Behavioral Finance Reconciling FOBI & FOMO

(Fear of Being In) (Fear of Missing Out)

Dan Kullman
Director of Education and Training

DISCLOSURES

Prior performance is no guarantee of future results. There can be no assurance, and individuals should not assume, that future performance of any of the portfolios referenced will be comparable to past performance. There can be no assurance that Toews will achieve its performance objectives.

This presentation may include forward-looking statements. All statements other than statements of historical fact are forward-looking statements (including words such as “believe,” “estimate,” “anticipate,” “probable,” “may,” “will,” “should,” and “expect”). Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. Various factors could cause actual results or performance to differ materially from those discussed in such forward-looking statements.

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FOMO

(Fear of Missing Out)

The Bull Market may continue and if I don't invest my clients to beat the markets, they may fire me…

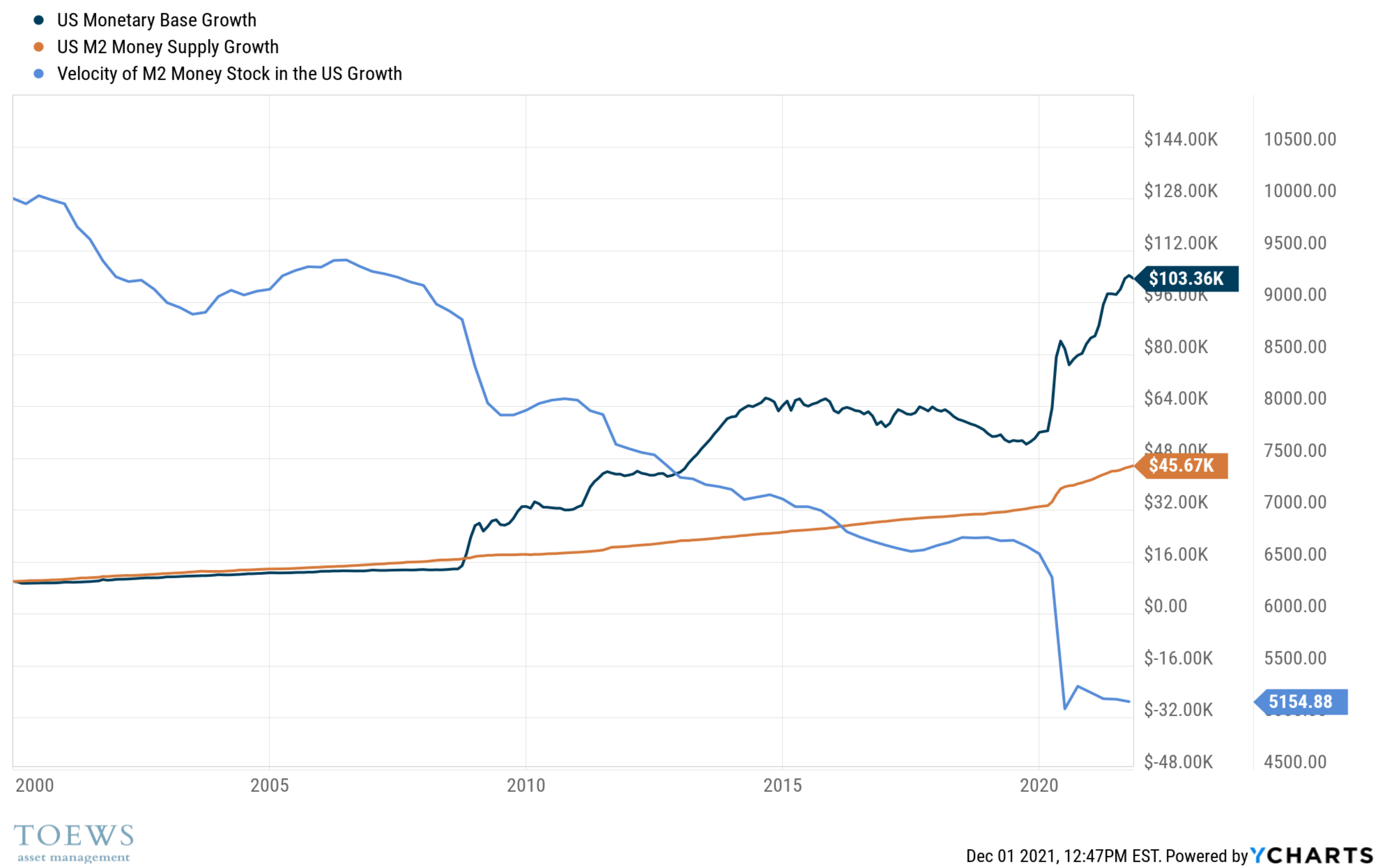
FOBI

(Fear of Being In)

We may experience a lengthy bear market and recession and if I don't manage the risk in my clients' portfolios, they may fire me…

Economic & Capital Markets Assessment

ECONOMY



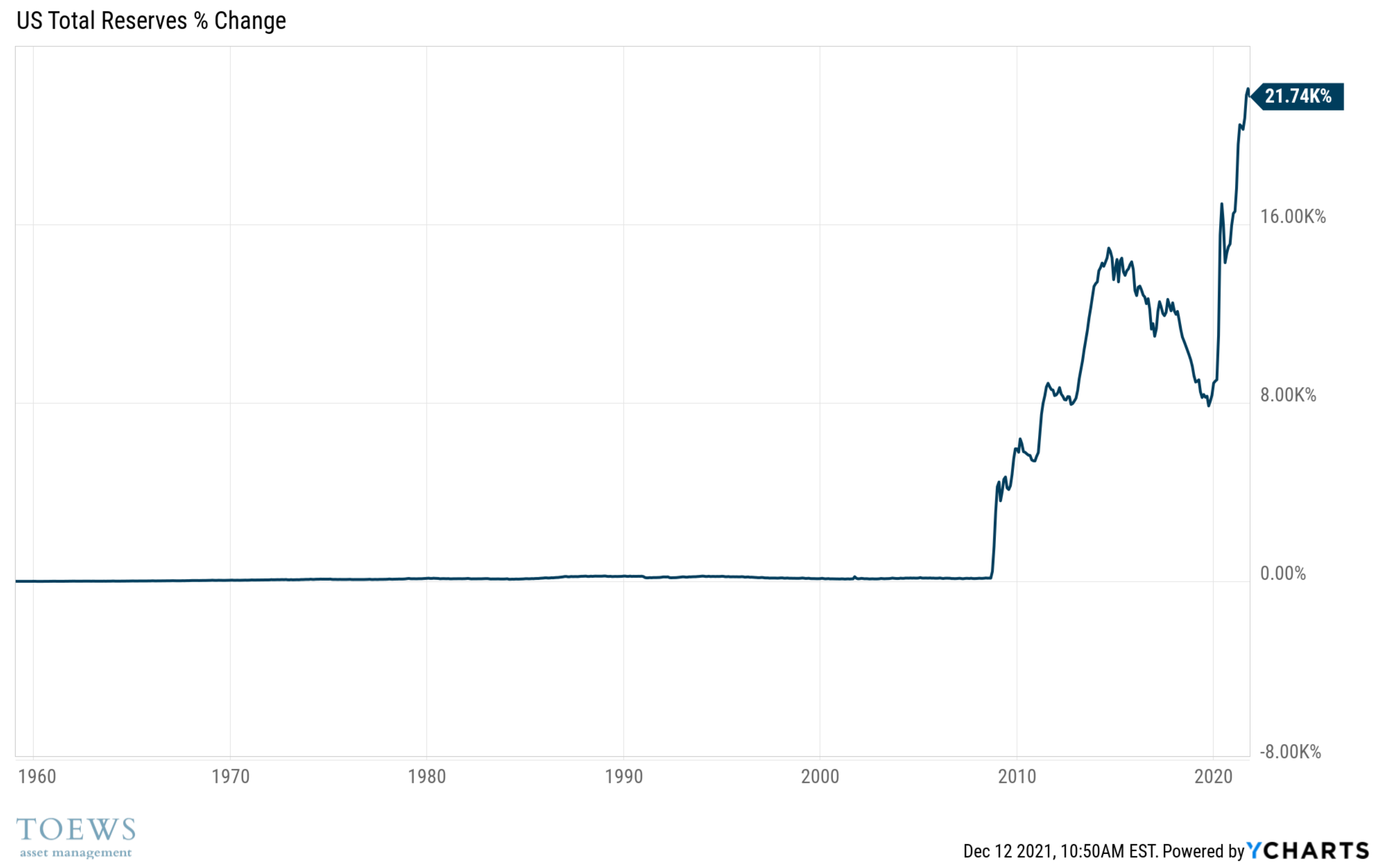
Federal Reserve & Declining Velocity of Money

- Federal Reserve monetary base expansion has not led to significant M2 Money Supply Growth as a result of the Velocity of Money declining.

Definitions

- M2 is the sum of currency held by the public and transaction deposits at depository institutions plus savings deposits, small-denomination time deposits and retail money market mutual fund shares.
- The monetary base is the sum of currency in circulation and reserve balances
- The velocity of money is the frequency at which one unit of currency is used to purchase domestically- produced goods and services within a given time period.

ECONOMY

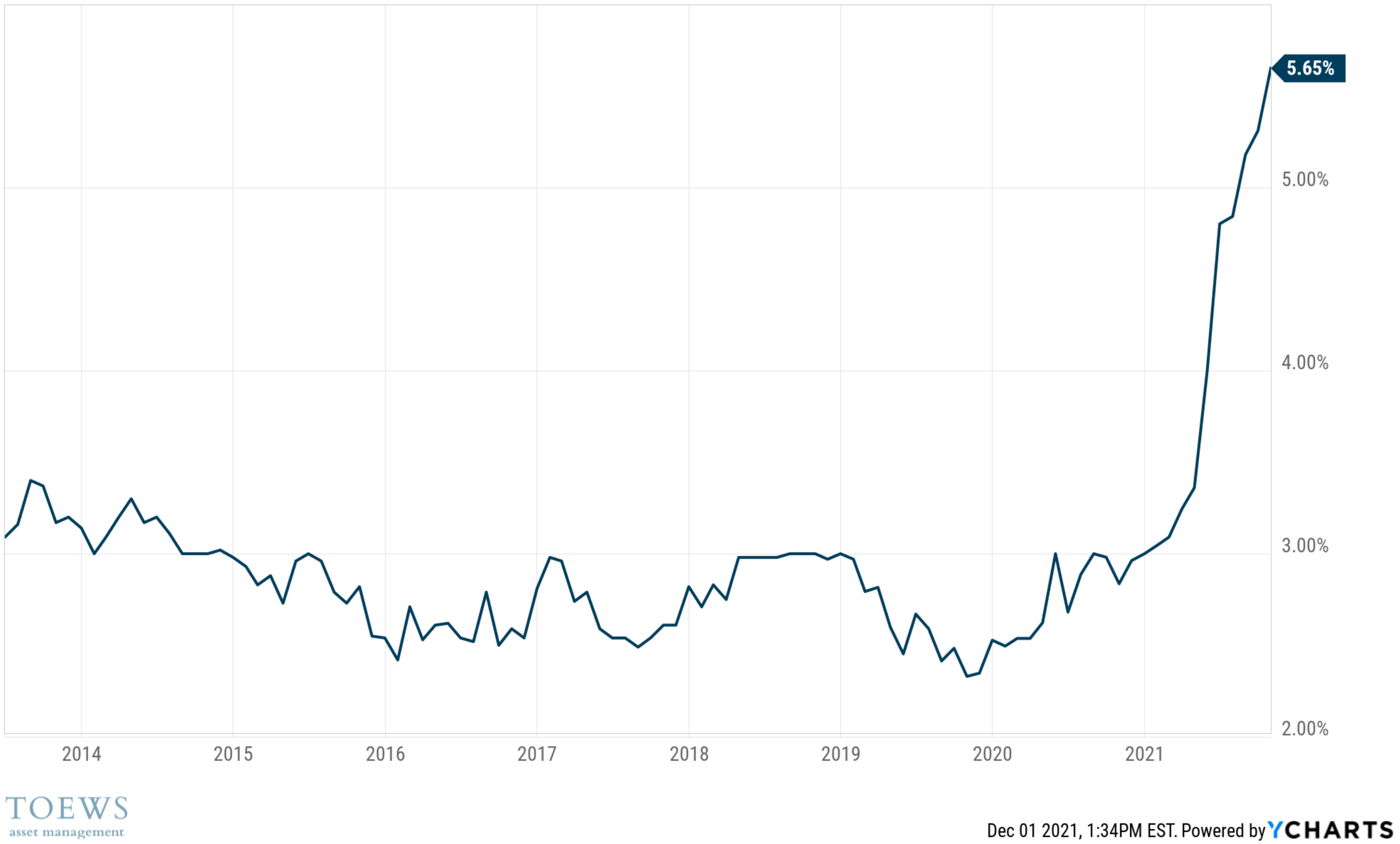


Bank Lending Diminished

- Banks are required to have a minimum reserve deposited at the Federal Reserve. Bank deposits above that amount are the “excess reserves” as depicted in the chart.
- Historically Banks would lend out their excess reserves, which would cause money to enter the economy which is reflected in M2 Money Supply growth.
- Since September 2008 Banks greatly reduced their lending which caused their excess reserves to jump dramatically.
- Regulatory agencies hindered local banks from determining credit worthy borrowers, causing large and small banks not to lend to main street.

ECONOMY

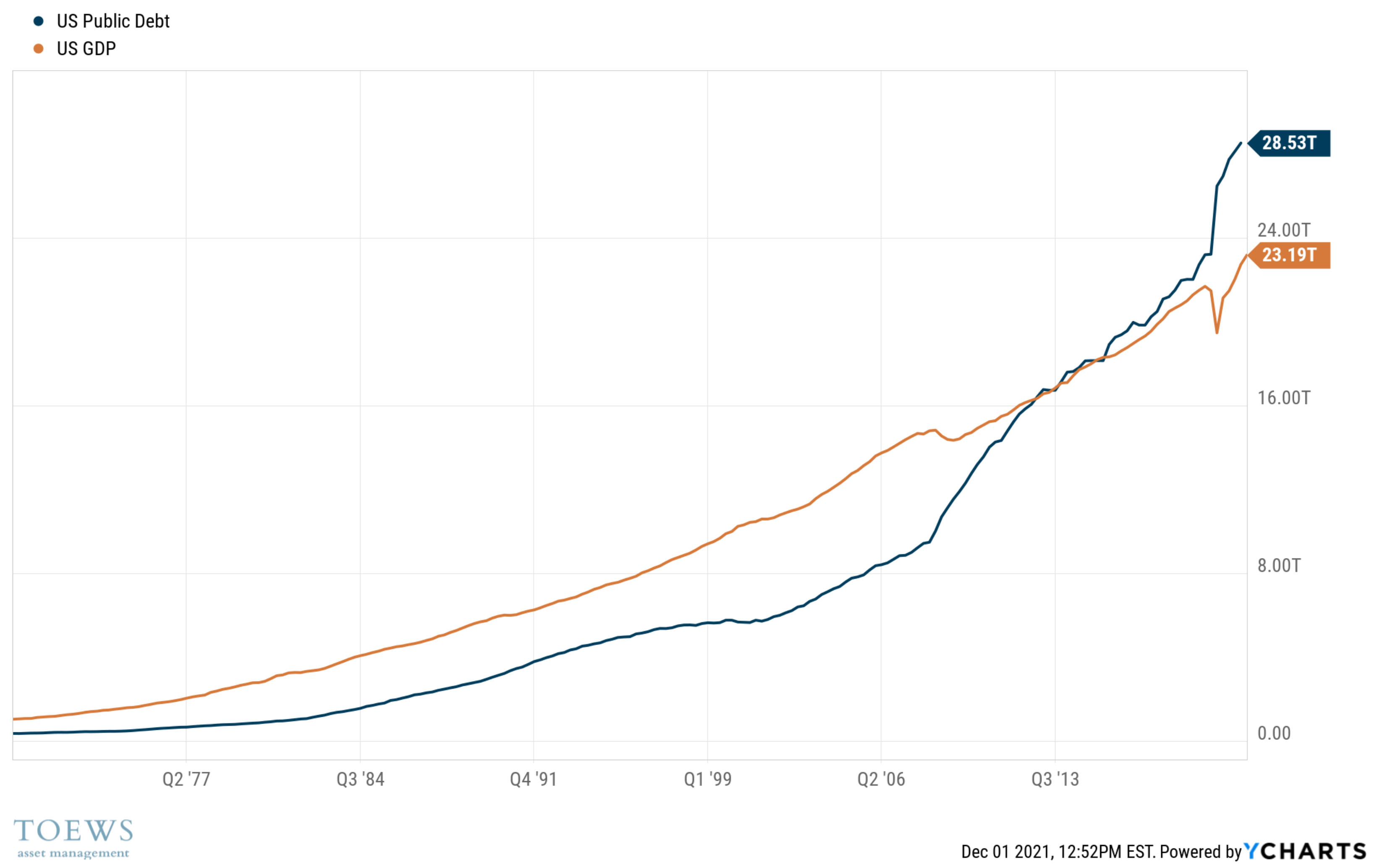
US One-Year Ahead Inflation Expectations



Inflation is here, but will it stay?

- US One-Year Ahead Inflation Expectations is at 5.65%, compared to 5.31% last month and 2.84% last year. This is higher than the long-term average of 2.96%.
- Supply chains can't meet increased global demand causing price increases and goods.
  - Higher Energy Cost
  - Trucking shortages
  - Shipping backlogs
- Stocks historically have been vulnerable in the short term and less vulnerable in the long term from inflation.
- Bonds historically have been vulnerable to price declines from inflation.

ECONOMY

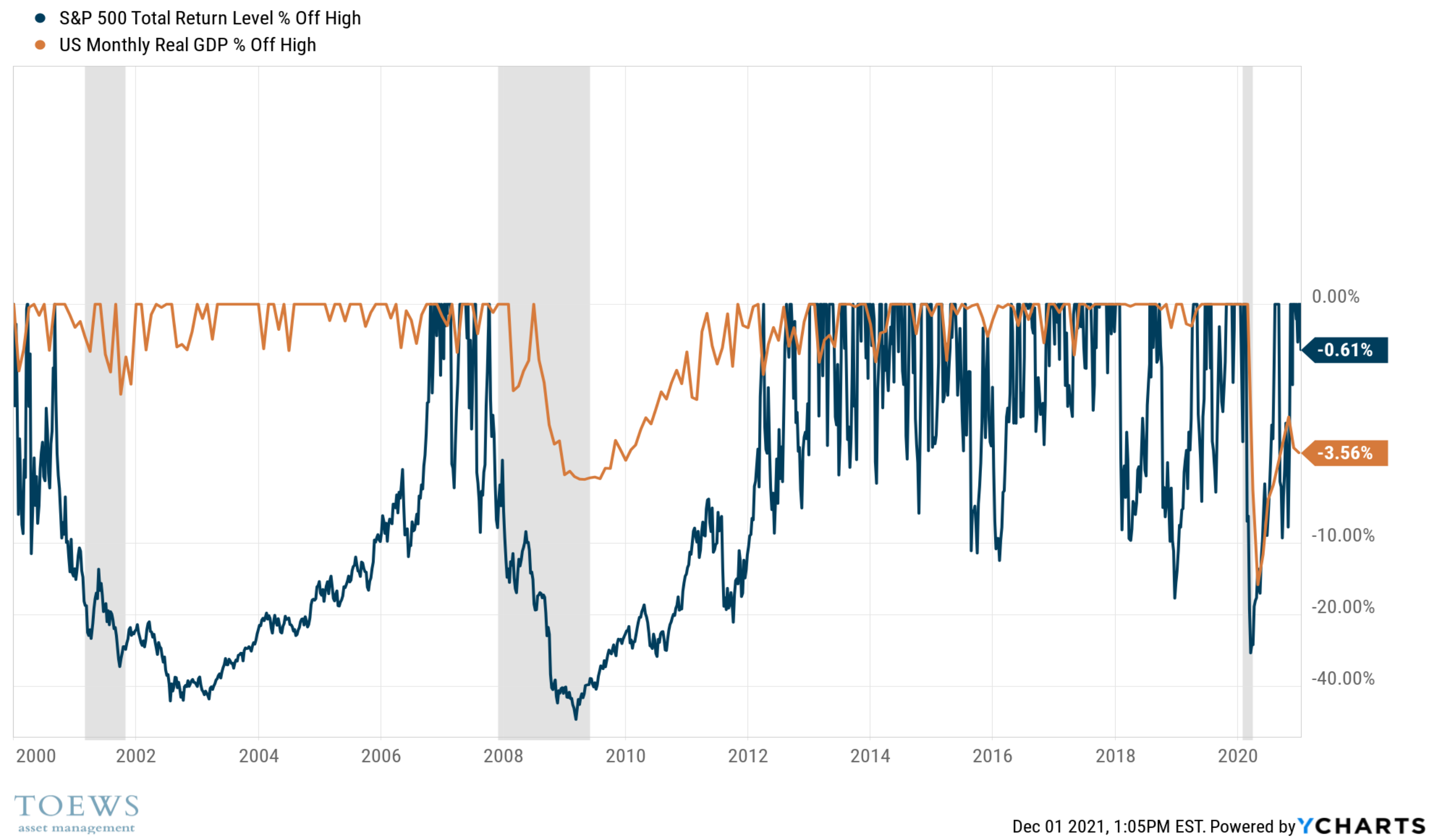


US Debt Now Larger than GDP

- Problems
  - Interest expense on federal debt a great portion of Federal budget
  - Increased probability of more deficit spending which further increases debt.

- Possible Government Solutions
  - Federal Gov't Reduces Spending
  - Federal Gov't Increase Taxes
  - Federal Reserve increases inflation

ECONOMY

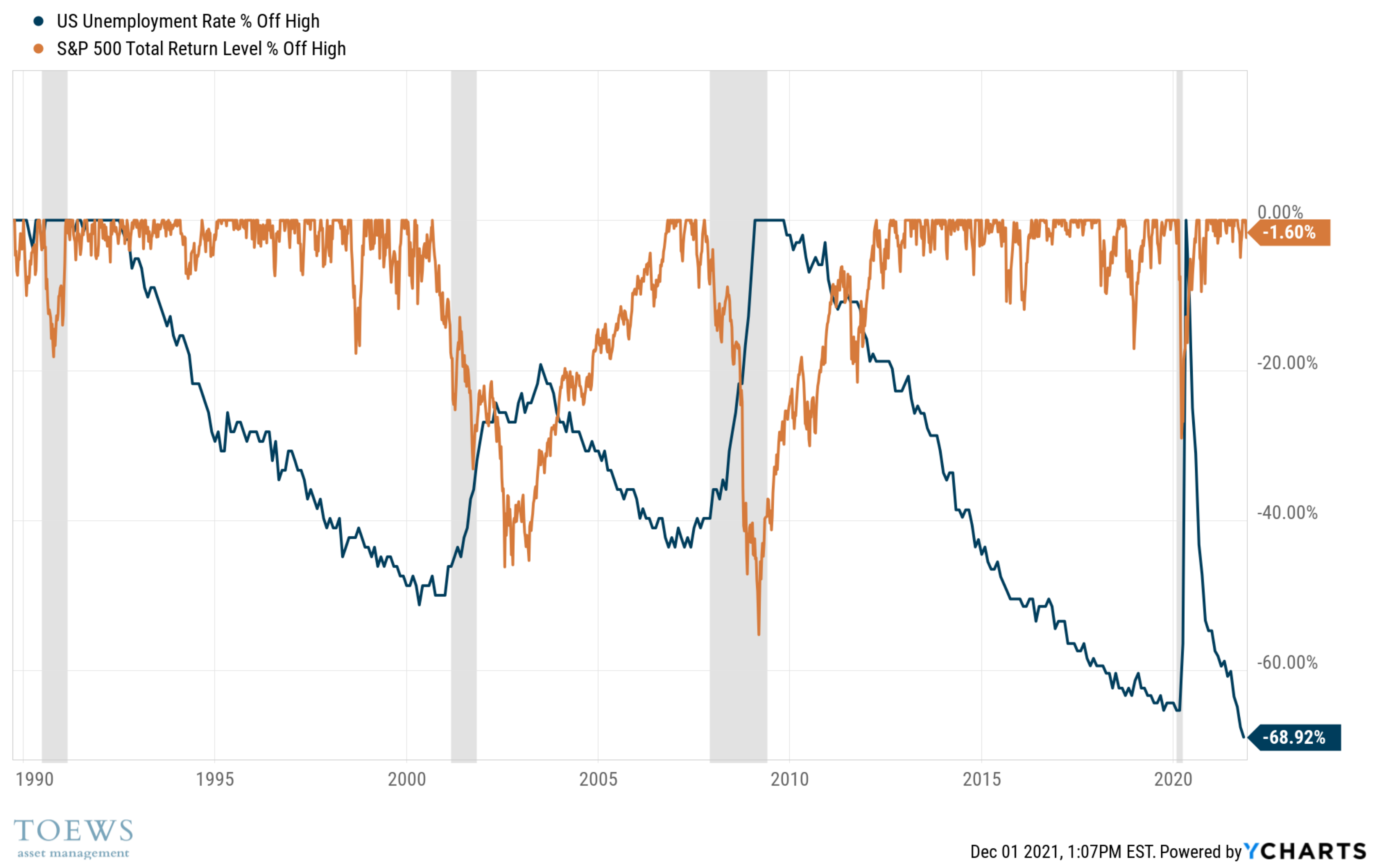


GDP Not a Market Forecasting Tool

- Prior to recessions and bear markets, GDP often looks relativity strong as GDP measures ***past*** economic activity.
- GDP typically declines after the stock market has declined as the stock market reflects anticipated ***future*** economic activity.

