



A Different Way to Invest

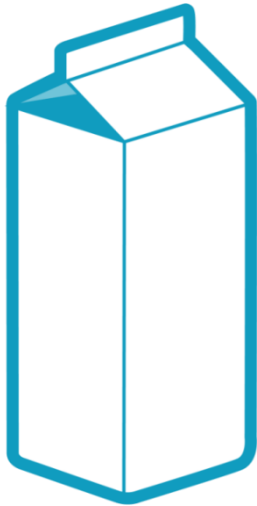
1/2/2020

Molly Laughter, CFA, CFP®

Why Invest?

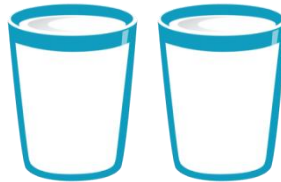
Your Money Today Will Likely Buy Less Tomorrow

1918



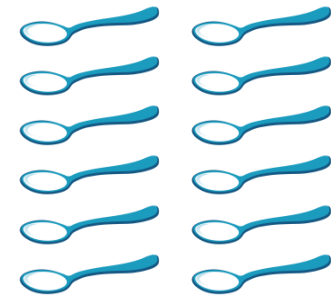
\$0.14 = Quart of milk

1968



\$0.14 = 2 Cups of milk

2018



\$0.14 = 12 Tablespoons of milk

In US dollars.

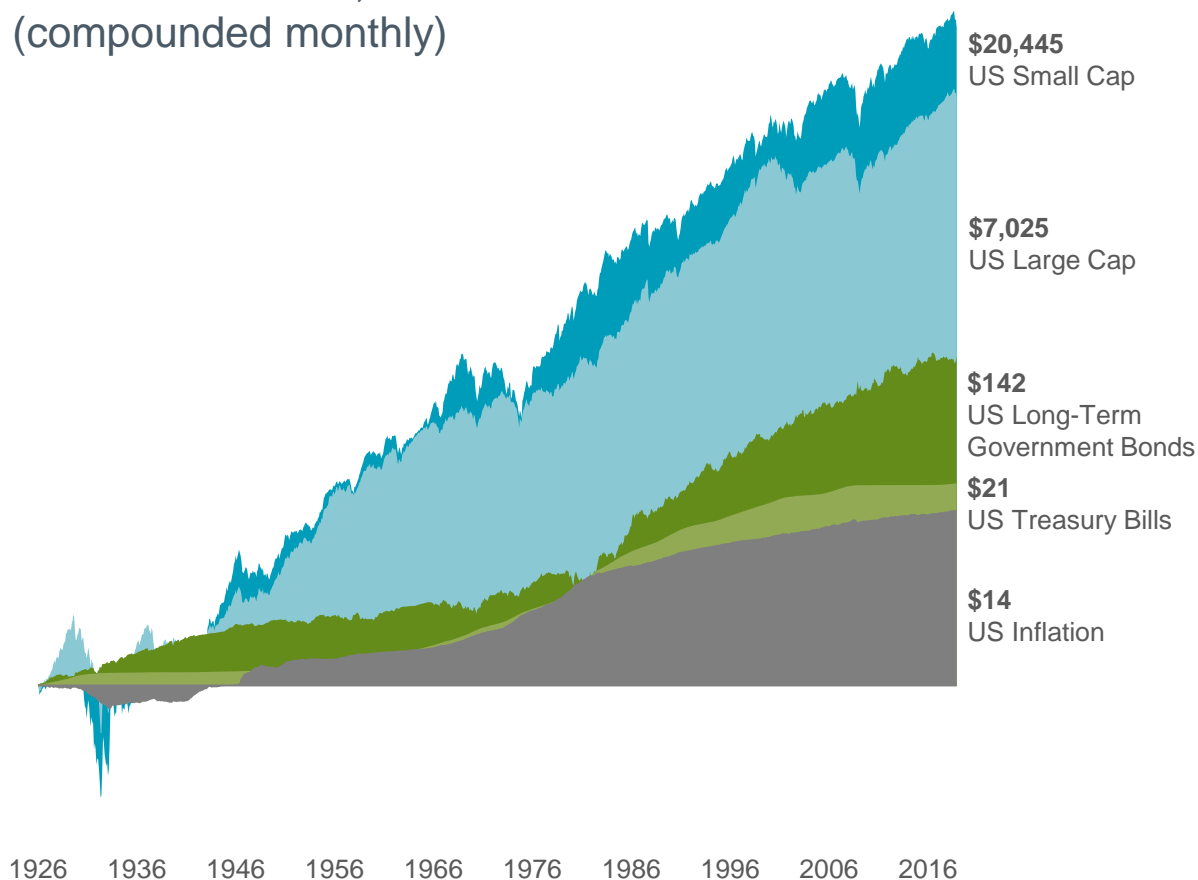
Source for 1918 and 1968: Historical Statistics of the United States, Colonial Times to 1970/US Department of Commerce. Source for 2018: US Department of Labor, Bureau of Labor Statistics, Economic Statistics, Consumer Price Index – US City Average Price Data.

Investing means taking risks.

Not
investing means taking risks,
too.

Let Markets Work for You

Growth of a Dollar, 1926–2018 (compounded monthly)

