Client behavior / Time segmentation investing

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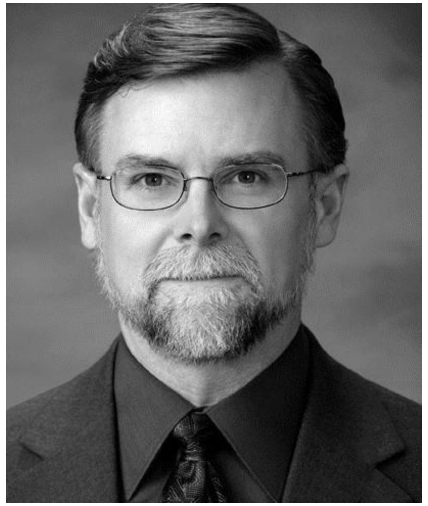

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"Everybody is worried about inflation. Inflation is a positive for common stocks because inflation in companies' costs works its way into selling prices, which lift the nominal level of revenues and earnings. Inflation becomes a problem for the market when the central bank is moving to curb inflation"

Leon Cooperman

So what's the problem that we're trying to solve?

Decision-making bias

Our industry makes it hard

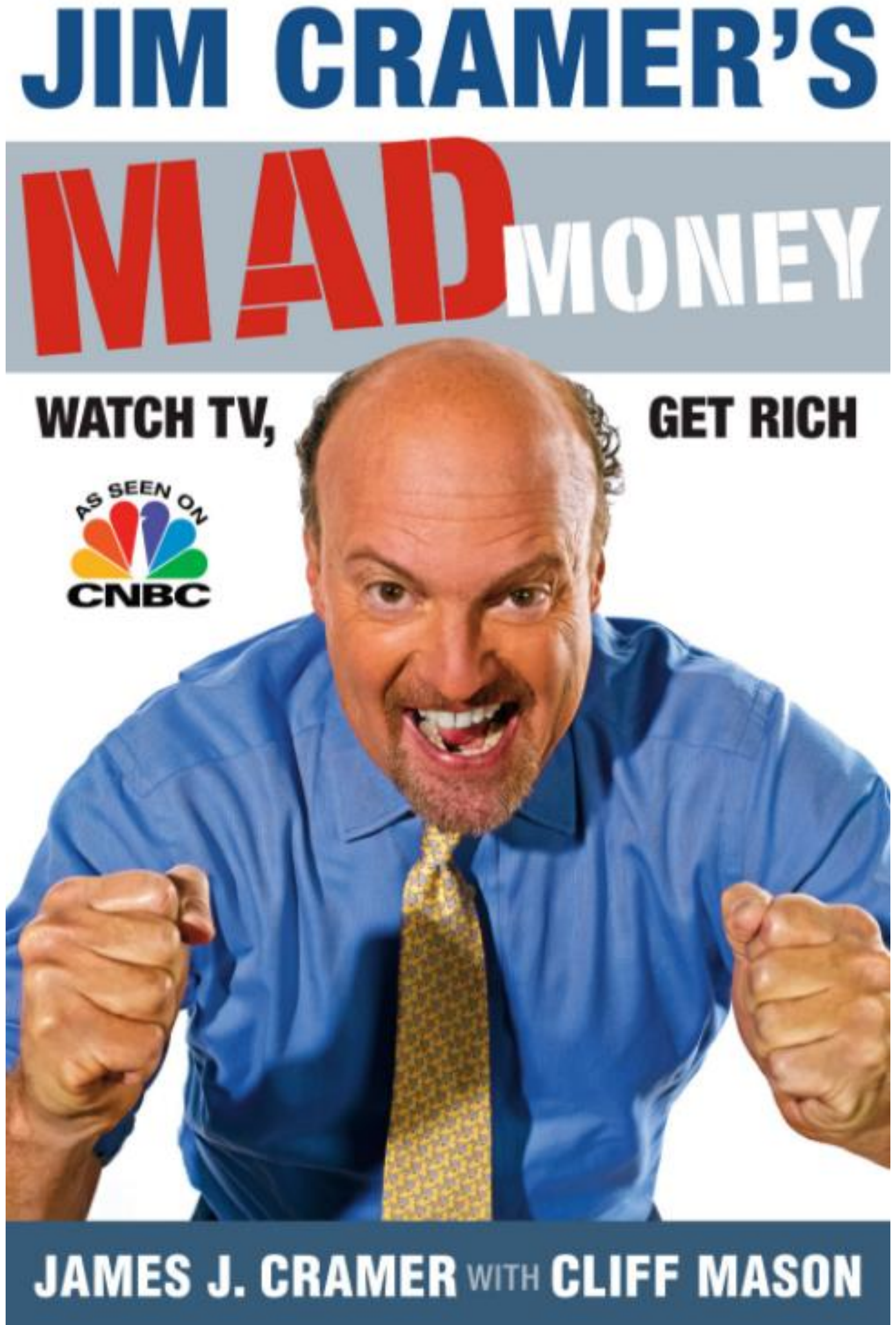
- The investment industry encourages advisors/clients to make investment decisions on essentially irrelevant or even misleading information

- Recent performance numbers
- The last 1-, 3-, 5-, 7-, and 10-year performance numbers

- Just pick the fund that had the best numbers

- This encourages “performance chasing”

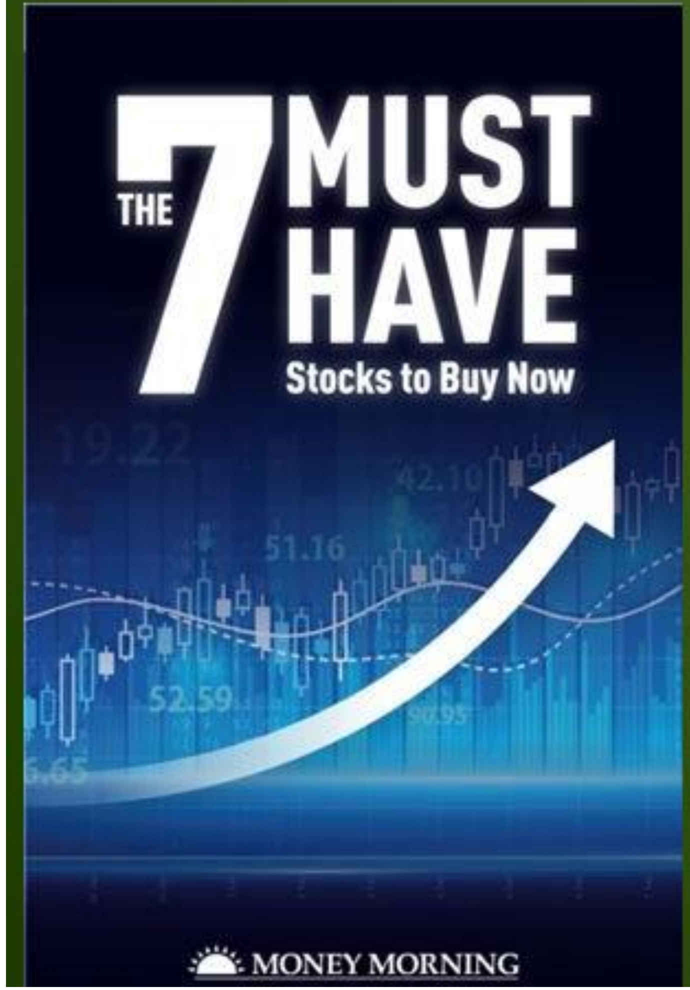
Our industry doesn't help



Often encouraging clients in the worst possible directions

The 7 Best Stocks to Buy For 2021

No Matter How The Stock Market Moves Today



Shutting down the country has fast-forwarded us 10 years into the future. These seven companies are taking us there.

- One has been called "the biggest threat to Amazon."
- Two of them are **essential** to remote workers.
- Another is poised to add $300 billion in revenue.

To get our full report on all seven of these revolutionary companies, just enter your e-mail address below.

