

**YFI** Youngblood Financial, Inc.  
*Financial Planning & Wealth Management*

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## **Full Cycle Investing Approach**

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# Full Cycle Investing

## **Introduction**

An investor that owned an S&P 500 index fund for all of 2008 suffered a decline of (37%), remarkably similar to those in the index from 2000-2002 who suffered a three-year decline of (37.7%). Investors that took too much risk saw their portfolio damaged, those near retirement saw the retirement-date pushed out by years, and some NASDAQ investors were nearly wiped out. All learned an important lesson about market volatility, which is that the prudent investor must consider how the portfolio will perform over the “*full cycle*” of up and down markets. As an investment advisor I seek to clearly articulate for clients how careful diversification can greatly reduce risk while maintaining attractive risk-adjusted returns across the long-term economic ups and downs that can be called the “*full cycle*”.

The analysis to demonstrate this “Full Cycle” approach is attached for one of our five Model Portfolios. As the growth-chart for this example portfolio shows the Full Cycle approach may fall behind during boom years (e.g., 1998-1999) but it tends to take the lead again during difficult markets (e.g., 2008 or 2000-2002), when the superior diversification really pays off. The reports shows that the “Conservative” portfolio beat the S&P 500’s compound performance over the recent ten-year period at 50% of the risk, while the “Moderately-Aggressive” portfolio provided 130% of the market’s returns at approximately seventy percent of the risk!

We at Youngblood Financial are not passive investors. In a constantly changing world we believe that investment returns are enhanced by regular account rebalancing, and ongoing monitoring / adjustment of the client’s Investment Policy. Rebalancing and fine-tuning your Investment Policy allows us to overweight styles and sectors that we predict will outperform (add alpha) and underweight styles and sectors that have peaked (lack alpha).

## **Caveats**

Past performance is no guarantee of future performance. Future returns may be higher or lower than historic returns. Data provided are as of 11/1/09 from sources believed to be accurate and reliable. All performance data reflect semi-annual rebalancing.

## Full Cycle Investing - Mod-Aggressive Portfolio

### Monthly Portfolio Returns

Year	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
January	0.5%	-0.2%	-1.5%	1.0%	-0.2%	-2.2%	3.0%	-2.2%	4.1%	2.4%	-4.5%	-6.3%
February	4.9%	-2.1%	0.5%	-0.2%	0.5%	-1.6%	1.8%	2.4%	0.2%	-0.8%	-2.1%	-9.3%
March	3.9%	2.4%	6.2%	-2.5%	4.3%	0.6%	-0.1%	-0.9%	2.0%	1.1%	-1.4%	7.0%
April	2.1%	7.6%	1.8%	4.5%	-0.7%	5.7%	-2.7%	-1.5%	1.0%	3.3%	3.9%	10.5%
May	-1.2%	1.1%	0.3%	2.6%	0.1%	6.4%	0.9%	2.8%	-2.4%	2.3%	2.0%	5.8%
June	0.8%	3.7%	0.7%	0.0%	-3.9%	1.7%	2.4%	1.6%	0.1%	-1.9%	-7.5%	0.4%
July	-3.8%	-1.4%	1.8%	0.5%	-6.4%	2.3%	-2.8%	3.6%	0.9%	-3.3%	1.3%	7.5%
August	-11.4%	-0.5%	3.7%	-1.0%	1.0%	2.0%	0.8%	0.0%	2.1%	0.7%	0.9%	2.9%
September	4.9%	-2.9%	0.8%	-7.1%	-6.5%	0.2%	1.9%	0.8%	1.8%	2.4%	-8.4%	4.7%
October	5.4%	1.4%	1.5%	1.4%	2.6%	4.3%	1.6%	-2.2%	2.8%	1.3%	-16.5%	-2.8%
November	4.2%	2.3%	-0.2%	5.5%	5.2%	2.4%	4.8%	2.8%	1.8%	-2.8%	-7.4%	
December	1.8%	3.1%	7.0%	2.6%	-1.8%	4.6%	3.6%	1.7%	1.2%	-1.6%	4.6%	

