

The 7Twelve® Portfolio: An Introduction

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

January 2023

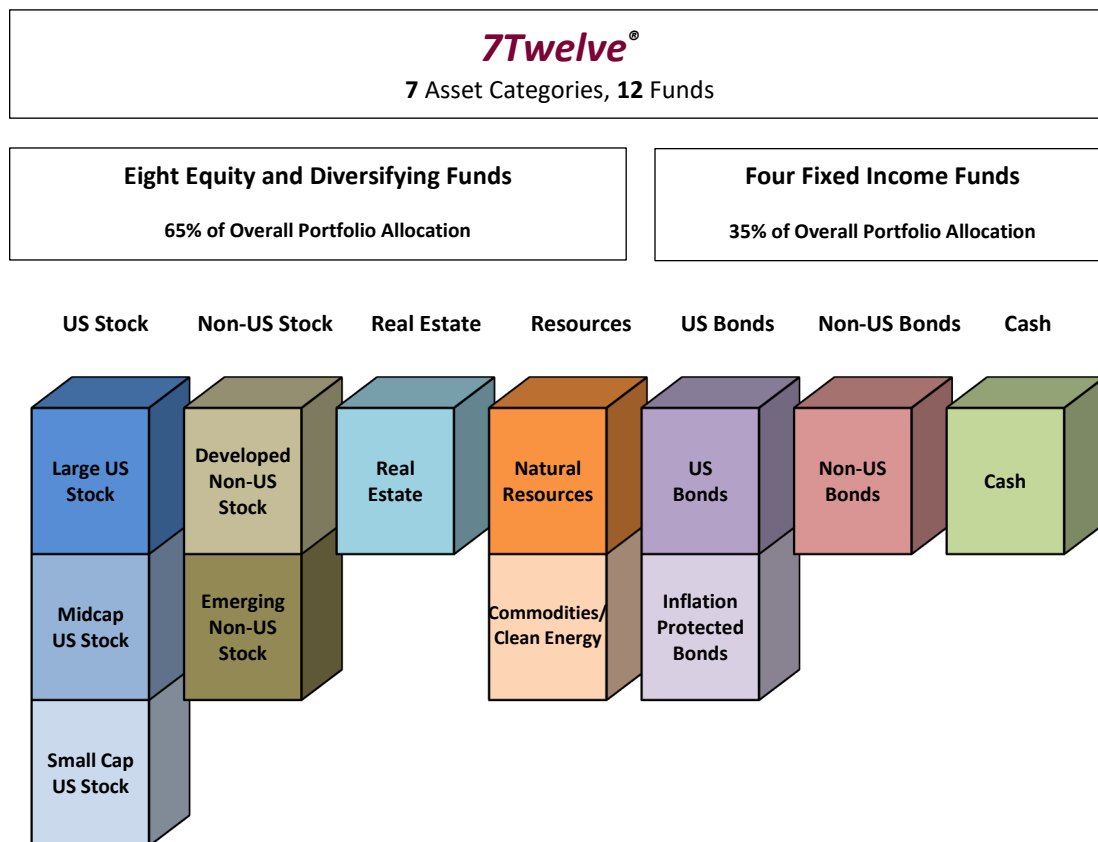
This brief report introduces a multi-asset portfolio design that brings a higher standard to the notion of “diversified”. This design is referred to as the **7Twelve** portfolio.

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 various 7Twelve models over the past 25 years is shown below in Table 1. Vanguard Balanced Index with a 60/40 allocation is listed for comparison.

Table 1. 25-Year Performance of various 7Twelve models vs. 7Twelve Index & Comparison Fund
(as of 12/31/2022)

