

**Portfolio Stochastic Design Scans:
Rebalanced IRA Portfolio – Q1 Performance**

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“ In the end, how your investments behave is much less important than how you behave. ”

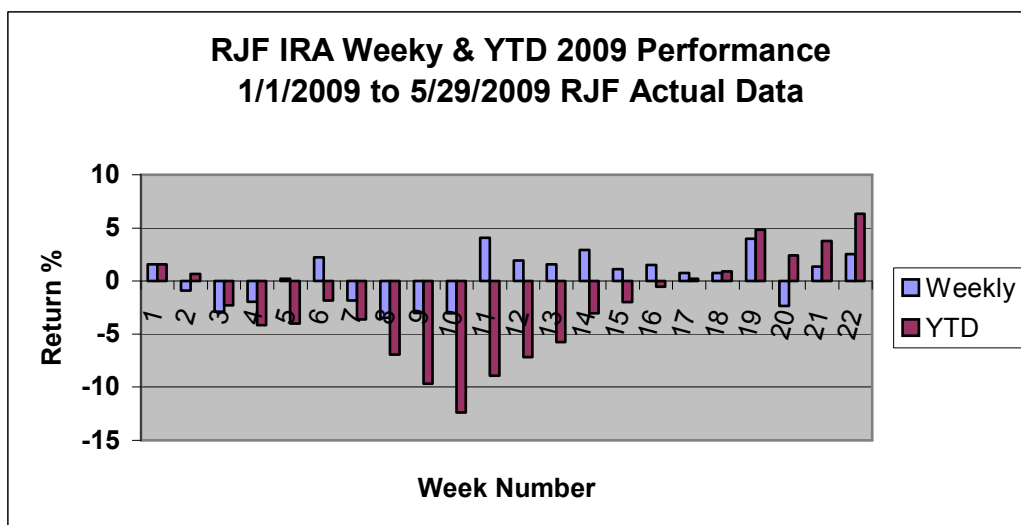
**Benjamin Graham
The Intelligent Investor**

A Test of Nerves and Strategy in Q1

The Benjamin Graham quote on each White Paper cover page is a constant reminder to me to manage change very carefully and to stay with an age appropriate asset allocation. During early Q1 markets continued to sell off as expected and the changes I made in Q4 2008 were put to the test. This note is a progress report on how the rebalanced portfolio is performing. Did the scan changes made to deal with negative 5yr Sharpe ratios work? How did the rebalanced portfolio perform compared to the unchanged “buy and hold” portfolio? How did stable value investments hold up in the 401k plans scanned in 2009 to date?

