

“It’s Your Money”

Equity and Fixed Income Investing

May 2024



Mark Wilson, APA, CFP®

MILE Wealth Management LLC

www.milewealth.com

949-441-4410 mark@milewealth.com

What Are We Covering Today?

- Basics of cash, fixed income (bonds), and equities (stocks)
- Investment considerations for each of these asset types
- Putting them together (asset allocation) thoughts

(Wish us luck!)



Cash, Bond, Stock Basics

These asset types are very different

What is “cash”?

- It's basically money
- Safe, often protected, investments that may pay some interest
- Typically, available (liquid) to be used at any time

Cash Examples

- Checking account
- Savings account
- Money market account
- Short-term CDs (Certificates of Deposit)
- US T-Bills (mature in one year or less)

Benefits of Cash

- Safety
 - Stable \$1.00 price
 - Often have FDIC protection (up to limits)
- Availability (“liquidity”)
 - Can access when needed without worry about losing principal
- Higher yield than keeping under your mattress
 - Averaging inflation rate (over long periods)
 - Long-term returns have averaged 3% to 4%

What is “fixed income” (bonds)?

- It's a LOAN
- You're giving money to someone for some period of time hoping to be paid back and receive more than you started
- Most commonly you are loaning money and receiving interest until your principal is returned

Fixed Income Examples

- Longer term CDs
- US Treasuries (bonds and notes)
- Municipal (“muni”) bonds
- Corporate bonds
- Mortgage-backed bonds
- International bonds

Benefits of Fixed Income

- Dependable income
 - Periodic payments
 - Most are semi-annual
 - Can be monthly, annually, none (“zero coupon”)
 - Higher yield than cash and inflation
 - Averaging 1.5% to 2% above inflation rate
 - Long-term returns have averaged 4.5% to 5%
- Complement to other investments
 - Provides downside protection
 - *Typically* acts counter-cyclically to stocks

What are “equities” (stocks)?

- Stocks are not horses, roulette numbers, or EKG charts
- Equities represent a partial ownership in a business
 - Publicly traded equities are available for purchase on various stock exchanges (around 4,000 businesses are “public,” over 20 million are privately owned)
- Shareholders share in the profits of these businesses – often through current or future dividends

Equity Types

- Large-cap US stocks (\$10 billion +)
 - Examples: *Tesla, J&J, Amazon*
- Small-cap US stocks (under \$2 billion)
 - Examples: *Avis, Tenet Healthcare, Macy's*
- Developed international stocks
 - Country examples: *Japan, UK, Switzerland*
- Emerging market stocks
 - Country examples: *China, India, South Korea*

Equity Styles

- Growth stocks (in-favor companies expected to grow faster than the stock markets)
 - Examples: *Apple, Microsoft, Amazon, Tesla, Google*
- Value stocks (out-of-favor companies with attractive pricing)
 - Examples: *JP Morgan Chase, Berkshire Hathaway, J&J, Exxon Mobil*

