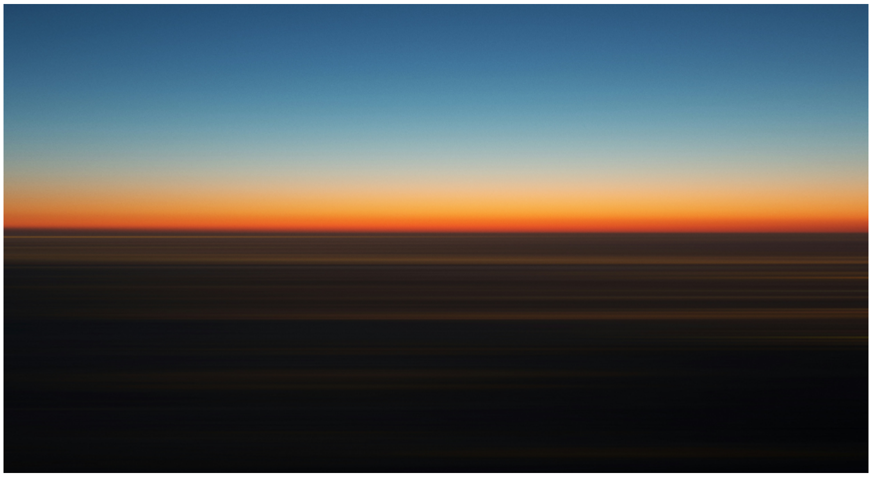
Extending time horizons is critical to building wealth



The basic tenets of building wealth, like having a well-diversified portfolio with long time horizons, are not difficult concepts that are relatively easy to implement. So, why don't people follow them?

Throughout financial history there have always been Siren songs of "get rich quick" investments tempting investors to ignore their long-term financial plans for immediate gratification, and rush to newer, better, more exciting investments that promise to quickly build wealth. Unfortunately, these ideas end up destroying wealth rather than building it.

Individual investors today seem to be again straying from proven wealth-building strategies and have become significant risk-takers. The beta of individual investors' portfolios is near a record high of 1.20 suggesting they are punting prudent diversified portfolios to trade individual stocks (See Chart 1 courtesy of BofA Global Investment Strategy).

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 for clients that are innovative, risk-controlled, and focused on overall portfolio construction instead of individual stock selection.

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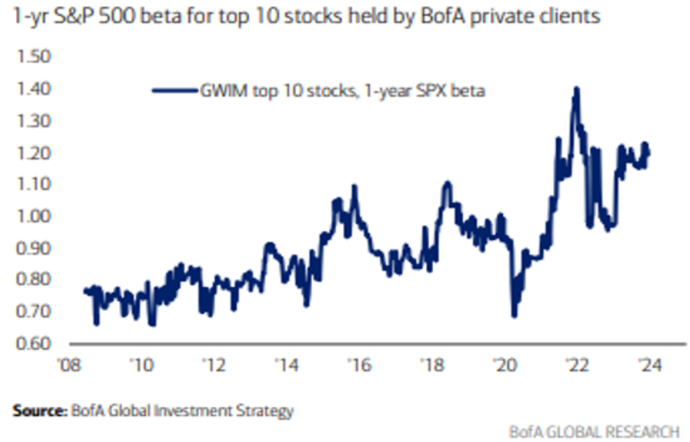
CHART 1:
Individual Investors' Beta



Source: BofA Global Research

Different ways to look at risk/return

Within today's more speculative backdrop, we thought it appropriate to revisit some of the basic risk/return charts that we started producing more than 20 years ago. The charts below show two different definitions of risk and several different time horizons.

Traditional risk/return analyses incorporate one-year time horizons, but we also look at time horizons based on 3-, 5-, and 10-year holding periods. We use a classic measure of risk, standard deviation, but we also show analyses incorporating the probability of losing money as a risk measure. We've long thought investors don't care as much about volatility as they do about losing money or falling short of a required return.

There are several results that investors tend to find surprising:

1. Risk diminishes as time horizons lengthen.

"Risk" diminishes as time horizons lengthen. In the charts that incorporate the probability of a loss as the measure of risk, lengthening time horizon significantly decreases risk and increasingly makes asset selection purely a function of anticipated return. In other words, lengthening time horizon is one of the easier risk reduction tools.

In the charts that depict risk as the probability of a negative return, note that the asset classes gravitate "west" as the charts move from 12-month to 10-year time periods. Over long time periods, the probability of losing money generally goes down. (This is not true for all asset classes as we discuss below.)

