

# Asset Allocation

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**As of December 31, 2010**

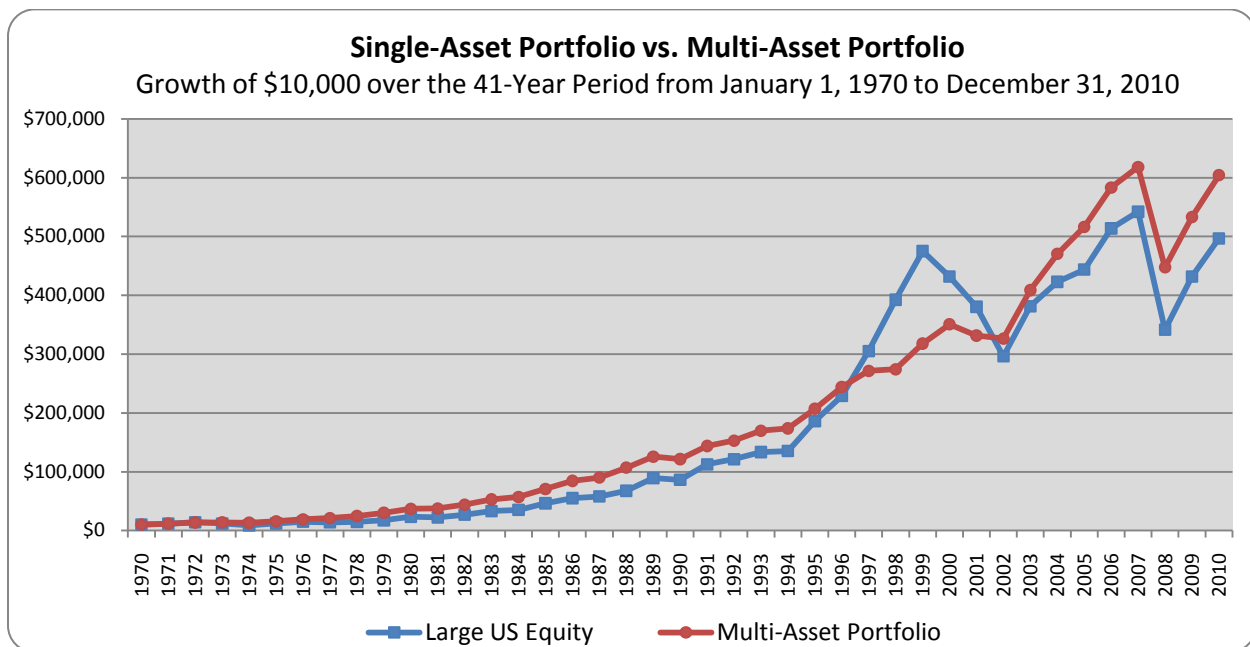
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*Asset allocation requires the use of a wide variety of asset classes  
when building investment portfolios.*

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## **1970 to the Present**

As shown in the graph below, a multi-asset portfolio outperformed the S&P 500 Index over the 41-year period from January 1, 1970 to December 31, 2010 by over \$107,000. 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.



## **1970-2010**

The equally weighted multi-asset portfolio had an average annual return over the 41-year period (from 1/1/1970 to 12/31/10) of **10.52%** and a worst three-year loss of **-13.30%**. By comparison, the S&P 500 Index had a 41-year average annualized return of **9.99%** and a worst three-year loss of **-37.61%**. The multi-asset had better performance with 40% less risk (as measured by standard deviation of return) as shown in the table on the 3rd page of this report.

## ***Performance Update as of December 31, 2010***

**Large Cap US Equity:** As shown in the table below, large US equity (S&P 500 Index) produced a return of 15.06% for the year 2010 and annualized returns of 2.29% over the past 5 years, 1.41% over the past 10 years, and 9.99% over the past 41 years.

**Small Cap US Equity:** The Russell 2000 Index had a return of 26.86% in 2010 and annualized returns of 4.47% over the past 5 years, 6.33% over the past 10 years, and 11.01% over the past 41 years.

