The Active Manager

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Index

When Markets Don't Follow the Script, Dynamic Risk Management Matters

BY JERRY WAGNER

MARKETS RARELY GIVE INVESTORS A CLEAR path forward. Economic signals can conflict, rate expectations can shift, and investor sentiment can change quickly. Some trends last longer than expected. Others reverse with little warning. And sometimes markets get stuck in a frustrating pattern that rewards neither full offense nor full defense.

Since I began investing in the late 1960s, I have believed investment management should be active, responsive, and risk-aware. When I started Flexible Plan Investments (FPI) in 1981, the only investment services we offered were actively managed — and that is still true today. I believed then, as I do now, that an investment manager should be "flexible" rather than locked into a rigid buy-and-hold approach.

Active management, or "dynamic risk management" as I now view it, is necessarily tactical. It seeks to participate in

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The views and opinions of the authors are not necessarily those of NAAIM, its officers or Board of Directors.

President's Letter

Ron Rough

IT IS AN HONOR TO HAVE BEEN asked to become NAAIM's president over the next two years. An honor, because for more than 30 years, I have found NAAIM to be an outstanding opportunity to share ideas and lessons learned with people who think about financial markets the way I do. It is also an honor because the success I have found in the financial industry is in no small part attributable to the people of NAAIM. May 2006, I was working for Genworth Financial Asset Management in Los Angeles. Dave Petersen, founder and president of Financial Services Advisory in Rockville, Maryland, and an early member of NAAIM (then SAAFTI) was looking for an active portfolio manager. NAAIM member Peter Mauthe bridged the gap between the coasts to bring us together. Our 20-year relationship is just one of many that have resulted from NAAIM membership.

We lost Peter to cancer earlier this year, but he was the ultimate networker and friend and source of many collaborations among NAAIM members.

The most important advice I can offer to all NAAIM members is to give your relationship with NAAIM time and get involved. Come to the conferences. There's a lot of competition for you to attend financial conferences, but I have yet to find one that offers the information sharing and relationship opportunities of a NAAIM conference. Don't be just an observer at our conferences, introduce yourself to members and sponsor reps, participate in the roundtables, ask questions.

Get involved in conversations outside of the conferences. Take advantage of our monthly online discussions. Follow up with members you find interesting. Join committees that interest you and consider becoming a member of the NAAIM board of directors.

As active managers, we are a relatively small part of the advisory community compared to those who manage money passively. Finding fellow advisors who approach investing with an eye toward not only the opportunity but also the risk the market presents isn't always easy. In fact, it is the biggest challenge we face in growing NAAIM - finding active managers and letting them know there is an organization for them.

I see too many young advisors who have never been through a bear market and in their heart of hearts believe the market always goes up. They don't understand how gut wrenching a sustained bear market is for clients, and how easy it is for clients to freak out and sell. I don't know how long the good times can keep going on, but four years of double-digit returns hasn't happened since the1990s. Too many people are treating investing as a game. We may have good times for

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Uncommon Knowledge 2026 – Another Outstanding Event in the Books!

WITH MORE THAN 120 ATTENDEES, NAAIM once again demonstrated why Uncommon Knowledge continues to be the premier conference experience for Active Investment Managers in today's investment management landscape.

Attendees gained insights from an exceptional lineup of guest presenters, member panelists, and sponsor breakout speakers covering a broad range of topics designed to benefit both emerging professionals entering the industry and seasoned veterans seeking to sharpen their competitive edge. Participants also had the opportunity to earn more than eight hours of IAR and CFP Continuing Education credits.

The event delivered valuable opportunities for connection and networking beyond the conference sessions. Sunday Golf and Pickleball, along with the 5th Annual Cornhole Tournament on Tuesday evening, provided attendees with time to unwind, build relationships, and enjoy the NAAIM community experience.

Missed the April conference? Be sure to mark your calendar for OUTLOOK 2026 at the Westin DFW in Dallas. Two days of engaging content, CE opportunities, and memorable networking experiences are already in the works. Discounted member conference pricing is available through July 31.

The agenda committee has assembled an outstanding lineup of presenters, including Danielle DiMartino Booth, CEO and Chief Strategist, QI Research; Henrietta Treyz, Co-Founder, Director of Economic Policy, Veda Partners; David Leo, The Financial Advisor's Coach; and Leila Shaver, Founder and Compliance Nerd at My RIA Lawyer — with additional speakers to be announced.

We look forward to seeing you in Dallas!

To learn more, visit:

Pairs Trading Analysis Wins 2026 NAAIM Founders Award

2025 Founders Award winner Oliver Reiss, Ph.D, congratulates the 2026 winner, Dr. Davide Panini.

Davide Pandini, PhD, CMT, MFTA, CFTe, CSTA, winner of the 2026 NAAIM Founders Award, presented his winning paper at NAAIM's Uncommon Knowledge Conference on Wednesday morning, April 29. Titled "*Stationary, But Not Profitable? A Critical Look at Pairs Trading*", his paper asks whether traditional measures of long-run equilibrium - specifically stationarity and cointegration - remain reliable predictors for successful pairs trading in today's market conditions.

"This research seeks to bridge the gap between theoretical econometrics and practical investing and trading execution in a regime characterized by high volatility clusters and structural shifts," Dr. Pandini explained. In doing so, the study introduces a fully reproducible, end-to-end framework for spread-based trading. "The results present what we call the 'Cointegration Paradox': while cointegration is a standard for risk management, it is neither a sufficient nor a strictly necessary condition for profitability."

Among the conclusions of the paper is that in-sample cointegration is not a strict prerequisite for out-of-sample profitability. Short-horizon mean-reversion rules can exploit transient, regime-dependent corrections in relative prices without requiring a perfectly stationary spread. The lack of cointegration, however, implies drift risk (non-stationarity); hence, rigorous risk control is essential in contemporary pairs trading, according to Dr. Pandini. His paper also establishes that multi-asset combinations can effectively filter idiosyncratic risk to preserve a stable common stochastic trend.

A key point the paper makes is its explicit modeling of transaction costs. Dr. Pandini demonstrates that execution efficiency can be as important as statistical modeling. A modest 10 basis point cost can significantly reduce the Sharpe ratio in high turnover strategies. Another point was 'drift risk' in commodity-linked pairs, making them less suitable for traditional pairs trading.

