“Low-Brainer” or “No-Brainer” Options for Self Investors

Physician’s Financial News Live: June 2, 2009

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The goal is no longer to hit the jackpot, but rather not to die impoverished.

Like pulling off a hangnail, separating from a financial manager can be painful. Nevertheless, many investors recognize that there couldn’t be a better time to disengage because manager charges are often far more than any premium they may earn over average market performance. This is because financial managers historically haven’t beaten their relevant index funds over the long run. If an investor who is directing his own account puts the money into indexes that mirror the market, he will likely do better than most financial managers (based on retrospective data). Enter ‘low-brainer’ or ‘no-brainer’ portfolios. These are for people who want to self-invest, but wish to make as few decisions about their portfolios as possible.

The “Low-Brainer”

For self-investors, the use of their own unique brain power often works most optimally because individuals know themselves the best (or at least should). This awareness leads to the most advantageous core investing choices tailor-made for the specific individual. In turn, this contributes to better sleep at night because the investor knows exactly where his money is placed. This approach falls in line with the latest mantra during these turbulent economic times: “The goal is no longer to hit the jackpot, but rather not to die impoverished”.

In another column entitled Asset Allocation: Just a Buzz Word? I wrote about one option for core self-investing using index funds. Equivalent exchange traded funds would work as well. Parts of this column have been modified and reproduced below. It could be called the ‘low-brainer’ investment portfolio. It is meant for the beginning investors with limited money. Those with more savings will want to read and consider more possibilities such as those in my article entitled The 15% Solution: A Critical Investing Concept and For Time-Starved Doctors.

1. Select broad-based index funds or exchange-traded funds (ETFs) that fit into an asset allocation distribution of your choice that suits your needs. Stock funds are higher risk; bond funds are lower risk.

Examples of broad based index funds are:
Domestic stock: Vanguard Total Stock Market Index Fund Investor Shares (VTSMX)
International stock: Vanguard Total International Stock Index Fund (VGTSX)

Domestic bonds: Vanguard Intermediate-Term Investment-Grade Fund Investor Shares (VFICX). Similar low cost funds can be found at Fidelity or T. Rowe Price.

2. Once put together, figure out your time horizon. If it is short, overweight in bonds; short term bond funds could be added to the intermediate bond funds or replace them. If the time horizon is intermediate, relatively equal weighting of stocks and bonds is an option. If it is long, overweighting in stocks is the common wisdom.

3. Rebalance the model periodically. Most experts recommend every year. This gives your portfolio an opportunity to benefit maximally from the ups and downs of the market because when one asset is up, another is down. When you rebalance, you are selling high (the asset that increased in price per share and therefore is over-represented in the portfolio) and buying low (the asset that is under-represented in the portfolio because its share price is low).

Free "No-Brainer's"
For those who are inclined toward 'No-Brainer' portfolios that are free, there are several options. A word of warning - they may not lead to financial health.

Some brokers like [TD Ameritrade] are offering asset allocation models at no charge to their clients. They make recommendations depending on risk tolerance and the target date for retirement. For example, if someone was to retire in 2011 and is conservative in approach, this is the TD Ameritrade recommendation for asset allocation:

Asset Class		Allocation
Domestic Equities	Domestic Large Cap Equities	11.0%
	Domestic Small Cap Equities	4.0%
International Equities	Developed Markets	5.0%
Fixed Income	Fixed Income	70.0%
Cash	Cash & Equivalents	10.0%

The recommended allocation looks acceptable. But, when I altered my input to the same questions and put in the risk tolerance as high instead of conservative (on May 19, 2009), the same asset allocation recommendation appeared. This is not only confusing, but could present problems for someone who took the website's recommended asset allocation at face value. This is because this particular target date for retirement plus risk tolerance truly appear to be a "one size fits all." Though one person might have a retirement target date of 2011, he could have 20 million dollars and another individual one million. This means that a less conservative asset allocation might be appropriate for the person with more

money, but it is not reflected in the recommendations given on the website. Therefore, I am not sure this particular free 'no-brainer' asset allocation is universally of value.

Matt Hougan also offers another free asset allocation models on the Index Universe website. He includes the top ten ETF's and then the 11th- 20th ETF's to create portfolios which turn out to be pretty well-balanced for a young person with a long time horizon (more stocks than bonds). But, again, we all wear different shoe sizes and these allocations are not appropriate for the retiree or someone nearing that situation.

Another gratis option is the famous Couch Potato alternative plus other portfolios offered by the Asset Builder website (click Couch Potato to the right side of the page). These portfolios are straightforward. For example, the couch potato 'recipe' is ½ Vanguard Inflation-Protect Securities (VIPSX) and ½ Vanguard Total Stock Market Index (VTSMX). Again, this may be trying to fit a size 8 ½ portfolio on a foot size nine. In time, it could cause bunions or worse.

Pay to Play 'No-Brainers'

For those who are willing to pay a small fee, there are several options that are available. One is Index Rx http://indexrx.com/, which offers asset allocation based on a technical model. It incorporates trend performance, sector ratings, historical rankings, and moving averages. The creator, Dr. Lawrence Czelusta, uses a propriety asset rotation model called dynamic indexing to choose ETFs that fit into each of his four portfolios. The portfolios differ in their risk/reward profile.

A new "pay to play," option is MarketRiders. It offers anything from little help to nearly complete shepherding. The price is dependent on the level of service.

And, last, but not least, I offer my own 'check up' educational consultation for an hourly fee rather than a continuing monthly cost. This limitation of cost puts money back in the client's pocket because it is paid only once or several times, rather than continuously. Usually, at the end, my clients feel ready to act on their own best interests comfortably.

As Ben Franklin said, "An investment in knowledge pays the best interest."

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