Investing For Successful Retirement

Instructors: Ron Materniak, Jane Roe-Fox, Rajeev Vaidya

How To Invest In The Current Environment

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My Background

Alumni

Global Investment Specialist

Wealth Manager

Director: Financial Planning &
Wealth Management

Director of Financial Planning

Agenda

Investment Fundamentals

Positioning For The Current Market

The Fundamentals

- ❑ Focus on Asset Allocation
  - ➢ It explains >90% of the variation of returns

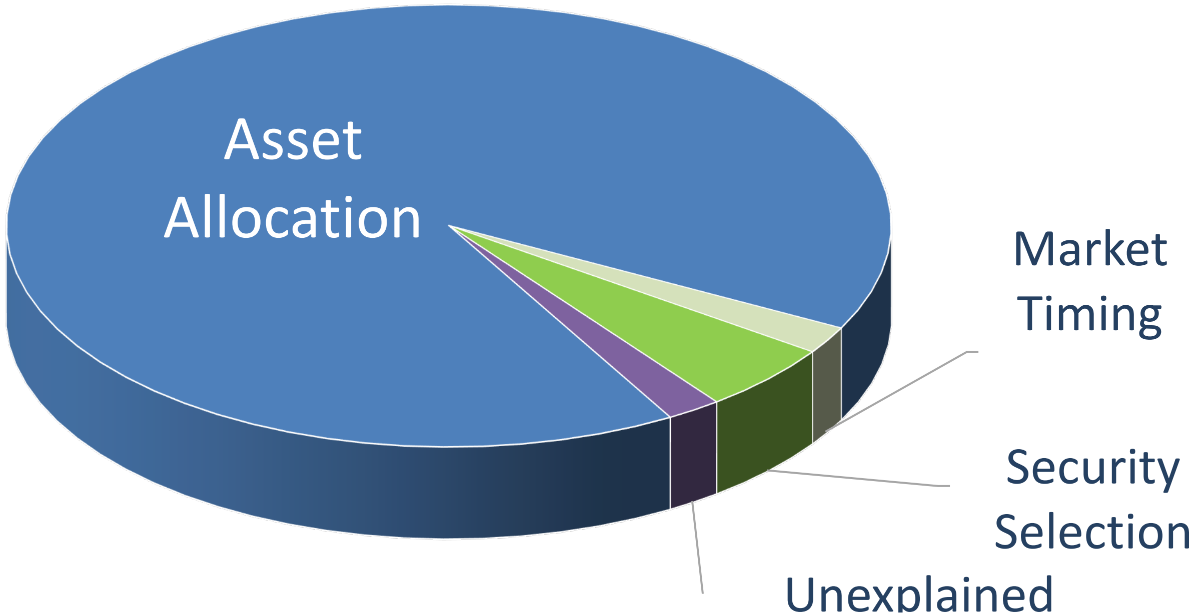
- ❑ Be Tax Efficient
  - ➢ Good returns become average returns if taxes are ignored

- ❑ Stay Invested
  - ➢ Time in the market matters more than trying to time the market

- ❑ Manage your emotions
  - ➢ The behavior gap is real

Why Is Your Allocation So Important?

It Explains Most Of The Variation In Portfolio Returns



Source: Ibbotson Associates, Chicago

What Is The Best Allocation For Your Portfolio?

		BlackRock	State Street	Vanguard
Stocks	US Large	30%	25%	29%
	US Mid & Small	7%	7%	6%
	Developed International	20%	12%	19%
	Emerging Markets	5%	5%	5%
	Real Estate	3%	9%	
	Commodities		5%	
Bonds	US Treasuries	9%	11%	12%
	US Investment Grade	14%	19%	17%
	US High Yield	2%	7%	
	International	10%		12%
		100%	100%	100%

As of 4/2018

Be Tax Efficient

- ❑ Tax Loss Harvest:
    1. First, realize losses to offset any realized capital gains
    2. Second, create an additional $3000 tax loss deduction

- ❑ Bond Loss Swaps
    - ➢ Rising rates over the past year caused bond prices to decline

- ❑ Perform Roth Conversions before RMD age.

