



How to Weather a Bear Market

UNDERSTANDING THE EMOTIONS
OF INVESTING

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Offered by
Mid Oregon Wealth Management
Retirement and Investment
Planning
located at
Mid Oregon Credit Union

| **CUNA MUTUAL GROUP**

Important Notice

This workshop is educational only and is not investment advice. If you need advice regarding your financial goals and investment needs, contact a financial advisor.

Annuities are long-term insurance products designed for retirement purposes. Many registered annuities offer four main features: (1) a selection of investment options, (2) tax-deferred earnings accumulation, (3) guaranteed lifetime payout options, and (4) death benefit options. Before investing, you should consider the annuity's investment objectives, risks, charges and expenses. The prospectus contains this and other information. You can obtain a prospectus from your financial advisor or insurance company. Please read it carefully.

All guarantees are backed by the claims-paying ability of the issuer and do not extend to the performance of the underlying accounts which can fluctuate with changes in market conditions.

Annuity contract values, death benefits and other values fluctuate based on the performance of the investment options and may be worth more or less than your total purchase payment when surrendered. Withdrawals may be subject to surrender charges and may also be subject to a market value adjustment (MVA). Withdrawals of taxable amounts are subject to ordinary income tax, and if taken before age 59½ may be subject to a 10% federal tax penalty. If you are considering purchasing an annuity as an IRA or other tax-qualified plan, you should consider benefits other than tax deferral since those plans already provide tax-deferred status. The company does not provide tax or legal advice. Contact a licensed professional. Financial advisors are not tax advisors nor attorneys. For information regarding your specific tax situation, please consult a tax professional. For legal questions consult your attorney.

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Workshop Objectives

1 Understanding
Behavioral Finance

2 Investments That Can Help
Us Weather a Bear Market

2 The 3 Keys to Help
Weather a Bear Market

What is a Bear Market?

A decline in value in a market index for at least two months¹

For investors, this can be a **highly emotional** event which often drives us to make bad decisions that undermine our long-term goals

Historical context:

When was the last bear market?

How many bear markets have there been in the last century?

How often do bear markets occur?



	Price	2017	2018	1440	1000
RICE	120	1200	1220	850	1000
PORK	100	650	750	700	1000
CORN	85	850	300	2500	900
PEANUT	150	2000	750	900	770
CHICKEN	100	600	840	770	
COCONUT	150	700			
MANGO	70				

1

What Is Behavioral Finance?



Modern Portfolio Theory

Harry Markowitz

What's needed to achieve and maintain a diversified portfolio that balances risk and reward?

- Time
- Diversified Investment Strategy
- Rebalance
- Dollar Cost Averaging
- Rational Investor



The World Before Behavioral Finance

Assumptions

People gather all relevant information and make rational decisions based on that information

Decisions are based upon three things:



