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# TAKING CARE OF YOU

ISSUE#: *One Hundred-Sixty-One*

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**INSIDE THIS ISSUE:**

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**Ron returned home on 12/05/09!**

## 1. MARKETS

### *Current Market Environment*

Before we update you on the current market conditions, we would like to share with you a recent article from the Wall Street. This article is entitled "Investors Hope the 10's Beat the 00's" from the December 21, 2009 issue. This article explains that the last decade (from 2000 through 2009) was the **worst decade ever for U.S. stocks, which includes the great depression**. Since the end of 1999, stocks traded on the New York Stock Exchange have **lost an average of .5%** a year thanks to the twin bear markets this decade. R.O.I. on the other hand has **made and average of 5.7%** per year in our most common allocation (moderate) over the same period of time. Also, in **each** of those years our most common allocation (moderate) outperformed the S&P 500 Index! This better performance is due to R.O.I.'s diversification and our active investment strategies. Comparatively, R.O.I. has done **great over the last decade!**

Equity markets around the world resumed their rebounds in November and R.O.I. has continued to participate. Most of R.O.I.'s clients (those who have a moderate allocation) are up **25.93% as of 12/28/2009**. The **DJIA** is up **19.9%**, the **S&P 500** is up **24.7%**, **NASDAQ** is up **44.9%** (this index mainly represent the technology sector), and the **Russell 2000** is up **27%**.

Contributing to R.O.I.'s strong performance is our investments **overseas**. These performers were in the emerging markets, especially in Latin America, China and India. Latin America continues to benefit from generally positive investor outlooks concerning Brazil as well as a general increase in risk tolerance among investors. India and China continue to benefit from the same type of adjustment in risk tolerance but also because of improving economic performance in the two countries. Also, due to the decline of the dollar, our overseas investments have benefited.

November was not without challenges for investors. For example, Dubai World, a sprawling investment company in a wide range of development industries in the UAE, asked creditors in late November for a six-month hiatus of its interest payments on \$60 billion in debt. **Our position is that this event is not large enough to cause significant damage to world markets outside the Persian Gulf.**

Right now, U.S. growth is being powered partly by a turn in inventory spending (from meeting demand from inventories to actually producing to meet demand and then to rebuilding inventories). Another important (and sometimes overlooked) factor is exports. Exports are adding significantly to growth this quarter. Finally, we are **seeing some life from consumers** who were considered the dead weight holding back the economy a few weeks ago.

## “TAKING CARE OF YOU”, Page 2

Our expectations for next year are positive and the driver of our expectations is the universal desire for growth. The emerging markets wants **growth**, the U.S. wants **growth**, Europe wants **growth**. It could be said this is always true. Indeed. **But the intensity of the desire is not always the same** Sometimes countries are running at capacity and are just as concerned about overheating as they are about growth. But that is not the case today. Nobody wants headlong growth leading to a bubble in one sector or another, but the limits on growth are high. **This is the condition that makes equities today so appealing.**

## 2. ACTIVE INVESTMENT MANAGEMENT

### MONITOR CHOICES

Why Monitor Funds? Why not just buy good funds with good histories and hang on to them, or follow what **was** a popular trend (and it started to come back during the 2003 upswing), i.e., just buy a slew index funds and hang on to them? This thinking is based upon two maxims: (1) "What you pay for is what you get"; (2) The average (i.e., an index) will continually outperform 80% of the actively managed funds. ROI believes that: (A) ***What you bought may not be what you thought, and even if it was, it may not stay the same!***; (B) ***In the long run, by definition, the average will only beat 50%, but even if it beats 80%, we are trying to work with the top 5-25% of managers, not the bottom 80%.*** Some cases in point (#s (1)-(2), below, are examples of (A) above, and, #(3), below, is an example of (B), above):

