

THE Investor Guide TO VANGUARD FUNDS

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Matthew Sauer is the Founder and Chief Investment Officer of the Mutual Fund Investor Guide family of newsletters.

Each month he analyzes and provides buy, sell and hold recommendations for hundreds of mutual funds and ETFs in three newsletters: The Investor Guide to Fidelity Funds, The ETF Investor Guide and The Investor Guide to Vanguard Funds.

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Vanguard
Strategic Equity
(VSEQX)

Market Perspective: Technology and Healthcare Push Markets Higher

The markets entered September on a strong note. For the month ended September 10, the Nasdaq climbed an impressive 4.93 percent to lead the major indexes. The S&P 500 rose 3.31 percent in the same period, while the Dow Jones Industrial Average rose 3.10 percent. The U.S. indices were the clear leaders in relations to their major global peers. The MSCI EAFE was up only 1.78 percent for the month. This index is designed to measure the equity market performance of developed markets outside of the U.S. and Canada. "EAFE" stands for "Europe, Australia and the Far East." The technology-heavy Nasdaq was the leader largely due to the performance of eBay (EBAY), which gained just shy of 5 percent when the firm announced it's considering a spin-off of PayPal. Roche's acquisition of biotech firm Intermune (ITMN) and Apple's (AAPL) new product launch also pushed the Nasdaq higher.

Economic data was robust over this period. There was the upward revision of second-quarter GDP, with the estimate rising from 4.0 percent initially to 4.2 percent. It was a healthy increase, especially because business investment was part of the reason for the faster GDP growth. Investment is what builds factories and buys the equipment that will lead to higher productivity and a larger economy in the future. There was also a big surprise in durable goods orders, which climbed 22.6 percent in July, blowing away forecasts that were mostly below 10 percent. The jump was due to a large number of orders for Boeing jets. It was the largest one-month increase going back more than 20 years. U.S. manufacturing data further improved in August, with the manufacturing PMI climbing to its highest level since April 2010.

Consumer sentiment in the U.S. has hit a 14-month high. The Thomson Reuters/University of Michigan consumer sentiment index rose to 84.6 in early September, the highest reading since July 2013. The Commerce Department said retail sales, which account for a third of consumer spending, increased 0.6 percent last month after an upwardly revised 0.3 percent gain in July, as Americans stepped up purchases of automobiles and a range of other goods. This positive consumer data helped ease concerns about soft consumer spending, which had lagged other fairly upbeat economic data covering manu-

facturing, services and housing. The release of these positive data points on the consumer side, combined with the other good news mentioned above, sets the stage for a solid third quarter.

The second quarter's earnings season wrapped up in August, with technology and healthcare emerging as the best-performing industries. Investors have now turned their eyes toward third-quarter earnings, where, according to FactSet, the expected growth rate is 6.5 percent. This is down from the 8.9 percent expected growth at the end of June. This change is partially because 76 companies in the S&P 500 Index decreased their earnings forecasts versus 27 that increased them. The best-performing S&P 500 sector in 2014 has been healthcare. It is the only sector that has seen its earnings estimates increase, which should help it remain in the top spot.

Next month, the Federal Reserve will end its third quantitative easing program. At her Jackson Hole speech in August, Chairman Yellen said the Fed intends to exit quantitative easing in October and that rates could rise sooner or later based on economic fundamentals. She leaned toward the dovish side, with her focus on the slack labor market, which is keeping a lid on inflation, saying that "the Committee judged that under-utilization of labor resources still remains significant." Even though there has recently been some talk of the Fed raising rates sooner, Yellen's comments remain consistent with her previous statements.

As mentioned earlier, the MSCI EAFE was one of the weaker indexes in the past month. European shares were weighed down heavily by a weak euro, which sank 3.5 percent versus the U.S. dollar during the period. European interest rates also continued to slide into negative territory as deflation started to creep into the economy. European Central Bank President Draghi announced a small quantitative easing program in September, which will target private asset-backed securities. The ECB also cut the deposit rate paid to banks, which was already negative. This means that European banks must pay the ECB to hold their money. This has had the effect of pulling bond rates lower worldwide, including in Japan and the United States, which makes it easier for the Fed to exit quantitative easing without worrying about rates rising dramatically.

