

Casino Roulette

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**TrackMacro™ is a software tool
providing equity risk signals in 40
countries**

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Are you among those who believe financial markets to be one gigantic casino? If so, you're not entirely wrong...

Capital markets are global risk 'arbitrageurs' clearing transactions (or "bets") day and night. The TrackMacro AI model also participates in the gamble, but in a particular way.

House Against Players: Two Sides in the Gamble

Casino Roulette players place bets on numbers, from 1 to 36, drawn randomly by the momentum of a ball landing on a number in a wheel. The croupier spins the wheel in one direction and the ball in the opposite direction. Players can still place bets during the spin, right up until the croupier says "No more bets".

If the ball lands on the right number, the player wins 36 times their bet. Fair enough?

Not really, because the game has a trick. The wheel is not equally split in 36 portions, but in 37. There's an additional number, the zero, which is the winning number for the house against *all* players.

Thus, the game confronts two forms of gambling: the players' and the casino's. The difference lies in the nature of the bets: the house bets on statistics; the players, on timing. Players get richer and poorer, but at the end of the day, the casino is the ultimate winner, thanks to the law of great numbers.

Market finance exemplifies a similar type of gamble. In a nutshell, traders bet on timing, and long-term investors on probabilities, hence the capital markets' relative success in providing liquidity.

TrackMacro Bets on Statistics, Not on Timing

TrackMacro is not a trading tool. It's an equity risk tracker, based on probabilities. If "this time is different", TrackMacro fails, but if "this time is not that different", TrackMacro wins, statistically.

TrackMacro does not make any forecast, such as "the ball will land on number 7", it simply calculates the odds, based on 30 to 60 years of macro data in 40 countries.

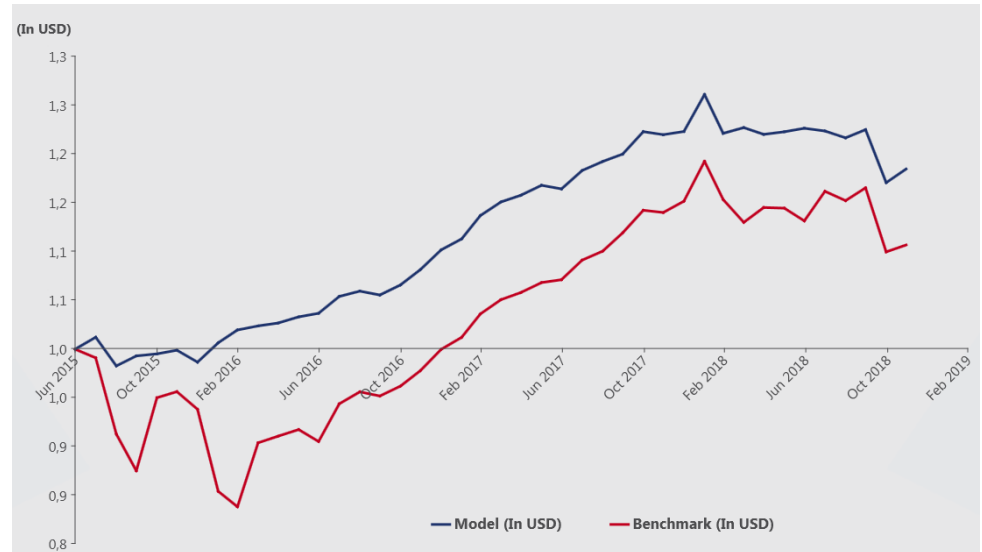
Does TrackMacro Beat Long-Equity Risk Takers?

TrackMacro has now more than three years of live performance, which is far from the law of great numbers, but starts to provide some information on its reliability and weaknesses.

- (i) TrackMacro has outperformed global equity markets (40 markets weighted by their GDP), by returning 20% since June 30, 2015, against the markets' 11%.
- (ii) TrackMacro turned very defensive ahead of the 2015 deflationary shock on oil and liquidity weakness, which is not a frequent combination of risks for equity markets, and managed to get back into equities successfully thereafter.
- (iii) TrackMacro turned rightly defensive following the February 2018 VIX spike, that it did not anticipate.
- (iv) TrackMacro made an important mistake in October 2018, trusting the probable continuation of a strong world trade, and turned rightly defensive since then.

The model's result is a Sharpe ratio of 0.8 (four times higher than equities' Sharpe ratio over the period) and a successful control of drawdown, which is TrackMacro's fundamental mission, as shown below.

Graph 1. Live TrackMacro performance vs. global equities



Source: TrackMacro, Bloomberg data. Global equities is the GDP-weighted average of 40 equity markets where TrackMacro provides monthly risk-on signals (long equity) or risk-off signals (long 10Y government bonds).

Table 1. Live TrackMacro performance table vs. global equities

(In USD)	Model	Index		
Return (p.a.)	5,6 %	3,2 %	Correlation	50,2 %
Last month	1,4 %	0,7 %	Beta	26,0 %
YtD	-3,8 %	-4,4 %	Equity invested	53,5 %
YoY	-3,5 %	-3,3 %	Turnover (p.a)	3,4
Volatility (p.a.)	5,6 %	10,8 %	(30/06/2015 - 30/11/2018)	
Max. drawdown	-8,7 %	-15,0 %		
Sharpe ratio (1,0%)	0,8	0,2		

Source: TrackMacro, Bloomberg data

TrackMacro Shuns Equity Risk Today

Over 3.5 years, the AI model has been equity-invested only 53.5% of the time, with 30% more risk-on to risk-off oscillations than usual (turnover of 3.4 compared to 2.5).

TrackMacro today remains extremely defensive. The only positive factor is the 30% drop in oil price in a short time period, which acts as a tax cut for commodity importers, but weakens exporters, as well. USD liquidity continues to fall; world inflation doesn't yet benefit from commodity deflationary pressure, and economic growth is weakening.

Political factors, such as the outcome of the G20 meeting, may turn favourable to risk assets, or not. But TrackMacro does not bet on timing, nor on politics.

TrackMacro plays the safe role of the casino in the game of Roulette.