Richard Bernstein Advisors

*Uncertainty = Opportunity℠*

**Richard Bernstein,**
**Chief Executive and Chief Investment Officer**

***Richard Bernstein Advisors***

- *Independent investment advisor with a unique top-down, macro approach to investing with quantitative security selection.*
- *$3.3B AUM/AUA as of 6/30/14*
- *Strategies include global asset allocation, global equity allocation, income, and promising undiscovered investment themes.*
- *Investment themes focus on disparities between fundamentals and sentiment.*

# Toward the sounds of chaos

*There are a few, who move toward the sounds of chaos.*
*Ready to respond at a moment's notice,*
*And when time comes,*
*They are the first to move toward the sound of tyranny…injustice…and despair.*
*They are forged…in the crucible of training.*
*They are The Few. The Proud. The Marines.*

–Recruitment video, US Marine Corps

The US Marine Corps has a long and deserved outstanding reputation for bravery, purpose, and honor. They exemplify all the best characteristics of our country.

In this note, I am not equating in any way Marines' jobs, their duties, and the risks they take to protect the United States with anyone's job in the financial markets. We have all worked with financial professionals who consider themselves "macho" or "alphas", but realistically anyone in our industry is minor league when compared to a Marine.

However, there seems to be a message for investors in the Marines' current recruitment video regarding whether one would "move toward the sounds of chaos". It seems that most investors have historically run away from chaos, and they seem to be doing it again.

**Volatility is always scary, but don't allow it to ruin a sound investment plan**

Stock market volatility is always a scary thing. Investors nearing retirement fear their nest eggs will evaporate. Younger investors saving for a home or a child's college education fear their families' futures might be in doubt.

However, history suggests that allowing volatility to overrule a good investment plan tends to lead to poor performance. It's not volatility itself that generally leads to poor longer-term performance, but rather it appears to be investors' emotional reactions to volatility that ultimately lead to poor performance.

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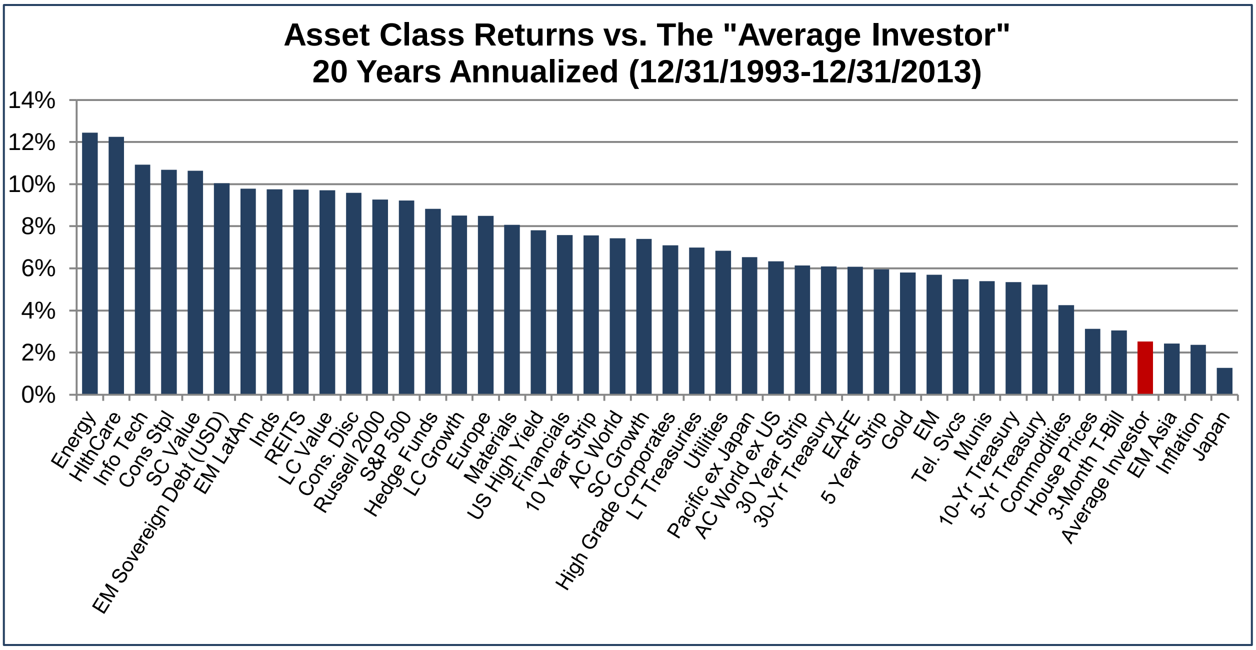
Chart 1 below compares the 20-year investment performance of the so-called "average investor" to the performance of roughly twenty asset classes and sub-asset classes. Many investors probably have some sort of investment plan that likely includes many of these various asset categories.

