R6

A Breakthrough Investment Management Performance

(Live and real-money performance - Not only back-tested)

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International Institute of Management

www.iim.education/think-tank

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For Institutional Research Clients Only.

Note: In 2023/1/2, R6 was upgraded to R7 with optimized reward to risk management for an inflationary regime and asymmetric hedging strategies

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Executive Summary

- <u>Who we are</u>: IIM is an independent research think tank. We focus on designing efficient decision-making algorithms to solve complex problems in hyper-dynamic systems
- <u>What we did</u>: Engineered a breakthrough **investment management model (R6)** – An integrated set of macro, qualitative and quantitative factor strategies and proprietary formulas for asset allocation, portfolio management, and buy-hold-sell signals
- <u>How good is it</u>: R6 outperformed > 99% of passive and active funds for more than 16 years, returning **907.65%** gains vs. SPX **137.64%**. In 2020 (COVID's turbulent markets), R6 returned **106.56%** vs. SPX **18.4**% without using risky derivatives, day trading, leverage, or crypto assets.
- **Update:** In 2022, IIM R6 fund was up +**16%** vs. SPX down **-19.4%**

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Problem

Problem 1: Industry Performance

Consistent Under-Performance Over the Past Decade

- **99% of actively managed US equity funds underperform.** Almost all US, global and EM funds have failed to beat their benchmark since 2006 [10 years period] – Financial Times 2016
- **Active fund managers trail the S&P 500 for the ninth year in a row** - CNBC 2019
- **If You Still Own Actively Managed Stock Funds, Get Ready for Some Bad News –**… it would have taken a stroke of luck to pick a winner.
  - Barron's 2020

Problem 2: Investment Strategies

Are Investment Strategies the Solution?

- **Warren Buffett…** [~$550B] underperformed the S&P 500 by over 20% in 2019 and the first half of 2020—a massive underperformance. Berkshire Hathaway's returns have been trailing the S&P 500 since the beginning of 2009. - Market Realist, 2020
- The losses continue to pile up for hedge fund king **Ray Dalio…Bridgewater Associates** [~$150B] has run up hefty losses this year, the damage as of august 18.6% drop in the flagship Pure Alpha II fund. – Bloomberg – 2020
- Value manager **AQR Capital Management** [~$140B] is experiencing its worst drawdown since the global financial crisis as markets continue to pummel value managers.– Pensions&Investments 2020

Problem 3: Hedging Strategies

Are Hedging Strategies the Solution?

- The New York's [MTA] just became the latest to sue [**Allianz**] after losing [$330 million]. Its "Structured Alpha" funds, which collapsed …**wiping out 97%** of investors' capital. - MarketWatch 2020
- **Credit Suisse Takes $450 Million Hit** on Stake in U.S. Hedge-Fund Firm **–** WSJ Nov, 2020
- **Tesla Short Sellers Lost $38 Billion in 2020.** Those short sellers include some high-profile names such as **Jim Chanos** [and many other well-respected funds..] **–** Bloomberg 2020

Problem 4: Quant Strategies

Are Quant Strategies the Solution?

- **Renaissance Technologies** [~$110B], which manages the **world's biggest quant hedge fund**, and **Two Sigma Advisers** [~$58B] have seen losses across several of their funds in 2020, a sign of how unprecedented market volatility caused by the Covid-19 pandemic hurt even the most sophisticated traders...
- Renaissance saw a **decline of about 20% through October in its long-biased fund**... **The $75 billion firm's market-neutral fund dropped about 27% and its global-equities fund lost about 25%.** – Bloomberg 2020

Diagnosis

What is the most important factor
that explains the difference between
funds that create value vs. ones that destroy it?

The Investing Algorithm*

** All fund managers, including discretionary funds, use some form of an Algorithm (implicit or explicit).*
*An Algo is a **<u>rule-based</u>** investing **<u>decision model</u>** that can be manual, automated, or hybrid.*
An Algo can be qualitative, quantitative, or hybrid. It can be used for day trading, short, mid, or long term.
Some Algos are more mature than others.
The evidence of a superior algo is its returns, all else is theory.

Root Cause Analysis

The investment manager's primary function is **decision-making** i.e. deciding what asset to buy at what price and how much, how long to hold, and how much to sell, at what price. - All else is secondary.

Wrong decisions are based on lack of information, misinformation, or inaccurate decision models.... The financial markets are complex hyper-dynamic systems, even the most experienced fund managers with access to best real-time data feeds, IT decision support system (DSS), and talent are failing to beat the market. Therefore, it is fair to consider that their current investment decision models (Algos) are not optimized for managing assets in continuously changing markets. - Source: IIM

