Richard Bernstein Advisors

Pactive® Approach to Investing

Insights

November 2024

Emphasize value as investors increasingly throw caution to the wind

Financial plans map out a strategic course to meet an investor's goals and cash flow needs. These plans are the blueprints of a disciplined investment process.

Financial plans are put in place for two reasons. First, financial plans help protect investors from their fear. When markets are turbulent or after a bear market, financial plans focus on the longer-term and keep portfolios appropriately invested in equities.

Second, and equally important, financial plans help protect investors from their greed. When markets are ripping and over-enthusiasm builds, financial plans dampen investors' risk taking by limiting equity exposure to predetermined prudent allocations.

Investment opportunities at the beginning of the bull market in 2009 were significant, but fear dominated portfolio construction. By adhering to a financial plan and raising equities to a preset normal allocation, investors might have benefitted from the early stages of the bull market instead of fearfully avoiding the stock market.

By contrast, investors' greed today, in the 16th year of the secular bull market, has eliminated normal bounds on risk taking. They are shunning prudent financial planning and ignoring basic investment concepts like diversification and valuation. Some are now even using leverage to buy riskier momentum stocks.

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.

CONTACT RBA

Website: RBAdvisors.com

Twitter: @rbadvisors

Phone: (212) 692-4088

Returns are NOT unprecedented but risk-taking is

There seems to be a growing chorus that stock market returns are unprecedented. Returns aren't unprecedented at all, but investors' enthusiasm and willingness to take risk might be.

Tables 1 and 2 show S&P 500® and S&P 500® sector total returns for the first year of the bull market (March 2009 to March 2010) and the last 12 months (through November 15th). 2009's S&P 500® returns were better, and the market was much broader (see Chart 1), but investors at the time thought stocks' nascent bull market a mere fluke within the context of a scarier secular bear market.

Investors are more enthusiastic about the stock market today than they were at the beginning of the bull market despite that narrow stock markets typically connote risk.

TABLE 1:

S&P 500® and Sectors Total Returns

(Mar. 31, 2009 – Mar.31, 2010)

Analyze List | Settings | Group Ranked Returns

Period Cust 03/31/09 - 03/31/10 | Total Return | Currency LCL

	Groups (11)	Return
	S&P 500 ECO SECTORS IDX	49.75%
	All Groups	
1)	S&P 500 REAL ESTATE IDX	107.85%
2)	S&P 500 FINANCIALS INDEX	82.95%
3)	S&P 500 INDUSTRIALS IDX	72.82%
4)	S&P 500 CONS DISCRET IDX	69.79%
5)	S&P 500 INFO TECH INDEX	58.00%
6)	S&P 500 MATERIALS INDEX	56.05%
7)	S&P 500 CONS STAPLES IDX	35.90%
8)	S&P 500 HEALTH CARE IDX	34.53%
9)	S&P 500 ENERGY INDEX	29.45%
10)	S&P 500 UTILITIES INDEX	21.01%
11)	S&P 500 COMM SVC	12.22%

Source: Bloomberg Finance L.P.

TABLE 2:

S&P 500® and Sectors Total Returns

(Nov 15, 2023 – Nov. 15, 2024)

