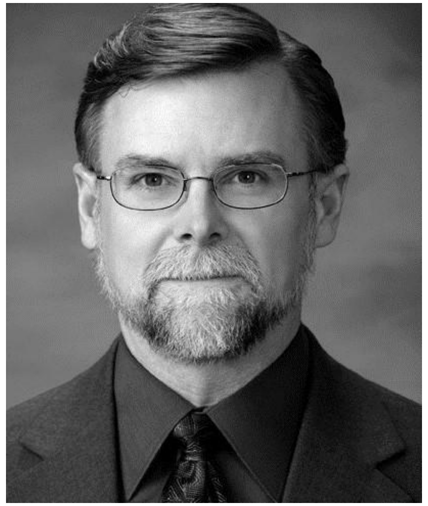
Explaining tactical asset allocation to a client

Rob Brown, PhD, CFA

Julex Capital Advisory Board Member, Website www.robbrownonline.com



40 Grove Street, Suite 140, Wellesley, MA 02482

Phone 781-489-5398

Email info@julexcapital.com

Web www.julexcapital.com

General approach

- Avoid any discussion of *“how it works”* or *“what it does”*
- Stay out of the engine room

- Instead . . . focus on
- How is today different , , , and use that as a tool to describe the need
- Describe the benefits

The nature of change

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

Nature of change - There are two very different kinds of change

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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

Speed of change - An example of the 95%

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SLOW

FAST

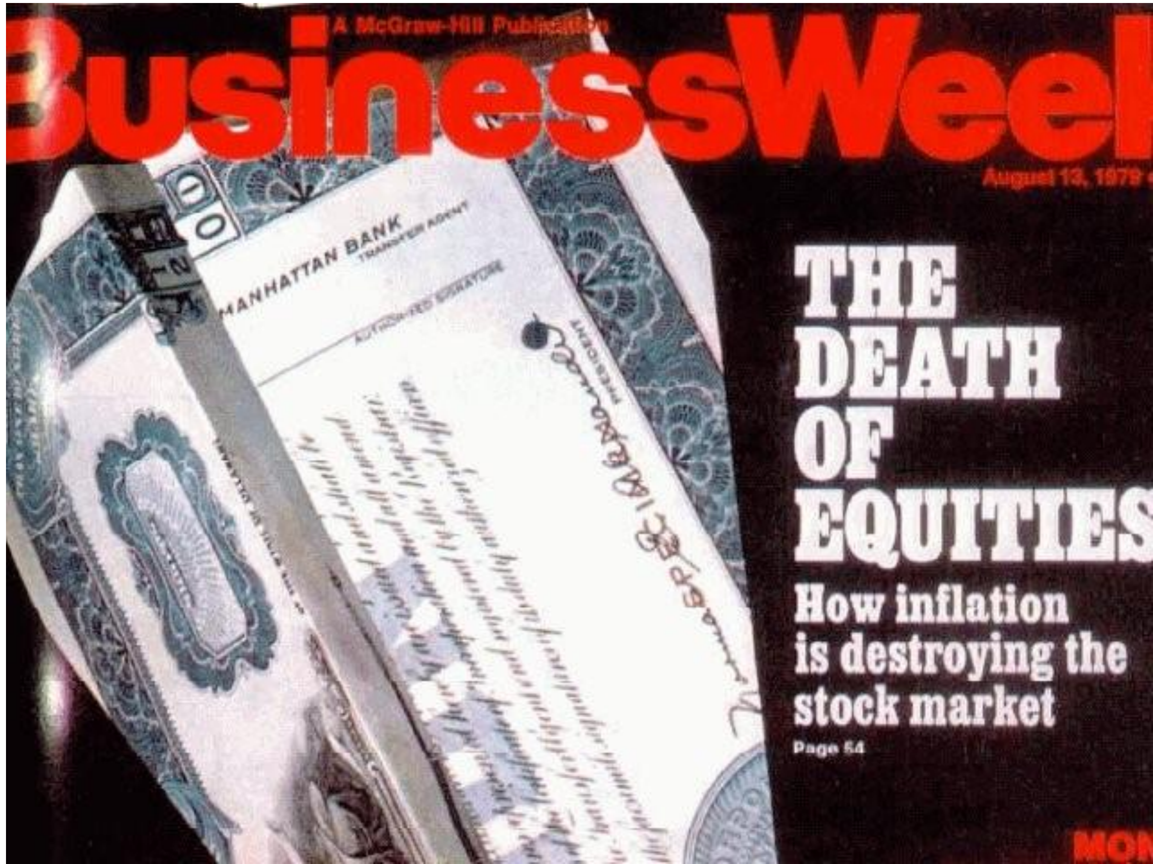
When was the last time we had directional change?

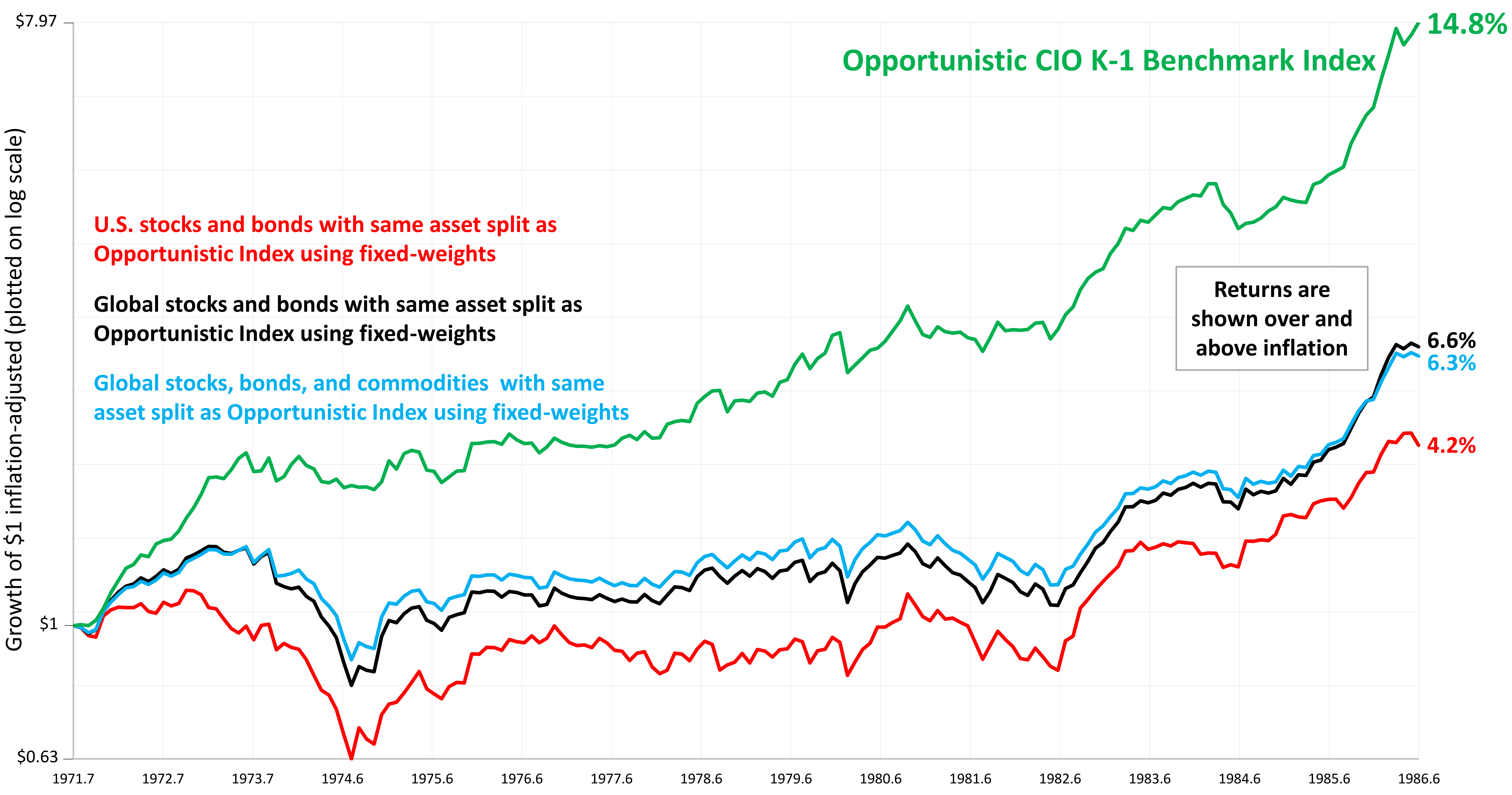
Maybe the 1970s?

