

# TOM DORSEY & THE NEW ERA OF TACTICAL INVESTING

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**DORSEY WRIGHT**

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## TOM DORSEY

Founder

Dorsey, Wright & Associates, a Nasdaq Company



On May 17, 1792, twenty-four men signed a document they called “The Buttonwood Agreement”. Members Only Fixed Commissions.

**CLOSING MARKET COMMENT**

N Y -DJ- STOCKS FELL PERSISTENTLY TODAY IN A GLOOMY WALL STREET.

THE DOW JONES INDUSTRIAL AVERAGE SANK 13.92 POINTS TO 587.61 CLOSING BELOW 600 FOR THE FIRST TIME SINCE NOV 1 1962.

DECLINING ISSUES DOMINATED GAINERS THROUGHOUT THE SESSION.

VOLUME TOTALED 13 150 000 SHARES COMPARED WITH 12 230 000 SHARES YESTERDAY. BROKERS NOTED THAT THE HALF-HOUR EXTENSION IN TRADING HOURS STARTED ON TUESDAY HAS PRODUCED NO NOTABLE INCREASE IN VOLUME THUS FAR.

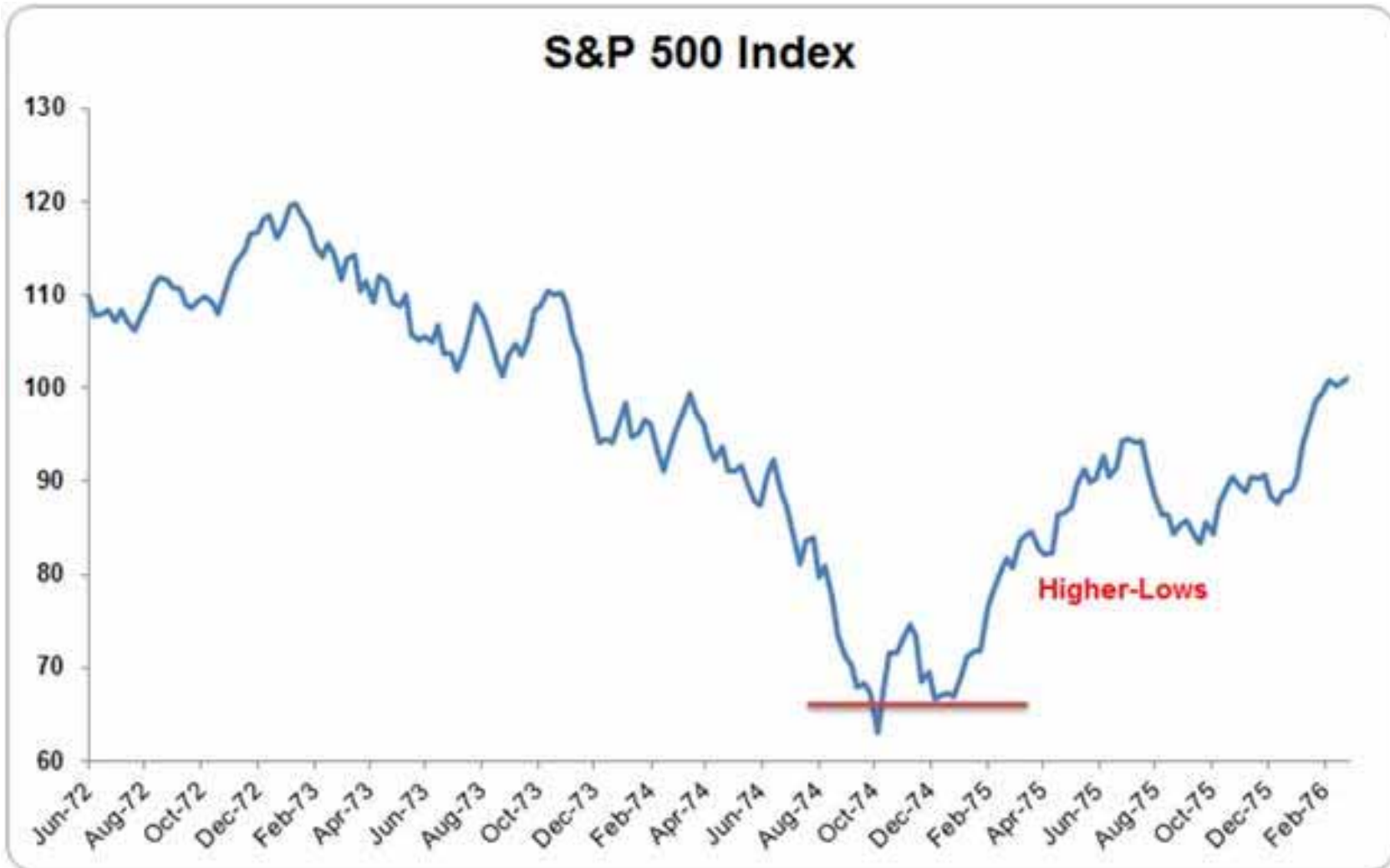
ANALYSTS ATTRIBUTED THE GLOOM TO CONTINUING APPREHENSION THAT THE ECONOMY COULD BE HEADING FOR A SEVERE RECESSION WITH SOME ECONOMISTS EVEN SAYING THAT A WORLDWIDE DEPRESSION IS POSSIBLE. TODAY THE COALITION GOVERNMENT OF PREMIER RUMOR RESIGNED AMID ITALY'S WORST ECONOMIC CRISIS SINCE WORLD WAR II.

