



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 panoramic view of the New York City skyline at dusk. The Freedom Tower is the central focus, illuminated with blue lights. The sky is a mix of purple, blue, and pink, with a full moon visible in the upper right. The water of the harbor is in the foreground.

Information overload: Common pitfalls

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

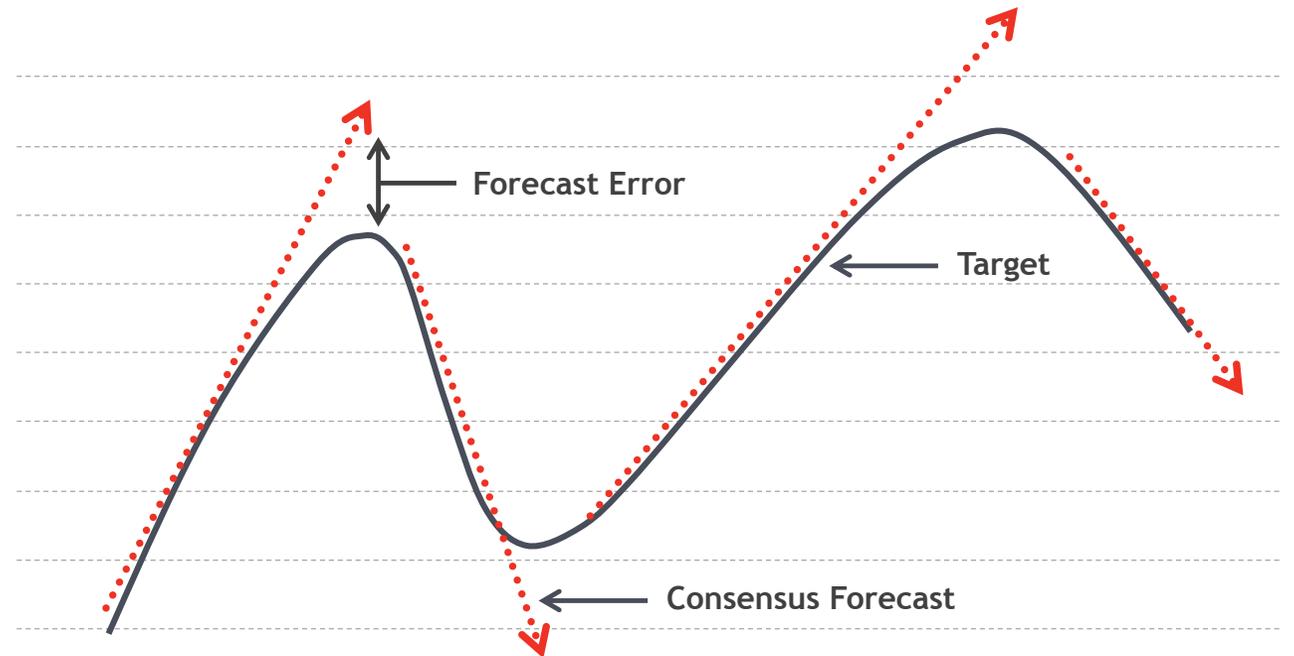
Problem #1

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



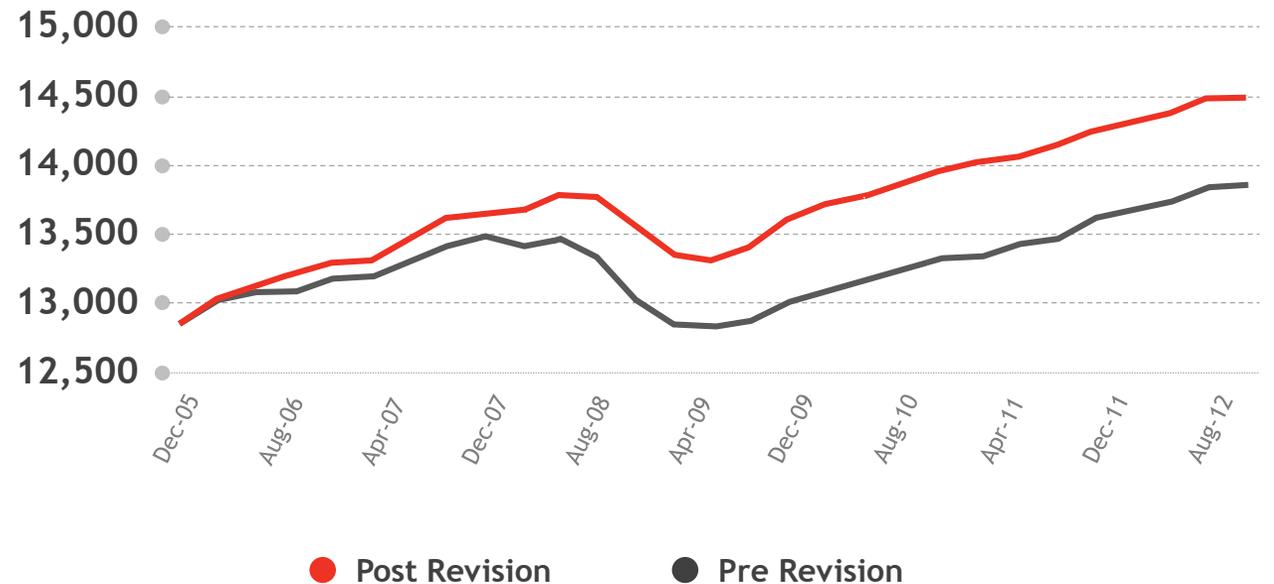
Problem #2

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)



Problem #3

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.”

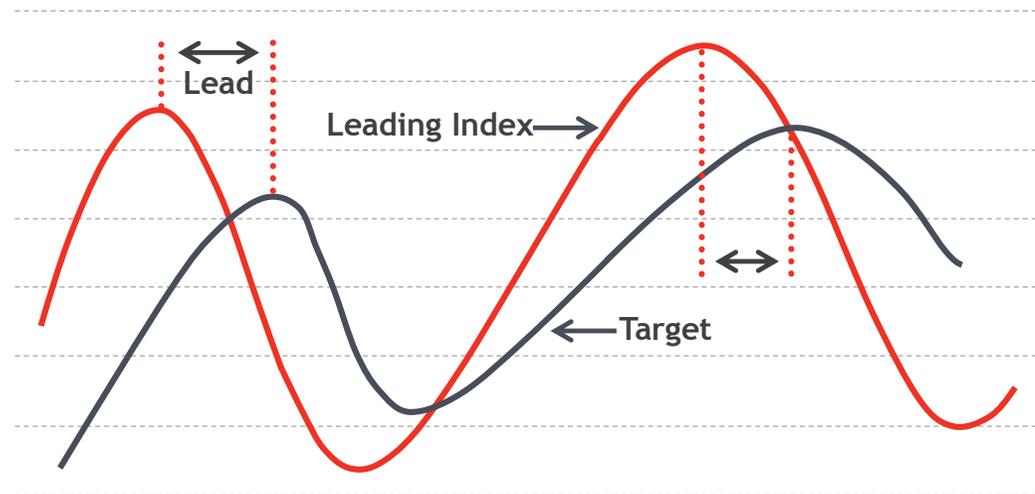
THE SOLUTION

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.

