

Perspective: A Fisherman's High-Return Low-Risk Portfolio

Jun 03, 2015

Dear Scott,

What's Up With the Market?

Although the market's advance has measurably slowed relative to its robust rebound following the depths of the 2008-2009 market crash, it continues to move slowly higher, seemingly impervious to any bad news thrown in its face.

The emerging US energy boom apparently has neutralized fears that Middle East warfare could restrict oil flow in a manner that would disrupt our economy. Likewise, the measures taken by the EU to improve capitalization of their financial institutions in the past few years apparently has neutralize any fear that an outright collapse of Greek debt could take down any meaningful fraction of the banks that had formerly excessively leveraged it. I continue to believe the market will maintain its upward bias without a meaningful correction until something new unexpectedly breaks and threatens the economy.

What's up? Healthcare and technology continue to show relative strength in the market. The chart (right) for pharmaceuticals reveals that it is clearly up ... hmmm, or is it actually down? That depends on the fund manager's equity mix and the time period measured. Be careful when substituting a fund from one company for a similar named fund from another — they are not always clones.

Fisherman's Dream: A High-Return Low-Risk Portfolio.

My neighbor, Ralph, spent decades as a professional fisherman in Alaska weathering the high seas "chasing fish" while contemplating the market storms battering his stocks. These days, he's retired, and his Fisherman's Dream Portfolio serves as an excellent instructional example for how to build a high-return low-drawdown portfolio. Its superb risk/return performance should raise an eyebrow ... but, its only math, not magic. Check it out - click chart on right.

- Annual Return = 55%
- Sharpe Ratio = 1.52
- Sortino Ratio = 15.5
- QR.MaxDrawdown = 8.5%
- Ave. Trades/Yr = 11.5

While one could simply copy the Fisherman's Dream Portfolio, what's more important is to understand and implement the concepts it exemplifies. To achieve such performance requires that one separately address each of the pertinent measures of risk and return. For example, to build a high performance house requires more than a hammer, a box of nails, and a pile of boards. Multiple types of tools, fasteners, and materials are required, each having a specific job. The risk of a leaky roof and a leaky basement are optimally handled in very

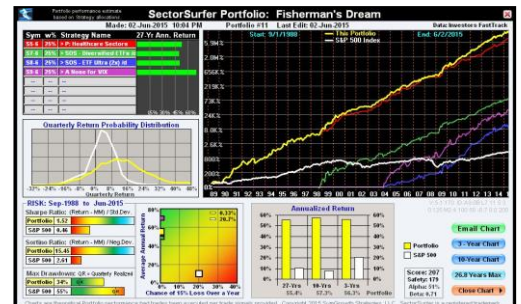


1-Year



6-Months

Portfolio - Fisherman's Dream



different ways. Likewise, investment risk includes; short-term, long-term, company, sector, regional, and global economic factors – and they are not all optimally handled by a single tool. This is why it is critical to both understand and utilize the three layered approach of [Tactical Diversification](#).

Tactical Diversification is the sequential application of three distinct types of diversification, all of which are practiced in this Portfolio. **1.) Funds: Equity diversification:** owning multiple stocks or bonds to reduce risks associated with individual equities. **2.) Strategy: Serial diversification:** owning multiple funds over time, but only owning the one designated as trend leader at any time. **3.) Portfolio: Asset class diversification:** owning multiple funds, each selected by a Strategy of differing asset class.

Construction of the Fisherman's Dream Portfolio's is detailed in the Portfolio Layout shown above-right. (See this information for [How to Construct a Portfolio](#).) At the Portfolio's top level, line 11 specifies that it consists of four equally weighted Strategies: #5, #7, #8 and #9, thus implementing the third portion of Tactical Diversification.

Underlying Strategy #5: Healthcare Sectors is actually another Portfolio-of-Strategies, and is documented and described in detail in our [March 2015 Perspective Newsletter](#). The Healthcare Sectors Portfolio together with its four underlying stock Strategies implements the first two portions of Tactical Diversification; (a) individual equity diversification through owning multiple stocks – one selected by each of the four Strategies, and (b) serial diversification through owning only the one trend leader within each Strategy. Please review the documentation in the prior Newsletter to understand the significance of its design.

