

## Disciplined Risk Management



## Outcomes Delivered by Discipline

Since 1987, our investment disciplines have sought to help investors limit downside risk and grow their wealth. Through the years, we have remained committed to our truly tactical, rules-based investment process. Using decades of strategic research and our rules-based disciplines, we provide solutions that can complement investment portfolios, and strive to help advisors and their clients meet their investment goals.

Every good investment manager should be able to answer the questions “When do you buy?” “What do you buy?” and “When do you sell?” For us, the answers to those questions form the foundation of a tactical approach that has served investors for more than 35 years.

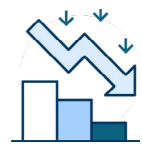
### Truly Tactical Rules-Based Decision Making



**Trend Following**



**Security Selection**



**Trailing Stop-Loss**



## Trend Following

- We buy only when our decision rules show an uptrend has begun or is in progress.
- Once a given asset class or sector begins an uptrend that is adequate to generate a “Buy” signal under our proprietary discipline, we analyze all mutual funds and ETFs in that asset class or sector to determine which to buy.
- “Buy” signals are quantitative – and the discipline is the contrary of our trailing stops for “Sell” signals.



## Security Selection

- As part of our risk-mitigation discipline, we give preference to securities with low volatility – our trailing-stop bands will be tighter, thus when the trend reverses from up to down, we give back less.
- When there are multiple securities in uptrends, preference is given to those that are not highly correlated to each other, or the overall portfolio.



## Trailing Stop-Losses

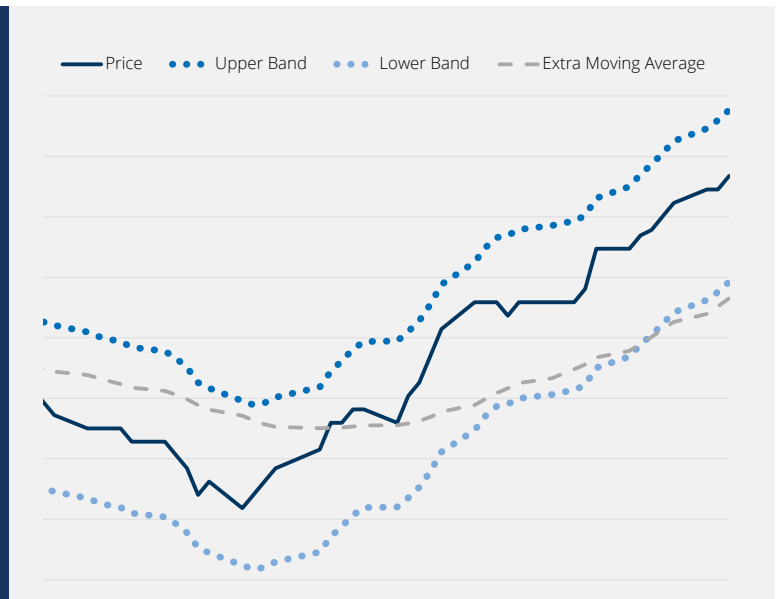
- We monitor and review our trailing-stop-loss discipline daily for every holding.
- When the price of a holding declines below the trailing stop, we sell, and move temporarily to cash.
- Our trailing stops are completely quantitative and are proportionate to the historic volatility of each asset class/sector.
- Our stop-loss discipline helps to limit the impact of any sustained decline on the overall portfolio.

## When to Buy or Sell?

Our truly tactical rules-based investment disciplines only buy when our decision rules show an uptrend has begun or is in progress. We don't just look at share prices, but use exponential moving averages to help drive our decisions.

An exponential moving average is a type of moving average that places a greater weight and significance on the most recent data points and reacts more significantly to recent price changes than a simple moving average, which applies an equal weight to all observations in the period.

We create custom upper and lower bands to help us identify when to buy or sell a fund. The widths of the bands within which we tolerate price fluctuations are proportionate to the historic volatility of each asset class. Our design parameter was to set the width of the bands such that we would average no more than two round trips per year (two Sell signals alternated with two Buy signals). And we apply this rules-based discipline separately to each fund, rather than having a generic Sell signal for all muni bond funds or all high yield corporate bond funds, for example.



Source: YCharts, Jan 2022

This example illustrates a hypothetical holding of a portfolio and does not represent any current or future holding. Portfolio holdings are subject to change and should not be considered investment advice.

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