Retirement Transformation

—A Safer Way to Generate $25k a Year, Every Year

VectorVest®

I received an email from a VectorVest subscriber a few years ago, I'll call him Bill. Bill wrote,

"I retired four years ago with about $650,000 in 401K's and IRA's. This is essentially all the savings I have, which is now about $500,000. I lost about $150,000 in the 2008-2009 period, plus the drawdown of $3000 per month pre-tax. However, I've enjoyed some great swings to the upside (exceeding $100k a number of times), but 2008 really hurt."

How many millions of investors are in Bill's shoes? Things were going well, your nest egg was pretty secure…then WHAM! You were blindsided by the bear market and your portfolio was knocked on its proverbial keister.

Bill was actually one of the lucky ones! He *only* lost $150k, I heard from hundreds of desperate investors that were down 40% or more. It was a veritable slaughter and rest assured, decades of history have shown it *will* happen again. But the fact is, nothing even comes close to offering the potential returns and income generating ability as the stock market. Retirees like Bill, *need* to invest, albeit cautiously with capital preservation foremost in their strategy. Bill knows that, and he went on to outline his plan and ask for some advice,

"I need a prudent growth strategy to generate 10% annually with some reliability. This could be dividend stocks combined with growth—so I am in when your market timing indicators say I should be; out when you signal a downturn (or using a safe downside short or contra ETF strategy). So a retirement strategy for people in IRA's or 401K's, that includes the drawdowns while maintaining the principal, is the challenge. ***What approach would you take?"***

The first thing I would do is to open an account with a discount broker and make sure that I could sell Covered Calls. They aren't too hard to find, last I checked, most well-known brokers offered this option for IRA's (check with your provider on self-directed 401k's).

www.tdameritrade.com	www.schwab.com
www.tradeking.com	www.fidelity.com
www.scottrade.com	www.interactivebrokers.com

Then I would allocate my money into five parts:

- 40%, or in Bill's case $200,000, would go into relatively safe bond funds that were paying about 6% interest
- 20% Top-performing, large cap stocks for moderate growth, dividends and covered call premiums
- 20% Very high yield, dividend paying stocks (Minimum 10% yield, $2.00 average annual dividend)
- 20% High yield, optionable stocks for both dividend payouts (Minimum 4% yield, $2.00 average annual dividend) and covered call premiums (Minimum 25% Option Annualized Rate of Return).

In this e-book, we'll take a look at the first of three stock portfolios I would create for retirement investing:

Portfolio 1: Top-performing, dividend paying, large cap stocks.

To be considered a large cap stock, the company should have a worth >10 billion. Market cap is an easy to find figure, and you'll find it commonly displayed with the stock's price quote and daily volume. A few examples of large cap stocks are Aetna, CVS and Green Mountain Coffee.

These companies are well-established and have far more security should the market be savagely attacked by bears than some of their smaller, less rooted compatriots. The fact that they pay dividends further supports their bottom-line super-strength (fledgling, struggling and/or poorly managed companies simply do not lend themselves to sharing profits…because there aren't enough profits to share). Then you'll want to start the cherry-picking process.

View long-term graphs (5+ years) that also show the company's earnings history. Favor stocks that have *consistently* risen in price while *steadily increasing* their earnings.

Change to a one year graph, price and earnings should also be rising smoothly in the current year.