- ❑ Coordinate your Asset <u>Lo</u>cation with your Asset <u>Allo</u>cation

Asset Allocation

Brokerage Account

*taxed each year

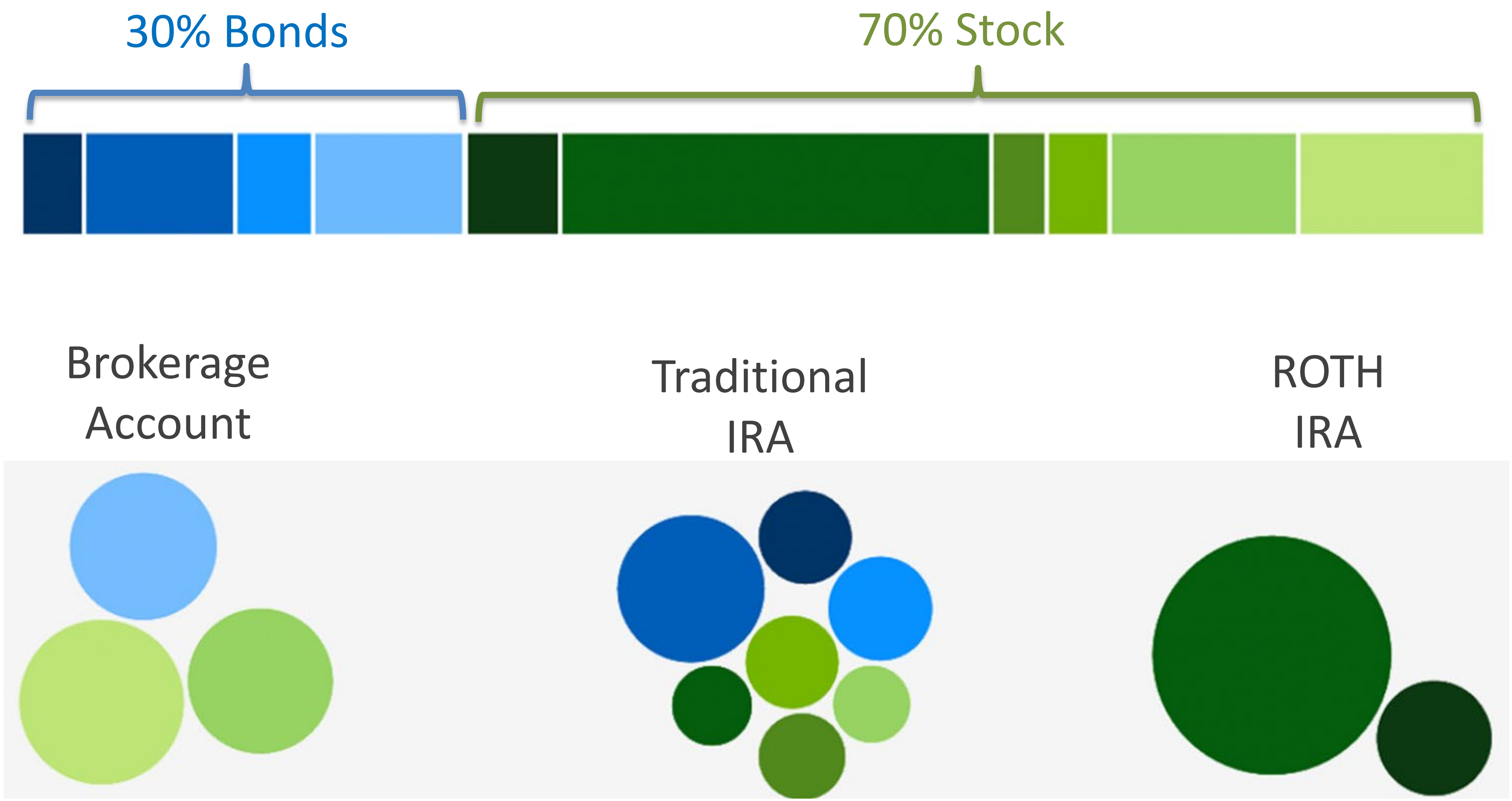
Traditional IRA

*taxed when you take money out

ROTH IRA

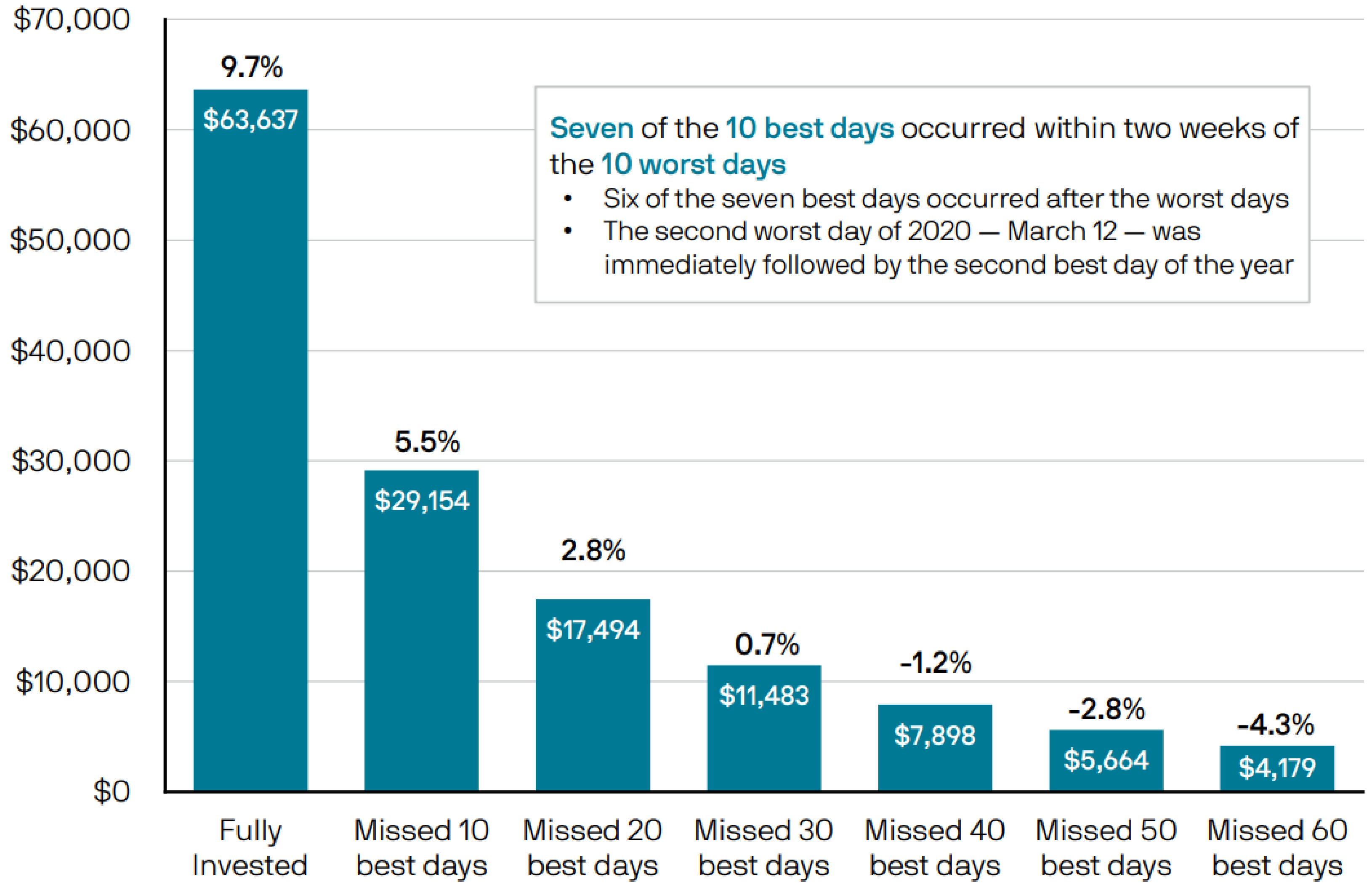
*taxed when you put money in

Asset Allocation Coordinated With Asset Location



Stay Invested

Performance of a $10,000 investment in the S&P500 between 2004 and 2023



JP Morgan Asset Management, Guide to Retirement

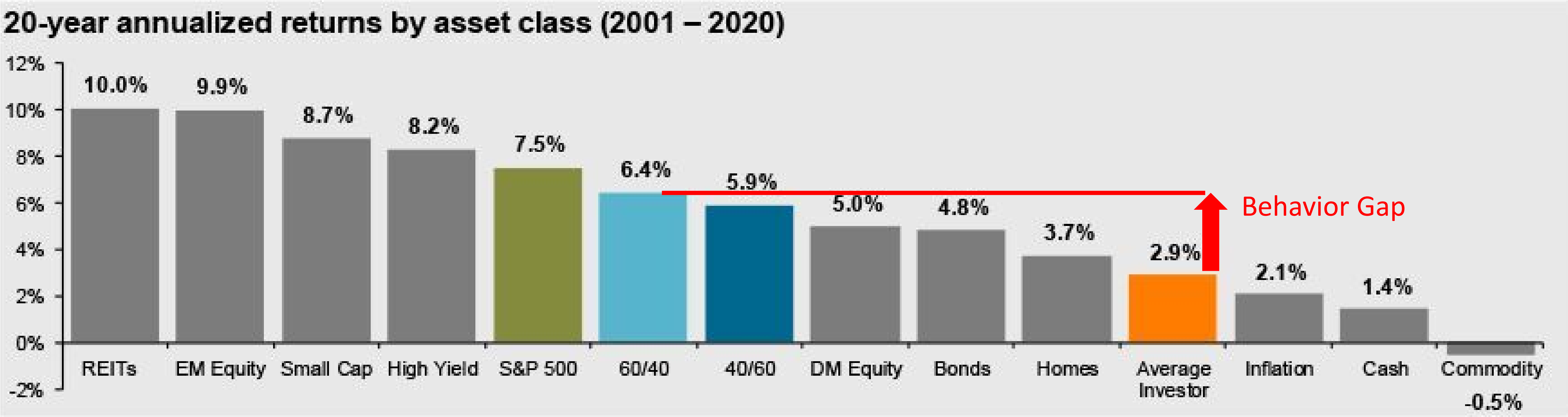
Over 100 Behavioral Biases When Investing

100 Ways That Your Behavior Can Become Your Biggest Obstacle!

- Anchoring Bias
- Choice-Supportive Bias
- Availability Bias
- Clustering Bias
- Ostrich Effect
- Information Bias
- Placebo Effect
- Pro-Innovation Bias
- Confirmation Bias
- Outcome Bias
- Recency Bias
- Survivorship Bias
- Blind Spot Bias
- Conservatism Bias
- Overconfidence Bias
- Salience Bias
- Zero Risk Bias
- Disposition Effect
- Framing Effects
- Loss Aversion
- Selective Attention
- Herding Bias
- Gambler's Fallacy
- Illusion of Control

