

Successful Investing

VS.

Urban Myths

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Agenda

- Bulls & Bears – Defined
- Urban Myths
- Portfolio Skills
- Secular Trends
- Sector Rotation
- The Dominant Theme

Bulls & Bears – Defined

- StockCharts.com (Murphy)
 - Bull: A long period of time when prices in the market are generally increasing
 - Bear: A long period of time when prices in the market are generally declining. It is often measured by a percentage decline of more than 20%

Bull Defined (NDR)

- Ned Davis Research:
 - A Bull Market requires a 30% rise in the Dow Jones Industrial Average after 50 calendar days or a 13% rise after 155 calendar days.

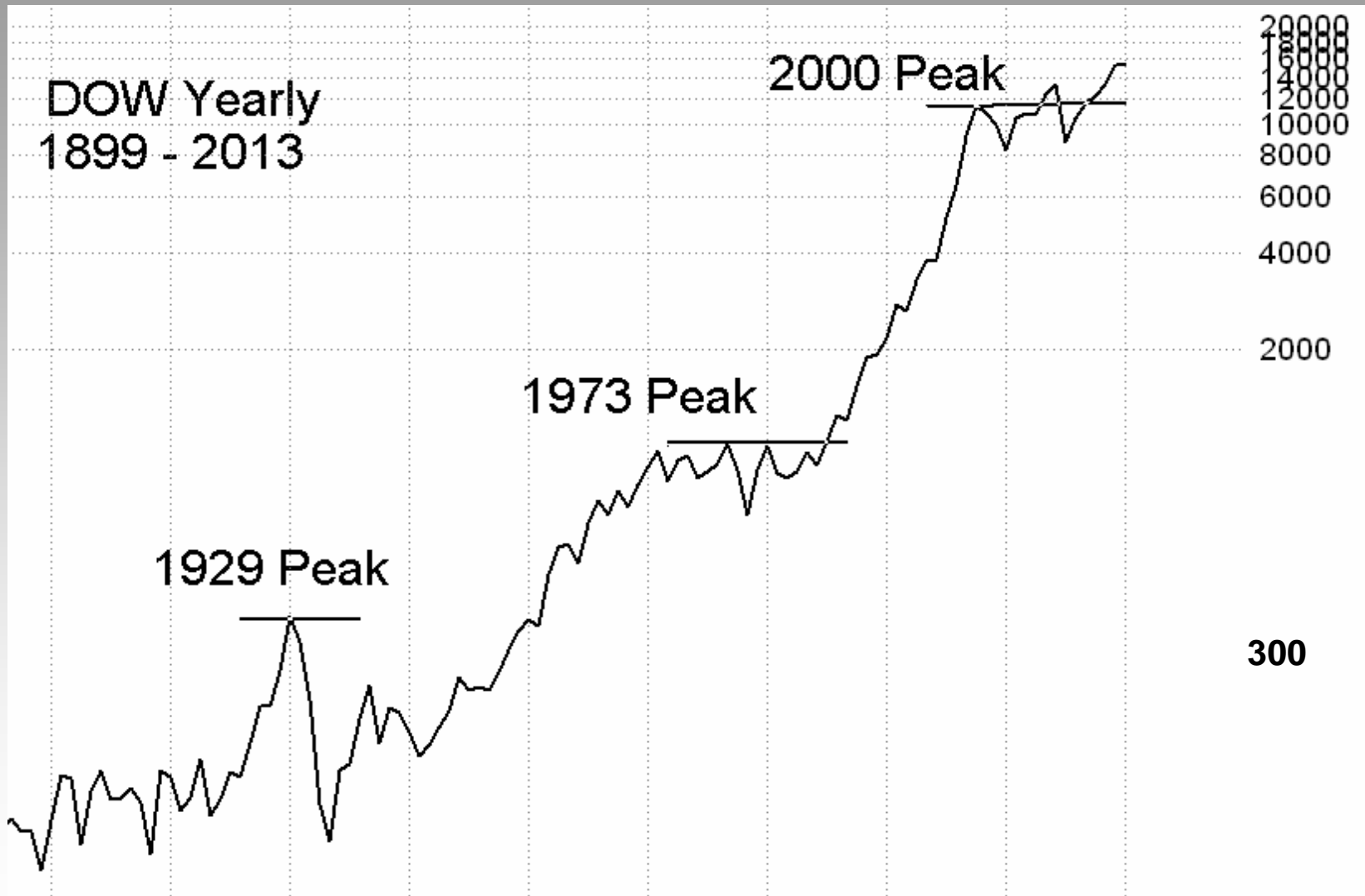
5 Modern Secular Bulls

Modern Bull Market Dates S&P500					
Low Date	Low Price	High Date	High Price	%Gain	#Days
Oct-74	62	Nov-80	141	126%	2215
Aug-82	102	Aug-87	337	229%	1813
Dec-87	224	Mar-00	1527	582%	4430
Oct-02	777	Oct-07	1565	101%	1800
Mar-09	667	Aug-13	1710	156%	1586
			Average	239%	2369

Bull & Bear Math

- Average Bull Market Gain 239%
- Average Bull Market Length in Years 6.49
- Total # of Days Oct' 74 Through Aug' 13 13979
- Total # of Bull Market Days 11844
- Total # of Bear Market Days 2135
- Total % of Bull Market Days 85%

