ACANTO | LLC
ADAPTIVE ASSET MANAGEMENT

An Institutional Framework for Tactical Asset Allocation

Academic Validation and Empirical Analysis of the Acanto Adaptive All Asset 8 (8A) Strategy

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*The performance results shown reflect a combination of **hypothetical back-tested data and live trading results**. Performance prior to November 1, 2021, is back-tested and does not represent actual client returns. Performance from November 1, 2021, onward reflects live results. Performance is shown on a **gross-of-fees basis** unless otherwise indicated. **Past performance, whether actual or back-tested, is not a guarantee of future results**, and no representation is being made that any investment will or is likely to achieve profits or losses similar to those shown.*

Executive Summary

This paper presents the academic and empirical foundation of the Acanto Adaptive All Asset 8 (8A) strategy, a rules-based tactical asset allocation model designed for the modern market environment. The strategy addresses the critical failures of static, correlation-dependent portfolios, which were exposed during the 2022 market downturn, by systematically combining two of the most robust, academically-validated principles in modern finance: **Momentum** and **Risk Parity**.

The Acanto 8A strategy is not a speculative methodology but an innovative synthesis of peer-reviewed research, designed to deliver superior risk-adjusted returns and drawdown management. Its core components are validated by decades of research, including work from Nobel laureates and publications in top-tier financial journals.

Key Pillars of the Strategy:

1. **Momentum-Based Asset Selection:** The strategy utilizes intermediate-term momentum—the "premier anomaly" in financial markets—to select the top-performing assets from a diverse global universe. This principle is supported by the foundational research of Jegadeesh & Titman (1993) and the cross-asset validation of Moskowitz, Ooi, & Pedersen (2012).

2. **Dynamic, Correlation-Agnostic Allocation:** In direct response to the failure of both the standard fixed “60/40” portfolio and the more diversified “All-Weather” portfolio, which suffered catastrophic losses in 2022. The breakdown in correlations and assets led to bank failures due to rapid interest rate increases. This strategy is correlation-agnostic and does not rely on the increasingly unstable relationship between stocks, bonds, and other asset classes; instead adapting monthly to the prevailing market regime based on medium-term momentum.
3. **Dynamic Risk Parity for Position Sizing:** The strategy innovates by applying risk parity principles to a more dynamic basket of assets, allowing for a variable concentration of assets depending on the short-term correlation of the momentum-driven winners selected from a broad universe of assets and asset classes. It uses short-term volatility to ensure risk is managed based on current, not historical, conditions, and does not rely on long-term correlations to select assets and asset classes.

Empirical Results:

The strategy has demonstrated a persistent ability to generate alpha while significantly mitigating drawdowns. Analysis of back-tested and live performance data from January 2008 through December 2025 shows materially higher risk-adjusted returns (Sharpe and Sortino ratios) and a maximum drawdown that is a fraction of that experienced by traditional benchmarks like the S&P 500 and the 60/40 portfolio.

This document provides the necessary due diligence materials for institutional investors, hedge funds, and advisory firms to evaluate the Acanto 8A strategy as a robust, academically-grounded solution for tactical asset allocation.

