WEISS WEALTH MANAGEMENT GROUP of RAYMOND JAMES®

THE WEISS REPORT

SMART AND STEADY

Volume 17, Number 1 | January 2, 2014

LEONARD A. WEISS
SENIOR VICE PRESIDENT, INVESTMENTS
LEONARD.WEISS@RAYMONDJAMES.COM

LOWELL J. WEISS, J.D., CFP®
FINANCIAL ADVISOR
LOWELL.WEISS@RAYMONDJAMES.COM

WEISSWEALTHMANAGEMENT.COM

DJIA: 16,576 | NASDAQ: 4,176

The Evolution of Asset Allocation

The phrase "asset allocation" is one of those media and investing buzzwords that gets tossed around freely. However, rarely is it well defined or explained. The main problem is that the efficacy of the theory has evolved over time. We would like to take the time to explain exactly what asset allocation means in a broad sense and more specifically how it relates to Weiss Wealth Management.

Some believe that traditional asset allocation can be traced back to Harry Markowitz, winner of the 1990 Nobel Prize for Economics. Markowitz is the founder of Modern Portfolio Theory (MPT), a widely utilized grouping of statistical data from which asset allocation was derived.

At its base, asset allocation is defined as an investment strategy that attempts to balance risk versus reward by adjusting the percentage of each asset in an investment portfolio according to the investor's risk tolerance, goals, and investment time frame.

In practice, what this breaks down to is utilizing many asset classes, in various percentages. When using asset allocation, investments are routinely divided by market cap and investment style, such as growth and value. The allocator then uses various MPT metrics to determine their preferred holdings in each "slot". While changes in the allocation can be made over time, it is mostly a buy and hold situation.

The most basic premise holding asset allocation together is that various asset classes fluctuate in different market cycles. Diversifying over different styles should, in theory, limit volatility. The limiting of volatility, which is so essential to asset allocation, only works when asset classes do not correlate to each other. By correlate, we refer to an asset class moves in comparison to another asset class. Over the past ten years, asset classes that previously moved independently now are tightly correlated. This means that they move up or down in unison. Additionally, asset allocation requires an investor to move contra to the human emotion cycle. It requires an investor to have a long time horizon – accepting with it the ups and downs of the market.

With these limitations, asset allocation had to evolve. As the world shrank with information of all types of asset classes being readily available, there was a need for change in order to obtain the results desired by investments.

In order to allow for this evolution, managers have been able to utilize a broader selection of investments and strategies. Individual stocks and mutual funds were the primary investments when asset allocation became popular. Today, various other options including ETFs, Index Funds, Unit Investment Trusts and computer based quantitative model investments are being used. Additionally, utilizing mutual funds that allow managers to cross any line of capitalization help an allocator avoid the aforementioned pitfalls.

This evolution eventually led Weiss Wealth Management to our form of Tactical Asset Management. This method requires a fundamental shift from the process of managing volatility. Rather than utilizing a wide variety of asset classes, tactical management attempts to manage volatility by adjusting portfolio exposure to stocks, bonds, and cash. By managing the volatility, rather than having faith that supposed non-correlated, this method helps deal with the time frame issue discussed earlier. A shorter time frame, one that can match human emotion, is needed for tactical management.

SUMMARY:

Traditional asset allocation has roots in Modern Portfolio Theory and work that won the Nobel Prize in Economics in 1990. Asset allocation places investments into a box based on market cap and growth/value ideas. Volatility is managed by spreading investments among various asset classes, which are believed to be non-correlated. Asset Allocation also requires the use of longer term investment time spans, often as much as 15-20 years. Tactical asset management tends to look in the 3-5 year span.

Weiss Wealth Management's method of tactical asset management is a logical evolution of traditional asset allocation. Investments in a tactical asset management system are evaluated on their own merits, regardless of what "style box" it would fit in. Volatility is managed by altering an account's participation in various markets rather than believing in the non-correlation of assets. Lastly, in a tactical asset management scheme, product managers are not always expected to stay within classified investment techniques.

WHAT DO WE EXPECT AHEAD?

The current economy is tough to pin down. There are some areas that are growing at a robust rate, while other areas of the economy are flat at best. Brian Wesbury, a nationally known economist that we follow, refers to this as a plow horse economy. While headwinds, such as high unemployment, falling median family income, and uncertainty regarding the Affordable Care Act are tough to overcome; there are still areas of strength. We think it is important to focus on the areas of strength rather than remain bogged down in the headwinds.

One of the key areas of strength should not be a surprise to long time Weiss Report readers: the shale energy industry. There are still significant areas of growth within the shale energy extraction and transportation industry. Additionally, select retailers have seen significant growth. Retailers who have seen this growth tend to cater to the areas of the economy that are growing. Lastly, the re-emergence of domestic manufacturing has been a quiet strength. As the US has become the low cost provider of industrial petro chemicals, more foreign manufacturers are bringing their facilities back onshore. We expect this trend to have efficacy for some time.

