Motley Fool Rule Your Retirement™

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With
Robert Brokamp
Advisor

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Model Portfolios' Returns

More Than 10 Years From Retirement	Return
Active All-Stars	10.7%
All Index	10.3%
Benchmark	10.0%

Within 10 Years of Retirement	Return
Active All-Stars	8.4%
All-Index	8.5%
Benchmark	8.0%

In Retirement	Return
Active All-Stars	7.7%
All-Index	7.1%
Benchmark	6.3%

Returns since 9/1/09 inception.

Got subscription questions? Email ***membersupport@fool.com*** *or call 888-665-3665.*

Dear Fellow Fools,

Did you take care of your MIT this morning? No, it's not the latest protein drink or some bendy yoga stretch. It's your Most Important Task. Leo Babauta, who writes the *Zen Habits* productivity blog, says "your MIT is the task you most want or need to get done today." He does his first thing every morning, right after he has a glass of water to help wake him up.

Now, I'm more of a coffee guy, but I do like Babauta's basic idea. He gets to work as soon as he wakes up, accomplishing something important before work and family take over, before he's tempted by the distractions of email, blogs, Facebook, Twitter, YouTube, Hulu, or ScroobleNutz. (OK, there's no such thing as ScroobleNutz, but it's only a matter of time.)

You told us during our 2009 Year of Fiscal Fitness that it's hard to find time to manage your money. Yet making a deliberate, willful choice to get your financial MIT done every day can be a powerful force in shaping your financial future. In fact, it might be your best — and only — defense, seeing as doing stuff that doesn't have an immediate payoff just isn't in our human nature.

In an article called "Human Decision-Making: A Scary Thing," psychiatrist Jim Phelps writes: "We pay most attention to the risks that are right in front of us. Risks that won't appear until later, even if they are huge, just don't get to us the way a risk we face right now does.... Worse yet, solutions with immediate strong benefits strike us as much more attractive than solutions with less immediate results — even if those benefits will be many times greater later! Buy a new TV now instead of investing and letting that money compound interest."

So how can we beat our brains? Start by breaking down your financial goals into manageable tasks — small ones that you can accomplish in a relatively short time, so you can see immediate benefits. And you've already started! Yes, Fools, I'm talking about Your Financial GPS, your written financial plan that will serve as your roadmap to retirement. This is our second month working on your plan together, and this month you'll be laying out your goals. If you didn't finish our first step, which was to create your cash flow and net worth statements, don't be too hard on yourself — but do get to work at FinancialGPS.fool.com. After all, creating those documents is the first step on your road to financial independence.

If you want even more help getting your financial MITs done, consider enlisting the expertise of a professional. We feature insights from 18 of them this month in a special two-page Expert Corner. All of these guest gurus are members of the Garrett Planning Network, a group of fee-only financial advisors — the only kind I'd use. In fact, the Garrett Planning Network and The Motley Fool have teamed up to highlight the value of fee-only, independent financial advice. For a limited time, Fools can get a 10% discount at participating Garrett advisors. See the Get It Done This Month feature on page 8 for more information.

But regardless of whether you meet with an advisor or choose to fly solo, you need a financial plan — something that shows you where you are, where you want to be, and what you need to do to get there. We'll keep working on that together, step by step, as you create Your Financial GPS. It's one of your life's MITs.

Robert Brokamp

Perfect Your Portfolio: Do Your Stocks Play Nicely Together?

Have you ever thought about how many parts go into a car? Hundreds, probably thousands. And they all have to work together, at very fast speeds and extreme temperatures. If one or two don't play nice with all the others, the car might not go — or it might go too fast. Just ask Toyota, which is recalling millions of its vehicles because of faulty brake systems, accelerator pedals, and floor mats.

Your portfolio is kind of like a car. You need it to get to where you want to go, but if you don't pay attention to how all of its parts work together, you could wind up in need of roadside assistance on your path to retirement.