Email

Get Access

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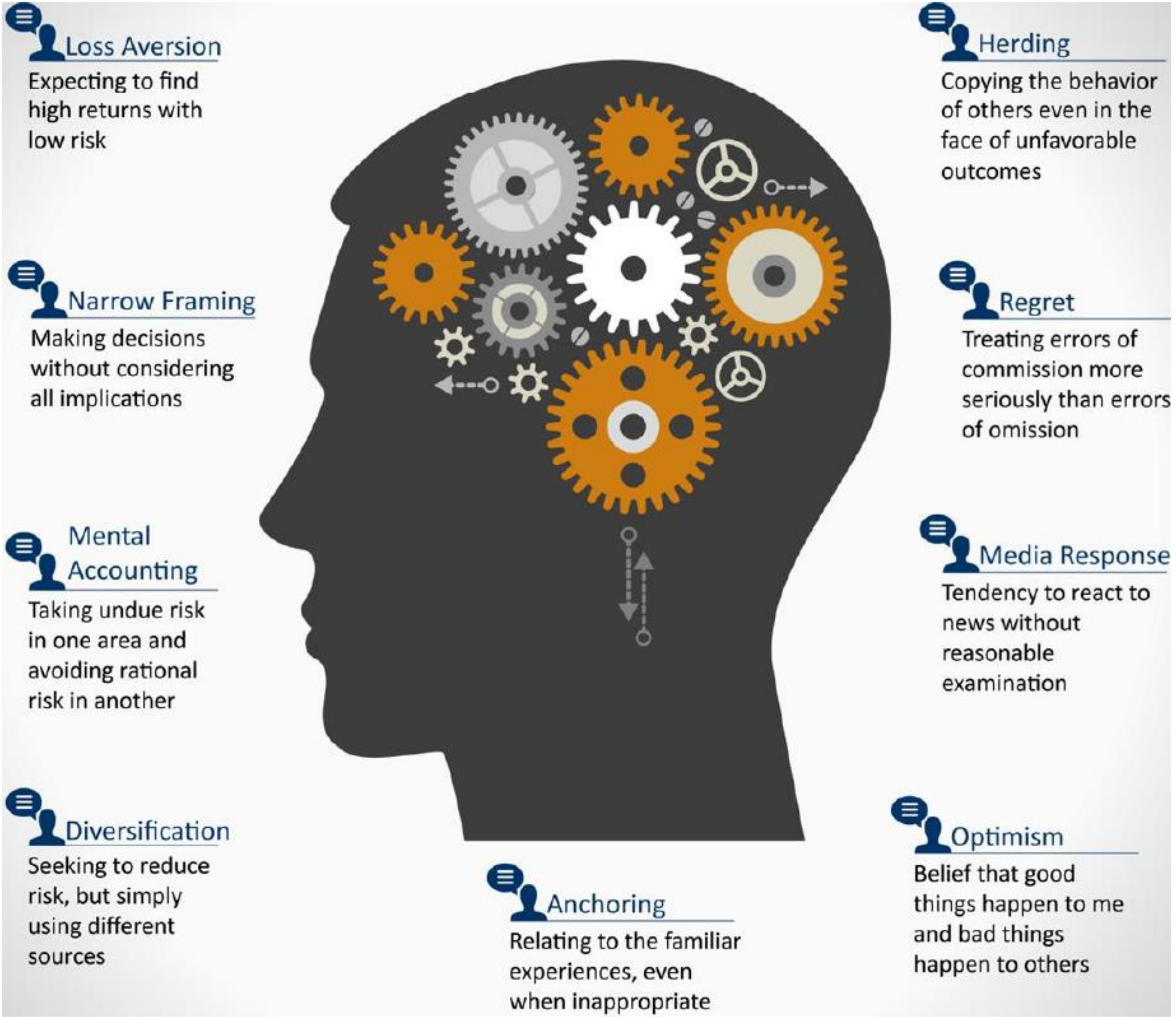
Most of it starts with our inherent phycological weaknesses



Most problematic behaviors are exacerbated by a focus on past performance as opposed to future goals

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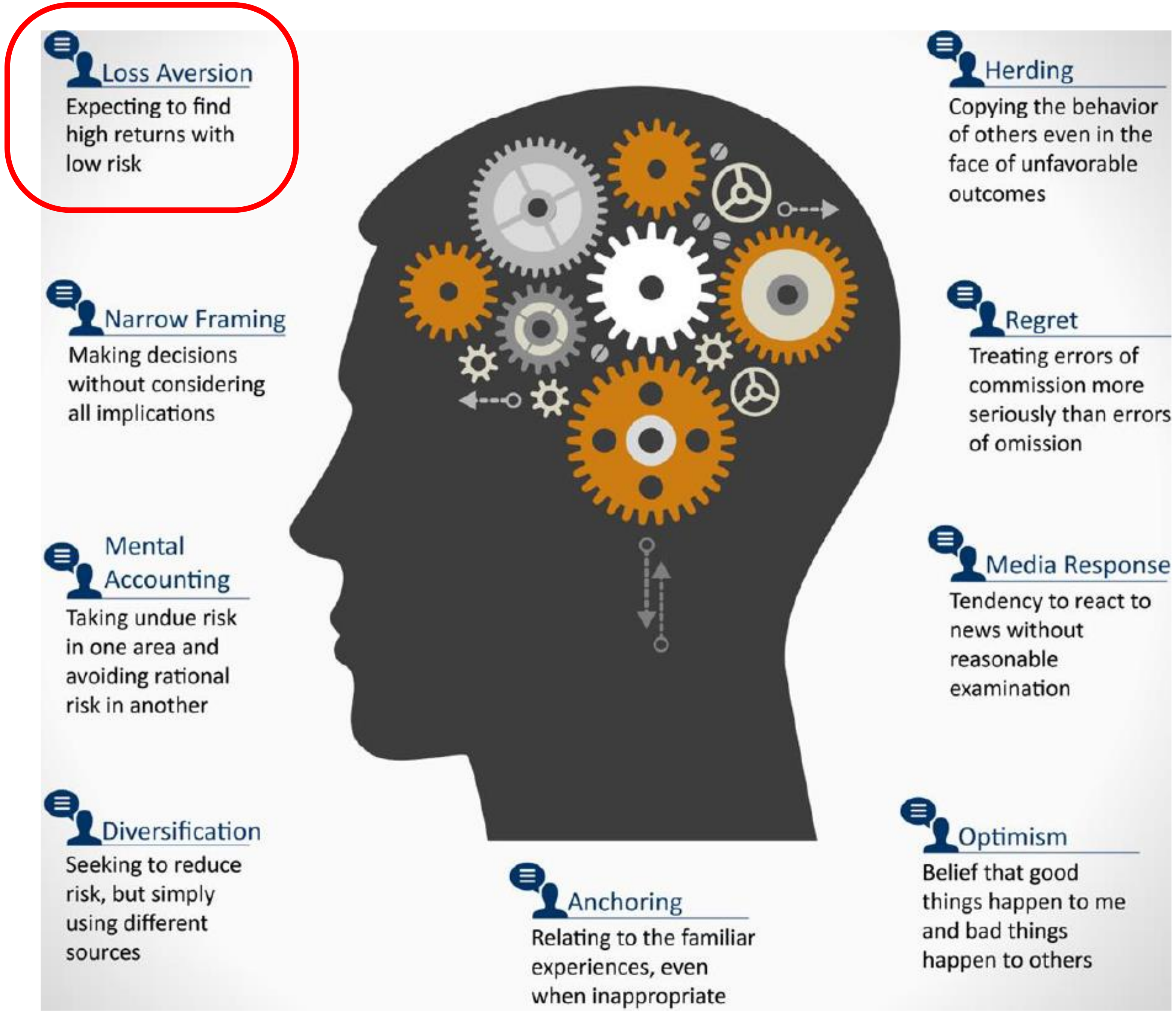

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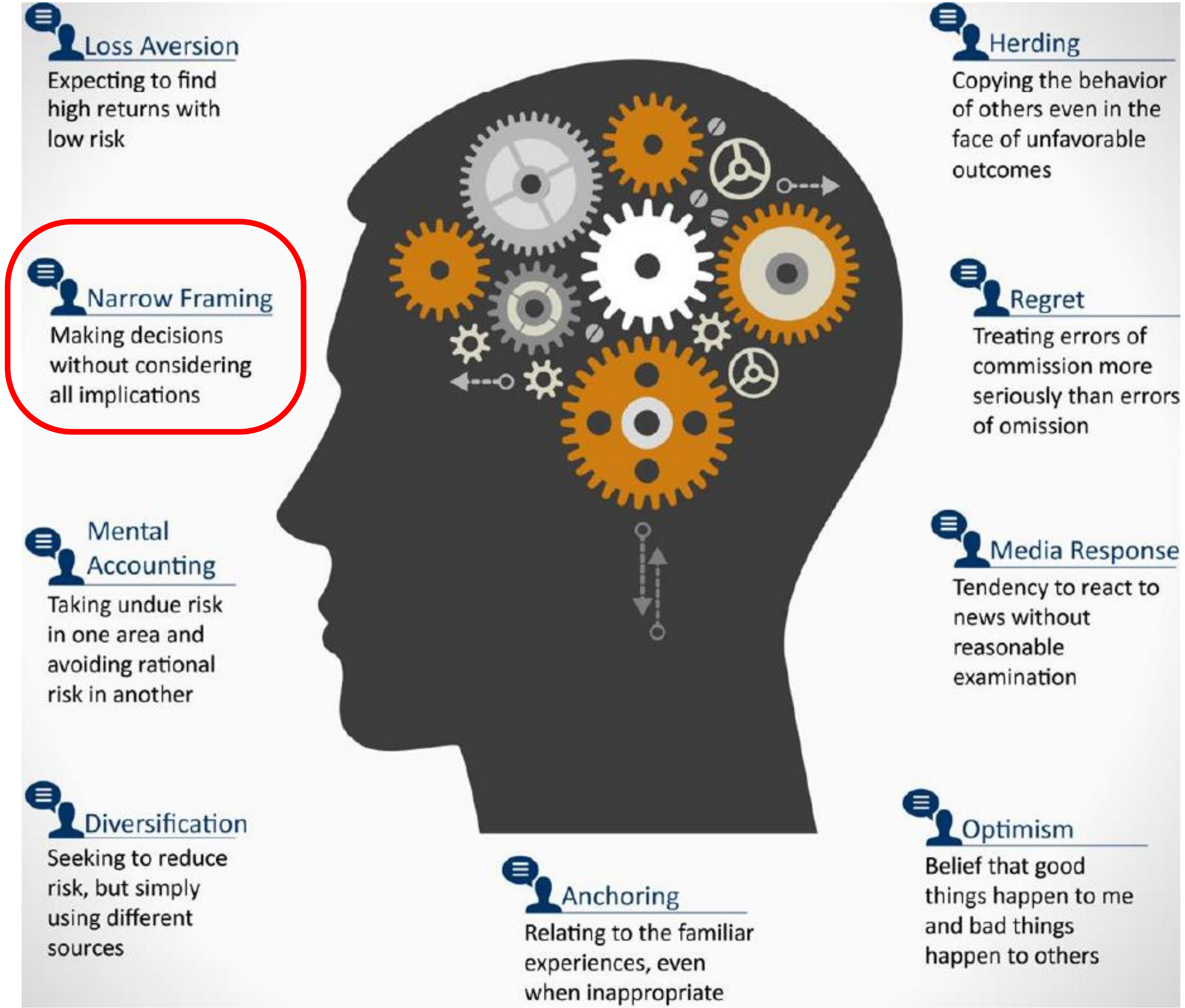

