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Helping You Secure Your Future™

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Spring 2014 Newsletter:

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Is 70 the new 50? Yeah, make that 1950, buddy!

Aging gracefully, aging vibrantly, aging wonderfully. It seems to be all the rage in self help books, life coaching and the topic of many general interest articles over the last several years. Having a specific idea in mind, but not a title for this piece, I turned to Google to perform a few searches, based on a complete whimsy.

"70 is the new 40" returned 42,200 results.
"70 is the new 50" returned 173,000 results.
"70 is the new 60" returned 41,300 results.
"70 is the new 70" returned 131,000 results. Seriously?
"70 is the new 80" returned 16,100 results.

There appears to be quite a significant interest not only in the topic of longevity, but in maintaining or enhancing the quality of one's own life. And there certainly appears to be agreement that this is somewhat attainable, up to a point.

If, when we reach age 70, we could feel as we did at age 50, does this also mean that other aspects of our lives could also be similar? Might some of us be employed at the ripe old age of 70?

Readers of our past Newsletters may recall that we have written about the falling labor force participation rate overall. And we have steadfastly refused to be caught up in what we term "event level prediction", because of the inaccuracies and harm caused by attempting to play crystal ball guru.

But over the last number of months, in poring through statistics and numerous articles, we think we can confidently report the following trend:

The percentage of seventy year old (70+) persons employed full-time, seeking employment, employed part-time, employed seasonally or self-employed in any capacity, has been increasing and will continue to increase significantly, over the next ten to twenty years.

This stands in stark contrast to those who use demographic reasons to explain the fall-off in employment levels. "Oh, you know, it's just these baby boomers retiring. Thousands each day!" they proclaim. We respectfully respond true but irrelevant.

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The Bureau of Labor Statistics has published numbers that paint a different picture from what is generally reported in the conventional news media. Labor force participation among those in the youngest age group (16 to 24) has fallen from 66.1% in 1992 to 54.9% in 2012 and is projected to fall further, to 49.6% by 2022[1].

But compare this to the 70-74 age group. Their labor force participation rate went from 11.1% to 19.5% over the 1992-2012 period. And it is expected to increase further by 2022, to 24%.

We have traditionally viewed 65 as being normal retirement age. For all persons 65 and older, the participation rate is currently around 18.5% (2012), up from only 11.5% in 1992. The 2022 forecast is 23%. A doubling in one generation.

This differs markedly from predictions made by the BLS only back in 1999[2]. At that time, the projected labor force participation rate among persons 65 and older was expected to be 14.5% by 2015 and to actually decline slightly by 2025.

What really caught our eye was that the rate back in 1950 for this age group was 26.7%. We appear to be headed back up to near these levels, over the next decade. Instead, what has generally been reported in the news media is how so many baby boomers are retiring.

Is this trend good or bad? Well, like most things, especially in financial planning, the real answer is "it depends".

People either stay employed at an advanced age (would it be indelicate to refer to age 70 in this way?) or seek employment (or start a business) due to: choice, chance or out of necessity.

Necessity is perhaps the least desirable reason for seeking or maintaining employment at 70 and is almost certainly related to economic need. By contrast, when a person is able to withdraw from the labor force by choice, remain retired and continue with a similar standard of living, but perhaps with a higher quality of life, this represents one of the most desirable outcomes. But what of being able to work at a job or business that you love, while remaining in robust health? This should be no less desirable for the right person.

The wild card is "chance". Here we mean the occurrence of something opportunistic. Simply too good to pass up. Imagine you are offered a job to come out of retirement to work for a person you really admire. Would you consider it? Or how about a business opportunity that practically falls into your lap? Something you thought was previously unattainable, but now seems possible, if you take the chance.

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We think the future may be filled with many of these opportunities, once the current economic malaise lifts. True enough, it could still take years to happen, but pent up demand and animal spirits in the economy should come back at some point. Will you be ready? Or will it no longer matter to you?

We view <u>financial planning as comprising the tools and analysis that allows you real choice and freedom in your life</u>.

The way to avoid age 70 being a time of stress and trying to make ends meet, is to begin preparing for it early on.

