Bob Carlson's
RETIREMENT WATCH

Volume 26, Issue 11 | Section 2: Investment Recommendations and Portfolios | November 2015

Balancing Current Strengths and Weaknesses

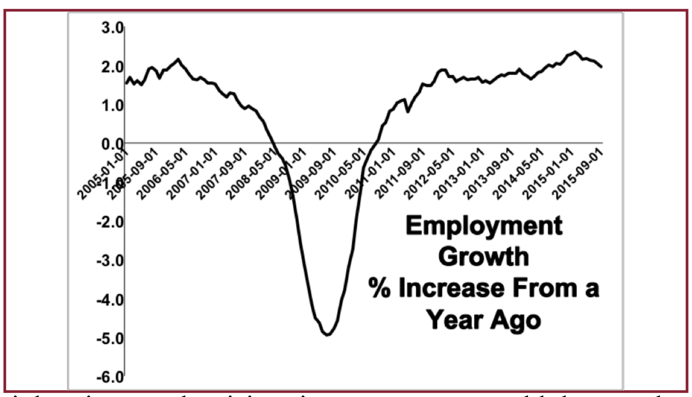
Market Watch

Uncertainty is high in the economy and markets. Uncertainty is so high that the Federal Reserve can't decide the policy it wants. Since May 2013, many Fed members talked of imminent interest rate increases, but they haven't voted to pull the trigger. Mixed signals from the Fed lead to higher volatility and confusing trends in the markets.

The other sources of the uncertainty aren't hard to find.

The economy is growing, and growth at a modest pace continued even after the Fed ended quantitative easing. Job growth is strong, with unemployment falling sharply the last couple of years. Even with the recent weakening in job growth, jobs are growing faster than the labor force. The job market will be very tight for employers soon. After years of very weak wage growth, there are a few signs of wage growth increasing.

Yet, growth clearly slowed in recent months, and growth is facing headwinds. Ending QE was a form of tightening, and raising interest rates would be another tightening. Also, declines in stock prices and slower growth in home prices have the same effect as reducing stimulus. The manufacturing sector of the U.S. is extremely weak because of the strong dollar, weak global growth, and low commodity prices.



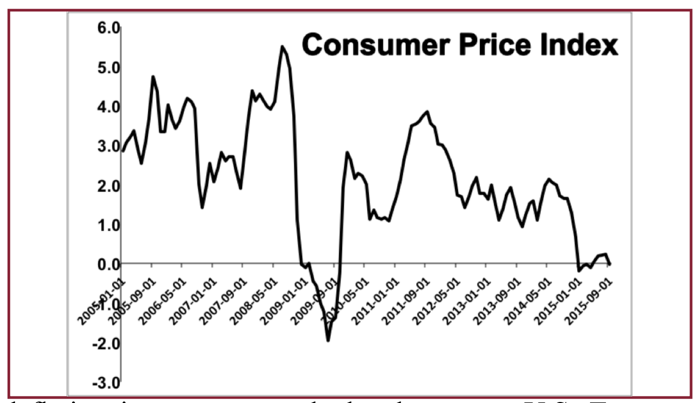
Growth is weak in many places outside the U.S., though there don't appear to be new crises on the horizon. China is managing its slower growth rate, but it's had surprises, bumps, and mistakes. Europe is growing slowly and has a long way to go to be healthy, but it also doesn't seem to be heading toward another recession. The global problems probably aren't enough to pull the U.S. into a recession, but they things to worry about.

Fighting all these headwinds, U.S. growth clearly slowed in recent months.

What's really unknown is the effect the stock market decline of August and September will have on households. It caused some reductions in optimism and spending, and the negative effects on growth showed in some data. There also are signs households bounced back, so there likely won't be enough of a decline to trigger a recession unless there are other negative events.

Stocks now are below the all-time highs reached earlier in the year, and they had a prolonged period without a correction. Valuations are high but not excessively so by most measures. Earnings and profit margins overall are declining, but that's largely a result of the problems in commodities and manufacturing. The rest of the stock market still is mostly a picture of balanced, solid earnings growth. The strongest case for stocks now is that there's almost nothing else that will deliver a decent return for investors. Again, both bulls and bears can make good cases, but neither case is overwhelming.

One of the biggest worries is the continuing strong trend of global deflation. The deflationary forces have overwhelmed inflationary forces, keeping a lid on price increases in the U.S. and elsewhere. The prospect of deflation is strong enough that long-term U.S. Treasury bonds have generated strong returns and remain a good investment despite the Fed's talk of raising rates.



To sort through the confusion, it's important to consider the big picture, or longer-term cycles. Normally, the short-term cycle of the Fed's raising and lowering interest rates is sufficient to reveal economic and market trends. That was the case from after World War II until 2007. At the start of that period, overall debt levels in the U.S. were low, and debt increased with each short-term cycle. The debt increases boosted economic growth.

