

Investors FastTrack & Asset Allocation

Houston 2013

Paul Charbonnet

- Investors FastTrack founded 1989.
- Charting, ranking, analysis, strategies software for your PC.
- Have spent the last 23-years, everyday, training investors and money managers.
- Mutual funds, ETFs, closed end, stocks, market indices
- Squeaky clean, total return, dividend-adjusted data (stocks & funds)
- Most popular offering has a free 30-day trial, and thousands of users.

Daniel Charbonnet

- Economics degree from Fordham University
- Resides in New York City
- 5-years in banking at JP Morgan and Sumitomo Mitsui Banking Corp.
- Designing custom financial systems for FastTrackers since 2003
- Working fulltime with FastTrack since Dec 2010
- Lead developer and contact for FastTrack's new product, FT Rebalance

Agenda

1. FT Rebalance
2. Investment objectives
3. What is the Momentum Model?
4. Family fundamentals
5. Developing and executing trading strategies
6. Q & A

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FT Rebalance

- New cloud based software from Investors FastTrack
 - Beta release Nov 2012/ Public release March 2013
 - Portfolio and strategy modeling
 - Develop, test, and perfect asset allocation strategies
- Subscriptions-
- 14 day free trial
 - Month, quarter, and year (\$175, \$350, &\$1,050)

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Investment Objectives

- Focus on core wealth
- No day trading
- Minimal trading
- Increase alpha
- Reduced risk
- Limit downside
- Improve risk adjusted return

Typical Investor

- Buy and hold	1) S&P 500 (SPY)	50%
- One/two trades a year	2) International (EEB)	20%
- Very little diversity	3) Cash (VMMXX)	30%
		<hr/>
		100%

Typical Performance

Buy and hold underperforms



How can you do better?

Target date fund

	STATIC 1	SPY	VFORX
Return	43.10%	69.21%	63.55%
Ann	7.44%	11.11%	10.36%
SD	5.52%	7.18%	6.53%
MaxDraw	-25.81%	-37.77%	-34.16%
UI	6.74	9.73	8.86
UPI	-0.54	0.00	-0.09
Corr	97.74%	100.00%	99.13%



