



HYAS GROUP

— INVESTMENT ADVISORS —

INVESTMENT FUNDAMENTALS FOR FIDUCIARIES

City of Santa Clara

May 2021

AGENDA

- › Economic Indicators
- › Bond Market
- › Stock Market
- › Active vs. Passive
- › Asset Allocation Funds

This presentation is provided by the Hyas Group, LLC and should not be construed as legal advice or legal opinion on any specific facts or circumstances. The contents are intended for general information purposes only, and you are urged to consult a lawyer concerning your own situation and any specific legal questions you may have. ©2021 Hyas Group, LLC. All Rights Reserved.

ECONOMIC INDICATORS

Gross Domestic Product (GDP):

- › The monetary value of all finished goods and services produced within a country's borders in a specific time period (though usually calculated on an annual basis, it is also calculated on a quarterly basis)
- › Computed generally by adding consumption, investment, spending and exports
- › A healthy economy is when GDP is typically 2-3%
- › Historical GDP:
 - › 2019 was 2.3% annually
 - › 2020 was Q1 -5.0%, Q2 -31.4%, Q3 33.4%, and Q4 4.3%
 - › Q1 2021 was 6.4%
 - › 2009 was -2.8% annually
 - › 1941, 1942 and 1943 saw increases of 17% or more annually
 - › 1932 saw a drop of nearly 13% annually

ECONOMIC INDICATORS

Unemployment Rate:

- › The measure of unemployed people
- › Expressed as a percentage
- › Calculated by dividing the number of unemployed by all in the work force
- › The natural rate is a combination of frictional, structural, and surplus unemployment
- › A healthy unemployment rate is also called full employment
 - › Typically measured as between 4.5% and 6.0%
- › Historical unemployment:
 - › 2019 averaged 3.7%
 - › 2020 averaged 8.1% (January and February hit 3.5% while April 2020 hit 14.8%)
 - › March 2021 saw a national average of 6.0%
 - › 2009 averaged 10.0% and 1982 averaged 10.8%
 - › 1953 averaged 2.6%

ECONOMIC INDICATORS

Consumer Price Index (CPI):

- › The measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services
- › Generally mistakenly called inflation since can also be deflationary
- › Also expressed as a percentage
- › Core CPI excludes food and energy
- › Historical CPI:
 - › Averaged 3.2% annually in the post-war period
 - › Shot to 7.7% in 1973
 - › In 1975, hit 9.1% (the highest rate since 1947)
 - › 1979 reached 11.3%
 - › 1980 topped at 13.5%

BOND MARKET

Fixed Income Securities are More Conservative than Stocks:

- › Return potential is lower but so is volatility
- › As interest rates rise, the value of existing bonds decrease
- › The federal funds rate was approximately 11% in 1979 and 20% in 1981
- › Companies and governments issue debt
 - › Promise to repay loan at a later date
 - › Typically comes with a coupon or interest
- › Investment grade and speculative grade
 - › The higher the risk, the higher the interest to compensate investors
 - › Less than investment grade is called junk

STOCK MARKET

Market capitalization (or cap) simply means a company's value:

- › Take the total number of shares outstanding and multiply that by the share price:

Apple 16.8 billion x \$125.90 = \$2.1 trillion

- › Large Cap is generally a valuation of \$10 billion or more
- › Mid Cap is a valuation between \$2 billion and \$10 billion
- › Small Cap is a valuation under \$2 billion

