

JULEX CAPITAL

Which strategies perform best during a bear?

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How approach this question

- 100% data driven
- No forecasts, no predictions, no selling

• Just the numbers

- Rock solid data exists back to 1919
- But . . . Only back to 1926 for most investment strategies
- **SOURCE**
 - Fama and French
 - Kenneth R. French data library
 - Dartmouth University
- Data spans 1926 to the present
- https://mba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library.html

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 |
|--------------------|--|-------------------|------------|----------|--|--|--------------------------------------|
| | -30 | 1.25 | Aug 1853 | Nov 1854 | 27.6 | 27 | -25.1 |
| | -31 | 0.83 | Dec 1856 | Oct 1857 | 19.2 | 10 | -36.4 |
| | -35 | 0.67 | Jul 1864 | Mar 1865 | 32.4 | 38 | -47.1 |
| | -32 | 1.25 | Mar 1876 | Jun 1877 | 7.8 | 7 | -26.2 |
| | -37 | 1.17 | Sep 1906 | Nov 1907 | 13.8 | 14 | -32.7 |
| | -27 | 2.00 | Oct 1912 | Oct 1914 | 11.0 | 38 | -14.8 |
| | -48 | 4.08 | Nov 1916 | Dec 1920 | 15.9 | 41 | -14.8 |
| | -79 | 2.75 | Aug 1929 | May 1932 | 37.3 | 36 | -43.7 |
| | -50 | 1.08 | Feb 1937 | Mar 1938 | 31.6 | 23 | -47.1 |
| | -39 | 2.58 | Sep 1939 | Apr 1942 | 19.3 | 42 | -17.3 |
| | -37 | 1.75 | May 1946 | Feb 1948 | 14.5 | 29 | -23.4 |
| | -35 | 1.58 | Nov 1968 | Jun 1970 | 14.8 | 26 | -24.1 |
| | -52 | 1.75 | Dec 1972 | Sep 1974 | 15.2 | 14 | -34.2 |
| | -30 | 0.25 | Aug 1987 | Nov 1987 | 33.9 | 0 | -76.3 |
| | -47 | 2.08 | Aug 2000 | Sep 2002 | 17.8 | 36 | -26.4 |
| | -52 | 1.33 | Oct 2007 | Feb 2009 | 19.2 | 25 | -42.1 |
| | ? | ? | Aug 2021 | ? | ? | ? | ? |
| Median BEAR market | -37 | 1.46 | | | 18.5 | 26 | -29.6 |
| Mean BEAR market | -41 | 1.65 | | | 20.7 | 25 | -33.2 |

The most recent 9 bear markets

| 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 |
|--|-------------------|------------|----------|--|--|--------------------------------------|
| -79 | 2.75 | Aug 1929 | May 1932 | 37.3 | 36 | -43.7 |
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No . . . 2020 was not a bear market

- **Bear markets**
 - Reset imbalance . . . correct imbalances
 - Reduce use of *“Buy the Dip”*
 - Modify investor’s preference for risk
 - Meaningfully affect fundamental valuation levels
 - Go down and stay down for more than several weeks

- **2020 was NOT a bear market**
 - -8% Feb 2020
 - -12% Mar 2020
 - +13% Apr 2020

So we have 9 bear markets to consider

- 9 bear markets to consider in total
- We will also look at just the most recent 8
 - Excluding the first of these that most clearly reflected **The Great Depression**
 - The bear of 1929-1932

Consider 10 investment strategies

- Real estate
- Micro cap stocks
- Small cap
- Blend - 50% Micro cap 50% Small cap
- S&P 500
- Very high dividend yields
- Mild value
- High dividend yields
- Pure value
- Tactical Asset Allocation

Consider 10 investment strategies

- Real estate . . . Fama French industry sector index
- Micro cap stocks
- Small cap
- Blend - 50% Micro cap 50% Small cap
- S&P 500
- Very high dividend yields
- Mild value
- High dividend yields
- Pure value
- Tactical Asset Allocation

Consider 10 investment strategies

- Real estate
- Micro cap stocks . . . 20% of all stocks with the smallest size
- Small cap
- Blend - 50% Micro cap 50% Small cap
- S&P 500
- Very high dividend yields
- Mild value
- High dividend yields
- Pure value
- Tactical Asset Allocation