PORTFOLIOS

In 2013 we started the process of interviewing and identifying outside managers to add to portfolios that we manage by discretion. In keeping with our goal of putting risk before reward and income before growth, we selected multiple managers who fit into the tactical asset management scheme discussed above. In addition to these managers, we have added specific trend investments in manufacturing and industrial materials. Perhaps the most exciting and innovative area we have added is 3d printing. We believe that this industry has the potential to be as game changing as the MLP investments were for clients approximately seven years ago.

ENCLOSURES

Enclosure #1 is a discussion regarding the costs of long term care. Far too often the topic of paying for care throughout life is overlooked. Here, we discuss some current options to fund these expenses.

Enclosure #2 is what is known in the industry as a "quilt chart". This chart shows various sectors in the market and their performance in a given year. It is clear from this chart that predicting which sector is going to be the best performing in a given year is not possible.

Enclosure #3 is a list of 25 investment principles gleaned from Sir John Templeton. In 1991, Lenny had the opportunity to sit with Sir Templeton and listen to him speak about investing. This enclosure contains Lenny's notes on what Sir Templeton felt were the most important things to remember as an investor. We believe that these principles are as important now as they were 23 years ago.

The S & P 500 is an unmanaged index of 500 widely held stocks generally considered representative of the US equity market. The Dow Jones Industrial Average is an unmanaged index of 30 widely held securities. The NASDAQ Composite Index is an unmanaged index of all stocks traded on the NASDAQ over-the-counter market. It is not possible to invest directly in an index

MLP distributions are not guaranteed. The actual amount of cash distributions may fluctuate and will depend on the future operating performance. Increasing interest rates could have an adverse effect on MLP unit prices as alternative yields become more attractive.

Raymond James & Associates, Inc., Member New York Stock Exchange/SIPC

Views expressed in this report are the current opinion of the authors, but not necessarily those of Raymond James & Associates. The authors' opinions are subject to change without notice.

Asset allocation and diversification do not ensure a profit or protect against a loss. Gross Domestic Product (GDP) is the annual total market value of all final goods and services produced domestically by the U.S.

Companies engaged in business related to a specific sector are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification. Investments in the energy sector are not suitable for all investors. Further information regarding these investments is available from your financial advisor.

Modern portfolio theory attempts to maximize a portfolio's expected return for a relative amount of portfolio risk, or to equally minimize the risk for an expected level of return by choosing assets in various proportions.

Certified Financial Planner Board of Standards Inc. owns the certification marks CFP®, CERTIFIED FINANCIAL PLANNER™ and in the U.S.

The Weiss Report
Volume 17, Issue 1
Enclosure 1

Covering Long Term Care

By: Lowell Weiss, JD, CFP®

The issue of long term care costs is often one that families routinely avoid. It is much easier to push the issue out of our minds than it is to come up with a specific plan. However, this avoidance does nothing to solve the growing problem of covering care costs as we age.

According to the U.S. Department of Health and Human Services, at least 70 percent of people over 65 will require some long-term care services at some point. More than half of those requiring this care will need to be in a nursing home. With annual nursing home costs averaging almost $75,000, the planning need is real and important.

One often overlooked aspect of long term care costs is how it affects the individual's family. When a love one is in need of care it is routinely family members who become primary caregivers. The AARP reports that 10% of family caregivers go from full-time to part-time jobs due to their caregiving responsibilities. This can be fully, or partially, avoided with proper planning.

For years, individual long term care insurance policies have been sold to cover this need. Holders of these policies have often seen their premium increased annually – sometimes significantly – in what we call "premium creep". Additionally, initial premiums, even for younger applicants, are very high. These limitations of long term care policies only add more reasons to avoid the issue.

There is another way to partially insure against long term care costs. It is possible to purchase a life insurance policy that allows for benefits to be paid for long term care needs. While it does require an additional rider, in many cases a policy can provide 2% of the death benefit monthly for care costs. These policies also have a fixed premium, eliminating the concern of premium creep.

There are other benefits and limitations that go along with these policies. Please contact the office if you would like more information about how to cover long term care costs for you and your family.