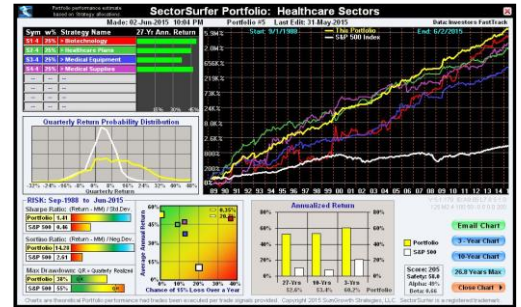
Underlying Strategy #7: SOS - Diversified ETFs is a Master Strategy-of-Strategies (SOS) and can be imported by clicking the **S** icon and selecting it from the list. This SOS implements the first two portions of Tactical Diversification; (a) individual equity diversification through owning funds, and (b) serial diversification through owning only the one trend leader within each Strategy. Each of its four underlying Strategies is configured with a set of 12 ETFs, each representing a different slice of the market; sector, country, or other asset class. Only the best trending ETF of the best trending Strategy is owned. Strategy construction and performance details of the underlying Strategies, including their Strategy-IDs, can be found through the above link.

Underlying Strategy #8: SOS - ETF Ultra (2x) is a Master Strategy-of-Strategies (SOS) and can be imported by clicking the **S** icon and selecting it from the list. This SOS also implements the first two portions of Tactical Diversification; (a) individual equity diversification through owning funds, and (b) serial diversification through owning only the one trend leader within each Strategy. Each of its five underlying Strategies is configured with a set of 12 leveraged (2x) ETFs, each representing a different slice of the market; sector, country, or other asset class. Only the best trending ETF of the best trending Strategy is owned. Strategy construction and performance details of the underlying Strategies, including their Strategy-IDs, can

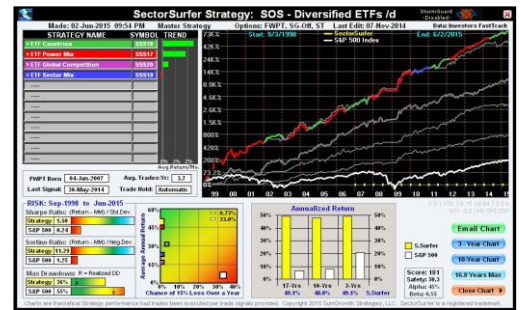
Portfolio Layout

No.	Strategy Information	Fund or Stock Ticker Symbols	Trade Information	Broker Link
1	Name: Diversifying Score: 202 Safety: 0 MDD: 51%	AMZ AMZN CLOG FBR FBIN ALXN	BSL Buy Date: 6/2/2015	ETrade
2	Name: BiotechPure Score: 152 Safety: 0 MDD: 58%	CVX BMY BMR MDVZ HZD BI	BSL Buy Date: 6/2/2015	ETrade
3	Name: BiotechAppor Score: 119 Safety: 0 MDD: 51%	BIIB ABBV EBI HAE TSO SPY	BSL Buy Date: 6/2/2015	ETrade
4	Name: BiotechApplcs Score: 147 Safety: 0 MDD: 57%	BAX BCR BCR BIR BQV WTD	BSL Buy Date: 6/2/2015	ETrade
5	Name: P-Healthcare Sectors Score: 206 Safety: 58 MDD: 38%	HEA HCA HCA HCA HCA	BSL Buy Date: 6/2/2015	ETrade
6	Name:		BSL Buy Date: 6/2/2015	ETrade
7	Name: S&P 500-Healthcare Score: 181 Safety: 0 MDD: 56%	M-0387 M-0388 M-0389 M-0390	BSL Buy Date: 6/2/2015	ETrade
8	Name: S&P 500-Healthcare Score: 181 Safety: 0 MDD: 56%	M-0387 M-0388 M-0389 M-0390	BSL Buy Date: 6/2/2015	ETrade
9	Name: S&P 500-Healthcare Score: 247 Safety: 15 MDD: 43%	SPY SPY SPY SPY SPY	BSL Buy Date: 6/2/2015	ETrade
10	Name:		BSL Buy Date: 6/2/2015	ETrade
11	Name: P-Fisherman's Dream Score: 208 Safety: 379 MDD: 34%	HEA HCA HCA HCA HCA	BSL Buy Date: 6/2/2015	ETrade
12	Name:		BSL Buy Date: 6/2/2015	ETrade

