

Sector Surfer KISS ReVisited

Jim Quinn (Student Investor)

June 28, 2014

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DISCLAIMER (CONT)

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My Philosophy

- **Preserve Capital**
- **Earn Best risk-adjusted Return**
- **Not a day trader, I am looking for weekly systems or longer**
- **I look for systems which meet these requirements**
- **Focus on ETFs and Mutual Funds rather than stocks to reduce risk**

My Philosophy (Cont)

- **I Look for trends**
- **Visuals (ie charts) are Very Important**
- **I am not necessarily a Buy & Hold investor, but would like to be**
- **I am *ALWAYS* Looking for New and *BETTER* Investing Ideas**

Today's Objectives

- Section I – Market Stress Test
- Section II - Richard Young's KISS SS ReVisited

Sec I - Market Stress Test

- Summarized from WSJ Jason Zweig Intelligent Investor Column Sat June 14, 2014
- Time to Plan Actions if Market Dives
- Based on ACTUAL Research
- URL is :

Market Status

- 980 days since a 10% Decline; Which WILL come
- INVESTORS DO ACT DIFFERENTLY IN A DOWN MARKET

Investing Under Stress

- Much more Sensitive to LOSSES
- Impaired Short Term Memory
- Indifferent to Small Gains
- Much more LOSS AVERSE
- Less Sensitivity to Reward
- Focus More on Short Term Losses rather than Long Term Gains
- Therefore focus on how much you are losing rather than what you could gain if you held on

Stress Exacerbates Normal Biases

- MORE Conservative if you are Normally Conservative
- If Risk Seeking; you Tend to be MORE Risk Seeking

CAN & SHOULD PLAN AHEAD

- Control Your Future Stress
- Sell NOW to lock in profits
- Focus on Total Value of Assets; NOT on Amount of Latest Loss
- Have info set up to be able to look at this type of data
- ReBalance NOW
- Take Moderate Action NOW
- MORE ABOUT THIS IN 8/2/14 DON G. MEETING

RY First Half

1	5-May-14	22:49:05	F11.32.csv	CWB	JNK	IEF			
2	SS-Std., Trade: Automatic, SG-Std.								
3									
4	Trades/Year	2.5			Score 60		Safety 238		
5									
6	RISK PROFILES								
7	TYPE	Strategy	Agg.Bond						
8	Prob. Of Loss	0.01%	1.48%	Year-Over-Year proportional probability of a 15% loss.					
9	Sharpe Ratio	2.51	1.15						
10	Sortino Ratio	14.6	6.6						
11									
12	All-Yrs Drawdown			Strategy Component ETF's					
13	Max Drawdown	8.70%	6.50%						
14	Real Drawdown	0.40%	1.20%	CWB	Convertible Corporate Bonds				
15	Max D.D. Date	20-May-10	9-May-94						
16	Real D.D. Date	1-Jun-10	17-Dec-07	JNK	High Yield Corporate Bonds				
17									
18	ANNUALIZED RETURN PERCENTAGES			IEF	7 > 10 Year US Treasury Bonds				
19	DATES	Strategy	Agg.Bond						
20	All Years	15.25	4.60						
21	5 Years	18.08	4.70						
22	3 Years	17.91	3.28						
23	1 Year	16.13	-0.02						
24	Y.T.D.	5.16	2.85						
25									
26									
27	2013	20.56	-2.26						
28	2012	13.82	4.05						
29	2011	18.48	7.56						
30	2010	11.74	6.42						
31	2009	20.59	5.93						
32	2008	6.33	5.05						