Analyze List | Settings | Group Ranked Returns

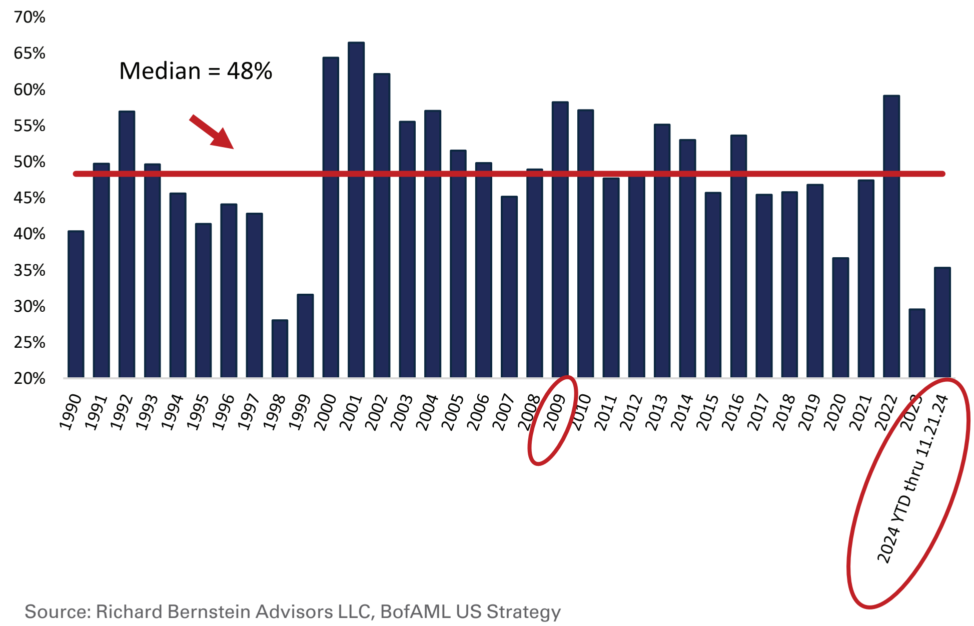
Period Cust 11/15/23 - 11/15/24 | Total Return | Currency LCL

	Groups (11)	Return
	S&P 500 ECO SECTORS IDX	32.19%
	All Groups	
1)	S&P 500 FINANCIALS INDEX	46.20%
2)	S&P 500 INFO TECH INDEX	39.33%
3)	S&P 500 COMM SVC	38.85%
4)	S&P 500 INDUSTRIALS IDX	34.49%
5)	S&P 500 UTILITIES INDEX	32.79%
6)	S&P 500 CONS DISCRET IDX	30.85%
7)	S&P 500 REAL ESTATE IDX	23.68%
8)	S&P 500 CONS STAPLES IDX	18.95%
9)	S&P 500 MATERIALS INDEX	16.36%
10)	S&P 500 ENERGY INDEX	15.99%
11)	S&P 500 HEALTH CARE IDX	12.74%

Source: Bloomberg Finance L.P.

PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS

CHART 1:
S&P 500®: Percentage of Stocks that Outperformed the Index
1990-2024 YTD thru 11.21.24 (Price Returns)



Source: Richard Bernstein Advisors LLC, BofAML US Strategy

Risk-taking is the difference

Investors were scared in 2009 despite the numerous opportunities that come with the beginning of a bull market. Today, they are fully embracing a very narrow stock market and taking near-historic risk.

Chart 2 shows Bank of America's private client investors' equity beta through time. Beta is a measure of non-diversifiable market-related risk. A beta of 1.0 implies a portfolio has roughly the same risk as the overall market. A beta less than 1.0 suggests less relative risk, whereas a beta greater than 1.0 indicates more.

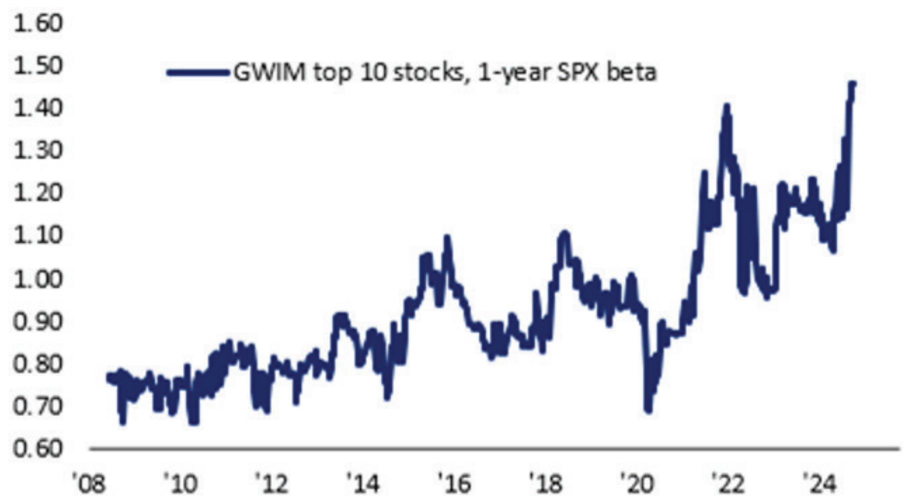
At the beginning of the bull market in 2009, private clients' equity beta was 0.75 according to this study. Investors were conservative because they were fearful of the post-Global Financial Crisis equity market. **Today, their equity beta is a whopping 1.45 signaling that investors are very willing to take a lot of risk. In fact, private clients' equity beta is higher than at any time during the bull market.**[1]