NO . . . . probably not

Era 1971-1986

- 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





$7.97
$1
$0.63
Growth of $1 inflation-adjusted (plotted on log scale)
14.8%
Opportunistic CIO K-1 Benchmark Index
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
Returns are
shown over and
above inflation
6.6%
6.3%
4.2%
1971.7
1972.7
1973.7
1974.6
1975.6
1976.6
1977.6
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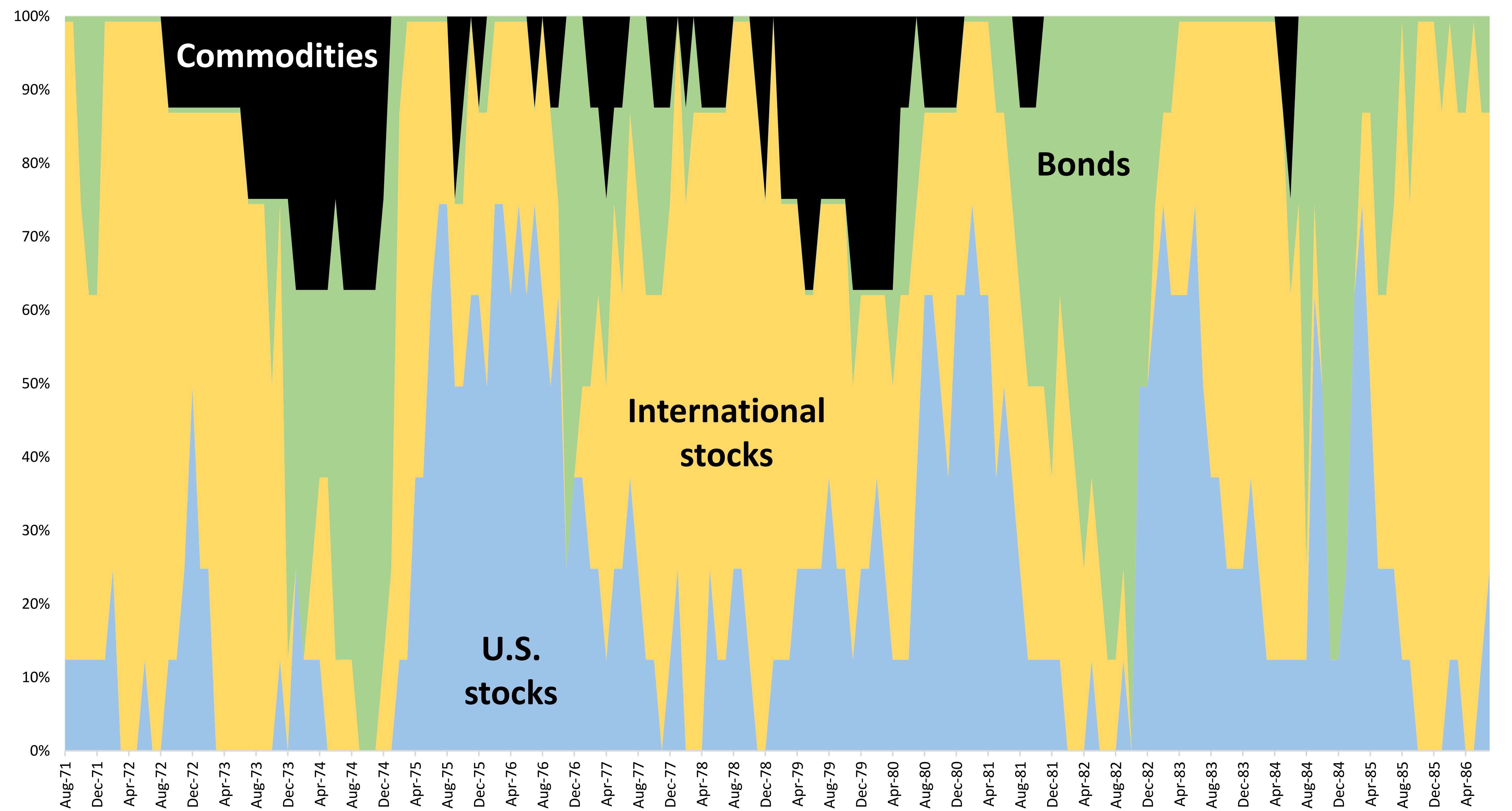
1984.6
1985.6
1986.6


Commodities
Bonds
International stocks
U.S. stocks
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
Aug-71
Dec-71
Apr-72
Aug-72
Dec-72
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Dec-85
Apr-86

The last time we had directional change

Was probably the broadly-defined WWII era

Directional change - A second example of the 5%

1929-1946

- Great Depression of 1929
- World War II
- Eight-year drought - The Dust Bowl
- ENIAC began the computer revolution
- A scalable market for U.S. Treasury bonds was developed

- Large and rapidly growing economy
- Relatively separate from the rest of the world, endeavoring to remain apart and uninvolved

- Leader of the Free World
- Major provider of capital to other nations
- Nation builder

Why directional change right now?   Part 1

- 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)*

Why directional change right now?   Part 2

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- 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-like"* governmental regression
- Deglobalization

Why tactical asset allocation ?

- **Because you**

  - Appreciate that you can only invest in the future . . . and not in the past

  - Recognize that the future is all about
    - Directional change . . . instead of a change in terms of speed or pace
    - Highest level of uncertainty since WWII era

  - Appreciate that it's impossible to know what will work in the future (with sufficient accuracy)
    - Therefore you require something that starts from a position of absolute **humility** . . .
    - But adapts continuously and unrelentingly seeking to stay best-aligned

I don’t want to lose it all . . . not now

This becomes the defining element . . .

Especially given today’s ultra-high uncertainty

I don’t want to lose it all . . . not now

- 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

Motivation is not return . . . it's risk . . . the what ifs

- Euro war
- Taiwan war
- 2nd 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" type environment
  - Cut government in half
  - Shut down monetary authorities
  - No more immigrants
  - We get an incredibly serious DEPRESSION

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- Built a nest egg
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    - Inflation
    - Fees

And I recognize that bear markets do come around . . . Bad things do happen

Bear markets for stocks

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

Author: Rob Brown, PhD, CFA at www.robbrownonline.com. Statistics based on data provided by Global Financial Data, Inc., San Juan Capistrano, CA 92675, at https://finaeon.globalfinancialdata.com and are current as of October 15, 2021

Results rely on month-end S&P 500 Index total returns adjusted for the All Urban Consumers Not Seasonally Adjusted Consumer Price Index as provided by the U.S. Department of Labor

Indices are unmanaged and cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. Past performance is no guarantee of future results

Bull and bear markets are defined as moves of at least 26.92993% using month-end S&P 500 Index total returns. This information in this presentation is for the purpose of information exchange. No representation or warranty is made to the reasonableness of the assumptions made. Investment advice offered through Integrated Wealth Concepts LLC (a Registered Investment Adviser), d/b/a Integrated Financial Partners, Inc.

