Why Investors Should Be Thankful

BE GRATEFUL FOR SCARY HEADLINES, SLOW GROWTH, AND THE VALUE OF ADVICE

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- **The best investment returns can come when things are scary, in our view.**
- **We believe a slow economic recovery can create a longer, more sustainable stock market rally.**
- **Like Black Friday deals, stocks occasionally go on sale.**

Thanksgiving is a time to appreciate and reflect on the many things that bring us joy and happiness. However, it's easy to get caught up in the business of life and forget to be thankful, especially when the world throws you a curveball. Regardless of the sometimes-difficult circumstances that life brings, the beauty of this holiday is being able to refocus on the silver lining and to realize that we have many blessings in our lives.

Similarly, we know that investors have faced some tough obstacles throughout the year. In many instances, the global economic and political environments have seemed so dire that it's been hard to stay invested. This week, we'd like to highlight some of the reasons we believe investors should be thankful. Furthermore, we also think these are factors that could continue to propel the US economy going forward and help to avoid a recession in 2020.

We are thankful for scary headlines. We believe news headlines should come with a warning label (see our Weekly View from 9/30/19). Headlines can encourage an investor's worst behaviors, causing them to lose sight of the big picture. However, we believe that there is a silver lining to the non-stop pessimism that is broadcast across our televisions and smart phones: the more people are convinced the world is falling apart, the more potential opportunities there can be for investors.

For example, if someone had told you in December 2018 (a very scary month) that by November 2019, the president would be facing impeachment, Brexit would still be unresolved, and that a US-China trade deal wouldn't be finalized, you probably wouldn't have guessed that stocks would be up more than 20% in 2019 (as measured by the S&P 500)!

The best investment returns can come when things are scary, in our view. Oftentimes, you can only buy something for a cheap price when there is something to be afraid of. By the time there is nothing left to be worried about, it will probably no longer be cheap. For these reasons, we should take a moment to appreciate negative headlines and non-stop news coverage, because they can create opportunities for those with patience and those who are able to successfully tune them out.

We are thankful for slow GDP growth. Down south, we love our barbeque; and the secret recipe can be summed up in three words: low and slow. This recipe can also produce extended bull markets, as evidenced by the ongoing expansion here in the US. As we highlighted back in September, there are multiple things to appreciate about a slow economic recovery (see our Strategic View from 9/3/19). For example, "low and slow" tends to keep inflation subdued and, more importantly, can stoke enough skepticism to keep market bubbles contained. Bubbles are typically created when investors are overly optimistic about growth prospects and consequently ignore the potential risks. However, with slow economic growth, investors rarely become too optimistic. For these reasons, we believe a slow economic recovery can create a longer, more sustainable stock market rally.

We are thankful for low interest rates. Interest rates in the US are meaningfully lower than we've experienced throughout history. While low rates can be frustrating for investors who are trying to generate income, there are many reasons to be grateful for low interest rates. For example, the accommodative policies of the Federal Reserve have allowed greater access to capital for both businesses and consumers. Just like many Americans have been able to refinance their mortgage and lower their monthly debt obligations, corporations have also been able to take advantage of lower interest rates and reinvest those proceeds back into their businesses. We believe that if the Federal Reserve remains supportive, the economy will continue to expand.

We are thankful for stock market "corrections." After we're done eating turkey and watching football, some of us (not me!) will brave the crowds and go in search of some Black Friday deals. It's easy to see why so many people shop on the day after Thanksgiving: buying something on sale is better than paying full price. However, many investors forget that stocks occasionally go on sale too!

Unfortunately, when stocks go on sale, we have observed that many investors do the opposite of the average holiday shopper. As Warren Buffet said, *"I'm going to buy hamburgers the rest of my life. When hamburgers go down in price, we sing the 'Hallelujah Chorus' in the Buffett household. When hamburgers go up in price, we weep. For most people, it's the same with everything in life they will be buying — except stocks."*

We can appreciate stock market pullbacks because they allow investors to buy something on sale. We experienced a major sale at the end of 2018. Those that bought when many were selling got their own "doorbuster" deals.

We are thankful for ETFs. We believe exchange traded funds (ETFs) serve an extremely important purpose for managing portfolios. In our view, ETFs offer several advantages for investing today that weren't widely available 20 years ago. For example, ETFs offer diversified access to various asset classes, such as high-yield bonds, master limited partnerships (MLPS)[1], and emerging market equities. Many of these investments wouldnt have been available to the average retail investor previously, but the ETF market has democratized these portfolio exposures.

