

THE SIMPLEST WAY TO INCREASE YOUR PORTFOLIO'S PERFORMANCE



Presented by Wayne Connors
FOUNDER AND PORTFOLIO STRATEGIST



The Average Investor

20 yr. History

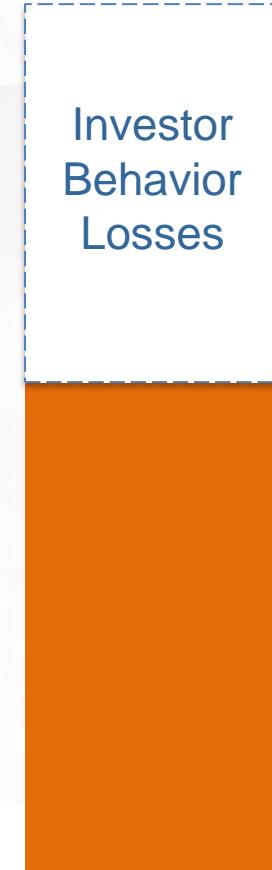
S&P 500	9.22%
Stock Fund Investors	5.02%

Gap 4.20%!

S&P



Investor
Behavior
Losses



Source: DALBAR, Inc.

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

SmartMoney

THE WALL STREET JOURNAL MAGAZINE

MARKET
CHAMP

The Best Fund
Manager You've
Never Heard Of

OVERRATED
RESTAURANTS

Can You
Trust Zagat's?

COLLEGE
CASH

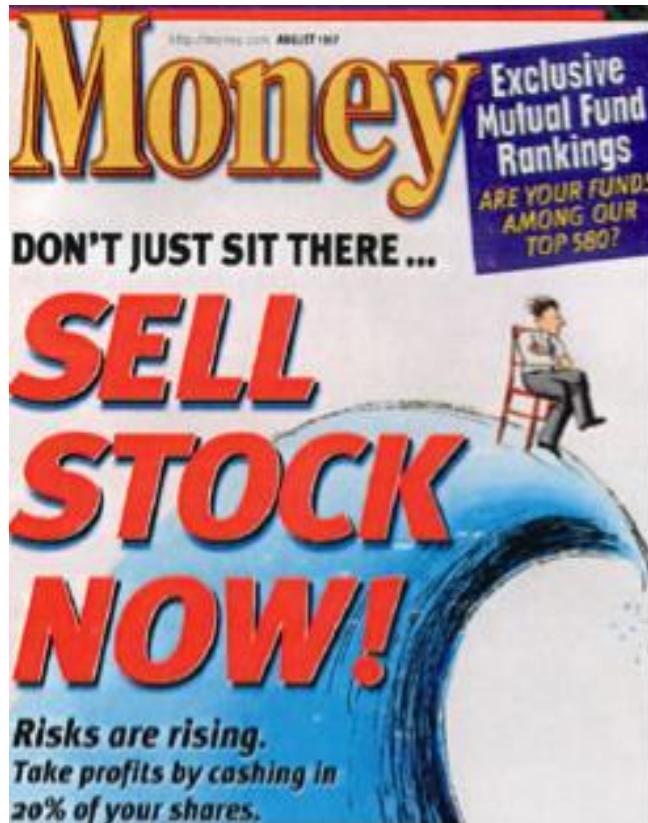
529 Plans
That Work

DOUBLE YOUR MONEY



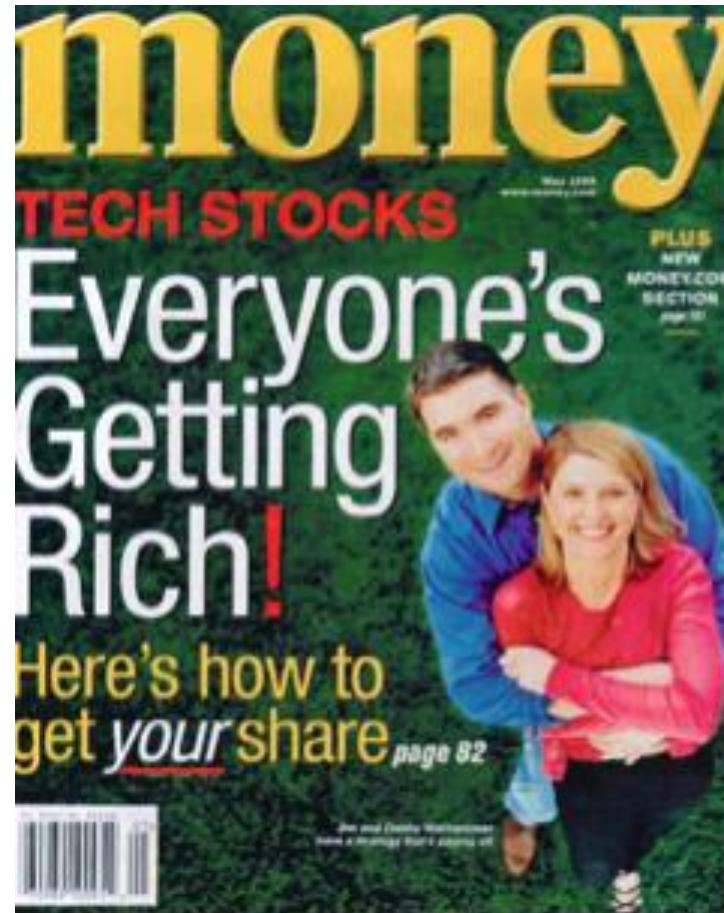
5 Moves
To Make
NOW! ***

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

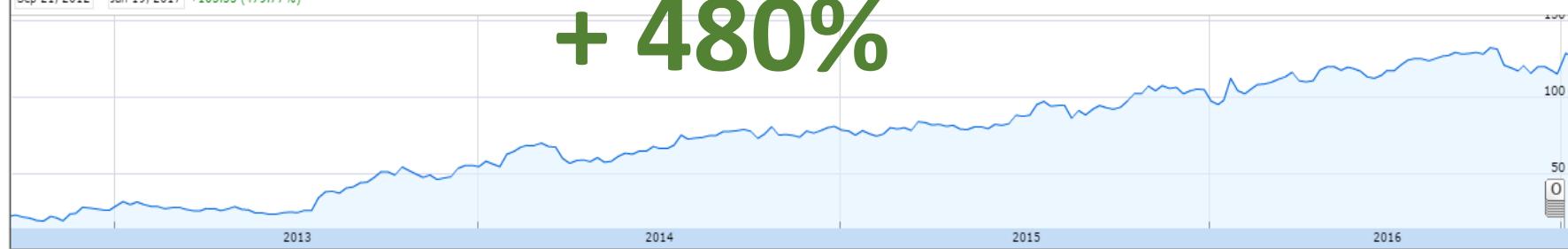
Currency in USD

Range	127.45 - 128.35	Div/yield	-
52 week	89.37 - 133.50	EPS	2.59
Open	128.23	Shares	2.34B
Vol / Avg.	12.14M/18.64M	Beta	0.66
Mkt cap	367.76B	Inst. own	72%
P/E	49.23		

G+1 10k

Compare: Dow Jones Nasdaq MSFT GOOGL TWTR YHOO MEET LNKD SINA

more »

Zoom: [1d](#) [5d](#) [1m](#) [3m](#) [6m](#) [VTD](#) [1y](#) [5y](#) [10y](#) [All](#)
Sep 21, 2012 - Jan 19, 2017 [+105.55 \(479.77%\)](#)**+ 480%**

HEDGE FUNDS 55

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.

