



Essential Lessons in Investing: Asset Allocation and Planning Versus Predicting



Part 1: About AIRE Advisors

Part 2: The Efficient Markets Hypothesis, Risk Management and Time Horizon

Part 3: Investor Behavior: Common Mistakes & Effects on Portfolio Returns

Part 4: Asset Allocation: Diversification and Importance of Correlation

Part 5: Summary & Conclusion: Our Process



About AIRE Advisors



- **A**dvice: as a fiduciary, on all facets of your financial life
- **I**nnovate: fee conscious, fee-only or flat dollar pricing, much more to come
- **R**ealize: goals-based investing
- **E**mpower: we educate to elevate

- *Additional information:*
 - Open architecture and product agnostic
 - Assets custodied at Fidelity Investments
 - Freedom to invest holistically rather than per account
 - Team and experience
 - www.aireadvisors.com



The Efficient Markets Hypothesis, Risk Management and Time Horizon

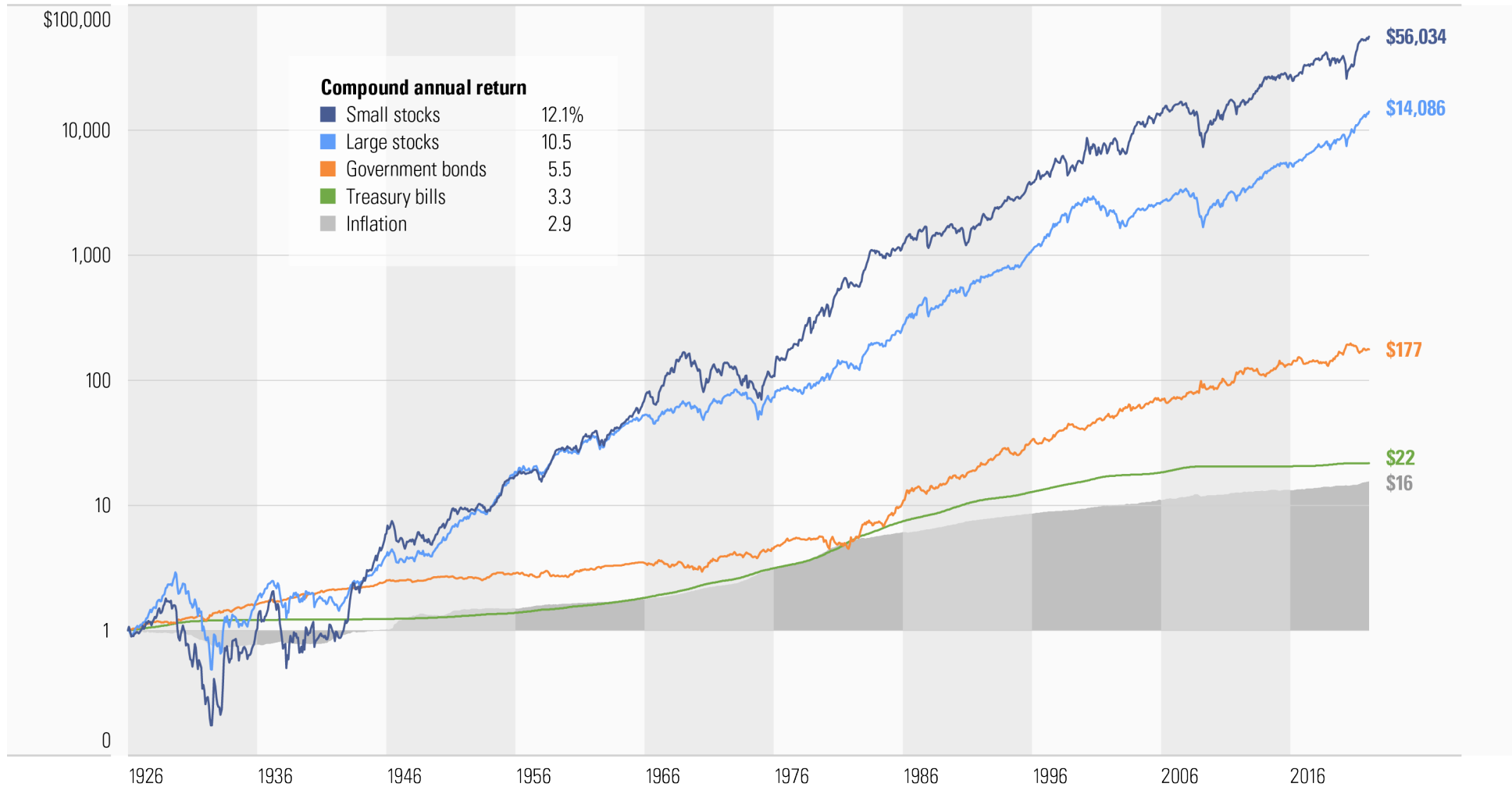


- ◆ Definition: Asset prices in an efficient market reflect all relevant, available, *known* information, as well as the market's consensus expectations concerning *unknown* information.*
- ◆ News and expectations are instantly reflected in security prices
- ◆ Result: unpredictability of returns
- ◆ Risk – return

* Source: David M. Darst, "The Art of Asset Allocation"

Understanding Risks and Rewards: Ibbotson® SBBI®

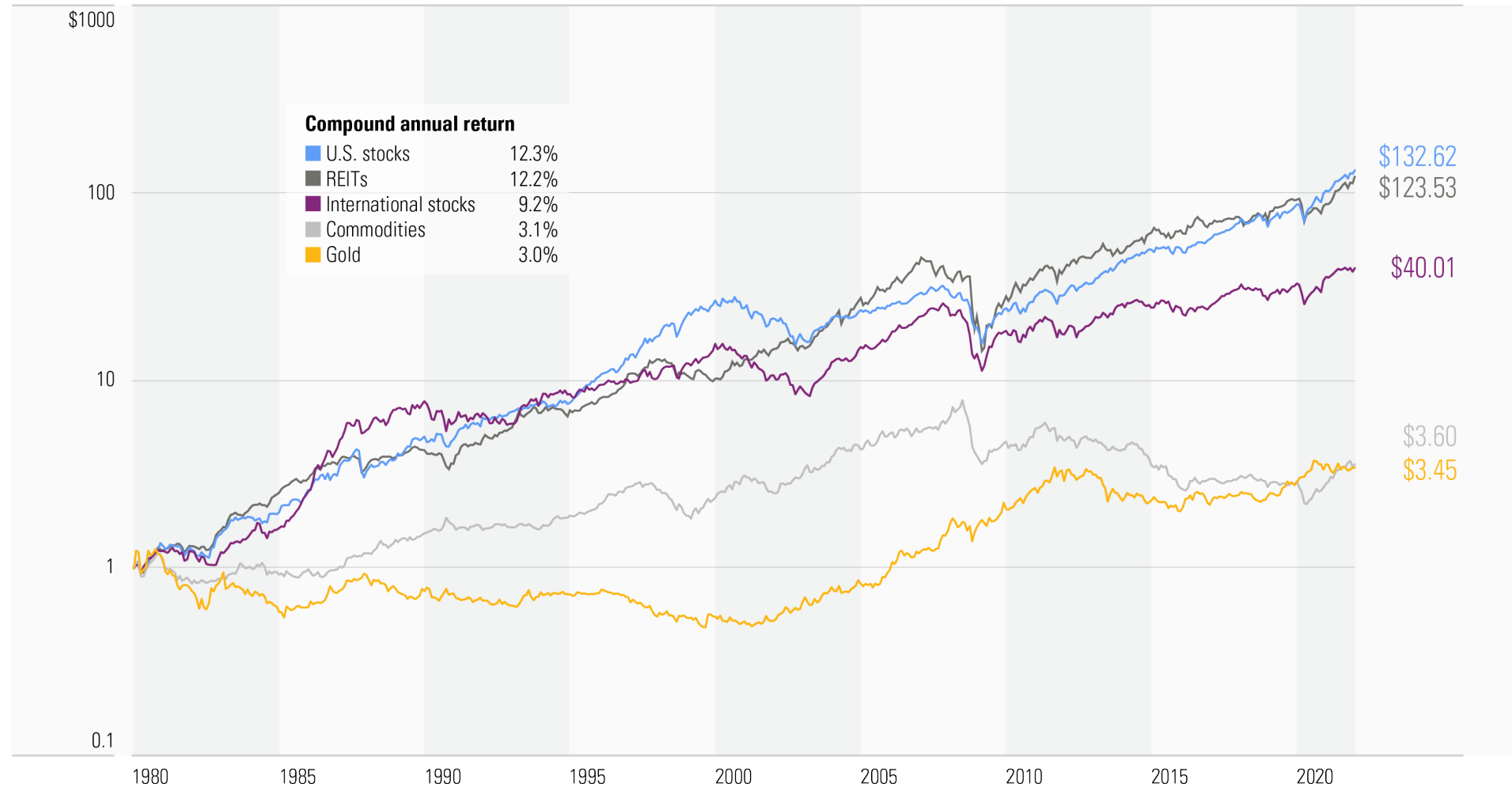
Stocks, Bonds, Bills, and Inflation 1926–2021



Past performance is no guarantee of future results. Hypothetical value of \$1 invested at the beginning of 1926. Assumes reinvestment of income and no transaction costs or taxes. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. © Morningstar 2022 and Precision Information, dba Financial Fitness Group 2022. All Rights Reserved.

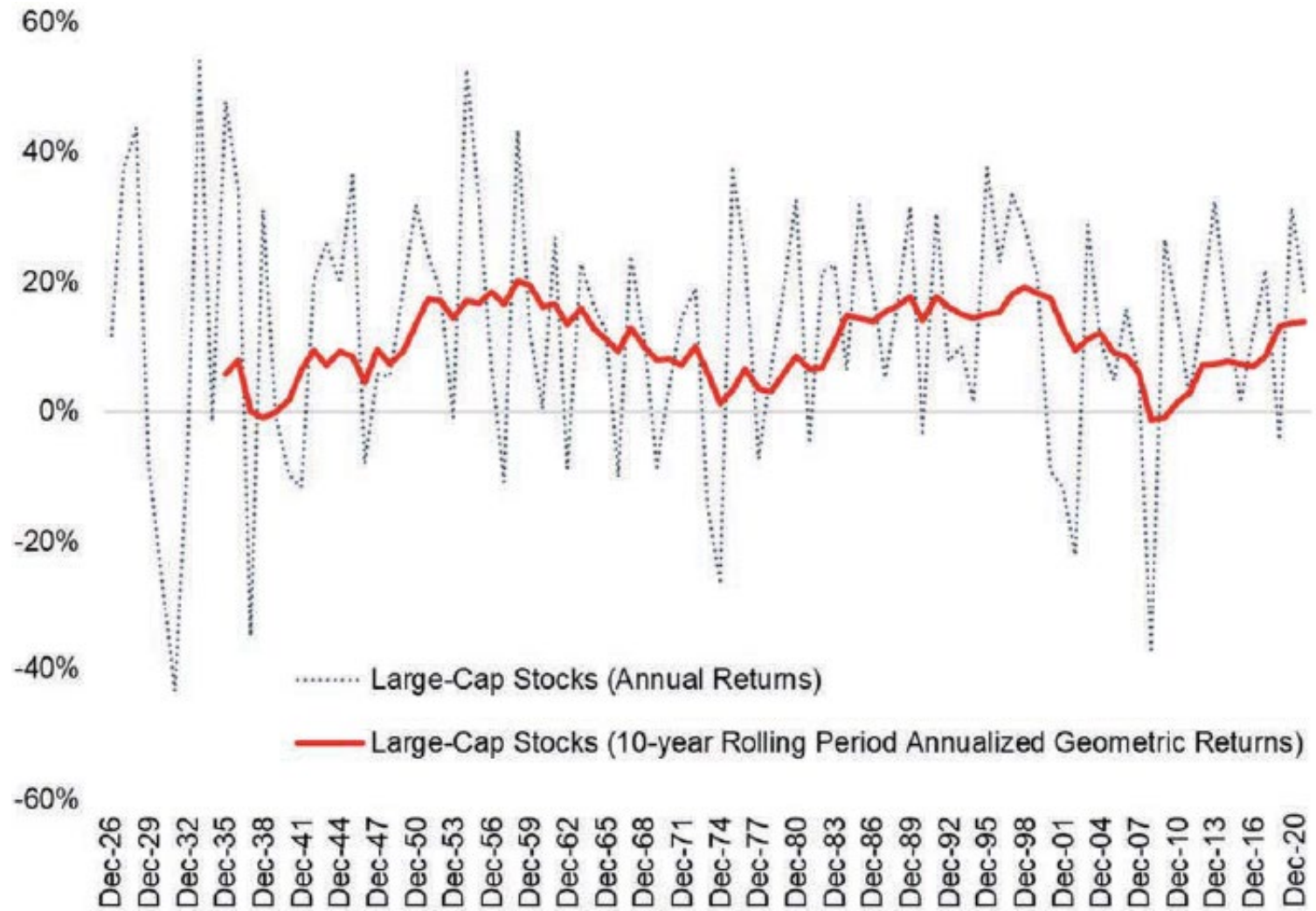
Stocks, Commodities, REITs, and Gold

1980–2021



Past performance is no guarantee of future results. Hypothetical value of \$1 invested at the beginning of 1980. Assumes reinvestment of income and no transaction costs or taxes. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. © Morningstar 2022 and Precision Information, dba Financial Fitness Group 2022. All Rights Reserved.