Consider 10 investment strategies

- Real estate
- Micro cap stocks
- Small cap . . . 30% of all stocks with the smallest size
- Blend - 50% Micro cap 50% Small cap
- S&P 500
- Very high dividend yields
- Mild value
- High dividend yields
- Pure value
- Tactical Asset Allocation

Consider 10 investment strategies

- Real estate
- Micro cap stocks
- Small cap
- Blend - 50% Micro cap 50% Small cap
- S&P 500
- Very high dividend yields . . . 20% of all stocks with the highest dividend yield
- Mild value
- High dividend yields
- Pure value
- Tactical Asset Allocation

Consider 10 investment strategies

- Real estate
- Micro cap stocks
- Small cap
- Blend - 50% Micro cap 50% Small cap
- S&P 500
- Very high dividend yields
- Mild value . . . 50% in Pure value and 50% in core stocks (neither growth nor value)
- High dividend yields
- Pure value
- Tactical Asset Allocation

Consider 10 investment strategies

- Real estate
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- S&P 500
- Very high dividend yields
- Mild value
- High dividend yields . . . 30% of all stocks with the highest dividend yield
- Pure value
- Tactical Asset Allocation

Consider 10 investment strategies

- Real estate
- Micro cap stocks
- Small cap
- Blend - 50% Micro cap 50% Small cap
- S&P 500
- Very high dividend yields
- Mild value
- High dividend yields
- Pure value . . . 30% of all stocks with the lowest price-to-book ratio
- Tactical Asset Allocation

Consider 10 investment strategies

- Real estate
- Micro cap stocks
- Small cap
- Blend - 50% Micro cap 50% Small cap
- S&P 500
- Very high dividend yields
- Mild value
- High dividend yields
- Pure value
- Tactical Asset Allocation . . . 8 sectors drawn from 32 that are trending most strongly, equal-weight

The results

For the last 9 bear markets

For the most recent 8 . . . excluding The Great Depression

- Why?
- Anytime one examines returns during different inflationary environments . . . You end up with “crap” unless you first correct for inflation
- This is why economic growth (GDP growth) is always and only reported after inflation

Last 9 bear markets . . . median result

| | |
|-------|-------------------------------------|
| -63.9 | Real estate |
| -58.6 | Micro cap stocks |
| -56.9 | Small cap |
| -55.2 | Blend - 50% Micro cap 50% Small cap |
| -47.2 | S&P 500 |
| -40.6 | Very high dividend yields |
| -39.1 | Mild value |
| -39.0 | High dividend yields |
| -38.7 | Pure value |
| -7.6 | Tactical Asset Allocation |

Last 8 bear markets . . . median result . . . excludes The Great Depression

| | |
|-------|-------------------------------------|
| -59.9 | Real estate |
| -54.3 | Micro cap stocks |
| -53.1 | Small cap |
| -52.0 | Blend - 50% Micro cap 50% Small cap |
| -43.0 | S&P 500 |
| -37.9 | Mild value |
| -37.8 | Pure value |
| -36.0 | Very high dividend yields |
| -35.9 | High dividend yields |
| -7.7 | Tactical Asset Allocation |

Forward looking adjustments

Based on what we know about markets today versus in the past

Last 9 bear markets . . . median result

| | |
|-------|-------------------------------------|
| -63.9 | Real estate |
| -58.6 | Micro cap stocks |
| -56.9 | Small cap |
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| -47.2 | S&P 500 |
| -40.6 | Very high dividend yields |
| -39.1 | Mild value |
| -39.0 | High dividend yields |
| -38.7 | Pure value |
| -7.6 | Tactical Asset Allocation |

