2-Part Webinar Series:

Applying Behavioral Finance in Emotionally Charged Times

Part 2: How to Build Wealth with a Behavioral Approach to Portfolio Construction

ENVESTNET · SWAN GLOBAL INVESTMENTS · ATHENAINVEST™

Introductions

Moderator:

Jean Heath

Managing Director
Head of Asset Manager Network
Envestnet

Guest Speakers:

C. Thomas Howard, PhD

CEO and Chief Investment Officer
AthenaInvest
Emeritus Professor of Finance, University of Denver

Marc Odo, CFA®, FRM, CAIA, CIPM, CFP®

Client Portfolio Manager
Swan Global Investments

Lambert Bunker

Vice President
AthenaInvest

Today's Discussion

How to Build Wealth….

with a Behavioral Approach to Portfolio Construction

Section 1: Behavioral Finance Foundation

Section 2: Strategically Address Loss Aversion & Market Risk

Section 3: Staying Invested with a Dynamic Approach

Section 1:

The Influence of Behavioral Finance in Today's Markets & Financial Services

C. Thomas Howard, PhD
CEO and Chief Investment Officer
AthenaInvest

Nobel Prize Recognizes Behavioral Researchers

KEY CONCLUSIONS

People Are Not Rational

Markets Are Not Efficient

THESE BUILT THE FOUNDATION FOR

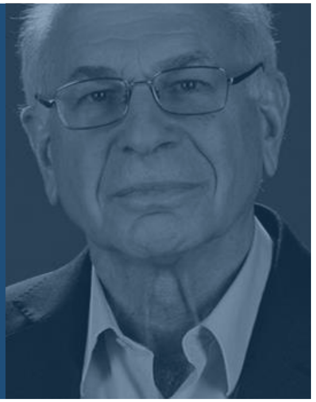
Behavioral

Portfolio Management

Daniel Kahneman

Prospect Theory

2002



Robert Shiller

Market Volatility

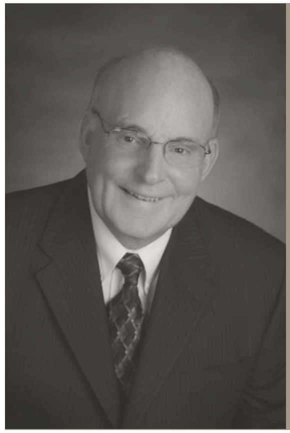
2013

Richard Thaler

Behavioral Nudging

2017

AthenaInvest Foundation and Research



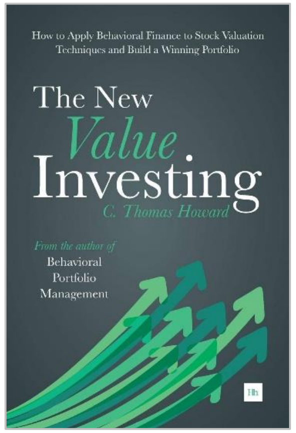
C. Thomas Howard

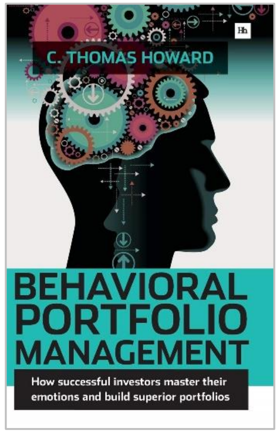
Professor Emeritus
University of Denver

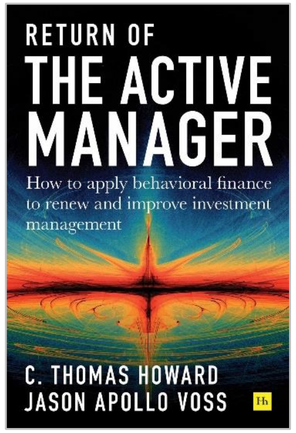
CEO and Director of Research

Patented Behavioral Research

Six US and International Patents







STRATEGY CATEGORIES

FUND AND STOCK RATINGS

MARKET BAROMETERS

Behavioral Foundational Concepts

1. Market prices are dominated by emotional crowds.
2. Behavioral research reveals unique market opportunities.
3. In large part, emotions determine investment outcomes.
4. Behavioral management can dramatically improve success.

How Our Brain Works in Decision Making

Fast - System 1 Thinking	Slow - System 2 Thinking
Automatic and easy	Conscious effort
Emotional	Logical
Heuristics (mental short cuts)	Analytical methods

Humans make 95% of decisions with System 1 Thinking.

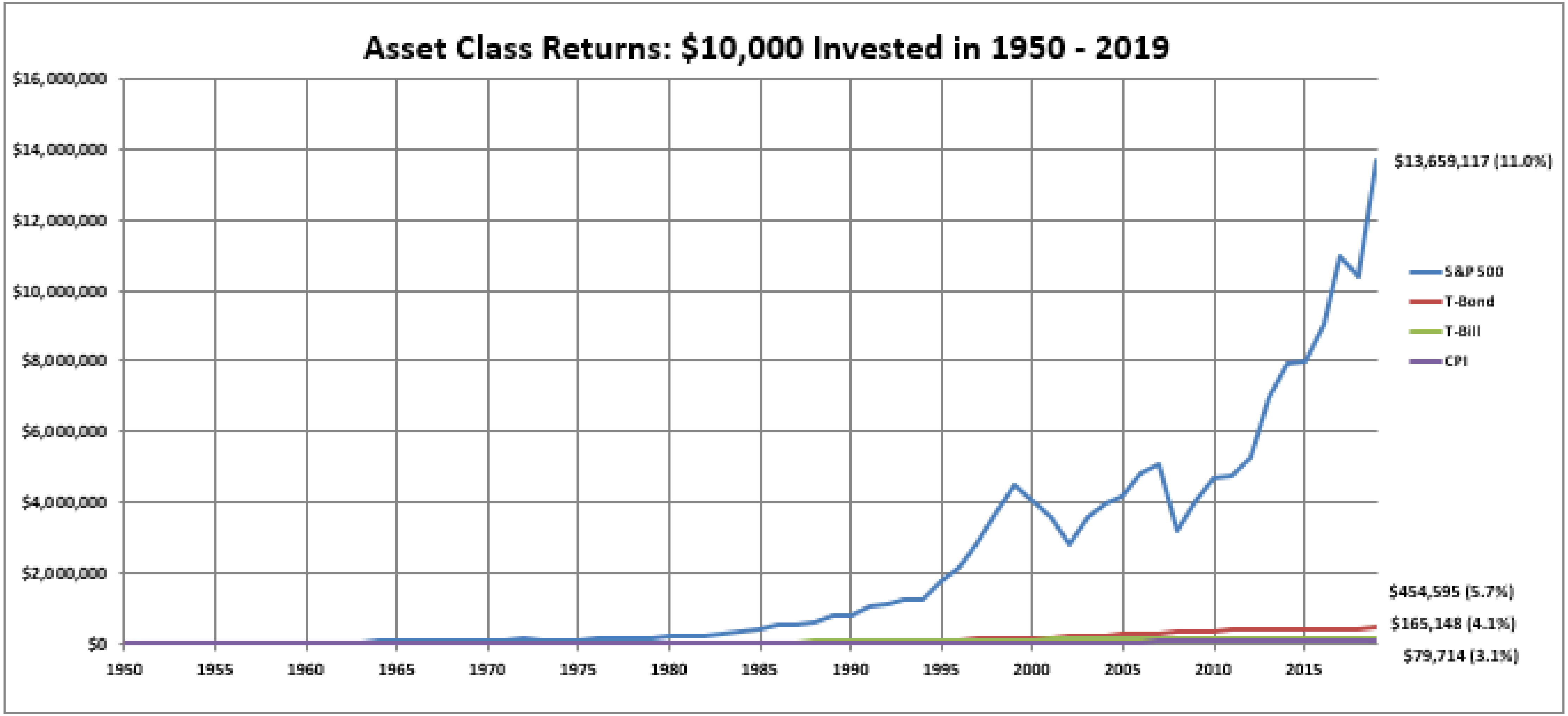
Daniel Kahneman, *Thinking, Fast and Slow,* 2011, Farrar, Straus and Giroux
Andrew Lo, *Adaptive Markets,* 2017, Princeton University Press

Common Cognitive Errors

People make investment mistakes in **consistent** and **predictable** ways:

- They overvalue recent and readily-available information
- They overreact to uncertainty and potential loss
- They are poor at estimating the likelihood of events
- They are subject to social validation

Power of Compounding in Growth Portfolios

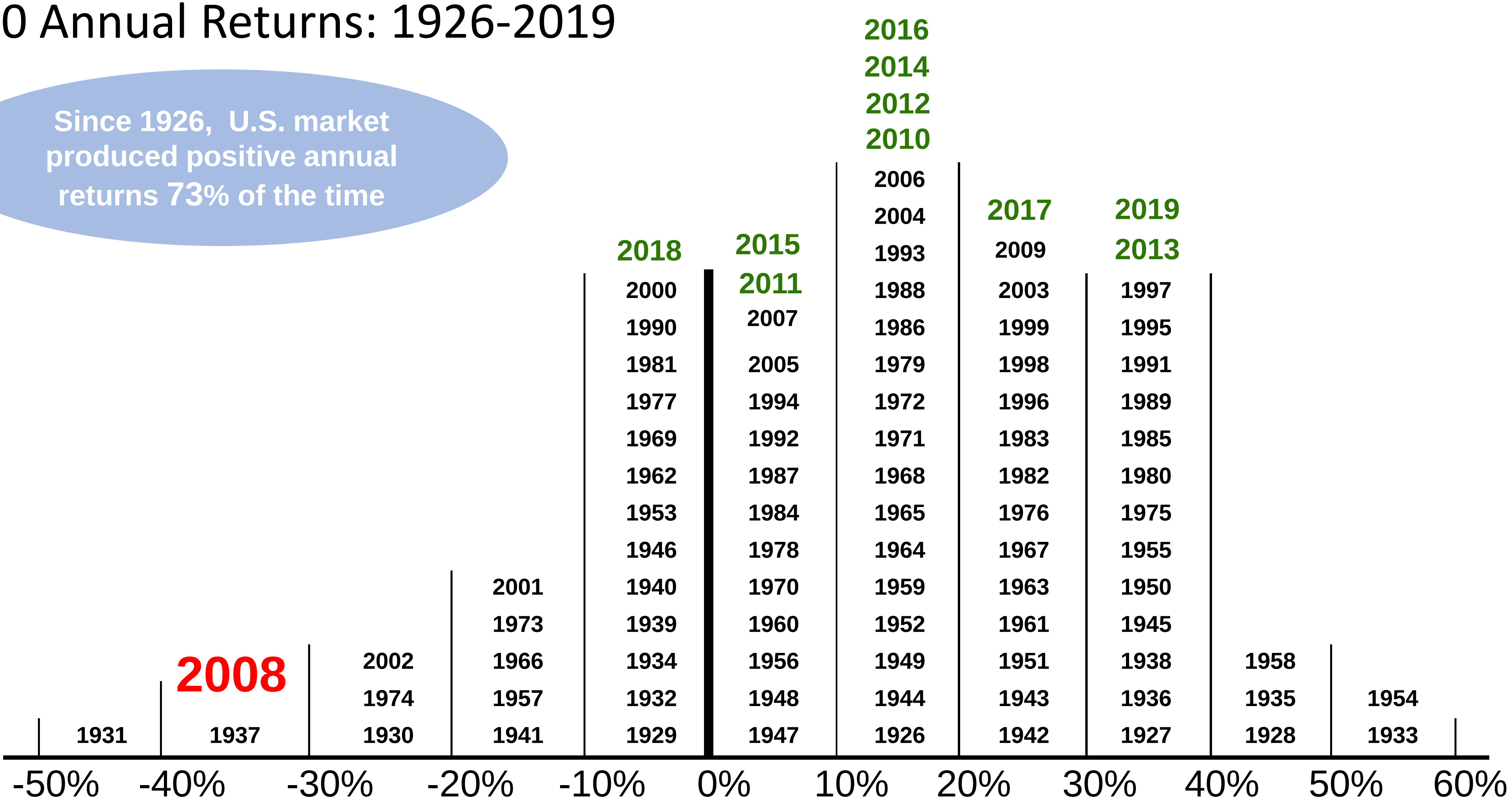


Sources: AthenaInvest, Thomson-Reuters Financial, Center For Research In Securities Prices, St Louis Federal Reserve FRED data base.