A Series of New Highs



In Cash Waiting for the Big Correction

Returns Need For Being Late

5 yr Dow @ +7.4%

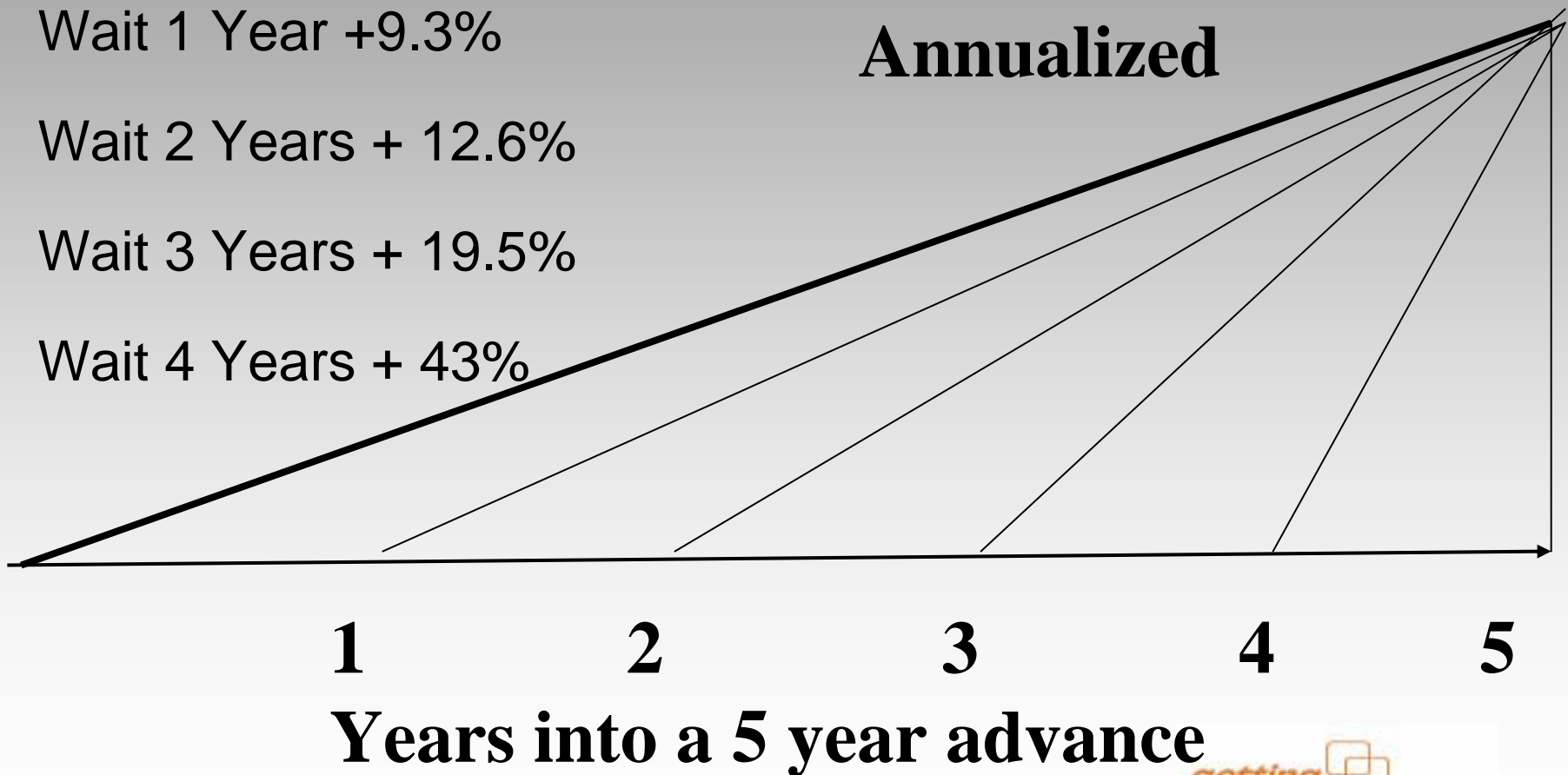
Wait 1 Year +9.3%

Annualized

Wait 2 Years + 12.6%

Wait 3 Years + 19.5%

Wait 4 Years + 43%



Years into a 5 year advance

Urban Myths

- The Black Swan Event
- The Hindenburg Omen
- The Kondratieff Winter
- Economist Harry Dent and Dow 3300
- Seasonal Trading

The Black Swan

- Past Black Swan events
 - The 1998 collapse of Long-Term Capital Management
 - The Japanese 2011 earthquake and tsunami
- In each case the event had no effect on the current trend of the global stock markets.

The Hindenburg Omen

- A history of false signals attracting Chicken Little crowd who proclaim “the sky is falling” every time there is a signal.
- Some past false signals were at least twelve during the stock market boom of the 1990’s and several false signals following the market bottom of March 2009.

The Kondratieff Winter

- The long wave at 52 years is a problem for the human investment horizon.
- Most investors attempting to experience two complete cycles have never lived long enough to talk about it

Harry Dent Dow 3300?

- On the Dow 3300 prediction we would need one half of the lowest price Dow components to go to zero and the remaining half to fall by 50 per cent just to get close to 5500.

Seasonal Trading

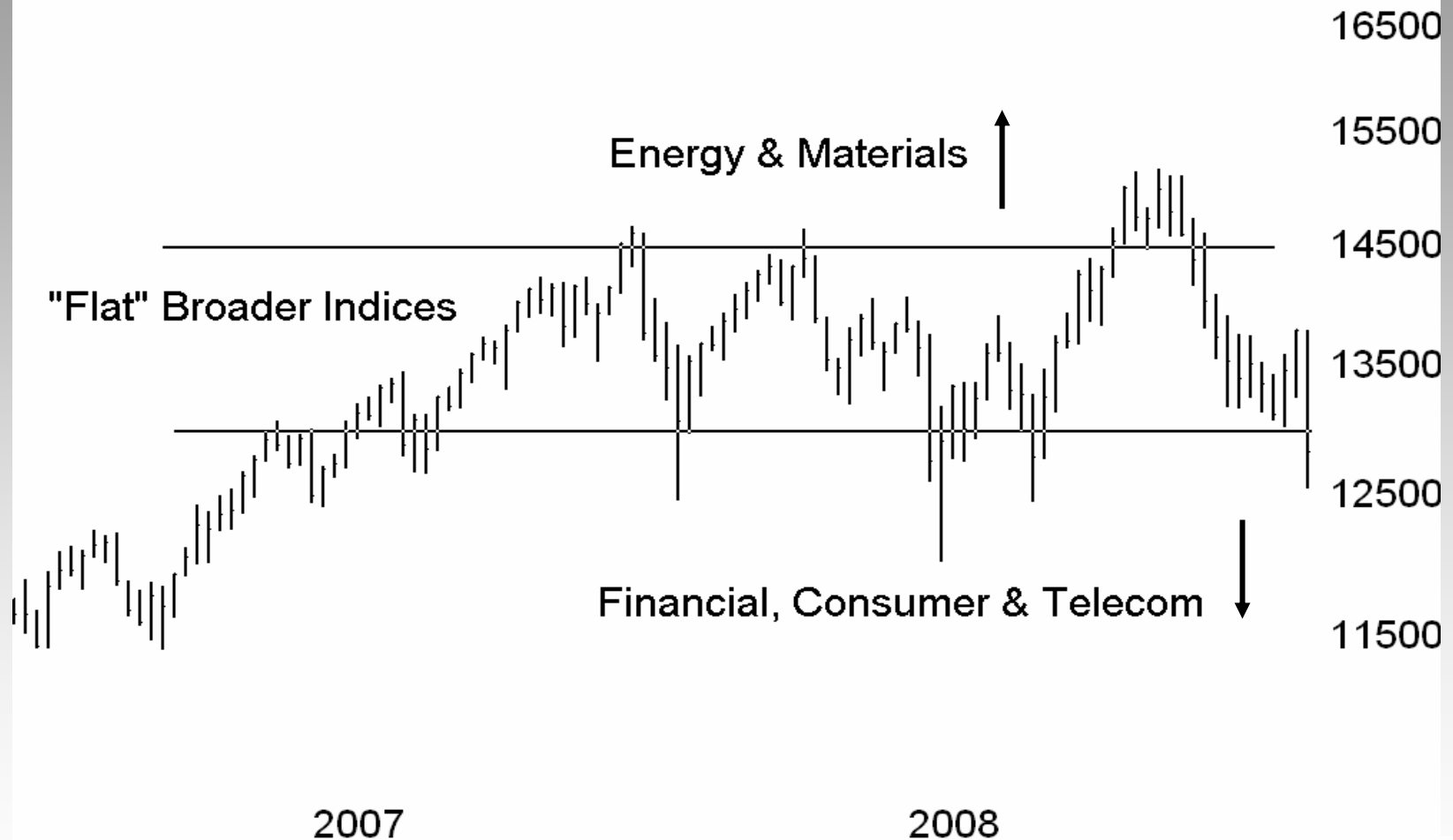
- Up Trends
 - Buy Low
 - Sell High
 - Buy Back Even Higher
- Down Trends
 - Sell High
 - Buy Low
 - Sell Even Lower