DOWJONES

Subscriptions/Customer Service: 800 544-0422

BARRON'S
The Dow Jones Business and Financial Weekly

REAS
\$10
After a c
is likely.
The bi
DOWJONES
Subscriptions/Customer Service: 800 544-0422

Oil \$10

Market

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



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chea

DOW
News
Subscr

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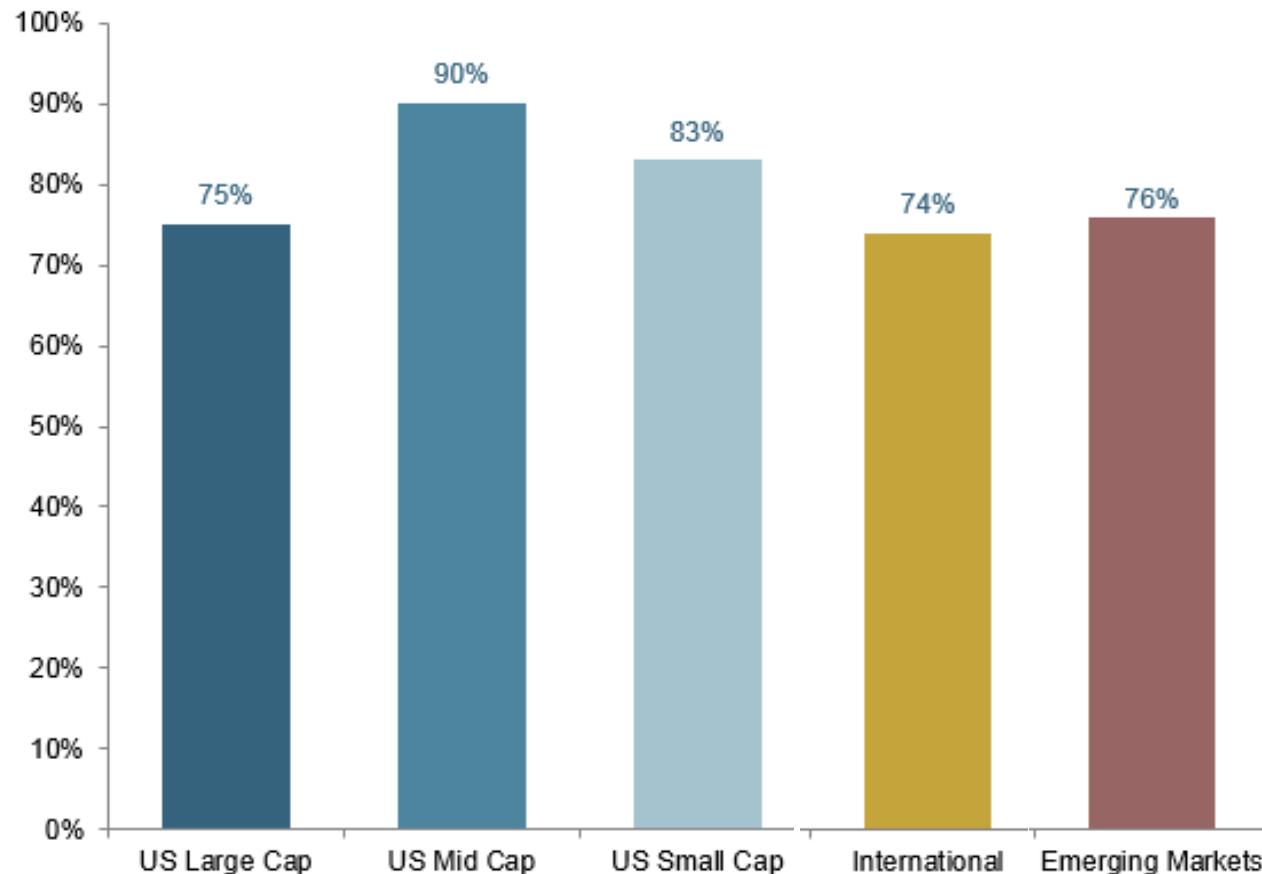
Oil prices will bottom at \$20 soon. So says an indicator that has been correct for the past two years

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

Oil \$48

The Failure of Active Management

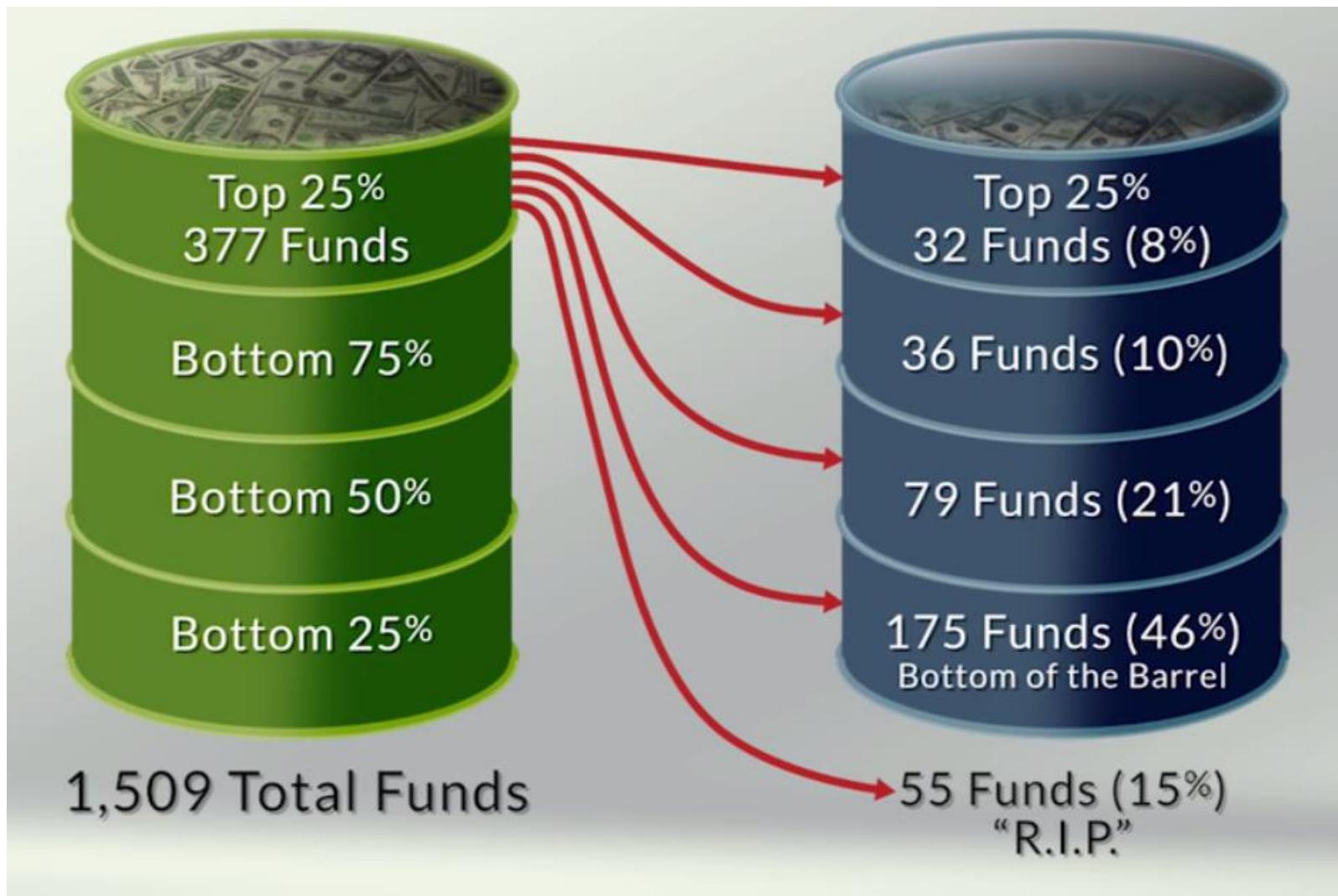
Percentage of active equity mutual funds that failed to beat the index
Five Years as of December 2014



Why not invest in the winners?

2005 - 2009

2010 - 2014



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.”

