THE AWESOME PORTFOLIO

A Practical Guide to Growing and Protecting Your Wealth in Good Times and in Bad

the JARED DILLIAN show

The Awesome Portfolio

A Practical Guide to Growing and Protecting Your Wealth in Good Times and in Bad

No one knows what will happen next.

You don't. I don't. *No one does*.

Because the unexpected finds a way of happening.

Sometimes it's little stuff, like a flat tire. Inconvenient, yes. But you change the flat, or call someone who can, and get on with your life.

Other times it's big stuff, like a killer virus that paralyzes the global economy, forces tens of millions of people out of work, and sends the stock market plummeting 32% in a month.

That can be much harder to bounce back from. Especially if you were overloaded on stocks!

When it comes to managing your investments, you can pretend you're the only person in the world with a magic crystal ball.

Or, you can accept the uncertainty of life, and build an investment portfolio that can hold up against it.

A portfolio that will protect and grow your wealth during good times and bad… and let you sleep well at night, secure in the knowledge that no matter what happens in the markets, you're going to be okay.

A portfolio that you don't have to micromanage on a daily, weekly, or even monthly basis… yet still gives you the money you need to care for yourself and your family—and the money you need to retire comfortably when you are ready.

I designed the Awesome Portfolio to do just that. And in this report, I will show you how to build one for yourself.

By the time you are done reading, you will know:

- How to turn a widespread financial crisis into a mere speedbump for you
- Why the “conservative” investing approach people have told you about is too risky
- How the Awesome Portfolio delivers better risk-adjusted returns over the long haul
- The nuts and bolts of managing your portfolio, including what to do at your annual check in

Let’s get started.

Jared Dillian

PART 1

How We Got Here

This report is about investing for the long-term, meaning decades, not months or even a couple of years.

For some time, I recommended people do that with a portfolio of 35% stocks and 65% bonds. Not because it offered the best overall returns… but because it offered fantastic *risk-adjusted returns* for the environment we were living in.

What is a risk-adjusted return?

It's the money you make relative to the risk you take on.

Here's an example: Say you put $100,000, or all of the money you had to invest, into Bitcoin back in November 2017. A month later, you were sitting on gains of 38%. At this point, you think you're an investing genius.

But you've taken on an astronomical amount of risk, because 1) Bitcoin is speculative and volatile, and 2) you put all of your eggs in the Bitcoin basket.

Then, lo and behold, Bitcoin tanks 41% over the next 21 months, and you no longer feel like a genius. All told, you're down 18.9%, meaning your initial $100,000 investment has shrunk to $81,121. Not good.

If you'd stuck your $100k in 35% stocks and 65% bonds over the same period, your portfolio would have grown to $108,300. That's a respectable 8.3% return with fairly low risk—and zero heart palpitations.

Yes, this an extreme example, but people make extreme mistakes with their money all the time. The Awesome Portfolio will help you avoid that.

If you had a portfolio of 35% stocks and 65% bonds going into the March Meltdown of 2020, those allocations saved your hide.

As you likely recall, coronavirus fears pushed the stock market off a cliff. The S&P 500, an index that measures the stock performance of 500 large companies listed on US stock exchanges, plummeted 32% from February 20, 2020 to March 20, 2020.

If all of your money was in the stock market, you got creamed. Even if you had a so-called "conservative" allocation of 80% stocks and 20% bonds, your portfolio would have dropped 24%.

However, if your portfolio was 35% in stocks and 65% in bonds, it would have dipped 7%. Not a catastrophe, but a manageable, temporary setback that you could recover from.

Basically, you would have been okay.

Portfolio	March Meltdown Return
100% Stocks	-32%
80% Stocks/ 20% Bonds	-24%
35% Stocks/ 65% Bonds	-7%

Of course, a lot of people were not okay. Remember, stocks had more or less climbed higher for 11 years before this. So many folks, including a young generation of Wall Street traders and financial advisors, could not imagine The Really Bad Thing happening.

Then it happened. They were not prepared.

Is Your Portfolio In Line with Reality?

When the world changes as much as it has since the coronavirus crisis, you have to reevaluate many aspects of your life. Is your spending in line with your income prospects? For that matter, are your income prospects in line with reality?

And is your portfolio in line with the new reality investors face today?

My guess is it is not.

My guess is you're still far too heavily invested in stocks. Or, if you've listened to me over the past couple of years, you might be too heavily invested in bonds for the new, ultra-low interest rate environment.

I hope that's the case, because it means you lost a lot less than most people when the stock market tanked.

But what worked yesterday doesn't always work today. You need a new portfolio. A *defensive portfolio* that helps you make some money. But more importantly, helps you avoid losing a lot of money.

This is where the Awesome Portfolio comes in. It checks all of these boxes, which is awesome! That is what you want.

PART 2

The Awesome Portfolio Mechanics

The reality is we do not have perfect knowledge of what the best-performing asset class will be in the future. It might be gold. It might be bonds. It might be something else, like rough rice.

Like I said, no one knows what will happen next.

In the past, stocks have been the best-performing asset class. So the entire US population now believes in buying stocks for the long run.

We have a cult of equity in this country, with very few dissenters.

But what if stocks aren't the best way to save for retirement going forward? There is no rule that says they have to be.

If you don't know which asset class will outperform the others, the solution is not to pick one and hope for the best. If you get it wrong, the consequences could be dire.

The solution is to hold a little bit of *all of them.*

Which is why the Awesome Portfolio includes:

- 20% stocks
- 20% bonds
- 20% cash
- 20% gold
- 20% real estate

I'm joking around by calling it the Awesome Portfolio, but it's a little easier than calling it the 20/20/20/20/20 portfolio.

The point is you want to own every asset class. You may not like stocks, but you need to own stocks. You may not own gold, but you need to own gold. This is not a portfolio where you cherry-pick your favorites. It only works if you replicate it in its entirety.