The performance of the typical investor over this time period is shockingly poor. The average investor has underperformed every category except Asian emerging market and Japanese equities. The average investor even underperformed cash (listed here as 3-month t-bills)! The average investor underperformed nearly every asset class. They could have improved performance by simply buying and holding any asset class other than Asian emerging market or Japanese equities. Thus, their underperformance suggests investors' timing of asset allocation decisions must have been particularly poor, i.e., investors consistently bought assets that were overvalued and sold assets that were undervalued. They bought high and sold low. When chaos occurred, investors ran away.

**Chart 1:**




Source: Richard Bernstein Advisors LLC., Bloomberg, MSCI, Standard & Poor's, Russell, HFRI, BofA Merrill Lynch, Dalbar, FHFA, FRB, FTSE. Total Returns in USD.
Average Investor is represented by Dalbar's average asset allocation investor return, which utilizes the net of aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior.
For Index descriptors, see "Index Descriptions" at end of document.

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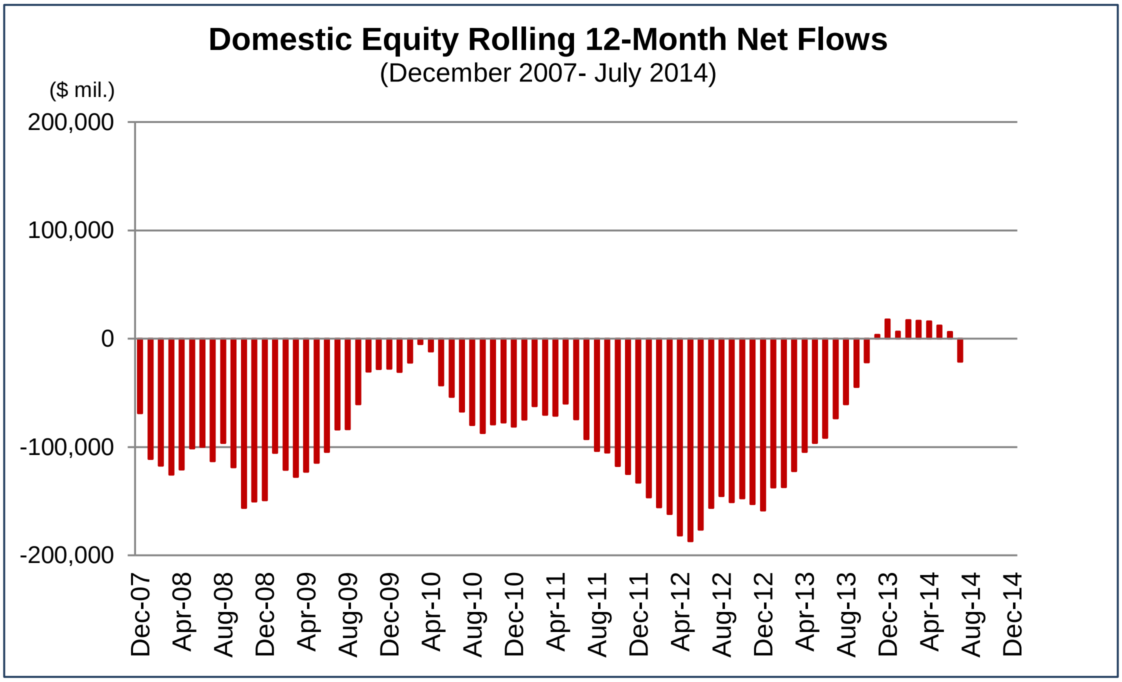
**Run away!  Run away!**

Stock market volatility has increased, and investors are acting in typical fashion.  They are running away.  Chart 2 shows the rolling 12-month flows into US equity mutual funds. Investors have now reduced their US equity exposure for thirteen straight weeks.  Consider chart 2 within the context of chart 1.  Investors seem to be acting emotionally rather than investing with discipline.

**Chart 2:**




Source: Richard Bernstein Advisors LLC, Standard & Poors', Investment Company Institute® (ICI)
For Index descriptors, see "Index Descriptions" at end of document.

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Our motto at RBA is **Uncertainty = Opportunity℠**.  History suggests that the best investment opportunities are in asset classes that investors shun.  We strongly feel investors' ongoing fear of US equities continues to offer substantial opportunity.  We aren't nearly as brave as Marines, but we do try to help our clients by looking for opportunities in investment chaos.

