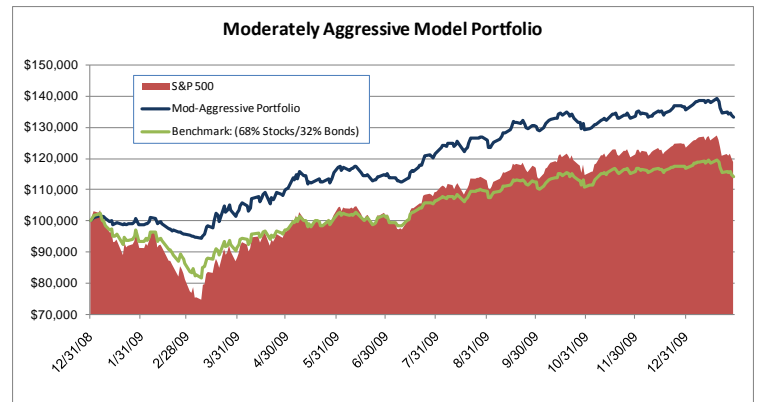
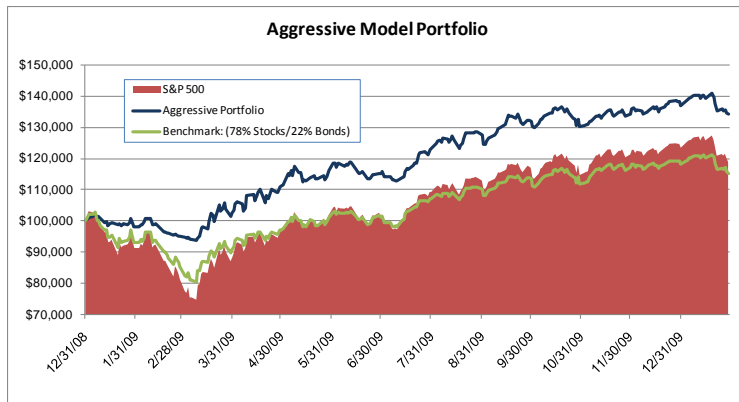
I'm not trying to make any predictions or sound the doomsday alarm. High unemployment, record deficits, and phony GDP numbers have me concerned, but I'm a lousy fortune teller. I'm simply trying to point out that sticking to the belief that the market will repeat itself and continue to go higher forever is a risky thing to do with your financial future. Contrary to popular euphemisms, the market does not return 10.2% per year. In fact, there have been 3 periods of >15 years since 1900 where the market has been flat to down, and the one we're in now has a good chance of increasing that number. Can money still be made by investing in these periods? Absolutely. But not by closing your eyes and hoping the market comes back. You need to set a limit on losses. More on this later.

# Model Portfolio Performance

The following allocation models and Year-To-Date performance graphs represent the preferred investments in Veripax Financial Management's target portfolios. Investment allocation for each model is determined based on time horizon and risk tolerance. In most cases, individual client portfolios will contain slightly different investments and allocation mixes based on individual financial goals, investment priorities, and tax considerations. The Model Portfolios invest primarily in Exchange Traded Funds and no-load bond funds.



## Daily Performance Charts



**Benchmarks:** The Benchmark for each of the above graphs utilizes the Russell 1000 Index for stocks and Total Bond Market Index for bonds. The ratio of stocks and bonds in each Benchmark matches the ratio of the associated VFM model portfolio.

**Portfolio Construction:** Each Model Portfolio consists of up to 8 stock sectors, 7 bond sectors and gold. Buy/Sell decisions are based on VFM's proprietary algorithm and are consistent across all portfolios. Each Model Portfolio and the associated Benchmark are rebalanced quarterly.

## Portfolio Comments

The year didn't start off very well. The enthusiasm for buying that occurred last year seems to have been replaced with a skepticism that the economy is really out of the woods. Ask just about anyone who is looking for work and you will probably get confirmation that the economic problems are not behind us just yet.

A few minor allocation changes were made to the model portfolios to start off the year. The most significant changes included the addition of an Emerging Markets Bond fund, and the addition of a BRIC Index ETF (Brazil, Russia, India, China) to add some emerging market equity exposure that is typically not found in the Sector ETFs. I am still waiting on a buy point for the BRIC ETF, so technically it's not in the portfolios yet.

All of the portfolios were down in January, but all of them were better than the S&P 500 and all were slightly better than their benchmarks. Gold began bouncing around the sell point back in December and finally displayed enough ugliness that it was sold off on Jan 7. The last week of January was particularly bad, which caused sell points for Basic Materials early in the week and Technology on the last day of the month. Therefore, 3 sectors are currently in cash (4 sectors if you count the new BRIC sector). Gold has since fallen more than 5% and Basic Materials fell about 3% since the sell decision.

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