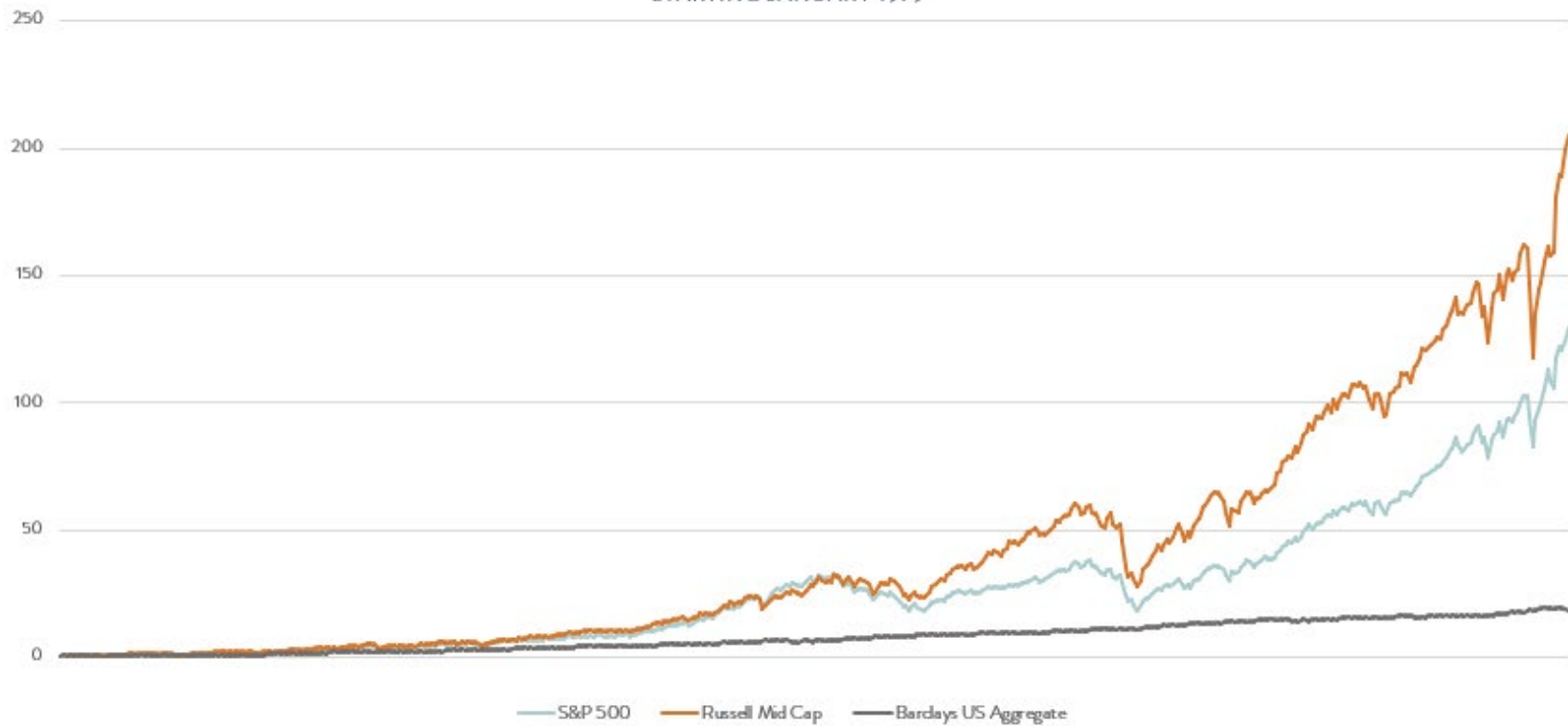
INTERNATIONAL STOCKS

- › Developed Markets (EAFE)
 - › Advanced in terms of economy and/or capital markets
 - › Relatively high income
 - › More formal regulatory bodies
 - › Liquid investment markets with free and well-developed foreign exchange markets
 - › Open to foreign ownership and ease of capital movement
 - › Efficient market institutions

- › Developing Markets (EM)
 - › Fast growing economy and becoming more industrialized
 - › Lower incomes and higher sociopolitical instability
 - › Lower levels of business activity
 - › Dependent upon manufacturing (exports) and commodities

