Perspective: BREXIT Test, and FIXIT Best … Strategy Upgrades
Jul 04, 2016

Dear Scott,

Very Important: It's Time to Upgrade your Strategies!
Although StormGuard Armor and the Bear Market Strategy were introduced months ago and all public Strategies have long been upgraded, your private Strategies are yours alone to maintain and upgrade. If you've been negligent, please skip ahead to the upgrade sections below to graphically see why this is so important and why you must make the time to get it done. If you've already done it, give yourself two gold stars and a high five.

What the Charts Say … about the BREXIT Blip.
The vote last week for a BREXIT (British Exit) from the EU (European Union) took the markets by surprise. While the "smart money" believed the vote would be to remain in the EU, the electorate thought otherwise. Market reaction was swift to the downside as pundits quickly enumerated the disastrous consequences lying ahead. Meanwhile, optimists viewed it as "a declaration of independence" that would have only minor financial consequences, noting that the UK's British Pound had never been part of the Eurozone (countries using the Euro). In further perspective, even if the UK's GDP dropped 10%, it would roughly correspond to a 10 cent change in the price of a barrel of oil — and would be a mere 0.2% blip in global GDP.

The market's initial over reaction was all but erased in less than a week as it quickly snapped back. While the BREXIT vote was a relatively small blip on the 1-year chart (right), it's an almost imperceptible blip on the 9-year chart. That said, more dominoes are teetering and may fall in the coming months. Irish unification? Scottish secession? More EU exits? Change and uncertainty are in the air. Fortunately, you can bet that every vendor and supplier of goods and services on both sides of any new border will work tirelessly to maintain stability in their own market segments.
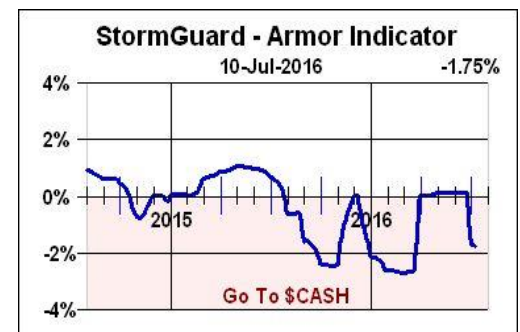
Meanwhile, StormGuard Armor had been sitting near its trigger threshold for quite some time because two of its three underlying signals were positive while the third was "marginally negative but improving." However, the BREXIT vote firmly tripped StormGuard Armor back into negative territory signaling that the market is more dangerous than safe. It is more likely that bad news will produce a strong downside response than good news will produce a strong upside response. With lackluster corporate earnings, ISIS (and ISIS inspired) attacks on the rise, and possible political bombshells for both political parties at their upcoming conventions, sitting on the sidelines in a "risk-off" alternative investment seems prudent.

1-YEAR

9-YEARS

Click for more info.

Strategy Upgrade Checklist - It's About Your $$$
In the course of answering subscriber emails, I've noted that a high proportion of Strategies have not yet been upgraded. While I understand that reading my newsletter can easily be blown off when facing a busy day, this is about your future wellbeing. Here's the short list of what to do. Two detailed examples follow.

1. Enable StormGuard Armor: See Instructions.
2. Implement Bear Market Symbol: See Instructions.
3. Review Extended Symbol Information: See Instructions.
4. Delete Treasuries from Funds: See Instructions.
5. Make Sure FWPT is Enabled: See Instructions.
6. Try Unchecking Shorter Trends Option: See Instructions.

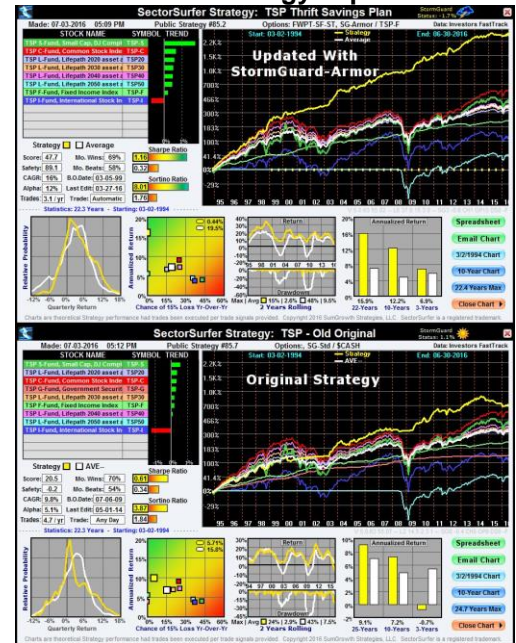**Example 1: Federal TSP Strategy Upgrade**
The Federal Thrift Savings Strategy has received three major updates since it was first posted in the spring of 2011, yet some subscribers still have the original version. The difference between the original and current version (chart right) demonstrates the tremendous value of FWPT, StormGuard Armor, and the Bear Market Strategy. You can simply import the new version over your old version by clicking the blue S icon, finding it on the list, selecting it, and clicking the "Use Selected" button to import it.