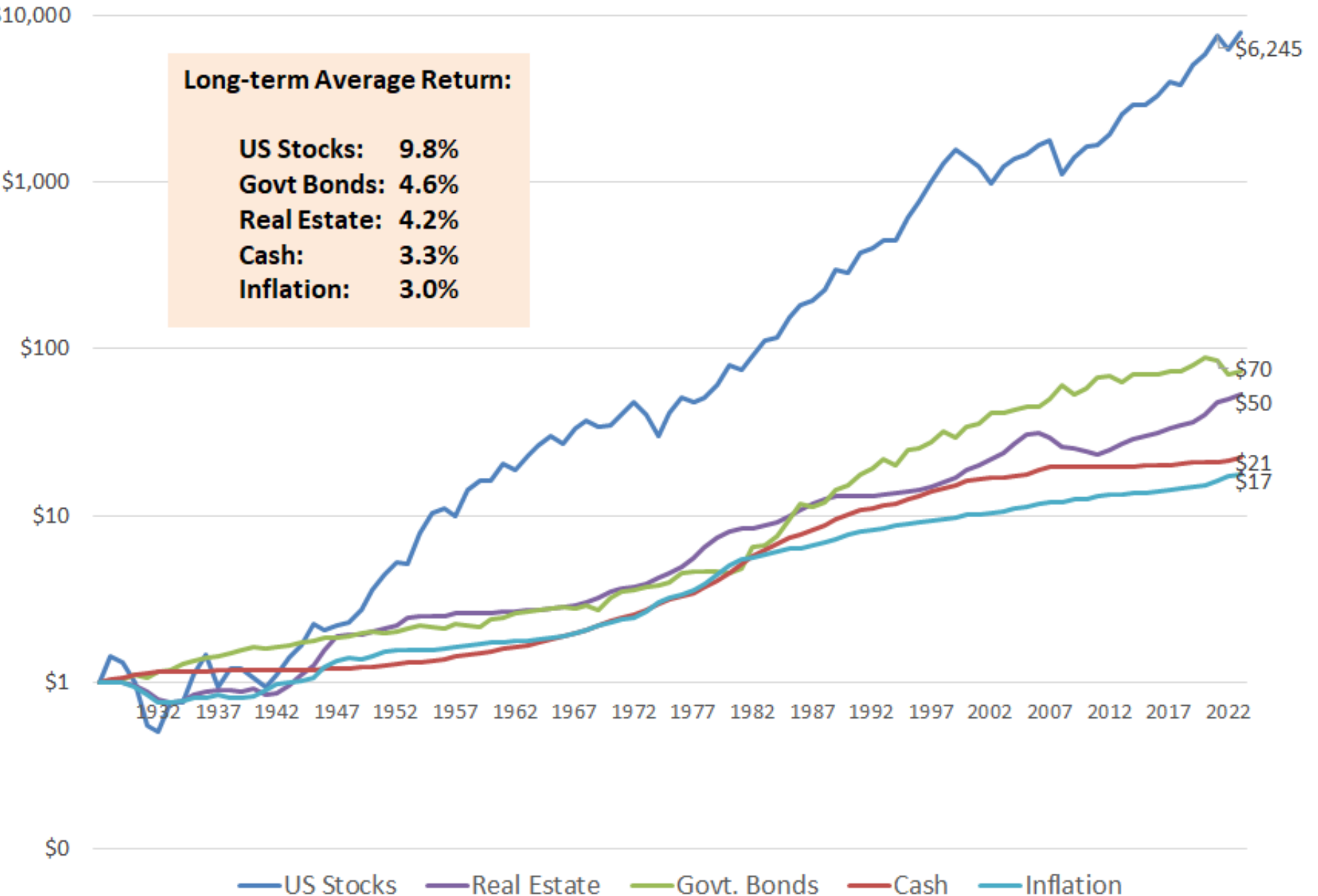
Benefits of Equities

- Long-term growth
 - Averaged 6% to 7% above inflation rate
 - Long-term returns have averaged 9% to 10%
- Inflation protection
 - Equities are one of the best assets to own when inflation is rising (over the longer term)
- Can be tax-efficient
 - Long-term gains taxed at lower rates, keep more of what you make

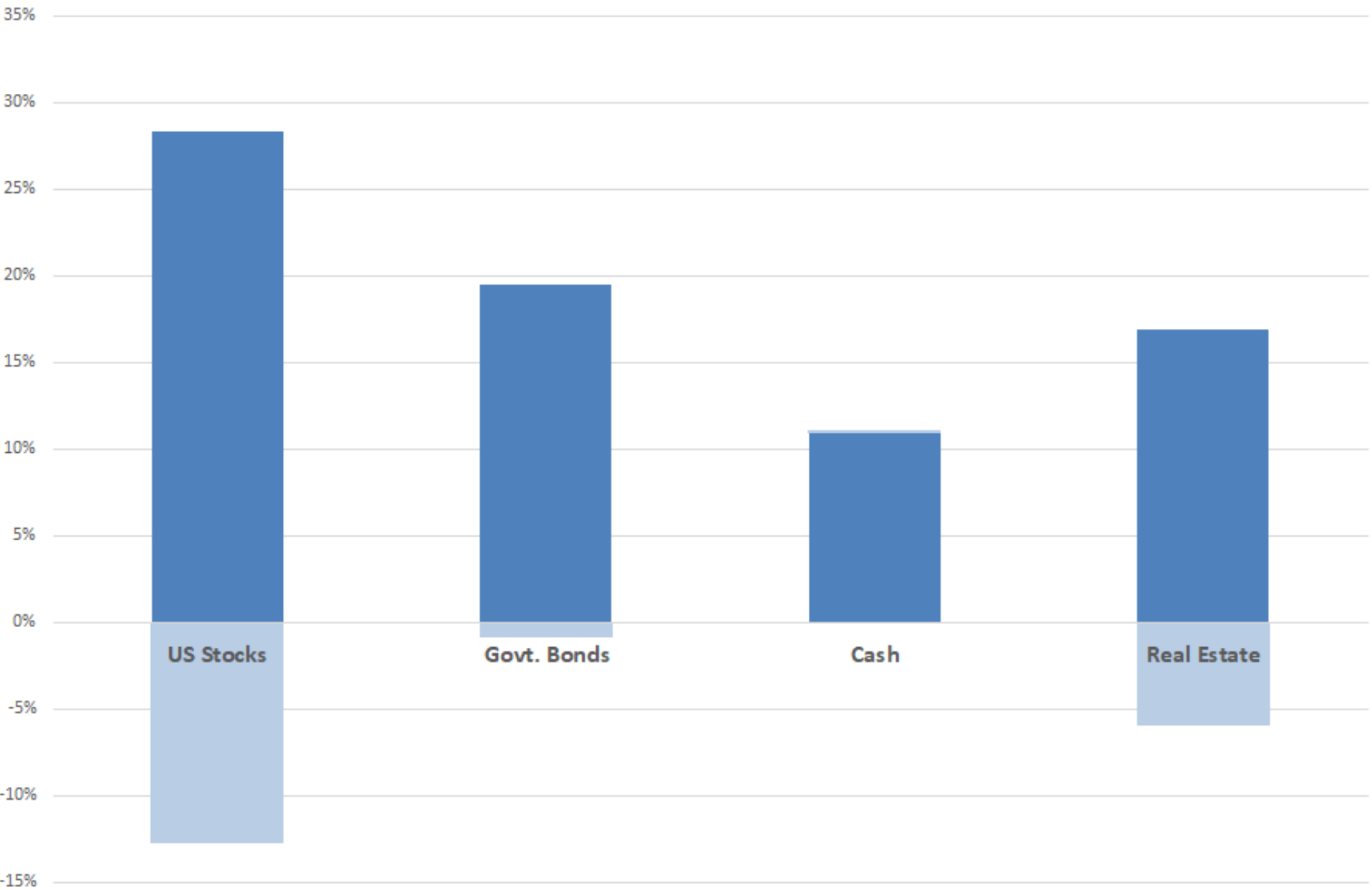
Comparing cash, bonds, and stocks

There is no reward without risk

Performance of Stocks, Bonds, Cash, Real Estate, Inflation 1928-2023



Range of 5-Year Investment Returns 1928-2023





Fixed Income Investing

Three things to know

Interest Rates and Price Move In Opposite Directions

- When interest rates rise, bond prices fall
- When interest rates fall, bond prices rise

