



Spuds Powell

Managing Director, Kayne Anderson Rudnick Wealth Advisors

"What Differentiates Great Investors From the Masses"



Kayne Anderson Rudnick
Wealth Advisors

What Differentiates Great Investors From the Masses

Presentation to
American Association of Individual Investors (AAII)

May 2020

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- I. Where Are We Now
- II. What Differentiates Great Investors From the Masses
- III. Questions Every Investor Needs to Ask Themselves Right Now

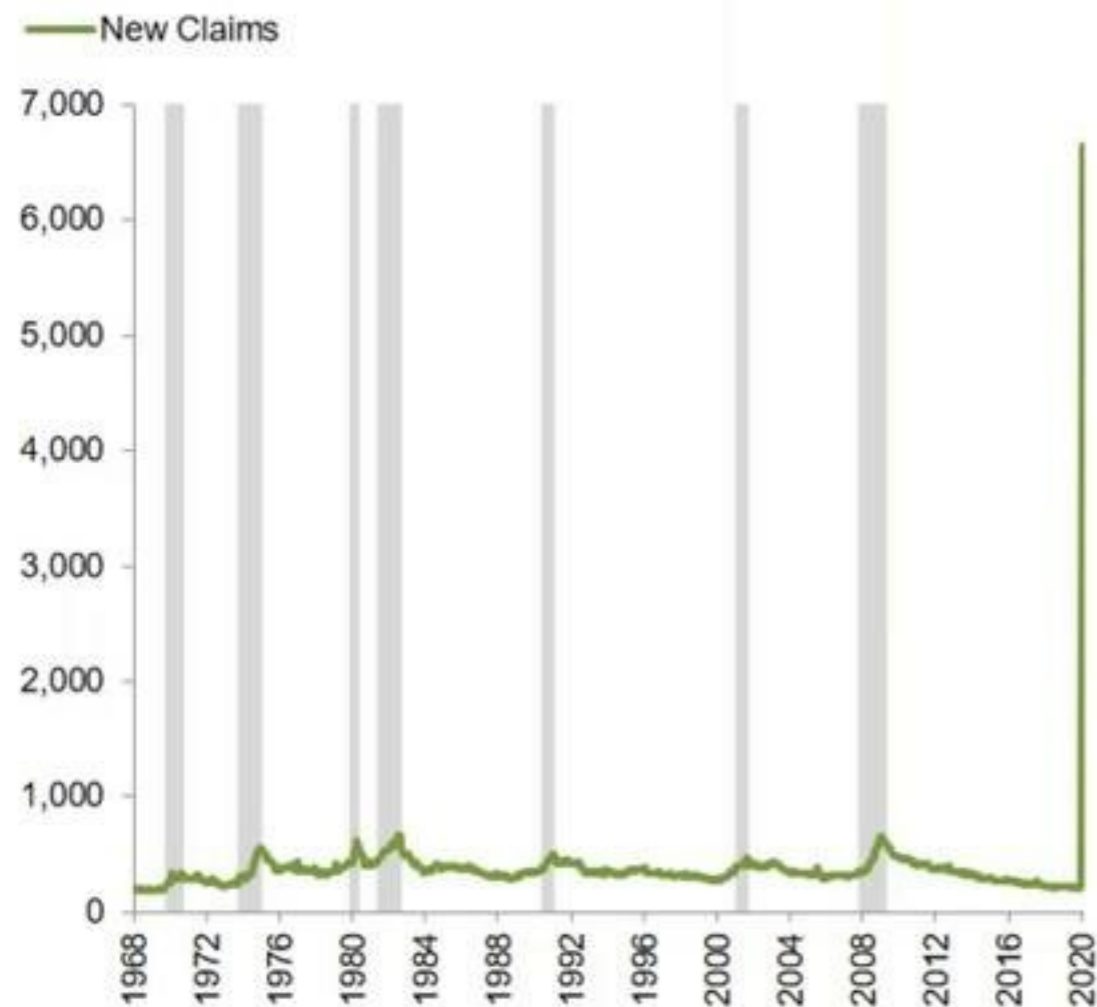
Sudden Stop Strikes Hard at U.S. Workers and Consumers



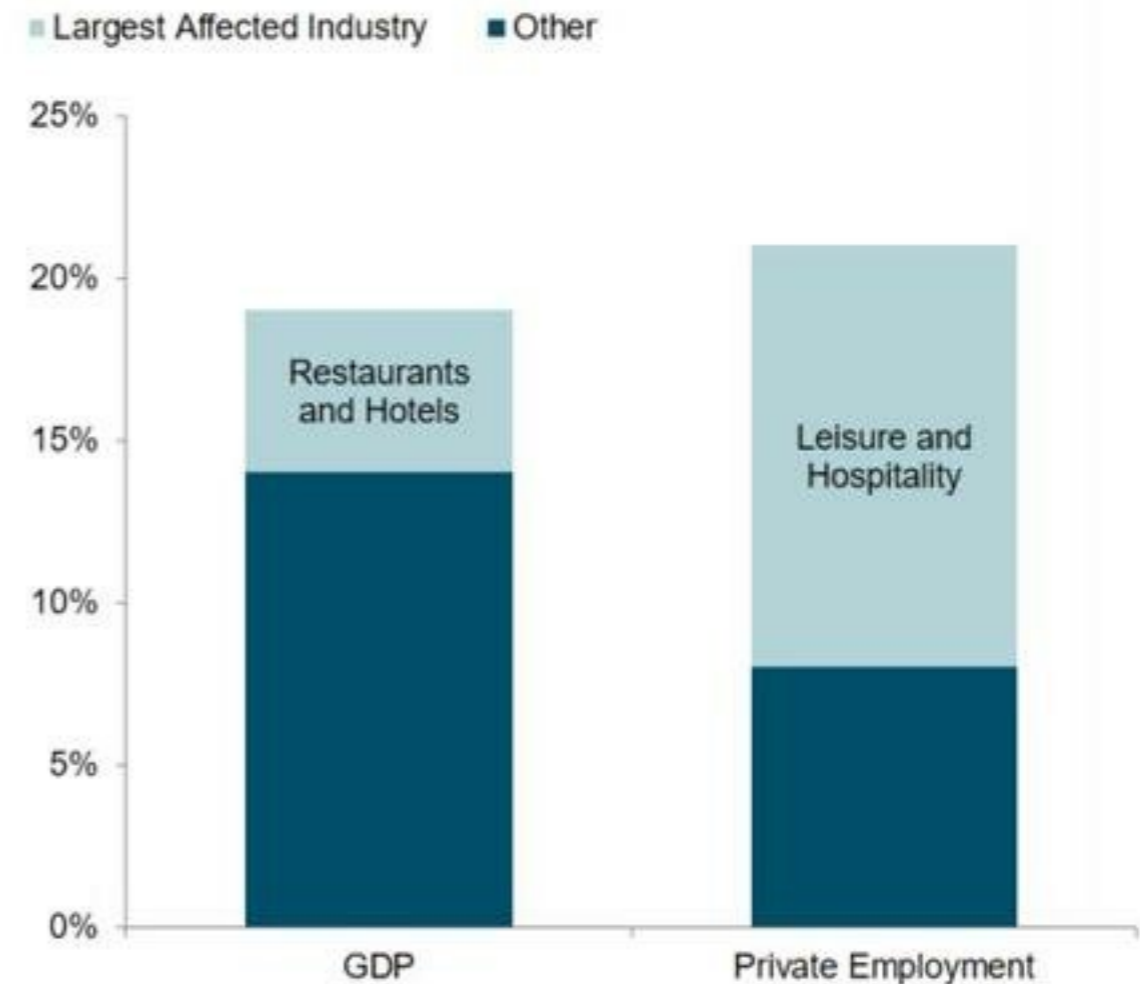
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Record-low unemployment reversed abruptly, as new unemployment claims surged to historic highs. Industries most directly and immediately impacted—such as travel, leisure, restaurants, and hotels—account for a significant portion of U.S. output and employment. The growing scope of the clampdown on normal activity suggests it's too soon to forecast the slowdown's length, but we expect the eventual recovery to be gradual.