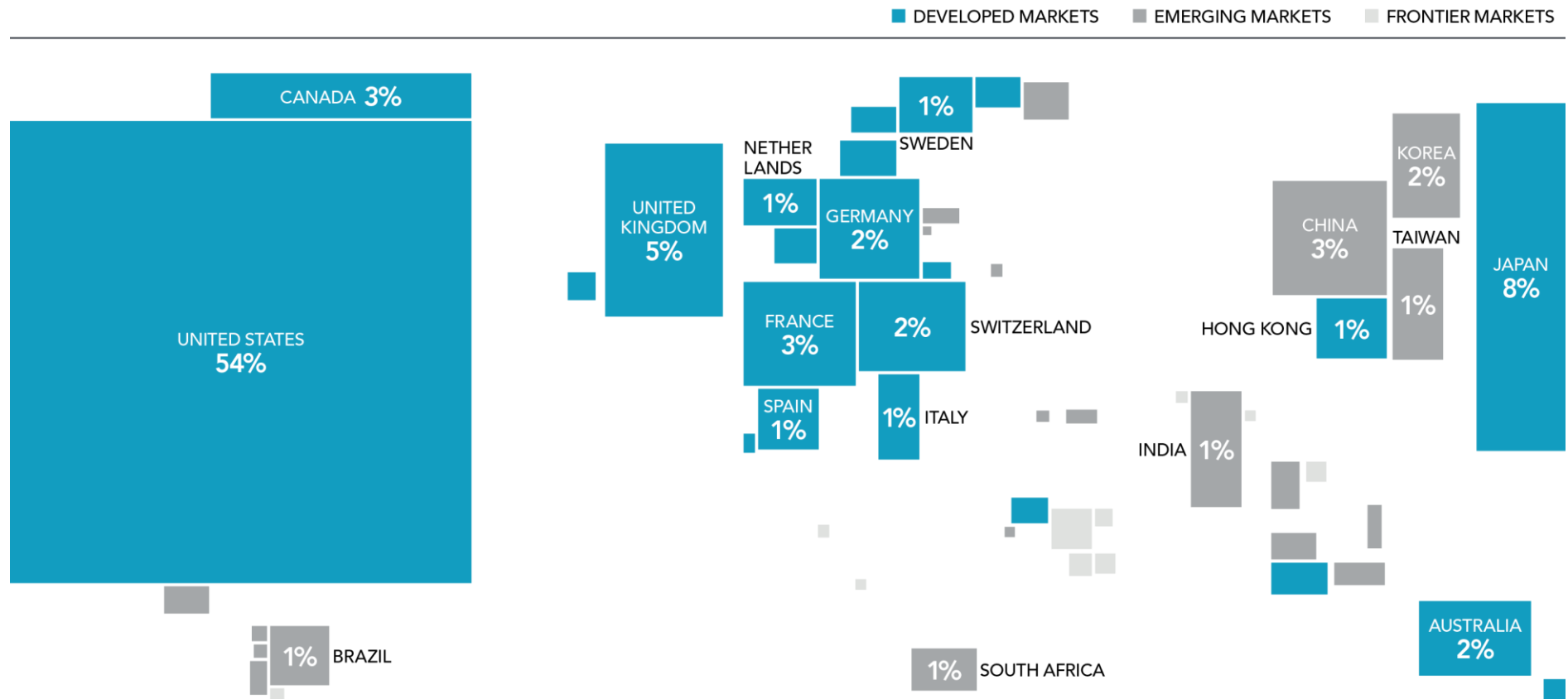


The financial markets have rewarded long-term investors. People expect a positive return on the capital they supply, and historically, the equity and bond markets have provided growth of wealth that has more than offset inflation.

In USD. US Small Cap is the CRSP 6–10 Index. US Large Cap is the S&P 500 Index. Long-Term Government Bonds is the IA SBBI US LT Govt TR USD. Treasury Bills is the IA SBBI US 30 Day TBill TR USD. US Inflation is measured as changes in the US Consumer Price Index. CRSP data is provided by the Center for Research in Security Prices, University of Chicago. S&P data © 2019 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Long-term government bonds and Treasury bills data provided by Ibbotson Associates via Morningstar Direct. US Consumer Price Index data is provided by the US Department of Labor Bureau of Labor Statistics. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is no guarantee of future results.

There's a World of Opportunity in Equities

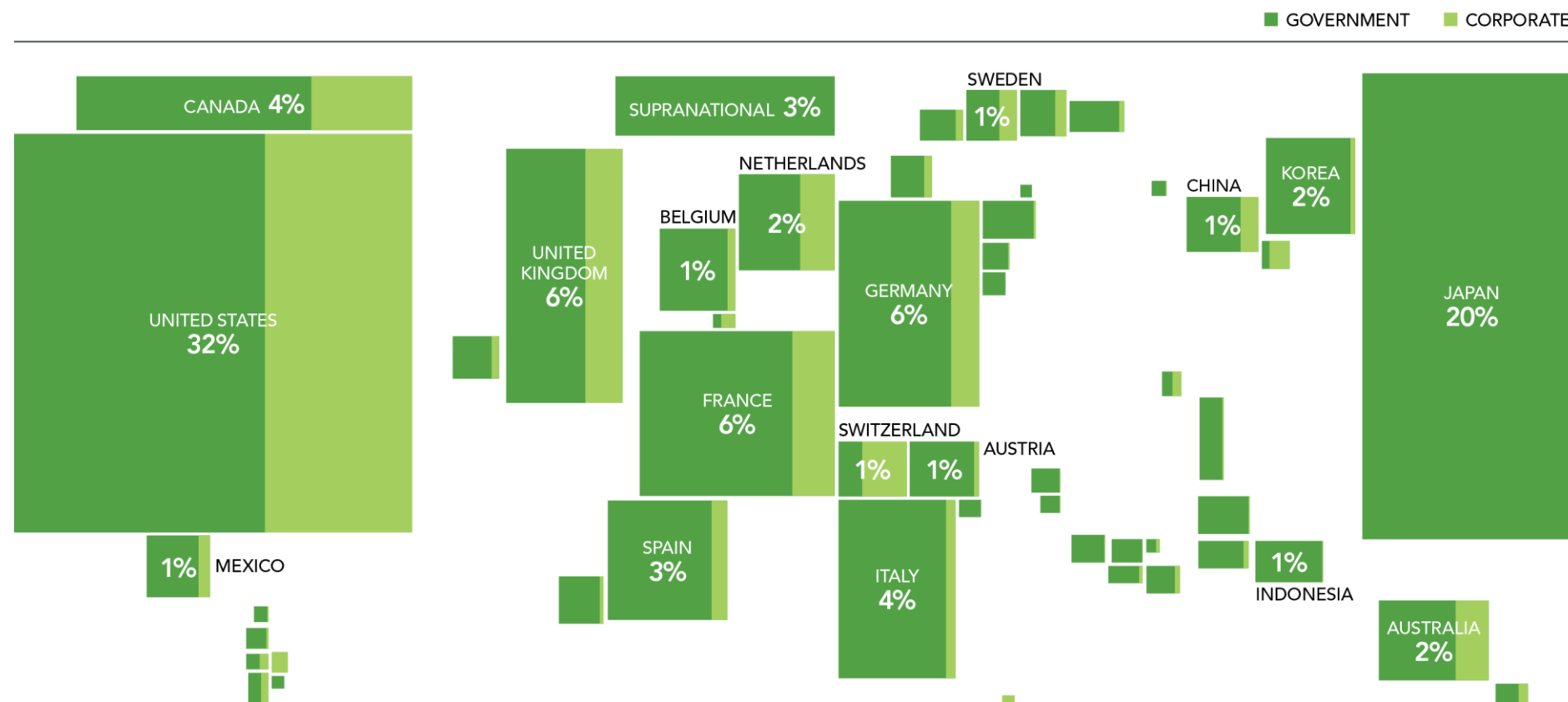
Percent of world market capitalization as of December 31, 2018



In US dollars. Market cap data is free-float adjusted and meets minimum liquidity and listing requirements. Dimensional makes case-by-case determinations about the suitability of investing in each emerging market, making considerations that include local market accessibility, government stability, and property rights before making investments. China market capitalization excludes A-shares, which are generally only available to mainland China investors. Many nations not displayed. Totals may not equal 100% due to rounding. For educational purposes; should not be used as investment advice. Data provided by Bloomberg.

There's a World of Opportunity in Fixed Income

Percent of global investment grade bond market as of December 31, 2018



How Do
Many People Invest?

They Try to Predict the Future



“I have a proven system for picking winning stocks.”

“That sector will continue advancing through next year.”

“The market is primed for a retreat.”

They Act on Impulse

"I can't take this bear market—
I'm getting out!"

A large, faint, light grey warning sign graphic is centered in the background. It consists of a circle with a triangle inside, and a large exclamation mark in the center of the triangle.

"Everyone's making money—
I want a piece of the action."

They Bet their Savings on Tips and Hunches

A faint, light grey illustration of a human head in profile, facing right. Three curved lines emanate from the ear area, suggesting sound or a signal. The text is overlaid on this illustration.

“I heard it on the news.
I’d better sell!”

“I got a hot tip from my neighbor.
It’s a slam dunk.”

“My friend works in the industry—
he’s got the inside scoop.”

They Are Swayed by the Media

“The Death of Equities”

Business Week, 08/13/1979

“The Crash of '98 Can the US Economy Hold Up?”

