



TheLeadingEDGE

Using Leading Indicators to Cut through the Noise



OUR COMPANY

Variant Perception is a leading independent investment research provider that equips money managers, both institutional and individual, with actionable investment advice.

Not satisfied with the state of economic research, we set out to build our own set of tools that answered the questions we had about financial markets, asset allocation and asset management.

TheLeadingEDGE is a publication specifically designed for the everyday investor, providing accessible and actionable asset allocation and investment advice.



Agenda

1. Dealing with info overload: Common pitfalls and how to avoid them
2. Understanding leading indicators
3. Using leading indicators to get an edge

A wide-angle photograph of the New York City skyline at dusk. The Freedom Tower stands prominently in the center-left, its spire reaching towards a clear blue sky. A full moon is visible in the upper right quadrant. The city's lights are beginning to glow, reflecting on the water in the foreground. A semi-transparent dark rectangle is overlaid in the center, containing the title text.

Information overload: Common pitfalls

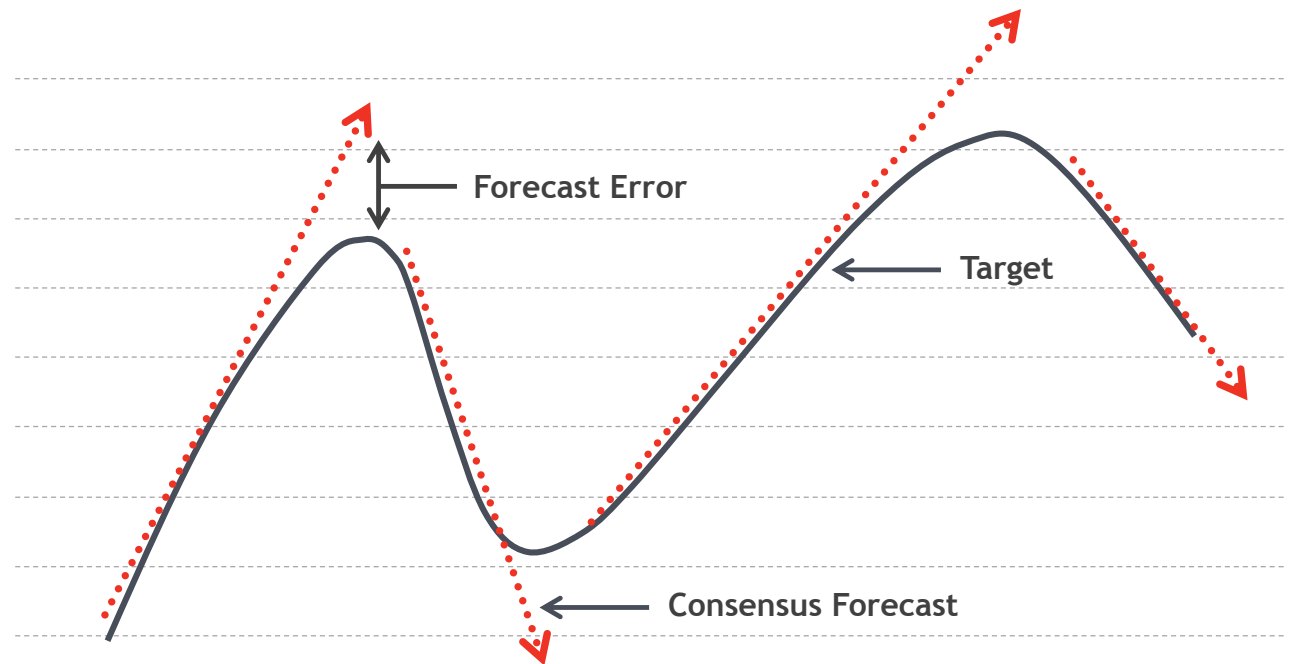
“It’s tough to make predictions, especially
about the future” - Yogi Berra

TURNING POINTS ARE HARD TO PREDICT

The most valuable trades for investors are almost always at economic turning points. Most analysts and economists merely extrapolate recent trends by using lagging and coincident indicators, causing the most forecast errors at inflection points.

This is why economic forecasts are generally useless, precisely when you need them most.