U.S. Unemployment Claims



Sectors Most Impacted by COVID-19



LEFT: Source: Census, Haver Analytics, Fidelity Investments (AART), as of April 2, 2020. RIGHT: Other industries most impacted shaded in blue include: For GDP: Recreation Services, Autos, Transportation Services, Recreation Goods, Clothing, Gasoline, Furnishings. For Employment: Retail, Transportation Source: Conference Board, NBER, Haver Analytics, Fidelity Investments (AART), as of February 29, 2020.

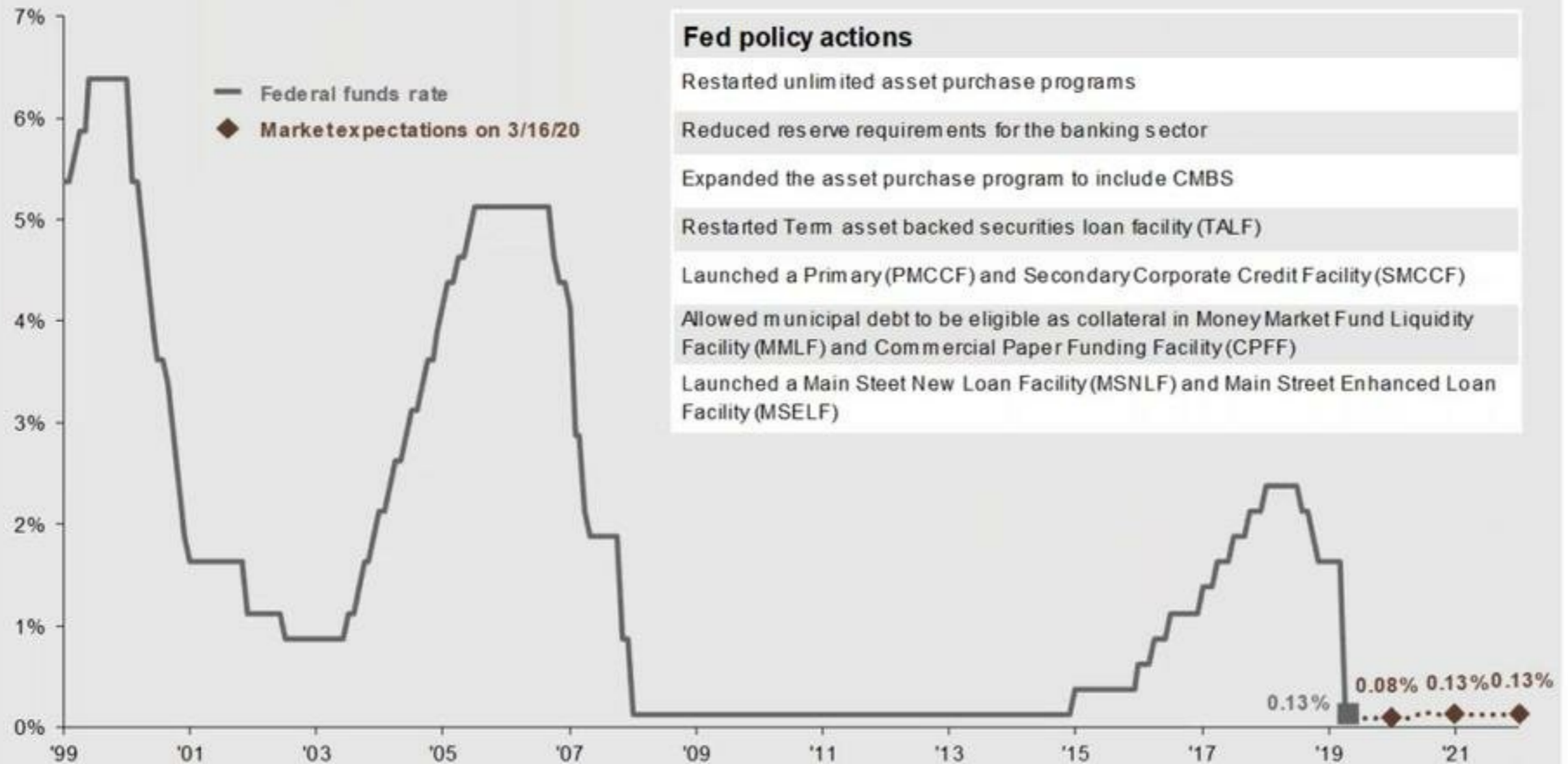
The Fed and Interest Rates



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Federal funds rate expectations

FOMC and market expectations for the federal funds rate



Source: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management.

Market expectations are the federal funds rates priced into the fed futures market as of the following date of the March 15, 2020 emergency cut and are through December 2022.

Guide to the Markets - U.S. Data are as of May 7, 2020.

The Fastest Bear Market Ever



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Bear markets are nothing new, but what makes this current edition especially painful is the speed at which it's taken place.

Figure 1 shows all declines in the Dow Jones Industrial Average of 20% or more from the all-time high going back to 1915.

The average number of days from peak to bear market territory is 255, while the median is 156.¹ As of March 11, the Dow dropped 20.3% off its high in 19 days, making it by far the fastest all-time high to bear market ever. The second fastest was 1929, which took 36 sessions.

Figure 2 zooms in to provide a closer look at what's going on.

Every bear market presents its own set of challenges, but this one has been particularly unpleasant.