### Model Returns Vs. S&P 500

Returns	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Portfolio	11.5%	15.1%	24.8%	6.9%	-6.3%	29.2%	16.2%	8.9%	16.7%	2.9%	-31.6%	20.2%
S&P 500	28.7%	21.1%	-9.1%	-11.9%	-22.0%	28.7%	10.9%	4.8%	15.6%	3.8%	-37.0%	17.1%

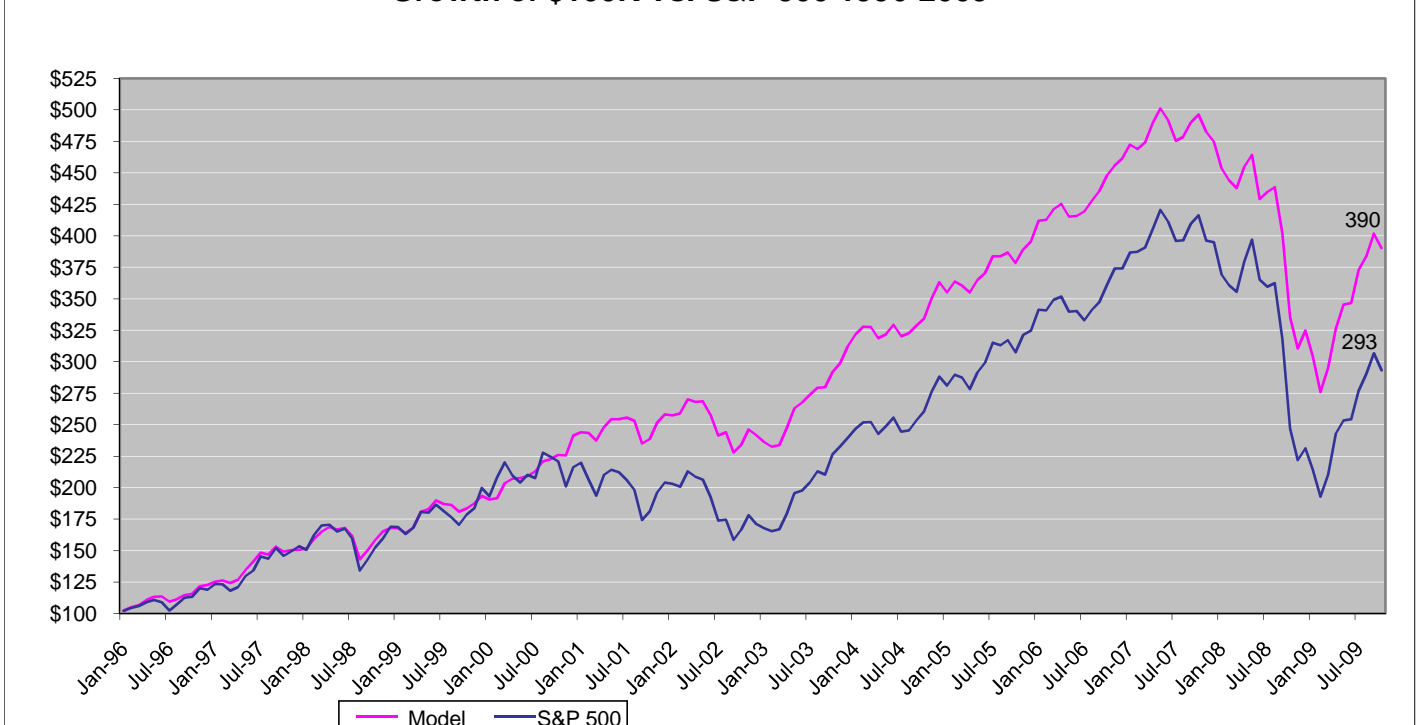
Risk-Reward Comparison	Model	S&P	Pct SP
Reward - Ann Cmp Rate Ret	10.55%	8.24%	128%
Risk - Ann'zd Std Deviation	13.90%	19.80%	70%
Reward to Risk Ratio	0.76	0.42	