BROKERS ALSO SAID THERE WAS DISAPPOINTMENT THAT SOME MILD SUPPORT AT THE DJIA 600 LEVEL DISAPPEARED IN EARLY TRADING TODAY.

-- 5 13 PM EDT OCT 3-74

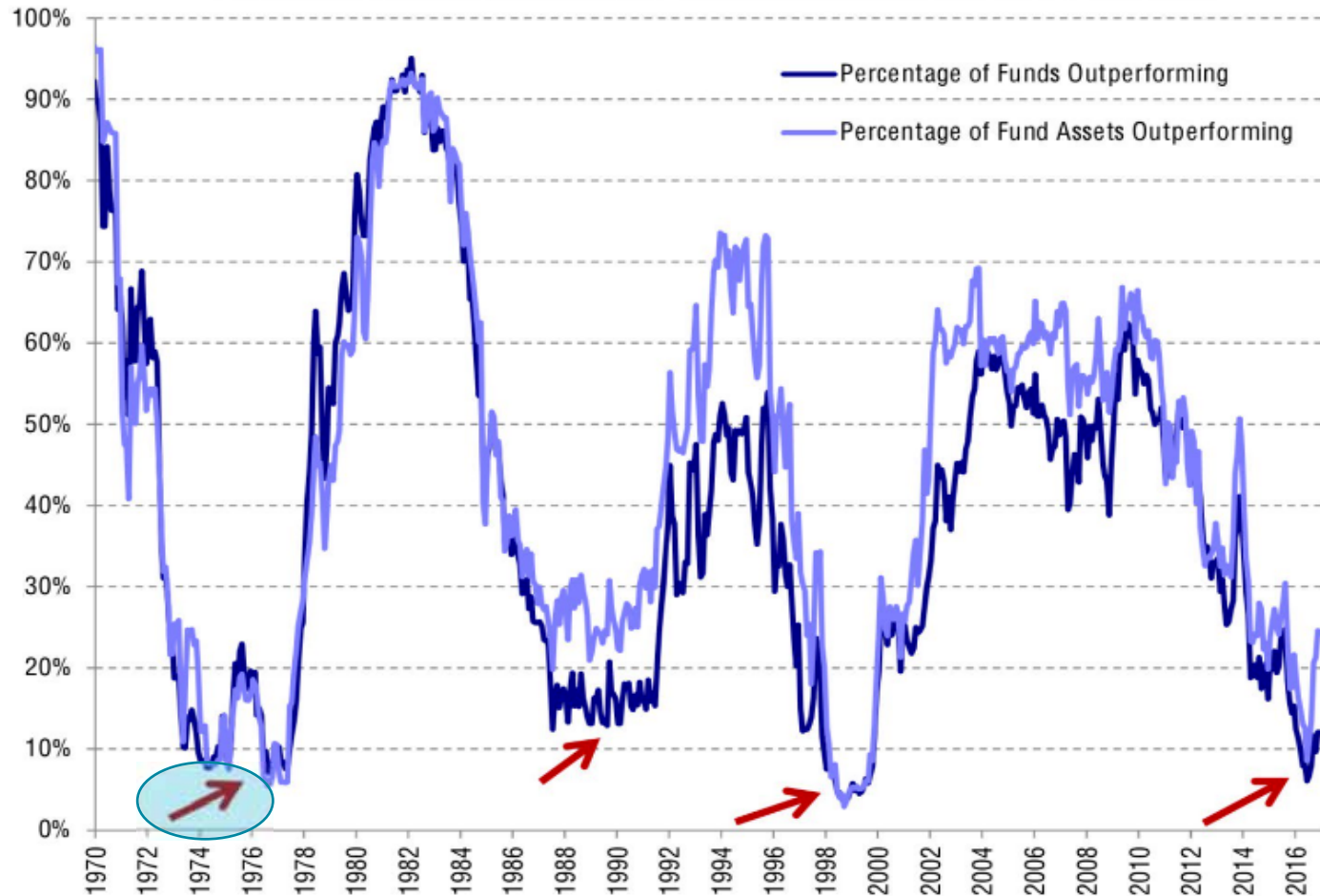
FINAL NASDAQ INDICES

# WHY INVESTORS LEFT THE MARKET IN 1975



## We Have Been Here Before – Each Trough Has Been Followed by Recovery

Percentage of Funds (Fund Assets) Outperforming S&P 500 on a 5-Year Basis



Note: For details, see Fig. 1 on page 2. Source: CRSP, Bloomberg, Robert Shiller data, Instinet research

