



How to explain TAA to a prospect

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- We've already worked closely together . . . To close out
 - Objectives
 - Timeframes
 - Constraints
- Set appropriate and realistic expectations And understand the likely journey ahead
- Covered the dangers of behavioral bias . . . How to recognize . . . How to mitigate
- We've talked at length about how we'll measure success/failure . . . And when we'll need to take corrective measures

I only talk about the specific investment At the very very last stage

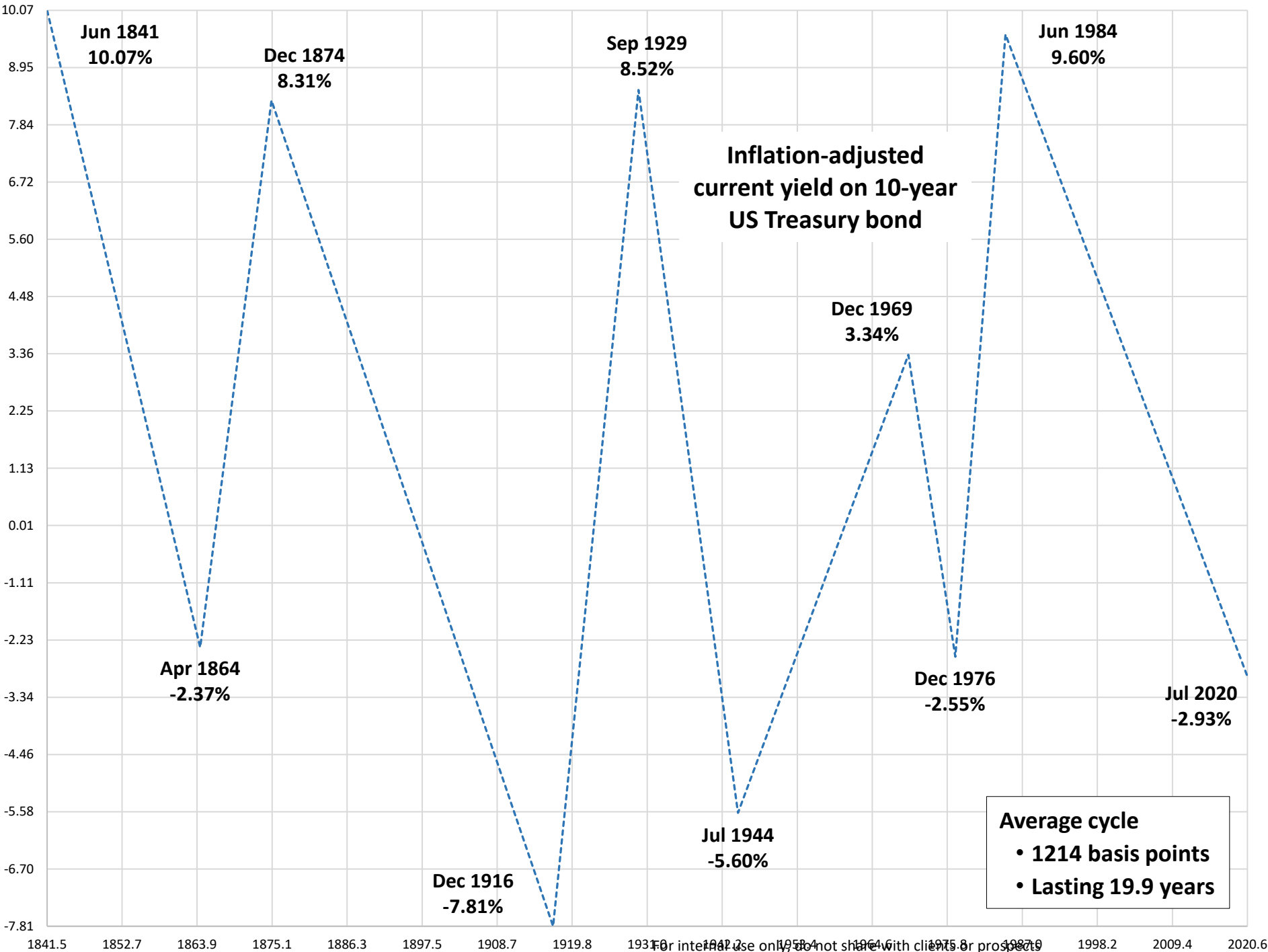
- If everything goes perfectly and it never does
- Then . . . I don't talk about the specific investment solution . . . Why?
 - It's either obvious
 - Trivial
 - Doesn't really move the needle
 - Is swamped by all of the far larger other issues

- Problem to be solved
- Traditional approach won't work
- Solution - Tactical Asset Allocation
- How does it work
- Why does it work
- Show me the important examples from the past
- Show me evidence that it works
- Unusually relevant today
- But which one will you select

