

Private Bank



# Commit to Disciplined Investing

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Get invested and stay invested:  
Don't try to time the market!

By adopting a strategic asset allocation plan, investors can improve the probability of achieving their investment goals. A strategic asset allocation plan includes a long-term target mix of equities, fixed income, cash and others instruments. Adherence to a plan requires staying invested in markets and consistent rebalancing to plan targets.

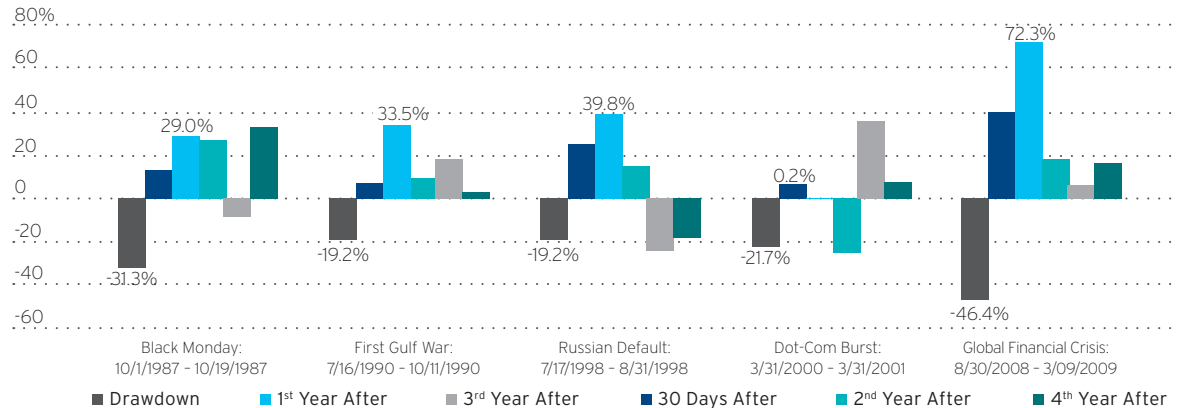
Investor psychology often runs counter to this premise and leads to periods of irrational exuberance or, alternately, panic. In either case, investors devote a disproportionate amount of effort to trying to pick individual "winners" or attempting to time the market on the upside or downside.

Adaptive Valuation Strategies (AVS) is the Private Bank's strategic asset allocation methodology, which we use to determine a long-term investment plan, and build advisory and discretionary portfolios for each client. One of AVS' key investment principles is to "Get fully invested". Holding onto cash can, over time, negatively impact overall returns, as we demonstrate with the following exhibits.

## Waiting Until the “Right” Time<sup>1</sup>

Some of the market’s strongest positive returns in the last several decades have occurred in the aftermath of stress periods where fear of losses causes some investors to withdraw from the market and miss recoveries.

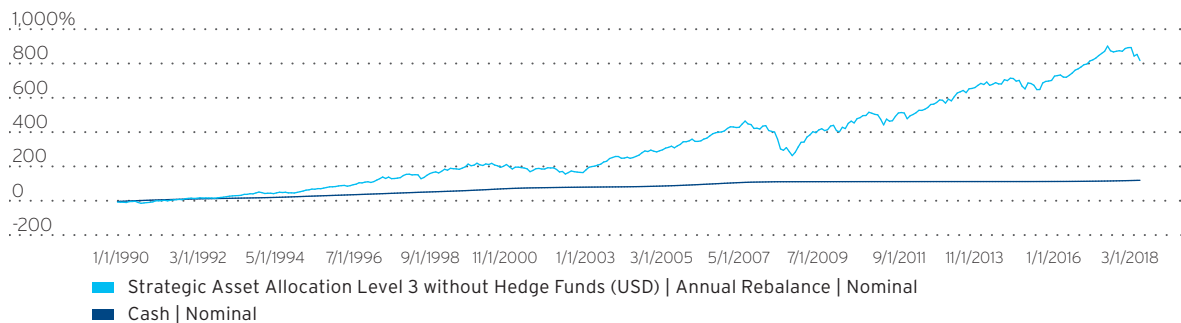
Annual S&P 500 Returns After Stress Periods



