You’re Smarter than the Average Investor. No Really, You Are

Since 1995, the market has fluctuated between strong trends higher and major losses and back again, and again. If you look at the chart below, you can see that since 1995, the markets rallied 266%, fell 47%, gained 121%, and then dropped 55%. From the bottom of the market on March 9, 2009 until the end of September 2018, the S&P 500 TR Index has gained 426%.

If you ask a 3rd grader to identify the pattern in the graph below and try to predict what might come next, what do you think they will say?

What is the Next Trend?

S&P 500 Total Return Index 1995 through September 2018

Time for a commentary pop quiz:

What do you think investors, which include institutions, uber-educated professional money managers and advisors, and the retail investing community are doing right now? Are they:

A. Agreeing with the 3rd grader that the next probable trend is lower and moving to lower risk investments.
B. Leaving the stock market to purchase time-share condos in Orlando
C. Moving money into the stock market despite their high valuations, increasing the chance of future declines
The correct answer is C. Data from the Investment Company Institute shows that as-of August, investors have added $540 billion to stock ETFs over the past year.

This brings us back to our assertion in the title of this commentary that “You are Smarter than the Average Investor.” Yes, investing is complicated, and the number and types of investment vehicles are beyond what many investors have the time or energy to process. But what makes investors successful is summed up in a famous quote from Warren Buffet: “Be fearful when others are greedy and be greedy when others are fearful.”

Investment decision making is unique. In other areas of our life we learn through experience. We try something, observe an outcome, and develop an expectation based on the result. For investing, the model of experiential learning is turned downside up. People invest, and the markets move higher. They invest more, and the markets move even higher. If this continues for almost a decade, as it has during this bull market, people decide to invest everything, and they tend to move into the stocks that have increased the most.

The simple ability to take the opposite stance from the crowd helps our investors emulate Warren Buffet. Holding risk managed investments such as those offered by Toews puts you in that position. These investments take into account that although stocks have moved higher for almost ten years, it is possible, or even probable, that there will be a decline ahead.

If stocks do turn lower, it may result in gains for our investors. When markets decline, and if they penetrate our target exit prices, we attempt to exit in the early stages of market declines before large declines. When stocks make significant declines, our algorithm attempts to re-purchase near market lows, allowing our investors to participate in rebounds.

Graph is hypothetical for illustrative purposes only, and does not represent actual trades. There can be no assurance that objectives will be met.
Our Objective is to Prosper Regardless of Market Direction

We're interested in managing risk. But our investment products have also been designed to attempt to gain during rising markets. At the end of the quarter, our stock and high yield bond positions had full market exposure. In fact, our US stock positions had full market exposure through the entire third quarter. If markets continue higher, we hope to participate in gains through the end of the year. And the fourth quarter of the year tends to be the most profitable.

In other words, we're attempting to address both best and worst-case scenarios. We have built in a process for attempting to reduce losses. However, we also take the position that best scenarios may occur. Bull markets can run well beyond rational levels. If markets continue to gain, we anticipate staying invested in an attempt to participate in gains.

By addressing both types of scenarios, we hope that you can see that your portfolios are prepared to address whatever the future may bring.

Disclosure

*Prior performance is no guarantee of future results. There can be no assurance, and individuals should not assume, that future performance of any of the portfolios referenced will be comparable to past performance. There can be no assurance that Toews will achieve its performance objectives.*

This commentary may include forward-looking statements. All statements other than statements of historical fact are forward-looking statements (including words such as “believe,” “estimate,” “anticipate,” “may,” “will,” “should,” and “expect”). Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. Various factors could cause actual results or performance to differ materially from those discussed in such forward-looking statements.

This commentary is intended to provide general information only and should not be construed as an offer of specifically-tailored individualized advice. Please contact your investment adviser, accountant, and/or attorney for advice appropriate to your specific situation.
This document refers to the performance of the majority of Toews portfolios to illustrate the effect of Toews management on US and intl. stocks and high yield bonds. Performance of individual accounts varied based on the client’s investment risk profile and their specific investment funds. For your individual account performance, please refer to the enclosed quarterly statement or the quarterly statement recently sent to you. In addition, not all model portfolios were referenced in this letter. It is not, nor is it intended to be, a comprehensive accounting of Toews asset management. There are other portfolios that Toews manages that performed differently than what is referenced in this letter. For a complete list of GIPS firm composites, their performance results and their descriptions, as well as additional information regarding policies for calculating and reporting returns, please go to www.toewscorp.com. Toews Corporation acts as the investment advisor that implements the asset allocation and models for each of the portfolios. Investors cannot invest directly in an index.

---

iii Toews portfolios that completely exit the market include Toews All-Equity, Growth, Balanced Growth, Balanced, Balanced Income, and Capital Preservation. A portion of some Toews Defensive Alpha strategies may move out of the market; however, the equity portion of such strategies do not leave the market. Vanguard strategies are always invested in the market.
iv Exposure to High Yield Bonds within Toews strategies was 100% as of July 10, 2018, while exposure to domestic equities was 100% as of May 11, 2018.