



Psychology of Financial Advice Winning By Not Losing

Name

Title

Date

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Voya™ Investment Management was formerly ING U.S. Investment Management



Observations on Behavioral Finance

- The topic is interesting
- The topic is logical
- The topic confirms much of what I already know
- I leave training having been entertained
- **I don't get concrete, actionable ideas to help me manage my business**

Disclaimer

The content of this presentation is for entertainment purposes only. It is intended to be logical in nature and seeks to confirm much of what the audience already knows. This content, can in no way, be used by audience participants to improve business practices. Any attempt to use this content to improve business practices will be deemed by audience members to be extremely hard, uncomfortable, impractical, and, could result in improved business practices should it actually be implemented. All concrete, actionable ideas contained in this presentation should be considered useless unless actually used by audience members. After all, psychology is the study of the mind and is believed by many in the academic world to be “crazy science,”pun intended.



Winning by Not Losing: We'll Discuss

Secrets of the Greatest Investors

The Impediments to Investment Success

Action Steps

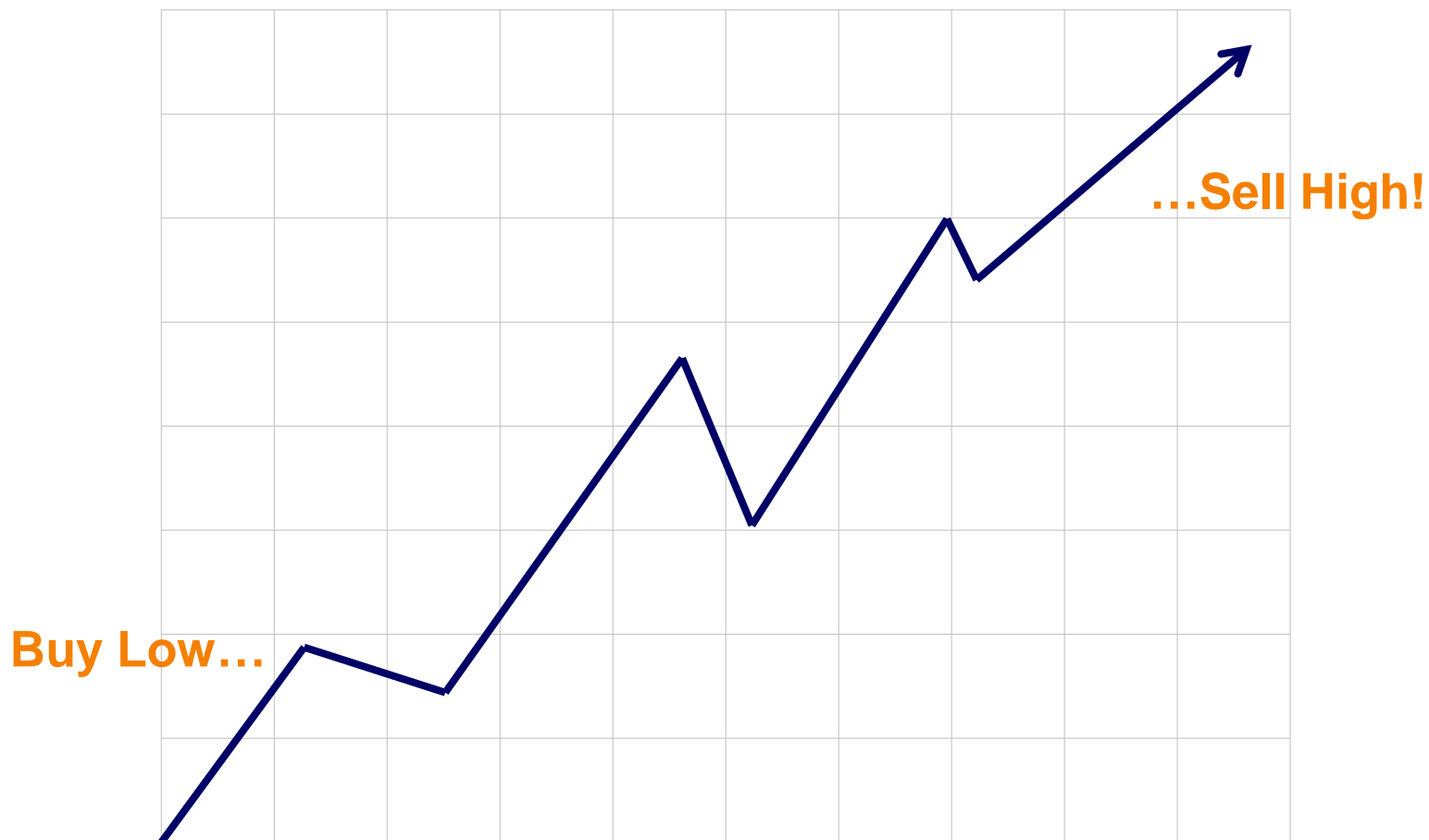
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The Secret