In a complex dynamic system, static strategies will almost always underperform

Performance of Various Asset Classes: US **2006-2020**

2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2006 - 2020 Ann.	2006 - 2020 Vol.
REITs 35.1%	EM Equity 39.8%	Fixed Income 5.2%	EM Equity 79.0%	REITs 27.9%	REITs 8.3%	REITs 19.7%	Small Cap 38.8%	REITs 28.0%	REITs 2.8%	Small Cap 21.3%	EM Equity 37.8%	Cash 1.8%	Large Cap 31.5%	Small Cap 20.0%	Large Cap 9.8%	EM Equity 23.3%
EM Equity 32.6%	Comdty. 16.2%	Cash 1.8%	High Yield 59.4%	Small Cap 26.9%	Fixed Income 7.8%	High Yield 19.6%	Large Cap 32.4%	Large Cap 13.7%	Large Cap 1.4%	High Yield 14.3%	DM Equity 25.6%	Fixed Income 0.0%	REITs 28.7%	EM Equity 18.7%	Small Cap 8.9%	REITs 23.1%
DM Equity 26.9%	DM Equity 11.6%	Asset Alloc. -25.4%	DM Equity 32.5%	EM Equity 19.2%	High Yield 3.1%	EM Equity 18.6%	DM Equity 23.3%	Fixed Income 6.0%	Fixed Income 0.5%	Large Cap 12.0%	Large Cap 21.8%	REITs -4.0%	Small Cap 25.5%	Large Cap 18.4%	High Yield 7.5%	Small Cap 22.6%
Small Cap 18.4%	Asset Alloc. 7.1%	High Yield -26.9%	REITs 28.0%	Comdty. 16.8%	Large Cap 2.1%	DM Equity 17.9%	Asset Alloc. 14.9%	Asset Alloc. 5.2%	Cash 0.0%	Comdty. 11.8%	Small Cap 14.6%	High Yield -4.1%	DM Equity 22.7%	Asset Alloc. 10.6%	REITs 7.1%	DM Equity 19.1%
Large Cap 15.8%	Fixed Income 7.0%	Small Cap -33.8%	Small Cap 27.2%	Large Cap 15.1%	Cash 0.1%	Small Cap 16.3%	High Yield 7.3%	Small Cap 4.9%	DM Equity -0.4%	EM Equity 11.6%	Asset Alloc. 14.6%	Large Cap -4.4%	Asset Alloc. 19.5%	DM Equity 8.3%	EM Equity 6.9%	Comdty. 18.8%
Asset Alloc. 15.3%	Large Cap 5.5%	Comdty. -35.6%	Large Cap 26.5%	High Yield 14.8%	Asset Alloc. -0.7%	Large Cap 16.0%	REITs 2.9%	Cash 0.0%	Asset Alloc. -2.0%	REITs 8.6%	High Yield 10.4%	Asset Alloc. -5.8%	EM Equity 18.9%	Fixed Income 7.5%	Asset Alloc. 6.7%	Large Cap 16.7%
High Yield 13.7%	Cash 4.8%	Large Cap -37.0%	Asset Alloc. 25.0%	Asset Alloc. 13.3%	Small Cap -4.2%	Asset Alloc. 12.2%	Cash 0.0%	High Yield 0.0%	High Yield -2.7%	Asset Alloc. 8.3%	REITs 8.7%	Small Cap -11.0%	High Yield 12.6%	High Yield 7.0%	DM Equity 5.0%	High Yield 12.2%
Cash 4.8%	High Yield 3.2%	REITs -37.7%	Comdty. 18.9%	DM Equity 8.2%	DM Equity -11.7%	Fixed Income 4.2%	Fixed Income -2.0%	EM Equity -1.8%	Small Cap -4.4%	Fixed Income 2.6%	Fixed Income 3.5%	Comdty. -11.2%	Fixed Income 8.7%	Cash 0.5%	Fixed Income 4.5%	Asset Alloc. 11.8%
Fixed Income 4.3%	Small Cap -1.6%	DM Equity -43.1%	Fixed Income 5.9%	Fixed Income 6.5%	Comdty. -13.3%	Cash 0.1%	EM Equity -2.3%	DM Equity -4.5%	EM Equity -14.6%	DM Equity 1.5%	Comdty. 1.7%	DM Equity -13.4%	Comdty. 7.7%	Comdty. -3.1%	Cash 1.2%	Fixed Income 3.2%
Comdty. 2.1%	REITs -15.7%	EM Equity -53.2%	Cash 0.1%	Cash 0.1%	EM Equity -18.2%	Comdty. -1.1%	Comdty. -9.5%	Comdty. -17.0%	Comdty. -24.7%	Cash 0.3%	Cash 0.8%	EM Equity -14.2%	Cash 2.2%	REITs -5.1%	Comdty. -4.0%	Cash 0.8%

