The 7Twelve® Portfolio: An Introduction

Craig L. Israelsen, Ph.D.
www.7TwelvePortfolio.com

January 2020

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 and/or exchange traded funds (ETFs). 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 or actively managed funds. You can build the 7Twelve model in an IRA account, 401(k) account, regular investment account…you name it. 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 wide variety of mutual fund companies—as illustrated on the next page.

Figure 1. The *7Twelve* Portfolio Model
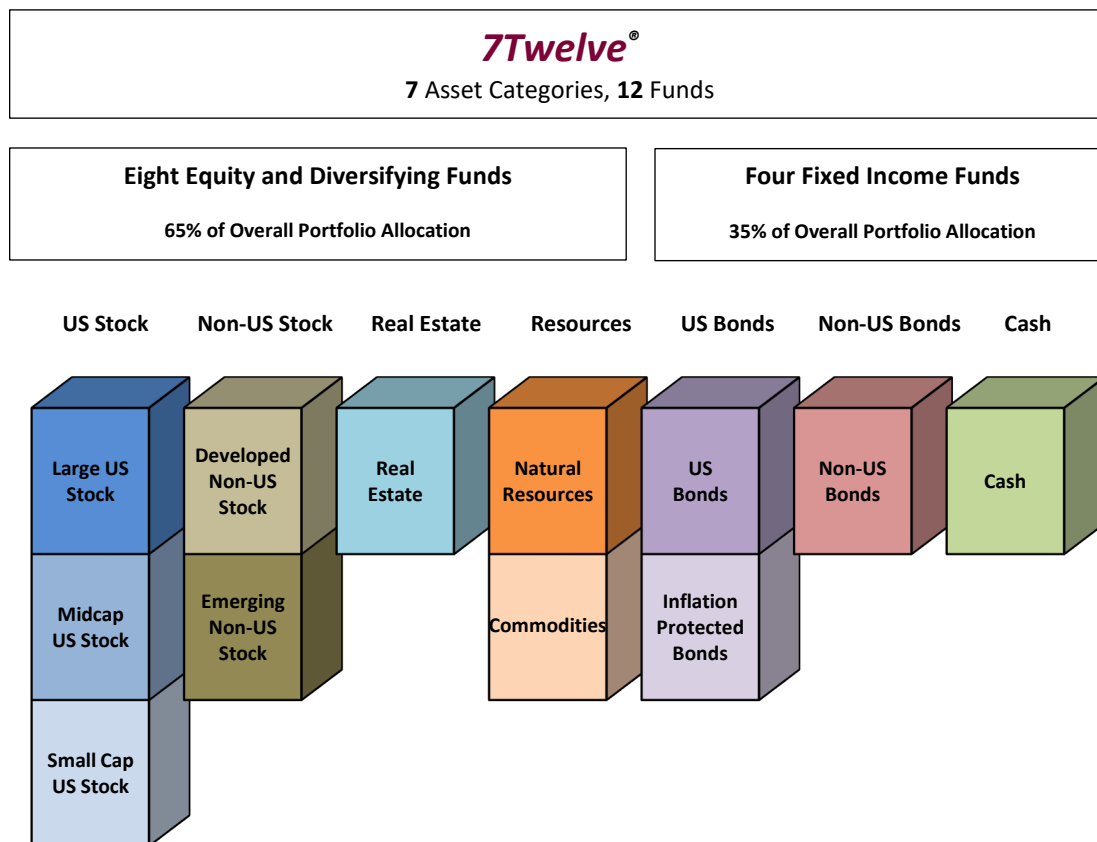
The performance of the 7Twelve model (an Active version using actively managed funds and a Passive version using ETFs) over the past 20 years is shown in Table 1. Two Vanguard mutual funds are also included as comparisons: Vanguard Balanced Index and Vanguard 500 Index.
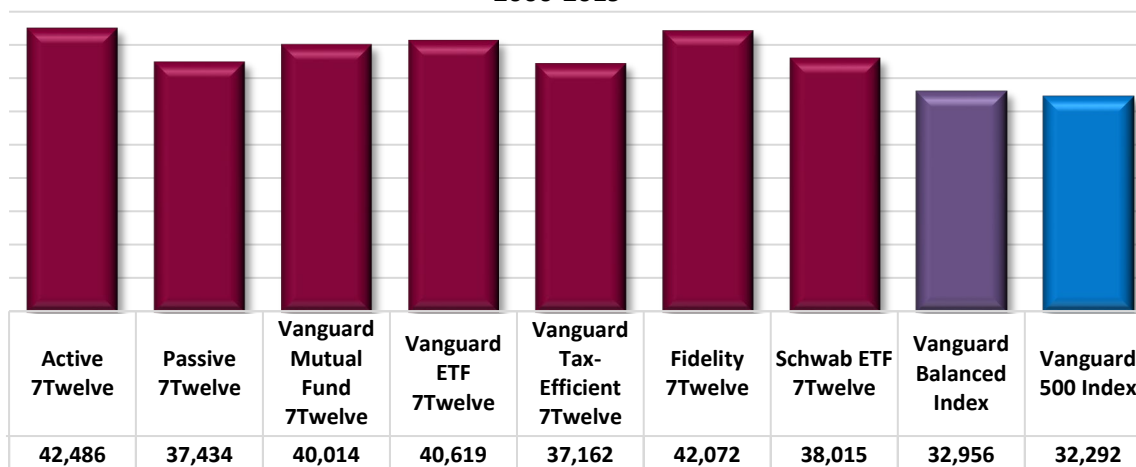
Table 1. 20-Year Performance of *7Twelve* vs. Comparison Funds (as of 12/31/2019)