RY Second Half

CWB JNK IEF Back Test Trade History								
						Losing trades		
						Jun 2010 -0.4%		
				Calendar				
				Days Held	Gain	Gain	Value	Value
Trade Date	Sell	Buy			Agg.Bond	Strategy	Agg.Bond	Strategy
Still Holds	JNK	- - -	34	1.10%	0.50%	13157	24883	
1-Apr-14	CWB	JNK	454	-0.30%	25.10%	13019	24752	
2-Jan-13	JNK	CWB	154	0.10%	6.00%	13052	19782	
1-Aug-12	IEF	JNK	92	2.30%	3.70%	13033	18660	
1-May-12	CWB	IEF	90	0.50%	1.30%	12740	17997	
1-Feb-12	JNK	CWB	62	2.00%	6.50%	12677	17767	
1-Dec-11	\$CASH	JNK	91	0.30%	0.00%	12433	16689	
1-Sep-11	IEF	\$CASH	62	3.50%	9.10%	12397	16687	
1-Jul-11	JNK	IEF	91	2.10%	2.10%	11974	15295	
1-Apr-11	CWB	JNK	182	-1.10%	10.10%	11723	14985	
1-Oct-10	IEF	CWB	122	4.00%	7.40%	11855	13616	
1-Jun-10	JNK	IEF	120	2.40%	-0.40%	11402	12678	
1-Feb-10	CWB	JNK	153	2.50%	9.40%	11140	12730	
1-Sep-09	JNK	CWB	62	2.70%	7.10%	10873	11632	
1-Jul-09	\$CASH	JNK	516	5.30%	3.10%	10592	10857	
1-Feb-08	IEF	\$CASH	46	3.20%	5.00%	10061	10533	
17-Dec-07	\$CASH	IEF	12	-1.20%	0.20%	9746	10031	
5-Dec-07	---	\$CASH	0	0.00%	0.00%	10000	10000	
Ticker Symbol Cumulative Contribution								
			\$CASH	IEF	CWB	JNK		
			3.25%	27.57%	#####	22.92%		

Section II – RY's Expanded SS KISS

Sector Surfer.com

TWO Simple Strategies I Like
KISS

Richard Young Student Investor
AAII LA Chapter SIG June 7, 2014

DISCLOSURE //DISCLAIMER

“Caveat Emptor”

The investment ideas //situations shown here are RISKY.

YOU may lose ALL YOUR CAPITAL.

**Investment CHOICES are derived from BACK TESTED ideas using
SUM GROWTH// Sector Surfer.**

Information presented here is for EDUCATION // AMUSEMENT.

I may or may not have POSITIONS in the securities shown.

All material compiled without verification of ACCURACY.

PAST performance is no GUARANTEE of future RESULTS.

I am a SECTOR SURFER subscriber.

“CAVEAT EMPTOR”

Richard Young

Student Investor

CONTENTS

> **MY BASIC REQUIREMENTS**

> **FABER 4 ALT**

CHART

TRADES back test

> **CWB JNK IEF (S.G.-AQR)**

CHART

TRADES back test

> **Large, Mid, & Small CAP Equity Classes**

> **Thoughts & Observations**

> **My information sources**

**MY requirements --WHAT DO I EXPECT /// NEED?
BACK TESTING ETF's using SS**

**SMALL number of COMPONENTS 6 Maximum
RETURNS above BENCHMARK**

MINIMIZE MAX DRAW DOWNS

MAX 20% Equity Strategies /// FABER 4 ALT

MAX 12% Bond type Strategies

NO LOSING YEARS

MUST include 2008 in test

FEW TRADES (reduces SLIPPAGE)

MINIMIZE LOSING TRADES

Consistency of RETURNS

LOW PROBABILITY OF LOSS...

GOOD SAFETY RATINGS Minimum 100

SectorSurfer Strategy:

StormGuard
Status: 1.8%

Made: 31-May-2014 02:00 PM

My-Strategy #4

Options: SG-Std

Last Edit: 15-May-2014

Data: Investors FastTrack

FUND NAME	SYMBOL	TREND
ETF SP 500 Equal Weight(Gughm)	RSP	
ETF REIT(Vang)	VNQ	
ETF FTSE All-World xUS(Vang)	VEU	
ETF DB Commdty Index Track(PowS)	DBC	

Avg.Return/Mo.

Was Born: 14-May-2014

Avg. Trades/Yr: 1.5

Last Signal: 30-Nov-2012

Trade Hold: Automatic



RISK: Sep-2004 to May-2014

Sharpe Ratio: $(Return - MM) / Std.Dev.$

Strategy: 2.02

S&P 500: 0.33

Sortino Ratio: $(Return - MM) / Neg.Dev.$

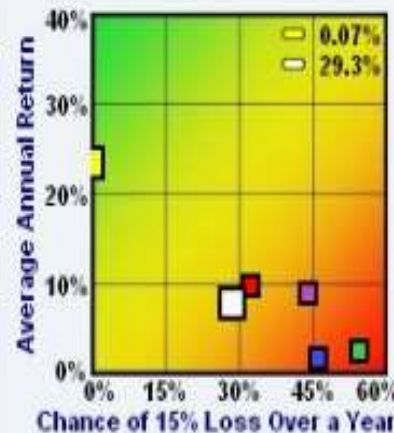
Strategy: 11.10

S&P 500: 1.72

Max Drawdown: R = Realized DD

Strategy: 19%

S&P 500: 55%



V:51.74 11A0.04 L2:64.924.0

SG0-0.5 CH0 OP0 DS0 co

Email Chart

3-Year Chart

S.Surfer

S&P 500

Score: 86.6

Safety: 109

Alpha: 22%

Beta: 0.27

9.7 Years Max

Close Chart

SS-Std., Trade: Automatic, SG-Std.

