CMG Capital Management Group
Leaders in Tactical Investment Strategies
INVESTOR EDUCATION SERIES

Approaching a Total Portfolio Solution

People are wired to be impulsive investors. Left to their own devices, most will buy investments when they're expensive, sell when they're inexpensive and fret about their bad sense of timing.

Evidence strongly suggests that many investors are driven by emotions – this is so when the market is advancing and when it is most challenging. They want to ride the roller coaster when it is going up but they want to get off before it goes down. The hard part is sticking to a thorough and defined investment plan.

There are time-tested methods of investing that can benefit your clients now and in the future, without the whipsaw emotions. That is why we wrote the white paper, *The Total Portfolio Solution*, based on the sound principles of Modern Portfolio Theory (MPT) -- the theory on how investors can construct portfolios to optimize or maximize expected return based on a given level of acceptable market risk.

A traditional balanced portfolio consisting of 60% stocks and 40% bonds, for example, can be expected to deliver higher returns with less risk than either asset on its own.

CMG's white paper introduces two additional elements to this approach. First, it adds *liquid alternative investments* as a third asset class. Second, it uses "*strategic tilts*" among stocks, bonds and liquid alternatives. Simply put, broader diversification and a portfolio that increases its equity weighting when stocks are inexpensively priced and decreases its weighting when stocks are expensively priced.

Liquid Alternatives. We define alternative investments as an asset class or approach outside of the conventional buying-and-holding of stocks and bonds. Alternatives, such as long/short stock strategies, managed futures, private equity and real assets, have long been part of the investment mix for very wealthy families and institutions such as pensions and endowments. In recent years, they have become available to all investors in the form of liquid alternative mutual funds and ETFs.

Strategic Tilts. For long-term investors, stocks have an outsized effect on an overall balanced portfolio. They tend to produce the most dramatic gains and losses over a given period. However, historical performance and valuation data shows us how to increase the odds of maximizing a stock's upside while minimizing its downside.

At any given time, a stock's price relative to earnings (P/E ratio) provides a clue to its future appreciation potential and volatility. Expensively priced stocks are likely to deliver lower returns, with higher risk, over a forward-looking 10-year period. Inexpensively priced stocks are likely to give us the opposite -- higher returns with less risk.

We think of this process as an enhanced version of MPT or "E-MPT" that utilizes an expanded set of investment tools and considers equity market valuations. In an attractively priced equity environment (low median P/E, high probable forward return), a portfolio will have a greater allocation to stocks and *vice versa*.

How would a portfolio based on E-MPT (we call it the "Total Portfolio") perform compared with a conventional balanced portfolio? Using historical data, CMG compared the performance of a moderate-risk E-MPT portfolio -- 50% stocks, 20% bonds and 30% alternatives -- with other types of portfolios.

For the period from November 1981 through December 2015, the Total Portfolio posted annualized returns of 10.9%, while a 60/40 conventional portfolio delivered an annualized return of 10.5%. Importantly, the Total Portfolio achieved similar returns but had significantly less downside volatility. For the investor, smaller drawdowns mean less fear and less fear means less self-defeating, impulsive selling.

The bottom line: For the investing public, MPT served as a kind of enlightenment -- replacing investing hunches with science and helping us earn more with less risk. E-MPT brings MPT into the 21st century, potentially delivering greater return with less risk, at a time when that matters more than ever.

If you would like to learn more about the Total Portfolio based on Enhanced MPT, we invite you to read our white paper.

Want to know more?
Contact Avi Rutstein
610-989-9090, Ext. 123
avi@cmgwealth.com

Investor Resources
CMG Capital Management Group is committed to investor education. Follow our blog, sign up for newsletters, and download our white papers at advisorcentral.cmgwealth.com. See background on our equity, fixed income, and tactical strategies at cmgwealth.com.

IMPORTANT DISCLOSURE INFORMATION

Past performance is no guarantee of future results. Different types of investments involve varying degrees of risk. Therefore, it should not be assumed that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended and/or undertaken by CMG Capital Management Group, Inc. (or any of its related entities, together "CMG") will be profitable, equal any historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. No portion of the content should be construed as an offer or solicitation for the purchase or sale of any security. References to specific indices, securities, investment programs or funds are for illustrative purposes only and are not intended to be, and should not be interpreted as recommendations to purchase or sell such securities.