(1) **Janus Worldwide & Mutual Discovery** – We purchased Janus Worldwide about August of 1995 and held it most of the time through May of 2000. Worldwide’s yearly returns for 1995 through 1999 were, respectively, 22%, 26%, 20%, 26%, and 64% → fantastic performance from a great fund and manager for a long time! However, Worldwide’s yearly returns for 2000 through 2002 were –17%, –23% and –26% → Worldwide went from the best to the worst in its sub-asset class (i.e., Overseas/Worldwide). Since we sold Worldwide in 2000 we have owned several funds in its place, but much of the time we owned Mutual Discovery which had yearly returns for 2000 through 2002 of 13%, 1% and –9%. The yearly savings from 2000 through 2002 via monitoring Worldwide and switching to Discovery would have been 30%, 24% and 17%. **By monitoring funds we participate in most of the upswings while they are “Best Funds” but miss most of the bad downswings when they fall from their perch;**

(2) **Janus Olympus & Strong Discovery** – We purchased Janus Olympus about April 1999 and sold it about July 2000. Olympus’ return for 1999 was 100% → fantastic performance from a famous fund and manager! However, Olympus’ returns for 2000 through 2002 were –22%, –32% and –28% → Olympus lost –82% of its 1999 100% gain. Since we sold Olympus in 2000 we have owned several funds in its place, but much of the time we owned Strong Discovery which had yearly returns for 2000 through 2002 of 4%, 4% and –12%. The yearly savings from 2000 through 2002 via monitoring Olympus and switching to Discovery would have been 26%, 36% and 16%. **Remember the old cigarette add exclaiming “I would rather fight than switch!”? That was a bad idea relative to smoking, but it is a terrible idea relative to investing in mutual funds when there are no commissions and usually no transaction fees;**

### ACTIVE INVESTMENT MANAGEMENT

#### OBJECTIVE

- Participate In Up Markets
- Control In Down Markets

#### ALLOCATIONS

- Asset Allocations  
(Secular/Cyclical Markets)
- Opposite Categories
- Different Classes
- Independent Classes

#### FILL ALLOCATIONS

- Use Best Funds
- Monitor Choices

#### CONTROL SWINGS

- Diversify Manager Styles•
- Control Sector Concentration
- Allow Fund Managers To Make S/T Decisions
- Rebalance
- Fine Tuning Strategies

#### ADVISOR/CLIENT

- Motivate Advisor
- No Conflicts
- % Of Assets Basis
- Help Build Business

## **“TAKING CARE OF YOU”, Page 3**

*(3) To illustrate the benefit of using the top 25% vs. index funds, review, below, section “3. Current Best Funds”, ROI'S MPT Index vs. ROI's “Best Funds” returns from 1/1/97 through ‘09 → the benefit = 79.9% VS. 117.03% = a whopping 36.47% advantage in 156 months! You can see that these are old examples; however, the principle of these examples have been used time and time again and have helped R.O.I. participate in up markets and control in down!*

**WHAT FUNDS WILL NEED TO BE CHANGED IN THE FUTURE?** Remember: *“Over time, once highly rated funds tend to gravitate toward the mean, i.e., the average.”* And, *“The chances are that if one buys a highly rated fund and hangs on to it for years, the highly rated fund is likely to end up being a mediocre fund.”* Or, in the words of the May 3, 1999 issue of Investment News: “When a fund starts out, it’s usually based on some portfolio manager’s ability to pick stocks or somebody’s insight into inefficiency in the market. In exploiting that inefficiency, it usually has good performance for a few years. As time passes several things happen to alter the picture. First, a lot of money flows into the fund, making it harder for the portfolio manager to invest all of it. Second, the anomaly the manager was exploiting eventually comes to be understood by the rest of the market, and gets arbitrated away from the manager.”

ROI will continue to closely monitor current "BEST FUNDS", and the many other good funds and fund families that are constantly competing with them. Monitoring funds has become more challenging and much more time consuming because of Early Redemption Fees (ERFs, e.g., a 2% fee if sold in less than 60 days) imposed by individual mutual funds and/or the Fidelity Investment Advisor Network. ROI will not always be right, and will not always be able to avoid ERFs, but we are very often right when we decide to **“Switch rather than fight”**.

