AI ADAPTATION TO MARKET FLUCTUATION

Abstract

Laplace Insights bring investment advisors the best that technology can offer to help create the finest service for your clients. By combining the intelligence of data with the analytical power of robust statistical methods, we help you sweep away the noise of daily financial news and stay focused on what truly matters the client's financial future and how to get there.

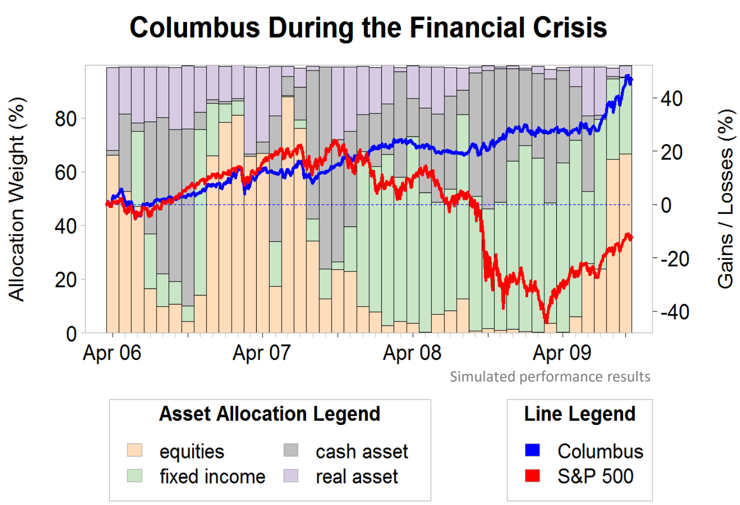
info@laplaceinsights.com
www.laplaceinsights.com

Columbus

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 weighed 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.

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.

Is the Bull Market Dying?

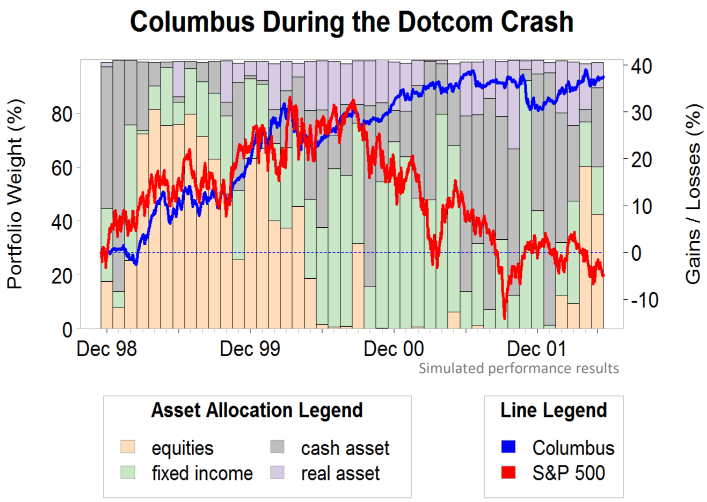
Bear markets always start when investors expect them the least. By their very definition, markets always reach their peak just before the bear market starts. This is the catch-22 of investing: once everyone knows a bear market is coming, we're already there and it's too late!

Although we cannot tell if a bull market is on its final leg, we do know that it will end sooner or later. As we saw in the example 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 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.

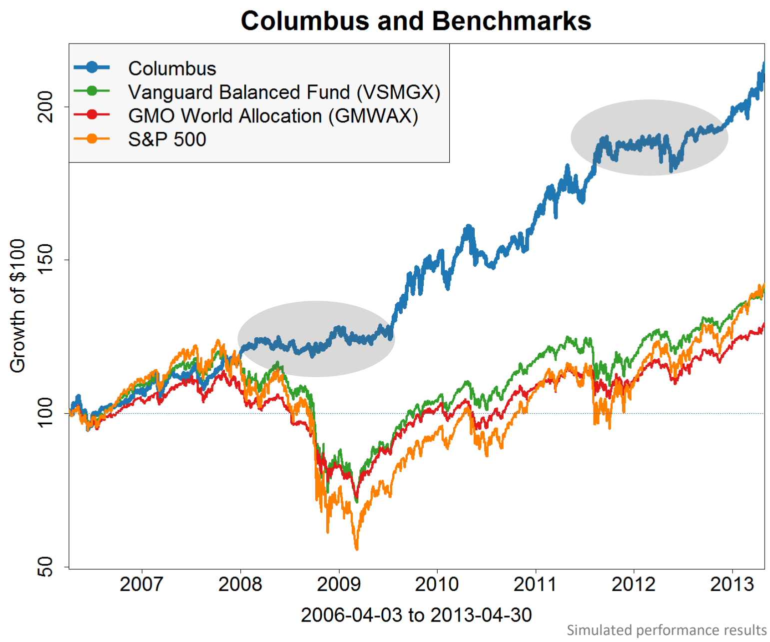
What Should an RIA Do?