Manage Your Emotions

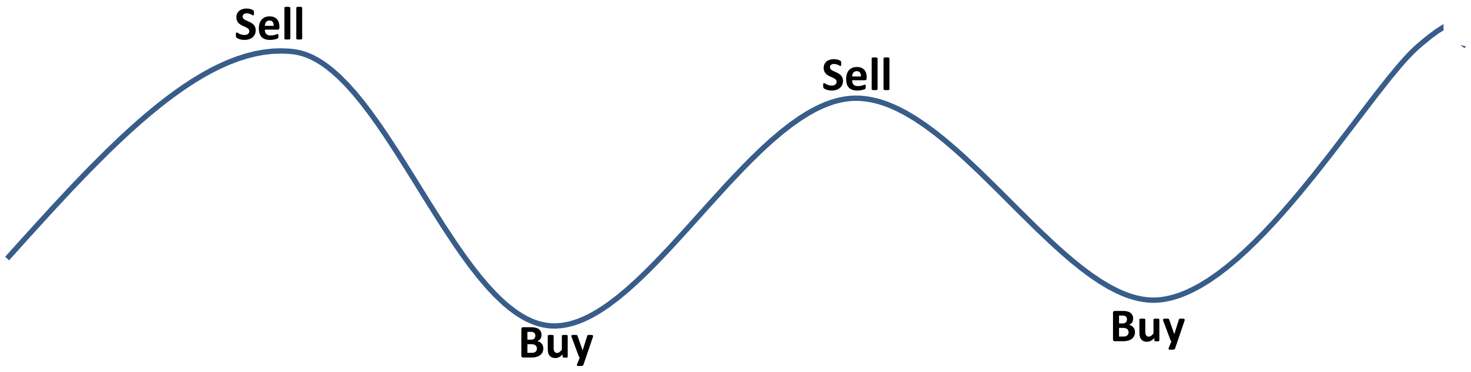
The behavior gap is real



Ibbotson Advisors

Market Timing

The Odds Are Not In Your Favor



Assume you are 50% confident that you get each trade right?
Joint probability of success = 50% x 50% = 25%

You need a Confidence Level > 75% per trade just to exceed a breakeven probability
Joint probability of success = 75% x 75% = 56%

Positioning For The Current Market

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Tactical Adjustments

- ❑ Extend Fixed Income Duration
- ❑ Commercial Real Estate
- ❑ Structured Equity
- ❑ Bias Towards High Free Cash Flows