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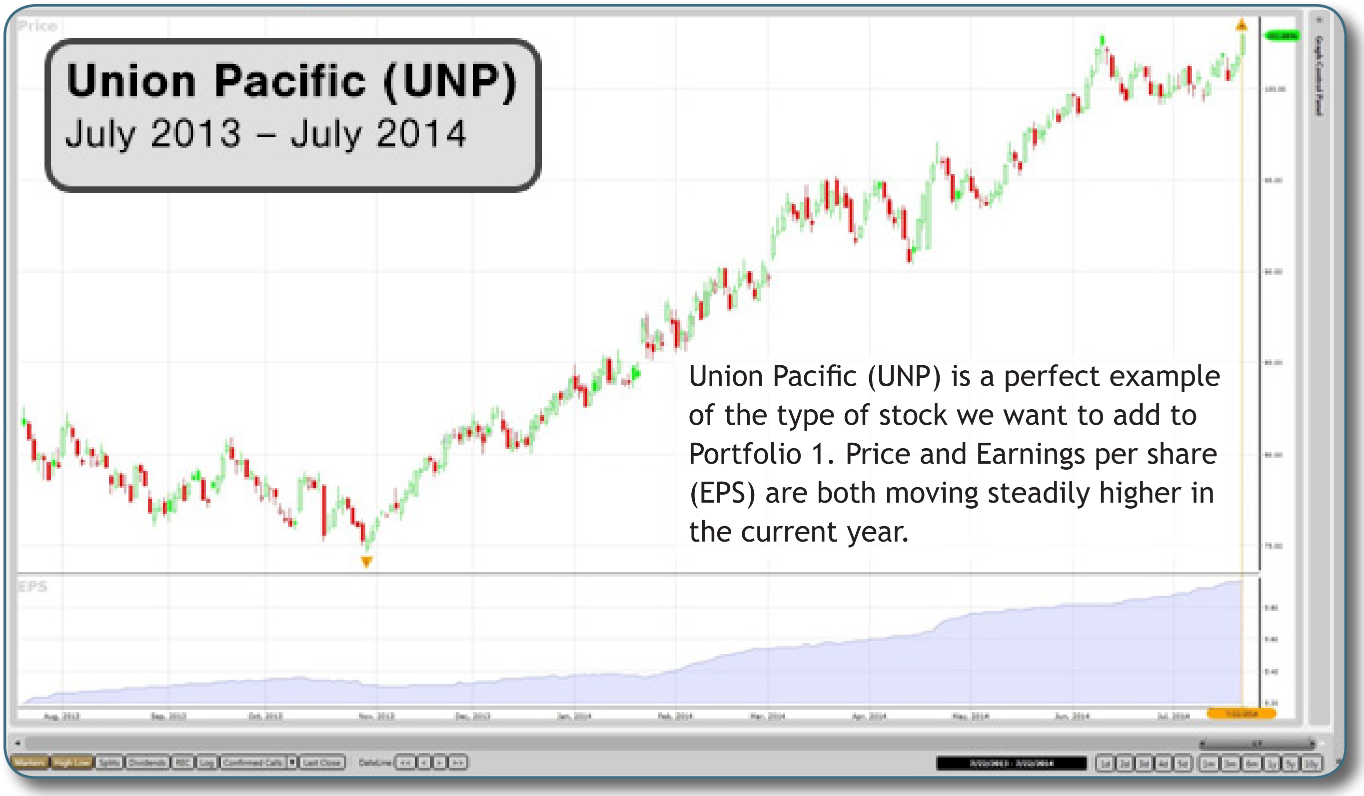
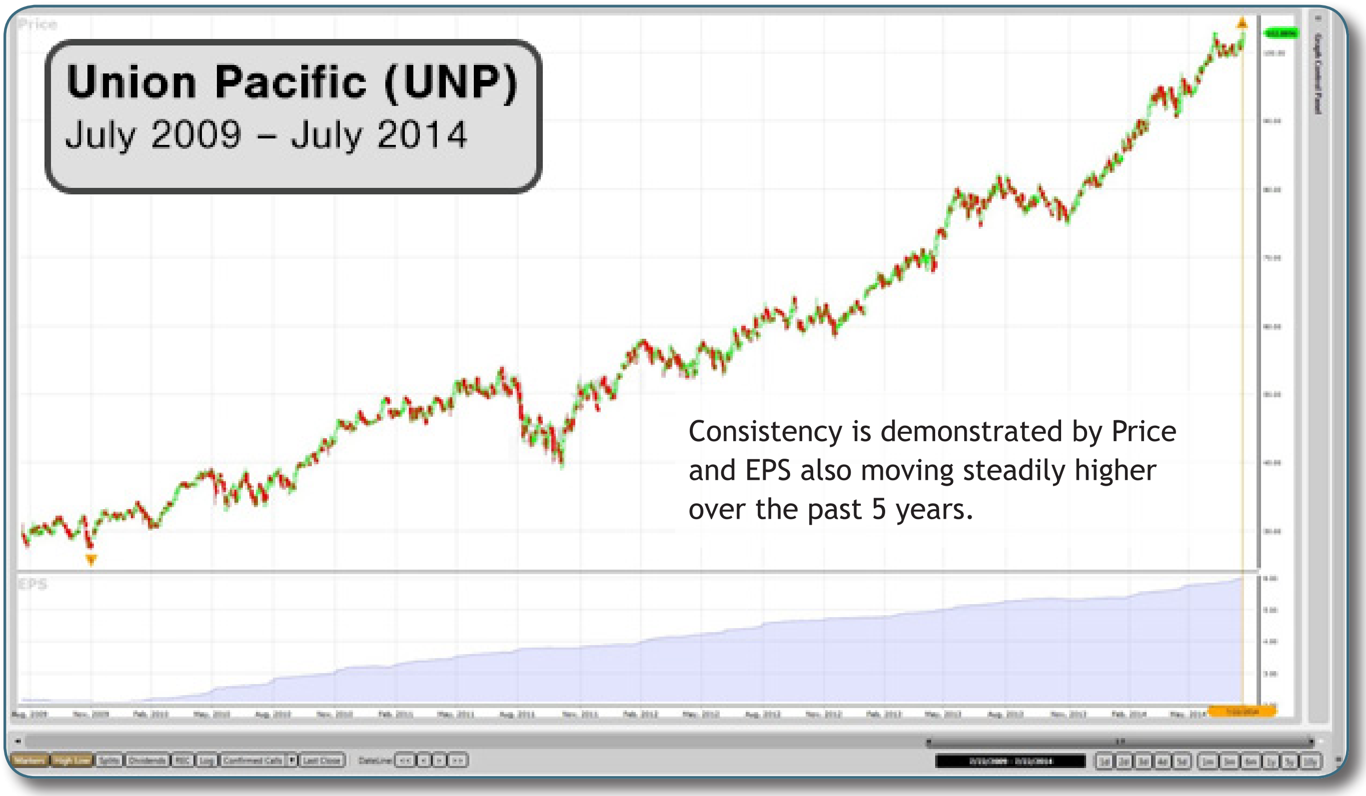