Bear markets for stocks

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Bonds . . . have bear markets too

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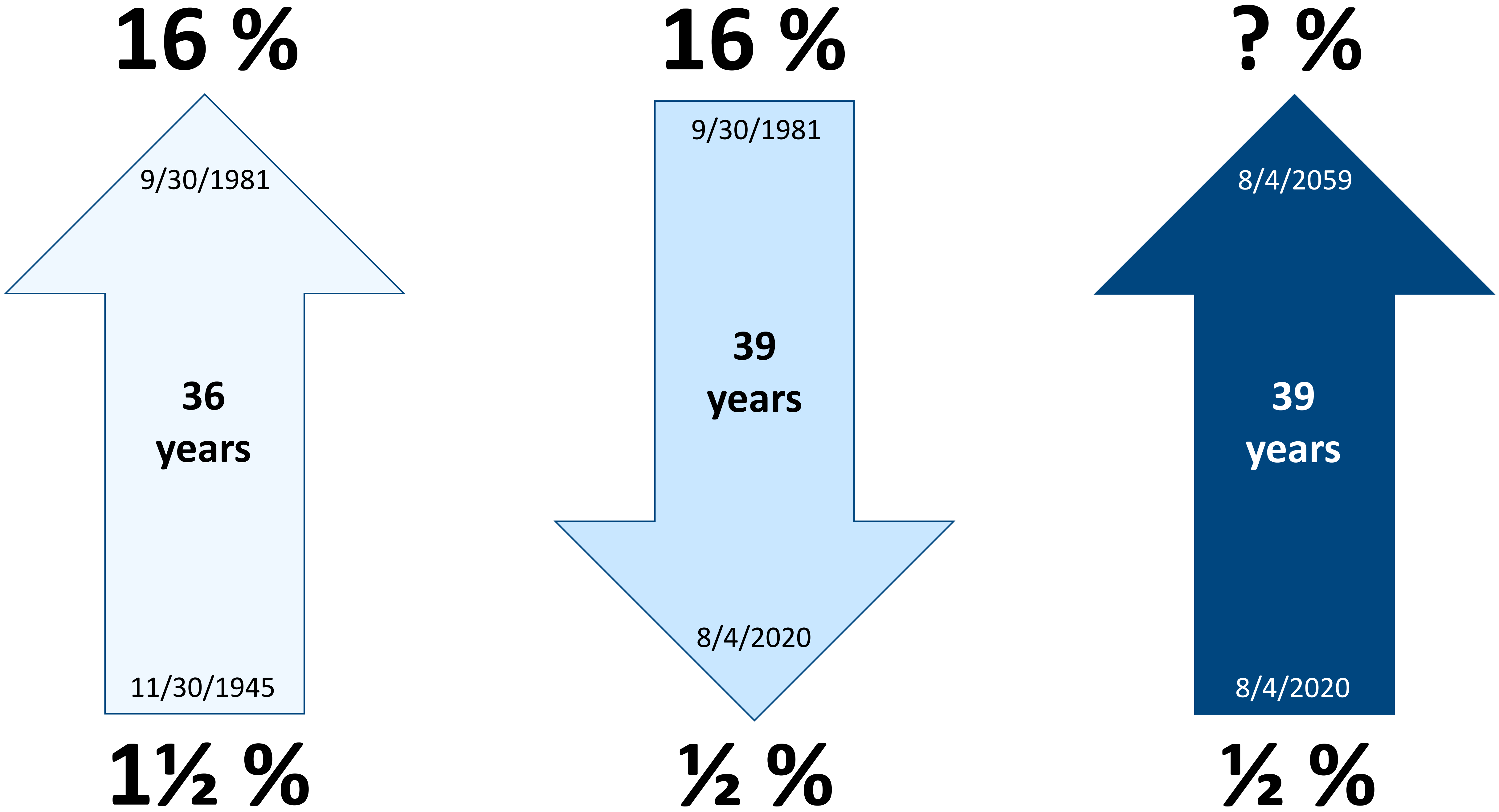

Bear markets for bonds

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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
	-22	2.67	Mar 1863	Nov 1865	6.1	31	-9.1
	-50	11.42	Dec 1908	May 1920	4.8	41	-5.9
	-31	16.58	Jan 1941	Aug 1957	3.3	45	-2.2
	-40	16.33	May 1965	Sep 1981	6.4	45	-3.0
	?	?	Jul 2020	?	?	?	?
Median BEAR market	-35	13.87			5.4	43	-4.5
Mean BEAR market	-36	11.75			5.1	40	-5.0

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Bonds were defined as 50% intermediate-term U.S. Treasury bonds and 50% liquid high-quality U.S. corporate bonds. And were constructed using three total return bond indices provided by Global Financial Data. Intermediate-term U.S. Treasury bonds are defined by the GFD Indices USA 10-year Government Bond Total Return Index. Prior to 4/30/1915 liquid high-quality U.S. corporate bonds are defined by the GFD Indices USA Total Return AAA Corporate Bond Index. After 4/30/1915 liquid high-quality U.S. corporate bonds are defined by a 50/50 mix of the Dow Jones Corporate Bond Return Index and the GFD Indices USA Total Return AAA Corporate Bond Index

Results rely on month-end total returns adjusted for the All Urban Consumers Not Seasonally Adjusted Consumer Price Index as provided by the U.S. Department of Labor. Indices are unmanaged and cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. Past performance is no guarantee of future results

Bear markets for bonds

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

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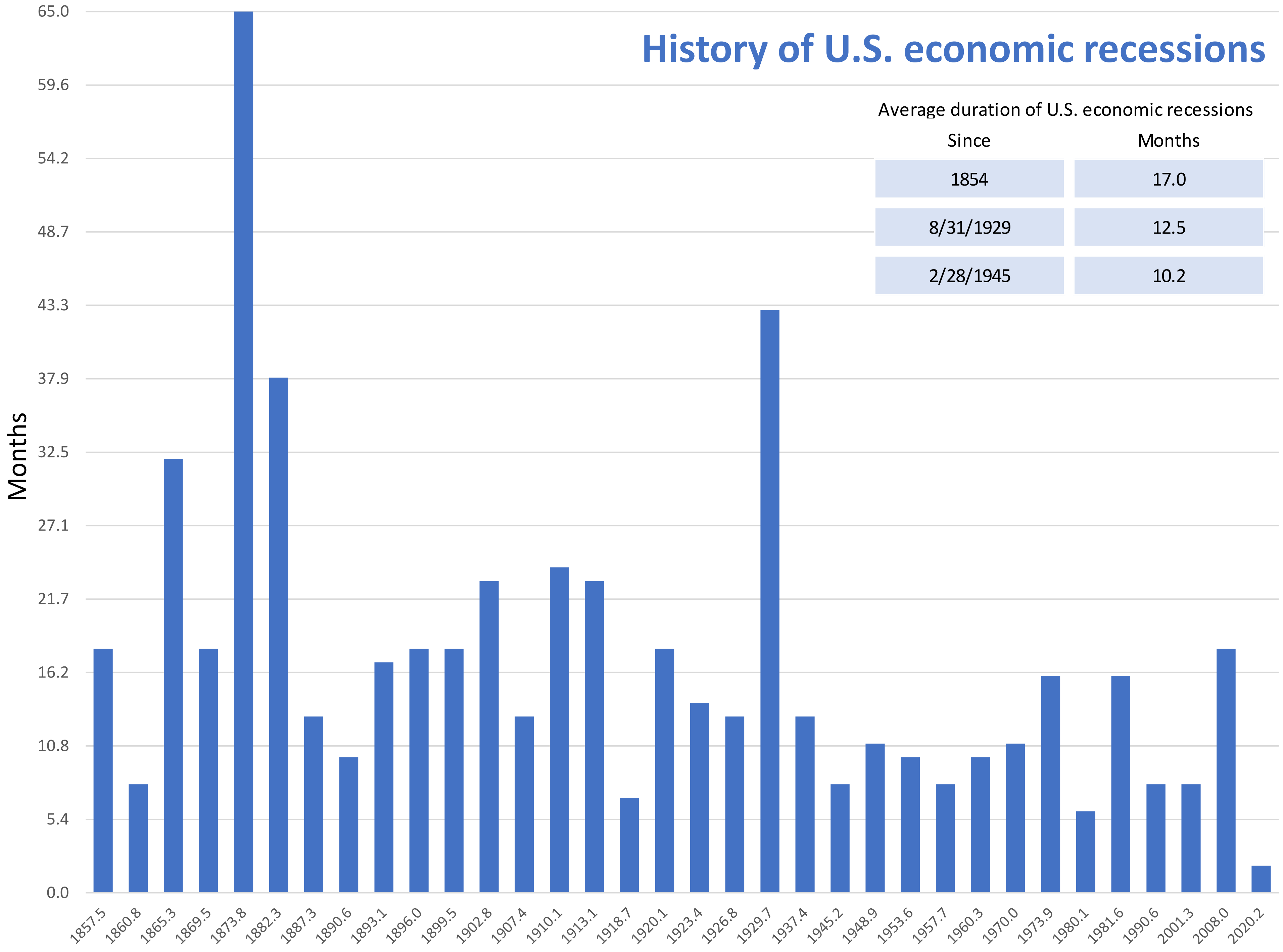
We do have economic recessions



