

# THE SIMPLEST WAY TO INCREASE YOUR PORTFOLIO'S PERFORMANCE



*Presented by* **Wayne Connors**  
FOUNDER AND PORTFOLIO STRATEGIST



# The Average Investor

20 yr. History

S&P 500	9.22%
Stock Fund Investors	5.02%

**Gap 4.20%!**

S&P

Investor  
Behavior  
Losses



Source: DALBAR, Inc.

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# Money

BOOST YOUR RETURNS **20%**

**INFLATION**  
8 WAYS TO  
WHIP IT  
NOW

P. 45

**PLUS**

HOW TO  
SELL YOUR  
HOME  
TODAY

P. 58

HOW NOT  
TO HANDLE  
A WINDFALL

P. 96



MAY 2011  
WWW.CNNMONEY.COM



2011  
BEST  
LIST

100  
**BEST**  
MONEY  
MOVES

STARTS ON PAGE 54

BUY THESE  
GROWTH STOCKS

PUMP UP  
YOUR SAVINGS

SNAG SECRET  
DISCOUNTS

AND MORE..



WHY IT'S TIME TO BUY TECH: OUR 7 PICKS >>

# Smart Money

THE WALL STREET JOURNAL MAGAZINE

## MARKET CHAMP

The Best Fund  
Manager You've  
Never Heard Of

p. 34

## OVERRATED RESTAURANTS

Can You  
Trust Zagat's?

p. 74

## COLLEGE CASH

529 Plans  
That Work

p. 54

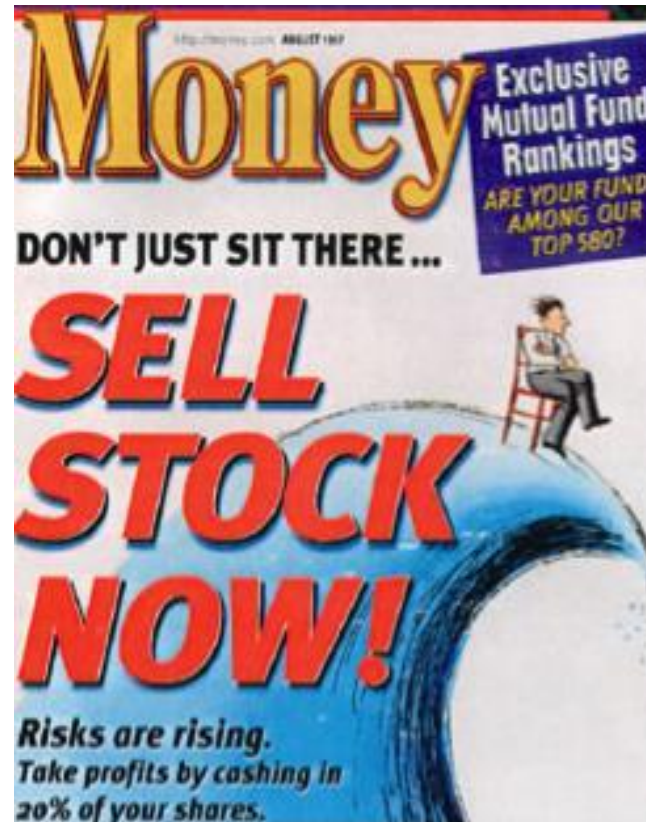
# DOUBLE YOUR MONEY



**5** Moves  
To Make  
**NOW!**

p. 14

**August 1997**



Two years later (after a 40% return in the stock market) they published another interesting cover in May 1999 ...

May 1999



And why aren't you rich?

Because I listened to you a year and a half ago!

# BARRON'S

The Dow Jones Business and Financial Weekly Vol. XCII No. 39

barrons.com

## Cloud Services Could Lift Intuit Shares 30%

Page 19

September 24, 2012

\$5.00

**127.55** -0.37 (-0.29%)

After Hours: 127.56 +0.01 (0.01%)

Jan 19, 4:29PM EST

NASDAQ real-time data - Disclaimer

Currency in USD

Range 127.45 - 128.35

52 week 89.37 - 133.50

Open 128.23

Vol / Avg. 12.14M/18.64M

Mkt cap 367.76B

P/E 49.23

Div/yield -

EPS 2.59

Shares 2.34B

Beta 0.66

Inst. own 72%

G+1

10k

Compare: 

Add

☐

Dow Jones

☐

Nasdaq

☐

MSFT

☐

GOOGL

☐

TWTR

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YHOO

☐

MEET

☐

LNKD

☐

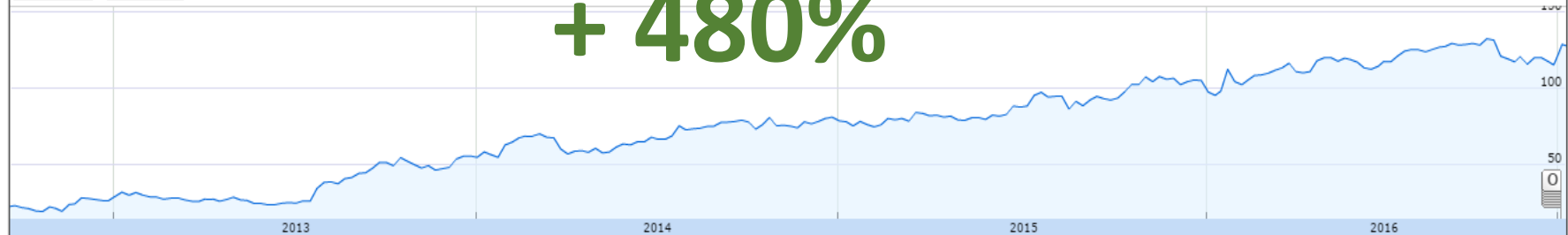
SINA

more »

Zoom: [1d](#) [5d](#) [1m](#) [3m](#) [6m](#) [YTD](#) [1y](#) [5y](#) [10y](#) [All](#)

Sep 21, 2012 - Jan 19, 2017 +105.55 (479.77%)

# + 480%

**Rising assets raise  
economic risk****REVVING UP • M7  
Porsche shifts  
into high gear**

At \$23 a share, the social-media colossus remains overvalued. Its future depends on finding a better way to profit from its huge user base. A risky bet.

**DOW JONES**

Subscriptions/Customer Service: 800 544-0422





Oil \$10

Market Week Pullout Dow Off 1.6% on Week on Poor Jobs News; Nasdaq Plunges 5.4% Page M3

# BARRON'S

The Dow Jones Business and Financial Weekly Vol. XCVI No. 6

barrons.com

February 8, 2016

\$5.00



**UP & DOWN WALL ST. • 7**  
**Petrodollar recycling in reverse**

**STREETWISE • 11**  
**U.S. industrials get boost from China**

**BEZOS' BAG OF TRICKS • 16**  
**Amazon: almost down to fair value**

**TAKEOVER BAIT? • 16**  
**GoPro off 70% since we panned it**

**BEWARE MLPs • 22**  
**The man who slayed Kinder Morgan**

**GILEAD, CELGENE • 25**  
**2 beat-up biotechs with 30% upside**

**AVOIDING RECESSION • 30**  
**Despite turmoil, Yardeni is optimistic**



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Oil prices will bottom at \$20 soon. So says an indicator that has been correct for the past two years

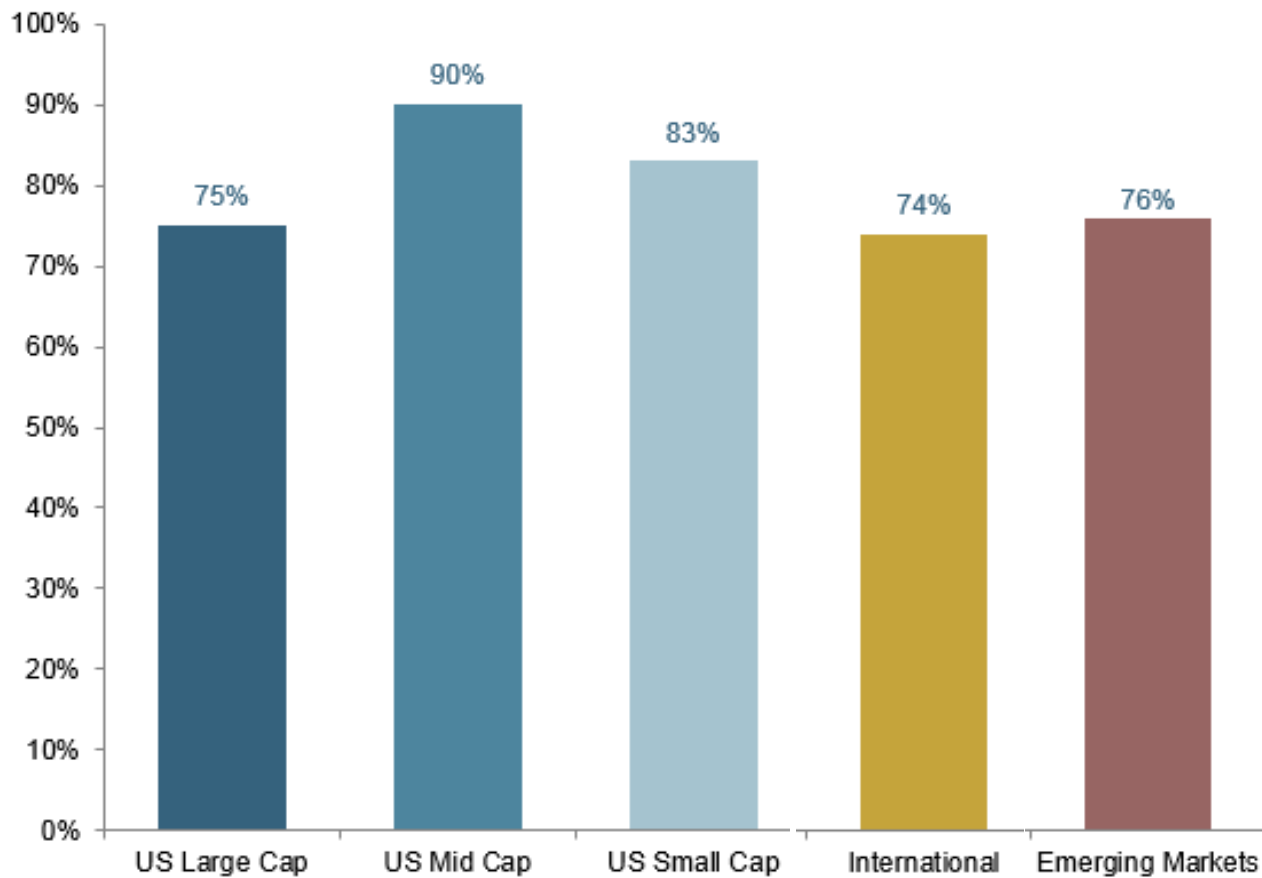
Why oil should move back up to around \$55 late this year.