Looking at the data from the opposite age demographic, we see that labor force participation among younger people has actually fallen and is expected to drop further over the next few years. The rate among those in the key 25-54 age demographic has slipped more than two percentage points from 1992 to 2012. Bad enough. But as we previously mentioned, the rate among the youngest age group (16-24), has really nosedived.

While some older folks may be retiring, we do not reasonably expect young people to do the same, correct?

The implication is that while more people aged 70 and above will be working or seeking work, a significant number of young adults will inevitably be late in getting their careers off the ground. This has huge implications. We do not think it means paradise lost for the young. But it does mean paradise delayed.

So are you only as old as you feel, or as young as your financial planning allows you to be?

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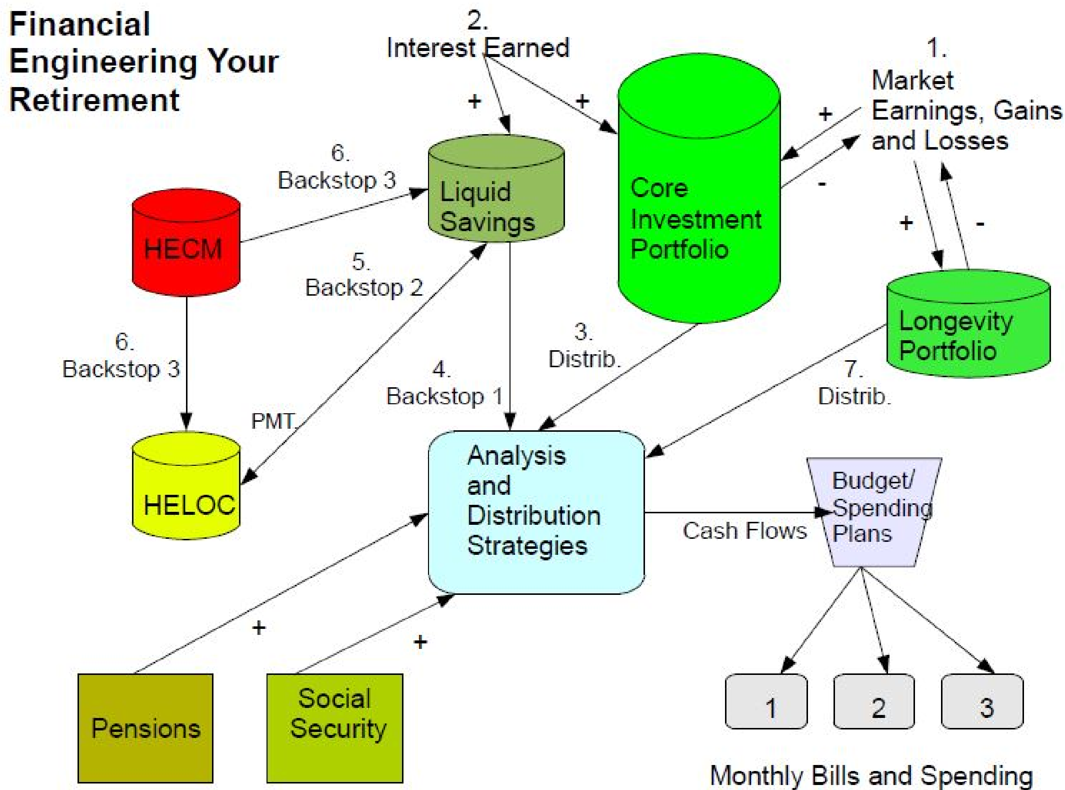
Financial Engineering Your Retirement

What image does the term "financial engineering" evoke? Is it repulsive to you? Do you associate it with the last financial crisis? ***Wikipedia*** describes it as follows: "Financial engineering draws on tools from applied mathematics, computer science, statistics and economic theory... It is sometimes restricted...to cover only those originating new financial products and strategies."[3]

Do you think you could financially engineer your own retirement? If so, what would it look like? Of course, we are not referring to the beachfront home, days on the golf course or planning your next Caribbean cruise adventure. Sorry, we did use that word "financial" before engineering.

