



Rebalancing a Retirement Portfolio

New Canaan Mens Investment Club

Lapham Community Center

10:00 AM - May 7, 2017

Total Market Cap and US GDP

YTD

1Y

3Y

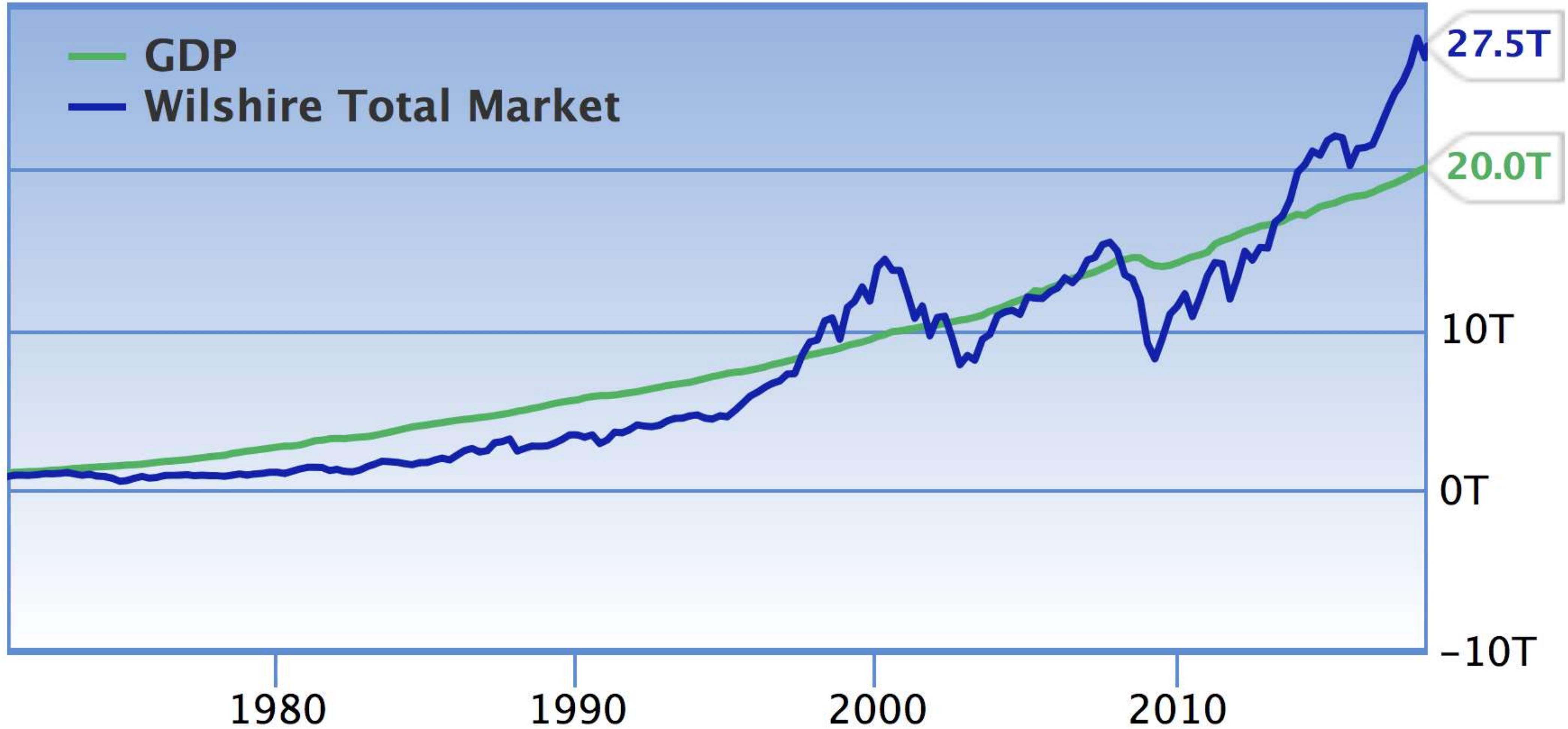
5Y

10Y

All

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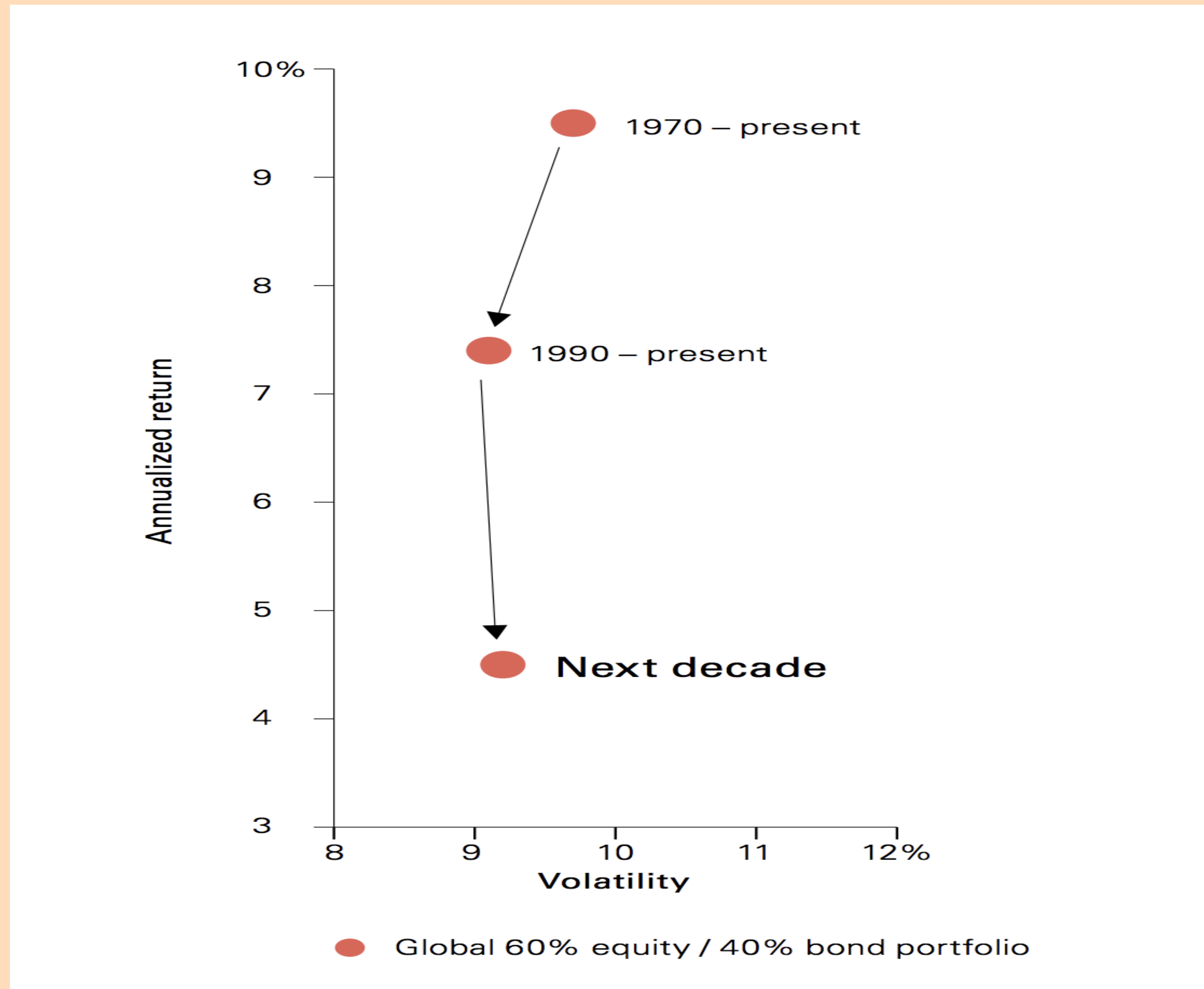
Advice

- As pointed by Warren Buffett, the percentage of total market cap (TMC) relative to the US GNP is “probably the best single measure of where valuations stand at any given moment.”