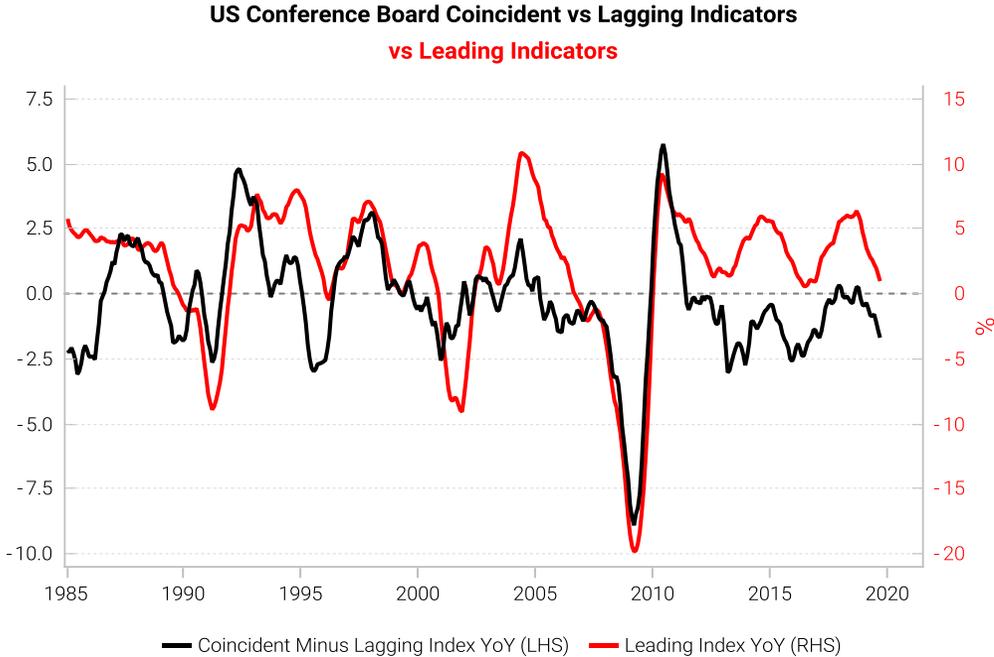
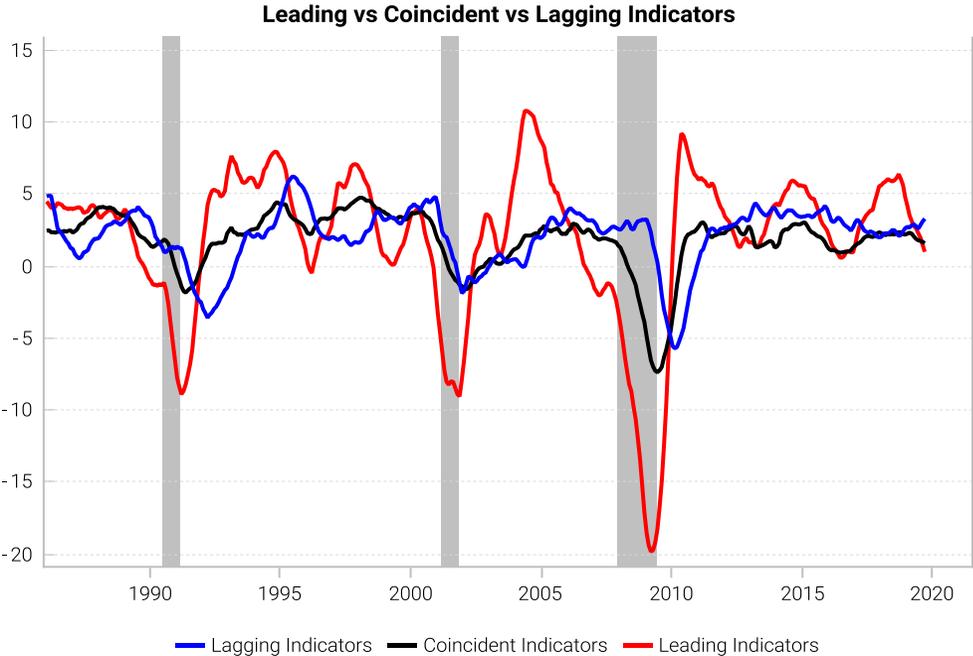


Understanding Leading Indicators

