

# Portfolio Management and Drawdown Control

**For Research Triangle AAll – 12 Aug 2017**

**Presented by Bryan Johnson**

**Moon Run Report**

**bryan1522@verizon.net**

# Disclaimer

- This talk on portfolio management and drawdown control is designed to educate investors to identify clues to the market based on stock market data. There is no guarantee that any signal will be timely or accurate. Investors should be aware that the analysis here is designed to inform, not avoid all losses that might be incurred.

# World Cup Championship of Stock Trading®

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# World Cup Championship of Stock Trading<sup>®</sup> Cont'd

- I placed first in the 2008 contest with a 48% net gain and placed second in 2009 with a 95% net gain.
- Refer to [www.worldcupadvisor.com/worldcupchampionships/](http://www.worldcupadvisor.com/worldcupchampionships/)
- My “sell everything” Tsunami Indicator signal was calculated in September 2008 and all stocks were sold at that point. I will define the signal later in this presentation.
- Trading stocks, futures, and forex involves significant risk of loss and is not suitable for everyone. Past performance is not necessarily indicative of future results.

# Moon Run Report

- Timing concepts from this speech are applied
- Portfolios developed with the average investor in mind
- Eight portfolios with 5 or 10 stocks in each
- Low cost of \$10 per month
- Emails sent on a timely basis to change stock positions, and a weekend update for status
- “Before the bear strikes” book in production
- URL is [www.moonrunreport.com](http://www.moonrunreport.com)

# Today's Presentation

- Portfolio 123 usefulness in picking stocks
- Metastock tool to cover market timing
- Tsunami Indicator sell everything signal
- Fifty New Lows Rule sell everything signal
- Accelerating New Lows sell everything signal
- Long Term S&P Bear Market Timer
- Shortable Corrections
- All Clear and Intermediate Buy signals

# Definitions

- Bear Market – a 20% decline in the S&P 500 from the top to bottom
- Exponential moving average (ema)– average of prices with more weight given to most recent days
- Normalized New Lows (NNL)– (Nasdaq New Lows) divided by (Nasdaq Advances, Declines and Unchanged 250 day ema) times 3000.
- Normalized New Highs(NNH) – substitute NNL with NNH to get Normalized New Highs

# New Lows Definition

- New Lows and New Highs is a measure of how strong or weak the market is
- 52 week New Low – stock falling below previous year's trading range
- 52 week New Highs – stock rising above previous year's trading range
- 52 week New Lows- sum total of all new lows in one day
- 52 week New Highs- sum total of all new highs in one day

# Additional Definitions

Candidate Sell Signal – a signal to sell stocks

Candidate Buy Signal – a signal to buy stocks

Short to Intermediate Market Timer (SIMT) is my invented timer that determines candidate buy and sell signals.