- Therefore, the market is **significantly overvalued.**

Findings

- As of 05/03/2018, the Total Market Index is at \$ 27.5 Trillion, which is about 137.8% of the last reported GDP.
- The US stock market is positioned for an average annualized return of -1.6%. This includes the returns from the dividends.

When Rebalancing Consider that Future Returns Will Decline



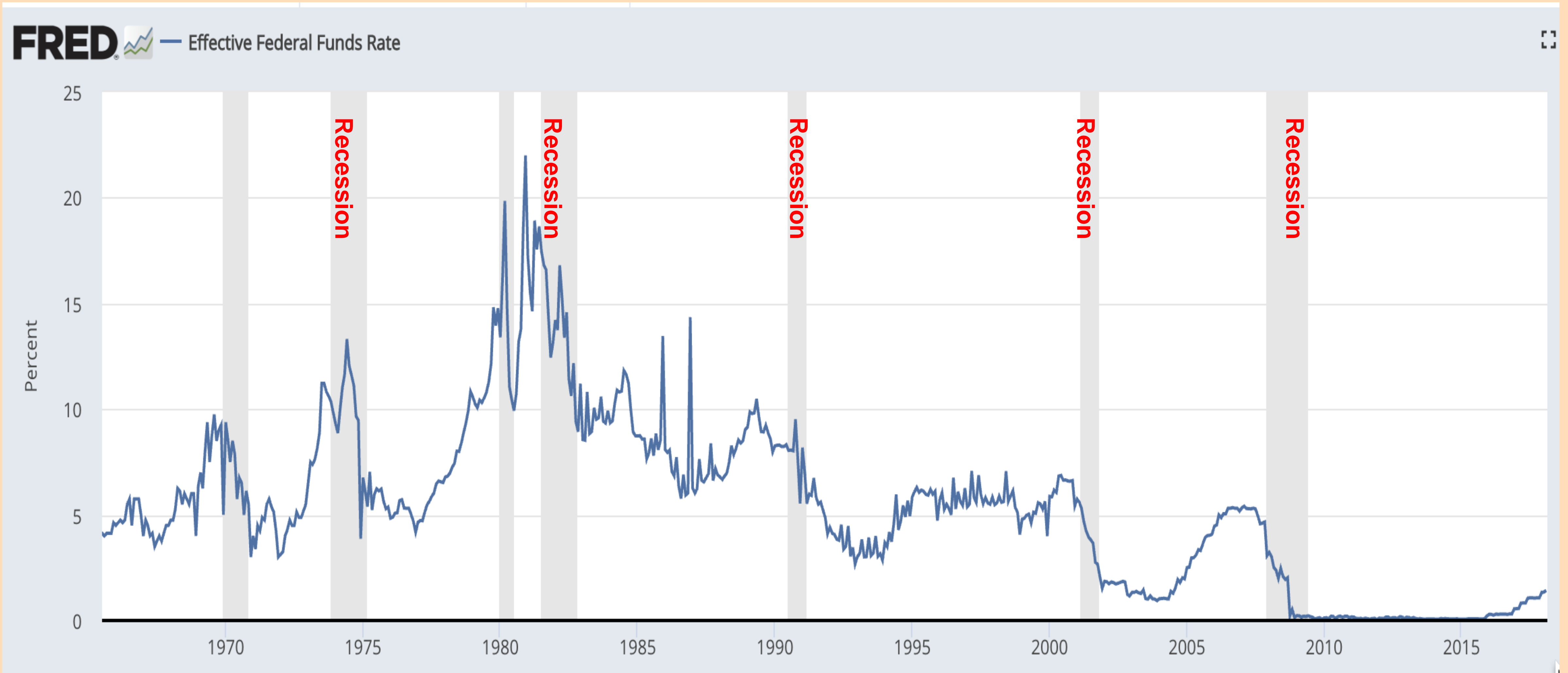
Consider Rising Prices and the Depreciation of the Dollar