Year (Negative returns in red)	Index-based 7Twelve Benchmark	Active 7Twelve	Passive 7Twelve	Vanguard Mutual Fund 7Twelve	Vanguard ETF 7Twelve	Fidelity 7Twelve	Schwab ETF 7Twelve	Vanguard Balanced Index (VBIAX)
1998	1.57	0.39	1.54	1.15	3.06	(5.51)	2.20	17.85
1999	16.85	16.63	16.82	15.33	15.23	23.82	16.60	13.61
2000	5.43	11.21	5.42	8.54	4.48	7.89	2.96	(2.03)
2001	(2.09)	2.98	(1.94)	(0.52)	0.06	(0.13)	(0.16)	(2.98)
2002	(0.56)	2.18	(0.64)	(0.11)	(2.25)	(0.04)	0.76	(9.45)
2003	27.10	28.82	26.95	26.56	28.04	27.24	27.71	20.02
2004	17.96	19.79	17.80	19.06	17.38	18.27	17.00	9.37
2005	12.49	12.91	12.34	12.52	10.78	16.87	9.77	4.79
2006	15.27	15.98	14.96	15.47	16.20	15.66	15.50	11.06
2007	12.33	13.78	11.58	11.52	11.16	13.40	10.41	6.31
2008	(25.49)	(28.14)	(25.16)	(25.26)	(26.71)	(30.84)	(25.89)	(22.12)
2009	25.64	32.36	25.64	24.54	28.62	30.84	29.35	20.11
2010	14.41	14.52	14.41	14.22	15.59	15.19	14.23	13.29
2011	(0.77)	(6.31)	(1.00)	(0.22)	(0.84)	(3.16)	(2.29)	4.29
2012	10.77	12.42	10.64	10.49	11.94	12.96	11.97	11.49
2013	10.46	11.33	9.65	8.14	12.69	11.72	11.08	18.10
2014	1.49	0.05	2.50	5.59	5.81	3.54	3.42	9.99
2015	(6.06)	(6.96)	(5.07)	(5.07)	(4.48)	(4.83)	(3.90)	0.51
2016	11.51	9.19	10.14	12.76	11.04	11.06	8.96	8.77
2017	11.99	13.67	11.97	11.39	11.84	12.87	12.57	13.89
2018	(7.54)	(7.64)	(5.89)	(9.25)	(7.69)	(8.41)	(6.71)	(2.86)
2019	16.57	16.16	15.89	17.31	17.04	17.52	15.94	21.80
2020	5.27	13.82	5.78	5.14	3.63	9.65	7.88	16.40
2021	16.85	5.28	6.48	8.56	7.75	16.68	10.12	14.23
2022	(7.71)	(18.60)	(14.02)	(11.43)	(12.52)	(15.59)	(16.10)	(16.90)
3-Year Annualized Return	4.32%	(0.83%)	(1.07%)	0.36%	(0.78%)	2.59%	(0.11%)	3.38%
5-Year Annualized Return	4.12%	0.91%	1.10%	1.48%	1.08%	3.05%	1.51%	5.51%
10-Year Annualized Return	4.87%	3.02%	3.34%	3.89%	4.09%	4.84%	3.86%	7.77%
15-Year Annualized Return	4.35%	2.94%	3.34%	3.67%	4.02%	4.11%	3.80%	6.59%
20-Year Annualized Return	7.36%	6.54%	6.51%	6.83%	7.02%	7.46%	6.70%	7.48%
25-Year Annualized Return	6.68%	6.53%	6.01%	6.40%	6.40%	6.91%	6.21%	6.54%
25-Yr Growth of \$10,000	\$50,415	\$48,636	\$42,999	\$47,191	\$47,117	\$53,155	\$45,145	\$48,755
25-Year Standard Deviation of Annual Returns (%)	11.77	13.61	11.73	11.63	12.19	13.94	12.22	11.46
Annual % Expense Ratio in January 2023	----	0.54	0.36	0.14	0.09	0.45	0.21	0.07

Past performance does not guarantee future performance.

The Index-based 7Twelve model is not investable. Raw indexes cannot be invested in.

