

# ***Backpacking through Rough Investment Terrain***

## ***Keep an eye on your map, compass, food and the season***

Smart backpackers carefully chart their course using a topographical map, stay on course using a compass, meticulously plan food stuffs, and factor in the season's weather. And such are the requirements for smart investors.

Since it's your money and your journey, it's your responsibility to plan for and manage a safe, successful journey to and through retirement. Using advisors is wise, but ultimately you are the decision maker who will live with the results.

First, jot down the estimated length of your journey (i.e. current age, retirement age, and projected lifespan). Then, create a topographical map showing your expected, major cash flows (income and expenses) for life. Next, determine how much food (i.e. money) you have accumulated for the trip and how much you will need (include inflation's impact). Finally, in what seasons will you likely be backpacking? Your needs in winter are much different from those in the summer.

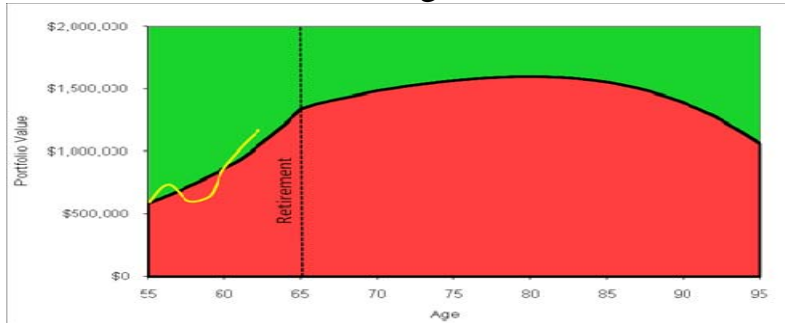
Again, your journey is unique to you. Most investment advisors are generalists. They have the investor complete a suitability questionnaire and then recommend a standard, model portfolio based on a percent of funds invested in stocks and bonds: Aggressive 90/10, Moderate 60/40, Conservative 20/80 or some other generic mix. This process is efficient for the advisor but problematic for the investor whose journey is long, complicated, and unique to their particular situation. Slightly being off the right path could cause him or her to inadvertently walk off a cliff while the advisor comfortably sits in her or his office chair.

For food (i.e. money) management, consider using three portfolios: cash, income and growth. "Cash" will hold whatever you need over the next 6 to 12 months. Tie your cash high in a tree to avoid it (and you) being mauled by a bear. "Income" should be individual bonds and CDs matched to your cash needs over a specific timeframe (3-10 years or so). "Growth" will be funds invested in equities which should grow sufficiently to continually replenish the income portfolio.

For a compass, a ***Critical Path*** (figure 1) is the projected value of your total portfolio (if assumptions hold) till death and will help you know where you are relative to where you need to be. Annually plot your funds relative to the Critical Path line (see yellow line below). If above it, all's well. If below it, then analysis

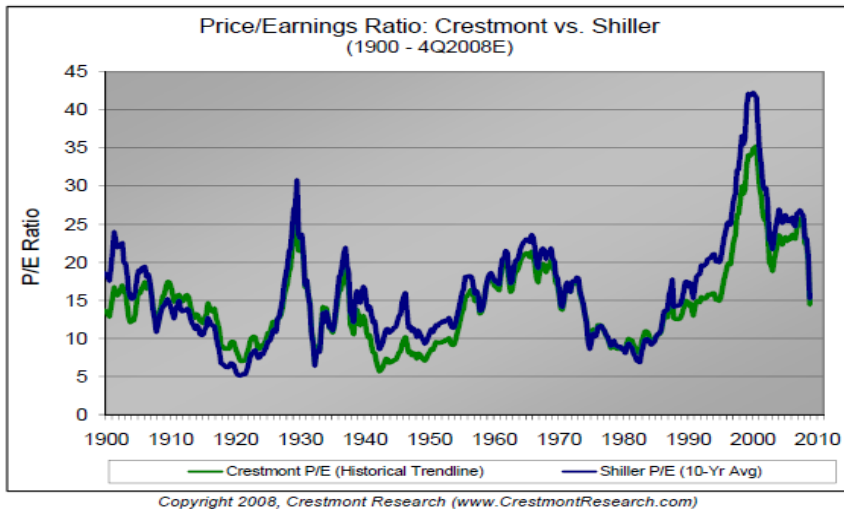
and decision making are required. (NASA uses critical path methodology to guide its missions. For additional insights regarding this process, please see Huxley and Burn's text: Asset Dedication, McGraw Hill 2005.)

Figure 1



Finally, knowing in what season you're hiking matters significantly. Figure 2 illustrates the historical PE valuations of the S&P 500, and reflects the market's seasons: spring, summer, fall, and winter. Hiking in the winter (i.e. now) requires different equipment, strategies and skill from the other seasons. And the seasons can be short or long depending mostly on inflation. (For more details, see: <http://www.crestmontresearch.com/pdfs/Stock%20PE%20Report.pdf>.)

Figure 2



A good map, compass, evaluation of food requirements and knowing in what season/s you'll be hiking is mandatory for successful investing.

Bryce Kurfees is the principal of Kurfees Capital Management.