Dear Scott,

What's Up With the Market?
Although the market's advance has measurably slowed relative to its robust rebound following the depths of the 2008-2009 market crash, it continues to move slowly higher, seemingly impervious to any bad news thrown in its face.

The emerging US energy boom apparently has neutralized fears that Middle East warfare could restrict oil flow in a manner that would disrupt our economy. Likewise, the measures taken by the EU to improve capitalization of their financial institutions in the past few years apparently has neutralize any fear that an outright collapse of Greek debt could take down any meaningful fraction of the banks that had formerly excessively leveraged it. I continue to believe the market will maintain its upward bias without a meaningful correction until something new unexpectedly breaks and threatens the economy.

What's up? Healthcare and technology continue to show relative strength in the market. The chart (right) for pharmaceuticals reveals that it is clearly up ... hmmm, or is it actually down? That depends on the fund manager's equity mix and the time period measured. Be careful when substituting a fund from one company for a similar named fund from another — they are not always clones.

Fisherman's Dream: A High-Return Low-Risk Portfolio.
My neighbor, Ralph, spent decades as a professional fisherman in Alaska weathering the high seas "chasing fish" while contemplating the market storms battering his stocks. These days, he's retired, and his Fisherman’s Dream Portfolio serves as an excellent instructional example for how to build a high-return low-drawdown portfolio. Its superb risk/return performance should raise an eyebrow ... but, its only math, not magic. Check it out - click chart on right.

- Annual Return = 55%
- Sharpe Ratio = 1.52
- Sortino Ratio = 15.5
- QR.MaxDrawdown = 8.5%
- Ave. Trades/Yr = 11.5

While one could simply copy the Fisherman's Dream Portfolio, what's more important is to understand and implement the concepts it exemplifies. To achieve such performance requires that one separately address each of the pertinent measures of risk and return. For example, to build a high performance house requires more than a hammer, a box of nails, and a pile of boards. Multiple types of tools, fasteners, and materials are required, each having a specific job. The risk of a leaky roof and a leaky basement are optimally handled in very
different ways. Likewise, investment risk includes; short-term, long-
term, company, sector, regional, and global economic factors — and 
they are not all optimally handled by a single tool. This is why it is 
critical to both understand and utilize the three layered approach of 
**Tactical Diversification**.

**Tactical Diversification** is the sequential application of three distinct 
types of diversification, all of which are practiced in this Portfolio. 
1.) **Funds: Equity diversification:** owning multiple stocks or bonds 
to reduce risks associated with individual equities. 
2.) **Strategy: Serial diversification:** owning multiple funds over 
time, but only owning the one designated as trend leader at any time. 
3.) **Portfolio: Asset class diversification:** owning multiple funds, 
each selected by a Strategy of differing asset class.

Construction of the Fisherman’s Dream Portfolio’s is detailed in the 
Portfolio Layout shown above-right. (See this information for [How to 
Construct a Portfolio](#).) At the Portfolio’s top level, line 11 specifies that 
it consists of four equally weighted Strategies: #5, #7, #8 and #9, 
thus implementing the third portion of Tactical Diversification.

**Underlying Strategy #5: Healthcare Sectors** is actually another 
Portfolio-of-Strategies, and is documented and described in detail in 
our [March 2015 Perspective Newsletter](#). The Healthcare Sectors 
Portfolio together with its four underlying stock Strategies implements 
the first two portions of Tactical Diversification; (a) individual equity 
diversification through owning multiple stocks — one selected by each 
of the four Strategies, and (b) serial diversification through owning 
only the one trend leader within each Strategy. Please review the 
documentation in the prior Newsletter to understand the significance of 
its design.

**Underlying Strategy #7: SOS - Diversified ETFs** is a Master 
Strategy-of-Strategies (SOS) and can be imported by clicking the [S] 
icon and selecting it from the list. This SOS implements the first two 
portions of Tactical Diversification; (a) individual equity diversification 
through owning funds, and (b) serial diversification through owning 
only the one trend leader within each Strategy. Each of its four 
underlying Strategies is configured with a set of 12 ETFs, each 
representing a different slice of the market; sector, country, or other 
asset class. Only the best trending ETF of the best trending Strategy is 
owned. Strategy construction and performance details of the 
underlying Strategies, including their Strategy-IDs, can be found 
through the above link.

