

Financial Intelligence

Produced Exclusively for Members of the
Senior Executives Association

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- Registered Investment Advisor
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- SEA Member Benefit Provider Since 1999
- Federal Times' "Money Matters" Columnist
- Founder / Instructor Federal Retirement University
- "Ask the Experts" Panelist at www.federaltimes.com

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Variplan Article Database



The image shows a screenshot of the Variplan website's navigation menu. The background is dark blue with a large, faint 'VP' logo. On the left, the Variplan logo is displayed in white, consisting of a stylized 'VP' above the word 'VARIPLAN' and the tagline 'Advanced Retirement Planning and Management' below it. On the right, a vertical list of navigation links is shown, each preceded by a small yellow square icon. The links are: 'WHO WE ARE', 'WHAT WE DO', 'HOW WE DO IT', 'OUR CLIENTS', 'CONTACT US', and 'ARCHIVE'. The 'ARCHIVE' link is circled in red. At the bottom right of the navigation area, there is a yellow box containing the text 'CLIENT RESOURCES'. At the bottom of the page, there are two columns of logos and text. The left column features the CFP® logo, the text 'CERTIFIED FINANCIAL PLANNER', and a paragraph of text: 'Certified Financial Planner Board of Standards Inc. owns the certification marks CFP®, CERTIFIED FINANCIAL PLANNER™ and CFP® in the U.S.'. The right column features the PALADIN logo, the text 'SERVICES', and five stars with the text 'AIAA OCB' below them.

VP
VARIPLAN
Advanced Retirement Planning and Management

- WHO WE ARE
- WHAT WE DO
- HOW WE DO IT
- OUR CLIENTS
- CONTACT US
- ARCHIVE

CLIENT RESOURCES

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PALADIN
SERVICES
★★★★★ AIAA OCB

Federal Money Matters Blog
<http://money.federaltimes.com>

Federal Retirement University
www.federaltimes.com/retirement

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How to Submit Your Questions

How to Submit Your Questions

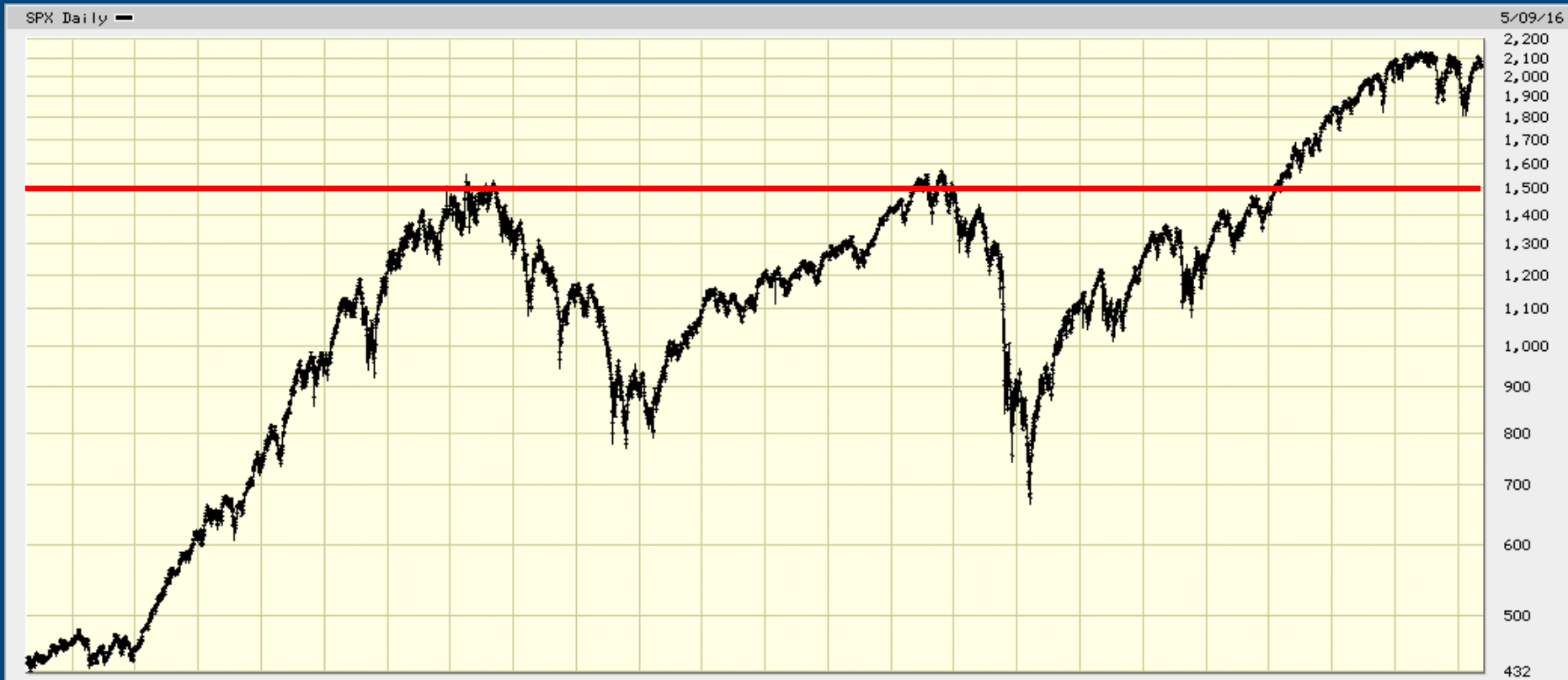
Market Review – Stocks (6 months)



Market Review – Stocks (5 Years)



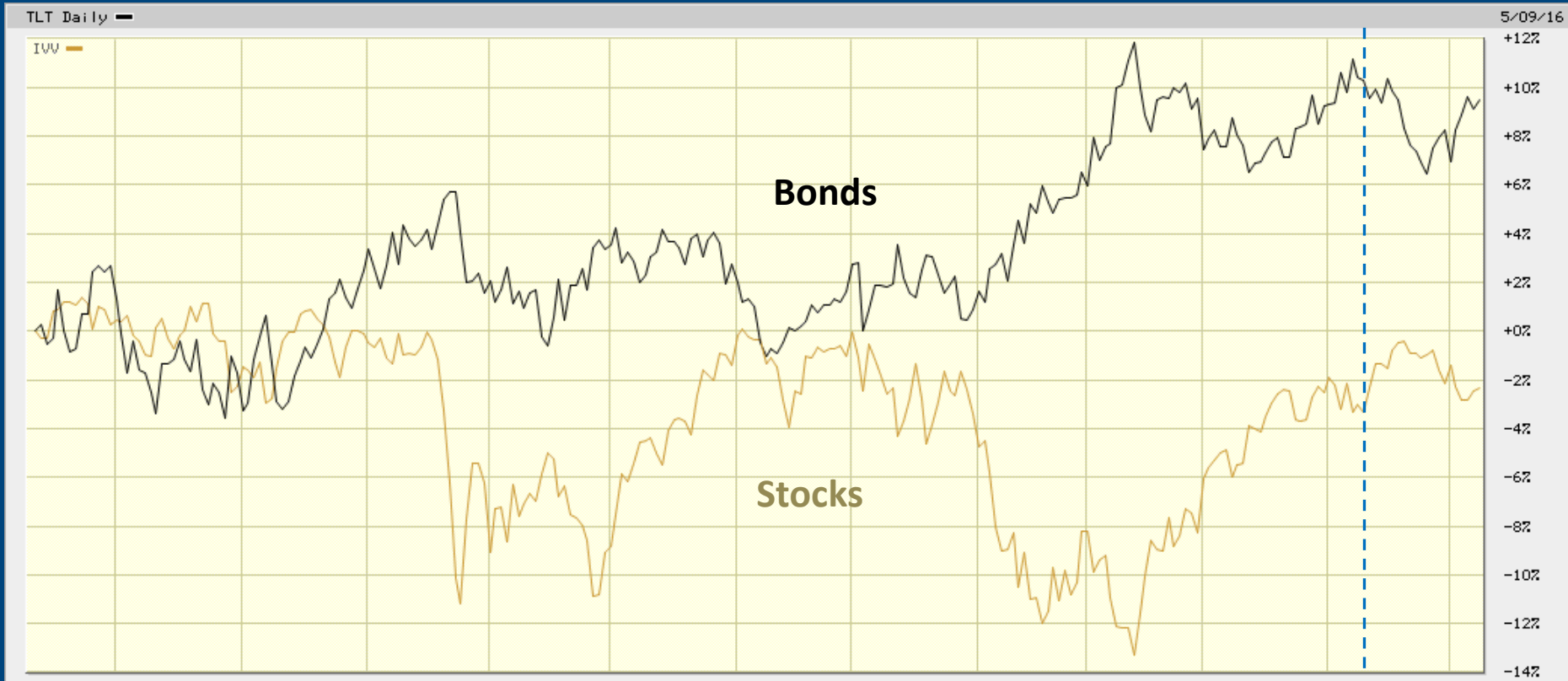
Market Review – Stocks (20 Years)



