



SectorSurfer

STRATEGY POINTERS

A Beginner's Guide to Selecting and Creating Strategies

As presented by Dan Gimpel on Feb. 22, 2014

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Disclosures and Disclaimers

The information provided herein is for general information only and should not be considered an individualized recommendation or personalized investment advice. The investment strategies mentioned here may not be suitable for everyone. Each investor needs to review an investment strategy for his or her own particular situation before making any investment decision.

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Examples provided are for illustrative purposes only and not intended to be reflective of results you should expect to attain.

Dan Gimpel has had or currently holds positions in the securities discussed herein.

Dan Gimpel has received compensation (under \$100) for referring people to SectorSurfer.

Dan Gimpel

- Yes, I am related to Don (depending on how well this goes)
- I am not a financial professional.
- Listen to me at your own risk.
- Do not operate heavy machinery after watching this presentation.
- I'm here because I've been using SectorSurfer since last June, I'm a happy client, and I think I may have a handle on it by now.

What SectorSurfer and Sumgrowth Are



- “SectorSurfer” is the online trading tool web site.
- “SumGrowth” is the name of the company that runs the site.
- **We’ll call the web site “Surfer” for short.**
- Access Surfer at either www.SectorSurfer.com or www.SumGrowth.com . Same thing.
- Surfer is a subscription “web-based software service”, meaning, it runs in your browser only, it needs the internet to work, and you pay a monthly or yearly fee to use it.
- There’s nothing to install on your PC to make it work.

About This Presentation

- It's about forty-five minutes long if you're lucky.
- It's meant for those of you who are just starting with SectorSurfer and are bewildered and confused.
- There will be:
 - Basic descriptions and discussions about SectorSurfer
 - Pointers on using SectorSurfer
 - Emphasis on choosing and creating strategies
- Sorry, as much as we would love to, we will not talk about *Matched Filter Processing*, *Differential Signal Processing* or *Common Mode Noise Elimination*. (These subjects will be a special treat for another time).

Takeaways (Key Points)

- Surfer is plug-n-play easy and can give you great results fast.
- Though it's easy to use, it's also easy to use **wrong**.
- Surfer makes strategies from any funds you choose but it's still **Garbage In, Garbage Out**.
- In many *Strategy Charts*, there is a **data age warning flag** that's easy to ignore, so watch out for it! Surfer often presents old instead of current data, and this makes a big difference.
- Surfer has a wonderful **Hall of Fame** feature where other users' best strategies are made available for you to use. This feature is a great and easy way to start with Surfer.
- Don't let Surfer strategies convince you to buy funds you would otherwise never want to own.
- Use **trial and error** to find what makes strategies work best.

Disclaimers & What Surfer Isn't

- The SumGrowth people are not financial advisors, brokers or fund managers.
- Surfer's tools and charts are not licensed, certified, regulated or guaranteed by any agency.
- Surfer's just an "automated data analysis tool" that you use at your own risk.
- Use Surfer as you will but still be extremely careful of the many pitfalls and always invest prudently.
- *And my disclaimer:* I'm no expert and my advice is mostly worth what you're paying for it.

What Surfer Does in a Nutshell

Active Strategies: These Strategies generate Trade Alerts. Click the blue S icon to import a Strategy. Click a ticker symbol position to edit/create a Custom