2. Low quality outperforms high quality over the long term.

Contrary to popular belief, low quality stocks outperform high quality stocks over longer time periods. This really shouldn't be surprising because it's the same effect supporting high yield/junk bonds outperforming Treasuries or other high-quality bonds through time.

We define quality using S&P Common Stock Rankings, which are based on the stability and the growth in earnings and dividends over a 10-year period. Because we have been using this measure for nearly 30 years, there is considerable out-of-sample testing to support our contention.

Low quality stocks' outperformance comes with significant volatility versus high quality stocks, but it does not come with a substantially higher probability of losing money over longer time horizons. That suggests true long-term investors should focus on lower quality stocks.

There has been considerable behavioral finance research on why this is true. That research can be summed up with the statement, "bad companies make very good stocks over the long term."

3. Small stocks aren't quite so risky.

It seems intuitive that smaller companies should be riskier than larger companies, but that might not be the case. Other than when analyzing 12-month holding periods, the Russell 2000 had lower volatility and a lower probability of losing money than did the S&P 500®.

Investors today are very focused on "large cap high quality" companies. However, they might be better off with smaller, lower quality stocks if their time horizons are longer than a year.

4. Date cash, but never marry it.

One way the Federal Reserve injects monetary policy into the economy is by increasing or decreasing the relative attractiveness of cash. When the Fed raises short-term interest rates to slow the economy, they explicitly do so to make cash incrementally attractive relative to other asset classes. That attractiveness disintermediates other investments and generally raises the cost of capital in the economy which slows overall economic activity.

Although cash might be currently attractive because of the Fed tightening monetary policy and raising short-term interest rates, cash is a terrible asset class to hold for longer time periods. It ranks as the lowest returning asset class for every time horizon studied. Although investing in cash might be opportunistic from time to time, particularly during periods of secular or rising inflation, the unattractiveness of cash grows exponentially as one extends time horizon. Only Japanese equities and Commodities were inferior investments relative to cash over 10-year time periods, and every other asset class was superior to cash when defining risk as the probability of a loss. So, investors might date cash every now and then, but they probably shouldn't marry it.

5. Japan and commodities have clearly been hurt by secular disinflation. Could that change?

The two asset classes hurt the most by secular disinflation were Japanese equities and Commodities. These were the two least rewarding asset classes regardless of the time horizon studied, or the definition of risk used. To a lesser extent, small stocks have also been constrained by secular disinflation.

However, we've suggested that secular disinflation might be ending if globalization continues to contract. If that turns out to be true, then these asset classes might become more attractive as the global economy shifts from secular disinflation to secular inflation, as we think it might. In addition, most investors are significantly underweighting these asset classes.

Stick with the plan and ignore fear… and greed.

Today's stock markets are highly speculative and individual investors are active participants taking more risk than at any time since the Global Financial Crisis. Their enthusiasm should not lead them away from following their previously formulated financial plans.

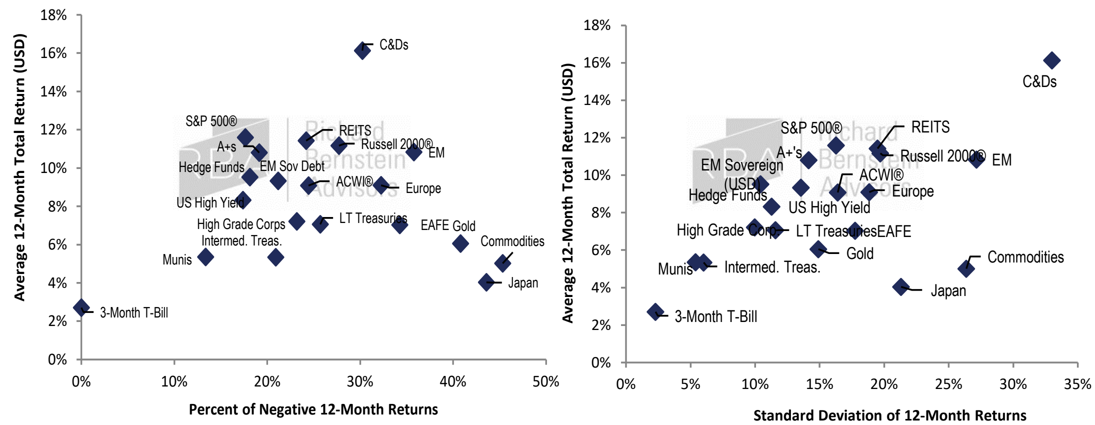
Financial plans are blueprints for building wealth by reinforcing the building blocks of wealth: diversification and longer time horizons. One might change the paint color on a house, but one should be very thoughtful before making changes to the foundation or structure of the home.