Aside from the euro, the Swiss franc, British pound and Japanese yen are also moving lower versus the U.S. dollar. The franc is pegged to the euro

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Market Perspective *(continued)*

and moves with it. The pound slumped in sympathy with the euro and then went even lower early in September when the Scottish independence movement suddenly looked as though it might succeed in the upcoming referendum. Finally, the yen has been sinking as the Bank of Japan steps up its purchases of government bonds as pension funds begin selling bonds and shifting money into the stock market. The U.S. dollar is now at a six-year high versus the yen.

In China, economic data remains weak, as the real estate sector continues its slowdown. Copper and iron ore, two metals important for China's infrastructure-led growth, are both showing signs of strain. On the

flip side, China's stock market performed rather well. Recently, Chinese stocks have been one of the brightest spots for emerging market funds. Further strengthening the market is the anticipation for Alibaba's upcoming IPO, which is focusing the attention of investors on the good performance and future potential of China's technology industry. The Alibaba IPO is expected to be the largest in history, and demand for the offering is high. For now, the markets most at risk from a slowing China appear to be Australia and other exporters that depend on Chinese demand.

As we enter the middle of September and look ahead to October, the United States

continues to be the most attractive destination for investment globally. The economy is much stronger than that of Europe or Japan, bond yields are significantly higher, the U.S. dollar is strengthening, and the stock market continues to perform well. The Fed's exit from quantitative easing and the moves by the European Central Bank and Bank of Japan to weaken their currencies will work in concert to strengthen the dollar. Interest rates remain subdued, and the very low rates in Europe could help keep domestic bond yields subdued, even though GDP growth is picking up. Stock performance may be a bit more tempered moving forward, but the bull market still has a lot of factors working in its favor.

Portfolio Updates

The Nasdaq was the best-performing index over the past month, up 4.93 percent. The S&P 500 Index climbed 3.32 percent in the past month, while the Dow Jones Industrial Average rallied 3.11 percent. The Russell 2000 gained 2.97 percent. The MSCI EAFE increased 1.78 percent, as the euro remained a headwind.

Since the portfolios' inception on April 10, the Nasdaq is up 13.13 percent; the S&P 500 Index is up 8.87 percent; the DJIA has climbed 5.56 percent; the Russell 2000 is up 3.31 percent; and the MSCI EAFE is down 0.86 percent.

We made several changes to the Model Portfolios this month. In the **NTF Balanced Growth Portfolio**, **NTF Conservative Income Portfolio** and **NTF Absolute Return/Down Market Portfolio** we sold **Doubleline Total Return Bond (DLTNX)** and purchased **Vanguard Short-Term Investment-Grade Bond (VFSTX)**.

The **Vanguard Aggressive Growth Portfolio** advanced 3.90 percent in the past month and is up 10.26 percent since inception. Healthcare and technology are the two strongest sectors in the market right now, and Healthcare (VGHGX) and Information Technology (VGT) led the portfolio higher. The former gained 5.65 percent over the past month, while the latter rallied 4.95 percent. The laggard last month was Energy (VGENX), down 0.83 percent. Energy prices took a beating as tensions in Ukraine worked against the market, as did economic slowdowns in Europe and China. While other S&P 500 sectors all

moved higher, energy stocks headed lower over the past six weeks.

The **Vanguard Straight Growth Portfolio** increased 3.11 percent last month. Dividend Growth (VDIGX) was the best performer, climbing 3.96 percent. The fund has 19 percent of assets in healthcare as of July 31, which has enjoyed a very strong run these past few weeks. Small Cap Growth (VISGX) was the next-best performer, climbing 3.43 percent. Small caps continue to recover, but the Russell 2000 index remains more than 3 percent below its high for the year. The portfolio is up 6.57 percent since inception.