Year	Inflation Index	Trade Deficit \$ Billions
2018	114.7	-666
2019	116.9	-726
2020	119.4	-747
2022	124.5	-777
2024	129.8	-814
2026	135.1	-828
2027	137.8	-834
2028	140.5	-854

What to Do

- Rebalance portfolio before recession occurs.
- Indicators can partially predict recessions.
- Analyze the quality of your portfolio.

Federal Funds Interest is Cyclical and Anticipates Recession



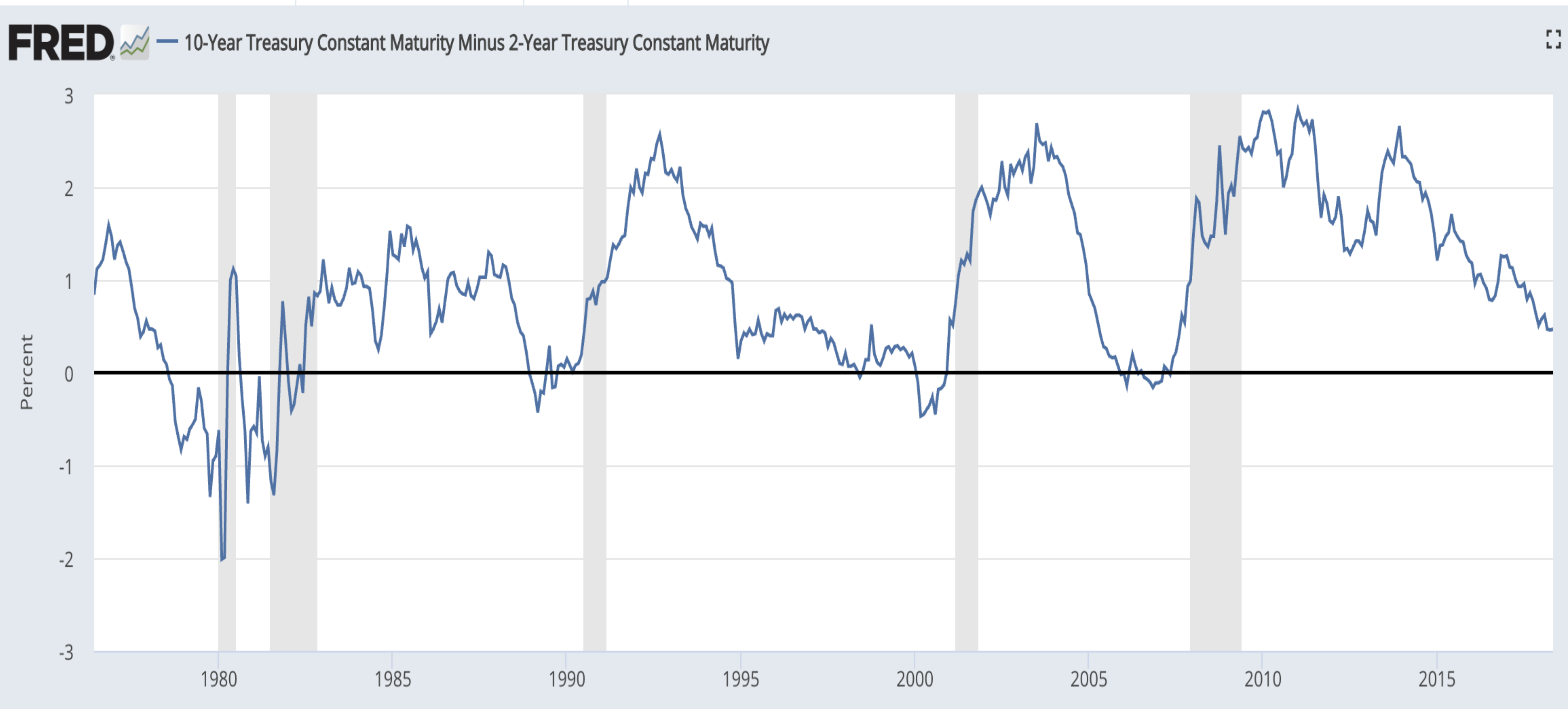
Investor Margin Debt Indicates Possible Recession