Be Your Own Portfolio Manager

- Select non-correlated assets
- Use constraints
- Re Balance
- Add Value

Non-Correlated Assets

TSX Composite Index-Weekly 01/16/2009

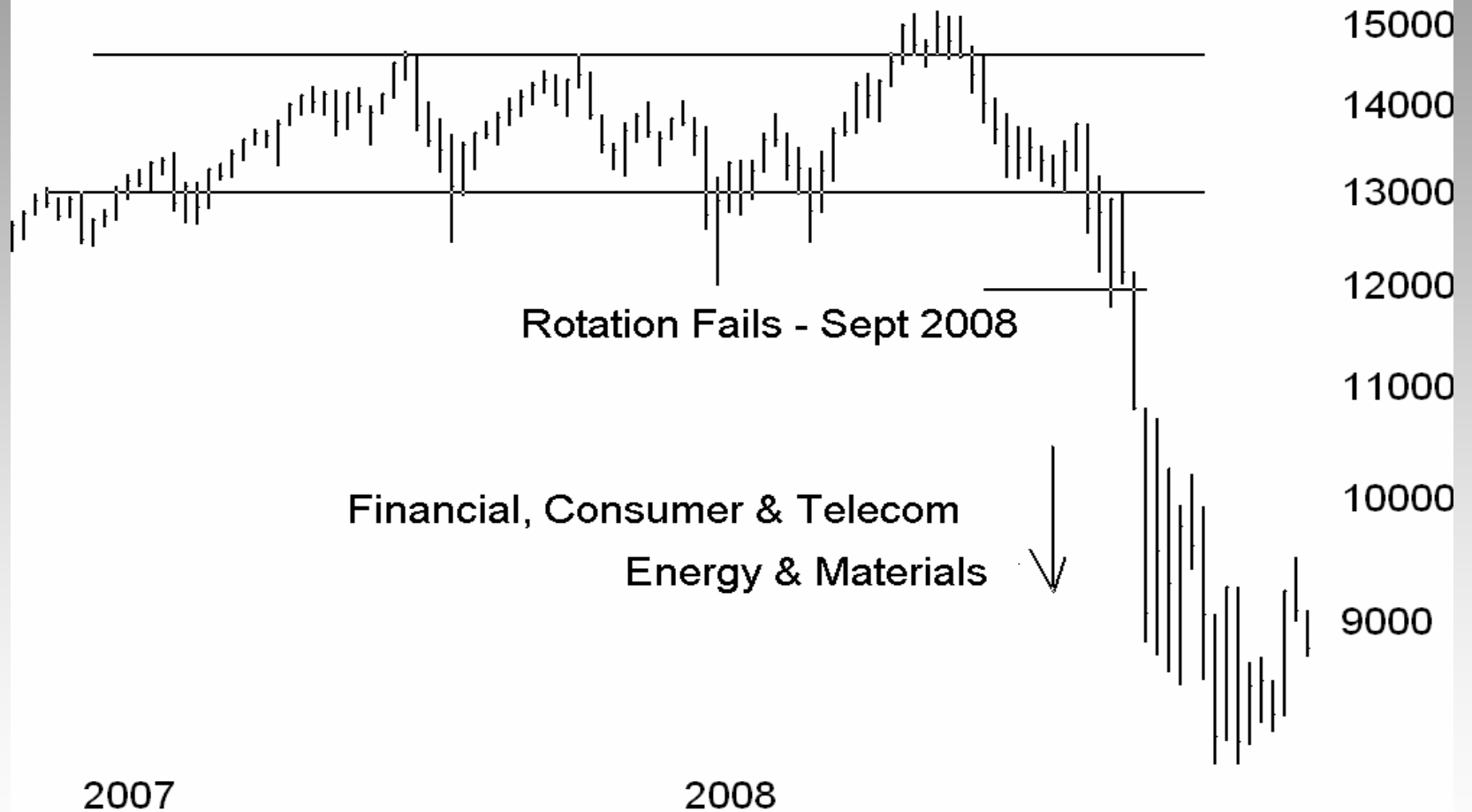


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Correlated Assets

TSX Composite Index-Weekly 01/16/2009



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Select The Asset Mix

- There are 10 Distinct Stock Sectors
 - Financial, Consumer (2)
 - Technology, Energy, Telecom
 - Materials, Industrials, Health Care & Utilities

Set Your Constraints

- Cap Single Sector Exposure to 30%
- Own at Least 5 Sectors – Never all 10
- Cap Single Stock Exposure to 15%
- Re Balance as Needed
- Incorporate some type of risk management

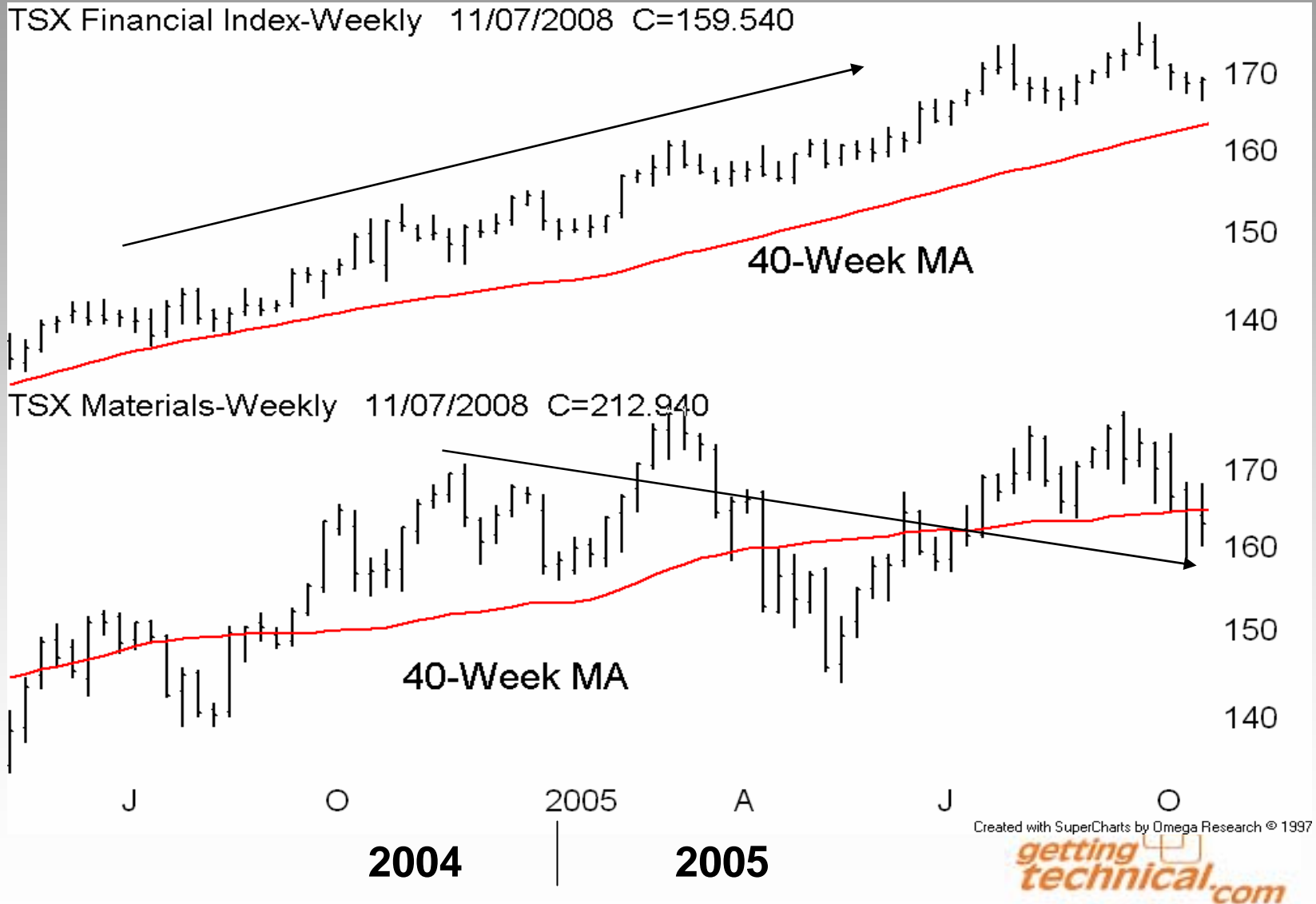
Adding Value (Alpha)

- Understand and Use Natural Sector Rotation
- Ride the Secular Bulls
- Identify the “Next Big Thing”