Davide Pandini holds a master's degree in Electronics Engineering (summa cum laude) from the University of Bologna (Italy) and a PhD in Electrical and Computer Engineering from Carnegie Mellon University, Pittsburgh. In 1995, he joined STMicroelectronics in Agrate Brianza (Italy), a leading European semiconductor Integrated Device Manufacturer (IDM) company, where he is a Technical Director and Fellow of STMicroelectronics Technical Staff. Since June 2015, he has been the chairman of the ST Italy Technical Staff.

Dr. Pandini has earned the CMT, MFTA and CFTe designations, and is a professional member (CSTA) of SIAT (Società Italiana di Analisi Tecnica), a member society of the International Federation of Technical Analysts (IFTA.

To download the full paper, visit: **["Find A White Paper" -- https://naaim.org/programs/find-a-whitepaper/](https://naaim.org/programs/find-a-whitepaper/)**

Celebrating 20 Years of the NAAIM Exposure Index

FOR THE PAST 20 YEARS, THE NAAIM EXPOSURE Index has served as one of the investment industry's most unique and respected measures of professional market sentiment. While its name has evolved over the years, its purpose has remained unchanged: to provide a simple, transparent snapshot of how active investment managers are positioned in the U.S. equity markets.

Unlike traditional sentiment surveys that ask participants how they *feel* about the market, the NAAIM Exposure Index reflects what professional money managers are actually doing. Each week, participating NAAIM members—Registered Investment Advisors (RIAs) and Investment Adviser Representatives (IARs)—report their firm's current equity market exposure. Those responses are averaged to produce the weekly Index value.

The concept behind the Index is remarkably straightforward. Investment managers are understandably protective of their intellectual property and are rarely willing to disclose the details of their portfolios in real time. However, many are comfortable sharing something much more general—their overall equity exposure. By collecting these responses from approximately 120 NAAIM member firms (with participation varying from week to week), the Index provides valuable insight into the collective bullish or bearish positioning of active investment managers.

Beyond the weekly average, the Index also reports standard deviation and quartile data, offering additional perspective on the level of agreement—or disagreement—among participating managers. This additional information helps users better understand not only where managers are positioned, but also how broadly that positioning is shared across the active management community.

Since its introduction in 2006, NAAIM has made the weekly Exposure Index available to the public at no cost. As the Index has grown in popularity and demand, we are pleased to announce the next phase in its evolution.

Beginning August 1, the NAAIM Exposure Index will transition to a subscription-based service. Subscribers will have access to the weekly Index value, historical data spanning the past 20 years, and new options for accessing the data, including an API for firms wishing to integrate the information directly into their own applications and research platforms.

As always, **NAAIM members will continue to receive complimentary access** to the Exposure Index through the members-only section of the NAAIM website using their member credentials.

If you are not currently a NAAIM member and would like complimentary access to the Exposure Index, along with the many other benefits of membership, we invite you to explore whether your firm qualifies for Regular or Associate Membership by visiting **https://naaim.org/join-naaim/**.

Subscription options for non-members will be available on the NAAIM website beginning **August 1**.

We extend our sincere thanks to the many NAAIM members who have faithfully contributed their weekly exposure data over the past two decades. Their participation has made the NAAIM Exposure Index one of the industry's longest-running and most valuable measures of active manager sentiment, and we look forward to its continued growth in the years ahead.

Tom Giachetti Authors Book on His Mistakes & Path to Inner Peace

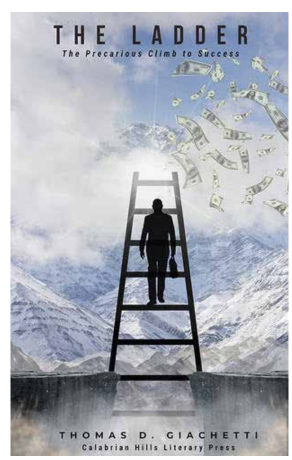
AS A LONG-TIME NAAIM CONFERENCE PRESENTER, friend and legal counsel to many NAAIM members and their firms, Tom Giachetti has always seemed the unflappable lawyer. The man with a ready smile, terrifying SEC true stories and an encyclopedia of legal knowledge and experience.

"As I near the conclusion of my professional career, I want to provide a heartfelt message to both younger people who are about to begin their careers and to those older who are in the midst or end of their professional journey (*regardless* of their chosen profession or vocation)," explains Tom. "I am hopeful that *The Ladder* will help others avoid my mistakes so that a successful work-life balance can be achieved.

"In *The Ladder*, I recount my uniquely paradoxical journey of a nationally recognized lawyer and magazine columnist who mistakenly conflated business and personal success, culminating with the eventual *Awakening* of a broken man that no one would have ever assumed needed fixing."

The book is a brutally honest, introspective memoir of a man blessed with a good life who put work first, family second, and God a distant third, only to find ego and personal profit ultimately unfulfilling.

"As the result of a late-in-life reconnection with God, I learned that it is never too late to learn the lessons from our mistakes, repent, make amends and do better. I now rise every day with an inner peace that was missing for 40 years. I am hopeful that readers will find my journey an impetus for personal reflection, and perhaps the start of the *Climb* to their own *Awakening*," he says.



Tom's book will be available on Amazon, Apple Books, Barnes & Noble and ***The Ladder*** website: www.calabrianhillsliterary-press.com.

This is a non-profit venture. All proceeds from the book will go to deserving charities.

A Field Guide to the Future(s)

BY JIM LEE, CFA, CMT, CFP®

WHEN WE TALK ABOUT THE FUTURE, MANY people imagine this big, monolithic "thing" that is written in stone.

But this would be dull. The world is a far more interesting place.

The "future" doesn't exist -- at least in a singular sense. It is far more helpful to think of it as an ecosystem of sorts.

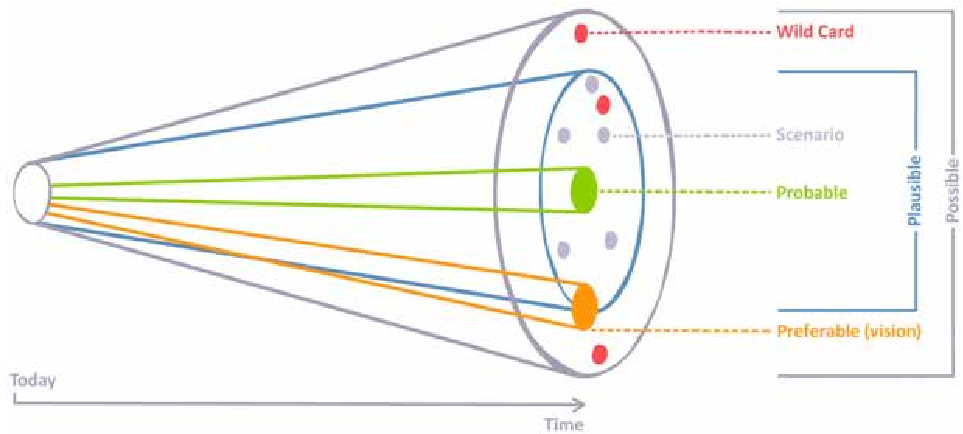
Strategic Foresight is an exploration of the many types of future that we can experience.

