



ETF Rotation Strategies

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- Investing and trading involve risk of loss and may not be suitable for everyone.
- The author actively trades stocks and ETFs. She may or may not hold a position in any instrument discussed.
- This presentation is for educational purposes and is not a recommendation to buy or sell securities.
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Survey / Prize Drawing

- ⦿ Please complete survey to be entered in drawing
- ⦿ Fill in email address legibly
- ⦿ Check YES or NO to receive more info
 - ETF Rotation Forward-Testing Spreadsheet
 - Slides

I'm Jackie Ann Patterson – Editor of BackTesting Report

The computer engineer who back-tests
trading strategies and indicators



Goals: Show You...

- ① How to Get Respectable Gains with Low Overhead
- ① How you could have doubled your money in 2005 – 2009
- ① How to run a simple ETF Rotation

Agenda

- ⦿ Compare 2 portfolio strategies
 - Diversified Buy and Hold
 - Rotation
- ⦿ Demo Rotation with High Volume ETFs

Shout Out to Fidelity Investments

- ① Funded my initial back-testing research on sector rotation
- ① Published article at <https://guidance.fidelity.com/viewpoints/buy-and-hold-sector-rotation>
- ① Disclosure: Independent contractor for Fidelity

Lessons From Back-tests on Wealth-Lab Pro[®] for 2002 - 2011

- ⦿ S&P Sectors lagged iShares Styles
- ⦿ Momentum beat Bargain-Hunting
- ⦿ 30-day look-back too volatile
- ⦿ Long/Short didn't help
- ⦿ 30 iShares ETFs trade commission-free at Fidelity
- ⦿ S&P500 easy to beat after 2000

Wealth Lab Pro is a registered trademark of FMC, LLC.

Its All Relative

A Baseline for Comparison

- ⦿ Diversified Portfolio
- ⦿ Buy and Hold, rebalancing annually
- ⦿ Least overhead
- ⦿ Use mutual funds for longer track record than ETFs

Diversified Portfolio For Fifty-Somethings

Ticker	Index	Percent Allocated	% For Homeowners
VFINX	S&P 500 US Large-Cap	13.8%	16.7%
VMBFX	Barclays Aggregate US Bond	27.5%	33.3%
NAESX	MSCI US Small-Cap 1750	13.8%	16.7%
VEIEX	MSCI Emerging Markets	13.8%	16.7%
VGTSX	MSCI All Country World ex-USA	13.8%	16.7%
FRESX	Fidelity Real Estate Mutual Fund	12.5%	House
Cash	Cash	4.8%	6+ Months Expenses

Based on A Random Walk Down Wall St by Burton G. Malkiel

Total Returns of Buy 'n' Hold of Complete Diversified, Rebalanced Portfolio

Metric	2005 - 2011	2002 - 2011	1998 - 2011
CAGR	6.1%	7.8%	6.9%
Max Drawdown % By Mar 9, 2009	-44%	-44%	-44%
Avg Annual Return	6.8%	8.4%	7.5%
Standard Dev	15.8%	15.6%	13.8%
Monthly Excess Return Over 3-Month Treasuries	0.28%	0.37%	0.24%

Hypothetical. Source: Jackie Ann Patterson portfolio simulation with Excel

Homeowners Diversified Portfolio

Buy 'n' Hold 'n' Rebalance Total Returns

Metric	2005 - 2011	2002 - 2011	1998 - 2011
CAGR	6.3%	7.6%	6.8%
Max Drawdown % By Mar 9, 2009	-41%	-41%	-41%
Avg Annual Return	6.9%	8.2%	7.4%
Standard Dev	16.0%	15.8%	14.6%
Monthly Excess Return Over 3-Month Treasuries	0.23%	0.32%	0.20%

Hypothetical. Source: Jackie Ann Patterson portfolio simulation with Excel

Portfolio Rotation Definitions

- GOAL: Get in areas of market poised to deliver best performance
- NOT: intra-day trading
- NOT: Buy and Hold



Relative Strength Selection

Historically Proven Criterion

- ⦿ Rotate to ETFs with highest percentage gains
- ⦿ Use Total Returns, including dividends