But this isn't just a metaphor, Fools. **Toyota Motor**'s (NYSE: TM) stock has dropped almost 20% since mid-January, even though the company had a decades-long reputation as a reliable automaker. The company and its stock have been seriously damaged in a matter of months. How many Toyota investors saw that coming? And how many of them had too much of their portfolios invested in that one stock, which has now lost a fifth of its value?

Whether you call it asset allocation, portfolio management, or keeping your eggs in more than one basket, you have to think about how your investments work together — especially if some of them are individual stocks. That's because a stock represents a concentrated risk in your portfolio.

Consider all the things that can go wrong with a company you're invested in (besides faulty floor mats):

» **Executive chicanery:** There's a rogue's gallery of companies that no longer exist because the people at the top were irresponsible — Enron, WorldCom, Washington Mutual, Lehman Brothers, Adelphia … the list goes on.

» **Competition:** In the 1973 movie *Sleeper*, Woody Allen's character goes to the hospital for an operation and wakes up in the year 2173. Among his rantings, he says, "I bought Polaroid at $7. It's probably up millions by now!" Alas, that company was done in by the invention of the digital camera. By 2001, Polaroid was bankrupt, and its stock was worthless.

» **Changes in currency value:** As we discuss in this month's Asset Focus, international stocks are down so far this year, partially because of the dollar's strength. When a currency's relative value changes, not only can it affect your decisions about where to travel abroad, but it can also affect the performance of multinational companies that do business in several currencies.

» **Global economic crises:** There's always an economic problem somewhere in the world, and chances are, it will affect your portfolio. When the huge U.S. hedge fund Long Term Capital Management caused a brief crisis in 1998, the S&P 500 dropped 14.6% in August of that year — and the hedge fund's downfall can be traced to the collapse of the baht, the currency of Thailand. Who knew the stocks that make up the S&P 500 would be so affected by something happening worlds apart in Asia?

Yet stocks of solid companies also offer tremendous earnings potential, and you must tap into their power if you want your retirement portfolio to last as long as you do and keep up with inflation. So how can you balance stocks' risks and rewards? The *Rule Your Retirement* solution is to own a little bit of a lot of investments, so you have exposure to the upside surprises and protection from the downside disappointments.

How Should I Diversify My Portfolio?

Our model portfolios provide guidelines on how to break down your investments, based on where you are on the road to retirement:

	More Than 10 Years From Retirement	Within 10 Years of Retirement	In Retirement
Large-cap stocks	35%	30%	20%
Mid-cap stocks	15%	10%	7%
Small-cap stocks	15%	10%	7%
International stocks	25%	15%	10%
Bonds	10%	35%	56%

Now, those percentages are helpful, but only if you know how many stocks you should own. That 20% allocation to large caps for retired investors takes on a different meaning if you own a total of 100 stocks vs. 10.

How Many Stocks Should I Own?

Several studies have attempted to quantify how many stocks you need for a diversified portfolio. For a while, there was a general consensus of 12 to 20 stocks, a range supported by investing luminaries Benjamin Graham (of *The Intelligent Investor* fame) and Burton Malkiel (author of *A Random Walk Down Wall Street*).

But I think this range is dangerously low. You need a lot more than 20 stocks to create a well-diversified global portfolio. For starters, many studies that investigated the ideal number of stocks looked at how many stocks you'd need to create a portfolio that has a similar standard deviation (a common measure of volatility) as the overall U.S. market.

But that's just one measure of risk. There's also the risk that your company will go bankrupt. If you own just 12 stocks and one of the companies folds, then — poof! — 8.3% of your portfolio goes up in smoke. And because bankruptcies occur most often during times of economic stress, the other stocks in your portfolio might not be holding up well, either.

Over the past decade, the idea that you can build a diversified portfolio with less than 20 stocks has come into question. Malkiel revised his recommendation, citing evidence that stocks have become more volatile. In 2001, he co-authored a study that found that the volatility reduction 20 stocks used to provide now requires 50 stocks.

Now, to give your brain a little workout, note that these studies investigate how many stocks you need to create a well-diversified portfolio of just U.S. stocks. What about your international investments? Does that mean you should own 12 to 50 stocks from each country in which you invest? We're getting into a lot of stocks here.