Figure 1: All Dow Drawdowns Greater Than 20%

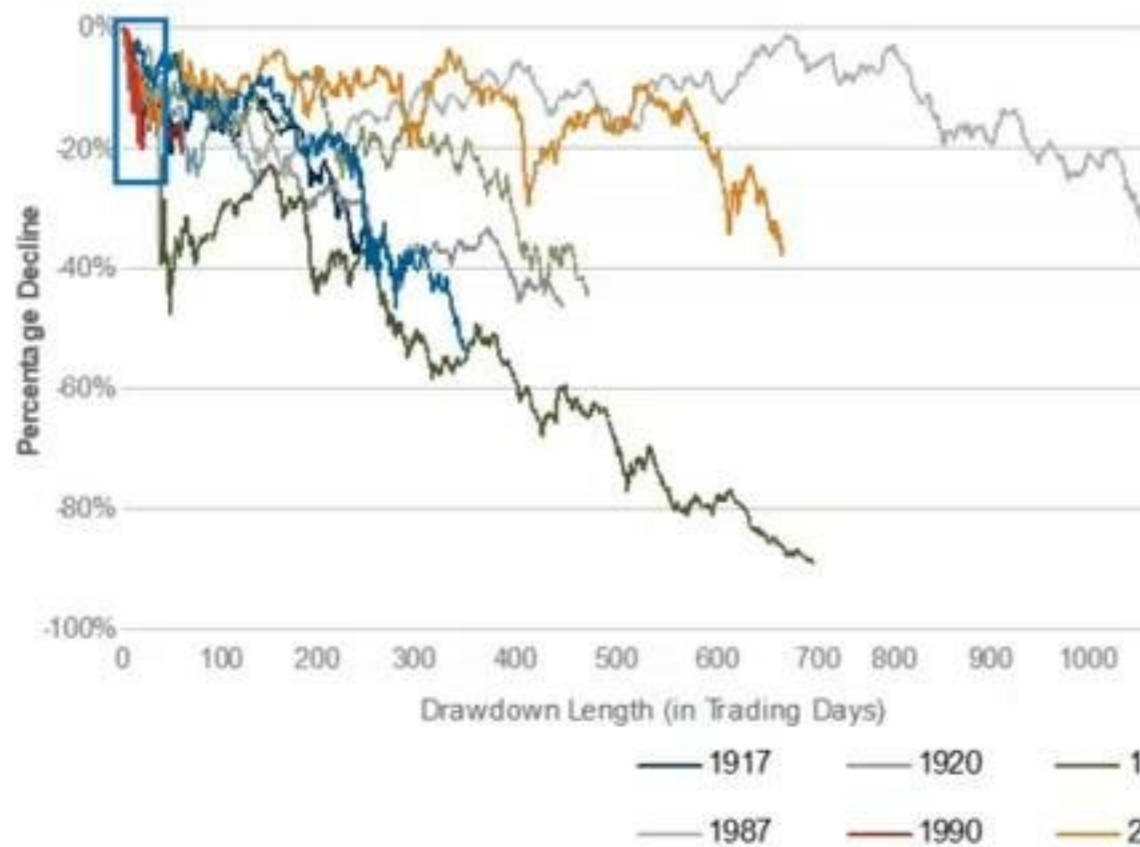


Figure 2: Area of Detail



Past performance is not indicative of future results. Source: Bloomberg.

¹As of March 9, 2020.

The Dow Jones Industrial Average (DJIA) is an index that tracks 30 large, publicly-owned companies trading on the New York Stock Exchange (NYSE) and the NASDAQ. The index is unmanaged, its return does not reflect any fees, expenses, or sales charges, and it is not available for direct investment.

What Differentiates Great Investors From the Masses



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- Never let your emotions influence your investment decisions. Investors have stronger emotional responses to bad news than good news.
- Take what you hear in the media with a grain of salt.
- Don't chase performance.
- Short-term results shouldn't matter.
- It's impossible to successfully market time over the long-term.
- Take advantage of effective diversification...and be disciplined about it.
- When determining whether or not to retain securities, forget the past.
- "Be greedy when others are fearful".
- The stock market is a forward-looking animal. Investors care more about "better or worse" than "good or bad". Stocks often perform well when news is "less bad".
- "This too shall pass." Don't forget, the stock market has always recovered from bear markets.

