

# Asset Allocation

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*Commentary as of December 31, 2009*

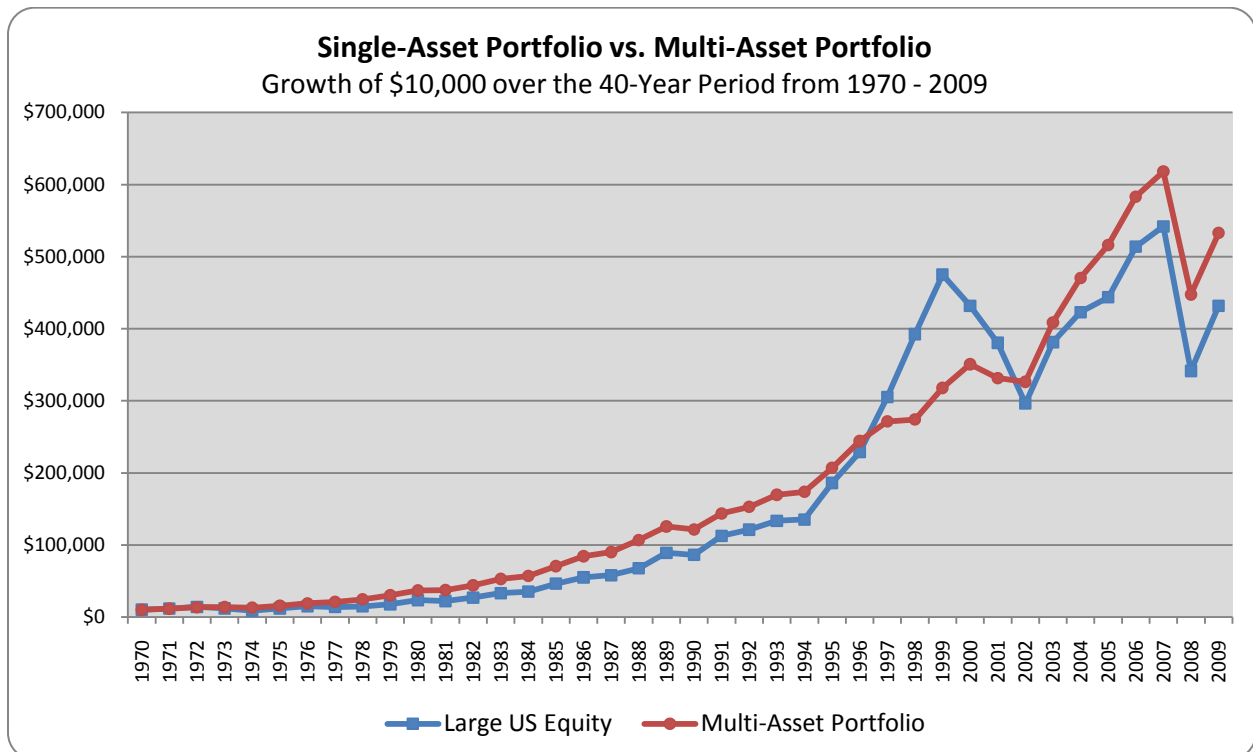
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*Asset allocation requires the use of a wide variety of asset classes when building investment portfolios.*

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As shown in the graph below, a multi-asset portfolio outperformed the S&P 500 Index over the 40-year period from 1970-2009 by over \$100,000. The multi-asset portfolio consists of equally-weighted allocations in large US equity, small US equity, non-US equity, bonds, cash, REITs, and commodities. Each of the seven assets was annually rebalanced at the start of each year. Taxes and inflation were not taken into account.

The equally weighted multi-asset portfolio had an average annual return over the 40-year period of **10.45%** and a worst one-year return of **-27.59%**. By comparison, the S&P 500 Index had a 40-year average annualized return of **9.87%** and a worst one-year return of **-37.0%**. The multi-asset had better performance with 40% less risk (as measured by standard deviation of return) as shown in the table on the next page.



## Annual Returns of 7 Core Asset Classes and an Equally-Weighted Multi-Asset Portfolio

Source: Craig L. Israelsen, Ph.D. [www.7TwelvePortfolio.com](http://www.7TwelvePortfolio.com)