Data



Analysis



Self interest

Behavioral Finance

2002 Nobel Prize in Economics Daniel Kahneman

Also awarded a **U.S. Presidential Medal of Freedom**

Not an economist — rather, applied concepts of cognitive psychology to economics

Looks at financial decisions from a **psychological** perspective

Behavioral Finance

People are not always capable of making **rational decisions**

People make **shortcuts** that depart from the basic principles of probability

Psychological **motives and biases** impact people's behaviors

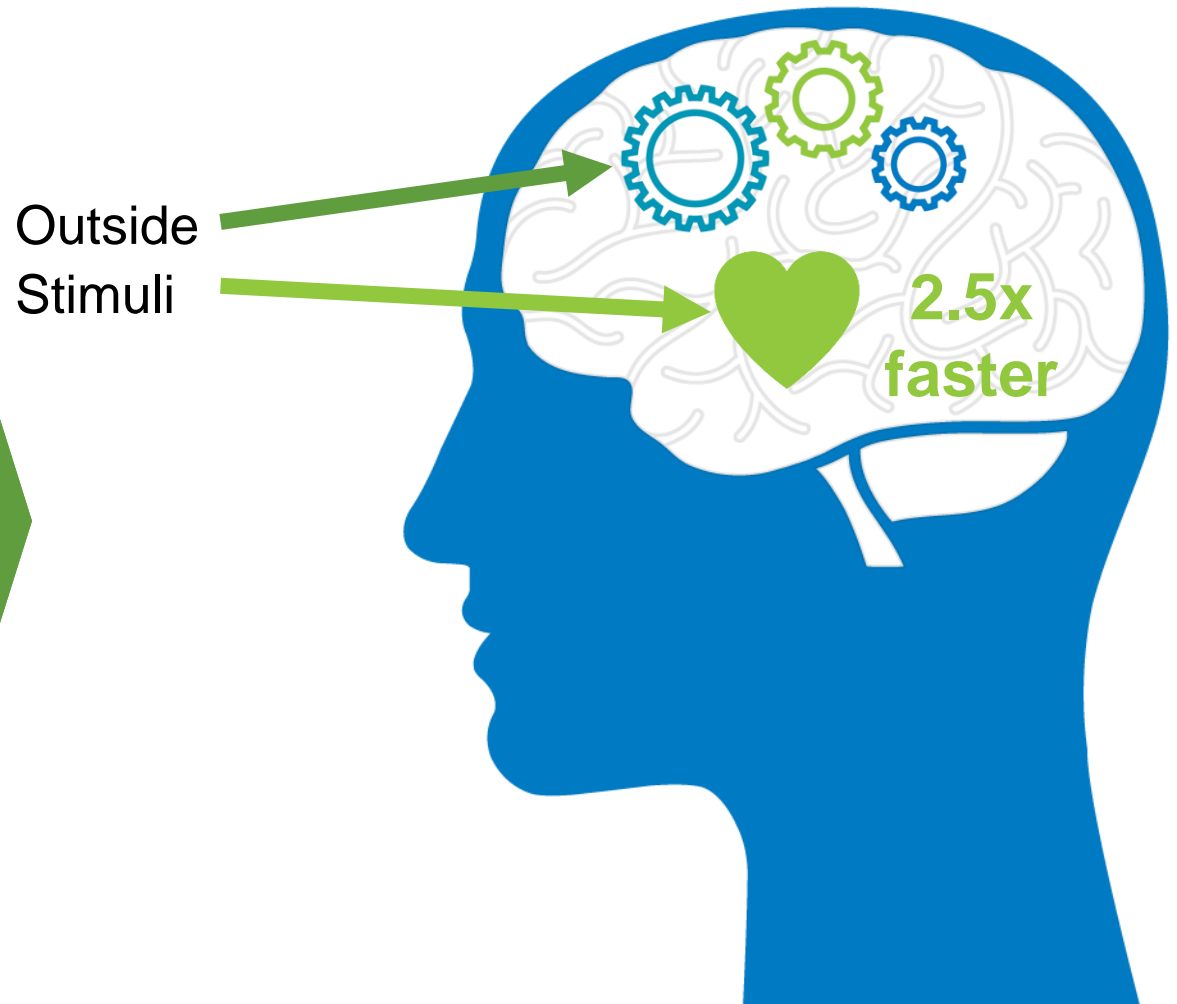
Emotions play a significant role in financial decisions

Investing isn't about competing with others; it's about **controlling your emotions**



Behavioral Finance

How our brain processes outside stimuli



Behavioral Finance

The 4 Rs

Recognize – This is the freeze game

Reflect – Big picture, long-term, your values

Reframe – Possible biases, avoid reflexive responses, options

Respond – Logic can't get in until our emotions get out

Behavioral Finance CHALLENGES



Overconfidence



Blind Love



Selective
Memory



Extreme
Thinking



Loss
Aversion



Short-Term
Bias



Herding

Overconfidence

Overestimate our skill levels

Attribute success to ability
we don't possess

See order in data where it
doesn't exist

Don't account for the significant
role of good timing



Blind Love

After making an investment decision, **we fall in love** with the investment

Become **emotionally attached** to our investments

Stay committed to our investment decisions even when confronted with overwhelming evidence to the contrary

Rationalize losses

Distort contrary information so that it supports our decision

Hang on too long before selling

Buy more to validate our earlier investment decision





Selective Memory

Remember and retell our investment successes and forget our failures

Advertise our successes

Bury our failures

Extreme Thinking

Tend to **think in extremes**

Likely news is **considered certain**

Unlikely news is **considered impossible**

Everything is painted in **black and white**





Loss Aversion

Feel the loss of a dollar to **a far greater extent** than we enjoy gaining a dollar

A loss creates a **more emotional response** than a gain

We will do more to **avoid a loss** than to pursue a gain

Short-Term Bias

Recent history has a **disproportionate impact** on future expectations

All things being equal, **recent memories are given more weight** than distant memories

Recent market gains **lead to excitement and higher expectations**

Recent market losses **lead to suspicion and caution**





Herding

Follow the crowd

Significantly influenced by friends, neighbors and fellow investors

Act on hearsay and rumors without substantiation

Fail to **check out the facts**

Heavily influenced by the media

Bear Markets



Behavioral Finance

Bad Decisions

The Role of the Media in Bear Markets

Neuroeconomics

Headlines:

“Economist fears nasty recession.”

