

## Another DIYer

A long time friend of my Father, Member of Quest Opportunity Fund and client of Hughes Capital Management will become a Do It Yourselfer:

Hi Brett & Devin I've attached my prospective ETF's & mutual funds for R's (names have been removed for privacy) portfolio post QOF. I hope you understand that we have the utmost respect for both of you & your handling of the money over the years. This change isn't about you or any lack of faith or concerns, it is about me wanting & needing a project as I age. ... I enjoy learning new things & I'm the happiest when I have a project in front of me, something to engage my mind. I'm not very good at just sitting still. Your monthly reports, both QOF & HCM, stimulated an interest I hadn't really explored before & I found that I really enjoyed the process of trying to understand your investing world. I've spent hours reading about investing, the several months especially, focusing on various approaches to retirement portfolios. The most common theme is to minimize expenses & use index ETF's as the core. I have no intention of buying & selling, active trading. Our plan is to pick a spread of ETF's for diversification & then periodically rebalance the percentages. I based the portfolio percentages on the DFA Total Return Portfolio that I found online. I haven't followed it exactly but close enough I believe. Our goal is to add more to QMNIX in Jan. to bring it up to 20% or close to it & then add more in time. The 2 AQR funds will be 30% +/- of the total portfolio. I'm intrigued with CEF's but I'm not sure I'm comfortable committing to any yet. Especially now, maybe the outlook will be clearer after the first of the year. Probably not. I'm actively reading daily & I have signed up with Morningstar which was a good suggestion Brett, thanks. I use M\* & E\*Trade mostly for screening & comparing funds. I've signed up for several blog posts & continue to find authors I consider sound. I've learning

Style	70 / 30		
<b>US Stocks or Funds</b>	<b>52%</b>	<b>Fund</b>	<b>Alternate</b>
Large Cap Market	10.0%	IVV 5* gold	VOO 5* gold
Large Cap Value	10.0%	VTV 5* silver	SCHV 5* silver
Large Cap Mom./Growth	8.0%	MTUM 5* silver	QMOM
Mid Cap Blend	8.0%	KNOW 5*	JKI 5*
Small Cap Value	8.0%	IJR 5* gold	VBR 5*
Real Estate	8.0%	REZ 4*	REET
<b>International Stocks</b>	<b>18%</b>	<b>Fund</b>	<b>Alternate</b>
Int. Large Cap Market	5.0%	OBIOX 5*	EFAV 5* silver
Int. Small Cap Market	3.5%	OBIOX 5*	SCZ 4*
Int. Small Cap Value	3.5%	SCHC 2*	VSS 2*
Int. Emerg. Market Large	3.0%	SCHE 3* bronze	VWO 3* bronze
Int. Emerg. Market Small	3.0%	EWX 4*	DGS
<b>Fixed Income</b>	<b>30% +/-</b>		
	10.0%	QLEIX 5*	
Defensive	20.0%	QMNIX	Add 8% +/-

which sites to avoid as well. Brett, you mentioned you had some titles of books to recommend if I was interested. I am if you feel like sharing those when you have the time. I'm starting Benjamin Graham's "The Intelligent Investor" now, (probably should have started with this instead of the web).

I would appreciate any suggestions or comments you might have about our decision & my selections. Thanks for the "Worth Sharing" PDF this morning. I've been following IGR & have now added GFMRX to my list. I've found Brad Thomas to be an excellent writer & I do follow his posts. I have not paid for his subscription service, he does post regularly on Seeking Alpha, along with several other good writers. Seeking Alpha also has a large herd of writers to avoid, I'm learning which are the ones to listen to & follow & which to ignore, most of them. ...

Thanks again for all the help over the years. We do appreciate it. Have a happy Thanksgiving as well.