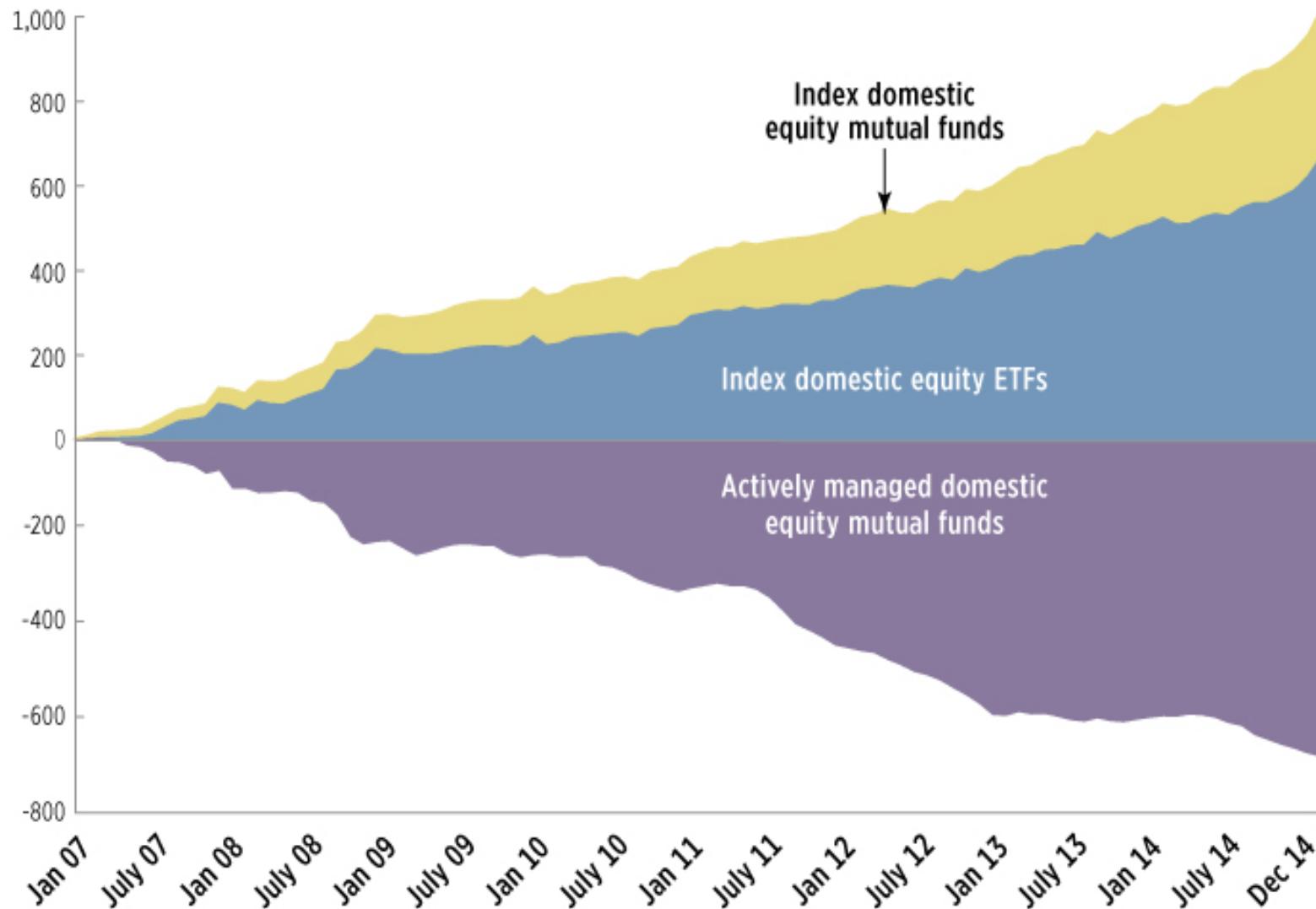
– *Beating The Street*



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

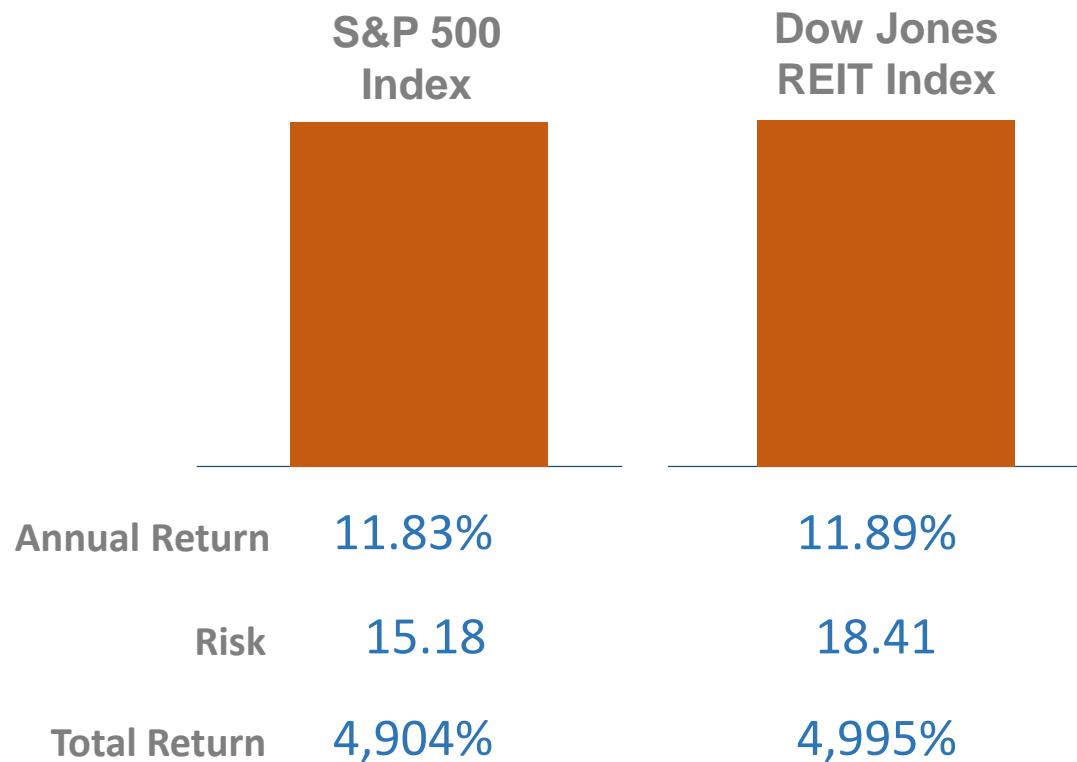
Diversification and Portfolio Risk
Harry Markowitz
Nobel Prize in Economics, 1990

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.

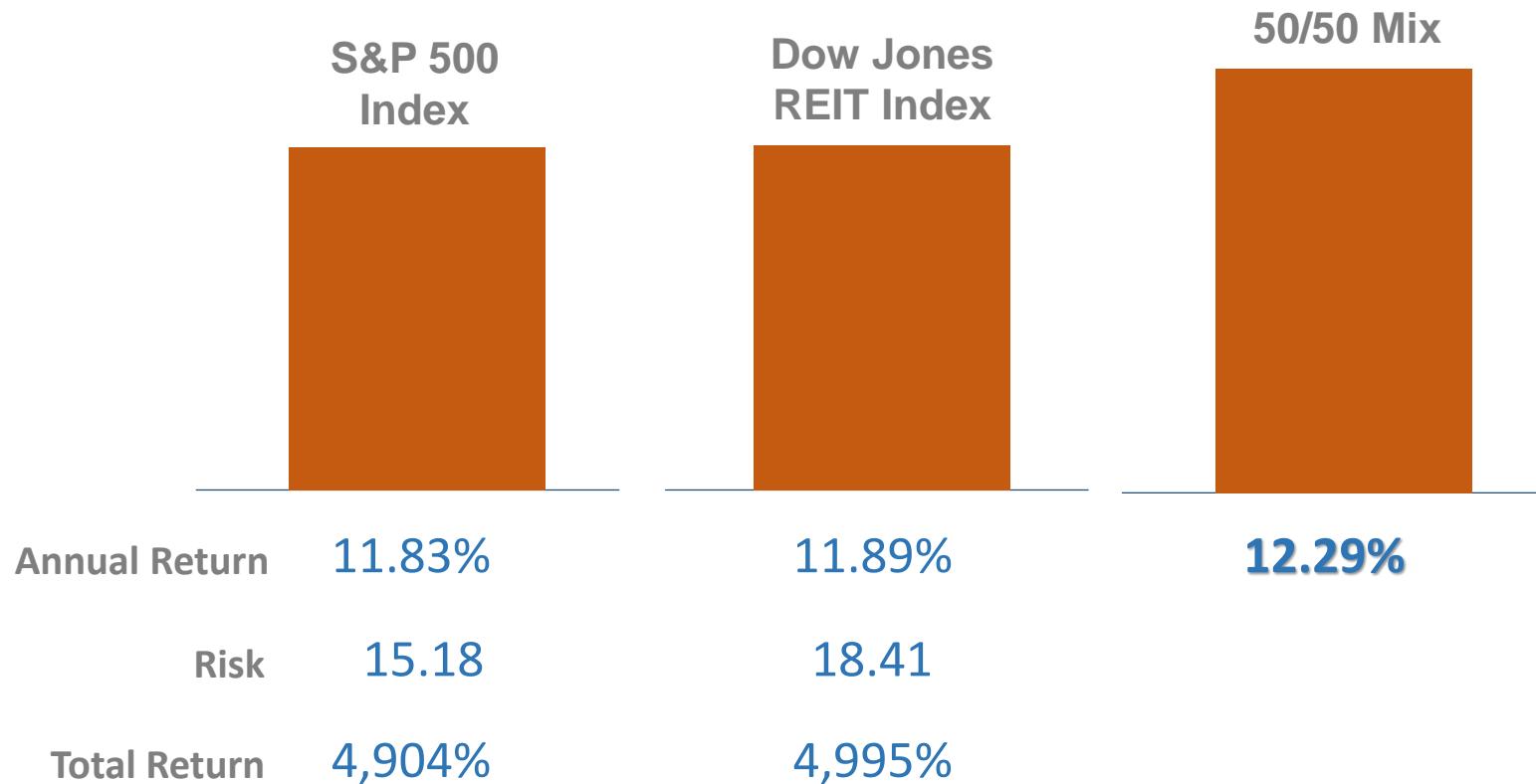
Where would you put your money?

