

# Perspective: No Sign of Market Fear, and Firing a Strategy

Aug 04, 2017

Dear Scott,

## No Sign of Fear

The market currently has no real fears. Sure there are always a few things to worry about, such as Russia, North Korea, China, ISIS, Venezuela, the zika virus, a dead healthcare bill, \$20T of debt, and so on... but it doesn't seem to be phasing the market. The hope and belief that healthcare and tax reform will still happen this year remain high... at least higher than our fear of all the evil things. Financial talking heads (and some of my friends) seem to have done a good job this year of avoiding talking about seasonality and the need to "Sell in May and go away." That would have been a 5% mistake this year. For now, the trend is your friend — and there are many good reasons to believe it will continue at least for a while.

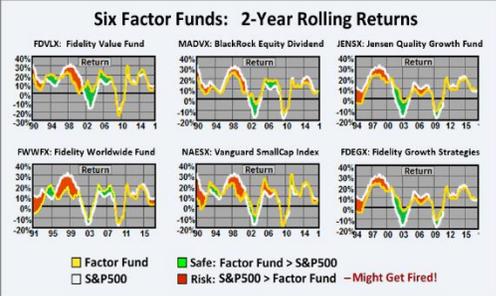


S&P500 - 6 Months.

## Firing a Strategy

The compound chart (right) illustrates the 2-year rolling return for six important investment “factors” commonly cited and tested by academics when categorizing stocks: Value, Dividends, Growth, Quality, Size, and Region. Investment companies have long offered funds focused on each of these factors. Certainly, their team of professional managers with their high-performance analysis software would do a much better job at identifying opportunities for promising stocks with these factors than any individual could... right? Thus, the funds used to represent the performance of stock portfolios for these charts will likely be better than the performance of any smaller portfolio managed by a novice. Still, these funds regularly underperform the S&P500 market index for long periods of time, as identified by the areas marked in red.

### Six-Factor-Funds-Rolling

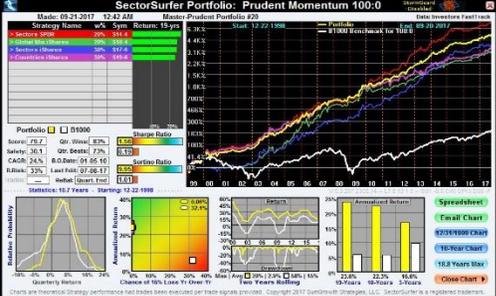


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It is during these periods of underperformance that investors are likely to fire their strategy and/or their financial advisor in favor of selecting an alternative fund that is currently performing better. While that is the basic tenet of any momentum strategy, the vast majority of investors do so with terrible timing. They wait too long to make the change and thus not only suffer from mounting real losses, but also suffer from lost opportunity while the outperforming fund continues to do well. Investors typically don't take action until most of the benefits of such a switch are lost.

Contrast those six rolling return charts with the rolling return chart of the Prudent Momentum 100:0 Portfolio (right). There is no better object lesson than this to demonstrate the cumulative value of each of the component parts of our algorithms. While a Strategy may still contain instances of underperformance, your

### Prudent Momentum 100:0



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overall portfolio should not. If your portfolio's rolling return dips below the S&P500's rolling return, then you might have some redesign work to do.

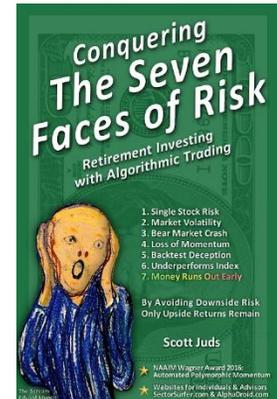
**Meetup - Book Review:  
Conquering the Seven Faces of Risk**

(Thurs. Sept 14th, 7PM PST [Streamed Meetup Details](#))

This Meetup will be a preview of my new book "Conquering the Seven Faces of Risk." The book covers a broad range of topics, many quite familiar to our subscribers, and adds substantial new material and insight to keep your attention until the very end when it is finally revealed how.... umm... well, that chapter is still to be written. It will be a surprise for me as well. Click the meeting link for more book details. I will be doing little else beyond crafting this book every waking hour and late into the night all summer long to get it done in time for the early October Fearless Investing Summit in Tahoe, which guarantees it will be ready to preview to you in mid-September.

At least since Markowitz developed Modern Portfolio Theory 65 years ago, risk has generally been measured as the standard deviation from average return. However, both the dictionary and Behavioral Economics suggest risk is actually about the loss of value. Furthermore, risk is not a one-dimensional problem cured by a single dose of diversification. Risk has at least seven unique faces, including the possible failure to meet long-term retirement objectives — which then really makes it about earning sufficient returns. Come see how a pair of Nobel Laureates, a Royal Society Fellow, and a National Medal of Science winner laid the foundation for active risk reduction and forever changed the game. See how we use their principles to design portfolios that are capable of "Conquering the Seven Faces of Risk."

**The Book - October**



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**Design of the  
Prudent Momentum Portfolios**  
Streamed Live July 6th, 7PM PST



**Internet Streamed so  
Everyone Can Attend** 

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Surf Well and Prosper,



**Scott Juds**  
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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](#)

### **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](#)