RSP VEU VNQ DBC

Trades/Year 1.5

Score 86

Safety 110

RISK PROFILES

TYPE	Strategy	S&P 500	
Prob. Of Loss	0.07%	29.57%	Year-Over-Year proportional probability of a 15% loss.
Sharpe Ratio	2.00	0.32	
Sortino Ratio	11.02	1.66	

All-Yrs Drawdown

Max Drawdown	18.50%	55.30%
Real Drawdown	2.90%	45.70%
Max D.D. Date	#####	#####
Real D.D. Date	1-Oct-07	1-Apr-09

Annualized Returns ending Dec 2013

	Strategy	S&P 500
9 Years	23.20	7.00
5 Years	26.80	17.90
3 Years	23.90	16.20
1 Year	35.50	32.30

YTD May 31

5.60

4.90

2013	35.53	32.34
2012	16.95	15.97
2011	20.11	2.10
2010	28.37	14.88
2009	37.99	26.45
2008	14.75	-36.99
2007	16.54	5.43
2006	33.41	15.78
2005	8.74	4.91

STRATEGY Component ETF's

RSP	S&P 500 Equal Weight
503	
VEU	World Equity EX US
307	
VNQ	US Real Estate
904	
DBC	Commodities
206	

#

#

Caution DBC generates a K-1 and should not be in a Retirement acct.

Discuss with your TAX advisor.

MY ALT Faber 4 back test trades

Losing Trades

one only

Oct 2007 -2.9%

Calendar Days Held

Gain S&P 500

Gain Strategy

Value S&P 500

Value Strategy

Trade Date

Sell

Buy

Still Holds

RSP

543

40.80%

46.80%

21203

77041

3-Dec-12

VNQ

RSP

368

15.80%

20.40%

15059

52482

1-Dec-11

\$CASH

VNQ

91

3.90%

0.00%

13004

43599

1-Sep-11

DBC

\$CASH

62

-9.80%

3.30%

12511

43595

1-Jul-11

RSP

DBC

122

3.20%

4.90%

13867

42212

1-Mar-11

VNQ

RSP

546

34.60%

65.80%

13432

40253

1-Sep-09

RSP

VNQ

62

8.50%

11.50%

9976

24276

1-Jul-09

\$CASH

RSP

365

-26.20%

1.80%

9195

21776

1-Jul-08

DBC

\$CASH

29

-7.10%

10.90%

12456

21392

2-Jun-08

\$CASH

DBC

122

0.00%

1.00%

13409

19289

1-Feb-08

DBC

\$CASH

123

-9.20%

17.60%

13411

19088

1-Oct-07

RSP

DBC

122

1.30%

-2.90%

14773

16237

1-Jun-07

VNQ

RSP

730

32.60%

50.20%

14582

16730

1-Jun-05

RSP

VNQ

233

8.20%

11.30%

10994

11140

11-Oct-04

\$CASH

RSP

12

0.90%

0.00%

10164

10009

29-Sep-04

\$CASH

0

0.00%

0.00%

10000

10000

Ticker Symbol Cumulative Contribution

\$CASH

RSP

VEU

VNQ

DBC

2.92%

26.28%

0.00%

199.78%

34.65%

TYPE	Strategy	Agg.Bond					
Prob. Of Loss	0.07%	1.47%	Year-Over-Year proportional probability of a 15% loss.				
Sharpe Ratio	1.83	1.15					
Sortino Ratio	16.09	6.62					

Strategy Component ETF's

10-Yrs Drawdown

Max Drawdown	8.70%	5.40%	CWB Convertible Bonds				
Real Drawdown	2.00%	1.10%	April 2009				
Max D.D. Date	20-May-10	30-Oct-08	JNK High Yield Bonds				
Real D.D. Date	1-Aug-08	1-Apr-11	Dec 2007				
			IEF 7>10 YEAR US Treasury Bonds				
			July 2002				