Fixed income sector returns

GTM – U.S. | 51

2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2006-2020 Ann.	2006-2020 Vol.
EMD LCL. 15.2%	EMD LCL. 18.1%	Treas. 13.7%	High Yield 58.2%	EMD LCL. 15.7%	TIPS 13.6%	EMD USD 17.4%	High Yield 7.4%	Muni 9.1%	Muni 3.3%	High Yield 17.1%	EMD LCL. 15.2%	ABS 2.7%	EMD USD 15.0%	TIPS 11.0%	High Yield 7.5%	EMD LCL. 11.9%
High Yield 11.8%	TIPS 11.6%	MBS 8.3%	EMD USD 29.8%	High Yield 15.1%	Muni 10.7%	EMD LCL. 16.8%	ABS 1.3%	Corp. 7.5%	MBS 1.5%	EMD USD 10.2%	EMD USD 10.3%	Muni 1.3%	Corp. 14.5%	Corp. 9.9%	EMD USD 6.9%	High Yield 11.2%
EMD USD 9.9%	Treas. 9.0%	Barclays Agg 5.2%	ABS 24.7%	EMD USD 12.2%	Treas. 9.8%	High Yield 15.8%	MBS -1.4%	EMD USD 7.4%	EMD USD 1.2%	EMD LCL. 9.9%	High Yield 7.5%	MBS 1.0%	High Yield 14.3%	Treas. 8.0%	Corp. 5.8%	EMD USD 8.8%
Asset Alloc. 5.8%	Barclays Agg 7.0%	Asset Alloc. -1.9%	EMD LCL. 22.0%	Corp. 9.0%	Corp. 8.2%	Corp. 9.8%	Corp. -1.5%	MBS 6.1%	Treas. 0.8%	Corp. 6.1%	Corp. 6.4%	Treas. 0.9%	EMD LCL. 13.5%	Barclays Agg 7.5%	EMD LCL. 5.1%	Corp. 5.9%
MBS 5.2%	MBS 6.9%	TIPS -2.4%	Corp. 18.7%	Asset Alloc. 7.6%	Barclays Agg 7.8%	Asset Alloc. 7.6%	Asset Alloc. -1.7%	Barclays Agg 6.0%	Barclays Agg 0.6%	Asset Alloc. 4.8%	Muni 5.4%	Barclays Agg 0.0%	Asset Alloc. 9.8%	High Yield 7.1%	Asset Alloc. 4.7%	Treas. 4.9%
Muni 4.8%	Asset Alloc. 6.2%	Muni -2.5%	Asset Alloc. 16.5%	Barclays Agg 6.5%	Asset Alloc. 7.7%	TIPS 7.0%	Barclays Agg -2.0%	Asset Alloc. 5.4%	ABS 0.2%	TIPS 4.7%	Asset Alloc. 5.3%	Asset Alloc. -0.6%	Barclays Agg 8.7%	Asset Alloc. 6.6%	Barclays Agg 4.5%	TIPS 4.9%
ABS 4.7%	EMD USD 6.2%	Corp. -4.9%	Muni 12.9%	TIPS 6.3%	EMD USD 7.3%	Muni 6.8%	Muni -2.6%	Treas. 5.0%	Asset Alloc. -0.4%	Barclays Agg 2.6%	Barclays Agg 3.5%	TIPS -1.3%	TIPS 8.4%	EMD USD 5.3%	Muni 4.5%	ABS 4.3%
Barclays Agg 4.3%	Corp. 4.6%	EMD LCL. -5.2%	TIPS 11.4%	Treas. 5.9%	MBS 6.2%	Barclays Agg 4.2%	Treas. -2.8%	TIPS 3.6%	Corp. -0.7%	ABS 2.0%	TIPS 3.0%	High Yield -2.1%	Muni 7.5%	Muni 5.2%	TIPS 4.3%	Muni 3.8%
Corp. 4.3%	Muni 3.4%	EMD USD -12.0%	Barclays Agg 5.9%	ABS 5.8%	ABS 5.1%	ABS 3.7%	EMD USD -5.2%	High Yield 2.5%	TIPS -1.4%	MBS 1.7%	ABS 3.0%	Corp. -2.5%	Treas. 6.9%	MBS 3.9%	MBS 4.1%	Asset Alloc. 3.8%
Treas. 3.1%	ABS 2.2%	ABS -12.7%	MBS 5.9%	MBS 5.4%	High Yield 5.0%	MBS 2.6%	TIPS -8.6%	ABS 1.7%	High Yield -4.5%	Treas. 1.0%	MBS 2.5%	EMD USD -4.3%	MBS 6.4%	ABS 3.4%	Treas. 4.0%	Barclays Agg 3.2%
TIPS 0.4%	High Yield 1.9%	High Yield -26.2%	Treas. -3.6%	Muni 2.4%	EMD LCL. -1.8%	Treas. 2.0%	EMD LCL. -9.0%	EMD LCL. -5.7%	EMD LCL. -14.9%	Muni 0.2%	Treas. 2.3%	EMD LCL. -6.2%	ABS 3.8%	EMD LCL. 2.7%	ABS 3.4%	MBS 2.5%

Source: Barclays, Bloomberg, FactSet, J.P. Morgan Global Economic Research, J.P. Morgan Asset Management.