Oil \$48



# The Failure of Active Management

Percentage of active equity mutual funds that failed to beat the index  
Five Years as of December 2014



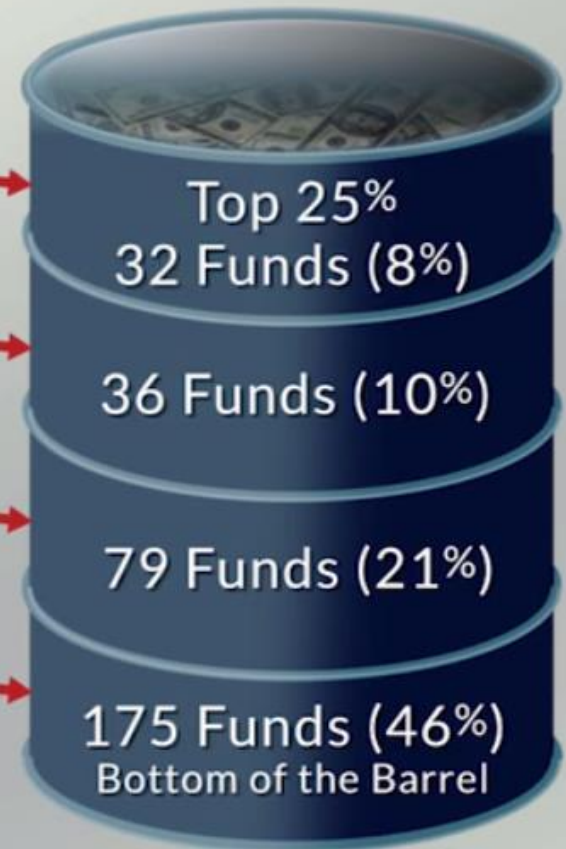
Why not invest in the winners?

2005 - 2009

2010 - 2014



1,509 Total Funds



55 Funds (15%)  
"R.I.P."



# Warren E. Buffett

Chairman and CEO, Berkshire Hathaway, Inc.

“Most investors, both institutional and individual, will find that the best way to own common stocks is through an index fund that charges minimal fees.”

*- Letter To Berkshire Hathaway Shareholders*



## Peter Lynch

“All the time and effort that people devote to picking the right fund, the hot hand, the great manager, have in most cases led to no advantage.”

– *Beating The Street*

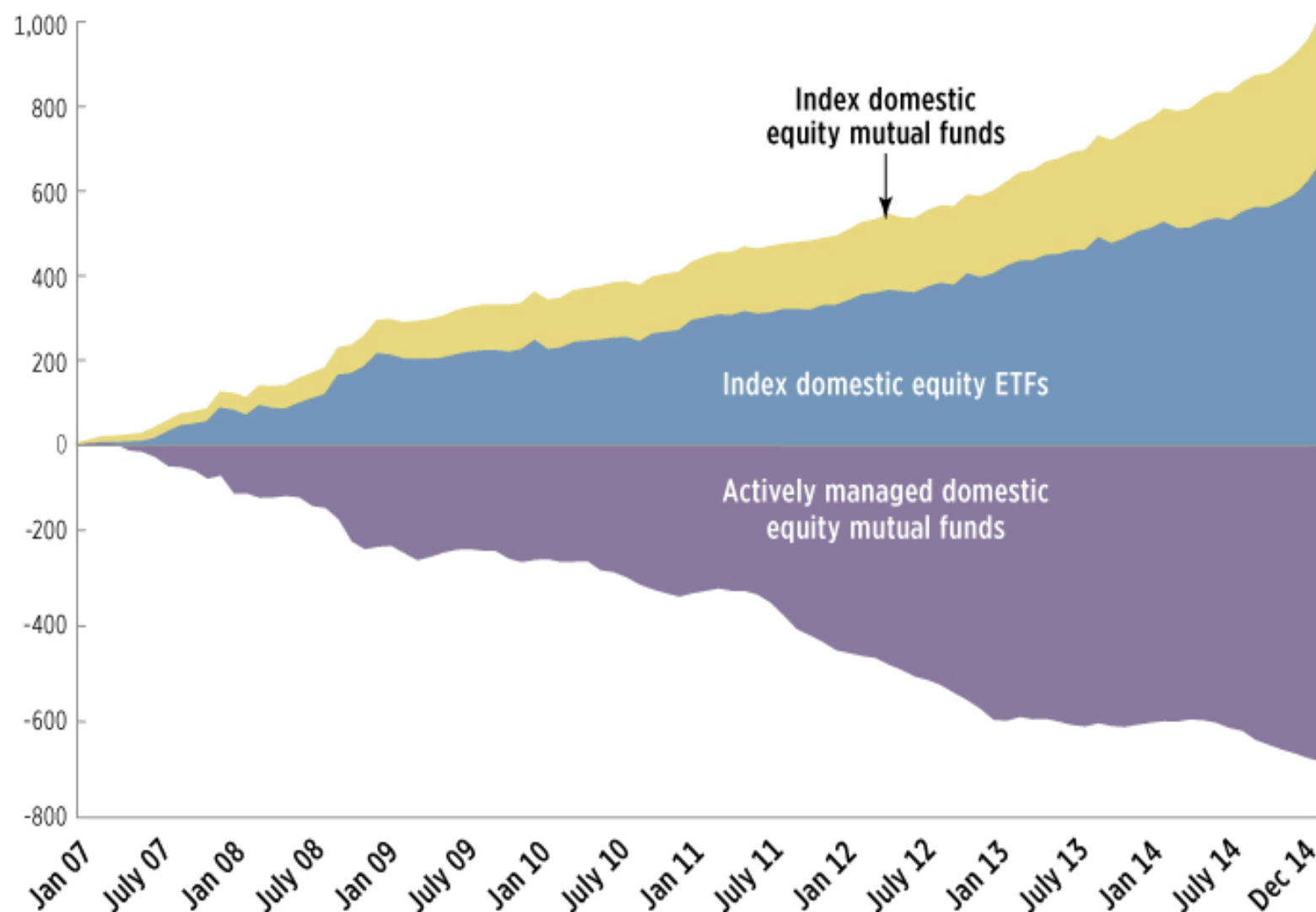


How have investors  
reacted?



## Some of the Outflows from Domestic Equity Mutual Funds Have Gone to ETFs

*Cumulative flows to and net share issuance of domestic equity mutual funds and index ETFs, billions of dollars; monthly, 2007–2014*



# Flows Since Financial Crisis (millions)

Mutual Funds

**\$61,216**

ETFs

**\$1,209,508**

**ETFs are to Mutual Funds as Smart  
Phones are to Rotary Phones.**

# Why ETFs?

- Low Costs
- Precise Representation (no cash drag)
- Tax Efficiency
- Transparency (no surprises)



# What's the Simplest Way to Outperform the Average Investor?

The Academic Approach to Investing  
Focus on the “FACTORS” that explain return.

# The Greatest Minds in Financial Science

A prudent approach built on 65 years of academic research



Harry Markowitz  
University of California  
Nobel Laureate



William Sharpe  
Stanford University  
Nobel Laureate



Eugene Fama  
University of Chicago



Ken French  
Dartmouth College

# Innovations in Finance

**1950**

## **Conventional Wisdom**

Analyze securities one by one.  
Focus on picking winners.  
Concentrate holdings to maximize returns.

Broad diversification is considered undesirable.



