M.B.A. FROM THE MOB • GREEN FOSSIL FUELS

# Forbes

FEBRUARY 28, 2017

2017 RETIREMENT GUIDE

HIDE CASH FROM THE IRS (LEGALLY)

BETTING TOO BIG ON TRUMP?

BEST CITIES AND WORST STATES

**GENE GENIUS**
**CRAIG VENTER**

HE'S RAISED $300 MILLION FOR HIS LONGEVITY STARTUP

# HOW TO CHEAT DEATH

THE MAN WHO MAPPED THE HUMAN GENOME IS BACK WITH A $25,000 PHYSICAL THAT HE HOPES WILL ADD YEARS TO YOUR LIFE— AND MAKE HIM A BILLIONAIRE.

# Features

FEBRUARY 28, 2017


HOW TO CHEAT DEATH **74**

M.B.A. FROM THE MOB **80**

THE 2017 RETIREMENT GUIDE

HIDE CASH FROM THE IRS (LEGALLY) **94**

THE BEST CITIES . . . **99**

. . . AND THE WORST STATES **102**

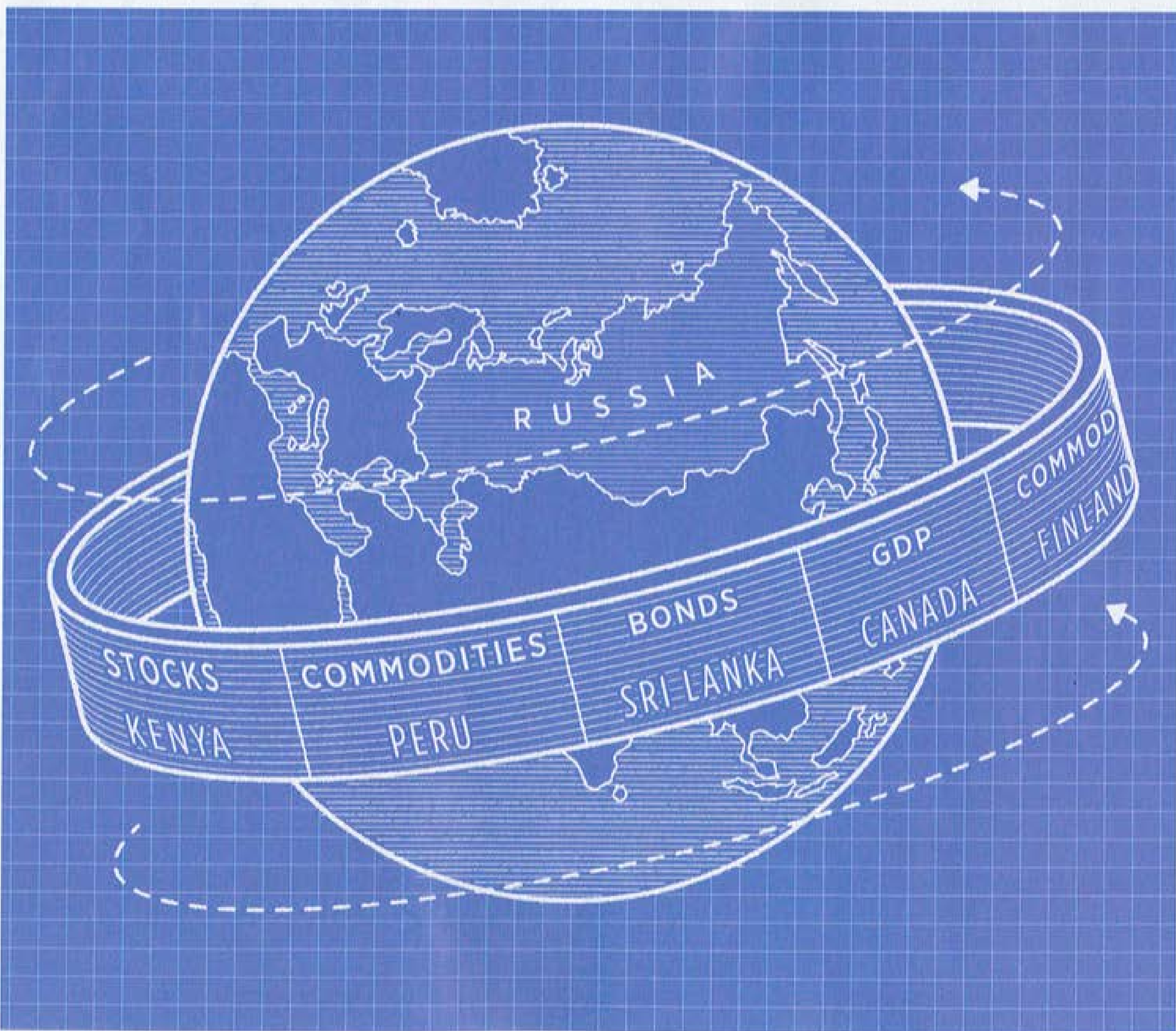
If you don't own any South African stocks you're missing out, says Randy Kurtz, a money manager at Chicago-based Supernova who believes in extreme diversification. For a $1 million portfolio, Kurtz suggests allocating $14,100 to South Africa, in companies like Naspers, a media conglomerate, and Sasol, an energy giant.
**PAGE 90**

