

Navigating Negativity

Presented By

Christopher G. Pearson, CFA

Senior Vice President

Davenport Asset Management

“Daily Dose” of Negative Headlines

“Ebola outbreak enters ‘truly frightening phase’”

– CNN, June, 2019

**“Think housing in NYC is bad now?
Just wait...”**

– New York Post, June, 2019

**“New North Korea Concerns Flare as
Trump’s Signature Diplomacy Wilts”**

– The New York Times, May, 2019

**“Great Lakes Water Levels
at ‘Precipice of a Disaster’...”**

– The Weather Channel, May, 2019

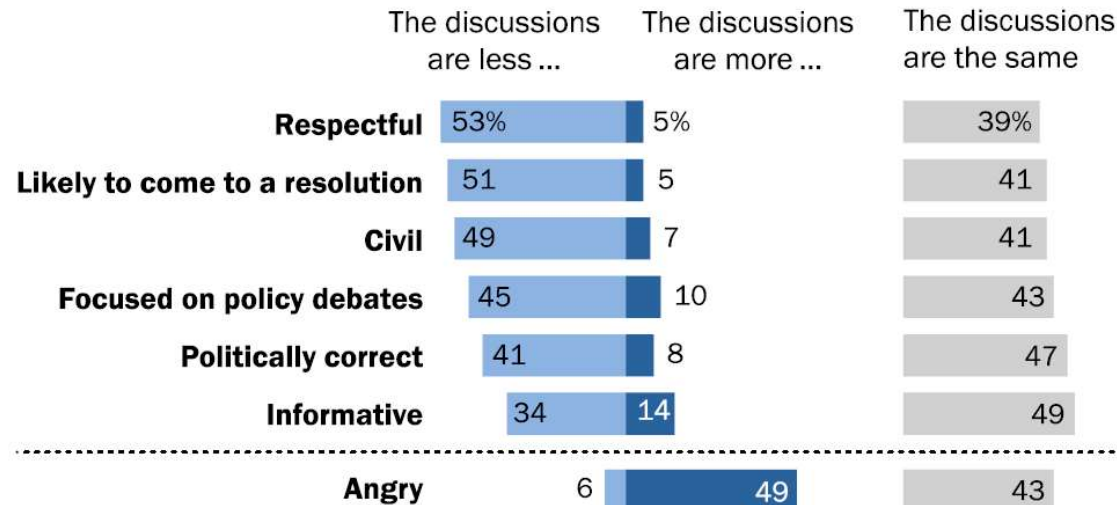
**“Police: Florida man who tried to pawn
baby says it was just a prank”**

– WREG-TV & Tribune Media Wire, May, 2019

Social Media Adding Fuel to the Fire?

Many users see social media as an especially negative venue for political discussions, but others see it as simply “more of the same”

% of social media users who say their political discussions are more or less _____ compared with other places people might discuss politics



Source: Survey conducted July 12-Aug. 08, 2016.
“The Political Environment on Social Media”

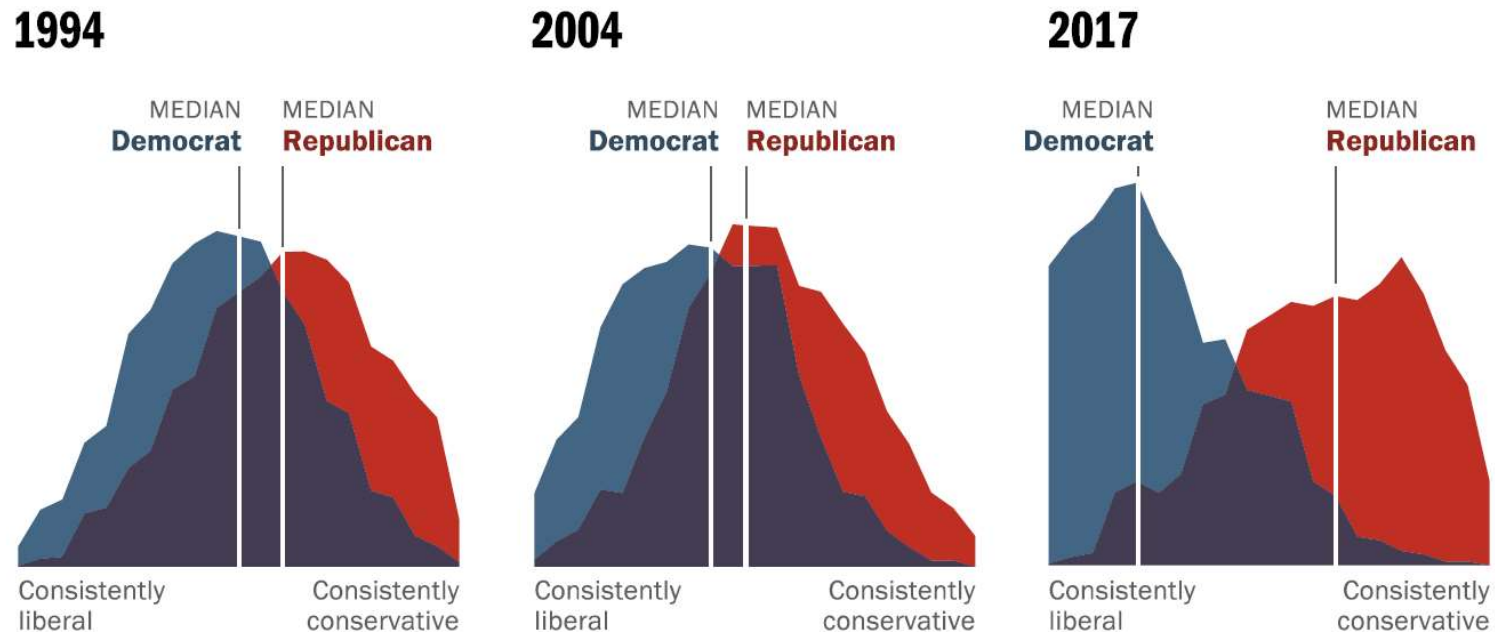
PEW RESEARCH CENTER

Source: “The Political Environment on Social Media.” Pew Research Center, Washington, D.C. (October 25, 2016) www.pewinternet.org/2016/10/25/the-political-environment-on-social-media/

Negative Rhetoric Likely to Heat Up

Democrats and Republicans more ideologically divided than in the past

Distribution of Democrats and Republicans on a 10-item scale of political values



Notes: Ideological consistency based on a scale of 10 political values questions (see methodology). The blue area in this chart represents the ideological distribution of Democrats and Democratic-leaning independents; the red area of Republicans and Republican-leaning independents. The overlap of these two distributions is shaded purple.

