Sector Surfer
Change the Game
Shoot The Curl
Monthly Perspective

Perspective: Market Breakdown — Bearable FED — Goldilocks Rocks

Nov 03, 2016

Dear Scott,

Having a Gentle Breakdown?
The market has now clearly broken to the downside from its lackluster zigzag holding pattern following its post-Brexit short rally. Market technicians suggest it will likely continue lower until it finds a level of support matching a prior bottom — such as the June Brexit dip, or the triple dip support about 12% further down (at the 1,860 level) observed in the 3-year chart (right). Many analysts warn that this may actually be the start of the "next market crash" and support their view with economic data, such these nine charts produced by the St. Louis Federal Reserve. Well-known economist Harry Dent believes the cause of the next crash will be what's known as the Demographic Spending Wave, which is now in strong decline. Also notable is that Japan's demographic problem started earlier than it has for other industrialized nations and may be an important reason why Japan has never recovered from its market crash 30 years ago.

3-Months

In the shorter term, while most market momentum indicators are only now starting to roll over, market breadth indicators have recently joined our StormGuard-Armor indicator (right) indicating further danger to the downside. Perhaps the stress of this presidential election is starting to take its toll. Markets typically prefer the prospect of government gridlock, implying stability, and fear the stressful implications of policy change that produce new sets of winners and losers as regulations and spending change.

3-Years

What About the December's Rate Hike?
Yesterday the FOMC (Federal Open Market Committee) effectively promised they would finally raise interest rates in December. Of course, if the market measurably falters between now and then they may yet again invoke their "data driven" mantra and again delay taking action. I have heard from many concerned investors saying: "Isn't it common knowledge that when interest rates rise bond prices go down and stocks falter under the weight of higher debt financing costs?" The Interest Rate Impact chart (right) illustrates what really happened to stocks, bonds, and treasuries when interest rates rose sharply from 1% to 5.5% between June 2004 and June 2006, and subsequently were quickly taken back down near 0% during 2008. Clearly conventional wisdom was wrong. While bonds and treasuries did in fact do better during falling interest rates, profits were also made in stocks, bonds, and treasuries during the two years of aggressive rate increases. While a strong economy may explain why stocks fared well, the explanation for why bond funds, such as AGG, did well may simply

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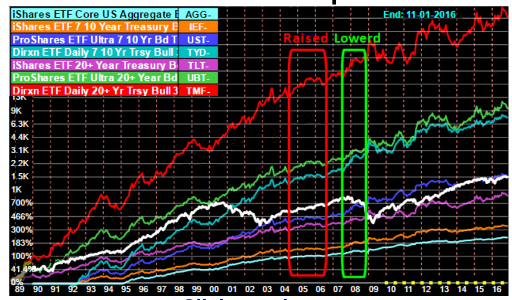
be that they used a bond laddering strategy to inherently eliminate susceptibility to interest rate variations that occur before a bond's maturity date.

Interest Rate Impact



Click to enlarge.

The Bears Know Goldilocks Rocks

The "Got Gold Fever" chart (right) shows the three-month performance of traditional bear market investment candidates. While gold has done quite well this year after reversing its multi-year decline, its recent pullback has understandably spooked folks. However, it appears it may be ready for another run. A few "gold bugs" have suggested that a bear market strategy that treats gold more seriously would be both timely and valuable. As a result, I have created and posted these two new Bear Market Strategies:

- **BMS-G** Goldilocks +3 Bears (chart)
- **BMS-M** My Golden Parachute (chart)

Got Gold Fever?


Click to enlarge.

BMS-G uses the moderately aggressive GLD ETF, whereas BMS-M employs the more aggressive 2x UGL ETF. Both are online now for use as the Bear Symbol with StormGuard. You might note that BMS-M additionally contains REIT and utility ETFs, which are known to be interest rate sensitive and appear to help stabilize and improve performance of this Strategy.

Satisfying the Prudent Man: Quantifying Risk

Although investment risk decisions made by professionals with fiduciary responsibility are aggressively examined and judged by regulators, strikingly absent from the Financial Industry Regulatory Authority (FINRA) Rules, the Employee Retirement Income Security Act of 1974 (ERISA), the Securities and Exchange Commission (SEC) Investment Advisors Act, and the Uniform Prudent Investor Act (UPIA) is any numerical or verbal definition of risk, or any guidance for determining how much diversification is sufficient. Fortunately, long-standing portfolio risk category definitions used by respected industry leaders have stood the test of time with regulators, and thus together form the basis for consensus definitions of conservative, moderate, and aggressive. The risk statistics of these accepted standard portfolios can then be measured and used as reference standards for assessing the risk of any other investment strategy or portfolio. We will review the process for creating the reference standards and then examine how Robo Advisors and SectorSurfer stack up against them.

Satisfying the Prudent Man

Streamed Live November 8th, 7PM PST

Click for Event Details.

See Details

Professionals: Upgrade to AlphaDroid - Here's Why.

SectorSurfers have long known that about 18 months ago we beta-launched **AlphaDroid Strategies** as a sister company with a product designed to better address the professional needs of Investment Advisers and Wealth Managers. We are quite thankful for the important feedback information provided by the beta-users and have since fixed and improved many things. Now we are proud to announce the official prime time launch of AlphaDroid! If you are an Investment Adviser or Wealth Manager, here some great reasons to upgrade to AlphaDroid:

- AlphaDroid organizes and simplifies multi-client Strategy and Portfolio management.
- AlphaDroid is an integrated multi-advisor web-based platform ideal for independent offices.
- Each advisor can manage up to 500 Strategies and 200 Portfolios.
- There are numerous methods to organize, sort, and find your Strategies and Portfolios.
- Strategies can be shared between many Portfolios - trades are managed at the Portfolio level.

• Strategies offer 2 best alternates to handle portfolio redundancy and fund logistics problems.
• Option to substitute (and log) any symbol of your choice for the designated Buy symbol.
• A separate trades management page allows support staff to manage trades for multiple advisors.
• "Safety" has been replaced by "Relative Risk," which ties to standardized risk classification values.
• Integration with Morningstar reports and charts via data upload to their server.
• Other reports, such as On-Boarding for a new client's Strategies.
• YES, the same great algorithm engine and charts will run your current Strategies.

Through the end of 2016, any Financial Adviser or Wealth Manager who has been a loyal SectorSurfer for at least 18 months will be offered a "deal you can't refuse" to upgrade to AlphaDroid. Simply **Click Here** to contact Bryan Sullivan, AlphaDroid's CEO (and a really nice guy) and tell him a bit about your situation and he'll setup a video conference with you to make it happen.

Surf Well and Prosper,

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Change the Game

Additional Resources

SectorSurfer 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

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

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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