

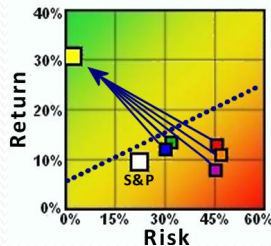
Diversification Heresy

Let's Break Through the Efficient Frontier

AAII Silicon Valley Chapter
Computerized Investing Seminar Nov. 10, 2012



Scott Juds, President & CEO
SumGrowth Strategies, LLC
11536 Riviera Pl. NE, Seattle, WA 98125
www.SumGrowth.com sjuds@SumGrowth.com



Diversification Heresy

Let's Break Through the Efficient Frontier

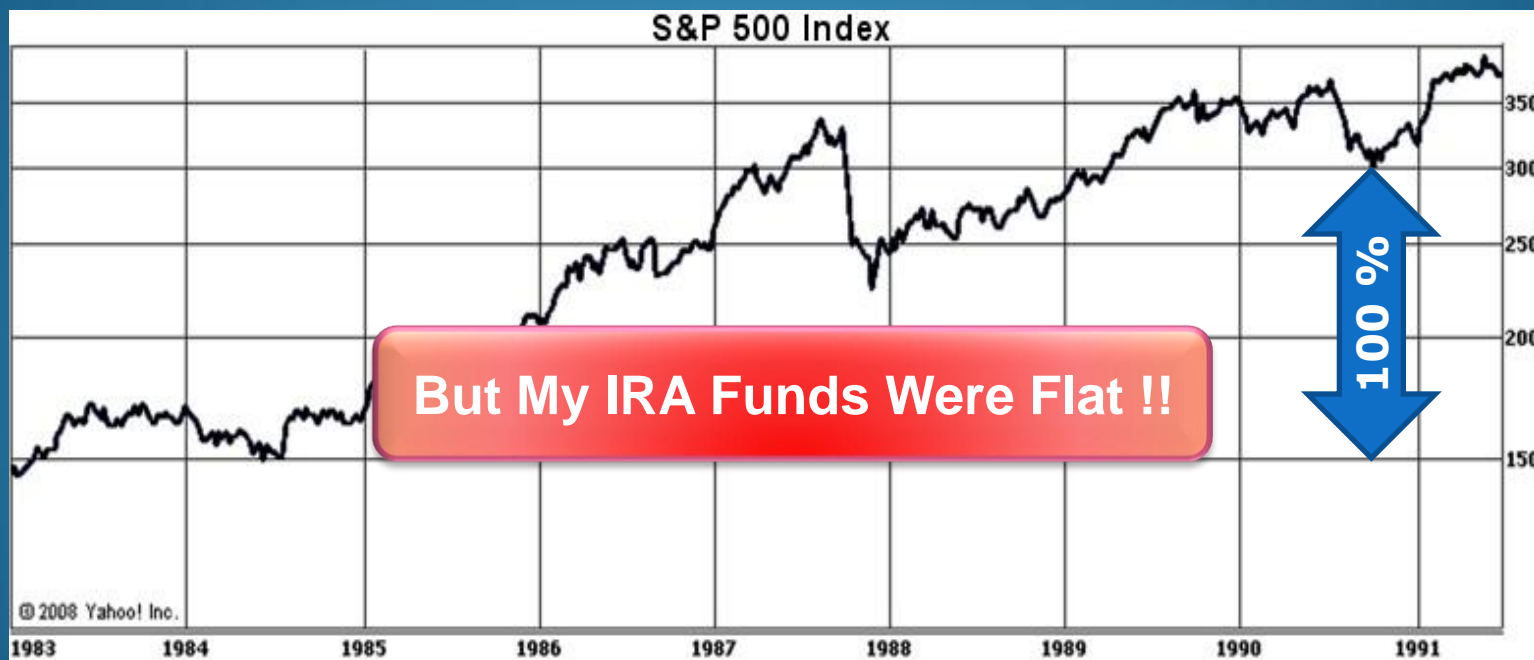
--- Presentation Topics ---

1. How I Got Hooked on Trends.
2. Trends are Real ... (Markets are Not Efficient)
3. Risk & Return are Not Mutually Exclusive.
4. There is an Optimum Trend Extraction Method.
5. Trend Periods and Algorithms do Matter.
6. How to Build Great Strategies and Portfolios.
7. Backtesting & Optimization are Not Just Video Games.
8. Stock Screening and Analysis do Still Play a Role.
9. You Can do this in your Spare Time, Without a Ph.D.

How It All Started ...

I Had A Problem

Go-Go 80's Stock Market



No Shortage of Opinions



8 Simultaneously
Different Opinions

"The odds are greater
than 9-to-1 that you've
put your money
in the wrong
mutual funds."

"Here's how I know...what you should do
about it...and how you can overfully
simplify your life by investing exclusively
in the safest and best-performing funds
in the world from this day forward!"
—by JAY SCHWABER

TECHNICAL
ANALYSIS OF
**STOCKS &
COMMODITIES**

HOW THE PROS
USE THE
ADX

2003 READERS'

READERS' CHOICE

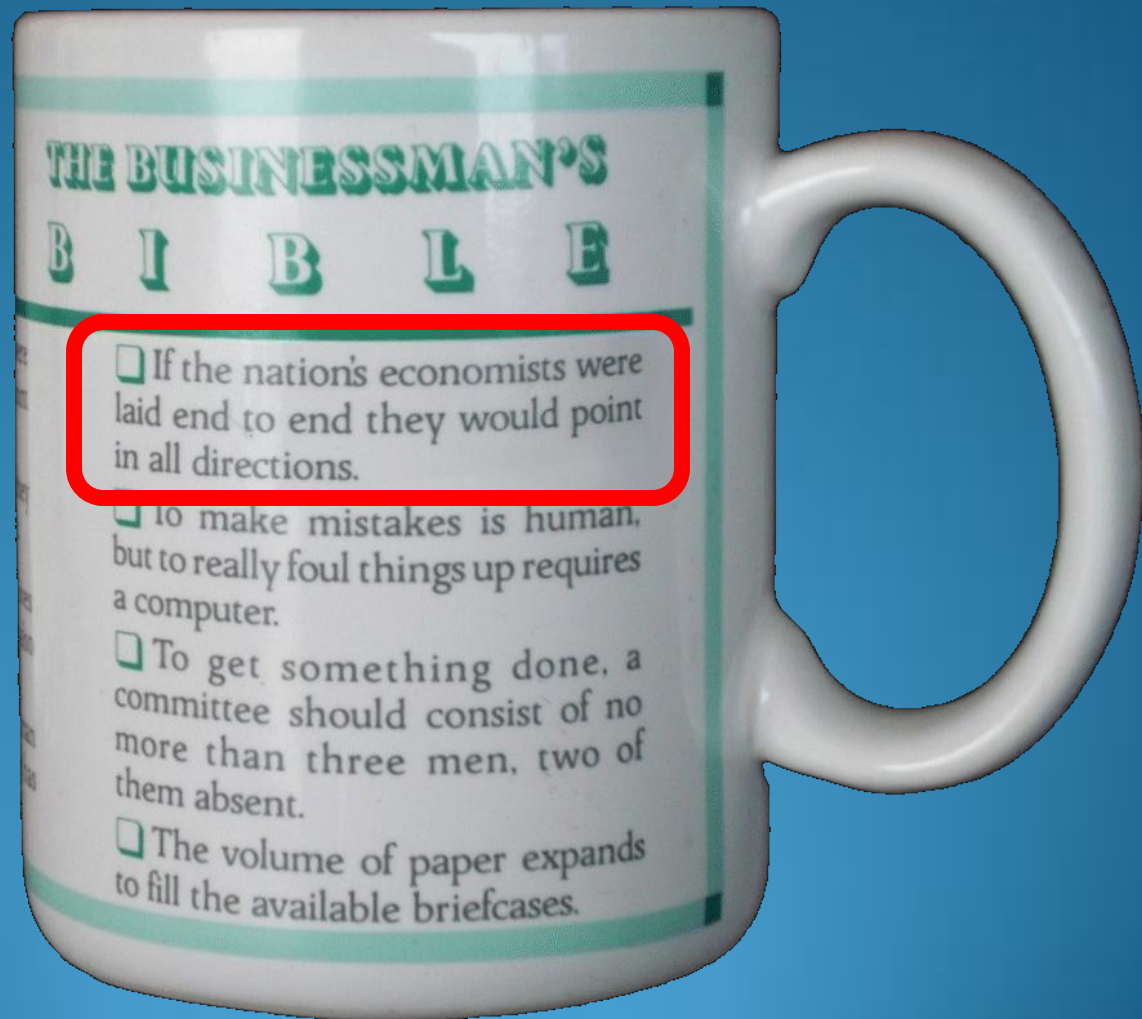
THE SEASONED INVESTOR
February 1997
How You Can Retire
With a Richer Lifestyle
Than You Have Now

Over 143,000 Smart Retirees
Have Already Done It!

FastTrack MONITOR

FastTrack Techniques — Early Warning & Opportunity

Coffee Cup is Right



Experts Do Point In All Directions

Inherently a 50-50 Crap Shoot For Market Prediction



These Guys Are All
Just a Soap Opera.



The Advice Problem

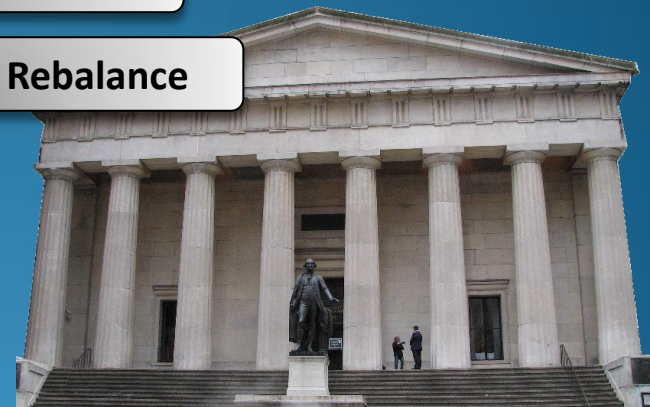
Own a little bit of everything ... So you can achieve precisely Average Performance

Diversify - Rebalance

Diversify - Rebalance



Mass Hypnotism



DailyFinance
An AOL Money & Finance Site

What's Up
With That?

Goldman Sachs Sets Record for \$100 Million Trading Days

By **DOUGLAS MCINTYRE**

Posted 5:00 AM 03/02/10 | Goldman Sachs

Goldman Sachs ([GS](#)) may face bad publicity, hostile Congressmen, and campaigns by shareholders to cut compensation, but it remains a money making machine. The bank has disclosed that it had 131 trading days last year in which it made at least \$100 million in net trading revenue -- a new record for the bank. The data comes from the [firm's 10-K](#) and



What About the Data?

**Does Recent Market Data
Hold Clues for Future Prices?**

Do Price Trends Exist?



T

d

Fund Name
 Blue Chip Growth
 Contrafund
 Money Market
 Emerging Growth
 Europe
 Growth Company
 Ginne Mae
 Magellan
 Overseas
 Stock Selector
 Utilities Income
 S&P 500 Composite

Fund Performance Per Quarter Month in 1989

	89 Jan-2	89 Jan-3	89 Jan-4	89 Feb-1	89 Feb-2
Blue Chip Growth	1.2	-0.7	5.6	1.1	-3.0
Contrafund	1.3	0.4	2.8	1.8	-1.2
Money Market	0.2	0.2	0.2	0.2	0.2
Emerging Growth	0.9	2.7	1.2	1.1	1.0
Europe	1.0	0.7	4.1	3.4	-2.3
Growth Company	1.0	0.1	0.7	0.2	-1.0
Ginne Mae	1.3	0.4	4.4	1.3	-2.2
Magellan	0.0	0.9	0.0	2.5	2.3
Overseas	0.0	0.2	1.6	-0.1	-1.0
Stock Selector	1.1	0.1	4.6	0.7	-2.6
Utilities Income					
S&P 500 Composite					

Selection Criteria Based on Trend Weighting

	89 Jan-2	89 Jan-3	89 Jan-4	89 Feb-1	89 Feb-2
Blue Chip Growth				-2.7	
Contrafund				-1.3	
Money Market				-0.0	
Emerging Growth				0.0	
Europe				0.1	
Growth Company					
Ginne Mae					
Magellan					
Overseas					
Stock Selector					
Utilities Income					
S&P 500 Composite					

1992 Spreadsheet Experiment:
 Do Market Data Trends Exist?

Yes! Trends Exist.

Fund Name	89 Jan-1	89 Jan-2	89 Jan-3	89 Jan-4	89 Feb-1	89 Feb-2
Blue Chip Growth						
Contrafund	6.5					
Money Market						
Emerging Growth						
Europe						
Growth Company						
Ginne Mae						
Magellan						
Overseas					2.7	
Stock Selector						
Utilities Income						
Profitaker	6.5				2.7	

Data Age	Weight	Percent	RESULTS	1989	1990	1991
1 Week	-5.0	-47%	Best Fund	36.9%	10.1%	34.6%
2 Weeks	2.0	19%	Average Fund	19.8%	2.9%	17.0%
4 Weeks	1.3	12%	S&P 500	25.1%	-3.2%	16.7%
8 Weeks	-1.4	-13%	Profitaker	38.1%	35.5%	34.2%
16 Weeks	1.0	9%	=====			
3-16 Week	0.0	-0%	PT Compound Est.	45.5%	41.9%	40.1%
			3 Year Compounded Growth Estimate			

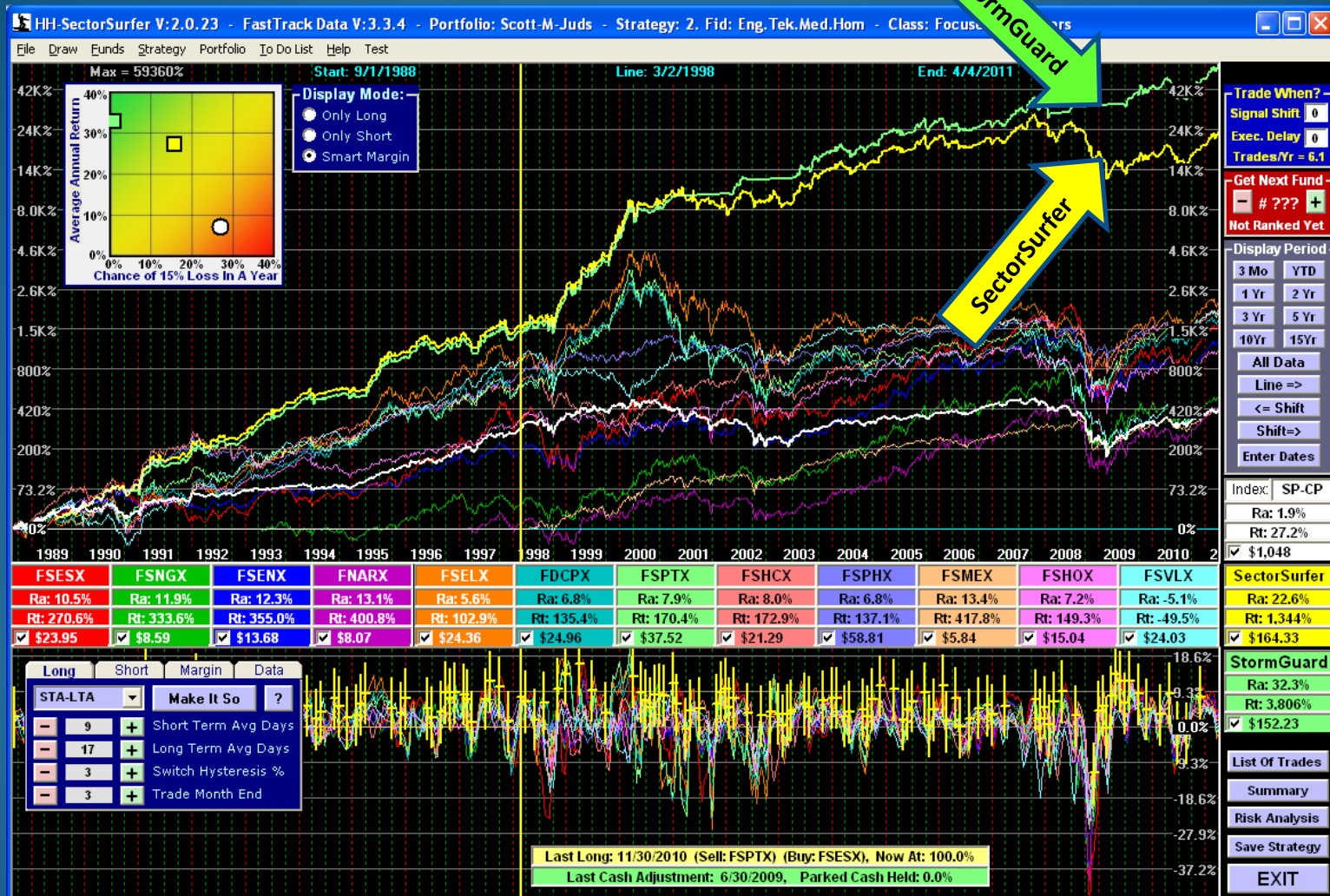
SectorSurfer Development



Mid-1990's Desktop Version in DOS

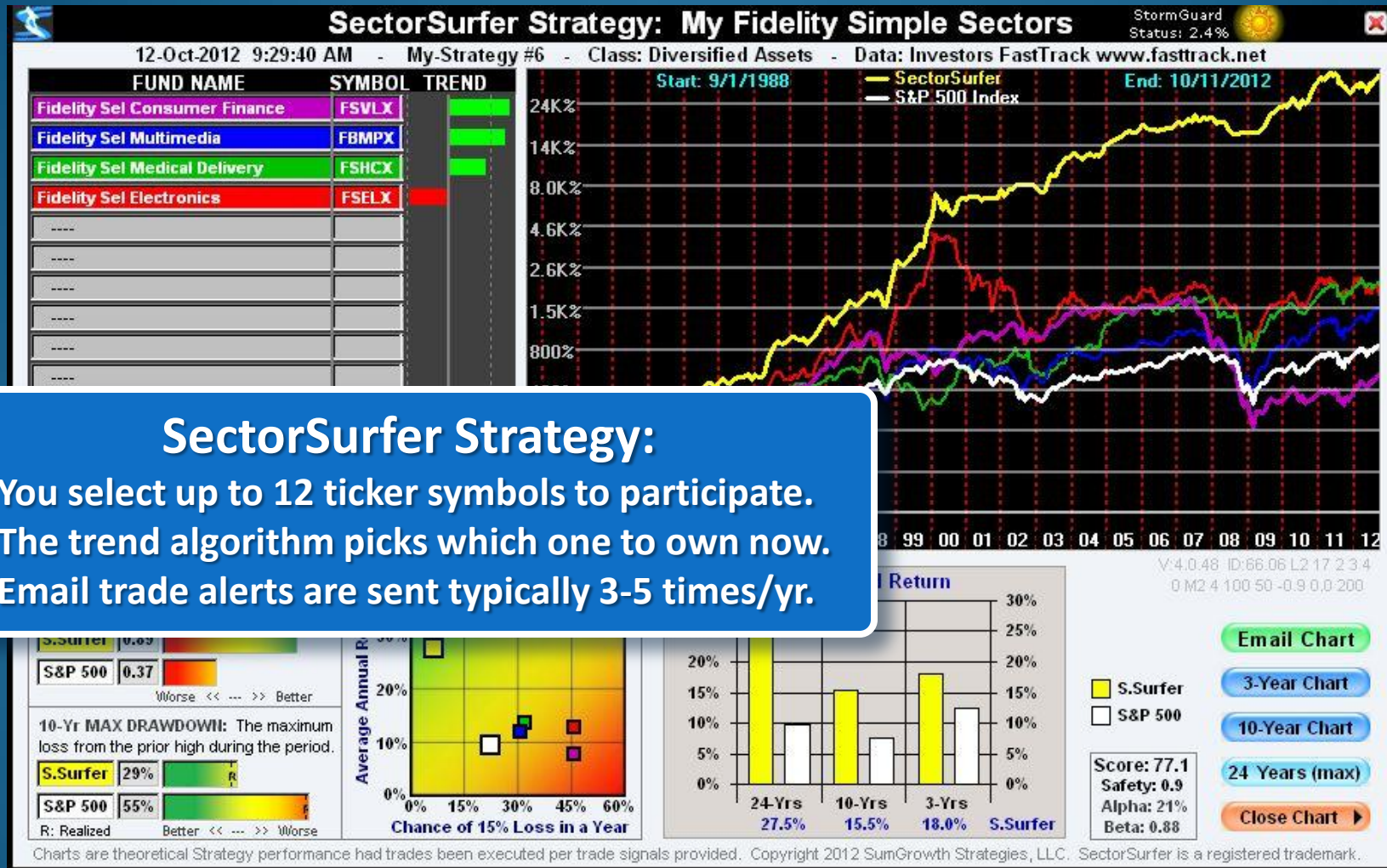


SectorSurfer Development



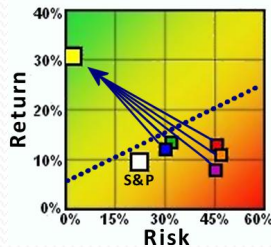
Desktop Version in Windows – 2004+

SectorSurfer Development



SectorSurfer Strategy:

- You select up to 12 ticker symbols to participate.
- The trend algorithm picks which one to own now.
- Email trade alerts are sent typically 3-5 times/yr.



Diversification Heresy

Let's Break Through the Efficient Frontier

--- Presentation Topics ---

1. How I Got Hooked on Trends.

2. Trends are Real ... (Markets are Not Efficient)

-- Review --

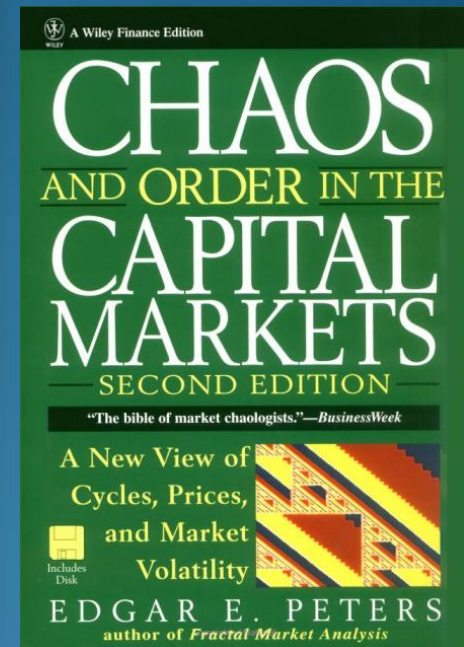
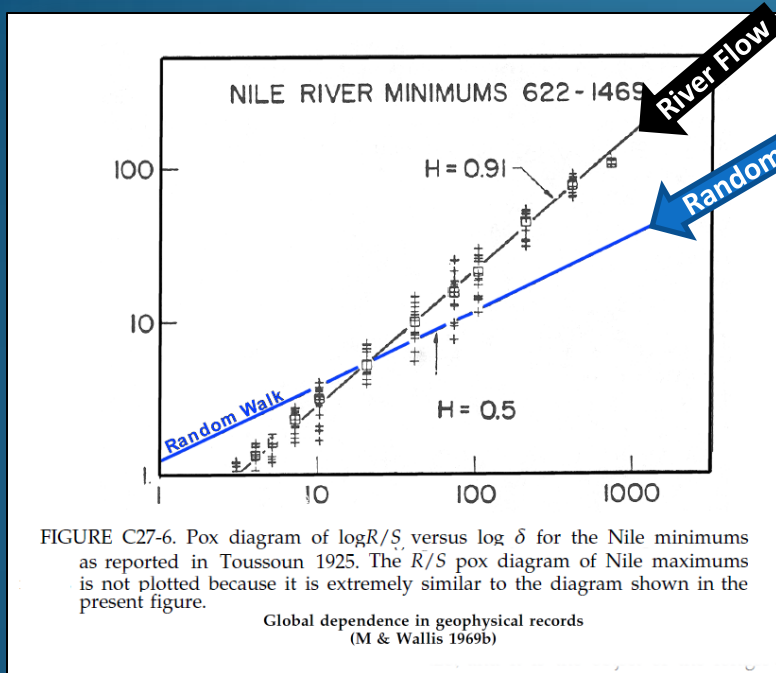
Efficient Market Hypothesis

- Prices already reflect all past publicly available information.
- One cannot consistently achieve returns in excess of average.
- Stock and other asset prices follow a random walk model.

If TRUE, Diversification is Best.