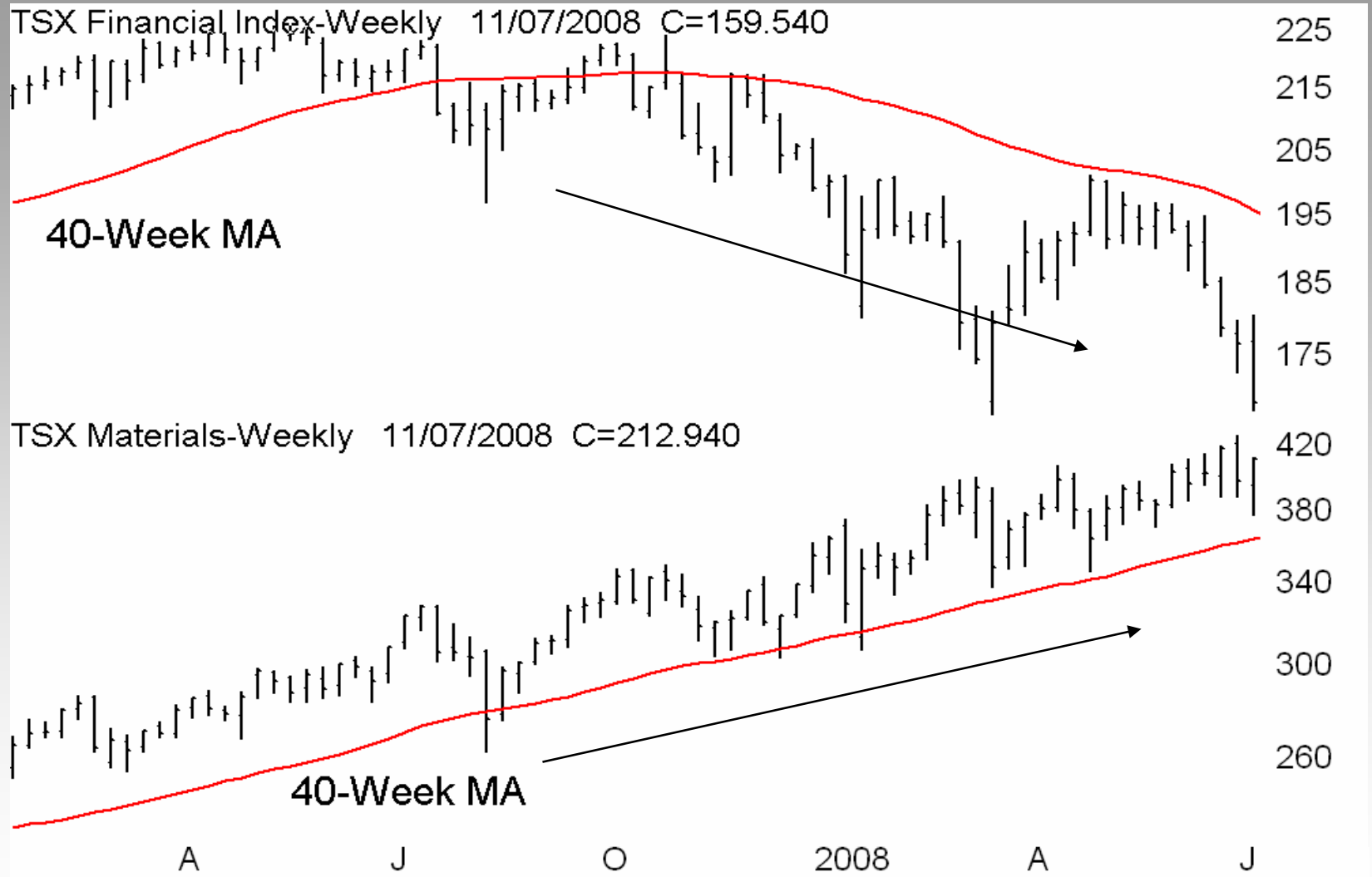
Sector Rotation

- Leading Stock Sectors
 - Financial, Utilities & Telecom
- Coincident
 - Consumer, Health Care, Industrial & Technology
- Lagging Stock Sectors
 - Energy & Materials

Lead - Lag



Lead - Lag



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Stock Selection is Secondary



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The GT Rotation Tables

- Use a top-down quantitative approach to follow sector rotation
- Apply one argument such as price momentum, or relative performance and build a table
- In this example we look at TSX Sector performance relative to each other

GT Rotation Table March 2008

TSX Groups MONTHLY Ranking	31-Mar-08	gettingtechnical.com Monthly MOM Ranking - Most Recent to the Left											
iShares CDN Materials XMA	31.62	1	1	1	2	2	2	2	2	4	5	5	4
iShares CDN Gold XGD	19.68	2	2	7	11	12	12	12	13	13	15	14	13
TSX Diversified Metals & Mining	5.41	3	3	2	1	1	1	1	1	1	1	1	1
TSX Utilities	4.27	4	4	3	3	7	8	8	10	10	12	12	11
iShares CDN Energy XEG	2.08	5	5	6	8	8	9	10	11	11	13	15	15
iShares CDN Technology XIT	-1.90	6	7	4	6	6	6	5	4	3	2	2	2
TSX Industrials	-4.23	7	8	8	7	4	4	3	3	2	4	4	5
BetaPro TSX 60 Bear Plus HXD	-4.40	8											
TSX Telecommunications	-12.20	9	9	9	4	3	3	4	5	5	3	3	3
iShares CDN Financial XFN	-13.06	10	10	10	10	10	10	11	9	8	7	6	6
TSX Consumer Staples	-16.13	11	12	12	12	11	11	9	8	9	11	10	10
TSX Consumer Discretionary	-17.65	12	11	11	9	9	7	7	6	6	6	7	7
TSX Health Care	-24.66	13	13	13	13	13	13	13	12	12	14	13	14

GT Rotation Table Sept 2013

TSX Groups MONTHLY Ranking	30-Sep-13	gettingtechnical.com Monthly MOM Ranking - Most Recent to the Left											
iShares CDN Technology XIT	33.65	1	1	1	1	1	1	1	2	6	6	7	8
TSX Consumer Discretionary	32.46	2	2	2	2	3	5	5	4	3	2	2	
TSX Health Care	27.72	3	4	5	7	7	7	7	7	7	6	3	
TSX Consumer Staples	27.27	4	3	3	4	4	3	4	2	1	1	1	
TSX Industrials	20.36	5	5	4	3	2	2	1	1	2	5	6	
iShares CDN Financial XFN	13.82	6	6	6	5	6	6	6	5	5	4	4	
iShares CDN Energy XEG	1.52	7	8	8	8	8	8	9	10	10	10	10	
TSX Telecommunications	0.87	8	7	7	6	5	4	3	3	4	3	5	
BetaPro TSX 60 Inverse HIX	-6.26	9	9	10	11	11	11	12	9	9	9	9	
TSX Utilities	-8.33	10	10	9	9	9	9	8	8	8	8	7	
TSX Diversified Metals & Mining	-17.94	11	11	11	10	10	10	10	11	11	13	13	
iShares CDN Materials XMA	-31.61	12	12	12	12	12	12	11	12	12	11	11	
iShares CDN Gold XGD	-44.39	13	13	13	13	13	13	13	13	13	12	12	