Performance of Various Strategies: US Assets **2006-2020**

2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2006 - 2020 Ann.	2006 - 2020 Vol.
High Div. 21.1%	Momen. 17.8%	Min. Vol. -25.7%	Value 38.8%	Small Cap 26.9%	High Div. 14.3%	Cyclical 20.1%	Value 43.2%	Value 17.7%	Momen. 9.3%	Small Cap 21.3%	Momen. 37.8%	Min. Vol. 1.5%	Cyclical 36.3%	Momen. 29.6%	Momen. 11.7%	Small Cap 22.6%
Value 19.7%	Defens. 17.7%	Defens. -26.7%	Cyclical 36.9%	Multi-Factor 18.3%	Min. Vol. 12.9%	Value 16.8%	Small Cap 38.8%	Min. Vol. 16.5%	Min. Vol. 5.6%	High Div. 16.3%	Cyclical 27.3%	Momen. -1.6%	Quality 34.4%	Cyclical 27.8%	Quality 10.7%	Value 20.3%
Small Cap 18.4%	Quality 10.1%	High Div. -27.6%	Multi-Factor 29.8%	Momen. 18.2%	Defens. 10.1%	Small Cap 16.3%	Multi-Factor 37.4%	High Div. 14.9%	Quality 4.6%	Value 15.9%	Quality 22.5%	High Div. -2.3%	Momen. 28.1%	Small Cap 20.0%	Cyclical 10.4%	Cyclical 19.8%
Multi-Factor 16.6%	Multi-Factor 5.5%	Quality -31.2%	Small Cap 27.2%	Cyclical 17.9%	Quality 7.5%	Multi-Factor 15.7%	Cyclical 35.0%	Multi-Factor 14.8%	Cyclical 2.6%	Cyclical 14.0%	Value 22.2%	Defens. -2.9%	Min. Vol. 28.0%	Quality 17.1%	Min. Vol. 10.1%	Momen. 17.9%
Defens. 15.9%	Min. Vol. 4.3%	Small Cap -33.8%	Quality 24.9%	High Div. 15.9%	Multi-Factor 7.3%	Momen. 15.1%	Momen. 34.8%	Momen. 14.7%	High Div. 0.7%	Multi-Factor 13.7%	Multi-Factor 21.5%	Cyclical -5.3%	Value 27.7%	Multi-Factor 11.4%	Multi-Factor 9.6%	Multi-Factor 17.5%
Cyclical 15.0%	Value 1.1%	Value -36.9%	High Div. 18.4%	Min. Vol. 14.7%	Momen. 6.1%	Quality 12.8%	Quality 34.3%	Cyclical 13.6%	Multi-Factor 0.4%	Min. Vol. 10.7%	High Div. 19.5%	Quality -5.6%	Multi-Factor 26.6%	Min. Vol. 5.8%	High Div. 9.4%	Quality 15.6%
Min. Vol. 15.0%	High Div. 0.0%	Multi-Factor -39.3%	Min. Vol. 18.4%	Quality 14.2%	Value -2.7%	Min. Vol. 11.2%	High Div. 28.9%	Defens. 13.0%	Defens. -0.9%	Quality 9.4%	Min. Vol. 19.2%	Multi-Factor -9.7%	Small Cap 25.5%	Defens. 5.2%	Small Cap 8.9%	High Div. 15.0%
Quality 12.8%	Cyclical -0.8%	Momen. -40.9%	Momen. 17.6%	Value 12.7%	Cyclical -3.4%	Defens. 10.7%	Defens. 28.9%	Quality 10.7%	Small Cap -4.4%	Defens. 7.7%	Small Cap 14.6%	Small Cap -11.0%	High Div. 22.5%	High Div. 1.7%	Defens. 8.6%	Defens. 13.7%
Momen. 10.7%	Small Cap -1.6%	Cyclical -44.8%	Defens. 16.5%	Defens. 12.0%	Small Cap -4.2%	High Div. 10.6%	Min. Vol. 25.3%	Small Cap 4.9%	Value -6.4%	Momen. 5.1%	Defens. 12.3%	Value -11.1%	Defens. 21.4%	Value -0.2%	Value 8.6%	Min. Vol. 13.1%

Source: FactSet, MSCI, Russell, Standard & Poor's, J.P. Morgan Asset Management. The MSCI High Dividend Yield Index aims to offer a higher than average dividend yield relative to the parent index that passes dividend sustainability and persistence screens. The MSCI Minimum Volatility Index optimizes the MSCI USA Index using an estimated security co-variance matrix to produce low absolute volatility for a given set of constraints. The MSCI Defensive Sectors Index includes: Consumer Staples, Energy, Health Care and Utilities. The MSCI Cyclical Sectors Index contains: Consumer Discretionary, Communication Services, Financials, Industrials, Information Technology and Materials. Securities in the MSCI Momentum Index are selected based on a momentum value of 12-month and 6-month price performance. Constituents of the MSCI Sector Neutral Quality Index are selected based on stronger quality characteristics to their peers within the same GICS sector by using three main variables: high return-on-equity, low leverage and low earnings variability. Constituents of the MSCI Enhanced Value Index are based on three variables: price-to-book value, price-to-forward earnings and enterprise value-to-cash flow from operations. The Russell 2000 is used for small cap. The MSCI USA Diversified Multiple Factor Index aims to maximize exposure to four factors – Value, Momentum, Quality and Size. Annualized volatility is calculated as the standard deviation of quarterly returns multiplied by the square root of 4. *Guide to the Markets – U.S.* Data are as of December 31, 2020.

J.P.Morgan Asset Management

From the above table, no single strategy or asset outperforms every year. The continuously changing opportunities and risks are difficult to capture. Subtle and rapid changes confuse investment professionals causing under-performance for long periods of time.

