

## Three Surprising Risk Management Ideas for 2026

Year-ahead commentary is challenging for us: We don't have a crystal ball, and we believe predictions contribute more to investment mistakes than outperformance. But the New Year does offer opportunity to consider recent experiences in long-run strategic terms.

(If our look ahead to 2026 sounds similar to what we published in [2025](#), [2024](#), [2023](#), and [2022](#), it's because we believe in a consistent approach to asset management. Although our philosophy is consistent, the themes for the coming year are fresh – as you'll see below.)

Looking back on our 2025 commentary, we've identified three key 2026 risk factors and ways to manage them:

- **Bonds:** Amid the usual considerations around interest rates, the eternal truth holds: Focus on downside risk mitigation.
- **Stocks:** The major US indices remain heavily concentrated in a few dominant technology firms and are trading at multiples not seen since prior bubbles.
- **Artificial Intelligence & Investing:** Making investment decisions with the help of A.I. needs some demystification for discerning investors.

### Bonds: Invest for Yield or Risk Mitigation?



For typical individual investors, fixed income's goal is not to maximize return but instead to preserve capital when equity markets are stressed. When investors forget this and use fixed income to target returns instead of resilience, trouble can follow. Higher yields in fixed income are almost always compensation for additional risks such as credit, liquidity, leverage, or duration. In volatile markets, these risks can undermine fixed income's diversification benefit.

While many market participants are trying to make sense of a rising unemployment rate and uncertainty about how well inflation is contained, we continue to believe in systematic risk management that focuses on the downside. In this framework, yield becomes a benefit—not the objective—ensuring the fixed-income sleeve strengthens, rather than compromises, the overall portfolio.

## Stocks: Concentration risk & high P/E ratios – What, me worry?



could become meaningfully cheaper.

Early in the year we considered **what would happen if the Magnificent 7 don't stay magnificent**. We enter 2026 with a similar setup. The Magnificent 7 retain about a 30% share of the S&P 500's market cap, and are valued at roughly 8 times forward sales, per Yardeni Research. Market concentration risk aside, elevated valuation ratios are often cited as a headwind to future returns. In reality no one can reliably predict where markets are headed: Valuations could just as easily become significantly more expensive over the next decade as they

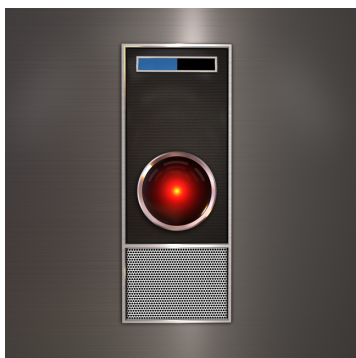
That uncertainty is precisely why diversification matters. History may offer little justification for market-leading stocks trading at 45x, 30x, or even 15x earnings today—but markets are not bound by historical precedent. Diversifier strategies that systematically adapt to changing market conditions can help manage risk, particularly if valuations ultimately revert toward their historical averages.

Investors with concerns about US stock market downside can use a long-short strategy like our **Tactical Equity Fund** to **manage broad market risk**. Investors interested in stock market exposure, but who would like to diversify their portfolios may want to look at the **Counterpoint Quantitative Equity ETF**, whose unique approach and equal weighting dramatically limits exposure to Magnificent 7 stocks.

As the Magnificent 7 have continued to meet investors' expectations, a “**junk rally**” in less-profitable, speculative stocks has also emerged. We believe such rallies eventually subside, and when they do, long-short strategies tend to profit from a correction in junk stocks' mispricing.

When contemplating the future of US stock market risk, it's important to remember that **not all diversifier strategies are created equal**. Advisors must weigh liquidity, correlation, and volatility considerations when considering which diversifiers will best serve clients.

## Artificial Intelligence & Investing: I'm sorry I can't do that Dave.



Artificial intelligence has become a widely used term in investment management, but not all A.I.-driven strategies are built the same. **At its core, A.I. is a prediction engine**—one that learns from historical data to estimate what may happen next. While this technology can be powerful, effectiveness depends on model design, data inputs, and the interpretation of outputs. Investors should be wary of treating all A.I. solutions as interchangeable. Superficial similarities in branding can mask meaningful differences in methodology and rigor.

The most durable A.I. strategies also recognize the importance of human oversight. Models are only as good as their inputs. Thoughtful variable selection grounded in economic logic is essential to

avoid chasing noise or statistical coincidences. Rather than replace judgment, effective A.I. augments it—combining human insight with machine-driven pattern recognition. For investors, the key is to understand how an A.I. strategy is built, why its inputs were chosen, and how its predictions are governed.

## Conclusion

We believe bold predictions often leave investors worse off. On the other hand, our strongest belief is in systematic processes that prepare portfolios for many scenarios.

Low-correlation systematic strategies can have the paradoxical effect of freeing investors from focusing too heavily on big drivers of traditional asset class performance – things like interest rate regime change, the AI revolution, and global conflict. When a portion of a portfolio includes systematic alternatives, an investor can afford to be a little less focused on making big predictions, a little humbler about what we actually know about the future, and a lot more focused on achieving favorable long-term results.