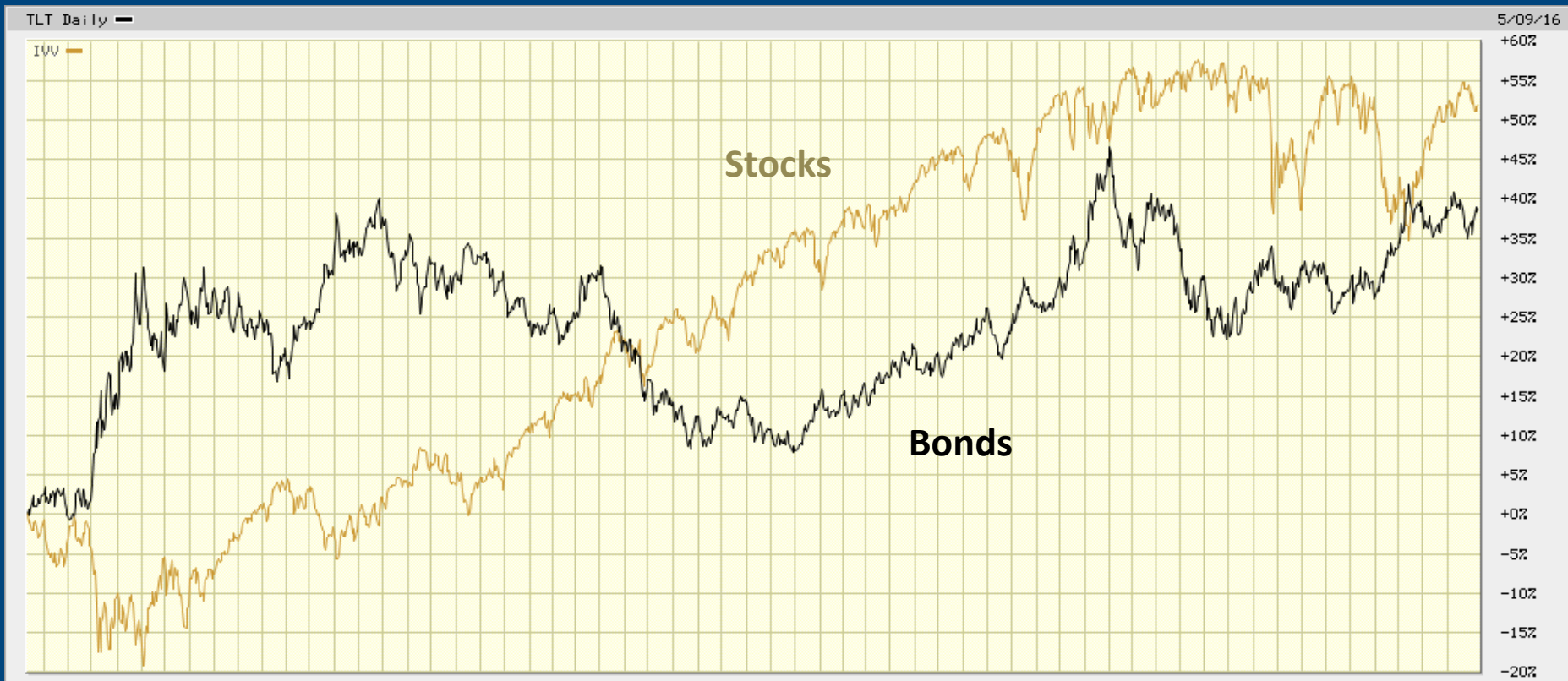
Market Review - Interest Rates (20 Years)



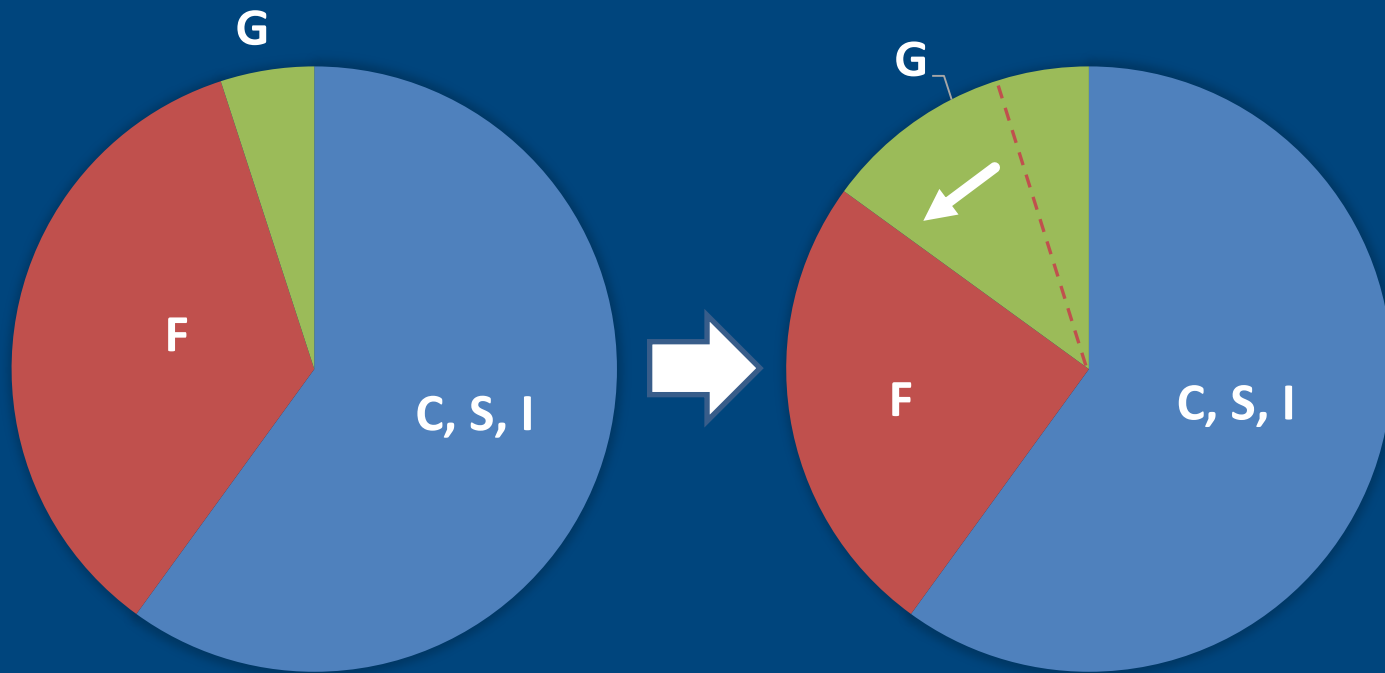
Market Review – Stocks vs. Bonds (1 Year)



Market Review – Stocks vs. Bonds (5 Years)



Tactical Recommendation



Understanding Investment Risk and Return

The Retirement Planning and Management Process



Investment Return

Investment return is the change in value that an investment produces in exchange for taking risk.

This is referred to as “Total Return”.

Total Return may consists of one or both of two components:

1. Yield
2. Change in Value

Investment Return

Total Return can be expressed as a dollar value or as a percentage of the amount invested.

Total Return in Dollars:

$$\text{Value}_E + \text{Yield} - \text{Value}_B$$

Investment Return

Total Return in Dollars:

$$\$1,150 + \$50 - \$1,000 = \$200$$

Investment Return

Total Return as a Percentage:

$$\frac{\text{Value}_E + \text{Yield} - \text{Value}_B}{\text{Invested Amount}} \times 100$$

Investment Return

Total Return as a Percentage:

$$\frac{\$200}{\$1,000} \times 100 = 20\%$$

Investment return can be expressed as either:

1. Periodic
2. Average

Investment Return

A periodic return is the return generated during a specified period – one year, for example

Investment Return

Periodic returns are expressed as a series, with a value for each period

Investment Return

Periodic Returns for the C Fund (%)

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Total Return	4.96	15.79	5.54	(36.99)	26.68	15.06	2.11	16.07	32.45	13.78

Investment Return

The average of returns, or average return, is a single value calculated to represent a group, or sequence, of periodic returns

While there a variety of ways to compute an “average”, the most commonly used are:

