

Selecting Portfolios for SectorSurfer Strategies

Don Kinell

September 16th, 2013

Review – How SectorSurfer is Useful to an Investor

1. Demonstrates the effects of :
 - Rotation to best trending Mutual Fund, ETF, or Stock.
 - Trade alerts are sent when to rotate.
2. Compounding of profits:
 - Total dollars from previous sell applied to next buy.
3. Switching to \$CASH during Market downturns:
 - Reduces risk of loss in the Market.

Issues For Strategy Asset Selections

1. Avoid “Cherry Picked” Assets to generate a good score.
 - Today’s “Cherry’s” may be tomorrow’s “Rotten Apples”.
2. Avoid groups of assets that rise and fall together.
 - The ideal is to have assets which follow different economic cycles.
3. Avoid Mixing of ETF’s Stocks, and Mutual Funds in the same strategy portfolio.
 - Different asset styles have different volatility patterns which make the selection algorithm more difficult.

Creating 10 Premium Strategies

◆ Why 10 Strategies?

- A Single Strategy has a reasonable probability to have a down year.
- At about 5 Strategies, the risk of a single year's overall loss is reduced.
- It takes at least 4 Strategies to cover most all the Sector categories.

◆ Strategies 1 to 4

- Fidelity Sector Funds provide diversification of Sectors.
- Economic cycles favor different sectors at different times.
- There is no “gaming” of the selections as all Fidelity Select Funds are held.

Strategies 5-10

◆ Strategies 5 to 7

- ETF Sectors similar to Fidelity Sectors.
- In some years, ETFs will outperform managed mutual funds.

◆ Strategy 8

- Broad group of Large, Mid, and Small Cap ETFs and also includes International ETF's.

◆ Strategy 9

- A mix of 2X Leveraged with 1X Unleveraged “Boom or Bust” ETFs.

◆ Strategy 10

- A Mix of Income Oriented Fidelity Funds Including Bond Funds.