**Richard Bernstein Advisors LLC**
120 West 45th Street
19th Floor
New York, NY 10036

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**INDEX DESCRIPTIONS:**
*The following descriptions, while believed to be accurate, are in some cases abbreviated versions of more detailed or comprehensive definitions available from the sponsors or originators of the respective indices. Anyone interested in such further details is free to consult each such sponsor's or originator's website.*

The past performance of an index is not a guarantee of future results.

Each index reflects an unmanaged universe of securities without any deduction for advisory fees or other expenses that would reduce actual returns, as well as the reinvestment of all income and dividends. An actual investment in the securities included in the index would require an investor to incur transaction costs, which would lower the performance results. **Indices are not actively managed and investors cannot invest directly in the indices.**

**MSCI All Country World Index (ACWI®):** The MSCI ACWI® Index is a widely recognized, free-float-adjusted, market-capitalization-weighted index designed to measure the equity-market performance of developed markets.

**S&P 500®: Standard & Poor's (S&P) 500® Index.** The S&P 500® Index is an unmanaged, capitalization-weighted index designed to measure the performance of the broad US economy through changes in the aggregate market value of 500 stocks representing all major industries.

**U.S. Small Caps: Russell 2000 Index.** The Russell 2000 Index is an unmanaged, capitalization-weighted index designed to measure the performance of the small-cap segment of the US equity universe. The Russell 2000 Index is a subset of the Russell 3000® Index.

**Europe: MSCI Europe Index.** The MSCI Europe Index is a free-float-adjusted, market-capitalization-weighted index designed to measure the equity-market performance of the developed markets in Europe. The MSCI Europe Index consists of the following 16 developed market country indices: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom

**EM Equity: MSCI Emerging Markets (EM) Index.** The MSCI EM Index is a free-float-adjusted, market-capitalization-weighted index designed to measure the equity-market performance of emerging markets.

**MSCI BRICs.** THE MSCI EM BRIC Index: The MSCI EM BRIC Index is a free-float-adjusted, market-capitalization-weighted index designed to measure the equity-market performance of Brazil, Russia, China and India.

**Latam: MSCI EM (Emerging Markets) Latin America Index** . The MSCI EM Latin America Index s a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of emerging markets in Latin America. The MSCI EM Latin America Index consists of the following 5 emerging market country indices: Brazil, Chile, Colombia, Mexico, and Peru.

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**INDEX DESCRIPTIONS: cont'd**

**Europe: MSCI Europe Index.** The MSCI Europe index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the developed markets in Europe. The MSCI Europe Index consists of the following 16 developed market country indices: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom.

**Brazil: MSCI Brazil Index.** The MSCI Brazil Index is a free-float-adjusted, market-capitalization-weighted index designed to measure the equity-market performance of Brazil.

**Russia: MSCI Russia Index.** The MSCI Russia Index is a free-float-adjusted, market-capitalization-weighted index designed to measure the equity-market performance of Russia.

**India: MSCI India Index.** The MSCI India Index is a free-float-adjusted, market-capitalization-weighted index designed to measure the equity-market performance of India.

**China: MSCI China Index.** The MSCI China Index is a free-float-adjusted, market-capitalization-weighted index designed to measure the equity-market performance of China.

**Gold: Gold Spot USD/oz Bloomberg GOLDS Commodity.** The Gold Spot price is quoted as US Dollars per Troy Ounce.

**Commodities: S&P GSCI® Index.** The S&P GSCI® seeks to provide investors with a reliable and publicly available benchmark for investment performance in the commodity markets, and is designed to be a "tradable" index. The index is calculated primarily on a world production-weighted basis and is comprised of the principal physical commodities that are the subject of active, liquid futures markets.

**Hedge Fund Index: HFRI Fund Weighted Composite Index.** The HFRI Fund Weighted Composite Index is a global, equal-weighted index of over 2,000 single-manager funds that report to the HFR (Hedge Fund Research) database. Constituent funds report monthly net-of-all-fees performance in USD and have a minimum of $50 million under management or a twelve (12)-month track record of active performance. The Index includes both domestic (US) and offshore funds, and does not include any funds of funds.

**REITS: THE FTSE NAREIT Composite Index.** The FTSE NAREIT Composite Index is a free-float-adjusted, market-capitalization-weighted index that includes all tax qualified REITs listed in the NYSE, AMEX, and NASDAQ National Market.