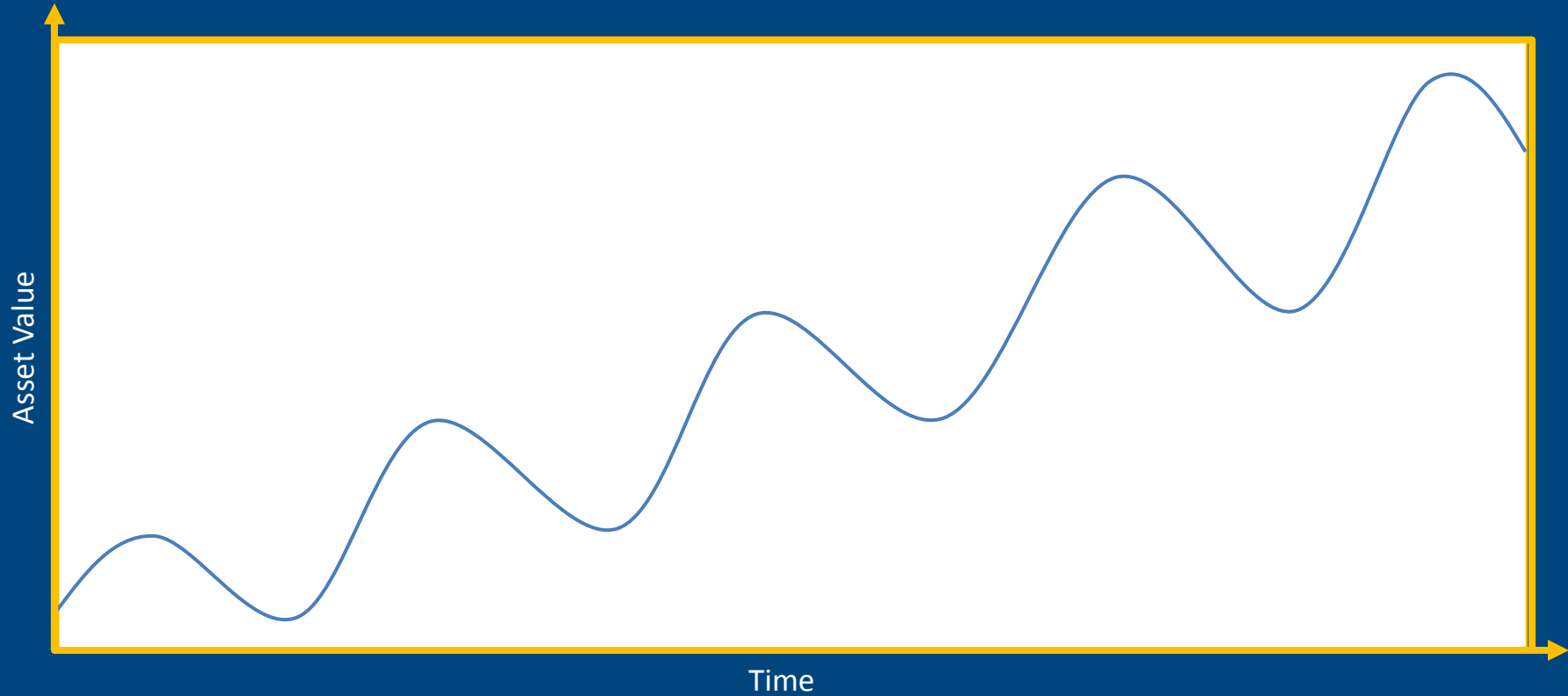
- Mean
- Compound
- Median

Investment Return

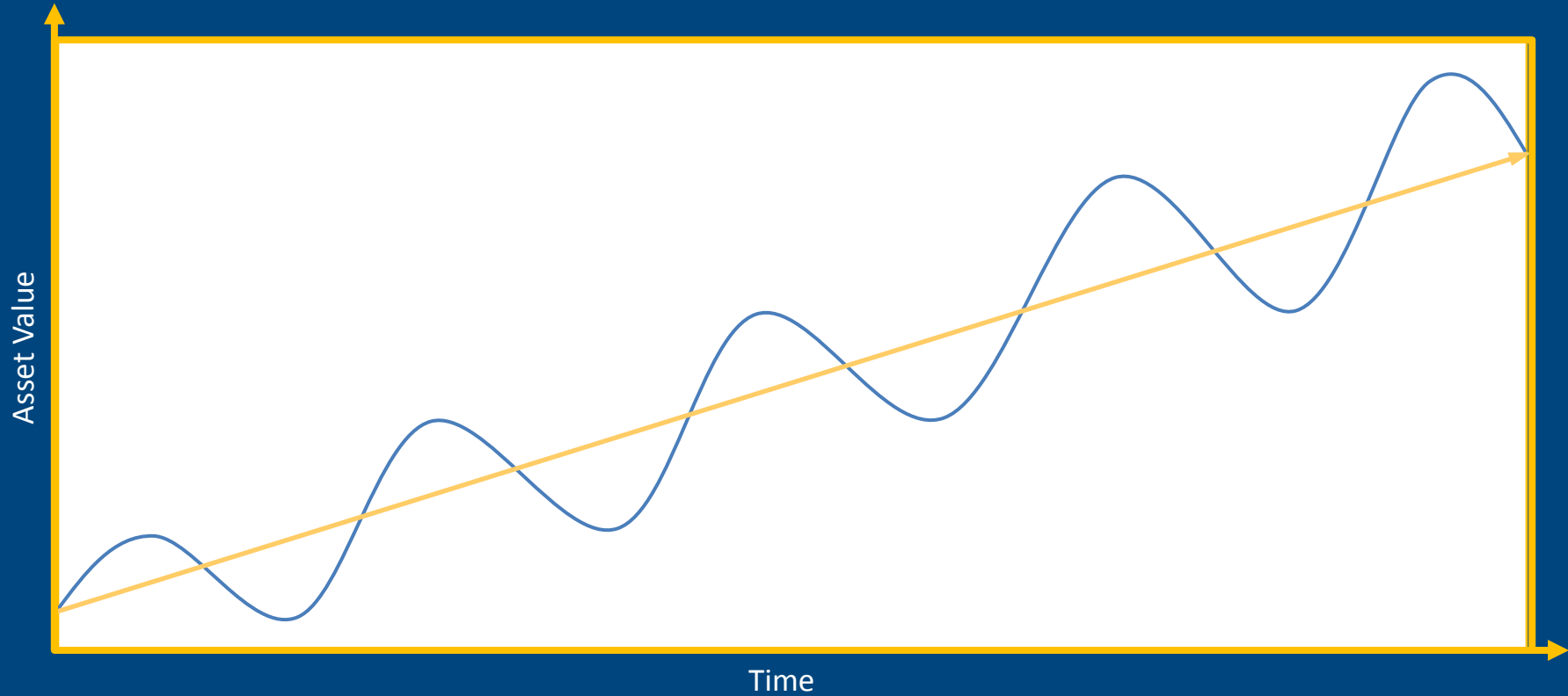
Returns for the C Fund (%)

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Total Return	4.96	15.79	5.54	(36.99)	26.68	15.06	2.11	16.07	32.45	13.78
Mean	9.55									
Com-pound	7.72									
Median	14.42									

Investment Return



Investment Return



Investment Risk

Investment risk is the possibility that an investment will produce a return that is different from the expected return.

Investment risk applies to both:

- Average Rate of Return
- Periodic Returns

Risk is usually expressed as Standard Deviation.

Investment Risk

Returns for the C Fund (%)

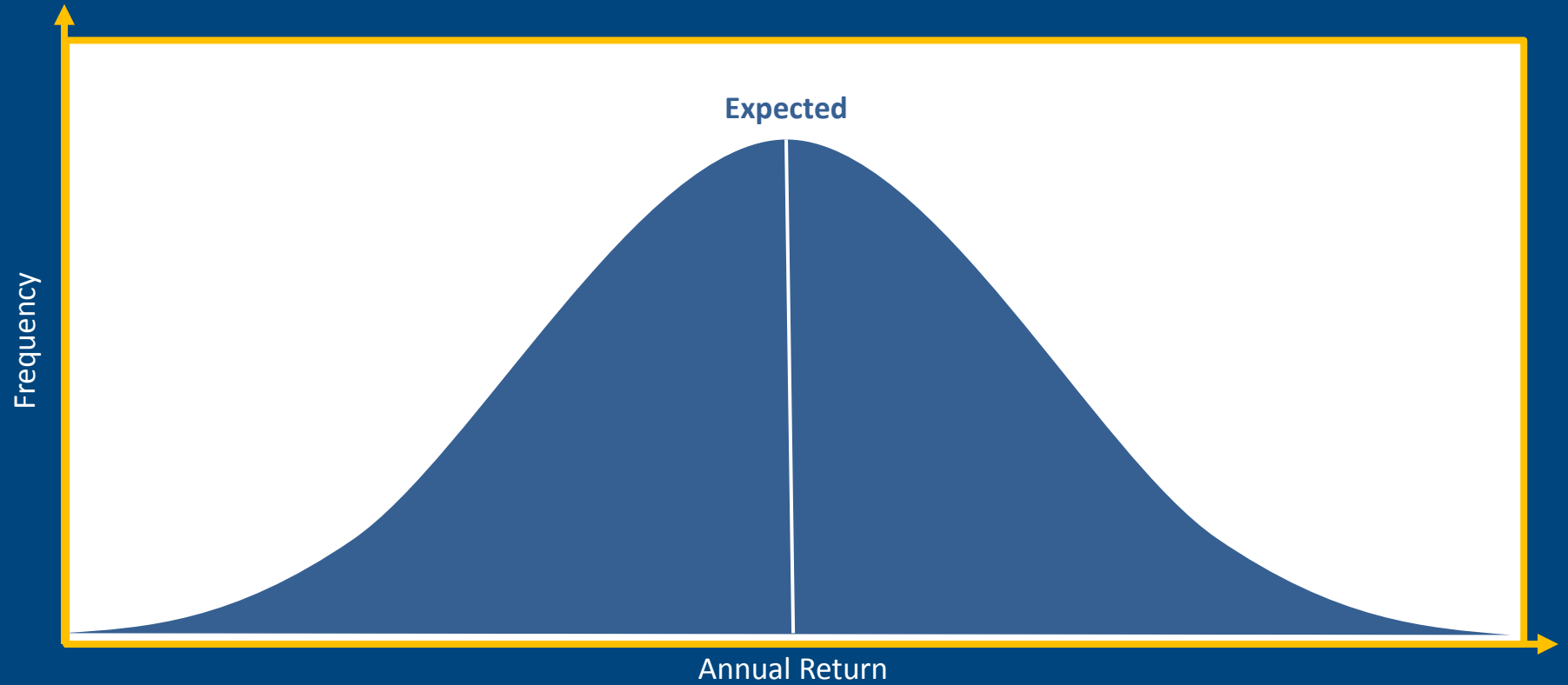
Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Total Return	4.96	15.79	5.54	(36.99)	26.68	15.06	2.11	16.07	32.45	13.78
Mean	9.55									
Compound	7.72									
Median	14.42									
Standard Deviation	18.87									