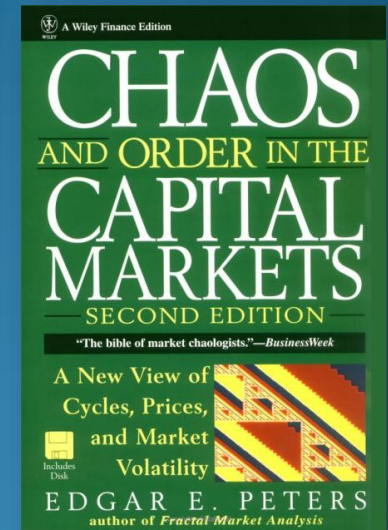
But if Trends are Real, E.M.H. is False.

Hurst Range/Scale Analysis



Developed by:
Edwin Hurst in 1907
Nile River Dam Project
Water Flow Character

Hurst Range/Scale Analysis



$$R/S(n) = \text{Average}_{t=1}^{T-n} \left(\frac{\text{Range}(t, t+n)}{\text{Std.Dev.}(t, t+n)} \right)$$

Hurst Range/Scale Analysis

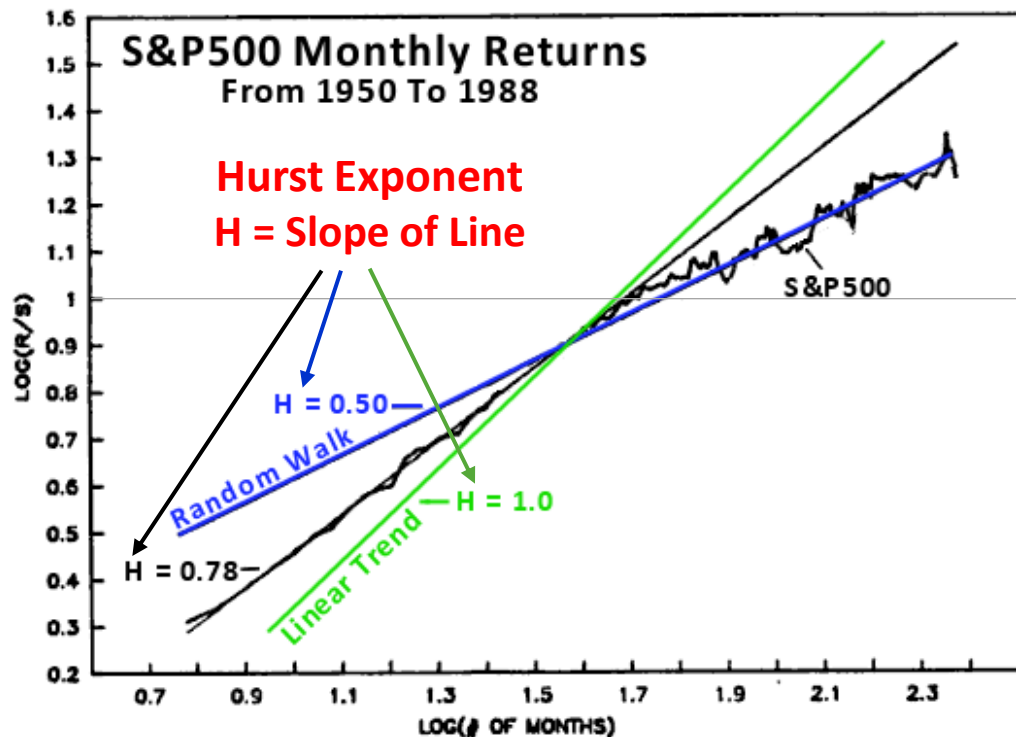


FIGURE 8.1 R/S analysis: S&P 500 monthly returns January 1950–July 1988. Estimated $H = 0.78$.

Hurst Range/Scale Analysis

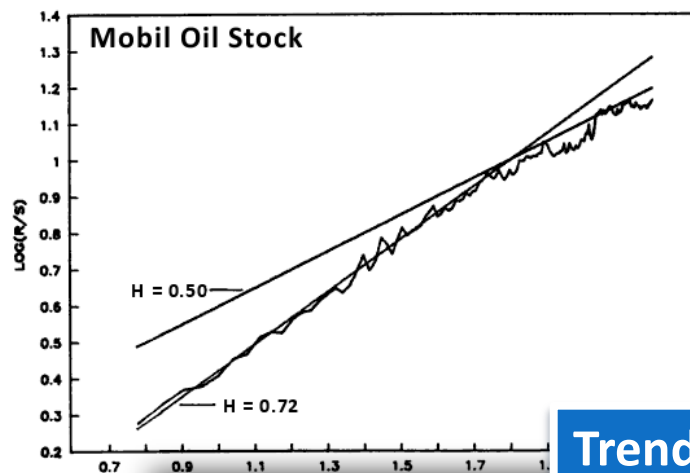
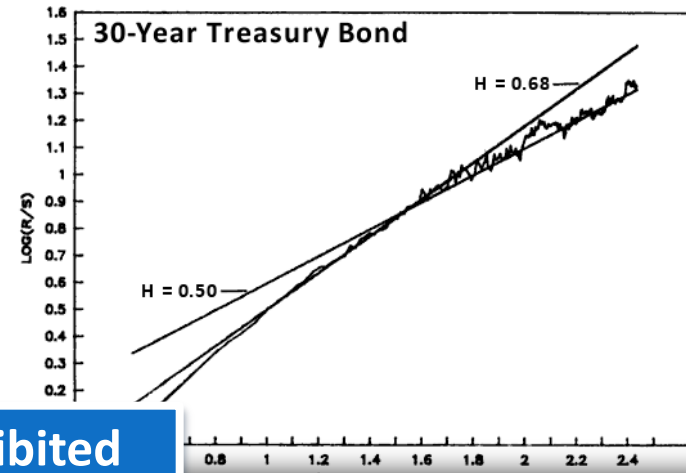


FIGURE 8.4b
December 1985



Trends are exhibited
in all capital markets.

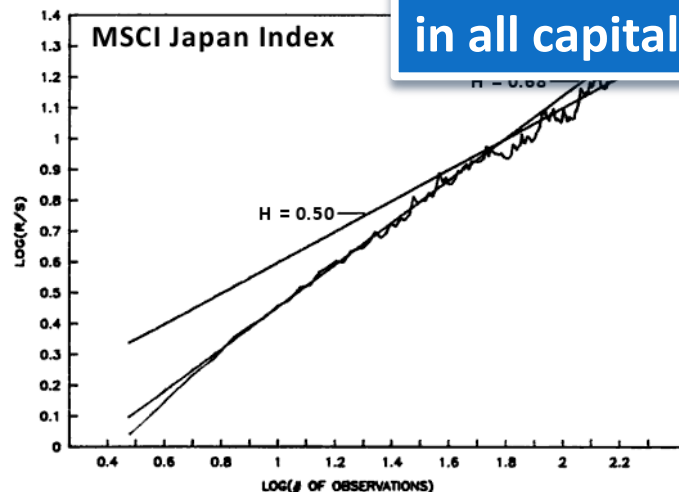


FIGURE 8.5b R/S analysis of international stocks: Monthly returns, January 1959–February 1990. MSCI Japan index: Estimated $H = 0.68$.

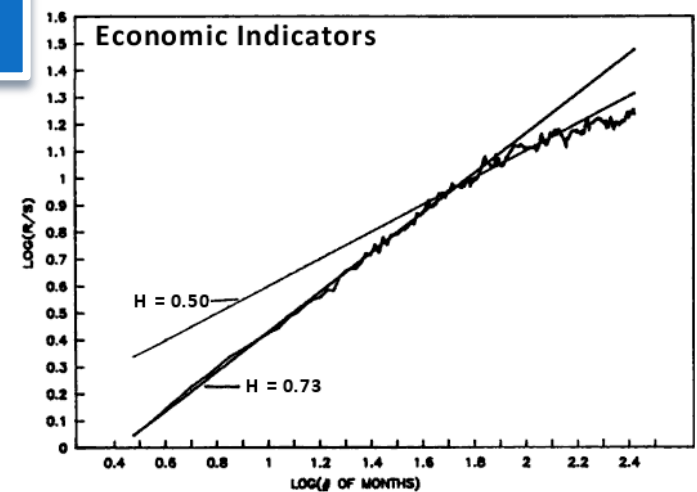
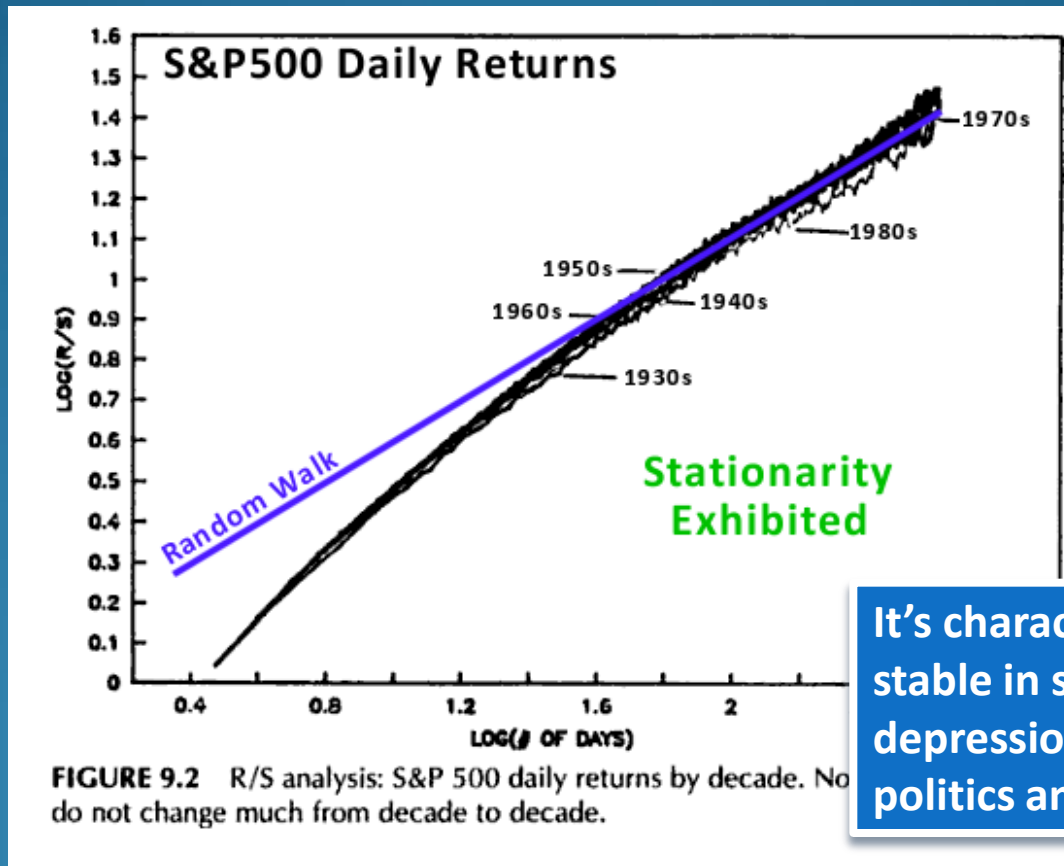


FIGURE 8.10c R/S analysis of economic indicators, January 1950–January 1990. Housing Starts: Estimated $H = 0.73$.

Hurst Range/Scale Analysis



It's character remained stable in spite of depression, world war, politics and technology.

The Economist

January 8th 2011

Document Link: [Momentum in Financial Markets](#)

Briefing Momentum in financial markets

The Economist January 8th 2011 69

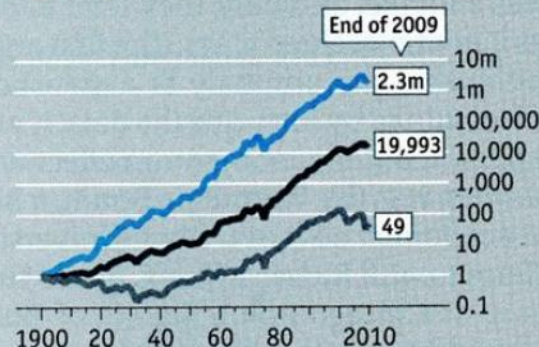
Why Newton was wrong

Momentous

Value of portfolios of British shares chosen according to performance in past 12 months*, £, log scale

Shares:

— Top 20% — Middle 60% — Bottom 20%



Source: "Credit Suisse Global Investment Returns Sourcebook 2010", by Elroy Dimson, Paul Marsh and Mike Staunton, London Business School

*Starting with £1 in 1900

month. In turn, others will buy after ten months, then nine, eight and so on until the effect disappears.

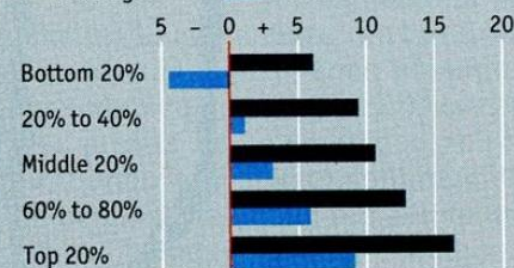
When efficient-market theorists come across a market anomaly, they tend to dismiss it in one of three ways. The first argu-

Catching the wave

Annual returns from investing in US shares according to performance in past 12 months January 1927 to October 2010, %

■ Average

■ Excess*



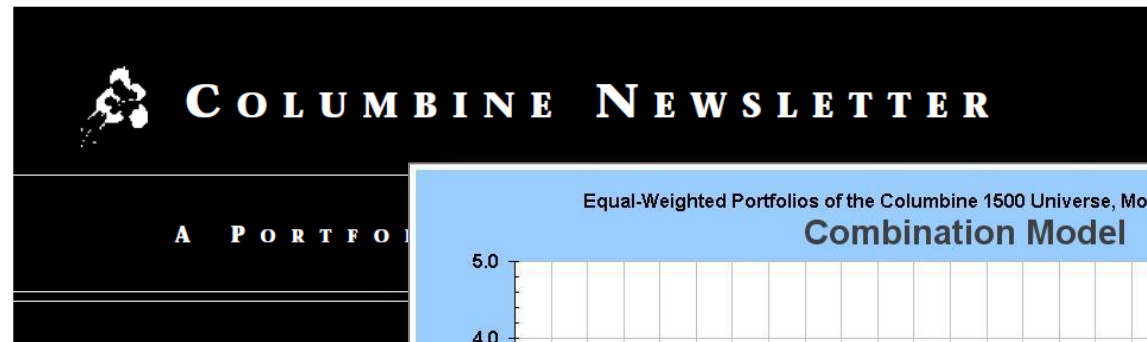
Source: AQR Capital Management

*Over CRSP value-weighted index; adjusted for correlation with whole market

Columbine Capital

Price Momentum, a 20 Year Research Effort

Document Link: [Price Momentum - a Twenty Year Research Effort](#)

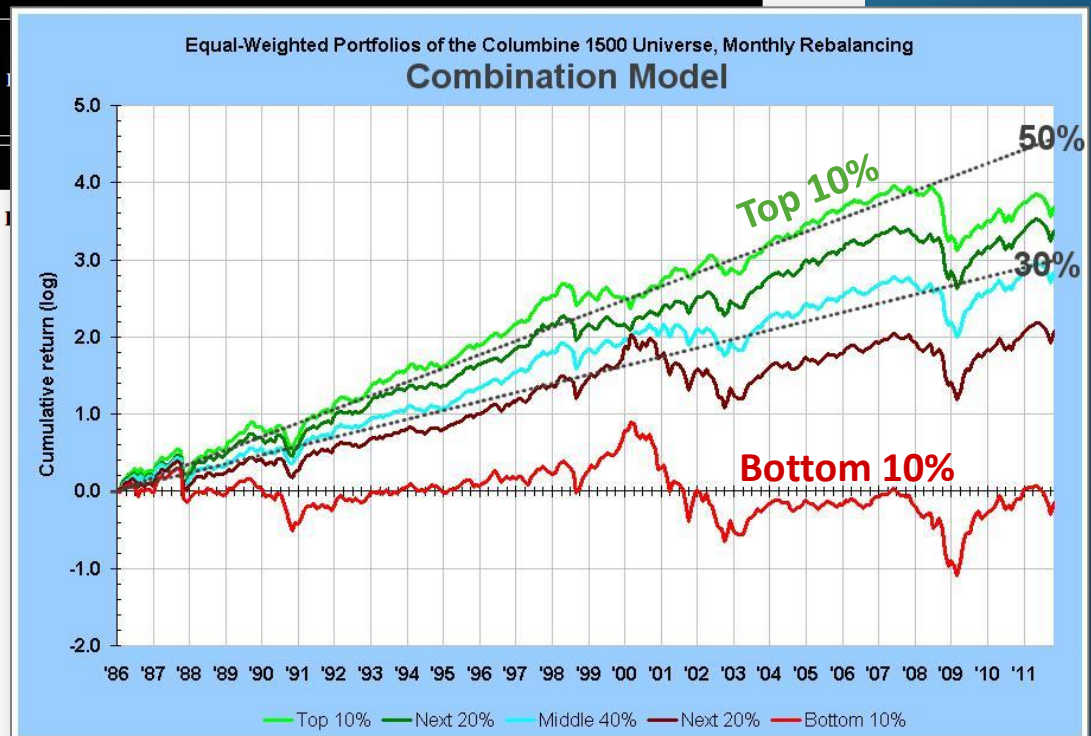


From
John Brush

Price Momentum
a Twenty Year
Research Effort

Summary and Overview

Even the most casual market watchers have observed anecdotal evidence of trend following in stock prices. Borrowing from the world of



The Columbine Alpha approach



Profitability of Momentum Strategies: An Evaluation of Alternative Explanations

By Narasiman Jegadeesh and Sheridan Titman (2001)

Following Jegadeesh and Titman (1993), at the end of each month we rank the stocks in our sample based on their past six-month returns (Month -5 to Month 0) and then group the stocks into 10 equally weighted portfolios based on these ranks. Each portfolio is held for six months (Month 1 to Month 6) following the ranking month.

Table I
Momentum Portfolio Returns

This table reports the monthly returns for momentum portfolios formed based on past six-month returns and held for six months.

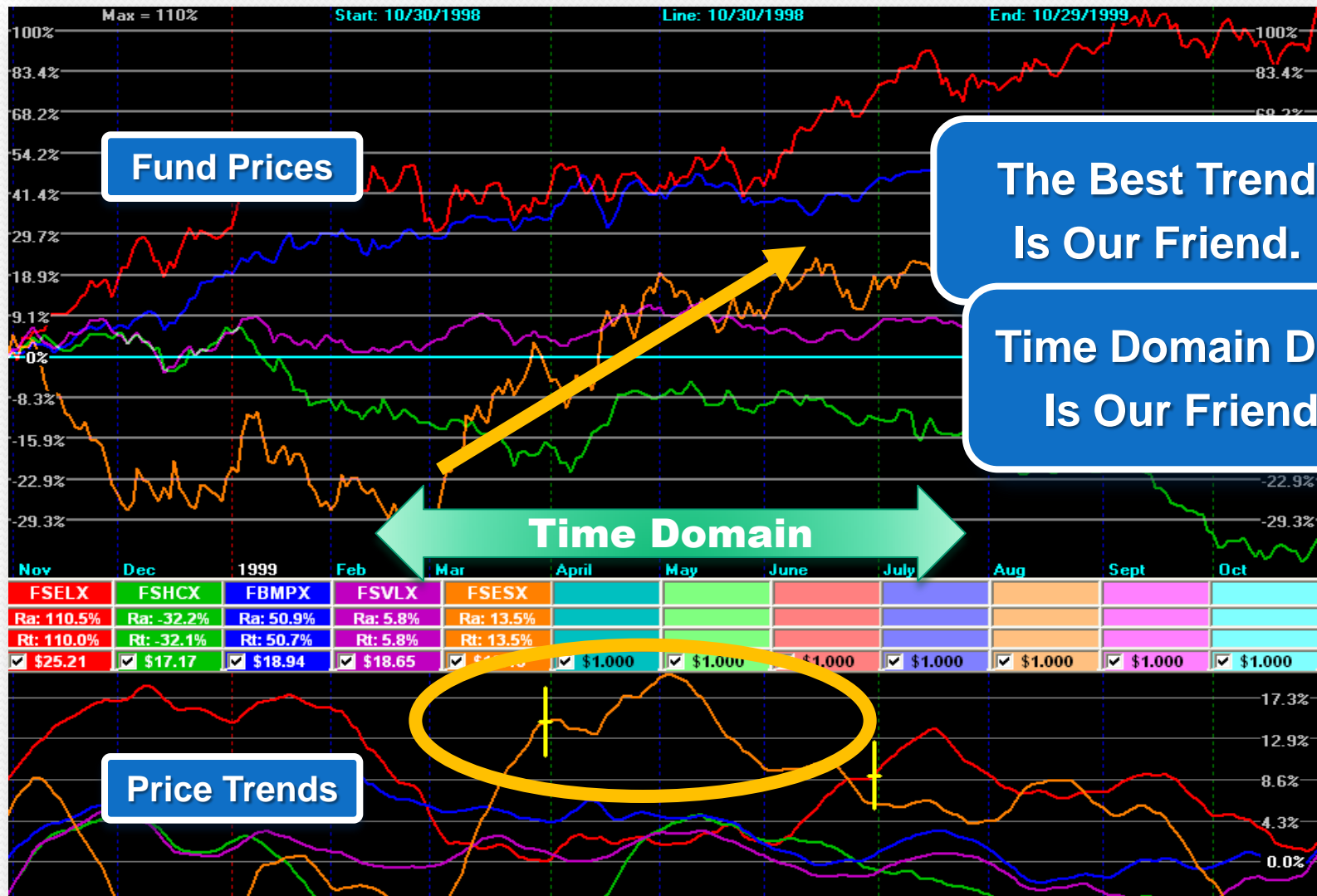
	All Stocks		
	1965–1998	1965–1989	1990–1998
P1 (Past winners)	1.65	1.63	
P2	1.39	1.41	
P3	1.28	1.30	1.21
P4	1.19	1.21	1.13
P5	1.17	1.18	1.12
P6	1.13	1.15	1.09
P7	1.11	1.12	1.09
P8	1.05	1.05	1.03
P9	0.90	0.94	0.77
P10 (Past losers)	0.42	0.46	

1.65% / mo. = 21.7% / yr

16.8% Diff.

0.40% / mo. = 4.9% / yr

Time Domain Data: Prices & Trends



Trends are Real

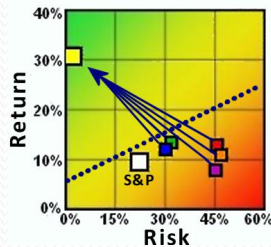
TRENDS, by definition, are a “Portal to the Future.”

**Where something in the past ...
... tells us something about the future.**

**Trends ARE the crystal
ball we hope to find.**

**We’re NOT limited by
Average Performance.**





Diversification Heresy

Let's Break Through the Efficient Frontier

--- Presentation Topics ---

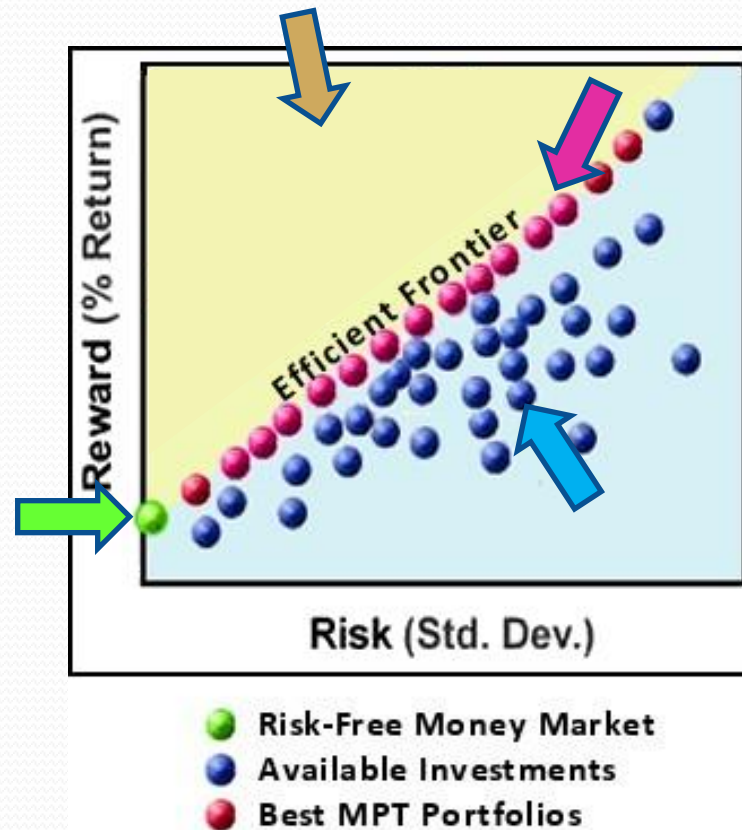
1. How I Got Hooked on Trends.
2. Trends are Real ... (Markets are Not Efficient)
- 3. Risk & Return are Not Mutually Exclusive.**
4. There is an Optimum Trend Extraction Method.

