Sector Surfer
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Monthly Perspective

StormGuard: The "Faster Response" False Dilemma

Aug 25, 2015

Dear Scott,

Sharp Market Drop Makes Everyone Nervous

This is a special edition of our monthly newsletter written to answer many of the questions that are on everyone's mind. I will discuss both the sharp market drop and StormGuard's response (or non-response as it may be) to this market.

5-Years

The Rise and Plateau of the Market

As noted in the previous newsletter, it's easy to see from the S&P 500 market index chart (right) that we've had a nice ride on the rebound from the depths of the 2008 -09 crash while enjoying a significant decrease in volatility along the way. It's also easily observed that the market has been losing steam of late, appearing relatively flat this summer... until last week when trouble broke loose.

The Market's Sharp Drop

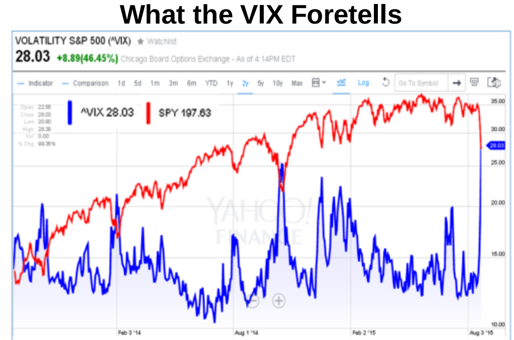
The sharp drop in world markets is being primarily blamed on the precipitous decline in the Chinese Hang Seng market index which slid about 15% in June and July, then fell sharply another 15% in the past 10 sessions. Serious trouble in the Chinese market is being translated as trouble for US multi-national companies that rely heavily on exports to China. Compounding this fear, continuing deterioration in oil prices cast a dark shadow over the viability of alternative energy equipment suppliers and producers, and has taken down an important sector of the economy. Although substantial recovery was afoot early on Tuesday, it eroded sharply prior to the market's close on fears of possible further losses in the Hang Seng market overnight.

5-Days

Let's Put Things into Perspective

The message provided by guests interviewed on CNBC today was not one of gloom and doom, but rather of "steady as she goes." Both Apple and Nike reported continuing strong sales in China — clearly the roof was not falling in. And, while low energy prices will certainly put a damper on energy sector profits, it will also prove to be a tremendous economic stimulus for industry and consumers alike. Furthermore, many company stocks have become value-priced in the wake of the long awaited market correction. The general assessment was that this is not a financial system on the verge of collapse, nor is it a story about a bubble economy. It is just a story about a market correction. Perhaps we've forgotten what one looks like.

What the VIX Foretells

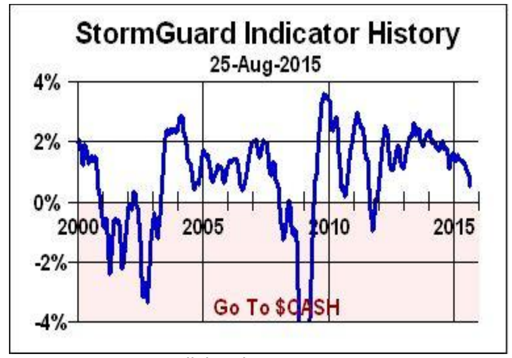


Click to enlarge.

What the VIX Foretells

The S&P volatility index "VIX" is plotted with the S&P 500 index (above right) showing a quite strong relationship between volatility spikes and the sharp reversals of a market pull back. This relationship is well outlined in this insightful article by Ray Rondeau entitled [To Trend or

[Not to Trend](#) published in the AAII Journal. The VIX seems to foretell a strong reversal from this point.

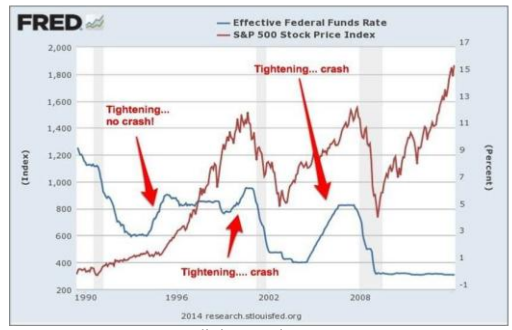


Click to learn more.

When Will StormGuard Wake Up and Do Something?
This summer's flattening of market returns is expressed by the trend toward the "Go To $Cash" zone in the StormGuard chart (right). However, many nervously watching the market drop have wondered why StormGuard hasn't trigged. Fortunately, StormGuard is doing exactly what it should be doing — not producing a knee-jerk response to the drop in the way an emotional human might so be inclined. Reacting too quickly can lock in whipsaw losses when sharp drops often snap back. Please browse these links for more details explaining how and why StormGuard operates this way.

- [StormGuard Indicator Description.](#)
- [The "Faster Response" False Dilemma.](#)
- [Should You be Panic Selling on Bad News? No!](#)
- [AAII Seminar](#) starting at the 17 minute mark.

What the FED Rate Foretells



Click to enlarge.

What the FED Rate Foretells
Finally, there is a lot of angst over the possibility that the FED will start raising interest rates this fall and crater the stock market. However, I would note that it was more than two years after Ben Bernanke started raising rates (see chart on right) before the market reacted adversely. It's not yet time to run for cover.

Surf Well and Prosper,

Scott Juds
President & Chief SectorSurfer
SumGrowth Strategies, LLC
[www.SumGrowth.com](#)

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Additional Resources

SectorSurfer Live Forum
By the Seattle SectorSurfers Meetup Group

The SectorSurfer Live Forum was created by Norman Booth to provide Internet-streamed access to the Seattle SectorSurfers Momentum Investing Meetup Group to everyone, including discussions and local or remote presentations. [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](#)

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**

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**