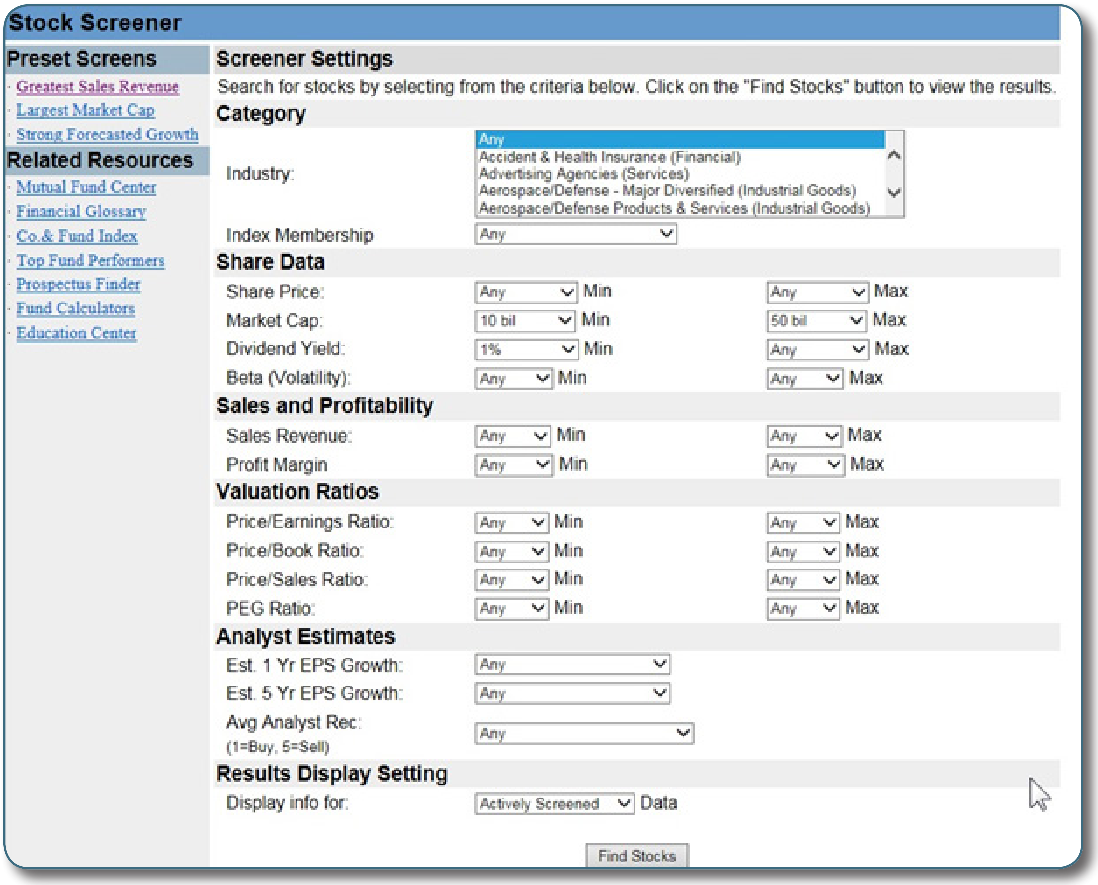
UNP—Union Pacific 1 year chart (above)
and 5 year chart (below) 1.77% DY, $1.82 Dividend



