

JULEX CAPITAL

Why now is the right time for TAA

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Is “always” the right or best time for TAA?

- No
- But, maybe switching in and out is not sufficiently beneficial for the two following reasons
 - Client relationship management
 - Running an efficient successful advisory practice

What might be “poor” or “less desirable” times for TAA?

- **At the bottom of a bear market**
 - March 9, 2009
 - S&P had just lost **-55.3%** of its value since Oct 9, 2007
- **When interest rates are at an historic peak**
 - September 30, 1981
 - Current yield on 10-year US Treasury = **16%**
- **When P/E ratios are at an historic low**
 - November 23, 2011
 - S&P 500 P/E ratio = **13x**

- **Over suitably long investment time windows**
 - NOT a year or two or even three
 - For me give it at least 7 ½ years
 - Return enhancement
- **Bear market mitigation**
 - NOT for a downdraft, e.g., 33-days Feb 19th - Mar 23rd
 - NOT for a hyper-short true bear market, e.g., Aug '87 - Oct '87 S&P fell -36% intra-day
 - Significant bear market mitigation
- **Dealing with massive changes in terms of which asset categories will perform**
 - Domestic vs international
 - Developed vs emerging
 - Conventional vs commodities
 - Corporates vs treasuries

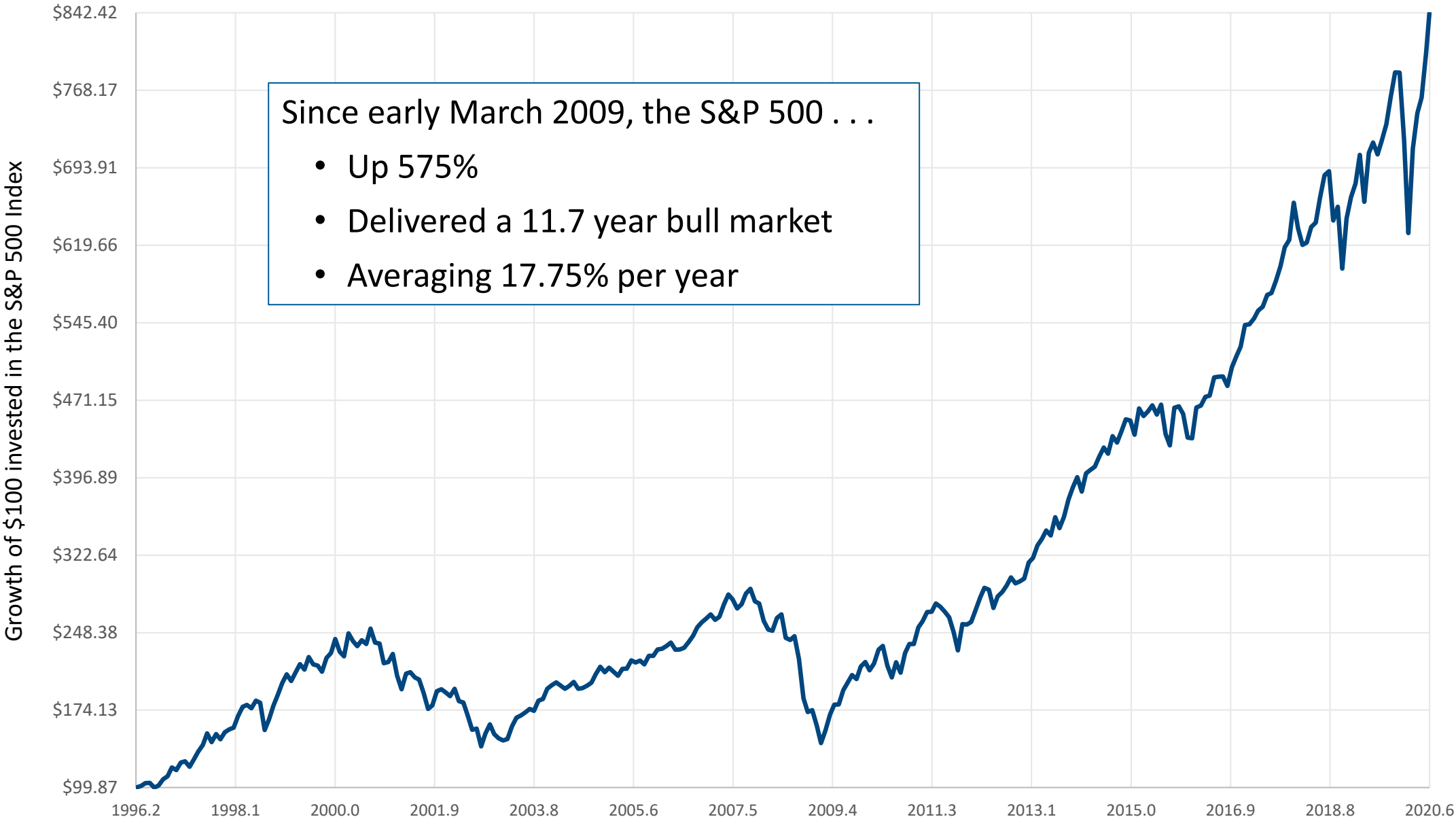
What might be the “best” or “most beneficial” times for TAA?

- Much closer to the peak of the current bull market
- Interest rates are at an all-time record low
- P/E ratios and other valuation metrics are unusually high
- Tremendous potential for change in terms of which asset categories will work

Much closer to the peak of the current bull market

Seriously long in the tooth

The current bull market is long in the tooth



Inflation-adjusted S&P 500 Index over the last 168+ years



BULL MARKETS

- 8.8 years is the average length of a bull market
- 343% is the cumulative gain for the average bull market
- 67% of the monthly returns are positive during the average bull
- 29.2 years was the longest bull market in history, ending in 1906
- 18.02% is the median annual compound return during bull markets
- 50% of bull markets are shorter than six years in length

BEAR MARKETS

- 19.8 months is the average length of a bear market
- -41.4% is the cumulative loss for the average bear market
- 75% of the monthly returns are negative during the average bear
- -79% was lost during the most severe bear market, ending in 1932
- 3 months was the shortest bear market in history, ending in late 1987
- 81% of all bear markets last more than 12 months

