Q&A with the Five Faculty Members

[Applause]

Jim Dahle: Okay, we're going to do a Q&A panel here, and we have saved 37 minutes. We gained seven minutes in there somewhere. We're going to use the whole thing. We're going to go all the way to four o'clock. Let's have our four other faculty members come up here. Let's put two chairs on each side of me.

Audience question: Yeah but this question is in the lightest stay in the course. Some approaching retirement, 50/50 allocation. Don't do individual bonds, so most of my bond allocation would be in the Vanguard Total Bond and international bond market funds. Saw a CFP off the Garrett Network this summer who recommended taking all that bond money liquidating it and making a five-year CD ladder as well as put the rest in a short-term bond market fund. So I didn't do that. I've ridden my bonds down. Am I doing the right thing, staying the course, especially in light of what Burton Malkiel said about us being in a time of financial repression, where bonds going forward may not be what they've been in the past.

Jim Dahle: That sounds like a Rick question.

Rick Ferri: Okay. Thank you for that good question. And I understand the change in what's going on in your life because you are going through the most stressful financial part of your life right now. Which aside from paying off college loans is retirement. The year before retirement to the year after retirement.

I don't know what's going to happen to the bond market going forward. I believe that where we are right now is good for retirees in the long term. Interest rates have gone back up. Now we can get finally 4%. So is now a good time to make that move of selling out of the thing that you watched go way up over the last couple of years because interest rates dropped below 1% and now have gone back to more normal levels. I would not do that. I understand the idea of a CD ladder, I just don't think that I would do something like that. I mean I would just take the dividends and interest from the portfolio and sell off the asset class that gets me back to my 50/50 every year and I just stay the course. That would be my answer.

Alan Roth: in my book there was a chapter called "Better than Bonds That Didn't Work All That Well For a Long Period of Time" and it was CDs that had easy early withdrawal penalties. Now I still earned more than Total Bond, but I never exercised that put, the right to sell it back to the bank at a very low penalty, and guess what happened. This year it worked like magic. Now banks and credit unions typically lag market rates. So during the 40-year bull market when rates were falling, the banks and credit unions had great rates. Now it's the other way around, they're lagging.

So I would argue treasury bills, treasury bonds are paying incredible rates. And I just did a back in the envelope calculation that I shared with Christine and Mike that you could build something close to a TIPs ladder that would give a guarantee, virtually guaranteed, 4.23% real after inflation withdrawal rate over 30 years. So you know indexing for stocks, incredibly important, and I own a lot of the Total Bond Index Fund. But fixed income, high credit quality, there are some better alternatives out there.

Rick Ferri: Yeah, okay. I just want to talk about one thing, and that's the difference between philosophy and strategy. And those of you who have heard some of my lectures before have heard this. We are all Bogleheads. We all have the philosophy of low fee, stay the course, be diversified. All the things you've heard today. And so we all believe that, we're all here. If I was going to ask you how many of you believe that, everybody in this room would raise their hand. If I then said how many of you are implementing that in your portfolio, you'd all raise your hands. If I said how many of you in this room have the exact same portfolio as another person, no one would raise a hand because what works for you works for you. It could be a CD ladder. It could be the Total Bond Market. It could be a couple of different bond funds. So what we're going to be discussing up here, and make it very clear, this is not you should do it this way, you should have a CD ladder, you shouldn't have a CD ladder, you should have treasuries, you shouldn't have treasuries. It is that is individual to you, it is a strategy that you're using, and it's all good because it works for you. So whatever works for you is good. It's all under the same philosophy. So I wanted to just separate the philosophy discussions from the strategy discussions.

Jim Dahle: All right we're going to spend all our time on this question.

Christine Benz: Comment to kind of generalize. My thoughts on retirement decumulation, which I work on a lot. I like the idea of using portfolio withdrawals so my cash flow needs from my portfolio is kind of the yardstick to determine how much I would drop into each asset class. So in my kind of model, bucket portfolios--and I know Alan doesn't love this bucket strategy-- but I hear from a lot of retirees who say that it really works for them and mentally works for them. The idea is that you use your portfolio withdrawals as the measuring stick.

