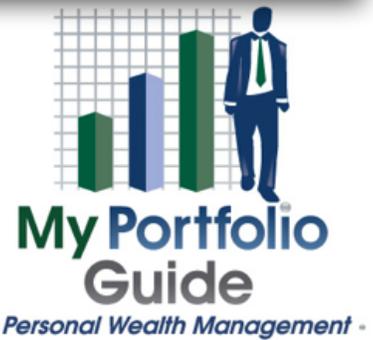


# the Guide



## INSIDE THIS ISSUE :

### SHOULD YOU DUMP YOUR BONDS?

Bonds have never been an exciting asset class but they are in almost every portfolio model out there. Should they remain?

### MARKET RECAP

How did the stock market do last quarter? Take a look at how different benchmarks and indexes did versus your own portfolio. What's on the horizon?

### EDUCATION CORNER

The writing has been on the wall for a long time. Traditional portfolio management has been rooted in "60/40" type allocations but in this edition we explore if it's time to move on. Is the 60/40 model dead?

### NEWS & NOTES CALENDAR

2021 is still young and there is plenty of calendar left. What will make or break this year is all in how you and we approach it. Stay connected with us!

## Are Bonds Dead?



Before we dive into yet another headline of doom & gloom type proportion, let's quickly step back and avoid throwing investor jargon at you. For starters, many financial advisors fall prey to the trap of regurgitating themes or investing terminology that can get confusing when not properly defined. Another issue that surfaces when discussing the markets, whether it be bonds or stocks, is being all in or all out of a certain investment camp.

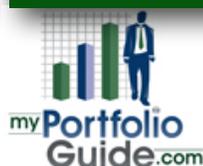
You don't need to be a Wall Street analyst or expert to know that stocks are more volatile than bonds. That being said, they still have a place in a portfolio for several reasons of which we'll get into in the following pages of this newsletter.

This is perhaps news to you if your head is not under the hood day in and day out. In this

edition '*the Guide*' we dive deep into the "death of 60/40". The obituary has been written about plenty over the past decade but does it have finally have merit?

Bonds are clearly under pressure right now with interest rates creating stiff headwinds and certainly not instilling any illusion that bonds will suddenly be revived. At the expense of sounding morbid throughout this piece, we'll remind you that a death (or bear market) in stocks is like falling off a cliff whereas a death in bonds is like rolling down a hill. Bears, pun intended, like to hibernate, and with regards to the bond market that's what we see now. Never completely write off an asset class as it's utility will have a purpose at some point.

One critical note with regard to bonds in this environment is that we are not holding any allocation towards them for yield. Risk increases as one chases yield so for those with the stomach for that endeavor it's best done via equities, not bonds. Lastly, investor confidence has been shaken in recent months amid a rise in long-term interest rates but there will be opportunity elsewhere, so we need to hunt.



	2021 YTD	2020	2019	2018	2017	2016	2015	2014
20 / 80	-1.43%	6.29%	8.88%	-3.90%	4.71%	3.89%	0.29%	7.58%
40 / 60	0.81%	8.13%	11.13%	-4.70%	8.44%	6.12%	-0.08%	9.44%
50 / 50	1.89%	9.02%	12.25%	-5.09%	10.31%	7.24%	-0.26%	10.38%
60 / 40	2.95%	9.90%	13.38%	-5.49%	12.17%	8.36%	-0.45%	11.31%
70 / 30	3.98%	10.76%	14.50%	-5.89%	14.04%	9.48%	-0.65%	12.24%
80 / 20	5.00%	11.60%	15.62%	-6.29%	15.90%	10.59%	-0.82%	13.18%
S&P 500	7.50%	15.26%	17.90%	-7.74%	20.37%	9.54%	1.38%	13.34%
Mid Cap	15.00%	11.39%	12.70%	-13.19%	18.37%	9.59%	-2.81%	15.39%
Small Cap	19.31%	9.65%	12.50%	-13.44%	15.51%	16.56%	-4.85%	8.14%
MSCI EAFE	-1.21%	15.88%	6.90%	-14.82%	25.19%	1.77%	-12.67%	-4.08%
Emerging	3.23%	9.88%	4.30%	-17.00%	30.52%	9.39%	-17.61%	1.02%
Bonds	-3.64%	4.59%	6.80%	-3.01%	0.68%	0.04%	-2.29%	3.23%

## MARKET RECAP

### How did the "Market" do ???

Never rely on the media to tell you "how the market did". The answer is different for everyone because investors should be allocated specific to *their* goals and risk tolerance.

