EVIDENCE-BASED INVESTMENT INSIGHTS

THREE KEY STRATEGIES FOR BUILDING WISE WEALTH

DEL MONTE GROUP

A PLACE OF POSSIBILITY

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DEL MONTE GROUP

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THREE KEY STRATEGIES FOR BUILDING WISE WEALTH

Thank you for downloading our investing guidebook. Since 1985, Del Monte Group has been helping individuals, families, and closely held businesses solve complex problems involving financial, tax, and estate concerns with unique integrated wealth management approaches. We're thrilled to be your resource for creative, personalized strategies to help you keep and grow and enjoy your wealth. Enjoy!

INTRODUCTION

Are you ready to become a better investor? Then it's time to enhance your skills beginning with a few of the most fundamental principles proven to generate wealth. In this report we provide no-nonsense insights on how to invest with greater confidence, and most importantly, with evidence backing your every move rather than letting a roller coaster of emotion guide your way.

Being an evidence-based investor does not mean you need to have a degree in financial economics, or that you have to be smarter, faster, or luckier than the rest of the market. No, it just means three simple things:

1. **Learn the Evidence, Know the Evidence, Live by the Evidence…** That may sound aggressive, but guess what, there is a whole host of people out there that do have advanced degrees in financial economics. Why not put their experience, knowledge, and proven solutions to work?

2. **Structure your portfolio** so that you're playing with rather than against the market and its expected returns.

3. **Understand the "human factor," i.e., your own built-in, automatic behaviors,**

4. that have come from eons of evolution, tricking you into making the worst financial decisions at all the wrong times…YIKES!

So, one more time now, are you ready to become a SMARTER, STRONGER investor? Then let's get started!

PART I

Learn the Evidence, Know the Evidence, Live By the Evidence

PART I: Learn the Evidence, Know the Evidence, Live By the Evidence

YOU, THE MARKET, AND THE PRICES YOU PAY

How do you achieve every investor's dream of buying low and selling high in a crowd of resourceful and competitive players? The answer is simple, you have to play with the crowd rather than play against it. To do that, we want you to understand how market pricing occurs, according to these four insights:

1. Group intelligence drives efficient pricing
2. It's not whether breaking news is good or bad, it's whether it's expected or unexpected
3. By the time you hear the news, the market already knows it
4. Financial "gurus" are no better than you at consistently predicting the markets

Pretty straightforward, right? Let's continue.

PRICE-SETTING: THE POWER OF GROUP INTELLIGENCE

Before the academic evidence showed otherwise, it was commonly assumed that the best way to make money in what seemed like ungoverned markets was by outwitting others at forecasting future prices and trading accordingly in domestic and international stocks, bonds, commodities, real estate, and more—or by hiring high-priced market analysts to do this for you. Duh!

Unfortunately for those who are still trying to operate by this outdated strategy, academia has revealed that the market is not so ungoverned after all. Yes, when you take a good hard look, it's actually chaotic, messy, and unpredictable at best. But it's also subject to group intelligence. What is that? This means that there are groups of independent players (such as free market participants) who are consistently better at landing accurate factual answers than even the sharpest individuals in that same group.

Applying group wisdom to the market's multitude of daily trades means that each singular trade may either be spot on or wildly off from a "fair" price, but the aggregate average incorporates all known information contributed by the intelligent, the ignorant, the lucky, and the lackluster.

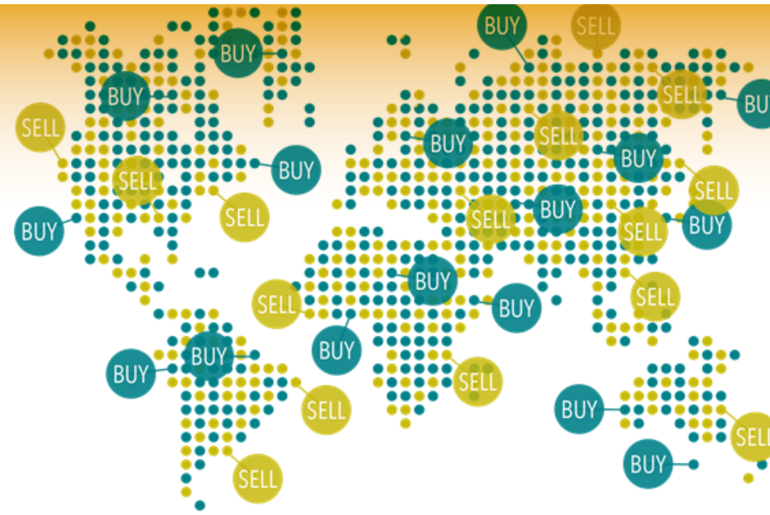
Instead of believing that you can regularly outguess the market's collective wisdom, you are better off concluding that the market is doing a better job than you can at forecasting prices.