So I think about like two years worth of portfolio withdrawals in liquidity like cash, not messing around CDs, whatever guaranteed. And then another say five to eight years in fixed income, short-term, intermediate term and some TIPs, and then anything beyond that going into a globally diversified equity portfolio. That's how I do it. That's I'm not retired, but that's how I think about retirement decumulation.

Jim Dahle: Mike, you want to go after this one. You know who owns a tsp G-fund raise your hand. Yeah, 16 years I've owned it and finally this year is its day in the sun. All right, next question.

Audience question: Yeah my question really is buckets of money. I'm retired. I have a cash fund that's getting depleted, right. And most of the market is down, and most of the asset classes. At what point do you start replenishing your cash fund and what priority order, you know, so you can have the cash.

Christine Benz: Great question. So the way I think about it is that you build kind of next line reserves. So you have maybe a couple of years worth of portfolio withdrawals and true cash Investments, and then within that fixed income portion, which I was talking about accounting for roughly five to eight years worth of portfolio withdrawals. You kind of stair-step that portion of the portfolio by risk level. So next in line would be short-term bonds, which have had losses this year but certainly not in line with intermediate term bonds. They've held up much better.

So if I needed additional funds, my cash reserves were depleted, that's where I would turn. I don't think I would preemptively start raiding short-term bonds. I would wait and see what happens there. I would only shift more funds into cash at this point if those liquid reserves were already gone, or almost gone.

Jim Dahle: Yeah the whole point of that cat having that cash is to be able to ride out years like this. You knew it was possible that stocks and bonds could both go down at the same time, that's why you have cash in your portfolio because that's what you're going to take it out of this year and maybe next year. And hopefully by then one of those asset classes is recovered somewhat.

All right, let's take our next question.

Audience question: Thanks for being here. I had the opportunity to sell a condo last year to profit. I don't have any health years because my spouse is a clergy person so we live in a parsonage. So I'm curious to know. We talked about lump kind of investment. What are some recommendations or things I should keep in mind to use with that profit, if I'm not looking to tap into it for a
retirement home for 30 years.

Jim Dahle: You're not planning on using the money for 30 years. Yeah, and as money you got from selling your house recently. Yeah all right, Mike you want to take that.

Mike Piper: To me this just feels like it's any other chunk of the retirement portfolio. It doesn't, the money doesn't care where it came from, right. And so now we're--all we know is we're going to be spending it 30 years from now--so base it on that and the other things that determine your personal risk tolerance. That's what it feels like to me.

Jim Dahle: Lump, so we were talking about earlier. That's like better than trying to put it in over several different months. Oh, it sounds like your question's more lump sum versus dollar cost average, is that right. All right.

Rick Ferri: Thank you. I have a comment about lump sum versus dollar cost average. Okay, lump sum you rip the band-aid off all at once. It's painful. And you know you're going to be wrong. Doesn't matter what day you pick, the next day the market's going down. You know that you could spend your life trying to figure it out. But lump sum hurts really bad one time. Dollar cost averaging hurts really bad many, many, many times.

And here's the problem with it. I find okay unless it's an automated thing as Christine was talking about, where it's automated you don't think about it. It comes out of your paycheck. That's great, that's great dollar cost averaging.
But when you have to physically go in and make a trade every month or every quarter to do your dollar cost band-aid off every single time and it hurts and it's hard to do dollar cost averaging when you have to do it yourself.

So another reason to do lump sum besides the data that Christine, just you know jump off into the cold water, take your shock, and then it's in there and you don't have to worry about it after that. I try to get people to do that. It's very hard to do it but I think that's really the best way to do it, thank you.

Alan Roth: Lump sum, mathematically superior; dollar cost averaging emotionally superior. If you're going to dollar cost average you can only do this with mutual funds, not ETFs. But do it on an automated basis. You can have Vanguard invest ten thousand dollars in Vanguard Total Stock Index Fund--VTSAX not VTI--for 18 months and then stop. Because when people have to do it either life gets in the way, or North Korea launches a nuke, or there's a tweet, or we always come up with excuses.