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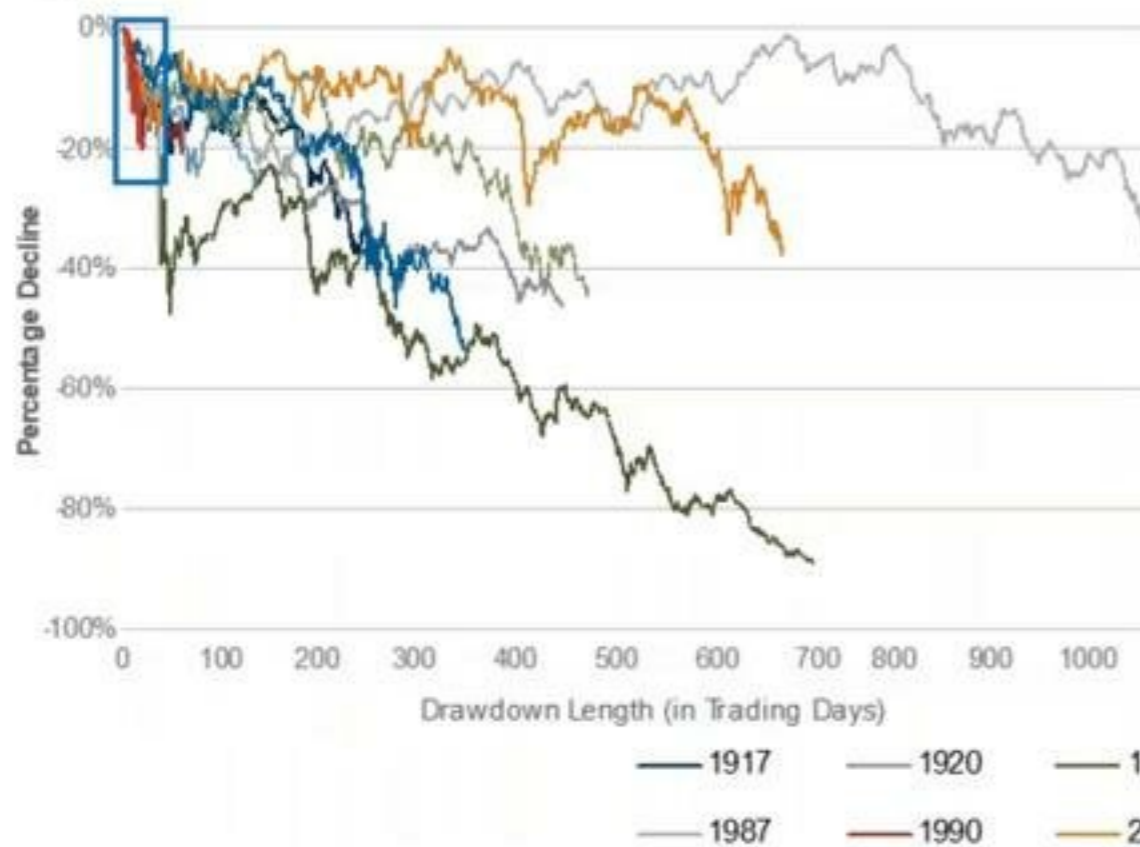
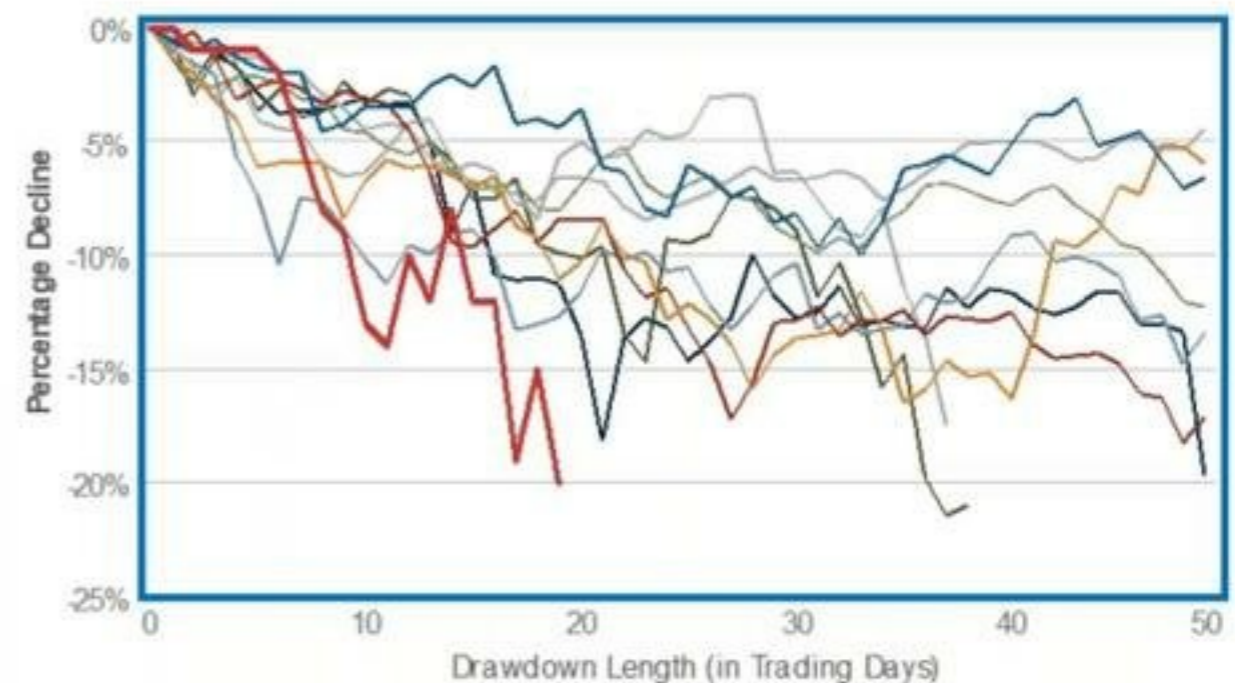


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The Importance of Behavior



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We're not irrational. We're human.

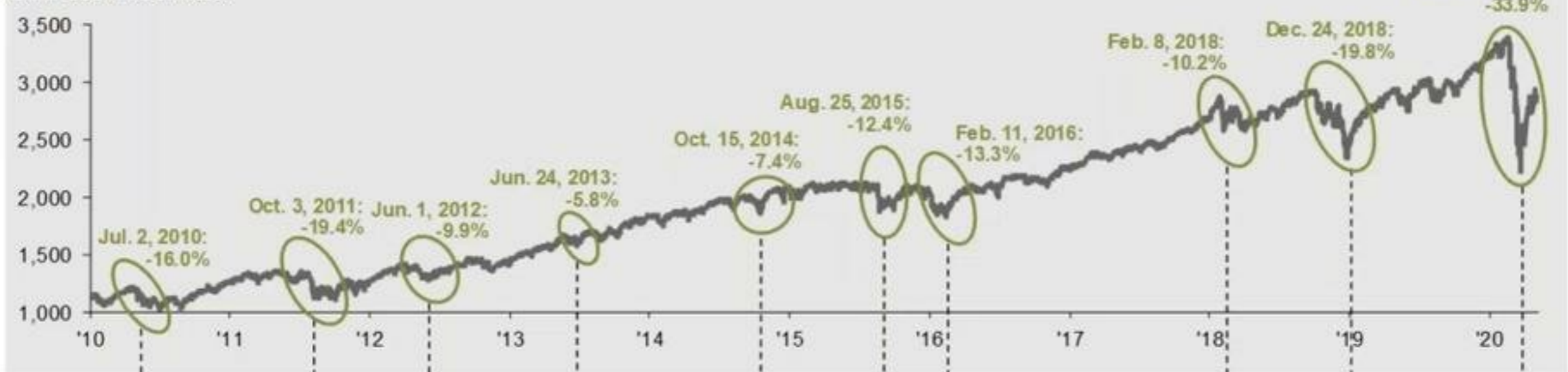
Market Volatility



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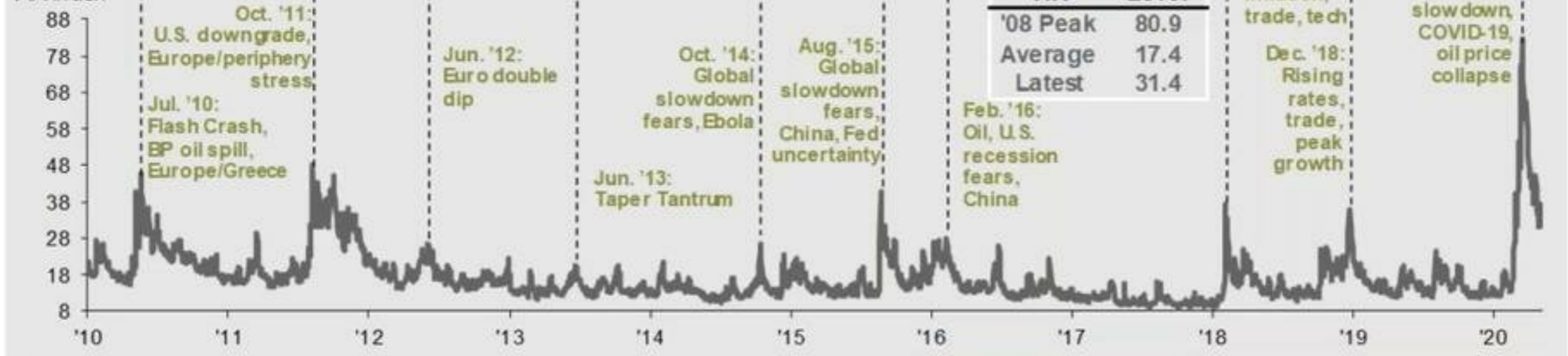
Major pullbacks since the Financial Crisis

S&P 500 Price index



Volatility

VIX Index



VIX	Level
'08 Peak	80.9
Average	17.4
Latest	31.4

Source: CBOE, FactSet, Standard & Poor's, J.P. Morgan Asset Management.