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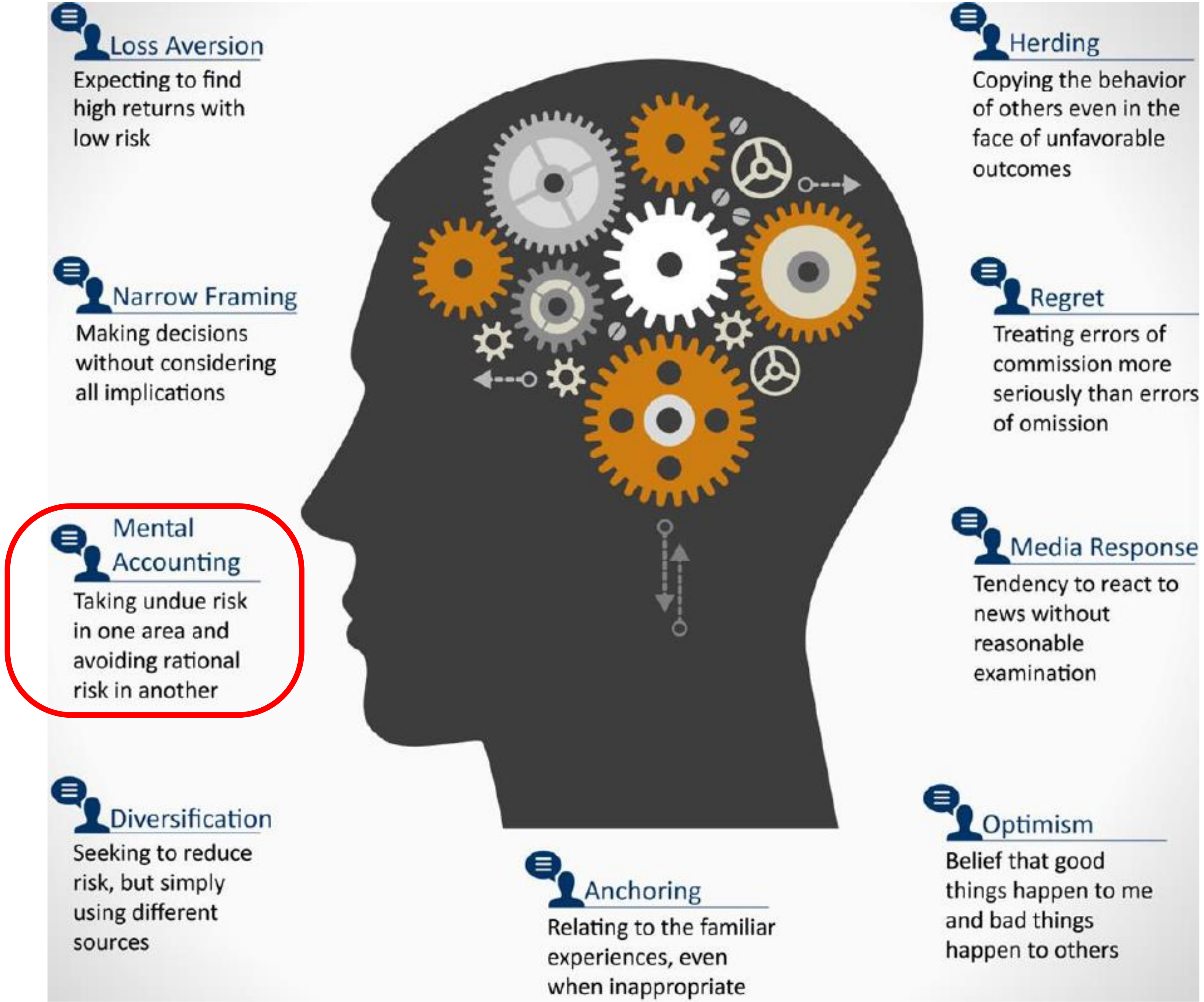

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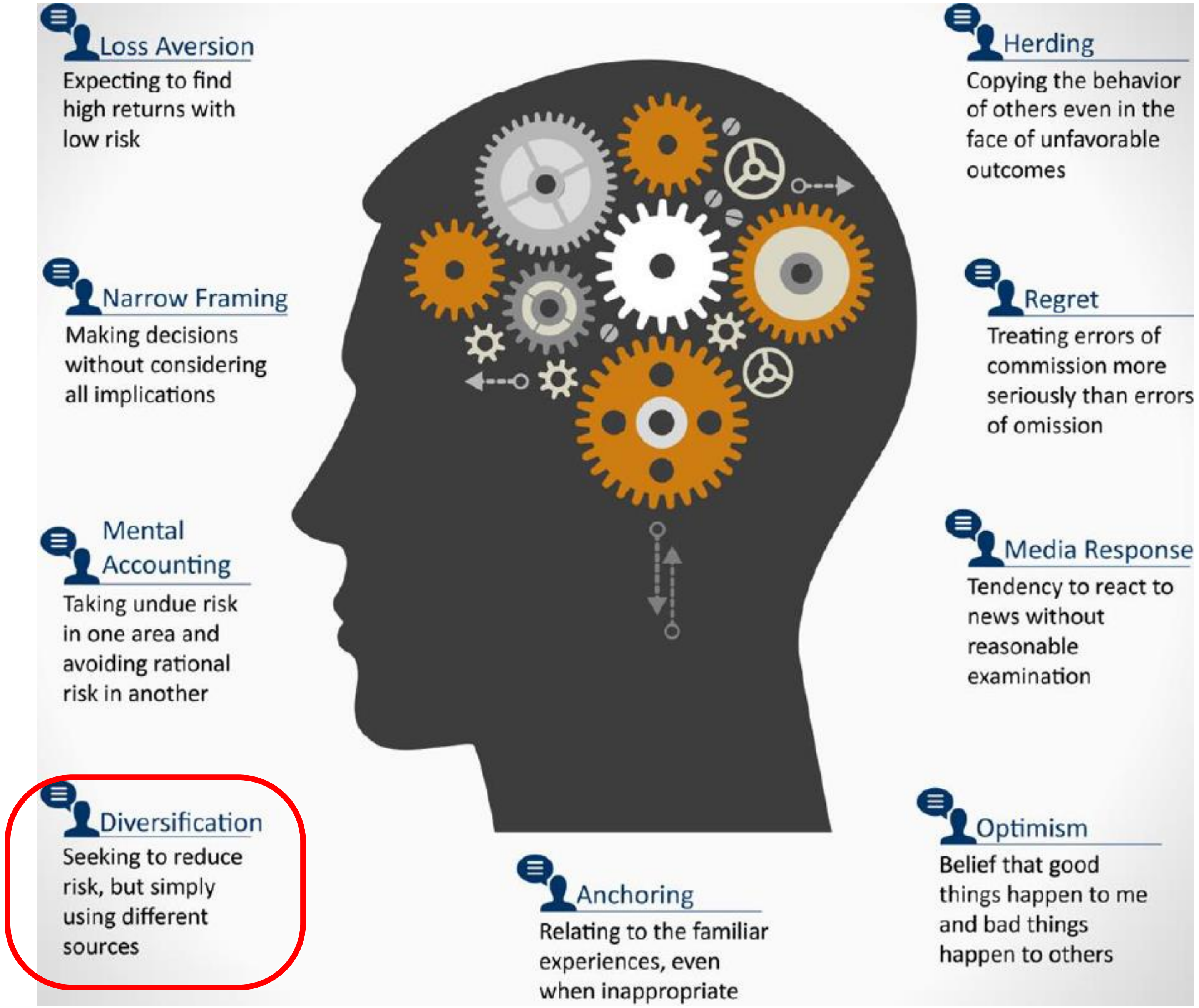

