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# SECTOR SELECTION OVER THE BUSINESS CYCLE

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## A Novel Business Cycle Sector Selection Strategy

August, 2017

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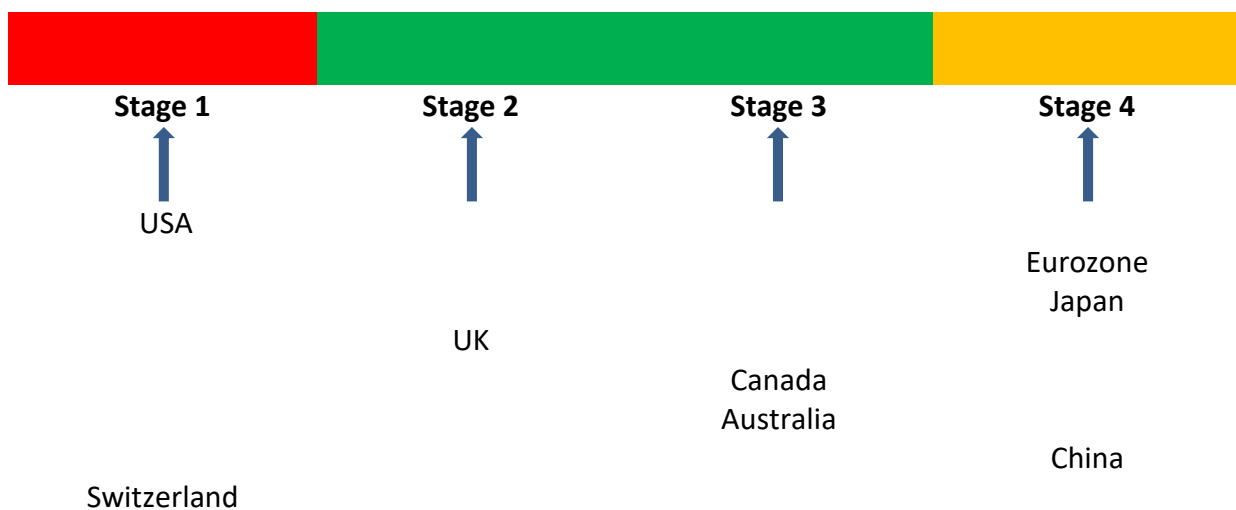
*“Optimal sector selection provides a sound basis for the subsequent selection of the best stocks. Our method allows investors to apply economic fundamentals in a focused way to choose the right companies. This is made possible by our ability to forecast with considerable accuracy the future stages of the business cycle using our proprietary leading index.”*

## Summary Matrix

### AASE Business Cycle Sector Selection for September 2017

|                            | USA | Eurozone | Japan | UK | Australia | Canada | China |
|----------------------------|-----|----------|-------|----|-----------|--------|-------|
| Business Cycle Stage (1-4) | 1   | 4        | 4     | 2  | 3         | 3      | 4     |
| Consumer Discretionary     |     |          |       | •  |           |        |       |
| Consumer Staples           | •   | •        | •     |    | •         | •      |       |
| Financials                 |     |          |       |    | •         | •      |       |
| Industrials                |     |          |       | •  |           |        |       |
| Materials                  |     |          |       | •  | •         | •      |       |
| Energy                     |     |          |       | •  | •         | •      |       |
| IT                         |     |          |       | •  |           |        |       |
| Telecom Services           |     |          |       |    | •         | •      |       |
| Healthcare                 | •   | •        | •     |    | •         |        | •     |
| Utilities                  | •   | •        | •     |    |           |        | •     |

### Equities Business Cycle Risk Spectrum<sup>1</sup>



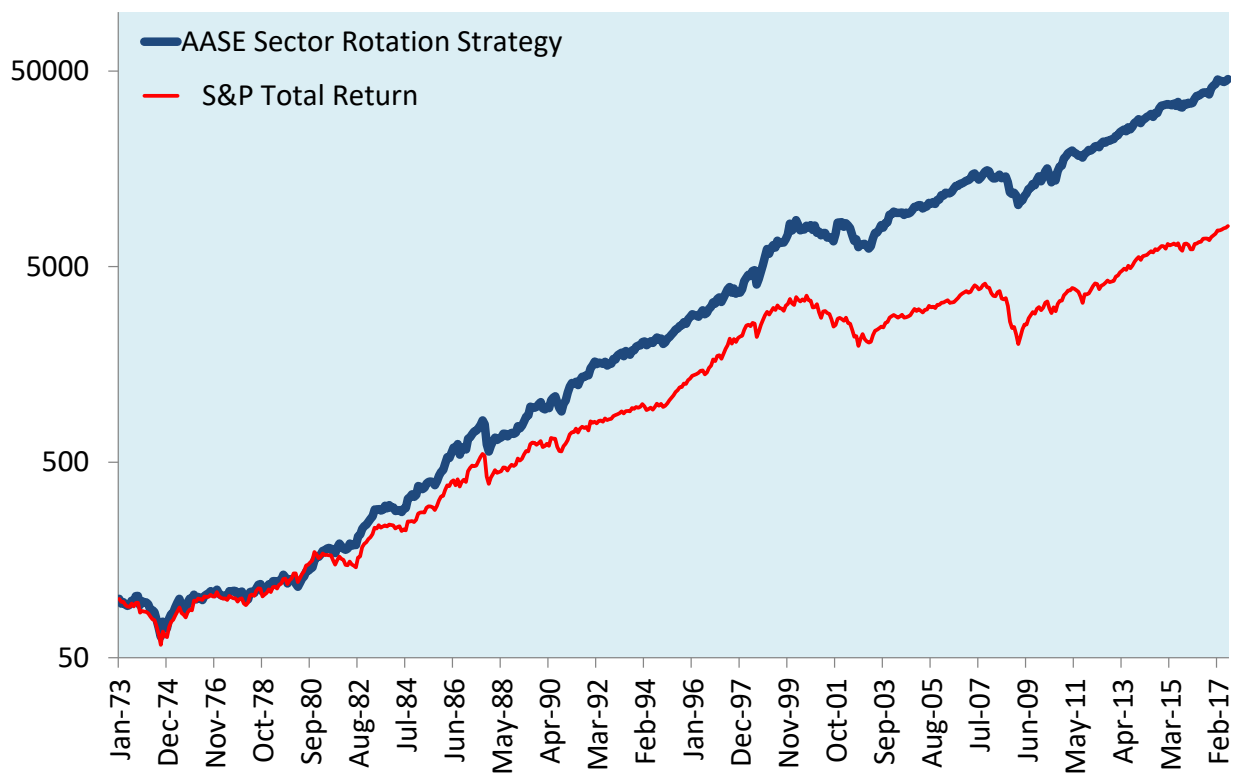
<sup>1</sup>Red denotes the most defensive stage and thus the highest risk aversion. Orange denotes moving into defensive stage and the Green stages denotes a more beneficial environment for equities in general

## U.S.

For the month of September our business cycle leading index (see **The Framework** section below for a detailed explanation) indicates that the US economic cycle remains in **Stage 1** (see *\*Notes for weightings*). Historically sectors which have performed well in this cyclical stage include:

- Consumer Staples
- Healthcare
- Utilities

Below we present the proforma results of our sector selection strategy for the US.



| ANALYSIS*            | AASE Approach* | S&P Total Return |
|----------------------|----------------|------------------|
| Feb-1973 to Jun-2017 |                |                  |
| CAGR                 | 14.75%         | 10.37%           |
| Max Drawdown         | -38.1%         | -50.9%           |
| Std Dev              | 15.3%          | 15.2%            |
| Return/Drawdown      | 0.39           | 0.20             |
| Sharpe 3%            | 0.77           | 0.48             |
| % Positive Years     | 86.7%          | 80.0%            |
| YTD                  | 8.1%           | 11.6%            |
| 1 Year Return        | 17.3%          | 16.0%            |
| 3 Year Return        | 56.3%          | 36.3%            |