Large Cap Stocks: 1-Year & 10-Year Rolling Period Annual Returns (1926-2021)



Source of underlying data: Morningstar, Inc. Source of chart: Stocks, Bonds, Bills, and Inflation® (SBBI®) 2021 Summary Edition by Roger G. Ibbotson and James P. Harrington. Calculations by D&P/Kroll. Large-Cap Stocks represented by the following series: IA SBBI® US Large Stock TR USD Ext. "Stocks, Bonds, Bills, and Inflation" and "SBBI" are registered trademarks of Morningstar, Inc. All rights reserved

Risk of Stock Market Loss Over Time

1926–2021



Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. © Morningstar 2022 and Precision Information, dba Financial Fitness Group 2022. All Rights Reserved.

Portfolio Summary Statistics: Risk of Loss Over Time

Rolling Periods 1926–2021

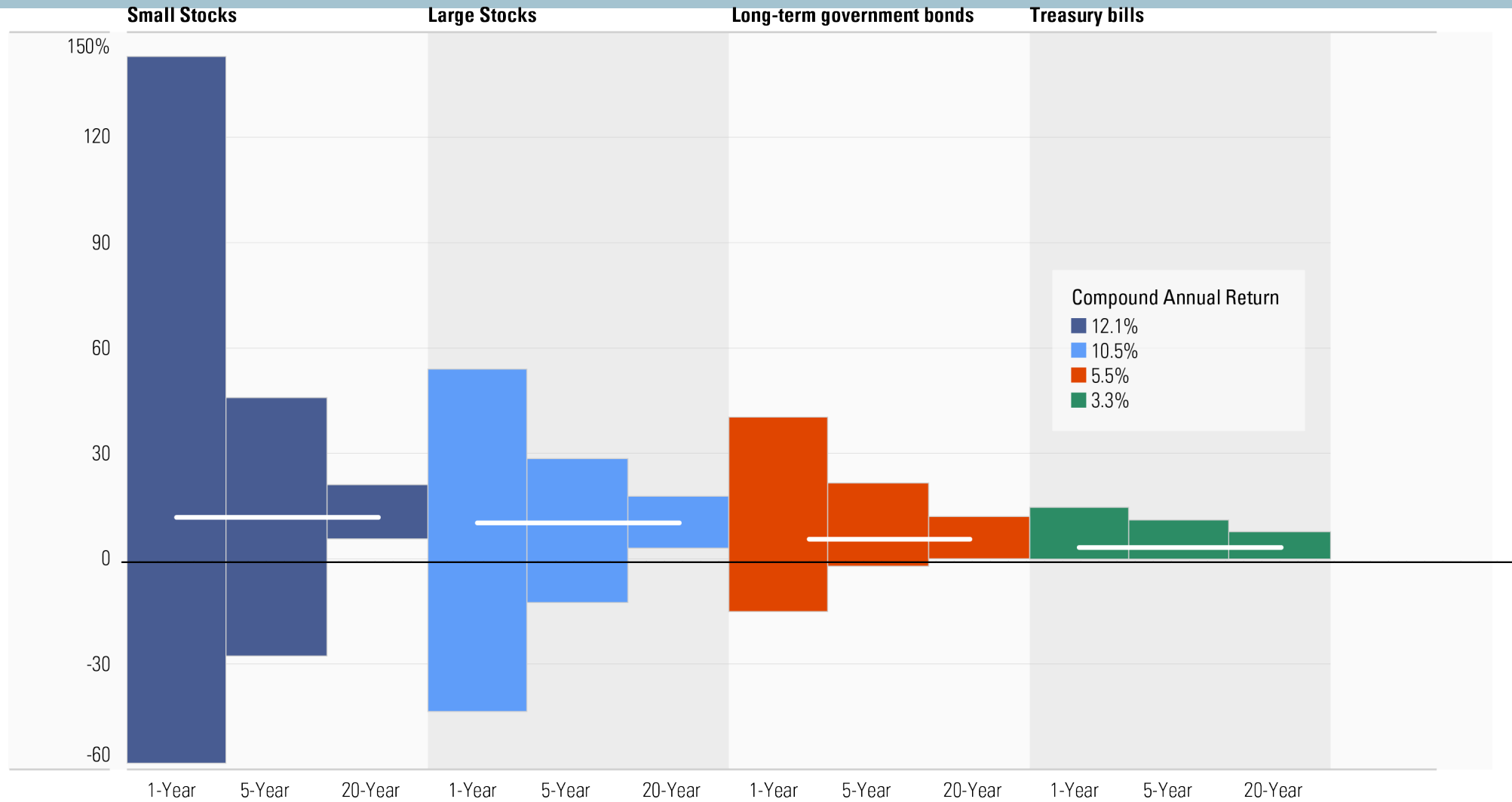


| | | 12-month holding period | | | | 60-month | | | 120-month | | | |
|--------|------------|-------------------------|---------------|----------------|---------------|-----------------|----------------|---------------|-----------------|----------------|---------------|------------------------------|
| Stocks | 100% | | 10.5% | 162.9% | -67.6% | 24.4% | 36.1% | -17.4% | 11.9% | 21.4% | -4.9% | 5.1% (*Note: 0% at 12 years) |
| | 75% 25% | | 9.4% | 118.7% | -55.7% | 21.7% | 29.0% | -11.5% | 7.0% | 17.7% | -1.3% | 0.9% |
| | 50% 50% | | 8.2% | 77.8% | -40.7% | 17.4% | 22.2% | -6.1% | 4.4% | 16.2% | 1.5% | 0.0% |
| | 25% 75% | | 6.7% | 40.9% | -22.0% | 10.3% | 20.0% | -1.2% | 0.3% | 14.9% | 3.3% | 0.0% |
| Bonds | 100% | | 5.0% | 32.7% | -5.6% | 10.8% | 19.5% | 0.7% | 0.0% | 13.7% | 1.2% | 0.0% |
| | | | Annual Return | Highest Return | Lowest Return | Negative Return | Highest Return | Lowest Return | Negative Return | Highest Return | Lowest Return | Negative Return |

Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. © Morningstar 2022 and Precision Information, dba Financial Fitness Group 2022. All Rights Reserved. Note:

Reduction of Risk Over Time

1926–2021



Past performance is no guarantee of future results. Each bar shows the range of compound annual returns for each asset class over the 1926–2021 period. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. © Morningstar 2022 and Precision Information, dba Financial Fitness Group 2022. All Rights Reserved.

BUT...Long-Term Returns of Stocks Have Huge Variations Over Different Periods



Source: Dimensional Fund Advisors

Support for Market Efficiency: Stock Picking

Percent of Active Managers Outperforming their Benchmark



| Fund Category | Comparison Index | % Outperforming |
|---|----------------------------------|-----------------|
| Domestic Equity (20-Year to 12/31/21) | | |
| All Domestic Equity | S&P Composite 1500® | 9.70% |
| Large-Cap | S&P 500® | 5.88% |
| Mid-Cap | S&P MidCap 400® | 8.33% |
| Small-Cap | S&P SmallCap 600® | 6.65% |
| Multi-Cap | S&P Composite 1500® | 8.17% |
| Real Estate | S&P United States REIT | 15.79% |
| International Equity (20-Year to 12/31/21) | | |
| Global | S&P Global 1200 | 14.75% |
| International | S&P 700 | 9.56% |
| International Small Cap | S&P Developed Ex-US Small Cap | 12.12% |
| Emerging Markets | S&P / IFCI Composite | 6.58% |
| Fixed Income (15-year to 12/31/21) | | |
| Government Long | Barclays US Govt Long | 2.00% |
| Investment Grade Long | Barclays US Govt/Credit Long | 2.88% |
| High Yield | Barclays US Corporate High Yield | 1.41% |
| Municipal Debt | S&P National AMT-Free Muni | 26.37% |
| Loan Participation | S&P/LSTA US Leveraged Loan 100 | 0.00% |

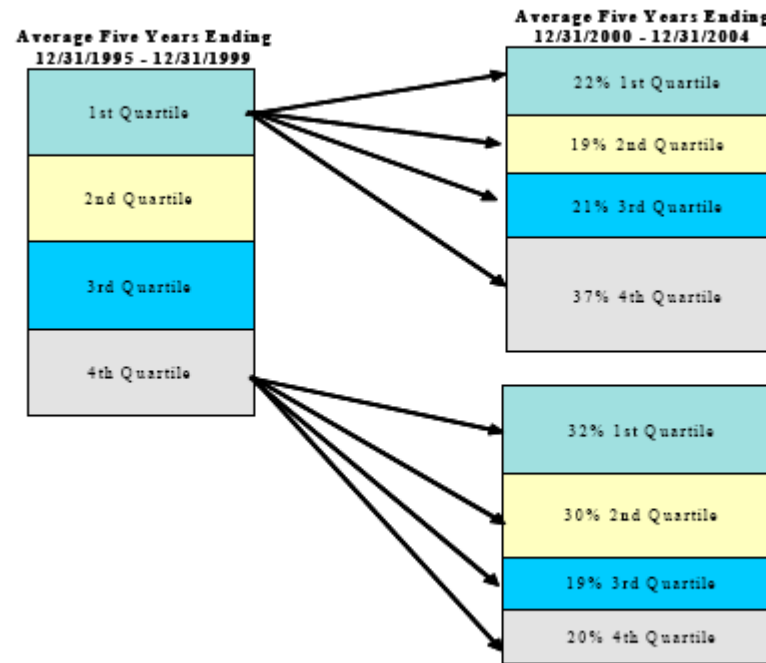
Source: S&P Dow Jones Indices LLC: SPIVA® U.S. Year-End 2021 Scorecard S&P Dow Jones Indices LLC. Data as of Dec. 31, 2021. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

Support for Market Efficiency: Manager Inconsistency

Past Performance Really *Isn't* an Indicator of Future Results



**Large Cap Growth Universe (201 Managers)*
Ranked by Performance**



*Figure represents number of managers with contiguous data for the most recent 10-year period
Note: Figures may not add up to 100% due to rounding.

* The same trends held true for large cap value managers, small cap growth managers, and small cap value managers, among others.

Source: CRA RogersCasey, "Past Performance Really Isn't An Indicator of Future Results" 2005, 2008.

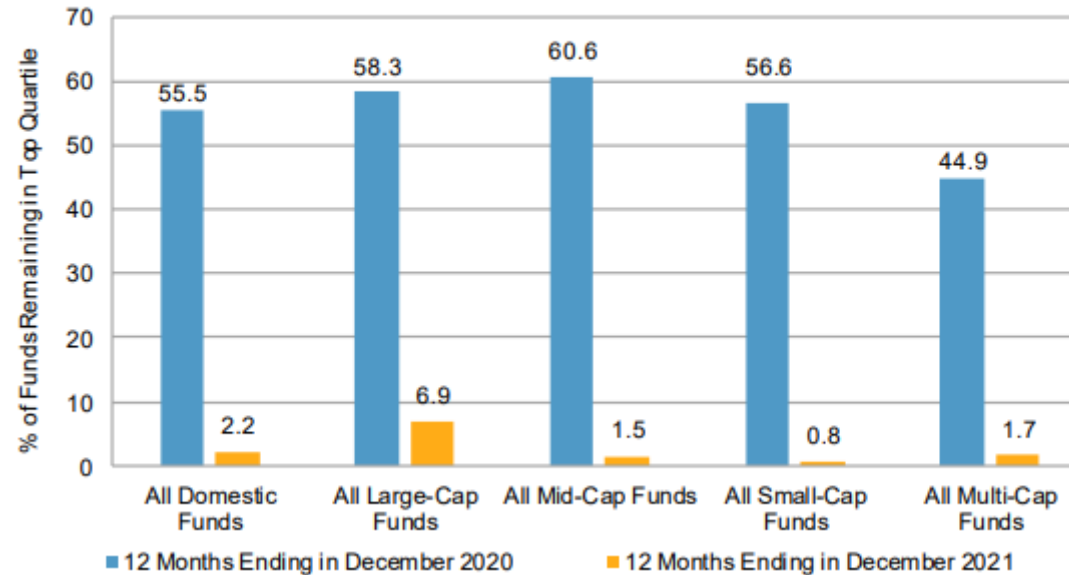
Support for Market Efficiency: Manager Inconsistency

Past Performance Really *Isn't* an Indicator of Future Results



SPIVA Study:

Exhibit 1: The Top-Quartile Funds of 2019 Extended Their Success into 2020, but Fell Short of Their Peers in 2021



Source: S&P Dow Jones Indices LLC, CRSP. Data as of Dec 31, 2021. Chart is provided for illustrative purposes. Past performance is no guarantee of future results.



Fundamental analysis – 3 potential flaws:

- (1) The information and analysis may be incorrect.
- (2) The analyst's estimate of 'value' may be faulty.
- (3) The market may not correct its 'mistake' and the stock price might not converge to its value estimate.