--- Review ---

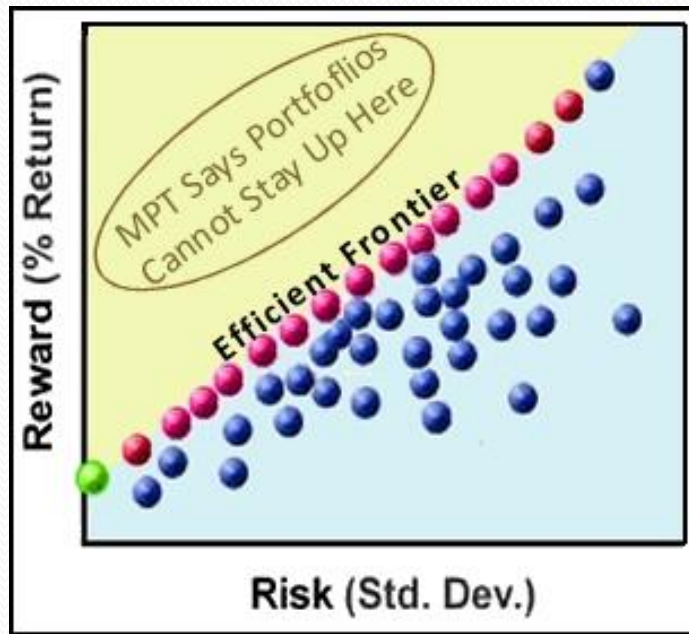
Modern Portfolio Theory

- One Must Trade Risk for Return.

Must I Trade Risk For Return?



Must I Trade Risk For Return?



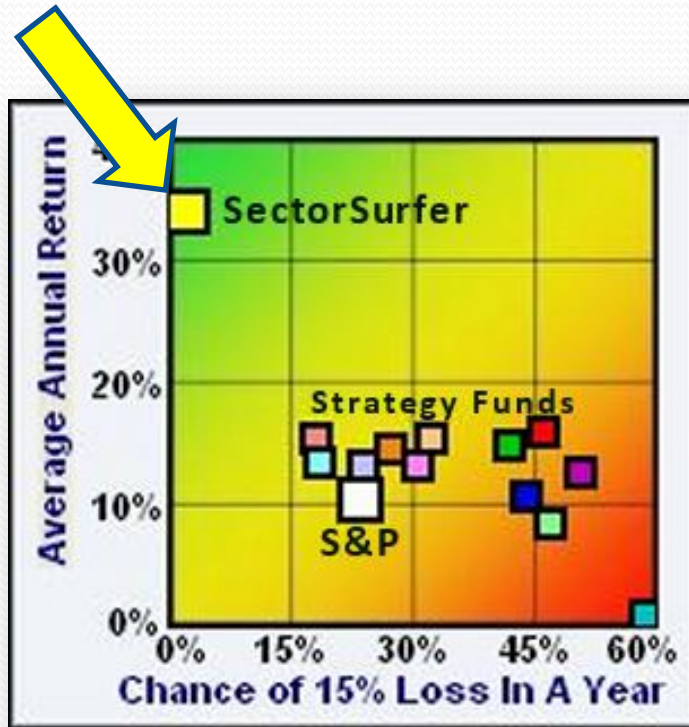
- Risk-Free Money Market
- Available Investments
- Best MPT Portfolios

MPT Tenets

- Market Prices are Gaussian Distributed
- Rational Investors Trade Risk for Return
- Risk is Measured as Standard Deviation of Return
- Risk is Reduced by Owning Uncorrelated Assets
- The Efficient Frontier is the Set of Best Portfolios

Must I Trade Risk For Return?

SectorSurfer Thinks Otherwise



MPT Tenets

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- Risk is Reduced by Owning Uncorrelated Assets
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Must I Trade Risk For Return?

SectorSurfer Thinks Otherwise



MPT Tenets w/ Comments

- Market Prices are Gaussian Distributed
- Fails to Consider the Tails are Way Too Fat
- Rational Investors Trade Risk for Return
- Fails To Consider New Tools Change the Game
- Risk is Measured as Standard Deviation of Return
- Fails to Consider Big Returns Aren't a Bad Thing
- Risk is Reduced by Owning Uncorrelated Assets
- Fails to Consider Temporal Avoidance Strategies
- The Efficient Frontier is the Set of Best Portfolios
- Fails to Consider that the Efficient Frontier is an Artifact of Unfortunate Self-Imposed Constraints

Must I Trade Risk For Return?

SectorSurfer Thinks Otherwise

Can you help a poor cripple?
I cut off my Time-Domain leg.
I don't know what to do next!



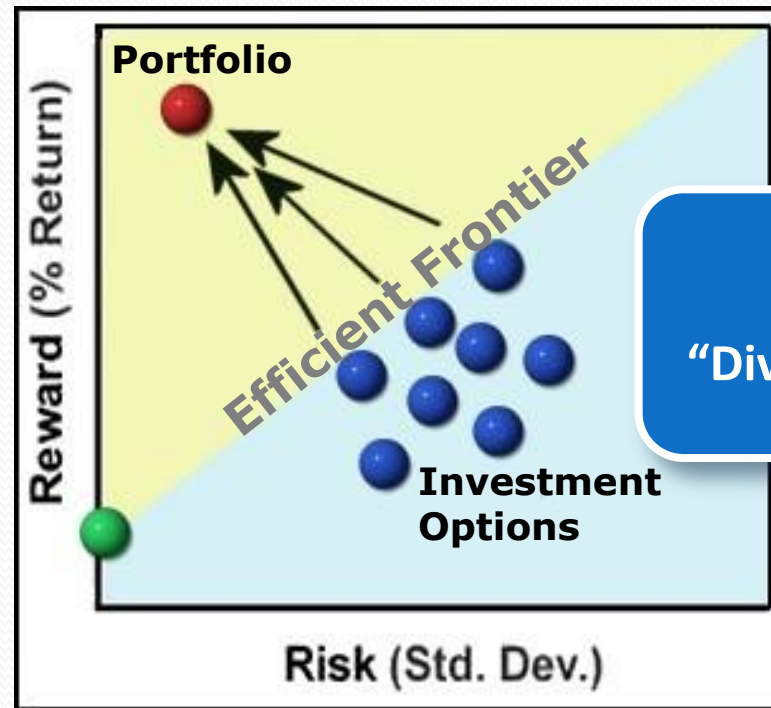
MPT Tenets w/ Comments

- Market Prices are **Gaussian Distributed**
- Fails to Consider the Tails are Way Too Fat
- Rational Investors Trade Risk for Return
- Fails To Consider New Tools Change the Game
- Risk is Measured as **Standard Deviation** of Return
- Fails to Consider Big Returns Aren't a Bad Thing
- Risk is Reduced by Owning **Uncorrelated Assets**
- Fails to Consider Temporal Avoidance Strategies
- The Efficient Frontier is the Set of Best Portfolios
- Fails to Consider that the Efficient Frontier is an Artifact of Unfortunate Self-Imposed Boundaries

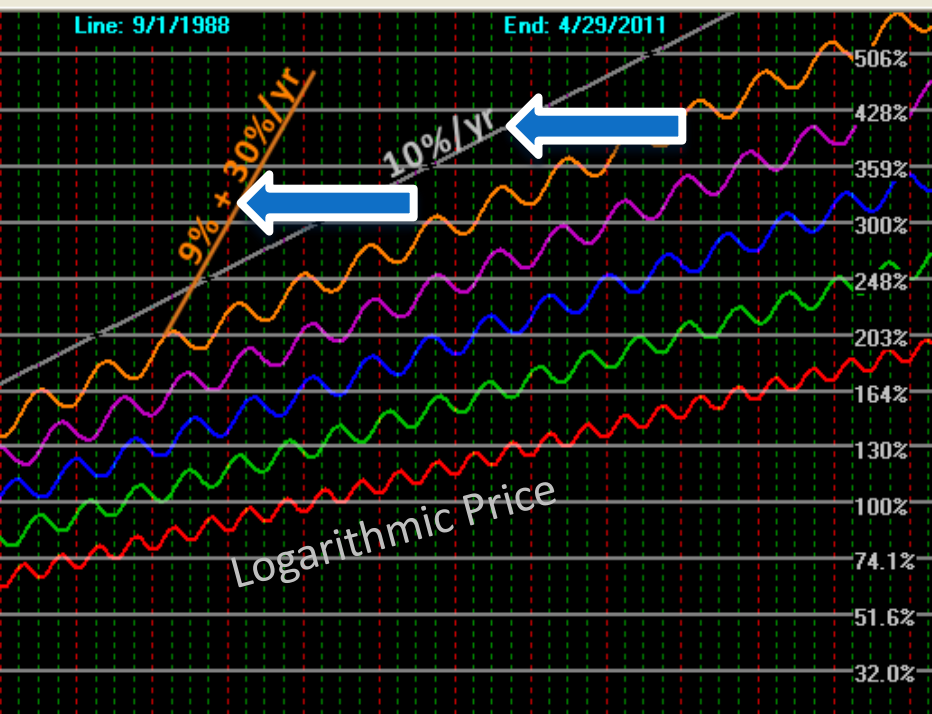
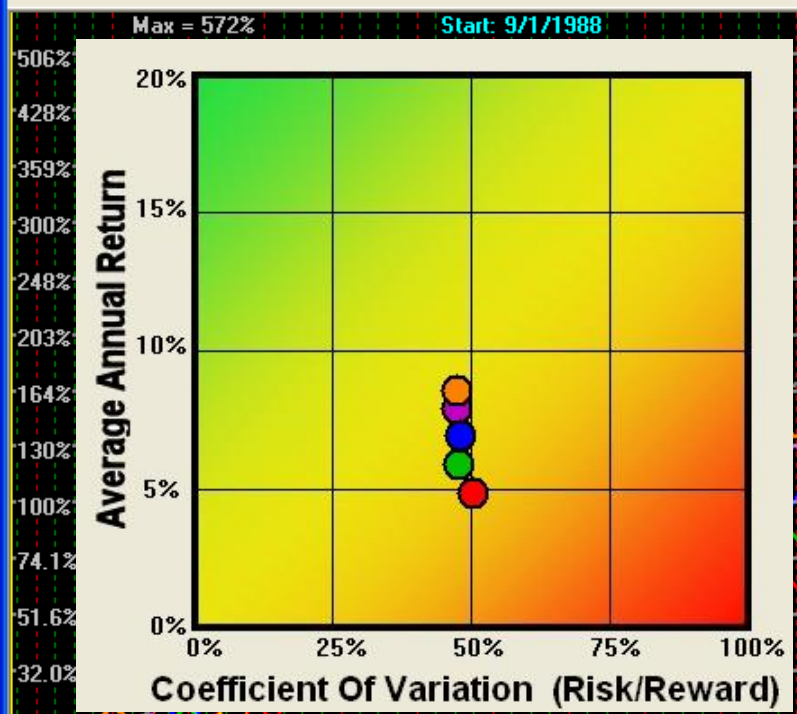
MPT Can't Pick Anything to Own or Avoid Next Month!

Must I Trade Risk For Return?

How to Break Through the Efficient Frontier



Let's Try MPT
"Diversify and Rebalance"

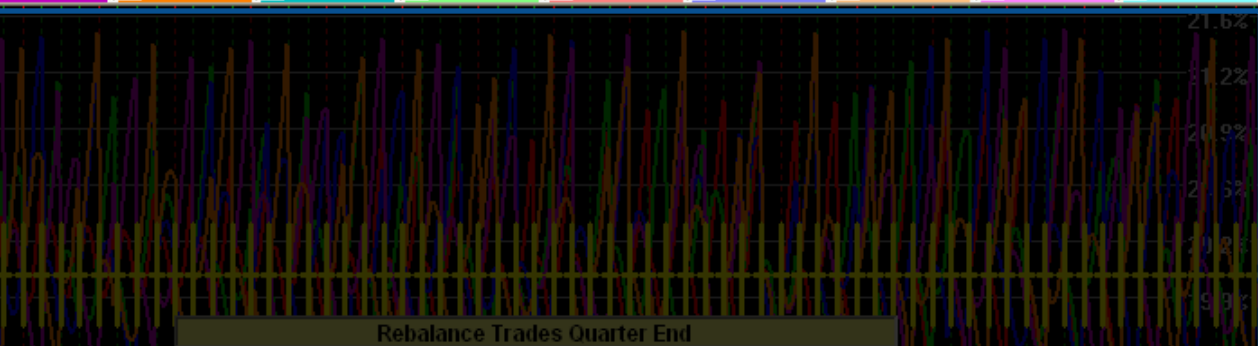


1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
~135	~156	~187	~208	~229																		
Ra: 4.9%	Ra: 6.0%	Ra: 6.7%	Ra: 8.0%	Ra: 8.6%																		
Rt: 195.8%	Rt: 273.2%	Rt: 333.6%	Rt: 469.9%	Rt: 552.0%																		
✓ \$1.00	✓ \$1.00	✓ \$1.00	✓ \$1.00	✓ \$1.00	✓ \$1.00	✓ \$1.00	✓ \$1.00	✓ \$1.00	✓ \$1.00	✓ \$1.00	✓ \$1.00	✓ \$1.00	✓ \$1.00	✓ \$1.00	✓ \$1.00	✓ \$1.00	✓ \$1.00	✓ \$1.00	✓ \$1.00	✓ \$1.00	✓ \$1.00	✓ \$1.00

Long Short Margin Data

Rebalance Make It So ?

-	20	+	Fund-1 Allocation %
-	20	+	Fund-2 Allocation %
-	20	+	Fund-3 Allocation %
-	20	+	Fund-4 Allocation %
-	20	+	Fund-5 Allocation %
-	6	+	Trade If > 90 Days



Trade When?

Signal Shift 0

Exec. Delay 0

Trades/Yr = 4.0

Get Next Fund

???

Not Ranked Yet

Display Period

3 Mo YTD

1 Yr 2 Yr

3 Yr 5 Yr

10Yr 15Yr

All Data

Line =>

<= Shift

Shift=>

Enter Dates

Index: SP-CP

Ra: 7.6%

Rt: 427.8%

\$258.35

SectorSurfer

Ra: 7.1%

Rt: 372.2%

\$100.00

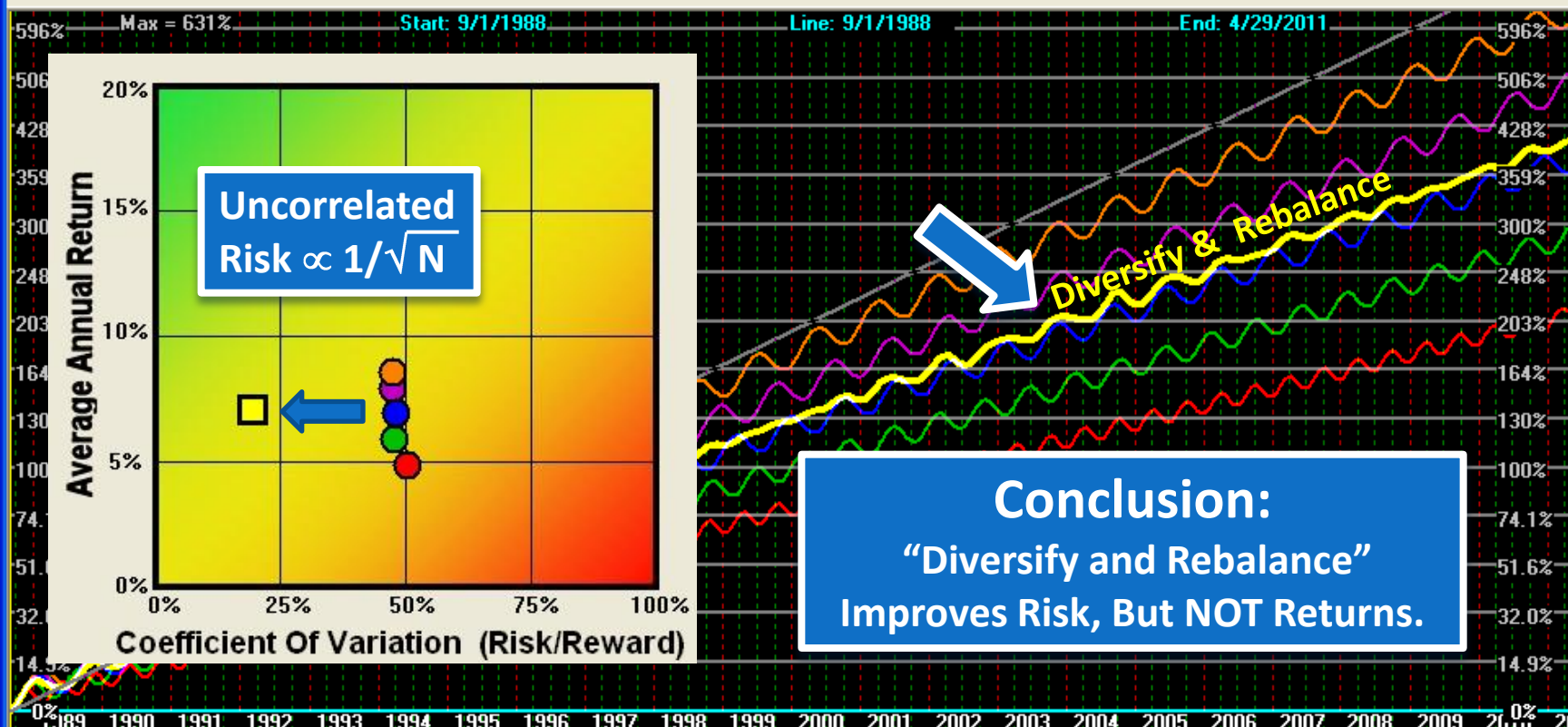
List Of Trades

Summary

Risk Analysis

Save Strategy

EXIT



Uncorrelated
 $Risk \propto 1/\sqrt{N}$

Diversify & Rebalance

Conclusion:
"Diversify and Rebalance"
Improves Risk, But NOT Returns.

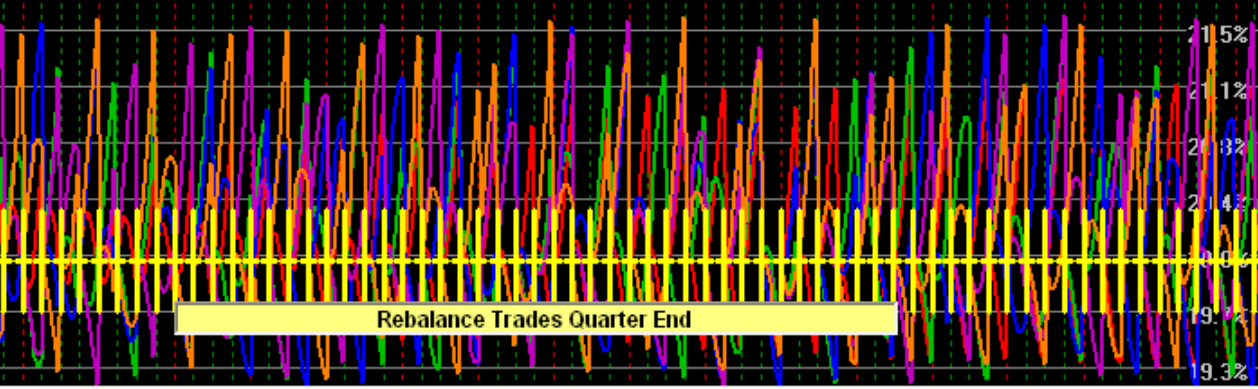
1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
~125	~166	~197	~208	~219																		
Ra: 5.1%	Ra: 6.3%	Ra: 7.0%	Ra: 7.4%	Ra: 9.0%																		
Rt: 210.5%	Rt: 295.8%	Rt: 360.0%	Rt: 515.6%	Rt: 608.5%																		
✓ \$1.00	✓ \$1.00	✓ \$1.00	✓ \$1.00	✓ \$1.00	✓ \$1.00	✓ \$1.00	✓ \$1.00	✓ \$1.00	✓ \$1.00	✓ \$1.00	✓ \$1.00	✓ \$1.00	✓ \$1.00	✓ \$1.00	✓ \$1.00	✓ \$1.00	✓ \$1.00	✓ \$1.00	✓ \$1.00	✓ \$1.00	✓ \$1.00	✓ \$1.00

Rebalance Algorithm

Long Short Buy Sell Data

Rebalance Make It So ?

-	20	+	Fund-1 Allocation %
-	20	+	Fund-2 Allocation %
-	20	+	Fund-3 Allocation %
-	20	+	Fund-4 Allocation %
-	20	+	Fund-5 Allocation %
-	6	+	Trade If > 90 Days



Trade When?

Signal Shift 0

Exec. Delay 0

Trades/Yr = 4.0

Get Next Fund

???

Not Ranked Yet

Display Period

3 Mo YTD

1 Yr 2 Yr

3 Yr 5 Yr

10Yr 15Yr

All Data

Line =>

<= Shift

Shift=>

Enter Dates

Index: SP-CP

Ra: 7.6%

Rt: 427.8%

\$258.35

SectorSurfer

Ra: 7.4%

Rt: 407.3%

\$100.00

List Of Trades

Summary

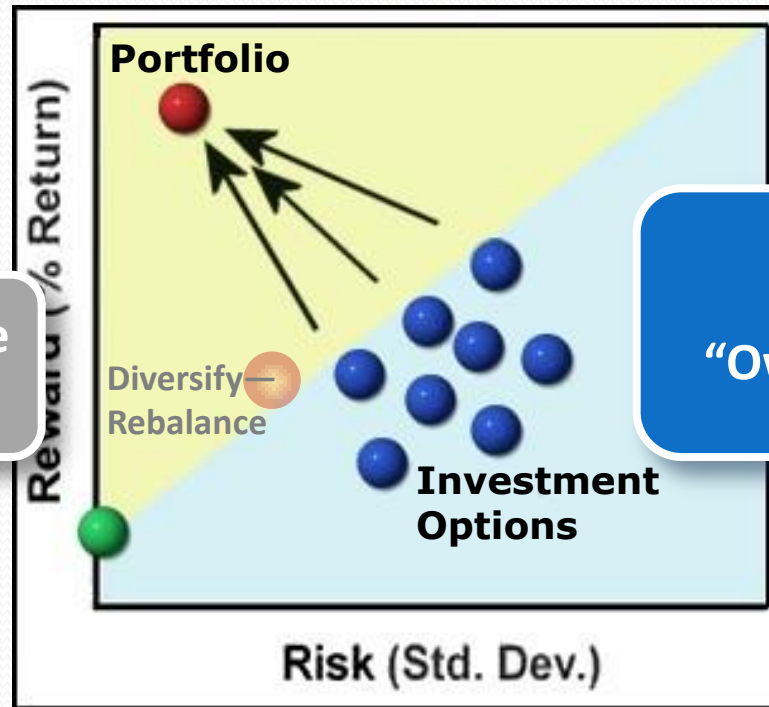
Risk Analysis

Save Strategy

EXIT

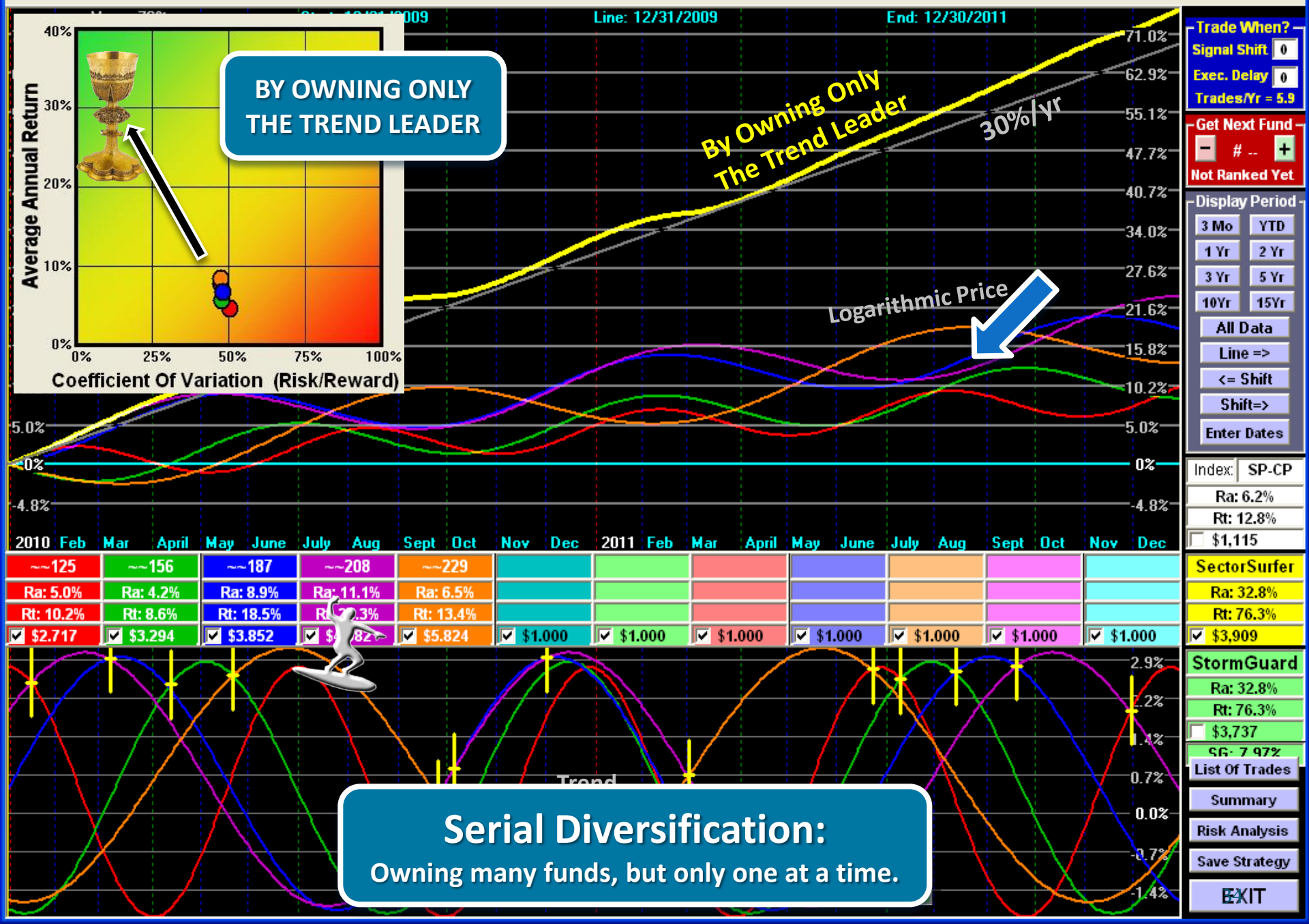
Must I Trade Risk For Return?

