

RIVERSIDE ANALYTICS INC

INVESTORS MASTER CLASS

MODULE #1

RIVERSIDE ANALYTICS INC
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www.riversideanalyticsinc.com

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RIVERSIDE'S INVESTOR MASTER CLASS

DISCLAIMER

- All trading / investing comes with risk.
- The insights contained in this presentation do not constitute advice, rather are meant for educational purposes from which you may make more educated decisions taking into account your individual risk profile and needs for return.
- At Riverside, we assess probabilities using systematic quantitative methodology. We do not provide advice. There are no guarantees for positive return. All investing/trading is at your own risk.
- Riverside is about helping active and affluent investors learn how to make better decisions in financial markets.
- All charts shown in this broadcast have been referenced from stockcharts.com, Amibroker or eSignal unless otherwise noted.

Good investing is not an "event" like finding the next growth opportunity or catching the next market turn. Rather, good investing is a disciplined process that converts research and training into a well-tested methodology, and then makes a habit of following that approach day after day.

John P. Hussman, Ph.D
President, Hussman Strategic Advisors

THE PROCESS OF INVESTING

"Good investing is not an "event" like finding the next growth opportunity or catching the next market turn. Rather, good investing is a disciplined process that converts research and training into a well-tested methodology, and then makes a habit of following that approach day after day."

John P. Hussman, Ph.D
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INVESTORS MASTER CLASS

COURSE TOPICS AND GOALS

PRIMARY COURSE TOPICS

- Investor Psychology;
- Portfolio Methodology and Concepts;
- Timeless Technical Techniques and Strategies (Trend Following, Momentum, Relative Strength, Market Breadth, etc)
- Building Your Investment Plan;

MY GOALS AS YOUR COACH

- Outline the key building blocks in constructing a successful portfolio;
- Provide a non-biased overview of key factors that can and will impact your investment decision process;
- Discuss and provide feedback on a number of controversial investment topics;
- Provide an honest opinion when/where needed;
- Outline strategies that can be used in isolation or in concert with each other;
- Empower you with the tools to reach your financial goals;
- Be a resource that you can rely on;
- I want to see you succeed in the markets!!

YOUR COACH
A LITTLE ABOUT ME

TIM KOEN, P.Eng



- President of Riverside Analytics Inc;
- Member of the Market Technicians Association;
- Professional Engineer in the Province of Ontario, Canada;
- Self Taught, Self Directed Investor and Trader;
- Successfully managed my own investments for 14 years;
- Hobbies include skiing, hockey, fishing and golfing;

COMMON QUESTIONS

Q: Why am I teaching?? A: Simply…the markets are my passion and I enjoy teaching

Q: Are you rich?? A: If I had a nickel every time someone asked me that I would be!!

Q: What are your yearly returns? A: Depends on the year….examples.. 2008 = -11%, 2015 = 5%, 2017 = 39%

Q: How have you managed to grow your capital? A: Religiously following my trading plan, hard work and a daily desire to be a better investor and trader;

Q: How much capital are you managing? A: Six figures;

Q: How much capital did you start with? A: Not a lot;

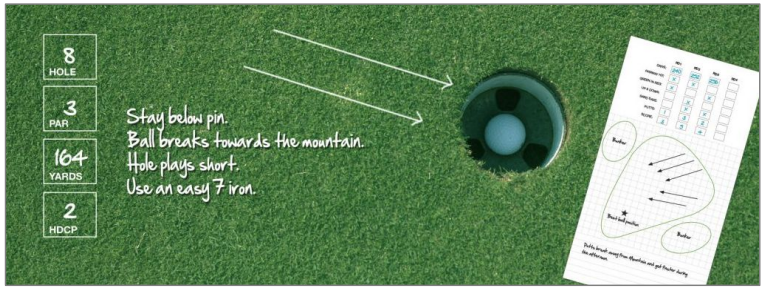
Q: Are you a full time trader/investor? A: No. My investments primarily reside in registered accounts.

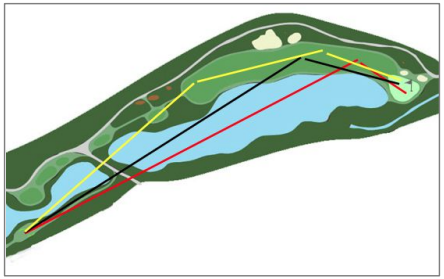
MY INVESTMENT PLAN ROOTS
A CLOSE PROXY TO THE MARKETS

Q: WHERE DO MY INVESTMENT PLAN ROOTS COME FROM?
A: THE GOLF COURSE

Investing and golf have many similar qualities including but not limited to;

- Strategy;
- Risk Management;
- Psychology;
- Adaptation to varying conditions;
- Each decision you make influences the ultimate outcome;
- In time the course and market will teach you a lot about yourself;
- **Both golf and the stock market can be very rewarding one minute…and very humbling the next….**









WHAT THIS INVESTMENT CLASS IS

WHAT THIS INVESTMENT CLASS IS

- This class has been constructed for Investors of all ages and experience levels;
- This class assumes all participants have a basic understanding of the markets;
- The overall content in the class has been provided to outline the process and understanding of key components in assembling an Investment Plan from a Technical Perspective using timeless strategies;
- From the topics presented in this class, you will be able to assemble and Investment Plan that is specific for you and you only;
- Key topics in this class will require you to be complete honest with yourself;

WHAT THIS INVESTMENT CLASS IS NOT

WHAT THIS INVESTMENT CLASS IS NOT

- This class will not tell you what to do;
- This class will not provide you with a methodology to gamble in the markets;
- This class will not develop an Investment Plan for you. You are required to spend the time to create a plan that works for you;
- This class does not guarantee your future success. The responsibility of your investments and how you wish to transact those investments are in your hands;
- It is your responsibility to research and understand the information presented in this class and;
- This class is not a crystal ball. There is no such thing in the markets.

MISCELLANEOUS

CLASS BREAKS AND REST PERIODS

- We will be taking breaks during the class!
  - 1:00pm – 5min Break;
  - 2:00pm – 5min Break;
  - 3:00pm – 10min Break;
  - 4:00pm – 5min Break;
  - Questions and Answers – 30min;

QUESTIONS AND ANSWERS

- We have ALOT of material to cover in the class!
- Please hold your questions until the end of the module;
- Please write down your questions when they arise throughout the class;
- We will be holding a 30min Question and Answer Period Following today's session;



BEFORE WE GET TO INVESTING…

- PERSONAL FINANCES;
- PERSONAL AFFAIRS CHECKLIST;
- WORK ETHIC;

PERSONAL FINANCES

ORGANISATION BREEDS PROFITS! IT ALL STARTS WITH PERSONAL FINANCES

PERSONAL FINANCES

- Personal accounting software is not a luxury, it's a necessity!
- Saves time! Additional time available to spend time with family, vacation, trade!

ACCOUNTS, TAXES AND LEGAL

- What type of accounts do you need? (i.e. retirement account, margin accounts, currencies, etc)
- How can you best structure your accounts to provide the best tax benefit?
- What are ways that you can minimise taxes?
- Have there been any changes in legislation that will impact your investments?

ESTATE PLANNING

- It takes a great deal of time and fortitude to accumulate wealth overtime. It's worth protecting!

PERSONAL AFFAIRS CHECKLIST

PERSONAL AFFAIRS CHECKLIST (PAC)

“The Personal Affairs Checklist (PAC) is a document produced to help you keep a concise record of your personal affairs and papers. Investing a little time now to complete the PAC could save your spouse, partner, relatives or friends a great deal of time and expense in the future. “

https://www.shipleys.com/files/personal-affairs-checklist.pdf



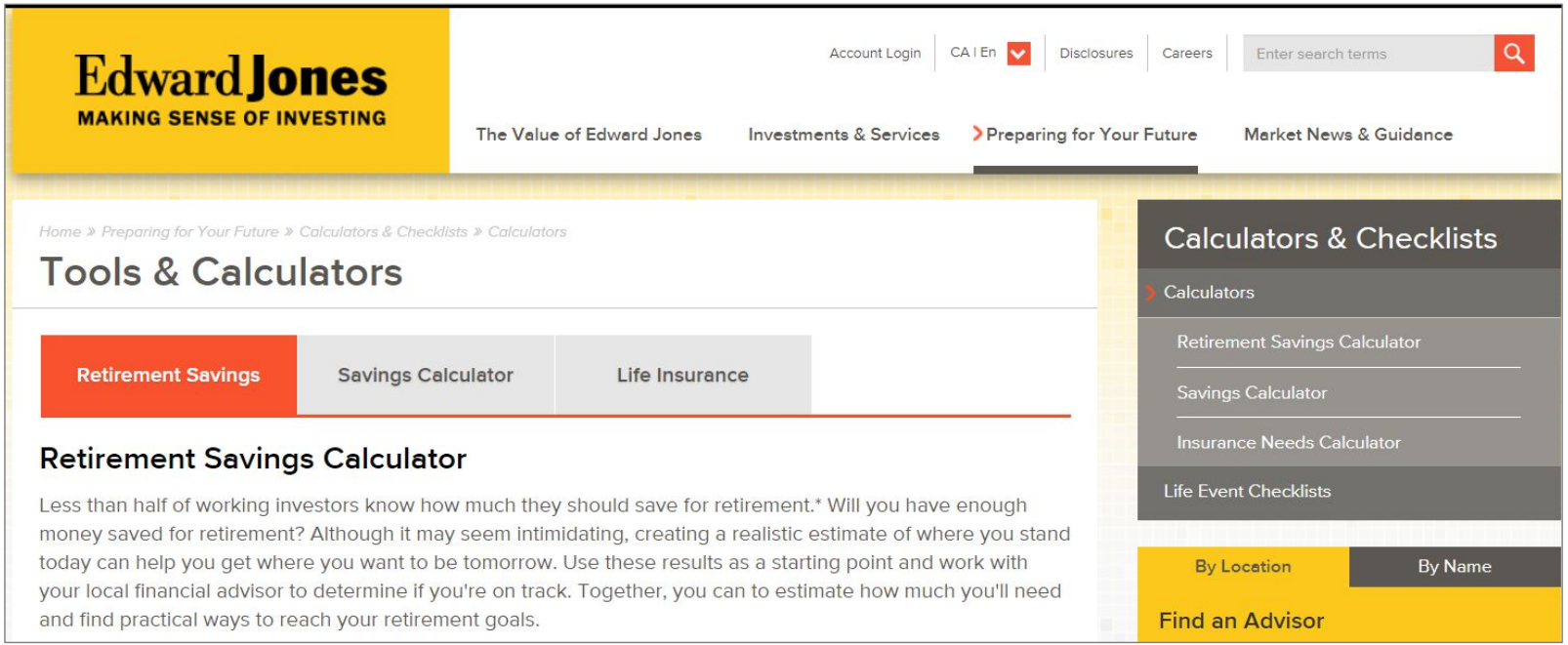
Contents overview

Section 1
- My details
- Next of Kin
- My Will
- Practical arrangements
- Advisers
- Other Advisers

Section 2
- Bank and Building Society Accounts
- Other Bank Accounts
- Investments
- Credit Cards
- Insurance Policies
- Pensions
- Property - Main Residence
- Other Real Estate
- Official Documents

Section 3
- Details of employment
- Directorships
- Interests in Family Companies
- Trusts of which I am a beneficiary
- Taxation
- Associations, clubs & societies
- Digital Information
- Other assets
- Other details

RETIREMENT SAVINGS CALCULATOR



https://www.edwardjones.ca/preparing-for-your-future/calculators-checklists/calculators/index.html?gclid=EAIaIQobChMIg_aqn5ze3wIVUVqGCh2Y7QqREAAYAyAAEgLeevD_BwE

WORK ETHIC

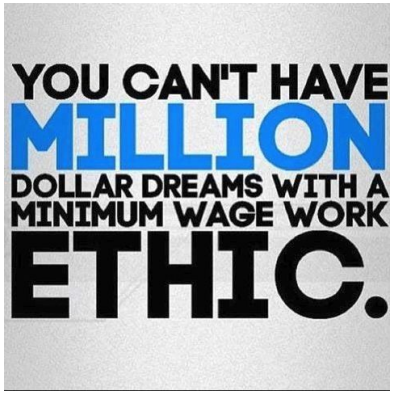
BEING A SELF - DIRECTED INVESTOR CAN BE VERY REWARDING!