PART I: Learn the Evidence, Know the Evidence, Live By the Evidence

MARKETS INTEGRATE THE COMBINED KNOWLEDGE OF ALL PARTICIPANTS

The market effectively enables competition among many market participants who voluntarily agree
to transact.

This trading aggregates a vast amount of dispersed information and drives it into security prices.



THE EFFECT OF BREAKING NEWS ON MARKET PRICING

The next step in our journey, is to understand how prices are set moving forward. So, what causes market prices to change? It begins with the never-ending stream of world news. Shocking, right? Not really. Here, it's critical to be aware of the top piece of evidence, which tells us the most important thing of all:

You cannot expect to consistently improve your outcomes by reacting to breaking news.

How the market adjusts its pricing is why there's not much you can do after the news is released. First, it's not the news itself; it's whether we saw it coming. In other words, it's not just news, but *unexpected news* that alters future pricing. By definition, the unexpected is impossible to predict, as is how dramatically (or not) the market's group intelligence will respond to it.

YOU HEARD IT HERE FIRST: THE BARN DOOR PRINCIPLE

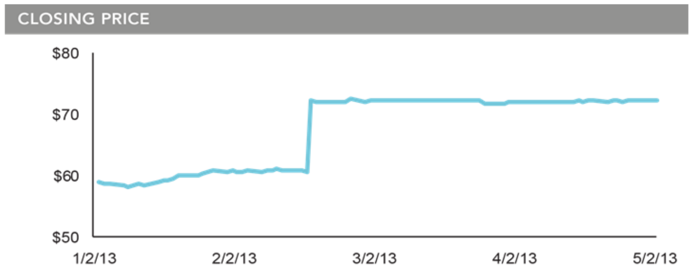
Another reason breaking news is relatively irrelevant to your investing is what we'll call "The Barn Door Principle." *By the time you hear the news, the market already has incorporated it into existing prices.* The proverbial horses have already galloped past your open trading door. This is especially so in today's electronic world, where price adjustments typically occur within the first few post-announcement trades.

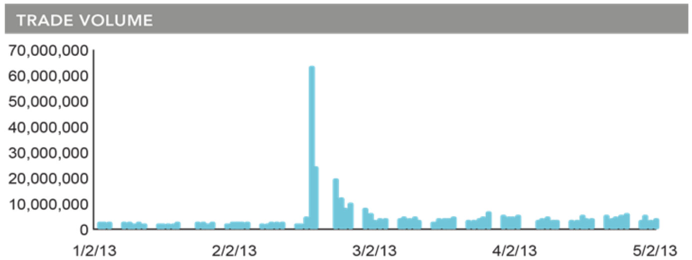
Stock Prices Adjust Quickly

Heinz, February 14, 2013

"Heinz agrees to buyout by Berkshire Hathaway, 3G"
—USA Today, February 14, 2013

News travels fast, but prices adjust faster. In the blink of an eye, literally.





Unless you manage to be among the very first to respond to breaking news (competing, mind you, against automated traders who often respond in fractions of milliseconds), you're setting yourself up to buy higher or sell lower than those who already have set new prices based on the news—exactly the opposite of your goal.

FINANCIAL GURUS AND OTHER FANTASTIC CREATURES

As touched on above, you're also ill-advised to seek a market-forecasting, financial guru to pinch hit for you.

In his Berkshire Hathaway 2017 Shareholders Letter, Warren Buffett described his take on investment "experts" when he wrote: "Performance comes, performance goes. Fees never falter."

Instead, Buffett suggests, "Seizing the opportunities then offered does not require great intelligence, a degree in economics or a familiarity with every bit of Wall Street jargon. What investors then need instead is an ability to both disregard mob fears or enthusiasms and to focus on a few simple fundamentals." This holds true today.