FORTUNE, 09/28/1998

“Retire Rich – A Simple Plan to Have it All”

FORTUNE, 08/16/1999

“How to Reach \$1 Million”

Money, 08/2012

What Have We Learned?

Many of the Greatest Advancements in Finance Have Come from Academia

1952
Diversification and Portfolio Risk

HARRY MARKOWITZ
Nobel Prize in Economics, 1990

1966
Efficient Markets Hypothesis

EUGENE FAMA
Nobel Prize in Economics, 2013

1984
Term Structure of Interest Rates

EUGENE FAMA

2012
Profitability

ROBERT NOVY-MARX
EUGENE FAMA
KENNETH FRENCH

1964
Single-Factor Asset Pricing Risk/Return Model

WILLIAM SHARPE
Nobel Prize in Economics, 1990

1981
The Size Effect

ROLF BANZ

1992–1993
Value Effect and Multifactor Asset Pricing Model

EUGENE FAMA
KENNETH FRENCH

Together, We Know More Than We Do Alone



Participants were asked to estimate the number of jelly beans in a jar.

Range: 409-5,365

Average: 1,653

Actual: 1,670

Embrace Market Pricing



The market is an effective information-processing machine. Each day, the world equity markets process billions of dollars in trades between buyers and sellers—and the real-time information they bring helps set prices.

What Is the Best Way to Invest?

There Are Differing Approaches

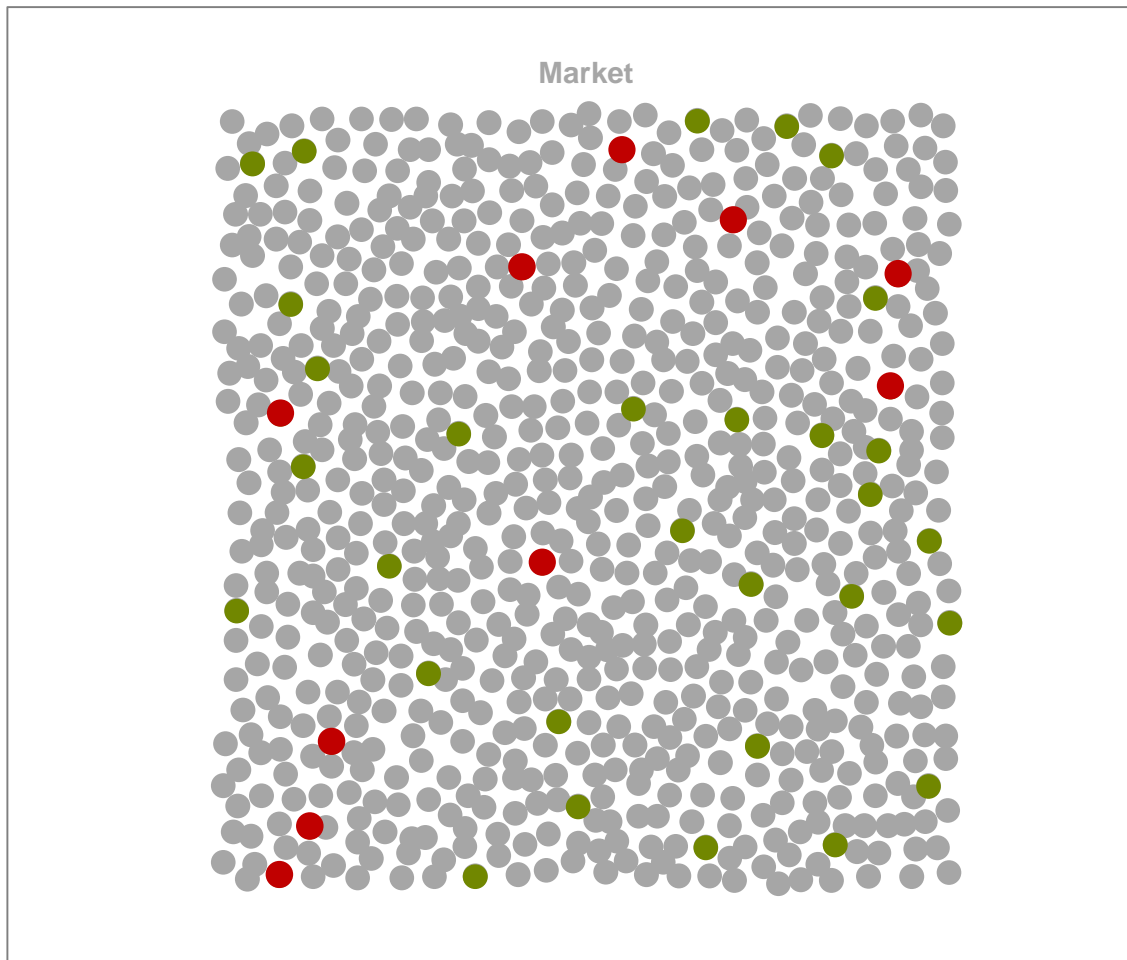
CONVENTIONAL MANAGEMENT

Attempts to identify mispricing in securities

Relies on forecasting to select “undervalued” securities or time markets

Generates higher expenses, trading costs, and risks

The Conventional Approach Attempts to Outguess the Market



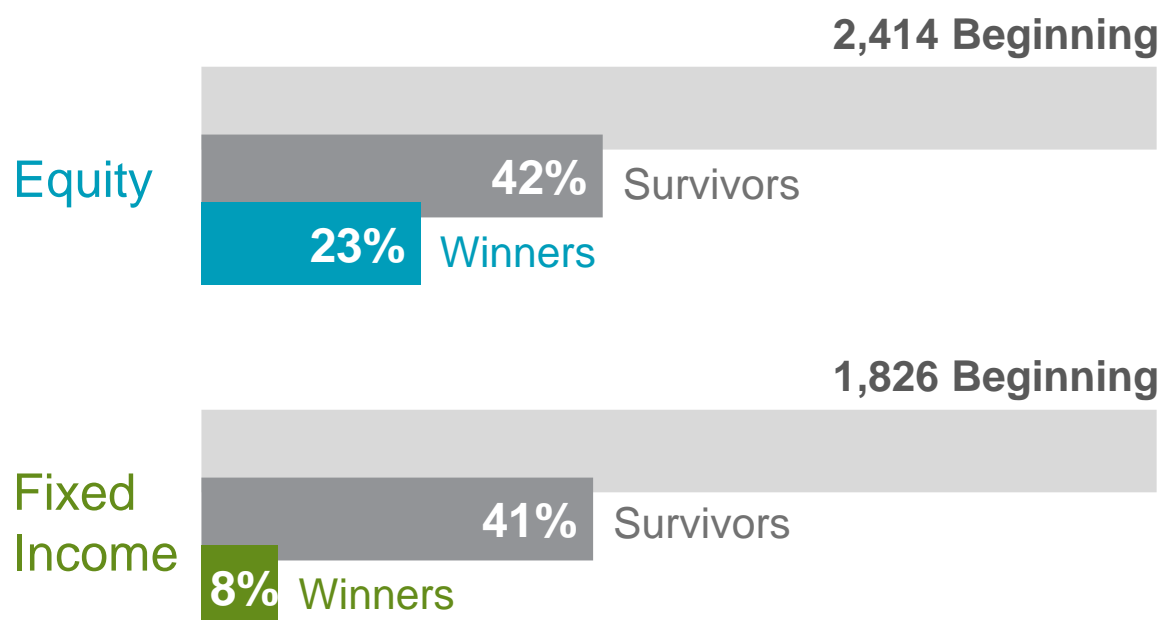
Buys a selection of individual securities manager thinks will outperform.