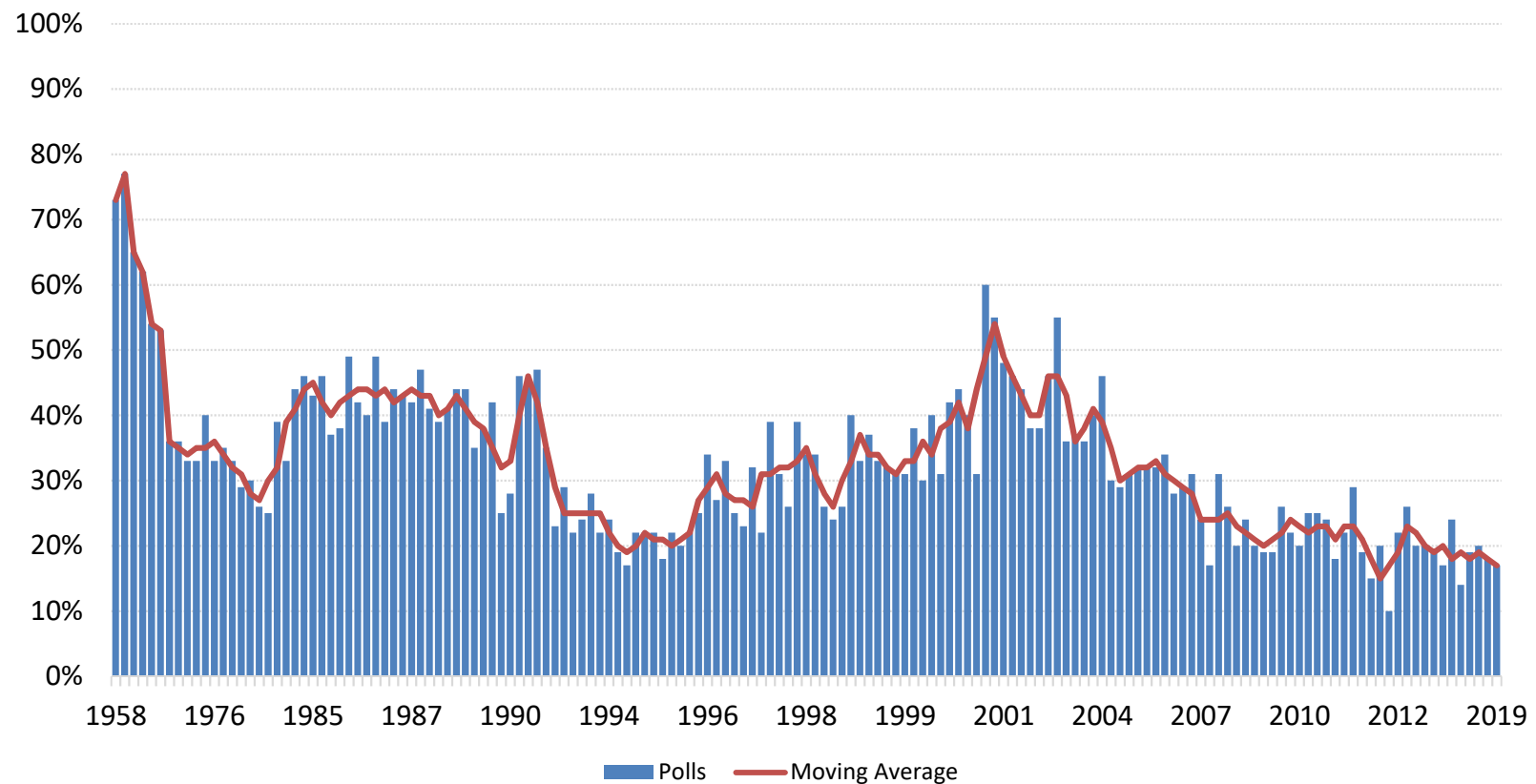
Source: Survey conducted June 8-18, 2017.

PEW RESEARCH CENTER

Source: "The Partisan Divide on Political Values Grows Even Wider." Pew Research Center, Washington, D.C. (October 5, 2017) <https://www.people-press.org/2017/10/05/1-partisan-divides-over-political-values-widen/>

Toll of Negativity

**Percentage of Americans Who Trust the Government
in Washington Always or Most of the Time**



Source: "Public Trust in Government: 1958-2019." Pew Research Center, Washington, D.C. (October 5, 2017) <https://www.people-press.org/2019/04/11/public-trust-in-government-1958-2019/> . Data accumulated from National Election Studies, Gallup, ABC/Washington Post, CBS/New York Times, and CNN Polls.

Toll of Negativity

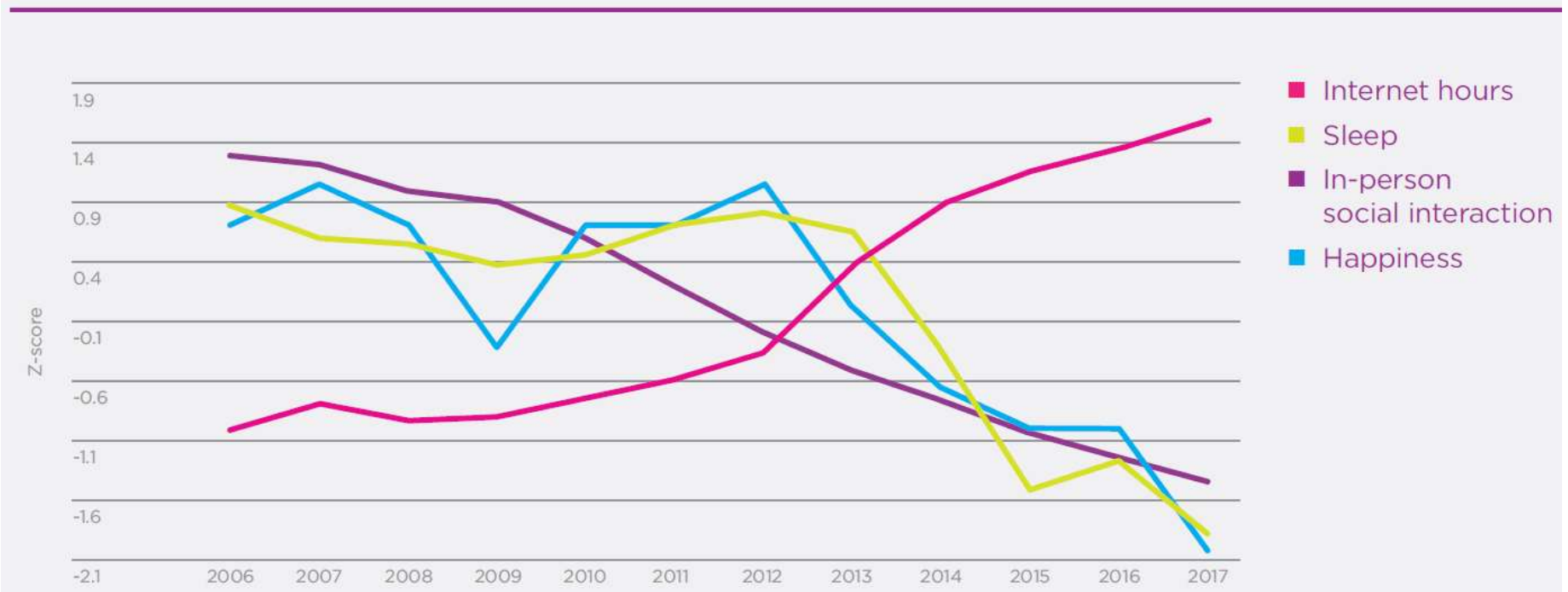
Figure 5.1: General happiness, U.S. adults, General Social Survey, 1973-2016



Source: U.S. from The Gallup World Happiness Report 2019 – Chapter 5: “The Sad State of Happiness in the United States and the Role of Digital Media”

Toll of Negativity

Figure 5.4: Time spent on the internet, sleeping more than 7 hours a night most nights, frequency of in-person social interaction across 7 activities, and general happiness, standardized (Z) scores, 8th and 10th graders, Monitoring the Future, 2006-2017



