

An Investment Strategy for these Unpredictable Times

By Peter Kent

Concerns:

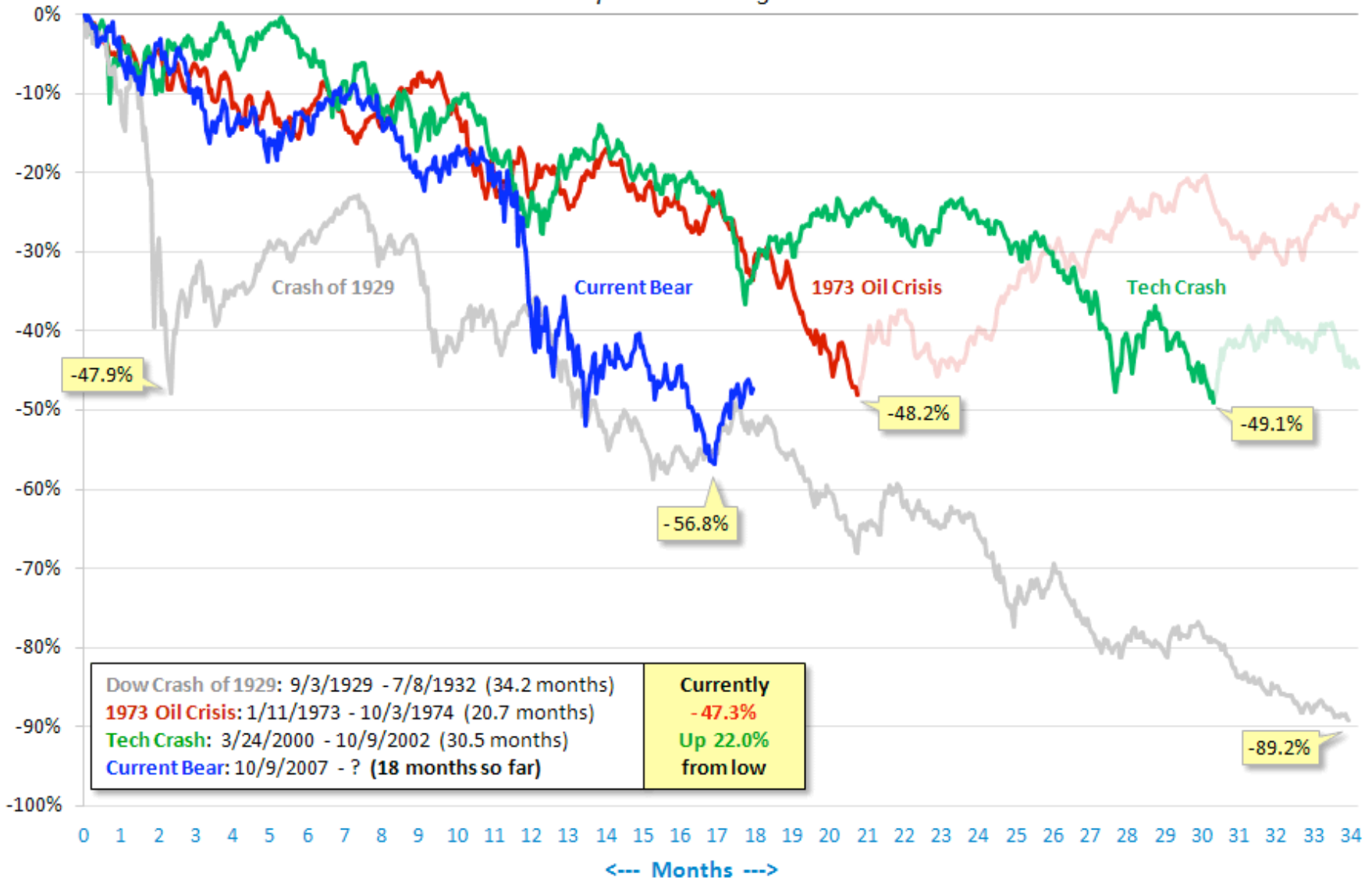
1. **Pending Inflation** from US spending trillions of dollars it does not have
2. **Current Deflation** in the prices of stocks, homes, oil
3. **Lower Growth** for years from decrease leverage
4. Will my retirement portfolio **survive**, or will I be living under a bridge somewhere?



