

**JULEX** CAPITAL

# Qualitative - why Tactical Asset Allocation now

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- This is a look forward
- How is today different from the past . . . such that you should shift to TAA
- Qualitative assessment

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# I don't want to lose it all, not now

This becomes the defining element . . .

Especially given today's ultra-high uncertainty

- Worked hard
- Built a nest egg
- Not willing to lose it now
  
- **BUT**
  - Also not willing to have it nibbled all away over the next 35 years by
    - Taxes
    - Inflation
    - Fees

## Driver is not return . . . it's risk

- Euro war
- Taiwan war
- 2<sup>nd</sup> pandemic . . . future variants
- Inflation returns to 14%
- Interest rates return to 16 ½%
- Oil hits \$200
- P/E ratio (Price/Earnings ratio) returns to its 1981 level . . . . stocks fall -60%
- Return of a political “Andrew Jackson” environment
  - Cut government in half
  - Close monetary authorities
  - Shut the borders
  - We get an incredibly serious DEPRESSION

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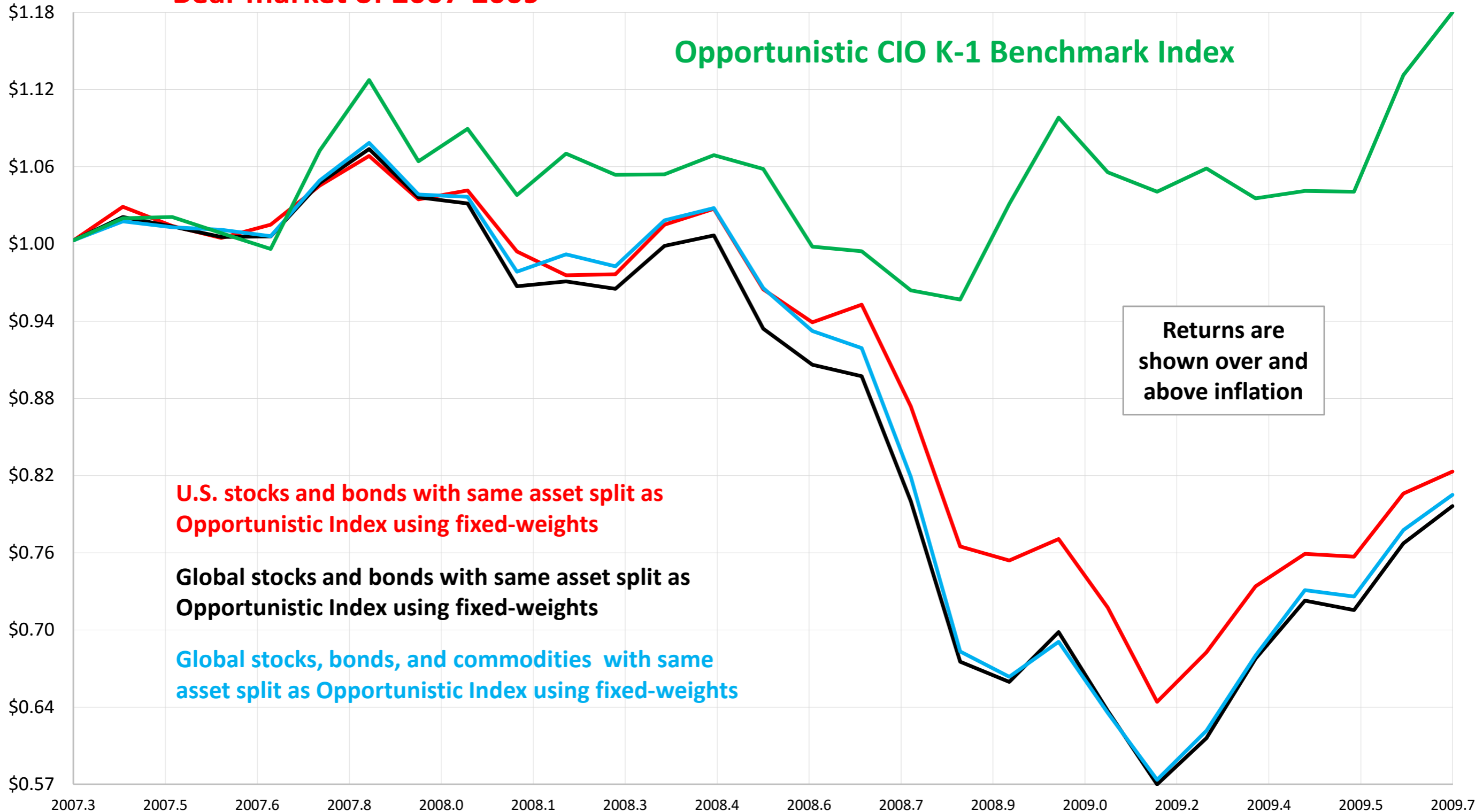
# A stock bear market is coming

Let's examine three of them

# Bear market of 2007-2009

## Opportunistic CIO K-1 Benchmark Index

Growth of \$1 inflation-adjusted



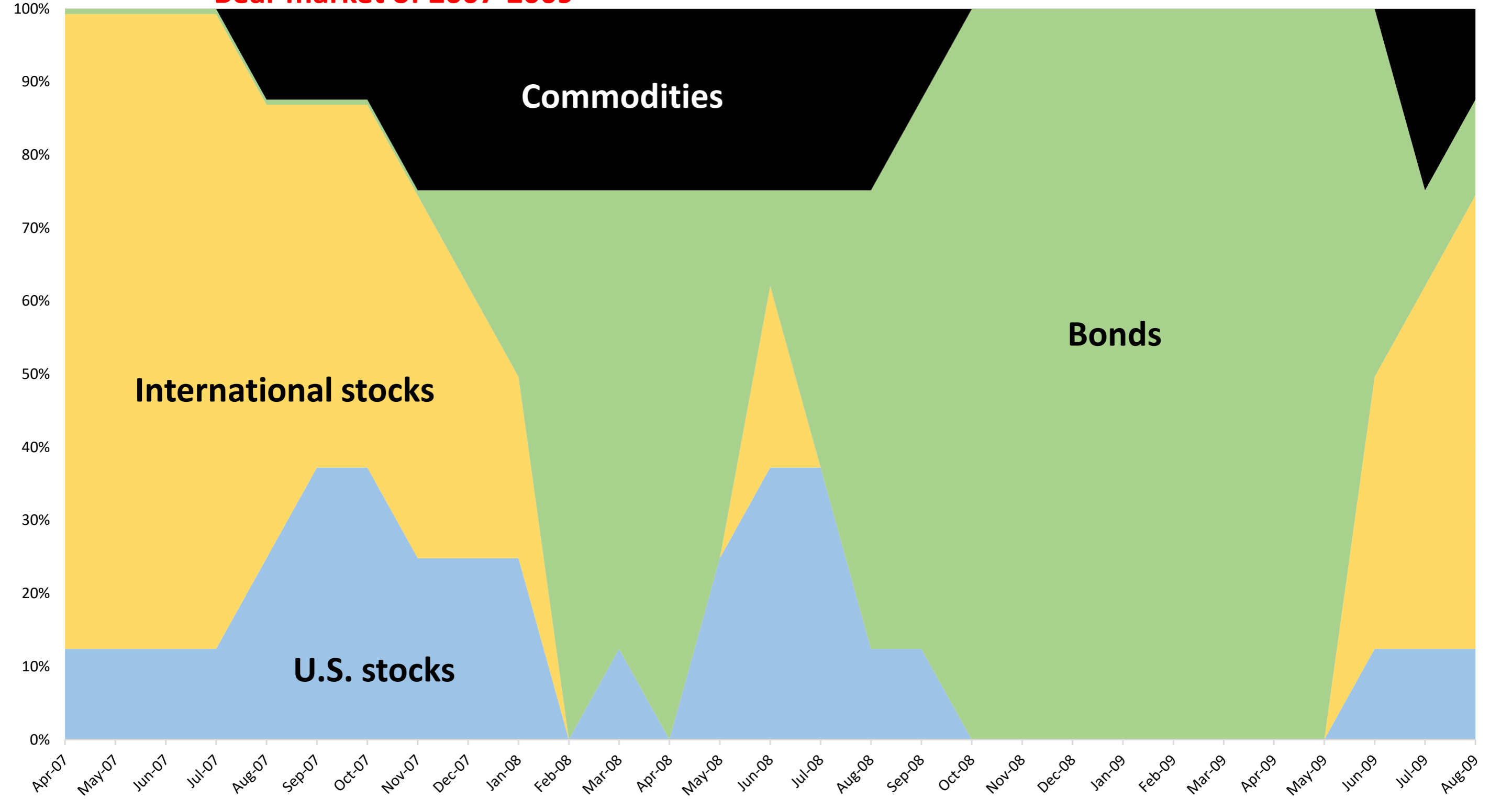
Returns are shown over and above inflation

