

PORTFOLIO WATCH



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Fee **FO** Only

Is "Buy and Hold" Really Dead?

If you ever want to see a fight between people who probably look ridiculous trying to throw a punch, just put a group of financial advisors in a room with the task of figuring out the best investment strategy. A virtual fight over this topic takes place constantly on financial geek websites, which means most normal people will never see it, but be assured the battle never ends. Since this is my newsletter, I don't have to fear retaliation until someone finds it on Google.

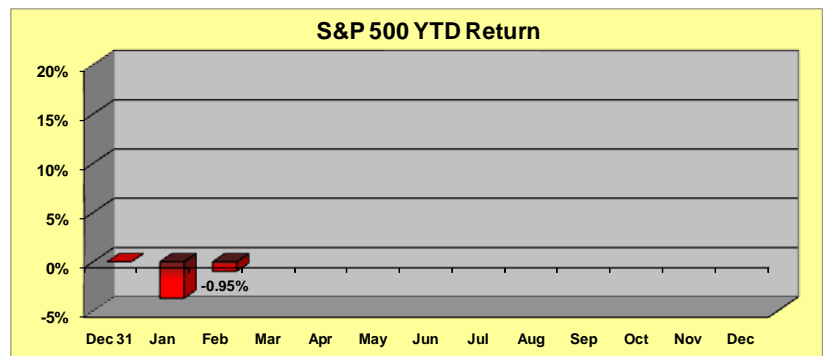
What buy-and-hold means

Originally, buy-and-hold meant picking a solid, high-quality company to invest in (Woolworth, General Motors, AIG) and allowing the price appreciation to carry you to wealth. Some very successful investors employed this technique, probably the most famous being Warren Buffett. However, as I've mentioned before, unless you can buy a company, install the management and hold them accountable, you probably don't invest like Mr. Buffett. In fact, in the first half of the 20th century, stock investing was not all that popular or accessible by the common people. The popularity of mutual fund investing and the rise of aggressive growth funds in the 1960's changed this, and with the beginning of the bull market in the 1980's, stock and mutual fund investing became a given for anyone wanting to save for retirement. The market may have brief periods where it goes down, but if you just hang on, you can realize the 10%+ average growth that stocks have had for the last 100 years.

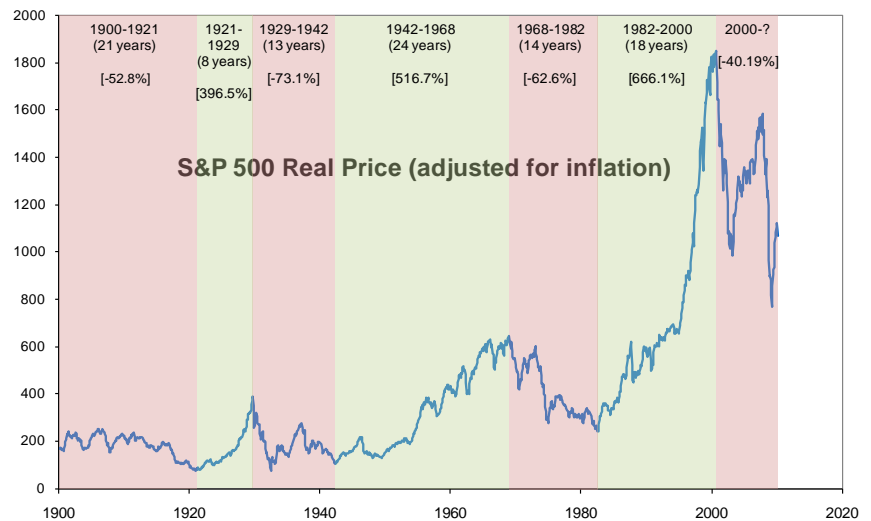
Works great in a bull market

Take a look at the chart on the right, which shows the S&P 500 segmented by secular (long-term) bull and bear markets. Is it any wonder that "buy a high quality mutual fund and ride out the bumps" became the standard advice throughout the 80's and 90's. The long-term average return calculated in 2000 was very different than the one calculated in 1980. It doesn't take a rocket scientist to see that a buy-and-hold strategy did very well at times, and that these times all came

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



to an end. If a person was lucky enough to hit peak investment years at the beginning of a bull market cycle, the plan worked. For others, it has been devastating. Since the primary experience for many of today's investors is rooted in the 1980-2000 timeframe (mine included), it's easy to see why there is such faith in the buy-and-hold strategy.



Stock market data used in "Irrational Exuberance", Princeton Univ. Press, 2005, updated by Robert J. Shiller

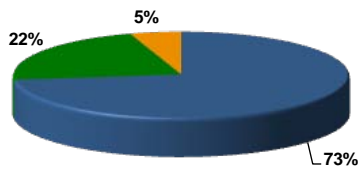
Answering the question

Is buy-and-hold dead? My view is that, in its pure form, it was never alive. Owning stocks in the 80's and 90's, and 2003-2007, was clearly the best investment. But that's not buy-and-hold; that's following the trend (a good strategy). Buy-and-hold assumes that any downtrend will be over soon enough to get an investor back on track before it's too late, and that doesn't seem to be supported historically. There was a lot of money to be made in every one of the secular bear market cycles shown above, but it wasn't by holding stocks as they went down. There had to be an exit strategy.

