FPA Central Florida

Advisor Forum

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Team Overview

Firm Overview

- Founded in Fairhope, Alabama in 2013
- Shared CIO Services, Active ETFs, Model Portfolios
- Help advisors grow client wealth more comfortably, going beyond just stocks and bonds

Participate and Protect

Aptus builds on traditional diversification to improve outcomes. We embrace stocks with guardrails, using volatility as an asset class to manage drawdown and enhance portfolio yields.

We look to balance risk and return with three main goals:

- To allocate to areas of higher return (stocks)
- To reduce drawdown and the emotions that come with it
- To turn market drawdowns into opportunity

Your Investment Department

Team-Based Approach Provides Unique Perspectives

Portfolio Managers

JD Gardner, CFA

John Luke Tyner, CFA

David Wagner, CFA

Brad Rapking, CFA

Research & Trading

Beckham Wyrick, CFA, CFP

Mark Callahan

Joseph Sykora, CFA

Brett Bennett, CFA

Brian Jacobs, CFA

Marcus Jordan

Operations

John Goldsberry

Will Gardner

Brett Wickmann

Joe King

Clay Calhoun

Alicia Griffin

Jaela Robbins, CPA

Katlyn Sesera

Client Relationships

Derek Hernquist

James Yahoudy, CFP

Christopher Neill, CFA

Matt McGowan, CAIA

Will Graham

Michael Sefscik

APTUS CAPITAL ADVISORS

Important Topics of Discussion

Poll Question:
What is more likely to happen first?

A. ≥10% move up

B. ≥10% move down

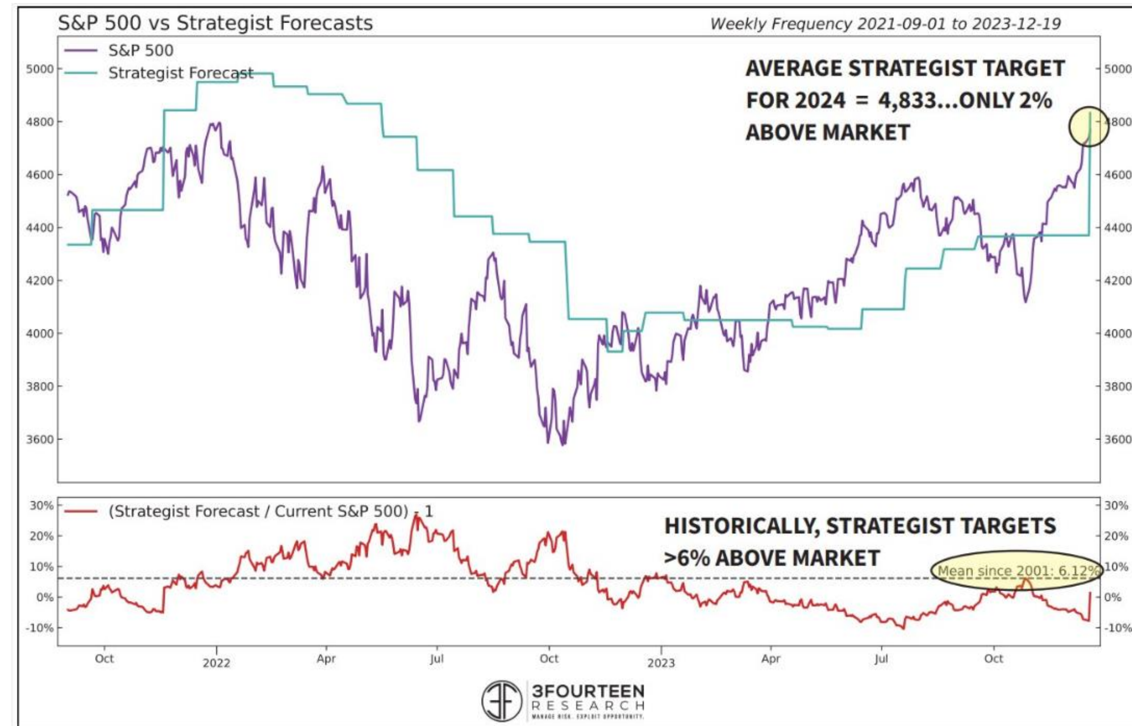
A Market in Review – 2023

Large Caps Took on the Role of Atlas – Carrying the Weight of Market Returns:

The word titan is synonymous with large, and it was the titans who fared best in 2023. The S&P 500 was up over 26% driven by the largest of the mega-cap stocks. Trailing far behind were the mere mortals as the average domestic stock jumped only 14%.

How Bad are Things? 1) Stocks are close to all-time-highs, 2) Home values at all-time-highs, 3) Bonds were up 5% for the year bouncing back from a historic 2-year bear market, 4) Net wealth is at all-time-highs, and 5) Debt relative to incomes are nowhere near historic highs.

Things appear to be better than most think.



	1M	QTD	YTD	1-YR	3-YR	5-YR	10-YR
S&P 500	1.68%	1.68%	1.68%	20.79%	10.97%	14.28%	12.60%
NASDAQ	1.04%	1.04%	1.04%	32.05%	5.93%	16.85%	15.18%
Dow Jones Industrial	1.31%	1.31%	1.31%	14.36%	10.58%	11.19%	11.81%
MSCI EAFE	0.59%	0.59%	0.59%	10.67%	5.21%	7.54%	5.37%
MSCI EM	-4.64%	-4.64%	-4.64%	-2.64%	-7.20%	1.33%	3.22%
U.S. Barclays Agg.	-0.27%	-0.27%	-0.27%	2.10%	-3.17%	0.83%	1.63%
Investment Grade Bonds	-0.18%	-0.18%	-0.18%	4.05%	-3.50%	2.25%	2.97%
High Yield Bonds	-0.21%	-0.21%	-0.21%	8.34%	1.58%	3.77%	3.92%

Source: Bloomberg. Data as of 01/31/2024. Returns include Dividends. Returns over 1YR are Annualized.

