# TJT Capital Group's InVEST Risk Model ®

**Navigating Complexity: Why Investing Is Hard—and How to Do It Better**

Many people believe investing is straightforward: buy good companies, hold long-term, and you'll be rewarded. But the truth is far more complicated—even experts often get it wrong.

**Let's Look at the Evidence**

- **A Historic Surprise During the Great Depression**
  The best consecutive four-year performance in U.S. stock market history happened during the Great Depression. Yes, the worst economic crisis America has ever faced also produced record-setting returns.
- **Euphoria Before the Fall**
  In early 2000, investors poured more money into the market—particularly the NASDAQ—than ever before. Within two years, those investments had lost **78%** of their value.
- **The Great Recession's Hidden Risk**
  From October 2007 through March 2009, the S&P 500 dropped by nearly **57%**. Why? One key reason: the mistaken belief that "AAA-rated" subprime mortgage bonds were as safe as U.S. Treasuries. When they defaulted, the entire global financial system froze.
- **Rally Despite Uncertainty (2012–2014)**
  Even with a government shutdown, expiring tax cuts, and Federal Reserve uncertainty, the S&P 500 rose **over 74%** in just two years.

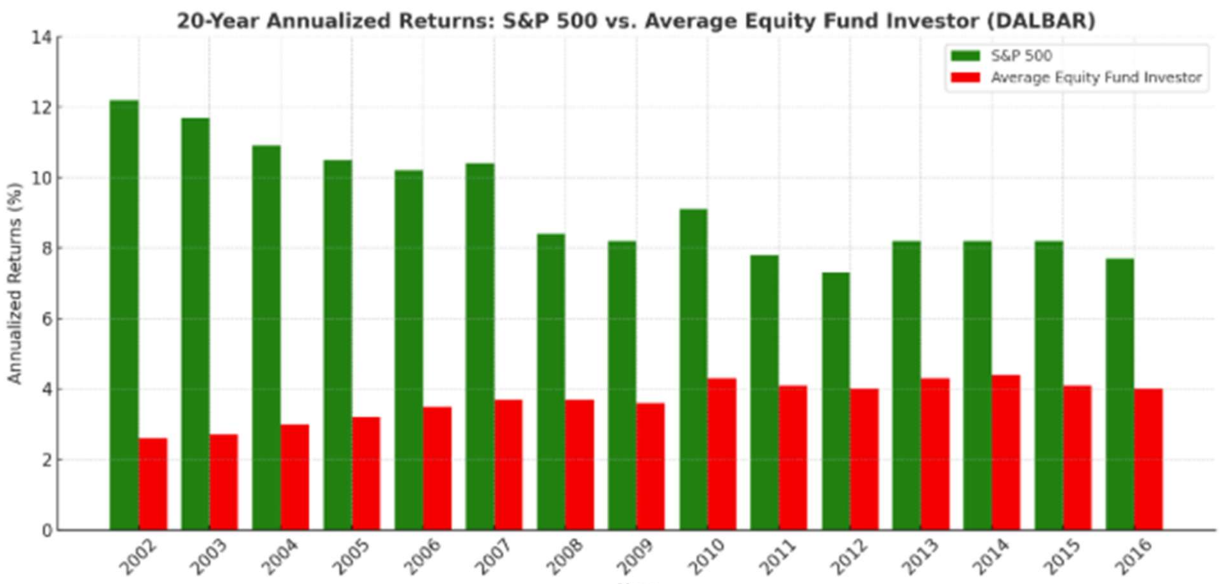
Clearly, investing isn't easy. Markets rise and fall for reasons that defy prediction. And investor behavior—driven by headlines, emotion, and herd mentality—often makes things worse.

**Bad Assumptions Lead to Bad Outcomes**

Many investors operate on flawed assumptions, like:

- "High interest rates are always bad for markets." (Not always true.)
- "Rising GDP guarantees rising markets." (Also not true.)

Even more alarming is this: **most investors consistently underperform the market**. According to independent research firm DALBAR, the average investor has lagged the S&P 500 by **more than 40% over rolling 20-year periods**—and that's been the case for decades (while the following chart is dated, the general underperformance seems to persist).