Your Annual Check In—How to Keep Your Allocations on Track

I designed the Awesome Portfolio to be as "set it and forget it" as possible. However, you will need to rebalance from time to time to keep your allocations on track. This is how you do that...

Say you start with $10,000 to invest. So you put:

- $2,000 in stocks
- $2,000 in bonds
- $2,000 in cash
- $2,000 in gold
- $2,000 in real estate

A year later, stocks have dropped 20% and bonds have dropped 1%. But gold has climbed 40% and real estate has climbed 5%. And your cash account has stayed the same. Now you have:

- $1,600 in stocks
- $1,980 in bonds
- $2,000 in cash
- $2,800 in gold
- $2,100 in real estate

Your new portfolio total is $10,480, which puts your new target allocations at $2,096 for each asset class. That is not what you have, so you need to rebalance. This means selling enough of the assets that did well and buying more of those that didn't, so you have 20% of each again—or in this case $2,096 of each.

Rebalancing will help you do two things: 1) better manage risk; and 2) consistently "buy low and sell high."

Skipping this step leaves you vulnerable to a market downturn. It's like neglecting to renew your car insurance right before a crash—everything is fine, until it's not.

This is how people lose money!

Check in on your portfolio once a year to see if you need to rebalance. Set a reminder on your calendar... check in on your birthday... or the first day of spring. Whatever you need to do to make this a consistent routine every 12 months.

Sometimes you won't need to adjust much, if anything. Other times, you'll discover that there have been wild price swings, and your allocations are totally out of whack. The only way to know is to look.

Following the Awesome Portfolio allocations *does* work.

Say you had $1,000 to invest way back in 1972. So you put:

- $200 in stocks
- $200 in bonds
- $200 in cash
- $200 in gold, and
- $200 in real estate.

Meaning you followed the Awesome Portfolio allocations to a T.

Fast-forward to 2020, and your initial investment would have soared 4,168%.

Awesome.

You'd also be in much better shape than the guy with 80% stocks and 20% bonds... the guy with 60% stocks and 40% bonds... and the guy with 35% stocks and 65% bonds. You can see this in the table below.

Portfolio	Portfolio Value in 1972	Portfolio Value Today	Total Return
The Awesome Portfolio	**$1,000**	**$42,687**	**4,168%**
35% Stocks/65% Bonds	$1,000	$31,206	3,020%
60% Stocks/40% Bonds	$1,000	$31,390	3,039%
80% Stocks/20% Bonds	$1,000	$29,083	2,808%

Over the past 48 years, the Awesome Portfolio returned an average of 8.4% annually. This is the highest average annual return of all the portfolios in the table above.

And the best part is, you would have booked these higher returns with much less risk.

Ever heard of the Sharpe ratio? It's a tool that analysts use to measure investment returns relative to risk. A higher Sharpe ratio points to a better risk-adjusted return.

The Awesome Portfolio has the highest Sharpe ratio (aka, the best risk-adjusted return) of all the portfolios we just covered. You can see this in the next table.

Portfolio	Sharpe Ratio
The Awesome Portfolio	**0.49**
35% Stocks/ 65% Bonds	0.37
60% Stocks/ 40% Bonds	0.31
80% Stocks/ 20% Bonds	0.26

This doesn't mean there won't be hiccups. Look, any portfolio is going to have a few down years over a 48-year span. The question is: How bad will those years be, and how often will they happen?

Well, the Awesome Portfolio saw a positive return for 40 of the last 48 years. That's an 83% hit rate.

In its *worst* year, it clocked a -9.2% return. And that happened in 2008, during the global financial crisis.

Remember, many people were totally wiped out in 2008. They lost their homes, their livelihoods, and most of their hard-earned savings. If the worst thing that happened to you in 2008 was a 9% drop in your portfolio, you would have been pretty damn happy.

For perspective, the 80/20 portfolio—the one many finance guys call conservative—lost 26.6% in 2008. The poor souls who were 100% in stocks lost 38.4%.

That is something you never want to experience. I mean, it's one thing if it happens when you're 25 years old. But what if it happens when you're 65? You're screwed.

Fortunately, if you follow the Awesome Portfolio allocations, when the next crisis happens (and it will), the money that you worked so hard for and diligently squirreled away will be protected from the worst of it.

And you will make it to the other side of the crisis with your wealth intact.

No Happy Accident

The Awesome Portfolio's stellar performance is not a happy accident. Everything in the portfolio is there for a reason—and a lot of it comes back to *correlation*.

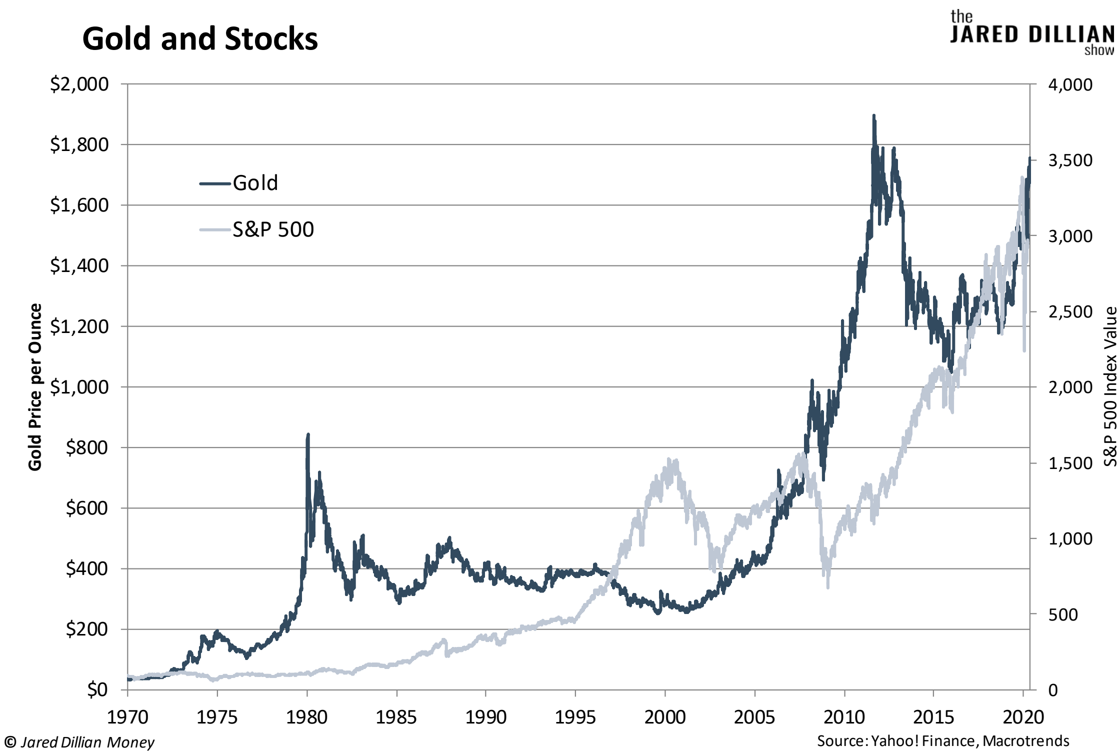
Correlation is a measure of how much or how little two things, in this case two kinds of assets, move together. The scale runs from -1 to positive +1.