Turning Point are Hard to Predict

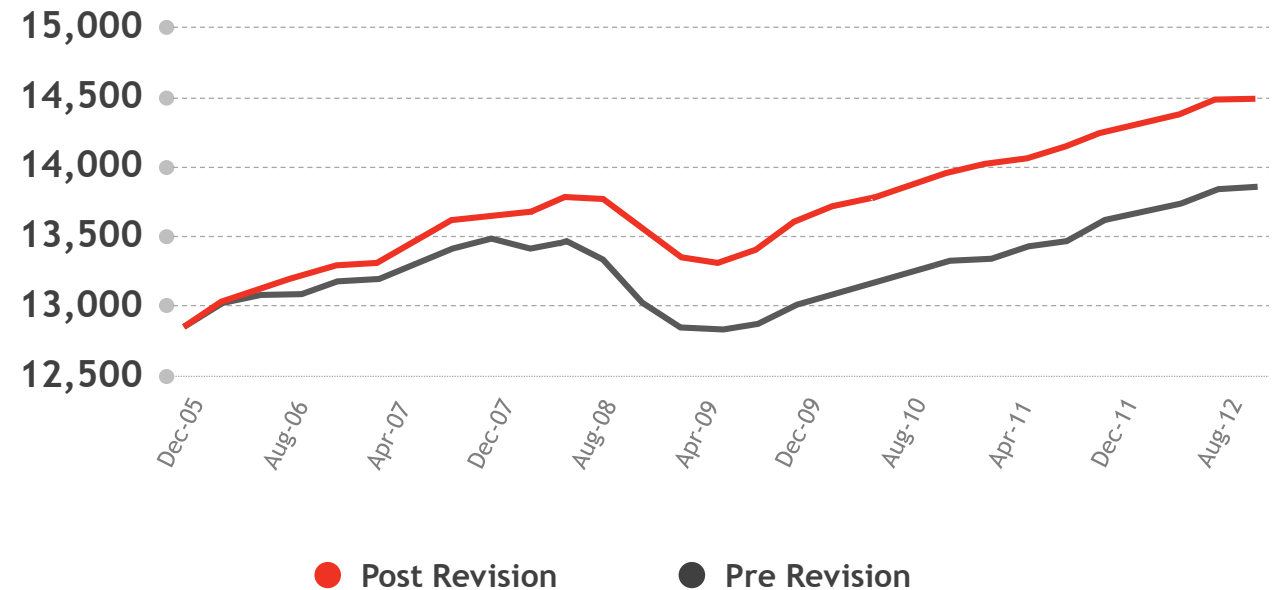


NOT ALL DATA IS CREATED EQUAL

Traditional analysis often involves using revised economic data.

This does not help investors trying to make forward looking, real-time decisions. Investors cannot go back to last quarter and revise their trades as data prints are later revised.

GDP and Revisions (\$ bns)



PITFALLS OF THE GURU APPROACH

Market analysis is ripe with much subjective opinion. Some individuals may have a few correct calls, but it is not clear how to make the insights of a genius into a rigorously repeatable process.

This generally keeps the data from truly telling the story and gives investors a variety of conflicting bias.



“In a Washington economic summit, a panel of three economists offered two dozen opinions about the direction of global economies.”

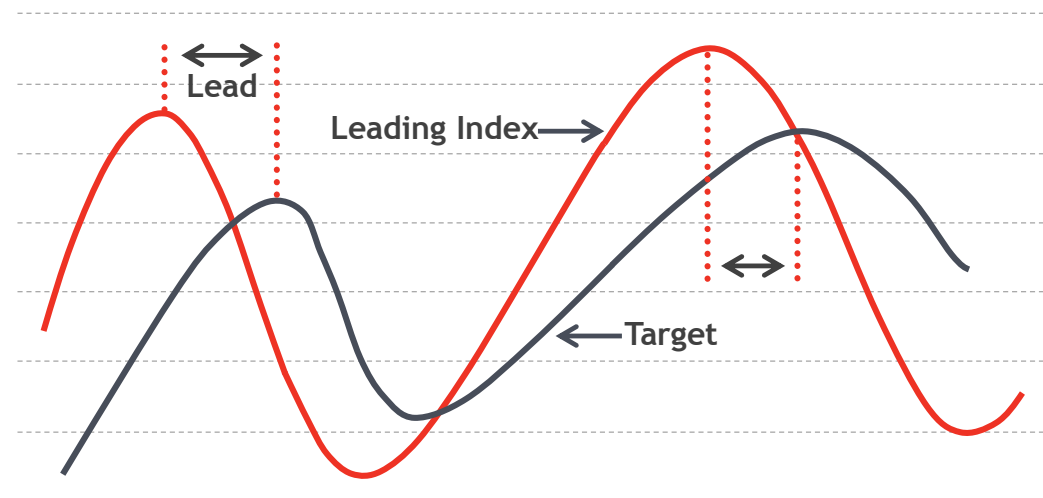
THE SOLUTION

Our Leading Indicator Framework

Our solution to these methodical problems has been to create a robust set of tools based on proprietary leading economic and liquidity indicators that are focused on highlighting turning points. By focusing only on turning points and not the magnitude of coincident and lagging data we avoid the consensus mistake of extrapolating current trends to predict future ones.

We build all our own leading indices based on unrevised data, giving a solid advantage to real-time decision makers. We also look closely at sequential changes in our leading data to help confirm turns in the business cycle.

Leading Indexes can help Time Turns



These approaches provide a transparent and repeatable framework that aids in investment decision making, formulating trading strategies, and managing assets.