U.S. stocks and bonds with same asset split as Opportunistic Index using fixed-weights

Global stocks and bonds with same asset split as Opportunistic Index using fixed-weights

Global stocks, bonds, and commodities with same asset split as Opportunistic Index using fixed-weights

# Bear market of 2007-2009



**International stocks**

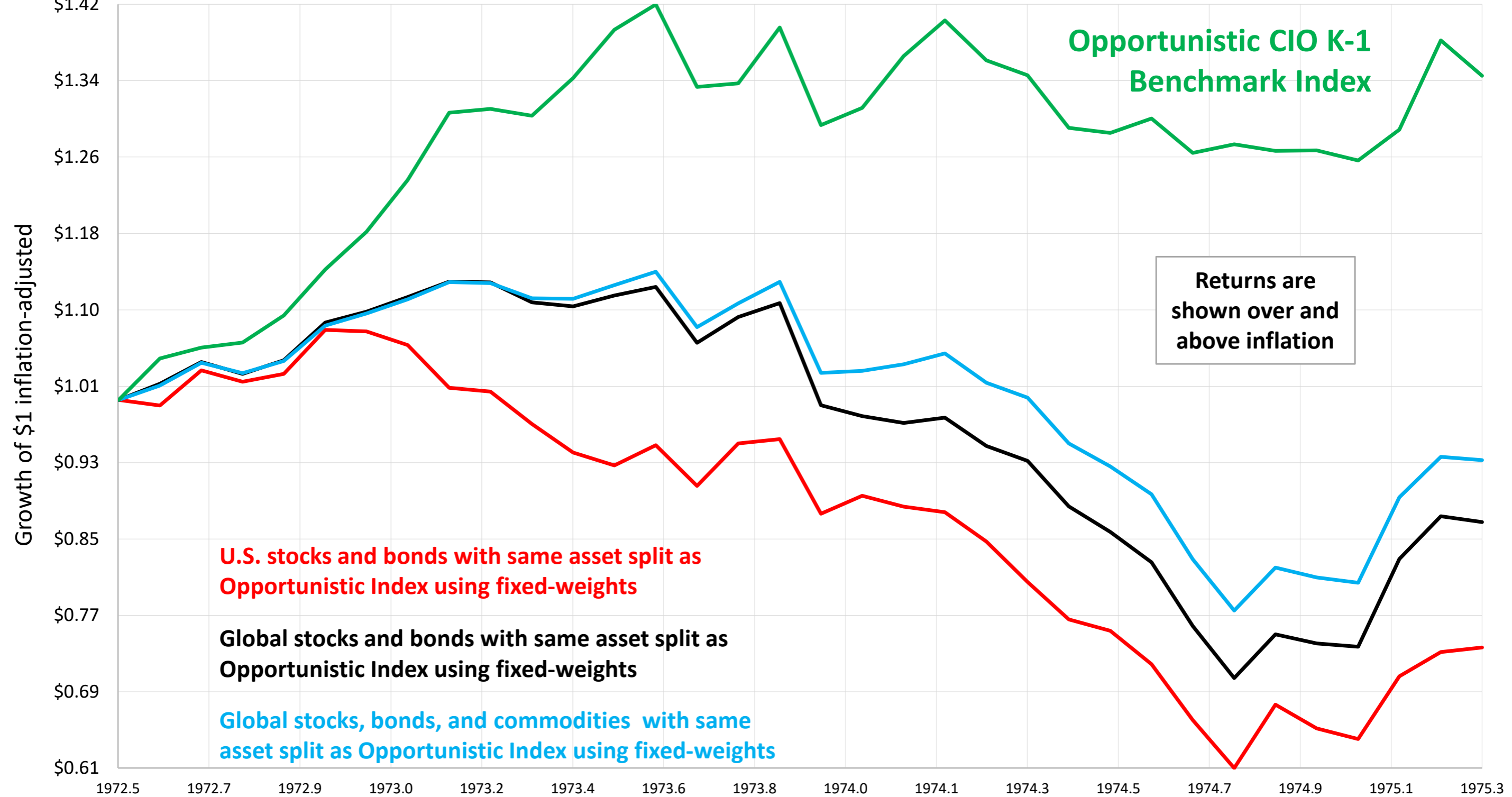
**U.S. stocks**

**Commodities**

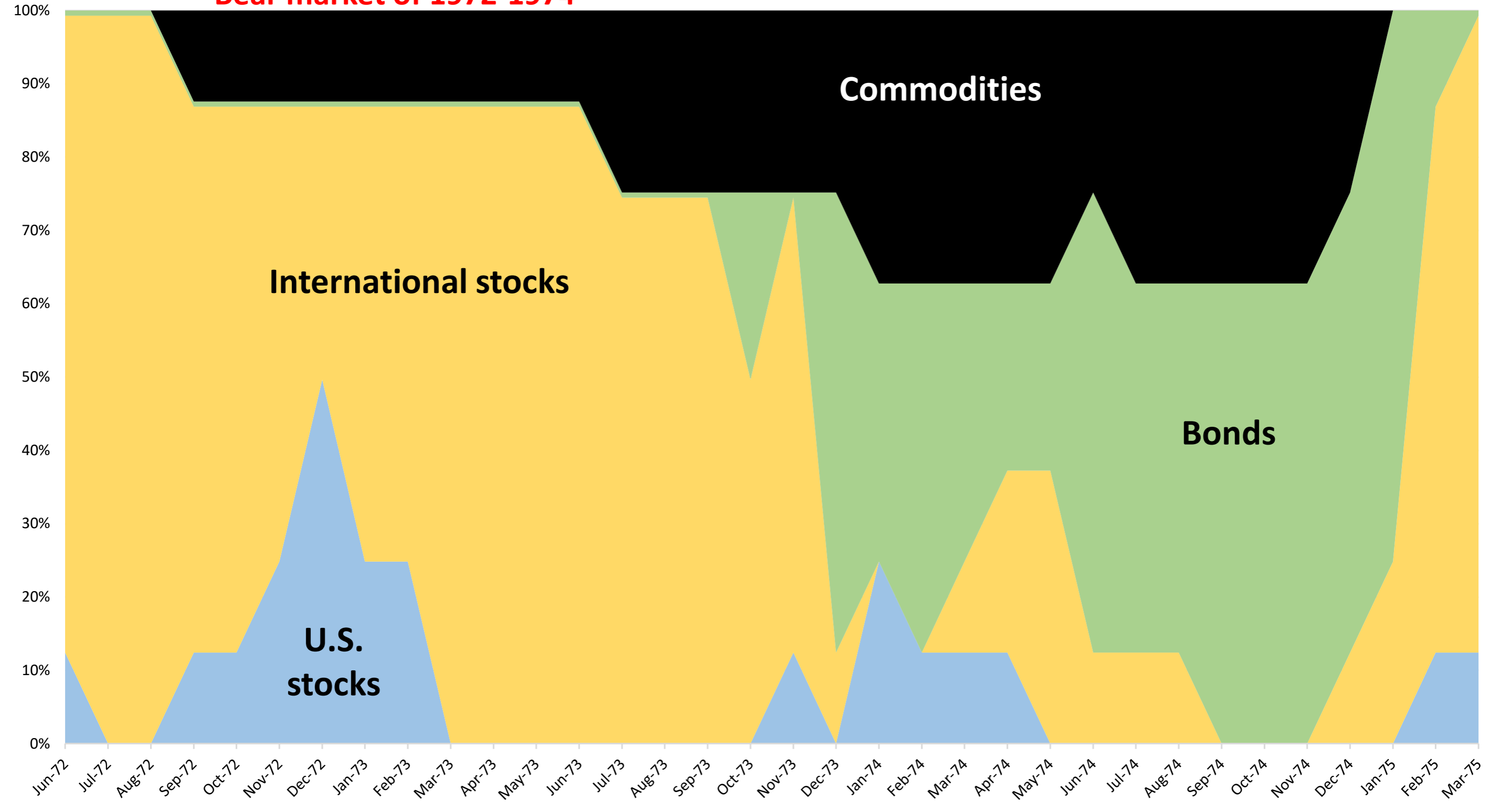