PART I: Learn the Evidence, Know the Evidence, Live By the Evidence

But let's say you do know of an extraordinary stockbroker or fund manager, or TV personality even who strikes you as being among the elite few who can make the leap. Should you really turn to them for the latest market tips, instead of settling for "average" returns?

Bottom line, if such outperforming experts did exist in reliable numbers, we should expect to see credible evidence of it. Not only is such data lacking, the body of evidence to the contrary is overwhelming. Star performers – "active managers" – often fail to survive, let alone persistently beat comparable market returns. Consider this, if you could consistently outperform the market, would you stick around to tell everyone about it or worse, produce a TV show about it? No way! You'd be on a beach somewhere, and so would they. Across the decades and around the world, many independent analysts have scrutinized active manager performance and consistently found it lacking. Sorry folks, the proof is in the pudding here.

To cite one of many sources, Morningstar publishes a semiannual Active/Passive Barometer report, comparing actively managed funds to their passively managed peers. In its most recent, March 2021 report, Morningstar found: "In general, actively managed funds have failed to survive and beat their benchmarks, especially over longer time horizons; only 23% of all active funds topped the average of their passive rivals over the 10-year period ended December 2020; long-term success rates were generally higher among foreign-stock, real estate, and bond funds and lowest among U.S. large-cap funds."

The disappointment isn't limited to U.S. markets, either. Morningstar produces a similar, semiannual European Active/Passive Barometer, in which it reached similar conclusions (emphasis ours): "European active funds' long-term success rates are low. Over the 10 years through December 2020, the active manager success rate was less than 25% in nearly two thirds of the categories surveyed."

PART II

Structuring Your Portfolio

PART II: Structuring Your Portfolio

So far, we've assessed some of the hurdles to effectively participating in efficient capital markets. At DMG, we believe the best way to overcome these hurdles is to sidestep them entirely in your investing. By managing the market factors, you can expect to control, and avoiding the temptation to react to those you cannot, you will build and sustain an evidence-based portfolio that allows the market do what it does best: *build long-term capital wealth*.

THE BUSINESS OF INVESTING

With all the excitement over stocks and bonds, and their ups and downs in headline news, there is a key concept often overlooked: *Market returns are actually compensation for providing the financial capital that feeds human enterprise.*

DMG's Bottom Line: Financial Capital Plays a Vital Role in Wealth Creation

Using financial capital and other resources, a business produces goods or services that can be sold for a profit.

As providers of financial capital, investors expect a return on their money

When you buy a stock or a bond, your capital is ultimately put to work by businesses or agencies who expect to succeed. In that case, you would think that, when a company or agency does succeed, your investment would too.Unfortunately, such success is only one factor, at best, among many others that influence your expected returns.

This means, for example, that even if business is booming, you cannot necessarily expect to reap the rewards simply by buying its stock. Remember, by the time good or bad news comes out, it's already reflected in higher-priced share prices, with less room for future growth.

MARKET RISKS AND DIVERSIFICATION'S REWARDS

So, what *does* drive expected returns? There are a number of factors involved, but decades of research and academic inquiry show that the most powerful ones often spring from accepting unavoidable market-related risks. As an investor, you can expect to be rewarded for accepting the market risks that remain after you have eliminated the avoidable ones. Let's take a look at this in more detail.

Avoidable Concentrated Risks—Even in a bull market, one company can experience an industrial accident, causing its stock to plummet. A municipality can default on a bond even when the wider economy is thriving. A natural disaster can strike an industry or region while the rest of the world thrives. Technological developments can render entire industries obsolete in very short order. Remember Eastman Kodak? These are a few examples of concentrated market risks that can be avoided by not putting all of your financial eggs in too few baskets. So, yes, you guessed it, the more diverse the better, but we will get to that in a moment.

Unavoidable Market-Related Risks—If concentrated risks are like bolts of lightning, then market risks are like downpours where everyone gets wet. So, for example, if you simply invest in the market at all, then presto, you're exposed to more market risk than if you had, say, sat in cash (where it may lose value due to inflation anyway, but that's a different risk, for a different report).