Annualized Return Percentges ending DEC 2013

DATES	Strategy	Agg.Bond	PIMIX
6 Years	18.1	4.4	10.8
5 Years	21.3	4.3	14.4
3 Years	17.9	3.0	10.9
1 Year	20.6	-2.3	4.8

YTD May 31 6.10 3.50 5.80

2013	20.56	-2.26	4.80
2012	13.82	4.05	22.20
2011	19.44	7.56	6.40
2010	11.74	6.42	20.50
2009	43.23	5.93	19.20
2008	3.55	5.05	-5.50

Losing Trades

June 2010 -0.4%

June 2008 -2.2%

CWB JNK IEF SG-AQR Back Test Trade History

Trade Date	Sell	Buy	Days Held (Sell Sym)	Gain Agg.Bond	Gain Strategy	Value Agg.Bond	Value Strategy
Still Holds	JNK	- - -	59	1.70%	1.40%	13242	29276
1-Apr-14	CWB	JNK	454	-0.30%	25.10%	13019	28863
2-Jan-13	JNK	CWB	154	0.10%	6.00%	13052	23068
1-Aug-12	IEF	JNK	92	2.30%	3.70%	13033	21760
1-May-12	CWB	IEF	90	0.50%	1.30%	12740	20986
1-Feb-12	JNK	CWB	92	1.00%	6.10%	12677	20718
1-Nov-11	IEF	JNK	15	1.50%	1.60%	12550	19529
17-Oct-11	\$CASH	IEF	52	0.30%	0.00%	12361	19212
26-Aug-11	IEF	\$CASH	56	2.90%	8.60%	12320	19212
1-Jul-11	JNK	IEF	91	2.10%	2.10%	11974	17691
1-Apr-11	CWB	JNK	182	-1.10%	10.10%	11723	17332
1-Oct-10	IEF	CWB	122	4.00%	7.40%	11855	15749
1-Jun-10	JNK	IEF	120	2.40%	-0.40%	11402	14664
1-Feb-10	CWB	JNK	153	2.50%	9.40%	11140	14724
1-Sep-09	JNK	CWB	148	5.00%	27.50%	10873	13454
6-Apr-09	\$CASH	JNK	286	4.70%	1.70%	10358	10553
24-Jun-08	JNK	\$CASH	64	-1.20%	-2.20%	9891	10381
21-Apr-08	\$CASH	JNK	87	-0.10%	0.80%	10011	10617
25-Jan-08	IEF	\$CASH	39	2.80%	5.00%	10020	10531
17-Dec-07	\$CASH	IEF	12	-1.20%	0.20%	9746	10031
5-Dec-07	---	\$CASH	0	0.00%	0.00%	10000	10000

Ticker Symbol Cumulative Contribution

\$CASH	CWB	JNK	IEF
2.66%	52.65%	42.51%	29.05%

Large Mid & Small Cap US Equity Classes in SS

SS tests ----Storm Guard in STD Storm Guard Mode

5/23/14 CLOSE

	Sharpe	Max Draw Down	Score	Safety	Sortino		3Y CAGR	10Y CAGR
SPY	0.77	19	43	1	4.73		13.90%	11.90%
MDY	0.92	28	48	6	4.82		12.70	14.10
IJR	0.73	23	40	0	3.98		13.70	13.60
SPY/IEF	1.33	12	54	88	7.2		18.20	12.50
MDY/IEF	1.45	13	69	150	10.41		22.10	16.70
IJR/IEF	1.27	16	66	78	7.74		21.80	15.00

You can see the **IMPORTANCE** of back test studies with this elementary look at different US Equity Asset Classes.

I assumed but was not certain the MDY / IEF strategy would be the sweet spot.

I have been looking at relationships//performances etc for over 7 years using ETF's.

Storm Guard ---A most valuable feature ---Downside protection.

ETF's & Mutual Funds highly RATED by Morningstar don't appear to TEST WELL. I feel they may not TREND WELL most of the time. SS depends on non correlated components to perform well.

