

5 T H A N N U A L

Innovative **ALTERNATIVE** **INVESTMENT STRATEGIES**

Using Non-Correlated Assets To Diversify and Improve Alpha

Tail Risk Management: Using Tactical Strategies to Capture Trends

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Co-CEO

Broadmark Asset Management, LLC



Tail Risk Management: Using Tactical Strategies to Capture Trends

PANELIST:

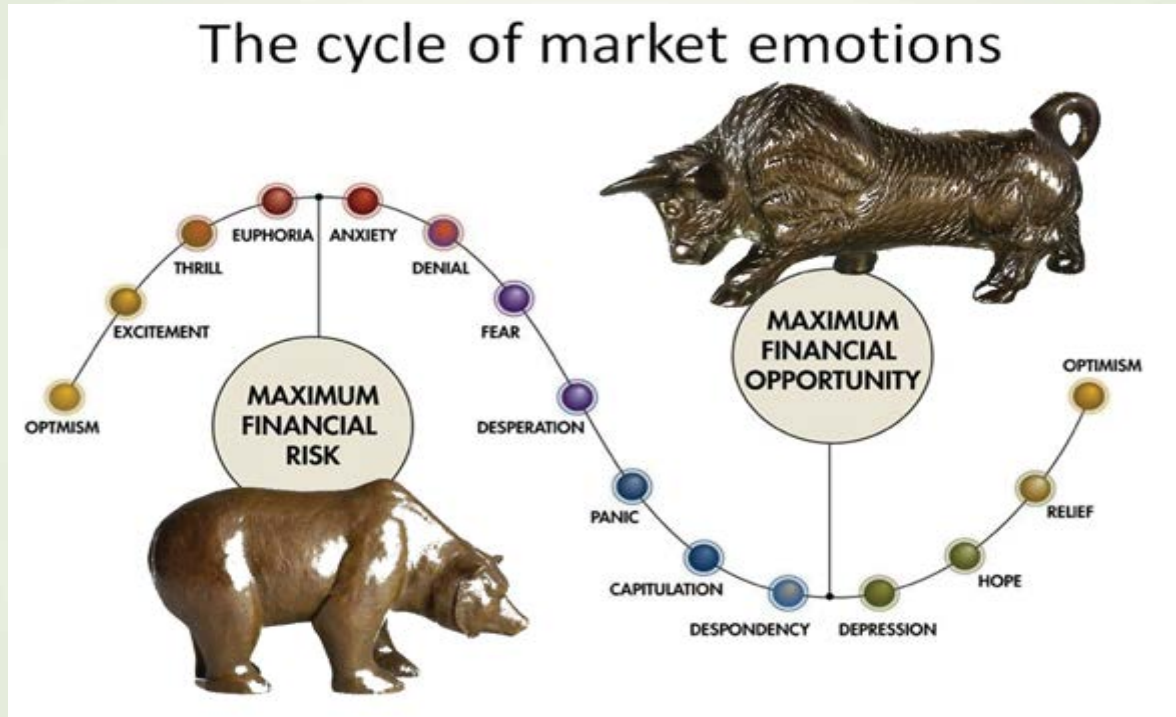
Isaac Braley
President, Director
BTS Asset Management





Behavioral Economics

The study of psychology as it relates to the economic decision making processes of individuals and institutions.



Euphoria

Fear





It's Never a Straight Line



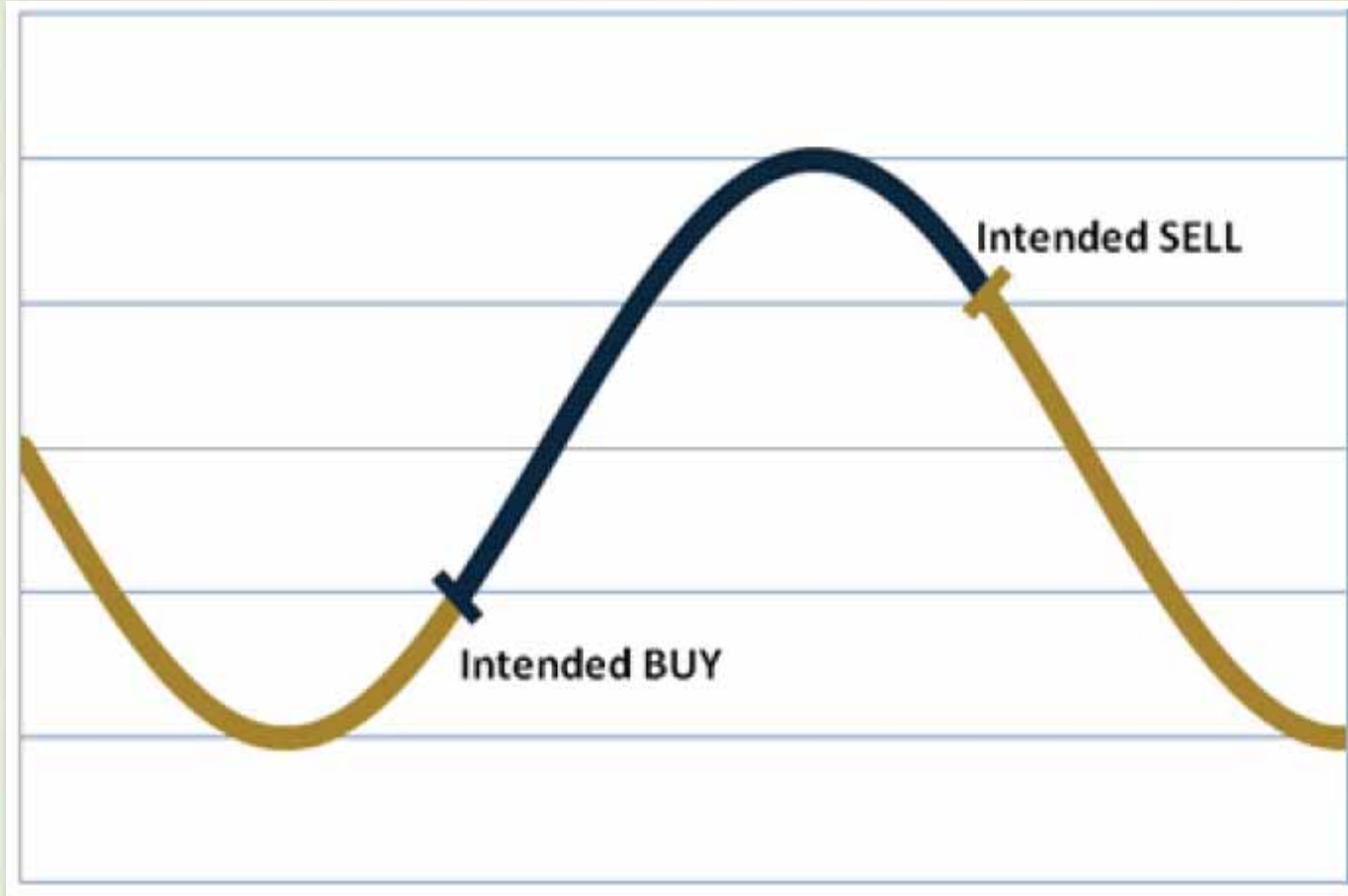
These charts are for illustrative purposes only and do not represent the future performance of any specific investment option, nor imply actual allocation recommendations. Past performance is no guarantee of future results.