It's the same with investment portfolios. The next 10 minutes might be exciting, but such a short-term approach could lead to missed opportunities if one doesn't pay more attention to the next 10 years.

CHART 2:

12-Month Risk/Return of Major Global Asset Classes

(12/31/1989 – 12/31/2023, USD)

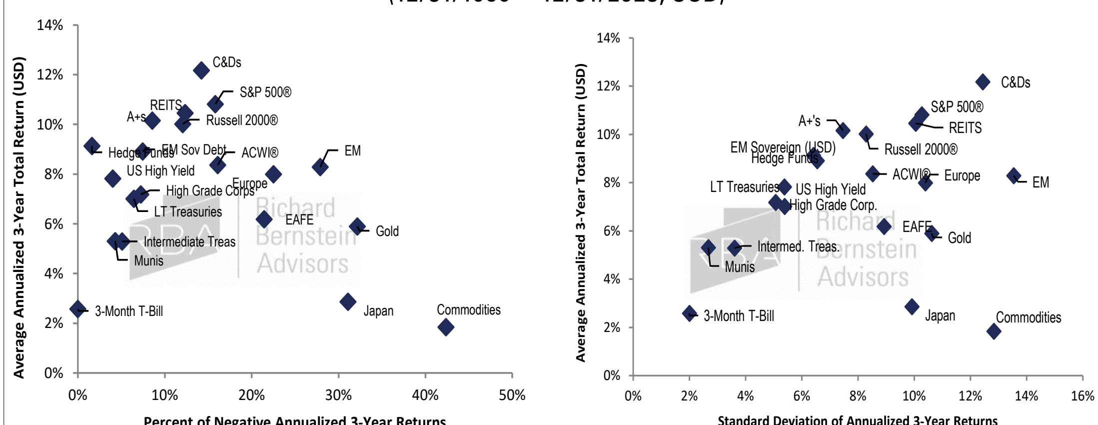


Data begins 12/31/1989 and 1st 12 month return is 12/31/1990.

CHART 3:

3-Year Risk/Return of Major Global Asset Classes

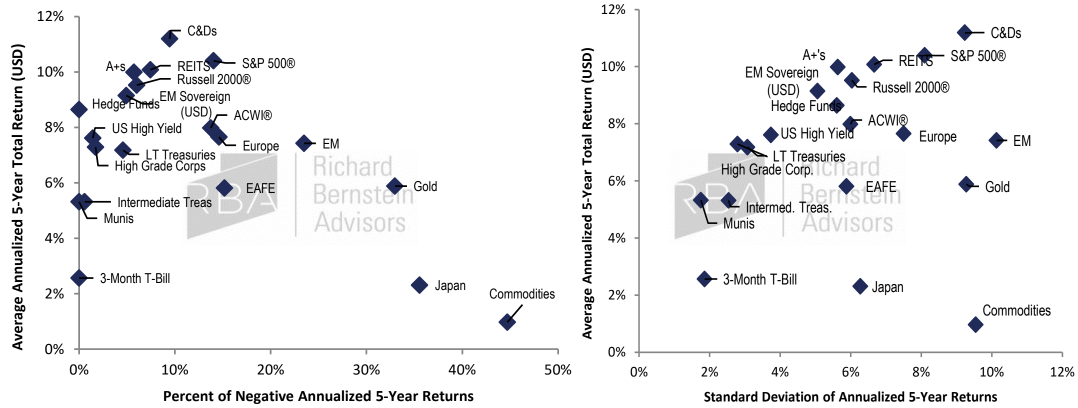
(12/31/1989 – 12/31/2023, USD)



Data begins 12/31/1989 and 1st 3 yr return is 12/31/1992.

