OMNIA INVESTMENT METHODOLOGY

"You have to zoom out and connect the dots between things that don't necessarily seem obvious to people at the time."

- STEVE JOBS, APPLE FOUNDER AND CEO

WHY HAVE A WRITTEN INVESTMENT METHODOLOGY?

Having a written methodology is like having the picture on the box of a puzzle, you know how your puzzle – or in this case, your portfolio – should look. Not having a clear methodology is like building a puzzle blindfolded but also with the wrong pieces for your puzzle.

Every piece of information we collect and analyze is a piece we try to fit into the overall puzzle. In our world today, with an overwhelming amount of information, there must be a thoughtful process of screening and rationalizing the information we receive. Many times, the information is not relevant or does not fit our puzzle.

Having a methodology helps us see beyond a certain market or economic event, whether it's a recession, a sharp drop in equity markets, or higher interest rates. We know what our actions will be in each event and understand how we can take advantage. Most events are very hard to predict, and extreme "tail" events are unpredictable. That is why we focus on our process and the robustness of our portfolios. It's the only thing you can control beforehand.

Having a methodology, a process and models is like having a roadmap; it ensures we do not have to reconsider every investment decision from scratch, and most importantly, you do not have to guess what the markets will do.

OUR KEY GUIDELINES

We build portfolios to weather extreme market conditions. Our objective is to be able to grow wealth regardless of the economic environment and protect it from random events that could have devastating results.

Omnia's investment methodology embraces uncertainty, providing a disciplined, systematic, rules-based, and repeatable approach to investments. It is built around a few core beliefs:

- **Most important events are unpredictable, and no investor can reliably time the markets.**
- **Risk management is at the core of every portfolio and contributes significantly to long-term superior returns.**
- **Valuations are important and are the main driver of consistent success.**
- **Investing without a robust and evolving research and investing process is gambling.**
- **Cycles are important. Recognizing where we are in a cycle has a significant effect on the odds of our success.**
- **The very large moves in markets sometimes take years to develop and can only be identified using a process.**

THE FALLACY OF DIVERSIFICATION

The conventional belief about diversification is that investing in non-correlated assets will prevent heavy losses as a result of bad performance in one asset. This concept is correct, but the reality is not that simple. Many investors think they are diversified based on an asset's historical correlation, only to find out at the worst time that the correlation between their "diversified" assets is very high when they all fall at the same time. Many assets that presumably are not correlated actually share the same risk factors, and **correlations between assets will change over time and in different economic environments.**

THE ASSET CLASS DILEMMA

The majority of portfolios are constructed based on a strict definition of asset class, like equities, fixed income, real assets, and alternatives. We believe this is an inferior way to build portfolios. The most important question to ask before adding an asset to a portfolio is, **"What objective am I trying to accomplish in the portfolio?"** The second question is, **"What strategy can most efficiently achieve the objective?"** Within the generic asset classes, certain investments behave very differently in certain economic environments and should have different objectives in a portfolio. Take US equities and US high yield bonds for example. They are defined as different asset classes, but in certain environments, they behave the same.

THE FOUR MAIN ECONOMIC ENVIRONMENTS

At any point in time, the economy will be either in or transitioning out of one of **four dominant economic environments.** At times, there will be forces from two economic environments working at the same time. The main environments are:

1. **G**rowth
2. **R**ecession
3. **I**nflation
4. **D**eflation

Extensive studying of historical market environments and cycles taught us that having a portfolio that is well balanced between these four environments at all times is a superior method of wealth management. **We found that the majority of portfolio returns can be attributed to the allocation they had to a certain dominant economic environment.**

G.R.I.D. ASSET ALLOCATION METHODOLOGY

Because different assets perform well or poorly in different economic environments, we developed the G.R.I.D. methodology to build portfolios that are diversified across **G**rowth, **R**ecessionary, **I**nflationary and **D**eflationary environments. This allows us to allocate to assets based on their correlation to an economic environment – not based on their correlation to other assets.