Around 2007, however, maximum debt capacity was reached. Since 2009, debt levels declined despite extremely loose monetary policy. Debt reduction or slower debt growth reduces economic growth. Also, the Fed has few tools left to turn around the next recession. Interest rates already are near zero, and QE had less power each time it was used. In this part of the long-term cycle, when debt is high and being reduced or growing slowly, growth will be slower and more fragile, and inflation is less likely to be a problem. Clear signs of these effects are the commodity bear market and the modest increases in home prices despite all the central bank easing.

The greatest risk remains that the Fed (and other central banks) tighten too fast, too soon. For example, the European Central Bank raised rates in 2010 and has been struggling to repair the damage since.

Too many investors and economists focus on the traditional short-term cycle. That's why they've been expecting higher interest rates and inflation for several years and have been wrong. The long-term cycle has changed. There's also more uncertainty, and higher uncertainty leads to higher market volatility.

A few months ago I said that there were fewer opportunities than usual for investors. One characteristic of today's conditions is what economists call asymmetric risks. The risk of loss in many instances is greater than the potential for gain. That's why we're staying diversified and balanced. We're looking only for assets with solid margins of safety, carefully selecting the risks we want to take. RW

Ignoring Noise and Short-Term Wiggles

Portfolio Watch

"The past month and even longer have been a wild time in many markets."

You might have seen in recent months we reduced our use of "sell below" prices on recommended investments. Now, we're suspending all use of them.

The sell below prices are preset sell signals. If an investment closes at less than the sell below price, you are supposed to sell the investment the next day and put the proceeds in a money market fund until our next visit. The sell below prices are a way to reduce losses when a bear market in an investment takes hold between our visits. We never used them for all investments, there were other time we didn't use them at all.

I'm suspending the use of sell below prices for several reasons. Short-term volatility in the markets and at times in specific investments has increased. In the last few years we've been whipsawed a few times when good investments suddenly closed under our sell below prices, and then the markets just as quickly reversed course again, pushing prices higher.

A couple of factors cause these whipsaw actions. First of course are central bank actions. The Fed tries to influence markets more than usual through public statements as well as its policy actions. Sometimes these surprise investors, causing sharp, short-term moves.

Technology also increases short-term disruptions. Flash trading, program trading, and similar activities cause prices to become detached from fundamentals and move considerably in short periods.

Another reason to suspend the advance sell signals is our increased use of the members' web site and email. Most of our members sign up to receive the regular updates I send by email, and many also look at the updates on the web site in Bob's Journal. I plan to give any between-issue sell recommendations through these vehicles instead of pre-selecting the sell points. This approach will avoid our being taken out of good investments because of short-term panics and news unrelated to the factors that matter to markets for periods longer than a few days.

The past month and even longer have been a wild time in many markets. At their low point in August U.S. stocks indexes were down more than 10% from beginning-of-summer levels. They recovered a bit to close the loss to 4% or less by October 16. It's been a long, bumpy road to nowhere in most assets, because investors won't focus on the things that really matter to the markets.

A few months ago we invested in long-term treasury bonds through **Wasatch-Hoisington U.S. Treasury Bond**. This fund knows what moves the bond markets and focuses on them, ignoring the short-term wiggles and white noise of the media.

The fund has the authority to invest in treasury bonds of any duration. For quite some time the fund has been invested almost exclusively in long-term treasury bonds. The management team believes that economic growth in the U.S. will remain modest and that there are few if any inflationary pressures. The last few years, whenever market consensus was that interest rates were reaching lows and the long-term bull market was over, managers Van Hoisington and Lacy Hunt disagreed and were proved right. Their quarterly shareholder letters are detailed, well-researched explanations of the economy and interest rates.

They continue to believe that the secular low in inflation hasn't been reached, so the low in treasury bond yields also hasn't been reached. Excessive debt, slow money growth, the low velocity of money, and other factors add up to more downward than upward pressure on inflation and interest rates. While short-term events and sentiment periodically will increase rates, longer-term fundamentals will prevail. When the fund's outlook on inflation and interest rates changes, the portfolio will change.

Market opinions of inflation and interest rates has been volatile in 2015. The fund is down 0.47% for the year to date. But it is up 5.05% in the last month and 6.01% in the last three months. The yield is 2.08%.

Our best performer outside the Retirement Paycheck portfolio so far in 2015 is **DoubleLine Total Return Bond**. While most other funds lost value when the correction began during the summer, this fund actually rose in value. The fund is up 1.16% in the last month and 3.09% for 2015. The yield is about 4.16%.

Manager Jeffrey Gundlach has been consistent in several views in 2015. He firmly believed that the Fed would not raise interest rates and that the economy couldn't handle an interest rate increase. Whenever interest rates rose, he'd buy some long-term treasury bonds in expectation that rates would decline. He's also believed the dollar would be the strongest currency in the world, so he didn't want to own any non-dollar assets. These have been winning views.

As it has been for several years, the fund is mostly split between various mortgage securities. About half the fund is in agency securities, those that are insured by one of the federal agencies, primarily Fannie Mae. These are short-term securities that have relatively stable values and pay low interest rates. Another 22% of the fund is in nonagency mortgage securities. These aren't insured. They were purchased at discounts to net asset value. Their market values change with interest rates, but they pay solid cash flow through mortgage payments and prepayments. Also, almost 9% of the fund is in cash.

