Smoother Ride: Part V: Strategy 2.0 VS 3.0 "Closed Captions"

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Hi everyone, this is Matt Curfman from Richmond Brothers here with an extension or continuation of my smoother ride video series. Many of you started to watch. There were four different videos in the fourth quarter of 2022. Happy New Year! We are now in January of 2023 and I wanted to provide an update on those strategies and some thoughts as we head into the first quarter, especially considering if you watched my most recent Matt's Minutes, with year-end numbers broad markets were still in bear market territory, largely with the S&P and the NASDAQ. And bonds – corporate bonds – ended up down about 15% in the 2022 year, which was quite frankly very unheard of and there's no precedent in history to compare that to.

So with that said, you may recall that the Beacon or Smoother Ride Strategies we had introduced to Fidelity so we would have access to those strategies for all of you, our clients. Why I call them Smoother Ride is, the idea is within your traditional stocks, your traditional bond holdings, so liquid Fidelity accounts is what I'd be looking at, we wanted to make sure there were other measures in place to mitigate extreme downside from happening. Doesn't mean no downside, but to cut out those extreme downside swings, which we have all experienced many in the last five years. There's now been a bear market, which is defined as a drop of 20% or more from the previous high…the end of 2018 and 2020, during the early days of the pandemic, and now again in 2022. So that frequency is more consistent than we would like and historically, it's very outside the norm. You may recall me referencing that a bear market historically before 2018 happened in all of market history once every five to seven years depending on the index you looked at.

So, back to Beacon and Smoother Ride. Remember using Vanguard exchange traded funds. There are eleven sectors of the market, of the S&P 500. The idea would be to own an equal weighting of those eleven sectors. And then you may recall there was a conservative strategy, a balanced strategy and an aggressive. The conservative strategy has a target of 40% stock and 60% bond. The balanced strategy has a target of 70% stock and 30% bond. Then the aggressive strategy is just 100% equity target, mimicking the S&P 500 except equal weighted, meaning we own the eleven sectors at about 9% each and then some downside protectors. So that was a quick summation of what the first four videos went into and I refer to some of the data and links.

So 2.0, which is the strategy that's all in or all out is still sitting defensively because it needs a jump from the bottom of the market, which was September 30 of about 21 to 22%. It is 8 or 9% higher from that bottom, but they're still waiting to invest back in. So any of you who have utilized 2.0 know that because it just sits defensively. You see a very stable portfolio for your Fidelity liquid assets. I did want to let you

know there is a 3.0 strategy I haven't spent a lot of time publicly on, but everything I told you about the strategy is the same. There's a conservative, there's a balanced, there's an aggressive. 3.0 rather than all in or all out like the 2.0, has more of a sector by sector approach. Think about consumer discretionary, financials, health care, technology, utilities. Those are examples of sectors of the S&P 500. So let's say 5 sectors are doing really poorly, but 6 are doing really well. Rather than the whole portfolio selling like in the 2.0 strategy, it actually will move just that one sector out and go defensive. And so it applies that more on an individual basis. Why I wanted to bring this up is because in the last month or two of 2022, the 3.0 strategy has about six of the eleven sectors fully invested. That means 45% about is still defensive, and 55% would be invested.

Now what I found interesting, and many of you who we worked with on your risk scores for your actual portfolios and your tolerance, meaning your comfort level. You may recall that the S&P 500 if we measure it using the Vanguard 500 Index Fund, on a scale of 1 to 99 is a risk 77. So we've gone through the 2.0 and I'm going to refresh this, but there's a conservative, balanced, and aggressive. The conservative is a risk 38, the balanced is a risk 49, and the aggressive is a risk 55.

Now we go over to the 3.0 strategies and again, conservative is about a 38 or 39. Very similar. The balanced is now a 44 in the 3.0 versus 2.0 and the aggressive is now a 51 versus a 55. And again, if you looked at the two aggressives because that really gives you the S&P 500 target with the balanced weighted allocation, the S&P 500 through Vanguard is a risk 77. So having a similar exposure equal weighted with down-side triggers drops the risk in 2.0 down to 55 and 3.0 down to 51.

So all of these strategies are available. You haven't heard much about 3.0 because when we first rolled these strategies out, 3.0 was largely sitting defensive like 2.0. Why I wanted to bring this up is these strategies are available to our clients through Fidelity. Again, it's the liquid portion of your portfolios. What Beacon has is a minimum of $100 per year fee and so that would be $25 per quarter. Their top fee, if you remember, is .45% per year broken up quarterly. What that really boils down to is if you as a family unit have a liquid portfolio of about $25,000 and that can be adding up from multiple accounts and each account has at least $5,000 in it towards that $25,000 total, then these are strategies that we can look at individually for you. So if you have questions or would like to consider that, please email questions@richmondbrothers.com and in the subject just type, "Smoother Ride," and then let us know your thoughts or questions and if there's other educational pieces you would like to see in the video I'm happy to do that as well.

I did want to do a quick screen share, and you can see this up on my screen now. This was an example of the Vanguard health care index, which is one of eleven sectors, and it has the stop loss at the sector level rather than the whole in or out like we talked about with 2.0. This is an example from January of '07 through December of '09, so this goes into the '08 financial crisis. What you can see on the screen are these red trend lines and what it is is these are the bear market and the bull market trend lines. The green is actually the underlying price of the fund, the health care index through Vanguard. So you can see that as long as the green line stays above this lower floor, it never triggers, but there ended up having a sell signal in January or so of 2008. This gray shaded region, it never ever quite hit the top again. It got real close here so it never bought back in, but these are the trend lines, and eventually the

underlying price of the fund hit the upper trend line and it caused a buy back in later that year between let's say June and maybe the fall of 2008.

So this is basically sector by sector versus the whole portfolio. Imagine you had $100,000 and you were in 2.0 strategy. The goal is to be fully invested so that would mean, you know, in all 11 sectors. In 3.0 the goal was to be full invested, but we could sell out of one, two, three, or four sectors and the other five or six sectors could still be fully invested, because on their own, energy for example in 2022 was still doing well largely the price increases, inflation, and the Russia and Ukraine war and conflict. So again, don't want to be overwhelming here, but want to provide additional education and content. And so we're here for you, we're here to help guide you through this and again, these are available. If you have specific questions, we'd be happy to put together a risk profile to review with you. Thank you so much for tuning in to video number 5 in our Smoother Ride educational series, and if you have any questions be sure to let us know and Happy New Year.

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