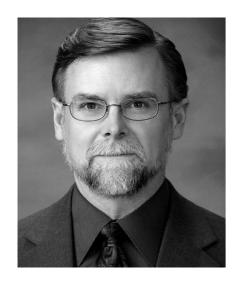
JULEXCAPITAL

Playing offense and defense

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Playing offense and defense

When to play offense

When to play defense

While still avoiding the trap of market timing

Let's first motivate the topic



Opportunities come and go

Risks do the same

• Sometimes . . . not all the time . . . these can be BIG

- Many advisors actively pursue such efforts
 - Dollar cost averaging
 - Underweighting equities
 - Overweighting equities
 - Including/excluding smallcap

Premise



- There are seriously good times to
 - Play offense
 - Play defense
 - Stay neutral
- While still avoiding the insidious trap of market timing
- Success can be
 - Achieved
 - Without undue risk

Several benefits



- From . . . playing offense, playing defense, or staying neutral
- Client expectations management . . . they see
 - Activity
 - A pro-active, forward-looking approach
 - Balance between opportunity and risk
 - Their advisor earning their fee
- Superior investment results . . . over a reasonable time period
 - Resulting from successful offensive and defensive plays

Rob's personal side note . . .



- This is the approach I use
- It's the approach I've always used
- Slowly, gradually, in a highly considered fashion . . . moving between
 - Offense
 - Defense
 - Neutrality . . . most of the time
 - While always trying to avoid the trap of market timing



Possible successful/failure elements

Humility

Gradualism



Humility

- We almost never know what will happen
- But . . . we do understand a lot about the game that's being played and the players on the field



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• Gradualism

- Understanding the crowd . . . the herd
- Stepping away from the crowd
 - Doing something different
 - And sufficiently different
- Knowing when you have inadequate basis . . . and must therefore rejoin the herd



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Client expectations management

- You will faceplant
- Unless you can set and maintain client expectations for
 - The different journey
 - · Resulting from abandoning the herd



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Takeaway

Stay away from this approach, unless you can successfully set and maintain client expectations

... that they'll be marching to a different drummer



Let's step back for a moment

To better frame the issue

Why does the opportunity even exist . . . for the advisor to be top-down active

Market timing . . . let's get this trap out of the way



- Definition changing the client's stock/bond mix based on beliefs concerning
 - What will happen next
 - When the market will turn
 - Time specific forecasts of the future
 - Only on fundamental valuations . . . denying
 - Supply/demand relationships (or market behaviors . . . market internals)
 - Critical impact of Central Bank and Treasury actions

- News . . . market strategist forecasts for the year ahead
- Emotion . . . fear, greed, hope, desperation



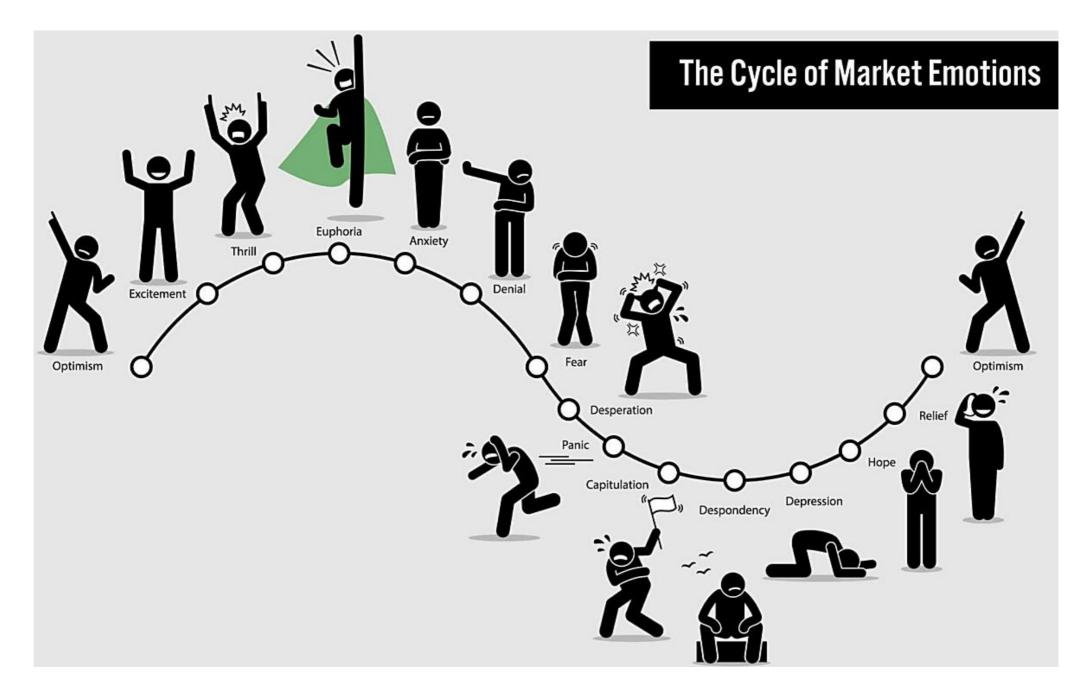
• If we can't first ask and then adequately answer why the opportunity occasionally exists . . . then, we've pretty much got nothing

