



## Richard Bernstein Advisors



Richard Bernstein Advisors LLC (RBA) is an investment manager focusing on longer-term investment strategies that combine top-down, macroeconomic analysis and quantitatively-driven portfolio construction. We strive to be the leading provider of innovative investment solutions for investors, and our competitive edge is our research-driven macro style of investing.

Our top-down macro approach differentiates our firm from the more common, traditional bottom-up approach of most asset managers. Our extensive array of macro indicators allows us to construct portfolios that are innovative, risk-controlled, and focused on overall portfolio construction instead of individual stock selection.

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## Chase the Road Runner but don't go over the cliff



Wile E. Coyote was the unlucky villain in the Road Runner cartoons. Looking for a meal, he would repeatedly chase the Road Runner only to always meet a temporary slapstick demise. No matter how horrible his accident would be, he somehow showed up for the very next segment in the cartoon's episode.

As a kid, my favorite Wile E. Coyote catastrophe had him running off a cliff, somehow defying gravity to pause in mid-air to consider his misfortune, followed by an excruciatingly long fall ending in a puff of dust as he hit the canyon floor.

Momentum investment strategies remind me of Wile E. Coyote. Momentum investors often rush headlong into a hot investment, but instead of stopping before the cliff's edge, their enthusiasm and disregard for fundamentals expose their portfolios to unanticipated risk. Portfolios that had been significantly outperforming suddenly significantly underperform.

For decades, we've argued that the key to successful growth and momentum investing is not necessarily what stocks one buys because it is relatively easy to identify earnings growth or price momentum. Rather

the key to successful growth/momentum investing tends to be knowing what stocks to sell.

### Chase the Road Runner, but don't go over the cliff.

#### Where is the cliff's edge?

It is virtually impossible for investors to determine the exact moments of a momentum strategy's peak returns. But there can be hints that suggest reallocating portfolios, diversifying, and reducing potential risk before the peak is reached.

One of those hints has historically simply been extreme performance. When assets dramatically outperform or underperform, the probabilities start to increase that performance will reverse. This is called mean reversion.

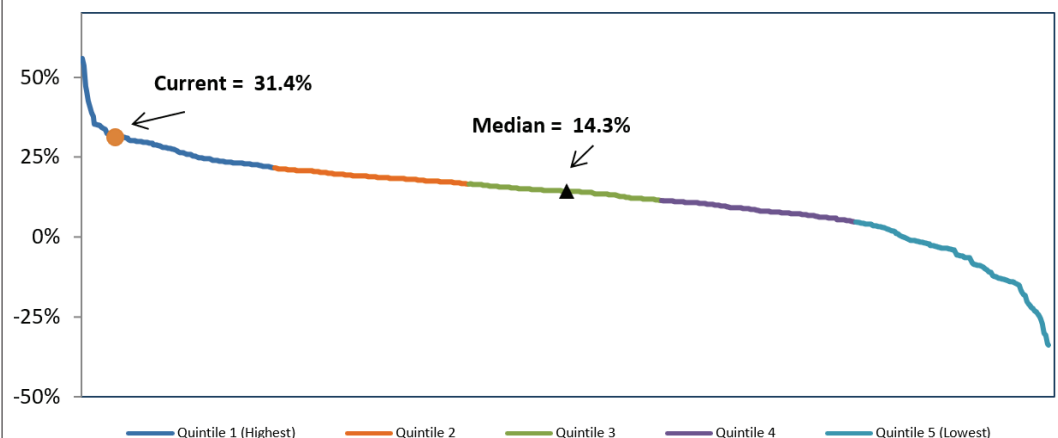
Time horizon is typically critical when assessing whether asset prices could potentially mean revert. Over long periods of time, equities offer vastly superior returns relative to bonds or cash. However, when equity returns become extremely positive, the probabilities begin to increase that bonds or cash might outperform over the near future. The reverse is usually true.