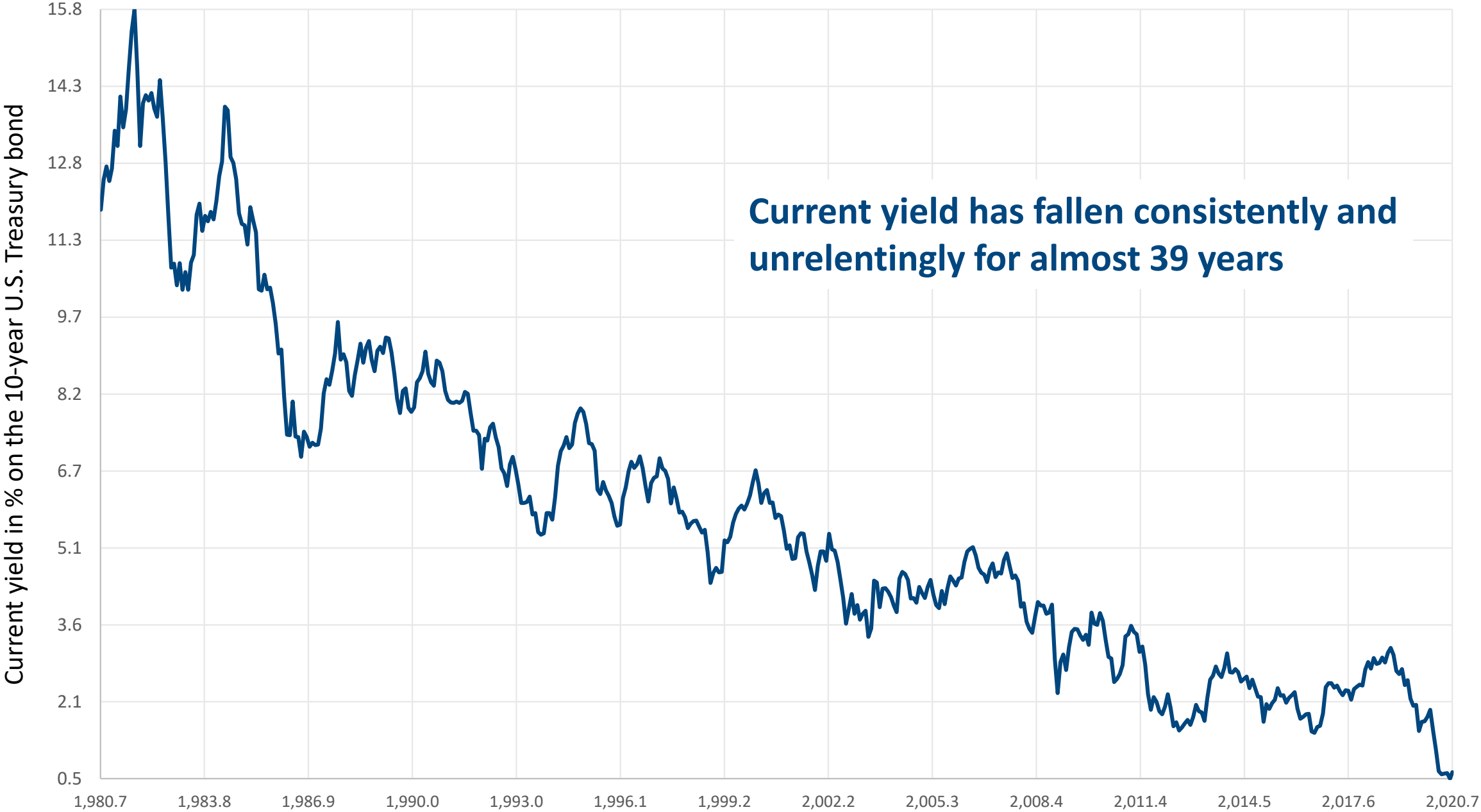
Interest rates are at an all-time record low

It is physically impossible for bonds to play their required role inside a balanced portfolio

But the world is different today - and not in a small way



Past performance is explained, primarily by declining interest rates



- Near-zero interest rates have eliminated bond's portfolio functionality
- Cash flow and equity hedging are virtually eliminated
- As rates have approached zero
 - Duration (interest rate sensitivity) has skyrocketed
 - Income has evaporated
 - Ability of bonds to offset stock losses during bear markets is gone

- This graph shows the “*Point of Zero Return*” for a 10-Year Treasury. How much cushion to higher rates a bond has before its 12-month return falls to zero, currently at 6bps

10-Year Treasury Yield Increase to Point of Zero Return (bps)



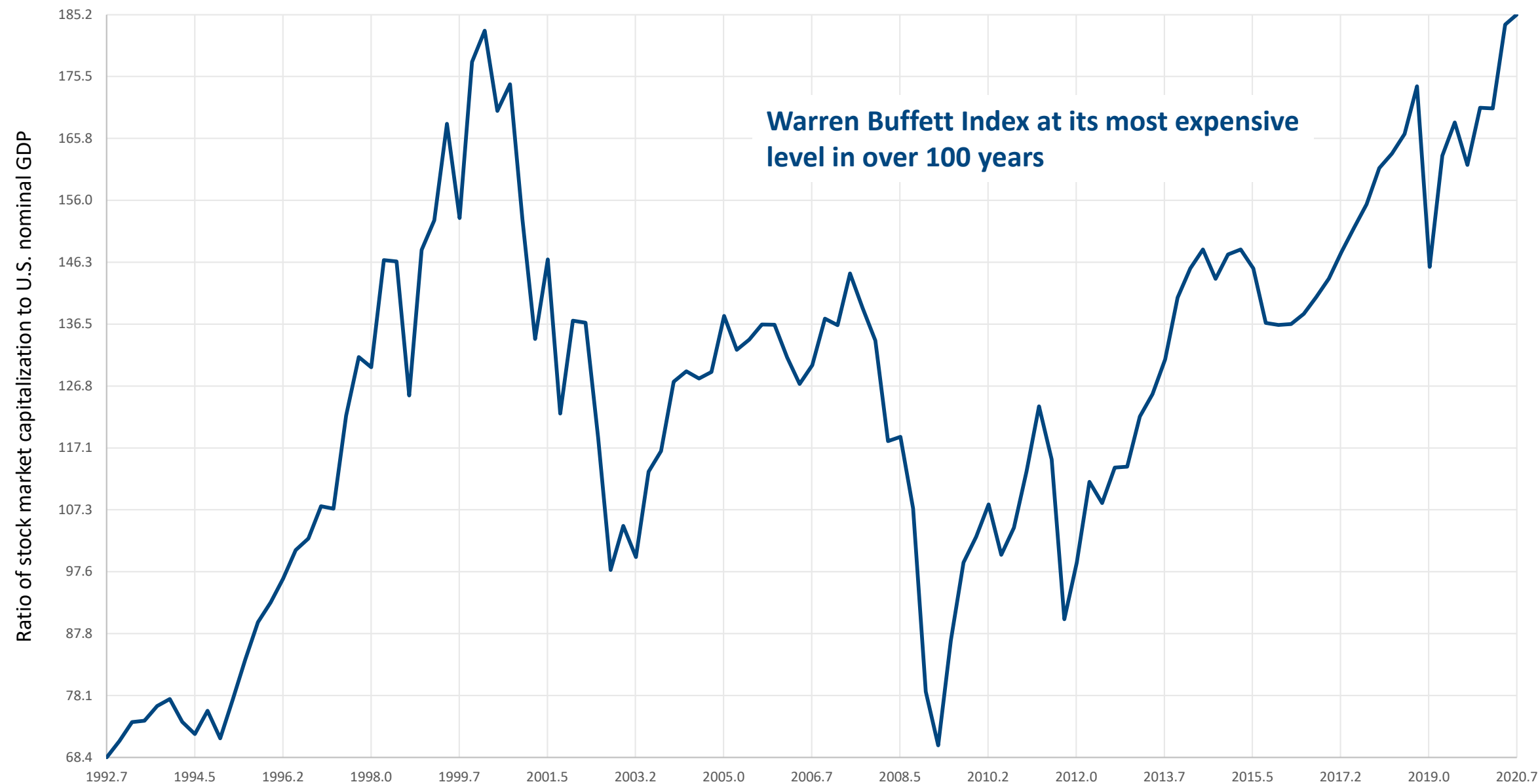
P/E ratios and other valuation metrics are unusually high