The Industry Secret (IIM Diagnosis)

- If you are under-performing the market and do not know precisely why or how (except in hindsight), then you are not alone. The cause is not “random walk”, fooled by “randomness”, “market rotations”, “changing patterns”, “Fed mistakes”, or “black swans”, the cause is the difficulty of managing complexity in a uncertain hyper-dynamic systems
- The biggest collective blind spot of academia and the industry is the use of **static** decision models to manage investments in a complex **dynamic** system
- R6 was engineered as a super-algo with optimized strategies (value, growth, income, volatility...) to capture mispricing in different market conditions over the short, mid and long term. R6 produced superior returns in different market cycles and under the most uncertain environments (see R6 performance in appendix)

Solution

(R6)

A Qualitative and Quantitative Investing Algorithm
With
Adaptive Risk Adjusted Portfolio Management (ARAPM) Model

R6 is a customizable rule-based investment management model designed to help CIOs and PMs achieve superior performance in different market cycles by using an integrated set of proprietary algos (optimized strategies and formulas) for asset allocation, portfolio construction, and stock picking to capture "dynamic alpha"

R6 Gains

Sample Portfolios & Periods ~	R6 Algo* Active Returns	S&P 500 Index	~ 99% of Active Funds
Live Back & Forward Test 16.25 Years (2004-2020)	907.65%	137.64%	- α SPX?
Forward Test (FT) Live 5 Years (2016-2020)	269.86%	103.3%	- α SPX?
FT Live 1 Year (2020)	106.56%	18.4%	- α SPX?

* As of Jan 20, 2021 (corrected)
** See Appendix for 2021 & 2022out-performance

4 Key Advantages

- **Risk:** R6 returns were achieved without using risky derivatives or leverage. R6 is based on asset allocation, stock picking and adaptive rebalancing. R6 can be fine-tuned to most investors (value, growth, low volatility, income…)
- **Cycles:** Most strategies can work great in certain market cycles, but when cycles change, they fail. R6 incorporates 20+ years primary & secondary research (200+ years of investing data). R6 has been tested since 2004 (16 years+) covering a variety of market conditions, including bear and bull markets, high and low interest rates, and cyclical rotations (asset classes, caps, sectors, and geographies)
- **Live:** Back-tested algos and strategies can be manipulated and fitted, and they fail after going live (forward testing). R6 is forward tested since 2014 (6 years) and continues to outperform S&P 500 & 99% of active funds
- **Volatility & Uncertainty**: In the final analysis, real-money volatility test is the only test that matters. When real money strategies are implemented in highly volatile and uncertain conditions, human emotions can cause them to fail. 2020 saw rapid changes (COVID, China-US trade war, Brexit, elections, currency challenges in emerging markets, overvaluations, and a large influx of retail investors and behavioral changes (social media influence) and traders (GME and TSLA shorting debacles), yet R6 returned **106%+** in real money account outperforming its prior years and many of the top funds. The highly uncertain and volatile 2020 environment helped rather than hurt R6 performance. Its rule-based risk management and quantitative Algo overcame the limitations of discretionary models. Its qualitative Algo overcame the limitations quantitative trading models

R6

Analysis

High-level insights into the secret sauce

R6 Single or Multi-Asset Enabled Fund

CIO

Choose
Investing Themes & Constraints
(Macro, ESG, Innovation, Tax…)
+
Set Portfolio Guidelines
(Total Return / Risk for Target Period)

R6

Portfolio Model Construction
using
Reward to Risk Algo Calculation for
Target Period & Business Cycles
Strategic vs. Tactical Asset Class
Allocation & Diversification
Sector Allocation
Strategy Selection
Factor Weight Assignment
Security Selection
Position Sizing
Buy, Hold, & Sell Signals

PM

Monitor Changing Events
(Economy, Market & Stock News) >
Validate & Update R6 Q&Q Scores >
Execute (Buy, Hold, Sell) >
Report Performance >
Optimize & Repeat

R6 proprietary math formulas and optimized Algos are designed to
minimize investing decisions' blind spots and errors + speed the decision-making process
R6 can be manual or automated or hybrid giving as much qualitative control to CIOs and PMs as needed.
Note: Currently, R6 is a hybrid Algo, it is not an automation software.

R6 is engineered to solve 1 problem with 3 dimensions

Q:
How to Optimize Returns in Complex Dynamic Markets ?

A:
By Fixing Traditional >

=

Unoptimized
&
Non-Adaptive

Economic,
Business
&
Valuation
Formulas

+

Unoptimized
&
Non-Adaptive

Reward / Risk
Management
Protocols

+

Unoptimized
&
Non-Adaptive

Cognitive
Models
(Decision Factors and Heuristic Biases)
+
Inefficient
Behavioral Triggers
(FOMO & TATI)