	% Change 10-Year U.S. Government Yield¹	IA Barclays U.S. HY Corporate Bond Index TR²	Barclays U.S. Government Index TR²
Oct 93 - Nov 94	45.34%	-0.05%	-4.65%
Oct 98 - Jan 00	45.75%	6.30%	-1.85%
Jun 03 - Jun 06	68.14%	28.18%	3.98%
Dec 08 - Jun 09	73.43%	30.43%	-3.17%



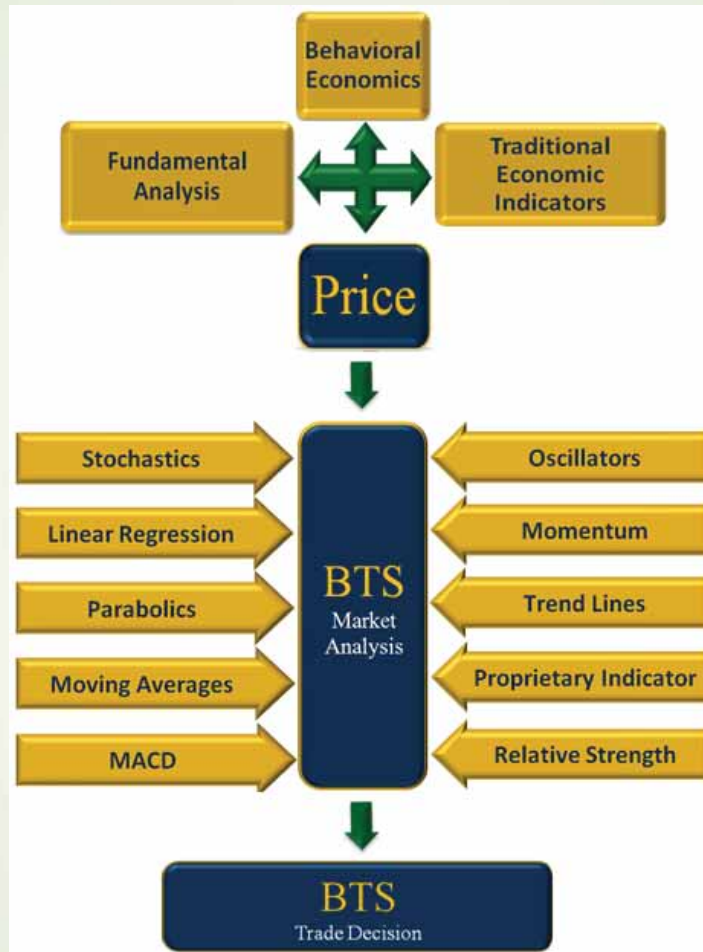


Employing a Tactical Approach Focusing on Intermediate to Long-Term Trends





Turning Market Information Into Decisions



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What Do We Mean By Risk?