But before you tune out completely, thinking that the following pages will be oh so technical and boring, please consider that you may already have most of the "parts" that make up the financial system that makes your retirement safer, wealthier, less stressful and hopefully, happier as a result.

Here we present the ***CastlingFP*** view of your retirement:



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We envision engineering in retirement planning as building an individualized system, made up mostly of low cost financial products, that together with practical knowledge and a whole lot of common sense, can avoid the high cost of certain other financial products, while managing to lower overall risk.

Some of the symbols in the diagram may be familiar. Pension payments and Social Security benefits, for example. Whether or not we have an actual budget, we probably have a clear picture of how we would like to spend our income. Cash flows become payments for monthly bills. Life goes on. No surprises here.

But in order to properly explain what the above diagram really means and how to make the most of it, we need to review our founding principle, ***Castling:***

The simultaneous use of two fundamentally different things, in such a way that you achieve a result that could not have been achieved using just the one or the other.

In the diagram, we are essentially using multiple components, two at a time. This may not be readily apparent, so we'll explain as we go along. In addition, we add a new hypothesis, which goes hand in hand with the above principle:

Over a sufficiently long enough period of time, the actual return of any diversified investment portfolio will match its expected return.

Does anyone disagree with this statement? If so, we would really like to hear your reasoning. Our hypothesis is somewhat vague. This is intentional and does not detract from its inherent meaning, just as when someone reassures you, “Don't worry. The sun will come out tomorrow”, they're probably not referring to the weather forecast.

First, any investment portfolio needs to be diversified, in order to minimize the possibility of large losses. For example, individual companies can go bankrupt. When this happens, their stock usually becomes worthless. The general approach to manage this potential risk is to invest in the stocks of many companies, across multiple industries. One or two of them going “poof”, does not weigh heavily on the sum total. Generalizing this concept to other asset classes means that when we hold bonds, we would hold various issuers and differing maturities. In real estate, this means various parcels in different locations, etc.

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The task may seem daunting or downright impossible for the average person to accomplish. But the solution has usually been to hold various kinds of mutual funds or exchange traded funds (ETFs). Each fund should solve the problem of holding a diversified portfolio of one or more asset classes. This set of funds becomes our Core Investment Portfolio (CIP). Of course, we can still add individual stocks or parcels of real estate to it, but the point of diversification should now be clear.

In our diagram, the CIP is represented by the large green cylinder. Size denotes relative dollar value. Its shape as a container, symbolizes that it is able to hold many things. Thus, the Core Investment Portfolio is vital to retirement. As a result, its management is crucial. If our retirement life were a chess board, it would be the king. Protecting it is the name of the game. But does that mean we would convert everything in it to cash and then stuff our mattress with the money, all in an attempt to safeguard it? No, absolutely not.

The arrows in our diagram represent cash flowing in and around our "financial engineered system". The plus (+) and minus (-) signs denote external flows coming in or going out. So for example, our Core Investment Portfolio:

- Receives interest payments on the bonds it holds.
- Receives dividend payments on the stocks it holds.
- Receives rental income or other types of payments on assets it holds.
- Realizes gains and losses as assets are sold, whether by us as direct owners or by the managers of the mutual funds who sell their specific holdings.
- Experiences unrealized gains and losses on assets which have not yet been sold, but which fluctuate in value on a daily basis.

What will the CIP's rate of return be in any given year? No one knows ahead of time. This is the very essence of risk. But we need to accept a certain amount of uncertainty, if we are going to have the future benefit of seeing the expected return. Investors are said to be compensated for the risks that they take, provided they first diversify away all the risks that can be diversified, such as by investing in the stocks of many companies.

The second dark green cylinder, drawn much smaller than the first, represents a second investment portfolio. It is distinct from the first and is geared toward very long term holdings. It may contain mostly (or exclusively) growth oriented investments. We have called it the: Longevity Portfolio (LP), to emphasize that it is meant to be held deep into retirement. As a result, what happens on a daily or even a yearly basis, in financial markets, should not concern us that much. Think in terms of a 20 or 30 year time horizon for this one.