S&P 500 Index is a market capitalization-weighted index of 500 widely held stocks often used as a proxy for the stock market. It measures the movement of the largest issues. Standard & Poor's chooses the member companies for the 500 based on market size, liquidity and industry group representation. Included are the stocks of industrial, financial, utility, and transportation companies. Since mid-1989, this composition has been more flexible and the number of issues in each sector has varied.

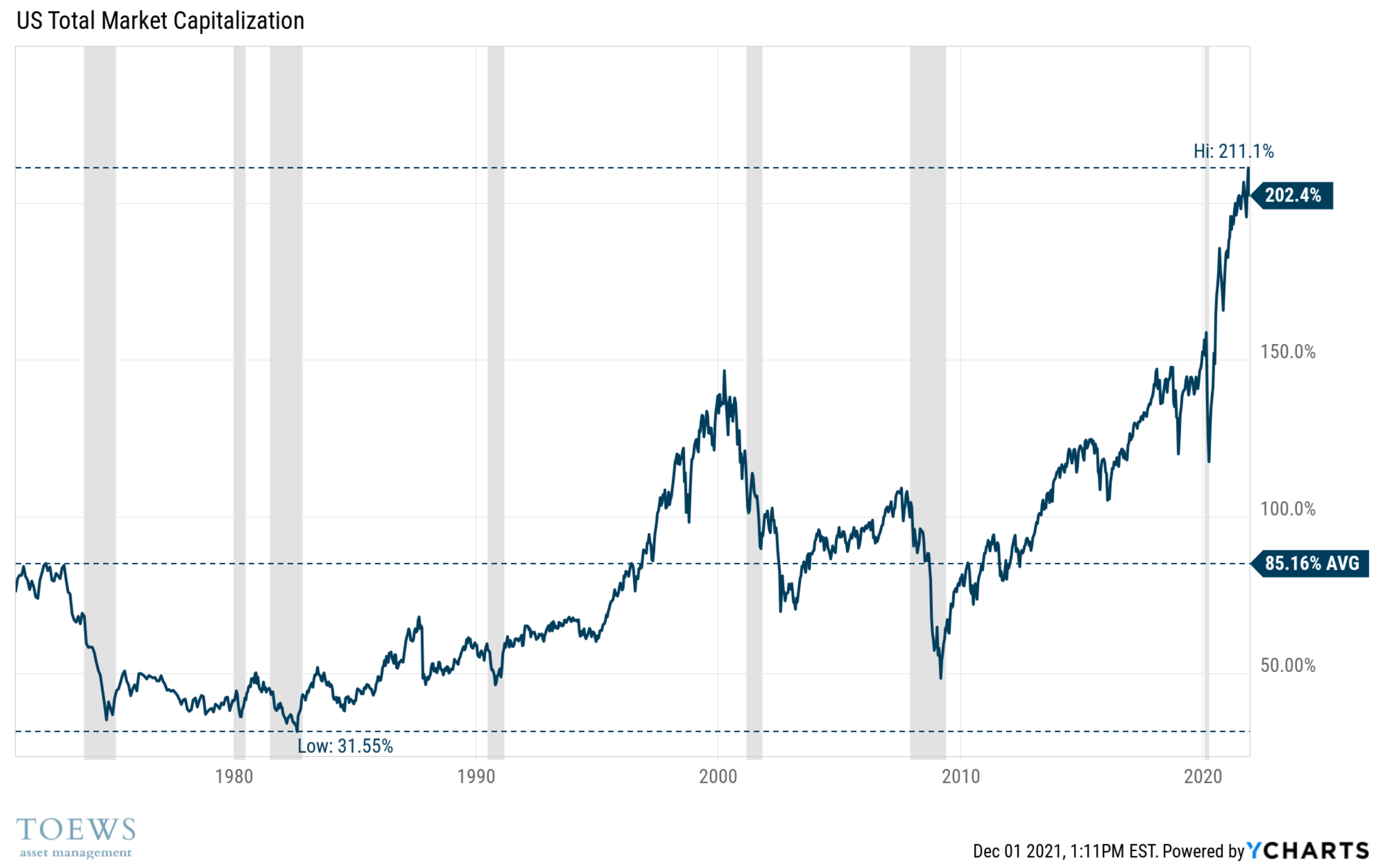
ECONOMY



Unemployment NOT a Market Forecasting Tool

- Prior to recessions and bear markets, unemployment is typically very low.
- Unemployment typically does not increase until well into a bear market and recession.

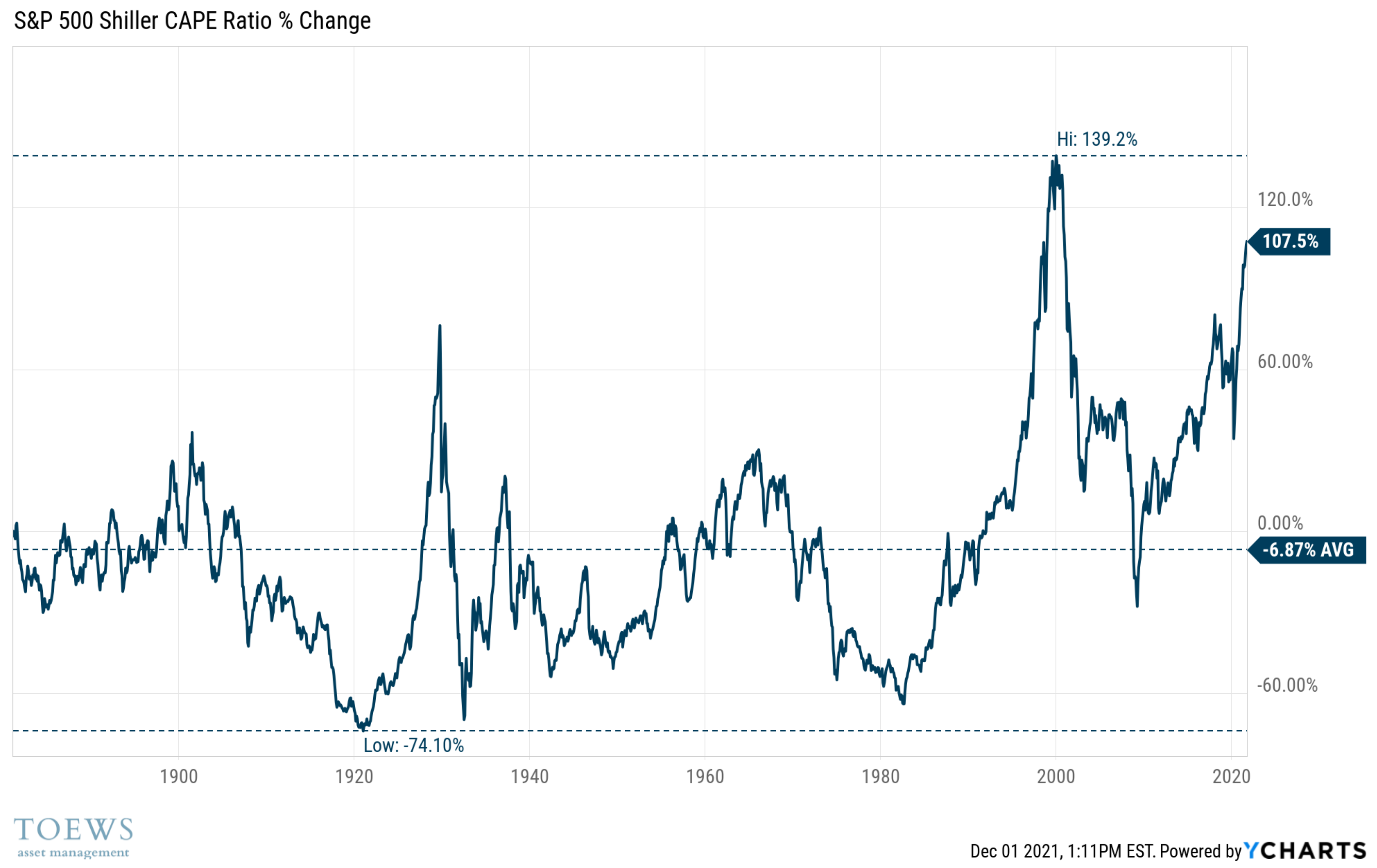
STOCK MARKETS



Buffett Indicator

- Warren Buffett uses the ratio of Total Stock Market Capitalization divided by GDP to determine if the stock market is over or undervalued.
- Sometimes valuations don’t matter – until they do.

STOCK MARKETS

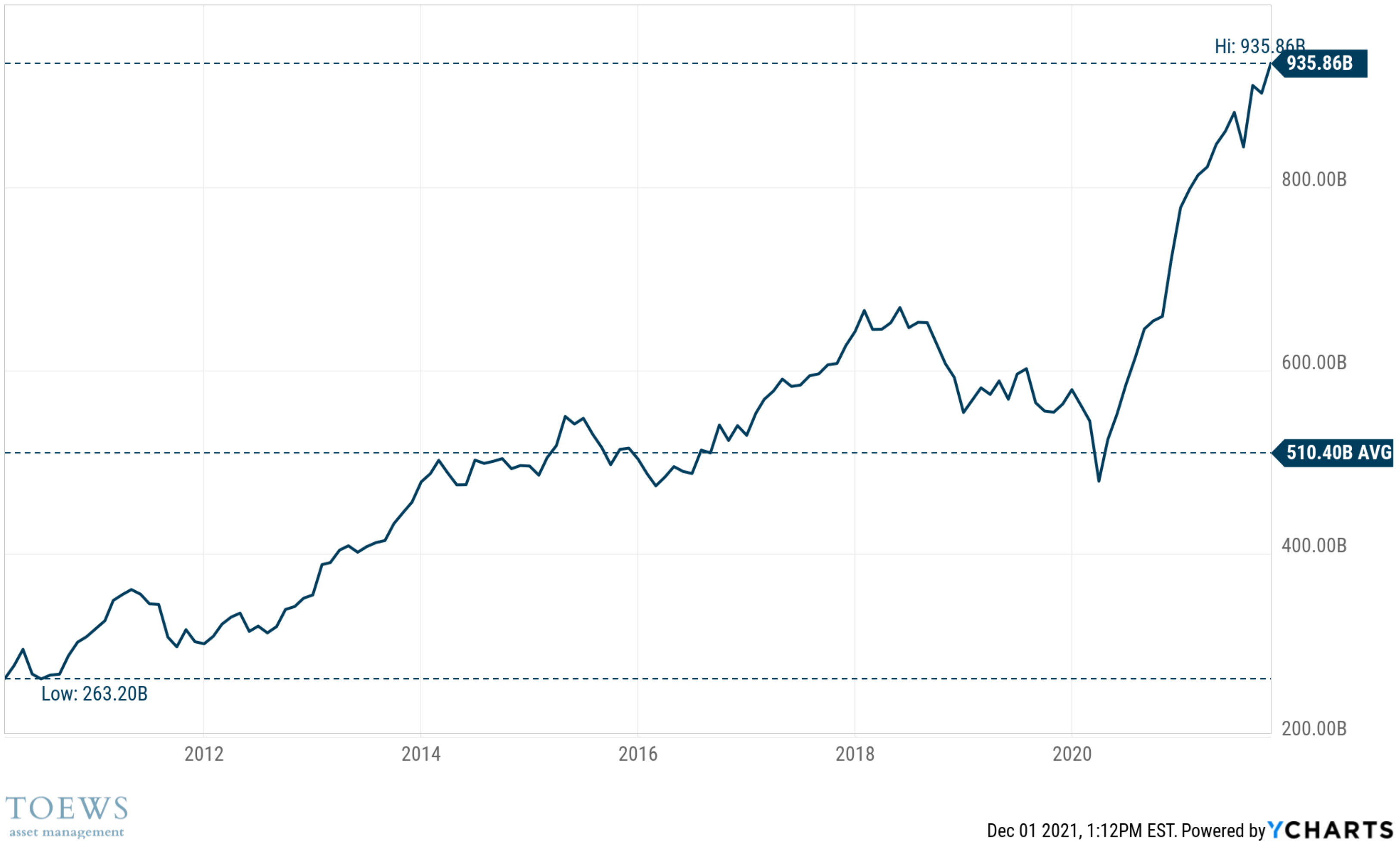


Stock Market Valuations

- The CAPE ratio was derived by Robert Shiller, an American economist and Nobel Prize Laureate in economics.
- The CAPE Ratio (also known as the Shiller P/E) is an acronym for the Cyclically-Adjusted Price-to-Earnings Ratio. The ratio is calculated by dividing a company's stock price by the average of the company's earnings for the last ten years, adjusted for inflation.
- Sometimes valuations don't matter – until they do.

STOCK MARKETS

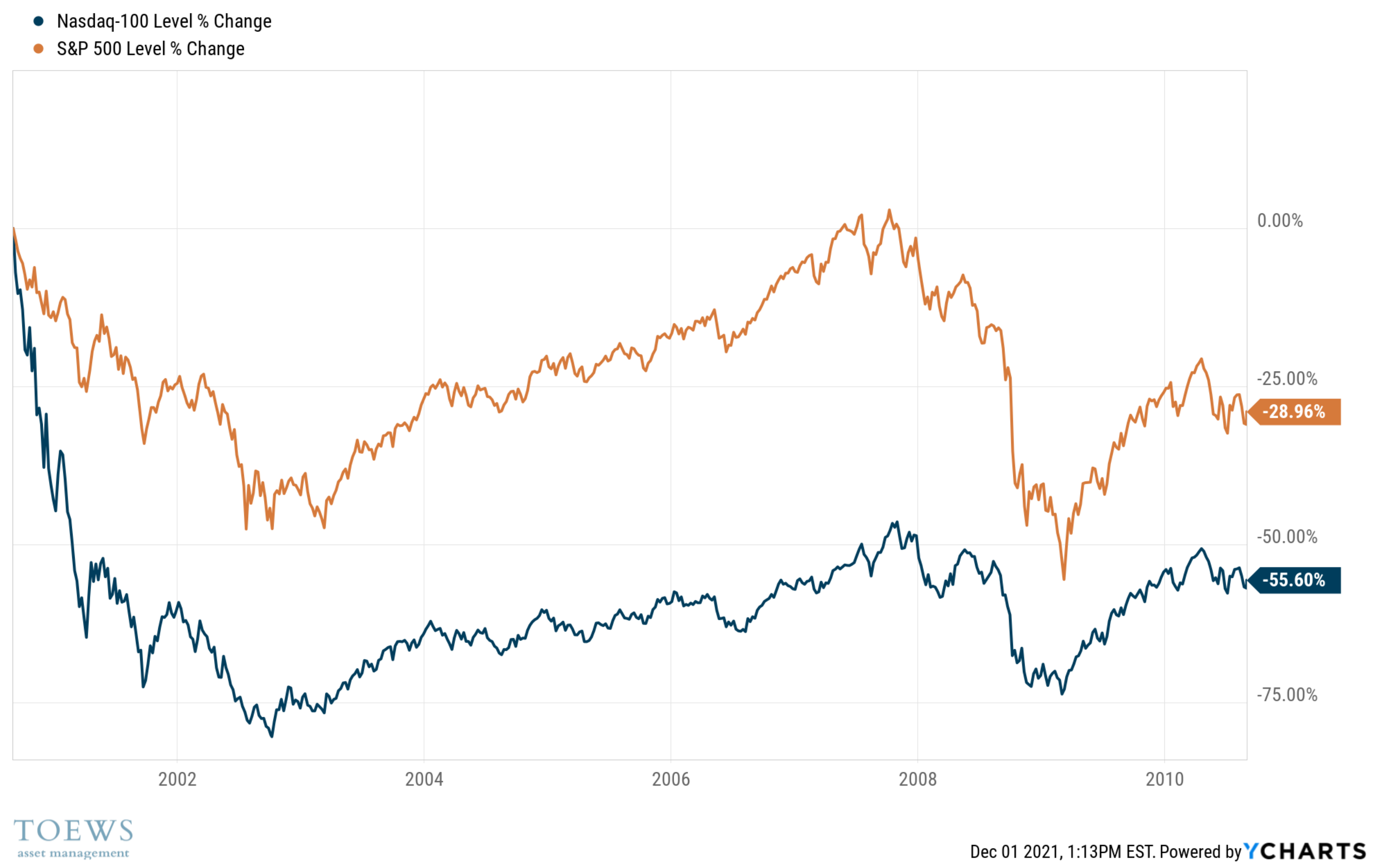
FINRA Margin Debt



Margin Usage

- Increased ownership of stocks purchased on margin leads to stocks advancing more quickly.
- Increased ownership of stocks purchased on margin may lead to margin calls that can lead to stocks declining more quickly.
- Do not try to predict the next bear market and make portfolio adjustments at time as this level of leverage can lead to precipitous drops.

STOCK MARKETS

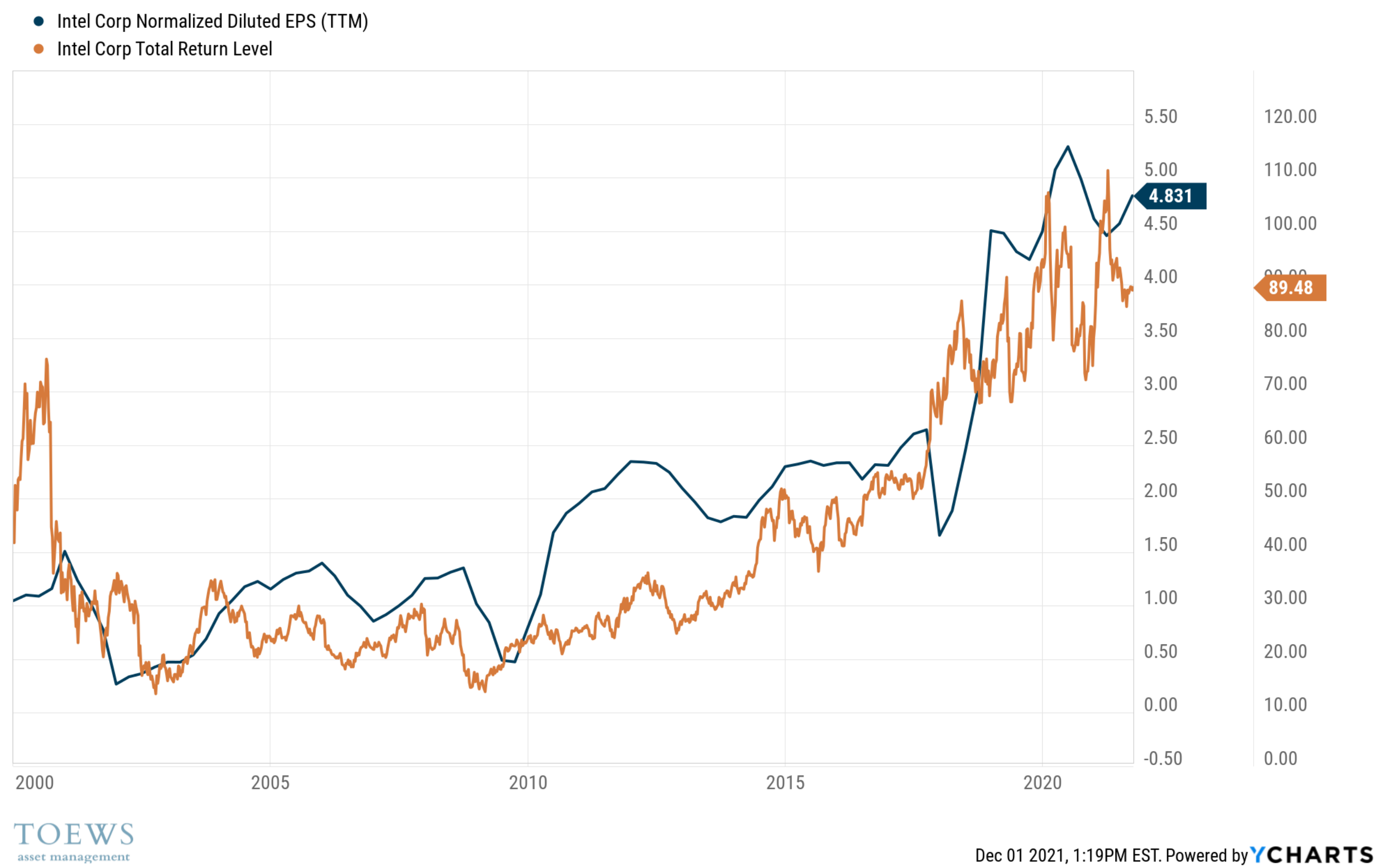


The Lost Decade

- When investors ignore valuations, they often overpay for stocks prices relative to underlying fundamentals.
- Investors should pay attention to valuations and not make allocation decisions on what has been performing the best.
- Buying without regard for valuations led to a “Lost Decade” for many investors during this time frame.

The NASDAQ 100 index measures the performance of 100 of the largest non-financial securities listed on The NASDAQ Stock Market based on market capitalization. It includes common stocks, ordinary shares and ADRs. The index is modified market capitalization-weighted.