## U.S.

### Yearly Analysis

|      | AASE Approach | S&P Total Return |      | AASE Approach | S&P Total Return |
|------|---------------|------------------|------|---------------|------------------|
| 1973 | -2.58%        | -13.40%          | 1996 | 16.89%        | 22.96%           |
| 1974 | -27.44%       | -26.46%          | 1997 | 13.96%        | 33.36%           |
| 1975 | 38.42%        | 37.22%           | 1998 | 52.18%        | 28.58%           |
| 1976 | 13.91%        | 23.93%           | 1999 | 48.22%        | 21.04%           |
| 1977 | -2.20%        | -7.16%           | 2000 | -2.38%        | -9.10%           |
| 1978 | 3.65%         | 6.57%            | 2001 | 3.88%         | -11.89%          |
| 1979 | 11.59%        | 18.61%           | 2002 | -22.35%       | -22.10%          |
| 1980 | 29.63%        | 32.50%           | 2003 | 40.86%        | 28.68%           |
| 1981 | 13.64%        | -4.92%           | 2004 | 9.80%         | 10.88%           |
| 1982 | 28.83%        | 21.55%           | 2005 | 8.89%         | 4.91%            |
| 1983 | 22.69%        | 22.55%           | 2006 | 22.96%        | 15.79%           |
| 1984 | 15.88%        | 6.27%            | 2007 | 13.33%        | 5.49%            |
| 1985 | 31.06%        | 31.73%           | 2008 | -22.19%       | -37.00%          |
| 1986 | 30.29%        | 18.67%           | 2009 | 21.32%        | 26.46%           |
| 1987 | 4.68%         | 5.25%            | 2010 | 23.31%        | 15.06%           |
| 1988 | 16.38%        | 16.61%           | 2011 | 10.58%        | 2.11%            |
| 1989 | 43.17%        | 31.68%           | 2012 | 13.65%        | 16.00%           |
| 1990 | 1.75%         | -3.10%           | 2013 | 26.51%        | 32.39%           |
| 1991 | 46.68%        | 30.47%           | 2014 | 17.68%        | 13.69%           |
| 1992 | 10.68%        | 7.62%            | 2015 | 3.07%         | 1.38%            |
| 1993 | 18.08%        | 10.08%           | 2016 | 20.00%        | 11.96%           |
| 1994 | 3.85%         | 1.32%            | 2017 | 8.05%         | 11.59%           |
| 1995 | 34.59%        | 37.58%           |      |               |                  |

### Recent Cycle Stages

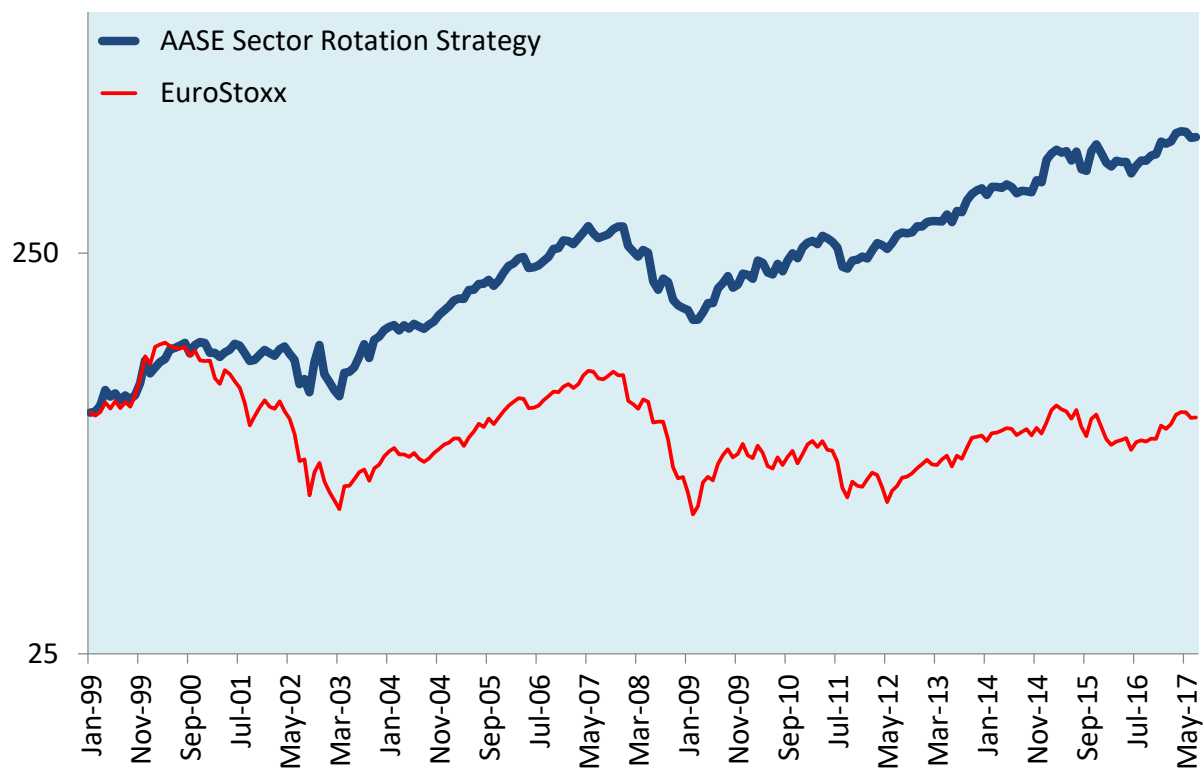
|        |         | Subsequent<br>Month Return | S&P Total Return |
|--------|---------|----------------------------|------------------|
| Jul-16 | STAGE 3 | 2.12%                      | 3.69%            |
| Aug-16 | STAGE 3 | 0.1%                       | 0.1%             |
| Sep-16 | STAGE 3 | -0.17%                     | 0.02%            |
| Oct-16 | STAGE 3 | -2.3%                      | -1.8%            |
| Nov-16 | STAGE 3 | 8.21%                      | 3.70%            |
| Dec-16 | STAGE 4 | 2.7%                       | 2.0%             |
| Jan-17 | STAGE 4 | 1.71%                      | 1.90%            |
| Feb-17 | STAGE 4 | 5.6%                       | 4.0%             |
| Mar-17 | STAGE 3 | -1.15%                     | 0.12%            |
| Apr-17 | STAGE 3 | -0.8%                      | 1.0%             |
| May-17 | STAGE 3 | -0.99%                     | 1.41%            |
| Jun-17 | STAGE 3 | 1.2%                       | 0.6%             |
| Jul-17 | STAGE 3 | 2.37%                      | 2.06%            |

## Eurozone

For the month of September our business cycle leading index indicates that the Eurozone economic cycle remains in **Stage 4** (see *\*Notes for weightings*). Historically sectors which have performed well in this stage include:

- Consumer Staples
- Healthcare
- Utilities

Below we present the proforma results of our sector selection strategy for the Eurozone.



| ANALYSIS*            | AASE Approach* | Stoxx 50E |
|----------------------|----------------|-----------|
| Jan-1999 to Jul-2017 |                |           |
| CAGR                 | 8.9%           | -0.2%     |
| Max Drawdown         | -41.7%         | -62.7%    |
| Std Dev              | 16.4%          | 18.5%     |
| Return/Drawdown      | 0.21           | 0.00      |
| Sharpe 3%            | 0.36           | -0.17     |
| % Positive Years     | 78.9%          | 68.4%     |
| YTD                  | 2.7%           | 4.8%      |
| 1 Year Return        | 18.1%          | 15.3%     |
| 3 Year Return        | 38.2%          | 10.7%     |

## Eurozone

### Yearly Analysis

|      | AASE Approach | Stoxx 50E |      | AASE Approach | Stoxx 50E |
|------|---------------|-----------|------|---------------|-----------|
| 1999 | 25.26%        | 32.06%    | 2009 | 21.85%        | 21.14%    |
| 2000 | 10.57%        | -2.69%    | 2010 | 16.24%        | -5.81%    |
| 2001 | -4.00%        | -20.25%   | 2011 | -5.11%        | -17.05%   |
| 2002 | -12.98%       | -37.30%   | 2012 | 18.95%        | 13.79%    |
| 2003 | 28.83%        | 15.68%    | 2013 | 24.57%        | 17.95%    |
| 2004 | 11.81%        | 6.90%     | 2014 | 3.45%         | 1.20%     |
| 2005 | 24.58%        | 21.28%    | 2015 | 18.17%        | 3.85%     |
| 2006 | 20.20%        | 15.12%    | 2016 | 6.90%         | 0.70%     |
| 2007 | 8.33%         | 6.79%     | 2017 | 2.71%         | 4.83%     |
| 2008 | -37.41%       | -44.37%   |      |               |           |