Technical analysis – logical arguments against charting:

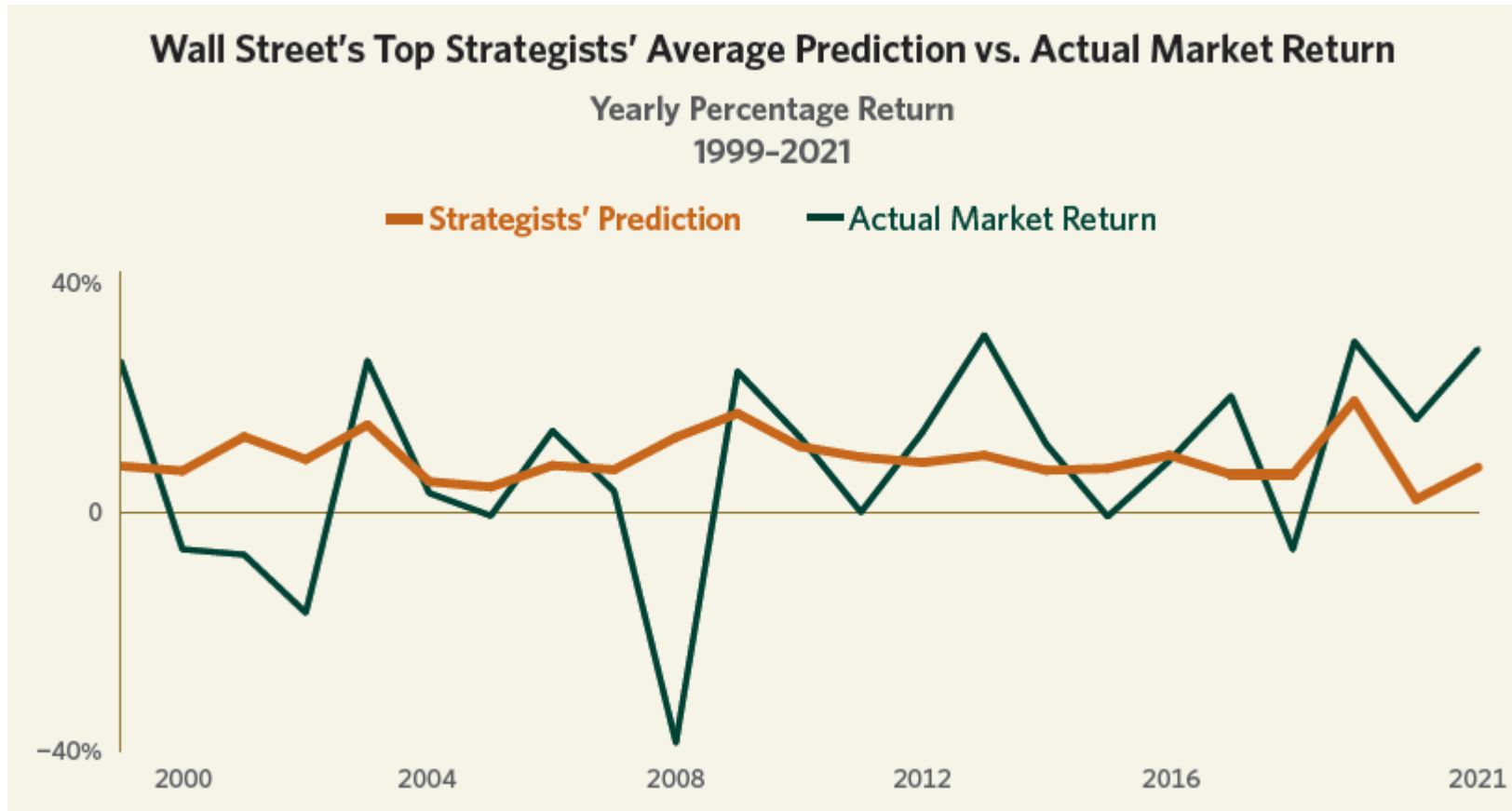
- (1) By the time a trend is signaled, it may already have taken place.
- (2) As more and more people use it, the value of any technique depreciates.
- (3) Traders tend to anticipate technical signals. If they see a price about to break through a resistance area, they tend to buy *before*... it breaks through...others will try to anticipate the signal still earlier...the earlier they anticipate, the less certain they are that the signal will occur...“



Market-timing advice in a sample of 237 investment newsletters:

- 237 investment newsletters analyzed
- Over 15,000 asset allocation recommendations
- 13-year period: 1980-1992
- Finding: “the performance of investment newsletters is no better than, and potentially worse than, what would be expected from a set of letters that offer random recommendations.”

Support for Market Efficiency: Market Forecasts



Source: Davis Advisors, Barron's. From 1999 through 2005, numbers reflect Dow Jones Industrial Average forecasts. In 2006, Barron's began using the S&P 500 Index exclusively. Past performance is not a guarantee of future results.

Support for Market Efficiency: Interest Rates



The Wall Street Journal Survey of Economists 12/82–6/21

| Date | Result | Date | Result | Date | Result | Date | Result | Date | Result | Date | Result | Date | Result | | |
|-------|--------|-------|--------|-------|--------|-------------------|--------|-------|--------|-------|--------|-------|--------|-------|-------|
| 12/82 | Right | 12/87 | Wrong | 12/92 | Right | 12/97 | Wrong | 12/02 | Wrong | 12/07 | Wrong | 12/12 | Right | 12/17 | Right |
| 6/83 | Wrong | 6/88 | Right | 6/93 | Wrong | 6/98 | Wrong | 6/03 | Wrong | 6/08 | Wrong | 6/13 | Right | 6/18 | Right |
| 12/83 | Wrong | 12/88 | Right | 12/93 | Wrong | 12/98 | Wrong | 12/03 | Right | 12/08 | Wrong | 12/13 | Wrong | 12/18 | Wrong |
| 6/84 | Wrong | 6/89 | Wrong | 6/94 | Wrong | 6/99 | Wrong | 6/04 | Right | 6/09 | Right | 6/14 | Wrong | 6/19 | Wrong |
| 12/84 | Wrong | 12/89 | Wrong | 12/94 | Wrong | 12/99 | Wrong | 12/04 | Wrong | 12/09 | Right | 12/14 | Wrong | 12/19 | Wrong |
| 6/85 | Wrong | 6/90 | Wrong | 6/95 | Wrong | 6/00 | Right | 6/05 | Wrong | 6/10 | Wrong | 6/15 | Right | 6/20 | Wrong |
| 12/85 | Wrong | 12/90 | Right | 12/95 | Right | 12/00 | Wrong | 12/05 | Right | 12/10 | Right | 12/15 | Wrong | 12/20 | Right |
| 6/86 | Wrong | 6/91 | Wrong | 6/96 | Right | 6/01 | Wrong | 6/06 | Right | 6/11 | Right | 6/16 | Wrong | 6/21 | Right |
| 12/86 | Right | 12/91 | Right | 12/96 | Right | 12/01 | Right | 12/06 | Wrong | 12/11 | Wrong | 12/16 | Right | | |
| 6/87 | Wrong | 6/92 | Wrong | 6/97 | Wrong | 6/02 ¹ | Right | 6/07 | Wrong | 6/12 | Wrong | 6/17 | Wrong | | |

Note: the economists were right 37% of the time on a 50-50 guess.

Source: Davis Advisors, quoting Legg Mason and The Wall Street Journal Survey of Economists. This is a semi-annual survey by The Wall Street Journal last updated June 2021. *Benchmark changed from 30 Year Treasury to 10 Year Treasury. **Past performance is not a guarantee of future results.**



Investor Behavior: Common Mistakes and Their Effects on Portfolio Returns

Behavioral Finance: Cycle of Emotions

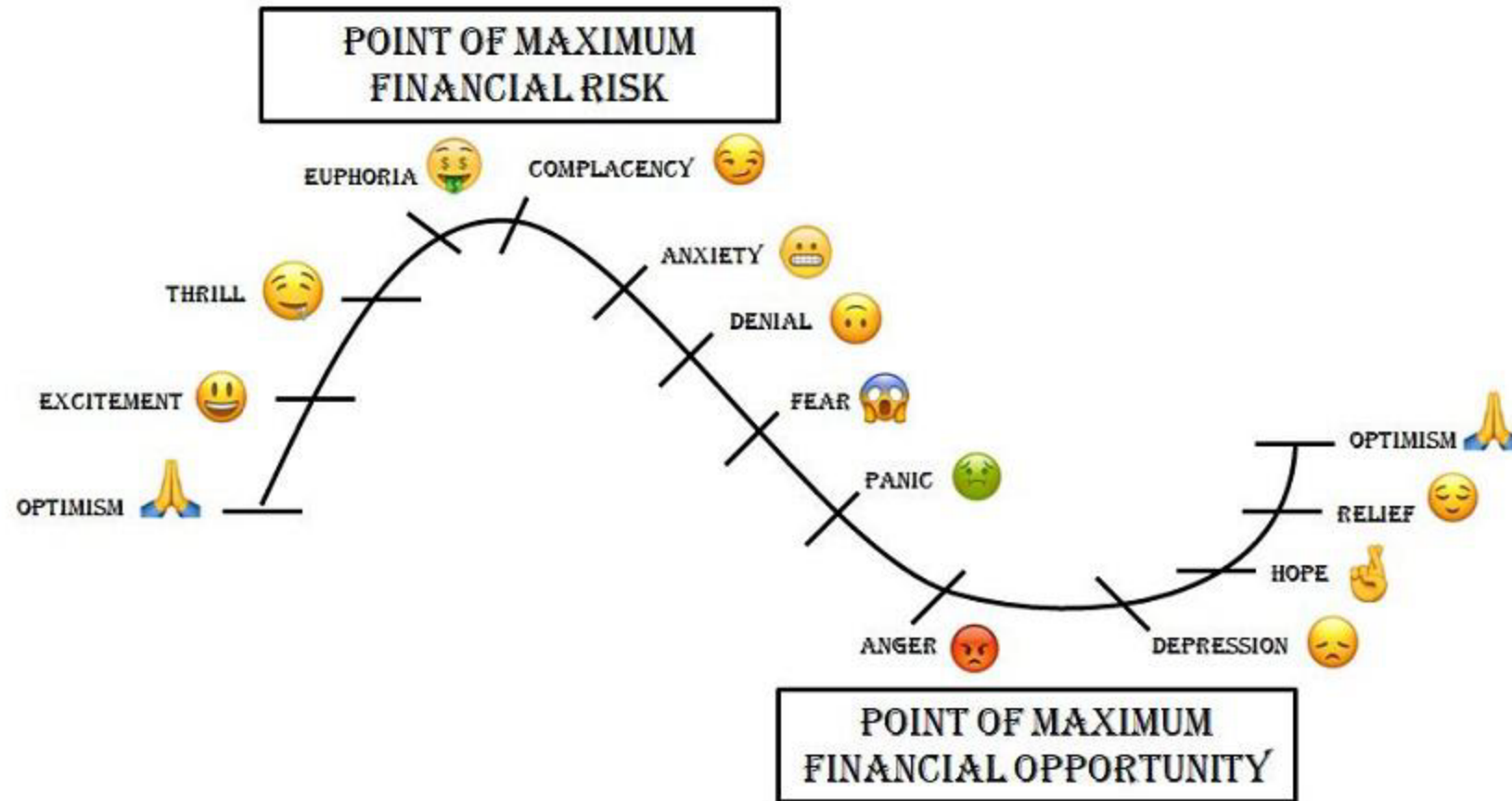


Chart source: Forbes.com



Behaviors and biases that can lead to taking too much risk, ignoring asset allocation and not being properly diversified:

Overconfidence Bias – extreme confidence in investment abilities, incorrectly rating oneself as above average in selecting investments – also linked to overtrading and diminished returns due to higher costs and taxes.

Self-Attribution Bias – attributing successes to oneself, while blaming failure to others or bad luck.

Hindsight Bias – Believing that unpredictable past events, in retrospect, were obvious and predictable.

Illusion of Control Bias – believing one can control outcomes, when they cannot.

Mental Accounting – mentally compartmentalizing investments while ignoring the aggregate portfolio, often resulting in taking undue risk in one area and avoiding rational risk in another – leads to looking too much at each piece of portfolio versus the entire construction of pieces working together.



Behaviors and biases that can lead to the tendencies to buy at highs and sell at lows:

Short-Term Focus – inappropriately focusing on short-term risk versus long-term risk – many talk long-term but act short-term – leads to being overly sensitive about short-term volatility at the cost of long-term returns.

Recency – predicting future performance from the recent past.

Herd behavior – following others' investment strategies or copying the behavior of others.

Emotions – impulsive, reactive decision-making – exuberance at market highs (buy) and anxiety at lows (sell).

Media Response – tendency to react to news without reasonable examination.

Hot-Hand Fallacy – perceiving trends exist when none do – example: series of 10 coin flips come all tails – Hot-Hand Fallacy is to think the next one will be tails because that's the trend. The odds are still 50-50!



Behaviors that can lead to inaction, or “freezing” when action might be warranted:

Gambler's Fallacy – erroneously believing that certain events are less likely to happen following a series of events – example: same series of 10 coin flips, gambler's fallacy is to think next one will be heads, because too many tails have come up. The odds are still 50-50!

Confirmation Bias – a selective perception that emphasizes our beliefs, while devaluing information that contradicts our beliefs – we see what we want to see.

Conservatism Bias – a mental process in which people cling to their prior views or forecasts at the expense of acknowledging new information – example, holding positions they would not buy if they didn't own them.

Loss aversion – expecting to find high returns with low risk.

Regret – treating errors of commission more seriously than errors of omission – leads to not realizing the damage that can happen from inaction (i.e. staying in cash for years).