### **3. CURRENT BEST FUNDS**

	LAST MONTH	'09 YEAR TO DATE	1/1/97 THROUGH '09
<b>ROI'S MPT INDEX*</b>	3.60%	+25.40%	+79.9%
<b>ROI'S “BEST FUNDS”**</b>	4.04%	+21.28%	+117.03%

\* ROI's MPT INDEX = An index based solely upon one Modern Portfolio Theory type of Asset Allocation to each of the following 12 Asset Classes, assuming from: (1) 1/1/97, an 11% Target Return (i.e., 70% in Stocks; 15% in Bonds; 15% in Anti-Inflation); and, (2) 3/1/03, a Moderate allocation (i.e., 50% in Stocks; 25% in Bonds; 25% in Anti-Inflation); using the average returns of all mutual funds in each Asset Class, Rebalanced on a monthly basis (data supplied by Morningstar).

\*\* ROI's “BEST FUNDS” = Using the accumulated yearly IRR % of an actual client’s account that uses the same Moderate Asset allocation as in ROI's MPT INDEX, but includes all of ROI's other strategies.

### **ISSUE# ONE HUNDRED-SIXTY BEST FUND CHANGES & WHY?**

(Funds or % in < > are new funds and allocations replacing prior choices. Current through Newsletter date.)

<u><b>STOCKS</b></u>	<u><b>BONDS</b></u>
<b>Aggressive Growth</b>	<b>US/LT, ST, Mtg, Convertible</b>
Fidelity Capital Appreciation Source (117%)	Fidelity Convertible (67%)
	Janus Short Term Bond (100.0%)
<b>Growth</b>	Deleware Extended (33%)
Morgan St Mid Cap (100%)	

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Yacktman Focused (113%)	<b>Junk</b>
	Security High Yield (100%)
<b>Small Cap</b>	
Brown Cap Small (106%)	<b>Global</b>
Sterling Cap Small Val (50%)	<Loomis Sayles Global> (100%)
AIM Triamark Small Co (50%)	Fidelity Advisor Emg Mkt (113%)
<b>Equity Income</b>	<b><u>ANTI-INFLATION</u></b>
Sun America Fixed Div <100.00>	<b>Asset Manager</b>
	Henderson European Focus (100%)
<b>Stock Index</b>	
Fidelity Spartan Market Index <100.00>	<b>Ntrl Res, Utilities &amp; Metals</b>
	<MFS Utilities> (75%)
<b>Overseas: Int’l, World, SC, EM</b>	Fidelity Sel Material Port <50%>
Janus Overseas (85.7%)	Black Rock Energy Resource (50%)
<Oakmark International Gth> (69.78)	<b>Real Estate</b>
Oakmark International (85.7%)	<Fidelity Advisor Real Estate> (66.75%)
Templeton Global Small I Co (42.85)	Third Avenue Real Estate (44.5)
Forward Emerging Markets (85.7%)	

### **THE “WHYS”**

**Allocation Changes-** We increased our allocation to our **Equity Income Fund (Sun American Fixed Div)** and our **Stock Index Fund (Fidelity Spartan Market Index)** in order to participate more in the continued upswing that we anticipate during December. We also decreased our exposure to the real estate sector by selling our **Pro Funds Real Estate Fund**. We have done well in this sector but we would not be surprised to see a pull back in this sector. We have decreased our allocation to our **Utilities Fund (Fidelity Sel Material Port)** in order to have more dollars to move more aggressively (move more dollars to U.S. stock).

### **Fund Changes-**

- Oakmark International Growth for PIMCO International Stock-** PIMCO has done well for us but has begun to fall behind its competitors. Oakmark has done well recently and has a strong long-term track history.
- Loomis Sayles Global for Dreyfus International-** Loomis has a high star rating, a reasonable expense ratio and a good risk return ratio. Dreyfus International has fallen behind its competitors.
- MFS Utilities for Gabelli Utilities-** Gabelli Utilities has struggled as of late and MFS has risen to the top 25% of this asset class. We have used MFS before and we have confidence it will do well in the future.
- Fidelity Advisor Real Estate for Neuberger Real Estate -** Neuberger Real Estate has done well, but has not done as well as its peers. Fidelity as stayed in the top 25% in this asset class and we feel it will continue to do well.