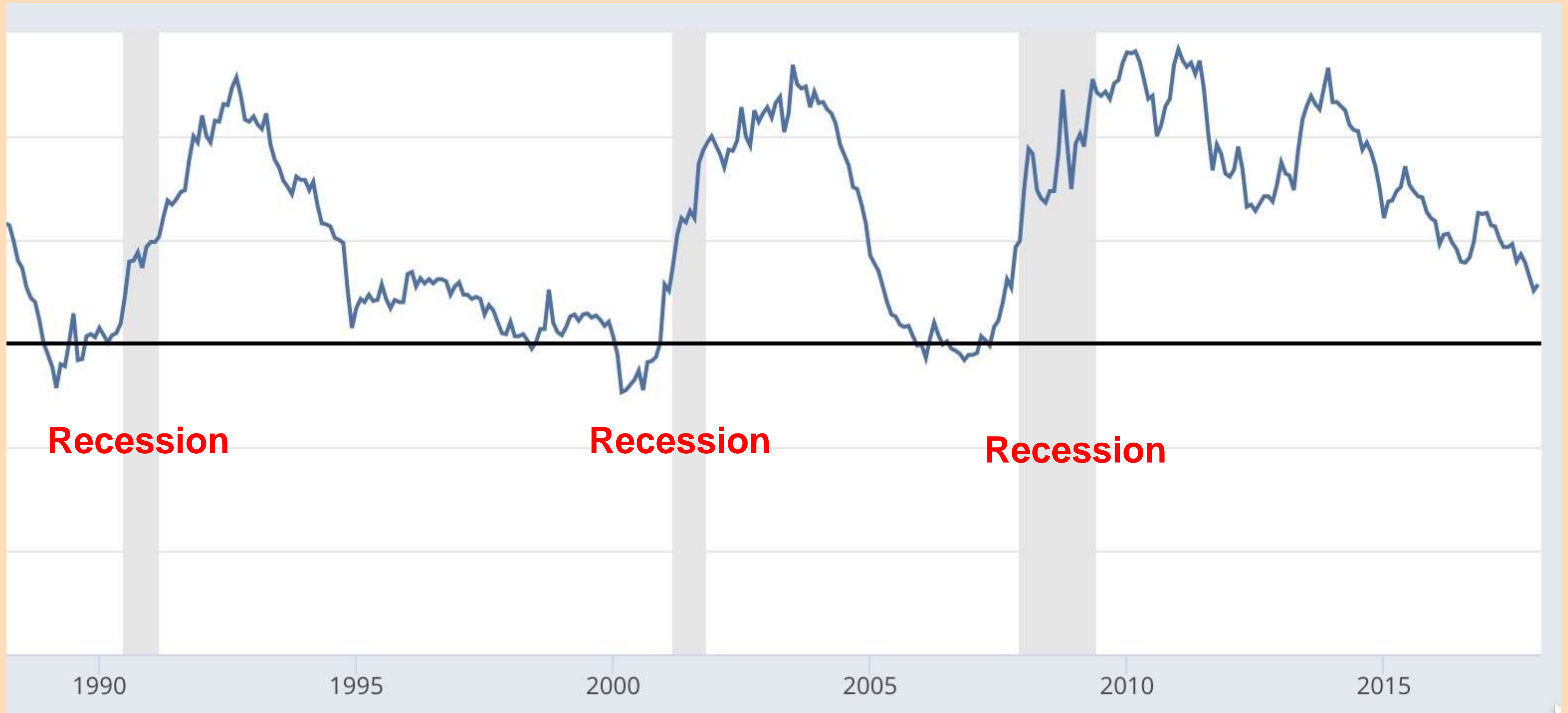
% of GDP Margin Debt is Cyclical and Indicates Possible Recession