STAR USA TRIM FIT SOLID WOOL SUIT ($695) AND SLIM FIT STRETCH COTTON DRESS SHIRT ($98) BOTH BY JOHN VARVATOS.
CREATIVE STYLE DIRECTOR: JOSEPH DEACETIS

# Are You Betting Too Big on Trump?

MOST AMERICAN INVESTORS OWN TOO MUCH DOMESTIC STOCK. HOW TO DIVERSIFY INTO EVERYTHING FROM GOLD TO REAL ESTATE TO RUSSIA.

BY WILLIAM BALDWIN




PETER AND MARIA HOEY FOR FORBES

Russia, that land of kleptocracy and thuggery, probably has none of your assets. You're making a mistake, says money manager Randy D. Kurtz. An optimal, well-diversified portfolio should have 0.86% there. If you have $1 million of investable assets, $8,600 would be in stocks like Gazprom.

Kurtz has a master portfolio worked out, divided among stocks, bonds and commodities and spread across 54 countries. Buy this array, he says, and you'll get a slightly lower return than you would on U.S. stocks, but you'll wind up with a lot less risk. That makes it less likely that you'll panic at the bottom of a bear market and go to cash.

The search for a global blend boils down to seeking out asset categories that are not highly correlated—that vibrate in slightly different rhythms. "Do you think Russian stocks will behave differently from U.S. stocks?" Kurtz asks. "If yes, the question is not if you should own them. It's how much you should own."

Kurtz, 42, is chief investment officer of Supernova Cos., a Chicago firm that creates model portfolios for wealth planners and also helps stockbrokers arrange portfolio-backed bank loans for their clients. He is what you might call, at least if you are a believer in index funds, a reformed sinner.

Leaving Columbia Business School with an M.B.A. in 2002, Kurtz went off to seek his fortune as a stock picker, first at a Bear Stearns fund, later on his own as a money manager for individuals. In the latter effort he set up an uncommon compensation schedule that increased his fee for beating the market and potentially eliminated it for lagging.

He made a decent living at that game for a while—he says he beat the S&P six years out of eight—but wondered just what he was accomplishing for his clients. One problem is that it's next to impossible to combine market beating and low risk in the same portfolio. "You have only one good idea a year," he says, quoting a pronouncement Warren Buffett made at a Columbia seminar. The other problem is that, after fees and capital gain taxes, even a good money manager doesn't leave the investor with much.

Three years ago Kurtz threw up his hands at trying to be the next Warren Buffett. He joined Supernova, a company started by college roommate and fellow disillusioned portfolio manager Tom Anderson, and set about picking countries rather than stocks.

Investors make two very big mistakes when they put together a portfolio, says Kurtz. One is their home bias. Japanese investors buy mostly Japanese stocks and U.S. investors U.S. stocks, missing the greater stability that comes from a cosmopolitan collection of assets.

"It doesn't matter where you live. You should have the best portfolio," Kurtz says.

The other mistake is to favor what has worked in the recent past. In 1989, people piled into Japanese equities, then sizzling. Now they love the U.S. stock market, the hot category over the past five years. They should be going the other direction. Kurtz tells U.S. investors (and Japanese investors, if they are listening) to have only a tenth of their assets in U.S. stocks.

For the equity portion of his model portfolios, Kurtz starts with country allocations determined by a blend of gross domestic product and market capitalizations. Then he tilts these stock market percentages away from expensive places like the U.S. and toward cheap ones like Russia. The tilting follows not hunches but mechanical formulas that compare market caps to earnings and GDP. "We're not in the crystal-ball business," he says.

A 20,000 Dow is no cause for celebration at Supernova. It's a reason to pull back. U.S. stocks are going for 28 times earnings (as measured, per economist Robert Shiller, by a ten-year inflation-adjusted average). That price/earnings ratio is one full standard deviation above the historical norm. The ratio of U.S. market cap to GDP is also one standard deviation above its norm.

Contrast our market to Germany's, whose P/E of 18 and whose ratio of capitalization to GDP are close to historical averages. When Kurtz is done, BMW has a little of the money you would otherwise have put in Ford.