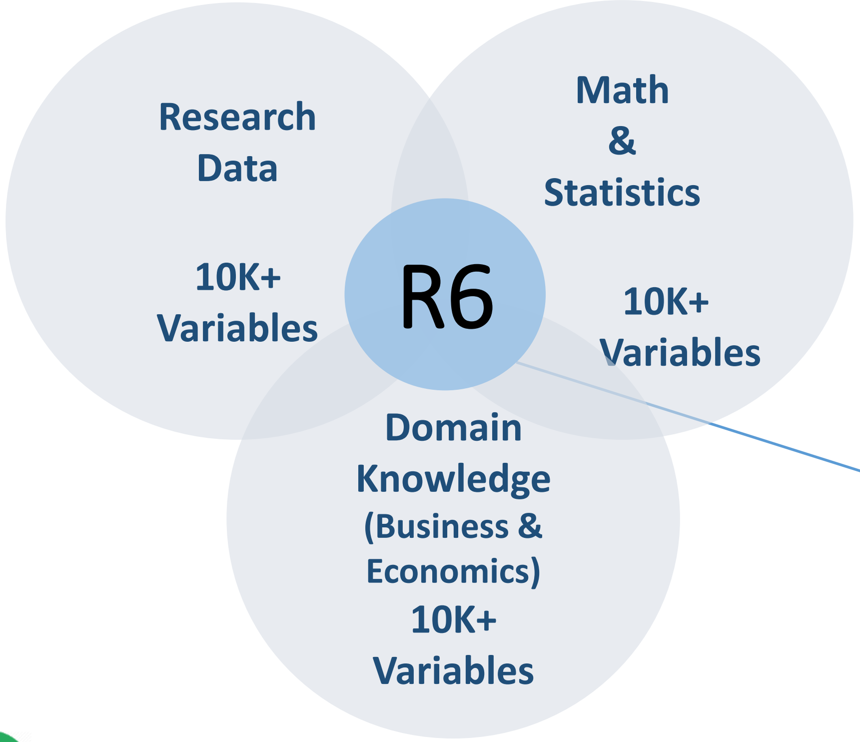
R6 Secret Sauce = Proprietary valuation formulas + fault-tolerant risk management protocols + data-driven decision-model

R6 Research Universe

Strategies

Beta vs. smart beta vs. alpha vs. large cap vs. mid cap vs. small cap vs. macro vs. technical vs. fundamental vs. value vs. growth vs. momentum vs. gold vs. crypto vs. commodities vs. bonds vs. stocks vs. options vs. sector rotation vs. geo rotation vs. trend trading vs. contrarian vs. divergence, vs. confluence vs. mean reversion vs. long-short hedging vs. fraud deep dive (shorting) vs. short squeezes vs. event trading (news) vs. special situations (debt, M&A, bankruptcy) vs. behavioral (bubbles & crashes, vs. social media vs. celeb investor imitation) vs. IPO vs....

Pure, Hybrid & Combination Strategies
= 10K+ Variations



Indicators

Leading vs. lagging vs. coincidental indicators: GDP, interest rates, CPI, PCE, …income, revenues, cash flow, liabilities, assets, equity, profits… EPS, P/B, P/E, PEG, RSI, SMA, EMA, Bollinger band…

Pure, Hybrid & Combination Indicators
= 10K+ Variations

R6 decision model selects and uses a weighted set of macro, technical, quantitative and qualitative variables (factors) in proprietary math formulas that can be fine-tuned for less volatility, less risk, more reward, or a balanced ratio for target investment periods (short, mid, and long terms).

Secret Sauce

Recap

The Dean of Wall Street (Ben Graham), once said “Wall street people learn nothing and forget everything”. To be fair, they are avid learners, but many times the subtle market changes are easy to miss and sometimes market changes are obvious, but so rapid that it is difficult to unlearn the old investing models and learn new ones in real-time. Managing cognitive dissonance and mental re-programming under real-time performance pressure is extremely difficult. R6 was engineered to solve this problem.

R6 is built on 20+ years of independent research with proven backward, live forward and real-money performance testing in continuously changing market conditions. R6 can help fund managers radically improve their investing performance.

How Easy To Replicate R6?

The Learning Curve, Time, Labor and Cost

- Complexity: A competing Algo requires researching 200-year investing data and correctly selecting from a universe 10K+ pure and hybrid strategies using 10K+ indicators and nearly ∞ combinations of variable weight assignments for various strategies. Quantum computers and machine learning are not developed yet to solve this ultra complex and fluid problem. It requires at its core human intelligence. The speed of human learning, unlearning, and re-learning is the major bottleneck
- Organizational Inertia: Entrenched systems + NIH (not invented here) syndrome (skepticism) + workplace politics + the time & cost to find, hire and train talent to think in a new adaptive integrated multi-dimensional manner to analyze complex asset pricing factors and synthesize an algorithm that is simple and efficient to execute, and, more importantly, produce a superior real-money performance is an extremely expensive, time consuming and daunting venture.
- Window of Opportunity: Even if some competitors attempt to reverse-engineer R6, back-testing their Algo will have no practical value without combined forward and real money tests for more than a decade (including uncertain and turbulent periods). By that time, the early adopter of R6 would have built a moat of public track record and captured significant share of the capital inflows