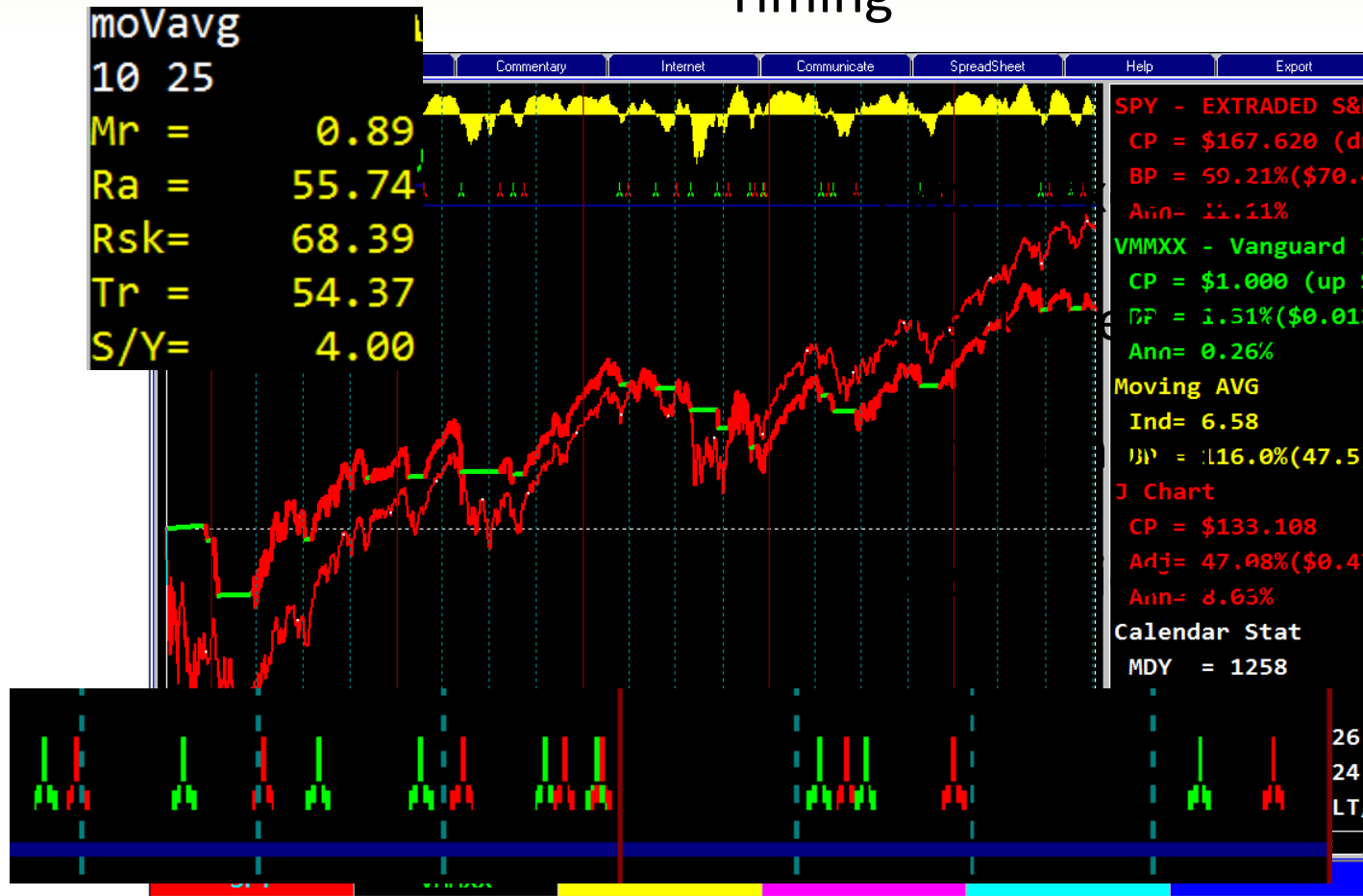
S&P 500

VFORX

Buy & Hold

How can you do better?


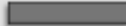
Timing



quired

How can you do better?

FT Rebalance Momentum Model

		
Return	170.18%	69.81%
Ann	22.03%	11.19%
SD	5.42%	7.10%
MaxDraw	-15.62%	-37.57%
UI	4.76	9.63
UPI	2.28	0.00
Corr	89.09%	100.00%

FT Rebalance

S&P 500

- Better risk adjusted return
- Minimal trading
- Easy to execute

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Momentum Model

Basics

- Not timing; Rebalance on regular scheduled
 - Relative strength strategy
 - Buy positive momentum, sell negative momentum
-

Goals

- Minimal trading
 - Reduced volatility
 - Improved risk adjusted return
-

Momentum Model

Step by Step

- (1) Build a reasonable family of assets
- (2) Periodically rank the family (quarter, month, etc)
- (3)
 - Buy the top of the ranking
 - Sell the bottom of the ranking

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Family Selection

Key Points

1) Family is critical

2) Diversify

- More variety helps in down markets
- Ex: only tech and real estate in the family, nowhere to retreat when both asset classes underperform

3) Keep size manageable

- 20 – 30 funds work best
- Beyond this we start seeing high correlations among funds

Family Selection

Common Pitfalls

High correlation

- Family of S&P Clones will perform exactly like the S&P

To much volatility

- Trend following strategies must use assets with trends

Volatility/Trading miss match

- Trading a family of shorts, 2x, 3x funds once a quarter isn't a great idea

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Trading Strategies

Core

- Diverse family
- Limited trading
- Perform with market
- Reduce risk

Outperform

- Equity family
- Moderate trading
- Improved alpha
- Tolerate some risk

Tactical

- Healthcare family
- Improve asset class using momentum

Strategy Preface

- All strategies use index style funds or ETFs
- Families are fairly generic and not optimized
- All strategies are easy to understand and execute
- Customization of all factors will improve the strategies

Trading Strategies

Core - Family

	<u># Funds</u>
Start with all Vanguard funds	282
Remove non-investor class	137
Remove target dates and munis	90
Remove cross correlated	17