**Bonds**



# Bear market of 1972-1974



# Bear market of 1972-1974



# Bear market of 1937-1938

## Opportunistic CIO K-1 Benchmark Index

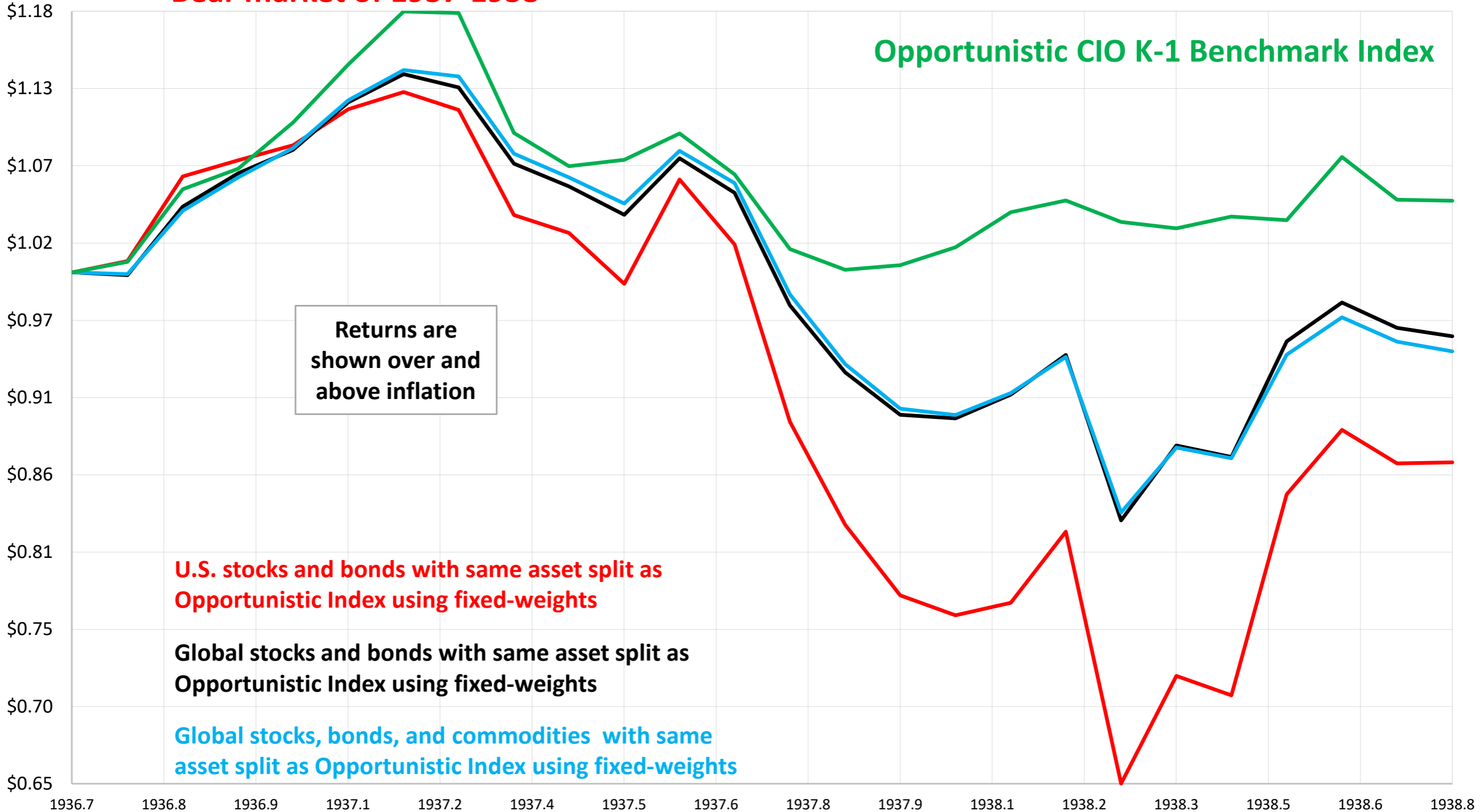
Growth of \$1 inflation-adjusted

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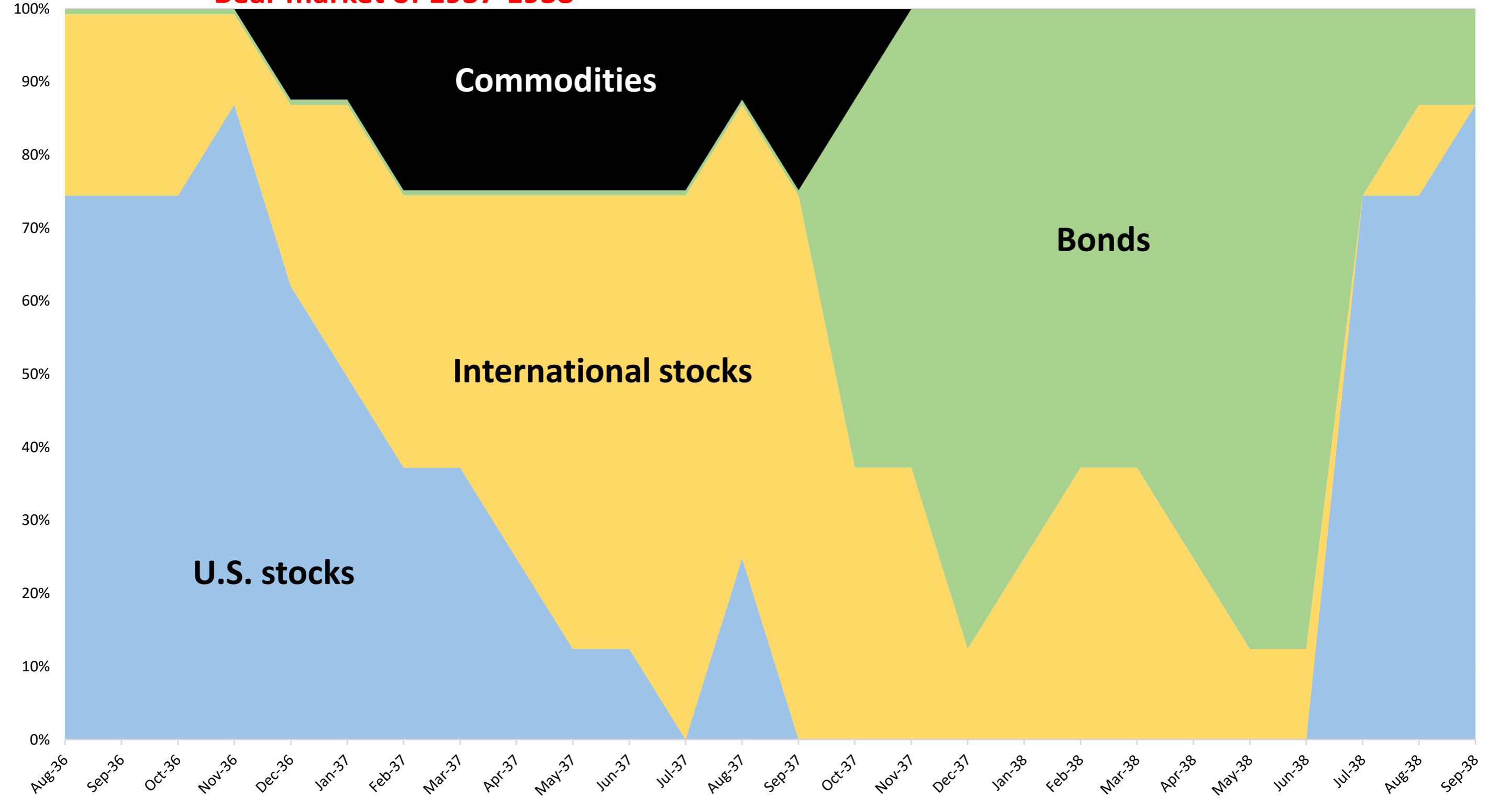
U.S. stocks and bonds with same asset split as Opportunistic Index using fixed-weights