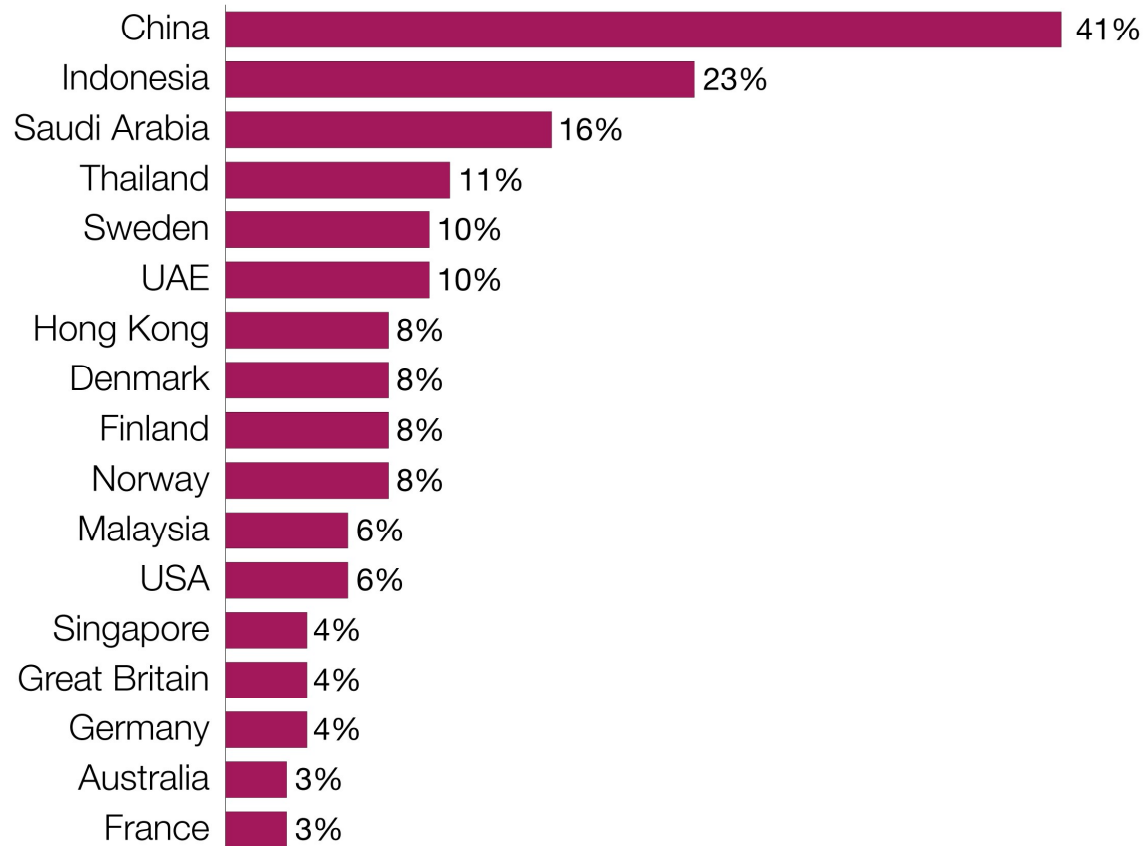
Source: Helliwell, J., Layard, R., & Sachs, J. (2019). World Happiness Report 2019, New York: Sustainable Development Solutions Network.

Is It Really That Bad?

Share of the population who think the world is getting better

18,235 adults in the following countries were asked “All things considered, do you think the world is getting better or worse, or neither getting better nor worse?”

Our World
in Data

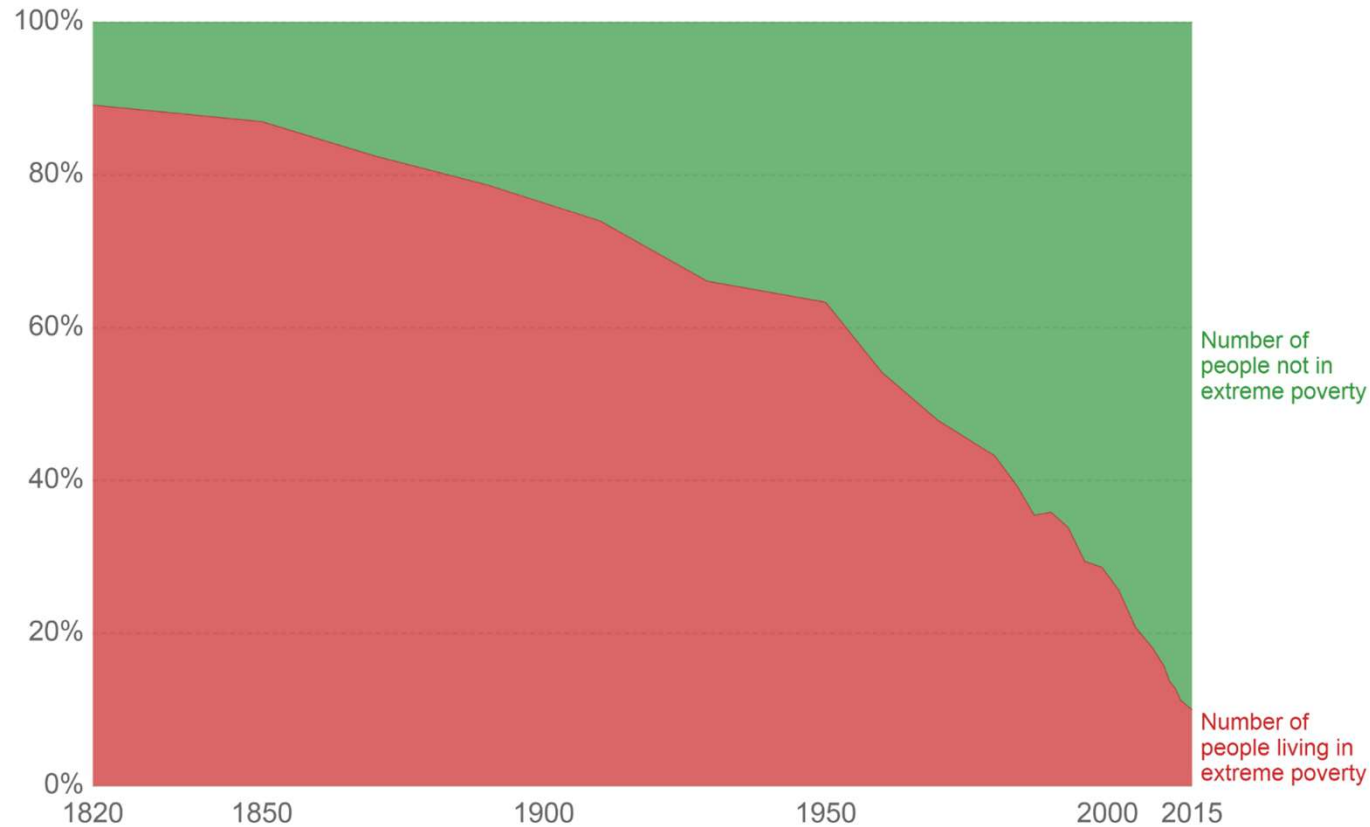


Source: Max Roser (2018) - “Most of us are wrong about how the world has changed (especially those who are pessimistic about the future)”. Published online at OurWorldInData.org. Original survey conducted and published by YouGov (2015). Licensed under CC-BY-SA by the author Max Roser.

Prosperity – a Historical Perspective

World population living in extreme poverty, 1820-2015

Extreme poverty is defined as living on less than 1.90 international-\$ per day. International-\$ are adjusted for price differences between countries and for price changes over time (inflation).