How to Break Through the Efficient Frontier



Diversify & Rebalance
Didn't Get Us There.

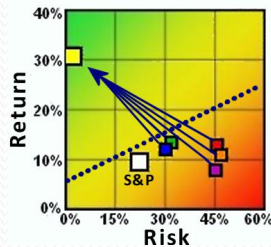
Let's Try Trends
"Own the Trend Leader"



Real Markets Have Noise



The Game: Extract Trend Signals From Noisy Data.



Diversification Heresy

Let's Break Through the Efficient Frontier

--- Presentation Topics ---

1. How I Got Hooked on Trends.
2. Trends are Real ... (Markets are Not Efficient)
3. Risk & Return are Not Mutually Exclusive.
- 4. There is an Optimum Trend Extraction Method.**

5. Trend Period **My Tools for the Job** Matter.



- MSEE Stanford University - 1976
- Photoelectric Sensors & Controls – Book
- Inventor - Over 40 US and Foreign Patents
- **Electronic Signal Processing Theory Focus**

9. My Career Has Been All About

Digging Signals Out of Noise!

Optimum Trend Extraction

Its All About
Reducing Noise to Reveal the Signal



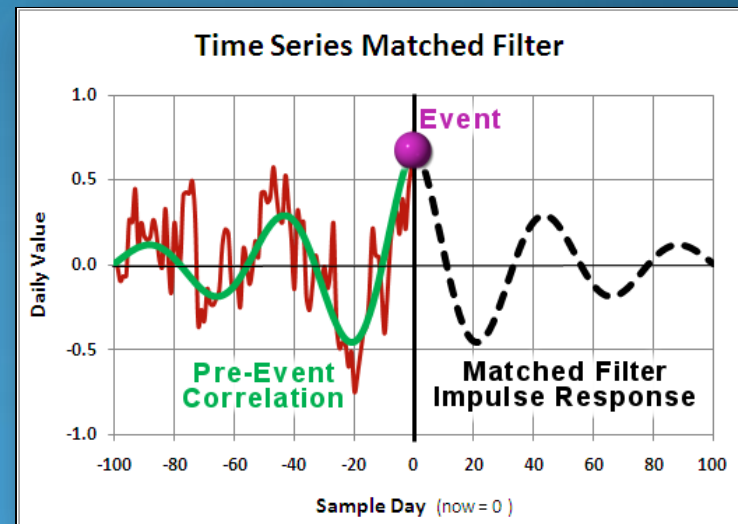
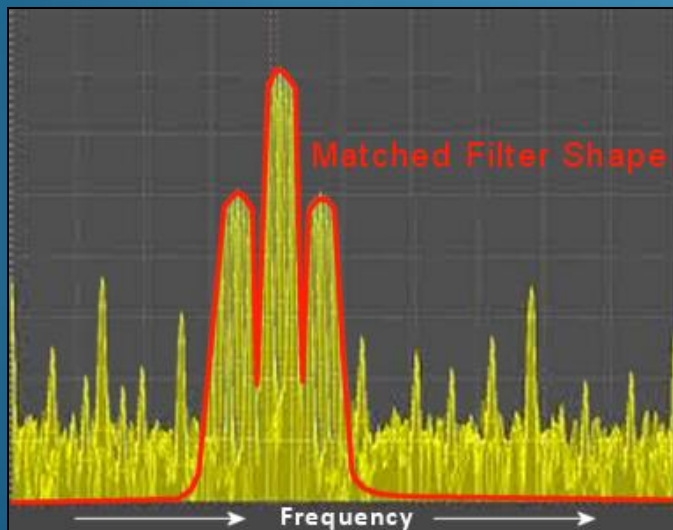
- **Matched Filter Processing**
 - Filter Shape Basis
- **Differential Signal Processing**
 - Common Mode Noise Elimination

Matched Filter Processing

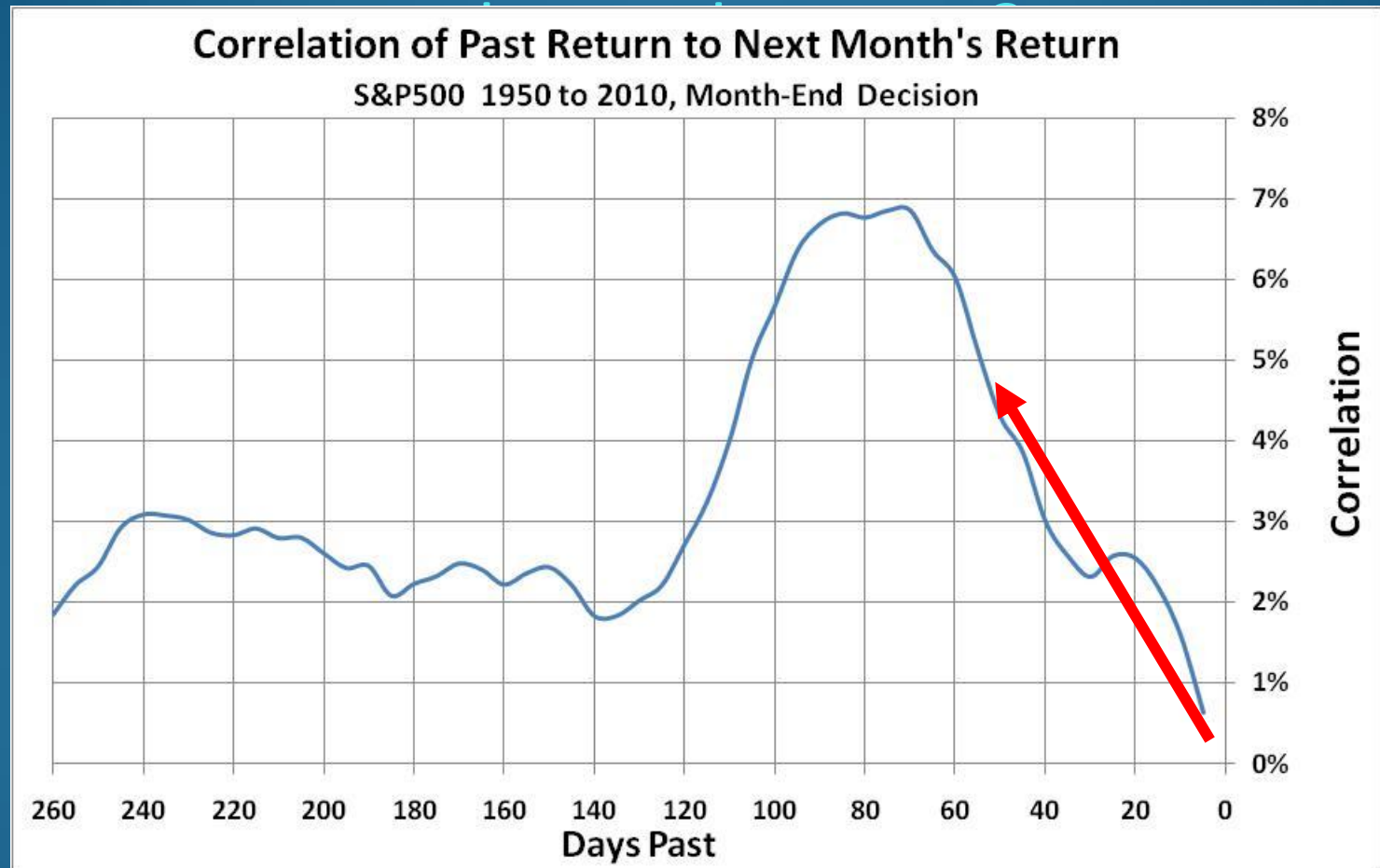
Definition: (from Wikipedia)

A matched filter is the optimal linear filter for maximizing the signal to noise ratio (SNR) in the presence of additive stochastic noise.

The Best Filter Shape Matches The Signal Shape

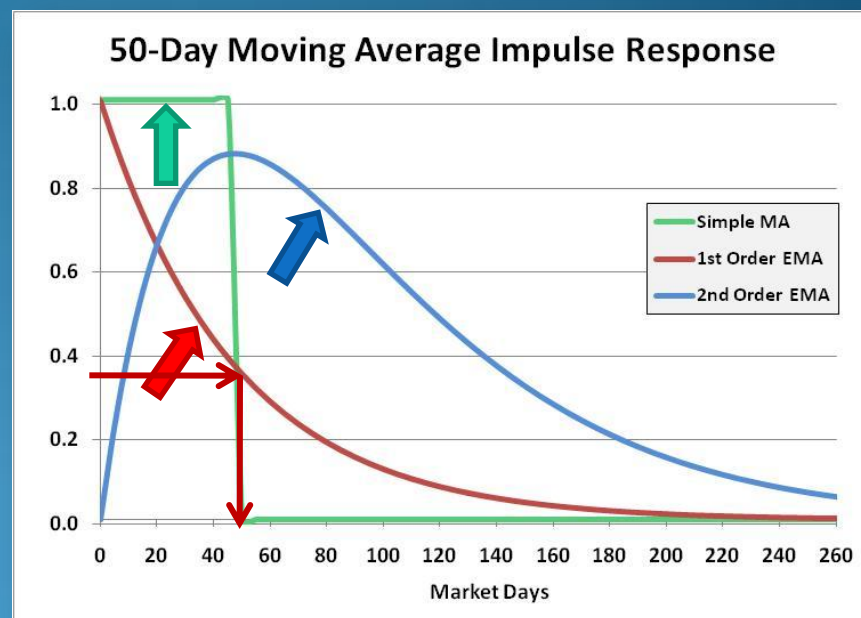
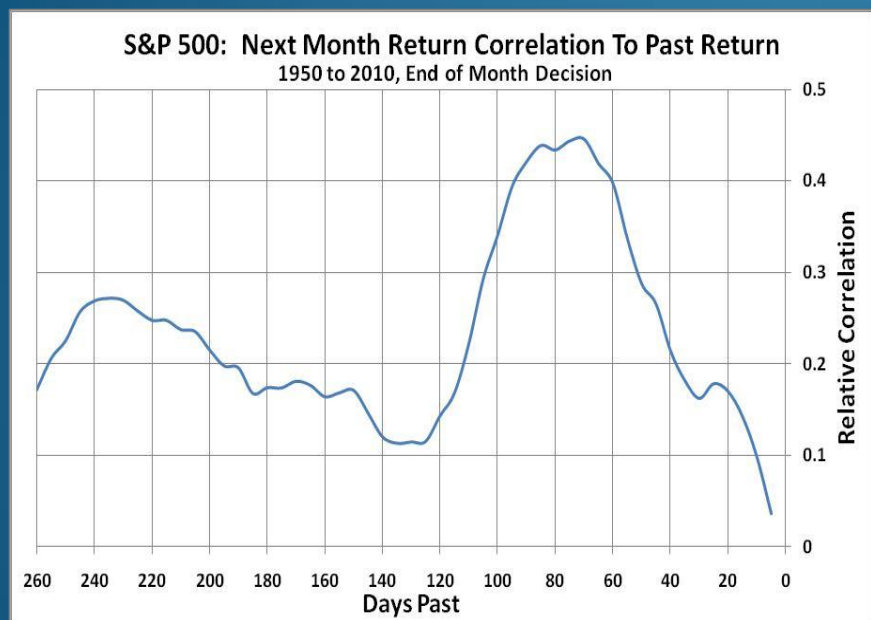


Matched Filter Processing



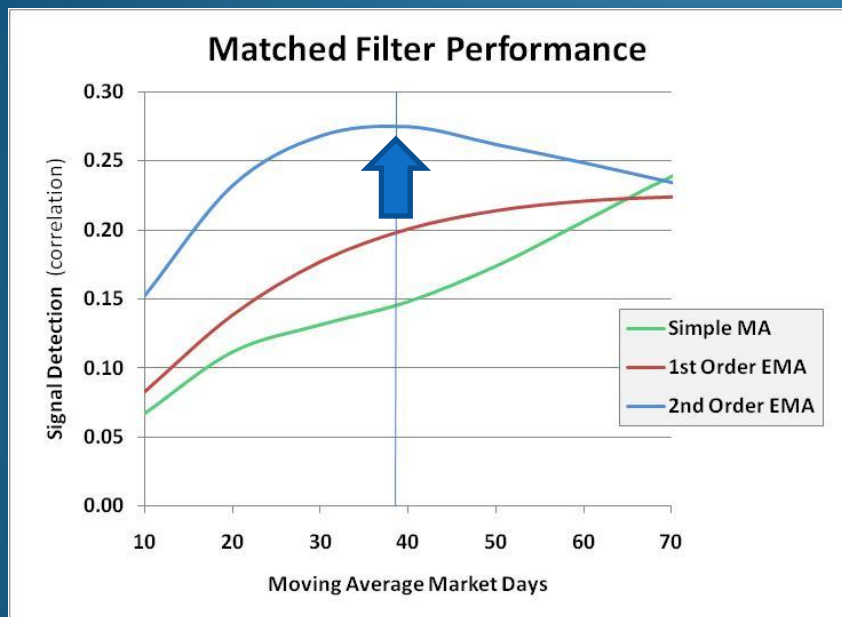
Matched Filter Processing

Choice of Matched Filter?

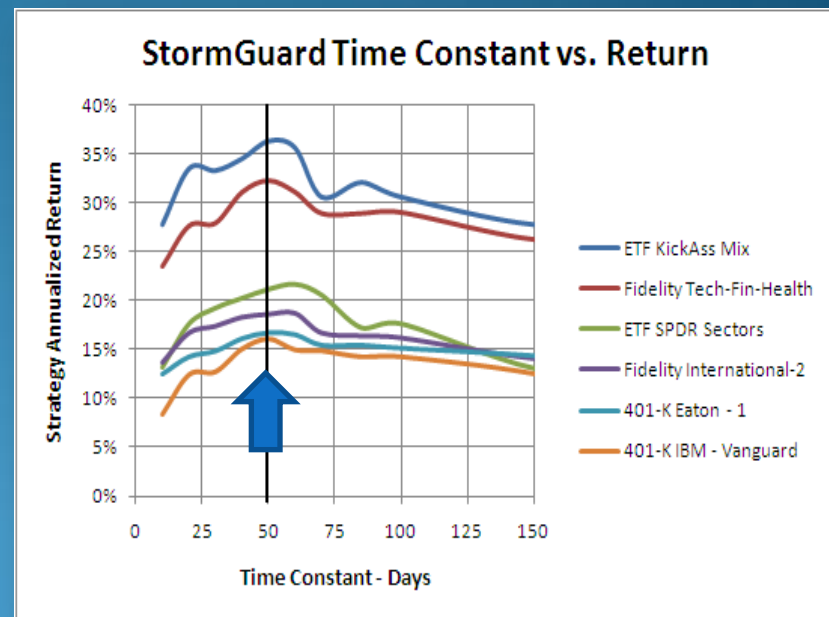


Matched Filter Processing

StormGuard Matched Filter Performance



Correlation Data Convolved w/Filters



Actual Performance as StormGuard

Matched Filter Processing

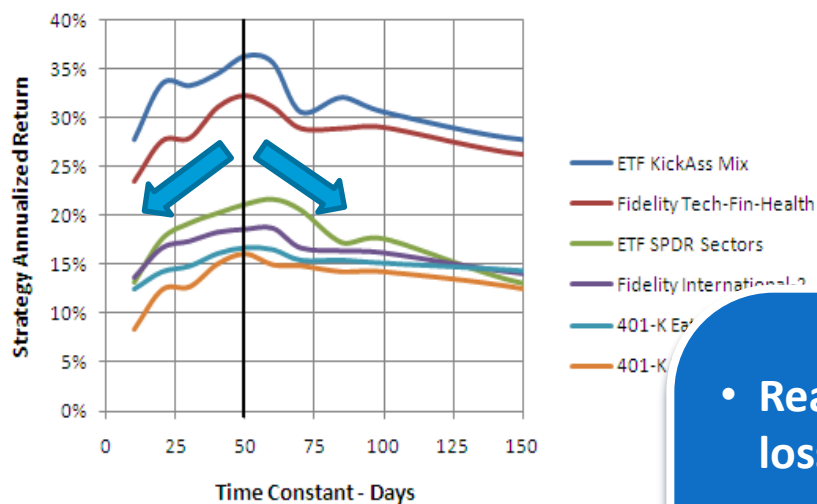
StormGuard Real Time Performance



Matched Filter Processing

StormGuard Real Time Performance

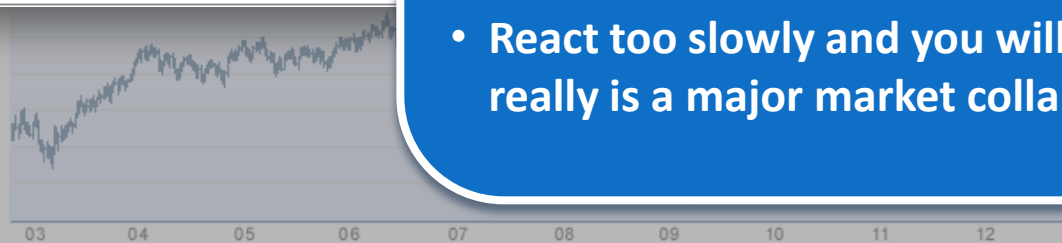
StormGuard Time Constant vs. Return



StormGuard Indicator History



- React too fast and you suffer from whip-saw losses when sharp drops often snap back.
- React too slowly and you will get hurt if it really is a major market collapse.