Market Outlook – FY 2024

Following a Year Where Interest Rates Helped Create a Narrative That There is Light at the End of the Tunnel, We Believe That Only Consumer Strength Can Carry the Soft Landing Across the Finish Line – *But Will They Shrug?*

The Positive – The Absolute Level of U.S. Household Net Worth Remains Strong Showing the Strength of the Consumer

The Negative – Personal Spending on the Heels of the Savings Rate

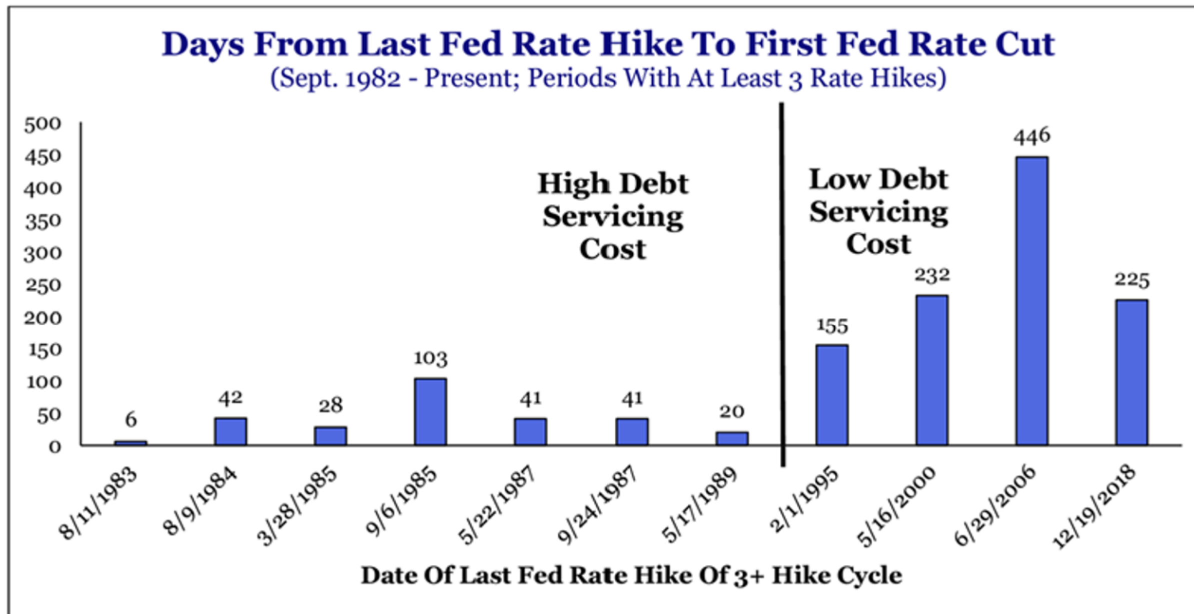
U.S. Household Net Worth ($T)							
	Current Q3 2023	Previous Peak (Q2 '23)	Since Previous Peak (%)	Q1 2020	COVID 17-QTR Change (%)	Q3 2013	10YR Change (%)
Total Assets	$ 172.80	$ 174.60	-1.03%	$ 127.10	35.96%	$ 92.70	86.41%
Deposits	$ 17.80	$ 17.80	0.00%	$ 14.30	24.48%	$ 9.63	84.84%
Total Stock Inv.	$ 43.10	$ 44.50	-3.15%	$ 26.50	62.64%	$ 19.86	117.02%
Other Fin'l Assets	$ 10.71	$ 10.78	-0.65%	$ 9.57	11.91%	$ 7.47	43.37%
Real Estate	$ 45.50	$ 44.50	2.25%	$ 30.50	49.18%	$ 20.00	127.50%
Other Non-Fin'l Assets	$ 40.92	$ 43.68	-6.32%	$ 36.67	11.59%	$ 28.13	45.47%
Less: Total Liabilities	$ 20.25	$ 20.14	0.55%	$ 16.60	21.99%	$ 13.96	45.06%
Total Net Worth	$ 152.55	$ 154.46	-1.24%	$ 110.50	38.05%	$ 78.74	93.74%

Source: FRED, Data as of 12/31/2023

Tug-of-War Between Monetary & Fiscal Policy

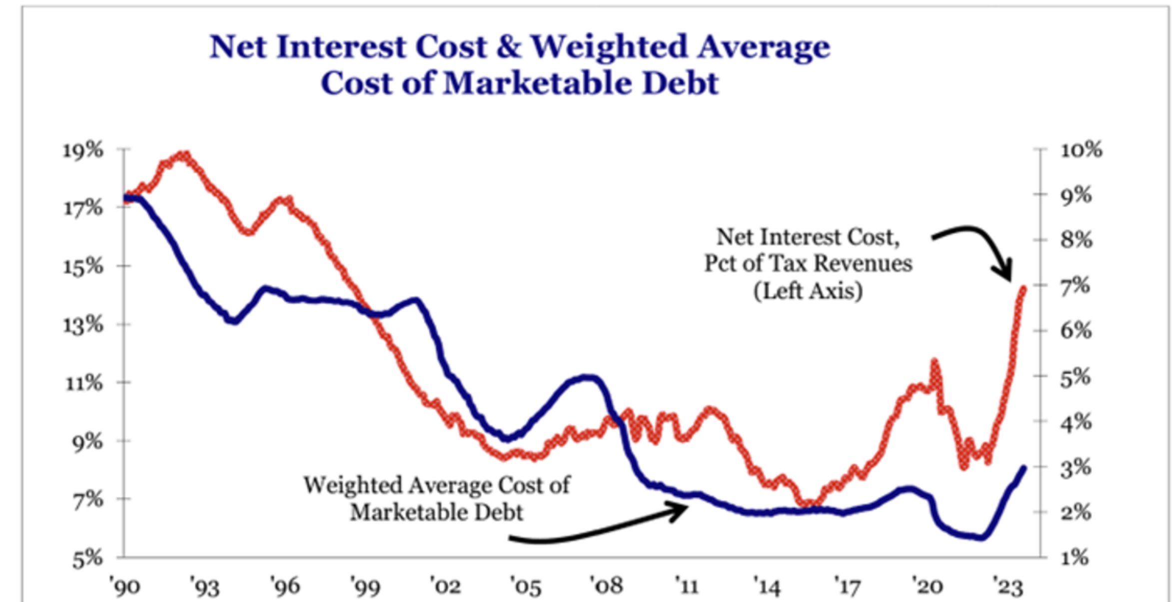
We Believe that the Direction and Level of Interest Rates Moving Forward are Important to the Market.

Monetary Policy (Restrictive): Can the Gov't Strong Arm the Fed?



Source: Strategas, Data as of 12/31/2023

Fiscal Policy (Expansionary): Will there be Austerity in Washington, D.C.