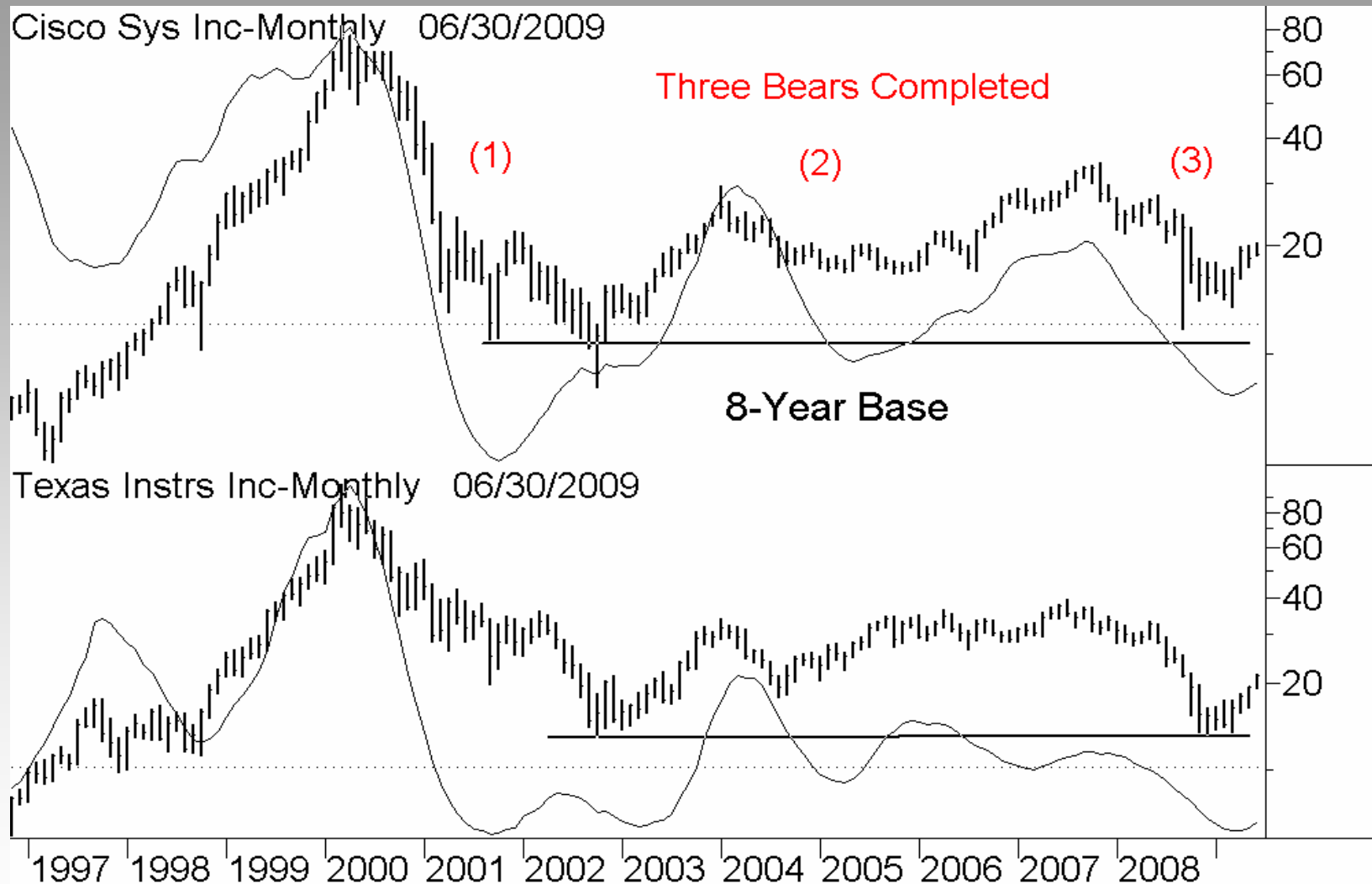
Secular Trend Defined

- A long term trend (12 to 20 years) that contains a series of bull and bear cycles – hence the term “Secular Trend”
- A secular up trend will contain at least 5 bull and bear cycles
- A secular down trend will contain at least 3 bull and bear cycles

Secular Trend Rules

- A Secular Up Trend (1980-2000) will introduce “The Next Big Thing” and end with an asset bubble
- The Secular Down Trend (2000-2014) will contain Three Bears and a Crisis usually killing the current “Big Thing”

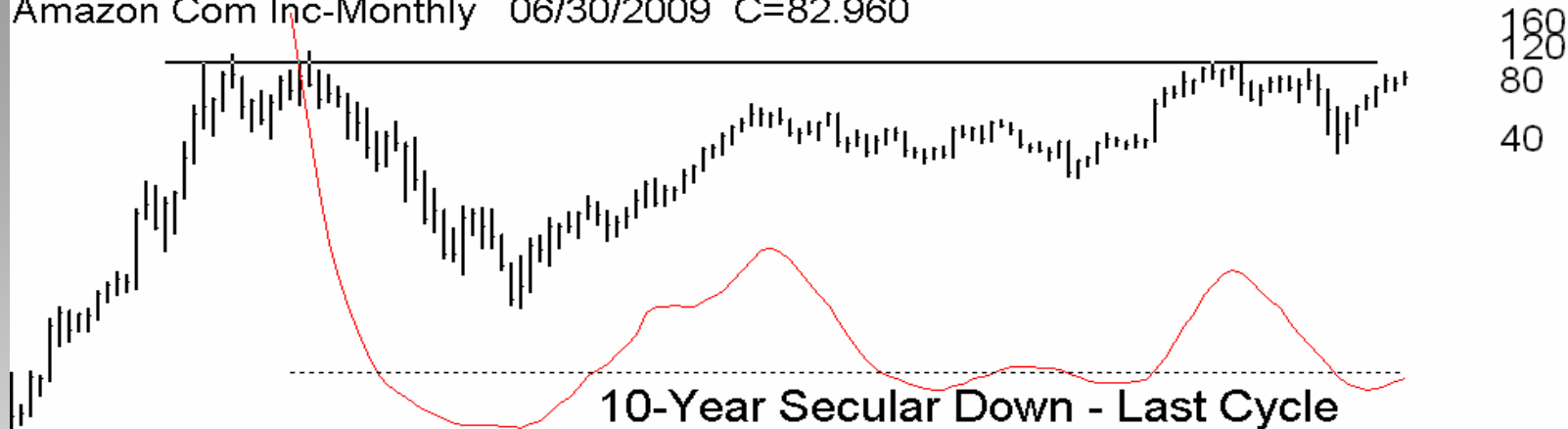
CSTA Forecast June 2009



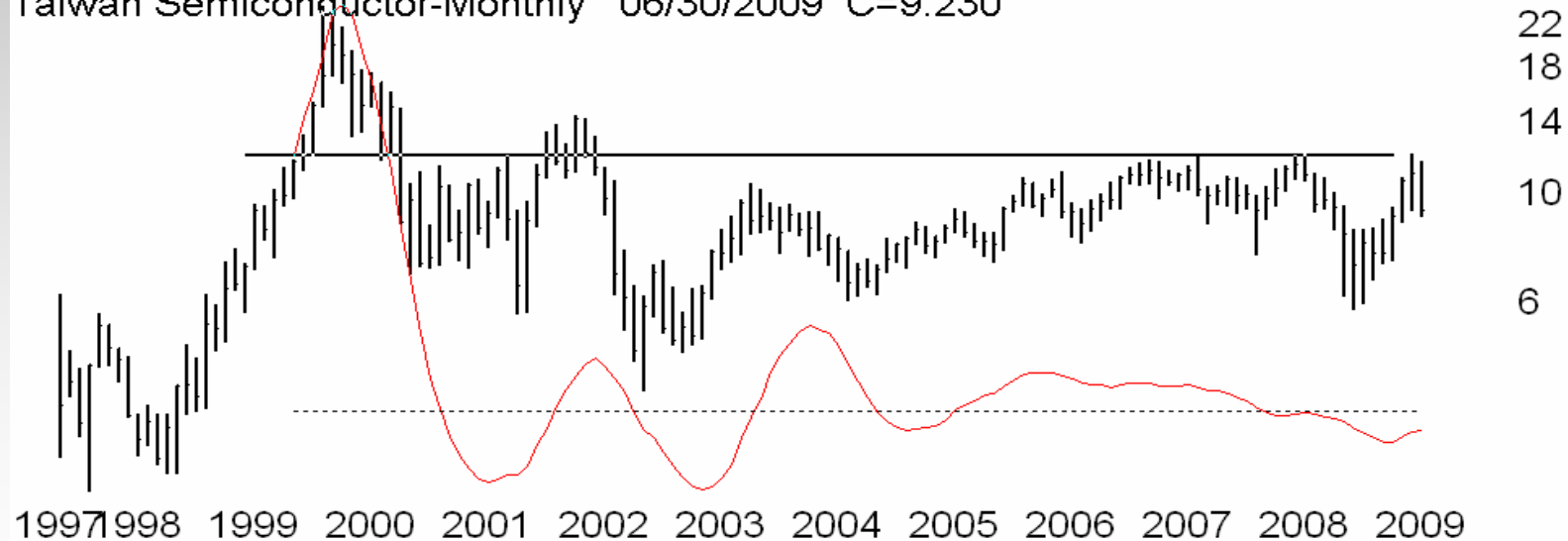
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CSTA Forecast June 2009