• Why?

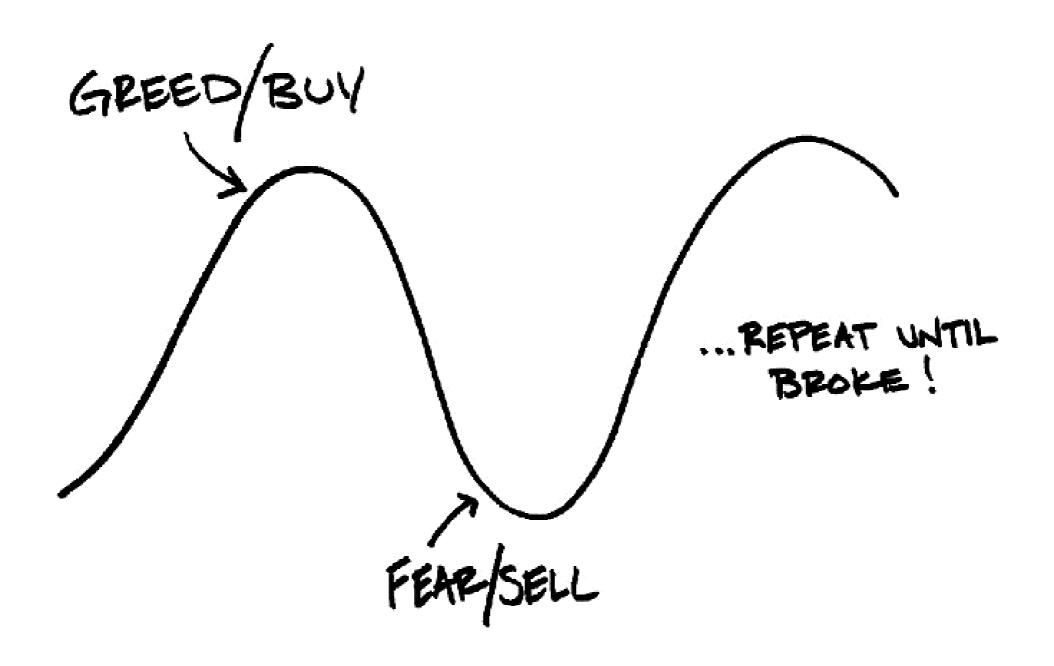
• Mr. Market

- Is an emotional animal
- Often driven by performance chasing
- Often forgets inherent fundamental valuations
- Often looking backward, instead of forward
- Often forgets that collectively . . . all markets are a zero sum game
- Finds it very difficult to maintain "dry powder"