Problem to be solved

Ugh . . . What worked in the past won't work in the future

Interest rates - the cycles

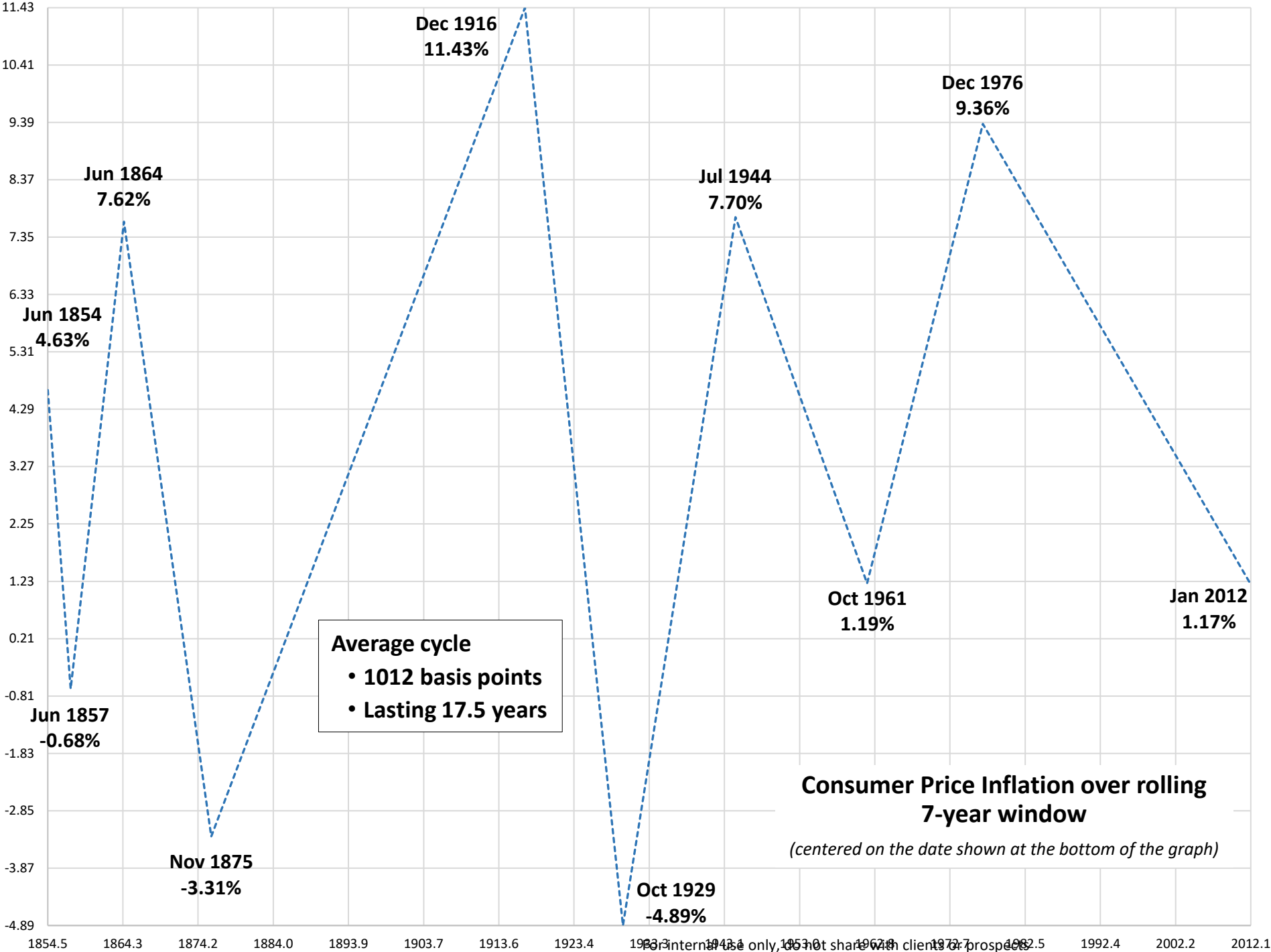


Interest rates . . . Now
rise for “19.9 years”

Like they’ve always
done

When interest rates are rising the fastest . . . inflation-adjusted returns

Percentile (in %)	TAA before all transactions costs	TAA after super high transactions costs	S&P 500	Dow Jones Industrials	10-year Treasury	US Aggregate Bond Index	25/75 S&P 500 and 10-year Treasury
20	7.1	5.9	-5.1	-4.2	-12.4	-8.5	-10.4
25	8.6	7.4	-3.5	-3.5	-11.2	-7.5	-9.1
33.33	7.7	6.6	-2.5	-2.1	-8.9	-6.3	-7.1
50	8.5	7.5	0.4	0.5	-5.7	-3.7	-3.9



**Inflation . . . Now
rises for “17.5 years”**

Like its always done

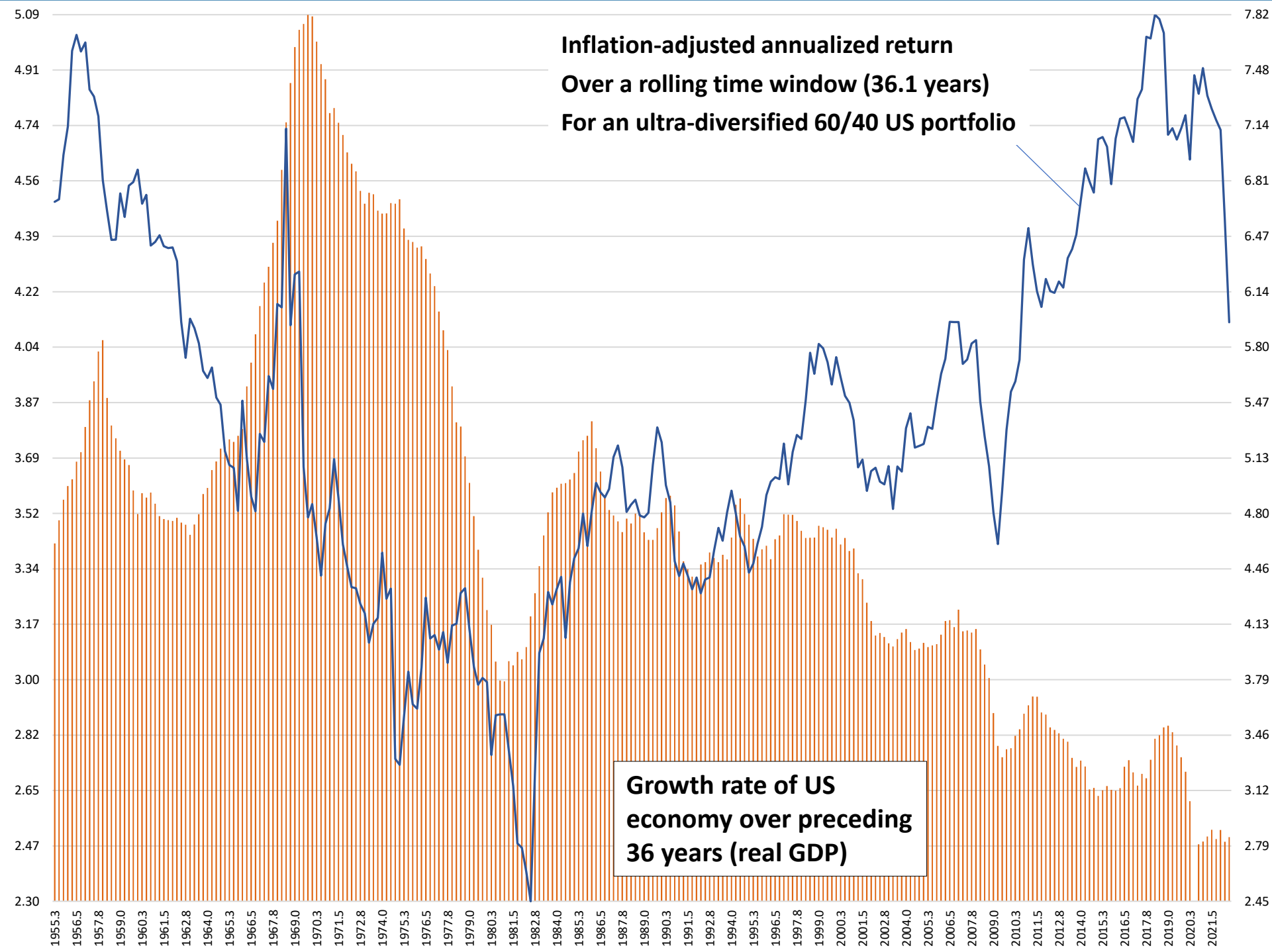
When *inflation* is rising the fastest . . . Inflation-adjusted returns