November 23, 2016

Dear **G** and **R**,

A Risk Profile is where every investor should start. **R's** Risk Capacity should be supportive for the next 5 years of a "70/30" Portfolio, where you substitute the 30% allocation to Bonds for AQR's Long/Short Factor based OEFs (QMNIX & QLEIX), depending, of course, on the composition of the 70% Equity side. As detailed below, our recommended Portfolio lowered the Risk, as defined by the average ratio of Maximum Drawdown (MaxDD) to that of the S&P 500 when it declines by at least 10%, of your prospective Portfolio by moving your QLEIX position into QMNIX and eliminating the Emerging Markets allocations. Despite those and the other recommended changes, the Risk ratio is **0.8**. If you preclude the Bear Markets resulting from the Great Depression (which began in 1929), and Recession (which began in 2008), the average Bear Market has a MaxDD of 33%. Multiply that by a Risk ratio of **0.8** and **R** would still be facing an estimated MaxDD of 26.4%. It is important that her Risk Tolerance be able to handle the next Bear Market. As noted in *Extraordinary Popular Delusions and the Madness of Crowds*, "**You can't read about a panic, you have to experience it.**"

Our recommendation that you take the gain in QLEIX next year and add the funds to the lower risk QMNIX is detailed below. While we would avoid an allocation to Emerging Markets for any client at this time, that is especially true for someone transitioning to Capital Preservation. Interest rates are climbing, with the U.S. 10-year Treasury yielding over 2.4% today. As a result, the dollar is gaining. In a webcast on the 17th, BCA Research's Chief Strategist Caroline Miller pointed out that, "**EM risk assets have never escaped a rising dollar.**" From yesterday's WSJ (you should subscribe):

## America First? That Puts Emerging Markets Last

By JAMES MACKINTOSH

Nov. 22, 2016

In the two weeks since Election Day, markets have bought into President-elect Donald Trump's version of "America First." The dollar and U.S. stocks have soared, while currencies and shares in emerging markets—which his supporters say are siphoning off American jobs—tumbled.

U.S. shares beat emerging markets by the most since the aftermath of Lehman Brothers Holdings Inc.'s collapse in October 2008, and even if the effect of the dollar is stripped out, the U.S. had the best relative performance since March 2009.

Investors have been looking back to the 2013 "taper tantrum" for lessons. Back then, the Federal Reserve pulled the rug out from under emerging-market bonds, and it threw many of the biggest developing countries into crisis. This time, though, they are in better shape.

There are some clear parallels. When the Fed indicated in 2013 that it would pull back from bond buying, it led to panic selling of emerging-market bonds. Investors had piled in as part of the global hunt for yield, and as the fast money left yields soared and currencies fell. The yield on the J.P. Morgan local-currency bond index leapt by 2 percentage points from the low of 5.19% reached in May 2013.

Something similar has happened this time. A month before the election, emerging-market local-currency bonds, the riskiest type, had just had their best eight-month period since the financial crisis ended in 2009, returning more than 20%. Since then, the combination of tumbling currencies and rising yields means investors have lost 8%, almost all since Election Day.

There are some big differences to 2013, though. Then, the inflows had been going on longer, had involved stocks as well as bonds, and had financed gaping current-account deficits for several large emerging-market countries.

This time round there have been only small stock inflows, and emerging-market countries have already dealt with current-account deficits, in the case of Brazil via a deep and painful recession.

Rather than being driven by a change in the Fed's approach, as in 2013, this time the problem for emerging markets is the expectation of more growth and inflation in the U.S. from Mr. Trump's promised tax cuts and infrastructure spending. In principle, faster U.S. growth ought to mean bigger emerging-market exports to help offset higher financing costs, particularly as the Fed will still be setting rates far below inflation, even after next month's likely increase.

Here is where Mr. Trump's trade threat makes a bad situation worse. While a trade war would hurt growth everywhere, including the U.S., Mexico and China are first in the line of fire. The Mexican peso has plunged 11% since the election, and the yuan up to Friday had its second-worst eight-day period against the dollar in the past two decades (the worst was last summer's devaluation). Investors in the developed world are shrugging off the threat of a trade war, but it is being at least partly priced in for emerging markets. ...

In the past, a rising dollar has meant emerging markets underperform over the long run, and that is likely to be repeated if the greenback keeps on strengthening. ...

In addition to the cyclical concerns detailed above, we have repeatedly noted our secular concerns about several emerging markets. If you decide to allocate anyway, an active OEF is highly recommended, not ETFs which buy the entire index being benchmarked.