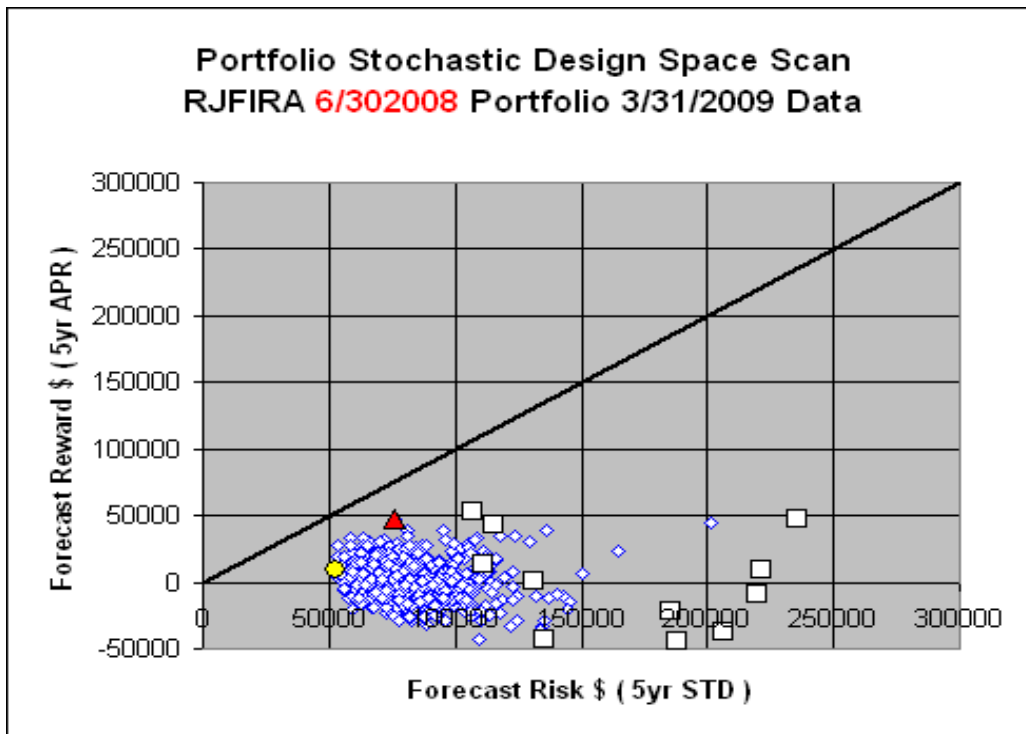
Stanton & Castleton RJF IRA

The continued decline in Q1 took my IRA portfolio down another 12% before the market began to bottom. There were times after the first 10 weeks it seemed the market might never go up again. Then in March the market began to have a few good weeks in a row, the RJF IRA stopped falling for now and it was time to ask questions.



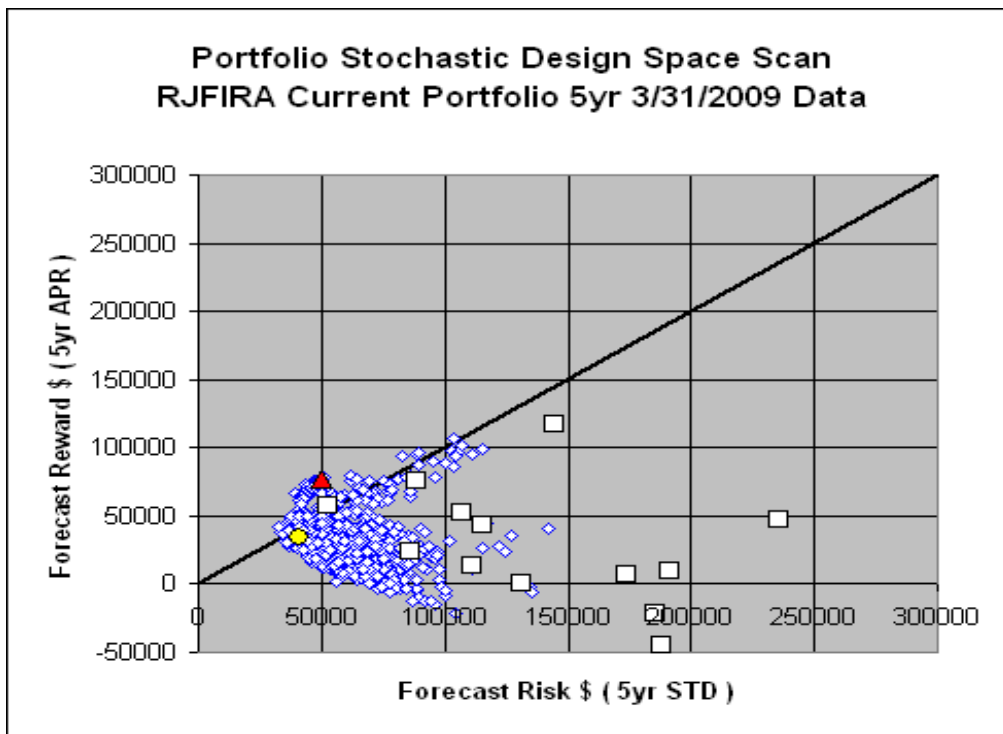
Q1 was more of a relief than an encouragement to me. No one knows just how 2009 will play out but the first quarter is in and it is time to reflect on the progress and problems to date.

Lets start with basic questions first; how did the new rebalanced portfolio compare to the old portfolio and how did it compare to the Hewitt 401k index portfolio.