The folks at *Global Gains*, The Motley Fool's market-beating international investing service, suggest that investors think of the world as six regions: developed Europe, developed Asia, developed North America, emerging Asia, emerging Latin America, and emerging EMEA (Europe, Middle East, and Africa). From there, the *Global Gains* advisors suggest you tilt your portfolio according to your risk tolerance, though they advise you invest in three to 10 stocks from each region. That's more manageable than owning stocks from each and every country, but it's still a lot of stocks.

What About Quantity vs. Quality?

And this isn't just about numbers. When you're building your well-rounded portfolio, you need to keep the quantity as well as the qualities of your stocks in mind. It's important to own stocks that are different from one another. Here are the most common differences to look for:

» **Size:** Own small-, mid-, and large-cap stocks.

» **Geography:** The world is a big place, and you should be invested in all of it.

» **Sector/industry:** You don't want most of your money riding on just financial stocks, or just manufacturing stocks, or just energy stocks, or just … you get the idea.

» **Style:** A well-diversified portfolio includes "cheap" stocks with a low price-to-earnings ratio as well as fast-growing stocks with price tags that reflect their potential.

Egads! How Can I Possibly Do All This?

When you consider all these requirements, it makes sense that some recent studies claim you need 100 or more stocks to create a diversified portfolio. That's an awful lot of companies to keep tabs on. For most investors, the solution is to complement individual stock holdings with mutual funds of some type: actively managed, index, or exchange-traded.

As a member of *RYR*, you have access to the Fool's best fund ideas. Visit the *RYR* Fund Shop at RYRfunds.fool.com to get our specific fund recommendations, organized by asset class, and to learn about new standout funds in our *Champion Funds* publication every quarter.

How Can I Tell If My Portfolio Is Diversified?

Now that you know what goes into an intelligently designed portfolio, the question is: Do you have one? It can be tricky to break down your funds' holdings into large caps vs. mid caps, for example. So what, exactly, is in your portfolio? We recommend using Morningstar's X-Ray portfolio tools at morningstar.com to analyze your holdings. Here's why.

1. They can handle all kinds of investments — stocks, mutual funds, and ETFs. (It doesn't recognize money-market funds. For those, enter the ticker "CASH$.")

2. When factoring a mutual fund into your asset allocation, Morningstar's tools don't just use the fund's overall category; they dig deeper, analyzing and categorizing the fund's contents. For example, although **Dodge & Cox Stock** (DODGX) is considered a U.S. large-cap value fund, almost 14% of its assets are in mid caps and small caps, and 16.1% of its assets are in foreign stocks. Morningstar's portfolio tools take all that into account as it determines your portfolio's overall allocation.

The Foolish Bottom Line

However you determine your true asset allocation, you'll probably discover that your portfolio has a gap or two. If you choose to fill it with a handful of individual stocks from your other Motley Fool services, remember to consider their size, geography, sector, and style, and how they'll coexist with the other stocks in your portfolio. If you want to fill your gap with a mutual fund or two, start with the Fool's best ideas found in our *RYR* Fund Shop at RYRfunds.fool.com. Given that the average fund has 100 to 200 stock holdings, you'll get plenty of diversification pretty darn quick.

The Motley Fool owns shares of Morningstar.

Want Investment Ideas?

The *RYR* website is full of specific recommendations for outstanding actively managed mutual funds, index funds, and exchange-traded funds. Head to RYRfunds.fool.com for our best ideas.

Expert Corner: How the Pros Create Financial Plans

When you're hung up on a financial planning problem like a case of the hiccups, we hope you turn to the knowledgeable Fools on the *RYR* discussion boards for help. But if you want more personal attention, a fee-only financial planner might be right for you. I asked several advisors in the Garrett Planning Network how they create financial plans for their clients. Their insights can help as you create yours — whether you're going it alone or are considering hiring some help.

Robert Brokamp: **What's the value of having a written financial plan?**

"Putting a plan in writing helps you distinguish between your needs, wants, and desires. You can then make your needs a priority. A clearer view helps you develop specific goals. Once those goals are in writing, you can regularly track the progress you are making toward reaching those goals. Realizing that you are moving closer to reaching your goals is a great motivator to keep going."