Your "**52% US Stocks or Funds**", "**18% International Stocks**" is way over weighted to Domestic stocks, unless you intend to actively allocate on the basis of Trend as dealt with on 11/5/2016 in "International Diversification", which is posted under Worth Sharing on our website. Our recommended portfolio has a 60% Domestic/40% International split.

### Annualized Stock Returns by Style, January 1982 Through November 2013

	Deep Value	Value	Blend	Growth	High Growth
Large	12.7%	11.6%	11.5%	12.7%	11.8%
Mid	14.7%	14.8%	12.9%	12.5%	12.3%
Small-Mid	18.4%	14.9%	14.4%	14.1%	9.2%
Small	15.0%	15.6%	15.9%	12.3%	7.2%
Micro	17.3%	16.4%	14.2%	12.2%	1.4%

Source: French Data Library.

Equity is an Asset Class. Market Capitalization is not, yet that is often how it is treated. Buying some Large Cap, Mid Cap and Small Cap Funds is counterproductive. Instead, we highly recommend diversification across Factors. One such Factor is Size, the results of which are shown above in a Morningstar Table from our website. Small clearly beats Large and those returns can be enhanced by adding Value or Quality. IJR, which you list under **Small Cap Value**, adds Quality in the form of Profitability to their screening process. We have added the S&P 500 (orange line) to its Morningstar chart for comparison:

### iShares Core S&P Small-Cap ETF IJR | ★★★★★

**TD Ameritrade**  
WE PUT THE EDGE  
IN HEDGING

Add to Portfolio Get E-mail Alerts Data Question

Quote **Chart** ETF Analysis Distributions Performance Ratings & Risk Portfolio Fees & Expenses Tax Ownership Filings

Last Price **\$133.48** Day Change **↑0.91 | 0.69%**

NAV	Open Price	Day Range	52-Week Range	12-Mo. Yield	Total Assets	Expenses
132.54	133.23	132.77-133.50	95.25-133.50	1.37%	24.14 bil USD	0.07%
USD		133.50				

As of Tue 11/22/2016 10:27 AM EST | USD

Intraday Indicative Value **\$133.33** **↑0.80 | 0.60%**

Prem/Discount	Volume	Avg Vol.	SEC Yield%	Bid/Ask/Spread	Category
0.11%	257909	1.0 mil	1.42	133.47/ 133.53/ 0.04%	Small Blend