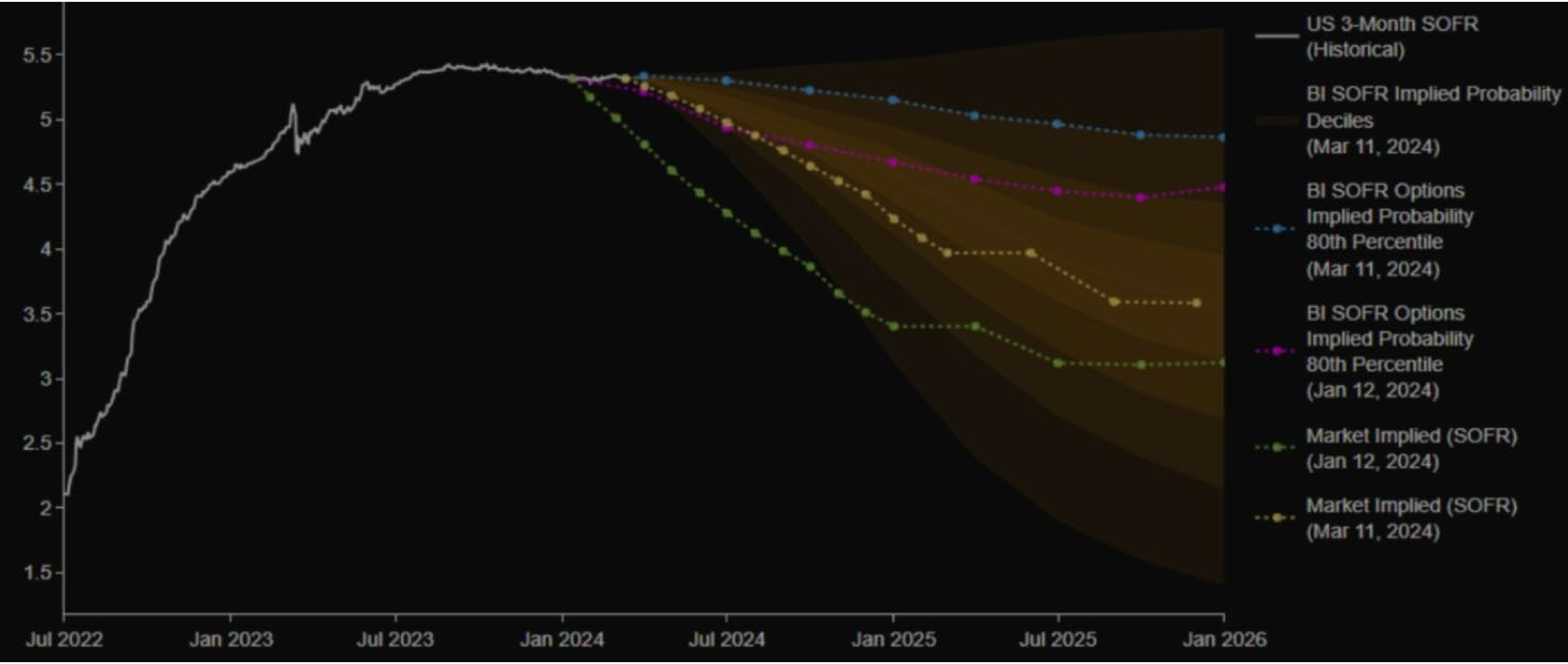
Extend Fixed Income Duration

Fed Funds Rate

Extend Fixed Income Duration

Aggregate Bond ETF - AGG

SOFR Options Implied Forward Rates



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Commercial Real Estate

+$1.5 TRILLION
of RE Loan Maturities in Next 3 Years

32%
of all CRE Loans Held by Regional & Community Banks

11
Interest Rate Hikes Since Jan. 2022

51%
of Lenders Tightening Standards

$921B
in Deposits Left US Banks Since Apr. 2022

Increasing Regulation

svb Silicon Valley Bank

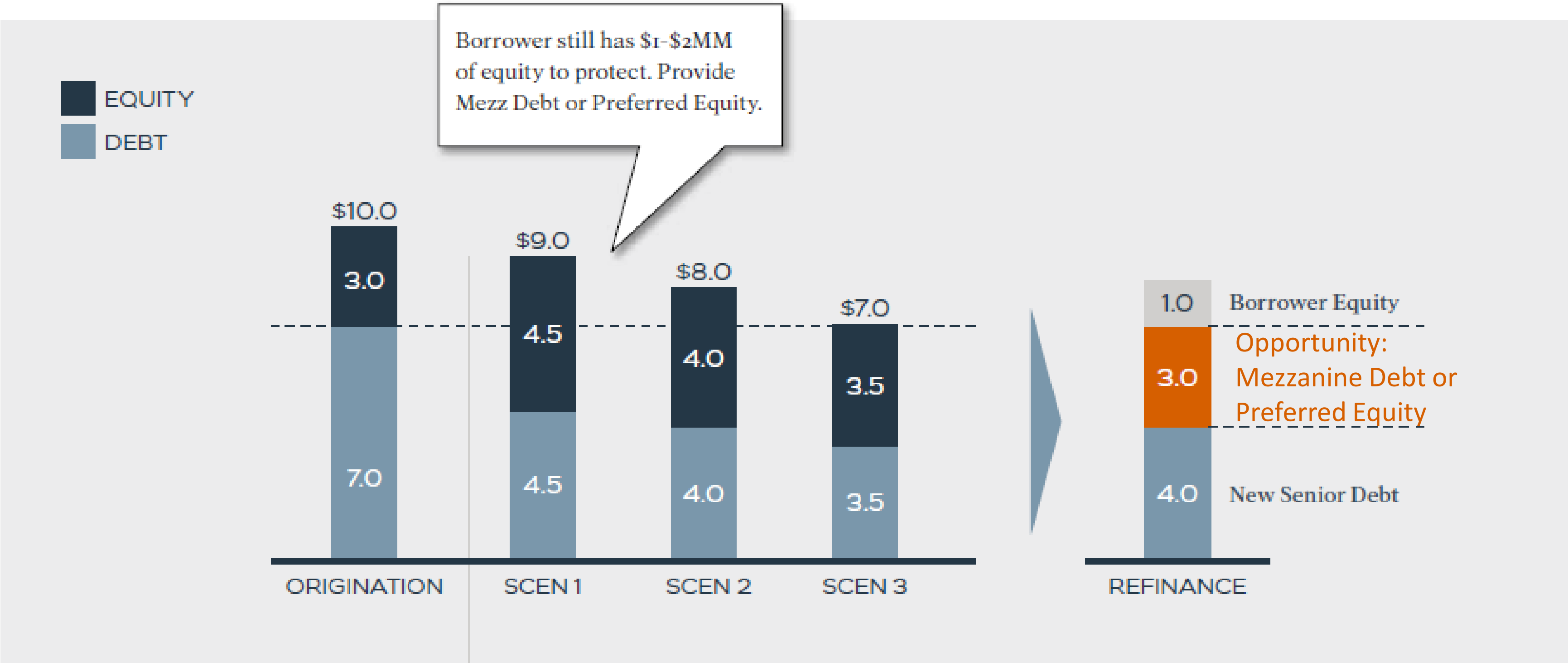
First Republic Bank

Signature Bank®

Source: Federal Reserve Bank of St Louis, New York Fed, Mortgage Bankers Association, Bloomberg, JLAM Analysis