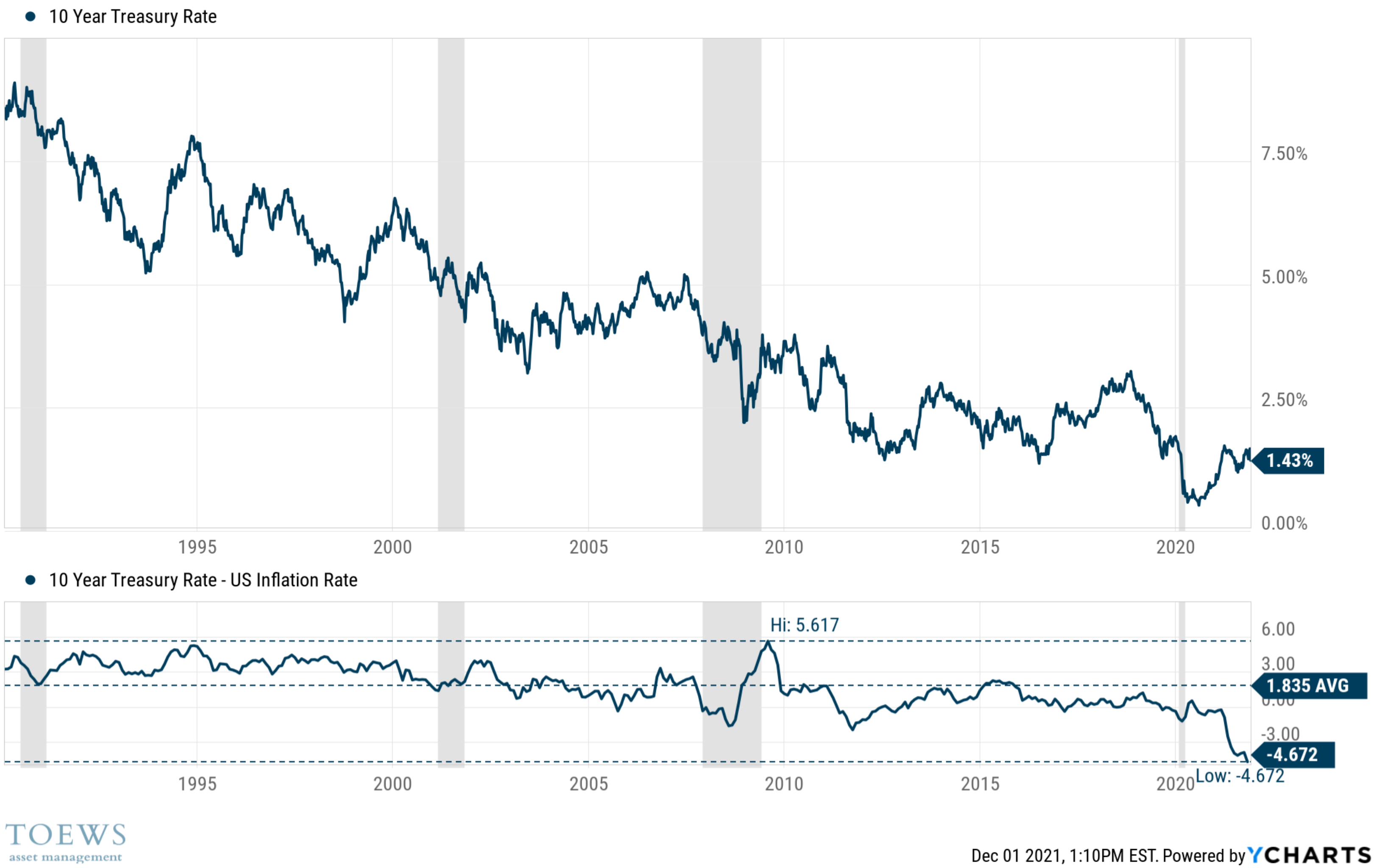
STOCK MARKETS



Overpaying for Stocks

- Investors who overpaid for the price of shares of Intel in June of 2000 did not breakeven on their investment until March 2018.
- Meanwhile Intel's earnings have maintained long term growth.
- This is a symptom of stock market bubbles that lead investors to not be concerned about the valuation of the stock or stock market they are buying into.

BOND MARKETS



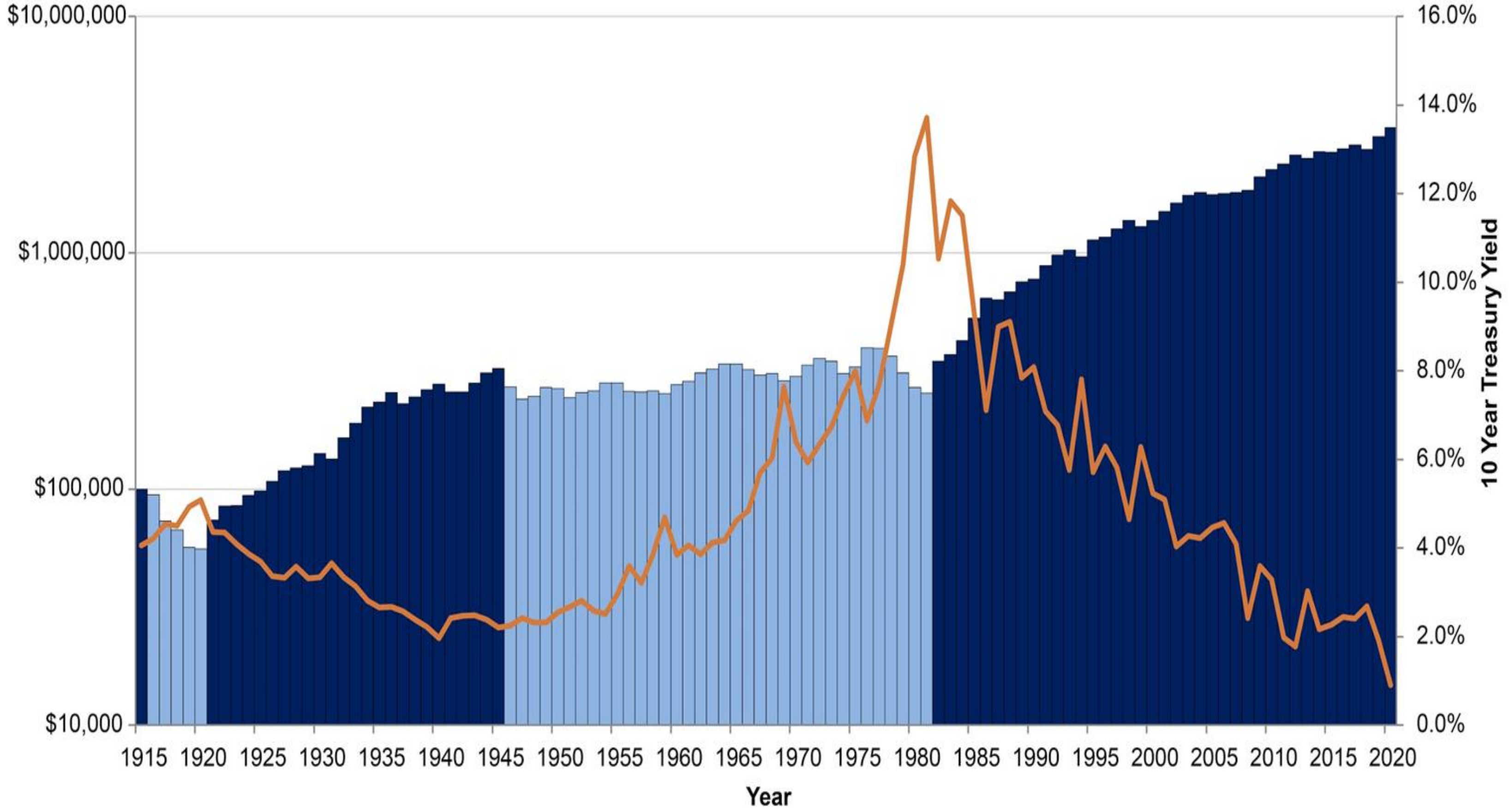
Bond Market Risks

- Currently Negative Yields after Inflation.
- If Interest Rates rise, there is risk of bond price declines.

Bond Performance During Rising Rates

Real Return – DJ Bond Index shown with 10 Year Treasury Yield

Secular Bull and Bear Markets 1915-2019



Two Bond Bear Markets Over the Past Century:

1916-1920
5-year period
44% real loses

1945-1981
36-year period
21% real loses

SCENARIO PLANNING

Equity Market Scenarios

- **Scenario 1** — Bull Market Continues US Leads/Intl Lags
- **Scenario 2** — Bull Market Continues Intl Leads/US Lags
- **Scenario 3** — Quick Correction & Recovery
- **Scenario 4** — Extended Bear Market & Recession

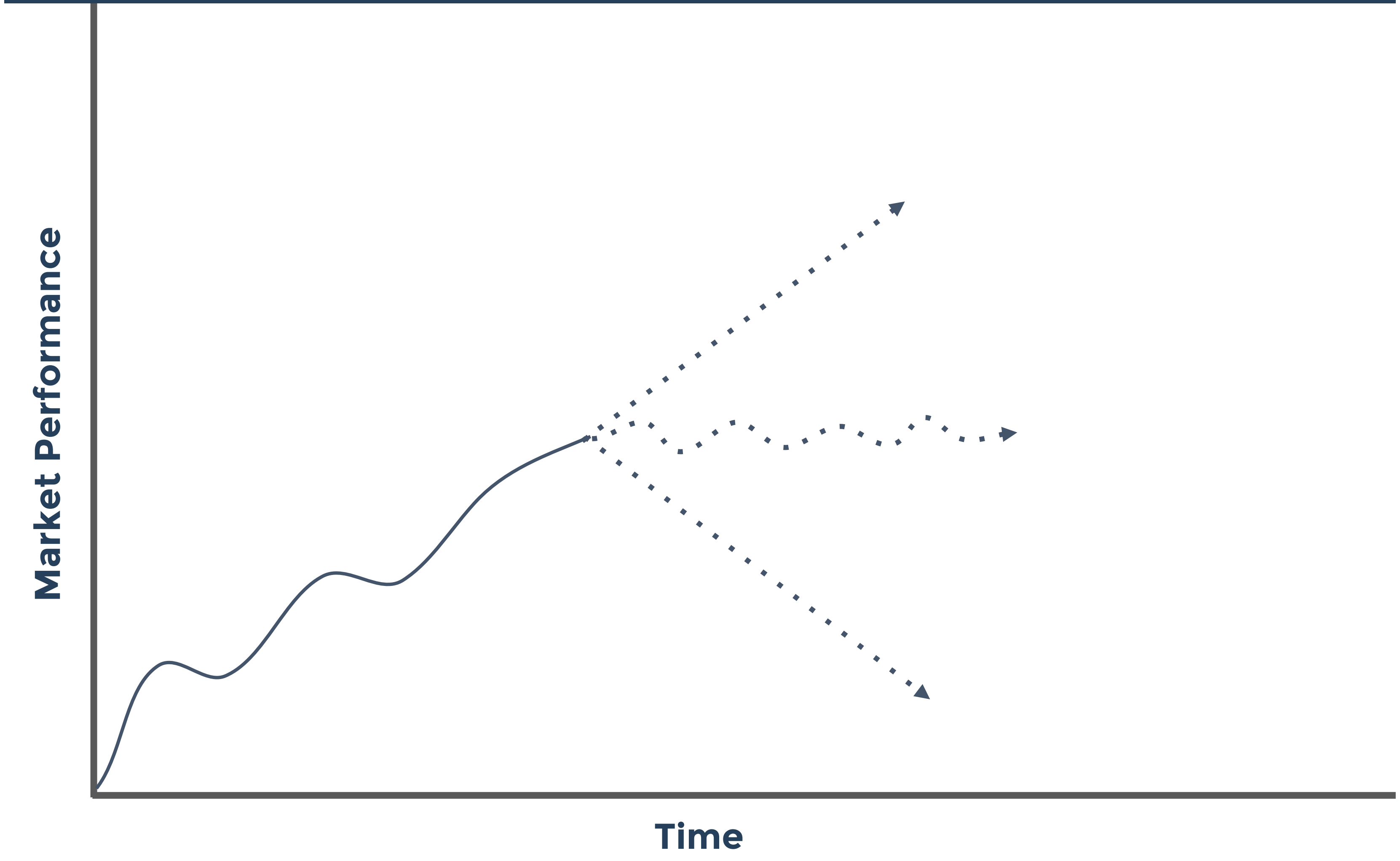
Bond Market Scenarios

- **Scenario 1** — Rising Interest Rates
- **Scenario 2** — Inflation
- **Scenario 3** — Rising Interest Rates & Inflation

Portfolio Design Assessment

- Which scenarios WILL enable client to meet financial goals in time?
- Which scenarios WILL NOT enable client to meet financial goals in time?
- Optimize probability of success for all scenarios.
- Increasing probability of success under all scenarios decreases performance in isolated scenarios.
- Client communication reframing needed.

SCENARIO PLANNING



How Are Your Clients Positioned for All Outcome

The Behavioral Portfolio

The Behavioral Portfolio

- Broaden historical outcomes.
- Think comprehensively about risk.
- Build portfolios attempting to address behavioral and economic needs.
- Stress test against deflation, inflation and stagflation.

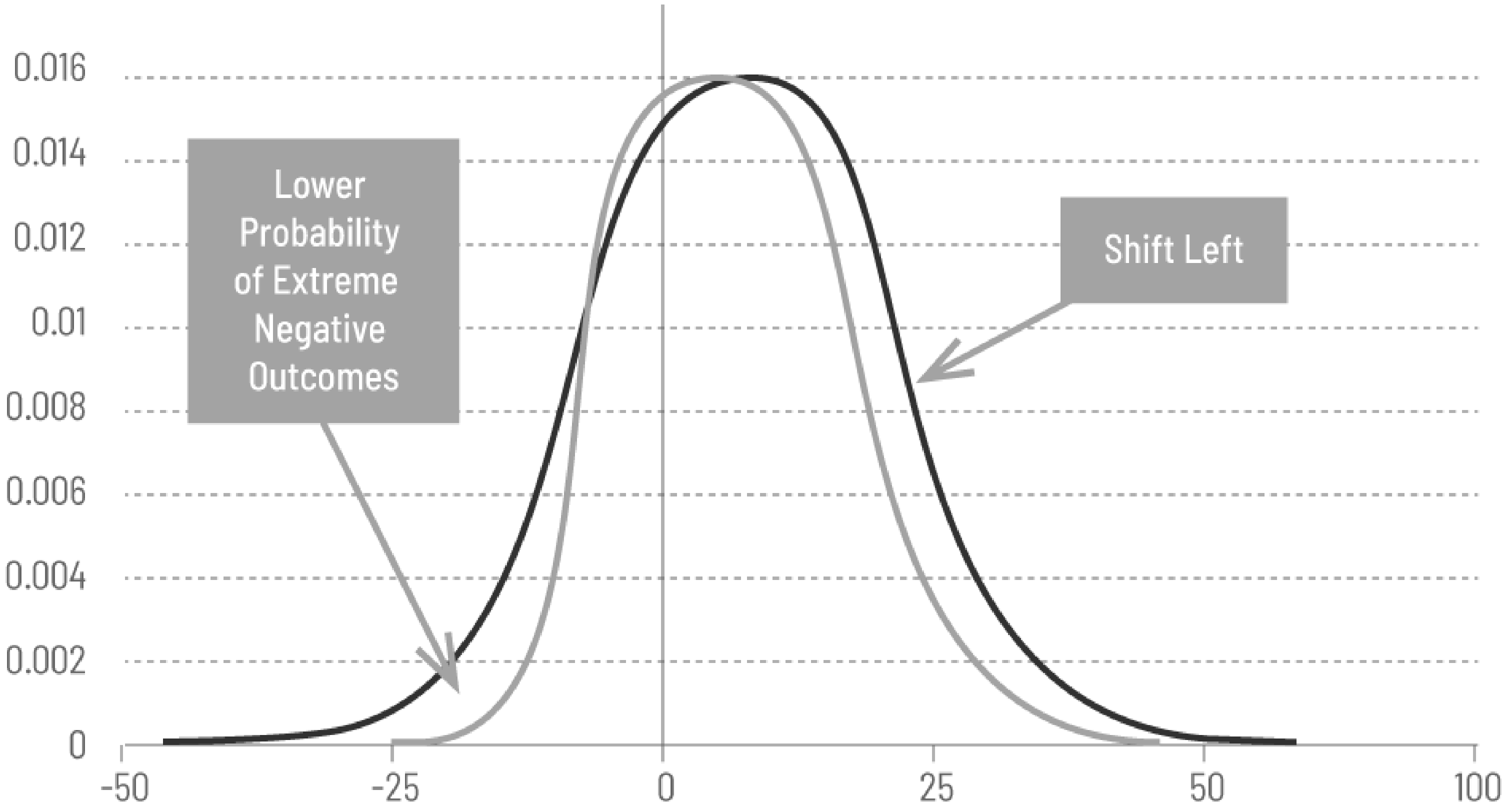
Defining Behavioral Portfolio Management

Some Investor Economic & Behavioral Needs

- ❑ Attempt to Avoid Principal Losses
- ❑ Seek Above Inflation Growth
- ❑ Target Market Up Capture During Rising Markets
- ❑ Try to Preserve Gains
- ❑ Seeks Consistent Returns

There is no guarantee that any investment strategy will achieve its objectives, generate profits or avoid losses.

Desired Return Distribution



There is no guarantee that any investment strategy will achieve its objectives, generate profits or avoid losses.

Building Portfolios for Worse Case and Best Case

ADAPTIVE FIXED INCOME

Portfolio Stability | Income Generation | Inflation & Interest Rate Risk Management

HEDGED EQUITY

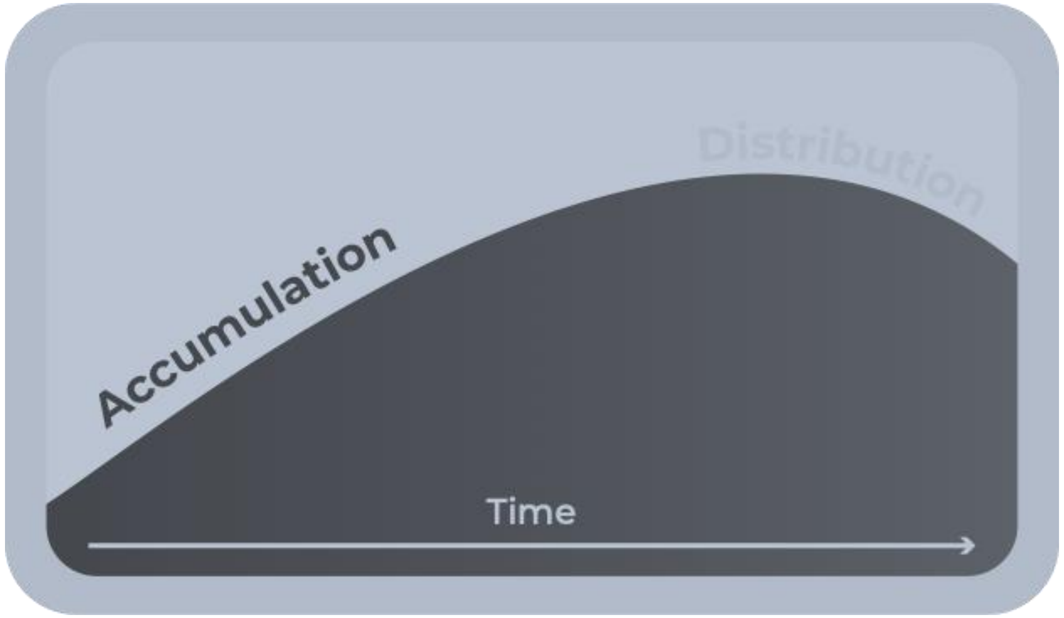
Declining Stock Market Risk Management

ALWAYS INVESTED EQUITY

Rising Stock Market Participation

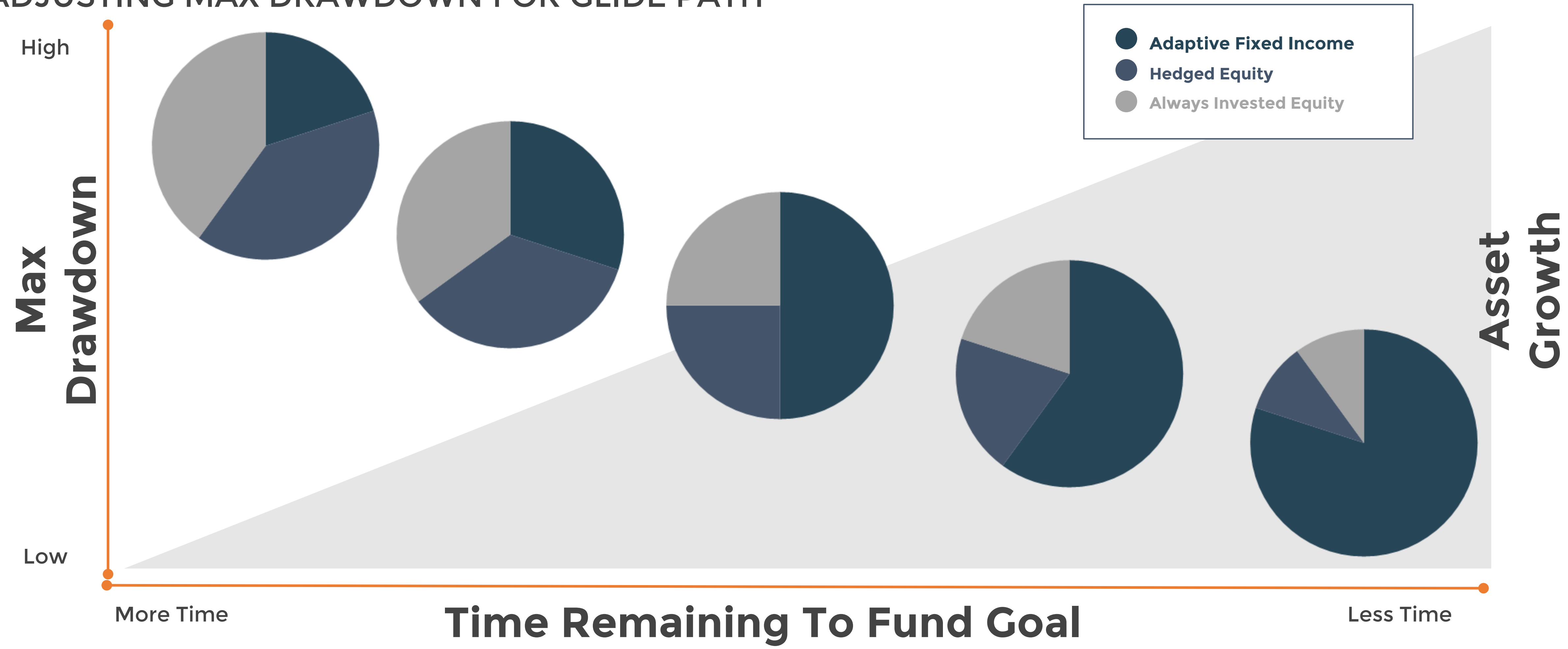
Behavioral Portfolio Design Imperatives for Accumulation

- Portfolio Design should not be based on prediction
- Build portfolios that assumes best case scenarios will potentially happen.
- Build portfolios that assume worst case scenarios will potentially happen