The **Vanguard Balanced Growth Portfolio** gained 2.88 percent over the past month; it is up 6.26 percent since April 10. Dividend Growth (VDIGX) was the best performer here as well. Vanguard High Dividend Yield (VYM) rallied 3.19 percent, helped by lower interest rates that have been supportive of income-producing securities.

The **Vanguard Conservative Income Portfolio** increased 1.49 percent in the past month and is up 3.39 percent this year. Short-Term Investment Grade (VFSTX) slipped 0.12 percent as short-term bond yields did creep up in August. Vanguard Equity Income (VEIPX) chipped in a 3.25 percent gain as financials recovered from weakness the previous month.

The **NTF Aggressive Growth Portfolio** enjoyed a 4.51 percent rally over the past month. ClearBridge Aggressive Growth (LMPFX), PRIMECAP Odyssey Growth (POGRX), Vanguard Health Care (VGHGX) and Vanguard Financials (VFH) all bested the S&P 500 Index for the second straight month.

LMPFX and POGRX were particularly strong as they followed the Nasdaq higher. Baron Energy and Resources (BENFX) lagged but still gained 1.12 percent, a relatively good showing considering the recent weakness in energy. This portfolio is up 10.89 percent since inception.

The **NTF Straight Growth Portfolio** increased 2.80 percent last month and is up 5.50 percent this year. Vanguard Selected Value (VASVX) climbed 2.56 percent, still slowed by the tilt toward growth over the past few months. Vanguard Dividend Growth (VDIGX) was the best performer, up 3.96 percent. Wasatch Long/Short (FMLSX) gained 0.97 percent, a decent showing for the hedged fund during a strong month for growth stocks.

The **NTF Balanced Growth Portfolio** gained 1.77 percent last month; it is now up 4.00 percent over the past five months. Weakness in high-yield bonds rates weighed on Double-Line Total Return Bond (DLTNX), causing it to slip 0.07 percent. American Beacon SiM High Yield (SHYPX) was not impacted by the slide in junk bonds, gaining 0.84 percent. Invesco Diversified Dividend Investor (LCEIX) delivered a 3.50 percent return to lead the portfolio, slightly ahead of Vanguard Equity Income's (VEIPX) 3.25 percent gain.

The **NTF Conservative Income Portfolio** increased 1.46 percent over the past month; it is up 3.46 percent since inception. Here as well, Vanguard Dividend Growth (VDIGX) was the best-performing fund. Vanguard Wellington (VWELX) has two-thirds of assets in stocks and one-third in bonds, and it delivered

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Model Portfolios

(Data provided as of 9/10/14)

VANGUARD AGGRESSIVE GROWTH

SYMBOL	Fund	Price	Shares	Allocation	1 MONTH	YTD	Value
VGHCX	Vanguard Health Care	214.16	133.36	25.90%	5.65%	14.24%	\$28,560.76
VGEXX	Vanguard Energy	71.91	144.80	9.44%	-0.83%	4.13%	\$10,412.68
VGT	Vanguard Information Technology	101.74	224.87	20.75%	4.95%	14.39%	\$22,878.34
VMMSX	Vanguard Emerging Markets Select stock	21.86	249.63	4.95%	2.97%	9.14%	\$5,456.81
VSTCX	Vanguard Strategic Small-Cap equity	32.40	328.62	9.66%	3.15%	6.47%	\$10,647.39
VCVLX	Vanguard Capital Value	15.86	1357.77	19.53%	3.52%	7.67%	\$21,534.28
VFH	Vanguard Financials ETF	47.24	228.06	9.77%	3.87%	7.74%	\$10,773.76
TOTAL				100.00%	3.90%	10.26%	\$110,264.03

VANGUARD STRAIGHT GROWTH PORTFOLIO

SYMBOL	Fund	Price	Shares	Allocation	1 MONTH	YTD	Value
VDIGX	Vanguard Dividend Growth	22.58	1422.42	30.14%	3.96%	7.06%	\$32,118.31
VASVX	Vanguard Selected Value	30.10	710.48	20.07%	2.56%	6.93%	\$21,385.44
VEVFX	Vanguard Explorer Value	32.64	640.41	19.61%	2.16%	4.51%	\$20,902.98
MGV	Vanguard Mega Cap Value	59.43	364.08	20.30%	3.16%	8.19%	\$21,637.02
VISGX	Vanguard Small Cap Growth	35.28	298.33	9.88%	3.43%	5.25%	\$10,525.06
TOTAL				100.00%	3.11%	6.57%	\$106,568.81

