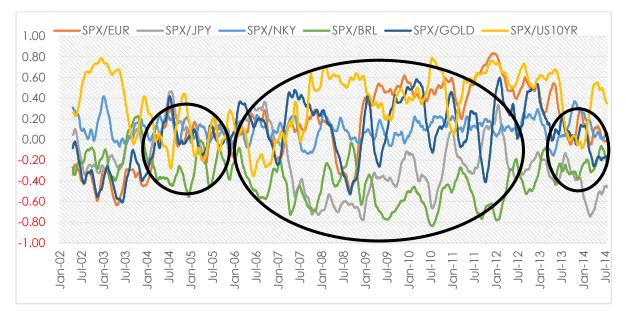


Farewell to Risk On - Risk Off

The tendency towards strongly positive or negative correlations between markets that was associated with the financial crisis and its aftershocks has unwound. Conditions have normalised.





In the past 12 months:

- Correlations have generally converged between -0.40 and +0.40 which is a return to pre financial crisis conditions. Between 2007 and 2012 the range was covered by -0.80 to +0.80.
- Correlations have regularly spiked but not to the levels of previously, the spikes have not
 persisted and readings have subsequently converged back into a tighter range than
 previously.

General Implications for Trading and Portfolio Construction

Other things being equal, relative to the 2007 – 2012 period:

- 1. The benefits of portfolio diversification are re-asserting themselves. A portfolio can hold more positions for the same level of risk.
- 2. Short term price moves during periods when correlations flare up should be countered.
- 3. An optimum trading strategy is likely to involve longer trade holding periods and lower portfolio turnover.

Conor O'Mara Investment Director Three Rock Capital Management Limited <u>conor.omara@threerockcapital.com</u> <u>www.threerockcapital.com</u>

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