Source: Nomura Securities







## MAY DAY 1975 COMISSION DEREGULATION

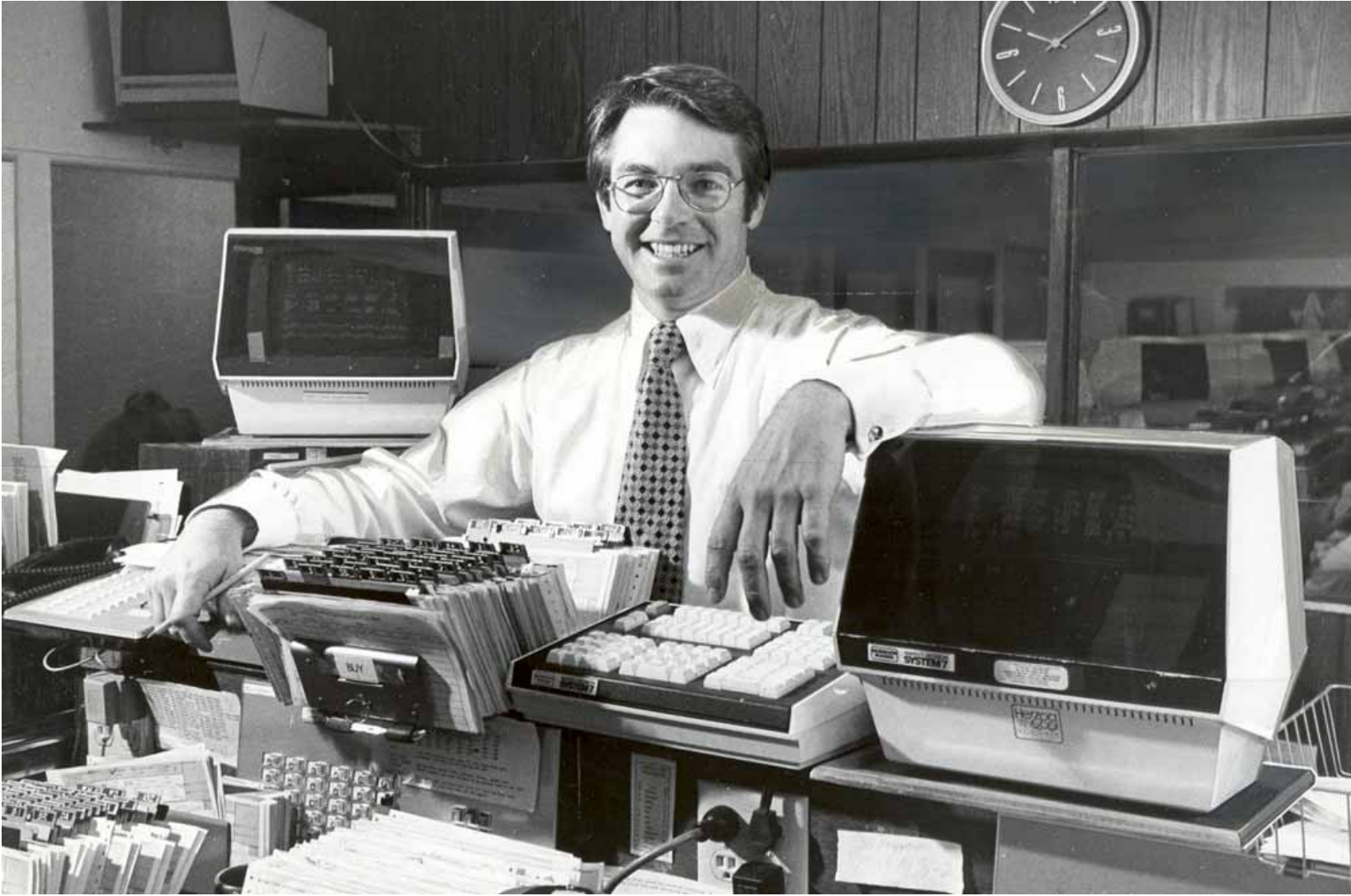
- With some minor exceptions, for 183 years it had cost the same amount per share to trade 100 shares as it did to trade 1,000 or 100,000—and brokers regularly shaved 2% or more for themselves off the typical trade.

### Our Ball Game Changes

- The genesis of discount brokerage / 1975 SEC deregulation offered an opening; Schwab stepped in