Harry Markowitz  
University of California  
Nobel Laureate

**1952**

## **Diversification and Portfolio Risk**

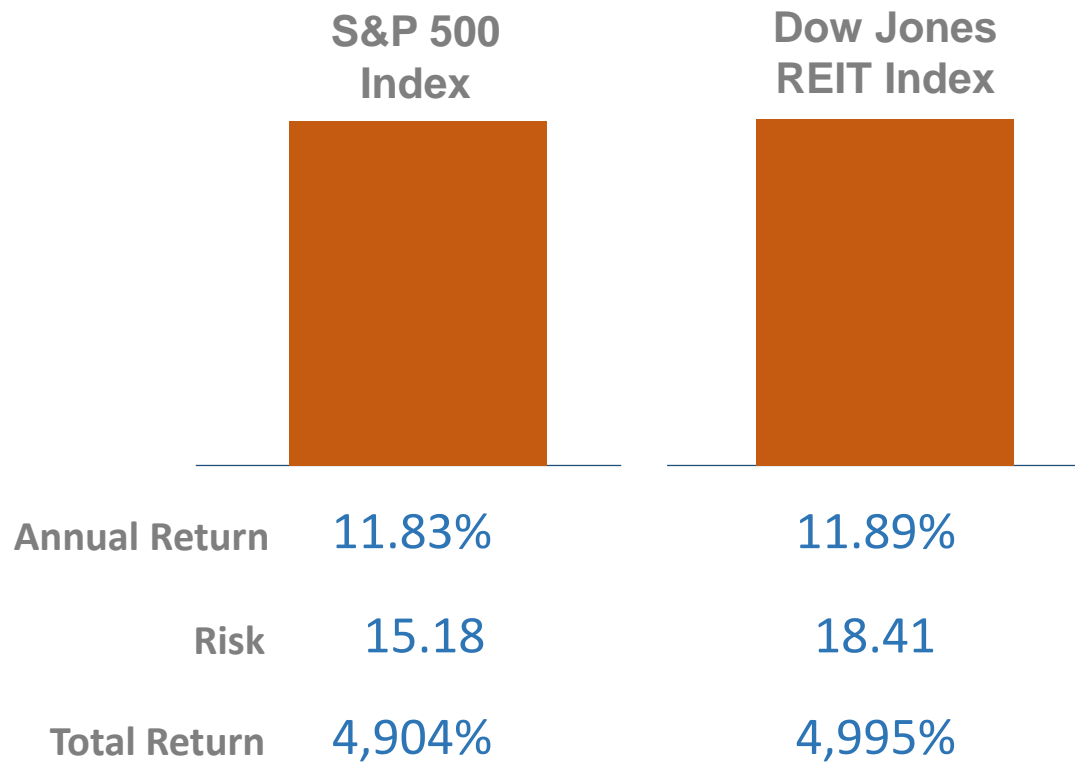
Harry Markowitz  
Nobel Prize in Economics, 1990

**Diversification reduces risk.**

**Assets evaluated not by individual characteristics but by their effect on a portfolio. An optimal portfolio can be constructed to maximize return for a given standard deviation.**

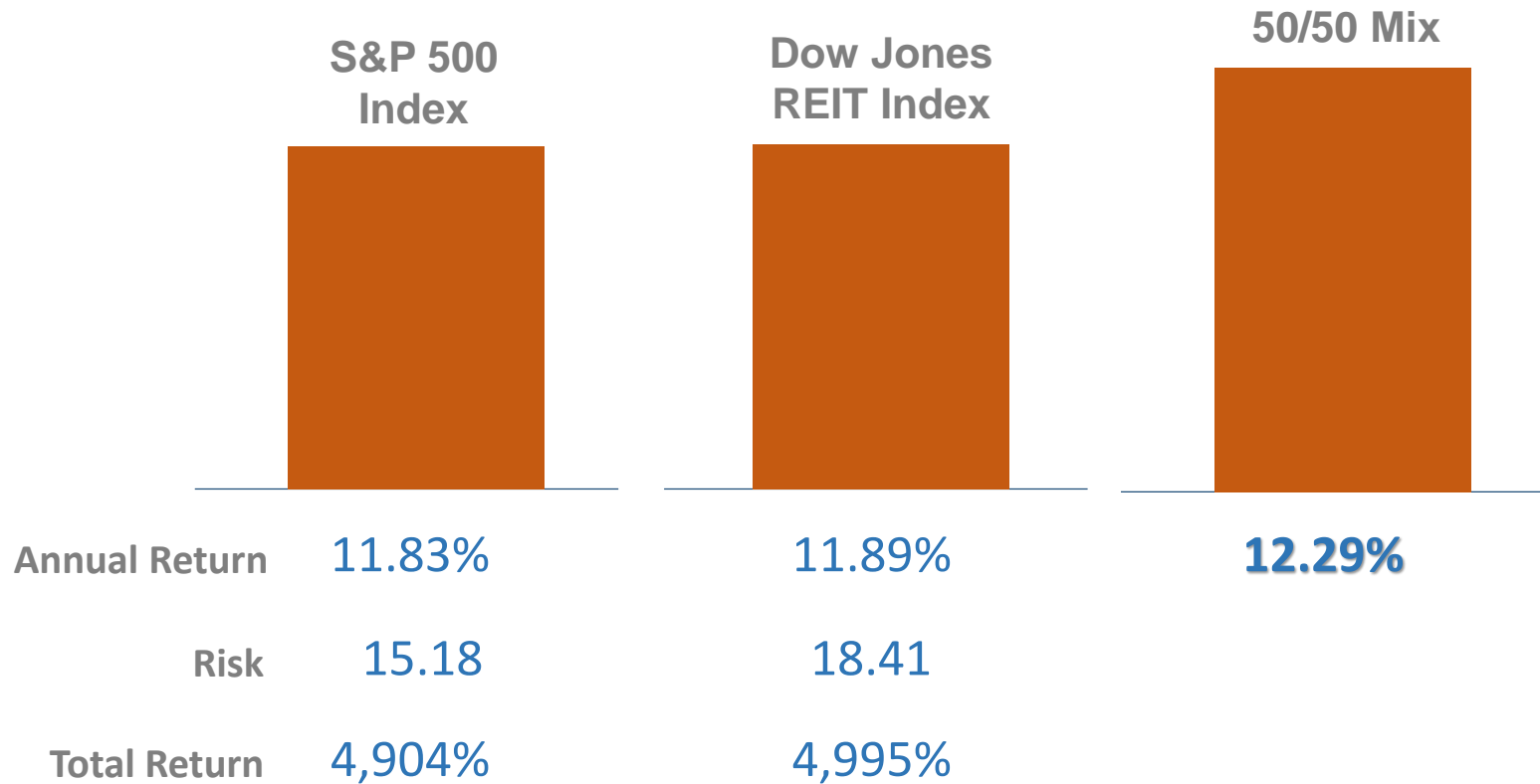
# Where would you put your money?

1980 - 2015



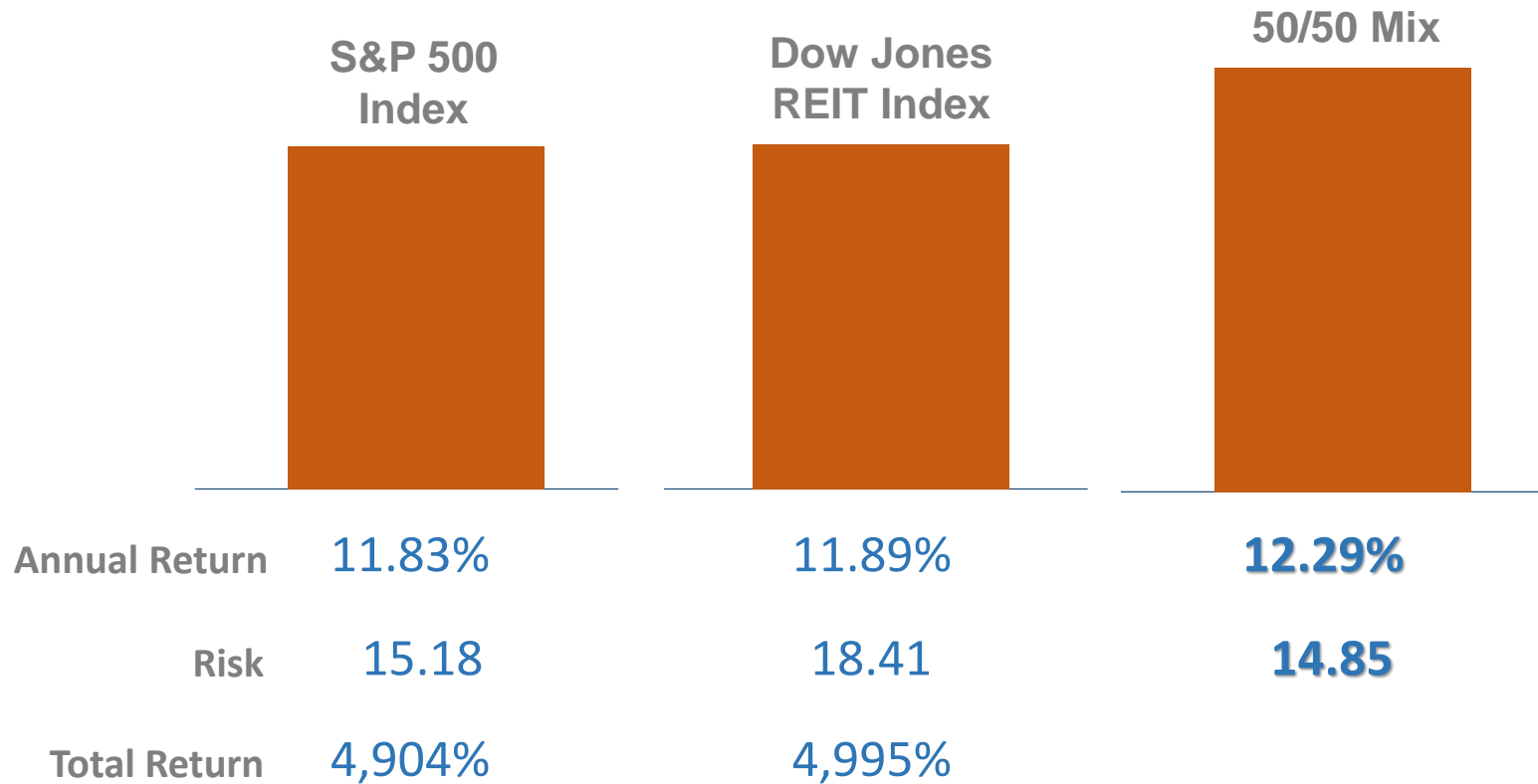
# Where would you put your money?

