

## Asset allocation for volatile markets

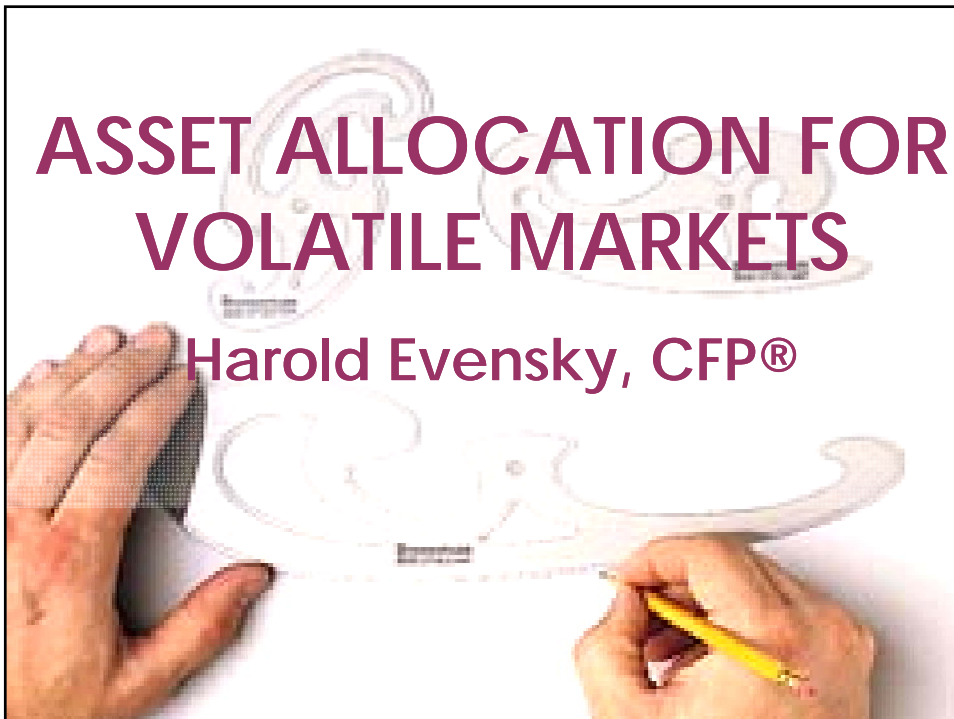
Guest Presenters:

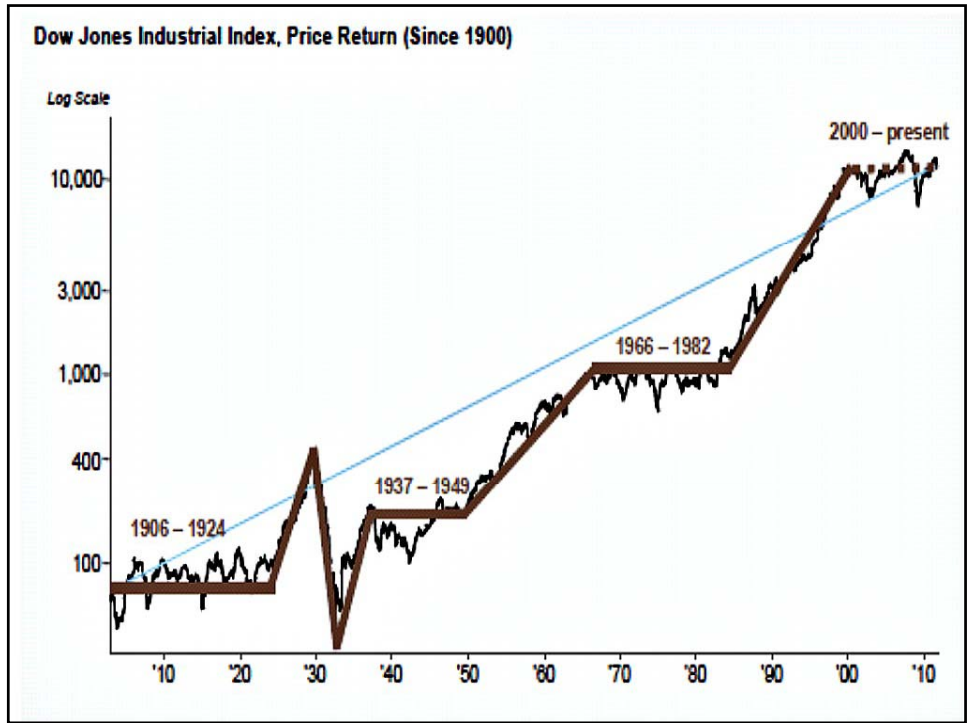
Harold Evensky, President of Evensky & Katz Wealth  
Roger Gibson, Chief Investment Officer of Gibson  
Capital