- Mental satisfaction of having control of your finances;
- Being involved in following market activities;
- Searching for ways to improve your investment style and methods;

HOWEVER….

BEING A SELF - DIRECTED INVESTOR REQUIRES SELF DISCIPLINE, COMMITMENT AND A LOT OF WORK!

- Do you have the time? How much? How active will you be?
- Will you commit the time?
- Vacations and Family Emergencies
- Daily, Weekly and Yearly routines
- Will you continue to strive to get better?
- Will you continue to learn?





INVESTOR PSYCHOLOGY

- GETTING TO KNOW THE INVESTOR IN YOU

INVESTOR PSYCHOLOGY

FAMOUS QUOTES

"I'm not emotional about investments. Investing is something where you have to be purely rational and not let emotion affect your decision making – Just the facts"
– Bill Ackman

"Your intellect may be confused, but your emotions will never lie to you"
– Roger Ebert

"The greatest enemies of the equity investor are expenses and emotions"
– Warren Buffett



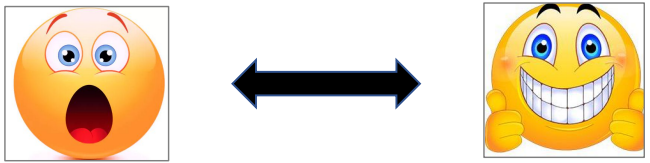
INVESTMENT EMOTIONS

- EMOTIONS DEFINED;
- CONFIDENCE;
- FEAR;
- GREED;
- EGO'S;
- PATIENCE;
- PATIENCE;
- KEY TAKEAWAYS;

EMOTIONS

EVERY INVESTOR SHOULD BE AWARE THAT THEIR INVESTMENT DECISIONS HAVE BOTH A FINANCIAL AND EMOTIONAL CONSEQUENCE.

- Excitement and disappointment, pride and embarrassment and sometimes the feeling of regret can potentially accompany every investment choice.
- Your emotions are one of the strongest influences affecting your investment decisions. Emotions can over-ride important factors in the investment decision process like rational reasoning, *common-sense* and logic.
- Your fears and emotional desires can lead you to make irrational, illogical investment choices and they can prevent you from making *smart* decisions.
- To profit, we must risk a part of our capital;
- If we risk too much, emotions can take control over our investment decisions;
- Making good investment decisions in turbulent markets is something we all struggle with because it is human nature to let emotions drive investment decisions;



LEARNING TO TOLERATE THE UN-KNOWN IS CRITICAL TO SUCESS

CONFIDENCE

DEFINITION – the feeling or belief that one can rely on someone or something;

- As self directed investors and traders we have worked hard to accumulate our capital;
- Risking our capital in the not knowing what will happen tomorrow is not an easy feat;
- Being "un-sure" is a natural process that ALL traders and investors experience;
- Being "un-sure" never really goes away….however….;
- Confidence is gained through experience and trust;
- Confidence is gained from success, when you know what to do in varying market conditions;
- Confidence is produced from testing your trading plan in real time market conditions;
- Growing **YOUR** confidence takes time and commitment to your trading plan;
- Once you have confidence in **YOUR** trading plan, the returns will take care of themselves;





FEAR

- Every investor has a fear of losing money. Some investors have a really bad fear, while others are less fearful;
- The influence of this fear of loss on the investment decision will vary from investor to investor;
- A number of psychological studies have demonstrated that in general investors hate losing money twice as much as they enjoy making money;
- Investors would rather purchase an investment after it has declined in price and the investment industry will market the decline in price as a *Discount, Cheap or Undervalued;*
- This framing of the investment's price requires the investor to accept some arbitrary price as the investment's *true* or *real* reference value;
- By framing the declining price in this way, investors are much more likely to step-up and buy;
- Framing the price reduction as an opportunity enables us to overcome our fear of loss from the purchase;
- More often than not, our fear of loss is overridden by framing the decision with an element of greed.



GREED

- Investors and traders have a hard time to pass on the opportunity to win big!
- We are able to reason and rationalize the risk of losing our money sufficiently to give ourselves permission to buy, which basically amounts to throwing away your money. Our greed can overcome our fear of losing.
- One of the amazing aspects of greed and fear of loss is that we negate any logical thought to an outcome's probability. They over ride the chances for success, or the big win.
- Our greed helps us to rationalize and override our fears and enabling us to ignore logic and common-sense when making decisions.
- Greed is a particularly strong marketing tool within the investment industry.
- How the information is framed and presented can determine the reader's resulting decision *to buy*, or not.



EGO

Why ego is an investor's worst enemy

By Catherine Robson

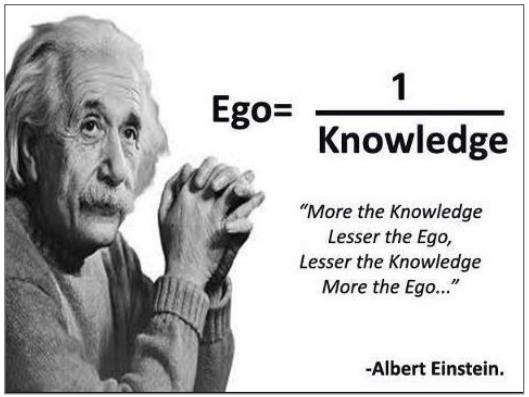
Updated 26 Jul 2016 — 8:13 AM, first published at 8:00 AM

https://www.afr.com/personal-finance/why-ego-is-an-investors-worst-enemy-20160725-gqd0nk

"When it comes to life, and particularly to investing, ego is your enemy.

Alan Kohler recently restated his personal investment philosophy in his new publication, The Constant Investor. He suggests that to be a successful investor, "you need to approach investing like a penitent monk: you know nothing; you have no ego; make no assumptions."

"As personal investors, keeping our ego in check, remaining students of investment markets and hedging our bets with genuine diversification might just be the best way to navigate the challenging times in which we find ourselves."





PATIENCE



Patience Is Your Biggest Investment Asset

A volatile market requires an investor to stay cool.

By **Rebecca Lake**, Contributor Jan. 2, 2018, at 9:56 a.m.

"PATIENCE IS A VIRTUE, but it can be difficult for investors to master. Focusing on short-term results may impede progress toward long-term investing objectives, limiting the potential of your portfolio.

Over time, what you invest in may prove less important than your ability to ride out movements in the market."

https://money.usnews.com/investing/buy-and-hold-strategy/articles/2018-01-02/patience-is-your-biggest-investment-asset

The toughest thing in investing is to do nothing. That's right, nothing! Once you buy a stock and watch it move up, down and all around for a few weeks, there is an urge to take action. Since you bought the stock, you've probably read numerous investment news stories on the market in general and your stock in particular. With so much input, it's easy to have your thinking swayed, which creates temptation to take action.

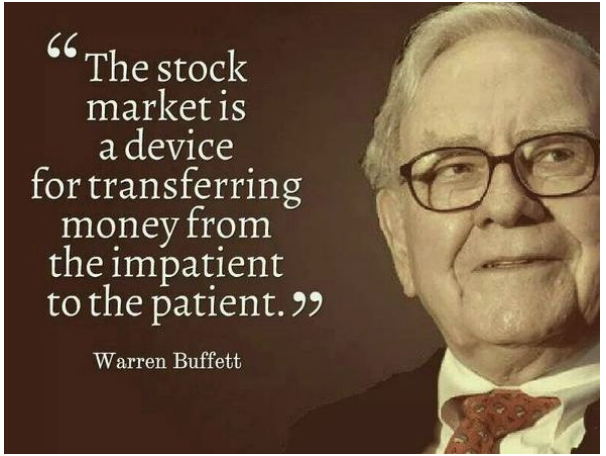
MOST INVESTORS LACK PATIENCE

IF YOU'RE CORRECT ON A POSITION, WHAT'S THE POINT OF RUSHING THINGS?

PATIENCE

"And right here let me say one thing: After spending many years in Wall Street and after making and losing millions of dollars I want to tell you this: It never was my thinking that made the big money for me. It was my sitting. Got that? My sitting tight! Men who can both be right and sit tight are uncommon. I found it one of the hardest things to learn. But it is only after a stock operator has firmly grasped this that he can make big money."

Reminiscences of a Stock Operator , Jesse Livermore



BEHAVIORAL BIASES

BIASES

- Battling biases is arguably the single most challenging aspect of investing and trading.
- We are all pervious to a number of various opinions in the markets from various experts and news sources.
- These various opinions and views have the ability to influence our views when we look at price charts.



TYPES OF BIAS

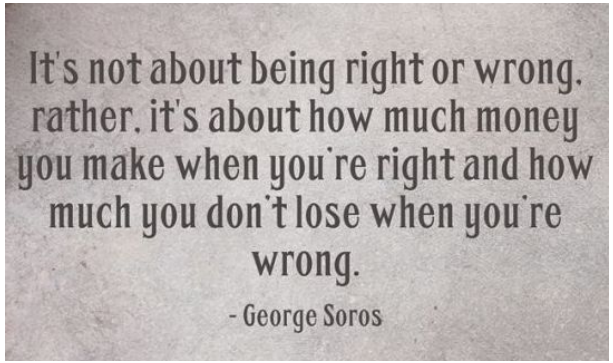
- Ambiguity Aversion
- Anchoring
- Availability
- Calendar Effects
- Cognitive Dissonance
- Communal Reinforcement
- Conformation Bias
- Disposition Effect
- Endowment Effect
- Halo Effect
- Herding
- Hindsight Bias
- Loss Aversion/ Risk Aversion
- Overconfidence
- Overreaction
- Prospect Theory
- Recency
- Representativeness
- Selective Thinking
- Self Attribution
- Self Deception
- Status Quo Bias
- Underreaction

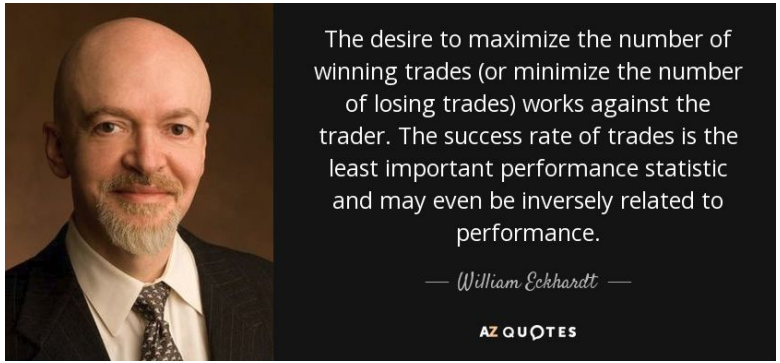


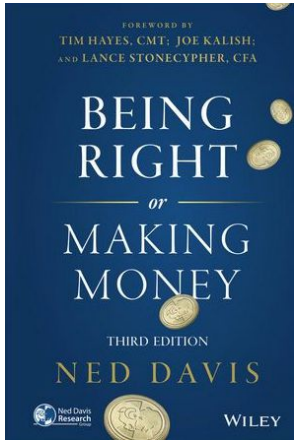


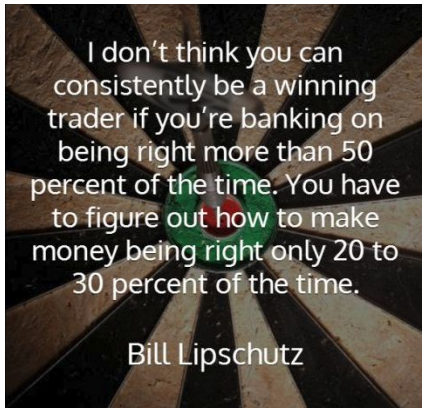
THE NEED TO BE RIGHT

IT'S NOT ABOUT BEING RIGHT









"IT'S OK TO BE WRONG….BUT IT'S NOT OK TO STAY WRONG"
-TIM KOEN

EMOTIONS
KEY TAKEAWAYS

EVERY INVESTOR SHOULD BE AWARE THAT THEIR INVESTMENT DECISIONS HAVE BOTH A FINANCIAL AND EMOTIONAL CONSEQUENCE.