VANGUARD BALANCED GROWTH PORTFOLIO

SYMBOL	Fund	Price	Shares	Allocation	1 MONTH	YTD	Value
VEIPX	Vanguard Equity Income	31.75	1013.36	30.28%	3.25%	7.25%	\$32,174.16
VCVSX	Vanguard Convertible Securities	14.31	1080.69	14.55%	1.85%	3.10%	\$15,464.67
VYM	Vanguard High Dividend Yield Index	67.34	242.65	15.38%	3.19%	8.93%	\$16,339.91
VDIGX	Vanguard Dividend Growth	22.58	1185.35	25.19%	3.96%	7.06%	\$26,765.26
VWINX	Vanguard Wellesley Income	25.94	597.97	14.60%	1.01%	3.41%	\$15,511.41
TOTAL				100.00%	2.88%	6.26%	\$106,255.40

VANGUARD CONSERVATIVE INCOME PORTFOLIO

SYMBOL	Fund	Price	Shares	Allocation	1 MONTH	YTD	Value
VFSTX	Vanguard Short-term Investment Grade	10.72	1405.29	14.57%	-0.12%	0.43%	\$15,064.67
VWEHX	Vanguard High-Yield Corporate	6.07	4178.73	24.53%	0.79%	1.46%	\$25,364.91
VEIPX	Vanguard Equity Income	31.75	844.47	25.93%	3.25%	7.25%	\$26,811.80
VWINX	Vanguard Wellesley Income	25.94	797.30	20.00%	1.01%	3.41%	\$20,681.88
VCVSX	Vanguard Convertible Securities	14.31	1080.69	14.96%	1.85%	3.10%	\$15,464.67
TOTAL				100.00%	1.49%	3.39%	\$103,387.92

User Guide

RANK: Our proprietary ranking system uses both technical and fundamental analysis to identify those funds expected to outperform over the following 6 months, on a risk adjusted basis.

ADVICE: Based on technical and fundamental indicators, we issue buy, hold and sell recommendations based upon expected future performance. We often avoid recommending funds that are extraordinarily volatile or are exposed to significant market risk.

PERFORMANCE RETURNS: YTD, 1-month, 3-month and 1-year returns are calculated each month based on the trailing returns. For 3-year and 5-year periods, returns are annualized.

YIELD %: We use the 30-day SEC Yield to provide the expected income generated by each fund, as reported by the fund in its most recent filing.

BETA: The 3-year Beta is the measure of the volatility, or systematic risk of the fund as compared to the market. A Beta of 1.3 will typically be 30% more volatile than the market.

STANDARD DEVIATION (SD): Also used to measure volatility, is determined from the monthly returns of the fund over the previous 3 years. Those funds with higher standard deviations are more volatile as compared to those with a lower standard deviation.

EXPENSE RATIO: The expense ratio is the fee charged by the mutual fund. This charge is deducted from the return of the fund, impacting performance. Please note, funds may have different share classes with varying expenses associated with each class.

NTF AGGRESSIVE GROWTH PORTFOLIO

SYMBOL	Fund	Price	Shares	Allocation	1 MONTH	YTD	Value
POGRX	PRIMECAP Odyssey Growth	26.12	1272.80	29.98%	5.45%	10.82%	\$33,245.65
LMPFX	ClearBridge Aggressive Growth FI	208.43	133.40	25.07%	4.20%	11.22%	\$27,805.50
BENFX	Baron Energy and Resources Retail	13.55	799.36	9.77%	1.12%	8.31%	\$10,831.33
VGHGX	Vanguard Health Care	214.16	106.69	20.60%	5.65%	14.24%	\$22,848.61
VFH	Vanguard Financials ETF	47.24	342.10	14.57%	3.87%	7.74%	\$16,160.64
TOTAL				100.00%	4.51%	10.89%	\$110,891.73

