Analytics Investment Advisors, LLC

Failure of Economics

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What?

- *"Human conditions and the radical uncertainty of our world renders the standard economic model – and the theory behind it – useless for dealing with financial crises"*. [1]

Why?

- *Emergent Phenomena*; the sum of human interaction can produce unexpected results that are not related to the intentions of individual investors.[2]
- *Non-Ergodicity*; human connections and probabilities are constantly changing.[3]
- *Radical Uncertainty*; the absence of the range or probability of future outcomes.[4]
- *Computational Irreducibility;* the nature of human interaction is so unfathomable and complex it is impossible to create models to anticipate future events and outcomes.[5]
- *Reflexivity;* observations of the economy lead to ideas that modify behavior, which in turn, changes the economy. [6]

How?

- Embrace the complexity of our economic system and understand as much as possible the way our financial system operates (for example Charts 1 & 2).
- Invest using a handful of Exchange Traded Funds (ETFs) concentrating on a limited number of themes. Sprawling portfolios obfuscate risk and prevent the necessary understanding and flexibility to make adjustments warranted by changing market conditions.[7]

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[1] Bookstaber, Richard; *The End of Theory – Financial Crises, the Failure of Economics, and the Sweep of Human Interaction*, Princeton University Press, Princeton and Oxford, 2017, inside cover.

[2] Ibid., 17.

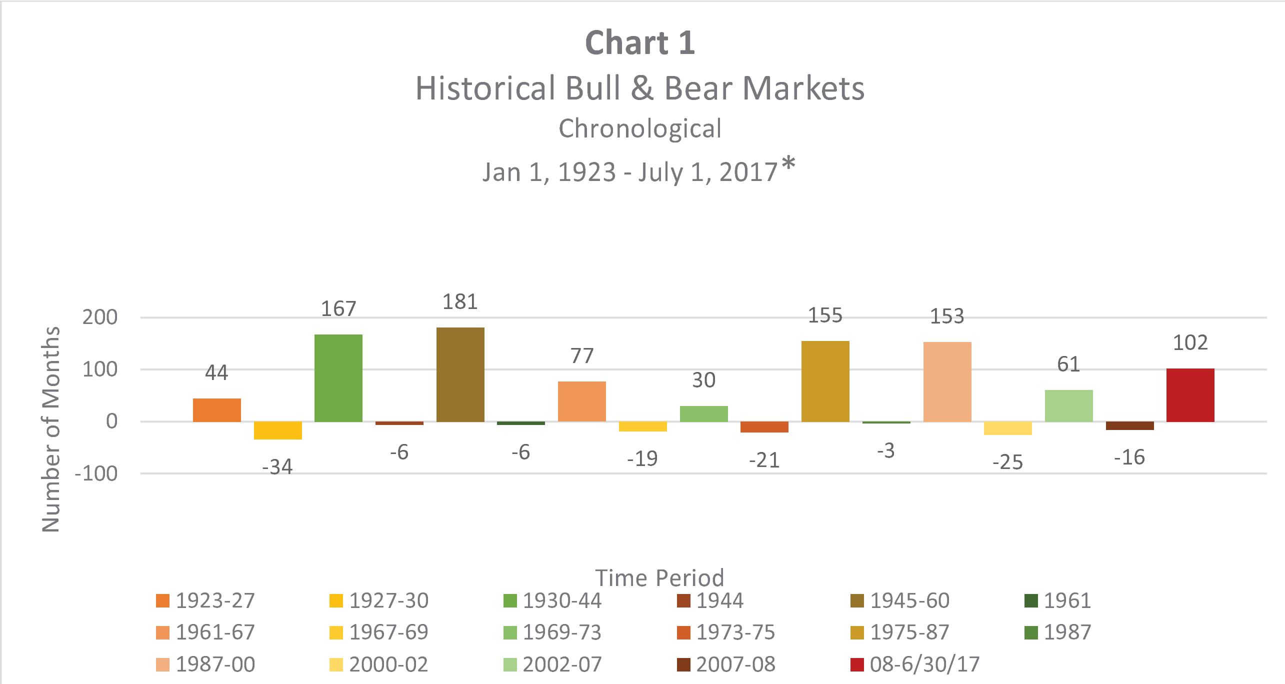
[3] Ibid., 48.