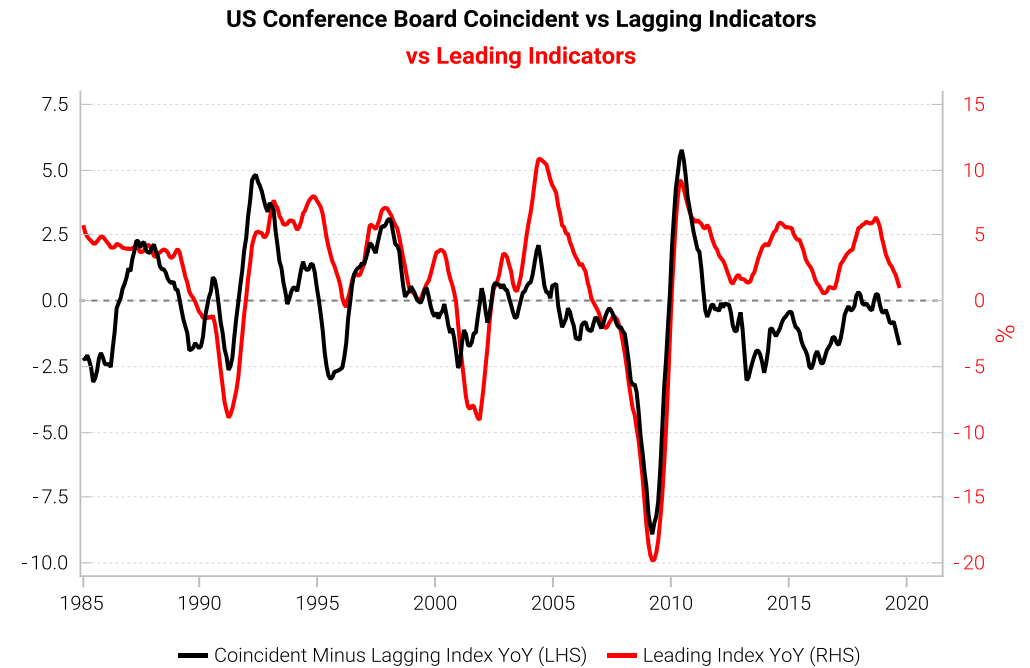
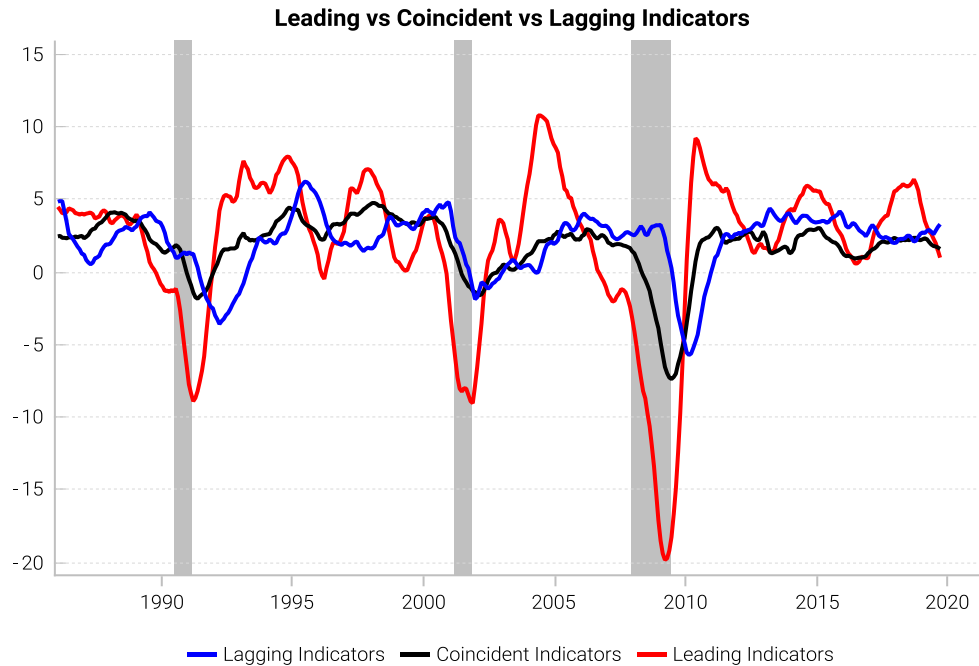
A wide-angle photograph of the New York City skyline at dusk. The sky is a deep blue with a full moon visible in the upper right. The city's lights are beginning to glow, reflecting on the water in the foreground. The One World Trade Center stands prominently in the center-left. A semi-transparent dark rectangle is centered over the image, containing the title text in white.