When two types of investments move in the same direction at the same time, in perfect lockstep, they have a correlation coefficient of +1. And we say that they are *positively correlated.*

When they move in the exact opposite direction, they have a correlation coefficient of -1. And we say they are *negatively correlated.*

Gold and stocks, for example, are negatively correlated. Not perfectly so. But if you look at the gold price over the last 50 years and how it moved compared to the S&P 500, you can see that they often moved in different directions.

Gold and stocks have a correlation coefficient of -0.24.



Note that gold and stocks frequently go up together… but not down together. And when they do go down at the same time, it typically isn't by much.

Also, the terrible years for stocks have typically been great years for gold, and vice versa. In the last 48 years, there were four years when stocks dropped more than 17%. During those years, gold rose an average of 42%.

During the same period, there were three years when gold dropped more than 20%. And during those years, stocks rose an average of 31%.

The bottom line is that gold and stocks consistently do what you want them to do: move in opposite directions when one or the other crashes.

This is why correlation matters. If one part of your portfolio goes down, you want something else in there to make up for the losses.

You know the old saying "don't put all of your eggs in one basket." Having negatively correlated assets in your portfolio takes that one step further…

Don't put all of your eggs in the same *type* of basket.

The next table shows how correlated each asset class in the Awesome Portfolio is to the others. You can see that real estate and stocks have a somewhat strong correlation to one another (0.59).

However, everything else either has a negative correlation or virtually no correlation. This means the portfolio is strongly diversified, which is a good thing.

Correlation Matrix	Real Estate	Stocks	Gold	Bonds	Cash (CD)
Real Estate	1.00	0.59	-0.16	0.02	-0.04
Stocks	0.59	1.00	-0.24	-0.02	-0.03
Gold	-0.16	-0.24	1.00	-0.06	0.12
Bonds	0.02	-0.02	-0.06	1.00	0.20
Cash (CD)	-0.04	-0.03	0.12	0.20	1.00

With that, let's take a closer look at the five asset classes in the Awesome Portfolio: stocks, bonds, cash, gold, and real estate.

20% Stocks—The Work Horse

You want to keep 20% of your portfolio in stocks.

A stock, as you know, is a share of a publicly traded company. When you own a stock, you own part of the company.

How does this come about? First, a company sells shares of itself to investors in something called an initial public offering, or IPO. Then it puts the money toward things like growth, paying off debt, or paying off the company's early investors.

Once a company sells shares to the public, it's "publicly traded," and investors can buy and sell the shares on a stock market.

The value of a share will go up and down, depending on lots of variables like the company's profitability, its future prospects, and the overall health of the markets.

It would be nice if stocks only went up after you bought them. Generally, when a company is making great products or offering vital services—and customers are willing to pay for them—profits rise, and the stock price follows.

But the markets often punish companies when they don't meet Wall Street's revenue or earnings expectations, or even when they do.

Plus, even great companies can get taken down when the rest of the market tumbles.

Take **Apple (AAPL)**, for example. In 2008, the company's profits soared 75%. But the stock market fell 38% that year, taking Apple down with it: shares tanked 49%.

This is why owning individual stocks is very risky for the average investor. To reduce your risk, you should invest in tiny pieces of lots of public companies across different *sectors*.

The stock market includes 11 key sectors:

Stock Market Sector	Example of Stocks Included
Energy	Chevron (CVX) and Occidental Petroleum (OXY)
Materials	Sherwin-Williams (SHW) and Eastman Chemical (EMN)
Industrials	General Electric (GE) and United Airlines (UAL)
Consumer Discretionary	Tiffany & Co. (TIF) and Kohl's (KSS)
Consumer Staples	Procter & Gamble (PG) and Walmart (WMT)
Healthcare	Teladoc Health (TDOC) and Abbott Laboratories (ABT)
Financials	Visa (V) and Bank of America (BAC)
Information Technology	IBM (IBM) and Cisco Systems (CSCO)
Telecom Services	AT&T (T) and Comcast (CMCSA)
Utilities	Consolidated Edison (ED) and Exelon Corp. (EXC)
Real Estate	American Tower Corp. (AMT) and Simon Property Group (SPG)

That begs the question: How do you buy tiny pieces of an assortment of stocks all at once? The cheapest and most efficient way is through an exchange-traded fund, or ETF.

An ETF is a basket of securities (in this case stocks) that usually tracks an underlying index. For example, the **Vanguard Total Stock Market ETF (VTI)** tracks the CRSP US Total Market Index. The fund holds over 3,500 stocks, so it's basically a convenient way to "buy the market."

I'm Pro-ETF

ETFs are an amazing tool for investors. To start, they trade just like stocks, so you don't have to do anything complicated.