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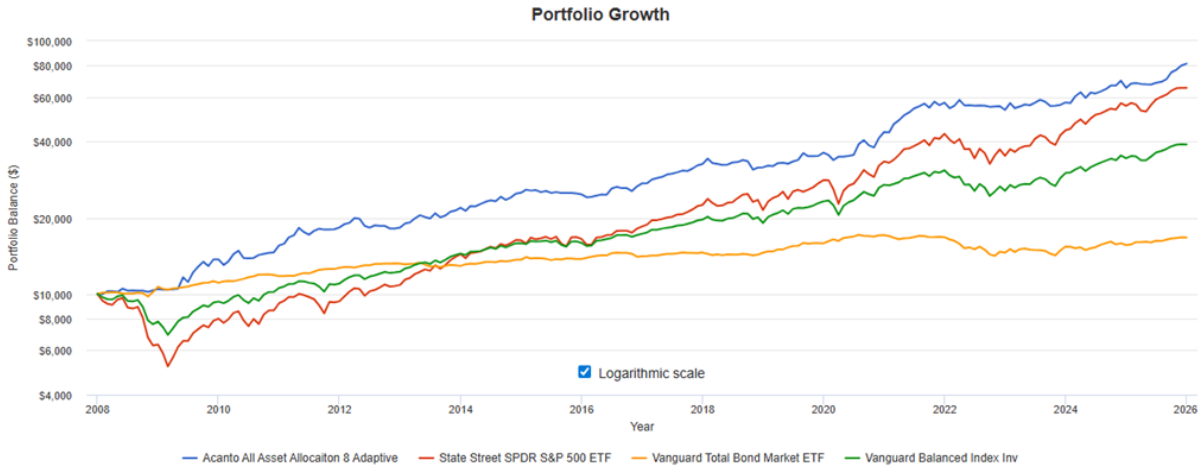
1. The Post-2022 Paradigm: The Failure of Static Asset Allocation

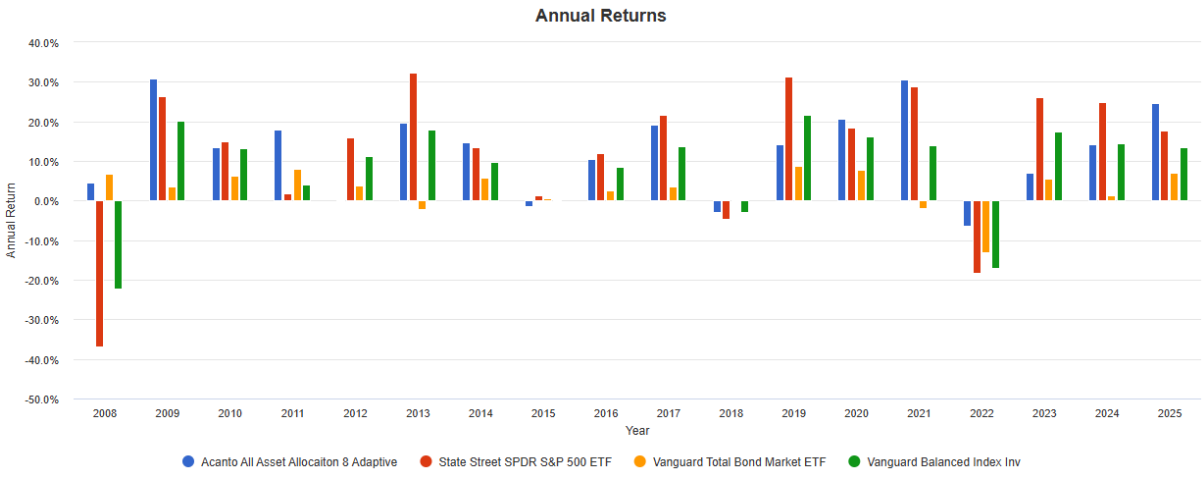
The central challenge in modern portfolio construction is the management of portfolio risk during periods of market stress and regime change. For decades, institutional and retail portfolios have been built on the foundation of Modern Portfolio Theory (MPT), with the 60/40 stock/bond portfolio serving as the ubiquitous model for a "balanced" allocation. This approach, along with its more sophisticated cousin, traditional risk parity, is critically dependent on a stable, negative correlation between equities, fixed income, and commodities. The assumption is that during equity market downturns, bonds and commodities will act as a hedge, preserving capital and smoothing returns, based on long-term price action between various asset classes that are assumed to be consistent.

The year 2022 represented a watershed moment that exposed the fundamental flaw of this correlation-dependent paradigm. For the first time in modern history, a confluence of high inflation and aggressive monetary tightening caused both stocks and bonds to decline simultaneously and significantly. The S&P 500 fell 18%, while long-term Treasury bonds plummeted over 30%. The 60/40 portfolio suffered its worst performance in 150 years, and even Ray Dalio's widely respected All Weather risk parity fund, with its 55% fixed allocation to bonds, lost nearly 20%.

