## **JULEX**CAPITAL

### **Time Segmentation Investing**

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• Moving from uncertainty to certainty





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#### • Client

- Behavior modification
- Patience
- Making "time" your friend
- Breaking the dysfunctional/slavish focus and reliance on benchmark comparisons
- Encourages measurement of what really matters
  - What do I need to earn
  - How much time do I have to earn it
  - Is this reasonable/logical given today's valuations and opportunities

#### • Investments

- Different investments have radically different "maturation cycles"
- Size of the investment opportunity is often directly associated with the length of the maturation cycle



#### Journey

- Virtually all investments offered by commercial investment managers are Journey portfolios
- Hedge funds are a notable exception . . . . but then <u>true</u> hedge funds are not available in the retail space
- Commercial success for Journey portfolios is generally based on
  - A sexy story
  - Earning more than some comparative benchmark over the last 1-, 3-, 5-, and 7-years . . . even if this means delivering a loss

#### • Destination

- It is generally not commercially attractive for Commercial investment managers to offer Destination portfolios
- Their commercial success requires a different and challenging "sales-story"
- Adoption of Destination portfolios is generally found among advisors operating as fiduciaries to their clients





#### **Intended Benefit**

Experience a smoother, more pleasing Journey



#### **Possible Cost**

Unfortunately, your Journey portfolio might lead you to this Destination





#### **Intended Benefit**

Reach a more favorable Destination



#### **Possible Cost**

Unfortunately, your Destination portfolio might take you on this type of Journey



• "If your plan is for 1 year, plant rice. If your plan is for 10 years, plant trees. If your plan is for 100 years, educate children."

#### • This proverb's lesson for investments is three-fold:

- Every goal has a specific time destination in the future
- The best solution for each time destination is different
- Investors must bring the required patience to any investment . . . giving it the time it requires to sprout, grow, mature, and eventually be harvested.



• If your plan is for 1 year, plant rice



• If your plan is for 10 years, plant trees



• If your plan is for 100 years, educate children





• If your plan is for 1 year, plant rice



Ultra-diversified U.S.-Dollar bond portfolio with an average effective duration < 4.3 years

• If your plan is for 10 years, plant trees



Global tactical asset allocation based on a fully-transparent, testable, quantitative set of rules

• If your plan is for 100 years, educate children



Distressed private debt and private venture capital structured inside an illiquid limited partnership

#### Your investment toolbox is filled with remarkably different tools



#### **Different investments offer remarkably different expected returns**



#### Let's compare the screwdriver against the hammer



#### **Comparing two different investments** - **Probability of achieving their respective goals**



Number of years you leave your account invested before drawing from it (i.e., the Destination)

#### Now consider all "21 tools" in your toolbox - How are they different?

Comparing 21 different investments - Each with a 99% probability of achieving their respective return goals



Number of years you leave your account invested before drawing from it (i.e., the Destination)

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#### **Structural example - Time Segmentation Investing**

	Time segment 1	Time segment 2	Time segment 3	Time segment 4	Time segment 5
Serves investor needs that arrive this number of years in the future	0 to 5 years	5 to 10 years	10 to 15 years	15 to 20 years	More than 20 years
Minimum required net return	3%	4%	5%	6%	7%
Destination (this number of years in the future)	2 ½ years	7 ½ years	12 ½ years	17 ½ years	22 ½ years
Invested in	Bond Portfolio	Short-Term Portfolio	Moderately Short- Term Portfolio	Moderately Long- Term Portfolio	Long-Term Portfolio
Policy asset allocation	100% bonds with average effective duration < 4.3 years	62% to 75% bonds	50% to 59% stocks	75% stocks	100% stocks



# Following results are based on data 1926 to Today

Monthly total returns for 14 different domestic and international stocks and bonds spanning 6/30/1926 – 1/1/2021

#### The "Short-Term Portfolio"



#### Short-Term Portfolio - Probability of achieving its goal



Number of years you leave your account invested before drawing from it (i.e., the Destination)

#### The "Moderately Short-Term Portfolio"



#### Moderately Short-Term Portfolio - Probability of achieving its goal



Number of years you leave your account invested before drawing from it (i.e., the Destination)

#### The "Moderately Long-Term Portfolio"



#### Moderately Long-Term Portfolio - Probability of achieving its goal



Number of years you leave your account invested before drawing from it (i.e., the Destination)

#### The "Long-Term Portfolio"



#### Long-Term Portfolio - Probability of achieving its goal



Number of years you leave your account invested before drawing from it (i.e., the Destination)





#### The "Short-Term Portfolio"



#### Short-Term Portfolio - Probability of achieving its goal



Number of years you leave your account invested before drawing from it (i.e., the Destination)



#### How do we move from uncertainty to certainty?



- Time segment both your needs and your investments . . . into "time buckets"
- Select the correct investment for each segment . . . with the right "maturation cycle"
- Exercise the required level of patience . . . make "time" your friend
- <u>STOP</u> the dysfunctional/slavish comparison to benchmark performance



## If you're not using Time Segmentation Investing . . .

Why not?









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## Absolute return strategies and uncorrelated strategies, do they actually exist?

Friday the 22<sup>nd</sup>



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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.

The composition of a benchmark index may not reflect the manner in which a Julex portfolio is constructed in relation to expected or achieved returns, investment holdings, portfolio guidelines, restrictions, sectors, correlations, concentrations, volatility, or tracking error targets, all of which are subject to change over time.

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Short-Term Portfolio is defined as 62.3% Bonds, 25.1% U.S. Stocks, and 12.6% International Stocks.

Moderately Short-Term Portfolio is defined as 41.1% Bonds, 34% U.S. Stocks, and 24.9% International Stocks.

Moderately Long-Term Portfolio is defined as 41.667% U.S. Stocks, 33.333% International Stocks, and 25% Bonds.

Long-Term Portfolio is defined as 66.667% U.S. Stocks and 33.333% International Stocks.

Portfolios are rebalanced back to the above weights once each month at month-end.

Bonds is defined as equal proportions of the following five indices (subject to month-end rebalancing back to equal-weights): Dow Jones Corporate Bond Return Index, USA 5year Government Note Total Return Index, GFD Indices USA 10-year Government Bond Total Return Index, GFD Indices USA Total Return AAA Corporate Bond Index, and GFD Indices World x/USA Countries Government Bond GDP-weighted Return Index.

U.S. Stocks is defined as equal proportions of the following five indices (subject to month-end rebalancing back to equal-weights): S&P 500 Total Return Index (w/GFD extension), Dow Jones Industrials Total Return Index, GFD Indices USA Top 100 Total Return Index, Fama French Small Cap Index (bottom 30% of the market by size), and Fama French Small Cap Index (bottom 30% of the market by size).

International Stocks is defined as equal proportions of the following four indices (subject to month-end rebalancing back to equal-weights): Japan Topix Total Return Index, Australia ASX Accumulation Index-All Ordinaries, France CAC All-Tradable Total Return Index, and UK FTSE All-Share Return Index (w/GFD extension).

All data was provided by Global Financial Data, Inc. on January 10, 2021