TRIAD
INVESTMENT MANAGEMENT
Research · Behavior · Ethics

"It's Your Money"

Equity & Fixed Income Investing

Dave Hutchison, CFA
October 2022

1301 Dove Street, Suite 1080
Newport Beach, CA 92660
(949) 679-3991
www.triadim.com

WHAT WE'LL COVER TODAY

- The basics of cash, fixed income (bonds) & equities (stocks)
- 3 things to think about with bonds
- 3 things to think about with stocks
- What it all means for you

The Basics of Cash, Bonds & Stocks

CASH

- Liquid, safe investments that (currently) pay minimal interest

- A few examples:
  - Checking/savings account at bank
  - Money market fund in a brokerage account
  - Short-term CDs
  - U.S. T-Bills (short-term maturities)

"You have to be what you are. Whatever you are, you gotta be it."

-Johnny Cash

Benefits and Risks of Cash

Benefits:

- Safety – no fluctuations in principal, can have FDIC protection
- Availability – liquid, ready when you want to use it
- Optionality – can keep you from selling bonds and stocks at bad time. Money that can be put to work at good time.

Risks:

- Much lower expected return than bonds and stocks
- Cash will lose its purchasing power to inflation over time

"Today people who hold cash equivalents feel comfortable. They shouldn't. They have opted for a terrible long-term asset, one that pays virtually nothing and is certain to depreciate in value."

- Warren Buffett

Fixed Income (Bonds)

- A loan you make to the bond's issuer.
- You're lending money for a set period of time
- Expect to be paid interest during that time and receive your principal back at the end

Fixed Income (Bonds)

- A few examples:
  - U.S. Treasuries (bonds and notes)
  - Corporate bonds
  - Bond mutual funds
  - Bond closed end funds (baskets of bonds that are publicly traded)

"You seem to have this nasty habit of surviving..."

"…you know what they say about the fittest."

-James Bond

TRIAD
INVESTMENT MANAGEMENT

Benefits and Risks of Bonds

Benefits:

- Steady, periodic payments
- Priority over equity (you almost always will get paid even if business performance isn't good)
- Higher yield than cash
- Usually, a smoother experience than owning equities

Risks:

- Risk of loss of principal (credit risk)
- Risk that the bond loses value (interest rate risk)
- Minimal protection against inflation
- Lower expected return than stocks
- Individual bonds are difficult to trade

Equities (Stocks)

- Ownership stake in a business.

- Your results (stock price, dividend payments if applicable) will track the results of the business* over long periods of time

  *Results of the business = revenue, profits, cash flows

- Sample Categories & Types:
  - Large-Cap U.S. mutual funds
  - Small-Cap U.S. stocks
  - International ETFs (exchange traded funds)
  - Emerging Markets mutual funds

Equities (Stocks)

- 2 Styles – Growth & Value

- Growth
  - Buying a company performing well today with good business growth prospects
  - Not focusing on what you are paying for what you're getting
  - Example: Google, Microsoft (find better performers today)

- Value:
  - Seeking to buy undervalued companies
  - Comparing market price to estimate of business value
  - Example: CableOne, LabCorp

Equities (Stocks)

- Hard to find a quotable Stock

Stock (surname)

From Wikipedia, the free encyclopedia

Stock or **Stöck** is a surname of German origin. Notable people with the surname include:

- Albert Stock (1897–1969), Welsh international rugby player
- Alec Stock (1917–2001), English football manager
- Alejandro Stock (born 1965), Uruguayan artist
- Alfred Stock (1876–1946), German inorganic chemist
- Andrew Stock (born 1960), British artist
- Ann Stock, American government official
- Barbara Stock (born 1956), American actress

Benefits and Risks of Stocks

Benefits:

- Expected performance is higher than cash and bonds
- Inflation protection
- Tax efficiency