Four Bad Bear Markets

dshort.com
4/8/2009

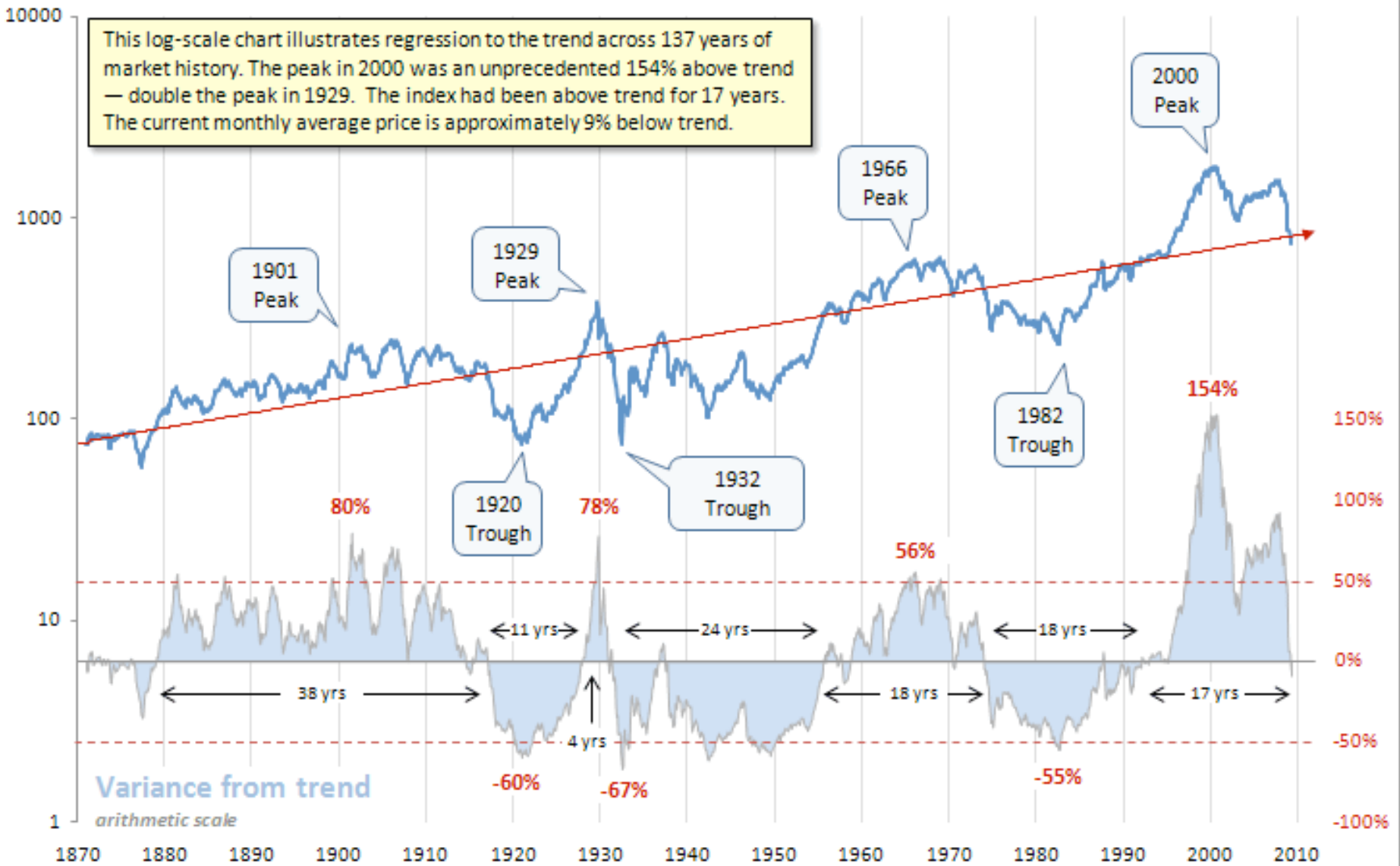
Dow in 1929-1932; S&P 500 in 1973-74, 2000-02, 2007-09
nominal price excluding dividends



S&P Composite Index: Regression to Trend

Real (inflation-adjusted) Price since 1871 with Regression

Variance measured below



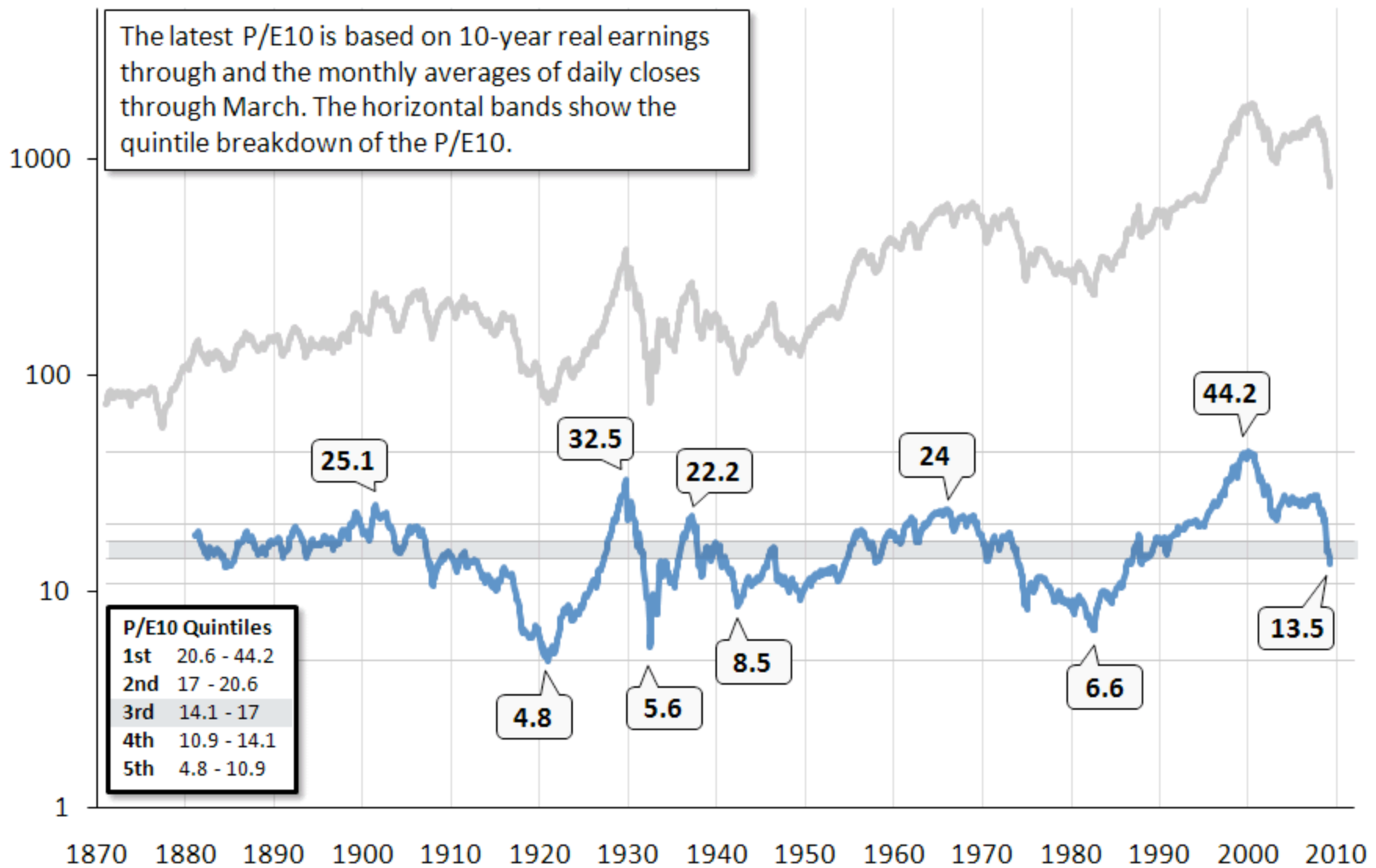
S&P Composite: 1871-Present

Inflation-Adjusted Price with P/E10 Ratio

dshort.com
April 2009

— S&P Composite
— P/E10 Ratio

The latest P/E10 is based on 10-year real earnings through and the monthly averages of daily closes through March. The horizontal bands show the quintile breakdown of the P/E10.