Matched Filter Processing

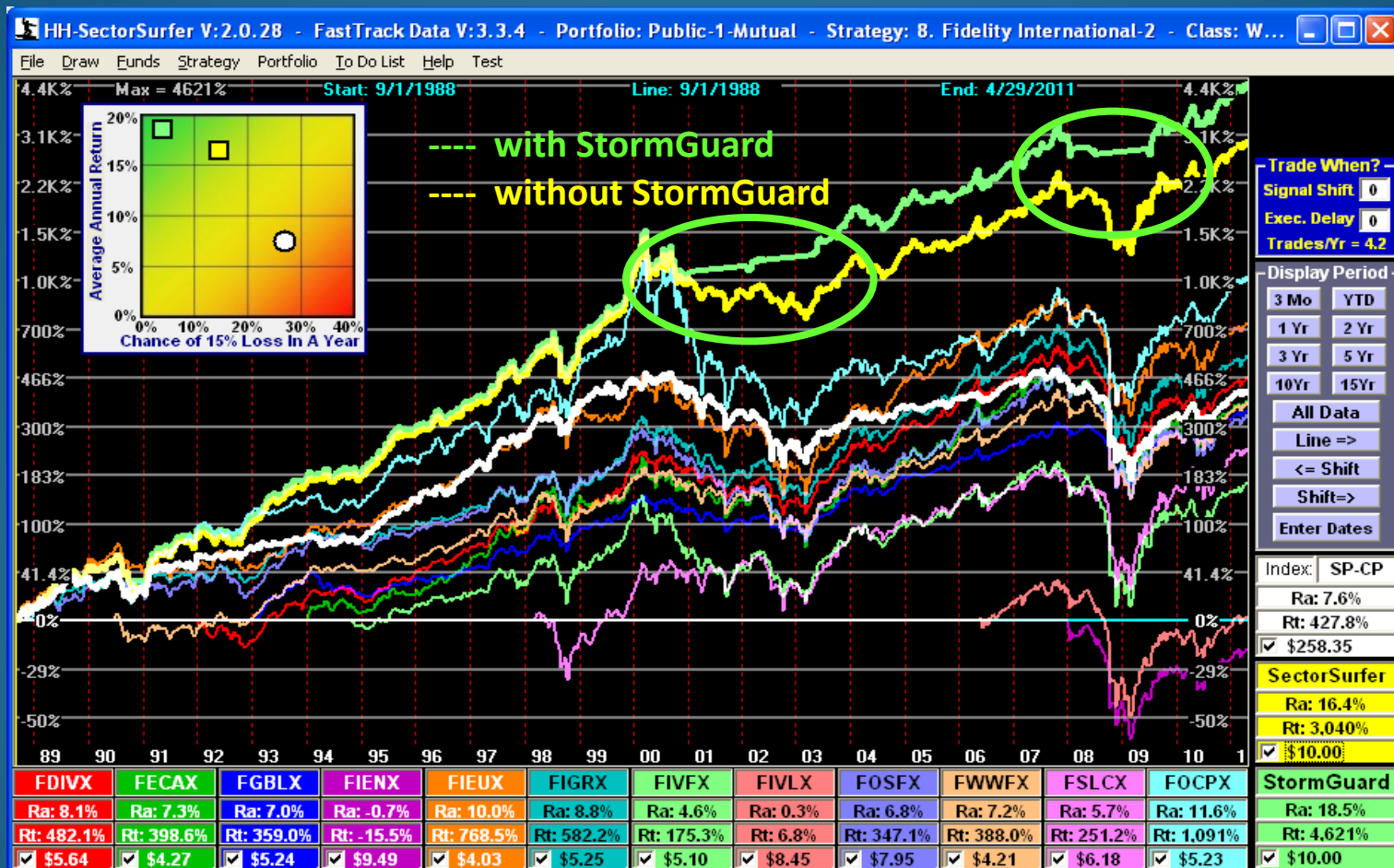
StormGuard Matched Filter Performance



Sector Strategy : Improvement: 86%

Matched Filter Processing

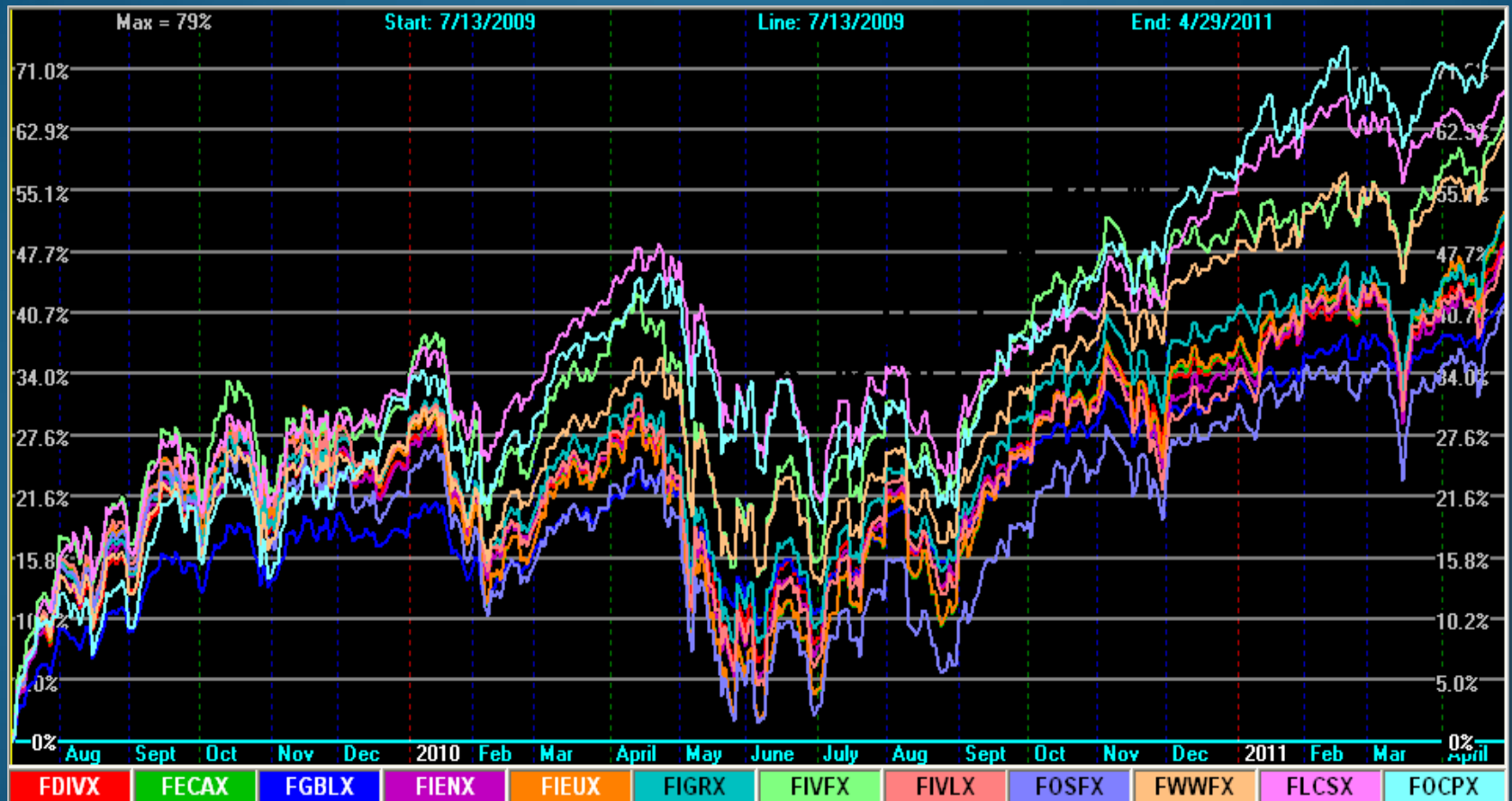
StormGuard Matched Filter Performance



Country Strategy : Improvement: 65%

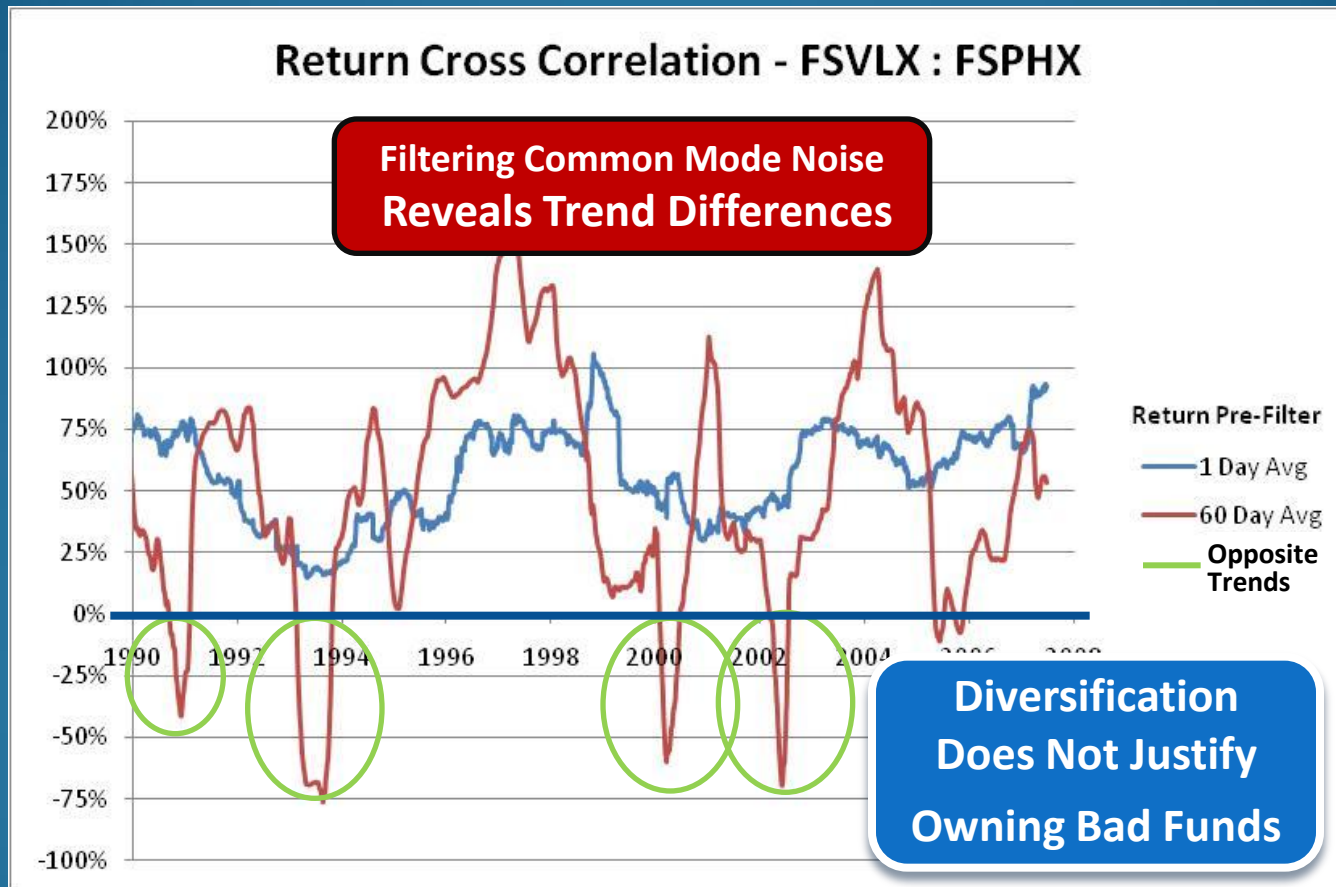
Common Mode Noise

Some Evidence



Common Mode Noise

Relatively Short Term



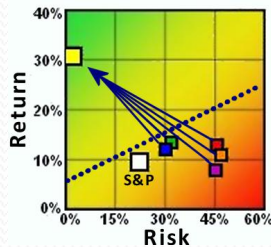
Solo Signal Processing





Differential Signal Processing





Diversification Heresy

Let's Break Through the Efficient Frontier

--- Presentation Topics ---

1. How I Got Hooked on Trends.
2. Trends are Real ... (Markets are Not Efficient)
3. Risk & Return are Not Mutually Exclusive.
4. There is an Optimum Trend Extraction Method.
- 5. Trend Periods and Algorithms do Matter.**

6. How to Build Great Strategies and Portfolios.

7. Which Trend is My Friend?
8. Period – Week? Month? Quarter? Year?
9. Algorithm – MACD? SMA? EMA? DEMA?

Which Trend is My Friend?

Period – Week? Month? Quarter? Year?

Algorithm – MACD? SMA? EMA? DEMA?

Profitability of Momentum Strategies: An Evaluation of Alternative Explanations

By Narasiman Jegadeesh and Sheridan Titman (2001)

Their Choices:

1. Trend Algorithm: S.M.A.
2. Averaging Period: 6 Months
3. Periodically Repeat: 6 Months

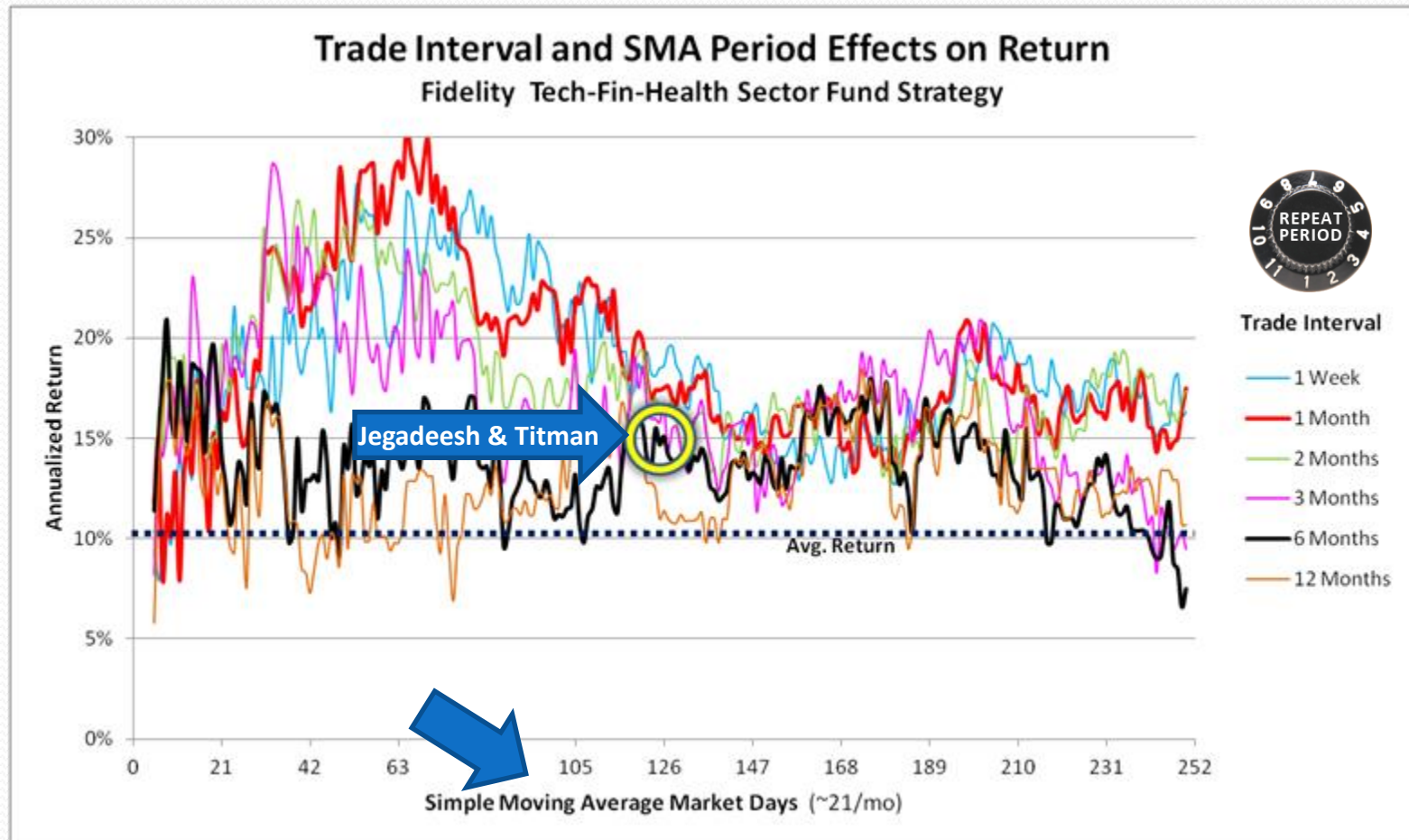


As an engineer,
I want to turn
all of the knobs.

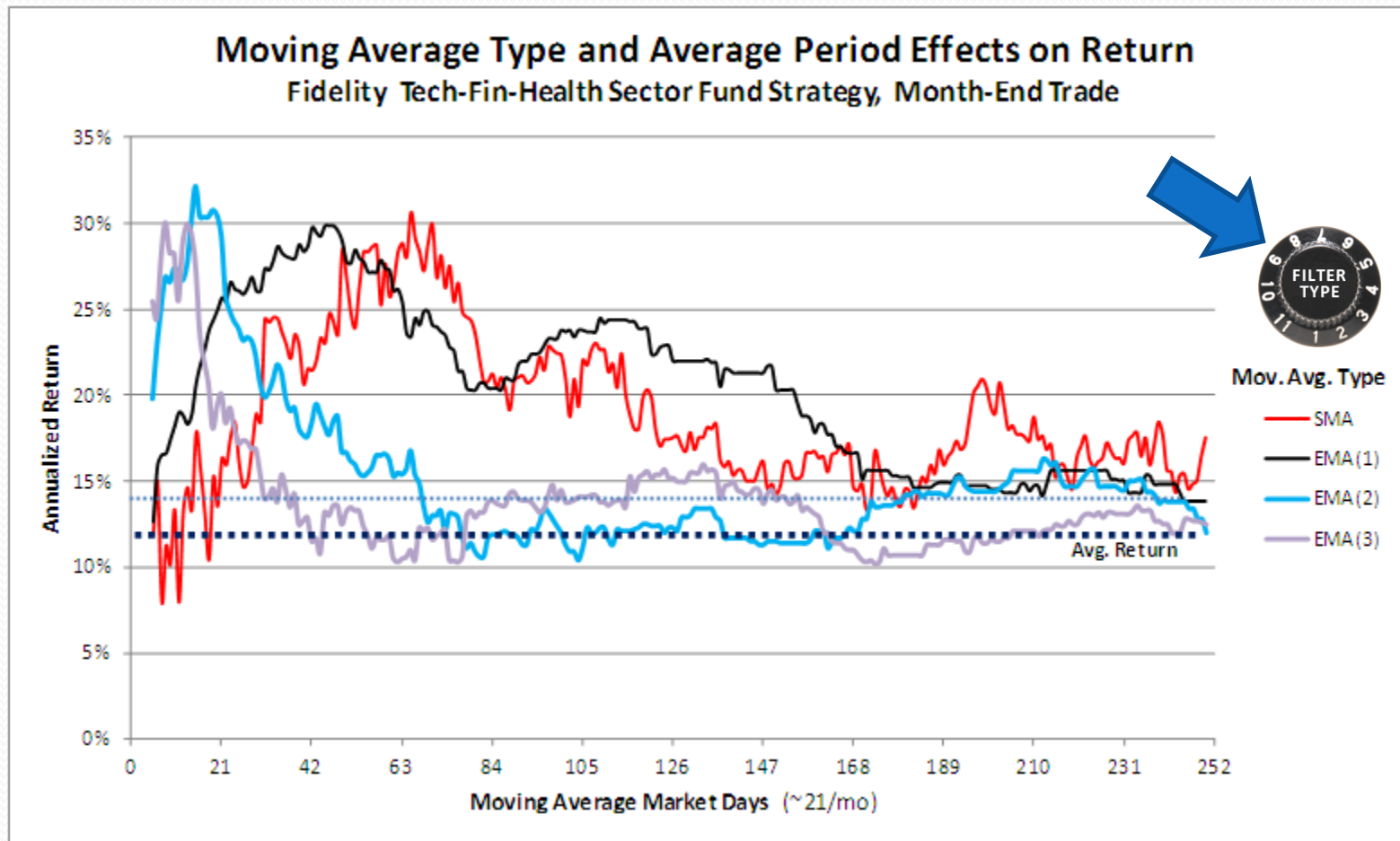
I want knobs
that go to 11.

	All Stocks		
	1965–1998	1965–1989	1990–1998
P1 (Past winners)	1.65	1.63	1.69
P2	1.39	1.41	1.32
P3	1.28	1.30	1.21
P4	1.19	1.21	1.13
P5	1.17	1.18	1.12
P6	1.13	1.15	1.09
P7	1.11	1.12	1.09
P8	1.05	1.05	1.03
P9	0.90	0.94	0.77
P10 (Past losers)	0.42	0.46	0.30

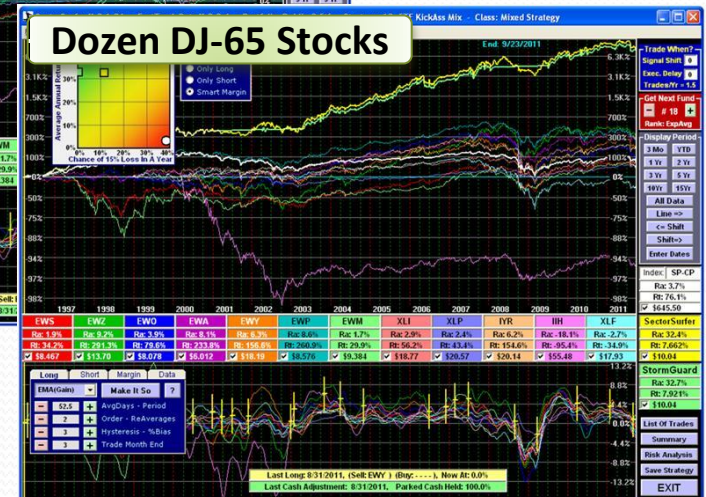
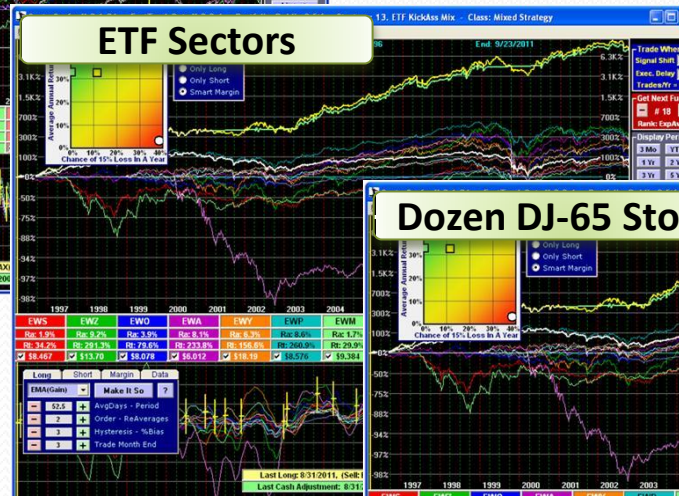
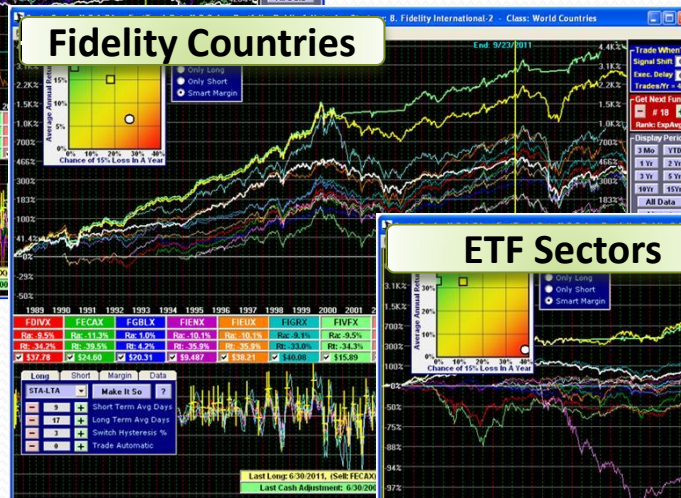
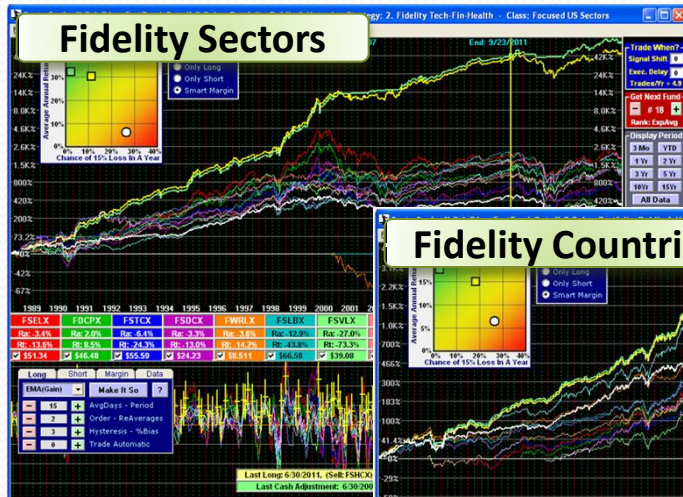
What Happens When We Turn the Knobs?



What Happens When We Turn the Knobs?

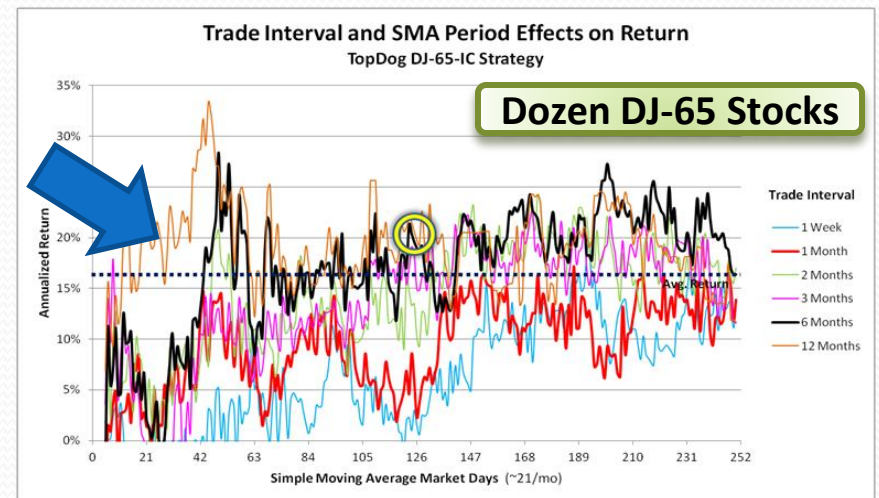
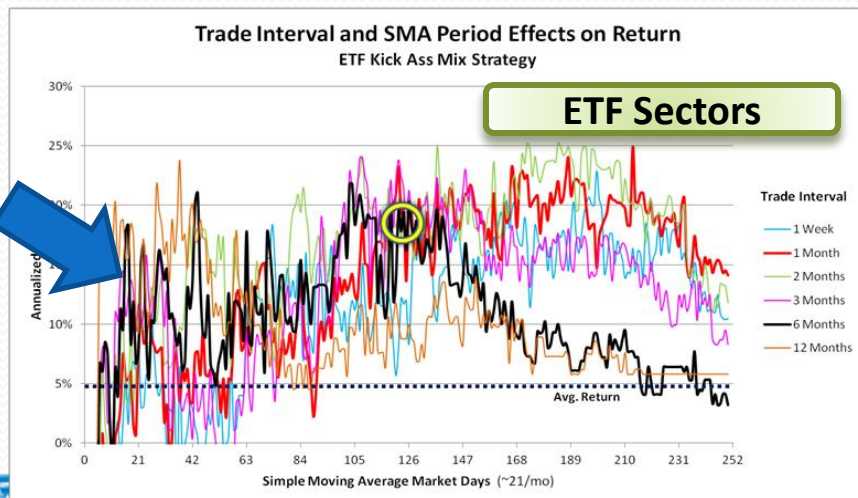
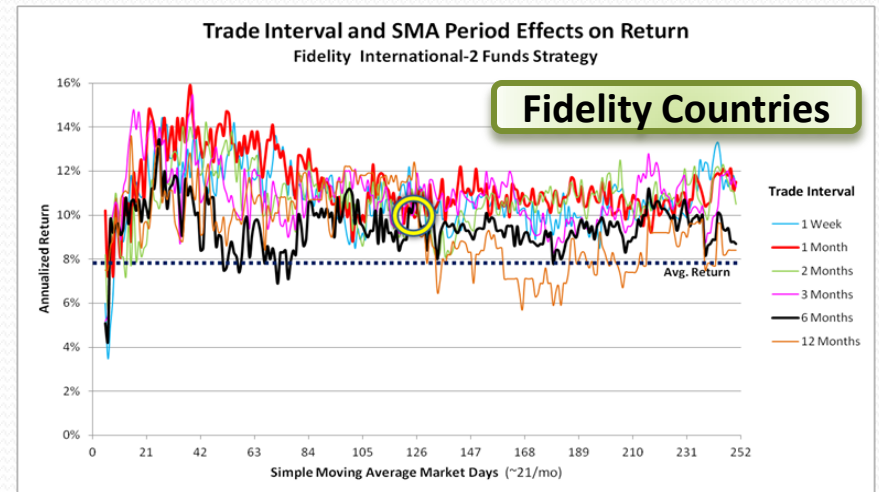
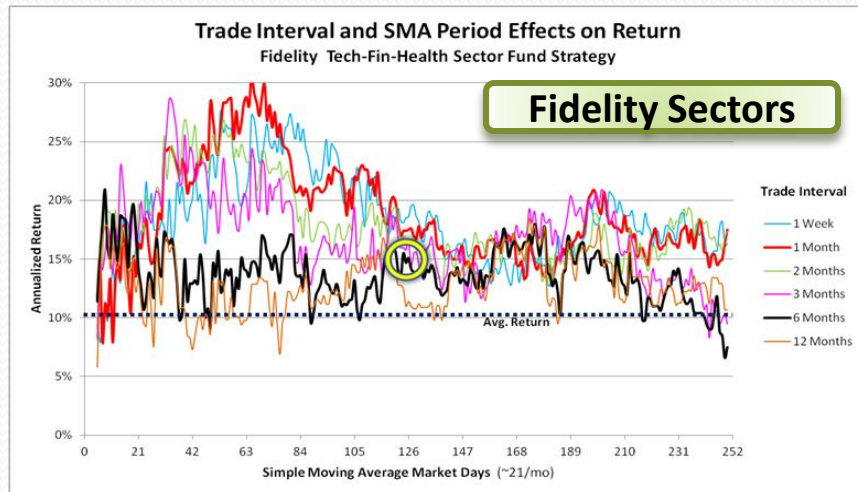


What Happens When We Turn the Knobs?