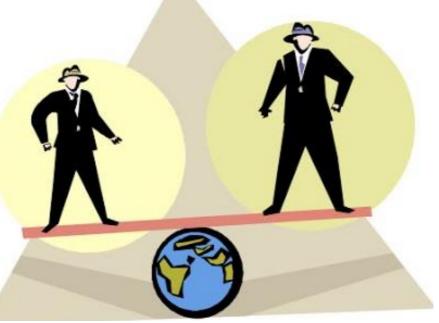


Zero Sum

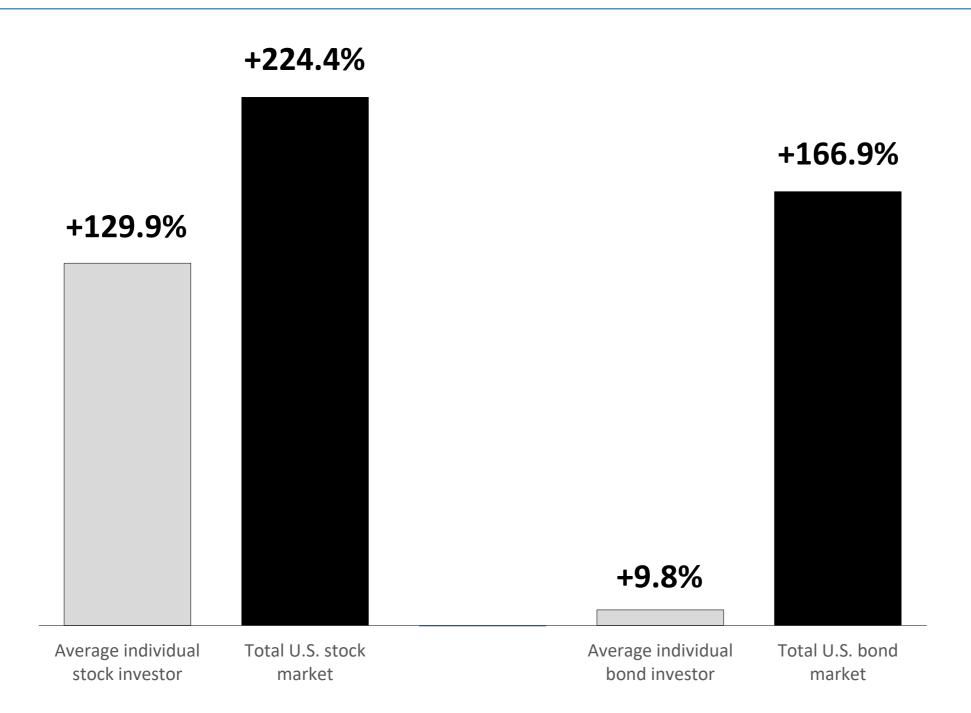
My Interests "I win."

Your Interests "You lose."









Over the 20 years ending 1/1/2020 Dalbar study

Winning a zero-sum game



To win

You must be smarter

• Not smart . . . but instead, <u>smarter</u>





Practical path forward

Should I adopt an advisor-driven top-down activist approach?

What's required?

Robust client expectations management



Today . . . at this instant in time

Offense, Defense, or Neutral

Recall . . . neutral must always be the default position

Let's try at least to be honest about this question



- There is <u>never</u> an answer
- It's always a muddied challenge to interpret
- But with that said . . . maybe . . .
 - Short-run opportunities
 - Long-run once-in-a-lifetime seismic change



Short-run opportunities

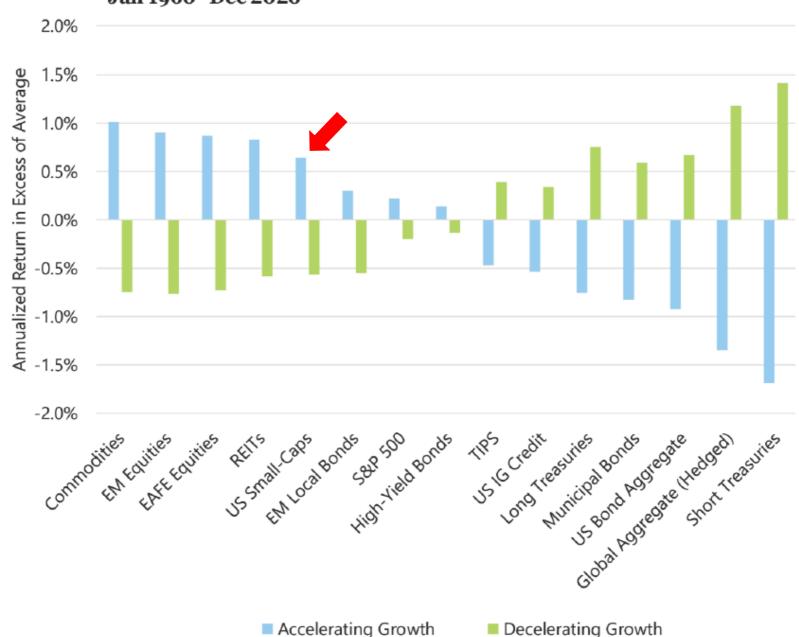
Possible candidates



- Smallcap coming out of a bear market
- Value coming out of
 - A tech/innovation bubble
 - A super-cycle during which growth won over value
- Short-maturity domestic junk bonds