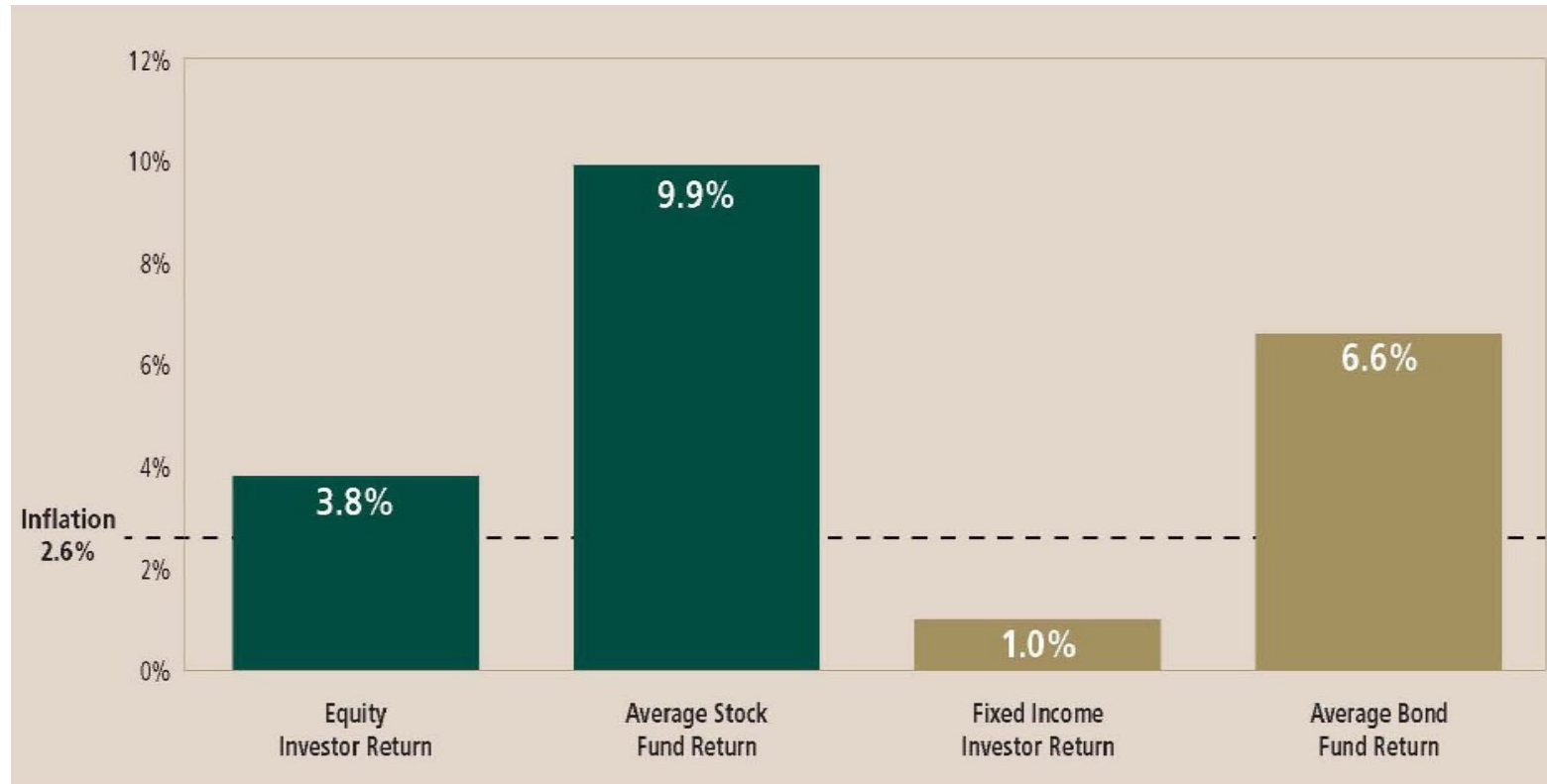


- Investor misconceptions can be dangerous to one's investments
- They need to be identified early and countered in an appropriate manner
- Markets and investing must be viewed in a rational and productive manner

Investor Behavior and Market Timing: The Investor Behavior Gap



Average Investor Return vs. Average Fund Return, 1991-2010



Source: Davis Advisors, sourcing *Quantitative Analysis of Investor Behavior* by Dalbar, Inc. (March 2011) and Lipper. Dalbar computed the "Equity Investor Return" by using industry cash flow reports from the Investment Company Institute. The "Average Stock Fund Return" figure represents the average return for all funds listed in Lipper's U.S. Diversified Equity fund classification model. Returns assume reinvestment of dividends and capital gain distributions. The fact that buy and hold has been a successful strategy in the past does not guarantee that it will continue to be successful in the future.

Investor Behavior and Market Timing: The Investor Behavior Gap



The gap has existed across asset classes and throughout the years:

| | Average Equity Fund Investor (%) | Average Fixed Income Fund Investor (%) | Average Asset Allocation Fund Investor (%) | S&P 500 (%) | Bloomberg- Barclays Aggregate Bond Index (%) | Inflation (%) |
|----------|---|---|---|----------------|--|------------------|
| 30 Year | 7.13 | 0.34 | 2.95 | 10.65 | 5.29 | 3.38 |
| 20 Year | 8.13 | 0.44 | 3.57 | 9.52 | 4.33 | 2.32 |
| 10 Year | 13.44 | 0.42 | 6.36 | 16.55 | 2.90 | 2.16 |
| 5 Year | 14.80 | 0.80 | 7.46 | 18.47 | 3.57 | 2.93 |
| 3 Year | 21.56 | 1.71 | 11.60 | 26.07 | 4.79 | 3.53 |
| 12 Month | 18.39 | -1.55 | 13.29 | 28.71 | -1.54 | 7.04 |

Source: Quantitative Analysis of Investor Behavior by Dalbar, Inc. (Period ending December 31, 2021)

Investor Behavior and Market Timing: Paul Andreassen Study, Harvard University



- Two groups of investors were studied over a period of time.
- The two groups each selected a portfolio of stocks, and could trade at any time.
- One group was given periodic updates on the prices of their holdings.
- The second group was given updates on pricing plus a regular stream of news on their stocks.

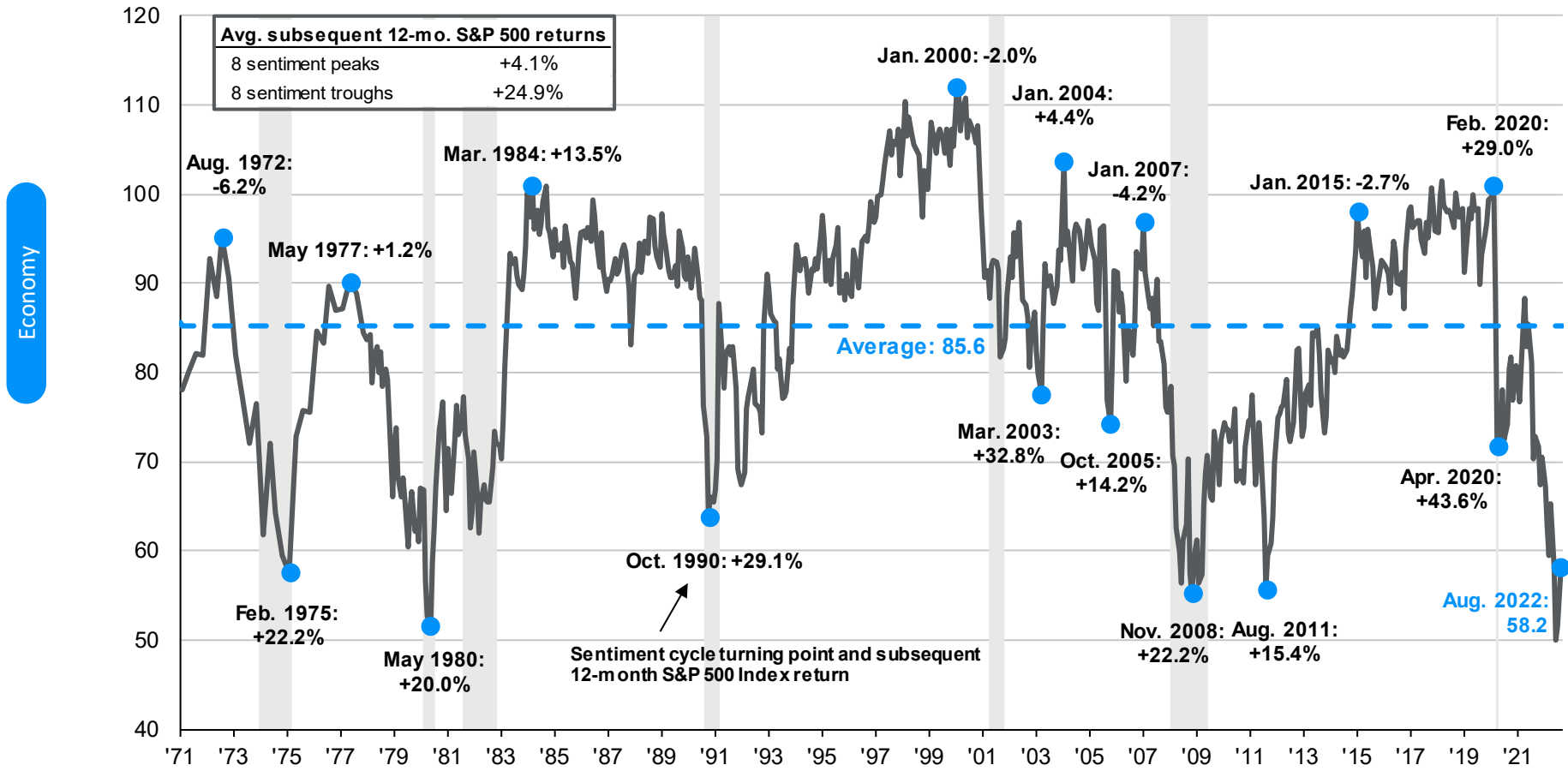
At the end of the experiment, the group without the new information had returns that were twice as much as the more-informed group.

Source: "Determinants of Portfolio Performance II: An Update," by Gary P. Brinson, Brian D. Singer and Gilbert L. Beebower, *Financial Analysts Journal*, May/June, 1991.
Asset allocation does not assure profits or prevent against losses from an investment portfolio or account in a declining market.

Investor Behavior and Market Timing: Consumer Confidence and the Stock Market



Consumer Sentiment Index and subsequent 12-month S&P 500 returns



• Source: FactSet, Standard & Poor's, University of Michigan, J.P. Morgan Asset Management. *JP Morgan Guide to the Markets – U.S.* Data are as of August 31, 2022.

Market Dips Occur Regularly



A history of declines (S&P 500: 1952-December 2021)

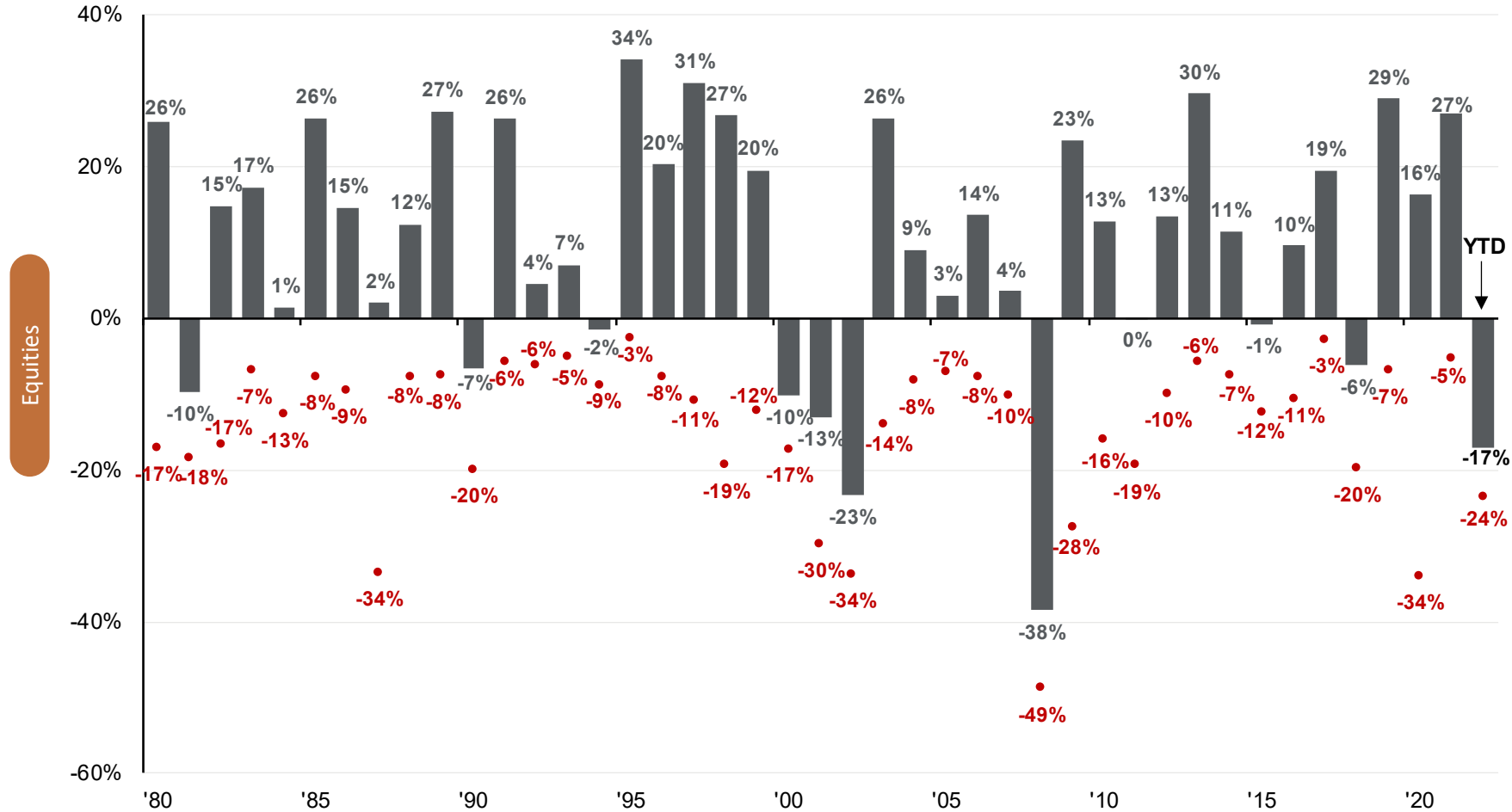
| Type of decline | Average frequency [*] | Average length [†] | Last occurrence |
|-----------------|--------------------------------|-----------------------------|-----------------|
| -5% or more | About 3 times a year | 43 days | October 2021 |
| -10% or more | About once a year | 110 days | September 2020 |
| -15% or more | About once every 3 years | 251 days | March 2020 |
| -20% or more | About once every 6 years | 370 days | March 2020 |

Source: RIMES, Standard & Poor's, Capital Group. ^{*}Assumes 50% recovery rate of lost value. [†]Measures market high to market low.