### Recent Cycle Stages

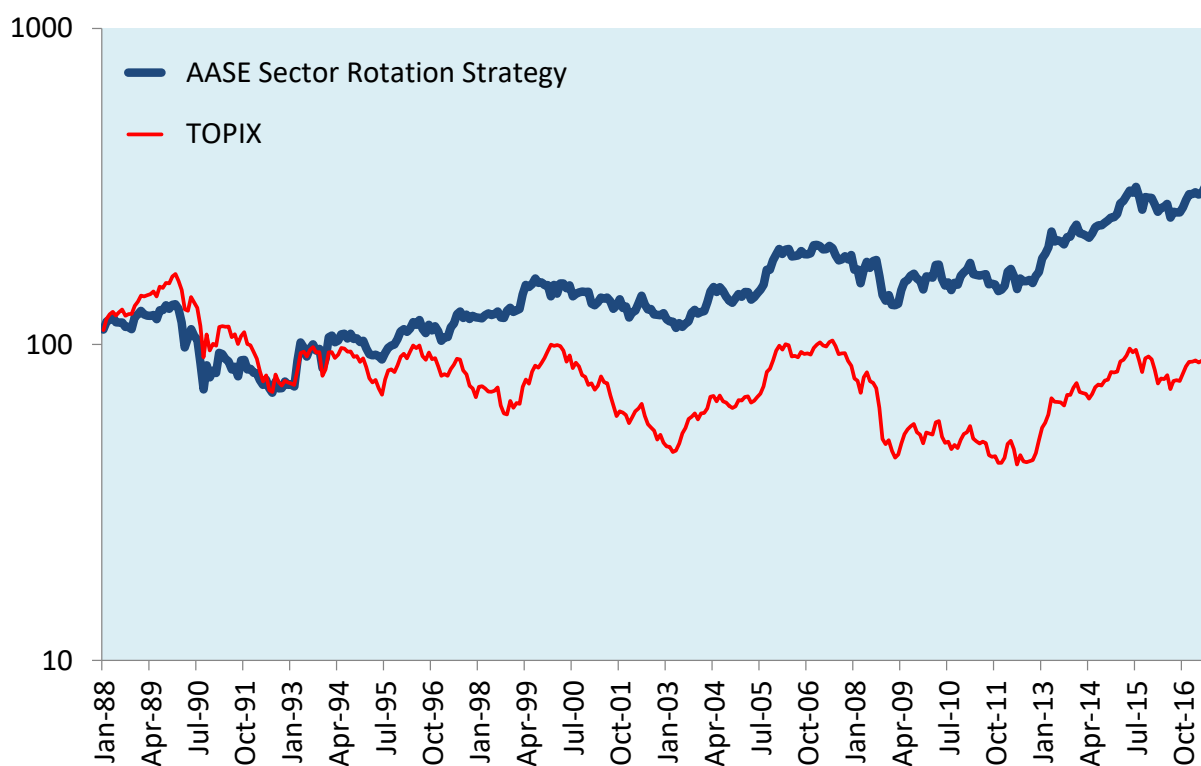
|        |         | Subsequent<br>Month Return | Stoxx Return |
|--------|---------|----------------------------|--------------|
| Jul-16 | STAGE 3 | 4.36%                      | 4.4%         |
| Aug-16 | STAGE 3 | 3.1%                       | 1.1%         |
| Sep-16 | STAGE 3 | -0.07%                     | -0.69%       |
| Oct-16 | STAGE 3 | 3.0%                       | 1.8%         |
| Nov-16 | STAGE 3 | 0.65%                      | -0.12%       |
| Dec-16 | STAGE 3 | 7.6%                       | 7.8%         |
| Jan-17 | STAGE 3 | -1.19%                     | -1.82%       |
| Feb-17 | STAGE 3 | 1.4%                       | 2.8%         |
| Mar-17 | STAGE 3 | 4.90%                      | 5.46%        |
| Apr-17 | STAGE 3 | 1.1%                       | 1.7%         |
| May-17 | STAGE 3 | -0.43%                     | -0.14%       |
| Jun-17 | STAGE 3 | -3.3%                      | -3.2%        |
| Jul-17 | STAGE 3 | 0.46%                      | 0.22%        |

## Japan

For the month of September our business cycle leading index indicates that the Japanese economic cycle remains in **Stage 4** (see *\*Notes for weightings*). Historically sectors which have performed well in this stage include:

- Consumer Staples
- Healthcare
- Utilities

Below we present the proforma results of our sector selection strategy for Japan.



| ANALYSIS             | AASE Approach* | TOPIX  |
|----------------------|----------------|--------|
| Jan-1988 to Jul-2017 |                |        |
| CAGR                 | 3.90%          | -0.22% |
| Max Drawdown         | -47.5%         | -75.0% |
| Std Dev              | 17.7%          | 19.2%  |
| Return/Drawdown      | 0.08           | 0.00   |
| Sharpe 3%            | 0.05           | -0.17  |
| % Positive Years     | 76.7%          | 53.3%  |
| YTD                  | 3.8%           | 6.6%   |
| 1 Year Return        | 18.0%          | 22.4%  |
| 3 Year Return        | 30.3%          | 25.5%  |



## Japan

### Yearly Analysis

|      | AASE Approach | Topix   |      | AASE Approach | Topix   |
|------|---------------|---------|------|---------------|---------|
| 1988 | 24.48%        | 36.57%  | 2003 | 0.88%         | 23.76%  |
| 1989 | 7.62%         | 22.25%  | 2004 | 13.97%        | 10.15%  |
| 1990 | -38.40%       | -39.83% | 2005 | 33.17%        | 43.50%  |
| 1991 | 1.45%         | -1.10%  | 2006 | 7.17%         | 1.90%   |
| 1992 | -11.00%       | -23.74% | 2007 | -6.96%        | -12.22% |
| 1993 | 21.11%        | 10.07%  | 2008 | -25.30%       | -41.77% |
| 1994 | 13.82%        | 8.32%   | 2009 | 14.59%        | 5.63%   |
| 1995 | 7.07%         | 1.19%   | 2010 | 3.10%         | -0.97%  |
| 1996 | 0.05%         | -6.77%  | 2011 | -11.92%       | -18.94% |
| 1997 | 10.79%        | -20.12% | 2012 | 13.75%        | 18.01%  |
| 1998 | 3.89%         | -7.49%  | 2013 | 41.10%        | 51.46%  |
| 1999 | 12.18%        | 58.44%  | 2014 | 5.56%         | 8.08%   |
| 2000 | 3.26%         | -25.46% | 2015 | 15.23%        | 9.93%   |
| 2001 | -10.21%       | -19.59% | 2016 | 2.75%         | -1.85%  |
| 2002 | -4.62%        | -18.30% | 2017 | 3.76%         | 6.58%   |