Sells securities when deemed overvalued.

Can lead to high turnover and excess costs.

Don't Try to Outguess the Market

US-Based Mutual Fund Performance, 1999–2018



The market's pricing power works against mutual fund managers who try to outperform through stock picking or market timing. As evidence, only 23% of US equity mutual funds and 8% of fixed income funds have survived and outperformed their benchmarks over the past 20 years.

The sample includes funds at the beginning of the 20-year period ending December 31, 2018. Each fund is evaluated relative to its respective primary prospectus benchmark as of the end of the evaluation period. Surviving funds are those with return observations for every month of the sample period. Winner funds are those that survived and whose cumulative net return over the period exceeded that of their respective primary prospectus benchmark. Loser funds are funds that did not survive the period or whose cumulative net return did not exceed that of their respective primary prospectus benchmark. Where the full series of primary prospectus benchmark returns is unavailable, funds are instead evaluated relative to the Morningstar category index assigned to the fund's category at the start of the evaluation period. US-domiciled open-end mutual fund data is from Morningstar. Index funds and fund-of-funds are excluded from the sample. Equity fund sample includes the Morningstar historical categories: Diversified Emerging Markets, Europe Stock, Foreign Large Blend, Foreign Large Growth, Foreign Large Value, Foreign Small/Mid Blend, Foreign Small/Mid Growth, Foreign Small/Mid Value, Global Real Estate, Japan Stock, Large Blend, Large Growth, Large Value, Mid-Cap Blend, Mid-Cap Growth, Mid-Cap Value, Miscellaneous Region, Pacific/Asia ex-Japan Stock, Real Estate, Small Blend, Small Growth, Small Value, World Large Stock, and World Small/Mid Stock. Fixed income fund sample includes the Morningstar historical categories: Corporate Bond, High Yield Bond, Inflation-Protected Bond, Intermediate Government, Intermediate-Term Bond, Long Government, Muni California Intermediate, Muni California Long, Muni Massachusetts, Muni Minnesota, Muni National Intermediate, Muni National Long, Muni National Short, Muni New Jersey, Muni New York Intermediate, Muni New York Long, Muni Ohio, Muni Pennsylvania, Muni Single State Intermediate, Muni Single State Long, Muni Single State Short, Short Government, Short-Term Bond, Ultrashort Bond, and World Bond. See Dimensional's "Data Appendix" for more detail. Index data provided by Bloomberg Barclays, MSCI, Russell, FTSE Fixed Income LLC, and S&P. Bloomberg Barclays data provided by Bloomberg. MSCI data © MSCI 2019, all rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. FTSE fixed income indices © 2019 FTSE Fixed Income LLC. All rights reserved. S&P data © 2019 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Indices are not available for direct investment. Their performance does not reflect the expenses associated with management of an actual portfolio. There is no guarantee investment strategies will be successful. Past performance is no guarantee of future results.

There Are Differing Approaches

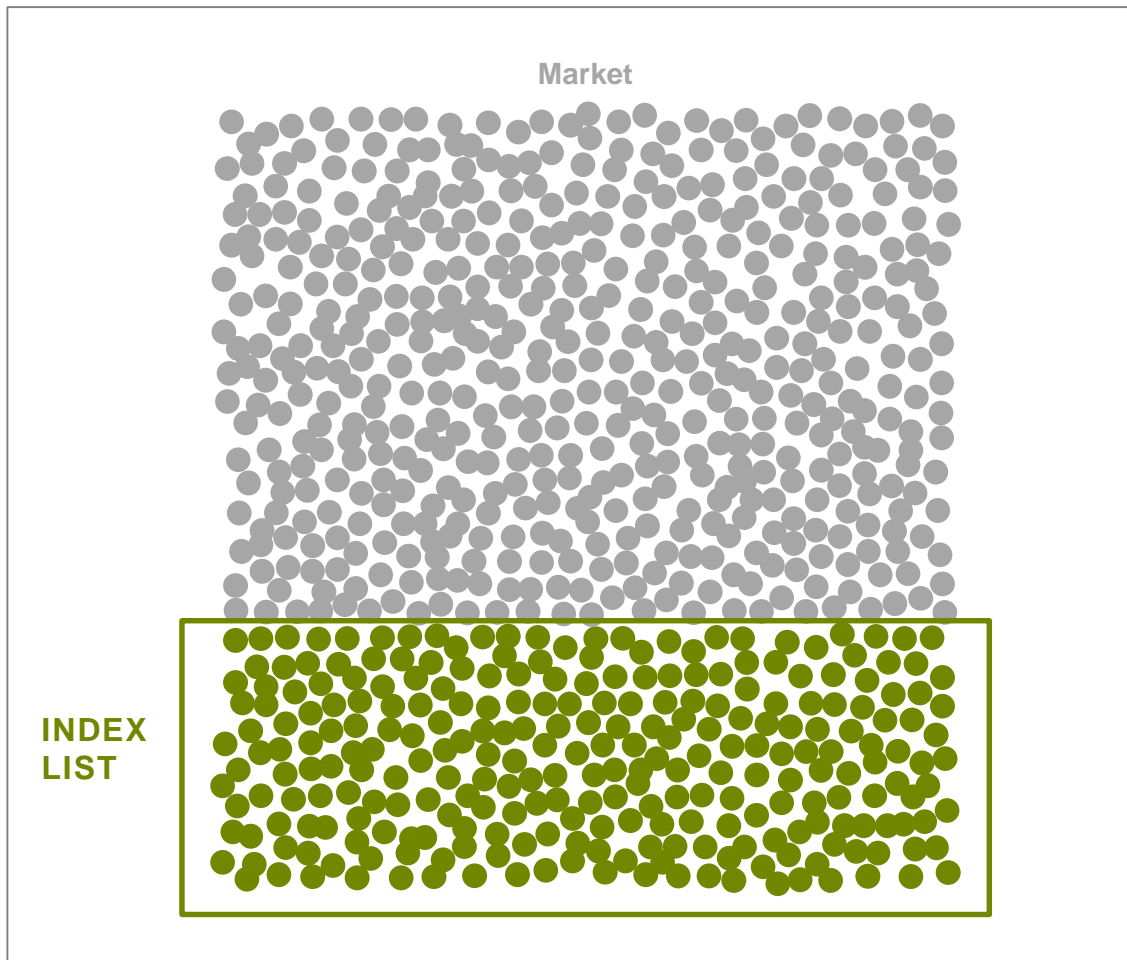
INDEXING

Allows commercial index to determine strategy

Attempts to match index performance, restricting which securities to hold and when to trade