The Behavioral Portfolio – Structuring For Accumulation

ADJUSTING MAX DRAWDOWN FOR GLIDE PATH



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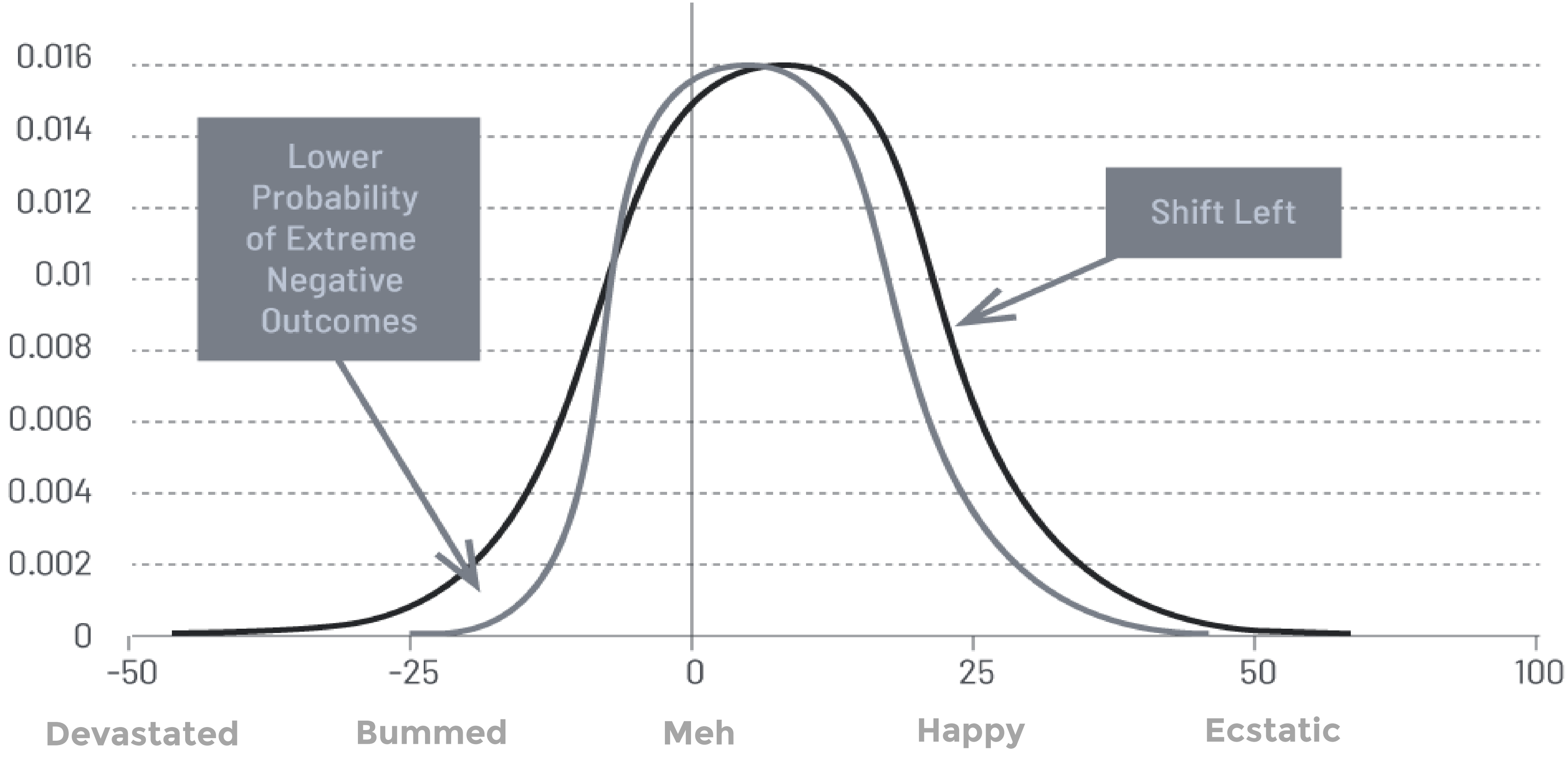
Desired Return and Emotion Distribution



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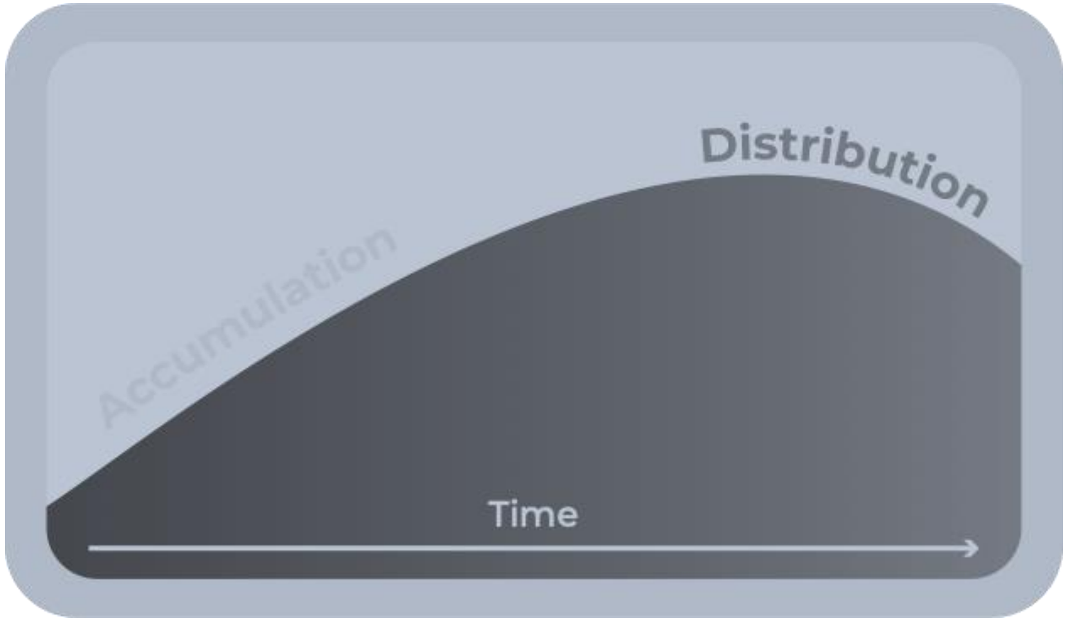
Behavioral Portfolio Design Imperatives for Distribution

- Generate Income to fund budget
- Have Income growth greater than inflation
- Allow Financial Plan to dictate withdrawal rate not:
  - Stock Market Prices
  - Interest Rate Levels



Income Distribution Through Segmentation

Step 1: Segmentation Of “Income Needs” & “Growth Needs”

INCOME NEEDS

Money For “Today” You

GROWTH NEEDS

Money For “Future” You or Legacy Giving

Income Distribution Through Segmentation

Step 2: Segmentation Of “Income Needs”

MORE POTENTIAL YIELD

ADATIVE FIXED INCOME	SHORT DURATION BONDS	CASH
3 Plus Years of Income Needs	1 Year of Income Needs	1 Year of Income Needs

LESS POTENTIAL VOLATILITY

OBJECTIVE: Keep Up With Inflation & Fees

Income Distribution Through Segmentation

Step 3: Segmentation Of “Growth Needs”

GREATER UPSIDE MARKET CAPTURE POTENTIAL

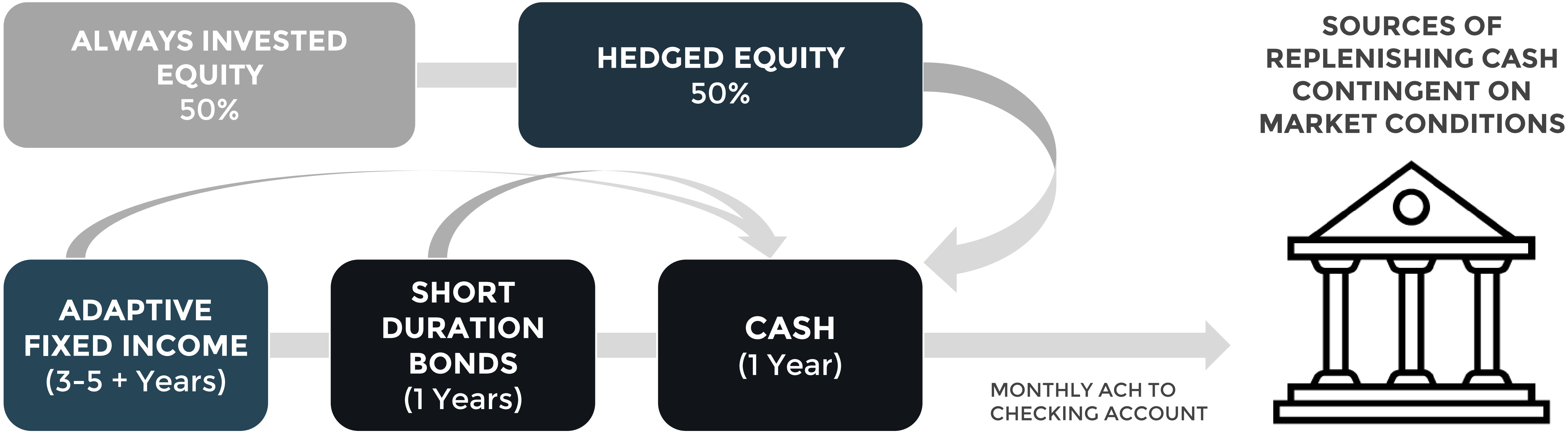
ALWAYS INVESTED EQUITY	HEDGED EQUITY
50%	50%

LESS DOWNSIDE MARKET CAPTURE POTENTIAL

OBJECTIVE: Shorten Duration Of Equity Portfolio Recovery

Income Distribution Through Segmentation

Step 4: Annual Cash Replenishment



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MATH CAN BE **MISLEADING**

The Average Is Not The Experience

Average Returns **DO NOT** Reflect The Truth.

	LOWER LOSS DEVIATION PORTFOLIO	HIGHER AVERAGE RETURN PORTFOLIO
STARTING VALUE	**$1,000,000**	**$1,000,000**
Year 1	5%	7%
Year 2	7%	19%
Year 3	8%	15%
Year 4	-6%	-38%
Year 5	8%	22%
Year 6	7%	18%
Year 7	11%	38%
Year 8	9%	14%
Year 9	-8%	-45%
Year 10	7%	27%
Ending Value	$1,569,832	$1,436,192
Average Return	**5%**	**8%**

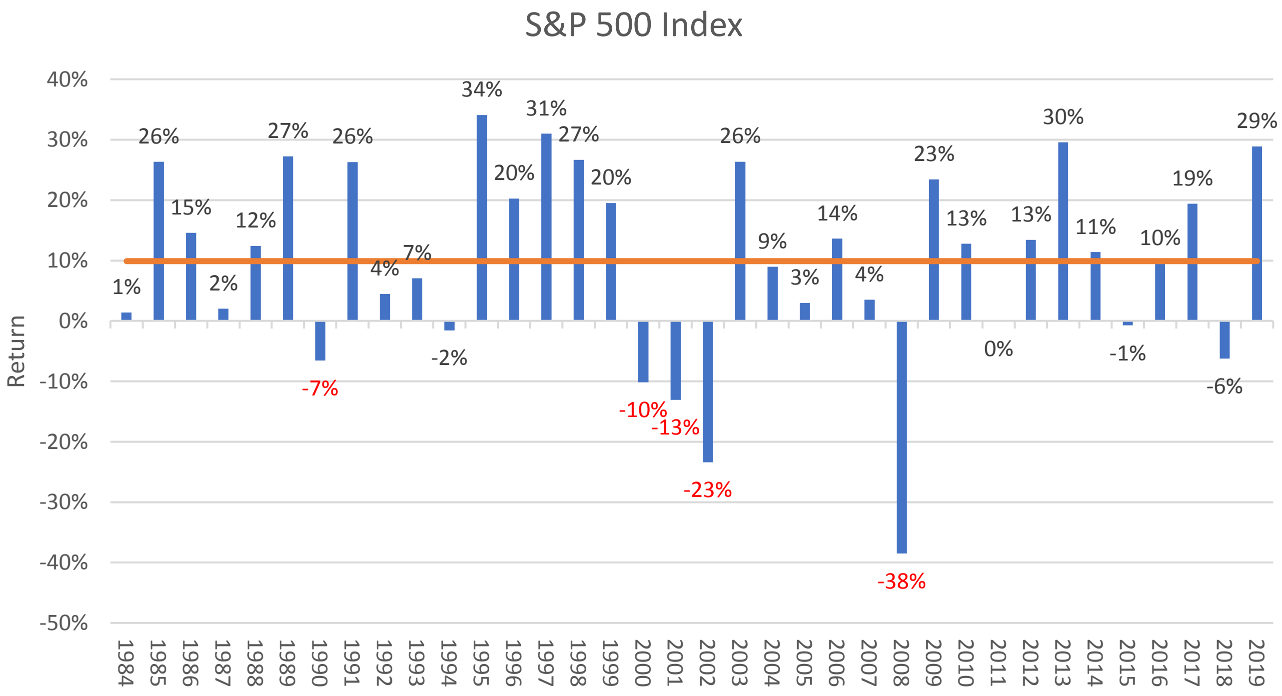
This chart is for illustrative purposes only and is not representative of any specific investment or mix of investments. *Loss deviation is the measure of dispersion about the average which depicts how widely negative returns vary during the investment period. The return numbers have been randomly generated for the illustrative purposes. These have been calculated on a yearly basis using randomly generated returns and should not be considered in isolation since it only measures the volatility of negative performance.

The Average Is What You Get By Making It Through The Gyrations

The S&P 500 Index Returns 10% A Year*

Don't get impatient.

The S&P 500 Index may not go up every year (and the stocks in it may be only a small part of your portfolio).



*No it doesn't. It has only returned 10% twice in about 100 years.

Past Performance is no guarantee of future performance. It Is not possible to invest directly in an index. The annual gain or loss in the S&P 500 Index from 12/30/1983 to 12/31/2019. Dividends are not included. The S&P 500 Index is an American stock market index based on the market capitalization of 500 large companies having common stock listed on the NYSE or NASDAQ, providing total return performance. Source of Data: Bloomberg L.P. accessed on 4/23/2020.

What Happens In The Unknowable Future Can Matter

- Starting Value: **$500,000**
- Income Distribution: **$25,000** with **3%** Inflation
- 2 Portfolios each with Average Return of **10.4%**

The only difference is that the order of the returns is reversed!

AGE	ANNUAL RETURN	PORTFOLIO A YEAR END BALANCE	ANNUAL RETURN	PORTFOLIO B YEAR END BALANCE
66	32%	$635,000	-37%	$290,000
67	-3%	$590,200	5%	$278,750
68	30%	$740,738	16%	$296,828
69	8%	$772,678	5%	$284,351
70	10%	$821,808	11%	$287,492
71	1%	$801,045	29%	$341,882
72	38%	$1,075,590	-22%	$236,817
73	23%	$1,292,229	-12%	$177,652
74	33%	$1,686,996	-9%	$129,994
75	29%	$2,143,605	21%	$124,673
76	21%	$2,560,164	29%	$127,231
77	-9%	$2,295,144	33%	$134,611
78	-12%	$1,984,082	23%	$129,928
79	-22%	$1,510,871	38%	$142,587
80	29%	$1,911,209	1%	$106,198
81	11%	$2,082,492	10%	$77,869
82	5%	$2,146,499	8%	$43,981
83	16%	$2,448,618	30%	$15,854
84	5%	$2,528,488	-3%	$0
85	-37%	$1,549,110	32%	$0
Average Return	**10.40%**		**10.40%**	

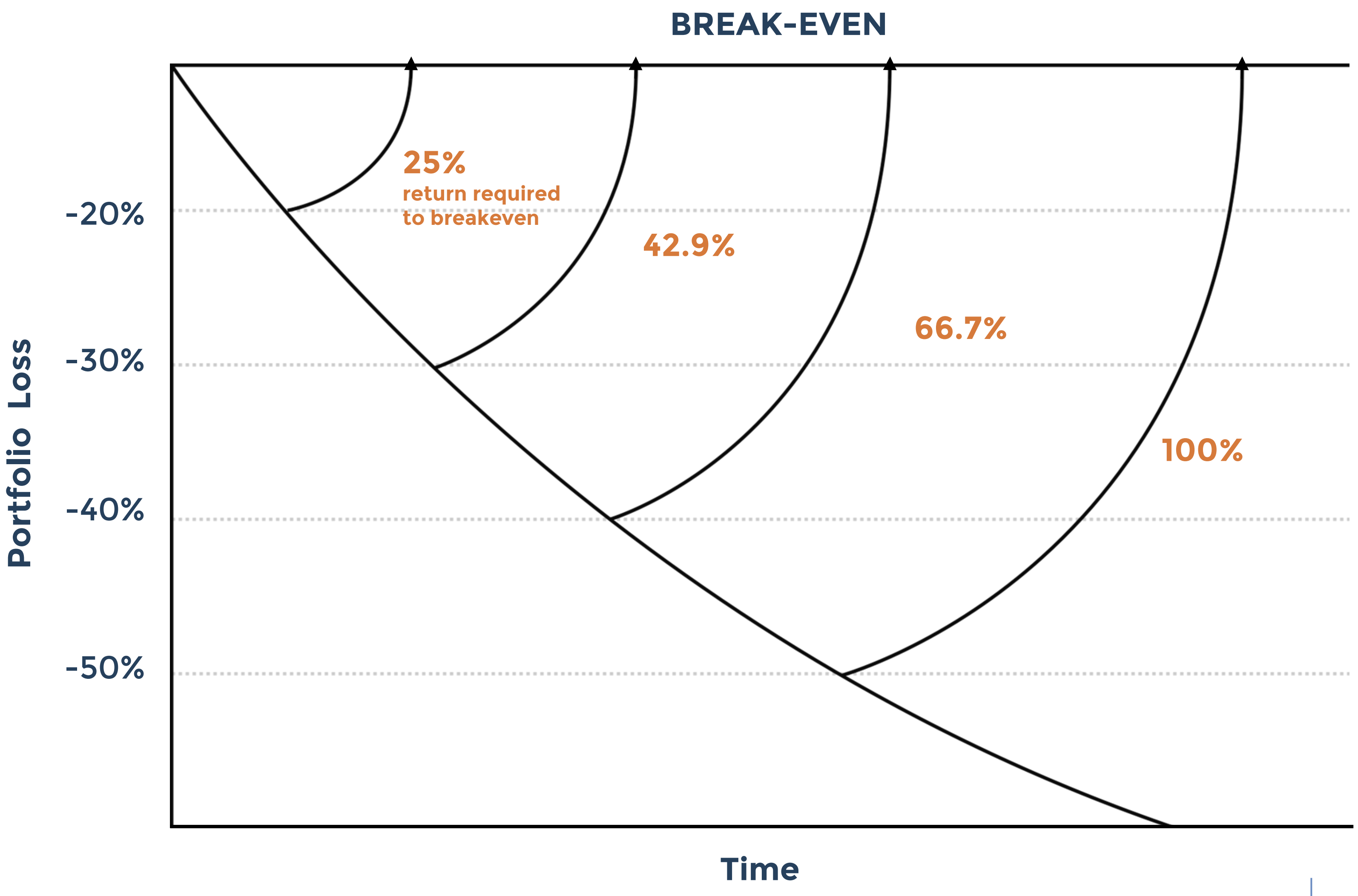
The performance shown is based on the assumptions listed above and is for Illustrative purposes only and is not based on any actual client account. The yearly income distribution starts at $25,000 and is compounded yearly with 3% inflation. This chart is for illustrative purposes only and is not representative of any specific investment or mix of investments. The return numbers have been randomly generated for the illustrative purposes. These have been calculated on a yearly basis using randomly generated returns and should not be considered in isolation since it only measures the volatility of negative performance.

The Importance Of Managing The Downside

Mitigating Declines
Can be more important than Beating Markets On The Upside

Number Of Years To Break-Even With Annual Return Of 10%*

20% Decline = 2.3 Years
30% Decline = 3.6 Years
40% Decline = 5.1 Years
50% Decline = 6.9 Years



Q&A

Dan Kullman
Director of Education and Training

INVESTMENTS & WEALTH INSTITUTE®

2021

INVESTOR BEHAVIOR IN A MARKET CRISIS

Brought to you by Investments & Wealth Institute.
Research conducted by Absolute Engagement.
Sponsored by Toews' Behavioral Investing Institute.

The Perception Gap

Clients often make investment decisions that run contrary to reaching the goals they have set. And we know that they do that because they are human.

Tackling this very human challenge means helping clients both identify and understand the behaviors that may be getting in the way of reaching their goals. To achieve that, advisors also will need to test their own assumptions and ensure they are providing exactly the right support based on client perceptions.

To support advisors in understanding and managing client behaviors, Behavioral Investing Institute partnered with Investments & Wealth Institute and Absolute Engagement to conduct in-depth research among both advisors and investors. This report summarizes the key findings of that research, incorporating input from 750 high-net-worth investors and 200 financial advisors.

Data was gathered via online surveys during April and May 2021. Profile information for both advisors and investors can be found in the appendix.

The research highlights two important points:

- Clients may not make the best decisions if they are not fully informed. The data shows that investor knowledge is both imperfect and, at times, overstated.
- Advisors may not provide the support that clients need if they do not understand client perceptions. The data shows a disconnect between advisor and client perceptions.

This report highlights the disconnects between investors and advisors as a starting point in bridging those gaps.

Perception is Reality

Only history can tell us, with accuracy, how investors will react in response to different market conditions. Understanding how clients might respond in the future is, of course, far more difficult. As human beings, we tend to forget the pain of the past. As a result, we may overestimate our ability to withstand pain in the future.

When it comes to the markets, the faulty memories of investors may cause them to make decisions that are not in their best interest. And it's equally important for advisors to understand exactly how investors are thinking.

For that reason, we believe it's important to understand two forms of perception:

- **Investor perceptions.** We need to understand what clients believe they will do in the face of specific challenges, such as market declines, a stock market bubble, or inflation, to identify potential behavioral traps.
- **Advisor perceptions.** We need to understand what advisors believe clients are thinking or feeling, to guard against the potential that those faulty assumptions may be driving the advice provided.

	Investors: To what extent do you agree with the following statements?	Advisors: To what extent do you think your clients would agree with the following statements about their own behavior?	Advisors: To what extent do you think your clients experience these behaviors?
	Percentage who "somewhat or completely agree" with the statement		
I am tempted to sell stocks when markets are going down.	29%	60%	68%
I feel impatient and want to make changes in my portfolio during periods of no or low growth.	31%	60%	63%
I want to sell the strategies that are not doing well compared to other strategies in my portfolio.	42%	67%	71%
I worry about missing out on gains and want to buy the strategy that is rising the fastest.	37%	52%	65%
I get impatient with strategies that have lower returns and want to exchange them for strategies that have higher returns.	34%	54%	68%
I don't believe that inflation and rising interest rates will impact my portfolio.	29%	25%	18%

When it comes to overall investment behaviors, there are some significant gaps between how investors believe they will behave and how advisors believe clients will behave.

- Investors are dramatically less likely than advisors to believe they will respond negatively to specific market conditions.
- Advisors overstate how clients perceive their own reactions. They are much more likely to believe that investors will exhibit negative behaviors.

The most significant gaps between how investors view their own behavior and how advisors view investor behavior relate to the following:

- The temptation to sell stock when markets are going down.
- Feelings of impatience with strategies with lower returns and a desire to exchange them for strategies with higher returns.
- Feelings of impatience and a desire to make changes in the portfolio during periods of no or low growth.

Investor Knowledge

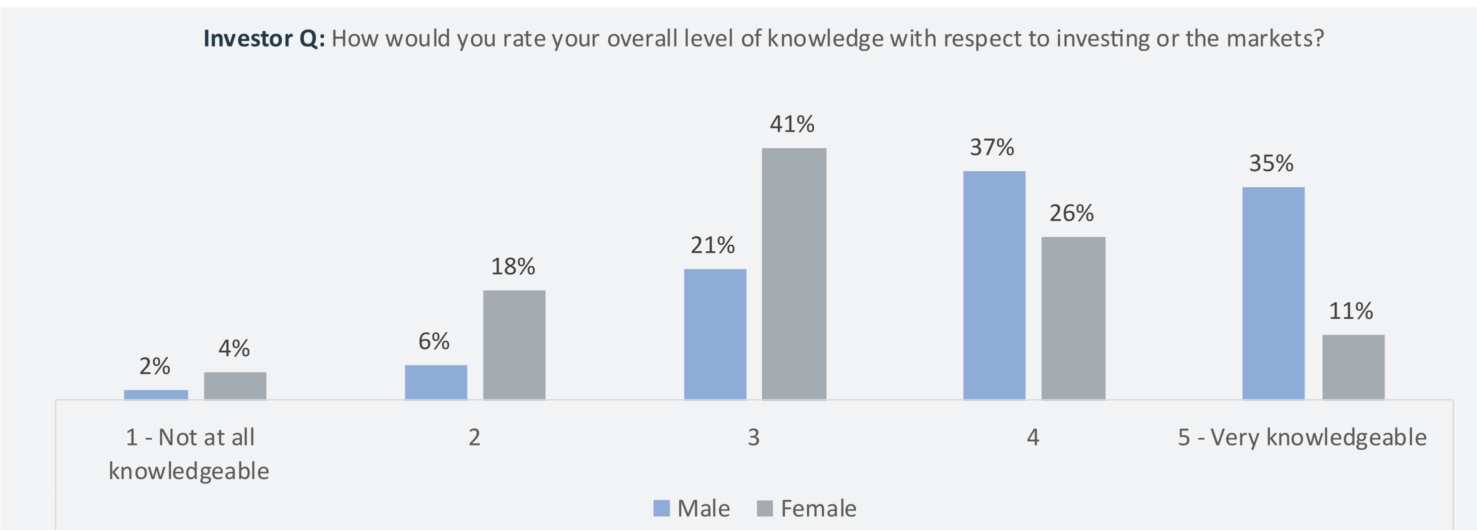
It is accepted wisdom that our level of knowledge—or our perceived level of knowledge—with investing or the markets will impact decision making. Fifty-five percent of investors rate themselves as "somewhat knowledgeable" or "very knowledgeable" regarding investing or the markets.

