

How to Leverage FastTrack to Create Good Risk-Adjusted Returns

San Diego Chapter AAll – Risk Management SIG
June 22, 2022

Presented by
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and
Jim Hoffmann, Individual Investor

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Upcoming Events

Current calendar can be found at www.aaiaisandiego.com

Upcoming Meeting Dates



July 9, 2022 – Chi Elder, Federal Reserve Bank of San Francisco
How the Federal Reserve Works For You



Agenda

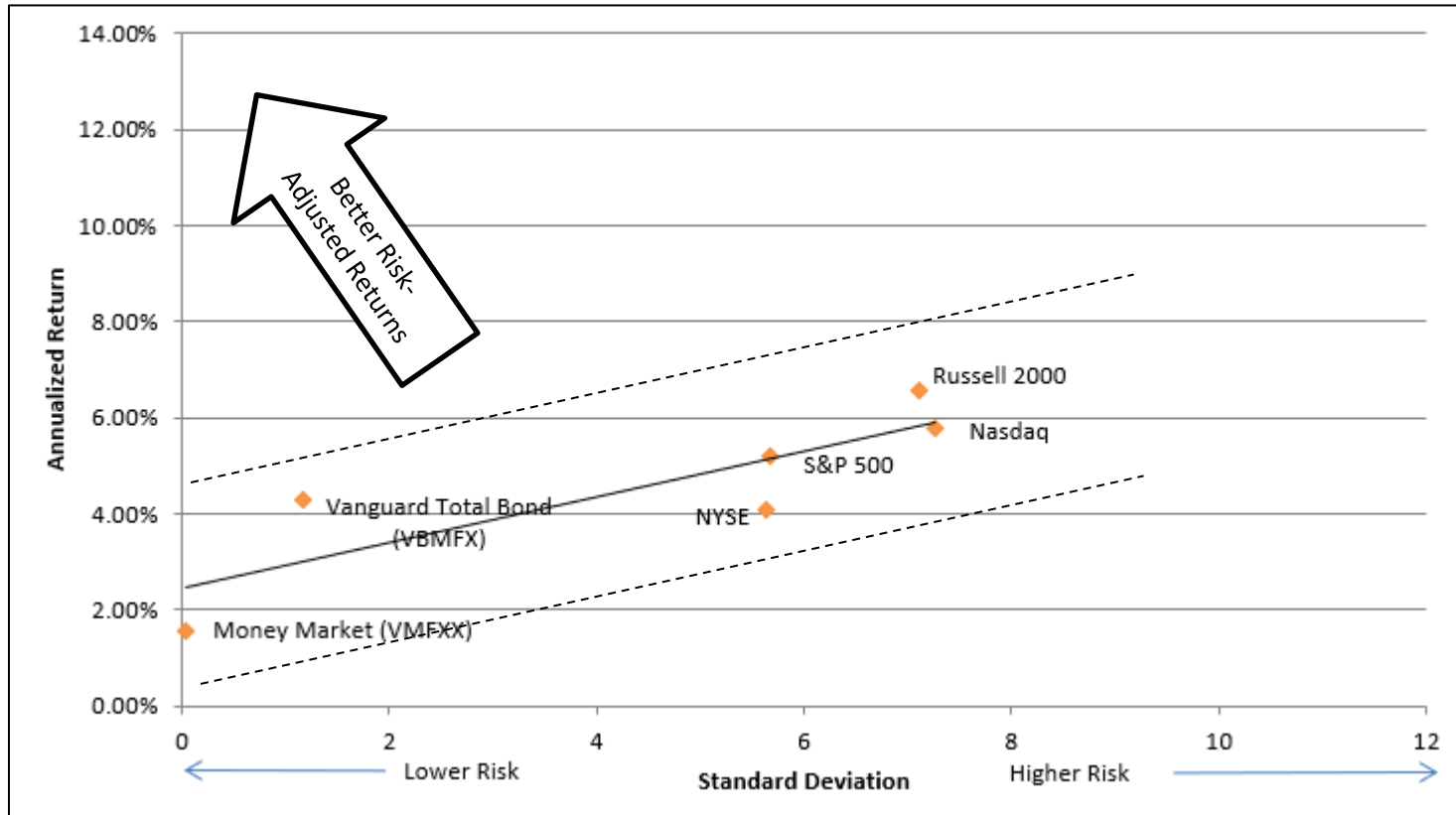
- Current Market Conditions
 - Equity Markets
 - Low Volatility Groups
 - A Low Volatility Opportunity In the Making
- FTCloud
 - FTCloud Basics
 - How to Back Test Low Volatility Strategy
 - How to Back Test a Margined Portfolio
- Observations from an Individual Investor

The Current Opportunity

- The current market environment is uncertain, and risk is elevated.
- Rising prices and higher inflation expectations are unresolved issues. The Fed has clearly indicated that this is their top priority.
- This is not a time to despair; it is a time to prepare.
- Using the moving average timing techniques on low volatility bond/income funds allows individual investors the ability to take advantage of the uncertainty in the market.
- The current downtrend will come to an end. We just don't know when. Monitor the declines in low volatility groups for a reversal in trend.