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To be clear, this does not mean that the Longevity Portfolio holds all of the growth investments, so that the CIP would hold none of them. CIP should have a proper mix (i.e. asset allocation), so that its expected return matches the investor's required rate of return. You may be asking over what period of time? In this case, a "sufficiently long enough period of time" is no longer than the individual investor's time horizon/goal, either in their accumulation phase or their distribution phase.

When we discuss risk with a client, we identify the three dimensions of risk tolerance: the client's willingness to take risk, their ability to take risk and their need to take risk. The "sufficiently long period of time" may need to be adjusted downward when a client's risk tolerances demonstrate that a given situation is too stressful. For instance, a rough ten year period in the markets may be acceptable to a 30 year old, but cross a pain threshold for a 50 year old.

This brings us to the small, light green cylinder called Liquid Savings (LS). True to our ***Castling*** principle, Liquid Savings is not impacted by stock, bond, real estate or commodity market risk. Even deflation does not hurt it, since it makes every dollar worth a little more. LS earns variable interest, but currently, this is not much at all. Over time, the only real threat to it is inflation (which slowly erodes its purchasing power). As we pointed out in our Fall, 2013 Newsletter, ***Castling*** means we use Liquid Savings as a cushion (referred to as Backstop 1 in the diagram) when the Core Investment Portfolio's rate of return is less than expected (especially when it is negative). The exact amounts and timing depend on the facts and circumstances of each case. This is why we have a rectangular process box we refer to as: Analysis and Distribution Strategies (ADS).

Will this methodology always be sufficient? No, we cannot assume it will be. Therefore, let's extend ***Castling*** further and backstop the backstop.

We have usually recommended to clients to try and pay off the mortgage debt on their primary residence, coincidental to the beginning of their retirement. Of course, this does not always happen. We have previously explained how your primary residence is not really an investment, because you live there. It is not generating rental income. But your primary residence is still a store of value. This value can most easily be tapped through a home equity line of credit, represented by the HELOC symbol in our diagram.

Withdrawals from a HELOC can be used to backstop Liquid Savings, which may get depleted when we draw upon it, as a result of market downturns affecting our Core Investment Portfolio. This is depicted as Backstop 2.

In a rosy or even a normal scenario, our investments rebound soon enough and generate higher than expected returns. Some of this return can be considered as surplus and is

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used to rebuild Liquid Savings, as well as pay down or pay off the HELOC balance (with its associated interest). To highlight the sense of caution that taking on any debt should stir in the minds of the homeowners, we have used a bright yellow color for the HELOC symbol.

You may be thinking about what would happen in a worst case scenario? Do we have yet another backstop? The worst case envisioned by our financial engineering model is that the investment portfolio simply does not rebound fast enough. As a result, we would have grown the balance on our HELOC. Let's assume that we do not feel confident we will be able to pay it down or pay it off, in the next few years.

The method we have chosen to deal with this situation is to use a reverse mortgage, also known as a home equity conversion mortgage, or HECM, as depicted in our diagram. We colored it red to represent both extreme caution, as well as a "terminal state". By this we mean that the reverse mortgage lender will want to pay off the HELOC and become the superior and usually, the only debt secured by the property. The HECM only needs to be paid back after the last homeowner leaves, with no payments of any kind due during their lifetimes, while in residence.

Since the reverse mortgage pays off the HELOC and may still help rebuild Liquid Savings, we have added two arrows labeled Backstop 3.

We would never recommend that someone take on a reverse mortgage, without some considerable forethought and analysis. But let's remember one key concept from our model. The only reason we do this is to protect our Core Investment Portfolio. By contrast, many people who actually do get reverse mortgages find that they have no other good alternatives. They may only have the equity left in their home, along with Social Security benefits and their personal belongings.

Ideally, when the Core Investment Portfolio comes back strongly at some point, it may be feasible to use the surplus return to repay the HECM, including accumulated interest. However, this is not a requirement.

This is the first time we have discussed reverse mortgages. We will be covering them in further detail, in future issues of this Newsletter. Please stay tuned.

A few more words on the Longevity Portfolio. We have endowed it with the combination of both a very long time horizon, as well as with growth oriented investments. Please refer to the article below, where we add in a Roth IRA, creating an even greater opportunity.