THE METHODOLOGY ALSO HELPS US:

1. STAY DIVERSIFIED ACROSS ECONOMIC ENVIRONMENTS
2. DEFINE AND UNDERSTAND THE CURRENT AND FUTURE RELATIONSHIP BETWEEN ASSET CLASSES
3. INPUT OUR RESEARCH FINDINGS OF ECONOMIC ENVIRONMENTS AND CYCLES
4. ACHIEVE TRUE DIVERSIFICATION
5. AVOID OVERLAP OF STRATEGIES (I.E. SOURCES OF RETURNS AND RISKS)
6. THINK SYSTEMATICALLY

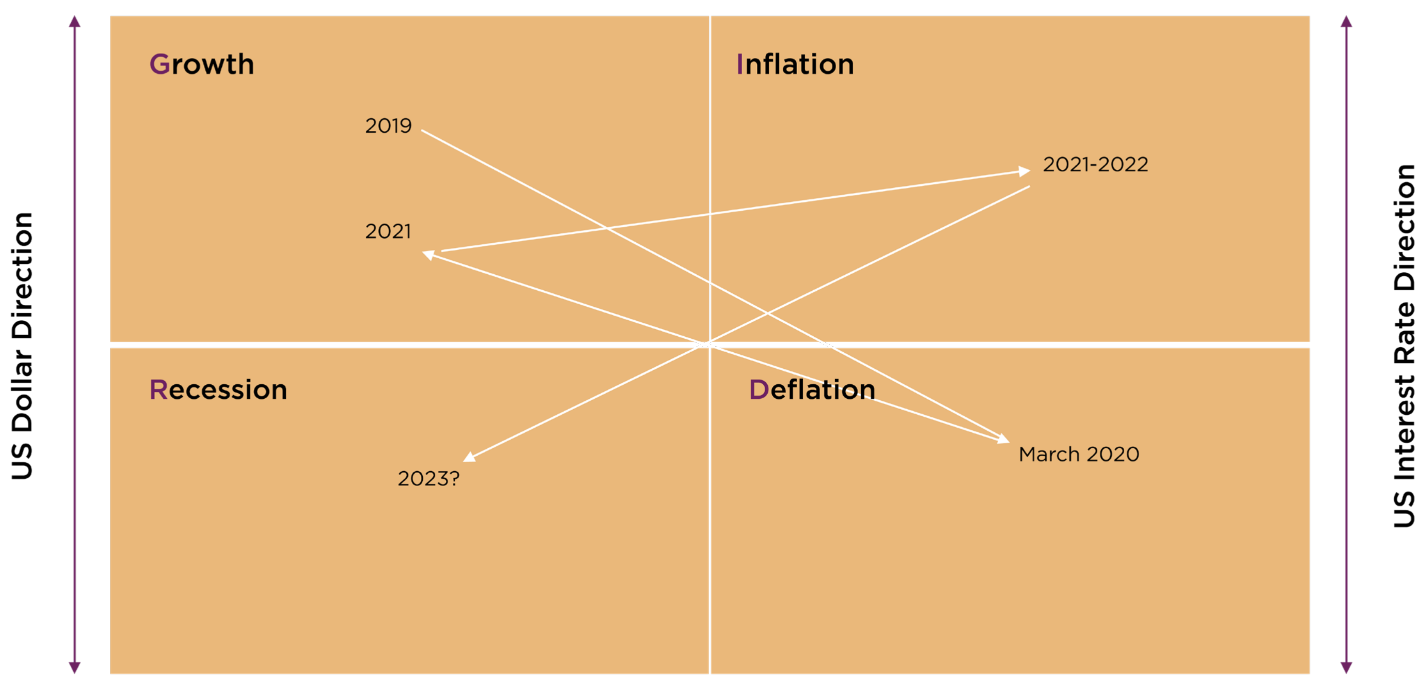
ALLOCATION ACROSS THE FOUR QUADRANTS

In each quadrant of the model, we allocate assets that should do well in that environment. For example, in a deflationary environment, very few assets perform well, so in this bucket, we would allocate to long-term Treasuries, cash, and other alternative strategies that would benefit from deflationary pressures. In a growth environment, for example, US equities typically perform the best, so we would allocate accordingly. It also means we would reduce or completely remove allocations to investments such as high yield bonds and commodities to avoid an overlap in risk factors.