Market Returns Distribution

S&P 500 Annual Returns: 1926-2019

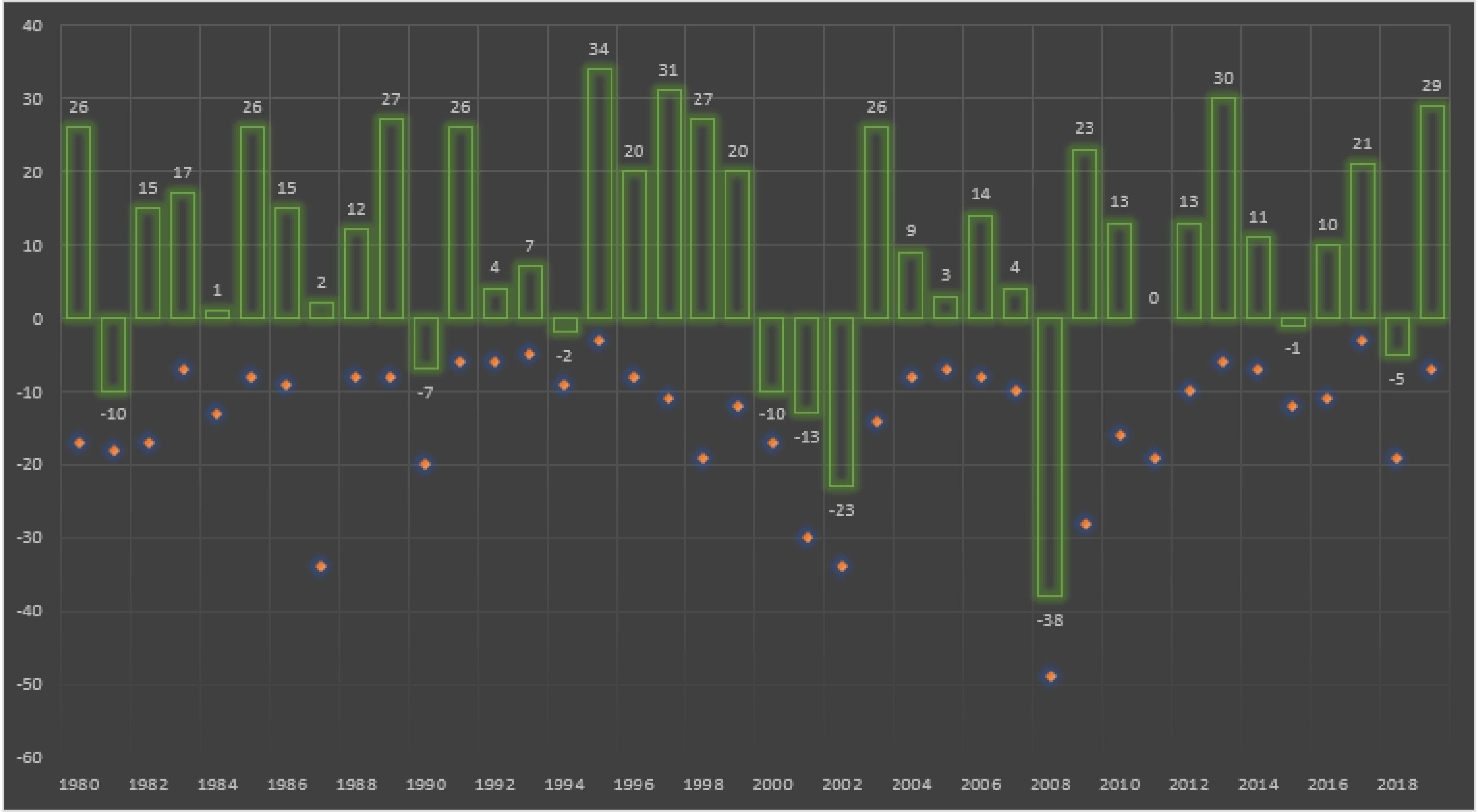
Since 1926, U.S. market produced positive annual returns 73% of the time



Indexes are unmanaged and cannot be invested in directly. Returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment.

Source: Standard & Poors

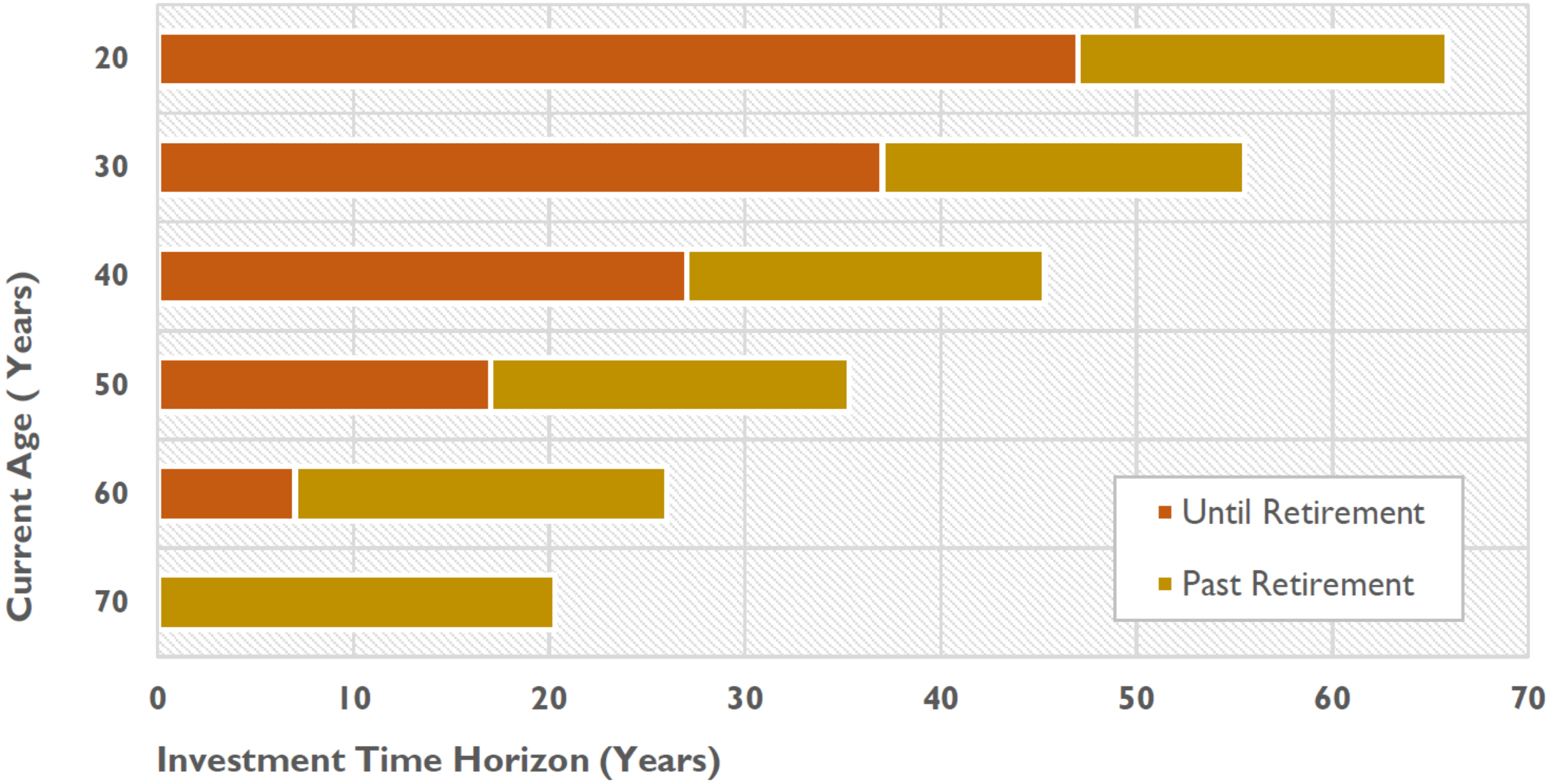
Intra-Year Drawdowns



The average intra-year pullback in the SP-500 since 1980 has been roughly 14%.
Despite the 14% intra-year decline, the SP-500 has closed positive 30 out of 39 years.

Source: Dow Jones Indices LLC, December 2019

Long-term is Longer Than Investors Think



Source: SSA, Life Expectancy Calculator (https://www.ssa.gov/planners/lifeexpectancy.html)

Needs Based Planning

Catastrophic Loss	Known Liquidity	Regular Income	Long-Term Growth
Financial protection for loss of property, job, or life.	Protection of principal.	Fullfilling ongoing obligations.	Investment in the highest expected return portfolio.

Creating Client Confidence

Complements to Core Equity Can Help Manage Behaviors and Keep Clients Invested

Growth
Portfolio

Core Equity
Active or
Passive

Hedged
Equity

Tactical
Allocation

Mitigate Cognitive Errors

Loss Aversion

Herding

Availability Bias

Section 2:

Strategically Address Loss Aversion & Market Risk

Marc Odo, CFA®, FRM, CAIA, CIPM, CFP®

Client Portfolio Manager

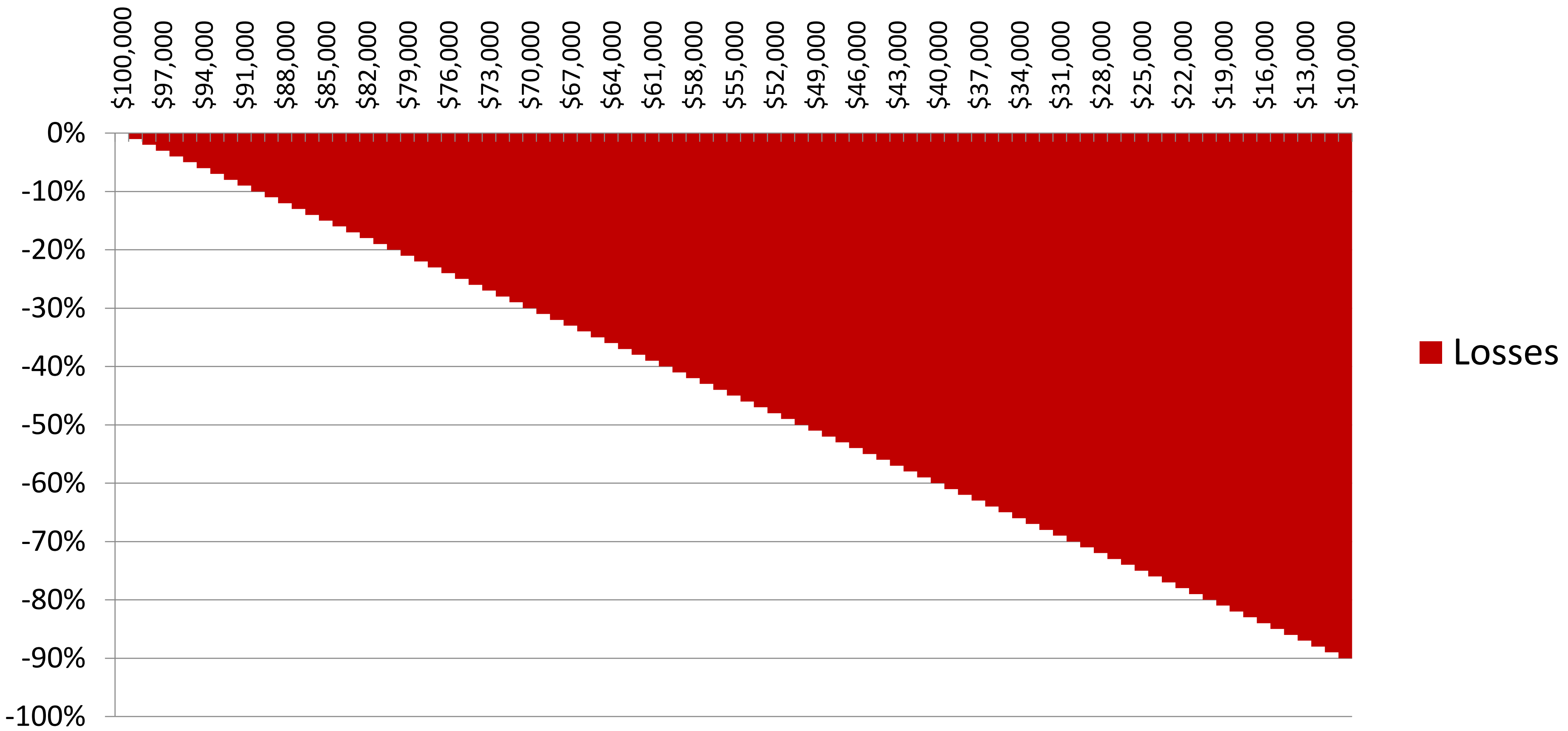
Swan Global Investments

Loss Aversion Theory

- “Losses loom larger than gains”
- Investors feel the pain of losses more than pleasure from gains
- Loss aversion is entirely rational and justified