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Our Financial Engineering Your Retirement model represents ***CastlingFP's*** view of the best practices to make your money last as long as you do.

What are the conventional alternatives to our approach? One of the most popular is to use insurance based products, such as annuities. Insurance products offer varying levels of certainty, but also introduce some uncertainties of their own. We think the most plain vanilla and lowest cost products from top rated carriers, typically represent the best deals. Unfortunately, many insurance based products are extremely complex and costly, each being wrapped in a contract. Furthermore, this complexity is not in your best interests, since it often thwarts direct consumer comparisons.

But we would like to hear what you think. Please contact us with your comments, questions and observations on this topic. How do you plan to engineer your retirement?

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A Match Made in Heaven? The Roth IRA and the Longevity Portfolio

We commonly hear cliches such as "opposites attract" or "a match made in heaven", when describing the qualities that make person or thing "A" go with person or thing "B".

In the previous article, we described how we use our concept called ***Castling***, to come up with a framework for engineering your financial life in retirement. More than just identifying opposites, we actively look for those things that benefit greatly when they are used in specific ways with certain other things.

We also introduced the concept of a Longevity Portfolio (LP). It is not very different from most any investment portfolio. However, it is built with a very long time horizon in mind, such as twenty years or longer. Holding on and not using it for this long, results in time horizon diversification.

As an example, consider small cap US stocks. This is a volatile asset class, which is considerably more risky than the stocks of large US companies. However, when we consulted the Morningstar SBBI Yearbook, looking at the annualized returns from a one asset class portfolio holding only small cap US stocks for a period of thirty (30) years, we find that in only two such periods, did the annualized return fall below +10%[4]. Both of these periods included the Great Depression. In none of the periods was the return negative or even close. Think about that for a moment. A single asset class portfolio (but still diversified within that asset class) getting essentially less risky, but over very long time periods.

Does anyone guarantee you that the annualized return will be positive and over 10%? No, not at all. But would you want to pay someone for this guarantee, given the overwhelming evidence of it happening on its own? Remember, a guarantee is certainly not free. In every instance we have seen one applied, whether for a physical product or a financial product, there have always been limitations and exclusions. In addition, who will backstop the guarantor, in case they run into problems years or decades in the future?

So let's do a simple thought experiment and assume we have a basic Longevity Portfolio as shown in the diagram from the previous article. We "seed" it with $10,000 and have a 30 year time horizon.

At a 10% compound annual return, the resulting sum thirty years hence would be a little under $175,000. Not bad, but what about taxes, inflation, blah, blah, blah, you may ask?

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OK, hold your horses. Let's increase the annualized return by a single, thin percentage point to 11%, compounded annually. Now we get almost $229,000 in the same thirty year span.

So one additional percentage point leads to over $50K more in our Longevity Portfolio. We will not repeat the supposed quote that Albert Einstein made, concerning compound interest. Instead, we invite you to find its true source[5].

Compound growth is great fun. But paying taxes? Not so much. So a tax advantaged account is a natural choice for a very long term portfolio. But in this case, simple tax deferral using a traditional IRA or company sponsored 401(k) plan, will still result in income taxes being due at ordinary income tax rates, somewhere down the line.

Alternatively, buying and holding an asset which grows over time but throws off little or no current income, held outside of an IRA, could look pretty good. Why? It would be taxed at long term capital gains tax rates that can be much lower than ordinary income tax rates, for most tax payers.

A better solution? The Roth IRA. And couple it with a growth oriented investment! A match made in heaven, since we leverage the strengths of these two fundamentally different things and use them in a way to get an even better result. This is exactly what we mean by the term ***Castling***.

Using a Roth IRA for the Longevity Portfolio offers several advantages. We can refer to the following as our “just say No” list:

1. No income taxes due on gains generated or income earned by the account in the current year (or future years), just like a traditional IRA.
2. No income taxes ever on “qualified distributions” from the Roth IRA. This basically requires that the account be open for at least five years from the year of the first contribution and that the distributions occur after age 59 ½ (or, for some other very limited reasons which are not relevant to this discussion).
3. No required minimum distributions after age 70 ½, as would be necessary from a traditional IRA. This may not seem like an important point, but it means that if the money is not needed immediately, you can allow it to grow for a very long time. This opens up the possibility for time horizon diversification, which lowers risk.
4. No expensive active money management, unless you really want it. You should already have a Core Investment Portfolio apart from the Longevity Portfolio. The latter could be invested in a single asset class or single growth oriented fund, such as small cap value stocks.

