Premise Capital
STAY ON THE CURVE™

Premise Capital Trade Update

Premise Investors,

In light of the risk-off move in our latest portfolio rebalance, we would like to give a little more detail than our usual trade updates. Going "risk-off" places our models at the lowest end of their risk profiles. As all equity classes except US domestic large cap were already negatively viewed before the recent move, we were already underweight equities relative to strategic weightings. We are also tilted toward low duration, short term instruments, reflecting downtrends in the fixed income classes as well. Conceptually, you can picture these trades over the course of the last 6 months moving the overall portfolios "down and along" the efficient frontier, albeit slightly, to lower equity-to-fixed-income ratios. This risk-off move now was a function of the last of the equity classes moving negative, thus the significant jump down and along the efficient frontier from equities to fixed income (short term fixed income, that is).

It is important to remember that we are rules-based. We have a system that objectively looks at past price data, attempts to determine the direction of the trend, and signals trades based on that analysis. We do not trade on feelings, nor do we get caught up in the current news of the day to influence our actions.

Our signals consider data from a much longer period than just the last few weeks or months. This suggests that if an asset class goes nowhere for an entire year, or worse, is down a significant amount, it might not be in an uptrend. You don't go up by going down all the time, and for the last year, there have been more down moves than up.

After seeing two "once-in-a-lifetime" stock market down moves in a 10-year period, with account drawdowns far more than previous expectations for all risk tolerances, we crafted models that would attempt to minimize the potential fallout. This does not come for free. It is always balancing trying to potentially reduce downside with also potentially reducing upside. Get out too many times, and you might dramatically underperform; get out too few times, and you could experience the full force of the down draft.

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. *This means you must get out when the process dictates.* Since the inception of our portfolios, we have shown that we can minimize the cost of "getting out" as our models have remained very close to their diversified buy and hold counterparts since our inception in 2012. We have been able to do this despite reducing risk during periods of downward volatility only to then watch the market reverse course and head back upward.

This is only the third time since our inception in 2012 that we have been in a "risk-off" stance, and we take these periods very seriously. Keeping "wiggles" to a minimum is very important for us to achieve our goal of having returns remain close to non-tactical counterparts in generally upward trending equity markets. These are critical times as the market could be on the verge of a major sell-off; or the opposite, the market could snap back quickly.

As stated before, we are rules-based, and those rules are in place for the current stance, as well as the future allocation decisions. Going forward in this critical time, we will look for confirmation of the downtrend signal, or an up move significant enough to make us reverse our decision and re-enter the markets. What happens next is always unknown. *When we are "risk-off", we are taking the stance that the increased chance of a potential large down move outweighs the benefits of remaining invested.* We are continuously assessing new data as prices change and will act according to the rules as put forth in our system.

As always, we appreciate your continued confidence in the team at Premise, and we are always available to answer any questions you may have.

The Premise Team.

Contact: Info@premisecapital.com
phone: 630.596.9911