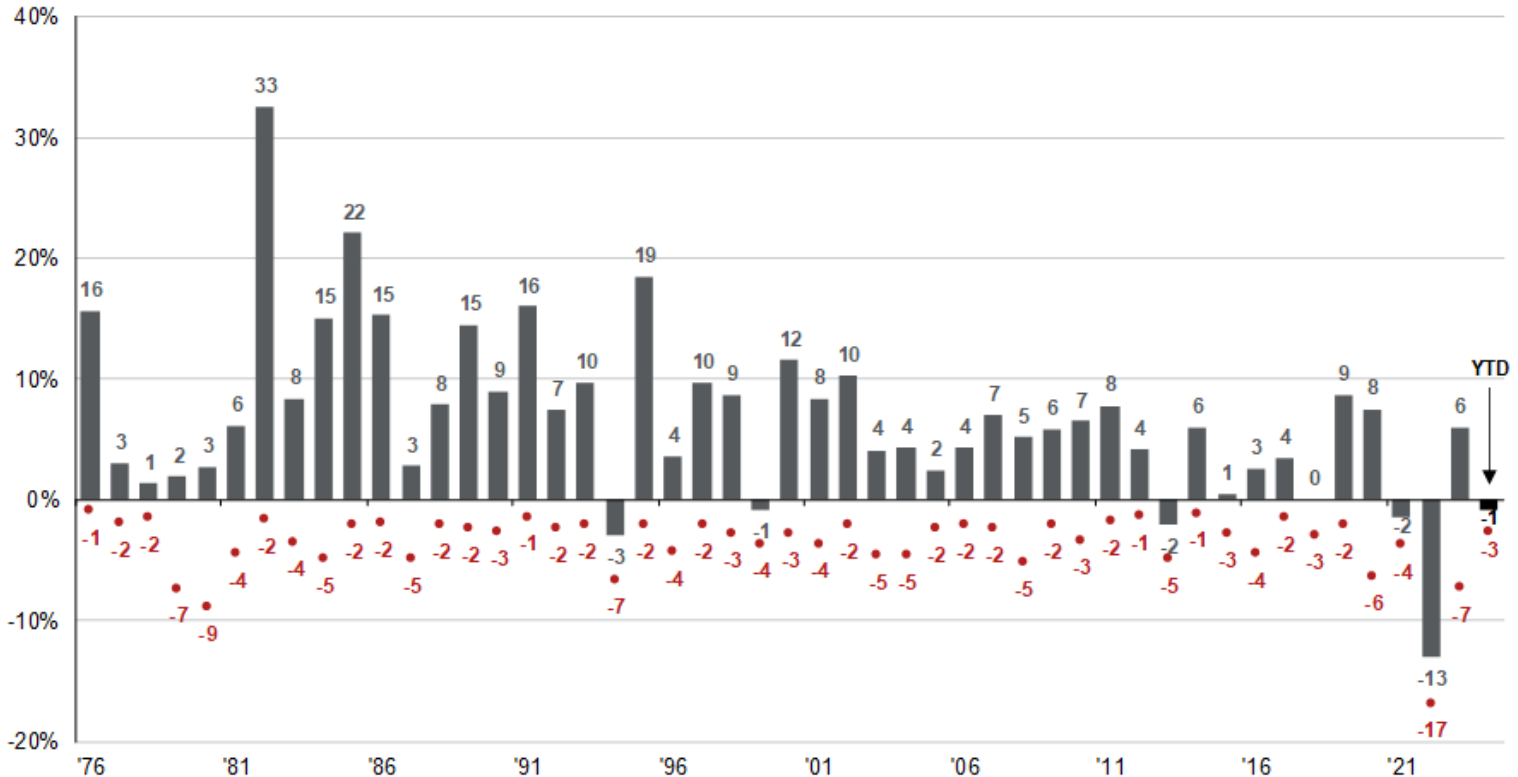


Bonds Are Steady (Except in 2022)

Bloomberg U.S. Agg. annual returns and intra-year declines

Bloomberg U.S. Aggregate intra-year declines vs. calendar year returns

Despite average intra-year drops of 3.5%, annual returns were positive in 43 of 48 years



Source: Bloomberg, FactSet, J.P. Morgan Asset Management.

Returns are based on total return. 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 1976 to 2023, over which time period the average annual return was 6.6%. Returns from 1976 to 1989 are calculated on a monthly basis; daily data are used afterward.

Guide to the Markets – U.S. Data are as of March 31, 2024.