The above chart shows several (6) basic portfolio allocations with their corresponding performance over different time periods.

20 / 80, for example, represents 20% in the S&P 500 and 80% in the U.S. Aggregate Bond Index. Other major indexes are also posted (S&P 500, Mid, Small etc) MSCI EAFE represents 23 developed International countries except for the US or Canada.

What's challenging (but also there by design) is the way we share this grid each quarter. Each year a column/year gets dropped off. That sometimes is good as it keeps us focused on sharing near-term market data as opposed to stats going back to the 1930s which may provide good lessons but from a totally different world. The down side is that sometimes a year shows us history that seems positive but is absolutely not. 2020 will go down in the record books as fairly green but we know the back story in that it was anything but that in real life. While the tech markets and trillions of fiscal stimulus tells us Wall Street did ok, the reality is that almost one in four small businesses (24%) have shut down. Another couple years that throw a dose of reality into what seemed like the longest bull market in history, were 2018 and 2015. If you follow the general good counsel of properly diversifying across multiple assets classes, you got hurt on those years due to asset classes like Bonds, Small/Mid, and especially overseas markets getting clobbered. The smart, or perhaps dumb money that just chased Large Cap tech names, did great. That's all fine and good but what happens is that it gives investors false confidence that they should stay the course (or chase the recent hot money). Inevitably, there is a changing of the guard and new leadership emerges. We're essentially seeing that right now. Look for commodities, TIPS, Japan, and gold to do well. Within U.S. equities there is still gas in the tank within Small/Mid caps to outperform Large caps.

In the meantime...**"Stay disciplined to stay positive"** -

## EDUCATION CORNER

### The Death of 60 /40

“The four most dangerous words in investing are: this time it's different.”

-Sir John Templeton



#### It's ALWAYS different

...or so it seems.

We go back to one of our favorite sayings from Sir John Templeton, “the four most dangerous words in investing are this time it’s different”. Truth be told, this adage is for advisors to not jump out the window of their high rise buildings and for clients to not lose their minds as they potentially focus on the ‘soup du jour’. There is *always* something new to fear and a reason to get out of the market or shift strategy. This newsletter could focus you on every single thing that could rattle the markets into oblivion just as easily as one where we paint a rosy picture (even if it’s not!). At the end of the day, however, you need to know what is worth worrying about and what needs to be intelligently quantified.

#### Optimism or lipstick on a pig?

We believe there is reason to be optimistic but with a great measure of caution. For some, the economic and general outlook in life is actually quite optimistic. More pleasant weather is here, vaccinations are in full swing, a sense of normalcy is starting to perk it’s head up, and economically we are hopeful in seeing

incredible pent up demand after being holed up for over a full year.

The Fed’s forecast for the unemployment rate is to fall to 4.5% in 2021 and then 3.9% for 2022. There is, and will continue to be, conflicting messaging coming from the Fed and related data points so this will translate to inevitable market volatility. You probably know where we stand on whether there needed to be more stimulus or not but that’s out of our control. Even if one doesn’t agree with some of the additional infrastructure spending (and how much actually finds its way to roads, bridges etc), we’ll see sectors in clean energy and some commodities benefit from it. Tread carefully here though as in times past what is put out there as new policy doesn’t always translate into sustained investment gains.

As we inch towards any return to normalcy there is at least some room for optimism. Several companies that were left for dead are now a bit more attractive. Take Boeing (BA), for example...which has rallied +18% this year and is on its way to \$300 (currently trading at \$253). Another company that had a great run but then was clobbered is Ballard Power Systems (BLDP). Albeit extremely volatile, here’s an innovative clean energy company that trades around \$24 but we think will see \$32 by year end.



## 60/40 to 50/30/20 - Now What?

Many pundits have described the 60% stock and 40% bond portfolio allocation as a relic of the past. For decades this model allocation was the basis and foundation for smoothing out the volatility in the stock market while still maintaining some level of growth to meet your goals. With the writing on the wall that each of these respective asset classes has a unique set of risks, some obvious and some not so much, the philosophy has changed.

