Consilience
Asset Management

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# Consilience Market Notes:

## Com**brexit**y

No one can possibly predict the outcome of this monumental event!

The **EU** is unlike anything else—it isn't a government, an association of states, or an international organization. But it is a unique and very complicated quasi-union of 28 separate countries. And with the likely exit of Britain, things are about to get a lot more complicated.

The uncertainty surrounds not only the direct impact for Europe, but the rest of the world too; for their economies, banks and financial markets.

Although we can't know the full outcome, as investors, we can be prepared.

How?

At *Consilience Asset Management* we employ a risk management process that begins with an assessment of global capital flows. What do we mean by capital flows?

We mean identifying the markets that are attracting the most amount of capital as identified by large blocks of buying and conversely where there are large blocks of selling. Supply and demand will dictate that the former will cause these asset classes to rise in value and the latter to decline.

This process begins with the recognition that there are approximately $200 trillion in liquid financial assets that are traded globally. As money flows into and out of these assets; prices move. Our goal, through our models is to determine when a meaningful shift in investor preference is "in play" and likely to cause a longer-term change in trend.

Next, through additional analysis, we augment the capital flow movement with economic, monetary, stability and behavioral data… our EMSB model.

Based on our analysis, where do markets stand today and how will this help us as events unfold during the ensuing months?

We follow seven major markets: Stocks, bonds, commodities, gold, real estate, currencies and hedge fund strategies. It is important to note that there were <u>no changes</u> in our indicators as a result of Friday's vote.

**Our Current Readings***

Stocks – Neutral
Bonds – Negative
Commodities – Neutral
Gold – Favorable
Real Estate - Favorable
Currencies (US Dollar) – Negative
Hedge Fund Strategies – Negative

How will our indicators help us as events unfold in the coming days, weeks and months? The data feeding our models is live and therefore we will have the opportunity to identify changes in trends on a "real time" basis.

As these changes occur, we will adjust our asset allocation accordingly**.

For example, if trends change negatively for the equity markets (or specific segments of the equity market), we will reduce exposure to these areas. This capital will then be re-allocated to other asset classes that may be experiencing favorable trend changes.

As such an event unfolds, we might see significant selling in the equity markets accompanied by weakening economic data, increasing instability, deteriorating behavioral action and no action by central banks. This combination or *consilience in market data* would result in a reduction in equity exposure.

In such an environment we may see a strengthening in readings in other asset classes that would result in an increased allocation in these areas to protect/offset the declines in equities and provide opportunities for capital appreciation. Examples might be; gold, government bonds or defensive hedge fund strategies.

This is a reactive process and has been developed this way by design. There is no forecasting involved as evidence suggests that forecasting in such complex areas has historically provided no better result than that of a coin toss!

In addition, our *Global Macro indicators* convey varying degrees of market sensitivity, thus allowing us to ignore the "noise" of day-to-day volatility, giving us a clearer picture of underlying market activity.

For more information, please visit our website: consilienceassetmanagement.com, where we present a video presentation of our risk management process on the opening page as well as a graphic illustration of our discipline under the tab **Our Process**.

As we navigate through these volatile times, our admonition remains: Stay vigilant and nimble.

***Consilience Asset Management***
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*At a **neutral** rating, our equity allocation is at "target weight". Each client's target weight is determined by their investment objective and risk tolerance.

**Our *Global Macro Tactical Strategy* seeks to identify favorable investment opportunities among seven primary asset classes. Capital is rotated to the specific markets in an effort to control risk by underweighting or eliminating exposure to markets that exhibit elevated risk.

Our *Relative Capital Flow Model* is the cornerstone of our tactical allocation decisions and is augmented by our Behavior, Economic, Monetary and Stability indicators.