Strategy # 1 Details

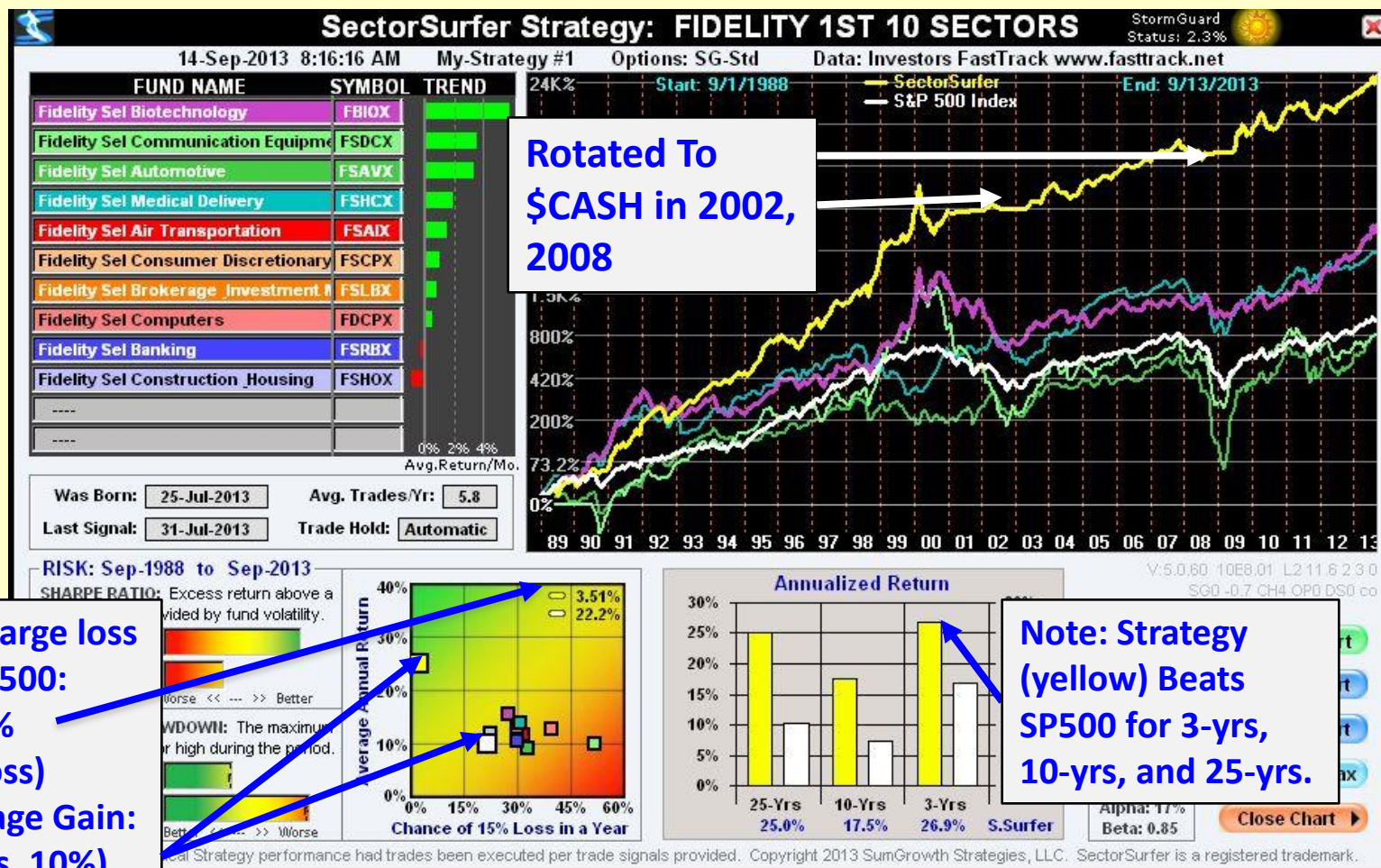
◆ Strategy #1 Portfolio List

➤ Simply start with an almost alphabetical listing of Fidelity Sectors. Strategies #2 through #4 complete the entire list.

1. Fidelity Select Air Transportation – FSAIX
2. Fidelity Select Automotive – FSAVX
3. Fidelity Select Banking – FSRBX
4. Fidelity Select Biotechnology – FBIOX
5. Fidelity Select Brokerage – FSLBX
6. Fidelity Select Chemicals– FSCHX
7. Fidelity Select Communication Equipment – FSDCX
8. Fidelity Select Computers – FDCPX
9. Fidelity Select Consumer Discretionary – FSCPX
10. Fidelity Select Construction and Housing - FSHOX

Fidelity's Generally Alphabetically Selected Sectors – First 10

- ◆ Outperforms any individual Fidelity Select Sector in this strategy:
 - Note the near horizontal lines of \$CASH in the 2002 and 2008 sell-offs
 - \$CASH is approximately interest from a Money Market Fund



- Lower risk of a large loss compared to SP500: (3.51% vs. 22.2% probability of loss)
- Improved average Gain: (25% per year vs. 10%)