Calendar Year Total % Return* (Assuming annual rebalancing)	Active *7Twelve* (Using actively managed mutual funds)	Passive *7Twelve* (Using passively managed ETFs)	Vanguard Balanced Index (VBIAX)	Vanguard 500 Index (VFIAX)
2000	11.21	5.42	(2.03)	(9.04)
2001	2.98	(1.94)	(2.98)	(11.98)
2002	2.18	(0.64)	(9.45)	(22.10)
2003	28.82	26.95	20.02	28.59
2004	19.79	17.80	9.37	10.82
2005	12.91	12.34	4.79	4.87
2006	15.98	14.96	11.06	15.75
2007	13.78	11.58	6.31	5.47
2008	(28.14)	(25.16)	(22.12)	(36.97)
2009	32.36	25.64	20.11	26.62
2010	14.52	14.41	13.29	15.05
2011	(6.31)	(1.00)	4.29	2.08
2012	12.42	10.64	11.49	15.96
2013	11.33	9.65	18.10	32.33
2014	0.05	2.50	9.99	13.64
2015	(6.96)	(5.07)	0.51	1.36
2016	9.19	10.14	8.77	11.93
2017	13.67	11.97	13.89	21.79
2018	(7.64)	(5.89)	(2.86)	(4.43)
2019	15.87	15.89	21.80	31.45
20-Year Return 2000-2019	**7.50**	**6.82**	**6.14**	**6.04**
20-Year Growth of $10,000	**42,486**	**37,434**	**32,956**	**32,292**
20-Year Standard Deviation of Annual Returns	**13.70**	**11.99**	**10.94**	**18.06**
Annual % Expense Ratio	**0.70**	**0.14**	**0.07**	**0.04**

There are several 7Twelve models, all built with 12 funds covering the same 7 asset classes. As shown below, there is an Active 7Twelve model, a Passive model, several Vanguard models, a Fidelity model, and a Schwab model. The results are consistently good. To purchase 7Twelve research reports that provide guidance in building one of the 7Twelve models shown in the graph below click on this link:
http://www.7twelveportfolio.com/Downloads/Web7TwelveReport.pdf

20-Year Growth of $10,000
2000-2019

Active 7Twelve	Passive 7Twelve	Vanguard Mutual Fund 7Twelve	Vanguard ETF 7Twelve	Vanguard Tax-Efficient 7Twelve	Fidelity 7Twelve	Schwab ETF 7Twelve	Vanguard Balanced Index	Vanguard 500 Index
42,486	37,434	40,014	40,619	37,162	42,072	38,015	32,956	32,292

Past performance does not guarantee future performance.

The core 7Twelve model equally weights all 12 funds (mutual funds and/or ETFs) 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 funds are shown below in Table 2.

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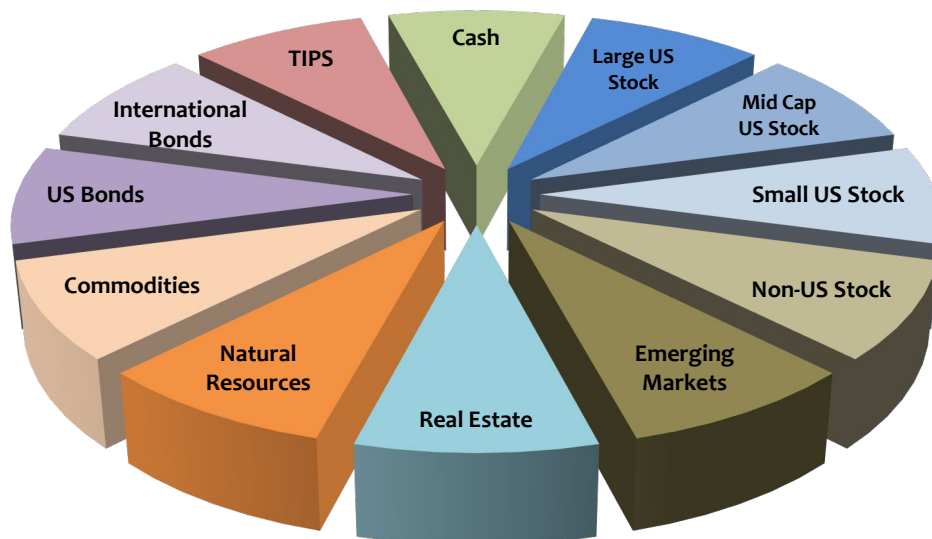
Table 2. Portfolio Allocations for the *7Twelve* Core Model and Age Based Models