Annual Returns and Intra-Year Declines



- S&P intra-year declines vs. calendar year returns
- Despite average intra-year drops of 14.0%, annual returns were positive in 32 of 42 years



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management. *Guide to the Markets – U.S.* Data are as of August 31, 2022. Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2021, over which time period the average annual return was 9.4%.



Major Market, Economic & Geopolitical Events Occur Every Year

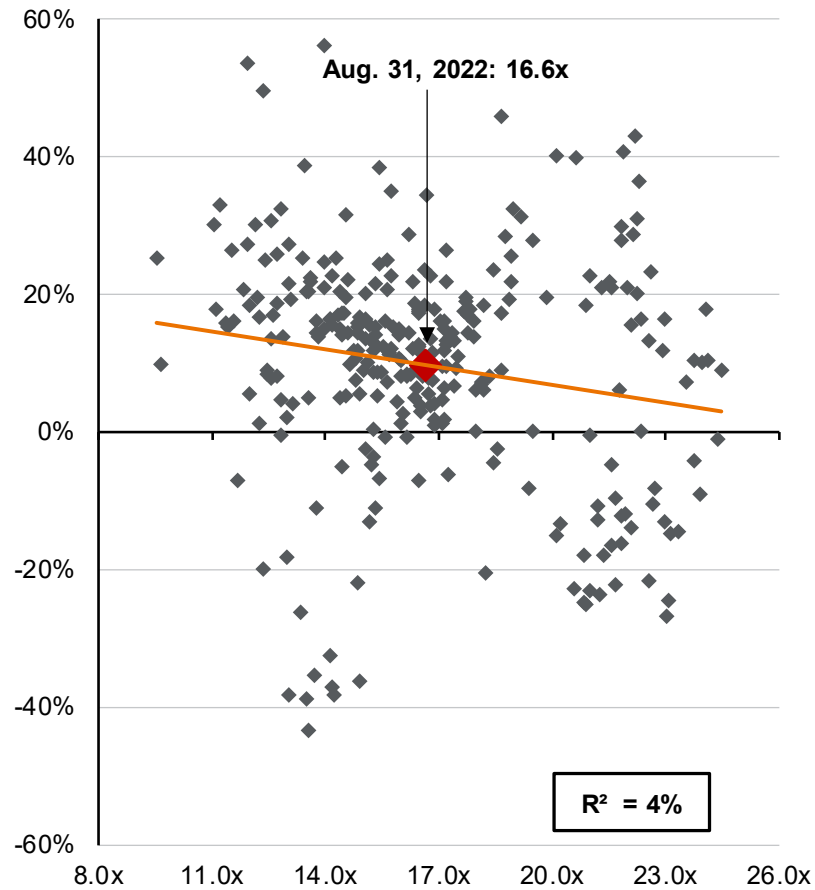
| | | | |
|---|---|---|---|
| 1975 Clouded economic prospects | 1987 Black Monday crash | 1999 Tech bubble | 2011 Year of investing dangerously |
| 1976 Economic recovery slows | 1988 Iran/Iraq war | 2000 Tech bubble bursts | 2012 Political dysfunction |
| 1977 Market slumps | 1989 October "mini-crash" | 2001 September 11th | 2013 Taper tantrum |
| 1978 Interest rates rise | 1990 Persian Gulf crisis | 2002 Corporate accounting issues | 2014 Ukraine crisis |
| 1979 Oil prices skyrocket | 1991 Recession | 2003 War in Iraq | 2015 China scare |
| 1980 Interest rates at all-time high | 1992 Clinton elected president | 2004 Presidential election uncertainty | 2016 Geopolitical risk |
| 1981 Steep recession begins | 1993 Tax and budget uncertainties | 2005 Rising interest rates | 2017 D.C. discord |
| 1982 Worst recession in 40 years | 1994 Worst bond market since 1927 | 2006 Oil prices hit \$78/barrel | 2018 Trade wars |
| 1983 Cold War tension | 1995 Mexican peso crisis | 2007 Subprime mortgage crisis | 2019 Trade wars, the sequel |
| 1984 Record federal deficits | 1996 Greenspan's "irrational exuberance" | 2008 Global financial crisis | 2020 Global Coronavirus crisis |
| 1985 Economic growth slows | 1997 Liquidity crisis | 2009 Roller coaster | |
| 1986 Iran-Contra affair | 1998 Emerging markets crisis | 2010 Five little PIIGS | |

BUT Beware of Extremes: P/E Ratios and Equity Returns

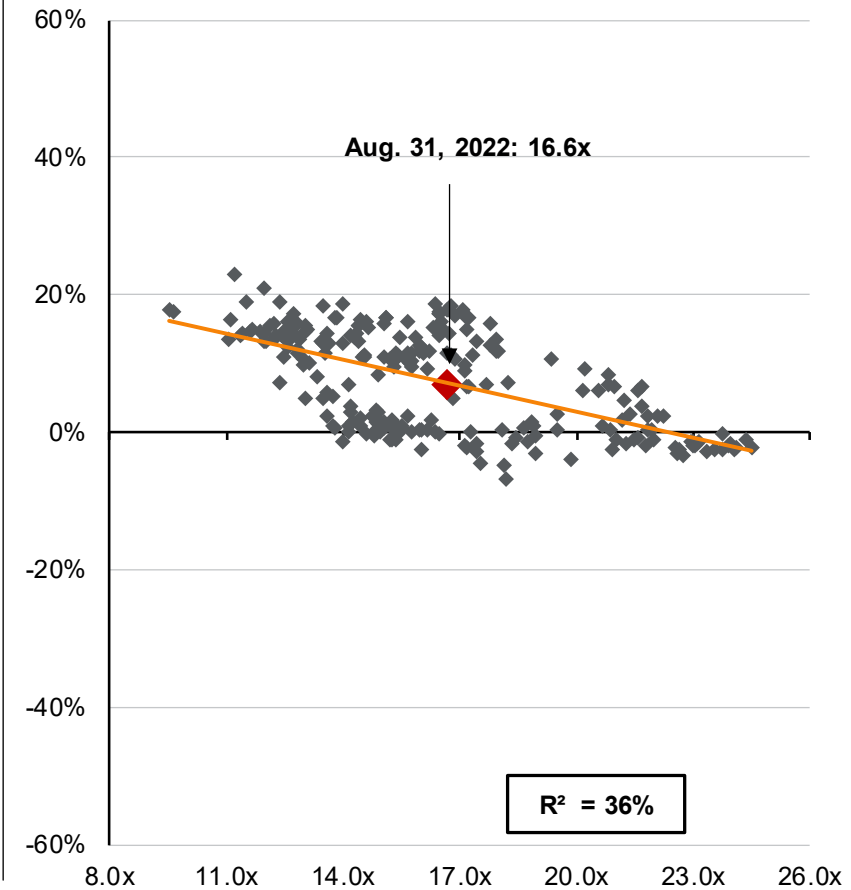


Equities

- Forward P/E and subsequent 1-yr. returns
- S&P 500 Total Return Index



- Forward P/E and subsequent 5-yr. annualized returns
- S&P 500 Total Return Index



Source: FactSet, Refinitiv Datastream, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management. Returns are 12-month and 60-month annualized total returns, measured monthly, beginning 7/31/97. R^2 represents the percent of total variation in total returns that can be explained by forward price-to-earnings ratios. Price-to-earnings is price divided by consensus analyst estimates of earnings per share for the next 12 months as provided by IBES since January 1997 and by FactSet since January 2022. *JPMorgan Guide to the Markets – U.S.* Data are as of August 31, 2022.



Introduction to Asset Allocation:

The Individual Asset Classes

The Benefits of Diversification

The Importance of Correlation

What is Asset Allocation?

Research Study: The Importance of Asset Allocation



In 1991, a landmark study concluded that asset allocation explained over 91% of the variation of portfolio returns.

Asset Allocation: 91.5%

Security Selection: 4.6%

Market Timing: 1.8%

Other: 2.1%

Source: "Determinants of Portfolio Performance II: An Update," by Gary P. Brinson, Brian D. Singer and Gilbert L. Beebower, *Financial Analysts Journal*, May/June, 1991. Asset allocation does not assure profits or prevent against losses from an investment portfolio or account in a declining market.

Asset Allocation: Asset Classes & Sub-Asset Classes



Equities / Stocks

- Large Cap Growth
- Large Cap Value
- Mid Cap Growth
- Mid Cap Value
- Small Cap Growth
- Small Cap Value
- Micro Cap
- Intl Large Cap
- Intl Small / Mid
- Emerging Markets
- More

Fixed Income / Bonds

- Municipal Bonds
- Government Bonds
- CDs
- Mortgage-Backed
- Inflation-Indexed
- Corporate & GSE Bonds
- Preferred Securities
- Foreign Bonds
- High Yield Bonds
- More

Real Estate

- Residential
- Commercial
- REITs
- US / Global
- Real Estate Debt

Cash & Ultra-Short Term

- Cash & Bank Deposit
- Money Markets
- CDs
- Treasury Bills
- Commercial Paper
- More

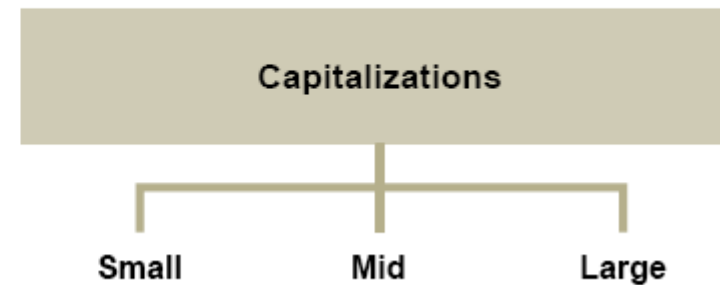
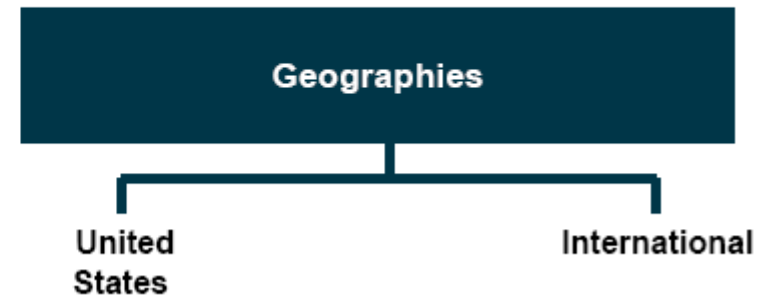
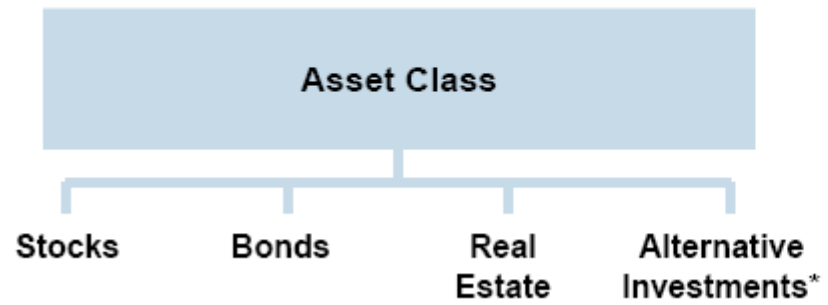
Alternatives / Other

- Commodities (Precious Metals, Industrial Metals, Natural Resources, Agriculture, Livestock, Energy, Currency, More)
- Convertibles
- Long-Short / Market Neutral
- Private Equity
- Private Debt
- Hedge Funds
- Art & Collectibles
- More

Diversification



Diversify among:



Diversification does not assure a profit nor protect against a loss in a declining market.



Large Cap

- ▶ 3,184 mutual funds
- ▶ 2,060 stocks

Mid Cap

- ▶ 1,255 mutual funds
- ▶ 2,975 stocks

Small Cap

- ▶ 1,578 mutual funds
- ▶ 8,346 stocks

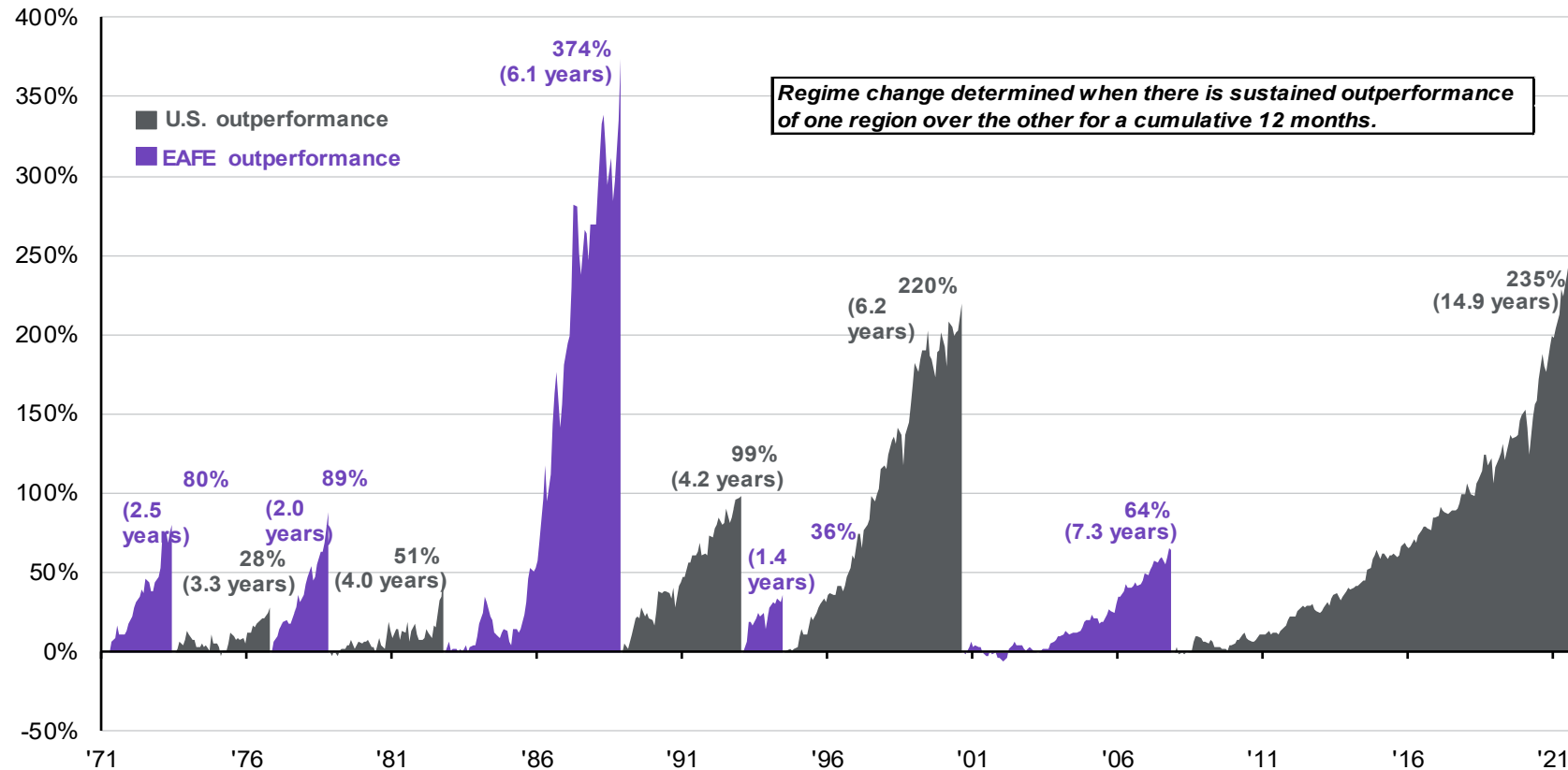
Diversifying Across Foreign and Domestic Stocks