The rest of the fund is opportunistically invested in treasury bonds, commercial-backed mortgages, asset-backed securities and other assets. When short-term market moves create value, the fund will buy some assets and look to sell them profitably when the short-term move reverses.

We're active in U.S. stocks through several positions.

Our primary position in U.S. stocks is through **Nicholas** fund. Albert Nicholas has run the fund since 1969 and earned consistent, solid returns through the period. The fund's investment style has been ideal for this environment. It still has a positive return of 1.82% for the year but is down -1.82% in the last four weeks.

The fund looks for well-managed growing companies that are selling at reasonable prices. It's also focused on companies with primarily U.S. customers. That's helped it avoid many of the problems of multinational companies that are hurting from the strong dollar and weak global demand. The strategy also helped it avoid materials and commodity companies that were hurt by the commodities bear market. The fund is almost 30% in consumer cyclical stocks, 24% in health care, 14% in industrials, and 11% in financial services. Almost 8% of the fund recently was in cash.

The top holdings recently were Valeant Pharmaceuticals, Gilead Sciences, Walgreens Boots, Affiliated Managers, and O'Reilly Automotive. The fund is a long-term investor. The most recent additions in the top 10 stocks were in 2012. Turnover is only 22%.

We also own stocks through **Bridgeway Managed Volatility**. Fund management can shift the portfolio among stocks, bonds, and cash and uses primarily quantitative measures to decide on the allocation. The stock allocation has been as low as 26% in 2012 and as high as 65% in 2011. Since the Fed began its zero interest rate policy management hasn't seen much value in bonds. So, the non-stock portion of the fund has been mostly in

Sector Portfolio

Fund	Allocation	Ticker	4-Wk Return	Add New Cash?	Sell Below
Doubleline Total Return Bond	30.0%	DBLTX	1.16%	Yes	N/A
Bridgeway Managed Volatility	10.0%	BRBPX	1.82%	Yes	N/A
Nicholas	29.0%	NICSX	-1.82%	Yes	N/A
DoubleLine Emerging Mkts FI	9.0%	DBLEX	-0.12%	Yes	N/A
Vanguard Utilities Index-Adm.	10.0%	VUIAX	7.19%	Yes	N/A
Wasatch-Hoisington U.S. Treas.	12.0%	WHOSX	5.05%	Yes	N/A

**Returns are as of October 16, 2015*

We had a good bounce back from the correction, with strong returns from our newest additions: **Wasatch-Hoisington U.S. Treasury Bond** and **Vanguard Utilities Index-Admiral Shares**. As mentioned in the article, I'm suspending use of the "sell below" prices. Check Bob's Journal on the web site or my regular emails to members for any portfolio changes between issues. We're holding all positions for now.

Balanced Portfolio

Fund	Allocation	Ticker	4-Wk Return	Add New Cash?	Sell Below
Doubleline Total Return Bond	37.0%	DBLTX	1.16%	Yes	N/A
Bridgeway Managed Volatility	10.0%	BRBPX	1.82%	Yes	N/A
Nicholas	30.0%	NICSX	-1.82%	Yes	N/A
DoubleLine Emerging Mkts FI	7.0%	DBLEX	-0.12%	Yes	N/A
Vanguard Utilities Index-Adm.	6.0%	VUIAX	7.19%	Yes	N/A
Wasatch-Hoisington U.S. Treas.	10.0%	WHOSX	5.05%	Yes	N/A

**Returns are as of October 16, 2015*

There's no reason to make any changes in the portfolio this month. We had strong returns in the last month from our newest additions: **Wasatch-Hoisington U.S. Treasury Bond** and **Vanguard Utilities Index-Admiral Shares**. I'm suspending use of the "sell below" prices, as mentioned in the article. Check Bob's Journal on the web site or my regular emails to members for any between-visit portfolio changes.

cash. Recently the fund was about 51% stocks and 49% cash.

The stocks are selected primarily using the quantitative models used by Bridgeway's equity funds. The fund also can own ETFs and other index proxies in addition to individual stocks, and it has limited authority to sell stocks short.

The goals of the fund are to achieve solid long-term returns with about 40% of the volatility of the S&P 500. The fund is up 1.82% for the last month and is down 0.29% for the year to date.

A few months ago we saw value in utility stocks and recommended **Vanguard Utilities Index Admiral Shares**. They were down most of 2015. Investors who believed interest rates were going to rise sold income-sensitive investments such as utility stocks. Since then utilities have rallied. While they still are down 2.92% for the year to date, they are up 3.06% for three months and 7.19% for the last month. The yield is about 3.61%.

My recommended fund has a $100,000 minimum. If that doesn't fit your portfolio, exchange-traded funds offer the best alternatives. This fund has an ETF alternative, **Vanguard Utilities ETF** (ticker: VPU). There's also the **iShares Utilities Select Sector SPDR** (ticker: XLU). It has a similar performance to the Vanguard ETF but seems to consistently lag a bit, which adds up over time.