**3-Mo T-Bills: BofA Merrill Lynch 3-Month US Treasury Bill Index.** The BofA Merrill Lynch 3-Month US Treasury Bill Index is comprised of a single issue purchased at the beginning of the month and held for a full month. The Index is rebalanced monthly and the issue selected is the outstanding Treasury Bill that matures closest to, but not beyond, three months from the rebalancing date.

**Long-term Treasury Index: BofA Merrill Lynch 15+ Year US Treasury Index.** The BofA Merrill Lynch 15+ Year US Treasury Index is an unmanaged index comprised of US Treasury securities, other than inflation-protected securities and STRIPS, with at least $1 billion in outstanding face value and a remaining term to final maturity of at least 15 years.

**Intermediate Treasuries (5-7 Yrs): The BofA Merrill Lynch 5-7 Year US Treasury Index**
The BofA Merrill Lynch 5-7 Year US Treasury Index is a subset of The BofA Merrill Lynch US Treasury Index (an unmanaged Index which tracks the performance of US dollar denominated sovereign debt publicly issued by the US government in its domestic market). Qualifying securities must have at least one year remaining term to final maturity, a fixed coupon schedule and a minimum amount outstanding of $1 billion. including all securities with a remaining term to final maturity greater than or equal to 5 years and less than 7 years.

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**INDEX DESCRIPTIONS: cont'd**

**Municipals: BofA Merrill Lynch US Municipal Securities Index.** The BofA Merrill Lynch US Municipal Securities Index tracks the performance of USD-denominated, investment-grade rated, tax-exempt debt publicly issued by US states and territories (and their political subdivisions) in the US domestic market. Qualifying securities must have at least one year remaining term to final maturity, a fixed coupon schedule, and an investment-grade rating (based on an average of Moody's, S&P and Fitch). Minimum size requirements vary based on the initial term to final maturity at the time of issuance.

**High Grade Corporates: BofA Merrill Lynch 15+ Year AAA-AA US Corporate Index.** The BofA Merrill Lynch 15+ Year AAA-AA US Corporate Index is a subset of the BofA Merrill Lynch US Corporate Index (an unmanaged index comprised of USD-denominated, investment-grade, fixed-rate corporate debt securities publicly issued in the US domestic market with at least one year remaining term to final maturity and at least $250 million outstanding) including all securities with a remaining term to final maturity of at least15 years and rated AAA through AA3, inclusive.

**U.S. High Yield: BofA Merrill Lynch US Cash Pay High Yield Index.** The BofA Merrill Lynch US Cash Pay High Yield Index tracks the performance of USD-denominated, below-investment-grade-rated corporate debt, currently in a coupon-paying period, that is publicly issued in the US domestic market. Qualifying securities must have a below-investment-grade rating (based on an average of Moody's, S&P and Fitch) and an investment-grade-rated country of risk (based on an average of Moody's, S&P and Fitch foreign currency long-term sovereign debt ratings), at least one year remaining term to final maturity, a fixed coupon schedule, and a minimum amount outstanding of $100 million.

**EM Sovereign: The BofA Merrill Lynch US Dollar Emerging Markets Sovereign Plus Index. The** BofA Merrill Lynch US Dollar Emerging Markets Sovereign Plus Index tracks the performance of US dollar denominated emerging market and cross-over sovereign debt publicly issued in the Eurobond or US domestic market. Qualifying countries must have a BBB1 or lower foreign currency long-term sovereign debt rating (based on an average of Moody's, S&P and Fitch). Countries that are not rated, or that are rated "D" or "SD" by one or several rating agencies qualify for inclusion in the index but individual non-performing securities are removed. Qualifying securities must have at least one year remaining term to final maturity, a fixed or floating coupon and a minimum amount outstanding of $250 million. Local currency debt is excluded from the Index.

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**PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS**

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## About Richard Bernstein Advisors:

Richard Bernstein Advisors LLC is an independent investment adviser. RBA partners with several firms including Eaton Vance Corporation and First Trust Portfolios LP, and currently has $3.3 billion collectively under management and advisement as of June 30, 2014. RBA acts as sub-advisor for the Eaton Vance Richard Bernstein Equity Strategy Fund and the Eaton Vance Richard Bernstein All-Asset Strategy Fund and also offers income and unique theme-oriented unit trusts through First Trust. RBA is also the index provider for the First Trust RBA American Industrial Renaissance™ ETF and the First Trust RBA Quality Income ETF. Additionally, RBA runs ETF asset allocation SMA portfolios at UBS and Merrill Lynch and on select RIA platforms. RBA's investment insights as well as further information about the firm and products can be found at www.RBAdvisors.com.