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Money Matter\$



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An Updated Approach to Model Portfolio Building

by Joyce Pereira

If you've seen our past newsletters, you've likely noticed our Original "Model 25" Stock Portfolio that featured a list of 25 stocks that we evaluated every quarter. We've decided to discontinue tracking individual stocks, as ETFs over the past few years have surpassed stocks as our investment vehicle of choice for clients. Beginning with this newsletter, we offer you a glimpse into our SFM Model Portfolios. This is not a list of stocks, but instead a screened and factored list of our favorite funds—made up mostly of ETFs. **A healthy majority of these funds trade commission-free at TD Ameritrade**, thereby lowering costs for our clients.

We've provided three segments – **Stock, Bond and Alternative** Model Portfolios. These are what we refer to as **the three buckets** to which we expose nearly all of our clients. By having your nest egg diversified into three buckets, the volatility in a portfolio is reduced. "Don't put all your eggs in one basket?" We more appropriately say "don't put your nest egg in only one bucket." To a child raised on a farm like me, this makes perfect sense. I know of the need to be constantly aware of things that might upset the eggs.

Under each of the three segments we highlight Growth-oriented portfolios and Income-oriented portfolios. If you aren't using investment income for routine expenses, you are considered to still

be **GROWing** your nest egg. Often in retirement, you reach the point where you are using the **INCOME** from your portfolio.

As far as which funds make our list, that is where we add value by determining which factors are most important in choosing an investment. After going through a screening process, much like evaluating laying hens, we show you our top funds in each bucket, for each objective. We provide you information about the current yield, one-year return, three-year return and standard deviation. Current yield is important to those who need income but don't want to dip into principal. One and three year returns are provided to demonstrate the funds' total returns [income + appreciation/loss] over the recent past. Lastly, **standard deviation is a measure of how volatile (a wild ride?) the funds' returns have been** over a three-year period. We favor funds with low standard deviations and high rates of total return.

If you are a client, you should recognize some of these funds from your TD Ameritrade statements. Next quarter, you will likely see some changes in our model portfolio holdings, as economic and market factors change. We consider our screened and factored favorite funds to be core holdings that are often appropriate for many different investor and client profiles.

ETF Extra – FlexShares Quality Dividend Defensive ETF (QDEF)

We've begun utilizing this ETF in the stock allocation for our conservative investors who require income. QDEF seeks to provide exposure to the long-term growth potential of U.S. securities while providing dividend payments. The strategy applies a proprietary scoring model approach that determines a "quality factor" and an optimization process that seeks to maximize this factor, target a beta lower than the Parent Index (Northern Trust 1250) and improve on the Parent Index's dividend yield. Dividend payments of income are generally anticipated quarterly.

QDEF's Notable Statistics

Current price/share:	\$32.57
Wtd. Avg. Dividend Yield:	3.29 %
Total Assets in the Fund:	\$ 52 mil.
Expense Ratio:	0.37 %
Annual Return Since Inception:	30.8 %

"I've got a sizable retirement nest egg. It's an ostrich egg, and it's going to make an omelet so big that it'll produce enough leftovers for decades."

— Jarod Kintz

One-Year Returns

Dow Jones Industrial 30
Average: 12.9 %

S&P 500 Large Company
Stock Index: 19.3 %

Russell Small Company
Stock Index: 23.3 %

SPDR Gold Index
(GLD): -20.1 %

iShares Aggregate Bond
Index: -0.4 %

US Equity High Volatility
Put-Write ETF: 7.5 %

SFM's "NAKED ALPHA
FUND": 10.9 %



Model STOCK Portfolios (100 - your age)

GROWTH-oriented portfolio

% Wt.	Symbol	Description	Current Yield	1-year Return	3-year Return	Std. Dev.
22%	VYM	Vanguard High Dividend Stock ETF	2.8 %	19.9 %	15.4 %	10.0 %
23%	VWO	Vanguard Emerging Market Stock ETF	2.9 %	-8.0 %	-3.0 %	20.1 %
18%	IQDY	FlexShares Quality International Dividend Stock ETF	3.7 %	13.5 %	NA	NA
19%	IVV	iShares S&P 500 Index ETF	1.8 %	25.3 %	14.3 %	12.5 %
18%	VT	Vanguard World Stock ETF	2.1 %	19.1 %	8.7 %	14.7 %