### Recent Cycle Stages

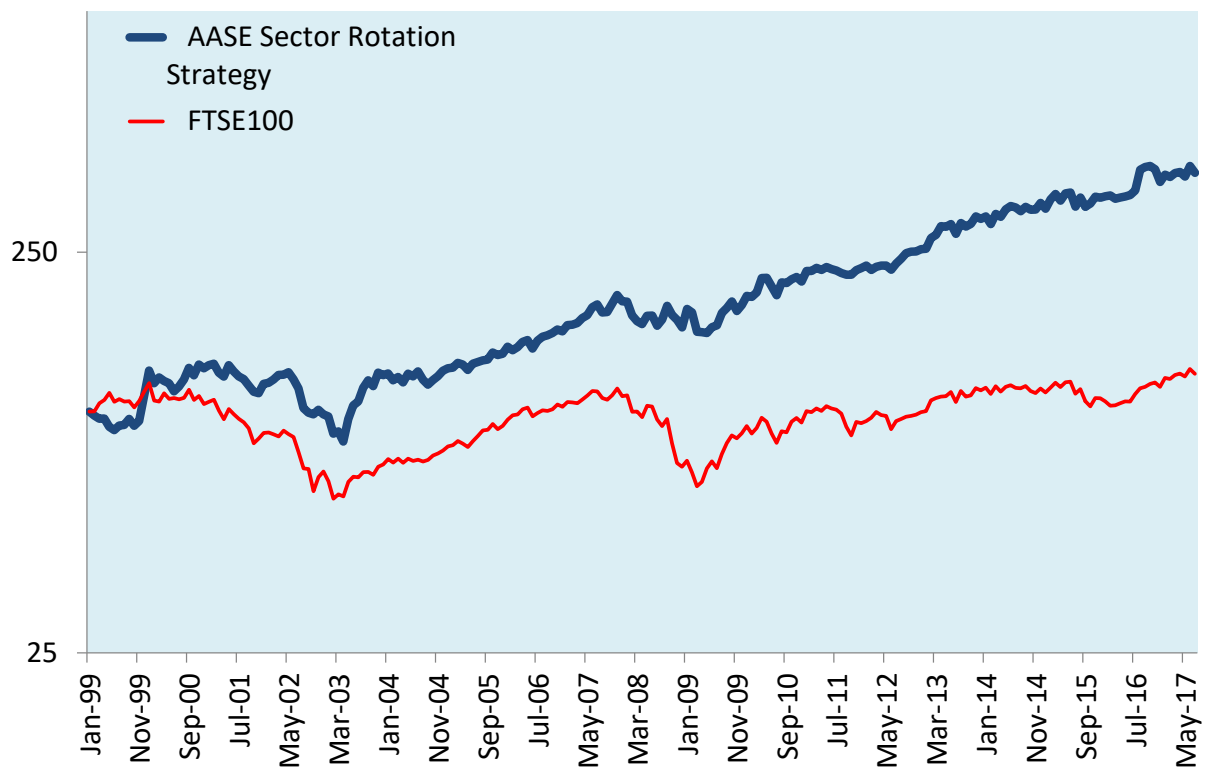
|        |         | Subsequent<br>Month Return | Topix Return |
|--------|---------|----------------------------|--------------|
| Jul-16 | STAGE 3 | 4.33%                      | 6.17%        |
| Aug-16 | STAGE 3 | -0.5%                      | 0.5%         |
| Sep-16 | STAGE 3 | 0.04%                      | -0.51%       |
| Oct-16 | STAGE 3 | 3.7%                       | 5.3%         |
| Nov-16 | STAGE 3 | 5.56%                      | 5.49%        |
| Dec-16 | STAGE 3 | 4.4%                       | 3.3%         |
| Jan-17 | STAGE 3 | -0.04%                     | 0.20%        |
| Feb-17 | STAGE 3 | 1.4%                       | 0.9%         |
| Mar-17 | STAGE 3 | -1.61%                     | -1.48%       |
| Apr-17 | STAGE 3 | 0.6%                       | 1.3%         |
| May-17 | STAGE 4 | 4.80%                      | 2.39%        |
| Jun-17 | STAGE 4 | 0.2%                       | 2.8%         |
| Jul-17 | STAGE 4 | -1.58%                     | 0.42%        |

## UK

For the month of September our business cycle leading index indicates that the UK economic cycle remains in **Stage 2** (see *\*Notes for weightings*). Historically sectors which have performed well in this stage include:

- Consumer Discretionary
- IT
- Industrials
- Basic Materials
- Energy

Below we present the proforma results of our sector selection strategy for the UK.



| ANALYSIS*            | AASE Approach* | FTSE100 |
|----------------------|----------------|---------|
| Jan-1999 to Jul-2017 |                |         |
| CAGR                 | 7.6%           | 1.2%    |
| Max Drawdown         | -36.0%         | -48.5%  |
| Std Dev              | 14.4%          | 13.7%   |
| Return/Drawdown      | 0.21           | 0.03    |
| Sharpe 3%            | 0.32           | -0.13   |
| % Positive Years     | 78.9%          | 63.2%   |
| YTD                  | -3.7%          | 3.2%    |
| 1 Year Return        | -6.4%          | 9.6%    |
| 3 Year Return        | 18.7%          | 9.5%    |

## UK

### Yearly Analysis

|      | AASE Approach | FTSE100 |      | AASE Approach | FTSE100 |
|------|---------------|---------|------|---------------|---------|
| 1999 | 20.51%        | 6.32%   | 2009 | 7.77%         | 22.07%  |
| 2000 | 3.17%         | -10.21% | 2010 | 15.36%        | 9.00%   |
| 2001 | -9.69%        | -16.15% | 2011 | 3.13%         | -5.55%  |
| 2002 | -17.52%       | -24.48% | 2012 | 10.18%        | 5.84%   |
| 2003 | 27.94%        | 13.62%  | 2013 | 20.49%        | 14.43%  |
| 2004 | 3.04%         | 7.54%   | 2014 | 4.49%         | -2.71%  |
| 2005 | 13.19%        | 16.71%  | 2015 | 7.36%         | -4.93%  |
| 2006 | 13.24%        | 10.71%  | 2016 | 13.23%        | 14.43%  |
| 2007 | 14.44%        | 3.80%   | 2017 | -3.71%        | 3.21%   |
| 2008 | -4.11%        | -31.33% |      |               |         |

### Recent Cycle Stages

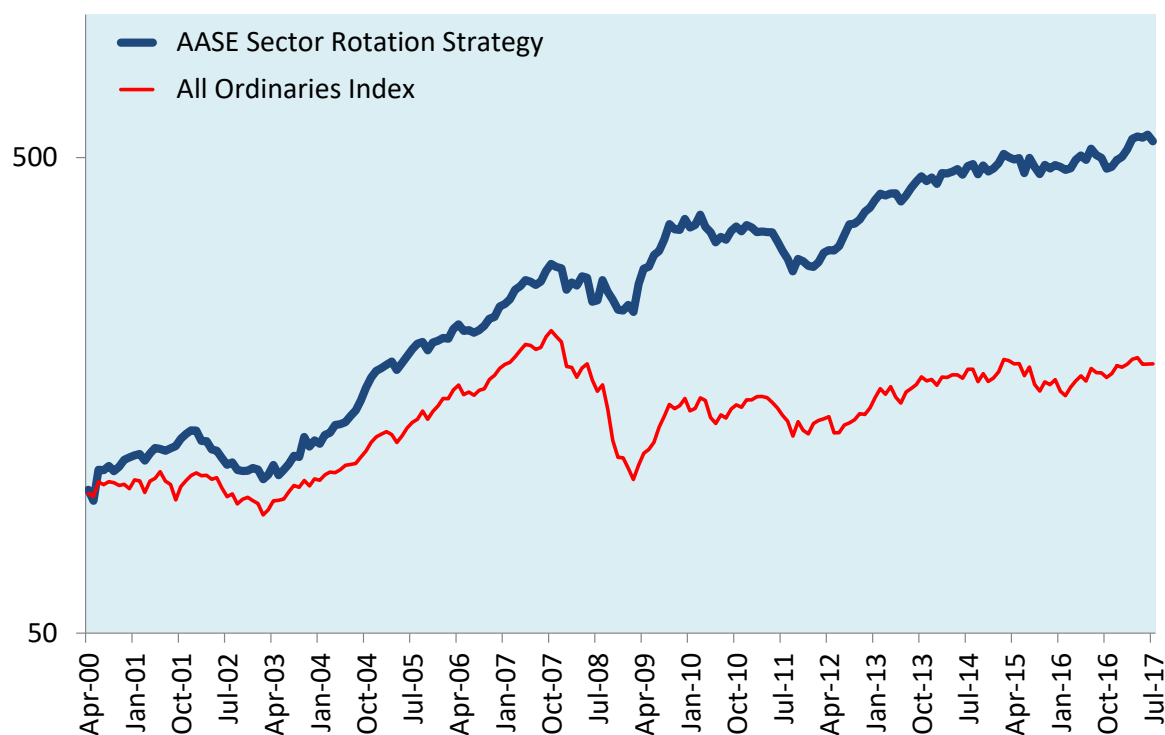
|        |         | Subsequent<br>Month Return | FTSE100 Return |
|--------|---------|----------------------------|----------------|
| Jul-16 | STAGE 2 | 12.64%                     | 3.38%          |
| Aug-16 | STAGE 2 | 1.6%                       | 0.8%           |
| Sep-16 | STAGE 2 | 0.55%                      | 1.74%          |
| Oct-16 | STAGE 2 | -1.8%                      | 0.8%           |
| Nov-16 | STAGE 1 | -7.08%                     | -2.45%         |
| Dec-16 | STAGE 1 | 4.3%                       | 5.3%           |
| Jan-17 | STAGE 2 | -1.23%                     | -0.61%         |
| Feb-17 | STAGE 2 | 2.3%                       | 2.3%           |
| Mar-17 | STAGE 3 | 0.56%                      | 0.82%          |
| Apr-17 | STAGE 3 | -2.5%                      | -1.6%          |
| May-17 | STAGE 1 | 6.23%                      | 4.39%          |
| Jun-17 | STAGE 1 | -3.8%                      | -2.8%          |
| Jul-17 | STAGE 1 | -4.79%                     | 0.81%          |

