



**Richard Bernstein**, Chief Executive  
and Chief Investment Officer

**Richard Bernstein Advisors**

Richard Bernstein Advisors LLC (RBA) is an independent investment adviser focusing on longer-term investment strategies that combine top-down, macroeconomic analysis and quantitatively-driven portfolio construction. We strive to be the leading provider of innovative investment solutions for investors, and our competitive edge is our research-driven macro style of investing.

Our top-down macro approach differentiates our firm from the more common, traditional bottom-up approach of most asset managers. Our extensive array of macro indicators allows us to construct portfolios for clients that are innovative, risk-controlled, and focused on overall portfolio construction instead of individual stock selection.

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# Fundamentals, Fundamentals, Fundamentals

## Fundamentals, Fundamentals, Fundamentals

We've said many times politicians crave the spotlight, but it's a shame that investors watch the show. History shows quite well that fundamentals, and not politics, ultimately drive the financial markets. Our November 2014 report, titled ["Are you tired of being scared yet?"](http://www.rbadvisors.com/images/pdfs/tired_of_being_scared.pdf) ([http://www.rbadvisors.com/images/pdfs/tired\\_of\\_being\\_scared.pdf](http://www.rbadvisors.com/images/pdfs/tired_of_being_scared.pdf)) emphasized that investors were overly concerned about a broad range of issues. We listed nearly 70 risks that at the time led investors to generally conclude that the stock market was an imprudent investment. That was more than two years ago, but such fears have hardly subsided.

An old adage on Wall Street is that one should never take investment advice from Washington, DC. The on-going 9-year (!) bull market proves this seems like sound advice. Investors have been hesitant to invest in this bull market partially because of the warnings of imminent gloom and doom from Washington's right and left.

## Politics vs. Fundamentals

It's probably fair to say that politics are overwhelming investing fundamentals because it has become difficult to tell the difference between the financial media and traditional news media. Geopolitics, domestic politics, public policy and the like seem to have totally supplanted earnings and sales as investment discussion topics.

For example, few investors realize that the South Korean stock market is up 18% YTD (through 5/4/17 in USD) because they are so apprehensive about the geopolitical news regarding a potential North Korea nuclear threat. We've attempted to capitalize on that misjudgment, and have overweighted Korean stocks in many of our portfolios for months, but the typical investor has probably shunned the region's stocks.

**CHART 1:**

**Washington focusing on North Korea. Investors focusing on South Korea.**



Source: Bloomberg Finance L.P.

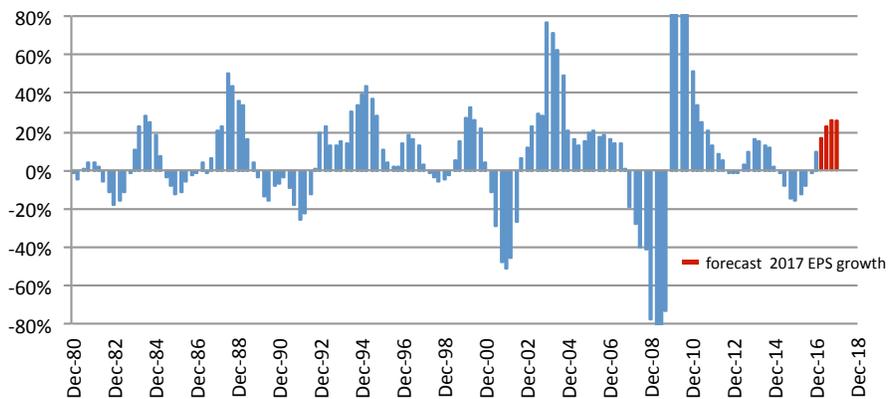
**Profits growth looks very healthy with or without tax reform.**

Investors have somewhat lost touch with overall corporate fundamentals because they are myopically watching politics. RBA’s research has indicated for more than a year that the trough in the US profits cycle was 4Q15, that 2016 was the year of profits recovery, and that 2017 would be the year of the profits expansion. It is likely that S&P 500® reported profits growth will exceed 20% at some point this year. (See Chart 2)

Some investors are incredulous that our optimistic earnings forecasts include no assumptions for corporate tax reform. They cannot believe that profit fundamentals are currently as strong as they are because they’ve been distracted by Washington.

