

DJIA 30,996 S&P 500 3,841 3-MONTH T-BILL 0.08% 10-YR TREASURY BOND 1.10%

Personality of a Portfolio

The Accidental Discovery

In 1848, a premature detonation at a railroad construction site drastically altered foreman Phineas Gage’s life. Gage was a favorite of his employers and had been described as the most efficient, capable and energetic worker in the company. The explosion caused a 3.5-foot iron bar to shoot directly through his head.

Remarkably, Gage survived and he literally walked away from the accident. In the following weeks, his peers noticed a stark change in his personality – he became impetuous, irreverent, fitful, and obstinate. The change meant disaster for his career and future prospects, but once psychologists took notice of this event, it sparked a paradigm shift in the field of personality psychology.

Previously, the dominant theory, called phrenology, theorized that personality stemmed from the shape of a person’s head. Anyone who has read 19th century literature will notice the strange way that authors portray characters through descriptions of their faces and head shapes. But after Phineas Gage, psychologists began to understand that our minds determine our personality.

A New Perspective on Personality

Armed with this new discovery and the power of statistics, psychologists developed dozens of survey-based personality tests, like the Meyers Briggs Personality Test, that aim to distill any unique personality into a few different traits. The most rigorous test is called the Big Five Personality test, which shows statistically that every personality is simply a combination of just five traits: Extraversion, Agreeableness, Conscientiousness, Neuroticism, and Openness. For those curious about their Big Five personality, I recommend searching for the free “IPIP NEO-PI test” online.

Psychologists have since utilized this test to reliably predict health, academic achievement, learning styles, work success, and even political affiliation using just a person’s Big Five personality results. In fact, this science has become so precise that many tests have shown that a person’s conscientiousness score will drive almost a majority of their temperament.

Putting a Portfolio to the Test

Many investment professionals have tested investments over time and you may wonder how this may affect portfolios

in general. In the last *Investment Insights*, we cautioned against the twin temptations of over-concentration and over-diversification, both of which fail to strike the best balance between risk and return. Using the same techniques as psychologists, we can answer roughly how much diversification is enough. Imagine if we could ask a portfolio to take a personality test. How many traits would determine the portfolio’s behavior?

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It turns out that there are only a handful of characteristics of a stock and bond portfolio that determine almost all of the risk and return. A portfolio that is diversified across each of these baskets will most likely behave more reliably and predictably over time without taking excessive risk.

Characteristics of Safety

The bond side is intended to be the safety net of the portfolio – dampening the volatility of stocks – while holding up in many interest rate scenarios. So we spend most of our focus on characteristics that reinforce the safety of the bond portfolio: 1. Distribution of bond maturities, 2. Credit quality, and 3. Bond sector. To that end, we believe that

a diversified bond ladder of high-credit quality municipal or taxable bonds (depending on your marginal tax bracket) with an average maturity of 5-7 years has the most appropriate risk-return tradeoff.

Characteristics of Growth

The stock side is there for long-term growth, but that comes with volatility, most of which is driven by just five characteristics. At any given time, one of these could drive most of the risk and return of the stock market, which is why we set up our stock portfolio to have exposure to all five: 1. Geography, 2. Company size, 3. Style (momentum, growth, value, etc.), 4. Investment process (passive, factor-based, active) and 5. Economic sector. In recent times, large, US, momentum-style tech companies have been the winners, but this will not be the case forever. We always strive to maintain a portfolio that can benefit when the tide shifts to another major trend.

The Most Crucial Portfolio Trait

The portfolio characteristic on which we focus the most is Asset Allocation – the mix between stocks and bonds. When the market goes through significant volatility, as in 2020, asset allocation drives more of the risk and return than all other characteristics combined. Whether a bond has 3 years or 10 years to maturity certainly matters, as does the economic

sector or geography of a stock. But ultimately, I believe the asset allocation of a portfolio is the most impactful, hence the constant attention we give to it.

The market will continue to have its ups and downs. The last thing we want is a portfolio that radically changes with each and every swing of the market. Instead, investments should be positioned for the long run and be well diversified across the major portfolio characteristics. Most crucially, the asset allocation should fit your personality and risk tolerance. That is how your investments can hopefully avoid the unfortunate fate of Phineas Gage.

All the best,
Davis

Happy birthday to those celebrating special birthdays!

90 J.E. of Madison, MS
90 M.G. of Brandon, MS
90 A.L. of Jackson, MS
90 J.P. of Philadelphia, MS
85 J.E. of Terry, MS
85 R.G. of Goleta, CA
85 J.K. of Brandon, MS
85 C.W. of Carthage, MS
85 A.V. of Jackson, MS
85 J.B. of Port Gibson, MS

Happy Anniversary to those celebrating their 50th, 60th, and higher wedding anniversaries!

50th D. and T.W. of Braxton, MS
50th M. and S.H. of Jackson, MS
67th B. and D. B. of Palm Harbor, FL
68th J. and J.E. of Terry, MS
70th L. and E.H. of Hoover, AL

This and That

Congratulations to Davis!

We are excited to announce that Davis is engaged to be married to Olivia Rule. Olivia is from Jackson, MS and is graduating from Millsaps College in May. The couple will wed this July at First Baptist Church of Jackson. Best wishes to Davis and Olivia!



Raymond James Tax Documents

Raymond James Retail Composite Forms 1099 will be mailed in three main groups – the first mailed by February 15th, the second mailed by February 28th, and the third mailed by March 15th - depending on when we receive the information from securities issuers to finalize the Form. Forms for retirement (Forms 1099-R and 5498, if applicable) and education savings accounts (Form 1099-Q) will be mailed by January 31st.

CFA Forecast Dinner Canceled

Regrettably, the Chartered Financial Analyst Society of Mississippi made the difficult decision to cancel this year's Forecast Dinner. The CFA Society strives to hold a quality event where everyone feels comfortable, which unfortunately, is not currently possible. However, we look forward to seeing you at the CFA Forecast Dinner in 2022!

As we begin 2021...

On behalf of my team, I wish you and your families a year of optimism: optimism that we the people treat each other with respect, that we soon no longer add names to the Covid lists of ill and deceased, that we joyfully reclaim our routines, and optimism that we once again see each other not on computer screens, but in person, unmasked and unafraid.

A Wishful New Year to You.

Until next time,

Arty Finkelberg, CFA, CFP®
Senior Vice President, Investments