[4] Ibid., 50-51.

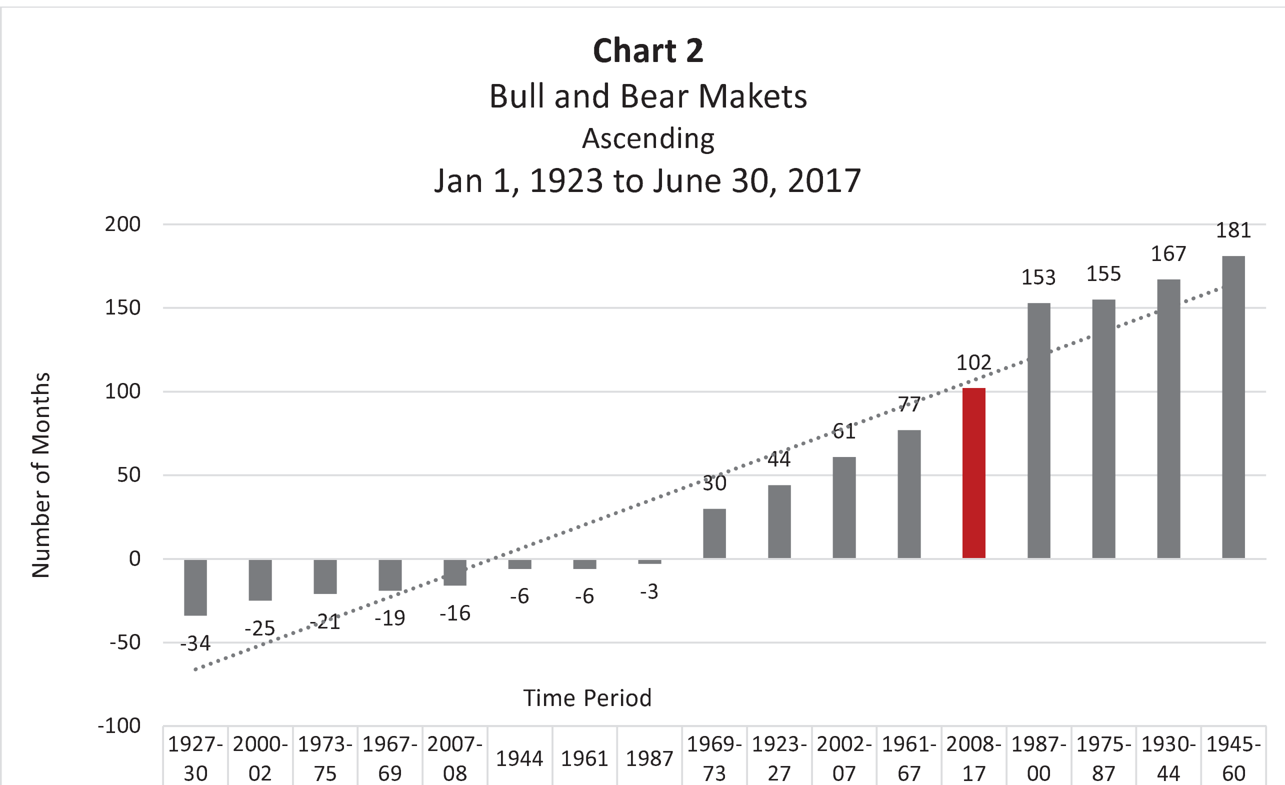
[5] Ibid., 12.

[6] Ibid., 50.

[7] Masonson, Leslie N., *Buy, Don't Hold – Investing with ETFs Using Relative Strength to Increase Returns With Less Risk,* FT Press, 2010.