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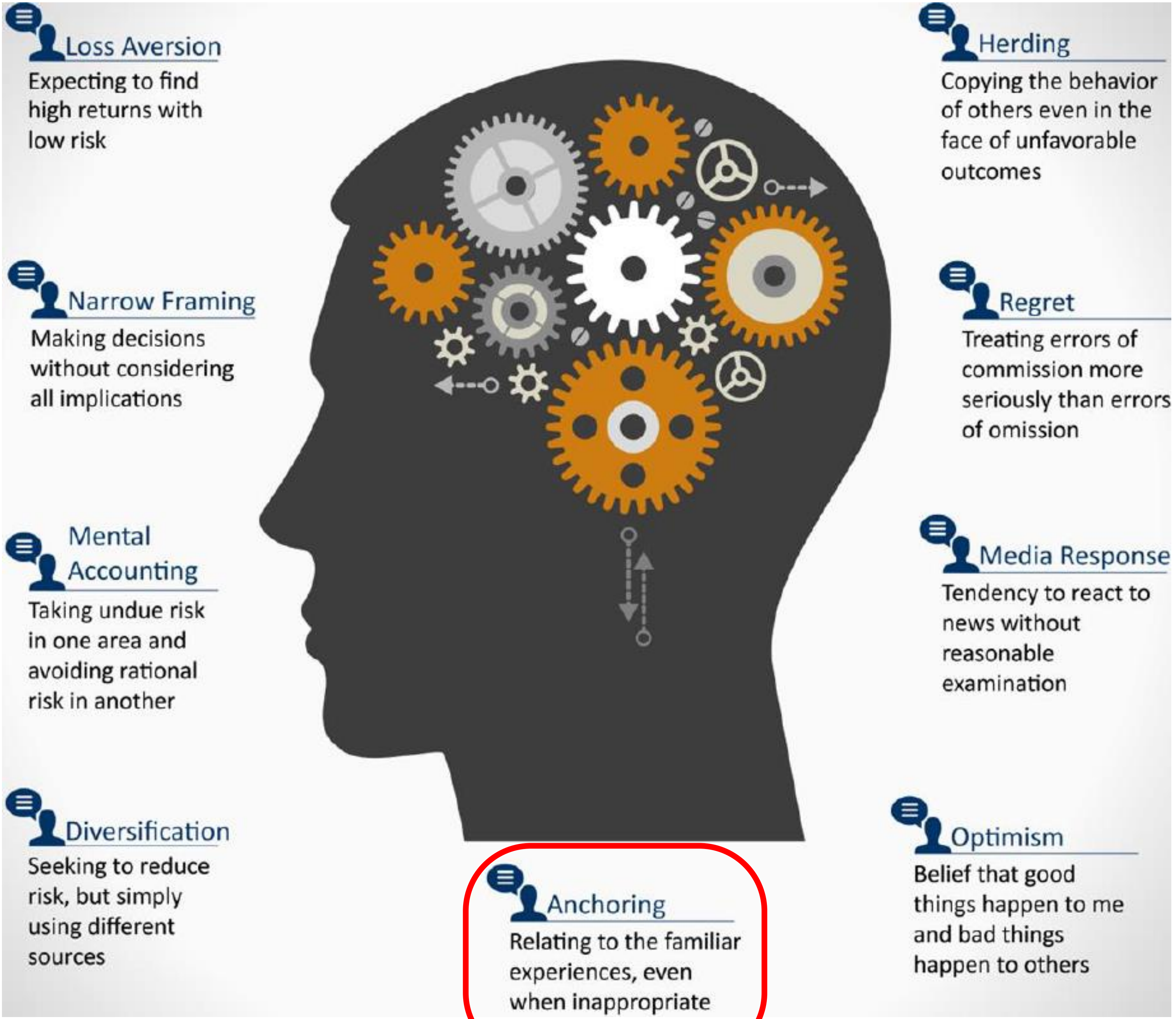

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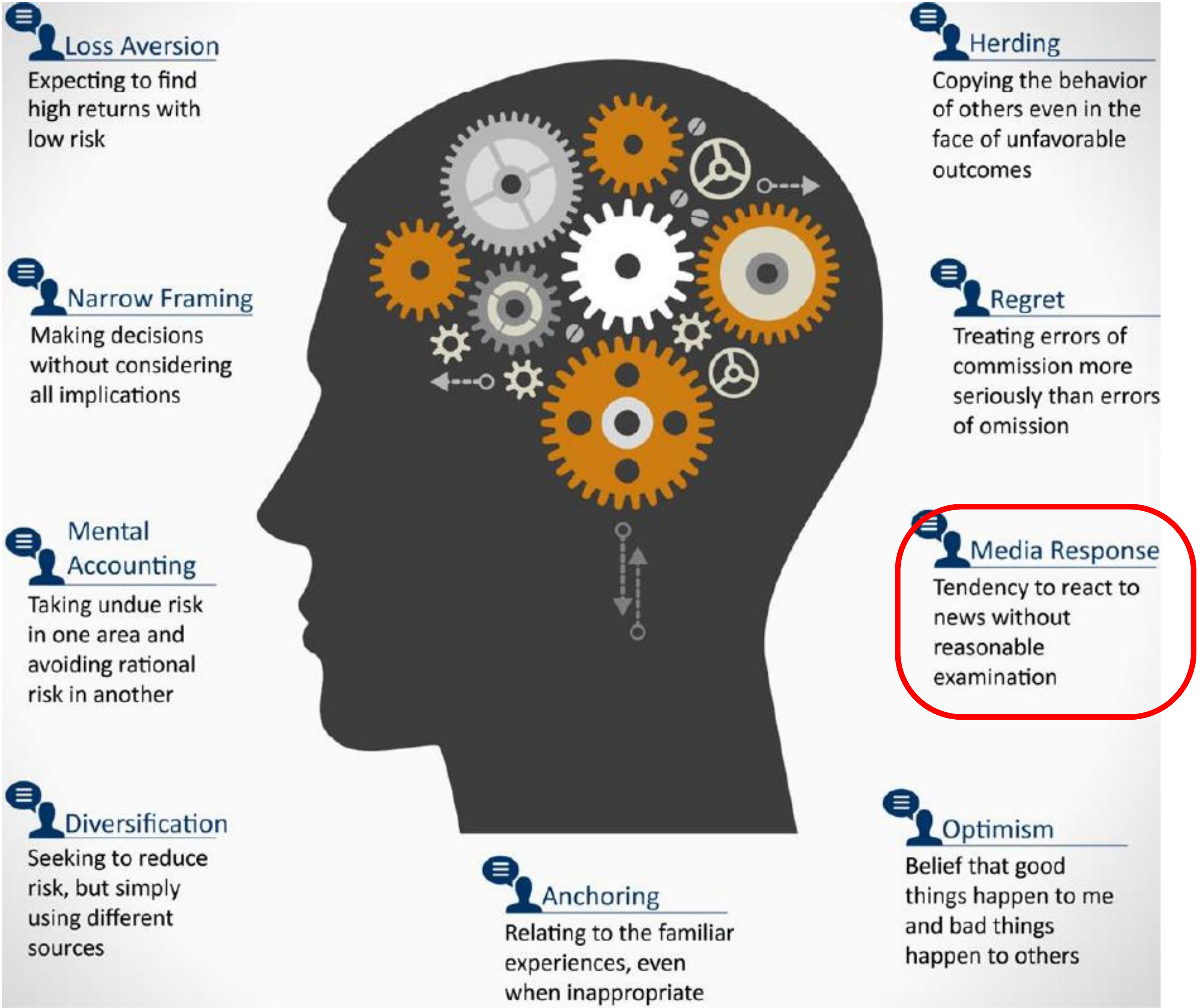

