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Monthly Perspective

Perspective: XLF Acting Bipolar ... and About That Flat Spot

May 02, 2017

Dear Scott,

XLF Is Politically Bipolar — But Not XLK

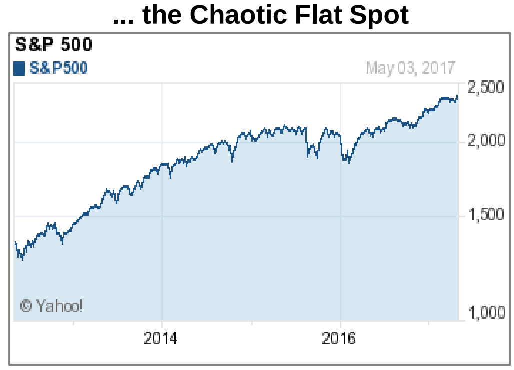
Markets are at all-time highs and quarterly earnings reports have generally been strong enough to satisfy expectations. However, a curious bifurcation in fortunes seems to have developed, as illustrated in the 8-month chart of the S&P500, XLF, and XLK (right). Following the November election, XLF (SPDR Financial Sector ETF) took off like a rocket in anticipation of promised banking regulatory reform. However, there were no special campaign promises that might affect XLK (SPDR Technology Sector ETF), resulting in a neutral response to the election — simply matching the S&P500.

Tech - Not Politically Bipolar

8-Months

Early in 2017 technology began outperforming the market, delivering consistent acceleration seemingly oblivious to Washington's rancor. It's not hard to believe technology will continue to push higher in view of the profound advances being made in smarter devices, business services, and driverless vehicles. Comparatively, following January's inauguration, XLF began exhibiting a bipolar behavior that appears rooted in the seesaw optimism/pessimism associated with the process of producing legislation that both the House and Senate can pass.

... the Chaotic Flat Spot



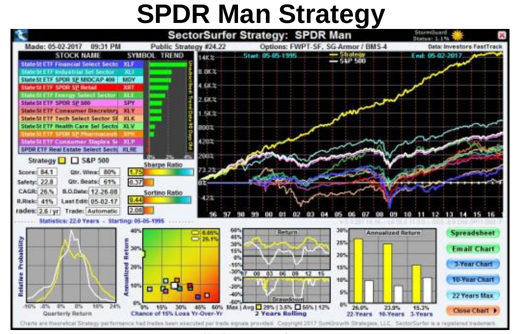
5-Years

Some of our subscribers have expressed concern about strategies still holding financial ETFs, considering their pull-back in late March when many believed healthcare reform was dead and financial reform could not happen this year. Fortunately, we are armed with an understanding of the [faster response false dilemma]() that tells us sharp drops most often snap back, and we are armed with important knowledge about the long term character of the trend. We know Trump has a four-year term and will persist until he is successful. He was a successful CEO, a known tough negotiator, and has a cabinet full of ex CEOs and generals, all of whom are accustomed to making things happen, not giving excuses. A day-trader with this belief would look at the XLF chart and see a buying opportunity.

...About That Flat Spot

Over the past year I have occasionally been asked if I knew why the charts all seemed to have lower performance now than previous periods of time, such as seen in the upper right portion of the SPDR Man Strategy chart (right). There are several parts to this answer.

SPDR Man Strategy

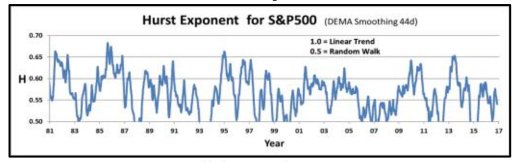


Click to Enlarge.

1. Flat Markets: In the 5-year S&P500 chart (above right), it can easily be seen that the market was basically flat for all of 2015 and half of 2016. In the SPDR Man Strategy chart (right) one can see that all sectors followed suit, with the exception of

XPH which had the tail end of a good run that was terminated by a sharp crash. Basically, the overall market was flat and there was no leadership among the sectors.

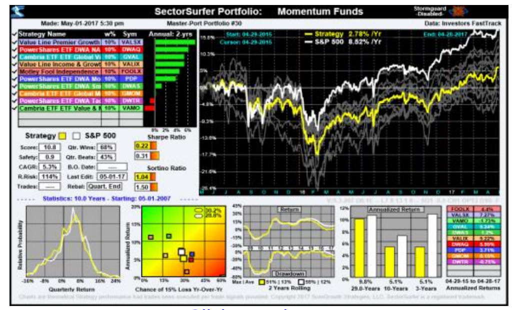
Hurst Exponent



Click to Enlarge.

2. Two Corrections: In August of 2015 and January of 2016 there were a pair of very sharp 10% corrections that lasted a about two months before quickly recovering. If you had a buy-and-hold portfolio, you rode through them, but with anxiety and luck that it was not worse. If you had no bear market protection, other than your own actions, you likely sold something juicy soon after the crash and moved into something safe (like a bond fund), only to find two months later you had neither been protected from the correction, nor been protected from whipsaw as the market jumped higher while you sat in bonds. Unfortunately, the Death Cross, StormGaurd-Std, and other market direction indicators did exactly the same thing. Their simple construction protects against short and long market drops, but during medium market drops (as these were) also results in whipsaw. (This problem was the impetus for designing the much improved StormGuard-Armor.) Even with StormGuard-Armor, during these two periods bonds and treasuries were pretty close to flat — thus no upside is really available then.

Well-Known Momentum Funds



Click to Enlarge.

3. Hurst Exponent: The 35-year [Hurst Exponent]() chart (right) for the S&P500 tells us the degree to which the market is trending or random, but does not tell us the direction it is trending. It is notable (or perhaps only a confirmation) that in 2015 when the markets went flat, markets trends also became completely random for a while. Scanning across the chart you can see that this happened many times before. In fact, if you examine the 2-year rolling return chart for pretty much any strategy you will also find that returns do occasionally dip like this… but we particularly don't like it when it is happening right now and then tend to start losing confidence.

401k Strategy Design Boot Camp
Streamed Live May 4th, 7PM PST

Click for Event Details.

4. The Other Guys: It's always interesting to see how the competition stacks up. Four PowerShares (Dorsey Wright) ETFs, two Cambria ETFs, two Value Line ETFs and one Motley Fool ETF were combined in the "Well-Known Momentum Funds" portfolio chart (right). Their two-year return performance frankly surprised me. Use StrategyID 636292566566006524-208-30-204704 if you would like to import it or further examination.

401k Strategy Design Boot Camp (Thurs. May 4th, Streamed Meetup Details)
Almost everyone has a company-sponsored 401k, 403b, 457, or TSP retirement savings plan (or at least a spouse or child with one). These plans are often most likely to hold the lion's share of your retirement savings for the simple reason that they are generally started at the beginning of one's working life. Even though these plans may be limited to seemingly stodgy mutual funds, they may be more important to manage than other accounts which permit owning exciting ETFs and stocks. In the very least, any retirement savings account should be protected against the potential ravages of the next market crash. So, dust off those company retirement plan documents, find the list of available funds, and let's get cracking. If you'd like me to use your plan as an example, send me its list of funds. If you have a 401k strategy you'd like me to review live for possible improvements, please send its current Strategy-ID, the plan's fund list, and the questions you have.

We'll cover both fundamentals and topics often found to be confusing, misunderstood, or otherwise not obvious. We'll start from scratch and build some dang good strategies step-by-step.

Surf Well and Prosper,

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Meetup

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