Mega-Bear Quartet

The Dow Crash of 1929 and Great Depression

The Nikkei 225 Colapse in 1989, The NASDAQ post Tech Bubble

and Today's S&P 500



Adopt the Harvard and Yale investment approach?

Impressive Results:

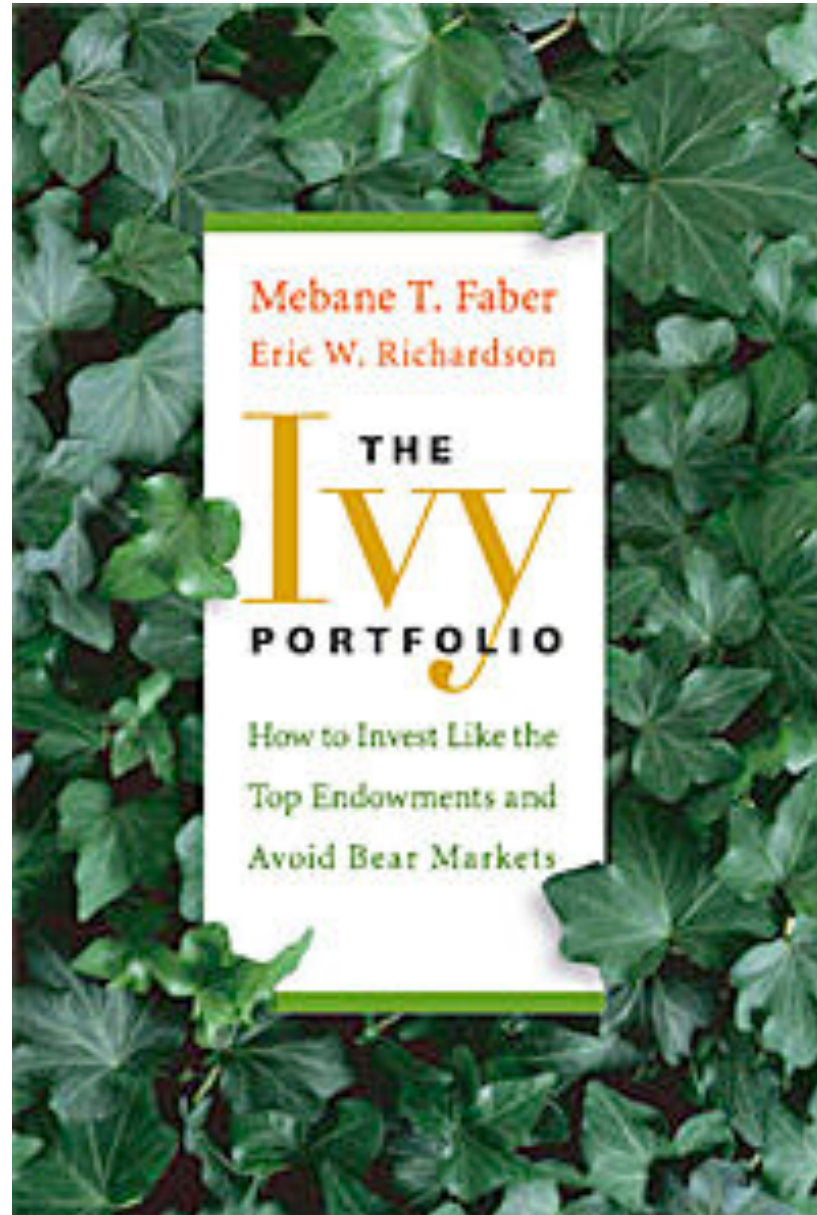
Harvard: 15% vs. 8.4%

Yale: 16% vs. 12%

With lower volatility

Main Points:

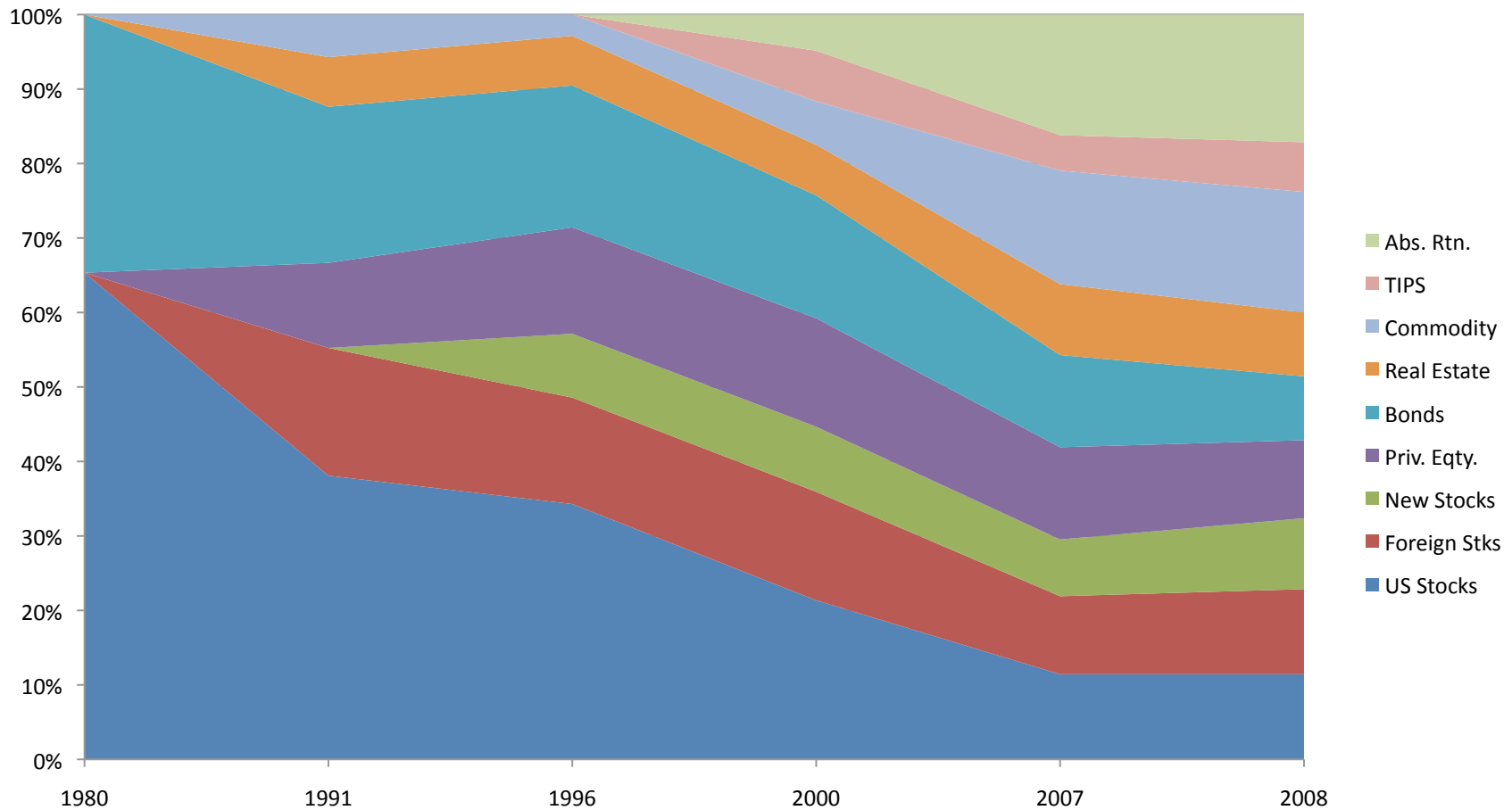
1. **Diversify**
2. **Into 5 asset classes**
3. Use the **10 month moving average** to buy and sell