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# Bear market of 1937-1938



**Commodities**

**Bonds**

**International stocks**

**U.S. stocks**

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# Forget the bear . . .

*Instead, what if we just experience massive “directional change”*

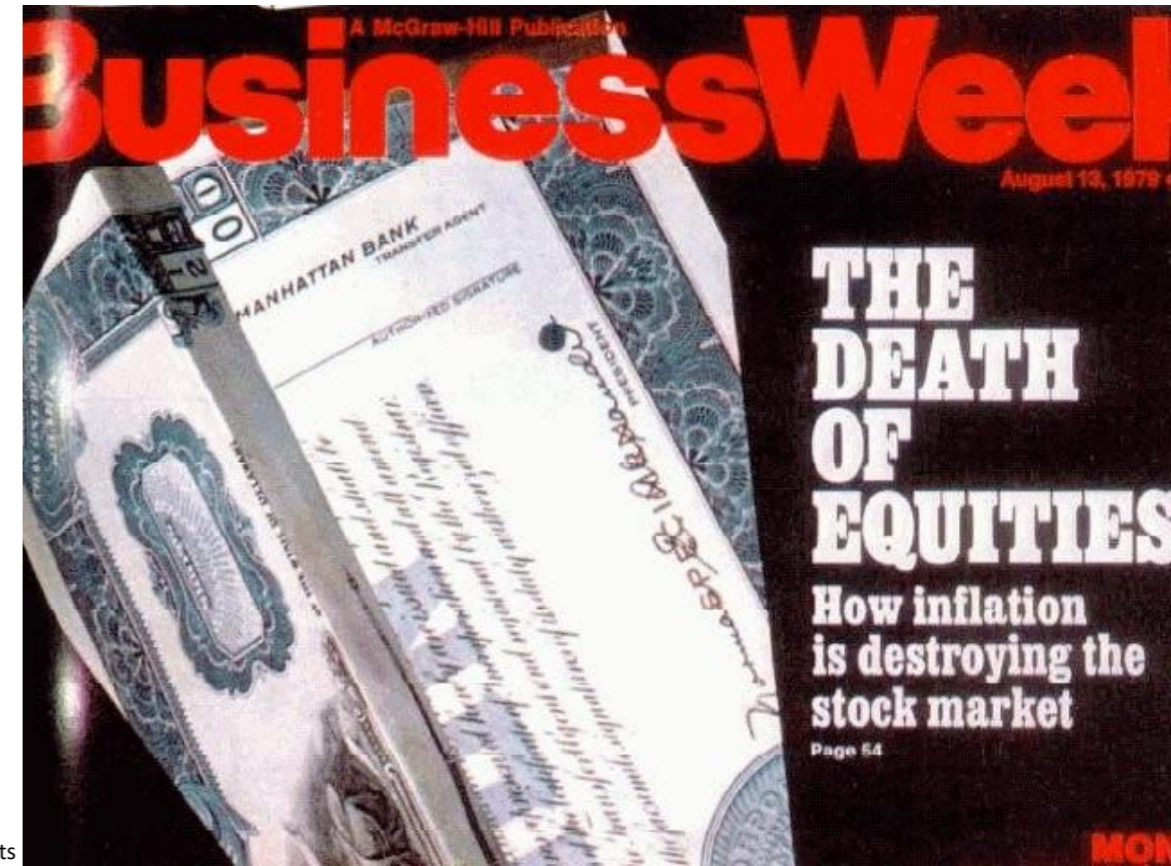
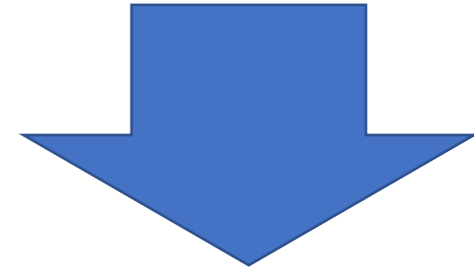
Let's examine a similar period from the past