Average duration of U.S. economic recessions

Since	Months
1854	17.0
8/31/1929	12.5
2/28/1945	10.2

And inflation does run in cycles . . . Rising or falling

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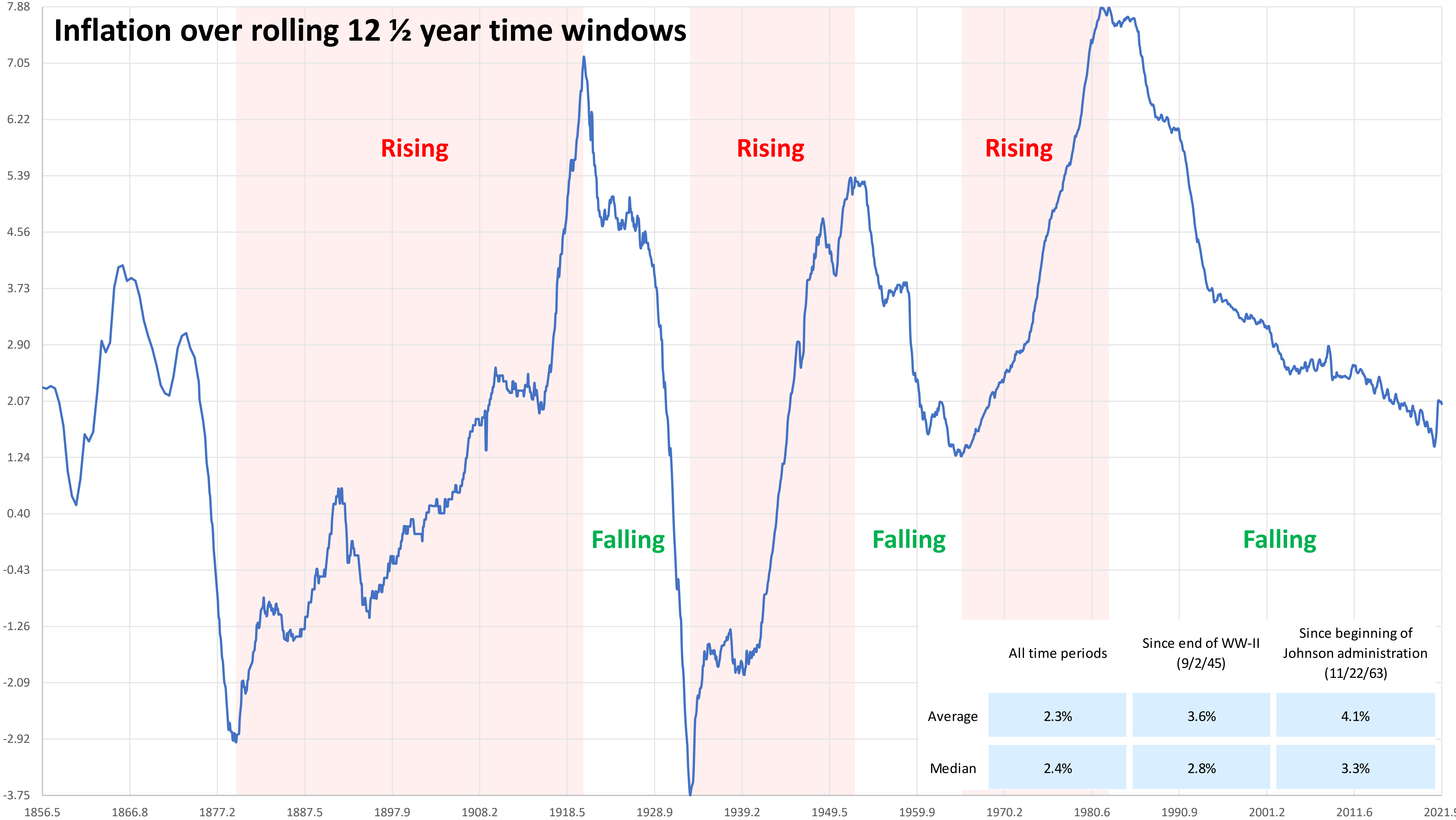
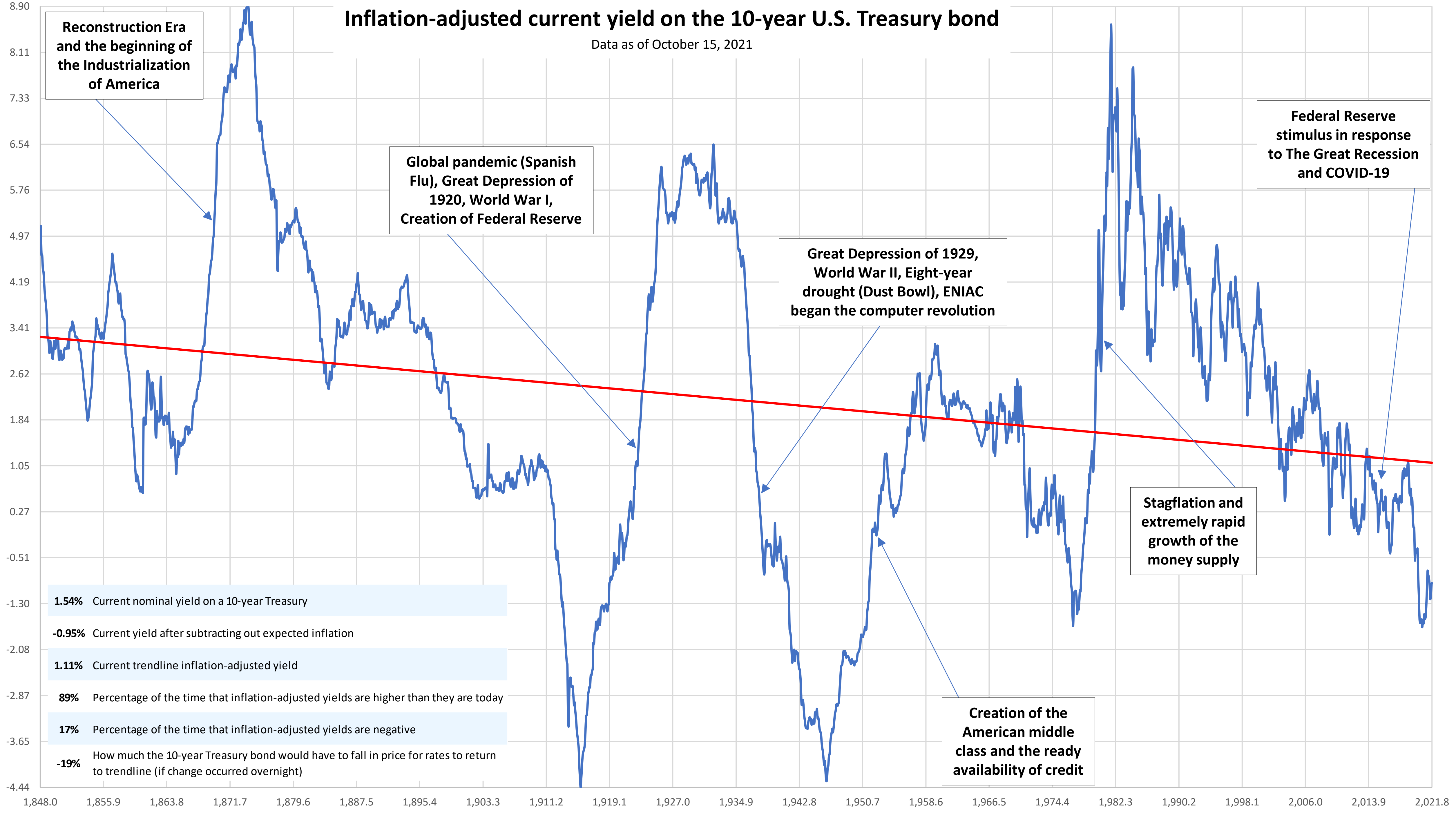


	All time periods	Since end of WW-II (9/2/45)	Since beginning of Johnson administration (11/22/63)
Average	2.3%	3.6%	4.1%
Median	2.4%	2.8%	3.3%