Jim Dahle: Yeah lump sum investing is definitely my favorite way of doing it as well. I've said dollar cost averaging is for wimps, and there's a lot of truth to that but the truth is I lump sum invest every month I have a certain amount of money to invest. Some months it’s more, some months it's less because I have variable income. But you know what, over the 20 or 30 years that I'm accumulating it works out because sometimes you're buying high and sometimes you're buying low. But I'm always lump sum investing because I invest the entire amount I have to invest at that particular time and that includes the times when I sell a house and get a lump sum of money. Next question.

Audience question: Hi, I have a friend who's been in a long-term relationship with her financial advisor and he's been unfaithful to her. He's been cheating on her with a woman, with another woman, named Miss profit. How can I convince, or how can my friend rather…

[Laughter]

… how can my friend break up with her unfaithful advisor.

JIm Dahle: Okay, all right. How to fire a financial advisor. Christine, you want to start with that one.

Christine Benz: You know, how to fire an advisor. I think it is--I will say I've worked with friends about different business models for financial advice ---it's very hard to get people away from that all in one, mainly the invisible hand that comes into their account and takes a percentage of their assets every year. It's just sort of this mental game that makes it very easy for people to put up with kind of a bad relationship and so I do think it's a learning process. I've worked with friends--in fact I had a friend who I spent a lot of time talking to about how to find a financial advisor. I said I think you want to go hourly blah, blah. And he went with some other business model. I think it was actually a commission based broker. And then a couple of years later we're having the same conversation. He wasn't happy with the way things were working. So I just feel like it's an educational process. You can walk them through the numbers about how much that advisor is subtracting from their portfolio and not adding value and talk about well if you do need advice. Maybe kind of a surgical business model where you're paying for hourly advice is the better way to go.

Alan Roth: Yeah. I have the worst client retention in the business in that I do a one-time plan with the goal of being fired. But the client has to fire their advisor and if they're enjoying it I'm a little worried about them because they're real people. So you know what I tell clients. You don't try to convince your advisor that they're doing the wrong thing, just say I've decided to go a different direction. Thank you for all the help you've given me. And leave it at that.

Rick Ferri: Yeah, that's 100% agree with Alan. The keywords are you know I appreciate everything you did for me. I've decided to go a different direction. Those key words and that the advice--I've been an advisor for 35 years--I've heard these words. But that's when I was a broker, not anymore.

Okay, but here's, are you asking about you're trying to convince your friend to fire their advisor, is that what this question is?

Audience questioner: Yeah, basically.

Rick Ferri: Okay but they're not ready yet to do it, correct. Is that what you're saying?

Audience questioner: Yes.

Rick Ferri: Okay. So here's the problem. They haven't heard it enough times. This needs to be repeated, this message needs to be repeated over and over and over again, at least 100 times before they understand what you're saying. And if they're not ready to fire their advisor yet then they haven't heard it 100 times yet. Now they're not going to hear it 100 times from you, but different places out there. In the media they hear about, if they hear. They read something about it. They see it somewhere else. Somebody else tells them.

You don't become a Boglehead, well most people don't become a Boglehead overnight. The light bulb goes on but you would be amazed how many times it's been sitting in front of you and for how long it's been sitting in front of you before you realize oh how, how, where have I been. Okay but it took about a hundred different Impressions on you from various places before you finally did it.And that's what's going on with your friend, is that it's not that you're doing anything wrong because you're not. They just haven't been exposed long enough, by enough people, and eventually at some point they're going to take notice they're actually going to look at it and say what are you actually talking about, and look at it but she or he is just not there yet.

Jim Dahle: I think I've helped literally thousands of doctors fire their financial advisors. The course I put together is called, How to Fire Your Financial Advisor, but the point I make to them though is it's way easier to fire them once you have a plan of what's going to happen after you fire them. So whether you are moving to a better advisor that gives better advice at a better price, or whether you're moving to a do-it-yourself model there's no rush to fire that advisor, right. You're going to pay a little bit more in fees over the next two or three months while you educate yourself and put a plan together. But get that all in place so you know what you're moving to and then it's really easy. It's just a formality of, oh yeah I got to let them know I'm not going to use them anymore you know I've already got the plan and what I'm going to do is I move from one place to another. All right. So I think that's the key---is know where you're going. The actual conversation is pretty short, as they illuminated it's not you it's me type of exactly thank you. Thank you, you seem to have some experience with conversations in this regard. Thank you, all right next question.