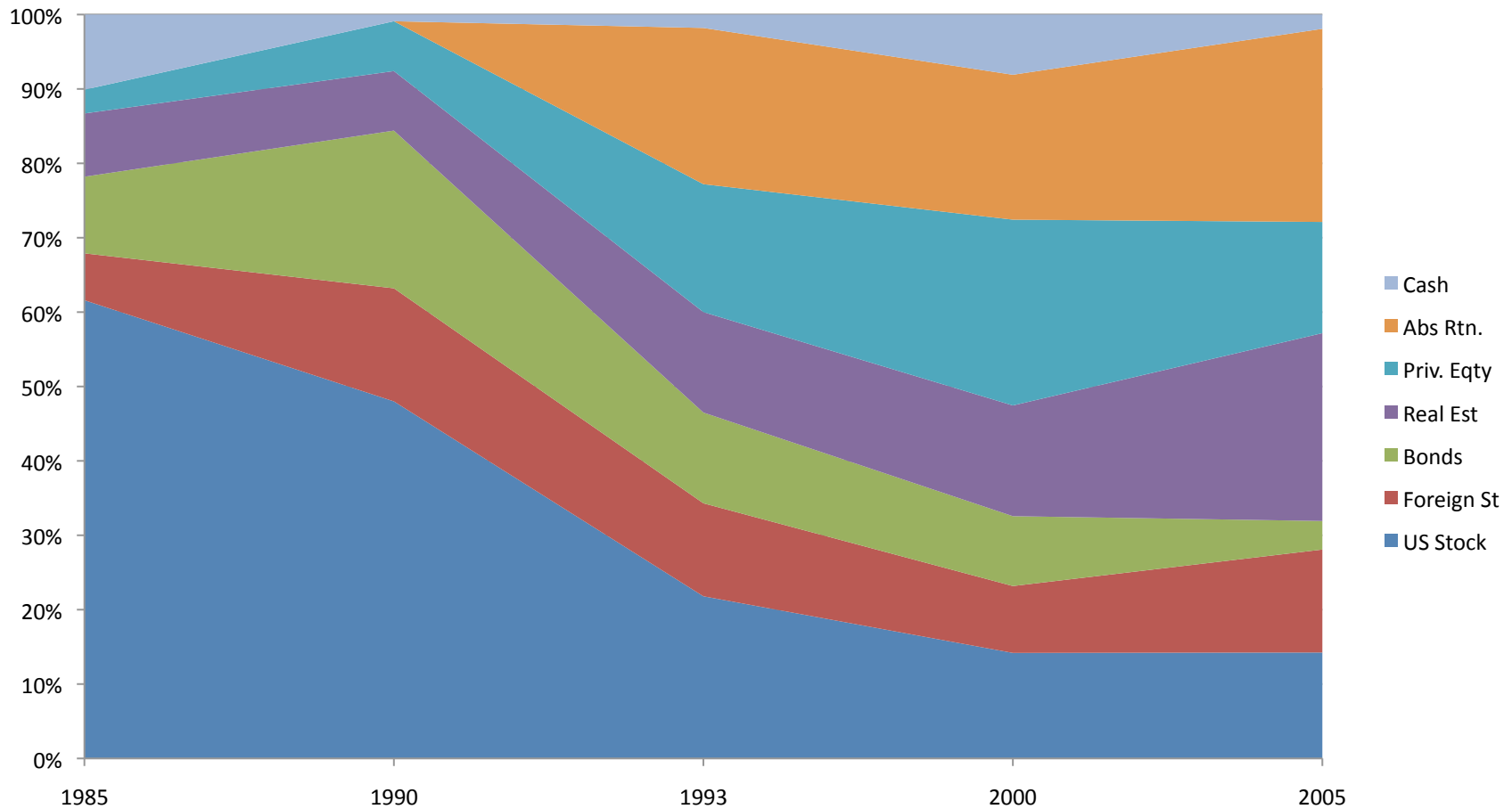
Ivy Portfolio Action Plan

- 20% each in 5 Asset Class using EFTs:
 1. **US Stocks** (Lg, Mid, Small, Micro): VTI, VO,VB,IWC
 2. **Foreign** (DevL,EmL, DevS,EmS): VEU,VWO,GWX,EWX
 3. **Bonds** (US,TIPS,Fgn,Emg): BND,TIP,BWX,ESD
 4. **Real Estate**(US,Fgn,Infra,Timber):VNQ,RWX,IGF,TREE
 5. **Commodity**(Ag,Energy,Base,Prec):DBA,DBE,DBB,DBP
- For active management, buy or sell based on crossing the 10 Month moving average

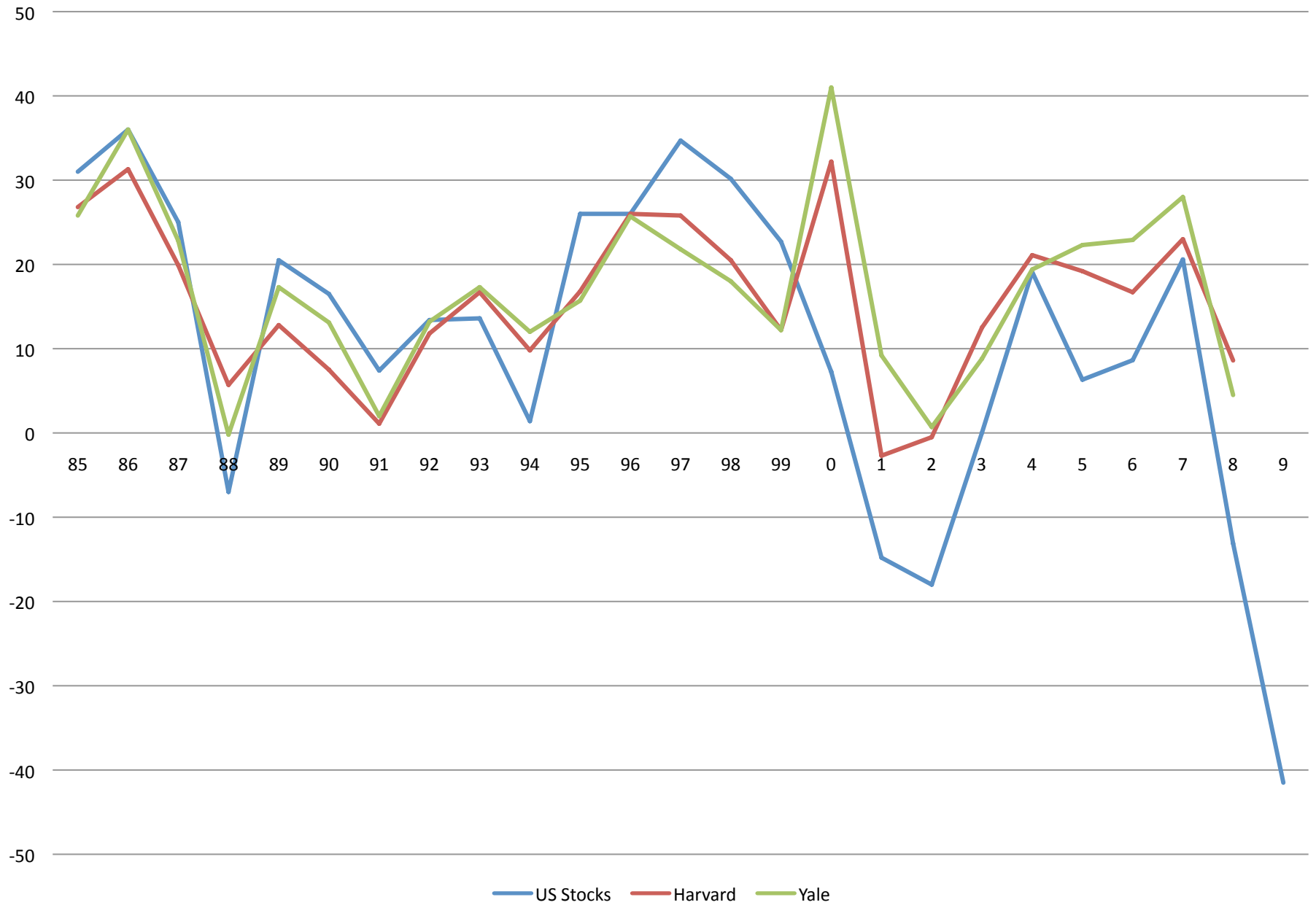
Harvard: US Stocks from 66% to 12%; Bonds from 34% to 9%



