



# Achieving Your Investment Goals: A RiskFirst® Approach

Intelligent Investment Portfolios Designed for Individual Investors





# RiskFirst® - Defined

## Why You Should Consider Risk First When Investing

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We believe the most important risk to individual investors is the loss of capital, measured by peak to trough drawdown. **The RiskFirst® approach is built to manage those drawdowns within pre-defined limits.**

In the past, financial advisors sold investment products based on historical returns. Unfortunately, investors can never have the performance that already occurred. Thus, when their actual performance differs from their expectations based on past returns, they often make emotional driven decisions such as chasing returns at market highs or selling in fear, near market bottoms. This is one major reason why industry studies, such as those conducted by Dalbar, show that average investors have not experienced the average returns of the funds in which they invested.

We build and manage portfolios based on that drawdown definition of risk, rather than the common practice of building portfolios to maximize or optimize return. WHY?

- 1. Maximum drawdown risk is a variable that can be effectively managed.**
- 2. The objective of portfolios staying within their risk budget can be achieved with a high degree of confidence.**

Your money is too important to simply assume that recovery from losses is inevitable. If you are in retirement, and especially if you are taking distributions from your investments, significant losses can have devastating lifestyle implications. Every distribution taken from portfolios after suffering significant losses lengthens the time necessary for the portfolio to reach its previous value. This is why we built and utilize the **RiskFirst®** philosophy. **We believe that managing downside risk first, is how to best position investors for forward-looking success.**

Traditional buy and hold asset allocation strategies, such as the common 60% stocks and 40% bonds portfolio, were originally built for large institutions that have “infinite” time horizons like pension plans and endowments. **However, individual investors don’t have infinite time horizons. In fact, dramatic or large drawdowns in investments can have far reaching consequences.** While institutions can continue to hold their positions during market downturns and may be able to contribute more capital, individual investors, especially retirees, may be reliant on withdrawals of capital to support their lifestyle. For many individuals, a loss outside of their risk tolerance may mean an impactful change to their lifestyle and financial plan.

### Avoiding Loss of Principal is a Primary Component of Success

| ACTUAL LOSS | GAIN REQUIRED TO BREAK EVEN |
|-------------|-----------------------------|
| -10.0%      | 11.1%                       |
| -20.0%      | 25.0%                       |
| -30.0%      | 42.9%                       |
| -40.0%      | 66.7%                       |
| -50.0%      | 100.0%                      |

### Traditional Long-Only / Passive Allocation - How Much is Too Much Risk?

| BLENDED INDICES                          | MAXIMUM DRAWDOWN (2002-2022) |
|--|------------------------------|
| 20% S&P 500/ 80% Barclays U.S. Aggregate | -16.41%                      |
| 40% S&P 500/ 60% Barclays U.S. Aggregate | -21.30%                      |
| 60% S&P 500/ 40% Barclays U.S. Aggregate | -32.54%                      |
| 80% S&P 500/ 20% Barclays U.S. Aggregate | -42.37%                      |
| S&P 500                                  | -50.95%                      |

Source: Zephyr. For illustration purposes only. An investor cannot directly invest in an index.

# Keeping It Simple: Intelligent Portfolios Designed for Individual Investors

## You Cannot Control Performance, But You Can Manage Risk

Our portfolios are built based on risk-tolerance objectives and are designed to perform within drawdown guidelines. Words such as “conservative”, “moderate”, or “aggressive” can mean different things to different people. **A stated drawdown risk objectives help you understand when a portfolio is performing within guidelines to stay on track to meet your long-term financial goals.** Our approach is unique as it involves re-engineering an asset allocation portfolio and relabeling its components based on risk from a quantitative perspective. The result is an intelligent portfolio, dynamically managed to fit your needs.

### Risk Budget: Portfolios Designed to Put Risk First

Engineered Risk-Budgeted Portfolios have stated risk objectives. Each portfolio is managed to stay within its risk-tolerance objective.