This event was not a black swan but the materialization of a known risk: **correlations are not stable**. They are a function of the prevailing macroeconomic regime, particularly inflation and monetary policy. In a rising-rate, inflationary environment, the diversification benefit of bonds disappears. Static portfolios, by their very nature, have no mechanism to adapt to these regime changes.



The charts above and below illustrate the performance of the Acanto 8A strategy against traditional benchmarks. Note the significant divergence in 2022, where the 8A strategy's dynamic, momentum-based approach allowed it to navigate the downturn while static, correlation-dependent portfolios suffered historic losses.



2. A Rules-Based Solution: The Acanto 8A Strategy Framework

The Acanto 8A strategy is designed to solve the problem of correlation dependency by abandoning it entirely. It is a **correlation-agnostic**, rules-based tactical asset allocation model that systematically combines two powerful, academically validated concepts: **Momentum** for asset selection and a dynamic form of **Risk Parity** for position sizing. The following images graphically represent both concepts.

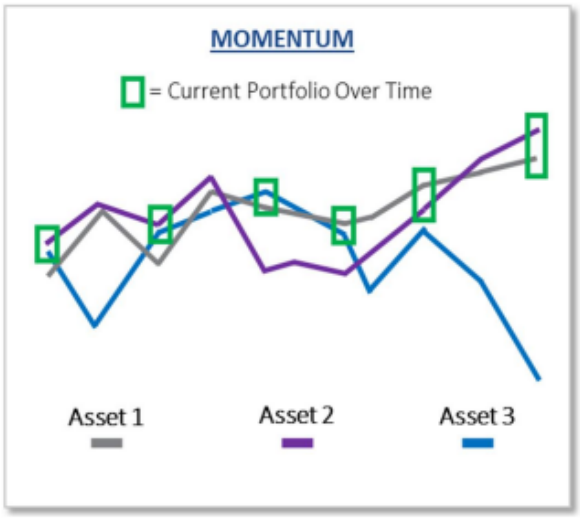
Momentum + Risk Parity

Momentum uses price trend to select the best-performing assets over a given period of time (3 - 6 months)

Risk Parity, an asset allocation approach that balances risk across a portfolio, is key to our overall investment process.

MOMENTUM: ASSET SELECTION

A blend of 3–6-month trends is used to isolate an optimal number of the top-performing assets from an index or broad set of asset classes. This quantitative approach is applied to a limited number of stocks within an index like the S&P500 or across a broad range of asset classes including commodities, real estate, fixed income, equities, cash, and other assets in the form of liquid ETFs. We have found this process to be very robust across multiple assets, settings, and timeframes



RISK PARITY: A BALANCING ACT

We use Risk-Parity to balance risk across a portfolio by weighting each holding based on its unique downside historical volatility and how it behaves relative to other holdings within the current portfolio. Risk Parity has been shown to add a significant increase in the risk-return profiles of both equity-only portfolios and multi-asset class portfolios across a broad range of settings and variables in practice and academically.

2.1. Pillar I: Momentum-Based Asset Selection

Momentum, or the tendency of past winners to continue winning, is one of the most pervasive and robust anomalies in financial literature. First documented in equities by Jegadeesh and Titman (1993), it has since been proven to exist across virtually all liquid asset classes, including bonds, commodities, and currencies (Moskowitz, Ooi, & Pedersen, 2012). The Acanto 8A strategy leverages this by:

- **Evaluating a broad universe** of global asset classes monthly.
- **Identifying the top eight assets** exhibiting the strongest intermediate-term (3-6 months) positive momentum.
- **Allocating capital only to these trending assets**, effectively avoiding asset classes in a downtrend.