As of Tue 11/22/2016 10:12 AM EST | USD

Benchmark Event Compare to Symbol Simple Moving Avg    Reset

05/22/2000 - 11/21/2016 Zoom: 1D 5D 1M 3M YTD 1Y 3Y 5Y 10Y Maximum Custom

■ ARCX:IJR: +99.92 | +306.03% ■ IXUS:SPX: +791.23 | +56.24%

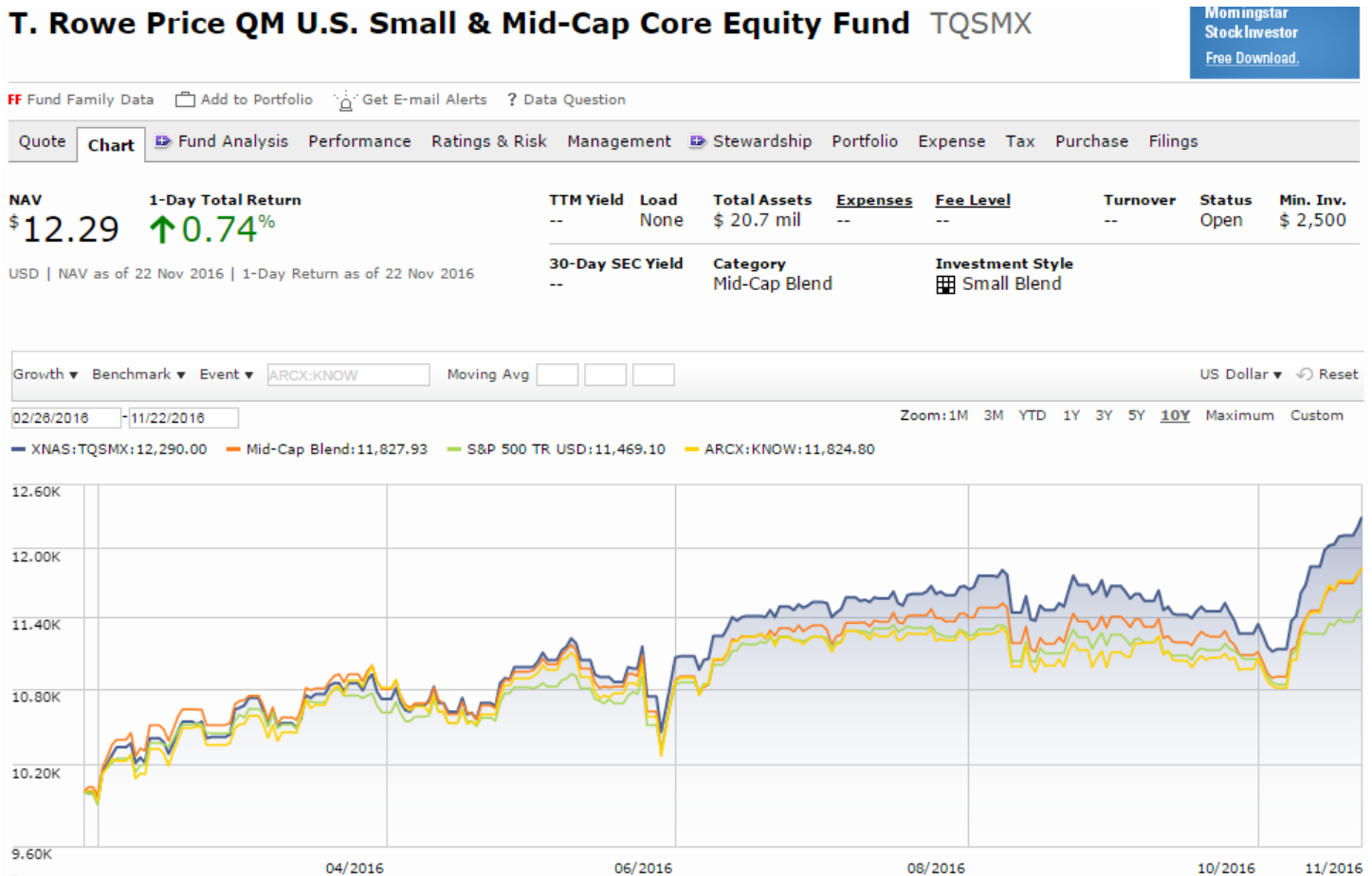


Our recommended portfolio is shown below:

**QMNIX** - As mentioned above, we recommend selling QLEIX, and adding the funds to your position in QMNIX. QLEIX adds 30-70% Beta with MSCI ACWI futures onto the QMNIX Long/Short portfolio. To our knowledge this futures overlay hasn't added any Alpha to compensate for the added risk.