1980 - 2015



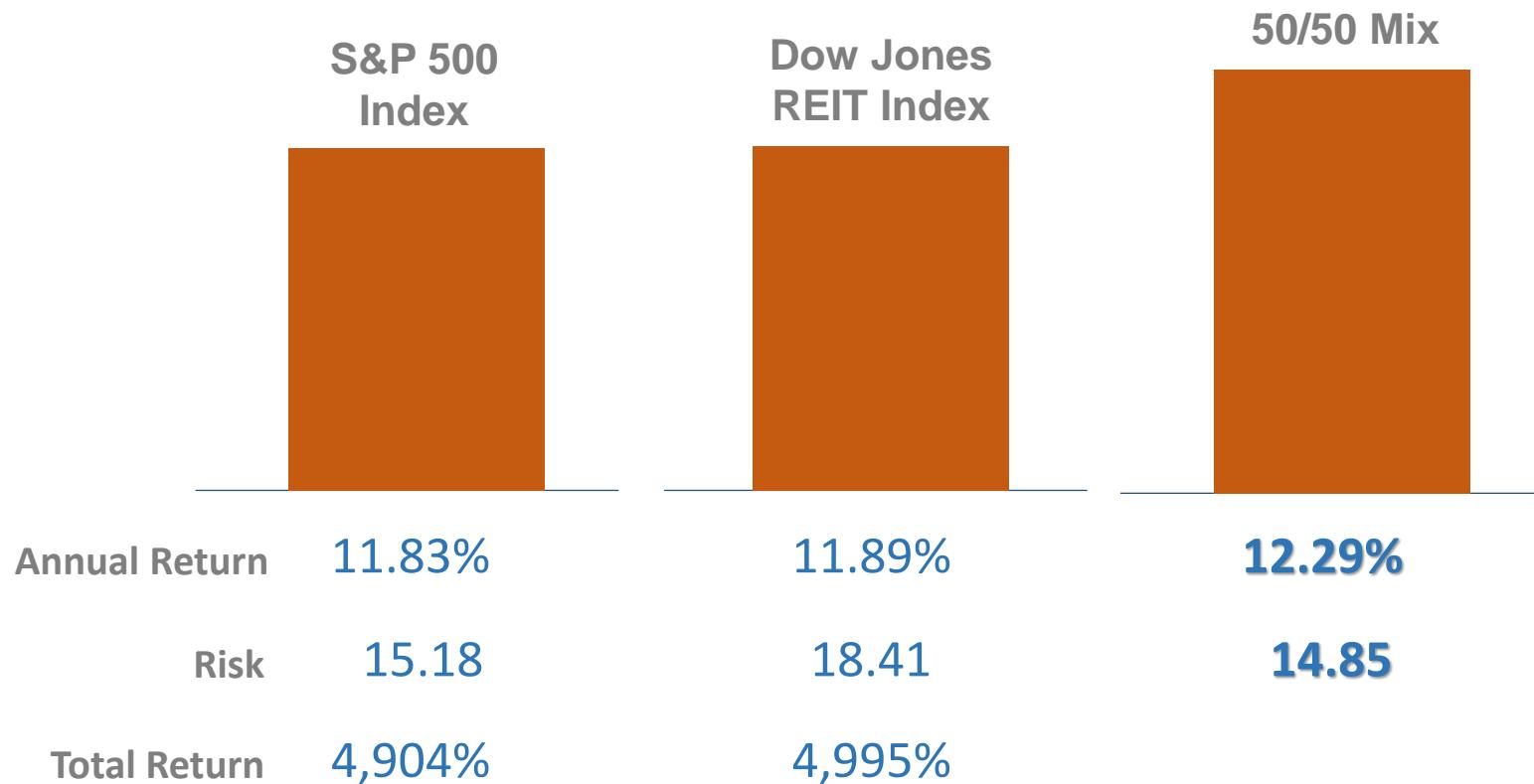
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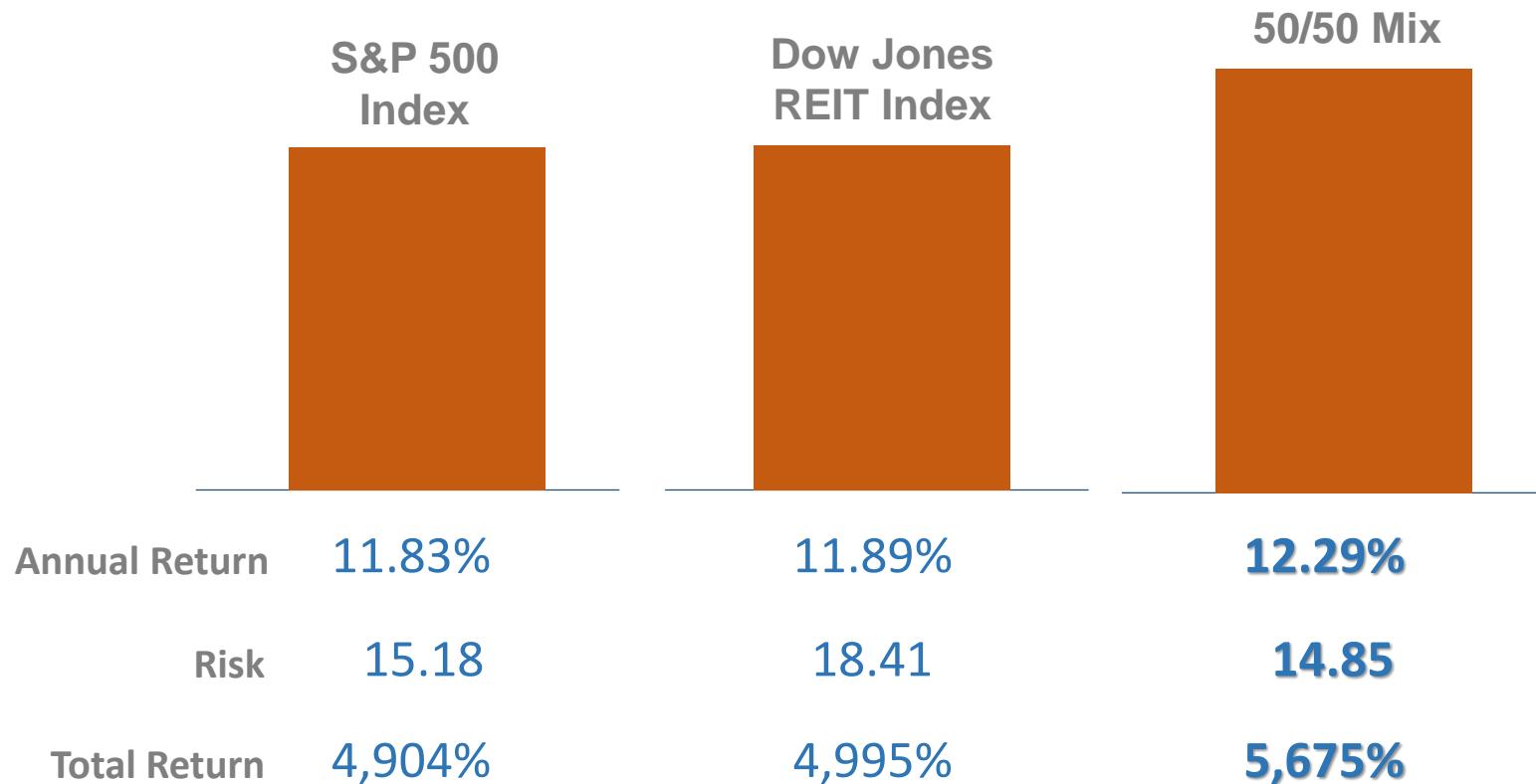
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1980 - 2015



