BALENTINE'S

Cardinal Rules of Investing

15 Timeless Rules on Investment Philosophy, Strategy & Implementation

BALENTINE

These rules are drawn from our decades of experience in navigating market cycles and helping clients grow their wealth, manage risk, and define their personal legacies. They were inspired by renowned business leader and our longtime friend, Charles “Red” Scott (1928–2013), who was a highly successful serial entrepreneur and recipient of numerous awards including the Horatio Alger Award.

You’ll see we’ve also included some of our favorite reading material as well as several helpful resources.

All Helpful Resources available at www.balentine.com

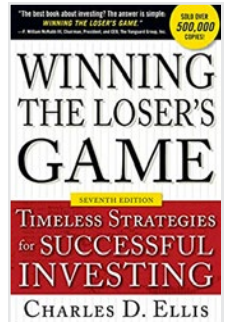
PHILOSOPHY

Manage for risk, not return

The goal of investing is to power your financial plan and, therefore, to aim for a return with the greatest amount of certainty and the least amount of risk. It's about seeking to narrow the range of potential outcomes. We believe avoiding the downside rather than "beating" the market every step of the way is key to allowing your wealth to compound over time. Benchmarking relative to a stock market only is an example of a common trap. Defining success by such a one-dimensional benchmark invites an emotional response and inadvertently drives investors to manage to return rather than to risk. Understand the difference between your emotional willingness to take risks and your portfolio's actual capacity to incur that risk. We believe investing becomes speculating when you take any more risk than necessary to meet your financial goals.

Helpful resource: *"Revisiting the Winner's Game" by Adrian Cronje published in the CFA Institute Conference Proceedings Quarterly, 2013*

Recommended reading:

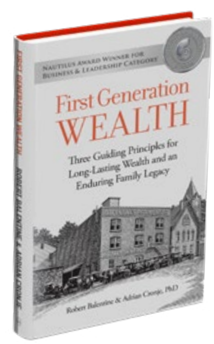


Your greatest assets have nothing to do with money

Don't take your eyes off the big picture. Step back. Devote time to thinking broadly about your investments and how they connect to your life strategy and your legacy. Investments without the right context are accidents waiting to happen. Investors who take the time to do this with their advisors give themselves the headspace to have truly meaningful breakthroughs about the successful intergenerational transfer of wealth.

Helpful resource: *"Shirtsleeves to Shirtsleeves"* by Robert Balentine

Recommended reading:

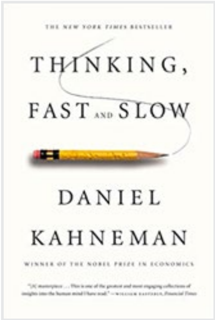


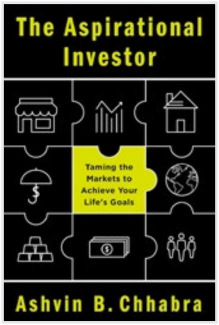
Stay in control of your emotions

Effective investing demands realism. Humans are driven by emotions such as fear and greed. The basic human impulses of greed and fear will always create market volatility. Do whatever it takes to leave those emotions at the door when it comes to financial decisions. Focus on working with your advisors to protect yourself from these natural human instincts, and have a disciplined approach that enables you to use volatility to your advantage when appropriate. Remember Warren Buffett's counsel that the time to be greedy is when others are fearful and the time to be fearful is when others are greedy.

Helpful resource: *"Managing Your Business is Different from Managing Your Wealth"* by Adrian Cronje

Recommended reading:



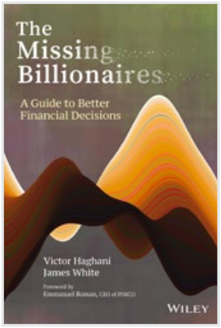


Focus on what you can control

You certainly can't control the markets, so stay focused on what you can control: elements such as liquidity, risk, active rebalancing, fees, and taxes. And if you find yourself getting too hung up and stressed out on news of the markets, wondering if you should move this way or that, force yourself to tune it out.

Helpful resource: *"Confessions of a former TV producer: Why it may not pay to watch the news"* by Bradley Martin

Recommended reading:



Know when to fire yourself

Know when to seek counsel, and know when to step back and delegate. The qualities that make you successful in some areas may create "blind spots" when it comes to managing your money. You can still set the guardrails, but know when to let experts manage things for you. That way you know how to hold them accountable for your progress to plan.

Helpful resource: *"It's Test Time for DIY Investors"* by Bradley Martin

STRATEGY

Know what you own and why you own it

Every investment in your portfolio should ladder up cohesively to your broader strategy. You should know what you own, why you own it, be able to explain it briefly, and know what it's costing you.

Helpful resource: *"Balentine's Wealth and Legacy Guide"* by Robert Balentine and Brittain Prigge

Make sure someone knows your big picture

Regardless of how many advisors or assets you have, take the prudent step of finding a single trustworthy advisor who has a global view of your finances. We believe this could help ensure your advisors are synchronized and complementary rather than counterproductive to one another. Some are reluctant to do this, afraid of the increase in fees and complexity involved. But it's the only way to look at everything in totality and to uncover hidden vulnerabilities, such as overexposure to a sector or stock. It may also be the key to revealing subtle opportunities, such as greater borrowing capacity you may not realize you have.

Helpful resource: *"How To Select a Financial Advisor"* by Adrian Cronje

Diversify forward, not backward

The investment industry tends to give advice by extrapolating historical data on asset class returns. But much of the time, and particularly in extreme circumstances, this backward-looking approach masks that stock markets can go decades without generating a positive rate of return. By recognizing that the starting point matters and basing allocation decisions on future expectations, you can design a strategy of taking chips off the table to build up wealth outside your business. It is very difficult to replicate the cash flow and returns you generated inside your business from investing in capital markets from today's starting point. If markets cannot be timed (see below), a plan for diversifying your wealth can. You create wealth by concentrating risk in your business, but you preserve wealth by diversifying intelligently.