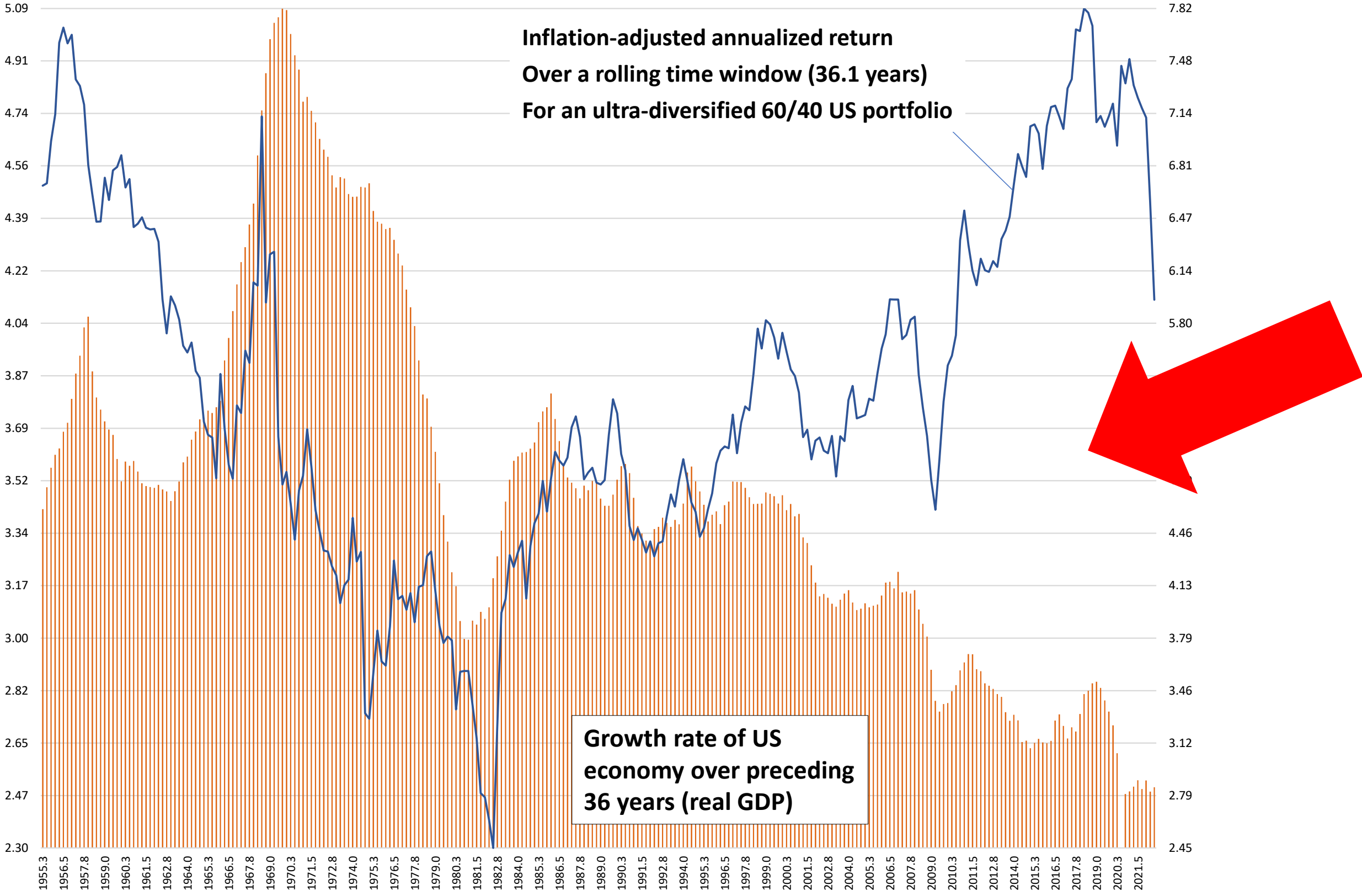
Percentile (in %)	TAA before all transactions costs	TAA after super high transactions costs	S&P 500	Dow Jones Industrials	10-year Treasury	US Aggregate Bond Index	Gold	25/75 S&P 500 and 10-year Treasury
20	2.7	1.5	-3.3	-4.1	-4.7	-4.2	0.3	-4.1
25	2.3	1.2	-2.7	-3.4	-3.4	-2.8	-1.4	-3.0
33.333	4.4	3.3	-0.5	-0.7	-2.1	-1.6	-0.4	-1.5
50	6.8	5.7	1.7	1.8	-0.4	-0.1	1.1	0.3
60	7.8	6.7	3.0	3.4	0.1	0.5	0.9	1.1

Traditional approach won't work

Yay . . . It worked since 2009 . . . But it is so seriously misaligned with today/tomorrow

The whale's mouth - Sets up the US 60/40 portfolio for guaranteed failure





Solution – Tactical Asset Allocation

TAA . . . Just move the asset mix each month . . . And stop being so shy about how much you move it !!

- Large portfolio changes . . . often . . . once or twice a month
- **U.S. stocks**
 - Technology
 - Health care
 - Real estate
- **U.S. bonds**
 - Treasuries
 - Investment grade corporates
 - High yield
- **International stocks**
 - Japan
 - United Kingdom
 - Brazil
- **International bonds**
 - Emerging country
 - International developed country
- **Maybe commodities**

How does it work

Rebuilds itself each “period” from scratch From high-level asset categories

Examples: China, Industrials, Healthcare, 10-year Treasuries, Oil, Australia

Rebuilds itself from scratch “each month” . . . Using a clean slate

Primary sources of growth

High-level asset category	Ticker symbol	Narrowly-defined asset
---------------------------	---------------	------------------------

U.S. stocks	XLV	Consumer discretionary
	XLE	Energy
	XLFXLF	Finance
	XLV	Health care
	XLI	Industrials
	IYR	Real estate
	XLK	Technology

International stocks	EWZ	Brazil
	EWCEWC	Canada
	FXI	China
	EWG	Germany
	INDA	India
	EWJ	Japan
	EWY	Korea
	EWU	United Kingdom
	EWT	Taiwan

Industrial and agricultural commodities	DBB	Base metals
	PDBC	Diversified commodities
	DBO	Oil

Primary sources of protection

High-level asset category	Ticker symbol	Narrowly-defined asset
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Investment grade U.S. bonds	TLT	20+ year Treasury
	IEI	3-7 year Treasury
	IEF	7-10 year Treasury
	TIP	Inflation protected Treasury
	LQD	Intermediate investment grade corp
	AGG	Investment grade govt/corporate
	VCLT	Long-term investment grade corp
	SHV	Short-term Treasury
	ZROZ	Ultra long-term Treasury

Junk bonds	HYG	High yield bonds
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Precious metals	GLTR	Diversified precious metals
	GLD	Gold
	PPLT	Platinum

Primary sources of growth

High-level asset category	Ticker symbol	Narrowly-defined asset
U.S. stocks	XLY	Consumer discretionary
	XLE	Energy
	XLF	Finance
	XLV	Health care
	XLI	Industrials
	IYR	Real estate
	XLK	Technology