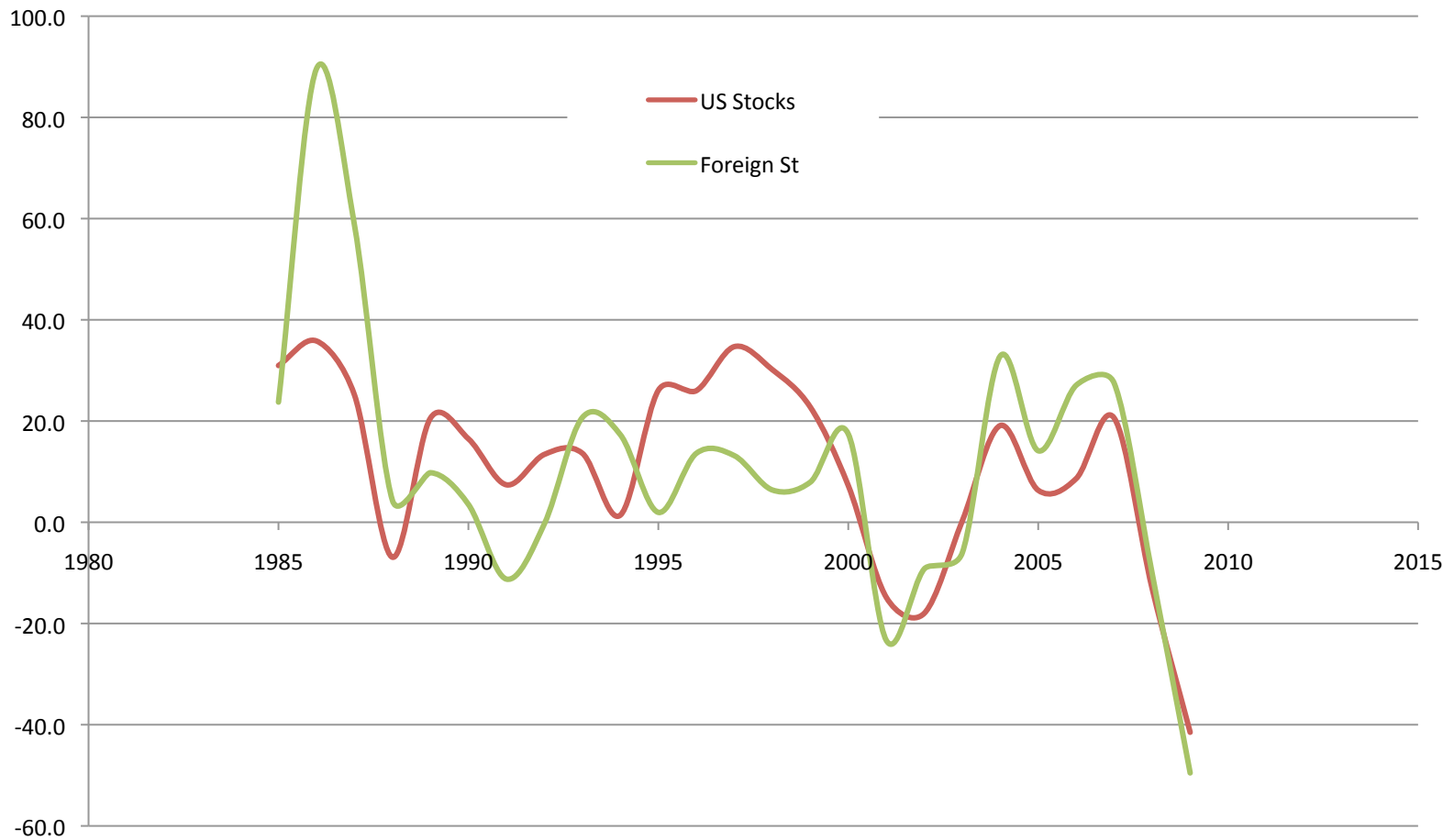
Yale: US stocks from 62% to 14%, Bonds from 10% to 4%



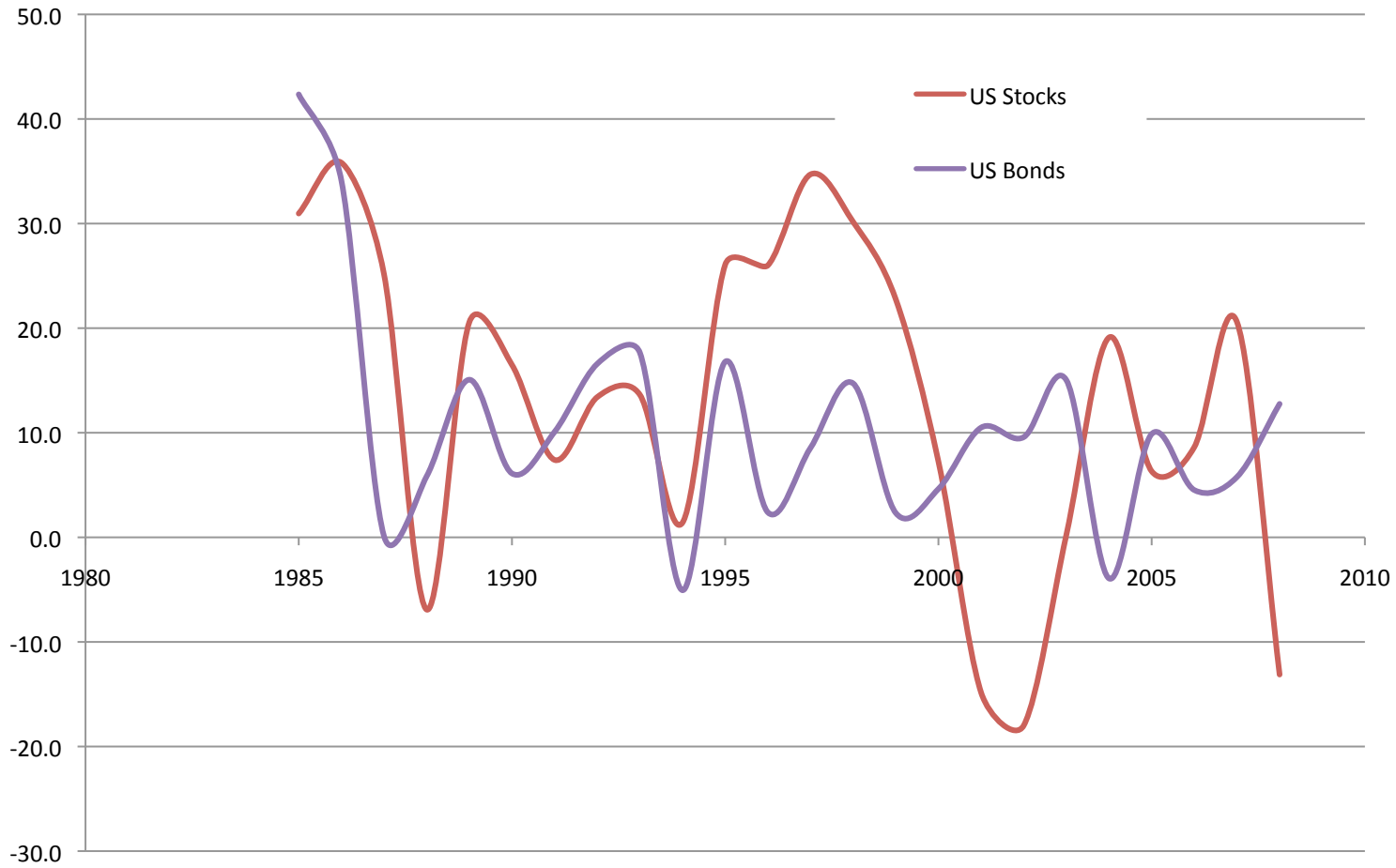
Annual gain for S&P500, Harvard, Yale Endowments



