The **7Twelve**® Portfolio: An Introduction

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January 2017

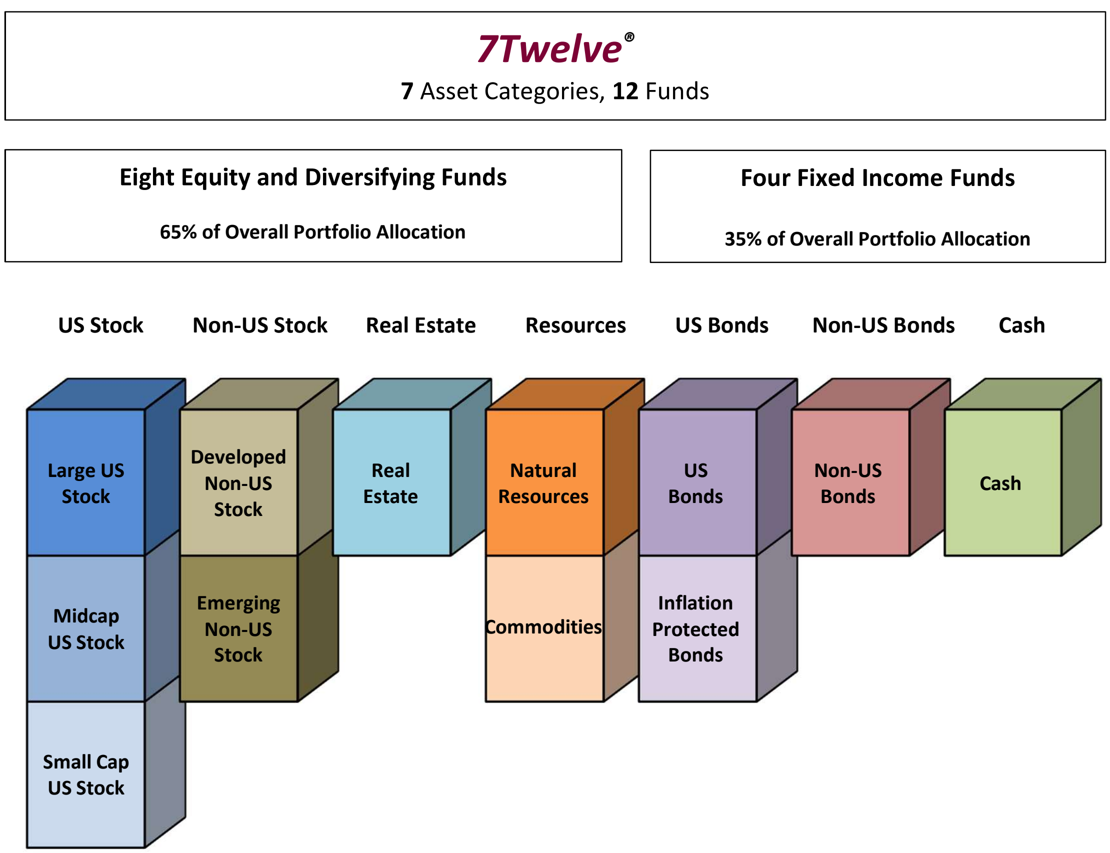
This brief report introduces a multi-asset portfolio design that brings a higher standard to the notion of “diversified”. This design is referred to as the ***7Twelve*** portfolio.

The name “7Twelve” refers to “7” asset categories with “Twelve” underlying mutual funds. The seven asset categories include: US stock, non-US stock, real estate, resources, US bonds, non-US bonds, and cash. The 7Twelve model is shown below in Figure 1.

The 12 mutual funds utilized in the 7Twelve design can be index funds, exchange traded funds (ETFs), or regular mutual funds. All 12 funds are equally weighted in the “core” 7Twelve model (each with an allocation of 8.33%). The equal-weighting is maintained by periodic rebalancing. There are also three “Age Based” versions of the 7Twelve model that progressively reduce the risk of the portfolio.