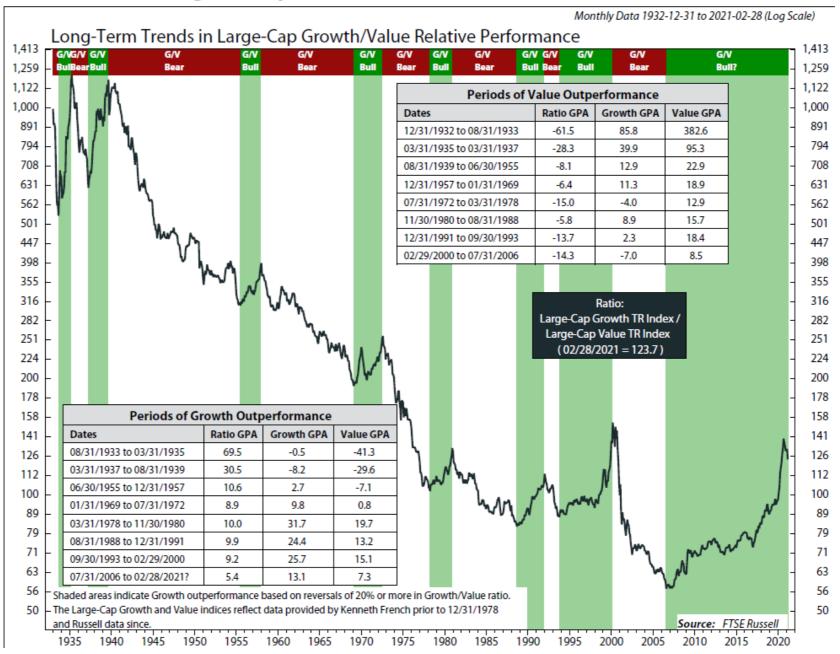




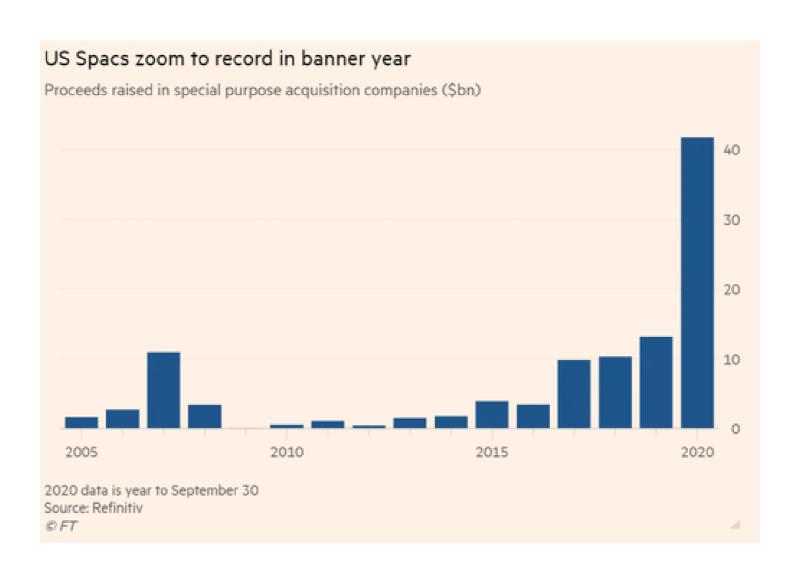




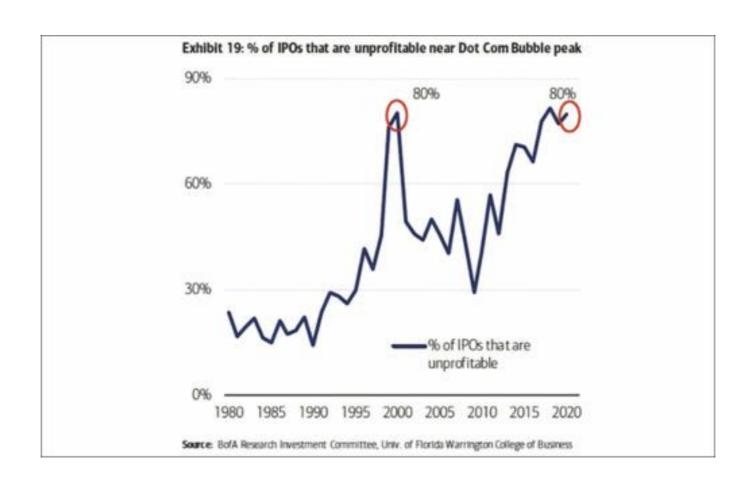
Is Value exiting a 15-year secular bear vs. Growth?