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5. No extra step of periodic re-balancing, if you maintain the single fund approach.
6. No need, or a reduced need, for insurance based products such as annuities, to provide for longevity concerns.
7. No touching the Longevity Portfolio during the beginning and middle stages of your retirement! This account is for old age and we mean it! Once you are close to starting distributions from it, the LP's risk profile needs to be adjusted to fit its new time horizon (which would then be short term).

One other benefit of the Longevity Portfolio is that if you wind up not using it much or at all, it becomes a great estate planning resource. Your beneficiary could have tax free distributions over their lifetimes.

CastlingFP believes that the concept of a Longevity Portfolio using a Roth IRA can be a fundamentally powerful, but extremely simple and inexpensive tool. So what's in your portfolio?

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Sell in May and Go Away? Or Swoon in June and Scream at the Moon? Try Our Defensive Portfolio if You Hate the Stock Market

As we write this in late May, we are approaching the end of Spring and we still have not seen the much anticipated stock market correction. Based on valuations at the end of 2013, we have previously mentioned in this Newsletter that the US market appears slightly overvalued and that we would not be surprised to see a 10% downward move at some point this year.

This has not happened, as yet. But we are not market timers and do not advocate that anyone become a timer (or consult with a timer, other than to ask him for the time).

So what do we mean? We simply continue to stress caution. To our various clients, we have made specific, written recommendations and a methodology for implementing them. This has been customized to the individual needs and circumstances of each client.

When the next correction occurs (it's not really a question of if), we need to be ready, but not to panic.

Some folks who are loathe to invest any money at all in the stock market, may be doing themselves more harm than good. The very low level of interest rates on savings products has essentially destroyed their means to generate safe, effective income. As a result, they may wind up digging into the very principal that they wanted to avoid losing, by skipping the stock market altogether.

This is the reason we created our Castling Defensive Portfolio (CDP). It is a free asset allocation of real investment products, which does not involve market timing. Each product is widely available without any commissions or sales charges, directly from Vanguard[6]. There is a total of only 31% of the value of this portfolio invested in the stock market. It is re-balanced annually, only once, at the end of each year. This is the lowest percentage allocation to equities that we could come up with, based upon our research, to attempt to achieve a 7.2% net, pretax annualized return. Annual re-balancing is one of the simplest and cost effective approaches to investing.

The biggest threat to the CDP? It does not come from the stock market. Actually, it's the persistent low level of interest rates that is making it difficult to reach the 7.2% objective, in recent years. But difficulty is relative. The mixture of asset classes in the CDP is meant to decrease risk and smooth out the returns experienced by very cautious investors.

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Does it eliminate all risk? No, it does not. But neither will any other investment portfolio.

For our late Spring update as of May 22nd, 2014, our CDP has had a very respectable year to date return of 3.84% (please refer to the accompanying table). By comparison, the Vanguard Index 500 fund (based upon the S&P 500 ® stock index) has returned 3.61% through the same time period.

