

Closing the Behavior Gap: Smarter Timing with Specialized AI

By Nayan Madhamshettiwar, CTO

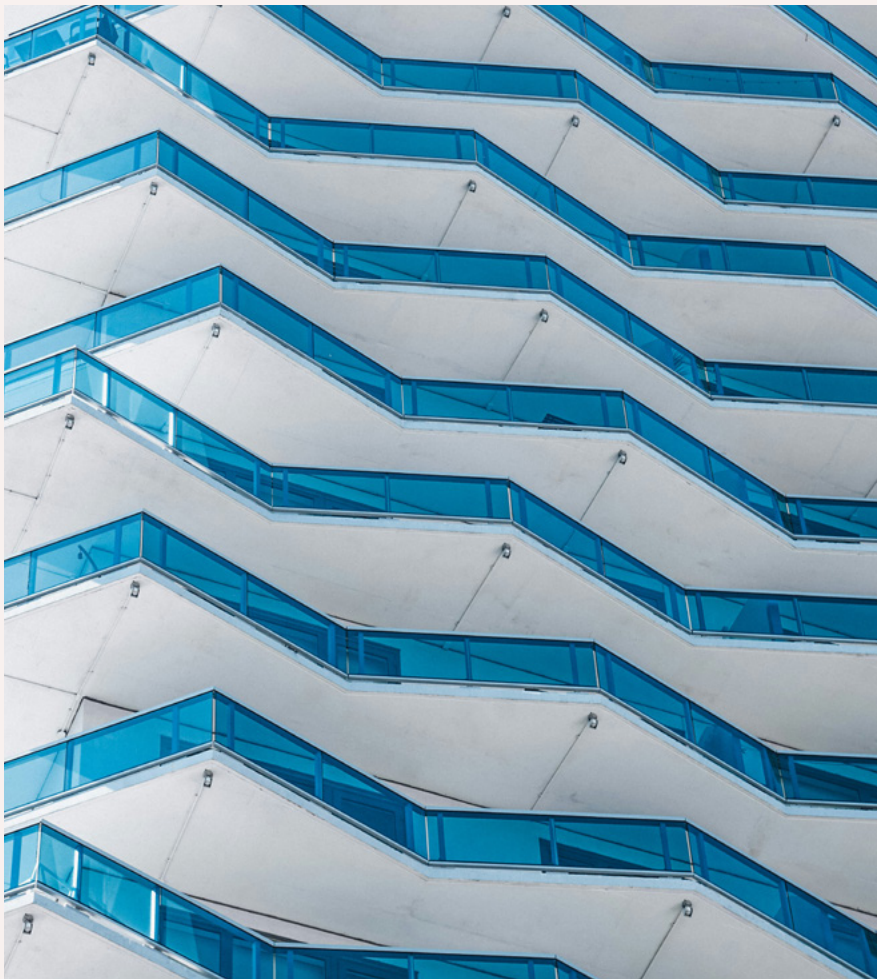


FLEXTION It's about *time*.

Investors today have more tools, data, and advice than ever before—yet most still struggle to keep up with market returns. The problem isn't a lack of information; it's the challenge of making decisions at the right time. Research like DALBAR's long-running studies and Raymond Micaletti's AIAE indicators show a consistent 300–600 basis point gap between market returns and what investors actually earn.

At Flextion, we believe this "behavior gap" comes down to a simple truth: most investors don't fail because they're uninformed—they fail because they mistime their actions. That's why instead of building yet another dashboard or forecast, we created a domain-trained AI agent to help advisors and investors make smarter timing decisions and close this gap once and for all.

The Real Barrier: Mistimed Actions, Not Missing Skill



Seasoned advisors have long recognized a hard truth: Success in investing is more about when you act than what you buy.

- ▶ **Markets move in complex, unpredictable patterns,** with long down periods suddenly reversed by quick rebounds.
- ▶ **Headlines, fear, and hype often push investors to buy high and sell low,** bailing out of positions right when patience would have paid off.
- ▶ **Standard return measures based on the calendar don't help much,** because they can't show you when a position is truly improving or falling apart in real time.

Our Solution: Smarter AI Agents Built for Wealth Management

Instead of adapting a bloated, hallucination-prone general-purpose LLM, we engineered a Small Language Model (SLM) trained exclusively on curated wealth and asset management data. This targeted, compact model is built for precision, explainability, and trust.