Amazon Com Inc-Monthly 06/30/2009 C=82.960

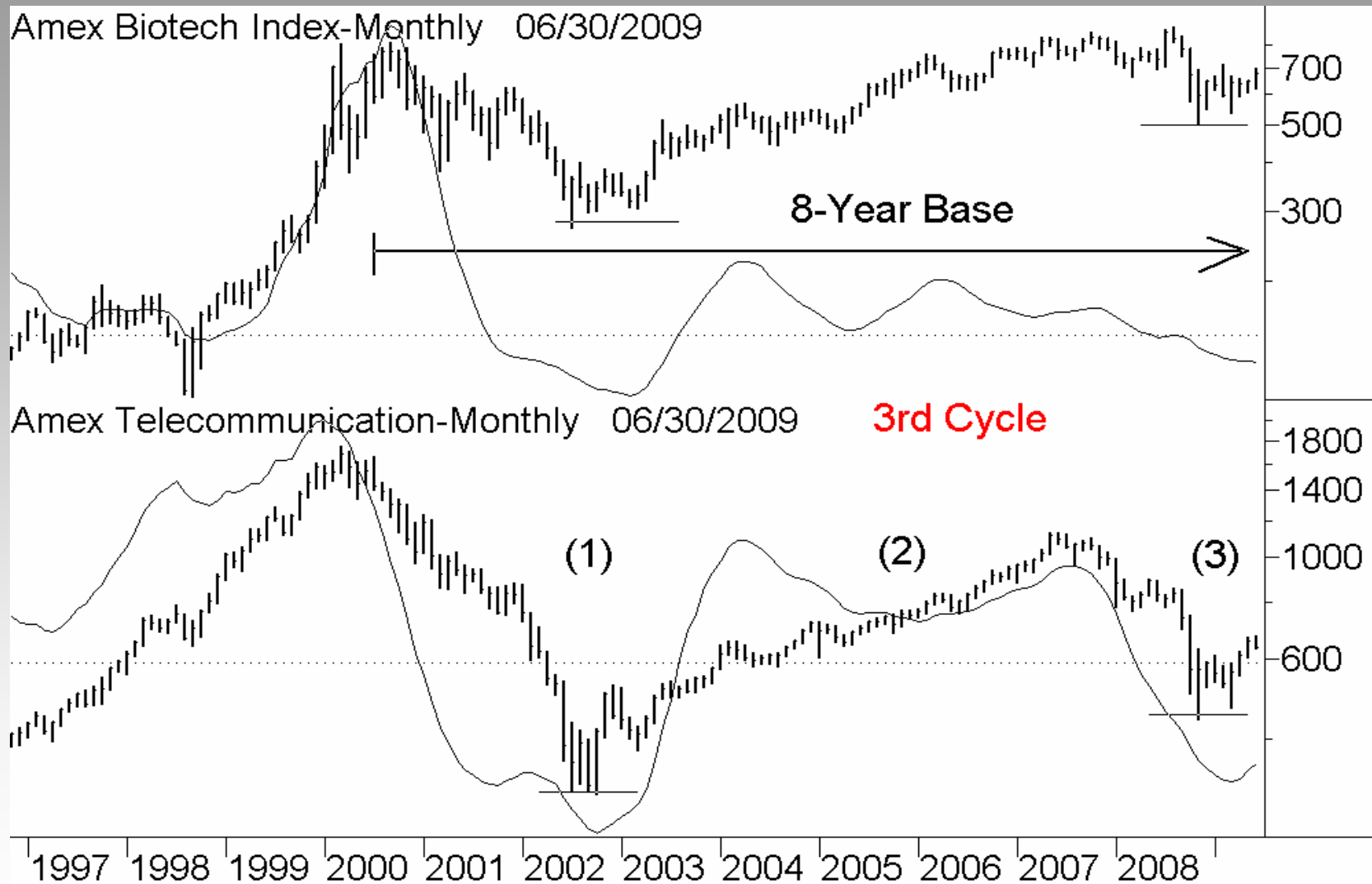


Taiwan Semiconductor-Monthly 06/30/2009 C=9.230



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CSTA Forecast June 2009



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The Next Big Thing

- Embracing the "next big thing" or the Dominant Theme, is the prime driver of successful long term investing.
- Some past Dominant Themes
 - The Cotton Mill 1815 – 1855
 - Railroads 1865 – 1900
 - The Automobile 1908 to 1927
 - Hotels, Fast food 1945 - 1974

Dominant Theme Investing

- Some recent modern themes
 - Technology 1980 – 2000 (20-yr)
 - Financial Services 1992 – 2007 (15-yr)
 - Commodities 2003 – 2017?
 - Health Sciences 2002 – 2020?
 - Aerospace & Deep Cyclical 2009 - ???
 - U.S. Auto & Housing recovery 2009 -???