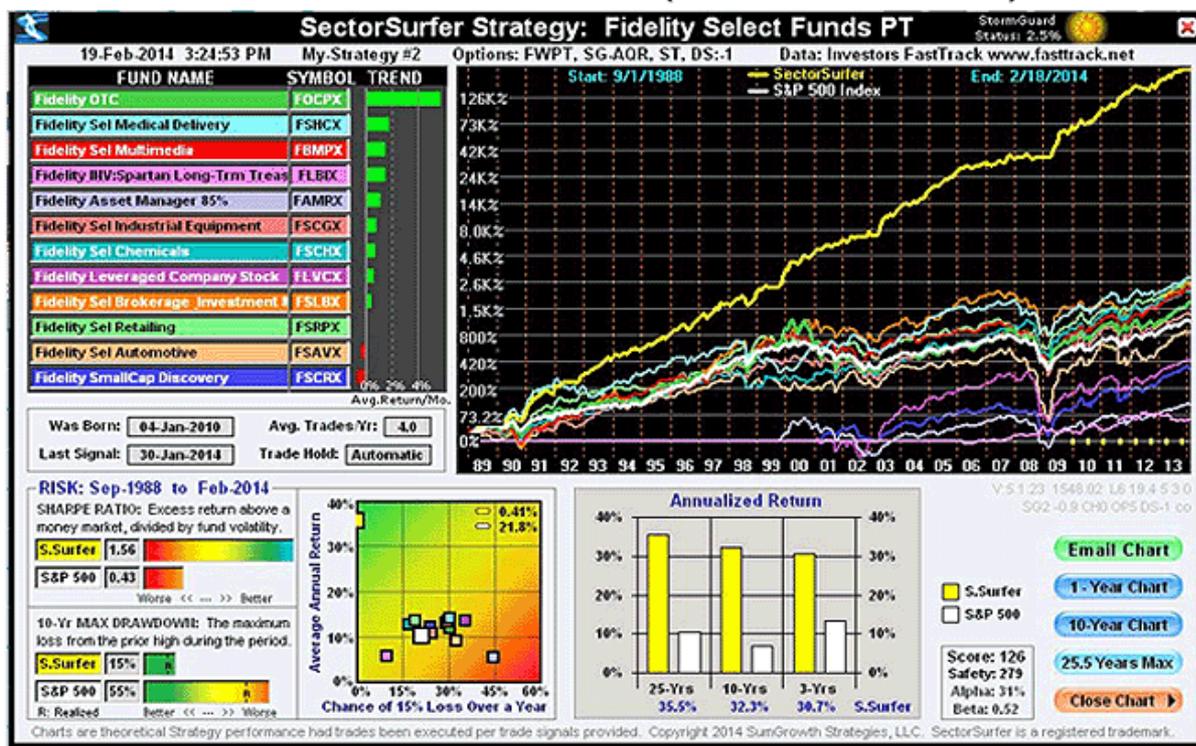
No.	Strategy Information	Fund or Stock Ticker Symbols	Trade Information
	Name: <input type="text" value="Fidelity Select Funds PT"/>  	FBMPX FOCPX FSCRX FLVFX FSLBX FSCHX	SELL: FSRPX Date: 1/30/2014  
PAID	Notes: <input type="text" value="Pure Fidelity Funds Strategy"/>  	FSRPX FSCGX FAMRX FSAVX FLBIX FSCHX	BUY: FOCPX Acknowledge Trade

↑ **Your Input**
(fund choices)

↑ **Trade**
Instructions

↑ **Surfer**
Output

↓ **Strategy**
Results



Cautions (i): History, Testing & Reliability

- Surfer is young and still evolving quickly.
- Only online since December 2010.
- Scott Juds (Surfer's developer) has been using versions of it since the '90s.
- Don't assume Surfer is flawless and infallible.
- The SumGrowth staff is brilliant but small and there's certainly no army of testing staff.
- There are more than a few diligent and really smart clients who also test results and contribute ideas.
- Despite my warnings, the longer I use Surfer the more I like it.



Cautions (ii):

Secret & Non-Standard Methods

- Surfer has its own standards and scoring systems that may not be industry standard. (Don't assume!)
- Surfer's exact trend calculation and timing methods are secret (even though they're described in great detail). This may bug you but it doesn't mean it doesn't work.
- Backtesting supports the results and Surfer does a beautiful job of backtesting for you.
- Surfer's methods are contrary to common portfolio strategy and may be a big challenge to your current investment style.
- Surfer assumes you'll put most of your money in just a few funds that change a couple times per year rather than have you buy-and-hold many funds.

