# Regions Wealth Podcast

**Episode #30: Special Episode: Investment Strategies For 2022 and Beyond**
For many investors, the COVID-19 downturn underscored the importance of staying the course and understanding risk tolerance. In this episode of Regions Wealth Podcast, we're talking with Chief Market Strategist Brandon Thurber about the many investment lessons learned from the pandemic and how investors are applying those lessons to create a long-term portfolio built for endurance.

## *Episode Transcript*

Sarah:
"Welcome to Regions Wealth Podcast — the podcast that tackles life's challenges with financial experience. I'm your host, Sarah Fister-Gale.

Last June, during a time of unprecedented financial uncertainty and market volatility, we recorded a series of special episodes on the COVID-19 pandemic and its impact on investors. Now, one year later, we're taking a look back at lessons learned during this period, and how investors can apply those lessons in the months and years ahead.

Joining me remotely is Brandon Thurber. He's the Chief Market Strategist at Regions Bank. Brandon, thanks for joining us today.

Brandon:

Hey, Sarah, it's a pleasure to be with you.

Sarah:

So, Brandon, last June we recorded an episode with chief investment officer, Alan McKnight. We talked about how markets were initially affected by COVID-19 and how the conditions at that time may be impacting their investments. Now a lot has changed since then. So can you give us a brief overview of what we've seen in the markets over the last year?

Brandon:

Sure, Sarah, I'll try to be brief.

Since you spoke with Alan last June, equity markets have been resilient, trending ever higher — with the S&P 500 currently trading within 1% of an all-time high. Amid the initial onset of the pandemic last February and March, investors began to shift capital into more defensive plays, as well as stay-at-home plays, and secular growth industries and sectors less reliant on the economic growth backdrop to drive earnings and sales.

Brandon:

On the fixed income side of the ledger, bond yields — after declining throughout the first three quarters of 2020 as the Fed and Treasury stepped in to purchase bonds and fiscal relief packages were rolled out to provide a bridge to economic recovery — have since begun to climb due to expectations surrounding future economic growth, inflation expectations, and ultimately the Fed potentially tapering bond purchases at some point in 2020 or 2021. But really what we've seen over recent months has been more of a return of consumer confidence as well as investor confidence, both of which have recovered rather quickly.

And as unemployment trends lower over the coming months and quarters, we expect that confidence to continue to build. US consumers have tended to consume amid any sort of economic backdrop that exists, and what we've seen is very much an environment of fortitude and staying power — which are hallmarks of the US consumer — are going to continue to drive and spit and spur additional spending and consumption over coming months and quarters as the US and global economic recovery rolls along.

Sarah:

It's interesting that you talk about patience and fortitude. When we spoke with Alan McKnight last year, he emphasized those same issues: the importance of patience, fortitude, and staying the course. Looking back, how important was that approach?

Brandon:

It was absolutely crucial, Sarah. A lot of investors were panicking, and rightfully so. We understand that mindset, particularly given that over the past decade — really, ever since the global financial crisis — pullbacks, selloffs, have been relatively shallow and short-lived. This was largely unforeseen, unexpected, and frankly it's an environment where investors just weren't prepared or weren't expecting it. So looking back on the past year, one of the key takeaways for investors should be to not follow the herd or crowd.

The market can overreact, and as an investor, it's important to maintain what we would call a "myopic focus on the long-term." Asset allocation is our North Star, our guiding light that helps us stay the course. So in short, we don't want to allow a short-term move to have an outsized impact on long-term performance. One of the takeaways is that the height of the panic is when the market bottoms out typically. If you're panicking, everyone else most likely is, too. That's what opportunistic buyers often find the best values and opportunities to step in, as sellers run out of things to sell at some point.

Short-term overreaction is  an opportunity for long-term investors. I'd liken it to running into a burning building. It's difficult to do as stock prices start to fall, but if you have a long-term horizon, you should be more willing or interested in buying quality assets at a lower, depressed price.

Sarah:

You mentioned earlier that consumer confidence is rebounding. So do you think patience, fortitude, and staying the course is just as important now as it was during the throes of the downturn?

Brandon:

Absolutely. These are key personality traits that we think investors must have going forward. Being patient, remaining disciplined, waiting for opportunities to arise, not overpaying or getting out over your skis, so to speak, from a volatility or risk perspective. The key term there would be “opportunistic.” Be willing to step in, fill the void as investors are out there selling, potentially overreacting to news. The selloffs are really where you can build up long-term wealth and compound returns.

Sarah:

So Brandon, whenever we discuss investment strategy on this podcast, the topic of risk tolerance tends to take center stage. I’m curious — have you seen a lot of people reevaluate their risk tolerance over the last year?

Brandon:

We have, Sarah, and this is human nature during volatile and uncertain times. When you see significant selloffs, it's normal for investors to question if they're properly allocated or not. It's a question that's a lot easier to address and answer with your portfolio manager before selloffs occur versus being in the throes of one. We recommend that investors use every opportunity that they have to discuss their risk tolerance, and ask how their portfolio manager is assessing it.

Maybe people think their risk tolerance is higher than it actually is, and many don't have the same definition of risk.

Sarah:

How do you typically work with clients to figure out their risk tolerance?

Brandon:

It's very important that we understand how each individual defines risk, understand what their goals are, and make sure their portfolios are constructed for the medium to long-term — with risk tolerance at the forefront of their mind. It's a holistic approach with short-term and long-term goals taken into account.