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 of uncertainty that allows Columbus to protect investor's wealth from the damage of bear markets

About Laplace Insights

Laplace Insights™ was founded by Jean-Marc Patenaude out of his lifelong passion for finding 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. Should you have any questions or concerns, please don't hesitate to contact me.

Contact Information

We license our research services to registered investment advisors in Canada and the United States. Please contact us to learn more.

Email: info@laplaceinsights.com

Web site: www.laplaceinsights.com

IMPORTANT DISCLAIMER

Your use of our services is equivalent to your signature as evidence of your acceptance of the following terms and conditions.

You acknowledge and agree that Laplace Insights is not licensed to be an investment advisory service, a financial planner, an investment advisor or a securities advisor. Laplace Insights does not (i) recommend or endorse specific securities; (ii) provide personalized advice to any person nor (iii) provide advice tailored on the needs of any person.

Laplace Insights does not guarantee and makes no warranties or representations with respect to the sequence, accuracy or completeness of any information or data furnished hereunder, nor does it represent that the information or data disseminated may be relied upon for trading purposes and you agree that you will independently determine the opportunity of the trades to be made on any securities.

FURTHERMORE, THE RESEARCH IS PROVIDED ON AN "AS IS" BASIS AND NO GUARANTEES, REPRESENTATIONS, CONDITIONS AND WARRANTIES, EXPRESS OR IMPLIED, INCLUDING BUT NOT LIMITED TO ANY WARRANTY OF FITNESS FOR A PARTICULAR PURPOSE OR MERCHANTABILITY, ARE MADE BY LAPLACE INSIGHTS.

LAPLACE INSIGHTS SHALL NOT BE RESPONSIBLE OR HAVE ANY LIABILITY FOR ANY DAMAGES, HOWSOEVER CAUSED, RESULTING FROM THE USE OF OR INABILITY TO USE THE RESEARCH OR ANY ERRORS, DELAYS OR INTERRUPTIONS IN THE TRANSMISSION OF DATA OR OTHER INFORMATION IN THE RESEARCH. IN NO EVENT SHALL LAPLACE INSIGHTS BE LIABLE FOR ANY LOSS OR DAMAGE OR LIABILITY SUFFERED OR INCURRED BY YOU OR ANYONE USING THE RESEARCH IN THIS DOCUMENT.

To the extent any of our research is used to form opinions and/or recommendations or are interpreted as such, they should not be construed as investment advice and is not an offer to buy or sell, or a solicitation of an offer to buy or sell, the securities of any issuer. You should not assume that any recommendations, insights, charts, theories, or philosophies will ensure profitable investment and consulting and advice from a professional licensed financial advisor, including a tax advisor, shall always be made to determine the suitability of any investment. Laplace Insights recommends that anyone making an investment or trading securities do so with caution. You should perform full due diligence and investigate any security fully (including the careful review of annual reports and other publicly available company information (including any prospectus) to complete your own due diligence in any investment) before making an investment, an investment recommendation or before the execution of a security trade based upon information learned through our research. Neither Laplace Insights nor anyone affiliated with us is responsible for any investment decision you make, and we will not be responsible for determining the suitability, appropriateness or advisability of any transaction that you may enter into in connection with such investment decision. You acknowledge and agree that past performance is not necessarily a guide to future performance. You represent and warrant to Laplace Insights that your use of our research will comply with all applicable laws, rules and regulations and with the policies and practices of securities and future exchanges and associations, alternative trading facilities, and self-regulatory organizations, and the policies and procedures (whether stated orally or in writing) applicable to our research.

Laplace Insights reserves the right to make any and all changes to these terms and conditions at its sole discretion without notice. These terms and conditions have been made in the Province of Quebec (Canada) and shall be construed and enforced in accordance with the laws of the Province of Quebec (Canada) and the federal laws of Canada applicable therein. Any action to enforce these terms and conditions shall be brought in the courts located in the Province of Quebec (Judicial District of Montreal) to the exclusion of any other courts. If any provision is deemed to be unlawful or unenforceable, that shall not affect the validity and enforceability of the remaining provisions.