Longer Term Means More Risk

U.S. Treasuries	Yield		Return	Avg. Maturity
	12/31/2022	12/31/2021	2022	
2-Year	4.41%	0.73%	-4.11%	2 years
5-Year	3.99%	1.26%	-9.74%	5
TIPS	1.58%	-1.04%	-11.85%	10
10-Year	3.88%	1.52%	-16.33%	10
30-Year	3.97%	1.90%	-33.29%	30
U.S. Aggregate	4.68%	1.75%	-13.01%	8.4

Be Wary of Bond “Alternatives”

- Investors have moved to bond alternatives, but these often add substantial risk to an investment portfolio

Asset Class	2008 Return
Total Bond Market	+5%
Dividend Paying Stocks	-23%
High Yield Bonds	-26%
Master Limited Partnerships	-37%
Real Estate Investment Trusts	-38%
Commodities	-48%



Equity Investing

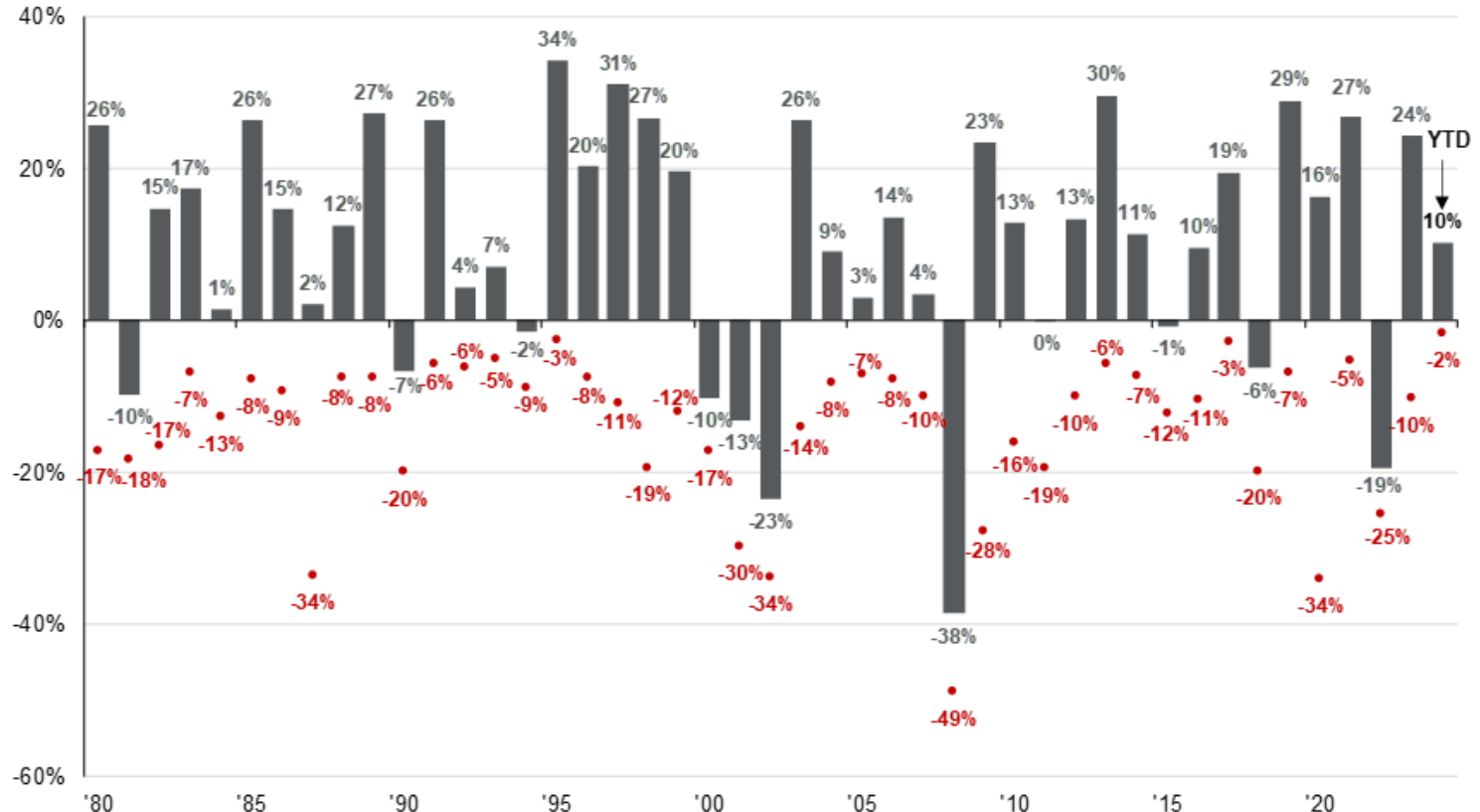
Five things to know

Stock Prices Fall Frequently

Annual returns and intra-year declines

S&P intra-year declines vs. calendar year returns

Despite average intra-year drops of 14.2%, annual returns were positive in 33 of 44 years



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.