## Australia

For the month of September our business cycle leading index indicates that the Australian economic cycle remains in **Stage 3** (see *\*Notes for weightings*). Historically sectors which have performed well in this stage include

- Telecom
- Financials
- Basic Materials
- Oil & Gas
- Consumer Staples
- Health

Below we present the proforma results of our sector selection strategy for Australia.



| ANALYSIS*            | AASE Approach* | All Ords Index |
|----------------------|----------------|----------------|
| Apr-2000 to Jul-2017 |                |                |
| CAGR                 | 10.23%         | 3.59%          |
| Maximum Drawdown     | -24.0%         | -51.4%         |
| Standard Deviation   | 12.8%          | 12.9%          |
| Return/Drawdown      | 0.43           | 0.07           |
| Sharpe 3%            | 0.56           | 0.05           |
| % Positive Years     | 77.8%          | 72.2%          |
| YTD                  | 9.5%           | 1.0%           |
| 1 Year Return        | 3.6%           | 2.3%           |
| 3 Year Return        | 12.7%          | 2.7%           |

## Australia

### Yearly Analysis

|      | AASE Approach | All Ordinaries |      | AASE Approach | All Ordinaries |
|------|---------------|----------------|------|---------------|----------------|
| 2000 | 17.14%        | 0.68%          | 2009 | 55.87%        | 33.43%         |
| 2001 | 13.97%        | 6.51%          | 2010 | -2.94%        | -0.73%         |
| 2002 | -16.71%       | -11.44%        | 2011 | -17.97%       | -15.18%        |
| 2003 | 14.36%        | 11.11%         | 2012 | 32.57%        | 13.46%         |
| 2004 | 39.90%        | 22.60%         | 2013 | 15.73%        | 14.76%         |
| 2005 | 15.83%        | 16.18%         | 2014 | 4.51%         | 0.66%          |
| 2006 | 17.99%        | 19.87%         | 2015 | 1.67%         | -0.82%         |
| 2007 | 20.32%        | 13.76%         | 2016 | 2.43%         | 7.01%          |
| 2008 | -18.47%       | -43.01%        | 2017 | 9.48%         | 0.96%          |

### Recent Cycle Stages

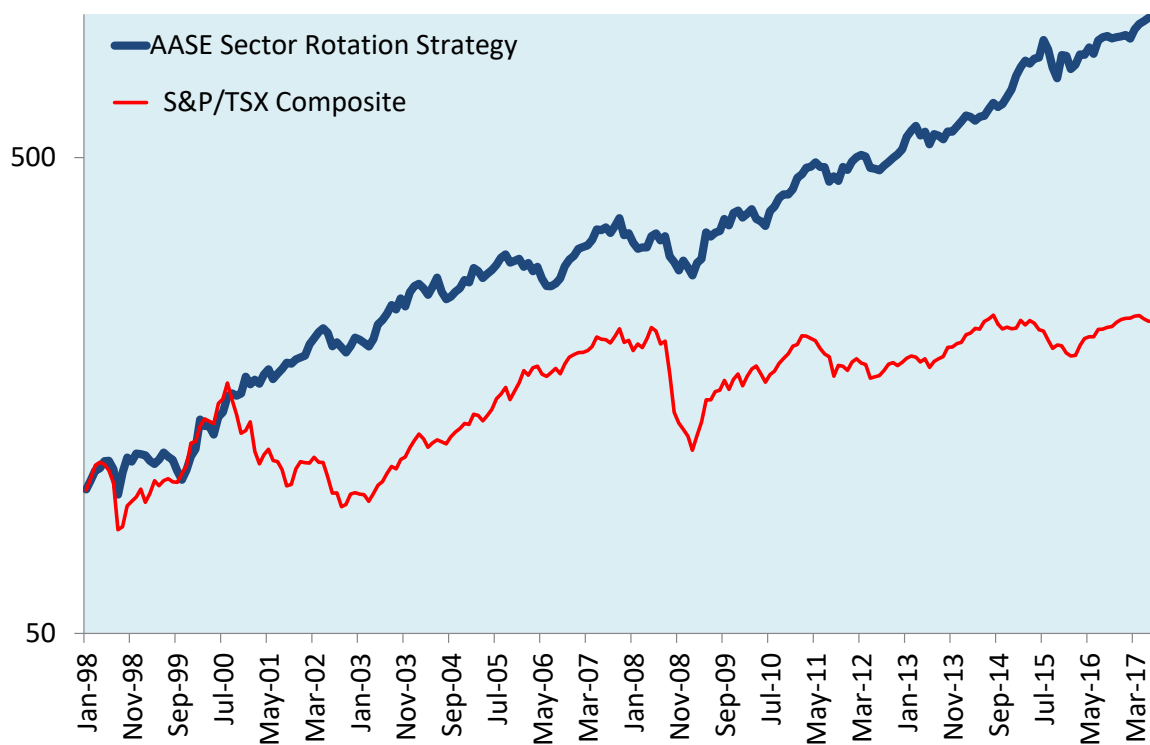
|        |         | Subsequent<br>Month Return | All Ords Return |
|--------|---------|----------------------------|-----------------|
| Jul-16 | STAGE 3 | 5.63%                      | 6.28%           |
| Aug-16 | STAGE 4 | -3.08%                     | -2.03%          |
| Sep-16 | STAGE 4 | -1.31%                     | -0.08%          |
| Oct-16 | STAGE 4 | -5.08%                     | -2.22%          |
| Nov-16 | STAGE 4 | 0.83%                      | 1.85%           |
| Dec-16 | STAGE 4 | 3.37%                      | 3.94%           |
| Jan-17 | STAGE 4 | 1.53%                      | -0.77%          |
| Feb-17 | STAGE 4 | 3.74%                      | 1.52%           |
| Mar-17 | STAGE 4 | 5.18%                      | 2.48%           |
| Apr-17 | STAGE 4 | 1.23%                      | 0.74%           |
| May-17 | STAGE 4 | -0.59%                     | -3.13%          |
| Jun-17 | STAGE 1 | 1.47%                      | 0.05%           |
| Jul-17 | STAGE 1 | -3.23%                     | 0.17%           |

## Canada

For the month of September our business cycle leading index indicates that the Canadian economic cycle remains in **Stage 3** (see *\*Notes for weightings*). Historically sectors which have performed well in this stage include:

- Telecommunication
- Basic Materials
- Oil & Gas
- Financials
- Consumer Staples

Below we present the proforma results of our sector selection strategy for Canada.



