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## Julex: It's All About Steady Returns And Downside Protection

BY [Covestor.com](#) | 10/29/13 - 03:50 PM EDT

See what Jim Cramer and Stephanie Link are trading today. ▶



By [Covestor](#)

Dr. Henry Ma is founder of Julex Capital Management, a new portfolio manager on Covestor. The investment team at Julex focuses on a quantitative, model-driven approach to portfolio management, with special attention paid to limiting losses. The firm believes capital preservation and capital growth are equally important investment objectives.

To build the underlying portfolio, Julex buys and sells low-cost, diversified ETFs. Positions are rotated monthly based on the risk environment, relative attractiveness of the macro asset classes, and risk weighting. The strategy involves identifying market and economic risks using fundamental and technical methods.

Ma has two decades of experience in portfolio management. His experience before Julex includes stints at Geode Capital Management (a Fidelity affiliate), Loomis Sayles & Co., Fortis Investments, Sun Life Financial and John Hancock Financial Services.

We recently caught up with Ma to discuss his firm's investment philosophy and the new portfolios on Covestor.

**There are two portfolios on Covestor: [Dynamic Factor](#) and [Dynamic Focus](#). It seems that [Dynamic Focus](#) is based on macro asset classes, and [Dynamic Factor](#) targets sectors of the S&P 500. How are these two portfolios different? What are the benchmarks?**

All Julex portfolios are managed with the same quantitative approach and investment process. We strive to provide upside participation and downside protection in both bull and bear markets by rotating between risky and less risky assets depending upon the market environment. The only difference between our products is the universe of macro asset class ETFs that we target to buy.

The Factor portfolio is an S&P sector rotation strategy that also moves among style and size factors. It is benchmarked against the S&P 500 and is potentially a good replacement for U.S. core equity allocations.

The Focus product is a "global macro" strategy that looks for the best opportunities around the globe without any constraints. It takes a "focused" position in the two macro asset classes we think are best positioned to outperform in the given market environment. It is benchmarked against the Dow Jones Moderately Aggressive Index.

However, even if we use benchmarks to give the investors a sense of how we are doing relatively, we are benchmark-agnostic. Our main goal is to deliver consistent returns, regardless of market conditions.

**It looks like you use ETFs to get exposure to asset classes and sectors in these portfolios?**

Yes, Julex is an ETF strategist and we use those investment vehicles to get our market exposure. The market for ETFs is generally very broad and low-cost.

DOW JONES INDUSTRIAL AVERAGE (I:DJ)					
					18,010
					18,006
					18,002
9:3	11:10	12:50	14:30		18:10
DOW	15,986.74	-23.25	-0.15%	S&P 500	1,796.74 0.89 0.05%
NASDAQ	3,976.49	7.34	0.18%	US 10 Yr	2.775% -0.009

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## The portfolios aim for lower volatility and lower peak-to-trough drawdowns. Can you give more detail on how that's done?

Julex has developed a quantitative three-step investment process to guide portfolio management. This disciplined, systematic process helps remove human behavioral bias and emotion from investment decisions to enhance long-term performance. Our research shows that dynamically rebalancing portfolio allocations based on a combination of fundamental and technical factors is better than a buy-and-hold approach. Our process allows 100% allocation to cash or Treasuries once we identify unfavorable market conditions. By doing that, we can reduce the downside risk and peak-to-trough drawdown significantly.

## Can you also delve a bit into your three-step process?

Our three-step investment process seeks downside protection and upside participation by 1) identifying market and economic risks using fundamental and technical methods, 2) evaluating macro asset classes that show positive relative momentum that we believe are likely to outperform given those particular risks, and 3) optimizing asset allocations based on our systematic balanced-risk approach.

We have developed our proprietary [RiskSwitcher](#) indicator to help us determine the risk on/off environment. A "risk-on" environment is characterized by economic growth, stable volatility, good market liquidity, and good technical measures and is suitable for risky assets such as equity-type investments. Alternatively, a risk-off environment would be better for less risky assets including bonds and cash. Each Julex strategy has its own predetermined universe of risky assets for the "risk-on" or "risk-off" situation depending upon the asset class it is benchmarked against. Normally, the risk-on assets include equities, emerging markets, commodities, and real estate. The risk-off assets are cash, Treasuries and high-quality corporate bonds. ETFs are used to get exposure to these assets.

## How does momentum play into asset class and sector selection?

Based on numerous academic studies, asset class allocation is a key determinant of investment performance. Julex uses its own proprietary relative momentum model to select those macro asset classes we believe are best positioned to potentially outperform in the given market environment.

We believe that our relative momentum methodology captures the underlying fundamentals of valuation plus includes a behavioral factor that is difficult to measure but must be included to maximize performance.

## It seems that your strategies blend technical and fundamental analysis. Is that accurate?

Yes. We blend market technical with macro economic fundamental. In this regard, we differ from many value or valuation-based managers. From our research, market valuation is not a good timing indicator. Occasionally, the value investment can incur significant drawdown loss, which we are trying to avoid.

## What would you say your edge is as an investor?

Our edge lies in our investment philosophy and unique investment process. We believe that long-term outstanding performance can be achieved by limiting downside risks. We aim to deliver consistent above-average returns, which we believe is the best way to build long-term wealth. We are confident our process will serve us well in all market conditions. We will never be a high-flyer. For investors who share our philosophy, I want to share a quote from a Nobel Laureate, Paul Samuelson: "Investing should be more like watching paint dry or watching grass grow. If you want excitement, take \$800 and go to Las Vegas."

*DISCLAIMER: The information in this material is not intended to be personalized financial advice and should not be solely relied on for making financial decisions. All investments involve risk, the amount of which may vary significantly. **Past performance does not guarantee future results.***

The post [Julex: It's all about steady returns and downside protection](#) appeared first on [Smarter Investing](#)

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**Henry Ma, Julex Capital Management**

We are Julex Capital Management. Our company offers rule-based total return strategies that strive to deliver consistent returns with low...

**Portfolio Performance**  
 Manager: Julex Capital  
 Dynamic Factor

■ Manager ■ S&P 500

Jul 2013 Sep 2013 Nov 2013

Basis of calculations and disclosures

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**Portfolio Performance**  
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