Drawdowns are calculated as the prior peak to the lowest point.


Guide to the Markets - U.S. Data are as of May 7, 2020.

Prognostication is for Show



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The investment industry is influenced by financial and economic prognostication. Soothsayers, unfortunately, are never consistently correct. Speculation can be fun, but should not substitute for sound planning.



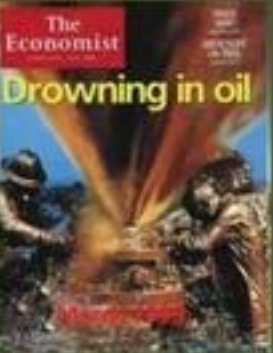
"The Death of Equities"
BusinessWeek
August 1979

Over the next 20 years, the S&P 500® Index rose nearly 2,400%.



"Everyone's Getting Rich But Me!"
Newsweek
July 1999

Investors who jumped into the tech-heavy Nasdaq saw their investment fall by nearly 50% over the next three years.



"Drowning in Oil"
The Economist
February 1999

Despite concerns of massive over-supply, the price of oil climbed more than 600% over the next decade.



"The New Hard Times"
TIME Magazine
October 2008

Following the great market crash of 2008-09, stocks rallied more than 300% over the next eight years.



Prepare. Don't predict

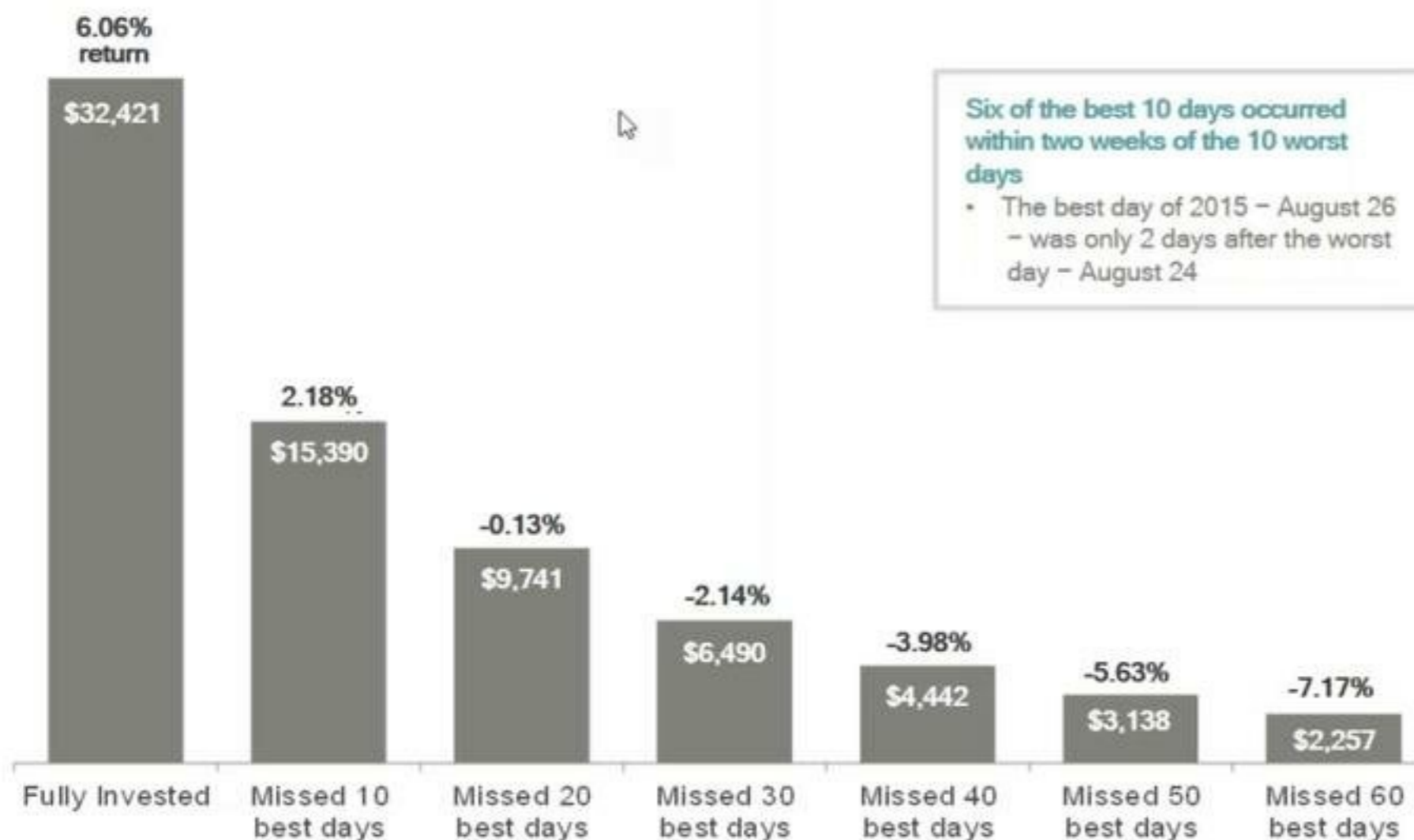
Staying Invested Matters



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Returns of the S&P 500

Performance of a \$10,000 investment between January 3, 2000 and December 31, 2019



Six of the best 10 days occurred within two weeks of the 10 worst days

- The best day of 2015 – August 26 – was only 2 days after the worst day – August 24

PLAN TO STAY INVESTED

Trying to time the market is extremely difficult to do. Market lows often result in emotional decision making. Investing for the long term while managing volatility can result in a better retirement outcome.

