03 The Meta Strategy ETF Portfolio Newsletter - 03 2019

The Meta Strategy ETF Portfolio

monthly issue #3 March 2019

Find the newsletter archive here and the current issue as a pdf version attached.

Portfolio changes

Defensive ETF portfolio	buy bonds, buy gold
Aggressive ETF portfolio	buy bonds, buy gold

Background

The Meta Strategy uses fundamental and technical inputs to gradually rotate a portfolio between different asset classes according to market conditions. It is most often completely invested in stocks, because they return more than other financial assets (for example bonds, real estate or commodities) over the long term. A traffic light model, that judges the health of the economy and the stock market, determines how much of the portfolio is allocated to these risky assets to protect against the risk of large losses.
We run two model portfolios suited either for normal or for more aggressive investors. Find out the details about the meta strategy here.

Defensive ETF portfolio	long only
Aggressive ETF portfolio	leveraged long and short

Our defensive portfolio aims to earn the same returns as the stock market, but with only half the maximum losses from the peaks over the long term.
The aggressive version, for investors who can stomach the risk of drawdowns as high as we have seen in the stock market in the past, aims for returns that beat the stock market over the long term.

Scroll down to the bottom of the newsletter to see a historical performance backtest and the systematic rules governing the positions in our model portfolios.

Current indicator status

What does the current market environment tell us?

Fundamental indicators	yellow correction warning since 01-2019
Technical indicators	stop loss triggered in 12-2018

Systematic indicators based on the price of the the US stock market and the state of the US economy define our view. Go here for details on the traffic light model, the technical indicators and the fundamental signals used to generate the current status.

Thoughts on the market environment

After a stop loss exit for stocks was triggered in December 2018 the portfolio is now in bonds and gold in equal weight. We are currently at a fork in the road where the development of economic fundamentals will most likely determine the course of the stock market. If they stay as they are or improve, the most probable outcome is a resumed late cycle bull market in equities - we may re-enter stocks soon. If fundamentals deteriorate, we might be at the beginning of a bear market and consequently stay out of the stock market.

Current asset class selection

Asset Class	Portfolio allocation
Risky assets: stocks	0%
Safe assets: bonds	50%
Alternative assets: commodities	50% gold
Cash	0%
Aggressive assets: short stocks	0% (aggressive portfolio only)

Why did we select these asset classes?

Both bonds and gold are in a new uptrend after making a golden cross (60-day moving average crossed above 275-day moving average), while stocks are not quite there yet. We selected bonds and gold in equal weighting, because their recent performance was similar - gold looks like good value to us, while bonds still have quite low yields and low expected returns. We may switch to stocks quite soon, if their upward move persists.

Scroll down to the bottom of the newsletter to see the systematic rules determining the asset allocation in our model portfolios.

Current portfolio

Defensive ETF portfolio	50% bonds, 50% gold
Aggressive ETF portfolio	50% bonds, 50% gold

The percentage numbers describe the invested portion of the capital that is allocated to the model portfolio as a whole.

ETF

Current regulations prohibit Eurozone investors from buying US based ETF, but they can choose EU equivalents. Several choices are usually available and we only name one possibility here, which is not meant to show a preference as we do not receive any compensation from ETF issuers. Best practice is to select the cheapest, liquid ETF available.

US ETF	SPAB, GLD
EU ETF	SPDR Barclays Global Aggregate Bond, SYBZ, ISIN IE00B43QJJ40 iShares Physical Gold ETC, PPFB, ISIN IE00B4ND3602

Portfolio performance

Monthly return and maximum drawdown of our two model portfolios are tracked in real time since January 2019 (this is not a backtest). I invest my own money in the aggressive ETF portfolio.
Positions are entered at the daily closing price one day after the newsletter´s publication. The usual publication date is the 5th of each month, but exits may be triggered intra-month and are communicated via irregular newsletter updates.