Plus, there's an ETF for *everything*. So you can get convenient, diversified exposure to anything you want—from aerospace, metals & mining, or emerging markets, to the livestock, video game, or artificial intelligence industries—without raking up a bunch of fees.

Some of you know that I was the head of ETF trading at Lehman Brothers back in my Wall Street days. I've been trading ETFs since 2004, when they were still in their infancy. So I got to see how they were developed from the ground up.

We'll talk more about ETFs in Part 3 of this report...

Even when you buy a wide range of stocks, stock prices are still more volatile than, say, bond prices. They tend to go up and down more often.

And stocks can crash, as you know.

The S&P 500 has experienced 14 bear markets since 1946. A bear market is at least a 20% decline in the S&P that was preceded by at least a 20% increase. The average decline of those 14 bear markets was 32%. And the worst decline was 51%.

Stock market selloffs are a common occurrence, and they can be brutal, as you can see in the table below.

S&P 500 Historic Bear Markets

Start Date	End Date	Length – Days	Decline
5/29/1946	5/19/1947	355	-28.5%
6/15/1948	6/13/1949	363	-20.6%
8/2/1956	10/22/1957	446	-21.6%
12/12/1961	6/26/1962	196	-28.0%
2/9/1966	10/7/1966	240	-22.2%
11/29/1968	5/26/1970	543	-36.1%
1/11/1973	10/3/1974	630	-48.2%
11/28/1980	8/12/1982	622	-27.1%
8/25/1987	12/4/1987	101	-33.5%
3/24/2000	9/21/2001	546	-36.8%
1/4/2002	7/23/2002	200	-32.0%
10/9/2007	11/20/2008	408	-51.9%
1/6/2009	3/9/2009	62	-27.6%
2/19/2020	3/23/2020	33	-33.9%
Average		**339**	**-32.0%**

So please, do <u>NOT</u> put all of your money in the stock market. Or god forbid, just a handful of stocks. This is the last place you want to find yourself during a stock market crash, especially if you're nearing retirement age and have little time to recover.

That said, for the most part, stocks have been the mitochondria of investing for quite some time. Over the past 20 years, for example, the S&P 500 has returned an average of 6% annually.

That might continue. Or stocks could mutate into a cancer that eats away at your returns. It's unlikely, but like I said, no one knows what's going to happen next.

I often say that stocks do what surprises people the most. So you want to own some stocks—enough to make up 20% of your portfolio. But no more than that.

Remember to check in on your portfolio every 12 months. If stocks or any of the other assets have shot up or down by a lot, you need to rebalance your portfolio to our target allocations:

- 20% stocks
- 20% bonds
- 20% cash
- 20% gold
- 20% real estate

This is how you manage risk and consistently buy low and sell high.

20% Bonds—For Lower Volatility

Your portfolio should also include 20% bonds.

You can think of a bond as a loan, but you are the lender.

Again, how does this come about? Sometimes a company or a government needs to borrow money, and issuing a bond is one way to do that.

Investors buy the bonds in exchange for interest payments. And eventually, when the bonds mature, the investors get back their principal—meaning the amount they originally loaned to the company or government.

At least, that's what usually happens.

All investments carry risk, including bonds. Some bonds don't get fully repaid, but that is not the norm. In general, bonds are stable, steady investments that pay you interest.

There are many different kinds of bonds, and some are riskier than others. You want to spread your risk across a huge pool of bonds.

How can I tell which bonds are riskier?

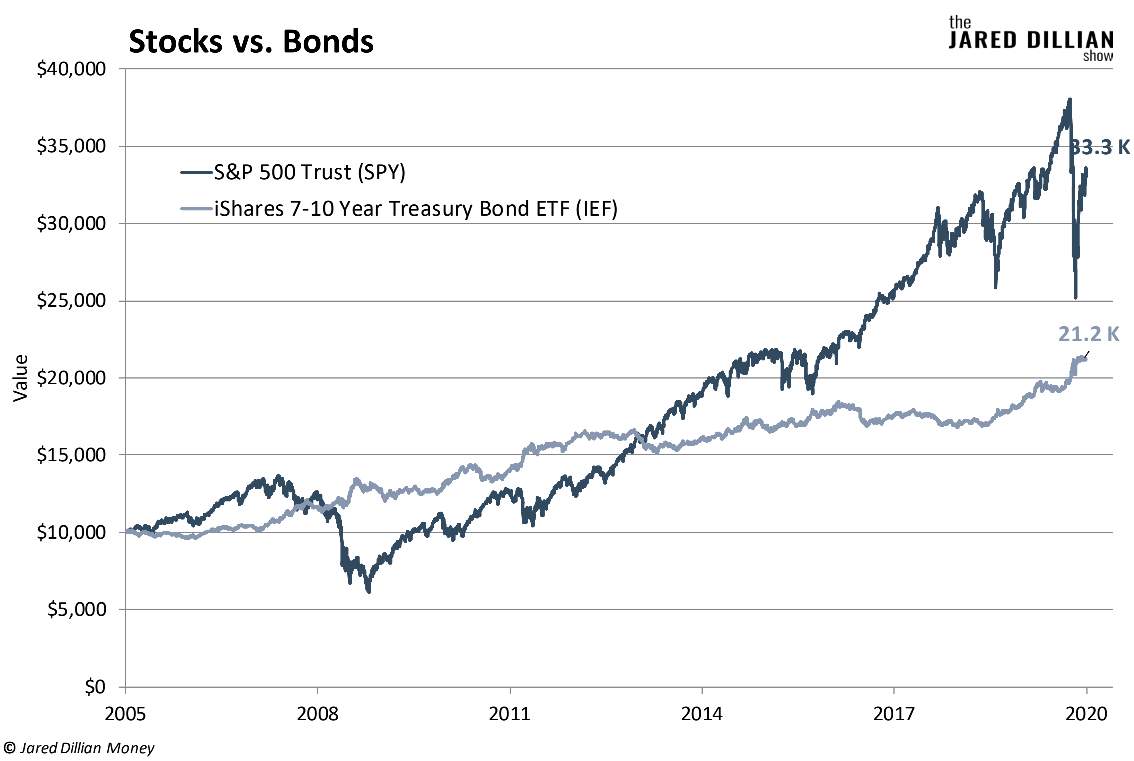
The three major credit ratings agencies—Moody's, Standard & Poor's, and Fitch—rate bonds based on the financial health of the company or municipality issuing the bond. For each, the top ten ratings are called "investment grade." And anything below that is called "non-investment grade" or simply "junk."