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# ASSET ALLOCATION FOR VOLATILE MARKETS

Harold Evensky, CFP<sup>®</sup>





**Evensky & Katz**  
WEALTH MANAGEMENT

# THE NEW INVESTMENT REALITY

## EXPENSE & TAX DRAG

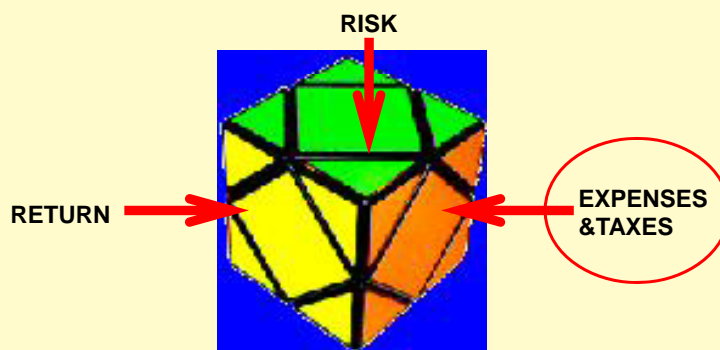
	<u>CURRENT RETURN*</u>	<u>FUTURE RETURN</u>
GROSS	14.0%	7.8%
Less Expenses (1%)	1.0	1.0
Less Taxes (20%)	<u>2.6</u>	<u>1.4</u>
NET GROSS RETURN	10.4	5.4

**After Inflation**  
**What Do You Have to Spend?**

<u>Past</u>	<u>Future</u>
7.2%	2.4%

\* 40% Fixed / 60% Equity – 20 Years

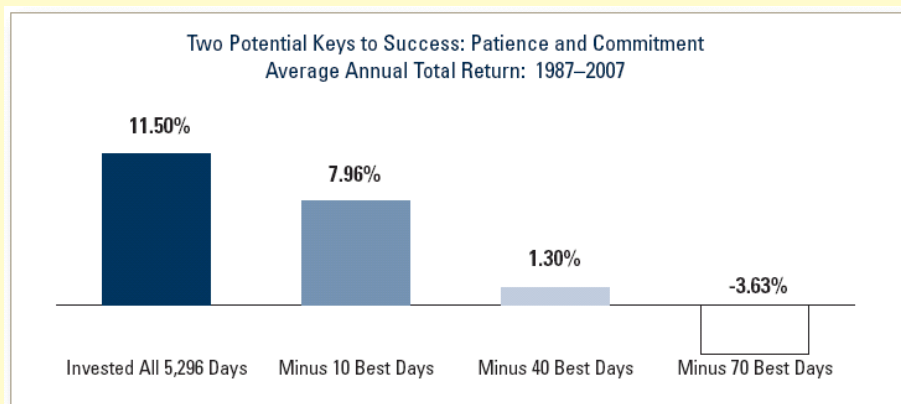
## Retail Efficient Frontier is 3-Dimensional



**Viable efficient frontier analysis does not exist on an after tax basis**

# WHAT TO DO NOW?

## MARKET TIME !



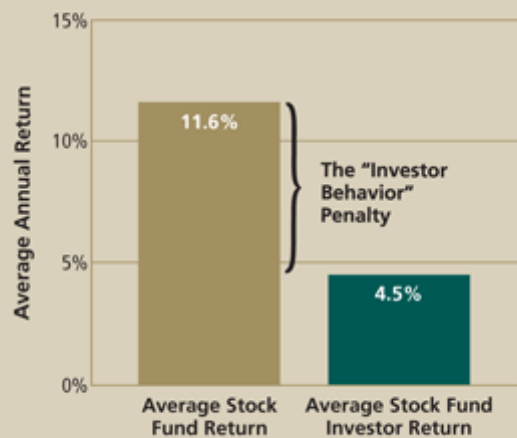
Past performance is no guarantee of future results. The investment return and principal value of an investment will fluctuate.