You can build the 7Twelve portfolio using mutual funds and/or ETFs from a variety of mutual fund companies.

Figure 1. The *7Twelve* Portfolio Model



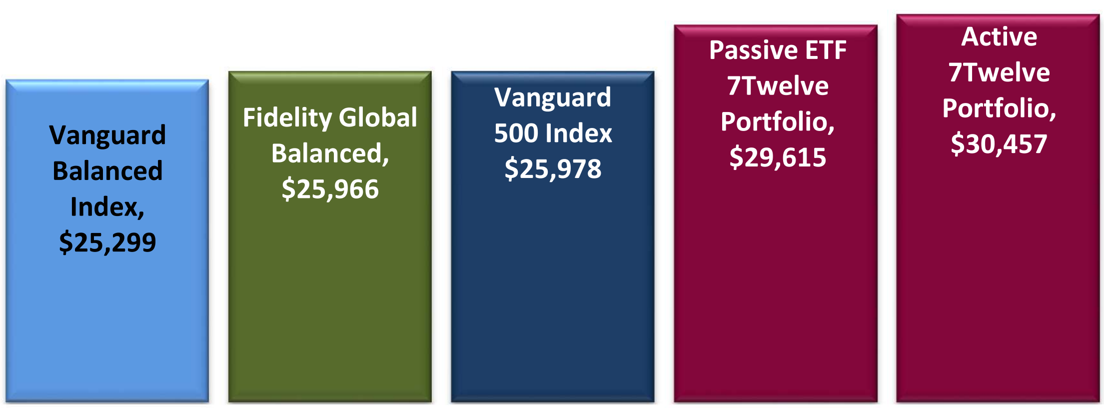
The performance of the 7Twelve model (Active version and Passive version) over the past 15 years is shown in Table 1. Three mutual funds are also included as comparisons: Fidelity Global Balanced, Vanguard Balanced Index, and Vanguard 500 Index.

As shown below, the 7Twelve models (the Active 7Twelve that uses actively managed funds and the Passive 7Twelve that uses ETFs) outperformed the comparison funds over the past 15 years.

Table 1. 15-Year Performance of *7Twelve* vs. Comparison Funds (as of 12/31/2016)

*Calendar Year Total % Return** (Assuming annual rebalancing)	*Active 7Twelve* (Using actively managed mutual funds)	*Passive 7Twelve* (Using passively managed ETFs)	*Fidelity Global Balanced (FGBLX)*	*Vanguard Balanced Index (VBINX)*	*Vanguard 500 Index (VFINX)*
2002	2.05	(0.76)	(6.14)	(9.52)	(22.15)
2003	28.82	26.95	29.90	19.87	28.50
2004	19.79	17.80	13.67	9.33	10.74
2005	12.91	12.34	9.00	4.65	4.77
2006	15.98	14.96	13.70	11.02	15.64
2007	13.78	11.58	13.77	6.16	5.39
2008	(28.14)	(25.16)	(23.27)	(22.21)	(37.02)
2009	32.36	25.64	22.52	20.05	26.49
2010	14.52	14.41	12.51	13.13	14.91
2011	(6.31)	(1.00)	(2.49)	4.14	1.97
2012	12.42	10.64	12.01	11.33	15.82
2013	11.33	9.65	15.51	17.91	32.18
2014	0.05	2.50	(0.46)	9.84	13.51
2015	(6.96)	(5.07)	(0.83)	0.37	1.25
2016	9.19	10.14	0.88	8.63	11.82
Average Annualized Performance (%)					
3-Year 2014-2016	0.55	2.33	(0.14)	6.20	8.72
5-Year 2012-2016	4.93	5.39	5.20	9.47	14.49
10-Year 2007-2016	3.98	4.45	4.22	6.27	6.83
15-Year 2002-2016	7.71	7.51	6.57	6.38	6.57
15-Year Growth of $10,000	30,457	29,615	25,966	25,299	25,978
15-Year Standard Deviation of Annual Returns	15.1	13.0	13.0	11.1	18.1
Annual % Expense Ratio	0.54	0.16	1.02	0.22	0.16

15-Year Growth of $10,000
January 1, 2002 to December 31, 2016
(assuming **annual** rebalancing)



The core 7Twelve model equally weights all 12 asset classes (mutual funds) at 8.33% each as shown below. For those wanting to build one of the 7Twelve Age Based models the suggested allocations for each of the 12 asset classes are shown below in Table 2.