Investor Q: How would you rate your overall level of knowledge with respect to investing or the markets?

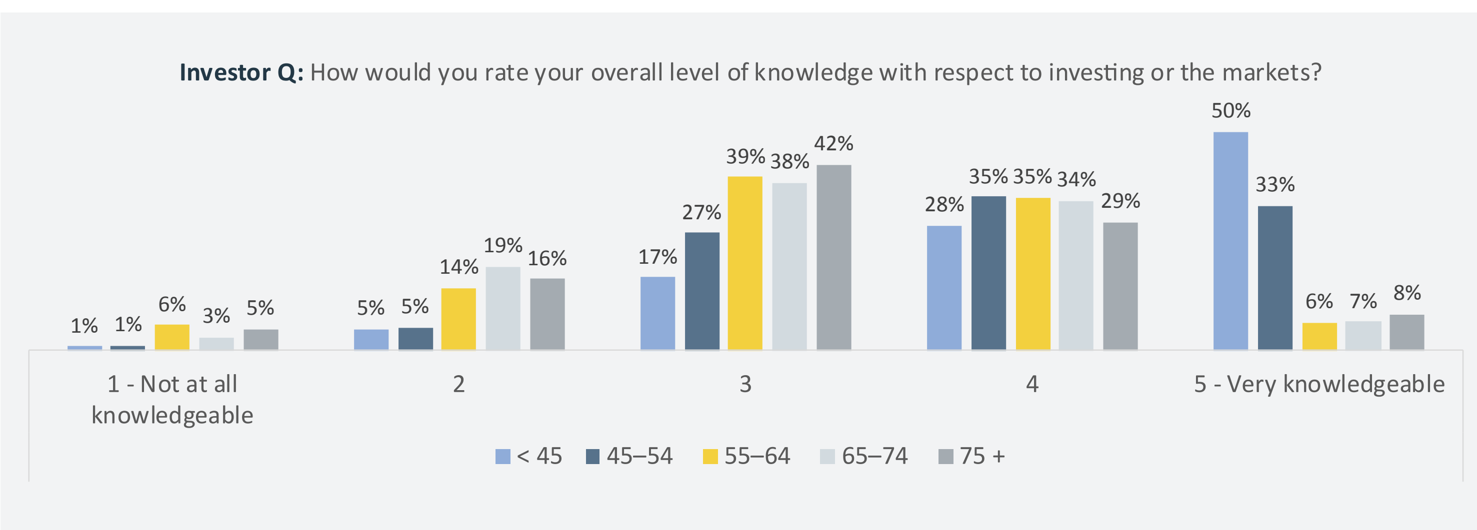
1 – Not at all knowledgeable	**3%**
2	**11%**
3	**31%**
4	**32%**
5 – Very knowledgeable	**23%**

The averages, in this case, can be misleading because self-perceived knowledge changes significantly across client segments. There are important differences based on gender, age, and wealth, and those differences may impact decision-making.

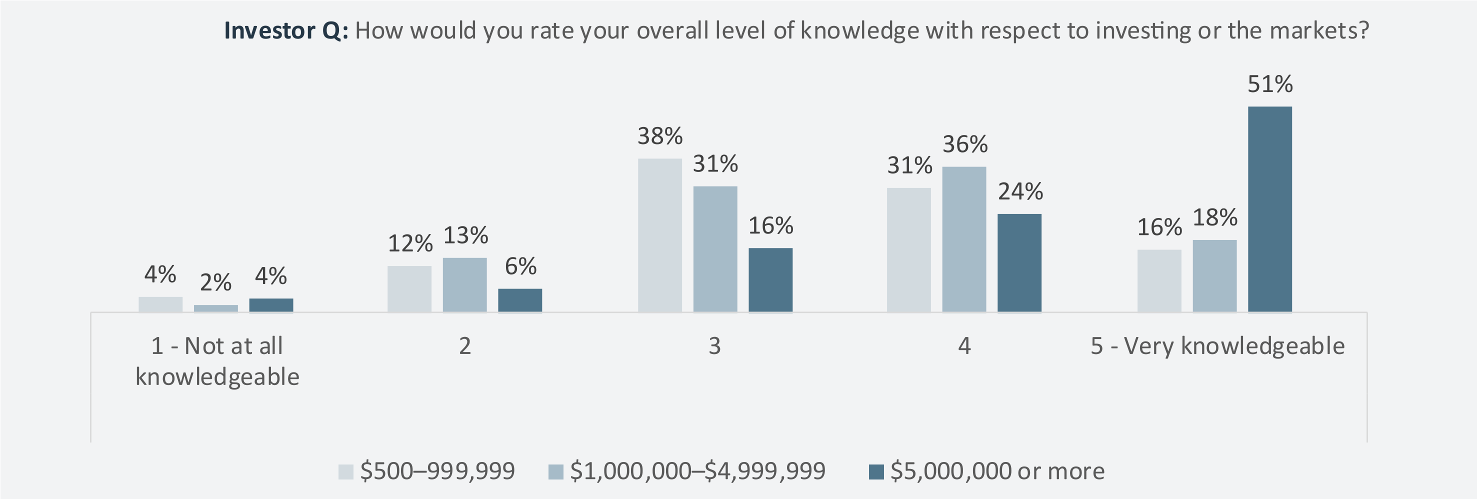
Women tend to rate their investment knowledge as lower.



Younger clients tend to rate their knowledge as higher.



Wealthier clients tend to rate their investment knowledge as higher.



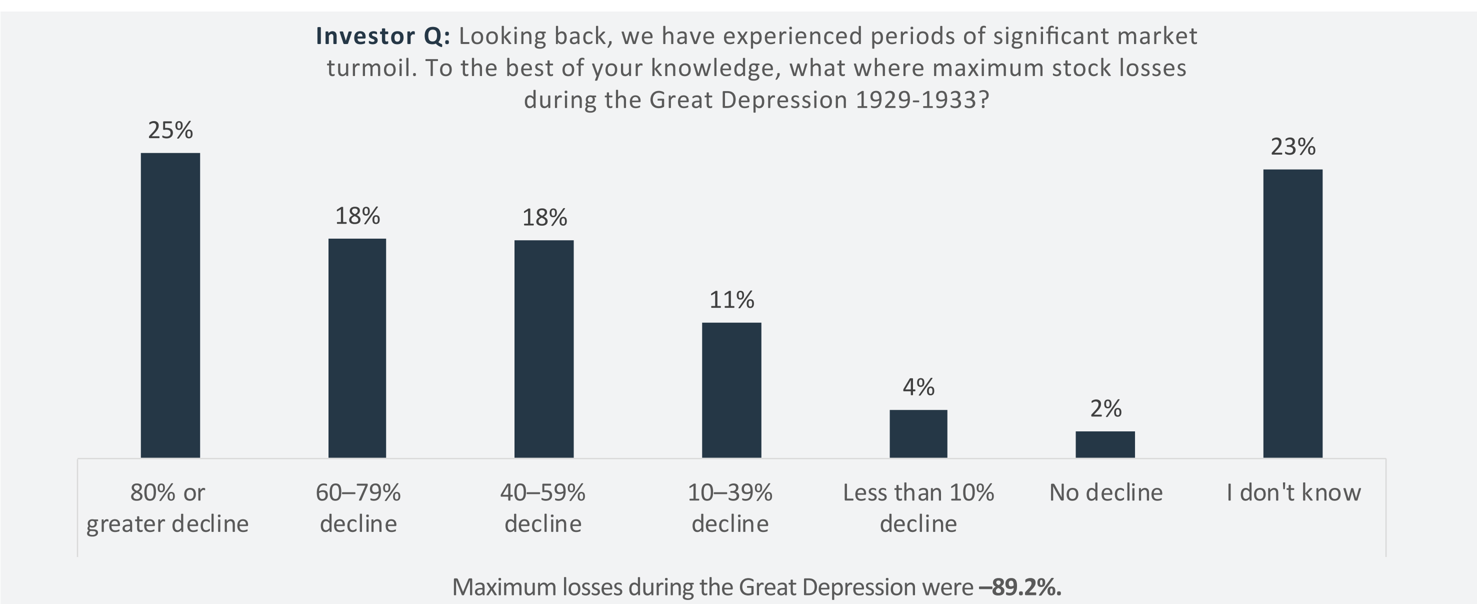
Looking Back: Understanding Losses

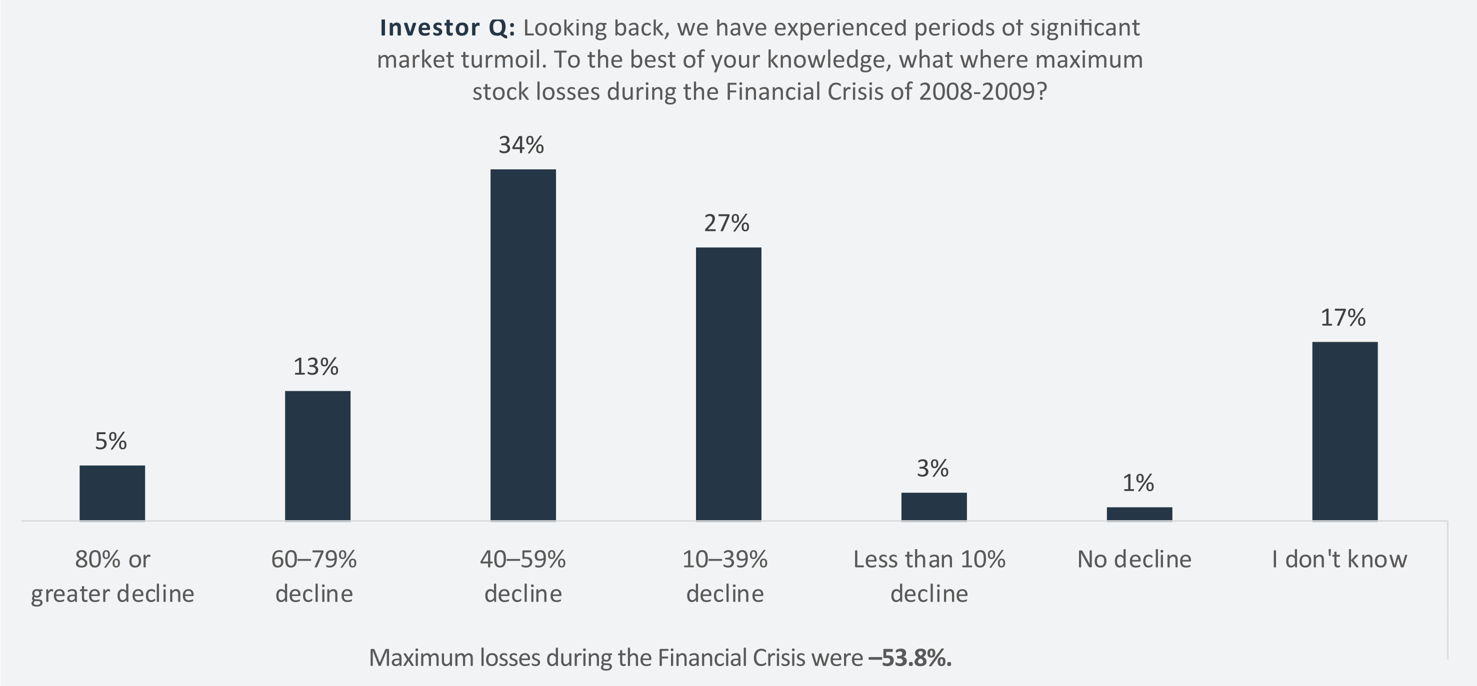
Self-perceived knowledge can, of course, be wrong. For example, we know that investor "knowledge" is imperfect when it comes to recalling maximum stock losses during specific times in history.

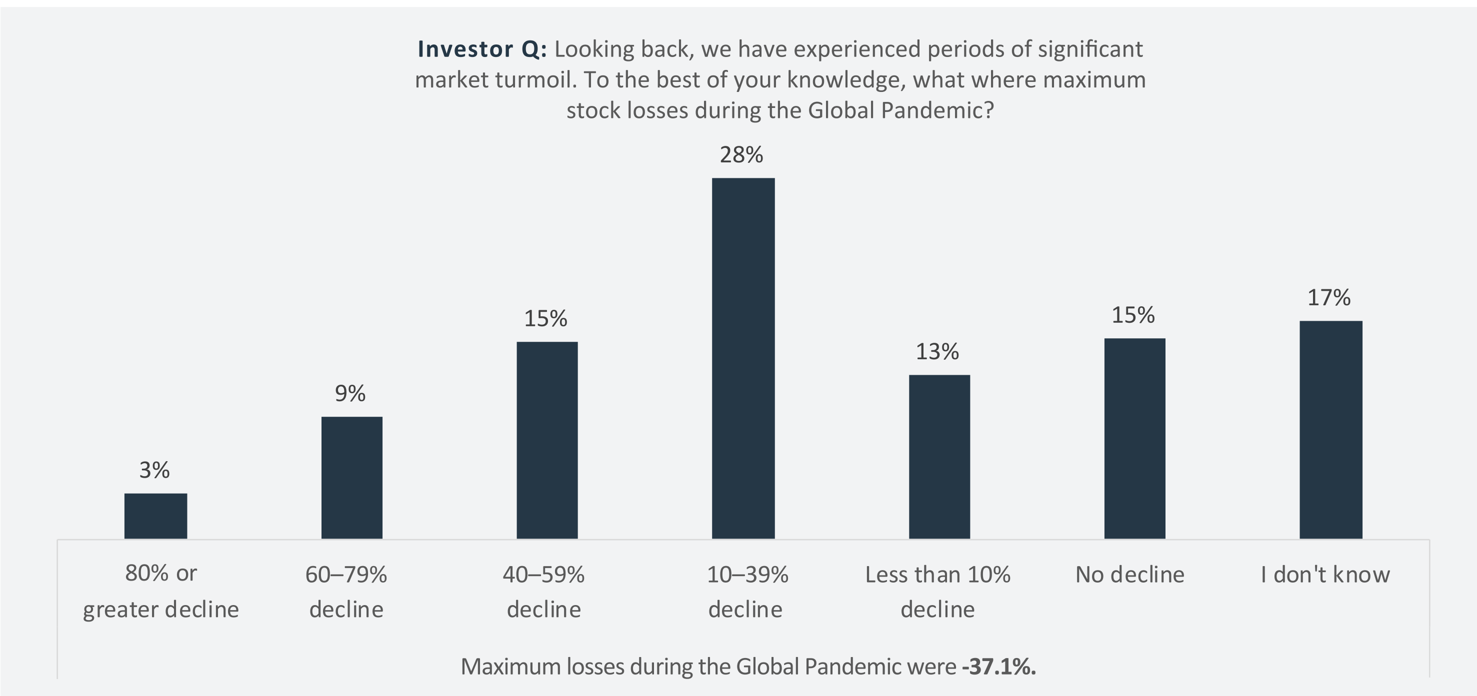
Time Period	Percentage of investors who indicated they can recall maximum stock losses during this period	Percentage of investors who accurately recalled maximum stock losses during this period
The Great Depression (1929–1933)	77%	25%
The Financial Crisis (2008–2009)	83%	~34%
The Global Pandemic (since March 2020)	83%	~28%
		~ Approximately

The charts below show the range of understanding—or lack of understanding—of maximum losses during the periods identified in the previous table. Several things are clear:

- Perceived understanding of losses is lower for periods of time that are considerably further away, such as the Great Depression.
- There is a significant range of responses. That is, when clients are wrong, they can be wrong to a significant degree.
- Even during recent periods of uncertainty, there is a lack of understanding of maximum losses.





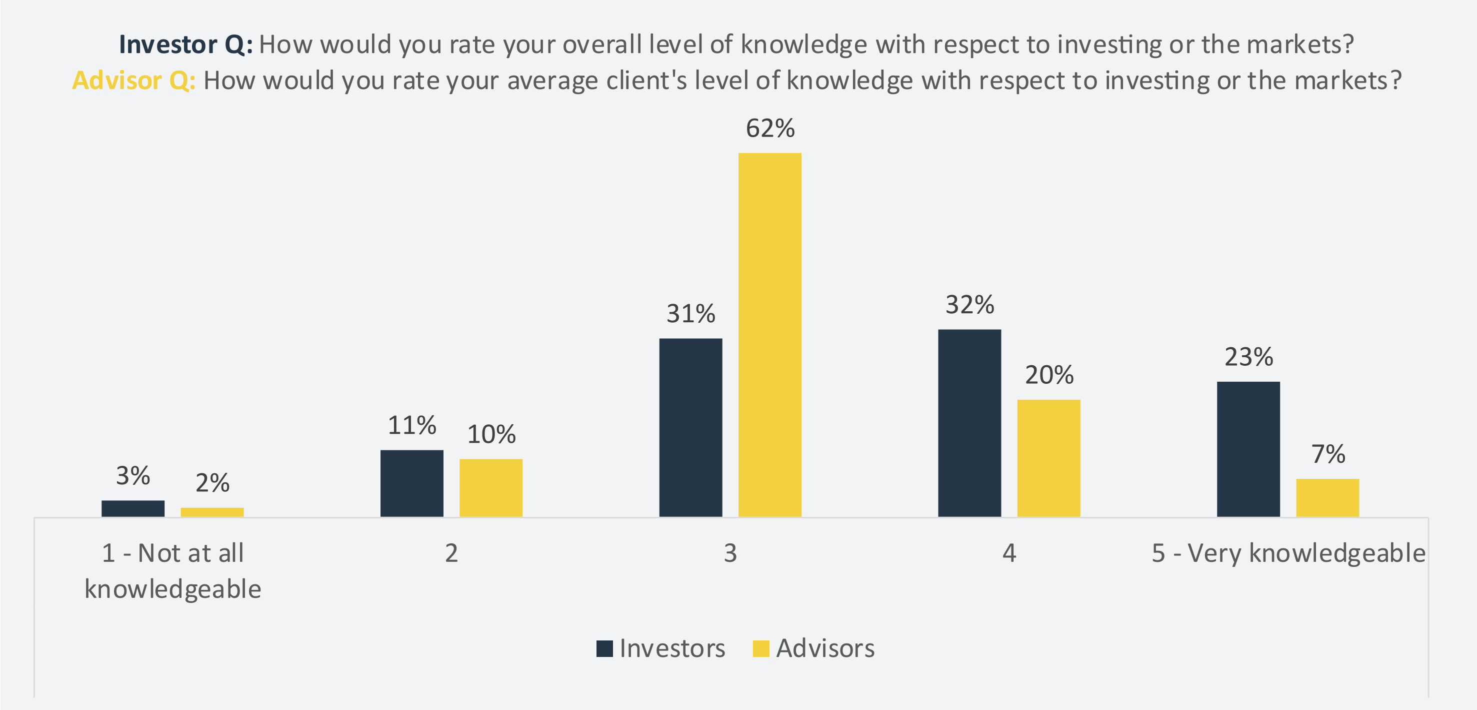


Women, older clients, and clients with less wealth are consistently more likely to respond “I don’t know” on questions related to maximum losses. This reflects their self-perception that knowledge is lower.

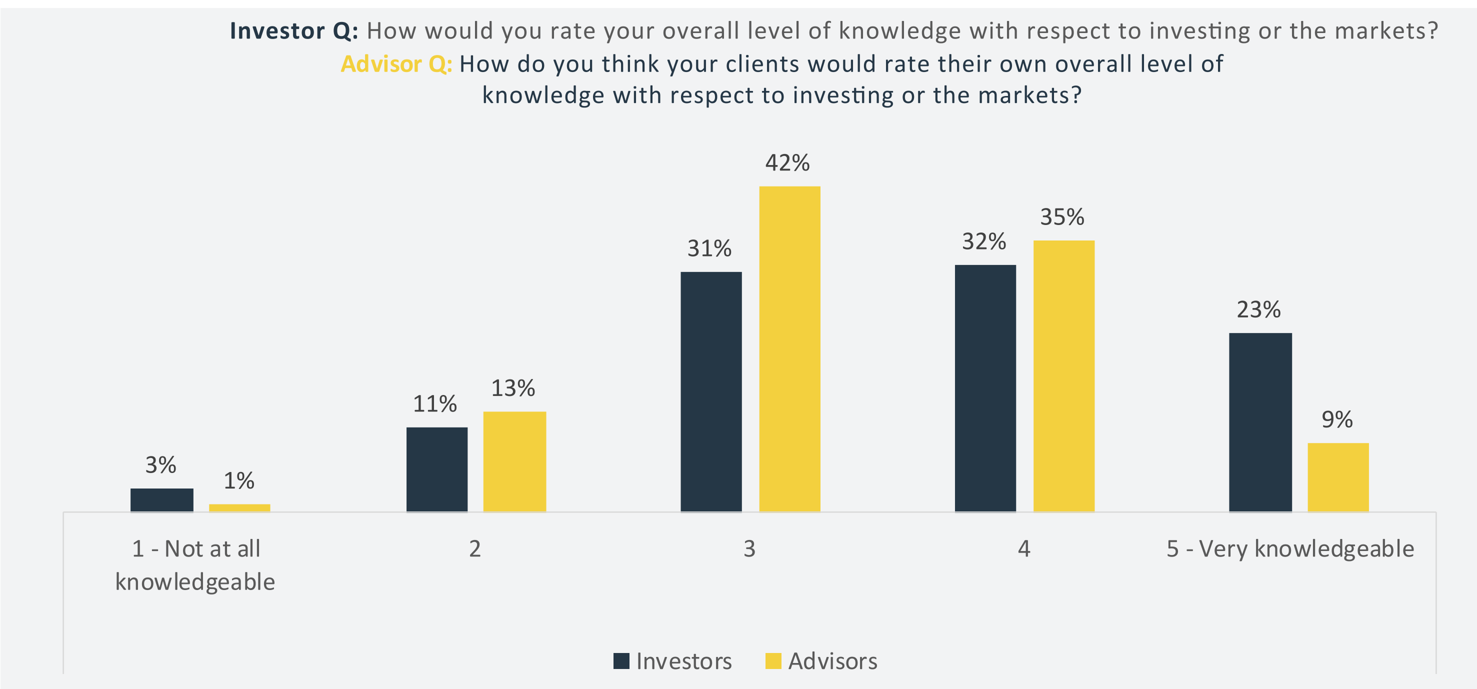
The Knowledge Disconnect

Advisors tend to be less optimistic about investor knowledge, and they may, in fact, be more realistic. However, advisors may not fully realize the extent of the difference between their perceptions and those of clients. They believe clients will rate their level of knowledge even lower than they do.