**Non-US Large Cap Equity:** The MSCI EAFE Index produced a return of 7.75% in 2010 and annualized returns of 2.46% over the past 5 years, 3.5% over the past 10 years, and 9.45% over the past 41 years.

**US Aggregate Bonds:** The Barclay's Capital Aggregate Bond Index produced a return of 6.54% in 2010 and annualized returns of 5.80% over the past 5 years, 5.84% over the past 10 years, and 8.29% over the past 41 years.

**US Cash:** 3-Month US Treasury Bills produced a return of 0.14% in 2010 and annualized returns of 2.31% over the past 5 years, 2.27% over the past 10 years, and 5.87% over the past 41 years.

**Real Estate:** The Dow Jones US Select REIT Index produced a return of 28.07% in 2010 and annualized returns of 2.32% over the past 5 years, 10.41% over the past 10 years, and 11.43% over the past 41 years.

**Commodities:** Commodities, as measured by the Goldman Sachs Commodity Index, produced a return of 9.03% in 2010 and annualized returns of -5.70% over the past 5 years, 1.77% over the past 10 years, and 9.98% over the past 41 years.

### **Performance of a Multi-Asset Portfolio**

As an equally-weighted multi-asset portfolio, these seven indexes produced a return in 2010 of 13.35% and annualized returns of 3.19% over the past 5 years, 5.59% over the past 10 years, and 10.52% over the past 41 years.

A single \$10,000 initial investment in the S&P 500 Index on January 1, 1970 was worth \$496,878 by December 31, 2010 (not accounting for taxes or inflation). By contrast, a \$10,000 investment in an equally-weighted, annually rebalanced seven-asset portfolio was worth \$604,146 by December 31, 2010. As already noted, the volatility of the multi-asset portfolio is more than 40% lower than a portfolio consisting of only US large cap equity (over the 41-year period from 1970-2010).

***Asset allocation requires a consistent commitment to diversification across a wide variety of asset classes.***

## 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
2010	15.06	26.86	7.75	6.54	0.14	28.07	9.03	13.35
Annualized Returns								
3-Year (2008-2010)	-2.86	2.22	-7.02	5.90	0.60	0.01	-12.84	-0.76
5-Year (2006-2010)	2.29	4.47	2.46	5.80	2.31	2.32	-5.70	3.19
10-Year (2001-2010)	1.41	6.33	3.50	5.84	2.27	10.41	1.77	5.59
15-Year (1996-2010)	6.76	7.64	4.70	6.04	3.29	10.84	4.22	7.40
20-Year (1991-2010)	9.14	10.83	5.85	6.89	3.59	11.52	3.59	8.35
25-Year (1986-2010)	9.94	9.10	8.18	7.46	4.31	9.26	7.31	8.96
30-Year (1981-2010)	10.71	10.04	9.25	8.92	5.38	10.91	6.43	9.76
41-Year (1970-2010)	9.99	11.01	9.45	8.29	5.87	11.43	9.98	10.52
Standard Deviation of Annual Return								
20-Year Standard Deviation	19.51	20.01	20.75	5.04	1.97	20.53	26.70	11.58
30-Year Standard Deviation	17.51	19.08	23.48	7.07	3.46	19.00	23.95	10.82
41-Year Standard Deviation	17.91	22.36	22.73	6.66	3.33	19.88	24.92	10.46
Draw Down Measures								
Worst 1-Year Return	-37.00	-33.79	-43.38	-2.92	0.14	-39.20	-46.49	-27.59
Worst 3-Year Cumulative Return	-37.61	-42.24	-43.32	6.15	1.81	-35.61	-39.72	-13.30
Performance as of December 31, 2010								
Year-to-Date	15.06	26.86	7.75	6.54	0.14	28.07	9.03	13.35
12 Months	15.06	26.86	7.75	6.54	0.14	28.07	9.03	13.35
Growth of \$10,000 since 1970	\$496,878	\$724,083	\$404,693	\$261,475	\$103,547	\$844,095	\$494,727	\$604,146

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