Strategy # 9 Details

◆ Strategy #9 Portfolio List

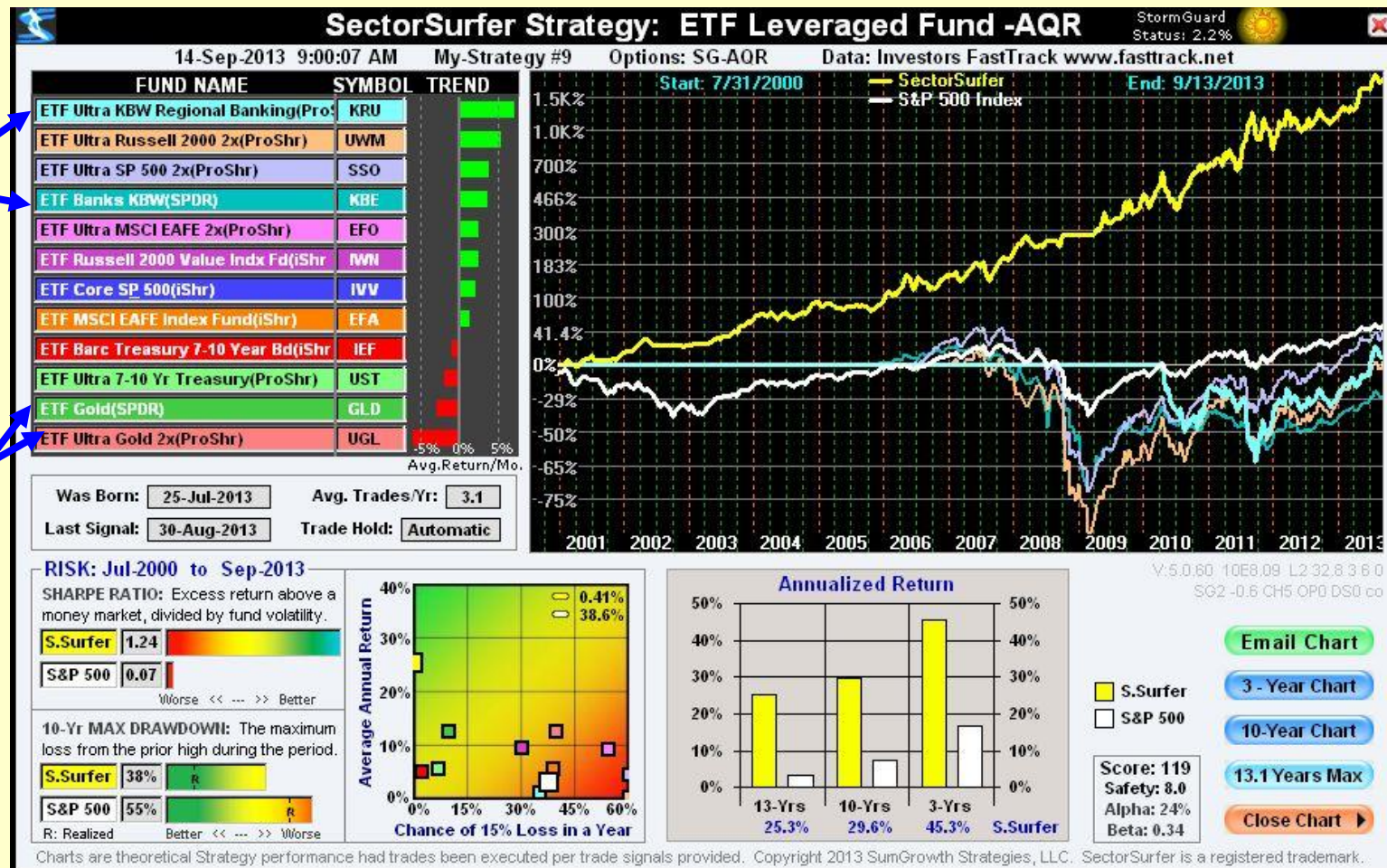
- Old Investment Saying: “There is always a Bull Market” – US Stocks, International Stocks, Bonds, or Gold.
 - Below is a list of ETF’s which will cycle through the changing economy.
 - A Banking Sector was added to fill 12 available positions.
1. IEF (1X) (7-10 yr Treasury) and UST (2X)
 2. GLD (1X) Gold and UGL (2X)
 3. IVV (1X) SP500 and SSO (2X)
 4. IWN (1X) Russell 2K and UWM (2X)
 5. EFA (1X) International Index and EFO (2X)
 6. KBE (1X) Banking and KRU (2X)

“Boom or Bust” ETF Strategy

- With Leveraged ETF's included, this Strategy can have a large volatility.
- Note that Storm Grade, S.G.-AQR was selected.