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

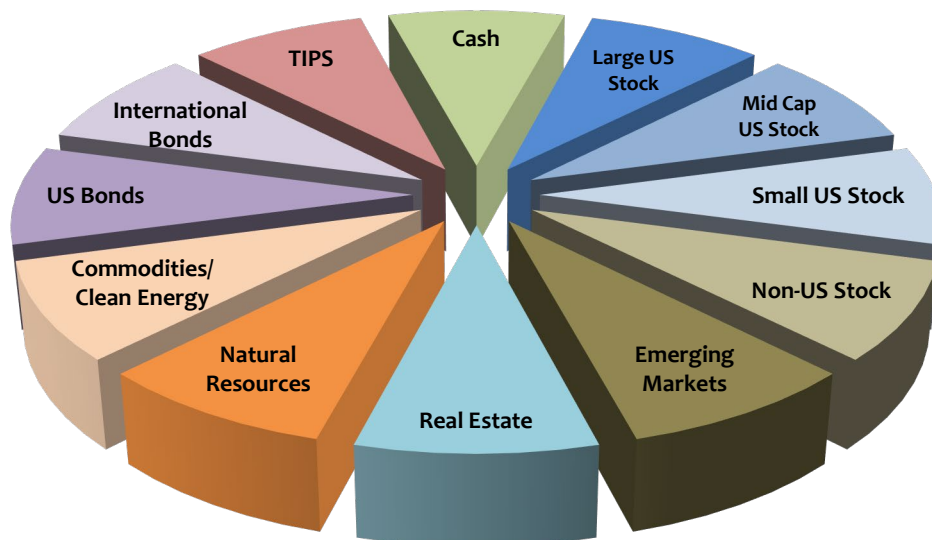


Table 2. Portfolio Allocations for the *7Twelve* Core Model and Age Based Models

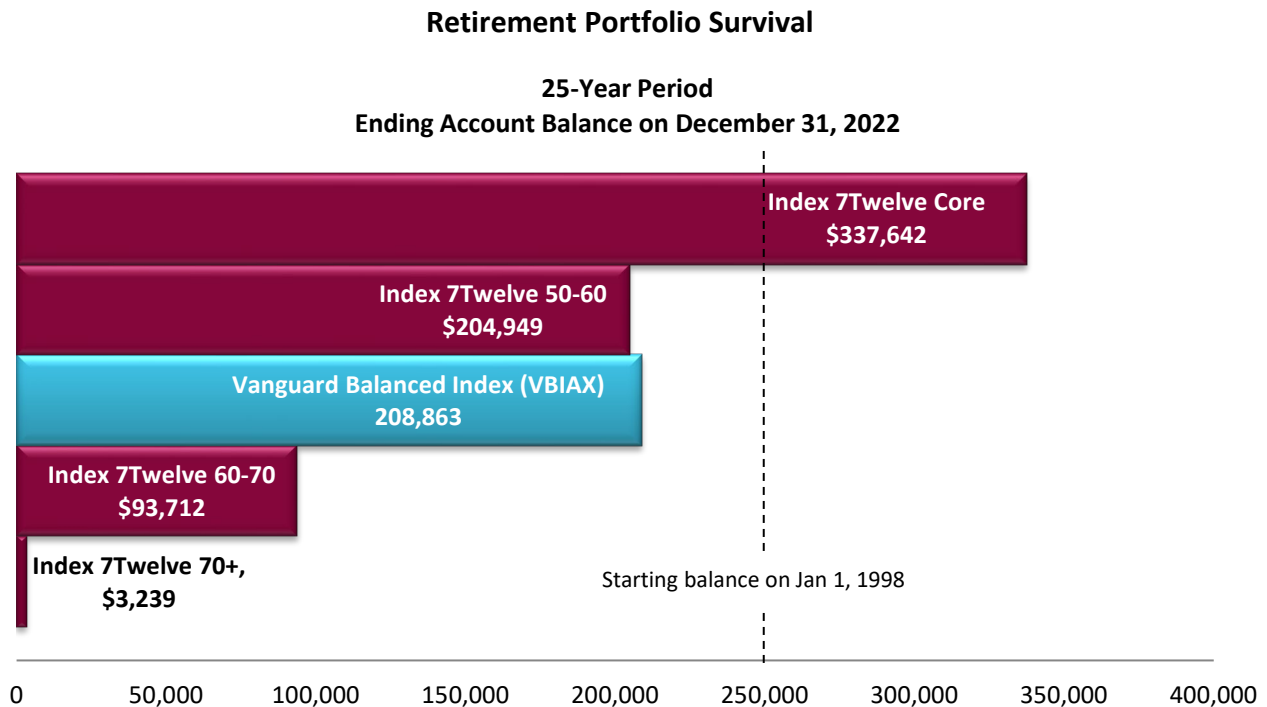
<i>7Twelve</i> Model →	<i>7Twelve</i> Core Model	<i>7Twelve</i> Age-Based 50-60	<i>7Twelve</i> Age-Based 60-70	<i>7Twelve</i> Age-Based 70+
<i>7Twelve</i> Asset Category	<i>7Twelve</i> Age-Based Portfolio Allocation			
Large US Stock	8.33%	6.67%	5.00%	3.33%
Mid Cap US Stock	8.33%	6.67%	5.00%	3.33%
Small 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/Clean Energy	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%
TOTAL EQUITY Allocation %	67%	53%	40%	27%
TOTAL BOND/CASH Allocation %	33%	47%	60%	73%

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.

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, 2022 of a retirement account with a starting balance of \$250,000 on January 1, 1998. The first-year annual withdrawal was 5% of the balance (or \$12,500). The annual cash withdrawal was increased 3% each year over the 25-year withdrawal period amounting to a total withdrawal of \$455,741. The core 7Twelve model (index-based) finished with a balance of \$337,642 while Vanguard Balanced finished with a balance of \$208,863. The equally-weighted “core” 7Twelve Portfolio has been a durable retirement model over the past 25 years.



**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. He can be reached at craig@7TwelvePortfolio.com

The name 7Twelve® is a registered trademark belonging to Craig L. Israelsen

Disclaimer: the information in this guide does not constitute an endorsement for any particular investment product.

Past performance of investment products does not guarantee future performance.

Craig Israelsen does not manage money for anyone or any company.