Cautions (iii): Technical Trading Only

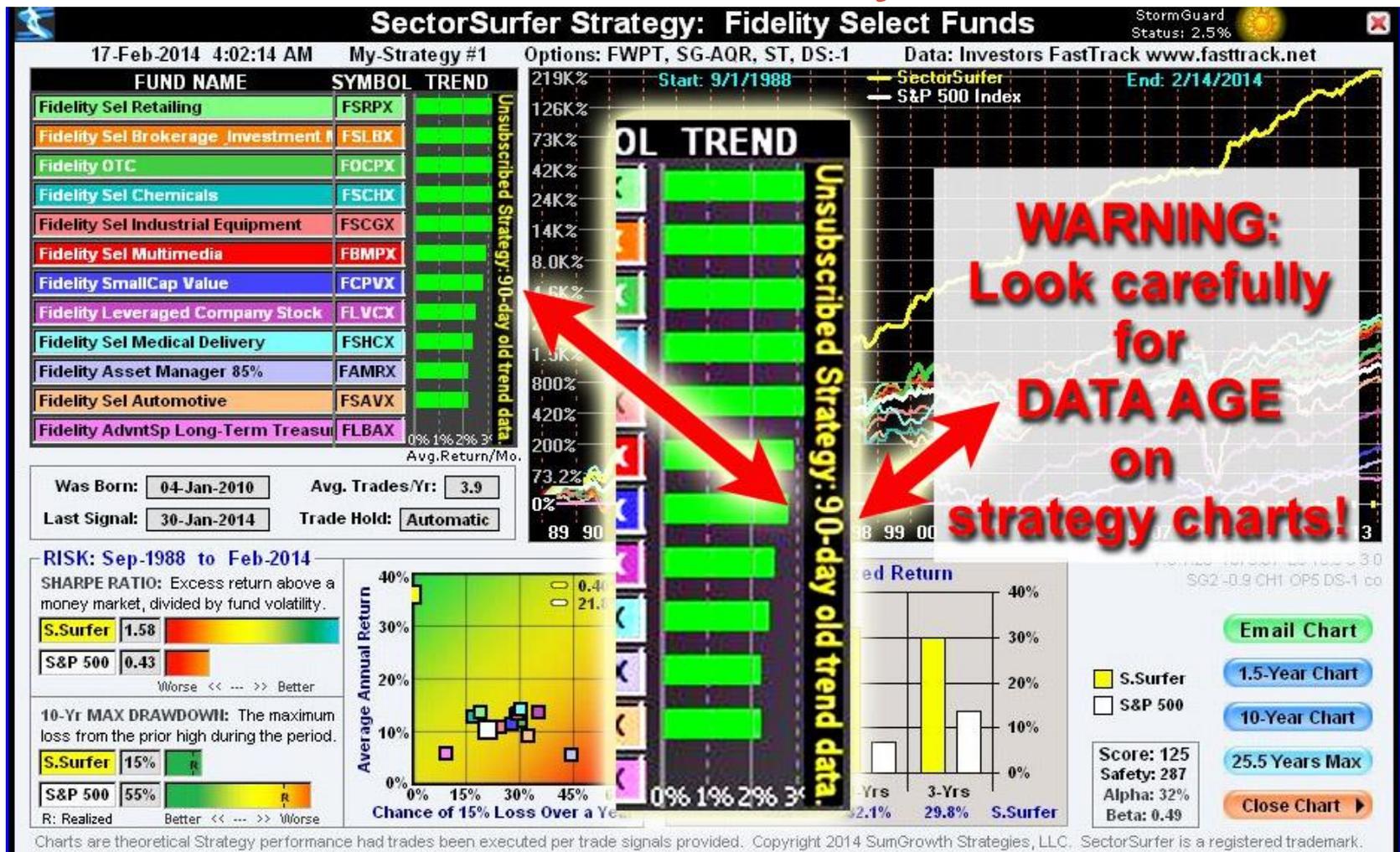
- Surfer is a pure “technical” trading tool that only pays attention to price trends.
- Surfer does not consider fundamentals at all. (That’s *your* job!)
- Fundamentals should still be a major consideration of yours when selecting funds for strategies.
- Don’t choose funds for strategies that you would never otherwise own on their fundamentals.
- Choose the funds you would own prudently.

Warnings & Pointers (i): Non-Current Charts Widely Used 1

- Except in your *Active Strategies* table, most other *Strategy Charts* use data that's **90- to 120-days old**.
- Data age can make a big difference in scores and yields and especially in fund trend rank.
- Watch carefully for the “Unsubscribed Strategy” bar that warns you of old data in use – **it's easy to overlook**.