S&P500 & Foreign Stock Gains



S&P500 & 10Y Bond Gains

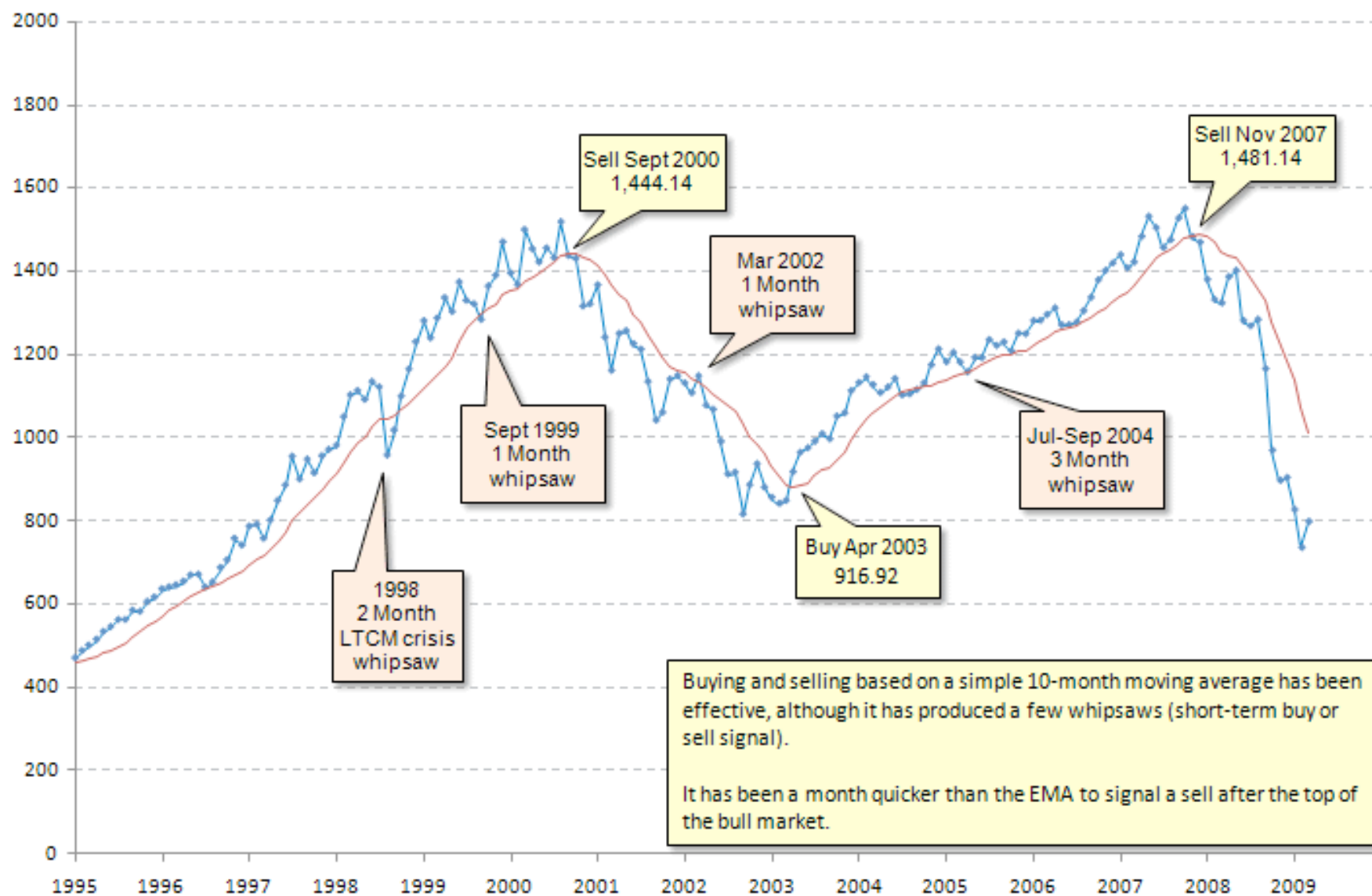


S&P 500 Monthly Close Since 1995

with 10-Month Simple Moving Average

dshort.com

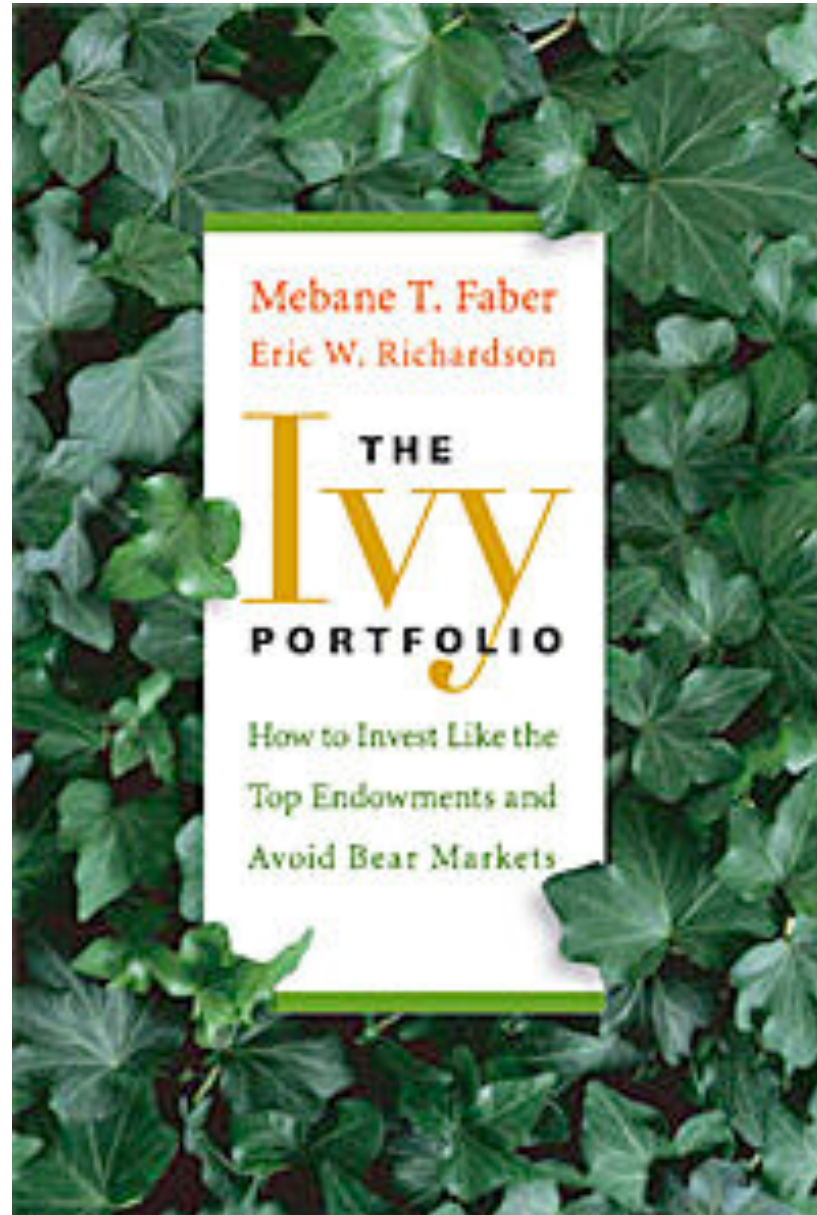
Through March 2009

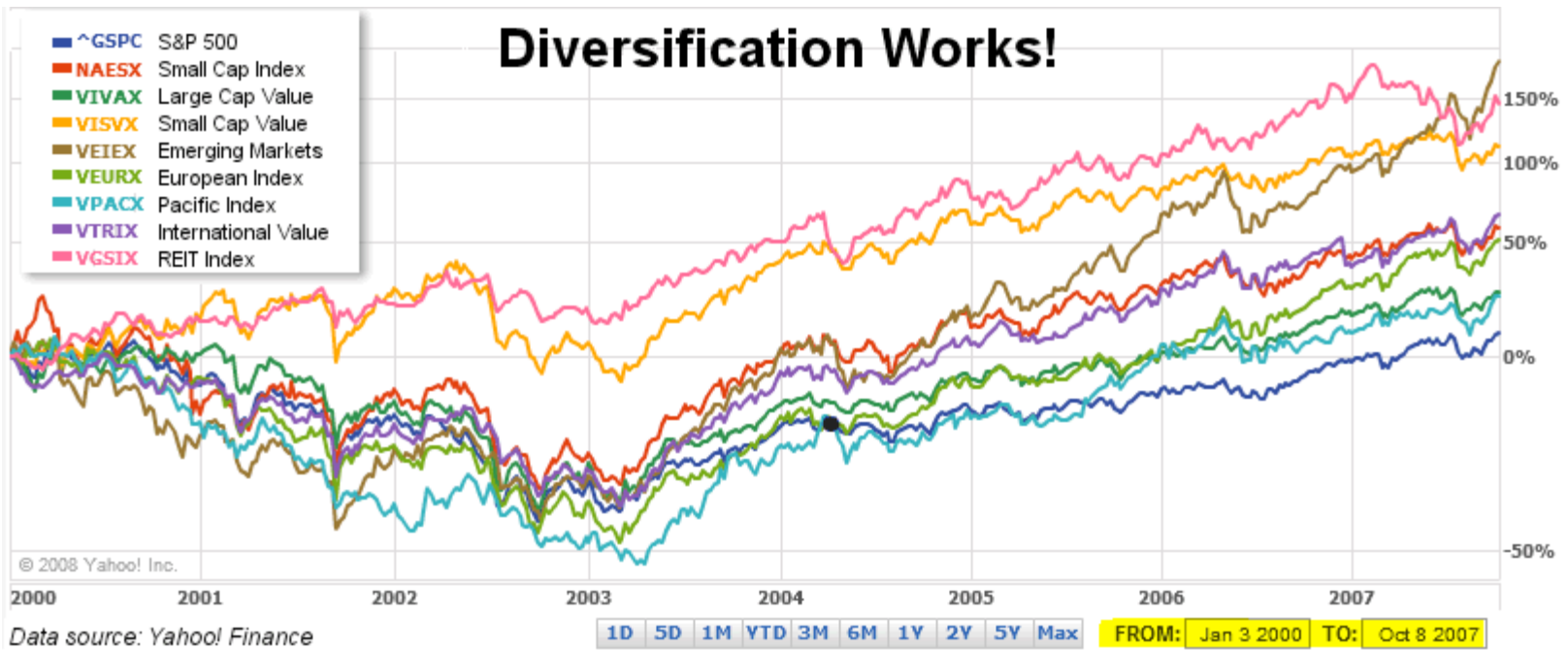


How could an individual adopt the Harvard and Yale Endowments approach?

Main Points:

1. **Diversify**
2. **Into 5 asset classes**
3. Use the **10 Month Moving Average** to buy and sell





Key points

1. Managed Harvard's \$35B endowment
2. Big changes coming as China & India build wealth
3. Diversify