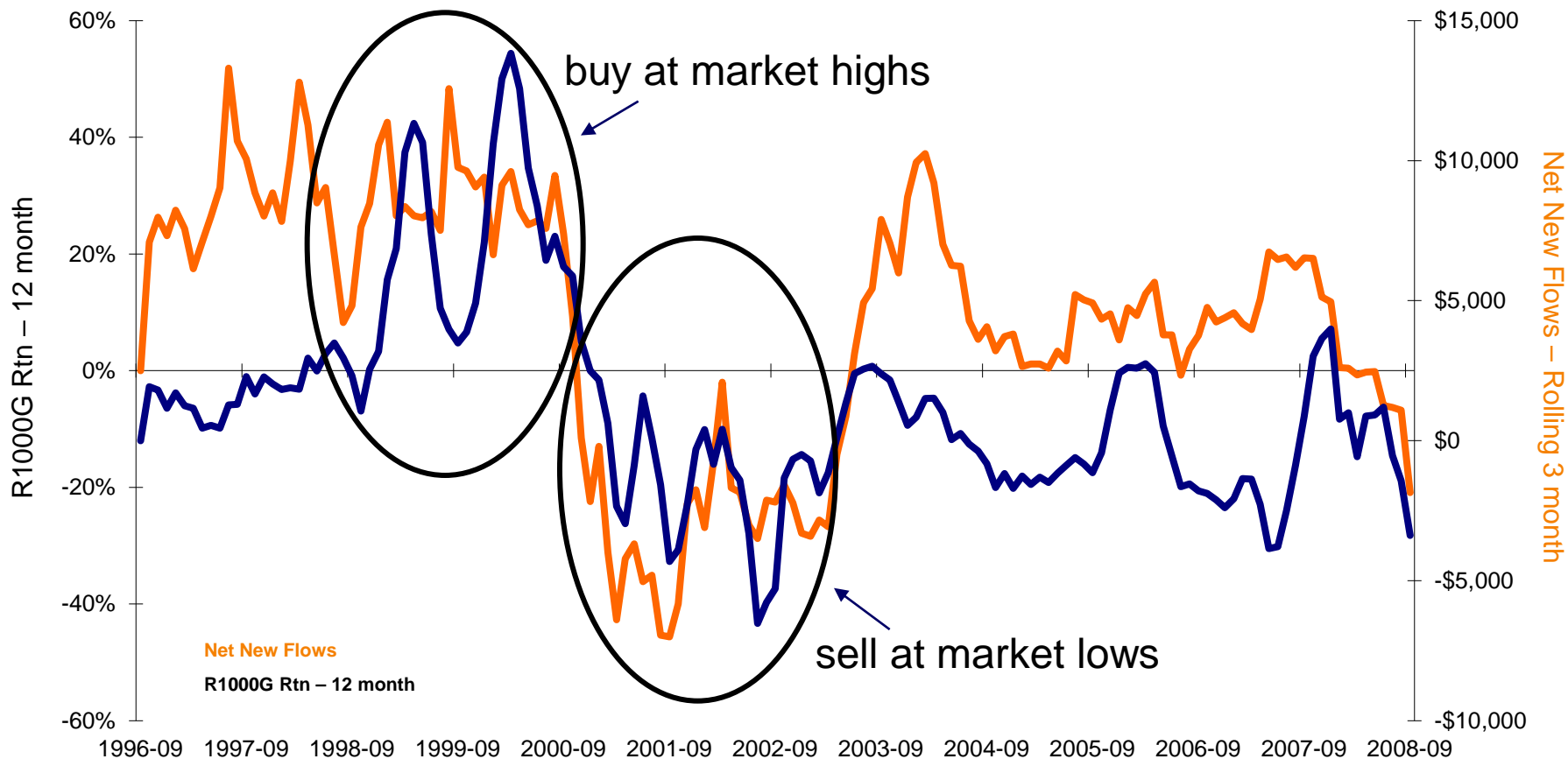
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The Effect of Fear and Greed



Source: Strategic Insight; utilizes Morningstar Large Cap Growth category as definition