C Fund Based on History Since 1926

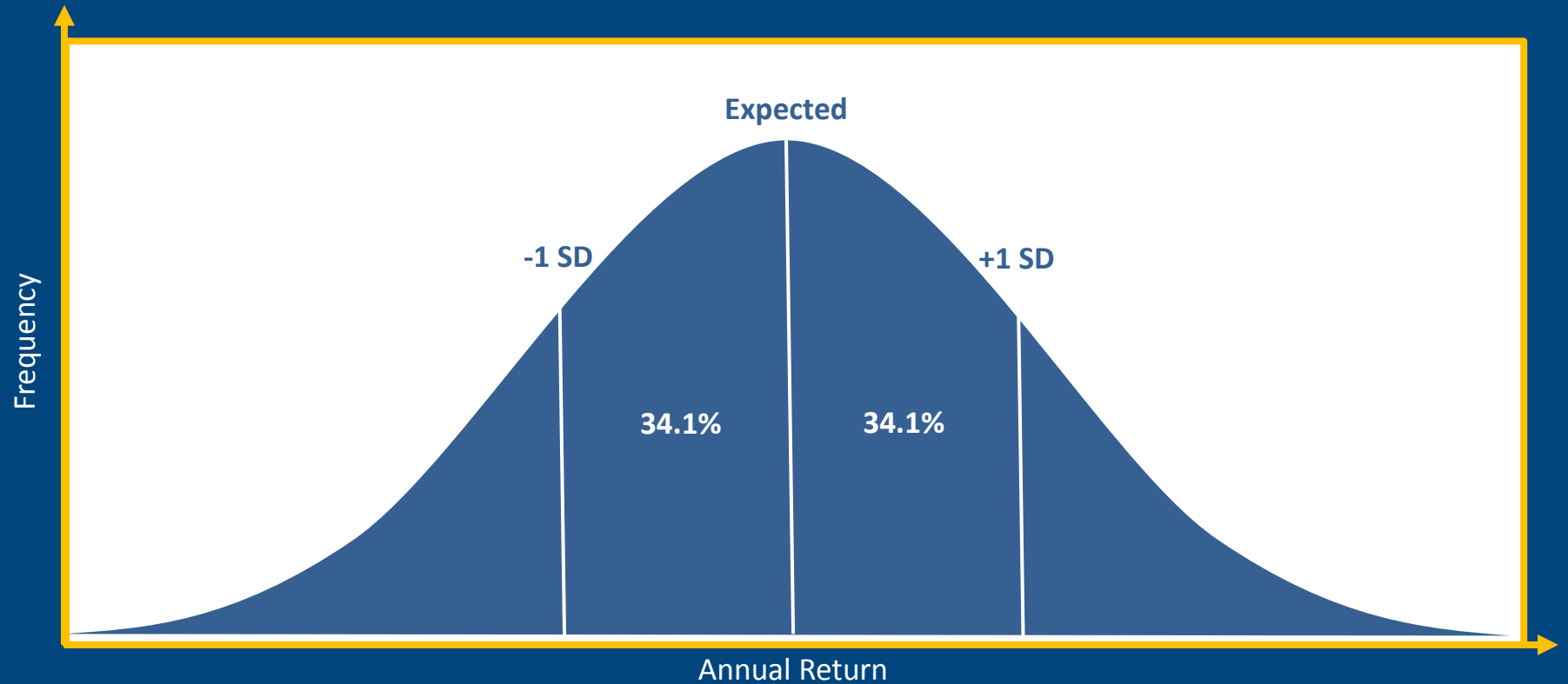
Expected (Median) Annual Return: 12%

Standard Deviation: 19%

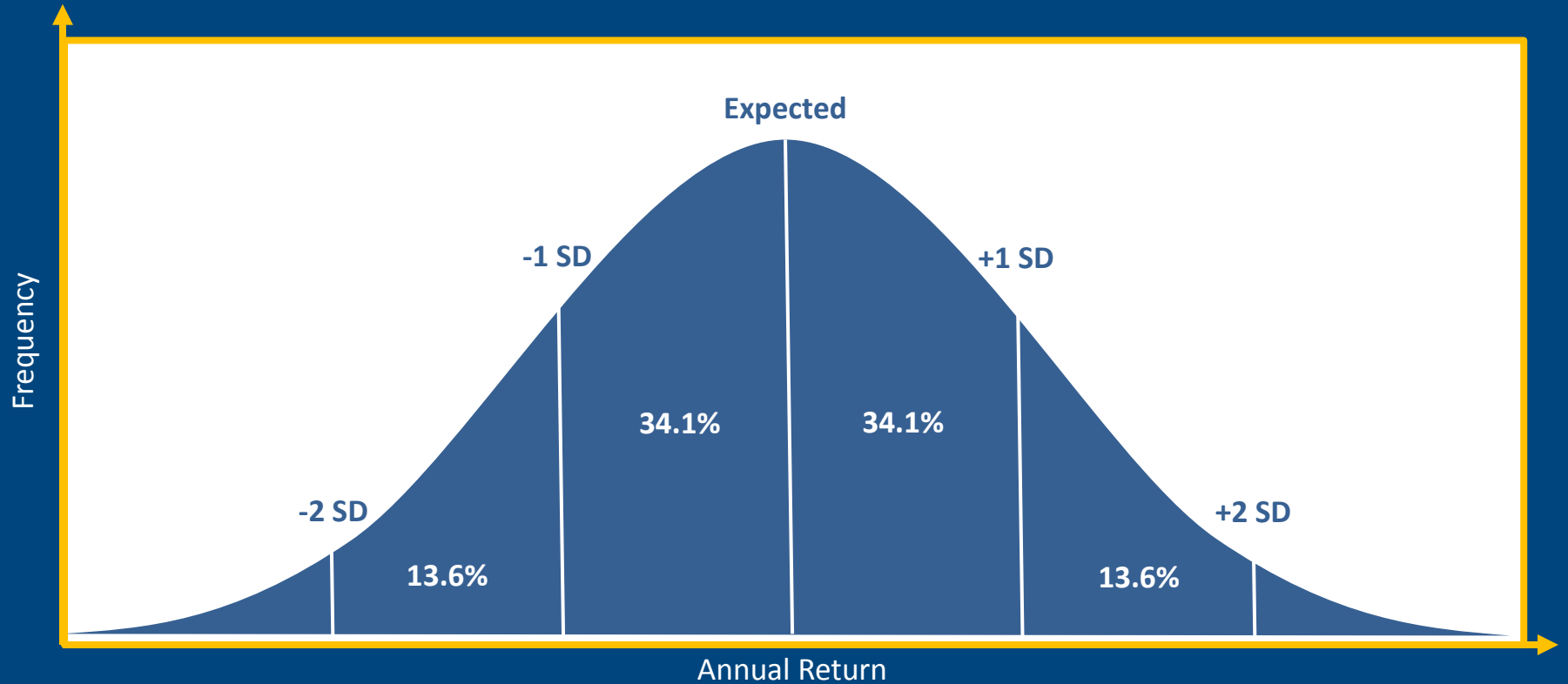
Standard Deviation



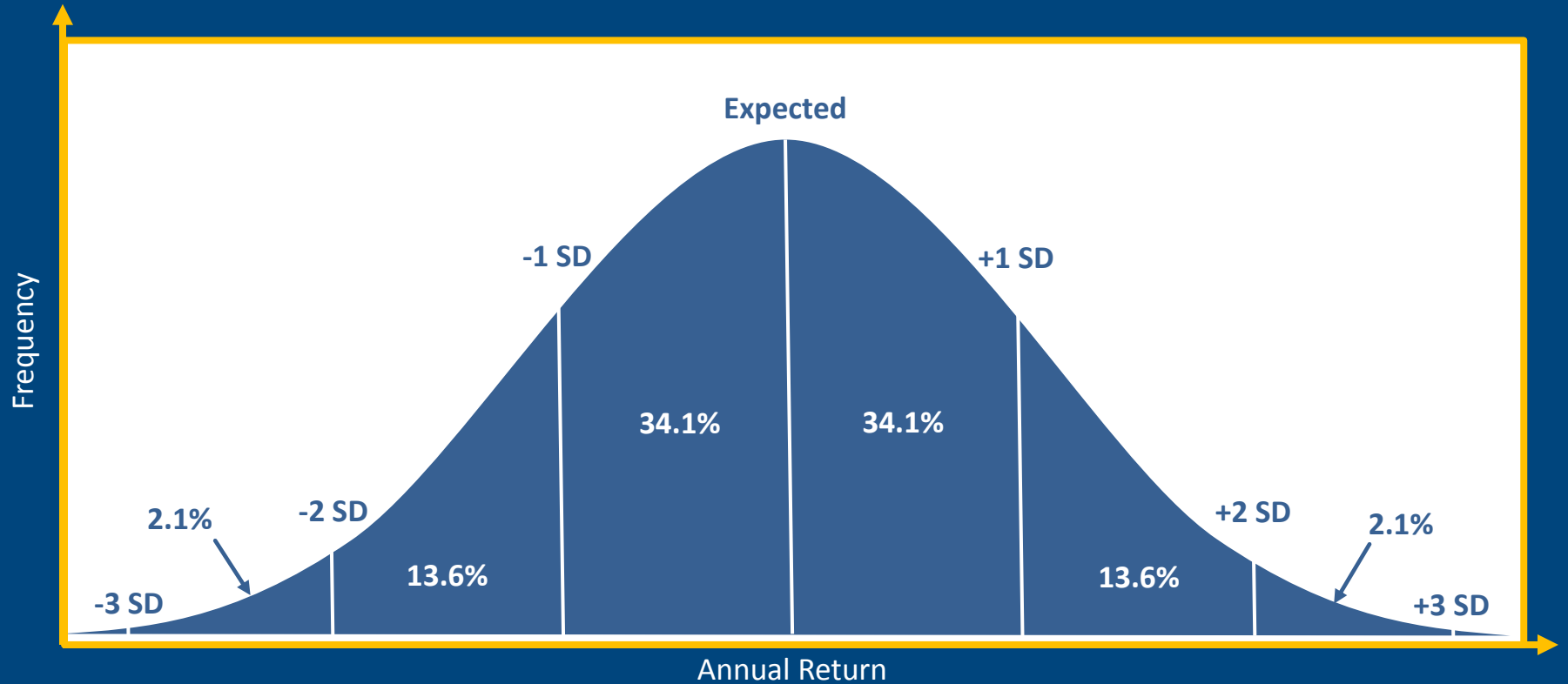
Standard Deviation



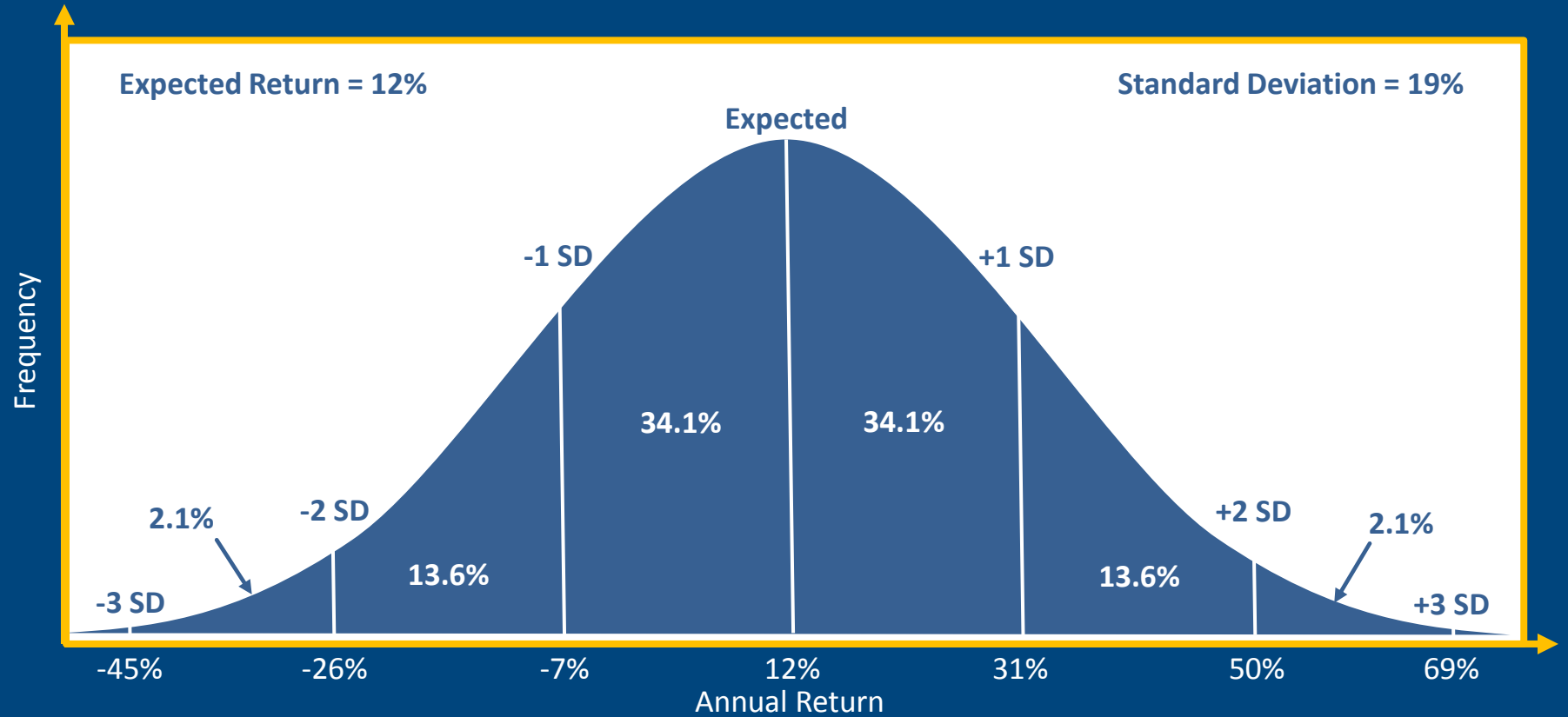