1980 - 2015



# Where would you put your money?

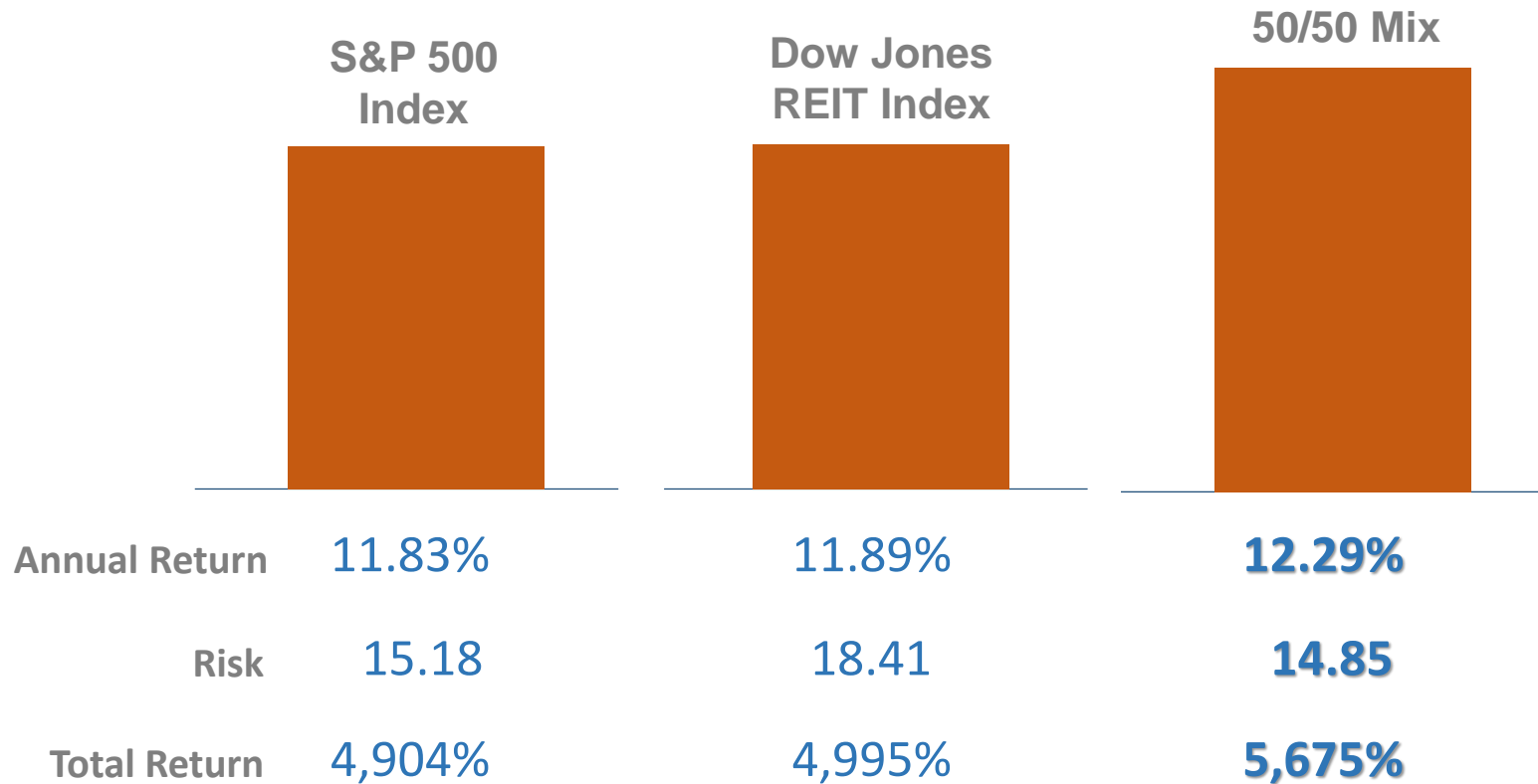
1980 - 2015





# Where would you put your money?

1980 - 2015



# Innovations in Finance



William Sharpe  
Stanford University  
Nobel Laureate

1964

## Single-Factor Asset Pricing Risk/Return Model

William Sharpe  
Nobel Prize in Economics, 1990

Capital Asset Pricing Model:  
Theoretical model **defines risk as**  
**volatility relative to market.**

A stock's cost of capital (the investor's  
expected return) is proportional to the  
stock's risk relative to the entire stock  
universe.

**Theoretical model for evaluating the  
risk and expected return of  
securities and portfolios.**

Are all types of risk the same?

# Capital Asset Pricing Model

William Sharpe: Nobel Prize in Economics, 1990

## Equity Risk

Company  
Risk

Industry  
Risk

Market  
Risk

### Unsystematic

- Specific to firm or industry (lawsuit, fraud, etc.)
- No compensation

### Systematic

- Marketwide, affects all firms (war, recession, inflation, etc.)
- Investor compensation

# Innovations in Finance



**Eugene Fama**  
**University of Chicago**  
**Nobel Prize, 2013**

1966

Efficient Markets Hypothesis

Eugene F. Fama

**Extensive research on stock price patterns.**

**Develops Efficient Markets Hypothesis, which asserts that prices reflect values and information accurately and quickly. It is difficult if not impossible to capture returns in excess of market returns without taking greater than market levels of risk.**

**Investors cannot identify superior stocks using fundamental information or price patterns.**

# Innovations in Finance



**Eugene Fama**  
University of Chicago  
Nobel Prize, 2013



**Ken French**  
Dartmouth College

1993

**Multifactor Asset Pricing Model  
and Value Effect**

Eugene Fama and  
Kenneth French

Improves on the single-factor asset pricing model (CAPM).

Identifies market, size, and “value” factors in returns.

Develops the three-factor asset pricing model, an invaluable asset allocation and portfolio analysis tool.