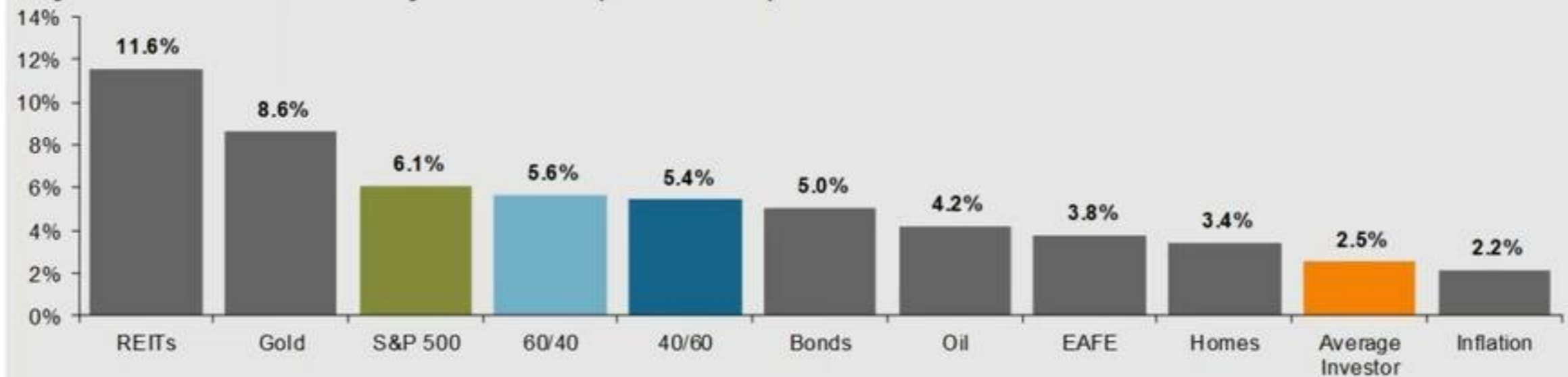
Source: J.P. Morgan Asset Management analysis using data from Bloomberg. Returns are based on the S&P 500 Total Return Index, an unmanaged, capitalization-weighted index that measures the performance of 500 large capitalization domestic stocks representing all major industries. Indices do not include fees or operating expenses and are not available for actual investment. The hypothetical performance calculations are shown for illustrative purposes only and are not meant to be representative of actual results while investing over the time periods shown. The hypothetical performance calculations for the respective strategies are shown gross of fees. If fees were included, returns would be lower. Hypothetical performance returns reflect the reinvestment of all dividends. The hypothetical performance results have certain inherent limitations. Unlike an actual performance record, they do not reflect actual trading, liquidity constraints, fees and other costs. Also since the trades have not actually been executed, the results may have under- or overcompensated for the impact of certain market factors such as lack of liquidity. Simulated trading programs in general are also subject to the fact that they are designed with the benefit of hindsight. Returns will fluctuate and an investment upon redemption may be worth more or less than its original value. Past performance is not indicative of future returns. An individual cannot invest directly in an index. Data as of December 31, 2019.

The Average Investor



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20-year annualized returns by asset class (1999 – 2019)



Source: J.P. Morgan Asset Management; Dalbar Inc.

Indices used are as follows: REITS: NAREIT Equity REIT Index, EAFE: MSCI EAFE, Oil: WTI Index, Bonds: Bloomberg Barclays U.S. Aggregate Index, Homes: median sale price of existing single-family homes, Gold: USD/troy oz., Inflation: CPI. 60/40: A balanced portfolio with 60% invested in S&P 500 Index and 40% invested in high-quality U.S. fixed income, represented by the Bloomberg Barclays U.S. Aggregate Index. The portfolio is rebalanced annually. Average asset allocation investor return is based on an analysis by Dalbar Inc., which utilizes the net of aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior. Returns are annualized (and total return where applicable) and represent the 20-year period ending 12/31/19 to match Dalbar's most recent analysis.

Guide to the Markets - U.S. Data are as of May 7, 2020.

Performance Rotations Underscore Need for Diversification



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The performance of different assets has fluctuated widely from year to year, and the magnitude of returns can vary significantly among asset classes in any given year—even among asset classes that are moving in the same direction. A portfolio allocation with a variety of global assets illustrates the potential benefits of diversification.

Periodic Table of Returns

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	YTD	Legend
32%	14%	26%	56%	32%	35%	35%	40%	5%	79%	28%	8%	20%	39%	28%	5%	21%	38%	0%	36%	3%	Investment-Grade Bonds
26%	8%	10%	47%	26%	21%	33%	16%	-20%	58%	27%	8%	19%	34%	14%	3%	18%	30%	-2%	31%	-10%	60% Large Cap 40% IG Bonds
12%	5%	4%	39%	21%	14%	21%	12%	-26%	37%	19%	4%	18%	33%	13%	1%	18%	26%	-2%	26%	-13%	High-Yield Bonds
8%	2%	-2%	37%	18%	12%	22%	11%	-34%	32%	18%	4%	18%	32%	12%	1%	12%	22%	-3%	26%	-15%	Growth Stocks
-1%	-2%	-6%	31%	17%	7%	18%	7%	-36%	28%	17%	2%	16%	23%	11%	1%	12%	15%	-4%	26%	-20%	Large Cap Stocks
-3%	-4%	-9%	31%	11%	5%	16%	6%	-36%	27%	16%	2%	16%	19%	6%	0%	11%	15%	-4%	22%	-23%	Foreign-Developed Country Stocks
-5%	-4%	-15%	29%	11%	5%	12%	5%	-37%	26%	15%	0%	16%	7%	5%	-4%	9%	13%	-9%	22%	-23%	Commodities
-9%	-12%	-16%	28%	9%	5%	11%	2%	-38%	20%	15%	-4%	15%	3%	3%	-4%	8%	9%	-11%	18%	-24%	Emerging-Market Stocks
-14%	-20%	-20%	24%	8%	4%	9%	-1%	-38%	19%	12%	-12%	11%	-2%	-2%	-5%	7%	8%	-11%	14%	-27%	REITs
-22%	-20%	-22%	19%	7%	3%	4%	-2%	-43%	18%	8%	-13%	4%	-2%	-4%	-15%	3%	4%	-11%	9%	-27%	Value Stocks
-31%	-21%	-28%	4%	4%	2%	2%	-16%	-53%	6%	7%	-18%	-1%	-10%	-17%	-25%	2%	1%	-14%	8%	-31%	Small Cap Stocks

Past performance is no guarantee of future results. Diversification/asset allocation does not ensure a profit or guarantee against loss. It is not possible to invest directly in an index. All indexes are unmanaged. See Appendix for important index information. Asset classes represented by: Commodities—Bloomberg Commodity Index; Emerging-Market Stocks—MSCI Emerging Markets Index; Non-U.S. Developed-Country Stocks—MSCI EAFE Index; Growth Stocks—Russell 3000 Growth Index; High-Yield Bonds—ICE BofA U.S. High Yield Index; Investment-Grade Bonds—Bloomberg Barclays U.S. Aggregate Bond Index; Large Cap Stocks—S&P 500 index; Real Estate/REITs—FTSE NAREIT All Equity Total Return Index; Small Cap Stocks—Russell 2000 Index; Value Stocks—Russell 3000 Value Index.