INCOME-oriented portfolio—average current yield: 3.2%

% Wt.	Symbol	Description	Current Yield	1-year Return	3-year Return	Std. Dev.
21%	VYM	Vanguard High Dividend Stock ETF	2.8 %	19.9 %	15.4 %	10.0 %
19%	QDF	FlexShares Quality Dividend Stock ETF	3.3 %	25.2 %	NA	NA
19%	QDYN	FlexShares Quality Dynamic Dividend Stock ETF	3.3 %	25.8 %	NA	NA
20%	VWO	Vanguard Emerging Market Stock ETF	2.9 %	-8.0 %	-3.0 %	20.1 %
21%	IQDY	FlexShares Quality International Dividend Stock ETF	3.7 %	13.5 %	NA	NA



Model BOND Portfolios (your age / 2)

GROWTH-oriented portfolio

% Wt.	Symbol	Description	Current Yield	1-year Return	3-year Return	Std. Dev.
21%	PCY	Emerging Market Government Bond ETF	4.5 %	-9.8 %	5.7 %	9.2 %
20%	JNK	SPDRs High Yield (Junk) Bond ETF	5.9 %	7.6 %	8.0 %	7.9 %
20%	LQD	iShares Investment Grade Corporate Bond ETF	3.7 %	1.2 %	6.7 %	5.5 %
20%	MUB	iShares National Municipal Bond ETF	3.0 %	-1.0 %	5.3 %	4.5 %
19%	BND	Vanguard Total Bond Market Index ETF	2.5 %	0.0 %	3.7 %	3.0 %

INCOME-oriented portfolio—average current yield: 5.0%

% Wt.	Symbol	Description	Current Yield	1-year Return	3-year Return	Std. Dev.
19%	PCY	Emerging Market Government Bond ETF	4.5 %	-9.8 %	5.7 %	9.2 %
19%	JNK	SPDRs High Yield (Junk) Bond ETF	5.9 %	7.6 %	8.0 %	7.9 %
21%	LQD	iShares Investment Grade Corporate Bond ETF	3.7 %	1.2 %	6.7 %	5.5 %
19%	CSI	Cutwater Select Income Closed-End Fund (CEF)	5.6 %	1.2 %	7.0 %	4.7 %
20%	SJNK	SPDRs Short-Term High Yield (Junk) Bond ETF	5.3 %	6.5 %	NA	NA



Model ALTERNATIVE Portfolios (your age / 2)

GROWTH-oriented portfolio

% Wt.	Symbol	Description	Current Yield	1-year Return	3-year Return	Std. Dev.
20%	DBC	PowerShares Commodity Index ETF	0.0 %	-7.7 %	-2.4 %	16.9 %
20%	DBO	PowerShares Crude Oil Index ETF	0.0 %	6.0 %	-3.9 %	22.4 %
20%	MLPFX	Oppenheimer SteelPath MLP Select 40 Fund	5.8 %	13.7 %	9.3 %	8.8 %
21%	RWO	SPDRs Global Real Estate ETF	3.6 %	4.6 %	7.8 %	16.5 %
19%	VNQ	Vanguard U.S. Real Estate ETF	2.8 %	6.7 %	9.9 %	16.8 %

INCOME-oriented portfolio—average current yield: 5.3%

% Wt.	Symbol	Description	Current Yield	1-year Return	3-year Return	Std. Dev.
23%	PFF	iShares Preferred Stock ETF	6.3 %	2.3 %	5.7 %	7.4 %
19%	PAUDX	PIMCO All-Asset, All-Authority Fund	5.2 %	-4.6 %	4.2 %	9.3 %
19%	MLPA	Solactive Energy MLP Index ETF	5.6 %	8.6 %	NA	NA
20%	MLPFX	Oppenheimer SteelPath MLP Select 40 Fund	5.8 %	13.7 %	9.3 %	8.8 %
19%	RWO	SPDRs Global Real Estate Index ETF	3.6 %	4.6 %	7.8 %	16.5 %