

## Quant Coalescence

By: *Melissa Wieder, CFP®, Director Institutional Services*

*Collaborative insight provided by CIO Michael Chapman*

### **December, 2016: “So....which is it?”**

The markets continue to push higher, as the “Trump Trade” and “Trumponomics” take hold. The question remains; which is it? Are equities still overvalued? Or have the dynamics of a Trump administration completely changed forward growth expectations to a point that stocks are now a good bet? What we do know for now is that the markets continue to be overvalued to a level comparable to the markets right before the 1987 and 2000 selloffs. At the same time, the markets really like the idea of less regulation, lower corporate taxes, repealing Obamacare and expectations of big infrastructure and military spending. Bonds have sold off as the anticipation that the Federal Reserve will begin raising interest rates at the fast approaching December meeting. Gold has followed suit in that selloff, as the dollar has strengthened. The anticipated rising interest rates have also quelled fears of inflation adding to gold’s fall from grace. Gold’s weakness may be short term, but for now gold is down over 10% since the election.

Don’t be fooled into thinking that this is a broad based rally, though. According to Chief Economist David Rosenberg, Financials and Energy have been responsible for most of the rise in equities. He goes on to say, “Both have lived up to their billing, having advanced 14.1 percent and 7.0 percent, respectively, since the election. These two sectors, representing just over 20 percent of the S&P 500 market cap, have accounted for all the gains since then. The other 80 percent of the stock market is flat as a pancake.” Our holdings show that Industrials, Materials and Transportations are also up 10% or more, based on our monitoring of PCM holdings of XLI, XLB and IYT in our quant models. David Rosenberg continued that “Other than those sectors, the market is actually down.”

In reference to the “Trump rally” Rosenberg points out that “Practically every new president back to Truman seven decades ago enjoys what is otherwise known as a Honeymoon Rally – the median stock-market advance the month after an election is nearly 1 percent. Ronald Reagan...saw the equity market soar 6 per cent in his first month in office. The market (then) peaked less than four weeks into his term and for the next two years we had an economic downturn and a 25 percent slide in the stock market. The combination of rising bond yields, Fed tightening and a stronger dollar took care of that honeymoon.” As of Friday morning, December 9<sup>th</sup>, the S&P 500 is up over 5% since the election of Trump.

**So....which is it?** (Picture a “shoulder shrug” here.) Once again, this tough question is what strengthens our confidence and resolve in our multi-directional, quantitative (read “non- emotional” here) strategies that analyze all asset classes for inclusion. Our models have benefitted from virtually all of the selloff in bonds by being in the ETF that goes up when bond prices go down. We have also had exposure to materials, industrials, financials, and broad based equity investments with heavy exposure to the same, such as the Russell 2000. We have been in the U.S. dollar, inverse gold and long high yield corporate bonds, which have moved higher with equities despite U.S. Treasuries being down. Emerging market equities and bonds have been down since the election and is one area where our models have now moved to cash after being down in November.

PCM also has been awarded another performance award from Informa Investment Solutions, this time for the PCM Managed TIPS composite, which earned the “Top Gun” performance award in the “All Maturity/Variable Universe” bond category for the third quarter of 2016. We anticipate being awarded numerous performance awards for the current quarter, however we won’t know that until well into the first quarter of 2017 after the returns are “on the books”. Please see more specific details about all of our performance awards below.

## Quant Coalescence

### PCM Strategies: 12.2016 Allocations\*

\*(Please note that performance numbers on the website for indexes do not include dividends and are appropriately calculated sequentially.)

1. [PCM US Bond Total Return Index<sup>SM</sup>](#): Inverse U.S. Treasuries, high yield corporates and cash equivalent
2. [PCM Absolute Bond Index<sup>SM</sup>](#): Inverse U.S. Treasuries and high yield corporates
3. [PCM Absolute U.S. Sector Index<sup>SM</sup>](#): Financials, Industrials and Materials
4. [PCM U.S. Industries Total Return Index<sup>SM</sup>](#): Transportation, Food and Beverage, Industrials and Insurance
5. [PCM Absolute Equity Income Index<sup>SM</sup>](#): Dividend paying equities and cash equivalent
6. [PCM Emerging Market Total Return Equity Index<sup>SM</sup>](#): Cash equivalent
7. [PCM Total Return Portfolio Index<sup>SM</sup>](#) and [PCM Stable Growth Plus+ Portfolio Index<sup>SM</sup>](#): Inverse U.S. Treasuries, High Yield Corporates, Financials, Industrials and Materials are all themes in these portfolios.
8. [PCM Global Tactical Index<sup>SM</sup>](#): Materials, Industrials, Inverse Gold, and Dividend Paying Equities
9. [Global Macro Index<sup>SM</sup>](#): Inverse U.S. Treasuries, Broad Based U.S. Equities, Inverse European and Asian Equities, long the U.S. Dollar and cash equivalent
10. [PCM Alpha 1 Index<sup>SM</sup>](#): Russell 2000 equities including heavy exposure to Financials and Industrials
11. [PCM Absolute Commodities Index<sup>SM</sup>](#): Copper and Cotton

And now...our award ceremony....PCM has again been recognized as a “Top Gun” for our performance. This time for the **2nd quarter of 2016** by Informa Investment Solutions. The **PCM Absolute Commodity model ranked #1** out of over 200 other products and money managers in the “ETF Global Balanced Universe” category and also #1 in the “Overall Global/International Balanced Universe”.

