

JULEX CAPITAL

Economic growth **versus** investment market returns

Rob Brown, PhD, CFA

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



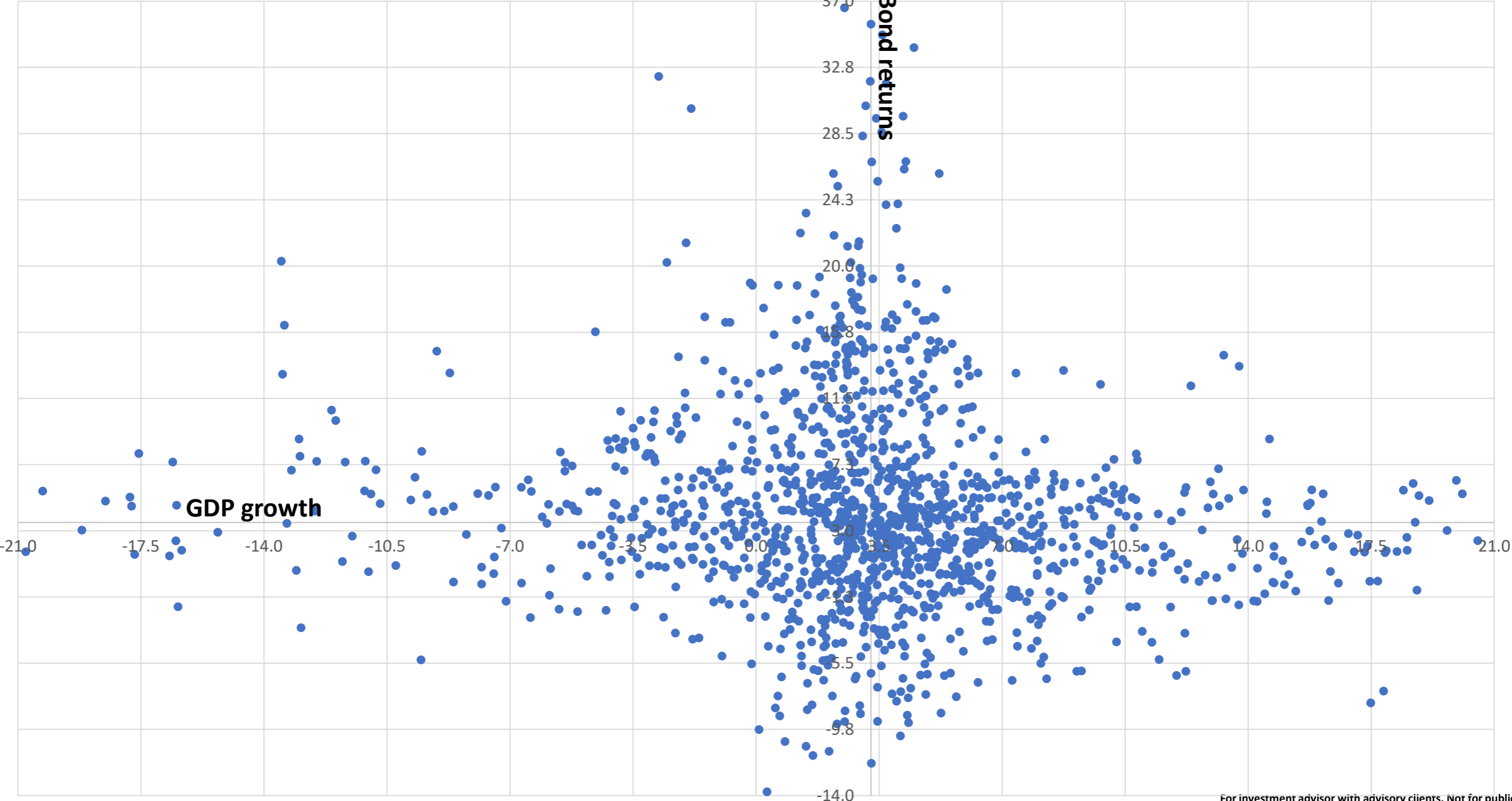
40 Grove Street, Suite 140, Wellesley, MA 02482