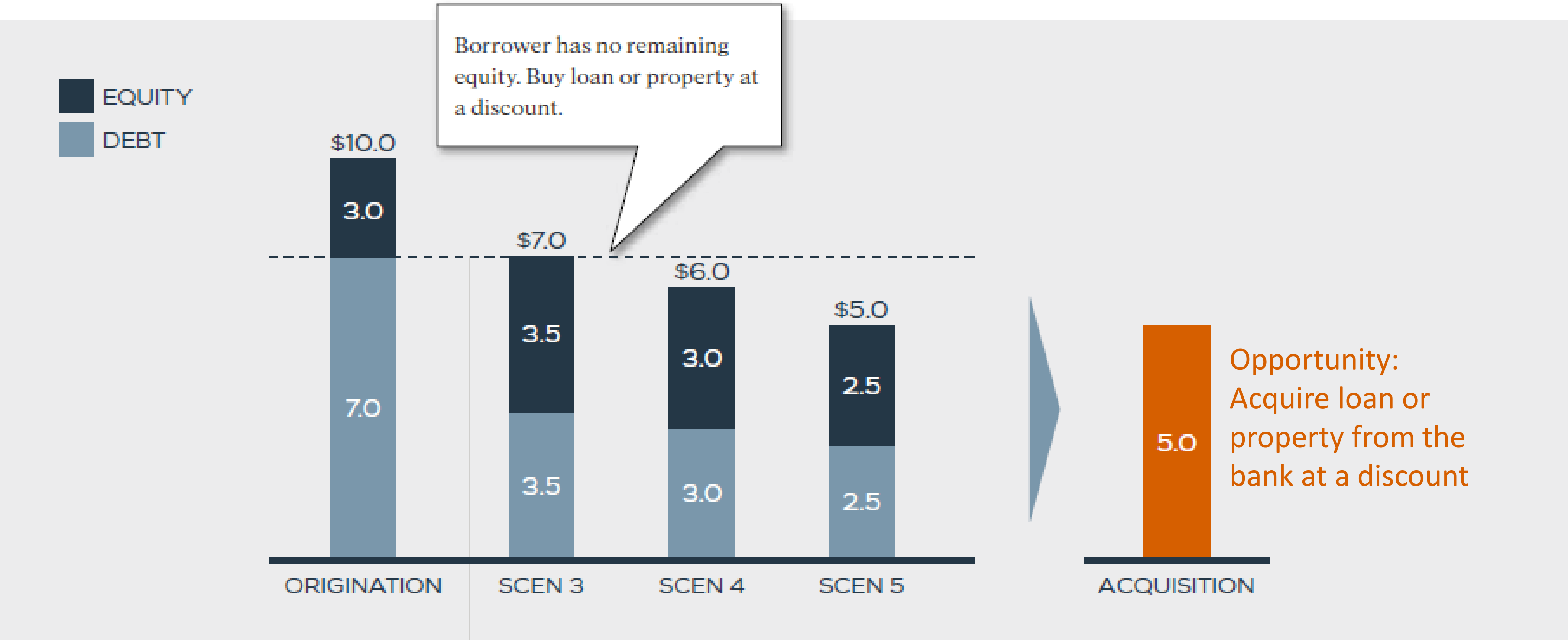
Market Dislocation – Example Scenarios

Borrowers with maturing loans will need to refinance amidst much tighter lending standards. They will require new cash infusions to protect their remaining equity.



Market Dislocation – Distressed Scenarios

And some situations will result in all existing equity being wiped-out, leaving assets with maturing loan balances above their value. These will offer great buying opportunities.



Tactical Adjustments

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Structured Equity

A Recent Example

Issuing Bank: HSBC Bank

CD Protection: FDIC Insurance

Maturity Date: 15 months

Interest Rate: Based on the performance of the S&P 500 Index.....

1) Earn the *Absolute Return* of the S&P 500 if it trades between -19.5% and +19.5% over the next 15 months

OR

2) Earn 2% at maturity if at any point the S&P 500 breaches the -19.5% and +19.5% thresholds