Focusing on the most important data

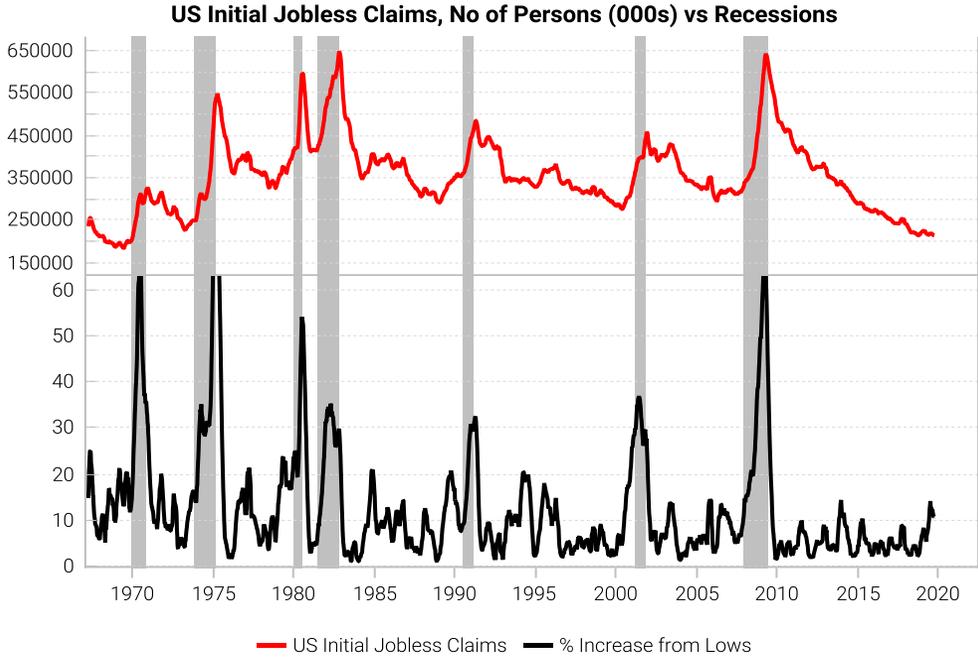
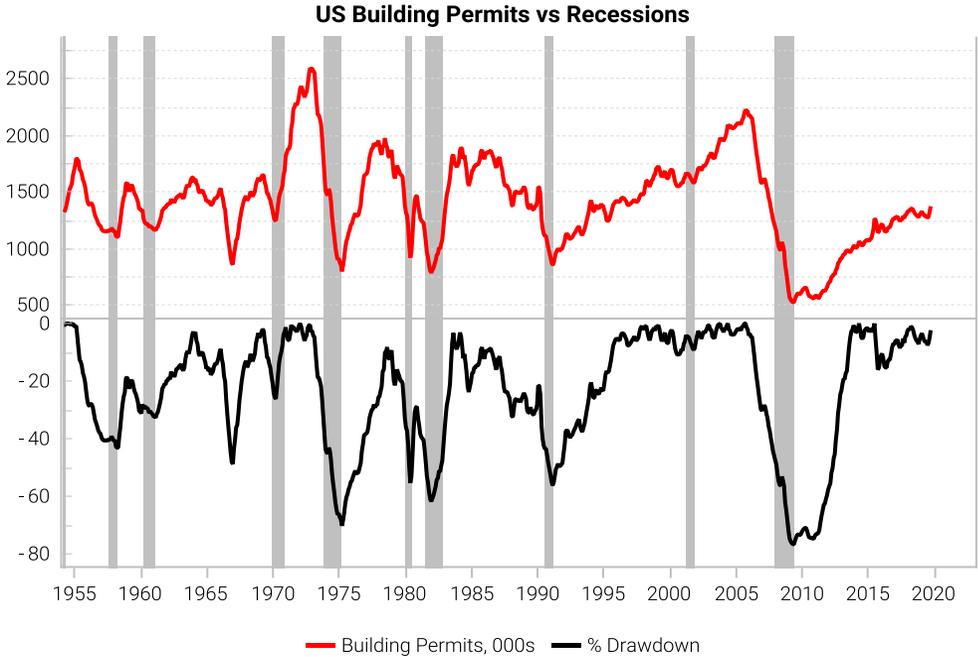
Leading, Coincident & Lagging