Risk vs. Reward

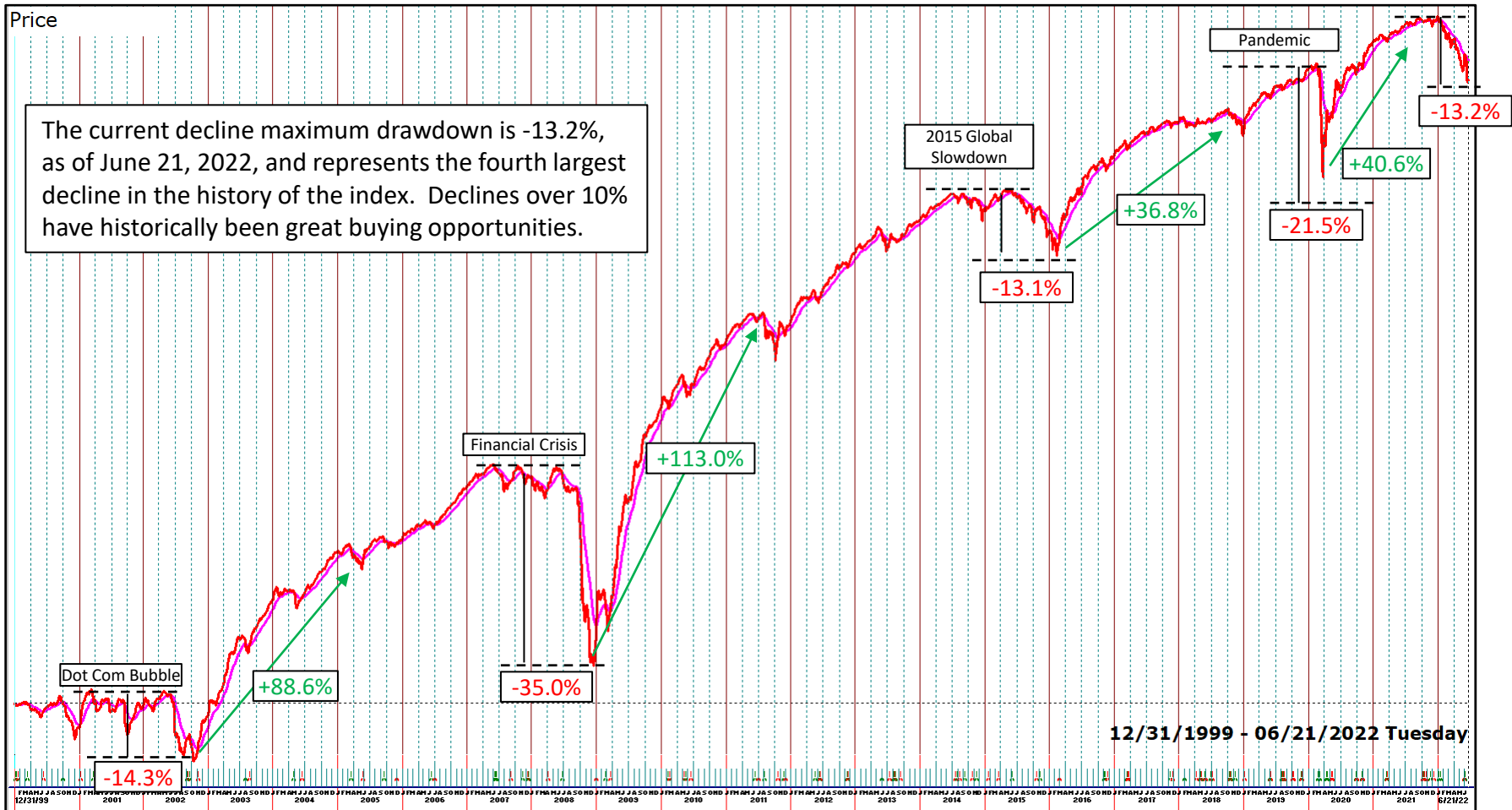
12/31/1999 – 3/31/2022



Our goal as investors is to achieve returns outside the long-term, expected return channel by striving for better risk-adjusted returns (i.e. upper left-hand quadrant).