17 funds

Equities

LT bonds

Commodities

ST bonds

Core - Family

<u>Ticker</u>	<u>Name</u>
FBNDX	Fidelity IG Bond
NAESX	Vanguard SmallCap
VBMFX	Vanguard Total Bond
VCVSX	Vanguard Convertible
VEXPX	Vanguard Explorer
VFIIX	Vanguard GNMA
VFINX	Vanguard S&P 500
VFSTX	Vanguard Short-Term IG
VWINX	Vanguard Wellesley Income

<u>Ticker</u>	<u>Name</u>
VGENX	Vanguard Energy
VGHCX	Vanguard Health Care
VGPMX	Vanguard Prcs Metals
VINEX	Vanguard Inte Explorer
VTRIX	Vanguard Int Value
VUSTX	Vanguard LT US Treasury
VWEHX	Vanguard Hi-Yield Corp
VWESX	Vanguard Long-Term IG

Core - Demo

1) Hold 4 funds at all times

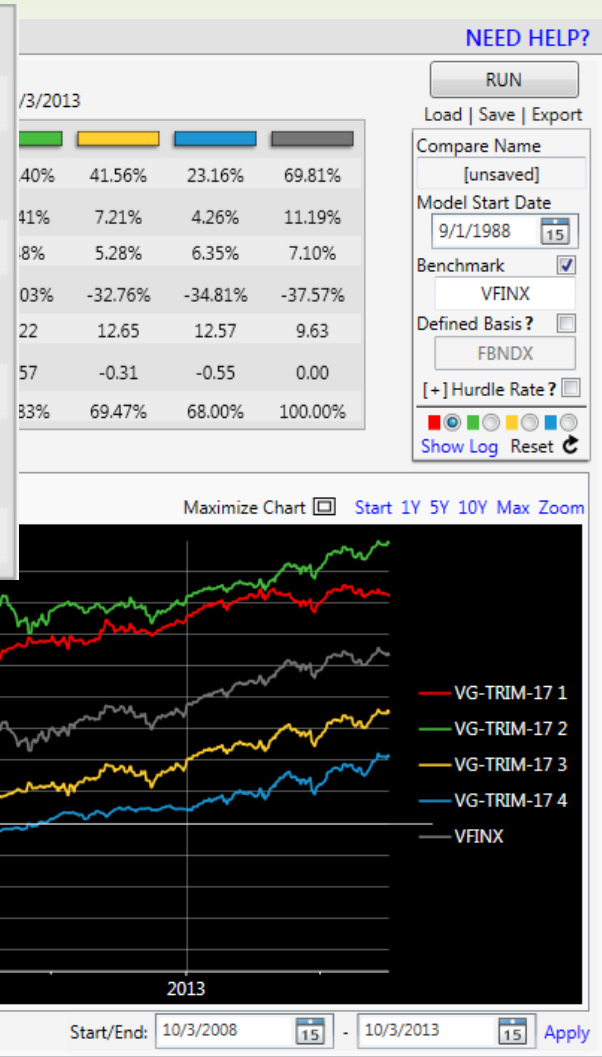
2) Rank family by return

3) Compare trading:

- Month
- Quarter
- Semi-Annual
- Annual

Core-Screen Shot

	█	█	█	█	█
Return	105.06%	142.40%	41.56%	23.16%	69.81%
Ann	15.47%	19.41%	7.21%	4.26%	11.19%
SD	4.52%	4.48%	5.28%	6.35%	7.10%
MaxDraw	-15.88%	-16.03%	-32.76%	-34.81%	-37.57%
UI	5.24	5.22	12.65	12.57	9.63
UPI	0.82	1.57	-0.31	-0.55	0.00
Corr	56.58%	63.83%	69.47%	68.00%	100.00%



Core - Summary

- 1) Hold 4 funds at all times
- 2) 4 trades a year
- 3) Conservative
 - Family is 1/3 bonds
 - Draw down sensitive
 - Low Std Dev

Trading Strategies

Outperform - Family

	<u># Funds</u>
Start with all Fidelity Select funds	42
Remove cross correlated	32