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



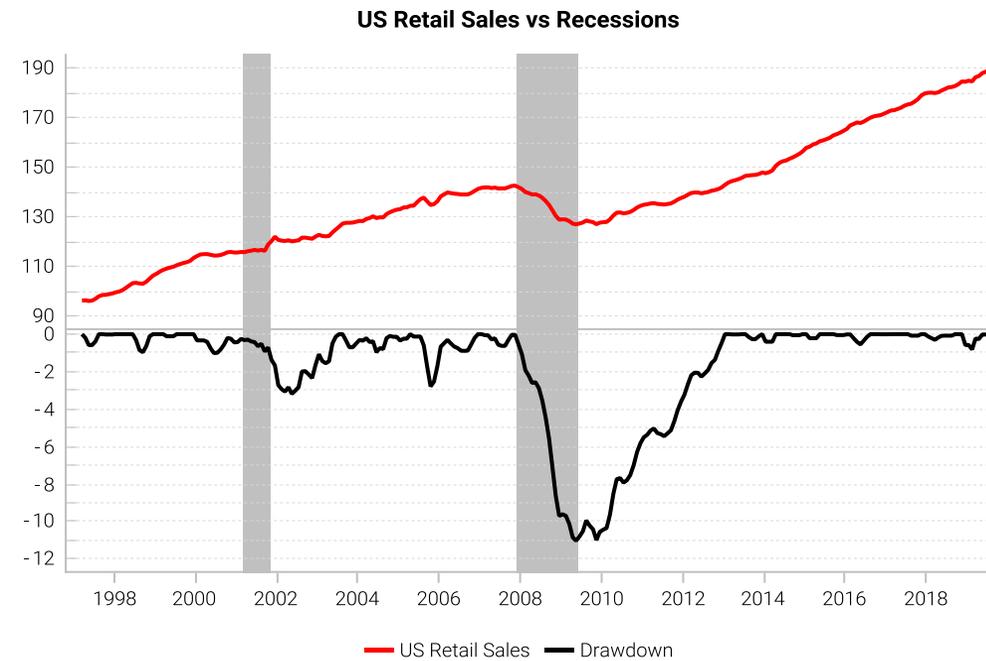
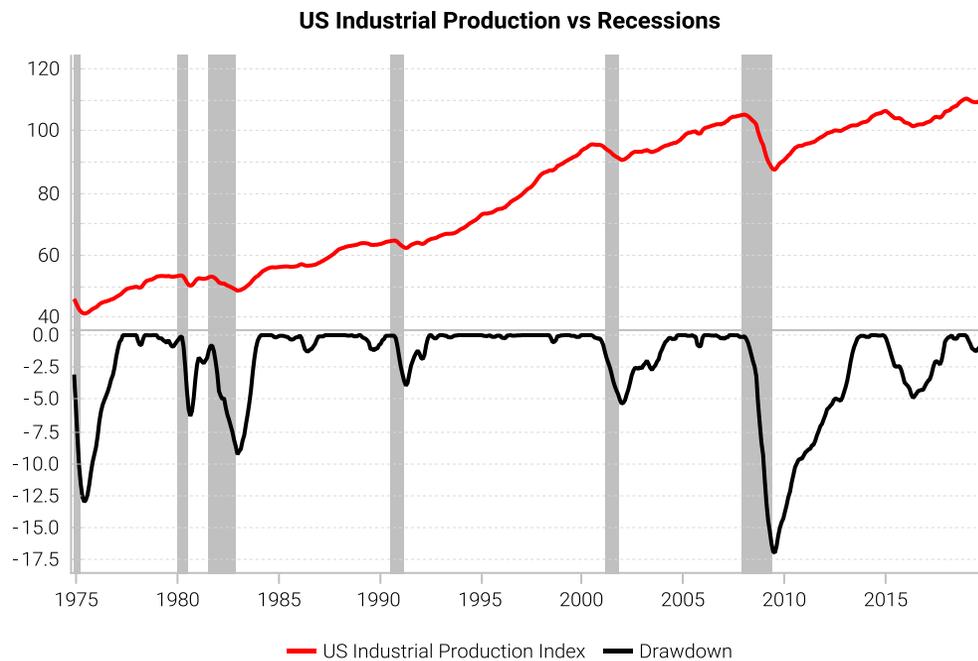
Leading Data: Looking at the road ahead