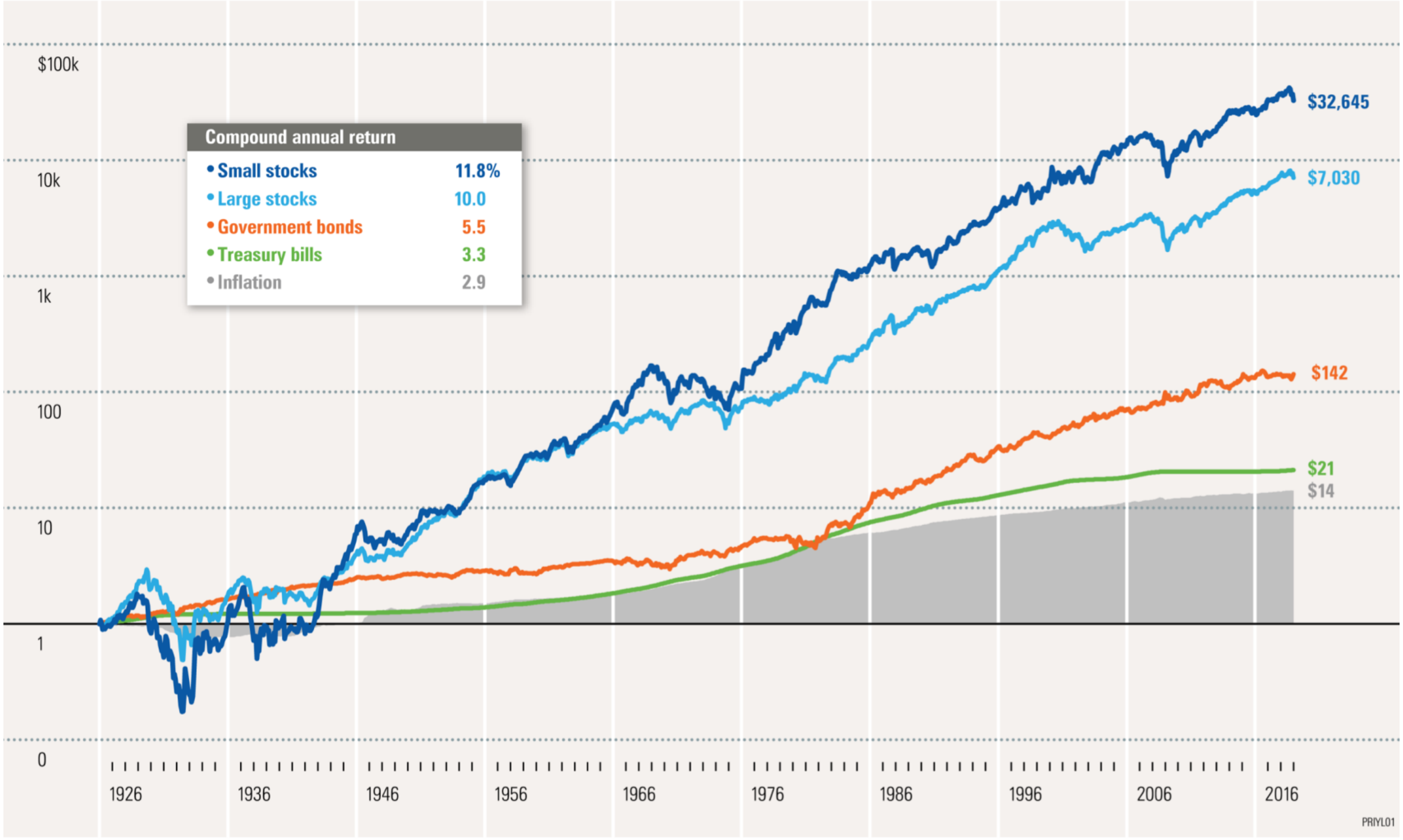
Risks:

- Dependent upon the results of the business
- More volatile – can lead you to sell or buy at bad time
  - Having the temperament to own or an advisor to help you is important

Comparing Cash, Bonds & Stocks

Ibbotson® SBBI®

Stocks, bonds, bills, and inflation 1926–2018



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.