A related study revealed that private clients had an equity allocation of only 39% at the beginning of the bull market, but today have 63%. So, individual investors had only 39% in equities at the beginning of the bull market and their beta indicated the equities they did hold were conservative (i.e., a beta of 0.75 indicating less risk than the overall market). Today, the combination of 63% in equities and a beta of 1.45 suggests investors are throwing caution to the wind.

[1] This chart measures the beta of private client top 10 holdings through time. Because portfolio beta is a weighted average of the betas of the individual holdings, we think this is an adequate representation of risk preferences. Whereas the actual beta might be questionable, the trends seem indisputable

Individual investors' metamorphosis from over-cautious risk-avoiders to avid risk-takers is rather remarkable. Neither extreme should have existed if they had followed their plans. Those plans would have boosted equity weight and equity risk earlier in the bull market and would be paring back today.

CHART 2:
Beta of Top 10 Stocks of BofA Private Clients***



Source: BofA Global Investment Strategy

Value seems a very good diversifier

The marginal overweight of equities in our multi-asset portfolios reflects our often-stated view that the disproportionate weight of the Magnificent 7 stocks and the concentration of risk makes equities less attractive as an asset class. The Magnificent 7 stocks currently comprise roughly 33% of the S&P 500® and over 50% of many growth indices.

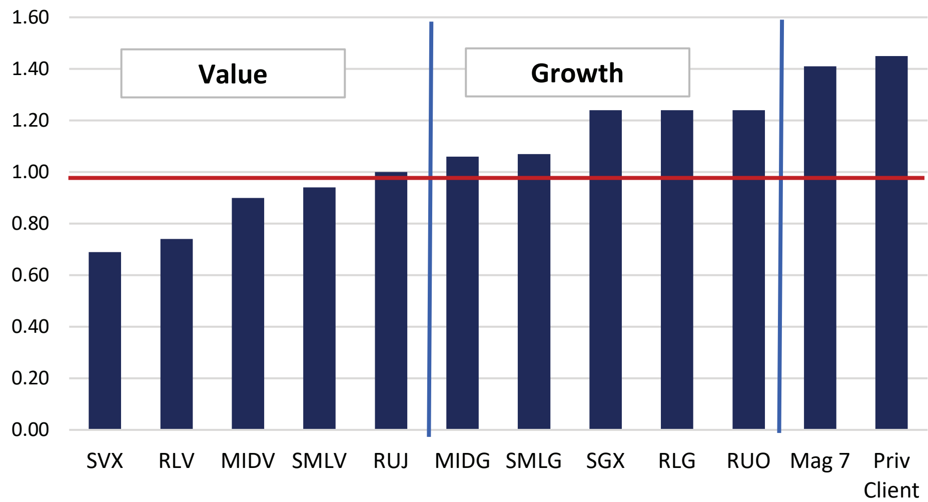
Extreme concentration cries for diversification, but many investors are shunning diversification because diversifying assets' returns are less than those of the more exciting Magnificent 7. **Diversification at this point in the cycle is unfortunately viewed more as a drag on returns than a worthwhile risk reduction tool.**

We currently view value as the best route for diversifying equity portfolios. Chart 3 shows the beta for common value and growth indices as well as for the Magnificent 7 and for private client positioning (from the earlier chart).

Without exception, value indices are currently exhibiting much lower betas than are the growth indices. More importantly, private client beta is now higher than the Mag 7's, which demonstrates individual investors' eagerness to concentrate portfolios, reject diversification, and take excessive risk.

*** Reprinted by permission. Copyright © 2024 Bank of America Corporation ("BAC"). The use of the above in no way implies that BAC or any of its affiliates endorses the views or interpretation or the use of such information or acts as any endorsement of the use of such information. The information is provided "as is" and none of BAC or any of its affiliates warrants the accuracy or completeness of the information.