Banks have had a strong recovery since 2008

Gold is currently at the bottom of the ladder with no signs of inflation (except in housing)



Strategy # 10 Details

◆ Strategy #10 Portfolio List – Income Oriented

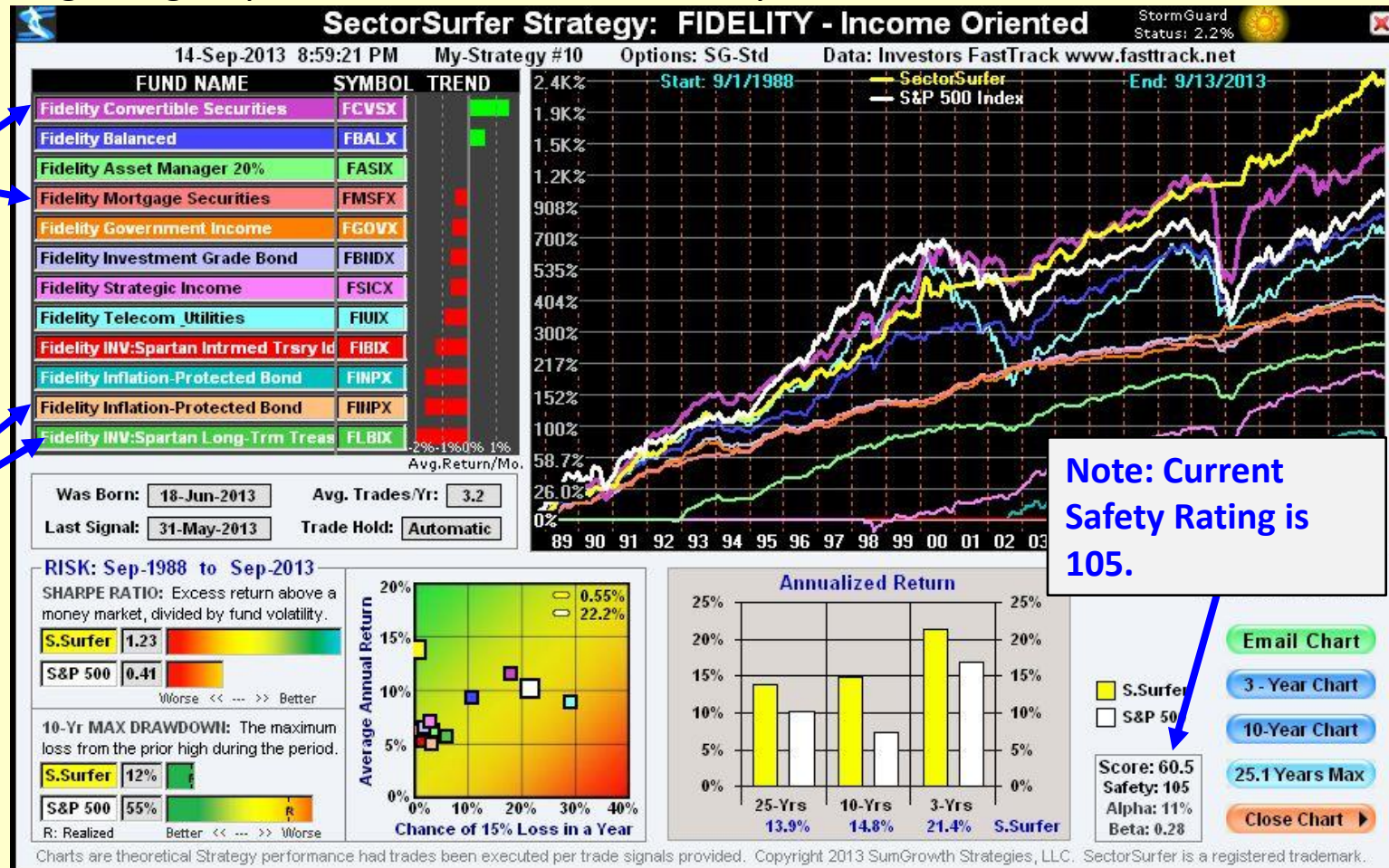
1. Fidelity Spartan Intermediate Treasury Bond – FIBIX
2. Fidelity Spartan Long Term Treasury Bond – FLBIX
3. Fidelity Balanced– FBALX
4. Fidelity Convertible Security – FCVSX
5. Fidelity Government Income – FGOVX
6. Fidelity Inflation Protection – FINPX
7. Fidelity Asset Manager 20% – FASIX
8. Fidelity Mortgage Security – FMSFX
9. Fidelity Investment Grade Bond – FBNDX
10. Fidelity Fidelity Strategic Income - FSICX
11. Fidelity Utilities - FIUIX

