Omega Analysis

Omega Metrics® Reference Portfolios

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Omega Analysis

Omega Metrics® Reference Portfolio Analysis

Risk Measurement

You control the risk factors in your investment portfolio by your allocation strategy and tactics.

*But the downside risk in your portfolio is not visible to conventional risk measures such as volatility, nor is it captured by conventional VaR models.**

Unless you know the real drawdown risk, you cannot control it.

* See The A-J Cauchy Corporation in What Just Happened? 8 November 2016

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Market Mode Analysis

You control the risk factors in your investment portfolio by your allocation strategy and tactics.

All markets have risk cycles in which assets become over-bought or over-sold. Reading these cycles is an essential component of your performance.

The ability to identify the value and momentum phases of market cycles while there is still time to react adds directly to the success of your portfolio decisions.

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Market Trend Analysis

You control the risk factors in your investment portfolio by your allocation strategy and tactics.

It's impossible to profit from asset price bubbles and anti-bubbles unless you can identify turning points before it is too late to exploit them.

The ability to identify to identify turning points in trends on your strategy's timescale adds directly to your profits.

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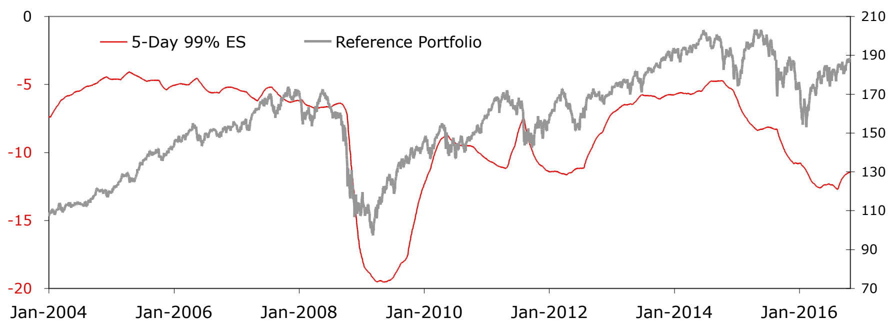

Market Risk Analysis for a reference portfolio with exposure to US and European large cap equities, USD-EUR and WTI crude oil. 5-day drawdown risk has exploded since early 2014. It is now at levels last seen in the 2008 crisis.

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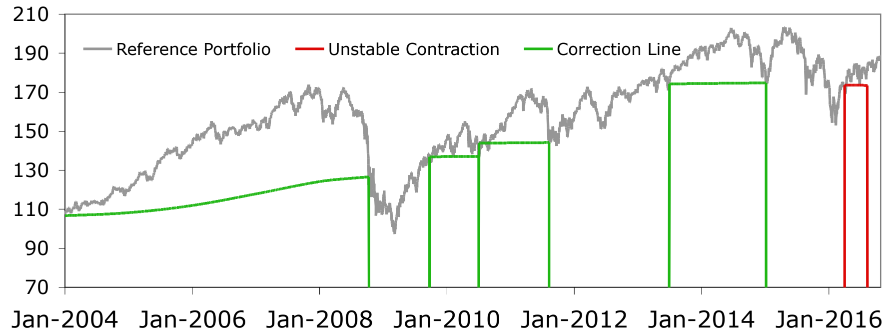

Market Mode Analysis for a reference portfolio with exposure to US and European large cap equities, USD-EUR and WTI crude oil. All of the predicted correction levels from Unstable Expansion have been hit. The Unstable Contraction mode signalled a value phase beginning in mid 2016.

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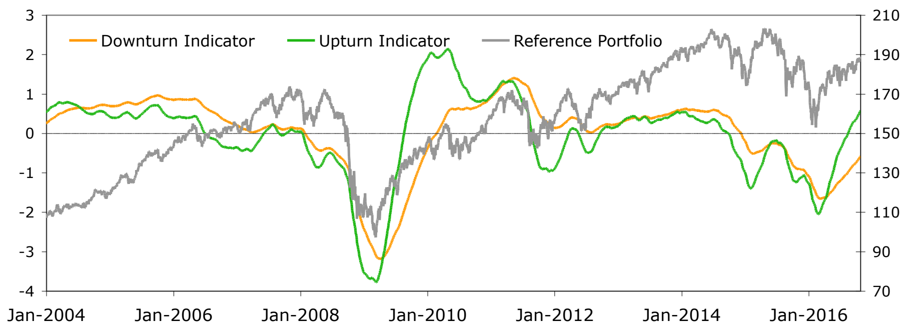

Market Trend Analysis for a reference portfolio with exposure to US and European large cap equities, USD-EUR and WTI crude oil. The most recent Downturn signal was in the first week of December 2014. The Upturn signal followed in mid August 2016, after the Unstable Contraction Mode was confirmed.

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Risk Targeting is a risk management strategy which exploits the ability to measure downside risk accurately by using that measurement to manage exposure to a fixed target.

During high risk periods, this reduces the allocation to the portfolio risk factors by switching to cash in the proportion necessary to reach the risk target.

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Risk Targeting manages high risk periods by increasing cash allocations.

An alternative approach is to actively manage a trend trading strategy in a key market, such as US equities, through the high risk portion of the cycle.

This is especially important in periods such as the present, when a major downturn in the US market can be expected to reverse recent gains globally, or when exposures can't adequately be managed by going to cash.

