



Case for TAA - Forward looking qualitative view

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“If you can't explain it to a six-year-old, you don't understand it yourself”

Attributed to Albert Einstein

The last 40 years

9/30/1981 to 11/25/2021

The numbers, 9/30/1981 to 11/25/2021

- Interest rates fell from 15.84% to 1.63% *(on the 10-year Treasury)*
- Inflation fell from 10.95% to 6.22%
- S&P returned 12.43% per year
- 10-year Treasury returned 8.10% per year
- 60/40 portfolio returned 11.07% *(with monthly rebalancing)*
- S&P 500 P/E ratio rose from 7.61x to 28.63x
- S&P dividend yield fell from 5.61% to 1.32%
- Ratio of stockmarket capitalization to GNP rose from 3.29x to 23.67x

What drove the last 40 years

- Won cold war
- Sole dominant superpower
- Won economic battle with Japan
- Beat inflation
- Massive increase in home ownership
- Beat the terrible economic malaise of the late-1970s and early-1980s
- Overcame the multiple Arab oil embargos
- Built a consumer society based on debt
- Built a federal government based on debt

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- Built a consumer society based on debt
- Built a federal government based on debt
- Built a retail investment industry based on looking at past returns and a blind-eye to history and the present day

- 9/30/1981 to the present was *(the last 40+ years)*
- Extremely abnormal
- Nonrepresentative
- Completely atypical
- An extraordinary one-off event
- Has less than nothing . . . to do with what is normal or typical

Bottom line - Any portfolio designed to do well over the last 40 years

- Any portfolio designed to do well over the last 40+ years *(since 9/30/1981)*
- Is fighting the last war
- Is playing to factors/realities that can NOT repeat
- Is patently out of sync with present day realities

Uncertainty ahead

What if . . .

- We face unusually high uncertainty concerning
 - Inflation
 - Politics
 - Federal budget
 - Congressional and state legislation
 - Federal Reserve policy
- Maybe stocks
 - Rise another 4,000 or 5,000 points
 - Fall -45%
- Both are equally possible

- The US stockmarket bottomed out on 3/6/2009
- The S&P returned +783% since then *(3/6/2009 to 11/26/2021)*
- During this same period
 - International developed countries
 - Emerging marketsreturned a small small fraction of the S&P's return
- As a result . . . the valuation gap between domestic and international has widened to historic proportions
- Does the US continue to excel or do international stocks dominate
- Both are equally possible

Widening valuation gap between growth and value

- Since the market bottomed back on 3/6/2009 *(3/6/2009 to 11/26/2021)*
- S&P 500 Value returned 529%
- S&P 500 Growth returned 1,064% . . . more than twice as much
- This was driven by
 - Second wave of the current technology revolution
 - COVID
 - Emotional overexcitement
- Maybe
 - Growth outperforms value for an additional 6 years
 - Value crushes growth by 500% over the next 12-15 years
- Both are equally possible

Bear markets for inflation-adjusted U.S. stocks since 1846

	Cumulative percentage return, unannualized	Duration in years	Start date	End date	Volatility, annualized standard deviation of monthly returns	Percentage of monthly returns that were POSITIVE	Annualized return during BEAR market
Median BEAR market	-37	1.46			18.5	26	-29.6
Mean BEAR market	-41	1.65			20.7	25	-33.2

Bear markets for inflation-adjusted U.S. bonds since 1845

	Cumulative percentage return, unannualized	Duration in years	Start date	End date	Volatility, annualized standard deviation of monthly returns	Percentage of monthly returns that were POSITIVE	Annualized return during BEAR market
Median BEAR market	-35	13.87			5.4	43	-4.5
Mean BEAR market	-36	11.75			5.1	40	-5.0

Why a simultaneous stock/bond bear market looks like

- After inflation is subtracted out . . .
- Stocks fall -41%
- Bonds fall -36%
- A 60/40 portfolio falls -39%
- Is this possible . . . Yes
- It is also possible that the bond-bear and the stock-bear will occur at different times
- Both are equally possible

When is the next economic recession

- Our next recession could start in 6 months
- But . . . it might not start for another 6 years
- Both are possible
- Both are equally possible