Fidelity's Income Oriented Funds

- ◆ Income Oriented Funds usually have had good Safety ratings
 - Currently, only Convertible Securities and Balanced show any positive trend.
 - Remaining Bond funds currently show negative trends
 - Rotating this group still beats the SP500 for all years

Convertible Securities is the current top fund

Inflation and Long Term Treasuries are at the bottom



Strategy Contributors – ETF Examples

- ◆ Strategy Observations – taken from downloaded strategies spreadsheets:
 - Most Strategies have positive contributions from each ETF
 - Having more ETF's in a strategy helps to minimize negative results.
 - \$CASH contributes to each category during Market sell-off times.
 - The below ETF selections are generally broad sectors, not hand picked.
 - **BLUE** identified ETF's are the major contributor, whereas **RED** identified ETF's are the smallest contributor.

ETF GROUP 1:	Sectors	Ticker	Symbol	Cumulative Contribution	Through 7/23/13								
	\$CASH	XLY	XLP	XLE	XOP	XLF	VIG	KIE	KBE				
	11.60%	30.90%	9.70%	159.50%	31.90%	29.60%	0.00%	21.30%	-15.80%				
				(ENERGY)			(DIVIDEND)						
ETF GROUP 2:	Sectors	Ticker	Symbol	Cumulative Contribution	Through 7/23/13								
	\$CASH	XLV	PJP	IHI	IBB	XLI	PPA	IYT	XHB				
	10.40%	10.90%	17.90%	0.70%	105.20%	41.30%	4.30%	46.40%	33.80%				
				MED DEV.	BIOTECH								
ETF GROUP 3:	Sectors	Ticker	Symbol	Cumulative Contribution	Through 7/23/13								
	\$CASH	XLK	FDN	SOXX	IGV	XLB	IYZ	GLD	DBA	IYR			
	12.00%	30.80%	29.10%	28.00%	2.60%	-1.40%	-7.00%	55.40%	13.50%	96.90%			
							TELECOM			REAL EST.			
ETF GROUP 4:	CORE STANDARDS	Ticker	Symbol	Cumulative Contribution	Through 7/23/13								
	\$CASH	QQQ	DIA	SPY	IWD	IWS	MDY	IWO	IJS	IWM	EFG	EFV	EFA
	13.40%	117.50%	-10.40%	112.10%	2.30%	42.50%	1.40%	31.40%	10.80%	3.40%	-4.90%	42.00%	22.50%
		LRG GRO	LRG VAL										
ETF GROUP 5:	1X & 2X Leveraged	Ticker	Symbol	Cumulative Contribution	Through 7/23/13								
	\$CASH	IEF	GLD	IVV	IJS	EFA	KBE	UST	UGL	SSO	UWM	EFO	KRU
	8.20%	5.00%	63.10%	-9.60%	97.50%	-3.70%	0.00%	0.00%	123.40%	36.70%	25.60%	13.60%	11.90%
				LRG BLEND					2X GOLD				