International stocks	EWZ	Brazil
	EWC	Canada
	FXI	China
	EWG	Germany
	INDA	India
	EWJ	Japan
	EWY	Korea
	EWU	United Kingdom
	EWT	Taiwan

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Precious metals	GLTR	Diversified precious metals
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	PPLT	Platinum

Why does it work

Because markets trend

All markets trend, they always have . . . and they'll continue to do so for reasons that will persist for another 100 years (maybe 1,000 years)

Two substantive articles proving out this observation

The Journal of Portfolio Management

VOLUME 44, NUMBER 1

www.ijpm.com

FALL 2017

A Century of Evidence on Trend-Following Investing

BRIAN HURST, YAO HUA OOI, AND LASSE HEJE PEDERSEN

THE JOURNAL OF INVESTING

PORTFOLIO
MANAGEMENT
RESEARCH

THEORY & PRACTICE FOR FUND MANAGERS

August 2022 / Volume 31 Number 5

By With Intelligence

JOI.PM-RESEARCH.COM

WINNERS REPEAT,
LOSERS REPEAT

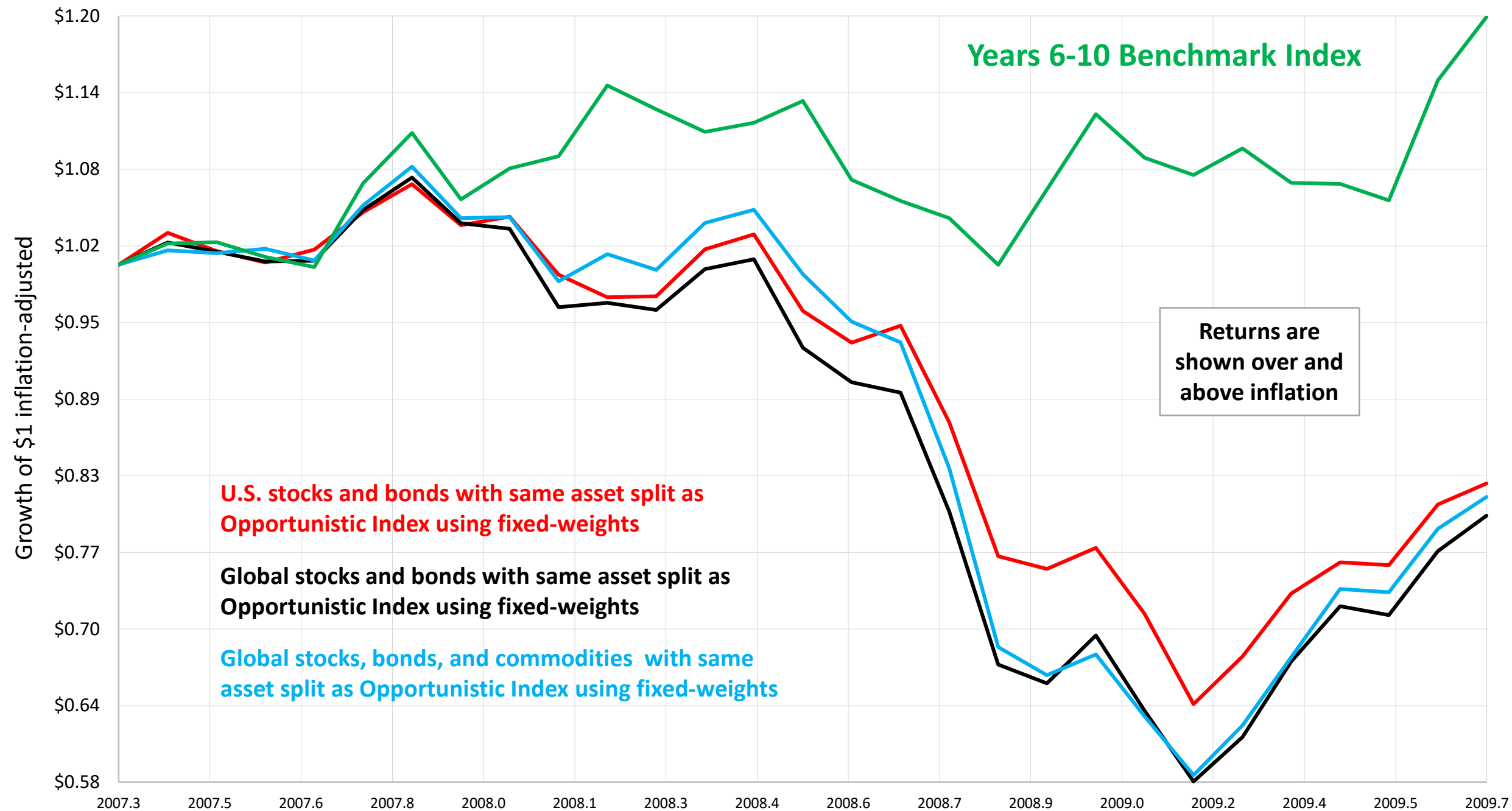
ROB BROWN

Show me the important examples from the past

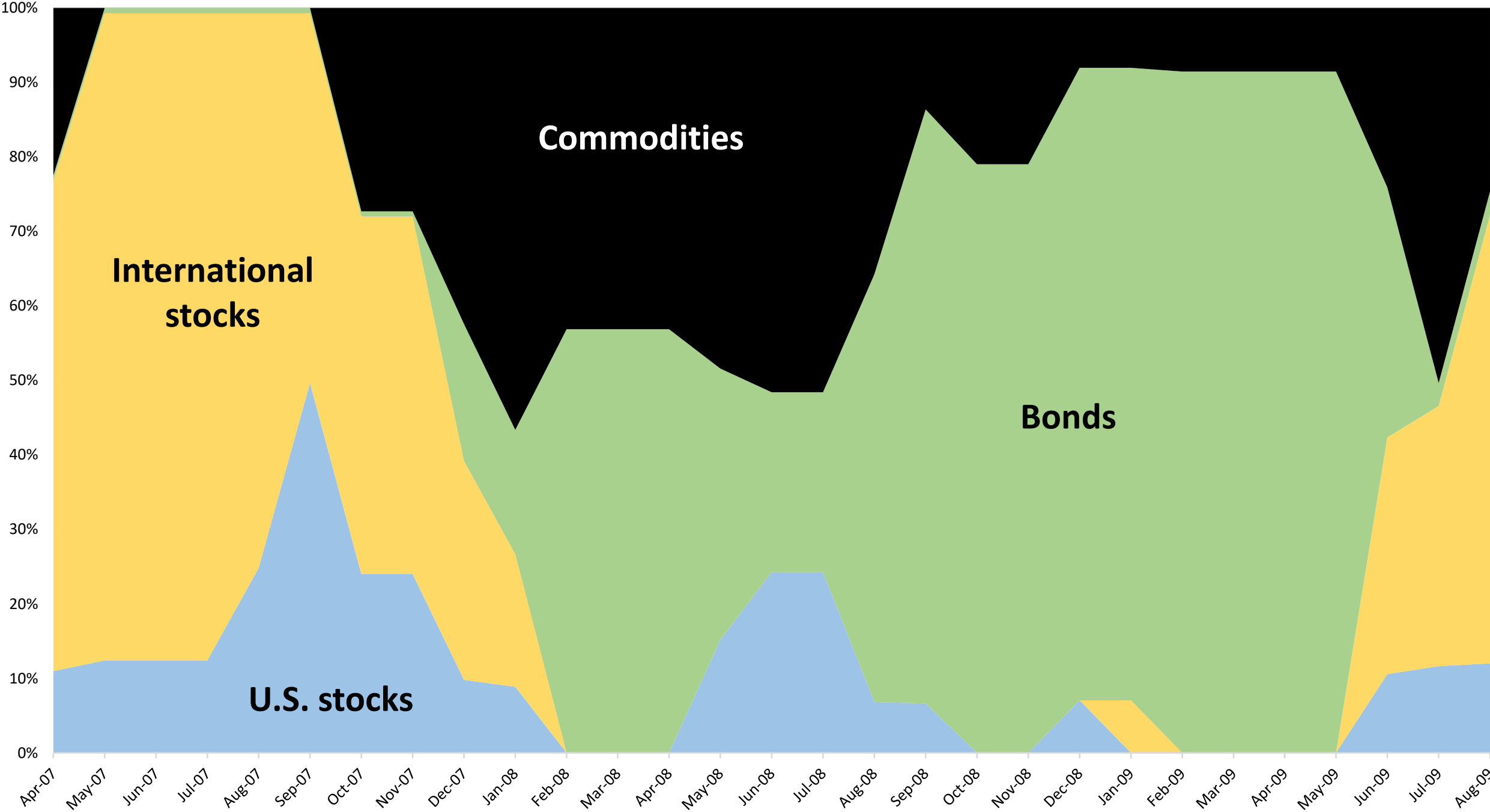
Bear markets are seriously painful, disturbing events . . . We've always had them and always will

How did TAA perform during past seriously ugly bear markets?