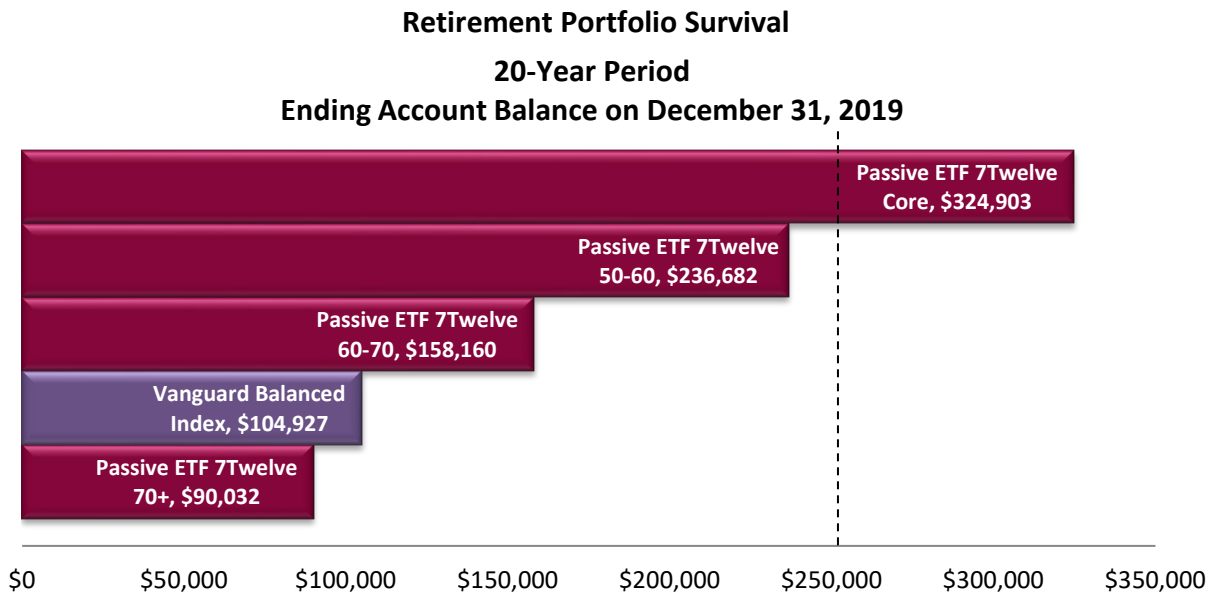| 7Twelve Model →	7Twelve Core Model	7Twelve Age Based 50-60	7Twelve Age Based 60-70	7Twelve Age Based 70 Plus
7Twelve Asset Category	**7Twelve Age Based Portfolio Allocation**			
Large US Stock	8.33%	6.67%	5.00%	3.33%
Mid Cap US Stock	8.33%	6.67%	5.00%	3.33%
Small US Stock	8.33%	6.67%	5.00%	3.33%
Non-US 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 your specific 7Twelve model (Active, Passive, Vanguard, etc.) 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, some 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—in order to "re-balance" the account values in all the funds. That's all that rebalancing is—a straight-forward, non-emotional portfolio management system.

There is empirical evidence to support the performance advantage of rebalancing.   Over the 20-year period from 2000-2019 the Passive ETF-based 7Twelve <u>with</u> annual rebalancing produced an annualized return of 6.82% compared to 6.69% without rebalancing—a benefit of 13 bps. That extra performance from rebalancing amounted to an extra $918 in account value after 20 years (assuming a $10,000 initial investment). During some time periods the rebalancing benefit will be even greater.

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, 2019 of a retirement account with a starting balance of $250,000 on January 1, 2000. The first year annual withdrawal was 5% of the balance (or $12,500). The annual cash withdrawal was increased 3% each year over the 20-year withdrawal period amounting to a total withdrawal of $335,880. The Passive ETF 7Twelve "core" model finished the 20-year period (2000-2019) with an ending balance of $324,903—larger than the starting balance of $250,000 (shown by the vertical dotted line).   Vanguard Balanced finished with a balance of $104,927. The 7Twelve Portfolio has been a durable retirement model over the past 20 years.

Retirement Portfolio Survival

20-Year Period
Ending Account Balance on December 31, 2019

Passive ETF 7Twelve Core, $324,903	
Passive ETF 7Twelve 50-60, $236,682	
Passive ETF 7Twelve 60-70, $158,160	
Vanguard Balanced Index, $104,927	
Passive ETF 7Twelve 70+, $90,032	

$0 $50,000 $100,000 $150,000 $200,000 $250,000 $300,000 $350,000

Building a diversified portfolio is only one aspect of an investment strategy.
Additionally, set a goal to invest 10-15% of your income each year.

Craig L. Israelsen, Ph.D. is the developer of the 7Twelve® Portfolio. He teaches in the Personal Financial Planning program at Utah Valley University. He has previously taught at Brigham Young University and the University of Missouri-Columbia. Craig writes monthly for New York-based *Financial Planning Magazine.* He can be reached at craig@7TwelvePortfolio.com

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Past performance of investment products does not guarantee future performance.