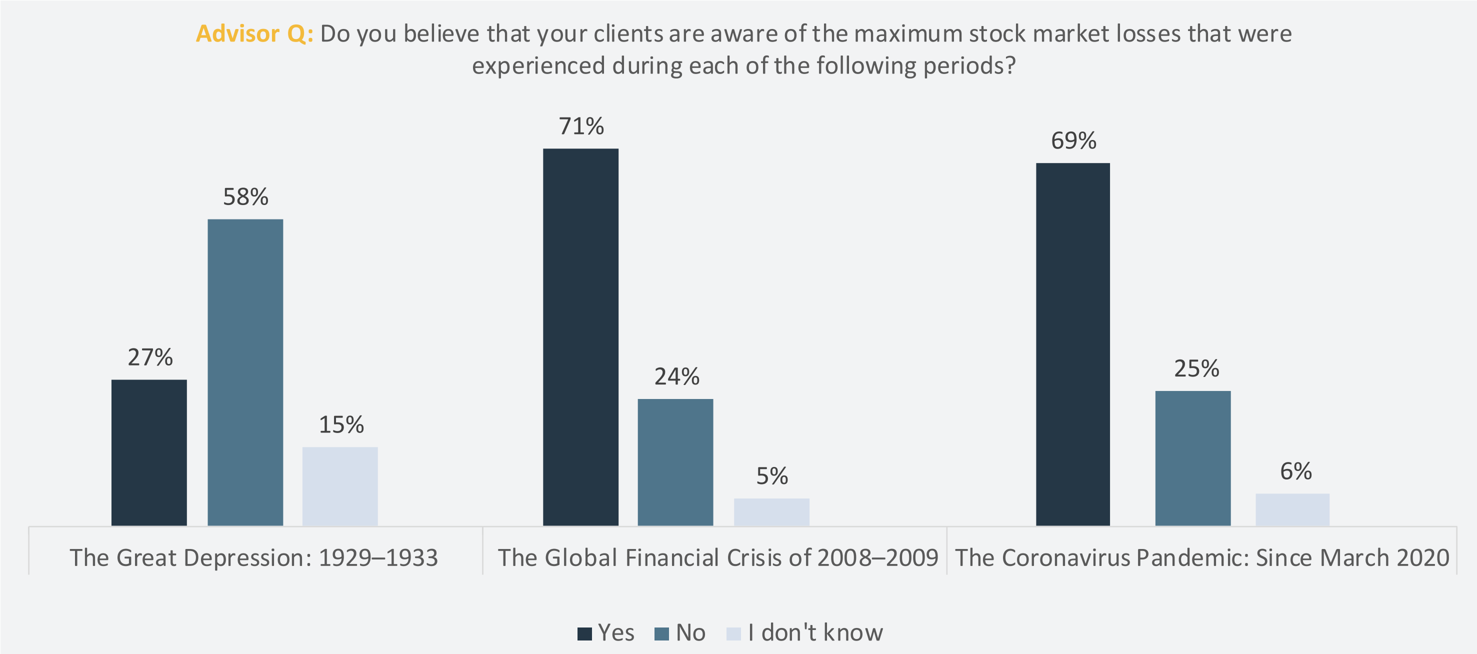
Three-quarters of advisors believe that client investment knowledge is moderate to low, compared to 45 percent of investors.



Fifty-six percent of advisors believe that clients will rate their knowledge as moderate to low, compared to 45 percent of investors.



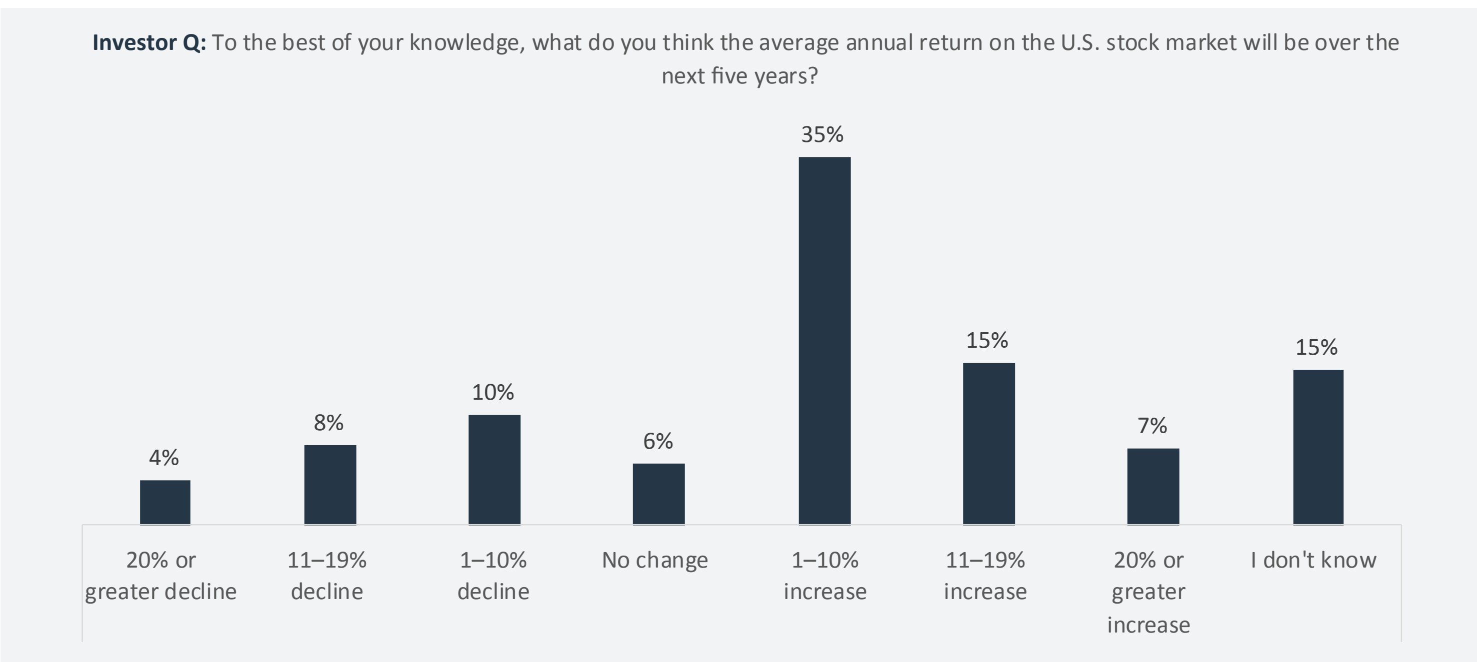
This disconnect is reinforced when advisors are asked if clients will be able to accurately identify maximum stock losses during defined periods of time. Advisors significantly overestimate the extent to which investors understand those losses.



Looking Forward: Expected Returns

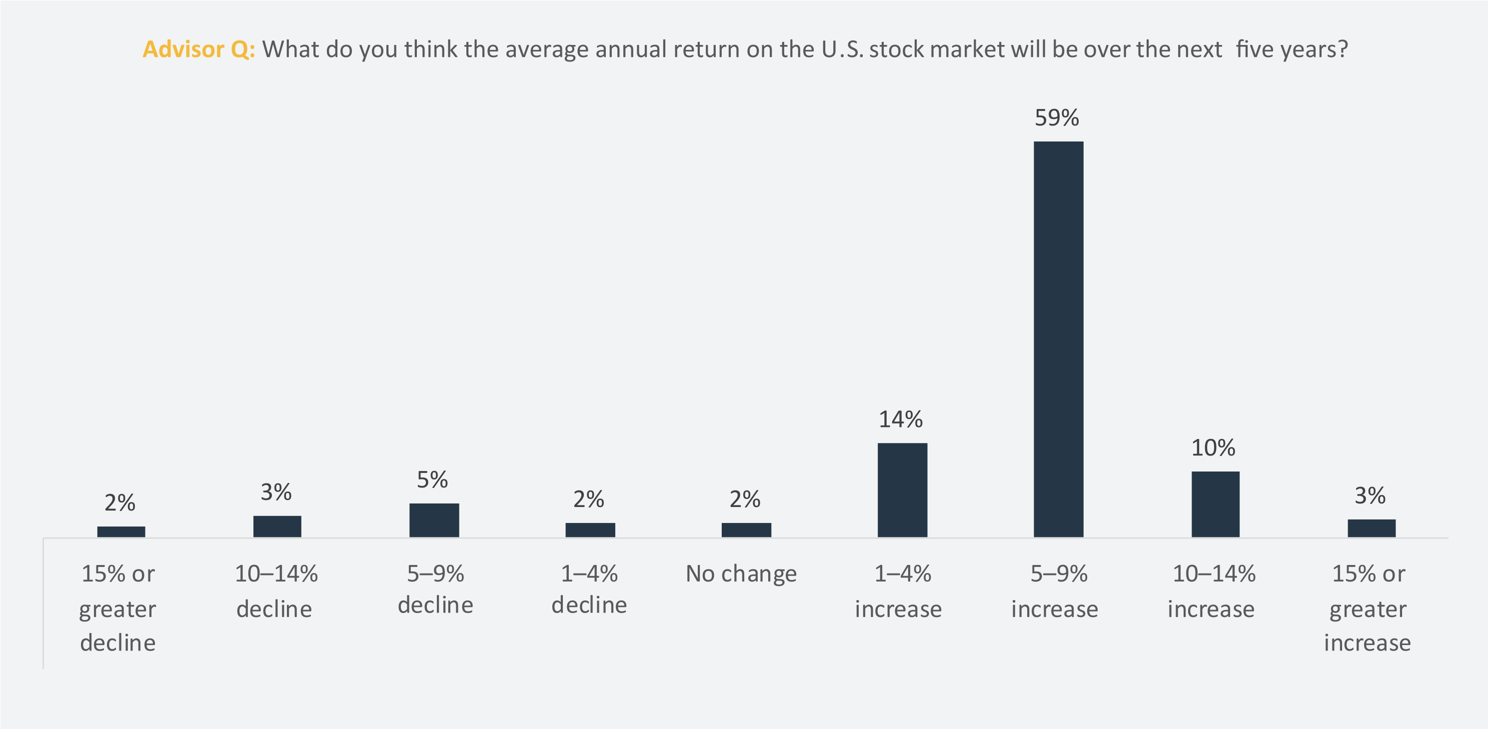
Investment decision-making is, of course, not only tied to perceptions of the past but to beliefs in the future. Among investors, there is a general consensus that the market will go up. However, 22 percent believe there will be a decline.

The trends among key segments continue when looking forward. Women and older clients are more likely to say they don't know what returns will be.

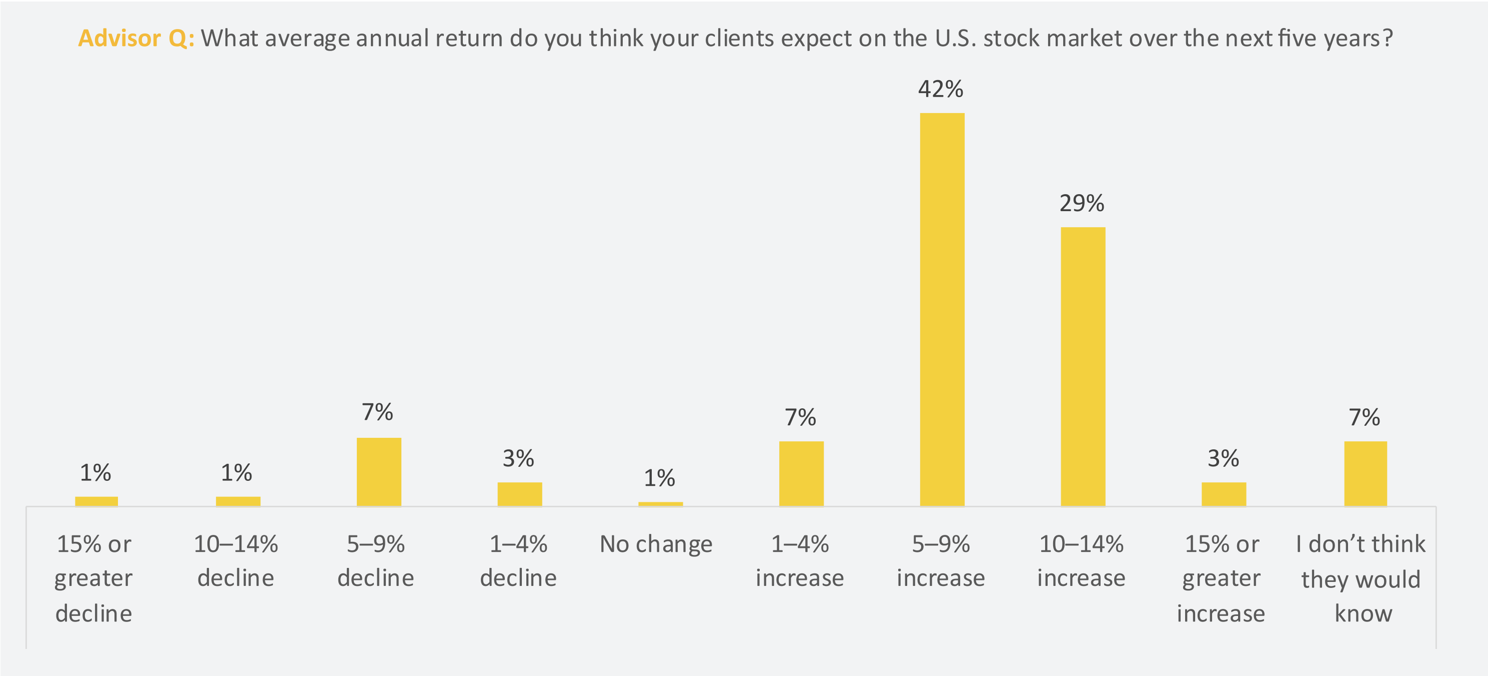


The Expectations Disconnect

Advisors are more optimistic than investors; they also believe investors are more optimistic. A majority of advisors expect returns of 5 to 9 percent; however, 14 percent believe the stock market will be flat or decline.



Advisor optimism translates to their perception of investor expectations. Although about half of advisors think investors expect returns between 1 and 9 percent, only *35 percent of investors believe that will be the case.

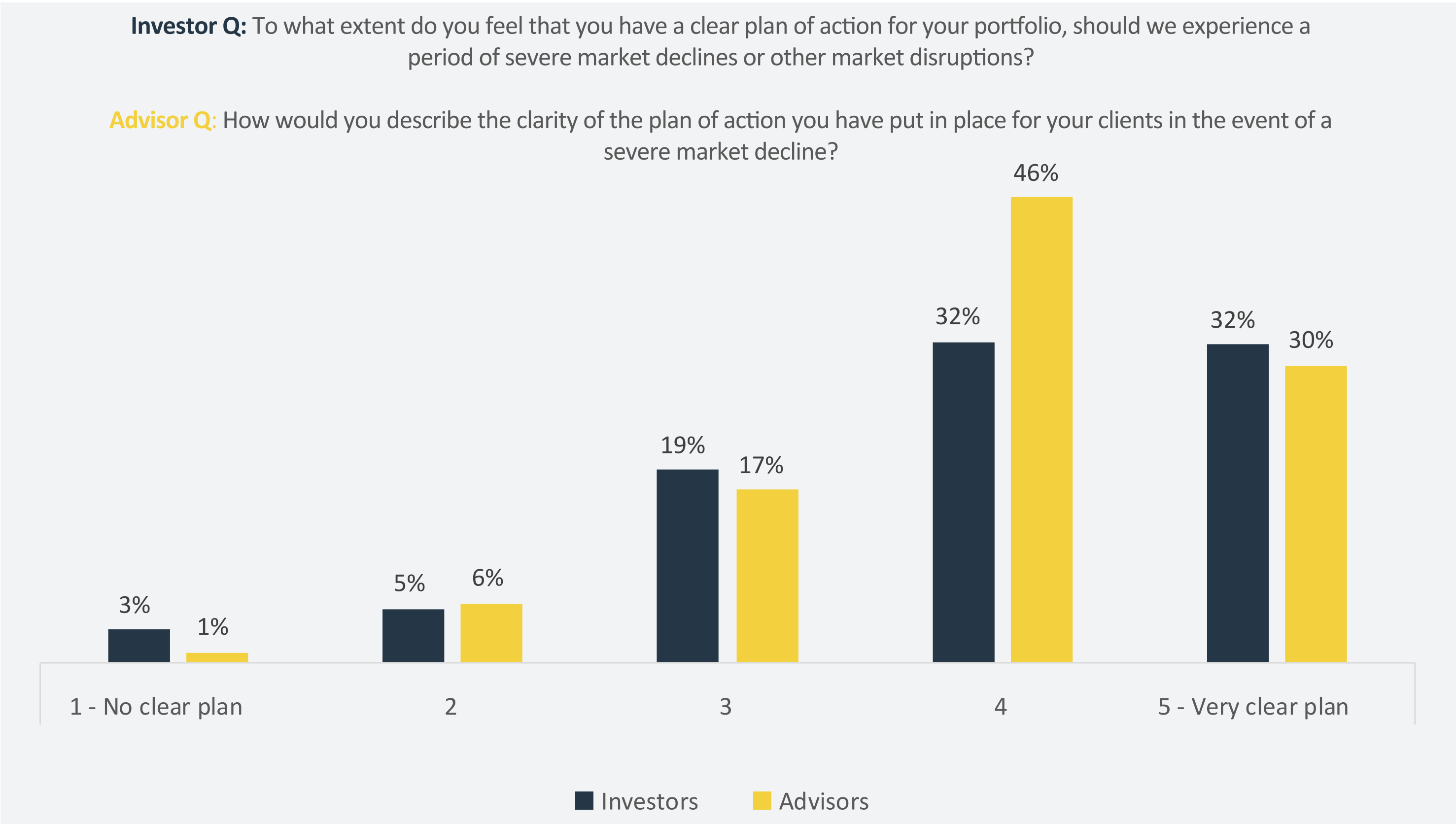


Creating and Communicating a Plan of Action for Clients

Irrespective of differences in knowledge, perceptions, or expectations, many advisors are planning for the unknown. That is, they are both designing and communicating plans in the event of significant market declines, stock market bubbles, or inflation. Despite those efforts, investors may not be aware of the plans that are in place.

*Data point not shown in graph

A high percentage of advisors say they are proactively planning for market declines. Seventy-six percent of advisors believe they have put together clear plans of action for their clients, should they experience a period of severe market declines or other market disruptions. Although the investors surveyed are not the clients of the advisors surveyed, there is a clear difference of opinion. Sixty-four percent of clients believe they have a clear plan of action in place.



However, advisors are not optimistic that clients understand they have a clear plan in place. Only 11 percent of advisors felt their clients would describe the plan as "very clear."

The question, then, is what advisors would recommend to their clients during periods of market decline? There is a general consensus that they would recommend that clients invest more in the stock market, particularly if the market falls 40 percent or more.

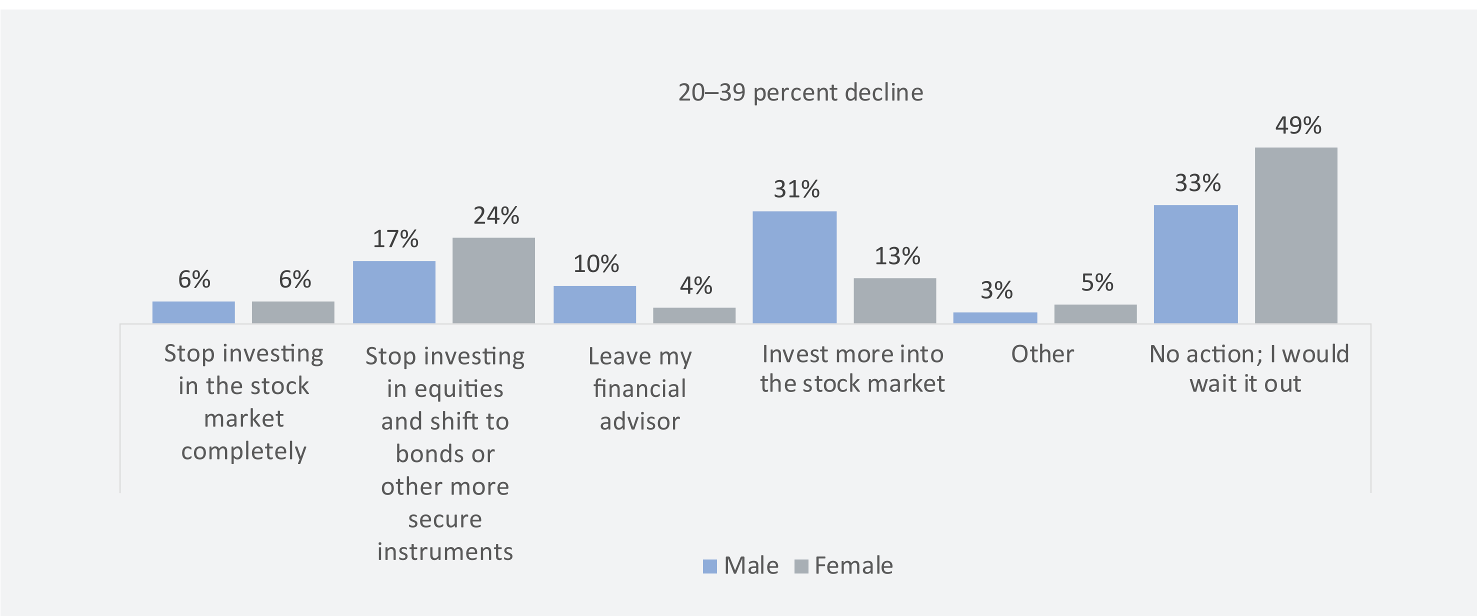
	Stop investing in the stock market completely	Stop investing in equities and shift to bonds or other more secure instruments	Invest more into the stock market	Other	No action; I would recommend they wait it out
If the market fell by **20–39%** for a period of up to two years, what would you recommend to your clients?	0%	7%	55%	16%	22%
If the market fell by **40–49%** for a period of up to two years, what would you recommend to your clients?	1%	9%	62%	16%	12%
If the market fell by **50% or greater** for a period of up to two years, what would you recommend to your clients?	3%	8%	60%	16%	13%

But what do investors say? The same question was asked of investors, with the addition of the potential that they might leave their advisor. The percentage who indicated they would change advisors was, thankfully low, but much higher in younger investors.

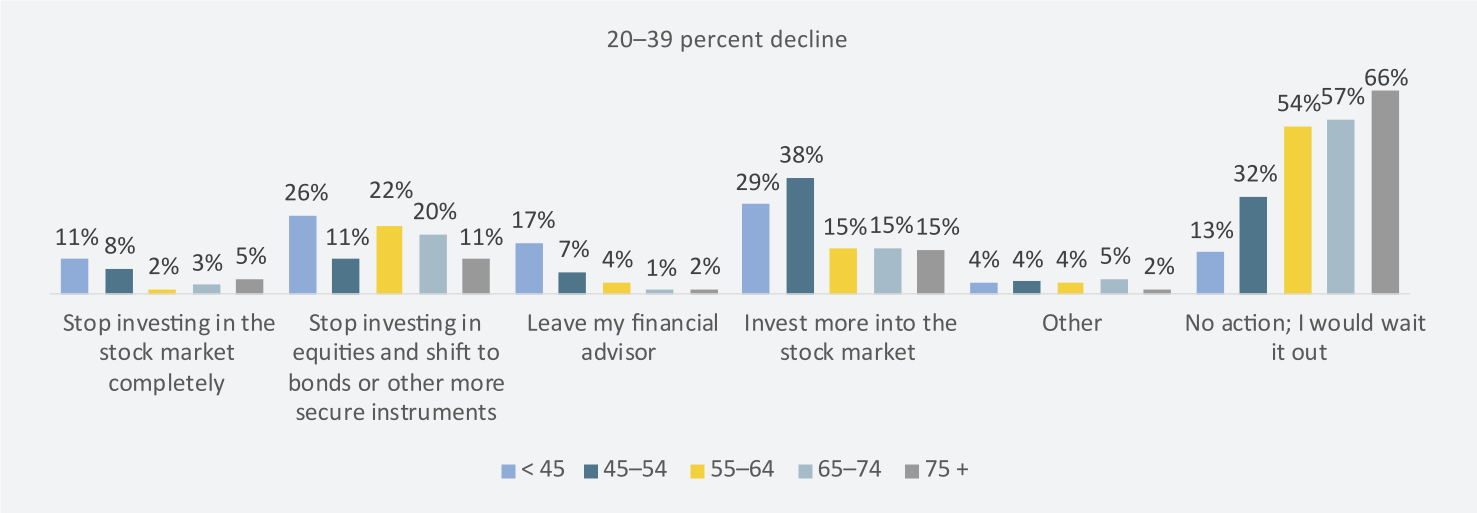
Investor Q: How do you think you would respond if the market fell by the amounts below for a period of up to two years?
Advisor Q: How do you think your clients would respond if the market fell by the amounts below for a period of up to two years?