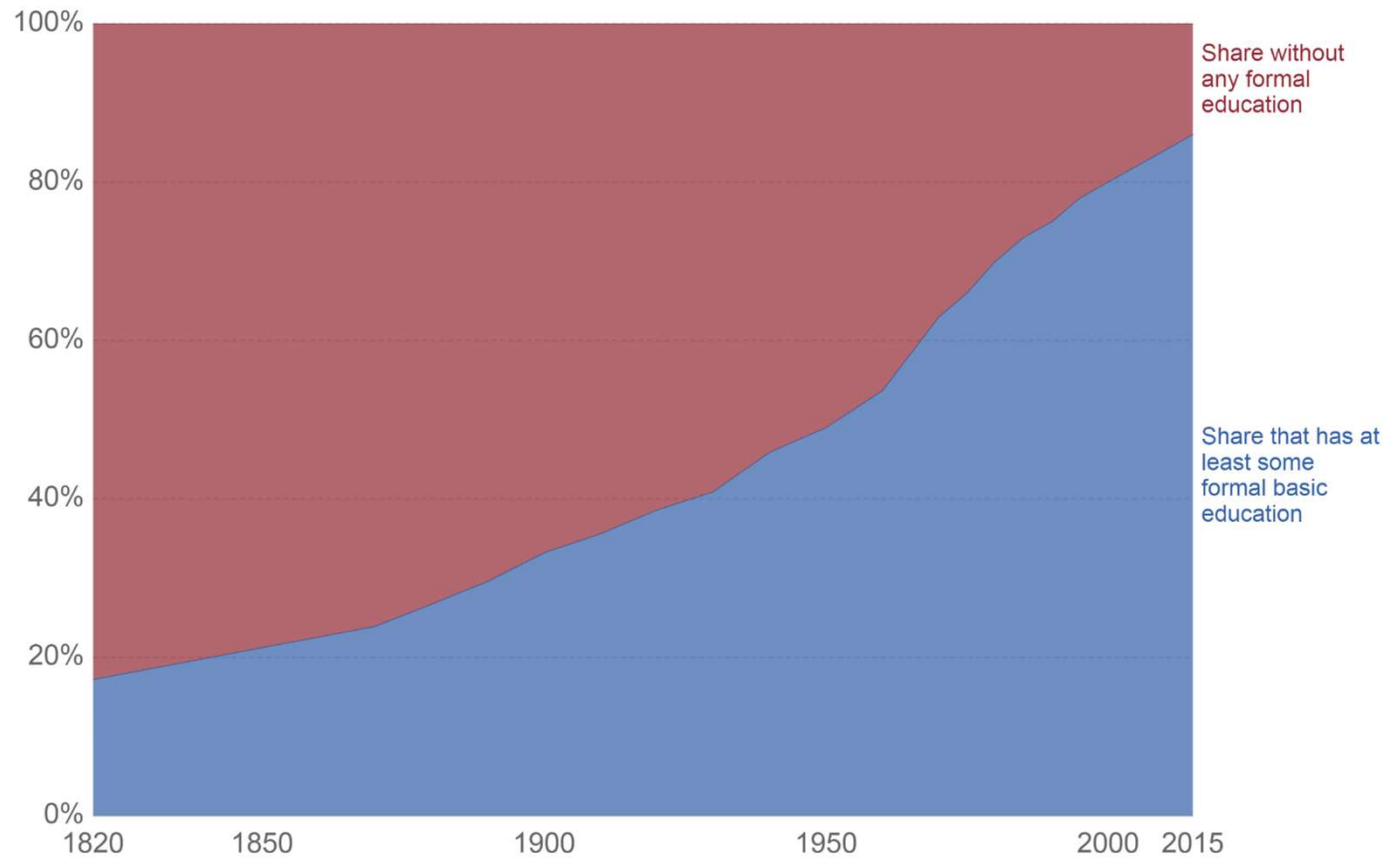
Source: OWID based on World Bank (2019) and Bourguignon and Morrisson (2002)

OurWorldInData.org/extreme-poverty/ • CC BY

Source: Max Roser and Esteban Ortiz-Ospina (2019) - "Global Extreme Poverty". Published online at OurWorldInData.org.

Prosperity – a Historical Perspective

Share of the world population older than 15 years with at least basic education



Source: Global education (OECD + IIASA (2016))

OurWorldInData.org/primary-and-secondary-education • CC BY

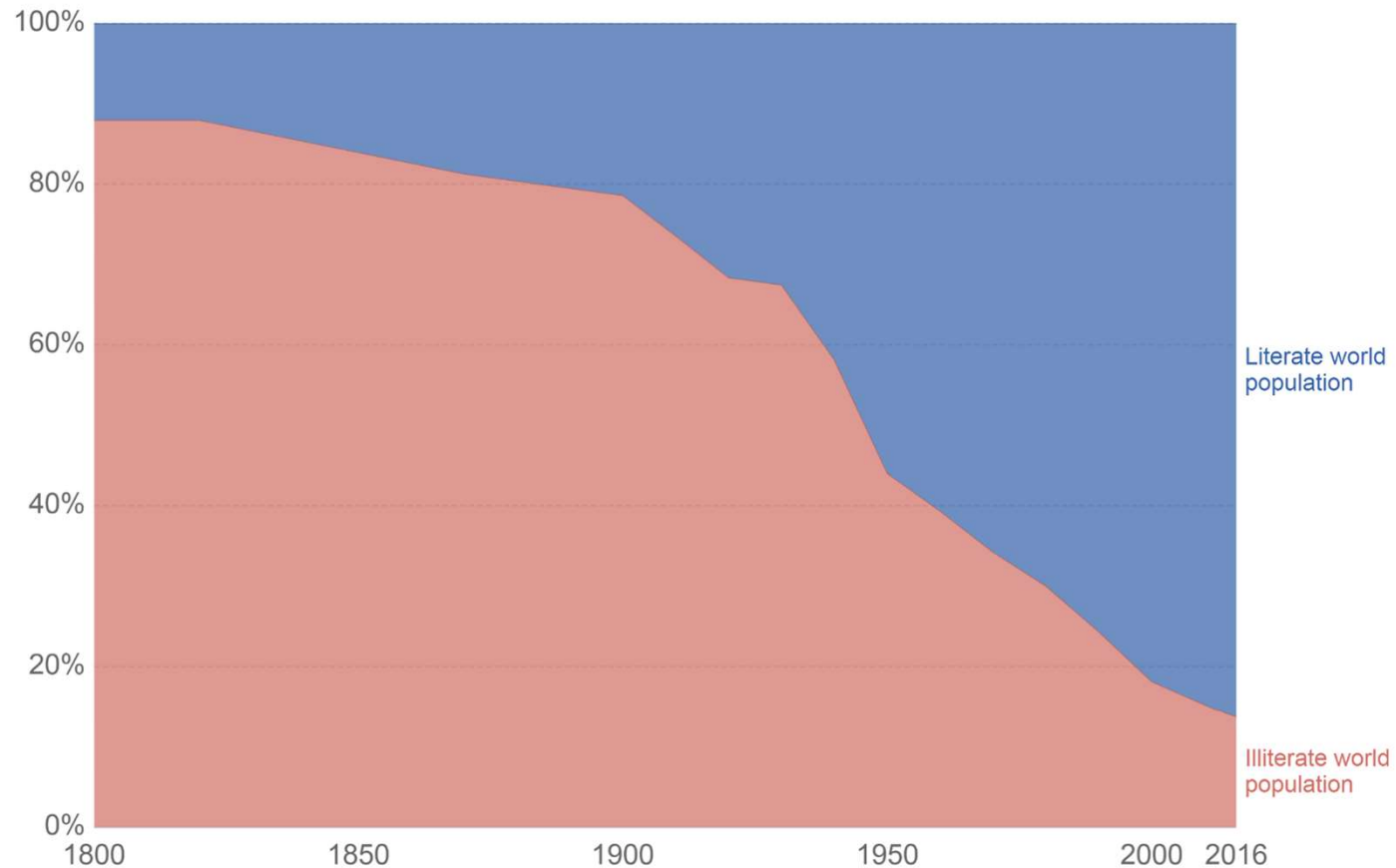
Source: Max Roser and Esteban Ortiz-Ospina (2019) - "Primary and Secondary Education". Published online at OurWorldInData.org.