BONDS:
3 THINGS TO THINK ABOUT

1. Interest rates and bond prices – opposites

TRIAD INVESTMENT MANAGEMENT

2. They Fluctuate in Value

- The market value of a bond changes
  - Interest rates
  - Remaining time until maturity
  - Quality (will they pay back the loan)

- As bond approaches its maturity date, it tends to return to par (starting price) **as long as** market expects it to be paid back in full

3. Historically bonds have generated lower return than stocks

- Historically 5-6% for government bonds
- Half the return of stocks
- There is no appreciation potential for a bond that is paid back at its issuance price at the end of its term

STOCKS:
<u>3 THINGS</u> TO THINK ABOUT

1. Volatile in short-medium term

- Many things move around stock prices in the short to medium term:
  - Geopolitical news
  - Actions of other investors
  - Company results, results of other companies
  - [fill in your reason here]

- In the long-run, it is my belief that stock price movements primarily come from the company's business results

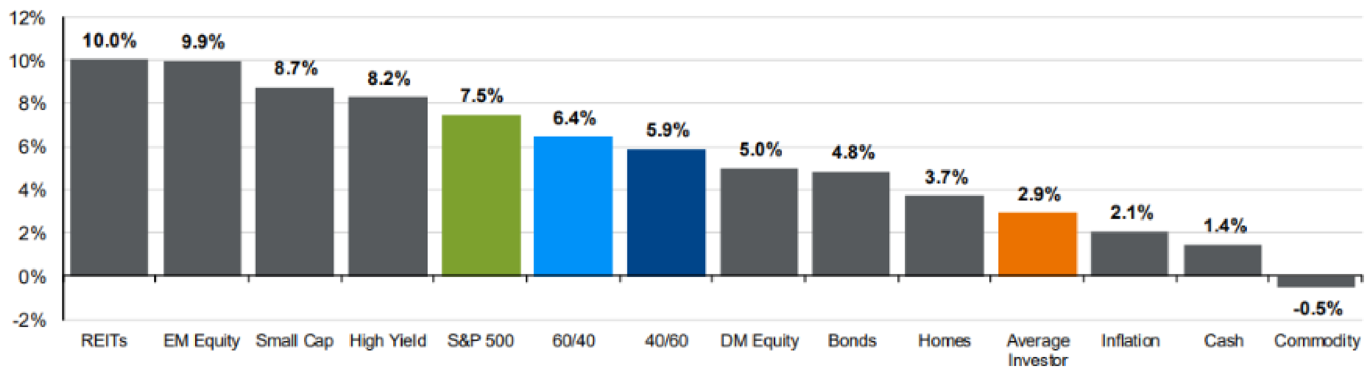
- The biggest impediment to realizing long-term results is investor misbehavior

TRIAD INVESTMENT MANAGEMENT

2. Don't try & time the stock market

- No one can do it consistently

20-year annualized returns by asset class (2001 – 2020)



Source: Bloomberg, FactSet, Standard & Poor's, J.P. Morgan Asset Management; (Bottom) Dalbar Inc, MSCI, NAREIT, Russell.
Indices used are as follows: REITs: NAREIT Equity REIT Index, Small Cap: Russell 2000, EM Equity: MSCI EM, DM Equity: MSCI EAFE, Commodity: Bloomberg Commodity Index, High Yield: Bloomberg Global HY Index, Bonds: Bloomberg U.S. Aggregate Index, Homes: median sale price of existing single-family homes, Cash: Bloomberg 1-3m Treasury, Inflation: CPI. 60/40: A balanced portfolio with 60% invested in S&P 500 Index and 40% invested in high-quality U.S. fixed income, represented by the Bloomberg U.S. Aggregate Index. The portfolio is rebalanced annually. Average asset allocation investor return is based on an analysis by Dalbar Inc., which utilizes the net of aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior.
Guide to the Markets – U.S. Data are as of March 31, 2022.

J.P.Morgan ASSET MANAGEMENT

"More money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in corrections themselves."

- Peter Lynch

3. Stocks can provide inflation protection

- Attractive Growth Prospects
  - Historically higher growth rate than inflation
  - Large stocks 10% vs. 2.9% for inflation (earlier chart)

- Pricing Power
  - Can the company pass through higher costs?
  - Customer that accepts the new, higher price

What it all means for you

What it all means for you

- Think long-term and don't try to market time
- Equities can provide some inflation protection
- Maintain an appropriate cash reserve but don't keep a large proportion of your assets in cash

THANK YOU!