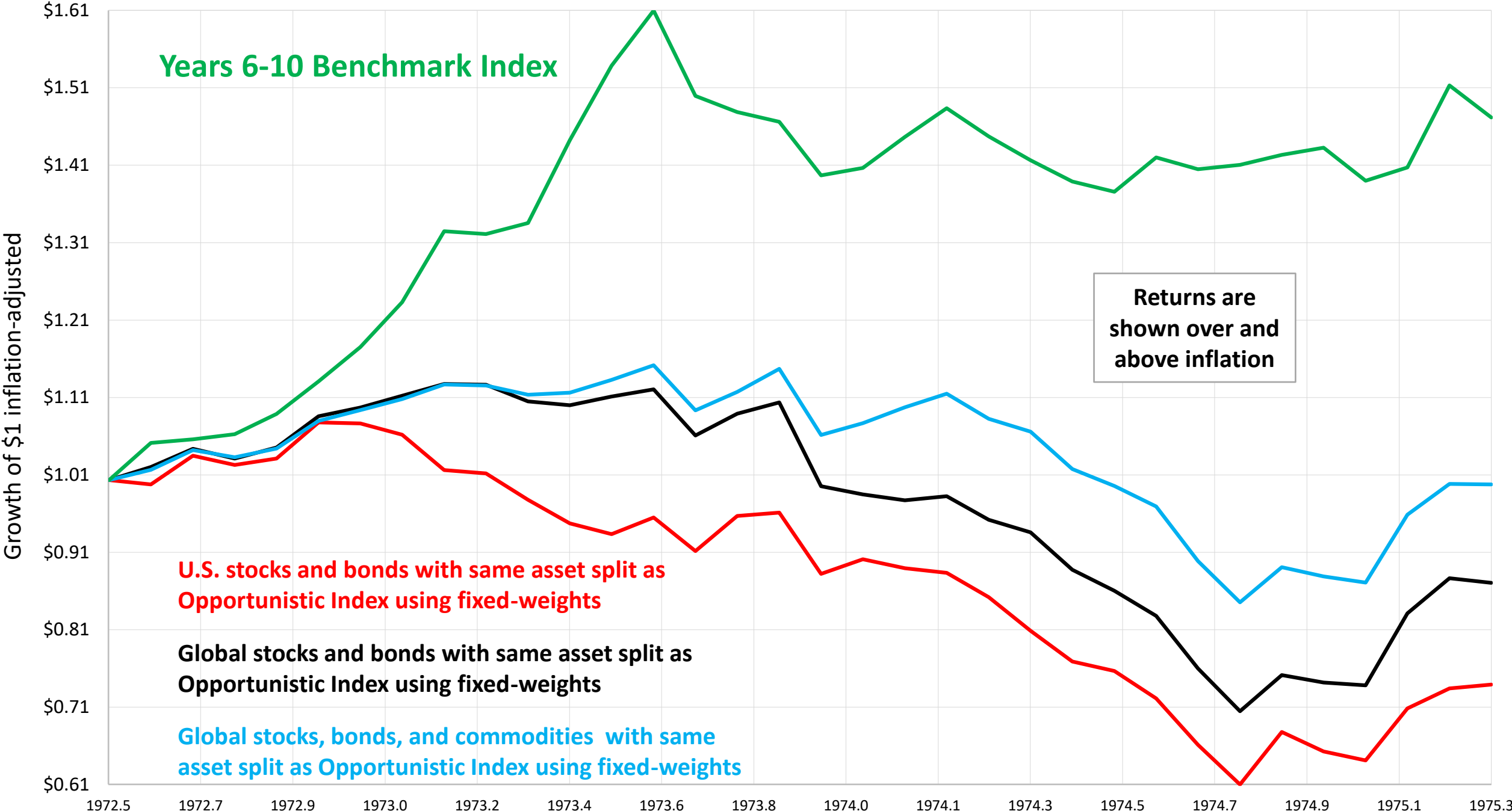
Bear market of 2007/2009



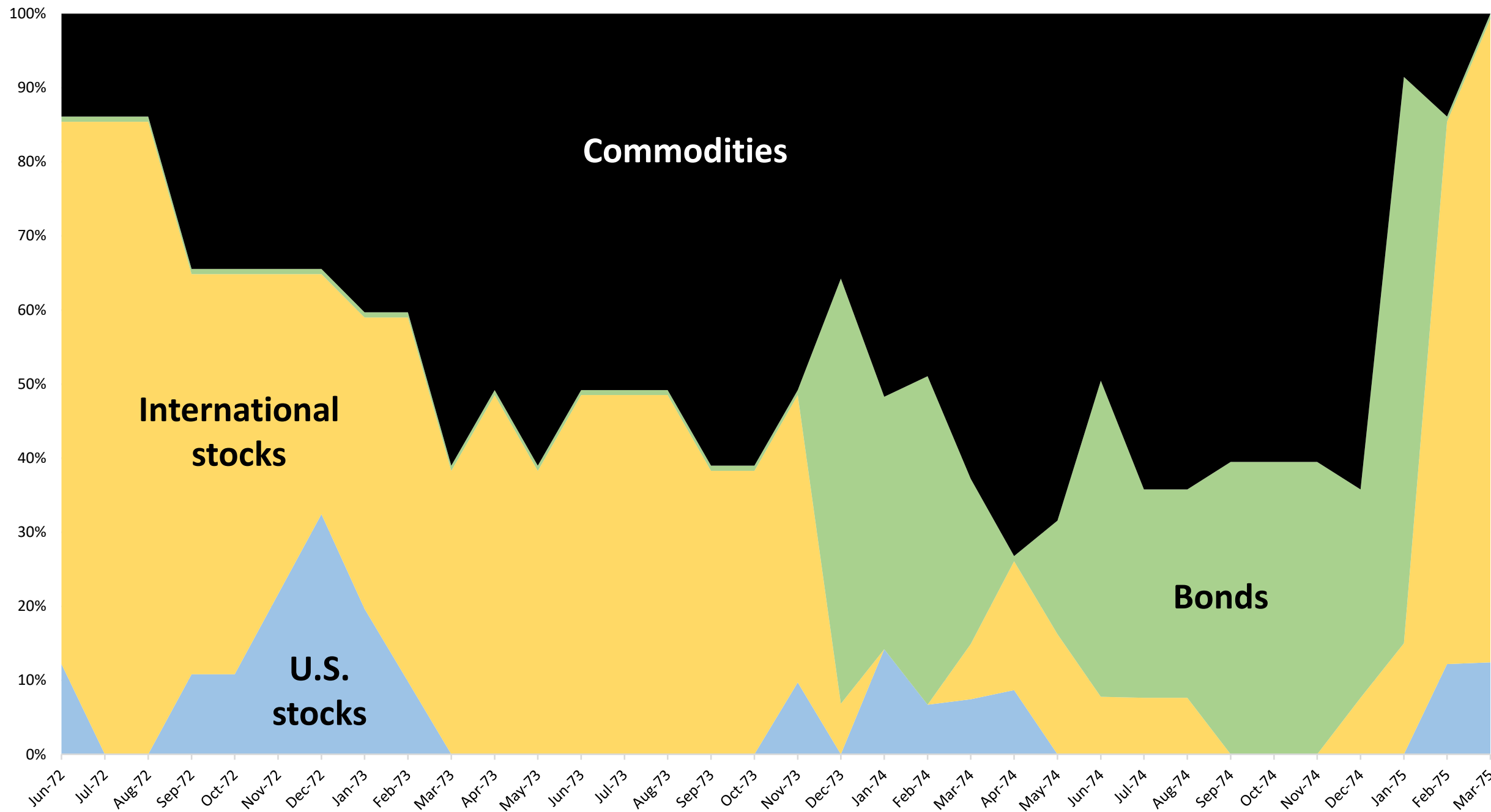
Bear market of 2007/2009



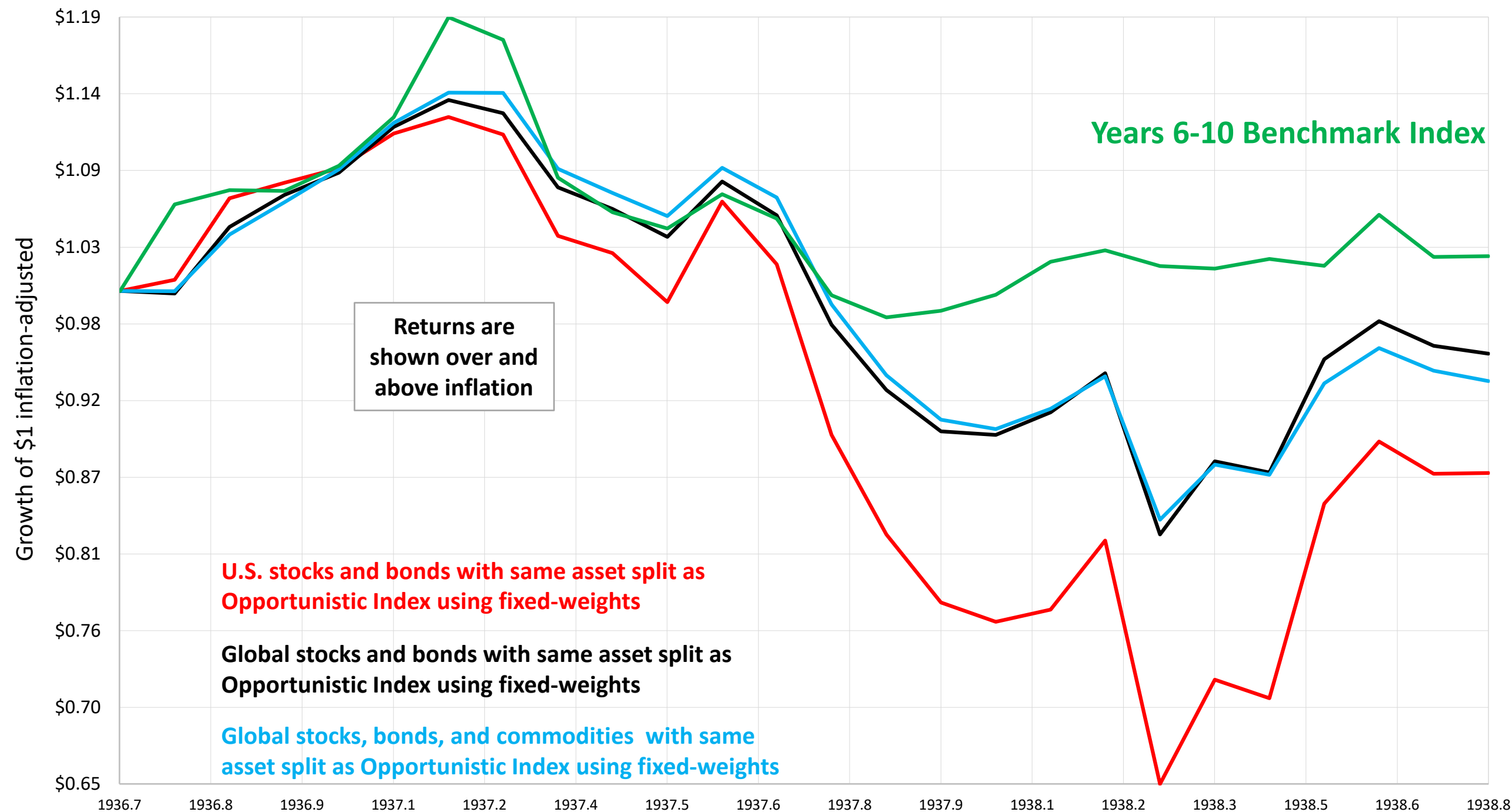
Bear market of 1972/1974



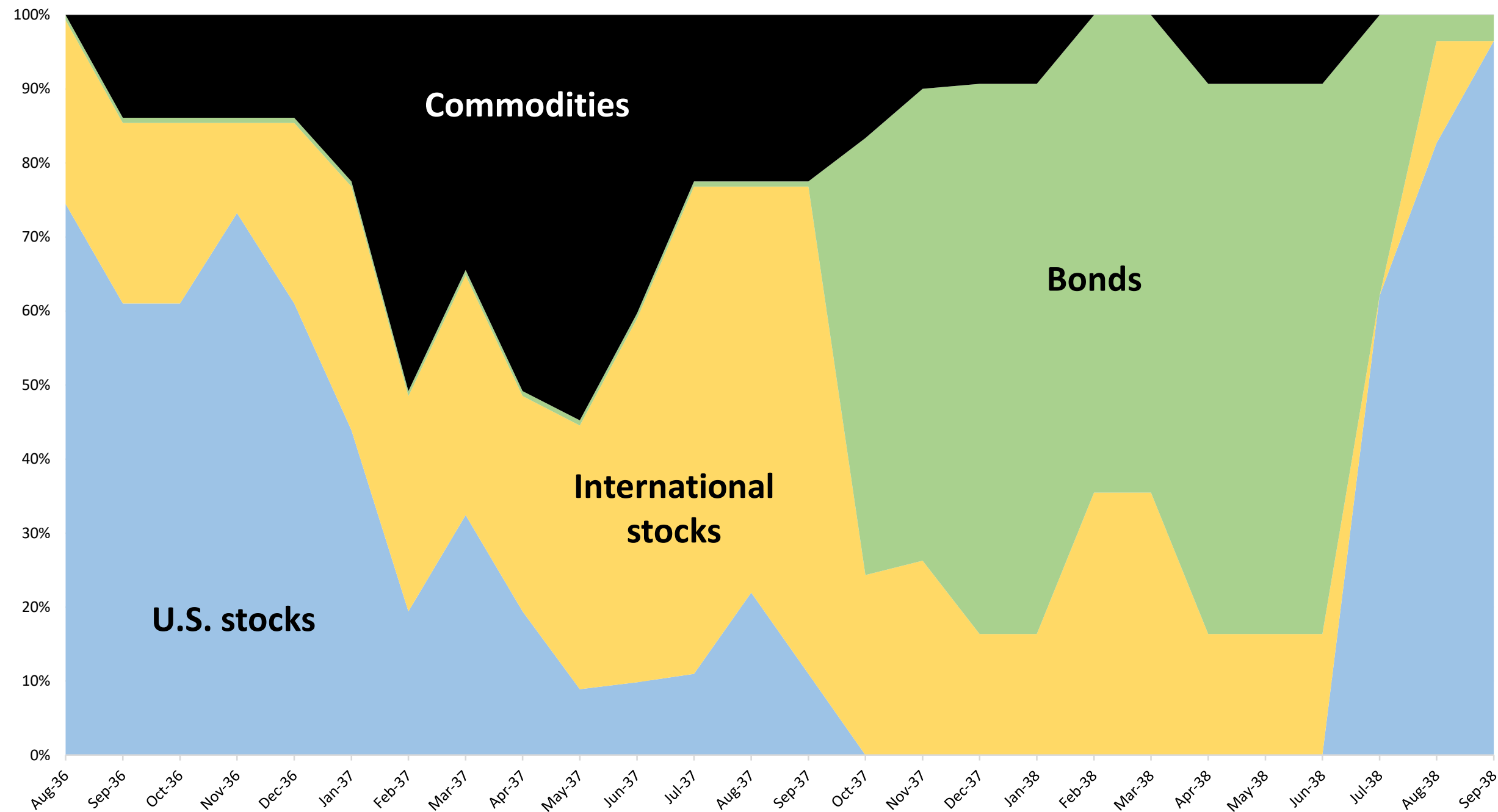
Bear market of 1972/1974



Bear market of 1937/1938



Bear market of 1937/1938



When does Tactical Asset Allocation fail ?