Frequency of Declines	Model	S&P
Pct Negative Monthly Returns	31%	40%
Monthly Returns worse than (4%)	7%	13%
Monthly Returns worse than (8%)	2%	5%

### 2009 Mutual Fund and Allocation Percentage

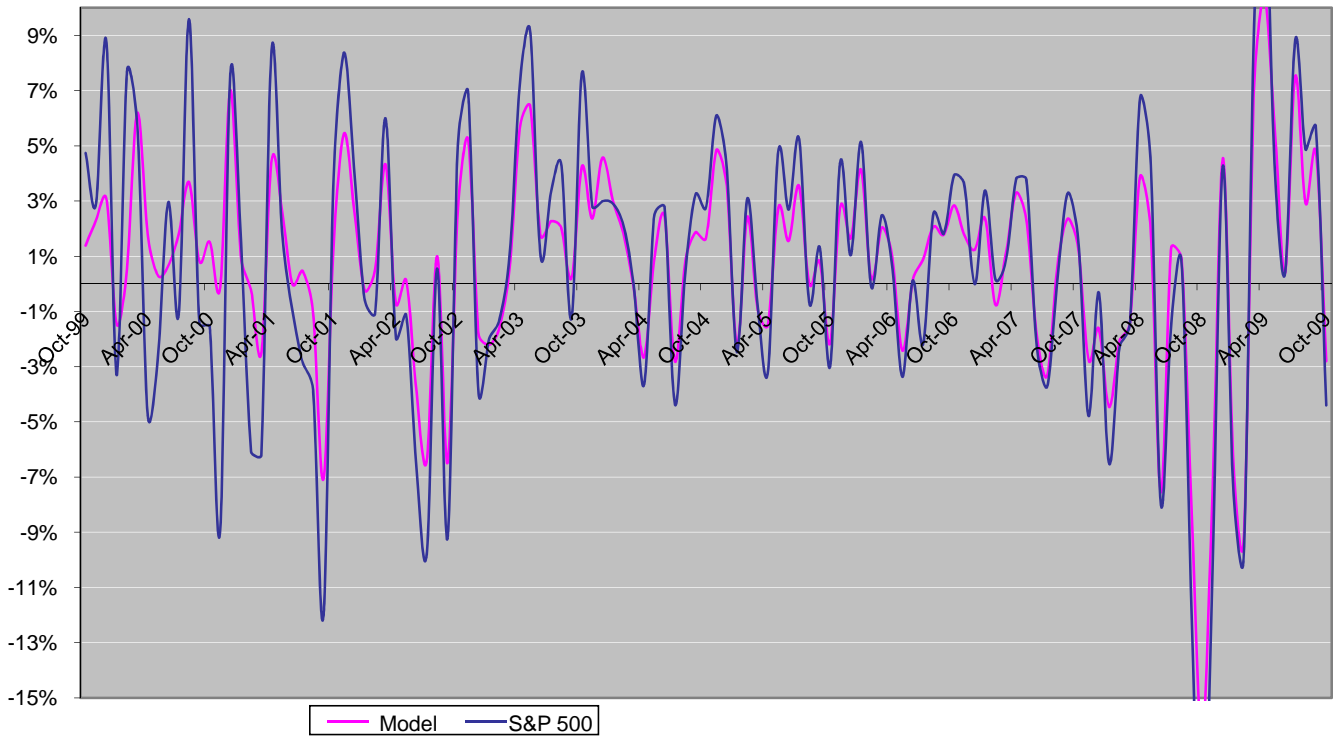
	Mid-Small Cap	Sectors Funds	International + Bonds
Recom Large Value	30%	Recom REIT 0%	Recom International 10%
	Recom Mid-Cap 15%	Recom Health 14%	Recom Intl Sm-Mid 5%
	Recom Sm-Cap 15%	Recom Natural Res	Recom Bond Fund 11%
			Recom Bal'd Fund