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

Unsystematic

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

Industry
Risk

Market
Risk

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

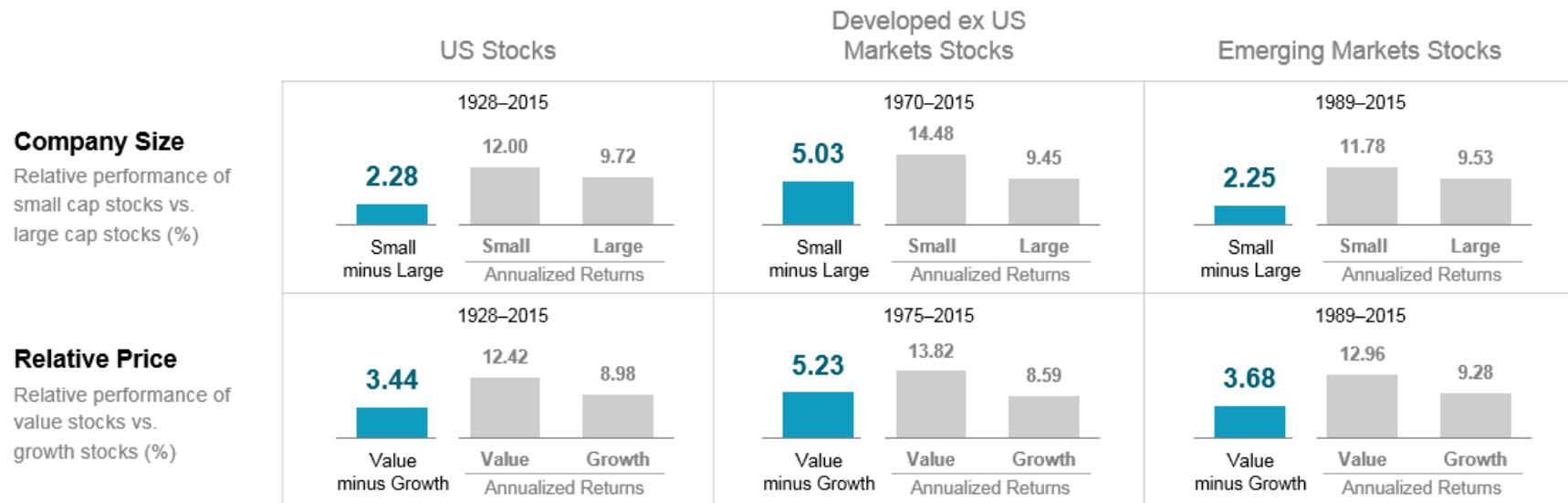
Improves on the single-factor asset
pricing model (CAPM).

Identifies market, size, and "value"
factors in returns.

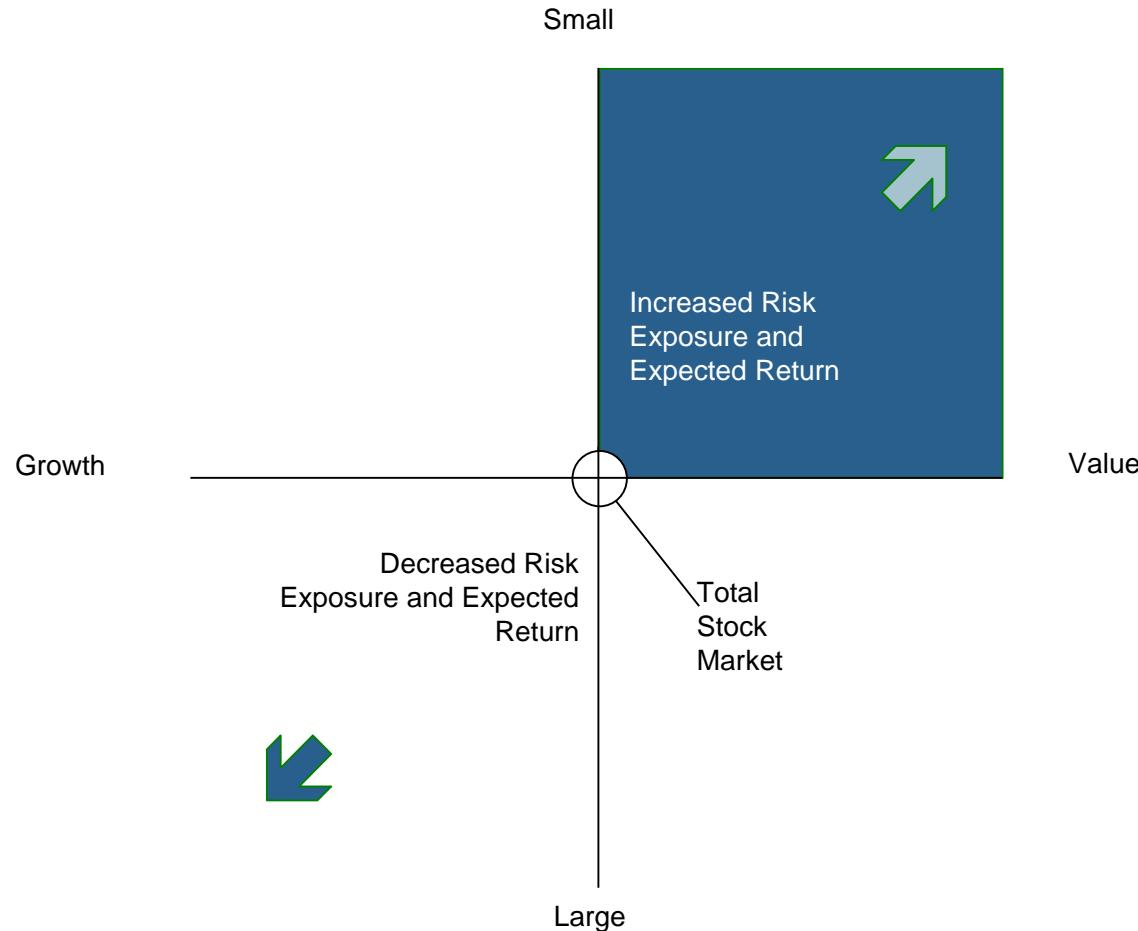
Develops the three-factor asset pricing
model, an invaluable asset allocation
and portfolio analysis tool.

