Julex Capital Management

Adaptive Investing

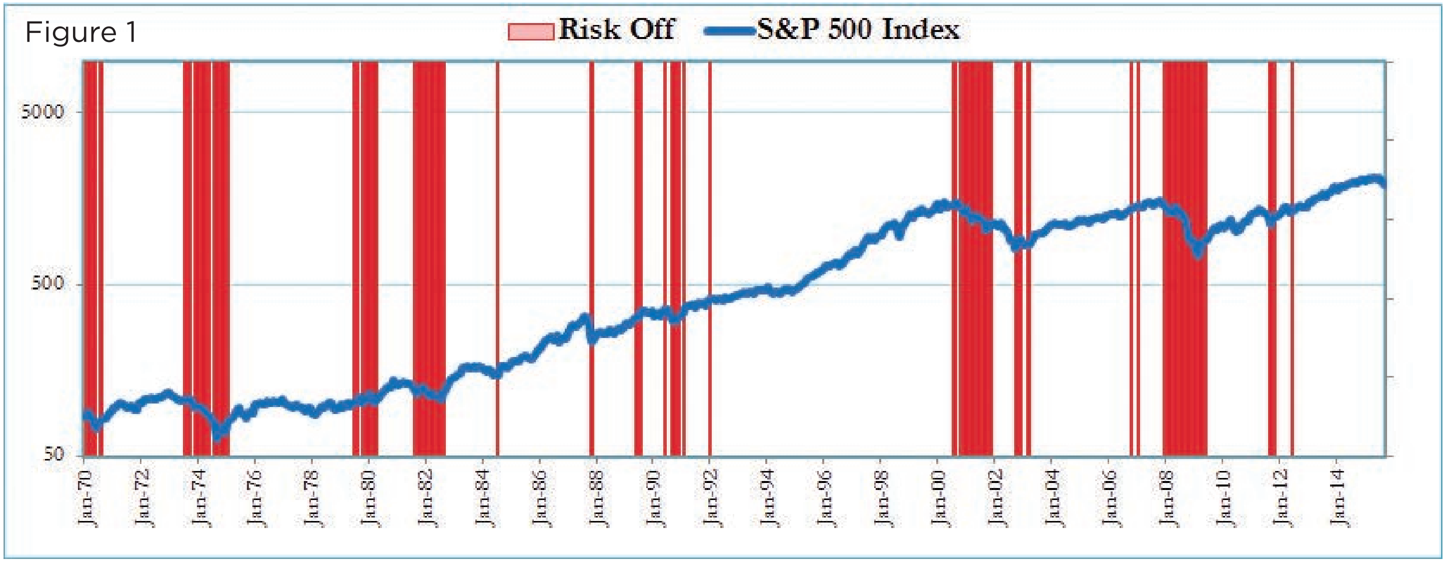
The RiskSwitch™

Identifying changing market regimes

Julex Capital uses a unique approach to managing tactical asset allocation strategies. Prior to looking at sectors, styles or asset classes our process first looks at the market environment. We feel it's best to determine which market regime we are in before investing. Is it a healthy market or an unhealthy market? Is this the time to have market exposure (risk-on) or to be defensive in our positioning (risk-off). We do this by using a proprietary tool we call the RiskSwitch™. The RiskSwitch™ looks at various indicators; economic indicators, price momentum, market volatility and liquidity to determine which regime we are in.

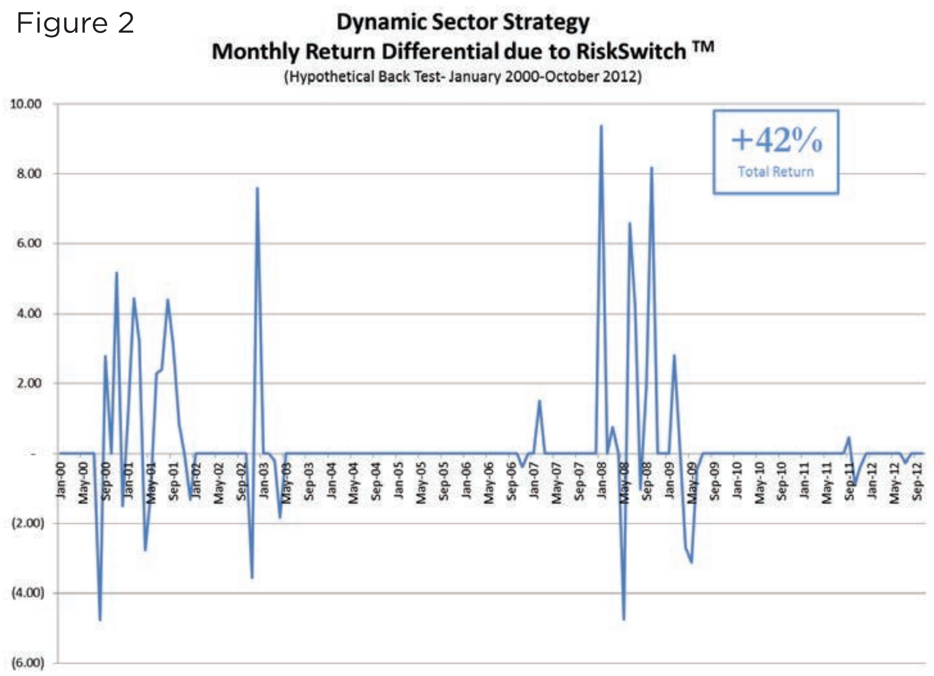
It doesn't happen often, but sometimes it's just not a good time to be invested. The chart below (Fig. 1) looks back over time beginning in 1970 and highlights when a 'risk-off' signal was triggered by the Julex model. The vertical red lines indicate a 'risk-off' signal while the blue line is the S&P 500 over the period. You can see that during most 'risk-off' periods it was best to be out of the market.

