

## Perspective: Market Drops, and Safety King Takes on Stocks

Feb 06, 2018

Dear Scott,

### February's Scary Market Drop

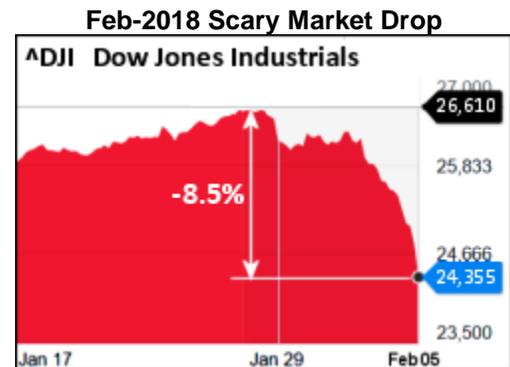
Through the end of January the market was well-described by many as "melting up." However, what January gave, February has sharply taken away in a three-day rout. Monday's losses were particularly frightening when the Dow spiked down 1,597 points in late afternoon trading before settling on a 1,175 point (4.1%) loss. Tightly related, in the past few days the VIX volatility index astonishingly went from a multi-decade low of about 9.5 (extreme calm) to a rare high exceeding 37 (extreme volatility).

For months pundits have been talking about the extraordinarily long period since the last 10% market correction, especially in view of the market's recent strong performance. Much to their satisfaction, Monday afternoon saw the Dow Jones Industrials momentarily kiss the 10% correction level, then partially rebound before closing 8.5% below its most recent high. But was that brief intraday kiss sufficient? It's hard to know because it's an artificial threshold. However, it does seem to have a bit of a self-fulfilling prophecy character — a psychology that causes traders to make it come true. As I write this newsletter, the S&P's implied open in the morning will be down another 350 points ... but that could change if the optimists re-take control.

### Sharp Drops Usually Snap Back

The big question is whether it is the start of a market crash, or just a sharp correction. Curiously, pundits uniformly agree that the trigger for the market drop was news that the economy was doing so well that the small sign of wage inflation pushed the Federal Reserve to more quickly hike interest rates. Higher interest rates increase the cost of business and change the competition for investment capital between stocks and bonds. It seems the news was a wakeup call — the rate increase really was going to happen this time.

The consensus is that this is simply a market correction. Thus, selling now only locks in losses, leaving you with a whipsaw burn during the impending rebound. StormGuard is specifically designed to ignore short-term events and avoid whipsaw losses. The 2014-2015 Market Drop chart (right) illustrates that rapidly dropping 5% or more is not uncommon. If trading faster was not a fool's errand, StormGuard's design would be optimized to do so. For more on this topic please see pages 39 and 142 in the PDF version of my book "[Conquering the Seven Faces of Risk.](#)"



[Click to expand image.](#)

## Safety King Les Mosier Takes on Stocks

Les Mosier has long been known for his dominance of safe Vanguard Strategies ranked on the Hall of Fame page. In 2013 he [won the Portfolio Design Contest](#) in the low drawdown risk category. He fundamentally showed us how it was done. Last September Les wrote to me and said: *"I've always been intrigued and jealous of the highflying HOF stock strategies, knowing the limitations of using SectorSurfer to trade equities. My wife grew tired of me talking about it and challenged me to develop the #1 TopDog Stocks strategy. So I did. Dang this is fun!"*

With his skill and understanding of how curve fitting could be used/abused, he built the Stratospheric Strategy (chart-right) in a single afternoon. Today, it still holds the number one position with a Score of 877 while the nearest competitor's Score is only 581. Why is this important? In spite of multiple special warnings on the site about stock Strategies, I know from subscriber emails that too many stock enthusiasts have neither read nor understood these warnings describing the risks and extra effort required to keep stock Strategies working after the last "rising star" among them fizzles. Les Mosier may have built this Strategy as a challenge to earn a badge of honor in the Hall of Fame, but using it successfully into the future is another matter.

To this end, the Hall of Fame page (stocks tab) now sports a new, bolder warning message with links to supporting topics. The warning message also masks the Strategy-ID numbers until one has checked each of five boxes to acknowledge having read multiple educational documents. Please take the time to review these materials to ensure you understand the special problems associated with stock strategies and understand how to use them in a successful manner.

## Designing Ultra ETF Strategies and Portfolios [Meetup Event Information](#) Tuesday March 8, 2018 7PM PST

We will review Ultra ETF trading volume concerns, the rationale for extended data ETFs, assembling a Strategy relatively immune to hindsight selection bias, Ultra ETF Strategy-of-Strategy design, and Ultra ETF Portfolio design concepts.

## Speaking Engagement Calendar.

- San Francisco, CA: AAI Chapter - March 17, 2018

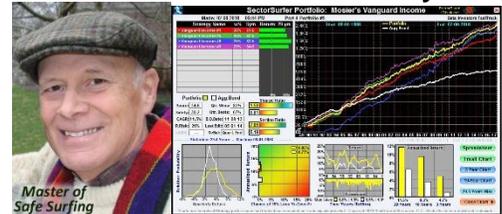
Surf Well and Prosper,



Scott Juds  
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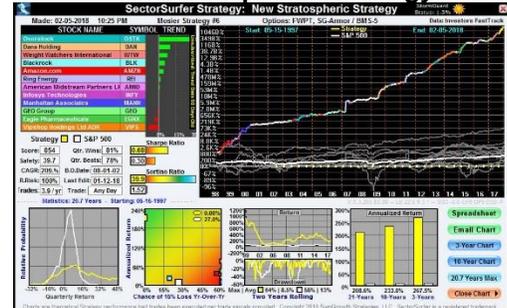


## Les Mosier: Master of Safety



[Click to See Safety Portfolio.](#)

## New Stratospheric Strategy



[Click to expand image.](#)

## Ultra ETF Strategies and Portfolios Streamed Live Tuesday March 6th, 7PM PST

Internet Streamed so  
Everyone Can Attend

[Click for Event Details.](#)

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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](#)



*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](#)