Standard Deviation



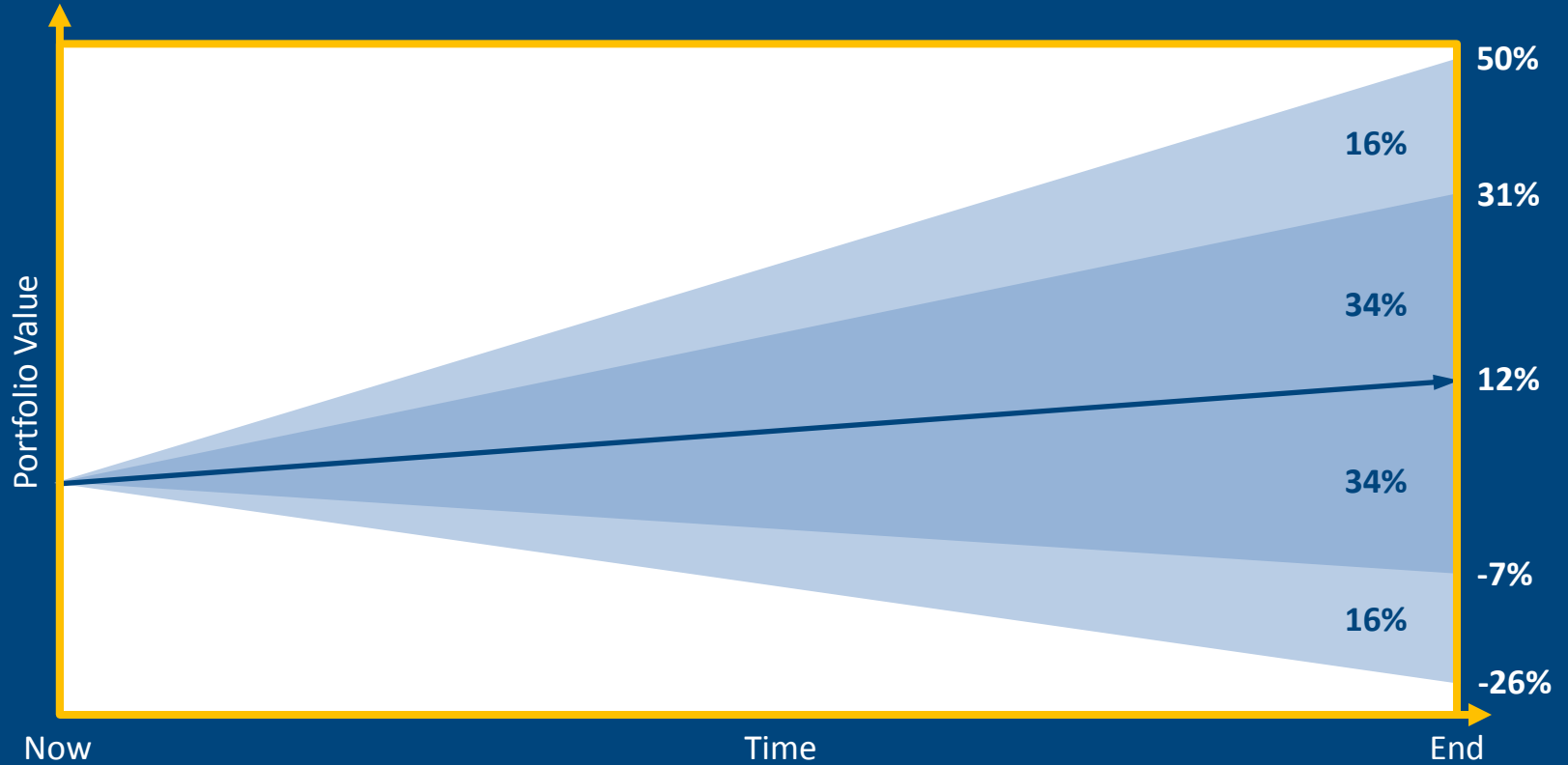
Standard Deviation



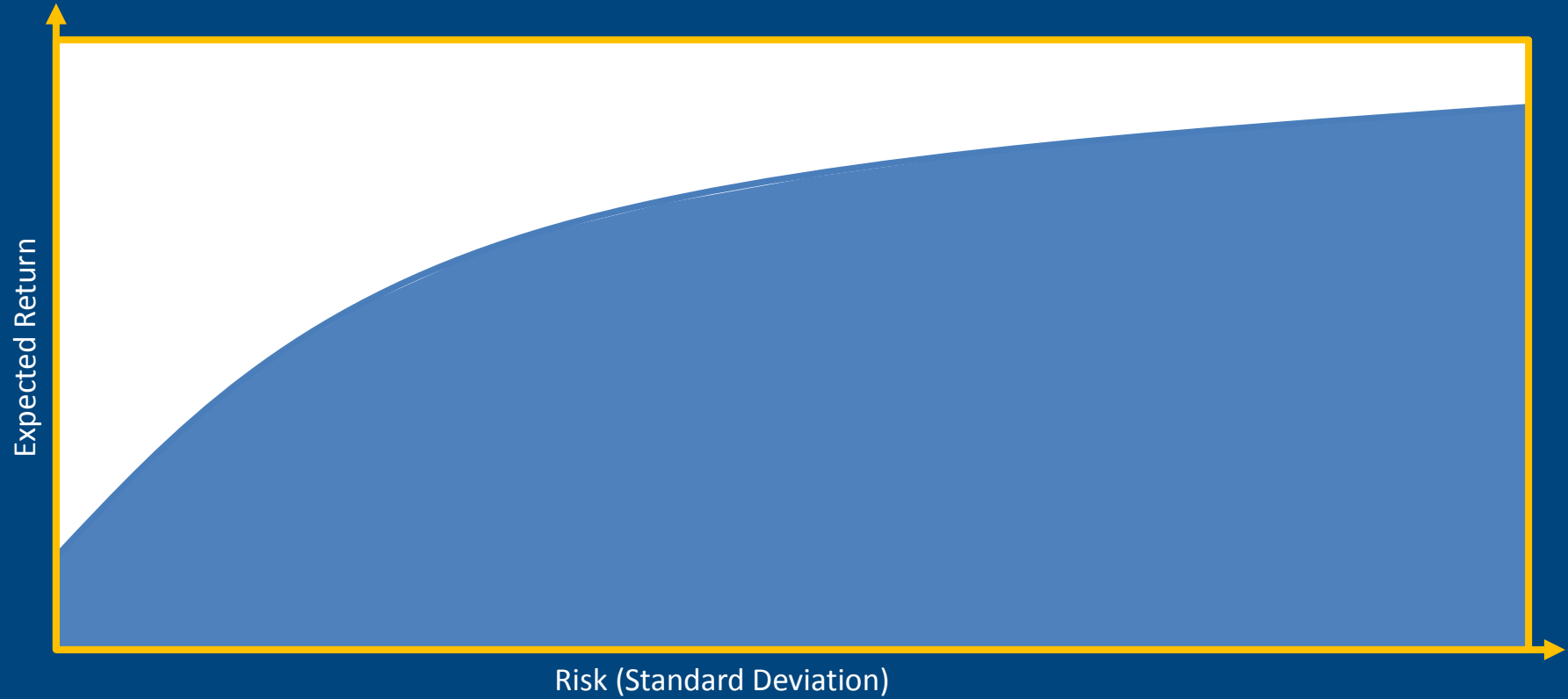
Standard Deviation Example



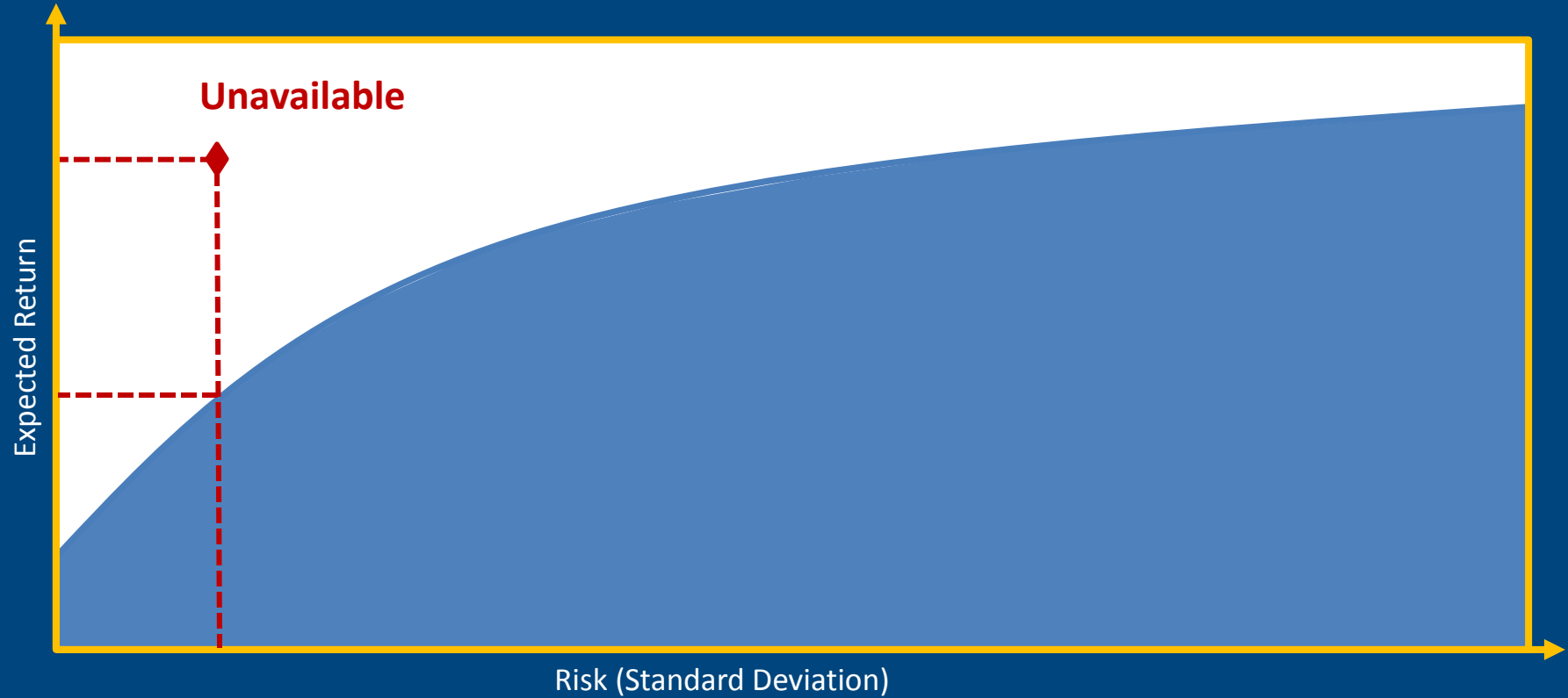
Standard Deviation



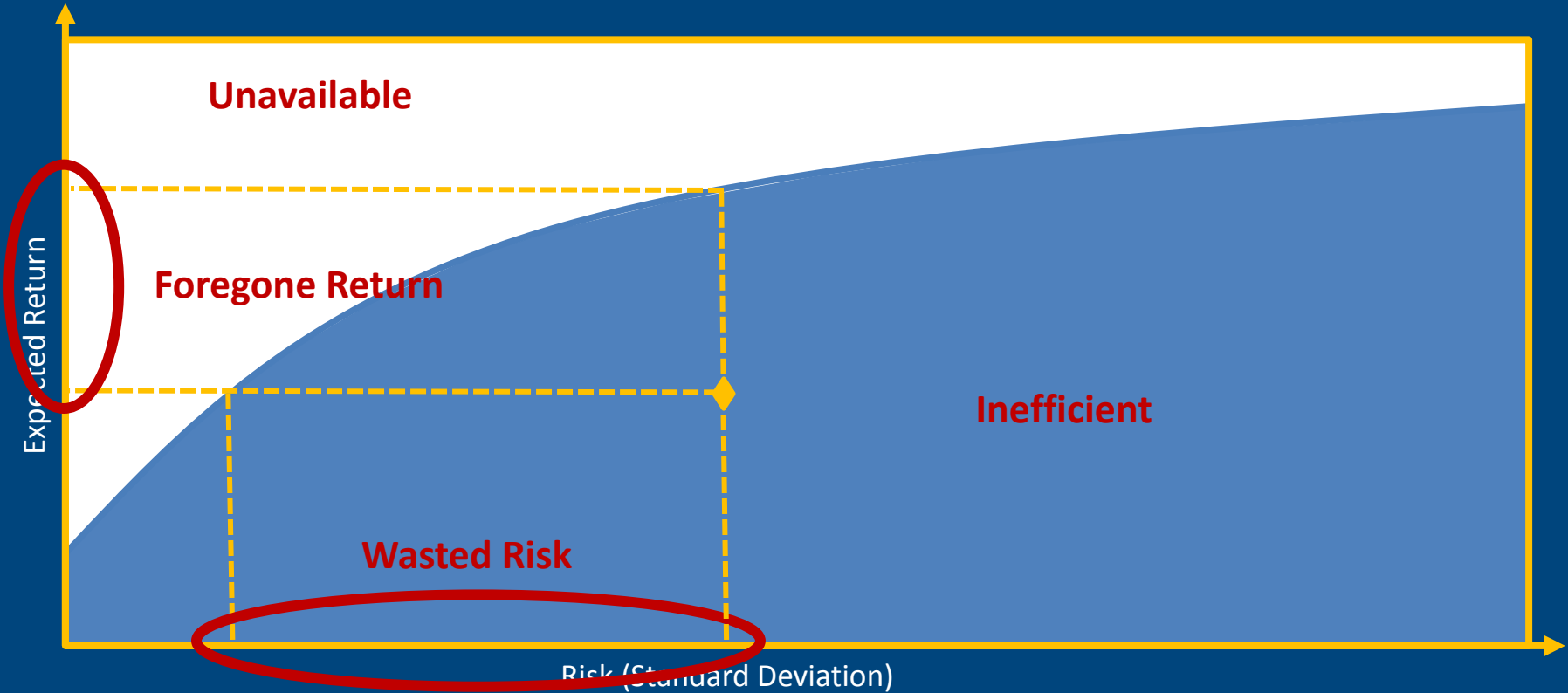
The Efficient Frontier