Warnings & Pointers (ii): Non-Current Charts Widely Used



Warnings & Pointers (iii): Boffo Strategies Made from Hindsight

- Some strategies with outrageously good yields were created purely with the benefit of hindsight.
- That is, they were created by plugging in funds chosen *just because* they did extremely well recently.
- This doesn't mean that these strategies are worthless, but it does mean you must be extra careful if you use these.



426% Annual Return?!!

Warnings & Pointers (iv): Garbage In, Garbage Out!

- Surfer blindly lets you make strategies from any list of funds but that doesn't mean good results automatically.
- Strategy results are recomputed **as soon as you make ANY change** to a strategy. Be extra careful to review strategy charts after you make ANY change.
- Don't buy anything just because Surfer suddenly tells you to. Any change you make to an Active Strategy may cause Surfer to suddenly give you a new buy instruction that's not appropriate.
- Make sure you're done with your changes and you're sure of the strategy and timing before trading!

Warnings & Pointers (v)

- Following even the best Surfer strategies will lead to realized losses on some trades. Know what losses you're prepared to deal with.
- Always be on the lookout for new and better strategy ideas.
- Be prepared to abandon old strategies for new and better.
- Surfer trades are normally at the start of the month. Between normal trade times, Surfer may warn you to wait rather than buy.
- Be extra careful if you are buying funds for a new strategy between normal trading times, especially if it's late in a rotation cycle, because the upward movement of the current trend may be over.
- When in doubt, wait for better information.

Definitions (i): *Funds & Strategies*

- We need to define some basic but important Surfer terms now before I can go on to more specific pointers.
- “Fund” means mutual funds *and* stocks *and* ETFs too.
- We add funds to Surfer strategies by entering their ticker symbols into a strategy’s fund list.

Active Strategies: These Strategies generate Trade Alerts. Click the blue S icon to import a Strategy. Click a ticker symbol position to edit/create a Custom

No.	Strategy Information	Fund or Stock Ticker Symbols	Trade Information	Br
1	Name: <input type="text" value="Example Free Strategy"/>  	FLCSX FMCSX FSCSX FUSEX FAGIX FDCAX	SELL: -New- Date: 1/9/2014  	
	Notes: <input type="text" value="Poor Strategy Example (Free)"/>  	___ ___ ___ FGMNX FBIDX FINPX	BUY: FSCSX 	
2	Name: <input type="text" value="Fidelity Select Funds PT"/>  	FBMPX FOCPX FSCRX FLVCX FSLBX FSCHX	SELL: FSRPX Date: 1/30/2014  	
	Notes: <input type="text" value="Pure Fidelity Funds Strategy"/>  	FSRPX FSCGX FAMRX FSAVX FLBIX FSHCX	BUY: FOCPX 	

Definitions (ii): *Funds & Strategies*

- “Strategy” means Surfer’s methods used to decide which fund to own and when to trade within your list of funds.
- Surfer’s main job is to make good trading strategies out of your list of funds.
- Fund lists are NOT portfolios. In a Surfer strategy, you only own one fund at a time.

Strategy Trade Signal History

2/17/2014 16:35:10 PM - Fidelity Select Funds PT

Trade Signal Execution Date	Sell	Buy	Days Held (fund sold)	Reference Return	Strategy Return	Reference Value *	Strategy Value *
Still Holds	FOCPX	---	16	3.2%	5.6%	\$124,145	\$22,624,978
2014-Jan-31	FSRPX	FOCPX	63	-0.9%	-5.1%	\$120,260	\$21,424,256
2013-Nov-29	FOCPX	FSRPX	91	11.2%	8.4%	\$121,374	\$22,584,859
2013-Aug-30	FSAVX	FOCPX	91	0.7%	8.3%	\$109,195	\$20,831,175
2013-May-31	FBMPX	FSAVX	31	2.3%	1.8%	\$108,459	\$19,232,539
2013-Apr-30	FSLBX	FBMPX	61	5.8%	5.1%	\$106,059	\$18,885,219

Definitions (iii): *Strategy Web Site Tools*

- The term “Strategy” is also for the web site tools that contain lists of funds and the settings applied to them.
- “Active Strategies” use up-to-date price data and issue trade instructions.
- I use the term “Live Strategy” for an active strategy that you are actually using and trading with real money.
- “Sandbox Strategies” use 90-to-120-day-old data and do not issue trade instructions. Sandbox strategies are just containers for your experiments and notes.