**GFMRX** - You mentioned that you read this recommendation contained in our REITs & Rates, which was posted today.

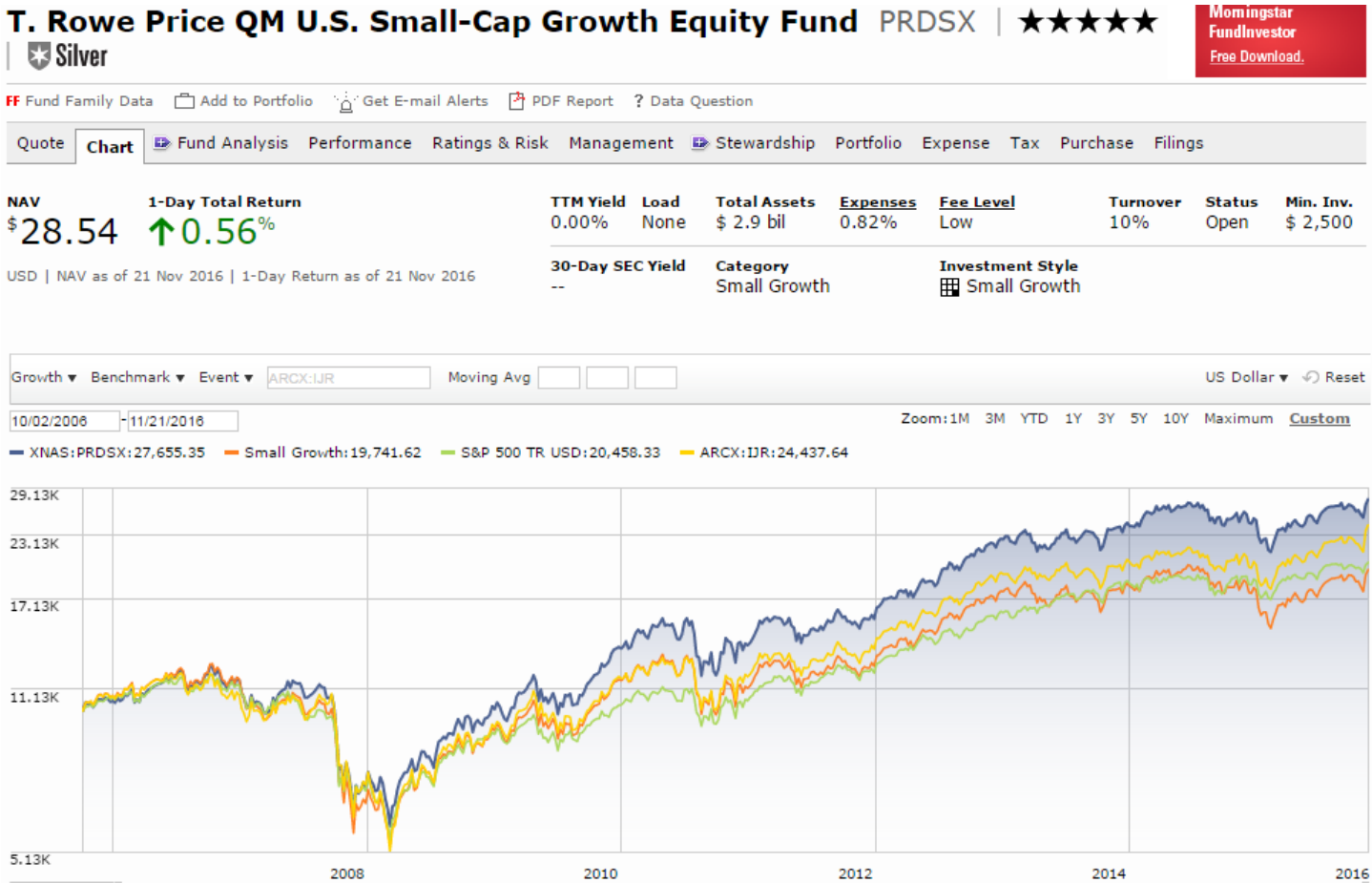
**KNOW** - If you are uncomfortable with a 20% allocation, we recommend half of the allocation go into TQSMX, a new OEF being managed by the same Quant team that runs PRDSX. We have added KNOW (yellow line) to its Morningstar Chart:



**PRDSX** - IJR (yellow line) is good, PRDSX is better. Morningstar's analyst from 4/19:

The team behind the recently renamed T. Rowe Price QM U.S. Small-Cap Growth Equity is taking on more money and responsibilities ... but its management and strategy (which relies primarily on quantitative stock-picking models) are the same. The new name appeared at the same time that two new funds run by this team were launched: T. Rowe Price QM U.S. Small & Mid-Cap Core Equity TQSMX and T. Rowe Price QM U.S. Value Equity TQMVX. Sudhir Nanda, team leader and the manager of this fund, says the team is well-equipped to run these new strategies, as well as the just-launched T. Rowe Price QM Global Equity TQGEX. He's built the team out for years, and the team has worked on models for the strategies in the course of doing quant work for the firm's other portfolio managers. ...