- Understanding your emotions and how they can be used to motivate you into action is extremely important;
- This understanding will help you to conduct your research and analysis and it will improve the success of your investment decisions;

LEARNING TO TOLERATE THE UN-KNOWN IS CRITICAL TO SUCCESS





INFLUENCING FACTORS

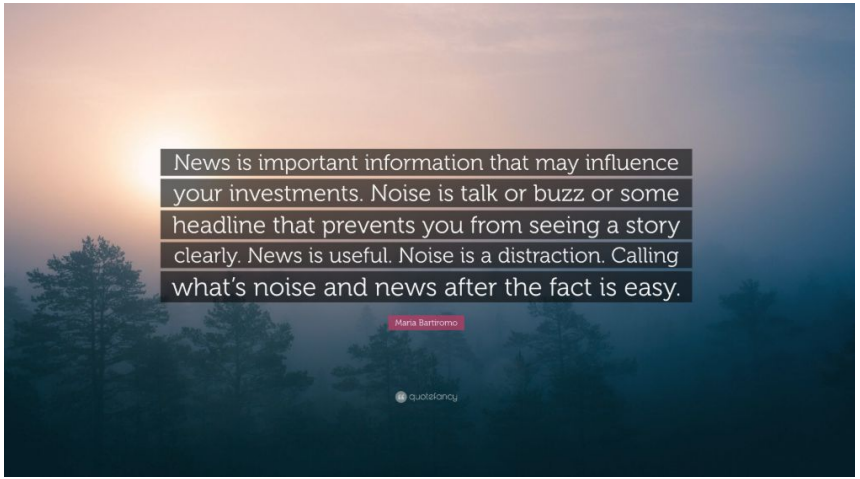
- THE FINANCIAL NEWS;
- NEWS IS NOISE;
- THE MARKET KNOWS – FACTS VS OPINIONS;
- WHAT VS WHY;
- ANALYSIS PARALYSIS;

THE FINANCIAL NEWS

FINANCIAL NEWS

- Regardless of the direction of price, the financial media will find a story to match the price movement;
- The news is intentionally design to play on investor emotions;
- The news is intentionally designed to generate “clicks” in the market;
- The media will look at price movement and find a news story that best explains it;
- Price declines get a negative spin;
- Price advances get a positive spin;

WE CAN DEBATE ABOUT THE DIRECTION AND SPIN, HOWEVER, THE PRICE CHART REFLECTS WHAT IS ACTUALLY HAPPENING.



THE NEWS…THE NOISE…

24/7/365…THERE IS NOISE

MONEYWATCH / *January 19, 2011, 9:58 AM*

5 Reasons the Stock Market is Over-valued

STRATEGY AUGUST 20, 2013

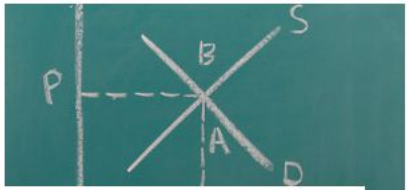
THE GLOBE AND MAIL

Rising yields ripple through global markets

Bill Gross knows who to blame for this bond market retreat



- 3 reasons why U.S. government bond yields are soaring
- A disconnect between the Dow and the broader market could spell trouble for stocks



This touted market predictor screams sell, but here's why you might want to ignore it

- S&P 500 extends losing streak as bond yields remain in focus
- Mark Hulbert: International stocks provide the least protection just when investors need it most
- Volatile stock markets are an option trader's dream — here's how to start
- As stocks sell off, analysts debate whether the recent record was a market top
- Cracks surface in the bull trend, S&P 500 nails major support

BUSINESS INSIDER Dec. 16, 2016

JPMORGAN: The biggest risk to stocks is from rising rates

Fri 2 Feb 2018

Dow Jones suffers worst fall in two years amid fears of interest rate rise

Apple, Visa and Exxon among biggest fallers as American and European stock markets tumble from record highs

Opinion: The stock market's oldest indicator just flashed red

Published: Dec 8, 2016 8:36 a.m. ET

Investors face increasing volatility and dismal returns

As stocks sell off, analysts debate whether the recent record was a market top

Published: Oct 9, 2018 1:01 p.m. ET

18 Aa

Analyst: Here Comes the Biggest Stock Market Crash in a Generation

THE MARKET KNOWS…

BUT WHAT ABOUT….?????

WHAT ABOUT…

- Rising interest rates?
- Emerging markets?
- Brexit?
- Valuations?
- Political climate?
- Greece/Italy, etc?
- Elections?
- Divergences?
- Weak Breadth?
- COVID?
- A recession?
- The Fed?

DAILY PRICE ACTION REPRESENTS THE NET AGGREGATE OPINION OF ALL MARKET PARTIPANTS.

WITH THOUSANDS OF PEOPLE WATCHING THE MARKET EACH DAY, THE MARKET IS WELL AWARE OF ALL THESE TOPICS.

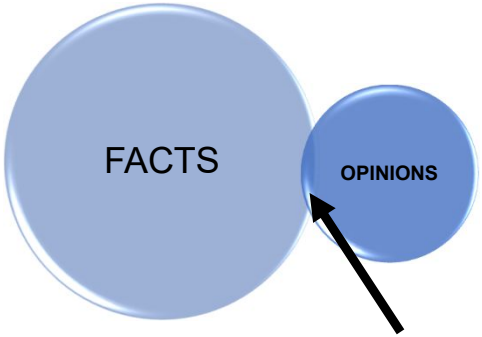


FACTS vs OPINIONS

WHAT IS THE DIFFERENCE?

- FACTS are based in truth, can be seen, observed or found.
- FACTS are known to exist.
- OPINIONS are a belief, a personal view, not necessarily based on truth.
- OPINIONS are an assumption or judgement.
- Asking the right questions in the market can be a challenging endeavor.
- By asking the right questions (i.e. What kind of market are we in? What is the direction of the trend? What assets are in favor?) this enables us to focus the majority of our efforts on the FACTS.
- FACTS tell us WHAT the market is currently doing. They may not tell us why.
- Based on the FACTS we can assess the Weight of the Evidence (Bullish or Bearish)

KEY TAKEAWAY: HAVING A STRONG OPINION IN THE MARKET CAN BE AN EXPENSIVE ENDEAVOR

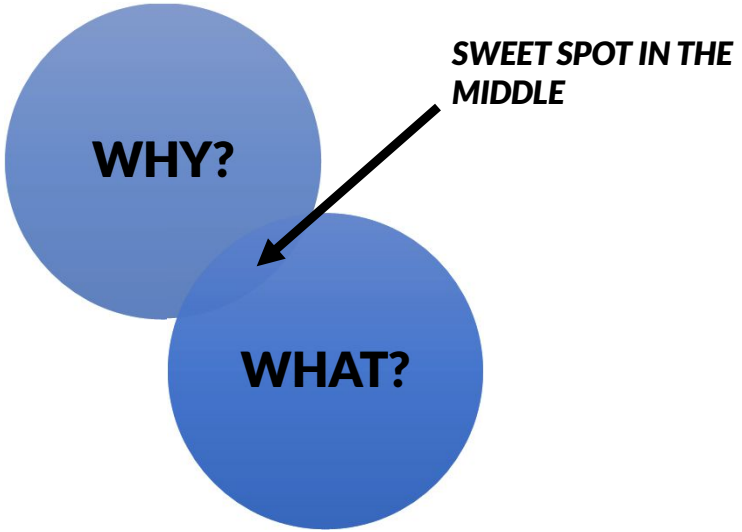


INVESTORS GUT INSTINCT OR "SPIDY" SENSE

> "I learned that an opinion isn't worth that much. It is more important to listen to the market. I became a reactive trader as opposed to an opinionated trader."
>
> Brian Gelber
> Market Wizards

WHAT vs WHY

- In general we trained to ask the question "*Why*?" We are trained to believe that knowing why will help us do the right thing;
- Pursing rational answers within a seemingly irrational market may generate an academically satisfying list of explanations but without financial rewards;
- An investor's pursuit of "why" may waste precious time and energy when the focus instead should really be on identifying the "what" and then following up with the appropriate action.
- We must learn to overcome our need to know the cause of things. Instead, we must learn to focus on clearly understanding what is happening and then having the discipline and risk management skills to act decisively.
- We need to find the delicate balance between what and why – the Sweet spot in the middle.

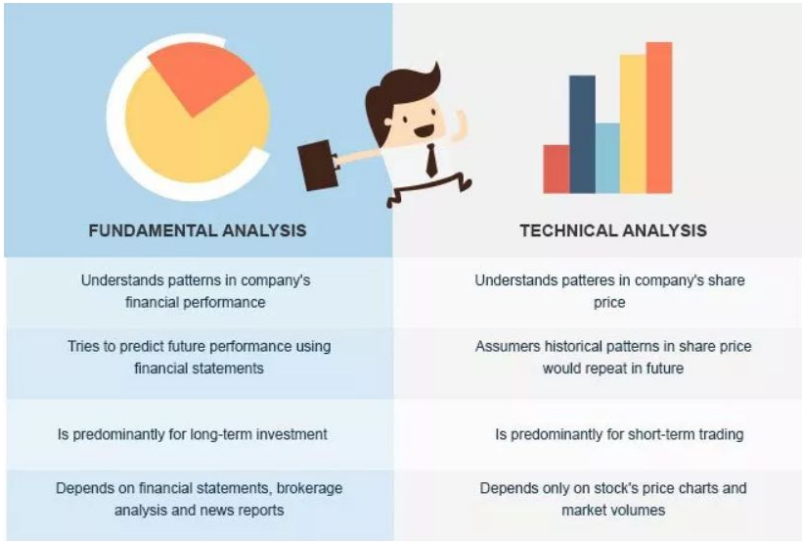


RETAIL TRADERS AND RECREATIONAL INVESTORS ALIKE MUST EMBRACE AND TRADE THE ACTUAL MARKET THEY ARE GIVEN, NOT THE MARKET THEY HOPED FOR OR THE ONE THEY BELIEVE THEY ARE ABOUT TO FIGURE OUT.

A QUESTION TO PONDER……DO YOU GET PAID MORE TO KNOW "WHY" IN THE MARKET?

FUNDAMENTALS vs TECHNICALS

THE IMPORTANCE OF FUNDAMENTAL VS. TECHNICAL ANALYSIS



https://gostockalerts.com/weekly-recap-tax-cuts/

Q: "CAN THEY CO-EXIST?

A: ABSOLUTELY

Technical analysis and fundamental analysis are often seen as opposing approaches to analyzing securities, but many investors have experienced success by combining the two techniques. For example, an investor may use fundamental analysis to identify an undervalued stock and use technical analysis to find a specific entry and exit point for the position.

Alternatively, some primarily technical traders will analyze fundamentals to support their trade. For example, a trader may be eyeing a breakout near an earnings report and look at the fundamentals to get an idea of whether the stock is likely to beat earnings."