Phone 781-489-5398

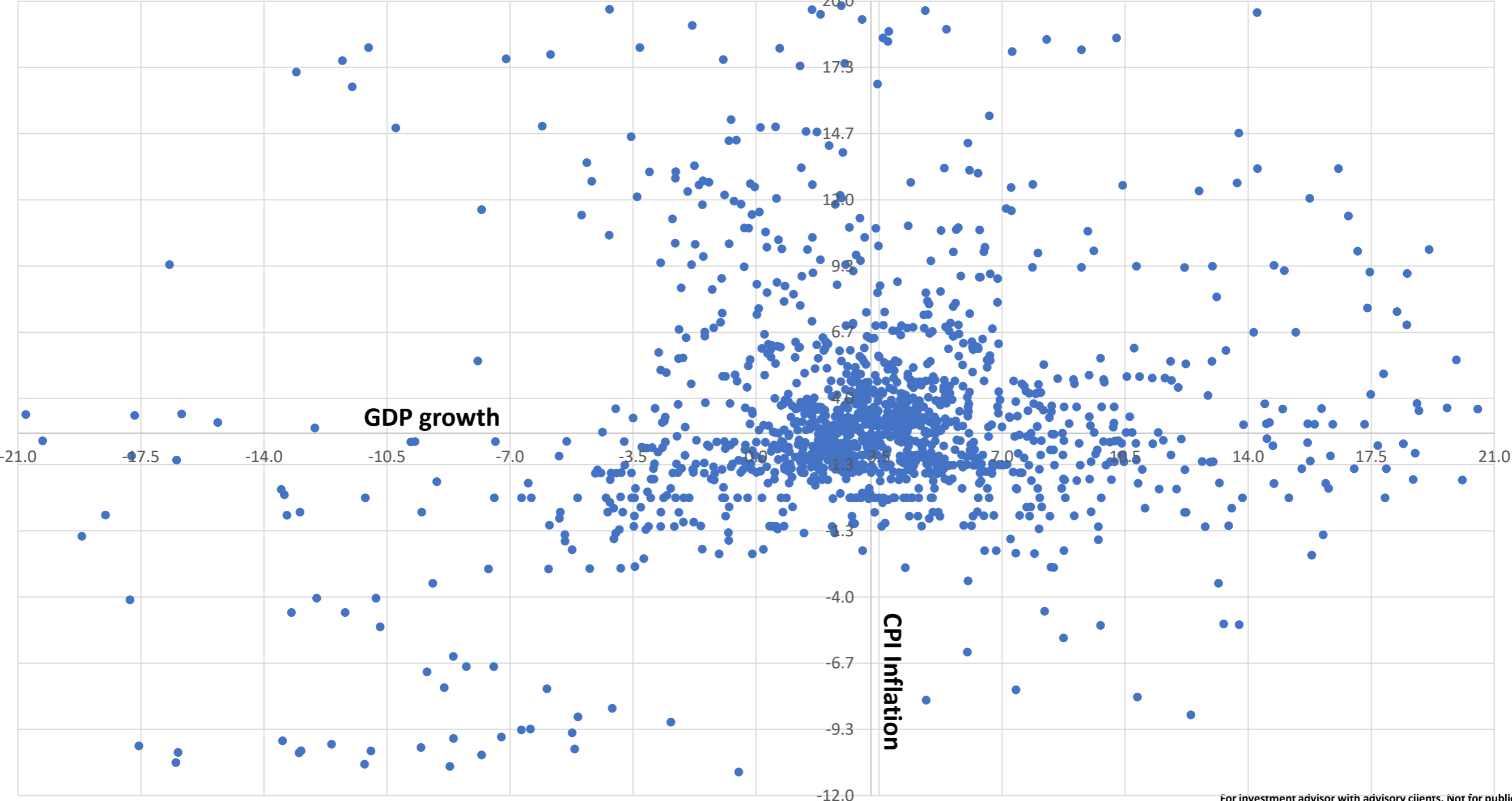
Email info@julexcapital.com

Web www.julexcapital.com