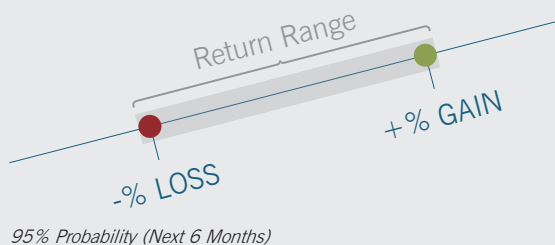
| PORTFOLIO     | RISK-TOLERANCE OBJECTIVE |
|---------------|--------------------------|
| ERB: DT 5-8   | 5-8% Drawdown            |
| ERB: DT 8-12  | 8-12% Drawdown           |
| ERB: DT 12-17 | 12-17% Drawdown          |
| ERB: DT 17-25 | 17-25% Drawdown          |
| ERB: DT 25-35 | 25-35% Drawdown          |


*For illustration purposes only. There can be no guarantee that any objective will be achieved.*

### Returns: Understanding and Accepting Reality: Range of Outcomes

Investment returns are not linear. While any portfolio may have an average annual historical return, every year is different. When a portfolio is on its intended track, the expectation for any rolling time frame, for example, the next six months, will have a **range** of returns from negative to positive. Investors should recognize that this is normal and that risk-budgeted portfolios are **engineered to operate within an expected range.**

Given the fact that no one can predict future returns, it is important to understand that investments have a range of expected return outcomes.



The background of the slide is a photograph of a mountain range. The mountains are layered, with the closest ones in dark blue and the ones further away fading into a light, hazy blue. The overall tone is cool and atmospheric. In the center of the image, there is a large, solid light-blue rectangular box. Inside this box, there is a paragraph of white text. The text is centered and framed by two thin, vertical white lines on either side.

Words, such as “conservative”, “moderate” or “aggressive”, may not mean much to an investor when evaluating the risk in their portfolios. Without an associated number for potential loss, it is difficult for investors to fully understand the financial impact of the risk they are taking. Understanding objective drawdown limits and ranges of return expectations can help investors and financial professionals be on the same page. Engineered Risk-Budgeted Portfolios are designed to be simple, transparent, effective, and forward-looking, for the individual investor – no compromises.

# Taking Advantage of Proven Investment Management Success

## Investment “Style” Diversification is Important

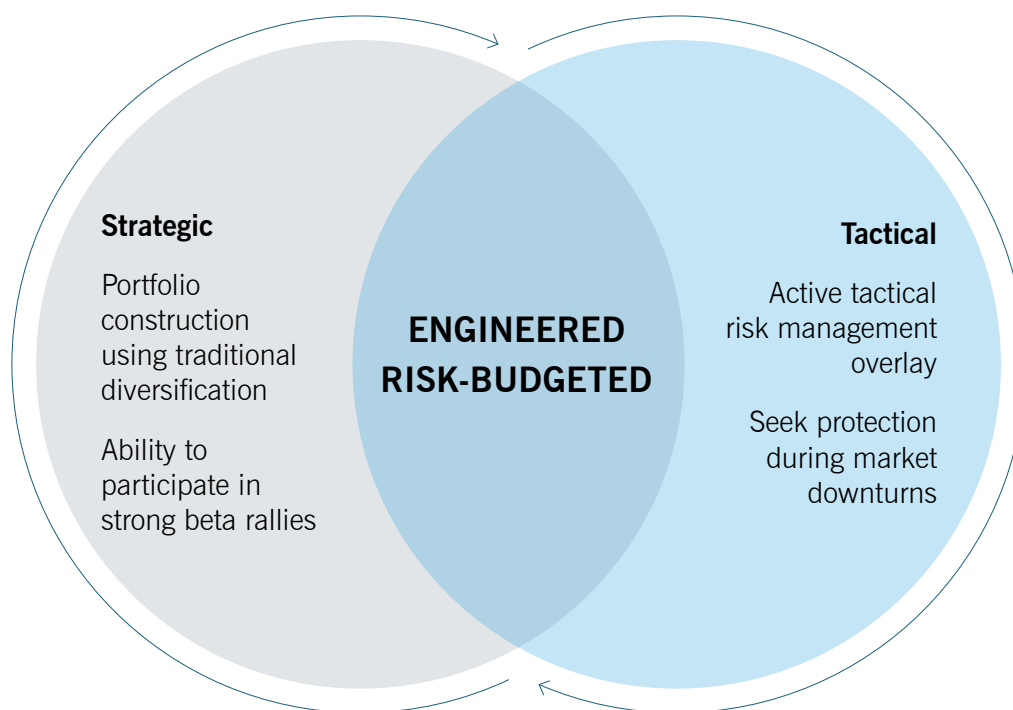
There is great debate on wall street and in academia between passive and active investment management. There isn't a clear winner. Active strategies, focused on reducing risk, may not fully participate in all the upside of a bull market. However, during major market sell-offs, passive index strategies do not have the flexibility to side step adverse events to reduce losses. We believe in the merits, backed by quantitative research, of incorporating both styles in a portfolio.