1975-2021



MSCI EAFE and MSCI USA relative performance

U.S. dollar, total return, cumulative outperformance*



Source: FactSet, MSCI, J.P. Morgan Asset Management. *Cycles of outperformance include a qualitative component to determine turning points in leadership. *Guide to the Markets – U.S.* Data are as of August 31, 2022.



Growth stocks

- ▶ High growth rate of earnings, sales
- ▶ Low book/market, high price/earnings ratios
- ▶ Paying lower or no dividends

Risks

- ▶ Future growth does not occur as expected
- ▶ Book/market ratios rise unexpectedly, price/earnings ratios decline unexpectedly

Value stocks

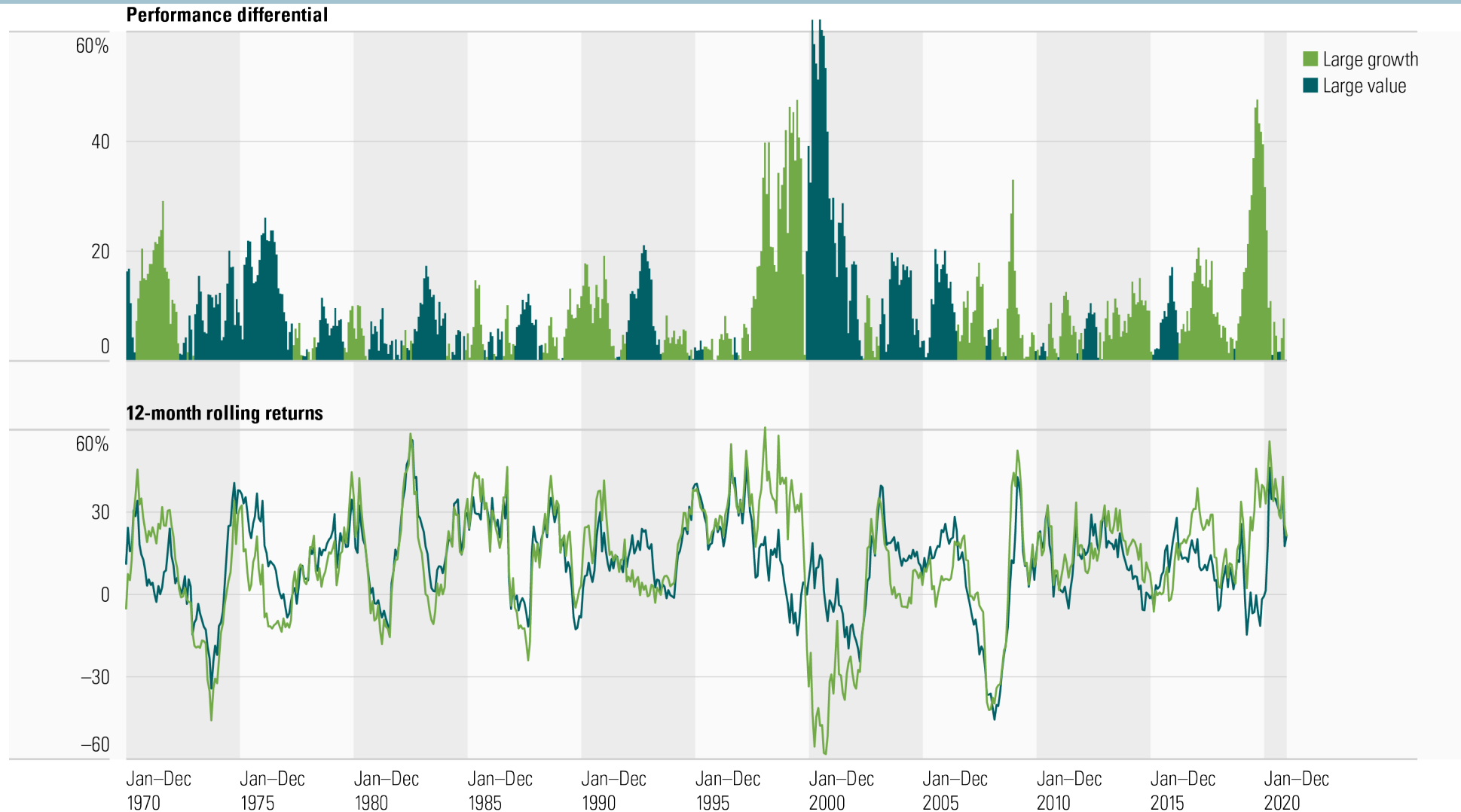
- ▶ Slower growth of earnings and sales
- ▶ High book/market, low price/earnings ratios
- ▶ Higher dividend yields
- ▶ Turnaround opportunities

Risks

- ▶ Evaluation of stocks as good value is misread
- ▶ Difficult to stick to value policy when prices are beaten down

One-Year Growth and Value Cycles

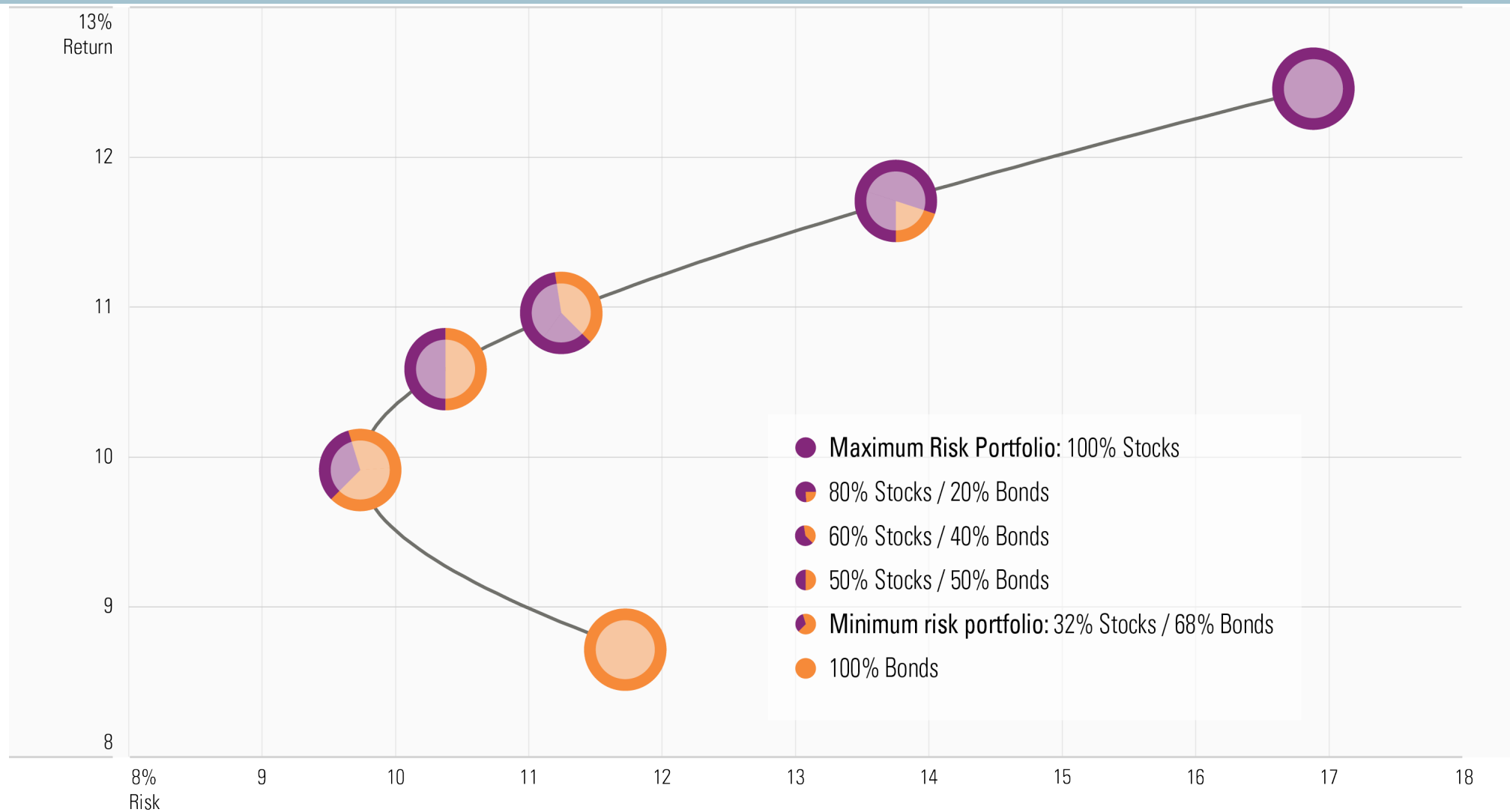
1970–2021



Past performance is no guarantee of future results. Performance differential measures each asset class' outperformance of the other on a 12-month rolling basis. Each 12-month rolling return represents the annualized return over the prior 12 months. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. © Morningstar 2022 and Precision Information, dba Financial Fitness Group 2022. All Rights Reserved.

Correlation Can Help Increase Returns or Reduce Volatility

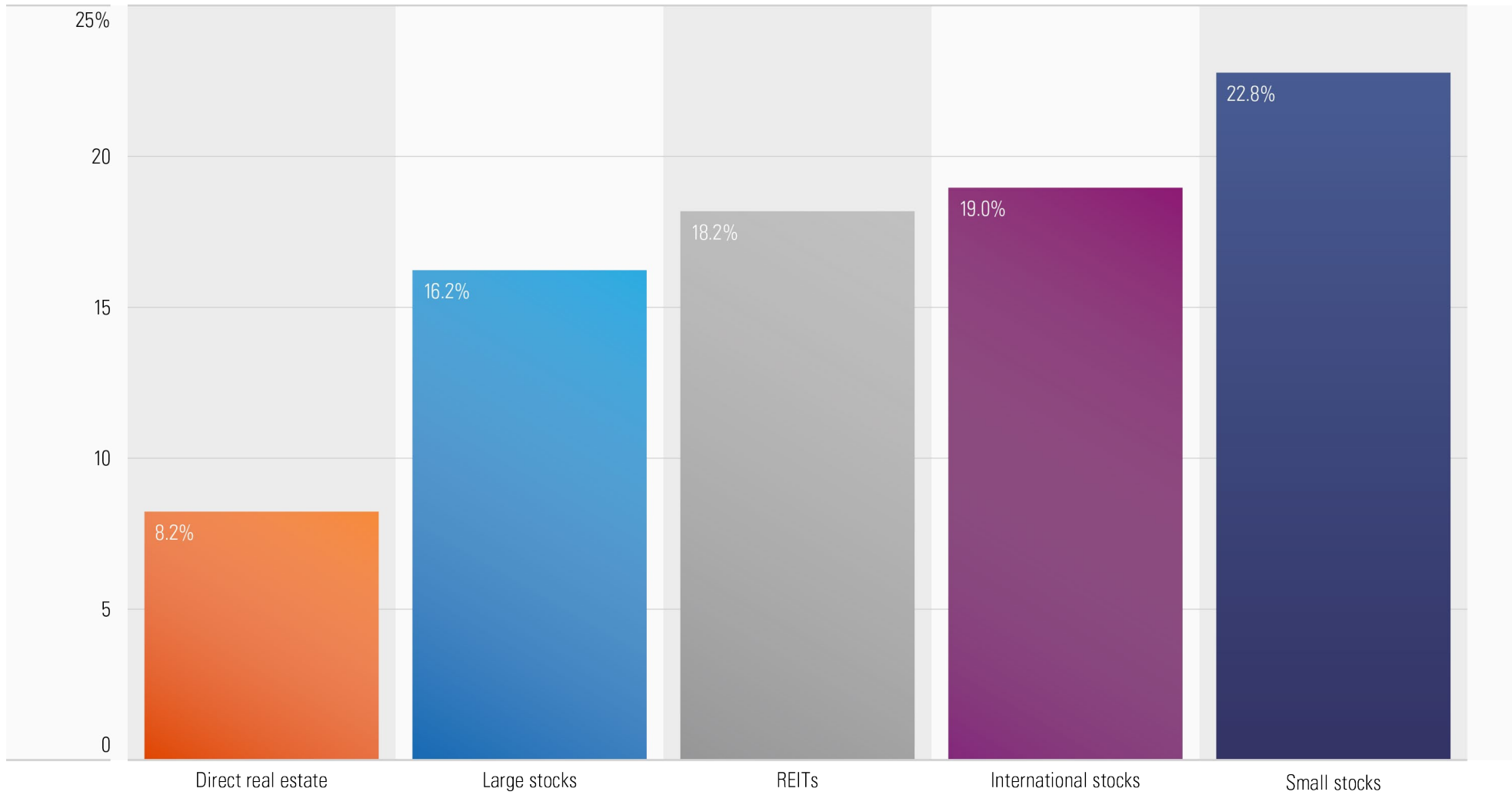
1970–2021



Past performance is no guarantee of future results. Risk and return are measured by standard deviation and arithmetic mean, respectively. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. © Morningstar 2022 and Precision Information, dba Financial Fitness Group 2022. All Rights Reserved.