Junk Bonds - The Current Market Environment

12/31/1996 – 06/21/2022



RGB Market Monitor Bond/Income Groups

An Opportunity in the Making

Symbol	Description	FTCloud Family	Statistics for 07/31/21 - 06/03/22						YTD	One-Year
			Return	Annual Return	Ulcer	UPI	MaxDrawDown	SD	Return	Return
RGB03	RGB Floating Rate Index	Bank Loan	-0.44%	-0.52%	1.1	-0.58	-4.10%	0.69%	-2.28%	-0.10%
RGB07	RGB Securitized Credit Index	N/A	-4.94%	-5.82%	2.18	-2.72	-6.10%	0.41%	-6.05%	-4.08%
RGB09	RGB Inflation Protected Bond Inde	Inflation-Protected	-4.02%	-4.73%	3.08	-1.58	-7.40%	1.76%	-5.15%	-0.99%
RGB04	RGB Junk Bond Index	High Yield	-6.90%	-8.11%	4.13	-1.99	-10.50%	1.31%	-7.90%	-5.55%
RGB10	RGB Preferred Securities Index	Preferred Stock	-8.45%	-9.92%	4.76	-2.11	-11.20%	1.02%	-8.57%	-7.12%
RGB05	RGB Muni Bond Index	Muni National	-8.11%	-9.53%	4.75	-2.03	-11.50%	0.80%	-7.73%	-7.20%
RGB01	RGB US Treasury Index	Government	-11.11%	-13.01%	5.71	-2.3	-12.50%	1.91%	-10.13%	-8.64%
RGB02	RGB Corporate Bond Index	Corporate	-12.18%	-14.25%	6.5	-2.21	-13.60%	1.62%	-10.97%	-9.95%
RGB06	RGB High-Yield Muni Index	High Yield Muni	-9.15%	-10.73%	5.46	-1.99	-14.20%	1.15%	-9.40%	-7.47%
RGB08	RGB Emerging Market Debt Index	Emergin Markets	-14.97%	-17.46%	8.96	-1.96	-18.10%	2.01%	-12.76%	-14.79%

Source: RGB Market Monitor, June 6, 2022

- The larger the decline, the bigger the opportunity.
- How has the environment changed in the last two weeks? Use FTCloud to re-create the table above.

FTCloud

FTCloud Basics

1. [FTCloud Training Manual](#)
2. FTCloud Training Classes
 1. [Introduction FTCloud](#)
 2. [Charts and Spreadsheets](#)
 3. [Data – Families, Models and FNUs](#)
 4. [Test Your Knowledge and Other Useful Tools](#)

The manual and class recordings are available at www.aaisandiego.com

Back Testing a Margined Portfolio of RGB07

1. Launch a Chart window (page 2-1 of FTCloud Training Manual)
2. Load a Price and Adjusted Return Chart: PPPPJJ (page 2-6)
3. Load RGB07 in Red Color Cell; Load VMFXX in Green Color Cell
4. Set appropriate time period (pages 2-7 to 2-8)
5. Review J chart, move composite line to Blue color cell and save as FNU (pages 3-14 to 3-18)
6. Create a static model to hold the timed strategy (pages 5-4 to 5-9)
 - Allocate 150% of Portfolio
 - Create an FNU of margined portfolio
7. Plot new FNU on chart

Preparing for an Eventual Bottom

Things to Consider

1. What types of funds am I likely to purchase (interest rate sensitive bonds vs. economically sensitive bonds)?
2. Review the prospectus before purchasing a fund.
3. What share classes are offered by the fund company?
4. What share classes are available on your trading platform?
5. What is the size of the fund (AUM)?
6. Does the fund company assess early redemption fees?
7. Is the fund an interval fund?
8. Is there a minimum initial purchase amount?

Advanced Exercise

How to Find Securitized Credit Funds with FTCloud Spreadsheet

1. Load 'All – Fixed Income' family into spreadsheet
2. Set RGB07 (Securitized Credit) as the Benchmark
3. Verify 'Correlation' column is included in spreadsheet
4. Set your timeframe and 'Compute'
5. Sort the spreadsheet by Correlation – this will provide the funds that have the highest correlation to RGB07.

Observations from an Individual Investor

Jim Hoffmann

Market correlations for the last 6 corrections

Financial Crisis in 2008	
#1 (Oct 9, 2007 - Mar 9, 2009)	
Asset	Drawdown %
S&P 500 (SPY)	-55.19%
Nasdaq (QQQ)	-51.56%
20+Treasury (TLT)	25.07%
7-10 Treasury (IEF)	20.15%
Gold (GLD)	23.92%
Real estate (IYR)	-69.71%
Utilities (XLU)	-42.48%
Energy (XLE)	-47.92%
Emerging (EEM)	-59.14%
US dollar (UUP)	11.79%
Commodities (DBC)	-27.37%
Long Volatility (VXZ)	147.23%
Q4 2018 Crash	
#4 (Sep 20, 2018 - Dec 24, 2018)	
Asset	Drawdown %
S&P 500 (SPY)	-20.18%
Nasdaq (QQQ)	-21.95%
20+Treasury (TLT)	4.53%
7-10 Treasury (IEF)	3.35%
Gold (GLD)	5.03%
Real estate (IYR)	-10.75%
Utilities (XLU)	-1.58%
Energy (XLE)	-27.16%
Emerging (EEM)	-9.99%
US dollar (UUP)	3.67%
Commodities (DBC)	-16.46%
Long Volatility (VXZ)	31.73%