Prioritizes low tracking error over higher expected returns

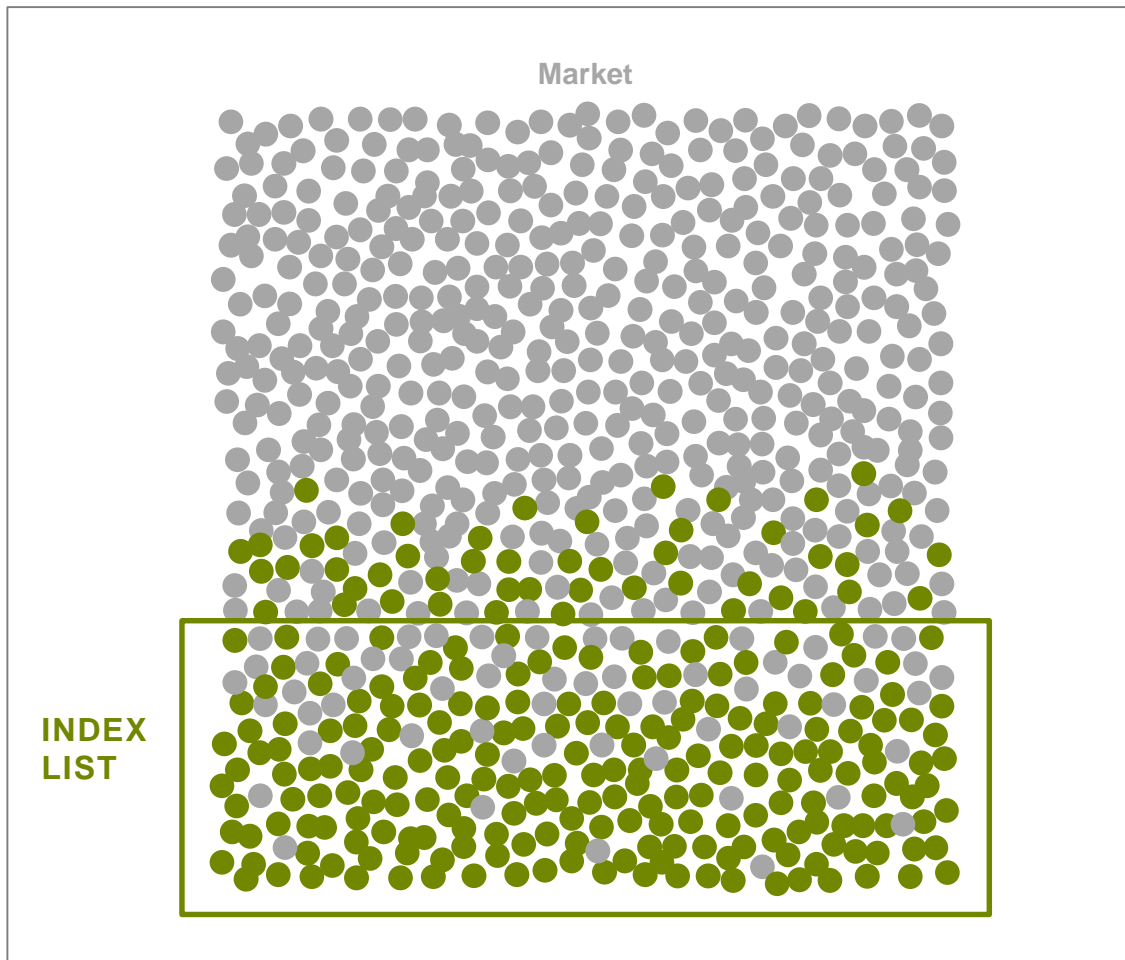
The Indexing Approach Attempts to Match the Returns of a Commercial Benchmark



Holds a basket of securities represented in the index.

Buys and sells the same securities at the same time as all other funds tracking the index.

The Indexing Approach Attempts to Match the Returns of a Commercial Benchmark



Six months later:

Securities have moved in and out of the index's targeted range

As a result, your investment may have drifted from what you intended.