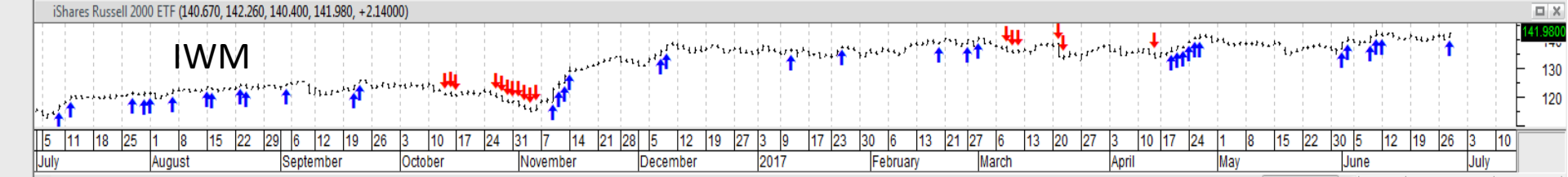
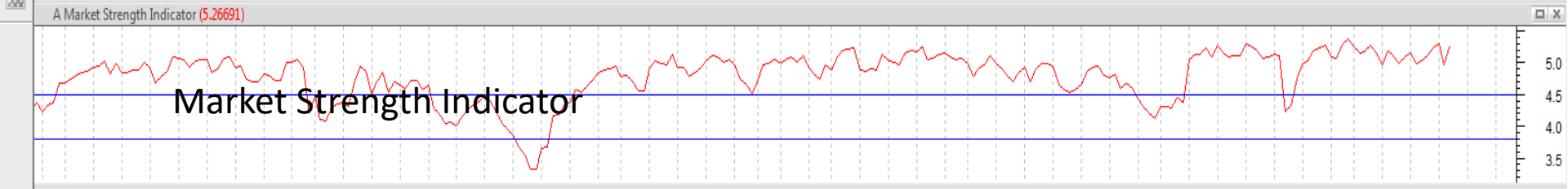
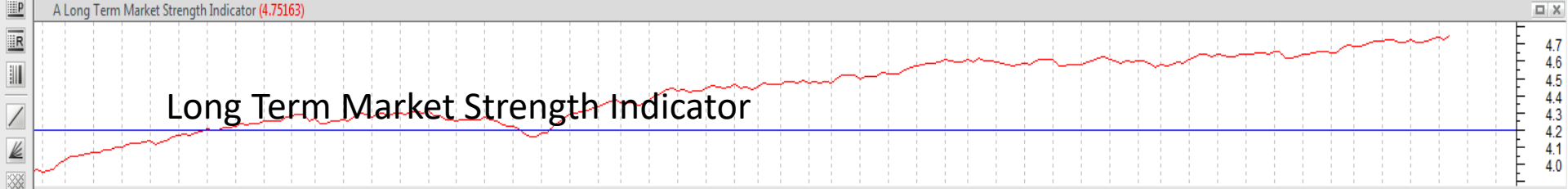
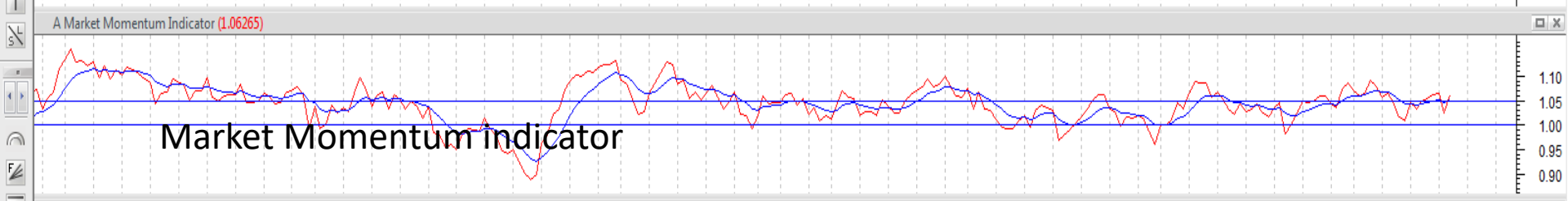
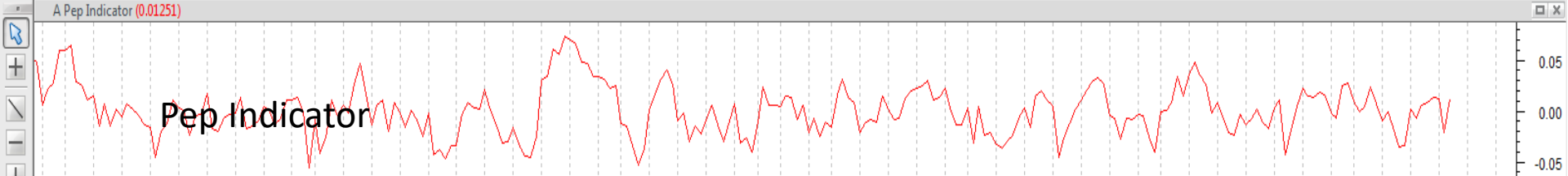
Tsunami Indicator My tool to determine a bear market.

Market Strength Indicator (MSI) confirms the strength or weakness of a sell signal. Above or below 3.80

Market Momentum Indicator (MMI) Formula for Pep Indicator

Pep Indicator Determines strength of buy signal  $>3.8\%$  confirms strength

Long Term Market Strength indicator (LTMSI) determines whether it is a “Safe” or “Volatile” market. Above or below 4.2



# Objectives of Investing

- Buy quality and wait
- Weed the garden
- Defense wins championships
- Coordinate market timing with stock selection
- Market timing with Metastock and portfolio ideas with Portfolio 123 need to be Consistent through the years by backtesting

# Problems of investing

- Ruin
- Shrinking alpha (outperformance of index)
- Developing research not available to general public
- Brokerage industry rewarded by sales
- Buying stock is like buying a car without brakes
- Gut feel is not a good way to buy stocks

# Solution to Investing

- Determine when a bear market or shortable correction is taking place
- Raise cash, go short, or hedge when the market is deemed dangerous
- Invest in smaller number of stocks in a backtested portfolio rather than megabucks mutual funds when market deemed investable

# Portfolio 123

- Portfolio 123 has a complete package of useful simulation development and portfolio tracking
- Ranking system sorts list of stocks by functions used
- Buy rules determine which stocks to buy
- Sell rules determine times to sell stocks, need to include thresholds and sunset rules
- Exposure list defines which periods to exclude investing, i.e., raise cash
- I do not think Portfolio 123 is easy to use

# Metastock

- Metastock has a full functionality for developing timers such as the Short to Intermediate Market Timer
- Indicators like the Market Strength Indicator, Long Term Market Strength Indicator, Market Momentum Indicator, and Pep Indicator can appear in a chart to improve visibility
- Timers are put into what is called an expert system to automate signals for visibility
- Charts in this presentation are by Metastock