2.2. Pillar II: Dynamic Risk Parity for Position Sizing

Once the portfolio of the top 8 winners is selected, the strategy employs a dynamic form of risk parity to size the positions. Unlike traditional risk parity, which uses long-term historical data to set static allocations and leverage, the 8A strategy:

- **Calculates volatility based on a short-term (2-month) look-back period**, ensuring the risk assessment is timely and relevant to the current market environment.
- **Assigns weights inversely proportional to this recent volatility**, giving a larger allocation to lower-risk assets and a smaller allocation to higher-risk assets.
- **Rebalances the portfolio monthly**, allowing for rapid adaptation to changes in both momentum signals and market volatility.

This synthesis of momentum and dynamic risk parity creates a robust, adaptive system that seeks to generate returns by participating in established uptrends while managing risk by dynamically adjusting to changing market conditions.

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3. Academic Validation: A Strategy Built on Peer-Reviewed Research

The Acanto 8A strategy is not an ad-hoc collection of rules but a deliberate synthesis of academically validated market anomalies and portfolio construction principles. Each component of the strategy is supported by decades of empirical research published in top-tier financial journals. Additionally, the strategy works with a greater or smaller number of positions and is not curve fit to just 8 holdings. Performance and “robustness” of the strategy are more dependent on and sensitive to the ratio of selectable assets in the constituent universe to the constrained number of holdings selected from the universe.

3.1. The Foundation: Momentum, the "Premier Anomaly."

Momentum is the empirically observed tendency for assets that have performed well in the recent past to continue to perform well in the near future, and vice versa. The academic literature is unequivocal in its existence and robustness.

- **Foundational Proof (Jegadeesh & Titman, 1993):** The seminal paper in the *Journal of Finance* demonstrated that a simple strategy of buying past 3-12 month winners and selling losers generated statistically significant excess returns that could not be explained by common risk factors [1]. With over 17,000 citations, this is one of the most influential papers in modern finance.
- **Cross-Asset Universality (Moskowitz, Ooi, & Pedersen, 2012):** Research from AQR, published in the *Journal of Financial Economics*, extended the momentum discovery beyond equities [2]. The authors studied 58 diverse instruments, from country equity indices and sovereign bonds to currencies and commodities. They found that a simple time-series momentum signal was a positive predictor of future returns for **every single asset class examined**.
- **Practitioner's Consensus (Gray & Vogel, 2016):** In *Quantitative Momentum*, the authors synthesize the body of research and confirm that the intermediate-term (3-12 month) look-back is the optimal "sweet spot" for capturing the momentum premium, directly validating the 8A strategy's choice of signal [3].

> ***Institutional Implication:*** *The use of momentum as the primary engine for asset selection is grounded in one of the most powerful and persistent anomalies ever documented in financial markets.*

3.2. The Rationale: Behavioral Finance and Structural Frictions

For an anomaly to be persistent, there must be a reason it is not arbitraged away. The momentum premium is sustained by a combination of deep-seated investor biases and structural market impediments.

- **Behavioral Biases:** Research by Nobel laureate Daniel Kahneman and others provides the psychological underpinning. Investors systematically **underreact to new information**, causing prices to trend as news is slowly incorporated. The **disposition effect** (selling winners too early, holding losers too long) also contributes to the persistence of trends.
- **Limits to Arbitrage (Shleifer & Vishny, 1997):** Even when sophisticated investors recognize momentum, they are often constrained from fully exploiting it [8]. The primary constraint is **career risk**. A professional fund manager who deviates significantly from a benchmark to follow a momentum strategy risks client redemptions and job loss during inevitable periods of short-term underperformance. This structural friction prevents large institutions from arbitraging the anomaly away, leaving the opportunity open for more nimble, rules-based strategies.

> ***Institutional Implication:*** *The momentum premium is not a fleeting market inefficiency. It is a persistent return source generated by the very structure of the market and the predictable psychology of its participants.*

3.3. The Framework: Dynamic Allocation for a World of Shifting Regimes

The catastrophic failure of the 60/40 and "All-Weather" portfolios in 2022 was a real-world lesson in the dangers of assuming stable market relationships. Academic research has long supported the need for a more dynamic approach.