Defensive ETF Portfolio													
Return	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2019	0,00%	0,00%											0,00%
Max Drawdown	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
2019	0,00%	0,00%											

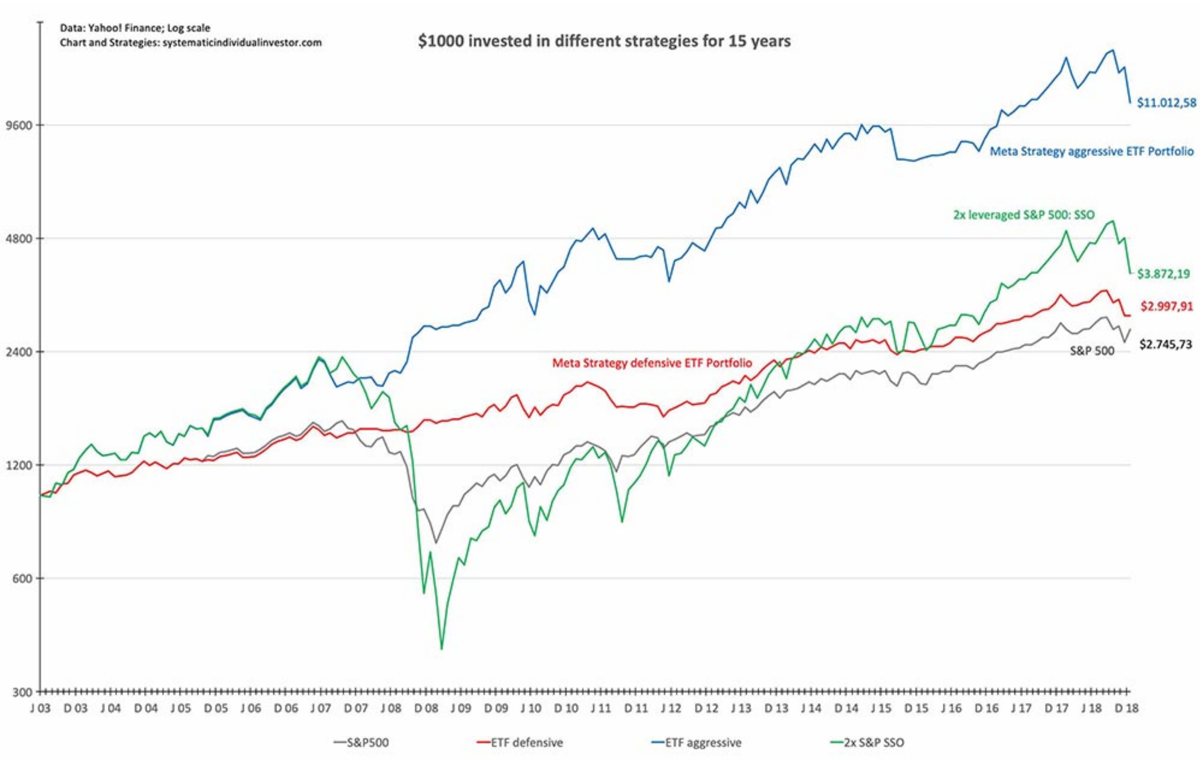
Aggressive ETF Portfolio													
Return	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2019	0,00%	0,00%											0,00%
Max Drawdown	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
2019	0,00%	0,00%											

Portfolio performance assumes no commissions which is realistic for some US discount brokers. Transaction costs are higher at EU brokers.
The model portfolios are not currency hedged. We use US ETF to track performance in US$. Depending on the investor´s location currency fluctuations have an impact, that tends to equal out over time.

Position history

Date	Defensive Portfolio	Aggressive Portfolio
05.01.19	cash	cash
05.02.19	cash	cash
05.03.19	bonds, gold	bonds, gold

Historical performance backtest



A 15-year backtest (06-2003 to 12-2018) of the Meta Strategy Defensive (red) and Aggressive (blue) ETF Portfolios shows the advantages over buy-and-hold portfolios distinctly: Losses in the worst bear markets were reduced, while overall returns were improved in the defensive ETF portfolio. The defensive strategy earned about 1% more annually than an investment in the S&P 500 (grey) and the ride was a lot smoother, avoiding the sleepless nights of 2008/09.