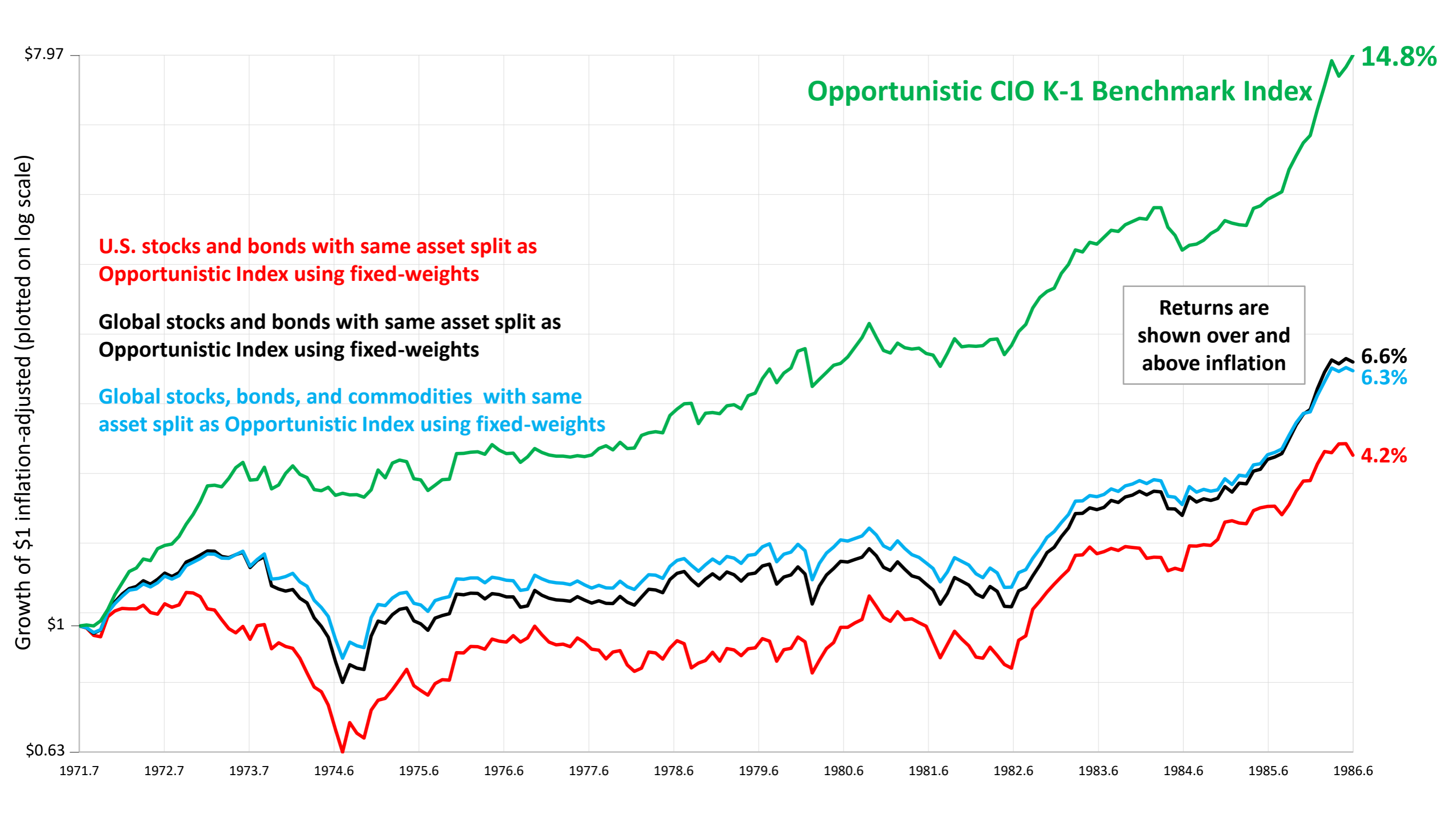
## The single most similar period from out of history

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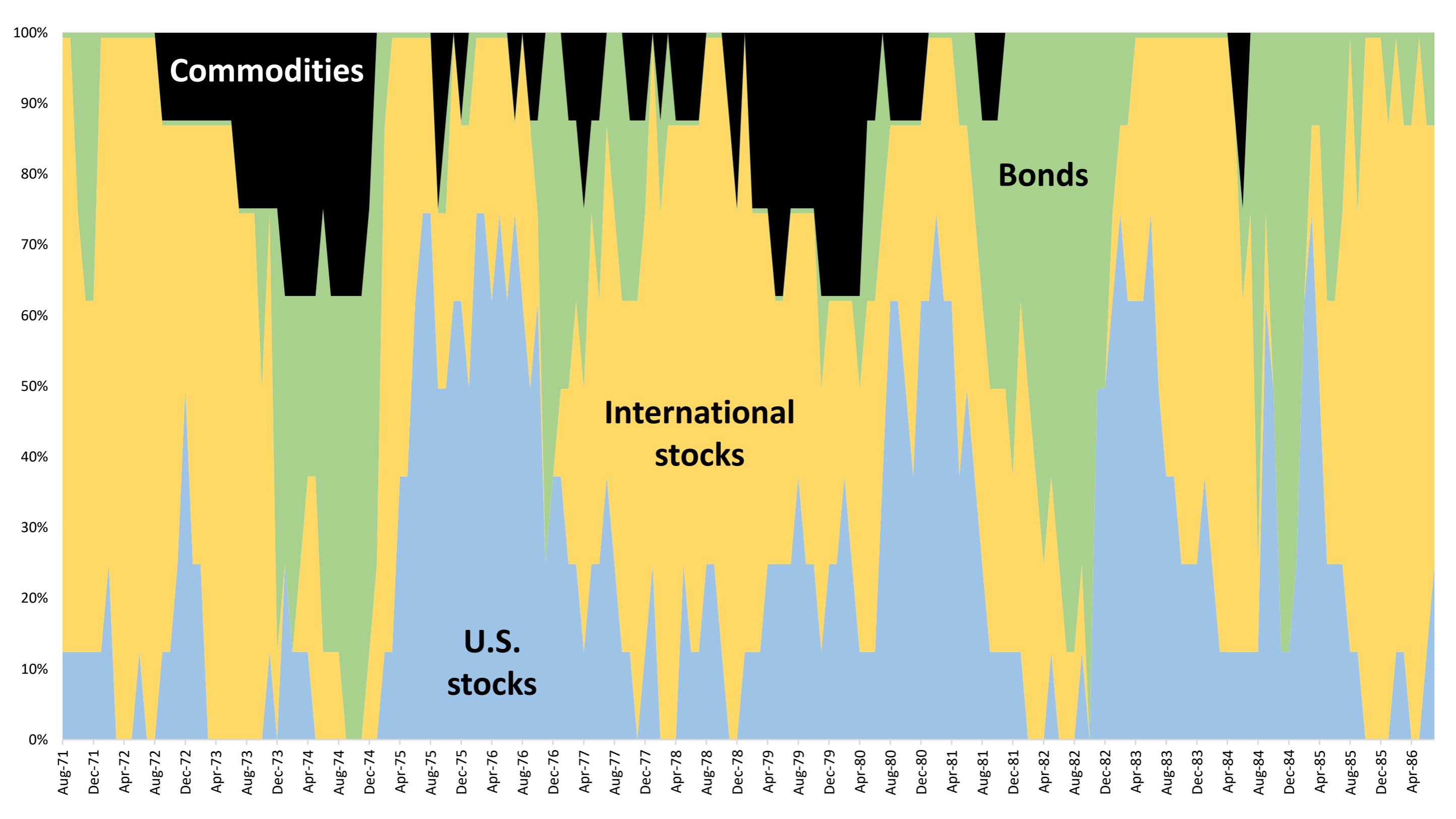
- Directional change
- Massive uncertainty
  
- Not in terms of “similar forces” . . . instead in terms of size/strength of change/uncertainty