- **Regime-Switching Models (Ang & Bekaert, 2003):** This highly cited research demonstrates that market behavior is not static but switches between different regimes [5]. They conclude that asset allocation models must be able to adapt to these regime changes to be effective. The Acanto 8A strategy's monthly rebalancing based on momentum signals is a practical and effective method for identifying and adapting to the prevailing market regime.
- **Momentum-Enhanced Risk Parity (*Journal of Investment Strategies*, 2022):** Recent peer-reviewed research has validated the 8A strategy's core innovation [7]. A 2022 study found that applying a momentum-based rebalancing overlay to a traditional risk parity portfolio significantly improves its performance, confirming that a dynamic, momentum-driven approach is superior to a static one.

> ***Institutional Implication:*** *The 8A strategy's dynamic framework is not just a reaction to 2022, but the implementation of an approach long advocated by academic research to deal with the reality of changing market regimes.*

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4. Empirical Analysis: Performance in Diverse Market Environments

While the academic foundation is critical, a strategy's utility is ultimately determined by its empirical performance. The Acanto 8A strategy has been rigorously back-tested from January 2008 through October 2021, with live performance data from November 2021 onward. This period covers multiple market cycles, including the Global Financial Crisis, the subsequent bull market, the COVID-19 crash and recovery, and the 2022 inflationary bear market.

4.1. Key Performance Metrics (Jan 2008 - Dec 2025)

The table below, extracted from the chart above, provides a quantitative comparison of the Acanto 8A strategy against standard benchmarks. The results demonstrate a clear and persistent ability to generate superior risk-adjusted returns.

Portfolio	CAGR	Stdev	Best Year	Worst Year	Max. Drawdown	Sharpe Ratio	Sortino Ratio	Market Correlation
Acanto All Asset Allocation 8 Adaptive	**12.31%**	**10.98%**	30.60%	-9.62%	**-9.59%**	**1.04**	**1.92**	0.52
SPDR S&P 500 ETF	12.36%	15.67%	32.31%	-36.81%	-48.23%	0.96	0.96	1.00
Vanguard Total Bond Market ETF	2.85%	4.03%	8.64%	-13.11%	-17.20%	0.36	0.53	0.27
Vanguard Balanced Index Inv (60/40)	7.86%	10.29%	21.67%	-22.21%	-31.02%	0.66	0.98	0.99

Analysis of Metrics:

- **Risk-Adjusted Returns:** The Acanto 8A strategy achieves a **Sharpe Ratio of 1.04** and a **Sortino Ratio of 1.92**, both significantly higher than the S&P 500 and the 60/40 portfolio. This indicates that the strategy generates more return for each unit of risk taken, particularly when measuring downside volatility (Sortino).
- **Drawdown Management:** The most compelling metric for institutional risk managers is the **Maximum Drawdown of -9.59%**. This is a fraction of the drawdowns experienced by the S&P 500 (-48.23%) and the 60/40 portfolio (-31.02%). This demonstrates the strategy's primary objective: to mitigate significant portfolio declines and preserve capital during market crises.
- **Absolute and Relative Performance:** While achieving a CAGR comparable to the S&P 500, the strategy does so with approximately **30% less volatility** (10.98% vs. 15.67%). The low correlation to the S&P 500 (0.52) further highlights its diversification benefits and its ability to generate returns that are not solely dependent on equity market beta.
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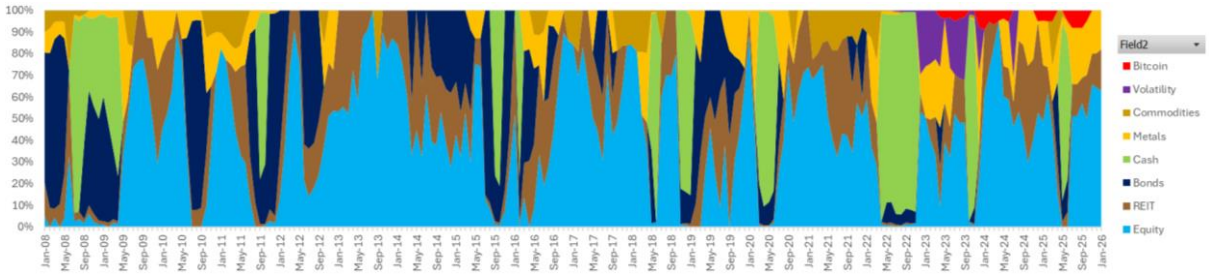
4.2. Dynamic Allocation in Practice