Pandemic in 2020	
#2 (Feb 19, 2020 - Mar 23, 2020)	
Asset	Drawdown %
S&P 500 (SPY)	-33.72%
Nasdaq (QQQ)	-27.92%
20+Treasury (TLT)	14.23%
7-10 Treasury (IEF)	6.38%
Gold (GLD)	-3.62%
Real estate (IYR)	-41.55%
Utilities (XLU)	-35.37%
Energy (XLE)	-56.07%
Emerging (EEM)	-30.79%
US dollar (UUP)	3.94%
Commodities (DBC)	-25.70%
Long Volatility (VXZ)	99.82%
European Debt Crisis in 2011	
#5 (Apr 29, 2011 - Oct 3, 2011)	
Asset	Drawdown %
S&P 500 (SPY)	-17.66%
Nasdaq (QQQ)	-13.08%
20+Treasury (TLT)	34.56%
7-10 Treasury (IEF)	13.62%
Gold (GLD)	5.64%
Real estate (IYR)	-20.94%
Utilities (XLU)	1.00%
Energy (XLE)	-29.24%
Emerging (EEM)	-30.59%
US dollar (UUP)	7.45%
Commodities (DBC)	-19.69%
Long Volatility (VXZ)	46.58%

Current crash in 2022	
#3 (Jan 3, 2022 - Jun 16, 2022)	
Asset	Drawdown %
S&P 500 (SPY)	-23.01%
Nasdaq (QQQ)	-32.35%
20+Treasury (TLT)	-21.98%
7-10 Treasury (IEF)	-11.60%
Gold (GLD)	2.59%
Real estate (IYR)	-23.98%
Utilities (XLU)	-6.99%
Energy (XLE)	37.16%
Emerging (EEM)	-18.99%
US dollar (UUP)	7.29%
Commodities (DBC)	42.43%
Long Volatility (VXZ)	22.82%
China Hard Landing in 2015	
#6 (May 21, 2015 - Feb 11, 2016)	
Asset	Drawdown %
S&P 500 (SPY)	-14.35%
Nasdaq (QQQ)	-12.01%
20+Treasury (TLT)	13.25%
7-10 Treasury (IEF)	6.19%
Gold (GLD)	2.91%
Real estate (IYR)	-10.04%
Utilities (XLU)	5.36%
Energy (XLE)	-31.53%
Emerging (EEM)	-30.78%
US dollar (UUP)	-0.96%
Commodities (DBC)	-32.27%
Long Volatility (VXZ)	24.50%

Source: Brent Osachoff of Volatility trading Strategies, <https://www.volatilitytradingstrategies.com>

Average of 5 previous excluding current	
Asset	Drawdown %
S&P 500 (SPY)	-28.22%
Nasdaq (QQQ)	-25.30%
20+Treasury (TLT)	18.33%
7-10 Treasury (IEF)	9.94%
Gold (GLD)	6.78%
Real estate (IYR)	-30.60%
Utilities (XLU)	-14.61%
Energy (XLE)	-38.38%
Emerging (EEM)	-32.26%
US dollar (UUP)	5.18%
Commodities (DBC)	-24.30%
Long Volatility (VXZ)	69.97%

Current crash in 2022	
#3 (Jan 3, 2022 - Jun 16, 2022)	
Asset	Drawdown %
S&P 500 (SPY)	-23.01%
Nasdaq (QQQ)	-32.35%
20+Treasury (TLT)	-21.98%
7-10 Treasury (IEF)	-11.60%
Gold (GLD)	2.59%
Real estate (IYR)	-23.98%
Utilities (XLU)	-6.99%
Energy (XLE)	37.16%
Emerging (EEM)	-18.99%
US dollar (UUP)	7.29%
Commodities (DBC)	42.43%
Long Volatility (VXZ)	22.82%

Current vs previous 5 differential	
Asset	Drawdown %
S&P 500 (SPY)	5.21%
Nasdaq (QQQ)	-7.05%
20+Treasury (TLT)	-40.31%
7-10 Treasury (IEF)	-21.53%
Gold (GLD)	-4.19%
Real estate (IYR)	6.62%
Utilities (XLU)	7.62%
Energy (XLE)	75.54%
Emerging (EEM)	13.27%
US dollar (UUP)	2.11%
Commodities (DBC)	66.72%
Long Volatility (VXZ)	-47.16%

How the current correction compares

Source: Brent Osachoff of Volatility trading Strategies, <https://www.volatilitytradingstrategies.com>

Where are we in the business cycle?

The Progression of the Typical Business Cycle

▪ Expansion

- a) Gross Domestic Product is increasing and consumer confidence is high.
- b) As the economy expands, demand for capital, labor resources and raw materials result in inflationary pressures.
- c) Inflationary pressures eventually cause yields to rise (bond prices to fall) as bond investors require higher yields to hold longer dated bonds.

▪ Peak

- a) The Fed begins to increase short-term rates in attempt to control inflation.
- b) As interest rates rise, stocks peak on the anticipation of declining earnings in the future.
- c) Although stocks peak, commodity prices continue to rise, at least temporarily, but will eventually decline with the rest of the economy.
- d) Eventually the economy slows as the business environment adapts to the new environment.