Annual Total Return (%)								
Year	Large US Equity	Small US Equity	Non-US Equity	US Bonds	Cash	Real Estate	Commodities	Equally-Weighted Multi-Asset Portfolio with Annual Rebalancing*
1970	3.92	-17.43	-11.66	16.86	6.80	-4.00	15.17	1.38
1971	14.30	16.50	29.59	8.72	4.53	15.52	21.08	15.75
1972	19.00	4.43	36.35	5.16	4.24	8.01	42.43	17.09
1973	-14.69	-30.90	-14.92	4.61	7.46	-15.52	74.96	1.57
1974	-26.47	-19.95	-23.16	5.69	8.35	-21.40	39.51	-5.35
1975	37.23	52.82	35.39	7.83	6.08	19.30	-17.22	20.20
1976	23.93	57.38	2.54	15.60	5.23	47.59	-11.92	20.05
1977	-7.16	25.38	18.06	3.04	5.52	22.42	10.37	11.09
1978	6.57	23.46	32.62	1.39	7.67	10.98	31.61	16.33
1979	18.61	43.07	4.75	1.93	10.86	48.99	33.81	23.15
1980	32.50	38.60	22.58	2.71	12.71	33.12	11.08	21.90
1981	-4.92	2.03	-2.28	6.25	15.58	17.88	-23.01	1.65
1982	21.55	24.95	-1.86	32.62	11.66	20.91	11.56	17.34
1983	22.56	29.13	23.69	8.36	9.24	32.17	16.26	20.20
1984	6.27	-7.30	7.38	15.15	10.33	21.89	1.05	7.82
1985	31.73	31.05	56.16	22.10	7.97	6.50	10.01	23.65
1986	18.67	5.68	69.44	15.27	6.29	19.75	2.05	19.59
1987	5.25	-8.80	24.63	2.76	6.13	-6.59	23.77	6.74
1988	16.61	25.02	28.27	7.89	7.06	17.48	27.94	18.61
1989	31.69	16.26	10.54	14.53	8.67	2.72	38.28	17.53
1990	-3.10	-19.48	-23.45	8.96	7.99	-23.44	29.08	-3.35
1991	30.47	46.04	12.13	16.00	5.68	23.84	-6.13	18.29
1992	7.62	18.41	-12.17	7.40	3.59	15.13	4.42	6.34
1993	10.08	18.88	32.56	9.75	3.12	15.14	-12.33	11.03
1994	1.32	-1.82	7.78	-2.92	4.45	2.66	5.29	2.39
1995	37.58	28.45	11.21	18.48	5.79	12.24	20.33	19.15
1996	22.96	16.49	6.05	3.63	5.26	37.05	33.92	17.91
1997	33.36	22.36	1.78	9.66	5.31	19.66	-14.07	11.15
1998	28.58	-2.55	20.00	8.69	5.02	-17.01	-35.75	1.00
1999	21.04	21.26	26.97	-0.82	4.87	-2.58	40.92	15.95
2000	-9.10	-3.02	-14.17	11.63	6.32	31.04	49.74	10.35
2001	-11.89	2.49	-21.44	8.44	3.67	12.35	-31.93	-5.47
2002	-22.10	-20.48	-15.94	10.26	1.68	3.58	32.07	-1.56
2003	28.69	47.25	38.59	4.10	1.05	36.18	20.72	25.23
2004	10.88	18.33	20.25	4.34	1.43	33.16	17.28	15.10
2005	4.91	4.55	13.54	2.43	3.34	13.82	25.55	9.73
2006	15.79	18.37	26.34	4.33	5.07	35.97	-15.09	12.97
2007	5.49	-1.57	11.17	6.97	4.77	-17.56	32.67	5.99
2008	-37.00	-33.79	-43.38	5.24	1.51	-39.20	-46.49	-27.59
2009	26.46	27.17	31.78	5.93	0.16	28.46	13.49	19.06
Performance over Past 40-Years								
40-Year Annualized Return	<b>9.87</b>	<b>10.64</b>	<b>9.49</b>	<b>8.33</b>	<b>6.01</b>	<b>11.04</b>	<b>10.01</b>	<b>10.45</b>
40-Year Standard Deviation	<b>18.13</b>	<b>22.54</b>	<b>23.01</b>	<b>6.73</b>	<b>3.23</b>	<b>19.99</b>	<b>25.23</b>	<b>10.59</b>
Worst 1-Year Return	<b>-37.00</b>	<b>-33.79</b>	<b>-43.38</b>	<b>-2.92</b>	<b>0.16</b>	<b>-39.20</b>	<b>-46.49</b>	<b>-27.59</b>
Worst 3-Year Cumulative Return	<b>-37.61</b>	<b>-42.24</b>	<b>-43.32</b>	<b>6.15</b>	<b>4.22</b>	<b>-35.61</b>	<b>-39.72</b>	<b>-13.30</b>
Performance in 2010								
1st Quarter (Jan-Mar)								
2nd Quarter (Apr-Jun)								
3rd Quarter (Jul-Sep)								
4th Quarter (Oct-Dec)								
Year-to-Date Performance								

\*Each asset was equally weighted in the portfolio (14.3%) and annually rebalanced at the start of each year. Taxes and inflation were not taken into account.

### PAST PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE

<u>Asset Class</u> Large US Equity Small US Equity Non-US Equity US Bonds US Cash Real Estate Commodities	<u>Underlying Index</u> S&P 500 Index Russell 2000 Index MSCI EAFE Index Barclay's Capital Aggregate Bond Index 3-Month US Treasury Bills DJ US Select REIT Index Goldman Sachs Commodity Index
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