

## Perspective: Beyond Record Highs, Healthcare Stocks Portfolio

Mar 03, 2015

Dear Scott,

### Beyond Record Highs — What's Next?

The market emerged from January's volatility only to push markets to further new highs. The Nasdaq finally reached 5,000 again, the first time since its peak before the dot-bomb crash 15 years ago. My neighbor Ralph says he is sitting with a lot of cash waiting for a worthy pull-back before buying in again. But what constitutes a worthy pull-back? The 9-year S&P 500 chart illustrates that since mid 2012 the market has continued to steadily melt upward — and it will probably continue to do so until something important unexpectedly breaks and threatens the economy. For the moment, the market expresses no more than short-lived jitters for the world's problems.

The market is currently fairly valued by historic measures with a P/E ratio of about 16. But, earnings seem to be stalling in the first quarter with near zero year-over-year growth. While this would seem to support a call for a flat year in the market, keep in mind that the market's P/E ratio has a habit of only passing through this "fair value" on the way to being either overbought or oversold — and currently it's melting upward. Even if the market ends up flat for the year, we all intrinsically know that some sectors will do better while others will do poorer — and as SectorSurfers we like that.

### Sectors on the Move — Healthcare, Retail, Transports

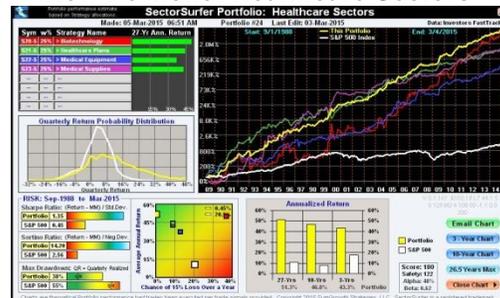
While long-term treasuries were quite strong for a few months (see chart), they sold off aggressively during the first half of February, much to the disappointment of many (including me). If your Strategy owned long-term treasuries for two months or more you still made money, but if it freshly bought long-term treasuries in February, then it hurt. Notably, about half of the Strategies that owned a long-term treasury fund last month have sold it, while the other half continues to hold it — a split decision. Time will tell whether it was just a short term technical correction or the start of a trend downward based on some fundamental shift in the market, such as a change in the Quantitative Easing policies of the US or the EU.

Biotechnology continues to trend near the top this month, while anything related to healthcare is likewise trending well. As suggested last month, this trend should be expected to continue because the news and complaints of higher healthcare premiums appear to be correlated with booming earnings. Thus one might consider offsetting some healthcare pain with some healthcare gain!

The retail, automotive, transportation and aerospace sectors all remain quite strong and will likely continue to be the beneficiaries of the sharp decline in energy prices. Not surprisingly, energy related



### New Portfolio: Healthcare Sectors



sectors remain in the dog house as domestic production continues to significantly outpace demand.

### New Portfolio — Healthcare Sectors for Stocks

Stock Strategy lovers should take particular note of this Portfolio for two reasons. First, while its superb risk/return performance should raise an eyebrow for anyone, day traders may want to contemplate what has been achieved with only about one trade per month. (click Portfolio chart)

- Annual Return = 51%
- Sharpe Ratio = 1.34
- Sortino Ratio = 14.3
- QR.Drawdown = 13%
- Ave. Trades/Yr = 11.5

Second, it incorporates the following important design concepts, some of which are often missing in user stock Strategies in spite of the [warnings posted here](#) and on the [Strategy Hall of Fame](#) page. These design concepts include:

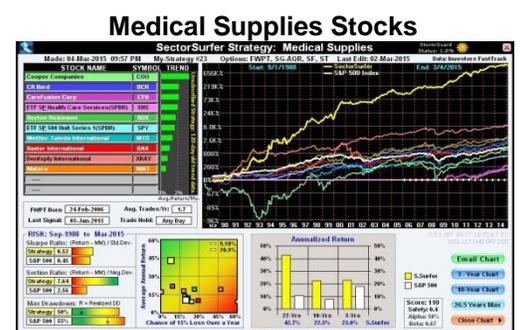
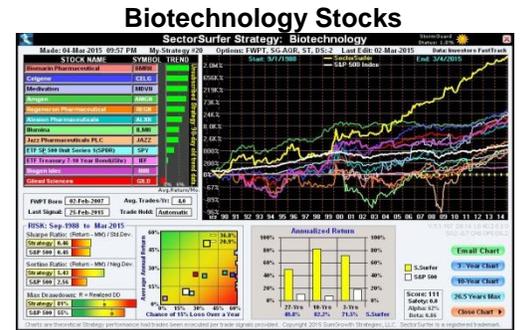
**1) Avoid Selection Bias:** Selecting a set of stocks in hindsight that produce huge returns is the classic example of "curve fitting." Many stocks exhibit a spectacular rapid growth period which is never again repeated. When a set of stocks having a sequential series of rapid growth periods are selected in hindsight, the Strategy will almost certainly fail miserably in the future when the rapid growth period terminates for the last stock in the sequence. To avoid, or at least reduce, this problem stocks must be selected on another basis such as; (a) market capitalization, (b) a particular market sector, or (c) having reasonable relative volatility. All three were used here.