— Kirk Hobart, CFP, Hickory, N.C.

"There is a saying in many compliance-driven organizations along the lines of 'If it isn't documented, it didn't happen.' I find a written financial plan, which typically includes a one-page list of action items, helps to make sure the identified steps to improve one's financial security are more likely to be taken."

— Tom Nowak, CFP, Grayslake, Ill.

"When you do a written financial plan, you have to address areas you don't necessarily think about every day, or that you're not necessarily 'good' at. For example, maybe you have plenty of free cash flow, no debt, and are very comfortable … so life is good. A written plan helps you consider whether you might need to save some of that extra cash for some of those large expenditures that we all have — replacing the car, fixing something in the house, etc. Another value of the written plan is critical to those who manage funds with another person. The written plan forces you to have those discussions that you may not want to have."

— Cheryl Krueger, Schaumburg, Ill.

RB: Now that we're all trying to stave off hand cramps from writing so much, what's next? Do you recommend your clients create a budget or cash flow statement?

"Absolutely. The word 'budget' certainly has negative connotations for many people. Budgeting is generally considered tedious and implies sacrifice. I try to emphasize that knowledge is power, and a thorough understanding of your spending habits and entire cash flow situation is a very valuable tool. We base financial plans on many assumptions — we have to estimate things that are largely beyond our control. Developing a budget gives us more control and can eliminate much of the uncertainty in a financial plan."

— Garry Good, Bloomington, Ill.

"The dreaded 'b' word. Yes, everyone should have some sort of budget, but it doesn't have to be elaborate or followed to the absolute penny. People tend to look at a budget as a ball and chain. In fact, it's a great mechanism for ensuring their goals and dreams are achieved. If you plan and budget, you can make sure money is set aside for what you truly value."

— Kevin Sale, Chartered Financial Consultant, CFP, Bloomington, Minn.

"I prefer the term 'spending plan.' ... It need not contain the minutia of every penny, but clients do need to know both what they spend money on, how they spend money, when money is needed to be spent, and why it is spent. Often, when moving into retirement, significant changes in needs occur and it takes time to adjust to new spending patterns."

— Mary Lacey Gibson, CFP, San Juan Bautista, Calif.

"As part of the initial preparation, I ask the prospective client to complete a cash flow questionnaire, in addition to the financial planning questionnaire. The preparation of the cash flow statement will generally elicit a comment such as 'I didn't know we were spending that much!' or 'Wow, that really helped me get our expenses organized.' Those little expenses can really eat away at your budget or nest egg."

— Kathleen Campbell, Ft. Myers, Fla.

RB: What should we do after we create our budget and cash flow statements? Can you let us in on some of the recommendations you usually give your clients?

"You need to envision your future so you can adequately plan for it. Most clients have only a vague idea of what they want. You can't determine how much you need in the future if you don't have some idea what it is going to look like."

— Randy Christensen, CFP, Nipomo, Calif.

"My most common recommendations are getting estate planning documents completed or updated, adjusting savings amount or the kinds of accounts being used for savings, and reallocating investments to increase diversification, reduce cost, improve projected returns, and/or adjust risk level."

— Jean Keener, Chartered Retirement Planning Counselor and Certified Financial Divorce Practitioner, Keller, Texas

"Plan! Even if it's only for your tax return next year, plan! For those who don't plan much, get someone you can trust to care enough about your future goals to help you. Plan

for your next car, house, career (new view of retirement, anyone?). And, in case you want a recommendation of what you should do now: Plan!"

— Josh Giminez, Enrolled Retirement Plan Agent, Columbus, Ohio

"Get estate documents done, save more for retirement, get umbrella liability insurance and disability insurance, increase auto and home deductibles, increase term life insurance, create and follow a personal investment policy statement, and use index funds."

— Steve Juetten, CFP, Bellevue, Wash.

RB: Are there any financial planning faux pas?