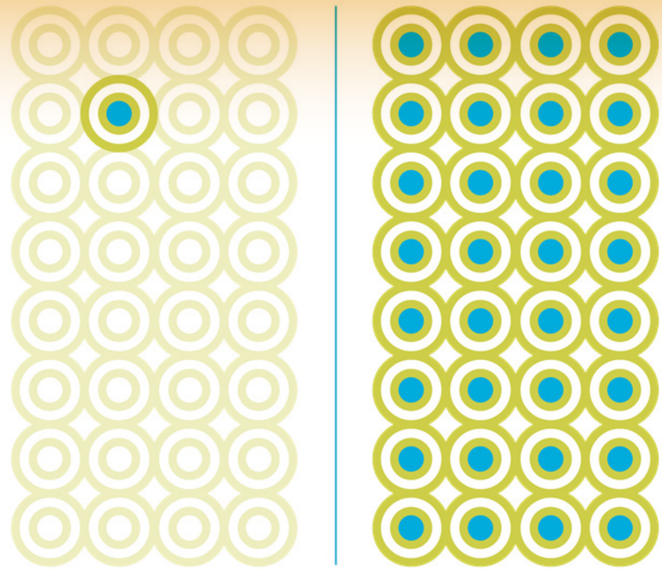
In the science of investing, we dampen avoidable, concentrated risks with diversification. By spreading your holdings widely and globally. That way, if some of them are affected by a concentrated risk, you can offset the damage done with plenty of other unaffected holdings. For example, during the COVID-19 Pandemic, the travel and entertainment industries were decimated, while technology thrived.

Our word to the wise. Every investor will face market risks that cannot be "diversified away." Those who stay invested, when a market's risks are on the rise, can expect to eventually be compensated for their steely resolve with higher returns. But they also face higher odds that results may deviate from expectations, especially in the short-term. Diversification again steps in, acting as a "dial" for setting the right volume of market-related risk exposure for your individual goals

DMG Pro Tip: Diversification Reduces Risks That Have No Expected Return

Concentrating on one stock exposes you to unnecessary risks.

Diversification reduces the impact of any one company's performance on your wealth.



THE ESSENCE OF EVIDENCE-BASED INVESTING

With any risky venture, including the ones prevalent in capital markets, there are no guarantees that you'll earn anticipated returns, or even recover your stake. This is why we so strongly favor **evidence-based investing** as a rational approach for staying the course toward your financial goals, especially when your emotional reactions threaten to take over the wheel.

When you get down to the nitty-gritty, evidence-based investing represents the marriage between a "Who's Who" body of scholars who have been studying portfolio management since at least the 1950s, and the financial professionals who heed their findings and are tasked with an equally important charge of determining: *Even if a relatively reliable return premium exists in theory, can we capture it in the real world—after the implementation and trading costs involved?*

ASSESSING THE EVIDENCE (SO FAR)

In academia, rigorous research calls for more than an arbitrary sampling or a few in-house spreadsheets designed to "prove" a convenient conclusion. Academic research demands a considerably higher standard, including a disinterested, objective outlook (no foregone conclusions); robust data analysis; repeatability and reproducibility; and formal peer reviews.

So far, this level of research has yielded at least five expected return premiums for patient investors:

1. **Equity—**Stocks (equities) have returned more than bonds (fixed income).
2. **Small-cap—**Small-company stocks have returned more than large-company stocks. (Although recent analysis suggests this factor may require additional dissection to isolate its essential premium.)
3. **Value—**Value companies (with lower ratios between their stock price and various business metrics such as company earnings, sales and/or cash flow) have returned more than growth companies (with higher such ratios). These are stocks that, based on the empirical evidence, appear to be either undervalued or more fairly valued by the market, compared with their growth stock counterparts.
4. **Term—**Bonds with distant maturities or due dates have returned more than bonds that come due quickly.
5. **Credit—**Bonds with lower credit ratings (such as "junk" bonds) have returned more than bonds with higher credit ratings (such as U.S. treasury bonds).

Scholars and practitioners alike strive to determine not only *that* various return factors exist, but *why* they exist. This helps us determine whether a factor is likely to persist (so we can build it into long-term portfolios) or is more likely to disappear upon discovery. Explanations for why persistent factors linger usually fall into two broad categories: **risk-related** and/or **behavioral**.