Bonds also tend to produce lower returns than stocks. I'll show you what I mean...

Let's say you invested $10,000 in the **S&P 500 Trust (SPY)** 15 years ago. Today, that investment would be worth $33,300.

Now, let's say you invested $10,000 in the **iShares 7-10 Year Treasury Bond ETF (IEF)** 15 years ago. Today, that investment would be worth $21,200.

So, the stock investment would be worth $12,100 more than the bond investment.



Okay, so now you're thinking...

Why in the world would I buy bonds?

Because bonds are much less volatile than stocks. They might not return as much, but bonds will lower the overall risk level of your portfolio.

And that is what you want! A portfolio that steadily grows and won't get annihilated when the next Really Bad Thing happens.

I've been extolling the virtues of a bond-heavy portfolio for years, especially for people in or near retirement.

That used to mean holding 65% of your portfolio in bonds. But now that bond yields are so low, bonds have lost some of their diversification benefits, and they are less useful at reducing risk than they were before.

But not useless. You still need to own some bonds—enough that they make up 20% of your portfolio. No more, no less.

If your bond allocation is out of whack at your annual check in, please rebalance your portfolio to our recommended 20% allocations.

20% Cash—For Flexibility

The next 20% of your portfolio should be in cash.

A lot of people will tell you that cash is a drag on performance. Like a lazy cousin who just sits there, snacking on the onion dip while everyone else makes Thanksgiving dinner.

These people are wrong. Cash has a job to do. It's just less visible than the other asset classes in the Awesome Portfolio.

To start, cash gives you a lot of flexibility. When the stock market tumbles, as it will from time to time, it is very common for shares of high-quality, profitable companies to get taken down, too. This gives you an opening to scoop up those companies on the cheap. But you need cash to do it.

Remember what happened to **Apple (AAPL)** in 2008? Shares tanked 49%, but it was a great opportunity to buy... because they've soared around **2,694%** since.

You can only grab these kinds of lucrative opportunities if you have the cash to do it. The good news is that right now, with interest rates near zero, the opportunity cost of holding cash is low.

Cash can also cover your hide in a crisis, like the March Meltdown we recently experienced. In the acute phase of a crisis, cash might be the only thing that's "working." Meaning it isn't going down in value. Sometimes, that's the best you can hope for.

That said, I want to make something explicitly clear:

The cash in your investment portfolio is not your emergency fund.

Wait! What Emergency Fund?

Everyone needs an emergency fund with enough cash to cover six months of living expenses, or $10,000—whichever is greater. I have no problem with people hoarding gross amounts of money in their emergency funds. More is better.

Keep it in a separate bank account and/or a fireproof home safe. This money should be far away from the money you use for ordinary expenses, and far away from your other investments.

If you have not established your emergency fund yet, put down this report, and pick it up again when you have.

So, where should you keep your investment portfolio cash?

Just put it in a savings account at the bank. Not the checking account you use to pay bills—a separate savings account that simply hangs out, earning 1% interest at best.

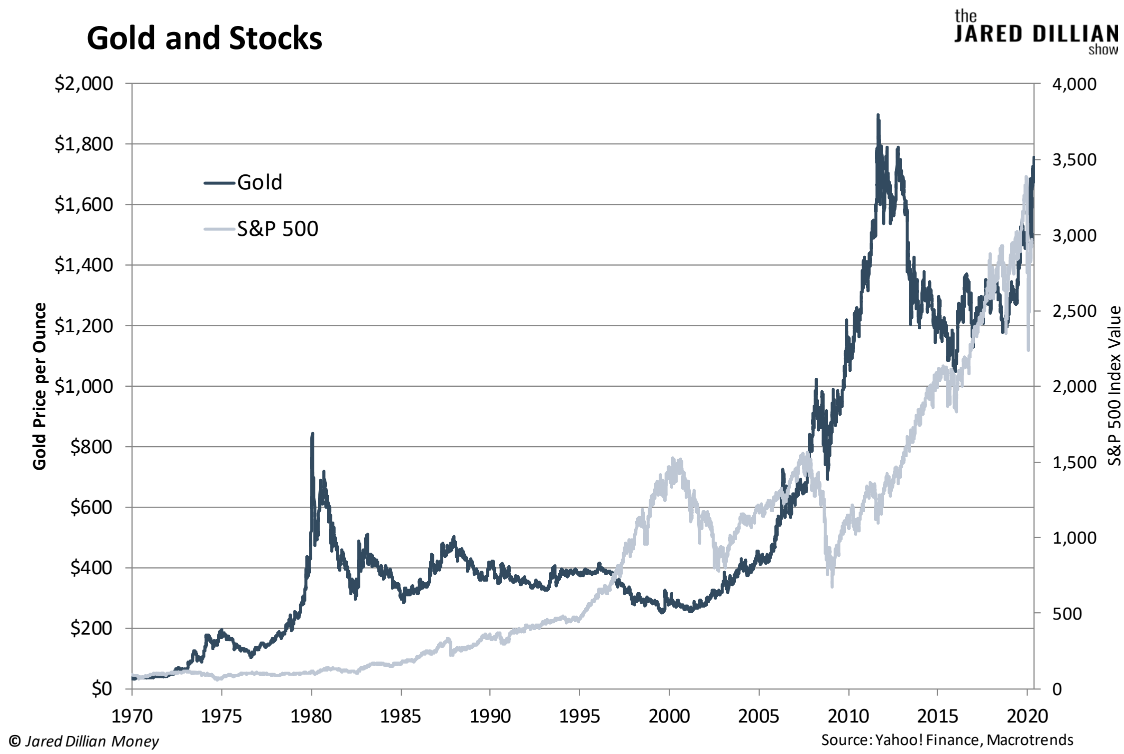
Leave your cash alone, and let it do its job. You may need it when it's time to rebalance your asset allocations to our 20% targets.

