SectorSurfer Change the Game — Monthly Perspective — ALPHADROID Change the Game

Perspective: Low Sector Correlation ... and Bond Paranoia

Jan 06, 2018

Dear Scott,

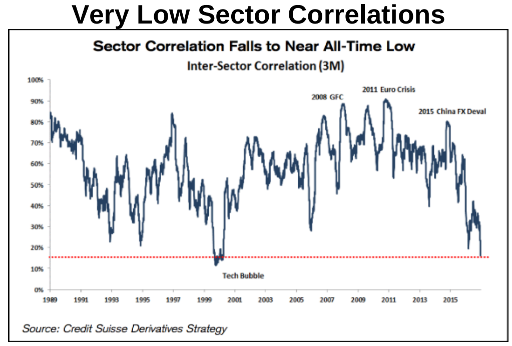
S&P 500 - 6 Months.

Is that a rocket or what?

2018 Launches Like a Rocket

Although 2017 was truly a phenomenal year, the last two weeks of December were flat. Was Santa done delivering his rally? Were profits being locked-in early for annual reports? Certainly there wasn't much opportunity to do tax-loss selling this year. You can now set your doubts aside. The first four days of the year were spectacular, steadily producing about 0.5% each day. That's a very strong 10% per month clip! Furthermore, VIX Volatility has fallen to a 3-decade low, a phenomenon always associated with a steady market rise. Short of a "punctuated event" out of left field, the market is telling us it will be doing more of the same for a while. This is not the time to be afraid of the next market crash — this is the time to be afraid of missing the next leg up.

Very Low Sector Correlations



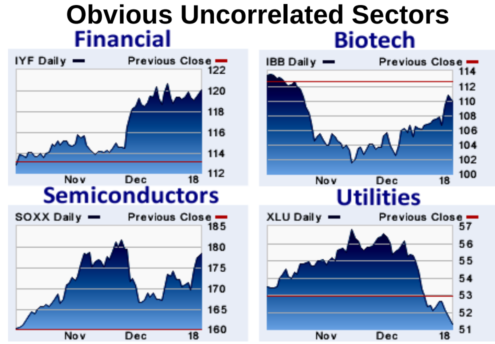
Click to expand image.

Very Low Sector Correlations

Credit Suisse recently reported that sector correlations (right) are nearing an all-time low, which is similar to the 1999-2000 period characterized by the dotcom bubble's final run up and subsequent reversal. In contrast, the 2007-2009 period had very high sector correlation. As most of us recall all too vividly, there was no safe harbor except for cash during that crash. However, in the dotcom crash the financial and healthcare sectors did not materially participate. The set of four sector charts (below-right) illustrates some of the more obvious inverse correlations observed between major market sectors today.

The good news for us is that sector rotation strategies perform best when sector correlations are low. When whole sectors take turns moving from oversold to overbought and back again, there is a much greater potential for sequential bountiful profits. Most analysts say we are still a long way from the excessive valuations of the dotcom bubble — thus we have a long way to run before worrying about a bubble-induced market crash.

Obvious Uncorrelated Sectors



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Bonds, Bonds, Bonds...

Will the Punch Bowl be Shaken, not Stirred?

[***Meetup* Event Information**](#) Thursday Jan 11, 2018 7PM PST

Whether you're a conservative investor or just simply paranoid (because you know that what goes up must come down), you may already be on a critical secret mission to save the future quality of "life as we know it" by taking action as your alter-ego hero: Bond, James Bond. The stakes could not be higher.

The bureaucrats have their hands all over the economic control knobs, and you know how well that worked out during the last 20 years. Having been twice annoyed by the 2001 and 2008 market crashes, we do have a legitimate basis for being ''pair-annoyed.''
We'll take a close look at what happened to bonds during both rapid and slow changes made to the federal funds rate in prior periods, and we'll discuss how best to prepare our strategies for a higher rate environment, regardless of whether the punch bowl is shaken or stirred by the new FED Chair.

Speaking Engagement Calendar.
• San Francisco, CA: AAII Chapter - March 17, 2018

Bonds, Bonds, Bonds...
Will it be Shaken, Not Stirred?
Streamed Live Wednesday Jan. 11th, 7PM PST

Seattle SectorSurfers Momentum Investing
Internet Streamed so Everyone Can Attend
Meetup

Click for Event Details.

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Additional Resources

SectorSurfer Live Forum
By the Seattle SectorSurfers Meetup Group
Meetup

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