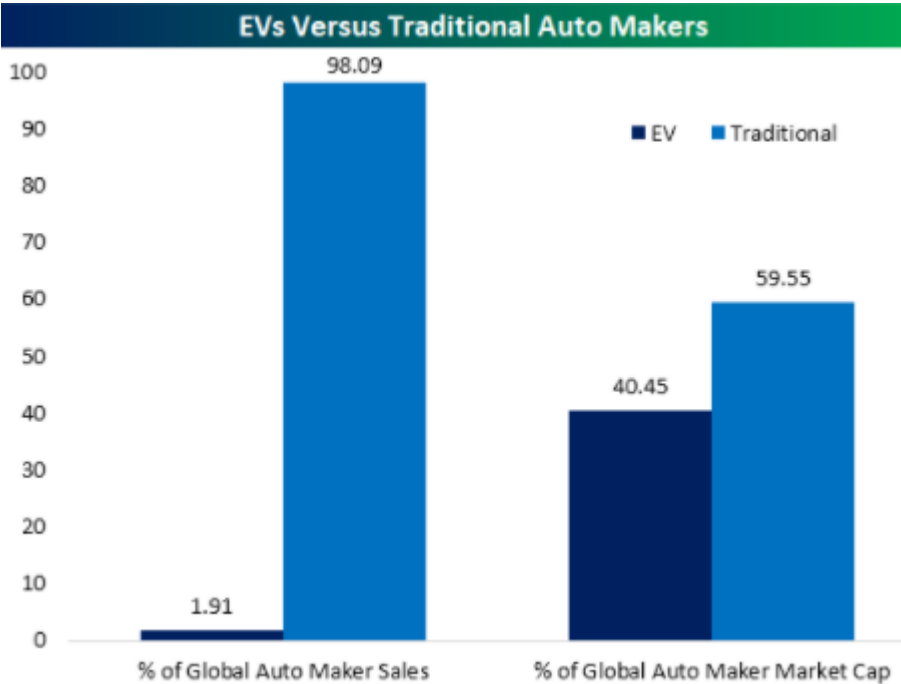
Inflation . . . will it return to 2%?

- Inflation is currently running at 6 ¼ %
- It appears that inflation will jump to 7 ¼ % sometime during Q1 or Q2 of 2022
- Mr. Market currently expects inflation to fall back into the 2's and stay there
- But, given
 - Economic stimulus
 - Demographics
 - Energy
 - Social and political initiatives
 - Monetary policy
 - COVID resilience

inflation could climb every higher . . . delivering 25 years of rising inflation

- Both outcomes are equally possible

Will we see transformational change within certain industries?



Yale SCHOOL OF PUBLIC HEALTH

The Application and Future Potential of mRNA Vaccines

The implications of mRNA technology are staggering. Several vaccine developers are studying this technology for

Exhibit 1: Digital asset ecosystem

A quick snapshot of the expansive and developing ecosystem from Wallets & Custody Services to Infrastructure & Development



PUMPED HYDRO-POWER

Gravity is a powerful, inescapable force that surrounds us at all times – and it also underpins one of the most established energy storage technologies, pumped hydro-power. Currently the most common type of energy storage is pumped hydroelectric facilities, and we have employed this utility-scale gravity storage technology for the better part of the last century in the United States and around the world.

[Learn More](#)

Four industries that might just . . . change the world

- Transportation
- Medicine
- Energy
- Digital finance and contracting

The nature of change

Speed versus

Direction

- Vast majority of the time
- Change is about speed or pace
- During such eras . . . The most effective way of dealing with change is to
- Look at the past and see what worked best
- Then modifying that solution at the edges for current-day realities

- But occasionally . . . Perhaps twice each century
- Change is about direction
- The last time we saw this was the 1940s
- During such eras . . . the disastrous way of dealing with change is to
- Look at the past and see what worked best
- Then modifying that solution at the edges for current-day realities
- Such an approach almost guarantees faceplant
- Instead . . . one must set everything aside from the past . . . and look forward

What factors are driving directional change

This is one of those “twice a century” big deals . . . when the rules of the game change

Factors most likely to drive directional change

- Fossil to renewables
- Haves versus the have-nots
- China cold war
- Velocity of money
- Interest rates
- Fundamental intrinsic valuations *(on stocks, bonds, and trophy real estate)*
- Zombies
- Weather and demographics
- Suppression of creative destruction *(undermining evolution, renewal, and future opportunity)*
- Unhealthy emotion-driven “get-rich-quick” wagering/betting behaviors

What strategy best deals with directional change

What investment approach best manages massive multi-dimensional uncertainty

Attributes of a successful strategy when facing directional change

- Draws from a sufficiently broad playing field of asset categories
- Takes large meaningful asset class bets
- Starts with a clean sheet of paper (a fresh look) once each month
- Has little to no correlation with traditional portfolios, i.e., absolutely **no higher than 0.67**
- Strives to remain aligned with then-current themes
- Meaningfully mitigates bear markets lasting 8 months or more
- In other words it is massively adaptive and evolutionary
- But remains humble in its construction

What I just described is the inherent essence and purpose of

Tactical Asset Allocation

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The ostrich approach to asset mix . . . or asset allocation

- It delivered a high return in the past
- This high return persisted over a long period of time
- Other people are using this investment
- Smart knowledgeable professional investors are using this investment
- Therefore . . . I should use it too . . . and so should my clients

The above . . . Are the exact same words as uttered by those who invested their own and their client's money in Bernie Madoff



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The case for TAA – Backward looking quantitative analysis

What worked

How well did it work . . . and how consistently

Friday, December 10th at 11:00 a.m. EASTERN

All data and statistics were provided by Global Financial Data, Inc. (unless otherwise indicated in the exhibit)

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