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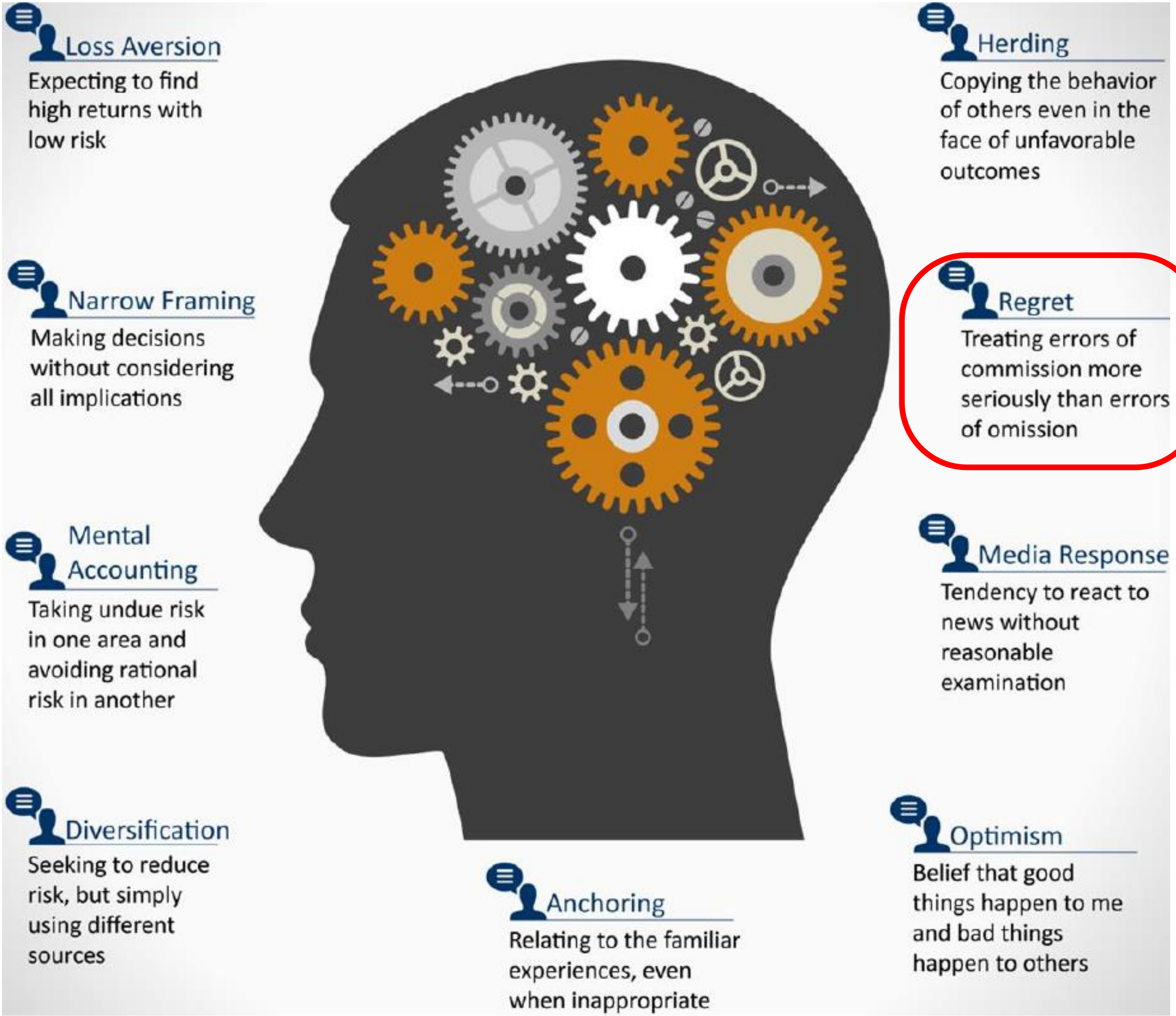

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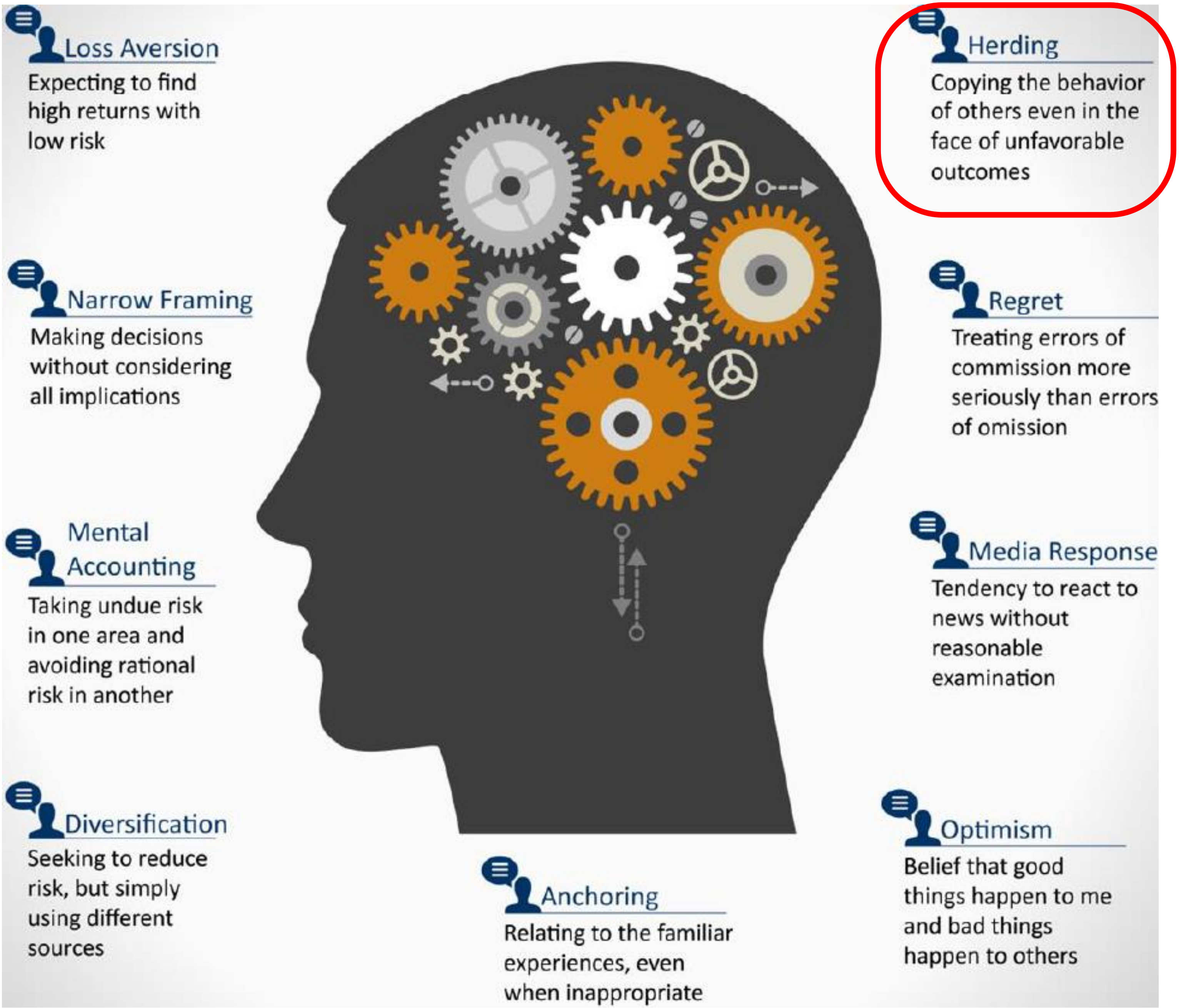

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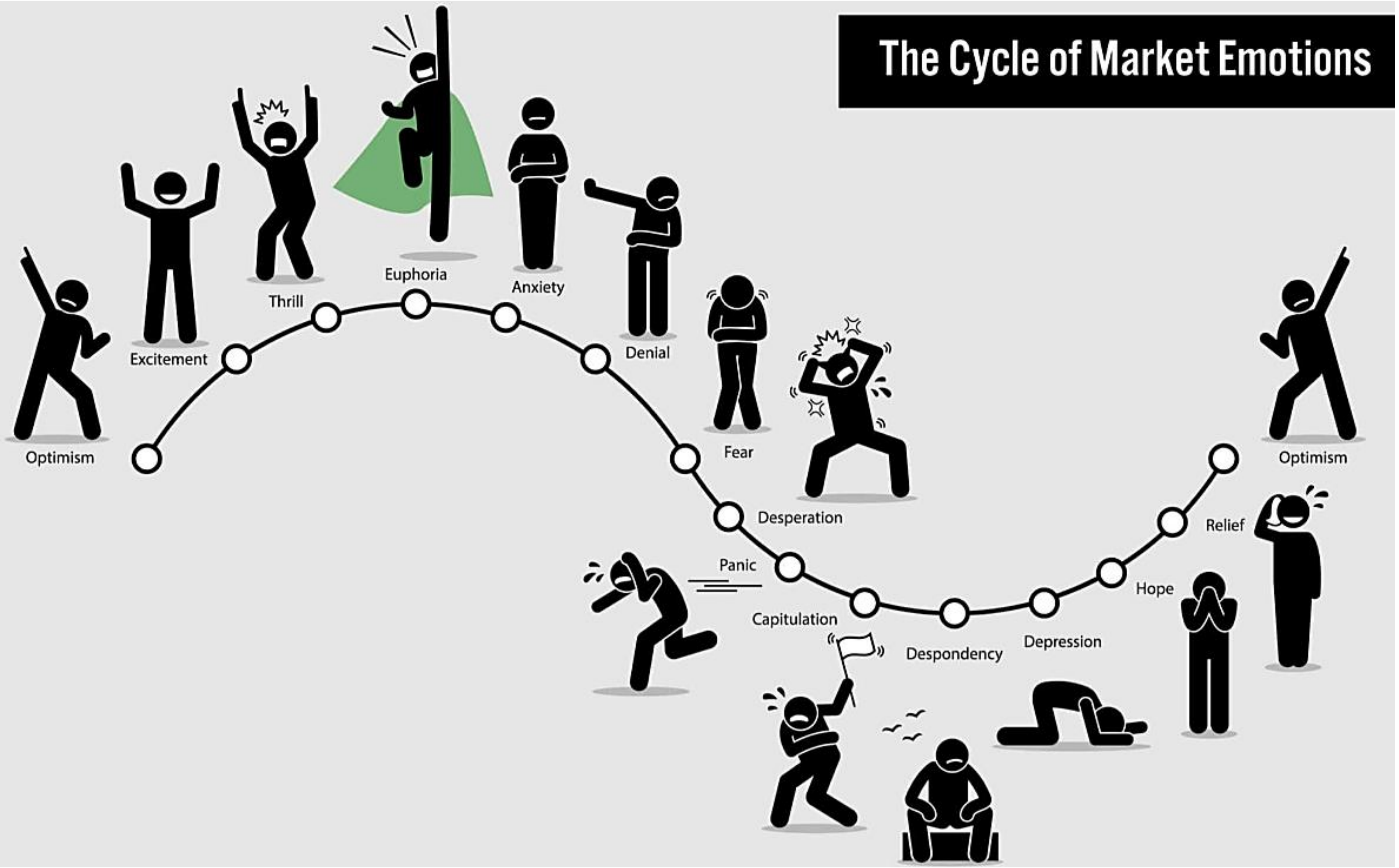
The curse of past performance