Audience question: This question is for Mike Piper, and he hasn't been getting questions or speaking much, so and this is always what I intended from the time I got in line was to ask Mike Piper a question. And I've read at least one of your books about Social Security and it seems like the claiming strategy still for me, maybe I just didn't get it, is a little complicated. I've used your calculator as well, you know depending on if you're single versus if you have a spouse. And then what the other thing is for the lower income person, how you know what age should they claim at. I realize that there's a lot to it, that's why you wrote a book. But if you could kind of give an overview of this I'd appreciate it.

Mike Piper: Sure. That's one of the primary topics of my talk tomorrow. So we've got 15 minutes on just that.

Rick Ferri: So you have another question for him?

Audience questioner: [Laughing]: No, I'll be back.

Jim Dahle: I think Mike's trying to get out of answering questions. That's what I think.

Audience question: Oh hello, my question is for Christine. You had mentioned in retirement to add some cash to the three fund portfolio. How much cash? Two to three years of discretionary income? And just one one thing for Mike. Mike I never have to answer or consider that question that he asked again. I waited until 70. it's done.

[Applause]

Christine Benz: Thanks for that question. So I like the idea of using your---well as a starting point looking at all in portfolio, looking at all in spending, including you know portfolio income, Social Security, income from every source--look at how much you need to subtract out non-portfolio income sources like Social Security, pension if you're lucky enough to have one, real estate income, that kind of stuff. The amount that's left over with is the portfolio withdrawal, and then I use that as kind of the measuring stick to determine how much to hold in cash. So I think one to two years worth of portfolio withdrawals and cash is a good starting point.

I think most retirees probably would rather they had two years. This year, you know given how bad the bond market has been. But I would use that as kind of the measuring stick that I in turn would use to determine how much to invest in the other asset classes.

Audience questioner: I forgot to tell you the reason I asked the question. I'm planning today to retire next June 30th. Hopefully between now and then and I'm willing to wait another year if I have to because of the market coming back. But I've never really been able to figure out exactly how much cash do you want to have so thank you.

Christine Benz: Sure. Thank you, thanks for coming.

Audience question: Hi. My question is for everyone basically. Or whoever was familiar with this topic. I was wondering if I've done any studies on the bond tent glide path approach versus the traditional flight path. Maybe for simplicity, I think this is a newer thing that discovered recently instead of using your bonds, the Bond tent glide path suggests that you should hit your maximum bond around retirement and then you should quote unquote die with 100% stocks. I find it very counterintuitive but I like the idea because it claims to minimize the, I think, sequence of return risk. Basically, it's like regardless of when you retire you're going to be more okay using this approach versus the traditional approach. And I was wondering if any like analysis, or pros and cons of these two approaches.

Jim Dahle: Okay you don't want to talk about bond tents, right. Well that's good. For those who don't know what a bond tent is, the idea is that you go down in stocks until you get really close to retirement, maybe five years before, and that's when you're at your most conservative asset allocation. And then for about, you know, five years after your retirement date you're still in that conservative allocation. And then you actually start increasing your stock to bond percentage. The idea being to reduce your sequence of returns risk. A good idea, bad idea, Mike.

Mike Piper: I think it's entirely reasonable. Frankly you're going to have a hard time getting a strong opinion from me about any asset allocation topic. Sorry to share one analogy that I use a lot of the time. My mom is a dietitian, my wife's mom is also a dietitian. And if you ask them what makes a healthy meal, or what is a healthy meal, they don't tell you grilled zucchini and something. What they tell you is it needs

to have, you know, a reasonable number of calories. It should probably include a vegetable, limited amount of sugar. They give you characteristics, and there's a zillion meals that meet those characteristics.

It's the same thing with the portfolio, right. There's characteristics. It needs to be diversified, it should have low cost, it should have an allocation that's roughly in keeping with your risk tolerance. And then there's a million and one ways you can design a portfolio that meets all of those requirements.