SectorSurfer - Each Strategy, Year-By-Year Results

		FIDELITY Sectors	FIDELITY Sectors	FIDELITY Sectors	FIDELITY Sectors	ETF Hi-VOL Sectors	ETF Hi-VOL Sectors	ETF Hi-VOL Sectors	ETF Hi-VOL BroadGrp	ETF Leveraged 60XETFs	FIDELITY Income Oriented
		FIRST10	SECOND10	THIRD10	FOURTH10	FIRST10	SECOND10	THIRD10	FOURTH10	60XETFs	
		FBIOX	FSHPX	FBMPX	FNARX	KBE	IBB	FDN	IWO	KRU	FCVSX
ANNUALIZED RETURNS PERCENTAGES											
DATES	S&P500	Strategy	Strategy	Strategy	Strategy	Strategy	Strategy	Strategy	Strategy	Strategy	Strategy
All Years	10.15	24.97	25.32	20.50	17.81	14.56	16.38	14.84	17.25	25.28	13.85
10 Years	7.29	17.53	20.40	19.00	12.47	19.68	19.50	19.39	13.93	29.60	14.76
5 Years	8.43	22.57	13.34	20.41	13.18	16.01	25.40	24.24	16.77	41.95	16.98
3 Years	16.86	26.87	15.35	19.95	5.60	20.13	40.75	26.60	17.78	45.32	21.39
1 Year	17.78	36.22	2.06	28.70	8.55	26.62	55.55	15.15	27.49	39.03	12.93
Y.T.D.	19.65	30.64	25.99	24.89	21.29	20.08	47.11	19.19	19.39	48.83	8.06
2012	15.97	25.65	(3.47)	23.37	(11.60)	12.00	58.06	22.72	23.78	35.93	18.12
2011	2.10	(3.44)	(2.44)	(8.61)	(2.17)	14.54	4.36	7.78	4.04	18.42	27.27
2010	14.88	29.84	31.69	40.00	44.48	11.40	11.44	39.75	19.24	45.60	11.25
2009	26.45	33.38	18.79	27.40	21.59	21.48	13.77	33.34	22.07	42.94	20.29
2008	(36.99)	(7.27)	19.88	(4.34)	(5.89)	(2.29)	0.11	11.06	(3.37)	20.99	3.87
2007	5.43	19.33	24.09	4.61	22.84	16.68	9.80	13.46	10.54	27.57	13.98
2006	15.78	16.76	32.38	4.23	14.96	25.92	15.11	35.33	21.44	27.57	17.15
2005	4.91	15.62	40.54	33.27	10.77	40.17	6.98	(9.70)	(4.62)	1.57	2.61
2004	10.88	7.99	4.24	37.48	13.40	29.13	27.19	15.49	19.19	19.50	17.76
2003	28.66	28.50	64.59	39.53	33.31	27.42	43.42	44.99	47.46	30.58	19.16
2002	(22.10)	1.71	20.09	5.84	(0.84)	(0.47)	0.29	(7.27)	(1.82)	8.14	2.24
2001	(11.92)	(0.09)	4.05	4.05	4.05	4.05	(0.61)	4.05	4.05	18.86	4.05
2000	(9.13)	(2.61)	51.09	23.87	0.53	3.23	12.08	(8.69)	1.02	0.00	7.23
1999	21.02	81.51	82.83	22.61	113.18	4.31	14.27	22.54	60.59	0.00	23.53
1998	28.56	86.99	14.32	28.38	42.10	0.00	0.00	0.00	30.50	0.00	31.07
1997	33.35	37.73	20.53	26.29	11.06	0.00	0.00	0.00	34.43	0.00	11.97
1996	22.97	19.33	29.22	29.44	9.36	0.00	0.00	0.00	21.06	0.00	9.52
1995	37.55	52.53	80.63	17.88	51.50	0.00	0.00	0.00	0.00	0.00	28.30
1994	1.30	15.50	8.31	8.82	22.99	0.00	0.00	0.00	0.00	0.00	(2.35)