### PERFORMANCE RECOGNITION: 2nd Quarter, 2016

#### Informa Investment Solutions’ (PSN) Ranks PCM “Top Gun” Products

- **PCM Absolute Commodity** - (Top 5/#1) ETF Global Balanced Universe (*out of over 200 products*)
- **PCM Absolute Commodity** - (Top 10/#1) Overall Global/Intl Balanced Universe

### PERFORMANCE RECOGNITION: 1st Quarter, 2016

#### Informa Investment Solutions’ (PSN) Ranks PCM “Top Gun” Products

## Quant Coalescence

- **PCM Absolute U.S. Sectors** - (Top 5/#1) ETF US Equity Universe (*out of 112 products*)
- **PCM Absolute Bonds** - (Top 5/#1) ETF Global Fixed Income Universe (*out of 25 products*)
- **PCM Absolute Equity Income** - (Top 5/#4) ETF Global Balanced Universe (*out of 204 products*)
- **PCM Absolute Equity Income** - (Top 10) Overall Global/Intl Balanced Universe

PCM was also recognized as a “Top Gun” for our performance during the volatile 3<sup>rd</sup> quarter of 2015 by Informa Investment Solutions. Four of our models were in the top 10 performers out of hundreds of products and money managers.

### **PERFORMANCE RECOGNITION: 3<sup>rd</sup> Quarter, 2015**

#### **Informa Investment Solutions’ (PSN) Ranks PCM “Top Gun” Products**

- **PCM Protective Equity** - (Top 10/#5) All Cap Universe (*543 products in the All Cap universe*)
- **PCM Diamond** - (Top 10) US Balanced Universe (*314 products in the US Balanced universe*)
- **PCM Global Macro** - (Top 10/#2) Global/Intl Balanced Universe
- **PCM Global Tactical** - (Top 10/#8) Global/Intl Balanced Universe (*297 products in the Global/Intl balanced universe*)

\*\*\*We have enhanced our website AGAIN at <http://www.pcminvestment.com>. You can now see performance of our indexes (previous day and month to date) on our streaming ticker. We include performance for both our indexes and our composites, as applicable. You will be asked to enter your email address to get into the website. There will be no password required, so you won’t have to worry about forgetting it. This is partly due to helping us stay in compliance with requirements in our industry that we know who has reviewed our website content. Please use the website link above to see all of our indexes and composites.

In addition to the above mentioned “Top Gun” performance awards from Informa Investment Solutions, PCM composites have been previously recognized for performance by Informa Investment Solutions; the [PCM Absolute Bond Composite<sup>SM</sup>](#) for the three year performance ending the 4th quarter of 2014, as well as previous awards for 1-year trailing performance and 3-year trailing performance. As of 2<sup>nd</sup> quarter 2014, the [PCM Absolute Bond Composite<sup>SM</sup>](#) and the [PCM Absolute Commodities Composite<sup>SM</sup>](#) both won a “Top Gun” award for performance in



## Quant Coalescence

their respective category for the 1-year trailing performance period, with the [PCM Absolute Bond Composite<sup>SM</sup>](#) also winning the "Top Gun" award for 3-year trailing performance. The [PCM Alpha 1 Composite<sup>SM</sup>](#) was awarded the "Top Gun" performance award for the 1st quarter of 2014. We are very pleased to see these particular multi directional strategies being recognized, as the [PCM Absolute Bond Strategy<sup>SM</sup>](#) and [PCM Alpha 1 Strategy<sup>SM</sup>](#) are particularly timely for where we are in the current market cycle.

To view Morningstar Fact sheets of all of our index models, please visit our website at [www.pcminvestment.com](http://www.pcminvestment.com) under the "[PCM multi-directional Strategies](#)" tab.

---

*The views and strategies described herein are for illustrative purposes only and may not be suitable for all investors. The information is not based on any particularized financial situation, or need, and is not intended to be, and should not be construed as investment advice or a recommendation for any specific PCM or other strategy, product or service. Investors should consult their financial advisor prior to making an investment decision. There is no guarantee that these investment strategies will work under all market conditions and each investor should evaluate their ability to invest long-term, especially during periods of downturn in the market. This material contains the current opinions of the author(s) but not necessarily those of PCM and such opinions are subject to change without notice. This material is distributed for informational purposes only. Forecasts, estimates, and certain information contained herein are based upon proprietary research and should not be considered as investment advice or a recommendation of any particular security, strategy or investment product. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed. No part of this article may be reproduced in any form, or referred to in any other publication, without express written permission. Provident Capital Management, Inc., PCM and Absolute Return Index are trademarks or registered trademarks of Provident Capital Management, Inc., in the United States. ©2013, PCM.*

---

### About "PCM Quant Coalescence"

Welcome to Provident's "Quant Coalescence" communication. We suspect that many of you are no different than us. That is to say that when our quantitative models rebalance every 2 weeks for some indexes or once a month for other indexes, you sometimes find yourselves asking "What is behind a rotation into that ETF?" This communication is our opportunity to "unite for a common end" with our clients and partners; keeping you updated on our thoughts and perspectives. As you know, our indexes are based on an absolute approach: we strive to make money in up markets or down markets, while trying to greatly minimize loss in any market environment.

Our indexes are also quantitative, reflective of our systematic, unbiased and technical approach. Since our indexes are unbiased, the quantitative models would obviously at times rotate into positions that cause us to scratch our heads. Nevertheless, being so close to the analysis as it unfolds, allows us to quickly begin to validate the fundamental reasons behind the quantitative "following of the money." At other times, the trades are not validated right away; the story unfolds as the days pass. We have been very excited about many of these "validations" and "ah ha" moments. We had another "ah ha" moment when we decided that these insights would also be interesting to those who have entrusted us with their financial peace of mind. Our goal is to be short and to the point, specific to what is happening in our indexes rather than a lengthy macroeconomic perspective.

For further disclaimers and disclosures, see our website for [index disclosures](#) and [composite disclosures](#).