

Expanding Your Wealth

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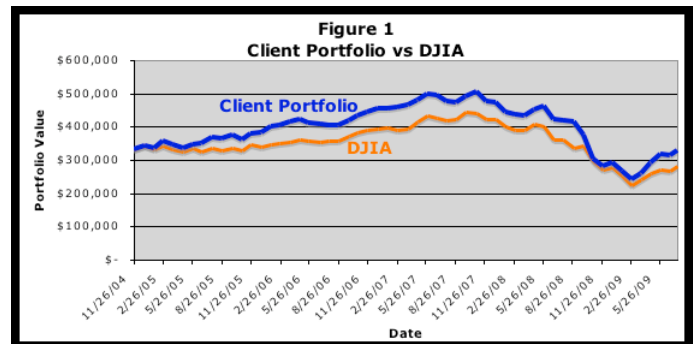
Show Me the Money!

Recently, in preparing for a meeting with one of my early clients, a client who came on board in 2004, I pulled up his initial statement from November 2004. No, I'm not trying to get away from market declines of the last year. Rather, in times like what we've experienced recently I believe it's important to maintain a multi-year, or even multi-decade, perspective.

When I compared his original account balance to his initial statement I found some very positive information. In spite of just having endured the worst calendar year for the stock market since 1933, and not any stellar years since 2004, his portfolio, which is 90 percent equities and 10 percent bonds, had retained 98.1 percent of its original value. Sure, I'd much rather report that his portfolio was up 75 percent in five years, but in times like what we've just endured it's important to have a portfolio that can weather the storm.

After seeing that his portfolio had retained 98.1 percent of its value, all costs and fees included, I immediately asked myself: "What has the Dow Jones Industrial Average (DJIA) done over the same period?" After all, the DJIA is the most commonly quoted bench mark in the world.

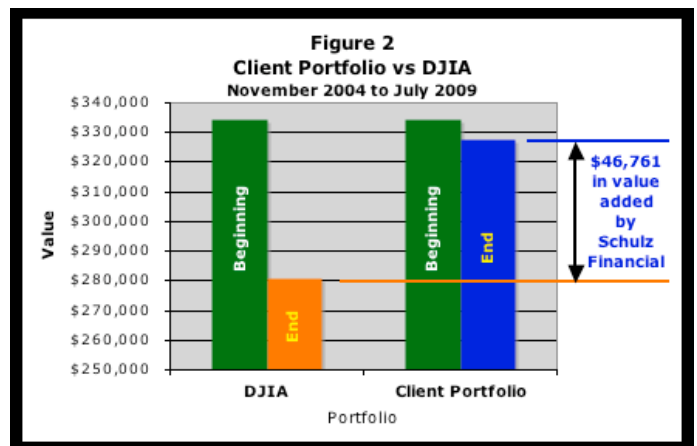
Not surprisingly, the DJIA, with no investing costs included, had lost 15.9 percent of its value over the same period. In other words, while my client's portfolio had retained 98.1 percent of its value, the DJIA, which beats most peer funds, and without any costs taken out, had retained only 84.1 percent of its value since November 2004. Moreover, when I plotted my client's portfolio against the DJIA I found that it stayed ahead of the DJIA almost the entire time (Figure 1, top of right column).



While an incremental difference of 14 percent is good, the real question is: "How many dollars, after all investing fees, does this mean to my client?" The answer? **\$46,761**, on an initial portfolio value of \$334,041 (Figure 2).

But what about risk and the percentage of bonds? Did the client portfolio have an unfair advantage in the down market due to its bond position?

Because bonds were only ten percent of the portfolio, most of the 14 percent incremental return that one can assign to the bond position is approximately 1.5 percent, or 10 percent of 14 percent (1.4 percent) plus the interest. That still leaves 12.5 percent, or 89 percent of the incremental return, to the advantages provided by the Schulz Financial/DFA/TD Ameritrade team.





How risky is the overall portfolio? It's about the same risk level as a straight DJIA position. Yes, it has some bonds to decrease the risk, but we also picked up some riskier assets with microcap, international and emerging market positions. Hence, we laid off some risk with a bond position, while picking up some risk with more aggressive assets.

Also, and critically important, is that we engineered the portfolio with Morningstar software I lease and the experience I have at optimizing portfolios by utilizing mathematical/statistical models. It all comes into play.

But the bottom line is the client is \$46,761 ahead of the DJIA, a bench mark that beats most peer funds, and the client is comfortable with the risk they're taking.

Yes, we'd all rather see markets go up than down, but enduring volatility is the chief reason

investors get paid, over the long haul, for holding equity positions instead of just putting all their money in CDs.

What about selling high and buying low? That's a topic for another newsletter. However, let me say that even Warren Buffett, the premier money manager of our time, will tell you that no one knows where the market is going over the short term.

The bottom line? Getting into a well engineered portfolio, comprised of excellent assets (DFA, see www.dfaus.com), and sticking with your strategy will yield dividends and ultimately **expand your wealth**. That's what I'm here to help you with. Stay tuned.

Thank you for giving me a few minutes of your time and consideration.

Rod

Please check out my new web site at:

www.GreatWealth.com

On it, you can check out the blog and sign up for the newsletter, *Expanding Your Wealth*

Also, with my March retirement from ConocoPhillips I'm now back in the mode of growing Schulz Financial by adding new clients. Please send the PDF or link to this far and wide, or better yet, contact me at:

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