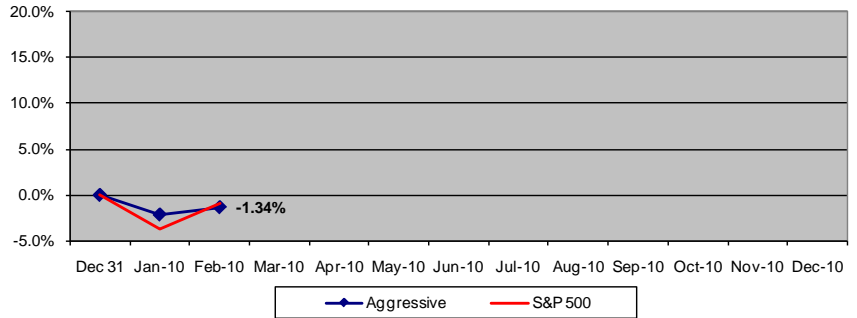
Model Portfolio Performance

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.

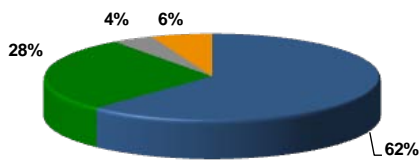
Aggressive Allocation



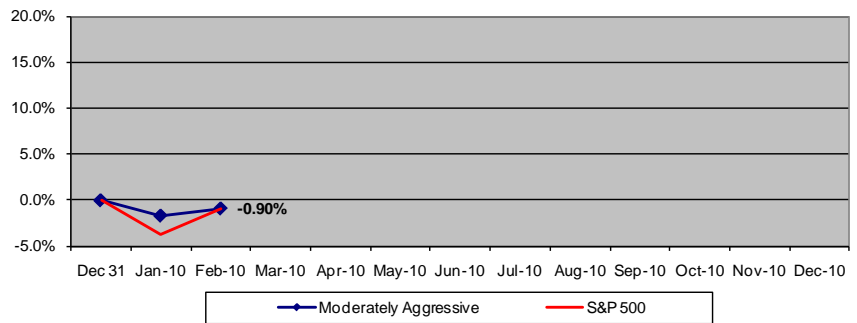
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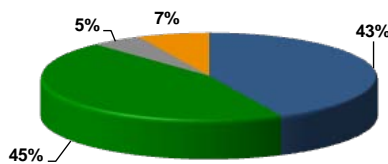
Moderately Aggressive Allocation



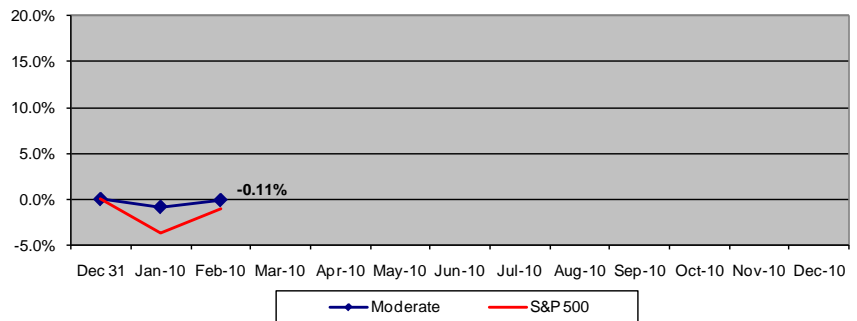
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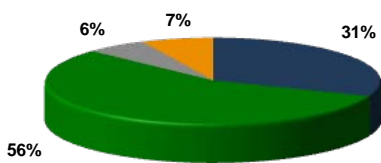
Moderate Allocation