### Growth of \$100K Vs. S&P 500 1996-2009

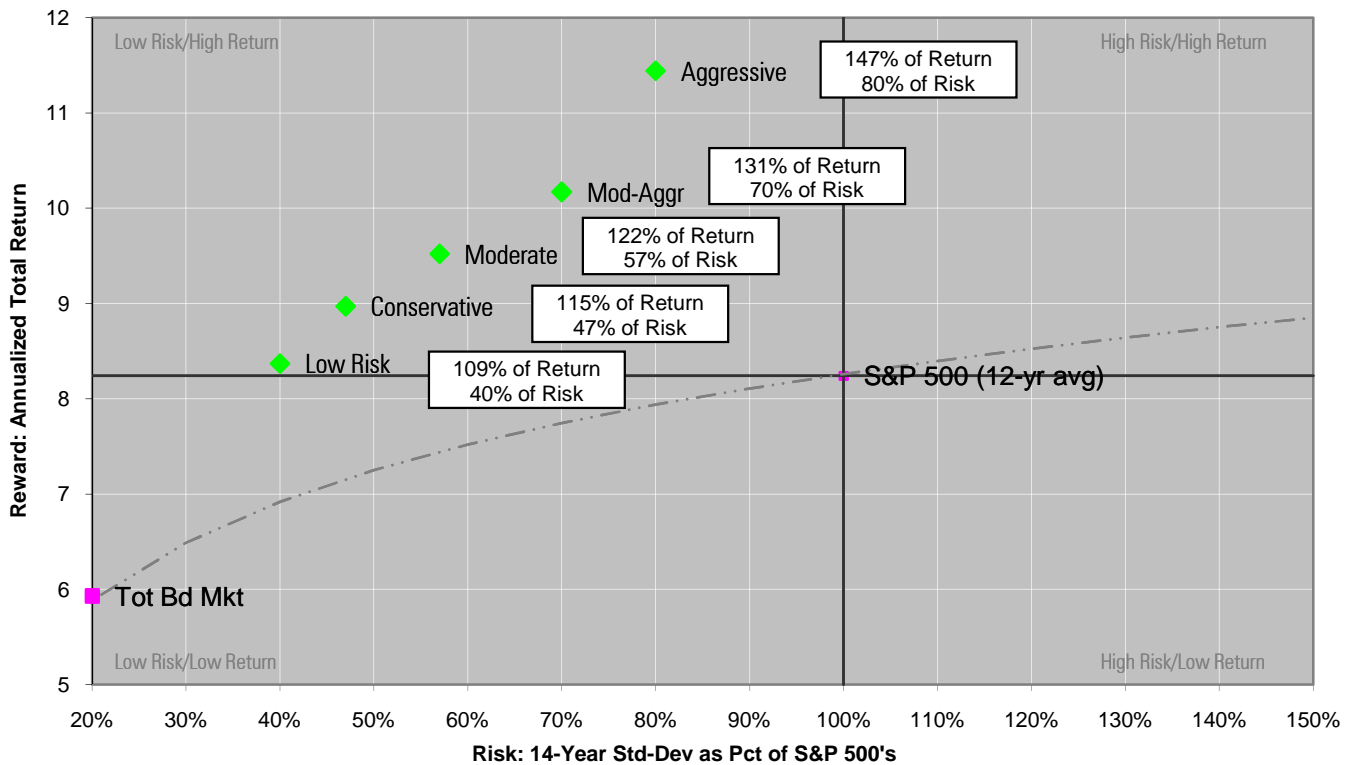


# Full Cycle Investing - Mod-Aggressive Portfolio

## Volatility of Model Monthly Returns vs S&P 500 1996-2008



## 12-Year Risk-Reward of Model Portfolio Vs S&P 500 and Total Bond Market



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- Trust Accounts
- IRA, SEP & 401(k) Accounts
- Business Retirement Plans
- Government / Not-for-Profit

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