7Twelve® Portfolio

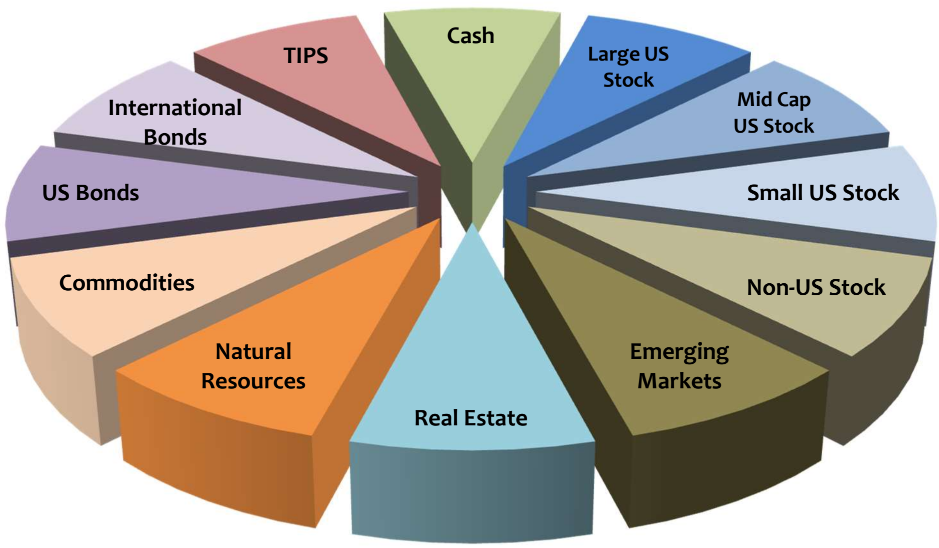


Table 2. Portfolio Allocations for the *7Twelve* Core Model and Age Based Models

***7Twelve* Model →**	***7Twelve* Core Model**	***7Twelve* Age Based 50-60**	***7Twelve* Age Based 60-70**	***7Twelve* Age Based 70 Plus**
***7Twelve* Asset Category**	***7Twelve* Age Based Portfolio Allocation**			
Large US Stock	8.33%	6.67%	5.00%	3.33%
Mid Cap US Stock	8.33%	6.67%	5.00%	3.33%
Small US Stock	8.33%	6.67%	5.00%	3.33%
Non-US Stock	8.33%	6.67%	5.00%	3.33%
Emerging Markets	8.33%	6.67%	5.00%	3.33%
Real Estate	8.33%	6.67%	5.00%	3.33%
Natural Resources	8.33%	6.67%	5.00%	3.33%
Commodities	8.33%	6.67%	5.00%	3.33%
US Bonds	8.33%	6.67%	5.00%	3.33%
Inflation Protected Bonds	8.33%	6.67%	5.00%	3.33%
International Bonds	8.33%	6.67%	5.00%	3.33%
Cash	**8.33%**	**26.67%**	**45.00%**	**63.33%**