Meanwhile, this fund has continued to post strong performance, prompting inflows: Nanda now runs nearly \$4 billion in the strategy. Those assets are spread across about 300 stocks (none constitutes more than about 1.2% of assets) and the team trades at a slow pace (annual portfolio turnover is typically in the teens), so capacity isn't a concern. ... we remain fans of this fund's approach, which places a far greater emphasis on valuation and earnings quality than price momentum (which has gotten a number of quant funds in deep trouble). The fund has held up better than most peers and its MSCI US Small Cap Growth benchmark in down markets (including the heightened volatility of the past year) and also kept up in rallies during Nanda's 9.5-year tenure. It also sports a relatively low expense ratio that gives it a long-term edge. This is a fine holding.



**IVAL** - You have previously expressed concern about this ETF's performance. Again, it is important to compare it to an appropriate benchmark, in this case iShares MSCI EAFE Value (EFV is the orange line below), at \$3.3 billion the largest International Value ETF. We are unaware of any viable alternative that doesn't effectively require a Registered Investor Advisor like Hughes Capital Management to get in.

# ValueShares International Quantitative Value ETF IVAL



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<b>Last Price</b> \$25.01	<b>Day Change</b> ↓ -0.26   -1.03%	<b>NAV</b> 25.13	<b>Open Price</b> 25.06	<b>Day Range</b> 25.01-25.06	<b>52-Week Range</b> 20.55-26.27	<b>12-Mo. Yield</b> 1.30%	<b>Total Assets</b> 37.69 mil USD	<b>Expenses</b> 0.79%
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As of Wed 11/23/2016 11:44 AM EST | USD

<b>Intraday Indicative Value</b> \$24.83	↓ -0.29   -1.15%	<b>Prem/Discount</b> 0.71%	<b>Volume</b> 1000	<b>Avg Vol.</b> 7,357	<b>SEC Yield%</b> 2.09	<b>Bid/Ask/Spread</b> 24.97/ 25.23/ 1.04%	<b>Category</b> Foreign Large Value
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As of Wed 11/23/2016 12:05 PM EST | USD



%	Symbol	Type	Description	Factors (1)	Dist. (2)	Risk (3)
<b>Initial</b>						
30	QMNIX	OEF	Global Long/Short Equity Mid Blend	V, M, Q	2.5%	A 0
10	GFMRX/IGR (4)	OEF	Global Real Estate		2.3%	Q 1.1
20	KNOW	ETF	Domestic Mid Blend	I, E, V	1.4%	Q 1.0
10	MTUM	ETF	Domestic Lg Growth	M	1.0%	Q 1.0
10	PRDSX	OEF	Domestic Small Growth	S, Q	1.9%	A 1.4
10	IVAL	ETF	Foreign Lg Value	V, Q	2.2%	Q 1.3
10	OBIOX	OEF	Foreign Small/Mid Growth	S, M, Q	0.2%	A 1.3
<b>Weighted Average:</b>						<b>0.8</b>
<b>Notes</b>						
1	V=Value, M=Momentum, Q=Quality, I=Insiders, E=Earnings, S=Size					
2	Distribution Frequency: A=Annual, S=Semi-Annual, Q=Quarterly, M=Monthly					
3	Ratio of average historical Max. Drawdowns to S&P 500 declines greater than 10%					
4	IGR (CEF; Risk 1.5) when trading at a significant discount to NAV					

Two cautionary quotes:

**“The market, like the Lord, helps those who help themselves. But, unlike the lord, the market does not forgive those who know not what they do.”** Warren Buffett

As "Adam Smith" said of the stock market in his classic book "The Money Game": **"If you don't know who you are, this is an expensive place to find out."**

Staying on top of the Markets is a never ending and humbling process.