FUNDAMENTALS vs TECHNICALS

TOP MONEY MANAGERS WITH A 20+ YEAR TRACK RECORD

Fund	Class/Share/Programme	Manager	Style	Inception	CAGR%
Eckhardt	Standard Programme	William Eckhardt	Quant/Trend-Following/Macro	1987	23.81%
EMC Capital Management	The Classic Programme	Liz Cheval	Quant/Trend-Following/Macro	1985	23.20%
Hawksbill Capital Management	Global Diversified	Jerry Parker	Quant/Trend-Following/Macro	1988	22.24%
Blenheim GL Markets LP		William Kooyker	Discretionary/Macro	1986	22.06%
Tudor Investment Corp	BVI Global Fund	Paul Tudor Jones	Discretionary/Macro	1986	21.76%
Berkshire Hathaway*	Per-Share Market Value	Warren Buffett	Stock Selection	1965	21.60%
MJ Walsh	Standard Programme	Mark Walsh	Quant/Trend-Following/Macro	1985	21.33%
JW Henry & Co	Financial & Metals Programme	John Henry	Quant/Trend-Following/Macro	1984	21.10%
Moore Capital	Global Inv Fund, Ltd	Louis Bacon	Discretionary/Macro	1989	20.64%
Abraham Trading Company	Diversified Programme	Salem Abraham	Quant/Trend-Following/Macro	1988	20.33%
Gamut Investments		Bruce Kovner	Discretionary/Macro	1986	20.31%

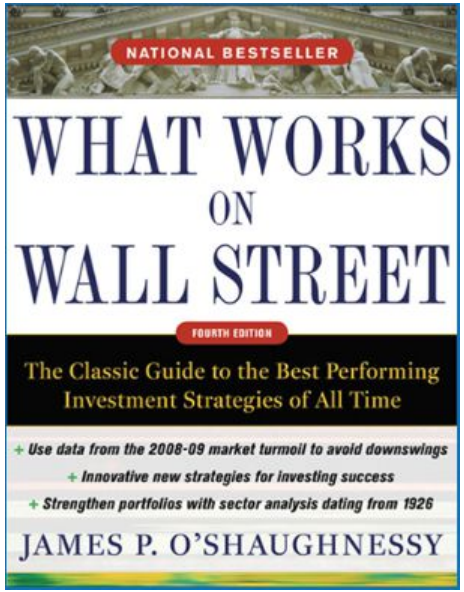
Source: Lawrence Clarke Investment Management, *Berkshire Hathaway 2014 Annual Retport

"We live in an uncertain world. One cannot predict the future of anything. In an uncertain world, identifying and following trends may be the only reasonable investment approach over the long term."
John Henry, (Source: Turtle Trader)

"I agree with the metaphysics of technical analysis that fundamentals are discounted. You don't get any profits from fundamental analysis; you get profit from buying and selling. So why stick with the appearance when you can go right to the reality of price and analyse it better?"
Richard Dennis, 1983

KEY TAKEAWAY:
DETERMINE WHAT WORKS BEST FOR YOU

FUNDAMENTAL ANALYSIS
REFERENCE MATERIAL



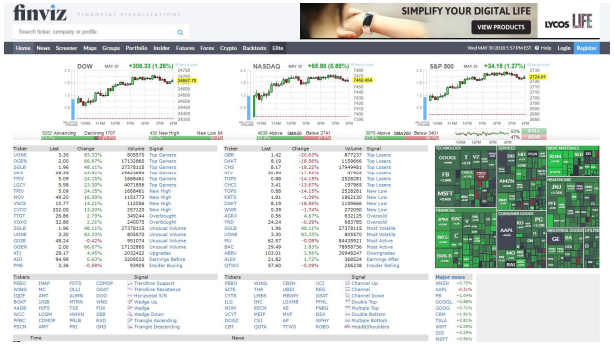
REVIEWS

"O'Shaughnessy's conclusion that some strategies do produce consistently strong results while others underperform could shake up the investment business."
—BARRON'S

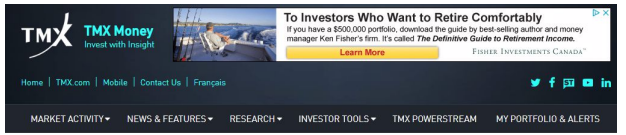
"*What Works on Wall Street* is indisputably a major contribution to empirical research on the behavior of common stocks in the United States. . . . Conceivably, the influence of *What Works on Wall Street* will prove immense."
—THE FINANCIAL ANALYSTS' JOURNAL

"O'Shaughnessy's latest, *What Works on Wall Street*, is a serious inquiry into the investment strategies that stand up under long-term scrutiny and is refreshing research for every investor."
—STOCKS AND COMMODITIES

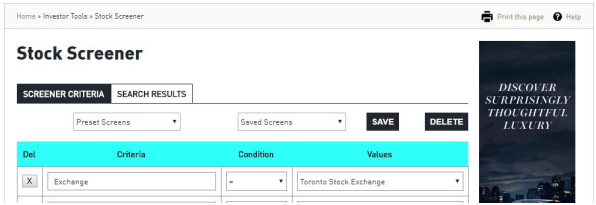
http://www.whatworksonwallstreet.com/



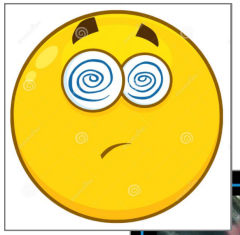
https://finviz.com/



https://web.tmxmoney.com/screener.php?qm_page=55022



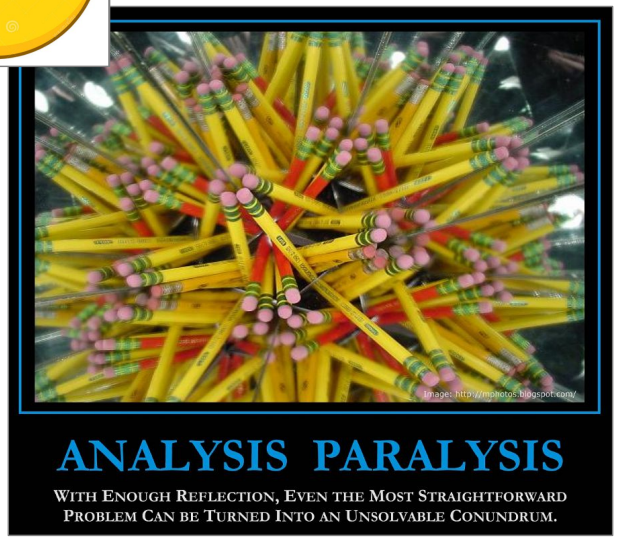
ANALYSIS PARALYSIS



DEFINITION – is the state of over analysing (or over thinking a situation so that a decision or action is never taken, in effect paralysing the outcome

Information Overload;

- More analysis isn't always better and in some cases it makes things worse;
- Too many choices can result in no decision made;
- We are naturally programmed to research what we don't understand;
- More research can lead to more options and more paralysis;
- Fear of failure.
- An Investment Plan can help reduce the frequency or eliminate Analysis Paralysis



"I DON'T KNOW WHAT THE MARKET IS GOING TO DO BUT I KNOW EXACTLY WHAT I'M GOING TO DO" – TIM KOEN

PERCENTAGES VS DOLLARS
A BATTLE FOR INVESTORS ATTENTION

JOURNAL REPORTS: WEALTH MANAGEMENT

Percentages vs. Dollars—a Battle for Investors' Attention

Percentages Are Common but Don't Seem Like Real Money to Many People



By Charlie Wells

July 6, 2014 4:47 p.m. ET

https://www.wsj.com/articles/percentages-vs-dollarsa-battle-for-investors-attention-1404679629

"Investment-related information is often given in percentage terms—both in documents and in conversations between financial planners and clients. A percentage makes returns comprehensible to investors at all levels—whether they have $5,000 or $500,000 at stake—and allows them to more easily compare funds.

The problem is, percentages don't seem like real money to many people. In particular, some experts worry that investors don't fully grasp the magnitude of risks and expenses when they see them in percentage form."

TIM'S METHODOLOGY

- I work in percentages for position management.
- For example one holding could 5%,10%, 15% of my portfolio.
- Within the portion of my portfolio I position size as a percent of the allocation
  - No Position (0%)
  - ¼ position (25%)
  - ½ position (50%)
  - ¾ position (75%)
  - Full position (100%)
- Losses and Drawdowns are also measured as percentages;
- WHY? Whether I'm managing $100k, $1mil or $100 mil + there is no emotion tied to the dollar value…it's all relative.

WHAT WORKS FOR YOU??



INFLUENCING FACTORS

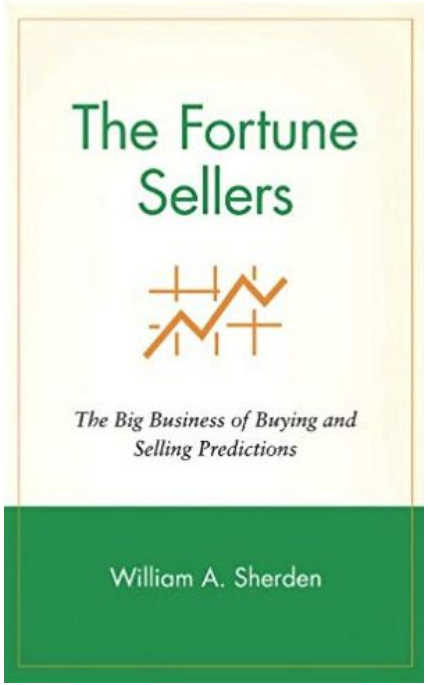
- THE FORTUNE SELLERS – WILLIAM A SHERDEN;
- THE FORTUNE SELLERS – TOP 10 FINDINGS;
- RECENT FORECASTING EXAMPLE;

THE FORTUNE SELLERS
THE REALITY OF FORECASTING

Brandeis Prof. William Sherden tested the accuracy of leading forecasters over decades. You can find his research in "The Fortune Sellers: The Big Business of Buying and Selling Predictions:"

"I see no way economic forecasting can improve since it is trying to do the impossible."

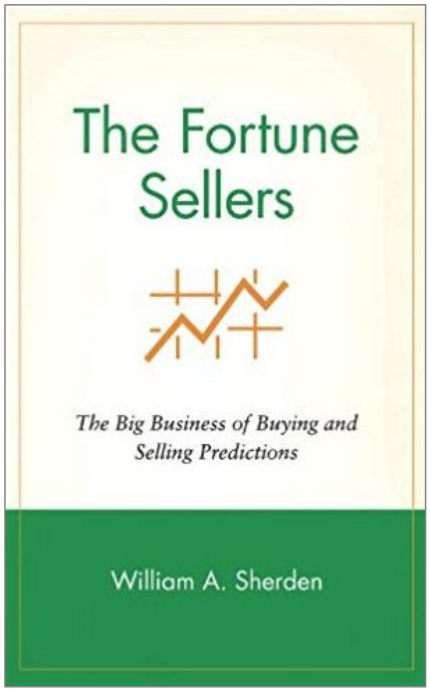
"Whether you are a bull or bear, optimist or pessimist, conservative or progressive, predicting the future of any economy is impossible, an illusion, a hoax, an attempt to manipulate investor opinion using an ideology."



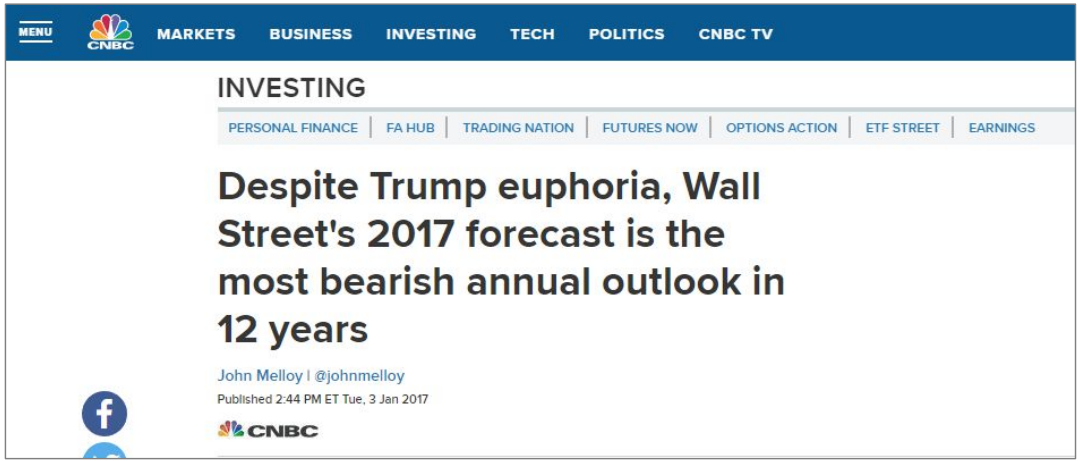
THE FORTUNE SELLERS
THE REALITY OF FORECASTING

WILLIAM SHERDEN'S TOP 10 FINDINGS

- NO BETTER THAN GUESSING: The forecasting skill of economists is on average about as good as guessing.
- NO LONG-TERM ACCURACY: Forecasting accuracy declines with longer lead times.
- CANNOT PREDICT TURNING POINTS: Economists cannot predict turning points in the economy.
- NO LEADING FORECASTERS: No particular forecasters consistently led in accuracy.
- NO FORECASTER WAS BETTER WITH SPECIFIC STATISTICS: No economic forecaster has consistently higher forecasting skills predicting any one economic statistic.
- NO ONE IDEOLOGY WAS BETTER: No ideology consistently produced superior forecasts.
- CONSENSUS FORECASTS DO NOT IMPROVE ACCURACY: (but the press still loves them!)
- PSYCHOLOGICAL BIAS DISTORTS FORECASTERS AND FORECASTS: Some economists are naturally optimistic and bullish. Others are consistently pessimistic bears. Their inner mental biases and ideologies distort their research, data selection, predictions.
- INCREASED SOPHISTICATION DOES NOT IMPROVE ACCURACY: Sorry, folks, but new technologies, algorithms, computer models of the economy can make forecasts worse.
- NO IMPROVEMENT OVER THE YEARS: there's no evidence that economic forecasting has improved in recent decades, despite vast new technologies.