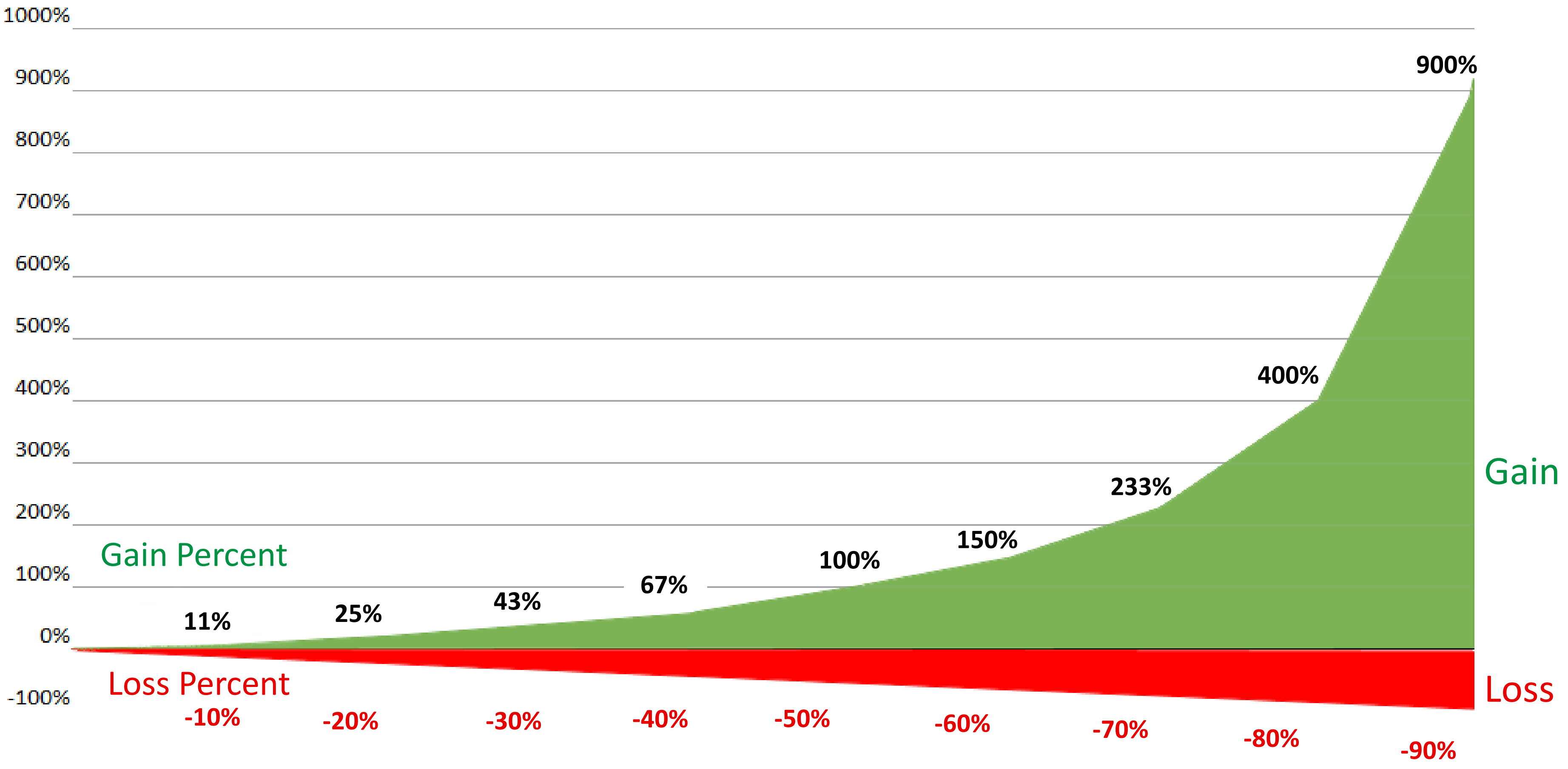
Math Matters: Avoiding Large Losses

Losses are linear, however…



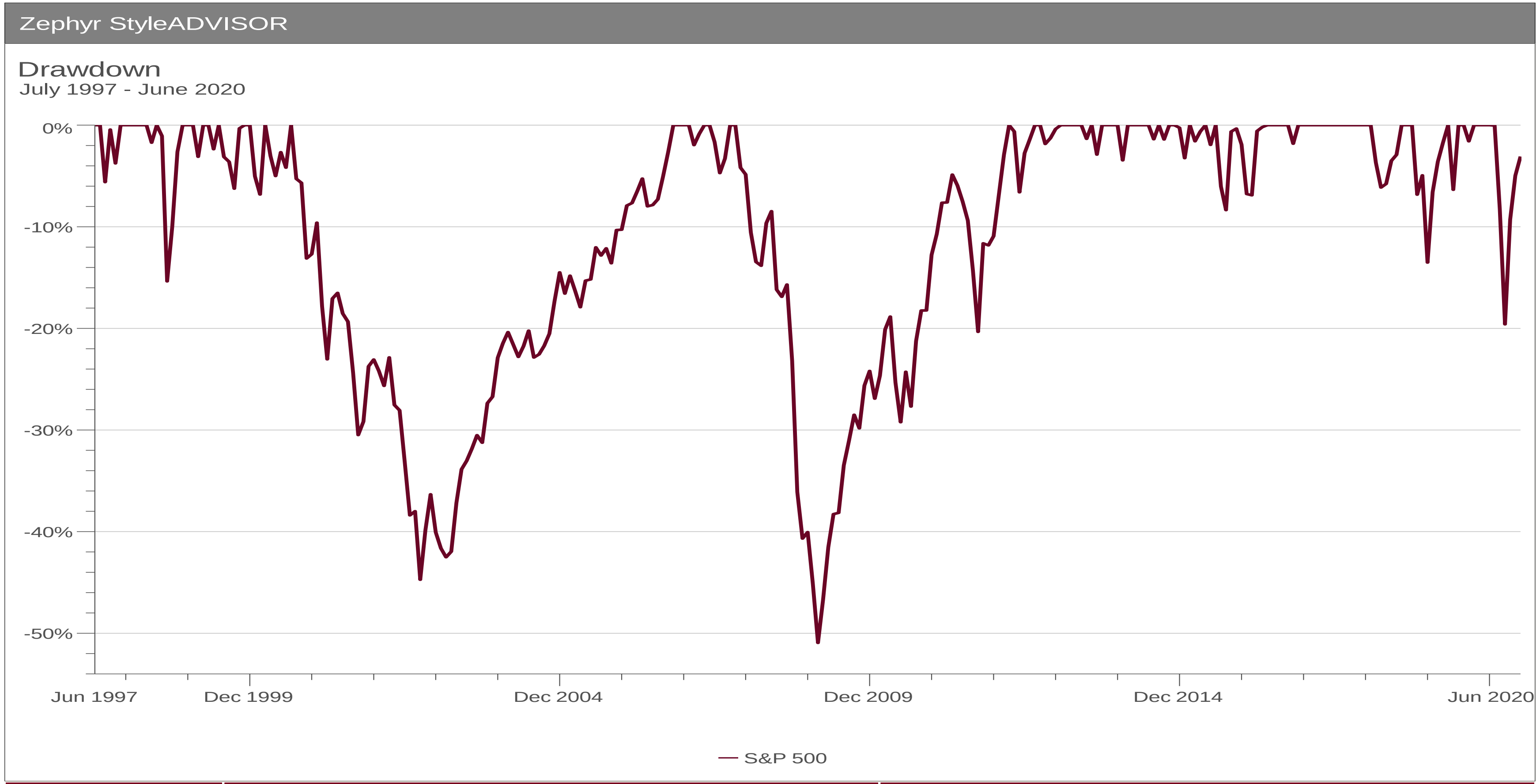
Math Matters: Avoiding Large Losses

The deeper the hole, the steeper the climb



For home office and financial professional use only. Source: Swan Global Investments

Challenge: Minimize Losses in Bear Markets



	Dot Com Crash			Financial Crisis		
	% Loss	**$1,000,000**	**Recovery**	**% Loss**	**$1,00,000**	**Recovery**
S&P 500	-44.73%	$552,670	6yrs, 2mos	-50.95%	$490,510	4yrs, 5mos

For home office and financial professional use only. Source: Zephyr StyleADVISOR, Swan Global Investments, LLC

Always Invested, Always Hedged

Swan DRS

Equity

for Portfolio Growth

Hedge

for Portfolio Preservation

Options

Offset Hedge Cost

Case Study: Defined Risk Strategy

Process: Passive + Active

1 Invest in Equities

To participate in equity markets.

- Always Invested, passively in low-cost equity index ETFs
- No market timing or stock selection

2 Hedge the Equities

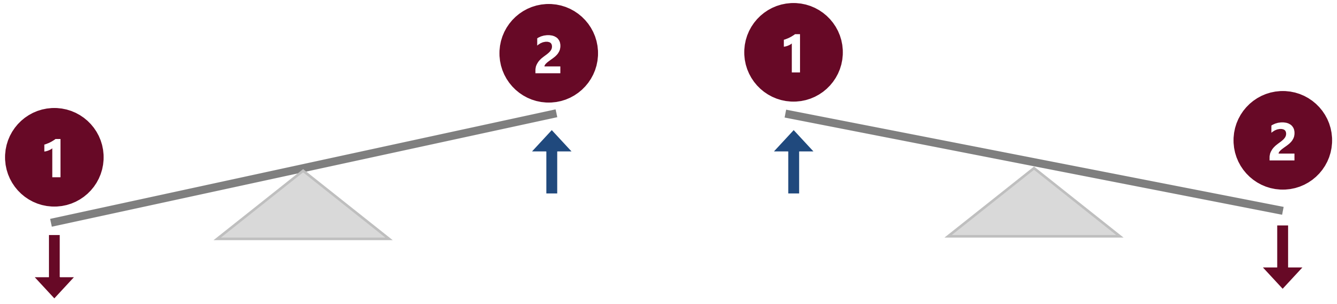
To mitigate risks of bear markets.

- Always Hedged by actively managing long-term put options (LEAPs), at or near-the-money, generally one to two years to expiration, initially

3 Seek Additional Return

To offset the cost of the hedge.

- Actively managing shorter-term options portfolio utilizing a disciplined, time-tested approach



Why the LEAP?

Benefits of Long-Term Hedge for Long-Term Investors

Defense

Direct way to mitigate undiversifiable market risk.

Keep Calm

Helps investors avoid big losses and emotional reactions.