So on the topic specifically for bond tent, yeah I think that's one reasonable way to do it. I think it's also fine to just keep a static allocation. If you're interested in studies though- so it came from Wade Pfau and Michael Kitces, I'm pretty sure. As far as like follow-up research that's been done in the years since I'm not super sure if they're--oh Christine, great.

Jim Dahle; That was a good punt.

Christine Benz: So my colleague, my former colleague David Blanchett, did some research on this and concluded that he liked a more traditional glide path. He found that actually it made very little difference over most market time periods of retirement, and just behaviorally, he felt that it was more attractive to use a traditional trending glide path which would either stay static or get a little bit more conservative as the person gets close, you know gets further on into retirement.

Because the net effect of this idea of starting retirement with a really conservative portfolio is that at some point after Armageddon occurs in the equity market you're supposed to be adding to equity exposure. Does that work behaviorally? I think that's a big question mark and I think that's kind of what David's research flagged.

Alan Roth: This is historic because it might be the first time that I've ever sort of disagreed with Mike Piper. I can't get into the details of it but there was a flaw in the assumption of that glide path or increasing stock study, but even more important as Christine just mentioned, from a behavioral aspect it is really really hard to get people to rebalance in down markets. To get them to take more equity risk in down markets,very, very unlikely.

Rick Ferri: I disagree with that. And then there's this side I do agree with Mike.

[Music]

We're talking about what's called a reverse glide path which means that when you retire you're at the most conservative you're going to be, and then over time you actually increase your allocation because the it's more of a liability matching, your future liabilities are better matched to the long-term liability assets of the portfolio if there's an increasing asset.

But there's something else that goes on and depends on how much money you have. Depends on whether Social Security is covering all of your expenses or not, or you've got a pension, or you've got other income, or maybe you're going to get an inheritance, or maybe your kids didn't spend their 529, and it's time for you to take that around the world jet tour, right. But the point is that it depends on each individual person, which works for you I mean.

Well, clients I work with ,we do reverse glide paths all the time. I just say at some point stop rebalancing, just let it go especially if you're going to put your bonds in your IRA account, and you're going to do these Roth conversions. And then when the money goes over to the Roth you want it to be in equity because it's tax free and meantime you're not going to be selling stocks in your taxable account because that would just generate taxes, and then eventually going to make RMDs [Required Minimum Distribution] from our IRA or 401-K, so you're going to have this natural increase in equities anyway. And if you're okay with that because you're just living off the income from your Social Security and maybe dividends and interest income and maybe eventually the RMD, why not, it's better for the kids.

Jim Dahle: You know I always think these questions are kind of funny because they apply to such a small percentage of people. You know most of us either have well more than we need and we don't really have to play around with all this safe withdrawal rate stuff. We spend what we want to spend and we'll leave the rest to our heirs or charity or whatever. And then there's lots of people that don't have anywhere near what they need, and are trying to maximize it and buying SPIAs [Single Premium Immediate Annuities] and trying to delay Social Security, if they can and living on Social Security eventually. Only a very small percentage of people have just barely enough when they retire and those are the ones we've got to pay a lot of attention to these sorts of studies. if you just work another year or two you might not have to pay any attention to them at all.

Rick Ferri: Sorry that's why rules of thumb don't work. You know, your age in bonds minus 10. All this doesn't work if it only applies to a very small number of people. Okay what works for you, what strategy works for you is what works for you. Okay it's all the same philosophy, do it low cost ,do it you know stay the course, and everything we talked about today, but the strategy that you're going to implement, whether it's a bond tent,whether it's a decreasing allocation to equity, whether it's an increasing allocation to equity, whatever, is going to be unique to you and you have to figure out what that is. And hopefully that's what this whole conference is about helping you figure out what that is.

Jim Dahle: All right, let's take our next question.

Audience question: Ciao, from West Point. As I've learned about more times, investing the new money has gone into broadly diversified low-cost index funds. I still have a chunk of my retirement accounts in kind of systematic value type of products for which I've held and enjoyed 10 years of underperformance. Stay the course or time to quit cold turkey. Can you tell us what your investing plan says you're supposed to do? It's I think what we've heard today, broadly diversified low cost.

Jim Dahle: Okay, anyone want to take a stab at that one?