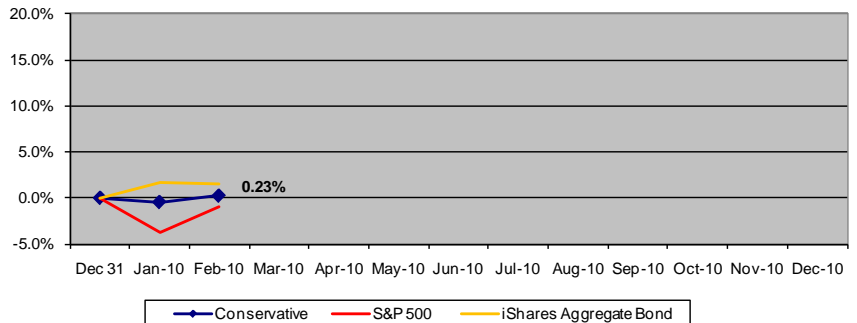
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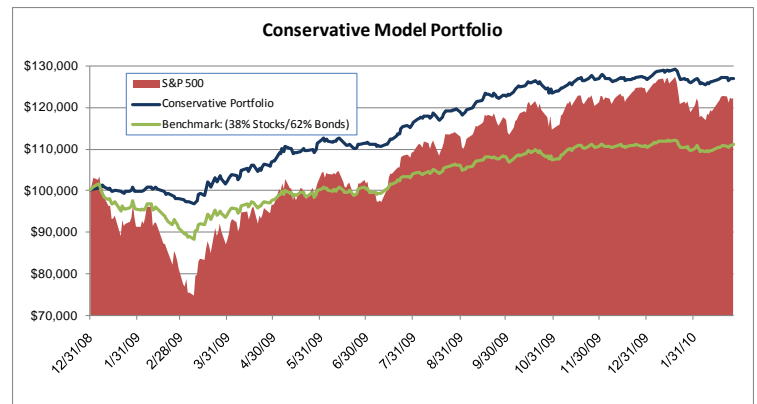
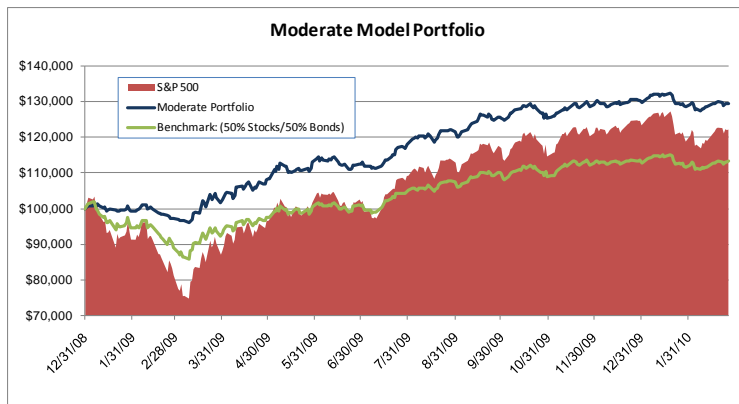
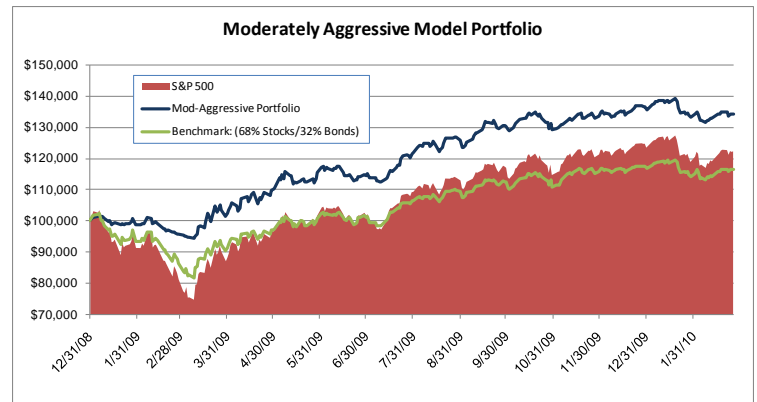
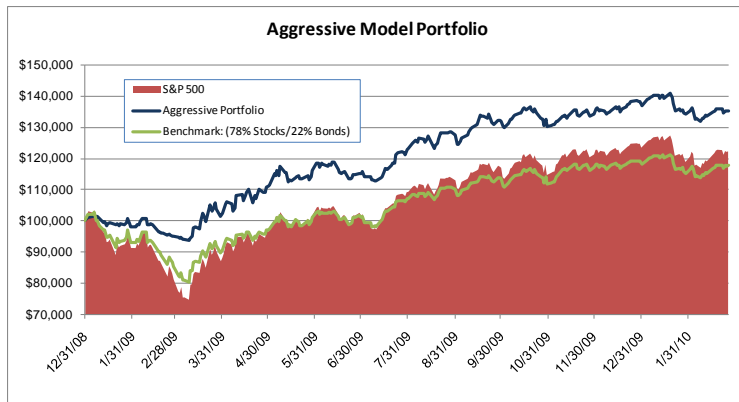
Conservative Allocation



■ Stocks ■ Bonds ■ Collared Equities ■ Precious Metals



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 market seems to have stabilized after a pullback of about 8% and a rise in volatility to start off the year. Some economic indicators are showing that the recovery is not rocketing the economy to the next decade of wealth and prosperity, and for some reason the market gets nervous when countries (like Greece) start to look like they won't be able to pay their debts. Fortunately, the U.S. will never have to worry about that. [Editor's note: the previous comment was typed with extreme sarcasm.]

Quite a bit of repositioning and risk management took place last month. Ideally, moving sectors to cash would coincide with normal rebalancing and result in a few less transactions. Unfortunately some annual rebalancing and the market pullback did not coincide, so there are a few more transactions than I would like. As of this writing, every sector is invested as a result of (very) recent bullish behavior and resulting buy signals for sectors that were in cash (Basic Materials, Technology, Real Estate).

The S&P 500 recovered a little faster than the model portfolios last month. Part of that is due to the fact that the Fixed Income portion of the portfolios didn't do very well, and the other part is because the three sectors that were in cash as part of the risk management strategy meant the portfolios were not fully invested in stocks. That's the cost of risk management, so by definition, we won't win every month. On the plus side, the market went up and so did all of the model portfolios, despite the drag of Fixed Income.

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