Dimensions of Expected Returns

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



Risk and Return Are Related

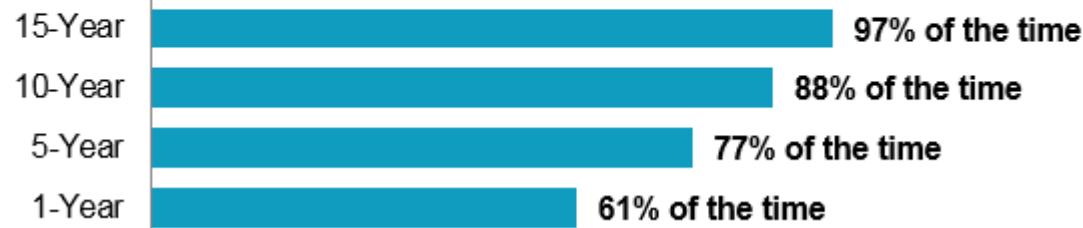


Historical Performance of Premiums over Rolling Periods

US Markets

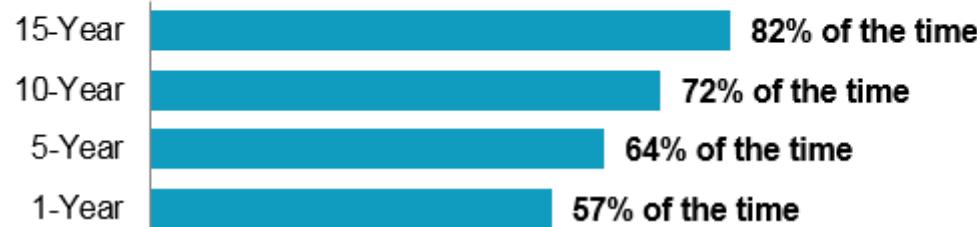
Overlapping Periods: January 1928–December 2015

VALUE beat GROWTH



Overlapping Periods: January 1928–December 2015

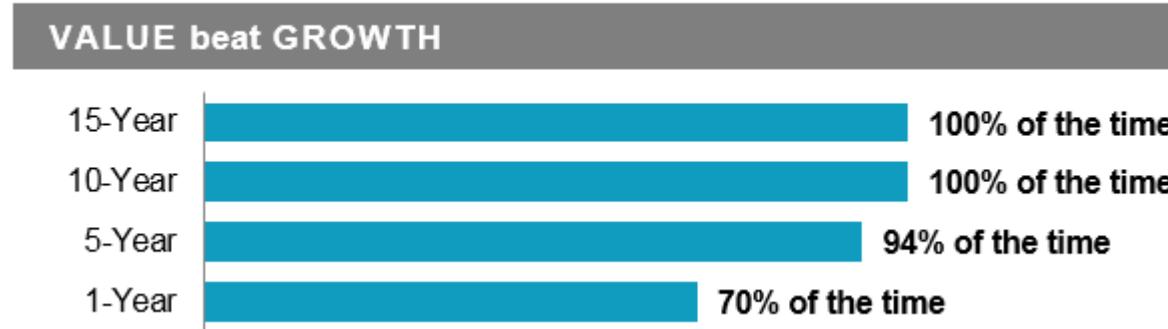
SMALL beat LARGE



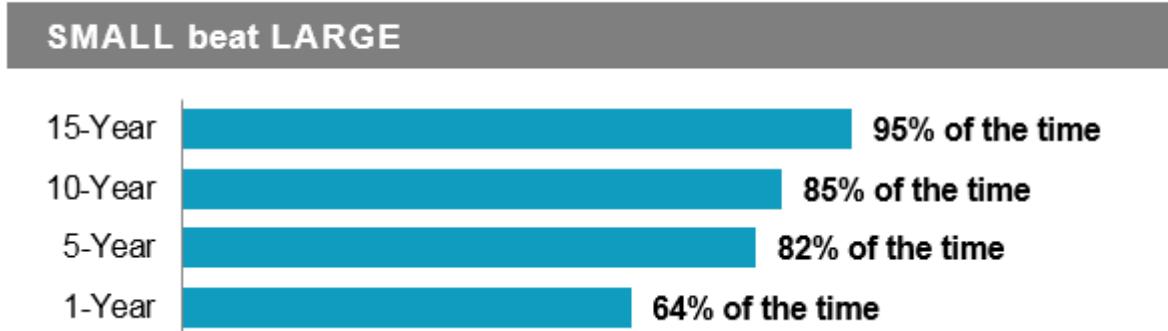
Historical Performance of Premiums over Rolling Periods

Developed ex US Markets

Overlapping Periods: January 1975–December 2015



Overlapping Periods: January 1970–December 2015

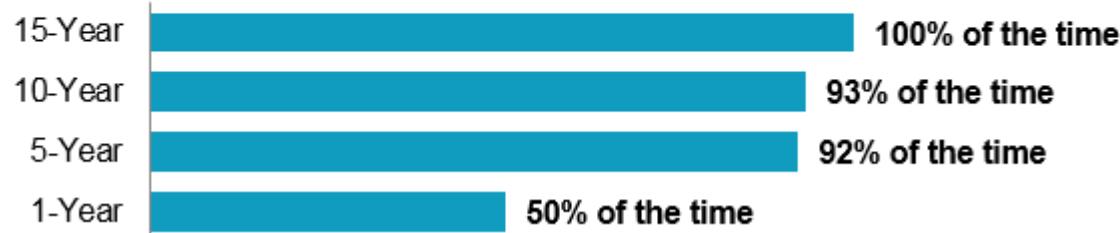


Historical Performance of Premiums over Rolling Periods

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*

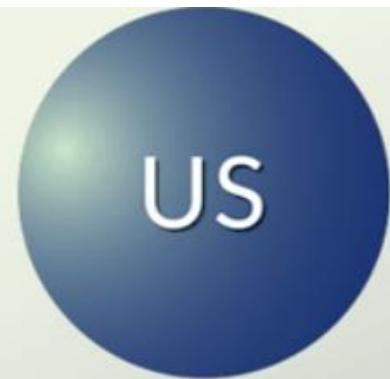
1926- 1929	1930- 1939	1940- 1949	1950- 1959	1960- 1969	1970- 1979	1980- 1989	1990- 1999	2000- 2009	2010- 2015
19.2%	-0.1%	9.2%	19.4%	7.8%	5.9%	17.6%	18.2%	-0.9%	12.9%