Details of Rotation

- ⦿ Each week assess the portfolio
- ⦿ Hold 2 funds
 - Back-test with mutual funds
 - Real life use ETFs
- ⦿ Want top 2 percentage gainers, including dividends
- ⦿ Keep a fund while it's gains are in the top half
- ⦿ Rebalance yearly



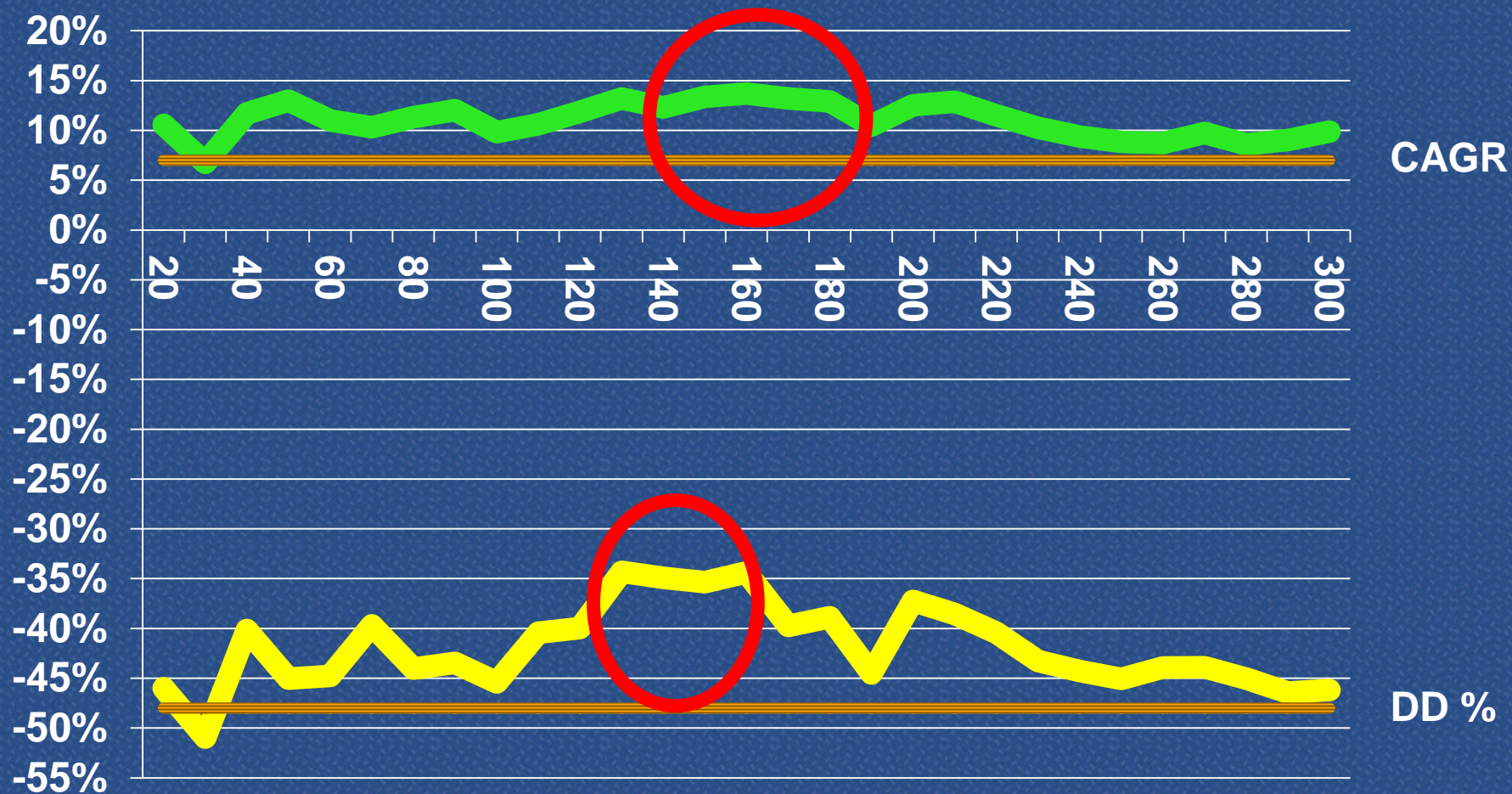
Key Question:

What Look-back Period?