These lower drawdowns make a responsible use of leveraged and inverse ETF possible. The aggressive strategy (blue) more than doubled the annual return of an investment in the S&P 500 with fewer than two allocation changes per year on average – 16,70% vs 6,73% leading to 3,6x more money earned over the

15 year period (not including dividends or transaction costs). For comparison we included the performance of a buy and hold investment in a 2x leveraged S&P 500 ETF (green): here the lethal properties of untamed leverage become apparent in a 83% drawdown in 2008/09.

Investors seeking a different return / risk profile from the model portfolios can simply mix them with a safe short-duration treasury bond ETF.
For example, the Meta Strategy Defensive ETF portfolio can be expected to lose around 25% from its highs occasionally (in extreme circumstances losses might even be worse) - half the maximum drawdown of the stock market. Investing only half of the available capital in the portfolio will bring the expected maximum drawdown down to around 12,5%, but can be expected to yield only half the return of the stock market. The same principle works to dilute the Meta Strategy Aggressive ETF portfolio to yield returns and drawdowns between the defensive and the aggressive portfolios.

Backtested results are hypothetical and NOT an indicator of future performance.

Strategy rules

The strategy rules are subject to ongoing research and evolve over time with new insights.

Defensive portfolio:

1. We allocate in three stages to stocks: 0%, 25%, 50% or 100%, according to the state of the fundamental and technical indicators used in the meta strategy: green, yellow or red. Go here for details on the traffic light model, the technical indicators and the fundamental signals used to generate the current indicator status.
2. We buy US or World ex US equity ETFs according to their relative strength - we invest in the one with the highest return over the last year.
3. If we are less than 100% invested in stocks, we buy a short to medium term bond fund with the balance, as long as bonds are in an uptrend (defined by a 60-day moving average being higher than a 275-day moving average).
4. If bonds are trending down and we are less than 100% invested in equities, we buy a basket of commodities or gold (whichever is up more for the last year) for the balance, as long as commodities are in an uptrend. If both bonds and commodities are trending up we may diversify between the two asset classes.
5. If everything is trending down and we are less than 100% invested in equities, we stay in cash.
6. Equity ETF are re-entered on a golden cross in the US stock market (S&P 500), when the 60-day moving average crosses above the 275-day moving average.

Agressive portfolio: (reacts to the same signals as the defensive portfolio, but uses 2x leveraged equity ETF instead of unleveraged equity ETF and, additionally, short equity ETF)

1. We allocate in three stages to stocks: 0%, 25%, 50% or 100%, according to the state of the fundamental and technical indicators used in the meta strategy: green, yellow or red. Go here for details on the traffic light model, the technical indicators and the fundamental signals used to generate the current indicator status.
2. We buy 2x leveraged US or World ex US equity ETFs according to their relative strength - we

invest in the one with the highest return over the last year.
3. If we are less than 100% invested in stocks, we buy a short to medium term bond fund with the balance, as long as bonds are in an uptrend (defined by a 60-day moving average being higher than a 275-day moving average).
4. If bonds are trending down and we are less than 100% invested in equities, we buy a basket of commodities or gold (whichever is up more for the last year) for the balance, as long as commodities are in an uptrend. If both bonds and commodities are trending up we may diversify between the two asset classes.
5. If everything is trending down and we are less than 100% invested in equities, we stay in cash, unless
6. we are 0% invested in equities and fundamental warnings flash red. Then we invest the balance in a short equity ETF, unless
7. bonds or commodities are trending up. Then we diversify between up-trending asset classes and short equity (equal weight).
8. We use a profit target for the short equity ETF to avoid giving back most profits in a rally from the bottom of a bear market. We exit on an extended move to the downside at 25% below the 275-day moving average or when long equity ETF are re-entered.
9. Leveraged equity ETF are re-entered on a golden cross in the US stock market (S&P 500), when the 60-day moving average crosses above the 275-day moving average.

Disclaimer