Trade Update:
Premise Capital Frontier Based Tactical™

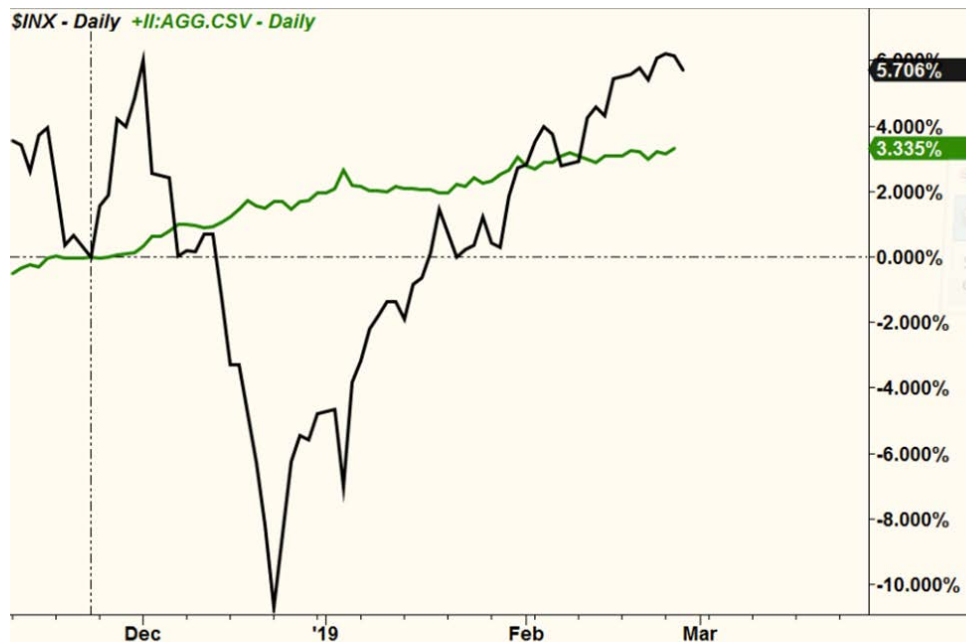
In light of recent market performance, we have adjusted the allocations of the Frontier Advantage Portfolios. The changes were centered on an increase in the portfolios' exposure to Domestic Large Cap Equities. **Overall equity remains below target; however, these moves have resulted in the overall equity exposure moving from a "risk off" allocation to a "risk on" allocation.** Going "risk off" placed our models at the lowest end of their risk profiles.

Our models went risk off in late November, but the "risk off" positioning really began last April as our models indicated a downtrend in Emerging Markets, followed by a downtrend in Developed International in June. Over the next few months, we saw similar changes in Domestic Small Cap, Domestic Mid Cap, and International Small Cap. Finally, we moved out of Domestic Large Cap in late November. Thus, after multiple "negative return expectations" and rising volatilities and correlations, we saw more meaningful "risk off" moves. The net effect was our portfolios moving methodically from their respective maximum equity exposures in early spring to their minimum equity exposures by the end of November.

2018 ended with volatility and drawdowns that we had not seen in quite a long time. **Talking with advisors and their clients, there seemed to be some comfort going into the holidays on the sidelines while the equity markets were in decline with no end in sight.** In addition, with yields where they were, Premise investors enjoyed some return while they waited out the uncertainty.

Moving into 2019, we remained near the low end of our equity exposures as the market found a bottom and reversed its trend quickly. This is not surprising. The Premise approach is designed to mitigate the excessive market loss while accepting that steep market drawdowns are often followed by steep market recoveries. In fact, "from 1992 to [December 8, 2018], 84% of the +3% days occurred below the 200-day moving average...it doesn't take much for the fear of missing out to kick in" (Michael Batnick, A Mostly Random Walk Down Wall Street). In other words, most of the "best" days happen during a broader market selloff; that is, most of the "best" days follow most of the "worst" days.

The chart below is a good illustration of this. Here we take a look at the S&P 500 index (black line) and the Aggregate Bond index (green line). Just as advisors and investors that expressed relief in Premise's conservative positioning in December, investing in the Agg saw a relatively steady incline since our risk off move. Staying invested in the S&P 500 over the same period would have actually produced a greater overall return, albeit would have experienced a very dramatic ride, dropping around 13% since we exited it before bouncing back. How much tactical you want in your portfolio might depend on how you feel about this chart.