When I was just getting started, I thought that prediction was a superpower. If it was possible to predict things accurately, you could dodge bullets and make millions in the stock market. So, I spent years trying to figure it out.

But the world is bigger than you might expect. That's why I now believe that creativity and visioning are more important than forecasting. These are better tools for finding real solutions.

Instead of worrying about "what could possibly go wrong", think about "what could possibly go right". And then put together a plan for making it happen.

By making enough of the right small decisions overtime, you can shift from the probable future to your best future.



The Cone of Possibility (see above image, sourced from KnowledgeWorks) is an excellent way to map out what the future looks like in practice. It starts with a single perspective that broadens over time.

There are a few different varieties of the future. Each can be explored with a different set of tools.

The Probable Future is what you'll likely run into when you ask ChatGPT or a predictions market about what happens next. This is the most likely outcome of current trends. It's what everyone expects.

There are no surprises here, it's mostly just linear forecasting.

This is surrounded by a zone of uncertainty, where we can find **Plausible Futures.** These are things that *could* happen under the right conditions. Change a variable or an assumption, and you have a whole new future! This is what futurists explore when doing scenario planning. By looking at a range of potential outcomes, people and organizations can respond faster and better to a changing world.

The next layer out is the **Wild Card Future**, the so-called "Black Swans" that are unexpected and come out of nowhere. The best way to scan for these is to track what futurists call "weak signals". Horizon scanning is a ton of fun. Prepare to be surprised!

In between the Plausible and the Wild Card is the **Preferable Future.** This is the future that you want to live in. It's out there, but you need to look for it.

Bonus: Applying This to Investing

As we know from experience, anything can happen with the markets these days. The 4 P's (probable, plausible, possible, preferred) are easily integrated into portfolio management.

The **probable future** is all about finding your core holdings and high conviction positions. For many, this might include technology stocks and index funds.

The **plausible future** is why we diversify. This involves not "putting all your eggs in one basket".

The **possible future** is about managing tail risk. It's why we might hedge a portfolio with options or buy life insurance.

And finally, the **preferred future** can cover any number of things, from socially responsible investing to charitable giving and venture capital.

If done well, investing becomes a tool for shaping outcomes.

Jim Lee, CFA, CMT, CFP® is the founder of Strategic Foresight Investments LLC (StratFI), a Registered Investment Advisor (RIA) registered in the State of Delaware.

When Markets Don't Follow the Script, Dynamic Risk Management Matters

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favorable market environments while recognizing that market conditions can change quickly. Dynamic risk management, as we apply it, is responsive to market forces. We don't try to predict where the market is going. Rather, we respond to the directional clues the market itself provides.

Why active management?

In 1988, I met with a small group of colleagues to create the industry trade association now known as the National Association of Active Investment Managers (NAAIM). Formed in 1989, NAAIM brought together managers who had chosen active management over passive, buy-and-hold approaches. But the reason was often different from the common perception.

At the time, many members of the press and the financial industry viewed active managers, or "market timers," as investors simply trying to "beat the market." By that, they meant outperforming market indexes, such as the Dow Jones Industrial Average and the S&P 500, every quarter or every year, purely on returns.

But as I listened to my colleagues, I heard the same point I had long been making: Active management was about seeking to manage downside risk. It was not part of the go-go investment philosophy of the 1970s or the tech bubble of the 1990s. It was a way to help investors reduce the impact of major market declines that could do serious damage to portfolios.

We did not believe asset allocation or simple asset-class diversification was the only defense against these downturns. We had been in the business too long to believe that this approach alone could sufficiently address client risk. In every firm's case, active management was viewed as an essential tool. NAAIM's first president, John Sosnowy, would often say, "If you see a train bearing down on you, the best defense is to get off the tracks."

One of NAAIM's first projects was completed by three of us. We wrote a paper published by the **Journal of Portfolio Management** demonstrating that active management firms outperformed indexes on a risk-adjusted return basis. In other words, they earned more than would be statistically expected for the risk they were taking. The research was later replicated and validated in a different time period by a group of academic researchers.

So, we were active managers for defensive purposes. Why? Because when you reduce your losses in a market correction, you can have more money working for you when the market recovers. Over a full market cycle, you may end up with more money while taking less risk.

Simple math shows why reducing downside losses can matter more than trying to capture every bit of upside potential.

Let's examine two hypothetical accounts. One account uses an active, tactical approach. The other uses a traditional, passive, buy-and-hold allocation model.

In the traditional account, the market and the investor lose 30% in one of the bear markets that we have experienced every four to five years over the last century. Then, over the next few years, as often happens, the market gains 30% back.

The investor is back to breakeven, right? No. The investment is still 9% lower because the 30% gain was earned on the smaller portfolio balance that remained after the loss.

By comparison, the active, tactical investor avoids half the market loss but captures only two-thirds of the market rally. Who has done better? The active investor has a 2% overall gain, while the passive investor has a 9% loss.

The active investor has more at the end of the market's ups and downs compared to the passive investor. Year after year, cycle after cycle, losses can really add up.

MARKET LOSS MATHEMATICS	
Strategic Diversification	Traditional Diversification
\$100,000	\$100,000
-15%	-30%
\$85,000	\$70,000
+20%	+30%
\$102,000	\$91,000

The pros and cons of active management

Since many active managers are trend followers in some form, they face a couple of common challenges.

First, they have to wait for a trend to change. And that takes time. As a result, active managers may leave some money on the table when markets are topping out and may be late to participate when markets begin to recover. Their goal is to seek to avoid much of the downside while participating in a meaningful portion of the upside.

Second, markets are not always in a clear uptrend or downtrend. Sometimes they move sideways while investor forces are marshaling for a new bullish charge or a bearish retreat.

These periods are like encountering a curvy stretch of highway. For that kind of driving, automakers gave us two pedals: a brake and an accelerator. A buy-and-hold investor keeps a foot on the gas through every twist and turn. An active manager can use both pedals, seeking to stay on course while managing risk along the way.