Understanding Leading Indicators

Focusing on the most important data

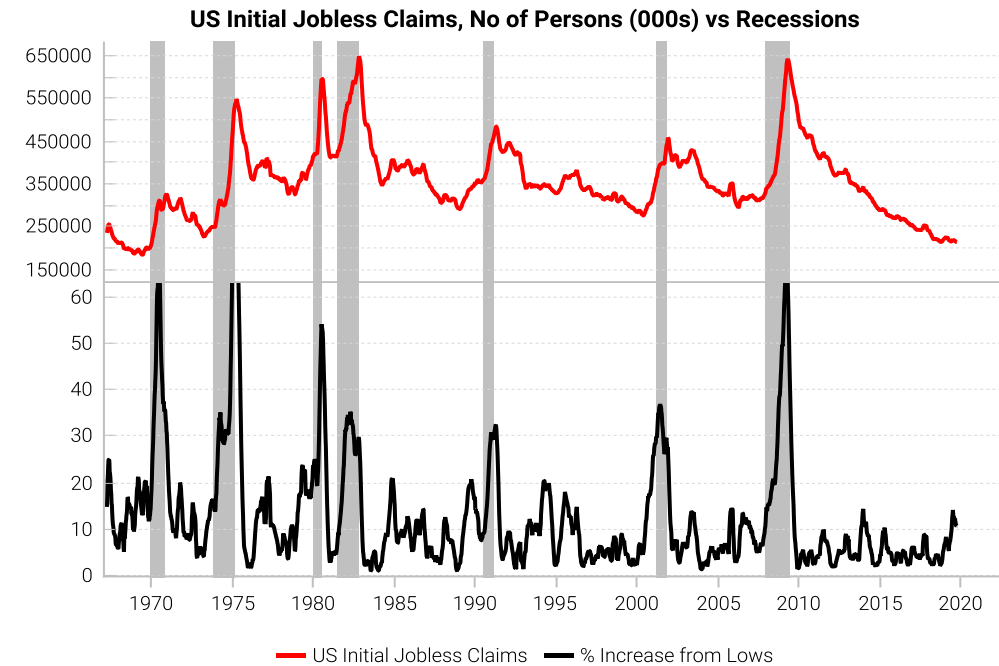
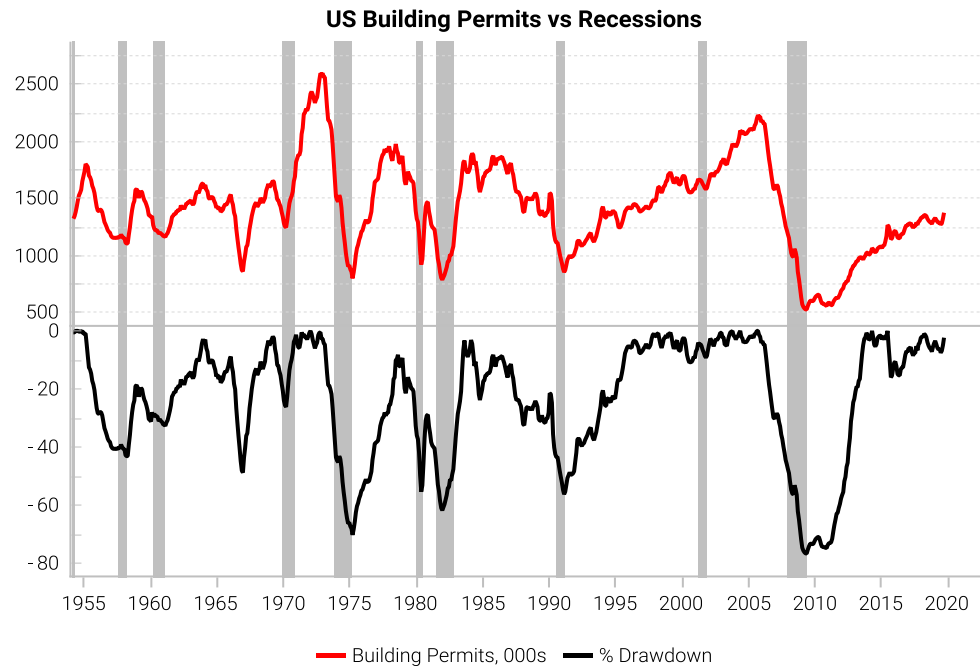
Leading, Coincident & Lagging

Economic data falls into three categories: leading, coincident and lagging, but leading data is the most useful.



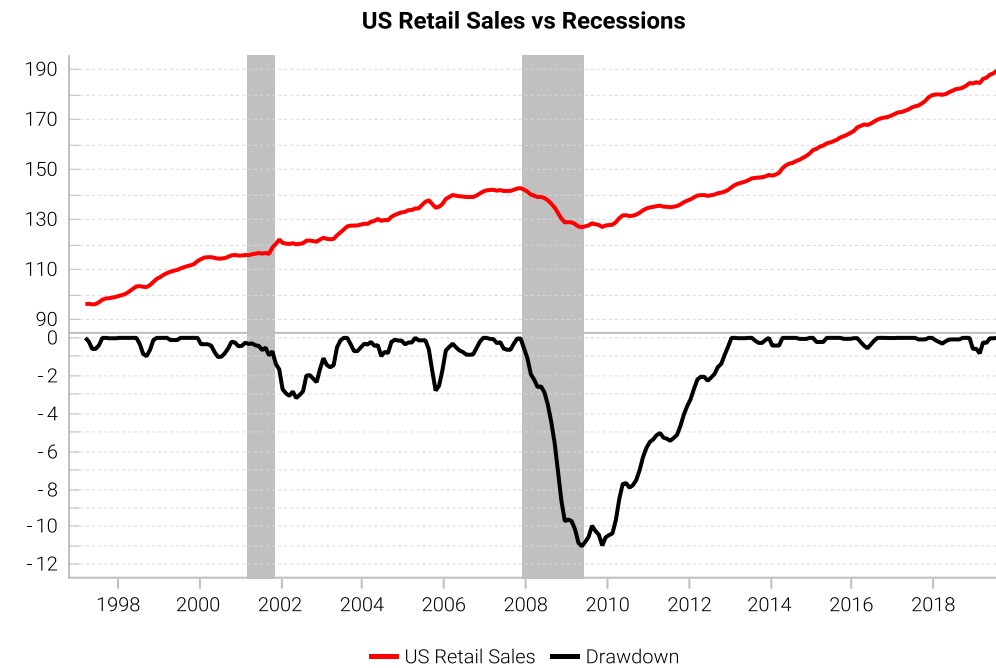
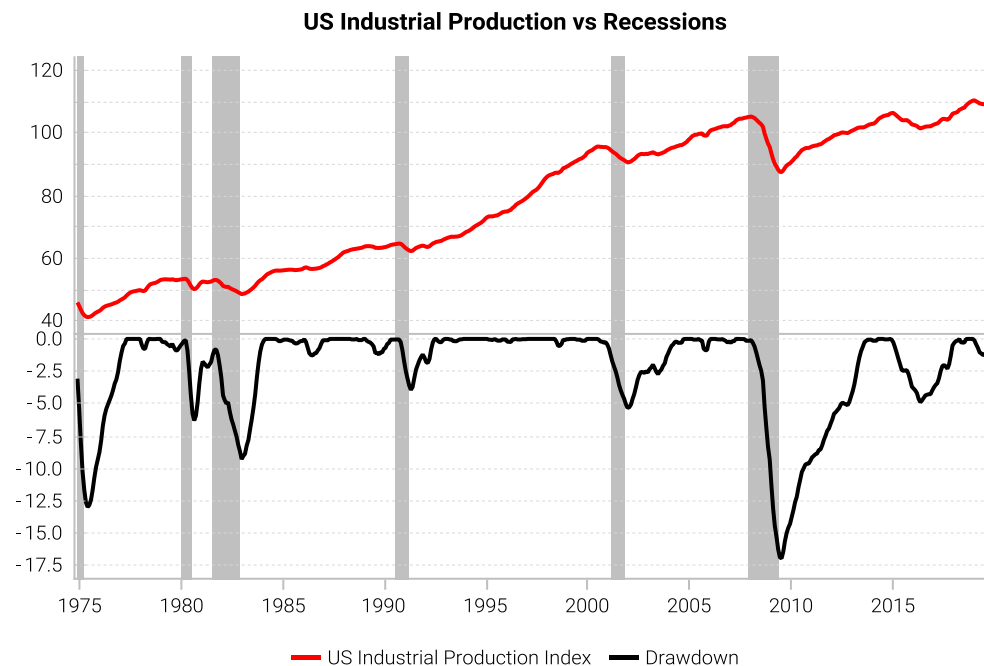
Leading Data: Looking at the road ahead