Rick Ferri: Absolutely stay the course. I mean if you've made a value tilt 10 years ago now's not the time to change that. I mean you've got to stay the course. Anybody have a different opinion?

Jim Dahle: Should you bail on a value tilt if you've had it for many years and suffered through it like those of us who have one. You're not alone, I can tell you that. Next question.

Audience question: Yeah, exactly. So shameless plug for The Economist magazine. I was just reading the recent issue and it said that the Fed may never return to two percent as for a target rate. Maybe it'll be four percent. In light of that, what do you guys think about the bond, maybe the stock. But I'm most interested in the fixed asset treasury TIPs, that part.

Jim Dahle: You're talking about a two percent target for inflation correct?

Audience questioner: That after, whatever's going to happen.

Jim Dahle: So is your question how do you think we should invest in bonds today, is that your question?

Audience questioner: That's correct, given something other than a two percen, probably a higher target rate.

Alan Roth: Okay. I think Jason Zweig is in here. I think the last I looked there was a study that showed that the top economists have called the direction up or down of the 10-year treasury bond correct about 35 percent of the time, less than a coin flip, which is tied to inflation, and none of us knows what inflation, including those economists.

In fact, if anything I would probably bet the opposite, and again, TIPs-- you know I wrote a piece on I-bonds several months ago. The best thing since sliced bread. I-bonds are giving a zero real return. TIPs are giving a 1.7% real return.

Jim Dahle: You know I've been talking about inflation for years and years and years and years and nobody ever wants to listen to me, and finally it shows up here and so it's kind of exciting that way. But you know in a lot of ways you've tilted, you should have considered inflation all along. It is the great enemy of your portfolio.

I think I saw Bill Bernstein sneak in back there, but he's talked about deep risks, right. Inflation and deflation and confiscation and devastation. But if you look at how likely each of those are, inflation is far more likely than any of the other deep risks that your portfolio faces, and so your whole portfolio ought to be geared to deal with this risk. And so actually half of my bonds are an inflation index bonds, whether they're in TIPs or whether they're in I-bonds. And you know, I feel like that's actually not paying off great this year. We're going to talk about that more later in the conference but you know I think you got to think about inflation anytime you're designing a portfolio because I think it's maybe the number one consideration.

But specifically if the target rate went up, let's just say it never returned to two percent, would that change our strategy, but I mean change, a suggestive strategy.

Rick Ferri: So The Economist article that you read speculated that the Fed is now going to change their target rate, that they'll never get back to two percent. That's a difference between changing their target rate. I mean if the target rate is two percent that's the target. That they'll change it and it'll never go back, I don't know. They're having a vocal moment right now and they're pretty determined to at least get the inflation going the other way, in a rapid way. And I know that the timing of it on a presidential cycle thing is right.

In other words it's right when they should be doing this. I don't know the answer, whether or not it's going to go. I don't know what The Economist magazine said but I have some I-bonds in my portfolio as well. I mean I like them even at a zero percent return, but Alan has mentioned this a couple times, kind of snuck it in, but TIPs right now, 1.7%. That's higher than we've seen in a long time, like considerably higher. So I mean I don't necessarily have anything brilliant to say about exactly where inflation is going or any predictions you can make that are useful in that regard, but as far as bond investing you know there's better opportunities available right now than there have been in a long time. And I don't know if their target did change if I would invest any differently than I invest now, right. I mean I would expect the markets to adjust to that information.

Jim Dahle: Thank you. Next question. I think probably our last question.

Audience question: My question is around what I perceive as perhaps conflicting advice even in the Bogleheads community and I'll give you two instances that sometimes confound me personally. So there's--I don't just if this person is a Boglehead or not--but he's written a book where he says don't worry about international stocks, if you invest in VTSAX, Vanguard Total Stock Market you also get International, so don't need to worry about that. Simplify even further. So that's one instance.

And today we heard the Three Fund Portfolio strategy. The other one is where I've heard that, oh you should tilt towards small cap because there's evidence, statistical evidence that shows over the long run, 20 - 30 years there is a small gain compared to a three-fund portfolio. I don't know how much it is, point five percent, which does equate to maybe a million or two extra in your retirement portfolio. So there's all these nuances, and sometimes it gets confusing. So if you would…

Jim Dahle: Okay let's do lightning round. We'll go across the stage from this side to this side. Your thoughts on International and your thoughts on a small value tilt.