2017 FORECASTING
A CONSISTENT LOSING ENDEAVOR


MENU CNBC MARKETS BUSINESS INVESTING TECH POLITICS CNBC TV

INVESTING

PERSONAL FINANCE | FA HUB | TRADING NATION | FUTURES NOW | OPTIONS ACTION | ETF STREET | EARNINGS

Despite Trump euphoria, Wall Street's 2017 forecast is the most bearish annual outlook in 12 years

John Melloy | @johnmelloy

Published 2:44 PM ET Tue, 3 Jan 2017

CNBC

https://www.cnbc.com/2017/01/03/streets-2017-forecast-is-the-most-bearish-annual-outlook-in-12-years.html

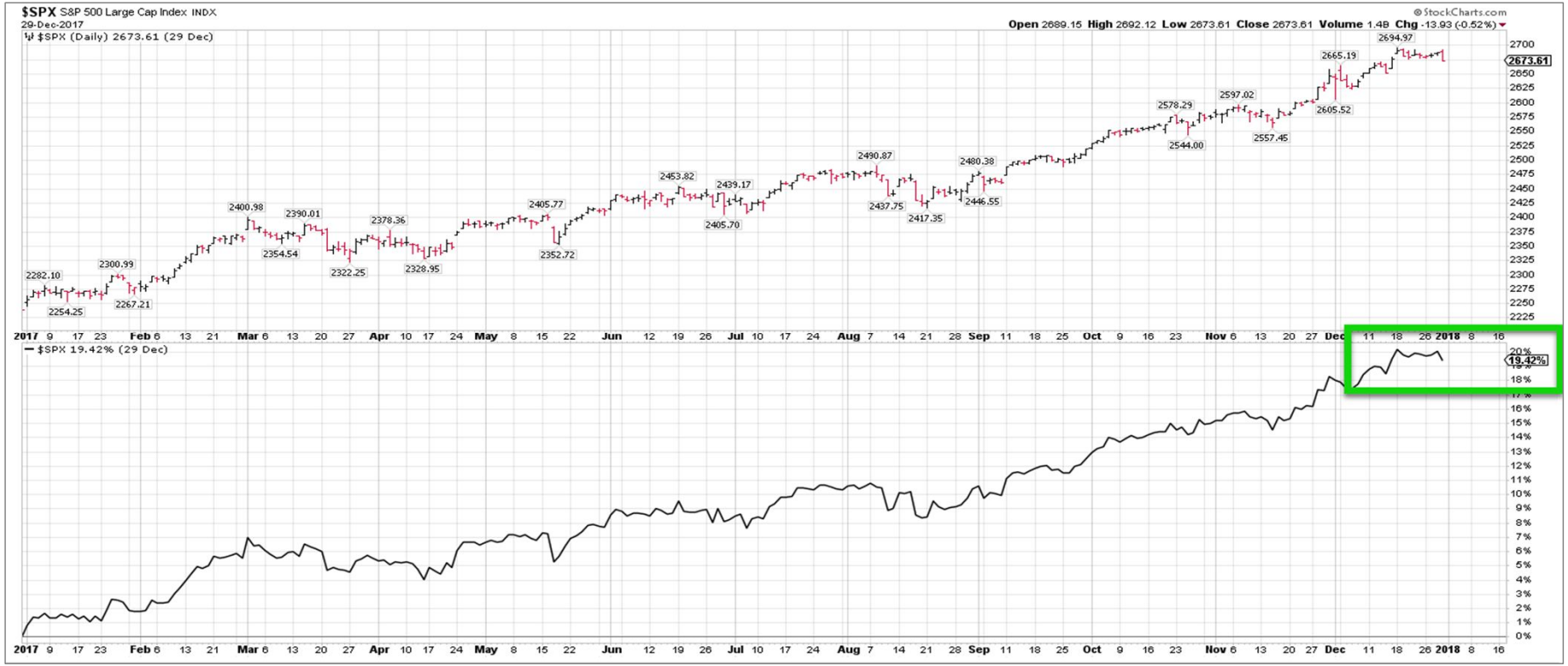
2017 Wall Street Year-End S&P 500 Targets

Firm	2017 Year-End Target at Start of Year	% From Current S&P 500 Level
RBC	2,500	10.13
Oppenheimer	2,450	7.93
Citigroup	2,425	6.83
Barclays	2,400	5.73
Deutsche Bank	2,400	5.73
JP Morgan	2,400	5.73
Bank of Montreal	2,350	3.52
Scotiabank	2,350	3.52
Weeden	2,350	3.52
Canaccord	2,340	3.08
Jefferies	2,325	2.42
Bank of America	2,300	1.32
Credit Suisse	2,300	1.32
Goldman Sachs	2,300	1.32
Stifel Nicolaus	2,300	1.32
UBS	2,300	1.32
Average	2,362	4.05

2017 FORECASTING

WHAT ACTUALLY HAPPENED??

IN 2017 THE S&P 500 RETURNED 19.42%....BEATING THE AVERAGE YEAR END FORECAST BY 15.37% !!!!!!



2017 FORECASTING
A CONSISTENT LOSING ENDEAVOR

- A total of 16 major financial institutions surveyed……
- S&P 500 2017 Returns = 19.42%
- Closest Firm year End Forecast (RBC) = 10.13%
- The “best guess” missed the mark by 9.29% (19.42 – 10.13)
- The “worst guess” missed the mark by 18.1% (19.42 – 1.32)

FACT……

Large financial institutions have access to tools and information well beyond the information available to self directed investors and traders…if they can’t get it right…..is there any value in forecasting??

2017 Wall Street Year-End S&P 500 Targets

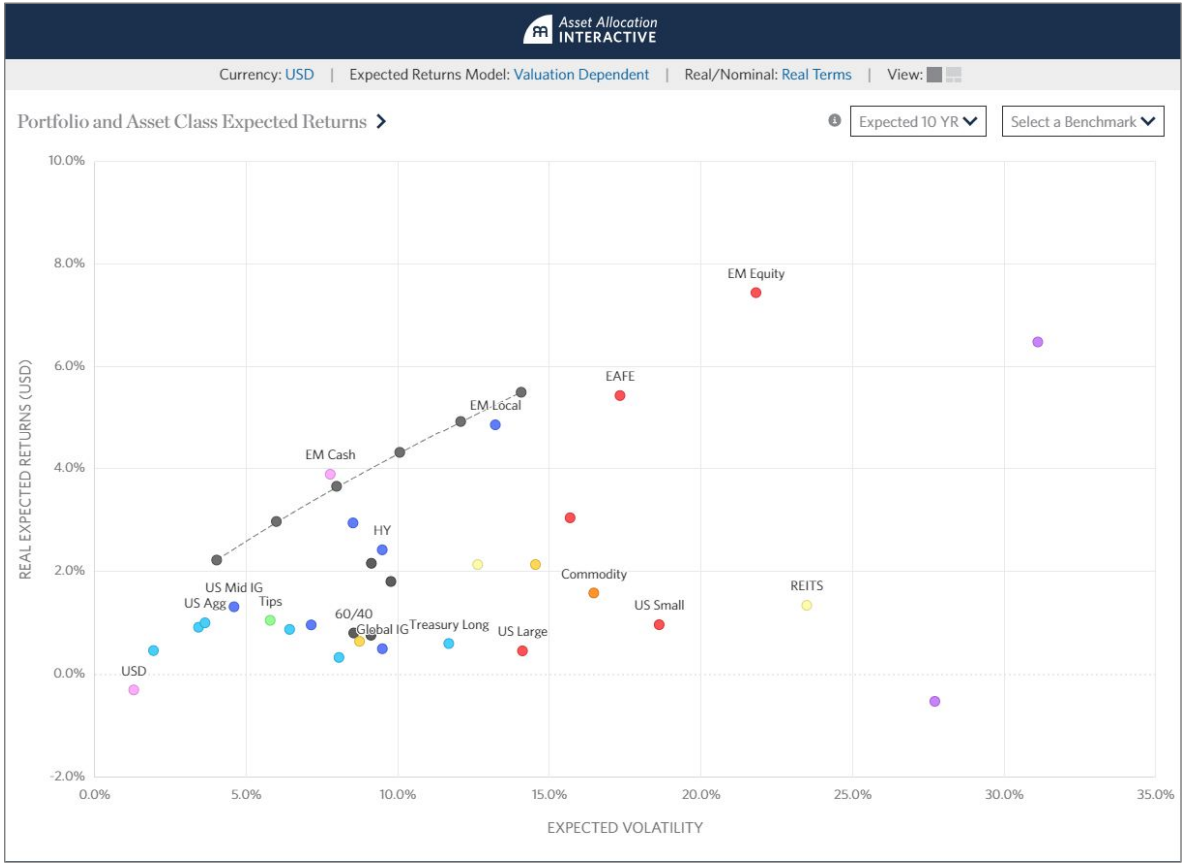
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UBS	2,300	1.32
Average	2,362	4.05

2018 FORECASTING
A CONSISTENT LOSING ENDEAVOR



RESEARCH AFFILIATES

PORTFOLIO AND ASSET CLASS EXPECTED RETURNS



REAL EXPECTED 10-YR RETURNS OF NOTE

- US Large Cap = 0.5%
- US Small Cap = 1.0%

- Reit's = 1.3%

- EAFE = 5.4%
- EEM = 7.5%

- Commodities = 1.6%

- US Long Term Treasuries = 0.6%
- US Intermediate Term Treasuries = 0.9%
- US Short Term Treasuries = 0.4%
- US High Yield = 2.4%

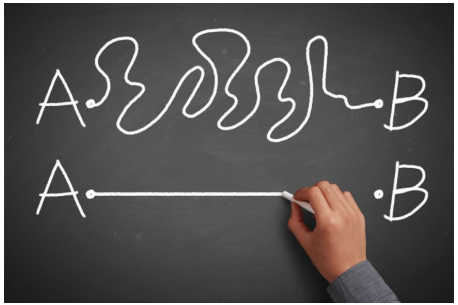
https://interactive.researchaffiliates.com/asset-allocation#!/?currency=USD&group=core&model=ER&models=ER&primary=broad-asset-class-expected-returns&scale=LINEAR&terms=REAL

INFLUENCING FACTORS
KEY TAKEAWAYS

EVERY INVESTOR SHOULD BE AWARE THAT THEIR INVESTMENT DECISIONS HAVE BOTH A FINANCIAL AND EMOTIONAL CONSEQUENCE.

