

Perspective: Formal Bear Market Strategies ... No Selection Bias

Sep 04, 2016

Dear Scott,

Charts Show a Stagnant Humdrum

For nearly two months the market has marched sideways with unusually small daily moves, seldom in excess of one percent. This behavior is consistent with low participation by large institutional investors as confirmed in the Market Momentum Indicator chart (right), and is why the [StormGuard-Armor Indicator](#) continues to be negative. In [August's Newsletter](#) I outlined numerous reasons supporting a bearish outlook. Since then, there have been a number of marginal economic reports, such as CNN's "[Hiring slows: America gains 151,000 jobs in August,](#)" stating, "The U.S. economy added 151,000 jobs in August, a decent gain but a lot less than the 275,000 new jobs in July."

However, 151,000 new jobs falls short of the approximate 220,000 new jobs required to meet the needs of a growing population. Interestingly, bad news of this kind is often viewed as good news by investors who believe the Federal Reserve will see this as a reason to continue to hold interest rates low in order to further stimulate the economy. Thus, we continue the sideways march waiting for the next big shoe to drop.

Formal Bear Market Strategies – Important!

A Bear Market Strategy is designed to select safe harbor investments during a market downturn. Eleven new professionally designed Bear Market Strategies that eliminate the problem of [hindsight selection bias](#) are now posted to the site for use and are fully documented on the new [Bear Market Strategies](#) page. Any of the new Bear Market Strategies can be specified using its special ticker symbol (such as "BMS-4") in the [Bear Symbol text box](#) under StormGuard's Advanced Options. The paragraphs below further explain their importance, design detail, and performance.

Avoiding Hindsight Selection Bias

Long-term US Treasuries have been the best performing asset class during recent bear markets because they have been more negatively correlated with US Stocks than anything else for nearly two decades. However, the two have not always been negatively correlated, as is easily appreciated from the [Rolling 5-year correlation between US stocks and 5-year Treasury](#) chart (right). This means that they could become positively correlated again at some point in the future. Thus, the consideration of only long-term treasuries for a bear market strategy, based on their 20-year prior performance, would clearly constitute [hindsight selection bias](#), resulting in substantially increased portfolio risk during the next market crash.



3-Months



[Click for all SG-Armor Components](#)

Treasuries Correlation to the Market



[Click for Forbes Article](#)

Furthermore, as reported on the [Bear Market Strategies](#) page, neither bonds nor gold have been a reliable safe haven either. Thus, it is impossible to say which of these will be the best safe harbor investment ten, five, or even one year from now. Fortunately, the best-performing of them can be selected in real time by a Bear Market Strategy designed to monitor their fitness.

Extended Ticker Symbols for Bear Market Strategies

In order to reasonably model the performance of a BMS (Bear Market Strategy), its candidate investments must have performance data that spans at least one major market crash. Although most ETFs that might provide safe harbor during a bear market were started only recently, most are based on indexes with much longer histories that can be used to artificially extend the ETF's data for purposes of improved strategy modeling. The table (right) contains excellent candidates from these asset classes: long-term treasuries, bonds, inverse markets and gold bullion. You can use any of these to [create your own Bear Market Strategy](#).

Ready-Made Formal Bear Market Strategies

The table (right) details the design definitions for eleven high-performance Bear Market Strategies that eliminate hindsight selection bias by incorporating multiple asset classes. The left four (BMS-V, BMS-F, BMS-T, and BMS-C) are designed for use with Strategies based on Vanguard, Fidelity, T. Rowe Price and Columbia mutual funds respectively. The seven to the right (BMS-1 through BMS-7) are ETF-based and increasingly aggressive in their approach.

Contrasted Performance

The comparative benefit of employing each of the eight different Bear Market Strategies is illustrated in the chart (right). Each plotted Strategy is based on owning the market index SPY during bull markets, but owning one of the eight Bear Market Strategies during bear markets (when directed by StormGuard-Armor). 10% and 25% constant returns lines are also plotted as performance references. The significant differences in total return, return uniformity, and general volatility are quite notable. A judgement call pitting better returns against the risk of additional volatility is required.