32 funds

Industrials
Finance

Retail
Energy

Gold
Tech

Pharm
Etc

Outperform- Family

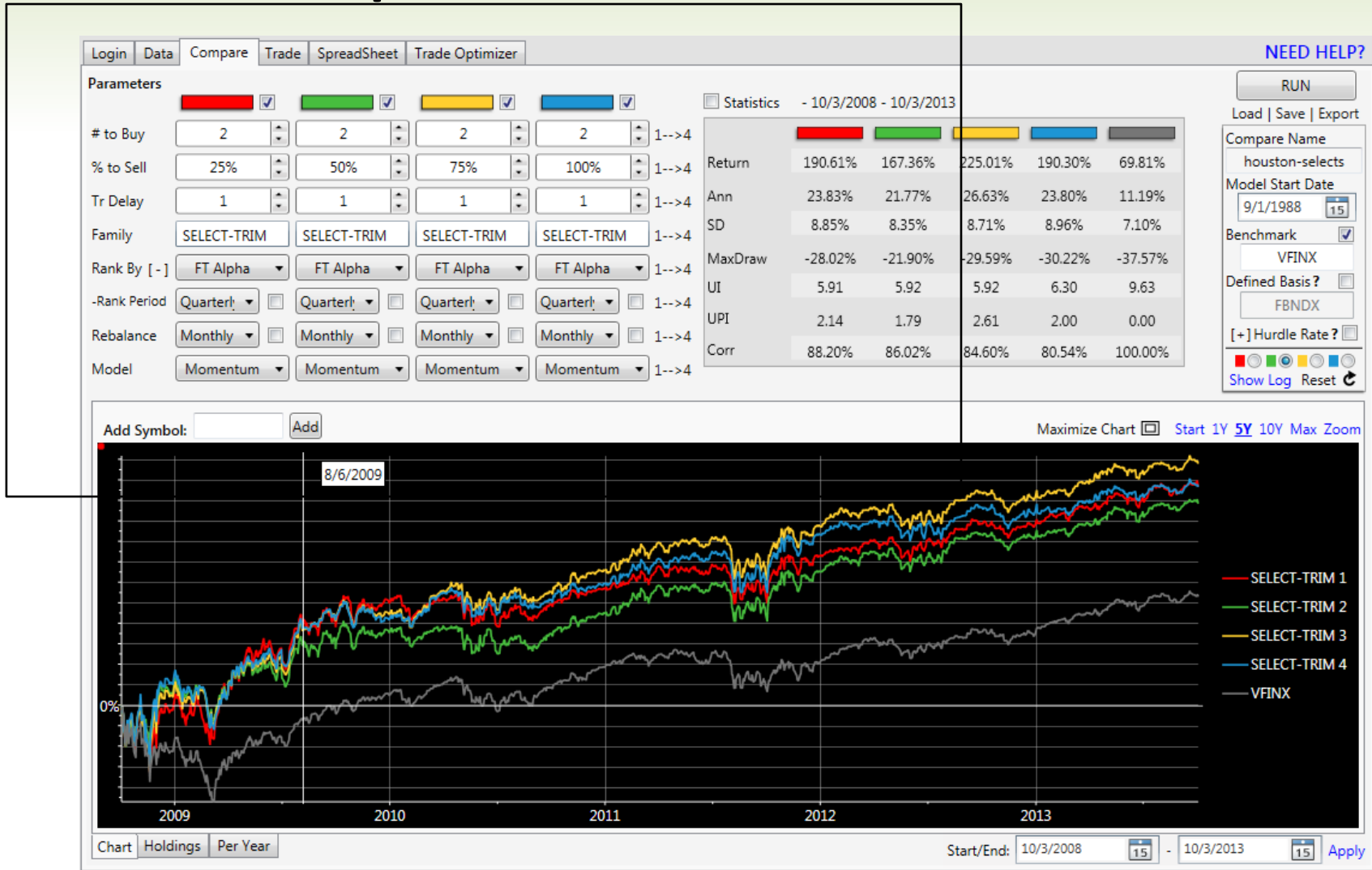
<u>Ticker</u>	<u>Name</u>	<u>Ticker</u>	<u>Name</u>
FBIOX	Fidelity Biotechnology	FSAVX	Fidelity Automotive
FBMPX	Fidelity Multimedia	FSCHX	Fidelity Chemicals
FCYIX	Fidelity Industrials	FSCPX	Fidelity Consumer Dscretion
FDFAX	Fidelity Consumer Staples	FSDAX	Fidelity Defense & Aerospace
FDLSX	Fidelity Leisure	FSDCX	Fidelity Com Equipment
FIDSX	Fidelity Financial Services	FSDPX	Fidelity Materials
FNARX	Fidelity Natural Resources	FSELX	Fidelity Electronics
FPHAX	Fidelity Pharmaceuticals	FSENX	Fidelity Energy
FSAGX	Fidelity Gold	FSESX	Fidelity Energy Service
FSAIX	Fidelity Air Transportation	FSHCX	Fidelity Medical Delivery
FSHOX	Fidelity Constr & Housing	FSPTX	Fidelity Technology
FSLEX	Fidelity Envnt & Alt Energ	FSRFX	Fidelity Transport
FSLXX	Fidelity Money Market	FSRPX	Fidelity Retailing
FSMEX	Fidelity MedEqupt & Syst	FSTCX	Fidelity Telecom
FSNGX	Fidelity Natural Gas	FSUTX	Fidelity Utilities Growth
FSPHX	Fidelity Health Care	FWRLX	Fidelity Wireless

