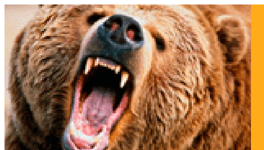
Investors are in the middle of a brief diversion from the Russian invasion and market volatility. Starting last Thursday, March 17th, investors? debates turned from stocks, oil prices, bond yields, and gold to March Madness predictions. Particularly, bragging about how well their predictions for the 67 March Madness basketball games will hold up. For the next couple of weeks, discussions about how far Saint Peters can advance or is this finally Gonzaga?s year will take precedence over guessing about what the Fed might do next.

For college basketball fans, this is March Madness. The widespread popularity of the NCAA March Madness tournament is not just about the games, the schools, and the players. It's all about March Madness predictions and brackets. Brackets refer to the pools that many people participate in. Guess the most games correctly in your pool, and you earn bragging rights. You may also win your friends? or colleagues? cash.

Believe it or not, filling out brackets provides insight into how investors select assets, structure portfolios, and react during volatile market periods. Before we explain, answer the following question:

When filling out a March Madness bracket, do you:

- **A)** Start by predicting the expected national champion and then work backward and fill out the individual games and rounds to meet that expectation?
- **B)** Analyze each opening-round matchup, picking winners, and then repeat the process with your expected future round matchups until you arrive at your prediction of who the champion will be?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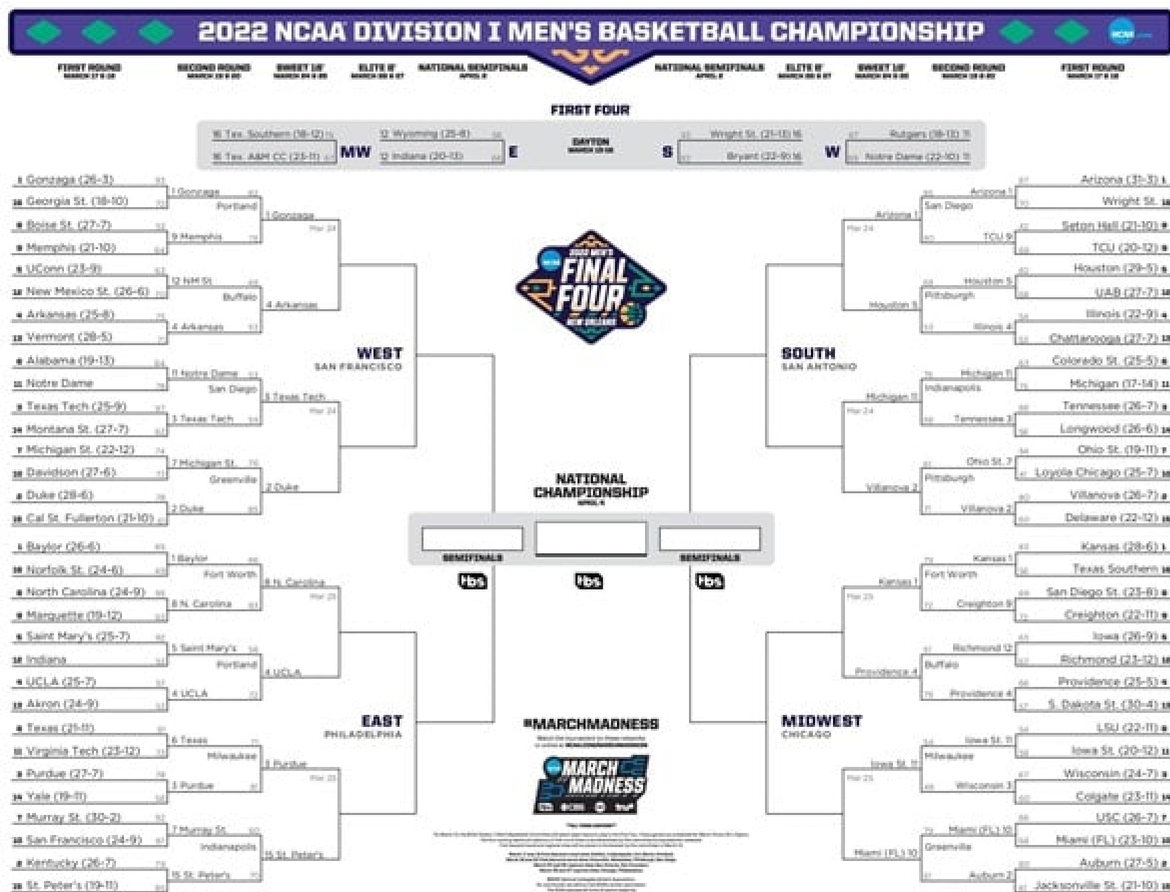
How Do You Pick The Winner?