Leading data tells you about where the economy will be in the next quarter to year or longer. These are by far the most important indicators to focus on and are the basis of our approach.



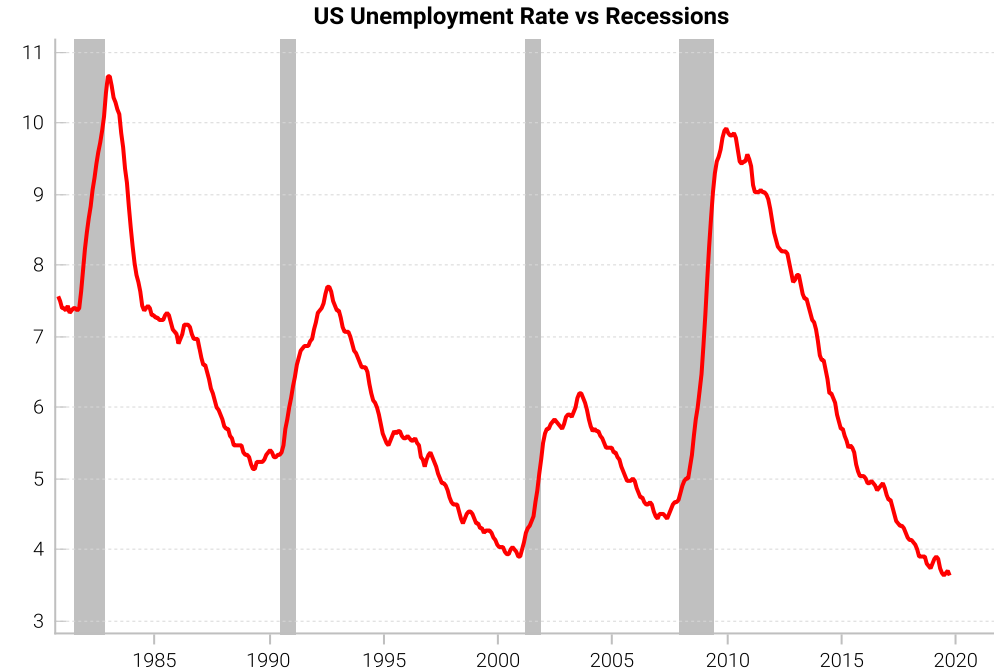
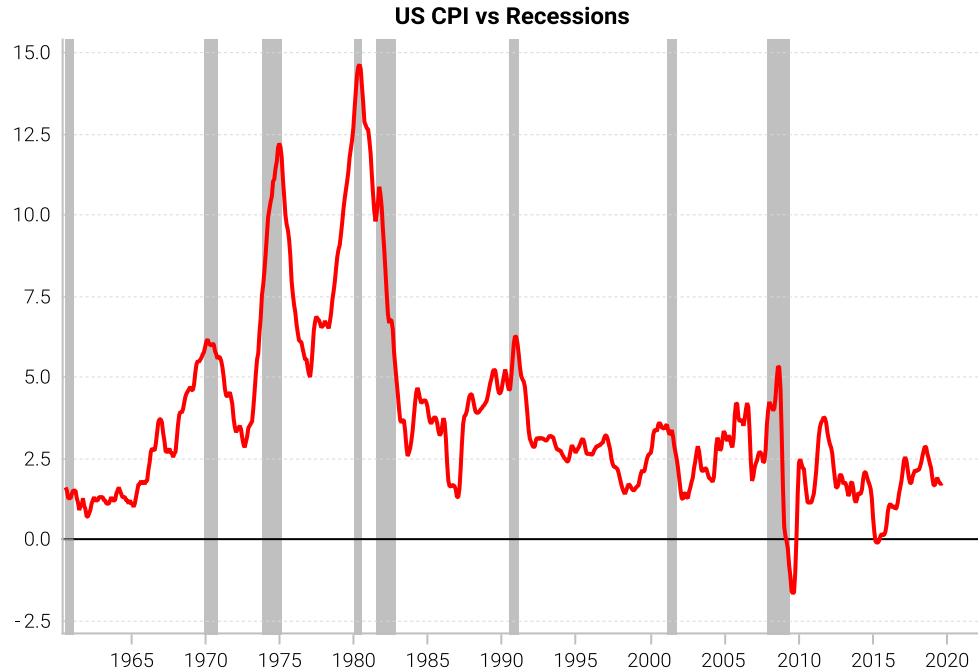
Coincident Data: Looking out the side of the car

