



Richard
Bernstein
Advisors

Uncertainty = Opportunity™



Richard Bernstein,
Chief Executive and Chief Investment Officer

Richard Bernstein Advisors

➤ *Independent investment advisor with a unique top-down, macro approach to investing with quantitative security selection.*

➤ *\$3.3B AUM/AUA as of 9/30/14*

➤ *Strategies include global asset allocation, global equity allocation, income, and promising undiscovered investment themes.*

➤ *Investment themes focus on disparities between fundamentals and sentiment.*

Volatility Update

Broad financial market volatility has resurfaced and investors, as is typical, are running away. Our August report entitled "[Toward the Sound of Chaos](#)" showed that emotional investing rarely pays off because it leads to buying at peaks and selling at troughs which has historically been a sure path to underperformance.

Volatility can destroy the best of financial plans. Simply doing nothing can be a fine strategy in the face of short-term volatility, but the tension associated with market downdrafts makes both institutional and individual investors feel that doing nothing is not an alternative. However, decisions made under duress are typically decisions that should not be made.

Rather than getting caught up in the market's gyrations, we prefer to examine fundamentals. In that light, we encourage investors to consider the following points:

PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS



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- 1) Initial jobless claims, a very good leading indicator of the economy, recently hit a 14-year record low. Employment might not be robust, but it continues to meaningfully improve.
- 2) The 2014 budget deficit was just reported at 2.8% of GDP. It wasn't that long ago that people were comparing the US fiscal situation to Greece's. The recent budget data clearly demonstrate that such fear mongering was unjustified.
- 3) Although deflation is the topic of the day, the Core Crude Material PPI just hit its highest rate since December 2011. That's important because this measure of pricing is very highly correlated to profits growth, and the most recent reading suggests investors might be underestimating future profits growth.
- 4) Many investors are concerned about growth outside the US as evidenced by the weakness in copper and other commodities. However, smaller capitalization stocks usually have less exposure to non-US economies than do larger capitalization stocks. Small stocks seem to have been indiscriminately sold, and there may be bargains within this group.
- 5) Gasoline has become significantly cheaper. That often happens when the economy is weakening because demand weakens, but employment continues to improve and demand is healthy. Improving employment and lower gasoline prices seems very bullish to us.
- 6) Interest rates have fallen as employment has improved. The odds seem high that this mix will be good for housing and the associated multiplier effects.
- 7) Tax revenues continue to increase. That's partially behind the smaller budget deficit, but it is also positive for municipal finance.
- 8) Turmoil and uncertainty around the world seems constructive for our American Industrial Renaissance theme. US-based industrials are likely to continue to gain market share.
- 9) Volatility almost always signals a change in leadership. Maybe there is more risk to the "disruptor" stocks than investors believe?
- 10) The combination of a strong dollar and falling inflation expectations typically is a bad environment for gold, but a good one for financial assets.

It's certainly true that the eventual outcome of the Ebola scare will not be known for some time, and that could weigh on the financial markets. However, it seems hard to characterize the disease as a black swan when it is in the news every few minutes.

Follow the fundamentals, and remember RBA's motto: *Uncertainty = Opportunity™*



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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 \$3.3 billion collectively under management and advisement as of September 30, 2014. RBA acts as sub-advisor for the Eaton Vance Richard Bernstein Equity Strategy Fund, the Eaton Vance Richard Bernstein All-Asset Strategy Fund, and the Eaton Vance Richard Bernstein Market Opportunities Fund. The firm also offers income and unique theme-oriented unit trusts through First Trust and is the index provider for the First Trust RBA American Industrial Renaissance® ETF and the First Trust RBA Quality Income ETF. Additionally, RBA runs ETF asset allocation SMA portfolios at UBS and Merrill Lynch 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.