Castling Defensive Portfolio (CDP) Comparison	2008	2009	2010	2011	2012	2013	2014 YTD
Castling Defensive Portfolio Yearly Returns	-6.15%	13.15%	10.05%	5.26%	7.48%	5.74%	3.84%
Back-Tested Cumulative Return Since 20000	82.33%	106.31%	127.03%	138.96%	156.84%	171.59%	182.01%
Hypothetical Growth of $10,000 Since 2000	$18,233	$20,631	$22,703	$23,896	$25,684	$27,159	$28,201
Annualized Return (2000-2014)					***7.53%***	***7.40%***	***7.16%***
Standard Deviation (2000-2014)					***4.99%***	***4.82%***	***4.74%***
Coefficient of Variation (2000-2014)					***0.66***	***0.65***	***0.66***
Wellesley Income (VWINX) Yearly Returns	-9.84%	16.02%	10.65%	9.63%	10.06%	9.19%	4.49%
Back-Tested Cumulative Return Since 20000	68.84%	95.89%	116.76%	137.63%	161.54%	185.57%	198.39%
Hypothetical Growth of $10,000 Since 2000	$16,884	$19,589	$21,676	$23,763	$26,154	$28,557	$29,839
Annualized Return (2000-2014)					**7.68%**	**7.78%**	**7.56%**
Standard Deviation (2000-2014)					***6.55%***	***6.30%***	***6.14%***
Coefficient of Variation (2000-2014)					***0.85***	***0.81***	***0.81***
Wellington (VWELX) Yearly Returns	-22.30%	22.20%	10.94%	3.85%	12.57%	19.66%	4.21%
Back-Tested Cumulative Return Since 20000	48.62%	81.61%	101.48%	109.23%	135.53%	181.84%	193.71%
Hypothetical Growth of $10,000 Since 2000	$14,862	$18,161	$20,148	$20,923	$23,553	$28,184	$29,371
Annualized Return (2000-2014)					**6.81%**	**7.68%**	**7.45%**
Standard Deviation (2000-2014)					***11.65%***	***11.65%***	***11.28%***
Coefficient of Variation (2000-2014)					***1.71***	***1.52***	***1.51***
Vanguard 500 Index (VFINX) Yearly Returns	-37.02%	26.49%	14.91%	1.97%	15.82%	32.18%	3.61%
Back-Tested Cumulative Return Since 20000	-28.72%	-9.84%	3.60%	5.64%	22.36%	61.73%	67.57%
Hypothetical Growth of $10,000 Since 2000	$7,128	$9,016	$10,360	$10,564	$12,236	$16,173	$16,757
Annualized Return (2000-2014)					**1.56%**	**3.49%**	**3.50%**
Standard Deviation (2000-2014)					***19.02%***	***19.83%***	***19.11%***
Coefficient of Variation (2000-2014)					***12.16***	***5.68***	***5.46***

You may recall that in 2013, this large cap index trounced our meek and humble portfolio. But we couldn't care less. And neither should you.

In 2008, the same index fund lost 37%, while our CDP barely lost 6%. While it was still a loss, the CDP has had only one (back tested) losing year (2008) in the whole 2000-2014 period. By contrast, Index 500 has had four, including two real humdingers (2002 and 2008). This is not meant to be negative on Index 500. Just showing some comparisons.

But we do stress this one key point: Know Thyself.

What is your required rate of return? This is the average, annual total return you need, given your unique situation, which would result in you achieving your goal. We call this your ***Need to Take Risk***. Add to this, your ***Willingness to Take Risk*** and your ***Ability to***

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Take Risk and we have your unique risk profile. Achieving any goal essentially becomes a matter of balancing all three of these out. That is why we refer to them as your ***Three Dimensions of Risk Tolerance***.

You may have noticed that we are spending a lot of time talking about the individual investor and not solely about what's happening in the market. This is not by accident. We cannot predict what will happen in the next day, month or even year. No one can. But the longer the time period, the greater the accuracy. Time horizon diversification only works if the investor remains invested. Selling out due to a panic, correction, or simply based on the calendar, can actually work against you.

A trader may have the mentality to "Sell in May and go away". Should you? We definitely don't think so, if you consider yourself to be a real investor. But what should the extremely risk averse investor do? Study risk, risk and more risk. Instead, what do many people actually wind up doing? Chasing after return, return and more return!

Risk is the chance that you will not get that which you expected. There are various degrees of ever worse outcomes. Quantitatively, which is the way ***CastlingFP*** likes to think of risk, we calculate a measure that tells us how much volatility per unit of return each investment or portfolio has exhibited in the past. This is shown by Coefficient of Variation (CoV) in the table. The lower the better.