- Understanding your emotions and how they can be used to motivate you into action is extremely important.
- This understanding will help you to conduct your research and analysis and it will improve the success of your investment decisions.
- The INFLUENCING FACTORS in the markets will push and pull your emotions on a regular basis;
- The INFLUENCING FACTORS in the markets can and will influence your investment decisions overtime;
- Simplifying your approach can reduce the impact of the Influencing Factors on your investment decisions and therefore reduce emotions.





KEY TAKEAWAY

RETAIL TRADERS AND RECREATIONAL INVESTORS ALIKE MUST EMBRACE AND TRADE THE ACTUAL MARKET THEY ARE GIVEN, NOT THE MARKET THEY HOPED FOR OR THE ONE THEY BELIEVE THEY ARE ABOUT TO FIGURE OUT.



MEASURING PERFORMANCE

- THE RESULTS ARE IN!

QUANTITATIVE ANALYSIS OF INVESTOR BEHAVIOR

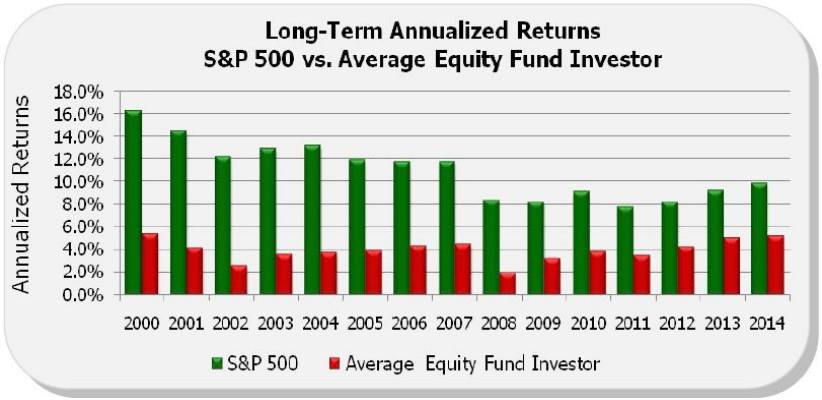
DALBAR'S 21ST ANNUAL – 2015 ADVISOR EDITION

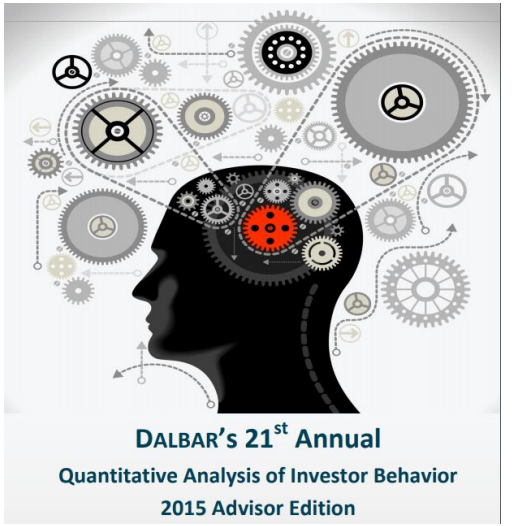
"According to the latest research, the average American investor underperforms the market over the long term -- and by a huge margin. And yet the reasons for that poor performance are completely avoidable. Here's what the data tells us about the average investor's returns, along with four easy principles that can ensure you do better.

Wait, the average investor does *how* badly?

According to Dalbar's 2015 Quantitative Analysis of Investor Behavior, the average mutual fund investor has underperformed the market over all the time intervals that were examined, which range from one year to three decades. And the underperformance is astonishing."

https://www.fool.com/investing/general/2015/11/01/the-average-americans-investment-returns-and-how-y.aspx





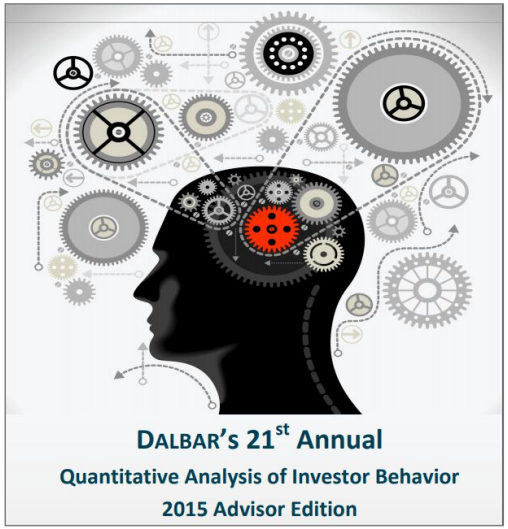
http://www.keatsconnelly.com/kca_files/media/Dalbar%20Survey%20Bad%20Investor%20Behavior%202014.pdf

QUANTITATIVE ANALYSIS OF INVESTOR BEHAVIOR

DALBAR'S 21ST ANNUAL – 2015 ADVISOR EDITION

Investor behavior is not simply buying and selling at the wrong time, it is the psychological traps, triggers and misconceptions that cause investors to act irrationally. That irrationality leads to buying and selling at the wrong time which leads to underperformance. There are nine distinct behaviours that tend to plague investors based on their personal experiences and unique personalities;

- **LOSS AVERSION** – Expecting to find high returns with low risk;
- **NARROW FRAMING** – Making decisions without considering all the implications;
- **ANCHORING** – relating familiar experiences, even when inappropriate;
- **MENTAL ACCOUNTING** – taking undue risk in one area and avoiding rational risk in others;
- **DIVERSIFICATION** – seeking to reduce risk, but simply using different sources;
- **HERDING** – Copying the behaviour of others even in the face of unfavorable outcomes;
- **REGRET** – treating errors of commission more seriously than errors of omission;
- **MEDIA RESPONSE** – Tendency to react to news without reasonable examination;
- **OPTIMISM** – belief that good things happen to me and bad things happen to others;



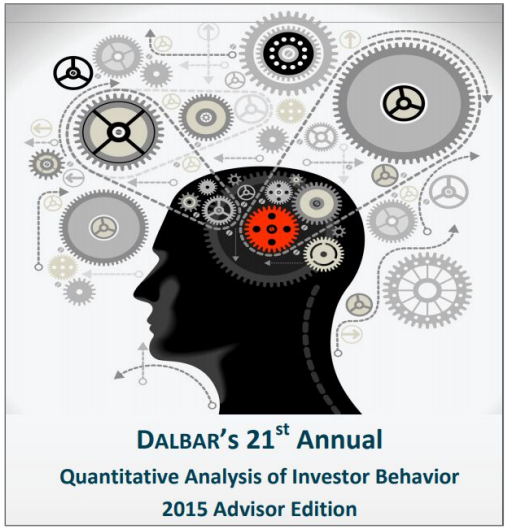
http://www.keatsconnelly.com/kca_files/media/Dalbar%20Survey%20Bad%20Investor%20Behavior%202014.pdf

QUANTITATIVE ANALYSIS OF INVESTOR BEHAVIOR

DALBAR'S 21ST ANNUAL – 2015 ADVISOR EDITION

- "One can anticipate when investors may be most vulnerable to their negative behaviour by looking back at history and seeing the "Maximum Impact" events that led to bad decisions in the past"
- **"By recognizing Maximum Impact Events, investors and advisors should have a plan in place beforehand and react quickly when the next situation arises"**

http://www.keatsconnelly.com/kca_files/media/Dalbar%20Survey%20Bad%20Investor%20Behavior%202014.pdf



WHAT HAVE WE LEARNED?

IT'S TIME....









THE ASSETS

- DOMESTIC EQUITIES;
- FOREIGN EQUITIES;
- BONDS;
- REAL ESTATE;
- COMMODITIES;

THE ASSET CLASSES

IVY PORTFOLIO

5 PRIMARY ASSET CLASSES



DOMESTIC EQUITIES



FOREIGN EQUITIES



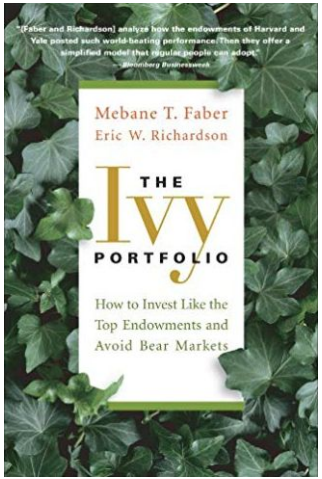
BONDS



REAL ESTATE



COMMODITIES



EXCHANGE TRADED FUNDS (ETF)

WHAT IS AN ETF?

ETF.COM

What Is An ETF?

Offering low-cost access to virtually every corner of the market, ETFs allow investors big and small to build institutional-caliber portfolios with lower costs and better transparency than ever before.

But what exactly is an ETF? And how does it provide these benefits?

Want To Know How ETFs Work? First Understand How Mutual Funds Work

To understand how ETFs work, the best place to start is with something familiar, like a traditional mutual fund.

Imagine half a dozen investors, sitting at home, each trying to figure out the best way to invest in the stock market. They could each go out and buy a few stocks on their own, but who has the time or resources to manage a portfolio of 50 or 100 stocks?

Instead, they decide to band together. They pool all of their money and hire a professional investment manager to invest it for them.

https://www.etf.com/etf-education-center/21011-what-is-an-etf.html



ETF 101 Topics @ www.etf.com

- ETF 101: ETF Basics
- ETF 101: How ETF's Work
- ETF 101: How to Select an ETF
- ETF 201: Alternative ETF's
- ETF 201: Commodity ETF's
- ETF 201: Fixed Income and Bond ETF's
- ETF 201: Currency ETF's
- ETF 201: Picking a Leveraged ETF
- ETF 301: ETF Options
- ETF 301: Advanced Topics

EXCHANGE TRADED FUNDS

MAJOR PROVIDERS

MAJOR US ETF PROVIDERS

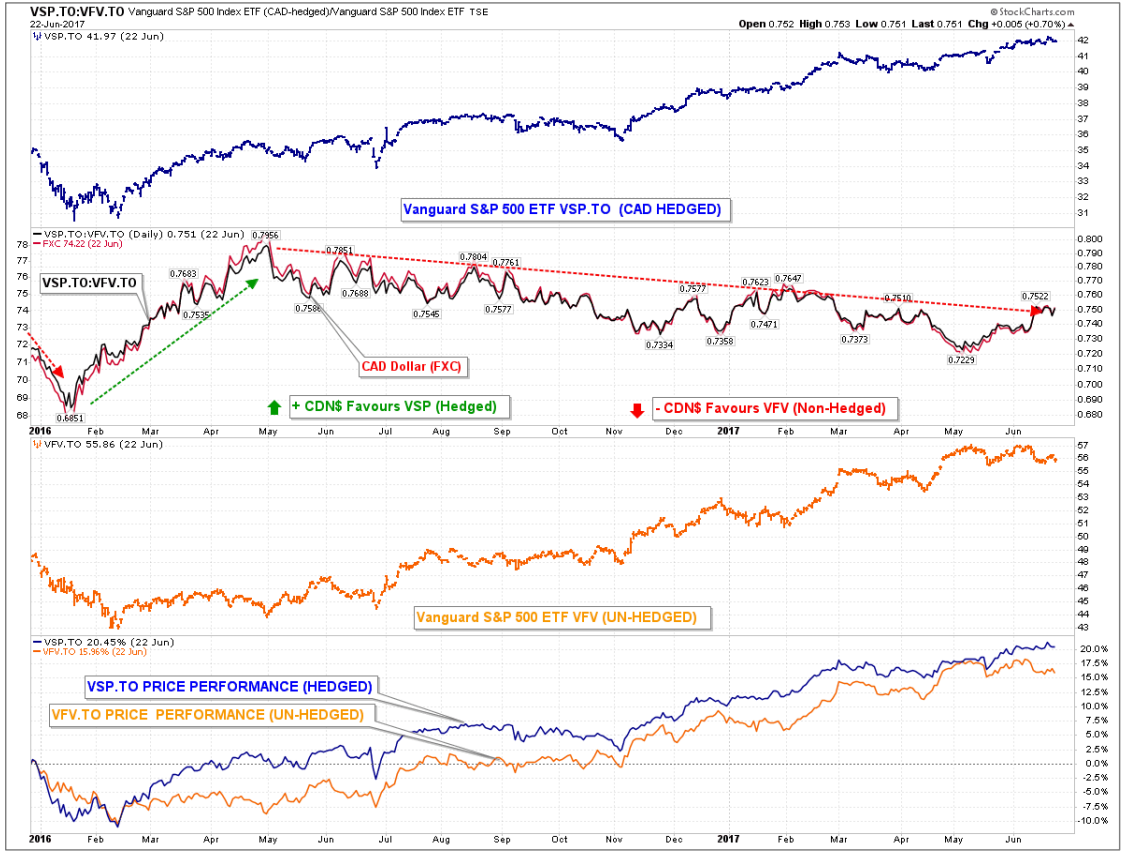
- iShares by BlackRock
- Vanguard
- SPDR State Street Global Advisors
- charles SCHWAB