Now Kurtz adds, for conservative investors, a large dose of fixed income and a fair amount of commodities, even though commodities have delivered dreadful returns in the past dec-

## EXTREME DIVERSITY

THIS COLLECTION OF ETFS, HEAVY ON DEPRESSED COMMODITIES AND INTERNATIONAL INVESTMENTS, HAS TENS OF THOUSANDS OF SECURITIES INSIDE. OBJECTIVE: LOW RISK, HIGH RETURN.

| EXCHANGE-TRADED FUND | TICKER | ASSETS[1] ($BIL) | 5-YEAR ANNUALIZED RETURN[1] | EXPENSE RATIO | INVESTMENT |
|---|---|---|---|---|---|
| **BONDS** | | | | | |
| SPDR BLOOMBERG BARCLAYS INTL TREASURY BOND | BWX | $1.5 | -1.4% | 0.50% | $130,000 |
| VANECK VECTORS JP MORGAN EMER MKTS LOC CURR BOND | EMLC | 2.4 | -1.5 | 0.47 | 100,000 |
| VANGUARD TOTAL BOND MARKET | BND | 31.4 | 2.1 | 0.06 | 90,000 |
| **COMMODITIES** | | | | | |
| ISHARES GOLD TRUST | IAU | 7.3 | -5.7 | 0.25 | 110,000 |
| POWERSHARES DB COMMODITY TRACKING | DBC | 2.6 | -10.0 | 0.85 | 50,000 |
| **STOCKS** | | | | | |
| VANGUARD FTSE ALL-WORLD EX-U.S. | VEU | 14.6 | 5.4 | 0.13 | 170,000 |
| VANGUARD FTSE EMERGING MARKETS INDEX | VWO | 43.9 | 1.5 | 0.15 | 140,000 |
| VANGUARD GLOBAL EX-U.S. REAL ESTATE | VNQI | 3.2 | 8.6 | 0.18 | 40,000 |
| VANGUARD REIT | VNQ | 32.7 | 11.8 | 0.12 | 60,000 |
| VANGUARD TOTAL STOCK MARKET | VTI | 69.9 | 14.6 | 0.05 | 110,000 |
| **COMPOSITE PORTFOLIO** | | | **2.5** | **0.25** | **$1,000,000** |

ade. Why? Because those returns are not closely correlated with the returns on stocks. By itself, gold is an extremely unsafe place to park money. Inside a portfolio that is mostly stocks and bonds, it adds stability.

The surprises come far away from developed markets. Kurtz would have a $1 million saver putting $3,000 into Peruvian government bonds denominated in the sketchy local currency and $900 in Colombian stocks. Yech! But if you are turned off by Latin America's history of coups, expropriations and hyperinflations, then so are other investors. So you are buying cheap.

Can't Treasury bonds be a counterweight to U.S. stocks? They can, up to a point. But don't be fooled by the 35-year bull market in U.S. stocks and bonds. If we get stagflation again, both Treasurys and blue chips will suffer. You'll wish you had stashed more money abroad.

It's not hard to implement a global mix using exchange-traded funds. The financial planners who subscribe to Supernova's portfolio service, at a fee of approximately a quarter point a year, wind up with 21 of those things. At *Forbes*' request, Kurtz consolidated the recommendations into ten positions, displayed in the table above. There is one each in eight asset classes and a pair for the last class (real estate).

The abbreviated Kurtz list has no TIPS; you get your inflation hedge from REITs, commodities and foreign currencies. The portfolio has three times as much allocated to foreign stocks as U.S. ones and twice as much in foreign bonds as domestic ones. It leans toward recent laggards. Indeed, had you bought it five years ago you would have earned only 2.5% a year. But remember: You're not buying the past. You're buying the future.

Naïve investors assemble portfolios the opposite way. They take money away from laggards and give it to winners. Doing that, says Kurtz, is a prescription for buying high and selling low. He cannot know, of course, that the pendulum is just now about to swing back toward better performance from commodities and foreign assets. But it will swing back at some point, and the turn becomes more likely with each upward tick in the Dow.

Obsessed with statistics—he spent a year constructing historical returns for obscure asset categories—Kurtz can quantify what diversification does. He calculated hypothetical 25-year results for an equally weighted mix of the nine asset classes represented in the ten-fund model portfolio. He rebalanced annually so that each class had 11.1% of the portfolio.

The tutti-frutti blend would have earned 8% a year and suffered volatility, as measured by annualized standard deviation of monthly returns, of 9.8%. Had you put 100% of your money into U.S. stocks you would have landed a percentage point more of annual return but suffered considerably higher volatility, at 14.3% *(see graph, p. 91)*.

A 100% allocation to domestic equities might be fine for someone with Buffett's temperament and a very long investment horizon. It's not such a good idea for the average investor, who would have struggled to stay put during the two Dow crashes of the past quarter-century.

There are still plenty of investment managers who make their living the old way, charging a percentage point a year to pick stocks. But the world is moving in Kurtz's direction, with trillions of dollars marching out of active management and into the passive portfolios run by Vanguard, BlackRock and others.

"Asset allocation is being commoditized," says Kurtz, referring to the price war among the new crop of roboadvisors like Supernova. "What's not commoditized is financial advice." You might still pay a handsome fee to be told when to pay off your mortgage and how much to put in your grandchildren's 529 college savings accounts, he says. But if you are paying much more than a quarter of a point for portfolio construction, ask what you're getting for it. Ⓕ