Active management can perform well when markets are not trending clearly and investors are trying to get their bearings. But it can also underperform when market movements are just noisy rather than trend-driven.

That is why expectations matter. Defensive, active management generally does not seek to keep a portfolio fully invested through every period of turmoil. Short periods of underperformance can happen, especially when markets are choppy and trends are unclear. The key question is whether the strategy is still performing as expected based on its process, research, and long-term purpose.

A better way to evaluate performance

You cannot evaluate a risk-managed portfolio by comparing it only with a market benchmark such as the

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A Major Wealth Shift Is Coming. Here's Why Many Women Are Not Ready for It

Why receiving wealth and being ready for it are not the same thing

BY VIC VERMA

FOR NEARLY 40 YEARS, MARY JOHNSON AND HER husband James saved carefully, invested prudently, and built what looked from the outside like a secure and comfortable life. They handled different parts of their finances, lived thoughtfully, and made sure they had enough for retirement. When James became unable to work, Mary kept working and continued helping build that nest egg.

Then James passed away, and Mary found herself in a situation she had never truly imagined, one that suddenly felt overwhelming.

Her problem was not a lack of money. It was that she suddenly had to step into a financial life she had never been asked to manage on her own. She could not log in to James's investment accounts. She learned she might be entitled to benefits based on his Social Security record until her own retirement benefits began, but she could not find the marriage certificate she needed. Important papers were scattered. Even paying for funeral expenses became stressful because she had never handled transactions in their portfolios herself.

Mary had done many things right. But in one of the hardest moments of her life, she came face to face with a reality many women will recognize: being financially secure is not always the same as being financially prepared.

And Mary's story is likely to become more common in the years ahead.

The United States is now moving through what many call the Great Wealth Transfer, one of the largest generational shifts of assets in history. Research firm Cerulli estimates that about $124 trillion will transfer through 2048, with nearly $100 trillion, or about 81%, expected to come from Baby Boomers and older generations. That is what makes this shift so significant. It is not simply a normal passing of assets over time. It is a historically large transfer driven by the size, longevity, and accumulated wealth of one enormous generation.

When people hear about the Great Wealth Transfer, they often picture parents leaving money to children. That is certainly part of the story, but it is not the whole story. A very large portion of this wealth is expected to pass first to surviving spouses. Cerulli estimates that about $54 trillion will first move through inter-spousal transfers to widows through 2048, and that more than 95% of that will go to women.

The reason is not complicated. On average, women live longer than men. In the United States, female life expectancy at birth was 81.4 years in 2024, compared with 76.5 years for males. In many marriages, that means the husband dies first, and assets pass initially to the surviving wife before eventually moving to children or other heirs. So the Great Wealth Transfer is not only a story about inheritance across generations. It is also a story about whether someone is ready to manage wealth when life suddenly changes.

That distinction matters.

It means this is not just an estate planning issue. It is a real-life preparedness issue. A woman may inherit substantial assets and still feel overwhelmed if she has never been fully brought into the financial picture. In many households, one spouse informally takes the lead on investments, taxes, estate documents, or account organization. Everything may appear to be under control, until that person is no longer there. At that point, what looked organized from the outside can quickly feel overwhelming from the inside.

This is one reason the topic deserves more attention. UBS reported in 2025 that 83% of widows faced challenges when taking sole control of household wealth, and one in four said they did not know where all of their partner's wealth was before his passing. Many found there was no clear transfer plan, no updated will, or complications they had never expected.

That should give all of us pause.

In my experience, many women are thoughtful, disciplined, and long-term in the way they approach financial decisions. The problem is often that they were simply never fully included in the process early enough. So when wealth arrives, whether through the death of a spouse, an inheritance, or another major life transition, the challenge is not only receiving it. The challenge is being ready for the responsibility that comes with it.

There is also an emotional side to this that numbers alone do not capture. Inheriting wealth or becoming solely responsible for family finances does not always feel like a blessing. It

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A Major Wealth Shift Is Coming

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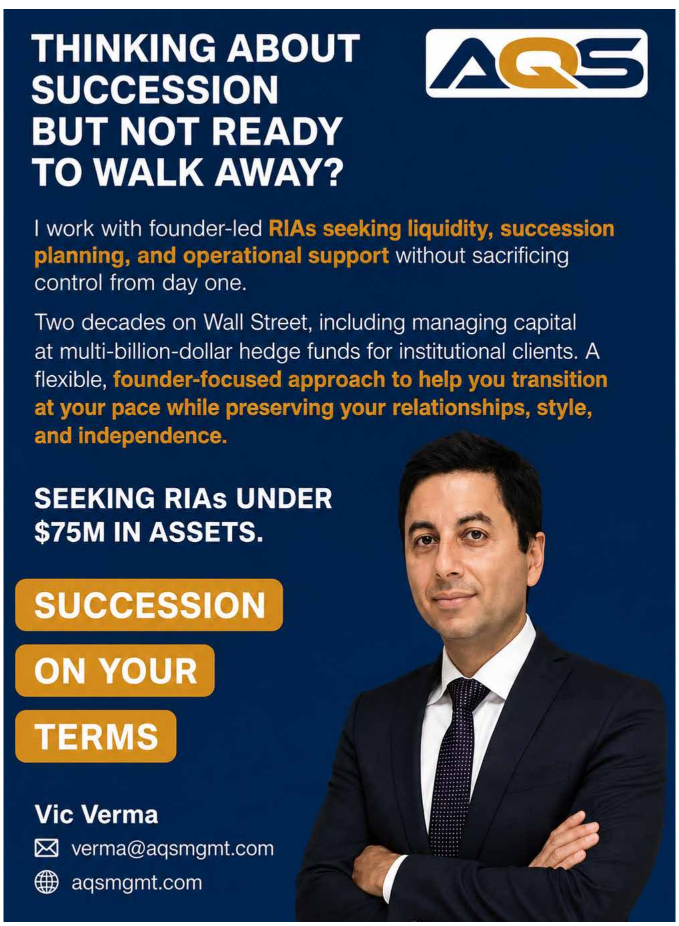
can come with grief, anxiety, uncertainty, and pressure. Even highly capable people may delay decisions or avoid acting simply because they do not yet feel ready. That response is understandable. It is human.

We have worked with many women navigating these issues over the years, and along the way we have seen many of the same mistakes and blind spots come up. Many of the same lessons also apply when someone receives a large windfall or proceeds from a divorce.

If there is one takeaway, it is this: the Great Wealth Transfer is not simply about who gets the money. It is about whether families are prepared for the responsibility that comes with it.