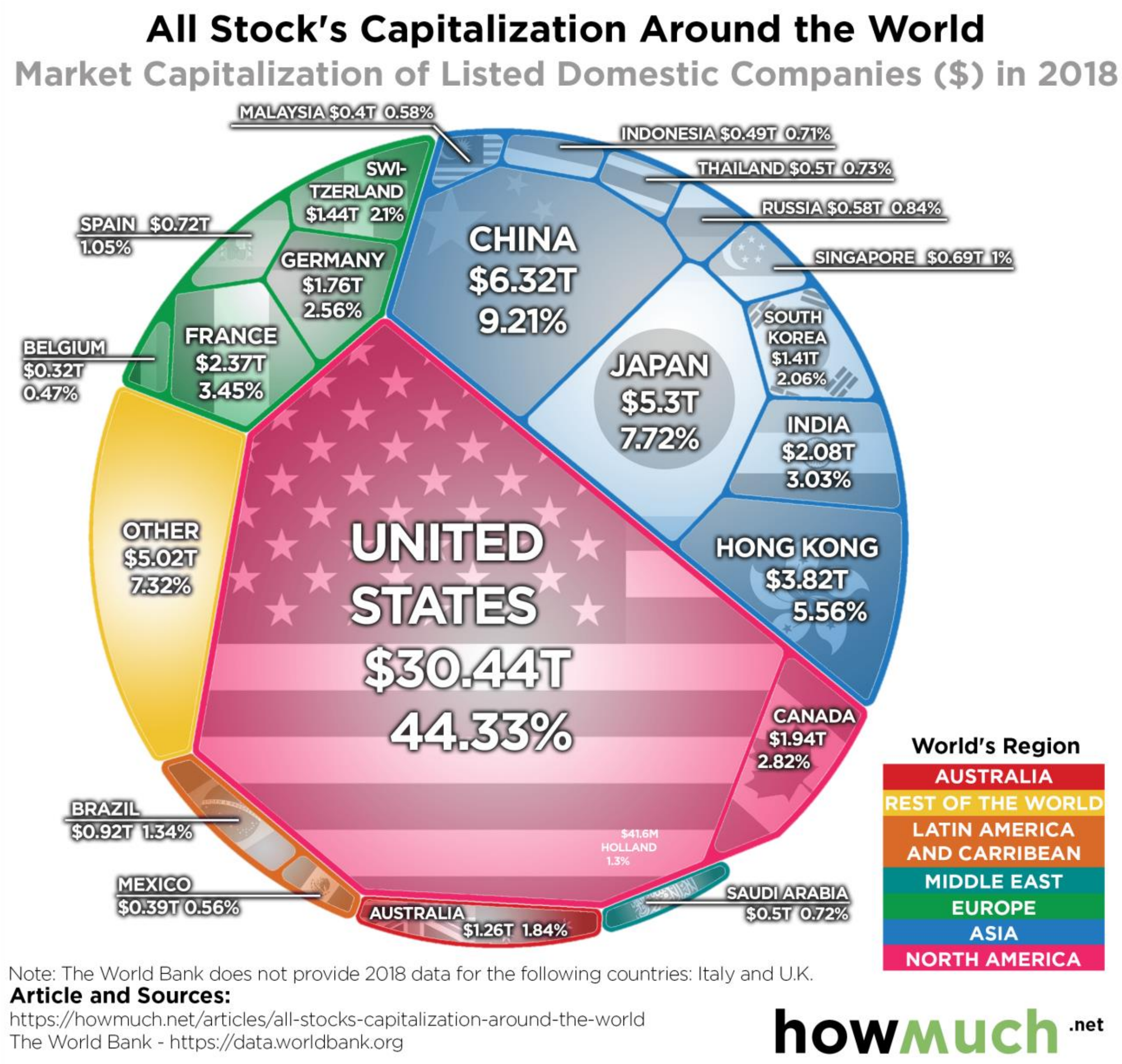
Opportunity

Target Market Opportunity

The total global stock market capital is ~ $85T (2020). More than $29T are managed by ~ 5K major institutional investors who allocate $4.5T+ to ~ 150K actively managed funds (Statista 2021). More than 99% of them are underperforming the S&P 500 Index.

<u>Note</u>: R6 uses the stock market to capture alpha among various asset classes such as equities, commodities (Oil, gold,… ETFs), credit markets (Bond ETFs), real estate (REITs), and other asset class –based ETFs.

Large fund allocators, fund managers, and portfolio managers can benefit directly from R6 solution. In our opinion, with R6 past returns, low frictional costs, low risk more transparent public securities, even private equity and VC funds may be interested in R6 investments. IIM is currently working on R7 = further optimization of R6.