There Are Differing Approaches

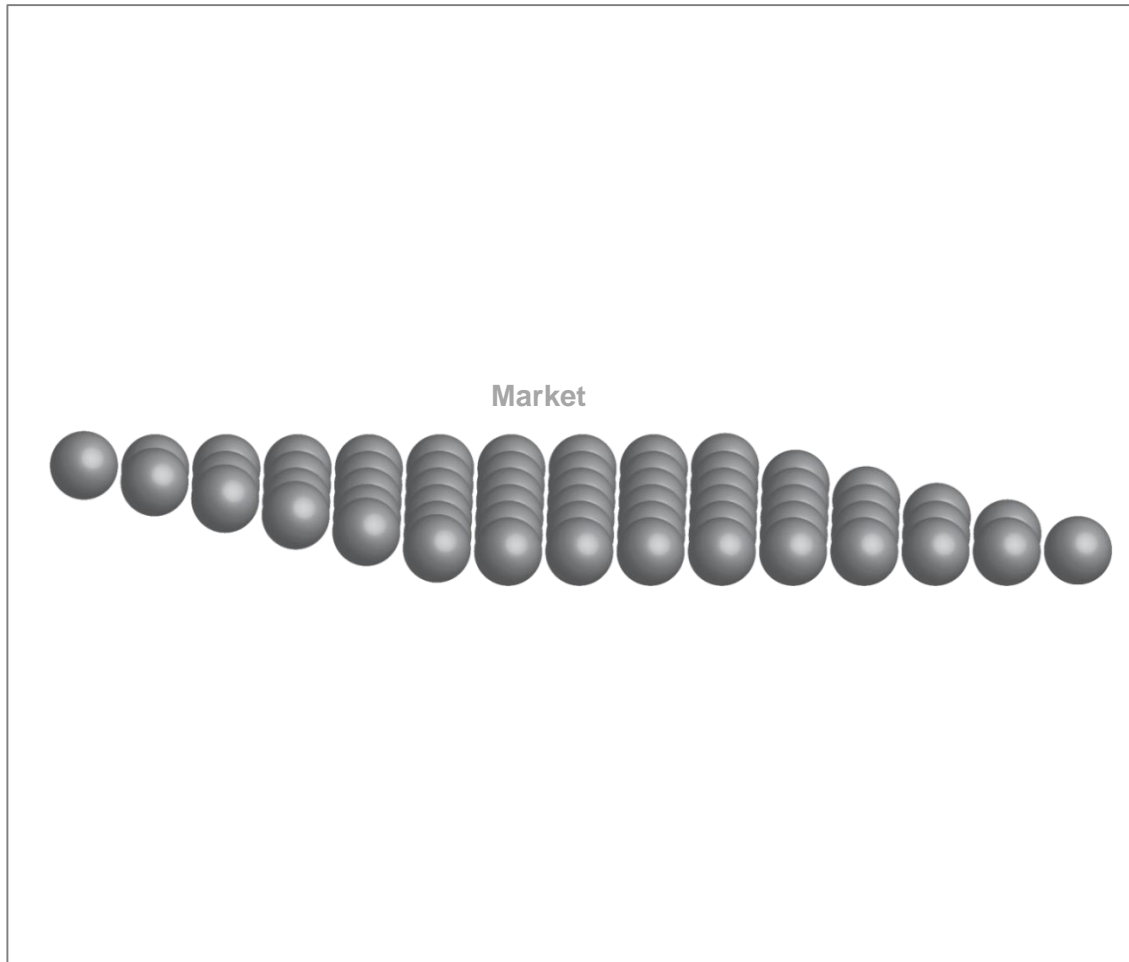
AN ALTERNATE APPROACH

Gains insights about markets and returns from academic research

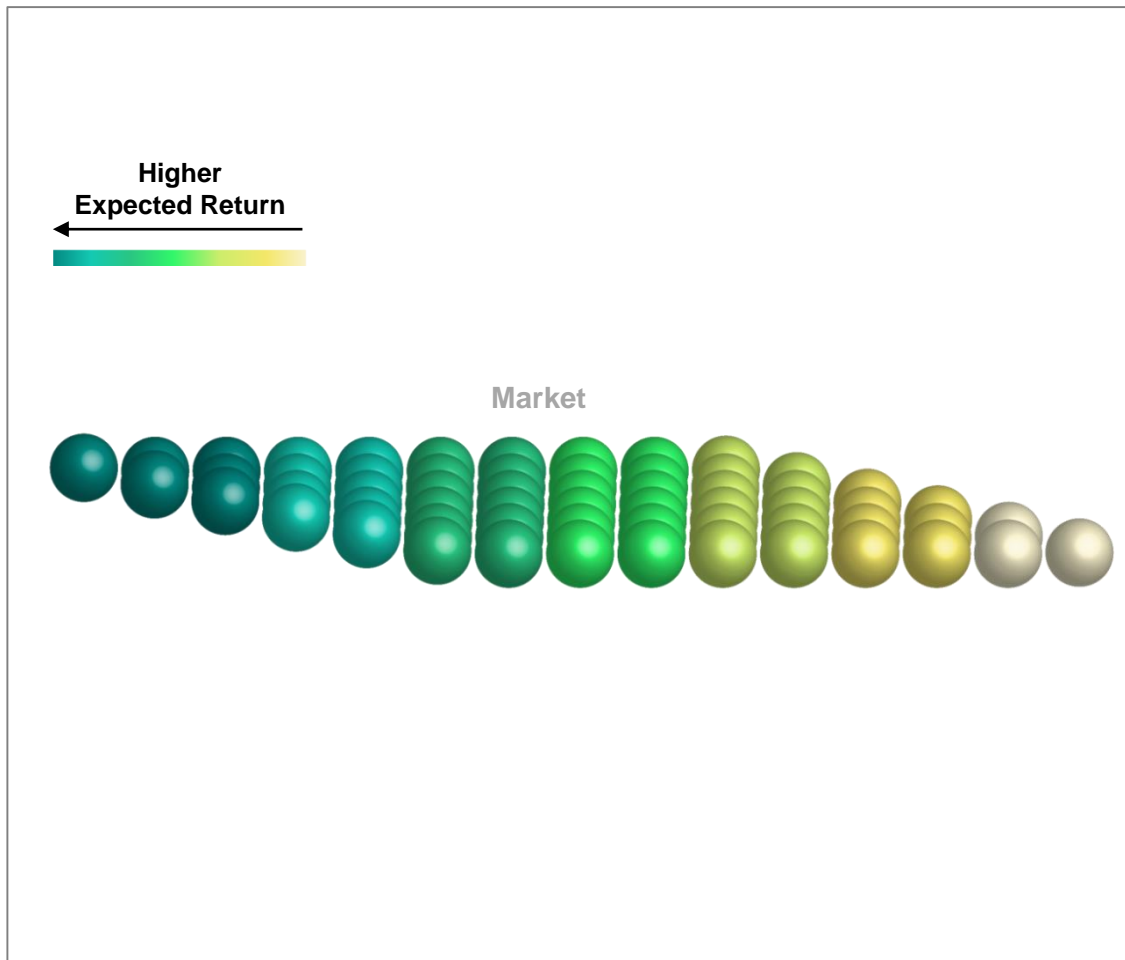
Structures portfolios along the dimensions of expected returns

Adds value by integrating research, portfolio management, and trading

Viewing the Market in a Different Dimension

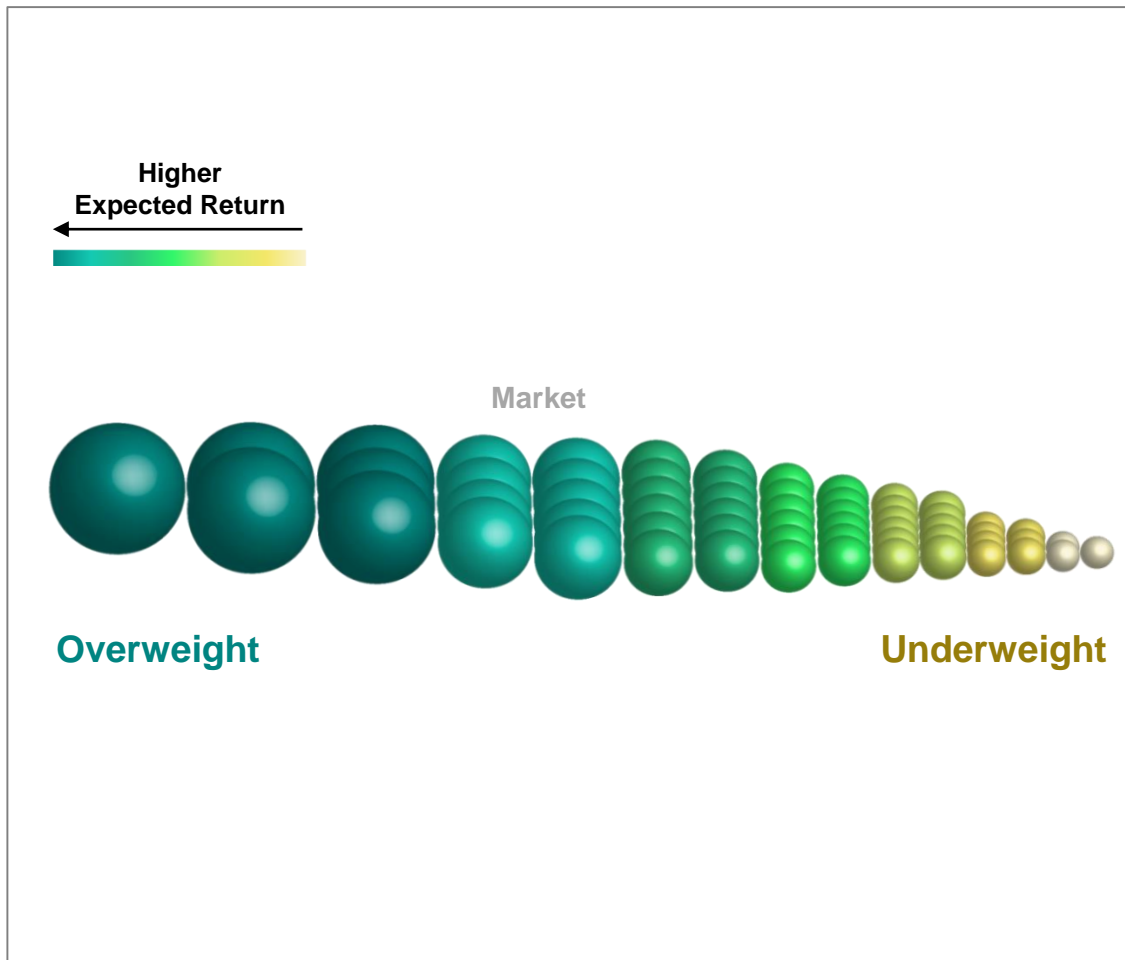


Viewing the Market in a Different Dimension



Decades of academic research have identified relevant dimensions that point to differences in expected returns.