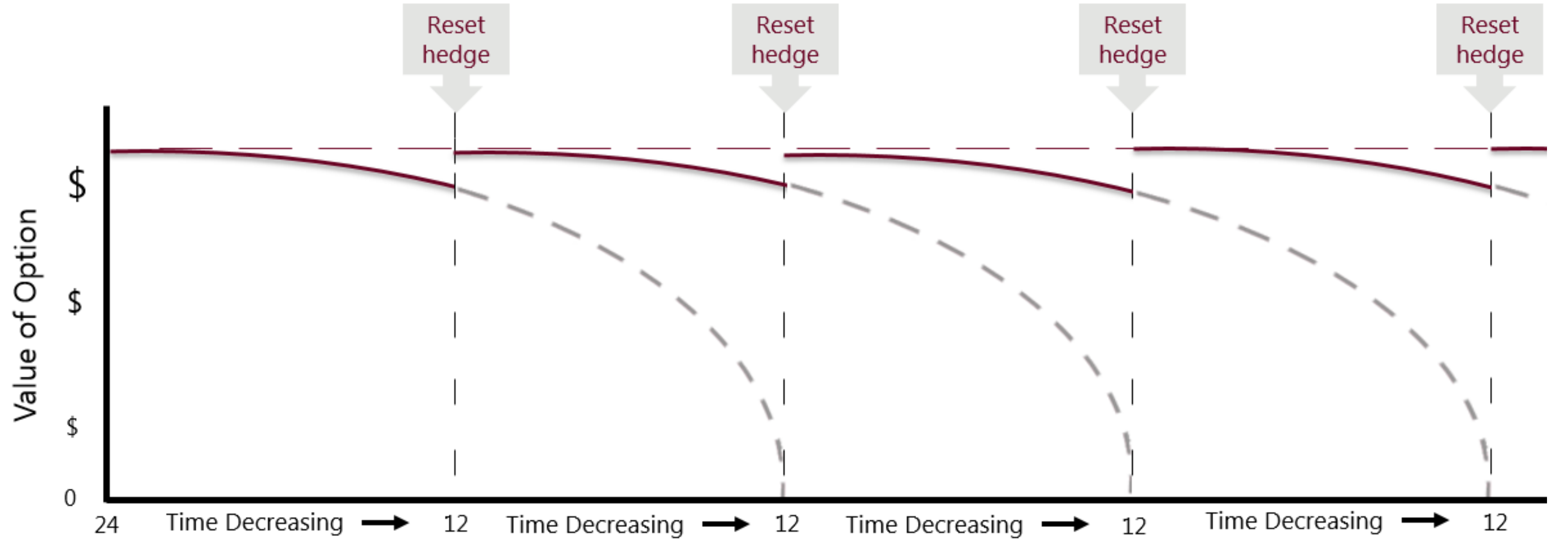
Reliable Hedge

A reliable hedge during large selloffs and longer duration than typical bear markets.

Acquire More Equity

As it gains value during a selloff, the LEAPS can be sold to buy more equity at a low.

Process: Rolling the Hedge

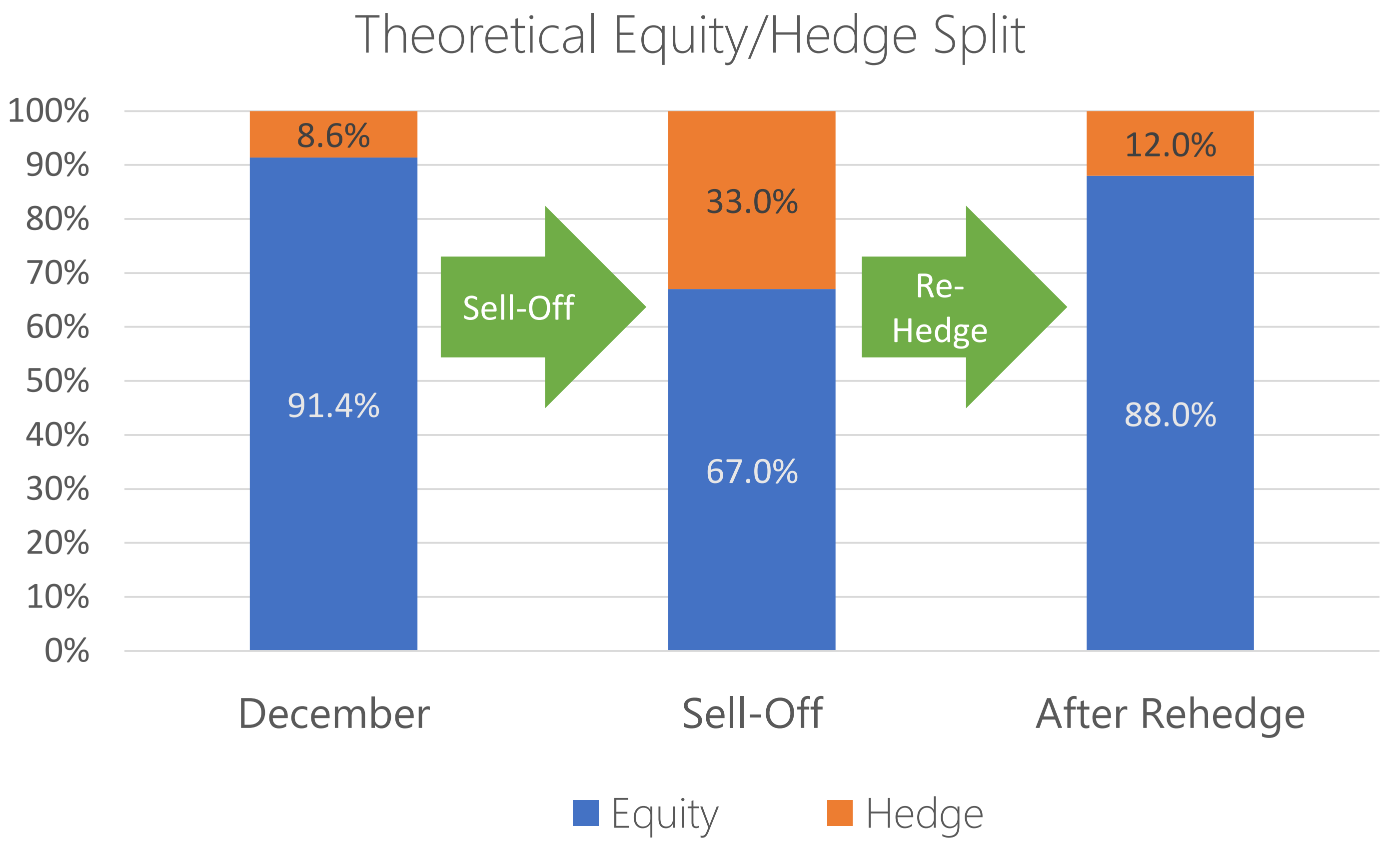


By rolling the hedge annually, the portfolio is:

- Always hedged;
- Not under duress to seek protection;
- Not exposed to the steeper drop off in value of put option.

Case Study: Defined Risk Strategy

Process: Re-Hedge

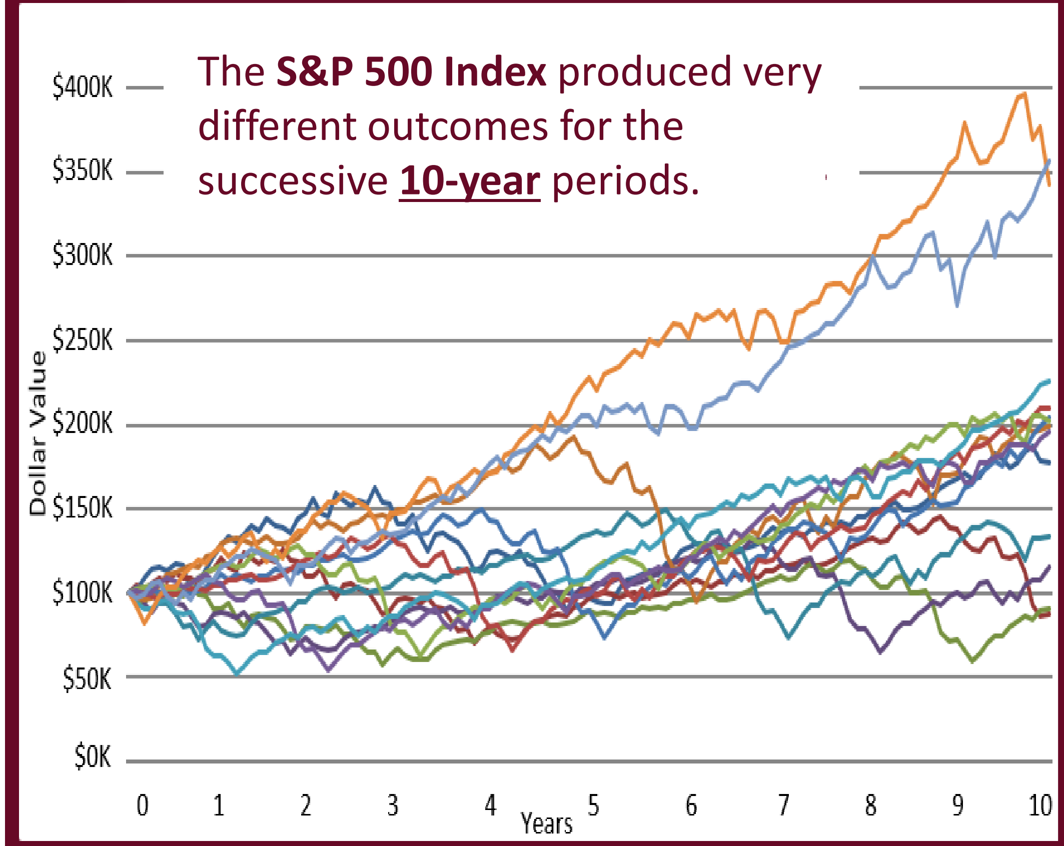


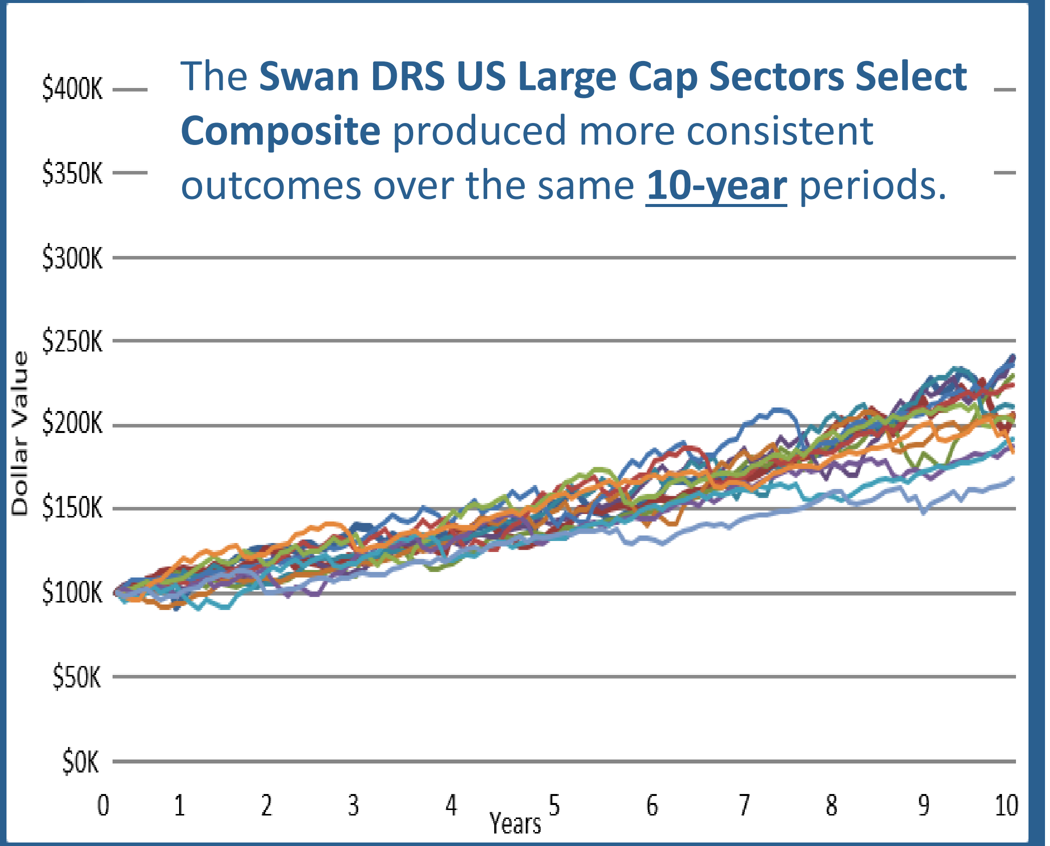
Hedged Equity: Seeking to Smooth the Ride