## Important Risk Information

Mutual Funds involve risk including the possible loss of principal. The use of leverage by the Fund or an Underlying Fund, such as borrowing money to purchase securities or the use of derivatives, will indirectly cause the Fund to incur additional expenses and magnify the Fund's gains or losses. Derivative instruments involve risks different from, or possibly greater than, the risks associated with investing directly in securities and other traditional investments. There is a risk that issuers and counterparties will not make payments on securities and other investments held by the Fund, resulting in losses to the Fund. Past performance is no guarantee of future results. There is no assurance the Funds will meet their stated objectives. Diversification does not ensure a profit or guarantee against loss.

While the shares of ETFs are tradeable on secondary markets, they may not readily trade in all market conditions and may trade at significant discounts in periods of market stress. ETFs trade like stocks, are subject to investment risk, fluctuate in market value and may trade at prices above or below the ETF's net asset value. Brokerage commissions and ETF expenses will reduce returns. There is no guarantee that the Fund will achieve its objective.

Like any quantitative analysis, the Adviser's investment models carry a risk that the models used might be based on one or more incorrect assumptions including as a result of the Adviser's incorrect assumptions and assessment with respect to the quality and/or relevance of the inputs and relationship between inputs. The possibility of an inaccurate or incorrect assessment of data by machine learning software can negatively impact the effectiveness of a model. Rapidly changing and unforeseen market dynamics could lead to a decrease in the short-term effectiveness of the models and could have an adverse effect on the securities selected for the Fund. No assurance can be given that the Fund will be successful under all or any market conditions.

## Index Definitions

The **S&P 500 Total Return Index**, or Standard & Poor's 500 Index is a market-capitalization-weighted index of 500 leading publicly traded companies in the U.S.

The **Nasdaq-100** is a modified capitalization-weighted index made up of equity securities issued by 100 of the largest non-financial companies listed on the Nasdaq stock exchange.

## Definitions

**Magnificent 7 stocks**, or mag-7, refers to seven dominant tech companies—Apple, Microsoft, Amazon, Alphabet, Meta, Nvidia, and Tesla that are known for their innovation and strong financial performance and represent a significant portion of major cap-weighted indexes like the S&P 500 and Nasdaq Composite.

The **Price-to-Earnings (P/E) ratio** is a fundamental valuation metric that measures a company's current share price relative to its earnings per share (EPS). It indicates how much investors are willing to pay for \$1 of a company's earnings, helping to determine if a stock is overvalued or undervalued.

**CPIEX Stock Selection** - The advisor to the Counterpoint Tactical Equity Fund selects stocks on which to go long and short based on results from the Counterpoint Machine Learning Model™. The model uses machine learning technology to rank stocks of companies of any market capitalization. Machine learning is a type of artificial intelligence ("A.I.") that finds relationships between variables and outcomes and uncovers interactions between multiple variables. The Fund's models use over 40 variables as inputs. These variables revolve around themes of value, long-term reversal, stock price momentum, company profitability, investor sentiment toward the company, and stock price stability.

**CPAI Stock Selection** - The advisor to the Counterpoint Quantitative Equity ETF selects stocks on which to go long based on the results from the Counterpoint Machine Learning Model™. The model uses machine learning technology to rank stocks of companies of U.S. domiciled companies and ADRs of any market capitalization. Machine learning is a type of artificial intelligence ("A.I.") that finds relationships between variables and outcomes, and uncovers interactions between multiple variables. Counterpoint Quantitative Equity ETF's model uses more than 40 variables as inputs. These variables revolve around themes of value, long-term reversal, stock price momentum, company profitability, investor sentiment toward the company, and stock price stability.

A **Long-Short Strategy** is an investment approach, popular with hedge funds, that profits by buying (going long) undervalued stocks expected to rise and simultaneously selling borrowed (going short) overvalued stocks expected to fall, aiming to generate returns regardless of overall market direction by exploiting both upward and downward price movements while potentially reducing risk and managing taxes.

**Short (going short)** means that the default of an issuer or group of issuers leads to a gain for the institution, regardless of the type of instrument or transaction creating the exposure.

**Long (going long)** means that the default of an issuer or group of issuers leads to a loss for the institution, regardless of the type of instrument or transaction creating the exposure.

Important information about the funds is available in their prospectuses, which can be obtained at [counterpointfunds.com](https://counterpointfunds.com) or by calling 844-273-8637. The prospectuses should be read carefully before investing. Investors should carefully consider the investment objectives, risks, charges, and expenses of the funds managed by Counterpoint Funds. The Counterpoint Funds fund family is distributed by Northern Lights Distributors, LLC member FINRA/SIPC. Counterpoint Funds, LLC is not affiliated with Northern Lights Distributors, LLC member **FINRA/SIPC**.

20260127-5157952