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**Investment Strategy in Today's World –  
Understanding the Macro and Micro Issues in  
Order to Protect Your Future**

Robert Benson and Will Lofland  
GuideStone

Friday, September 22 at 3:30 PM

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**The Trump Era**  
2017 Market Review & Outlook

Robert Benson, CFA  
GuideStone Capital Management

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**The year's biggest stories**

- Very resilient stock market – But market internals demonstrate fading investor confidence while technicals are weakening
- Political and social acrimony growing – Russia story, WH staff shakeups, Fake News, Twitter Wars, Impeachment talk, Foreign policy issues, etc.
- Fed reducing stimulus – Rising FF rate plus a reduction in the balance sheet are a big risk to markets, and other global central banks are moving the same direction
- Economic growth still weak – The US economy is growing at 2.0% or less nine years into an expansion, very weak by historical standards, with little hope for an acceleration short of policy approval

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**Key risks for investors**

- Stocks are expensive – reflecting pro-growth policies that are unlikely, not reflecting economic fundamentals
- Complacency is high and volatility is very low
- Fed is in tightening mode
- Geopolitics have become less stable

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**Stocks, Bonds, and Gold all moving higher**

ASSET CLASSES SENDING MIXED MESSAGES ABOUT INVESTOR RISK APPETITE



Source: FactSet Data Systems

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**Growth & Large beat Value & Small through first 8 months**

TRUMP/REFLATION TRADE FALTERS- INVESTORS LOSING FAITH?

S&P 500 Sector	Performance
Technology	26.1%
Health Care	18.7%
Utilities	14.2%
Materials	11.4%
Discretionary	10.7%
Industrials	9.3%
Real Estate	8.2%
Staples	6.9%
Financials	6.6%
Energy	-15.6%

	YTD 2017 Total Returns (%)		
	Value	Core	Growth
Large	4.8%	11.8%	19.2%
Mid	4.6%	8.7%	14.0%
Small	-1.3%	4.4%	10.8%

Source: FactSet Data Systems

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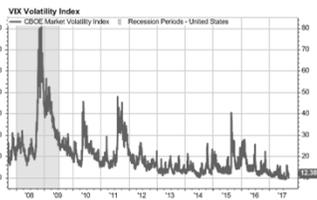
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**Volatility remains historically low**

EVEN N. KOREA THREAT AND TRUMP STAFF ISSUES BARELY MOVED THE NEEDLE




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**Investors are too complacent, risks not appreciated**

THE S&P 500 HAS HIT 42 NEW ALL-TIME HIGHS SINCE THE ELECTION




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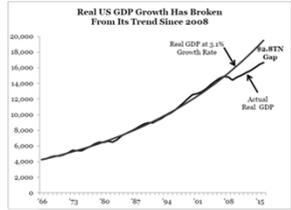
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### Very weak economic expansion

WHY AREN'T STOCKS REFLECTING THIS?



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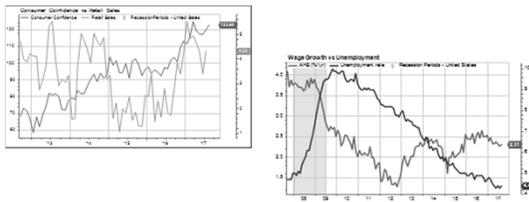
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### Conflicting data

CONFIDENCE & EMPLOYMENT STRONG, WAGES AND RETAIL SALES WEAK



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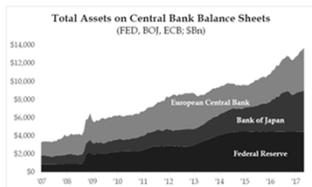
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### Monetary stimulus has been unprecedented