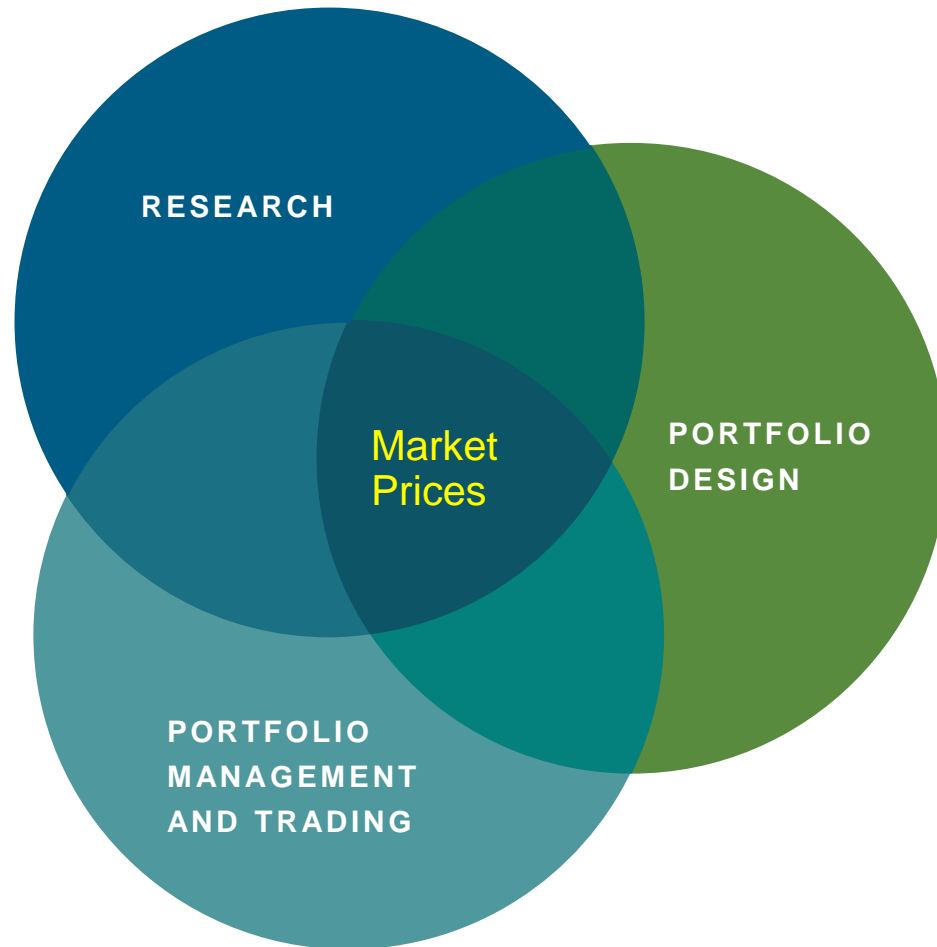
Portfolios Can Be Structured along Dimensions of Expected Returns



A well-diversified portfolio can emphasize market areas offering higher expected return potential.

Applied to Practical Investing

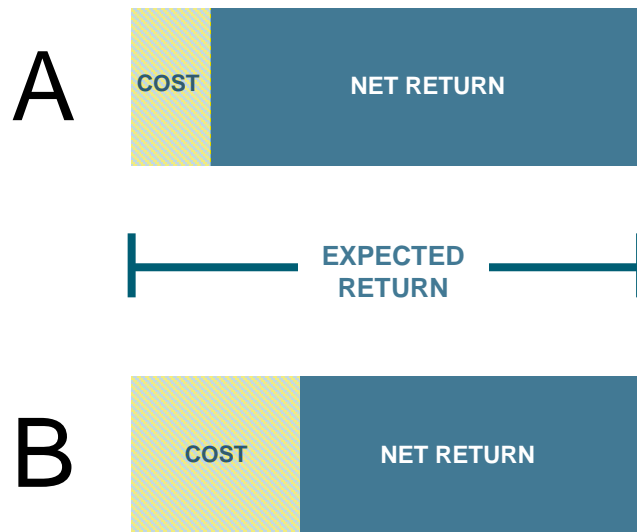
From Insights to Implementation



- **Research**
Use information in current market prices and fundamental data to identify systematic differences in expected returns among securities.
- **Portfolio Design**
Target dimensions of expected returns while considering the interactions among premiums, diversification, and costs.
- **Portfolio Management and Trading**
Use current market prices to maintain a daily focus on premiums and balance tradeoffs. Create flexibility in trading to pursue favorable execution prices.

Balancing Investment Tradeoffs

INVESTMENT OPPORTUNITY



CONDITIONS

Broad diversification and patient, flexible trading lead to **lower turnover and costs**.

Concentrated holdings and urgent, inflexible trading result in **higher turnover and costs**.

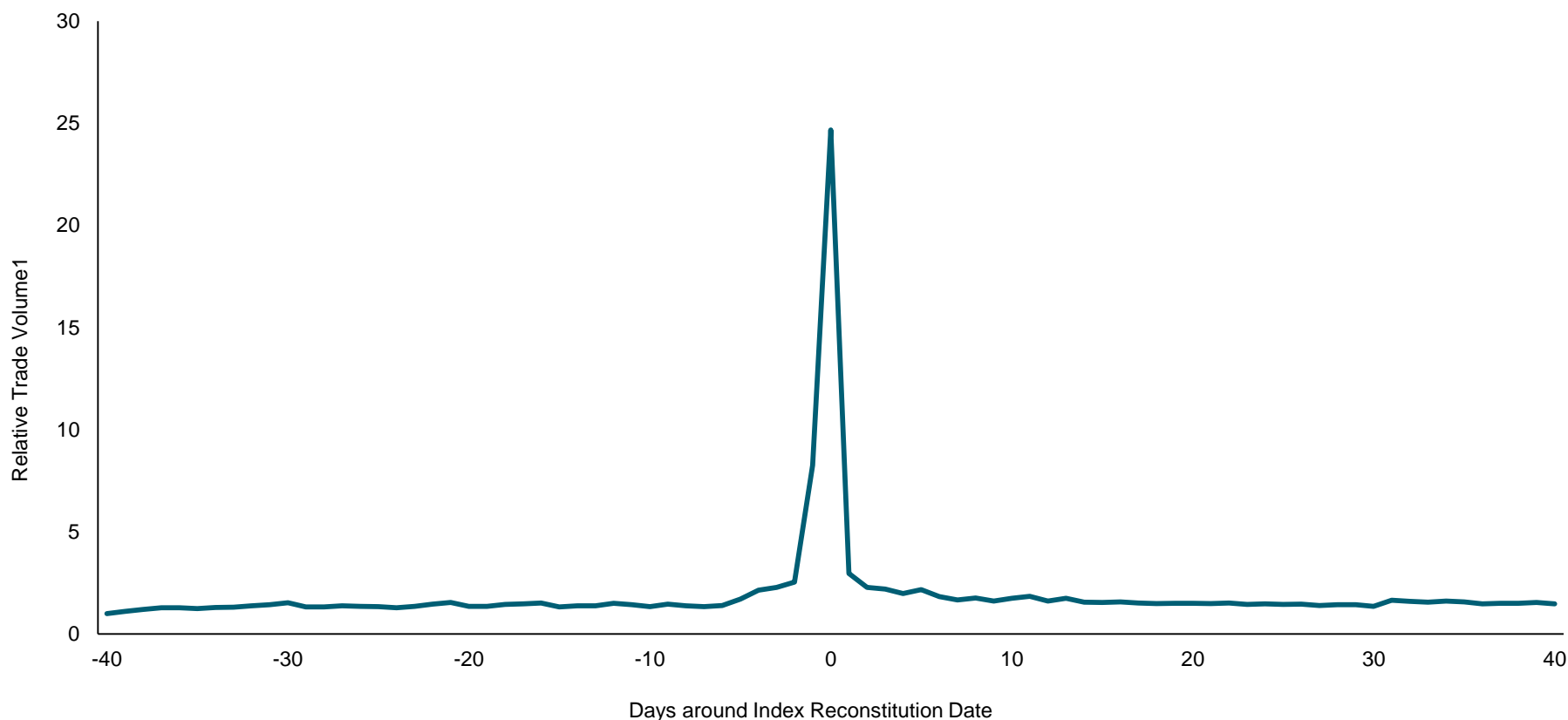
Two investment opportunities can have the same expected return but invite very different conditions.