Benchmark Financial

Hypothetical Payout At Maturity

Assuming the Initial Level of the Index is 1000

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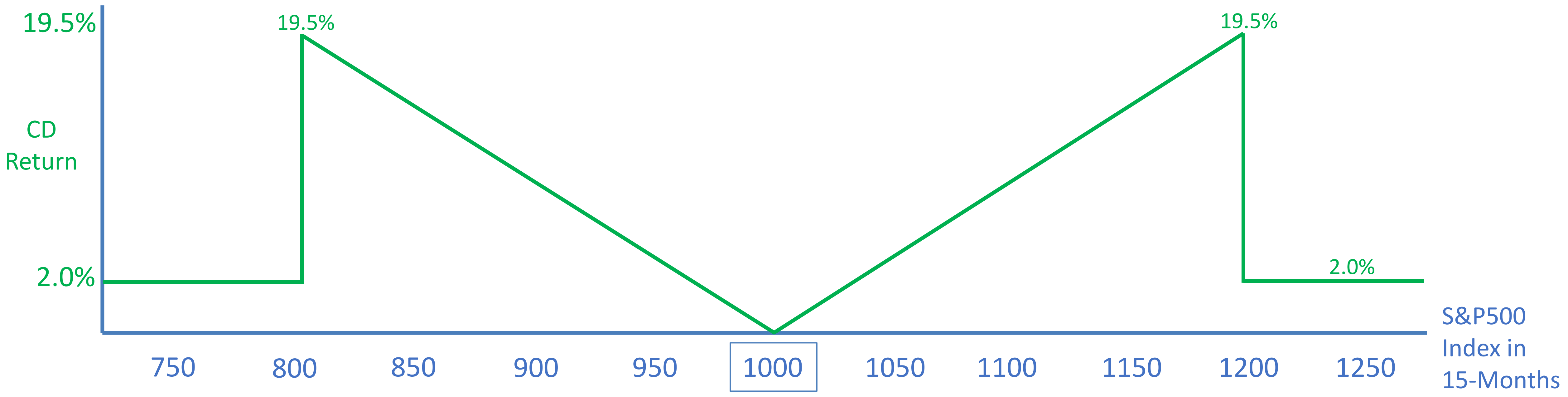
Assuming the Initial Level of the Index is 1000



<u>Buy a Down & Out Put Option</u>

The Right to Sell the S&P at 1000 if the S&P is > 805

Or

Returns 2% if the S&P is < 805

<u>Buy an Up & Out Call Option</u>

The Right to Buy the S&P at 1000 if the S&P is < 1195

Or

Returns 2% if the S&P is > 1195

Tactical Adjustments

- ❑ Extend Fixed Income Duration
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Bias Towards High Free Cash Flows