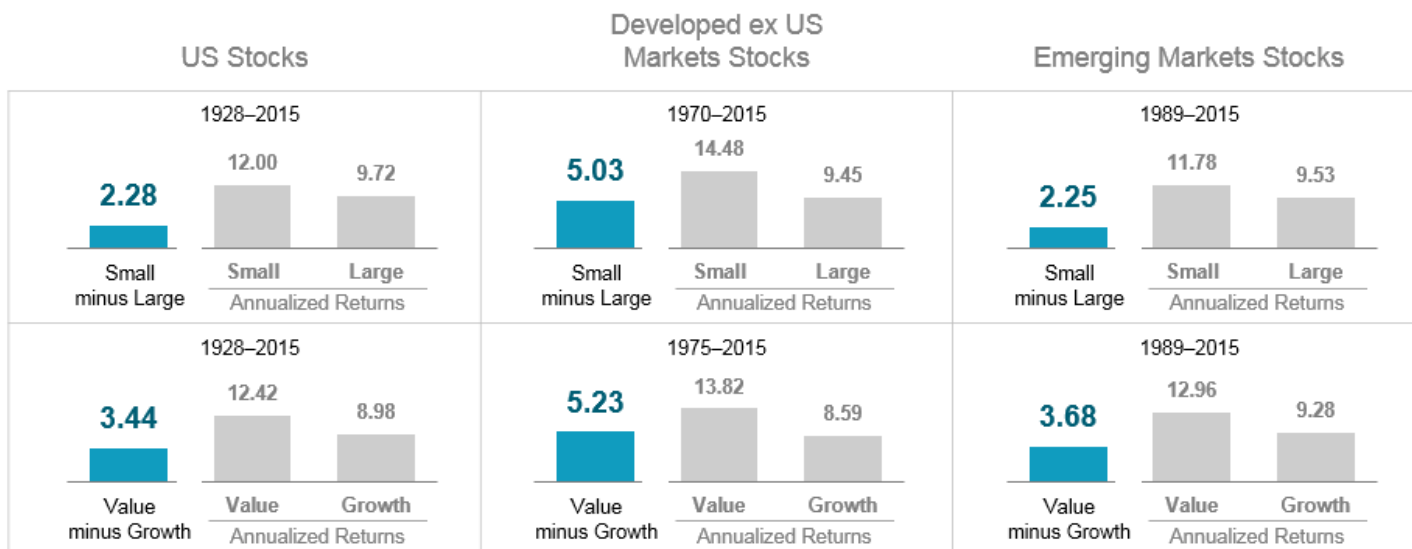


# Dimensions of Expected Returns

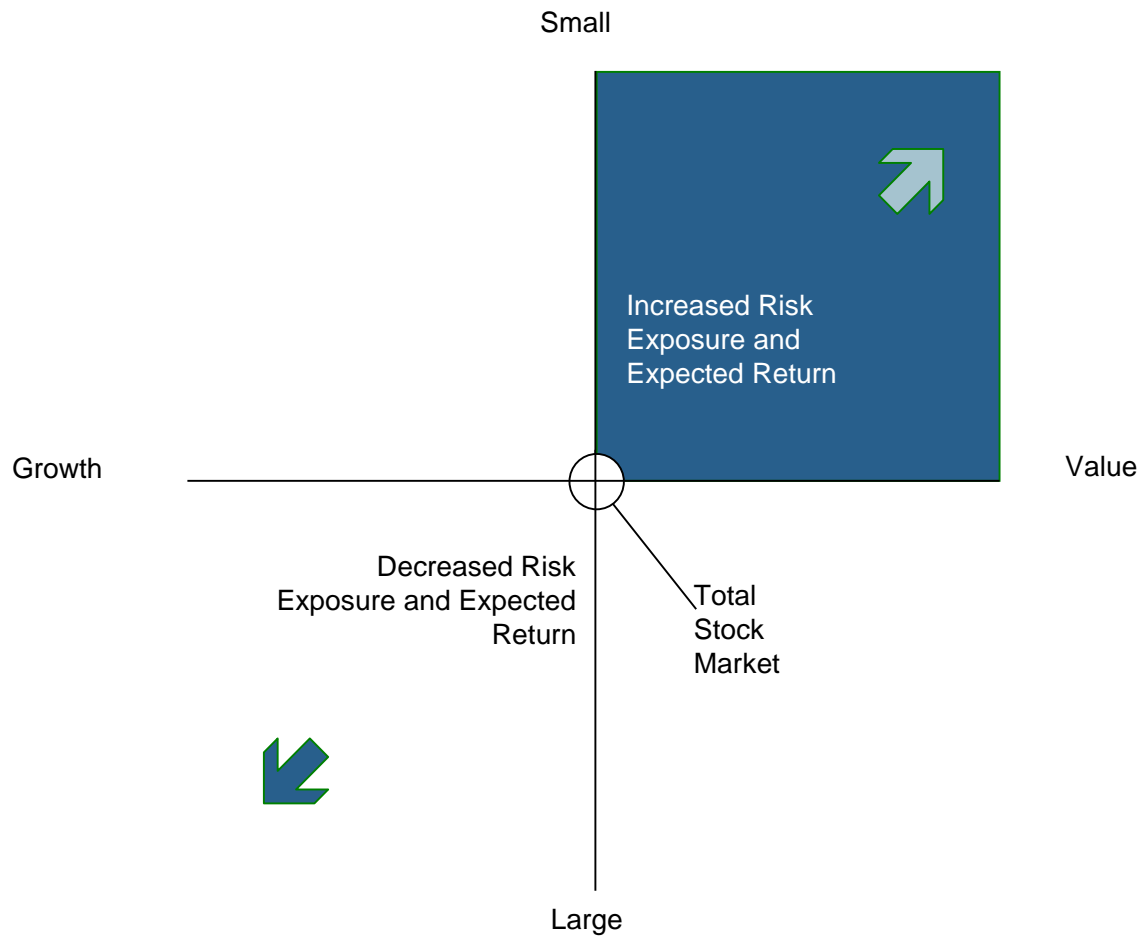
Historical premiums and returns (annualized): US, Developed ex US, and Emerging Markets

## Company Size

Relative performance of small cap stocks vs. large cap stocks (%)



# Risk and Return Are Related

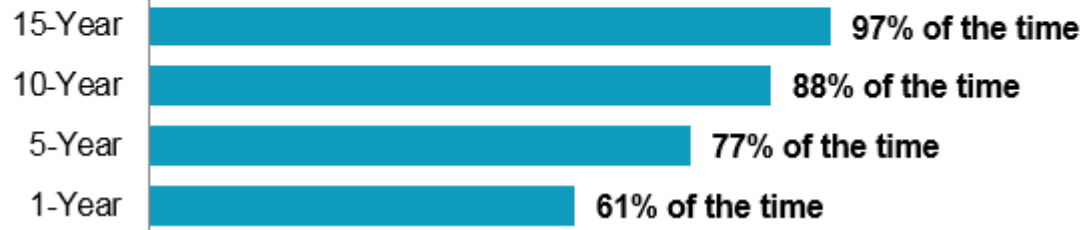


# Historical Performance of Premiums over Rolling Periods

US Markets

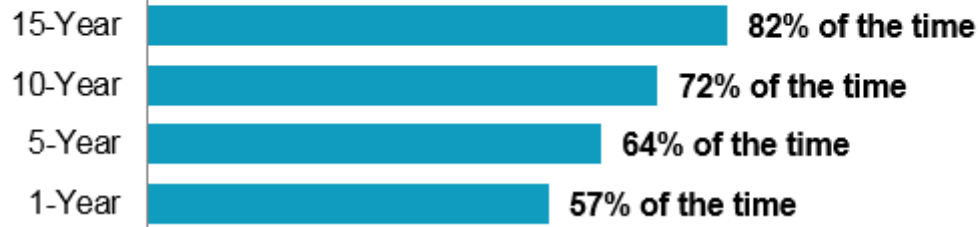
Overlapping Periods: January 1928–December 2015

## VALUE beat GROWTH



Overlapping Periods: January 1928–December 2015

## SMALL beat LARGE

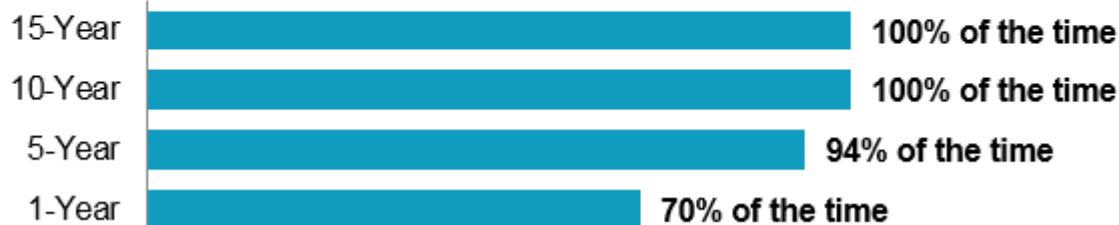


# Historical Performance of Premiums over Rolling Periods

Developed ex US Markets

Overlapping Periods: January 1975–December 2015

## VALUE beat GROWTH



Overlapping Periods: January 1970–December 2015

## SMALL beat LARGE

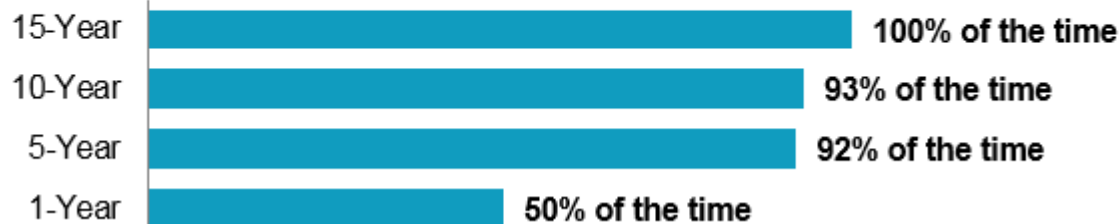


# Historical Performance of Premiums over Rolling Periods

## Emerging Markets

Overlapping Periods: January 1989–December 2015

### VALUE beat GROWTH



Overlapping Periods: January 1989–December 2015

### SMALL beat LARGE



Diversification Works!



## S&P 500 Index

### Annualized Returns by Decade\*

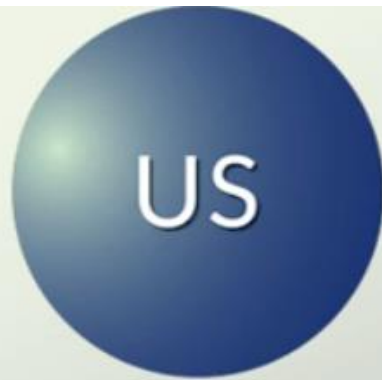
1926-1929	1930-1939	1940-1949	1950-1959	1960-1969	1970-1979	1980-1989	1990-1999	2000-2009	2010-2015
19.2%	-0.1%	9.2%	19.4%	7.8%	5.9%	17.6%	18.2%	-0.9%	12.9%

Average Return: 9.94%

## The Decade of Lost Returns

Jan 2000 - Dec 2009

Asset Class:	Portfolio A
S&P 500 Index	100%
<hr/>	
Total	100%
<hr/>	
10 Year Annualized Return	-0.95%
Growth of \$100,000	\$91,000



1



23

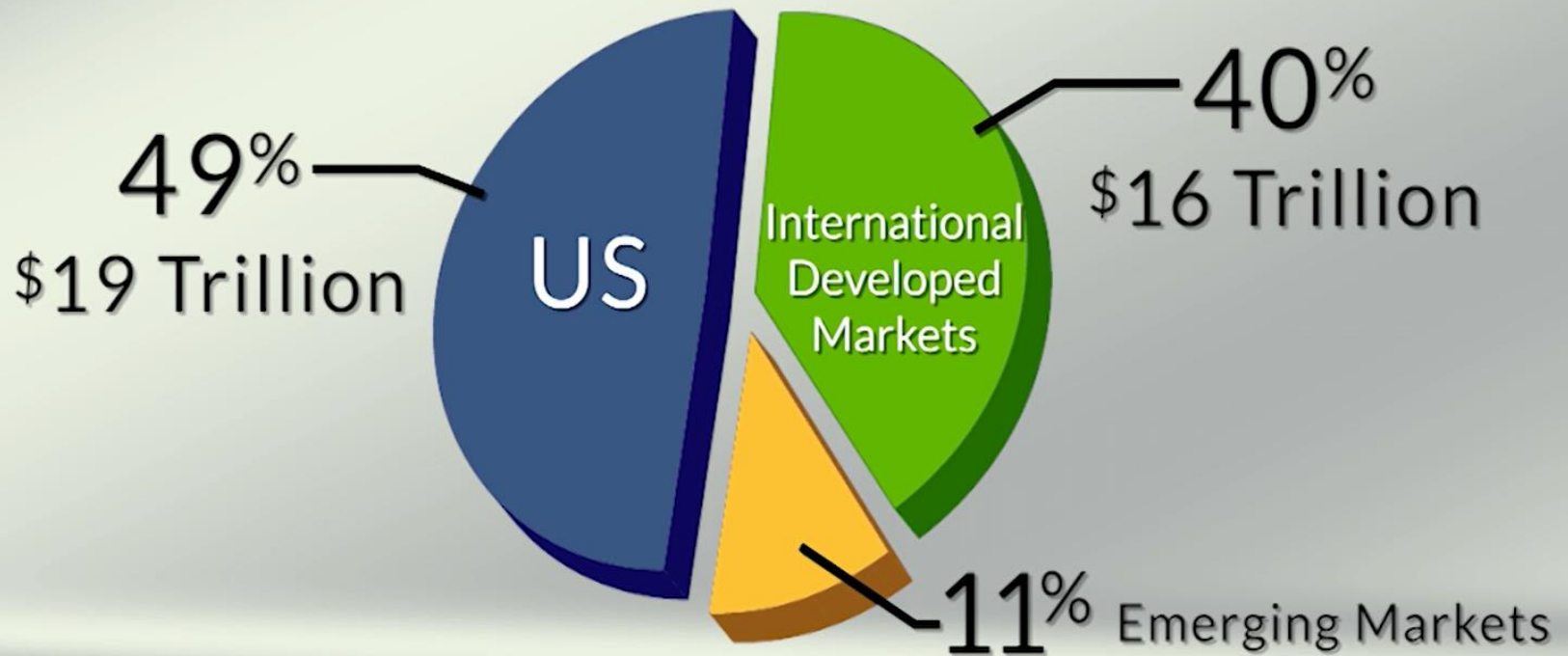


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# World Market Capitalization

