

# The real risk isn't the event, it's your reaction to it

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## The noise is deafening. The question is: what do you do about it?

I have been doing this for over 20 years, and I cannot recall a period where markets have been this reactive to headlines. Liberation Day tariffs drove a near 20 percent drawdown in just seven weeks. Then concerns around the Strait of Hormuz pushed oil above 100. An Iran ceasefire delivered the Dow's best single day since April. Small caps have rallied 45 percent off their April 2025 lows.

On any given day, it feels like we are toggling between crisis and opportunity, depending on which headline you are reading.

What I keep coming back to is simple. The noise itself is not the issue. It is how we respond to it that ultimately drives outcomes.

## The real risk isn't the event, it's your reaction to it

When markets spike or crater on headlines, the instinct is to *do something*, raise cash, chase the rally, dump whatever just got hit. I get it. But I tend to lean on the data, and, more often than not, it tells a very different story.

The challenge is that unless you had the foresight (or luck) to anticipate the event, by the time it's in the headlines, the first move is already behind you. So, the real question becomes: what happens next? In many cases, that initial drawdown is more behavioral than fundamental, a knee-jerk repricing driven by emotion rather than economics. But once the second-order effects begin to work their way through the broader economy, that's when things can get more serious. At that point, downside risk can accelerate meaningfully. We've seen how that plays out—just look at 2007–2008.

Markets, in my experience, tend to unfold in two phases. First, you get the behavioral move, the panic or euphoria driven by headlines and positioning. Then comes the fundamental follow-through, when the real economic impact becomes clear and prices adjust accordingly. It's that second phase that tends to matter most, and where the bigger opportunities, and risks, usually sit.

## What I actually watch

So, if headlines are not the signal, what is?

I focus on four core indicators. Not because they can predict the future, but because together they capture the interaction between behavioral sentiment and underlying fundamentals.

The S&P 500 shows what the market is pricing in. When it gets extended, you often see behavior creep in, where optimism outruns what can actually be justified. That is typically where overpricing starts to build.

The VIX reflects fear in real time. But context matters. A spike in volatility is not automatically a sell signal. Sometimes it is rational repricing. Sometimes it is panic that creates opportunity. The distinction is critical.

The Leading Economic Index is the forward-looking reality check. Markets can drift away from fundamentals for a while, but LEI helps anchor where the economy is actually heading, not where the narrative suggests it should be.

And then there is the Fed. When policy shifts outside of scheduled meetings, that is not noise. That is a signal that conditions have changed in a meaningful way.

Where this gets tricky is when you isolate any one of these.

I have learned this the hard way. The VIX spikes, you move to cash, and the market rallies without you. The S&P pulls back, you rotate defensively, and small caps take the lead. LEI softens, you trim exposure, and then the Fed pivots and risk assets surge.

Each signal, on its own, can be right. Acting on it in isolation is where things tend to go wrong. That is how portfolios get whipsawed. The first moves are often driven by behavioral sentiment and positioning. They feel urgent, but they are not always durable. The more consequential moves come later, when fundamentals and policy begin to assert themselves.

If you are reacting to the first phase and missing the second, that is where the real risk tends to sit.

## **The orchestration problem**

What institutional investors tend to appreciate, and what often gets lost in the retail narrative, is that signals are not meant to be watched in isolation; they need to be orchestrated. It is not about reacting to every data point. It is about understanding how they interact.

That is really the philosophy behind the NAA Allocation Index. We are not trying to guess which signal will matter next. Instead, we have built a systematic framework designed to respond to combinations of conditions, not any single input flashing red or green.

At a base level, we rebalance quarterly. Simple and consistent. But when the Fed steps in outside its usual cadence, that is a different story. That triggers an automatic rebalance. No committees, no drawn out debates, no waiting for consensus. The process just runs.

This is not about outsmarting the market. If anything, it is about staying one step ahead of our own instincts, and letting discipline do the heavy lifting.

## **Secondary testing: the confirmation layer**

Let me walk through how this plays out in practice.

Take LEI as an example. If it starts to weaken, that is an important signal. It is flagging the potential for fundamental stress ahead. But on its own, that is not enough to drive allocation changes. I want to see confirmation in the trend. Is this just a one month wobble, or are we seeing a more persistent deterioration?

That second layer of testing acts as a filter. It is what separates reacting to noise from responding to a genuine shift in conditions. We are not trying to sidestep all volatility. That is not realistic. The objective is to avoid the kind of losses that occur when behavioral sentiment disconnects from fundamental reality and leaves assets overpriced.

That is exactly what the h-factor® is designed to capture. The h-factor<sup>1</sup> identifies and measures the behavioral distortion from storytelling that inflates stock prices beyond what companies can realistically deliver. The h-factor measures the disconnect between a company's stock price and its underlying fundamentals.

## The discipline of dynamic allocation

Here is what the current framework looks like in practice.

Quarterly rebalances set the baseline across equities, fixed income, and alternatives including cash. Mid quarter checkpoints help us identify emerging conditions before they escalate. And when the Fed acts between meetings, the framework automatically reassesses. If the central bank is moving with urgency, the process should too.

It is systematic, not reactive. Probability based, not predictive. The philosophy is consistent. Avoid the losers rather than trying to pick every winner.

## What I'm watching now

I will not pretend to know what comes next with tariffs, Iran, or the Fed. Anyone claiming that level of certainty is usually selling something.

What I can do is show you what the signals are saying and how the framework responds. That transparency matters. It should.

We are compiling actual performance data that validates this approach that we will publish on our Substack. No cherry-picked windows. Just real results from a disciplined process operating in real time. To be notified when this becomes available, subscribe to our Substack here: <https://juliankoski.substack.com/>

The noise is not going away, and neither is the urge to react to it. But there is a clear difference between systematic allocation and emotional decision making dressed up as strategy.

To me, that is not speculation. That is professional responsibility.

*Julian Koski, CIO, New Age Alpha*

<sup>1</sup>The h-factor® is a risk score from 0%-100%. It tells you the probability that a company will fail to deliver the revenue indicated by its stock price.

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#### Definitions:

The S&P 500 Index is an unmanaged market capitalization weighted index of 500 of the largest capitalized U.S. domiciled companies. The Leading Economic Index (LEI), is an index published monthly by The Conference Board. It is used to predict the direction of global economic movements in future months. The Chicago Board Options Exchange Volatility Index, or the 'VIX' is a measure of the expected volatility of the US stock market.

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