These conditions result in different costs, which impact net returns.

Forced Trading Can Raise Costs

Higher than normal trading activity around the reconstitution date can drive up costs

AVERAGE RELATIVE TRADE VOLUME OF SECURITIES ADDED TO OR DELETED FROM THE S&P 500 INDEX: 2014–2018



1. Relative Trade Volume = Trade volume on day X / Trade volume 40 days prior to the day the security was added to or deleted from the index.

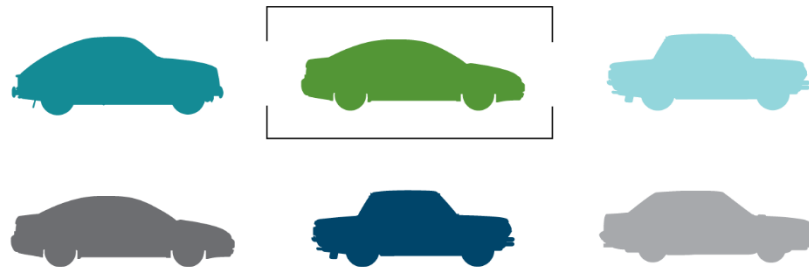
For all securities added to or deleted from the S&P 500 Index between 2014 and 2018, Dimensional calculated the relative trade volume of each security 40 days prior to, through 40 days after, the day such security was added to or deleted from the index. '0' is the date on which the security was added to or deleted from the index, or the index reconstitution date. Relative trade volume is calculated by dividing the trade volume for the day by the trade volume 40 days prior to the index reconstitution date. The chart shows the average of the relative trade volumes of all securities added to or deleted from the index and illustrates the spike in relative trade volume around the day that securities were added to or deleted from the index. Indices are not available for direct investment.

Index additions and deletions sourced from S&P data © 2019 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

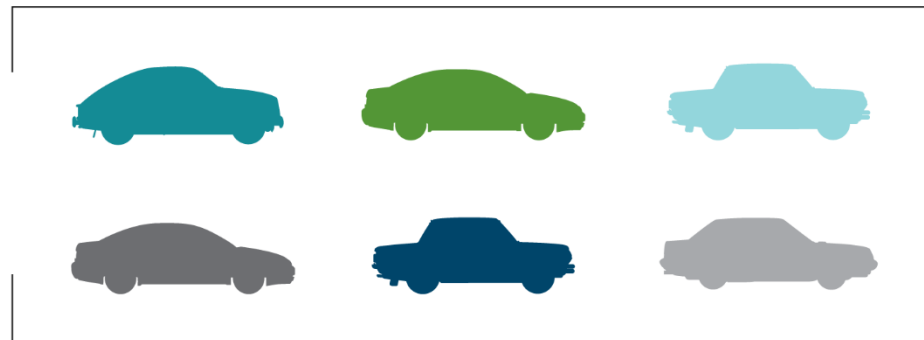
Source of trade volume: Bloomberg L.P.

Adding Value through Flexible, Patient Trading

“I want this one—today!”



“I’m flexible.”



Focus on What You Can Control

- Create an investment plan to fit your needs and risk tolerance.
- Structure a portfolio along the dimensions of expected returns.
- Diversify globally.
- Manage expenses, turnover, and taxes.
- Stay disciplined through market dips and swings.

A financial advisor can offer expertise and guidance to help you focus on actions that add value. This can lead to a better investment experience.

Appendix

Data Appendix

The *Mutual Fund Landscape* study is conducted by Dimensional Fund Advisors LP.

US-domiciled open-end mutual fund data is from Morningstar.

Equity fund sample includes the Morningstar historical categories: Diversified Emerging Markets, Europe Stock, Foreign Large Blend, Foreign Large Growth, Foreign Large Value, Foreign Small/Mid Blend, Foreign Small/Mid Growth, Foreign Small/Mid Value, Global Real Estate, Japan Stock, Large Blend, Large Growth, Large Value, Mid-Cap Blend, Mid-Cap Growth, Mid-Cap Value, Miscellaneous Region, Pacific/Asia ex-Japan Stock, Real Estate, Small Blend, Small Growth, Small Value, World Large Stock, and World Small/Mid Stock.

Fixed income fund sample includes the Morningstar historical categories: Corporate Bond, High Yield Bond, Inflation-Protected Bond, Intermediate Government, Intermediate-Term Bond, Long Government, Muni California Intermediate, Muni California Long, Muni Massachusetts, Muni Minnesota, Muni National Intermediate, Muni National Long, Muni National Short, Muni New Jersey, Muni New York Intermediate, Muni New York Long, Muni Ohio, Muni Pennsylvania, Muni Single State Intermediate, Muni Single State Long, Muni Single State Short, Short Government, Short-Term Bond, Ultrashort Bond, and World Bond.

Additional information regarding Morningstar's historical categories is available from Dimensional upon request.

Index funds and funds of funds are excluded from the sample. Net assets for funds with multiple share classes or feeder funds are a sum of the individual share class total net assets. The return, expense ratio, and turnover for funds with multiple share classes are taken as the asset-weighted average of the individual share class observations. Fund share classes are aggregated at the strategy level using Morningstar FundID.

Each fund is evaluated relative to its respective primary prospectus benchmark as of the end of the evaluation period. Surviving funds are those with return observations for every month of the sample period. Winner funds are those that survived and whose cumulative net return over the period exceeded that of their respective primary prospectus benchmark. Loser funds are funds that did not survive the period or whose cumulative net return did not exceed that of their respective primary prospectus benchmark. Where the full series of primary prospectus benchmark returns is unavailable, funds are instead evaluated relative to the Morningstar category index assigned to the fund's category at the start of the evaluation period.

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Indices are not available for direct investment. Their performance does not reflect the expenses associated with management of an actual portfolio.

Mutual fund investment values will fluctuate, and shares, when redeemed, may be worth more or less than original cost.

Diversification neither assures a profit nor guarantees against a loss in a declining market. There is no guarantee investment strategies will be successful. Past performance is no guarantee of future results.

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