20% Gold—The Anti-Investment

You should also keep 20% of your portfolio in gold, which I like to call the "anti-investment."

Why? You don't really buy gold because you think it's going to go up. You buy gold because it's going to save your neck when stocks and bonds go down.

We talked about this in Part 1. Here's that chart again—notice that when stocks go one way, gold often goes the other:



We've talked a lot about how the Awesome Portfolio would have performed over the last five decades. But gold has a much longer history of doing exactly what it's supposed to do: holding its value.

Really, it's done this job for millennia.

What does that mean? If you look at what you could have bought with an ounce of gold during the heyday of classical Greece, or Rome, or medieval Europe, or modern-day America… well, you could have bought the same amount of stuff, more or less.

I have to say, I think it's a little weird that people invest in shiny rocks. But this has been going on for four or five thousand years. Some people say technology will change that. Yet it keeps happening.

Over the last 70 years, for example, gold's inflation-adjusted annual return was 2.1%. In other words, gold has held its purchasing power, just like it's supposed to.

Gold Tends to Outperform after a Crisis

Many investors argued that gold performed poorly at the beginning of the Covid-19 crisis. For a brief moment, yes—it slipped from around $1,700 per ounce to $1,470 in mid-March 2020. But it was back up around $1,700 a few weeks later and headed higher. So really, gold has continued to do its job.

One of the big reasons people buy gold and drive up the price is the *fear* of inflation. In other words, gold rises when people are afraid their dollars will be worth less in the future.

This is why gold shot from roughly $800 per ounce in 2009 to $1,900 in 2011. The Federal Reserve started its first round of quantitative easing, called QE1, during this period. And people thought it would cause a lot of inflation, so they bought a lot of gold.

The inflation never happened, but gold still climbed higher because of the fear.

As I write, we're in a similar position. But this time, the Fed isn't doing a finite amount of quantitative easing like it did with QE1. This time, it's doing an *infinite* amount of quantitative easing.

Once again, people fear this will result in inflation, and reasonably so. I have the same concerns myself.

Gold is bound to keep rising in this environment. Because the Fed can print an infinite number of dollars, but it can't print gold.

The gold price also rises when the federal deficit grows, as it's doing now. This was the other reason gold more than doubled between 2009 and 2011: The government's annual budget deficit soared into the $1.8 trillion neighborhood.

Now the government is talking about running the biggest deficit in the history of the United States. Even bigger than we had in World War II. And that bodes well for gold.

Having said all that, the biggest reason to own gold is...

It smooths out the volatility in your investment portfolio.

Add a little bit of gold—I recommend 20%—and you'll pretty much get the same overall returns. But you'll cut your volatility in half.

Long story short, owning gold makes your overall portfolio less risky. Your target allocation is 20%.

Again, you may need to rebalance your portfolio from time to time to keep your gold and other asset allocations at their 20% targets.

Get Religious about Your Annual Check In

If you don't consistently check your portfolio every 12 months, you could find yourself way off track—with something like 45% stocks, 10% bonds, 5% cash, 10% gold, and 30% real estate. That is not where you want to be. It leaves your very vulnerable to a market crash. This is how people lose massive amounts of money.

20% Real Estate—For More Diversification

Real estate should make up the remaining 20% of your portfolio. Again, this is important for diversification purposes.

But you don't need to run out and buy a vacation rental property. For most people, the easiest way to invest in real estate is through a real estate investment trust, or REIT.

REITs are a special type of business entity that own various kinds of real estate—everything from hospitals, industrial warehouses, and cell towers, to hotels and residential apartments. Then they turn around and lease that space to bring in income.

REITS have a unique feature: they're required to pay out 90% of their taxable income to shareholders. And quite a few choose to pay out 100%. So they add an income component to your portfolio, which is great.

They also trade just like stocks, so you can invest in a REIT through an ordinary brokerage account. It's as simple as buying shares of **Walmart (WMT)** or **Starbucks (SBUX)**. No need to do anything complicated.

Of course, some people like complicated—

Another way to fill your 20% real estate allocation is to purchase residential or commercial property that you lease out and manage yourself.

Fair warning: This is a potential money pit, even when things run smoothly. And when they don't… let's just say that when travel dried up in 2020, there were a lot of Airbnb "superhosts" wishing they'd never bought that charming beach cottage.

Really, most people should stick to REITs. However, if you have years of experience in real estate or construction management, that sort of thing, owning rental properties directly might work for you.

You won't find me fixing the plumbing in a tenant's bathroom at 1am. But some people have the time, skills, experience, and temperament to tackle that stuff. If that's you, great. You have my blessing to go for it, but you've been warned.

The last option is to tally up your equity in your primary personal home, and count that toward your 20% allocation to real estate. Simple as that.

What if my house is paid off?

If you've paid off your mortgage, good for you! This is not a problem.

Say your house is worth $400,000 and you own it outright. At the same time, your investment portfolio, not including the house, is worth $500,000. So your Awesome Portfolio real estate allocation target is $100,000.

Please, do not spend one second worrying that you've overshot the mark. I'm a big proponent of paying off your mortgage as quickly as possible.

However you get there, adding some real estate holdings will diversify your portfolio even more, which is what you want.

Commercial real estate, in particular, has a historically low correlation to stocks and bonds. Over the last 40 years, for example:

- Commercial real estate and stocks had a correlation of 0.12 and
- Commercial real estate and bonds had a correlation of 0.

So including some exposure to commercial real estate will help you get the most from your real estate holdings, which again should total 20% of your overall portfolio.