Figure 1



By avoiding the market during 'risk-off' signals we have added incremental performance to our strategies. Fig. 2 looks at the monthly return differential of the Dynamic Sector strategy using the RiskSwitch ™, relative to the monthly return without using the RiskSwitch™. Without the RiskSwitch™ the portfolio is based solely on the momentum of the ETFs regardless of the market environment. Performance is for the back tested period of January 2000 to October 2012.

Figure 2



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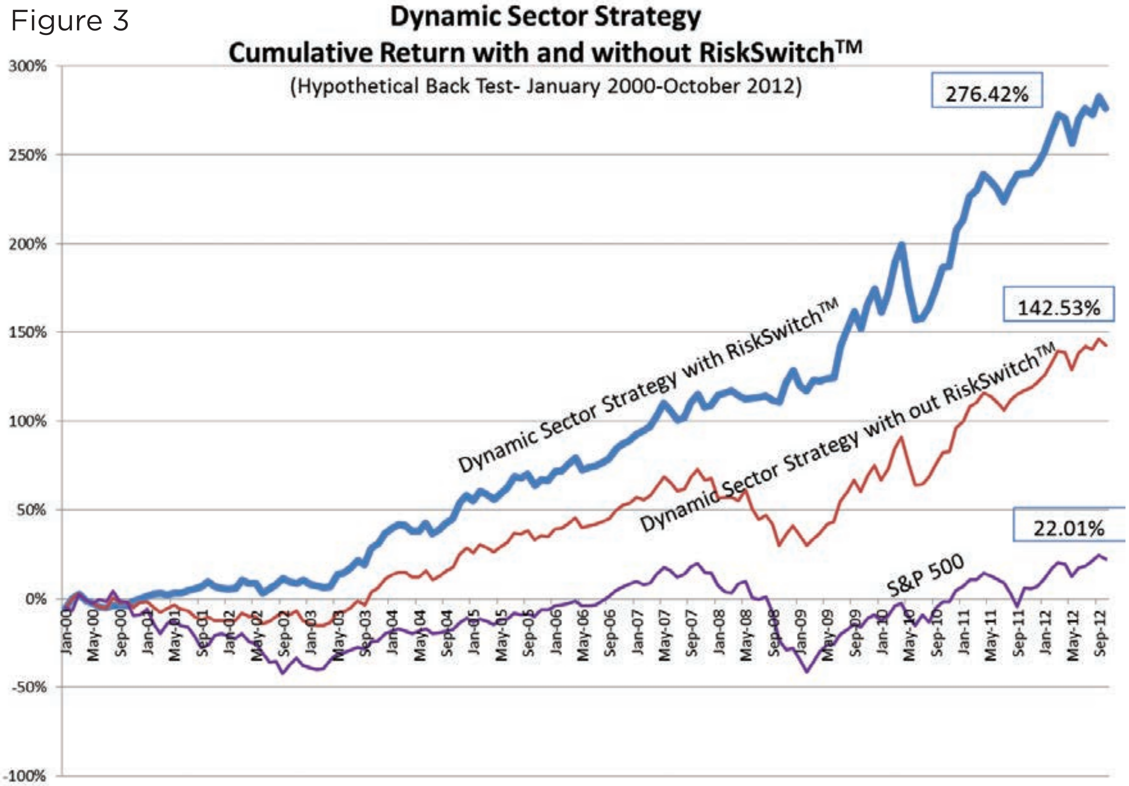
The flat lines in Figure 2 or periods when the differential monthly return was zero are during periods of 'risk-on' and the portfolio positioning would be the same in either scenario. The chart does demonstrate that sometimes the RiskSwitch™ will get us out of the market earlier than without, or sometimes leave the strategy out a bit longer, but in aggregate the RiskSwitch™ has contributed 42% to the total return of the Dynamic Sector strategy over the period. Looking at this another way, Fig. 3 shows the cumulative return of the strategy again with and without the RiskSwitch™ relative to the S&P return over the same January 2000 to October 2012 back tested period.

The RiskSwitch™ added an incremental 133% cumulative return to the strategy during this hypothetical period.

Figure 3



Understanding the market regime and then positioning a portfolio appropriate to that regime is the cornerstone of the Julex strategies.

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