SectorSurfer - 10 Strategy Combined Results: 1994-2013 YTD

Never a Losing Year with this group of 10 Strategies

10 Years	18.63	<< 10yr Avg of all 10		
5 Years	21.09	<< 5yr Avg of all 10		
3 Years	SURFER	DELTA TO:	SURFER	SURFER
1 Year	STRAGEY	S&P 500	STRAGEY	STRAGEY
Y.T.D.	26.55	6.90	1.265	\$4,052,227
2012	20.46	4.49	1.205	\$3,202,152
2011	5.98	3.88	1.060	\$2,658,358
2010	28.47	13.59	1.285	\$2,508,477
2009	25.51	(0.95)	1.255	\$1,952,593
2008	3.28	40.27	1.033	\$1,555,789
2007	16.29	10.86	1.163	\$1,506,453
2006	21.09	5.31	1.211	\$1,295,428
2005	13.72	8.81	1.137	\$1,069,850
2004	19.14	8.26	1.191	\$940,767
2003	37.90	9.24	1.379	\$789,651
2002	2.79	24.89	1.028	\$572,643
2001	4.65	16.57	1.047	\$557,094
2000	8.78	17.91	1.088	\$532,335
1999	42.54	21.52	1.425	\$489,391
1998	38.89	10.33	1.389	\$343,343
1997	23.67	(9.68)	1.237	\$247,199
1996	23.59	0.62	1.236	\$199,889
1995	46.17	8.62	1.462	\$161,741
1994	10.65	9.35	1.107	\$110,654
INITIAL INVESTMENT				\$100,000

CURRENT VALUE
\$4,052,227
FROM A
\$100,000
INVESTMENT

2013 YTD RESULTS: SectorSurfer 10 Premium Strategies

Strat Number	RESULTS AS OF SEPTEMBER 13, 2013 (CURRENT HOLDINGS)			2013 STRATEGY PERCENT GAINED	LIFETIME STRATEGY SINCE 2000
	Symbol	Name	STRATEGY MKT VALUE \$10K Invest		
	FIDELITY SECTORS				
#1	FBIOX	Fidelity Select Biotechnology	\$13,000.04	30.00%	\$56,313
#2	FSPHX	Fidelity Select Health Care	\$12,594.35	25.94%	\$166,392
#3	FBMPX	Fidelity Select Multimedia	\$12,886.61	28.87%	\$91,354
#4	FNARX	Fidelity Select Natural Resources	\$11,577.85	15.78%	\$42,535
	ETF SECTORS				
#5	KBE	SPDR S&P Bank ETF	\$12,008.77	20.09%	\$73,788
#6	IBB	iShares Nasdaq Biotechnology	\$14,327.88	43.28%	\$84,870
#7	FDN	First Trust Dow Jones Internet Index	\$11,911.47	19.11%	\$66,735
	ETF BROAD CATEGORIES AND STYLES				
#8	IWO	iShares Russell 2000 Growth Index	\$12,187.72	21.88%	\$50,221
	ETF "BOOM OR BUST" 1X AND 2X LEVERAGED				
#9	KRU	ProShares Ultra 2000 Growth	\$14,833.48	48.33%	\$199,998
#10	FIDELITY INCOME ORIENTED FUNDS				
	FCVSX	Fidelity Convertible Securities	\$10,840.72	8.41%	\$49,522
	INVESTED AMOUNT EACH STRATEGY				
				\$10,000.00	
	2013 AVERAGE STRATEGY GAIN			26.17%	
	LIFETIME STRATEGY GAIN			\$881,728	
	2013 SP500 GAIN			19.65%	
	LIFETIME SP500 GAIN			\$147,708	

**STRATEGY
OUTGAINS SP500
2000 – Present:**

**\$882K to \$148K
since 2000**

Conclusions

➤ The main objectives were to create a group of Strategies when taken together:

1. Outperform the overall Market as defined by the SP500 through all time frames
2. On a year-by-year basis, there would be no overall or at least minimum losses.

◆ Objectives were achieved

➤ Secondary objectives were:

1. Minimize my time in evaluating ETF's and Mutual Funds to determine when and which ones to rotate or sell. Currently this takes many hours per week and per month.
2. Learn about new techniques in technical trading.

◆ Still Working on the Time Factor – The SS Sandbox still keeps me busy with new ideas.