Christine Benz: Sure. The international is one area where I did disagree with Jack Bogle. He thought that the US market, because most of the U.S large caps are or many are very globally diversified, that it was fine to hold just the US market. I like the idea of young investors using the global market cap as a starting point. I don't understand why you would say no to that free diversification. And yes, it absolutely has not delivered for investors. We've seen a long stretch of underperformance of non-us stocks. But there have been periods in my recent memory where international stocks have outperformed. And I believe that will be the case again.

So younger investors go with the global market cap. Older adults who are beginning to spend from their portfolios, that would be a little bit more conservative, maybe holding 20 - 25 percent of equity exposure in non-us. I don't feel strongly about the international tilt. There's certainly some data that shows the outperformance of small cap stocks but I don't feel strongly that investors embed that into their portfolios on an ongoing basis.

Alan Roth: I'm from Colorado. I wouldn't only buy companies based in Colorado. Same sort of, you know, diversification strategy. If you had enough international with the Total Stock Index Fund you wouldn't see such a huge difference. Regarding small cap, you know I beg to differ. The evidence showed that for a long period of time small cap had outperformed large cap. We don't know what's going to happen going forward.

Jim Dahle: I have both a small cap and an international tilt in my portfolio. I'm two-thirds U.S, one-third International, and a pretty good small value tilt that has been wrong for my entire investing career. I'm expecting it to pay off at some point. I think International is a screaming deal right now, and part of that story is a small value story. International companies are smaller and more value than U.S companies and so when I think when the pendulum swings I think both of those are going to do a whole lot better than they have in the recent past.

Rick Ferri: So the international market is made up of very different industry groups than the U.S stock market which is dominated in the U.S market by technology and healthcare. Internationally you've got a lot of material stocks, industrial stocks, oil so

forth, commodity type things. In a falling interest rate environment those stocks do not outperform the growth stocks. The growth stocks take advantage of that, which is what happened in the U.S market for many years, and the U.S market has outperformed. But that is over, okay, or at least we think it's over. We're now going to get back to something more neutral. So if that's the case this year International stocks have outperformed the U.S market by 10 percent. Problem is the dollar has increased by 10 percent, so net net they were about equal. But it is actually happening. These industry groups that are international are outperforming.

All right, so where do I fall on this. I don't know what the future is going to be so I'm like Jim, about two-thirds U.S ,one-third International. And if I was 40% International and 60% US which is the global equity market, VT, the Vanguard World Equity Fund, I'd be fine with that too.

As far as small cap, I'm not a big believer in small cap, but I am a believer in if you're going to do factor investing, which is small cap you might as well just put all these factors together and do a multi-factor small cap value fund in a very,very intensive fund. And Vanguard doesn't have a very intensive small cap value one, but you would use an Avantis or a DFA ETF or something like that to get the really intensive small cap value, so I do have some of that in my portfolio.

Mike Piper: On the topic of small cap value tilting I would enthusiastically decline to have an opinion. On the topic of international holdings I think one thing that often gets left out is that in just the original idea of diversification, not the asset class correlations stuff, but the you know don't have all your eggs in one basket, by including an international fund you get to keep the same stock exposure and reduce the exposure to any one individual company. I think that by itself has some degree of value.Might International also provide some sort of rebalancing benefit, maybe. But for me, honestly, the significant part of the reason is simply it reduces my exposure to the individual risks related to any one individual company.

Jim Dahle: All right, our time is now gone. Two housekeeping items I want you to be aware of. One, at 5:30 in this room is the reception. So you come back here at 5:30 for the reception. Do not come back here tomorrow morning. This is not where the main conference is going to be. That's going to be one floor higher and that way I don't remember what the room's called, but it's not here. So keep that in mind.

Let's give a big round of our applause to our panel. And we're looking forward to a great three days with all of you. We'll be around to answer questions and chat with you. I think we're all staying the whole conference and look forward to meeting each of you.