Customization Tip – Bear Market Measurements

Typical Strategy performance statistics are not very useful when developing a Bear Market Strategy because the only time periods in which performance is relevant is when StormGuard has been triggered. To remedy this problem, two new performance values are reported in the Strategy subtitle line when it is classified as a Bear Market Strategy, which begins its name with "BMS-" or "Bear" and requires StormGuard to be disabled. The Bear-R and Bear-SD performance values illustrated in the graphic (right) are the annualized return and standard deviation produced only during periods when StormGuard-Armor is triggered.

Useful Extended Data ETFs

Bear Strategy Candidate ETFs: Extended History Ticker Symbols			
Symbol	Name	Start Date	Orig. Date
SHY	Treasury, 1-3 Year	1-2-1992	8-1-2002
IEI	Treasury, 3-7 Year	1-2-1992	8-1-2002
IEF	Treasury, 7-10 Year	1-2-1992	8-1-2002
TLH	Treasury, 10-20 Year	1-2-1992	1-1-2007
TLT	Treasury, 20+ Year	8-1-1988	8-1-2002
BND	Vanguard Total Bond Market	8-1-1988	4-11-2007
BLV	Vanguard Long-Term Bond Index	1-15-1996	4-11-2007
CDRP	PMCO Inv. Grade Corp. Bonds	11-01-1995	09-21-2010
SH	Short S&P 500	8-3-1998	7-1-2006
SHS	Short S&P 500	8-1-1988	7-1-2006
GLD	State St. ETF SPDR Gold	1-3-1995	11-10-2004
SHGD	50% SH and 50% GLD ETF Pair	8-1-1988	7-1-2006
UST	Treasury (2x), 7-10 Year	1-2-1992	1-1-2010
UST	Treasury (2x), 20+ Year	8-1-1988	1-1-2010
TYD	Treasury (2x), 10 Year	1-2-1992	3-1-2009
TMF	Treasury (2x), 30 Year	8-1-1988	3-1-2009
FLBK	Treasury, Fidelity FLBAX	8-1-1988	3-1-2006
MUB	iShares National Municipal Bond	8-1-1988	8-11-2007
MBG	SPDR Mortgage Backed Bond	8-1-1988	1-27-2009
HYG	High Yield Corporate Bond	1-3-1995	3-1-2007
PSQ	Short QQQ NASDAQ 100	8-3-1998	7-1-2006
SDS	ProStk. UltraShort S&P 500	1-28-1993	7-14-2006
UGL2	ProStk. Ultra 2x Gold	1-28-1993	12-3-2006
SHUG	50% SH and 50% UGL ETF Pair	1-28-1993	7-1-2006

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Bear Market Strategy Definitions

Bear Market Strategy Investment Options		Strategy Information	Fund or Stock Ticker Symbols
Name: BMS-1 Bear Market	Score 26 Safety 0 WSD: 21%	10	10
Name: BMS-2 Bear Market	Score 25 Safety 0 WSD: 18%	10	10
Name: BMS-3 Bear Market	Score 24 Safety 0 WSD: 15%	10	10
Name: BMS-4 Bear Market	Score 23 Safety 0 WSD: 12%	10	10
Name: BMS-5 Bear Market	Score 22 Safety 0 WSD: 9%	10	10
Name: BMS-6 Bear Market	Score 21 Safety 0 WSD: 6%	10	10
Name: BMS-7 Bear Market	Score 20 Safety 0 WSD: 3%	10	10

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Bear Market Strategy Comparisons



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Bear Market Measurements



Sept 6th Meetup:

High Performance Integrated Bear Market Strategies

If you want to improve the bear market performance of your Strategies and ensure that you are fully prepared for the next market crash, then please attend this live online seminar. We will cover all of the basic concepts of StormGuard-Armor, Bear Symbols, Extended Symbols, and most importantly, the construction of integrated high performance Bear Market Strategies. [See Details.](#)

Advanced Bear Market Strategies
Streamed Live September 6th, 7PM PST



[Click for Event Details.](#)

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. 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.

- [Seattle, WA: Momentum Investing Meetup Group - Sept, 6 at 7:00 PM - Streamed Live](#)
- [St. Louis, MO: AAI Chapter - September 8, 2016 6:30PM](#)
- [Sacramento, CA: AAI Chapter - September 20, 2016, 7 PM](#)
- [San Jose, CA: SectorSurfer User Group - September 21, 2016, 6PM, Advanced Topics](#)
- [Phoenix, AZ: AAI Chapter - October 15, 2016](#)

Surf Well and Prosper,



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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](#)

SectorSurfer 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](#)