- OPEC oil embargos to the U.S.
- 1973 Arab-Israeli War
- Race Riots in most major cities
- Unemployment rising to highest level since The Great Depression
- Interest rates hit **16 ½%**
- Series of three economic recessions
- Black Monday (Oct 1987) when the market fell **-25%** in just 120 minutes
- Highest inflation in over 100 years
- Oil rose **1,140%** in just over nine years
- Regan revolution that transformed American politics









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# The nature of change

95% of the time it's about speed or pace

5% of the time . . . it's about direction

## The “95% of the time”

About . . . speed or pace

Best possible approach

See what worked best in the past and modify it at the edges to reflect current day realities

## The “5% of the time”

About . . . direction

Worst possible approach

See what worked best in the past and modify it at the edges to reflect current day realities

Guarantees faceplant

- 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)*
- **European war**
- **Reinvention of four industries** *(Transportation, Medicine, Energy, Digital finance and contracting)*
- **An “Andrew Jackson” governmental regression**

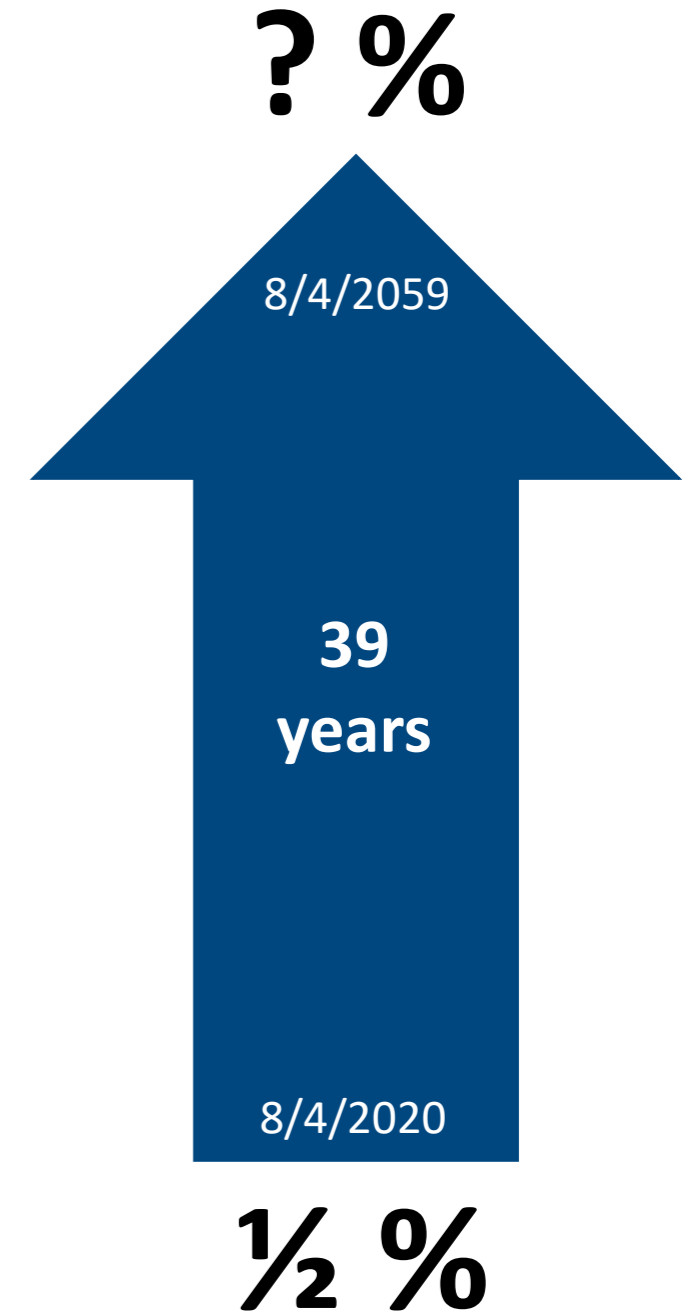
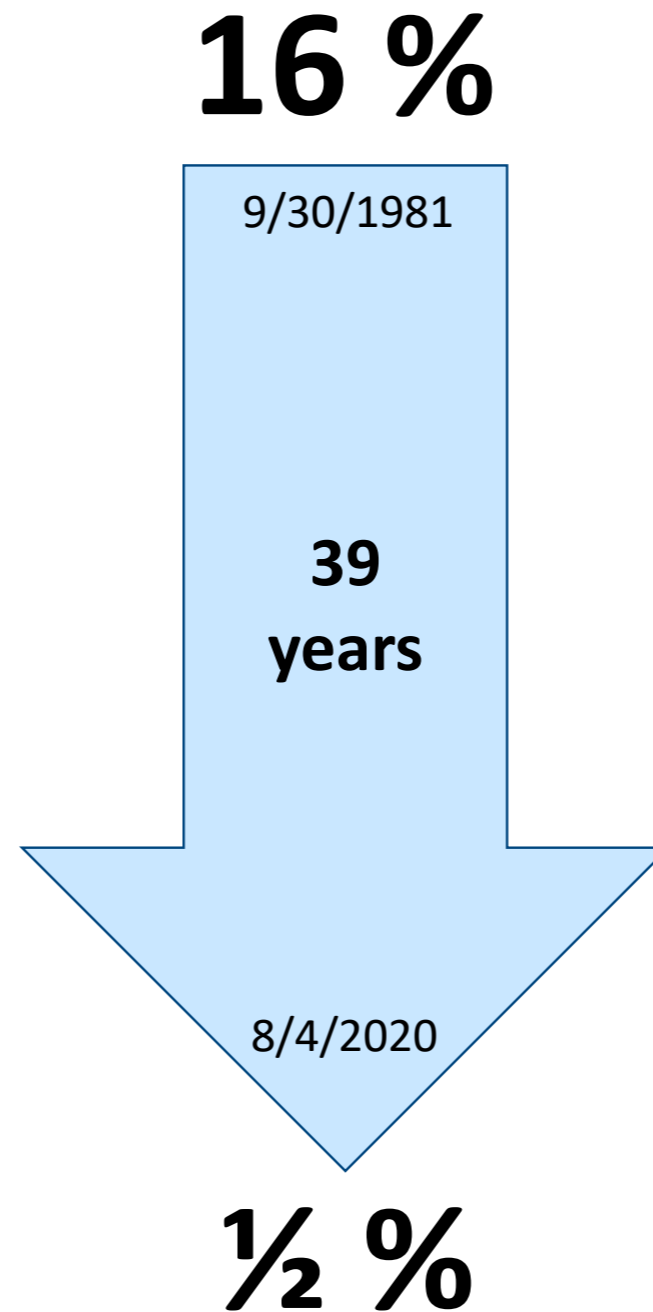
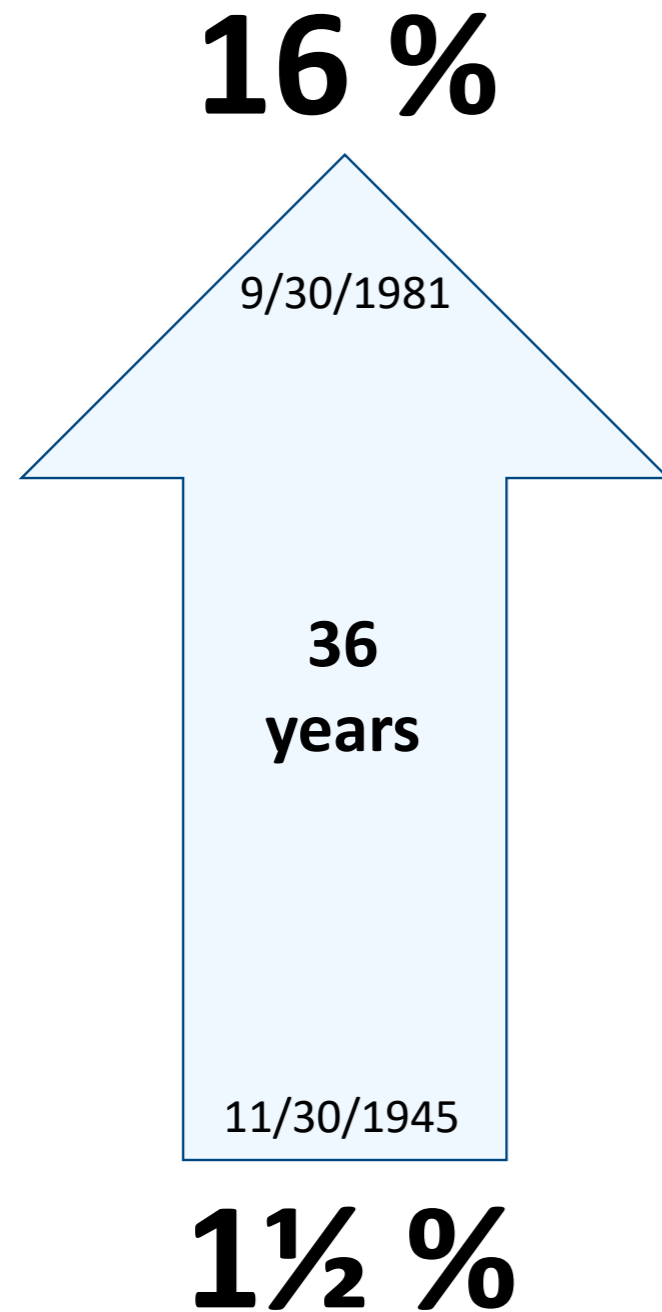
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# The end of an era