# Sample Buy Rules Mega Caps

- **Ranking System sorts List of Stocks in Database**
- Average Volume > 1,000,000 AND
- Market Cap > 10,000M AND
- Return on Equity for the Quarter > 5% AND
- Operating Margin for the Quarter > 0 AND
- Price > ema(40) AND Price > ema(80) AND Price > ema(120) AND
- Three year compounded Sales Growth % > 0 AND
- Dividend Yield > 0 AND
- Three year compounded Earnings Growth % > 0

# Sample Sell Rules Mega Caps

- Computed Rank < 35 OR
- Price drops more than 20% from buy price OR
- Price drops more than 35% from peak
  
- Ranking System is Momentum Value (P123)

# Characteristics of Bull Market Tops

Tops are identified by four criteria:

1. Tsunami Indicator shows a top or
2. Fifty New Lows Rule shows at the top or
3. Normalized New Lows increase dramatically from top of market to sell signal, i.e., Accelerating New Lows
4. Series of several tops have  $NNL > 50$  followed by sell
  - Items 1, 2 and 4 are filtered by the Market Strength Indicator and the VIX
  - Bear markets stall out then go down. Corrections fall immediately.

# Tsunami Indicator Description

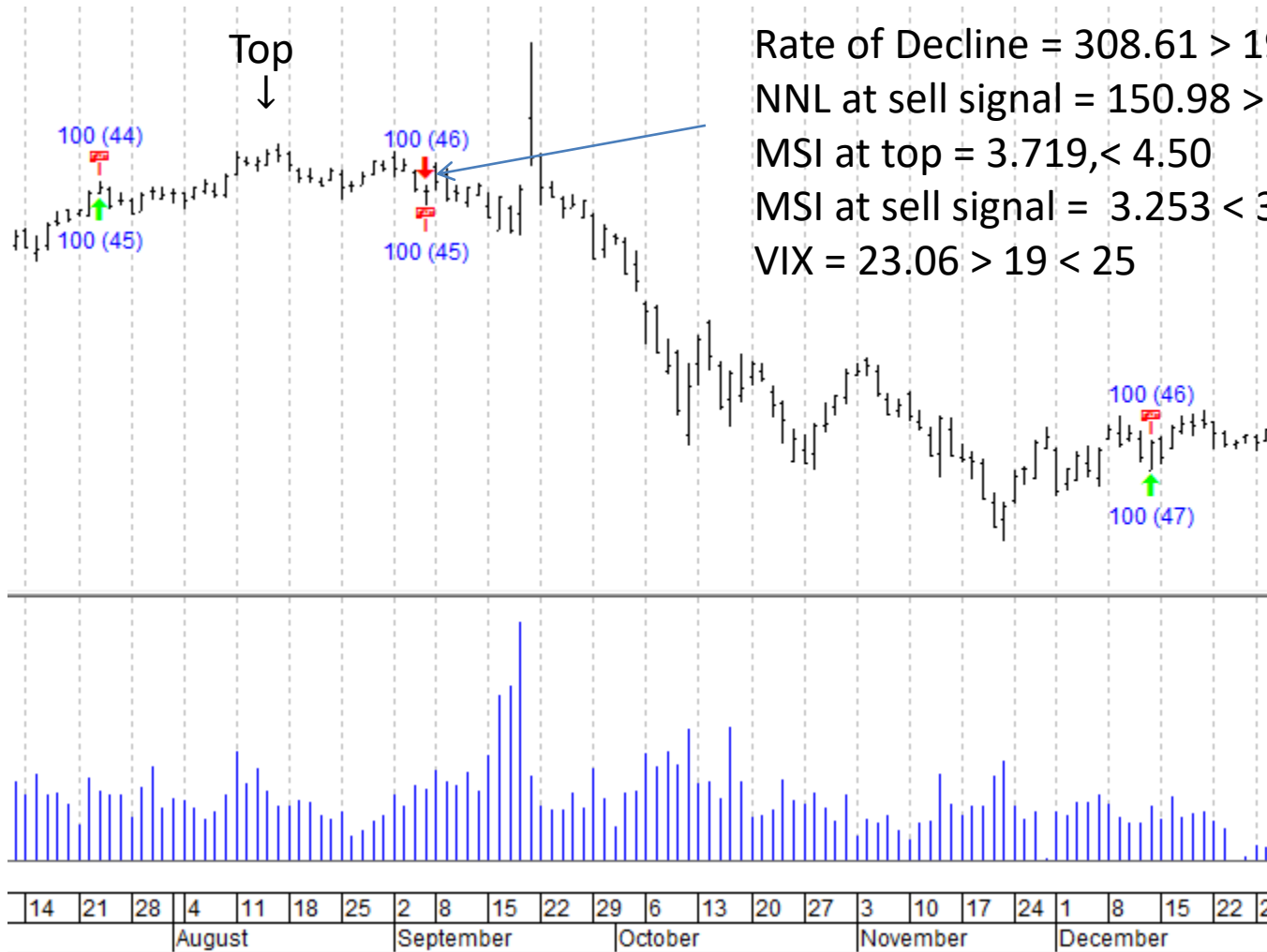
1. Short to Intermediate Market Timer identifies a candidate sell signal for the Tsunami Indicator
  2. Rate of Decline Indicator above 190, stalls out
  3. Normalized New Lows above 40 at the sell signal, market getting weaker
  4. Market Strength Indicator needs to be below 4.5 at the prior peak and below 3.8 at the candidate sell signal
  5. VIX needs to be between 19 and 25, the sweet spot
- **Note: If a buy signal is generated after a Major sell signal and the Pep Indicator is less than 3.8%, ignore buy signal**