| ANALYSIS*<br>Jan-1998 to Jul-2017 | AASE Approach* | S&P/TSX |
|-----------------------------------|----------------|---------|
| CAGR                              | 12.5%          | 4.3%    |
| Max Drawdown                      | -24.2%         | -45.1%  |
| Std Dev                           | 13.5%          | 14.8%   |
| Return/Drawdown                   | 0.51           | 0.09    |
| Sharpe 3%                         | 0.70           | 0.09    |
| % Positive Years                  | 94.7%          | 68.4%   |
| YTD                               | 10.5%          | -0.9%   |
| 1 Year Return                     | 12.7%          | 3.8%    |
| 3 Year Return                     | 57.1%          | -1.2%   |

## Canada

### Yearly Analysis

|      | AASE Approach | S&P/TSX |      | AASE Approach | S&P/TSX |
|------|---------------|---------|------|---------------|---------|
| 1999 | 18.54%        | 0.44%   | 2009 | 27.46%        | 30.69%  |
| 2000 | 47.02%        | 6.18%   | 2010 | 10.80%        | 14.45%  |
| 2001 | 9.78%         | -13.94% | 2011 | 9.82%         | -11.07% |
| 2002 | 10.11%        | -13.97% | 2012 | 10.52%        | 4.00%   |
| 2003 | 24.58%        | 24.29%  | 2013 | 11.69%        | 9.55%   |
| 2004 | 6.07%         | 12.48%  | 2014 | 19.56%        | 7.42%   |
| 2005 | 10.80%        | 21.91%  | 2015 | 17.68%        | -11.09% |
| 2006 | 1.46%         | 14.51%  | 2016 | 9.88%         | 17.51%  |
| 2007 | 11.57%        | 7.16%   | 2017 | 10.51%        | -0.94%  |
| 2008 | -12.43%       | -35.03% |      |               |         |

### Recent Cycle Stages

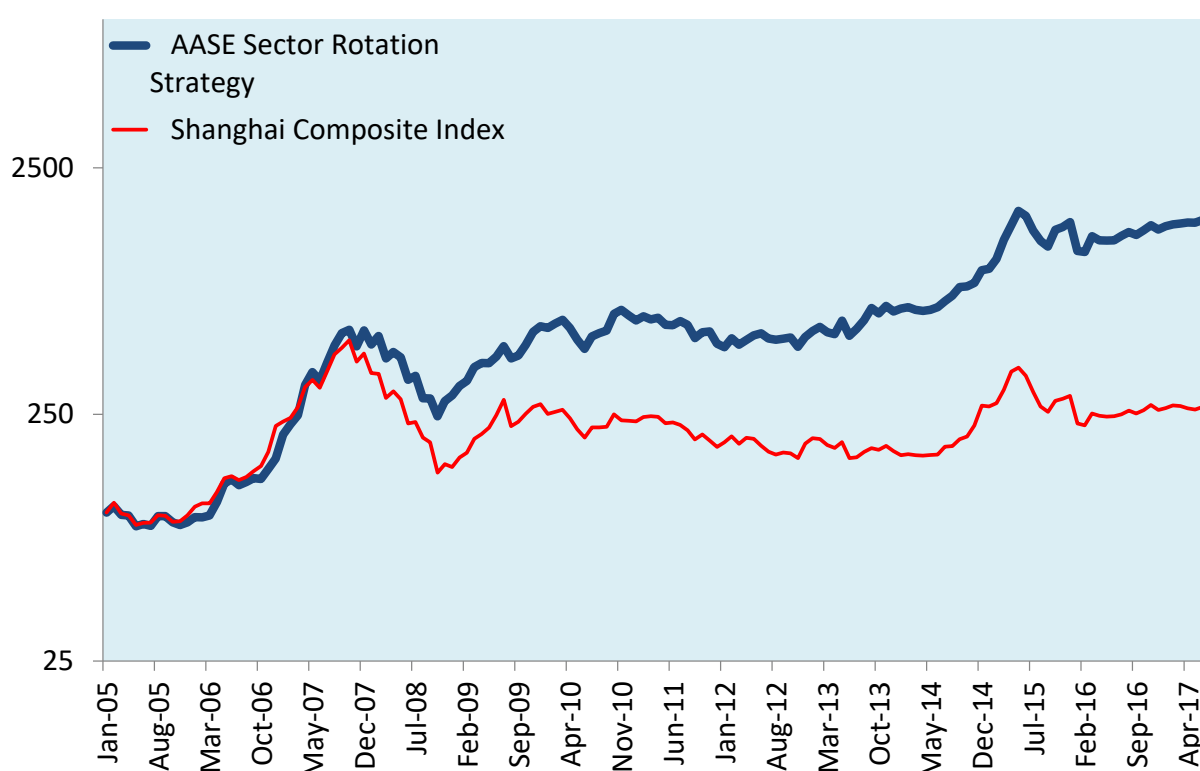
|        |         | Subsequent<br>Month Return | S&P/TSX Return |
|--------|---------|----------------------------|----------------|
| Jul-16 | STAGE 2 | 6.70%                      | 3.68%          |
| Aug-16 | STAGE 2 | 1.56%                      | 0.10%          |
| Sep-16 | STAGE 2 | 0.62%                      | 0.88%          |
| Oct-16 | STAGE 2 | -1.16%                     | 0.42%          |
| Nov-16 | STAGE 3 | 0.56%                      | 2.00%          |
| Dec-16 | STAGE 3 | 0.41%                      | 1.36%          |
| Jan-17 | STAGE 3 | 0.66%                      | 0.64%          |
| Feb-17 | STAGE 3 | -1.70%                     | 0.09%          |
| Mar-17 | STAGE 4 | 4.59%                      | 0.96%          |
| Apr-17 | STAGE 4 | 2.63%                      | 0.25%          |
| May-17 | STAGE 1 | 1.33%                      | -1.52%         |
| Jun-17 | STAGE 1 | 1.62%                      | -1.09%         |

## China

For the month of September our business cycle leading index indicates that the Chinese economic cycle remains in **Stage 4** (see *\*Notes for weightings*). Historically sectors which have performed well in this defensive stage include

- Utilities
- Health

Below we present the proforma results of our sector selection strategy for China.



| ANALYSIS*            | AASE Approach* | SSE Composite |
|----------------------|----------------|---------------|
| Jan-1999 to Jul-2017 |                |               |
| CAGR                 | 24.1%          | 8.4%          |
| Max Drawdown         | -55.4%         | -71.0%        |
| Std Dev              | 30.7%          | 29.7%         |
| Return/Drawdown      | 0.44           | 0.12          |
| Sharpe 3%            | 0.69           | 0.18          |
| % Positive Years     | 69.2%          | 53.8%         |
| YTD                  | 6.0%           | 5.5%          |
| 1 Year Return        | 12.5%          | 9.9%          |
| 3 Year Return        | 107.2%         | 48.7%         |



## China

### Yearly Analysis

|      | AASE Approach | SSE Composite |
|------|---------------|---------------|
| 2005 | -8.85%        | -2.58%        |
| 2006 | 81.38%        | 130.43%       |
| 2007 | 231.43%       | 96.66%        |
| 2008 | -45.54%       | -65.39%       |
| 2009 | 90.73%        | 79.98%        |
| 2010 | 10.67%        | -14.31%       |
| 2011 | -23.19%       | -21.68%       |
| 2012 | 6.44%         | 3.17%         |
| 2013 | 26.84%        | -6.75%        |
| 2014 | 47.07%        | 52.87%        |
| 2015 | 56.66%        | 9.41%         |
| 2016 | -6.65%        | -12.31%       |
| 2017 | 6.05%         | 5.46%         |