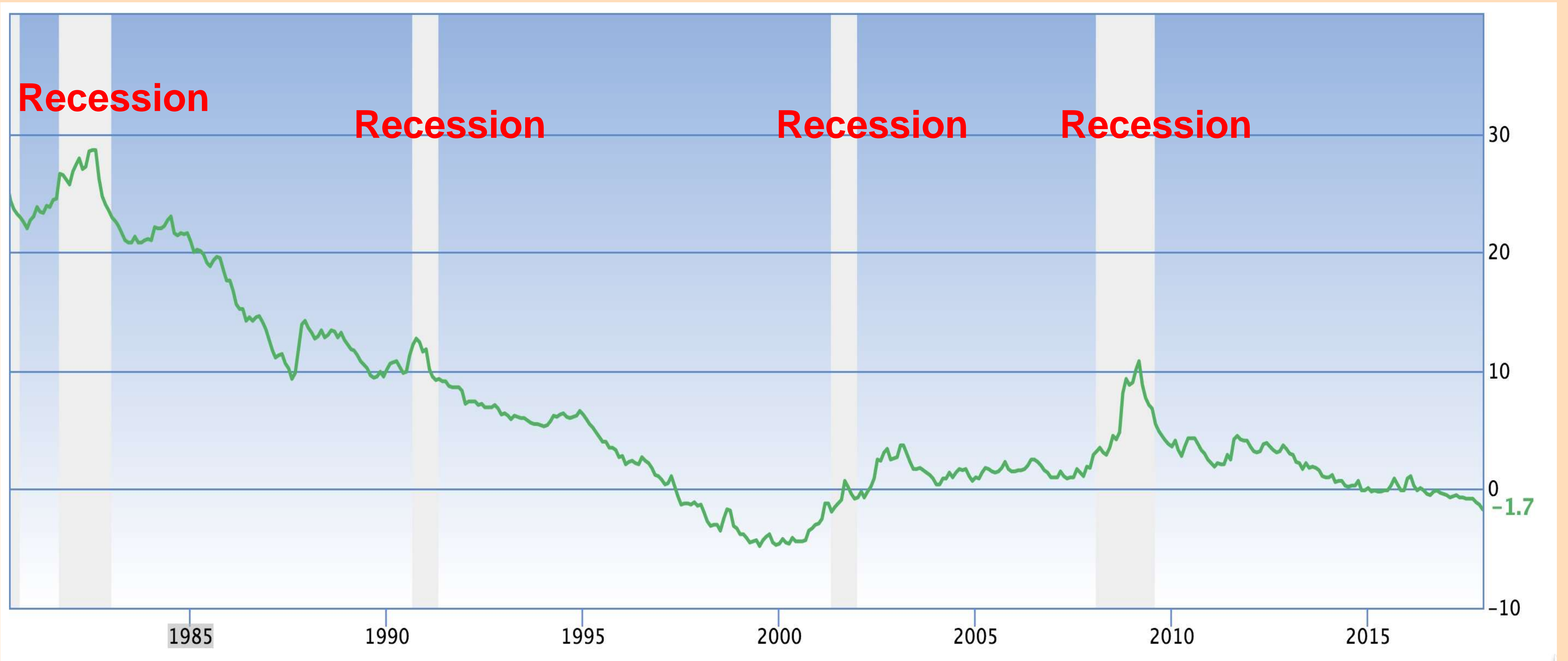
Decreasing Spread in Treasury Yield Suggests Incoming Recession



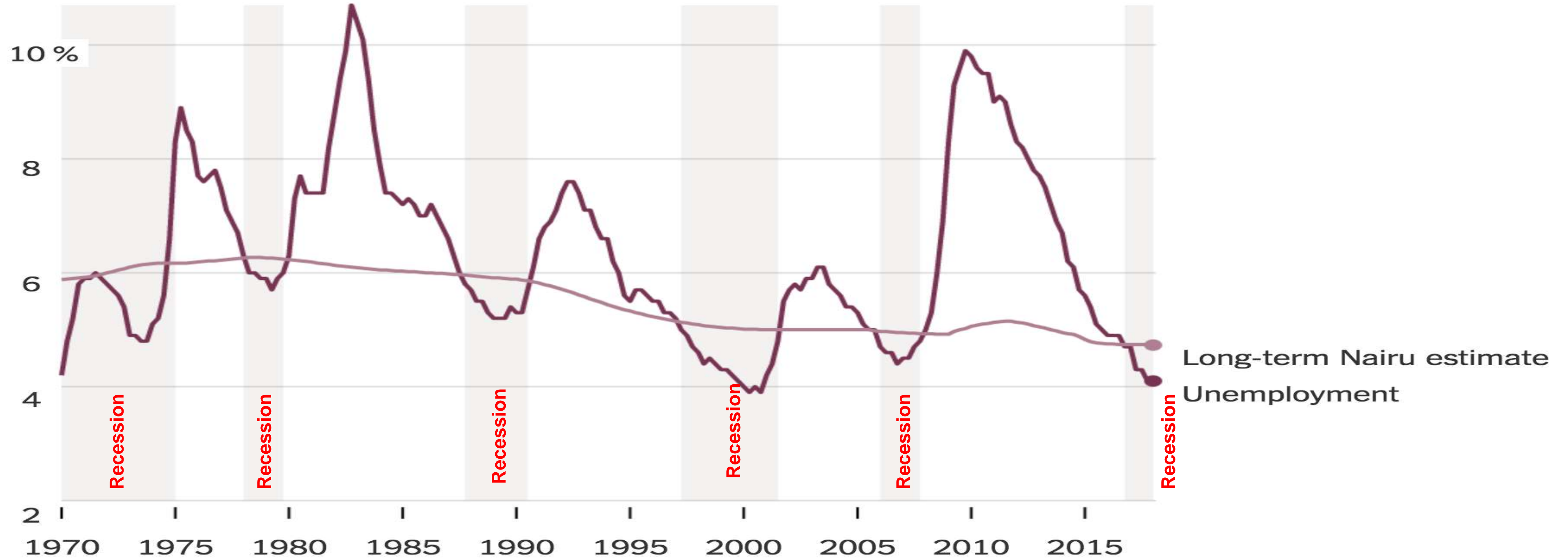
Decreased Spread in Treasury Yield Indicates Recession Prospect



Shiller Stock Market Margin Gains Precede Recessions



Unemployment Levels Coincide With Recessions



Gray areas indicate times actual unemployment was below C.B.O. long-term estimate of the non-accelerating inflation rate of unemployment.