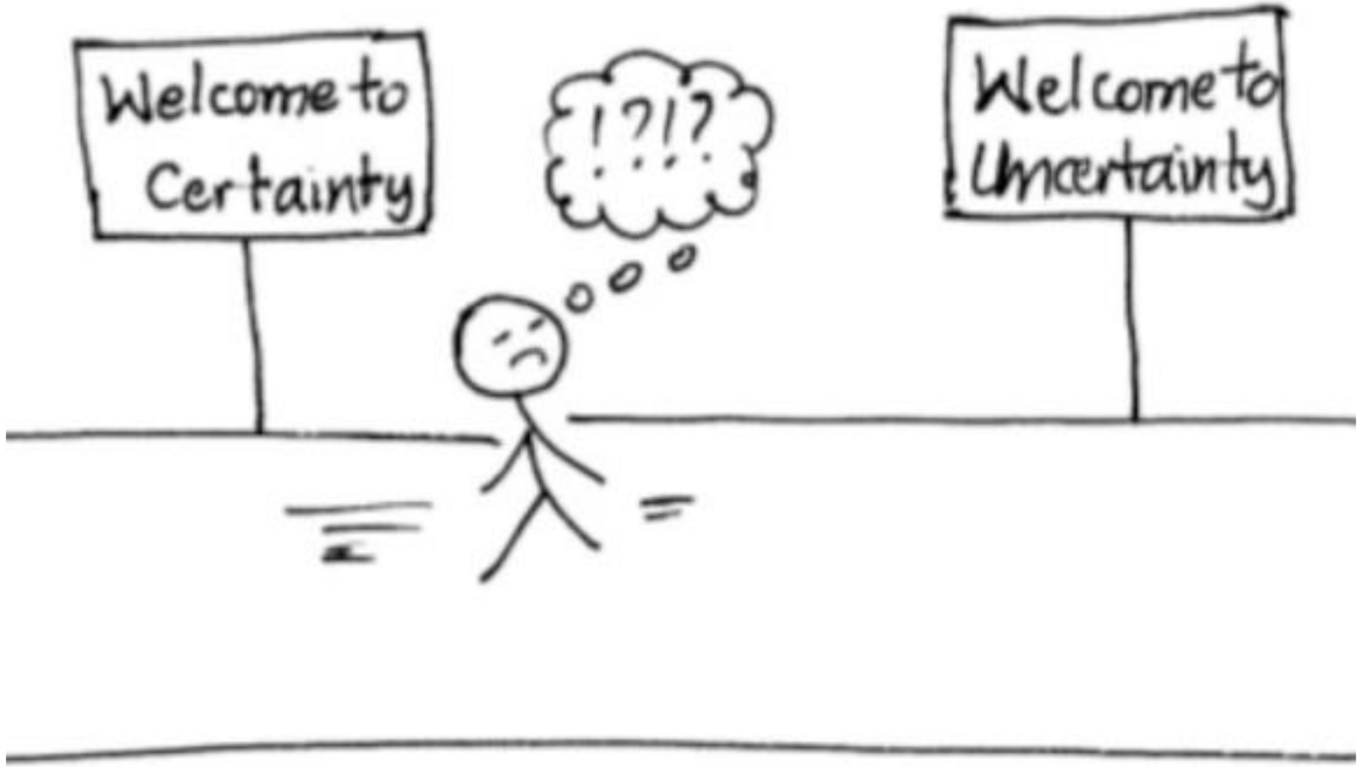


The challenge of overconfidence

Overconfidence Bias - Unwarranted faith in one's intuitive reasoning, judgment, cognitive abilities

At the macro level, overconfidence can run wild. The late 1990s is the best example. This was the Internet stock boom. Investors indiscriminately poured money into internet businesses that were getting "eyeballs" (page views), rather than looking at the bottom line - whether these companies were making money or not. Millions of dollars were lost investing in overvalued internet companies in those days.

We “have” uncertainty . . . but we “want” certainty



What is the solution?

Time segmentation investing

Time Segmentation Investing

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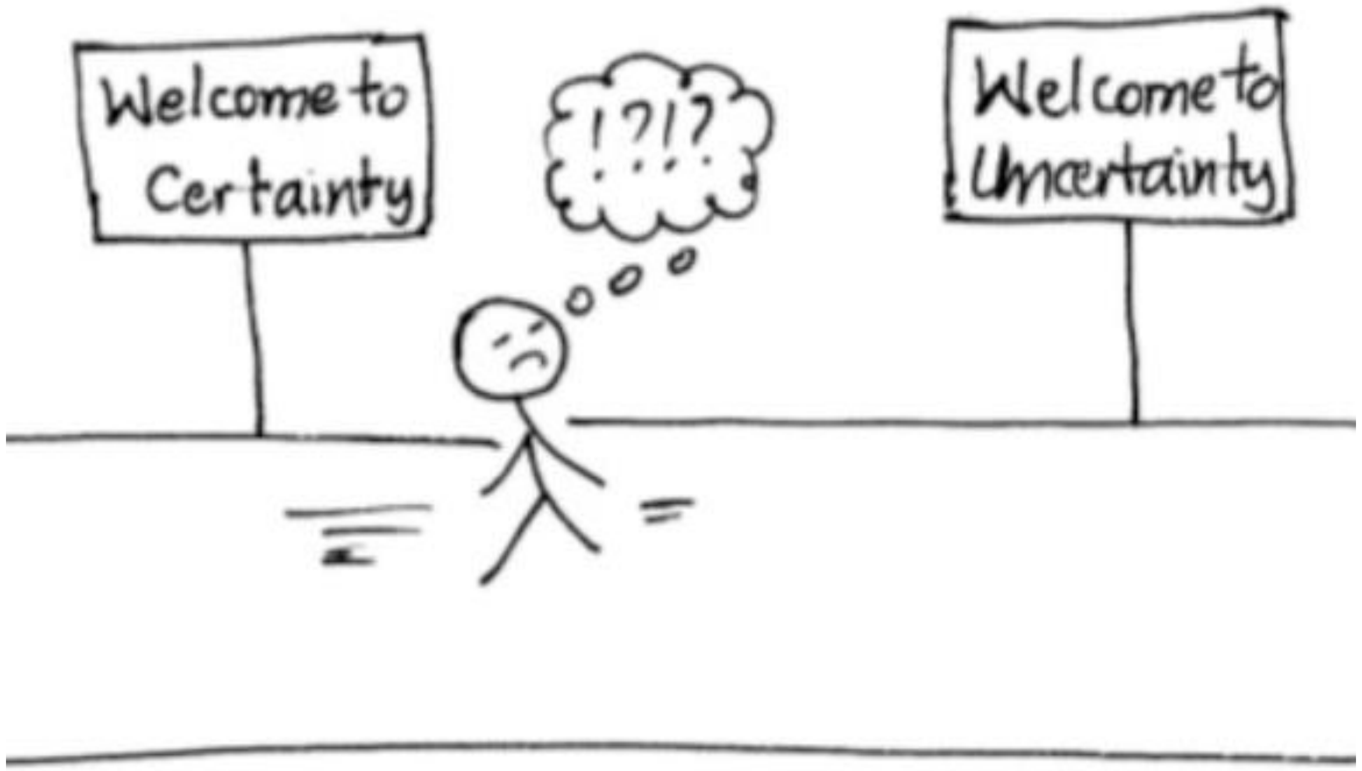
- Time segmentation
- Asset liability matching
- Immunization
- Defeasance
- Buckets