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.



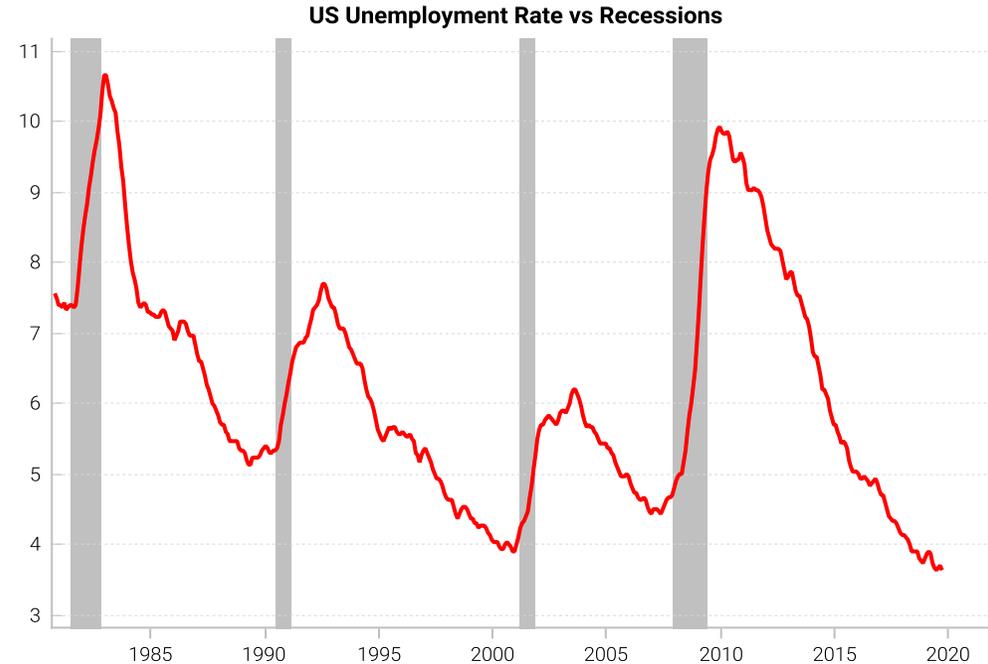
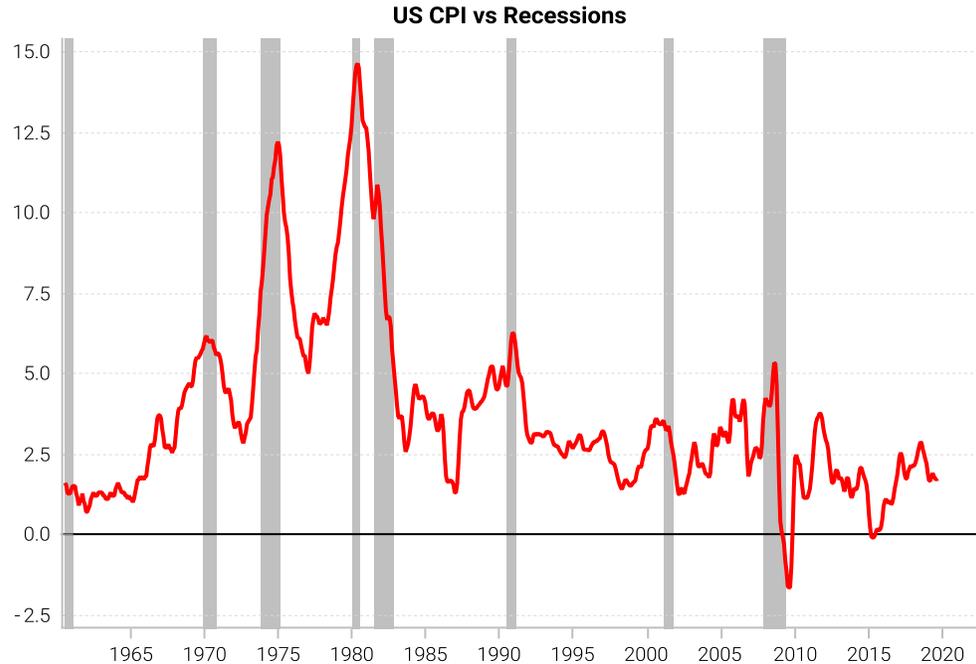
Coincident Data: Looking out the side of the car