Coincident data tells you where the economy is today. They're interesting but do not provide forward-looking insights. Typically, coincident indicators are data like industrial production, retail sales etc



Lagging Data: Looking at the rear view mirror

Lagging data tells you about where the economy was three to six months ago. These are backward looking and are usually subject to the biggest revisions



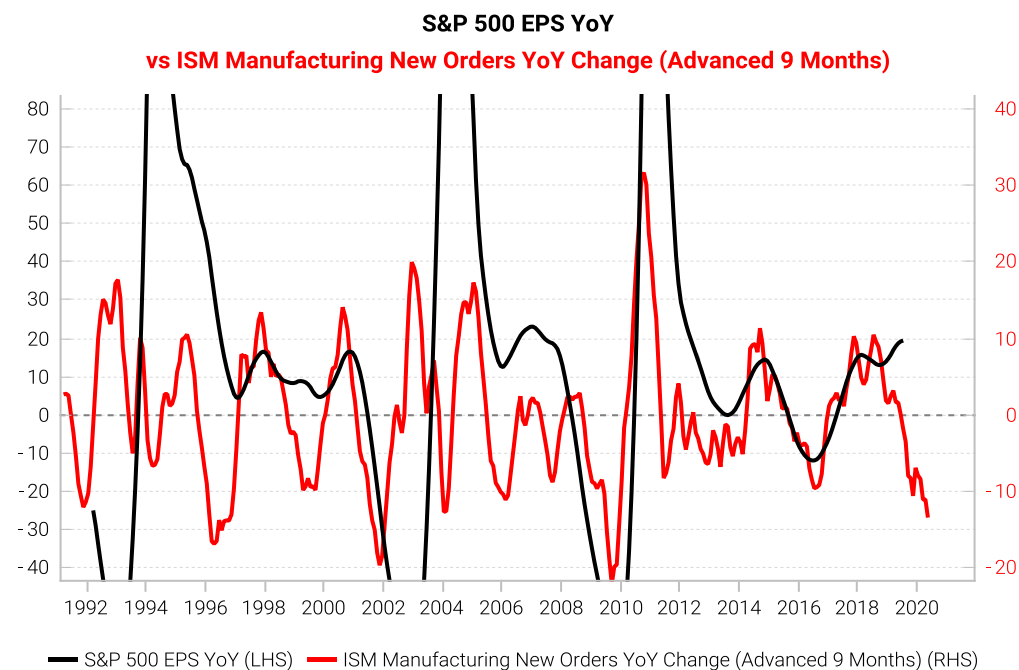
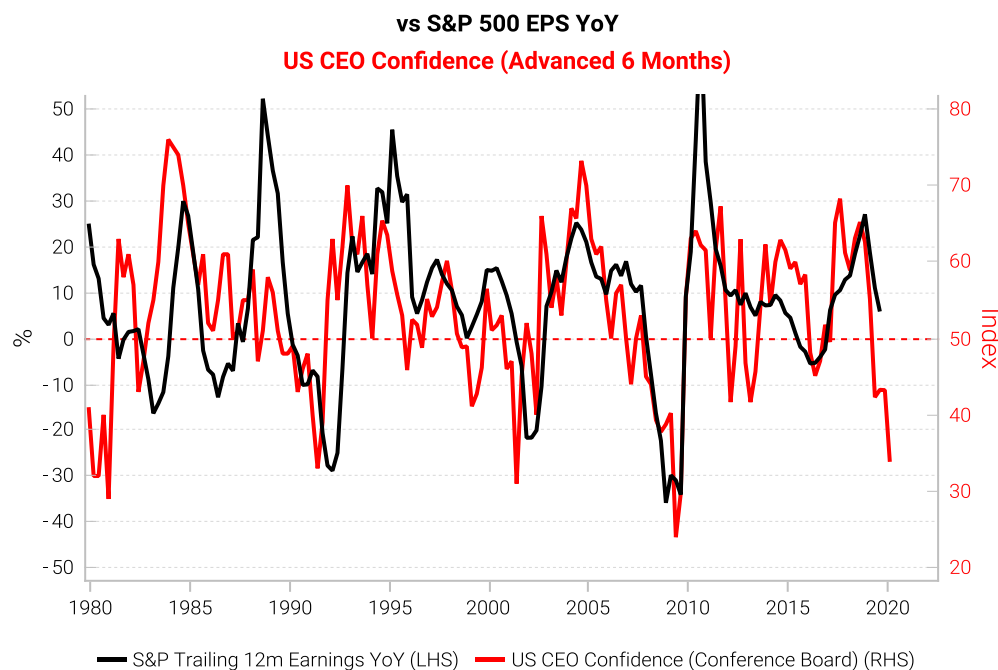
A wide-angle photograph of the New York City skyline at dusk. The sky is a deep blue with a full moon visible in the upper right. The city's lights are beginning to glow, reflecting on the water in the foreground. The One World Trade Center stands prominently in the center. A semi-transparent dark rectangle is overlaid on the middle of the image, containing the title text.