### Recent Cycle Stages

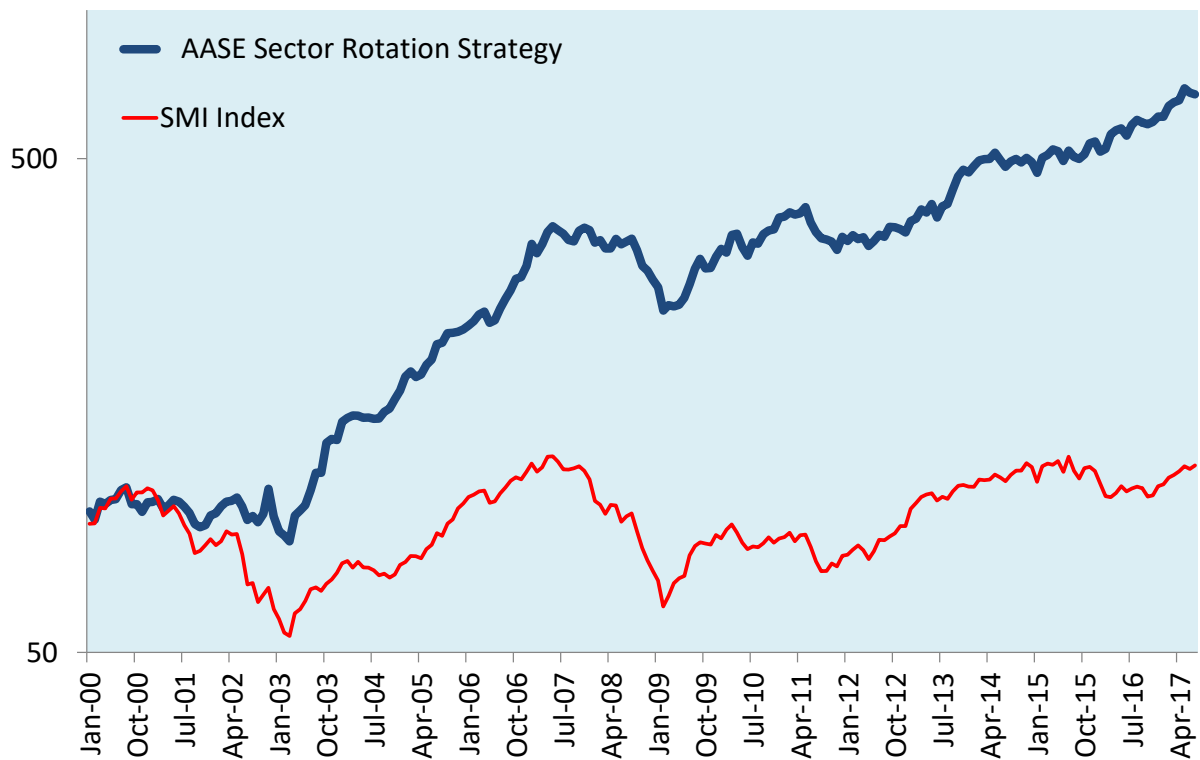
|        |         | Subsequent<br>Month Return | SSE Composite<br>Return |
|--------|---------|----------------------------|-------------------------|
| Jul-16 | STAGE 3 | 4.30%                      | 1.70%                   |
| Aug-16 | STAGE 3 | 3.44%                      | 3.56%                   |
| Sep-16 | STAGE 3 | -2.64%                     | -2.62%                  |
| Oct-16 | STAGE 3 | 4.33%                      | 3.19%                   |
| Nov-16 | STAGE 3 | 5.09%                      | 4.82%                   |
| Dec-16 | STAGE 3 | -3.95%                     | -4.50%                  |
| Jan-17 | STAGE 3 | 3.02%                      | 1.79%                   |
| Feb-17 | STAGE 3 | 1.88%                      | 2.61%                   |
| Mar-17 | STAGE 4 | 0.64%                      | -0.59%                  |
| Apr-17 | STAGE 4 | 1.07%                      | -2.11%                  |
| May-17 | STAGE 4 | -0.30%                     | -1.19%                  |
| Jun-17 | STAGE 4 | 2.73%                      | 2.41%                   |
| Jul-17 | STAGE 4 | -3.01%                     | 2.52%                   |

## Switzerland

For the month of September our business cycle index indicates that the Swiss economic cycle remains in **Stage 1** (see *\*Notes for weightings*). Historically sectors which have performed well in this stage include:

- Non-Cyclical Goods & Services
- Healthcare
- Utilities

Below we present the proforma results of our sector selection strategy for Switzerland.



| ANALYSIS*            | AASE Approach* | SMI Index |
|----------------------|----------------|-----------|
| Jan-2000 to Jul-2017 |                |           |
| CAGR                 | 11.48%         | 1.02%     |
| Maximum Drawdown     | -32.5%         | -50.4%    |
| Standard Deviation   | 14.0%          | 13.5%     |
| Return/Drawdown      | 0.35           | 0.02      |
| Sharpe 3%            | 0.61           | -0.15     |
| % Positive Years     | 77.8%          | 55.6%     |
| YTD                  | 11.0%          | 10.2%     |
| 1 Year Return        | 15.3%          | 11.4%     |
| 3 Year Return        | 40.3%          | 7.7%      |

## Switzerland

### Yearly Analysis

|      | AASE Approach | SMI Index |      | AASE Approach | SMI Index |
|------|---------------|-----------|------|---------------|-----------|
| 2000 | 0.68%         | 7.47%     | 2009 | 11.17%        | 18.27%    |
| 2001 | -5.96%        | -21.11%   | 2010 | 20.10%        | -1.68%    |
| 2002 | -0.45%        | -27.84%   | 2011 | -8.56%        | -7.77%    |
| 2003 | 42.82%        | 18.51%    | 2012 | 2.04%         | 14.93%    |
| 2004 | 25.96%        | 3.74%     | 2013 | 32.30%        | 20.24%    |
| 2005 | 32.96%        | 33.21%    | 2014 | 4.95%         | 9.51%     |
| 2006 | 34.49%        | 15.85%    | 2015 | 10.03%        | -1.84%    |
| 2007 | 18.19%        | -3.43%    | 2016 | 12.39%        | -6.78%    |
| 2008 | -20.60%       | -34.77%   | 2017 | 10.96%        | 10.16%    |

### Recent Cycle Stages

|        |         | Subsequent<br>Month Return | SMI Return |
|--------|---------|----------------------------|------------|
| Jul-16 | STAGE 2 | 5.16%                      | 1.33%      |
| Aug-16 | STAGE 3 | 2.35%                      | 0.92%      |
| Sep-16 | STAGE 3 | -1.28%                     | -0.77%     |
| Oct-16 | STAGE 3 | -0.76%                     | -3.82%     |
| Nov-16 | STAGE 3 | 1.09%                      | 0.61%      |
| Dec-16 | STAGE 3 | 2.53%                      | 4.38%      |
| Jan-17 | STAGE 3 | -0.09%                     | 0.87%      |
| Feb-17 | STAGE 3 | 5.15%                      | 3.06%      |
| Mar-17 | STAGE 4 | 1.76%                      | 1.32%      |
| Apr-17 | STAGE 4 | 0.86%                      | 1.78%      |
| May-17 | STAGE 4 | 5.75%                      | 2.31%      |
| Jun-17 | STAGE 4 | -1.95%                     | -1.22%     |
| Jul-17 | STAGE 1 | -0.75%                     | 1.66%      |