Health Sciences

Market Vectors Biotech -Monthly 10/31/2013 C=81.160

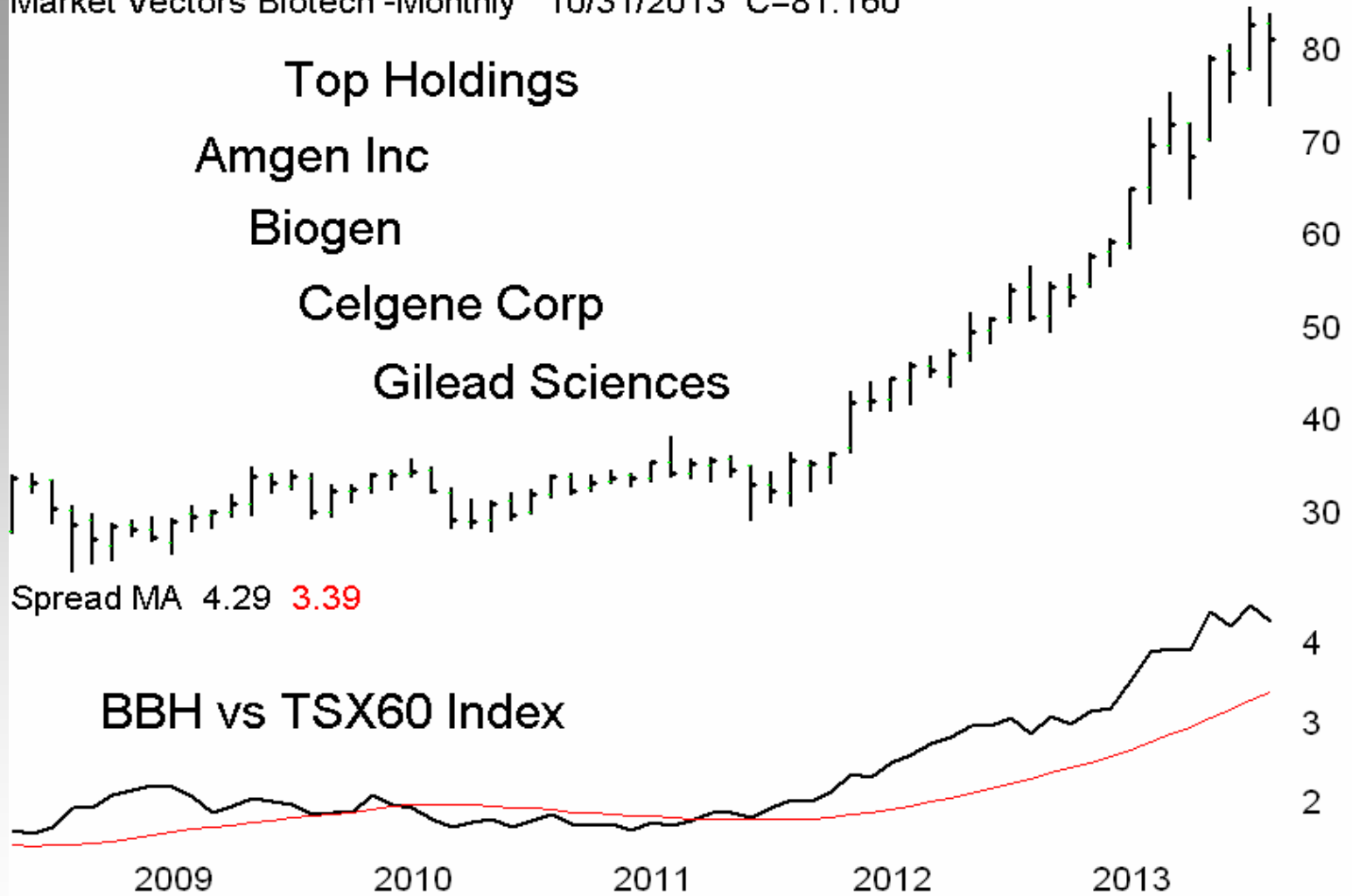
Top Holdings

Amgen Inc

Biogen

Celgene Corp

Gilead Sciences

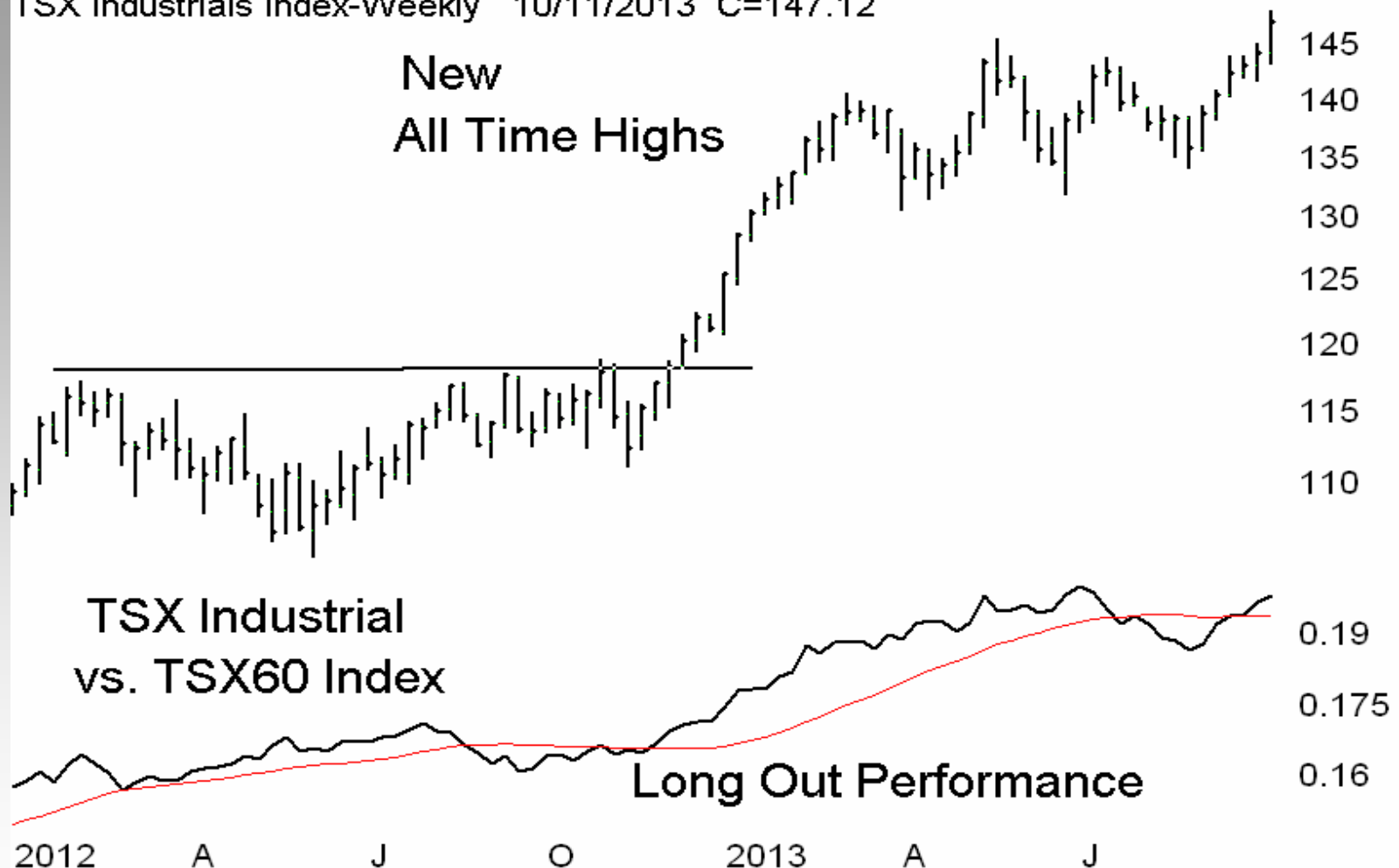


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Cyclical Exposure

TSX Industrials Index-Weekly 10/11/2013 C=147.12

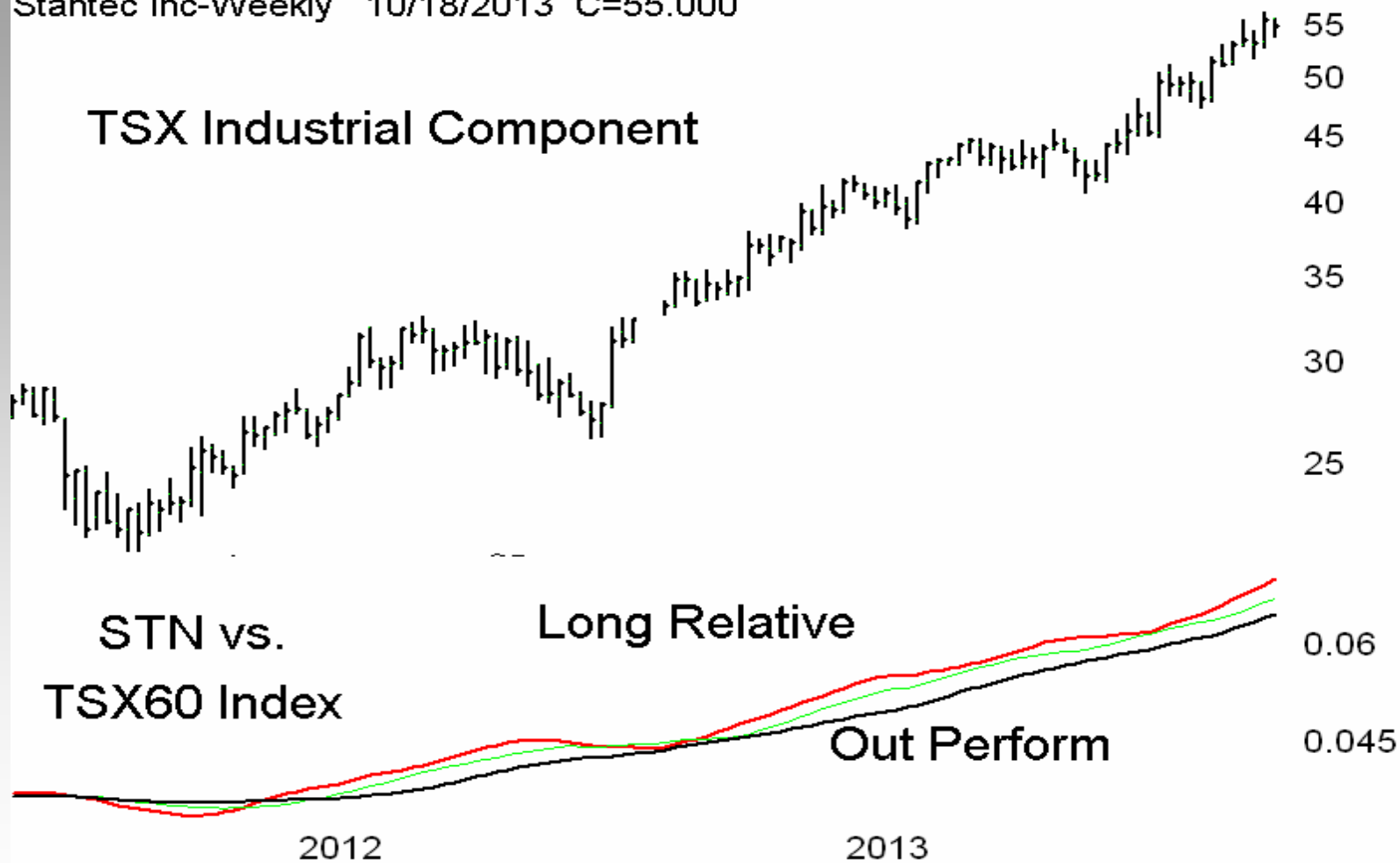


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Industrial Leader

Stantec Inc-Weekly 10/18/2013 C=55.000

TSX Industrial Component



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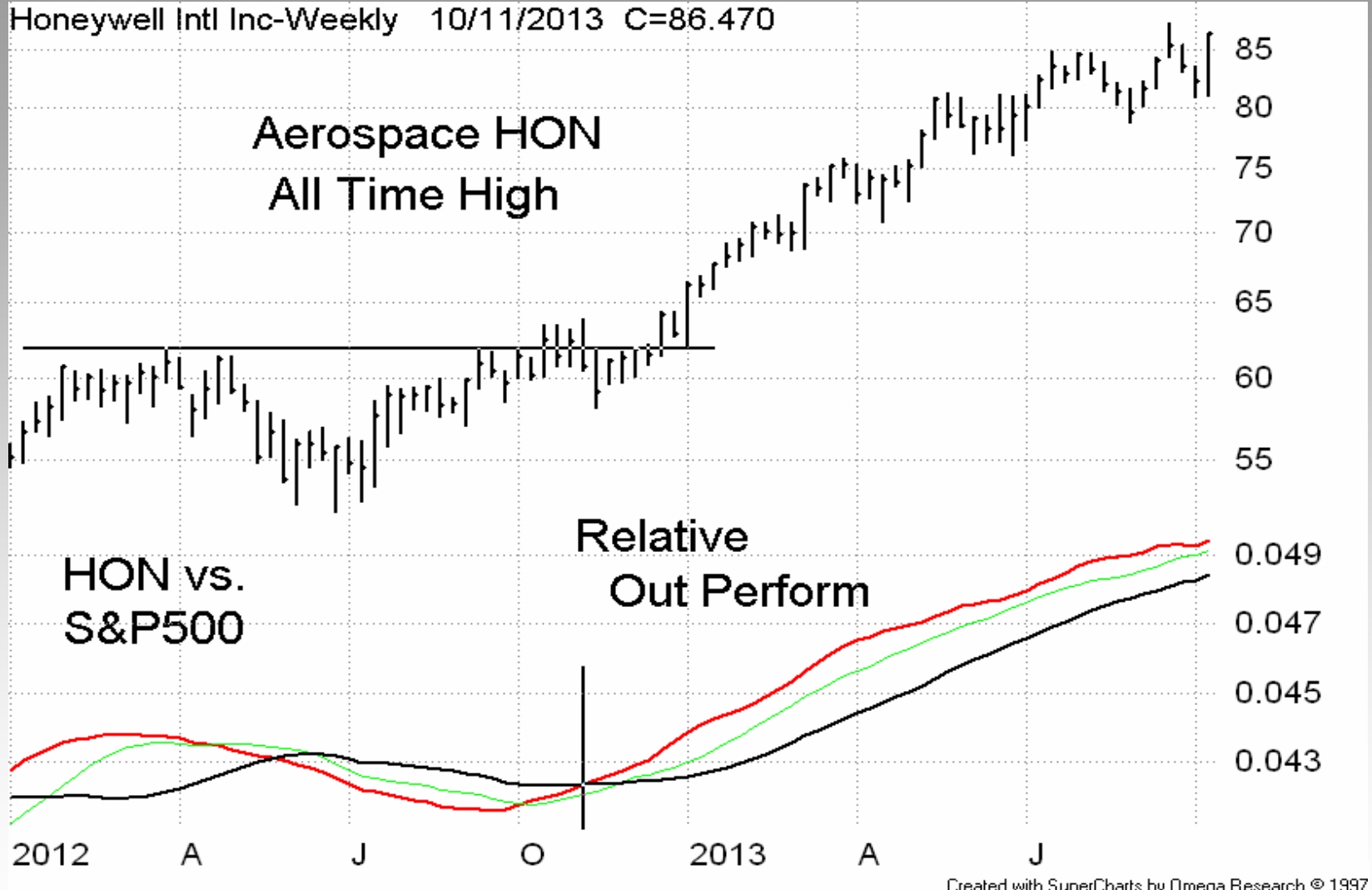
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Aerospace?

- Aerospace is a next big thing contender with U.S. PowerShares Aerospace & Defense (PPA), Honeywell International Inc. (HON) and General Electric Company (GE) pushing to new 52-week highs