- ⦿ With back-testing can try them all
- ⦿ Look for areas of good performance
- ⦿ Beware isolated peaks of performance
- ⦿ Remember: out of 30 trials, some settings will do better than others, just by luck

Best Look-back: 160 Days

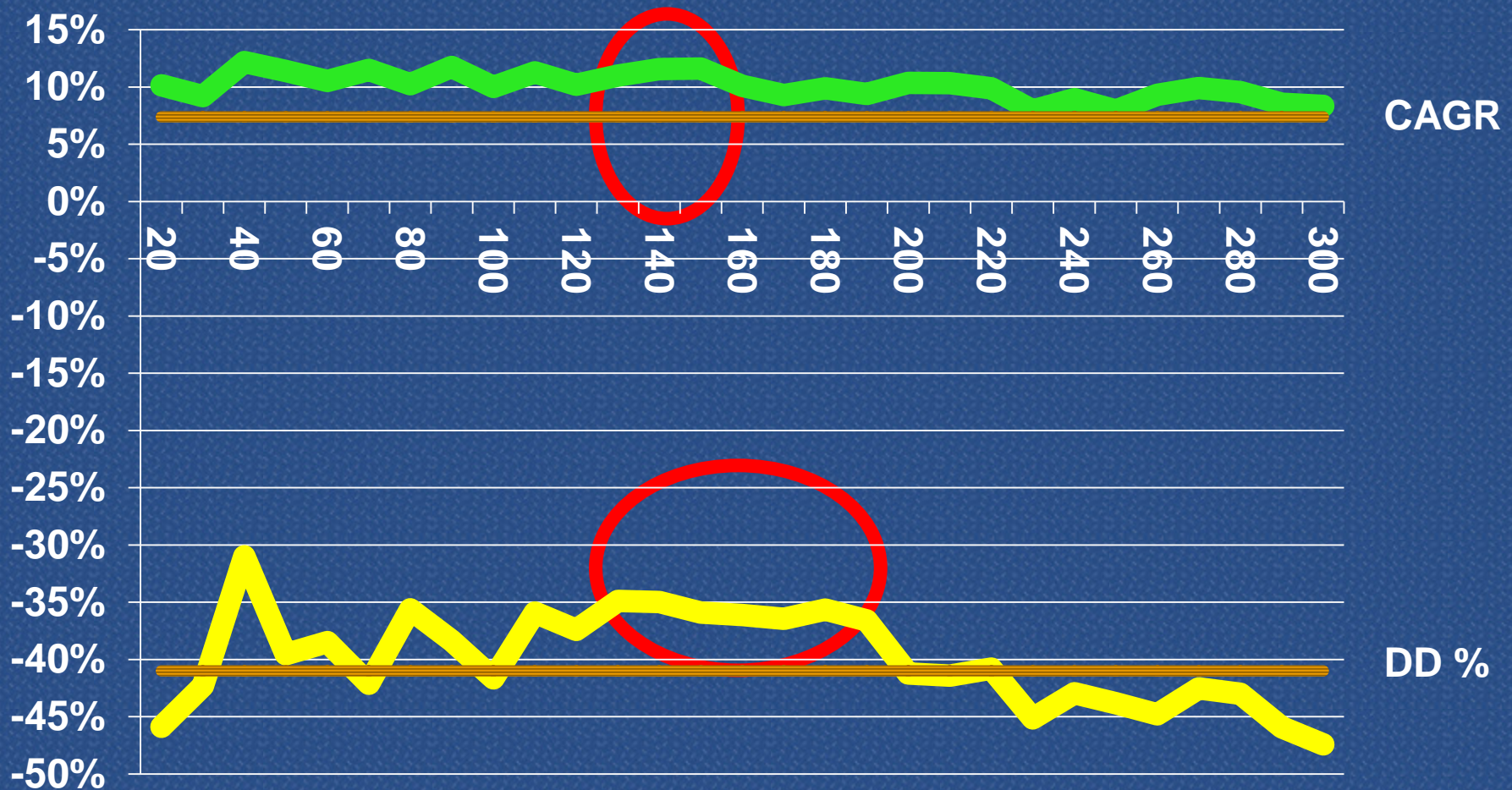
Mutual Funds: 14% CAGR, -34% DD



* Hypothetical. Source: Jackie Ann Patterson portfolio simulation with Excel

Homeowners: Best Look-back 140

Mutual Funds: 12% CAGR, -35% DD



* Hypothetical. Source: Jackie Ann Patterson portfolio simulation with Excel

ETF Diversified Portfolio to Rotate For Fifty-Somethings

Ticker	Index	Percent Allocated	% For Homeowners
SPY	S&P 500 US Large-Cap	13.8%	16.7%
AGG	Barclays Aggregate US Bond	27.5%	33.3%
IWM	Russell 2000 Small-Cap	13.8%	16.7%
EEM	MSCI Emerging Markets	13.8%	16.7%
EFA	MSCI EAFE Int'l Stocks	13.8%	16.7%
IYR	Dow Jones US Real Estate Index	12.5%	House
Cash	Cash	4.8%	6+ Months Expenses

Based on A Random Walk Down Wall St