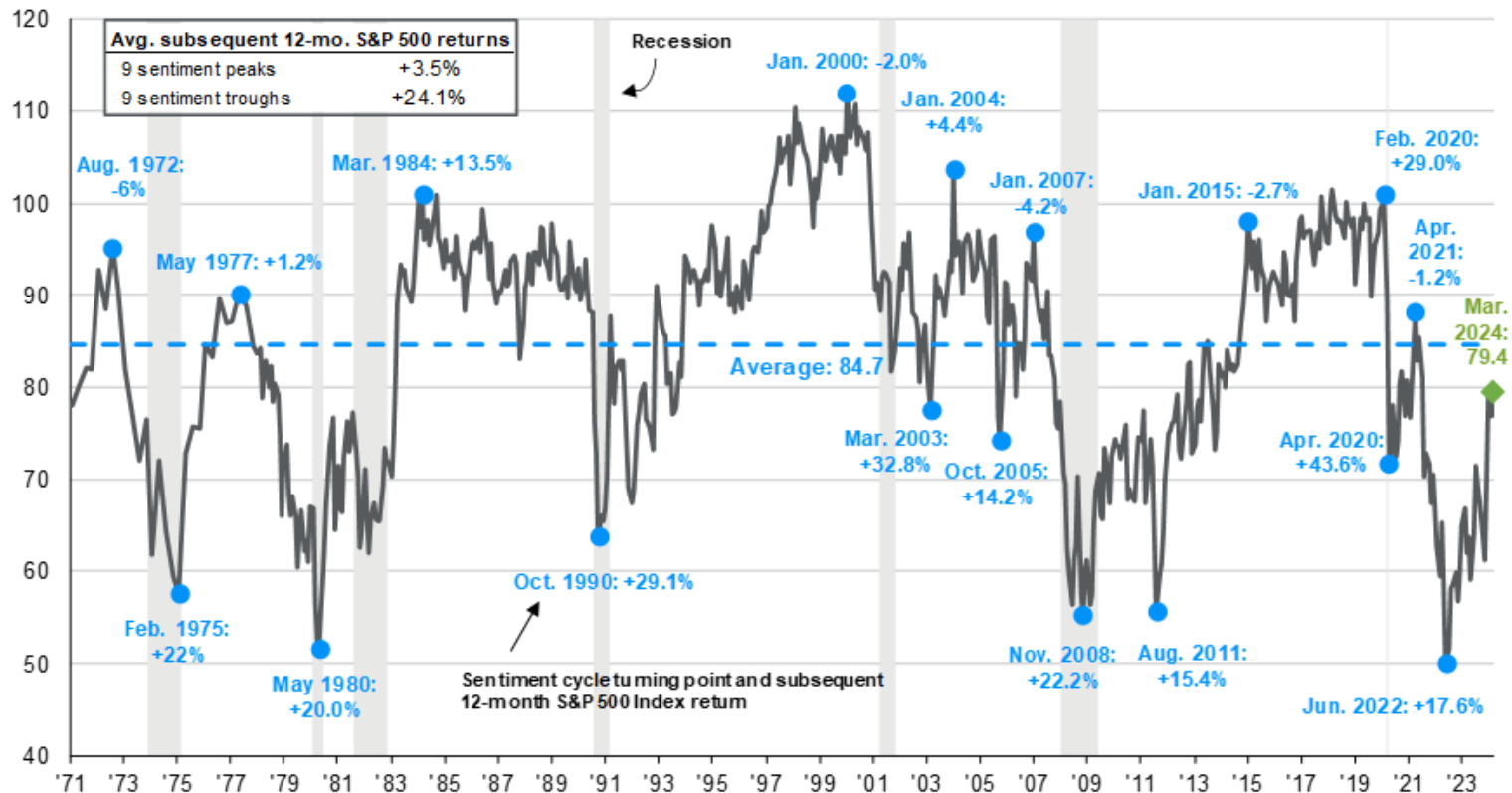
Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2023, over which time period the average annual return was 10.3%.

Guide to the Markets – U.S. Data are as of March 31, 2024.

Don't Follow Your Gut

Consumer confidence and the stock market

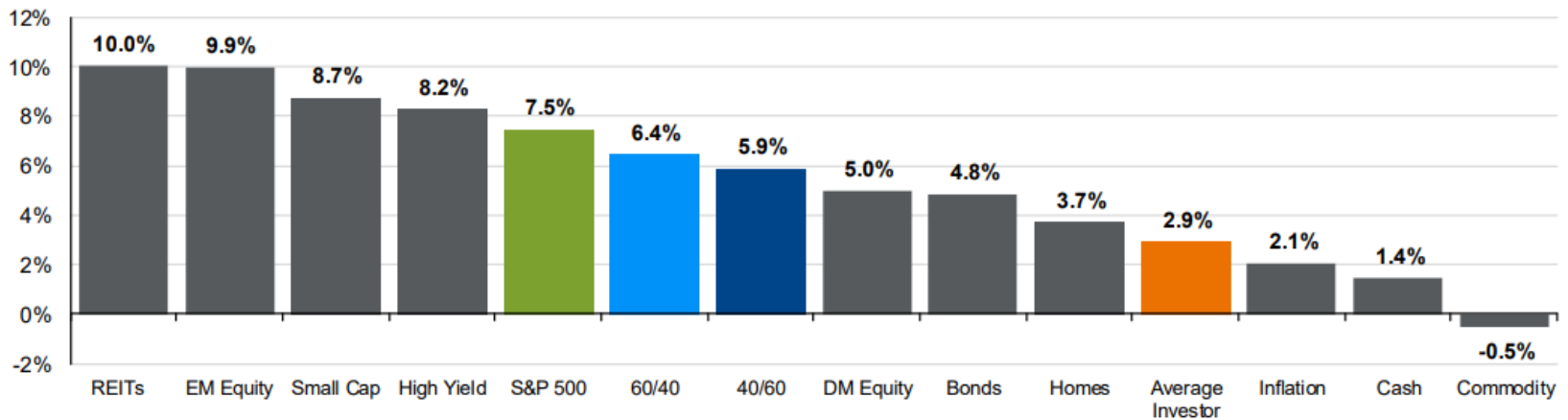
Consumer Sentiment Index and subsequent 12-month S&P 500 returns



Source: FactSet, Standard & Poor's, University of Michigan, J.P. Morgan Asset Management. Peak is defined as the highest index value before a series of lower lows, while a trough is defined as the lowest index value before a series of higher highs. Subsequent 12-month S&P 500 returns are price returns only starting from the end of the month and excluding dividends. Past performance is not a reliable indicator of current and future results. Guide to the Markets – U.S. Data are as of March 31, 2024.