- It is a process or structure . . . and <u>not</u> an investment portfolio

We “have” uncertainty . . . but we “want” certainty

- Time Segmentation Investing is about only one thing
- Moving from uncertainty to certainty



Time Segmentation Investing - two powerful benefits

- **Client**
  - Behavior modification
  - Patience
  - Making “time” your friend
  - Breaking the dysfunctional/slavish focus and reliance on benchmark comparisons
  - Encourages measurement of what really matters
    - What do I need to earn
    - How much time do I have to earn it
    - Is this reasonable/logical given today’s valuations and opportunities

- **Investments**
  - Different investments have radically different “maturation cycles”
  - Size of the investment opportunity is often directly associated with the length of the maturation cycle

There are two different types of investments

- Journey
  - Our industry offers mostly Journey portfolios
  - Hedge funds are a notable exception . . . . but then **true** hedge funds are not available in the retail space
  - Commercial success for Journey portfolios is generally based on
    - A sexy story
    - Earning more than some comparative benchmark over the last 1-, 3-, 5-, and 7-years . . . even if this means delivering a loss
- Destination
  - Not commercially attractive for large investment managers to offer Destination portfolios
  - Destination portfolios don't lend themselves to emotion-laden "sales-stories"
  - Adoption of Destination portfolios is generally pursued by fiduciary advisers

The concept of a successful Journey investment

Intended Benefit

Experience a smoother, more pleasing Journey

Possible Cost

Unfortunately, your Journey portfolio might lead you to this Destination

The concept of a successful Destination investment

Intended Benefit

Reach a more favorable
Destination

Possible Cost

Unfortunately, your Destination
portfolio might take you on this
type of Journey

Old Chinese proverb

- *"If your plan is for 1 year, plant rice. If your plan is for 10 years, plant trees. If your plan is for 100 years, educate children."*

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- This proverb's lesson for investments is three-fold:
  - Every goal has a specific time destination in the future
  - The best solution for each time destination is different
  - Investors must bring the required patience to any investment . . . giving it the time it requires to sprout, grow, mature, and eventually be harvested.

Bucket approach - traditional concept

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Bucket 1	**Bucket 2**	**Bucket 3**	**Bucket 4**	**Bucket 5**
Years 0 to 5	**Years 6 to 10**	**Years 11 to 15**	**Years 16 to 20**	**Years 21 and Greater**
100% bonds	**"25% stocks"**	**"50% stocks"**	**"75% stocks"**	**100% stocks**

A simple example

	Time segment 1	Time segment 2	Time segment 3	Time segment 4	Time segment 5
Serves investor needs that arrive this number of years in the future	0 to 5 years	5 to 10 years	10 to 15 years	15 to 20 years	More than 20 years
Never make less than (net to the client)	3%	4%	5%	6%	7%
Destination (this number of years in the future)	2 ½ years	7 ½ years	12 ½ years	17 ½ years	22 ½ years
Invested in	Bond Portfolio	Short-Term Portfolio	Moderately Short-Term Portfolio	Moderately Long-Term Portfolio	Long-Term Portfolio
Policy asset allocation	100% bonds	25%/75% stocks/bonds	50%/50% stocks/bonds	75%/25% stocks/bonds	100% stocks

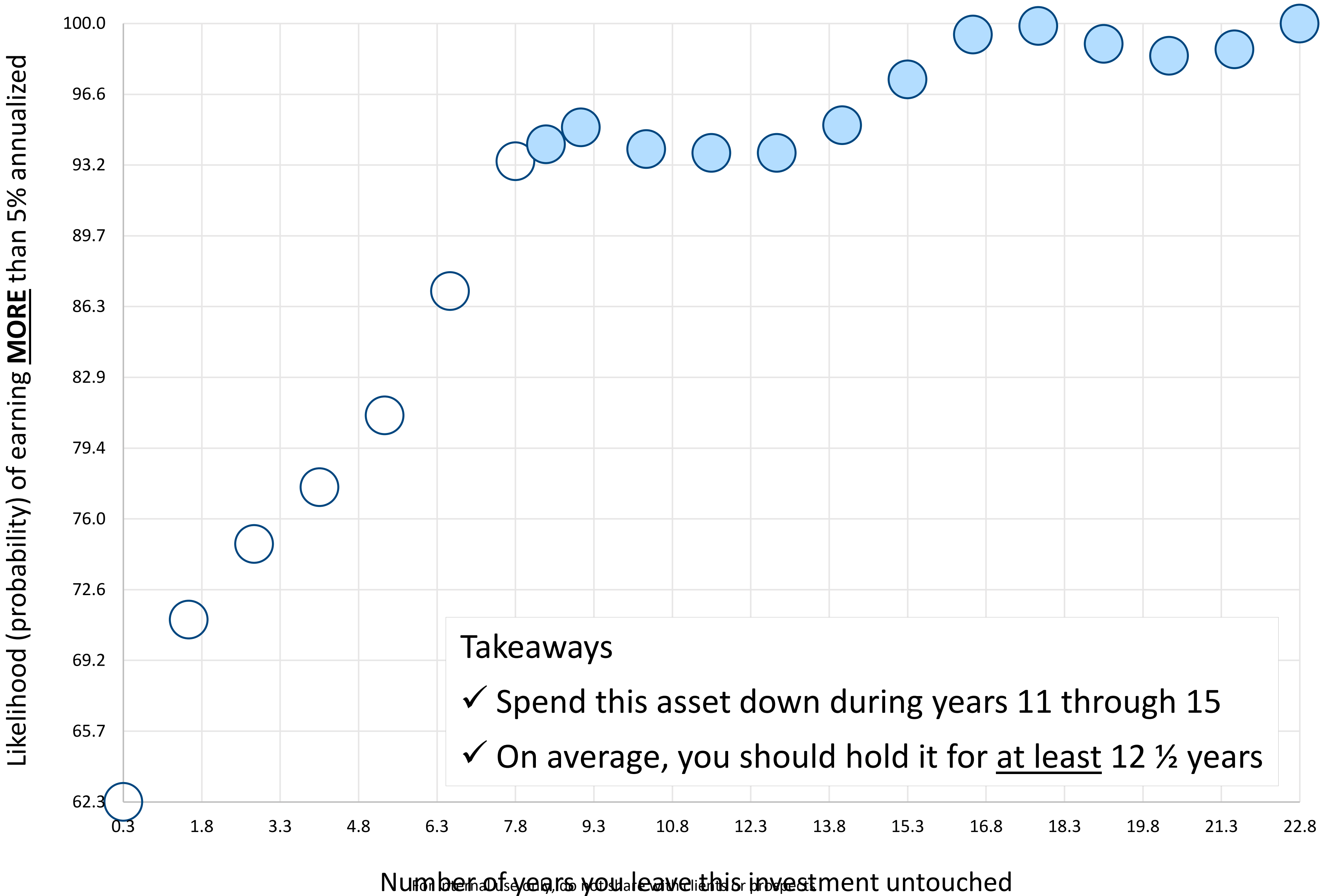
Following results are based on data 1926 to Today

Monthly total returns 1926-2021 . . . . 95 ¼ years

- Stocks - Largecap US, Smallcap US, International developed, Emerging countries
- Bonds - US Treasuries, US investment grade corporates, International treasuries
- Real Estate

The “Moderately Short-Term Portfolio”

Portfolio is 50% stocks and 50% bonds



The “Moderately Long-Term Portfolio”