Valuation Metrics (12 Month Rolling) 12/31/1991 - 12/31/2023

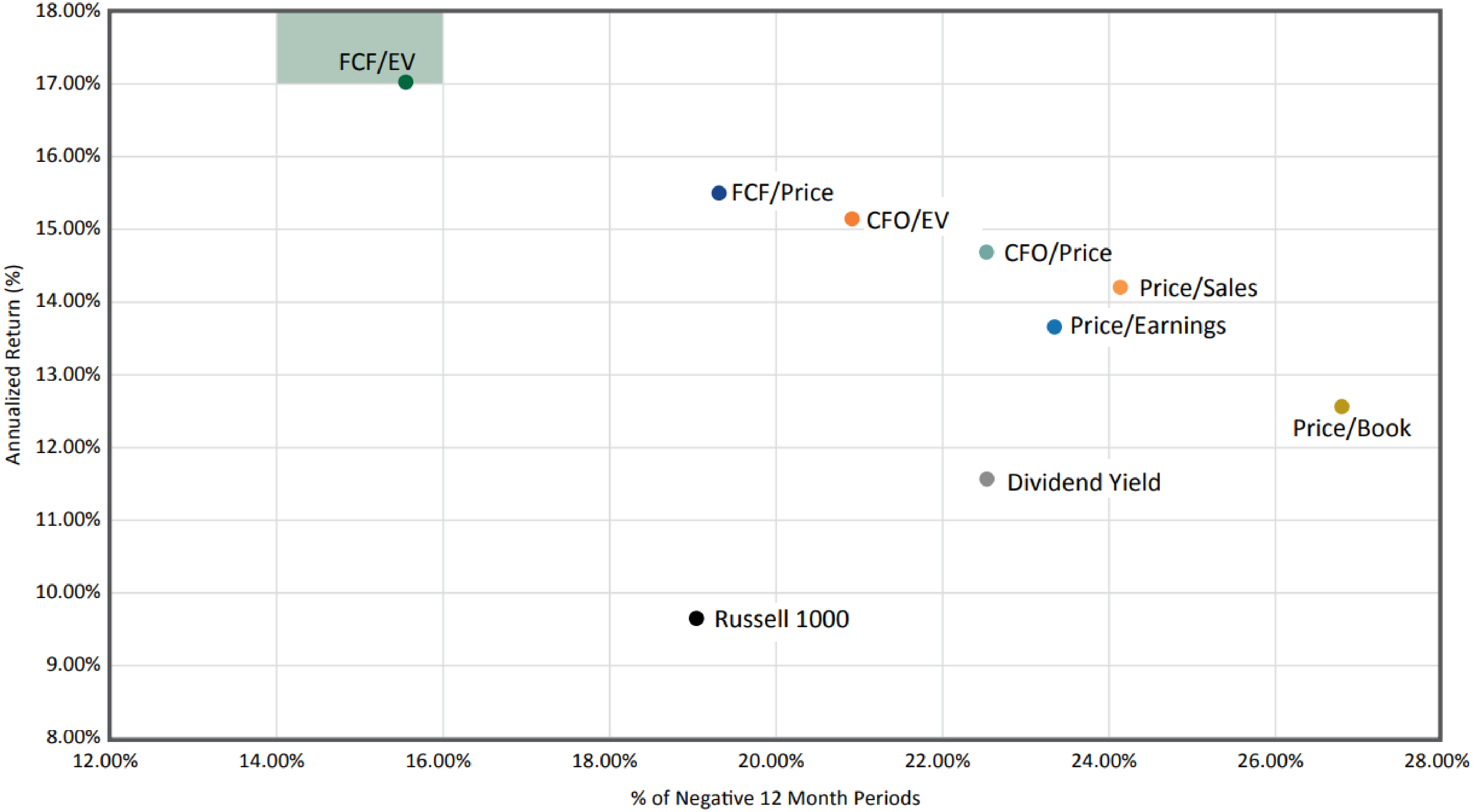
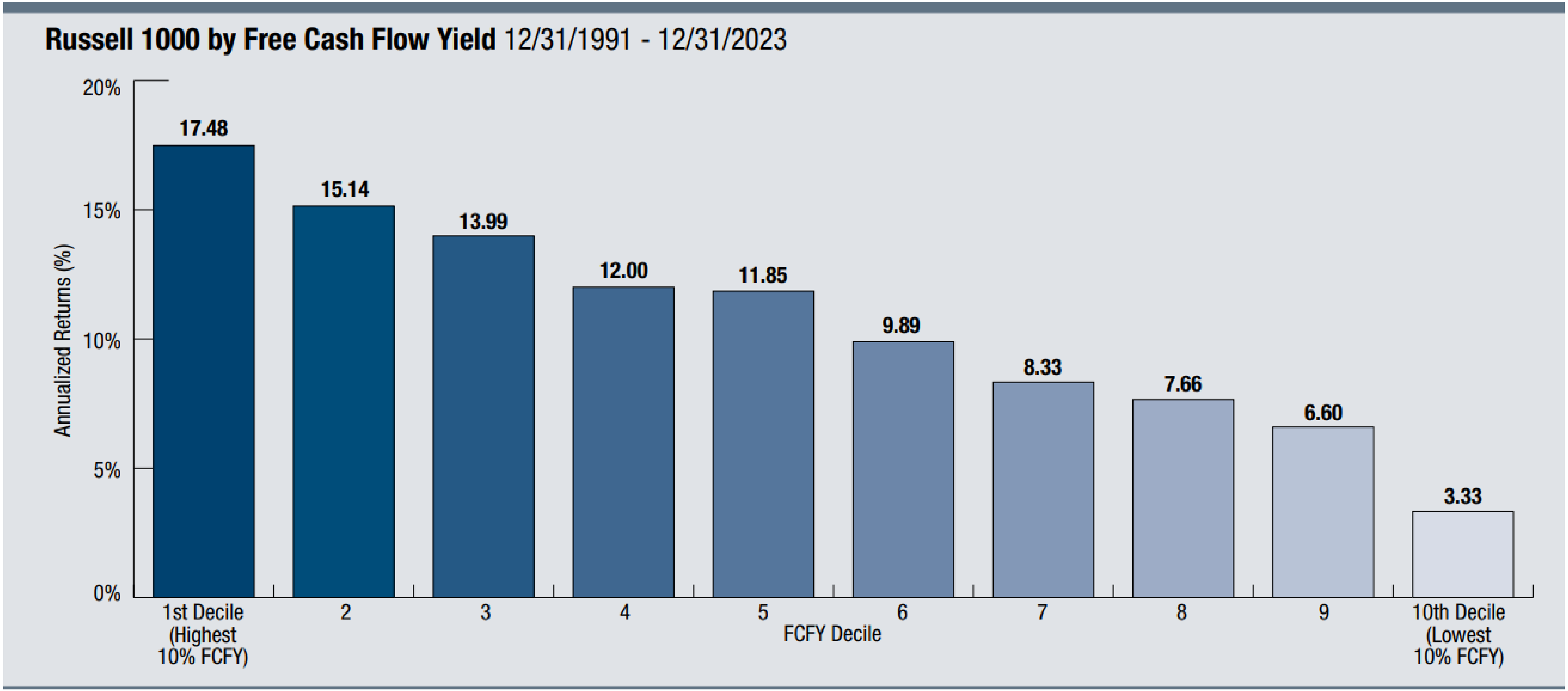


Chart Key:
FCF/EV: Free Cash Flow/Enterprise Value
CFO/EV: Cash Flow From Operations/Enterprise Value
FCF/Price: Free Cash Flow/Price
CFO/Price: Cash Flow From Operations/Price
Price/Book: Price/Book Value

Free Cash Flow Yield by Decile

In the chart below, companies with the highest FCFY (1st Decile) outperform companies with the lowest FCFY (10th Decile) over time.



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