Bear markets for inflation-adjusted U.S. stocks 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
	-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
	?	?	Dec 2021	?	?	?	?
Median BEAR market	-37	1.46			18.5	26	-29.6
Mean BEAR market	-41	1.65			20.7	25	-33.2

When does Tactical Asset Allocation fail ?

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?	?	Dec 2021	?	?	?	?

When does Tactical Asset Allocation fail ?

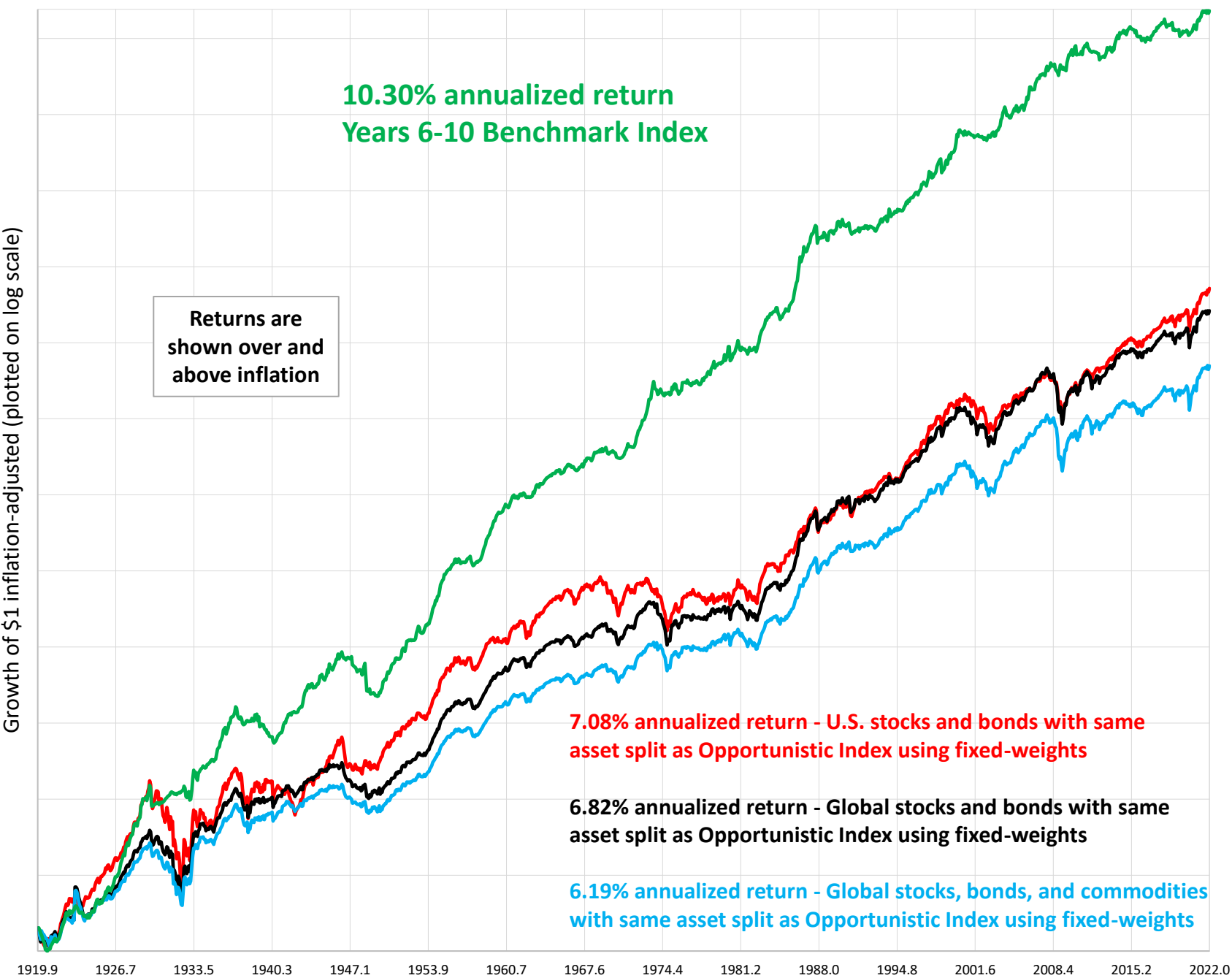
- Bear market of 1987 . . . That lasted just 2 ½ months
- Downturn of 2020 . . . That lasted a short 33 days
- When everything is down at the exact same time
 - Stocks, bonds, commodities, and real estate
 - The last three to four months

