POLARIS
WEALTH ADVISORY GROUP

The Polaris Perspective

For more information or to schedule an introductory consultation contact us at: info@polariswealth.com I (800) 268-9046 I www.polariswealth.com

Looking at the Full Picture
A Look at the First Half of the 2013 Investment Year

It is very common for an investor to fixate on an index as a performance comparison to their portfolio. This familiar mistake often leads investors to chase returns or change their risk parameters if their portfolio is not performing as well as the compared index. This can lead to disastrous results!!!

Many investors compare their portfolios to the S&P 500 Index. The S&P 500 is representative of U.S. large-cap stocks. It is a meaningful benchmark against which to measure the movements of the large-cap U.S. stock market. But it's not the full picture, and in many cases it may not be the most suitable index against which to compare your portfolio. Why would you compare your portfolio to the S&P 500, unless you were invested 100% in large, domestic stocks? In a year like 2013, you did not come close to matching the results of the S&P 500 unless you were fully invested in domestic stocks.

The U.S. economy represents a little less than 22% of the world's economy. Sixty percent of ETFs representing the markets of the top twenty economies (which represents 80% of the total world economy) produced negative returns. Almost every bond ETF that we track (domestic and international) has produced negative returns for the year. Domestic REITs are barely up, but have retreated significantly from their highs in May. International REITs are down. The commodities ETF that we track is down -6.90% for the year. Commodities focused in precious metals, like gold and silver, are down much more significantly. For example, the gold ETF (GLD) is down -27% for the year and the silver ETF (SLV) is down -37.55%.

As an exercise, I decided to calculate what the return would be if an investor had invested in a diversified portfolio of ETF's. I assumed two-thirds of the investor's equity exposure would be invested in the S&P 500. The other one-third would be equally invested in all available ETFs for the top eighteen economies (excluding Saudi Arabia because there isn't an ETF in which to invest). I decided to use the 7-10 year Treasury ETF as an average investment in bonds. The returns are as follows:

80/20 Stock to Bond Allocation:	4.37%
60/40 Stock to Bond Allocation:	2.21%
40/60 Stock to Bond Allocation:	0.06%
20/80 Stock to Bond Allocation:	-2.10%

Clearly, this last year has been challenging for highly diversified portfolios. However, we will continue to identify the best places for us to invest your portfolio, while balancing the risks of doing so. We strongly believe in the virtues of a highly diversified portfolio and the benefits gained by investing this way. If, however, you are interested in moving into a domestic only strategy, please call us to discuss our strategies. Polaris Wealth manages three domestic stock strategies that are not directly invested in the international marketplace.

As always, I welcome all calls and comments. Please feel free to call or write. Below, I have also included the details of the top 20 economies and the corresponding country ETF performance, as well as the bond ETFs that we track.

Sincerely,

Jeff

Top 20 Economies & ETF

			(size in trillions)	% of World	6/30/2013
	Country	ETF	Economy	Economy	YTD Returns
1	US	SPY	15.686	21.88%	12.60%
2	China		8.227	11.47%	-17.48%
3	Japan		5.963	8.32%	15.57%
4	Germany		3.400	4.74%	1.75%
5	France		2.608	3.64%	1.20%
6	UK	EWU	2.440	3.40%	-0.11%
7	Brazil	EWZ	2.395	3.34%	-20.08%
8	Russia	ERUS	2.021	2.82%	-16.49%
9	Italy	EWI	2.014	2.81%	-10.39%
10	India	INP	1.824	2.54%	-9.79%
11	Canada	EWC	1.819	2.54%	-6.87%
12	Australia	EWA	1.541	2.15%	-8.03%
13	Spain	EWP	1.352	1.89%	-6.94%
14	Mexico	EWW	1.177	1.64%	-6.90%
15	S. Korea	EWY	1.155	1.61%	-17.13%
16	Indonesia	IDX	0.874	1.22%	1.01%
17	Turkey	RUT	0.794	1.11%	-8.84%
18	_ etherlands		0.773	1.08%	2.93%
19	Saudi Arabia		0.727	1.01%	10.22%
20	Switzerland		0.632	0.88%	9.22%

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As I stated earlier, the bond market has also taken its lumps. There were very few places to find positive returns. Those that had positive returns gave up much of their performance over the last six weeks of the quarter, as almost all bonds dropped in value due to comments made by Ben Bernanke and other Federal Reserve Presidents.

Performance of Bond ETFs

Bond ETF	Symbol	6/30/2013 YTD Returns
1 -3 Year Treasuries	SHY	-0.06%
3 - 7 Year Treasuries	IEI	-1.18%
7 - 10 Year Treasuries	IEF	-4.26%
10 - 20 Year Treasuries	TLH	-5.64%
20+ Year Treasuries	TLT	-8.57%
Inflation Protected Treasuries	TIP	-7.42%
Investment Grade Corporates	LQD	-4.93%
Aggregate Bond Index	AGG	-2.52%
National Municipal Bonds	MUB	-3.04%
High Yield Bonds	HYG	0.31%
International Government Bonds	IGOV	-5.46%
Emerging Markets Sovereign Debt	PCY	-10.83%
International Inflation Protected Bonds	WIP	-8.03%
Preferred Stock	PFF	1.19%
Average Performance		-4.32%