The same is true of interest rates



We need an approach which adapts

One that doesn't say . . . . just wait it out

The Great Economic Recession . . . of 2007-2009

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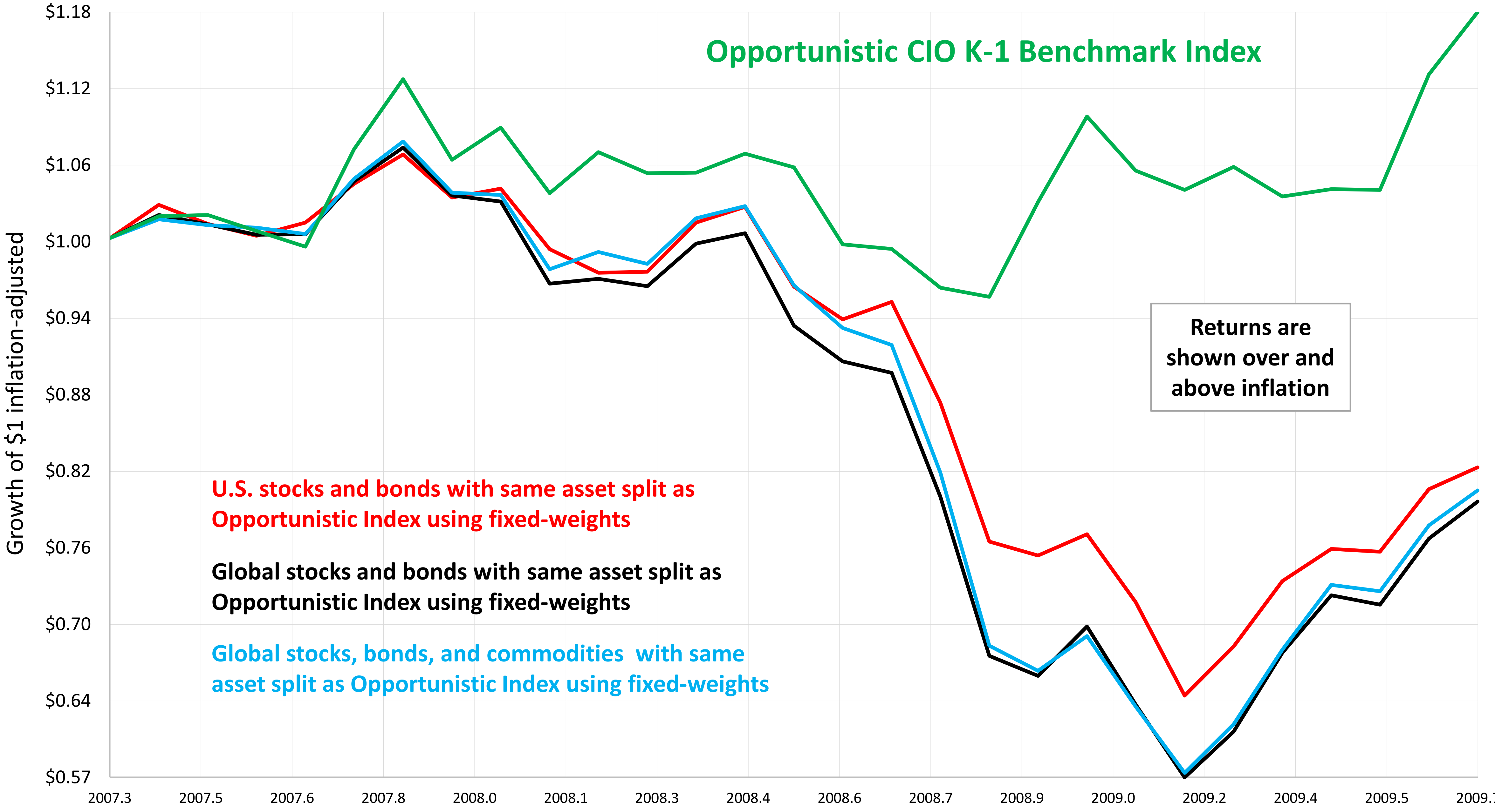
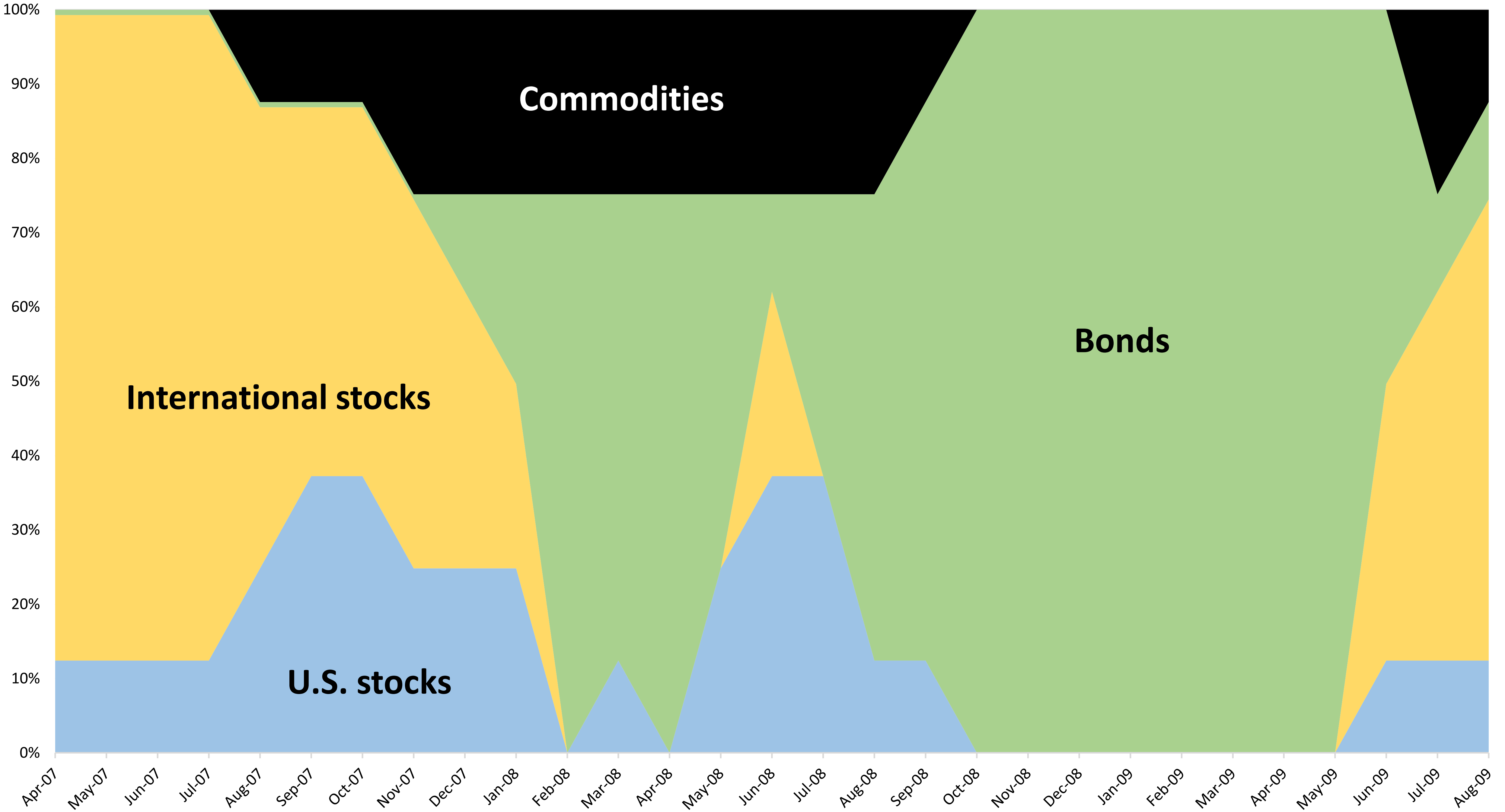


But how did it generate such an attractive outcome?