Vivek "Vic" Verma is the CIO of AQS, a New York-based wealth management firm serving women navigating major financial transitions, ultra-high-net-worth families, businesses, and a foundation. He previously held roles at the multi-family office American Alpha Advisors and at multi-billion-dollar funds Mason Capital and Patriarch Partners. Vic holds an MBA from Columbia Business School. He can be reached at verma@aqsmgmt.com.



President's Letter

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a little while longer, but the next big secular bear market is getting closer.

If there is one thought that unites active managers, it is the belief that markets are cyclical. That this time is not different. That patterns tend to play out over time. When the market changes direction, what is your plan to protect your clients' money and your profession? Who can you talk to about your concerns and how to manage the risk of the next bear market? That's where NAAIM comes in.

Priorities for the NAAIM board going into the coming program year are to strengthen our existing programs, find ways to enhance the value of membership, and reach out to potential new members by telling the NAAIM story largely through social media. Barry Arnold, Ryan Redfern, Matt Spangler and other past presidents and board members launched NAAIM into the social media realm. But we need to continually ramp up that effort, maintain consistency in our communications and find more avenues to let the financial community know about NAAIM.

Before I sign off on this letter, I wanted to let you know a little bit about myself. Forty years ago it never occurred to me that I would have a career managing money for people. My first job after graduating with an economics and foreign affairs double major was serving on the President's Task Force on Private Sector Initiatives under President Ronald Reagan. Gaining traction in politics proved difficult, so almost on a whim I answered an ad for a data management position with Schabacker Investment Management. Nine years later I moved on to GFAM and then to Financial Services Advisory, Inc, today FSA Wealth Partners, Inc., where I am Chief Investment Officer and Partner.

While that might seem a far way from econ and foreign policy, I find I use that foundation as a constant part of money management. The market changes every year, throwing curves at you. There's always something unusual that makes it challenging.

Vacations usually find my wife, Jenny, and I heading west to Colorado and the mountains for backpacking. I also enjoy playing golf and cycling and we are active in our church community. My wife is a former lawyer and hosts a podcast on the Supreme Court and legal issues, which leads to a lot of interesting conversations.

I'm looking forward to serving as NAAIM President over the next two years and welcome your comments and thoughts as we move forward.

Have a great summer and I hope to see many of you at the Fall OUTLOOK conference as well as sharing ideas on our online forums.

Sincerely,

Ron

Ron Rough
2026-2028 NAAIM President

Bear Markets Don't Stop Happening Just Because We Aren't Talking About Them

BY GRANT MORRIS

WHEN THE MARKETS AND ECONOMY ARE GOOD, it is easy for investors and financial professionals to forget that things can go south – and often do.

The reality: bear markets (a 20% or greater decline in stock prices from a peak) are a regular part of the economic cycle. According to Kiplinger, since 1932, bear markets have occurred, on average, every 56 months (about 4 years and 8 months). That is based on data from the S&P Dow Jones Indices.

Note that while often associated with economic recessions, roughly 20 to 30% of bear markets are not accompanied by one, based on historical data since 1929 reported by CNBC. This makes them unpredictable.

This article digs into the history of bear markets, why they happen, and how to plan for them.

History of Bear Markets Since 1928

Bear markets are not uncommon. There have been 27 bear markets in the S&P 500® since 1928, occurring roughly every 3.5 years. These declines of 20% or more have historically experienced a 35% drop in value and typically lasted around 10 months. These market declines are considered a normal part of the economic cycle. This is based on information provided by Keen Wealth Advisors.

The table at right documents all bear markets since 1928, the year before the most notable one triggered by The Great Depression. It demonstrates the regularity of bear markets, and how easy it can be to forget about them during extended periods of positive market performance.

Start and End Date	% Price Decline	Length in Days
9/7/1929–11/13/1929	-44.67	67
4/10/1930–12/16/1930	-44.29	250
2/24/1931–6/2/1931	-32.86	98
6/27/1931–10/5/1931	-43.10	100
11/9/1931–6/1/1932	-61.81	205
9/7/1932–2/27/1933	-40.60	173
7/18/1933–10/21/1933	-29.75	95
2/6/1934–3/14/1935	-31.81	401
3/6/1937–3/31/1938	-54.50	390
11/9/1938–4/8/1939	-26.18	150
10/25/1939–6/10/1940	-31.95	229
11/9/1940–4/28/1942	-34.47	535
5/29/1946–5/17/1947	-28.78	353
6/15/1948–6/13/1949	-20.57	363
8/2/1956–10/22/1957	-21.63	446
12/12/1961–6/26/1962	-27.97	196
2/9/1966–10/7/1966	-22.18	240
11/29/1968–5/26/1970	-36.06	543
1/11/1973–10/3/1974	-48.20	630
11/28/1980–8/12/1982	-27.11	622
8/25/1987–12/4/1987	-33.51	101
3/24/2000–9/21/2001	-36.77	546
1/4/2002–10/9/2002	-33.75	278
10/9/2007–11/20/2008	-51.93	408
1/6/2009–3/9/2009	-27.62	62
2/19/2020–3/23/2020	-33.92	33
1/3/2022–10/12/2022	-25.43	282
Average	-35.24	289

Source: Ned Davis Research March 2025.

Notable Bear Markets and the Damage They Caused

All bear markets are not created equal. Several have lasted long and inflicted significant financial harm. By contrast, bear markets like the one after COVID-19 were remarkably short, and recovery happened quite quickly. Bear markets are unpredictable beasts. Some notable ones since 1928 include:

The Great Depression (1929 to 1933). This series of bear markets was the granddaddy of all bear markets. A banking panic in the United States resulted in a collapse in the money supply. Gross domestic product, industrial production, employment, and land prices dropped significantly. The Dow Jones fell by 89% during this period.

Recession of 1937 (May 1937 to March 1938). This bear market is relatively minor when compared to the Great Depression. Still, it was one of the worst in the 20th century, resulting in an almost 55% drop. Share prices fell due to a recession and doubts about New Deal economic policies.

Black Monday Recession (August to December 1987). This bear market included the single-largest one-day percentage decline in U.S. stock market history. The dramatic drop is often attributed to program trading and illiquidity. Despite the record-breaking day, this recession was relatively shallow (a 33.5% drop) and short. In the end, the Dow finished the year with a two percent increase.