By The New York Times | Source: Bureau of Labor Statistics, Congressional Budget Office

Analysis

Review of a Portfolio

Conclusions

- The Stock Market is Significantly Overvalued.
- Likely to return of $-1.7\%/year$ in the future.
- Portfolio Rebalancing Reduces Losses.
- Recession Precautions are Possible.

Assess the Risk Profile of Portfolio

Investment style: Total retirement assets ?

Portfolio	%
Cash	18%
Bonds	28%
Large-cap stocks	30%
Mid/small-cap stocks	8%
International stocks	16%
Individual equities	0%
	100%



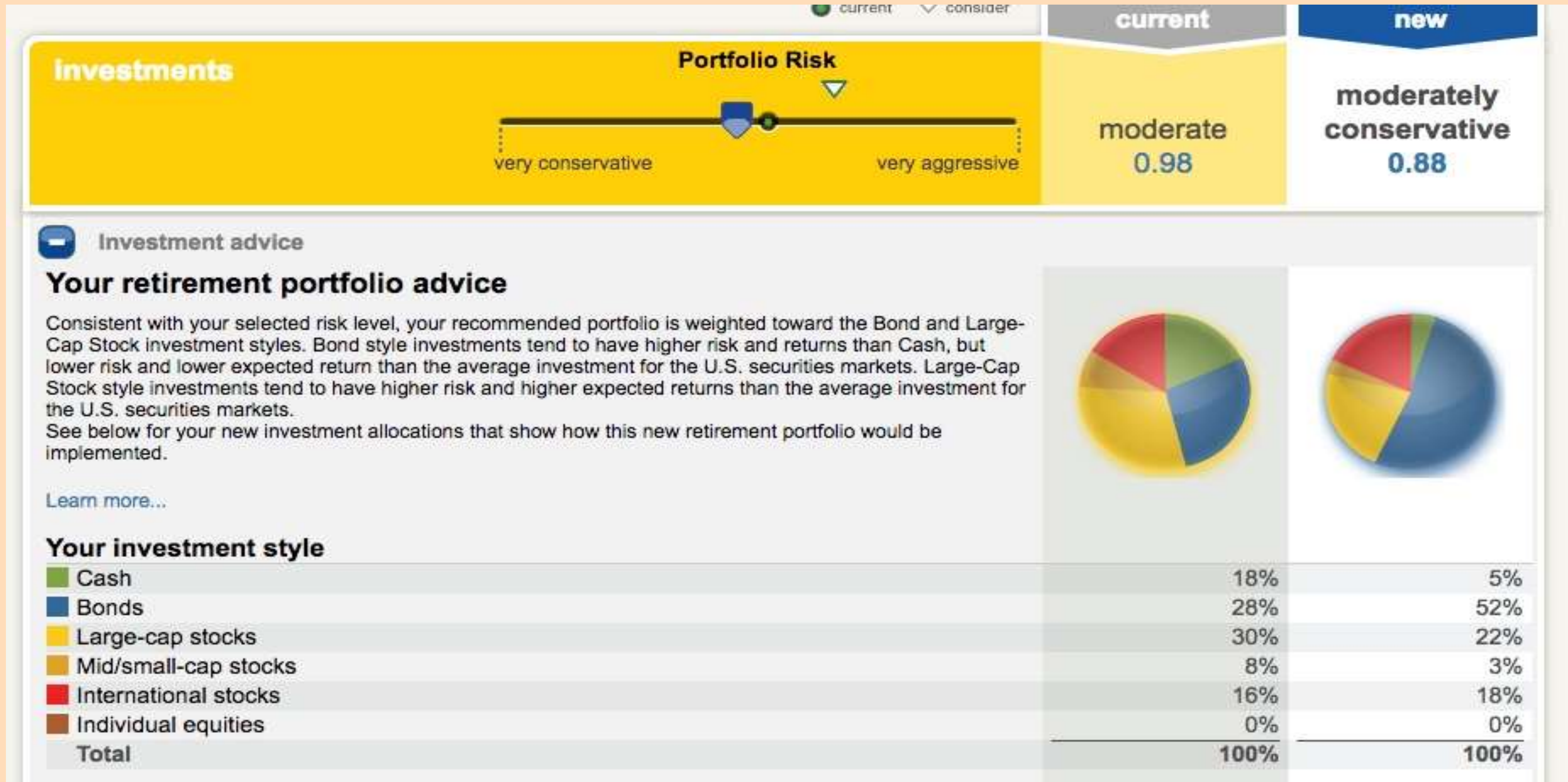
Risk level ?

Risk is a way of describing how much and how suddenly the value of your investments could change.