Rely on the collateral pieces

Annual brochure

Monthly updates

Playing field

COUNTRY ETFs

Australia, Sweden, Germany, Hong Kong, Italy, Japan, Switzerland, Netherlands

Spain, France, UK, Canada, Singapore, India, Taiwan, Mexico, Korea

Brazil, China, Russia, EM Income, EM Index, DM Index

US SECTOR ETFs

Materials, Energy, Financial, Industrials, Technology, Consumer Staples, Consumer Discretionary

Utilities, Healthcare, Real Estate, Communications, Bank, Biotech, Internet, Software, Semiconductor

Large Cap Growth, Large Cap Value, Mid Cap Growth, Mid Cap Value, Small Cap Growth, Small Cap Value, US Large Cap

FIXED INCOME ETFs

US Aggregate Bond, US TIPS, US Treasuries, US Long-Term Treasuries, US Short Term Treasuries, Treasury Bills

Current positioning

Table 1: Dynamic Series Model Portfolios (April 1, 2022)

ETF	Name	Years 21+	Years 16-20	Years 11-15	Years 6-10
XLB	Materials Select Sector SPDR Fund	-	-	-	-
XLE	Energy Select Sector SPDR Fund	7.50%	6.75%	6.00%	5.25%
XLF	Financial Select Sector SPDR Fund	-	-	-	-
XLI	Industrial Select Sector SPDR Fund	-	-	-	-
XLK	Technology Select Sector SPDR Fund	-	-	-	-
XLP	Consumer Staples Select Sector SPDR Fund	-	-	-	-
XLU	Utilities Select Sector SPDR Fund	7.50%	6.75%	6.00%	5.25%
XLV	Health Care Select Sector SPDR Fund	-	-	-	-
XLY	Consumer Discretionary Select Sector SPDR Fund	-	-	-	-
XLRE	Real Estate Select Sector SPDR Fund	-	-	-	-
XLC	Communication Services Select Sector SPDR Fund	-	-	-	-
IBB	iShares NASDAQ Biotechnology ETF	-	-	-	-
KBE	SPDR S&P Bank ETF	-	-	-	-
FDN	FT Internet	-	-	-	-
IGV	iShares Expanded Tech-Software Sector ETF	-	-	-	-
SOXX	iShares PHLX Semiconductor ETF	-	-	-	-
SPYV	SPDR Portfolio S&P 500 Value ETF	-	-	-	-
SPYG	SPDR Portfolio S&P 500 Growth ETF	-	-	-	-
IWS	iShares Russell Mid-Cap Value ETF	-	-	-	-
IWP	iShares Russell Mid-Cap Growth ETF	-	-	-	-
IWN	iShares Russell 2000 Value ETF	-	-	-	-
IWO	iShares Russell 2000 Growth ETF	-	-	-	-
SPY	SPDR S&P 500 ETF Trust	15.00%	13.50%	12.00%	10.50%
EWA	iShares MSCI Australia ETF	-	-	-	-
EWC	iShares MSCI Canada ETF	-	-	-	-
EWD	iShares MSCI Sweden ETF	-	-	-	-
EWG	iShares MSCI Germany ETF	-	-	-	-
EWH	iShares MSCI Hong Kong ETF	-	-	-	-
EWI	iShares MSCI Italy ETF	-	-	-	-
EWJ	iShares MSCI Japan ETF	-	-	-	-
EWL	iShares MSCI Switzerland ETF	-	-	-	-
EWN	iShares MSCI Netherlands ETF	-	-	-	-
EWP	iShares MSCI Spain ETF	-	-	-	-
EWQ	iShares MSCI France ETF	-	-	-	-
EWS	iShares MSCI Singapore ETF	-	-	-	-
EWU	iShares MSCI United Kingdom ETF	-	-	-	-
DEM	WisdomTree Emerging Markets High Dividend	-	-	-	-
EPI	WisdomTree India Earnings Fund	-	-	-	-
EWT	iShares MSCI Taiwan ETF	-	-	-	-
EWW	iShares MSCI Mexico ETF	-	-	-	-
EWY	iShares MSCI South Korea ETF	-	-	-	-
EWZ	iShares MSCI Brazil ETF	10.00%	9.00%	8.00%	7.00%
FXI	iShares China Large-Cap ETF	-	-	-	-
RSX	VanEck Vectors Russia ETF	-	-	-	-
EEM	iShares MSCI Emerging Markets ETF	-	-	-	-
AGG	iShares Core U.S. Aggregate Bond ETF	-	5.00%	10.00%	15.00%
TIP	iShares TIPS Bond ETF	-	-	-	-
IEF	iShares 7-10 Year Treasury Bond ETF	-	5.00%	10.00%	15.00%
TLT	iShares 20+ Year Treasury Bond ETF	-	-	-	-
SHY	iShares 1-3 Year Treasury Bond ETF	-	-	-	-
SHV	iShares Short Treasury Bond ETF	60.00%	54.00%	48.00%	42.00%
LQD	iShares IBOXX Investment Grade Corp	-	-	-	-

Current positioning - zoom in a little

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XLB	Materials Select Sector SPDR Fund	-	-	-	-
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XLRE	Real Estate Select Sector SPDR Fund	-	-	-	-
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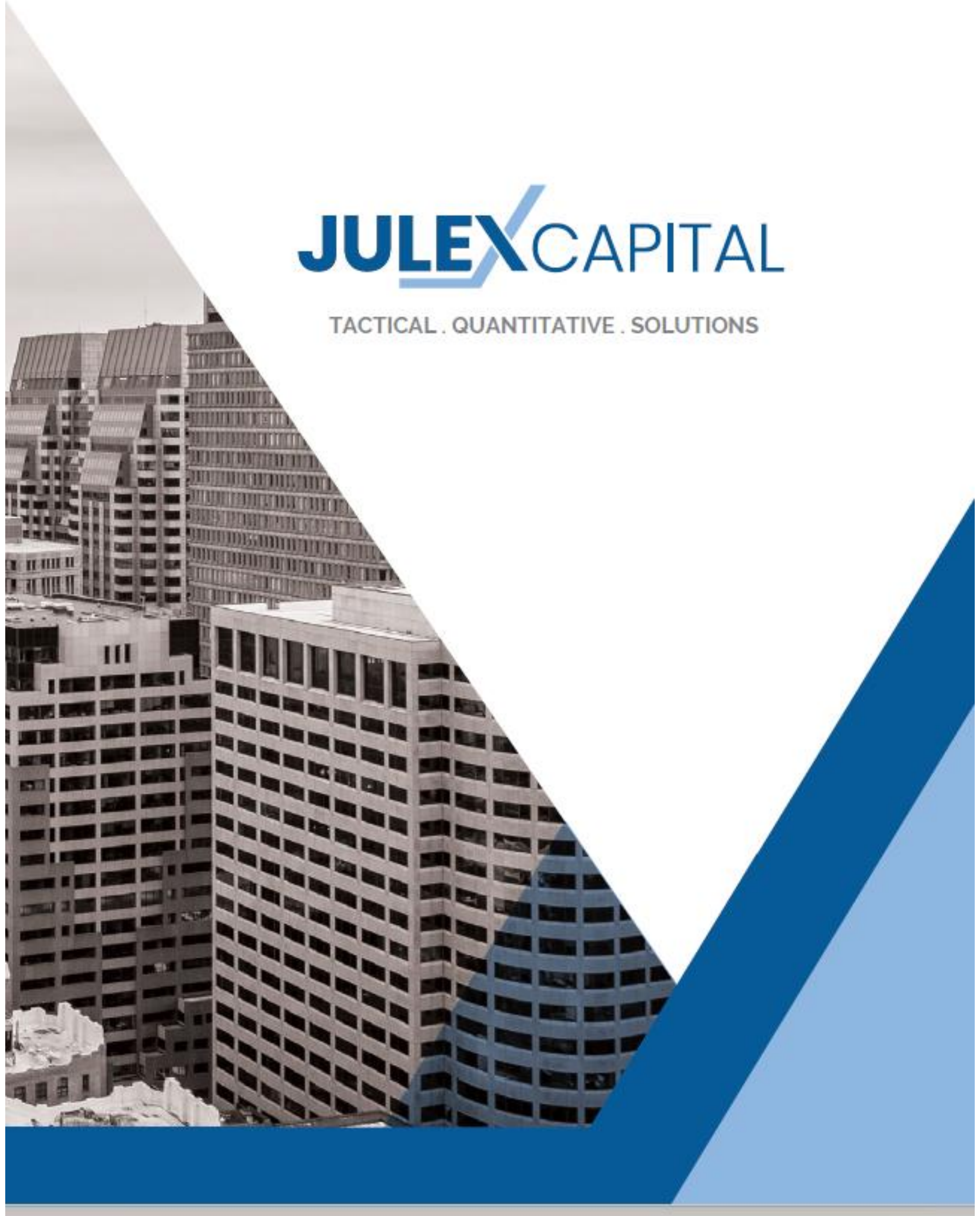
IWP	iShares Russell Mid-Cap Growth ETF	-	-	-	-
IWN	iShares Russell 2000 Value ETF	-	-	-	-
IWO	iShares Russell 2000 Growth ETF	-	-	-	-
SPY	SPDR S&P 500 ETF Trust	15.00%	13.50%	12.00%	10.50%
EWA	iShares MSCI Australia ETF	-	-	-	-
EWC	iShares MSCI Canada ETF	-	-	-	-
EWD	iShares MSCI Sweden ETF	-	-	-	-
EWG	iShares MSCI Germany ETF	-	-	-	-
EWH	iShares MSCI Hong Kong ETF	-	-	-	-
EWI	iShares MSCI Italy ETF	-	-	-	-
EWJ	iShares MSCI Japan ETF	-	-	-	-
EWL	iShares MSCI Switzerland ETF	-	-	-	-
EWN	iShares MSCI Netherlands ETF	-	-	-	-
EWP	iShares MSCI Spain ETF	-	-	-	-
EWQ	iShares MSCI France ETF	-	-	-	-
EWS	iShares MSCI Singapore ETF	-	-	-	-
EWU	iShares MSCI United Kingdom ETF	-	-	-	-
DEM	WisdomTree Emerging Markets High Dividend	-	-	-	-
EPI	WisdomTree India Earnings Fund	-	-	-	-
EWT	iShares MSCI Taiwan ETF	-	-	-	-
EWW	iShares MSCI Mexico ETF	-	-	-	-
EWY	iShares MSCI South Korea ETF	-	-	-	-
EWZ	iShares MSCI Brazil ETF	10.00%	9.00%	8.00%	7.00%
FXI	iShares China Large-Cap ETF	-	-	-	-
RSX	VanEck Vectors Russia ETF	-	-	-	-
EEM	iShares MSCI Emerging Markets ETF	-	-	-	-
AGG	iShares Core U.S. Aggregate Bond ETF	-	5.00%	10.00%	15.00%
TIP	iShares TIPS Bond ETF	-	-	-	-
IEF	iShares 7-10 Year Treasury Bond ETF	-	5.00%	10.00%	15.00%
TLT	iShares 20+ Year Treasury Bond ETF	-	-	-	-
SHY	iShares 1-3 Year Treasury Bond ETF	-	-	-	-
SHV	iShares Short Treasury Bond ETF	60.00%	54.00%	48.00%	42.00%