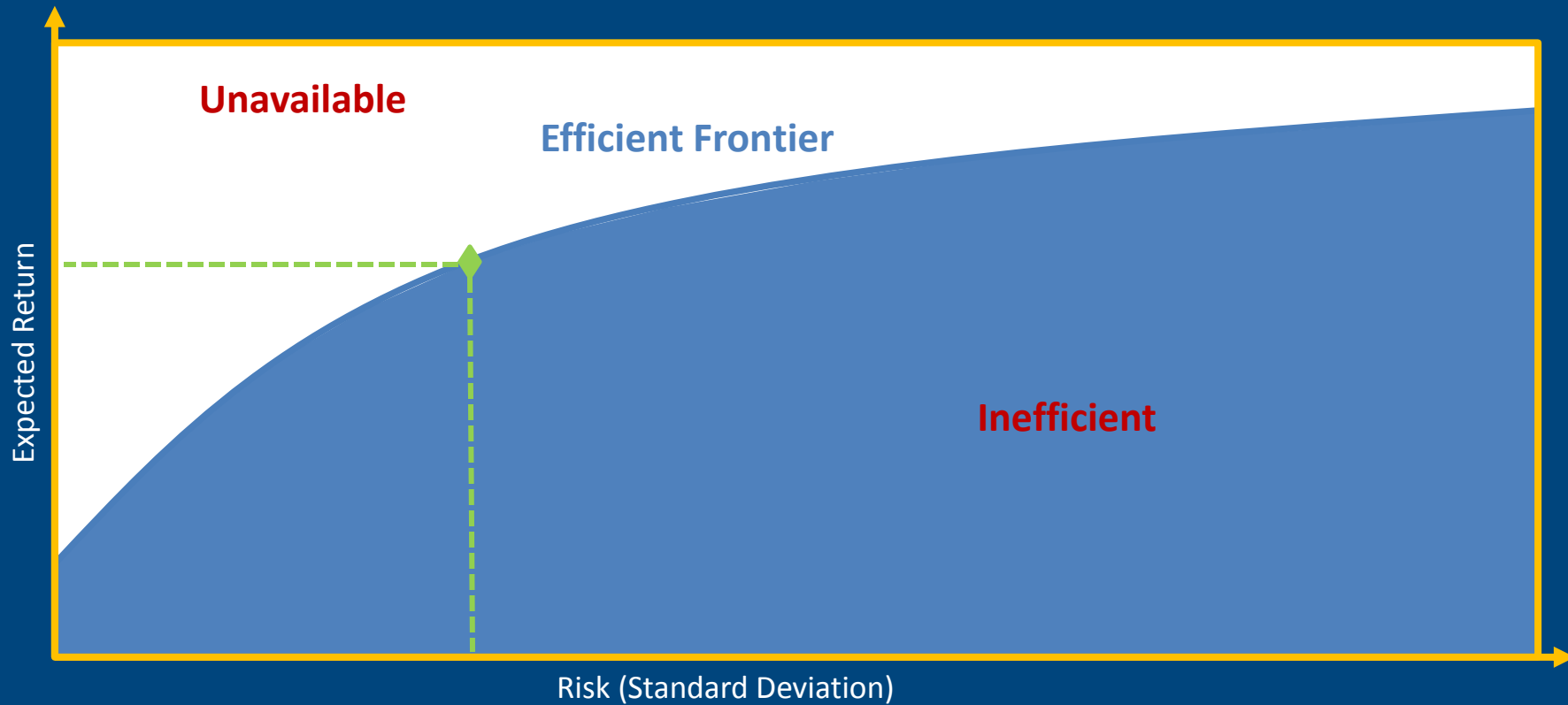
The Efficient Frontier



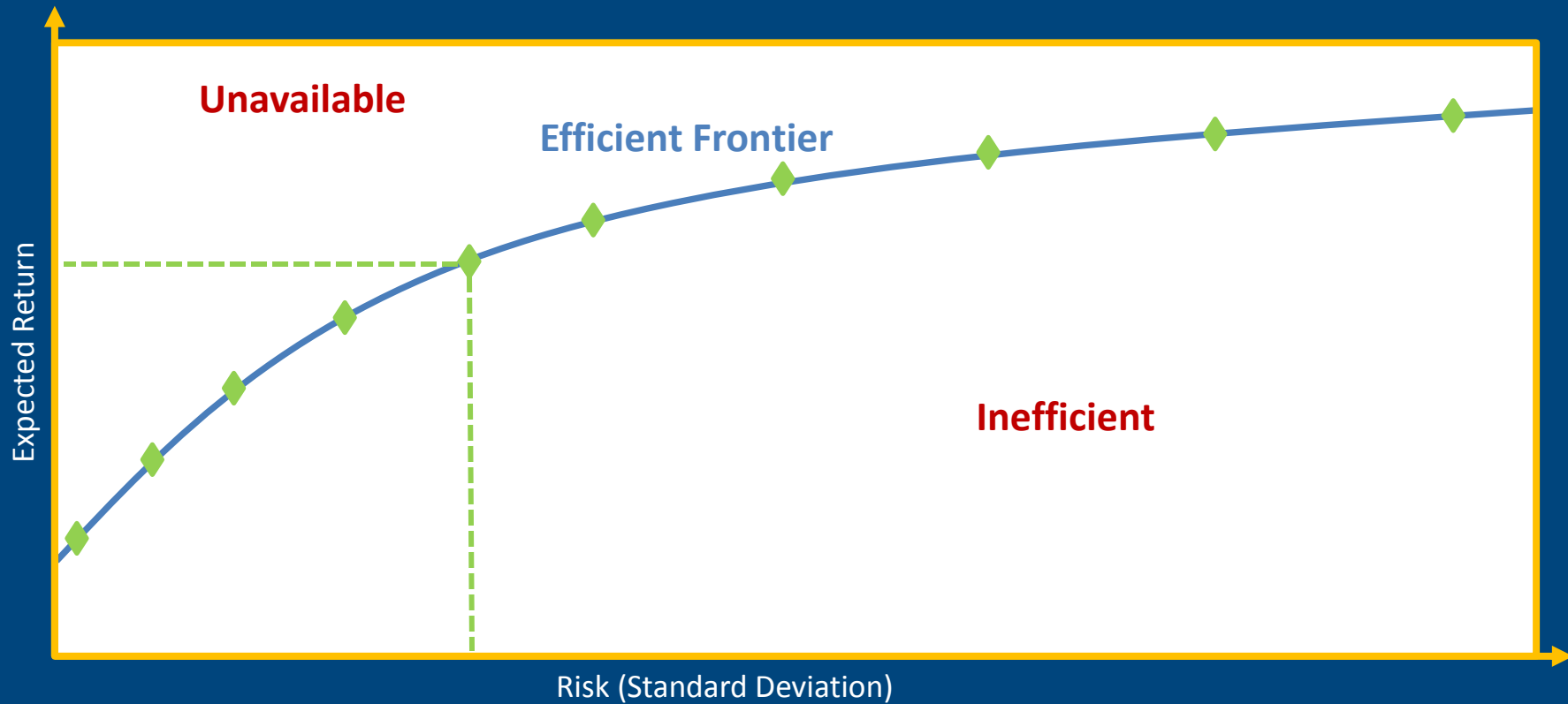
The Efficient Frontier



The Efficient Frontier



The Efficient Frontier



Public markets are reasonably efficient.

Prices reflect all available information.