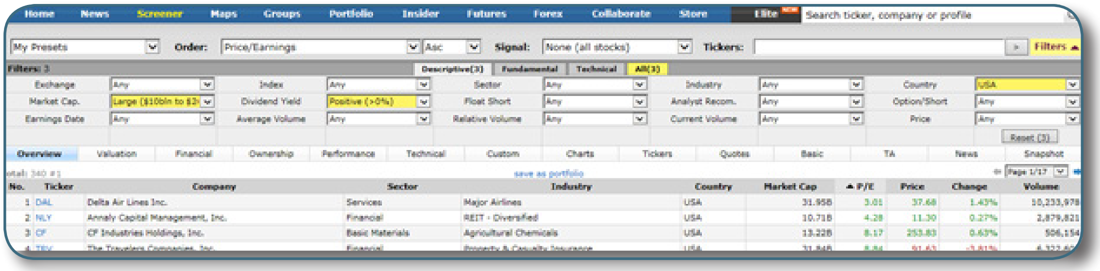
Even though it's tempting, you don't need to screen for extraordinarily high dividends here. In fact, high dividends may be in jeopardy of being cut-back or an indication that the stock has had (or remains in) a severe downturn. Remember, we want to minimize risk—capital preservation is our #1 goal. It's awfully hard to generate income, when the cash machine (your next egg) is broken. In addition to the modest dividend payouts, you'll also be generating income by writing covered calls and these stocks make excellent candidates.

Now, let's talk about how you go about finding a starter list of these stocks. Many brokers offer screening tools to clients, but if yours isn't one of them, the Internet offers quite a few useful free tools, you just need to weed out the garbage. One easy to use, free screener to get you started is on Yahoo! Finance (https://screener.finance.yahoo.com/stocks.html).

A basic scan for market cap between 10-50 billion and dividend yield >= 1% returned 325 stocks. While that may seem like a lot of work, it's considerably better than looking through thousands of stocks.



If you want a little more flexibility than Yahoo offers though, Finviz also has a free screener (http://finviz.com/screener.ashx).



Our initial scan returned 340 stocks, but with the additional fundamental and/or technical indicators Finviz gives you access to, you could easily cut this list in half. For example, adding ‘P/E ratio under 20’ and ‘EPS growth next 5 years over 10%,’ reduced our original 340 to less than 100 candidates. You’ll also be able to use simple ranking (i.e., lowest to highest P/E ratio, highest or lowest dividend, etc.) to speed up the elimination process. The graph view option also helps save time by displaying up to 20 stock charts on a single page.

Having the ability to graph earnings is a little harder to find, but can still be done (if you are a VectorVest user, you’ll be able to see EPS on our standard graphs). Ycharts offers free charting of fundamental indicators like EPS (http://ycharts.com/companies/DAL/chart/).