# Tsunami Indicator Example

Tsunami Indicator Rate of decline calculation needs to be  $> 190$  and Normalized New Lows needs to be  $> 40$

- $A$  = number of days from top to sell signal
- $B = (\text{Top value} - \text{Sell value}) \div \text{Top value}$
- $C = A \div B$ , with  $C > 190$
- For example, in 2008, Top value on 8/14/2008 = 75.30, Sell value on 9/5/2008 = 71.64,  $(75.30 - 71.64) \div 75.30 = 3.66 \div 75.30 = 0.0486$
- Days from top to sell signal = 15
- Rate of Decline =  $15 \div 0.0486 = 308.61$  which is  $> 190$
- Normalized New Lows = 150.98  $> 40$
- Market Strength Indicator at top = 3.719  $< 4.50$
- Market Strength Indicator at sell signal = 3.253  $< 3.80$
- VIX = 23.06  $> 19 < 25$

# Crash in October 2008, showing top and sell signal



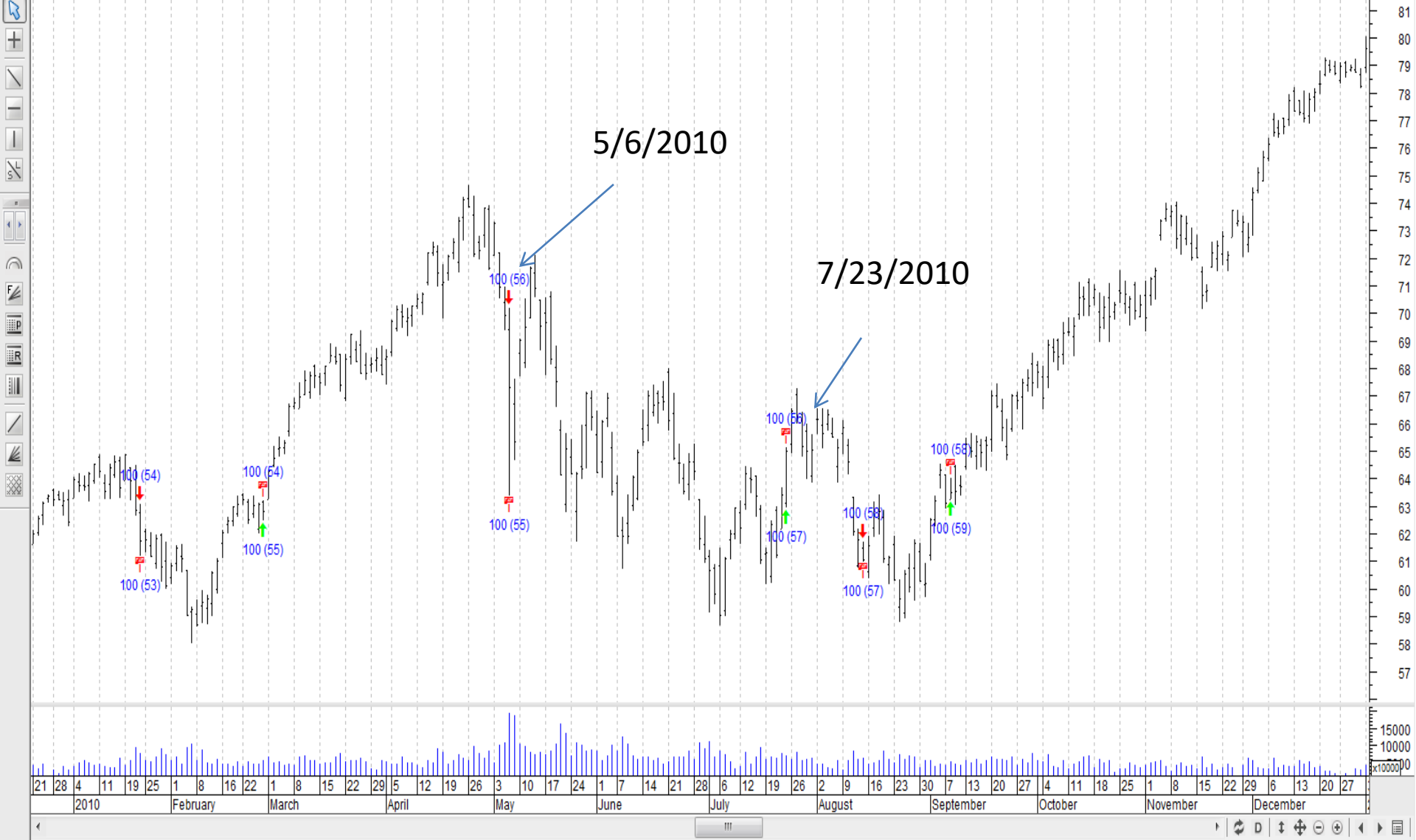
# Accelerating New Lows

Accelerating New Lows determines when the market is falling at precipitous speed

Calculation:

- $(\text{NNL at sell signal} - \text{NNL at top}) / (\text{NNL at sell signal} + \text{NNL at top})$
- If calculation is 80% or more then this market is plummeting too fast to be invested

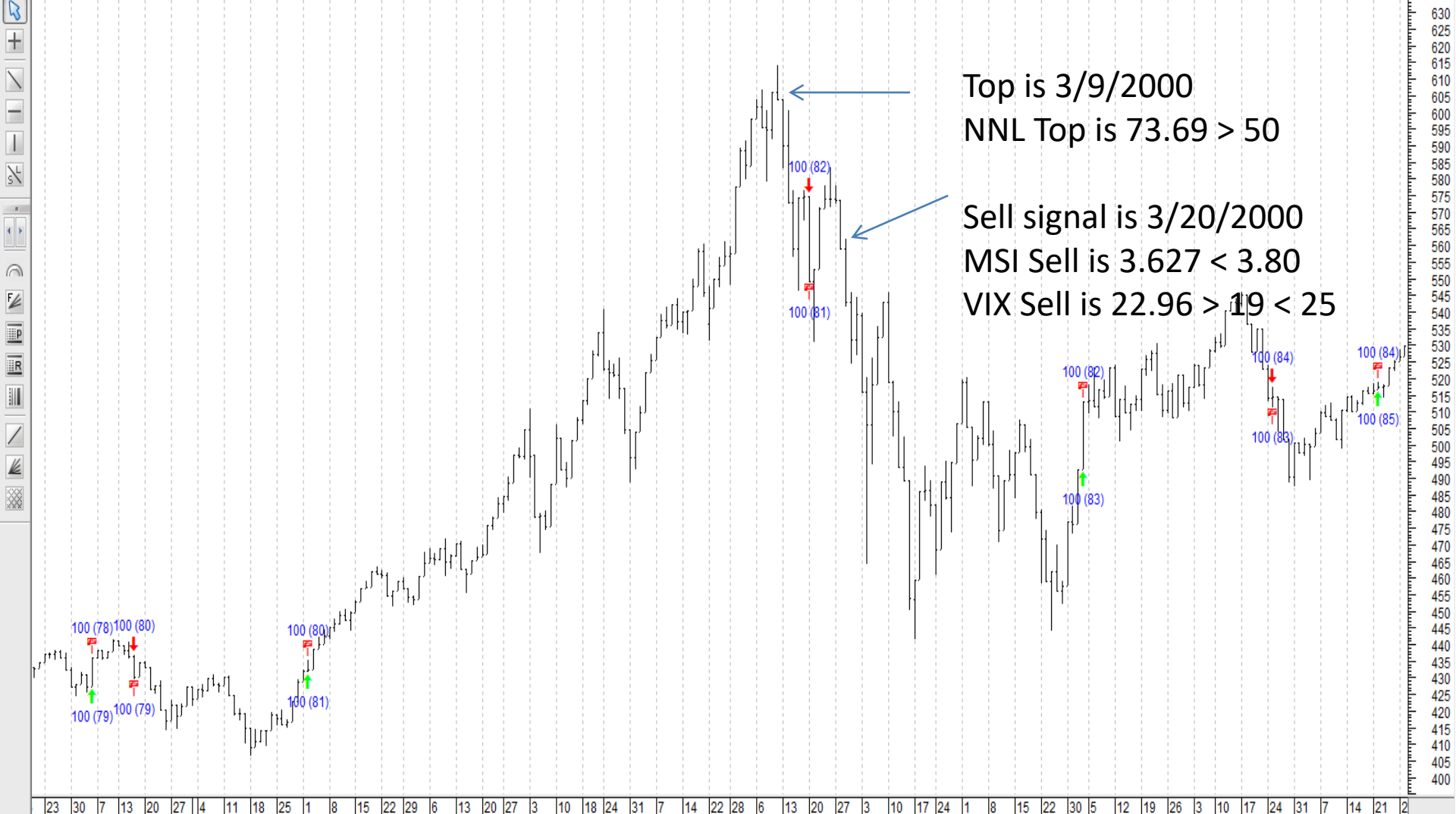
Re-enter market when Pep Indicator  $> 3.8\%$  at buy signal