#### The cliff's edge seems reasonably close for NASDAQ...

Chart 1 highlights the distribution of 3-year total returns for the NASDAQ Composite broken down into quintiles. NASDAQ has appreciated over 30% per year over the last 3 years, and that very high return is among the highest 3-year return in NASDAQ's history (i.e., the return is in the highest quintile of returns). In fact, it is more than double the "normal" (i.e., median) return for NASDAQ since the index's inception in 1971.

3-year returns that were superior to the latest 3-year period's returns were all during the Technology Bubble's periods ending in 1998, 1999, and 2000.

**CHART 1:**  
**Distribution of NASDAQ Composite Rolling 3-Year Annualized Total Returns**  
(Feb. 1971 – Dec. 2025)



Source: Richard Bernstein Advisors LLC, Bloomberg Finance L.P.

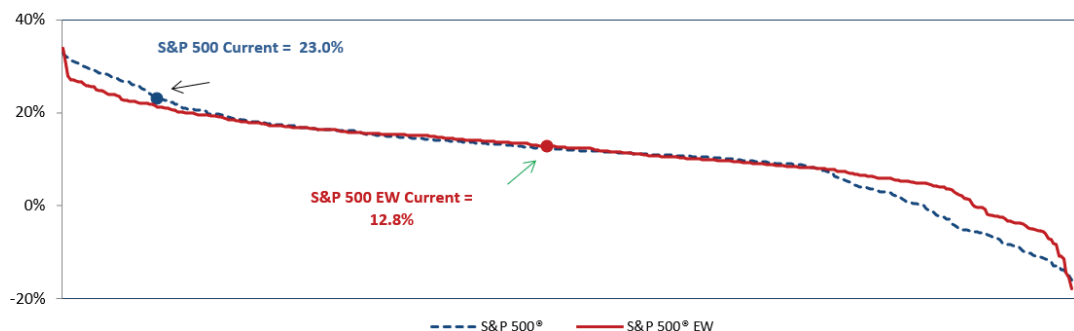
### ...But not so close for the broader market.

Chart 2 compares similar distributions for the S&P 500® and the Equal-weighted S&P 500®. Through time the typical returns of the S&P 500® and the Equal-weighted S&P 500® were roughly similar. The median 3-year return for the Equal-weighted S&P 500® was 12.4% versus the S&P 500®'s 12.2%.

Today, the Equal-weighted S&P 500®'s return is very slightly higher than the long-term median return, but the S&P 500®'s current returns are nearly double the index's median return.

The cliff seems closer for NASDAQ and the S&P 500®, but not for the Equal-weighted S&P 500®.

**CHART 2:**  
**Distribution of S&P 500® and S&P 500® Equal Weighted Rolling 3-Year Annualized Total Returns**  
(Dec. 1989 – Dec. 2025)



Source: Richard Bernstein Advisors LLC, Bloomberg Finance L.P.

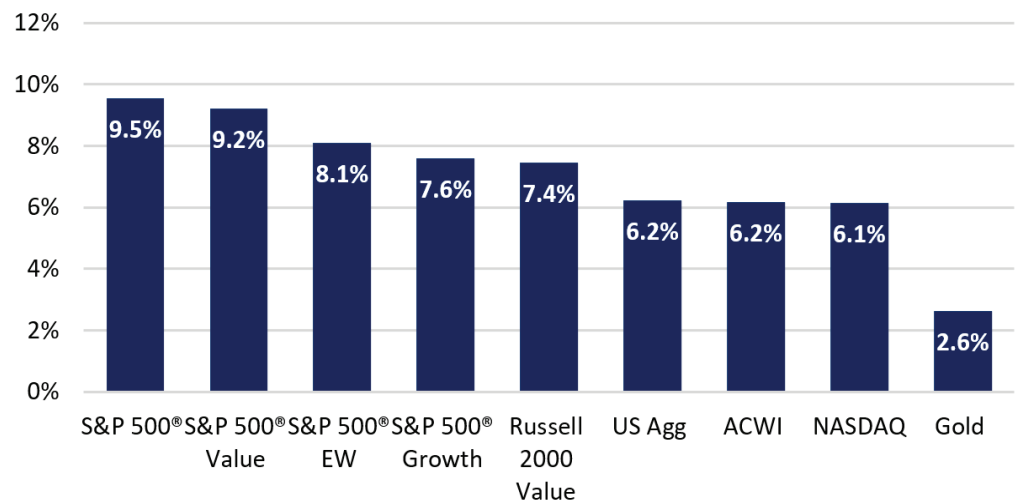
### What happens after?