Risk Levels of Real Estate Versus Equities

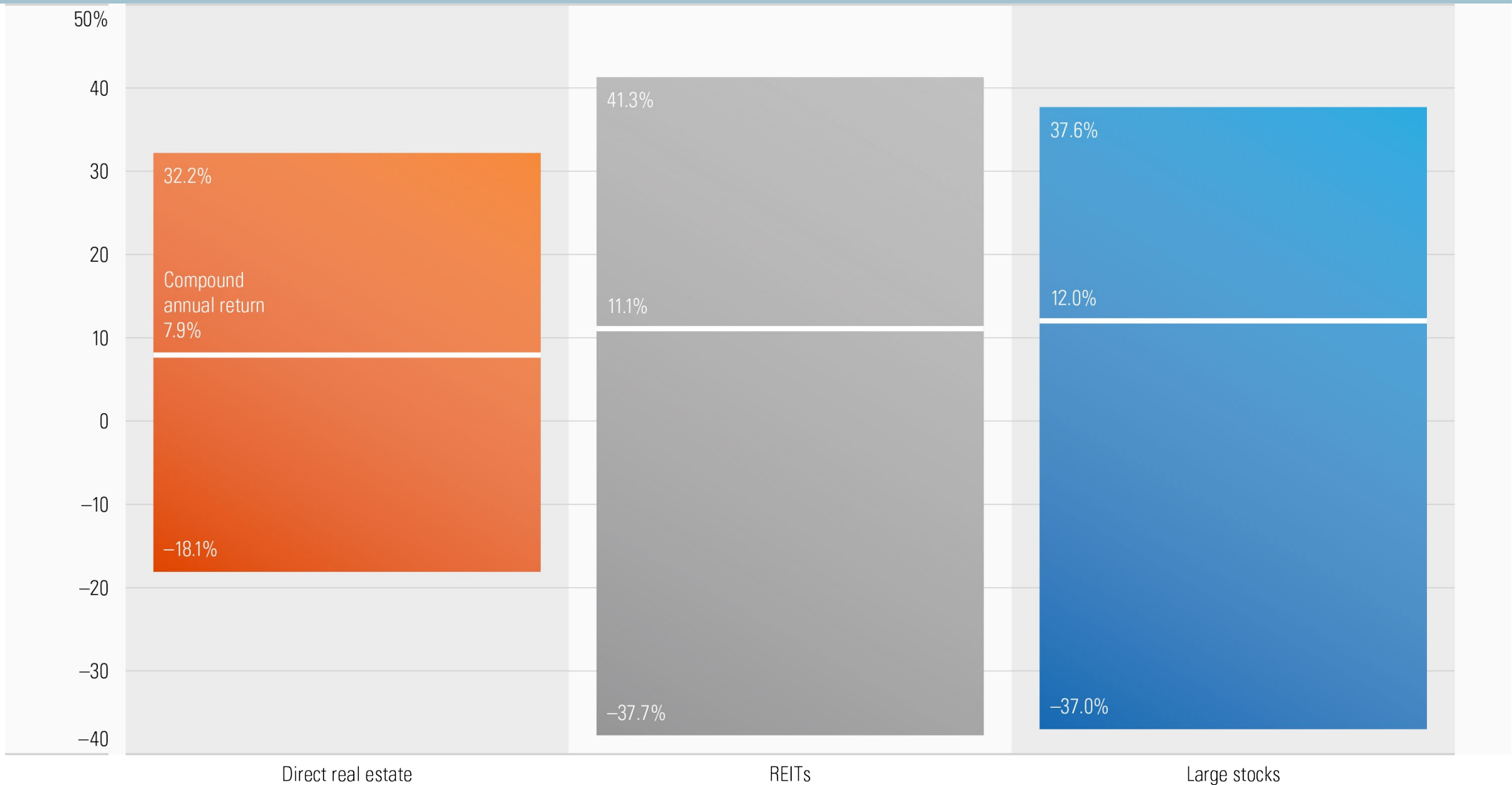
Standard Deviation 1985–2021



A226

Real Estate Has Experienced a Narrower Range of Returns

Range of Annual Returns: 1985–2021



Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. © Morningstar 2022 and Precision Information, dba Financial Fitness Group 2022. All Rights Reserved.

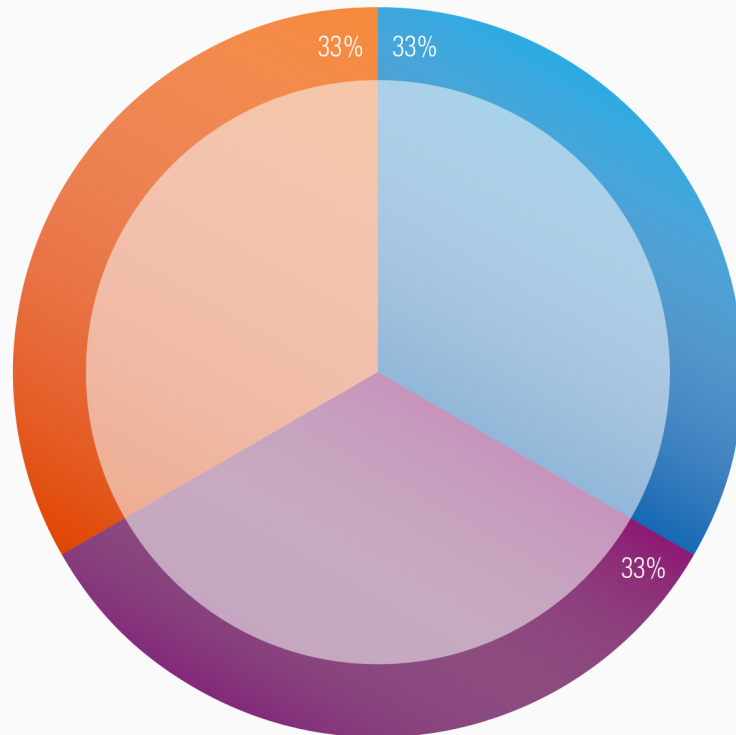
Potential to Increase Return and Decrease Risk

Sample Portfolios With and Without Global Real Estate 1990–2021



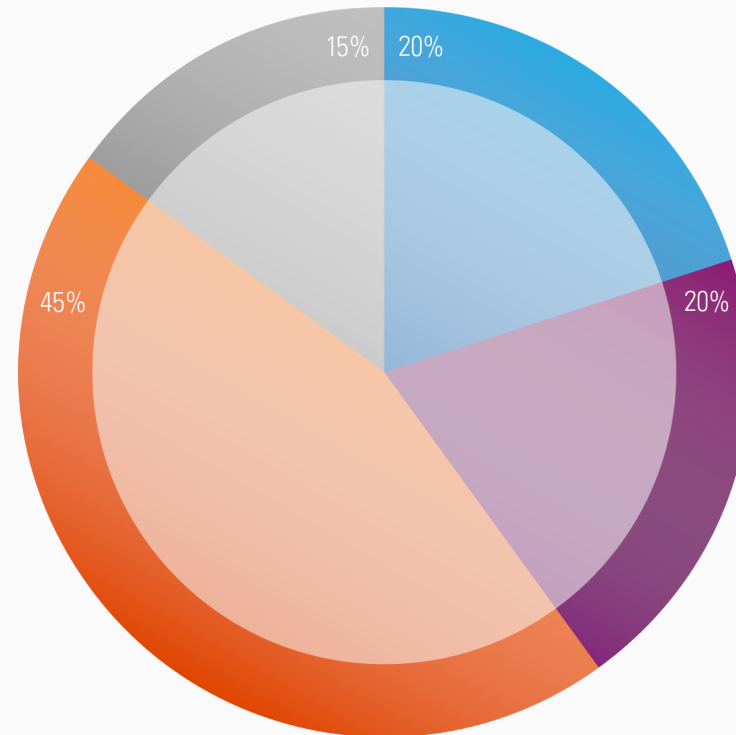
Sample portfolio

Return 8.3%
Risk 11.2%
Sharpe ratio 0.51



Sample portfolio with 15% real estate

Return 8.4%
Risk 9.2%
Sharpe ratio 0.64



- Stocks
- International stocks
- LT gov bonds
- Global real estate

Past performance is no guarantee of future results. *Global real estate portfolio composition—North American Real Estate 13%, European Real Estate 1%, Asian Real Estate 1%. Portfolio asset allocation may not add up to 100% due to rounding. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. Regional real estate refers to developed real estate in that region. © Morningstar 2022 and Precision Information, dba Financial Fitness Group 2022. All Rights Reserved.

Asset-Class Returns



| | | | | | | | | | | | | | | | | 2007 - 2021 | |
|----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|----------------------|-----------------------|----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|------------------------|----------------------|-----------------------|
| 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | YTD | Ann. | Vol. |
| EM Equity 39.8% | Fixed Income 5.2% | EM Equity 79.0% | REITs 27.9% | REITs 8.3% | REITs 19.7% | Small Cap 38.8% | REITs 28.0% | REITs 2.8% | Small Cap 21.3% | EM Equity 37.8% | Cash 1.8% | Large Cap 31.5% | Small Cap 20.0% | REITs 41.3% | Comdty. 23.6% | Large Cap 10.6% | REITs 23.2% |
| Comdty. 16.2% | Cash 1.8% | High Yield 59.4% | Small Cap 26.9% | Fixed Income 7.8% | High Yield 19.6% | Large Cap 32.4% | Large Cap 13.7% | Large Cap 1.4% | High Yield 14.3% | DM Equity 25.6% | Fixed Income 0.0% | REITs 28.7% | EM Equity 18.7% | Large Cap 28.7% | Cash 0.4% | Small Cap 8.7% | EM Equity 22.9% |
| DM Equity 11.6% | Asset Alloc. 25.4% | DM Equity 32.5% | EM Equity 19.2% | High Yield 3.1% | EM Equity 18.6% | DM Equity 23.3% | Fixed Income 6.0% | Fixed Income 0.5% | Large Cap 12.0% | Large Cap 21.8% | REITs -4.0% | Small Cap 25.5% | Large Cap 18.4% | Comdty. 27.1% | Fixed Income -10.8% | REITs 7.5% | Small Cap 22.5% |
| Asset Alloc. 7.1% | High Yield -26.9% | REITs 28.0% | Comdty. 16.8% | Large Cap 2.1% | DM Equity 17.9% | Asset Alloc. 14.9% | Asset Alloc. 5.2% | Cash 0.0% | Comdty. 11.8% | Small Cap 14.6% | High Yield -4.1% | DM Equity 22.7% | Asset Alloc. 10.6% | Small Cap 14.8% | Asset Alloc. -12.6% | High Yield 6.6% | Comdty. 19.1% |
| Fixed Income 7.0% | Small Cap -33.8% | Small Cap 27.2% | Large Cap 15.1% | Cash 0.1% | Small Cap 16.3% | High Yield 7.3% | Small Cap 4.9% | DM Equity -0.4% | EM Equity 11.6% | Asset Alloc. 14.6% | Large Cap -4.4% | Asset Alloc. 19.5% | DM Equity 8.3% | Asset Alloc. 13.5% | High Yield -14.8% | Asset Alloc. 6.1% | DM Equity 18.9% |
| Large Cap 5.5% | Comdty. -35.6% | Large Cap 25.5% | High Yield 14.8% | Asset Alloc. -0.7% | Large Cap 16.0% | REITs 2.9% | Cash 0.0% | Asset Alloc. -2.0% | REITs 8.6% | High Yield 10.4% | Asset Alloc. -5.8% | EM Equity 18.9% | Fixed Income 7.5% | DM Equity 11.8% | Large Cap -16.1% | EM Equity 4.8% | Large Cap 16.9% |
| Cash 4.8% | Large Cap -37.0% | Asset Alloc. 25.0% | Asset Alloc. 13.3% | Small Cap -4.2% | Asset Alloc. 12.2% | Cash 0.0% | High Yield 0.0% | High Yield -2.7% | Asset Alloc. 8.3% | REITs 8.7% | Small Cap -11.0% | High Yield 12.6% | High Yield 7.0% | High Yield 1.0% | Small Cap -17.2% | DM Equity 4.1% | High Yield 12.2% |
| High Yield 3.2% | REITs -37.7% | Comdty. 18.9% | DM Equity 8.2% | DM Equity -11.7% | Fixed Income 4.2% | Fixed Income -2.0% | EM Equity -1.8% | Small Cap -4.4% | Fixed Income 2.6% | Fixed Income 3.5% | Comdty. -11.2% | Fixed Income 8.7% | Cash 0.5% | Cash 0.0% | EM Equity -17.2% | Fixed Income 4.1% | Asset Alloc. 11.7% |
| Small Cap -1.6% | DM Equity -43.1% | Fixed Income 5.9% | Fixed Income 6.5% | Comdty. -13.3% | Cash 0.1% | EM Equity -2.3% | DM Equity -4.5% | EM Equity -14.6% | DM Equity 1.5% | Comdty. 1.7% | DM Equity -13.4% | Comdty. 7.7% | Comdty. -3.1% | Fixed Income -1.5% | REITs -17.4% | Cash 0.8% | Fixed Income 3.3% |
| REITs -15.7% | EM Equity -53.2% | Cash 0.1% | Cash 0.1% | EM Equity -18.2% | Comdty. -1.1% | Comdty. -9.5% | Comdty. -17.0% | Comdty. -24.7% | Cash 0.3% | Cash 0.8% | EM Equity -14.2% | Cash 2.2% | REITs -5.1% | EM Equity -2.2% | DM Equity -19.2% | Comdty. -2.6% | Cash 0.7% |