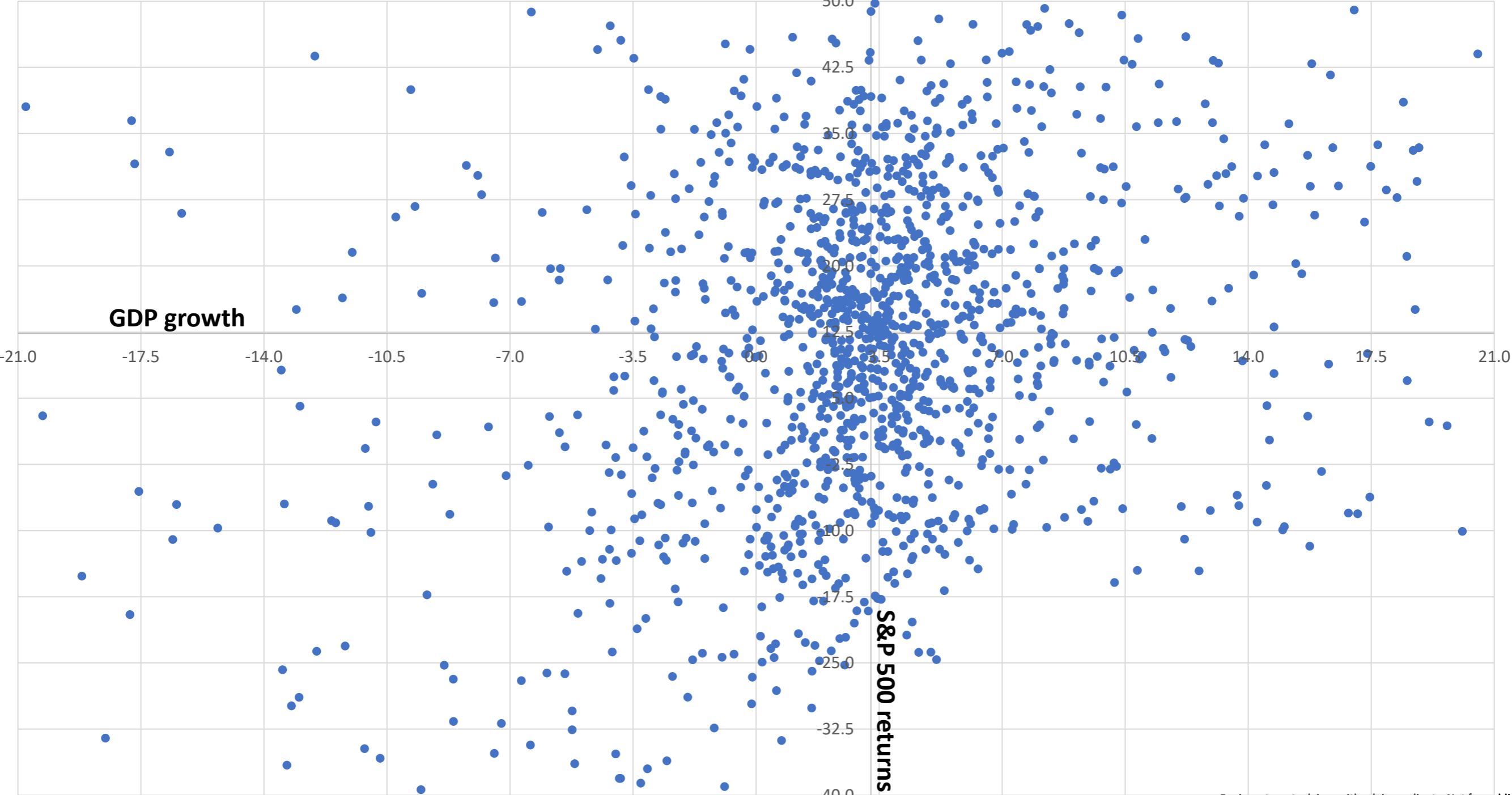
GDP growth vs 10-year Treasury returns - 12-month time windows