Don't Jump In/Out of the Markets

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

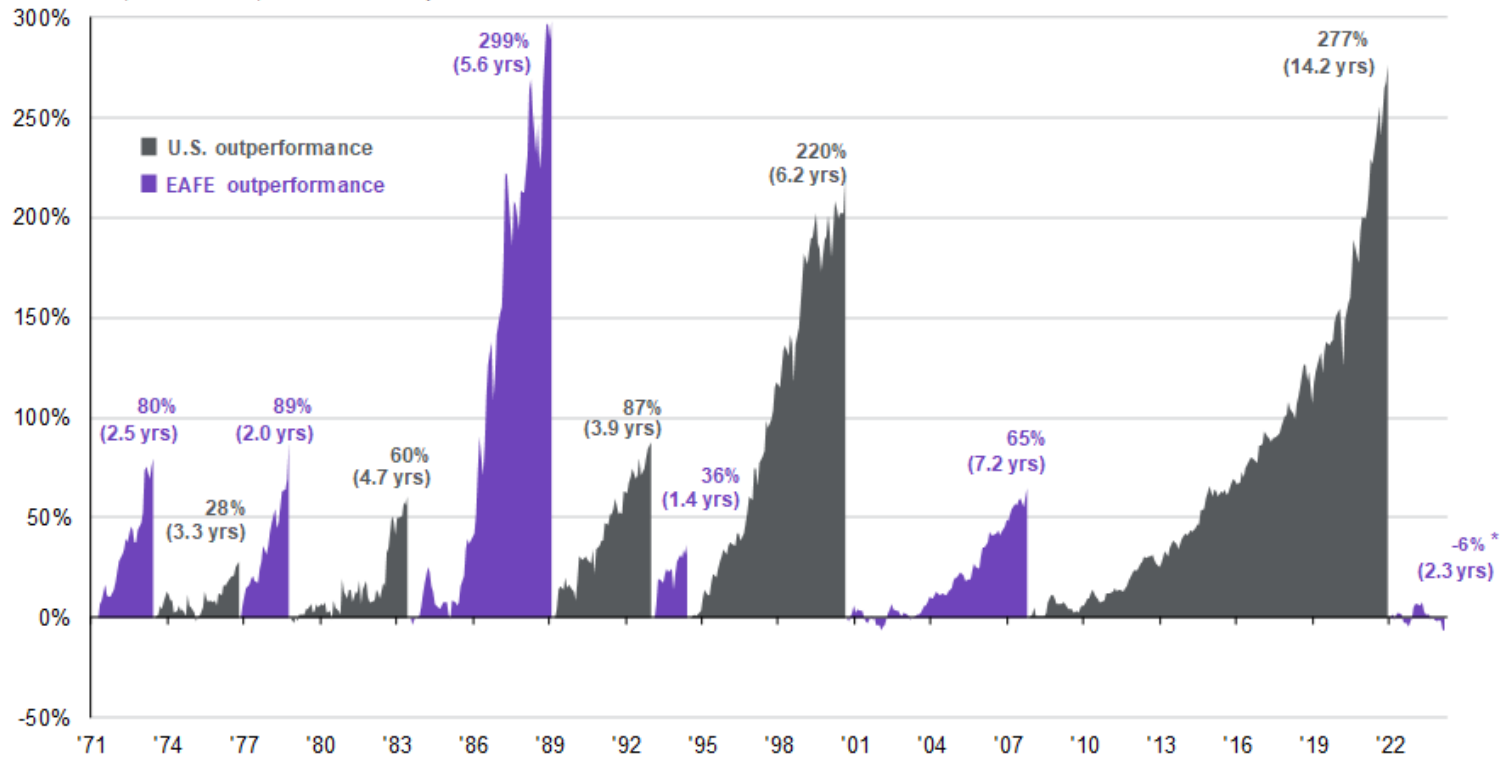
- Investors lose more than half of their performance by moving their assets around
- *“The Market Timing Hall of Fame is an empty room” – Jane Bryant Quinn*

International Stocks May Start To Lead Once Again

Cycles of U.S. equity outperformance

MSCI EAFE and MSCI USA relative performance

U.S. dollar, total return, cumulative outperformance



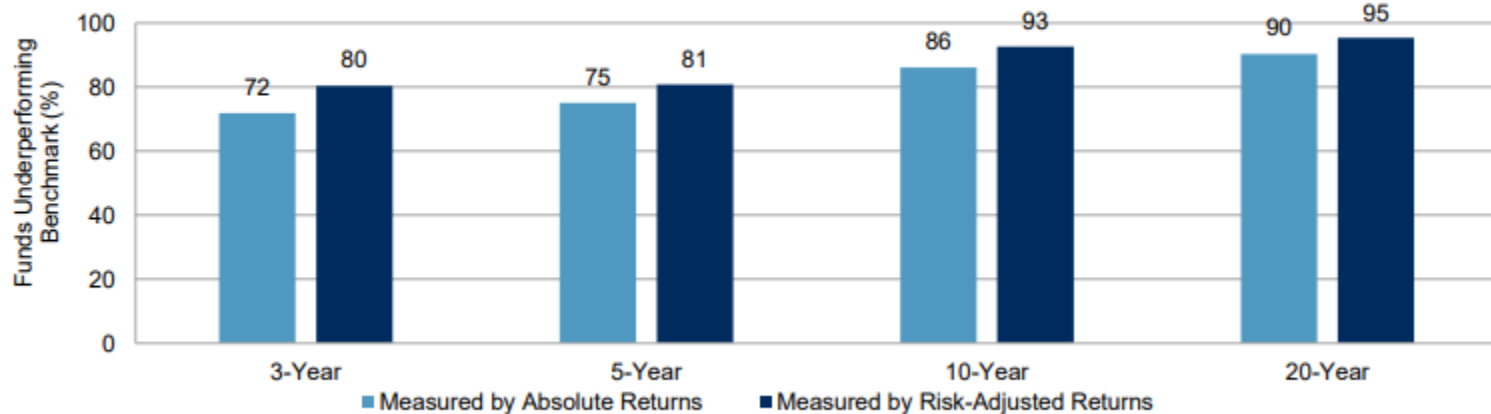
Source: FactSet, MSCI, J.P. Morgan Asset Management.