Who is Julex Capital



Who is Julex Capital

JULEX CAPITAL

JULEX CAPITAL MANAGEMENT, LLC, founded in 2012, is an investment management firm dedicated to creating innovative solutions in the areas of tactical asset allocation and quantitative investing. Julex's mission is to help investors reach their financial goals by delivering attractive performance at a reasonable cost through a systematic and transparent investment process.

OUR PRODUCTS

Tactical ETF Strategies

Julex Capital offers a variety of tactical ETF strategies aiming to limit the downside risk while maximizing the upside potentials. The strategies strive to deliver attractive total returns regardless of market conditions.

Quantitative Equity Strategies

Julex Capital offers factor-based quantitative equity strategies based on its TrueAlpha™ stock selection model. The goal is to generate excess return ("alpha") over an index by investing in a concentrated portfolio of 20-40 undervalued high-quality stocks.

Equity Income Strategies

Julex Capital offers equity income strategies based on a multi-factor approach. The goal is to generate above average dividend income and long-term capital growth by investing in a concentrated portfolio of high dividend or real estate stocks. Our multi-factor model combines size, value, quality and momentum to generate consistent excess returns. In addition, Julex provides a proprietary option overlay strategy to enhance income for any portfolio.

Portfolio Solutions

Julex Capital offers global asset allocation solutions designed to meet specific investment objectives. We combine appropriate core asset class ETFs with Julex Capital's tactical ETF strategies into "all-in-one" investment solutions. Risk-based solutions aim to provide portfolios for varying investor risk tolerance levels. The goal-based solutions aim to provide portfolios for varying investment horizons targeting specific returns objectives.

TACTICAL ETF STRATEGIES

Dynamic Sector
Dynamic Income
Dynamic Multi-Asset
Dynamic Developed Market
Dynamic Real Asset

QUANTITATIVE EQUITY STRATEGIES

TrueAlpha™ Large Cap
TrueAlpha™ ESG
TrueAlpha™ Small Cap

EQUITY INCOME STRATEGIES

Multi Factor Real Estate
High Dividend
Option Overlays

RISK BASED SOLUTIONS

Dynamic Aggressive
Dynamic Moderate
Dynamic Conservative
Dynamic Defensive

GOAL BASED SOLUTIONS

Destination 0-5 Years - 3%
Destination 6-10 Years - 4%
Destination 11-15 Years - 5%
Destination 16-20 Years - 6%
Destination 21+ Years - 7%

Factsheet

JULEX CAPITAL

Dynamic Series

December 31, 2021

Overview

- Global asset allocation strategies designed to deliver target returns to investors at defined destinations. The strategies are tactically positioned in both domestic and international equity and fixed-income ETF's.

Objectives

- Maximize the probability of achieving a given return within a given time frame.
- Use unique RiskSwitch indicator and proprietary trend model to manage downside risk.

Facts

Inception Date:
06/01/2019

Portfolio Manager:
Henry Ma, Ph. D., CFA

Investment Process

Julex uses a trend-following model to determine its position internationally, and an adaptive economic model to determine its position domestically. 40% of the stategy uses the international model, and the remaining 60% uses the domestic model. The strategy trades twice a month, and holds between 20 and 40 positions at a time.

Domestic Model	**Identify Market Environment** Economic Fundamentals, Trends, Liquidity and Volatility	**Invest in the Strongest Performing ETFs** Multi-period Momentum Decision Process	**Reduce Volatility** Volatility Weighted Portfolio Construction
International Model	**Detect Market Trends from Noisy Data** Multi-Resolution Trend Analysis	**Invest in Countries with Positive Trends** Adapt the Lengths of Trends to Volatility	**Reduce Volatility** Volatility Weighted Portfolio Construction

Model Performance Through 12/31/2021 (USD)

	Target Return (Ann.)	Time frame (Years)	1-mo	3-mo	6-mo	12-mo	Since Inc. (Ann.)
Dynamic Series 5	7%	21	2.67%	5.90%	2.55%	9.88%	8.94%
Dynamic Series 4	6%	16-20	2.36%	5.32%	2.33%	8.62%	8.50%
Dynamic Series 3	5%	11-15	2.05%	4.74%	2.10%	7.37%	8.04%
Dynamic Series 2	4%	6-10	1.74%	4.15%	1.86%	6.12%	7.55%

Note: The Dynamic Series performance above is a live record of the Julex composite (in the case of Destination 5), and model performance (in the cases of Destinations 2-4). The returns on a client account may be different ue to the timing of trading and transaction costs. Performance is historical and does not guarantee future results. Account level performance may be higher or lower than the Composites. Returns include the reinvestment of dividends and capital gains. See "Disclosure" for more important information.

Factsheet

Hypothetical Back Test Results

Sept. 2003-May 2019	Dynamic Series 5	Dynamic Series 4	Dynamic Series 3	Dynamic Series 2
2003 (Sept-Dec)	14.6%	13.4%	12.2%	11.0%
2004	8.8%	8.4%	7.9%	7.4%
2005	16.0%	14.5%	13.1%	11.7%
2006	10.8%	10.1%	9.4%	8.7%
2007	13.7%	13.5%	13.2%	13.0%
2008	-1.2%	-0.5%	0.2%	0.8%
2009	18.9%	17.4%	15.9%	14.4%
2010	27.6%	25.3%	22.9%	20.6%
2011	2.0%	2.8%	3.6%	4.4%
2012	17.6%	16.0%	14.4%	12.8%
2013	20.1%	17.8%	15.7%	13.5%
2014	8.9%	9.0%	8.9%	8.9%
2015	2.7%	2.5%	2.2%	2.0%
2016	16.0%	14.3%	12.6%	10.9%
2017	28.8%	25.8%	22.8%	19.9%
2018	-1.7%	-1.2%	-0.7%	-0.2%
2019 (Jan-May)	3.2%	3.4%	3.6%	3.8%