NTF STRAIGHT GROWTH PORTFOLIO

SYMBOL	Fund	Price	Shares	Allocation	1 MONTH	YTD	Value
FAMVX	FAM Value	65.88	401.93	25.10%	3.00%	5.92%	\$26,479.10
FMLSX	Wasatch Long/Short	16.63	1243.78	19.61%	0.97%	3.42%	\$20,684.08
LCEIX	Invesco Diversified Dividend Investor	18.05	1453.41	24.87%	3.50%	4.94%	\$26,233.98
VDIGX	Vanguard Dividend Growth	22.58	711.23	15.22%	3.96%	7.06%	\$16,059.54
VASVX	Vanguard Selected Value	30.10	532.86	15.20%	2.56%	6.93%	\$16,039.08
TOTAL				100.00%	2.80%	5.50%	\$105,495.77

NTF BALANCED GROWTH PORTFOLIO

SYMBOL	Fund	Price	Shares	Allocation	1 MONTH	YTD	Value
VFSTX	Vanguard Short-term Investment Grade	10.72	2375.28	24.48%	N/A	N/A	\$25,463.02
FMLSX	Wasatch Long/Short Investor	16.63	932.84	14.92%	0.97%	3.42%	\$15,513.06
SHYPX	American Beacon SiM High Yld Opps Inv	10.24	1486.56	14.64%	0.84%	1.48%	\$15,222.39
LCEIX	Invesco Diversified Dividend Investor	18.05	1162.72	20.18%	3.50%	4.94%	\$20,987.18
VEIPX	Vanguard Equity Income	31.75	844.49	25.78%	3.25%	7.25%	\$26,812.70
TOTAL				100.00%	1.77%	4.00%	\$103,998.34

NTF CONSERVATIVE INCOME PORTFOLIO

SYMBOL	Fund	Price	Shares	Allocation	1 MONTH	YTD	Value
VFSTX	Vanguard Short-term Investment Grade	10.72	2375.28	24.61%	N/A	N/A	\$25,463.02
VCVXS	Vanguard Convertible Securities	14.31	1080.69	14.95%	1.85%	3.10%	\$15,464.67
THOPX	Thompson Bond	11.89	845.96	9.72%	0.25%	0.59%	\$10,058.52
VWINX	Vanguard Wellesley Income	25.94	597.97	14.99%	1.01%	3.41%	\$15,511.41
VDIGX	Vanguard Dividend Growth	22.58	700.18	15.28%	3.96%	3.96%	\$15,810.14
VWELX	Vanguard Wellington	40.24	525.67	20.45%	2.13%	5.76%	\$21,152.80
TOTAL				100.00%	1.46%	3.46%	\$103,460.55

NTF GLOBAL PORTFOLIO

SYMBOL	Fund	Price	Shares	Allocation	1 MONTH	YTD	Value
VGK	Vanguard European Stock Index	57.45	260.04	14.36%	2.06%	-0.41%	\$14,939.06
VMVFX	Vanguard Global Minimum Volatility	11.19	2392.34	25.73%	3.52%	7.08%	\$26,770.33
WAGOX	Wasatch Global Opportunities	4.46	3562.95	15.27%	4.21%	5.94%	\$15,890.74
WAGTX	Wasatch World Innovators	23.06	1075.73	23.84%	3.13%	-0.77%	\$24,806.37
MGLBX	Marsico Global	14.66	1476.01	20.80%	2.59%	8.19%	\$21,638.38
TOTAL					3.12%	4.04%	\$104,044.88