If you chose answer A, you fill out your pool based on a fixed notion for which team is the best. You disregard the potential path, no matter how hard, that the team must take to become the champion.

If you picked B, you compare each potential matchup, analyze each team?s respective records, schedule strengths, demonstrated strengths and weaknesses, record against common opponents, and even how travel and geography might affect performance. We exaggerated the amount of research you conduct, but such a game-by-game evaluation picks a winner based on a team's path to become the champion.



Outcome-Based Strategies

Outcome-based investment strategies start with an expected long-term return. Often expected returns are based on recent trends or historical averages. **Investors following this strategy presume that such trends or averages, be they economic, earnings, prices, or other factors, will occur as they have in the past.**

For instance, Wall Street ?gurus? often preach that stocks return 7% historically. Therefore, they say a well-diversified portfolio should expect the same 7% return this year, next year, and onward. Rarely do corporate and economic fundamentals or valuations factor into said forecasts.

Buy and hold and other passive strategies are primarily agnostic to valuation. They rely on the past repeating. These are outcome-based strategies.

The strategies can appear full proof for years on end, as we have seen for the better part of the last decade. However, as seen in 2000 and 2008, dramatic losses occur when these strategies are followed blindly without considering a portfolio?s risk/return profile. Outcome-based methods break a cardinal rule of building wealth; they fail to avoid as much downside as possible in bear markets.

?*The past is no guarantee of future results*? is a typical investment disclaimer. However, it is this same outcome-based methodology and logic that many investors rely upon to allocate their assets.

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Process-Based Strategies

Process-based investment strategies establish expectations for the factors that drive asset prices and returns in the future. Such analysis can include economic forecasts, technical analysis, and a bottom-up assessment of an asset?s ability to generate cash flow.

Importantly, they continually monitor those factors driving asset prices and change their views accordingly. Unlike an NCAA bracket, they can make changes as teams advance.

Process-based investors do not just assume that yesterday?s winners will be tomorrow?s winners, nor do they diversify just for the sake of diversification. These investors have a method that helps them forecast assets based on risk and reward prospects. They deploy capital opportunistically, not just based on a calendar.

At times, well-managed process-based strategies hold excess cash. Cash may impede results in bull markets, but the cash is a godsend when stocks prices are trading at substantial discounts.

These managers are not compelled to buy an asset because of its historical return.

What Are We?

At RIA Advisors, we follow a process. We use technical and fundamental analysis, along with a strong assessment of macroeconomic factors to develop an investing framework and investment guidelines. This process allows us to:

- Properly choose assets for the short term and the longer-term (trading vs. investing).
- Determine the proper allocations to various asset classes and sub-asset classes.
- Consider cash as an asset despite current interest rates. Cash doesn?t lose value. Equally important, cash is precious when stocks are trading at deep discounts.
- Measure and monitor risk. This helps limit downside risk by forcing us to exit positions when we are wrong. When we are right, it can result in profit-taking to rebalance allocations.

Investing can be easy at times, as it was in 2021. It can also be challenging, as we are currently witnessing. Having a process and adhering to it does not eliminate risk, but it helps manage risks and limit mistakes. It also helps us and our clients sleep at night. Maybe most importantly, and on display in recent weeks, it keeps our emotions and behavioral flaws at arm's length and away from the buy and sell buttons.

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A or B?

Most March Madness pool participants fill out tournament brackets, starting with the opening round games and progressing towards predicting the championship match. Sure, they have biases and opinions that favor teams throughout the bracket, but they consider each potential matchup and the path to winning. **So, why do many investors use a less rigorous process in investing than they do in filling out their NCAA tournament brackets?**

Starting at the final game and selecting a national champion is like identifying a return goal of 10%, for example, and buying assets that are forecast to achieve that return. How that goal is achieved is subordinated to the pleasant but speculative idea that one will achieve it. **In such an outcome-based approach, decision-making is predicated on an expected result.**

Considering each matchup in the NCAA tournament to ultimately determine the winner applies a process-oriented approach. Each of the 67 selections is based on evaluating the comparative strengths and weaknesses of teams. **The expected outcome results from analyzing the many factors required to achieve the outcome.**

Summary

Having the most correct predictions in your March Madness pool has benefits, while the costs are minimal. Managing wealth provides great rewards but is fraught with severe risks at times. Accordingly, wealth management deserves considerably more thoughtfulness than filling out a bracket.

Over the long run, those who follow a well-thought-out, time-tested, process-oriented approach will raise the odds of success in compounding wealth by limiting damaging losses during significant market setbacks and being afforded generational opportunities when others are fearfully selling.