

Perspective: MayDay Bliss, Dale's Paper, & Secret SOS Revealed

Jun 04, 2014

Dear Scott,

MayDay Bliss:

May proved to be quite blissful for investors as the S&P500 provided a 2.3% return, in spite of the usual gloom and doom predictions of the "[Sell in May and Go Away](#)" crowd that resurface every spring. Fortunately the market had a mind of its own. Bernard Condon of the Associated Press recently took a close look at the reality of this old saying in his article "[Why Sell in May Doesn't Work for All Investors.](#)"

One of the arguments supporting investment in stock-based equities in this environment is the expectation that bonds will be devastated as soon as inflation and higher interest rates rear their ugly heads. Since bond prices move oppositely of interest rates, the argument goes that bond holders will flee to stocks when interest rates start rising, thus further pumping up stock prices. Of course, others contend that stock prices have soared on the back of the low interest rates provided by the Quantitative Easing (QE) program of the Federal Reserve for the last few years. Isn't this trying to have it both ways?

But this week the market is holding its breath waiting for Mario Draghi, the President of the European Central Bank (ECB), to announce a plan for a longer term QE program in Europe. Will they do it? Will it be enough? Will the markets think it is a good thing or a bad thing?

Obviously, A.H. Motley remains correct; ***"If the nations economists were laid end-to-end they would point in all directions."*** Predicting what "should happen" is more difficult than measuring what's "starting to happen." So, the trend remains your friend.

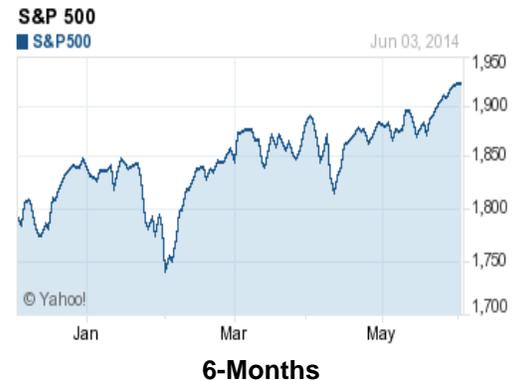
Defensive Position Rotation: Achieving Financial Goals with Less Volatility

by: Dale Van Metre, PhD, CRPC, APMA

I am honored to say that Dale Van Metre has been an avid SectorSurfer since our second month of operation in 2011. He states:

As an advisor, I observed the loss of client wealth in the 2008 market decline, while I dutifully continued to rebalance their MPT-based asset-allocation portfolios. I had been using prudently asset-diversified and valuation-observant portfolios, but the crisis made a mockery of the entire process. As client wealth vanished, my clients (and I) questioned what I knew about guiding and protecting clients' finances.

The article details how this lead him to find an MPT-alternative he calls Defensive Position Rotation (DPR). [It's an excellent read.](#)





Defensive Position Rotation: Achieving Financial Goals with Less Volatility
May 27, 2014
by Dale W. Van Metre, Ph.D., CRPC®, APMASM

The strategic and tactical rigidity underlying modern portfolio theory (MPT) contributed to huge losses during the 2008 financial crisis. Diversification is the only MPT risk-management technique, but diversification weakens as the need to be defensive increases, and it is at odds with striving for superior portfolio growth.

Defensive position rotation (DPR) is an alternative portfolio construction philosophy that adapts to changing market conditions and can increase risk-adjusted returns over time. Two portfolio risk-management strategies of DPR can reduce and sustain capital losses in down markets.

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Secret SOS Revealed:

Of course, the SOS I'm talking about is the [Strategy-of-Strategies](#) where, you may recall, the Strategy selects the best performing from a set of candidate Strategies. Thus, if one of the candidate Strategies gets a "flat tire" for a while in the future because you didn't quite have the perfect set of sector funds, then one of the other candidate Strategies will still be performing well and will be automatically selected for you by the Strategy-of-Strategies. Thus, is a form of insurance designed to reduce the potential risk of future sub-performance.

Master Strategies are created and maintained by SumGrowth Strategies. They simplify and reduce the cost of implementing a Strategy-of-Strategies in your own account. You can import a Master SOS into a single Strategy line without the need to import, create, maintain, or pay for all of its underlying Strategies. However, they do count as (and are billed as) 2X the value of a normal Premium Strategy — still a comparatively good deal.

Master Strategies can be imported by clicking the  icon to display the Select-a-Strategy popup window as illustrated in the screen shot (above-right, click to enlarge). At the top-center of the window there are five checkboxes that determine what type of Strategies to list. Check the one labeled "Include Master Strategies" and un-check the others. Click to select one of them and then click the orange "Use Selected" button to import it onto your My Strategies page.

The Fidelity Global Strategy-of-Strategies chart illustrates the evaluation of six candidate Fidelity Strategies to select the one best performing Strategy during each period of time. The colored equity curve, referred to as the "Painted Path," corresponds to the Strategy owned during that period time.

The Strategy table to the right illustrates "Building a Masterful Secret SOS Portfolio." It contains four of the new Master Strategies, each of which selects only the best performing of its candidate Strategies and holds only the fund it selects as the trend leader of its candidate funds.

Finally, the overall performance of the "Masterful Secret SOS Portfolio" is illustrated by the chart to the right and demonstrates what can easily be accomplished with a few of these Master Strategies. Of course, you may select other combinations of Master Strategies for your Portfolio. We will create, post, and maintain other Master Strategies as time and inspiration provide, and we welcome your creative and insightful suggestions.

[Click To Enlarge Table](#)

[Click To Enlarge Chart](#)

Building a Masterful Secret SOS Portfolio												
8*	Name:	S.O.S. ETF Power Mix	M-55523	M-55524	M-55525	M-55526	SELL:	-None-	BUY:	EWP		
9*	Name:	S.O.S. ETF Ultra (2x)	M-5551	M-5552	M-5553	M-5554	M-5555	SELL:	UUPV	BUY:	UUVG	
10*	Name:	SOS - ETF World Regions	M-55518	M-55519	M-55520			SELL:	-None-	BUY:	EWZ	
11*	Name:	SOS - Fidelity Global	M-5551	M-5552	M-5553	M-5554	M-5557	M-5558	SELL:	SWAIT	BUY:	FSELX
12	Name:	P: Masterful Secret SOS	SP-4	SP-4	SP-4	SP-4		SELL:	-None-	BUY:	Rebal	

[Click To Enlarge Table](#)

[Click To Enlarge Chart](#)

Surf Well and Prosper,



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