

## Perspective: Market Top? Hawaiian Shirts, New Stuff

May 03, 2015

Dear Scott,

### Is it a Market Top or Not?

The 6-Month chart of the S&P 500 (right) interestingly looks a lot like a triple top. While there is no shortage of Internet postings claiming "there is no such thing as a triple top," many others document the opposite. Although it may look like a triple top on this scale, it can't even be seen in the 9-Year chart below. Back in 2012 there was concern about the "dreaded triple top" some saw forming on a grand scale as the market climbed back to the prior peaks of 2000 and 2008. However, we powered through that barrier like nobody's business. Apparently fear of a triple top does not beget a triple top.

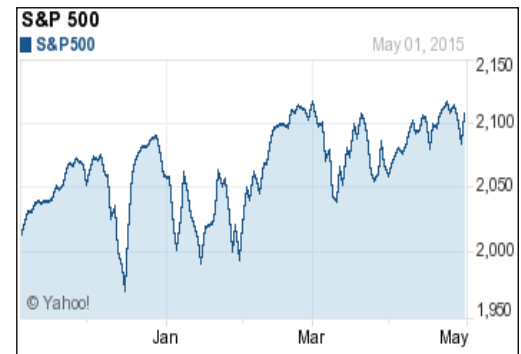
Instead, perhaps this is really an upward sloping pennant pattern that is about to break out to the upside at the pennant's tip. Take your choice: (1) a triple top about to break to the downside, or (2) an upward sloped pennant about to break to the upside. If chart patterns are in control of the future, we have an impasse. It appears the impasse will be resolved by real world events as demonstrated by the market rebound on Friday when calmness returned to Baltimore following a few days of rioting, looting, and burning.

The StormGuard Indicator continues to drift mildly lower, which is consistent with the observation that the market's rate of return as a whole is slowing — although still in a quite comfortable zone and still exhibiting admirable stability. One can do pretty well just riding the S&P 500 index higher when the market is recovering from a deep crash and almost everything is undervalued. However, once the recovery has pretty much run its course (and it has) it should be expected that the overall market returns will decline from those during the rebound period and that the importance of sector differentiation to identify trend leaders will become critically important.

### What Sectors are on the Move?

Although healthcare related funds have been booming for quite some time, these have pulled back twice from a pair of new highs during the past two months. The reasons to expect their continued march higher into the future are many, but for the moment the market believes prices have gotten a bit ahead of themselves.

Meanwhile, two sectors seriously on the move include energy and emerging markets (see chart on right). Energy stocks suffered terribly in response to the significant drop in oil prices last fall caused by a slowing in economic activity (and energy consumption) just as new wells were coming online. While there may be an over-sold recovery play available for a while, one should be careful as the playing field in the energy space will be volatile for quite some time — companies with



6-Months



9-Years



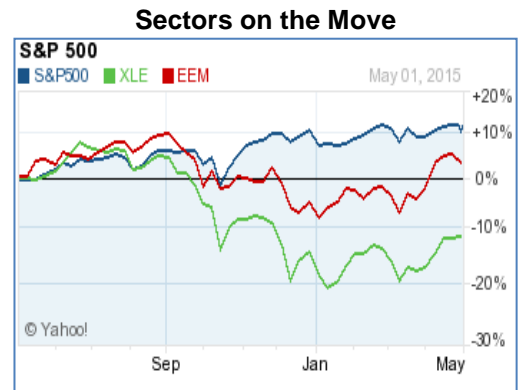
[Learn More About StormGuard](#)

higher production costs are likely to fail and have their assets absorbed at fire sale prices by larger established firms that can thrive in a \$50/barrel market. The apparent correlation between energy and emerging markets should not be a total surprise as energy production is a cornerstone of many emerging market countries.