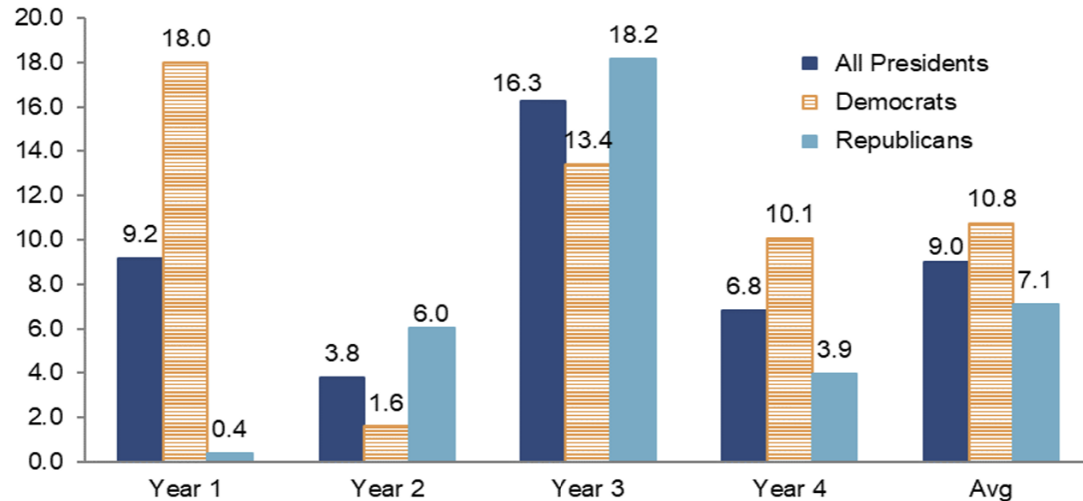


Source: Strategas, Data as of 12/31/2023

The Wildcard: Market and Election Cycles

The S&P 500 Has Not Declined in a Presidential Re-Election Year since 1952.

The Presidential Cycle Theory of Markets



Source: Piper Sandler, Data as of 12/31/2023

Market Returns over Various Political Regimes

S&P PERFORMANCE UNDER DIFFERENT PARTISAN CONTROL

	S&P Avg Annual Return	Number of Years
Total 1945-2023	9.1	79 yrs
Divided Govt	8.3	47 yrs
Same Party	10.2	32 yrs
All Dem Govt	9.3	24 yrs
All GOP Govt	12.9	8 yrs
Dem President	11.0	39 yrs
GOP President	7.1	40 yrs
All Dem Congress	7.2	46 yrs
All GOP Congress	13.0	18 yrs
Split Chambers	10.1	15 yrs

Source: Bloomberg, Piper Data as of 12/31/2023

The GOOD / The BAD / The UGLY

The Good

The U.S. Consumer Continues to be Resilient

We believe the aggregate consumer remains flush with cash, and the once pent-up demand continues to be unleashed, which has allowed the U.S. economy to be very resilient. The average U.S. Household is worth 30% more than pre-COVID. Consumer balance sheets are also well fortified.

Soft Landing - Labor Market Remains VERY Resilient

There has never been a recession that did not witness a material increase in the unemployment rate, which remains “stubbornly” below 4%. And while the labor market does appear to be slowly weakening, it has thus far remained very resilient, with respectably high wage growth as well.

The Bad

Inflation is Persistent, Can It Finish the Last Mile?

The magnitude of the policy actions used to counteract deflation may, in the end, be hugely inflationary. Higher-than-expected inflation tends to be a major headwind to equity valuations, but it appears that inflation has peaked. For markets, how the Fed chooses to address inflation is as important as the inflation itself. The battle isn’t over, as services and wage inflation continue to be “sticky”.

Fed Policy Collateral Damage

The yield curve officially inverted in 2022, creating speculation of a recession. This means caution in communication by the Fed to avoid the mistakes of the Yellen Fed and the “stop-and-go” policy from the ’70s. The Fed’s number one goal is to anchor inflation, even if it puts the economy into a recession. With this, there may be some collateral damage in parts of the speculative market, as we’ve already seen in the banking sector.

The Ugly

Inflation Transitioning to Growth Frustration

Earnings expectations for the S&P 500 only came down ~10% in ‘23. Analysts are calling for 11%+ growth in ’24 and ’25. Anecdotally, margins continue to compress at the corporate level, but have not yet been represented in overall analyst’s future expectations. We believe that if earnings were to significantly drop, the market could follow, as lower revenue could mean lower earnings.

Risk of a Recession – Hard Landing

An inverted yield curve has preceded almost every recession, though it has difficulty on properly calling the timing. The yield curve is the most inverted it's been during this cycle. If consumer spending starts to slow, the economy could witness a stagflationary environment where inflation is structural, growth is slowing, and unemployment increases. Adding to that pressure, it seems that Central Banks are content to tighten until labor markets weaken.

Challenges Facing Asset Allocations

Biggest Risks Facing Investors Today

Risk management Starts With Understanding *You*, and What Type of Risk You Need and Want to Embrace.

We talk constantly about the two main risks we help advisors defend against:

Drawdown: *The Known Risk*

What is Drawdown Risk?

Drawdown Risk is much more noticeable than Longevity Risk. It is when the market has a sharp drop that interrupts compounding.

Why Does it Worry Us?

We are worried for two different reasons:

1. Emotional Irrationality - Large market drawdowns can incite fear and trigger irrational investor behavior, i.e., selling assets, that deviate someone from their long-term plan. Mitigating drawdown can help alleviate those emotions.
2. Sequencing of Returns – Mathematically, if you capture less of the negative moves, you don't have to capture all of the positive moves.

Longevity: *The Silent Risk*

What is Longevity Risk?

Simply put, insufficient returns put clients at risk of outliving their money

Why Does it Worry Us?

The perspective we provide on longevity risk tends to be negative. What do the negative consequences look like? It looks like running out of money, or having to decrease the desired spending amount, or having to work longer.

There are only so many levers to pull when it comes to a successful financial plan. If compounded returns are insufficient, the investor bears the responsibility in the form of a sacrifice.

Thus, there is necessity to mitigate that risk *now*.

Drawdown Risk: Upside in Less Downside

Don't Dig A Hole

Drawdown	% To Recover	Years To Recover*
5%	5.3%	0.67
10%	11.1%	1.37
20%	25.0%	2.90
30%	42.9%	4.63
40%	66.7%	6.64
50%	100.0%	9.01

Source: Aptus Research
*Assumes recovery = 8% Net CAGR

Conceptual Illustration

The information presented above is for illustrative purposes only and should not be interpreted as the actual performance of any investor's account. These figures are entirely assumed to illustrate the concept of drawdown impact and years to recover in equities. As these are not actual results and completely assumed, they should not be relied upon for investment decisions. Actual results of individual investors will differ due to many factors, including individual investments and fees, client restrictions, and the timing of investments and cash flows.

Poll Question:
Which Portfolio Do You Want to Own??