*Source: 1923-2015, Jerry Kerns, Morningstar; 2016-Present, Analytics Investment Advisors, LLC.



	1927-30	2000-02	1973-75	1967-69	2007-08	1944	1961	1987	1969-73	1923-27	2002-07	1961-67	2008-17	1987-00	1975-87	1930-44	1945-60
Months	-34	-25	-21	-19	-16	-6	-6	-3	30	44	61	77	102	153	155	167	181

Performance Summary

Cautious Strategy: Cautious investors seeking better than nominal returns, but with low risk and emphasis on preservation of wealth (Risk Score: 111-200).

Moderate Strategy: Prudent investors desiring a portfolio designed to accomplish medium to long term financial goals and an investment strategy which accounts for taxes and inflation. Calculated risk is acceptable to achieve good returns (Risk Score: 201-290).

Assertive Strategies 1 & 2: Assertive investors with sufficient income to invest mostly for capital growth. Higher volatility, moderate risk, and more aggressive investments are acceptable to accumulate wealth over time (Risk Score: 291-390).

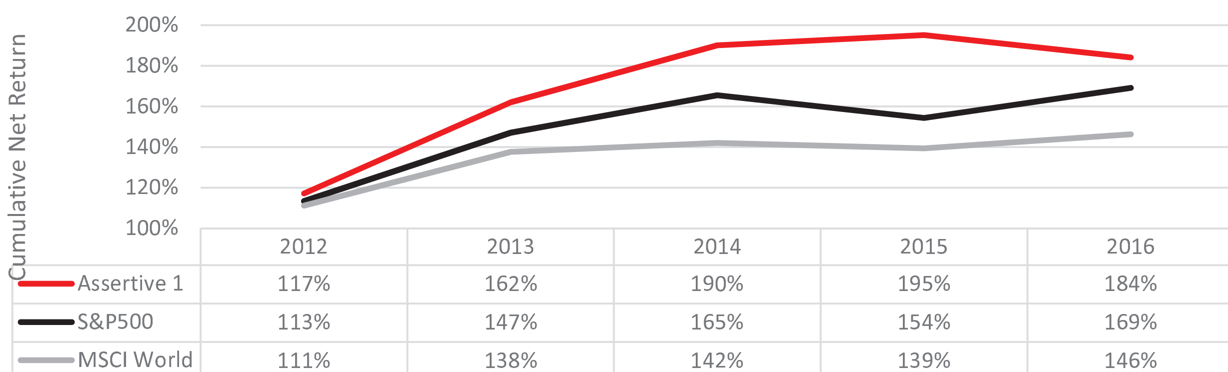
Aggressive Strategy: Aggressive investors intending to compromise portfolio balance in pursuit of higher long term returns. Security of capital is secondary to potential wealth accumulation (Risk Score: 391-450).

	5 Year Average* 2012 - 2016	YTD* 06/30/2017	%AUM	Alpha**	Beta**	R2**	SD**
S&P 500	12.90%	7.92%					
Barclay US TR	2.23%	2.27%					
Cautious	8.30%	7.85%	< 1%	-2.01	1.38	0.72	4.91
Moderate	11.29%	8.80%	30%	-0.01	1.21	0.80	4.21
Assertive 1	13.92%	9.69%	32%	0.09	1.13	0.75	4.87
Assertive 2	17.68%	15.66%	26%	0.78	1.40	0.76	5.57
Aggressive	17.56%	21.67%	11%	0.54	2.51	0.65	9.40

* Net Size Weighted Returns, PortfolioCenter, Schwab Portfolio Technologies. Returns are net of fees, which are negotiable and range between 50 and 125 basis points.

**Risk Return Statistics, Analytics Investment Advisors, LLC; most recent 24 months.

Chart 3
Cumulative Net Return
AIA Assertive 1
2012 - 2016



	2012	2013	2014	2015	2016
Assertive 1	117%	162%	190%	195%	184%
S&P500	113%	147%	165%	154%	169%
MSCI World	111%	138%	142%	139%	146%