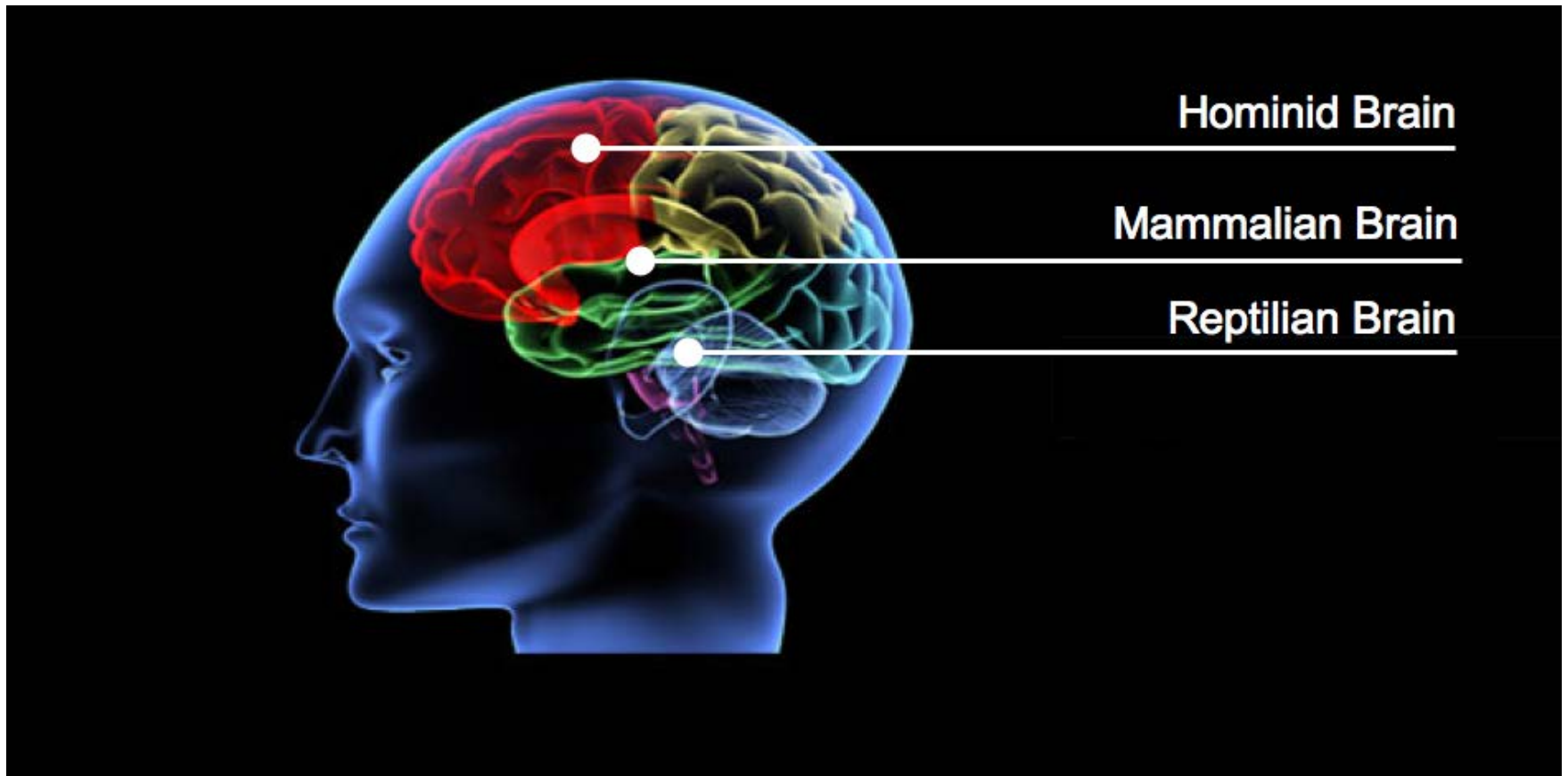
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So..... what's the impediment?.



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Communicating with Clients: Concrete, Actionable Ideas

- We weren't put on this earth to be investors
- We were put on this earth to be **survivors!!!**
- Investing is simple, but it's not easy.
- Successful investing mandates decisions which are logically correct, but emotionally uncomfortable.

Human Biases

Confirmation Bias

Familiarity Bias

Loss Aversion

Snake Bite Effect

Recent Bias

Herding & Social Conformity

Selective Inattention

Hindsight Bias

Overconfidence

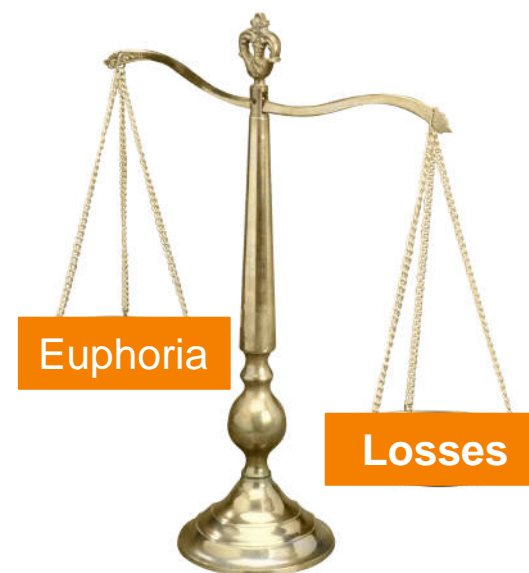
House Money Effect

Mental Accounting

Affirmation Bias

Loss Aversion

- Science has proven investors prefer not to lose money rather than to make it.
- **Fact:** Investors are **2.5 x** more sensitive to losses than they are euphoric about gains.