“Brace for bad earnings.”

Investment Statements:

“Balances are down.”

Cocktail Chatter:

“I’m staying out of the market.”



Emotional Rollercoaster

Behavioral Finance
Unchecked



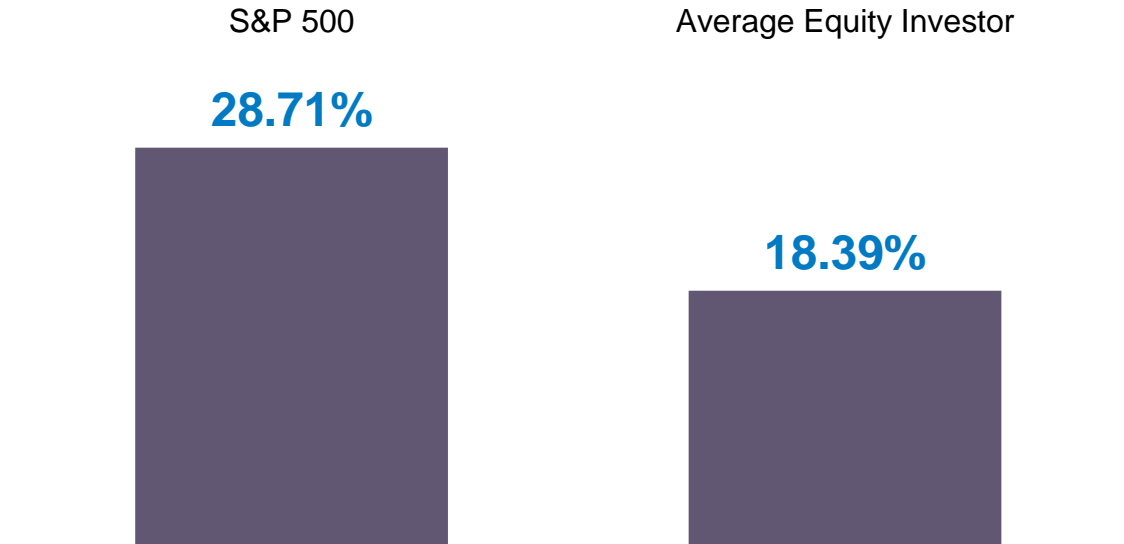
Investment Returns

vs.

Investor Returns

Average Annual Returns of S&P 500 vs. Equity Investors

2021



Past performance does not guarantee future results.

SOURCE | DALBAR Qualitative Analysis of Investor Behavior, 2022 QAIB Report, 2022

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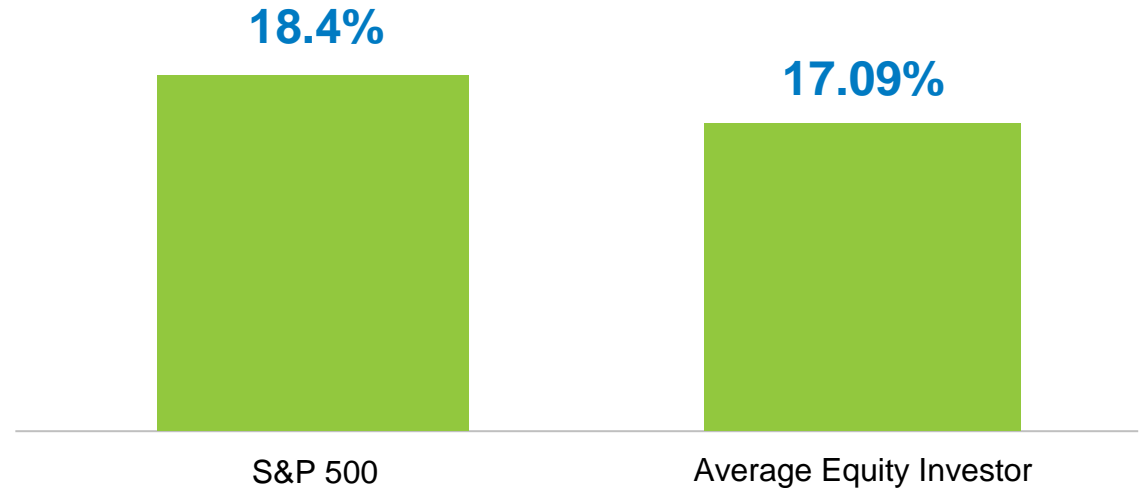
Investment Returns

vs.