Prosperity – a Historical Perspective

Literate and illiterate world population

Population 15 years and older.

Our World
in Data



Source: Our World in Data based on OECD and UNESCO (2016)

OurWorldInData.org/global-rise-of-education • CC BY

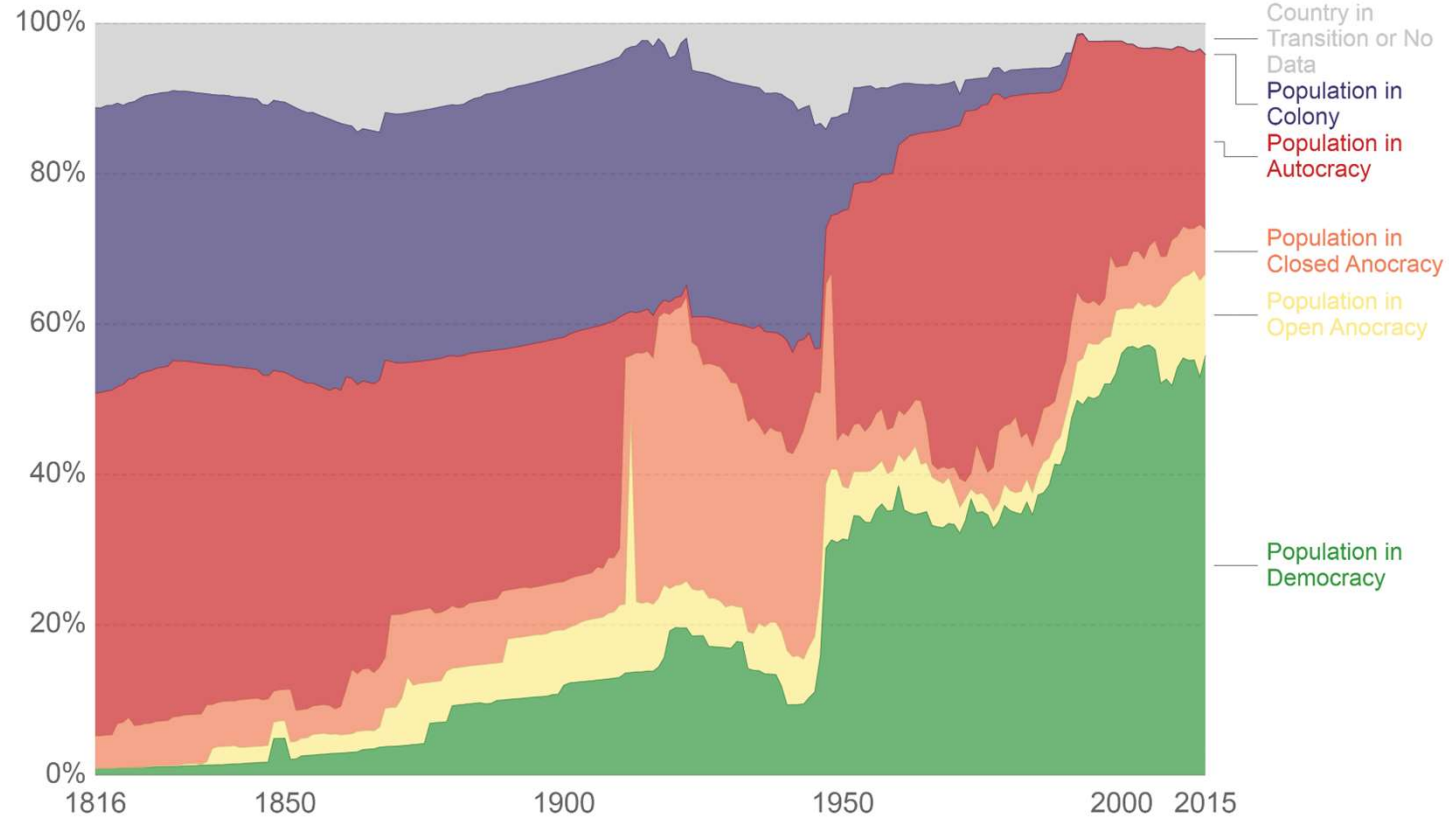
Source: Max Roser and Esteban Ortiz-Ospina (2019) - "Global Rise of Education". Published online at OurWorldInData.org.

Prosperity – a Historical Perspective

Number of world citizens living under different political regimes

Our World
in Data

The Polity IV score captures the type of political regime for each country on a range from -10 (full autocracy) to +10 (full democracy). Regimes that fall into the middle of this spectrum are called anocracies.