Sandbox: This is your "Strategy Evaluation Playground." No subscription fees are charged, but you will not receive email Trade Alerts or be able to see the most recent t

No.	Active	Strategy Name and Information	Sym1	Sym2	Sym3	Sym4	Sym5	Sym6	Sym7	Sym8	Sym9	Sy10	Sy11	Sy12
31	<input type="button" value="ADD"/>	<input type="text" value="Example Sector Strategy"/>    	GLD	XLK	PPH	XLU	XLE	XLV	RKH	RWR	OIH	IJT	DBP	DBO
32		<input type="text"/> 	—	—	—	—	—	—	—	—	—	—	—	—

Note: More Sandbox Strategy rows will be created as others are filled - with a maximum of 20 Sandbox Strategies.

Definitions ^(iv): *Trends, Noise & Signals*

- “Trend” refers to how fund prices may change predictably over time due to the “laws-of-physics-like” behavior of money flow.
- Surfer depends on, and makes a case for, that price trends and momentum exist because the market is not perfectly efficient or rational. Instead, prices act like sloshing water or tides.
- Trends can be hard to spot because fund prices jump around. Erratic price changes are “noise” that hide trends. It’s critical to filter out the noise.
- “Signals” are price changes that are somehow separated from the noise that give us the best measure we can get of trends.
- **The heavy lifting that Surfer does is filtering out noise, finding signals and measuring trends.**

How Surfer Strategies Work: Always Ride the Fastest Horse

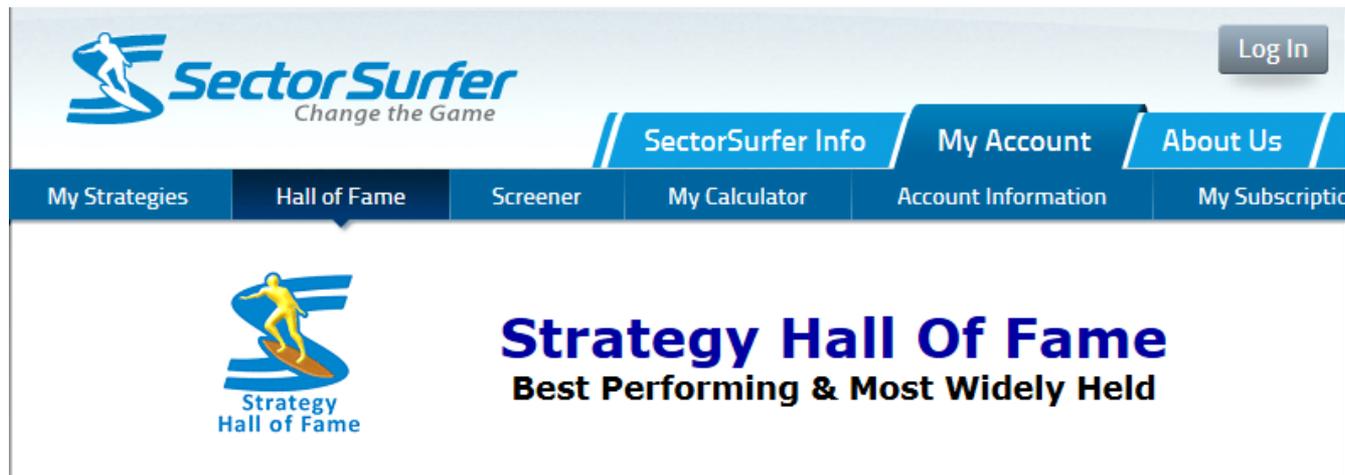
- Surfer computes trends for each fund in a strategy and then we buy the best-trending fund of the strategy group.
- After a few months, another fund trend leads, so we sell the old fund and buy the new fund.
- We periodically swap the old trend leader for the new leader so as to always enjoy the maximum yield available out of the group.
- For a given strategy, **you only own the trend leader.**
- Call this “Riding the Fastest Horse”, except, it’s a kind of race where you’re allowed to switch to the fastest horse mid-race.
- The fancy name is ***serial diversification.***