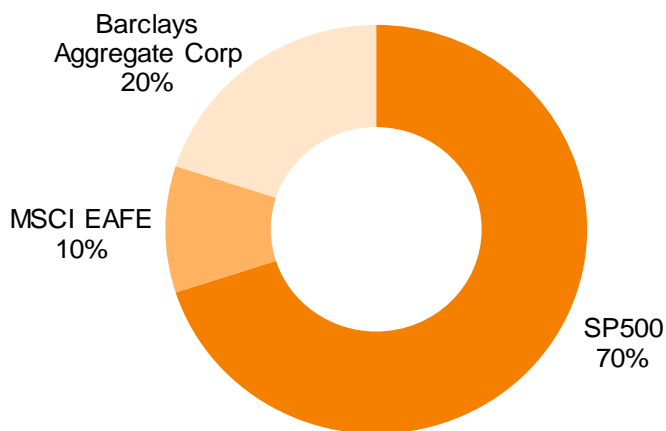


Loss Aversion: Concrete, Actionable Ideas

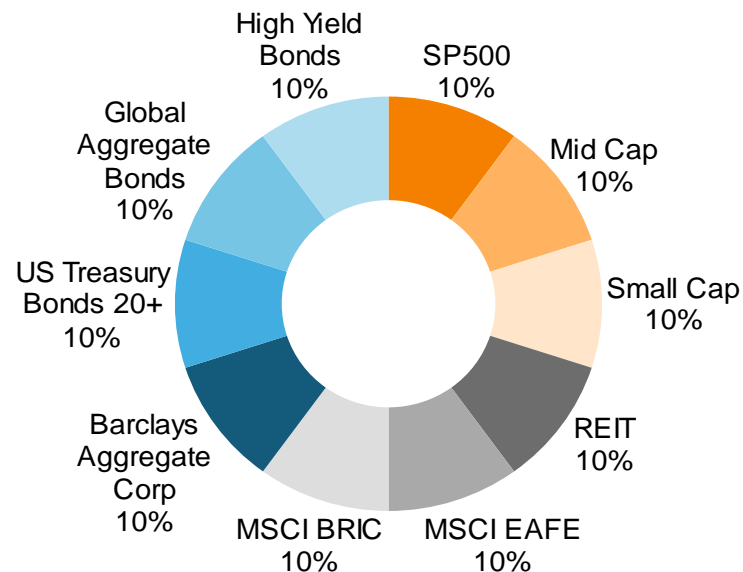
- Invest to minimize losses
- Build globally diversified portfolios with equal weights in each asset class.
- Incorporate the use of “Active Share” to select managers
- Employ a tactical strategy for accepting / avoiding risk.

Global Asset Allocation — Effective Diversification

A broadly diversified global strategy produced better performance — with lower risk — than a common mix of U.S. large-cap and EAFE equities plus corporate bonds.



Annual Return 9.8%
Standard Deviation 13.5%



Annual Return 12.4%
Standard Deviation 12.8%

Index returns for the period 04/30/03 – 04/30/13: S&P 500, S&P 400 Midcap, S&P 600 Smallcap, MSCI EAFE, MSCI BRIC, Barclays U.S. Corporate Bonds, Barclays U.S. Treasury Bonds, Barclays Global Aggregate Bonds, Barclays U.S. High Yield Bonds, NAREIT REIT. For illustration only. **Past performance is not a guarantee of future results. Investors cannot invest directly in an index.**

Source: FactSet. Returns data from 04/30/03 – 04/30/13.

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Effective Diversification

Returns for a globally diversified strategy over the last 10 years refute the notion of a “lost decade”.

Index	Wgt	Mar-14	YTD	2013	2012	2011	2010	2009	2008	1 year	3 years	5 years	10 years	15 years
Equity														
<i>Worst 15 Year Return</i>														
S&P 500	10%	0.8	1.8	32.4	16.0	2.1	15.1	26.5	(37.0)	21.9	14.7	21.2	7.4	4.5
S&P Midcap	10%	0.4	3.0	33.5	17.9	(1.7)	26.6	37.4	(36.2)	21.2	13.4	24.9	10.1	10.7
S&P Smallcap	10%	0.7	1.1	41.3	16.3	1.0	26.3	25.6	(31.1)	27.8	16.0	26.2	10.1	11.1
Global REITs	10%	0.5	4.0	2.2	29.8	(8.1)	20.0	41.3	(48.9)	0.3	7.5	22.2	6.7	10.3
EAFE	10%	(0.6)	0.8	23.3	17.9	(11.7)	8.2	32.5	(43.1)	18.0	7.7	16.6	7.0	4.9
Emerging Mkts	10%	3.1	(0.4)	(2.3)	18.6	(18.2)	19.2	79.0	(53.2)	(0.9)	(2.5)	14.8	10.5	10.3
Average		0.8	1.7	21.7	19.4	(6.1)	19.2	40.4	(41.6)	14.7	9.4	21.0	8.6	8.6
Fixed Income														
Corporate	10%	0.1	2.9	(1.5)	9.8	8.1	9.0	18.7	(4.9)	1.5	6.1	9.7	5.3	6.2
U.S. Treasury 20+	10%	0.8	7.7	(13.9)	3.4	33.8	9.4	(21.4)	33.7	(4.5)	9.3	4.4	6.3	7.0
Global Aggregate	10%	(0.1)	2.4	(2.6)	4.3	5.6	5.5	6.9	4.8	1.9	2.8	5.1	4.5	5.2
High Yield	10%	0.2	3.0	7.4	15.8	5.0	15.1	58.2	(26.2)	7.5	9.0	18.2	8.7	7.6
Average		0.3	4.0	(2.6)	8.3	13.2	9.8	15.6	1.9	1.6	6.8	9.4	6.2	6.5
Overall Average*		0.6	2.6	10.9	15.2	1.5	16.1	29.6	(29.9)	9.3	8.8	16.8	8.3	8.4

The Overall Average model allocation includes 10 asset classes, equally weighted: S&P500, S&P400 Midcap, S&P600 Smallcap, MSCI U.S. REIT Index/FTSE EPRA REIT Index, MSCI EAFE Index, MSCI BRIC Index, Barclays U.S. Corporate Bonds, Barclays U.S. Treasury Bonds, Barclays Global Aggregate Bonds, Barclays U.S. High Yield Bonds. Returns are annualized for periods longer than 1 year. Source: FactSet, FTSE NAREIT, Voya Investment Management.

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Selecting Funds Using Active Share

Active share helps identify potentially better-performing funds. Active funds show evidence of skill; investors should avoid less active funds.