"Some people unintentionally hold portfolios that are over- or under-weighted in key areas. They think they're diversified by holding a slew of mutual funds only to find the underlying holdings are duplicated. As an example, I recently worked on an asset allocation recommendation for a client who had nine actively managed funds to choose from inside a 401(k). The problem was that many of the funds held assets across various asset classes. One fund, categorized as a U.S. small-cap fund, held only about 60% in domestic small caps, with about 8% in cash and the rest in mid caps (even some large caps), with a sprinkling of international stocks. Since these are actively managed, these allocations are only what were recently reported. The fund managers may have shifted their holdings since the last report. The bottom line is, when you try to put a bunch of actively managed funds together in a portfolio, it can be quite tricky to get a decently diversified allocation. In these cases, you need to keep a closer eye on style shifts in the underlying holdings and not assume the fund name tells it all."

— Mary Deshong-Kinkelaar, CFP, Chicago, Ill.

"Clients approaching retirement make four common mistakes: Not planning for increased health-care costs; not giving enough thought to how they will spend their time once they no longer have a job; waiting too long to buy long-term care insurance, till it is too expensive or they become uninsurable; and not tracking spending while they're still working, so they don't know how much they need in retirement."

— Celia Brugge, Memphis, Tenn.

"No methodical approach to how their portfolio is constructed and this is because very few people actually integrate their financial/life plan with their portfolio! They have their life over here … and their portfolio over there ... and it is happenstance if the two actually meet and connect at any point in time. In the end, they often make their way to me because they feel defeated. They have been sold investment products instead of receiving valuable solutions and advice as to how to integrate all the responsibilities they carry over their lifetime."

— Katie Birmingham Weigel, CFP, Boston, Mass.

"Clients often have too many investment accounts of all types, e.g., several retirement accounts from old employers, several taxable accounts, IRAs held with different custodians. This makes it difficult to allocate and then rebalance a portfolio, and makes it difficult to really understand where the risks and redundancies are."

— Lydia Palmin, CFP, Oakland, Calif.

RB: And now for the investing question of the hour. Do you think "buy and hold" is dead?

"In my opinion, holding investments is basically the decision to 're-buy' them without transaction costs. 'Buy and hold' without reviewing has never been a good strategy. Carefully determining an asset allocation, selecting investments, disciplined review and rebalancing are components of sound money management strategies. It amazes me that individuals who maintain their homes impeccably never think to maintain their portfolios."

— Leisa Brown Aiken, CFP, CPA, Chicago, Ill.

"If buy and hold were actually dead, all of investing would be dead. Here's why. Let's divide all investors into two teams: those who buy and hold and those who don't. Since the traders are merely trading among themselves, this team continues to hold all of the traded investments they started with. Both teams will participate in the growth of their investments in exactly the same way. Some individual traders will come out ahead of others, but that's only because other traders came out behind. It's the losing traders' money that goes to the winning traders. Collectively, trading cannot beat out buy-and-hold investing. In fact, because additional trading increases investing costs, the traders eventually lose to the buy-and-hold team. So, if buy and hold is dead, the alternative is deader."

— Dylan Ross, CFP, East Windsor, N.J.

"I am not even sure what people mean by buy and hold anymore. If they mean buy and hold a specific stock without consistently revisiting its story and valuation — well, that should never have even been a viable notion. If they mean sticking with a specific asset allocation strategy by methodically reviewing and rebalancing even during times of stagnancy or distress ... yes, it's alive and well."

— Derek Kennedy, CFP, Knoxville, Tenn.

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Your Financial GPS — Part 2: What's Your Point?

Last month on the road to creating Your Financial GPS, you got deep down into the nitty-gritty of your cash flow and net worth statements. But as you work on your roadmap to riches this month, you'll ascend to a loftier level, raising your eyes to the horizon and determining what you want out of life — or at least out of your money.

Most of us don't do all this financial-planning stuff for the fun of it. It's a means to an end. But which end, dear Fool, is up to you, and that's what you'll decide this month — and then record it for all posterity in your written financial plan.

