

# *Financial Security by Design*

*Planning and Compliance for Individuals, Trusts and Estates*

## **The Challenge in Choosing a SectorSurfer® Composition. What Can an Investor Do?**

Peter James Lingane, EA, CFP®  
SectorSurfer Users Group  
May 20, 2015  
San Jose, CA

It is usually possible to find a portfolio of twelve funds which performs well with a specific momentum algorithm. This approach is tedious since we do not yet know the relationship between composition and algorithm. More importantly, the evidence from tens of thousands of simulations is that an optimized 12-fund portfolio is likely to underperform in the out of sample period.

The alternative approach is to allow the simulator to choose from a larger suite of funds. Attractive results over the 25-year out of sample period were obtained when a double exponential moving average trend measuring algorithm was applied to a suite of thirty-two focused US equity funds.

[Handout 05202015](#)

## **Market Timing, Momentum and SectorSurfer®**

Peter James Lingane, EA, CFP®  
San Francisco Section, AAI  
January 17, 2015  
Berkeley, CA

[Handout 01172015](#)

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## **Market Timing Has a Splendid Record**

Peter James Lingane, EA, CFP®  
Special Interest Group, AAI  
7 pm, September 11, 2014  
Orinda Library, Orinda, CA

"Market timing" refers to the strategy of moving from stocks to cash when markets are in turmoil and of returning to stocks when market conditions improve. Switches occur infrequently, typically months apart. The low switching frequency is what, in my mind, distinguishes "timing" from "trading."

Siegel has reported that market timing provides a lower volatility and lower return than buy and hold. Faber, using a similar algorithm, finds that timing provides equity like returns with bond like volatility. Timing reduced Siegel's return because timing decisions were made daily and because the timing signals were based on an ineffective risk index.

The lesson for investors is that thorough backtesting is needed to validate a timing strategy. Another lesson is that the risk index need not be the same as the portfolio being timed.

This report tests six indicators over the 1990-2013 interval. All indicators increase Sharpe ratios and reduce drawdowns and several indicators increase long term returns. The DEMA50 indicator is the most effective over this interval because it underperforms less in bull markets. The current value of the StormGuard® DEMA50 indicator is available for free at SumGrowth.com.

The S&P Composite without dividends is an effective risk index for portfolios of US, foreign or real estate stocks.

The DEMA50 indicator adds more than four hundred basis points to the annualized return of a portfolio of US, foreign and real estate stocks over the past 24 years and improves the Sharpe ratio and drawdown. The DEM50 indicator also improves the performance statistics for the AAI Model Shadow Stock Portfolio.

Since 1928, DEMA50 timing has mitigated major bear markets. But DEMA50 timing underperformed during the 1935-1945 and 1975-1990 periods.

[Handout 09112014](#)

## **Designing a SectorSurfer Portfolio for Quality and Return**

Peter James Lingane, EA, CFP®  
Special Interest Group, AAI

7 pm, October 10, 2013  
Orinda Library, Orinda, CA

SectorSurfer issues trade recommendations based on the price momentum of the securities in a portfolio. Trends are calculated in a special manner and performance can be evaluated prospectively. Results with a variety of portfolios, including that of Bob Neumann's grandson, are encouraging. Learn how to design an effective SectorSurfer portfolio and how to use SectorSurfer, for free, to improve the performance of your portfolio.

[Handout 10102013](#)

## **Under SectorSurfer's Hood**

Peter James Lingane, EA, CFP®  
Silicon Valley Computerized Investing Special Interest Group, AAI  
6:30 pm, December 9, 2013  
Saratoga Library, Saratoga, CA

SectorSurfer issues trade recommendations based on the price momentum of the securities in a portfolio and it also "times" the market by recommending a move to cash when markets are in turmoil. Learn how SectorSurfer optimizes the trend and how you can assess the quality of the optimization.

[Handout 12092013](#)