Type/Range	Active Share Range	Expense Ratio Range	Excess Return after Expenses
Active	60-100%	1.1–1.4%	1.3 to 1.4%
Market-Oriented	30-60%	.8 –1.1%	-.5 to .8%
Pure and Closet Index	0-30%	.4 –.5%	-.9 to -1.1%

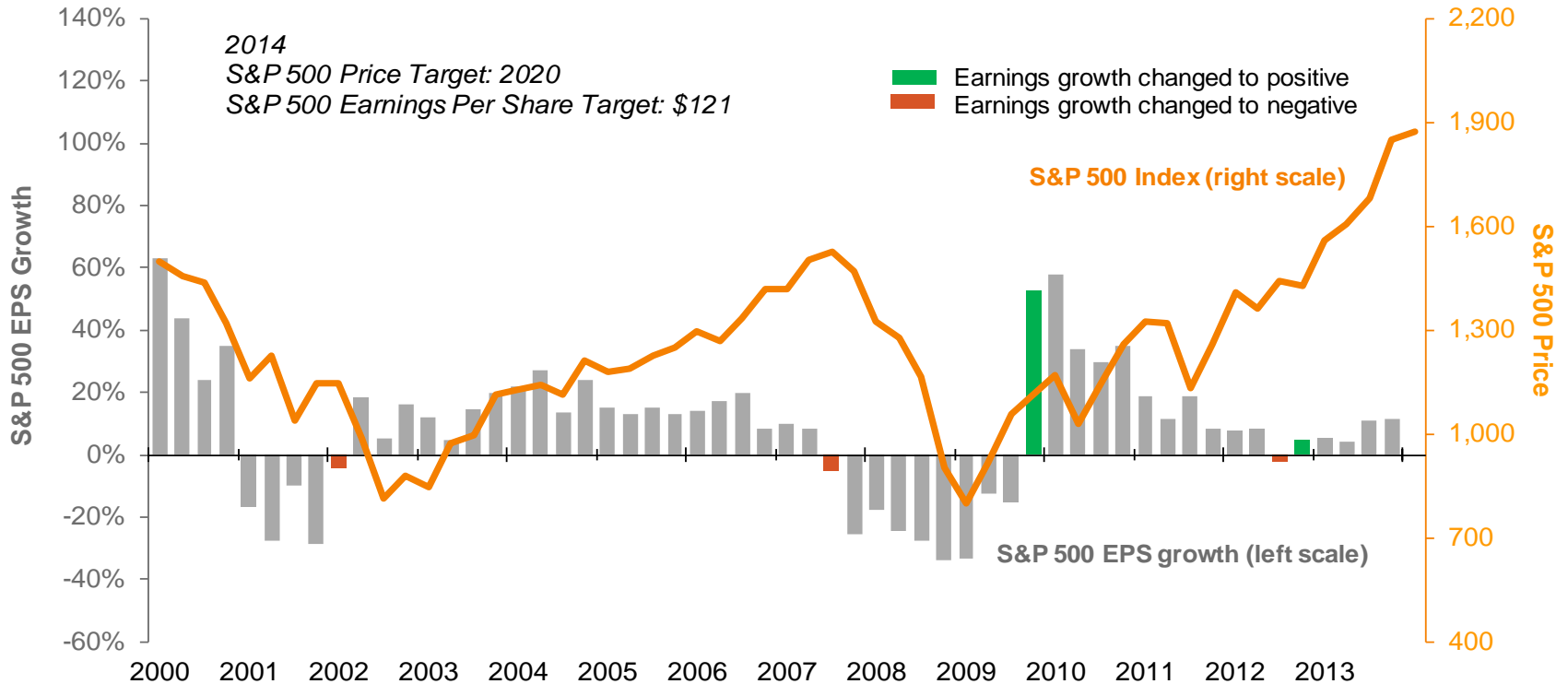
- Only active stock selection is consistently rewarded
- Active fund excess returns have better persistence
- Fund size is negatively correlated with active management

Percent of all fund assets, expense ratio range and excess return potential are summarized from Petajisto data.

Source: Adapted from Petajisto (2011): How Active Is Your Fund Manager? Active Share and Mutual Fund Performance.

Fundamentals Drive the Market

Advancing earnings drive markets up, and negative earnings drive markets down, albeit with a reporting lag.