Outperform - Demo

- 1) Buy 2 funds on rebalance
- 2) Trade every month
- 3) Rank by FT Alpha
- 4) Compare asset turnover:

-25 %
-50%
-75%
-100%

Outperform – Screen Shot



Outperform - Summary

- 1) Hold 2-4 funds
- 2) 12 trades a year
- 3) More aggressive
 - Family of sector funds
 - Allow some positions to grow beyond 25% of total assets
 - More trading, but still manageable

Trading Strategies

BioTech - Family

	<u># Funds</u>
Start with family FT4web HEALTH	134
Remove small market cap	72
Remove non-investor class	64
Remove high correlation	24

24 funds/etfs

BioTech

Life Sci

Med Equipt

Pharma

Health Services

Pharm

BioTech - Family

<u>Ticker</u>	<u>Name</u>	<u>Ticker</u>	<u>Name</u>
BBH	Biotechnology	PPH	Pharmaceuticals
FXH	Health Care AlphaDEX	IRY	S&P Intn'l HealthCare Sec
PTH	Health Care Dyn	FBIOX	Fidelity Biotechnology
IXJ	Health Care S&P Global IxFd	FSPHX	Fidelity Health Care
XLV	Health Care Select Sector	FSHCX	Fidelity Medical Delivery
IHF	Healthcare Prov DJ US IxFd	FSMEX	Fidelity Medical Equip & Syst
RYH	HealthCare S&P Equal Wght	FPHAX	Fidelity Pharmaceuticals
IHI	Medical Devices DJ US IxFd(iShr	MEDRX	Kinetics Medical No Load
FBT	NYSE Arca Biotech Ix Fd	EXLSX	ManningN Life Sciences Series
IHE	Pharmaceuticals DJ US IxFd	LOGSX	OakAsso Live Oak Health Sciences
PJP	Pharmaceuticals Dynamic	RYOIX	Rydex Biotechnology
XPH	Pharmaceuticals S&P	VGHCX	Vanguard Health Care

BioTech- Demo

- 1) Do better than VGHCX – Vanguard Health Care Fund
- 2) Limited Trading
- 3) Not sure on the best way to trade
- 4) Explore how to trade with Trade Optimizer

BioTech- Summary

- 1) Hold 2-4 funds
- 2) 4 trades a year
- 3) Outperforms buy and holding just index

Strategy - Wrap up

Core – Simple trading, limit down side

Outperform – Simple trading, more risk, more alpha

Tactical– Greatly outperformed buy and hold

Strategy - Wrap up



Strategy - Wrap up

BUT.....


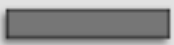
Combine all three

33% - Core

33% - Outperform

33% - Tactical

Strategy - Wrap up

		
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FT Rebalance

S&P 500

The End

FT Rebalance

www.ftrebalance.com