SECTOR TOTAL RETURNS, BY YEAR

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013 YTD
Materials 3.2	Cons. Staples -4.3	Technology 47.2	Energy 31.5	Energy 31.4	Telecom 36.8	Energy 34.4	Cons. Staples -15.4	Technology 61.7	Cons. Disc. 27.7	Utilities 20.0	Financials 28.8	Health Care 35.1
Cons. Disc. 2.7	Materials -5.5	Materials 38.2	Utilities 24.3	Utilities 16.8	Energy 24.2	Materials 22.5	Health Care -22.8	Materials 48.6	Industrials 26.7	Cons. Staples 14.0	Cons. Disc. 23.9	Cons. Disc. 34.9
Industrials 5.8	Energy -11.1	Cons. Disc. 37.4	Telecom 20.0	Health Care 6.5	Utilities 21.0	Utilities 19.4	Utilities -29.0	Cons. Disc. 41.3	Materials 22.2	Health Care 12.7	Telecom 18.3	Industrials 32.4
Cons. Staples -6.8	Financials -14.6	Industrials 32.2	Industrials 18.0	Financials 6.4	Financials 19.2	Technology 16.3	Telecom -30.5	S&P 500 26.5	Energy 20.5	Telecom 6.3	Health Care 17.9	Financials 28.8
Financials -9.2	Health Care -18.8	Financials 31.0	Cons. Disc. 13.3	S&P 500 4.9	Cons. Disc. 18.6	Cons. Staples 14.2	Cons. Disc. -33.5	Industrials 20.9	Telecom 19.0	Cons. Disc. 6.1	S&P 500 16.0	S&P 500 26.4
Energy -10.6	S&P 500 -22.1	S&P 500 28.7	Materials 13.2	Materials 4.4	Materials 18.6	Industrials 12.0	Energy -34.9	Health Care 19.7	S&P 500 15.1	Energy 4.7	Industrials 15.3	Cons. Staples 24.4
S&P 500 -11.9	Cons. Disc. -23.8	Utilities 26.3	Financials 10.9	Cons. Staples 3.6	S&P 500 15.8	Telecom 11.9	S&P 500 -37.0	Financials 17.2	Cons. Staples 14.1	Technology 2.4	Materials 15.0	Energy 21.3
Health Care -12.0	Industrials -26.3	Energy 25.6	S&P 500 10.9	Industrials 2.3	Cons. Staples 14.4	Health Care 7.1	Industrials -39.9	Cons. Staples 14.9	Financials 12.1	S&P 500 2.1	Technology 14.8	Technology 20.1
Telecom -12.5	Utilities -30.0	Health Care 15.1	Cons. Staples 8.2	Technology 1.0	Industrials 13.3	S&P 500 5.5	Technology -43.1	Energy 13.8	Technology 10.2	Industrials -0.6	Cons. Staples 10.8	Materials 19.4
Technology -25.9	Telecom -34.1	Cons. Staples 11.6	Technology 2.6	Telecom -5.6	Technology 8.4	Cons. Disc. -13.2	Materials -45.7	Utilities 11.9	Utilities 5.5	Materials -9.8	Energy 4.6	Utilities 14.9
Utilities -30.5	Technology -37.4	Telecom 7.1	Health Care 1.7	Cons. Disc. -6.4	Health Care 7.5	Financials -18.6	Financials -55.3	Telecom 8.9	Health Care 2.9	Financials -17.1	Utilities 1.3	Telecom 12.4

- Please note: the performance figures are for the S&P 500 GICS Sectors. These sectors are **Capitalization-Weighted**, therefore the performance figures are often heavily influenced by a few large stocks. For this reason, we feel emphasis on the ***subsectors*** of each GICS sector is ***the key to relative outperformance***

- Hard to bet against the consumer as ***Consumer Discretionary has outperformed the S&P in 10 of last 13 years***

25 Investment Principles of Sir John Templeton

1. Long term investing has only one objective: Total Return after taxes & inflation.

2. Achieving this goal is harder than you think.

3. If you buy what everyone else is buying, you cannot outperform. You must be different.

4. Diversify at all costs.

5. Buying when others sell takes great fortitude.

6. Focus on the value of a company rather than its outlook or trend.

7. As a trend proves too popular, it may fade away and never return.

8. Never adopt a permanent method of evaluation; things and times change.

9. Price fluctuation is close to the square root of the price.

10. When a selection method is popular, switch to a more unpopular selection method.

11. Earnings per share (EPS) of an index (Dow 30, S&P 500, etc.) fluctuate near the replacement cost of its companies.

12. Market indices fluctuate with the long term trend of the EPS & Book Value.

13. Periods of pessimism are best time to buy. Periods of optimism are the best time to sell.

14. The only way to get a "bargain" is to buy what everyone else is selling.

15. Bear Markets, like Bull Markets, are temporary. In a Bear Market, the stock market will bottom out 6-12 months before the business cycle turns.

16. The best time to sell any asset is when you find a better bargain to buy.

17. Price fluctuates more than values do.

18. An index will never outperform. Only brain power can outperform indices.

19. An investor with all the answers doesn't know what the question is.

20. The 4 most dangerous words in investing are: The time it's different.

21. Bull Markets are born on pessimism, they grow on skepticism, they mature on optimism, they die in euphoria.

22. A buying opportunity is real only if you have available cash to invest.

23. If you look worldwide, you'll find more bargains than in just one nation.

24. Dollar cost averaging is magic, it helps reduce risk.

25. Keep it simple, and make money. Let the intellectuals worry themselves out of a fortune.

These principles were spoken by Sir John Templeton at Lyford Cay Yacht Club, Lyford Cay, Bahamas, December 8th, 1991.