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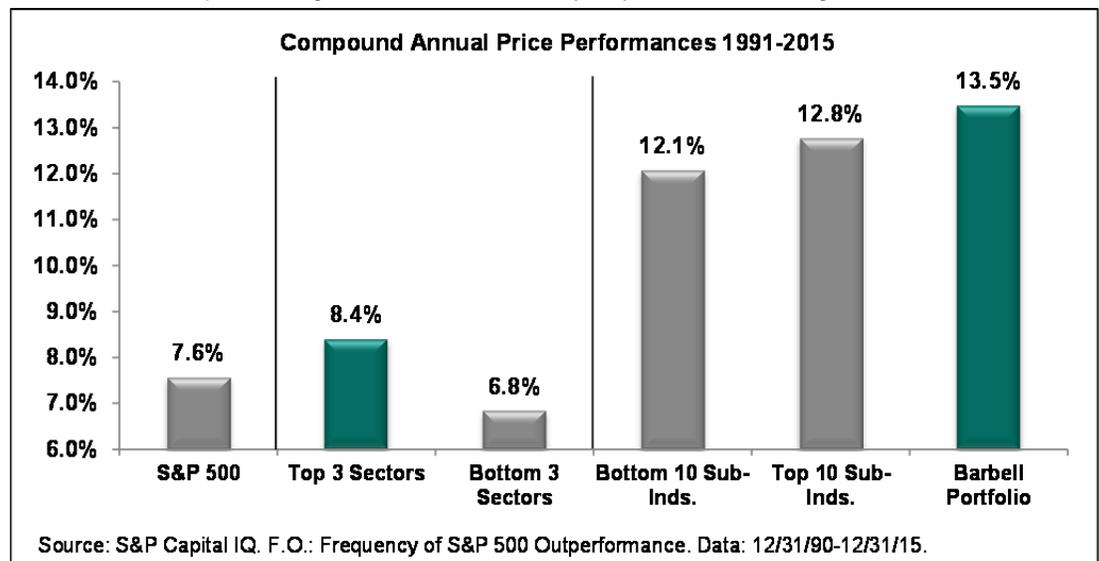
THE BARBELL PORTFOLIO

History suggests owning last year's 10 best and 10 worst sub-Industries

Many will write-off 2015 as a challenging, but unremarkable year for U.S. equities. Despite succumbing to a 10%+ correction in price late in August, the S&P Composite 1500 (consisting of the large cap S&P 500, MidCap 400 and SmallCap 600 indexes) fell only 1.0% in price for the full year, led by mid- and small-cap declines of less than 4% that were outweighed by a large-cap dip of less than 1.0%. Six of the 1500's 10 sectors also slipped in price, led by alternating cyclical and defensive sector leadership by the Consumer Discretionary, Health Care, Information Technology, and Consumer Staples sectors. The worst returns were recorded by the consistently lagging Energy, Industrials, Materials and Utilities groups. On the sub-industry level, things were equally forgettable, as only 39% of the 149 groups gained in price, led by more than 50% jumps for Home Entertainment Software and Internet Retail. On the flip side, slides in excess of 50% were recorded by the Coal & Consumable Fuels, Diversified Metals & Mining, and Oil & Gas Storage & Transportation groups.

Buy Last Year's Winners or Losers?

It is at this time of each year that investors debate whether it would be better to "let your winners ride" or "buy low and sell high" when establishing a portfolio of sectors or sub-industries for the year ahead. They would argue over whether they should embrace a momentum approach of buying last year's three best performing S&P 500 sectors and holding them through the end of the year, or taking a contrarian approach by buying and holding last year's three worst-performing sectors. Carrying this concept to the next level, investors wonder if they should buy last year's 10 best or 10 worst performing sub-industries. History says, but does not guarantee, that investors



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The Barbell Portfolio 2016

10 Best S&P 500 Sub-Industries	2015 % Chg.	Portfolio Proxy	10 Worst S&P 500 Sub-Industries	2015 % Chg.	Portfolio Proxy
Brewers	26.0	TAP \$94 ***	Aluminum	(37.5)	AA \$10 ****
Building Products	24.0	MAS \$28 *****	Casinos & Gaming	(53.5)	WYNN \$69 ***
Construction Materials	35.0	VMC \$95 *****	Coal & Consumable Fuels	(76.6)	CNX \$8 *****
Distillers & Vintners	31.9	STZ \$142 *****	Department Stores	(36.6)	M \$35 ***
Footwear	30.0	NKE \$62 ****	Diversified Metals & Mining	(70.8)	FCX \$7 ****
Home Entertainment Software	64.7	EA \$69 ****	Homefurnishing Retail	(36.7)	BBBY \$48 ***
Internet Retail	83.4	EXPE \$124 ****	Hotel & Resort REITs	(35.5)	HST \$15 ***
Internet Software & Services	33.3	FB \$105 ****	Independent Power Producers	(43.1)	NRG \$12 ****
Oil & Gas Refining & Marketing	24.6	VLO \$71 *****	Oil & Gas Exploration & Production	(35.5)	SWN \$7 *****
Restaurants	22.1	SBUX \$60 ****	Oil & Gas Storage & Transportation	(52.0)	KMI \$15 ****