### We never took Schwab seriously



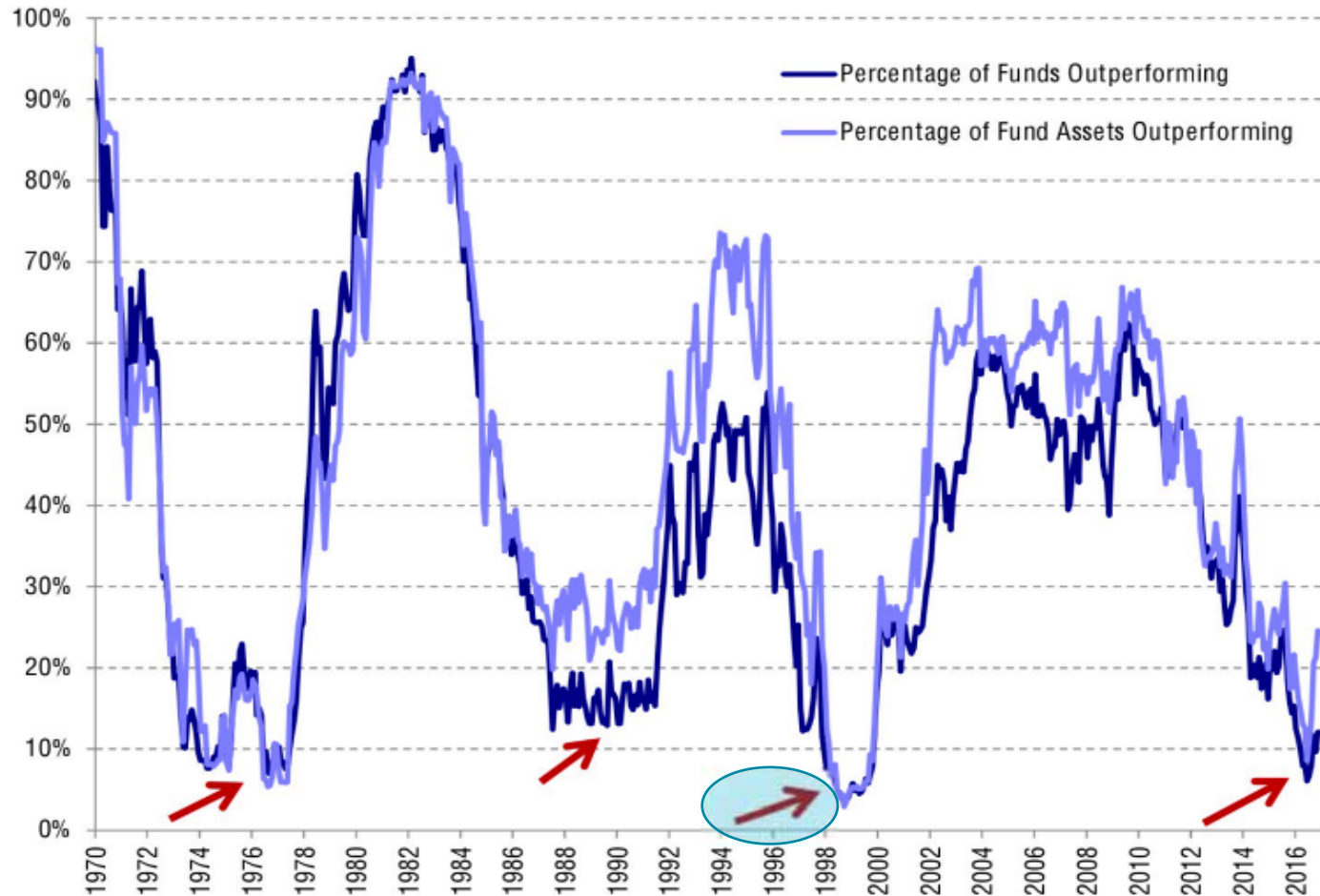


## 1975



## We Have Been