Average Return: 9.94%

The Decade of Lost Returns

Jan 2000 - Dec 2009

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



1

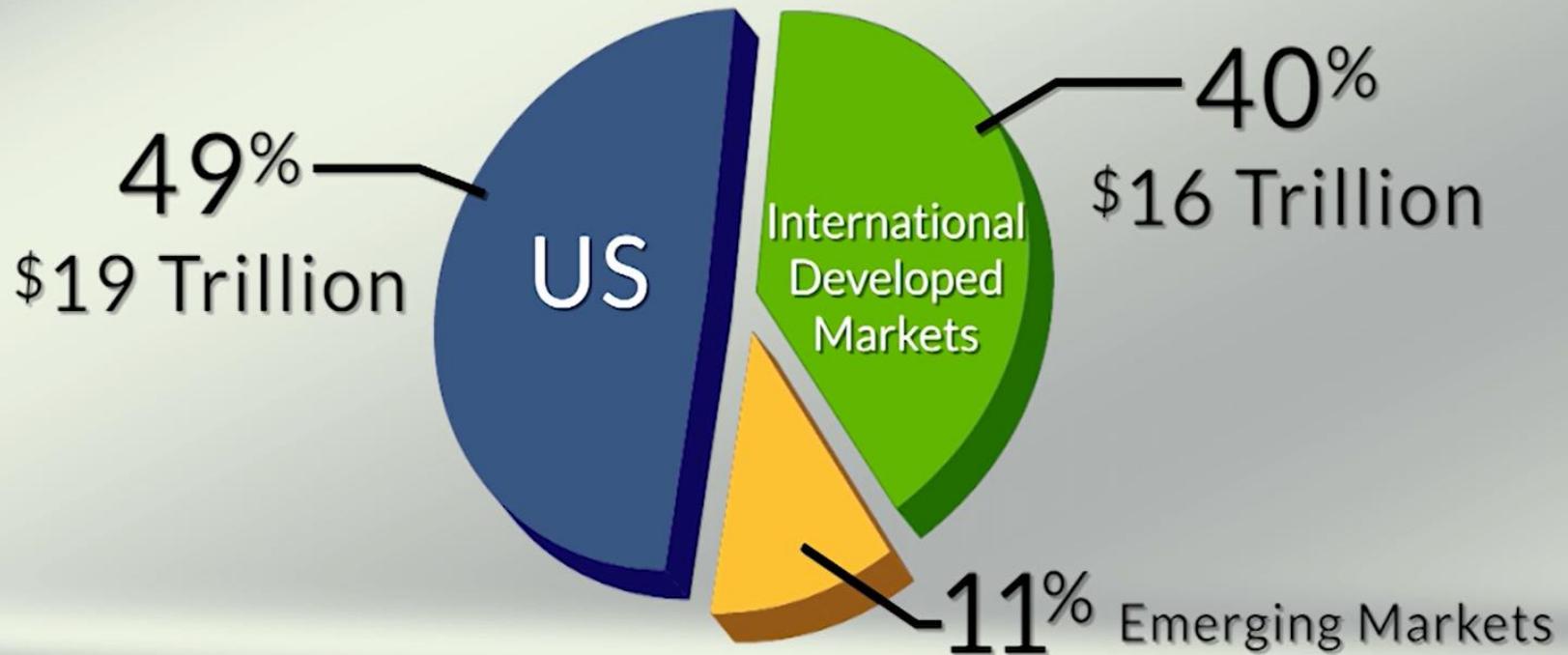
23

21

World Market Capitalization

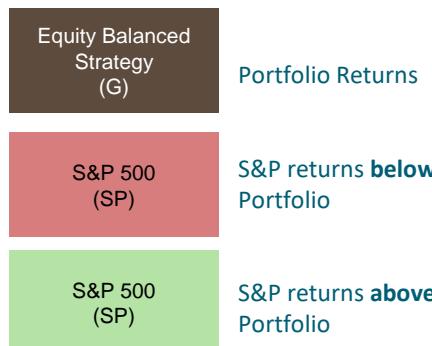
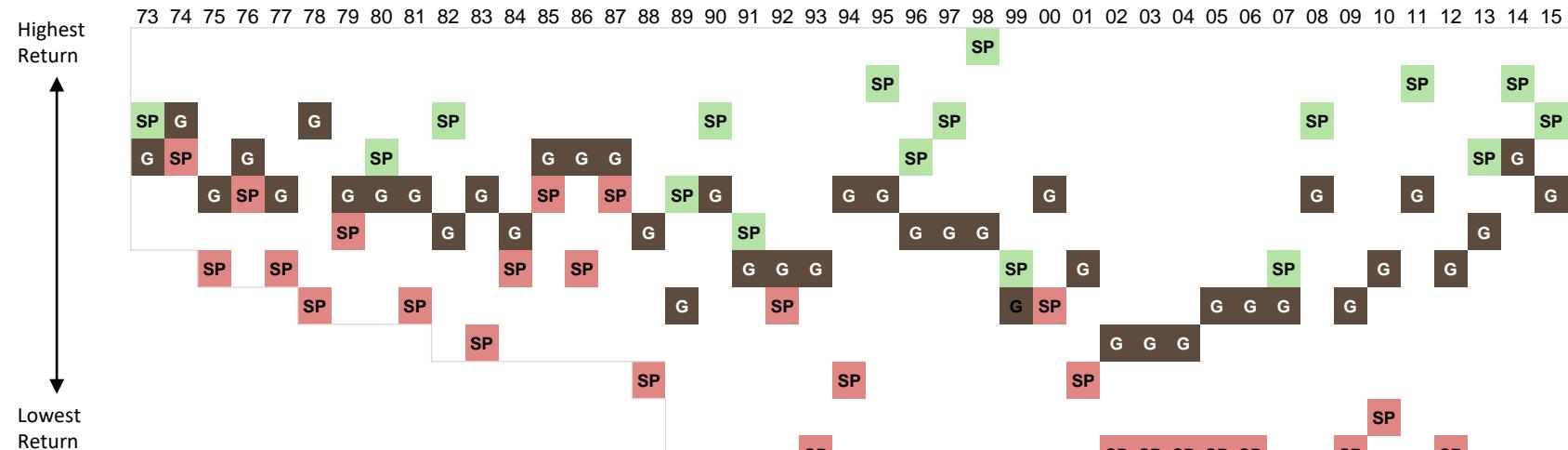
(Value of all Global Companies)

\$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
S&P 500 Index	11.95%	10.95%	10.82%	11.12%	11.58%
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)
Equity Balanced Strategy Index	15.33%	14.32%	14.34%	14.74%	14.96%
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)
Excess Return	3.38%	3.37%	3.52%	3.62%	3.38%

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*			Model Inception
						1 Year	3 Year		
▼ 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	VTY	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)