The asset allocation timeline at the bottom of the performance chart below provides a visual representation of the strategy's dynamic nature. It clearly shows how the portfolio composition shifts over time, moving away from asset classes with weakening momentum and rotating into those with strengthening trends. For example, one can observe the strategy reducing exposure to equities and bonds during the 2022

downturn and increasing allocations to commodities and other alternatives that were performing well at the time.



> ***Institutional Implication:*** *The empirical data confirms that the strategy's theoretical framework translates into tangible results. It has historically delivered equity-like returns with bond-like volatility, providing a compelling solution for investors seeking both growth and capital preservation.*

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5. Risks and Considerations

No investment strategy is without risk or potential drawbacks. A comprehensive institutional review requires a balanced assessment of the Acanto 8A strategy's characteristics.

1. Tracking Error and Benchmark Deviation: By its very design, the Acanto 8A strategy is a tactical, absolute-return-oriented strategy. It does not seek to track any specific benchmark. As such, there will be periods where the strategy's performance deviates significantly from traditional benchmarks like the S&P 500. During strong, narrow bull markets driven by a small number of mega-cap stocks, the strategy may underperform a pure equity index as its risk management and diversification framework will allocate capital to other asset classes. This is the expected trade-off for significant downside protection in bear markets.

2. Whipsaws and Signal Efficacy: Momentum strategies are susceptible to "whipsaws" in choppy, range-bound markets where trends fail to materialize. A rapid reversal in market direction can lead to the strategy rotating out of a position just before it rebounds, or into a new position just as its trend fails. While the intermediate-term nature of the signals is designed to filter out short-term noise, no trend-following system is immune to this risk.

3. Transaction Costs and Tax Inefficiency: The strategy's monthly rebalancing schedule necessarily incurs higher transaction costs than a static buy-and-hold strategy. While the use of liquid, low-cost ETFs is intended to mitigate this, the impact of trading costs is a key consideration. Furthermore, the strategy is generally not tax-efficient due to the potential for short-term capital gains. It is most appropriately

implemented within tax-qualified accounts (e.g., 401(k)s, IRAs) or for investors for whom tax efficiency is a secondary consideration to drawdown management.

4. Model Risk: As with any quantitative model, there is a risk that the historical relationships and anomalies upon which the strategy is built may not persist in the future. While momentum has proven to be one of the most robust and long-lasting market factors, its magnitude can and will vary over time. The strategy relies on the continued existence of behavioral biases and structural frictions that have been present for over a century, but there is no guarantee they will continue in the same form.

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6. Conclusion: An Academically Grounded Solution for Modern Markets

The Acanto Adaptive All Asset 8 (8A) strategy represents a significant evolution from traditional asset allocation. It is a direct response to the demonstrated failures of static, correlation-dependent models in an era of unstable market regimes. By systematically integrating the academically validated principles of cross-asset momentum and dynamic risk parity, the strategy provides a robust, rules-based framework for navigating modern markets.