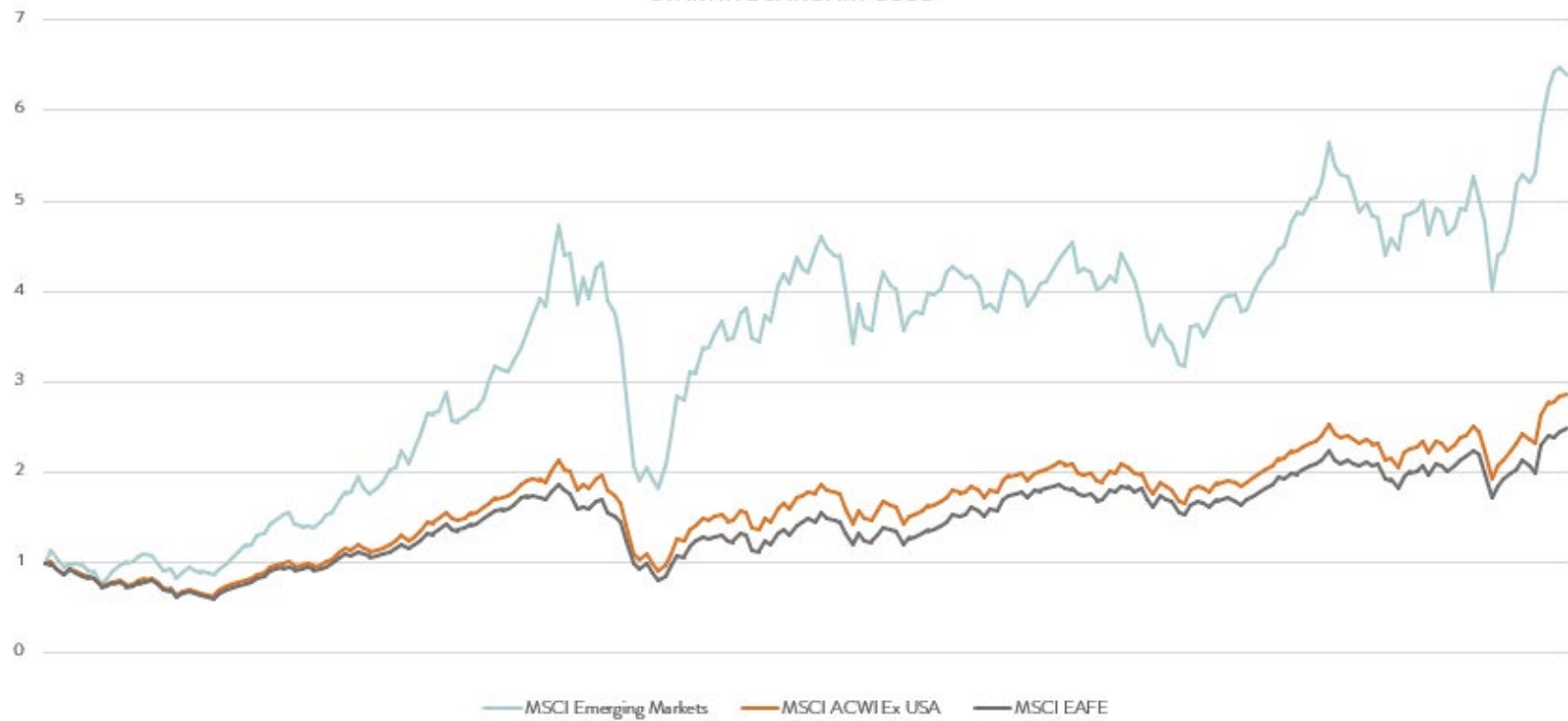
DOMESTIC GROWTH OF \$1

STARTING JANUARY 1979



INTERNATIONAL GROWTH OF \$1

STARTING JANUARY 2000



DEVELOPED

- > Australia
- > Austria
- > Belgium
- > Canada
- > Denmark
- > Finland
- > France
- > Germany
- > Hong Kong
- > Ireland
- > Israel
- > Italy
- > Japan
- > Netherlands
- > New Zealand
- > Norway
- > Portugal
- > Singapore
- > Spain
- > Sweden
- > Switzerland
- > United Kingdom

DEVELOPING

- > Argentina
- > Brazil
- > Chile
- > China
- > Colombia
- > Czech Republic
- > Egypt
- > Greece
- > Hungary
- > India
- > Indonesia
- > Korea
- > Malaysia
- > Mexico
- > Pakistan
- > Peru
- > Philippines
- > Poland
- > Qatar
- > Russia
- > South Africa
- > Taiwan
- > Thailand
- > Turkey
- > United Arab Emirates

ACTIVE VS. PASSIVE

- › Active Investing
 - › Employs a manager, co-managers or a team of subadvisors
 - › Actively seek out securities and/or sectors that will outperform
 - › Portfolio may be very different than their index
 - › Generally more expensive than index funds
 - › Although good managers can outperform an index over the longer term, they may underperform over short periods
- › Passive Investing
 - › Generally employed by index funds
 - › Designed to track an underlying index at a low cost
 - › Achieve this by buying the same securities in the same proportion
 - › Fundamental indexing or market cap weighting

ASSET ALLOCATION FUNDS

- › Risk-based Models
 - › Conservative funds use mostly bonds and cash
 - › Aggressive funds own a lot more stocks
 - › Also known as static
 - › Participants must make an active choice to move from one asset allocation to another

- › Target Date Portfolios
 - › Generally choose the year (“vintage”) that closely matches your retirement year
 - › Shorter-term vintages own a lot more bonds and cash
 - › Also known as dynamic
 - › Each year, the vintages automatically and gradually get more conservative as the target year approaches

A large, dark blue geometric shape, resembling a stylized triangle or a corner piece, is positioned on the left side of the slide, extending from the top-left corner towards the center.

THANK YOU

Vincent Galindo | *Senior Consultant*

vgalindo@hyasgroup.com

971.634.1511