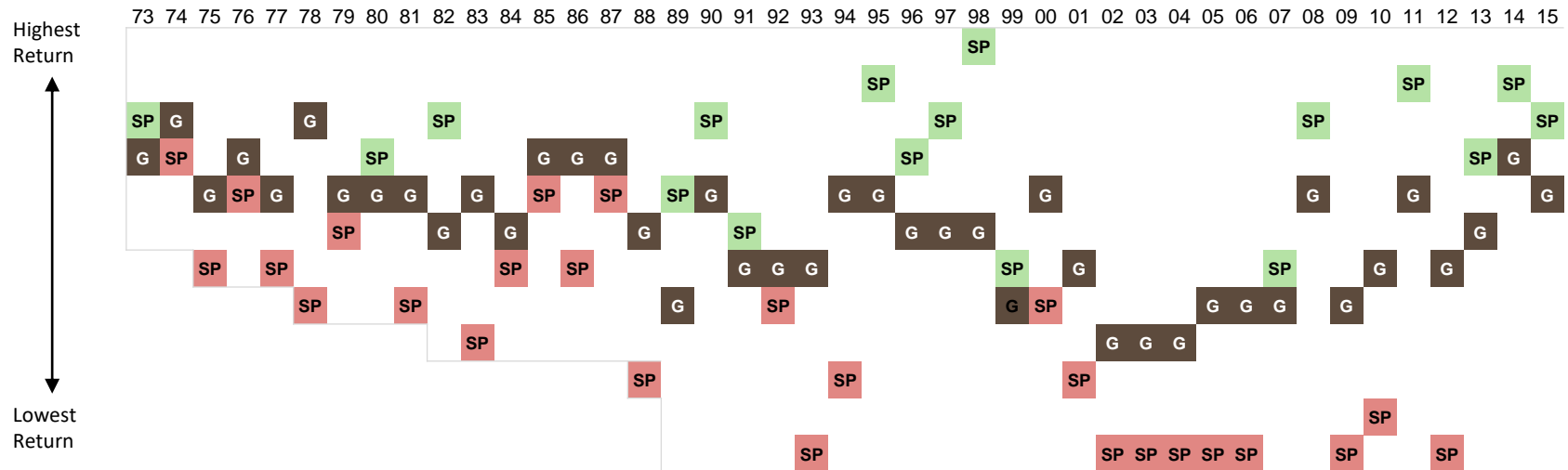
(Value of all Global Companies)

**\$39 Trillion**



# Global Diversification

Annual returns rankings of S&P 500 vs. Equity Balanced Strategy Index, 1973–2015



Did diversification work?

- The S&P 500 did better than the globally diversified index 17 times.
- It did worse 26 times.

# Equity Balanced Strategy Index vs. S&P 500



Annual returns: 1973–2015

Year	Equity Balanced Strategy Index %	S&P 500 %		Year	Equity Balanced Strategy Index %	S&P 500 %		Year	Equity Balanced Strategy Index %	S&P 500 %	
1973	-18.32	-14.67		1988	27.46	16.81	✓	2003	47.20	28.69	✓
1974	-22.91	-26.46	✓	1989	27.33	31.49		2004	23.69	10.88	✓
1975	49.26	37.21	✓	1990	-14.17	-3.10		2005	13.53	4.91	✓
1976	30.91	23.85	✓	1991	29.73	30.47		2006	24.50	15.80	✓
1977	19.09	-7.18	✓	1992	9.37	7.63	✓	2007	1.70	5.49	
1978	24.44	6.57	✓	1993	29.37	10.07	✓	2008	-41.71	-37.00	
1979	21.32	18.42	✓	1994	4.93	1.32	✓	2009	42.18	26.46	✓
1980	28.62	32.41		1995	21.99	37.58		2010	21.86	15.06	✓
1981	6.83	-4.91	✓	1996	20.58	22.96		2011	-5.63	2.11	
1982	16.51	21.41		1997	18.67	33.36		2012	18.54	16.00	✓
1983	32.90	22.51	✓	1998	4.70	28.58		2013	27.64	32.39	
1984	8.95	6.27	✓	1999	19.05	21.04		2014	6.50	13.69	
1985	37.52	32.17	✓	2000	2.81	-9.10	✓	2015	-3.22	1.38	
1986	28.97	18.47	✓	2001	1.86	-11.89	✓				
1987	11.05	5.23	✓	2002	-9.74	-22.10	✓				



## Best/ Worst Return

Monthly: 01/1970 - 09/2016

Annualized Average Rolling Return	1 Year	3 Years	5 Years	10 Years	15 Years
 <b>S&amp;P 500 Index</b>	<b>11.95%</b>	<b>10.95%</b>	<b>10.82%</b>	<b>11.12%</b>	<b>11.58%</b>
Best Return (%)	61.01% (7/1982)	33.41% (8/1984)	29.72% (8/1982)	19.49% (9/1990)	19.69% (8/1982)
Worst Return (%)	-43.32% (3/2008)	-16.09% (4/2000)	-6.63% (3/2004)	-3.43% (3/1999)	3.76% (9/2000)
 <b>Equity Balanced Strategy Index</b>	<b>15.33%</b>	<b>14.32%</b>	<b>14.34%</b>	<b>14.74%</b>	<b>14.96%</b>
Best Return (%)	81.92% (3/2009)	38.29% (8/1984)	34.19% (8/1982)	24.62% (9/1977)	24.21% (10/1974)
Worst Return (%)	-50.83% (3/2008)	-18.61% (3/2006)	-5.27% (3/2004)	3.26% (3/1999)	6.21% (3/1994)
<b>Excess Return</b>	<b>3.38%</b>	<b>3.37%</b>	<b>3.52%</b>	<b>3.62%</b>	<b>3.38%</b>

Monthly: 01/1973 - 09/2016

	Annualized Return (%)	Total Return (%)	Growth of Wealth	Annualized Standard Deviation* (%)
Equity Balanced Strategy Index	13.33	23789.44	238.89	15.30
S&P 500 Index	10.14	6734.95	68.35	15.31

## The Decade of Lost Returns

Jan 2000 - Dec 2009

Asset Class:	Portfolio A	Portfolio B
S&P 500 Index	100%	50%
+ International (Large Caps)		50%
Total	100%	100%
10 Year Annualized Return	-0.95%	2.85%
Growth of \$100,000	\$91,000	\$132,000

## The Decade of Lost Returns

Jan 2000 - Dec 2009

Asset Class:	Portfolio A	Portfolio B	Portfolio C
S&P 500 Index	100%	50%	25%
+ International (Large Caps)		50%	25%
+ Small Cap (US, Intl, EM)			50%
Total	100%	100%	100%
10 Year Annualized Return	-0.95%	2.85%	5.00%
Growth of \$100,000	\$91,000	\$132,000	\$163,000

## The Decade of Lost Returns

Jan 2000 - Dec 2009

Asset Class:	Portfolio A	Portfolio B	Portfolio C	Portfolio D
S&P 500 Index	100%	50%	25%	9%
+ International (Large Caps)		50%	25%	6%
+ Small Cap (US, Intl, EM)			50%	15%
+ Value (US Large/Small, Intl Large/Small)				70%
Total	100%	100%	100%	100%
10 Year Annualized Return	-0.95%	2.85%	5.00%	7.11%
Growth of \$100,000	\$91,000	\$132,000	\$163,000	\$199,000