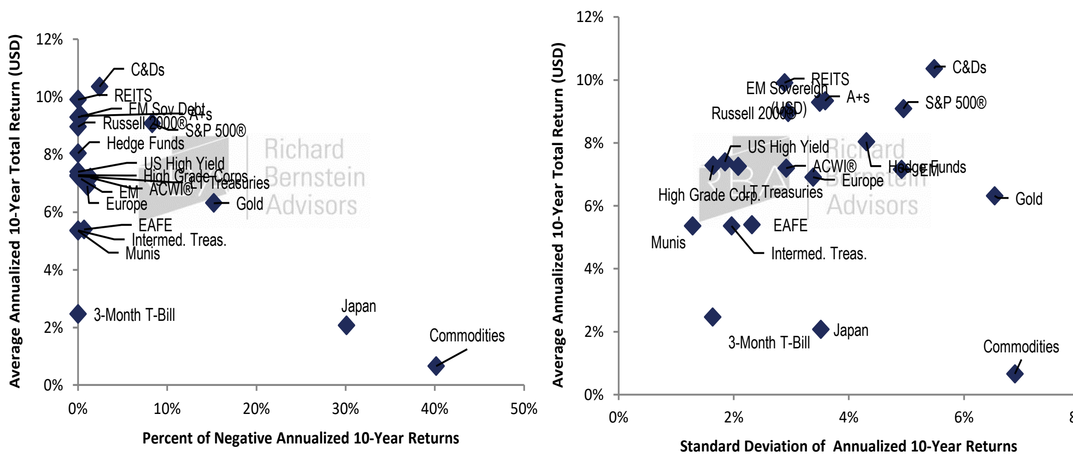
Source: Richard Bernstein Advisors LLC, MSCI, S&P Global, HFRI, BofA Merrill Lynch, Bloomberg Finance L.P. For Index descriptors, see "Index Descriptions" at end of document. Note The EM Sovereign Debt Index data begins 12/31/1991. The BofA A+ and C&D Quality Indices are price return only.

CHART 4:
5-Year Risk/Return of Major Global Asset Classes
(12/31/1989 – 12/31/2023, USD)



Data begins 12/31/1989 and 1st 5 yr return is 12/31/1994.

CHART 5:
10-Year Risk/Return of Major Global Asset Classes
(12/31/1989 – 12/31/2023, USD)



Data begins 12/31/1989 and 1st 10 yr return is 12/31/1999.

Source: Richard Bernstein Advisors LLC, MSCI, S&P Global, HFRI, BofA Merrill Lynch, Bloomberg Finance L.P. For Index descriptors, see "Index Descriptions" at end of document. Note The EM Sovereign Debt Index data begins 12/31/1991. The BofA A+ and C&D Quality Indices are price return only.

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.**

S&P 500®: S&P 500® Index: The S&P 500® Index is an unmanaged, capitalization-weighted index designed to measure the performance of the broad US economy through changes in the aggregate market value of 500 stocks representing all major industries.

Russell 2000: Russell 2000 Index. The Russell 2000 Index is an unmanaged, market-capitalization-weighted index designed to measure the performance of the small-cap segment of the US equity universe. The Russell 2000 Index is a subset of the Russell 3000® Index.

MSCI 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.

MSCI EM: MSCI Emerging Markets (EM) Index. The MSCI EM Index is a free-float-adjusted, market-capitalization-weighted index designed to measure the equity-market performance of emerging markets.

MSCI EAFE®: MSCI Europe, Australasia, Far East The MSCI EAFE® Index is a free-float-adjusted, market-capitalization-weighted index designed to measure the equity-market performance of developed markets excluding the US & Canada.

MSCI Europe: MSCI Europe Index. The MSCI Europe Index is a free-float-adjusted, market-capitalization-weighted index designed to measure the equity-market performance of developed European markets.

MSCI Japan: MSCI Japan Index. The MSCI Japan Index is a free-float-adjusted, market-capitalization-weighted index designed to measure the equity-market performance of Japan.

Quality: The BofA Quality indices. The BofA Quality indices utilize all of the stocks in the BofA US research coverage universe and are grouped monthly based on their Standard and Poor's quality ranking from A+ (highest) through C&D(lowest). The returns shown are calculated based on the subsequent months' average price return of each group assuming monthly rebalancing.

Hedge Funds: HFRI Fund Weighted Composite Index. The HFRI Fund Weighted Composite Index is a global, equal-weighted index of over 2,000 single-manager funds that report to the HFR (Hedge Fund Research) database. Constituent funds report monthly net-of-all-fees performance in USD and have a minimum of $50 million under management or a twelve (12)-month track record of active performance. The Index includes both domestic (US) and offshore funds and does not include any funds of funds.