▪ Recession/Contraction

- a) GDP growth rate slows and consumer confidence is low.
- b) Bond prices bottom (yields, top) as the market anticipates that the Fed will begin to lower short-term rates.
- c) Typically, the Fed will keep short-term rates high for too long and the yield curve becomes inverted (an indication that a recession is likely).
- d) GDP may turn negative -- an indication of a recession.

▪ Trough

- a) Declining bond yields increase the supply of credit and spur economic growth.
- b) Stock prices bottom and begin to trend up in anticipation of higher growth and earnings in the future.
- c) As the economy gains traction the cycle starts over again.

Real GDP negative, in first Qtr. 2022. next announcement June 29

Bureau of Economic Analysis

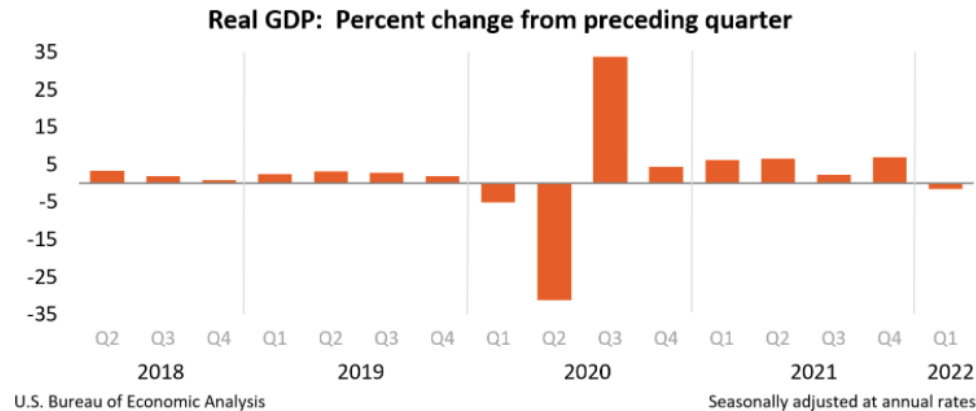
EMBARGOED UNTIL RELEASE AT 8:30 A.M. EDT, Thursday, May 26, 2022

BEA 22-20

Gross Domestic Product (Second Estimate) and Corporate Profits (Preliminary), First Quarter 2022

Real gross domestic product (GDP) decreased at an annual rate of 1.5 percent in the first quarter of 2022 (table 1), according to the "second" estimate released by the Bureau of Economic Analysis. In the fourth quarter, real GDP increased 6.9 percent.

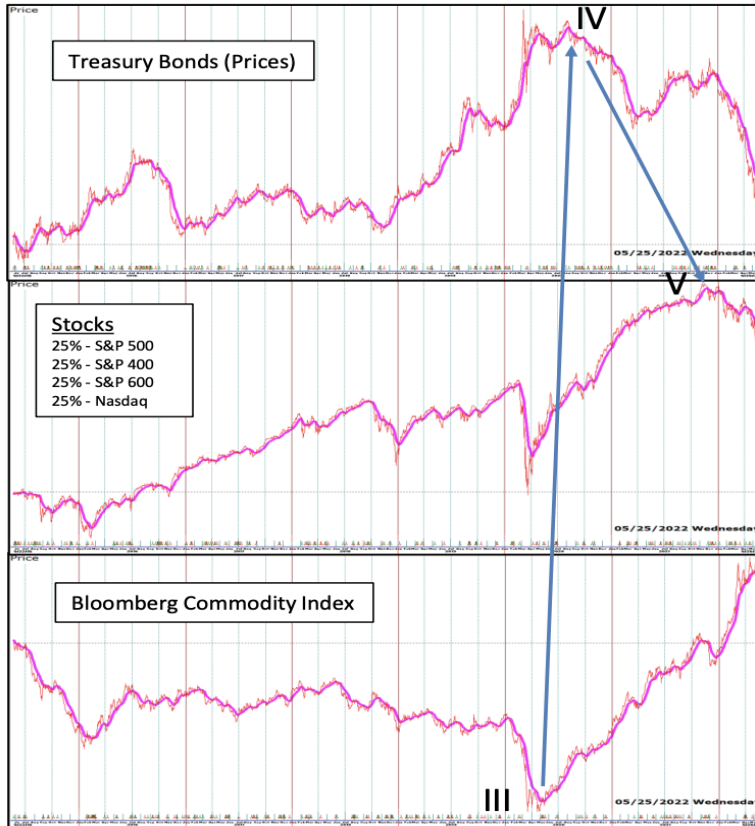
The GDP estimate released today is based on more complete source data than were available for the "advance" estimate issued last month. In the advance estimate, the decrease in real GDP was 1.4 percent. The update primarily reflects downward revisions to private inventory investment and residential investment that were partly offset by an upward revision to consumer spending (refer to "Updates to GDP").