“Souped-Up” ETF Portfolio For Rotation, For Now

Ticker	Index
SPY	S&P 500 US Large-Cap
AGG	Barclays Aggregate US Bond
IWM	Russell 2000 Small-Cap
EEM	MSCI Emerging Markets
EFA	MSCI EAFE Int'l Stocks
TLT	20 year US Treasury Bond

- Want more bond fund choices now while younger boomers moving to more conservative portfolios
- Maybe not so excited about bonds when bubble bursts

ETF Rotation Results

ETFs Allow Weekly Trading, Mutual Funds Do Not

Metric	ETFs, 160 look-back 2005 - 2011	Homeowner ETFs, 140 look-back 2005 - 2011	HomeOwner + TLT, 140 Look-back 2005-2011	ETFs + TLT, 160 Look-back 2005-2011
CAGR	9.5%	9.4%	15.1%	10.9%
Max Drawdown By Mar 9, 2009	-35%	-34%	-18%	-21%
Avg Annual Return	9.5%	9.15%	14.7%	10.5%
Standard Dev	13.3%	14.4%	8.77%	7.8%
Monthly Excess Return Over 3-Month Treasuries	0.33%	0.24%	0.59%	0.31%

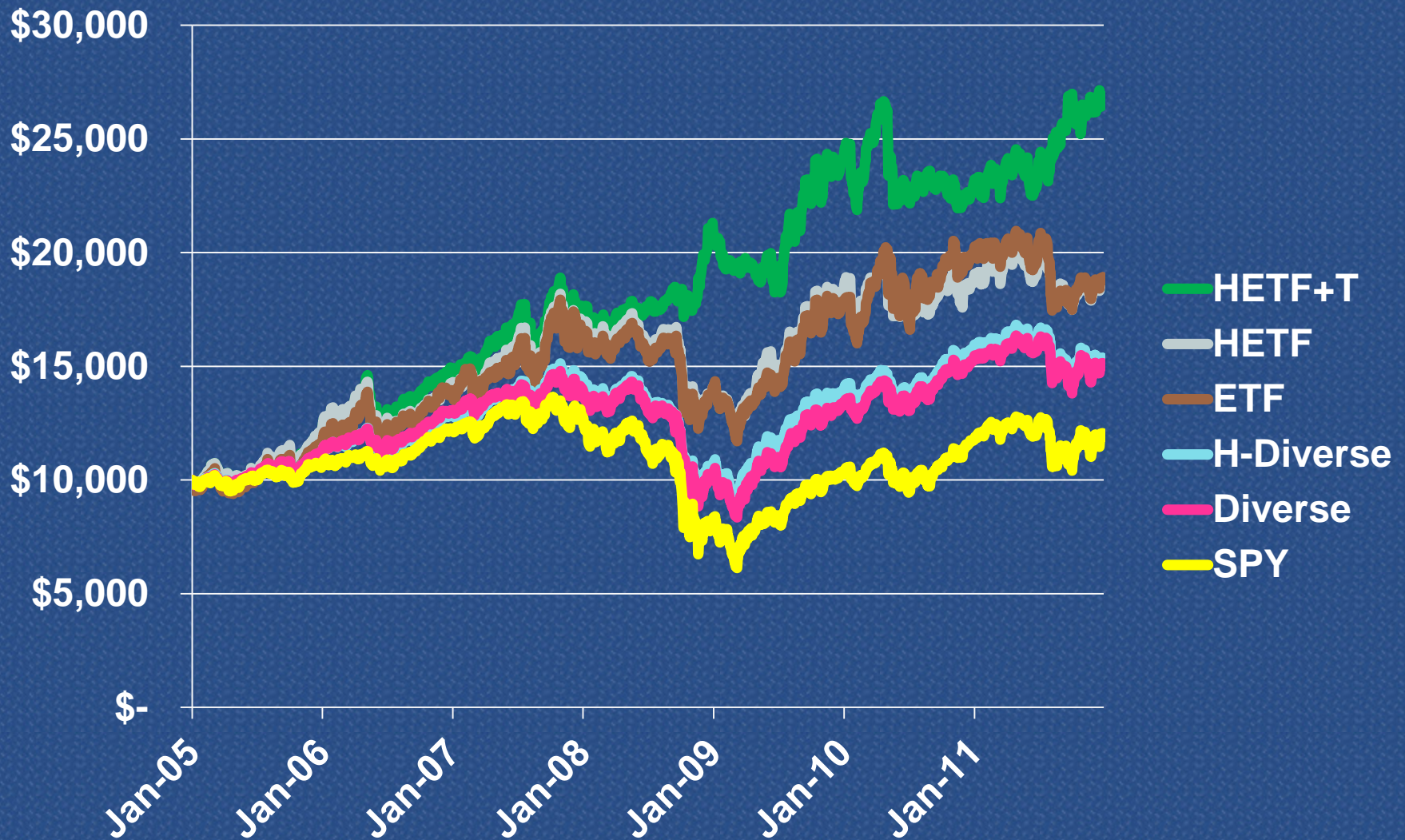
* Hypothetical. Source: Jackie Ann Patterson portfolio simulation with Excel 21