## S&P 500 8/17/1997 – 8/17/2007


70% of the best days occurred  
within 2 weeks of a worst day

100% of the best days that  
occurred within 6 months of a  
worst day

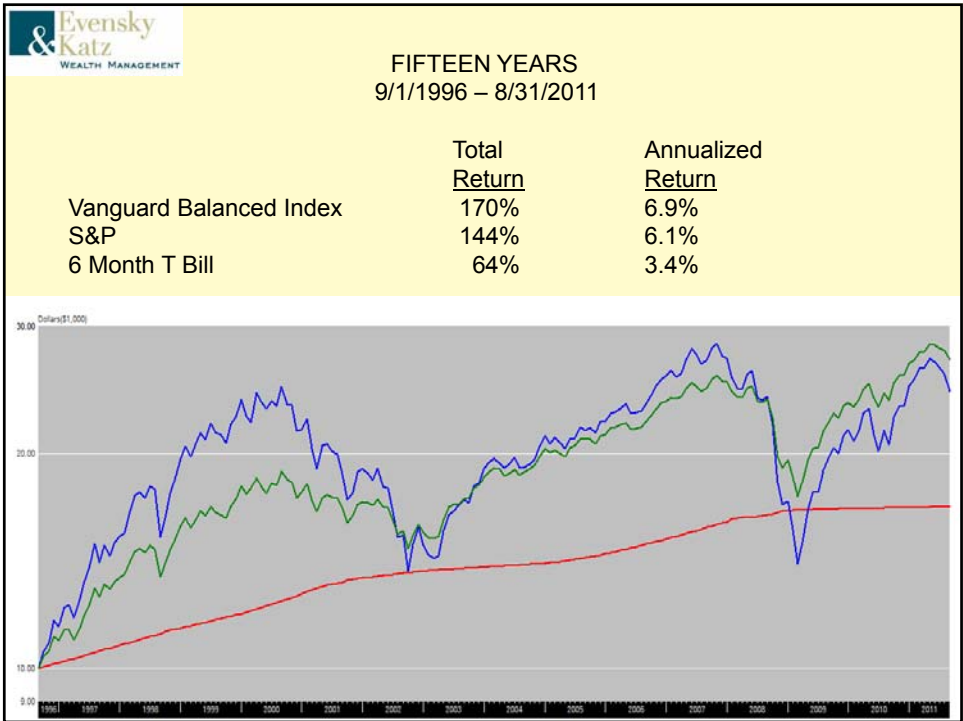
Average Stock Fund Return vs.  
Average Stock Fund Investor Return  
(1988–2007)



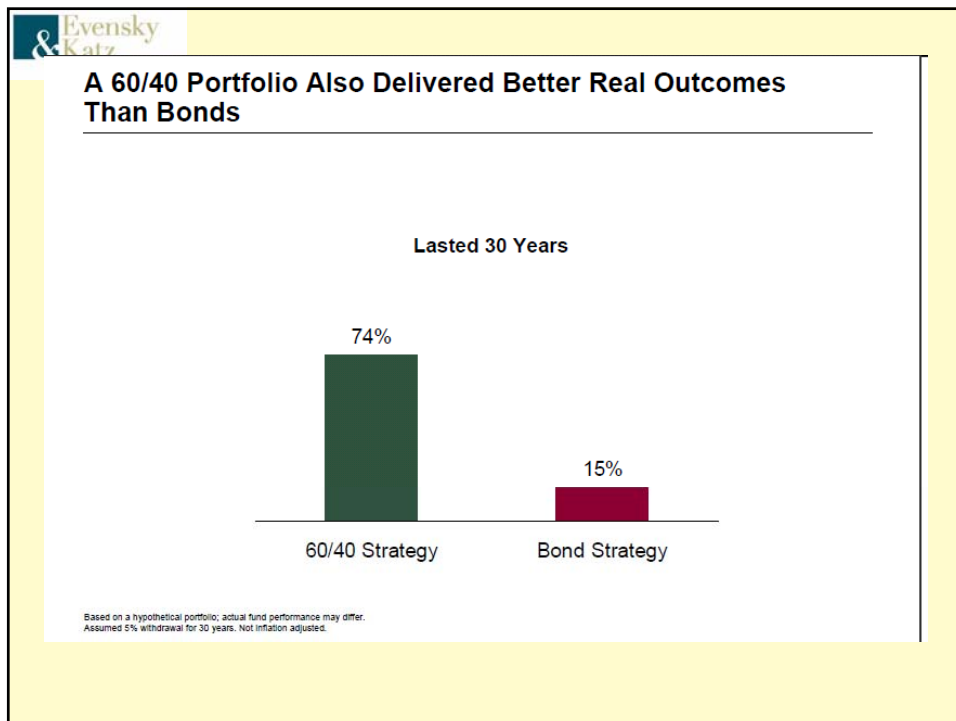
Source: Quantitative Analysis of Investor Behavior by Dalbar, Inc. (July 2008) and Lipper.