- Always Invested for growth
- Always Hedged to mitigate risk
- DRS seeks to post attractive, risk adjusted returns through full market cycles
- Seeking a smoother investment experience to help keep investors on track to long-term goals

The Defined Risk Strategy – Put to the Test

Define Risk, Improve Outcomes – Investing Redefined®



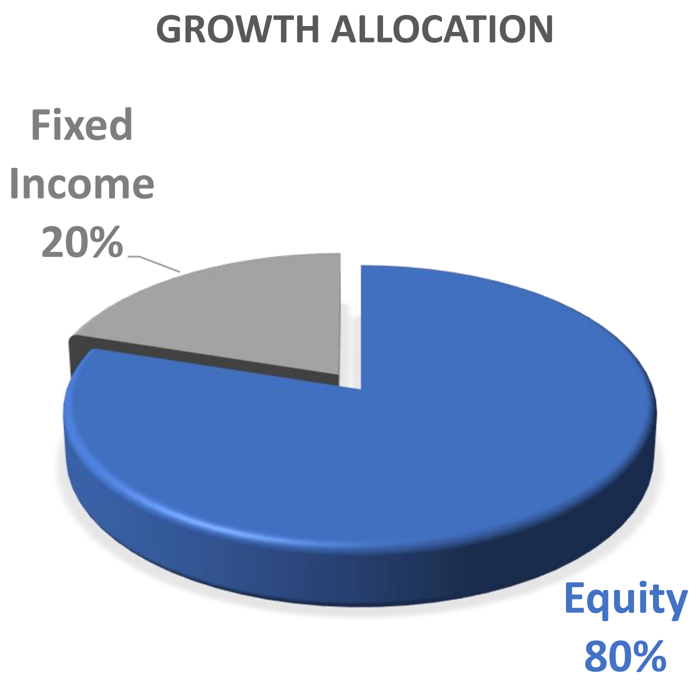


For home office and financial professional use only. The graphs above show an investment of $100,000 over thirteen successive, 10-year investment periods. The first period is 1/1998 to 12/2007; the last period is 1/2010 to 12/2019. All but two of these periods contain at least one bull market and one bear market (1/2009 to 12/2018 and 1/2010 to 12/2019).

Client Objectives and Funding Sources

Incorporating Hedged Equity	
Client Objective	Funding Source
Re-Risk: re-enter equity markets	Fixed income, high yield, cash
De-Risk: reduce portfolio risk or lock in gains without exiting market	Traditional equities, high-beta alternatives
Liquid Alternative	Diversify liquid alternatives portfolio
Fixed Income Substitute	Fixed income

Hedged Equity: Portfolio Implementation

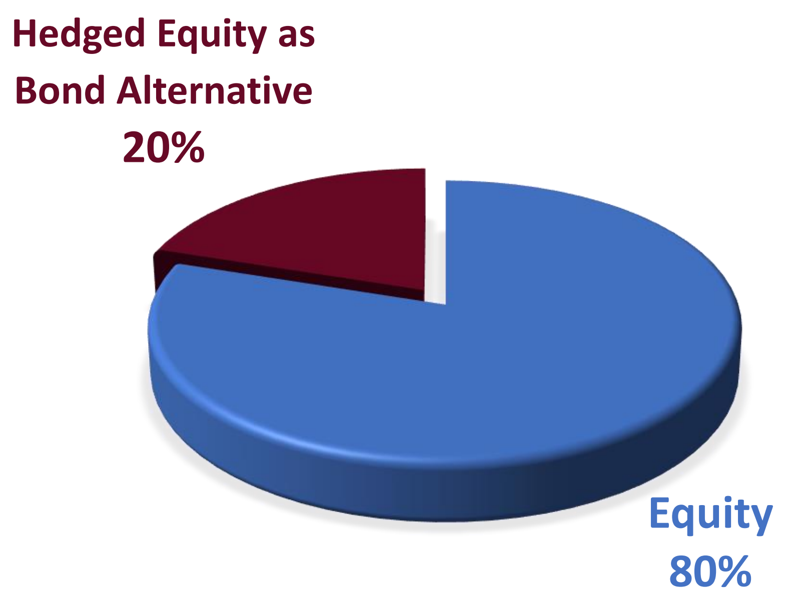


Role in a growth portfolio: Capital Preservation

- Portfolio is positioned for growth
- Still needs a risk mitigation portion
- Bonds are seen as dead weight in a growth portfolio

Hedged Equity: Portfolio Implementation

GROWTH ALLOCATION



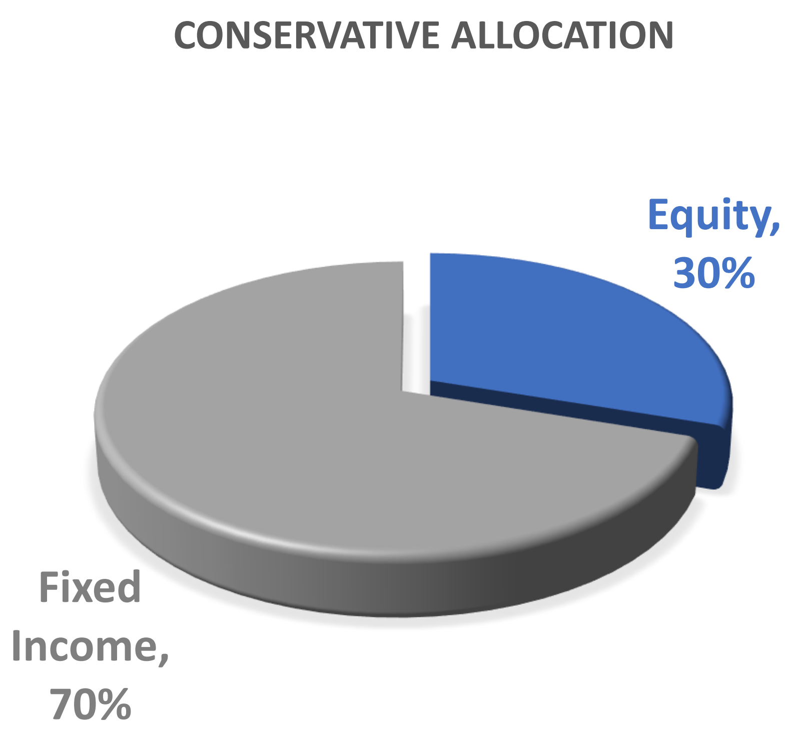
Role in a growth portfolio: Capital Preservation

- Bond complement or alternative
- Mitigate portfolio risk, reduce beta
- Allows more risk to be taken elsewhere in portfolio

Hedged Equity: Portfolio Implementation

Role in a conservative portfolio: Hedged Equity

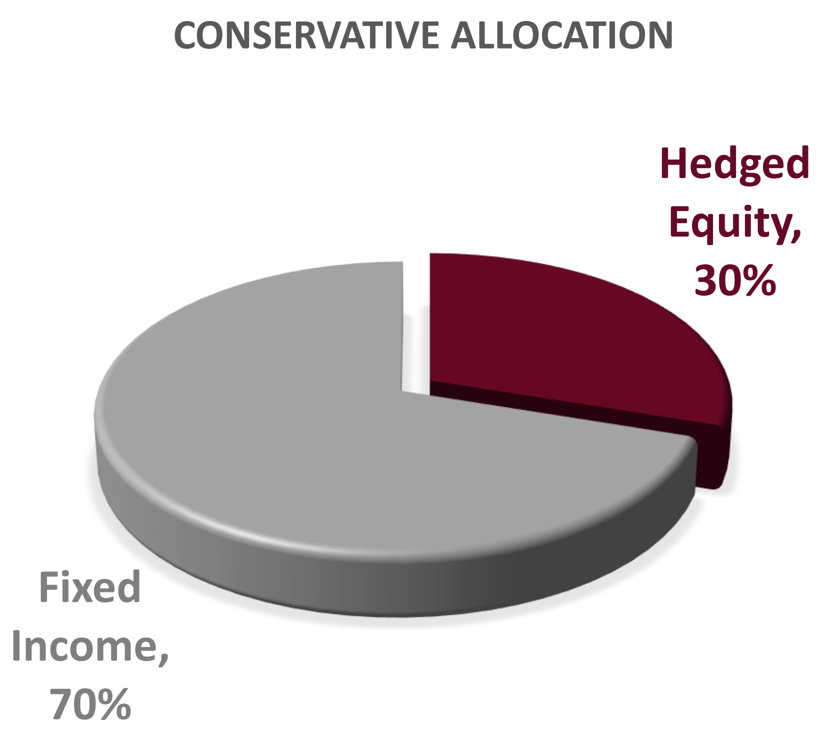
- Bonds as Treasuries, Munis
- Equity needed since bonds aren't beating inflation
- Terrified of downside in equities



Hedged Equity: Portfolio Implementation

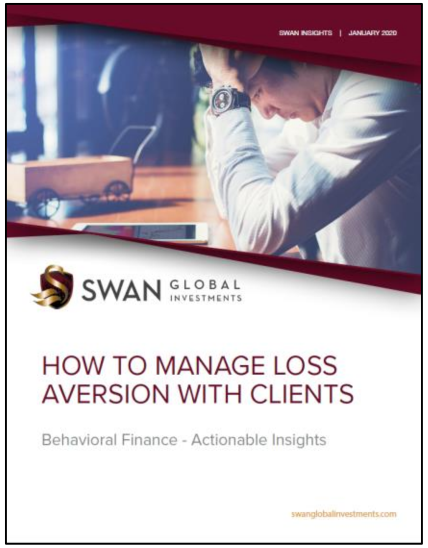
Role in a conservative portfolio: Hedged Equity

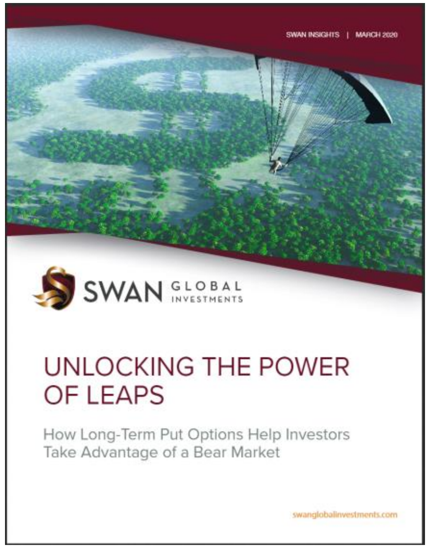
- Bonds as Treasuries, Munis
- Equity needed since bonds aren't beating inflation
- Hedged Equity: equity market exposure with risk mitigation



Insights & Resources

- How to Manage Loss Aversion with Clients
- The Math Behind Investment Success
- Important of Avoiding Big Losses
- Keep Calm and Hedge
- Unlock the Power of LEAPS





Section 3:

Staying Invested
With a Dynamic Approach

Lambert Bunker
Vice President
AthenaInvest

Traditional Approaches Are Not Working

60/40

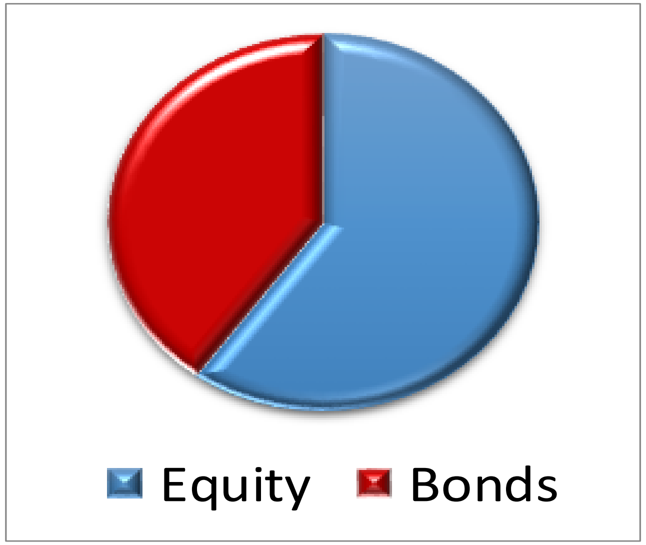
- Multiple Objectives
- High Correlations
- Low Bond Yields

Style Boxes

- Hurts Performance
- Highly Correlated

Complex

- Over-diversified
- Global Mush
- Weak Performance

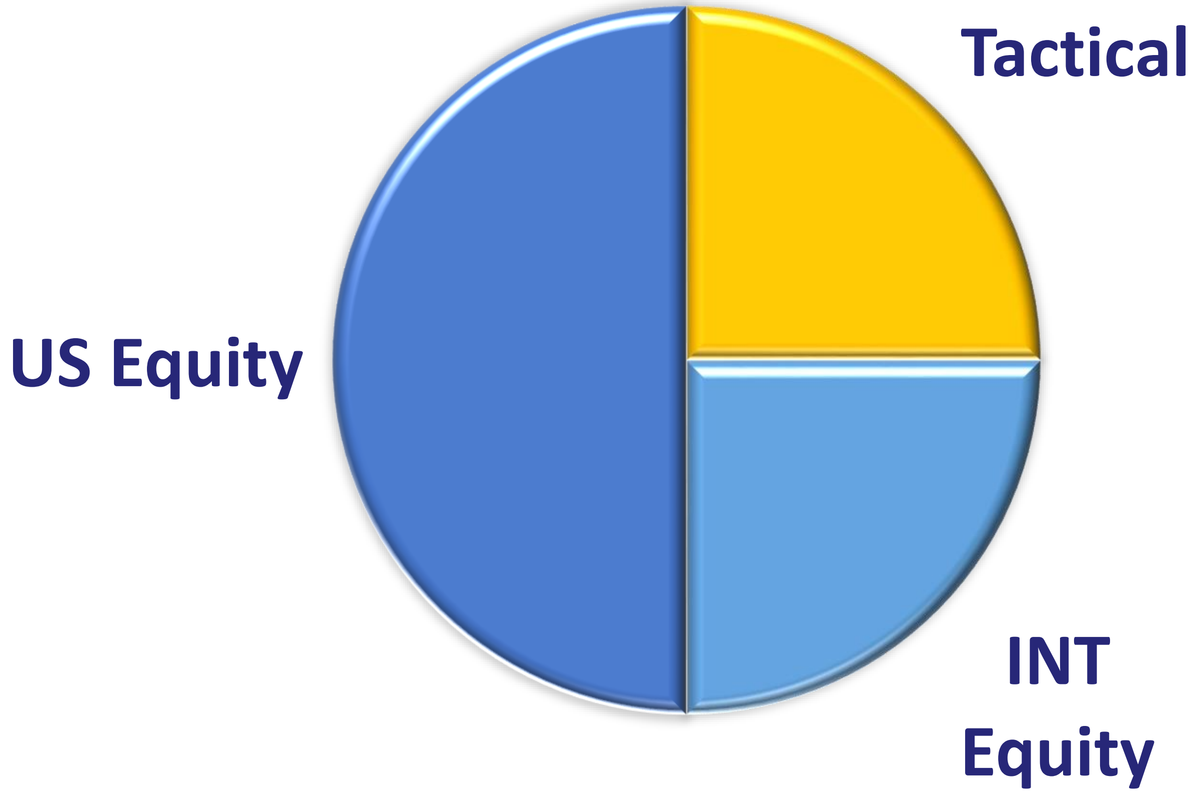


	Value	Core	Growth
Large			
Mid			
Small			

Portfolio Planning Framework

LIQUIDITY	INCOME	GROWTH
Stable Principal GOAL **Loss of Value** BIGGEST RISK	**Fund Ongoing Needs** GOAL **Decrease in Payout** BIGGEST RISK	**Accumulate Wealth** GOAL **Underperformance** BIGGEST RISK

Dynamic Overall Allocation



Strategic Allocation
Long Term
Global Equity

Tactical Allocation
Overweight / Underweight
Market Exposure

Academic Research Foundation

Investment Management (Active)
- Amihud & Goyenko
- NYU
- R-squared

Best Ideas (Conviction)
- Cohen, Polk & Silli
- Harvard, MIT, LSE
- Relative Weight

Strategy (Consistency)
- Howard
- Denver University
- Own Strategy Stocks

Consistent Research Results

4%-6% Excess Returns

Active Equity Mutual Fund Strategy Peer Groups

Fg

Future Growth
Fund managers search for companies poised to grow rapidly relative to others.

Cp

Competitive Position
Fund managers seek companies with traits such as high-quality management, defensible market position and a track record of innovation.

O

Opportunity
Employing strategies popular with hedge funds, these managers focus on market imbalances that are driven by events such as earnings surprises, mergers and acquisitions, spin-offs and companies "going private."

Q

Quantitative
Fund managers using mathematical and statistical modeling with little or no regard to company or market fundamentals.

P

Profitability
Fund managers favor companies with impressive gross, operating and net margins and/or return on equity.

V

Valuation
Fund managers use financial ratios to determine stock valuations and invest in companies that are underpriced.

Sc

Social Considerations
Corporate social responsibility, ecological awareness or religious tenets are a factor for these fund managers when selecting companies. The fund manager may look for these traits or for a lack of these traits.

Mc

Market Conditions
Fund managers take into consideration a stock's recent price and volume history relative to the market and similar stocks as well as the overall stock market conditions.

Ec

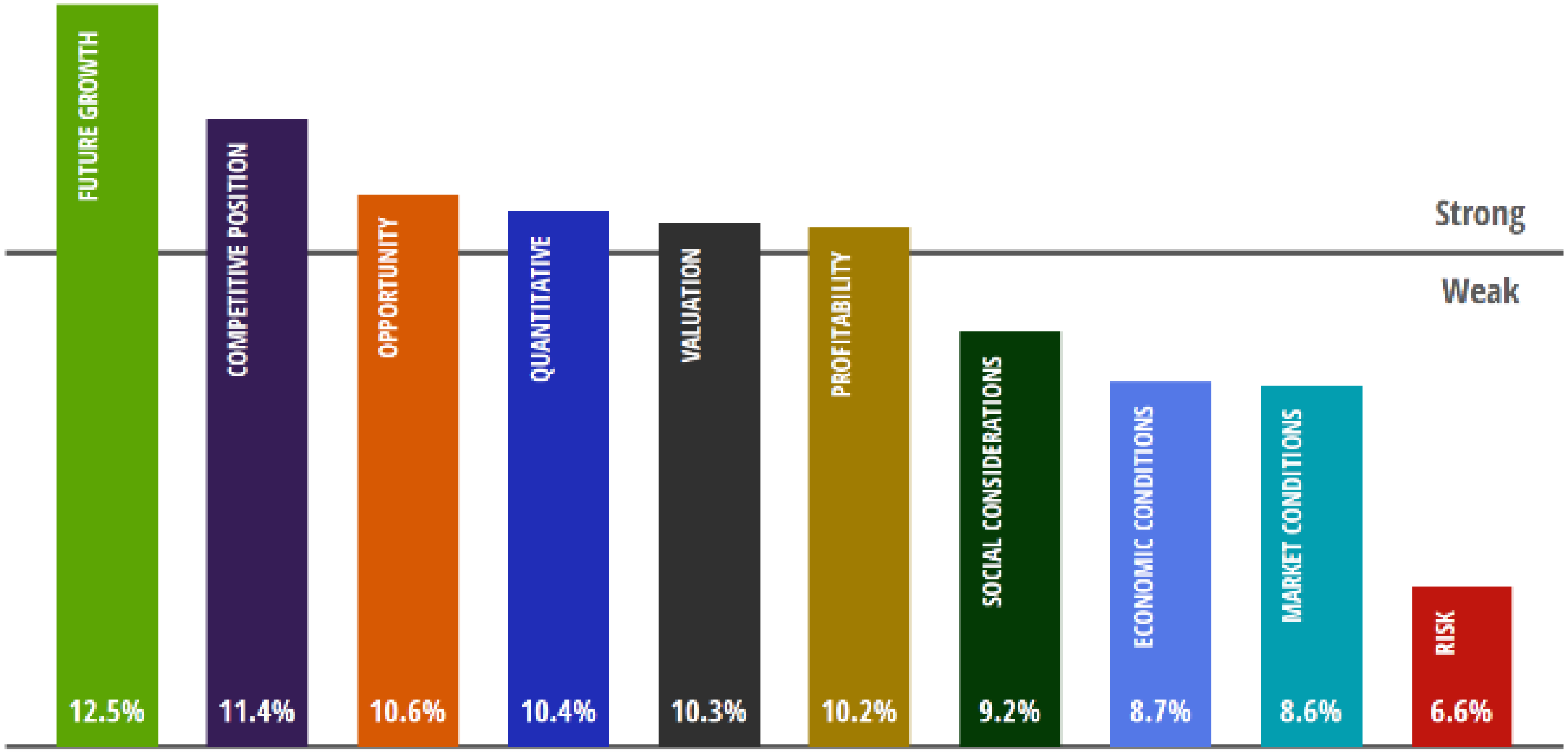
Economic Conditions
Fund managers start with a top-down approach and, using macro-economic forecasting, work their way down to favored industries and stocks.

R

Risk
Fund managers look to control risk, with increasing returns as a secondary consideration.

Strategy Diversification

COMPOUND ANNUAL INVESTMENT STRATEGY RETURNS (1980 - 2018)



Source: AthenaInvest, Inc.