While most investors are concerned about the 40% being in bonds, it's important to note that the 60% for so many has not performed up to expectations. Why?

The main reason is that 60% is deemed to be in U.S. equities, which until recently has been the place to be. A well designed portfolio, however, should have exposure to certain foreign markets, but...like anything else, that's not for everyone's comfort level or understanding, yet over time it helps your overall returns. U.S. equities have been the place to be but valuations have been stretched here and are ripe for another change in leadership.

Several years ago we began shifting the traditional allocation of 60% equities and 40% bonds to one that shaved about 10% from each respective asset class and reallocated the proceeds (20%) into alternative asset classes that were less correlated to each other. The premise we put out there was the stock market was getting frothy yet the opposing asset class (bonds) prognosis wasn't very appealing, so therefore one should look for a hedge.

This proverbial hedge can be fulfilled with all

sorts of alternative investments that also present a different type of challenge.

## 4 Hedges and 1 Golden Solution

By definition a hedge is an investment that is made with the intent of reducing adverse price movements in an asset. For some risks the solution is more obvious. One can risk the hedge of losing your life earlier than expected with things like life insurance. Or in the case of a house fire or car accident, you would obviously buy home or auto insurance. What about for your investment portfolio?

The answer isn't as easy as one would hope. A perfect hedge would theoretically eliminate all risk in a portfolio but in doing so you create a drag on what you're originally trying to grow. In other words, it's an outright anchor if it's a perfectly inverse correlation. Here are four hedges followed by our near-term solution, which is gold. More on that later...

### 1. Cash is King

Market timing is a futile endeavor but having a cash cushion allows you the opportunity to go fishing *when*, not *if*, the market sells off.

### 2. VIX Calls

The VIX Index measures the market outlook for volatility using options. Going 'long volatility' can be a wise tactic but comes with some complexity beyond what most can comprehend and adds costs to the portfolio.

### 3. Short the market or Buy Put Options

Yes, you can make money with the use of put options or shorting the market, but the risks and stomach aches are usually not worth the end result.

### 4. Long-Term Treasury Bonds

Most people "fly to safety" with Treasury bonds but usually well after it's too late.

## Shiny Elephant in the Room

Not too long ago we wrote in our online investment blog ([Dear Mr. Market](#)) about the “Permanent Portfolio”. We won’t go into details here but read the [article](#) if you haven’t already. In short, the proposed model by Harry Browne describes a portfolio partitioned into quarters using Stocks, Bonds, Cash and Gold. While seemingly simple, it has weathered many storms in all sorts of varying market environments.

We’ve written about gold for the better part of a year now. While our history describing the shiny object is perhaps better suited as one where we think it’s a better gift to a loved one...it truly has a solid investment and hedging premise now more than ever before.

Gold will not always rise in the middle of a market crash, so in that way, it too is not a perfect hedge. That being said, gold tends to run higher in longer bear markets, and in particular during high inflationary time periods like the 1970s. Gold was also a shining star during the “lost decade” from 2000 to 2010.

Most recently gold outperformed stocks only to sell off the past few months shaking out weak hands at the card table. The message here is to buy/hold it for the right reasons. Gold has sold off -16% from its August 2020 high but even with its risks, owning it now is becoming even more appealing relative to some parts of the overbought stock market. We see a lot of “sugar in the blood stream” right now with unprecedented fiscal stimulus. Before we explain more, can you take a moment to write down how many zeros there are in the number \$10 trillion?

## Helicopter Cash & No Free Lunch

You’ve undoubtedly heard the expression that “there is no such thing as a free lunch” and the adage holds true that it is impossible to get something for nothing.

To date we have yet to find anyone that owns an accurately working crystal ball but one thing is undeniably true...”something’s gotta to give”.

The Covid-19 crisis that has rocked our world and way of life is easily one of the worst health emergencies of the past century. The economic response to it, however, will eventually cause a crisis perhaps greater and more devastating than anyone could have predicted. We won’t play armchair quarterback but the amount spent in just the first two months is three times more than the response to the 2008-09 financial crisis. More dollars were printed last year alone than ever in our history. As a matter of fact, literally about 24% of the dollars in the history of our country were recently created! Money supply has increased from \$4 trillion a year ago by 350% to \$18 trillion right now (and counting). Technically some of this number is due to an accounting categorization change but if you think this won’t bring on inflation at some point, you’re not paying attention.