I could have gotten out in 1996 and been in cash for 15 years. I would have missed three different 50%+ rallies in equities. And because I would also have missed the crashes, I'D HAVE MORE MONEY MISSING EVERY SINGLE MAJOR RALLY FOR THE PAST 15 YEARS.



# CERTAINTY VS. SAFETY





 Evensky & Katz  
WEALTH MANAGEMENT

**The first stage starts with observations and experience and ends with **beliefs about the future performances of available securities.****



## The E-V Rule

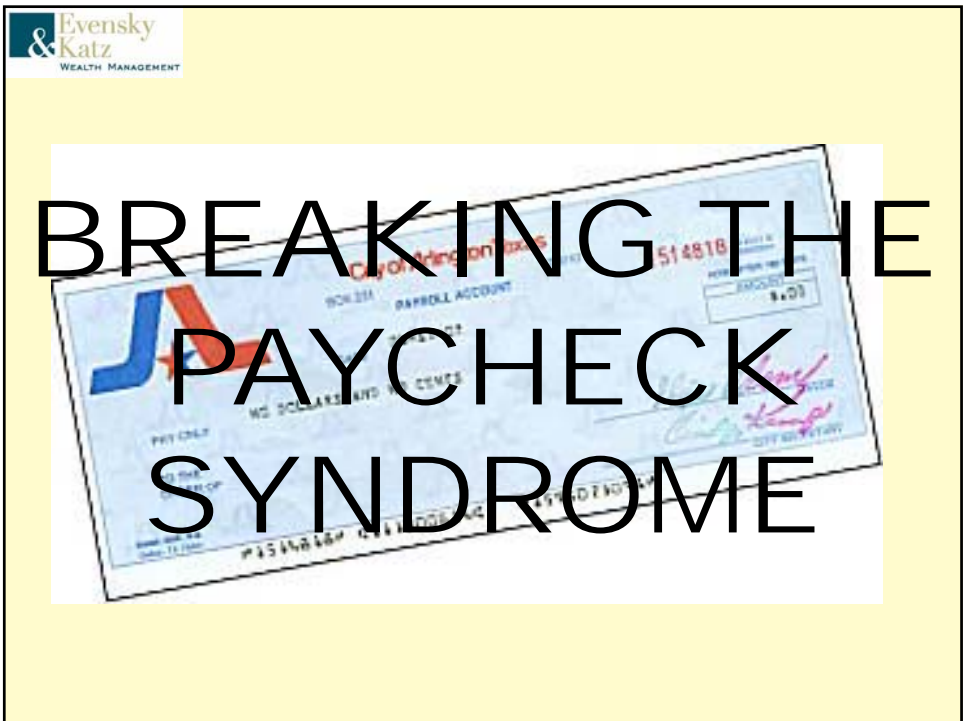
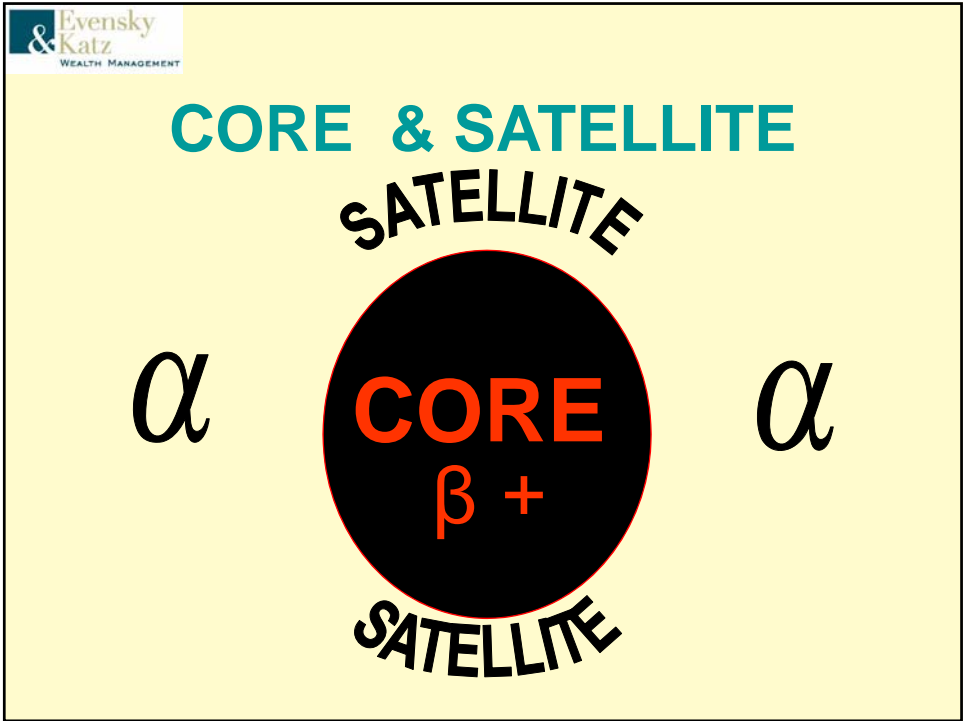
Expected Returns – Variance of Returns