Emerging market bonds lost a lot of value in early 2015. We saw value and purchased them through **DoubleLine Emerging Markets Fixed Income**. The fund has a yield of 5.26%. It is down 0.12% in the last month and 0.92% for the year to date.

The fund has several advantages over other emerging markets funds. It minimizes exposure to government bonds, seeking primarily corporate bonds and bonds issued by sovereign-backed entities. That reduces the politics in most decisions and allows the fund to focus on the fundamentals of the bond issuer. The fund also follows DoubleLine's policy of avoiding exposure to currencies other than the U.S. dollar at this point. It owns primarily bonds issued in dollars instead of local currency bonds.

The fund looks for bonds issued by entities that are improving their financial strength. The bond rating firms generally lag these changes. So, there is potential for the fund to buy bonds shortly before their ratings are upgraded and the bonds increase in value. The fund is more conservative than many other emerging market bond funds. It emphasizes not losing money instead of taking more risk by stretching for higher yields.

The fund has two share classes. The I shares, or institutional class, have lower expenses but require a $100,000 minimum investment. The N shares (ticker DLENX) require only a $2,000 minimum investment and have higher expenses.

Income Growth Portfolio

Fund	Allocation	Ticker	4-Wk Return	Add New Cash?	Sell Below
Doubleline Total Return Bond	41.0%	DBLTX	1.16%	Yes	N/A
Bridgeway Managed Volatility	10.0%	BRBPX	1.82%	Yes	N/A
Nicholas	30.0%	NICSX	-1.82%	Yes	N/A
DoubleLine Emerging Mkts FI	5.0%	DBLEX	-0.12%	Yes	N/A
Vanguard Utilities Index-Adm.	4.0%	VUIAX	7.19%	Yes	N/A
Wasatch-Hoisington U.S. Treas.	10.0%	WHOSX	5.05%	Yes	N/A

**Returns are as of October 16, 2015*

Don't make any changes in the portfolio. All funds bounced back after the correction, and we had great returns from **Wasatch-Hoisington U.S. Treasury Bond** and **Vanguard Utilities Index-Admiral Shares**. I'm suspending use of the "sell below" prices. Any between-visit changes will be announced on Bob's Journal on the members' web site and in my regular emails to members.

Seeking Opportunities for Higher Income

Recent market disruptions opened up opportunities for our Retirement Paycheck portfolio.

This is our strategy for investors who primarily want income. The Fed's zero interest rate policy won't let us earn a decent income from traditional safe income investments. In this strategy we look at a range of investments: preferred stock, closed-end funds, master limited partnerships, and more.

We also don't view any of these investments as buy-and-hold positions. These investments are more volatile than traditional income investments, and we accept that volatility as part of the strategy. To limit the downside volatility, however, we try to buy these investments when prices are low and sell when investor excess pushes prices too high and yields too low.

Most of the portfolio is invested in funds already discussed. In addition, the portfolio owns preferred stocks through **Cohen & Steers Preferred Securities & Income**. I've said many times that this is a great environment for preferred stocks.

Retirement Paycheck Portfolio

Fund	Ticker	Allocation	12-mo. Yield	Add New Cash?	Sell Below
Doubleline Total Return Bond	DBLTX	40.0%	4.16%	Yes	N/A
DoubleLine Emerging Mkts FI	DBLEX	10.0%	5.26%	Yes	N/A
Cohen & Steers Preferred Sec.	CPXCX	25.0%	4.32%	Yes	N/A
Vanguard Utilities Index-Adm.	VUIAX	15.0%	3.61%	Yes	N/A
Wasatch-Hoisington U.S. Treas.	WHOSX	10.0%	2.08%	Yes	N/A

**Yields are as of October 16, 2015*

There are no changes to make in the portfolio this month. We earned a good yield plus some capital gains in the last month. Returns were strong from our recent additions: **Wasatch-Hoisington U.S. Treasury Bond** and **Vanguard Utilities Index-Admiral Shares**. The yield right now is lower than in recent years, but I'm looking closely at a couple of funds that declined recently and could increase both our yield and potential for capital gains.

These hybrids securities offer higher yields than either the stocks or bonds issued by a company. Their values fluctuate with interest rates much like long-term bonds. A slow-growth, low-inflation environment is a good time to own these securities.

I like the Cohen & Steers fund because it isn't an index fund, so it doesn't have to buy a lot of low quality, thinly-traded securities simply because they are in the index. It also is less concentrated in banks than the indexes. The fund examines the fundamentals of each company and buys the securities of those in which it has confidence. The fund also is global while other preferred stock vehicles don't venture outside the U.S.

The fund is up 0.64% in the last month and 3.56% for 2015. The yield is 4.32%.

I'm looking closely at a couple of other opportunities for this portfolio. They tumbled for much of 2015, but recent actions indicate they are at selling at good values and might have reached bottoms. If that's the case, I'll recommend adding them in the next month or so.