Here Before – Each Trough Has Been Followed by Recovery

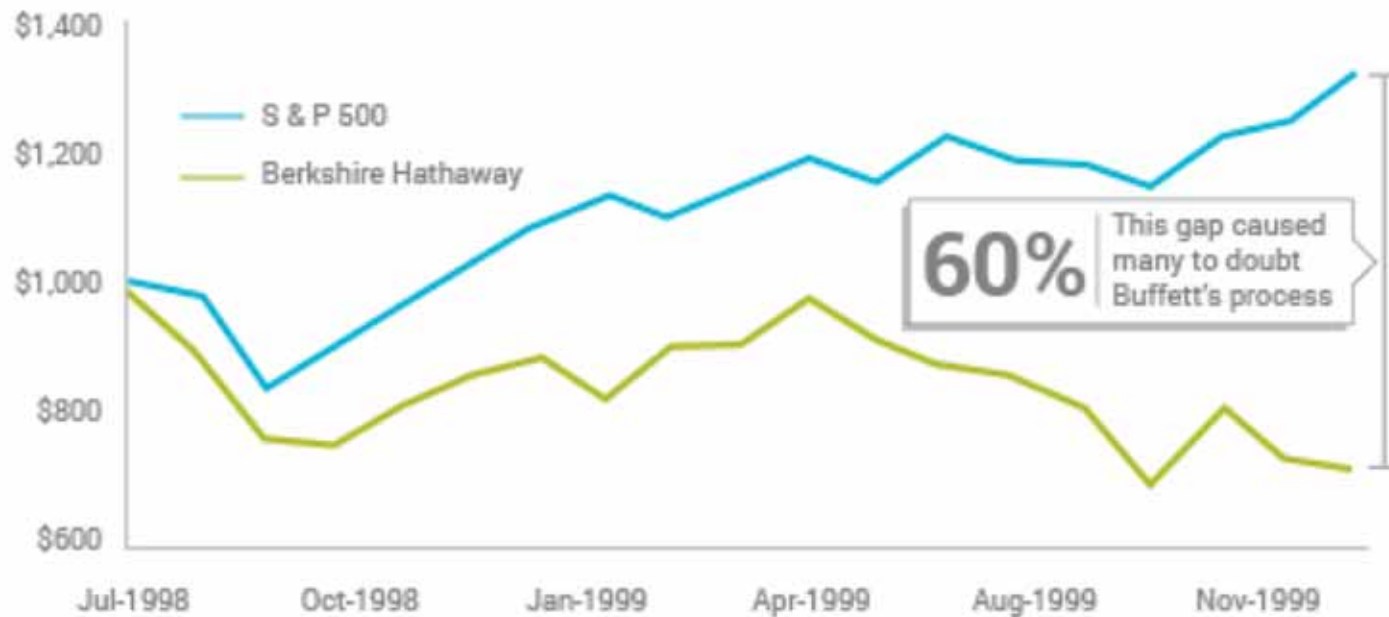