The decrease in **real GDP** reflected decreases in private inventory investment, exports, federal government spending, and state and local government spending, while imports, which are a subtraction in the calculation of GDP, increased. Personal consumption expenditures (PCE), nonresidential fixed investment, and residential fixed investment increased (table 2).

Currently in Stage VI?

The Current Business Cycle Seven-Year Charts (with 21-Day Moving Average)



Bond prices peaked in 2020 (IV) and have been in a steady decline.

Stocks peaked in late 2021 (V) and have been in a steady decline.

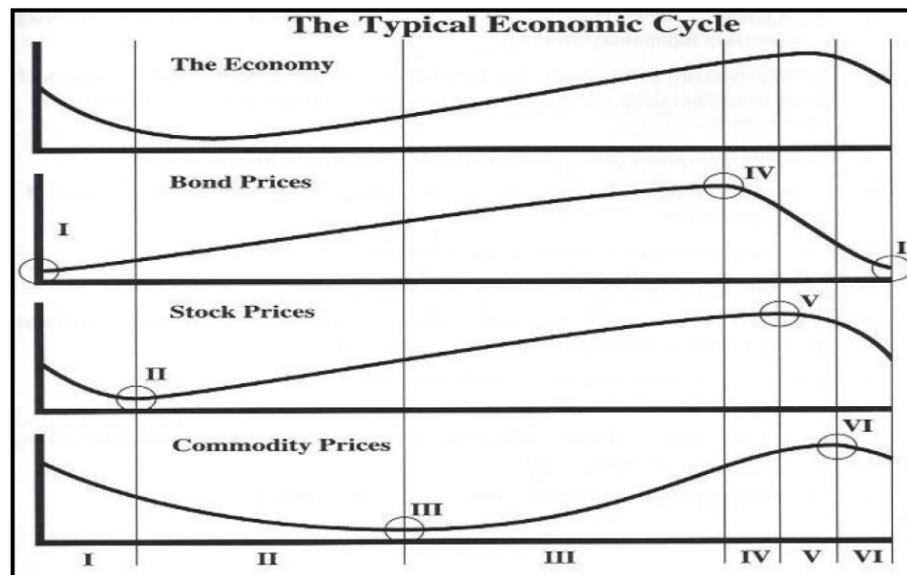
Commodities, on the other hand, bottomed in the first half of 2020 (III) and are in a steady uptrend.

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Stage One is usually Bullish for bonds.

Business Cycle – Impact on Different Asset Classes



Source: Michael Price

Stage I – Bonds Bottom

- Bullish for bonds
- Bearish for stocks
- Bearish for commodities

Stage III – Commodities Bottom

- Bullish for bonds
- Bullish for stocks
- Bullish for commodities

Stage V – Stocks Top

- Bearish for bonds
- Bearish for Stocks
- Bullish for commodities

Stage II – Stocks Bottom

- Bullish for bonds
- Bullish for stocks
- Bearish for commodities

Stage IV – Bond Prices Top

- Bearish for bonds
- Bullish for stocks
- Bullish for commodities

Stage VI – Commodities Top

- Bearish for bonds
- Bearish for stocks
- Bearish for commodities

How to Prepare for Stage I

- Use Rob's method to identify funds with low volatility.
 - Balance between return, risk while minimizing volatility , number of trades per year
- Risk Management working group.
 - Weekly email with tip on using Fast Track
 - Risk Management SIG on AAll community for continued dialogue
- Fast Track Cloud. <https://fasttrack.net/>
 - Discount code: **RGBSPRING50**
- The code is good for 6 months, 50% off of FT Cloud (\$32.50 for 6 months).
- After that, the regular \$65 a month will apply.
- Just click "referral code" below the subscription options to enter the code. They can sign up for a trial 14 days at <https://fasttrack.net/> using the "free trial" option on the main page.
- Customers can cancel anytime.