Difficult to see how this ends well for any Buy&Hold or Strategic Asset Allocation approach

The next bear market is closer than one might think - continued



Stocks are richly priced relative to the U.S. economy (GDP)



What issues define the environment today and over the next 15 years

Govt Deficit

Large and rapidly growing

Abandonment of fiscal discipline or prudence

Gigantic future entitlement programs

Inflation

Rising inflationary expectations

Precious metals prices setting new record highs

Interest rates

Large increases

Expectations for rising rates many years into the future

U.S. Dollar

Falling U.S. Dollar

Growing dependence on other nations funding our deficits

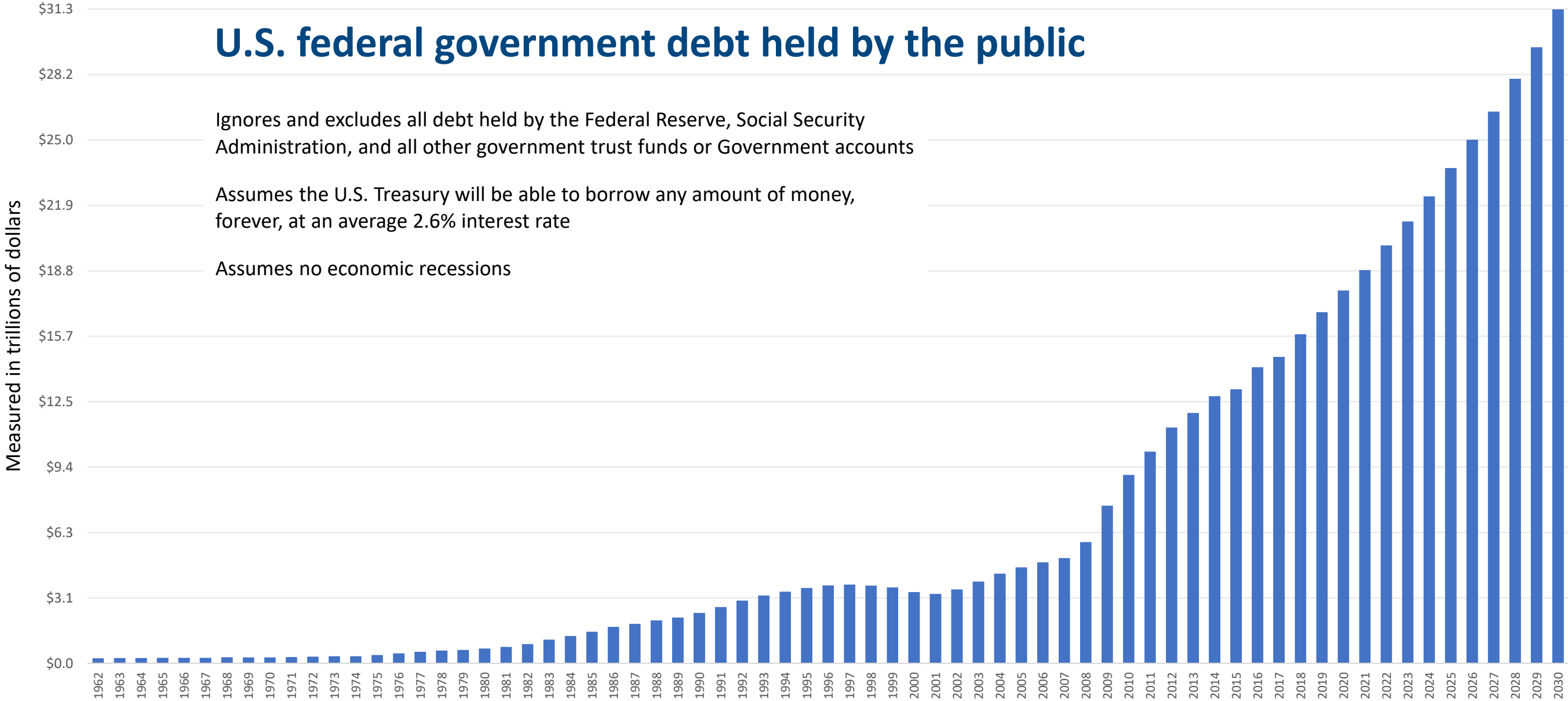
Politics

Political turmoil

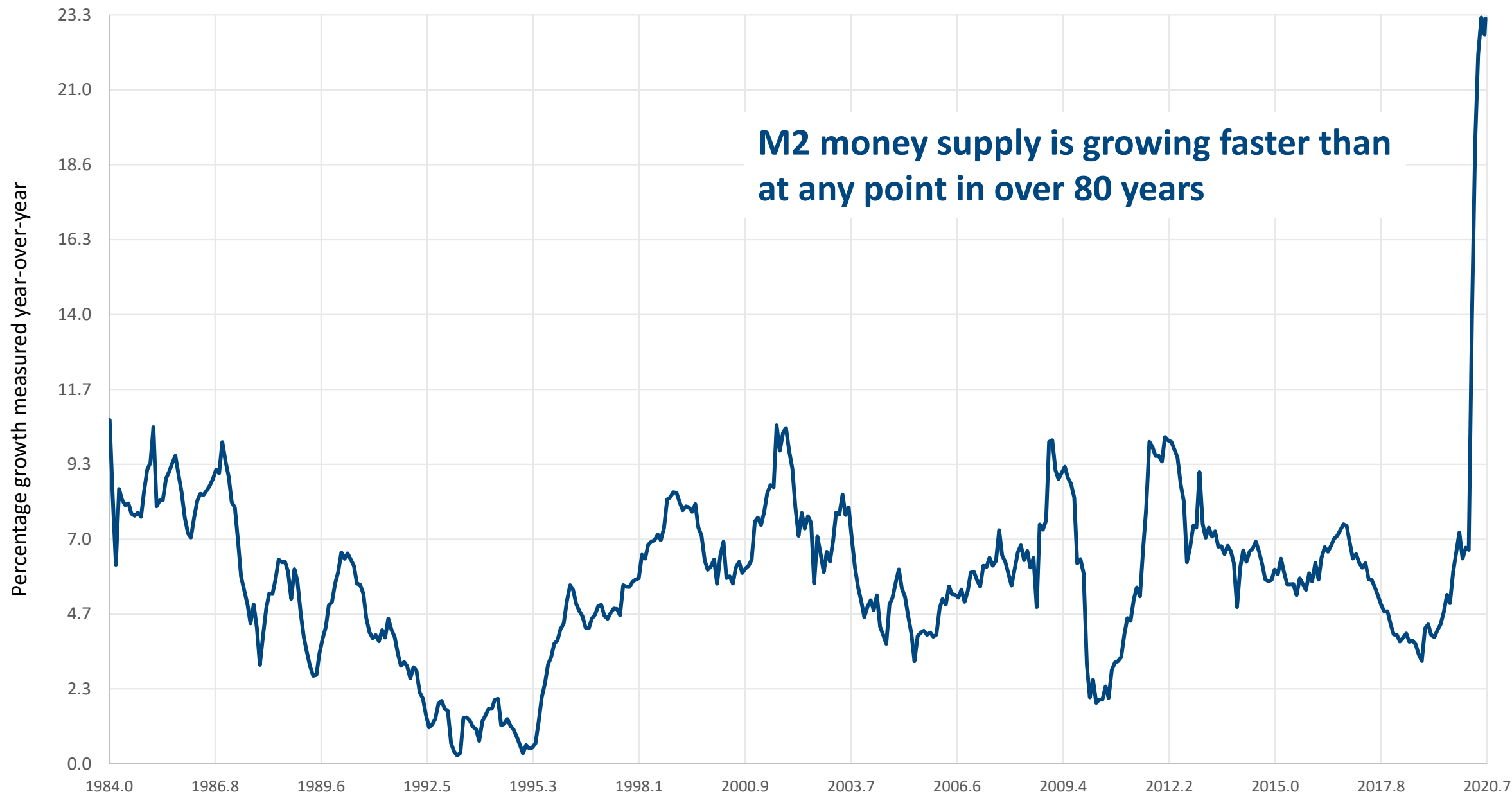
Rise of polarizing factions

Tribalism

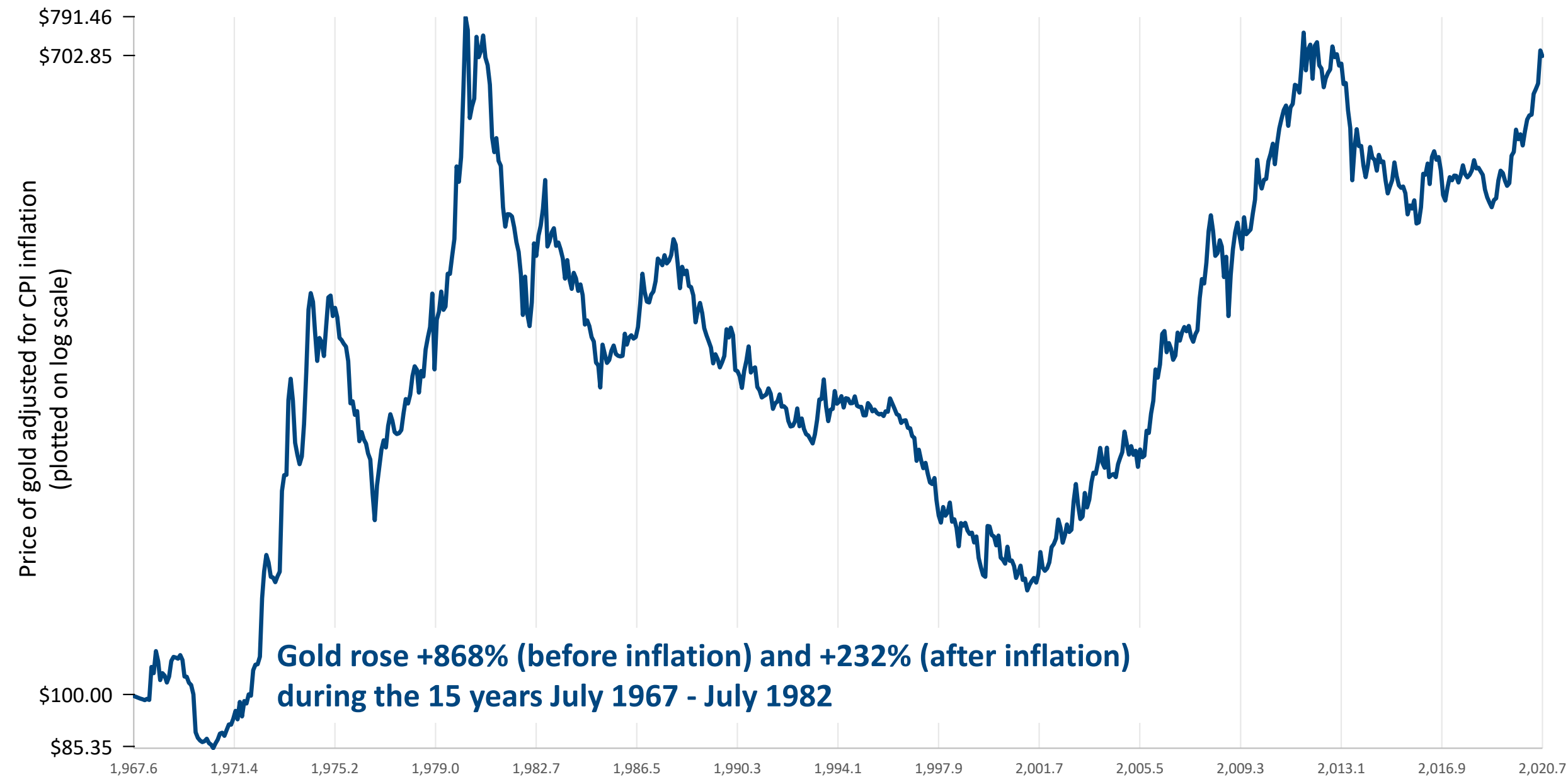
An optimistic forecast for future federal government deficits