Show me evidence that it works

Show me long-run numbers

Yes . . . I understand that regulatory entities constrain what you can show/say

Large and consistent outperformance over the long-run



Unusually relevant today

Stocks, bonds, residential real estate . . . And much of commercial real estate are all in the cross-hairs

The old balanced stock/bond portfolio (the so-called 60/40 portfolio) is “dead” , , , deadeye

Bloomberg

US Stock Market Has Yet to Find a Bottom, Bank of America's Subramanian Says



Jessica Menton

Fri, September 2, 2022 at 9:54 AM · 2 min read

USAA HOME & AUTO I

“History suggests it’s better to be late than early,” Subramanian, BofA’s head of US equity and quantitative strategy, wrote in a note to clients. “We recommend waiting for more bull market signals.”

Bloomberg

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Markets

Global Bonds Tumble Into Their First Bear Market in a Generation

- Bloomberg bond index drops 20% from its January 2021 peak
- A new environment as bonds fall with stocks: Schroders' Wood

Under pressure from central bankers determined to quash inflation even at the cost of a recession, global bonds slumped into their first bear market in a generation.

The Bloomberg Global Aggregate Total Return Index of government and investment-grade corporate bonds has fallen more than 20% from its 2021 peak on an unhedged basis, the biggest drawdown since its inception in 1990. Officials from the US to Europe have hammered home the importance of tighter monetary policy in recent days, building on the hawkish message from Federal Reserve Chair Jerome Powell at the Jackson Hole symposium.

‘Huge Deal’

“We are in a new investment environment, and this is a huge deal for those expecting fixed income to be a diversifier to risk off in equities,” said Kellie Wood, a fixed-income money manager at Schroders Plc in Sydney.

But which one will you select

Everything (any and all) is never good . . . And is also never all bad

Focus in on: Testable, rules-based, quantitative Or qualitative, judgement-based, untestable, unknowable

Don't do this

Focus on past performance

Select the portfolio that performed best

Select the one with the lowest fees

Select the one that restricts themselves
to 8 or 9 US industry sectors

Select the product that "nailed" the last
major downdraft

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Avoid

Black boxes

Qualitative

Offered by a firm that attempts to do everything

Markets themselves based on recent "hot returns"

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Qualitative

Offered by a firm that attempts to do everything

Markets themselves based on recent "hot returns"

Select

Fully transparent

100% rules based

Testable in the past

Who can ask and answer how they would have performed during the "1972/1974 Bear Market"

Has a clear, concise, easily understood investment process as to how/why they add value over time

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.

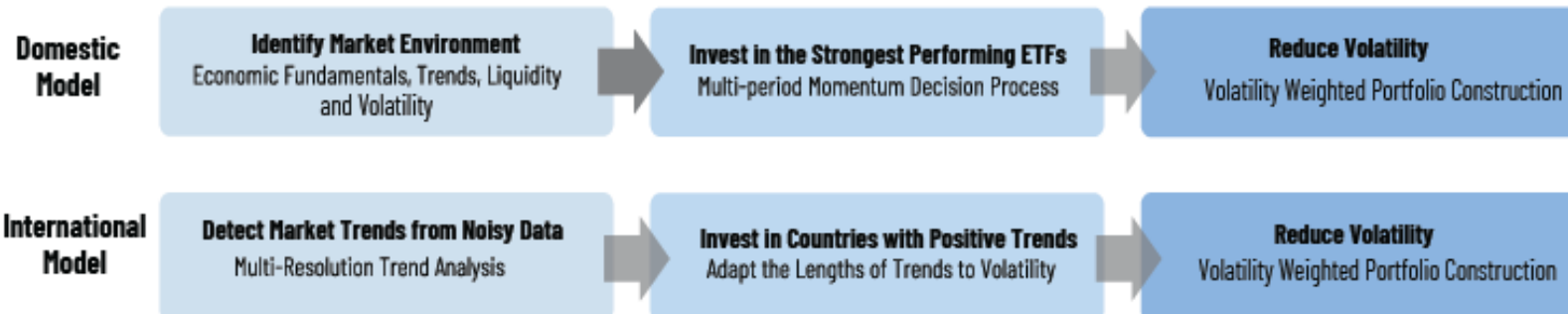
Facts

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 strategy 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.



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When do I load up on value or . . . on small cap

Friday

Sept 23rd

11:00 a.m. EASTERN

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

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One of the limitations of hypothetical performance results is that they are generally prepared with the benefit of hindsight. In addition, hypothetical trading does not involve financial risk, and no hypothetical trading record can completely account for the impact of financial risk in actual trading. For example, the ability to withstand losses or adhere to a particular trading program in spite of trading losses are material points which can also adversely affect actual trading results. There are numerous other factors related to the markets in general or to the implementation of any specific trading program which cannot be fully accounted for in the presentation of hypothetical performance results and all of which can adversely affect actual trading results.

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