Richard Bernstein Advisors

The Leaders In Pactive® Management

Insights

July 2019

Richard Bernstein Advisors

Richard Bernstein Advisors LLC (RBA) is an investment manager 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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Investing by the rear-view mirror

All too frequently investors use the rear-view mirror to determine an investment's attractiveness. An upward sloping price chart often automatically makes a stock more attractive. Recent performance helps determine a "good" manager. Past interest rate movements can cause changes to bond portfolio duration.

However, investing according to what seems obvious in the rear-view mirror has clearly had a detrimental effect on investors' performance. Investors seem to consistently follow the unwise investment strategy of buying high and then selling low, and their performance over the past 10 and 20 years has accordingly suffered.

Hindsight might be 20/20, but investors have performed miserably by repeatedly attempting to time a market, a manager, or an investment. Future fundamentals, and not past performance, are more likely to dictate future returns.

2018 DALBAR data

The annual DALBAR study that estimates investors' performance was recently released for 2018. Investor returns are calculated by DALBAR using the change in total mutual fund assets after excluding sales, redemptions and exchanges. This method of calculation captures realized and unrealized capital gains, dividends, interest, trading costs, sales charges, fees, expenses and any other costs. Each year RBA then analyzes DALBAR's results to see how the "average investor" would have performed over the past 10 and 20 years. RBA compared the DALBAR returns with those of 43 different asset classes and sub-classes for the 20-year period ending 2018.

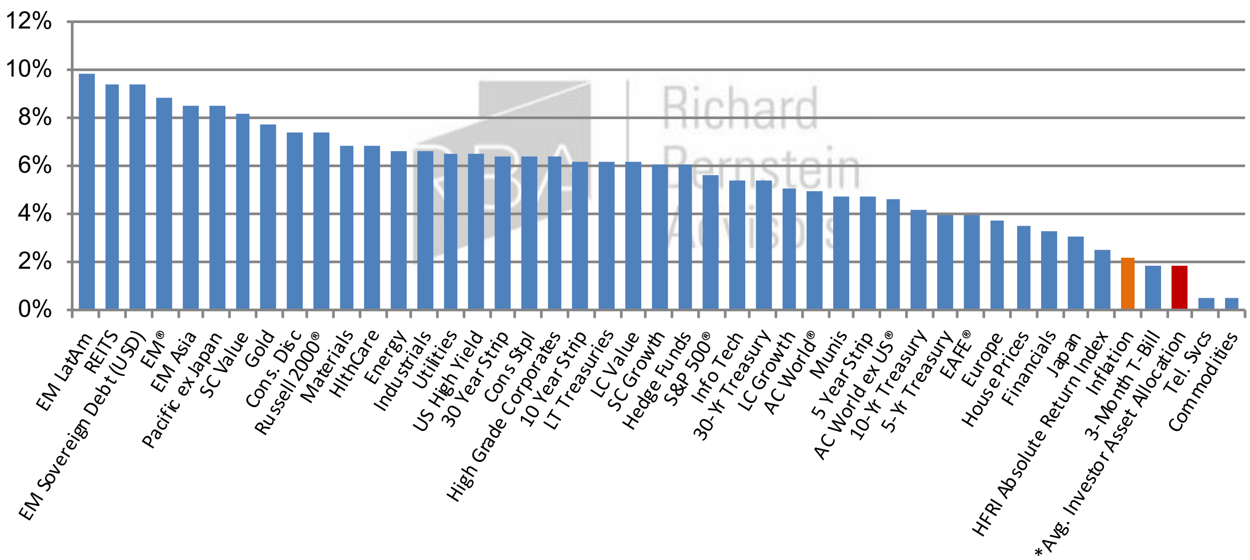
Trying to time their investments and ultimately buying high and selling low has effectively ruined investment performance. Chart 1 quantifies "ruined". Investors underperformed nearly every category. Only Telecom Services and Commodities performed worse than individual investors over the past 20 years. Investors even slightly underperformed cash during the past 20 years, meaning they would have performed better if they had simply left their money in a money market account for the full 20 years!

Perhaps most important, individual investors didn't outperform inflation (i.e., they had negative real returns). So, not only did investors underperform just about every asset class and sub-class by trying to time investments, but they also lost the purchasing power of their savings. In other words, they made themselves poorer.

CHART 1:

Asset Class Returns Past 20 Years

(Annualized 12/31/1998 – 12/31/2018)



Source: Richard Bernstein Advisors LLC., Bloomberg, MSCI, Standard & Poor's, Russell, HFRI, ICE BofAML, DALBAR, FHFA, FRB, FTSE. Total Returns in USD. *Average Investor returns are represented by DALBAR's investor returns which represent the change in total mutual fund assets after excluding sales, redemptions and exchanges.