Appendix

Draft 1.0

2021.3.21

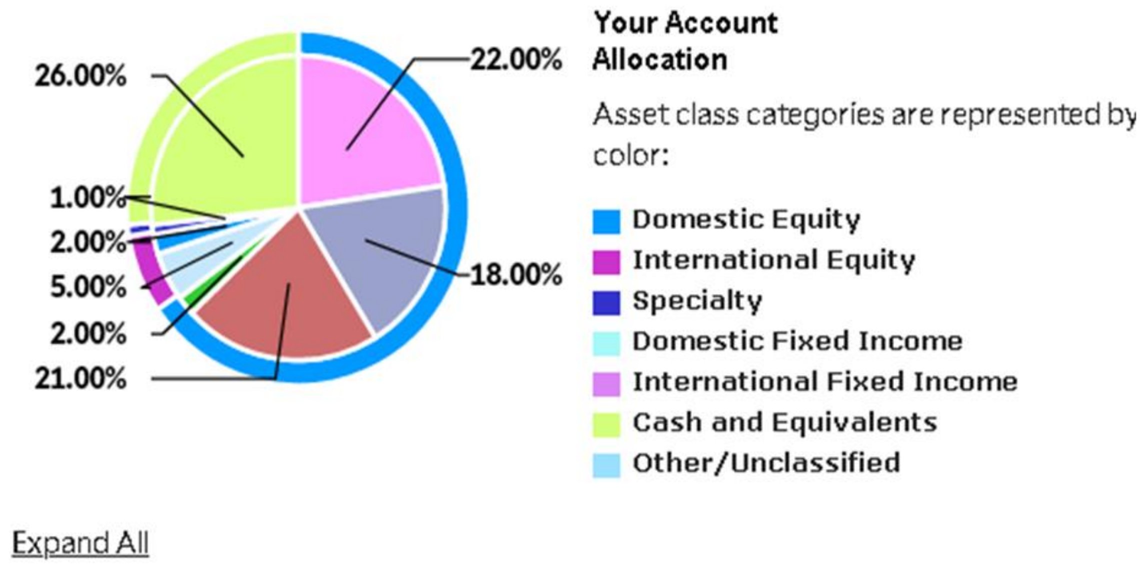
2022
Bear Market Update

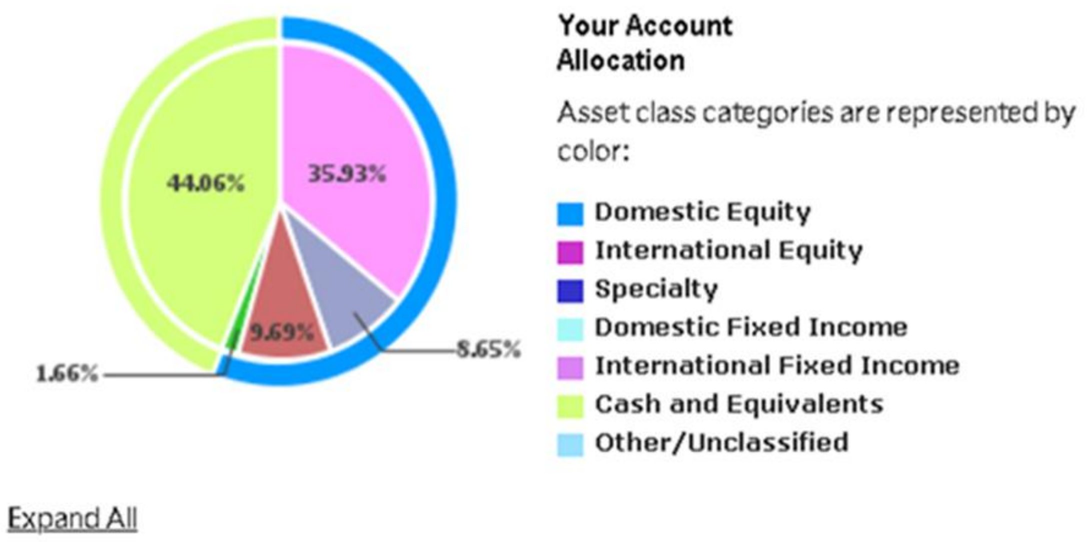
2023/1/20

R6 Fund = Adaptive ABC (Alpha-Beta-Cash) Strategy

 Probability signals; Not a crystal ball. For educational purpose; Not an investment advice.

Sample 2020 R6 real-money portfolio snapshots includes US and international stocks, all caps and sectors (oil, tech, financials, utilities, dividend income, REITs…). R6 excludes asset management industry, indices or derivatives-based ETFs, unless they can outperform individual stock picking and rebalancing. The following portfolio allocation snapshots should not be confused with the core strategy. R6 allocations are adaptive, they are not preset by predetermined static %, fixed timing or valuation metrics. Allocation may vary significantly within the same year as shown in the figures below.





2020-2022 saw most rapid market changes in decades, resulting in rebalancing the portfolio several times. Accurately rebalancing the portfolios has helped achieve superior performance by capturing new mispriced opportunities and avoiding emerging risks in the short and long terms.

Real Money Live Portfolio Performance Notes

- **Strategy:** R6 did not employ leverage, derivatives, day-trading, or social media (reddit) plays. The portfolio does not include the usual suspects of 2020 high flyers, such as TSLA, MRNA, GME, and Crypto. This does not means that R7 will not use options or not buy any of the aforementioned assets in the future (if they show up with the right reward to risk score after the market bubble corrections in 2022-2023E)
- **Stocks Turnover:** Some stocks may be held several years as long as they have higher reward to risk score than other assets, while others are held for less than a quarter, if conditions change. R6 score changes with emerging risks and opportunities (e.g. Brexit, loss of a patent lawsuit, potential delisting of certain Chinese stocks due to trade war or Taiwan invasion, end of COVID, UKR-RUS war, inflation-stagflation-recession cycles, Middle East conflict, etc.).
- **What is Next:** In 2023/1, IIM upgraded R6 to R7 with Alpha optimization for an inflationary regime and incorporating lessons from 2020-2022 missed opportunities; R7 also improves entry and exit timing, increases the win-rate, minimizes drawdowns via more effective risk management using improved SNR (Signal to Noise Ratio) for asset rotation and asymmetric hedging strategies. R6/R7 is not a crystal ball, however provides superior accuracy as a result of 22 years of continuous algorithmic improvements and optimization. Contact us: see next slide.

About The Institute

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