What Happens When We Turn the Knobs?

SMA: Simple Moving Average

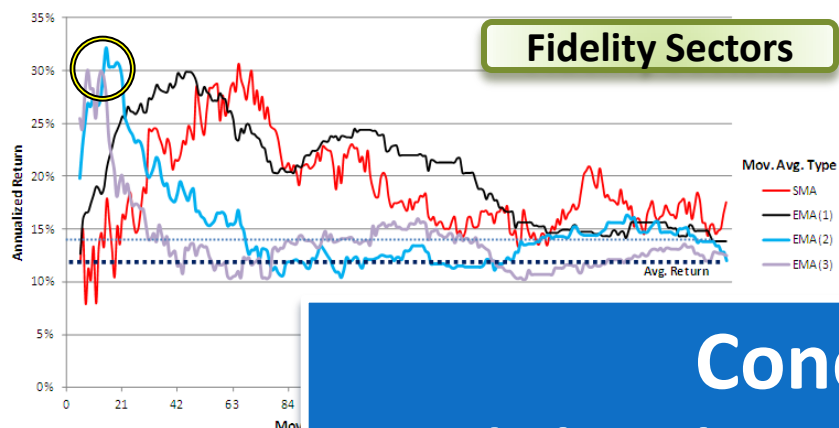


What Happens When We Turn the Knobs?

Month-End Trade for Various Moving Averages

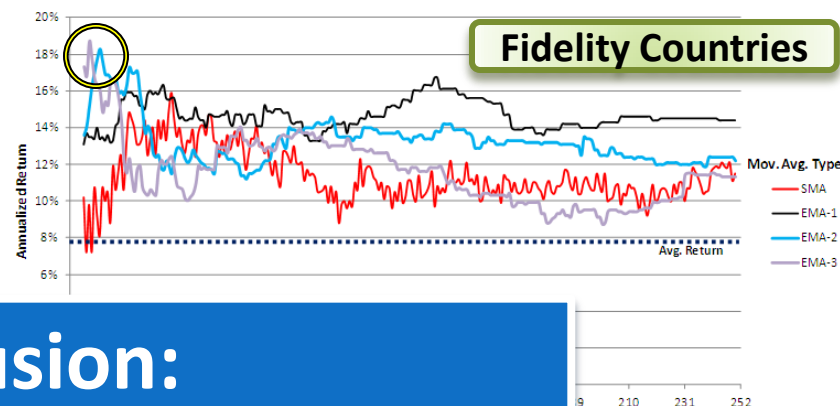
Moving Average Type and Average Period Effects on Return
Fidelity Tech-Fin-Health Sector Fund Strategy, Month-End Trade

Fidelity Sectors



Moving Average Type and Average Period Effects on Return
Fidelity International-2 Funds Strategy, Month-End Trade

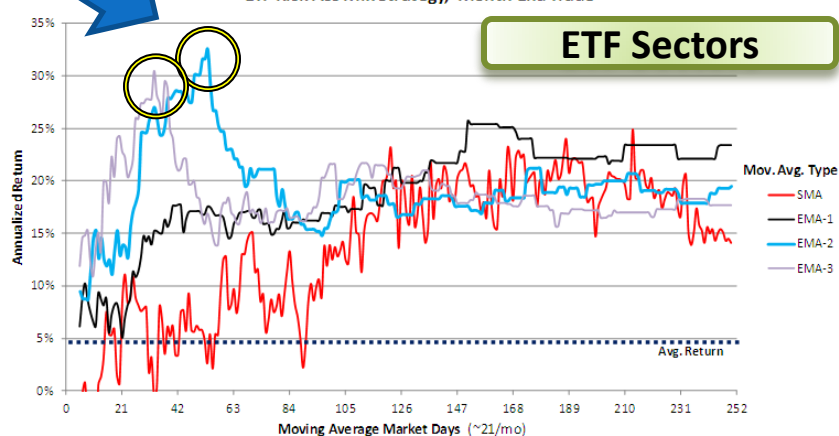
Fidelity Countries



Conclusion:
Trend Algorithm and Time Period Matter!

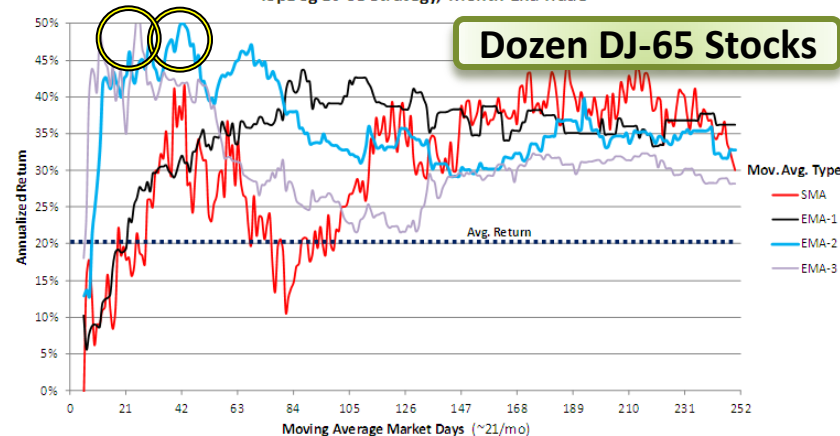
Moving Average Type and Average Period Effects on Return
ETF Kick Ass Mix Strategy, Month-End Trade

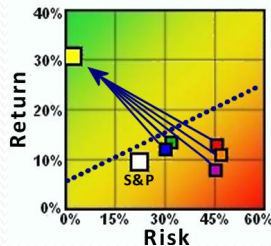
ETF Sectors



Moving Average Type and Average Period Effects on Return
TopDog DJ-65 Strategy, Month-End Trade

Dozen DJ-65 Stocks





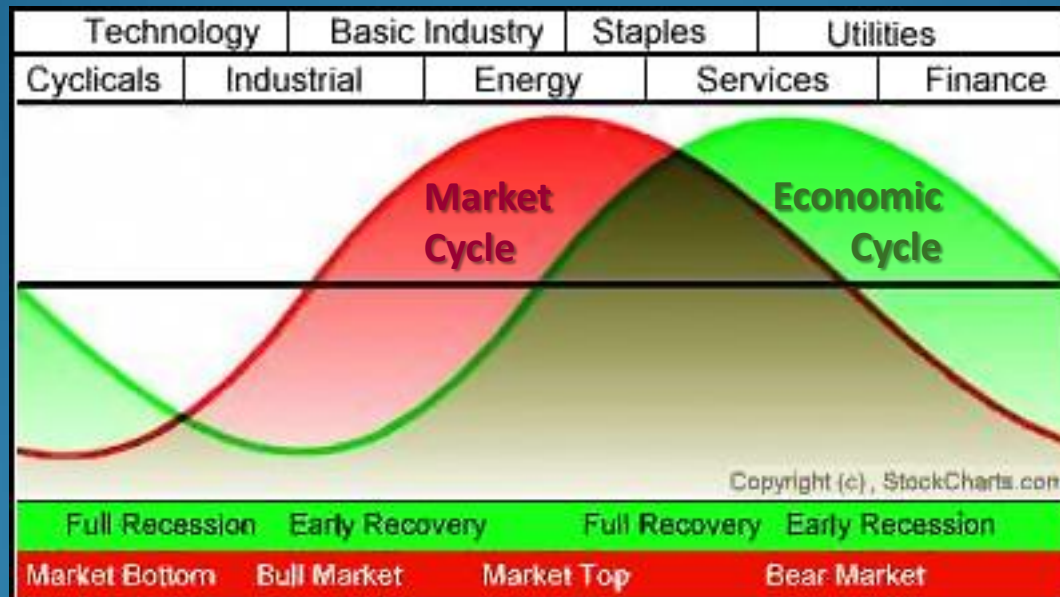
Diversification Heresy

Let's Break Through the Efficient Frontier

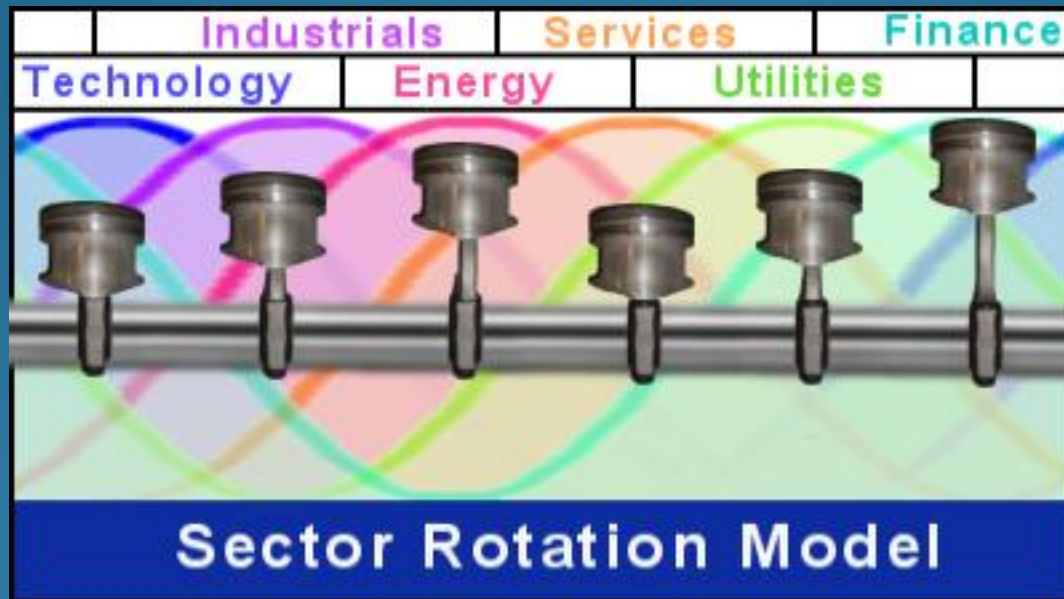
--- Presentation Topics ---

1. How I Got Hooked on Trends.
2. Trends are Real (Markets are Not Efficient)
3. **Serial Diversification**
4. Sector Rotation – Asset Class Rotation
5. Trend Periods and Algorithms do Matter.
6. **How to Build Great Strategies and Portfolios.**
7. Backtesting & Optimization are Not Just Video Games.
8. **Post-Surfing Diversification**
9. Individual Stocks and Commodities

Building Great Strategies and Portfolios



Building Great Strategies and Portfolios



Smooth Powerful Ride:

- All Pistons Are Firing
- No Missing Power Strokes

Building Great Strategies and Portfolios

FUND NAME	SYMBOL
Fidelity Sel Medical Delivery/505	FSHCX
Fidelity Sel Energy Service/43	FSESX
Fidelity Sel Electronics/8	FSELX
Fidelity Sel Multimedia/503	FBMPX
Fidelity Sel Consumer Finance	FSVLX

Serial Diversification
True Sector Rotation – Own One at a Time

Strategy: Fidelity KickAss Sectors

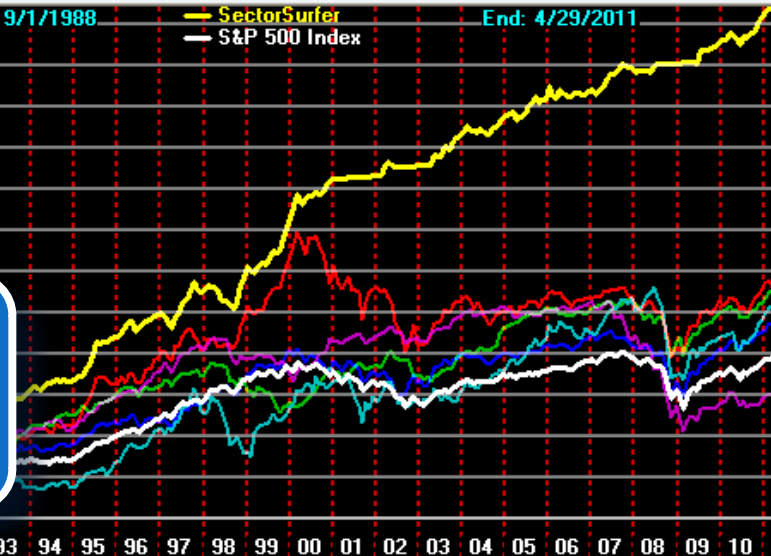
SG: 2.7%

Class: Focused US Sectors - Data: Investors FastTrack www.fasttrack.net

Start: 9/1/1988

SectorSurfer
S&P 500 Index

End: 4/29/2011



Last Trade: 29-Apr-2011 Trade Hold: Automatic

RISK: Sep-1988 to May-2011

SHARPE RATIO: Excess return above a money market, divided by fund volatility.

S.Surfer 1.05

S&P 500 0.37

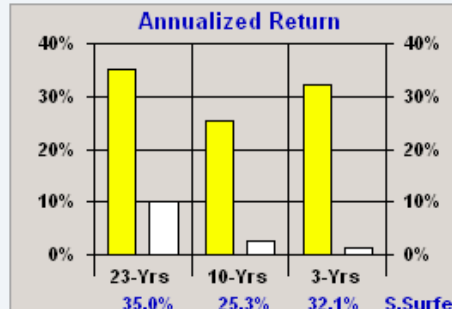
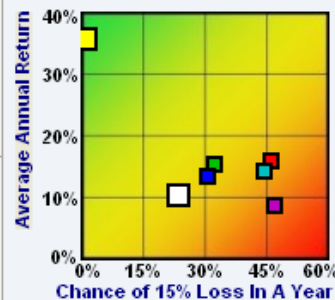
Worse << --- >> Better

10-Yr MAX DRAWDOWN: The maximum loss from the prior high during the period.

S.Surfer 18%

S&P 500 55%

Better << --- >> Worse



V:3.14,160 ID:1.19 L1 11 19 3
0 0 M2 4 100 50 -0.6 0.0 200

Email Chart

3-Year Chart

10-Year Chart

23 Years (max)

Close Chart

S.Surfer
S&P 500

Score: 116

Alpha: 30%

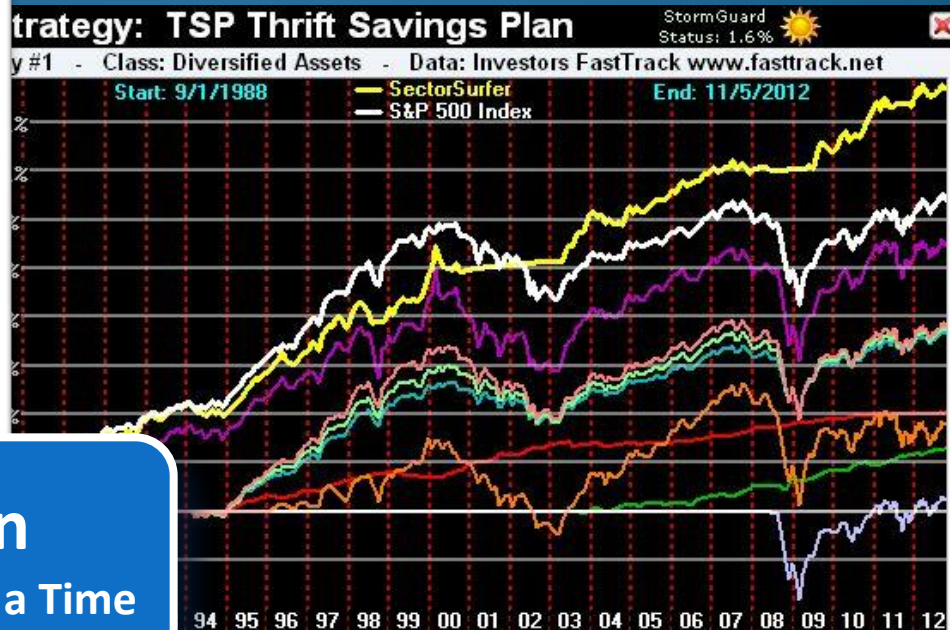
Beta: 0.64

Charts are theoretical Strategy performance had trades been executed per trade signals provided. Copyright 2011 SumGrowth Strategies, LLC. SectorSurfer is a registered trademark.

Building Great Strategies and Portfolios

TSP C-Fund, Common Stock Index	TSP-C
TSP I-Fund, International Stock Index	TSP-I
TSP L-Fund, Lifepath 2050 asset allo	TSP50
TSP L-Fund, Lifepath 2040 asset allo	TSP40
TSP L-Fund, Lifepath 2030 asset allo	TSP30
TSP L-Fund, Lifepath 2020 asset allo	TSP20
TSP S-Fund, Small Cap, DJ Completio	TSP-S
TSP F-Fund, Fixed Income Index	TSP-F
TSP G-Fund, Government Securities	TSP-G

Serial Diversification Asset Class Rotation – Own One at a Time



SHARPE RATIO: Excess return above a money market, divided by fund volatility.

S.Surfer 0.87

S&P 500 0.37

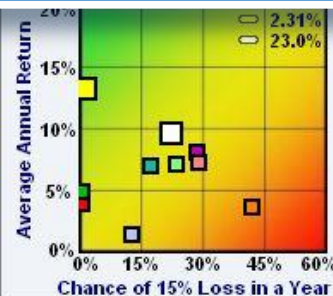
Worse << --- >> Better

10-Yr MAX DRAWDOWN: The maximum loss from the prior high during the period.

S.Surfer 11%

S&P 500 55%

R: Realized Better << --- >> Worse



S.Surfer
S&P 500

Score: 50.7
Safety: 21.9
Alpha: 8.8%
Beta: 0.46

Email Chart

3-Year Chart

10-Year Chart

24 Years (max)

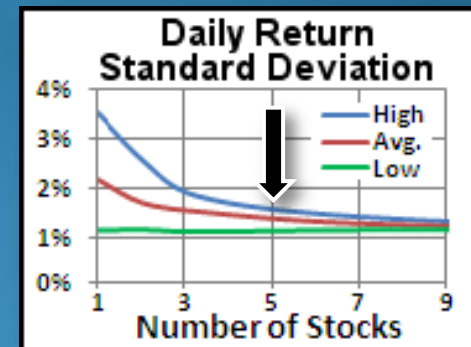
Close Chart

Charts are theoretical Strategy performance had trades been executed per trade signals provided. Copyright 2012 SumGrowth Strategies, LLC. SectorSurfer is a registered trademark.

Building Great Strategies and Portfolios

Prudent Investor Rule:

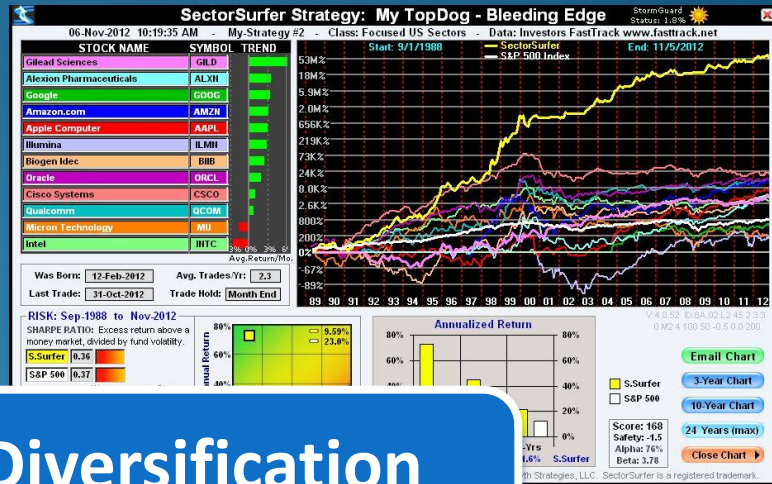
Put No More than 20% of Portfolio in any One Investment



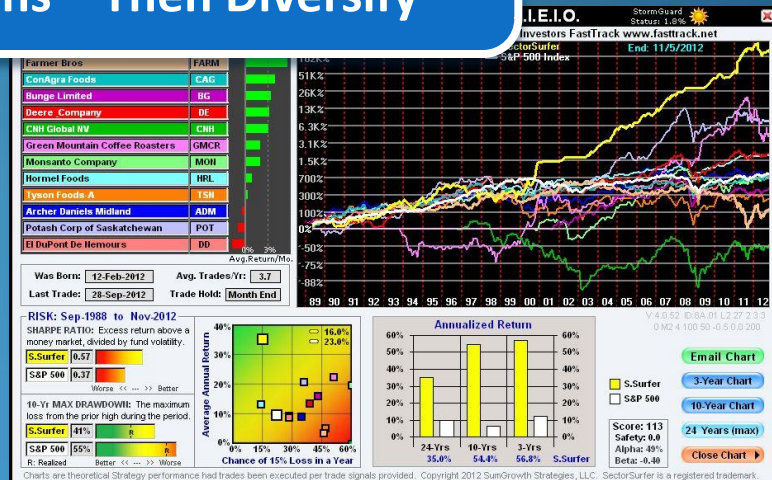
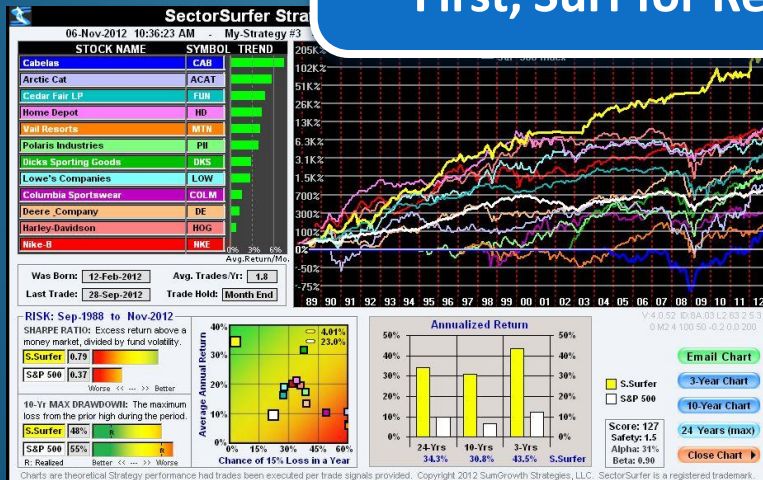
Risk Reduction Method:

- ETFs & Mutual Funds
 - Dilution via Broad Diversification.
- SectorSurfer w/Funds
 - 1) Dilution via Sector Diversification,
 - 2) Avoidance via Serial Diversification.
- SectorSurfer w/Stocks
 - 1) Avoidance via Serial Diversification,
 - 2) Dilution via Post-Surfing Diversification.