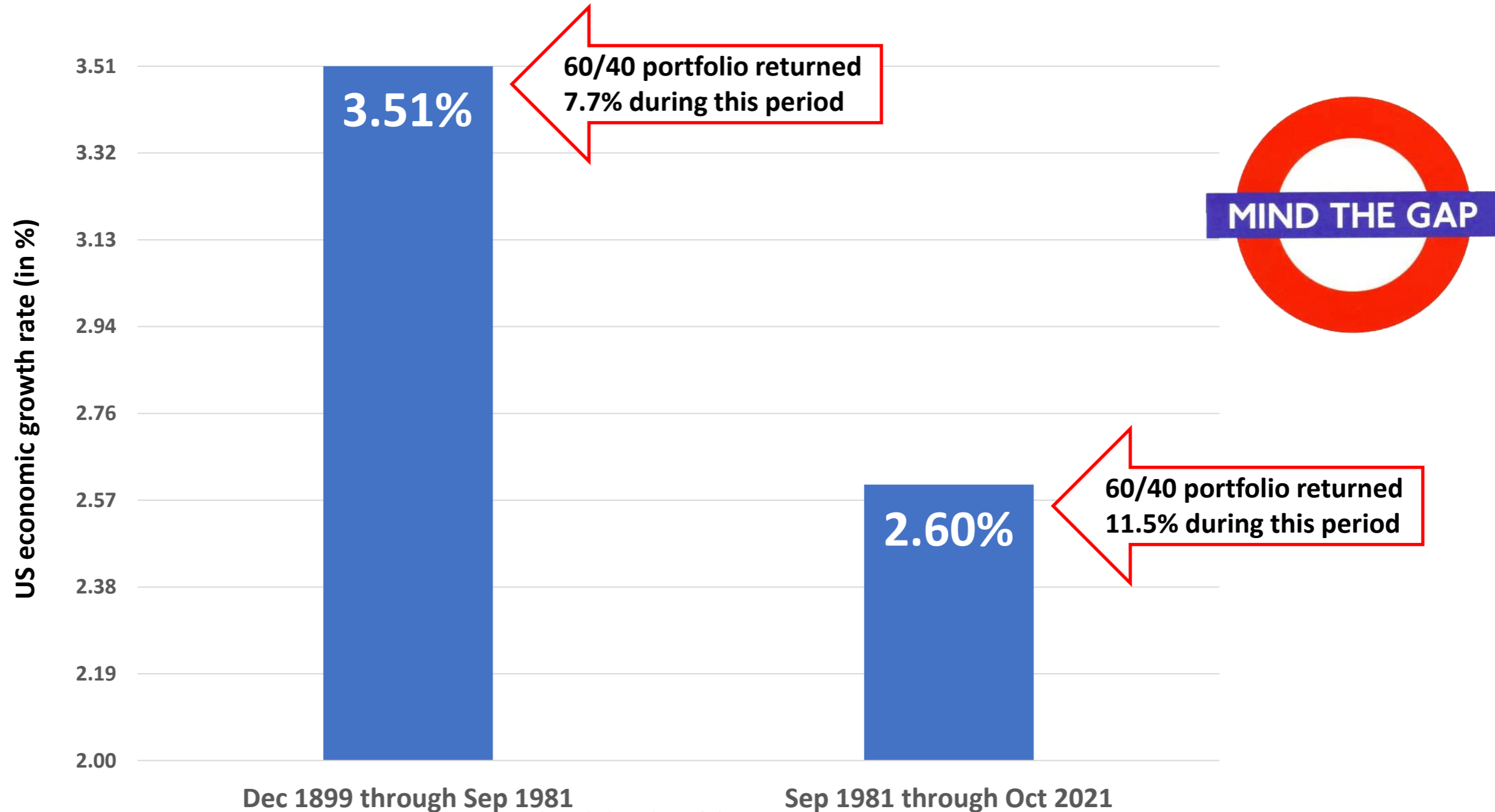
1981 through 2021

Done, over, won't be repeated . . . in your lifetime or mine

# Interest rates . . . What do the next “39 years” hold for us?



# US economy before and after Sep 1981 . . . This doesn't make sense





	9/30/1981	8/31/2020	Change (in percentage terms)
Yield on the 10-year U.S. Treasury Bond	15.84%	0.52%	-97%
Year-over-year CPI inflation	11.0%	1.3%	-88%

# The rewards were taken from labor . . . and transferred to capital

	9/30/1981	8/31/2020	Change (in percentage terms)
Corporate after-tax profits as a % of GDP	5.71%	10.10%	77%
Wage and salary disbursements as % of GDP	47.2%	44.93%	-5%

# We built an economic expansion based on ever increasing debt

	9/30/1981	8/31/2020	Change (in percentage terms)
Household CREDIT debt as % of GDP	46.0%	77.9%	69%
Household MORTGAGE debt as % of GDP	30.1%	51.1%	70%
Household debt as a % of Disposable Personal Income	65.1%	93.6%	44%
Publically held federal debta as % of GDP	27.5%	109.5%	298%
Total credit market debt as % of GDP	161.0%	385.9%	140%

# Household's got ever more excited . . . seeing only the upside

	9/30/1981	8/31/2020	Change (in percentage terms)
U.S. household allocation to stocks (direct and indirect)	29.5%	56.5%	92%