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



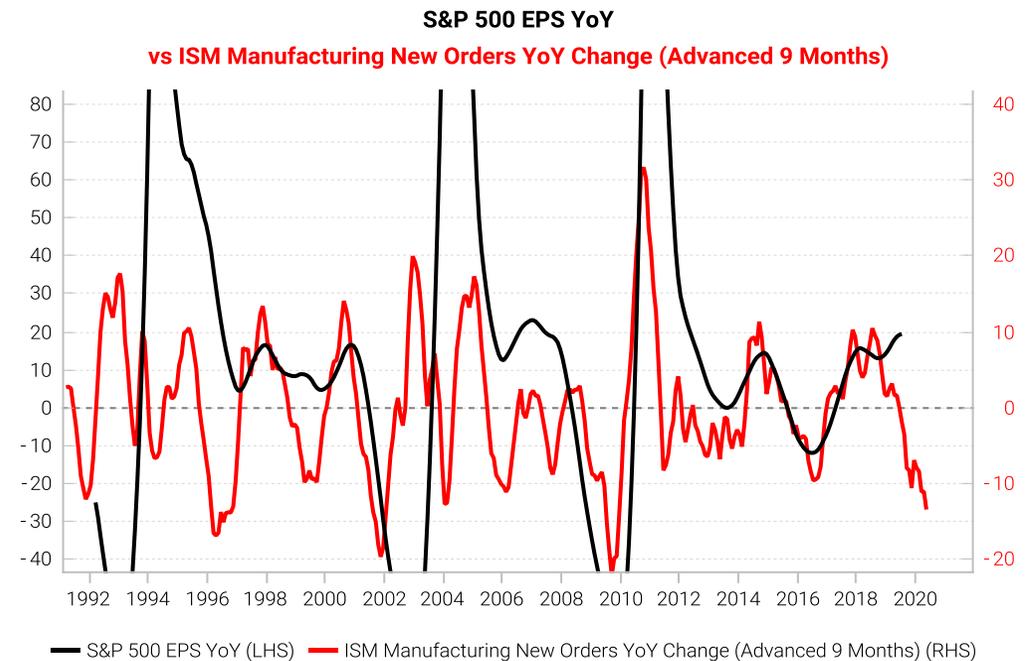
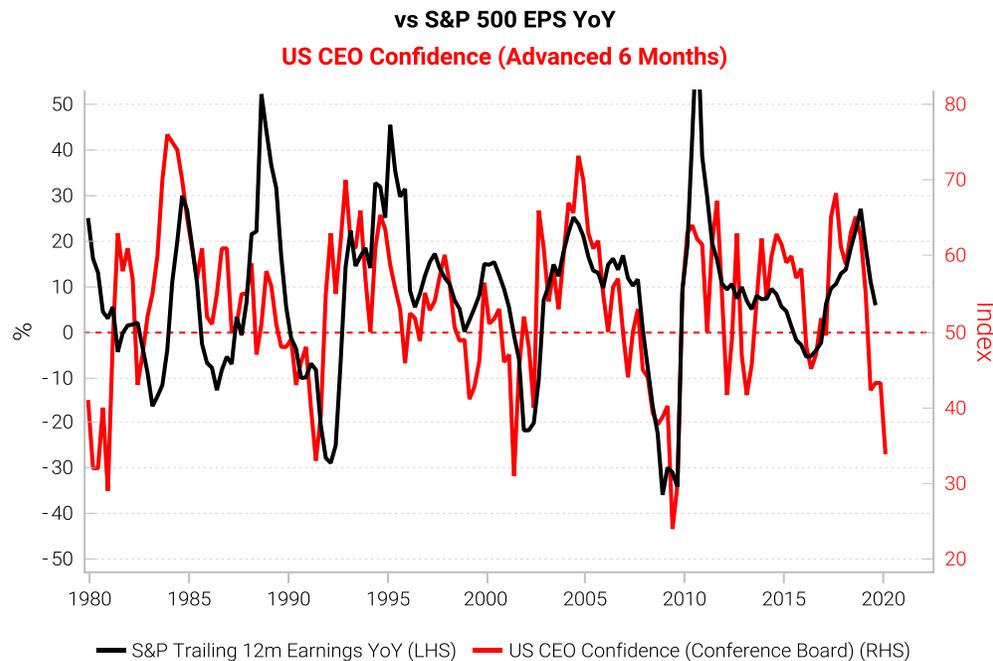