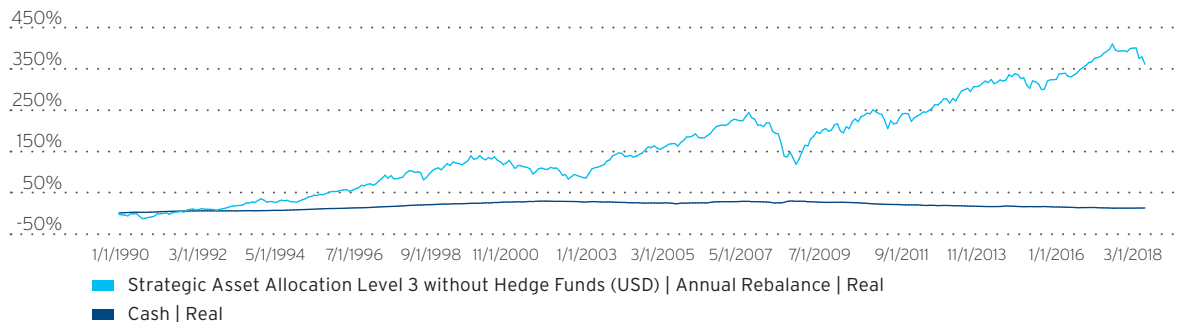
## The Impact of Inflation<sup>2</sup>

Remaining invested in a suitable asset allocation materially outperforms holding cash, in both nominal and real returns, across the long-run.

Nominal Cumulative Return (1990 – 2018)



Real Cumulative Return (1990 – 2018)



<sup>1</sup> Source: Citi Private Bank as of January 2019. Data source: Bloomberg. For illustrative purposes only. **Past performance is no guarantee of future results. Real results may vary.**

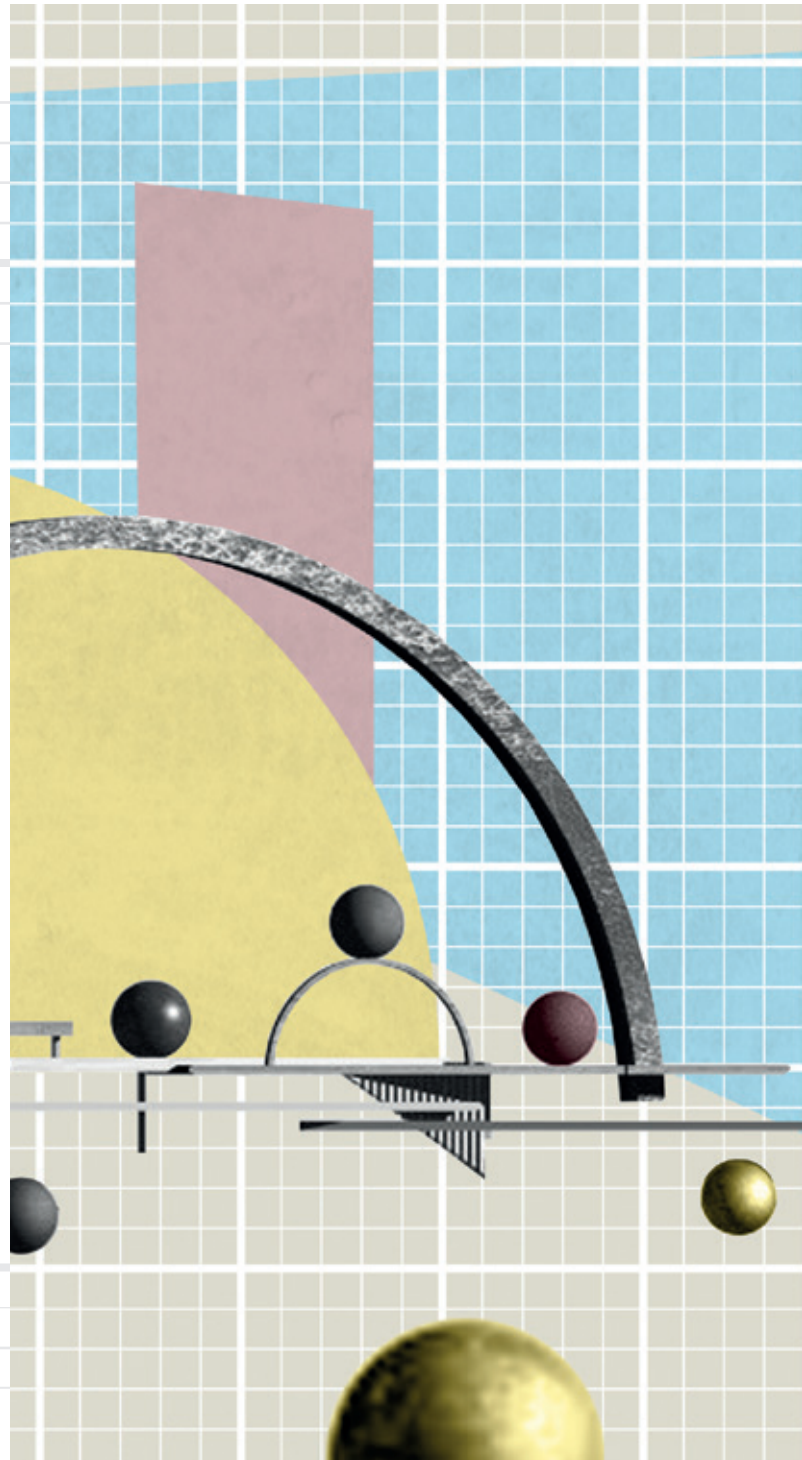
<sup>2</sup> Source: Citi Private Bank Global Asset Allocation Team. Data shown beginning January 31, 1990 through December 31, 2018. Adaptive Valuation Strategies (AVS) Risk Level 3 allocation. AVS is the Private Bank’s proprietary strategic asset allocation methodology.