Dot-Com Bubble (2000 to 2002). In 2001, stock prices fell sharply after the internet bubble burst, as investors sold overvalued internet stocks. After recovering from lows reached immediately after the September 11 attacks, indices slid steadily beginning in March 2002, with dramatic declines in July and September leading to lows last reached in 1997 and 1998. Here is the year-after-year performance of two indices to show the scope of the decline:

Nasdaq

- In 2000, the Nasdaq lost 39.28% of its value.
- In 2001, the Nasdaq lost 21.05% of its value.
- In 2002, the Nasdaq lost 31.53% of its value.

Dow Jones Industrial Average

- In 2000, the Dow lost 6.17% of its value.
- In 2001, the Dow lost 5.35% of its value.
- In 2002, the Dow lost 16.76% of its value.

The Nasdaq took a bigger hit during this period because of its greater concentration of internet-related stocks.

Great Recession (2007 to 2009). The Great Recession has been linked to the subprime home mortgage crisis. During the United States housing boom in the early to mid-2000s, mortgage lenders that wanted to take advantage of rising home prices were less restrictive about the types of borrowers they approved for loans. And as housing prices continued to rise, other financial institutions purchased these risky mortgages in bulk, typically as mortgage-backed securities, as an

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Bear Markets Don't Stop Happening Just Because We Aren't Talking About Them

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investment, hoping to earn a quick profit. When housing prices fell, mortgages and securities became worthless, triggering a major market crash.Markets dropped more than 50% over a year and a half.

COVID-19 (2020). This was the fastest bear market in history, falling 34% in just over a month before a quick recovery.

Inflation / Rate Hikes (2022). This latest bear market was a 10-month downturn driven by the Fed's interest rate hikes to curb high post-pandemic inflation. The S&P 500 fell 25% during the period. This bear market proved that the traditional 60% equity, 40% bond portfolio is flawed because both fell in tandem.

Near-Term Likelihood of a Bear Market

The U.S. economy and markets have been resilient even against significant headwinds, including:

- Energy prices and inflation. Renewed inflation, spurred by oil prices, could pressure the Fed to keep interest rates high, potentially causing stagflation.
- Geopolitical instability. Ongoing tensions in the Middle East and other parts of the world could disrupt global trade, posing significant risks to supply chains.
- Rolling recession. Even though different sectors of the economy have shown signs of slowing, it has not yet transitioned into broader contraction. That could still happen, considering all the pressures on it.

These factors suggest that markets, from steady to soaring, could turn bearish at any time.

Choices Beyond Equity and Bonds

Investors and investment advisors often turn to alternative investments, gold, and cash to diversify portfolios, reduce volatility, and hedge against market downturns and inflation. These assets often have low correlation to stocks and bonds, providing a level of protection during crises. Gold typically acts as a safe-haven, cash offers liquidity, and alternatives the potential for higher returns.

Some benefits of turning to these types of solutions include:

- **Diversification and protection:** Alternative investments like real estate, private equity, and commodities often don't perform like stocks and bonds, reducing overall portfolio risk, often delivering positive returns during market downturns.
- **Crisis control:** Gold and cash can deliver liquidity during market downturns when other assets are hard to sell or falling in value.
- **Reduced volatility:** Gold generally acts as a portfolio stabilizer during turbulent periods. exhibiting lower volatility than equities and a low or negative correlation to stocks, particularly during deep market drawdowns.
- **Opportunity:** Holding cash allows investors to buy undervalued assets when markets are low.

Despite the benefits, many advisors and investors avoid these types of investments due to their relative complexity and lack of understanding.

How Tactical Investing Looks to Protect Clients from Bear Markets While Taking Advantage of Upturns

To make the case once again, bear markets happen relatively frequently and are unpredictable. They can cause significant damage to investors' portfolios and their long-term financial goals.

One way to deal with this is by taking a tactical approach to investing.

Key components of tactical investing include:

- **Active hands-on management:** Investors, or managers, leverage market data, economic indicators, technical analysis, and other factors to make decisions.
- **Seeks to limit risk while enjoying upside benefits:** It is often used to manage downside risk during high-risk market conditions by shifting to safer assets. It moves back to higher-performing asset classes when conditions improve.
- **Sector rotation:** Tactical strategies often transfer funds into sectors expected to outperform in the short term, which can be beneficial during uncertain times.
- **Flexibility:** The approach is far more flexible than a standard 60% equity and 40% bond portfolio, allowing investors to potentially move to positions such as all cash or alternative investments when appropriate.

Bottom line: *Tactical investing can potentially enhance returns, reduce volatility, and increase portfolio diversification.*

Grant Morris, CFA, CFP®, specializes in tactical investment strategies and technical analysis for McElhenny Sheffield Capital Management (www.mscm.net).

Curating a Tech Heavy Portfolio in An Actively Managed Nasdaq Covered Call Fund

BY JUSTIN MILBERG

WHILE STRATEGIES CAN VARY FROM FUND TO fund, most covered call ETFs built on the Nasdaq Composite or Nasdaq-100 indices (the "Nasdaq Indices") seek to monetize the relatively high volatility of these indices while preserving exposure to the attractive growth dynamics of the underlying companies. A tension between these two objectives exists, however, because writing (selling) more calls to generate income will often reduce exposure to upside in the underlying index.

How Covered Calls Impact Beta

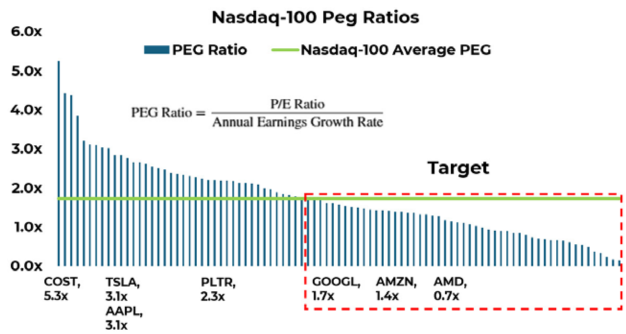
Beta is a measure of the extent to which a fund tracks an underlying index. A Beta of less than 1.0 indicates that a fund typically moves less than the underlying index, implying reduced exposure to the index. Because writing calls usually caps a fund's upside when the underlying index rallies, most Nasdaq covered call funds have a Beta significantly below 1.0. For example, the NEOS Nasdaq-100 High Income ETF (QQQI) had a one-year Beta relative to the Nasdaq-100 of 0.76 as of May 31, 2026 and the Global X NASDAQ 100 Covered Call ETF (QYLD) had a Beta relative to the Nasdaq-100 of 0.37 as of the same date.

