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SUMMARY

- Investing is emotional, in our view.
- Greed and especially fear can cause us to make poor long-term decisions, in our opinion.
- We offer some strategies to help overcome our emotions.

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How We Behave

The Value of 'Emotional Alpha'

A study by Amos Tversky and Daniel Kahneman in 1992, showed that for most people the distress of loss is twice as powerful as the pleasure from an equivalent gain. Warren Buffett talks about buying from the fearful and selling to the greedy.

Largely due to COVID-19, in the last three years investors have experienced more than usual volatility and thus the full range of emotions. The pandemic was scary in so many ways, and yet investors experienced a remarkable recovery in the second half of 2020. Investors who sold based on fear might easily have missed the recovery as the COVID-19 headlines were still negative.

2021 was a banner year for stocks and there was likely some euphoria at the end of 2021, especially for those invested in stocks that benefitted from the pandemic, (mostly but not exclusively, Technology stocks). In hindsight, it was important not to allocate more to stocks at the end of 2021 as both stock and bond prices tumbled in 2022 as the Fed raised interest rates dramatically. This likely caused a return to worry and fear, and yet 2023 has seen a strong recovery. The probability of making a costly mistake by reacting emotionally and changing the structure of portfolios since 2020 has been unusually high.

As an investment manager who works with advisors, we believe that helping clients manage their emotions and complete their investment journey is one of the most important services we can collectively provide.

Emotional Alpha

In investing jargon, alpha (the first letter of the Greek alphabet) is used to describe how much a portfolio exceeds its benchmark. We think there is more to a portfolio manager's role in a client's investing journey than this. **Emotional alpha is a term we have coined for the value of helping a client navigate market swings without making decisions purely on emotion.** We submit that changes in asset allocation have the biggest impact on long-term returns. For example, consider an investor who is 100% invested in stocks and then sells 20% of their portfolio during a bear market when the news is usually at its most dire. Let's say the market falls another 10% after the sale but ends up 10% higher than its previous peak over the next year. If that investor still has 20% cash, their return will be 20% lower than it would have been if they had done nothing.

Considering this example in hindsight is different from living it. To us, emotional alpha is helping investors make good decisions in times of both fear and euphoria. We believe that when RiverFront makes tactical adjustments in our balanced portfolios (such as raising cash temporarily), it can potentially offset the emotional urge for the investor to take action themselves. Our job is to seek to reinvest that cash so it can participate in the market's recovery.

Ways to Combat Fear

- Don't make decisions in isolation, seek out a financial 'emotion counselor'. There is a reason that most pension funds and endowments create clear asset allocation targets and have a board of trustees. A trusted financial advisor can play that role for individuals.

- Know yourself. Risk tolerance is personal, and so a portfolio tailored to your personality may be very important in offsetting the risk of failing to achieve your investment goals. Learning your emotional tolerance for 'statement risk' or unrealized losses is hard to do theoretically and so starting to invest small amounts at a young age can help you to become more comfortable with volatility. Also recognize that your risk tolerance may change as you get older, especially at the point of retirement when you move from accumulating wealth to distributing it.

- Clear communication. At RiverFront we believe passionately in open communication to build trust. We communicate our views of market moving events and how we are responding to them consistently through written publications, videos, and conference calls.

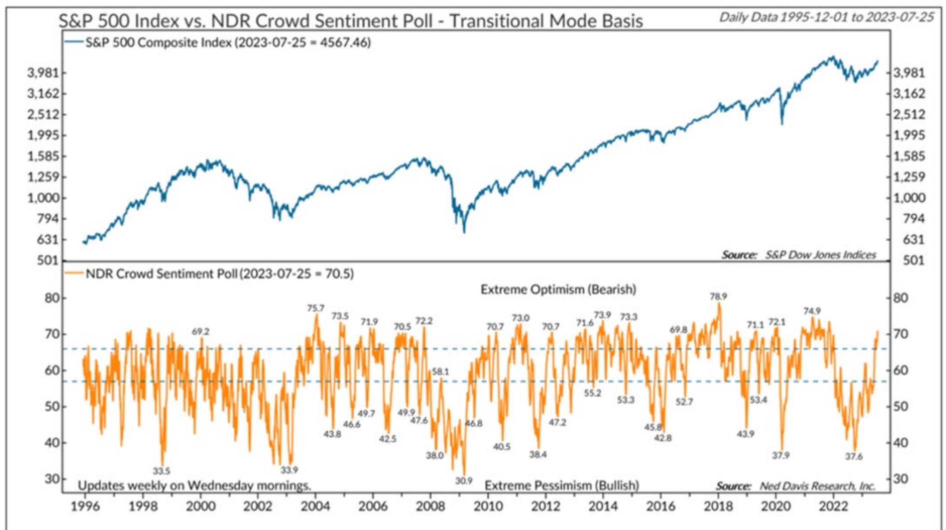
- Trusting a process. Our mantra is 'process over prediction'. If you believe in a process, we believe you are much less susceptible to making an emotional decision to deviate from that process.