### The Hawaiian Shirt Society Investment Club is Launched

Pictured to the right are the members of the recently formed Hawaiian Shirt Society Investment Club independently formed by members of the L.A. AAI Chapter to exclusively use SectorSurfer Strategies and Portfolios to manage the club's assets. The photo was taken during a special seminar for the Hawaiian Shirt Society at the L.A. Skirball Cultural Center in in March. I must say I was impressed by their cumulative investment experience, depth of understanding, and interest in learning how to properly applying SectorSurfer's advanced features. If you are in the L.A. area and would like to participate in a club of such superb members, please contact Bruce Arnheim [Bruce.L.Arnheim@aero.org].

Note: Of course special attire was required for the Hawaiian Shirt Society meeting, and to comply Chief SectorSurfer wore his red "surfer dude" shirt adorned by the Hawaiian lei of beautiful flowers bestowed on him by the club. Hey, if you're going to have a nerd-fest with charts and numbers, you gotta be sure it's balanced with something a bit whack-a-doodle!



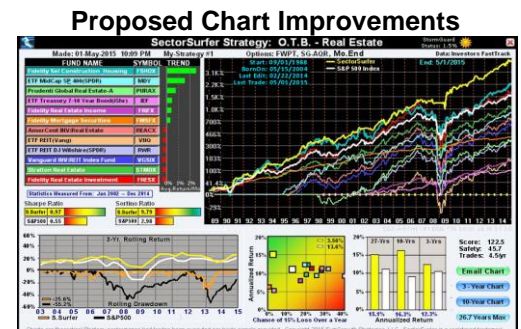
### Hawaiian Shirt Society Invest. Club



[Click to Enlarge](#)

### New Stuff – Proposed Chart Improvements

We've long been contemplating a few chart improvements to better illustrate variability of return and severity of drawdown. Representing the variability of return by a single number, such as the Sharpe or Sortino Ratio, is like describing a 12 course dinner in degrees of yummieness. Similarly, describing the worst pain felt in childhood with a single number, such as Max Drawdown, neither considers how long the pain was felt nor how many times it was inflicted.



[Click to Enlarge](#)

1. The 3-Year Rolling Return chart has been added to better understand variability of returns. The chart will be described in detail on the User Guide page.
2. The Max Drawdown bar chart will be replaced with the Rolling Drawdown chart. It is joined to the Rolling Return chart to make better use of available space. It will be described in detail on the User Guide page.
3. Many other things have been shifted to other locations to facilitate opening space for the new charts.
4. Some things have completely gone away including (a) the simple descriptions of the Sharpe Ratio and Sortino Ratio on the chart, (b) the measure of alpha and beta - nobody seems to really care much about them, and I would agree, (c) the Realized Max Drawdown value is not illustrated on the chart, but is in the spreadsheet download, (d) the orange button to close the chart in the lower right was redundant and is gone in favor of the standard red-X in the upper right.

If you feel strongly about any of these, please weigh in and make your case for how they should be done differently. Thanks!

## 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.

- 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
- Detroit, MI: AAI CI SIG - Saturday Sep 26, 10:30 AM
- Madison, WI: AAI Subgroup - Wednesday Oct 21, 6:00 PM
- Milwaukee, WI: AAI Chapter - Thursday Oct 22, 6:00 PM
- Twin Cities, MN: AAI Chapter - Friday, Oct 23, 7:00 PM (Intro)
- Twin Cities, MN: AAI Chapter - Sat, Oct 24, 9:00 AM (Advanced)
- Las Vegas, NV: AAI National Conference - Saturday Nov 7 - Nov 10
- Houston, TX: Houston Investors Association - Sat., Nov14, 9:00 AM
- Baton Rouge, LA: AAI Chapter - Thursday Nov 19, 6:00 PM
- Houston, TX: AAI Chapter - Saturday, Nov 21, 9:00 AM
- Phoenix, AZ: AAI Chapter - October 2016 - Stay tuned for details.

Surf Well and Prosper,



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



---

## Additional Resources



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](#)



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](#)



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](#)