	Year 1	Year 2	Year 3	Year 4	Year 5	Avg. Return
Portfolio A	22%	-24%	28%	13%	-9%	**6.00%**
Portfolio B	12%	12%	-7%	9%	9%	**7.00%**
Portfolio C	30%	25%	-18%	-18%	22%	**8.20%**
Portfolio D	-31%	27%	-20%	56%	21%	**10.60%**

Conceptual Illustration

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Average Return vs. Compound Return

	Year 1	Year 2	Year 3	Year 4	Year 5	Ending Value	Avg. Return	Compounded Return
Portfolio A	$ 122,000	$ 92,720	$ 118,682	$ 134,110	$ 122,040	$ 129,363	6.00%	**4.06%**
Portfolio B	$ 112,000	$ 125,440	$ 116,659	$ 127,159	$ 138,603	$ 148,305	7.00%	**6.75%**
Portfolio C	$ 130,000	$ 162,500	$ 133,250	$ 109,265	$ 133,303	$ 144,234	8.20%	**5.92%**
Portfolio D	$ 69,000	$ 87,630	$ 70,104	$ 109,362	$ 132,328	$ 146,355	10.60%	**5.76%**

Portfolio B has two things:

- The highest Compound Return, therefore, the highest ending value.
- The smallest gap between average and compound. In other words, a lower volatility tax.

Conceptual Illustration

Information presented above is for illustrative purposes only and should not be interpreted as actual performance of any investor's account. As these are not actual results and completely assumed, they should not be relied upon for investment decisions. Actual results of individual investors will differ due to many factors, including individual investments and fees, client restrictions, and the timing of investments and cash flow.

Poll Question:

What Index performed the best over the past 2 years? (2022 and 2023)

A. Large Growth
B. S&P 500
C. Large Value
D. NASDAQ
E. Small Cap

Advisor’s Biggest Learning Lesson in ‘23

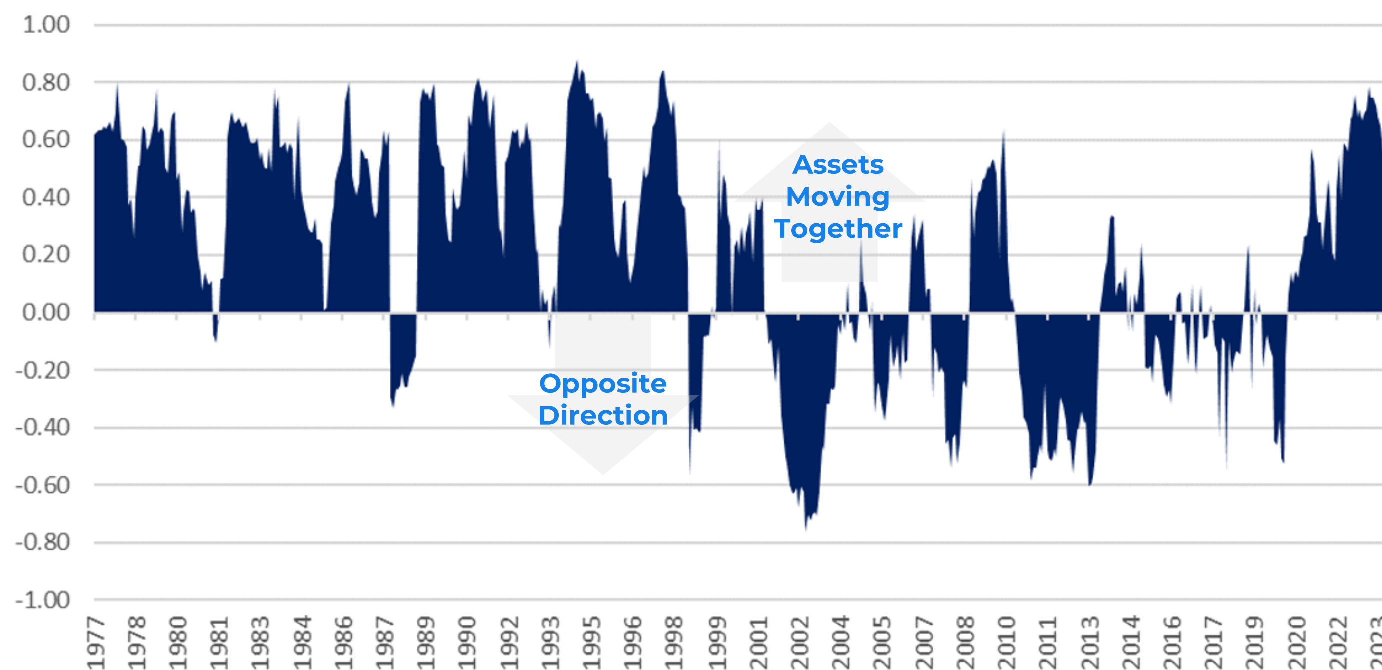
Volatility Tax Underneath the Hood in '23

	2022	2023	*Sorted Cumulative **
Large Value	-5.25%	22.19%	15.78%
Dow Jones Industrials	-7.02%	16.18%	8.02%
NASDAQ	-32.93%	55.13%	4.05%
S&P 500	-18.34%	26.26%	3.10%
MSCI EAFE	-13.86%	18.95%	2.46%
S&P 500 Equal Weighted	-11.62%	13.70%	0.49%
High Yield Bonds	-10.99%	11.53%	-0.73%
Small Caps	-20.48%	16.84%	-7.09%
Large Growth	-29.41%	30.02%	-8.22%
Investment Grade Bonds	-17.93%	9.40%	-10.22%
MSCI EM	-19.20%	10.12%	-11.02%
LT Treasuries (TLT)	-31.24%	2.77%	-29.34%

Source: Bloomberg, Aptus, Data as of 12/31/2023   *Sorted by Return. * Cumulative Return*

Longevity Risk: Thinking Differently

We Understand that Mitigating Drawdown Risk is Imperative. In a Higher Interest Rate Environment, Many Investors Believe that Fixed Income Will Continue to Be a Beacon of Support for Portfolios on the Downside – We Don't Agree. ***We Consider Correlation to be Everyone's Key Risk in their Investment Portfolio.***



The Hardest Part of Getting New Ideas Into One's Head is Getting the Old Ones Out

