Perspective: The Bull Breathes, Late Trade Cost, Preview of …

Mar 04, 2016

Dear Scott,

The Bull Breathes?

Clearly, the market didn't provide investors with much to work with in the past 12 months (see chart right). Particularly terrible are sharp drops and pops, which are an investor's worst nightmare. Both trend following and pattern recognition algorithms need something to happen before they can produce a signal. Neither pops nor drops provide sufficient warning to profitably execute trades. While we must endure such punctuated events that unpredictably shock the market, they often lead to new trends that can be profitably employed.

Perhaps the bull is starting to breathe again. By Wednesday night, the majority of Strategies with StormGuard-AQR (SG-AQR) aggressively returned to the market. AQR stands for Asymmetric Quick Response, which means that it conducts special tests to hasten the trip back into the market, typically in about a third the time required by SG-Std. While SG-AQR is allowed to trigger any time during the month, SG-Std is limited to month-end trading and thus will return to the market no sooner than the end of the month.
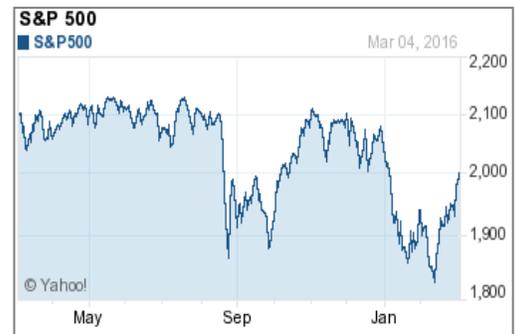
Trading Late Can Be Punishing

Averaged over a large number of trades, the cost of trading late is not too terrible. A plot of the Strategy Return vs. Execution Delay for a Fidelity Sector Fund Strategy is shown on the SectorSurfer Advanced Topics page and infers an execution delay cost of about 0.15%/day.

However, the cost of execution delay for an individual trade can be much higher than average as illustrated in the Cost of Late Trading chart (right). The chart details last month's performance for the SectorSamurai Investment Club Portfolio, which includes four different Master SOSs and four healthcare sector Strategies (each set in its own respective sub-Portfolio). The Portfolio equity curve (yellow) moves fairly opposite to the S&P 500 (white) because StormGuard had triggered for all Strategies, and each had specified the Bear Market Symbol of UBT-, a long-term treasury fund that generally moves inversely to the equities market.

While trading on time would have produced a return of about 4% for February, the club unfortunately traded late (red arrows). Compounding matters was that the club wasn't simply holding the S&P 500, it held sectors and stocks that declined more than the S&P 500 and resulted in a 2% loss instead of a 4% gain. As is often said, ''Time is Money.''
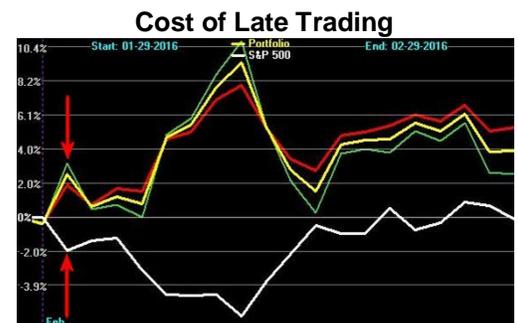
During last year's speaking tour (of 25 presentations), we heard no shortage of improvement suggestions. We noted that while many

1-YEAR

StormGuard Indicator History
03-Mar-2016

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Cost of Late Trading

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longed for more safety, nobody said they wanted better return potential. We listened and focused on safety. That lead to the development of the Bear Market Symbol feature announced two months ago, as well as the development of StormGuard-Armor. A preview of its performance in comparison to StormGuard-Std can be viewed in the chart (right). The performance improvement comes through the incorporation of additional information from market internals (volume, highs, lows etc). These internal measures are affected by the activities of momentum traders and value traders and provide leading indicators that actually allow an earlier exit to safety. StormGuard-Armor will go live on March 19th, the day of its official introduction at the LA AAII Chapter Meeting. If you'd like to take a peak under the hood, join us!

StormGuard-Armor Preview

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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 welcomed.

Seminar Titles: "True Sector Rotation Made Practical," and "Addressing the Seven Faces of Risk."
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.

- **Los Angeles, CA: AAII Chapter - Sat, March 19, 2016 - Practical & Advanced Sessions.**
- **San Jose, CA: SectorSurfer User's Group - Tues, March 22, 2016**
- **Orange County, CA: AAII Chapter - April 23**
- **Detroit, MI: AAII Chapter - May 11, 2016**
- **Sacramento, CA: AAII Chapter - September 20, 2016**
- **Phoenix, AZ: AAII Chapter - October 15, 2016**

Surf Well and Prosper,

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Additional Resources

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**

SectorSurfer University
Learn to Change the Game

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**

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**