[R.O.I. tracks each month’s consensus predictions for the Dow Jones Industrial Average (DJIA) for the upcoming six months, by the panel of “experts” in the Investment Advisor Magazine.]

<b><u>THE PREDICTION WAS:</u></b>			<b><u>THE DJIA WAS:</u></b>	<b><u>THE PREDICTION WAS OFF BY:</u></b>	
<b><u>MADE</u></b>	<b><u>FOR</u></b>	<b><u>DJIA</u></b>	<b><u>ACTUALLY</u></b>	<b><u>POINTS</u></b>	<b><u>PERCENT</u></b>
07/08	12/08	12939	8697	+4242	+49.7%
08/08	01/09	12844	8026	+4818	+60%
09/08	02/09	12480	7947	+4533	+57%
10/08	03/09	12268	7262	+5006	+68%
11/08	04/09	12255	8022	+4233	+53%

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12/08	05/09	10955	8306	+2649	+32%
01/09	06/09	9567	8859	+708	+8%
02/09	07/09	9644	8883	+761	+8.6%
03/09	08/09	9152	9325	-173	-1.8%
No Issue					
05/09	10/09	8641	9713	-1072	-11.03%
No Issue					
<b>TWELVE MONTH ERROR RANGE =</b>				<b>-1072/+5006</b>	<b>-11.03%/+68%</b>

**!!R.O.I. believes it is impossible to predict the short-term future. If the “experts” can’t reliably do so what chance do you or R.O.I. have? Should we make large bets on short-term prediction.**

### 4. COMPREHENSIVE FINANCIAL PLANNING

#### RETIREMENT

##### **COMPREHENSIVE FINANCIAL PLANNING**

###### INCOME & EXPENSE

- Emergency Planning
- Budgeting
- Taxes

###### KIDS/GRANDKIDS’ GOALS

- “Teach Them To Fish”
- Missions, Education, Marriages, and Home Down Payments

###### RETIREMENT

###### LONG TERM CARE

###### DEATH & DISABILITY

###### IDENTITY THEFT PROTECTION

###### ESTATE PLANNING

###### BUSINESS & ASSET PROTECTION PLANNING

The **most important factor** for a successful retirement usually happens long before retirement starts, and **the sooner it happens, the better**. There are two parts to the most important factor:

- (1) **Start saving/investing ASAP**; and,
- (2) **Receive professional, active investment management ASAP**.

Why ASAP? Because the sooner:

- (1) You save and invest the sooner you get the power of compounding numbers working for you, e.g., assume you invest \$10,000/year and you average an 10% return (Rule of 72 = 72/10 = 7, your investment doubles every seven years). Your portfolio would grow as follows –

<u>END OF YEAR...</u>	<u>PORTFOLIO VALUE</u>	<u>7 YEAR GROWTH</u>
Seven	\$ 104,359	\$ 34,359
Fourteen	\$ 307,725	\$ 133,366
Twenty-one	\$ 704,027	\$ 326,302
Twenty-eight	\$1,476,309	\$ 702,282

If you waited 7 years to get started saving and investing, what “7 YEAR GROWTH” would you miss, the \$34,359 or the \$702,282? **The \$702,282!!**

- (2) You receive professional, active investment management, the more times you Participate In Up Markets and Control Participation In Down Markets, e.g., assume you started with \$100,000 and a 2002/2003 investment type return happened once every 7 years (i.e., S&P 500 = -20%/+28%; active investment management = -10%/+25%; every other yr.

