Investment Project Report: June 2015

Latest action: Check balance, move to new mutual funds, and write this report.

Invested: $10,000

Balance: $14,400

Details: Up until now, the funds were in a "lifecycle" fund, the Target Retirement 2060 fund, that automatically maintains a balance of different types of stocks and bonds. We are now going to switch to three index-type funds so that we can do the re-balancing ourselves.

We picked two stock funds and one bond fund. While the bond fund (the "investment-grade" fund) will likely not grow as fast and the stock funds, it will also not fall as fast during a downturn. The two stock funds are on the conservative side and are chosen to minimize overlap. The 500 Index Fund simply buys everything in the S&P 500, consisting of 500 largest publicly-traded US companies; the international fund is mainly large non-US companies. When one fund gets out of step with the others we can sell whatever has a high price and buy whatever has a low price. This is called "re-balancing."

New holdings are, approximately,

Vanguard 500 Index Fund (VFINX):	$4800
Vanguard International Growth Fund (VWIGX):	$4800
Vanguard Intermediate-Term Investment-Grade Fund (VFICX):	$4800

Results:

June 2012: $10,000 (approximate)
June 2013: $11,600
June 2014: $13,900
June 2015: $14,400

First year result (June 2012 to June 2013): 16%
Second year result (June 2013 to June 2014): 20%
Third year result (June 2014 to June 2015): 3.6%

Commentary 1 (investing): Up until now, the funds were in a "lifecycle" fund, the Target Retirement 2060 fund, that automatically maintains a balance of different types of stocks and bonds. This is a good approach if we can only have one fund, such as if we are investing an amount that isn't much larger than the minimum investment. That minimum investment is typically $3000 for Vanguard mutual funds, so we didn't really need to start this way. However, I did want to demonstrate this very sound (and super-lazy) approach to investing.

We now split the balance into three funds. The idea is to pick two stock funds, which will (probably) grow relatively fast over the long term, and one bond fund. The basic idea is to pick funds that will grow (or fall) independently of each other. That way we can re-balance when one fund gets out of step with the others by gaining value faster (this gives us the opportunity to sell high) or by falling in value relative to the others (this gives us the opportunity to buy low).

Note that the two stock funds are chosen to minimize overlap. If we had chosen The 500 Index (large US companies) and an energy fund (energy companies), we would have a lot of overlap in the form of large energy companies. That would reduce our diversity and increase our risk. Worse yet, we'd be invested in a lot of big oil companies and that might make us feel bad about ourselves.

Finally I note the small (3.6%) return this past year. It is is normal to have a lot of variation from year to year. That we had very high returns (>10%) in the previous years probably has more to do with the post-recession market rebound than with our brilliant investing.

Commentary 2 (politics): After a recession, it is common for the Federal Reserve to pump up the market so as to help the recovery. While I would prefer that we help the recovery by raising the minimum wage or by otherwise getting more money into the hands of poor people, this strategy would take an act of Congress.

The advantage of giving money to poor people is that they will almost certainly spend that money here in the USA. When we instead pump up the stock market, we are putting money onto the hands of rich people who can invest that money overseas with the click of a mouse. Investing money overseas at the click of a mouse is exactly what we did when we bought into the International Growth Fund. In our defense, it is our job to maximize profits while working within legal and moral limits. Safeguarding the USA, including its economy, is the job of the President, Congress and the Supreme Court.