The iQ All Assets Risk On / Risk Off Rotation Model

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iQUANT introduces…

The iQ All Assets Risk On Risk Off Rotation Model

"This is a very special model, and it is essential to approach it with informed expectations."

Reconstitution Schedule:	Monthly
Type of Securities Selected:	Exchange-Traded Funds (ETFs)
Average Securities Selected:	7
Risk Category:	Moderate (as defined by historical standard deviation)
Investment Objective:	The Model seeks capital appreciation while focusing on producing long term positive returns regardless of market direction via an "all asset" and "risk on / risk off" approach.
Asset Class Exposure:	Stocks, bonds, commodities, and currencies (there is no inverse exposure)

Understand the Nuances of the iQ All Assets Risk On Risk Off Rotation Model

While the **iQ All Assets Risk On Risk Off Rotation Model** boasts impressive metrics and has demonstrated resilience in a variety of market conditions, one fundamental truth must be recognized and accepted: no investment strategy is without periods of short-term downside volatility. It's critical to understand that the model's periods of underperformance may not always correspond with fluctuations in the S&P 500 Index, and that the model may experience downturns even when the broader market is rising, and vice versa.

It's not just about numbers; it's about understanding the behavior. For advisors, this is not just a point to note but a responsibility to bear. Before introducing clients to this special model, it is important to ensure they are not just enticed by the strong numbers but are well-informed about its inherent nature. This model, with all its merits, can be misunderstood if its behavioral characteristics are not communicated properly.

We cannot stress enough the importance of clear communication. It's not about dampening enthusiasm but grounding it in reality. Every advisor's playbook should emphasize not only the rewards but the risks and the unique behavioral aspects of this strategy. Ensuring that both you and your clients have a comprehensive understanding of the model is the cornerstone of a successful investment journey with it.

A strategy only iQUANT could create…

The **iQ All Assets Risk On Risk Off Rotation Model** is designed to make selections across a broad range of investment categories, using a time-tested risk on risk off strategy for each component in its starting universe. The Model selects seven strategies representing each of the following starting universe constituents:

Equity: The model considers a wide range of global equity markets, including emerging markets in Asia, mature economies in Europe, and growing economies in Latin America. It also invests in major US indices, such as the Nasdaq 100, the S&P 400 Midcap Index, the S&P 500 Equal Weight Index, and the S&P 600 Small Cap Index, to provide broad exposure to the US market.

Bond: On the fixed income side, the Model provides a range of US Treasury Bonds. The 7-10 Year and 10-20 Year US Treasuries offer medium-term bond exposure, whereas the 20+ Year US Treasury offers long-term bond exposure. The

Model can select the US High Grade Corporate Bond and US High Yield Corporate Bond indices as part of the starting universe for a more corporate-focused bond selection. Furthermore, the Model can select International Bonds.

Alternative: The model also delves into alternative assets. The Bitcoin Trust offers a route into the world of cryptocurrencies. Commodities are represented by Crude Oil, Gold, Silver, and Unleaded Gas. For currency exposure, the model includes the Swiss Franc and the U.S. Dollar.

The **iQ All Assets Risk On Risk Off Rotation Model** provides a robust selection mechanism across traditional and alternative asset classes in its attempt to ensure a comprehensive approach.

A History of Performance*

The investment landscape has seen numerous peaks and troughs over the last two decades, reflecting both macroeconomic shifts and industry-specific events. An examination of the **iQ All Assets Risk On Risk Off Rotation Model** in comparison to the S&P 500 Index reveals fascinating insights into the model's effectiveness and resilience during these turbulent times.

The Early 2000s: Riding Out the Tech Bubble

In 2002, while the aftershocks of the tech bubble still rippled through the market, leading the S&P 500 to drop by a staggering -22.1%, the iQ Model strategy showcased its robustness, posting a positive return of 2.51%. Over the subsequent years, 2003 and 2004, the model continued its strong performance, significantly outpacing the S&P with returns of 37.32% and 18.95%, respectively.

Mid-2000s: Steady Ascent Amidst Global Growth

From 2005 to 2007, the model consistently surpassed the S&P 500 Index, even as the global economy experienced growth. Notably, in 2007, the iQ Model strategy returned an impressive 24.06% against the S&P’s 5.49%, underlining its capacity to capitalize on market opportunities.

The Financial Crisis of 2008

2008's financial meltdown saw markets across the globe plummet. However, the resilience of the iQ Model strategy was apparent as it managed a positive return of 2.4% while the S&P 500 suffered a heavy -37% drop.