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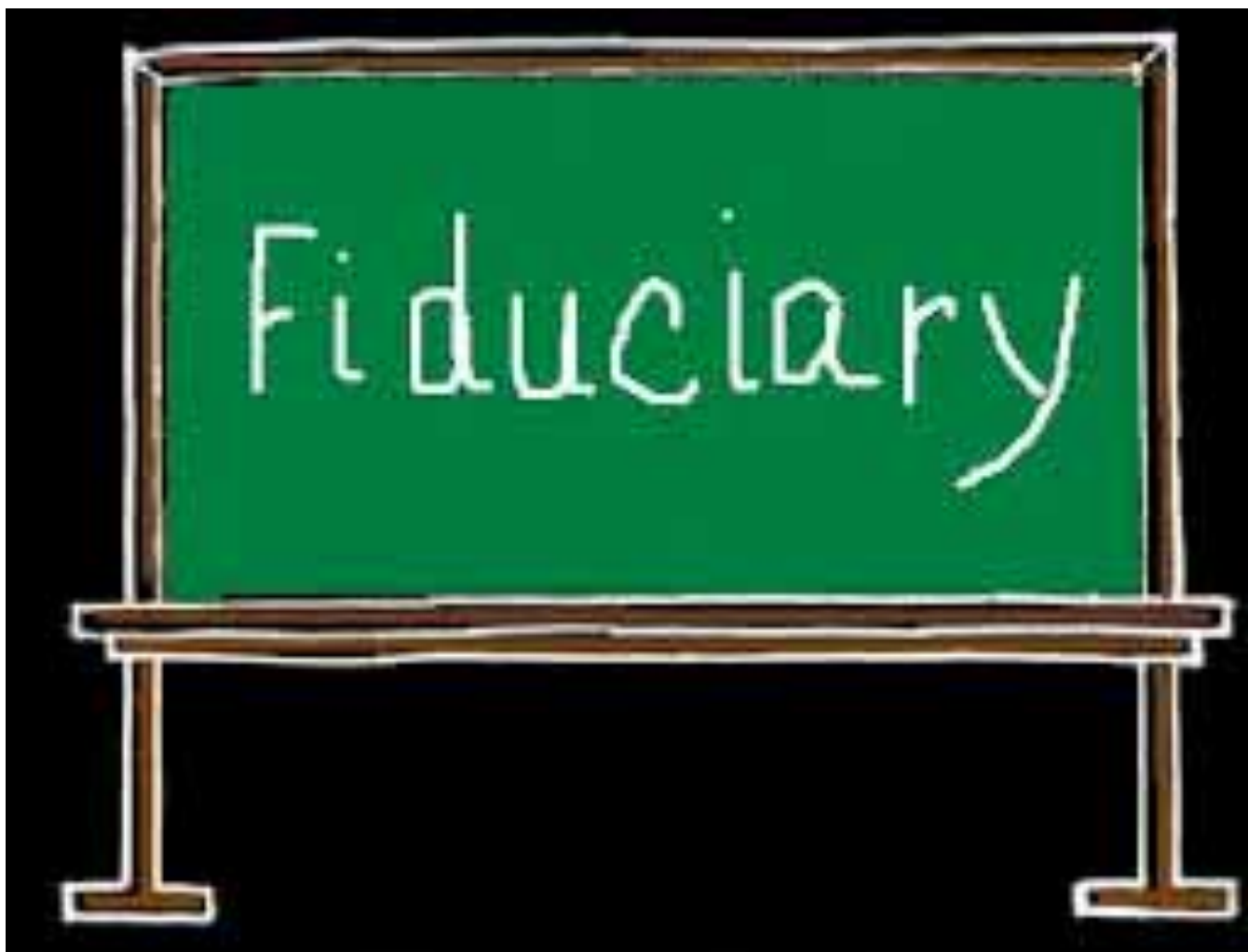
Source: Nomura Securities