Economics

Consumers Saved \$2.9 Trillion During the Pandemic. Their Money Will Drive the Global Recovery

By <u>Simon Kennedy</u> March 2, 2021, 10:00 PM MST

- ▶ Bloomberg estimates U.S. has \$1.5 trillion in extra savings
- ▶ Whether savings are run down will determine recovery speed



- Smallcap coming out of a bear market
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What do these have in common?

- Dislocations in the market
- Fear or emotion driven
- Past performance chasers



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What do these have in common?

- Dislocations in the market
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What else do these have in common?

- Success does not rely on timing
- Big enough payoff, high enough probability of success, to justify inevitably getting wrong occasionally
- History speaks to the basis and the opportunity



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Two important qualifications

- Don't market time maintain your prior stock/bond mix
- Don't override your underlying active managers



Long-run once-in-a-lifetime seismic change

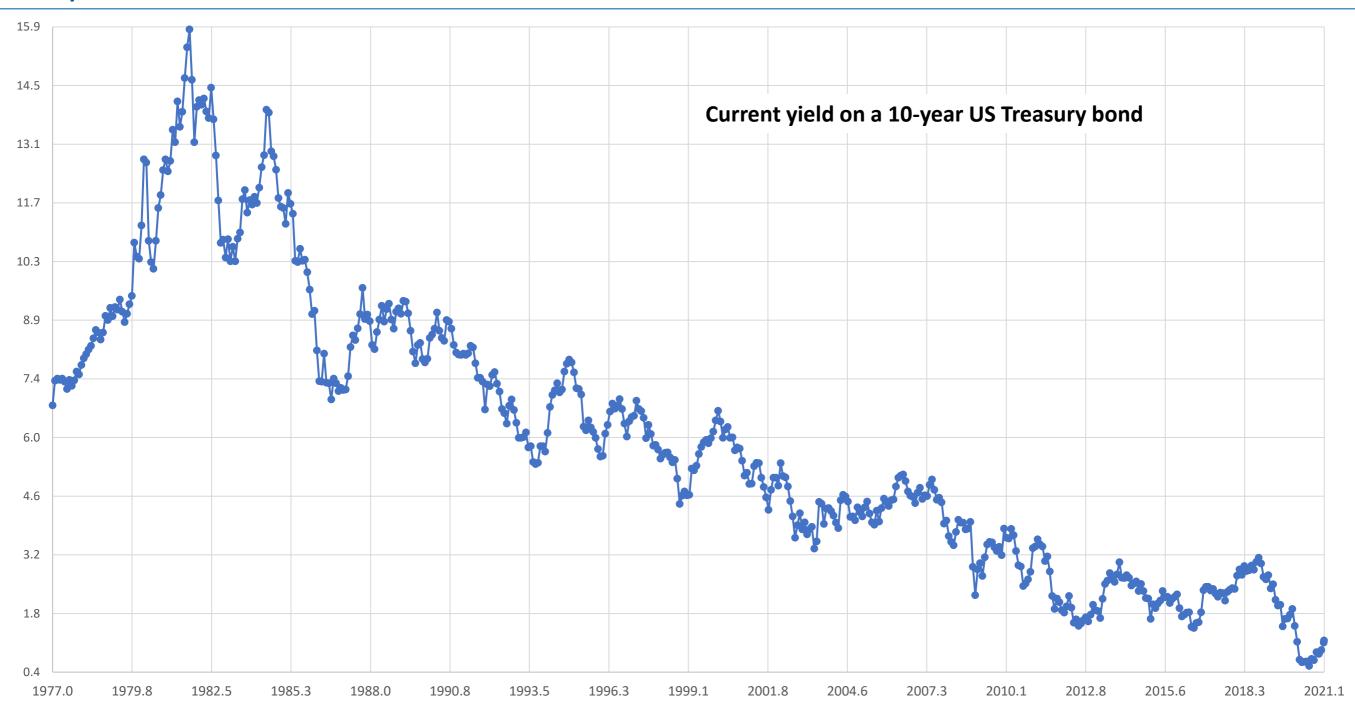
Possible candidates



- Be careful here . . . restrict yourself to profound change
- Shift from a 40-year bull bond market to a 40-year bear bond market
- Commodity super-cycle
- Collapse of key real estate sectors office, mall, super-centers
- Collapse of technology/innovation/bitcoin/Robinhood