Investor Returns

Average Annual Returns of S&P 500 vs. Equity Investors

2020



Past performance does not guarantee future results.

SOURCE | DALBAR Qualitative Analysis of Investor Behavior, 2021 QAIB Report, 2021.

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Emotional Rollercoaster

Behavioral Finance
Balanced by Education



Cow Behavior

Cows react to bear markets this way:

1. Confirmation Bias

2. Overreact

- Running With the Storm
- Market Timing
- Focusing on Account Balances Versus Retirement Plans

3. Make bad decisions



Buffalo Behavior

Buffalo react to bear markets this way:

1. Sit with Your Advisor

2. Don't Let Their Emotions Lead Their Decision-making

3. React

- Charge Into The Storm
- Spend Less Time In the Storm

4. Focus on Their Retirement Plans Versus Account Values



Review Goals & Facts

What are my long-term goals?

How has my portfolio performed over the long-term?

In light of current markets, does my current strategy still make sense?

What, if any, changes should I make?



Leverage Proven Strategies & New Products

Proven Strategies

- Conduct a complete asset allocation review
- Write your own “My Bear Market Plan”

New Products

- Look at options to guarantee income
- Consider the new ways to control risk while still benefitting from market growth potential



Types of Annuities

1. Immediate Annuities
2. Deferred Annuities
3. Fixed Annuities
4. Fixed Index Annuities
5. Risk Control Annuities





Often purchased with a single lump sum payment

Regular lifetime income payments typically
begin one month after purchase

You decide on the strength of the guarantee

2 Deferred Income Annuities



Like immediate annuities, but you defer the start of your income

You choose how long to wait before income begins –
can coordinate with a future retirement date

The longer you defer, the higher your
income will be once you do begin

3 Fixed Annuities



Provide guaranteed rate of return

Give you confidence of knowing what to expect

Can be converted to guaranteed lifetime income when time is right

Partial Liquidity

SAVINGS ACCOUNT



FIXED ANNUITY



10%

Free Withdrawals



Withdrawals

> 10%

are assessed
surrender charges*

* Some annuities allow withdrawals without charges for certain hardships like nursing home confinement or terminal illness diagnosis.

No Up-Front Fees



Fixed annuities typically do not charge any up-front fees or loads.

When you invest, all your money goes to work for you immediately.



Let you link earnings to a market index for more growth potential

Protect your principal from loss, in exchange for cap on earnings

Can be converted to guaranteed lifetime income when time is right

Risk Control Annuities

Sometimes called Structured
or Variable+Index-Linked
Annuities

For investors willing to accept *some* risk, but not *unlimited risk* of loss, they can select a suitable level of potential loss per year in exchange for participating in a greater potential correlated gain.