Risk Returns Factors—It appears that persistent premium returns are often explained by accepting market-related risks (the kind that cannot be diversified away) in exchange for expected reward. For example, it's presumed that value stocks are riskier than growth stocks. In "Value Premium Lives!" financial author Larry Swedroe explains: "Among the risk-based explanations for the premium are that value stocks contain a distress (default) factor, have more irreversible capital, have higher volatility of earnings and dividends, are much riskier than growth stocks in bad economic times, have higher uncertainty of cash flow, and…are more sensitive to bad economic news."

Behavioral Return Factors—There may also be behavioral foibles at play. That is, our basic-survival instincts often play against otherwise well-reasoned financial decisions. As such, the market may favor those who are better at overcoming their impulsive reactions to breaking news.

SO WHAT HAS EVIDENCE-BASED INVESTING DONE FOR ME LATELY?

Beyond the five key market factors described above (equity, value, small-cap, term and credit), continued inquiry has found additional factors at play, with additional potential premiums (which also seem to result from accepting added market risk, avoiding ill-advised investor behaviors, or both). Two of the more prominent among these are profitability and momentum:

- **Profitability**—Highly profitable companies have delivered premium returns over low-profitability companies.
- **Momentum**—Stocks that have done well or poorly in the recent past tend to continue to do the same for longer than random chance seems to explain.

But before we get ahead of ourselves, let's discuss a few caveats.

- **Wet Paint Warning**—While these "new" factors may or may not have existed for some time, our ability to isolate them is more recent. As the ink still dries on the research papers, some among the evidence-based community are still assessing their staying power.
- **Cost versus Reward**—Just because a factor exists in theory, doesn't mean it can be implemented in real life. We must be able to capture an expected premium without generating costs beyond its worth.
- **Dueling Factors**—Sometimes, it can be difficult to build one factor into a portfolio without sacrificing another. Benefits and trade-offs must be carefully considered at the fund level as well as for your individual goals.

As a result, opinions vary on when, how or even if profitability, momentum and other newer factors should play a role in current portfolio construction. As Nobel Laureate Eugene Fama has expressed, "There's one robust new idea in finance that has investment implications maybe every 10 or 15 years, but there's a marketing idea every week." Since our founding, we have never stopped evolving and innovating. Our goal is always to provide more value, support, guidance, and inspiration for you. If you want to discuss strategy and the right next move for you, then get in touch. We're always here to help.

INVESTMENT REALITY: CHOOSE YOUR ALLIES CAREFULLY

This is one area where we believe an evidence-based advisor relationship can be critical to your wealth and well-being. How do you really determine what to be mindful of and who to ignore as the financial community continues to debate various theories and pave the way for future improvements? Even when a new academic insight is rock solid, hyperactive reaction to it can strip away the practical advantages of an enlightened investment approach.

Our aim as a professional advisor and your partner in navigating these evolving challenges is to extract all the needles from the haystack, pulling the few proven evidence-based solutions from a big old pile of misleading misinformation. Offering the ultimate, resourceful, creative, and efficient opportunities to help you benefit from your wealth in ways you didn't know were possible.

PART III

The Human Factor - You and Your Behaviors

PART III: The Human Factor—You and Your Behaviors

Last, but certainly not least, let's dig into the final and likely one of the most significant factors in your evidence-based investment strategy: **the human factor**. In short, your own impulsive reactions to market events can easily trump any other market challenges you face.

Despite everything we know about efficient capital markets and all the solid evidence available to guide our rational decisions…we're still human. We've got things going on in our heads that have nothing to do with solid evidence and rational decisions – a brew of chemically generated, "survival of the fittest" instincts and emotions that spur us to leap before we have time to look. Yes, sounds about right. We can all relate.

To study the relationships between our heads and our financial health, there is another field of evidence-based inquiry known as **behavioral finance**. *Wall Street Journal* columnist Jason Zweig's "Your Money and Your Brain" provides a good, guided tour of the findings, describing both the behaviors themselves as well as what is happening inside our heads to generate them. Let's look at a couple of the most obvious examples:

When markets tumble—Your brain's amygdala floods your bloodstream with corticosterone. Fear clutches at your stomach and every instinct points the needle to "Sell!"

When markets unexpectedly soar—Your brain's reflexive nucleus accumbent fires up within the nether regions of your frontal lobe. Greed grabs you by the collar, convincing you that you had best act soon if you want to seize the day. "Buy!"

