SAGE Solutions

SPECIAL ALERT – from Frank M.Antalek, Chief Portfolio Strategist

July 2, 2010

Is it Time for a New Asset Allocation Approach?

It is the end of the quarter, a time when many investors will reflect on their portfolio and may even plan to change or “rebalance” their investment allocation. For most people the focus is on the proportion of their portfolio invested in Stocks, Bonds, or Cash Equivalents. Oh yes, and don’t forget international, large cap, small cap, growth, value, sector weighting, average maturity, duration, credit quality, etc., etc. They will calculate their return and measure it against a stock market benchmark such as the S&P500. (down 12% in Q2 if you are keeping score) Sound familiar? I submit that there is a problem with this approach. I understand that this is the approach preached by Wall Street pundits and the majority of financial advisors. In fact, developers of the theory behind modern asset allocation investing were awarded the Nobel Prize. So when I say it is time for a new approach to asset allocation, I am not faulting the theoretical integrity of the analysis, I am faulting the application of the theory. You may be able to construct a portfolio that has the probability to achieve the highest rate of return for the minimum amount of expected risk, but if all the ingredients are not on the table you are destined for failure.

When it comes to securing your Financial Independence or Planning Your Retirement you need to focus on Guaranteed Income sources and inflation protection. Ingredients that are not included in the asset allocation analysis. When you focus on Asset Allocation you focus on investment performance. When you focus on Financial Independence you focus on predictable cash flow for your lifetime. Simply stated, you need to take your nest egg and turn it into a Pension.

Fortunately, there are investment vehicles designed to achieve these results. Unfortunately, the vast majority of advisors are preaching a one size fits all solution focused on “proper” asset allocation. Our investment philosophy is centered around preserving financial independence for our clients. Please don’t confuse this statement as an ultra conservative investment approach designed to preserve capital. Preserving capital is clearly a focus, but on its own it will never help one achieve financial independence as the value of your assets will lose purchasing power due to inflation. Financial Independence requires guaranteed income and hedges against inflation.

Current Events

Pessimism has been growing since late April about the health of the economy. The Dow Jones Industrial Average stock index dropped 10 percent for the second quarter, while the Standard & Poor's 500 index lost 11.9 percent.

Historical Perspective

The US Stock Market as measured by the Standard & Poor’s 500 Index is down about 8% since the beginning of the year.

The market is up nearly 14% over the last year and since March 6, 2009 is up over 50%.

The S&P500 Index is more than 30% below where it was on September 1, 2000.

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Future Opportunity

Are you certain that your investment portfolio is designed to meet ***your*** objectives?

Do you sleep well at night knowing your portfolio is designed to withstand unforeseen risks?

Do you have a guaranteed income pension plan?

Have you made investment decisions in reaction to market activity as opposed to making changes due to changes in your circumstances?

If you have answered yes to any of these questions, I encourage you to contact our office to schedule a portfolio evaluation. Our number is (518) 871-1214.

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If you are like many investors you are probably a little concerned about your investment program and wonder if you are making progress towards your goals. Frankly, we have contemplated these same thoughts over and over again as we have developed strategies to meet our client's objectives over the last twenty-five years. Fortunately we have learned to adapt to changing environments and with experience we have become more proactive and innovative with our thoughts. This is why we developed our "Personal Pension Plan" and use it as a key component in client portfolios. For many of our clients, it provides half of their required income while consuming only 20% of their portfolio allocation. And just because we have adopted a new asset allocation approach, it doesn't mean we have thrown out traditional investment practices. We invest in bonds because they provide dependable income streams, as long as the issuer is solvent, so credit analysis and diversification is key. However, bond values can also be eroded by inflation so we couple our bond positions with hedges against inflation; we use instruments that track broadly based commodity indices without the extreme volatility one might experience if they invest in specific commodities such as Oil or Gold. In fact, our current inflation hedge protects up to 20% annually while maintaining loss protection if there is deflation of up to 5% per year. And we allocate a portion of portfolios to the stock market as well, although our portfolios are designed to capture a high percentage of stock market gains while emphasizing downside protection. That is why our typical client portfolio had dramatic outperformance relative to the market last quarter. But of course I just fell into the relative performance verses benchmark trap. Notwithstanding the previous sentence, benchmarking to the indices is not our focus. We are constantly testing our client portfolios to assess the likelihood their desired lifetime income with inflation protection will be sustainable over their lifetime. As conditions change and as opportunities become available we make adjustments to further solidify financial independence for our clients and assist them in building a lasting legacy.

If you think it is time to consider a new asset allocation approach we would love to be of assistance. We invite you to contact us for a complimentary consultation and review of your portfolio so that we can demonstrate how our investment approach will help you achieve your financial independence and legacy goals.

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