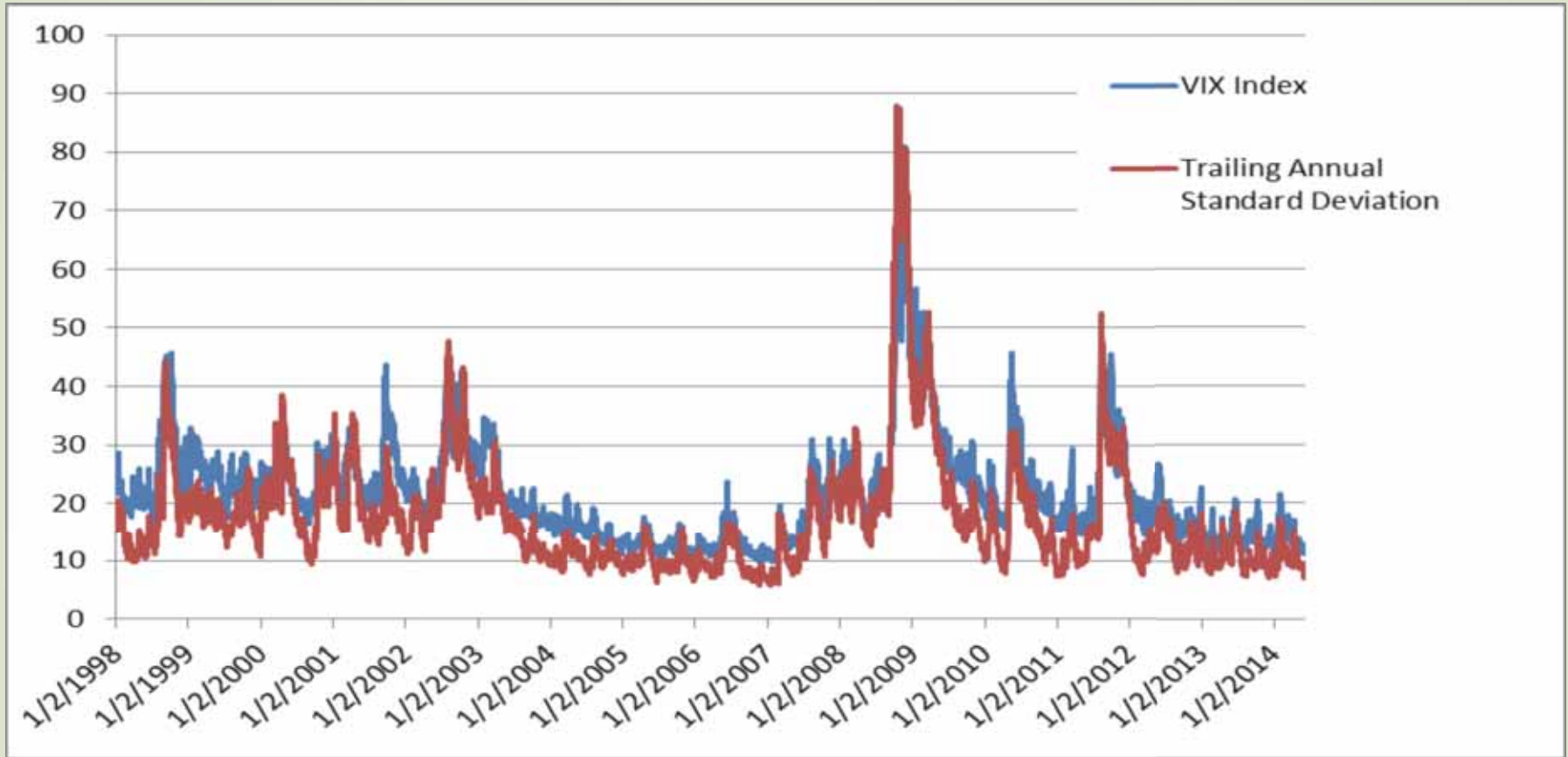
- Is Volatility the same as Risk?
- Does VIX at 11 mean we are in a low risk environment
- What does the current environment look like?
- A close look at the biotech and internet stocks
- Stress testing stock crashes





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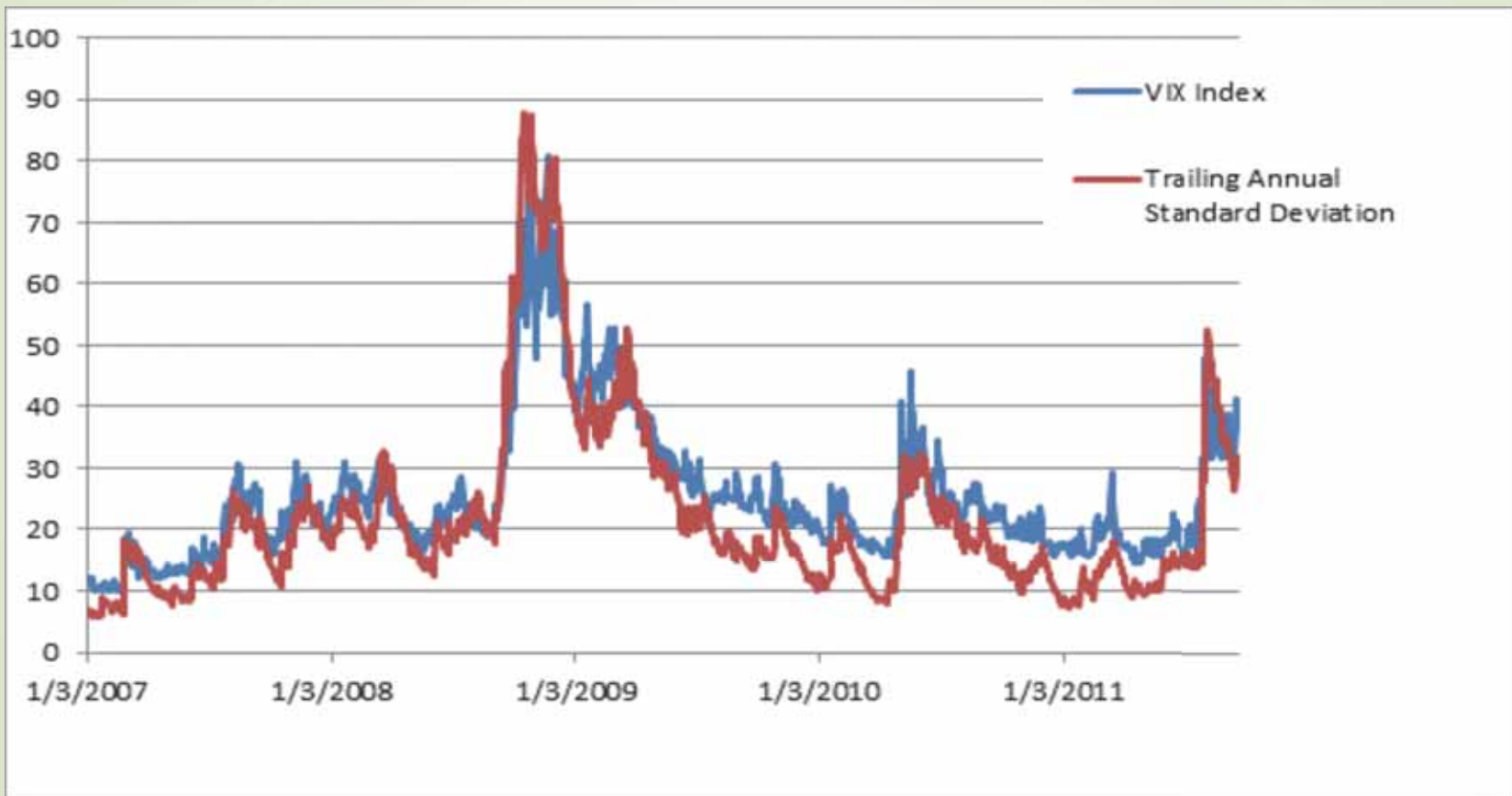
VIX Hits 11. Is It a Forward Looking Measure?