40-year bond bear market



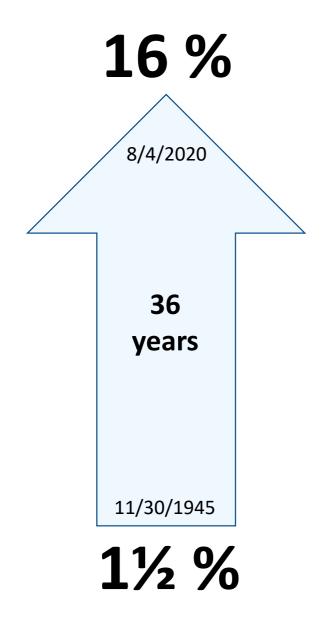


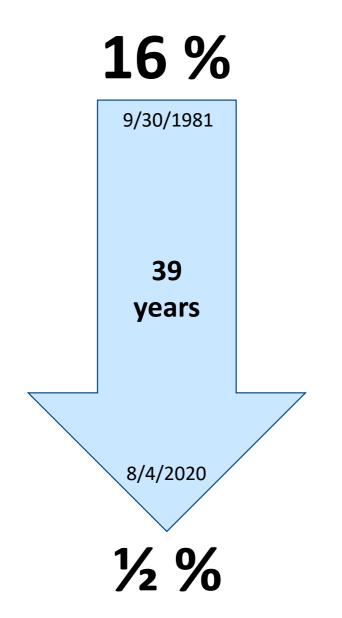
40-year bond bear market











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- This makes sense to me
- It's supported by the data
- It's supported by history

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And <u>no</u>, the answer is not to hire a "good bond manager" who performed well over the last "X" years



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- Worth watching
- But just not there yet
- · I'm seriously skeptical



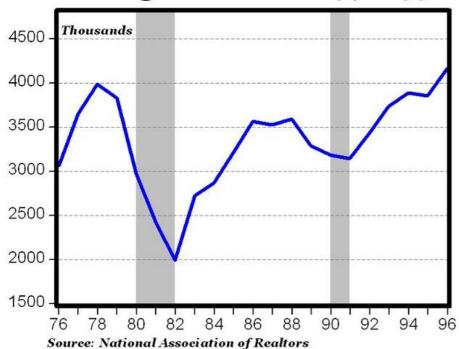
So think back in history

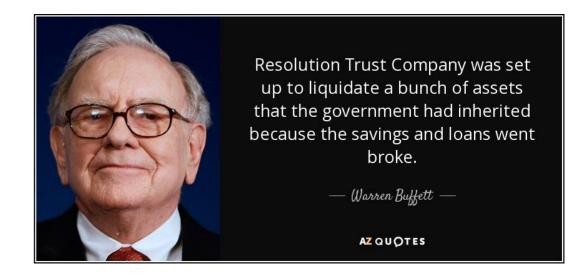
When might it have made sense



- Nov 2008 The Great Recession
- Aug 2000 The Tech Wreck
- 1989 Resolution Trust Corporation
- Jan 1982 Real Estate Crash

Existing Home Sales: 1976-1996







• Nov 2008 - The Great Recession Maximum stock beta Debt selling at 50¢ on the dollar

- Aug 2000 The Tech Wreck
- 1989 Resolution Trust Corporation
- Jan 1982 Real Estate Crash



Nov 2008 - The Great Recession

• Aug 2000 - The Tech Wreck Deep value, commodity-related

• 1989 - Resolution Trust Corporation

• Jan 1982 - Real Estate Crash



Nov 2008 - The Great Recession

Aug 2000 - The Tech Wreck

• 1989 - Resolution Trust Corporation — Commercial real estate in hardest hit geographies

• Jan 1982 - Real Estate Crash



- Nov 2008 The Great Recession
- Aug 2000 The Tech Wreck
- 1989 Resolution Trust Corporation
- Jan 1982 Real Estate Crash Rental properties



- There are seriously good times to
 - Play offense
 - Play defense
 - Stay neutral
- While still avoiding the insidious trap of market timing
- Success can be
 - Achieved
 - Without undue risk

But one needs to bring patience to the table, and avoid such bets the vast majority of the time



Key takeaway

You should be in a neutral position the vast majority of the time

Just wait patiently for opportunities to come along . . . on their schedule, not yours

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Important Disclosures



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