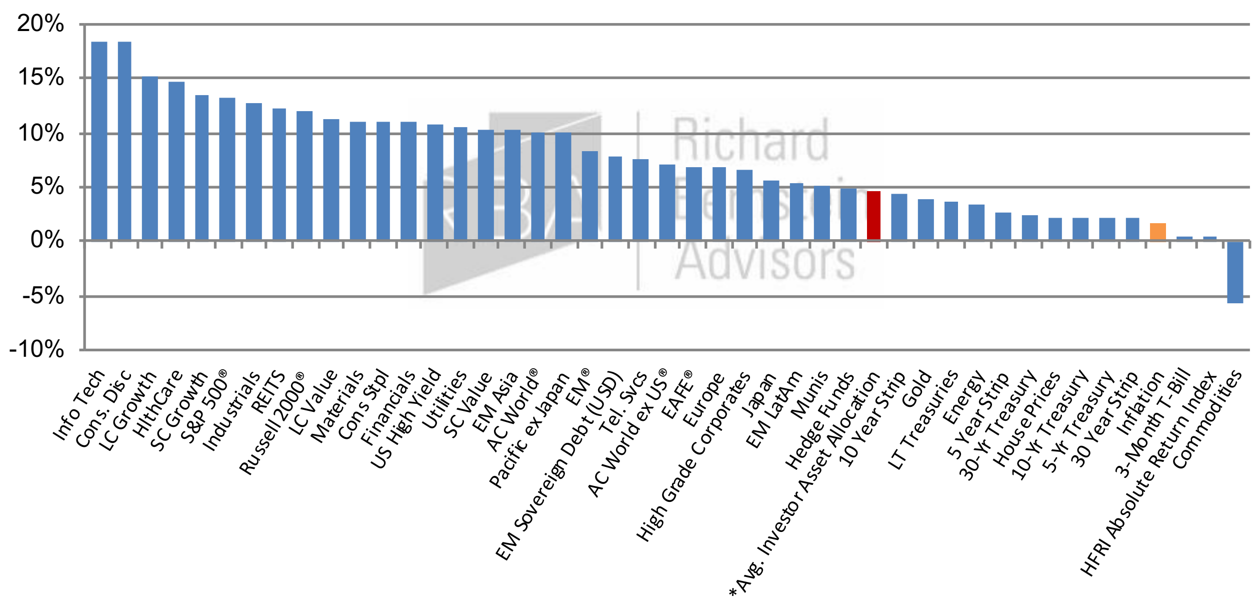
Returns over the past 10 years have not been quite as dire, but are still very subpar (see Chart 2). Investors did outperform both cash and inflation over the past 10 years, but they nonetheless still underperformed most asset classes and sub-classes by buying high and selling low.

Chart 2 should give investors some pause. After all, consider what are today's "hottest" investments: Technology, online retailing, and the US. One could reasonably argue that the simple reason there is so much interest in these investments is they are among the best performers of the past 10 years.

The conclusion remains the same regardless of whether one uses 10 or 20 years: investors' attempts to time investments have seriously hurt returns and long-term wealth.

CHART 2:

Asset Class Returns Past 10 Years
(Annualized 12/31/2008 – 12/31/2018)



Source: Richard Bernstein Advisors LLC., Bloomberg, MSCI, Standard & Poor's, Russell, HFRI, ICE BofAML, DALBAR, FHFA, FRB, FTSE. Total Returns in USD. *Average Investor returns are represented by DALBAR's investor returns which represent the change in total mutual fund assets after excluding sales, redemptions and exchanges.

The "Mirage"

Investment research generally encourages individual investors to look backward rather than forward, and using that research can contribute to the poor performance shown previously. For example, *The Wall Street Journal* published in 2017 an article titled "The Morningstar Mirage"[1] in which they examined the performance of mutual funds incorporating Morningstar's "star" ratings. According to the article 250,000 financial advisors use these ratings and their accompanying data, and "Morningstar's analysis and ratings influence investment decisions for a vast landscape of retirement plans and brokerage accounts".

The star system is largely based on historical return and volatility data and incorporates no information regarding the potential for a strategy to outperform in the future. The star rating ranges from 1 to 5 stars with 5 being the best performing funds. Many investors limit fund searches to 4- and 5-star funds exactly because they have previously been the best performing funds.