S&P 500 and active investment management was a 5% return). Your portfolio would grow as follows --

<u>END OF YEAR...</u>	<u>S&amp;P PORTFOLIO</u>	<u>ACTIVE MGD PORTFOLIO</u>	<u>ACTIVE MGT BENEFIT</u>
Seven	\$ 130,691	\$ 143,582	\$ 12,891
Fourteen	\$ 170,802	\$ 206,157	\$ 35,355
Twenty-one	\$ 223,223	\$ 296,004	\$ 72,780
Twenty-eight	\$ 291,733	\$ 425,007	\$ 133,274

If you waited 7 years to receive professional, active investment management, what “ACTIVE MGT BENEFIT” would you miss, the \$12,891 or the \$133,274? **The \$133,274!!**

## **“TAKING CARE OF YOU”, Page 6**

**The old general rule** for investing for retirement was to subtract your age from 100, and that was the percentage to have in stocks, e.g., if you are 35 you should have 65% in stocks ( $100 - 35 = 65$ ), and if you are 65 you should have 35% in stocks ( $100 - 65 = 35$ ). This general rule made some sense when people weren't retiring so early and living so long, e.g., if you retired at 65 and your life expectancy was 72, it might make sense, but not if you retire at age 55 and your life expectancy is 100, because you would have to **beat the effects of inflation and taxes for 45 years – possibly longer than your working career** – and you probably can't do that with a 35% allocation to stocks! If more stocks are necessary, your portfolio will be more exposed to volatility which makes it even more important **to have professional, active investment management.**

The financial media talks about the **reliability of income** during retirement, and emphasizes the advantages of guaranteed income like social security, pension and annuity payments. The advantages of guaranteed retirement income should not be ignored, but **if all or most retirement incomes are guaranteed payments, it is unlikely they will beat the effects of inflation and taxes over long periods of time**, e.g., assume your retirement budget starts out at \$2,500/mt, inflation averages 3.5%/year, your combined federal and state income tax bracket averages 20%, you receive \$1,000/mt from social security that grows at 3%/year (none of it is taxed), \$1,000/mth from a pension (100% taxable) and a \$1,000/mth from an annuity (50% taxable), and neither the pension or annuity increases with inflation. Your monthly spendable and needed income would be as follows –

<u><b>END OF YEAR...</b></u>	<u><b>SPENDABLE INCOME</b></u>	<u><b>NEEDED INCOME</b></u>	<u><b>INCOME SHORTAGE</b></u>
Seven	\$ 2,819	\$ 3,163	\$ 344/month
Fourteen	\$ 3,094	\$ 4,163	\$ 1,069/month
Twenty-one	\$ 3,431	\$ 5,478	\$ 2,047/month
Twenty-eight	\$ 3,846	\$ 7,208	\$ 3,362/month

When you are 83, where is the extra \$3,362/month going to come from for the next 17 years?

ROI thinks a better alternative is for retirees to have some guaranteed retirement income, to **plan on tightening their belts during down years**, and, to have a substantial income coming from an actively managed portfolio that is **split into a short-term and a long-term account**. The short-term account equals up to three years of projected draws (1/3 in cash, 1/3 in very diversified bonds, and 1/3 in very diversified anti-inflation), and the balance of the portfolio is in the long-term account which is managed to substantially beat inflation and taxes over a long period of time. If the previous year is an up year, some of the long-term account is sold at a gain and transferred to the short-term account, to keep the three year cushion of projected draws. If the previous year is a down year, the short-term account is turned into two years of projected draws (1/2 in cash, 1/2 in very diversified bonds). If the next year is an up year, the short-term cushion of projected draws is again raised to three years – if it is a down year, the short-term account becomes 100% cash. This strategy allows the long-term account to be managed with long term strategies that should beat the effects of inflation and taxes because it is protected against projected draws for up to three consecutive down years. **This strategy has a much greater chance of providing the extra \$3,362/month in year twenty-eight, from the above chart, plus, it keeps more client assets liquid and diversified in case of emergencies or long-term care needs.**

## ***“TAKING CARE OF YOU”, Page 7***

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