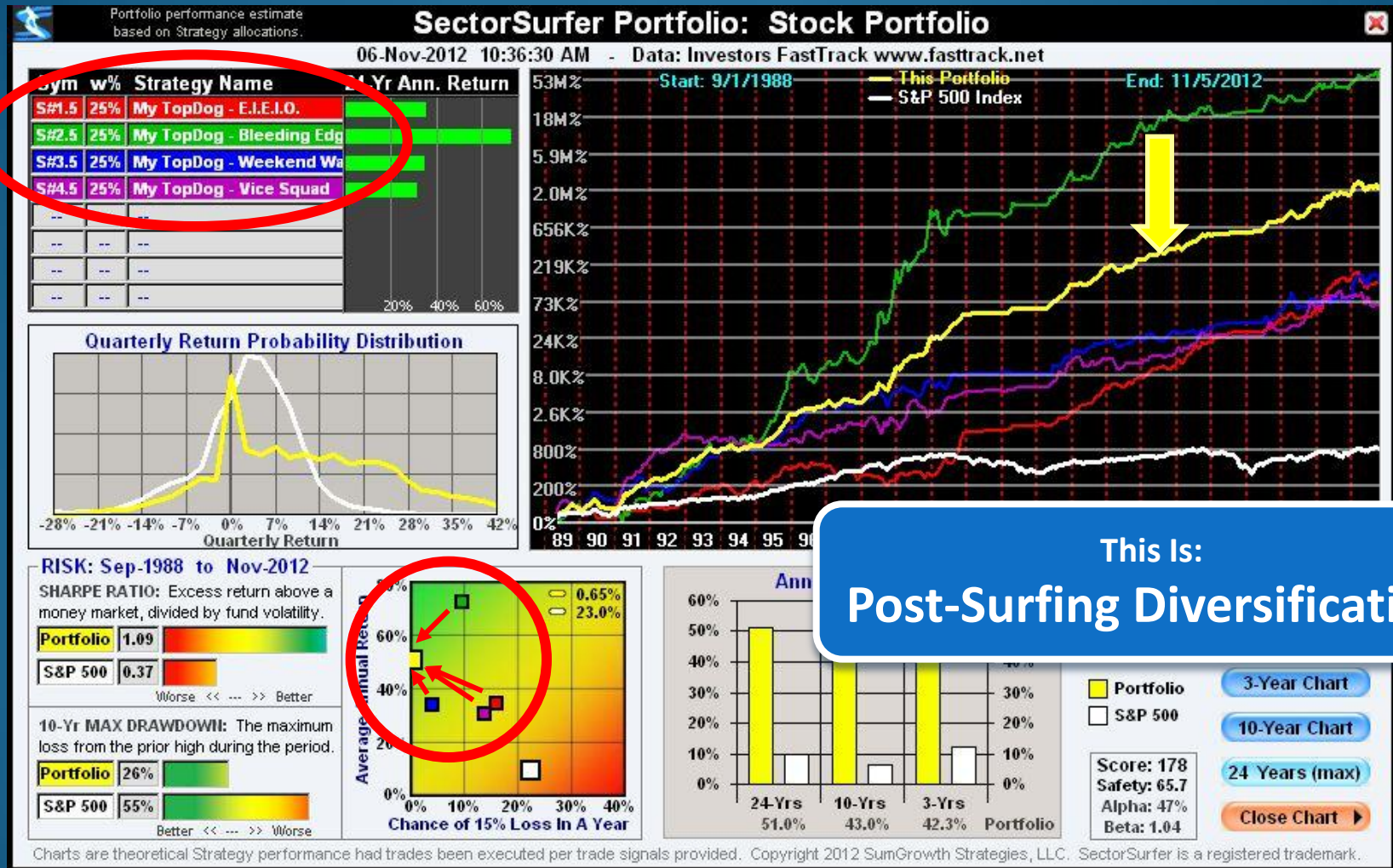
Post-Surfing Diversification



Post-Surfing Diversification First, Surf for Returns – Then Diversify

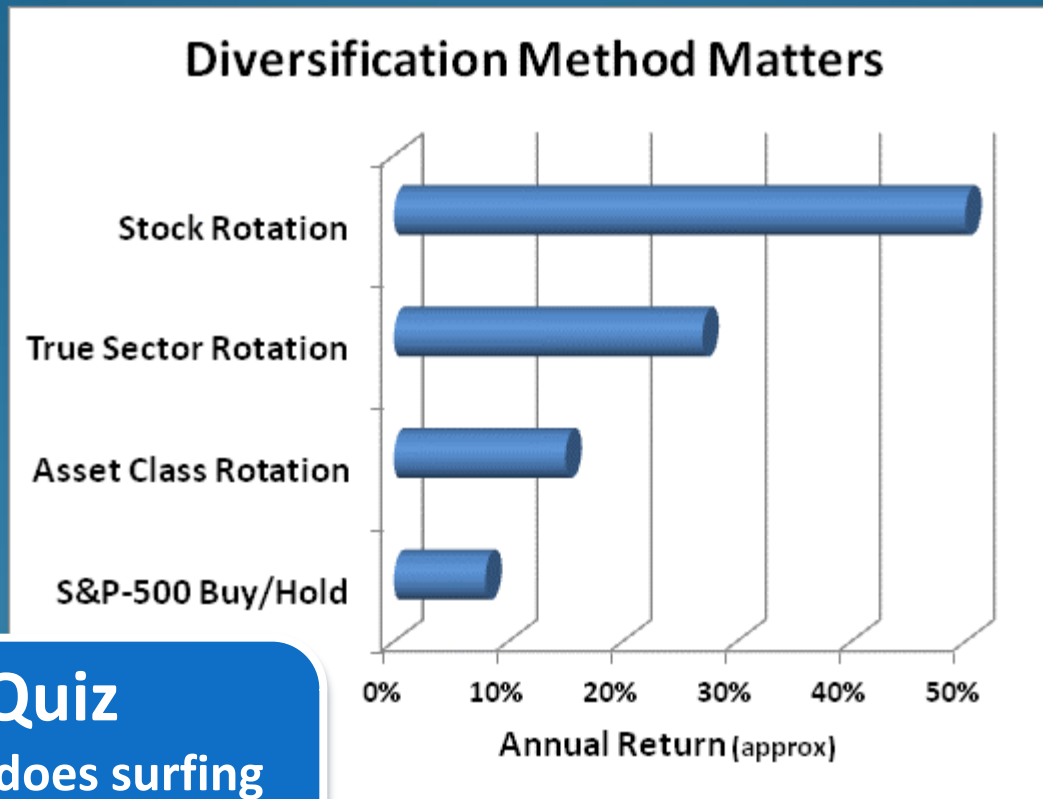


Post-Surfing Diversification



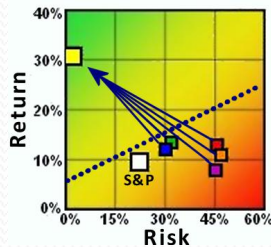
This Is:
Post-Surfing Diversification

Building Great Strategies and Portfolios



Pop Quiz

In what ways does surfing and diversification explain the chart's clear pattern?



Diversification Heresy

Let's Break Through the Efficient Frontier

--- Presentation Topics ---

1. How I Got Hooked on Trends.

2.

As Demonstrated by:

3.

- Split Sample Stationarity

4.

- Progressive-Tune Stationarity

5.

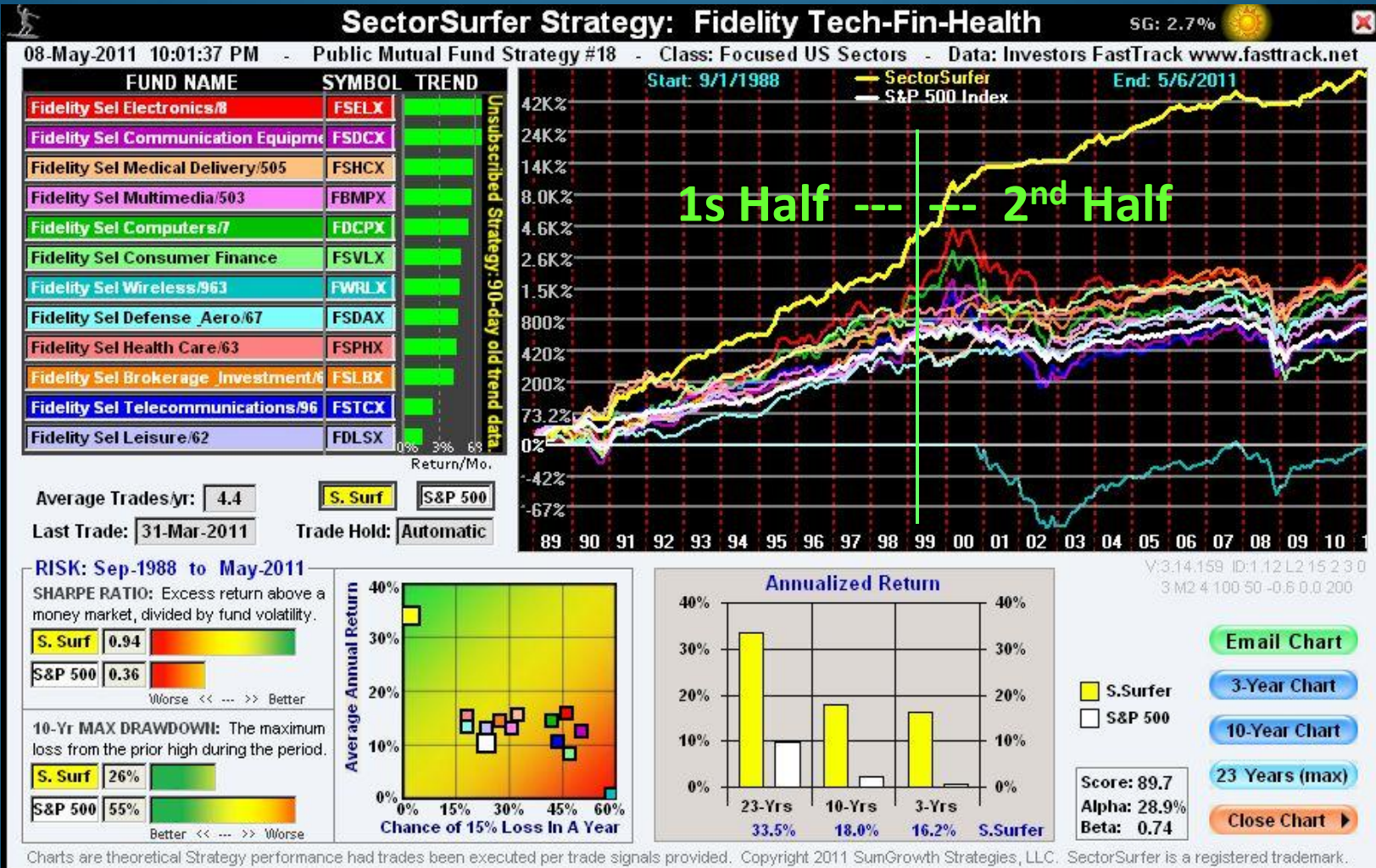
6. How to Build Great Strategies and Portfolios.

7. Backtesting & Optimization are Not Just Video Games.

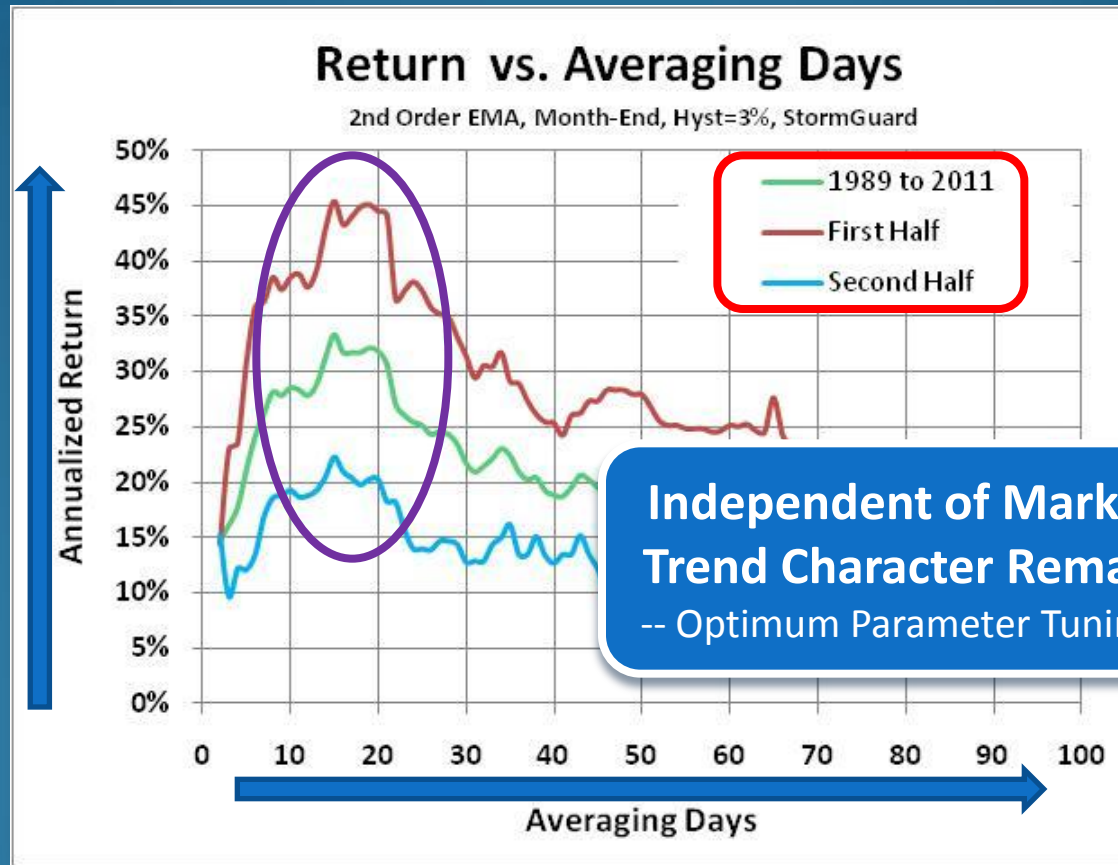
8. Stock Screening and Analysis do Still Play a Role.

9. You Can do this in your Spare Time, Without a Ph.D.

Split Sample Stationarity



Split Sample Stationarity

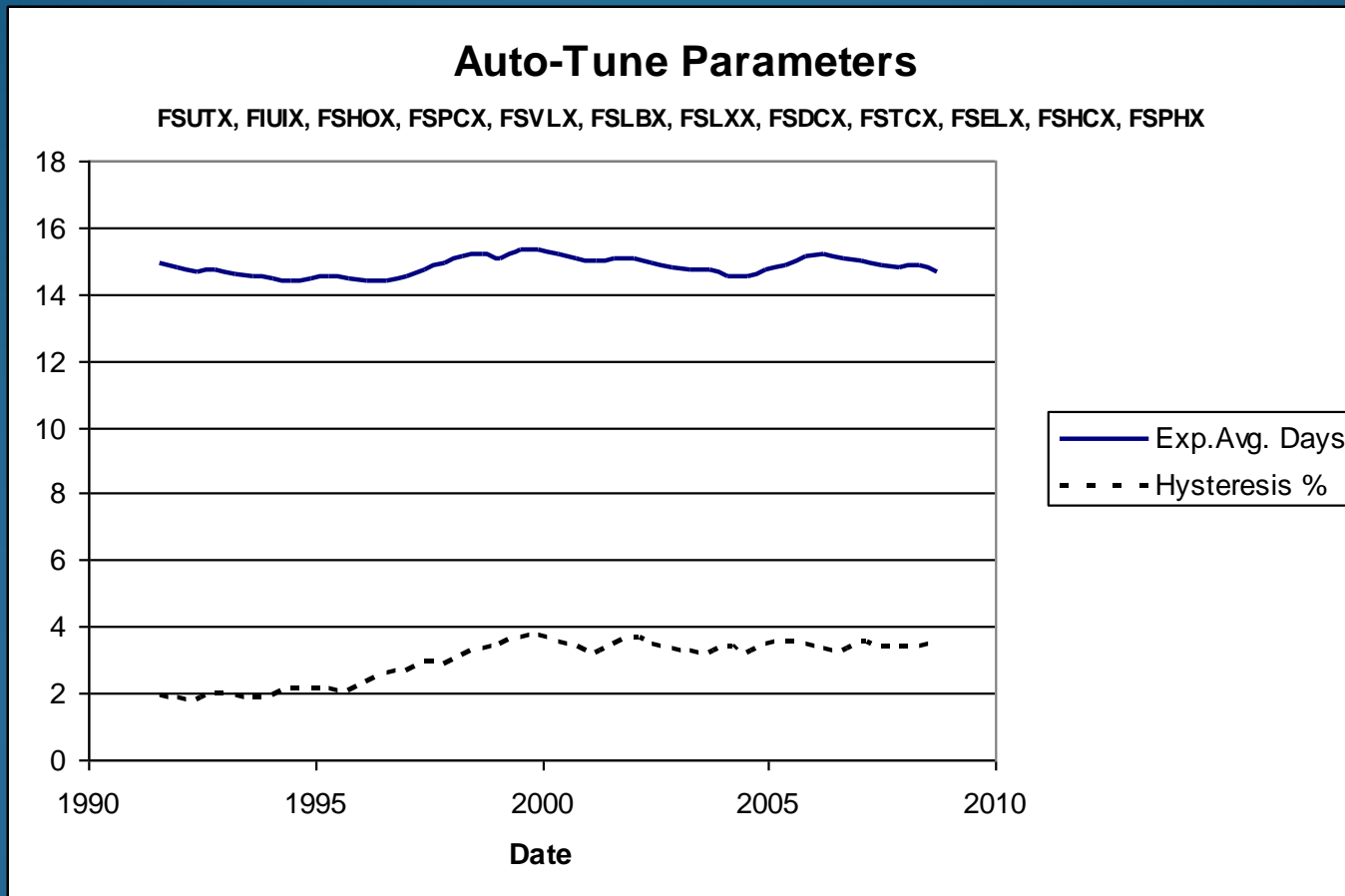


**Independent of Market Performance
Trend Character Remained the Same.**
-- Optimum Parameter Tuning Was Consistent --

Progressive Tune Stationarity



Progressive Tune Stationarity



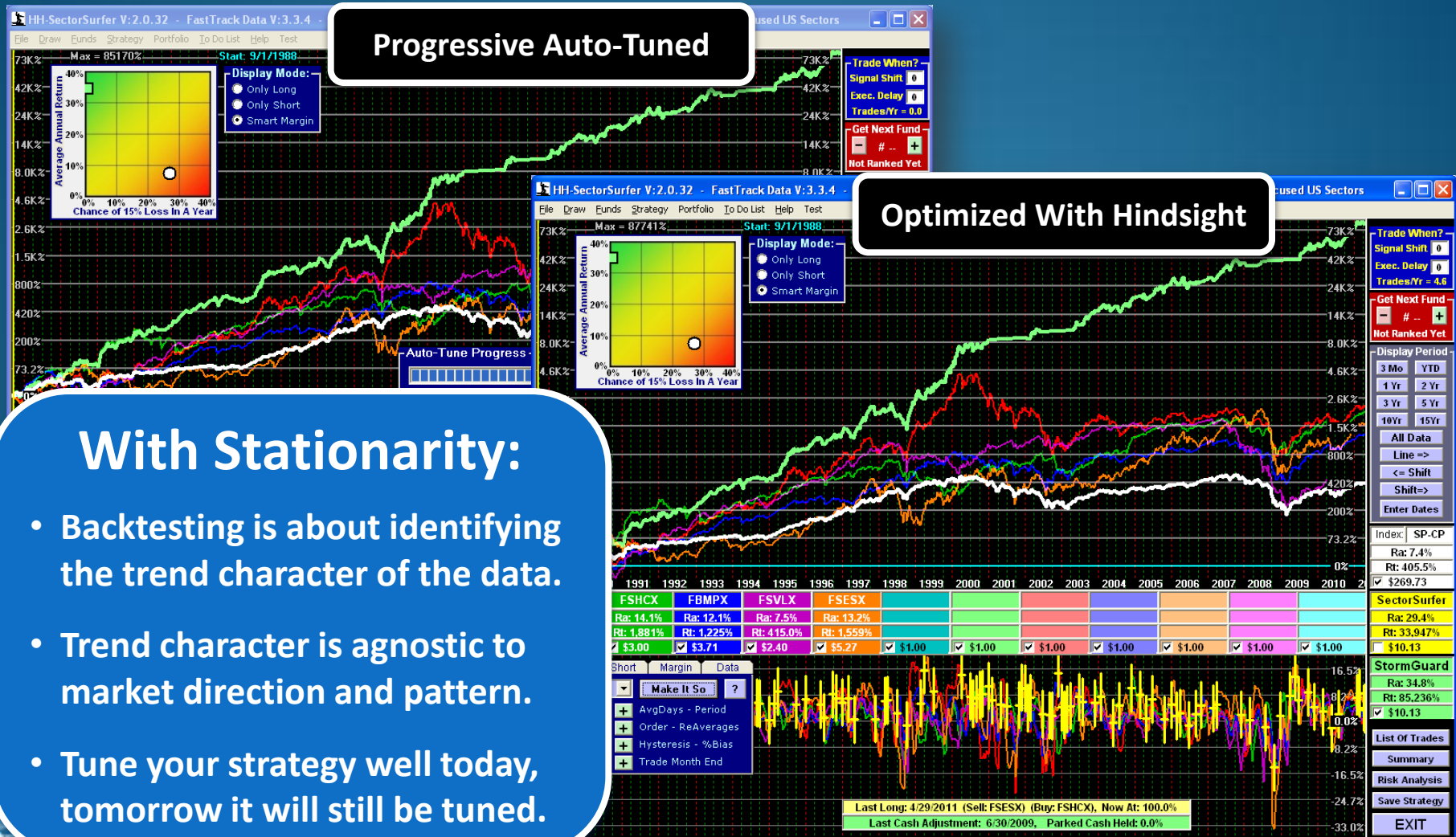
Progressive Tune Stationarity

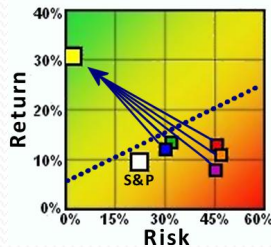
Progressive Auto-Tuned

Optimized With Hindsight

With Stationarity:

- Backtesting is about identifying the trend character of the data.
- Trend character is agnostic to market direction and pattern.
- Tune your strategy well today, tomorrow it will still be tuned.





Diversification Heresy

Let's Break Through the Efficient Frontier



It's a horse race!



