A Professional's Portfolio Ingredients Can Be Seasoned With Your Own Inspirations

Cook Up Investments With Someone Else's Recipe

by Danielle Schultz, CFP, CDFA

Selecting individual stocks can be thrilling and profitable. But sometimes we can end up with a mishmash of good ingredients that makes it hard to see whether we have the right components for a coherent menu. Or we may have a variety of accounts (individual retirement accounts, 401(k)s, a brokerage account) with different goals and needs for each one. Finally, we may want a few piquant side dishes to enhance the core menu. Let's look at investments that offer a complete strategy.

One-Stop Shopping

By now, most of us are pretty familiar with target-date retirement funds. These have become the default choice in many workplace retirement programs, and they're designed to give plenty of asset diversity to (even) small accounts, becoming progressively more conservative as the investor ages. The problem with these funds is that what's right in general may not be right for you as an individual. Although these funds are intended to maximize reward consistent with a given level of risk, not all fund companies have the same balance. Be careful to drill down to see whether the level of risk in the specific fund is consistent with your comfort level. Let's look at three target-date 2020 funds below.

Fund	U.S. Stocks	Internat'l Stocks	Bonds
Fidelity FFFDX	34%	24%	29%
Vanguard VTWNX	33	21	43
T. Rowe Price PAIRX	30	15	51

As is obvious, these funds take a very different view of acceptable risk and investment mix. Target-date funds may work quite well for the younger investor, but at some point other life factors may make it less desirable to accept the increasingly conservative mix.

On one hand, if your entire retirement nest egg is in one of these funds and you'll depend on it for all retirement income, you may want to be even more conservative about preserving what you have. On the other hand, if you have significant Social Security benefits, a pension and a healthy portfolio outside the fund, you may not need to be so conservative; you might be able to afford more risk and a higher percentage of stocks to obtain better return.

There's no rule that target-date funds are only for retirement. You can pick a date that corresponds with a goal. For example, if you want to purchase a home in seven years, you could choose a target date of 2025 for a glide path designed to have the money there when you need it.

Stop the Clock With Balanced Funds

Nearly every mutual fund company offers at least one version of a balanced fund. These funds offer an asset allocation divided between stocks or stock funds, and bonds or bond funds. Unlike target-date funds, their asset allocation stays relatively steady over time. I've reviewed several in "Fund in Focus," including Vanguard Balanced (*June/July 2017*), Vanguard Wellington (*March 2015*) and the Vanguard STAR (2014). Other possibilities are Dodge & Cox Balanced (ticker: DODBX), Fidelity Puritan (FPURX), Dimensional Fund Advisors Global Allocation (DGSIX and DGTSX) and T. Rowe Price Balanced (RPBAX).

Although the balance may be fixed, balanced funds have significant differences. Many are 60 percent stocks/40 percent bonds, but there are definitely variations: Some active managers have flexibility to emphasize one side or the other depending on their market assessment, while some are permanently indexed to a specific mix. Some funds are actively managed with individual selections of stocks and bonds; others are indexed or funds of funds.

A 60/40 split is often regarded as an all-purpose portfolio mix — enough risk to profit from stocks' overall better performance, with enough bonds to provide some safety and stability. These funds offer the advantage of automatic rebalancing. You don't have to do any trading once you make the initial investment; management sticks to the mix. But watch for any stated change in portfolio objectives and, for actively managed funds, manager change.

Order Up What Warren Buffett Chooses

No, not Coke and See's Candies, but maybe Berkshire Hathaway. Berkshire Hathaway has two stocks: BRK.A, with a share price of $284,570 (as of October 2017), and BRK.B at $189.78, which was a split-off from the Class A shares to make it more affordable to buyers and easier to sell a portion of an individual's investment if withdrawals are needed. In some ways, Berkshire Hathaway's portfolio has the flavor of a mutual fund: Berkshire isn't a single company in one industry, but a conglomerate of different businesses and substantial stakes in others.

Technically, Berkshire Hathaway is in the financial services sector, with about one-third of its business in insurance: Geico, General Re and several others. Although these businesses may be hard hit owing to claims for recent disaster damage, more than 70 other companies are under the Berkshire aegis. Berkshire is in transportation (Burlington Northern Santa Fe), energy (Berkshire Energy) and utilities. Berkshire also holds manufacturing, including former BI community favorites Precision Castparts and Clayton Homes; retail (Helzberg Diamonds, See's Candies);

real estate brokerage (B-K Home Services); and many others. See the company's website.