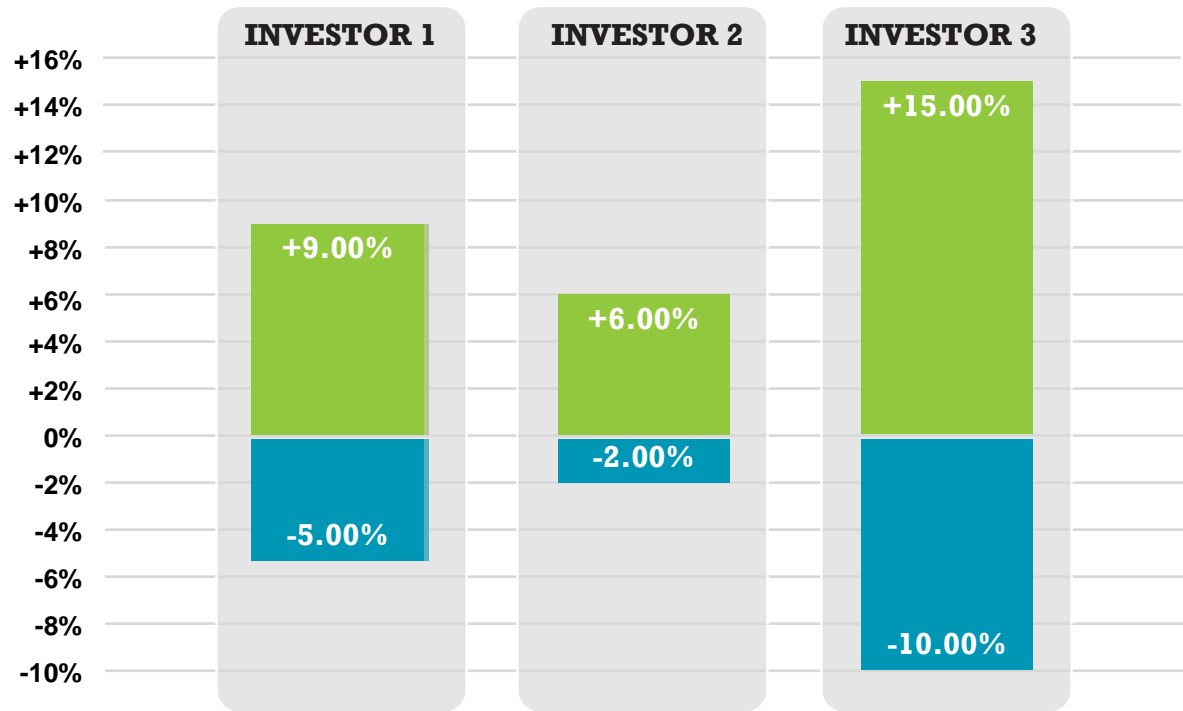
Remember:

In exchange for loss protection, risk control accounts also limit your earnings.

You select a personal comfort zone of risk vs. reward.

Setting a Comfort Zone

The investor chooses the range of risk and reward he or she is comfortable with.



Hypothetical examples do not represent any specific annuity contract and may not be used to project or predict investment results. You may not invest directly in an index.

Withdrawals may be subject to surrender charges and may also be subject to market value adjustment (MVA). The range of fees and charges may include a contract fee, rider fee and surrender charges during the initial allocation option period. Guarantees and product specifics will vary by carrier and may not be honored unless held to maturity. Further information should be referenced in the product prospectus.

3 Keys

to Help You Weather a Bear Market

1

Conduct a complete
asset allocation review



2

Consider investments
that offer growth potential
and downside protection



3

Write your own
“My Bear Market Plan”



KEY #1

Conduct a Complete Asset Allocation Review

1



Bear markets can shift your portfolio **out of balance**

Out-of-balance portfolios can **undermine**
your long-term goals

Don't wait for bear markets to find out where your portfolio's weaknesses are and how much they can hurt your long-term goals

KEY #2

Consider Options to Manage Risk

Your portfolio needs **growth**

Your psyche needs **risk control**

Protect your **current income**

Protect your **future income**

2



*Representatives are not tax advisors. For information on tax consequences, see a licensed tax professional.

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Making Retirement Income Last a Lifetime

A 65-year old retired investor, would like to live on \$50,000 annually and has an \$800,000 retirement portfolio.*

1 Retirement Portfolio \$800,000, no annuity

Social Security Annual Income	\$20,000	Protected Income	Protected Income %	40%
Annual Withdrawals from Portfolio	\$30,000	Income Subject to Market Volatility	Portfolio Withdrawal Rate %	3.75%
Total Annual Income	\$50,000			

What happens when the investor annuitizes ½ of their retirement portfolio?

2 Retirement Portfolio \$400,000, annuity purchase \$400,000

Social Security Annual Income	\$20,000	Protected Income	Protected Income %	80%
Variable Annuity w/ 5% guarantee**	\$20,000	Protected Income		
Annual Withdrawals from Portfolio	\$10,000	Income Subject to Market Volatility	Portfolio Withdrawal Rate %	2.5%
Total Annual Income	\$50,000			

*Hypothetical results are for illustrative purposes only. Does not include any fees that may apply. Assumes no excess withdrawals or withdrawals prior to beginning lifetime withdrawals. The charts are not intended to project or predict the future performance of any specific investment.

**Guaranteed withdrawals may come at an additional cost through a Guaranteed Lifetime Withdrawal Benefit. More information is available in the product prospectus.

KEY #3

Write Your Own “My Bear Market Plan”

Prevent yourself from making **emotional decisions** in a bear market

Make sure you have a **personal plan** that guides your decisions during these highly emotional times

Create a plan that helps you use bear markets to reach your **long-term goals**

Use the “My Bear Market Plan” worksheet to **guide your plan**

3



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Thank You

