

RESEARCH APPROACH

We investigate the performance of investments and economic indicators:

looking primarily at what can be quantified

using historical data with an open mind, and avoiding (if possible) assumptions drawn from prejudice or intuition

resisting the authority of any particular economic doctrine

giving priority to predictive relationships in which certain leading indicators consistently correlate with subsequent outcomes

following established methods of statistical analysis, hypothesis testing and model-building

focusing on financial-market price movements as the best time-tested data source for predictive inputs

We produce statistical models:

publishing and explaining in detail their content

modifying them only at rare intervals when new insights or research findings require it

deriving our published “market forecasts” exclusively from these models and sticking with them even during periods in which their forecasting power is jeopardized by unusual economic or market conditions

providing “tactical” forecasts of the most widely watched asset classes over a time frame of one to two years; and “strategic” forecasts for a time frame of five or more years conditional on the economic conditions that are assumed to persist in the future

We publish research reports and devote most of our time to

exploring ideas concerning possible new data or new input factors

proposing undogmatically whatever interpretations of our results tie investment performance to the behavior of the overall economy

building a kind of “crossword puzzle”: an interlocking set of interpretations drawn from a wide range of our work a wide variety of different market phenomena

making use of this consistent set of interpretations to address and make sense of market behavior where quantification is impossible or data are insufficient

On a regular basis we report:

the recent history of the most important input variables and tactical “market forecasts” that are modified each month as the input data change

on a less frequent basis, strategic capital-market assumptions for a small set of scenarios that are defined in terms of the same input variables.

THE “CROSSWORD PUZZLE”

Wainwright's work has proceeded along these lines now for some three decades. The cumulative result is a mental picture of the economy and its markets which departs from the conventional wisdom that investors see in the press or are taught in the classroom. It resembles a modern version of classical economics more closely than any of the principal schools into which economists divide themselves: monetarists, Keynesians, supply-siders, Austrians, etc.

In our picture, the economy and its markets behave as a system – that is, as if it were an organism with a life of its own. In this system everything is connected to everything else. Understanding it requires “top-down thinking.” The system is a great deal more than the sum of its parts, and its behavior cannot be understood solely by analyzing the parts separately and summing the results – just as, in astronomy, the behavior of a galaxy cannot be predicted simply by studying the individual stars of which it consists. Government policy influences the system tremendously, but not in a way that is widely understood, and it constantly reminds us of the “law of unintended consequences.” “Bottom-up thinking” in economics does not work well.

As in Adam Smith's 1776 *The Wealth of Nations*, the system is driven by market prices that act as signals containing information (such as scarcity or glut, fear and euphoria, actions and intentions of the central government) and which continually induce producers, investors and consumers to rethink and reallocate their efforts. We believe that is why financial-market prices work so well to predict the behavior of the system: its growth, the stability and purchasing power of its currency, and the performance of its investments.

Certain prices are more critical than others, and the performance of any single asset class is usually a function of several financial-price inputs that we have recognized in our work as powerful factors in driving other asset classes as well. The most commonly encountered inputs that power our models are: short term interest rates; the value of the currency expressed in terms of precious metals; bond-market yield spreads; valuation expressed as the ratio of one asset price to another; absolute and relative volatility.