## A Unique Investment Solution to Deliver Maximum Value

Non-binary style of investing to take advantage of the strengths of each investment style from passive to active

Investment decisions driven by quantitative research, built upon time-tested empirical research and results

Unconstrained management driven solely by a client's risk tolerance











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The traditional strategic asset allocation approach blends historically “low or non-correlated” asset classes, such as stocks and bonds. During periods of distress, all assets can decline, thus diversification can fail. Our approach utilizes different investment styles, pairing tactical risk management with lower cost strategic beta. Tactical risk management strategies are used to sidestep unfavorable investment environments by allocating defensively into cash or short-term fixed-income securities. By allocating to different investment styles, the portfolios seek to offset potential under-performance of tactical strategies during rising markets, and add potential loss minimization to strategic, long-only strategies during market downtrends. We build portfolios, based on the success of long-term asset allocation with enhanced style diversification, that seek to navigate any market environment going forward.

# The Engineered Risk-Budgeted Portfolio

## Combined Benefits of Strategic & Tactical

| Methodology   | Strategic Long-Only / Modern Portfolio Theory Allocation   | Tactical Risk-Managed   | Engineered Risk-Budgeted   |
|---|--|---|--|
| <p>  Market Crisis<br/>  Market<br/>  Portfolio Value<br/>           For illustration purposes only. There can be no guarantee that any objective will be achieved.         </p> |  |   |  |
|   | <ul style="list-style-type: none"> <li> Stays invested to capture strong market rallies</li> <li> May incur larger drawdowns amid market crises</li> </ul> | <ul style="list-style-type: none"> <li> Can move into defensive positions to mitigate portfolio drawdown</li> <li> May miss initial upside in a recovery – or buy back in higher than sell point</li> </ul> | <ul style="list-style-type: none"> <li> Combines the benefits of both strategic and tactical risk management</li> </ul> |
| <b>Approach to Minimize or Avoid Loss</b>   | Seeks to allocate money to low or non-correlated asset classes.  | Flexibility to move to cash or safe havens during a market downturn.  | Incorporates tactical mandates to move risk assets to safe havens during a market downturn. Predetermined allocations to non-correlated assets.  |
| <b>Approach to Participate in Market Upside</b>   | Portfolio will always have some type of market exposure at all times.  | Flexibility to move into risk assets during a market uptrend.   | Use different methodologies to move a portion of a portfolio from safe havens to risk assets during market uptrends, while maintaining beta exposure at most times.  |
| <b>Benefits</b>   | Having a mix of different asset classes to help avoid the risk associated with being concentrated in one asset class while staying fully invested.   | Potential to avoid larger drawdowns, while capturing upside.  | Combine the benefits of both traditional asset allocation and investment style diversification.  |
| <b>Drawbacks</b>  | During times of financial crisis, asset classes that appear to be uncorrelated often become correlated as investors sell due to a panic.   | During extended beta market rallies, fully tactical strategies can miss upside capture.   | Not “STLO” (Shoot The Lights Out Capital Management).  |

# A Multi-Style Portfolio: Strategies Built By Purpose

## Allocations By Objectives

Whether it is to simply be invested in the general market or to actively minimize volatility, each strategy allocation in our investment portfolios must have a qualitative purpose. The different styles and objectives help to diversify portfolios and to reduce single investment style risk (such as long-only stocks and bonds). The components, while having independent investment strategies and mandates, are constructed to work holistically together to seek to manage the portfolio within its stated risk drawdown objectives and to best position the investor for long-term success over any market environment.

