

**“
By prevailing over all obstacles and distractions,
one may unfailingly arrive at his chosen goal or destination.
”**

- Christopher Columbus

October 14, 2018

A Confusing Market

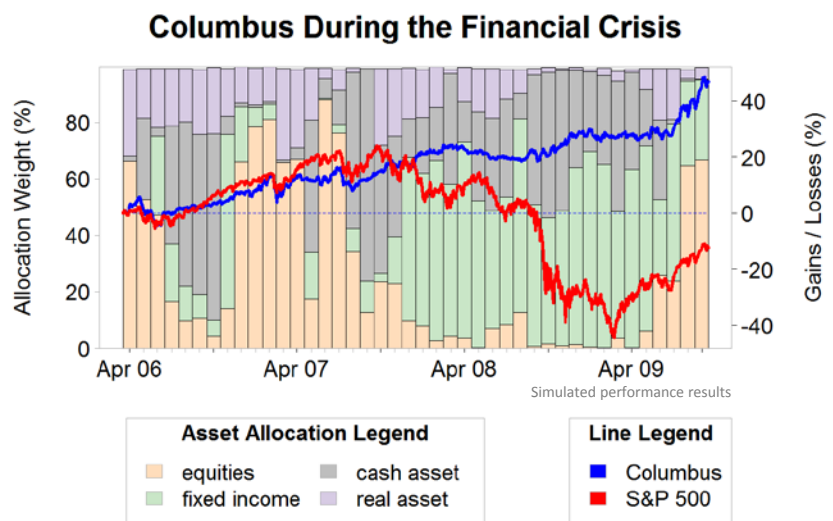
The swift equity market correction last week took many investors by surprise. It emphasized that this market is vulnerable despite having breached the record for the longest bull market in history last August.

There is nothing unusual about this bull market. It is getting old and behaving accordingly. Historically, when equity markets approach their bull market top, they tend to behave more erratically, making it challenging for money managers. Portfolio gains from equity markets become increasingly difficult to capture while ensuring that proper risk management methods are applied.

Columbus is a data-driven and emotion-free approach built to determine how to survive turbulent markets and come out with healthy long-term performance on the other side. As with any strategy, Columbus is certainly not a magic solution to predicting a market top, and it should be expected that there will be times when it underperforms certain other benchmarks. By examining how Columbus behaved during prior bull market tops, we can gain an appreciation of what to expect and how that affects our ability to maximize long-term returns, our ultimate objective.

Columbus and the Financial Crisis

The chart below illustrates the period surrounding the Financial Crisis starting in April 2006, including the worst part of the crisis and its eventual recovery in 2009. The lines show the gains while the bars show the corresponding Columbus asset allocation percentages.



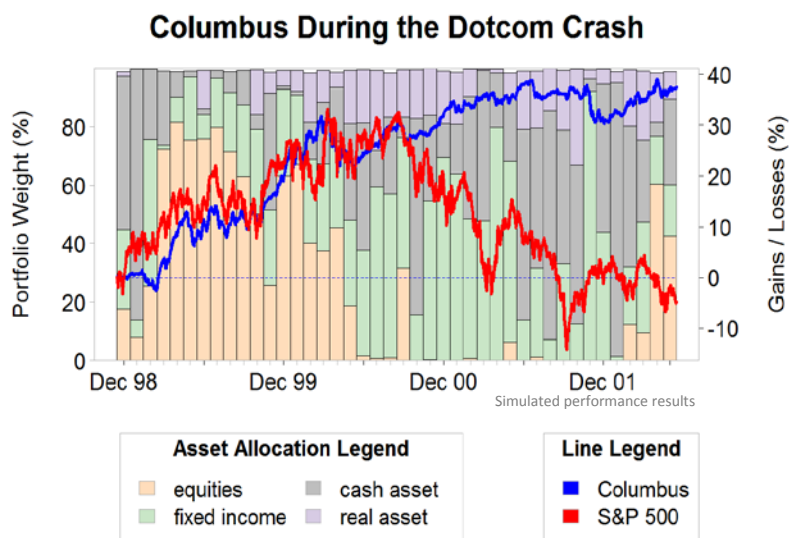
We can see that Columbus' performance became somewhat disconnected from the S&P 500 during the erratic period around the top of the bull market as it weighted the likelihood of a resurging bull versus the probability of an imminent bear market. As the tug-of-war between buyers and sellers took place, the equity market experienced swift corrections that tended to last a few days at most, not unlike what we've experienced last week and earlier this year in February. As it became clear from the data that the sellers were winning, Columbus further shifted its allocation to other asset classes, including cash and

fixed income, which let it ride through the worst of the bear market without experiencing any major decline. We can see that it came out well ahead of the S&P 500 during that challenging period in spite of missing some minor upside at the top of the bull market.

What About Other Late Stage Bulls?

As the saying goes, history is never quite the same, but it rhymes. An examination of the Dotcom market top and subsequent crash highlights a similar pattern.

The chart below shows the 1999 to 2001 timeframe, where we can see the choppy and erratic rising market, punctured by several swift corrections, which made life particularly challenging for money managers.