THE THREE LARGEST CBs HAVE GROWN BALANCE SHEETS BY ROUGHLY \$10 TRILLION SINCE FINANCIAL CRISIS

FED BALANCE SHEET MAY BE FLAT, BUT THOSE OF THE ECB & THE BOJ CONTINUE TO GROW



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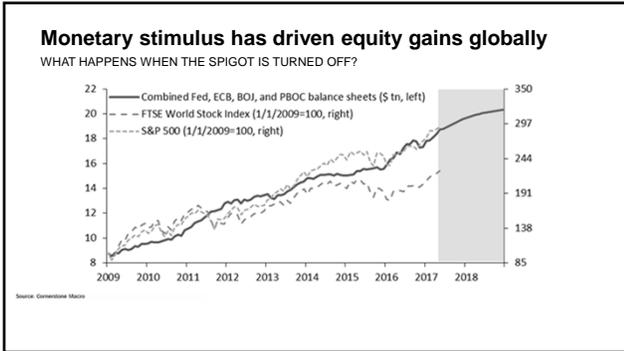
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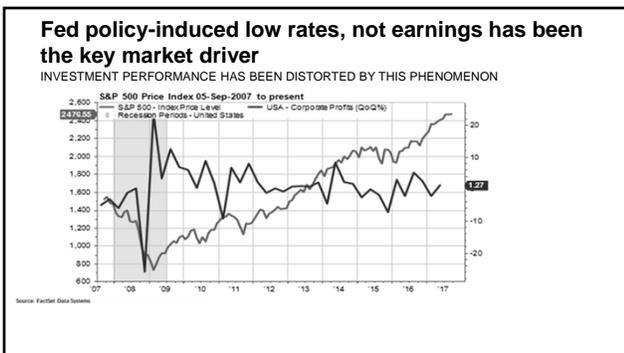
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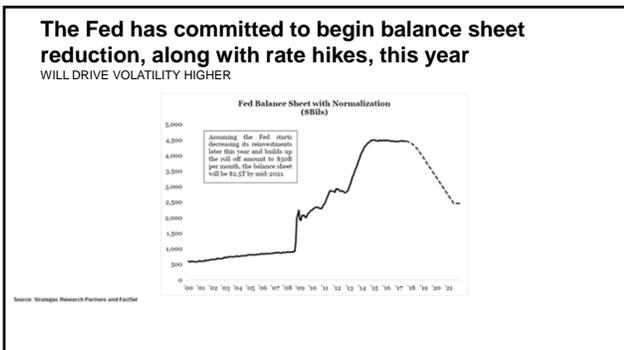
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**Higher interest rates will hurt the consumer**  
 TOTAL DEBT BACK TO PRE-CRISIS HIGHS




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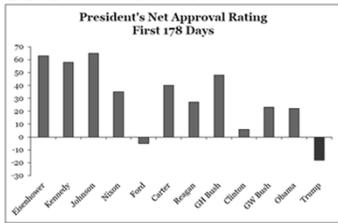
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**Acrimony likely to prevent meaningful legislation**  
 THIS IS A KEY DIFFERENCE VS. PRIOR ADMINISTRATIONS




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**The Trump effect – is it still viable?**

SINCE ELECTION, STOCKS ARE HIGHER BUT SUPPORTING DATA POINTS HAVE DETERIORATED, HOW LONG CAN THIS CONTINUE?




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**2H17 Outlook – “Goldilocks” it may not be**

- Stocks prices do not reflect the true risks investors face today
- Policy approval needed to drive growth – does not appear likely anytime soon
- Rising interest rates and declining global liquidity is a major risk for the markets
- Portfolio diversification is critical in this environment

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**Behavioral Economics and  
Choice Architecture**

Will Lofland  
GuideStone Financial Resources

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**Main Takeaways**

- Understanding Behavioral Economics and Choice Architecture Help:
- Plan Design Decisions
  - Determine Objectives
    - Employee Participation Levels
    - Employee Engagement:
      - Financial
      - Knowledge

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### Traditional Economics

Traditional economics is predicated upon  
Rational choice optimization by consumers / participants.  
Hmmm....  
Does this describe you?  
What if  
Psychology + traditional economics = ?

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### Traditional Economics + Psychology = ...

**Behavioral economics:**  
A method of economic analysis that applies psychological insights  
into human behavior to explain economic decision-making

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### Psychological Factors

- Participants exhibit (just to name three):
  - Loss aversion
  - Inertia
  - Myopia

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### What is choice architecture?