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Note on Data

In the back test, we used the index returns in case the historical returns of the ETFs are not long enough. The ETF returns were approximated by index returns subtracted by their respective expense ratios. The following summarizes the detailed calculations: (1) IWM: Russell 2000 Index - 20bps before 5/31/2000; (2) EFA: MSCI EAFE Index -34 bps before 8/28/2001 (3) VWO: MSCI EM Index - 15 bps before 4/29/2005; (4) VNQ: MSCI US REIT Index - 10 bps before 10/29/2004; (5) MLPI: Alerian MLP Infrastructure Index - 85 bps before 5/28/2010; 6) GLD: London Gold Fixing - 40 bps before 12/31/2004 (7) JNK: Bloomberg Capital US High Yield Index - 40 bps before 1/31/2008; (8) AGG: Bloomberg Capital US Aggregate Index - 8 bps before 10/31/2003; (9) IEF: Bloomberg Capital US Treasury Index - 15 bps before 8/30/2002; (10) TLT: Bloomberg Capital 20+ year US Treasury Index - 15 bps before 8/30/2002; (11) SHV: Three month T-bill before 02/28/2007; (12) DVY: Dow Jones US Select Dividend Index - 38 bps before 12/31/2003; (13) EMB: JP Morgan EMBI Global Core Index - 60 bps before 1/31/2008; (14) PFF: S&P US Preferred Index - 47 bps before 4/30/2007; (15) BKLN: S&P/LSTA Bank Loan Index - 65 bps before 4/29/2001; (16) IVE: S&P 500 Value Index - 18 bps before 6/30/2000; (17) IVW: S&P 500 Growth Index - 18 bps before 6/30/2000; (18) IWS: Russell MidCap Value Index - 25 bps before 9/28/2001; (19) IWP: Russell MidCap Growth Index - 25 bps before 9/28/2001; (20) IWN: Russell SmallCap Value Index - 25 bps before 8/31/2000; (21) IWO: Russell SmallCap Growth Index - 25 bps before 8/31/2000; (22) DJP: Dow Jones UBS Commodity Index - 75 bps before 10/30/2006; (23) RWX: Dow Jones Global Real Estate Index - 59 bps before 1/31/2007 (Source: Bloomberg, Yahoo, Julex Capital)

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. No representation or warranty is made to the reasonableness of the assumptions made or that all assumptions used to construct the performance provided have been stated or fully considered.

Two additional pieces

But only for the “technical types” . . . . Or those who just “need paper”

JULEX CAPITAL

The Journal of Portfolio Management

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A Century of Evidence on Trend-Following Investing

Winners Repeat, Losers Repeat

Rob Brown

Rob Brown
is the chief investment officer and a senior vice president at Integrated Financial Partners and Integrated Wealth Concepts in Waltham, MA.
rob.brown@ifpadvisor.com

KEY FINDINGS

- The TAA portfolio earned an inflation-adjusted 10.8% over the aggregate period (102.1 years), whereas a comparable passive index earned a lesser 6.7% (one with a similar standard deviation, a 75/25 global stock/bond mix).
- TAA's performance advantage resulted even after subtracting unusually high transaction costs from the TAA portfolio, while assuming that the comparable passive index could rebalance each month cost-free.
- The TAA portfolio's greater relative success in achieving the stated investment objective did not diminish with the passage of time. If anything, it may have improved during the most recent period (14.3% of the cases examined drawn from the data spanning 1919–2021).

ABSTRACT

I present a tactical asset allocation proof-of-concept portfolio. It is intended to harvest the non-IID statistical attributes of stocks, bonds, commodities, and currencies, both domestic and international. It has as its objective to benefit from markets' propensity to trend from month to month and during both bull and bear market environments. The proof-of-concept portfolio relies on a simple quantitative rule that allows for rigorous evaluation over the past 102.1 years. The results presented herein suggest that Tactical Asset Allocation (TAA) is an approach worthy of consideration. Moreover, the article suggests that a necessary condition for TAA success lies in correctly specifying its rather differentiated investment objective—one that may be unrelated to comparisons with popular fixed-weight index benchmarks. Such fixed-weight benchmarks have correlations with TAA strategies that are so low as to make commonly used statistical comparisons irrelevant (i.e., not statistically significant). This article attempts to correct our industry's mischaracterization and overpromising of all things TAA by focusing on the time required for success.

Tactical Asset Allocation (TAA) earned a poor reputation over the past 13 years (since 3/6/2009, the recent bear market low). My objective is to mitigate a portion of the retail industry's TAA skepticism. This is an interesting topic, given the size of the retail industry, TAA's prominence within it, and forecasted future growth in TAA's market share. Direct and indirect, the retail industry is large and growing, currently estimated to be more than $16 trillion.[1] TAA first came into existence back in the 1980s and has grown consistently ever since, with occasional faster growth

[1]Sources: ICMA (International Capital Market Association) analysis using Bloomberg Data (August 2020), Ned Davis Research, and The Visual Capitalist (https://www.visualcapitalist.com).

and modest shrinkage, strongly associated with S&P 500 bear and bull market cycles, respectively. Today, assets under management within retail TAA strategies are measured in the hundreds of billions of dollars.[2]

Retail skepticism is an outgrowth of TAA's failure to meet investor/adviser expectations. My argument is that this failure is the fault of investors/advisers who adopted incorrect performance expectations for TAA and/or specific TAA managers who relied excessively on forecasts and predictions of the future based on subjective human judgment (or overly complex forecasting/prediction models).

I attempt to support this argument by presenting a new investment performance objective for TAA strategies and a proof-of-concept TAA portfolio designed to reliably meet this objective. The proposed differentiated performance goal is an outgrowth of the investor's desire to meet their own specific future needs as opposed to the investment industry's desire to just sell more product. My objective is not to provide a guide on how to build a successful TAA portfolio; that is a worthy topic, but one that requires a book instead of a brief article. Instead, my objectives are to demonstrate the case for TAA, suggest a possible direction, and strongly recommend that success requires correctly setting the appropriate performance objective (which is not to beat some third-party passive index benchmark).

BACKGROUND

No widely accepted definition of TAA exists within the institutional or retail investment industries. Nevertheless, products proliferate and have grown significantly since first introduced by Bill Fouse and his firm Mellon Capital (founded back in 1983). For those professionals fully cemented within the investment industry, TAA is a little like "art": they know it when they see it. But a widely accepted definition eludes us. For the purposes of this article, I am defining retail TAA strategies as those portfolios that exhibit the following characteristics:

- They are built using commingled vehicles and/or derivatives (as opposed to individual stocks or individual bonds).
- Size of factor or asset class bets is significantly above average.
- Frequency with which the bets are changed is significantly above average.
- Tracking to blended benchmarks consisting of passive indices is exceedingly low.
- Tax efficiency is remarkably poor.
- Modest but relatively dependable bear market mitigation is expected for bear markets lasting at least 8 months.
- They suffer from occasional whipsaw risk.
- They are delivered in the format of a separate account, 1940 Act fund, or insurance subaccount.

Two representative examples of such retail TAA portfolios include the $40 billion of TAA products offered by F-Squared, Wellesley, MA (now defunct for unrelated reasons) and the well-respected Nationwide variable annuity Mozaic Index product line.

Since the bear market low set back on midday March 6, 2009, the S&P 500 as measured by SPY returned +823% and the 7/10-year Treasury as measured by IEF earned +57% (through midday 1/4/2022). Few if any TAA strategies have faired well against these comparative returns. In their study, Morningstar, Inc., examined the "net

[2] Sources: Investment Company Institute; YCharts; Morningstar; BlackRock, Inc.; and the Insurance Information Institute.

I don't want to lose it all . . . not now

This becomes the defining element . . .

Especially given today's ultra-high uncertainty

I don’t want to lose it . . . not now

- 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

Motivation is not return . . . it's risk . . . the what ifs

- Euro war
- Taiwan war
- 2nd 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" type environment
    - Cut government in half
    - Shut down monetary authorities
    - No more immigrants
    - We get an incredibly serious DEPRESSION

For more information contact

Jeff Megar, CFA
Email jeff.megar@julexcapital.com
Office 781-772-1378

Liam Flaherty
Email liam.flaherty@julexcapital.com
Office 781-489-5398

Tactical asset allocation in a rising interest rate environment

Friday

April 29th

11:00 a.m. EASTERN

Important Disclosures

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

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