Regime change determined when cumulative outperformance peaks and is not reached again in the subsequent 12-month period. *Peak MSCI EAFE outperformance vs. MSCI USA occurred in April 2023. If this is sustained for 12 months, the regime will switch in April 2024.

Guide to the Markets – U.S. Data are as of March 31, 2024.

Don't Pick Stocks, Most Professionals Underperform Index Funds

Exhibit 2: Percentage of All Domestic Equity Funds Underperforming the S&P Composite 1500 on an Absolute and Risk-Adjusted Basis

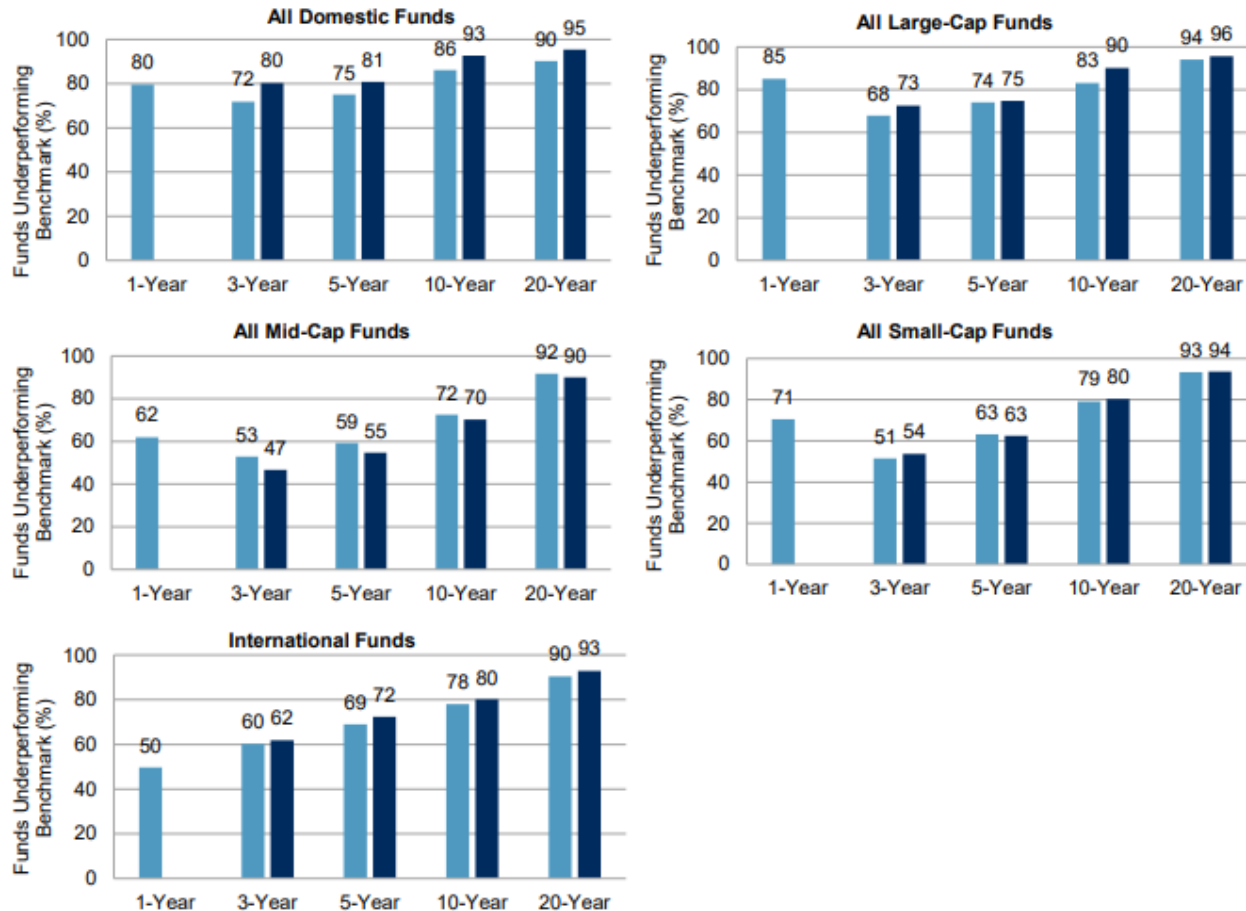


Source: S&P Dow Jones Indices LLC. Data as of Dec. 31, 2021. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

- More than 90% of professional stock pickers have underperformed basic index funds over 10 and 20-year periods
- These numbers are even worse when taxes are considered

Stock Pickers Underperform Across All Equity Types

Exhibit 7: Percentage of Funds Underperforming Benchmarks on Absolute and Risk-Adjusted Bases