Asset Allocation Structure

Enhancing the Yield & Improving the Growth

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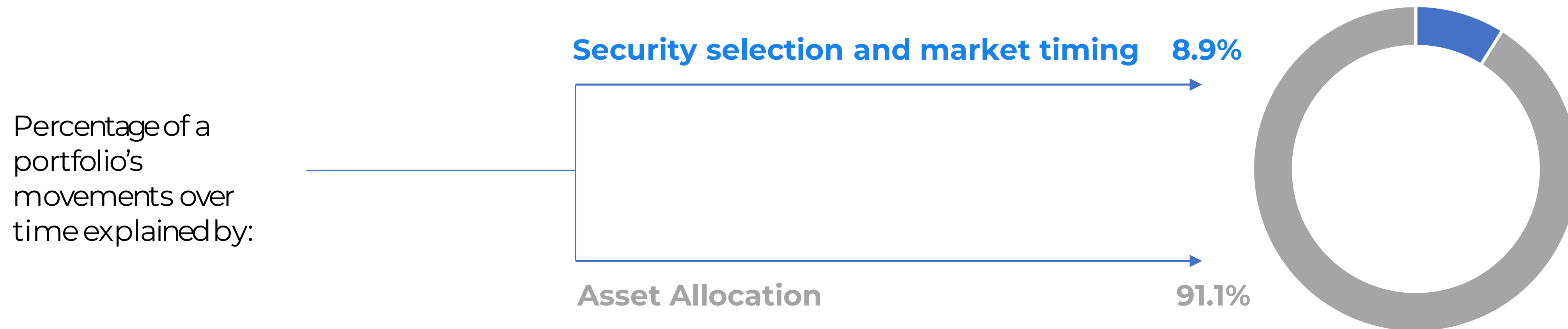
Poll Question:
Conviction in Tilts

1) **International** → Overweight / Underweight?
2) **Quality** → Overweight / Underweight?
3) **Magnificent 7** → Overweight / Underweight?
4) **Small Caps** → Overweight / Underweight?
5) **Alternatives** → Overweight / Underweight?

Where to Focus: Structure vs. Fund Choices

Per Vanguard, the majority of an investor’s long-term return comes from proper asset allocation (91% contribution to returns) and not individual exposures (9% contribution to returns).

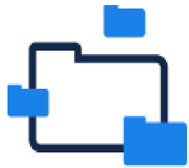
Investment outcomes are largely determined by the long-term mixture of assets in a portfolio



Source: Vanguard, Data as of 12/31/2023

What is OUR Structure?

We use the structure of our allocation to address longevity risk and improve outcomes. At each risk level, we inject more potential return with explicit focus on drawdown. Our disciplined and repeatable approach seeks to stack the deck in the favor of investors.



More Stocks

Over longer periods of time, we believe that stocks will do a better job compounding capital for investors. **Owning more stocks, while remaining risk neutral, is one of the most efficient ways to directly combat longevity risk.**

Less Bonds

Though it may feel safe, we believe that by owning bonds, investors are **voluntarily throwing away their purchasing power**, as fixed income cannot keep up with growing cost-of-living standards.

Risk Neutral

Inherently, stocks tend to be riskier than bonds. We invest in volatility as an asset class to build a portfolio with long-term growth drivers. We use hedging to avoid increased risk at the allocation level.

We believe that Balancing a Strong Engine (Stocks) with Strong Brakes (Hedges) is the Ideal Formula to Help Clients Comfortably Reach Their Long-Term Goals.

Portfolios Built to Hold: How Do We Implement?

Our Approach

Studies suggest that the psychological pain investors feel from a loss is twice as strong as the joy they receive from a similar size gain.

Our approach is designed to protect against this investor psychology with disciplined Drawdown Patrol Investing® that seeks to meet long-term total return goals while protecting from drawdown risk.

1) Enhance the Yield & Growth

Return = Yield + Growth +/- Valuation Change

2) Risks Worth Defending Against

Longevity Risk & Drawdown Risk

3) Perform Better in the Tails

Aiming to Protect in Downturns, Without Sacrificing Upside

Composition of Returns

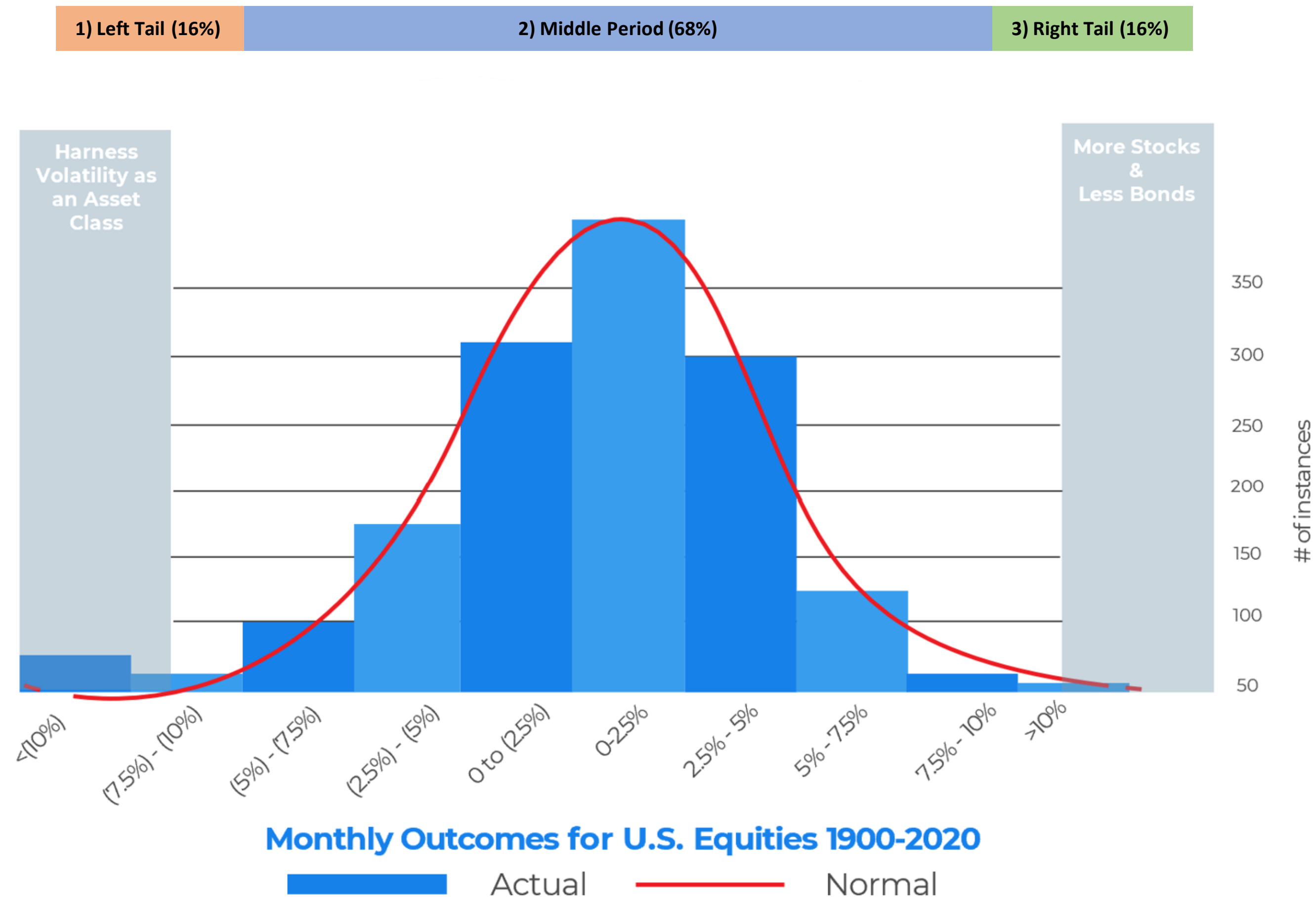
The Known: Dividend Yield **+ The Unknown:** Growth Rate **+/- Market Sentiment:** Valuation Change **= TOTAL RETURN**