Source: Standard & Poor's, First Call, FactSet, Voya Investment Management

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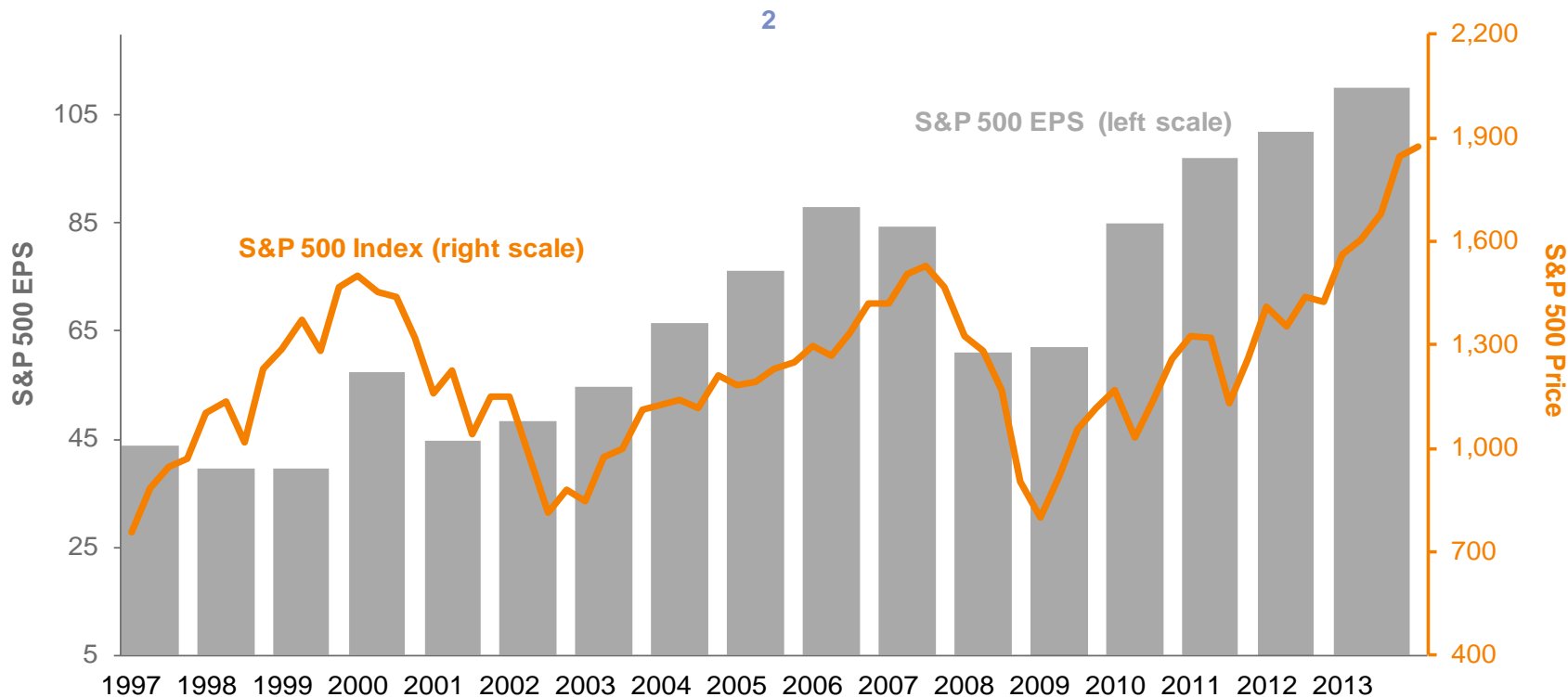
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Earnings Per Share vs. S&P 500 Prices

Since 1999, earnings have grown 280% — from \$39 to \$110 in 2013 — and are on track to reach even higher levels for 2014 while the price level is only 18% higher.



Source: FactSet

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House Money Effect

- Science has proven that people tend to take more risk with “gains” than “principal.”
- Investments get riskier as prices increase. Yet, when they are riskiest, investors find them most attractive.
- Examples: Tech Stocks circa 1999, Real Estate in 2007, Bonds in 2012.



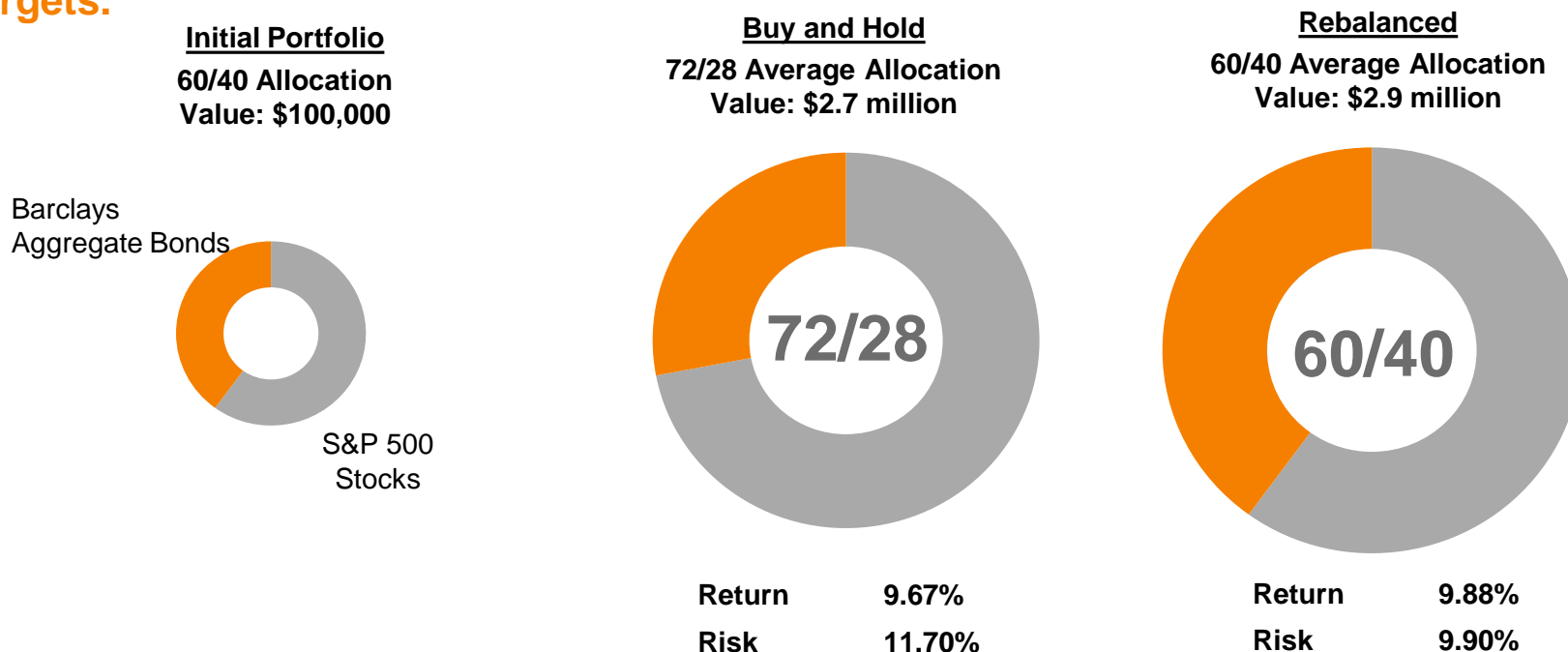
House Money Effect: Concrete, Actionable Ideas