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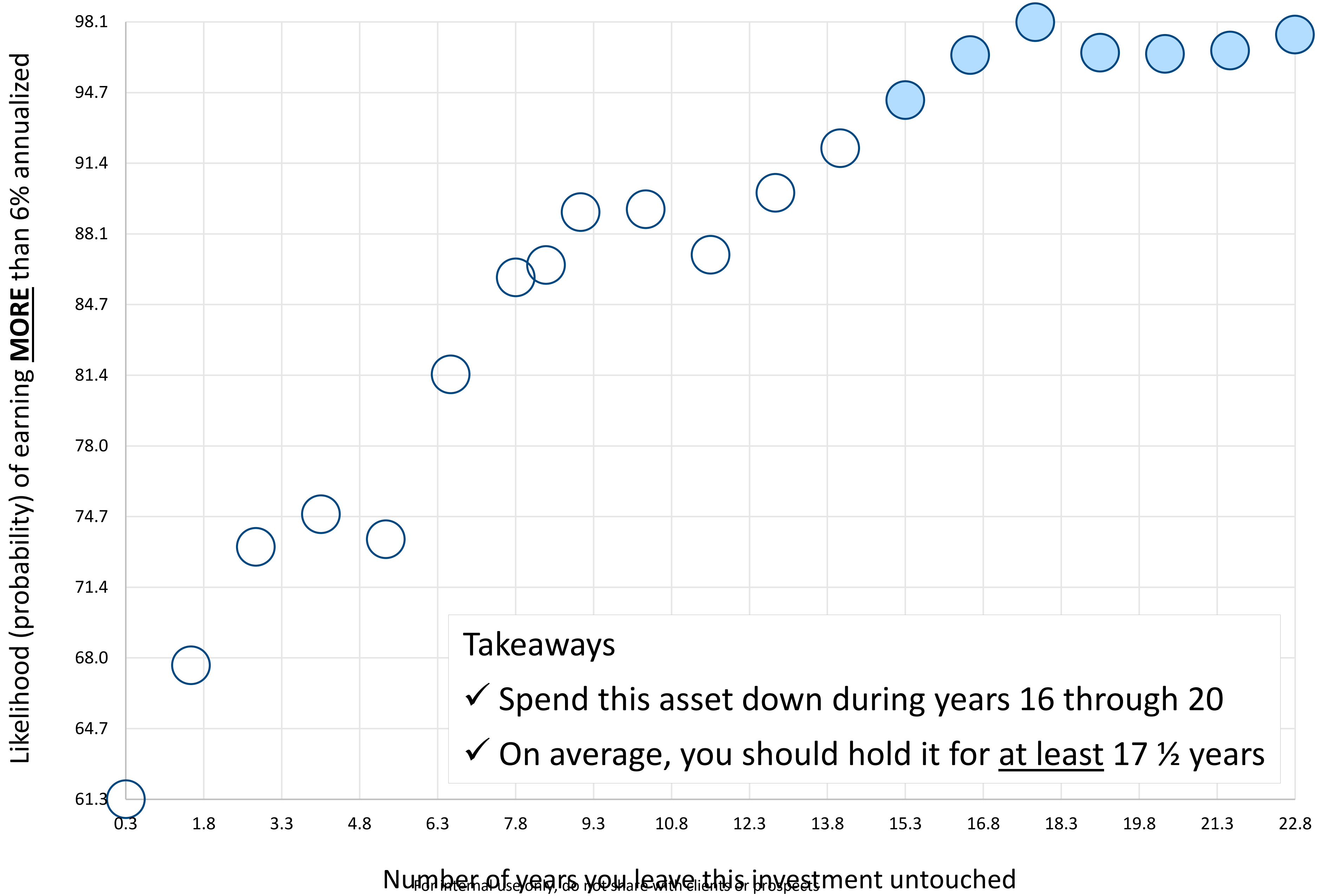
Portfolio is 75% stocks and 25% bonds



Takeaways

- ✓ Spend this asset down during years 16 through 20
- ✓ On average, you should hold it for at least 17 ½ years

How do we move from uncertainty to certainty?

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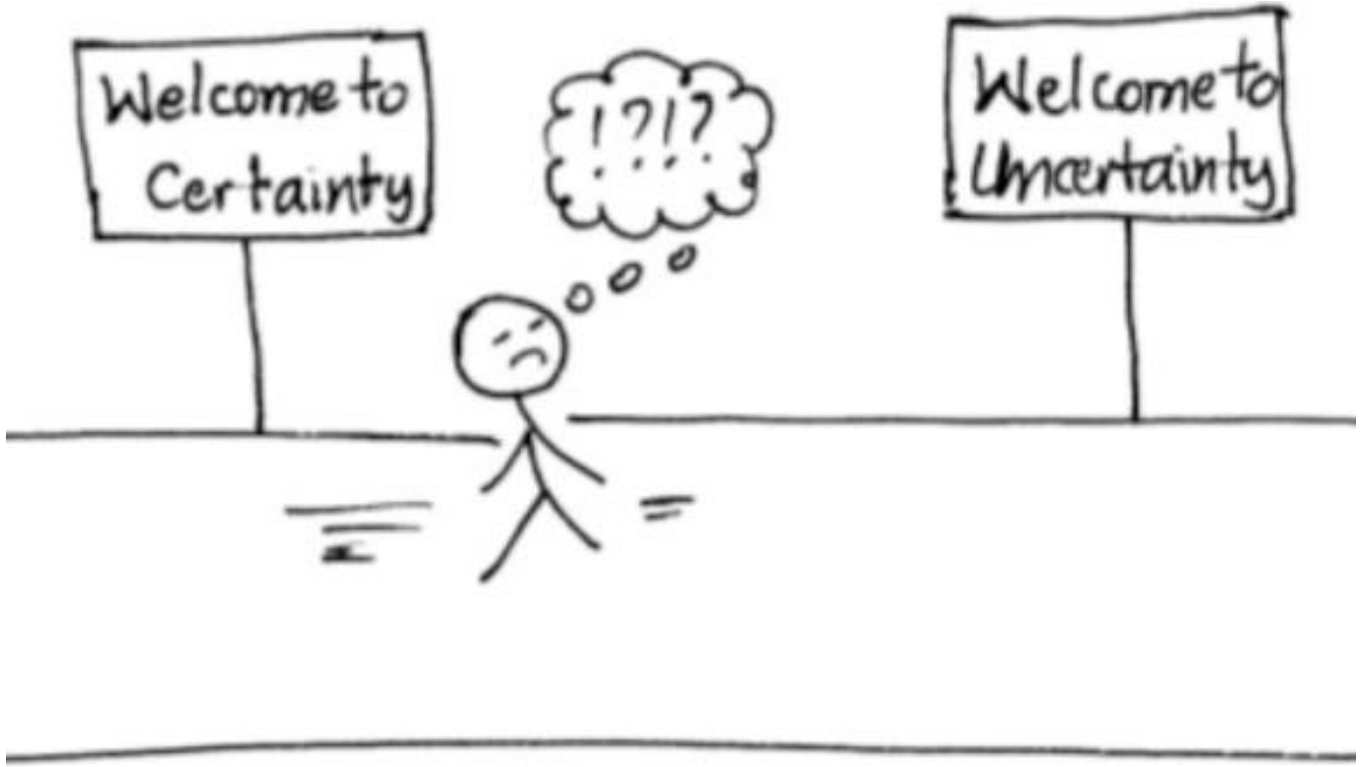

- Time segment both your needs and your investments . . . into “time buckets”
- Select the correct investment for each segment . . . with the right “maturation cycle”
- Exercise the required level of patience . . . make “time” your friend
- <u>STOP</u> the dysfunctional/slavish comparison to benchmark performance

If you’re not using Time Segmentation Investing . . .

Why not ?

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Office 781-489-5398

Crypto, Inflation, and Investment opportunities ahead

Special GoToMeeting - Monday, November 22nd at 11:00 a.m. EASTERN

Important Disclosures

All data and statistics were provided by Global Financial Data, Inc. (unless otherwise indicated in the exhibit)

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One of the limitations of hypothetical performance results is that they are generally prepared with the benefit of hindsight. In addition, hypothetical trading does not involve financial risk, and no hypothetical trading record can completely account for the impact of financial risk in actual trading. For example, the ability to withstand losses or adhere to a particular trading program in spite of trading losses are material points which can also adversely affect actual trading results. There are numerous other factors related to the markets in general or to the implementation of any specific trading program which cannot be fully accounted for in the presentation of hypothetical performance results and all of which can adversely affect actual trading results.

The composition of a benchmark index may not reflect the manner in which a Julex portfolio is constructed in relation to expected or achieved returns, investment holdings, portfolio guidelines, restrictions, sectors, correlations, concentrations, volatility, or tracking error targets, all of which are subject to change over time.

No representation or warranty is made to the reasonableness of the assumptions made or that all assumptions used to construct the performance provided have been stated or fully considered.

Important Disclosures - Continued

Short-Term Portfolio is defined as 62.3% Bonds, 25.1% U.S. Stocks, and 12.6% International Stocks.

Moderately Short-Term Portfolio is defined as 41.1% Bonds, 34% U.S. Stocks, and 24.9% International Stocks.

Moderately Long-Term Portfolio is defined as 41.667% U.S. Stocks, 33.333% International Stocks, and 25% Bonds.

Long-Term Portfolio is defined as 66.667% U.S. Stocks and 33.333% International Stocks.

Portfolios are rebalanced back to the above weights once each month at month-end.

Bonds is defined as equal proportions of the following five indices (subject to month-end rebalancing back to equal-weights): Dow Jones Corporate Bond Return Index, USA 5-year Government Note Total Return Index, GFD Indices USA 10-year Government Bond Total Return Index, GFD Indices USA Total Return AAA Corporate Bond Index, and GFD Indices World x/USA Countries Government Bond GDP-weighted Return Index.

U.S. Stocks is defined as equal proportions of the following five indices (subject to month-end rebalancing back to equal-weights): S&P 500 Total Return Index (w/GFD extension), Dow Jones Industrials Total Return Index, GFD Indices USA Top 100 Total Return Index, Fama French Small Cap Index (bottom 30% of the market by size), and Fama French Small Cap Index (bottom 30% of the market by size).

International Stocks is defined as equal proportions of the following four indices (subject to month-end rebalancing back to equal-weights): Japan Topix Total Return Index, Australia ASX Accumulation Index-All Ordinaries, France CAC All-Tradable Total Return Index, and UK FTSE All-Share Return Index (w/GFD extension).

All data was provided by Global Financial Data, Inc. in January 2021