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Zoom in on 2008





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Bubble Models I

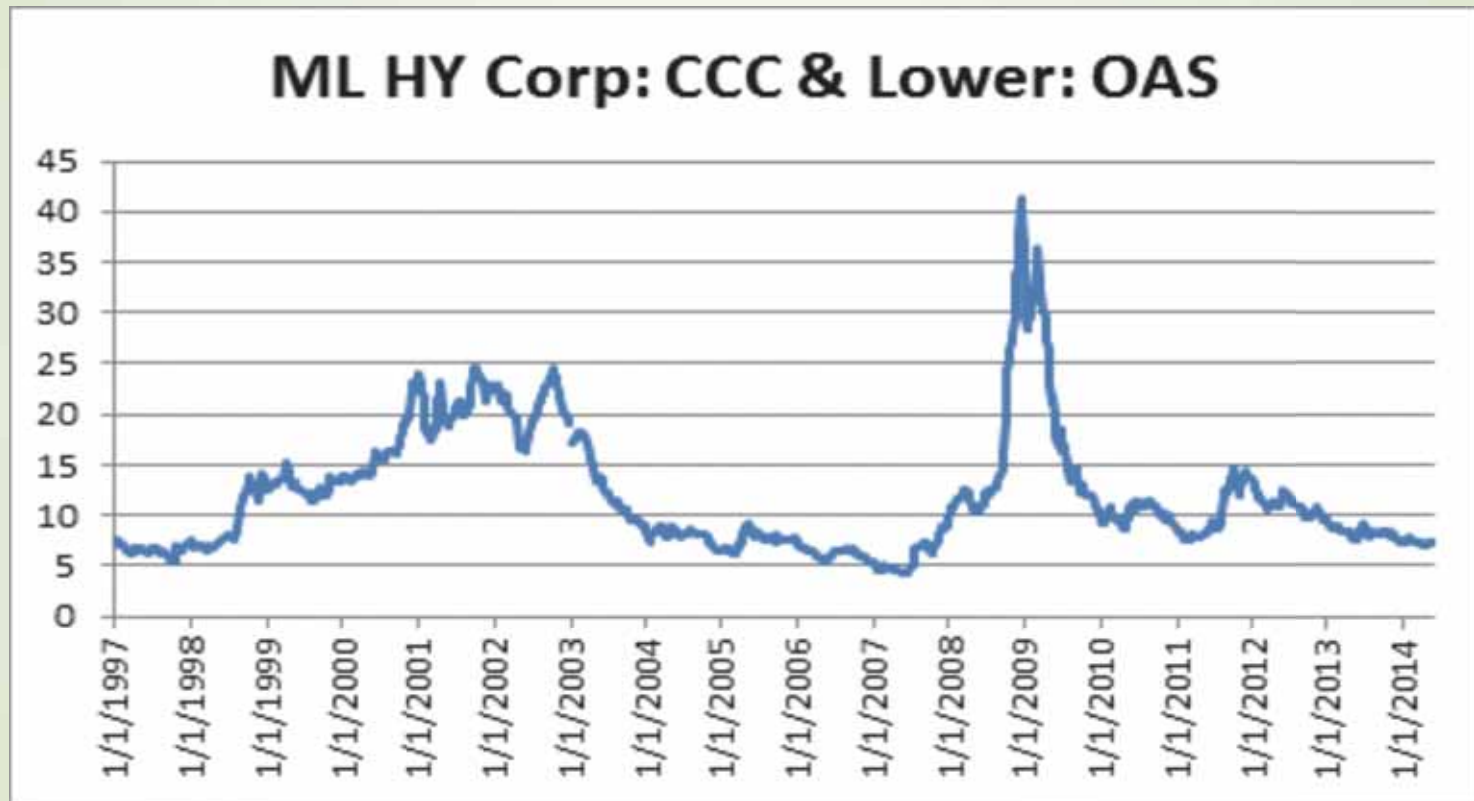
- Hyman Minsky and Joseph Schumpeter
- Financial Instability Hypothesis, see Minsky (1992)
- “Over periods of prolonged prosperity, the economy transits from financial relations that make for a stable system to financial relations that make for an unstable system.”
- Risk is high when people take too much risk for too long
- Overlevered players are forced to liquidate when a correction ensues





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Junk Spreads At Early 2006 Levels





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Valuation For Biotech (IBB)?

73 out of 122 companies have negative earnings!

The price to earnings ratio (P/E) is a fundamental measure used to determine if an investment is valued appropriately. Each holdings' P/E is the latest closing price divided by the latest 12 months' earnings per share. Negative earnings are excluded, extraordinary items are excluded, and P/E ratios over 60 are set to 60.

The price to book (P/B) value ratio is a fundamental measure used to determine if an investment is valued appropriately. The book value of a company is a measure of how much a company's assets are worth assuming the company's debts are paid off. Negative book values are excluded from this calculation and holding price to book ratios over 25 are set to 25.