Prices quickly adjust to account for expected return.

Prices quickly adjust to account for risk

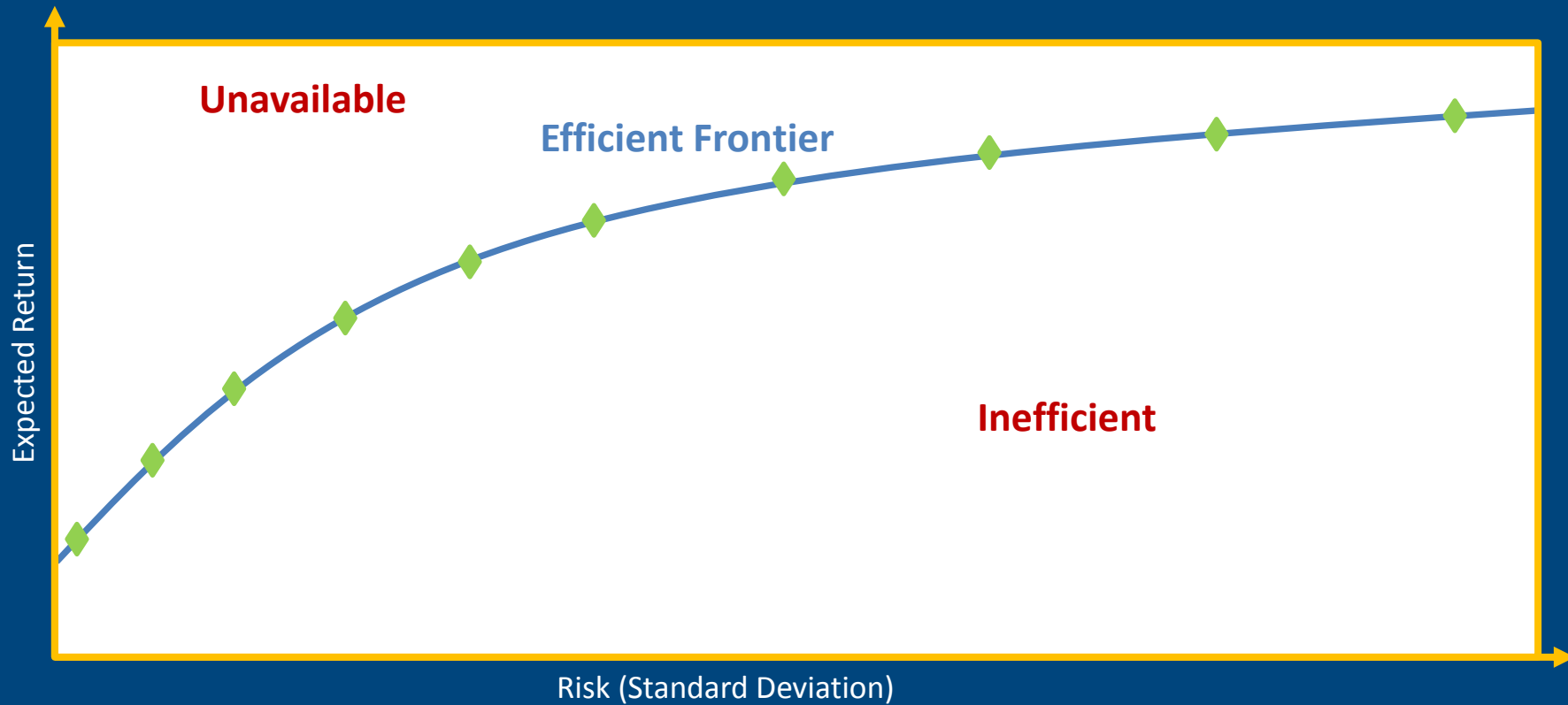
The expected rates of return for two similar investment opportunities will be similar.

To find a “mispriced” asset implies that you know something that nobody else knows.