NTF ABSOLUTE RETURN/DOWN MARKET PORTFOLIO

SYMBOL	Fund	Price	Shares	Allocation	1 MONTH	YTD	Value
VPU	Vanguard Utilities ETF	93.23	222.22	20.29%	3.18%	3.59%	\$20,717.51
FMLSX	Wasatch Long/Short	16.63	1554.73	25.32%	0.97%	3.42%	\$25,855.10
VFSTX	Vanguard Short-term Investment Grade	10.72	950.11	9.97%	N/A	N/A	\$10,185.21
THOPX	Thompson Bond	11.89	2114.91	24.63%	0.25%	0.59%	\$25,146.30
TGLDX	Tocqueville Gold	40.23	252.72	9.96%	-9.55%	1.67%	\$10,166.79
VSGBX	Vanguard Short-Term Federal	10.72	936.52	9.83%	-0.32%	0.40%	\$10,039.53
TOTAL					-0.16%	2.11%	\$102,110.44

Symbol	Name	NAV	Rank	Advice	% Return (3 and 5 Years Annualized)					Yield %	Beta 3 Year	SD 3 Year	Expense Ratio	
					YTD	1 Month	3 Month	1 Year	3 Year					5 Year
NTF INTERNATIONAL FUNDS (continued)														
TVIVX	Third Avenue International Value Inv	19.12	61	Sell	-5.67	-1.14	-7.63	0.36	9.63			0.86	14.33	1.65
TWEMX	Thomas White Emerging Markets Investor	12.14	61	Sell	4.84	3.32	4.21	7.89	4.90			1.13	18.98	1.34
TWGGX	American Century Global Growth Inv	12.66	70	Hold	2.33	2.26	-0.71	14.14	17.36	12.39		0.83	14.25	1.09
TWIEX	American Century International Gr Inv	13.44	68	Hold	-1.22	1.97	-3.66	7.92	13.49	9.34		0.96	15.63	1.22
TWMIX	American Century Emerging Markets Inv	9.37	67	Hold	7.11	2.52	2.85	12.63	6.52	6.94		1.23	20.64	1.63
TWWDX	Thomas White International Investor	19.46	62	Hold	-0.31	2.05	-2.01	6.71	10.36	7.22		0.98	15.70	1.24
UCEQX	USAA Cornerstone Equity	13.48	76	Hold	5.56	2.43	0.30	13.04						0.10
UGMVX	USAA Global Managed Volatility	11.37	64	Buy	2.06	1.70	-0.79	7.58				0.51	8.45	1.10
UMBWX	Scout International	37.12	66	Hold	0.65	2.15	-1.90	6.29	12.37	7.72	1.08	0.90	14.58	1.01
USAWX	USAA World Growth	27.82	75	Hold	2.92	2.32	-1.73	12.82	19.87	13.13		0.83	13.95	1.25
USCGX	USAA Capital Growth	9.56	80	Buy	8.88	3.58	3.13	19.51	18.91	11.69		0.83	13.58	1.30
USEMX	USAA Emerging Markets	18.87	71	Buy	8.01	2.89	0.69	11.52	3.69	3.73		1.16	19.72	1.58
USIFX	USAA International	30.57	72	Hold	0.20	2.21	-3.01	7.94	14.25	8.66		0.97	15.58	1.21
WAESX	Wasatch Emerging Markets Select Investor	10.94	70	Buy	11.18	4.49	7.25	15.24						1.69
WAGOX	Wasatch Global Opportunities	4.46	77	Buy	2.06	4.21	3.48	9.51	17.27	14.89		0.79	13.70	1.80
WAGTX	Wasatch World Innovators	23.06	69	Hold	-2.12	3.13	-2.29	5.97	16.72	17.36		0.71	12.92	1.77
WAIGX	Wasatch International Growth	27.79	59	Sell	-4.34	-0.93	-2.97	0.54	14.56	16.07		0.96	16.37	1.49
WELNX	William Blair Emerging Mkts Ldrs N	9.89	71	Buy	8.68	3.13	2.49	12.78	6.43			1.04	17.28	1.65
WGGNX	William Blair Global Leaders N	11.83	69	Buy	3.50	2.60	-0.17	11.97	14.95	12.84		0.80	13.49	1.50
WIENX	William Blair International Equity N	14.58	71	Hold	2.10	2.17	-1.22	11.18	12.80	7.69		0.89	14.26	1.45
WIEVX	Wells Fargo Advantage Divers Intl Inv	12.48	68	Hold	1.05	2.21	-1.34	9.53	14.46	8.06		0.97	15.38	1.46
WILNX	William Blair International Ldrs N	12.64	64	Hold	-0.08	2.27	-2.02	8.71						1.45
WLCTX	Wilshire International Equity Invmt	9.78	63	Hold	0.82	1.77	-1.21	7.90	13.92	9.65		0.75	12.92	1.85