## The Decade of Lost Returns

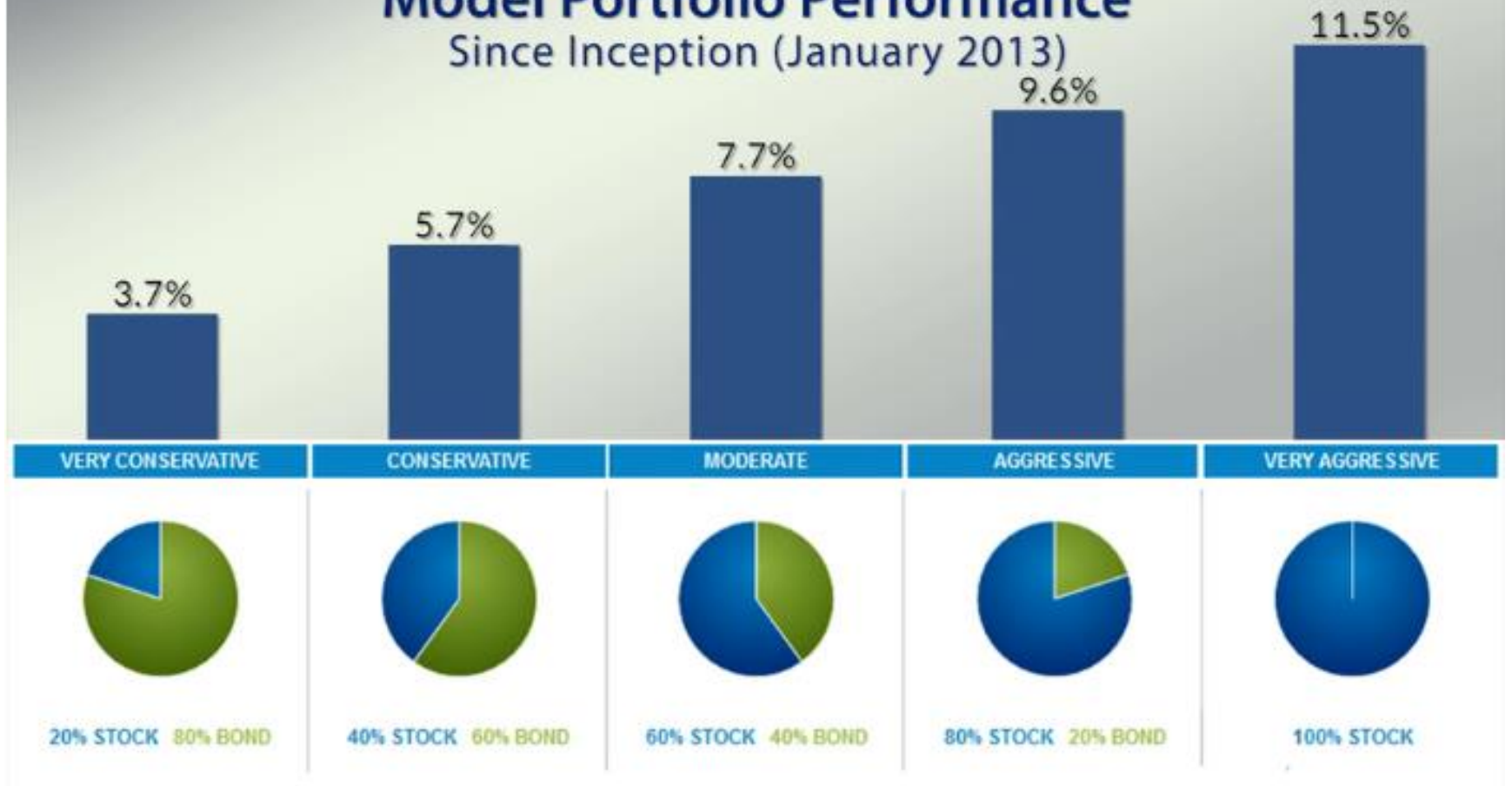
Jan 2000 - Dec 2009

Asset Class:	Portfolio A	Portfolio B	Portfolio C	Portfolio D	Portfolio E
S&P 500 Index	100%	50%	25%	9%	8%
+ International (Large Caps)		50%	25%	6%	5.5%
+ Small Cap (US, Intl, EM)			50%	15%	13.5%
+ Value (US Large/Small, Intl Large/Small)				70%	63%
+ REITs					10%
Total	100%	100%	100%	100%	100%
10 Year Annualized Return	-0.95%	2.85%	5.00%	7.11%	7.70%
Growth of \$100,000	\$91,000	\$132,000	\$163,000	\$199,000	\$210,000
Risk (standard deviation)	16.3				16.2

Asset Class	Fund Name	Ticker	Allocation	Fund Expense	Year to Date	Performance*			
					1 Year	3 Year	Model Inception		
▼ US Stock					40.0%				
US Large-Cap Blend	Vanguard S&P 500 ETF	VOO	6.4%	0.05%	11.9%	11.9%	8.8%	14.3%	
US Large-Cap Value	Vanguard Value ETF	VTV	6.4%	0.09%	16.9%	16.9%	9.4%	14.9%	
US Mid-Cap Value	Vanguard Mid-Cap Value ETF	VOE	12.8%	0.09%	15.3%	15.3%	8.9%	15.4%	
US Small-Cap Blend	Vanguard Small-Cap ETF	VB	4.8%	0.09%	18.3%	18.3%	7.0%	14.0%	
US Small-Cap Value	Vanguard Small-Cap Value ETF	VBR	9.6%	0.09%	24.8%	24.8%	9.6%	15.8%	
▼ International Stock					20.0%				
Intl Large-Cap Blend	Vanguard FTSE Developed Markets ETF	VEA	12.0%	0.09%	2.5%	2.5%	-1.2%	4.2%	
Intl Small-Cap Blend	iShares MSCI EAFE Small-Cap ETF	SCZ	8.0%	0.40%	2.4%	2.4%	2.0%	8.2%	
▼ Emerging Market Stock					12.0%				
EM Large-Cap Blend	Vanguard FTSE Emerging Markets ETF	VWO	9.6%	0.15%	11.8%	11.8%	-1.6%	4.2%	
EM Small-Cap Value	iShares MSCI Emerging Mkt Small-Cap ETF	EEMS	2.4%	0.67%	1.8%	1.8%	-2.1%	-1.4%	
▼ Alternative					8.0%				
Global REIT	WisdomTree Global Real Estate ETF	DRW	4.0%	0.58%	2.4%	2.4%	2.7%	1.3%	
Gold	iShares Gold Trust	IAU	4.0%	0.25%	8.9%	8.9%	-1.4%	-7.6%	
▼ Fixed Income					20.0%				
Senior Bank Loans	First Trust Senior Loan ETF	FTSL	6.0%	0.85%	7.1%	7.1%	3.1%	N/A	
Treasury Bonds	iShares 7-10 Year Treasury Bond ETF	IEF	14.0%	0.15%	1.0%	1.0%	3.8%	1.2%	
Total Portfolio:			100%	0.21%	7.66%	7.66%	5.35%	9.64%	

# Model Portfolio Performance

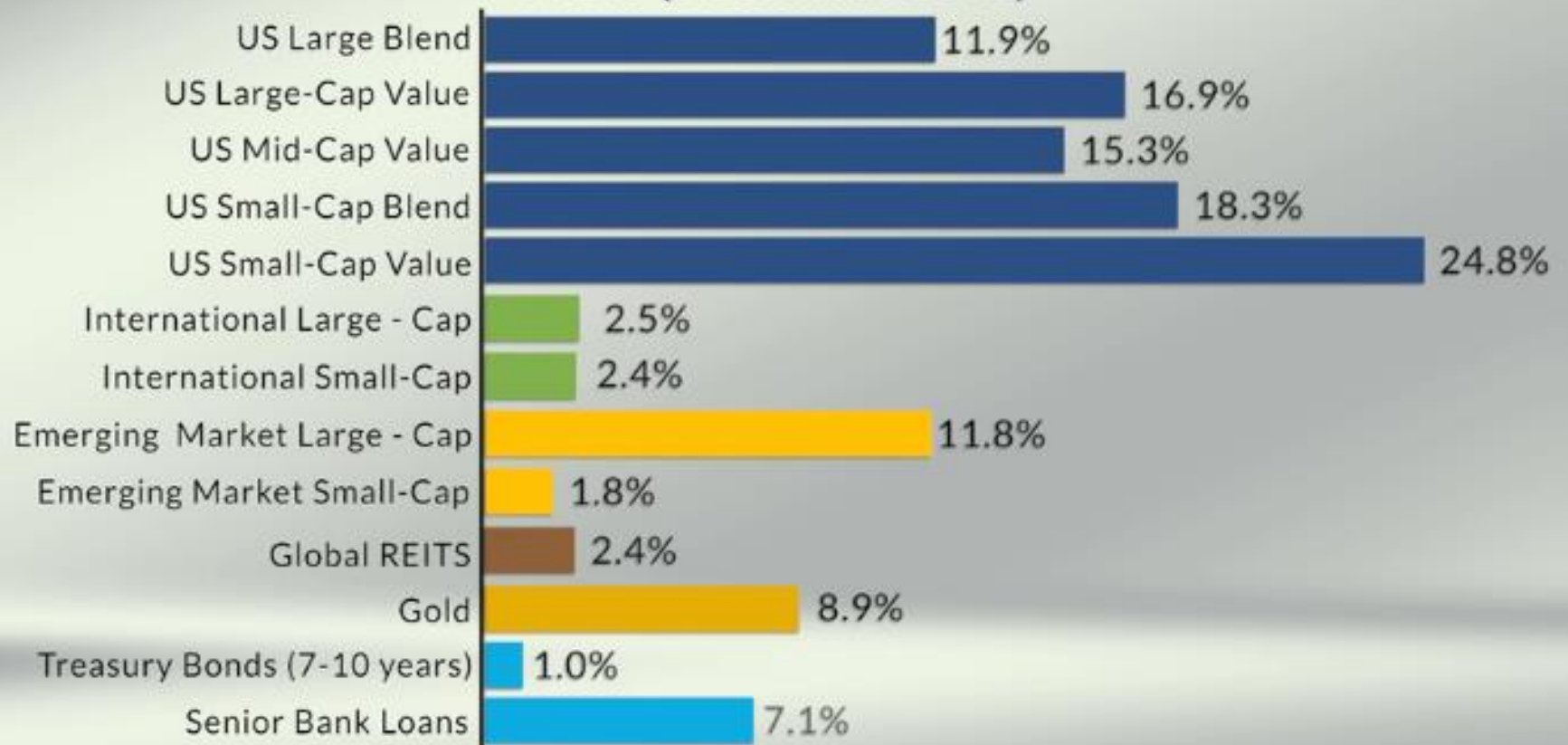
Since Inception (January 2013)





## Fund Holdings (by Asset Class)

YTD% (December 2016)



# Why RetirementInvestor.com



## Invest the Right Way

Our [model portfolios](#) ensure your money is in the right places.



