

Financial Investment Advice and Services

Financial advice, investment advice, account types, 401(k) designs and general guidance on retirement transition, taxes, insurance, 529 plans and estate planning. Behavior coach during market corrections and bubbles. Setting up accounts and process money moves, RMD's and account transfers.

Financial Planning

"In a Schwab study of Americans over 50, those who created and maintained a financial plan achieved an average total net worth three times those who didn't." A written financial plan is a summary of your financials that will give you and your family peace of mind. Establish your financial goals and risk level. Review your wealth building plan on income, spending, savings and investments. Summary and evaluation of your investments. Financial Plans contain projections in the accumulation phase and income in the retirement distribution phase. Plans keep clients actively involved with their financial planning and motivate them to keep up with their plan actions. A plan will make you less likely to overreact to market volatility and increase one's confidence and effectiveness in managing your financials.

GOAL: Maximize your retirement investment portfolio. Generate enough retirement income from your investment portfolio to meet your spending needs and not run out of money. Meeting your goal will depend on your financial plan, contribution rate, investment strategy, investment performance, advisor fees and portfolio fees.

Portfolio Design and Management

Establish your investment strategies and investment vehicles. We use our newsletter the Focused Growth Investor as our investment strategy for portfolio management. Design, implement and manage your portfolios. Review your portfolios periodically for rebalancing, investments and performance to benchmark and make adjustments. Sell investments to free up cash for withdrawals and RMD distributions. Buy investments with new cash from contributions and rollovers. Process money moves.

Portfolios are monitored monthly and a full analysis is done quarterly. Portfolio Performance Analysis Reports are supplied to clients at year end and after the first half of the year. The reports contain market analysis, portfolio performance to benchmark, portfolio analysis, investments, asset allocation, cash movements and management fees. Philip Michalek invests his own personal money in the same strategy and investments as his clients.

Advisor performance after fee to benchmark (After Fee Alpha) is key to financial success. Good performance and low fees are important. Over 30 years a 1.0% difference in AFA could be \$250,000 on a \$1.5 million portfolio. AFA from 7 advisors we monitor adjusted for services from 2011 to 2018 were -2.9% to +0.8% (-0.8% average)

Investment Education

Education on the stock market, strategies and investments. Our newsletter the Focused Growth Investor is published monthly. It contains a market summary, market outlook, strategy, sector ratings and mutual fund and stock recommendations. We recommend educational material and books. An educated investor increases one's confidence and effectiveness in investing.

January 2020

5131 Standish Drive, Troy, Michigan 48085

248-890-4696 * www.fginvestor.com * info@fginvestor.com

See our website or brochure for our disclosure, fee schedule & privacy policy

Advisor Service List (Client Needs Analysis)

Below is a list of services we typically help our clients with.

Financial Advice and Services (As needed)

Once accounts are setup and running, clients call/email when they need something.

- Setup new accounts and close old accounts. Account type guidance. Joint, trust, IRA, SEP, SIMPLE IRA, Roth
- Account transfers – Consolidate other accounts into one account for each type of account
Help with 401(k) rollovers.
- 401(k) Plan evaluation, contributions, investments, portfolio designs
- Portfolio Strategy and Performance Analysis of other accounts
- Communication: I call clients at least every 6 months, emails at least quarterly and meetings every 3 years average
- Money moves in and out of accounts – Send checks and setup ACH links and transfers
- Annual RMD calculations and distributions
- Investment Idea Analysis – Stocks, company stock, mutual funds, bonds, muni-bonds, gold, real estate, bitcoin, pot
- Pension analysis, annuities, insurance, taxes, estate planning advice
- Where and when to invest my large cash reserve like CD's and bond funds
- Retirement Transition Planning – Retirement income and tax management, social security strategy optimization, investment portfolio risk level in retirement, required minimum distribution (RMD) strategy.
- Deceased Client Investments – Help split, title, transfer and close out accounts.

Financial Planning (Financial Summary Sheet annual, Basic Financial Plan, MGP)

Start with a financial plan to define goals. Update and meet when large changes and as requested.

A written financial plan is a summary of your financials that will give you and your family peace of mind.

- Establish your financial goals and risk level.
- Review your wealth building plan on income, spending, savings and investments.
- Summary and evaluation of your investments.
- Projections of your wealth accumulation to your retirement date.
- Projections of retirement income in retirement and worth at the end of the plan. Probability of success.
- Keep clients actively involved with their financial plan and motivate them to keep up with their plan actions.

Portfolio Design and Management (Portfolio Performance Analysis Report Q1, Q3)

Setup and manage accounts.

- Establish your investment strategies and investment vehicles.
- Design, implement and manage your portfolios.
- Review your portfolios periodically for rebalancing, investments and performance to benchmark and make adjustments.
- Sell investments to free up cash for withdrawals and RMD distributions. Process money moves.
- Buy investments with new cash from investments and rollovers. Process money moves.

Investment Education (FGI Newsletter sent monthly, Correction Alerts as needed)

Clients call and email when they need something. Stock alerts and market indicator changes sent.

- Focused Growth Investor Newsletter is a market summary, market outlook, strategy, sector ratings and mutual fund and stock recommendations.
- Education on the stock market, strategies and investments. Educational material and book recommendations.
- Behavior coach during market volatility, corrections and bubbles

About Us

PDM Investment Services is a Registered Investment Advisor acting as a fiduciary under ERISA code, putting client's interest first. Philip Michalek is the president and owner of PDM Investment Services. Mr. Michalek has a past career in engineering and engineering management with strong analytical skills. Mr. Michalek has acquired knowledge from studies in behavioral finance to help control emotions during market tops and bottoms. Mr. Michalek is dedicated to bringing analysis of the stock market to the average investor. Philip Michalek puts his personal money into his investment strategies. His motivation comes from his passion toward investing and helping others.

Mr. Michalek has been developing investment strategies and designing and managing personal and family portfolios since 2000. Mr. Michalek has been editor of the Focused Growth Investor Newsletter since 2004.

Philip Michalek is a self-taught investor reading over 50 investment books written by the designers of the most successful investment strategies, subscribing to the best investment newsletters and reading Barron's since 1994. Some of the most successful strategies over the past 100 years were developed by Benjamin Graham, Warren Buffett, Philip Fisher, Kenneth Fisher, Martin Zweig, Ned Davis, Peter Lynch, James Stack, William O'Neil and Donald Hays.

Philip Michalek is the Advisor, Analyst, Portfolio Manager, Trader, Newsletter Editor, Compliance Manager and Business Manager. Philip Michalek is engaged in PDM Investment Services full-time and is not involved in any other business activity. Neither the firm, nor Philip Michalek has a material relationship or arrangement with any issuer of securities.

Our primary focus is portfolio analysis, design and management, not a broad range of financial products. What makes us different is that we offer a customized solution based on your needs. Most advisors want to sell you their complete portfolio management product and other products you may not need. The products we sell are the products that we use with our personal portfolios and have worked well for us.

PDM Investment Services, LLC was formed in 2005. PDM Investment Services, LLC is a Registered Investment Advisor and has been registered with the State of Michigan since 2011. A Registered Investment Advisor is required to apply for registration with the Investment Adviser Registration Depository (IARD) and submit an ADV 1 and ADV 2 form.

Philip Michalek is an Investment Advisor Representative and has been registered with the State of Michigan since 2011. An Investment Advisor Representative is required to apply for registration through the Central Registration Depository (CRD) with a U4 Form and pass the Uniform Investment Advisor Law Exam (Series 65 Exam), or Series 66 Exam. The Series 65 Exam is regulated through the Financial Industry Regulatory Authority (FINRA). Firms with less than \$100 million of assets under management (AUM) are regulated and audited by the state. PDM is registered with the State of Michigan with an audit schedule of every 3 to 5 years. Our last audit was in 2015. Firms with more than \$100 million of AUM are regulated and audited by the SEC. According to an SEC study in 2015, SEC regulated firms were audited on average every 11 years.

Formal Education:

Bachelors' of Science in Electrical Engineering, University of Michigan Dearborn, 1981
Management II, Manager of Managers, University of Michigan, 1995, 1998
Finance for the Non-Financial Manager, University of Michigan, 2001

Business Background:

Jabil Circuit, Engineering Manager,
1988 to 2010



*President, Philip Michalek
Investment Advisor Representative*

Financial Advisor Value Proposition

If you answer NO to any of the following questions, it is likely a good financial advisor can add value.

- Do you feel you have the proper investment training?
Asset allocation, security selection, portfolio implementation and portfolio management.
- Do you have the proper investment tools?
Software for mutual fund and stock research, charting software, financial planning software and market forecasting services. Good software has better capabilities than free software.
- Will you make the time to keep up with the complex and changing investment environment?
- Are you putting in enough time to design, manage and monitor your portfolios?
- Are you measuring your portfolios performance each year against its benchmark?
The average investor underperforms the S&P 500 by 2.0% to 4.0% per year.
- Have the portfolios managed by you been outperforming their benchmarks?
- Do you sell at market tops when everyone else is buying and buy at market bottoms?
- Professional advice in the following areas will increase the probability of reaching your retirement goals.

Financial Investment Advice and Services
Financial Planning
Portfolio Design and Management
Investment Education

If an advisor can improve your portfolio performance annually over time by at least the management fee, then the portfolio is performing well. Trust & Confidence are very important.

We put our client's interest first, investing our client's money in the same investments we invest our personal money. Performance is monitored and verified by an independent party.

Why Work with Us?

- **We Put Our Client's Interests First**
PDM Investment Services is a Registered Investment Advisor with a fiduciary responsibility to put its client's interests first. We focus on problem solving, not sales. We act with skill, care, diligence and good professional judgment. We will not mislead you and avoid conflicts of interest. If you are not happy with your financial advisor due to poor performance, high fees, poor service or lack of trust, it is time to change advisors.
- **Customer Service & Integrity**
We strive to serve our clients with the highest standards of ethics, integrity and professionalism. We focus on your needs, offering different levels of service to meet individual needs and budget.
- **Independent Advice**
We are an independent firm, not linked financially with any bank, insurance company or brokerage firm. Since we are independent, we are not pressured into pushing high cost commission products like loaded mutual funds and annuities. Our income is derived from only portfolio management fees.
- **Investor Education**
We focus on educating our clients and our youth so they can make better investment decisions.
- **Open Architecture & Transparency**
Our open architecture allows us to purchase the best stocks and mutual funds, without limitations. Your investments are held with a discount broker as custodian for transparency and low cost.
- **Management Owns the Products Recommended to Clients**
President, Philip Michalek, invests his own personal money in our strategy along with our clients. We put our client's interest first, investing our client's money in the same investments we invest in our own portfolios. Performance is monitored and verified by an independent party.
- **Liquidity**
We do not invest in illiquid investments like limited partnerships, penny stocks and hedge funds.
- **Low Cost Structure**
We invest in low cost strategies using a discount broker as custodian, purchasing no-load mutual funds with low transaction fees and paying reasonable portfolio management fees.
- **Investment Strategy**
 1. Our Long-Term Market Indicator sets up the stock market exposure for our portfolios around there define base risk level. We attempt to reduce stock market exposure during periods of high risk and recessions and raise exposure during periods of low risk. We also use other top timing models to confirm our model signals.
 2. Our Strategic Asset Class & Sector Allocation Model sets up the percent of cash allocated to each asset class and sector in a portfolio.
 3. Our Mutual Fund Selection Model rates each active managed mutual fund and passive managed exchange traded fund. Portfolios are designed and managed using higher rated funds and market leaders.
- **Simple Portfolio Performance Reports**
You will receive simple portfolio performance analysis report that contains market analysis, portfolio performance & analysis, investments, asset allocation, cash movements and management fees. Our model portfolio performance is reported and verified annually by an independent party.
- **Different Product Levels to Meet Your Individual Needs and Budget**
Do-It-Yourself Investor Support. (Investor Education, Focused Growth Investor Newsletter)
Wealth Building Plans with Portfolio Management Services.
- **Advantages of Working with a Small RIA (NAAIM 2016)**
More satisfying experience, greater responsiveness, personal level of attention, work with founding manager, portfolio models for smaller accounts and client-centric service model.
- **We Manage the Portfolios We Recommend, Not Outsource Them**

Our Process

Gather Client Information

Define Goals & Risk Tolerance
Income, Spending, Saving, Investments, Debt
Account Statements

Financial Plan Development

Personal Information and Goals
Income, Spending, Saving, Investing and Debt
Investment Strategy
Expected Returns
Probability of Success

Risk Tolerance
Wealth Building Mechanics
Investment Summary and Action List
Investment Total Allocation Pie Chart
Investment Projection Table
Retirement Income Plan
Portfolio Allocation & Analysis

Portfolio Design & Implementation

Setup Brokerage Accounts
Portfolio Design, Allocation & Analysis
Portfolio Implementation

Portfolio Management

Active Portfolio Management
Portfolio Performance Analysis Reports
Investor Education
Focused Growth Investor Newsletter

Portfolio Performance Contributors

Total Stock Market

Alpha +0%

The largest contributor to a portfolio's performance is the total stock market, something you have no control over because of the many unpredictability variables that affect it. Your portfolio performance should be judged relative to the total stock market and the appropriate benchmark based on your risk level.

Some of the key variables that affect the market are a global crisis, the economy, inflation, interest rates, valuations, investor psychology, cycles & seasonality, earnings and the point in the market cycle.

Asset Allocation

Alpha +x%

Asset allocation is the percent of the portfolio in stocks, bonds, cash and the amount in each asset class.

Portfolios are designed with a diversified mix of asset classes and sectors based on your goals, risk tolerance and time horizon.

Our Tactical Asset Allocation, Asset Class and Sector Class rating systems help us select a strategic allocation for the economic and market conditions.

Security Selection

Alpha +x%

Security selection is the selection of each stock, mutual fund, bond, etc.

Stocks and mutual funds are selected based on fundamental, technical and valuation analysis. We look for stocks with consistent growth at a reasonable price.

Management & Structure

Alpha +x%

Portfolio management includes the items listed below. Portfolios are designed and managed employing sound management principles within a low-cost structure.

- Manager Skills
- Manager Ownership
- Efficient Implementation
- Timely Trade Execution
- Discipline
- Emotional Control
- Performance Feedback
- Independent RIA structure
- Open Architecture
- Fee-only structure
- Low management fees
- Low transaction fees

Portfolio Performance

Alpha is the percent the portfolio outperforms its benchmark. Since the Total Stock Market Index is the benchmark we used above, its alpha is +0%. The Total Stock Market is the largest contributor to your portfolio performance. All the factors listed in the columns affect a portfolio's performance relative to its benchmark each year. By incorporating strong asset allocation, good security selection, sound management and a solid structure you can increase the odds of outperforming the Total Stock Market by the sum of the alpha's in the columns. A consistent alpha above +2 each year is considered very good. You can manage your own portfolio and try to generate a positive alpha, buy the Total Stock Market Index and perform at the market or hire a good advisor and hope to generate a positive alpha.

For each good or bad investment decision, ask yourself how much did luck play and how much did skill play in the outcome? Your strategy will move in and out of favor. Skill is more repeatable than luck.

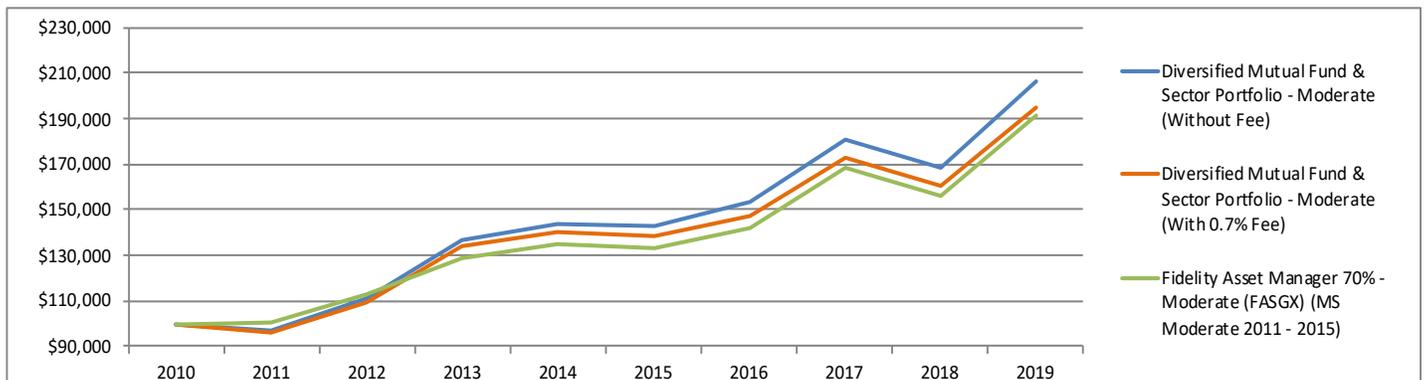
Performance

We use sound investment strategies that have been used for years by successful investors. Our strategy includes strategic asset allocation, sector class allocation, tactical asset allocation, security selection and a low-cost structure.

Diversified Mutual Fund & Sector Portfolio – Moderate

- The model portfolio produced an 8.4% annual return from 2011 thru 2019, 0.9% better per year than the 7.5% return of the Fidelity Asset Manager 70% Benchmark. (Last 9 years)
- The model portfolio produced an 7.6% annual return from 2015 thru 2019, 0.4% better per year than the 7.2% return of the Fidelity Asset Manager 70% Benchmark. (Last 5 years)
- The model portfolio produced an 10.5% annual return from 2016 thru 2019, 0.1% better per year than the 10.4% return of the Fidelity Asset Manager 70% Benchmark. (Last 3 years)
- 88% of the 9 years the portfolio outperformed at or close to its benchmark. (within 6% of bench gain)
- The worst performing year of the portfolio saw a -6.5% drop before fees compared to a -7.7% drop for its benchmark.

The performance calculation includes capital gains, dividends and custodial transaction fees (0.2%)
Performance is listed before portfolio management fees.



PDM PORTFOLIO ANNUALIZED RETURNS	2011	2012	2013	2014	2015	2016	2017	2018	2019	3 Year	5 Year	9 Year
Diversified Mutual Fund & Sector Portfolio - Moderate (Before Fee)	-3.0%	14.5%	22.8%	5.2%	-0.3%	7.0%	17.9%	-6.5%	22.4%	10.5%	7.6%	8.4%
Diversified Mutual Fund & Sector Portfolio - Moderate (After 0.7% Fee)	-3.7%	13.8%	22.1%	4.5%	-1.0%	6.3%	17.2%	-7.2%	21.7%	9.8%	6.9%	7.7%
Fidelity Asset Manager 70%-Moderate (FASGX) (MS Moderate 2011 - 2015)	0.6%	12.1%	14.3%	4.9%	-1.8%	7.1%	18.7%	-7.7%	22.8%	10.4%	7.2%	7.5%

PDM Diversified Mutual Fund & Sector Portfolio Model Performance. The model is a real cash account managed like portfolio management client portfolios. The model portfolio is moderate risk, large size and uses mostly active managed funds, sector funds and some individual stocks. No new cash is added to the portfolio or removed.

Performance calculations are updated annually and are verified by Alpha Performance Verification Services. The performance graph is updated monthly and verified annually. Brokerage transaction fees and dividends are included in performance calculations. Performance is calculated without our portfolio management fee and with our portfolio management fee of 0.7% annually for an average household portfolio of \$685,000 Assets Under Management (AUM). Portfolio management fees vary from 1.0% of \$100,000 AUM to 0.5% of \$1,500,000 AUM.

Past performance is no guarantee of future results. Market and economic conditions have the largest impact on a portfolio's performance. Strategies can go in and out of favor in different market environments. Some periods will see losses. Investment strategies evolved over the past and will continue to evolve in the future. Client investment results may vary from the model due to the timing of implementation, implementation transaction fees, portfolio size, risk profile and actual investments. For a copy of the Independent Verifier Reports, visit our website and click on the link on the home page. For details on calculations see our disclosure page. Our Diversified Mutual Fund & Sector Portfolio is an actual portfolio that does not receive or distribute cash.

Achieving goals based on a long-term plan is more important than maximizing returns. To participate in bull market gains, you must also endure the risk of corrections and bear markets. Without some risk, reward will likely be small.

Investment Strategy

Traditional Portfolio Asset Allocation Strategy

Typical asset allocation strategies invest mostly in Large Cap, International and Intermediate Term Corporate Bonds. Equity position and sector allocation positions stay consistent with their risk level thru the year.

PDM Investment Strategy

Our strategy has higher positions in Mid Cap, Small Cap, Technology, Financial, Healthcare, Asia and High Yield Bonds than traditional asset allocation strategies. We apply tactical asset allocation for risk management, strategic sector asset allocation through the year as conditions change and use mostly active managed funds. Our strategies perform best when more asset classes are outperforming the S&P 500, more sectors are outperforming the S&P 500, growth is outperforming value, small is outperforming large, high yield bond is outperforming intermediate term corporate bond and active is outperforming passive.

PDM Investment Services has a pro-investor structure. We are independent and have an open architecture. We are not pressured into pushing high cost investment products like loaded mutual funds and annuities. We do not have limitations on which stocks and mutual funds we can purchase. Your investments are held in your custodian account for transparency.

Our strategy is based on growth at a reasonable price for stocks. We seek out managers with sound investment strategies that consistently outperform the market without taking on additional risk. We use investment strategies that have been used for years by the most successful investors. We are always searching for the best investment research to enhance our strategies. We are always searching for the best fund managers, advisors and newsletters and read investment books looking for ways to enhance our strategy. From experience, it is our belief the best way to get rich is to use good time-tested investment strategies and stick with them.

We do not use risky strategies like derivatives, margin, options, shorting stocks, leverage and penny stocks. We only use strategies and invest in securities we would personally invest in for ourselves. PDM Investment Services practice a pro-investor structure offering independent advice, open architecture, transparency, liquidity and low-cost solutions. Client portfolio transactions and holdings are accessible to them thru their custodial account.

Thru our experience, we believe the total stock market, asset allocation, security selection, portfolio management and advisor structure all affect portfolio performance.

Our strategies employ low-cost custodians to keep transaction costs low and no-load mutual funds.

- Our tactical model sets up our stock, bond and cash allocation.
- The allocation model sets up our sector and asset allocation.
- Our stock and mutual fund rating systems tell us which stocks and mutual funds to invest in.

To create and manage a portfolio that outperforms its benchmark requires luck and skill. Luck is needed to overcome all the uncontrollable variables like the economy, world markets and company manager decisions. Skill comes from strategy, analysis, behavioral understanding and sticking with a solid investment plan.

We use the time-tested strategies listed below.

- Tactical Market Asset Allocation for Risk Management
- Strategic Asset Allocation, Strategic Sector Allocation, Concentrated Strategy, Growth Trends
- Security Selection, More Active Managed Investments
- Fundamental Analysis, Valuation Analysis, Technical Analysis
- Investor Psychology, Market Cycle Indicator, Cycle & Seasonality
- Low Cost Investments, Low Turnover, Management Ownership

PDM Investment Services does not in any way guarantee the portfolio from loss, nor guarantee any minimum investment performance for client portfolios. Investing in securities involves risk of loss that clients should be prepared to bear. PDM Investment Services shall be responsible only for the satisfactory performance of all duties expressly assumed. Past performance is no assurance of future results. All investments involve individual security risk and market risk. Recommendations and advice are given with the understanding that the client assumes all risks involved. Always consider investment objectives and risk before investing. Investing in individual stocks generally carries more risk than diversified mutual funds. It is not recommended to invest more than 3% of a portfolio into any individual stock.

Portfolio Management Strategy

We use a multi-strategy approach to add strategy diversification. Strategies come in and out of favor as market conditions change.

Tactical Market Asset Allocation for Risk Management

Our Long-Term Market Indicator sets up the stock market exposure for our portfolios around the define base risk level. We attempt to reduce stock market exposure during periods of high risk and recessions and raise exposure during periods of low risk. We also use other top timing models to confirm our model signals.

The model is based on inflation, interest rates, economic growth, earnings, technical, relative strength, sentiment, valuations, cycles & seasonality and global crisis.

Strategic Asset Class & Sector Allocation

Our Strategic Asset Class & Sector Allocation Model sets up the percent of cash allocated to each asset class and sector in a portfolio.

The model is based on fundamental, valuation, technical, relative strength and past performance.

Mutual Fund Selection

Our Mutual Fund Selection Model rates each active managed mutual fund and passive managed exchange traded fund.

Our portfolios have 2 to 5 funds in each asset class to add fund diversification. We overweight high relative strength leaders in each asset class in our portfolios.

The model is based on fundamental, valuation, technical, relative strength and past performance. Mutual fund analysis also includes Morningstar ratings,

Portfolio Management

Portfolios are setup based on tactical asset allocation, strategic asset class & sector allocation and mutual fund selection. Smaller portfolios use more passive exchange traded funds and are less diversified. Larger portfolios use more active managed funds and are more diversified.

Our Short-Term Market Indicator is used to help manage cash moving in and out of the portfolio and the sale and purchase of equities. The indicator is based on our short-term model, secular band indicator and top news indicator.

Investment Strategy Elements

Tactical Market Asset Allocation and Risk Management

Our Long-Term Market Indicator sets up the stock market exposure for our portfolios around the define base risk level. We attempt to reduce stock market exposure during periods of high risk and recessions and raise exposure during periods of low risk. We also use other top timing models to check against our model signals.

The model is based on inflation, interest rates, economic growth, earnings, technical, relative strength, sentiment, valuations, cycles & seasonality and global crisis.

Being in the market at the right time can help avoid bear markets and control risk. We do not try to time corrections because they are impossible to time consistently. Short-term timing can be costly due to transaction fees and taxes. The S&P 500 Total Return (PREIX) has seen negative return years 27% of the years from 2000 thru 2014. We only focus on timing major bear and bull markets, not corrections. We have seen 1 or 2 bear markets (20% or greater decline) each decade since the 1970's.

The indicator is used to signal the risk of a Recession Bear Market (> 20% prolonged losses, 2000, 2008), not Correction Bear Markets (>20% loss, 1987, 1998, 2011, 2016, 2018) and not Corrections (10% to 20% loss). A positive reading means an increased probability of positive stock market returns. A negative reading means a decreased probability of positive stock market returns. These indicators are not a forecast, but more of a probability of future returns. The indicator may not work in this post debt bubble environment.

The primary risk to portfolio performance with tactical allocation is you must be correct when to reduce equity exposure and correct when to increase equity exposure to see its benefit after transaction costs. It takes one type of brain to sell at the top and another type of brain to buy at the bottom, making this difficult to execute. Timing models that worked in the past, often do not work in the future. Very few mutual funds and investment newsletters rated by Morningstar and Timer Digest outperform the market using timing. Most Tactical Allocation funds do not outperform Moderate Asset Allocation funds. (GTAA, IASRX, PASDX) Leuthold Core Investment (LCORX) and Horizon Active Asset Allocation (AAANX) have performed well.

Tactical asset allocation is rarely successful because it takes a different mindset to buy at the bottom then it does to sell at the top. The strategy typically underperforms during bull markets and outperforms during bear markets. From experience, we believe very few indicators have predictive powers. Market timing systems have a way of breaking down if not constantly evaluated and adjusted for changing world economic and investment conditions. The low and negative interest rate environment we are seeing now could make bear markets more difficult to predict. The world continues to evolve as new investment methods and systems are added. A better strategy for most is to build a portfolio that you can live with through the market's ups and downs. Even if you had the holy grail of a timing system, you may not act properly on the sell and buy signals due to your emotions.

Strategic Asset Class & Sector Allocation

Our Strategic Asset Class & Sector Allocation Model sets up the percent of cash allocated to each asset class and sector in a portfolio.

The model is based on fundamental, valuation, technical, relative strength and past performance.

Asset allocation is a systematic way of diversifying a portfolio among different asset classes with varying correlations to each other. Asset allocation determines the mix of asset classes and sectors used to create a portfolio to meet its specified goals and risk level. The most common asset classes are large cap growth, large cap value, mid cap growth, mid cap value, small cap growth, small cap value, international, sectors, bonds and cash. Some sectors perform better in some parts of the economic cycle and worse in other parts. Diversification of non-correlated asset classes will help reduce volatility in a portfolio. Diversification is not a return-enhancement tool it is a risk-reduction tool.

Our portfolios invest in growth sectors like technology, healthcare, financial and Asia. Why invest in the S&P 500 and mutual funds that contain all sectors, including the slow growth ones. Our top-rated sector mutual funds and stocks are used for each sector. Sector mutual fund managers are more focused in each sector compared to one manager that knows a little about each sector in diversified funds.

The primary risk to portfolio performance is selecting the wrong asset class or sector at the wrong time.

Mutual Fund and Stock Selection

Our Mutual Fund Selection Model rates each active managed mutual fund and passive managed exchange traded fund.

The model is based on fundamental, valuation, technical, relative strength and past performance. Mutual fund analysis also includes Morningstar ratings, manager, strategy, expense ratio, risk, valuation and risk adjusted return. We overweight the high relative strength leaders in each asset class in our mutual fund portfolio.

The goal is to select the best investments in each asset class. We look for high performance (alpha), consistent performance, high-risk adjusted returns (sharp ratio) and a solid strategy in mutual funds, ETFs and stocks.

For individual stocks, we look for growth companies with strong and consistent revenue and earnings growth, an expanding or steady pretax profit margin and a return-on-equity that is steady or growing. Companies are purchased at a reasonable price and at a favorable reward-risk ratio.

The primary risk to portfolio performance is selecting a security that underperforms its expectations.

Low Cost Investments

We invest in no-load mutual funds and stocks using a discount broker as custodian.

Fundamental Analysis (What to buy)

Fundamental analysis is an approach that is primarily concerned with earnings, revenue and cash flow. This approach examines factors that try to determine expected future earnings of a company. Some of the key fundamental indicators to consider are consistent revenue and earnings growth, earnings surprises, earnings expectations, cash flow, valuation and a fundamental price target.

Valuation Analysis (When to Buy)

Value analysis involves investing in equities you believe are undervalued using the price-to-earnings ratio, price-to-book ratio and price-to-cash flow analysis.

Technical Analysis and Relative Strength (When to Buy)

Technical analysis is an approach that tries to predict the future direction of equities based on past price and volume changes. The assumption is that equities follow a pattern. Some of the key technical indicators are trend lines, moving averages, support and resistance lines and momentum oscillators. Trend lines show support and resistance for the stock price.

Investor Psychology

Investor psychology shows the mood of investors. Investor psychology can help determine stock market peaks and valleys. At market bottoms, investor psychology is at extreme low levels. At market tops, investor psychology is high. Some of the investor psychology indicators we use are the High/Low Logic Index, Investor Intelligence, Volatility, Insiders, Smart Money, Sentiment and the Overbought/Oversold Indicator.