Rebalancing the *7Twelve* Portfolio

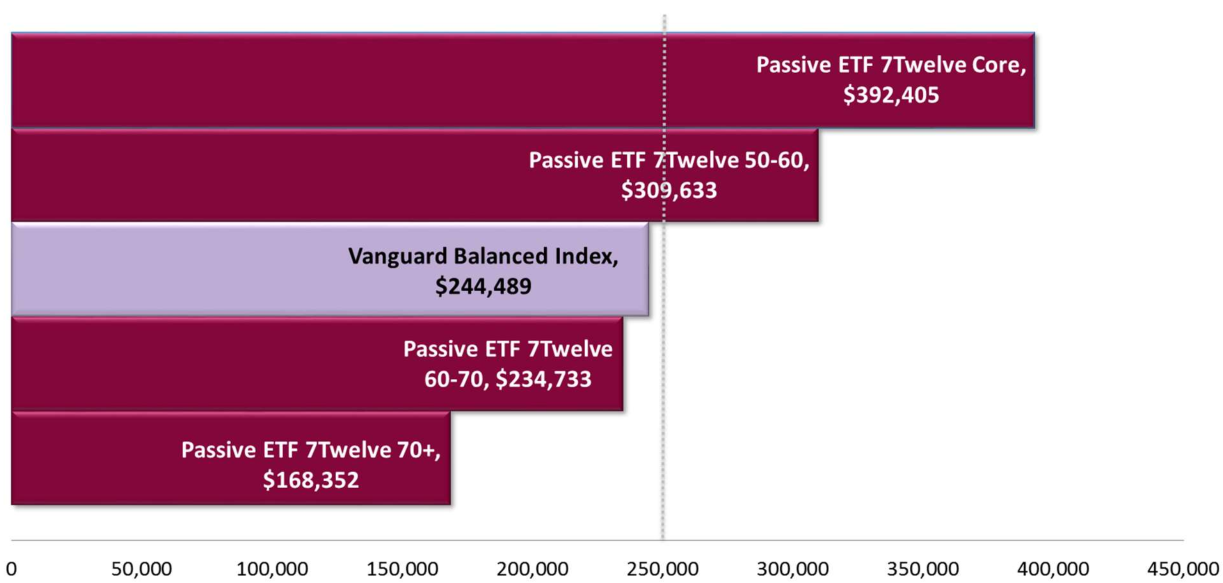
Rebalancing is a vitally important element of the 7Twelve design. Very simply, rebalancing is the process of systematically bringing each of the 12 funds in the 7Twelve portfolio back to their allotted allocation (8.33% in the core 7Twelve model) or the specified allocation if you've built an Age Based 7Twelve portfolio (see Table 2). For example, money is taken out of the funds that performed better in the prior year and deposited into the funds that under-performed in the prior year. That's all that rebalancing is—a straight-forward, non-emotional portfolio management protocol.

There is empirical evidence to support the performance advantage of rebalancing. Over the 15-year period from 2002-2016 the Passive ETF-based 7Twelve with annual rebalancing produced an annualized return of 7.51% compared to 7.11% without rebalancing—a benefit of 40 bps. That extra performance from rebalancing amounted to an extra $1,602 in account value after 15 years (assuming a $10,000 initial investment).

***7Twelve* as a Retirement Portfolio**

The diversified 7Twelve portfolio performs well as an investment portfolio during the retirement years. The graph below illustrates the ending account balances on December 31, 2016 of a retirement account with a starting balance of $250,000 on January 1, 2002. The first year annual withdrawal was 5% of the balance (or $12,500). The annual cash withdrawal was increased 3% each year producing a withdrawal total of $232,486 over the 15 year period. Two of the 7Twelve models (Core model and 50-60 model) finished the 15-year period with more than the original balance of $250,000 (shown by the dotted line).

Ending Account Balance After 15 Years



Building a diversified portfolio is only part of the game plan.
Set a goal to invest 10-15% of your income each year.

Craig L. Israelsen, Ph.D. is an Executive-in-Residence in the Financial Planning Program at Utah Valley University, a portfolio consultant, and the designer of the 7Twelve portfolio (www.7TwelvePortfolio.com) and author of "7Twelve: A Diversified Investment Portfolio with a Plan" by John Wiley & Sons (2010). ***7Twelve***® is a registered trademark owned by Craig L. Israelsen. As always, past performance does not guarantee future performance…just like in the NCAA basketball tournament.