	Stop investing in the stock market completely	Stop investing in equities and shift to bonds or other more secure instruments	Invest more into the stock market	Leave my financial advisor/ consider changing advisors	Other	No action; I would recommend they wait it out
20–39 percent decline						
Investors	6%	20%	22%	7%	4%	40%
Advisors	10%	42%	13%	2%	7%	26%
40-49 percent decline						
Investors	10%	22%	20%	9%	3%	37%
Advisors	19%	39%	10%	4%	8%	20%
50 percent or greater decline						
Investors	12%	20%	22%	8%	4%	33%
Advisors	31%	24%	13%	9%	6%	16%

As we look at perceived responses, we continue to see differences based on client segments. As the chart below demonstrates, women are more likely to say they would wait things out and less likely to say they would invest more in the stock market.

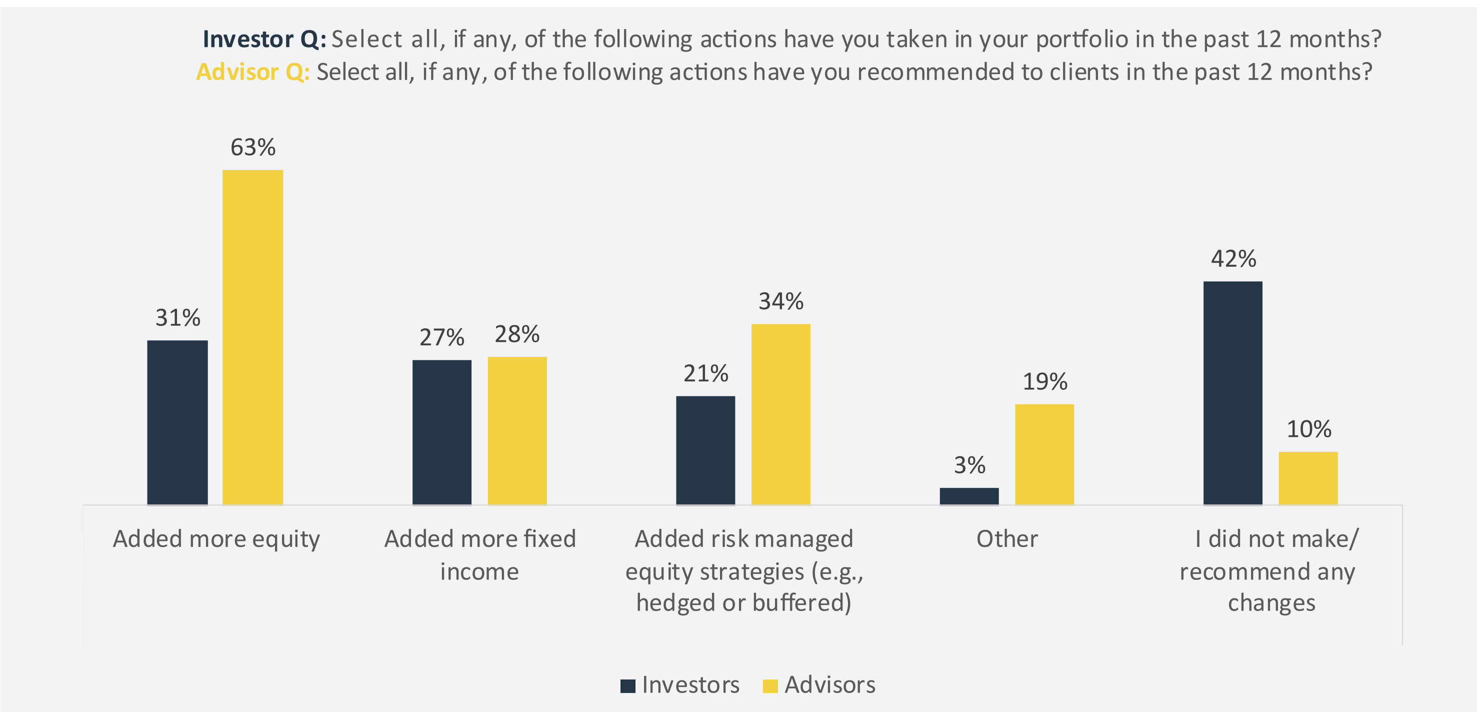


Older clients were significantly more likely to indicate they would wait things out.



Responding to Current Market Conditions

In the past 12 months, a majority of advisors indicated they recommended an increase in equity positions in client portfolios, with roughly one-third recommending more fixed income or risk-managed equity strategies. However, investors were four times more likely to say they did not make any changes and fewer than one-third indicated they had added more equity.

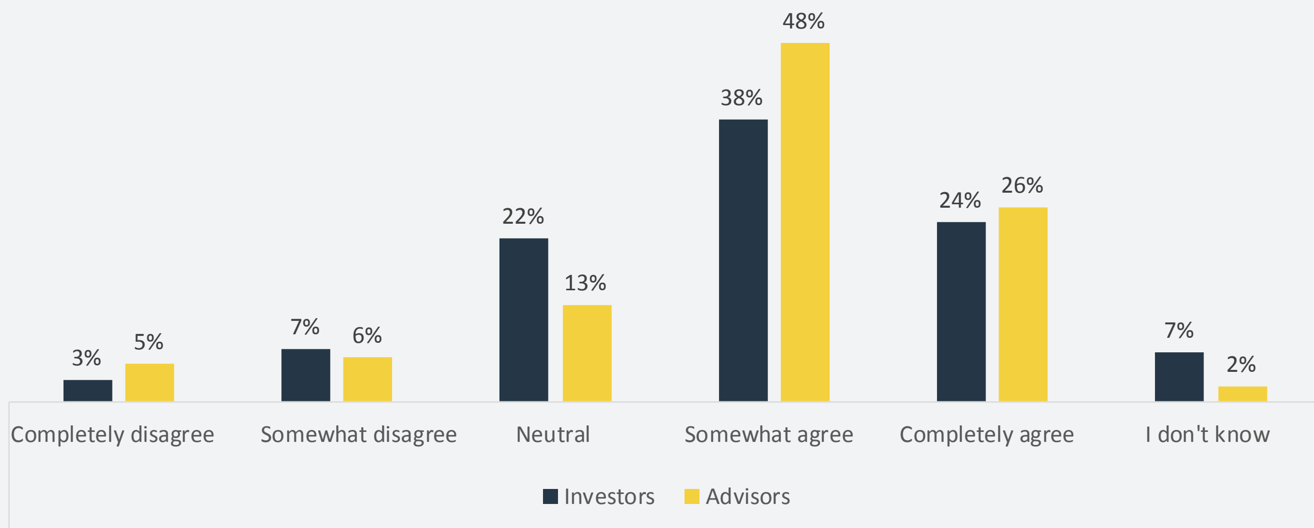


When asked if they would accept lower returns if they felt confident that the risk of losses would be reduced, investors and advisors are reasonably aligned. Fifty-nine percent of advisors believe that clients should accept lower returns to limit risk. However advisors think 74 percent of investors would agree that that was the best idea. Sixty-two percent of investors agreed.

Investor Q: To what extent do you would agree or disagree with the following statement?

Advisor Q: To what extent do you think your clients would agree or disagree with the following statement?

"I would accept lower returns if I was confident that the probability of experiencing significant losses due to negative market events would be lowered.

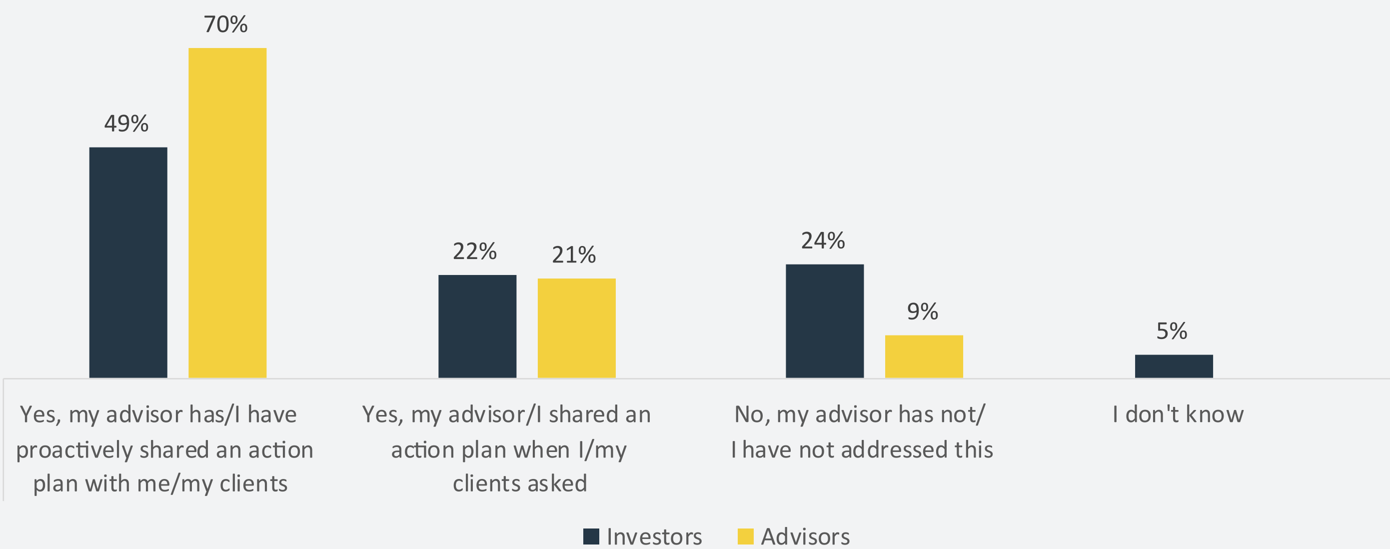


Communicating the Plan

Having a plan is one thing, however, communicating that plan is entirely different. Although a majority (70 percent) of advisors indicated they have proactively shared a plan with clients, only 49 percent of clients indicate that that is the case.

Investor Q: Has your advisor addressed what actions should be taken in your portfolio in the event of a significant or severe market decline?

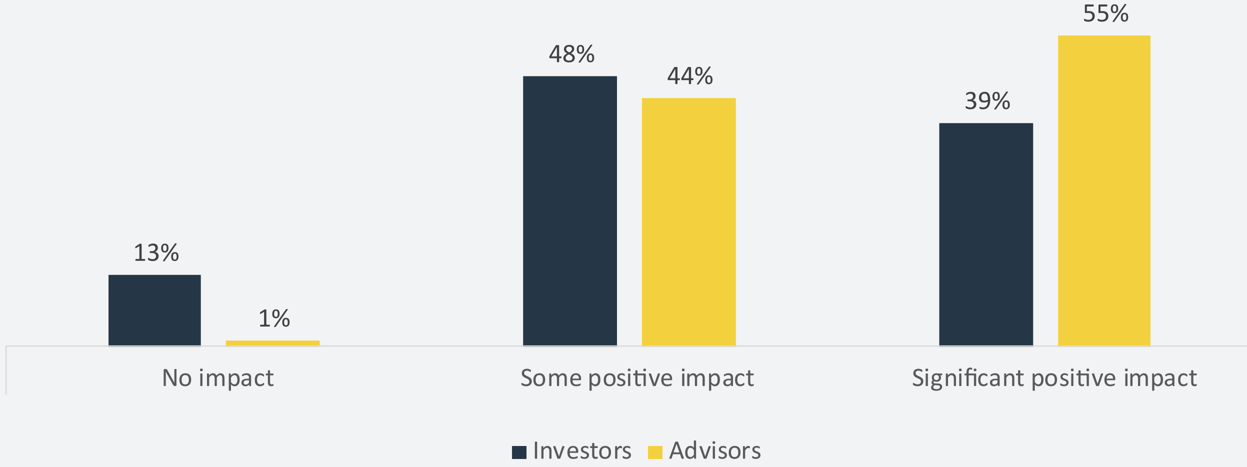
Advisor Q: Have you shared, with your clients, what actions should be taken in their portfolios in the event of a significant or severe market decline?



Investors see significant benefits to having a clear plan in place as it relates to their overall peace of mind. If they have a plan, they understand the benefits and see it as very positive. Eighty-seven percent of clients, who indicated they had a clear plan in place, said there was a positive benefit. Advisors also see a clear benefit.

Investor Q: What impact did this have on your peace of mind regarding your financial future? (n=clients who responded "Yes" on having a clear plan of action)

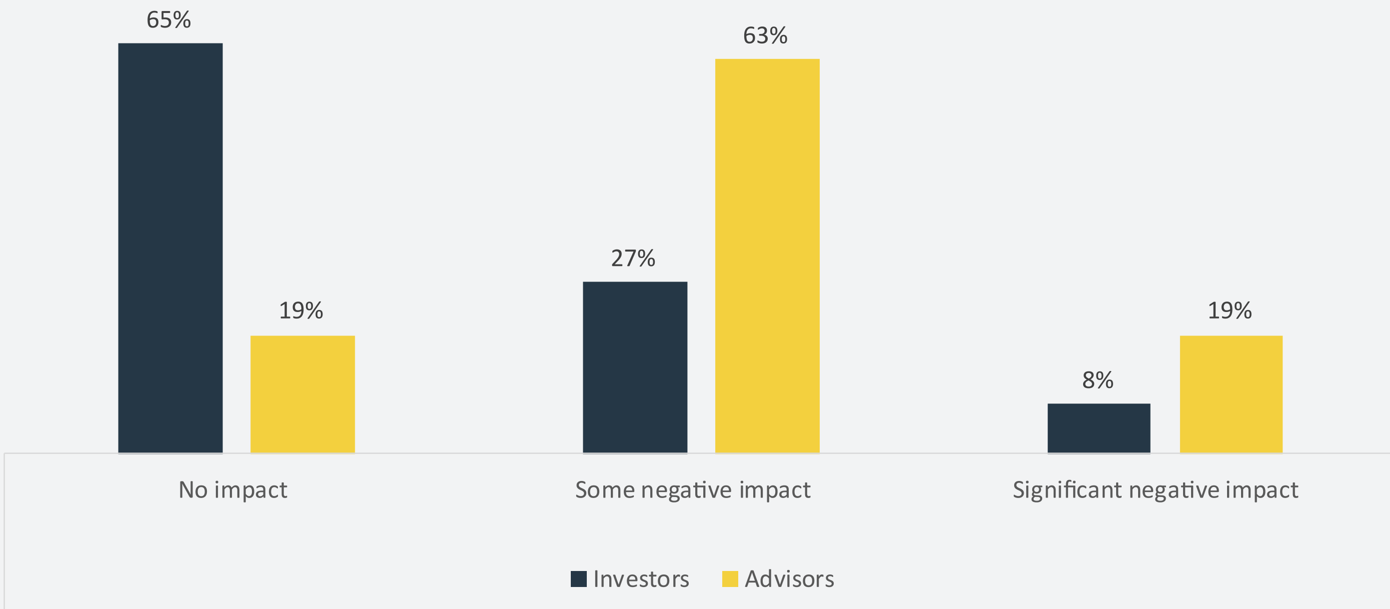
Advisor Q: How do you think your clients would describe the impact on their peace of mind of having a specific plan in place should we experience a period of severe market declines or disruptions?



It is interesting to note, however, that when investors don't have a clear plan in place, they do not necessarily see a negative impact. It is difficult to understand the implications of something you have not experienced. Advisors are considerably more likely to see the negative impact.

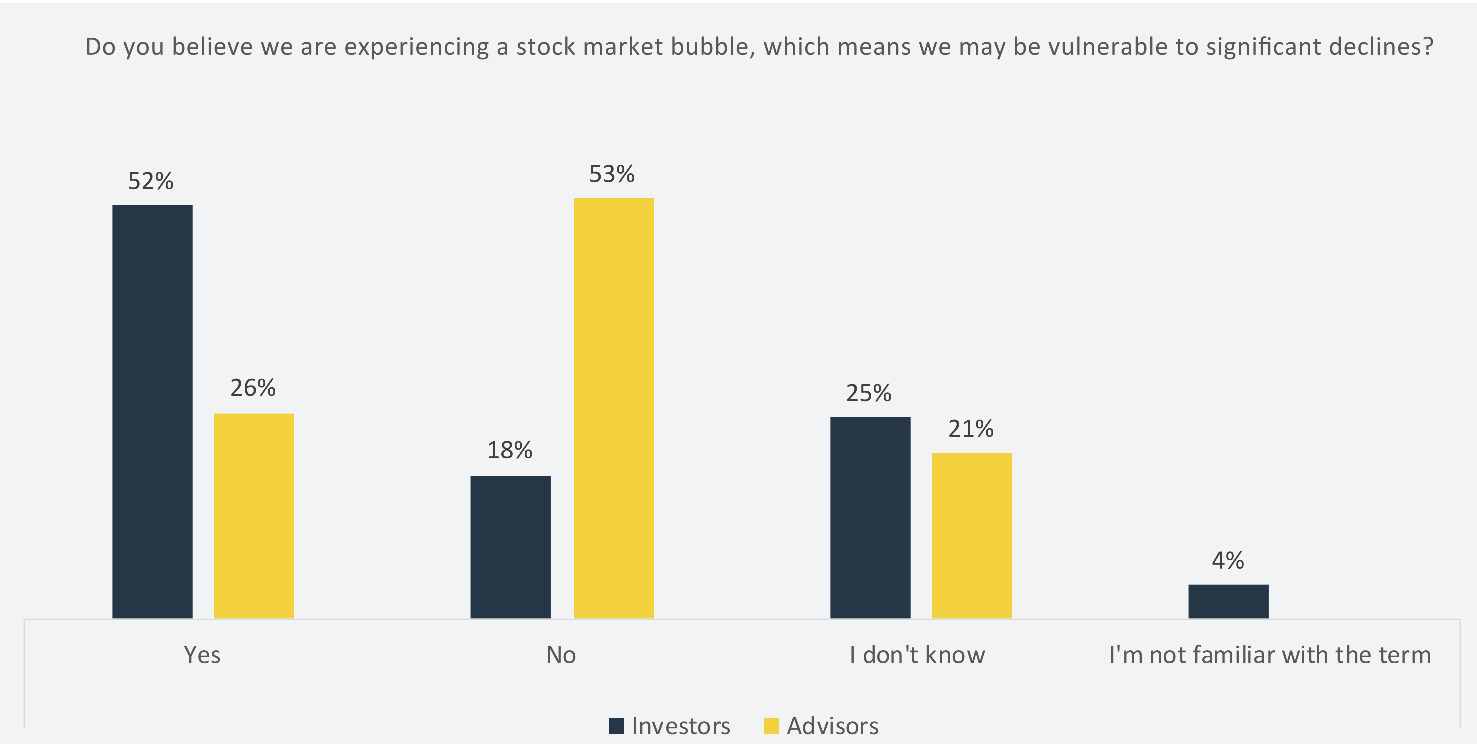
Investor Q: What impact did this have on your peace of mind regarding your financial future? (n=clients who responded "No" on having a clear plan of action)

Advisor Q: How do you think your clients would describe the impact on their peace of mind of not having a specific plan in place should we experience a period of severe market declines or disruptions?

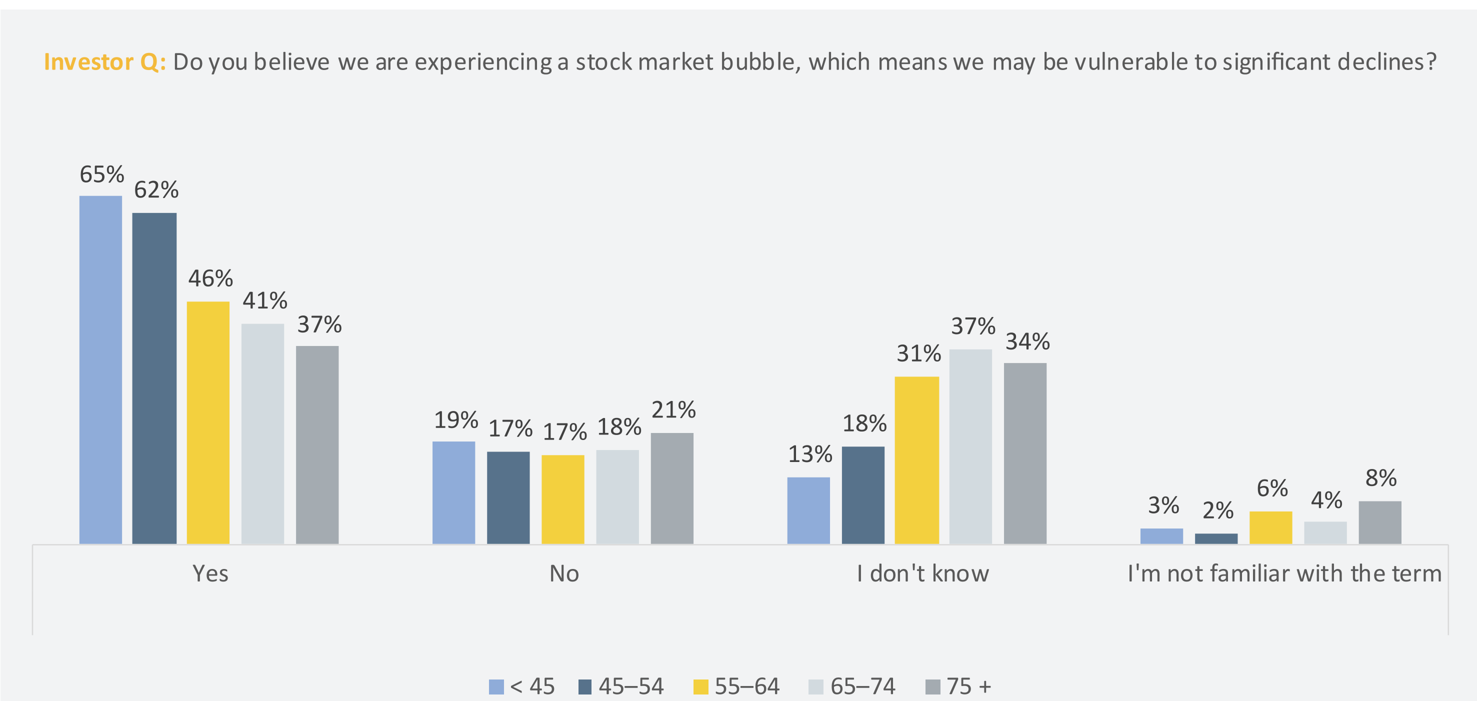


Planning for a Stock Market Bubble

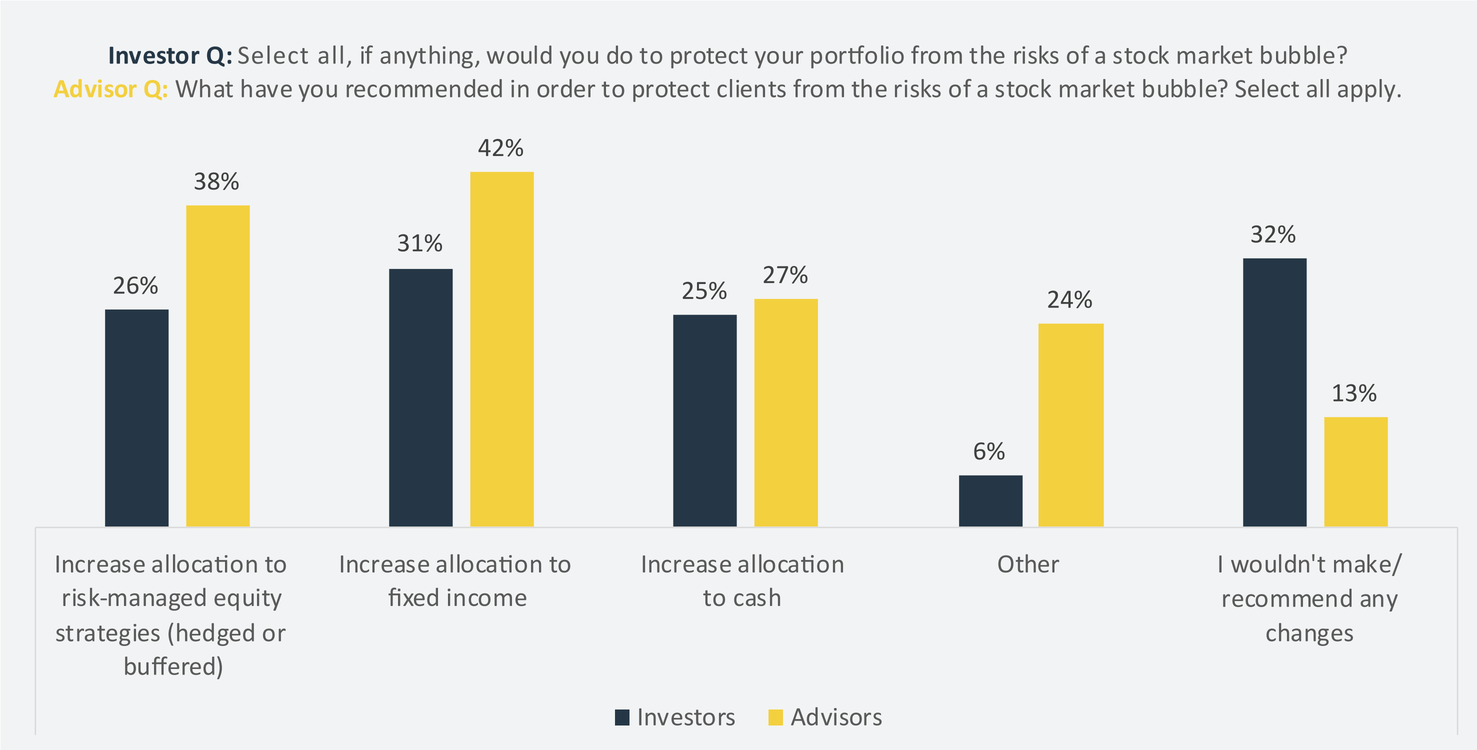
One area in which investors and advisors are very far apart is how they define current market conditions (as of May 2021). About twice as many investors as advisors believe that we are experiencing a stock market bubble.