This is the 6/30/2008 RJFIRA portfolio scanned using Q1 2009 market data. The Balanced portfolio is the red triangle and the 6/30/2009 asset allocation portfolio is the gold circle. As you can see all the funds in the plan, the white boxes, are below the line and have negative Sharpe ratios. The Balanced portfolio allocates money to funds with positive 5yr returns based on their “zero” Sharpe ratio defined as APR/STD. The best 5yr risk adjusted return possible was just a bit under 5% and my actual portfolio was a bit under 1% but with a lower STD.

The scanner change to deal with all negative Sharpe ratios worked well but my asset allocation was probably too conservative in hindsight. The changes I made in Q4 2008 included a “stable value” fund BTFTX to reduce volatility. Almost all the better 401k plans have a stable investment option, which could be a GIC portfolio or a stable return fund. In Q4 I added FAIRX, OAKBX and VFITX to increase the value and income investment categories in the portfolio. In February 2009 I also added WASAX a conservative asset allocation fund using money from DODFX. That is my current portfolio.



As you can see these changes shifted the cloud of points to the left and up increasing the Balanced portfolio 5yr APR to over 7% and my actual portfolio to over 3% with a positive Sharpe ratio of $PSR = 0.13$. All things considered the changes helped reduce risk while keeping most of the funds in the portfolio the same.

Performance Compared to 401k Index

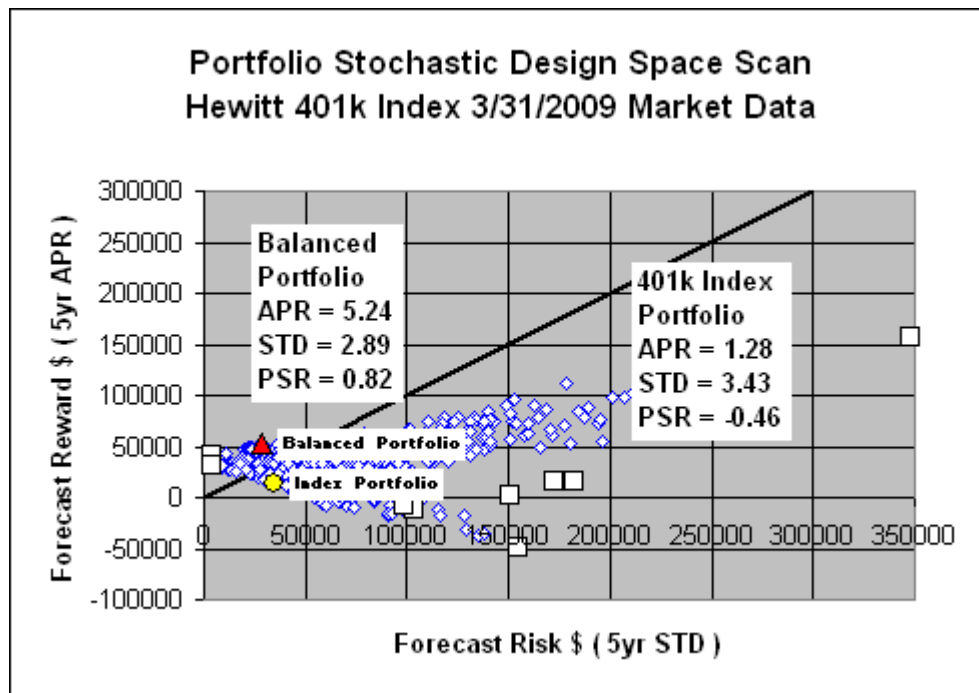
Hewitt Associates, HEW, have tracked 401k plan money flow for over ten years in their 401k index for HR clients in many companies. As of 1/31/2009 the asset allocation in the Hewitt 401k index posted on the web is

GIC/Stable	34.30%
Large US Equity	15.28%
Company Stock	13.43%
Lifestyle	8.96%
Bond	6.00%
International	5.69%
Balanced	5.44%
Small US Equity	3.79%
Money Market	2.42%
Self Directed	2.14%
Mid US Equity	1.68%
Emerging Markets	0.65%
Specialty/Sector	0.22%