- Some small Canadian aerospace related names, Heroux-Devtek Inc. (HRX) and Magellan Aerospace Corporation (MAL) were also printing new 52-week highs. The Canadian laggards remain CAE and Bombardier

Aerospace Leader

Honeywell Intl Inc-Weekly 10/11/2013 C=86.470



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Lumber

- Another “next big thing” contender is the lumber space with names like Acadian Timber Corp. (ADN) Ainsworth Lumber Co. Ltd. (ANS), International Forest Products Limited (IFP.A), West Fraser Timber Co. Ltd. (WFT), Canfor Corporation (CFP) and Norbord Inc. (NBD)
- In the U.S. Weyerhaeuser Co. (WY), Rayonier Inc. (RYN) and SPDR S&P Homebuilders (XHB) all correcting from recent new 52-week highs

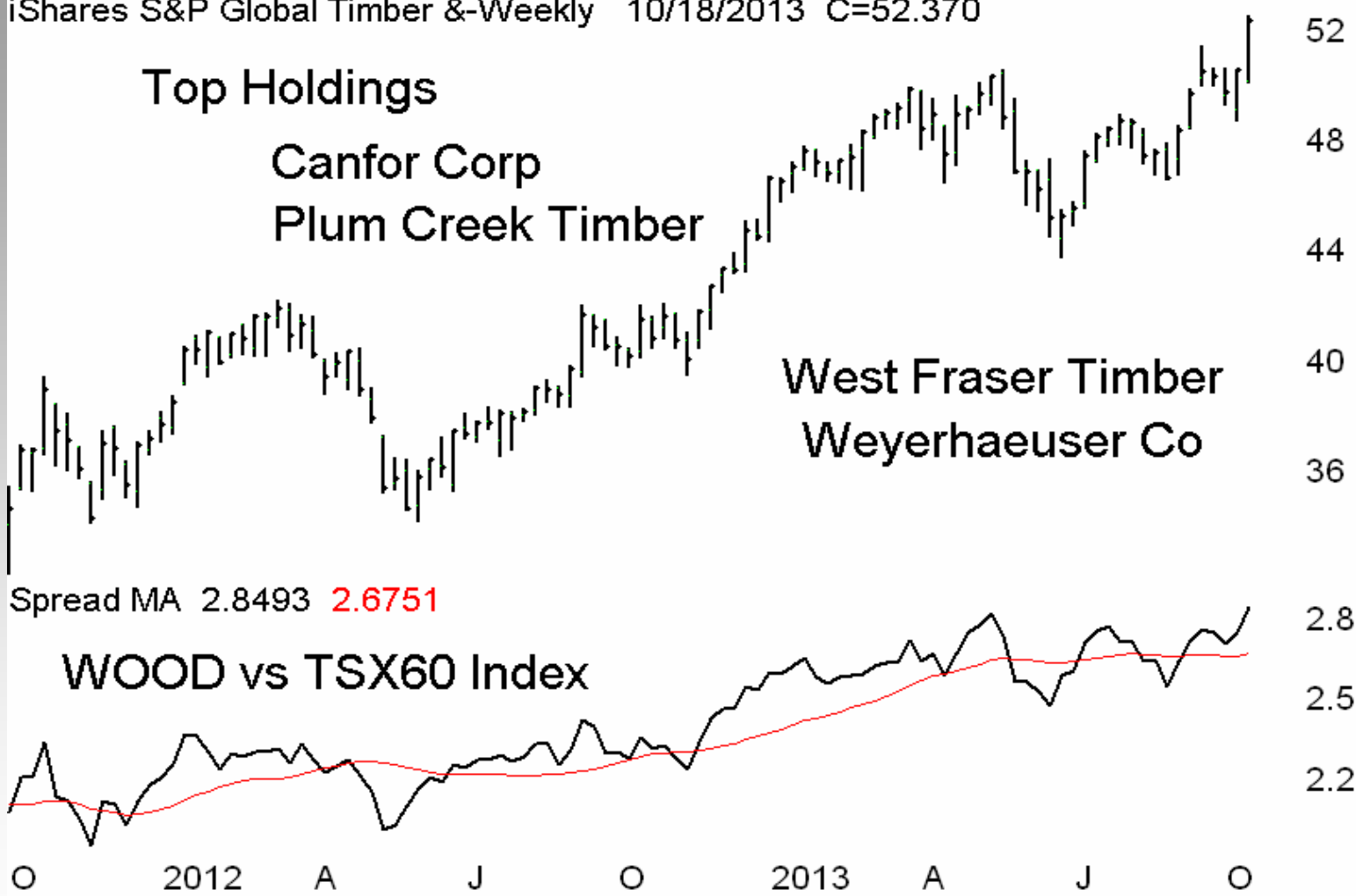
Lumber ETF

iShares S&P Global Timber &-Weekly 10/18/2013 C=52.370

Top Holdings

Canfor Corp
Plum Creek Timber

West Fraser Timber
Weyerhaeuser Co



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