Strategies with HIGH SCORES (Hall of FAME) usually SUFFER high DRAW DOWNS. I am satisfied with LOWER SCORES (Equity 80>100) (Bond 60>85)
Max Draw Down (Equity 20%) (Bond 12%)

I prefer strategies with BROAD asset class representation---Example the-- 100 LARGEST ETF's listed in WSJ daily. They WORK smoothly with fewer difficulties. FABER 4 ALT is a PRIME example of my WORK.. No SHORTS or LEVERAGED "CUTE" ETF's

Test in all MODES of STORM GUARD STD—Disable—SG-AQR..
Don't be LAZY—Spend time in the SAND BOX with SIMPLE ETF ideas,, FIRST .

Commodity ETFs are very difficult to WORK in SS strategies.
They are erratic BEASTS that don't TREND WELL usually.

Returns are not LINEAR in SS or most any investment situation. SOME strategies have DEAD SPOTS W/little or no return for relatively LONG PERIODS at times in BACK TEST. FACE IT many asset classes go through FLAT to DOWN periods. Many strategies generate outsized GAINS in CLUSTERS. HIGH CLUSTER returns drive the whole TOTAL RETURN CHAIN back test.

The nature of MARKETS is sometimes a BUBBLE AFFAIR then flat to DOWN. In BUBBLE and distorted MARKETS SS works well with HIGH PROBABILITY trades in your favor.

TEXT BOOK THEORY ??

MPT (Modern Portfolio Theory) was supposed to be the HOLIEST of GRAIL until 2008. Be careful---- PhD theory is JUST THAT ---“THEORY” ---Investor beware at all times – MPT is obviously FLAWED ---MPT the 8th WONDER of the WORLD—I think not. YOU must get your hands DIRTY and try all kinds of STRATEGIES in order to become a HIGH PROBABILITY WINNER with SS.. DON'T be lazy depending on others. Work in the sand box.

Historical Fitting

Be careful as you may FALL PREY to use of ETF's that have worked well in the recent PAST and can not be trusted over time. This is a RISK that is HARD to explain and COMES with the TERRITORY of rotations. STORM GUARD should bail you out.

SS is one of thousands of SYSTEMS out there. Hedge Funds have access to all kinds of sophisticated SOFTWARE /// algorithms and have had SO SO RESULTS. Check Barron's articles.

© Rectangular Snip

I feel SS gives the SMALL INVESTOR an advantage over the BIG BOYS.
We manage a FLY SPECK of capital and can easily ROTATE through our strategies.

A few strategies (up to 4) can achieve all I need. GREED will get you into TROUBLE.

I have seen NO rotation// asset allocation funds that beat the SIMPLE strategies I have TESTED here. These two ---The Faber 4 Alt and the CWB JNK IEF SG-AQR are great for me. SURVIVED 2008 and reasonable Draw Downs –Consistent Returns –few trades—etc

I am not impressed with the *HALL of FAME* Fidelity and Vanguard strategies as they have either the NASTY DRAW DOIWNS and// or the FUNDS close when you need to ROTATE. Pain in the BUTT.

Also I am not a FAN of STOCK strategies---JUMPY and require lots of baby sitting.

CAVEAT EMPTOR ---IT's YOUR MONEY –practice in the SAND BOX

Good judgment comes from EXPERIENCE, and a lot of that comes from BAD JUDGMENT.

Never MISS a GOOD CHANCE to SHUT UP – Will Rogers

pg 14|

FREE INFO Sources

SeekingAlpha.com **ETF investment ideas**

ETFscreen.com **quant data of over 1200 ETF's**

ETFDB.com **general info & Tax Status 1099 or K-1**

ETFreplay.com **CHARTS +**

Bloomberg.com **general info on all ETF's**

Morningstar.com **general info on many ETF's**

Stockcharts.com **Accurate Charts W/dist reinvested**

SectorSurfer.com **Read all SS definitions//theory on site**

Investing is a Constant Battle

- Very FEW (If Any) Methods Have Worked Long Term
- You Are ALWAYS Battling the “Big Boys” with all Their Talent & RESOURCES
- Must ALWAYS be Aware of “Market” Status
- MUST Be Nimble & Creative
- ALWAYS Look for New Approaches

Net-Net for Investing Discussion

- Try to PRESERVE CAPITAL
- Try To Keep It Simple (KISS)
- Don't Withdraw \$ For Monthly Expenses From Volatile Investments If Possible
- AVOID MAJOR DRAWDOWNS
- Don't Just Sit Thru a 2008; DO SOMETHING; Remember That Richard Young's Faber 5 Portfolio *made* 36.9% in 2008!!!