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THINK PROBABILITIES AND NOT PREDICTIONS

EMBRACING UNCERTAINTY WITH PROBABILITIES

The Certainty Illusion

When people talk about markets, they often default to prediction. Will rates rise? Is a correction coming? Will the dollar top out? These questions reflect an underlying human need for certainty, the belief that someone, somewhere must know what happens next. It is a deeply ingrained instinct, rooted in our desire for control in an unpredictable world. But markets do not operate on certainties. They are complex, adaptive systems, shaped by flows of information, shifting sentiment, evolving policy, and positioning dynamics. They do not follow scripts. They react, recalibrate, and surprise.

This is why prediction, in the rigid sense, often fails. Even when the narrative seems obvious in hindsight, foresight remains elusive. And that is where a probabilistic mindset becomes not just useful, but essential. For any investment strategy, especially systematic macro, the aim is not to be precisely right. It is to be intelligently prepared for a range of plausible outcomes.

Forecasting vs. Probabilistic Thinking

There is a critical distinction between forecasting and thinking in probabilities. It is not just a semantic difference — it is structural.

The Forecasting Mindset:

- *Anchored in: What will happen next?*
- *Leads to binary bets: in or out, risk-on or risk-off.*
- *Encourages overconfidence in single scenarios.*
- *Struggles to adjust when outcomes diverge from expectations.*
- *Reacts emotionally to surprises.*

The Probability-Based Mindset:

- *Asks what could happen? And how likely is each outcome?*
- *Plans across a distribution of possible futures.*
- *Allocates risk according to confidence, not certainty.*
- *Adapts when the odds shift.*
- *Accepts surprises as part of the game, not a failure of prediction.*

A probability-based view acknowledges that uncertainty is a feature, not a flaw. Rather than trying to eliminate it, we work with it, integrating uncertainty into our process and positioning accordingly.

What This Means for Systematic Macro

Systematic macro strategies do not try to forecast the news. They do not rely on guessing central bank decisions or GDP. Instead, they analyse data patterns like trend persistence, mean-reversion, or volatility regime shifts -- that historically offer statistical edge over time. These patterns do not deliver certainty. But they can tilt the odds.

When a systematic strategy detects such a signal, it does not think an asset will go up. Instead, it evaluates whether the expected return distribution is skewed positively, and if so, assigns exposure accordingly. This always happens within a structured risk framework. Exposure levels reflect both signal strength and confidence. When uncertainty increases, positions may scale down. When conviction rises from multiple confirming signals, exposure may expand but always with downside risk controls and tail risk overlays in place. The system is built to absorb surprises, not be derailed by them. *It is not about betting big on a singular outcome, but building a portfolio that adapts as the distribution of outcomes evolves*.

Why it Matters for Investors

For long-term investors, thinking in probabilities has several tangible advantages:

- ***Disciplined Navigation of Uncertainty***
  Markets rarely present 'clear' setups. A probabilistic process does not wait for perfect clarity — it engages with evolving uncertainty in a structured way.

- ***Improved Diversification***
  Rather than relying on a single big idea, portfolios are constructed from multiple independent bets, each with modest expected edge. This reduces reliance on any one outcome and lowers volatility of returns.

- ***Smarter Risk Allocation***
  Position sizing becomes dynamic. informed by both opportunity and uncertainty. Larger exposures are reserved for higher-confidence setups. Smaller trades reflect wider dispersion or lower conviction.

- ***Lower Emotional Interference***
  Binary bets often invite emotional responses. Wins breed overconfidence. Losses provoke fear or regret. A probabilistic process grounded in risk budgeting and scenario planning helps investors stay objective.

- ***Faster Recovery from Mistakes***
  Probabilistic frameworks acknowledge that losses are part of the distribution. When a position does not work, it is not a failure. It is a recognised possibility. This mindset supports faster, more rational reallocation of capital.

NexusOne Insight: Probabilities, Not Predictions

At NexusOne, probabilistic thinking is not a layer added on top. It is foundational and baked into the architecture of how we analyse, structure, and allocate. We do not claim to know the future. We do not rely on single-scenario forecasts or outsized directional bets. Instead, we:

> - ***Develop quantitative models that evaluate the likelihood of various market conditions based on historical and real-time data***
>
> - ***Design exposure logic that weights opportunity vs. risk, scaling positions as signals strengthen or fade***
>
> - ***Incorporate uncertainty directly into our risk overlays, so we are not just protecting capital — we are adapting to the evolving shape of the risk landscape***
>
> - ***Build globally diversified portfolios, so no single outcome, market, or narrative dominates the result***

Our goal is not to call the top, or the bottom. It is to stay in the game with discipline, agility, and resilience across different regimes and surprise events. In our experience, good investing is not about being certain. It is about making confident decisions in an uncertain world and adjusting as probabilities change.