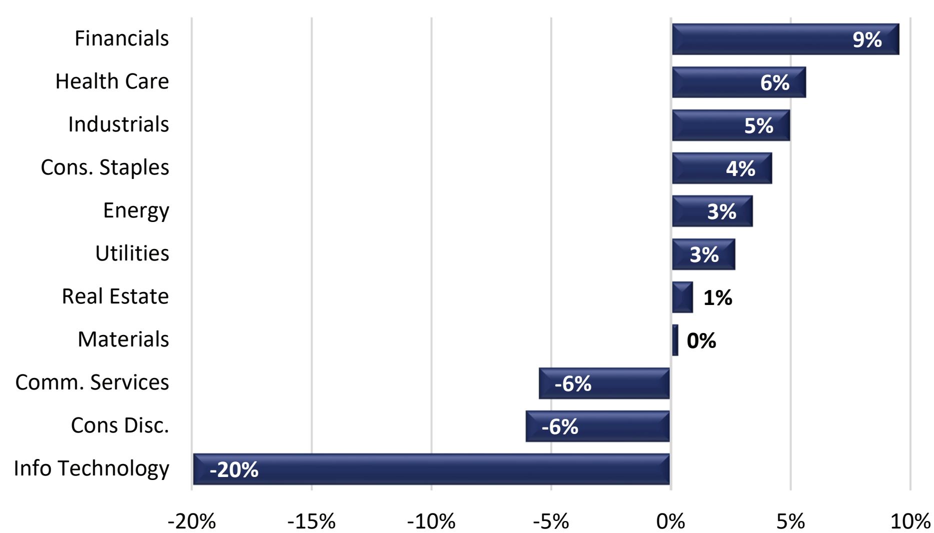
CHART 3:
Value & Growth Beta
(52-Week Beta as of 11/20/24)



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

Our portfolios' value tilt implies they are well-suited as a diversifying investment. Chart 4 shows the CRSP Large Cap Value Index's relative sector weights versus the S&P 500®[2]. Our portfolios are overweight value, and we favor several of the sectors overweighted within the broader value universe.

CHART 4:
CRSP Large Cap Value Index Sector Weights Relative to the S&P 500®
(as of 11/21/2024)



Source: Bloomberg Finance L.P

[2] Some of RBA's portfolios hold an ETF based on the CRSP Large Cap Value Index.

Don't shun diversification

Because investors are so eager to take risk and because no one can pinpoint when the bull market will end, many believe diversification is simply a performance drag. The general feeling is if one can't determine when the bull market will end, then diversification equates to missing big returns.

We think such reasoning is highly imprudent because diversification is an important risk tool specifically because one can't pinpoint the timing of the market's peak or trough. If one had perfect foresight regarding the market's moves there would be no need to ever diversify.

RBA's portfolios have typically played the role of the diversifier. When investors were fearful of equities at the beginning of the bull market, our portfolios accentuated equities. When municipal bonds were unfairly tarnished in the early-2010s, our portfolios accentuated munis. When investors were over-enthusiastic about emerging markets, our portfolios had virtually no emerging markets.

Today, our role as a diversifier is best exemplified by our overweight of value. Investors seem to be shunning virtually any risk-averse strategy. Adding diversification via an overweight of value seems to us to be the most effective and prudent route to both undiscovered opportunities and reducing overall portfolio risk.

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®: 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.

Sector/Industries: Sector/industry references in this report are in accordance with the Global Industry Classification Standard (GICS®) developed by MSCI Barra and Standard & Poor's.

Magnificent 7: The Magnificent 7 (Mag 7) are a group of 7 widely-traded companies classified in the United States and representing the Communications, Consumer Discretionary and Technology sectors as defined by the Global Industry Classification Standard (GICS®) developed by MSCI Barra and Standard & Poor's. These consist of AAPL, AMZN, GOOGL, META, MSFT, NVDA and TSLA.

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 $15.6 billion collectively under management and advisement as of September 30, 2024. 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**.