The U.S. Federal Reserve is printing money at an accelerating pace



Gold prices have started to rise again, much as they did back in 1967



Tremendous potential for change in terms of which asset categories will work

Seismic change unfolding

Bloomberg **Opinion**

Social Unrest Is the Inevitable Legacy of the Covid Pandemic

Throughout history, plagues have caused upheaval and revolts. This pandemic will be no different.

By Andreas Kluth

November 13, 2020, 11:00 PM MST



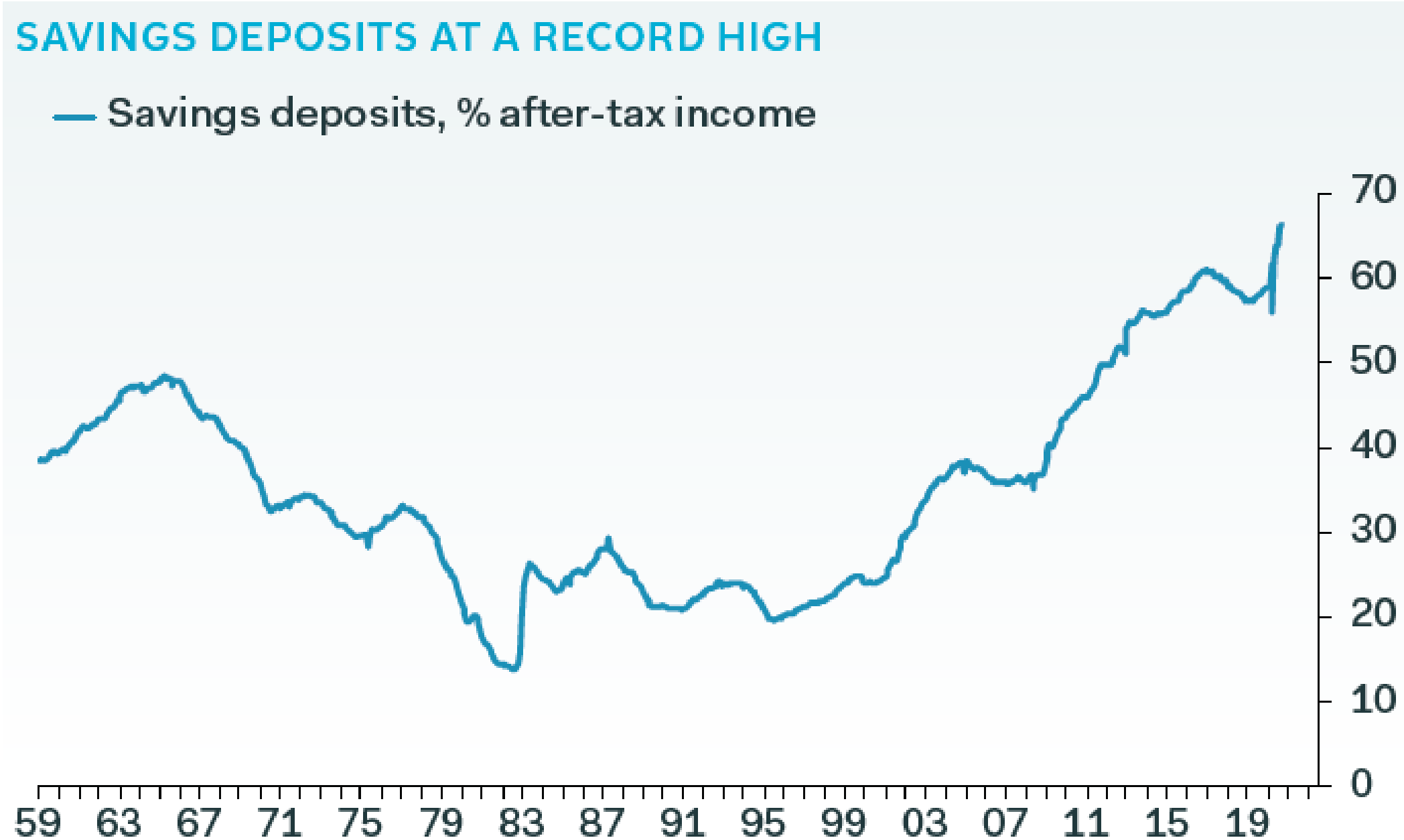
In March, still early in the pandemic, think tankers were already noticing that we were entering an “age of mass protests” – the number of uprisings globally has been increasing by an average of 11.5% a year since 2009. Covid-19, like so many other plagues before, will now act as the fire accelerant.

Some upheavals will topple governments, others will be repressed. Some will flare up soon, others will smolder for years. In 1381, the rural poor of England rose up in the so-called Peasants’ Revolt, killing, looting and burning. They did so because their lives had become unlivable since the Black Death first came ashore 33 years earlier. And the elites had done nothing in that time to make things better.

The success of Pfizer Inc.'s Covid-19 vaccine trial may help persuade more people to get inoculated amid a surge in new coronavirus cases, according to Anthony Fauci, the top U.S. infectious-disease doctor.

Pfizer's vaccine, developed in collaboration with Germany's BioNTech SE, has "an extraordinarily high degree of efficacy -- more than 90%, close to 95%," Fauci said in an interview. That could be a key factor in overcoming reluctance to take pandemic vaccines that have been developed at top speed.

\$2 trillion of excess savings to be spent over the short-run



“20s Redux” - that title says so much

**Goldman
Sachs**

Global Investment Research

The Goldman Sachs Group, Inc.