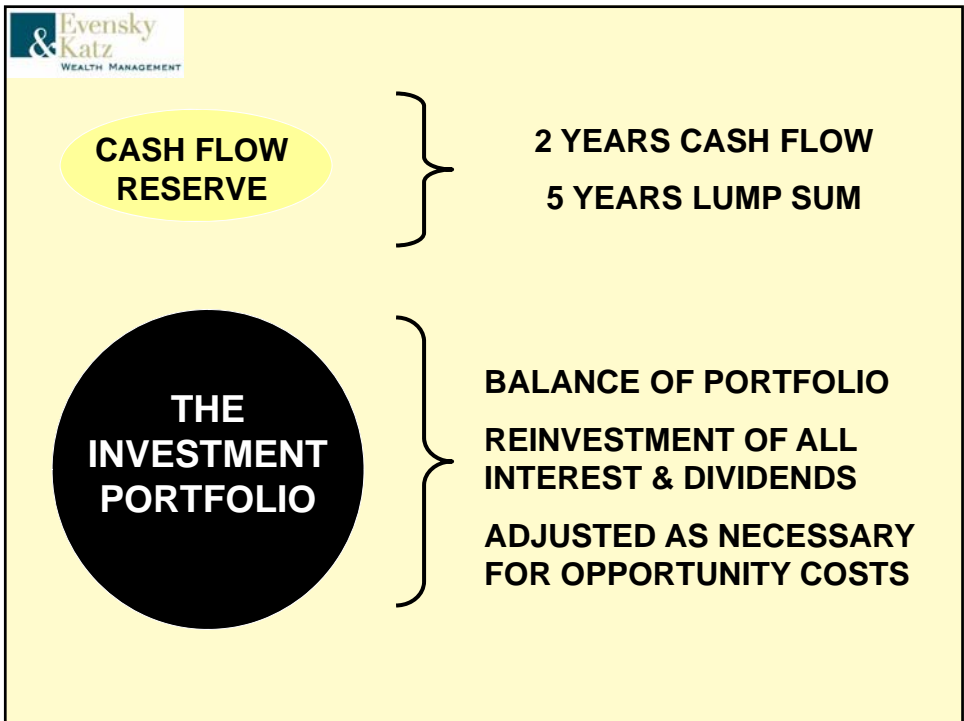
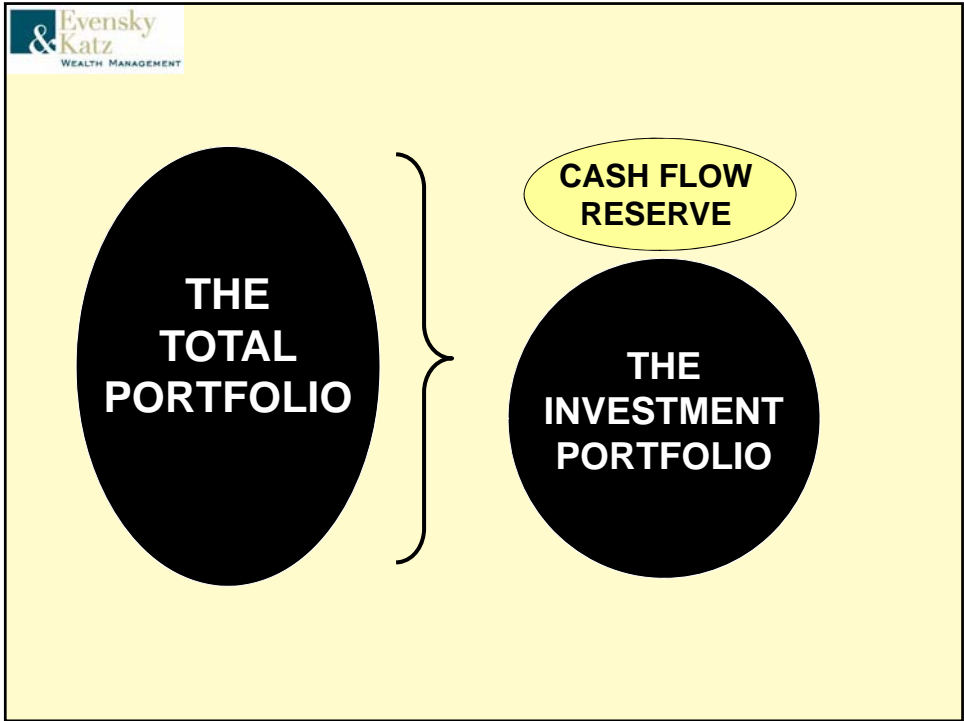
“To use the E-V rule in the selection of securities **we must have procedures for finding reasonable  $\mu_i$  [*expected* return] and  $\sigma_{ij}$  [covariance].**