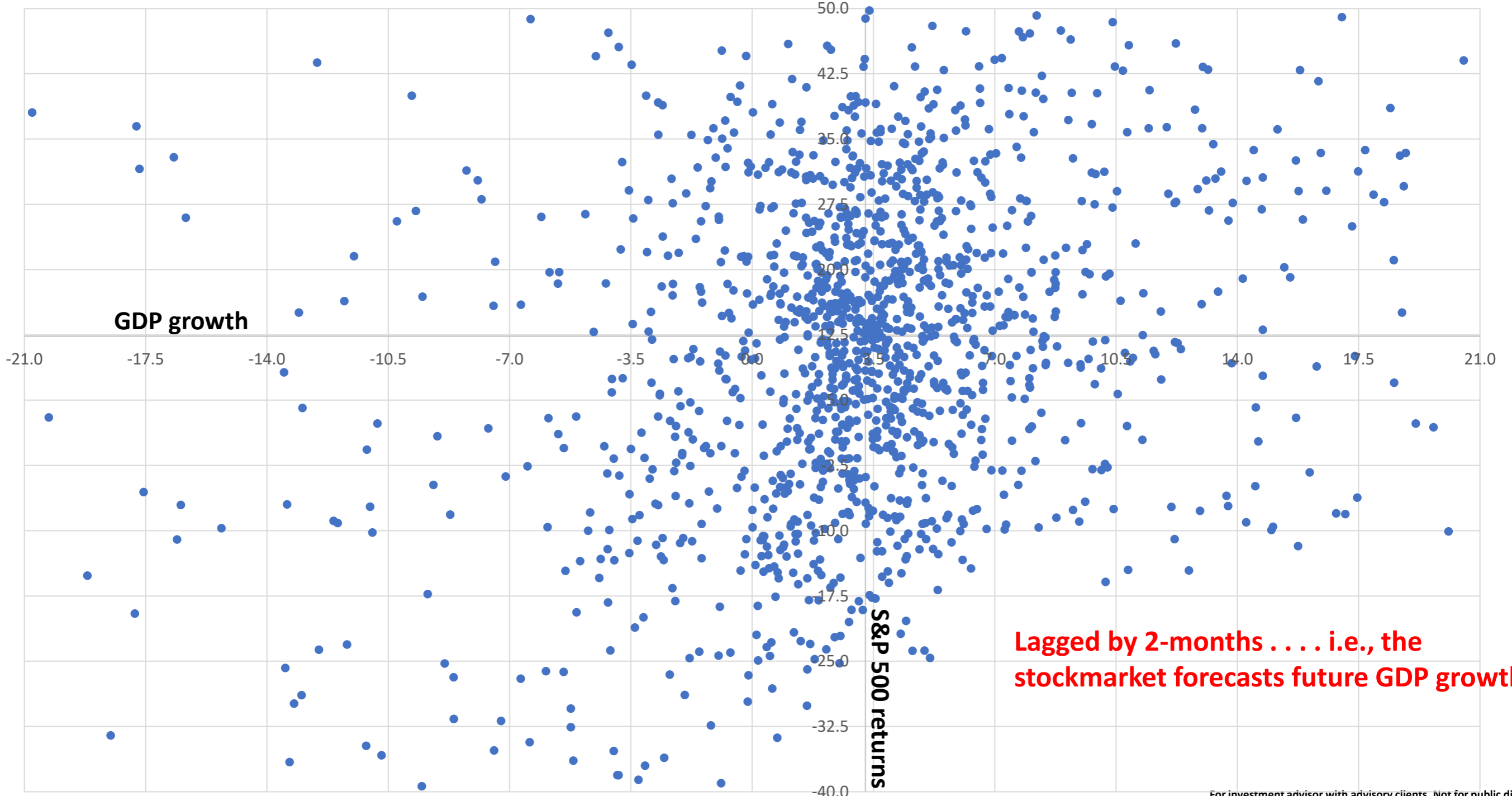
GDP growth vs CPI Inflation - 12-month time windows