2021 US Equity Outlook: Roaring '20s Redux

GSAM Professional Investor Forum

November 11, 2020

Goldman Sachs

Path of the market: S&P 500 will end 2021 at 4300

4% gain to 3700 at end of 2020 and then 16% return in 2021 and 7% in 2022





Goldman Sachs 2021 GDP forecasts above consensus

GS Economics forecasts 5.3% US GDP growth in 2021 vs. 3.8% for consensus

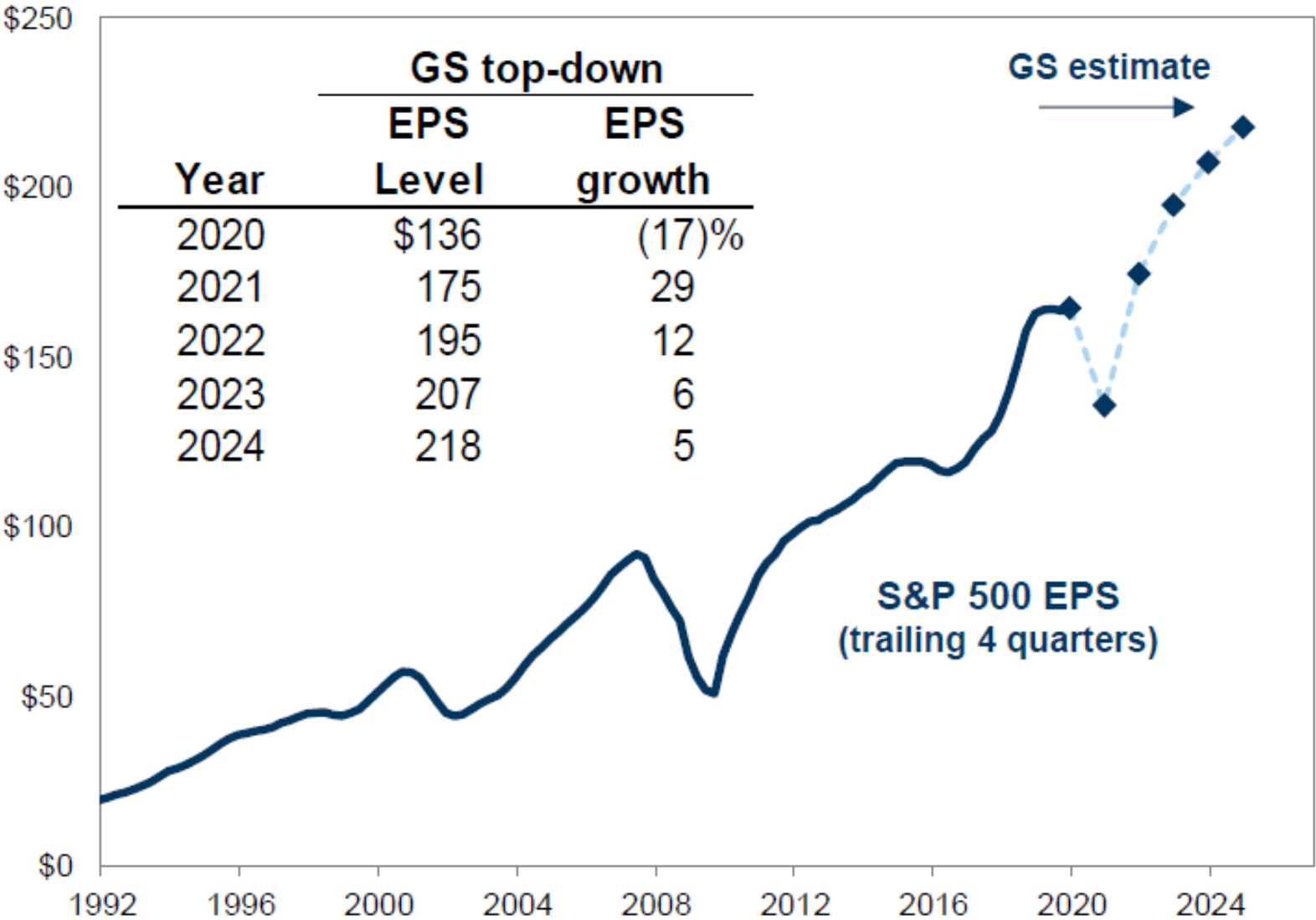
Country/Region	Real GDP Growth Forecast		GS relative to consensus
	2021E		
	GS	Consensus	
India	10.0 %	7.4 %	2.6 pp
Russia	5.0	3.0	2.0
US	5.3	3.8	1.5
Japan	3.3	2.5	0.8
Spain	7.1	6.4	0.7
UK	6.1	5.5	0.6
Italy	6.0	5.5	0.5
Brazil	4.0	3.5	0.5
France	7.0	6.6	0.4
Euro Area	5.3	5.2	0.1
China	7.5	8.0	(0.5)
Germany	3.7	4.4	(0.7)
World	7.0 %	6.0 %	1.7 pp





Goldman Sachs top-down S&P 500 EPS forecast

After 17% fall in 2020, we expect EPS will rise by 29% in 2021 and 12% in 2022



The dark side - is seriously dark !!



The Next Decade Could Be Even Worse

A historian believes he has discovered iron laws that predict the rise and fall of societies. He has bad news.