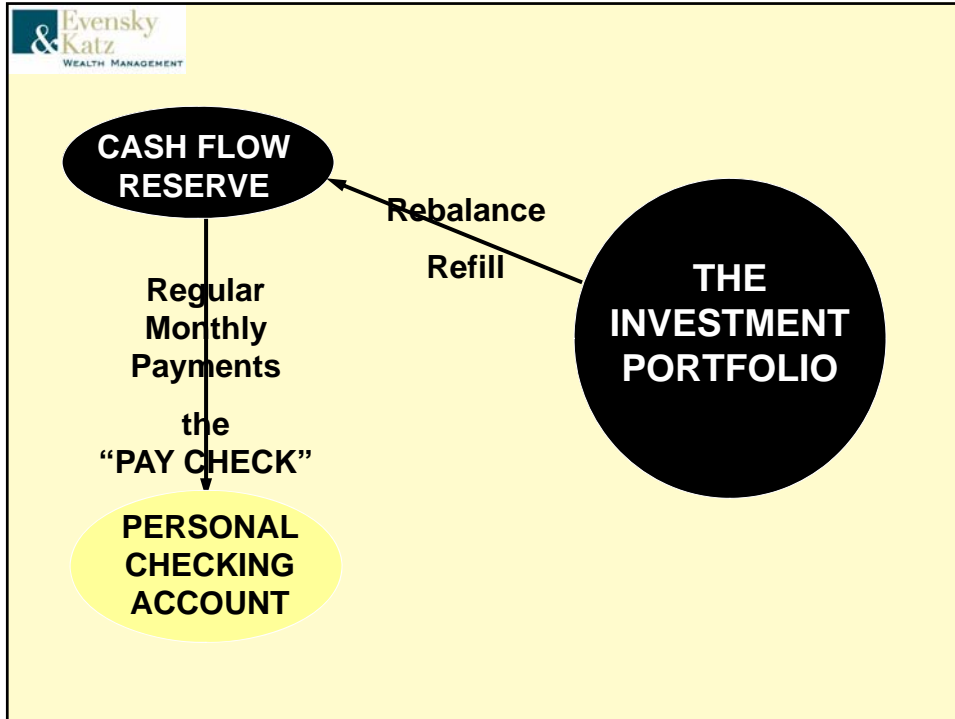
**BUY & HOLD**

**IT'S NOT BUY &  
FORGET**

**IT'S BUY AND MANAGE**







The slide features the **Evensky & Katz WEALTH MANAGEMENT** logo in the top left corner. The central text, rendered in a large, bold, purple font, reads **REMEMBER PASCAL'S WAGER**.

