# The Rubber Band Effect

How **Bull Cipher** Embraces Volatility

A wide range of research has revealed that investors don’t always act rationally when making decisions. This irrational behavior can lead to several exploitable market circumstances, including overbought or oversold conditions. Often when the market is overbought or oversold the result is mean reversion. Specifically, mean reversion is the concept that an overextended market will eventually return to its normal trading range. The idea behind Bull Cipher is to capitalize on these overreactions in the market.

***Investors don’t always act rationally when making decisions***

Bull Cipher is a patient strategy that was developed to take advantage of high-probability opportunities in the market. In order to accomplish this, the strategy relies on a combination of mean reversion and short-term trend following.

We often use a rubber band to explain mean reversion. Most of the time the market tends to move up or down based on the perceived value of the underlying stocks, in this case the rubber band isn’t stretched very much beyond its normal shape and Bull Cipher is generally in cash.

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**Objective:** Bull Cipher is an absolute return strategy that seeks a positive rate of return over a calendar year regardless of market conditions.

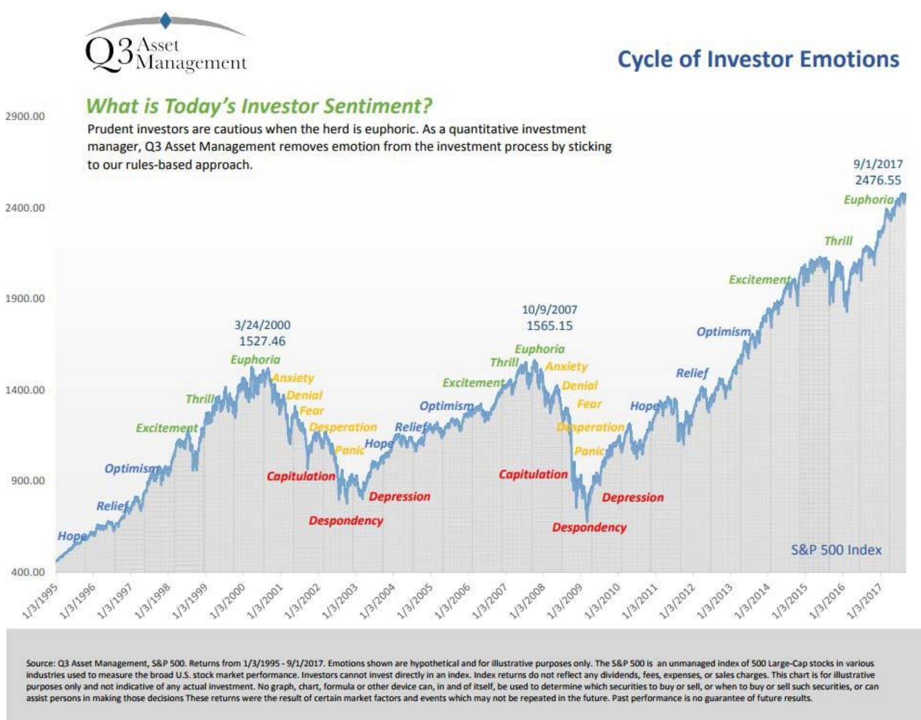
**Invests In:** Nasdaq 100 (Long) and Money Market Funds

**Risk Profile:** Bull Cipher is a moderate strategy that is expected to exhibit approximately half of the volatility of the S&P 500 over a full market cycle.

# *A Patient Strategy*

Occasionally, the market may move a larger than average amount in a single day or series of days based on emotion. An item of news will come out that starts the market moving either up or down and fear or greed will drive investors to enter or exit the market at a higher than normal rate. In these cases, the rubber band becomes stretched. Since these moves were emotional and not necessarily based on the market value, the prices will often adjust in the next few days to bring the rubber band back to its normal shape. Therefore whenever sentiment drives the market too far from its average, the efficiencies of the market will often cause it to revert back to its mean in a short period of time. Bull Cipher is designed to take advantage of these opportunities.