We'll use the worksheet for Part 2 of Your Financial GPS, available online at FinancialGPS.fool.com, to set down your goals, prioritize them, and identify the steps you need to take to get the ball rolling on your most important goals. After all, there's no sense in saving your money if you don't know what it's for!

What Really Gets You Going?

Because you're a Fool, you must be motivated by money, right? If that were true, then all I'd have to do to persuade you to accomplish your financial goals is point out how much money you'd have.

But a study of students at MIT, the University of Chicago, and in rural India suggests otherwise. The students underwent a series of experiments in which they were offered greater rewards for better performance. If the task was menial and mechanical, the carrot worked; offering the students more money led to higher productivity. But once the task called for "even rudimentary cognitive skill," a larger reward led to worse performance. That doesn't make sense, does it?

It does if you understand how humans really accomplish complex tasks, according to Daniel Pink, author of *Drive: The Surprising Truth About What Motivates Us*. In a recent speech at Motley Fool HQ, Pink explained how the study demonstrates that much of what we think we know about getting things done is wrong. In fact, some of it is counterproductive. What really motivates people, Pink says on his website, are the following three goals:

1. Autonomy: our desire to direct our own lives.
2. Mastery: our urge to get better and better at something that matters.
3. Purpose: our yearning to do what we do in the service of something larger than ourselves.

Now we're getting somewhere, at least when it comes to planning your retirement. After all, what is retirement but autonomy — "sovereignty over our time," as Pink explained to the Fools at HQ. You could also throw in mastery and purpose, as retirement affords you the opportunity to pursue hobbies, interests, and causes that you might not have had time for when you were working.

The Ideals Are in the Details

According to Pink, you're more likely to tackle complex, difficult, and sometimes self-sacrificing financial tasks if your end goal is to become a master carpenter or have the time to volunteer at your local elementary school, for example. The vague goal of "have more money in my IRA" might not cut it for motivation. So how can you find your muse?

In an earlier article for *RYR*, Foolish writer Dayana Yochim described attending a two-day seminar led by George Kinder, a Certified Financial Planner and a pioneer in the "life-planning movement." It may sound a little hippy-ish, but the point of the workshop was to make sure that the way you spend your resources is aligned with the way you want to spend your life.

In one exercise, Kinder suggests imagining that you have just five years left to live. How would you choose to spend your remaining time? What if you had only one year left?

Well, the task in Part 2 of Your Financial GPS is to think along the same lines, putting down on paper what you'd like to do, experience, and own in this life. The worksheet for Part 2, available at FinancialGPS.fool.com, will help you organize your dreams and focus your finances on the goals that are most important to you.

As you're mentally walking through your goals, see if you can apply the classic project-management acronym SMART to them. If your goals have these attributes, you'll be much more likely to achieve them:

- **S**pecific: What exactly do you have to do to accomplish this goal? When it comes to financial planning, having a dollar amount in mind helps.
- **M**easurable: Without some kind of yardstick, you won't know if you're getting closer to accomplishing your goal.
- **A**ttainable: The goals must be realistic. Your hope to "be richer than Bill Gates" might be over-reaching.
- **R**elevant: You'll do more to accomplish a goal that is meaningful and closely related to things you really care about.
- **T**ime-bound: Without a deadline, it's too tempting to put off doing the hard work your goal requires.

So get started on making your dreams a reality by completing the worksheet for Part 2 of Your Financial GPS. Your time and money is limited, and deciding how you want to maximize both is the end goal of Your Financial GPS.

Asset Focus: International Stocks

The Worldwide Web

International stocks are in the red so far for 2010 because of fiscal crises in Europe and China's curbs on commercial lending.

Zigzag Factor

In every year but one since 1970, when U.S. stocks were down, international stocks were down, too. What's it mean? You don't invest in international stocks to provide downside protection; you invest in them for higher *potential* return.

