Perspective: Black Gold SOS, Trump Admin. Stock Portfolio

Jan 31, 2017

Dear Scott,

Are the Bull's Legs Wobbling?

Last month's newsletter reported that "it is typical for the market to sag a bit before the inauguration, then perk up with renewed enthusiasm for a while only to sag again until the new policies actually roll out and meaningfully impact the economy." The market performed true to this in January, and the market's moderate pullback this week does look like the start of a sag. Reasons being offered for the sag include: freshly reported earnings misses, possible delay of the tax relief package, and harsh criticism surrounding some of President Trump's recent executive orders.

Still, in the bigger picture, many of those predicting a near-term market crash have pushed their projection out another six months to a year based on the new-found optimism of investors. But, they are right in warning that most of the problems that might contribute to such a crash have not evaporated just because Trump was elected and is working like the Eveready Bunny to produce executive orders. We still have $20T in debt, we still have a demographic aging problem, and we still have a low employment participation rate.

While Trump does represent a serious shake up for almost every branch of the federal government and sector of the economy, the jury is still out as to whether his policies will juice the economy and prevent, or simply delay, the expected market crash. In the meantime, so long as hopes remain, the market will probably muddle along sideways… until policy effects can actually be measured.

3-Months

3-Years

Black Gold Hedge Strategy-of-Strategies

The SOS - Black Gold Hedge Strategy (chart right) was created to provide the ultimate means for exposing your portfolio to the opportunities in precious metals and basic energy. These asset classes are generally poorly correlated to industrial and consumer stocks, and thus their remnant volatility (wiggles in the equity curve) can be beneficial for reducing the standard deviation (risk) of an overall portfolio. The funds participating in each of the underlying Strategies of the SOS are listed in the matrix table (right). One of the more important concepts for making sector rotation strategies work is that trend leadership must be smoothly transferred from one fund to the next. If the equity curves are too different from one another, the additional return that might otherwise be captured can be lost if excess differential noise between the equity curves results in poor trade decisions.

SOS - Black Gold Hedge

Click to enlarge.

To make a great Strategy-of-Strategies, you must accomplish two somewhat conflicting design tasks: (1) have worthy differences between the Strategies so that there is value in trading from one to another, and (2) have worthy similarities between the Strategies so that the differential noise is lower and the probability of a good decision is higher. As can be appreciated from the matrix table, each of the underlying Strategies of the SOS have quite a bit of redundancy with the others. Each Strategy has eight or more funds in common with at least one other Strategy. These important matters will be discussed in more detail in the upcoming streamed Meetup seminar (below). The Black Gold Hedge SOS is formally documented HERE, and may be imported to your Strategy list from the Select-a-Strategy popup window.
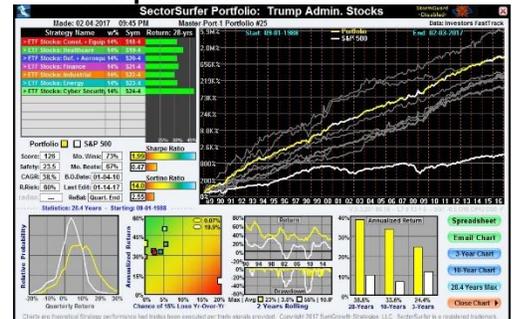
New — Trump Administration Stocks Portfolio

The Trump Administration Stocks Portfolio holds a set of seven underlying stock Strategies, each focused on a market sector expected to do well under a Trump administration. The stocks in each strategy are selected on the basis of their participation in an ETF representing that sector. Each of the underlying sector Strategies selects one stock for the overall Portfolio-of-Strategies to hold. This method of stock selection avoids the "hindsight selection bias" problem often seen in Hall of Fame stock strategies. Furthermore, selecting stock all from a single sector is helpful in reducing differential noise in the decision process. The Trump Administration Stocks portfolio is formally documented HERE.

Advanced Strategy Design Principles

(Tues. March 7th, Streamed Meetup Details)
While a SectorSurfer Strategy is pretty easy to use, when custom building your own Strategy there are numerous things under the hood that must be understood if your design is to have any chance of performing well. You can't just grab four random things out of the refrigerator and expect they will make a tasty sandwich.

We will discuss and demonstrate the importance of all the great concepts you have read about on the site, including: matched filter theory, differential signal processing, common mode noise, punctuated events, the character of various asset classes, forward walk, progressive tuning, decision shift days, lessons from the Strategy Hall of Fame, tips for making an excellent Strategy-of-Strategies, and whatever else may seem important. Please email me in advance with design problems you would like discussed.

ETFs inside SOS - Black Gold Hedge

Trump Admin. Stocks Portfolio

Click to enlarge.

Advanced Strategy Design Principles
Streamed Live March 7th, 7PM PST

Click for Event Details.

Surf Well and Prosper,

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Additional Resources

SectorSurfer Live Forum
By the Seattle SectorSurfers Meetup Group

The SectorSurfer Live Forum provides Internet-streamed access to the Seattle SectorSurfers Momentum Investing Meetup Group so everyone can attend the presentations and discussions hosted by Chief SectorSurfer. **Click HERE**

SectorSurfer Users Group
Join the Conversation

The SectorSurfer Users Group is an online Google Groups Forum created by Joe Gruender of San Jose, CA to provide a platform for exchanging strategies, ideas and learning from the experience of other SectorSurfers. **Click HERE**

ALPHADROID STRATEGIES
Professional Help - Change the Game

Bryan Sullivan founded AlphaDroid Strategies to provide True Sector Rotation and StormGuard technology to financial advisors in a framework that helps them manage high performance portfolios for their clients. **Click HERE**