Using Leading Indicators

Putting other financial indicators in context

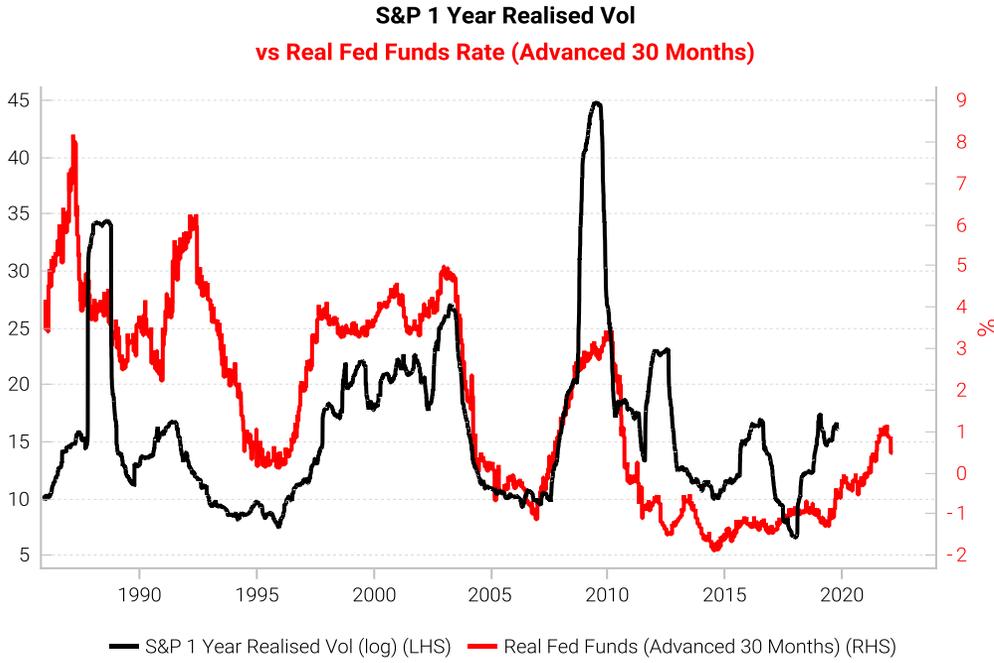
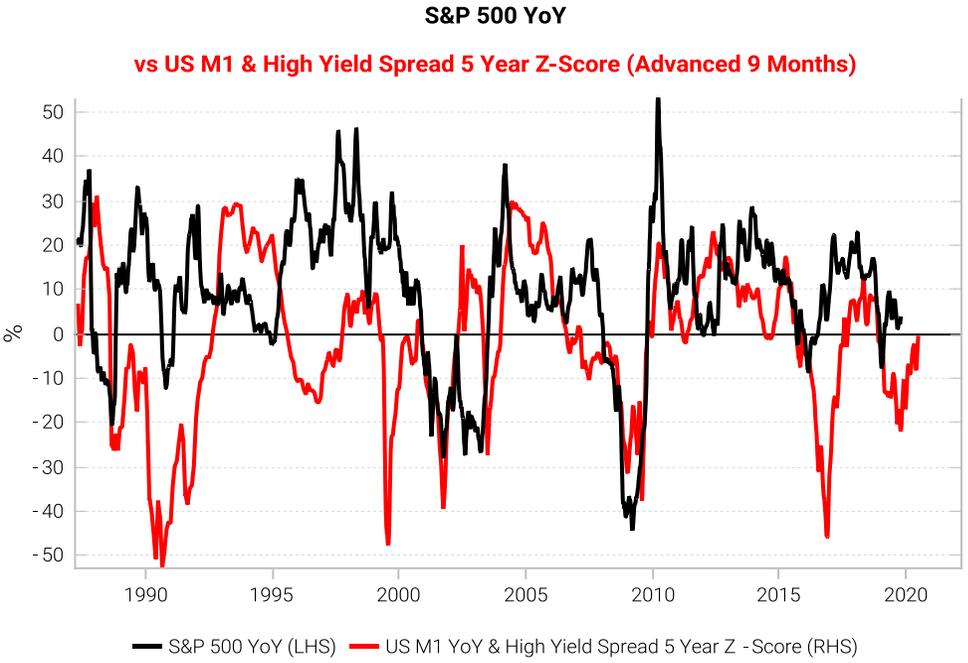
Growth Leading Indicators