Once again, we see a similar behavior at the top of the market. As Columbus shifted to a more prudent allocation, it became increasingly disconnected from equity markets during the 18 months preceding the market peak. But then, when the bear market finally set in, Columbus was squarely out of equities and continued to perform while equity markets took a serious beating, delivering the far more important long-term performance that we seek to achieve.

Is the Bull Market Dying?

Bear markets always start when investors expect them the least. By their very definition, markets always reach their peak just before the bear market starts. This is the catch-22 of investing: once everyone knows a bear market is coming, we're already there and it's too late!

Although we cannot tell if this bull market is on its final leg, we do know that it will end sooner or later. As we saw in both examples above, confusing and choppy markets can last for quite some time. For instance, the bull market in 1999 reasserted itself despite much choppiness and produced handsome gains before it finally peaked in March 2000.

What Should an RIA Do?

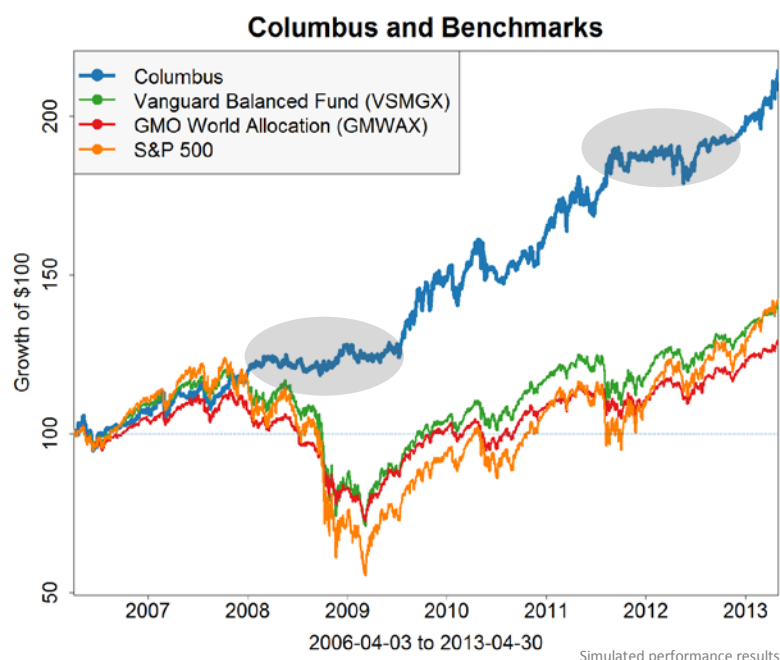
Adapting to market realities using data intelligence informs us of the most likely and best course of action. That's where Columbus can help. Most of all, we must keep a cool head and not let our emotions get the better of us.

It is of course not realistic to expect any investment strategy to capture every short-term equity market gain while simultaneously protecting us from the next bear market, and Columbus is no exception. That said, we certainly can expect Columbus to allocate prudently during risky periods, even if sometimes that can result in a temporary performance disconnect from equity markets during those periods.

When prudence is the right decision and a bear market later materializes, Columbus will then outperform substantially, delivering significant long-term results. Because Columbus is analyzing data movements and not magically predicting the future, there will be times when this prudence may not have been fully warranted when viewed after the fact.

The chart below illustrates two situations (highlighted in grey areas) when Columbus shifted its portfolio to a prudent allocation. The first situation is the Financial Crisis where we can see that Columbus' decision to move to a prudent allocation was unquestionably a very smart one as Columbus gained while the S&P 500 lost over 50% of its value.

The second grey area shows the Greek / Euro crisis in 2012. This was an especially acute period of market uncertainty and it drove Columbus to shift to a defensive position while the storm passed. Columbus produced mostly flat returns during this turbulent period. But then, once it identified that the bull had reasserted itself, it moved back into a more typical allocation to profit from equity market upside.



It is this behavior to switch to a prudent allocation during periods of uncertainty that allows Columbus to protect investor's wealth from the damage of bear markets.

Summary

There is no crystal ball or magic to predict when this bull market will end. Attempting to do so invariably leads to deception as the poor track record of most pundits shows.

We are currently experiencing an aging bull market with similar characteristics to previous late stage bull markets, including choppiness and regularly occurring swift corrections. It is at times like these that data-driven, emotion-free analyses are the most useful guides for prudent portfolio management.

Columbus provides a robust computerized algorithm that combines the intelligence of data and the analytical power of robust statistical methods. It delivers this insight while being free of human emotions and biases. This information brings invaluable guidance to help successfully navigate through the confusing realities of an aging bull market.

Should you have any questions or concerns, please don't hesitate to contact me.

Sincerely,

Jean-Marc and the Laplace Insights team

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Laplace Insights™ was founded by Jean-Marc Patenaude out of his lifelong passion to find a better and safer way to invest. A machine learning data scientist and electrical engineer, Jean-Marc has a clear vision to deliver data and technology driven investment strategies to investors. Laplace Insights partners with financial advisors and investment firms to effectively introduce investors to these strategies and to enable the benefits made possible by these advanced technologies.

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