Analyzing True Diversification Results

The True Diversification portfolio performed as expected in the tough third quarter of 2015. This is our long-term buy-and-hold portfolio. Most of the mutual funds in this portfolio have low correlations with the major market indexes and also with each other. That allows us to earn steady, solid returns over time with less volatility than the market indexes. Most importantly, we lose less money when the major stock market indexes are in the tank, as we demonstrated in the August and September stock correction. That gives us less ground to make up and increases long-term returns.

In this visit, we're having our quarterly detailed review of the strategy. Remember that portfolio changes were made in the September visit. In the model portfolio, the changes were made effective October 1, so the portfolio data in this discussion and in the table are for the portfolio before the changes. The mutual fund data in the table are for each fund through October 16.

In the quarter ending September 2015, our True Diversification portfolio was down 4.99%. The S&P 500 was down 6.44% for the same period. Our portfolio was down 4.85% over one year while the index was down only 0.51% for that period. Over the long haul we've earned a 6.81% annualized return for a cumulative 131.67% returns.

This is how the portfolio is expected to perform. When the S&P 500 is in a strong rally as it has been most of the last few years, our portfolio will lag behind. But our portfolio will be competitive or have higher returns at most other times.

After we inaugurated the portfolio around 2001, it steadily outperformed the S&P 500 right through early 2013. During that period we had higher returns with less risk and volatility than the stock index.

The strong rally induced by the Fed's quantitative easing program generated such a strong stock rally that the index overtook our long-term returns. We weren't helped by a couple of funds that recently haven't lived up to their long-term records. We'll recapture the lead, however, in time. Our portfolio will experience losses from time to time, but it won't sustain losses as substantial as the index does during bear markets. Our worst year, for example, ended in February 2009 with a loss of 25.17%. The S&P 500 lost about half its value in that time.

In other words, over time we are less volatile and have higher risk-adjusted returns than the index. A measure of risk-adjusted returns is called alpha. Over 10 years our alpha to the S&P 500 is 1.18. That's a strong number. Another widely-used statistic is the Sharpe ratio, which measures the return earned for each unit of risk taken. Our Sharpe ratio over is 0.53 over 10 years, 0.78 over five years, and 0.59 over three years. Those are good numbers. The S&P 500's Sharpe Ratio over 10 years is 0.45.

We're also about half as volatile as the index. For example, the standard deviation of the S&P 500 over three years is 9.74 while our standard deviation is 5.27.

We achieve these numbers because we have a low correlation with the S&P 500. Beta is a widely-used measure of that. When an investment or portfolio has a beta of 1.0 to an index, it rises and falls in line with the index. A beta of 0.0 means there's no relationship between the patterns of the index and the investment or portfolio. Our beta over three years is 0.46 and over 10 years it is 0.58. The beta is declining as the Fed ends quantitative easing and reduces its influence on markets. Before quantitative easing our beta was less than 0.40 and we're moving back toward that level.

When the mutual funds in the portfolio are aggregated, the overall portfolio has cash of 26%, U.S. stocks of 26%, and non-U.S. stocks of 16%. Bonds make up about 23% of the portfolio, and the rest of the portfolio is in other assets. You can see that we are much more diversified than the S&P 500. That's why we lagged the index in recent years when it was among the top-performing investments in the world. Diversification hurts us during periods such as these but will help at most other times.

True Diversification Portfolio

Fund	Ticker	Alloc.	3 mos.	1-Yr.	3-Yr.	5-Yr.	10-Yr.
Total Portfolio		100%	-4.99	-4.85	2.91	4.93	5.67
Plus or minus S&P 500			1.45	-4.34	-9.46	-8.37	-1.65
Price Capital Appreciation	PRWCX	11%	-1.19	12.88	13.14	12.66	9.04
Marketfield*	MFLDX	10%	-4.15	-8.08	-1.02	3.32	NA
Price HY	PRHYX	11%	0.88	-0.27	7.17	8.41	7.40
FPA Crescent	FPACX	18%	-2.70	4.62	9.00	8.64	7.60
PIMCO All Assets All Auth*	PAUDX	10%	-6.58	-11.64	-4.64	-0.03	3.57
Berwyn Income	BERIX	13%	-1.10	0.54	5.81	5.94	7.12
Cohen & Steers Realty Sh	CSRSX	5%	3.48	14.76	12.21	12.14	8.57
PIMCO Real Return**	PRRDX	5%	-1.34	-3.67	-2.43	1.46	4.00
Oakmark**	OAKMX	5%	-3.85	7.52	14.68	14.15	9.11
William Blair Macro Alloc***	WMCNX	12%	-7.08	-0.71	4.68	NA	NA

*Total portfolio and S&P 500 returns are through Sept. 30, 2015. Fund returns are through October 16, 2015. Returns longer than one year are annualized. *Added to the portfolio in February 2012 issue. **Added in the December 2014 issue. ***Added in the September 2015 issue.*

About 90% of the stocks are in developed markets, and 10% are in emerging markets. About 68% of the stocks are in North America, and 13% are in Greater Europe. Another 16% are in Asia with half of that in Japan. Most of the stocks are large cap stocks with the largest portion (30%) in large cap growth stocks as classified by Morningstar.

The bonds are mostly high-yield and low investment grade bonds. Our managers own few top quality and treasury bonds at this time.