The Wall Street Journal highlighted several points regarding the star system's rear-view mirror approach to predicting future performance:

1. Five-star funds' average rating over the subsequent 3 years was 3 stars.
2. Half of funds that received a fifth star held on to it for just 3 months before performance waned.
3. For all the time periods measured (i.e., 3, 5, and 10 years), a five-star US equity fund was more likely to become a 1-star fund than it was to maintain its 5-star rating.
4. Among bond funds, only 16% of 5-star funds maintained their rating over the next five years.
5. *The Wall Street Journal* found that money flowed into 5-star funds in 69% of the months they held the ratings, whereas it was only 29% for 1-star funds.

[1] Kirsten Grind, Tom McGinty, and Sarah Krouse. "The Morningstar Mirage". The Wall Street Journal. October 25, 2017.

The points from the article seem to strongly reinforce our contention that investors focus on the rear-view mirror when picking investments, and that such backward-looking strategies can cause significant and persistent underperformance.

"Past performance is not a guarantee of future results."

Every RBA report has a compliance footnote that says, "Past performance is not a guarantee of future results." This standard footnote warns that extrapolating trend could lead to sizeable gaps between expected and realized returns. Yet, despite that everyone knows the truth imbedded in that footnote, investors habitually look backward when picking stocks, bonds, managers, asset classes, countries, etc.

Investors' historical performance seem to demonstrate that the footnote's warnings should really be taken to heart. Chasing past performance, and the resulting buy high and sell low strategy, significantly hurts performance through time. **Investors have actually made themselves poorer over the past 20 years by looking backward.**

At RBA, our forward-looking analyses typically lead us to be decidedly out of consensus. Whereas most investors are chasing yesterday's winners, we seek tomorrow's winners.

To learn more about RBA's disciplined approach to macro investing, please contact your local RBA representative.
www.rbadvisors.com/images/pdfs/Portfolio_Specialist_Map.pdf

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.**

MSCI ACWI® Index: The MSCI ACWI® Index is a widely recognized, free-float-adjusted, market-capitalization-weighted index designed to measure the equity-market performance of global developed and emerging markets.

MSCI ACWI® ex US Index: The MSCI ACWI® ex US Index is a free-float-adjusted, market-capitalization-weighted index designed to measure the equity-market performance of global developed and emerging markets excluding the US.

S&P 500®: 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.

U.S. Small Caps: Russell 2000 Index. The Russell 2000 Index is an unmanaged, 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.

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EM Equity: MSCI Emerging Markets (EM) Index. The MSCI EM Index is a free-float-adjusted, market-capitalization-weighted index designed to measure the equity-market performance of emerging markets.

EM Asia: MSCI Emerging Markets Asia Index. The MSCI EM Asia Index is a free-float-adjusted, market-capitalization-weighted index designed to measure the equity-market performance of emerging markets in Asia.

Latam: MSCI EM (Emerging Markets) Latin America Index.
The MSCI EM Latin America Index s a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of emerging markets in Latin America. The MSCI EM Latin America Index consists of the following 5 emerging market

country indices: Brazil, Chile, Colombia, Mexico, and Peru.

Japan: MSCI Japan Index. The MSCI Japan Index is a free-float-adjusted, market-capitalization-weighted index designed to measure the equity-market performance of Japan.

EAFE®: MSCI Europe, Australasia, Far East (EAFE®) The MSCI EAFE® Index is a free-float-adjusted, market-capitalization-weighted index designed to measure the equity-market performance of developed markets excluding the US & Canada.

Pacific ex Japan: The MSCI Pacific ex Japan Index is a free-float-adjusted, market-capitalization-weighted index designed to measure the equity-market performance of Australia, New Zealand, Hong Kong and Singapore markets.

Europe: MSCI Europe Index. The MSCI Europe index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the developed markets in Europe. The MSCI Europe Index consists of the following 16 developed market country indices: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom.

Large Cap Growth: The Russell 1000 Growth Index. The Russell 1000 Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values. The Russell 1000 Growth Index is constructed to provide a comprehensive and unbiased barometer for the large-cap growth segment. The Index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect growth characteristics.

Large Cap Value: The Russell 1000 Value Index. The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 Index companies with lower price-to-book ratios and lower expected growth values. The Russell 1000 Value Index is constructed to provide a comprehensive and unbiased barometer for the large-cap value segment. The Index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect value characteristics

Small Cap Growth: The Russell 2000 Growth Index. The Russell 2000 Growth Index measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000 Index companies with higher price-to-book ratios and higher forecasted growth values. The Russell 2000 Growth Index is constructed to provide a comprehensive and unbiased barometer for the small-cap growth segment. The Index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect growth characteristics.