**Total retirement assets
moderate (0.98)**



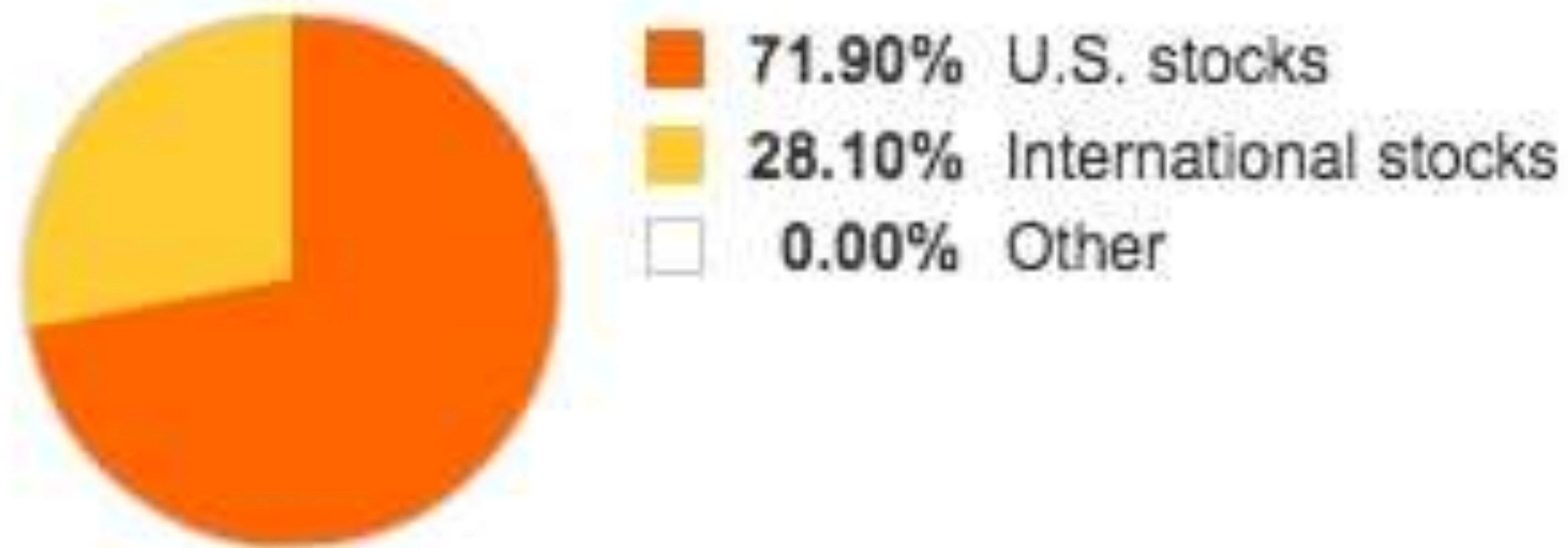
Assess the Risk of Your Portfolio



Allocate a Large Share to International Stocks

Domestic vs. international

Includes all of your stock and stock mutual fund holdings, which are 25.6% of My Account View.



Examine the Distribution of International Stocks

International regions

Includes only your international stock and stock mutual fund holdings, which are 7.1% of My Account View.

<u>Developed markets</u>			
<u>Market</u>	<u>Your Stock Portfolio</u>	<u>Stock Markets Outside the U.S.</u>	<u>Difference From Market</u>
<u>Europe</u>	<u>42.5%</u>	<u>47.0%</u>	<u>-4.5</u>
<u>Pacific</u>	<u>26.0%</u>	<u>28.0%</u>	<u>-2.0</u>
<u>Canada</u>	<u>2.9%</u>	<u>7.0%</u>	<u>-4.1</u>
<u>Emerging markets</u>			
<u>Market</u>	<u>Your Stock Portfolio</u>	<u>Stock Markets Outside the U.S.</u>	<u>Difference From Market</u>
<u>Emerging markets</u>	<u>24.5%</u>	<u>18.0%</u>	<u>6.5</u>
<u>Uncategorized holdings</u>			
<u>Market</u>	<u>Your Stock Portfolio</u>	<u>Stock Markets Outside the U.S.</u>	<u>Difference From Market</u>
<u>Uncategorized Holdings</u>	<u>4.1%</u>	<u>0.0%</u>	<u>4.1</u>
<u>Total</u>	<u>100.0%</u>	<u>100.0%</u>	<u>-</u>

Examine Industry Allocations in Your Portfolio

Industry sectors

Includes only your U.S. diversified stock and stock mutual fund holdings, which are **18.5% of My Account View.**

Sector	Your Stock Portfolio	U.S. Stock Market	Difference From Market
● Basic materials	3.2%	4.0%	-0.8
● Communication services	3.4%	4.0%	-0.6
● Consumer cyclical	10.0%	12.0%	-2.0
● Consumer defensive	7.2%	9.0%	-1.8
● Energy	5.8%	6.0%	-0.2
● Financial services	14.2%	14.0%	0.2
● Health care	20.4%	14.0%	6.4
● Industrials	12.6%	12.0%	0.6
● Real estate	1.4%	4.0%	-2.6
● Technology	19.1%	18.0%	1.1
● Utilities	2.7%	3.0%	-0.3
Total	100.0%	100.0%	

Track the Quality of Bonds in Portfolio

Credit quality

Includes your domestic bond and bond mutual fund holdings, which are **42.6% of My Account View**. Excludes international bond holdings.

Credit Quality	Your taxable bonds	Your municipal bonds	Your total bonds
High	16.0%	47.0%	63.1%
Medium	36.9%	0.0%	36.9%
Low	0.0%	0.0%	0.0%
Total	52.9%	47.0%	100.0%

Assess the Tax Efficiency of Your Portfolio

Tax-efficiency

Includes all of your holdings, which are 100.0% of My Account View.