We also believe the diversification benefits offered through ETFs can help protect wealth. For example, many investors get emotionally attached to individual stocks. There is an entire field of study called "behavioral economics" that highlights the irrational decision-making of investors, which is magnified when strong emotional attachments are involved. We're thankful for ETFs because they allow investors to obtain diversified exposure to a theme or idea, while mitigating the risks of owning a concentrated position in one company, which could potentially result in a much more volatile investment experience. *Diversification does not ensure a profit or protect against a loss.*

We are thankful for Financial Advisors. Many of us take our blessings for granted. In fact, it takes a holiday like Thanksgiving to pause and remember all the things we are grateful for. Similarly, it is easy for the average investor to get caught up in daily headlines and forget the long-term purpose of their investments.

This is why we believe working with a Financial Advisor is so important. A trusted Advisor will be able to monitor a client's path toward their investment goals and provide that valuable guidance when their client needs it most. We believe the human element is crucial to a successful investment experience. In our view, the value of a great Financial Advisor cannot be replaced by technology or a money manager. At RiverFront, we focus all of our time and talent on monitoring financial conditions around the globe and finding investment opportunities. We rely on Financial Advisors to understand each of our client's specific retirement goals, their family situations, and their tax requirements. We will continue to do our job building investment portfolios, and we will be thankful for all that Financial Advisors do to help their clients achieve their goals.

We hope everyone has a great Thanksgiving! We are thankful for all our readers and especially our partner advisors and their clients. Thanks for your trust.

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[1] *Master Limited Partnership (MLP) investing includes risks such as equity- and commodity-like volatility. Also, distribution payouts sometimes include the return of principal and, in these instances, references to these payouts as "dividends" or "yields" may be inaccurate and may overstate the profitability/success of the MLP. Additionally, there are potentially complex and adverse tax consequences associated with investing in MLPs. This is largely dependent on how the MLPs are structured and the vehicle used to invest in the MLPs. It is strongly recommended that an investor consider and understand these characteristics of MLPs and consult with a financial and tax professional prior to investment.*

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Information or data shown or used in this material is for illustrative purposes only and was received from sources believed to be reliable, but accuracy is not guaranteed.

In a rising interest rate environment, the value of fixed-income securities generally declines.

Technical analysis is based on the study of historical price movements and past trend patterns. There are no assurances that movements or trends can or will be duplicated in the future.

Exchange-traded funds (ETFs) are sold by prospectus. Please consider the investment objectives, risk, charges and expenses carefully before investing. The prospectus and summary prospectus, which contains this and other information, can be obtained by calling your financial advisor. Read it carefully before you invest. As a portfolio manager and a fiduciary for our clients, RiverFront will consider the investment objectives, risks, charges and expenses of a fund carefully before investing our clients' assets.

ETFs are subject to substantially the same risks as those associated with the direct ownership of the underlying securities owned by the ETF. Additionally, the value of the investment will fluctuate in response to the performance of the underlying index or securities. ETFs typically charge and/or incur fees in addition to those fees charged by RiverFront. Therefore, investments in ETFs will result in the layering of expenses.

Investing in foreign companies poses additional risks since political and economic events unique to a country or region may affect those markets and their issuers. In addition to such general international risks, the portfolio may also be exposed to currency fluctuation risks and emerging markets risks as described further below.

Changes in the value of foreign currencies compared to the U.S. dollar may affect (positively or negatively) the value of the portfolio's investments. Such currency movements may occur separately from, and/or in response to, events that do not otherwise affect the value of the security in the issuer's home country. Also, the value of the portfolio may be influenced by currency exchange control regulations. The currencies of emerging market countries may experience significant declines against the U.S. dollar, and devaluation may occur subsequent to investments in these currencies by the portfolio.

Foreign investments, especially investments in emerging markets, can be riskier and more volatile than investments in the U.S. and are considered speculative and subject to heightened risks in addition to the general risks of investing in non-U.S. securities. Also, inflation and rapid fluctuations in inflation rates have had, and may continue to have, negative effects on the economies and securities markets of certain emerging market countries.

Stocks represent partial ownership of a corporation. If the corporation does well, its value increases, and investors share in the appreciation. However, if it goes bankrupt, or performs poorly, investors can lose their entire initial investment (i.e., the stock price can go to zero). Bonds represent a loan made by an investor to a corporation or government. As such, the investor gets a guaranteed interest rate for a specific period of time and expects to get their original investment back at the end of that time period, along with the interest earned. Investment risk is repayment of the principal (amount invested). In the event of a bankruptcy or other corporate disruption, bonds are senior to stocks. Investors should be aware of these differences prior to investing.

Standard & Poor's (S&P) 500 Index measures the performance of 500 large cap stocks, which together represent about 80% of the total US equities market. It is not possible to invest directly in an index.

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