Source: Bloomberg, FactSet, MSCI, NAREIT, Russell, Standard & Poor's, J.P. Morgan Asset Management. *Guide to the Markets* – U.S. Data are as of August 31, 2022. Large cap: S&P 500, Small cap: Russell 2000, EM Equity: MSCI EME, DM Equity: MSCI EAFE, Comdty: Bloomberg Commodity Index, High Yield: Bloomberg Global HY Index, Fixed Income: Bloomberg US Aggregate, REITs: NAREIT Equity REIT Index, Cash: Bloomberg 1-3m Treasury. The "Asset Allocation" portfolio assumes the following weights: 25% in the S&P 500, 10% in the Russell 2000, 15% in the MSCI EAFE, 5% in the MSCI EME, 25% in the Bloomberg US Aggregate, 5% in the Bloomberg 1-3m Treasury, 5% in the Bloomberg Global High Yield Index, 5% in the Bloomberg Commodity Index and 5% in the NAREIT Equity REIT Index. Balanced portfolio assumes annual rebalancing. Annualized (Ann.) return and volatility (Vol.) represents period from 12/31/2006 to 12/31/2021. Please see disclosure page at end for index definitions. All data represents total return for stated period. The "Asset Allocation" portfolio is for illustrative purposes only. Past performance is not indicative of future returns.

When Asset Allocation Does Not Work



Unusual Financial Environments – When one asset class outperforms another for several years in a row, investors sometimes may take a dim view of asset allocation. In these circumstances, they might fixate on the outperformers and focus on returns rather than risk. Asset allocation depends on the asset classes' valuations and annual returns reverting back to normal at some point.

Unstable Relationships – returns, risk (standard deviation) and correlations of assets change from the norm during certain periods. In these types of periods, expected returns stray substantially from normal.

Rising Correlations – When most assets start to move more together than they normally do. This tends to happen more frequently during times of crisis.

Unstable Ingredient / Result Profile – If small variations in the mix produce wide swings in the portfolio's expected outcomes. This can be checked and controlled via asset-allocation optimization programs.

Inappropriate Rebalancing Activity – Do not rebalance too frequently or infrequently. Also, when rebalancing, continue to manage risk, rather than predict returns.

Investor Error – Strong feelings, leading to predictions, leading to significant straying from the plan.



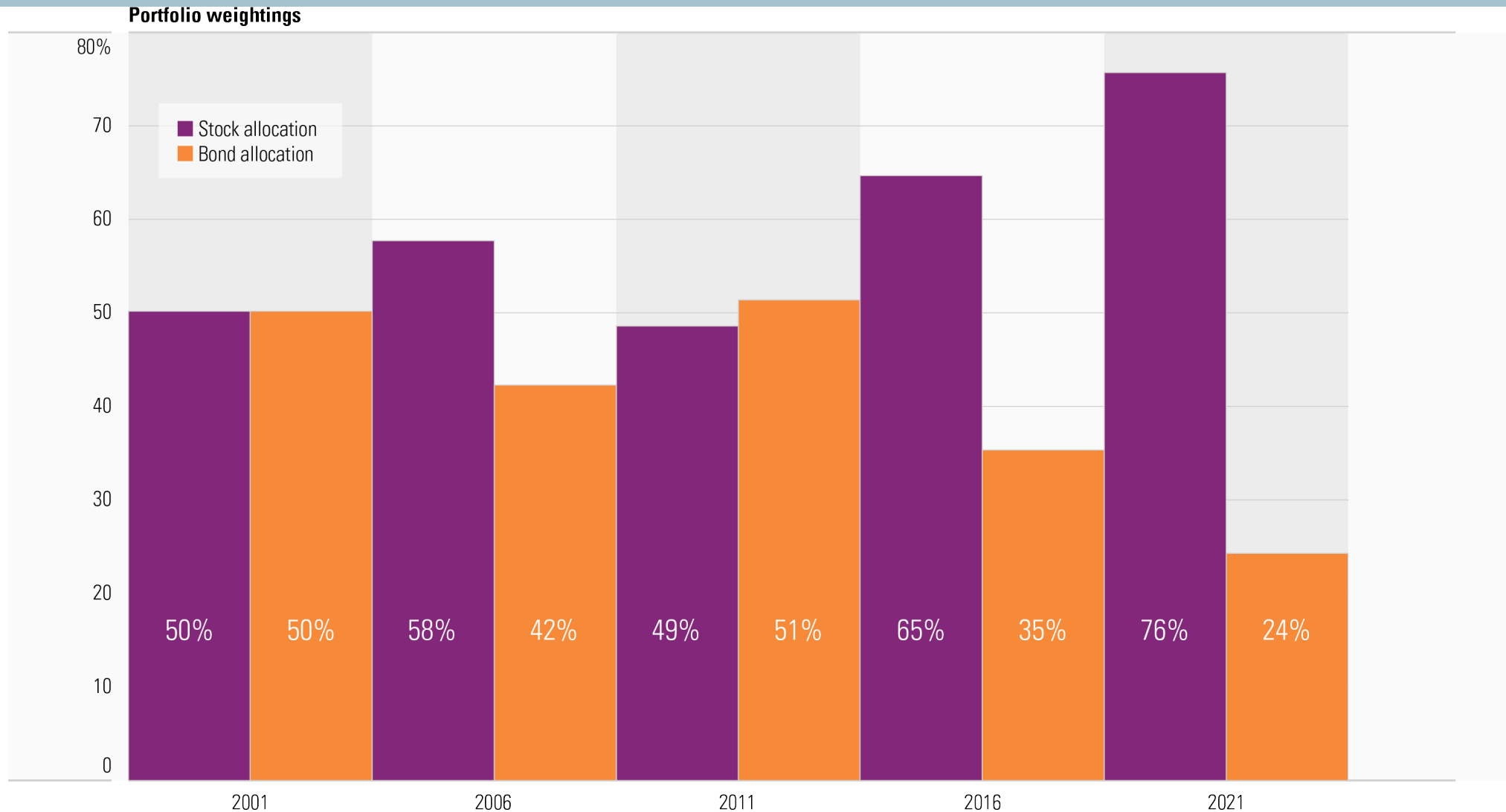
Summary and Conclusion: Our Process

The AIRE 7-Step Process



- (1) About AIRE Advisors: why AIRE, our process and philosophy, continuous education
- (2) Comprehensive discovery: your goals and financials
- (3) Financial plan presentation: current and suggested allocation, progress toward goals, more
- (4) Plan implementation: fully customized to each client – no generic models
- (5) Ongoing support: monthly updates, regular portfolio reviews, tax loss harvesting
- (6) Research: annual comprehensive project on asset classes and choices for those asset classes / research on alternative investments throughout the year – manager meetings, conferences and continual education / construction of structured notes, if appropriate / daily research and scanning of bond markets.
- (7) Annual Review: completely updated financial plan and asset allocation plan, rebalancing of portfolio, review of progress toward goals, mortgage and liability review, insurance review, business review and exit planning, education planning, estate & generational plan review.

Importance of Rebalancing 2001-2021



Past performance is no guarantee of future results. Stocks: 50% large and 50% small stocks. Bonds: intermediate-term government bonds. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. © Morningstar 2022 and Precision Information, dba Financial Fitness Group 2022. All Rights Reserved.



- Fee-only advisory – no compensation or commission incentives for any investment recommendation
- Advice on all investments, not just stocks and bonds
- Comprehensive goals-based financial plan with a complete annual update.
- A realistic assessment of the achievability of client goals, helping clients understand what they can comfortably spend.
- Holistic advice on all facets of our clients' financial lives, including:
 - Tax-managed investing
 - Estate planning and wealth transfer
 - Social Security optimization techniques
 - Mortgages and liabilities
 - Insurance planning
 - Business succession planning
 - More
- Intensive research into asset allocation choices, customized to each client.
- Extensive meetings with ETF companies, mutual fund managers, alternative investment managers, economists and other subject matter experts in a constant search for optimal solutions for our asset allocation models.
- Client education about opportunities, risks and mechanics of various products and investments.
- Behavioral finance – helping clients control their emotions and avoid common mistakes.
- Risk assessment and management: ensuring clients understand the risks associated with their investments.

Summary: Important Notes, Lessons and Perspectives



- Public markets are efficient.
- The most important decision is to determine what the broad mix of your assets should be. The next most important decision is to determine the investment mix of sub-asset classes within the broad asset classes. These should be chosen with regards to the correlations of these asset classes. The final decision is which particular investments to buy for each sub-asset class. While still important, the impact of the choices here pale in comparison to the impact of the first two decisions.
- These decisions have to be made differently for each individual, but all *investors* should have a certain percentage of their money in stocks, bonds, cash and other / real investments. That means that even conservative investors should have some stocks, and even aggressive investors should have some bonds.
- Do not allow the news and the ups and downs of the market to deter you from the unemotional asset allocation model you have in place. Remember the slide on individual investors' returns.
- Do not try to predict the direction of the market or pick stocks based solely on predictions. These activities are not worth the risk-return trade-off, and timing the market has proven to be counter-productive. Do not ask “what should I be doing now?” or “what do you think the market will do next?” or “what stock should I buy?” The answer is to build a broad, diversified portfolio based upon an asset allocation strategy that takes your risk tolerance and investment goals into account. This strategy should bear in mind the correlation of the different components in the portfolio, and the investor should focus more on how the assets work together than on the performance of each component.
- The portfolio should be rebalanced periodically (taking tax ramifications into account) in order to prevent the asset allocation model from falling out of balance. Furthermore, the asset allocation model itself must be reviewed periodically to ensure that it is still appropriate to the investor's goals and needs. Finally, tax losses should be harvested when possible.
- While stocks and real estate have historically provided strong returns over almost all 10-year periods, there is no assurance that this will always be the case. However, betting *against* these asset classes in the long-run is generally not a good idea. But betting everything on them is not, either. It is important to diversify in case of seismic shifts in markets and to reduce volatility under normal circumstances.



- Knowledge of each component and the reason for each investment
- Invest based upon timeframe and risk
- More tax efficient
- Lower costs
- Avoid rash decisions
- Decisions are more clear
- Higher probability of better returns with lower risk
- Focus on the plan rather than on market returns or on returns of each component

Investment Wisdom – Notable Quotes



- “The intelligent investor is likely to need considerable willpower to keep from following the crowd.” – Benjamin Graham, the father of value investing
- “History provides a crucial insight regarding market crises: They are inevitable, painful and ultimately surmountable.” – Shelby Davis, Founder, Davis Advisors
- “Far more money has been lost by investors preparing for corrections or trying to anticipate corrections than has been lost in the corrections themselves.” – Peter Lynch, the most successful fund manager in history, noting that market corrections often cause investors to abandon their investment plan, moving out of stocks with the intention of moving back in when things seem better – often to disastrous results.
- “Be fearful when others are greedy and be greedy when others are fearful.” – Warren Buffett
- “The function of economic forecasting is to make astrology look good.” John K. Galbraith, Economist
- “To buy when others are despondently selling and to sell when others are avidly buying requires the greatest fortitude and pays the ultimate rewards.” – Sir John Templeton, 1958
- “Investors should take a cue from the disciplined manner in which [Swenson] manages Yale’s portfolio. He won’t chase after hot returns and doesn’t fret if every piece of Yale’s portfolio isn’t firing on all cylinders at the same time (the fact that they don’t is by design). The endowment’s asset mix actually changes very little from year to year because Swenson and his staff create a well-thought-out-plan and stick with it. We think that’s a recipe for long-term success well worth emulating.” - Morningstar.com “Should your portfolio look like Yale’s?” October 23, 2007
- “Buying yesterday’s winners and selling yesterday’s losers inevitably hurts tomorrow’s performance” – David Swensen, Author, “Unconventional Success” & Chief Investment Officer, Yale Endowment



- ◆ Roger C. Gibson, "Asset Allocation: Balancing Financial Risk"
- ◆ Burton G. Malkiel, "A Random Walk Down Wall Street"
- ◆ Nassim N. Taleb, "The Black Swan: The Impact of the Highly Improbable"
- ◆ David M. Darst, "The Art of Asset Allocation"
- ◆ William Bernstein, "The Intelligent Asset Allocator"
- ◆ Published by Morningstar, "Ibbotson SBBI Classic Yearbook"
- ◆ Dalbar, Inc. "Quantitative Analysis of Investor Behavior"
- ◆ Financial Fitness Group – Morningstar slides <https://financialfitnessgroup.com/>
- ◆ Benjamin Graham and David Dodd, "Security Analysis"
- ◆ Sir John Templeton, "Throughout the Years"



Questions?

AIRE Advisors

9350 Wilshire Boulevard, Suite 200

Beverly Hills, CA 90212

888-688-AIRE

info@aireadvisors.com

www.aireadvisors.com