Perspective: The Rebound, Bear Strategies, Merlyn.AI ETF News

Feb 09, 2019

Dear Scott,

Markets Rebound - The Bull Breathes - We're In

While there have been many pressures on the market, it is now certain that the positions taken by Jerome Powell's FED on continued interest rate hikes were the primary cause of the market's two precipitous drops and its rapid partial recovery (chart-right). On January 20th recovery was substantial enough to pass the new StormGuard-Armor+ "early exit pattern recognition test" taking us out of bonds and treasuries and back into our beloved bull market sectors. The Merlyn Strategies, which are strictly limited to month-end trading, followed suit at the end of January. It appears that SG-Armor+ has lived up to its billing as its old self (SG-Armor) would likely not have brought us back into the market until the end of February.

The Animated SG-Armor+ chart (below-right) illustrates the performance advantage provided by SG-Armor+ and its integrated Bear Market Strategy (BMS-A) in comparison to (1) the well-known Death Cross Indicator, and (2) the original SG-Armor. Notably, the Death Cross is prone to heavy whipsaw losses and is currently in the process of being whipsawed further by the continuing Q4 2018 market correction. The SG-Armor+ Fuzzy Logic algorithm now evaluates 14 distinct market characteristics in rendering its comprehensive market safety decision. Clearly, there are many forces driving the markets. Just as high performance came to the automobile engine through the complexity of its design, so also is this true for SG-Armor+. The devil is in the details.

There are always a few worrisome economic/political matters that cloud the future. However, the two current primary concerns (1) a China trade deal and (2) a budget/border security deal appear to be on paths that at least investors generally believe will soon be reasonably resolved without terribly upsetting the stock markets.

New Bear Market Strategies — for Diversification

There were already quite a number of Bear Market Strategies (BMS) to choose from, but many of them often chose the same bond or treasury ETF leading to poor diversification. Additionally, some of the better performing BMS include leveraged treasury ETFs that are viewed as too aggressive by some investors, advisors, or compliance officers.


S&P500 Index - 6 Months
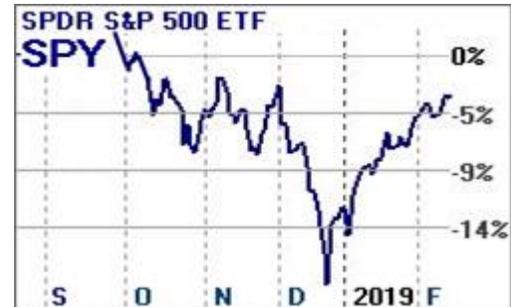
click to view all StormGuard charts

Animated SG-Armor+ (click)

With the integration of the Pop-n-Drop algorithmic technology originally developed for Merlyn.AI, it is now possible to use inverse (short) ETFs in a BMS. This provides the opportunity to develop a new class of Bear Market Strategies: BMS-G, BMS-M, BMS-D, and BMS-S have all been developed to provide better diversification when SG-Armor+ triggers. They have been designed to use different methods and ETFs to achieve superior performance. It is now possible for a portfolio with four different Strategies to use four different BMSs that will generally (but not always) choose different ETFs during a bear market. The Animated BMS Options chart (right) illustrates their differences and performances relative to BMS-R and BMS-A, which have long been with us as primary workhorses.

Animated BMS Options (click)
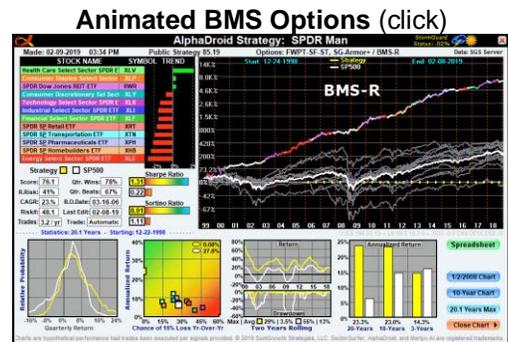
Introducing Merlyn.AI Corp. (ETF Update)

Last year we indicated that a few Merlyn.AI ETFs were in the planning stages. Today I can report that they are literally on the way. However, an ETF launch is logistically quite complex in this highly regulated industry. This limits what we can and cannot tell you about the planned ETFs.

Merlyn.AI ETF News

Here's what I can tell you: From a structural and logistical perspective SumGrowth Strategies (owner of the Merlyn.AI technology) will participate as the "Index Provider" (similar to a signal provider) for all Merlyn ETFs. Merlyn.AI Corporation has just completed formation and will have an exclusive license from SumGrowth Strategies to create and market Merlyn ETFs. Merlyn.AI Corp will raise money (sell shares) to fund the logistics of creating, operating, and marketing the ETFs until they attract sufficient assets under management (AUM) to be self-supporting through their ETF management fees. Most of the very complex ETF operations (legal, compliance, banking, custodian, trade execution, market makers, and others) will be outsourced through established service providers. Merlyn.AI Corp. will shortly have its business plan and term sheet ready for accredited investors interested in owning a share of Merlyn.AI Corp. and the ETFs it creates. The business plan being assembled will launch three ETFs with a range of investment objectives (done our style). When more information about the ETFs becomes available, it will be through Merlyn.AI Corp. or through the ETF websites themselves. Don't worry, you will be kept as informed as allowed by securities regulations.

Surf Well and Prosper,

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