# Fifty New Lows Rule

- The Fifty New Lows Rule shows that the market is splitting apart and unsustainable
- Normalized New Lows  $> 50$
- Like Tsunami indicator, Market Strength Indicator  $< 4.50$  at top and  $< 3.80$  at sell signal requirement needed
- VIX  $> 19$  AND  $< 25$  at sell signal, the sweet spot

Russell 2000 Index (1,443.37, 1,452.05, 1,433.83, 1,435.84, -6.51563)



Top is 3/9/2000  
 NNL Top is 73.69 > 50

Sell signal is 3/20/2000  
 MSI Sell is 3.627 < 3.80  
 VIX Sell is 22.96 > 19 < 25

23 30 7 13 20 27 4 11 18 25 1 8 15 22 29 6 13 20 27 3 10 18 24 31 7 14 22 28 6 13 20 27 3 10 17 24 1 8 15 22 30 5 12 19 26 3 10 17 24 31 7 14 21 2

September October November December 2000 February March April May June July August

# Series of Tops

- This is a chart formation that develops over a period of time. Years 2007 and 2011 have this feature
- The New Lows at the tops exceed 50 but the MSI or VIX may not confirm a sell signal
- The sell signal to follow is the one confirmed by MSI and VIX



# Characteristic of bear market bottoms

- An “All Clear” signal is given when investors have given up on the market
- An Intermediate Buy Signal is given during a bear market when the number of Normalized New Lows decreases significantly from bottom to the buy signal
- Pep indicator needs to be above 3.8%

# Intermediate Buy Signal

While a bear market is in progress, an intermediate buy signal may appear after key market bottoms

Calculation:

- $\text{NNL at bottom} / \text{NNL at buy signal}$
- If the division is 8 or more, then an intermediate buy signal is determined

# All Clear

All Clear signal determines long term bottom has been reached on a buy signal

Calculation:

- $\text{NNL at buy signal} / \text{NNH at buy signal}$
- If calculation is 2 or more, then an All Clear signal is determined