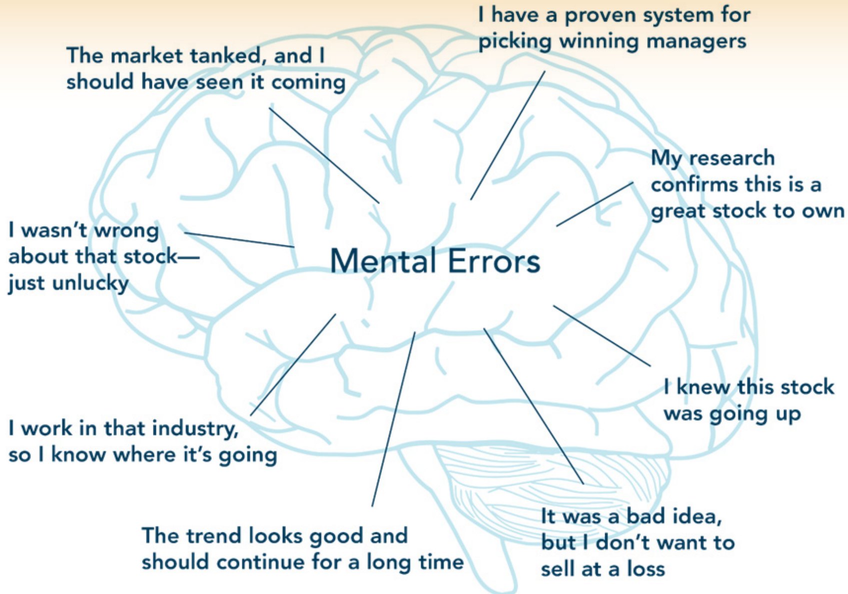
Starting to sound familiar?

Beyond such market-timing instincts that lead you astray, your brain cooks up plenty of other insidious biases to overly influence your investment activities.

PART III: The Human Factor—You and Your Behaviors

Humans Are Not Wired for Disciplined Investing

When people follow their natural instincts, they tend to apply faulty reasoning to investing.



Rapid reflexes often serve us well in everyday living. But in finance, even where the coolest heads prevail, many of our basic instincts cause more harm than good. If you don't know they're happening or don't manage them when they do, your brain can trick you into believing you're making entirely rational decisions when, in fact, you are being overpowered by instinct-driven, chemical reactions. Say what?! This is another reason why we suggest working with an objective advisor, to help you see and avoid collisions with yourself that your own vision, clouded with emotionality, might miss.

Evidence-Based Investment Insights

THREE KEY STRATEGIES FOR BUILDING WISE WEALTH

LET'S WRAP THINGS UP

Wow, we covered a lot, right? Now that we've reached the end, we hope you're starting to see the next steps to becoming an innovative, resourceful, and more confident investor. One who is not constantly whipsawed by your emotions. When we introduced our three essential ideas for building wise wealth, we sought to replace most of the technical jargon, with three key insights for becoming more confident in your next moves:

1. **Understand and Live By the Evidence.** Remember, you don't need to have an advanced degree in financial economics to invest wisely. You need only know and mind the insights available from those who do have advanced degrees in financial economics.
2. **Embrace Market Efficiencies.** You don't have to be smarter, faster or luckier than the rest of the market. You need only structure your portfolio to play with rather than against the market and its expected returns.
3. **Manage Your Behavioral Miscues.** You don't have to—and won't be able to—eliminate every high and low emotion you experience as an investor. You need only be aware of how often your instincts will attempt to throw you off-course and manage your actions accordingly. (DMG Pro Tip: A professional advisor can add huge value here.)

ABOUT RICHARD DEL MONTE

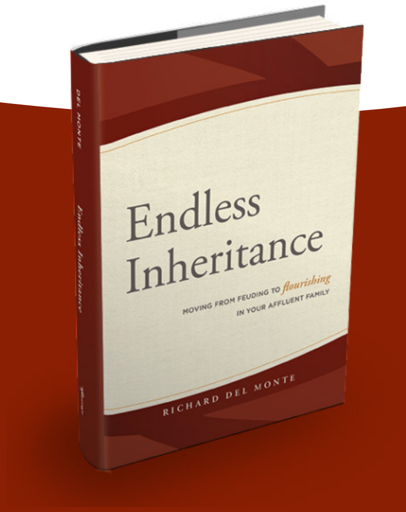
For over 35 years, Richard Del Monte, CWC, CFP®, has been offering innovative solutions to enhance a clients' financial wellness, offering benefits they didn't know were possible to help them keep grow and enjoy their wealth. His passion lies in acting as a guide to navigating clients through challenging life transitions to make all of their goals become a reality, even if they aren't directly related to money.