After 2008 the financial world soon got an education on what toxic mortgage paper did to our system. Proponents of what’s called MMT (Modern Monetary Theory) spin the story to make us feel all these moves and spending is necessary without devastating repercussion. Politicians are spending money like drunken sailors and it won’t end well. If you ran your household budget or a business like this you wouldn’t have one after not too long.

Back to our crystal ball and what to expect...We believe we’re in for some near-term disinflation with the tone changing towards the end of 2021. During this time period stocks may actually continue to muster the continued appearance of a recovery but thereafter it won’t be pretty. Taxes will increase substantially and it won’t just be for the wealthy. By 2022 inflation will firmly be a reality and while the sky may not completely fall, you’ll want to own gold and commodities. Holding these allocations now may not always feel right during the lead up to this reality, but you’ll be glad you did later.

# News & Notes:

## BEST YEAR EVER

### The Best Year Ever!

Well....that's the intent! While we can't control everything, there are certainly some things that can be tailored to exactly how you like them. We want 2021 to literally be the best financial year ever for



you. How does that happen? It first begins by understanding what would define a great year and gaining absolute clarity on each aspect of it. Many companies think they know their clients but fall short of that by a lot. We are consumers too, and with that being said, we know that most companies who survey their clients are usually trying to market them something or cross-sell one of their products/services. Not here! My Portfolio Guide, LLC truly aims to be a Personal Wealth Manager so we launched the “Best Year Ever” project at the tail end of last year.

Each one of our clients received a brief survey with a number of “client experience” type questions. Once returned, and question #1 of the survey was learned; where is their favorite restaurant or charity if they're not dining out.

As a thank you and gesture of our appreciation for this exercise, we want to at least get that part of the equation nailed down!

We then learned from each of our valued clients what matters most to them. How often do you want to meet or hear from us? Portfolio performance expectations relative to risk taken on? Preferred mode of communication? (electronic, video conferencing, in person, phone etc). Connection to our various platforms (blog, newsletter, portfolio aggregation tool, financial planning, and website portals). Do you need a referral to a new CPA, Estate Planner, or Insurance professional? What are your Top 3 financial goals this year?

By gaining direct feedback and learning what matters most to each client we serve, our promise is to then improve and deliver on it! We're in the business of planning and if we can't set a goal of trying to improve our deliverables to you, how are we going to get you to optimally achieve yours?

If you are a My Portfolio Guide client and did not receive this survey, or wish to customize your relationship with us, please reach out. We want to hear from you and make sure we know you and your goals as well as possible!

-MPG



# Events Calendar

## CALENDAR:

### April 2021

4/19/21:

**Estate Planning Series**

**Virtual (meetings available)**

**Seal Beach, CA**

### May 2021

5/13/21:

**Tax Planning Series**

**Virtual (meetings available)**

**Seal Beach, CA**

### June 2021

6/4/21:

**Budget & Expense Planning**

**Virtual (meetings available)**

**Seal Beach, CA**



**RSVP (562) 799-5595**

Spring is here and while things in the world still don't appear "normal", we're forging ahead as best we can. We kick it off with April being "Financial Literacy Month". Financial Literacy means different things to us all and in our case we aim to help you with some topics that aim to educate and prepare you for more than just stocks and bonds. Going beyond your checking, savings, and investment accounts we will be offering check-ups on the other critical aspects to your financial house.

Some areas that we'll dive into are checking in on how your Estate Planning affairs are situated. Getting a living trust or will in place is the first order of business but even then it should be evaluated with a fresh set of eyes every three to five years, or if there is a life event that has transpired.

Going into the next month of May we normally would

not be focused on taxes but as you likely know Uncle Sam has delayed filing requirements from April 15, 2021 to May 17, 2021. This extension obviously helps those who are behind or need the extra time and help but also provides a great opportunity to assess some planning needs. Tax laws will be changing and being proactive in this regard is critical.

Lastly, we then step into June where we'll focus clients on managing investment costs as well as establishing proper budgeting strategies. "A budget is telling your money where to go, instead of wondering where it went" - John Maxwell

As always, if you're interested in connecting, please contact us directly on our office line at **(562)799-5595** to reserve a time to meet.