The PSDS scan of the 401k-index portfolio used the category funds seen most often in 401k plans posted. Company Stock and Self Directed categories were not included. These are the funds in the scan

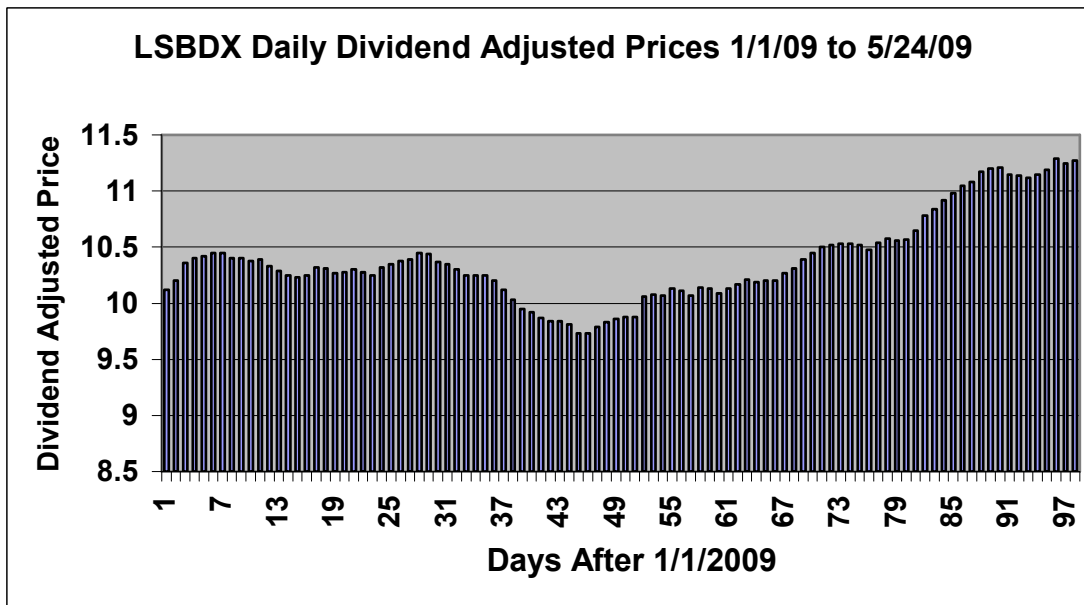
GIC.ekx	GIC/Stable
FUSEX	Large US Equity
VTXVX	Lifestyle
PTTRX	Bond
AEPGX	International
VBINX	Balanced
RYSFX	Small US Equity
VMVXX	Money Market
FEAFX	Mid US Equity
LZEMX	Emerging Markets
MALTX	Specialty/Sector

The scan shows I think the influence of demographics. On average 401k participants are much younger than a retiree like myself, and their portfolio is age appropriate. They do have most of their money in the GIC/Stable category today but they also invest in more equity categories than an older retiree. Emerging markets and Latin America for example.



Sharpe Ratio Strategy Problems and Solutions

The biggest difference in my portfolio and the Sharpe ratio Balanced portfolio is the bond fund LSBDX. It has a negative 5yr Sharpe ratio but continues to pay dividends like an annuity. The funds cash dividend each month with a low share price produced a yield over 9% all during the Black Swan market. There were no stable investment funds or GICs yielding over 9%. That made my decision to keep LSBDX simple. I kept it and continue to check the dividend payment every month.



As you can see in the chart mister market has begun to correct his pricing error and the April yield was 8.9%. Common sense is needed with any model and in this case it served me well. In Black Swan markets the rule that I have adopted is a “zero Sharpe ratio” strategy. It allocates money to funds with positive 5yr APRs proportional to APR/STD subject to common sense testing.

Stable Value Investments Q1 Performance

I track the SVIA Newsletters, the performance of the US Government 401k FUNDG, the Northrop Grumman SVF and several others. They held up reasonably well in Q1.

Fund G	3.45%	(last 12 months 5/1/2009)
NSVF	3.72%	(Q1 2009 annualized)
SVF.usb	3.84%	(last 12 months 4/30/2009
		US Bank Stable Asset Fund)

The average stable-value fund returned about 4% in 2008 according to Kiplinger.