November 2008 to March 2009

Accelerating New Lows

March 18, 2009

Intermediate Buy = 14.415 > 8

All Clear = 2.621 > 2

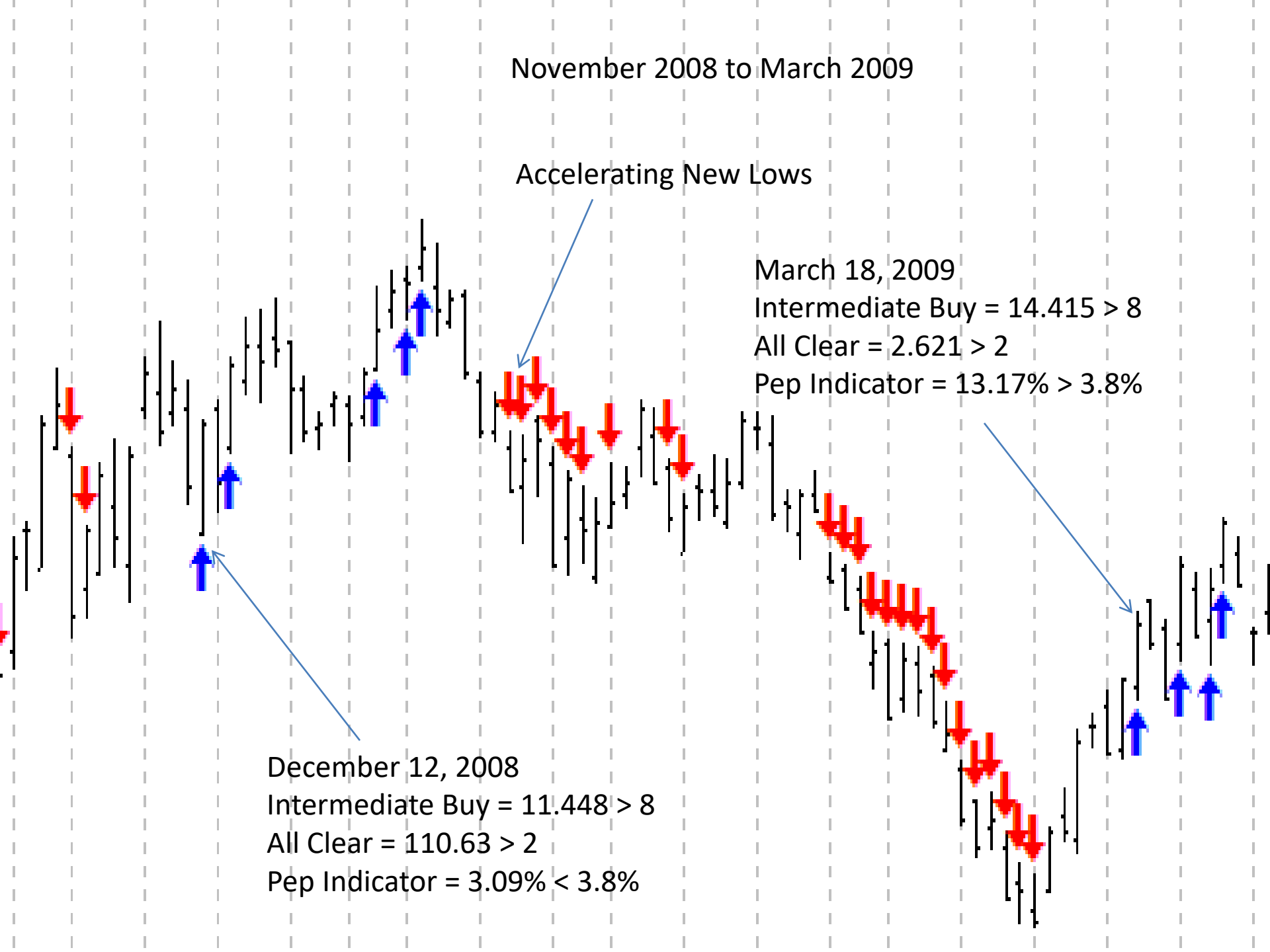
Pep Indicator = 13.17% > 3.8%

December 12, 2008

Intermediate Buy = 11.448 > 8

All Clear = 110.63 > 2

Pep Indicator = 3.09% < 3.8%

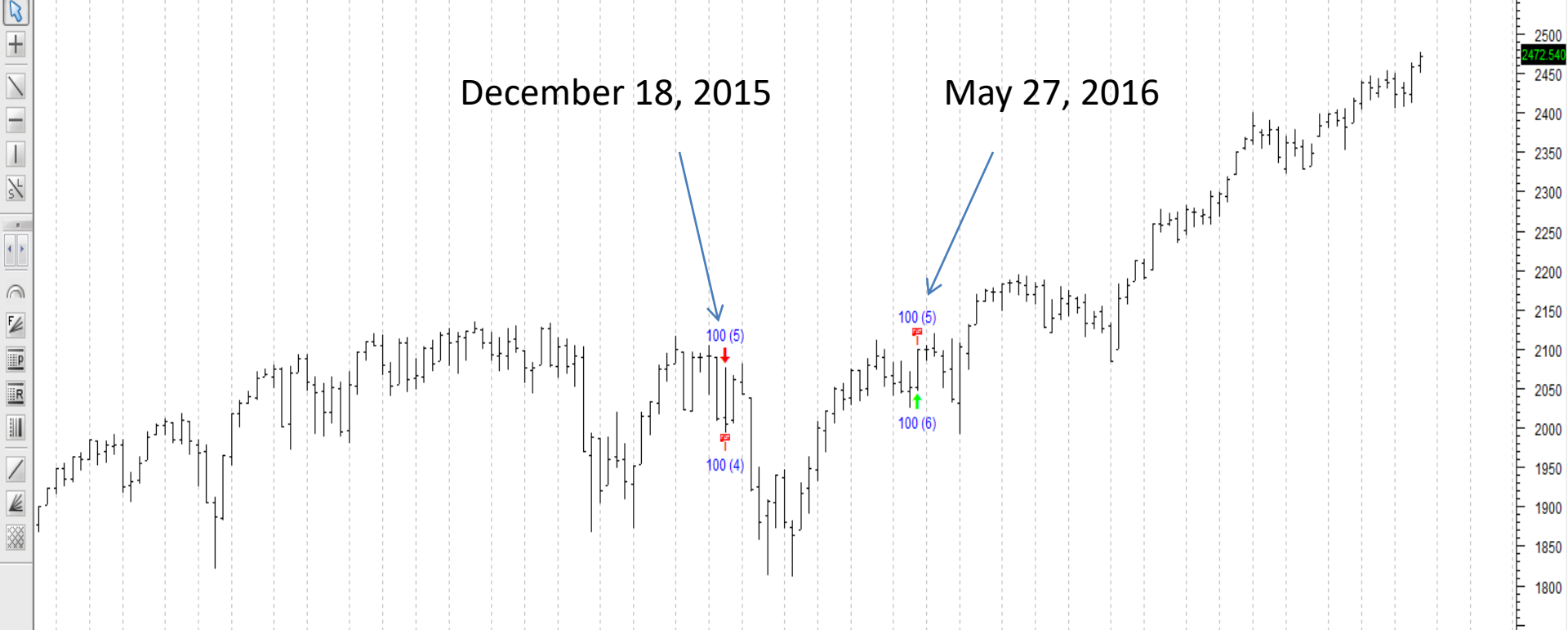


# Long Term S&P Timer

The Long Term S&P Timer is used by the Conservative and Mega Cap portfolios. Weekly chart is used

1. S&P Price > S&P Price 3 weeks ago AND
2. S&P Price > S&P Price 21 weeks ago AND
3. S&P Price > 12 week ema AND
4. 12 week CCI > 19 week CCI AND
5. 12 week ema > 19 week ema