## Objective Based Investment Allocation

**Non-Traditional Fixed-Income** — Ability to participate in higher yielding, lower credit quality fixed income given a tactical risk management overlay.

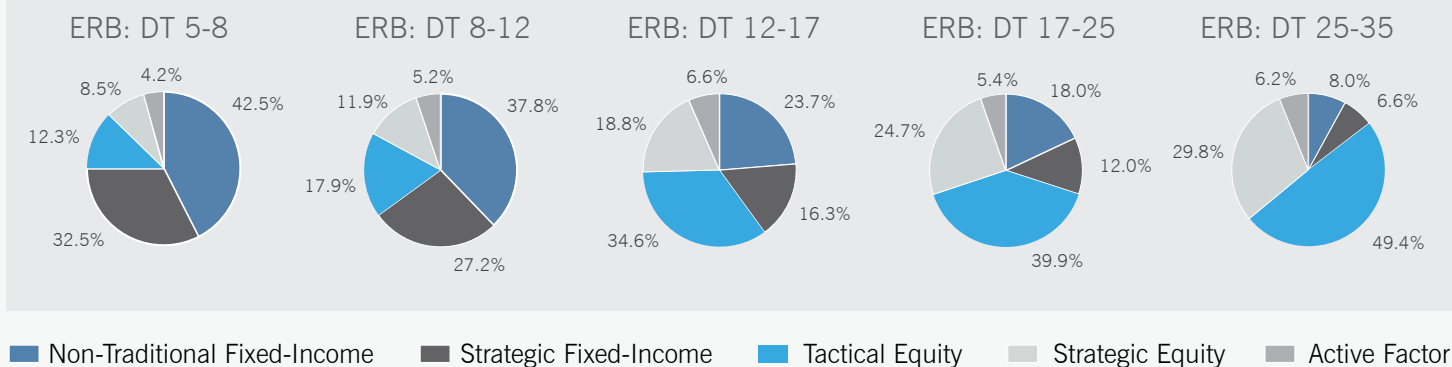
**Strategic Fixed-Income** — Traditional fixed-income to hedge equity risk during flight-to-safety.

**Tactical Equity** — Holds domestic and international equity with a tactical risk management overlays attempting to avoid major drawdowns.

**Strategic Equity Beta** — Expected to participate in equity market ups and downs via low cost implementation. Active component to seek long term alpha.

**Active Factor** — Flexible allocation strategy that helps normalize portfolio factor biases.

## Building an Engineered Asset Allocation Framework



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# What's Your Investment Strategy?

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Traditionally, investment portfolios have been built and labeled with terms such as Conservative or Moderate without any direct connection to the actual risk in terms of loss to the investor. Investors often take a risk assessment to test into a pre-made “efficient” portfolio without any context on the real perceived risk to their capital. **We take a different approach. The RiskFirst® process prioritizes defining risk numerically, measured by drawdowns.** After we have established a numeric risk objective with you, your portfolio is constructed to be fully diversified by asset class, style, strategy purpose, and is managed utilizing institutional, quantitative tools. The result is an intelligent, unparalleled investment solution built and tailored directly for you to stay on track to meet your financial goals.

## Key Takeaways

RiskFirst® philosophy prioritizes managing drawdown risk as a key component for success

Stated risk tolerance objectives by drawdown help set realistic expectations

Dynamic, intelligent portfolios engineered and managed by investment professionals for the individual investor

Talk to  
a Professional  
at **Shorebreak Capital**



**Bryan Bourgeois**

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## **Disclosure**

*For illustration purposes only. All statements are opinions and should not be construed as facts.*

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