Total Returns by Year

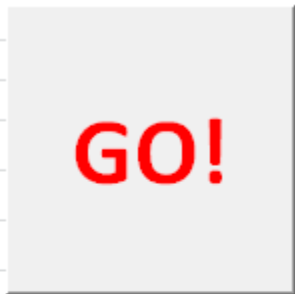
Includes Dividends

Year	Best ETF+T Rotation	Diversified Funds Held	SPY (SP500)
2005	20%	11%	5%
2006	20%	14%	14%
2007	18%	12%	5%
2008	20%	-26%	-36%
2009	16%	29%	23%
2010	-6%	12%	13%
2011	16%	-4%	1%

ETF Rotation Equity Curves



My Forward-Testing Rotation Tools

	A	B	C	D	E	F	G	H
1		RoC Length	140					
2		Today's Date	8/24/2012					
3		RoC Date	2/10/2012					
4		Size	50%					
5		Stop	15%					
6		Weeks Out	0					
7		Account Size	\$ 49,000					
8	Name	Ticker	Today's Price	RoC Price	RoC	Shares	Stop	
9	20 - year Treasury Bonds	TLT	\$ 124.93	\$116.14	7.6%	196	\$ 106.19	
10	S&P 500 Large-Cap Stock Index	IVV	\$ 141.26	\$133.63	5.7%	173	\$ 120.07	
11	Aggregate Bond Index	AGG	\$ 111.90	\$ 109.22	2.5%	218	\$ 95.12	
12	International Developed Nations Stocks	EFA	\$ 52.18	\$ 52.42	-0.5%	469	\$ 44.35	
13	Russell 2000 Mid-Cap Stock Index	IWM	\$ 80.52	\$ 82.02	-1.8%	304	\$ 68.44	
14	Emerging Markets Stocks	EEM	\$ 40.04	\$ 43.00	-6.9%	611	\$ 34.03	
15								
16								
17								
18								

What It Takes to Succeed With ETF Rotation Plan

- Simple numeric comparison
- 1 hour per week
- A little bit of self-discipline
 - Show up for that hour per week
 - Don't mess with positions otherwise
- Willingness to sell holdings on cue
- Market cooperation




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Thank You!

For more information see...

- ◎ divergence-alerts.com/moneyshow
- ◎ Attend tomorrow's session
 - **Nine Essentials of Market Analysis**
 - **11:35 am - 12:20 pm**



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