The Sizemore Income Letter

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401(k) Update... and Happy Easter!

By Charles Lewis Sizemore, CFA

For those desperately wanting to know, the results of last week's horse show are in. My father-in-law placed second overall as best breeder. Alas, a horse that could have potentially given him the win had to be pulled out of contention at the last minute due to a health issue.

These things happen.

Win or lose, they were beautiful horses. And there is always next year!

On to the world of investments, given all of the volatility of late, let's take a minute to review the 401(k) allocation. Remember, every investor is a little different, and one size rarely fits all. This is intended to be a baseline model. More conservative or older investors can weight the portfolio a little heavily to cash and bonds.

With that said, let's jump into it.

I believe it still makes sense to be conservative for now. I'm recommending you keep 55% in bonds with 45% of it in short-term bonds, money market funds or other short-term instruments. If your 401(k) plan has a "stable value" option, something like that would likely be fine.

Given the spike in longer-term bond yields, I'm comfortable inching into longer-term bonds, and I recommend a 10% position here. It's possible we're early, as I've seen no indication that yields are peaking. But with the 10-year Treasury within striking distance of 3%, I don't see yields going too terribly higher.

401(k) Model Allocation

Sector	%
Money Market / Short-Term Corporate Bonds	45%
Long-Term Bonds (High Quality or Government)	10%
Large Cap Value	15%
Large Cap Growth	15%
Real Estate Investment Trusts	10%
Gold / Precious Metals / Commodites	5%

Figure 1

Yes, 3% is far below the rate of inflation. That's a given. But look overseas. The German, French and Japanese 10-year yields are 0.79%, 1.27% and 0.24%, respectively. Does it really make sense that American yields are that much higher than the rest? Inflation is raging across most of Europe at more than 7% per year. Only in Japan, the land of perpetual deflation, does inflation seem to be a non-factor. But that's a much longer conversation for another day.

Bottom line, I don't *know* that American yields will top out soon. We'll find out when we find out. But I'm confident enough that they will be peaking soon to recommend at least a modest position in longer-term bonds.

Moving on, I'm still very reluctant to bet big on stocks right now. We may be in the opening stages of a larger bear market. But as we saw in March, the rallies can be ferocious, and we want exposure to them when they happen. So, we're maintaining exposure of 15% each to large cap growth and value.

And finally, I'm still recommending an allocation to REITs, gold and commodities. Given the wobbly state of the dollar at the moment, this only makes sense.

That's all I have for today. Enjoy the Easter weekend with your families, and we'll pick this up next week.

Charles Lewis Sizemore, CFA

P.S.: Apart from writing this newsletter, I run a full-service wealth management firm along with my colleagues. At **Sizemore Capital Management**, we build income portfolios like those I write about in the *Sizemore Income Letter*. But we also do a lot more than that. We manage a suite of low-volatility strategies offering low correlation to the S&P 500. If you'd like for me to take a look at your portfolio and offer some recommendations, contact me at info@sizemorecapital.com.