THE TWO BOOKS FRAMEWORK

Core Book & Technical Overlay Book

"Entry logic determines how you get in.
Price and drivers determine how long you stay."

Lighthouse Macro

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PHILOSOPHY

True global macro is directional, not directionally constrained. Soros didn't break the Bank of England by being too bullish on the UK's currency. He shorted the shit out of the pound. We are directional macro, not relative value. We have views. In a world where prices go up most of the time, our bias will be towards owning as opposed to shorting. The framework accommodates wherever the thesis takes us: long or short.

The distinction between the two books isn't about direction or duration. It's about what drives the position:

- **Core Book:** Position follows a macro/fundamental thesis
- **Technical Overlay:** Position follows price structure alone

Critical Insight: The books are entry frameworks, not holding period constraints. The moment you own something, you're managing a position. Entry logic determines how you get in. Price and drivers determine how long you stay.

PORTFOLIO STRUCTURE

	CORE BOOK	TECHNICAL OVERLAY
Allocation	50-100%	0-50%
Driver	Macro/Fundamental thesis	Price structure
Direction	Long or short	Long or short
Max Position	20%	10% (longs), 5% (shorts)
Scoring	24-point system	12-point system
Stops	Dual (Thesis + Price)	Price only (tighter)
When Active	Always available	When Core is defensive

CORE BOOK

The Core Book requires convergence across the three-engine framework. Single-engine signals are insufficient; we require convergence for high-conviction positioning.

Three-Engine Framework

Engine	Focus	Key Question
Macro Dynamics	Pillars 1-7	What is the fundamental thesis?
Monetary Mechanics	Pillars 8-10	Is liquidity supportive or restrictive?
Market Structure	Pillars 11-12	Is price confirming the thesis?

Position Sizing

Formula: Position Size = Base Weight × Conviction Multiplier × Regime Multiplier

Conviction Tier	Score	Base Weight
Tier 1 (High Conviction)	16-19 pts	20%
Tier 2 (Standard)	12-15 pts	12%
Tier 3 (Reduced)	8-11 pts	7%
Tier 4 (Avoid)	<8 pts	0%

MRI Regime	Multiplier
Supportive (< +0.5)	1.0x
Neutral (+0.5 to +1.0)	0.6x
Restrictive (> +1.0)	0.3x

Dual Stop System

Every Core Book position has TWO stops. Use whichever triggers first.

- **Thesis Stop:** Fundamental invalidation (regime shift, indicator breach, catalyst failure)
- **Price Stop:** Technical invalidation (200d break, Z-RoC < -1.0, 15% drawdown)

TECHNICAL OVERLAY BOOK

When the Core Book is defensive (MRI > +1.0) and regime multipliers compress position sizes, clear technical trends can still exist. The Technical Overlay Book provides a structured way to follow price when macro is uncertain but trends are evident.

This is not shorter-term trading. Price trends can last years to decades. The distinction is about drivers, not duration.

Activation Criteria

All conditions must be met:

- Core Book is in defensive mode (MRI > +1.0)
- At least 3 clear technical setups exist (long OR short)
- BTC or SPX showing directional trend (not chop)
- You explicitly decide to activate (not automatic)

12-Point Scoring System

Three components, 4 points each. Clean 2:1 ratio to Core Book's 24 points.

Component	Points	What It Measures
Trend Structure	0-4	Price vs 50d vs 200d alignment + slope
Momentum (Z-RoC)	0-4	Direction, magnitude, and trajectory
Relative Strength	0-4	vs BTC/SPX (multiple timeframes + slope)

Minimum score to enter: 8/12

Position Limits & Stops

Parameter	Longs	Shorts
Max per position	10%	5%
Hard stop	10%	8%
Technical stop	Close below 50d MA	Close above 50d MA
Momentum stop	Z-RoC crosses below 0	Z-RoC crosses above 0
Time stop	20 trading days	20 trading days

Short-Specific Requirements

Shorts have additional hurdles (all must be true):

- • Price < 50d < 200d (both MAs falling)
- • Z-RoC < -1.0 (strongly negative, not just below zero)
- • Relative strength RED on both 63d and 252d
- • Clear breakdown (not just weakness)
- • NOT extended (price not >10% below 50d MA)

POSITION GRADUATION

A Technical Book position can graduate to Core Book treatment when fundamental drivers emerge. This is the key insight: the books are entry frameworks, not permanent classifications.

Technical Entry → Fundamental Confirmation

1. Enter position in Technical Book (pure price-driven)
2. Hold for 3 months following trend
3. Macro regime shifts, MRI improves
4. Fundamental catalyst emerges for the position
5. The position now has both engines firing

Action: The position graduates. Size up to Core Book weights if conviction supports. Shift to Core Book stop framework. Extend holding period expectation.

Core Entry → Macro Uncertainty

1. Enter position in Core Book (thesis-driven)
2. Thesis plays out partially
3. MRI deteriorates, Core Book goes defensive
4. Position still has strong technical structure

Action: The position can remain, but sizing governed by Technical Book limits. Stops tighten to Technical Book framework. Monitor for thesis repair or technical breakdown.

ABSOLUTE RULES (BOTH BOOKS)

Rule	Condition	Override
#1: Below 200d	Price < 200d MA	Conditional (>60d allows tactical)
#2: Death Cross	50d < 200d	Conditional (>60d allows tactical)
#3: Red Relative	Underperforming benchmark	UNCONDITIONAL - NEVER
#4: Z-RoC Broken	Z-RoC < -1.0 (longs)	Reduce 50% min, full exit if combined
#5: Extended	>15% above 50d MA	UNCONDITIONAL - NEVER CHASE

WHAT THE BOOKS ARE NOT

The Technical Overlay Book is NOT:

- A way to override macro when impatient
- A license to trade every setup
- A replacement for the Core Book
- Active all the time
- An excuse to ignore MRI signals

The Core Book is NOT:

- Long only (true global macro is directional)
- Restricted to 3-6 month holds (that's catalyst horizon, not exit requirement)
- Blind to price (technicals confirm the thesis)

The books are entry taxonomies, not duration boxes.
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MACRO, ILLUMINATED.

That's our view from the Watch. Until next time, we'll be sure to keep the light on....

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