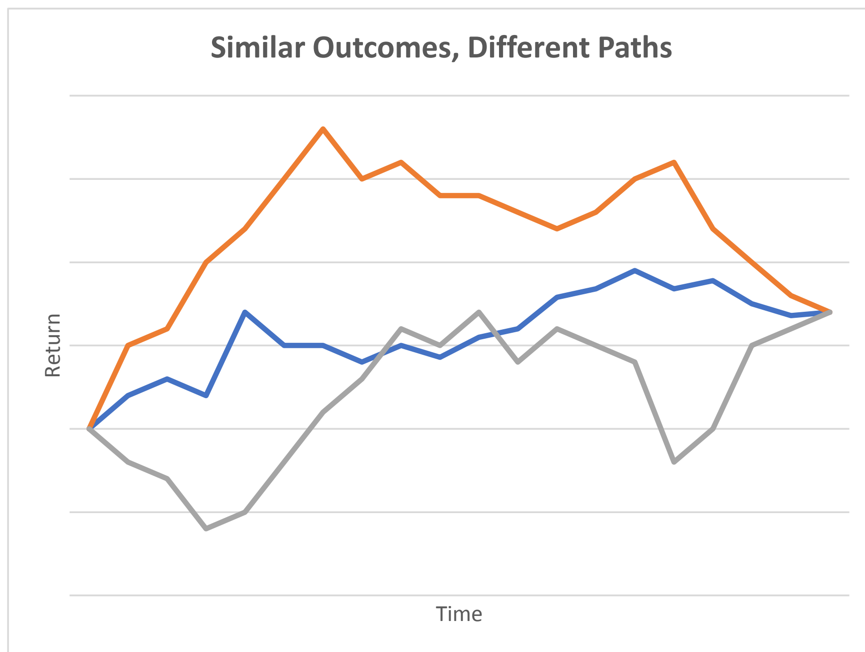


Fast forward to now, we are "risk on". This is due to the combination of volatility dropping and the price movement over a longer period moving sufficiently upward (see S&P 500 chart below). We are not all the way in yet – this is not an "all or none" proposition. We moved into US Large Cap and picked up some exposure to Developed International and Emerging Markets. If the strong recent uptrend continues, we could also find Mid and Small Cap reintroduced. However, at this point we remain slightly below target equity in each of the Frontier Advantage Portfolios.

The chart above also illustrates why we went risk off in November. The first pullback of 2018 was in January. The trend however remained above our long-term trend analysis (blue line). It wasn't until the pull back in October that broke our trend with increasing volatility. This high volatility and a confirmation of breaking through our support line signaled a good time to go "risk off".

So, what's the verdict on our recent moves? We don't know the future but do know bad things can happen when these events occur. It's not that easy judging investment decisions. And it is too simplistic to look at the return vs a benchmark and make the case that you should have stayed in equities. If beating the benchmark in a short period is all that is important, you would need to be equally happy only losing 47% if the benchmark lost 50%. **If that is not an acceptable outcome, maybe the risk reduction of tactical management offers something beyond just beating a benchmark.**

Tactical investors generally want to end up near the same point at the end of their investment time horizon, maybe even giving up some upside, but they want to do it with less chance of a detrimental impact on their portfolio. Tactical can also help manage the emotional experience in market crisis, i.e. the investor's sleep quotient.



Consider another way to look at this: Take the chart above for example – each of the 3 return paths end up at the same point. But each could be judged right or wrong at some time along the way!

An investor's preferred return path says a lot about their risk tolerance. An investor that prefers to minimize severe account drawdowns would likely utilize more tactical exposure than an investor that can stomach most of the volatility. Either way, a responsible tactical approach can add value, but the total amount may depend on preference.

As always, we will continue to keep a watchful eye on the markets and make adjustments to our portfolios as necessary.

Yours truly,

The Premise Team

P.S.

Remember, Premise combines the benefits of Strategic and Tactical, while trying to limit the weakness of each. Many traditional asset management and advisory firms often follow a buy-and-hold approach to investing and adjust the asset allocation infrequently, often based on time rather than need. Our difference is that we use a mathematical approach and asset allocation models that attempt to ride upward market trends in a relatively passive manner when it makes sense to do so. We use active tactical strategies when our models indicate that conditions are not favorable for taking risk. This approach blends the best attributes of both investment approaches.

Our main goal is to ride along in the markets for as long as we can, while still employing techniques to protect from major, prolonged down moves. To do this we construct portfolios with a strategic underpinning and the use of forward-looking views to tactically navigate the current market environment. We control the exposure of each class relative to each other in a diversified portfolio that remains on the Efficient Frontier. Then, acknowledging that there are times that risk is not being rewarded, we tactically shift along the curve to a more conservative diversified position.

As discussed previously, our system objectively looks at past price data on each of our 12 asset classes, attempts to determine the direction of the trend, and signals trades based on that analysis. From there, we shift the portfolio based on the adjusted risk and performance data. The result is a portfolio that is diversified, yet accounts for the increased chance of potential large down moves that outweigh the benefits of remaining invested in those asset classes.

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Premise Capital's ADV is available at www.adviserinfo.sec.gov
No particular investment strategy, methodology or investment approach can assure positive returns.
Investing carries risk of loss.