3.7%

5.7%

7.7%

9.6%

11.5%

VERY CONSERVATIVE

CONSERVATIVE

MODERATE

AGGRESSIVE

VERY AGGRESSIVE



20% STOCK 80% BOND



40% STOCK 60% BOND



60% STOCK 40% BOND



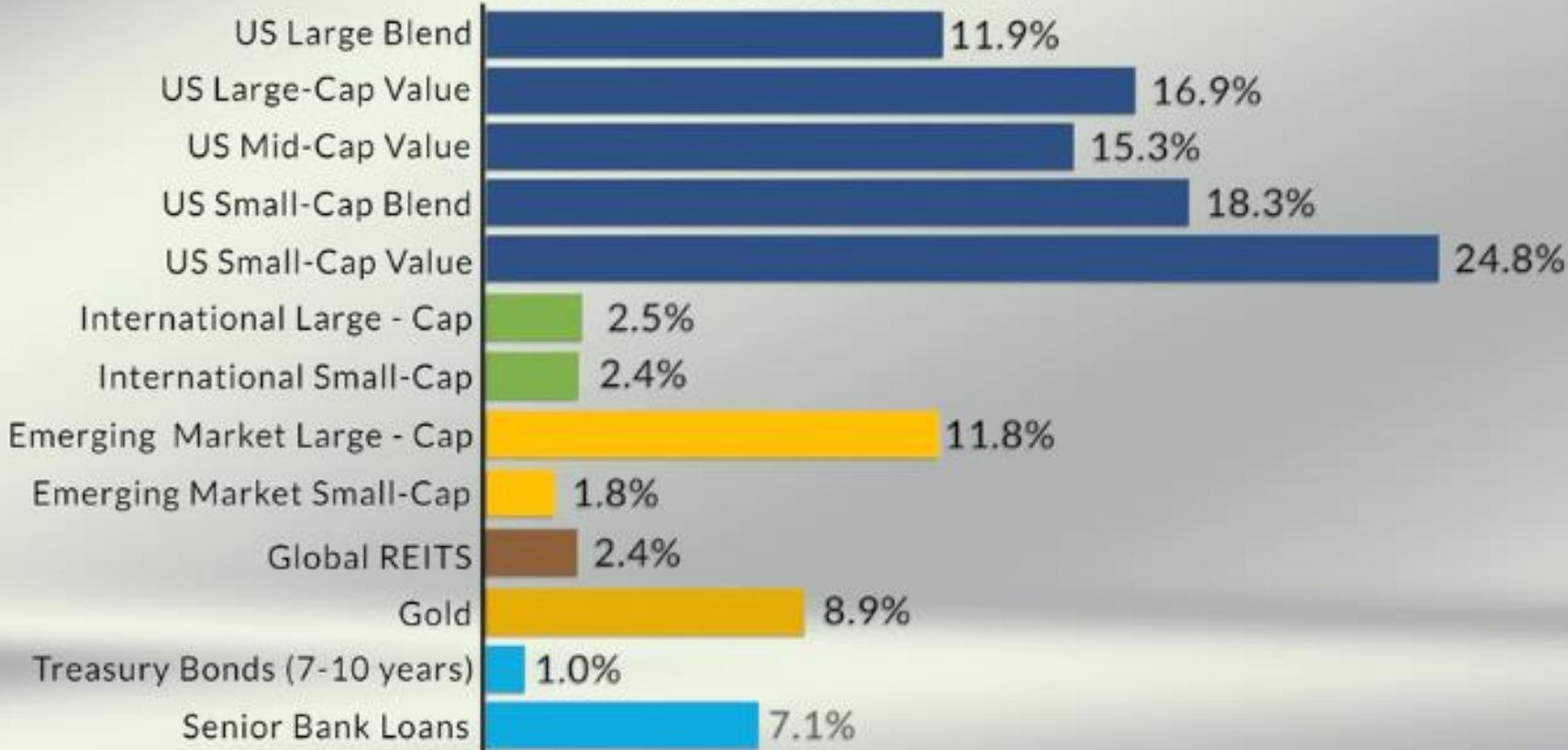
80% STOCK 20% BOND



100% STOCK

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



Low ← “Investors’ Appetite for Risks” → High

U.S.
Stocks ← → Foreign
Stocks

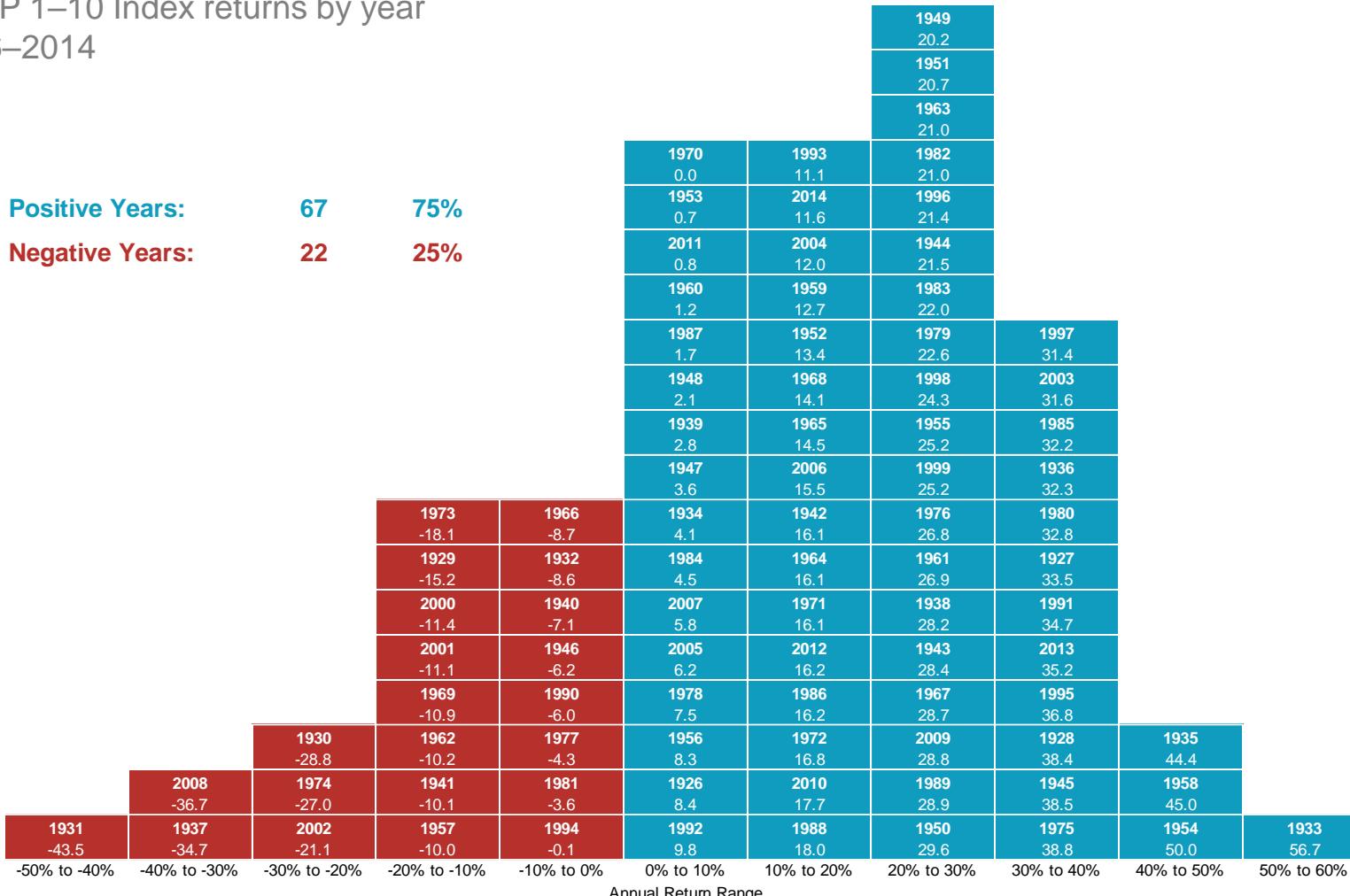
Large
Caps ← → Small
Caps

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%**



CRSP data provided by the Center for Research in Security Prices, University of Chicago. The CRSP 1–10 Index measures the performance of the total US stock market, which it defines as the aggregate capitalization of all securities listed on the NYSE, AMEX, and NASDAQ exchanges. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

Which Would You Choose in 1981?

Cell phones or canned pork shoulder?



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)

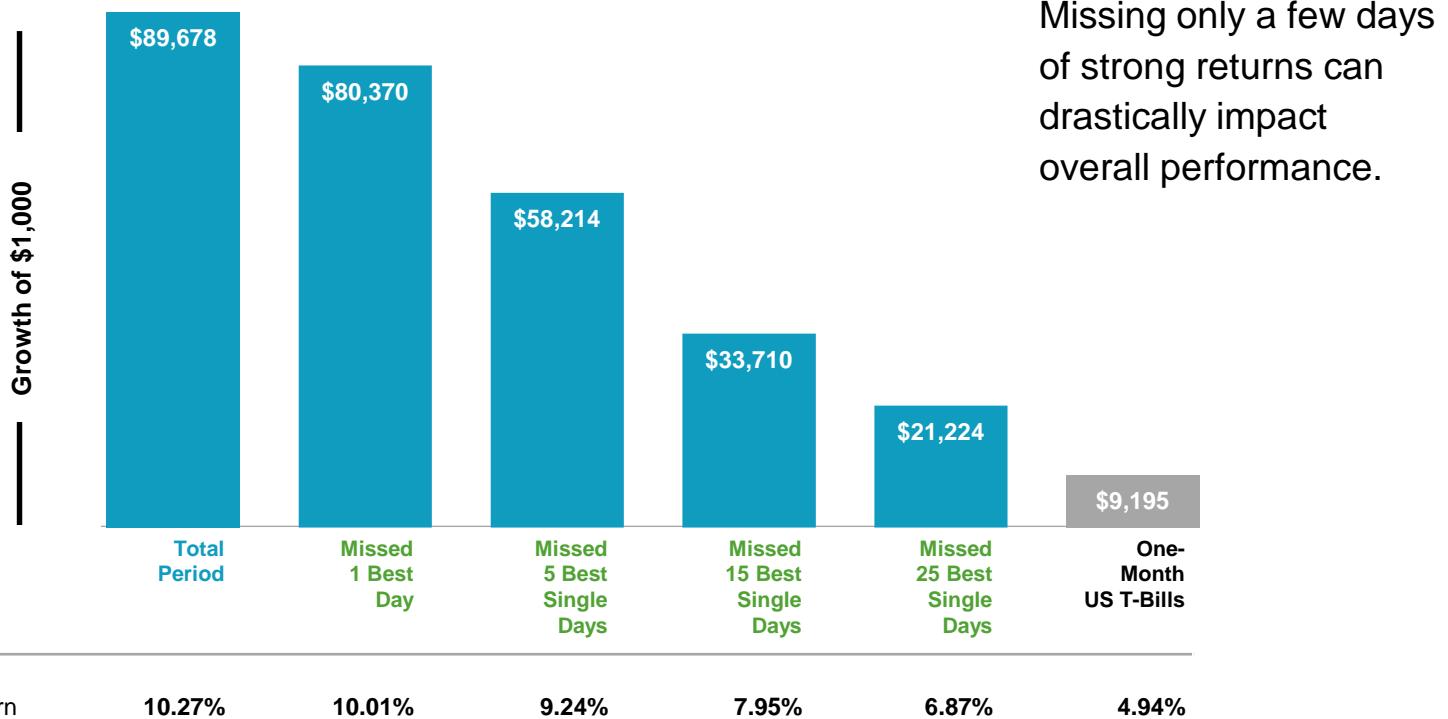
- Relies on forecasting to select “undervalued” securities or time markets
- Generates higher expenses, trading costs, and risks

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. Sinquefield).