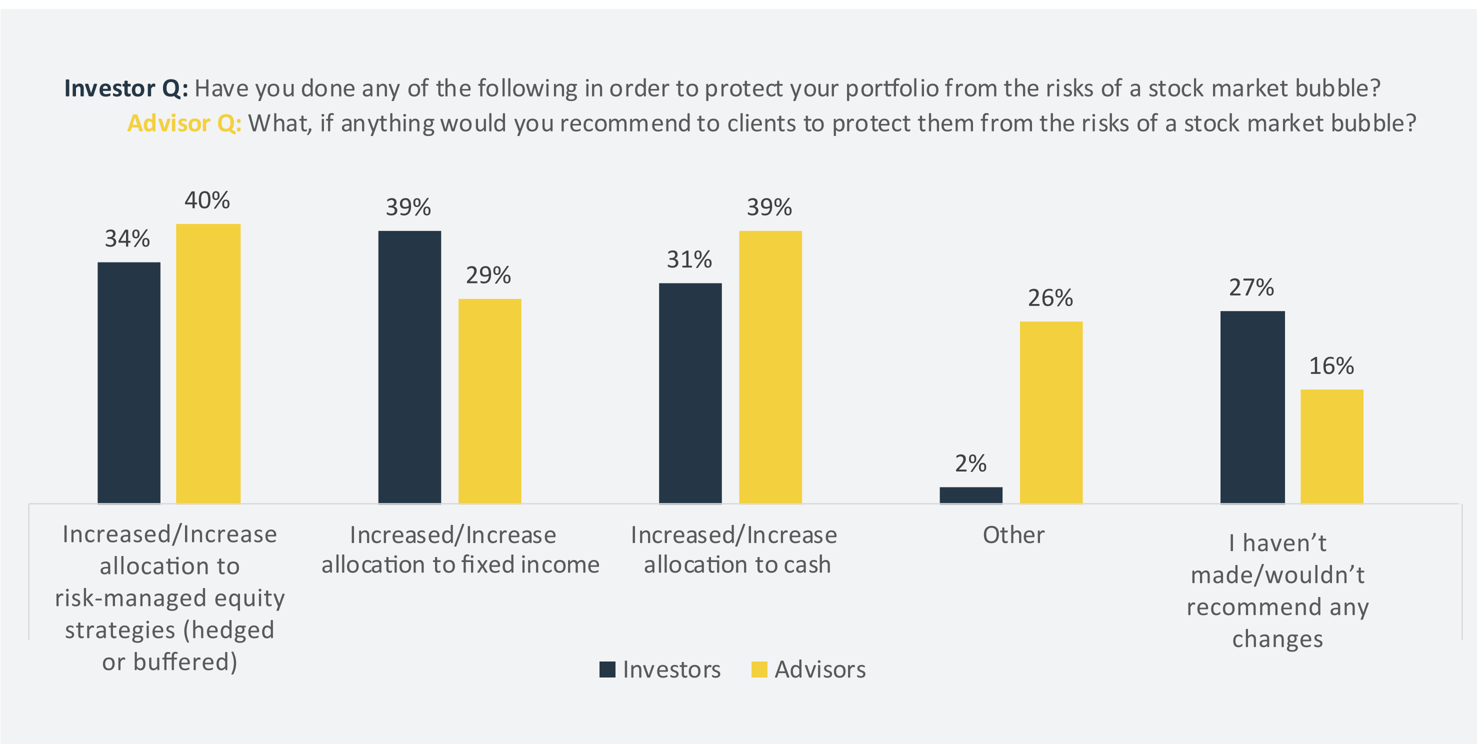
Younger clients, who identify as more knowledgeable, are more likely to say we are experiencing a bubble.



Perhaps as a result of the disconnect, there is also a disconnect on the best response to a bubble. Among those advisors and investors who do not believe we are experiencing a stock market bubble, there is a disconnect on what to do should that change. Advisors are considerably more likely to suggest an increased allocation to risk-managed equity strategies and fixed income. Investors are considerably more likely to want to stand firm and do nothing.

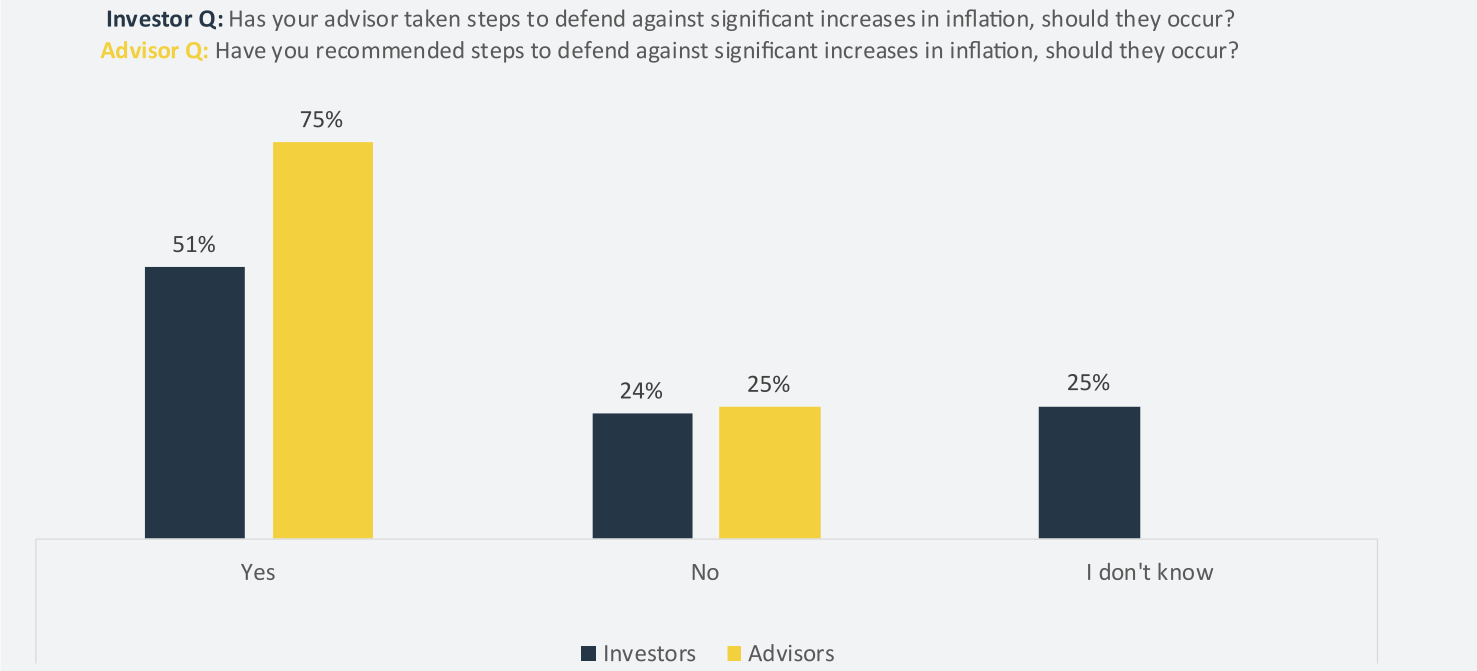


However, among investors and advisors who believe we are experiencing a stock market bubble, there is more alignment on the appropriate response.

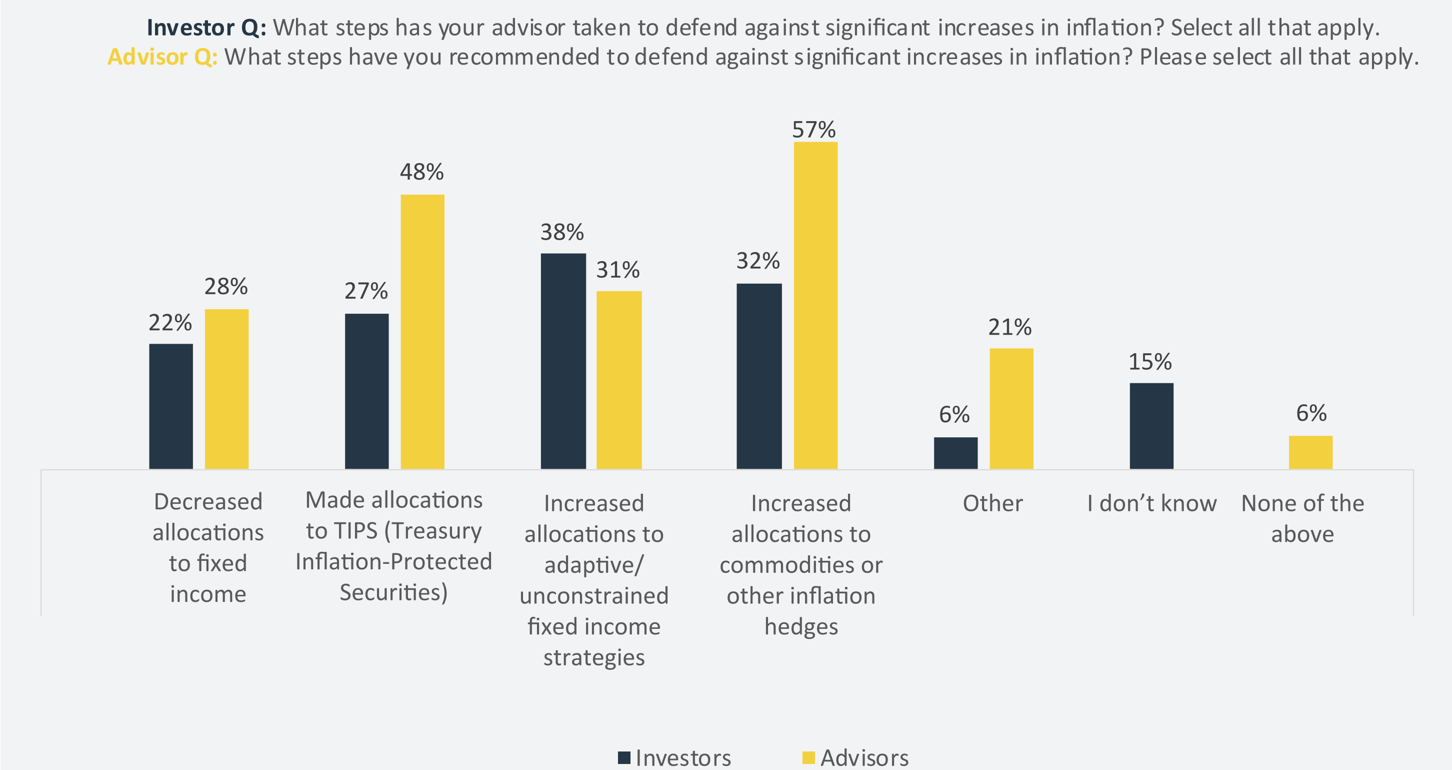


Planning for Inflation

When it comes to planning to defend against significant increases in inflation, advisors and investors have different views on the clarity of the plan. Three-quarters of advisors indicated that they had taken steps to defend against inflation, dropping to 51 percent for investors.



It is not surprising that investors have a different understanding of what has been done to protect against inflation. Among advisors, the two dominant strategies allocate more to Treasury Inflation–Protected Securities (TIPS) and increase allocations to commodities or other inflation hedges.



Conclusion

There is little debate that investors fall victim to emotional responses that may run contrary to their long-term goals. The data gathered highlights this point and demonstrates that many investors are, in fact, quite self-aware. It is also clear that decision-making is strongly influenced by our understanding of the past, our expectations of the future, and our own confidence in investment knowledge.

And although advisors understand that investors can fall victim to these behavioral challenges, the data highlights something very important. This study makes two things very clear.

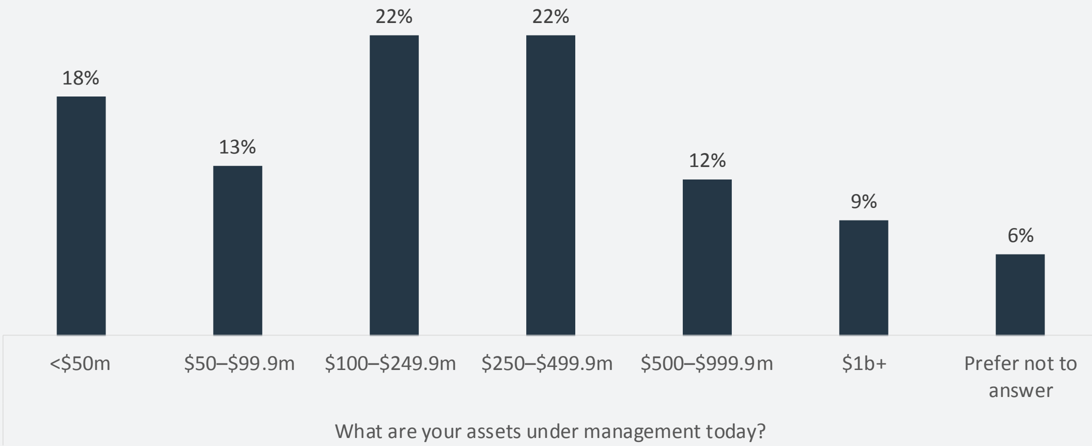
1. Investors have an imperfect understanding of history and a relatively low level of investment knowledge. These gaps may impact their decision-making.
2. Advisors are making incorrect assumptions about clients' understanding of history, their perceived investment knowledge, their views of the future, and their understanding of the plans that are in place. This gap means advisors may be missing opportunities to support clients in a meaningful way.

We have an opportunity to close these gaps through deeper conversations with clients, by checking our own perceptions, by ensuring that there is a clear and proactive plan in place to respond to market uncertainty, and by communicating those plans—and communicating them again.

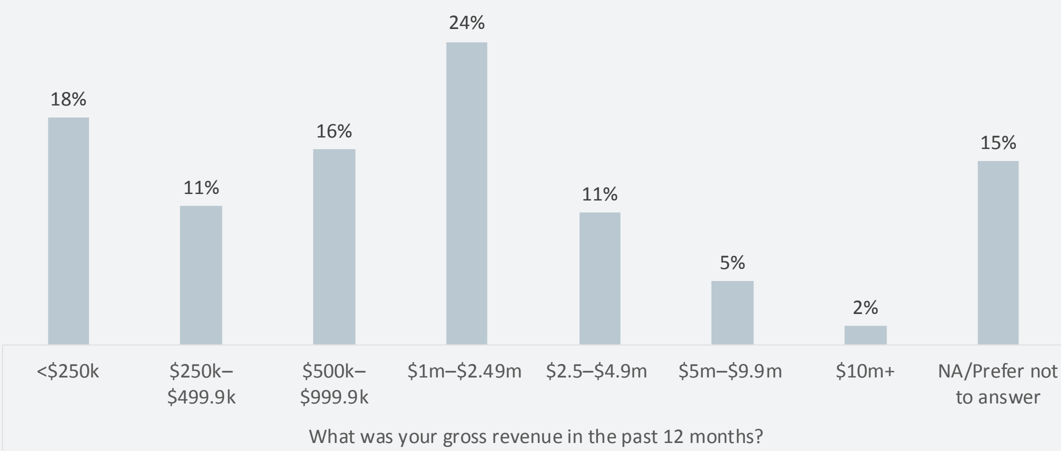
Appendix

Advisor Profile

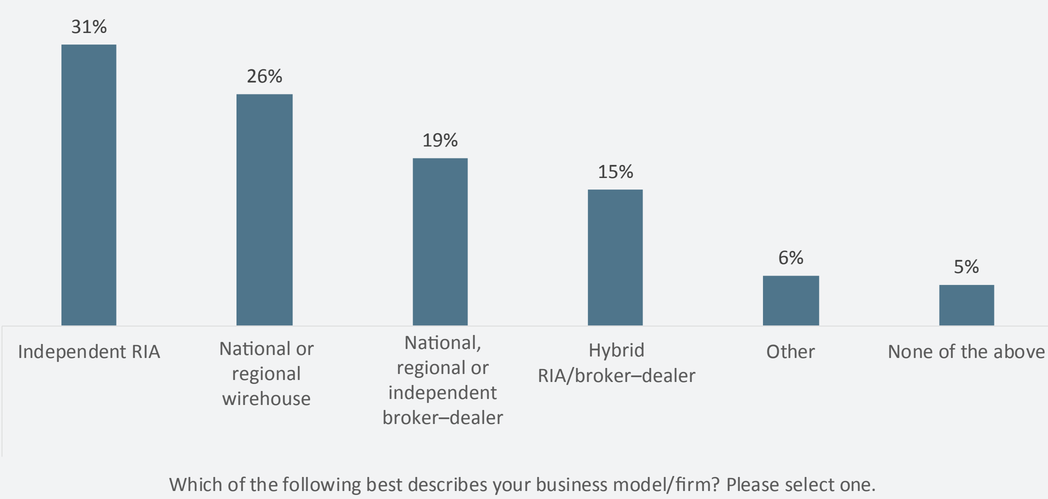
Assets Under Management



Gross Revenue

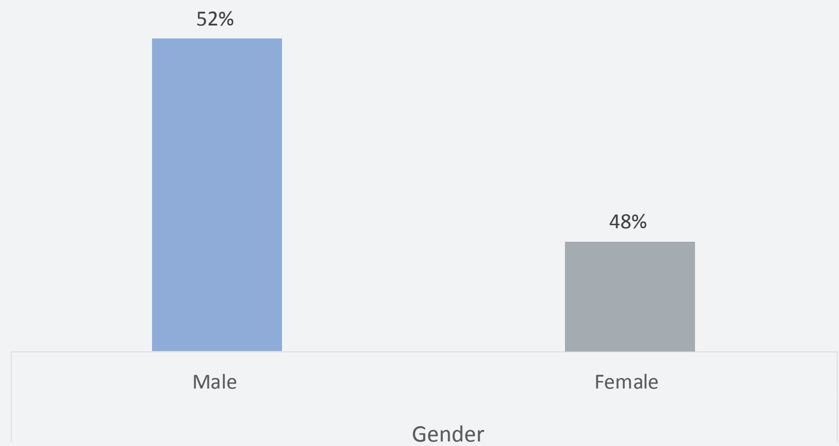


Channel

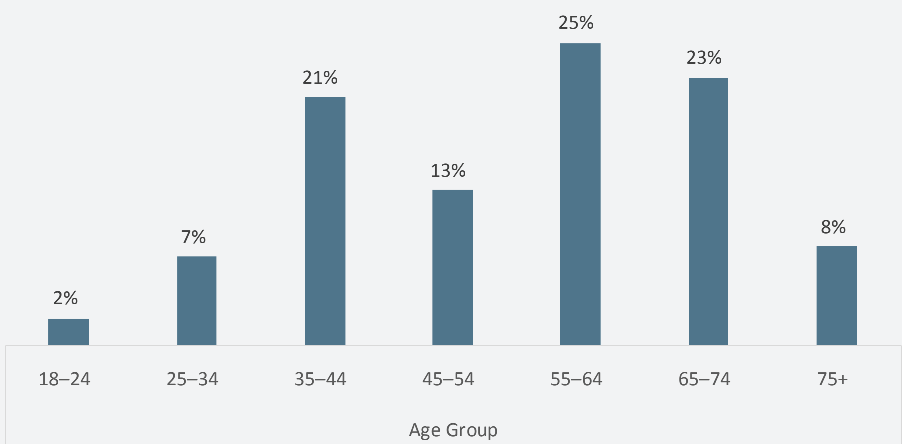


Investor Profile

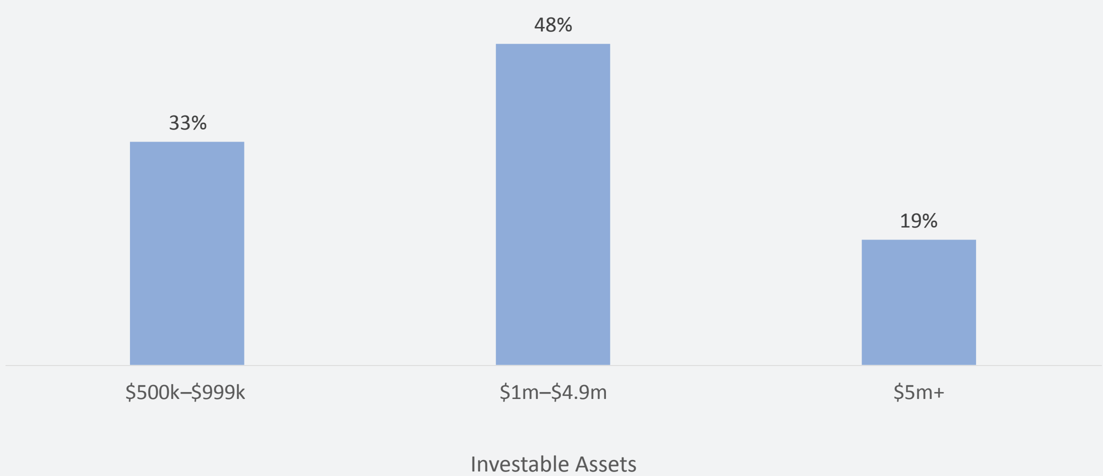
Gender



Age



Household Investable Assets



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Toews' Behavioral Investing Institute, a division of Toews Corporation, provides behavioral finance training for advisors through workshops, seminars, and coaching. The Behavioral Investing Institute's workshops and seminars provide implementation ideas that will enable the audience to improve on their ability to recondition their clients' perception and emotional response to various market cycles. Our one-year coaching program guides advisors through a training framework that seeks to change investors' default emotional responses to various market challenges. Each student in the coaching program will have ongoing access to their personalized behavioral guidance tools and analysis, as well as stay current on the ongoing evolution of our tools as they develop. Upon completion of the Behavioral Finance Coaching Program, financial advisors become part of a community of investment professionals committed to ongoing learning in the field of behavioral finance. For more information, visit www.biicoaching.com.

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Our process is not based on subjective or predictive methodology. It has used a heavily researched and price-reactive algorithm since 1996 that provides a signal for investment exit and re-entry points.
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