8. Stock Screening and Analysis do Still Play a Role.

We Need a Set of Horses for the Strategy

Stock Screening – SectorSurfer Style

Select a Set of Qualified Stocks to Participate in a S.S. Strategy

Quality Stocks Screener

(See Parameter Definitions Below Table)

☒ > \$20M/day Volume

☒ > 1% Dividend Yield

Total Qualified Stocks Listed: 529

10/20/2012 9:04:55 PM

[Download CSV Spreadsheet File](#)

Symbol	Company Name	S.S. Rank	TrendQual	YrExcess	Volatility	1YrRange	Vol.\$M/d	DivYield	P/E Ratio
MMP	Magellan Midstream Par	81.4	100%	69%	0.92	80%	22.1	4.3%	23.8
MO	Altria Group	78.0	96%	66%	0.81	61%	334.1	5.4%	15.7
AAPL	Apple	77.2	110%	101%	1.44	72%	16071.9	1.7%	14.4
KMB	Kimberly-Clark	70.8	107%	49%	0.74	93%	177.8	3.4%	19.2
OKE	ONEOK	68.3	106%	79%	1.23	84%	37.8	2.8%	29.2
D	Dominion Resources (Vi	66.0	103%	54%	0.84	74%	118.0	3.9%	21.5
IACI	IAC InterActiveCorp.	65.1	109%	82%	1.38	83%	40.2	1.8%	25.2
FDO	Federal Realty								18.2
RAI	Realty Income								16.4
SHW	Shaw Group								30.2
PNW	Paramount Pictures								15.8
PII	Piedmont								21.7
HSY	Helix Energy Services								23.9
SO	Southwest Airlines								18.9
BCE	BCE Inc.								13.6
ED	Edwards & Kelcey								17.5
EPD	Energy Partners								19.8
NI	NiSource	56.5	100%	60%	1.06	85%	36.2	3.8%	23.2
VZ	Verizon Communications	55.8	88%	56%	0.89	73%	603.8	4.6%	42.0
CNP	CenterPoint Energy	55.5	101%	61%	1.10	91%	40.0	3.8%	6.8
EXR	Extra Space Storage	55.4	88%	103%	1.64	88%	25.6	2.4%	47.1
NVO	Novo Nordisk ADS	54.2	98%	79%	1.44	98%	94.2	1.5%	27.4
TWC	Time Warner Cable	54.1	103%	73%	1.40	98%	190.2	2.3%	18.0

Qualifications:

1. Trend Correlates Well to Future Returns
2. The Stock Has Shown Recent Signs of Life
3. Low Volatility to Swap Horses Mid-Stream

Stock Screening – SectorSurfer Style

Quality Stocks Screener

(See Parameter Definitions Below Table)

☒ > \$20M/day Volume

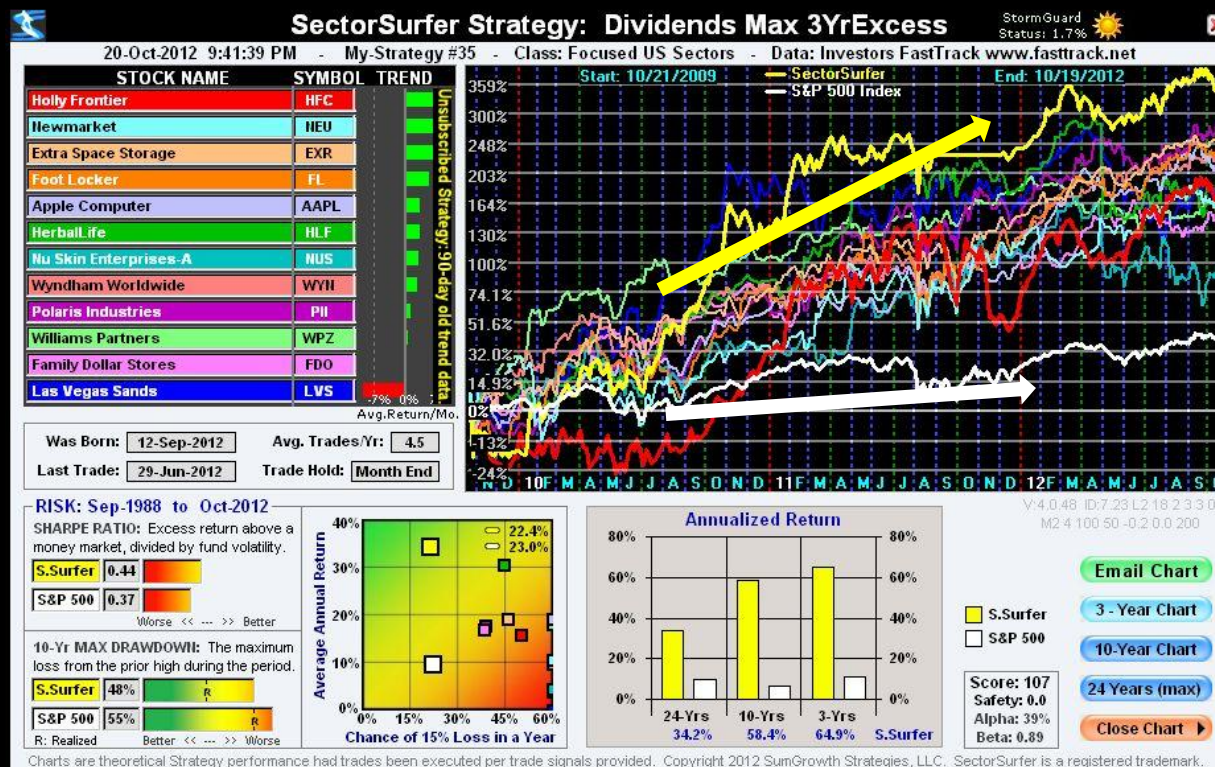
☒ > 1% Dividend Yield

Total Qualified Stocks Listed: 529

10/20/2012 9:04:55 PM

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Symbol	Company Name	S.S. Rank	TrendQual	3YrExcess	Volatility	1YrRange	Vol.\$M/d	DivYield	P/E Ratio
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Stock Screening – SectorSurfer Style

Quality Stocks Screener

(See Parameter Definitions Below Table)

☒ > \$20M/day Volume

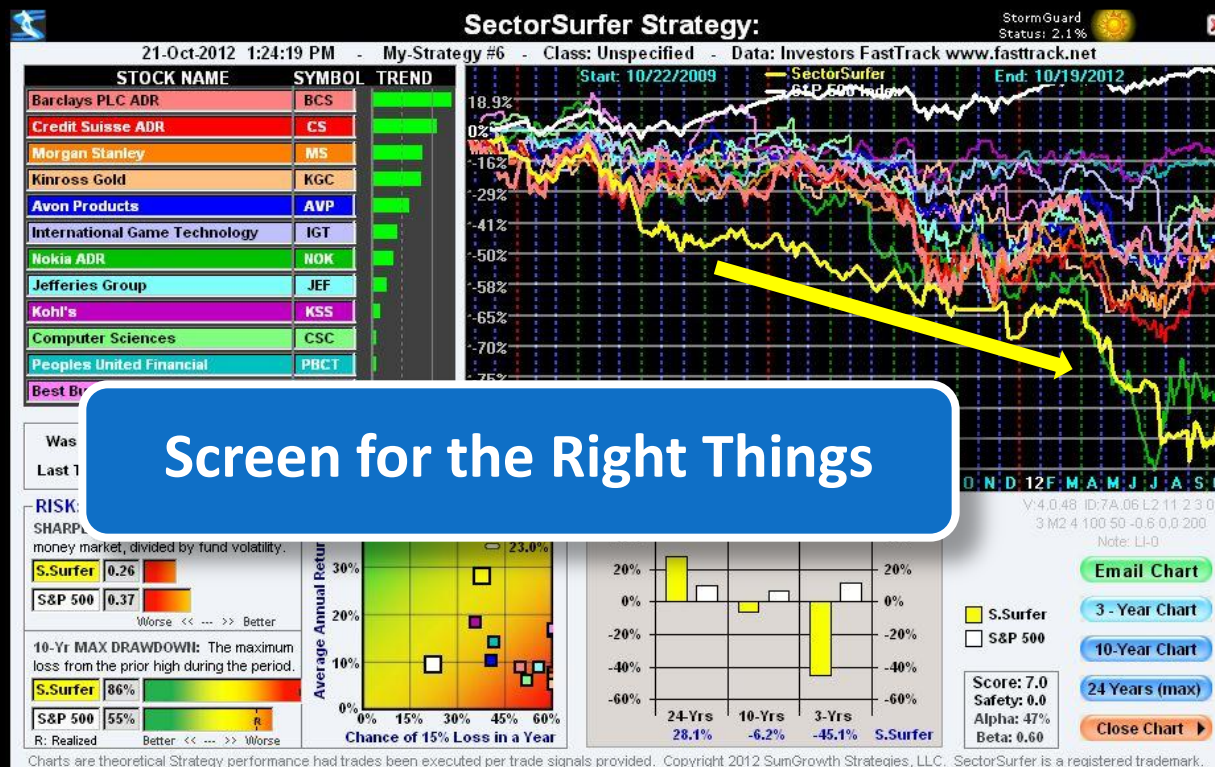
☒ > 1% Dividend Yield

Total Qualified Stocks Listed: 529

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[Download CSV Spreadsheet File](#)

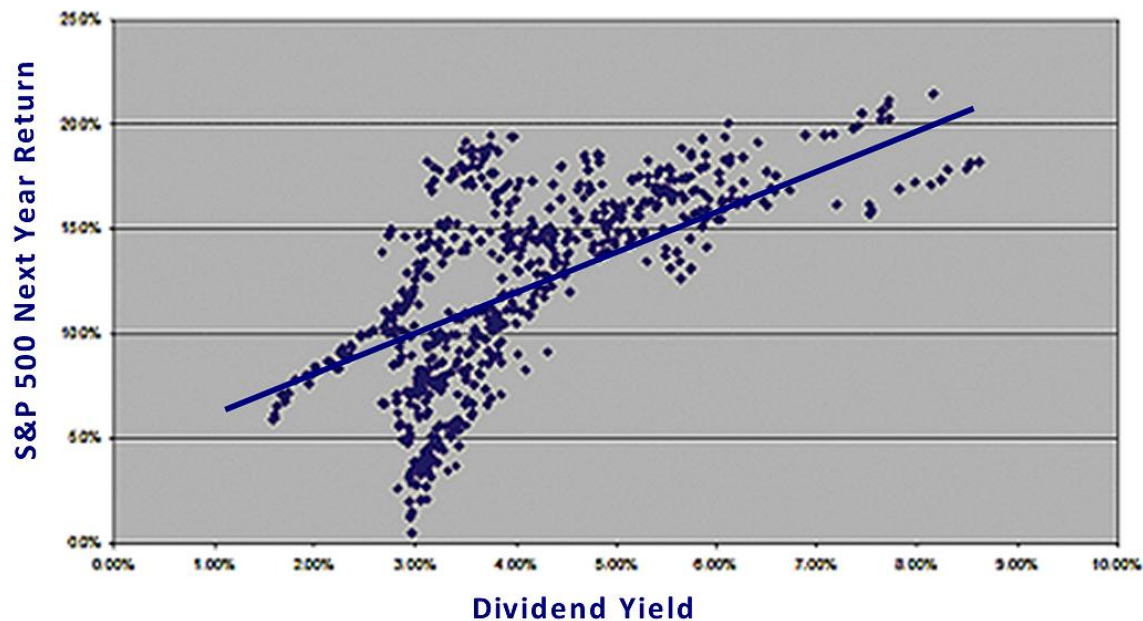
Symbol	Company Name	S.S. Rank	TrendQual	YrExcess	Volatility	1YrRange	Vol.\$M/d	DivYield	P/E Ratio
CS	Credit Suisse Group	-58.3	-959%	14%	2.28	45%	48.2	3.3%	16.6
NOK	Nokia ADS	-62.2	-771%	22%	2.77	19%	121.9	9.2%	0.0



Analysis Relevance

Dividends vs. Returns

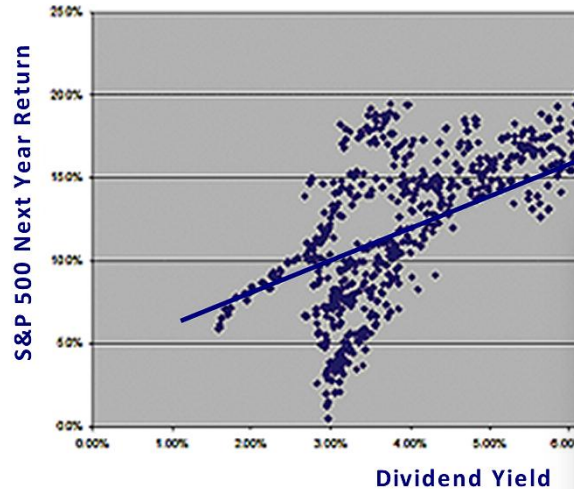
FIGURE 1: SCATTERPLOT: 10-year observation period



Analysis Relevance

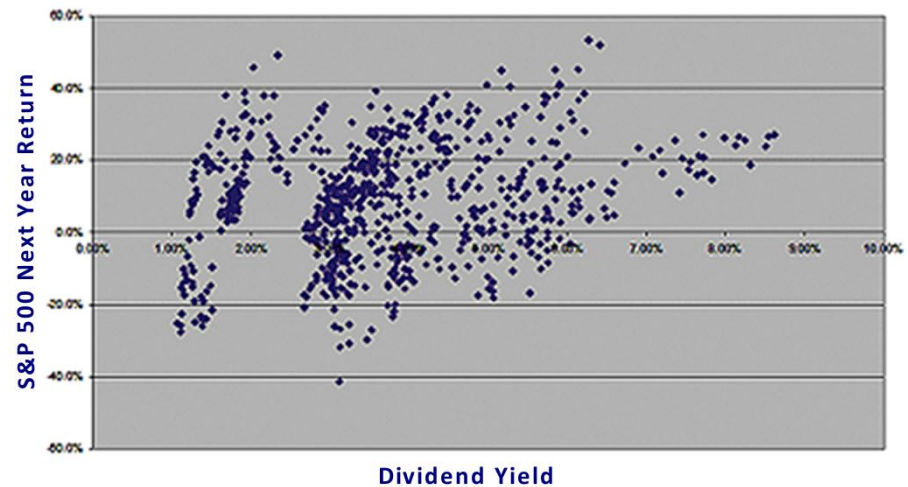
Dividends vs. Returns

FIGURE 1: SCATTERPLOT: 10-year observation period



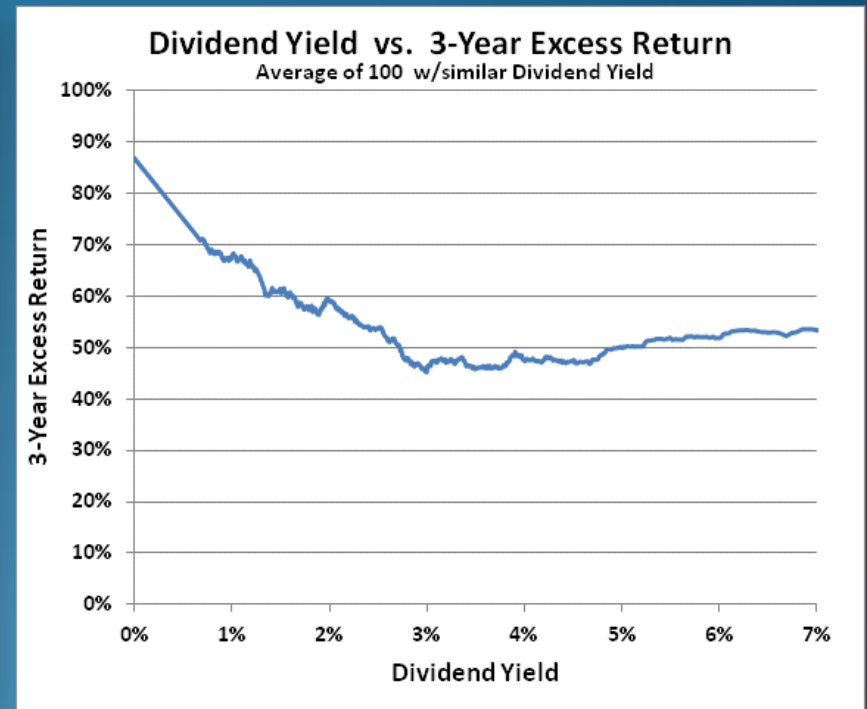
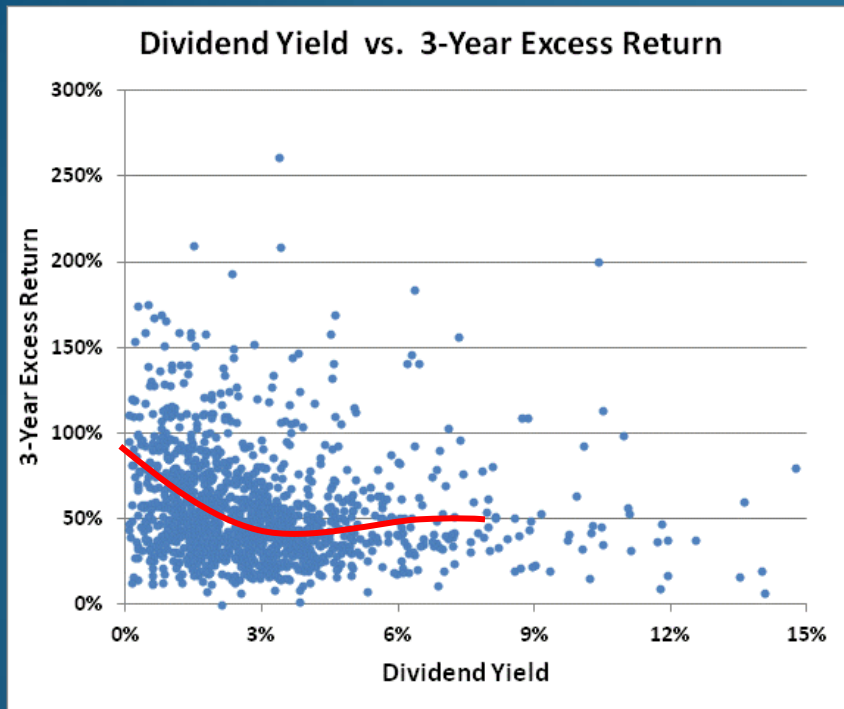
Is the 10-Year Chart Relevant?

FIGURE 2: SCATTERPLOT: 12-month return vs. dividend yield



Analysis Relevance

Dividends vs. Returns



Screen for the Right Things

Food for Thought:
If you seek higher returns,
are dividend stocks relevant?

Can I do this in My Spare Time, Without a Ph.D.?

The screenshot shows the SectorSurfer website. At the top, there's a navigation bar with links for 'Log In', 'Log Off', and 'Sign Up'. Below this is a secondary navigation bar with 'SectorSurfer Info', 'My Account', and 'About Us'. A search bar is also present. The main navigation bar includes 'Home', 'Example Strategies', 'Using SectorSurfer', 'Advanced Topics', 'Theory', 'Member Plans', 'Referral Program', and 'F.A.Q.'. The central banner features the 'SectorSurfer' logo with the tagline 'Investment Strategies To Ride Sector Waves'. Below the logo, a green banner states 'SectorSurfer uses ... True Sector Rotation Algorithms' with two bullet points: 'Know when trends start and end' and 'Own only the trend leader'. A 'Learn More' button is at the bottom right of the banner. At the bottom, there are five numbered icons representing different aspects of the service: 1. Returns, 2. Safety, 3. Simplicity, 4. Control, and 5. Examples.

SectorSurfer
Change the Game

Log In Log Off Sign Up

SectorSurfer Info My Account About Us

Home Example Strategies Using SectorSurfer Advanced Topics Theory Member Plans Referral Program F.A.Q.

SectorSurfer
Investment Strategies To Ride Sector Waves

SectorSurfer uses ...
True Sector Rotation Algorithms

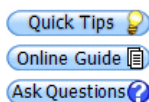
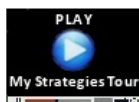
- Know when trends start and end
- Own only the trend leader

Learn More

1 Returns 2 Safety 3 Simplicity 4 Control 5 Examples

Welcome!

SectorSurfer levels the playing fields by putting the power of high performance investment algorithms in your hands. SectorSurfer's trend-following **True Sector Rotation Strategies** hold only the momentum leader during bull markets, and its **StormGuard™** algorithm moves you to the safety of cash during bear markets. Only by owning the top trend leader and avoiding the trend laggards can you simultaneously improve returns and reduce the probability of loss. SectorSurfer helps you manage self-directed 401(k) investments and IRA investments without becoming a day-trader. Just a few trades per year. Email Trade Alerts are sent when trades are signaled.



My Strategies

demo 11/6/2012 14:33:40 PM

 New Stock
Screener

 Demo Account
No Expiration Date
Referral Credits: \$3.00 **

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 Strategy.

No.	Strategy Information	Fund or Stock Ticker Symbols	Trade Information	Broker Link	Del
1	Name: TopDog - Bleeding Edge Notes: <input type="text"/>	AAPL GOOG AMZN ORCL MU QCOM INTC CSCO ILMN BIIB GILD ALXN	SELL: ALXN Date: 10/31/2012 BUY: GILD Done:11/1/2012	Fidelity Investments	
2	Name: ETF Diversified Morningstar Notes: <input type="text"/>	JKD JKE JKF JKG JKH JKI JKJ JKK JKL IDU IEF AGG	SELL: CMCSA Date: 11/6/2012 BUY: JKI Acknowledge Trade	E*Trade	
3	Name: <input type="text"/> Notes: <input type="text"/>	_____ _____			

Note: More Active Strategy rows will be created as others are filled - with a maximum of 10 Active Strategies.

Get Chart for Symbol:
 Special Symbols: S&P500 = ^GSPC, DJ30 = ^DJ30

SectorSurfer Summits Mt. Rainier
 Click for Pix



Jim G. Scott J.



Click for more info. on how StormGuard applies.

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 trade.

No.	Active	Strategy Name and Info	Fund1	Fund2	Fund3	Fund4	Fund5	Fund6	Fund7	Fund8	Fund9	Fund10	Fund11	Fund12	Del
11		My Fidelity Enrg-Mat-Trans	FSESX	FSENX	FSNGX	FSCHX	FSDPX	FSAGX	FINPX	FSRFX	FSAVX	FSAIX	FSUTX	FSDAX	
12		<input type="text"/>	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	

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

SectorSurfer Member Plans

Totally **FREE** and Premium Membership Plans

Member Plan Overview:

Totally **FREE** Plan

Type of Strategy	# of Strategies	Subscription Fee
Totally FREE Strategies	1 to 10	FREE
Premium Strategies	x	x

Introductory Offer Plan

Type of Strategy	# of Strategies	Subscription Fee
Totally FREE Strategies	1 to 10	FREE
Active Premium Strategies	1 to 10	\$30 for 4 months

Monthly Subscription Plan

Type of Strategy	# of Strategies	Subscription Fee
Totally FREE Strategies	1 to 10	FREE
Active Premium Strategies	1	\$10 /mo.
The monthly fee is \$20-fixed for the first month and thereafter based on the average number of Active Premium Strategies used during the prior month. For example, if you used two Premium Strategies for the first half of the month and three for the second half of the month, then your next month's subscription fee would be: $(\$15 \times .5) + (\$20 \times .5) = \$17.50$.	2	\$15 /mo.
	3	\$20 /mo.
	4	\$25 /mo.
	5 to 10	\$30 /mo.

Start Here: Your 401k Strategy

Company 401(k) Strategies

Symbol	Company Name
AMZN	Amazon
AMSC	American Superconductor
AAPL	Apple
BA	The Boeing Company
CI	CIGNA
CSCO	Cisco Systems
DLN	Del Monte
EAD.PA	EADS N.A.
ETN	Eaton Corp
EMN	Eastman Chemical
FDX	FedEx
GOOG	Google
HPQ	Hewlett-Packard
HD	Home Depot
IBM	IBM

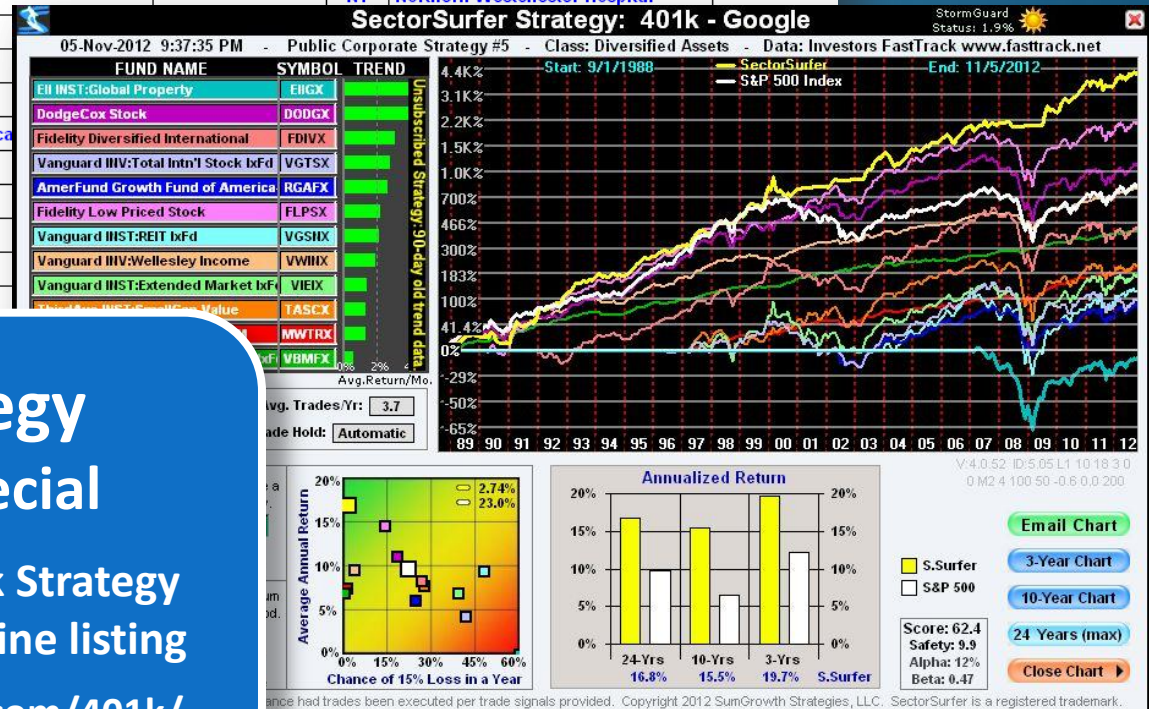
Federal TSP Thrift Savings Plan

Federal & Military Thrift Savings Plan

Hospital Savings Plan Strategies

State	Hospital Name
MA	UMass Memorial Medical Center
NY	Northern Westchester Hospital

SectorSurfer Strategy: 401k - Google



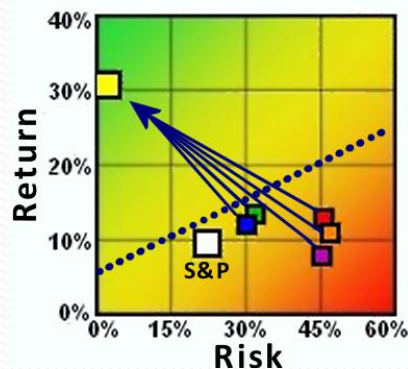
FREE 401k Strategy AAII Conference Special

1. Select or create your 401k Strategy
2. Email support info for online listing

Start Here: <http://SumGrowth.com/401k/>



Sector Surfer
Investment Strategies to Ride Sector Waves



Break Through the Efficient Frontier

Our Servers Will do the Hard Work ...

... While You go Have a Life.