NG FUNDS

INSIGHTS

RULES OVER FORECASTS

What systematic investing actually means

BY DAVID REED, NG FUNDS

6 min read | For professional investors only

INTRODUCTION

Every year, the investment industry publishes its outlooks. Where growth is heading, what inflation will do, which asset class will lead. They are thoughtful, well researched and, as any allocator who has read a few years of them knows, often wrong on the things that matter most.

That is not a criticism of the people writing them. Forecasting markets is genuinely hard. The problem is what happens when a portfolio depends on those forecasts being right.

This article is about the alternative:
building a portfolio around rules rather than predictions.
And about why “systematic” should never mean “black box.”

EVERY PORTFOLIO ALREADY RUNS ON RULES

There is a common view that portfolios are either systematic or discretionary, as if one uses rules and the other uses judgment.

In reality, every portfolio runs on rules. Discretionary managers have them too, and the best apply them with real discipline: ideas are researched, modeled and tested before capital is committed, and there are clear views on when to add risk, when to cut it and what evidence would change their mind. The difference is that in discretionary investing, at least some of those rules rely on judgment in the moment.

A systematic process writes the rules down, tests them, and applies them the same way every time. The judgment has not disappeared. It has been moved to the point where it is most useful: before the decision, when there is time to research and test, rather than during it, when markets are moving fastest.

THE FORECASTING PROBLEM

It is tempting to think the answer to changing markets is a better forecast.
There are three reasons that tends to disappoint.

01

Timing matters as much as direction

Being right about a recession but a year early can cost as much as being wrong. A forecast can ultimately prove right and still lose money along the way.

02

Conviction resists evidence

Once a view is formed, and especially once it is public, it is hard to abandon. Evidence that should change a position gets explained away.

03

Pressure changes behavior

Markets rarely give investors a comfortable moment to change their minds. The point at which a portfolio most needs to adapt is usually when conditions are most stressful, and when in-the-moment decisions are hardest to make well.

> *None of this means the future is unknowable.*
> *It means a portfolio should not need to know it.*

ADAPTING INSTEAD OF PREDICTING

The alternative is to ask a different question. Not “what will happen next?” but “what conditions are we in now, and how should the portfolio respond?”

Markets tend to move through recognizable environments, shaped largely by the direction of economic growth and inflation. Different asset classes have historically behaved very differently across those environments. Equities, government bonds and commodities can each lead or lag depending on which one we are in.

The distinction matters because a rules-based portfolio does not have to decide that “inflation has peaked” or “a recession is coming.” Instead, it can see whether growth and inflation are accelerating or decelerating, assess how markets are behaving alongside those signals, and adjust exposure accordingly.

That is a fundamentally different task. A forecast is a view about where the economy will be. A rules-based signal is a measurement of where it is heading now, and whether market prices are confirming or contradicting that picture. When the evidence shifts, the portfolio shifts with it. When it does not, the portfolio stays put, however loud the commentary becomes.

The objective is not to predict the next regime perfectly. It is to avoid remaining positioned for the last regime when the evidence has changed.

No process will catch every shift the moment it happens. But a rules-based one will respond consistently, and it will not talk itself out of responding.

> *“It will respond consistently, and it will not talk itself out of responding.”*

- **How the process connects**



WHY SYSTEMATIC SHOULD NEVER MEAN BLACK BOX

This is where many investors understandably become cautious. If decisions are made by a model, how do you know what the model is doing?

It is the right question, and any systematic manager should be able to answer it. Complexity is not the same thing as opacity. A model can be sophisticated and still be explainable.
For us, an investor should be able to understand four things:

- **Four things an investor should understand**

01	**WHAT GOES IN** The broad types of data the process uses. In our case, macroeconomic data on growth and inflation, alongside market signals that show how prices are actually behaving.
02	**WHAT IT IS TRYING TO DO** The objective the rules serve. For us, that means managing downside risk when conditions deteriorate, and participating when they improve.
03	**WHAT MAKES IT CHANGE** The kind of evidence that leads to a shift in allocation, and the kind that does not.
04	**WHAT IS NEVER OVERRIDDEN** The discipline the process holds to when markets become uncomfortable.

An investor does not need to see every line of code. They do need to understand the logic well enough to know what the portfolio is likely to do in different conditions, and why.

That understanding is what allows a systematic approach to be held with confidence through difficult periods, which is when it matters most.

WHAT RULES CANNOT DO

It is equally important to be clear about limits. A rules-based process does not eliminate risk or avoid every loss. Signals can be wrong. Markets can move faster than any model can respond, and a strategy designed for full market cycles will have periods when it looks out of step.

At NG Funds, our starting point is simple: manage risk as conditions change first, participate in growth second. That means we would rather build portfolios around observable evidence than rely on accurately predicting what happens next.

> *"What rules offer is not certainty. It is consistency: the same evidence treated the same way, whatever the headlines say."*

QUESTIONS WORTH ASKING OF ANY PORTFOLIO

For advisers and wealth managers evaluating any approach, systematic or discretionary, a few questions cut through quickly:

- What would cause this portfolio to change its positioning, and who or what decides?
- Are those decisions made in advance, or in the moment?
- Can the manager explain what the portfolio is likely to do if inflation rises or growth slows?
- What happens when the manager's view and the evidence disagree?

The question is not whether a manager can predict what happens next. It is whether the portfolio has a disciplined way of responding when what happens next is different from what everyone expected.

That is the case for rules over forecasts.

NEXT IN THE SERIES

Over the coming months, we will share how we think about the market environments that drive asset class behavior, and how a systematic process responds as they change.

Explore our investment approach

Explore WTHR

NetGrowth Funds 2026

Website:
netgrowthfunds.com

Follow NG Funds to read the next piece:

Important Information

This publication is a marketing communication intended for professional investors only. It is provided for general information purposes and does not constitute investment advice or a recommendation to buy or sell any financial product.

The value of investments can fall as well as rise, and investors may not recover the amount originally invested. Past performance is not a reliable indicator of future results. Systematic investment strategies do not eliminate investment risk, and there is no guarantee that any investment objective will be achieved.

Investors should seek independent financial advice where appropriate before making investment decisions.

NG FUNDS