Fund Spotlight: Vanguard Strategic Equity (VSEQX)

Vanguard is well-known for its passive indexing strategies, but it also has several actively managed funds. One such fund is the Morningstar four-star rated Vanguard Strategic Equity Fund (VSEQX), which targets mid- and small-cap companies.

VSEQX seeks to provide long-term capital appreciation by investing at least 80 percent of assets under management in equity securities. To accomplish this, the fund invests almost exclusively in domestic stocks issued by small- and mid-cap companies based on the assessment of the securities' relative return potential. These companies typically have a market capitalization between \$1 billion and \$8 billion, giving the fund a middle-of-the-road profile. The result is that the current average market capitalization of companies in the portfolio is \$5.3 billion. Fund assets can also be allocated up to 25 percent in foreign securities as well as derivatives, stock futures and currency exchange contracts to a limited extent. For all types of accounts, VSEQX has an initial minimum investment of \$3,000 and an additional investment minimum of \$100.

INVESTMENT STRATEGY

The fund's team of eight experienced analysts, led by manager James Troyer since 2006, uses a quantitative model to select stocks listed in the benchmark MSCI US Small + Mid Cap 2200 Index. The model seeks securities that

rank highly across all the investment models. Factors taken into consideration during the evaluation process include a stock's relative growth, valuation, market sentiment and corporate governance. Selected securities feature attractive future growth prospects, below current market valuation, low price/earnings ratios and high returns on capital investment, as well as possible increases in dividends and share buybacks. The models are run each day and customized across specific industry groups in order to identify stocks that are the most attractive.

Troyer has been involved in the fund since its inception and previously worked closely with the original portfolio manager, Gus Sauter, who ran the fund from 1995 until turning over the helm to Troyer. Michael Roach and James Stetler were named co-managers in 2012. Both Roach and Stetler are long-time Vanguard employees and are involved in overseeing other funds as well.

COMPOSITION

With \$5.3 billion under management, this Mid-Cap Blend fund holds 402 stocks in an effort to stay broadly diversified. Sector weighting is typically within one percentage point of industry averages found within the MSCI US Small + Mid Cap 2200 Index benchmark. VSEQX tries to beat the index by holding superior companies within the sector allocations set out by the index.

As of July 31, 2014, the highest-weighted

sectors within the fund in descending order are financials; consumer discretionary; information technology; industrials; and health-care. Equaling approximately 9.5 percent of total assets, the top 10 holdings are Southwest Airlines; CF Industries; O'Reilly Automotive; Mylan; United Rentals; Helmerich and Payne; Computer Sciences; CR Bard; Trinity Industries; and Alliance Data Systems. The fund holds less than 1 percent of assets in cash and slightly more than 1.5 percent in foreign assets.

PERFORMANCE AND RISK

Since its inception in 1995, VSEQX has seen an 11.20 percent annualized return. The annualized percentage returns for the most recent one-, three- and five-year periods are 30.44 percent, 23.83 percent and 20.82 percent, respectively. These returns have kept pace with the benchmark over the long term but have lagged the index since 2006.

As a quant fund with backward-looking computer models, VSEQX struggles during significant market turning points, such as the 2008 downturn through the 2009 rally, which weighs on its long-term performance. VSEQX was ranked in the bottom third of its category during that period, due to the drag created by investments in financial and industrial stocks. Over the most recent three-year period, the fund has experienced better returns, beating the index by an average of 3 percentage points. Investments in energy,

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Fund Spotlight: Vanguard Strategic Equity (VSEQX) (continued)

industrials and technology have boosted results.