**Definition:**

The design of different ways in which **choices** can be **presented** to consumers and the impact of that presentation on consumer **decision-making**



**Here's the exciting point:**

Choice architects can make major improvements to the lives of others by designing user-friendly environments / formats which promote healthy decision-making.

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### Some Basic Principles of Good Choice Architecture

**Defaults**

- Many people will take the option that requires the least effort, or the path of least resistance.
- Thus, defaults are everywhere and powerful.

**Expect error**

- A well-designed system expects its user to err and is as forgiving as possible.

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### Two More Basic Principles of Good Choice Architecture

**Feedback**

- Well-designed systems show people when they are doing well and when they are making mistakes.

**Structure complex choices**

- As choices become more numerous and complex, good choice architecture will provide structure, and structure will affect outcomes.
- E.g., "collaborative filtering"

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### Choice Architecture Could Be Coming to Your Home

**Auto-Schedule**  
Turn it up, turn it down. Nest remembers what temperatures keep you comfortable and creates a custom schedule for your home. As your life and the seasons change, Nest automatically adapts.

**Always**  
Always automatically turns off the AC a few minutes early, but keeps the fan running. Always keeps you just as comfortable but turns your AC less.

**The Nest Leaf**  
Whenever you make a choice to save energy - like choosing an energy-efficient temperature - you'll see a Nest Leaf. People who earn a Leaf every day save 10% more on average.

**Auto-Away**  
Nest uses its activity sensors to sense when nobody's home and turn itself to an energy-saving temperature. Auto-away works on 95% of homes, even if there is in a room you don't use much.

**System Match**  
System Match automatically turns on specific features for your heating or cooling systems to make you more comfortable and help you save energy.

**Energy History**  
See exactly when your system was on with Energy History. Then get a summary of your entire month's energy use with the Nest Energy Report. The more you know, the more you can save.

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### What Are Your Choices?



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### Thoughts on a Behaviorally Healthy Retirement Plan

Shlomo Benartzi

Professor and co-chair at the Behavioral Decision-Making Group at UCLA Anderson School of Management, author of *Save More Tomorrow*:

He believes a behaviorally healthy retirement plan should look like this:

- 90% - Participation rate
- 10% or more - Minimum savings rate
- 90% - Participation in Date Target Funds

This is just one expert's view.  
What do you think your plan should look like?  
We acknowledge each plan has different dynamics.

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**What levers do you have?**

The power of default – auto enroll

Match and cap optimization

Date Target Funds – Guided Planning Services (“GPS”)

Lifetime planning discussions

- \* Bridging the identity and empathy gaps
- People can’t relate to their future selves.
- Present emotions are more important than future emotions.

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**Outcomes of Different Matching Formulas\***

	Formula	Likely Employee Deferral	Combined Deferral**	Employer Cost (% of payroll)
Base	\$1 for \$1 up to 3%	3%	6%	2.7%
Option 1	50 cents up to 6%	6%	9%	2.7%
Option 2	25 cents up to 6%	6%	7.5%	1.35%
Option 3	25 cents up to 10%	10%	12.5%	2.25%
Option 4	20 cents up to 10%	10%	12%	1.8%

\* Assumes 90% participation  
 \*\* Combined employee / employer deferral

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**Are investors saving enough?**

The divide by 300 rule – a common industry shortcut that converts current account balance to projected annual income assuming 4% return at time of retirement

$\$70,000 = \$233 / \text{month}$

$\$100,000 = \$333 / \text{month}$

$\$300,000 = \$1,000 / \text{month}$

$\$1,000,000 = \$3,333 / \text{month}$

Wealth illusion – moderately large sums of money loom erroneously large in investors’ minds

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**Bottom Line**

Awareness of behavioral economics can make a difference.

You too can make a difference as choice architects!

For Further Discussion / Information...  
Come Talk To Will After The Talk!

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**References**

*Save More Tomorrow* - Shlomo Benartzi

*Misbehaving: The Making of Behavioral Economics* –  
Richard Thaler

*Thinking, Fast and Slow* – Daniel Kahneman

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*Do well. Do right.®*

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