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.



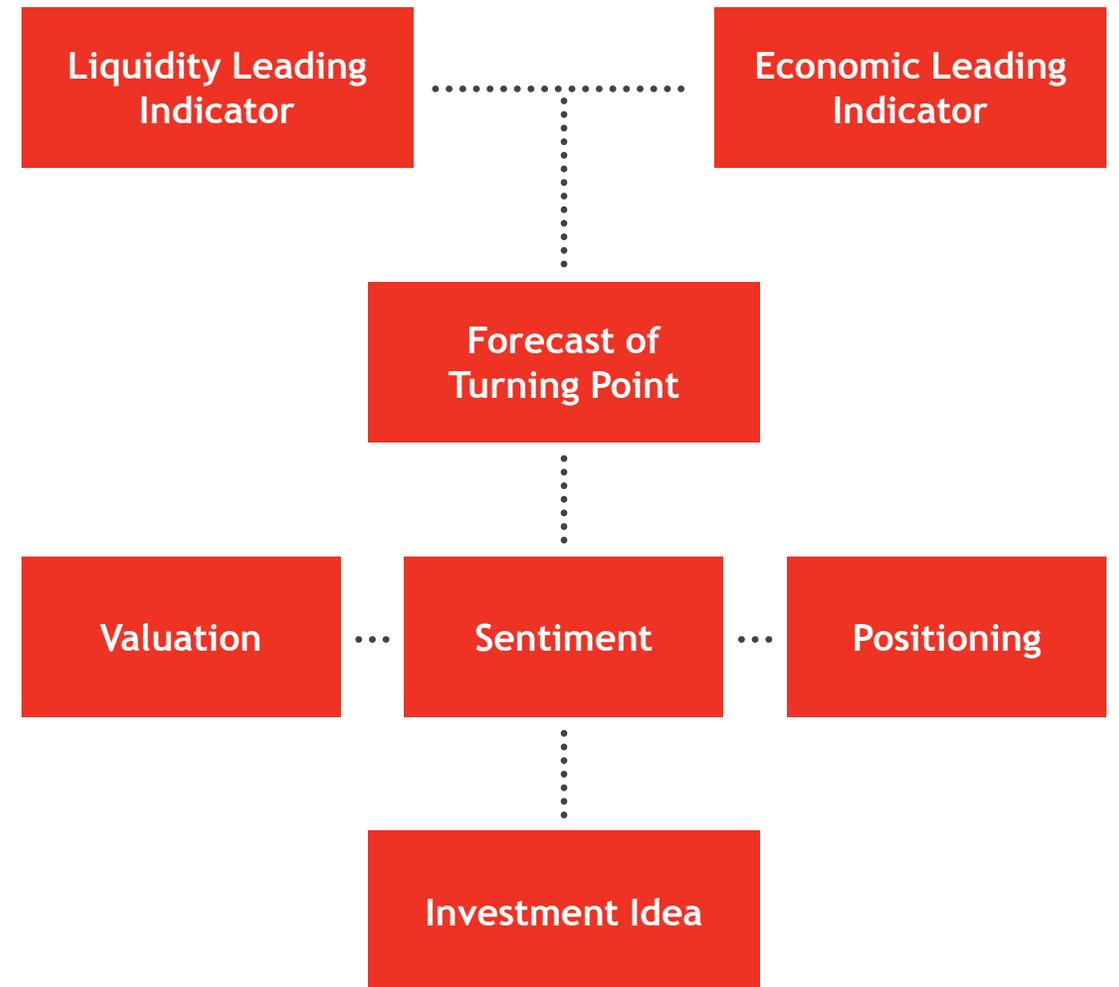
Liquidity leading indicators

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

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