Strategy Setup is Mostly Fund Selection

- Strategies need minimal setup input other than fund selections. There are settings you can tweak but the best results usually come from leaving them alone.
- Surfer auto-tunes as best it can but you can help Surfer by choosing strategy funds of like class: all mutual funds, all ETFs, all single-company stocks, all sector funds, etc.
- You're looking for funds with good **correlation offset** in whatever form it takes. This is the tricky part that pays off.
- Good strategy performance comes from narrow, not wide, diversification. Wide diversification gives you results that are only as good as the overall market and we're looking to do better than that.

Shop for Strategies in the Hall of Fame

- The Hall of Fame is one of Surfer's best features because it gives you instant access to many high quality strategies.
- The best and easiest way to start using Surfer is to “shop” in the Hall of Fame and simply import strategies you like.
- The strategy lists in the HofF are ranked by scoring systems meant for the category. Don't assume that the highest-scoring strategies are the best ones for you.



Hall of Fame Pointers

- (!) The strategy charts accessed from the HofF use 90-to-120-day-old data (though the scores themselves are from current data).
- ⓘ For up-to-date versions of HofF strategies, import them into your Active Strategies.
- (!) If you plan to use a strategy, make sure all the funds in the strategy are actually *available to you*.
- **Strategies are not Sacred:** Don't treat them as though they are time-tested, inviolate and can't be improved.
- **Watch for Strategy Clones:** Many of the strategies are just slight variations of other strategies.
- **Vet the Funds:** Even if the strategy is great, don't use it if you don't like its funds

HofF Best Safety Strategies

- “These are the best performing **Safety Strategies** when scored for worst-case drawdown, consistency [etc.]”.
- Ranked by Surfer’s “SafetyScore”
- The top-ranking strategies have similar long-term annual yields of around 35%.
- Most of these strategies use pure families of popular mutual funds such as Fidelity or Vanguard.
- There are practical trading advantages to keeping all the mutual funds within a family. (You shouldn’t get restrictions on buying or selling within a fund family.)

HofF Best Mutual Fund Strategies

- “These are the best performing **Mutual Fund Strategies** [etc.]”
- Ranked by “Score” instead of “SafetyScore”.
- The best of these seem very similar to the Safety group, but may offer only a little higher yield and less safety.
- This group may not have big differences from the Safety strategies; it’s mostly the presentation that is different.

HofF Best ETF Strategies

- “These are the best performing **ETF Strategies** [etc.]”
- This group probably represents the best use of Surfer for “fantastic” returns with reasonable safety.
- The **highest ranked strategies use country and sector index ETFs**, which are Surfer’s ideal fund types.
- Note that ETFs don’t go back more than 18 years and many have shorter histories than that. Surfer doesn’t care much unless there’s less than five years’ history.

HofF TopDog Stocks Strategies

- “These are the best performing **Stock Strategies** [etc.]”
- These are the wildest strategies, **some with yields of 400%+!**.
- **(!) Use caution** – “these stocks were picked with the vision of hindsight” and their success as strategies are **self-fulfilled**.
The strategies may be full of one-hit wonder funds (or not!).
- Safety scores for these are often **very low or even negative**.
- Many of these are clones of one another with only small variations.
- Most of the funds are extremely volatile so it is critical to import these into your Active Strategies chart to see them with current data.

HofF Best Ultra/Inverse Strategy

- “These are the best performing **Ultra/Inverse Strategies**” and have:
 - At least five **Ultra** (leveraged) funds
 - Or **StormGuard** (Surfer’s big safety feature) **turned off**
 - Or at least one **inverse (short) fund**.
- These generally use the most exotic funds (leveraged and/or inverse) and settings of all strategies.
- Despite using sophisticated funds, as a group, they don’t do near as well as the TopDogs in yield, score or safety.
- These are probably a good demonstration of what happens when you try to get too smart.