**So What Does Work?**

To succeed in investing, you need:

- A clear, objective process
- Focus on facts, not noise
- The discipline to act decisively when conditions change

That's exactly what we offer at **TJT Capital Group**.

**Introducing the InVEST Risk Model®**

Our proprietary **InVEST Risk Model®** is designed to help clients navigate markets with confidence. It's based on five core indicators that we believe matter most when assessing market risk and opportunity:

- **I**nterest Rates
- **V**aluation
- **E**conomic Cycle
- **S**entiment
- **T**echnical Factors

When our model is constructive, we seek to focus on increasing exposure for growth. When it becomes unfavorable, we focus on protecting capital. It's a research-backed process—not a guess or a gut feeling.

1. **Interest Rates (Monetary Policy)**

The Federal Reserve plays a central role in shaping market outcomes through interest rate policy and liquidity. The major direction of the stock market is dominated by monetary conditions.

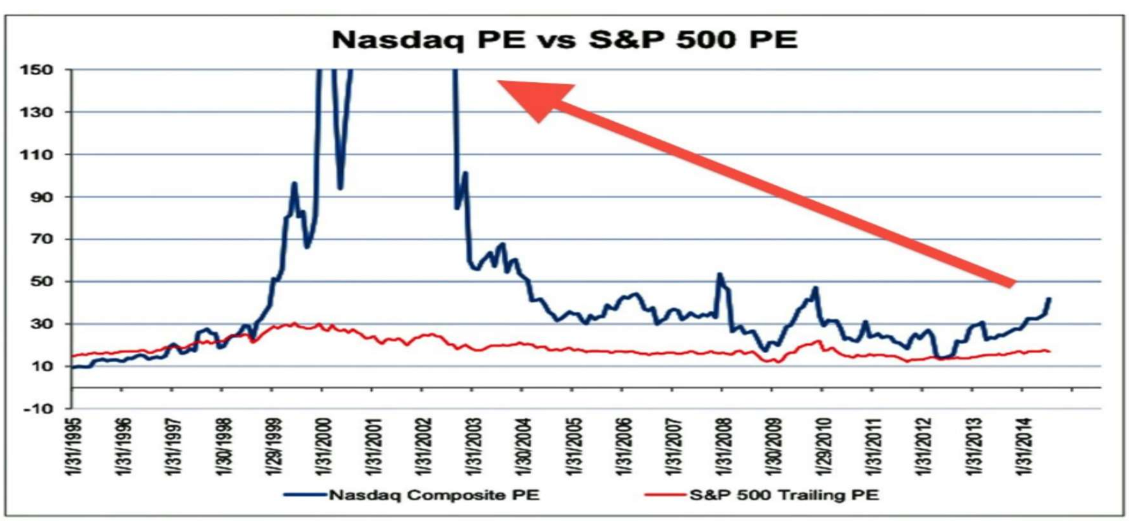
Following the financial crisis, the Federal Reserve adopted a "highly accommodative monetary policy" to support the economic recovery, employment and "key financial markets" as stated by Fed Chairman Ben Bernanke. In December 2008, the Federal Reserve cut interest rates on the federal funds rate to zero and began a series of large scale asset purchases known as "quantitative easing" or QE.

Quantitative easing was - and is - designed to reduce interest rates and inflate asset prices. As Federal Reserve Chairman Ben Bernanke wrote in a Washington Post editorial on November 4, 2010, "**and higher stock prices** will boost consumer wealth and help increase confidence, which can also spur spending. Increased spending will lead to higher incomes and profits that, in a virtuous circle, will further support economic expansion."

2. **Valuation**

Valuation is important to determine whether markets are overvalued, fairly valued or undervalued relative to the level of corporate earnings, interest rates, and inflation. Overvaluation by itself does not cause a bear market to begin, just as undervaluation does not cause a bull market to begin. However, every major decline has started from extreme overvaluation.

Overvalued markets are more vulnerable to corrections. Just before the NASDAQ's 78% collapse, its P/E ratio soared to nearly **300**—an unsustainable extreme (literally off the chart below).



### 3. Economic Cycle

The economic cycle refers to whether the economy is in an expanding or contracting phase. Recessions are responsible for many bear markets in stocks as unemployment increases, consumer confidence falls, corporate revenues and earnings decline, credit spreads widen, which puts pressure on asset prices.