Constraints on upside exposure from writing calls may be further amplified by the common practice of writing calls on an index, rather than individual stocks, and writing calls on a high percentage of a fund's portfolio. Writing calls on an index makes no distinction between undervalued, overvalued or fairly valued stocks in the index. Writing calls covering a large percentage of the portfolio caps upside when the index is rallying. In combination, the two practices can turn a covered call program into a blunt instrument for generating income.

A Smarter Approach to Monetizing Nasdaq Volatility

One strategy for better balancing income and appreciation objectives in a Nasdaq covered call fund relies on a more nuanced segmentation of the Nasdaq Indices which are often treated as a proxy for technology exposure. In reality, they are better understood as a technology-heavy index with embedded multi-sector exposure. Technology typically represents roughly 50–60% of the Nasdaq Composite by market cap, depending on classification methodology, and includes quintessential Nasdaq names such as NVIDIA, Microsoft, and Apple. The remaining 40–50% is allocated across non-technology sectors, including consumer, healthcare, industrial, and other legacy industries and includes companies such as Walgreens, Boots Alliance, Kraft Heinz, and Mondelez International.

As a general rule, the "old economy" constituents of the Nasdaq Indices exhibit lower expected earnings growth rates relative to the overall Nasdaq Indices. Thus, it is not surprising that these constituents often trade at lower absolute P/E multiple relative to the technology stocks. Nevertheless, in the current market, those same "old economy" stocks often trade at a relative premium based on the "PEG Ratio", which compares a company's P/E ratio to its projected growth rate. PEG ratios are often a key metric for investors seeking growth at reasonable prices ("GARP investors").



In the case of the Nasdaq Indices, the divergence between P/E ratios and PEG ratios creates an opportunity. A GARP investor focused on a universe of Nasdaq Index stocks will gravitate to the lower PEG ratio stocks which, counterintuitively, are the higher absolute P/E tech stocks. However, tech stocks are likely to be at the upper end of the volatility spectrum within the Nasdaq Indices, implying a Beta greater than 1.0 for a portfolio that over-weights tech stocks. Layering in covered calls still reduces the Beta but only brings it back down to around 1.0, implying similar upside potential to the index.

This strategy to preserve upside can be further enhanced by writing calls on individual stocks rather than writing calls on the index. First, individual stocks are likely to be more volatile than a diversified index. Because higher volatility is usually associated with higher premiums paid for calls, writing calls on individual shares instead of the index may imply more income per dollar of underlying value. Second, with more income per dollar of underlying value, the Fund can theoretically generate equivalent or higher income relative to an index call writing fund, while covering a lower percentage of the portfolio, thus helping to preserve upside. Lastly, focused call writing on individual stocks that are evaluated to be at the upper end of their valuation range can avoid forgone upside on stocks trading at a discount to fair value.

*Justin Milberg is Head of Product Strategy at Infrastructure Capital Advisors, based in New York. Infrastructure Capital Advisors is a GARP investor and believes that active management both in stock selection and call writing is essential to achieving attractive total returns. For more information about the Fund, Fund strategies or Infrastructure Capital, please reach out to Justin Milberg at 332-216-1628 (**Justin.Milberg@infracapfund.com**).*

Conditionally True: How to Lose Money Believing Accurate Statements

BY DR EUAN SINCLAIR

MOST OF WHAT WE BELIEVE TO BE TRUE IN THE markets isn't true. It takes a long time to accumulate enough observations of an effect that by the time we believe in it; it has often ceased to be true.

Most so-called market wisdom is really a collection of statements that are true just often enough to be dangerous. And this is more dangerous for experienced investors than for neophytes. If experience is synonymous with having learned myths, then that experience is detrimental, no matter how good it makes investors feel.

Some examples are:

- "Small caps lead in recoveries."
- "Buy the dip."
- "The market rewards patience"
- "Value beats growth"

Each of these works. Except when they don't. They're not wrong so much as *conditionally true:* valid under a certain regime, but completely wrong outside it.

That's the trouble with markets. The laws keep changing. Naive investors tend to be paranoid about "alpha decay," where their secret sauce is discovered by rest of the market. This happens but isn't generally a problem for anyone who isn't very actively trading. What is a far more common problem is that the market regime where their strategy works is no longer current.

Investors crave simplicity. They want rules. The problem is that most of these are statistical regularities stated as immutable truths. "Buy quality." "Hold for the long term." "Diversify." Each of these ideas *sounds* like wisdom because it's right on average or at least a lot of the time.

A truth that's conditional on a regime like liquidity, policy stance, volatility or crowd positioning isn't really a truth. It's a description of what worked last time.

Examples of Conditional Truths

Let's take a few favorites.

1. Small caps lead in recoveries. This is true when credit spreads are tightening and fiscal policy favors domestic firms. But it is false when inflation or rate pressure dominates.

It's not a structural law. It's just that smaller firms are more cyclical and typically more volatile. They rise faster when risk appetite returns and fall faster when it doesn't.

2. Buy the dip. This was true in a liquidity-backed, Quantitative Easing (QE)-era regimes where every sell-off brought the Fed cavalry. But it is false in tightening cycles, energy shocks or wars.

The idea that the market "always comes back" is a sample-bias artifact: people who traded Japan in 1990 or tech in 2000 can't repeat the slogan because they no longer manage money. It is like how real estate is meant to be a great investment. True in New York and San Francisco. Not true in Buffalo and Detroit.

3. The market rewards patience. It does, but only if you're patient *and* right. If the regime changes while you wait, you will patiently lose money. Long-term investors often mistake duration of conviction for evidence of correctness.

4. Value beats Growth. This is true after a growth bubble, early in an economic recovery or when there are rising (real) interest rates. But it is false in technology-driven periods. Value hasn't done particularly well for a long time.

Why We Believe Them

1. They used to work. Markets are always changing and evolving but most investors don't. Markets have cultural memory. A rule that made money for a generation becomes gospel, even after the conditions that birthed it vanish.

Or to quote the physicist Max Planck, "A new scientific truth does not triumph by convincing its opponents and making them see the light, but rather because its opponents eventually die, and a new generation grows up that is familiar with it."

2. They moralize probability. "Be patient." "Be disciplined." These are virtues, but markets aren't moral systems. Being a good person is not necessarily rewarded.

3. They feel empirical. A chart of 100 years of data gives a comforting illusion of permanence. But every data point was drawn under a different institutional world: gold standard, fixed exchange, QE, crypto. Aggregating them into one "truth" is like averaging gravity from multiple planets.