Measuring Fear

Extreme fear or pessimism is often but not always associated with market lows. One of our Three Tactical Rules is 'Beware the Crowd at Extremes' and one of our favorite gauges of investor sentiment is the Ned Davis Crowd Sentiment Poll (see chart below).

Ned Davis Research has combined a group of indicators reflecting investor sentiment which highlight what an emotional journey investing can be. The small table below the chart shows that better returns are generally achieved during periods of investor pessimism than investor optimism. The chart itself shows that market bottoms often coincide with extreme fear, as measured by low readings on this indicator (see 2003, 2009, and 2020). This is another reason why we believe managing emotions can be so valuable, especially in times of distress.

In seeking to make tactical judgments we don't look at investor sentiment in isolation but combine measures of sentiment with central bank policy ('Don't Fight the Fed') and the slope of the 200-day moving average ('Don't Fight the Trend'). At the time of writing (July 2023) the trend is positive and there is little fear.



S&P 500 Index Performance Full History: 1995-12-01 to 2023-07-25		
NDR Crowd Sentiment Poll is	% Gain/ Annum	% of Time
Above 66.0	-0.20	27.09
57.0 to 66.0 From Above	2.54	17.27
57.0 to 66.0 From Below	20.00	18.44
Below 57.0	10.29	36.80
Buy/Hold = 7.57% Gain/Annum		

In summary: Emotion is a constant presence for investors. History tells us that acting on both fear and greed can lead to poor decision making and so we believe a strategy for emotion management is very valuable.

Important Disclosure Information:

The comments above refer generally to financial markets and not RiverFront portfolios or any related performance. Opinions expressed are current as of the date shown and are subject to change. Past performance is not indicative of future results and diversification does not ensure a profit or protect against loss. All investments carry some level of risk, including loss of principal. An investment cannot be made directly in an index.

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

This report does not provide recipients with information or advice that is sufficient on which to base an investment decision. This report does not take into account the specific investment objectives, financial situation or need of any particular client and may not be suitable for all types of investors. Recipients should consider the contents of this report as a single factor in making an investment decision. Additional fundamental and other analyses would be required to make an investment decision about any individual security identified in this report.

Chartered Financial Analyst is a professional designation given by the CFA Institute (formerly AIMR) that measures the competence and integrity of financial analysts. Candidates are required to pass three levels of exams covering areas such as accounting, economics, ethics, money management and security analysis. Four years of investment/financial career experience are required before one can become a CFA charterholder. Enrollees in the program must hold a bachelor's degree.

All charts shown for illustrative purposes only. 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.

Ned Davis Research (NDR) is a global provider of independent investment research, solutions and tools. Founded in 1980, NDR helps clients around the world make objective investment decisions.

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.

In general, the bond market is volatile, and fixed income securities carry interest rate risk. (As interest rates rise, bond prices usually fall, and vice versa). This effect is usually more pronounced for longer-term securities). Fixed income securities also carry inflation risk, liquidity risk, call risk and credit and default risks for both issuers and counterparties. Lower-quality fixed income securities involve greater risk of default or price changes due to potential changes in the credit quality of the issuer. Foreign investments involve greater risks than U.S. investments, and can decline significantly in response to adverse issuer, political, regulatory, market, and economic risks. Any fixed-income security sold or redeemed prior to maturity may be subject to loss.

Index Definitions:
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.

Definitions:

Alpha refers to the performance differential between a specific investment and its benchmark.

The 200-day moving average is a popular technical indicator which investors use to analyze price trends. It is simply a security's average closing price over the last 200 days.

Interest rate sensitivity is a measure of how much the price of a fixed-income asset will fluctuate as a result of changes in the interest rate environment. Securities that are more sensitive have greater price fluctuations than those with less sensitivity. This type of sensitivity must be taken into account when selecting a bond or other fixed-income instrument the investor may sell in the secondary market. Interest rate sensitivity affects buying as well as selling.

Don't Fight the Fed – 'Supportive' means the Fed's monetary policy regarding inflation and employment is in what we believe based on our analysis to be the investors' best interest; 'Against' means the Fed's monetary policy, in our view, is going against the investors' best interest; 'Neutral' means the Fed's monetary policy is neither supportive or against the investors' best interest in our view. Don't Fight the Trend – Terms correlate to the 200-day moving average as it relates to the equity indexes: 'Positive' means that the trend is rising, 'Flat' means the trend is flat, 'Negative' means the trend is falling. Beware the Crowd at Extremes – Terms correlate to the NDR Crowd Sentiment Poll and its measurement of Extreme Optimism (Bearish), Neutral, or Extreme Pessimism (Bullish).

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