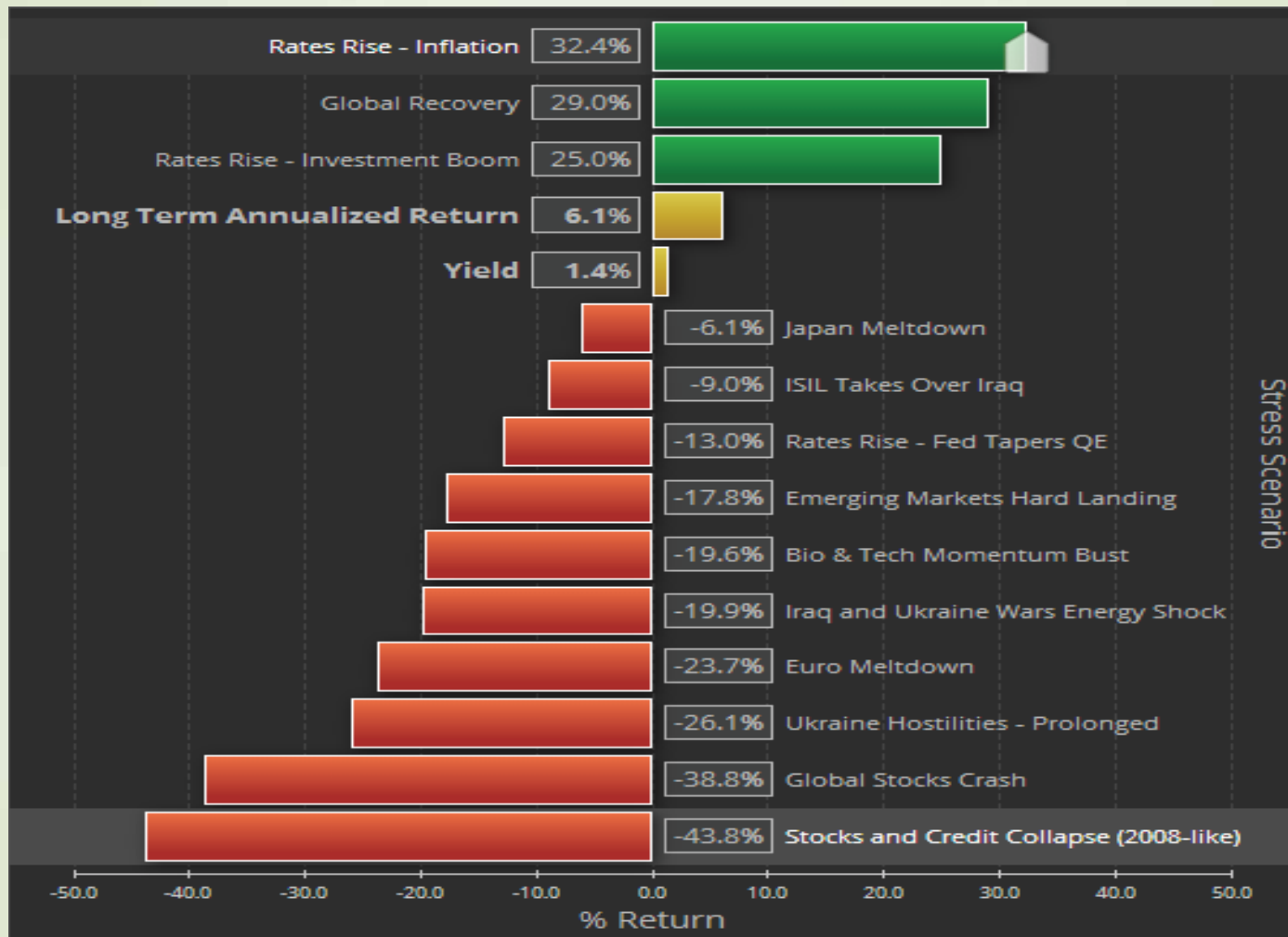


NYSE Margin Debt

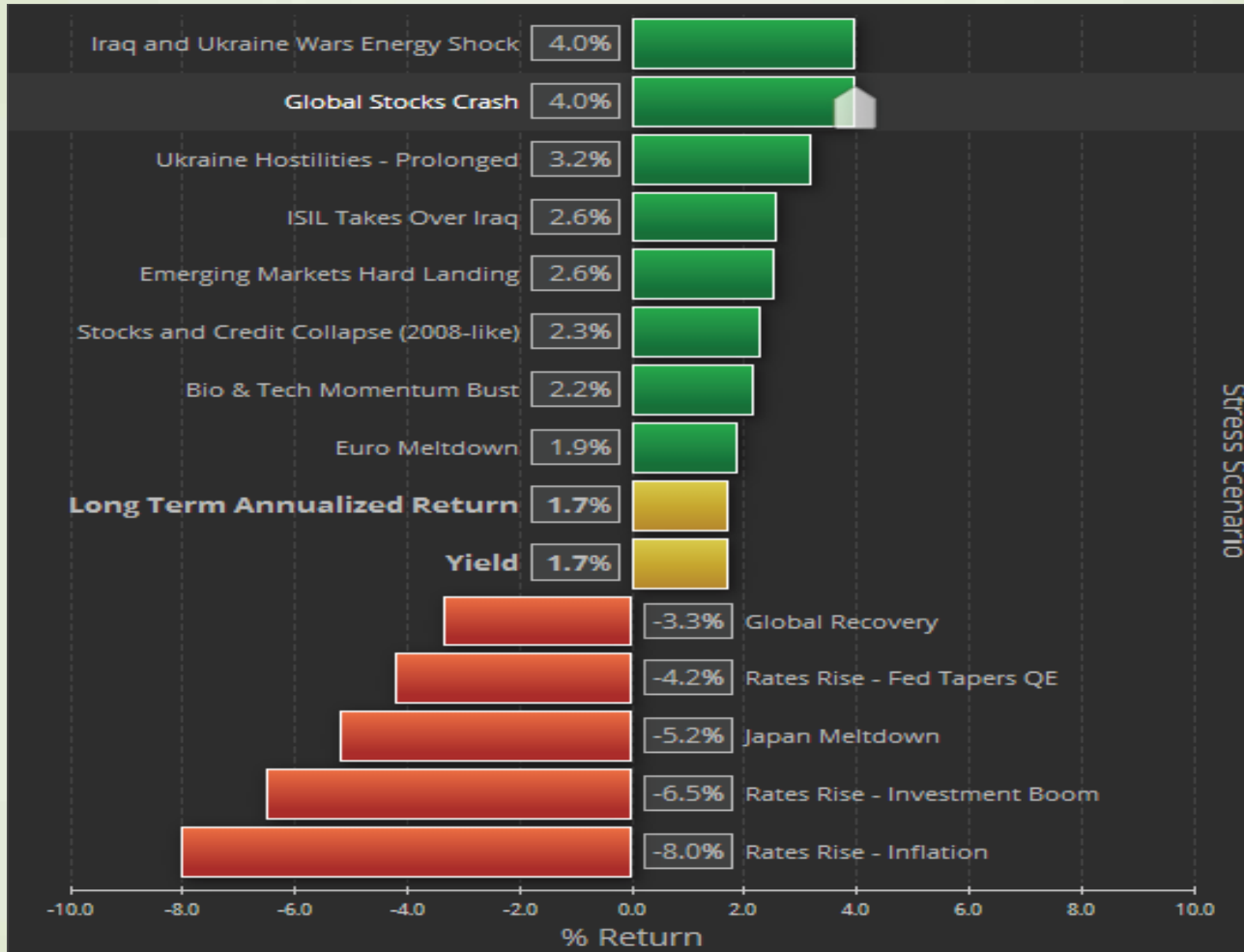
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