### **Our thoughts:**

We already have several DIYers on our distribution list, including my Uncle. He also had time on his hands and was looking for a mental challenge. (Although in his case, preferably one that would be less costly than Blackjack.) So for anyone else preoccupied with such musings, here are a few considerations:

**When the SHTF, and it will, who you gonna call?** My Uncle buys individual stocks, which wisely G isn't planning on doing for R. It has been interesting watching my Uncle's evolution as an investor to the point now that he knows "it's time to buy when I feel like throwing up." It would be impossible to accurately answer most of his “WTF just happened” calls without a Bloomberg terminal. We spend over \$2,000.00 per month for ours, which I'm sure my uncle appreciates. While he is not alone in that regard, most of the panic calls we receive are when Mr. Market falls out of bed. Since we prefer that our clients avoid using my Uncle's "feel like throwing up" or any other signal in an attempt to time the market, we stress the importance of establishing a Risk Profile for each client, and designing a portfolio accordingly, whether the investor is focused on Capital Appreciation, Income, or Capital Preservation, or a combination of these objectives.

**When the SHTF, and it will, who's your spouse gonna blame?** One of our DIYers is an army buddy of my Dad's from Vietnam, who married a girl from Hong Kong. I know he's on the line when I hear my Dad answer the phone with a variation of "So, you're still alive?!"

**When the SHTF, and it will, are you going to stick with your plan?** As an AdvicePeriod article states: "Most investors are their own worst enemies. Multiple studies illustrate that over time the average investor significantly under-performs the markets due to behavioral tendencies that all humans are susceptible to. Many individuals buy high and sell low as the emotions of greed and fear win over discipline and long-term planning." Obama's 2012 campaign manager Jim Messina: **"My favorite political philosopher is Mike Tyson. Mike Tyson once said everyone has a plan until you punch them in the face. Then they don't have a plan anymore."** Part of our job is to not only answer that panicked call, but to be able to explain why this time isn't different, for as Sir John Templeton memorably noted, **"The four most dangerous words in investing are: 'this time it's different.'"**

**While our advice is free, it's application usually requires a Registered Investment Advisor (RIA) like HCM.** Our departing client's situation is unique, in that we had already begun the transition to Capital Preservation by establishing a position in QMNIX, our preferred Fund for lowering a portfolio's Risk. As can be seen in our recommended portfolio above, QMNIX has a **Risk** ratio of 0. G will be able to add to the position without R being a client as long as she has Platinum level support at E\*Trade, which normally requires a \$1,000,000.00 account. All of our clients receive E\*Trade's Platinum level support, as noted on our website. A few years ago we received an offer of \$10,000.00 from TD Ameritrade to move the accounts. While Platinum level support isn't priceless, there are times when it seems like it.



We have added the S&P 500 (yellow line) to QMNIX's Morningstar chart below. If you attempt to buy this OEF on E\*Trade, the \$5.0 mil Min. Inv. will appear. AQR has effectively limited the sale of its Funds to the clients of RIAs, who, unlike Brokers, have a fiduciary duty to their clients to put them in the best Funds available.

## AQR Equity Market Neutral Fund Class I QMNIX

Morningstar  
Stock Investor  
Free Download.

FF Fund Family Data Add to Portfolio Get E-mail Alerts Data Question

Quote **Chart** Fund Analysis Performance Ratings & Risk Management Stewardship Portfolio Expense Tax Purchase Filings

<b>NAV</b> \$ <b>11.97</b>	<b>1-Day Total Return</b> ↓ <b>-0.33%</b>	<b>TTM Yield</b> 2.38%	<b>Load</b> None	<b>Total Assets</b> \$ 1.0 bil	<b>Expenses</b> 1.25%	<b>Fee Level</b> Below Average	<b>Turnover</b> 383%	<b>Status</b> Open	<b>Min. Inv.</b> \$ 5.0 mil
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USD | NAV as of 23 Nov 2016 | 1-Day Return as of 23 Nov 2016

<b>30-Day SEC Yield</b> --	<b>Category</b> Market Neutral	<b>Investment Style</b> Mid Blend	<b>Credit Quality/Interest Rate Sensitivity</b> --
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Growth Benchmark Event Compare to Symbol Moving Avg US Dollar Reset

10/07/2014 - 11/23/2016 Zoom: 1M 3M YTD 1Y 3Y 5Y **10Y** Maximum Custom

XNAS:QMNIX: 12,989.39 Market Neutral: 10,098.01 BBgBarc US Agg Bond TR USD: 10,425.21 IXUS:SPYZ: 11,746.28