Classified as an aggressive fund because of its concentration in small- and mid-cap stocks, VSEQX is subject to wide fluctuations in share price. As of July 31, 2014, the fund's 10-year standard deviation, a statistical measure of how VSEQX's return varies over an extended period, is 18.95, which is higher than the benchmark as well as the S&P 500 Index.

VSEQX has a beta and R-Squared of 1.10 and 98.39, respectively, versus the Morningstar Mid Cap index. The larger than 1.0 beta indicates the fund's historical returns have varied more than those of the benchmark index have while the R-Squared shows a high correlation to those returns. These ratings also indicate that VSEQX has an above average risk when compared to the benchmark index and other funds within the category.

Approximately 40 percent of the fund's assets are invested in economically sensitive sectors, such as financials, technology and industrials, areas we currently favor. Securities in the fund generally have more leverage than industry averages do. This elevated debt/capital ratio makes the VSEQX more sensitive to market downturns. The fund's criteria for selecting stocks create a valuation that is typically lower than the price/earnings ratio of the benchmark index, which helps to counteract some of the higher risks by generating higher returns on equity.

The Market Capture ratio shows how well the fund performed when the benchmark index moved up or down. While the 115.72 percent Up Market Capture ratio is desirable, showing the fund gained much more as the benchmark

climbed, it is offset slightly by the undesirable 103.65 percent Down Market Capture ratio.

FEES AND DISTRIBUTIONS

At 0.28 percent, VSEQX's management expense ratio is very low, less than 94 percent of those of comparable funds. The low fee is made possible by limiting trading costs that are incurred by the fund's high turnover ratio of 64, which is about average for mid-cap blend funds. Its brokerage commissions fall well below category averages based on a percentage of net assets under management. The fund's tax-cost ratio is lower than that of 70 percent of its peer group over the last three-, five- and 10-year periods. Its management fee of 26 basis points is low versus alternative funds.

CONCLUSION

VSEQX has done well in up markets, but its higher-risk strategy also leads to higher losses in down markets. In 2014, it performed exceptionally well, ranking in the top 4 percent versus its peers. Over the past one year, it has performed even better, being ranked in the top 2 percent.

The quantitative approach used by the fund is best suited to a multiyear bull market rather than at turning points that can throw off the fund's models. It is a fund that can boost portfolio returns, but it may not be a good fit for more passive investors looking for mid- and small-cap exposure. With an improving economy that can extend well into 2015, this is a fund that you may want to consider in an actively managed portfolio. However, if an unexpected downturn occurs, you will want to closely follow the fund's performance. Currently, we have issued a Buy recommendation with a Ranking of 89.

Portfolio Updates
(continued from page 2)

roughly two-thirds of the broader market's gain last month, up 2.13 percent. Thompson Bond (THOPX) gained 0.25 percent.

The **NTF Global Portfolio** gained 3.12 percent over the past month; it is up 4.04 percent this year. Vanguard European Stock (VGK) delivered an impressive 2.06 percent return in the face of a much weaker euro. Vanguard Global Minimum Volatility (VMVFX) is hedged against currency fluctuations and it performed well, up 3.52 percent. Wasatch Global Opportunities (WAGOX) has about 20 percent each in healthcare and technology, and while the fund has global exposure, sectors often move in sync globally, placing WAGOX in the cross-hairs of the two strongest sectors last month. Compared to the MSCI EAFE, the portfolio has performed very strongly.

The **NTF Absolute Return/Down Market Portfolio** dipped 0.16 percent in the past month; it is up 2.11 percent this year. Tocqueville Gold (TGLDX) slid 9.55 percent as the U.S. dollar rally and higher short-term interest rates led investors to sell gold. Gold could remain under pressure if the U.S. dollar continues to rally and financial markets remain calm, but volatility may increase as currencies such as the yen and euro don't stabilize. Vanguard Utilities (VPU) bounced back from a bad performance the month prior and gained 3.18 percent. The gain moved the utilities sector back among the best-performing sectors this year.

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