HofF Widely Held

- “These Strategies include **Shared Personal and Public Strategies** listed in order of their use popularity.”
- Many of the most popular are **authored by *ChiefSurfer***, Scott Juds (the site designer).
- Many of these are strategies from the other classes, so use this to point out the most popular in the other Hall of Fame groups.

Strategy Scoring Systems (i)

- Use Surfer's scoring systems as the main way to evaluate strategies.
- Scores may have no absolute meaning, but as relative standards, they're extremely useful for comparing or tweaking strategies.
- As fast as you put funds in a strategy and click the Strategy Chart button, you can view the scores you need to evaluate the strategy.
- In the Hall of Fame, the top scoring strategies are laid out for you in rank order. But when you create your own strategies, pay closer attention.

Most Important Scores

- When I'm quickly comparing strategies or experimenting with changes, I only write down these three numbers to evaluate strategies:

- Three-year yield.
- *Score* (overall score)
- *Safety*



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Scores: Annualized Return Yields

- Higher yield is better, but higher than market return is the goal.
- IMHO, For the 3-year average yield :
 - **25% or less is a poor yield.**
 - **30% to 40% is OK**, though not much better than the 2013 market.
 - 40% to 50%, or maybe even to 100%, **are probably doable.**
 - **300%+ may be possible but may be too-good-to-be-true.**
- The short term yield (the last three years) is the key yield. This best reflects the current market and answers “**what have you done for me lately?**” and “**how do you think we’ll do in the near future?**”
- On the other hand, these last three years may be distorted as they reflect a steep climb out of a deep recession.
- Longer term yields may not be as meaningful but they help validate strategies in the long run.

Strategy Overall Score (aka “Score”)

- “Score” is based on a formula that looks at lifetime yield and **gives extra points for the last 3 years’** performance.
- Scores work best when **there’s more than five years’ history** (so be careful if you use funds that didn’t exist five years ago).
- My informal score ranges:
 - “Blah” scores are 45-55.
 - “OK” scores are 100 to 200.
 - “Pretty Good” scores are 200 or more.
 - “Best I’ve Seen” scores are 800 to 1,000.
- The best score I’ve ever seen was 1,009. Again, this may be in too-good-to-be-true territory.

Safety Score

- The safety score was designed around a reference value of 100 assigned to the *Fidelity Income-Bond Strategy*.
- Again, this is from an arbitrary formula with no absolute meaning, that's really only useful for comparisons.
- Higher Safety is better but it has no practical meaning.
- Safety reflects both chance of loss and amount of loss.
- You might get a better sense of what happens by looking for **realized losses** in the History charts:

Strategy Trade Signal History							
2/17/2014 16:35:10 PM - Fidelity Select Funds PT							
Trade Signal Execution Date	Sell	Buy	Days Held (fund sold)	Reference Return	Strategy Return	Reference Value *	Strategy Value *
Still Holds	FOCPX	---	16	3.2%	5.6%	\$124,145	\$22,624,978
2014-Jan-31	FSRPX	FOCPX	63	-0.9%	-5.1%	\$120,260	\$21,424,256

Choosing Funds for Custom Strategies

- Surfer does not tell you which funds to use in a strategy
(That's *entirely up to you.*)
- Strategy return and risk are mostly determined by your fund choices.
- Strategy performance results can vary enormously based on your choices.
- Your choices are usually a reflection of your requirements or style of investing.

Steady Funds are *Not* Best

- Surfer is meant to look for relatively short windows during which funds are going up and out-trending the others of its group.
- So, Surfer doesn't think much of strong and steady fund performance. Given a mix of strong and steady funds, a Surfer strategy may not do much better than the group's overall performance would be *without* a strategy.
- A Surfer strategy made of a group of such funds can even yield worse results than the individual funds alone.

Choose Funds that Bubble

- Surfer likes bubbles and doesn't care much for steady.
- Surfer especially likes funds with recurring bubbles.
- Even better, it likes groups of funds that have nicely offset recurring bubbles.
- For Surfer, it's better to use funds that periodically bubble and have periods of really good trends. It's not about long-term or overall performance of any individual fund.