Source: S&P Capital IQ. Past performance is no guarantee of future results.

would have done better buying and holding last year's three best-performing S&P 500 sectors, while avoiding the three worst. On the sub-industry level, however, history shows that they would have seen increased returns when owning both the 10 best and the 10 worst groups.

From 1991 through 2015, the S&P 500 recorded a compound annual growth rate (CAGR) of 7.6%, excluding dividends reinvested. An equal weighting of the three best performing S&P 500 sectors from the prior calendar year, however, recorded a CAGR of 8.4%, and posted a 68% frequency of outperformance, or batting average of beating the market. Yet the three worst prior-year performers saw below-market CAGR of 6.8% in the subsequent year, and beat the S&P 500 only 40% of the time. Therefore, history says that on a sector level, investors are advised to let their winners ride, rather than trying to buy low, with the intent of selling high later on.

On a sub-industry level, however, things proved to be a bit different. The 10 best performing sub-industries from the prior year, held in equal proportions, returned a CAGR of 12.1% since 1991, while the 10 worst performing sub-industries recorded a slightly better CAGR of 12.8%. However, combining the 10 best S&P 500 sub-industries from the prior year with the 10 worst into a portfolio of 20 equally-weighted groups recorded a CAGR of 13.5% over this 25-year period. Finally, all three groupings (10 best, 10 worst and the 20-group Barbell Portfolio), outpaced the S&P 500 in two out of every three years since 1991.

In 2015, the Barbell Portfolio underperformed the S&P 500, falling 6.9% to the S&P 500's decline of 0.7%. The 10 best sub-industries gained 2.0% last year, but the portfolio's average was dragged down by the 10 worst's 18.3% decline. Sometimes the underperformance goes the other way, however. In 2011, when the S&P 500 was also down slightly, the Barbell Portfolio posted a 4.9% drop, due to the 10 best's 8.9% decline that was moderated by the 10 worst's 1.1% gain.

The accompanying table contains the 10 best and 10 worst sub-industries from 2015, their price performances in 2015 and the S&P 500 stock that serves as a proxy for the sub-industry. Since there are very few ETFs that mimic the composition of S&P 500 sub-industries, I used S&P Capital IQ's MarketScope Advisor platform to screen for the companies within each sub-industry to serve as a proxy based on S&P STARS, market cap, and target price differential.

So there you have it. History has shown that sticking with the leaders, rather than opting for the laggards, has been a successful sector investing technique over the past 25 years. Buying last year's top three S&P 500 sectors and holding them in equal proportions for the coming year produced a CAGR of 8.4% versus 6.8% for the bottom three sectors and 7.6% for the market as a whole. Even better, buying and holding the prior year's 10 best performing sub-industries offered a substantially higher CAGR, as did last year's 10 worst performers groups. Combining the 10 best with the 10 worst, however, delivered the best of both worlds: a CAGR of 13.5%. As a result, one could say that the outcome of owning the good and the bad wasn't so ugly after all.

Required Disclosures

Glossary

STARS Raking system and definition:

★★★★★ 5-STARs (Strong Buy):

Total return is expected to outperform the total return of a relevant benchmark, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

★★★★☆ 4-STARs (Buy):

Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares rising in price on an absolute basis.

★★★☆☆ 3-STARs (Hold):

Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.

★★☆☆☆ 2-STARs (Sell):

Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, and the share price not anticipated to show a gain.

★☆☆☆☆ 1-STAR (Strong Sell):

Total return is expected to underperform the total return of a relevant benchmark by a wide margin over the coming 12 months, with shares falling in price on an absolute basis.

S&P Capital Ranking Definitions:

Overweight rankings are assigned to approximately the top quartile of the asset class.

Marketweight rankings are assigned to approximately the second and third quartiles of the asset class.

Underweight rankings are assigned to approximately the bottom quartile of the asset class.

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A+ Highest	B Below Average
A High	B- Lower
A- Above Average	C Lowest
B+ Average	D In Reorganization

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