## The Framework

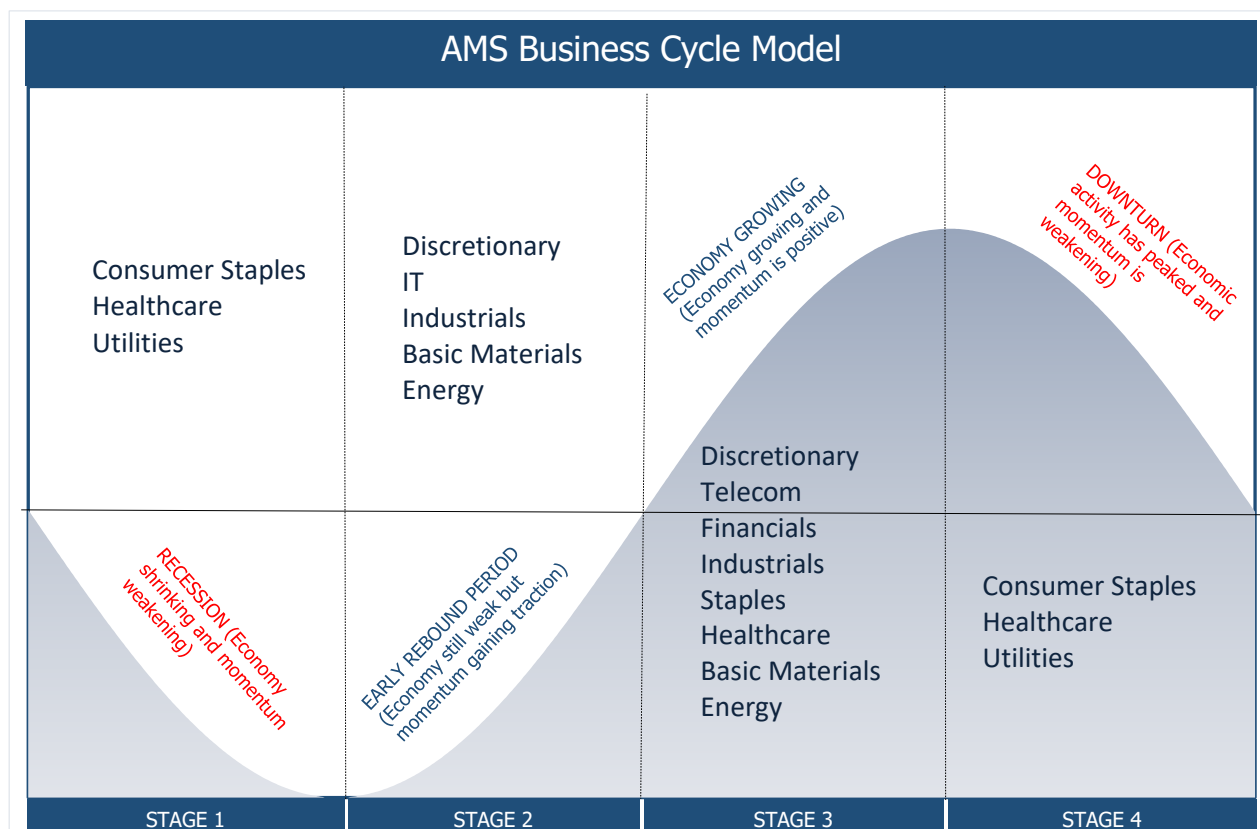
### Applying the AASE Business Cycle Approach to Sector Selection

Some sectors of the market tend to perform better in different stages of the economic cycle. Not only is this a non-contentious belief, it is empirically testable. But is it possible to both forecast the stages of the business cycle and simultaneously determine the optimal sector configuration for those forecast stages?

We believe that it is.

The central reason for this assertion is that, because money supply is a leading indicator, one can utilize changes in money supply to establish a forward looking view as to which stage of the cycle we anticipate the economy to be entering. By modifying the standard money supply definitions to better reflect the true nature of money we are able to better predict the business cycle and its stages. As can be seen below this approach has delivered reliable forecasts over many decades. If we expect the economy to be in Stage 1, for example, for the next three months then we can position ourselves accordingly in sectors which have performed best historically in Stage 1.

A visual representation of our cycle staging approach is shown below along with sectors which tend to historically outperform in each respective stage.



### **Cycle Stage 1: *Recessionary conditions – optimal to be defensive***

In Stage 1 of the AASE cycle the economy is declining at a rapid pace and, in general, it is better to adopt a defensive strategy. This typically entails allocations to very defensive equity sectors such as Consumer Staples, Healthcare and Utilities.

### **Cycle Stage 2: *Early rebound period***

In Stage 2 of the AASE cycle the economy is declining at a slower pace or may be starting to show signs of positive growth. The economy at this stage is commonly patchy but with the emergence of some momentum tends to benefit the more cyclical sectors. Different economies, with different industrial structures, will have slight variations as to which sectors are, in their cases, more “cyclical” when compared to other economies.

On occasions there may be a pickup in commodity prices (although this is more common in Stage 3) and thus may also benefit commodity related stocks.

### **Cycle Stage 3: *Late recovery period***

In Stage 3 of the AASE cycle the economy is expanding at a more rapid pace. Now the cyclicals may be performing well but the risks are increasing and some of the more “non-cyclical” sectors may come into favour. Often industrials will be performing well, enjoying the pull-up demand from other sectors.

At this stage it is often common to see increases in commodity prices (which may also appear earlier in the cycle in some economies). Therefore allocations to commodity related stocks are more likely in this stage.

### **Cycle Stage 4: *Downturn***

In Stage 4 of the AASE cycle the economy is growing at a slower pace as measured economic activity has peaked and begins to weaken. At this time a defensive posture is warranted. Sectors which perform relatively well include Consumer Staples, Healthcare and Utilities.

For equity investors what this means is that the money supply can indicate – many months ahead – the stages of the economic cycle and the sectors that have done best in those stages. By utilizing this information an investor can be positioned in the relevant sectors – those which have historically performed well in those stages. This allows allocations to the respective sectors either via sector replication (e.g. sector ETFs or baskets), or via individual stock selection from within the sectors based on investor-preferred criteria (e.g. value).

To summarize, then, by means of our proprietary monetary measure we forecast the likely stage of the cycle in the months ahead. Once the stage is established an asset mix is selected in accordance with the expected stage. Note that the asset mix is established beforehand. Also, note that once the asset mix is established we don't change it while that stage is in force. The only thing that is subject to change is the phase of the cycle.

*“For equity investors what this means is that changes in money supply can indicate – many months ahead – the stages of the economic cycle and the sectors that have done best in those stages.”*

## \*Notes

Sector allocations are equally weighted, however in Stage 2 and Stage 3 the allocation towards commodity related sectors (Energy and Basic Materials) is illustrated below

|             |                   | Stage 1 | Stage 2 | Stage 3 | Stage 4 |
|-------------|-------------------|---------|---------|---------|---------|
| USA         | Sectors           | 100%    | 90%     | 50%     | 100%    |
|             | Commodity Sectors | -       | 10%     | 50%     | -       |
| Eurozone    | Sectors           | 100%    | 90%     | 70%     | 100%    |
|             | Commodity Sectors | -       | 10%     | 30%     | -       |
| Japan       | Sectors           | 100%    | 90%     | 80%     | 100%    |
|             | Commodity Sectors | -       | 10%     | 20%     | -       |
| UK          | Sectors           | 100%    | 90%     | 70%     | 100%    |
|             | Commodity Sectors | -       | 10%     | 30%     | -       |
| Australia   | Sectors           | 100%    | 90%     | 70%     | 100%    |
|             | Commodity Sectors | -       | 10%     | 30%     | -       |
| Canada      | Sectors           | 100%    | 90%     | 70%     | 100%    |
|             | Commodity Sectors | -       | 10%     | 30%     | -       |
| China       | Sectors           | 100%    | 90%     | 70%     | 100%    |
|             | Commodity Sectors | -       | 10%     | 30%     | -       |
| Switzerland | Sectors           | 100%    | 90%     | 70%     | 100%    |
|             | Commodity Sectors | -       | 10%     | 30%     | -       |

Assumed transactions costs: 0.25%.

Proforma allocations of assets as indicated by the AASE process. Allocations across stock sectors.

Equity Sector Sources:

- S&P500 Sectors (USA)
- MSCI EMU Sectors (Eurozone)
- S&P/Topix Sectors (Japan)
- MSCI UK Sectors (UK)
- S&P/ASX200 Sectors (Australia)
- S&P/TSE Sectors (Canada)
- SSE Sectors (China)
- SWX Sectors (Switzerland)

No rebalancing unless sector allocations changed.

**Sectors defined as:**

**All Countries**

Consumer Discretionary  
Consumer Staples  
Healthcare  
Industrials  
Basic Materials  
Energy  
IT  
Telecommunication Services  
Financials  
Utilities

**Switzerland**

Cyclical Goods & Services  
Non-Cyclical Goods & Services  
Healthcare  
Industrials  
Basic Resources  
Construction  
Information Technology  
Telecommunication Services  
Financial Services  
Banks  
Utilities  
Retail

This analysis does not represent an actual investment portfolio but rather the application of the AASE process to historical data. This is for information only and is not investment advice. No action should be taken based on this analysis.

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