3-Mo T-Bills: ICE® BofAML 3-Month US Treasury Bill Index. The ICE® BofA Merrill Lynch 3-Month US Treasury Bill Index is comprised of a single issue purchased at the beginning of the month and held for a full month. The Index is rebalanced monthly and the issue selected is the outstanding Treasury Bill that matures closest to, but not beyond, three months from the rebalancing date.

Long-term Treasury Index: ICE® BofAML 15+ Year US Treasury Index. The ICE® BofA Merrill Lynch 15+ Year US Treasury Index is an unmanaged index comprised of US Treasury securities, other than inflation-protected securities and STRIPS, with at least $1 billion in outstanding face value and a remaining term to final maturity of at least 15 years.

Intermediate Treasuries (5-7 Yrs): The ICE® BofAML 5-7 Year US Treasury Index. The ICE® BofA Merrill Lynch 5-7 Year US Treasury Index is a subset of The BofA Merrill Lynch US Treasury Index (an unmanaged Index which tracks the performance of US dollar denominated sovereign debt publicly issued by the US government in its domestic market). Qualifying securities must have at least one-year remaining term to final maturity, a fixed coupon schedule and a minimum amount outstanding of $1 billion. including all securities with a remaining term to final maturity greater than or equal to 5 years and less than 7 years.

Municipals: ICE® BofAML US Municipal Securities Index. The ICE® BofA Merrill Lynch US Municipal Securities Index tracks the performance of USD-denominated, investment-grade rated, tax-exempt debt publicly issued by US states and territories (and their political subdivisions) in the US domestic market. Qualifying securities must have at least one-year remaining term to final maturity, a fixed coupon schedule, and an investment-grade rating (based on an average of Moody's, S&P and Fitch). Minimum size requirements vary based on the initial term to final maturity at the time of issuance.

High Grade Corporates: ICE® BofA 15+ Year AAA-AA US Corporate Index. The ICE® BofA Merrill Lynch 15+ Year AAA-AA US Corporate Index is a subset of ICE® BofA Merrill Lynch US Corporate Index (an unmanaged index comprised of USD-denominated, investment-grade, fixed-rate corporate debt securities publicly issued in the US domestic market with at least one year remaining term to final maturity and at least $250 million outstanding) including all securities with a remaining term to final maturity of at least15 years and rated AAA through AA3, inclusive.

U.S. High Yield: ICE® BofA US Cash Pay High Yield Index. The ICE® BofA Merrill Lynch US Cash Pay High Yield Index tracks the performance of USD-denominated, below-investment-grade-rated corporate debt, currently in a coupon-paying period, which is publicly issued in the US domestic market. Qualifying securities must have a below-investment-grade rating (based on an average of Moody's, S&P and Fitch) and an investment-grade-rated country of risk (based on an average of Moody's, S&P and Fitch foreign currency long-term sovereign debt ratings), at least one-year remaining term to final maturity, a fixed coupon schedule, and a minimum amount outstanding of $100 million.

EM Sovereign: ICE® BofA US Dollar Emerging Markets Sovereign Plus Index. The ICE® BofA Merrill Lynch US Dollar Emerging Markets Sovereign Plus Index tracks the performance of US dollar denominated emerging market and cross-over sovereign debt publicly issued in the Eurobond or US domestic market. Qualifying countries must have a BBB1 or lower foreign currency long-term sovereign debt rating (based on an average of Moody's, S&P and Fitch). Countries that are not rated, or that are rated "D" or "SD" by one or several rating agencies qualify for inclusion in the index, but individual non-performing securities are removed. Qualifying securities must have at least one-year remaining term to final maturity, a fixed or floating coupon and a minimum amount outstanding of $250 million. Local currency debt is excluded from the Index.

REITS: THE FTSE NAREIT Composite Index. The FTSE NAREIT Composite Index is a free-float-adjusted, market-capitalization-weighted index that includes all tax qualified REITs listed in the NYSE, AMEX, and NASDAQ National Market**.**

Commodities: The S&P GSCI Total Return CME. The S&P GSCI Total Return Index in USD is widely recognized as the leading measure of general commodity price movements and inflation in the world economy. Index is calculated primarily on a world production weighted basis, comprised of the principal physical commodities futures contracts.

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

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 Eaton Vance Corporation and First Trust Portfolios LP, and currently has $15.4 billion collectively under management and advisement as of December 31, 2023. RBA acts as sub-advisor for the Eaton Vance Richard Bernstein Equity Strategy Fund, the Eaton Vance Richard Bernstein All-Asset Strategy Fund and also 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**.