# Finally, stock valuations flew to the sky

	9/30/1981	8/31/2020	Change (in percentage terms)
S&P 500 P/E ratio	7.61x	35.27x	363%
Median P/E ratio	7.7x	29.7x	286%
S&P 500 dividend yield	5.6%	1.3%	-77%
Stock market capitalization as % of Nominal Gross Domestic Product (Stocks/Economy)	37%	159%	330%
S&P 500 median Price/Sales	0.37x	2.53x	584%
Price/Sales above or below its trendline path	-52.58%	19.32%	"huge"
Shiller ratio (Cyclically adjusted Price-to-Earnings) based on ten years	8x	33x	313%
Tobin's Q (market value / net wealth) measures "build vs buy"	0.31x	1.48x	377%
Tobin's Q above or below its trendline path	-57.16%	24.32%	"huge"

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## So what adapts

What adapts enough . . . and quick enough

# What does and what doesn't

- **What adapts sufficiently**
  - Big enough
  - Quick enough
  - Forward-looking
  - Accessing a large enough playing field
  
- **Tactical Asset Allocation**
  
  
- **What doesn't**
  - Conventional approaches
  - Mean variance optimization
  - Modern Portfolio Theory (MPT)

## What doesn't adapt . . . in sufficient size and quickness

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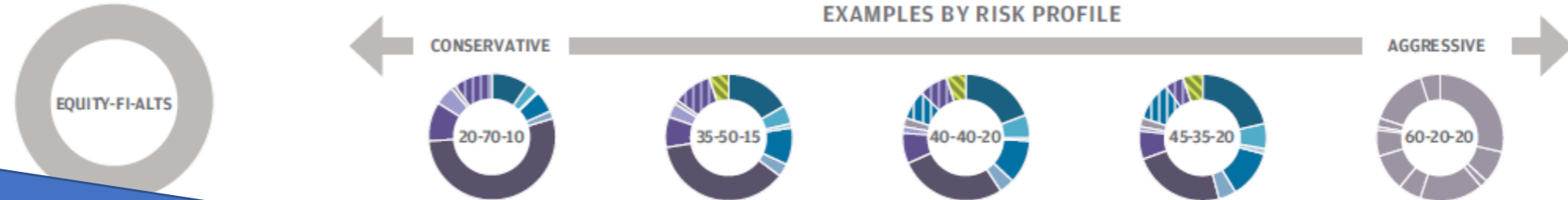
- Riskalyze
- Morningstar optimizer
- Giant Super-Respected Institutional Manager # 1
- Giant Super-Respected Institutional Manager # 2



# Big Respected Firm # 1

## PORTFOLIO INSIGHTS

### EXAMPLES BY RISK PROFILE



These “*tactical shifts*” are just TOO tiny to make any real difference

ALLOCATIONS AND SHIFTS	Strategic	Tactical shift	Strategic	Tactical shift	Strategic	Tactical shift	Strategic	Tactical shift	Strategic	Tactical shift
<b>Equity</b>	20.0%		35.0%		40.0%		45.0%		60.0%	
● U.S. large cap	9.5%	2.0%	16.8%	2.0%	19.3%	4.0%	21.5%	4.0%	28.8%	4.0%
- U.S. large cap growth	4.8%	1.0%	8.4%	1.0%	9.6%	2.0%	10.8%	2.0%	14.4%	2.0%
- U.S. large cap value	4.8%	1.0%	8.4%	1.0%	9.6%	2.0%	10.8%	2.0%	14.4%	2.0%
● U.S. mid/small cap	2.5%	1.5%	4.3%	1.5%	4.8%	3.0%	5.5%	3.0%	7.3%	3.0%
● U.S. REITs	1.0%	-0.5%	1.8%	-0.5%	2.0%	-1.0%	2.3%	-1.0%	3.0%	-1.0%
● Developed markets equity	5.0%	0.0%	8.8%	0.0%	10.0%	0.0%	11.3%	0.0%	15.0%	0.0%
● Emerging markets equity	2.0%	0.0%	3.5%	0.0%	4.0%	0.0%	4.5%	0.0%	6.0%	0.0%
<b>Fixed income/Inflation</b>	70.0%		50.0%		40.0%		35.0%		20.0%	
● U.S. investment grade	55.0%	-2.5%	38.5%	-2.5%	30.5%	-5.0%	26.5%	-5.0%	12.5%	-5.0%
● U.S. high yield	9.0%	0.5%	7.0%	0.5%	5.8%	1.0%	5.3%	1.0%	4.5%	1.0%
● Emerging markets debt	6.0%	-1.0%	4.5%	-1.0%	3.8%	-2.0%	3.3%	-2.0%	3.0%	-2.0%
● Cash	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Liquid alternatives</b>	10.0%		15.0%		20.0%		20.0%		20.0%	
● Equity alternatives	0.0%	0.0%	0.0%	0.0%	7.5%	0.0%	10.0%	0.0%	15.0%	0.0%
● Fixed income alternatives	10.0%	0.0%	10.0%	0.0%	7.5%	0.0%	5.0%	0.0%	0.0%	0.0%
● Core diversifiers	0.0%	0.0%	5.0%	0.0%	5.0%	0.0%	5.0%	0.0%	5.0%	0.0%

# Big Respected Firm # 2

These “tactical shifts” are just TOO tiny to make any real difference

Ticker	Name	0/100	10/90	20/80	30/70	40/60	50/50	60/40	70/30	80/20	90/10	100/0
<b>US Equities</b>		-	-0.5	0.5	1.0	2.0	1.0	2.0	2.0	3.5	3.0	3.5
ESGU	iShares ESG Aware MSCI USA ETF	-	-0.5	-	-	-	-	-	-	-	-	-
	iShares Core S&P Small-Cap ETF	-	-	-	-	-	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
IVV	iShares	-	-	+1.5	+1.5	+3.0	+4.5	+4.5	+5.0	+7.0	+6.5	+7.0
USMV	iShares MSCI USA Min Vol Factor ETF	-	-	-	-	-	-1.5	-	-0.5	-0.5	-0.5	-0.5
VLUE	iShares MSCI USA Value Factor ETF	-	-	-1.0	-0.5	-1.0	-1.0	-1.5	-1.5	-2.0	-2.0	-2.0
<b>International/Global Equities</b>		-	-0.5	-0.5	-1.0	-1.0	-1.0	-1.5	-1.5	-2.5	-2.0	-1.5
EFG	iShares MSCI EAFE Growth ETF	-	-0.5	-0.5	-1.0	-1.0	-1.5	-2.0	-2.0	-3.0	-2.5	-2.5
EFV	iShares MSCI EAFE Value ETF	-	-	-	-	-	-	-	-	-	-	-
ESGE	iShares ESG Aware MSCI EM ETF	-	-	-	-	-	+0.5	+0.5	+0.5	+0.5	+0.5	+1.0
<b>Sector Equities</b>		-	-	-1.0	-1.0	-2.0	-1.0	-1.5	-1.5	-2.0	-2.0	-2.0
IXG	iShares Global Financials ETF	-	-	-	-1.0	-1.5	-0.5	-0.5	-1.0	-1.0	-1.0	-1.0
IXN	iShares Global Tech ETF	-	-	-1.0	-	-0.5	-0.5	-1.0	-0.5	-1.0	-1.0	-1.0

1

# I don't want to lose it all, not now

This becomes the defining element . . .

Especially given today's ultra-high uncertainty

- Worked hard
- Built a nest egg
- Not willing to lose it now
  
- **BUT**
  - Also not willing to have it nibbled all away over the next 35 years by
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# Quantitative evidence that tactical asset allocation works dependably

Friday

March 25<sup>th</sup>

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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