**Underlying Strategy #8: SOS - ETF Ultra (2x)** is a Master 
Strategy-of-Strategies (SOS) and can be imported by clicking the [S] 
icon and selecting it from the list. This SOS also implements the first 
two portions of Tactical Diversification; (a) individual equity 
diversification through owning funds, and (b) serial diversification 
through owning only the one trend leader within each Strategy. Each of 
its five underlying Strategies is configured with a set of 12 leveraged 
(2x) ETFs, each representing a different slice of the market; sector, 
country, or other asset class. Only the best trending ETF of the best 
trending Strategy is owned. Strategy construction and performance 
details of the underlying Strategies, including their Strategy-IDs, can
Underlying Strategy #9: A Nose for VIX is an advanced concept Strategy that pits the long-term treasury ETF against two VIX futures contract ETFs (which seek to replicate the inverse of the daily performance of the S&P 500 VIX short-term and medium-term indices that reflect implied volatility of the S&P 500.) While this Strategy certainly implements the second portion of Tactical Diversification (serial diversification), it is difficult to say to what degree it implements the first portion (equity diversification) as there are no underlying equities. However, a range of dates is covered by the futures contracts and a large number of individuals do participate in those contracts. In any case, this high performance Strategy provides an excellent source of uncorrelated return that helps produce a more uniform return that reduces Portfolio risk. If you are unfamiliar with these volatility-based ETFs, I suggest this Wikipedia article as a good starting point for a better understanding.

In summary, constructing a masterpiece requires using more than one kind of tool. It is Tactical Diversification's layered approach to addressing distinct aspects of risk and return with different tools that leads to the performance achieved in the Fisherman's Dream Portfolio.

Speaking Engagement Calendar
Please come and see one of these seminar presentations if you are in the neighborhood. Alternatively, ask your AAII Chapter or Investment Group leader to schedule a presentation. Webex presentations for smaller investment clubs and groups are also possible.

Seminar Title:  True Sector Rotation:  Breaking Through the Efficient Frontier.
This is a fast paced detailed seminar that will cover SectorSurfer basics, Forward Walk Progressive Tuning, Strategy-of-Strategies, and how to make Low Drawdown Portfolios.

- Seattle, WA: AAII Eastside Discussion Group - Tuesday, June 9, 7:00 PM
- Santa Rosa, CA: North Bay Investors Forum - Saturday, Sep 12, 10:00 AM
- San Jose, CA: SectorSurfer Users Group - Wed, Sep 16, 6:00 PM
- Detroit, MI: AAII CI SIG - Saturday Sep 26, 10:30 AM
- Madison, WI: AAII Subgroup - Wednesday Oct 21, 6:00 PM
- Milwaukee, WI: AAII Chapter - Thursday Oct 22, 6:00 PM
- Twin Cities, MN: AAII Chapter - Friday, Oct 23, 7:00 PM (Intro)
- Twin Cities, MN: AAII Chapter - Sat, Oct 24, 9:00 AM (Advanced)
- Las Vegas, NV: AAII National Conference - Saturday, Nov 7 - Nov 9
- Houston, TX: Houston Investors Association - Sat., Nov14, 9:00 AM
- Orlando Florida: AAII Chapter - Wednesday, Nov 18, 7:00 PM
- Baton Rouge, LA: AAII Chapter - Thursday Nov 19, 6:00 PM
- Houston, TX: AAII Chapter - Saturday, Nov 21, 9:00 AM
- Phoenix, AZ: AAII Chapter - October 2016 - Stay tuned for details.

Surf Well and Prosper,
Investment professional Richard Erkes created SectorSurfer University to provide everyone the opportunity to learn how to use SectorSurfer to improve investment portfolio performance while simultaneously reducing investment costs. Click HERE

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

Bryan Sullivan founded AlphaGen Strategies to empower financial advisors with SectorSurfer’s True Sector Rotation technology in a framework that helps advisors manage high performance portfolios for their clients. Click HERE