FTCloud Hot Tip of the Week

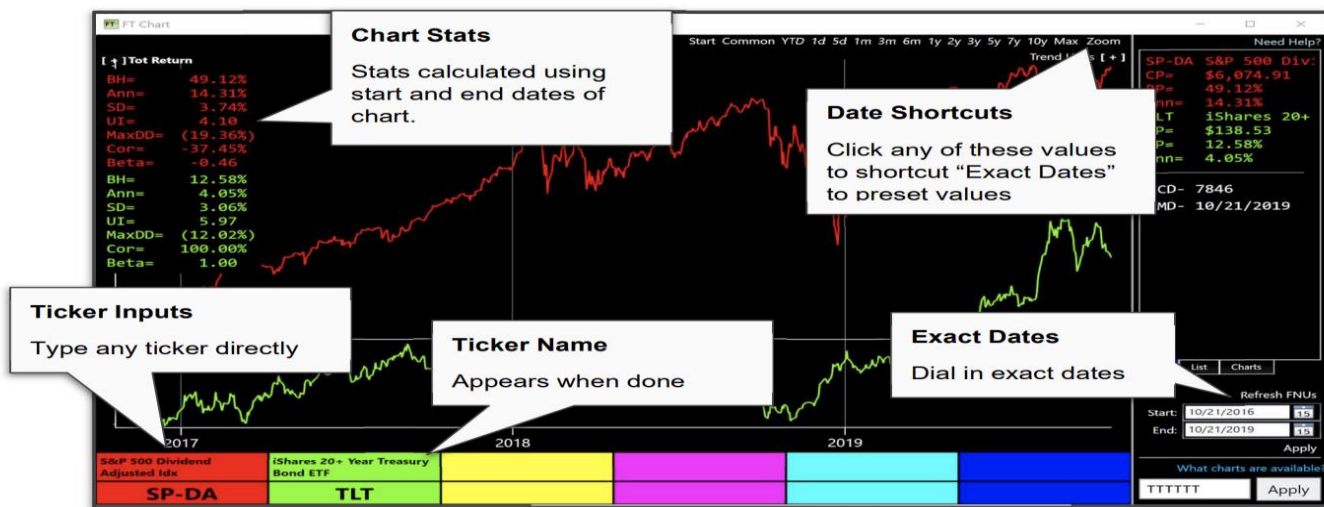
- Email Jim Hoffmann to receive secretary@aaisandiego.com

Fast Track Hot Tip example. Basic charting

FT Cloud Manual

Charting Basics

Layout



The above illustration shows only the Total Return chart, TTTTTT.

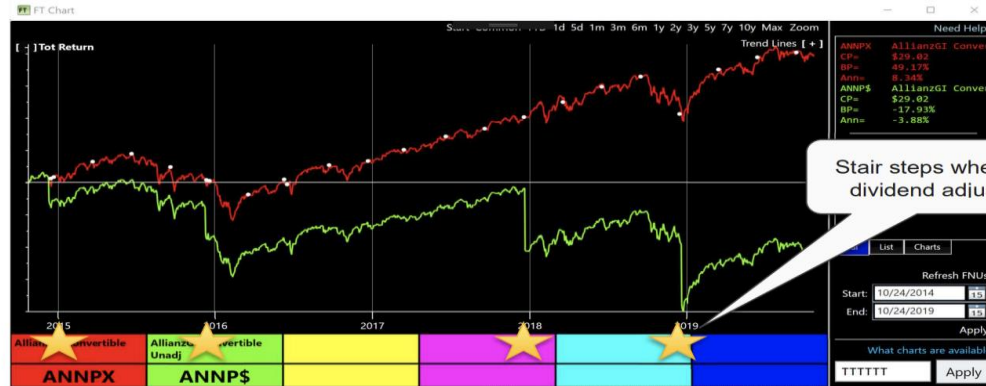
This is the default chart for FT Cloud and by far the most popular chart.

Fast Track Hot Tip example. Dividend adjusted

Dividend Adjusting

All data in FT Cloud is dividend adjusted, that means the data is presented as if the dividends were reinvested the day they were issued.

Why It's Important



The above chart of ANNPX is a great example of adjusted vs unadjusted data.

The red line is adjusted data. The green line is the unadjusted data.

This fund pays a large dividend at the end of each year. When a dividend is paid, the NAV (closing price) is reduced by that amount.

Without dividend adjustments, large "stair steps" are shown in the chart. See the green line on 12/11/14, 12/10/15, 12/21/17, and 12/20/18 (indicated with yellow stars).

Fast Track Hot Tip example. Types of charts

FT Cloud Manual

Types of Charts

Bollinger Bands (B)

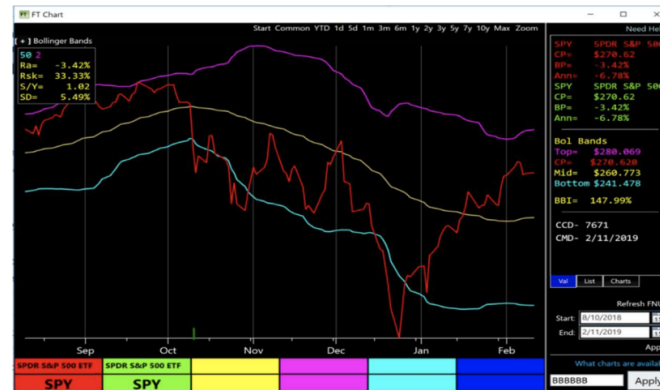
Bollinger Bands are upper and lower “envelope” lines plotted at standard deviation levels above and below a moving average. They predict the trading range of the red line.

Parameters

Bollinger Bands have two adjustable parameters

- P (period of the Exponential Moving Average)
- D (the number of Standard Deviations to shift the upper and lower bands)
- P governs the smoothing of the center line. D controls the width of the upper and lower bands. Narrower bands produce more signals

Bollinger recommends using 20 for the number of periods in the moving average and using 2 standard deviations.