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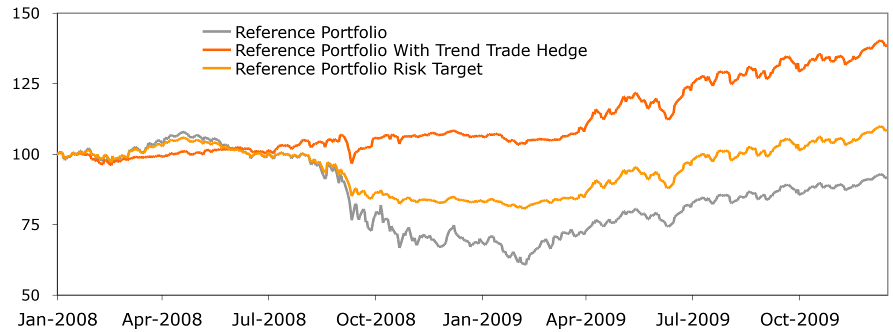
Both approaches are illustrated during the 2008-2009 crisis. The risk target used is the 5-day 99% ES in the Reference Portfolio prior to the Downturn Signal in January 2008.

Both the Risk Targeting and the Trend Trading Hedge (with the same risk budget) run from the Downturn Indicator's signal until the Rebound Indicator (which uses a higher frequency trend together with the Unstable Contraction indicator) signals the beginning of the next 'Value' phase in April 2009.

Omega Metrics® Reference Portfolio Hedging 2008-9



Dynamic hedging of the Reference Portfolio with US Equity Trend Trading, 2008-2009. The hedge Begins on the Downturn Signal for the Portfolio at the end of January 2008. It ends with the Rebound Signal in April 2009. The Risk Target Portfolio aims for a 5-day 99% ES of 5%. (5% was the Reference Portfolio ES prior to the Downturn Signal.)

The Trend Trade Hedge maintains the same risk budget split between a 3% ES target for the Portfolio together and a 2% target in the U.S. equity dynamic hedge.

Omega Metrics® Reference Portfolio Hedging 2008-9

The Reference Portfolio had an annualised return of -4.6% and an annualised standard deviation of 18%. Its maximum drawdown was 35.5%.

The Reference Portfolio with Risk Targeting had an annualised return of 3.8% and an annualised standard deviation of 11.7%. Its maximum drawdown was 18%

The Reference Portfolio with Trend Trading Hedge had an annualised return of 18.6% and an annualised standard deviation of 7.7%. Its maximum drawdown was 2%.

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Omega Metrics® Reference Portfolio Analysis

Both approaches are illustrated during the most recent cycle in the Reference Portfolio. The risk target used is the 5-day 99% ES in the Reference Portfolio prior to the Downturn Signal in December 2014.

Both the Risk Targeting and the Trend Trading Hedge (with the same risk budget) run from the Downturn Indicator's signal until the Rebound Indicator (which uses a higher frequency trend together with the Unstable Contraction indicator) signals the beginning of the next 'Value' phase in late April 2016.

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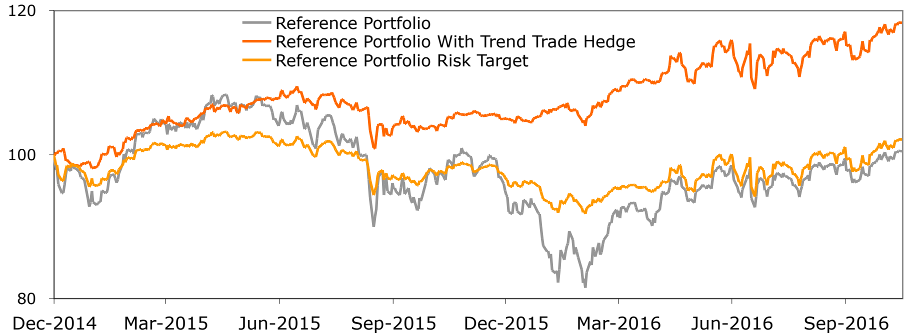
Omega Metrics® Reference Portfolio Hedging 2014-16



Dynamic hedging of the Reference Portfolio with US Equity Trend Trading, 2014-2016. The hedge Begins on the Portfolio Downturn Signal December 2014 and runs until the Rebound Signal in April 2016. The Risk Target Portfolio aims for a 5-day 99% ES of 4%. (4% was the Reference Portfolio ES prior to the Downturn Signal.)

The Trend Trade Hedge maintains the same risk budget split between a 2% ES target for the Portfolio together and a 2% target in the U.S. equity dynamic hedge.

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Omega Metrics® Reference Portfolio Hedging 2014-16

The Reference Portfolio had an annualised return of 0.24% and an annualised standard deviation of 11.8%. Its maximum drawdown was 16.7%.

The Reference Portfolio with Risk Targeting had an annualised return of 1.1% and an annualised standard deviation of 5.9%. Its maximum drawdown was 7.9%

The Reference Portfolio with Trend Trading Hedge had an annualised return of 9.6% and an annualised standard deviation of 5.5%. Its maximum drawdown was 3.6%.

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Omega Metrics® Reference Portfolio Analysis

Reference Portfolio Analysis allows you to make use of Omega Metrics® technology to:

Monitor real-time Market Risk, Market Modes and Market Trends in your portfolio.

Identify essential strategic and tactical opportunities for your portfolio.

Test alternative tactical or strategic allocations for performance in previous market conditions.

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