# *Analysis of Investor Behavior*



# Capitalizing on Mean Reversion

### FIND THE TREND

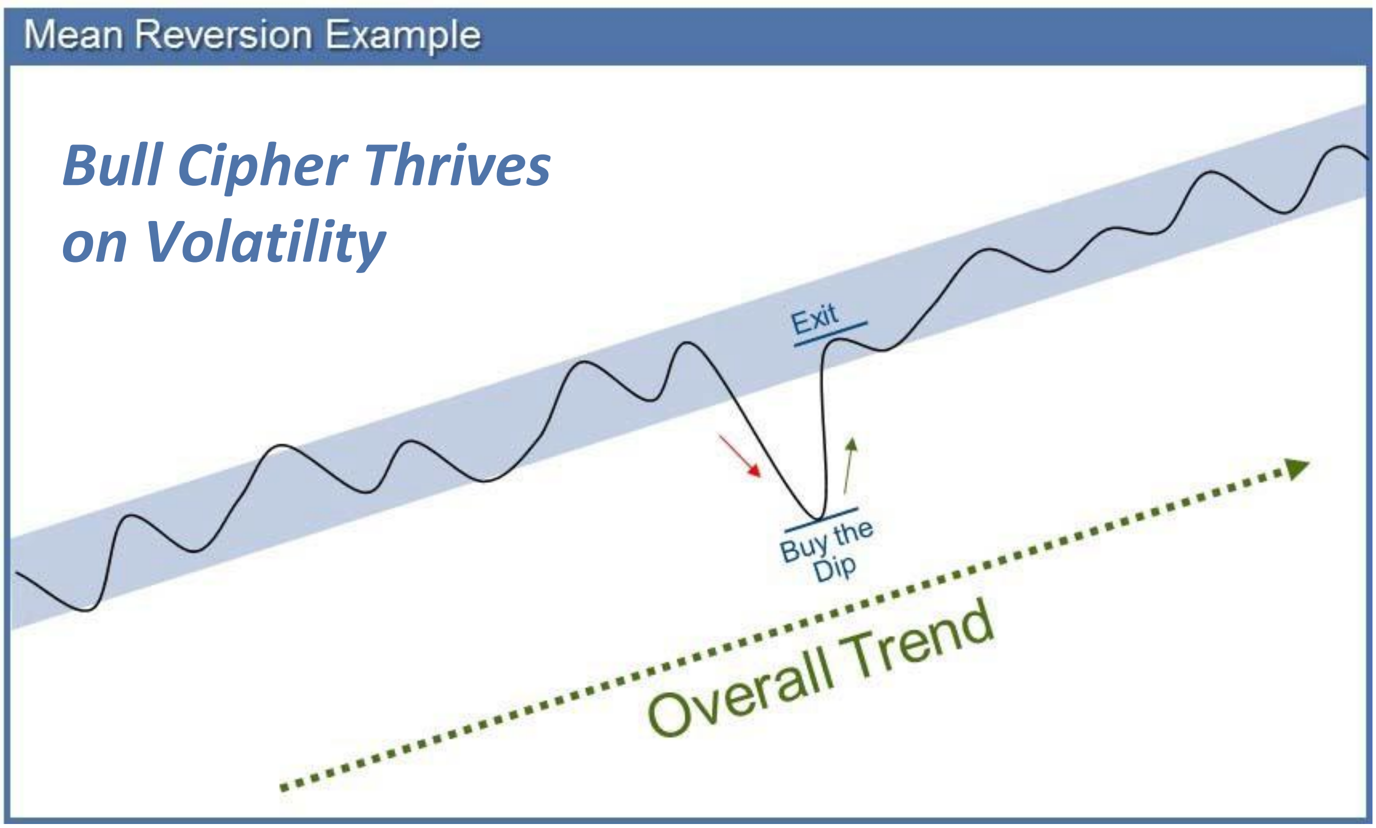
Determine the overall market trend, up, down, or sideways.

### MONITOR CONDITIONS

Identify high-probability short-term opportunities.

### PLAY DEFENSE

Revert to a defensive posture between moves.




Bull Cipher's core algorithm determines when the market has been stretched too far from its mean, and identifies when it is likely to revert based on historical trends. Therefore, when the market is experiencing "normal" price action the strategy will generally be in cash. Any move below the normal range would signal an "abnormal" move that may be exploitable.

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# *Disclosure*

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