Take a look at your real estate allocation at your annual check in and rebalance as needed.

Everything Will Be Okay

Like I keep saying, no one knows what's going to happen next. The beauty of the Awesome Portfolio is that you don't have to.

Think about all the wild stuff that's happened over the past 48 years...

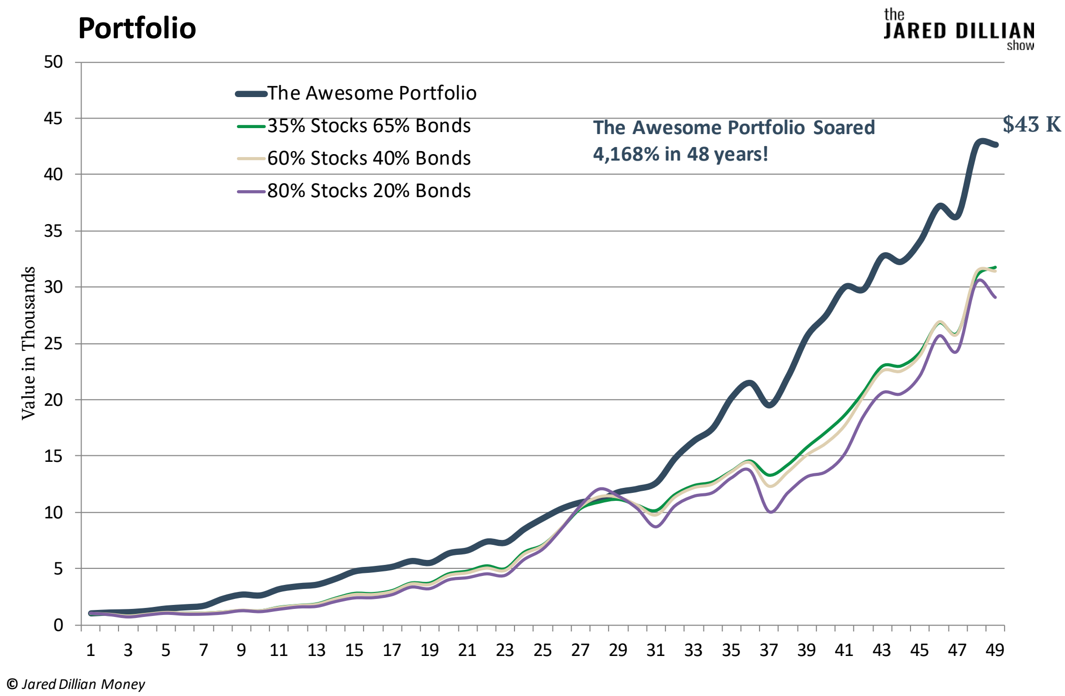
- The Vietnam War ended, the Cold War ended, and the War on Terror began
- Personal computers landed in our homes, cell phones became ubiquitous, and the internet radically transformed daily life
- The AIDS crisis, the War on Drugs, and 9/11
- We found the Titanic, the first test-tube baby was born, and smallpox was eradicated
- We got 24-hour cable, the Simpsons, and drones
- China transformed from a communist backwater into a global (still communist) powerhouse

I could go on and on. Point is, few people could have predicted these events or how they would alter the world and the prospects of individual investors like you.

But—if you followed the Awesome Portfolio allocations over this long stretch of time you didn't need to predict anything.

You didn't need to guess what the next big thing in tech would be. You didn't need to predict how geopolitical events would alter the markets. You didn't need to wonder which stocks would go up or down on any given day.

Instead, you got to live your life, check in on your portfolio every 12 months and rebalance if necessary, and watch as your money soared 4,168%. That's it.



And all of the bad stuff—the shocks, wars, panics, and crises—would have made minimal, temporary dents.

Remember, the absolute worst year for the Awesome Portfolio was 2008, during the global financial crisis, when it dropped 9.2%.

That is the worst thing that happened over five decades.

Imagine this... the stock market is down 35%. You're watching as the bank forecloses on your neighbor's house and the repo man pulls the car out of his driveway.

More local businesses are shutting down every day. And somewhere across town, your buddy is headed home from work at 10am because he was laid off. Not because he messed up—his company just had to make cuts.

You feel terrible for these people, so you check in and reassure them that things will get better. And they probably will at some point, but who knows when that will happen, or what they will have to endure in the meantime.

At the same time, you're relieved that none of this is happening to you. Sure, your portfolio dipped 9%, but that's as bad as it's going to get, and you know that.

You know that no matter what, you and your family will be okay.

I think you get it. Now it's time to build your Awesome Portfolio.

PART 3

Building Your Awesome Portfolio

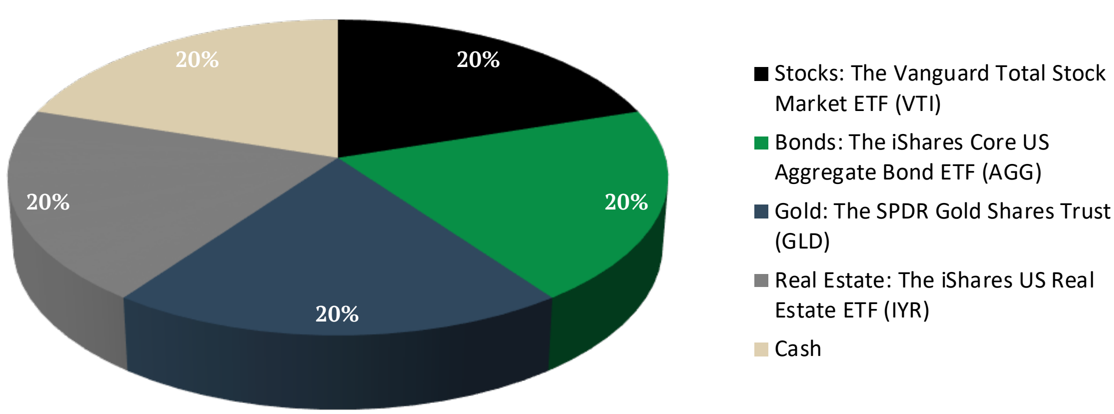
Building your Awesome Portfolio can be as simple or complicated as you want.