Using Leading Indicators

Putting other financial indicators in context

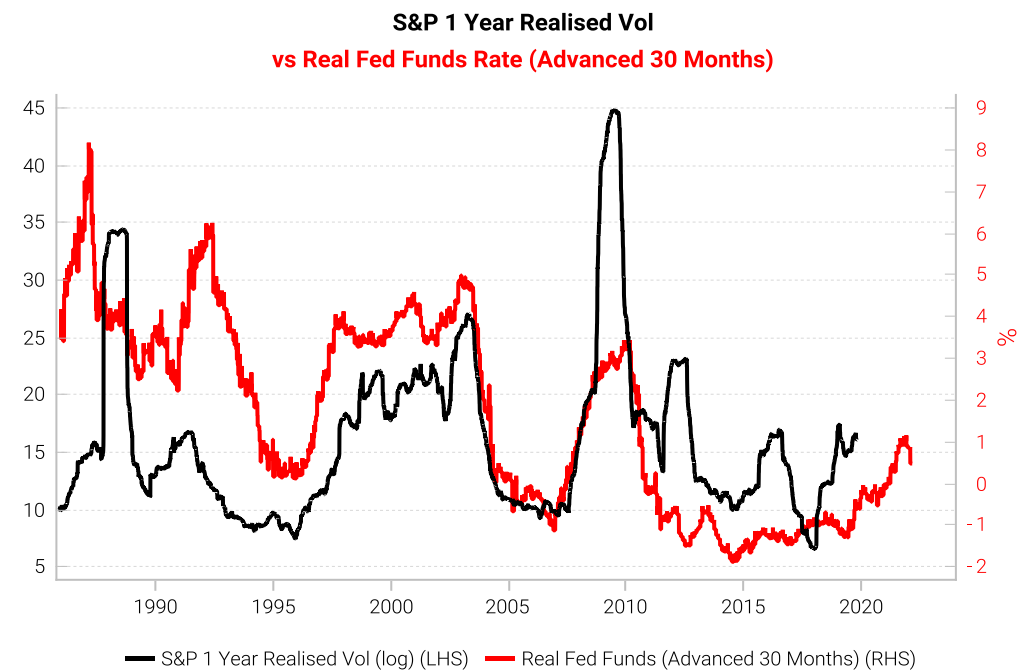
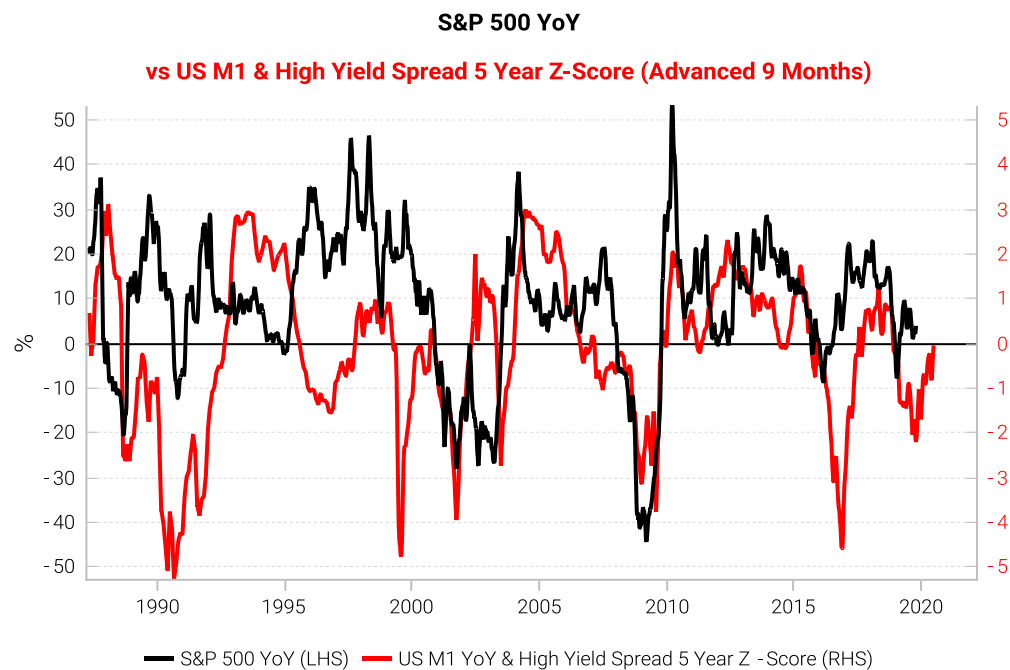
Growth Leading Indicators

Investors should focus on data that leads at turning points and that is unrevised or minimally revised. This is key to building a data-driven, repeatable analytical process.