Strategic Asset Allocation represents an AVS Risk Level 3, the 31 Dec 2018 allocations of which are as follows: 52.9% Developed Market equities; 7.5% Emerging Market equities; 33.2% Investment Grade debt; 2.0% High Yield debt; 2.4% Emerging Market fixed income and 2.0% Cash. Information on allocations for periods prior to 31 Dec 2018 are available upon request. Risk levels are an indication of clients’ appetite for risk. Risk Level 3 – seeks modest capital appreciation and, secondly, capital preservation. Returns are calculated at an asset class level using indices and do not reflect fees, which would have reduced the performance shown. Calculations assume monthly rebalancing. An investor cannot invest in an index. Please see Glossary for the indices used in this illustration. Past performance is no guarantee of future results. Actual results may vary.

## Tactics for Deploying Cash

In order to “get off the sidelines” and utilize cash in a potentially more effective manner, investors can employ a variety of options to begin. One popular approach is “dollar-cost averaging” into a thoughtfully constructed portfolio, whereby one invests at regular intervals and in approximately equal amounts, thus safeguarding one’s investments from the market’s performance at a single point in time. A more institutionally-oriented approach is to invest immediately in order to closer track the proscribed strategic asset allocation for the portfolio.

In either case, it is essential to consistently rebalance portfolios to the AVS strategic asset allocation. This leads to taking profits on securities that have appreciated and reallocating to securities that have depreciated, thus seeking to provide incremental return at less risk relative to a “buy and hold” approach.



## Glossary

**S&P 500 Index:** Consists of the 500 stocks that represent the industrial, financial, utility and transportation sectors of the US equity market. Institutional investors commonly use this index as a proxy for the US equity market.

**Cash:** Represented by US 3-Month Government Bond TR, measuring the US dollar-denominated active 3-Month, fixed-rate, nominal debt issues by the US Treasury.

**Global Developed Market Corporate Fixed Income:** Composed of Bloomberg Barclays indices capturing investment debt from seven different local currency markets. The composite includes investment grade rated corporate bonds from the developed-market issuers.

**Global Developed Market Equity:** Composed of MSCI indices capturing large-, mid- and small-cap representation across 23 individual developed-market countries, as weighted by the market capitalization of these countries. The composite covers approximately 95% of the free float-adjusted market capitalization in each country.

**Global Developed Investment Grade Fixed Income:** Composed of Barclays indices capturing investment-grade debt from twenty different local currency markets. The composite includes fixed-rate treasury, government-related, and investment grade rated corporate and securitized bonds from the developed-market issuers. Local market indices for US, UK and Japan are used for supplemental historical data.

**Global Emerging Market Equities:** Composed of MSCI indices capturing large- and mid-cap representation across 24 Emerging Markets (EM) countries and covering approximately 85% of the free float-adjusted market capitalization in each country.

**Global Emerging Market Fixed Income:** Composed of Barclays indices measuring performance of fixed-rate local currency emerging markets government debt for 19 different markets across Latin America, EMEA and Asia regions. iBoxx ABF China Govt. Bond, the Markit iBoxx ABF Index comprising local currency debt from China, is used for supplemental historical data.

**Global High Yield Fixed Income:** Composed of Barclays indices measuring the non-investment grade, fixed-rate corporate bonds denominated in US dollars, British pounds and Euros. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below, excluding emerging market debt. Ibbotson High Yield Index, a broad high yield index including bonds across the maturity spectrum, within the BB-B rated credit quality spectrum, included in the below-investment-grade universe, is used for supplemental historical data.

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