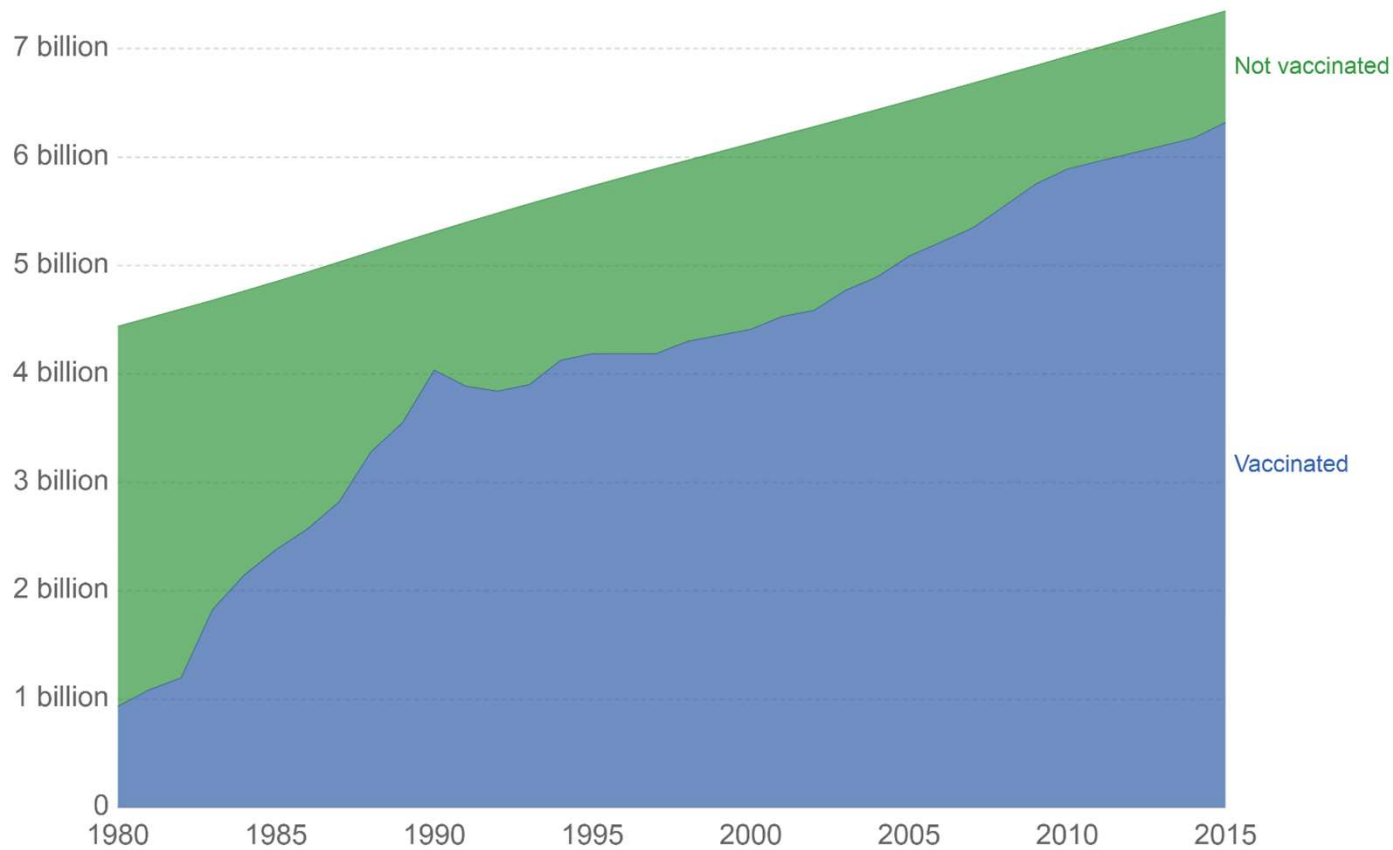


Source: World Population by Political Regime they live in (OWID (2016))
OurWorldInData.org/a-history-of-global-living-conditions-in-5-charts/ • CC BY

Source: Max Roser (2019) - "Democracy". Published online at OurWorldInData.org.

Prosperity – a Historical Perspective

Global vaccination coverage: Diphtheria-tetanus-pertussis (DTP3) immunization



Source: DTP3 Coverage global - OWID based on WHO (2016)

OurWorldInData.org/vaccination/ • CC BY

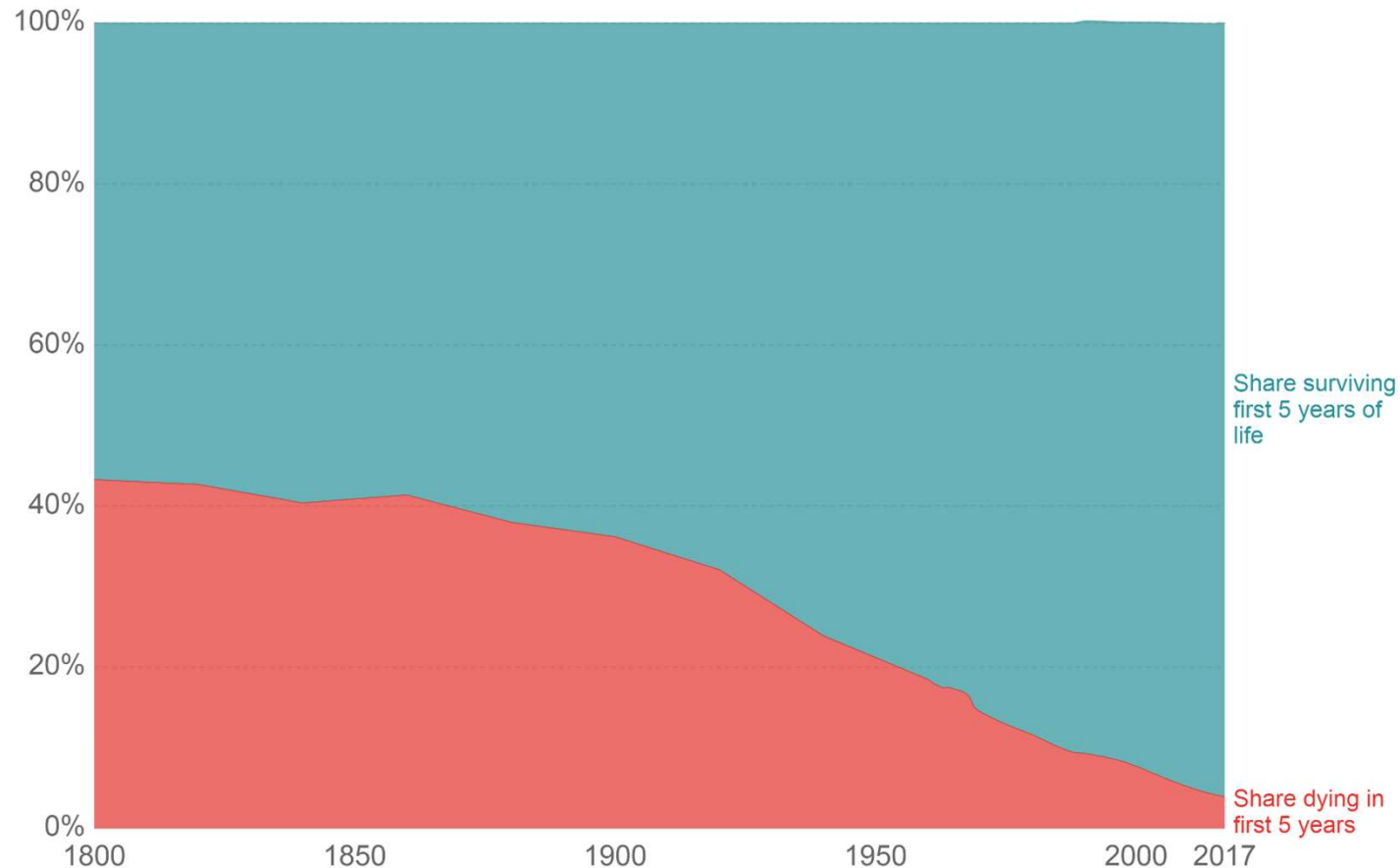
Source: Samantha Vanderslott and Max Roser (2019) – "Vaccination". Published online at OurWorldInData.org.

Prosperity – a Historical Perspective

Global child mortality

Share of the world population dying and surviving the first 5 years of life.