Post-Crisis Recovery and the 2010s

The rebound in 2009 was phenomenal for the iQ Model, which surged with a 60.63% return, again surpassing the S&P’s 26.47%. Throughout the 2010s, with occasional market corrections and fluctuations, the iQ Model strategy consistently delivered competitive returns. Notably, in years like 2015 and 2018, when the S&P's growth was muted or even negative, the model maintained its positive trajectory.

Recent Years: Navigating Volatility

2020, marked by the global pandemic's onset, saw the iQ Model strategy soar with a remarkable 57.25% return, triple that of the S&P’s 18.4%. While 2021 witnessed the S&P outpacing the model slightly, 2022 showcased the model's defensive capabilities. Despite the S&P plummeting to -18.11%, the iQ Model posted a positive 14.94%. The trend continued into 2023, with the model delivering an 11.78% return against the S&P's 13%.

Historical Performance Summary

From 2002 to 2023, the **iQ All Assets Risk On Risk Off Rotation Model** effectively managed market volatility, capturing growth while also performing well in downturns. Its history showcases its reliability in both challenging and favorable market conditions.

Risk & Efficiency Analysis*

The **iQ All Assets Risk On Risk Off Rotation Model** represents an innovative approach to investing, and a close examination of its risk metrics reveals some intriguing insights, especially when compared to the broader S&P 500 Index.

Volatility and Stability:

The model’s Standard Deviation stands at 11.83, notably lower than the S&P 500's 16.44. This indicates that the model has experienced lower volatility, suggesting a potentially more stable investment avenue than the broader market.

Risk-Adjusted Performance:

The model's Sharpe Ratio is an impressive 1.52, overshadowing the S&P 500's 0.51. This implies that the historical risk-adjusted returns provided by the model are superior to the broader market.

Return Distribution:

The positive skew of the model, which stands at 0.29, indicates that the model's returns typically outperform the mean. A negative skew of -0.76 indicates that the S&P 500 Index's returns frequently fall short of the mean. While the S&P 500 Index has a kurtosis of 1.52, suggesting more extreme highs and lows, both positive and negative, the Rotation Model has a kurtosis of 0.63, indicating steadier returns.

Downside Protection:

The model’s Max Drawdown stands at -11.24%, which is significantly less severe than the S&P 500's substantial -50.95% drawdown. Furthermore, with a Down Capture of only 0.29, the model has historically captured just 29% of the market's negative performance, offering substantial downside protection.

Alpha and Beta:

With an Alpha of 13.45, the model has demonstrated its capability to generate substantial excess returns over the benchmark. Its Beta of 0.49 further indicates that the model typically moves at only about half the volatility of the S&P 500. Furthermore, the model’s Up Beta and Down Beta of 0.75 and 0.09 respectively highlight its propensity to participate in a significant portion of market upswings while minimizing exposure during downturns.

Correlation:

A Correlation of 0.67 suggests the model moves in the same direction as the S&P 500 but is not strictly tied to its movements. This is further illustrated by the Up Correlation of 0.67 and a very low Down Correlation of 0.11, indicating that while the model often rises with the broader market, it diverges considerably during downturns, offering a potential cushion.

Historical MPT Risk Summary

In conclusion, **the iQ All Assets Risk On Risk Off Rotation Model** offers strong historical returns with effective risk management. Its metrics suggest a balance of growth and protection, making it an attractive option for advisors seeking efficiency.

Monthly and “Best/Worst Six Months” Seasonality Analysis*

The **iQ All Assets Risk On Risk Off Rotation Model** consistently surpassed the S&P 500 Index in terms of average monthly returns. January and September stand out, with the Rotation Model delivering 1.67% and 0.56% (on average) respectively, while the S&P 500 shows -0.2% and -1.17%. A “Best Six-Month” analysis further amplifies this difference. From May to October, the Model earned an average six-month total return of 7.11%, outpacing the S&P 500's 2.57%. From November to April, the Model earned an average six-month total return of 10.19% versus the S&P 500's 5.74%, highlighting its consistency.

In Summary…

The **iQ All Assets Risk On Risk Off Rotation Model's** compelling history of performance highlights the importance of innovative investment strategies in navigating volatile markets. However, it is not immune to periodic downturns, as are all diversified investment strategies. These downturns may not always correspond to those of the broader S&P 500 Index. As a result, both advisors and clients must recognize and accept the model's inherent behavior.

The importance of proper comprehension cannot be overstated. It would be unfortunate if such a well-designed strategy were subjected to unwarranted scrutiny simply because of a lack of comprehension. To ensure clients have clear expectations, advisors must thoroughly understand and articulate the model's behavioral nuances, allowing the strategy the time and trust it requires to deliver its potential benefits.

Important Disclosures & Disclaimers

*Data as of 9/30/2023

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