**CHART 2:**

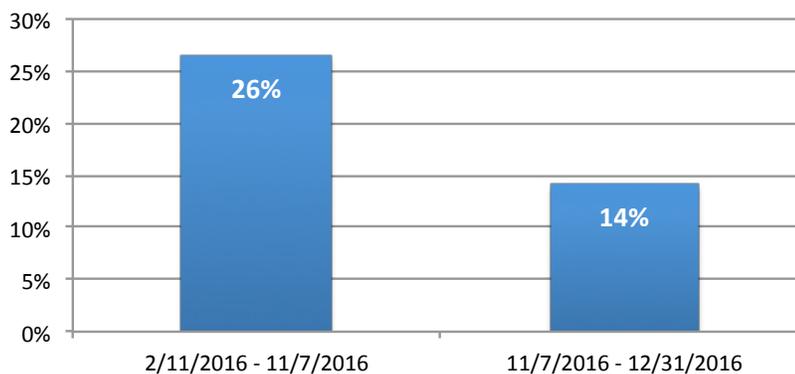
**S&P 500® Reported Y/Y Trailing GAAP EPS Growth from December 1980 – December 2016**



Source: Richard Bernstein Advisors LLC, Standard & Poor’s.

Similarly, many investors have attributed 2016's stock market performance to the election. However, as Chart 3 shows, nearly 2/3rd of the Russell 2000's 2016 performance came before Election Day! The Russell 2000 might have appreciated after Election Day because of the election, but 2/3rd of the yearly performance was attributable to improving fundamentals.

**CHART 3:**  
**February 11, 2016 was more important than November 8**  
**Russell 2000® Total Returns**



Source: Richard Bernstein Advisors LLC, Bloomberg Finance L.P.

### Top-Down, but not event-driven

Although RBA is a strictly top-down, macro firm, we are not event-driven as are most macro investors. We follow a disciplined approach to macro fundamentals. In the past year, this approach has served us well during events like Brexit, the US Presidential election, North Korea, Iran, Syria, the French election, and a litany of other events that in the end have had little effect on the equity bull market.

Politicians are always looking for a good photo opportunity like kissing babies. Unfortunately, kissing babies doesn't typically lead to good portfolio performance. Fundamentally-based disciplined approaches tend to be much more successful.

To learn more about RBA's disciplined approach to macro investing, please contact your local RBA representative. [http://www.rbadvisors.com/images/pdfs/Portfolio\\_Specialist\\_Map.pdf](http://www.rbadvisors.com/images/pdfs/Portfolio_Specialist_Map.pdf)

**RBA Investment Process:**

- Quantitative indicators and macro-economic analysis are used to establish views on major secular and cyclical trends in the market.
- Investment themes focus on disparities between fundamentals and sentiment.
- Market mis-pricings are identified relative to changes in the global economy, geopolitics and corporate profits.

**INDEX DESCRIPTIONS:**

The following descriptions, while believed to be accurate, are in some cases abbreviated versions of more detailed or comprehensive definitions available from the sponsors or originators of the respective indices. Anyone interested in such further details is free to consult each such sponsor's or originator's website.

The past performance of an index is not a guarantee of future results.

Each index reflects an unmanaged universe of securities without any deduction for advisory fees or other expenses that would reduce actual returns, as well as the reinvestment of all income and dividends. An actual investment in the securities included in the index would require an investor to incur transaction costs, which would lower the performance results. Indices are not actively managed and investors cannot invest directly in the indices.

**S&P 500®: Standard & Poor's (S&P) 500® Index.**

The S&P 500® Index is an unmanaged, capitalization-weighted index designed to measure the performance of the broad US economy through changes in the aggregate market value of 500 stocks representing all major industries.

**Russell 2000®: Russell 2000® Index.**

The Russell 2000® Index is an unmanaged, market-capitalization-weighted index designed to measure the performance of the small-cap segment of the US equity universe. The Russell 2000® Index is a subset of the Russell 3000® Index.

**Sector/Industries:** Sector/industry references in this report are in accordance with the Global Industry Classification Standard (GICS®) developed by MSCI Barra and Standard & Poor's. The GICS structure consists of 11 sectors, 24 industry groups, 68 industries and 154 sub-industries.

**South Korea: KOSPI Index.** The KOSPI Index is a capitalization-weighted index of all common shares on the Korean Stock Exchanges. The Index was developed with a base value of 100 as of January 4, 1980. Note: The preferred shares are excluded in calculating the KOSPI Index from June 14, 2002.

## About Richard Bernstein Advisors

Richard Bernstein Advisors LLC is an independent investment adviser. RBA partners with several firms including Eaton Vance Corporation and First Trust Portfolios LP, and currently has \$4.5 billion collectively under management and advisement as of April 30<sup>th</sup> 2017. RBA acts as sub advisor for the Eaton Vance Richard Bernstein Equity Strategy Fund and the Eaton Vance Richard Bernstein All Asset Strategy Fund and also offers income and unique theme oriented unit trusts through First Trust. RBA is also the index provider for the First Trust RBA American Industrial Renaissance<sup>®</sup> ETF and the First Trust RBA Quality Income ETF. Additionally, RBA runs ETF asset allocation SMA portfolios at UBS, Merrill Lynch, Morgan Stanley Smith Barney, Wells Fargo and on select RIA platforms. RBA's investment insights as well as further information about the firm and products can be found at [www.RBAdvisors.com](http://www.RBAdvisors.com).

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