Berkshire Hathaway pays no dividends currently, although there's pressure to do so given the large amount of cash it's holding. BI investors examining a Stock Selection Guide for the firm should keep in mind that it operates in several industries, complicating analysis.

Sales and prices have had a pretty steady march upward; earnings and pretax profits, less so. Even if you don't invest in BRK.B, it can be very entertaining and enlightening to read Buffett's letter to shareholders, in which he assesses his and Berkshire's performance, details his view of the future and provides assorted opinions and analysis. Letters are available going back to 1977.

Select a Permanent Portfolio

Proposed by Harry Browne in the early 1980s, the Permanent Portfolio was designed to be a complete investment scheme to hold throughout all markets. Its simplest iteration is 25 percent cash, 25 percent long-term bonds, 25 percent stocks and 25 percent gold, with a rebalance every year back to the allocation.

The portfolio has the disadvantage of never looking good — because some of its assets will always be on the downswing — and the advantage of never looking terrible, because the asset classes generally move differently from one another. It will lag in good stock markets and lose less in bad markets. In my view, this scheme is primarily defensive; most asset classes are low-return categories that won't take advantage of stock gains.

Although it's fairly easy to select no-load index funds that represent each of the categories, you can also buy one mutual fund, Permanent Portfolio (PRPFX), which will do it all for you. As may be expected, the fund has lagged the market in good times, but in bad times such as 2008, it lost only 8.4 percent. If you're worried about dramatic downturns and want lower volatility than an all-stocks portfolio, you may want to consider a segment of your portfolio allocated according to the Permanent Portfolio scheme.

Dogs of the Dow

This strategy has been around since the 1990s, with varying success. The basic principle is that once a year the investor selects the 10 Dow Jones industrial average stocks with the highest yield fraction of their price. Each year the stocks are reviewed, sold if they don't meet the criterion and replaced with DJIA stocks that do. *BetterInvesting* had an excellent article in the March 2016 issue discussing the strategy in depth. You can also subscribe to a free newsletter at **dogsofthedow.com.**

How to invest in the Dogs? You can buy each individual stock and do your own rebalancing, but there are alternatives. One exchange-traded fund with similarities is the ALP Dividend Dogs ETF (SDOG).

According to the prospectus: "'Dividend Dogs' refers to the five stocks in each of the ten Global Industry Classification Standard (GICS) sectors that make up the S&P 500 which offer the highest dividend yields. The Underlying Index generally consists of 50 stocks on each annual reconstitution date, which is the third Friday of December each year. The Underlying Index's stocks must be constituents of the S&P 500 Index…."

Another possibility is to invest in a Folio Investing's Ready-to-Go folio for Dogs of the Dow. Folio (*a BetterInvesting partner*) offers the Dogs of the Dow portfolio as one package where your investment will be traded into the 10 current stocks in the Dogs and automatically rebalanced according to the scheme.

Create Your Own Cuisine

Asset allocation can be confusing. The actual act of diversifying is probably the most important component of long-term success, but the exact proportions and investments need to be selected. As long as you don't try wild and risky moves, you can evaluate a number of ideas and compare results.

Folio's website is a good place to view performance and dissect components of various constructed portfolios. It has 160 Ready-to-Go portfolios, including the BetterInvesting 100, as well as portfolios emphasizing specific sectors, market segments and objectives (e.g., large cap, high dividend, low volatility).

Not enough for you? Or are you interested in another scheme such as the 7Twelve portfolio, David Swensen wannabes, Benjamin Graham emulators, Couch Potato investing or many others on the web and discussed in the blogosphere? **Recipeinvesting.com** offers well over 100 leads on portfolios: all-in-one funds for specific orientations as well as portfolios selected according to specific principles.

You can view one-year performance on each investment with a free membership, but to see other metrics and longer time intervals, as well as the exact portfolio components and specific investments, you'll need a paid membership ($15/month). The company's also set up private portfolios on Folio Investing that are available to click through, or you can invest through any other account once you know the exact investments that make up the specific portfolio.

A menu makes every dish sound delicious. All financial wizards believes their lineup is the key to wealth.

Not everything has to be cooked from scratch, but be sure to study the proposed investment selections over time to see whether a particular approach meets your needs and provides the necessary ingredients to diversify your investments.

These funds are mentioned for educational purposes only; no investment recommendations are intended. The author and some of her clients may have positions in some funds mentioned in this article.

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