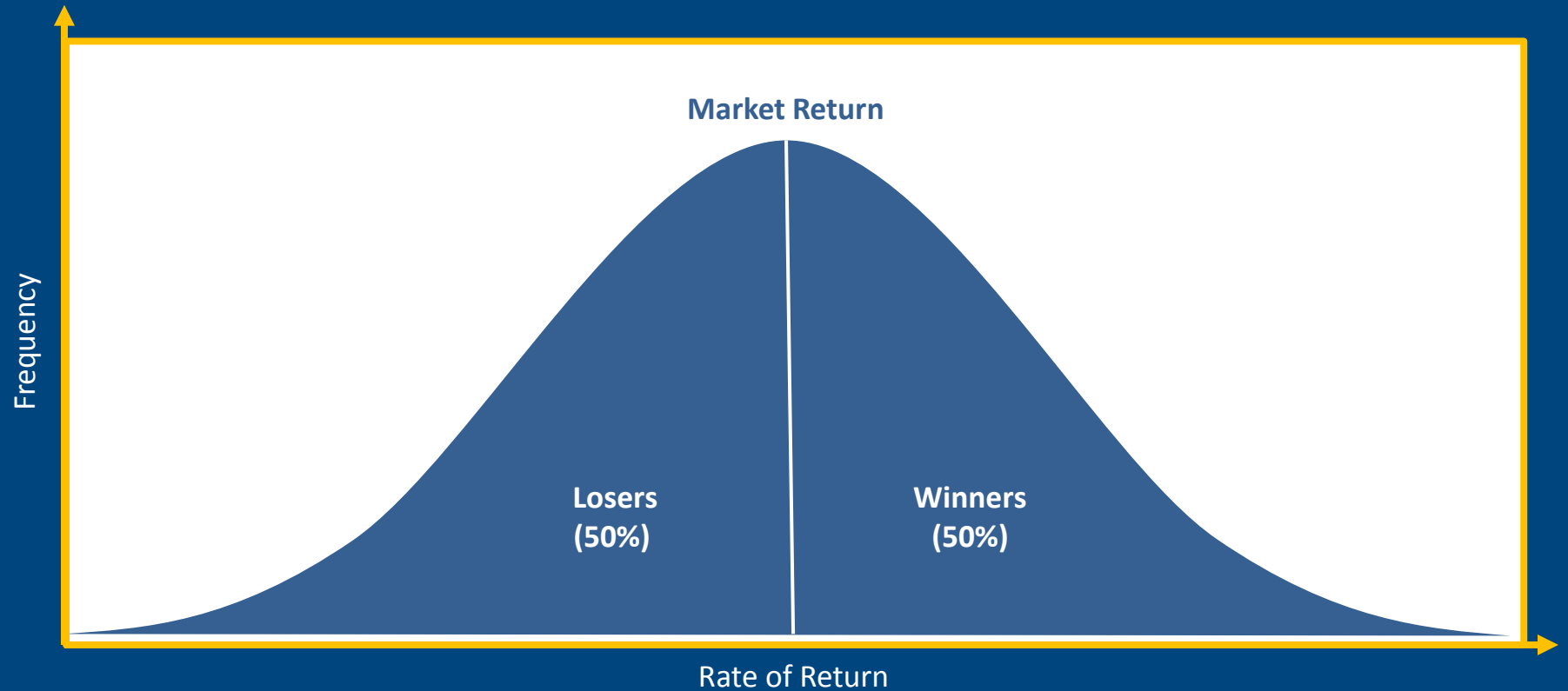
Investment Risk and Return

1. Return and risk are linked
2. Trying to beat the market is a poor bet

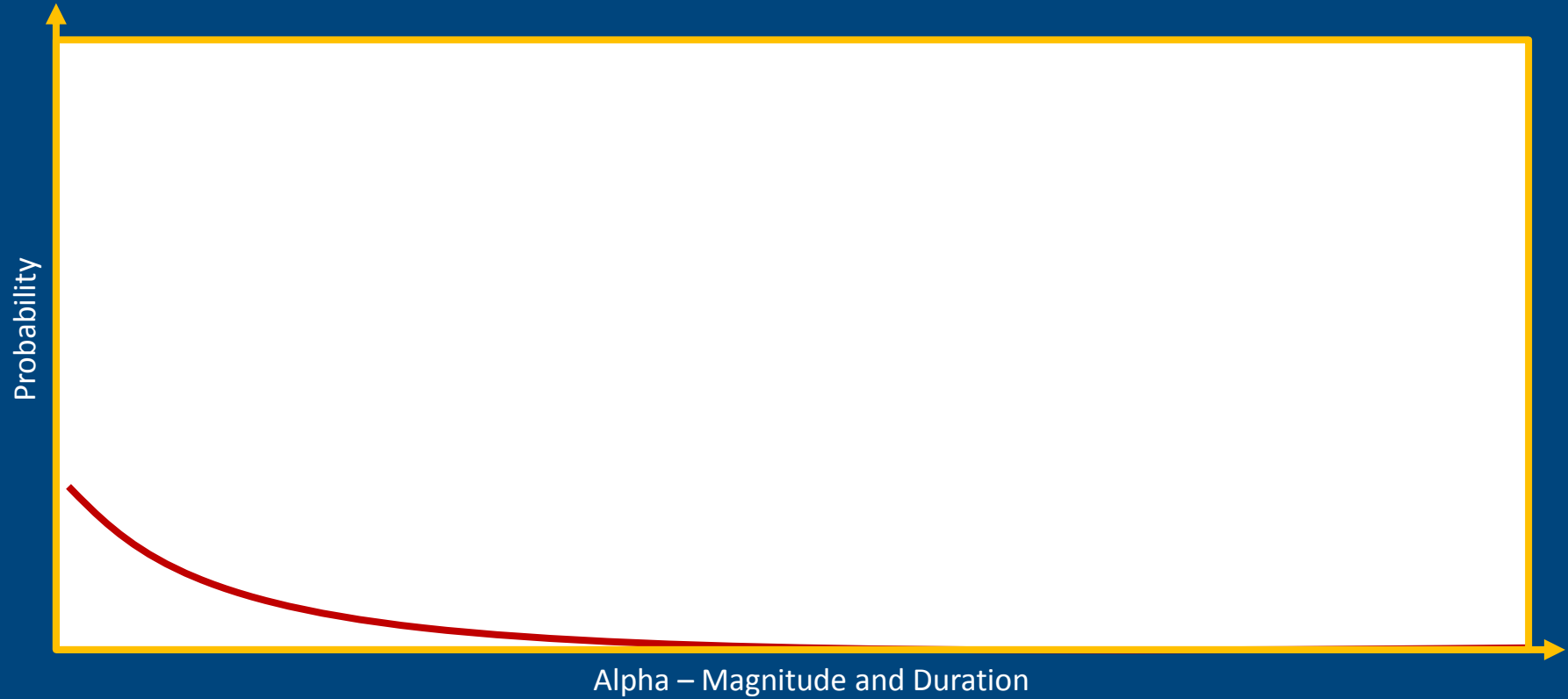
The Efficient Frontier



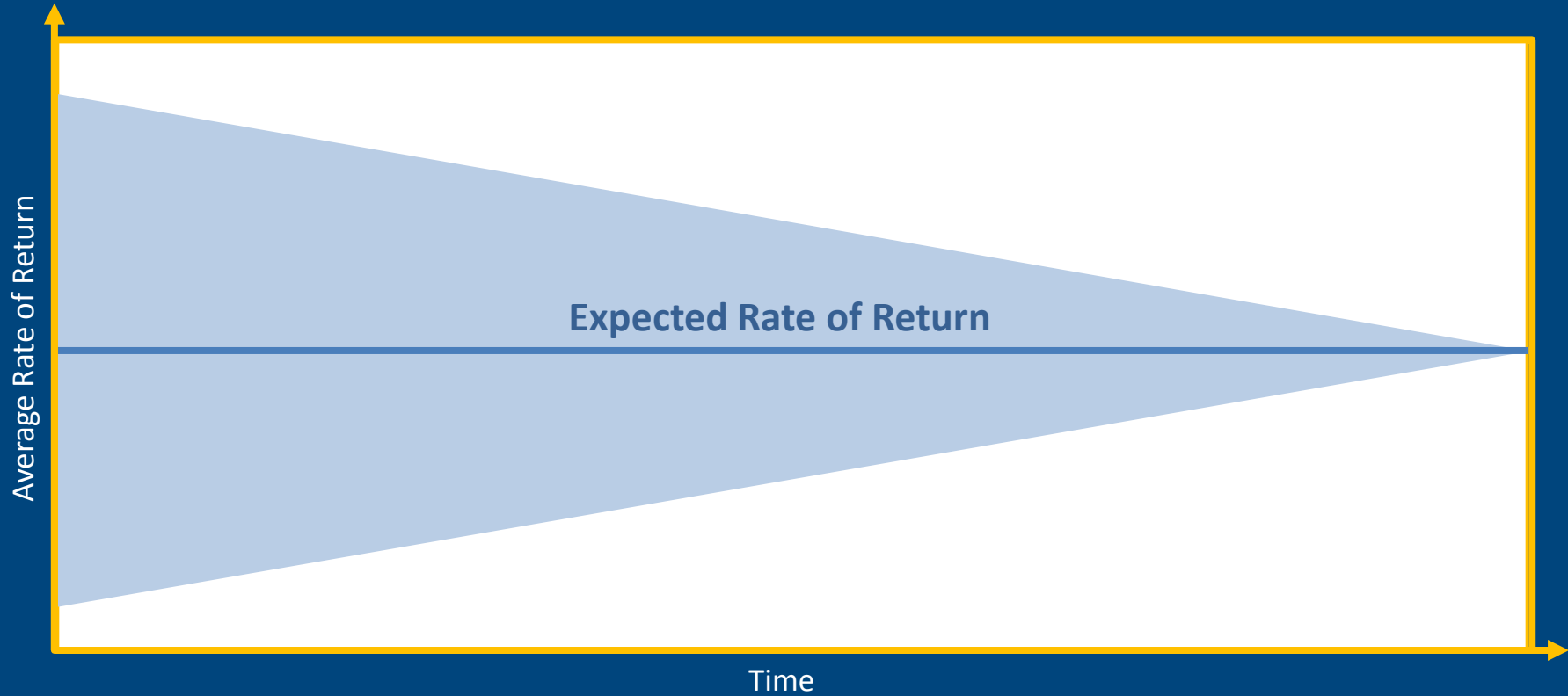
The Zero-Sum Game



Probability of Creating Alpha



Mean Regression



Next Month:

How Diversification Really Works
June 14 @ 12:00

www.seniorexecs.org

Questions / Comments / Suggestions



V A R I P L A N

Advanced Retirement Planning and Management

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