Historical Data

Compound Average Annual Return	10.1% (1970 to 2009)
Best Years	69.9% (1986), 56.7% (1985)
Worst Years	-43.1% (2008), -23.3% (1990)

Source: MSCI EAFE index

Investment Ideas

Fund	1-Year Return	5-Year Return	Expense Ratio	Management Tenure
Artisan International Value (ARTKX)	62.1%	5.3%	1.3%	8 years
Dodge & Cox International Stock (DODFX)	81.0%	3.7%	0.6%	9 years
Manning & Napier World Opportunities (EXWAX)	61.4%	6.1%	1.2%	14 years
SSgA Emerging Markets (SSEMX)	88.3%	10.8%	1.2%	16 years
T. Rowe Price International Discovery (PRIDX)	78.7%	6.7%	1.3%	12 years

Data as of 3/1/10

At a private townhouse in Manhattan in early February, "a small group of all-star hedge-fund managers argued that the euro is likely to fall to 'parity' — or equal on an exchange basis — with the dollar," the *Wall Street Journal* reported.

The reason begins in Greece, where the government is running a huge deficit and might not be able to pay its debts. But this isn't just a problem for the Greeks. The three biggest holders of Greek debt are banks in France, Switzerland, and Germany — and they're all members of the E.U.

Which brings us back to the euro, the currency of the E.U., and the hedge-fund managers who think that the current European financial crisis — which may spread beyond Greece to other countries, particularly Portugal, Italy, Ireland, and Spain — will cause the euro's value to decline. Recent market activity shows that many investors agree, as the euro has experienced a huge wave of shorting (that is, bets that its value will decline) and selling. As a consequence, the currency is down almost 10% in relation to the dollar since December. And partially as a consequence of *that*, international stocks of all flavors — in developed and emerging markets, large caps and small caps — are down so far this year, compared with an essentially flat performance for the S&P 500.

Investing in other countries involves currency risk. Even if you're invested in a well-performing company headquartered outside the United States, its stock will suffer if the country's currency declines in relation to the dollar.

That "relation" word is key because the value of one currency is only measured against the value of another. In other words, one currency can't go up without another going down. This is important to keep in mind whenever someone claims that the value of the dollar is doomed because of Uncle Sam's growing debt. If that theory were true, the dollar would suffer only if our debt were much worse than everyone else's. But that's not the case. In fact, according to the CIA's World Fact Book, the U.S. ranks 66th among 129 countries in the size of its debt-to-GDP ratio. The fact is, most governments of the major developed nations are also operating in debt right now.

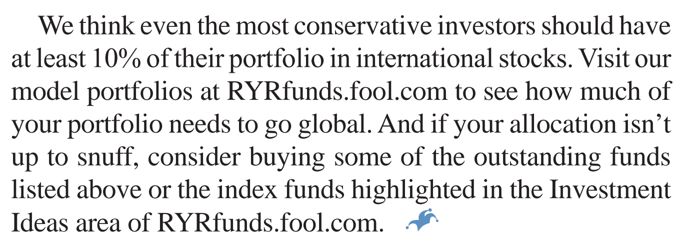
I am not saying that the dollar won't drop or that deficits don't matter (especially when we have such large Social Security and Medicare liabilities). But the rest of the world has problems, too, so a bet against the dollar is not a sure thing. Just ask Partners Capital, a private-investment firm that — based partially on a survey of more than 120 other experts at the end of 2009 — estimated there was just a 15% chance of a rally in the dollar this year. Or ask Steve Pearson, a currency trader at Bank of America Merrill Lynch, who told the *Wall Street Journal* that the consensus isn't expecting a strong dollar through the first half of the year.

Well, the dollar is up against every major currency so far this year except the Japanese yen and Canadian dollar. So much for the consensus.

So take the new, emerging consensus — that one euro will eventually be worth as much as one dollar, which would constitute a 26% drop from current levels — with a grain of salt. After all, international stocks outperformed U.S. stocks in the 1970s, 1980s, and 2000s.

There will be times when U.S. stocks will be the best in the world, at least for a few years, but unless you know how to anticipate those times, make sure a good chunk of your stocks are based in other countries.

We think even the most conservative investors should have at least 10% of their portfolio in international stocks. Visit our model portfolios at RYRfunds.fool.com to see how much of your portfolio needs to go global. And if your allocation isn't up to snuff, consider buying some of the outstanding funds listed above or the index funds highlighted in the Investment Ideas area of RYRfunds.fool.com.