## Save Money

Discover how to reduce your investment fees.



## Know When to Act

Get alerts on when to make changes to your portfolio.

Thank you for joining us.

Promo Code  
**AAiiHTX**



**Retirement  
Investor™**

Low ← “Investors’ Appetite for Risks” → High

U.S.  
Stocks



Foreign  
Stocks

Large  
Caps



Small  
Caps

Growth  
Stocks

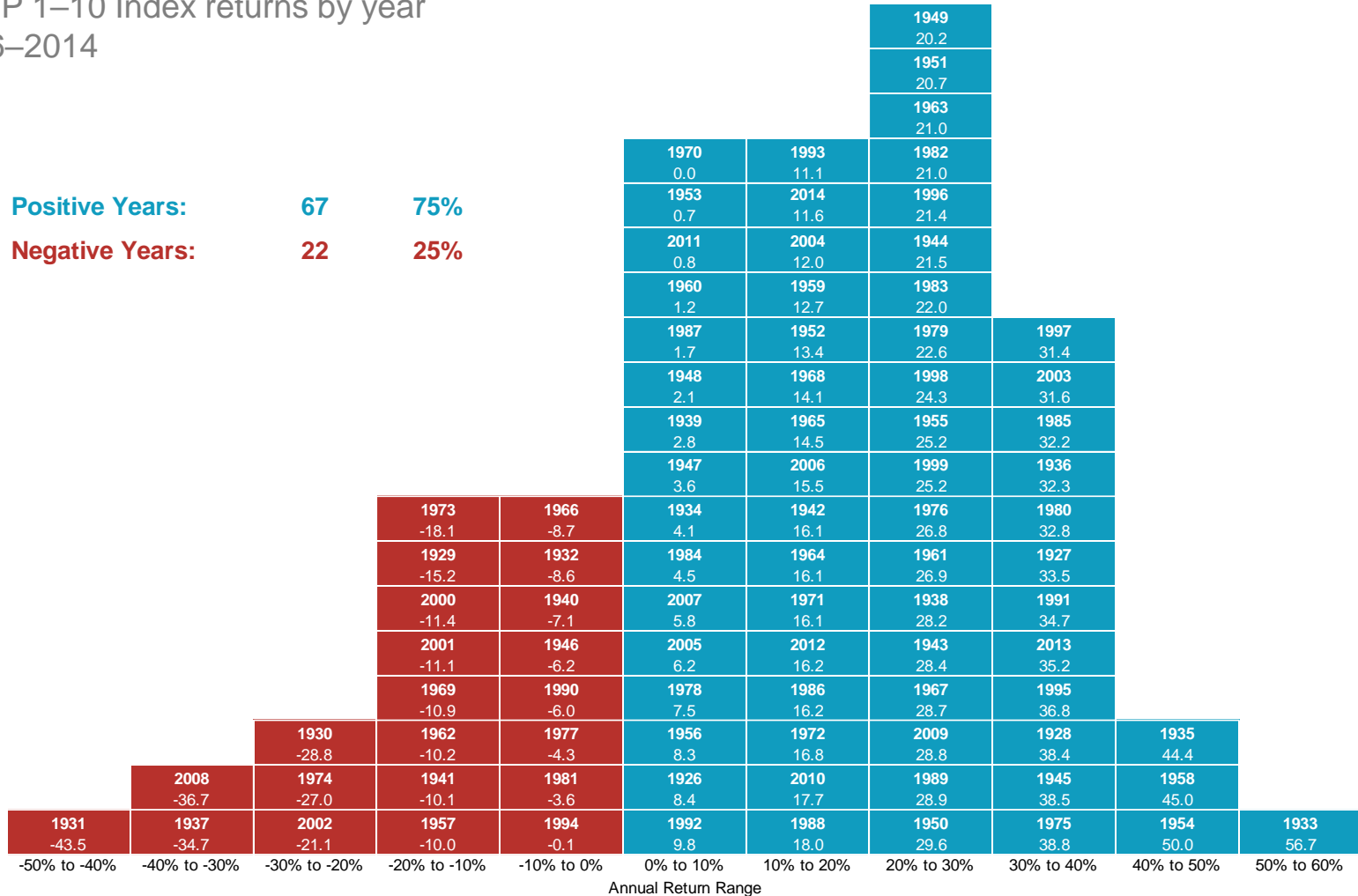


Value  
Stocks

# Distribution of US Market Returns

CRSP 1–10 Index returns by year  
1926–2014

**Positive Years:** 67 75%  
**Negative Years:** 22 25%



# Which Would You Choose in 1981?

Cell phones or canned pork shoulder?

**SPAM®**  
*is Crazy Tasty!™*



If you invested \$10,000 in January 1981 today you would have:

**Motorola \$143K**  
**7.8% Annualized**

**Hormel Foods \$1.1M**  
**14.3% Annualized**

Motorola split into Motorola Mobility (MMI) and Motorola Solutions (MSI) on Jan 4, 2011. Technically, Motorola Mobility is a spin-off, and Motorola, Inc. (MOT) changed its name to Motorola Solutions, so the past performance of MOT is under MSI. Data calculated from 3/14/1981 – 5/7/2016.

Source: Bloomberg

# Two Approaches to Investing

## **Active Management:**

### **Beat the Market (Speculating)**

- Relies on forecasting to select “undervalued” securities or time markets
- Generates higher expenses, trading costs, and risks

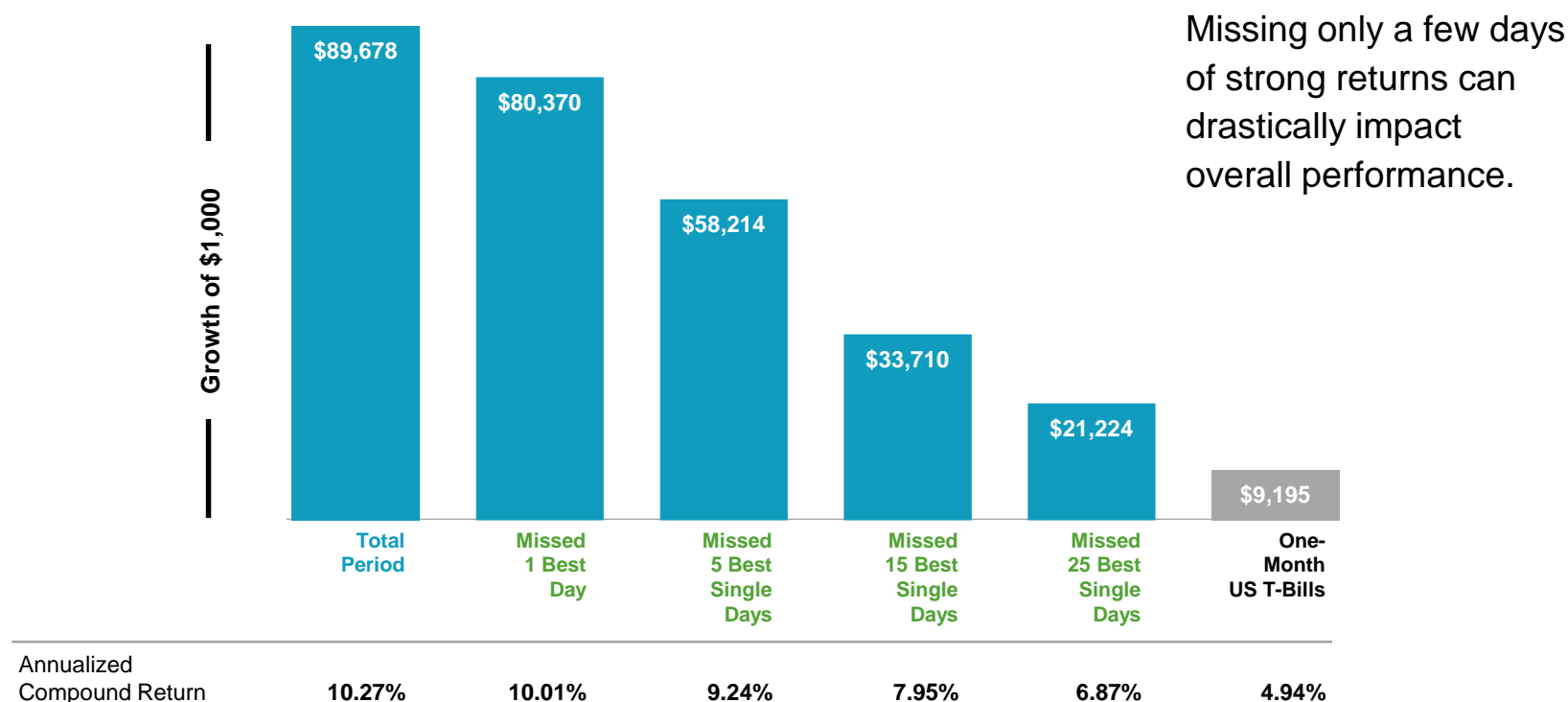
## **Passive Management:**

### **Make the Market Work for Me (Manage Risks & Costs)**

- Structures portfolios along the dimensions of expected returns
- Adds value by integrating research, portfolio structure, and implementation

# Stay in Your Lane: Reacting Can Hurt Performance

Performance of the S&P 500 Index, 1970-2015



In US dollars. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. **Past performance is not a guarantee of future results.** Performance data for January 1970–August 2008 provided by CRSP; performance data for September 2008–December 2015 provided by Bloomberg. S&P data provided by Standard & Poor's Index Services Group. US bonds and bills data © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld).