Sector Surfer
Change the Game

Shoot The Curl
Monthly Perspective

Perspective: January Jitters, New TSP, Strategy-of-Strategies

Feb 04, 2014

Dear Scott,

January Jitters — What the Charts Say Now.
It's hard not to have a case of the January Jitters if you watched the market take a beating last month. This is typically about when I get emails from a few new subscribers asking, "Why hasn't StormGuard triggered yet?" As can be seen in the chart below, StormGuard is far from triggering a move to cash.

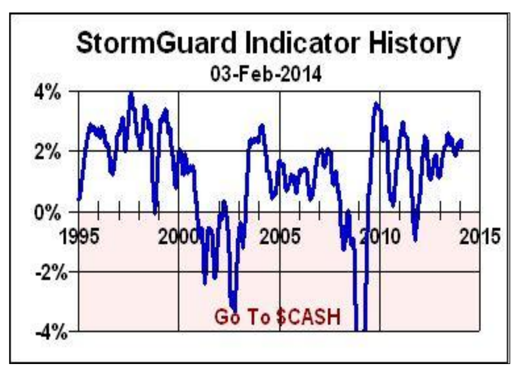
1-Year

The reason why is that there is an important balance between two major causes of losing money in the market: (1) waiting so long to sell everything that you ride to the bottom of a market crash, and (2) reacting so quickly that you get whipsawed when the market quickly bounces back after a normal correction. The 1-year chart of the S&P500 makes clear that the current correction isn't much different from those seen earlier in 2013. If you had sold at this point on any of the prior corrections, you would have bought back in at a higher price later and suffered a whipsaw loss. Also, please note how the bumps on the six year chart make the bumps during the past 12 months look comparatively small
.
In a bull market (which is what we have) it is more likely time to "buy the dip" than to run for cover. More on this topic can be found in "The Faster Response False Dilemma".

6-Years

What About the January Barometer?
The so-called January Barometer says, "As goes January, so goes the year." But, how credible is this? According to an analysis performed by Adam O'Dell, Investment Editor of Survive & Prosper, over the past 90 years, the market was up for the year if the S&P500 Index lost less than 6% in January — *on average*. That's good news because the S&P500 only lost 4.2% this January. **Woohoo!** Another up-year must be on the way, right?

Maybe. Adam's calculations also show that the standard deviation (the typical variation) from this average is roughly plus or minus 20% — meaning we are likely to get something between a 22% return and an 18% loss for the year. That's pretty close to just throwing darts. While predicting performance one year in advance is problematic, predicting it one month at a time using extracted market trend signals is a much different matter, and in my opinion, the best way forward as an investor.

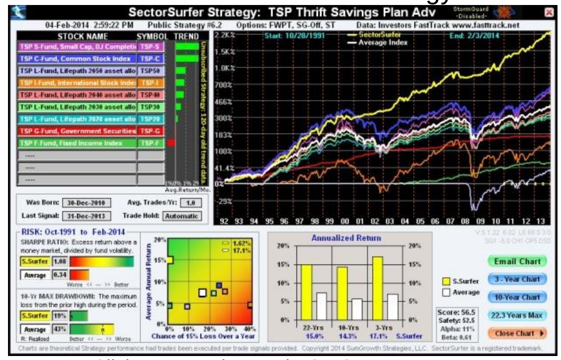


Learn More About StormGuard

New Advanced TSP Strategy

If you are one of our TSP (Federal Thrift Savings Plan) Strategy subscribers, we have an important treat for you provided courtesy of Les Mosier, winner of the Portfolio Design Contest category of "Lowest Drawdown Risk." After becoming quite proficient at Strategy design, Les thought he would try applying his skills at improving the old TSP Strategy using some of the advanced features introduced a few months ago. You will definitely want to take a look at what Les has achieved if you use the TSP Strategy (click chart to right). I have posted it in the Strategy list of the Select-a-Strategy popup. Import it, let it start working for you.

New Advanced TSP Strategy

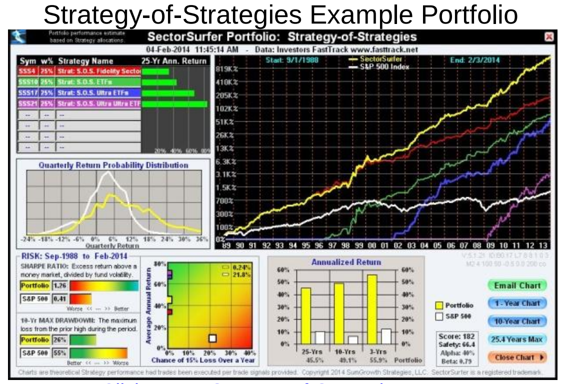


Click to see Advanced TSP Strategy page.

A Note About Vanguard's VHCOX

Some Vanguard Strategies selected the fund VHCOX this month, which is currently listed as "not available to new investors." Unfortunately there is no automated way to know when a fund company will change a fund to or from this status. When it happens your options include: (1) deleting the fund from the Strategy so it can make another choice, and (2) finding a replacement fund of similar character. While some funds contribute very little to a Strategy's performance, VHCOX seems to have been an important contributor. We have edited the Strategies in the Vanguard Mutuals Portfolio to eliminate VHCOX and found some worthy alternatives that you might want to try, including; VINEX, VEXPX, VWEAX, VCVLX and VEVFX.

Strategy-of-Strategies Example Portfolio



Click to see Strategy-of-Strategies page.

Strategy-of-Strategies Example Portfolio

Last December we introduced an advanced feature that allows a Strategy to reference other Strategies, as opposed to referencing stocks or funds. We call it a Strategy-of-Strategies. The value of this advanced feature is best demonstrated within a Portfolio.

The Strategy-of-Strategies Example Portfolio (above) was designed by the SectorSamurai Investment Club in Seattle (a private club) and has been formally adopted for use by the Club. It has been made publically available for all to examine and learn from by the considerate and generous nature of its members. The Strategy-of-Strategies Portfolio page directly accesses charts from the working account of the SectorSamurai Investment Club. All of the underlying Strategy-Id references are posted
.

The Portfolio contains four Strategies-of-Strategies, each one selecting the best performing Strategy from a set of underlying Strategies, which in turn selects the one fund to be owned. Thus, the Portfolio will only ever own four funds at a time, one selected by each of the four Strategy-of-Strategies.

For example, the first Strategy-of-Strategies references three Fidelity sector rotation Strategies. Each one performs similarly, but each one has a somewhat different set of sector funds. It is the job of the Strategy-of-Strategies to monitor these three sector rotation Strategies and determine which one is currently the best performer and to own the one fund from that Strategy and totally ignore the funds selected by the other two Strategies. Thus the Strategy-of-Strategies will continue to perform well into the future even if one or two of the underlying Strategies should suffer poor performance for a period of time because they do not contain any of the currently hot sector funds. Thus, a Strategy-of-Strategies acts to ensure a higher probability of continued performance into the future.

The Example Portfolio's four Strategy-of-Strategies include: Fidelity Sectors, Standard ETFs (1x), Ultra ETFs

(2x), and Ultra Ultra ETFs (3x), each with multiple underlying Strategies. At any given time, the Portfolio will own only one Fidelity sector fund, only one standard ETF, only one Ultra ETF, and only one Ultra Ultra ETF. The performance of this Strategy-of-Strategies Portfolio demonstrates its value proposition.

Surf Well and Prosper,

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