REGAL
Total Return

Market Summary

Stocks continued their climb higher in the fourth quarter as the tax bill became reality and as generally upbeat economic data gave the green light to the Fed to raise rates again. The broad-based S&P 500 Index rose over 6% in the quarter and gained nearly 22% for the year.

Our fund posted another positive quarter closing out what was a solid, if not spectacular, year.

A Contrarian Approach

Within our fund we consider ourselves contrarians. While this may lead to underperformance at times, I thought I might share with you reasons for why I feel it is a sound investing approach. Dalbar Incorporated performed a study called “Quantitative Analysis of Investor Behavior”, where they compared the investment returns of mutual funds and individual investors in those funds between 1992 and 2011.

They found that mutual funds grew by an average of 8.2% per year over that period, while individual investors only gained 3.5% per year. (Source: DALBAR (2012). That data from their report and the trend has continued in their later reports as well.

The reason for this huge difference is that investors consistently took money out of funds that have recently underperformed, and put it into funds that have recently performed very well. It’s the exact opposite of contrarian investing- they’re following success that has already occurred rather than identifying success that will likely happen in the future. They’re moving away from underperforming sectors to ones that have already gone up in price, so they’re constantly investing in market tops and removing money from market bottoms. A consistent mistake of that magnitude can potentially be the difference between a comfortable retirement and a sparse one.

And people do the same thing for individual stocks and other funds. They statistically move to cash after their portfolio has lost value in a market crash, which means not only do they lose value in the crash itself, but then also miss out on the recovery.

Contrarian Investing 101

To be contrarian in this context means that when most people are euphoric about stocks, you're becoming cautious for rational, mathematical reasons. And when most people are afraid due to recently losing money in a downturn, you're becoming optimistic because you see how undervalued many businesses are.

Most of history's incredibly successful stock investors, the ones that went on to manage billions of dollars, were value investors, which by extension means they were contrarian. They saw value where others did not, and they avoided expensive companies that everyone else was enamored with.

Warren Buffet is the most well-known on the list, as he has made a six-decade career out of buying boring but highly profitable companies at cheap or reasonable prices. He bought a struggling newspaper company, a chewing gum company, a bunch of banks, and a hundred other companies like that.

While everyone was loading up on overvalued tech stocks in the late 90's, for example, he skipped that and bought 130 million ounces of silver instead, which was at its historical low point. When the financial sector collapsed in 2008, he bailed some of them out, structuring very profitable deals for himself should they recover.

John Templeton started his fortune by buying every stock that was trading for under a dollar in the American markets in 1938 (of which there were only about a hundred), when the world was becoming a very dark place under Hitler and Hirohito. This resulted in him quadrupling his money in a few years.

Seth Klarman generated better than 16% annualized returns for over three decades so far, by analyzing the liquidation value of companies, and buying struggling companies at such low prices that his risk is kept at low levels.

A Conservative Approach?

When people think of contrarian investing, they often think of high risk, high reward strategies, but that's not necessarily the reality.

We've had a strong bull market, many people are excited. Individual investors have smaller cash positions right now than they've had since the market top in 2000. (Source: Data from AAII)

Meanwhile, Bloomberg shows that Warren Buffett has been hoarding cash, going from $37 billion to $100 billion over the last four years. I'll let you be the judge of who's right.

Please note: The views in this material are intended to assist readers in understanding certain investment methodology and do not constitute investment. Please consult your advisor. The views in this material were those of the author as of the date of publication and may not reflect their view on the date this material is first published or any time thereafter.

RISKS:

There can be no guarantee that any strategy (risk management or otherwise) will be successful. All investing involves risk, including potential loss of principal.

Emerging Markets securities tend to be more volatile and less liquid than securities in developed countries. Foreign Securities involve risks related to adverse political and economic developments unique to a country or region, currency fluctuations or controls. The Fund invests in exchange traded funds (ETFs) which are securities of other investment companies. An ETF seeks to track the performance of an index by holding all, or a sampling, of the securities of that index, and may not be able to exactly replicate the performance it seeks to track. Shareholders of the Fund bear their proportionate share of the other investment company fees and expenses as well as their share of the Fund fees and expenses. **Small-cap and Mid-cap** company stocks are considered riskier than large-cap stocks due to greater potential volatility and less liquidity.

An investor should consider the Fund's investment objectives, risks, charges, and expenses carefully before investing. This and other important information about the investment company can be found in the Fund's prospectus. To obtain a prospectus, please contact your financial advisor or please call 844.66.REGAL(73425). Please read the prospectus carefully before investing.

IMST Distributors, LLC, Distributor of the Regal Total Return Fund