Decade	Yield	+	Earnings Growth	+/-	Valuation Change	=	Annual Returns
1900s	3.9%		4.7%		0.9%		9.5%
1910s	4.2%		2.0%		-2.9%		3.4%
1920s	3.7%		5.6%		4.6%		13.9%
1930s	3.1%		-5.7%		1.6%		-1.0%
1940s	4.2%		9.9%		-6.4%		7.8%
1950s	4.1%		3.9%		10.1%		18.1%
1960s	3.1%		5.5%		-1.2%		7.3%
1970s	3.4%		9.9%		-8.0%		5.3%
1980s	3.4%		4.4%		8.6%		16.4%
1990s	1.7%		7.7%		8.2%		17.6%
2000s	1.5%		0.6%		-2.9%		-0.8%
2010s	1.9%		10.6%		2.5%		15.0%
2020s	1.5%		10.6%		0.0%		12.1%
Avg. Contribution to Return	3.1%		5.4%		1.2%		9.6%
% Contribution to Return	31.9%		55.9%		12.1%		100.0%

Source: Aptus Capital, John Bogle & Robert Shiller, Data as of 12/31/2023

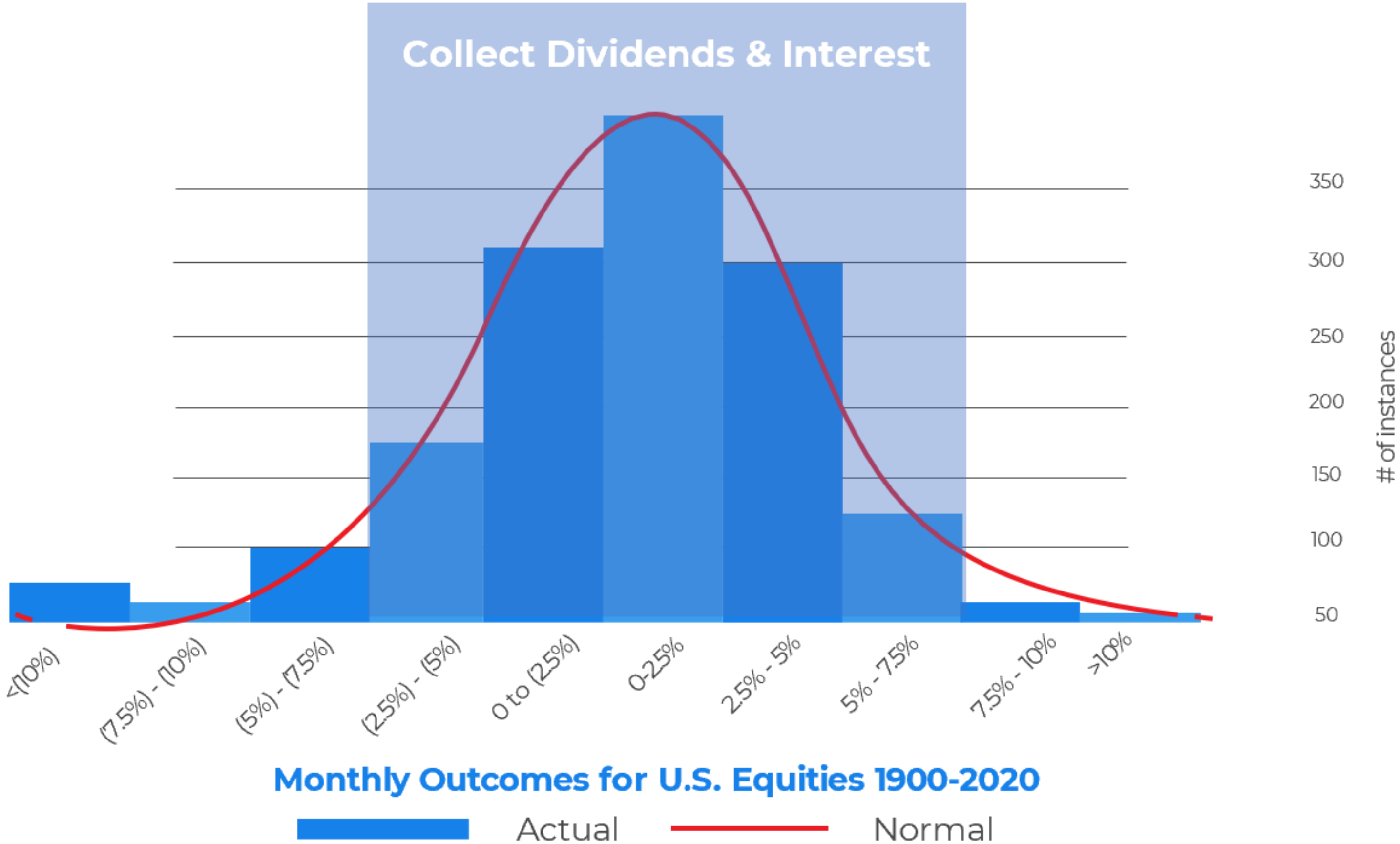
The Structure in Action

The Main Objective of the Structure of the Allocation is to Own More Stocks for the Right Tail and True Risk Management for the Left Tail, while Adding Yield in the Middle of the Bell Curve.