All of our funds are actively managed, so the overall allocation of the portfolio will change over time.

Another factor that's hurt the portfolio is the performance of **MainStay Marketfield** and **PIMCO All Asset All Authority**. The PIMCO fund took strong emerging market positions the last few years. In early 2014, the MainStay fund positioned the portfolio for higher inflation and interest rates. It also took a bullish position on China's stocks that paid off for a while. All these positions hurt our performance. In the September issue we reduced positions in these funds and added a position in William Blair Macro Allocation. It is more balanced and has better risk controls. The move should increase returns and reduce volatility over time. RW

Can't Buy a Recommended Fund?

Some of our fund recommendations are closed to new investors or have high minimum investment requirements or brokerage restrictions. There's a page on our members' web site that offer alternative funds or share classes for these funds. On the members' home page, click on the "Extras" tab, and then click on "Alternate Investments and Share Classes."

One-Stop Recommended Portfolios

Simplify your investment life and probably improve returns by concentrating your investments at one or two mutual fund firms or brokers. It will be easier to track and manage your portfolio.

The One-Stop Portfolios let you follow our margin-of-safety investment approach at the major fund companies and No Transaction Fee (NTF) programs. Those who want to use Exchanged-Traded Funds can follow our ETF portfolio.

Start with our recommended fund in the left column. Find the alternative fund in the same row in the appropriate column to the right.

There is not always a good alternative to one of my recommended funds. Then, consider paying a fee to invest in my recommended fund or opening an account directly in that fund. Other alternative funds are on the web site under Carlson's Choice mutual funds.

One-Stop Alternative Portfolios

RW Recommended Fund	NTF Funds*	ETFs	Fidelity	Price	Vanguard
Doubleline Total Return Bond	Dreyfus Basic US Mtg.	N/A	Mortgage Securities	GNMA	GNMA
Nicholas	Nicholas	Vanguard Dividend Appr.	Equity Income	Equity Income	Equity Income
PIMCO Real Return	PIMCO Real Return	iShares: TIP Bond	Infl. Prot. Bonds	Infl. Prot. Bonds	Infl. Prot. Bonds
Bridgeway Managed Volatility	N/A	N/A	N/A	Capital Appr	N/A
C&S Preferred Securities Income	Forward Select Income	iShares US Preferred Stock	N/A	N/A	N/A
DoubleLine Em Mkts Fixed Inc	DoubleLine Em Mkts Fixed Inc	iShares EM Corp Bond	Emerging Mkts Debt	EMkts Corp Bond	Em Markets Gov't Bond
Vanguard Index Utilities-Admiral	Rydex Utilities Investor	Vanguard Utilities	Utilities	N/A	Vanguard Index Utilities-Admiral
Wasatch-Hoisington U.S. Treasury	Wasatch-Hoisington U.S. Treasury	N/A	N/A	N/A	N/A

**Not all NTF funds listed are available from all the NTF programs. Some are more restrictive than others, and some funds do not want to be available on all the NTF programs.*

Portfolio Performance

	Sector	Balanced	Income Growth	Retirement Paycheck	IWW ETFs
One Month	-1.16%	-1.16%	2.64%	0.55%	3.42%
Year to Date	-5.43%	-7.38%	-2.32%	4.01%	-4.52%
Last 12 Months	-4.28%	-5.55%	-0.74%	6.88%	-9.18%
3 Years*	-0.19%	-1.26%	0.47%	5.74%	-2.85%
5 Years*	1.55%	0.87%	1.88%	7.32%	5.28%
10 Years*	1.30%	0.72%	2.00%	N/A	N/A
Compound Return	279.63%	251.71%	42.49%	50.35%	88.49

**Annualized.*

We had mixed returns in September, some modest losses and some gains, when market indexes were negative. New positions in long-term treasury bonds and utilities stocks helped returns. Most of the portfolios had good gains the first half of October, but the IWW-ETF portfolio gave up some ground in the new month.

All portfolio returns are total returns, including dividends and other distributions, as of September 30, 2015. An investor might incur taxes, transactions fees, and other costs that are not included in the calculations. The Income Growth Portfolio was begun in July 2001. The Retirement Paycheck Portfolio began Dec. 2010. The IWW-ETF Portfolio began December 2005. Other portfolios began Jan. 1995.