This is for the buy signal. Reverse all the signs for the sell signal



December 18, 2015

May 27, 2016

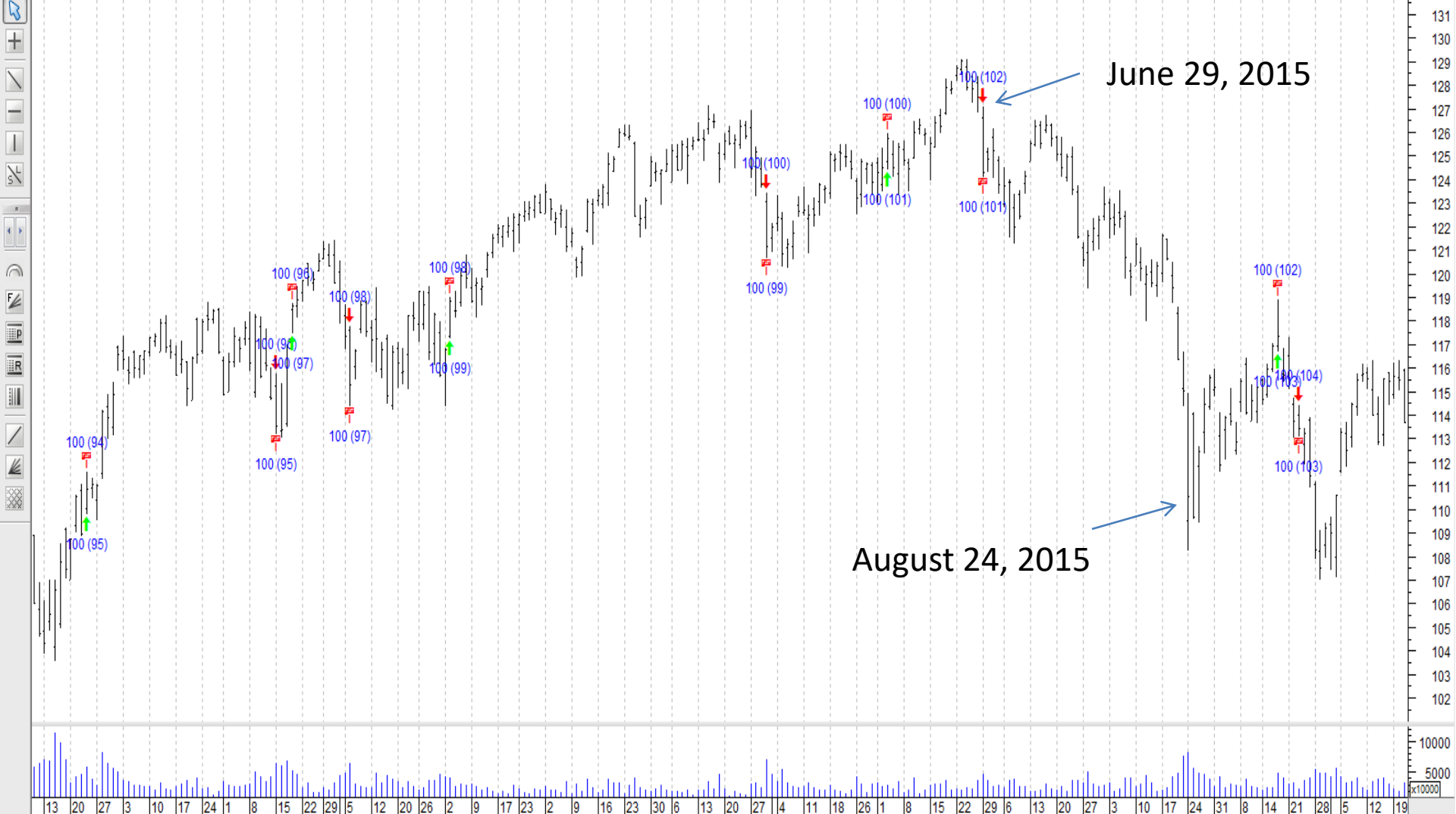
Chart by Metastock

Long Term S&P Timer

# Shortable Correction Timer

The Shortable Correction Timer is a variation of the Tsunami Indicator and determines larger corrections with the potential to hedge when Short to Intermediate Market Timer gives a sell signal

1. Normalized New Lows at the top  $> 30$
  2. Normalized New Lows at sell signal  $> 60$
  3. Rate of Decline  $< 190$
  4. VIX  $< 20$
- Use put options (5%-10%) or inverse index funds (50%-100%) to hedge



er November December 2015 February March April May June July August September October 19

# Summary

- Bear Markets have four different setups according to present analysis
- The “All Clear” signal confirmed by Pep Indicator shows when to get back in after a bear market
- The market is analyzed every day and determination of the current status is assessed
- $MSI > 4.5$  at market peaks and  $LTMSI > 4.20$  give confidence that the market is in good shape