The Middle Period (68%): *Enhance the Yield*

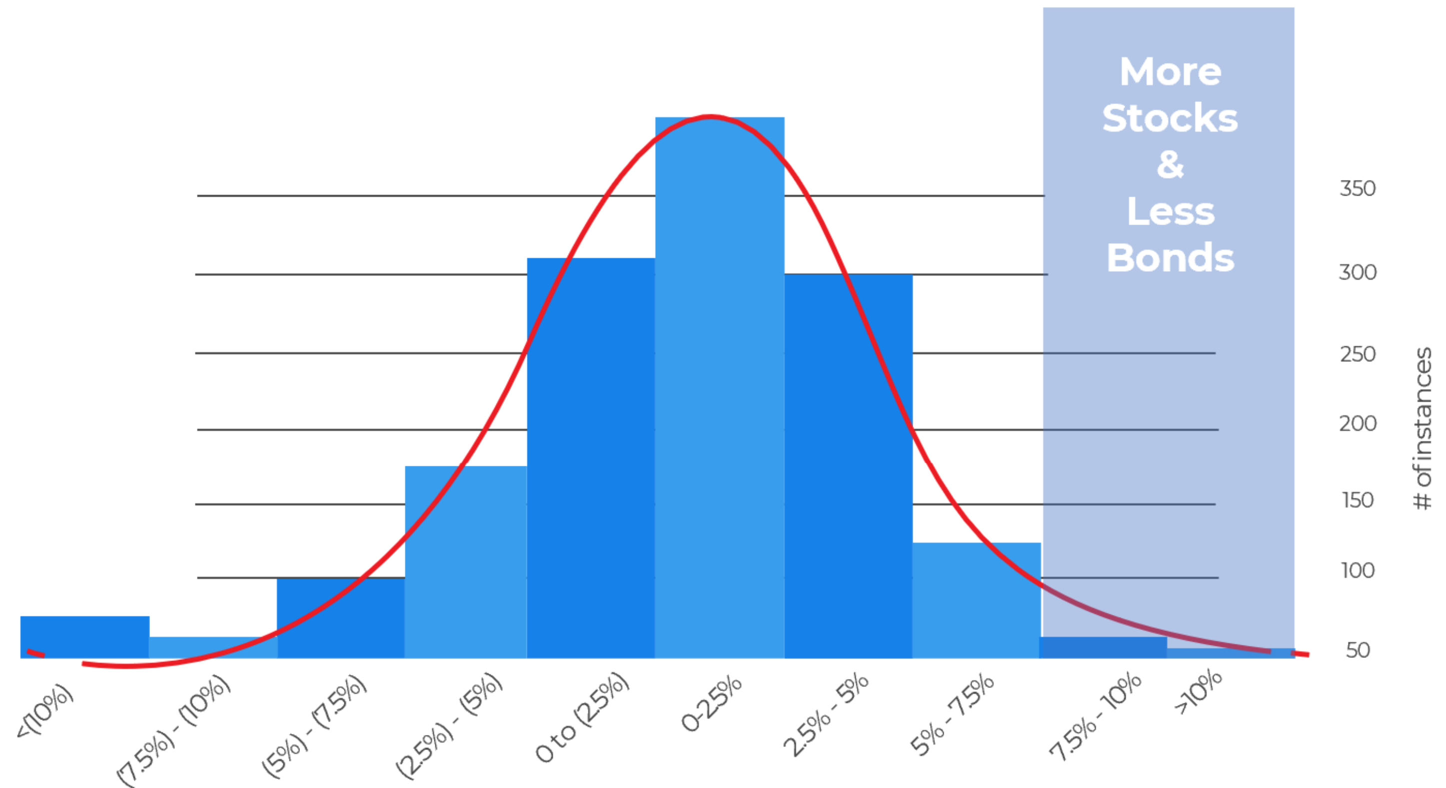
Enhancing Portfolio Yield: Even Though it May Not Feel Like it, Markets Tend to Act Rationally More Often than Not. During these Periods, We Attempt to Enhance the Yield, Without Taking Stylistic Bets.



Source: Robert Shiller, Aptus Research

Right Tail (16%): *Improving Growth*

We attack Longevity Risk Head On Through Improving Overall Portfolio Growth:
We think it makes sense to equip portfolios with a stronger engine (stocks), while using better brakes (hedges) to stay risk-neutral vs. traditional benchmarks.



Source: Robert Shiller, Aptus Research

Left Tail: *Protecting Capital in Downturns*

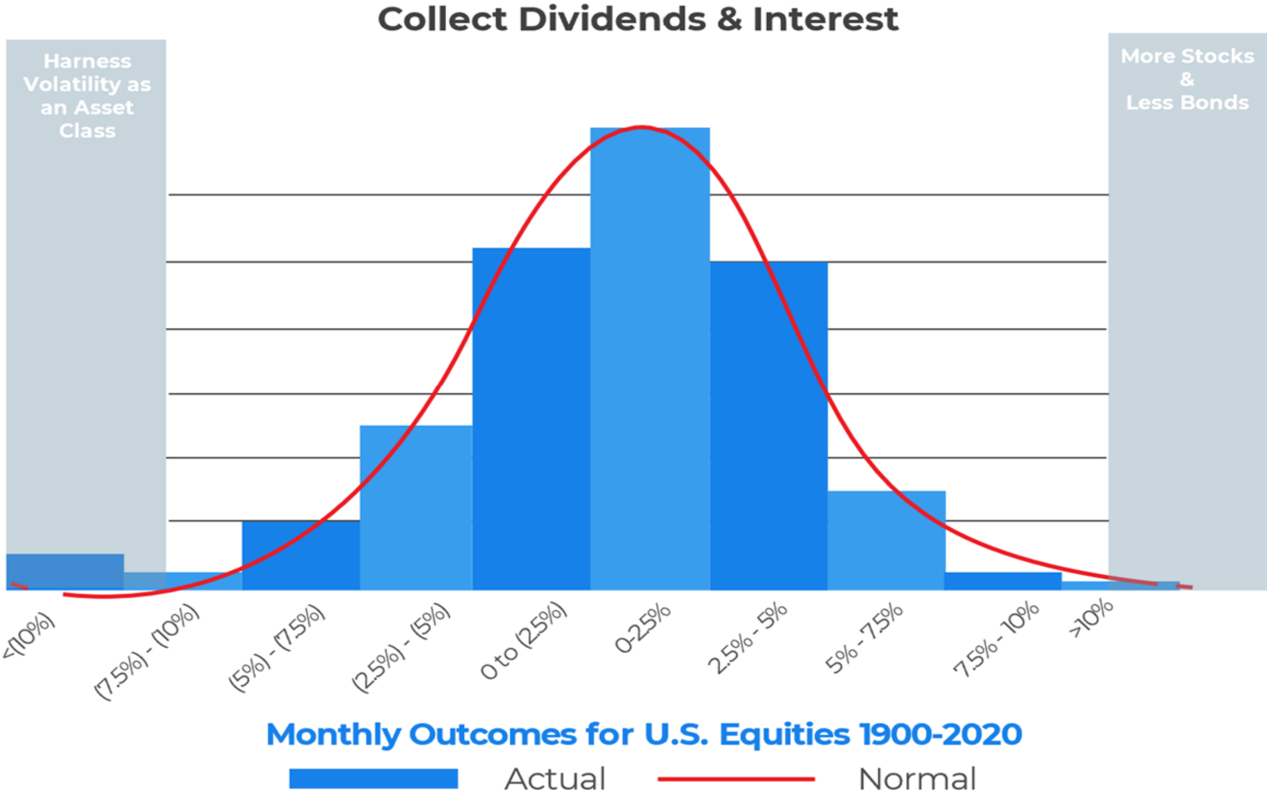
Doing Better in the Left Tails is How We Directly Attack Drawdown Risk:

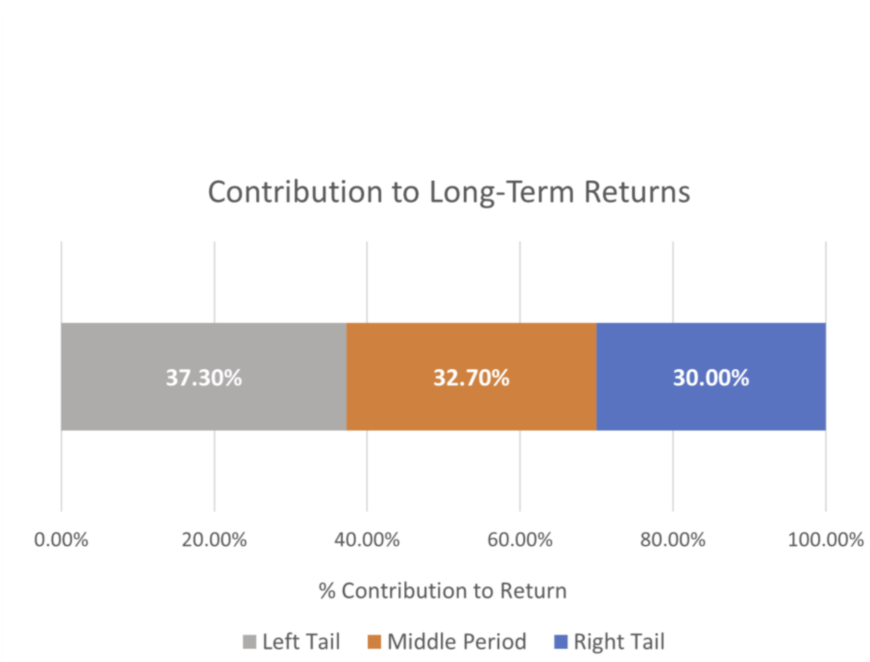
We are Firm Believers that There is Upside of Capturing Less Downside. Preserving Capital During Downturns is What Our Allocations are Built For – To Weather the Storms

Source: Robert Shiller, Aptus Research

Bringing it Together: *Doing Better in the Tails*

The Foundational Truth About Compounding Capital: The Impact of Returns Matter More Than the Frequency – ***It's the Tails that Worry Us, Not the Mean.***





"I Argue That Cost-Effective Risk Mitigation, When Done Well, Doesn't Just Take You Out of Risk, But Actually Allows You to Take on More Risk."
–Mark Spitznagel

Asset Allocation

Portfolios to Withstand All Environments

Executing the Structure of Our Asset Allocation

Bigger Engine

Stocks/Bonds Split	
Aptus	**Benchmark**
46/54	30/70
59/41	40/60
73/27	60/40
89/11	80/20
100/0	80/20

More Stocks

+

Better Brakes

Standard Deviation	
Aptus	**Benchmark**
7.73%	7.49%
8.31%	8.48%
10.78%	10.98%
12.65%	13.39%
13.44%	13.39%

Risk Neutral

+

More Yield

Portfolio Yield	
Aptus	**Benchmark**
4.39%	2.12%
3.97%	2.15%
3.62%	1.74%
3.24%	1.36%
3.02%	1.36%

Enhanced Income

=

Better Experience

Asset Allocation	Benchmark
Aptus Preserve	iShares Conservative (AOK)
Aptus Conservative	iShares Moderate (AOM)
Aptus Moderate	iShares Growth (AOR)
Aptus Growth	iShares Aggressive (AOA)
Aptus Aggressive	iShares Aggressive (AOA)

Aptus Impact Series

Source: Bloomberg, Data as of 12/31/2023. The yield percent in the chart above is the indicated yield which is the annualized yield of the most recent dividend distribution. Yield is not indicative of current or future performance or returns

Our Allocation in Practice

Executing the Structure of Our Asset Allocation

Sample Client Conservative v. Blackrock iShares Core Moderate			
	Sample Client Conservative	iShares Core Moderate Allocation ETF	Capture
07/31/2021 - 06/17/2022	-11.87%	-14.46%	82.09%
06/17/2022 - 08/12/2022	9.36%	6.88%	136.05%
08/12/2022 - 10/14/2022	-10.71%	-11.02%	97.19%
10/14/2022 - 07/19/2023	12.70%	15.54%	81.72%
07/19/2023 - 10/27/2023	-6.08%	-6.85%	88.76%
10/27/2023 - 01/24/2024	10.98%	10.09%	108.82%
Since Inception	**1.09%**	**-3.61%**	**-**
		Upside Average	**108.86%**
		Downside Average	**89.34%**

Data is derived from end of day Bloomberg data for the period from 7/31/2021 (fund inception) to 02/01/2024. Each segment period represents an inverse market movement of 5% or greater of the iShares Core Modearte ETF (AOM). The diagram represents cumulative total returns during those market segments of 5% market movement of the AOM compared to Sample Client Conservative Allocation. The capture ratio measures a strategy's performance in up or down markets relative to an index during each period.

Additional Resources

All | Market Updates | Equity Case Studies | Fact Sheets | Rebalance Rationales

Fact Sheets

April 2020: Valuations Matter

March 2020: HNW Equities Rebalance

March 2020: Rebalance Rationale

Late March 2020: A Bridge to Opportunity

Mid-March 2020: Eye of the Storm

Equity Case Studies

March 2020: Hedges Doing Their Job

Feb 2020: Finding Upside in Downside

Market Updates

Access the latest monthly and quarterly reports, equity research, and more.

https://aptuscapitaladvisors.com/contenthub-lp/

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The Market in Pictures, February 24

Feb 24, 2023 | Blog, Charts

Our team looks at a lot of research throughout each day. A few charts that caught our eye this week, and the way they fit the unfolding puzzle of evidence: Brad: The...

READ MORE

Aptus Musings: Debt Ceiling Part Deux

Feb 23, 2023 | Blog, Macro Updates

I'm going to cut to the chase here – I've been reading a lot on the debt crisis here recently, especially after the Congressional Budget Office ("CBO") released its...

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It's Time to Move Cash Out of The Bank

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Our team looks at a lot of research throughout each day. A few charts that caught our eye this week, and the way they

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