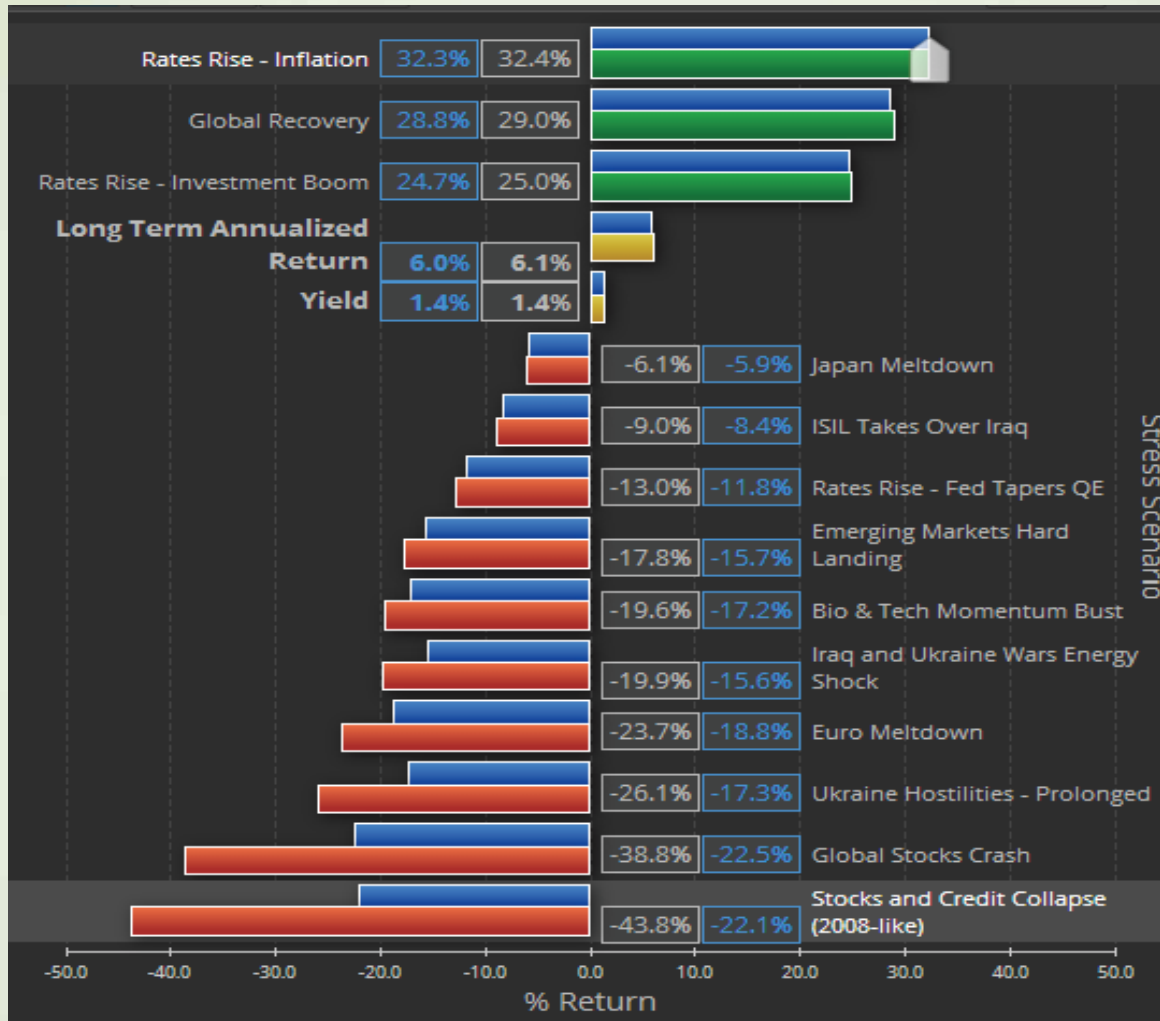
Avoid Timing: Sample Crash Test



De-Risking with Fixed Income?