What's Up In Mutual Funds

Funds	4-weeks	13-weeks	26-weeks	39-weeks	52-weeks	Tickers	Telephone
Fairholme Fund	4.51%	0.73%	0.81%	12.56%	10.42%	FAIRX	866-202-2263
White Oak Growth Stock	3.84%	-2.44%	3.28%	7.94%	13.34%	WOGSX	888-462-5386
Clipper Fund	4.07%	-3.47%	2.40%	7.99%	12.27%	CFIMX	800-776-5033
US Global Gold Shares	10.66%	8.91%	-2.31%	-8.33%	-9.69%	USERX	800-873-8637
Pin Oak Aggressive Stock	5.25%	-2.70%	1.08%	6.79%	11.03%	POGSX	888-462-5386
Selected American	3.83%	-2.84%	0.71%	7.06%	12.33%	SLASX	800-243-1575
Cohen & Steers Realty Shares	7.47%	3.80%	1.34%	-4.30%	13.70%	CSRSX	800-437-9912
Century Shares	2.88%	-2.58%	0.73%	7.35%	15.75%	CENSX	800-321-1928
Price Real Estate	6.46%	3.46%	1.10%	-3.31%	14.16%	TRREX	800-638-5660
Undisv. Man. Behav. Value	3.84%	-2.52%	-0.66%	8.66%	8.05%	UBVLX	888-242-3514
Fidelity Real Estate Invstmt	6.80%	3.39%	1.47%	-4.53%	12.84%	FRESX	800-544-8888
Price Science & Technology	5.09%	-3.32%	-1.72%	7.33%	10.97%	PRSCX	800-638-5660
T. Rowe Price Blue Chip Grth	1.06%	-4.60%	1.02%	9.38%	16.78%	TRBCX	800-638-5660
Price Intl Discovery	3.30%	-3.13%	-1.48%	8.66%	10.18%	PRIDX	800-638-5660
Vanguard U.S. Growth	1.73%	-4.49%	1.21%	7.83%	16.53%	VWUSX	800-662-7447

There are big changes in the month's fund rankings. The outlook of most investors apparently changed after the Fed decided not to raise interest rates at its September meeting. It probably also helped that China's stock market seemed to stabilize, and the European Central Bank announced that it stands ready to provide additional liquidity as needed. You can see that all this news helped U.S. stocks, especially growth stocks and some categories that were beaten down the previous few months. It's an interesting collection of funds we see among the top-ranked funds. Growth stock funds have the largest representation in the rankings this month. Also showing a significant rebound in the last month or so are real estate investment trusts. These did well in 2014 but started to fade in early 2015. They were down ahead of the rest of the market and fell hard during the August and September correction. We also see a recovery in some gold mining company shares. Despite the strong four week returns for many of these funds, the 13-week and 26-week returns are low, indicating that these funds really tumbled during the August-September period.

What's Down In Mutual Funds

Funds	4-weeks	13-weeks	26-weeks	39-weeks	52-weeks	Tickers	Telephone
Northeast Investors	-1.00%	-7.01%	-7.57%	-6.09%	-15.01%	NTHEX	800-225-6704
Longleaf Partners Small Cap	2.38%	-8.48%	-12.24%	-3.03%	1.07%	LLSCX	800-445-9469
Dodge & Cox International	3.74%	-9.62%	-11.63%	-4.38%	-4.04%	DODFX	800-621-3979
Baron Small Cap	-2.12%	-8.88%	-9.60%	-2.33%	3.50%	BSCFX	800-992-2766
Third Avenue International Value	1.62%	-7.46%	-9.63%	-6.13%	-5.86%	TAVIX	800-443-1021
Artisan International	1.18%	-10.17%	-9.71%	-6.06%	-0.60%	ARTIX	800-344-1770
Vanguard Emerging Markets	6.74%	-8.92%	-15.31%	-8.67%	-9.80%	VEIEX	800-662-7447
Heartland Value	1.30%	-8.28%	-11.29%	-7.93%	-3.17%	HRTVX	800-432-7856
US Global China Region	5.01%	-7.96%	-19.86%	-6.96%	-0.39%	USCOX	800-873-8637
Heartland Value Plus	3.80%	-8.92%	-13.21%	-9.28%	-6.81%	HRVIX	800-432-7856
Dreyfus Midcap Value	-1.41%	-11.23%	-10.89%	-6.43%	3.55%	DMCVX	800-373-9387
Templeton Instl Emerg Mkts	5.87%	-9.55%	-19.07%	-13.83%	-11.42%	TEEMX	800-292-9293
PIMCO Commodity Real Return	2.20%	-9.40%	-14.13%	-14.52%	-26.73%	PCRDX	800-426-0107
Longleaf Partners	1.83%	-13.56%	-16.80%	-14.44%	-7.54%	LLPFX	800-445-9469
Price Latin America	4.43%	-15.43%	-19.79%	-19.86%	-29.85%	PRLAX	800-638-5660

There's a new theme in this month's bottom-ranked funds: U.S. small company stock funds. Small cap stocks were market leaders for much of the last few years. But as usually is the case they tumbled during the market correction of August and September. Another theme is a predominance of value stock funds, both domestic and international. Many of these value stock funds invested heavily in energy stocks as oil prices declined. Oil seemed to have found a bottom early in 2015, but it had a fresh downward leg in the summer and early fall. That's a classic value trap. An investment looks cheap in historic perspective. But it hasn't started to recover yet, so there's a risk that it's only taking a pause in its bear market. Value managers often buy before the bottom, because they invest in stages and don't use any technical or momentum investing tools. They don't try to time their investments. Also, the most significant gains often are right after a recovery begins, so they don't want to miss those gains. Joining these fund managers at the bottom of the rankings are some long-termers: commodities and emerging market stock funds.

Returns are as of October 16, 2015.