Helpful resource: *"Annual Capital Markets Forecast"* by Balentine's Investment Strategy Team

Capital markets lead the economy, not the other way around

There's a reason traditional forecasting is lousy at predicting downturns. Making investment decisions based on economic data is like driving a car using the rearview mirror, because they are backward looking and subject to revision. Become a student of the capital markets and the messages that the stock, bond, credit, and commodity markets send in tandem with each other. These are more reliable in understanding the environment over the next year or two.

Helpful resource: *"Are Recession Red Lights Flashing"* by Adrian Cronje
(Recognized as a top new Vistage speaker in 2019 for this presentation—request to schedule here.)

Don't waste time timing the markets

Trying to time markets subjectively is a perpetual fool's errand. Often even the most sophisticated investors make the mistake of trying to wait until the "perfect" moment to enter or exit. In doing so, you may often miss a greater opportunity. We believe constantly reacting to the market will rarely yield the desired outcomes. Make a plan to rebalance your strategy in a dynamic, disciplined, and proactive way. Asset allocation should not be a "set it and forget it" exercise.

Helpful resource: *"The Time is Right For Global Tactical Asset Allocation"* by Adrian Cronje

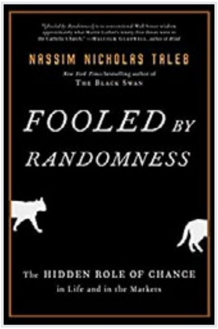
IMPLEMENTATION

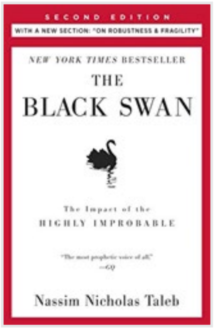
The case for cash is timeless

Cash and fixed-income assets are not meant to enhance returns; they serve as a ballast and enable resiliency. We recommend that you have two years of cash and cash equivalents at the ready. Fixed-income investing is and should be boring. We believe this is the first and most important line of defense against low-probability but high-impact shocks and “black swan” events. A cash and solid fixed-income buffer helps build resiliency into your plan by buying you critical time when the unexpected hits, and it may guard you from the real risk of capitulation: panic selling at artificially depressed prices, which permanently impairs your capital.

Helpful resources: *“The Case for Cash”* by David Damiani, published in the CFA Institute Magazine in 2012

Recommended reading:

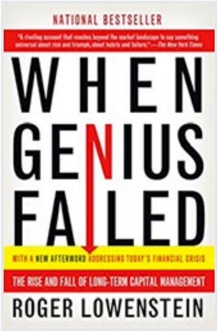




Leverage is a double-edged sword

Business owners know how to use debt strategically, as part of an overall capital structure to drive growth. But using leverage in the stock and bond markets when you don’t control the outcome—i.e., borrowing to boost returns—can quickly turn devastating.

Recommended reading:

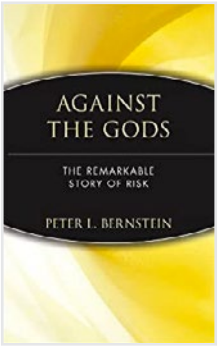


Be careful dabbling in private markets

The private markets offer compelling opportunities, but they're particularly fraught with unique risks. They are very long-term commitments requiring the capacity to follow through with several rounds of funding. When sized incorrectly, they can undermine the investment strategy powering your financial plan. Know when to say "no" to friends and family who approach you about investing in various "hot deals." When in doubt, always consult your advisor. And whatever you do, don't hide private investments from your advisors. They need to know your full picture in order to give you the best possible advice.

Helpful resource: *"Road to Recovery Part One: Private Markets,"* featuring Balentine's Mark Bell, Ph.D., Tom Greer of Fulcrum Equity, Gardiner Garrard of TTV Capital, and Alan Taetle, from Noro-Moseley Partners.

Recommended reading:



Don't mistake products for advice

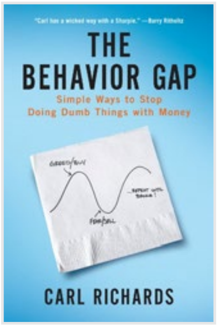
Wall Street is a financial product-generating machine, which frequently uses complexity and apparent sophistication to justify often-egregious fees. Listen to such pitches with a discerning ear. Don't mistake a product or a tactic with a big-picture solution or objective, expert advice.

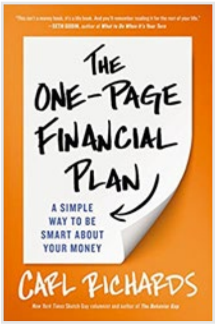
Helpful resource: *"Buy Thought Partnership Not Investment Products"* by Bradley Martin

Reject jargon; demand straight talk

The investment management industry is notorious for hiding behind jargon and technical terminology. Catch phrases like "beta," "standard deviation," and "growth models" can all sound dazzling. But those with true command of a complex subject should be able to speak of it in elegantly simple terms. Investments should be thoughtful and intentional, not overly complicated. Challenge yourself and your advisors to talk about your investments in the plainest possible terms. Do not do things you don't understand—invest within your circle of competence.

Recommended reading:





Putting these rules to work for you

We hope these rules resonate with you or perhaps spark curiosity. Do they touch on issues you grapple with as you think about your wealth? Do they prompt new questions? We welcome an opportunity to discuss your unique situation and how they might be applied on your behalf.

Please contact us when you are ready to have a conversation.
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