Sample Portfolio Insurance





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Takeaways

- Do not be complacent despite low realized volatility
- Do not try to time the market, because nobody (or very few people) can do it well
- Think of car crash testing i.e. examine plausible impacts without trying to be on one or the other
- Find appropriate crash test profile and get client buy-in
- Consider portfolio insurance when it is cheap



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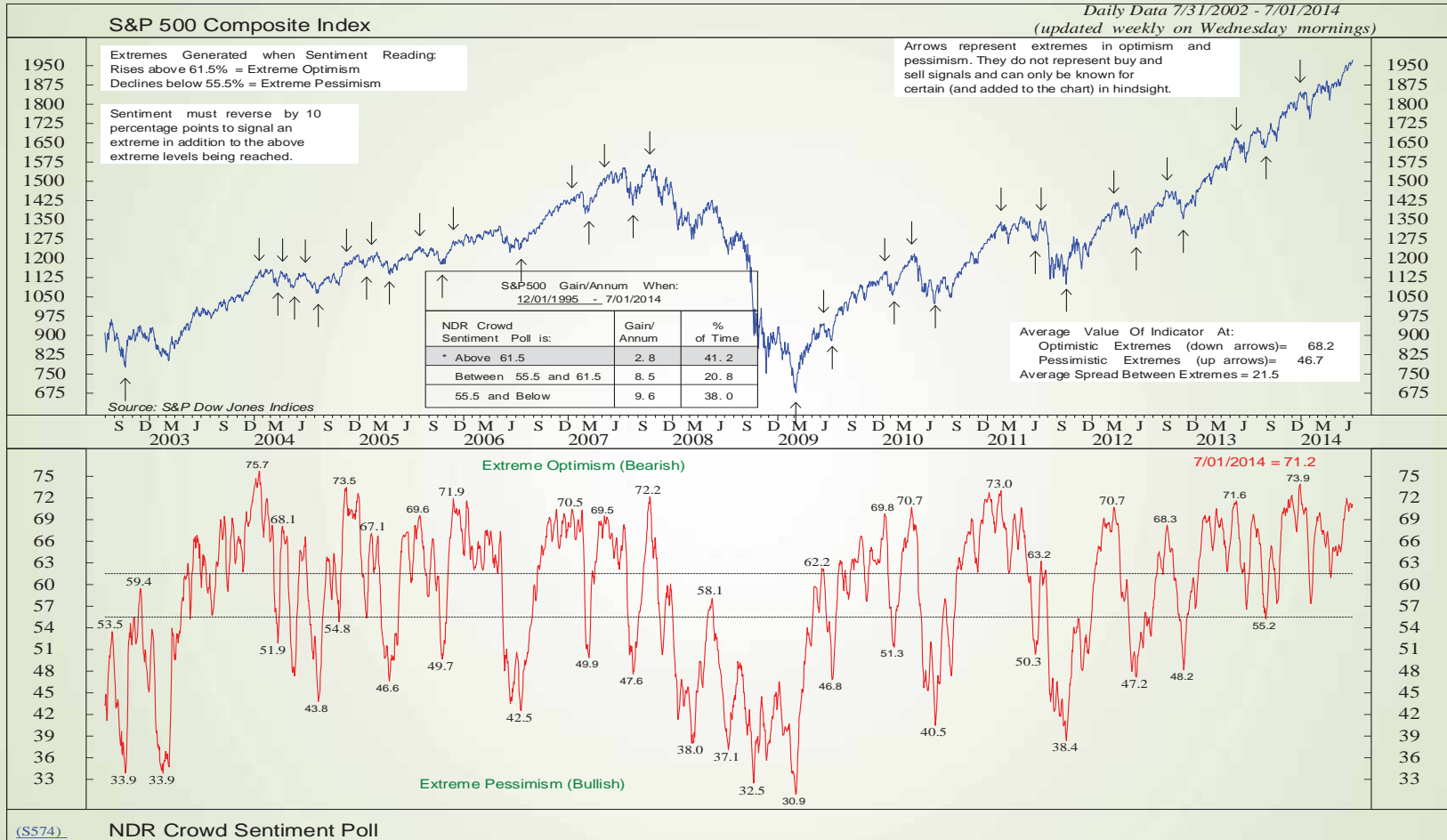
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Sentiment