Growth Trends

Getting in and out of an explosive growth trend can enhance your portfolio returns substantially. Identify new disruptive technologies and the dominant players to invest in as the growth trend takes off. Once the growth trend matures, exit the trend. Some of the most significant growth trends of the past were the personal computer, cell phone, internet, biotechnology, the mutual fund, hand held GPS and smart phones. How would you like to have invested in the market dominators in these industries when their prices were low? You could have bought Apple, Google, Amazon, Facebook, Microsoft, and Netflix just as they started their huge rise.

Market Cycle Indicator

Economic cycles follow similar patterns. Like John Templeton once said: "Bull markets are born from pessimism, grow on skepticism, mature on optimism and die on euphoria". In secular bull markets, cycles are longer and in secular bear markets they are shorter. They start with a Recovery, seeing a sharp increase in stock prices off the oversold recession bottom. Then comes the Transition Phase where the market consolidates. Next comes the Capital Goods Phase where the economy is growing strong. Then the cycle ends in Recession. It is common to see corrections during a cycle.

Active & Passive Managed Investments

We use mostly active managed funds that have a sound investment strategy, strong management, management tenure, a low expense ratio, smaller size, lower turnover, outperforms its benchmark over 60% of the years, have a good risk adjusted return and is at a reasonable valuation.

We use passive ETF's and index funds in some asset classes where it makes sense. It is very difficult to find active managers who consistently add value relative to its appropriate benchmark. Only about 20% of active funds outperform their passive benchmark funds each year and only 5% of these active outperform passive funds consistently each year. Active funds have higher costs but provide the opportunity to outperform their benchmark. Portfolios with passive ETF funds are easier to implement and manage than active fund portfolios.

Low turnover

Morningstar research suggests low turnover tends to outperform high-frequency trading strategies. Higher fees, transaction costs, taxes and poor judgment cause high-frequency trading strategies to suffer.

Concentrated Strategy

Morningstar research suggests strategies with less-than fifty stocks offer a greater chance of outperforming their benchmark. Over diversified strategies tend to perform at or below their benchmark.

Management Ownership

Morningstar research suggests strategies with high insider and manager ownership tend to outperform their benchmarks. Managers that believe in their strategy will invest their own money in the strategy.

Cycles and Seasonality

Our research suggests, there are distinct cycles that tend to affect the stock market. The market moves in long-term secular cycles creating and removing excess. The market cycle indicator is used to determine the stage of the economic cycle. The decade cycle shows the years within the decade the stock market tends to perform best. During the four-year election cycle, some years have better stock market performance than others. There are time periods like October through April that the stock market tends to outperform. Some months outperform other months during the year. A positive January often leads to a positive year.

Our Portfolio Models

The models below are guidelines for our portfolio design and management depending on portfolio size.

Portfolio Strategy Performance Variables

The more positive performance variables the better our portfolio performance.

Larger size portfolios are more diversified, more funds in each asset class (+)

Tactical asset allocation can help with risk management compared to a fixed allocation (+)

Strategic asset allocation compared to a fixed allocation. Growth/value, small/large, U.S./international (+)

Active managed funds performing better than passive (+)

Sectors funds in technology, financial, healthcare and Asia (+)

Some individual stocks (+)

Early year rebalancing cost and timing, cash additions or subtractions implemented in corrections or at market highs, one-time implementation costs for new portfolios. (+/-)

Large >\$300k Model

Tactical asset allocation, strategic asset allocation, active and passive managed funds (3-5 per asset class), sectors (20%, 4), some stocks (4 to 10). 40 to 60 Positions (Funds, ETF's and stocks)

Medium \$100k to \$200k Model

Tactical asset allocation, strategic asset allocation, active and passive managed funds (2-4 per asset class), sectors (20%, 4). 30 to 40 Positions (Funds and ETF's)

Small \$50k to \$75k Model

Tactical asset allocation, strategic asset allocation, active and passive managed funds (2-3 per asset class), sectors (20%, 4). 20 to 30 Positions (Funds and ETF's)

Very Small \$5k to \$40k Model

Fixed asset allocation, active and passive managed funds (1-3 per asset class). 15 to 20 Positions (Funds and ETF's)

Fixed asset allocation, passive managed funds (1-3 per asset class). 15 to 20 ETF's.

T. Rowe Price Retirement 20XX Fund and a few ETF's.