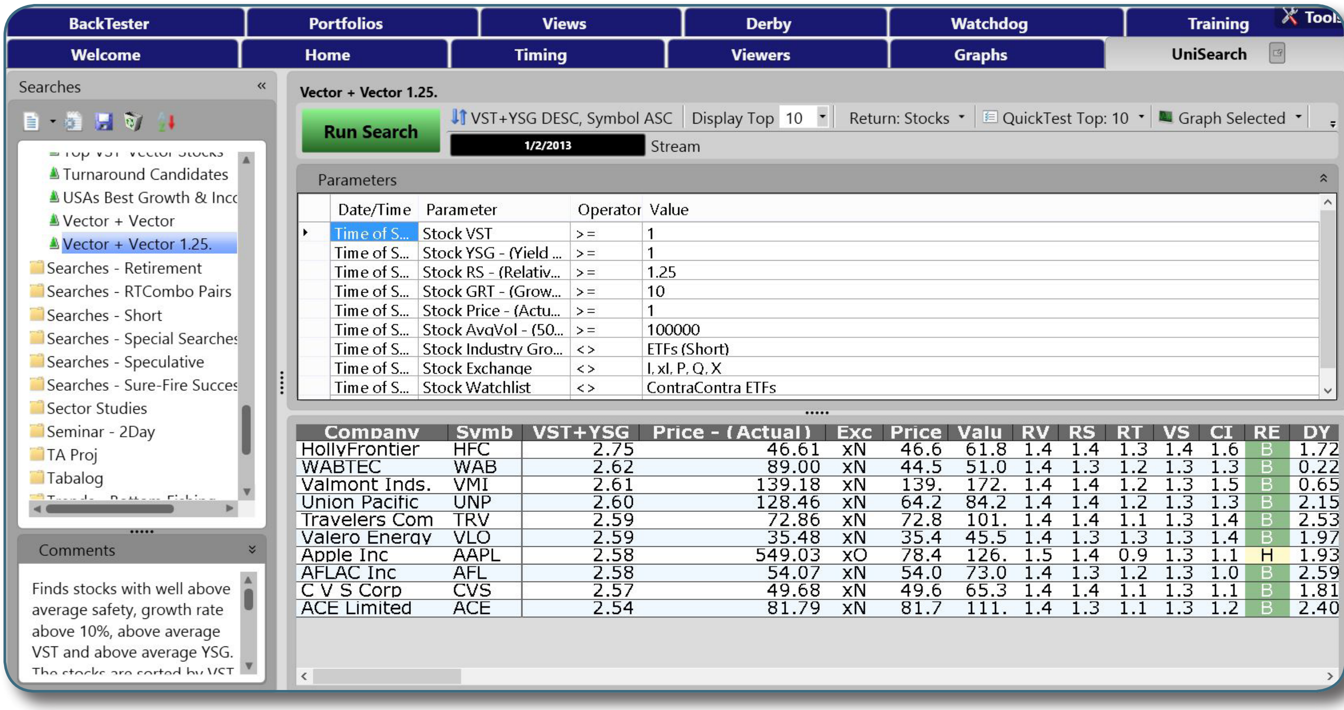
But if you’re pressed for time or just want the absolute *easiest* way to find the top-performing, dividend-paying stocks, you can always turn to VectorVest. With two clicks you can run any of our retirement screens that not only find safe, undervalued stocks, rising in price, but also rank the results using sophisticated indicators that give you far more information than a single piece of data is capable of providing.

For the type of portfolio discussed above, my top recommendation is the ‘Vector + Vector’ stock screen. This scan combines our master indicator for stock quality, VST (Value, Safety, Timing) with our master indicator for dividend quality (Dividend Yield, Safety and Growth). The end result are stocks that give you the best of both worlds.

My personal twist on this scan is lowering one of the parameters, Relative Safety (RS). VectorVest’s indicators combine a whole slew of fundamental and technical factors into one easy to understand number. The indicators are on a scale of 0.00-2.00, where above 1.00 is favorable and below 1.00 isn’t. Relative Safety measures and reports back on how consistent and predictable a company’s financial history has been by using earnings history, debt-to-equity, sales volume, volatility and more.

The original ‘Vector + Vector’ scan requires an extremely high level of Relative Safety—1.5 or higher on the 0.00-2.00 scale. Not many stocks measure up to that lofty level in today’s economy, but by adjusting RS to 1.25, I get plenty of prime candidates that still have well-above average financial track records. Exactly what I’m looking for!

Now, let’s take a look at the type of performance these stocks can deliver. Using the modified Vector + Vector scan, I ran the search and selected the top 10 ranked stocks.



Vector + Vector 1.25.