Our World
in Data

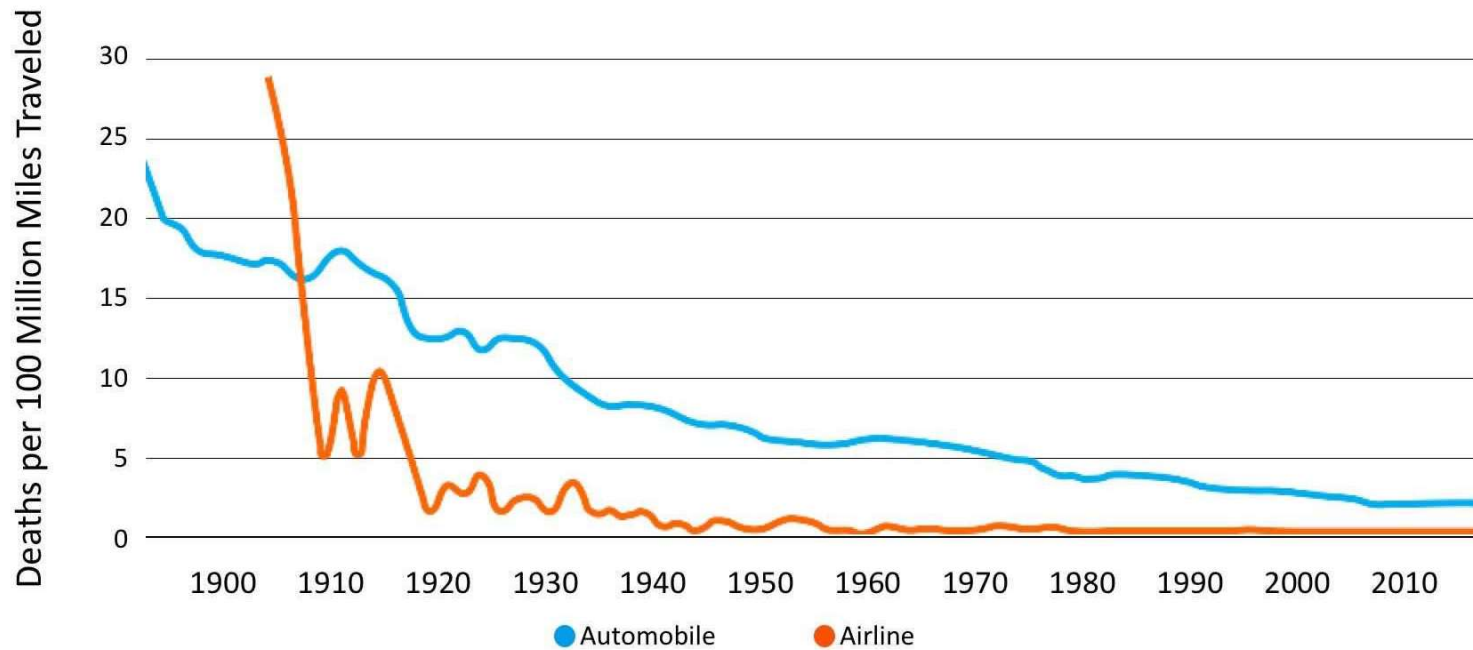


Source: Gapminder and the World Bank

OurWorldInData.org/a-history-of-global-living-conditions-in-5-charts/ • CC BY

Source: Max Roser (2019) - "Child Mortality". Published online at OurWorldInData.org.

Automobile and Airline Fatality Rates



Source: National Highway Traffic Safety Administration & Bureau of Transportation Statistics.

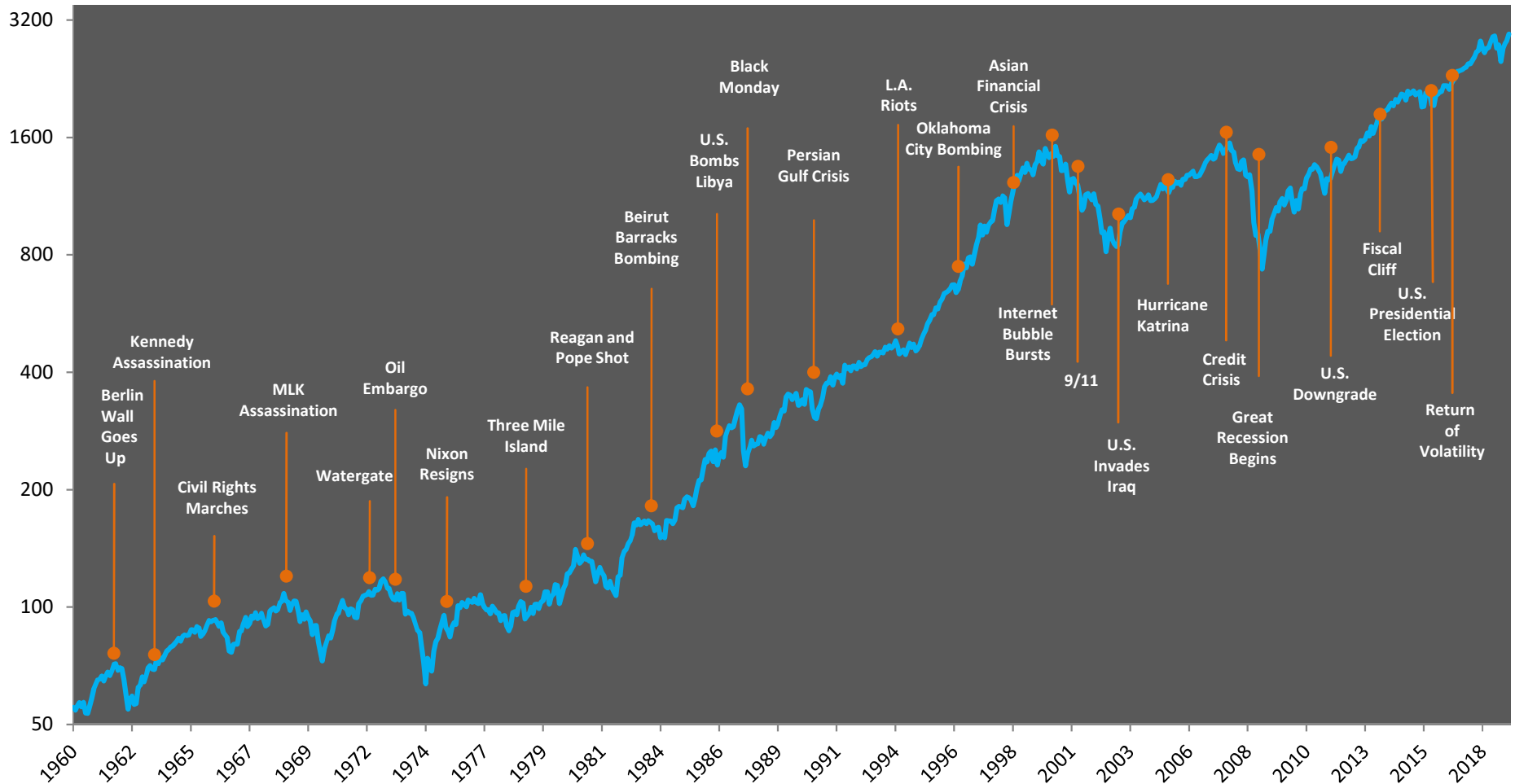
- World's nuclear stockpiles have been reduced by 85% since peak cold war levels
- Every country in the world today has a lower infant mortality rate than it did in 1950
- Over the last 50 years the world uses 68% less land to produce the same amount of food
- Since the turn of the 20th century the chances of an American being struck by lightning has declined by 37 times

Reasons to Remain Hopeful

Key themes for human advancement & investment:

- 5G bringing a new dimension to connectivity
 - Faster download speeds and more ubiquitous connectivity
 - Autonomous evolution – connected cities, factories, health systems, etc.
 - Artificial intelligence
- Environmental technology advancements
 - Agricultural efficiencies
 - Electronic vehicles
 - Renewable power
 - Continued investment in water infrastructure and technology
- Health care breakthroughs accelerating
 - Gene editing and gene therapy
 - Immuno-oncology
 - Med-tech