Source: Morningstar, Standard & Poor's, Haver Analytics, Fidelity Investments (AART), as of March 31, 2020.



The Shape of Markets

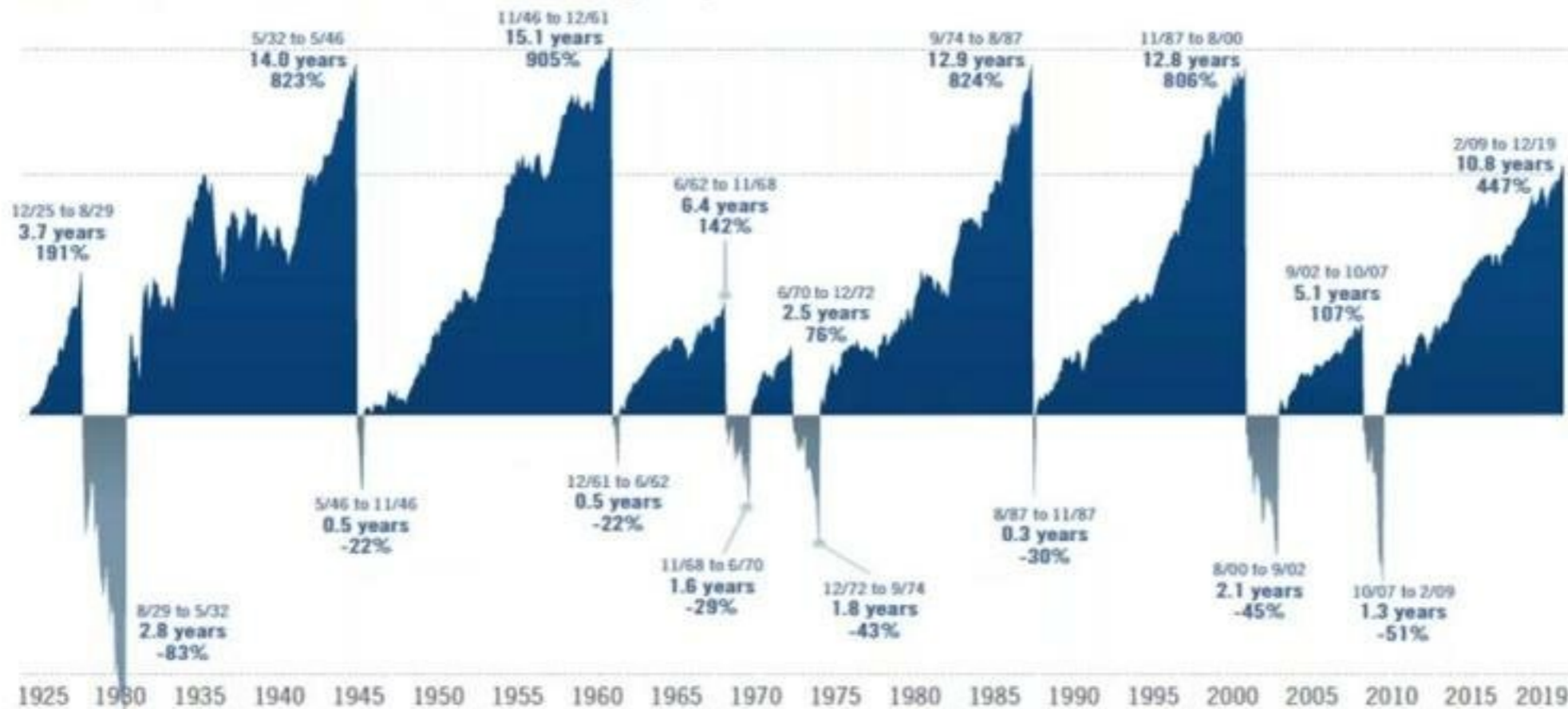


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Stock markets trend up over time, when measured in decades or centuries. Over shorter periods, however, investing can feel like a roller coaster. When markets decline 20%, 30%, or even 50%, it becomes very difficult to maintain a long-term mindset. As the image shows, bull markets tend to climb slowly over time, while bear markets occur abruptly and without warning. Even long run investors must be prepared to endure significant market declines.

History of U.S. Bull and Bear Markets

Based on S&P 500® Index Returns 12/31/25-12/31/19 (Log Scale)



Bull markets are defined from the lowest close reached after the market has fallen 20% or more to the next market high.



Bear markets are defined from the last market high prior to the market closing down at least 20% to the lowest close after it's down 20% or more.



The ride matters.