Even while returns have varied greatly over different time periods, there is a remarkable amount of similarity and consistency in this volatility per unit of return measure. Risky investments or portfolios almost always show a value much greater than 1 for CoV, over various time frames. Solid investments, such as the Wellington Fund, have exhibited lower values consistently, but still greater than 1. Very conservative investments, such as the Wellesley Income Fund have demonstrated CoV's less than 1. The Castling Defensive Portfolio has shown CoV values well below 1, with the latest reading at 0.66.

Know thyself. When the inevitable financial storms hit, do you have the confidence to stay the course and not abandon your investment plans? If your willingness will be sorely tested, perhaps you need to dial down your risk level now. This is not the same thing as selling out completely and is the reason for our carefully selected CDP.

Not interested in doing all the detailed work yourself? Please give us a call and let us show you how fee-only financial planning can be accomplished using an affordable, hourly approach.

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	The Castling Defensive Portfolio:	Ticker	% Allocation	Expenses	Equity %	Weighted Exp.	Min. Invest.	Initial Min.	2014 YTD	Contribution
1	FDIC Insured Certificates of Deposit (Avg. of High Yielding)	Bank CD's	9%	0.00%	0%	0.000%	Varies	$6,750	0.33%	0.03%
2	Vanguard Short-Term Treasury Investor Shares	VFISX	9%	0.20%	0%	0.018%	$3,000	$6,750	0.49%	0.04%
3	Vanguard Short-Term Investment-Grade Investor Shares	VFSTX	9%	0.20%	0%	0.018%	$3,000	$6,750	1.55%	0.14%
4	Vanguard Intermediate-Term Treasury Investor Shares	VFITX	12%	0.20%	0%	0.024%	$3,000	$9,000	2.69%	0.32%
5	Vanguard Inflation-Protected Securities Investor Shares	VIPSX	12%	0.20%	0%	0.024%	$3,000	$9,000	4.92%	0.59%
6	Vanguard GNMA Investor Shares	VFIIX	11%	0.21%	0%	0.023%	$3,000	$8,250	3.80%	0.42%
7	Vanguard Wellesley Income Investor Shares	VWINX	11%	0.25%	4%	0.028%	$3,000	$8,250	4.49%	0.49%
8	Vanguard Small Capitalization Value Index Investor Shares	VISVX	15%	0.24%	15%	0.036%	$3,000	$11,250	2.85%	0.43%
9	Vanguard REIT Index Investor Shares	VGSIX	8%	0.24%	8%	0.019%	$3,000	$6,000	15.38%	1.23%
10	Vanguard Total International Stock Index	VGTSX	4%	0.22%	4%	0.009%	$3,000	$3,000	3.53%	0.14%
	Totals		**100%**		**31%**	**0.20%**		**$75,000**		**3.84%**

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1. "Civilian labor force participation rates by age, sex, race, and ethnicity", **Bureau of Labor Statistics**. The relevant data can be access online via the following link: http://www.bls.gov/emp/ep_table_303.htm

2. "Labor force participation: 75 years of change, 1950–98 and 1998–2025", Monthly Labor Review, December, 1999, page 4, **Bureau of Labor Statistics**. The article can be access online via the following link: http://www.bls.gov/opub/mlr/1999/12/art1full.pdf

3. Financial engineering, **Wikipedia.** The article can be access online via the following link: http://en.wikipedia.org/wiki/Financial_engineering

4. 2013 Ibbotson Stocks, Bonds, Bills and Inflation (SBBI) Classic Yearbook, published by Morningstar, 2013, pp. 250-255. No chart, table, graph, data series or datum have been republished in the making of this Newsletter. All calculations performed within this newsletter are the responsibility of ***Castling Financial Planning, Ltd.*** The SBBI is a great source of data and historical market perspective for the investment professional, as well as the serious investor. The Morningstar Website can be reached at the following link: http://www.morningstar.com

5. Did Albert Einstein really make this comment? The Snopes Website casts doubt on the claim. Even if he never said it, compound interest (really compound growth of any sort) is still a really great concept. So why, if it is so widely known, is it so poorly practiced? The Snopes article can be accessed via this link: http://www.snopes.com/quotes/einstein/interest.asp

6. Information about all Vanguard funds, including their performance, was obtained through the **Vanguard Financial Advisor Website**. This same information is available to investors at: https://personal.vanguard.com/.

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