Optimism Pays

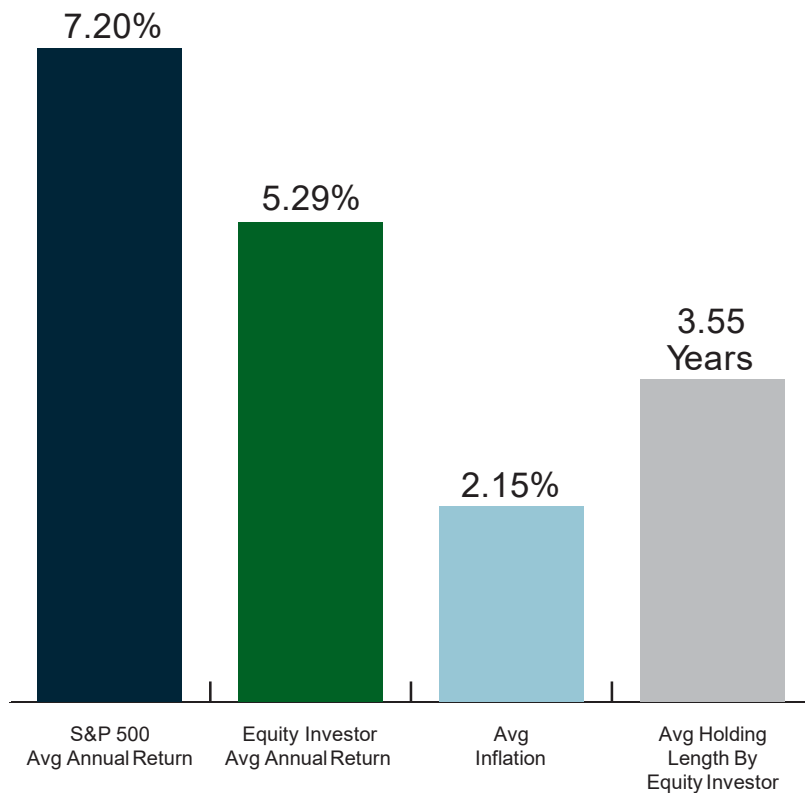


Source: Bloomberg – S&P 500 Index monthly data from January 1960 – April 2019.

Returns are based on price index only and do not include dividends. An investor cannot invest in an index and index returns are not indicative of the performance of any specific investment. Past performance is no guarantee of future results. Please see "Important Disclosures" for index definitions.

Pessimism/Market Timing Dilutes Returns

Over a 20-Year Period, The Average Equity Investor Lagged the Broader Market



Learning From Past Investment Mistakes

Avoid market timing — Attempting to time the market has been shown to have detrimental long-term effects on an investor's portfolio.

Keep focus on individual goals — Investors should evaluate their portfolio's performance relative to progress made towards achieving their goals.

Media Hype Can Be Distracting — An investor's portfolio can benefit from prudent, disciplined investment decisions made in the context of a long-term time horizon rather than short-term market volatility.

Source: "Quantitative Analysis of Investor Behavior, 2018," DALBAR, Inc. www.dalbar.com Data from 20 year study done from 1/1/1998-12/31/2017. Past performance is no guarantee of future results. Please see "Important Disclosures" for important definitions.

What Does History Tell Us?



“Over the long term, the stock market news will be good. In the 20th century, the United States endured two world wars and other traumatic and expensive military conflicts; the Depression; a dozen or so recessions and financial panics; oil shocks; a flu epidemic; and the resignation of a disgraced president. Yet the Dow rose from 66 to 11,497.”

- Warren Buffett, October 16, 2008

Source: Buffett, Warren E. “Buy American. I Am.” The New York Times [Opinion], 16 Oct. 2008.

Key Takeaways

- The developed world is awash in negativity
- Sensational news, social media and a polarized political environment are augmenting the “daily deluge”
- We are not dismissive of global challenges, but think it’s important to consider the progress humanity has made
- Several ongoing developments should improve the human condition and lead to investment opportunities
- Long term optimism wins out for investors, while market timing dilutes returns
- A healthy dose of short term skepticism combined with long term optimism should be a winning combination

IMPORTANT DISCLOSURES

Index Definitions:

The **S&P 500 Index** is comprised of 500 U.S. Stocks and is an indicator of the performance of the overall U.S. stock market.

The **Dow Jones Industrial Average** is an index of 30 "blue chip" stocks of U.S. "industrial" companies.

Quantitative Analysis of Investor Behavior Definitions:

QAIB uses data from the Investment Company Institute (ICI), Standard & Poor's, Bloomberg Barclays Indices and proprietary sources to compare mutual fund investor returns to an appropriate set of benchmarks. Covering the period from January 1, 1988 to December 31, 2017, the study utilizes mutual fund sales, redemptions and exchanges each month as the measure of investor behavior. These behaviors reflect the "Average Investor." Based on this behavior, the analysis calculates the "average investor return" for various periods. These results are then compared to the returns of respective indices.

The **Average Investor** refers to the universe of all mutual fund investors whose actions and financial results are restated to represent a single investor. This approach allows the entire universe of mutual fund investors to be used as the statistical sample, ensuring ultimate reliability.

The **Average Equity Fund Investor** is comprised of a universe of both domestic and world equity mutual funds. It includes growth, sector, alternative strategy, value, blend, emerging markets, global equity, international equity, and regional equity funds.

QAIB calculates **Investor Returns** as the change in assets, after excluding sales, redemptions, and exchanges. This method of calculation captures realized and unrealized capital gains, dividends, interest, trading costs, sales charges, fees, expenses and any other costs. After calculating investor returns in dollar terms (above) two percentages are calculated:

- Total investor return rate for the period
- Annualized investor return rate

Total return rate is determined by calculating the investor return dollars as a percentage of the net assets, sales, redemptions and exchanges for the period.

Annualized return rate is calculated as the uniform rate that can be compounded annually for the period under consideration to produce the investor return dollars.

Average Inflation is obtained by taking the monthly value of the consumer price index and converting it to a monthly rate. The monthly rates are used to compound a "return" for the period under consideration. This result is then annualized to produce the inflation rate for the period.

Average Holding Length (Retention Rate) reflects the length of time the average investor holds a fund if the current redemption rate persists. It is the time required to fully redeem the account. Retention rates are expressed in years and fractions of years.

An investor cannot invest in an index and index returns are not indicative of the performance of any specific investment. Index performance does not reflect the expenses, fees, and taxes generally paid with the active management of an actual portfolio.

RISK CONSIDERATIONS

Risk Considerations:

Past Performance is no guarantee of future results. No graph, chart or formula can guarantee profit of any nature in the stock market and should not be relied upon solely in making investment decisions. There is no guarantee that any investment will be profitable. Investing in securities or other investment vehicles carries risk including the possible loss of principal. Equities are subject generally to market, market sector, market liquidity, issuer and investment style risks, among other factors, to varying degrees. Funds that invest in foreign securities may involve greater risks, including political and economic uncertainties, as well as risk of currency fluctuations. Small and mid cap company stocks may be more volatile than stocks of larger, more established companies. There is no guarantee that a company will continue to pay a dividend. Investments in bonds and other fixed income securities may fall in value if interest rates change. Generally, the prices of debt securities rise when interest rates fall, while their prices fall when interest rates rise. Longer-term debt securities are usually more sensitive to interest rate changes. An issuer suffering an adverse change in its financial condition could see the credit quality of its securities deteriorate, leading to greater price volatility of the security. Funds investing in lower quality debt securities are more susceptible to these problems and their value may be more volatile.

The views and opinions expressed in this presentation are those of Davenport Asset Management. They do not necessarily represent those of Davenport & Company LLC.

The information contained herein has been compiled from sources believed to be reliable; however, there is no guarantee of its accuracy or completeness. The information provided is for information purposes only and should not be considered an individual recommendation or personalized investment advice. Each investor needs to review his or her particular situation.

Davenport Asset Management is notice-filed in all U.S. States and territories except Guam, Puerto Rico, and the Virgin Islands.