Diversify By Strategy

Select Better Strategies

Select Truly Active Equity Mutual Funds

Desirable Behavior

Strategy

Consistency

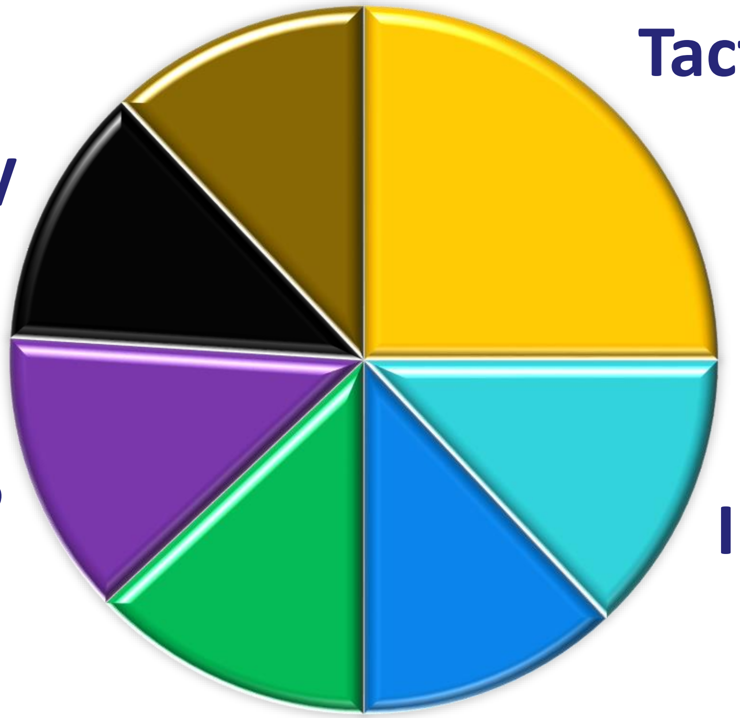
Conviction

Characteristics

Smaller

Specialized

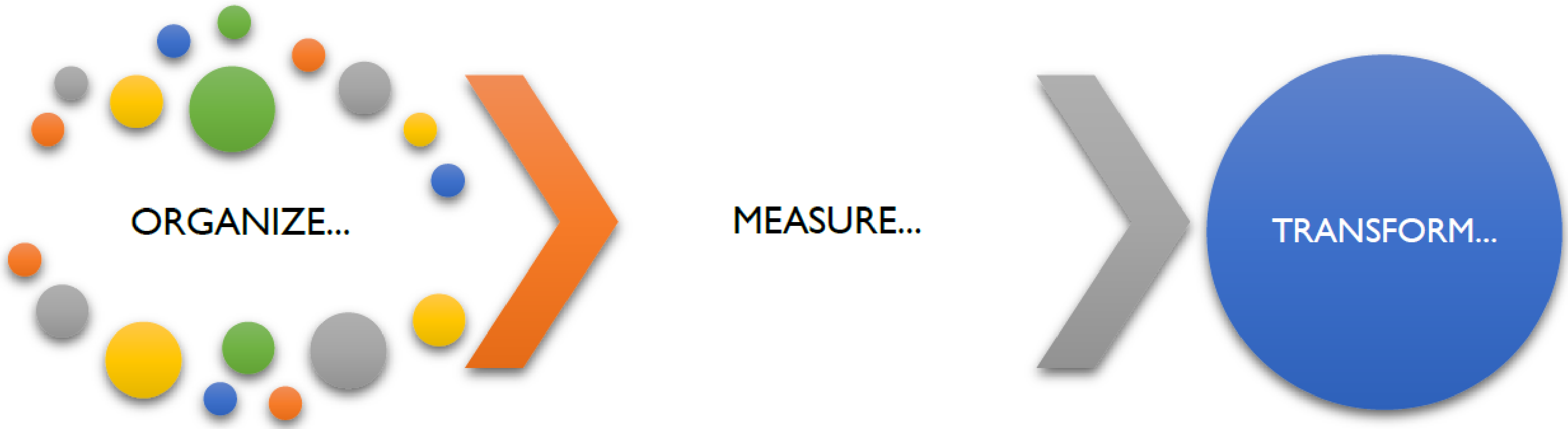
Portfolio Construction Designed to Perform and Keep Clients Invested



Strategic Allocation
Strategy Diverse
Truly Active
Specialized Expertise

Tactical Allocation
Responds To Market Conditions
Opportunistic & Defensive

Determining Expected Market Returns From Behavior



...equity markets by investment strategy and return factors

...current investor preferences versus the historical ranking

...relative investor preferences into expected returns

Behavioral Market Barometers

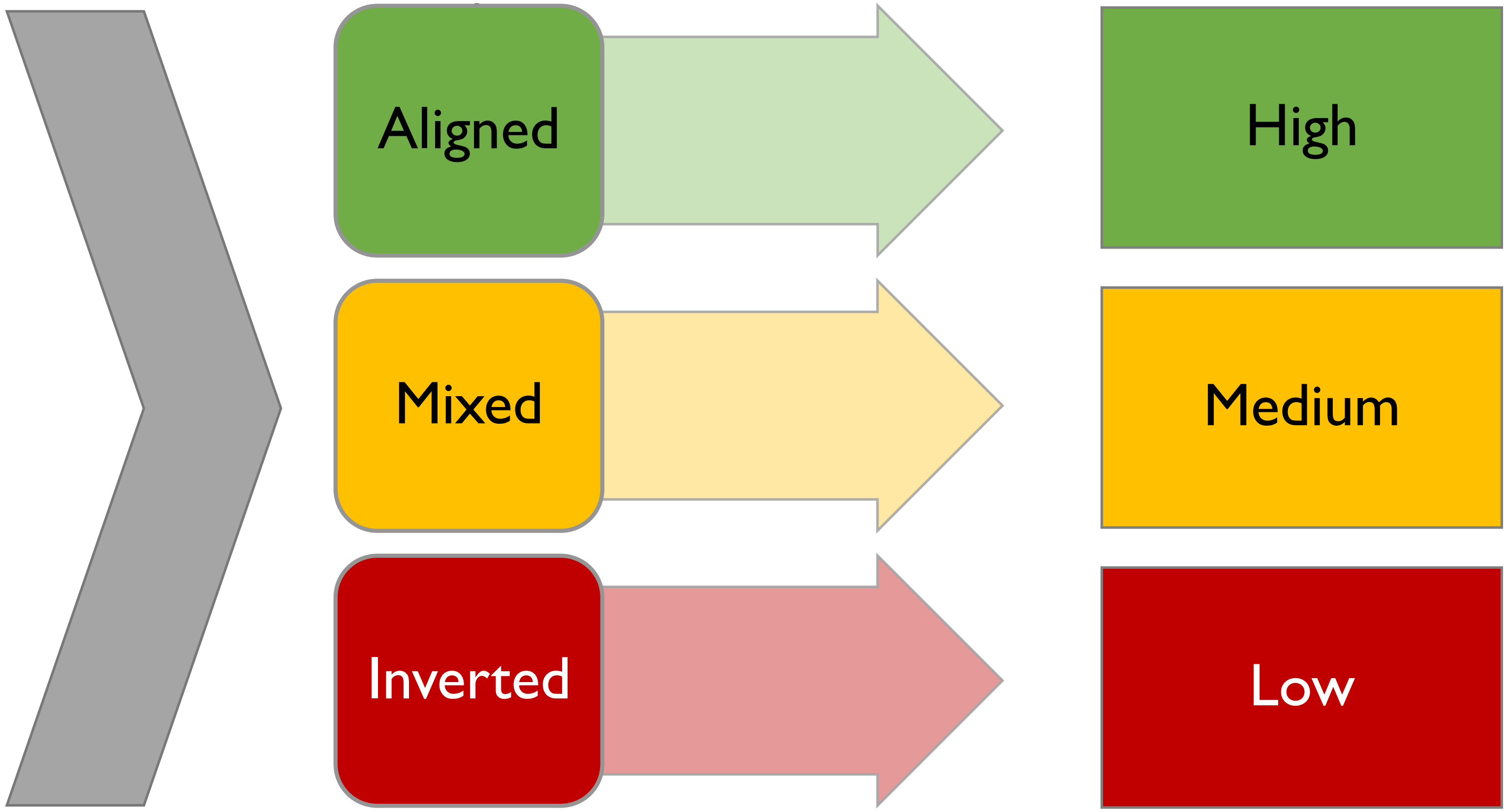
Relative Strategy Ranking Methodology

Strategy Ranking (1988-2007)

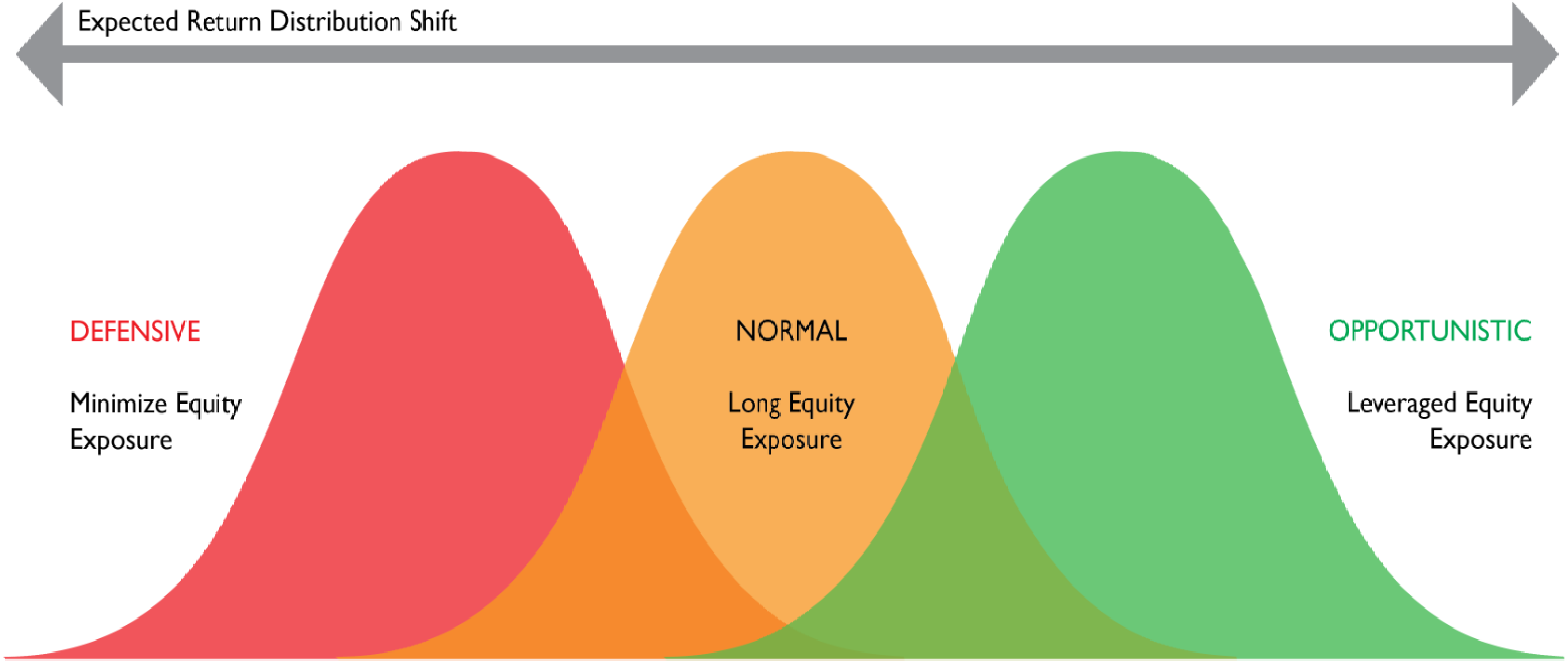
RANK	STRATEGY
1	Future Growth
2	Competitive Position
3	Opportunity
4	Profitability
5	Quantitative
6	Valuation
7	Market Conditions
8	Economic Conditions
9	Social Considerations
10	Risk

Current Strategy

Expected Returns



Expected Returns and Market Exposure



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Market Rotation and Beta Exposure

Athena Global Tactical ETFs Target Exposures [1]	
	Cash Equivalents
	1x US Large Cap
	1x US Small Cap
	1x Developed International
	2x US Large Cap
	2x US Small Cap
	2x Developed International

1. The portfolio typically seeks exposure in one of the above choices at any given time. Exchange Traded Funds (ETFs) are used to provide the desired exposure. See last page for portfolio risks.

Monthly Investment Process

Determine Expected Returns By Market
Based On Behavioral Market Barometers

Select Most Attractive Market
Based On Expected Returns

Determine Leverage
Based On Signal Strength

Select
ETF

Research Model Signals

Tactical Positions (1/1/2008 – 12/31/2017)

Market Exposure		Factor	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Positions and % of Months Held	
OPPORTUNISTIC	International Developed	200%											EFO	9.2 %
	US Small Cap	200%											UWM	25.0 %
	US Large Cap	200%											SSO	15.8 %
NEUTRAL	International Developed	100%											EFA	5.8 %
	US Small Cap	100%											IWM	0.0 %
	US Large Cap	100%											SPY	33.3 %
DEFEN-SIVE	Cash Equivalents	100%											SHV	10.8 %

Performance as of 11/30/20

INVESTMENT GROWTH OF $1 MILLION [1] (9/1/2010 INCEPTION)

ANNUALIZED TRAILING PERFORMANCE [1]

Period	Portfolio	Benchmark [2]
1 Month*	15.1 %	12.6 %
Year to Date*	6.6 %	10.7 %
1 Year	9.0 %	14.5 %
3 Years	9.5 %	8.6 %
5 Years	11.4 %	10.6 %
10 Years	16.2 %	9.4 %
Since Inception	17.0 %	10.3 %

* 1 Month and Year to Date returns are not annualized.