A nationally recognized expert, Richard has been featured on FOX Business News, The Wall Street Journal, New York Times, Private Opportunities Club, Private Wealth Magazine, Trust & Estates, and Family Wealth Report. Richard is also the author of Endless Inheritance: Moving from Feuding to Flourishing in your Affluent Family.

He holds an MBA in Financial Planning from Golden Gate University in San Francisco and a B.S. in Business Administration from California State University, Chico. He's been a faculty member at the Institute for Preparing Heirs, a student of Bowen Family Systems, and a founding member of the Council for Shared Leadership, LLC, which established standards of excellence for values-based advisors and the families they serve.

Richard lives in Alamo with his wife, Ingrid, and two golden retrievers. They have five children whom they love to travel with. Some of his community activities include United Way of the Bay Area, John Muir Health Foundation, Boy Scouts of America, and his church. He serves as a board member for Baragwanath Blessings, Inc.

If you find this book helpful, we'd also love to share a FREE copy of Richard Del Monte's book "Endless Inheritance." This book will help you avoid discord, conflict, and create fulfillment and harmony, ensuring your **wealth** will live on. To order your free copy, please call our office at 925.736.6410 or email **info@aplaceofpossibility.com**.



ABOUT ANGELA WRIGHT

Angela has been advising families and family enterprises since 2003. As Partner & COO, her goal is to ensure clients and employees of DMG are empowered and flourishing. She is driven to find out-of-the-box solutions that address client needs now, whether it's related to finances or not. From connecting clients to resources for COVID vaccines to conference calls with farmers, her clients truly are family and not just another portfolio.

In addition to financial strategies, Angela is also a certified Family Enterprise Advisor and third-generation family business owner, supporting her passion for family business consulting and succession. She has a knack for helping people discover their strengths and then applying those strengths to achieve success. Angela also introduced a Results Only Work Environment (ROWE) to Del Monte Group, which holds each employee accountable for specific results (excellent service to our clients) while ultimately liberating them from fixed work schedules and locations. She is a big believer in innovative management techniques and client service methodologies that create sensational outcomes for everyone who steps through the door.

Angela earned a B.S. in Business Administration, Emphasis in Financial Services from California State University, Chico, and a Masters of Business Administration from St. Mary's College of California, Moraga. She also holds the CERTIFIED FINANCIAL PLANNERTM designation.

Angela lives in the East Bay with her two toddlers. In her spare time, she enjoys… wait, what spare time? Between her responsibilities at work and home, she doesn't have much, but it's a labor of love to be sure. In a past life, she loved hiking, traveling, practicing yoga, and cooking. In addition, Angela gives back to her community by supporting Guide Dogs for the Blind, Devoted to Children Foundation, and the Simama Project.

ABOUT DEL MONTE GROUP

Since 1985, Del Monte Group has been helping individuals, families, and closely held businesses solve complex problems involving financial, tax, and estate concerns with unique integrated wealth management approaches. No, we're not your typical investment management firm that's here to talk only about how you're going to retire. At DMG, we dig in to understand what money really means to you for long-term success and how we can take immediate action to help you live more of the life you want. We are your partners in money, life and beyond, because your wants and needs always come first, even if they aren't directly related to money or finances. If you're struggling or need help, we're here for you with the answers you need. It's time for you to feel secure, confident and find peace of mind.

Our Offer:

Del Monte Group is your partner for creative, tax-efficient ways to help you keep, grow, and enjoy your wealth throughout your lifetime–starting now. If you need help navigating life challenges, are seeking smart, resourceful planning, or just want to find confidence and peace of mind, get in touch. We're always here to help.
To get started, book a free consultation with Richard or Angela here >
[Link to Calendly page: https://calendly.com/delmontegroup].
We look forward to working with you.

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