**2) Select for Common Mode Noise:** SectorSurfer is a differential trend following algorithm — which means that you can increase the signal/noise ratio by comparing (differencing) two stocks that have similar daily chatter because the differencing process subtracts out the common mode noise to better reveal the trend signal. It's like closing the car window so you can hear your spouse better and reduce the probability of unfortunate misinterpretations. One great place to find stocks likely to have a high amount of common mode noise is in the same market sector.

**3) Include Distributed Pistons:** Distributed pistons refers to the general notion of [power strokes during sector rotation](#). While the fortunes of individual companies within a sector are inherently moved by factors affecting the whole sector, their fortunes are more significantly driven by the individual decisions of their management

teams. Thus they will sufficiently act as distributed pistons. The four Strategies take this one step further by including the SPY market index ETF and a long-term treasury ETF as performance backstops, which provide a power stroke in the event none of the stocks is currently performing as well.

**4) Post-Surfing Diversification:** To achieve the highest possible portfolio performance, one must Surf first to capture returns (owning only the trend leader), and diversify second to reduce risk through averaging the remnant volatility of multiple semi-uncorrelated assets. The benefit of Post-Surfing Diversification may be prominently seen in the Portfolio's rectangular-rainbow risk/return chart.



This Portfolio does not yet have a page of its own on the site, but will soon. To import these Strategies into your My Strategies page, copy the appropriate Strategy-ID below, then click the  icon and paste the Strategy-ID into the orange "Import a Strategy" text box in the upper right of the popup window. For instructions to create the Portfolio holding these Strategies, please [Click Here](#).

- *Biotechnology:* 635609284101635000-208-20-119908
- *Healthcare Plans:* 635609284101791250-208-21-119943
- *Medical Equipment:* 635609284101791250-208-22-119946
- *Medical Supplies:* 635609284101791250-208-23-119948

### **Speaking Engagement Calendar**

Please come and see one of these seminar presentations if you are in the neighborhood. Alternatively, ask your AAI Chapter or Investment Group leader to schedule a presentation. Webex presentations for smaller investment clubs and groups are also possible.

### **Seminar Title: True Sector Rotation: Breaking Through the Efficient Frontier.**

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.

- **Charlotte, NC: AAI Chapter - Saturday, March 14, 10:00 AM**
- **Myrtle Beach, SC: AAI Chapter - Tuesday, March 17, 5:00 PM**
- **Calabash, NC: AAI Chapter - Tuesday, March 17, 5:00 PM (w/Myrtle Beach)**
- **Atlanta GA: Day Trading Compass Group - Thurs., March 19, 6:00 PM Stevie B's Pizza, Duluth**
- **Los Angeles, CA: AAI Chapter - Sat, March 21, 9:00 AM (beginner & advanced sessions)**
- **Orange County, CA: AAI Chapter - Sat, March 21, 9:00 AM (w/ L.A. Chapter)**
- **San Jose, CA: SectorSurfer User Group - Monday, March 23, 6:00 PM (advanced forum)**
- **Dallas, TX: MTS Group - Saturday, April 11, 9:00 AM (advanced forum)**
- **Dallas, TX: AAI Chapter - Wednesday, April 15, 9:00 AM**
- **San Antonio, TX: AAI Chapter - Friday, April 17, 5:30 PM**
- **Austin, TX: AAI Chapter - Monday, April 20, 7:00 PM**
- **Baltimore, MD: AAI Chapter - Saturday, May 9, 10:00 AM**
- **Pittsburgh, PA: AAI Chapter - Tuesday, May 12, 7:00 PM**
- **Cleveland, OH: AAI Chapter - Wednesday, May 13, 7:00 PM**
- **Twin Cities, MN: AAI Chapter - Friday, Oct 23, 7:00 PM + Sat. 9:00 AM**
- **Las Vegas, NV: AAI National Conference - Saturday Nov 7 - Nov 10**
- **Houston, TX: Houston Investors Association - Sat., Nov14, 9:00 AM**
- **Houston, TX: AAI Chapter - Saturday, Nov 21, 9:00 AM**

Surf Well and Prosper,



**Scott Juds**  
President & Chief SectorSurfer  
SumGrowth Strategies, LLC  
[www.SumGrowth.com](http://www.SumGrowth.com)



## Additional Resources

**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](#)

**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](#)

 **ALPHAGEN  
STRATEGIES**

*Professional Help - Change the Game*



Bryan Sullivan founded AlphaGen Strategies to empower financial advisors with SectorSurfer's True Sector Rotation technology in a framework that helps advisors manage high performance portfolios for their clients. [Click HERE](#)