CALENDAR YEAR PERFORMANCE [1]

Returns	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Global Tactical		5.4 %	15.5 %	54.4 %	19.9 %	0.5 %	6.6 %	26.0 %	-2.2 %	25.3 %
Benchmark [2]		-7.6 %	16.5 %	23.3 %	4.0 %	-2.1 %	8.2 %	23.9 %	-9.8 %	26.3 %

Since Inception Statistics

Performance Statistics

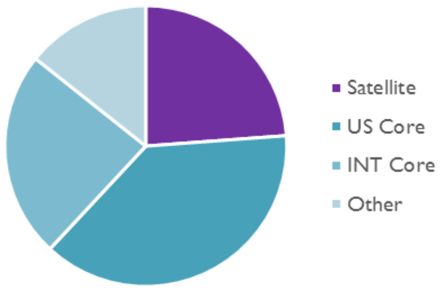
September 1, 2010 - November 30, 2020

^ 2010 returns are Sept 1 - Dec 31 and are not annualized.
ǂ Portfolio performance is net of management fees.

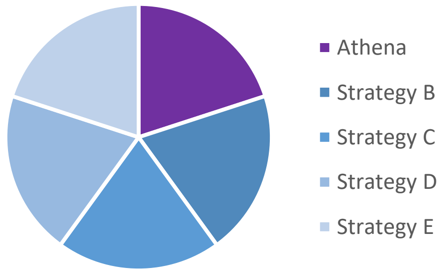
Metric	Portfolio	Benchmark
Alpha	5.37	0.00
Beta	1.03	1.00
Standard Deviation	17.1%	14.4%
R-Squared	0.75	1.00
Sharpe Ratio	0.91	0.69
Sortino Ratio	1.02	0.62
Upside Capture	121%	100%
Downside Capture	97%	100%

Global Tactical ETFs in Portfolios

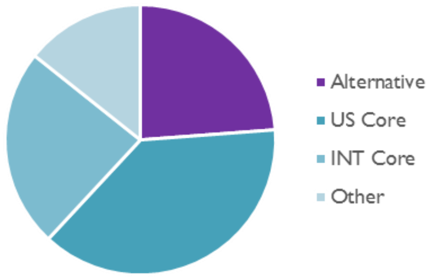
- Core & Satellite
  - Over/Under Weight
  - Tactical Allocation
  - Return Enhancer



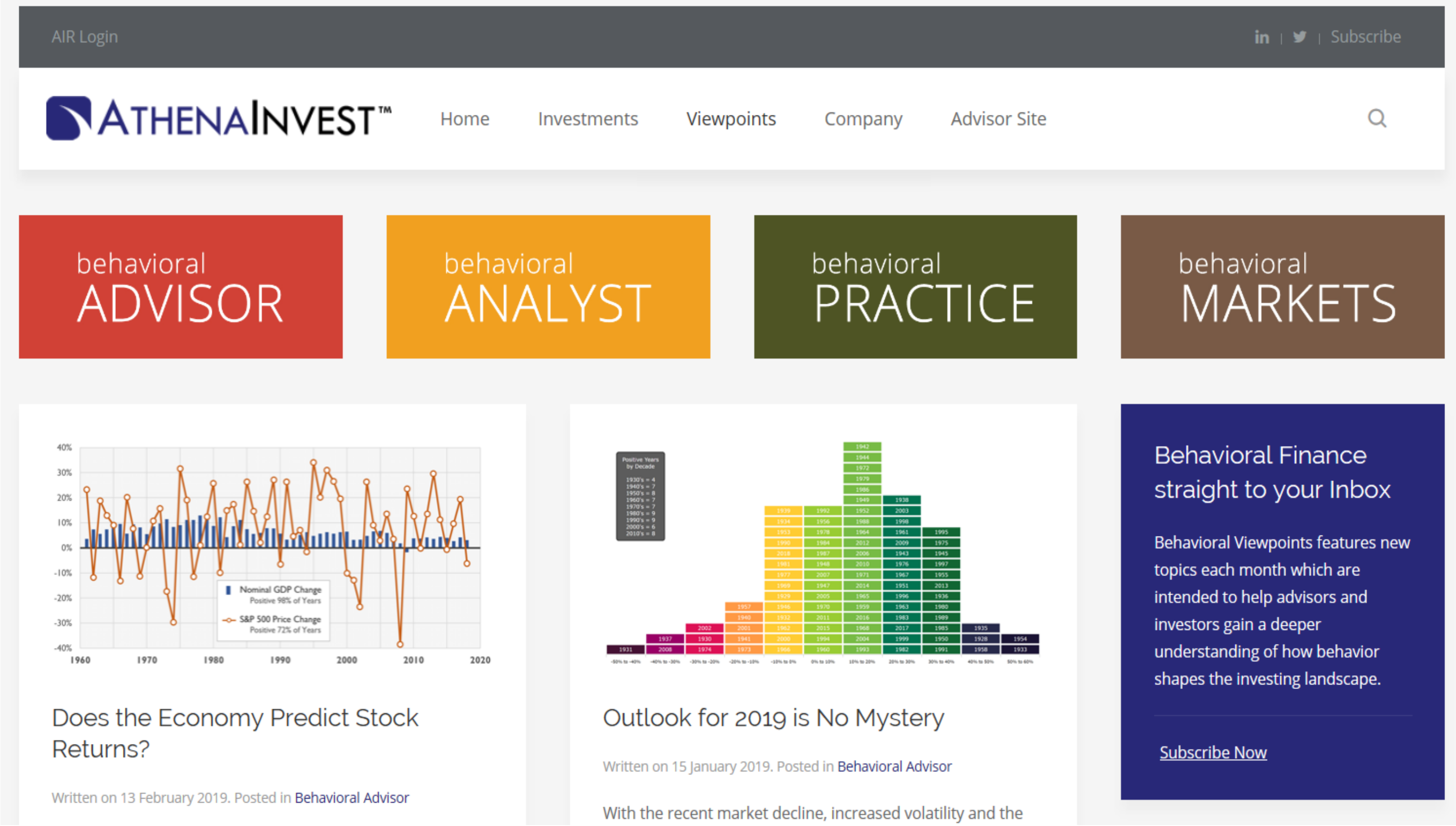
- Active Equity
  - Alpha Strategy



- Liquid Alternative
  - Global Macro
  - Leveraged Equity



Behavioral Viewpoints - A Unique Perspective



Get behavioral insights straight to your inbox :
Register at www.athenainvest.com/subscribe

Focused on Behaviors

- ❑ We take a behavioral view of the markets and financial advice.
- ❑ The Viewpoints section of our website is a valuable resource for unique behavioral perspectives.
- ❑ The AthenaInvest investment process is based entirely on behavioral factors.

Recap: Benefits of Applying Behavioral Finance Principles

1. Behavioral Research is Increasing in Relevancy and Application
2. Behavioral Practice Management + Needs-Based Planning
3. Behavioral Portfolio Construction Directly Mitigates Behavioral Challenges

SWAN GLOBAL INVESTMENTS

Hedged Equity: distinct & time-tested strategy

Directly address market risk and loss aversion

Seeks to smooth the ride and investor emotions

ATHENAINVEST™

Dynamic Portfolios: designed to perform and help clients stay invested

Core Equity: Strategy-diverse portfolio of truly active managers

Tactical Allocation: Responds to changing market conditions

Questions from the Audience

THANK YOU

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Disclosures

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	Swan DRS U.S. Large Cap Sectors Select Composite					S&P 500 ("The Benchmark")		60% S&P 500/40% Barclays Aggregate	
Year	Net-of-Fee Return	Composite Dispersion	Composite Assets (No. of Accounts / AUM in Millions)	Firm Assets in Millions	3-Yr Annualized Standard Deviation	Return	3-Yr Annualized Standard Deviation	Return	3-Yr Annualized Standard Deviation
1997	19.17%	-	< 5 / .22	0.20	-	10.58%	-	9.01%	-
1998	11.55%	-	< 5 / .32	0.31	-	28.58%	-	20.98%	-
1999	12.26%	-	< 5 / .72	0.73	-	21.04%	-	12.00%	-
2000	3.17%	-	< 5 / .90	0.93	-	-9.10%	-	-0.99%	-
2001	7.46%	-	< 5 / 1.66	1.59	7.23%	-11.89%	16.71%	-3.71%	9.99%
2002	12.22%	-	< 5 / 1.97	1.92	10.20%	-22.10%	18.55%	-9.82%	10.77%
2003	-0.65%	5.68%	6 / 3.74	3.74	10.11%	28.68%	18.07%	18.48%	10.26%
2004	12.28%	5.80%	7 / 4.45	4.66	9.94%	10.88%	14.86%	8.30%	8.49%
2005	7.47%	2.66%	7 / 4.76	4.98	6.19%	4.91%	9.04%	4.00%	5.61%
2006	18.14%	3.71%	9 / 7.22	7.76	4.60%	15.79%	6.82%	11.12%	4.33%
2007	8.81%	3.79%	10 / 8.82	9.40	6.04%	5.49%	7.68%	6.22%	4.56%
2008	-4.50%	5.00%	12 / 12.15	15.65	9.54%	-37.00%	15.08%	-22.06%	9.48%
2009	25.00%	11.69%	50 / 47.74	55.79	11.10%	26.46%	19.63%	18.40%	12.40%
2010	8.10%	2.13%	71 / 86.09	97.90	10.93%	15.06%	21.85%	12.13%	13.56%
2011	-5.38%	3.16%	97 / 46.89	59.44	9.67%	2.11%	18.71%	4.69%	11.28%
2012	9.01%	1.73%	276 / 97.52	400.19	7.65%	16.00%	15.09%	11.31%	8.64%
2013	14.34%	1.38%	286 / 230.84	1,052.99	6.84%	32.39%	11.94%	17.56%	7.00%
2014	6.52%	0.47%	372 / 315.14	1,810.04	4.83%	13.69%	8.97%	10.62%	5.48%
2015	-2.93%	0.46%	402 / 305.55	2,446.11	5.88%	1.38%	10.47%	1.28%	6.37%
2016	9.59%	0.58%	566 / 379.28	3,620.08	5.46%	11.96%	10.59%	8.31%	6.33%
2017	10.83%	0.26%	714 / 552.64	4,975.33	5.01%	21.83%	9.92%	14.21%	5.85%
2018	-7.74%	0.36%	582 / 430.65	4,063.88	6.44%	-4.38%	10.80%	-2.35%	6.38%
2019	13.94%	0.40%	524 / 340.23	3,065.24	7.21%	31.49%	11.93%	22.18%	7.07%

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The Composite relies on LEAPS and other options to manage this risk. Individual accounts own S&P 500 exchange traded funds and LEAPS associated with the exchange traded funds as well as multiple other option spreads that represent other indices that are widely traded. The Defined Risk Strategy was designed to protect investors from substantial market declines, provide income in flat or choppy markets, and to benefit from market appreciation. Stock and options are the primary components of the strategy.

The benchmarks used for the DRS US Large Cp Sectors Select Composite are the S&P 500 Index, which consists of approximately 500 large cap stocks, and a 60/40 blended composite, weighted 60% in the aforementioned S&P 500 Index and 40% in the Barclays US Aggregate Bond Index. The 60/40 is rebalanced monthly. The Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency). The S&P 500 Index is often used as a proxy for the overall U.S. equity market. Indexes and other benchmarks used herein are generally unmanaged and have no fees or expenses. An investment cannot be made directly in an index or some of these benchmarks. Swan’s investments may consist of securities which vary significantly from those in the benchmark indexes listed above and performance calculation methods may not be entirely comparable. Accordingly, comparing results shown to those of such indexes and benchmarks may be of limited use.

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