Next bear will be **LESS** severe because

- Over the last 16 bear markets, the median loss for the S&P was -37.2%

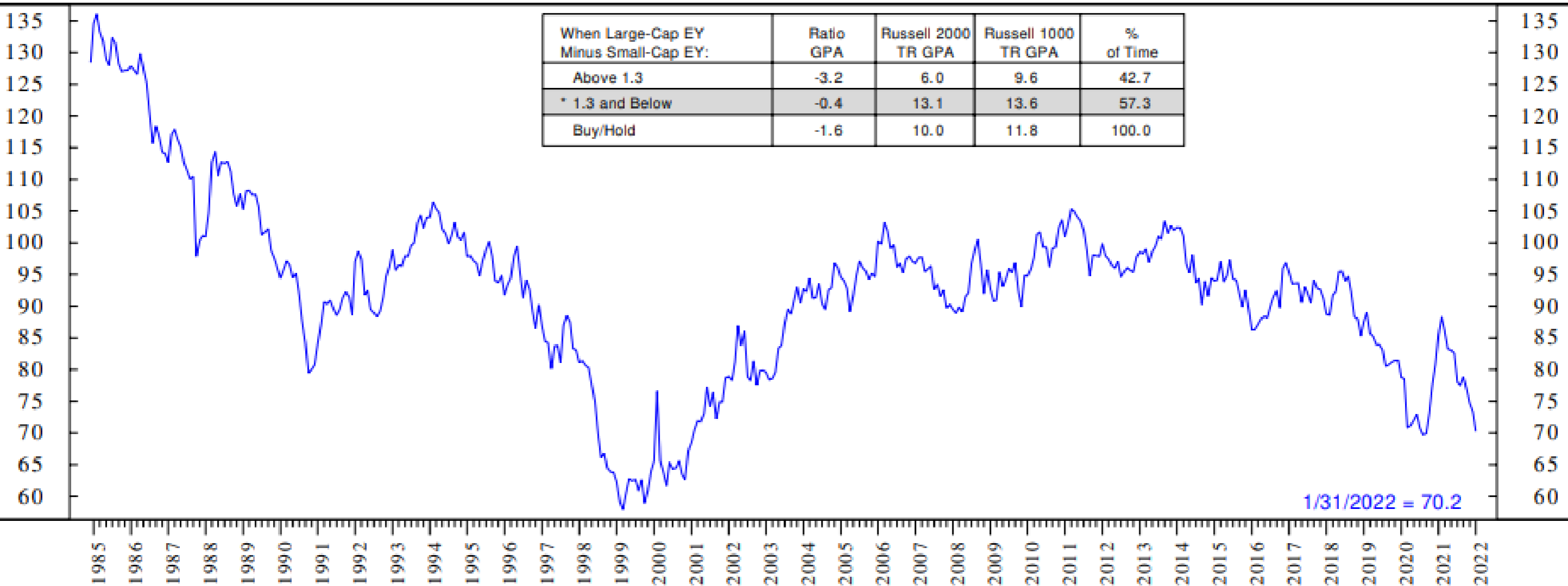
Next bear market will be **MORE** severe because