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



Putting It All Together

The magic is in the mix; know yours

Asset class returns

2009-2023

Ann.	Vol.	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	YTD
Large Cap 14.0%	Small Cap 21.9%	EM Equity 79.0%	REITs 27.9%	REITs 8.3%	REITs 19.7%	Small Cap 38.8%	REITs 28.0%	RBTs 2.8%	Small Cap 21.3%	EM Equity 37.8%	Cash 1.8%	Large Cap 31.5%	Small Cap 20.0%	RBTs 41.3%	Comdty. 16.1%	Large Cap 26.3%	Large Cap 10.6%
Small Cap 11.3%	REITs 21.2%	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%	RBTs 28.7%	EM Equity 18.7%	Large Cap 28.7%	Cash 1.5%	DM Equity 18.9%	DM Equity 5.8%
RBTs 10.9%	EM Equity 20.3%	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%	RBTs -4.0%	Small Cap 25.5%	Large Cap 18.4%	Comdty. 27.1%	High Yield -12.7%	Small Cap 16.9%	Small Cap 5.2%
High Yield 8.6%	DM Equity 18.4%	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%	Fixed Income -13.0%	Asset Alloc. 14.1%	Asset Alloc. 4.2%
Asset Alloc. 8.1%	Comdty. 16.6%	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%	Asset Alloc. -13.9%	High Yield 14.0%	Comdty. 2.2%
DM Equity 7.4%	Large Cap 16.1%	Large Cap 26.5%	High Yield 14.8%	Asset Alloc. -0.7%	Large Cap 16.0%	REITs 2.9%	Cash 0.0%	Asset Alloc. -2.0%	RBTs 8.6%	High Yield 10.4%	Asset Alloc. -5.8%	EM Equity 18.9%	Fixed Income 7.5%	DM Equity 11.8%	DM Equity -14.0%	REITs 11.4%	EM Equity 2.2%
EM Equity 6.9%	High Yield 11.5%	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%	RBTs 8.7%	Small Cap -11.0%	High Yield 12.6%	High Yield 7.0%	High Yield 1.0%	Large Cap -18.1%	EM Equity 10.3%	High Yield 2.1%
Fixed Income 2.7%	Asset Alloc. 11.5%	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 -19.7%	Fixed Income 5.5%	Cash 1.3%
Cash 0.8%	Fixed Income 4.5%	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%	Small Cap -20.4%	Cash 5.1%	Fixed Income -0.8%
Comdty. -0.2%	Cash 0.7%	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%	RBTs -5.1%	EM Equity -2.2%	RBTs -24.9%	Comdty. -7.9%	REITs -1.3%

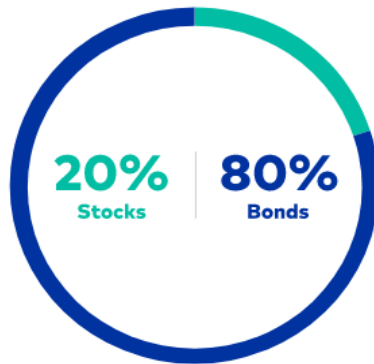
Source: Bloomberg, FactSet, MSCI, NAREIT, Russell, Standard & Poor's, J.P. Morgan Asset Management.

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 12/31/2009 to 12/31/2023. 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.

Guide to the Markets – U.S. Data are as of March 31, 2024.

Choosing Your Stock/Bond Mix

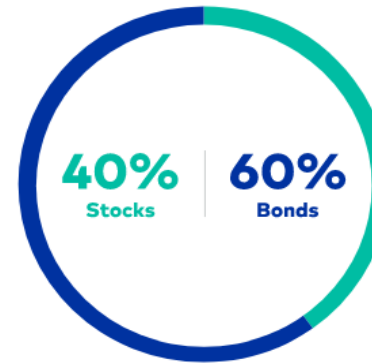
20% stocks / 80% bonds



Historical Risk/Return (1926-2020)

Average annual return: 7.2%
Best year (1982): 40.7%
Worst year (1931): -10.1%
Years with a loss: 16 of 95

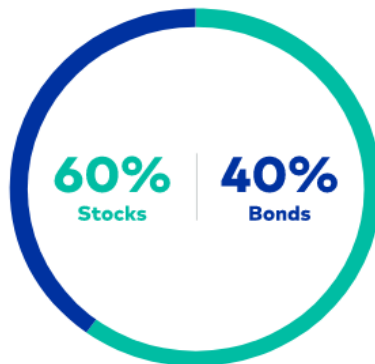
40% stocks / 60% bonds



Historical Risk/Return (1926-2020)

Average annual return: 8.2%
Best year (1982): 35.9%
Worst year (1931): -18.4%
Years with a loss: 19 of 95

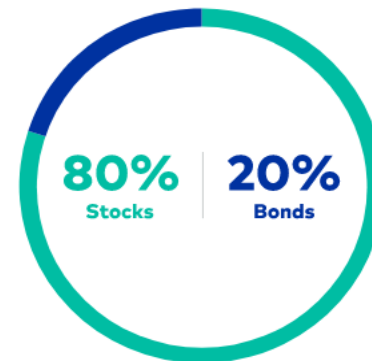
60% stocks / 40% bonds



Historical Risk/Return (1926-2020)

Average annual return: 9.1%
Best year (1982): 36.7%
Worst year (1931): -26.6%
Years with a loss: 22 of 95

80% stocks / 20% bonds



Historical Risk/Return (1926-2020)

Average annual return: 9.8%
Best year (1982): 45.4%
Worst year (1931): -34.9%
Years with a loss: 24 of 95



Questions?

I know you have some