Story by Graeme Wood

DECEMBER 2020 ISSUE

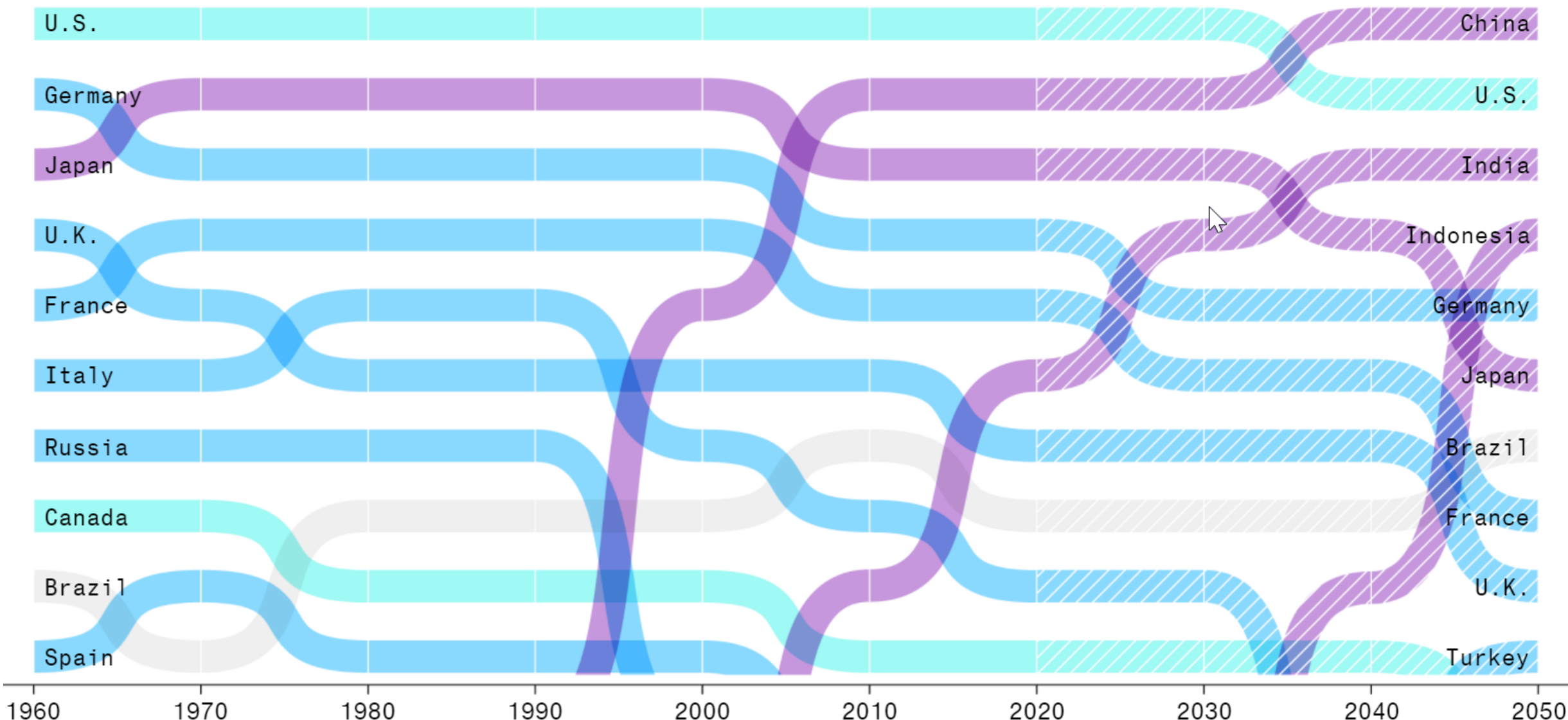
The year 2020 has been kind to Turchin, for many of the same reasons it has been hell for the rest of us. Cities on fire, elected leaders endorsing violence, homicides surging—to a normal American, these are apocalyptic signs. To Turchin, they indicate that his models, which incorporate thousands of years of data about human history, are working. (“Not all of human history,” he corrected me once. “Just the last 10,000 years.”) He has been warning for a decade that a few key social and political trends portend an “age of discord,” civil unrest and carnage worse than most Americans have experienced. In 2010, he predicted that the unrest would get serious around 2020, and that it wouldn’t let up until those social and political trends reversed. Havoc at the level of the late 1960s and early ’70s is the best-case scenario; all-out civil war is the worst.

US has dominated pretty much since 2009 - and that is ending

Who's Number One?

Global GDP rankings

Asia North America Europe South America



”

Bloomberg

Markets

Dalio Says Now Is ‘Special Moment’ for Markets as China Ascends

Bloomberg News

November 13, 2020, 11:10 PM MST

- ▶ Simultaneous positive developments give China competitiveness
- ▶ Fundamentals of U.S. and dollar becoming more challenging



US has dominated pretty much since 2009 - and that is ending

Bloomberg Opinion

Markets

You May Regret Staying Parked in U.S. Stocks

There are three big reasons to bet that foreign equities will outperform in the coming years. All it takes is a little courage to make the wager.

By Nir Kaissar

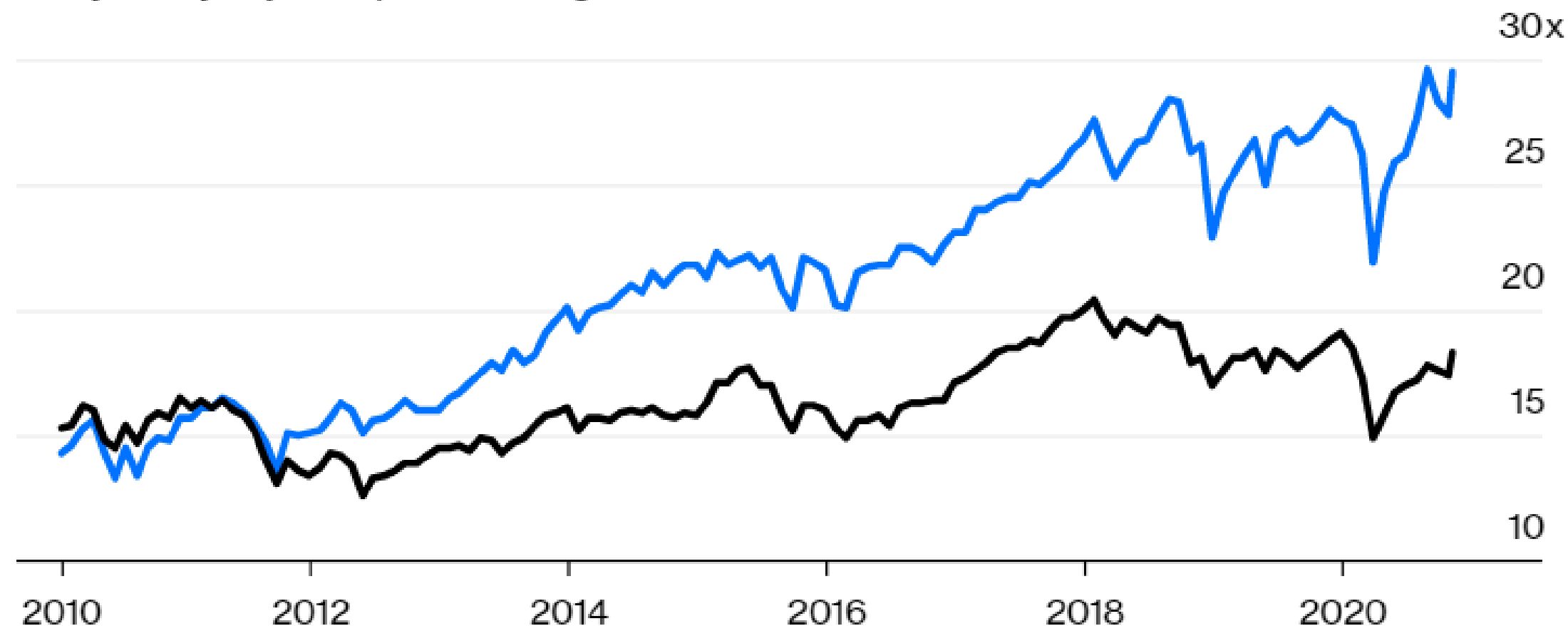
November 12, 2020, 3:00 AM MST

BlackRock, for example, estimates that U.S. stocks will produce a return of 5.8% a year over the next 10 years, compared with 7.1% for European stocks and 7.3% for emerging markets. Vanguard estimates that U.S. stocks will deliver a return in the range of 3.9% to 5.9% a year over the next 10 years, while foreign stocks will generate a return closer to 7.4% to 9.4%. JPMorgan and UBS, to name two others, agree that more value lies overseas. In fact, it's hard to find publicly available capital market assumptions