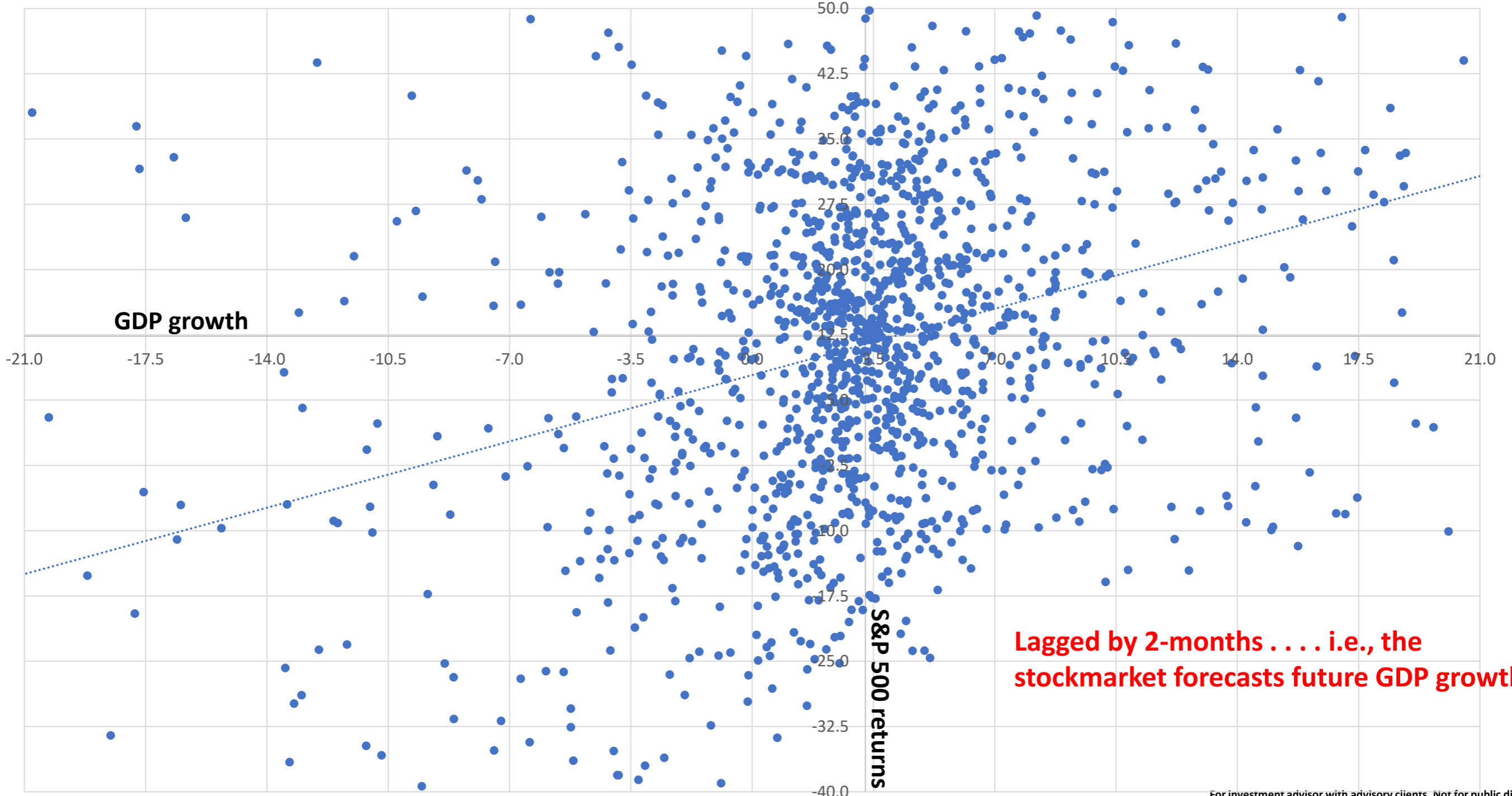
GDP growth vs S&P 500 returns - 12-month time windows



GDP growth vs S&P 500 returns - 12-month time windows



GDP growth vs S&P 500 returns - 12-month time windows



Lagged by 2-months i.e., the stockmarket forecasts future GDP growth

Annualized growth (or total return)

		GDP	CPI inflation	S&P 500	10-year U.S. Treasuries
50% of the time when GDP growth was the lowest	Average	-1.0	2.7	5.2	2.7
	Median	1.0	2.2	5.7	2.9
50% of the time when GDP growth was the highest	Average	8.0	3.6	11.7	0.6
	Median	5.8	3.0	10.3	0.5

All numbers inflation-adjusted

Split 100 years into three periods

	Annualized growth (or total return)				
	GDP	CPI inflation	S&P 500	10-year U.S. Treasuries	
33.3% of the time when GDP growth was the lowest	Average	-2.9	2.5	3.4	2.6
	Median	-0.7	2.0	3.7	2.9
33.3% of the time when GDP growth was average (in the middle)	Average	3.3	3.3	8.9	2.7
	Median	3.3	2.9	9.4	2.1
33.3% of the time when GDP growth was the highest	Average	10.0	3.7	13.0	-0.5
	Median	7.6	2.9	10.9	0.0