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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.

Gold: Gold Spot USD/oz Bloomberg GOLDS Commodity. The Gold Spot price is quoted as US Dollars per Troy Ounce.

Commodities: S&P GSCI® Index. The S&P GSCI® seeks to provide investors with a reliable and publicly available benchmark for investment performance in the commodity markets, and is designed to be a "tradable" index. The index is calculated primarily on a world production-weighted basis and is comprised of the principal physical commodities that are the subject of active, liquid futures markets.

Hedge Fund Index: HFRI Fund Weighted Composite Index. The HFRI Fund Weighted Composite Index is a global, equal-weighted index of over 2,000 single-manager funds that report to the HFR (Hedge Fund Research) database. Constituent funds report monthly net-of-all-fees performance in USD and have a minimum of $50 million under management or a twelve (12)-month track record of active performance. The Index includes both domestic (US) and offshore funds, and does not include any funds of funds.

REITS: THE FTSE NAREIT Composite Index. The FTSE NAREIT Composite Index is a free-float-adjusted, market-capitalization-weighted index that includes all tax qualified REITs listed in the NYSE, AMEX, and NASDAQ National Market.

3-Mo T-Bills: ICE BofAML 3-Month US Treasury Bill Index. The ICE BofAML 3-Month US Treasury Bill Index is comprised of a single issue purchased at the beginning of the month and held for a full month. The Index is rebalanced monthly and the issue selected is the outstanding Treasury Bill that matures closest to, but not beyond, three months from the rebalancing date.

Long-term Treasury Index: ICE BofAML 15+ Year US Treasury Index. The ICE BofAML 15+ Year US Treasury Index is an unmanaged index comprised of US Treasury securities, other than inflation-protected securities and STRIPS, with at least $1 billion in outstanding face value and a remaining term to final maturity of at least 15 years.

Municipals: ICE BofAML US Municipal Securities Index. The ICE BofAML US Municipal Securities Index tracks the performance of USD-denominated, investment-grade rated, tax-exempt debt publicly issued by US states and territories (and their political subdivisions) in the US domestic market. Qualifying securities must have at least one year remaining term to final maturity, a fixed coupon schedule, and an investment-grade rating (based on an average of Moody's, S&P and Fitch). Minimum size requirements vary based on the initial term to final maturity at the time of issuance.

High Grade Corporates: ICE BofAML 15+ Year AAA-AA US Corporate Index. The ICE BofAML 15+ Year AAA-AA US Corporate Index is a subset of the ICE BofAML US Corporate Index (an unmanaged index comprised of USD-denominated, investment-grade, fixed-rate corporate debt securities publicly issued in the US domestic market with at least one year remaining term to final maturity and at least $250 million outstanding) including all securities with a remaining term to final maturity of at least15 years and rated AAA through AA3, inclusive.

U.S. High Yield: ICE BofAML US Cash Pay High Yield Index. The ICE BofAML US Cash Pay High Yield Index tracks the performance of USD-denominated, below-investment-grade-rated corporate debt, currently in a coupon-paying period, that is publicly issued in the US domestic market. Qualifying securities must have a below-investment-grade rating (based on an average of Moody's, S&P and Fitch) and an investment-grade-rated country of risk (based on an average of Moody's, S&P and Fitch foreign currency long-term sovereign debt ratings), at least one year remaining term to final maturity, a fixed coupon schedule, and a minimum amount outstanding of $100 million.

5-Year Treasury: The ICE BofAML 5-Year US Treasury Index. The ICE BofAML 5-Year US Treasury Index is a one-security index comprised of the most recently issued 5-year US Treasury note. The index is rebalanced monthly. In order to qualify for inclusion, a 5-year note must be auctioned on or before the third business day before the last business day of the month.

5-Year Strip: The ICE BofAML US 5-Year Constant Maturity STRIP Index. The ICE BofAML US 10 Year Constant Maturity STRIP Index tracks the performance of a single synthetic US Treasury STRIP purchased at the beginning of the month, held for one month, and then sold at the end of the month with the proceeds rolled into a new instrument. Therefore, on the purchase date, the bond has a maturity exactly equal to the stated maturity of the index, and at the point it is sold it is one month short of the index stated maturity. The synthetic STRIP has a zero coupon, a purchase yield equal to the yield of the corresponding point on the coupon STRIP curve, and a purchase price which is derived from the purchase yield.