Certain portions of the content may contain a discussion of, and/or provide access to, opinions and/or recommendations of CMG (and those of other investment and non-investment professionals) as of a specific prior date. Due to various factors, including changing market conditions, such discussion may no longer be reflective of current recommendations or opinions. Derivatives and options strategies are not suitable for every investor, may involve a high degree of risk, and may be appropriate investments only for sophisticated investors who are capable of understanding and assuming the risks involved. Moreover, you should not assume that any discussion or information contained herein serves as the receipt of, or as a substitute for, personalized investment advice from CMG or the professional advisors of your choosing. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisors of his/her choosing. CMG is neither a law firm nor a certified public accounting firm and no portion of the newsletter content should be construed as legal or accounting advice.
This paper does not discuss, directly or indirectly, the amount of the profits or losses, realized or unrealized, by any CMG client from any specific funds or securities. The performance referenced is that as determined and/or provided directly by the referenced funds and/or publishers, have not been independently verified, and do not reflect the performance of any specific CMG client. CMG clients may have experienced materially different performance based upon various factors during the corresponding time periods. Mutual funds involve risk including possible loss of principal. An investor should consider the fund's investment objective, risks, charges, and expenses carefully before investing. This and other information about the CMG Global Equity Fund™, CMG Tactical Bond Fund™, CMG Global Macro Strategy Fund™ and the CMG Long/Short Fund™ is contained in each fund's prospectus, which can be obtained by calling 1-866-CMG-9456 (1-866-264-9456). Please read the prospectus carefully before investing. The CMG Global Equity Fund™, CMG Tactical Bond Fund™, CMG Global Macro Strategy Fund™ and the CMG Long/Short Fund™ are distributed by Northern Lights Distributors, LLC, Member FINRA.

NOT FDIC INSURED. MAY LOSE VALUE. NO BANK GUARANTEE.

Hypothetical Presentations: To the extent that any portion of the content reflects hypothetical results that were achieved by means of the retroactive application of a back-tested model, such results have inherent limitations, including: (1) the model results do not reflect the results of actual trading using client assets, but were achieved by means of the retroactive application of the referenced models, certain aspects of which may have been designed with the benefit of hindsight; (2) back-tested performance may not reflect the impact that any material market or economic factors might have had on the adviser's use of the model if the model had been used during the period to actually manage client assets; and (3) CMG's clients may have experienced investment results during the corresponding time periods that were materially different from those portrayed in the model. Please Also Note: Past performance may not be indicative of future results. Therefore, no current or prospective client should assume that future performance will be profitable, or equal to any corresponding historical index (e.g., S&P 500® Total Return or Dow Jones Wilshire U.S. 5000 Total Market Index) is also disclosed.

For example, the S&P 500® Total Return Index (the "S&P 500®") is a market capitalization-weighted index of 500 widely held stocks often used as a proxy for the stock market. S&P Dow Jones chooses the member companies for the S&P 500® based on market size, liquidity, and industry group representation. Included are the common stocks of industrial, financial, utility, and transportation companies. The historical performance results of the S&P 500® (and those of or all indices) and the model results do not reflect the deduction of transaction and custodial charges, nor the deduction of an investment management fee, the incurrence of which would have the effect of decreasing indicated historical performance results. For example, the deduction combined annual advisory and transaction fees of 1.00% over a 10-year period would decrease a 10% gross return to an 8.9% net return. The S&P 500® is not an index into which an investor can directly invest. The historical S&P 500® performance results (and those of all other indices) are provided exclusively for comparison purposes only, so as to provide general comparative information to assist an individual in determining whether the performance of a specific portfolio or model meets, or continues to meet, his/her investment objective(s). A corresponding description of the other comparative indices are available from CMG upon request. It should not be assumed that any CMG holdings will correspond directly to any such comparative index. The model and indices performance results do not reflect the impact of taxes. CMG portfolios may be more or less volatile than the reflective indices and/or models.

In the event that there has been a change in an individual's investment objective or financial situation, he/she is encouraged to consult with his/her investment professional.

Written Disclosure Statement. CMG is an SEC-registered investment adviser located in King of Prussia, Pennsylvania. Stephen B. Blumenthal is CMG's founder and CEO. Please note: The above views are those of CMG and its CEO, Stephen Blumenthal, and do not reflect those of any sub-advisor that CMG may engage to manage any CMG strategy. A copy of CMG's current written disclosure statement discussing advisory services and fees is available upon request or via CMG's internet web site at www.cmgwealth.com/disclosures/adv.