Brandon:

Without truly understanding each individual client's personality and their goals, it's very difficult to form or frame a risk tolerance. We may know what your asset base looks like or

what your income level may be. Those are all variables that must be taken into consideration. But at the end of the day, the last thing you want is misalignment between an investor or client's stated risk appetite and their actual ability to take risk. That's something we try to understand on the front end because it makes the performance conversation, framing expectations easier and more straightforward for us.

Brandon:

That's where the rubber meets the road for our process. But honesty is crucial. Rule number one is know thyself, and if an investor isn't honest with themselves — knowing their own personality and how they typically respond to volatility — it becomes more challenging to set a proper asset allocation framework that they can actually stick to, which is a key determinant of long-term success when investing.

Sarah:

Do you find that individuals' risk tolerance changes over time, maybe in response to their circumstances? Or if I'm risk averse today, I'm always going to be risk averse?

Brandon:

It goes client to client. You know, it's easy to say you have a high risk tolerance, when stocks are moving higher, but it becomes much more challenging to stay the course and maintain that risk on stance when stocks are experiencing a pullback.

We need to be prepared for a more dynamic environment. Investors need to be more nimble. That's why the honesty approach with your advisor is crucial. Last thing you want is unintended consequences. We want to set expectations as best we can upfront.

Also, not continuing to have the conversation is a common mistake people make. So over the last year, that's something that's happened: People get into a situation where they were potentially allocated in a way that they were uncomfortable with to begin with. And then they felt like they had to do something when the market was selling off — when rebalancing or potentially just staying the course could've delivered or driven a very positive, long-term outcome. Be willing to have a conversation with your advisor constantly before any selloffs occur. Your success is our success and the two have to be linked to avoid a misalignment of interests and unintended consequences.

Sarah:

Do you find that clients are hesitant to discuss their risk tolerance? And why would that be?

Brandon:

I think investors tend to misjudge their own risk tolerance. You see returns from equity markets relative to bonds, and you assume that you have to take on risk to generate returns. But really, the ability to stay the course is the big piece of this. What our recommendation would be is just

to continue to have conversations with your advisor surrounding your risk tolerance and how you define it.

Brandon:

It all boils down to being honest with us, being honest with yourself. We're not here to judge. We're here to provide insight, information, and to make sure that we understand what your goals are, your aspirations are, and how to prepare for that from a portfolio perspective.

Sarah:

So, Brandon, what can investors do to ensure they're well prepared for future shifts in the market?

Brandon:

Be upfront and honest with your portfolio manager so they can build the right portfolio. You know, it's easy that you can say you can handle a 20 to 30% draw down, but it's quite another to actually live through it.

And so it's a situation where it's important to have honest, forthright conversations, because otherwise, your portfolio could be allocated in a manner in which you aren't entirely comfortable.

Sarah:

And what would you say are the essential elements of a portfolio built for long-term endurance?

Brandon:

I think diversification is the key. It's a simple concept, but that's the key tenant upon which our portfolios are built. We'll rarely be all in or all out of any particular sub-asset class, unless it's a situation that's dictated by clients' risk tolerance or changes in circumstances. For example, when an individual's in or nearing retirement, or simply looking for an income stream and potentially capital preservation, they may be entirely in bonds or short-term instruments or securities. Conversely, if someone is at the start of their career, and taking risk is something that they're comfortable with, it's possible they may not have fixed income or bonds in their portfolio.

Again, that's why it's crucial to understand goals, aspirations, and risk tolerance for each and every client on an individual basis. You have some investors that think they can take on a lot of risk, but once you dig in, you realize they may not be as equipped to do so. Diversification for each individual client could look a bit different. Some may have real estate, some may have commodity exposure, and some others may even desire to have exposure to alternative investments, such as hedge funds or private equity. But it's important to understand liquidity requirements, cost, and other variables before allocating in such a manner. Each situation is

unique and it's crucial to understand that before you can truly construct a portfolio with each individual client's needs, aspirations, and goals in mind.

Sarah:

Brandon, at the end of each episode, we like to ask for some key takeaways. So what are the key takeaways coming out of the pandemic and how can investors apply these going forward?

Brandon:

I think one of the key things that we would take away from the last year is be honest with your advisor, our success is your success, and the more honest you are with yourself and with us, the better your experience and the higher the probability of meeting your long-term goals. Secondly, I think short-term tactical shifts and moves shouldn't cause a detrimental impact to your long-term goals and aspirations.

We prefer to make tweaks around the edges, versus being all in or all out of broader asset classes or sub-asset classes, which can lead to unintended consequences and exposures, and potentially a return or volatility profile that deviates from a client's risk tolerance or their expectations — which can make for some very difficult conversations and potentially, doing the wrong thing at the very wrong time. And lastly, I would say that patience, fortitude, and staying the course comment from earlier continues to ring true.

Doing what isn't easy is often the best route to take. Following the herd can be a very dangerous prospect for investors, and wherever the herd is going is more of a contrarian indicator than anything else. And to paraphrase Rudyard Kipling, if you can keep your head when all about you are losing theirs, you're likely to be able to take advantage of those opportunities as they are presented, as opposed to running for the exits at the exact wrong time.

Sarah:

I love that advice. Thank you so much. This was Brandon Thurber, chief market strategist for Regions Bank. You've given us some great, actionable insights today.

Brandon:

Thank you, Sarah.

Sarah:

And thank *you* for joining us today. To learn more about assessing *your* risk tolerance, check out episode 17, where we dive deep into the topic of self-directed investing. Each episode of Regions Wealth Podcast covers a new financial challenge, so be sure to visit regions.com/wealthpodcast to explore the series.

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