# Asset Allocation for Volatile Markets

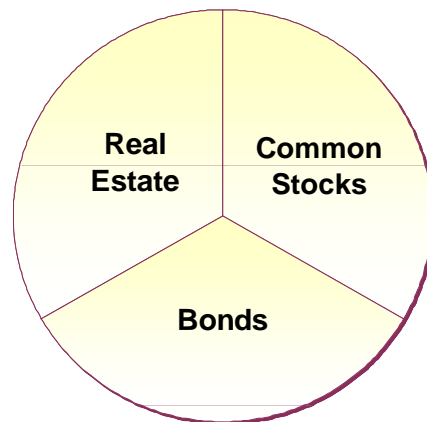
**Roger C. Gibson, CFA, CFP®**

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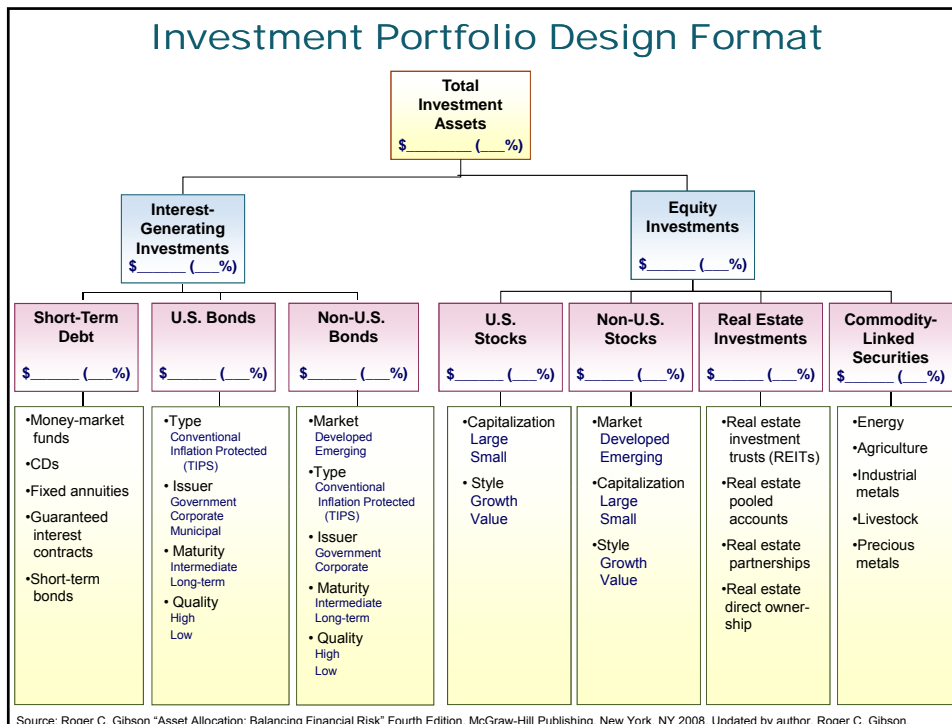
**Gibson Capital, LLC**  
REGISTERED INVESTMENT ADVISER

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724.934.3200 [www.gibsoncapital.com](http://www.gibsoncapital.com)



Let every man divide his money into three parts, and invest  
a third in land, a third in business, and a third let him keep in reserve.

Talmud circa 1200 B.C. – 500 A.D.



## Financial Crisis of 2008—2009

A Perfect Storm:

- Securitization
- Financial engineering
- Excessive leverage
- Misalignment of interests
- Greed

Source: ©2009 Roger C. Gibson

## The Carnage and the Recovery

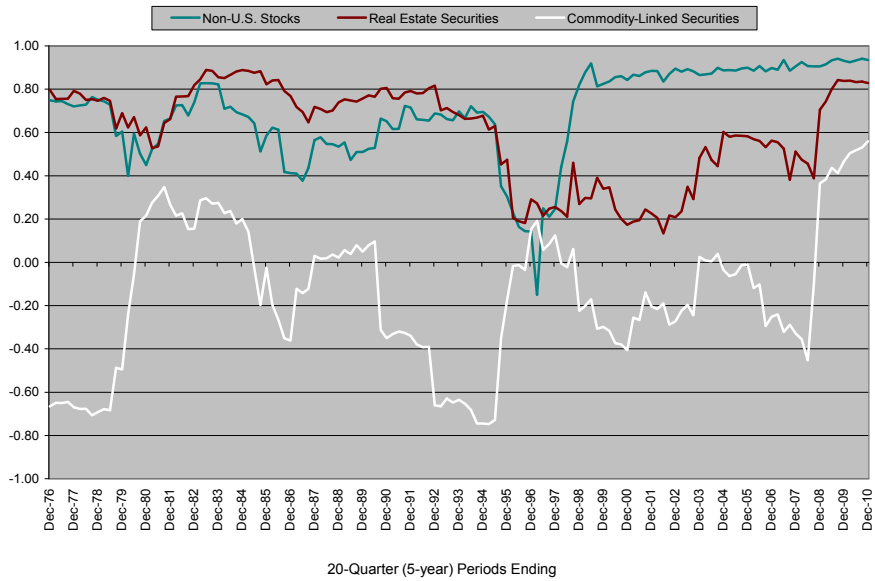
	Total Returns in Percent		
	2008	2009	2010
Treasury Bills	1.8	0.2	0.1
Long-Term Government Bonds	22.7	-12.2	9.4
Long-Term Corporate Bonds	-3.9	16.8	10.7
U.S. Stocks	-37.0	26.5	15.1
Non-U.S. Stocks	-43.1	32.5	8.2
Real Estate Securities	-37.7	28.0	27.9
Commodity-Linked Securities	-46.5	13.5	9.1

Source: ©2011 Roger C. Gibson

## Fifteen Equity Portfolios 1972 -- 2010



## Correlations vs. U.S. Stocks



Source: ©Roger C. Gibson, 2011.