What Makes It Different

01

Wealth-Specific Training

Our model learns from carefully chosen, high-quality sources, including:

- ▶ Performance histories from portfolio managers
- ▶ Behavioral finance research from DALBAR's and Micaletti's AIAE Indicators
- ▶ Client behavior patterns and analytics
- ▶ Academic research on timing, market structure, and how money flows impact returns

Because it's trained for one purpose, it stays consistent, clear, and fully auditable—something general models do not deliver.

02

Smarter Timing with Probabilities

Calendar-based returns can provide a false sense of security. Our agent uses probabilities instead looking at how returns have behaved historically, not just recently:

- ▶ It suggests a buy when the odds of good future returns are above 80%
- ▶ It suggests a sell when those odds drop below 20%
- ▶ This is the same logic many experienced managers use to weigh risk and opportunity

03

Better Signals with Trend Awareness

To make timing even more reliable, the agent also looks at short- and medium-term trends:

- ▶ Smoothed patterns in returns
- ▶ Volatility and dispersion between winners and losers
- ▶ Signals that pick up on shifts in momentum or mean-reverting behavior

This helps it avoid false alarms and stay effective whether markets are trending or bouncing around.

04

Designed for Advisors

Flexion's agent puts these capabilities in the hands of portfolio managers and advisors through a conversational interface:

- ▶ Ask, "Which funds are likely to rebound next quarter?" and receive signal-ranked recommendations with confidence scores
- ▶ Get clear explanations of why a fund's past outperformance may (or may not) sustain based on its market-time curve
- ▶ Each output includes signal provenance, historical backtesting, and an auditable reasoning trail

Why Ontologies Make Small Models Smarter

Ontologies are a critical enabler of specialized AI. They give our SLM:

- ▶ **Traceability and Explainability:** every decision can be traced to well-defined rules and concepts
- ▶ **Task Specialization:** keeping the agent efficient, targeted, and free of unnecessary complexity
- ▶ **Data Interoperability:** harmonizing disparate data sources into a unified, consistent knowledge framework
- ▶ **Structured Reasoning:** explicitly defined relationships and rules that ground the SLM's reasoning

In regulated industries like wealth management, scale is less valuable than trust. That's why we believe the future of AI is not bigger but smarter.



Results: Turning Behavior Gaps into Behavior Gains

We tested our approach on more than 13,000 actively managed equity and bond funds, excluding passive and narrow thematic funds. **The results stood out:**

- ▶ Over 85% signal success on equity funds
- ▶ Consistent behavioral improvements of 200–400 basis points compared to typical investor timing
- ▶ A smart ability to identify "unmodelable" funds with unstable returns, helping advisors steer clear of trouble

The agent doesn't just say when to act; it also highlights when not to act, helping advisors reduce client churn, improve portfolio design, and deliver better outcomes across full market cycles.

What's Next: Smarter Portfolio Intelligence

We're already expanding the agent's capabilities to do even more:

- ▶ Dynamic asset allocation based on groups of managers
- ▶ Strategy-specific signals for controlling downside risk and volatility
- ▶ Model portfolios that can learn from real investor behavior and adjust automatically

Our bigger vision is to transform the old "behavior gap" into a measurable, repeatable behavior gain.

Let's Redefine Investor Behavior

No more dashboards that overwhelm. No more generic, black-box predictions.



Let's move from behavior gaps to behavior gains. From big, brittle AI to small, focused, trustworthy agents. From information overload to actionable decisions.

Flexion is powering the future of investor behavior, one smart agent at a time.

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About the Author

A distinguished digital transformation leader, Nayan has 15 years' experience conceptualizing and implementing effective solutions for prominent wealth management firms. He has designed and optimized asset allocation frameworks and investment strategies for Barron's financial advisors, and has recently developed an AI-based Long Short-Term Memory (LSTM) model to deliver superior risk-adjusted returns. Nayan has led the creation of intelligent portfolio rebalancing, augmented tax-loss harvesting algorithms, and bear/bull market-sensing methodologies. As CTO at Flextion, Nayan leverages his expertise in AI-driven investment portfolio strategies to shape its cutting-edge platform.

Flextion is a breakthrough platform for evaluating fund strategy returns, helping investors identify managers at a pivotal turning point—those poised to outperform after a period of underperformance. Designed by seasoned portfolio managers, Flextion bridges the gap between “clock time” and “market time,” empowering investors to unlock long-term value and uncover hidden performance potential.

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