Fast Track working group and Community

- Meet Once a month on Wednesdays, at 5pm to 545pm PST
 - Zoom meeting offers the most flexibility.
 - Review the previous "Fast Track Hot tips" that we sent out the weeks prior
 - Worked through scenario of RGB family fund categories to identify trends and use functionality of Fasttrack to select potential buy list.
- AAll Community Special Interest group
 - Ongoing discussion to improve
 - Review the previous "Fast Track Hot tips" that we sent out the weeks prior

Risk Management AAI Community page example:

The screenshot shows the AAI Community page for Mutual Funds & ETFs. The page header includes the AAI logo and navigation links: AAI.com, Home, Suggested Communities, Browse, and Help/FAQs. The main heading is 'Mutual Funds & ETFs' with a 'Settings' button. Below the heading, there are navigation tabs: Community Home, Discussion (129), Library (0), Blogs (0), and Events (0). A 'Most' filter is visible. The main content area displays a list of discussion threads. A callout box highlights a thread with the subject: 'What screening criteria are you currently using to find quality ETFs to invest in to provide portfolio padding against market volatility? Have you found a strategy that works for you?'. The thread has 17 replies and was posted 22 days ago by Jenna Brashear.

Thread Subject	Replies	Time	Author
How is your current portfolio allocated across different equity cap ranges?	19	an hour ago	BARRY JOHNSON Original post by Jenna Brashear
As a fund investor, what made you choose to invest in mutual funds versus ETFs?	12	2 days ago	DAVID LEWIS Original post by Jenna Brashear
category averages	3	3 days ago	PATL RITTER Original post by DONALD ECK
Russian "special military operation": the downward market turn.	3	13 days ago	ROBERT ADAMS Original post by JUAN KELLOGG
How much of your overall allocation is focused on international stock funds?	4	21 days ago	PAUL PRINA Original post by Jenna Brashear
Foreign Mutual Funds & ETFs	0	21 days ago	KENDRICK MILLER
What screening criteria are you currently using to find quality ETFs to invest in to provide portfolio padding against market volatility? Have you found a strategy that works for you?	17	22 days ago	Jenna Brashear

Community dialogue example

2. RE: What screening criteria are you currently using to find quality ETFs to invest in to provide portfolio padding against market volatility? Have you found a strategy that works for you?

1 Recommend



[BARRY JOHNSON](#)

Posted 28 days ago

Reply

Jenna, thanks for proposing a practical question everyone is trying to solve right now. I try to learn from the articles AAIL publishes and use the AAIL databases and screens to identify ways to implement practices the articles describe using the principles they cover. In my 2021 annual year-end review of the alignment of my goals and risk tolerances against the forecasted 2022 environmental PESTS data resourced from sources I subscribe to – (in order of tenure or size of portfolios) WSJ, Morningstar, AAIL, SCHW, FID, Bloomberg, Thomson Reuters, SoFi, and ALLY – I decided I would rebalance using a Morningstar 9-square "Style Box" (to ensure broad diversification by company size and value->growth 80/20 balance). I tilted diversification toward VALUE (underpriced) and DIVIDENDS (quality). My thesis was that market momentum would be in this direction as the Fed finally decided it could no longer ignore its mandated Mission in 2022. I screened IN low cost ETFs by these criteria (>\$0.10/000), high AUM (<1B), high volume (>250K for liquidity / low spreads). I prefer ETFs over MFs for all the usual reasons (see AAIL articles and community posts). At providers websites, I used data from the Style Boxes, Percent of Top 10 holdings, and technical analytic datapoints (alphas, betas, etc.) to refine the list of prospective ETFs. After all that, I invested in 7 ETFs. As of May 25, today, SPX is -16.6%. My portfolio is -5.6% (after taking out 50% of my RMDs to have 5 years cash on hand). The latest economic, market, and technicals forecasts (obtained from the sources above this month) forecast (1) the Fed will raise the FFR to 3.25 EOY, (2) inflation is now near 10% and the Fed will NOT be able to tame inflation "without dancing with the one what brung them" (as Bob Wills sang) – i.e., the big, fat, ugly balance sheet of USTs and MBSs it bought since 03/20 to finance the "Biden Boom", and (3) an increasing "wall of worries" that keep piling up as the "invisible hand" of the people who write POTUS cue cards try to keep US "on message," which is "ignore the man behind the curtain." Yep, we aren't in Kansas anymore. Going forward from here, it looks like (1) the Wicked Witch of the West (Yale) is dead and may be dug up by John Durham for a fitting English Medieval reburial. (2) The Good Witch of the East (Brown) has the strong USD issues driving third-world debt default issues "under control" (shout out to Sri Lanka for being #1), and (3) our trip back to Kansas is only 5 months away. Those are my fairy tales for now. Good night. Sleep tight. Don't let the Fed bugs bite.

[BARRY JOHNSON](#)

5. RE: What screening criteria are you currently using to find quality ETFs to invest in to provide portfolio padding against market volatility? Have you found a strategy that works for you?

0 Recommend



[KENDRICK MILLER](#)

Posted 26 days ago

Reply

In a bear market no screen will find acceptable investments...get out

[KENDRICK MILLER](#)