The institutional value proposition is clear:

- **It is built on evidence, not forecasts.** The strategy does not rely on predicting economic futures or assuming stable correlations. It simply follows what is working now, a principle validated by over a century of market data.
- **It is designed to mitigate the primary risk facing investors: catastrophic drawdown.** The empirical data show a historical ability to preserve capital during severe market downturns, the periods that have the most significant impact on long-term wealth compounding.
- **It is grounded in peer-reviewed academic research.** The strategy's components are not a "black box" but a synthesis of concepts from Nobel laureates and top-tier financial journals, providing a high degree of intellectual transparency and credibility.
- **It addresses the structural limits of large institutions.** The strategy is designed to exploit the very anomalies (momentum) that career risk and institutional inertia prevent many large managers from capturing effectively.

For institutional investors, hedge funds, and advisory firms seeking a tactical solution that offers the potential for equity-like returns with superior downside protection, the Acanto 8A strategy provides a compelling, academically grounded, and empirically supported alternative to traditional asset allocation.

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Actual client performance may vary significantly from the results presented due to a variety of factors, including but not limited to market volatility, trading commissions, advisory fees, and the timing of investment decisions. This strategy is generally not considered tax-efficient and may be most appropriate for implementation within a tax-qualified account.

This strategy is not suitable for all investors. It should only be considered for deployment after a qualified financial advisor has conducted a thorough review of a client's individual financial situation, investment objectives, and risk tolerance, and has determined that the strategy is appropriate for that client. Prior to any investment, clients must receive and carefully review Acanto LLC's Form ADV Part 2A (Firm Brochure) and other applicable disclosure documents. The investment strategy and the systems used to manage it are subject to change or discontinuation at any time without notice. All investing involves risk.

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8. References

[1] Jegadeesh, N., & Titman, S. (1993). Returns to Buying Winners and Selling Losers: Implications for Stock Market Efficiency. *The Journal of Finance*.

[2] Moskowitz, T. J., Ooi, Y. H., & Pedersen, L. H. (2012). Time Series Momentum. *Journal of Financial Economics*.

[3] Gray, W. R., & Vogel, J. R. (2016). *Quantitative Momentum: A Practitioner's Guide to Building a Momentum-Based Stock Selection System*. Wiley.

[4] For example, see reports from Morningstar and Business Insider regarding the historic underperformance of 60/40 portfolios in 2022.

[5] Ang, A., & Bekaert, G. (2003). How do Regimes Affect Asset Allocation? *NBER Working Paper*.

[6] The principles of risk parity were pioneered by Bridgewater Associates, as documented in numerous publications, including "The All Weather Story" (2025).

[7] As cited in the main Acanto 8A Strategy Paper, a 2022 study in the *Journal of Investment Strategies* found that a Moving Average Distance (MAD) based momentum rebalancing strategy improves risk parity performance.

[8] Shleifer, A., & Vishny, R. W. (1997). The Limits of Arbitrage. *The Journal of Finance*.

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8. About the Author

Peter A. Lusk, Jr., MBA, CMT
Founder & Chief Investment Officer: Acanto LLC

As the Chief Investment Officer of Acanto LLC, Peter brings decades of experience in market analysis and financial planning to help clients navigate complexity with clarity and confidence. Peter finds the greatest satisfaction in solving complex financial challenges and bringing clarity to people's lives—particularly when thoughtful planning uncovers risks and opportunities they didn't realize existed.

With over 30 years of experience as a Fiduciary and Investment Advisor, Peter excels at solving complex problems. He has a long history of achieving excellent risk-adjusted returns through innovative strategies like Momentum, Risk Parity, and ESG data. Before founding Acanto LLC, he gained extensive experience at hedge funds, investment banks, and as an advisor to high-net-worth clients.

Peter holds an MBA from Columbia University, Series 65, 7, and 3 licenses, and is a Chartered Market Technician (CMT). Before entering finance in 1994, he earned a Master of Architecture from Tulane University, receiving the Tau Sigma Delta Award for Excellence. His thesis, "Ecology as the Common Denominator for Design," was published in the AIAS journal "CRIT" In 1990.When not helping Acanto's clients reach Complete Financial Clarity, he shares a passion for cycling, tennis, skiing, and volunteering at the local animal shelter. He is a proud supporter of Waggle.org and the Jacksonville Humane Society.

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