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In Defense of Asset Allocation
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Year to date, investors have been scratching their heads as the DOW and S&P 500 hit new highs. Often, their own portfolios do not appear to be doing as well. Do not despair! We have been here before. Below is our perspective.

Our view is that the story this year has been the strength of the US dollar; probably up as much as 10% relative to the rest of the world's currencies. This means that for international stocks to benefit US investors, they must first overcome a 10% currency change. So, if the international markets are up 10%, they are essentially flat or zero to US investors.

The strong dollar and the energy renaissance in the United States has helped trigger a recent sharp decline in energy prices, especially oil which is down over 40% from its peak in June. While it will take time for this to translate to lower gasoline prices at the fuel pump, it has immediately been felt in energy, commodities, and natural resource stocks.

The second surprise this year has been the strength of long term US Treasury bonds. In reviewing our notes from December 2013, we cannot find a single forecaster who predicted that long-term interest rates would fall. Professional money managers have anticipated a strengthening economy and higher interest rates. However, US Treasury interest rates fell, meaning that the price of those bonds went up. The 20-year plus Treasury index (TLP) is up 18%, the Barclays Aggregate Bond index (AGG) is up 3% as of December the 5th.

The strong dollar did not help small company stocks either, small company stocks are up about 2% year to date.

So let's drill down. We use a number of different strategies and asset allocation models to meet various investor needs. Hypothetically, if we were invested in an all equity, long-term growth strategy, it might be positioned as follows:

<u>Allocation</u>	<u>YTD November 30 index return</u>	<u>Index</u>
28% Large company stock	13.50%	Russell 1000
17% Midsize company stock	12.98%	Russell MidCap
16% Small company stock	1.99%	Russell 2000
17% International equity	(1.49%)	MSCI EAFE (net)
15% Emerging market equity	2.54%	MSCI Emerging Markets (net)
5% Gold REITS and commodities	(10.16%)	Bloomberg Commodity Index
2% Cash	0.00%	Money Market
Weighted Return	5.92%	

Source: Morningstar

We cannot tell you when, but history illustrates that broad asset allocations helps reduce risk and portfolio fluctuation while offering potential for competitive returns. We believe diversification has benefited our clients in the past.

We do not intend to abandon the strategy of broad asset allocation as defined by Wells Fargo Advisors Envision® process. In fact, we anticipate re-balancing portfolios in order to seek to improve exposure to the cheaper asset classes (the ones that have not appreciated this year). Rebalancing, forces investors to trim investments that have been profitable and add to the ones that have not been profitable. It takes emotion out of the equation; an enemy to thoughtful and strategic investing.

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The example provided is hypothetical and for informational purposes only. It is not intended to represent any specific return, yield, or investment, nor is it indicative of future results. The information is not a solicitation or an offer to buy any security or instrument or to participate in any trading strategy. You cannot directly invest in an index. Index performance is total return performance, which includes gains and losses plus income.

Asset allocation cannot eliminate the risk of fluctuating prices and uncertain returns. Diversification does not guarantee profit or protect against loss in declining markets. CAR-1214-02320