Invest with the Winners Trading Strategy: Exchange-Traded Funds

Funds	Tickers	4-weeks	13-weeks	26-weeks	39-weeks	52-weeks
iShares North American Software	IGV	4.86%	-0.88%	5.63%	11.92%	22.60%
Italy - ishares	EWI	4.88%	-0.97%	2.83%	14.73%	7.61%
SPDR - Consumer Discretionary	XLY	3.75%	-1.09%	4.07%	12.37%	22.44%
Austria - ishares	EWO	6.37%	-0.92%	-0.92%	10.66%	5.40%
DJ US Consumer Non-Cycl	IYK	4.51%	0.71%	1.80%	3.96%	12.09%
PowerShares QQQ	QQQ	2.63%	-4.82%	2.23%	7.49%	16.95%
SPDR - Technology	XLK	4.82%	-3.34%	1.25%	3.99%	11.53%
DJ US Consumer Cyclical	IYC	1.92%	-3.47%	1.09%	7.45%	20.96%
SPDR - Consumer Staples	XLP	5.17%	-0.88%	1.16%	0.73%	11.20%
SPDR - Utilities	XLU	6.04%	3.30%	1.54%	-7.90%	4.14%
DJ US Technology	IYW	4.10%	-4.23%	0.25%	3.70%	11.19%
DJ US Utilities	IDU	5.50%	3.44%	0.87%	-8.15%	4.08%
S&P 500 Growth	IVW	2.81%	-3.72%	-0.01%	3.48%	12.14%
France - ishares	EWQ	4.67%	-3.26%	-3.30%	5.18%	4.84%
C&S Realty Majors	ICF	5.41%	3.82%	-0.51%	-6.76%	10.64%
Japan -ishares	EWJ	6.08%	-5.93%	-5.53%	7.67%	11.61%
Belgium - ishares	EWK	0.17%	-4.84%	0.46%	6.53%	11.76%
Netherlands - ishares	EWN	4.36%	-6.11%	-3.04%	5.56%	10.14%
iShares Silver	SLV	5.60%	7.38%	-1.80%	-9.85%	-7.84%
iShares BarCap 7-10 Yr. Treasury	IEF	0.78%	2.83%	-0.87%	-0.95%	1.82%
Value Dividend Fund	FVD	4.01%	-0.50%	-1.34%	-1.49%	7.81%
S&P 100	OEF	4.14%	-4.49%	-0.97%	1.30%	7.10%
ProShares Short MidCap 400	MYY	-1.96%	3.29%	2.63%	-3.73%	-11.99%

Returns are as of October 16, 2015

Updating the Invest with the Winners Aggressive Strategy

There are a lot of changes in the top-ranked ETFs this month, and that will mean changes in the portfolio. The biggest change is that only the 23rd fund in the rankings has a negative return for the most recent four weeks. The rest of the funds have positive returns, and many of them are strong returns for one month. There still are negative numbers in many of the longer-term periods. That indicates if this is a recovery from the correction it is only just beginning. Another big change is that there's only one fund among the top-ranked funds that sells short, and again that's the fund in 23rd place in the rankings. Last month, the top two funds were short sellers.

Last month we started with those two funds that sell short stock market indexes in the portfolio: **ProShares Short Dow 30** (DOG) and **ProShares Short MidCap 400** (MYY). DOG closed more than 7% below its recent closing high on October 5, triggering a sale. MYY closed more than 7% below its recent high on October 8, also triggering a sale. It's interesting that MYY since has recovered a bit of the losses, but DOG has not. Each fund is out of the portfolio, and the model portfolio is in cash.

As usual, we look at the top four funds in the rankings to see if any meet our buy rules. We'll invest equal amounts in those that meet the rules. A fund's most recent close can't be more than 7% below its closing high in the last four weeks. It also can't have a negative return for the last four weeks (or in the last week for conservative investors).

None of the top-ranked funds has negative returns for the last four weeks or for the last week. Also, none closed more than 7% below its recent closing high. In fact, three of the four closed most recently at their highs for the last four weeks. So, we'll buy equal shares of **iShares North American Software**, **iShares Italy**, **SPDR-Consumer Discretionary**, and **iShares-Austria**. Sell any of the funds if it closes more than 7% below its recent closing high. For funds that are new to the portfolio, we go back a month to determine the recent closing high. The recent closing highs are: IGV: $101.50; EWI: $15.35; XLY: $78.29; and EWO: $16.19. You need to follow the fund values and adjust your sale price when a fund reaches a new closing high.

You can review the detailed rules for the strategy in the free report, *5 Easy Chair Portfolios to Fund Your Retirement Dreams*. The latest version is available for download to all members on the members' section of the web site at www.RetirementWatch.com. After logging in, click on the red box on the right side that says "Download Your Free Reports - 2015 Updates." For continuing members, the latest version of the reports always is available free on the members' section of the web site. As I point out in the report, the IWW-ETF strategy is an aggressive portfolio strategy for investors who will take the time to follow their portfolios daily. Most investors should have only 5% to 10% of their total investment assets in this or other aggressive strategies.