Perspective: Low Volatility Meltup, BRBF Performance
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Markets are Quietly Melting Up
Over the prior few months market volatility has continued to decrease. In fact, we now have had over 60 days with less than a 1% move in the market. This period now ranks as the 6th longest streak of low volatility in the last 50 years. But, will it last? Statisticians tell us that we have about a 50/50 chance that it will continue a few more months. This calm period was likely driven by a perception of risk reduction associated with the signing of the USMCA trade deal and the signing of the US-China Phase-1 trade deal. At the same time, the market appears to have been quite indifferent to the assassination of Qasem Soleimani, commander of Iran’s Quds Force, and likewise indifferent to the looming Senate impeachment trial of President Trump. In any case, the 11% quarterly melt-up of the last 90 days is almost certainly not going to continue through year end. If we’re lucky, we’ll be blessed with a few slow spots in 2020, rather than a series of bombshell drops and pops.

StormGuard-Armor Finally Exits Probation
As anticipated in the previous newsletter, institutional high-volume investors have now returned and have firmly pushed the Market Momentum Indicator into positive territory (see StormGuard-Armor’s primary component charts). StormGuard-Armor, which had been stuck in probationary status (+0.02), is now firmly in bull territory.

Do Charts Control Events? – Or do Events Control Charts?
There are many events that clearly drive the markets, such as the 911 attacks, the iPhone introduction, and hurricane Katrina. But none of these events waited for their turn in the economic cycle or examined market charts to determine when to commence. On the
other hand, it’s also clear that the FED and pattern traders react to charts. Fed Chairman Powell twice recently reacted to market charts that convinced him investors had lost faith and were rapidly jumping ship. Pattern traders believe it’s their job to react to P/E ratios, Bollinger Bands, resistance thresholds, and many other technical patterns. If enough pattern traders believe the DOW will find resistance at 30,000, it will become a self-fulfilling prophecy.

What’s next? Perhaps the greatest worry for the market should be continued low volatility, more confidence, and FOMO (fear of missing out) that produces a sufficient market melt-up to put us into serious bubble territory. The bigger the bubble, the smaller the prick required to start a cascade of selling. In the US, that prick could happen if investors are negatively surprised by November’s election. Internationally, many believe China is headed for a 2008-style financial crash of their own, which could reverberate around the world and prick our bubble.

**Bull-Rider Bear-Fighter Index Performance**

The Bull-Rider Bear-Fighter Portfolio Index, which employs an 80/20 equities/bonds target allocation, was published on SectorSurfer and AlphaDroid in September of 2019. The chart (right) illustrates the performance of the Bull-Rider Bear-Fighter Index (green) versus the S&P500 (white), the Dow Jones Industrial Average (red), and four 80/20 allocation benchmarks (iShares AOA, Blackrock BIAPX, MFS MAGJX and Franklin FGTIX) during the last rolling quarter. During this period the Bull-Rider Bear-Fighter achieved a total return of 10.7%, outperforming the 80/20 benchmarks by an average of 2.3% and besting the Dow Jones Industrial average in spite of its 100% equities allocation.

**The Butterfly Effect: Merlyn.AI Strategy Variants**

I have received several emails asking why the ETF selections of the Merlyn’s Magic Sector Nectar strategy are often different from those of the Bull-Rider Bear-Fighter Sectors-a strategy. The answer is “The Butterfly Effect.” There is one primary difference between the two strategies, and that is the Decision Shift Days parameter, which shifts the definition of the end of the month by -
1 day for Merlyn’s Magic Sector Nectar, but not for Bull-Rider Bear-Fighter Sectors—a. Occasionally, the determination of which candidate fund is the trend leader will be different when made one day apart. However, that’s just the beginning. In Merlyn.AI’s genetic algorithm, each strategy additionally has 12 underlying strategies that evolve and compete. When an evolutionary step takes place in one but not the other, a lasting change in its set of candidate funds occurs. This change can affect the strategy’s Forward-Walk Progressive Tuning algorithm, which determines the averaging period used for measuring momentum thereafter. The table (right) illustrates the differences in choices between the two strategies over a 16-year period. The good news is that they always swing back into the same neighborhood because of their general attraction to the same funds.

A Webinars for your Investment Club?
In this modern day and age, it is really quite easy to do a live Webinar for an investment club to and from anywhere. Every club already has an internet-connected computer with an LCD projector. All that is left to do is schedule a presentation -- no expensive travel required. The presentation can be tailored to fit the style of your club. Here are some example PDF slides for a recent presentation to a rather technically inclined group. Contact me by reply to this newsletter if your investment club is interested.

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