Chart 3 shows how various market segments and asset classes perform during the 3 years after NASDAQ's extreme outperformance, i.e., what happens in the 3 years after NASDAQ's trailing 3-year performance is in Quintile 1. The equity market tends to broaden, and NASDAQ performs poorly relative to other segments of the global equity market.

Our views should not be considered "bearish." Rather, we are quite bullish on most of the bars to the left of the NASDAQ bar in Charts 3 and 4.

**CHART 3:**

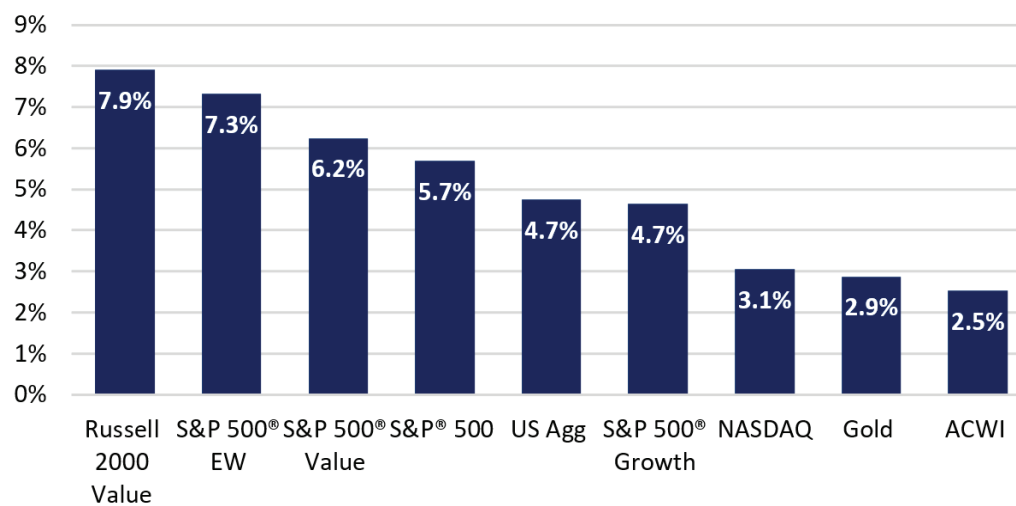
**Median 3-Year Annualized Total Returns Subsequent to NASDAQ Highest Quintile 3-Year Prior Returns:**  
(Dec. 1989 – Dec. 2025)



Source: Richard Bernstein Advisors LLC, Bloomberg Finance L.P.

**CHART 4:**

**Average 3-Year Annualized Total Returns Subsequent to NASDAQ Highest Quintile 3-Year Prior Returns:**  
(Dec. 1989 – Dec. 2025)



Source: Richard Bernstein Advisors LLC, Bloomberg Finance L.P.

## Don't go over the cliff

2022 was a miserable year for speculation within the equity market. NASDAQ was down nearly 33% for the year and the Magnificent 7 stocks were down 45%. Non-US stocks handily outperformed, and the equal-weighted S&P 500® was down only 11.5% and outperformed NASDAQ by almost 22 percentage points!

Investors should consider the probability of 2022 repeating in 2026. It's clearly not 100% and it's clearly not 0%, and every investor will have their personal assessment. That probabilistic assessment should help one decide the current level of diversification and risk reduction within a portfolio.

RBA's portfolios are overweight non-US stocks, dividends, value, and some of the other characteristics contained in the left bars of the chart above. Our portfolios have been moving away from the edge of the cliff.

