

Equity Portfolio Update #5 [+21% @ 12-31-16]

We have officially closed out 2016, thus the need for another peek into the equity portfolio. As many of you know that have been reading for any length of time, every month I put together a [very detailed financial report](#) that details out gross income, expenses, net worth, savings rate, and progress on the [7 year 3 month mortgage pay off goal](#). Since the report already pushes 3,000 - 4,000 words a month, I thought it would be more appropriate to provide details of the equity portfolio in an entirely separate post.

Also, I don't really see the benefit of updating this on a monthly basis, quarterly should be just fine.

One of the guiding tenets of this blog is that of **FULL TRANSPARENCY**. This is another step in living up to the high standards we set here at GYFG.

This will serve several purposes:

1. It will force me to analyze the performance of my portfolio.
2. It gives you a better view of what is under the hood.
3. It will also provide some visibility around where the increases come from. Too many people overestimate their returns and forget about new money contributions, company matches, dividends, etc.

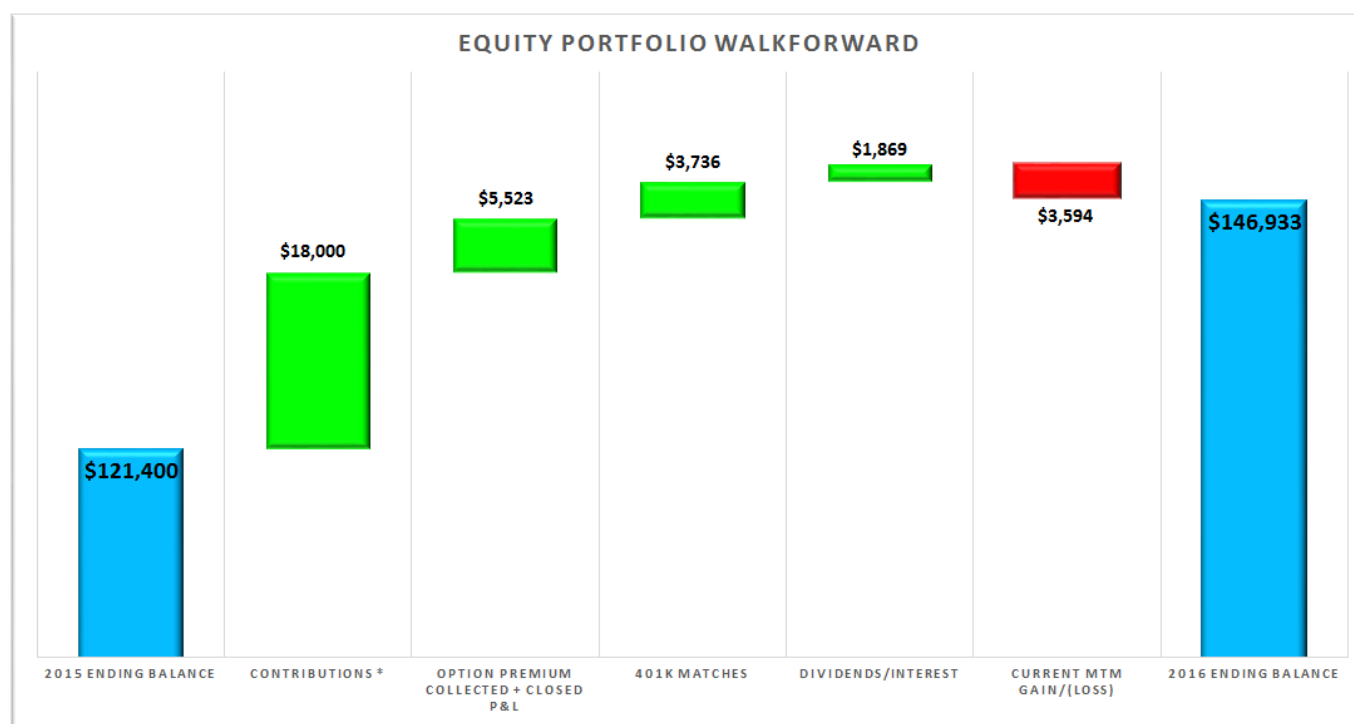
Breakdown of Portfolio Performance [12/31/16 vs. 12/31/15]

Note: This represents 3 separate pre-tax brokerage accounts. We don't currently have any money in after-tax brokerage accounts. In 2017 it is very likely that I will add our HSA account to this mix, since it is a pre-tax account. I do plan to potentially start putting some after-tax dollars to work, and am still deciding if I want to commingle and include in this analysis or not (TBD).

You may have noticed in the title of this post that the portfolio is up 21% in 2016,

and I will be the first to admit that this is a bit misleading at first glance. But never fear, I will be breaking down the components of where the gains came from and will also be comparing the performance to the S&P 500 as my benchmark.