MAJOR CANADIAN ETF PROVIDERS

- iShares by BlackRock
- BMO
- HORIZONS EXCHANGE TRADED FUNDS — ALPHA + BENCHMARK + BETAPRO
- Vanguard

CURRENCY HEDGING

USD vs CAD CURRENCY PAIR



KEY TAKEAWAY

- ❖ CDN DOLLAR UP = HEDGED ETF WILL OUTPERFORM
- ❖ CDN DOLLAR DOWN = UN-HEDGED ETF WILL OUTPERFORM

THE ASSET CLASSES

MAJOR NORTH AMERICAN INDEX ETF's





DESCRIPTION	US ETF	CDN ETF-H	CDN ETF-UH
S&P 500 Large Cap Index	SPY	XSP-TC	XUS-TC
S&P 400 Mid Cap Index	IJH	XMH-TC	
S&P 600 Small Cap Index	IJR	XSU-TC	
Dow Jones Industrial Average	DIA	ZDJ-TC	
Nasdaq	QQQ	ZQQ-TC	
Toronto Stock Exchange	EWC	XIC-TC	
TSX 60		XIU-TC	

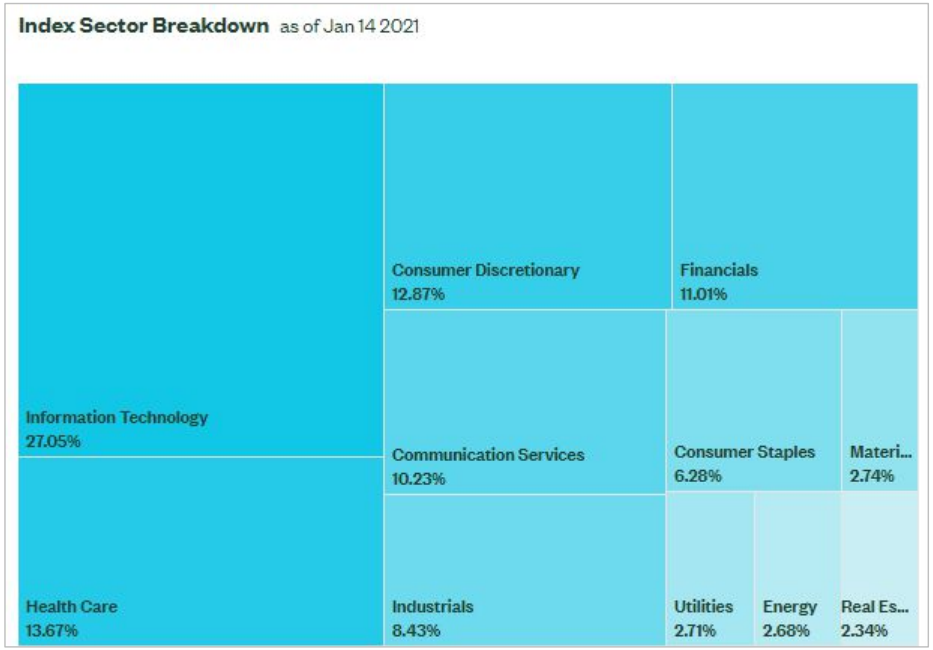
NOTE

TSX TICKER SYMBOLS TYPICALLY HAVE A" –TC" OR ".TO" EXTENSION

US DOMESTIC EQUITIES

S&P 500 LARGE CAP INDEX ETF (SPY) SECTOR COMPOSITION AND ETF's

S&P 500 SECTOR COMPOSITION



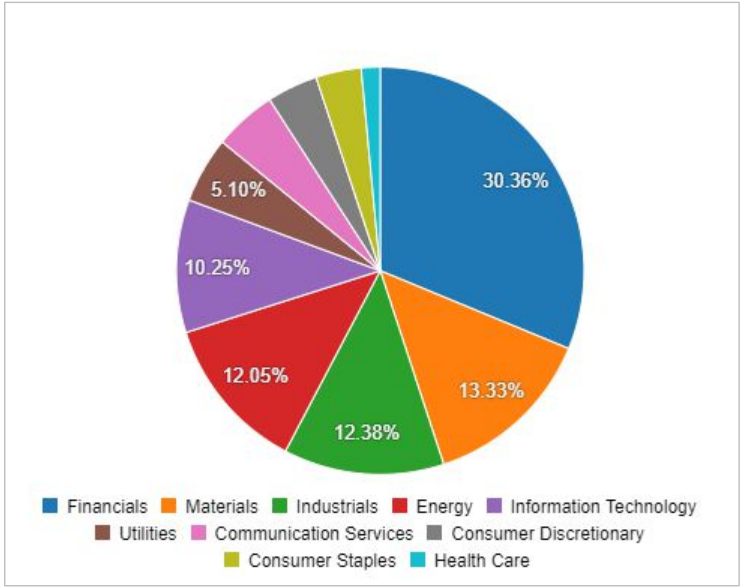
https://www.ssga.com/us/en/institutional/etfs/funds/spdr-sp-500-etf-trust-spy

SECTOR	WEIGHT	US ETF
Information Technology	27.05%	XLK
Health Care	13.67%	XLV
Consumer Discretionary	12.87%	XLY
Financials	11.01%	XLF
Communication Services	10.23%	XLC
Industrials	8.43%	XLI
Consumer Staples	6.28%	XLP
Materials	2.74%	XLB
Utilities	2.71%	XLU
Energy	2.68%	XLE
Real Estate	2.34%	XLRE

CANADIAN DOMESTIC EQUITIES

TSX INDEX ($TSX-TC) SECTOR COMPOSITION AND ETF's

TSX SECTOR COMPOSITION



https://tmxinfoservices.com/tmx-datalinx/products-and-services/sp-tsx-indices?indexinfo=%5ETSX#tsx

SECTOR	WEIGHT	CDN ETF
Financials	30.36%	XFN-TC
Materials	13.33%	XMA-TC
Industrials	12.38%	ZIN-TC
Energy	12.05%	XEG-TC
Information Technology	10.28%	XIT-TC
Utilities	5.10%	ZUT-TC
Communication Services	4.84%	
Consumer Discretionary	3.92%	
Consumer Staples	3.50%	XST-TC
Real Estate	2.79%	XRE-TC
Health Care	1.45%	

THE ASSET CLASSES

FOREIGN EQUITY ETF's

ACWI All World Equity ETF Composition

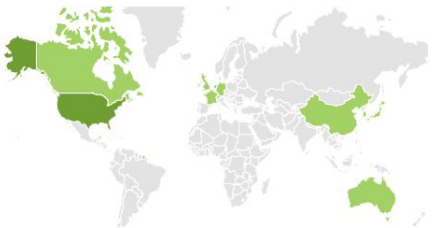
Geography | Sector

as of Jan 14, 2021

% of Market Value

Type	Fund
United States	57.43
Japan	6.82
China	5.26
United Kingdom	3.86
France	2.92
Canada	2.73
Switzerland	2.50
Germany	2.46
Korea (South)	1.92
Australia	1.89
Taiwan	1.81
Netherlands	1.05

Show All



https://www.ishares.com/us/products/239600/ishares-msci-acwi-etf

DESCRIPTION	US ETF	CDN ETF-H	CDN ETF-UH
All World Equities	ACWI		
All World ex US or Ex CDN	ACWX	VEF-TC	VDU-TC
Europe Far East Australia Asia	EFA	ZDM-TC	ZEA-TC
Emerging Markets	EEM	VEE-TC	

THE ASSET CLASSES

BONDS



DESCRIPTION	US ETF	CDN ETF-H	CDN ETF-UH
T- Bills	BIL	PSA-TC	CMR-TC
Floating Rate Bonds	FLOT	XFR-TC	
Aggregate Bonds	AGG	ZAG-TC	
Short Term Bonds	SHV	VSG-TC	
Intermediate Term Treasuries	IEF	ZFM-TC	ZTM-TC
Long Term Treasuries	TLT	ZFL-TC	
Corporate Bonds	LQD	ZLC-TC	
High Yield Bonds	HYG	ZHY-TC	
International Bonds	BNDX	VBG-TC	
Emerging Market Bonds	EMB	XEB-TC	

THE ASSET CLASSES

COMMODITIES



DBC FUND DESCRIPTION

DBC tracks an index of 14 commodities. It uses futures contracts to maintain exposure and selects them based on the shape of the futures curve to minimize contango.

https://www.etf.com/DBC#overview

DBC SECTOR BREAKDOWN

	DBC	Segment Benchmark
Energy	47.53%	55.12%
Agriculture	25.28%	20.70%
Industrial Metals	15.17%	9.42%
Precious Metals	12.02%	5.14%
Livestock	0.00%	9.61%

DESCRIPTION	US ETF	CDN ETF-H	CDN ETF-UH
Basket	DBC		
Gold	GLD	CGL-TC	
Silver	SLV	SVR-TC	
Palladium	PALL		
Copper	CPER		
Crude Oil	USO		
Brent Oil	BNO		
Natural Gas	FCG		
Agriculture	DBA		
Wheat	WEAT		
Sugar	CANE		
Corn	CORN		
Soy Beans	SOYB		

THE ASSET CLASSES

CURRENCIES



US DOLLAR INDEX

- An Index or measure of the value of the US Dollar relative to a basket of foreign currencies

CURRENCY	NAME	INDEX WEIGHT	US ETF
USD	**US Dollar**	**100**	**UUP**
EUR	Euro	57.6	FXE
JPY	Japanese Yen	13.6	FXY
GDP	Pound Sterling	11.9	FXB
CAD	Canadian Dollar	9.1	FXC
SEK	Swedish Krona	4.2	FXS
CHF	Swiss Franc	3.6	FXF

WATCHLISTS
STOCKCHARTS.COM OR eSIGNAL

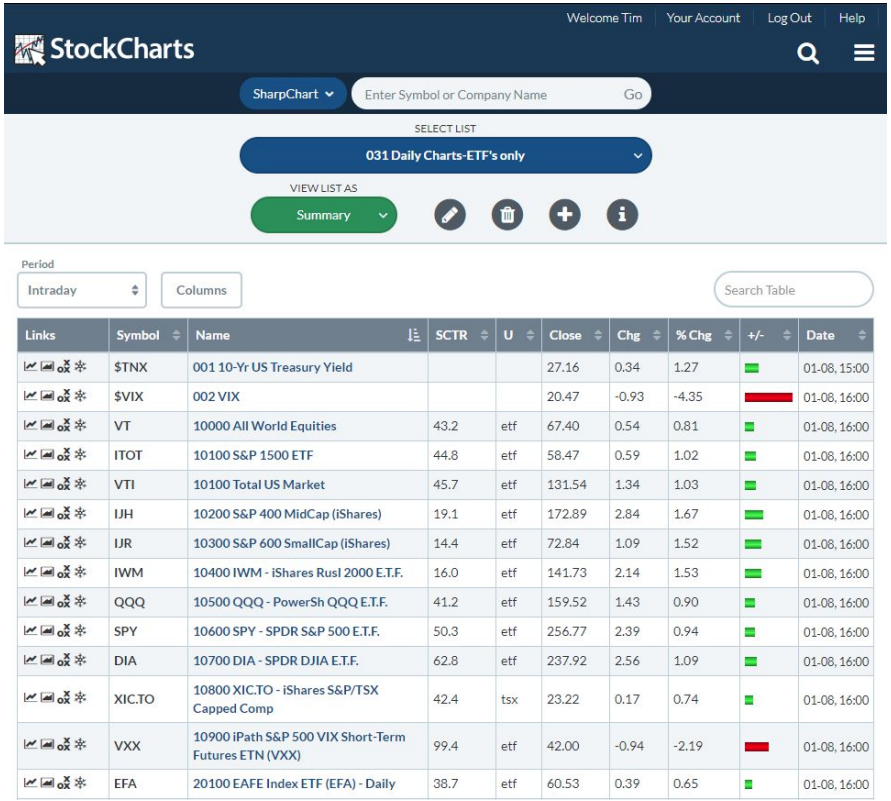
WATCHLISTS

- Organisation saves time, reduces emotions and increases productivity
- Creating simple watchlists can make your life easier!
- Watchlists need to have a purpose!
- Consider the following at a minimum;
  - Everything Watchlist – Global Assets;
  - Open Positions;
  - Closed Positions;
  - Scans;
  - Ideas;

I have sample watchlists created in both stockcharts.com and eSignal.