## INDEX DESCRIPTIONS:

*The following descriptions, while believed to be accurate, are in some cases abbreviated versions of more detailed or comprehensive definitions available from the sponsors or originators of the respective indices. Anyone interested in such further details is free to consult each such sponsor's or originator's website.*

The past performance of an index is not a guarantee of future results.

Each index reflects an unmanaged universe of securities without any deduction for advisory fees or other expenses that would reduce actual returns, as well as the reinvestment of all income and dividends. An actual investment in the securities included in the index would require an investor to incur transaction costs, which would lower the performance results.

**Indices are not actively managed and investors cannot invest directly in the indices.**

**Sectors:** Sector references in this report are based on the S&P 500 sector constituents in accordance with the Global Industry Classification Standard (GICS®) developed by MSCI Barra and Standard & Poor's.

**S&P 500®:** The S&P 500® Index is an unmanaged, capitalization-weighted index designed to measure the performance of the broad US market. The index includes 500 leading companies covering approximately 80% of available market capitalization.

**S&P 500® Equal Weight:** The S&P 500® Equal Weight Index is the equal-weight version of the S&P 500. The index includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight - or 0.2% of the index total at each quarterly rebalance.

**S&P 500® Value:** The S&P 500® Value Index measures constituents from the S&P 500 that are classified as value stocks based on three factors: the ratios of book value, earnings and sales to price.

**Small Value: Russell 2000 Value Index.** The Russell 2000 Value Index measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

**International Quality:** The MSCI World Ex USA Sector Neutral Quality Index. The MSCI World Ex USA Sector Neutral Quality Index measures the performance of international developed large and mid capitalization stocks exhibiting relatively higher quality characteristics as identified through the fundamental variables: ROE, earnings variability & debt-to-equity.

**US Stable Dividend Growth:** The S&P High Yield Dividend Aristocrats Index. The index measures the performance of the highest dividend yielding S&P Composite 1500 Index constituents that have followed a managed-dividends policy consistently increasing dividends every year for at least 20 consecutive years.

**US Aggregate Bond Index:** The US Aggregate Bond Index is a broad-based, market capitalization-weighted index tracking the U.S investment-grade, fixed-rate, taxable



bond market.

**Nasdaq: The Nasdaq Composite Index:** The NASDAQ Composite Index is a broad-based market-capitalization-weighted index of stocks that includes all domestic and international based common type stocks listed on The NASDAQ Stock Market.

**Gold: Gold Spot USD/oz Bloomberg GOLDS Commodity.** The Gold Spot price is quoted as US Dollars per Troy Ounce.

**MSCI ACWI® ex US:** MSCI All Country World Index (ACWI®) excluding the United States. The MSCI ACWI® is a free-float-adjusted, market-capitalization-weighted index designed to measure the equity-market performance of global developed and emerging markets excluding the United States.

**ACWI: MSCI All Country World Index (ACWI®).** The MSCI ACWI® is a free-float-adjusted, market-capitalization-weighted index designed to measure the equity-market performance of global developed and emerging markets.

**S&P Dividend Aristocrats Index:** The S&P 500® Dividend Aristocrats index is designed to measure the performance of S&P 500 index constituents that have followed a policy of consistently increasing dividends every year for at least 25 consecutive years.

## About Richard Bernstein Advisors

Richard Bernstein Advisors LLC is an investment manager focusing on long-only, global equity and asset allocation investment strategies. RBA runs ETF asset allocation SMA portfolios at leading wirehouses, independent broker/dealers, TAMPS and on select RIA platforms. Additionally, RBA partners with several firms including First Trust Portfolios LP and iM Global Partner and currently has \$18.5 billion collectively under management and advisement as of December 31, 2025. RBA offers income and unique theme-oriented unit trusts through First Trust. RBA is also the index provider for the First Trust RBA American Industrial Renaissance® ETF. RBA's investment insights as well as further information about the firm and products can be found at [www.RBAdvisors.com](http://www.RBAdvisors.com).

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