The detailed steps of this change are as follows: (1) Enable StormGuard Armor - it has the best algorithm for signaling when to be out of stock funds and into safe alternatives. (2) Remove both the TSP-G and TSP-F funds from the Strategy fund list - the job of safety belongs to StormGuard Armor and these funds should not be competing with it. (3) Use the TSP-F fund as the Bear Market Symbol that StormGuard Armor turns to when it triggers. (4) Make sure the Minimum Hold Time option is set for "Trade Month End" — trend quality really is higher at the end of the month. (5) Enable the FWPT feature so that the algorithm's Progressive Tuning algorithm can automatically adjust to future changes in the character of the market. (6) Make sure both the Stronger Filter and Bias Toward Shorter Trends options are unchecked.
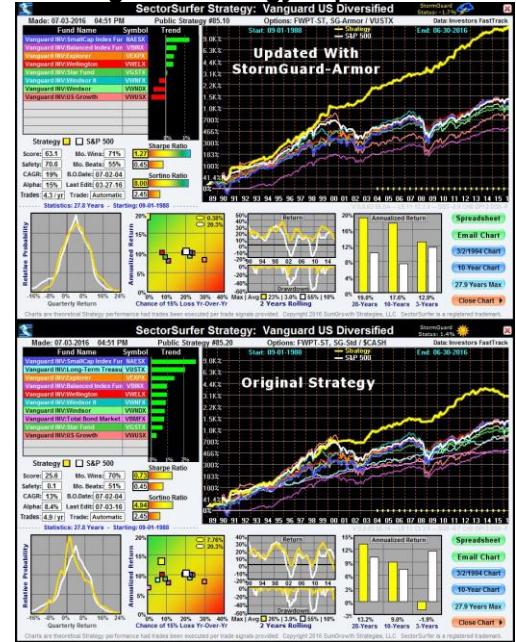
Example 2: Vanguard US Diversified Strategy Upgrade
I will use the Vanguard US Diversified Strategy (right) as proxy for describing changes to most any Strategy (except some stock Strategies). The upgrade steps include: (1) Enable StormGuard Armor - it has the best algorithm for signaling when to be out of stock funds and into safe alternatives. (2a) Remove all treasury funds from the Strategy fund list, such as VUSTX (Vanguard), FLBIX (Fidelity), TLT (ETF) and other similar funds. These funds have an inverse correlation to the stock market (which is a good thing), but it is much better to use them within StormGuard Armor where the decision to select them is not hampered by the increased differential noise that afflicts them in the fund selection algorithm. (2b) For like reasons, remove all bond funds, from the Strategy fund list, such as VBMFX (Vanguard), FBNDX (Fidelity),

Federal TSP Strategy Improvement

Click to Enlarge

Vanguard Strategy Improvement

Click to Enlarge

PTTRX (PIMCO), AGG or BND (ETFs) or other similar funds. (3) Use one of the funds removed in Step 2 as your Bear Market Symbol that StormGuard Armor turns to when it triggers. Check to make sure you are using an extended version of the symbol for proper Strategy modeling, such as FLBX- (Fidelity), or AGG-, TLT-, or UBT- (ETFs). Long-term treasury funds are preferable to bond funds. Some suitable funds have a full length history and need no extension, such as VUSTX (Vanguard), PTTRX (PIMCO) and many other bond funds. (4) Enable the FWPT feature so that the algorithm's Progressive Tuning feature can automatically adjust to future changes in the character of the market. (5) Try unchecking the Bias Toward Shorter Trends option within FWPT.

Sept 6th Meetup: Building High Performance Integrated Bear Market Strategies

With a few months under our belt, understanding of how to master this feature has definitely continued to evolve. We'll explore combinations of funds said to be safe havens during down markets to see what works ... and what's just a bunch of hooey. See Details.

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. Live Webinar presentations for smaller investment clubs and groups are welcomed.

Seminar Titles: "True Sector Rotation Made Practical, and Addressing the 7 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.

- **Dallas, TX: MTS Group - July 9, 9:30 AM CST, Advanced Topics Webinar**
- **Seattle, WA: Momentum Investing Meetup Group - Sept, 6 at 7:00 PM - Streamed Live**
- **St. Louis, MO: AAII Chapter - September 8, 2016**
- **Sacramento, CA: AAII Chapter - September 20, 2016, 7 PM**
- **San Jose, CA: SectorSurfer User Group - September 21, 2016, 6PM , Advanced Topics**
- **Phoenix, AZ: AAII Chapter - October 15, 2016**

Surf Well and Prosper,

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Change the Game

Additional Resources

Sector Surfer 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**

Sector Surfer 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**

Sector Surfer 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**