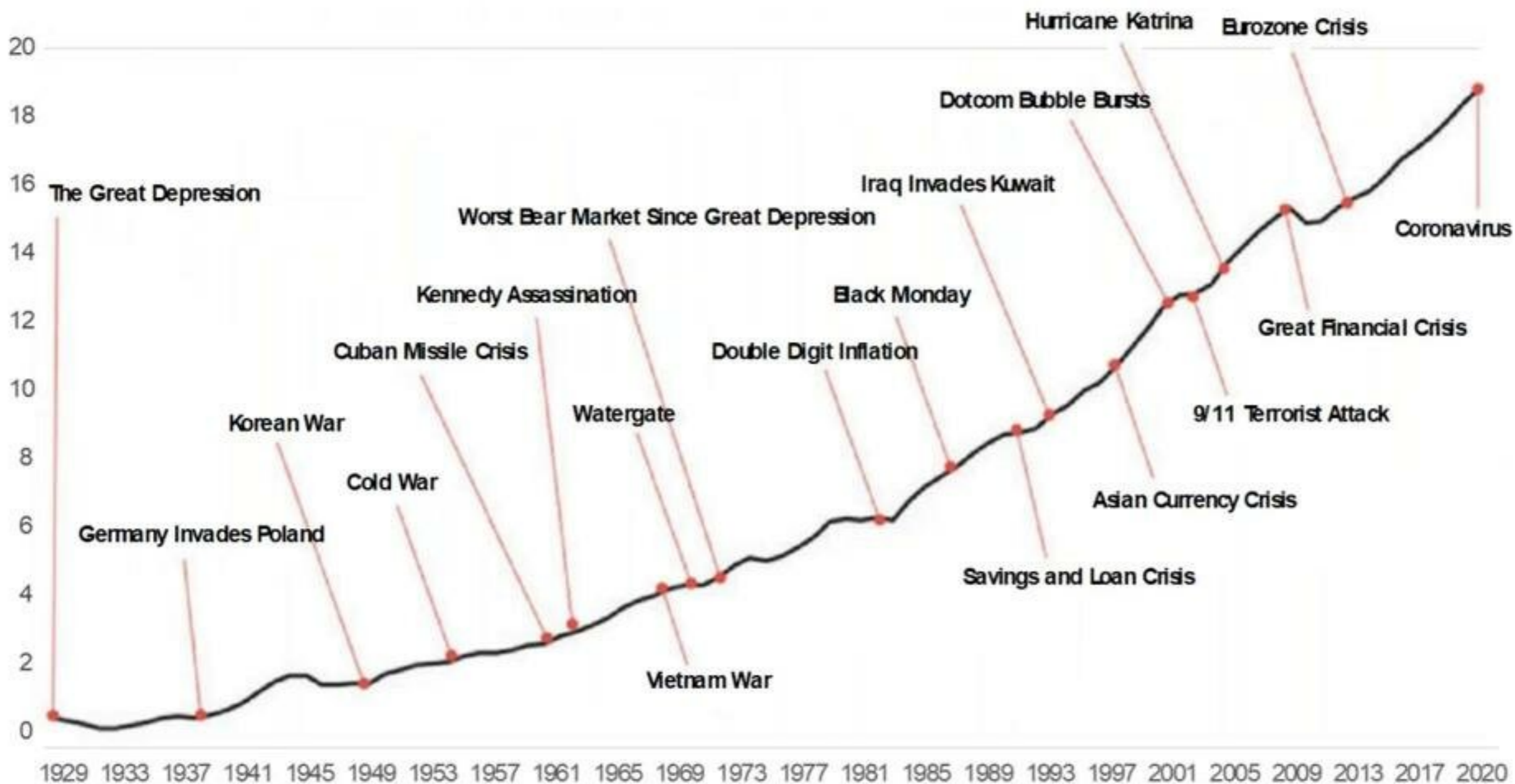
Past performance is not indicative of future results.

Source: S&P Dow Jones Indices. Ned Davis Research. © 2020 Ned Davis Research, Inc.

U.S. Real GDP



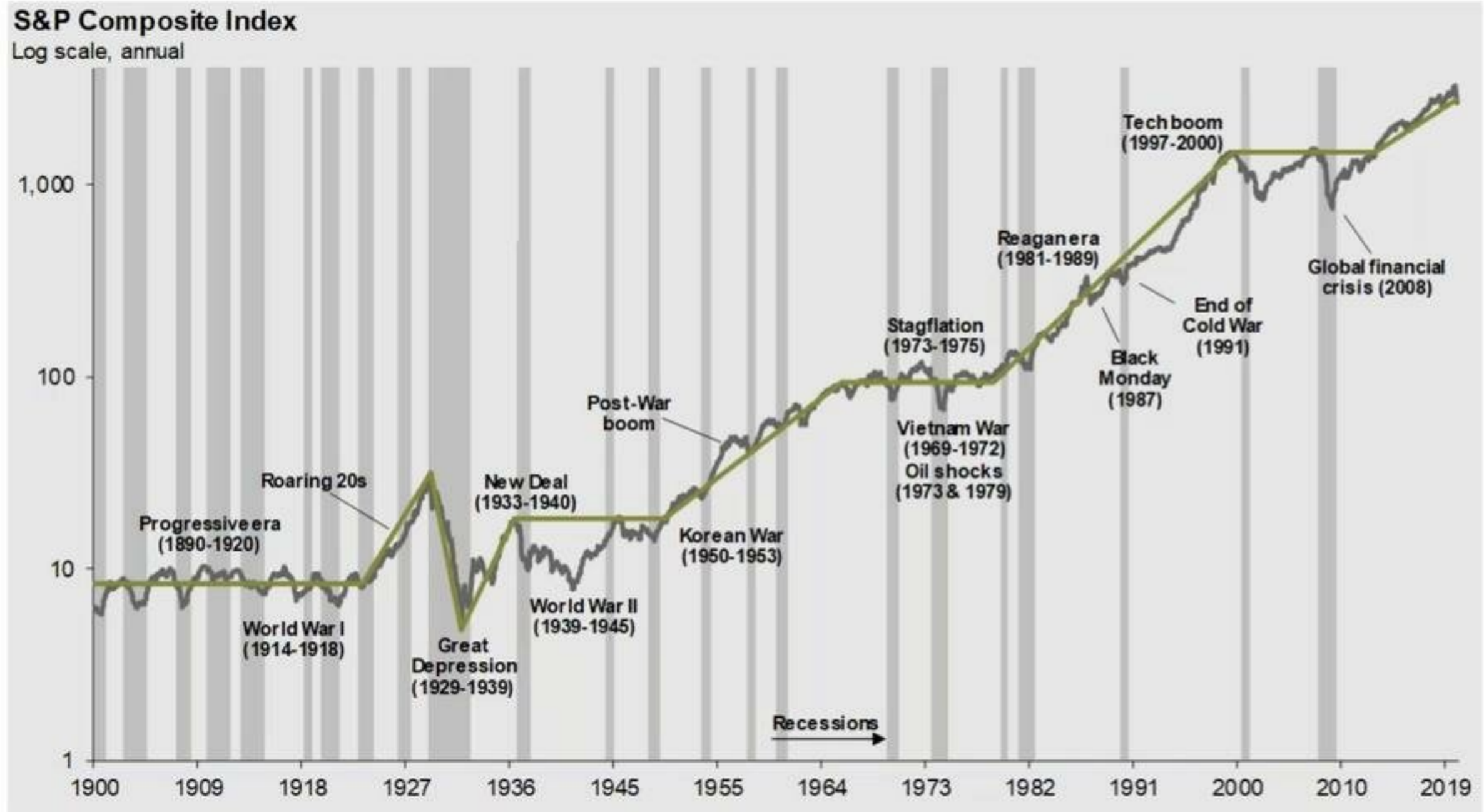
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Stock Market Since 1900



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Source: FactSet, NBER, Robert Shiller, J.P. Morgan Asset Management.

Data shown in log scale to best illustrate long-term index patterns. Past performance is not indicative of future returns. Chart is for illustrative purposes only.

Guide to the Markets - U.S. Data are as of May 7, 2020.

Questions Every Investor Needs to Ask Themselves Right Now



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- If I sell my stocks now, what is the plan for getting back in?
- Have my time horizon, risk profile, or circumstances meaningfully changed enough to warrant a portfolio change?
- Did I build my portfolio with the understanding that stocks can and will fall on occasion?
- Do I need to use the money I have invested in stocks for spending purposes in the next 3-5 years?
- What do I own and why do I own it?

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