10-Year Treasury: The ICE BofAML 10-Year US Treasury Index. The ICE BofAML 10-Year US Treasury Index is a one-security index comprised of the most recently issued 10-year US Treasury note. The index is rebalanced monthly. In order to qualify for inclusion, a 10-year note must be auctioned on or before the third business day before the last business day of the month.

10-Year Strip: The ICE BofAML US 30-Year Constant Maturity STRIP Index. The ICE BofAML US 10 Year Constant Maturity STRIP Index tracks the performance of a single synthetic US Treasury STRIP purchased at the beginning of the month, held for one month, and then sold at the end of the month with the proceeds rolled into a new instrument. Therefore, on the purchase date, the bond has a maturity exactly equal to the stated maturity of the index, and at the point it is sold it is one month short of the index stated maturity. The synthetic STRIP has a zero coupon, a purchase yield equal to the yield of the corresponding point on the coupon STRIP curve, and a purchase price which is derived from the purchase yield.

30-Year Treasury: The ICE BofAML Current 30-Year US Treasury Index. The ICE BofAML Current 30-Year US Treasury Index is a one-security index comprised of the most recently issued 30-year US Treasury bond. The index is rebalanced monthly. In order to qualify for inclusion, a 30-year bond must be auctioned on or before the third business day before the last business day of the month.

30-Year Strip: The ICE BofAML US 30 Year Constant Maturity STRIP Index. The ICE BofAML US 30 Year Constant Maturity STRIP Index tracks the performance of a single synthetic US Treasury STRIP purchased at the beginning of the month, held for one month, and then sold at the end of the month with the proceeds rolled into a new instrument. Therefore, on the purchase date, the bond has a maturity exactly equal to the stated maturity of the index, and at the point it is sold it is one month short of the index stated maturity. The synthetic STRIP has a zero coupon, a purchase yield equal to the yield of the corresponding point on the coupon STRIP curve, and a purchase price which is derived from the purchase yield.

EM Sovereign: ICE BofAML BBB & Lower Sovereign USD External Debt Index. The ICE BofAML BBB & Lower Sovereign USD External Debt Index tracks the performance of US dollar denominated emerging market and cross-over sovereign debt publicly issued in the Eurobond or US domestic market. Qualifying countries must have a BBB1 or lower foreign currency long-term sovereign debt rating (based on an average of Moody's, S&P and Fitch). Countries that are not rated, or that are rated "D" or "SD" by one or several rating agencies qualify for inclusion in the index but individual non-performing securities are removed. Qualifying securities must have at least one year remaining term to final maturity, a fixed or floating coupon and a minimum amount outstanding of $250 million. Local currency debt is excluded from the Index.

House Prices: The FHFA HPI. The HPI is a broad measure of the movement of single-family house prices. The HPI is a weighted, repeat-sales index, meaning that it measures average price changes in repeat sales or refinancings on the same properties. This information is obtained by reviewing repeat mortgage transactions on single-family properties whose mortgages have been purchased or securitized by Fannie Mae or Freddie Mac since January 1975.

Inflation: The Consumer Price Index (CPI) . The CPI is a measure of the average change in prices over time of goods and services purchased by households. The CPI is based on prices of food, clothing, shelter, and fuels, transportation fares, charges for doctors' and dentists' services, drugs, and other goods and services that people buy for day-to-day living. Source: Bureau of Labor

Statistics.

Avg. Asset Allocation Investor Returns: Returns are for the period ending December 31, 2018. The DALBAR Inc. Average Asset Allocation Investor performance results are calculated using data supplied by the Investment Company Institute. Investor returns are represented by the change in total mutual fund assets after excluding sales, redemptions and exchanges. This method of calculation captures realized and unrealized capital gains, dividends, interest, trading costs, sales charges, fees, expenses and any other costs. After calculating investor returns in dollar terms, two percentages are calculated for the period examined: Total investor return rate and annualized investor return rate. Total return rate is determined by calculating the investor return dollars as a percentage of the net of the sales, redemptions and exchanges for each period.

About Richard Bernstein Advisors

Richard Bernstein Advisors LLC is an investment manager. RBA partners with several firms including Eaton Vance Corporation and First Trust Portfolios LP, and currently has $9.2 billion collectively under management and advisement as of June 30th, 2019. RBA acts as sub-advisor for the Eaton Vance Richard Bernstein Equity Strategy Fund, 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® ETF. Additionally, RBA runs ETF asset allocation SMA portfolios at UBS, Merrill Lynch, Morgan Stanley Smith Barney 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***.