



Perspective: Grinch Stuns Markets, but Surfing Santa Delivers!

Dec 25, 2018

Dear Scott,

The Grinch Stole Christmas

While markets remain concerned about the looming Chinese trade war, the Brexit deal, cracks in the European Union, and the partial government shutdown over border wall budget funding, Jerome Powell (FED Chairman) has shown multiple times since October that nothing else comes close to shocking markets like believing there may already have been too many interest rate hikes. Superficially it may sound good for the FED to jack interest rates up to their long-term average (so-called neutral) to ensure the FED can reduce rates in the event of a later recession. However, since the upward pressure on both inflation and wages is negligible, the FED may have put a sufficiently wet blanket on the economy to trigger the start of the next recession. It's noteworthy that [every recession in the last 7 decades](#) was immediately preceded by the FED raising rates.

But hey, look at the bright side. The precipitous 20% market drop induced by the FED (much worse in some sectors) provides the perfect opportunity for a little [tax-loss harvesting](#) for the remainder of December. But let's also be mindful of the other blessings the FED is delivering: (1) The massive tax-loss harvesting will result in a major drop in Federal tax revenue, directly sending the Federal budget deficit higher. (2) With roughly \$20 trillion in Federal debt, the recent 2.5% rate increase means future debt obligation payments must increase \$500 billion per year. That will produce correspondingly higher annual budget deficits unless tax revenues increase or spending levels decrease. Unfortunately, the FED has cut the legs out from under higher tax revenues and politicians keep demonstrating their inability to meaningfully control spending.

Surfing Santa Delivers StormGuard-Armor+

We all understand that there's not just one kind of road hazard for tires to endure or one kind of weather for paint endure. Similarly, there's not just one kind of market stimulus or one kind of investment strategy. Although StormGuard-Armor was designed to evaluate trading volume and new highs/lows in addition to the price trend, still other factors and measures can be employed. SG-Armor+ was developed to provide two specific improvements using short-term pattern recognition techniques:

- **Whipsaw Loss Reduction:** Upside Breakout Pattern
- **Drop-N-Pop False Trigger:** Glitch Recovery Pattern

Whipsaw Loss arises when a precipitous drop occurs before StormGuard generates a sell signal and then subsequently

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SectorSurfing Santa Delivers

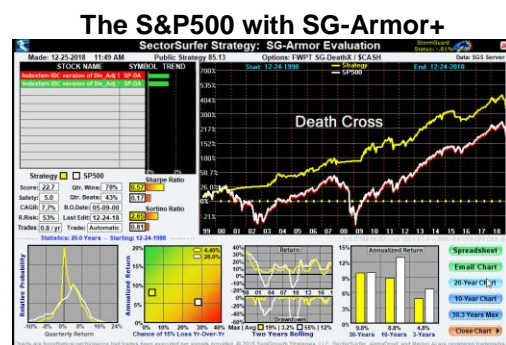


returns to higher levels before a new buy signal is generated. There have been six prior instances of whipsaw losses during market corrections over our 29-year database. All six instances are now properly detected. Whipsaw loss has been either significantly reduced or eliminated for all six instances without any collateral damage. Although StormGuard-Armor is currently at risk of another such whipsaw event, SG-Armor+ is now in place to deal with it effectively.

Drop-N-Pop False Trigger occurs when a frightful event causes a precipitous and quickly reversed market drop that is sufficient to trigger StormGuard-Armor even though the event is already past. By triggering after the short event has come and gone, the strategy is forced to sit on the sidelines for a month while a bull market goes on without it. There have been 3 prior instances of Pop-N-Drop False Trigger losses over our 29-year database.

Animated Charts

The first animated chart (above right) illustrates the differences over a 20-year period for selling the S&P500 and moving to cash using (a) the Death Cross, where the 50d SMA crosses the 200d SMA; (b) StormGuard-Armor; and (c) StormGuard-Armor+. The cumulative improvement over StormGuard-Armor for the 20-year period is about 25%. Improvements are obvious in every measure of risk and return on the chart.



[click to enlarge](#)



[click to enlarge](#)

The second animated chart (above right) closely examines the most recent five years making it clear exactly when and how each improvement was made. Correction of the Pop-N-Drop events of Nov. 2014 and June 2016 are visible, as is the Whipsaw event of March 2016. The controls in the upper left of this chart provide an idea of the simple rule set that works so well.

There are no special rules with knowledge about a specific event. All whipsaw events are handled by the same set of rules and all PopNDrop events are handled by the same set of rules. There were no false detections or other collateral damage. There is no curve fitting, just a more complete rule set designed for this multifaceted problem.

How to Use SG-Armor+

SG-Armor+ will automatically be applied to all Strategies employing StormGuard-Armor from today (Christmas 2018) forward without the need to do anything further. Any Strategy that is substantially edited (more than its name or display options) and posts a Last Edit Date of 12/25/2018 or thereafter will apply the SG-Armor+ model across the entire data set and will indicate its use of SG-Armor+ in the chart's subtitle. If you would like to experiment, you may disable SG-Armor+ by adding the character "-" to the end of your Strategy name. You must also further substantially edit the Strategy to cause it to recalculate the entire trading history from scratch. Similarly, if you remove the "-" you must also substantially edit the Strategy for the change to take effect across the entire trading history.

Application Notes

When you apply SG-Armor+ there are some odd things that can happen, including: (1) If you use a Bear Market Strategy that performs well during one of the improvement periods, then SG-Armor+ will provide little improvement for that period. (2) Similarly, if the trend leading fund is very different from the S&P500 and performs poorly during one of the improvement periods, then SG-Armor+ will likewise provide little improvement at that time. (3) When new small periods of time come into play for a fund, it can cause the trend leader decision to change, thus producing a slightly different result, particularly if there are highly volatile funds in the strategy. If this happens, it implies a weakness in the Strategy design related to the existence of overly volatile funds.

Surf Well and Prosper,



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