Percentage in your portfolio

Tax-advantaged accounts	48.4%
Other tax-efficient assets	
Index and tax-managed stock and balanced funds	0.0%
Municipal bonds, bond funds, and money market funds	20.1%
Individual stocks	0.0%
Possible tax-reduction opportunities	
Other stock and balanced funds	1.7%
Taxable bonds and bond funds	5.5%
Taxable money market funds and other short-term investments	24.3%
Other investments	0.0%
Total	100.0%

Balance Time Horizon and Risk of Your Portfolio

Time

The length of time I plan to invest before I begin withdrawals:



I plan to withdraw money from this investment over a period of:



Risk

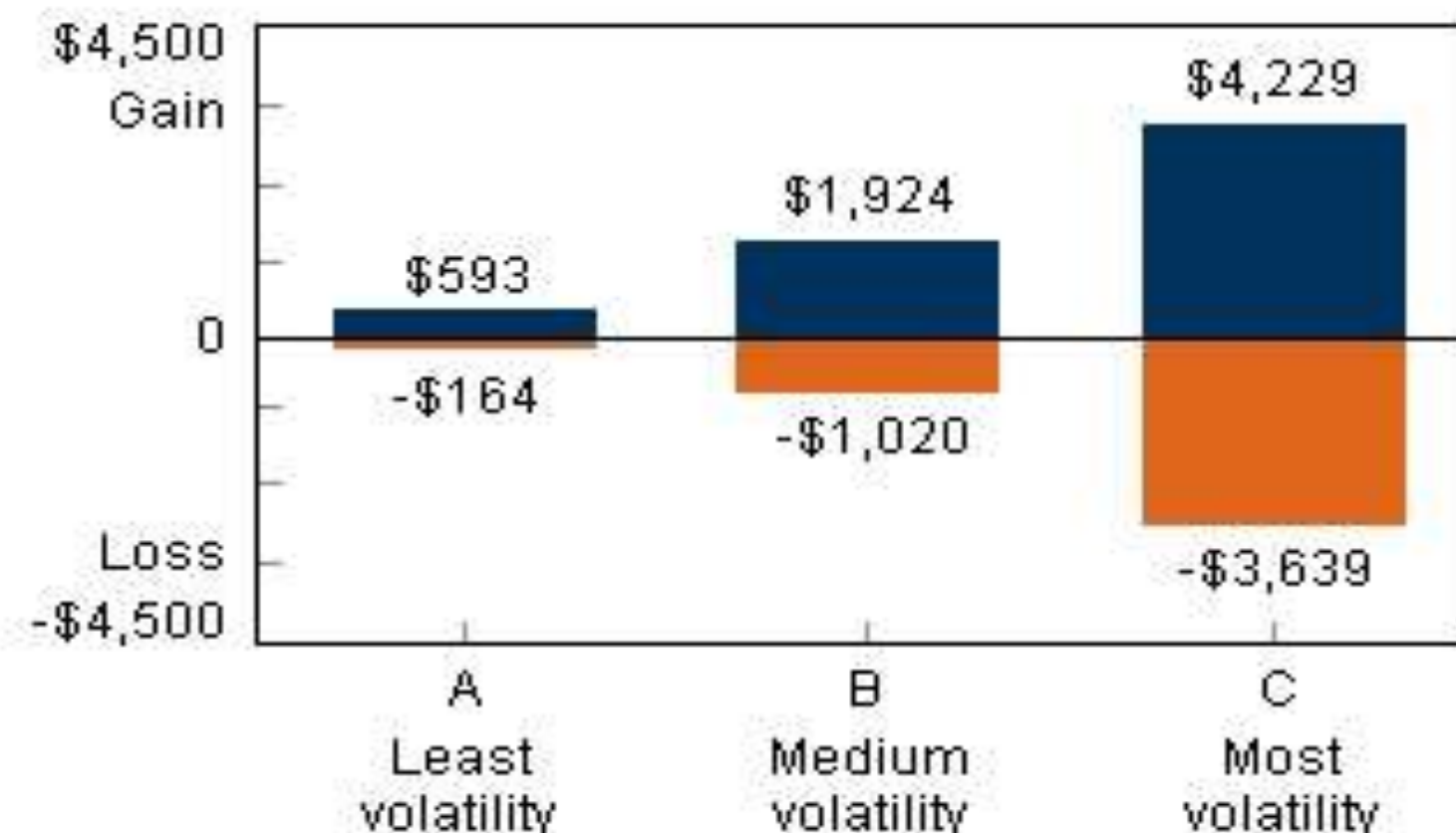
Generally, I prefer an investment with little or no fluctuation in value, and I'm willing to accept a lower return on this investment.



During market declines, I tend to sell portions of my riskier assets and invest the money in safer assets.



The chart below shows the greatest one-year loss and the highest one-year gain on three hypothetical investments of \$10,000.* Given the potential gain or loss in any one year, I would choose the investment with the:



- Least volatility
- Medium volatility
- Most volatility

Balance Your Portfolio to Last to the End

retirement income

Desired Retirement Age



95
years old

98
years old

Will you reach your goal?

With your new plan detailed above, we estimate you have an extremely likely chance of achieving your goal of \$180,000 per year.

Learn more about how our engines run thousands of economic scenarios to generate these estimates.

All amounts shown are estimates and are not guaranteed. See detailed [methodology](#) and [assumptions](#) used for your forecast.

forecast



**extremely
likely**

>95% chance

forecast



**extremely
likely**

>95% chance

Conclusion

Rebalance when future is unstable.