For many of you this will be your first time seeing a waterfall chart. If this is your first time I hope you like the visual of how the portfolio grew and what made up the gains.



Now let's breakdown the buckets...

2015 Ending Balance = \$121,400

[+ \$18,000] Contributions - 2016 Contributions to Mr. GYFG 401K. We lost the tax advantage this year for Mrs. GYFG and stopped contributing to her IRA. We may need to reconsider this once I can do some more research on the backdoor Roth IRA (Josh over at BigLawInvestor.com is really putting my fire to the fee on this one).

[+ \$5,523] Option Premium Collected + Closed P&L - This is representative of the option premium I've collected for selling cash secured puts, covered calls, other option selling strategies, and any other realized gains from closing stock positions (I have been called on a few of my covered call positions).

[+ \$3,736] 401K Matches - At this time I am the only one in the GYFG household that has a qualified retirement plan through work that offers contribution matches. Last year the company I work for offered 25% on up to 6% of your income. This year it has increased to a 50% match, but it will only be on up to 4%.

[+ \$1,869] Dividends/Interest - One of the rules I use when selling covered calls or puts is to only do this on stable companies with a long history of paying dividends, and a dividend rate of 3% or greater. It is just another way I look to increase my margin of safety in the event that I am exercised and forced to take a stock position from short puts. It also helps to reduce cost basis on long covered call positions, until the stock is eventually called away. The interest is very minimal and comes from interest on cash sitting in my brokerage accounts.

[- \$3,594] Current MTM Gain/(Loss) - This has decreased from the end of year MTM loss of \$4,500 in 2015. I will detail them later in the post. This is a little misleading by itself, because the premium from the \$5,523 above offsets these open MTM losses.

2016 Ending Balance = \$146,933 [+ \$25,533 or + 21%]

Now that you can see the detailed breakdown you realize that a large part of the portfolio increases came from new contributions (again). When you back out the contributions you are left with the investment gains.

Note: I include the 401K match as an investment gain. It is not money I contributed and I don't distinguish it from market gains.

This leaves a gain of \$7,533 or 5.4% (this is up slightly from Q3's reading of 3.9%).

The gain excluding 401k matches was 2.7% (or ~\$3,800). But I will also point out that I don't take into account the timing of adding new money to the portfolio, so the return is not time weighted, and is thus understated. But I would rather keep this simple. It's really just not that important to me right now.

This compares to the return of the SPY (ETF representing the S&P 500) of 9.6% before dividends or 12% with dividends. The good news is that I have a positive return and the 5.4%, the bad news is that I significantly under-performed the benchmark by -6.6% when you include dividends.

Note: the SPY gain was calculated taking the December 2016 closing price of \$223.53 and [total return here](#).

What is the Current Make-up of the Portfolio?

First and foremost I should remind you that of the \$146,933, only about \$100,000 is actually invested. The rest is sitting in **CASH**.

I have changed my tune a bit on strictly following the [4 tier system](#) to deploy cash. I have decided that it makes sense to compliment this 4 tier system with monthly dollar cost averaging, so I have set all future contributions to the 401K to invest in the SPY index fund that is available (made this change in late Q3). In addition to that, I did deploy some of that idle capital from Q3 in Q4, which you will see in the position list below.

Current Open Positions

1. **CAT** - Covered Call; 100 Shares
2. **OIH** - Covered Call; 100 Shares
3. **PG** - Covered Call; 100 Shares
4. **PFE** - Covered Call; 100 Shares
5. **WMT** - Covered Call; 300 Shares
6. **SPY** - Covered Call; 100 Shares
7. **KO** - Covered Call; 500 shares
8. **SQ** - Covered Call; 100 Shares
9. **VZ** - Covered Call; 300 Shares

Well there you have the 2016 portfolio update (you can see the [last update here](#)). One day I will also include performance of my [P2P investments](#), REIT's, and Rental Real Estate. I may even create a separate post series. I have not decided yet...if you have an opinion, please let me know.

How did your portfolio do in 2016? What is your plan for 2017?

- Gen Y Finance Guy



Gen Y Finance Guy

Hey, I'm Dom - the man behind the cartoon. You'll notice that I sign off as "Gen Y Finance Guy" on all my posts, due to the fact that I write this blog anonymously (at least for now). I like to think of myself as the *Chief Freedom Officer* here of my little corner of the internet. In the real world, I'm a 30-something former C-Suite executive turned entrepreneur turned capital allocator. I am trying to humanize finance by sharing my own journey to Financial Freedom. I believe in total *honesty* and *transparency*. That is why before I ever started blogging, I decided that I would share all of my own [financial stats](#). I do this not to brag, but instead to inspire motivate, and also to hold myself accountable. My goal is to be a beacon of hope, motivation, and inspiration for *you*, the reader, by living life by example and sharing it **all** here on the blog. My sincere hope is that you will be able to learn from me - both from my successes and my failures! [Read More](#)