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EXPERT CORNER

Beauty in the Boring

Rick Ferri, CFA, has spent almost 18 years in the financial services industry, first as a full-service broker, and now as CEO and director of research of Portfolio Solutions, an index fund-loving money management firm. Despite his busy schedule, he's somehow found the time to write three books: Protecting Your Wealth in Good Times and Bad, All About Index Funds, *and* All About Asset Allocation.

TMF: Introducing your strategy in *All About Asset Allocation*, you wrote, "Are you ready to be bored? Can you settle for second place, year after year?" Explain.

Rick Ferri: What we do is, quite frankly, boring. You set up your asset allocation based on your needs, cash flow requirements, and tax situation. Hold on to that same asset allocation for at least 10 years. At the end of each year, rebalance. When something is going up, you are selling a little bit; you are taking money out and putting it in something that didn't go up. In the long run, what didn't do well will start doing well and what did really well will probably not do as well.

TMF: Should investors rebalance once a year?

RF: That is what I tell people to do if they are managing their own portfolio. That is not how we do it at Portfolio Solutions. We use percentages because we are doing it all the time, and it is our business, and we have software that is checking this stuff constantly. But for individuals, I don't want them looking at their portfolio every day. I want them to look at their portfolio once a year, or maybe when they are going to put money in.

TMF: If someone comes to you with a portfolio, do you invest it all at one time?

RF: Generally, if it comes from a 401(k), it has just come out of equities, so we do a lump sum back in again. They were already 100% invested, so we are just going to make them 100% invested again. There are people that come to us who received a large inheritance of cash, or maybe they sold a business. ... So let's at least put 50% in now and then we can dollar-cost average the other 50% in a couple of years.

The advantage of that is you get different tax lots, if it is taxable money. If you have different tax lots, then you can do tax harvesting. If the markets go down after you buy a tax lot, you can sell that tax lot and turn around and buy almost an identical index fund. Then you can take a tax loss and never be out of the market.

TMF: You aren't running afoul of the wash sale rule?

RF: No, because not only are you investing in a different index, you are investing in a different fund company. If we move from Vanguard to Barclay's, for example, using their iShares, we will move from the **Vanguard Total Stock Market Fund** (VTSMX), which is based on the MSCI Total Stock Market, over to the **Barclay's iShares Russell 3000** (AMEX: IWV). We also don't reinvest dividends automatically in taxable accounts. We let the money flow into a money market fund and then we buy new tax lots when we have enough money in the money market fund.

TMF: What about commodities?

RF: I am not an advocate. If you are doing a global equities portfolio, more than 10% of the global equity portfolio is based on commodity companies anyway. **ExxonMobil** (NYSE: XOM) and **Archer-Daniels-Midland** (NYSE: ADM) are commodity-based companies. One of the reasons the market did what it did last year was that ExxonMobil and the other oil companies did very well.

TMF: You have said that Canada offers a lot of exposure to commodities. Can you expand on that?

RF: If you wanted more currency exposure and more precious metals exposure and commodities exposure, you could take 3% of your portfolio and put it into an exchange-traded fund (ETF) that is based on the Canadian index. That makes sense to me: It's low cost, it's diversified, you get more commodities, and it bumps up your overall equity commodity exposure a bit. But you are investing in companies that can earn profits, even if commodity prices are flat.

TMF: What's the right withdrawal rate for retirees?

RF: The short answer is 4%. I am of the opinion that you want to probably draw down a little bit more when you can, when you are young. The most conservative two years in your life will be the year before you retire and the year after you retire. So the first year, if you only want to take out 4%, that is fine. The year after that, once you realize you didn't run out of money, you are not going to starve to death, and you are not going to have to sell your house and sleep out of your car — that second, third, and fourth year of retirement — you can take a little more. Start living well. Because when you are 90, you are not going to be able to.

Visit the RYR *website to read the rest of the interview with Rick Ferri.*