The challenge for investors is that economists are terrible at forecasting recessions. Therefore, if you wait for an official recession to be declared, a significant amount of damage has likely already occurred. For example, in early 2008, when markets began to sell off significantly, a survey of leading forecasters by the Federal Reserve Bank of Philadelphia showed that **none** predicted negative growth for that year.

Nevertheless, in determining where the economy is in the cycle, we focus on a number of key indicators. A few examples include the following:

- Unemployment rates
- Corporate profits
- Interest rates
- ISM Indices
- The Leading Economic Index (LEI)

### 4. Sentiment

Markets change, human nature does not. As such, investor psychology has been similar at nearly every major market peak and bottom.

Extreme readings of investor optimism and pessimism are often important contrary signals. For example, In the first quarter of 2000, just as the U.S. markets were peaking, net flows into equity mutual funds were $101 billion, far greater than any quarter in history, largely concentrated in NASDAQ stocks. After the NASDAQ almost doubled in price in the previous twelve months, investors were convinced that the advance would continue. What they did was create a buying climax by capitulating very near the top.

After the devastating effects of a nasty bear market, between June 2002 and October 2002 approximately $91 billion in net out-flows occurred from equity mutual funds. The extremes in investor sentiment closely followed the market’s cyclical peak and bottom.

**NASDAQ Composite:**

| Cycle High Date | Price | Cycle Low Date | Price | Decline |
|---|---|---|---|---|
| March 10, 2000 | 5048.62 | October 9, 2002 | 1114.11 | **77.9%** |

## 5. Technical Factors

We use a variety of technical indicators to better gauge the overall health of the markets. The best signals tend to be when the fundamentals (interest rate policy, economic cycle, etc.) and technical factors are pointing in the same direction. For example, one technical indicator known as the "Dow Theory" gave a "sell" signal prior to the 2000-2002 and 2008-2009 declines.

Other technical market observations that can be important signals involve extreme price movements. For example, after a relatively long bull market or bear market phase, extreme price moves in the same direction can signal the end – or the capitulation phase – of that move.

After more than doubling in price the NSADAQ Composite rose another 24 percent between December 31, 1999 and March 10, 2000 (the "2000" peak). In addition, the Dow Jones Industrial Average also saw the largest one-day gain in history in March 2000 of 499 points, a record that stood until October 2008.

Conversely, between December 31, 2008 and March 9, 2009 (the March 2009 "bottom"), the S&P 500 index fell 25 percent. Contrary to public opinion, markets often top on "good" news and bottom on "bad" news.

Again, we examine a number of technical factors to see if they are "in-line" with the fundamentals or they are signaling something different.

**Combination vs. Isolation**

An important point is that investment conditions are determined by the combination of the aforementioned variables rather than one taken in isolation. Why? Because markets are dynamic and from time to time one or more variable(s) may have more influence. For example, many believe stocks rise when earnings rise. As you can see below, that is not always the case:

| | Year/**Stocks Rise** | Year/**Stocks Fall** |
|---|---|---|
| Earnings Rise | 2013/ **(+32.4%)** | 2000/ **(-10.1%)** |
| Earnings Decline | 1991/ **(+30.5%)** | 2008/ **(-37.0%)** |

**Why Work With TJT Capital Group?**

Many investors have adopted different approaches that offer little or no real prospects of long-term success. To be successful, investors need to be objective, focus on facts – not opinions, predictions, biases or other "noise," and assess the variables that affect markets.

TJT Provides:

- A proven, rules-based investment approach
- Clear risk assessment through our **InVEST Risk Model®**
- A focus on **participating when the odds are favorable** and **protecting capital when they're not**

**The Bottom Line**

Investing is complex. Most people underperform. But with the right strategy and the right partner, the odds can shift in your favor.

**TJT Capital Group simplifies the complex, filters the noise, and helps you invest with confidence.**

Whether you're looking to **grow wealth**, **generate income**, or **build a legacy**, we're here to help you make smarter, more confident decisions.

**Ready to Take the Next Step?**

**Contact Us Today**
Let's talk about your goals and how we can help you achieve them.