The simplest route is to hold four exchange-traded funds (ETFs), plus some cash:

- 20% stocks: Vanguard Total Stock Market ETF (VTI)
- 20% bonds: iShares Core US Aggregate Bond ETF (AGG)
- 20% cash
- 20% gold: SPDR Gold Shares Trust (GLD)
- 20% real estate: iShares US Real Estate ETF (IYR)

That's it. Four ETFs and you're done.

Quick-Start Your Awesome Portfolio



A few notes on these funds—

The Vanguard Total Stock Market ETF (VTI) is a convenient way to "buy the market" and get exposure to a wide range of small-, mid-, and large-cap stocks, including growth and value stocks—over 3,500 stocks total.

The fund's top 10 holdings account for 23% of its portfolio. They include Microsoft, Apple, Johnson & Johnson, and Visa. Fees are modest at 0.03%, and the fund yields 1.9%. Its average annual return over the past 10 years was 11.2%.

The iShares Core US Aggregate Bond ETF (AGG) gives you broad exposure to the US investment-grade bond market. The fund's largest weighting is to US Treasuries, followed by MBS pass-throughs, and bonds issued by industrial and financial companies. Fees are 0.4%, and the fund yields 2.5%. Its average annual return over the past 10 years was 3.8%.

The SPDR Gold Shares Trust (GLD), which is designed to track the price of gold, is an easy, cost-effective way to get exposure to the gold market. The physical gold underlying the fund is stored in the London vaults of the trust's custodian, HSBC Bank. Fees are 0.4%. GLD's average annual return over the past 10 years was 3.2%.

A heads up... redeeming GLD shares for physical gold is not feasible for most investors. You have to hold at least 100,000 shares to do so.

The iShares US Real Estate ETF (IYR) gives you broad exposure to US real estate companies and REITs. The fund has 113 holdings. The top three are American Tower REIT Corp., Prologis REIT Inc., and Crown Castle International REIT Co. They comprise 23% of the portfolio.

IYR's holdings have an average price-to-cash flow ratio of 13.5. The fund yields 3.7%, and fees are 0.42%. The fund's average annual return over the past 10 years was 7.6%.

More Options

If you want to get a little more scientific with your Awesome Portfolio, you can pick small-cap stocks, large-cap stocks, growth or value stocks, or anything else.

And instead of just buying the whole bond market, you could play it safe with US Treasuries, or take on a little more risk with more corporate bonds. It would be good to get some international exposure here, too.

With gold, there are countless options, and I don't want to send you too far down the rabbit hole.

Some people will tell you that the only way to keep your gold safe is to build a collection of nuclear-proof gold bunkers on various continents and never tell anyone about them—not your spouse, not your dog, and definitely not your kids.

I am not one of these people. Gold is for diversification, inflation protection, and reduced volatility.

That said, you do have the option to buy gold coins or bars directly and store them in a home safe. In that case, use some common sense and don't tell your gardener about it. But you don't need to get tinfoil hat-level paranoid.

You could also do a combination—keep some physical gold at home and some gold fund holdings.

Or you could add a few gold miners to the mix. The miners often soar 3x higher than gold itself when gold goes up. But they also add volatility, which is the opposite of what you're aiming to do with gold.

When in doubt, keep it simple and just buy GLD.

Next Steps

The Awesome Portfolio will help your money perform well in all environments.

It will help it perform well in inflationary and deflationary environments. It will help it perform well in environments that are good for hard assets like gold, or good for financial assets like stocks and bonds.

You can think of the Awesome Portfolio as the "Boy Scout portfolio"—it's prepared for anything. Even the next Really Bad Thing.

Sure, there will be times when something in the Awesome Portfolio isn't working as well as the other stuff. You may be tempted to sell. But you have to keep it, because someday it will be working, and something else won't.

Really, the only time you will need to sell is when you rebalance your portfolio. This is how you buy low and sell high.

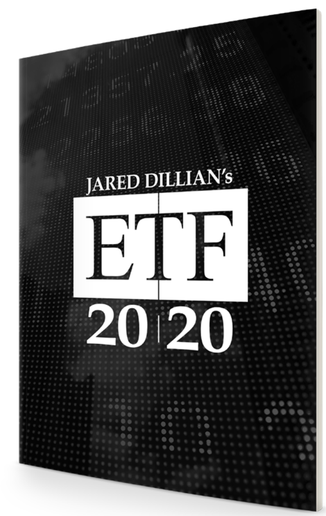
Remember, the Awesome Portfolio is designed to give you the best risk-adjusted returns over the long haul. But it only works if you follow the allocations to a T.

This is how you reduce financial stress and get back to living your life. Once you get it up and running, you'll want to check in on your portfolio every 12 months and rebalance if necessary. For some of you, that will be it.

For others, building your Awesome Portfolio will ignite your interest in investing and make you eager to learn more.

If you are one of these people, I can help...

My premium monthly investment service ETF 20/20 helps you make more money with less volatility, which is what you want! The portfolio follows the same principles outlined in this report, but with an added layer of sophistication for people looking to turbocharge their investment returns.



As I mentioned earlier, I've been trading ETFs since 2004, first on Wall Street and now for my own account. I am pro-ETF, and I can show you how to use them to get the most from your Awesome Portfolio.

The best part—subscribing to ETF 20/20 takes ZERO commitment on your part. Right now, I'm offering you a chance to subscribe for just $7.95 per month.

You'll get **immediate access to the full *ETF 20/20* portfolio**, along with a new issue of ETF 20/20 delivered straight to your inbox on the third Tuesday of every month. Take a look around our members-only site... and if you're not 100% satisfied, for any reason, simply cancel within 30 days, and I will send you a full refund. **You can start your risk-free trial to ETF 20/20 by clicking here.**