This is all disappointing and somewhat nihilistic but, now that we know the problem, we can at least try to mitigate it. In each case, instead of memorizing market "rules," ask three questions before acting on any aphorism:

1. *Under what regime is this true?*
2. *What observable data define that regime? (Credit spreads, policy direction, volatility regime, real rates etc)*
3. *How quickly can I tell when it changes?*

But a more robust approach would assume that even after this process, there is a chance that we are wrong. So don't rely on any one signal. The markets are never all about one thing even if it is a big thing. Now for example, we have a war (bad), high oil prices (bad), rising inflation (mixed) but good company earnings (good). Any model that looks at only one of these effects will be missing important parts of the puzzle.

Markets punish certainty, not ignorance. The investor who knows when a truth stops being true outlives the one who

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When Markets Don't Follow the Script...

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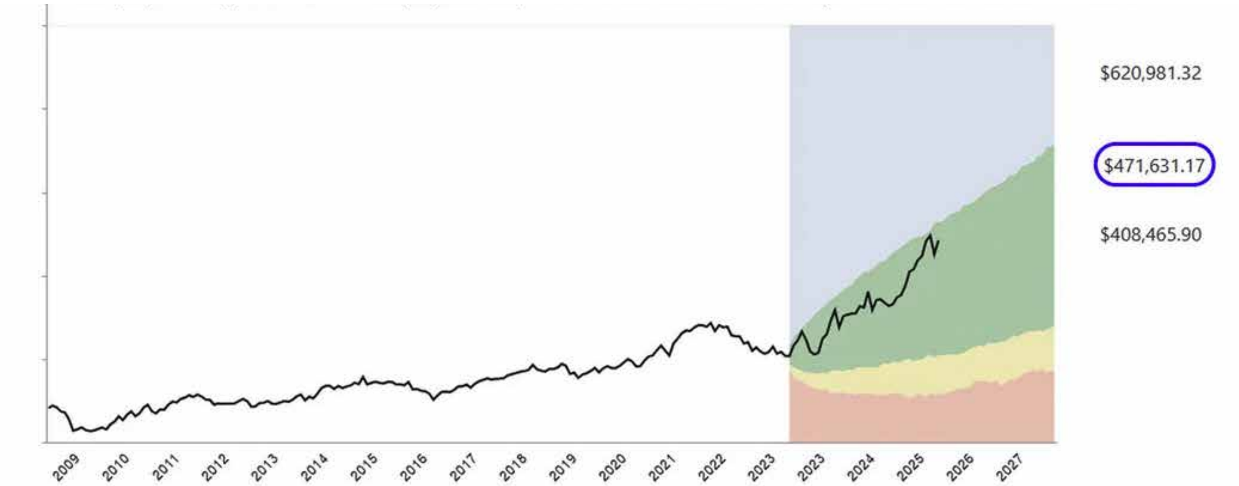
The OnTarget Monitor uses hundreds of Monte Carlo simulations of the client portfolio against the strategy's benchmark. The portfolio value (the black line) is plotted against a color-coded projection of possible investment outcomes over the client's stated investment horizon.



Latest strategy change occurred 4/5/2023.

The white background represents the period before the date of the account's latest strategy change. The multicolored background represents the probability that the account will reach the forecast values on the right with the current strategies. The black line shows the account's actual monthly % change, after advisory fees, ending with the current balance. The chart's time period matches the time horizon of the client's suitability questionnaire.

BLUE indicates the account is outperforming projections. GREEN indicates the account is OnTarget. YELLOW suggests a review with the client's financial advisor may be merited, while RED suggests the client should discuss a change in strategy with the advisor. It is not unusual for YELLOW or RED readings to occur in the first year of service or during bear markets. Projections do not include any future additions or withdrawals.

Source: Flexible Plan Investments

S&P 500. The S&P 500 is an unmanaged stock index, and it may carry more risk than some investors can tolerate during market corrections. A benchmark can be useful context, but it does not always reflect an investor's goals, risk tolerance, or time horizon.

To help address that challenge, we developed a methodology for monitoring strategy performance in terms of probabilities. It gives us a way to evaluate whether a strategy is performing in line with our research or showing signs that something may have changed.

Our OnTarget Investing process brings that methodology to our clients. The OnTarget Monitor uses hundreds of Monte Carlo simulations of the client's portfolio against the strategy's benchmark. The portfolio value (the black line) is plotted against a color-coded projection of possible investment outcomes over the client's stated investment time horizon.

As long as the client's portfolio is tracking through the green or blue areas, it is performing as expected or better. If it moves into the yellow area, the client may want to talk with their financial adviser about whether any changes are needed or complete a new suitability questionnaire. If it moves into the red area, a change may be appropriate.

***

Dynamic risk management may not be perfect, but we believe it is a practical way to manage investment risk. It is responsive and gives managers more defensive tools to address the unexpected risks that can emerge in the financial landscape. At FPI, we combine dynamic risk management with multi-strategy diversification and our OnTarget Investing process to help keep client portfolios aligned with their financial goals.

Jerry C. Wagner, a former tax and securities attorney, founded Flexible Plan Investments in February 1981. He is a founding member of NAAIM, and has served as director, chairman, president, and vice president. Mr. Wagner earned his bachelor's degree in political science and an MBA in industrial relations from Michigan State University, and his J.D. from the University of Michigan.

Conditionally True: How to Lose Money Believing ...

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believes it unconditionally. The difference isn't intelligence. It's humility.

And that is the only rule that seems to hold across every regime.

Dr Euan Sinclair is Senior Financial Engineer with Hull Tactical. He holds a PhD in theoretical physics from the University of Bristol and has written three books, "Volatility Trading" (two editions), "Option Trading: Pricing and Volatility Strategies and Techniques" and "Positional Option Trading: An Advanced Guide" as well as numerous papers and articles. He is a member of the editorial board of The Journal of Investment Strategies.

OUTLOOK 2026 | October 26 & 27
Westin DFW

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- **David Leo** – The Financial Advisor's Coach
- **Danielle DiMartino Booth** – CEO & Chief Strategist, QI Research
- **Leila Shaver** – Founder & Compliance Nerd, My RIA Lawyer
- **Ryan Redfern** – President, Shadowridge Asset Management, LLC
- **Chad Henry** – ForthRight Financial Planning
- NAAIM Member Panels covering practical applications of AI for investment research, marketing, compliance, note-taking, and business operations
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Outlook 2026 will be held **October 26–27, 2026**, at the **Westin DFW** in Dallas, Texas, with the optional Ethics & Professional Responsibilities CE session taking place on **Sunday, October 25**.

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