This process allows us to increase returns and lower the overall risk over time without depending on predicting assets' future performance to drive our success.

THE SHIFT BETWEEN ECONOMIC ENVIRONMENTS

A change in economic environment could take years, or it could take weeks, not allowing investors to properly position their portfolios. Markets do not wait for economists to officially call a certain environment; whether it's inflationary or deflationary, markets will price in the upcoming environment fast and without warning. The chart below is a good example of the fast shifts we experienced in the last three years.



SYNCHRONIZED ECONOMIES

One of the most important negative consequences of the global financial crisis is that world economies have become linked together by the monetary system. This means that a change in liquidity in one market will affect other markets as well, making the task of portfolio diversification much harder. As an example, we can look at the 2017 synchronized growth or the synchronized global slowdown in 2011 and 2015. The 1991 and 2001 recessions were also relatively mild because it was only in the US. There are no individual economies anymore (until the problem is fixed) but a world financial system that increases the risks of major financial disorder. Today, a portfolio must include strategies that can protect and benefit from these changes.

OMNIA MACRO FRAMEWORK AND QUANTITATIVE MODELS

If we had no view of where we are in the economic cycle and what economic environment we might be heading toward, a portfolio would be equally allocated with 25% in each quadrant. In this case, the portfolio would be balanced between all possible environments.

Having a view on where we are in the economic cycle and environment helps us put the odds in our favor. **That's where our research process comes in.** Because most returns of assets can be explained by the four market environments, we build a macro framework and use our quantitative models to identify which economic environment we are currently in, and toward which economic environment we might be headed. These environments also determine interest rates and the strength or weakness in the dollar. Our process allows us to assign a probability and magnitude for each upcoming economic environment and tilt the allocation accordingly when we have high conviction. In addition, we use models to value the attractiveness or expected returns for each asset to determine its weight in the portfolio and quadrant.

DECISION-MAKING FRAMEWORK

We look at the future as a set of potential outcomes with a range of probabilities. We know we will never have full certainty about a particular outcome but having enough knowledge and a strong process will help us achieve success over the long run.

We have to remember that decision-making should never be done in a vacuum or as an emotional reaction, and for that, we need a process. The most effective and simplest method to use is making a list of different scenarios that may affect our portfolio and then, based on our research, assigning magnitude and probability to each scenario.

Below is an example of the framework for using the intersection of magnitude and probability to inform your decisions:

MAGNITUDE	PROBABILITY	ACTION
High	Low	Moderate action
High	High	Yes
Low	High	No
Low	Low	No

EVENT	PROBABILITY	MAGNITUDE OF IMPACT ON PORTFOLIO	ACTION
Equities could drop 30%	60%	Loss of 10% in overall portfolio	Lower equity exposure or hedge
Fed will lower rates	100%	Will probably not support equities	None
Break in high yield markets	50%	Could be significant	Lower equity exposure or hedge
Fed will support markets in unconventional way	60%	Could boost equities higher	Keep current exposure
Economy to fall into recession	Over 50%	Possible losses in equities, real estate and so on...	Reduce exposure in some assets and increase in others

Apple Founder CEO Steve Jobs once said, **"Look, you have to zoom out and connect the dots between things that don't necessarily seem obvious to people at the time."** Rather than chasing short-term portfolio performance, we focus on managing risk by understanding the connections between assets and their environment, which is often less obvious but also more likely to lead to better, more stable returns in the long run.

IMPORTANT INFORMATION

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Asset Allocation may be used in an effort to manage risk and enhance returns. It does not, however, guarantee a profit or protect against loss.