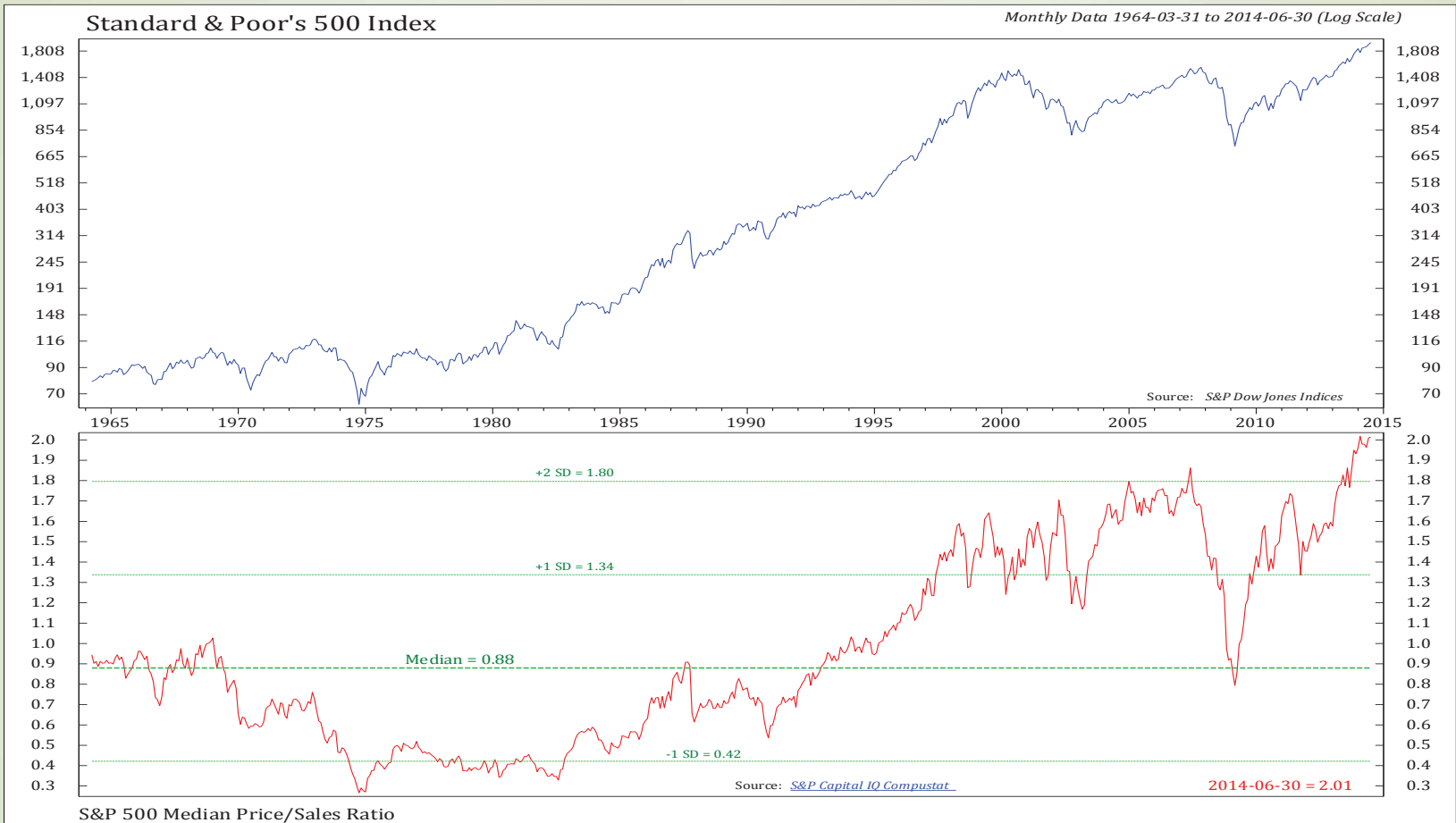


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Price/Sales Ratio



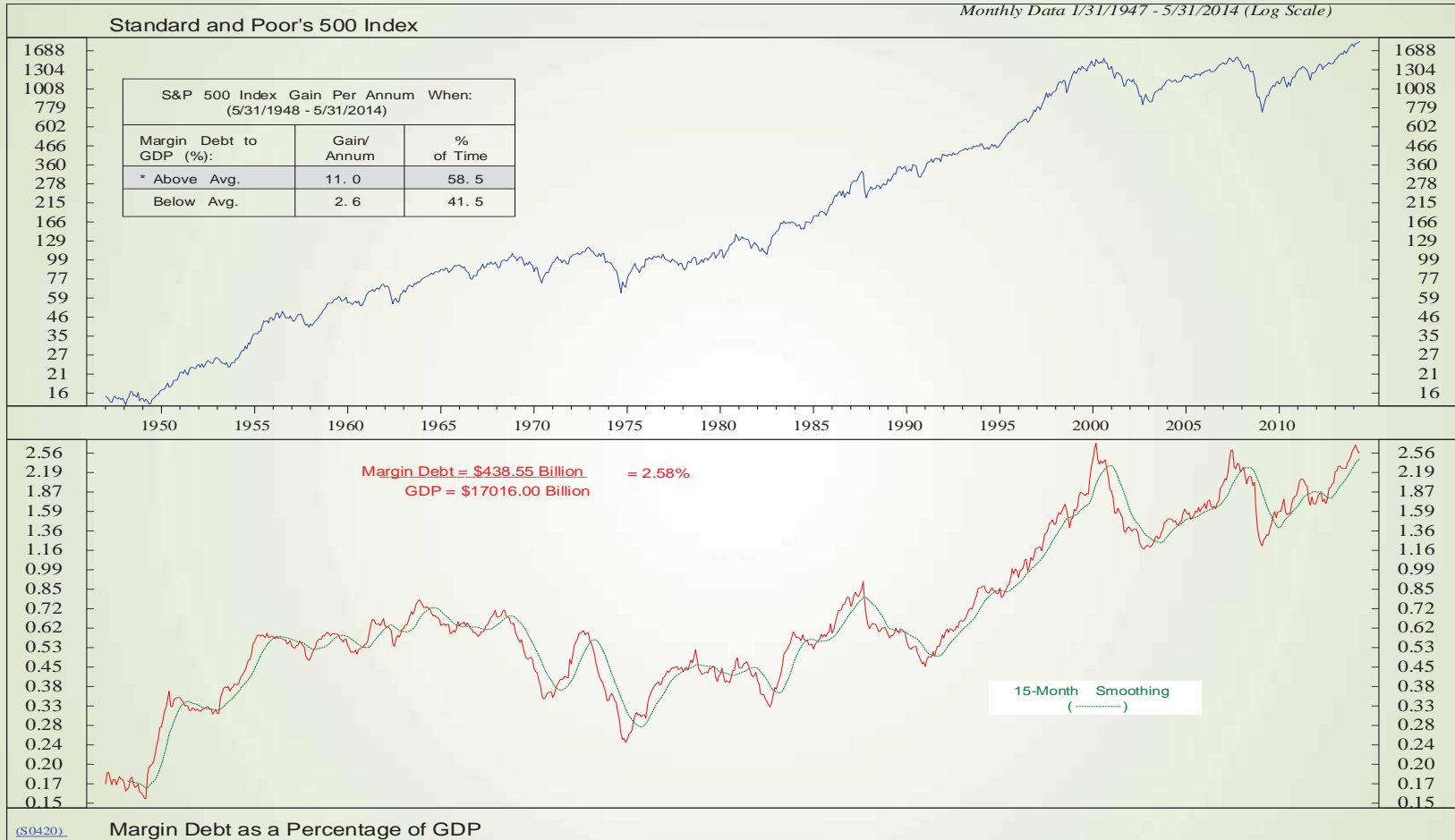
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Margin Debt as a % of GDP



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Volume/Breadth Momentum Model

The model is the trigger mechanism used to position the portfolio and seeks to identify minimum market moves of at least 7% to 10% lasting from 3 to 9 months.



The lag time between the intermediate and long term view is often used to ease into positions

Intermediate Model

Long Term Model

Buy Signal

Sell Signal



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