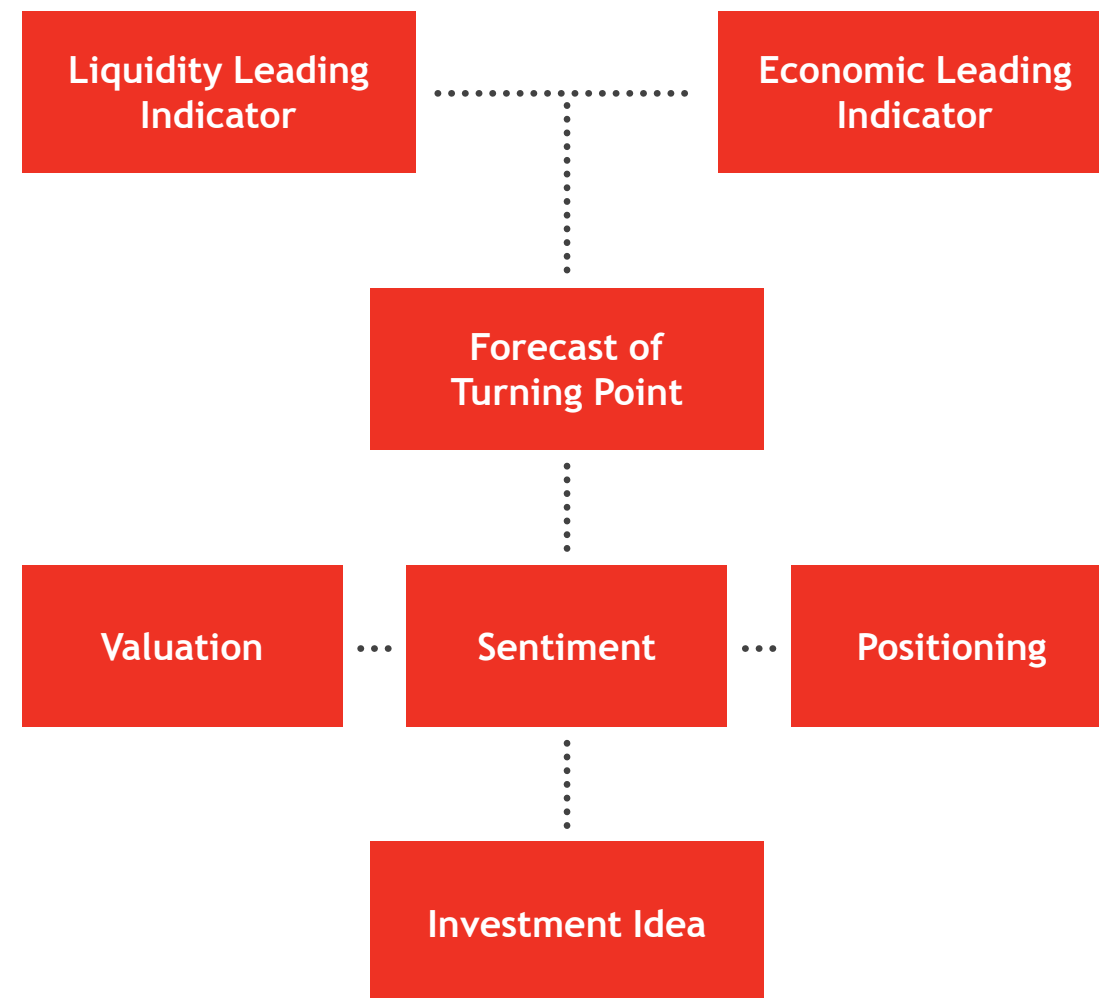
Liquidity leading indicators

In addition to growth, investors also need to be aware of changes in liquidity, which can often be critical to gauging the likely behaviour of asset prices.



DEVELOPING A VARIANT PERCEPTION

Variant Perception's data-driven approach helps decision-makers identify the most asymmetric trades and investments. We've built a framework to identify major turning points and extremes in markets.



If you have any questions about TheLeadingEDGE, please email us at edge-support@variantperception.com or visit us at www.leadingedgereport.com



CONTACT US

RECIPIENTS ARE NOT PERMITTED TO FORWARD THIS PUBLICATION WITHOUT THE EXPRESS WRITTEN CONSENT OF VARIANT PERCEPTION®. VARIANT PERCEPTION DISTRIBUTES ITS PUBLICATIONS ON A PAID SUBSCRIPTION BASIS ONLY.

© Copyright by VP Research, Inc.

VARIANT PERCEPTION is a federally registered trademark of VP Research, Inc.

It is a violation of US federal and international copyright laws to reproduce all or part of this publication by email, xerography, facsimile or any other means. The Copyright Act imposes liability of \$100,000 per issue for such infringement. The publications of Variant Perception are provided to subscribers on a paid subscription basis. If you are not a paid subscriber of the reports sent out by Variant Perception and receive emailed, faxed or copied versions of the reports from a source other than Variant Perception you are violating the Copyright Act. This document is not for attribution in any publication, and should not be disseminated, distributed or copied without the explicit written consent of Variant Perception.

Disclaimer: Variant Perception's publications are prepared for and are the property of Variant Perception and are circulated for informational and educational purposes only. The content of this report is intended for institutions and professional advisers only. This report is not intended for use by private clients. Recipients should consult their own financial and tax advisors before making any investment decisions. This report is not an offer to sell or a solicitation to buy any investment security. Variant Perception's reports are based on proprietary analysis and public information that is believed to be accurate, but no representations are made concerning the accuracy of the data. The views herein are solely those of Variant Perception and are subject to change without notice. Variant Perception's principals may have a position in any security mentioned in this report. All data is sourced from Bloomberg unless otherwise stated.

The Leading Edge is not affiliated with Interactive Brokers LLC, or any other FINRA broker-dealer.