- Rebalance portfolios at pre-defined intervals.
- Force “Buy Low”, “Sell High” behavior.



Benefits of Portfolio Rebalancing

Over 35 years, regular rebalancing increased returns and reduced risk compared to a buy and hold approach, which allows allocations to drift away from the intended targets.



Note: Based on index return data for the period 01/31/76 – 09/30/11, compounded annually. Initial hypothetical portfolios comprised of 60% S&P 500, 40% Barclays U.S. Aggregate Bonds with rebalancing for the rebalanced portfolio on a quarterly basis. Risk equals historical annualized standard deviation. For illustration only.

Past performance is not a guarantee of future results. Investors cannot invest directly in an index. Portfolio rebalancing may include trading costs and fees.

Source: FactSet, Voya Investment Management.

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How Many Times Does the White Team Pass the Ball?



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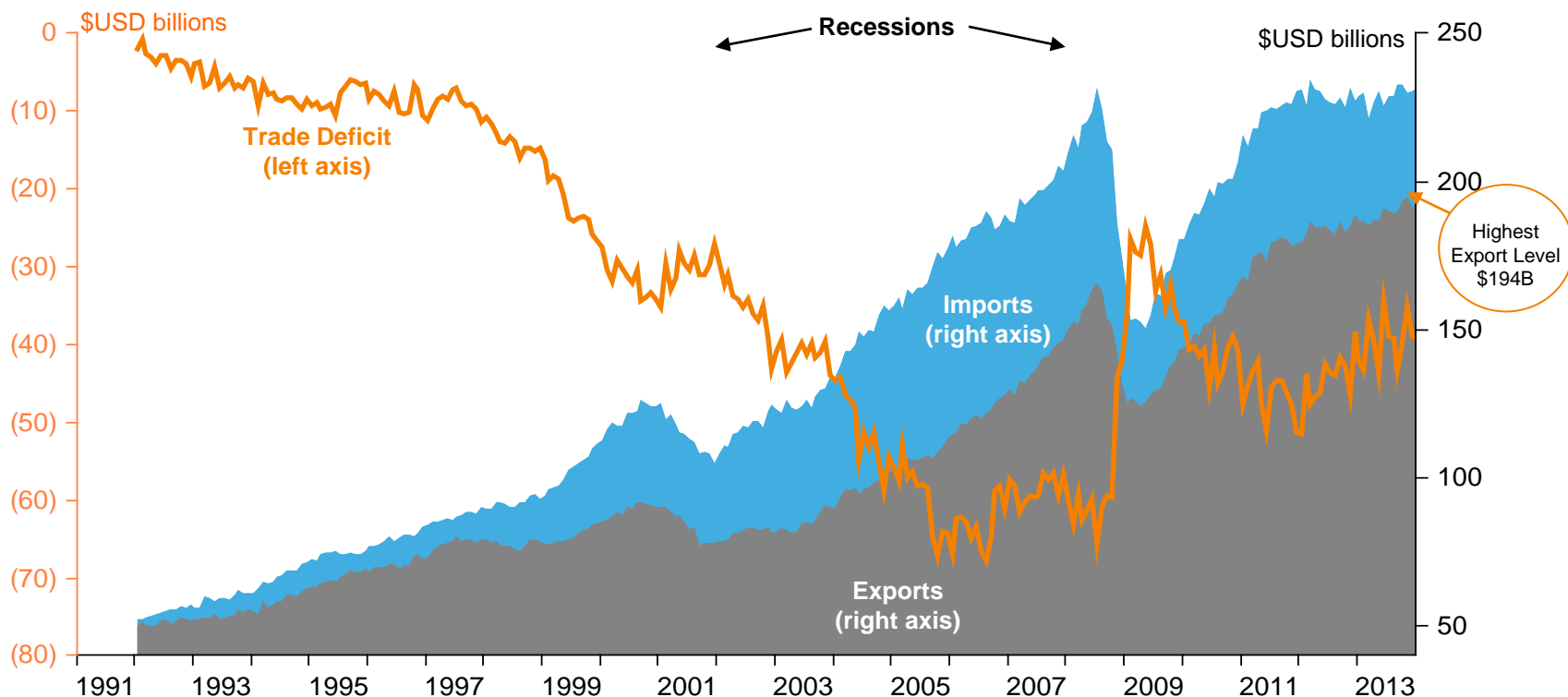
Selective Inattention: Concrete, Actionable Ideas

- Every day, a gorilla is in front of us beating his chest.
- You can't see him if your not looking for him.
- Find positive information to share with clients every day.