All numbers inflation-adjusted

Split 100 years into four periods

		Annualized growth (or total return)			
		GDP	CPI inflation	S&P 500	10-year U.S. Treasuries
25% of the time when GDP growth was the lowest	Average	-4.4	2.0	3.2	3.3
	Median	-2.1	1.4	3.1	3.2
25% of the time when GDP growth was somewhat below average	Average	2.3	3.4	7.3	2.0
	Median	2.4	2.7	8.1	2.3
25% of the time when GDP growth was somewhat above average	Average	4.4	3.4	9.8	2.1
	Median	4.3	3.0	10.2	1.3
25% of the time when GDP growth was the highest	Average	11.6	3.8	13.6	-0.9
	Median	9.1	2.9	10.8	-0.2

All numbers inflation-adjusted

Split 100 years into five periods

		Annualized growth (or total return)			
		GDP	CPI inflation	S&P 500	10-year U.S. Treasuries
20% of the time when GDP growth was the lowest	Average	-5.6	1.7	3.1	4.2
	Median	-3.0	1.1	3.6	4.2
20% of the time when GDP growth was somewhat below average	Average	1.6	3.6	4.7	1.0
	Median	1.7	2.5	5.1	1.9
20% of the time when GDP growth was perfectly average	Average	3.3	3.4	9.5	2.7
	Median	3.3	3.0	10.1	2.0
20% of the time when GDP growth was somewhat above average	Average	5.2	3.4	10.3	1.4
	Median	5.0	2.9	10.0	0.9
20% of the time when GDP growth was the highest	Average	13.0	3.8	14.6	-1.1
	Median	10.4	2.9	11.1	-0.6

When GDP growth was “low” i.e., strictly below 1.0%

Annualized growth (or total return)

		GDP	CPI inflation	S&P 500	10-year U.S. Treasuries
When GDP growth was below 1.00% during a 12-month window (was 25% of the time)	Average	-4.4	2.0	3.1	3.3
	Median	-2.1	1.4	3.1	3.3

All numbers inflation-adjusted

When GDP growth was “negative” i.e., strictly below 0%

Annualized growth (or total return)

	GDP	CPI Inflation	S&P 500	10-year U.S. Treasuries
When GDP growth was negative during a 12-month window (19.3% of the time)	Average -5.8	1.5	4.9	5.5
	Median -3.1	1.1	5.8	4.5

All numbers inflation-adjusted

- Future economic growth as measured by GDP
- Has something, but very little to do with
 - Inflation
 - Stock market
 - Bond market
- Other far more important factors are at play . . . Such as
 - Risk-on, risk-off investor preference
 - Monetary policy
 - Labor supply/demand

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

Update on the prospects for the "value" and "smallcap" risk premia

Monday

October 27th

11:00 a.m. eastern time zone

This information in this presentation is for the purpose of information exchange. This is not a solicitation or offer to buy or sell any security. You must do your own due diligence and consult a professional investment advisor before making any investment decisions. The use of a proprietary technique, model or algorithm does not guarantee any specific or profitable results. Past performance is not indicative of future returns. The performance data presented are gross returns, unless otherwise noted.

Julex strategies follow strict quantitative processes. The portfolio recommendations here may not be the same as what are implemented in the Julex models. The opinions expressed here are mainly the CIO's.

The risk of loss in trading securities can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. All information posted is believed to come from reliable sources. We do not warrant the accuracy or completeness of information made available and therefore will not be liable for any losses incurred.

The investment performance shown, if indicated, is HYPOTHETICAL. It is based on the back tests of historical data. Hypothetical performance results have many inherent limitations, some of which are described below. No representation is being made that any account will or is likely to achieve profits or losses similar to those shown. In fact, there are frequently sharp differences between hypothetical performance results and the actual results subsequently achieved by any particular trading program.

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.

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.

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

This information in this presentation is for the purpose of information exchange. This is not a solicitation or offer to buy or sell any security. You must do your own due diligence and consult a professional investment advisor before making any investment decisions. The use of a proprietary technique, model or algorithm does not guarantee any specific or profitable results. Past performance is not indicative of future returns. The performance data presented are gross returns, unless otherwise noted.

The risk of loss in trading securities can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. All information posted is believed to come from reliable sources. We do not warrant the accuracy or completeness of information made available and therefore will not be liable for any losses incurred.

Some part of the investment performance shown is HYPOTHETICAL. It is based on the back tests of historical data. Hypothetical performance results have many inherent limitations, some of which are described below. No representation is being made that any account will or is likely to achieve profits or losses similar to those shown. In fact, there are frequently sharp differences between hypothetical performance results and the actual results subsequently achieved by any particular trading program.

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.

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.