Sector Surfer
Change the Game

Shoot The Curl
Monthly Perspective

Perspective: Mixed Market Signals?, Max Drawdown, Data Fix

Nov 03, 2014

Dear Scott,

There Are Mixed Market Signals - Why?

Anyone who has listened to the financial pundits in the past few months has heard a strong mixture of optimism and pessimism. The 6-Month chart on the right shows we had a 5% sharp dip at the end of July followed by an 8% sharp dip mid October. Some say we are in a topping pattern last seen in 2011 (second chart), whereas other say that the recovery, which reached a new high on Halloween, signals a strong finish for the year.

6-Months

While the Bears worry about the markets failed attempt at a 10% market correction, and thus believe it is still around the corner, the Bulls believe that those returning from the land of "Sell in May and Go Away" are sure to show up for the year-end "Santa Clause Rally."

Let's also be mindful of the big mid-term election Tuesday and that control of the US Senate hangs in the balance. While expectations for change can cause euphoria, delivery of change generally leads to a new set of winners and losers, thus terminating old trends and confusing the markets until new trends emerge. Although I personally would prefer a more balanced Federal budget, I must confess that the easy money punch bowl served up by the Federal Reserve has been helpful to the markets and thus well appreciated in my own investment accounts.

5-Years

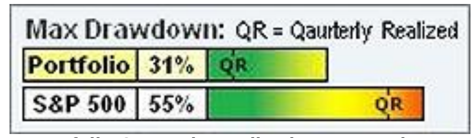
Interestingly, my SectorSamurai Investment Club portfolio has two Master SOS (Strategy-of-Strategies) selling healthcare funds in favor of long term treasuries, and at the same time has two Master SOS buying/holding biotech funds. That may sound a bit contradictory, but it's not. Until the last day or so, the market was actually in decline for nearly two months — a fair reason to move to conservative treasuries and remain distrustful of the recent rebound. However, as the third chart portrays, biotech funds have come racing out of the dip just as though some new major opportunity was emerging — such as dealing with Ebola — and it isn't dependent on the mid-term elections.

2-Months

Portfolio Quarterly Realized (QR) Max Drawdown

SectorSurfer Portfolio charts have never had a "Realized Max Drawdown" measurement because the underlying Strategies in a Portfolio do not make their trades synchronously on the same dates, and thus on these dates the Portfolio value is only partially realized and otherwise just a paper gain/loss. But having only the day-by-day measure of Max Drawdown wasn't quite satisfying.

While there's likely no perfect solution that will satisfy everyone, we devised the "Quarterly Realized Max Drawdown" as a reasonable compromise based on these principles; (1) the Max Drawdown is of primary concern to investors during retirement when funds are actually being withdrawn, (2) a realized valuation event occurs when funds are withdrawn, and (3) a quarterly interval is reasonable for withdrawing funds to meet ongoing life expenses. The value is shown as **QR** in the example Max Drawdown chart to the right.



Portfolio Quarterly Realized Max Drawdown

The Data Download Problem is Fixed!

First, I want everyone to know that the data download/corruption problem experienced in mid October has been diagnosed and permanently fixed in two ways. The root cause was shown to be a poor/spotty Internet connection between our GoDaddy server and the FastTrack data server resulting in only partial reception of the 60MB data files and resulting in missing ticker symbols. While redundant attempts were already part of the protocol, they were insufficient to overcome this particular connection problem.

The solution implemented provides; (1) much more additional time for the Internet connection to improve while additional attempts to retrieve the data continue, and (2) utilizing a backup copy of the prior day's data until such time as the fresh data can be successfully acquired.

On the morning of the second incident, the following things were done from a motel room in Grand Junction, Colorado while returning from a Denver speaking engagement (before coffee and breakfast): (1) the fresh data was successfully downloaded, (2) a prominent note about the problem and what to do about it was posted on the My Strategies page, (3) the nightly processing of Strategies was re-run, (4) numerous emails noting the problem received individual responses, (5) various log files were examined and the root cause common to both incidents was identified, (6) two methods were designed to ensure that spotty or temporary outages of the internet will not corrupt the data again, and (7) new software for these methods was written and deployed to the server. Only then was it time for coffee and breakfast.

— ***I simply don't travel to places for business or pleasure that don't have Internet access.***

Unfortunately market data is susceptible to power outages, electronics failure, construction equipment breaking cables, Internet traffic congestion, human error, and numerous other problems beyond our control. However, we will always continue making our systems more robust and we promise to be on top of any problem as soon as we know about it.

I apologize for any confusion or problems that resulted from the data outage, I thank you for your kind notes of patience and understanding as we worked on the problem, and I was glad to see that most followed protocol by checking the charts and enquiring about the odd trade alerts before blindly making trades.

Thanks again for your patience while we worked on the problem.

Surf Well and Prosper,

Scott Juds
President & Chief SectorSurfer
SumGrowth Strategies, LLC
www.SumGrowth.com