Robert and The Motley Fool own shares of Dodge & Cox International Stock.

Follow the Money: The World According to Charlie Munger

By Amanda Kish, CFA

The U.S. is living out its last days before complete financial ruin — at least according to Berkshire Hathaway Vice Chairman Charlie Munger. In his pessimistic parable published in *Slate* a few weeks ago, "Basically, It's Over," Munger warns that our country is on the fast track to financial failure if we don't start making changes. So just where is Berkshire stashing its cash in light of Munger's prediction? Let's take a look at the company's defensive investments.

Amanda Kish
Champion Funds
Advisor

Conspicuous Consumer Stocks

The largest portion of Berkshire's portfolio — about 36% — is invested in consumer-goods companies, such as Motley Fool *Inside Value* and *Income Investor* recommendation **Coca-Cola** (NYSE: KO), *Motley Fool Pro* pick **Proctor & Gamble** (NYSE: PG), and **Kraft Foods** (NYSE: KFT). In addition to handsome dividend yields, these companies have wide economic moats and top-tier management, criteria that Munger demands.

I think Berkshire's focus on consumer-goods companies is wise in this economy — almost no one is predicting a robust recovery. That means unemployment will remain high, and consumers will remain wary about opening their wallets, so consumer-goods stocks are a safe refuge. Their short-term returns won't be noteworthy, but these companies' stability and market share make them good investments right now.

It's in the Banks

Financials account for the second-largest portion of Berkshire's holdings, with companies such as **Wells Fargo** (NYSE: WFC), **American Express** (NYSE: AXP), and **U.S. Bancorp** (NYSE: USB) appearing in the vaunted portfolio. Berkshire CEO Warren Buffett likes Wells Fargo's expanding customer base and its ability to use economies of scale to obtain money cheaply. The bank's net interest margin and return on equity are better than almost all of its U.S. competitors — music to the ears of Berkshire's value hounds.

But I'm not as optimistic about the banking industry. The number of troubled U.S. banks rose 27% in the fourth quarter as the FDIC's insurance fund sank, weighed down by the cost of continued bank failures. It does seem that the banking industry has come back from the brink, but there's still a lot of pressure on the sector and a lot of unhealthy financial institutions out there. Of course, if investors can identify the companies whose balance sheets are strong enough to survive, they could be handsomely rewarded down the road. No doubt that's what Buffet and Munger are thinking, but I'm still wary of the sector.

Regardless of his predictions for the U.S. economy, Munger continues to invest in American businesses. His parable will keep the talking heads talking for quite some time, but if you really want to learn what he thinks about the economy, remember that actions speak louder than words. Rather than reading Munger's writings, it might be more telling to look at Berkshire's holdings — so keep an eye on this company's investments for keen insights into the economy.

The Motley Fool owns shares of Berkshire Hathaway and Proctor & Gamble.

Get It Done This Month

» **Identify your financial goals.** Head on over to FinancialGPS.fool.com to download, print, and complete the worksheet for Part 2 of Your Financial GPS. Then add the print-out to last month's cash flow and net worth worksheets, as well as the worksheet for Part 1. You're well on your way to assembling your written financial plan!

» **Determine your true asset allocation.** We've said it before, and we'll say it again: Use the Instant X-Ray tool at Morningstar.com to determine your true asset allocation, find out how many of your funds own the same stock, and calculate your total investment yield from dividends, interest, and fund distributions. Be sure to use the pull-down menu in the upper left to view all the available analyses.

» **Get to know a Garrett planner.** If the idea of an objective, independent financial advisor reviewing your situation brings a smile to your face or sense of relief to your psyche, visit garrettplanningnetwork.com/map.html to see whether there's a Garrett advisor in your area.

The first "get acquainted" meeting is free, and the advisors with The Motley Fool jester logo next to their names are offering a limited-time 10% discount to Fools. They can help you answer specific questions (such as "Am I saving enough to retire?"), provide a second opinion on the work you've been doing on your own, and assist you in developing a comprehensive financial plan.

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