Fund Selection Advice

Per Surfer's Online Help and Videos

- No clones (no groups of funds that are mostly alike)
- No bonds
- No money markets
- Yes sectors
- Yes countries
- Yes market cap

Funds Surfer is Meant to Use Best

- Funds that represent the 10 major sectors (utilities, retail, tech, finance, etc.)
- Sector index mutual funds and ETFs are the best proxies for sectors.
- Some large companies so dominate their fields that their stocks represent their sectors.
- Country index mutual funds or ETFs.
- Funds of like class: use stocks with stocks, ETFs with ETFs and mutual funds with mutual funds. Mixing types may confuse Surfer's way of choosing trend periods.
- Funds at least three years old, and better if more than five years old. **Surfer needs at least 3 years of data to work** at all and five to be reliable. (Watch out for new ETFs!)

More Fund Selection Methods

- **Try anything and everything!** Some funds work well against all advice and some otherwise great fund groups don't work well at all.
- **Use stocks from the news** and well-meaning relatives. If you hear about something interesting, plug it into a strategy and try it.
- **Use your experience** to make inspired guesses. Given what you know about the market and types of funds the Surfer algorithm likes best, choose funds that you think should work and give them a try.
- **Use fundamentals** to modify your selections. Given the choice between otherwise equal funds, go with the best fundamentals.
- In Mutual Funds, it makes *some* sense to **use nothing but funds within one family** (all Fidelity, all Vanguard, etc.) This is only to avoid restrictions from going in and out too much. Otherwise, you're more likely to make superior strategies by having no regard to fund families.

Fund Selection Don'ts

- Avoid broad index funds (S&P, Dow, Russell 2000) because they are too broad to act like sectors.
- Beware of using the vision of hindsight to create strategies with spectacular but self-fulfilled results.
- Don't feel obliged to use all twelve fund spaces in a strategy. Often, fewer funds work better.
- Don't worry that everybody else using Surfer will do the same things and mess up the market and the strategy. There are far too many traders with too many other agendas for that to happen.
- Don't treat any strategy as sacred or permanent as-is. Play with them to try to improve them.
- Don't create strategies that include funds you can't buy when you need them. Check all funds for availability before using the strategy.

Optimize by Trial and Error

- Your most practical method for optimizing strategies is trial and error. **Try everything you care to because the results are unpredictable.**
- Ideally, you'd try all possible combinations of funds in strategies, but in practice, just plug and unplug funds until you get the best results.
- Add, swap or remove strategy funds one at a time, and with each change, check the resulting scores and yields, and note whether the change improved the strategy or not.
- If a newly added fund doesn't improve scores, remove it and add another.
- Also try systematically removing funds from the strategy list.
- You don't have to use up all twelve fund spaces. Some strategies work better with far fewer (but probably at least six).
- Try different strategy settings too to see what they do to scores and yields.

Check Results with the *Trade History Chart* Too

- The *Strategy Signal Trade History Chart* is extremely useful for checking strategy performance too.
- Use the Signal Trade History to check how funds rotated:
 - Number of times
 - When
 - How long
 - How much yield they contributed.
- Ideally, each fund “pulls its own weight” by rotating into the trade sequence more than once and contributing good yield each time.
- If a fund never appears on the list, there may be no reason to have it in the strategy. (But be careful- though a fund may never be a trend leader, its presence may still affect trend period calculations.)
- Also note the last time a fund was the trend leader. If it was more than five years ago, it may not be relevant to current strategy yield and it may be appropriate to replace it with something that is.

Takeaways

- Surfer is plug-n-play easy and can give you great results fast.
- Though it's easy to use, it's also easy to use **wrong**.
- Surfer makes strategies from any funds you choose but it's still Garbage In, Garbage Out.
- Only charts in Active Strategies use current data; all others use old data. So watch out- it's easy to miss, and it makes a big difference.
- Don't let Surfer strategies convince you to buy funds you would otherwise never want to own.
- Do shop for strategies in the Hall of Fame, and:
 - Study them carefully and look for ideas
 - Make sure you can use them – that all their funds are available to buy.
 - Be skeptical and careful, and invest prudently.
- Use trial and error to find what makes strategies work best.

Let's Go Surfin' Now (The End)



Sector Surfer®
Investment Strategies To Ride Sector Waves