Date/Time	Parameter	Operator	Value
Time of S...	Stock VST	>=	1
Time of S...	Stock YSG - (Yield ...	>=	1
Time of S...	Stock RS - (Relativ...	>=	1.25
Time of S...	Stock GRT - (Grow...	>=	10
Time of S...	Stock Price - (Actu...	>=	1
Time of S...	Stock AvgVol - (50...	>=	100000
Time of S...	Stock Industry Gro...	<>	ETFs (Short)
Time of S...	Stock Exchange	<>	I, xI, P, Q, X
Time of S...	Stock Watchlist	<>	ContraContra ETFs

Company	Symb	VST+YSG	Price - (Actual)	Exc	Price	Valu	RV	RS	RT	VS	CI	RE	DY
HollyFrontier	HFC	2.75	46.61	xN	46.6	61.8	1.4	1.4	1.3	1.4	1.6	B	1.72
WABTEC	WAB	2.62	89.00	xN	44.5	51.0	1.4	1.3	1.2	1.3	1.3	B	0.22
Valmont Inds.	VMI	2.61	139.18	xN	139.	172.	1.4	1.4	1.2	1.3	1.5	B	0.65
Union Pacific	UNP	2.60	128.46	xN	64.2	84.2	1.4	1.4	1.2	1.3	1.3	B	2.15
Travelers Com	TRV	2.59	72.86	xN	72.8	101.	1.4	1.4	1.1	1.3	1.4	B	2.53
Valero Energy	VLO	2.59	35.48	xN	35.4	45.5	1.4	1.3	1.3	1.3	1.4	B	1.97
Apple Inc	AAPL	2.58	549.03	xO	78.4	126.	1.5	1.4	0.9	1.3	1.1	H	1.93
AFLAC Inc	AFL	2.58	54.07	xN	54.0	73.0	1.4	1.3	1.2	1.3	1.0	B	2.59
C V S Corp	CVS	2.57	49.68	xN	49.6	65.3	1.4	1.4	1.1	1.3	1.1	B	1.81
ACE Limited	ACE	2.54	81.79	xN	81.7	111.	1.4	1.3	1.1	1.3	1.2	B	2.40

Then, I tracked their performance for one year from the date the scan returned them, January 2, 2013 to January 2, 2014.

At the end of the year, all of them showed positive gains. On average the stocks delivered almost 26% in capital growth or $25,960 on a $100k portfolio. However, the gain is not the most important part—the drawdown is. Drawdown is a decline in value. In this case, we're talking about the decline in the value of your overall portfolio. The drawdown for these 10 stocks was less than 10% for the entire year—that's the kind of portfolio that lets you sleep well at night! The average dividend yield was 1.80%, adding $1800.00 to the total portfolio returns, which brings us up to $27,760.

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QuickTest - Vector + Vector

1/2/2013 - 1/2/2014 Run Test Reset Sort

Record Count - 10 (10 Winners, 0 Losers, 0 Even)

Symbol	Begin Price	End Price	% Price C	Total ARR
WAB	44.50	73.26	64.63%	64.67%
CVS	49.68	70.40	41.71%	41.74%
VLO	35.48	49.87	40.56%	40.59%
UNP	64.23	83.555	30.09%	30.11%
ACE	81.79	101.70	24.34%	24.36%
TRV	72.86	89.33	22.60%	22.62%
AFL	54.07	65.96	21.99%	22.01%
HFC	46.61	49.75	6.74%	6.74%
VMI	139.18	147.78	6.18%	6.18%
AAPL	78.433	79.019	0.75%	0.75%
Average:	$66.6833	$81.0624	25.96%	25.98%

Between capital gains and dividends, we've surpassed our goal of $25k per year. Unfortunately, the market isn't always as cooperative as it was in 2013, so some years we can expect to earn a smaller return. So how can you keep your investment capital protected while still making the necessary gains for enjoying your retirement?

First, *stop the bleeding*:

1. Don't dollar average. At least, don't dollar average the way that money managers encourage. Instead, wait until the stock has *stopped* moving down before adding to your position. Jumping the gun and buying on the way down is a recipe for disaster.

2. When the market is in a nosedive, don't buy ANY stocks. VectorVest gives market timing signals based on our indicators, but for an alternative, use a free charting service (or your broker platform) to pull up a weekly graph of the S&P 500 Index and plot a 30 week moving average (or use a daily chart and a 150-day moving average). Don't buy when the S&P is below this moving average. This alone could prevent a major catastrophe in your portfolio.