Tectonic Shift: Trade

Economic growth fuels demand for imports, aggravating the trade deficit, which hit a 10-year low in the great recession as demand dwindled. Exports have since expanded, reaching their highest level ever.



Source: FactSet

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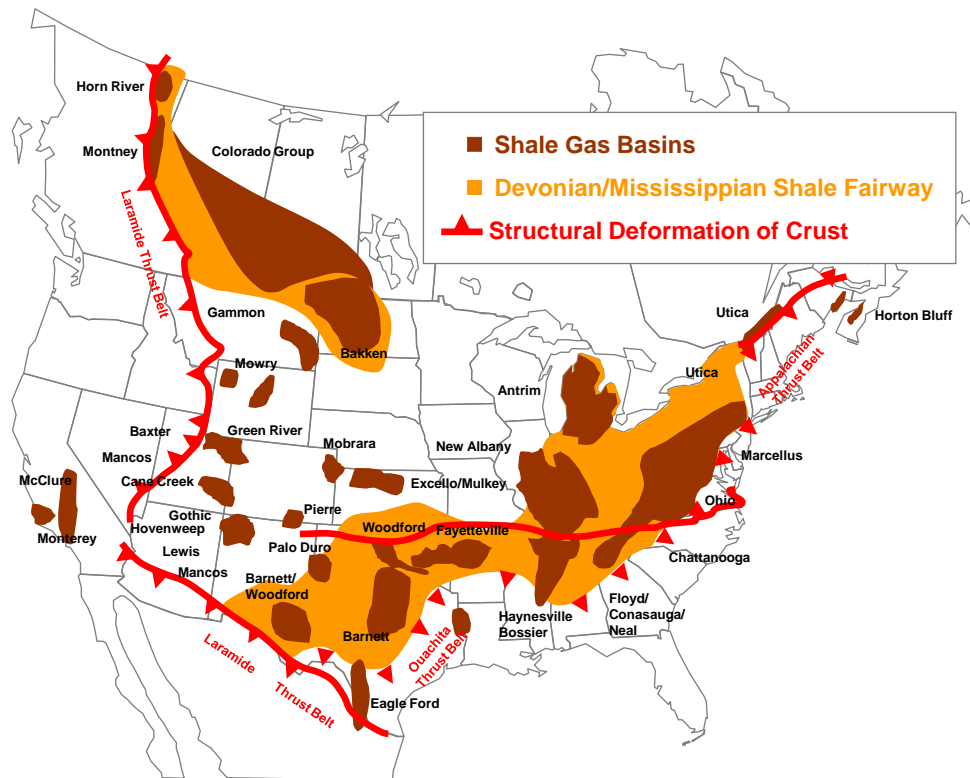
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Tectonic Shift: Energy

The abundance of natural gas in North America and the ability to extract oil from shale are changing the global energy landscape. The IEA recently forecast that the U.S. will be the world's largest oil producer by 2020.



Sources of Energy in U.S. Manufacturing

Natural Gas:	27%
Electricity:	13%
Liquefied Petroleum:	11%
Coal:	8%
Fuel Oil:	2%
Other :	39%

Note: Oil Prices are West Texas Intermediate light crude spot price (NYMEX).

Source: Advanced Resources, SPE/Holditch Nov 2002 Hill 1999, Cain, 1994 Hart Publishing, 2008 modified from Ziff Energy Group

Source: U.S. Dept of Energy, FactSet

Source: Census Bureau, http://upload.wikimedia.org/wikipedia/commons/b/b4/Plate_tectonics_map.gif

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- **Insights** — Expert analysis that makes quick sense of complex markets
- **Opportunities** — Practical support to help maintain effective long-term, goal-oriented investment strategies — well aligned with today's markets

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Summary

- Investing is simple.....but not easy.
- Money is emotional:
 - ▶ We don't think.....we “respond”.
- The person most emotionally attached to money is...
the person who owns the money.

The Next Steps:

1. Acknowledge that Ben Franklin got it right.

▶ *“Don’t put all your eggs in one basket.”*

The Next Steps:

1. Acknowledge that Ben Franklin got it right.

▶ *“Don’t put all your eggs in one basket.”*

2. Work closely with your clients.

▶ *Be passionate about helping them achieve goals.*

▶ *Employ an investment strategy which seeks to avoid losses, is time tested and scalable for your practice.*



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Thank You

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Our Promises

- Clients first
- Long-term perspective
- Unmatched service

Our Skills

- Disciplined processes
- Intensive research
- Expert portfolio construction

Our Core Capabilities

- Equities
- Fixed Income
- Multi-Asset Strategies and Solutions

A reliable partner committed to reliable investing

\$204 Billion AUM* | Over 850 Employees | Over 200 Investment Professionals

Statistics are as of 12/31/13.

*Data is as of December 31, 2013. Voya Investment Management ("Voya IM") assets of \$203,726 million include proprietary insurance general account assets of \$83,987 million on a market value basis. Voya IM assets, as reported in Voya SEC filings, include general account assets valued on a statutory book value basis and total approximately \$199,286 million.

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