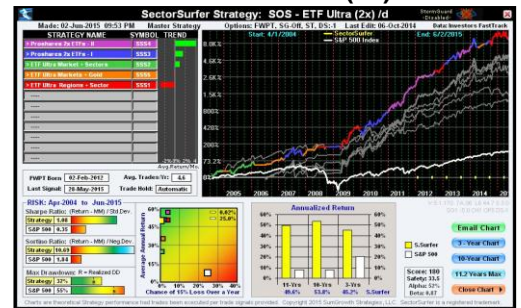
Sub-Portfolio - Healthcare Sectors



SOS - Diversified ETFs



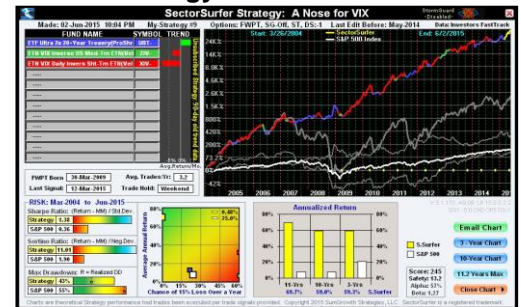
SOS - ETF Ultra (2x)



be found through the above link.

Underlying Strategy #9: A Nose for VIX is an advanced concept Strategy that pits the long-term treasury ETF against two VIX futures contract ETFs (which seek to replicate the inverse of the daily performance of the S&P 500 VIX short-term and medium-term indices that reflect implied volatility of the S&P 500.) While this Strategy certainly implements the second portion of Tactical Diversification (serial diversification), it is difficult to say to what degree it implements the first portion (equity diversification) as there are no underlying equities. However, a range of dates is covered by the futures contracts and a large number of individuals do participate in those contracts. In

Strategy - A Nose for VIX



any case, this high performance Strategy provides an excellent source of uncorrelated return that helps produce a more uniform return that reduces Portfolio risk. If you are unfamiliar with these volatility-based ETFs, I suggest [this Wikipedia article](#) as a good starting point for a better understanding.

In summary, constructing a masterpiece requires using more than one kind of tool. It is Tactical Diversification's layered approach to addressing distinct aspects of risk and return with different tools that leads to the performance achieved in the Fisherman's Dream Portfolio.

Speaking Engagement Calendar

Please come and see one of these seminar presentations if you are in the neighborhood. Alternatively, ask your AAI Chapter or Investment Group leader to schedule a presentation. Webex presentations for smaller investment clubs and groups are also possible.

Seminar Title: True Sector Rotation: Breaking Through the Efficient Frontier.

This is a fast paced detailed seminar that will cover SectorSurfer basics, Forward Walk Progressive Tuning, Strategy-of-Strategies, and how to make Low Drawdown Portfolios.

- Seattle, WA: AAI Eastside Discussion Group - Tuesday, June 9, 7:00 PM
- Santa Rosa, CA: North Bay Investors Forum - Saturday, Sep 12, 10:00 AM
- San Jose, CA: SectorSurfer Users Group - Wed, Sep 16, 6:00 PM
- Detroit, MI: AAI CI SIG - Saturday Sep 26, 10:30 AM
- Madison, WI: AAI Subgroup - Wednesday Oct 21, 6:00 PM
- Milwaukee, WI: AAI Chapter - Thursday Oct 22, 6:00 PM
- Twin Cities, MN: AAI Chapter - Friday, Oct 23, 7:00 PM (Intro)
- Twin Cities, MN: AAI Chapter - Sat, Oct 24, 9:00 AM (Advanced)
- Las Vegas, NV: AAI National Conference - Saturday, Nov 7 - Nov 9
- Houston, TX: Houston Investors Association - Sat., Nov14, 9:00 AM
- Orlando Florida: AAI Chapter - Wednesday, Nov 18, 7:00 PM
- Baton Rouge, LA: AAI Chapter - Thursday Nov 19, 6:00 PM
- Houston, TX: AAI Chapter - Saturday, Nov 21, 9:00 AM
- Phoenix, AZ: AAI Chapter - October 2016 - Stay tuned for details.

Surf Well and Prosper,



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Additional Resources



Investment professional Richard Erkes created SectorSurfer University to provide everyone the opportunity to learn how to use SectorSurfer to improve investment portfolio performance while simultaneously reducing investment costs. [Click HERE](#)



The SectorSurfer Users Group is an online Google Groups Forum created by Joe Gruender of San Jose, CA to provide a platform for exchanging strategies, ideas and learning from the experience of other SectorSurfers. [Click HERE](#)



Bryan Sullivan founded AlphaGen Strategies to empower financial advisors with SectorSurfer's True Sector Rotation technology in a framework that helps advisors manage high performance portfolios for their clients. [Click HERE](#)