Figure 1: 30 week moving average chart of the S&P 500 via VectorVest 7

3. If the S&P 500 is below the moving average, sell your stock at a stop loss that does not

risk more than 1% of your portfolio value OR buy a protective put option. Puts are a wonderful tool that I'll describe in more detail in another ebook.

Second, keep generating cash. In addition to the dividends you're receiving, you can bring in steady monthly income (in good times and bad) by selling covered call options on your stocks. A call option gives the owner the right to buy a stock at a certain price by a certain date. You can sell this right to other investors and you will collect and keep the cash (aka option premium). You'll get a set price per share for each contract you sell and each contract controls of 100 shares of stock.

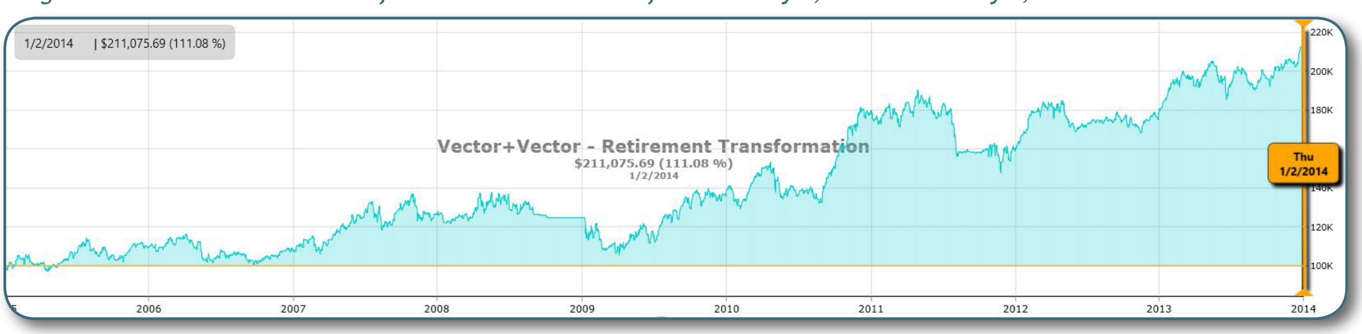
Let's say you own 100 shares of Apple and you want to sell someone the right to buy it from you at $5.00 higher than it's currently trading. The current price is $95.00, and the price you agree to sell it is $100. This is the 'strike' price. The agreement expires in 6 weeks. The premium (cash) that you will receive for selling 1 contract is $153 ($1.53 per share x 100 or 1.6% of the stock's price). It may not sound like much, but imagine doing that for all your stocks, every month.

So, for the cherry-on-top of your capital appreciation and dividend payouts, you'll collect covered call premiums that could conservatively add another $12,000 a year to your portfolio value (out of the money calls, 6-8 weeks from expiration, with premiums estimated 1-2% of the stock's price), bringing our total return from $27,760 to $39,760 for 2013.

Even anticipating much leaner years, I still expect to make a reliable average of 12% a year in capital appreciation, though. Why?

I was able to use VectorVest's BackTester to historically test Vector+Vector from Jan 3, 2005 to Jan 2, 2014. I wanted to see what would happen if I used VectorVest's Confirmed Call Timing System to avoid buying during major downturns and VectorVest's 'Sell' recommendation to know when it was time to close a position. The result was a 111% gain, averaging out to 12.35% a year. Admittedly, the bear market of 2007-2008 wasn't pretty, but the portfolio never gave back more than 24% of its value, even during the worst bear market in more than a decade. With 12% a year in capital appreciation ($12,000), 12% a year in covered call premiums ($12,000) and 1.8% ($1,800) in dividends, I'll still bring in more than $25,000 a year.

Figure 2: VectorVest 7 BackTest of 'Vector+Vector' search from January 3, 2005 to January 2, 2014



Now, I have to get to work building my last two stock portfolios to put my last $200,000 to good use. I want to focus on generating a higher rate of return from dividends on the remaining $200,000 of capital, but I can't afford to take on too much risk. I'll show you how you can accomplish this for your own portfolio in my next e-book. In the meantime, you can get started on doing the things we discussed right here in *Retirement Transformation—A Safer Way to Generate $25k a Year, Every Year*. You can even see how easy VectorVest makes it, by taking advantage of the 5-week, Risk-Free trial. Your satisfaction is 100% guaranteed!

To get your trial visit

www.vectorvest.com/transformation

or call 1-888-658-7638

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