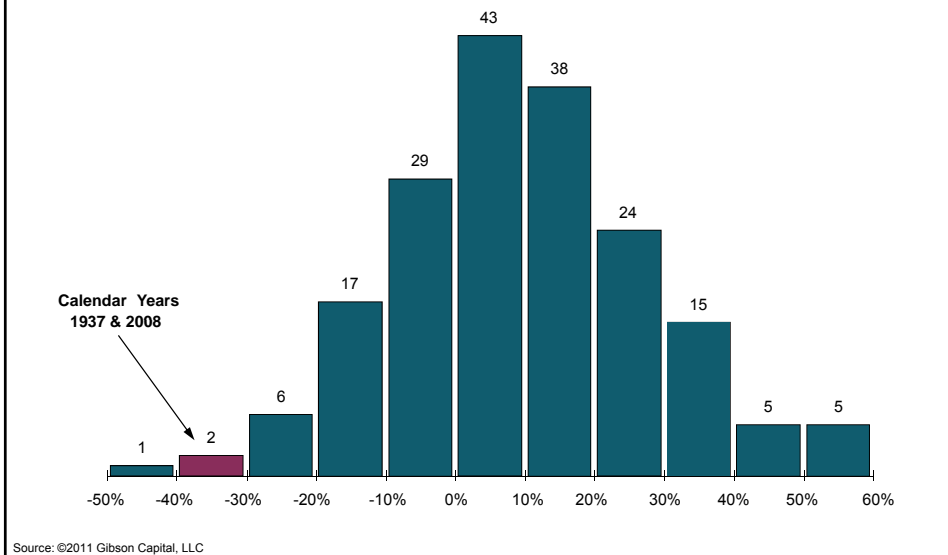
## Annual Equity Returns During "Gut-Wrenching" Bear Markets Post WWII

Year	(A) U.S. Stocks	(B) Non-U.S. Stocks	(C) Real Estate Securities	(D) Commodity- Linked Securities	(E) Equal Allocation
1973	-14.67	-14.17	-15.52	74.65	7.58
1974	-26.45	-22.15	-21.42	39.54	-7.62
2000	-9.13	-13.96	26.36	49.77	13.26
2001	-11.88	-21.21	13.93	-31.94	-12.77
2002	-22.12	-15.66	3.81	32.08	-0.47
2008	-36.99	-43.06	-37.74	-46.49	-41.07

Source: ©Roger C. Gibson, 2011.



## U.S. Large Company Stock Total Annual Returns Histogram 1825 -- 2010



## Has Multiple-Asset-Class Investing Failed?

Multiple-asset-class investing...

- Promises to deliver long-term portfolio returns that are
  - higher than the weighted-average return of the asset classes comprising the portfolio
  - less volatile than the weighted-average volatility of the asset classes comprising the portfolio
- Has delivered on that promise in the past
- Will deliver on that promise in the future
- Mitigates risk but does not eliminate it

“You cannot hedge the world.” Paul Volcker

Source: ©2011 Gibson Capital, LLC

## Additional announcements

- Join us at the 2012 fi360 Conference April 25-27 in Chicago and gain valuable insights from leading fiduciary experts, discuss the industry's hottest topics, and share your professional experiences with colleagues as you earn as many as 11.5 CE credits for your professional credentials. Register today and save \$100!  
([http://www.fi360.com/main/conference\\_2012.jsp](http://www.fi360.com/main/conference_2012.jsp))
- The 2012 AIF and AIFA Designation Training dates and locations are now available. Visit our calendar to find an upcoming program near you.  
(<http://memberservices.membee.com/pasewcfs/irmevents.aspx>) or contact us directly at [carl@fi360.com](mailto:carl@fi360.com) or 866-390-5080 ext. 228.

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## Thank you

- Continuing education for the AIF and AIFA designations and CFP certification will be reported by fi360
- Visit the fi360 Blog for a follow-up post to answer your questions: <http://blog.fi360.com>
- A recording of this webinar will be available soon in the archive ([www.fi360.com/webinars](http://www.fi360.com/webinars)) and in the Designee Portal
- Email [resources@fi360.com](mailto:resources@fi360.com) with any additional questions or comments.

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