- Fundamental valuations are considerably more stretched today than in the past

Small cap is a difficult asset category . . . the last 37+ years

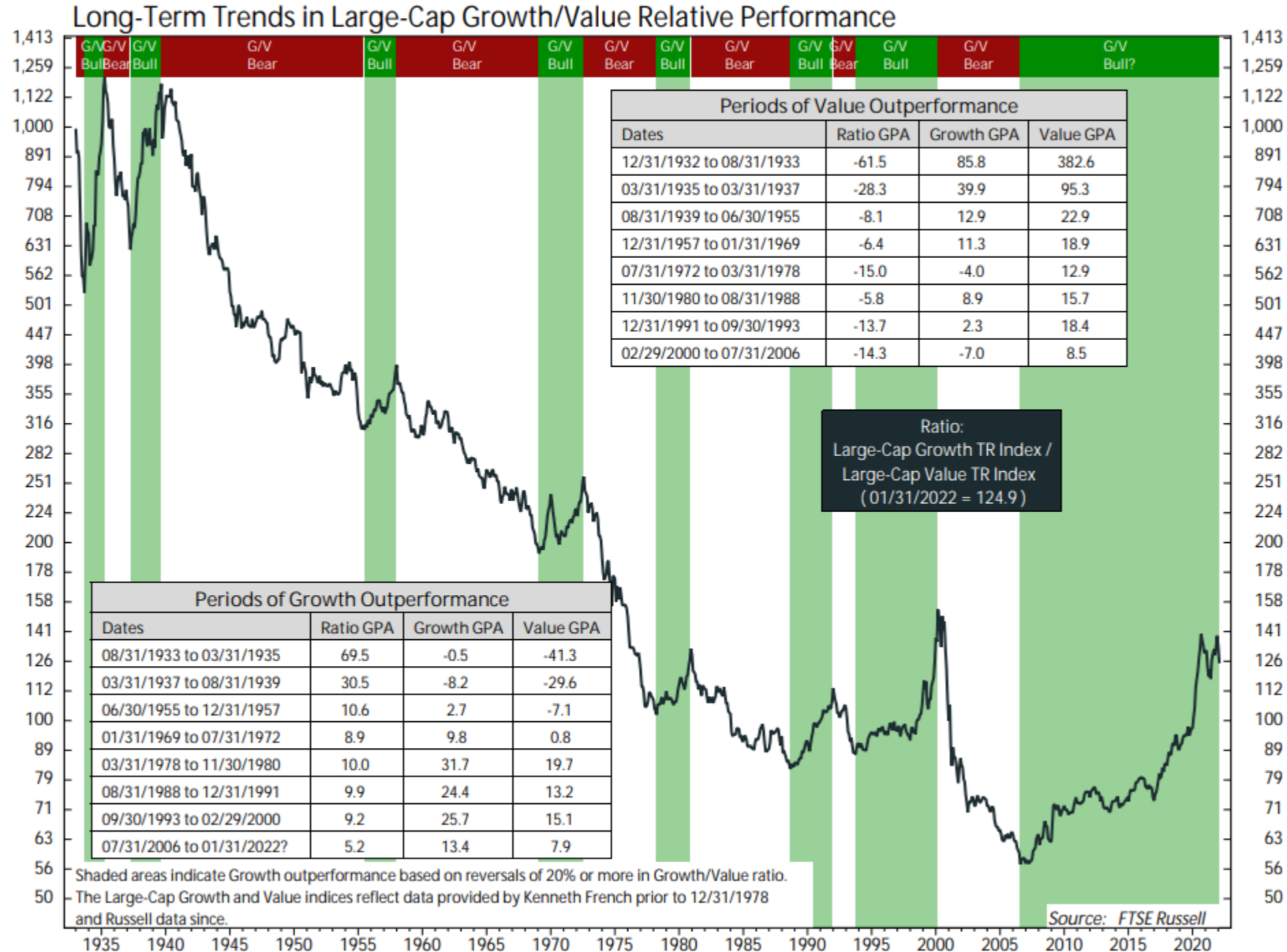
Monthly 12/31/1984 - 1/31/2022

Russell 2000 Total Return Index / Russell 1000 Total Return Index



Record setting growth “bubble” . . . favors value

Monthly Data 1932-12-31 to 2022-01-31 (Log Scale)



Last 9 bear markets . . . median result

| | |
|-------|-------------------------------------|
| -63.9 | Real estate |
| -58.6 | Micro cap stocks |
| -56.9 | Small cap |
| -55.2 | Blend - 50% Micro cap 50% Small cap |
| -47.2 | S&P 500 |
| -40.6 | Very high dividend yields |
| -39.1 | Mild value |
| -39.0 | High dividend yields |
| -38.7 | Pure value |
| -7.6 | Tactical Asset Allocation |

Real estate

- Do much **better** because the industry has become more conservative and 2020 cleaned out considerable excess

Small cap

- Do **worse** due to the zombie problem (use Julex)

High dividend

- Do about the same, but avoid zombies (use Julex)

Value

- Do **better**, simply because of the extreme technology/innovation bubble

Tactical Asset Allocation

- Do about the same (use Julex)

- The Fama French data for real estate is correct
- But real estate has evolved to such an extent over the last hundred years . . . that the Fama French data paints a misleading picture
- In an attempt to repair this problem . . . let's consider the FTSE Nareit Equity REITs Index instead
- Unfortunately, this data only goes back to 1971 . . . so it covers 4 of the last 9 bear markets

Looking at ONLY the last 4 bear markets (using NAREIT for real estate)

| | |
|-------|-------------------------------------|
| -49.5 | S&P 500 |
| -47.1 | Micro cap stocks |
| -45.9 | Small cap |
| -45.1 | Blend - 50% Micro cap 50% Small cap |
| -35.7 | Mild value |
| -33.5 | Pure value |
| -32.6 | High dividend yields |
| -30.8 | Very high dividend yields |
| -28.7 | Real estate |
| -5.0 | Tactical Asset Allocation |

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Investment strategies for short-term needs (years 0 to 5)

Friday

February 25th

11:00 a.m. EASTERN

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

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