No Place Like Home ... for Now

U.S. stock valuations have surged in recent years

● Cyclically adjusted price/earnings ratio for S&P 500 Index ● MSCI ACWI ex USA Index



Source: Bloomberg

Note: The P/E ratio is based on 10-year trailing average earnings, adjusted for inflation.

Bloomberg

Markets

America's Zombie Companies Have Racked Up \$1.4 Trillion of Debt

By [Lisa Lee](#) and [Tom Contiliano](#)

November 17, 2020, 4:00 AM MST

- ▶ Borrowing boom amid pandemic reshapes corporate finances
- ▶ Surge in zombies expected to weigh on U.S. economy for years

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▶ 7:15

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They were once America's corporate titans. Beloved household names. Case studies in success.

But now, they're increasingly looking like something else -- zombies. And their numbers are swelling.

The changing opportunity/risk set - change will be profound

U.S. stocks



Non-U.S. stocks

Developed country



Emerging country

Asia



Non-Asia

Dollar



Non-Dollar

The changing opportunity/risk set - change will be profound

Financial assets



Real assets

Inflation



No inflation

Rising real interest rates



Flat interest rates

Governments



Corporates

On the other hand, Axel Weber, chairman of UBS and prior to that Bundesbank president and ECB board member, cautioned that the major economies face a prolonged period of uncertainty that will require ultra-loose fiscal and monetary policies that will deepen the social divides. “Neither our understanding of the economy (which is based off the last 50 years of data) nor our macroeconomic models are well suited to understand and to forecast the current situation well”. “With elevated uncertainty, high government deficits and very expansionary monetary policies, this will further intensify the polarisation in our societies, adding political uncertainty to the economic uncertainty”. He urged policymakers to make their economies, firms, societies and portfolios “s robust as possible” in order to be prepared for the next surprise. “I think there will be more surprises in the next months and years”. Unfortunately, he is forgetting that the destruction of capital from financing the imbalances, has reduced system resilience.

To sum it up

If not now . . . then what are you waiting for ??

It will never get any easier . . .

And Julex is probably the right player . . .

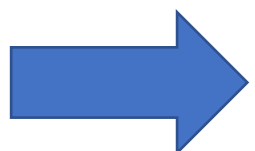
WELLESLEY, MA – November 18, 2020 - [Julex Capital Management, LLC.](#), has been awarded a "Top Guns" distinction by Informa Financial Intelligence's PSN manager database, North America's longest running database of investment managers, for Q3 2020.

[TrueAlpha™ Small Cap](#)
PSN "TOP GUNS" RATING
for One-Year Performance
in the Small Cap Value Universe

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[Dynamic Income](#)
PSN "TOP GUNS" RATING
For Q3 Performance

in the Core Fixed, ETF US Fixed Income and Intermediate Core Fixed Income Universes



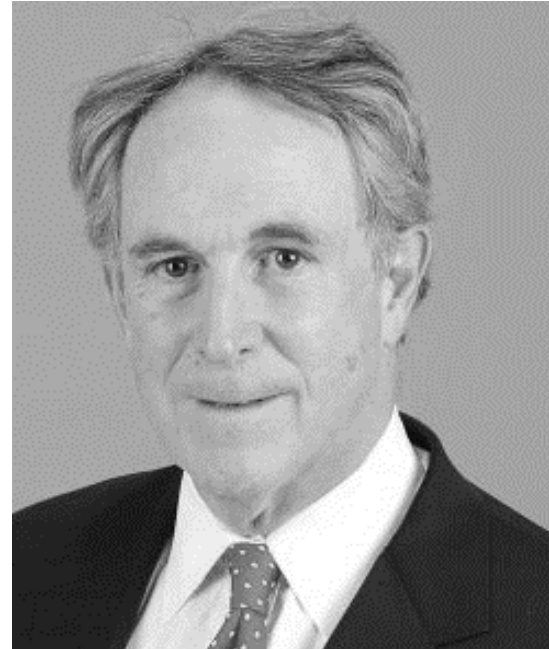
"We are honored to be recognized as a 'Top Guns' manager by Informa Financial Intelligence," says Dr. Henry Ma, CFA, President and Chief Investment Officer of Julex Capital. "Julex's small cap stock selection model differs from other quant strategies in two important aspects. First, it aims to deliver alpha uncorrelated with conventional risk factors like value, size, or momentum. Second, it has the potential to outperform the benchmark significantly with a concentrated portfolio. In the current environment, the valuations of small cap stocks are much more attractive than those of large cap stocks. As the economy continues to recover and coronavirus vaccines may become available, there is very good chance for small cap stocks to outperform in the near term as well as in the long run."

[TrueAlpha™ Small Cap](#) is a quantitative small cap strategy aiming to deliver "true" stock selection alpha unrelated to risk factors such as value, size or momentum. It normally invests in 20-40 undervalued and high-quality stocks with high profitability and safe balance sheets. The strategy strives to outperform the Russell 2000 Value Index and Russell 2000 Index with high active shares and high tracking errors.

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TAA is it a black box to be distrusted or is it a reliable solution?

Fri, Dec 4, 2020 11:00 AM - 11:45 AM (EST)

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One of the limitations of hypothetical performance results is that they are generally prepared with the benefit of hindsight. In addition, hypothetical trading does not involve financial risk, and no hypothetical trading record can completely account for the impact of financial risk in actual trading. For example, the ability to withstand losses or adhere to a particular trading program in spite of trading losses are material points which can also adversely affect actual trading results. There are numerous other factors related to the markets in general or to the implementation of any specific trading program which cannot be fully accounted for in the presentation of hypothetical performance results and all of which can adversely affect actual trading results.

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