

The 7Twelve Investment Strategy: Final Thoughts

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Over the past few months, we have discussed each of the asset classes that Tri Pillar Investments utilizes in our foundational investment strategy. These assets include Equities, Fixed Income, Real Estate, Commodities, and Cash. Each of these broad asset classes are further subdivided into several categories. Equities encompass Large, Medium, and Small capitalized stocks that are domiciled both domestically and internationally. The Fixed Income category is divided into Aggregate, Inflation-Protected, and International Bonds. Our Resource asset class consists of, Commodities and Natural Resources. Our final asset class is Cash, which includes investments such as Money Markets and Short Term Treasuries. While TPI supports and endorses the 7Twelve Strategy, we did not create it. That honor belongs to Dr. Craig Israelsen, an economist and professor at Brigham Young University. Dr. Israelsen is also the author of *of 7Twelve: A Diversified Investment Portfolio with a Plan.*

Any good builder will tell you that a solid home begins with a solid foundation. The same holds true for the construction of an investment portfolio. TPI has adopted the 7Twelve approach because its methodology adheres to the tenets of the world renown, *Modern Portfolio Theory*. The 7Twelve approach helps to simplify the diversification process, and has proven to outperform the market over extended periods of time. The fundamental principal utilized in determining the assets selected for our clients' portfolios is the establishment of an overall low correlation between the 12 subcategories. This has resulted in portfolios with a 10-year aggregate correlation as low as 0.35 (meaning they only correlate 35% of the time). In addition, rebalancing the portfolio on a regular basis helps to achieve growth while mitigating losses. By following a portfolio model discipline, the emotional, "knee-jerk" reaction to market fluctuations is eliminated.

Dr. Israelsen has analyzed the benefits of low correlations for more than 40 years. He has determined that an equally weighted, 7-asset class portfolio, experienced a 10.46% standard deviation. This compares to a 17.91% standard deviation for large capitalization equities and 24.92% for commodities. At the same time, the equally weighted portfolio experienced a higher rate of return and a sharp decrease in the total number of negative years. An increased rate of return for the 7Twelve portfolio is impressive, especially considering the substantial reduction in volatility. TPI combines the 7Twelve methodology with a thoroughly researched and closely monitored fund selection process. This rewards TPI clients with results that typically outperform the market, while regularly reducing volatility and loss.

As the old saying goes, "an idea is only as good as its results". So, how has the 7Twelve program performed? Well, had you invested \$10,000 in 1970 and put it all into Large Cap, U.S. equities, your portfolio would have grown to \$496,979 by the end of 2010. Not bad. However, had you bumped into Dr. Israelsen in 1970 and bought into the equally weighted, 7Twelve asset allocation strategy (TPI refers to this as our 'Moderate Model'), your \$10,000 investment would have experienced a much smoother ride and would have grown to \$604,248 by the end of 2010. While past performances are no guarantee of future returns, TPI remains confident, **very confident**, that the 7Twelve asset allocation model is fundamentally, the best investment philosophy for our clients.