You do not have to start from scratch! If you are a user of either service please email me.

WE WILL FURTHER EXPLORE THIS TOPIC IN THE 4TH MODULE IN THE CLASS!



Links	Symbol	Name	SCTR	U	Close	Chg	% Chg	+/-	Date
	$TNX	001 10-Yr US Treasury Yield			27.16	0.34	1.27		01-08, 15:00
	$VIX	002 VIX			20.47	-0.93	-4.35		01-08, 16:00
	VT	10000 All World Equities	43.2	etf	67.40	0.54	0.81		01-08, 16:00
	ITOT	10100 S&P 1500 ETF	44.8	etf	58.47	0.59	1.02		01-08, 16:00
	VTI	10100 Total US Market	45.7	etf	131.54	1.34	1.03		01-08, 16:00
	IJH	10200 S&P 400 MidCap (iShares)	19.1	etf	172.89	2.84	1.67		01-08, 16:00
	IJR	10300 S&P 600 SmallCap (iShares)	14.4	etf	72.84	1.09	1.52		01-08, 16:00
	IWM	10400 IWM - iShares Rusl 2000 E.T.F.	16.0	etf	141.73	2.14	1.53		01-08, 16:00
	QQQ	10500 QQQ - PowerSh QQQ E.T.F.	41.2	etf	159.52	1.43	0.90		01-08, 16:00
	SPY	10600 SPY - SPDR S&P 500 E.T.F.	50.3	etf	256.77	2.39	0.94		01-08, 16:00
	DIA	10700 DIA - SPDR DJIA E.T.F.	62.8	etf	237.92	2.56	1.09		01-08, 16:00
	XIC.TO	10800 XIC.TO - iShares S&P/TSX Capped Comp	42.4	tsx	23.22	0.17	0.74		01-08, 16:00
	VXX	10900 iPath S&P 500 VIX Short-Term Futures ETN (VXX)	99.4	etf	42.00	-0.94	-2.19		01-08, 16:00
	EFA	20100 EAFE Index ETF (EFA) - Daily	38.7	etf	60.53	0.39	0.65		01-08, 16:00



PORTFOLIO THEORY

- MODERN PORTFOLIO THEORY (MPT);
- CAPITAL ASSET PRICING MODEL (CAPM);
- EFFICIENT MARKET HYPOTHESIS (EFH);
- LAZY PORTFOLIO'S;

MODERN PORTFOLIO THEORY

BASIC CONCEPTS

MODERN PORTFOLIO THEORY

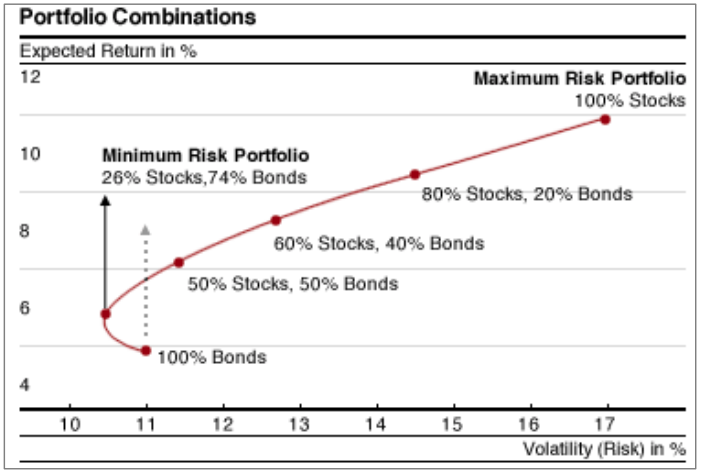
Developed by Harry Markowitz in 1952, Modern Portfolio Theory (MPT) is the very basic idea that there is an optimal way to combine different investments which can reduce risk and increase return over owning just one investment alone.

- ❖ Higher Risk does not always result in higher return;
- ❖ Higher Return does not always require higher risk;

SIMPLE EXAMPLE RIGHT OF A STOCK/BOND PORTFOLIO

- ❖ Top Right of the curve shows the risk/return profile of a portfolio that holds 100% stocks (Asset A);
- ❖ The Bottom of the curve shows the risk/return profile of a portfolio that holds 100% bonds (Asset B);
- ❖ The curved line connecting both the top and bottom of the curve represents all possible combinations of portfolios holding various amounts of both assets. This is called the Efficient Frontier.
- ❖ The portfolio with a certain mix of Asset B and Asset A, directly above Asset B (dashed grey arrow) delivers the same risk as Asset B but promises a higher return.
- ❖ This idea was really foundational in investment management because it not only helped investors build better portfolios, but it led to the idea of efficient markets, and was the first true quantitative strategy.

THE EFFICIENT FRONTIER (RED LINE BELOW)



https://www.turtletrader.com/modern-portfolio-theory/

CAPITAL ASSET PRICING MODEL

BASIC CONCEPTS

CAPITAL ASSET PRICING MODEL (CAPM)

- Capital Asset Pricing Model (CAPM), developed in 1964, is an extension of the Markowitz's Modern Portfolio Theory. This model was developed by the independent works of William Sharpe, Jack Treynor, Jan Mossin, and John Lintner who built on the idea of diversification as introduced by the works of Harry Markowitz;

- CAPM attempts to prices securities by examining the relationship that exists between expected returns and risk. The model implies that investors always combine two types of assets or securities; a risk free asset and a risk asset in the form of a market portfolio of various assets;

- CAPM further posits that investors expect to be rewarded for holding these risky assets according to the risk inherited for holding on to such assets. After all, such kind of risk cannot be diversified (*market related usually referred to as systematic risk*) and as a result, investors need to be compensated for taking on such "*undiversifiable*" risks;

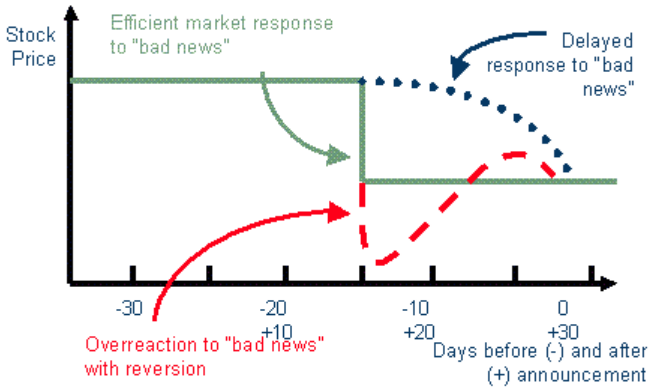


https://medium.com/python-data/capm-analysis-calculating-stock-beta-as-a-regression-in-python-c82d189db536

EFFICIENT MARKET HYPOTHESIS
BASIC CONCEPTS

EFFICIENT MARKET HYPOTHESIS (EMH)

- The Efficient Market Hypothesis (EMH) is a theory that tries to explain the movement of share prices. EMH was developed by Eugene Fama, finance professor at the University of Chicago in 1970;
- *It hypothesizes that at any given time, share prices fully reflect all information and the stock market reacts immediately to all information that is available;*
- *Therefore, a long term investor cannot obtain higher than average returns from a well-diversified share portfolio;*
- EMH does not require that investors be rational; it says that individual investors will act randomly, but as a whole, the market is always "right." In simple terms, "efficient" implies "normal." For example, an unusual reaction to unusual information is normal. If a crowd suddenly starts running in one direction, it's normal for you to run in that direction as well, even if there isn't a rational reason for doing so;



LAZY PORTFOLIOS
BASIC CONCEPTS

LAZY PORTFOLIO'S

- Index Mutual funds emerged in the 1980's and 1990's (ETF's targeting index's, sectors, industry groups, etc emerged in the 1990's) providing investors a way to hold multiple securities of a certain asset class without needing to individually pick stocks

- Asset classes included Equities (Domestic and Foreign), Hard Assets (Real Estate, Commodities and Gold) and Fixed Income (Government/Corporate Bonds, Cash Equivalents)

- Basic concept ……allocate capital to a diverse set of index funds in static proportions at all times. Capital exposure to each asset class was determined based on Risk Tolerance

- Lazy Portfolio = Strategic Asset Allocation (SAA)



THE REALITY OF THE THEORIES

LOOKING AT THE FACTS

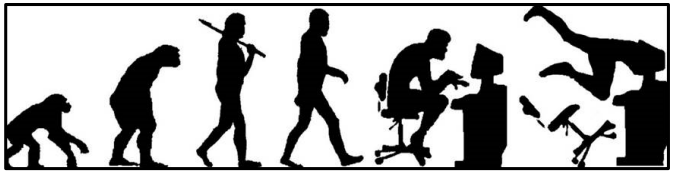
- **MODERN PORTFOLIO THEORY (MPT)** - Created in 1959, Rebutted in 2000 - William Bernstein in his 2000 book, The Intelligent Asset Allocator, examined 800 different portfolio allocations involving seven distinct asset classes over a 27-year period from 1970 – 1996. The key takeaway...there is no efficient frontier. Past efficient frontiers don't predict future efficient frontiers.

- **CAPITAL ASSET PRICING MODEL (CAPM)** - Created in 1964, Rebutted in 1992. Eugene Fama and Kenneth French in the June 1992 edition of the Journal of Finance presented an article entitled " The Cross Section of Expected Stock Returns". The paper involved studying thousands of stocks over a period of five decades. The key takeaway….."In short, our tests do not support the most basic prediction…that average stock returns are positively related to market betas." "The fact is, beta as the stole variable in explaining returns on stocks is dead"

- **EFFICIENT MARKET HYPOTHESIS (EMH)** = Created in 1970, Rebutted in 1977 – Sanjoy Basu in the June 1977 edition of the Journal of Finance, showed that stocks with low prices compared to their earnings – low P/E ratios- had higher returns then predicted. This was the academic genesis of "value" investing and the beginning of the end of EMH. "I'd be a bum on the street with a tin cup if the markets were always efficient" – Warren Buffet

- **LAZY PORTFOLIO'S (SAA)** - Created in the 1990's, Rebutted from 2000-2002 and 2007-2009 - The 2000-2002 dot-com bear market and 2007-2009 Bear market exposed the flaw in this strategy with devastating drawdowns of 35-50%





THAT'S IT FOR TODAY!



RIVERSIDE'S INVESTOR MASTER CLASS

DISCLAIMER

- All trading / investing comes with risk.
- The insights contained within this class do not constitute advice, rather are meant for educational purposes from which you may make more educated decisions taking into account your individual risk profile and needs for return.
- This class does not provide advice. There are no guarantees for positive return. All investing/trading is at your own risk.
- Under no circumstances does the information in this class represent a recommendation to buy, sell, or hold any security.
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Good investing is <u>not</u> an "event" like finding the next growth opportunity or catching the next market turn. Rather, good investing is a disciplined process that converts research and training into a well-tested methodology, and then makes a habit of following that approach day after day.

John P. Hussman, Ph.D
President, Hussman Strategic Advisors