### Berkshire's short-term underperformance in the late 1990's



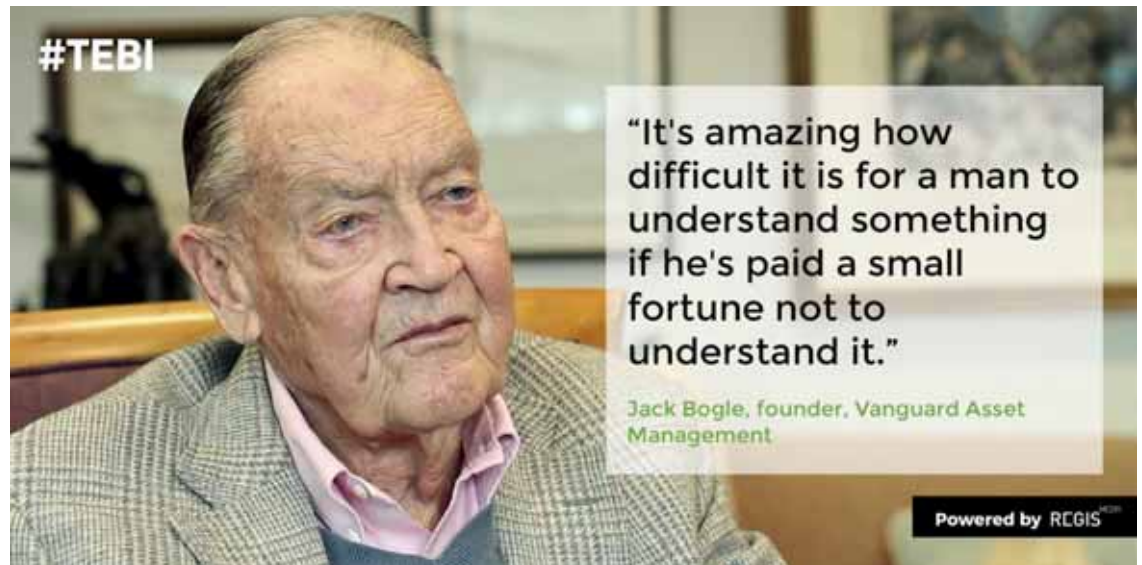
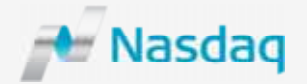
Source: Longboard.com





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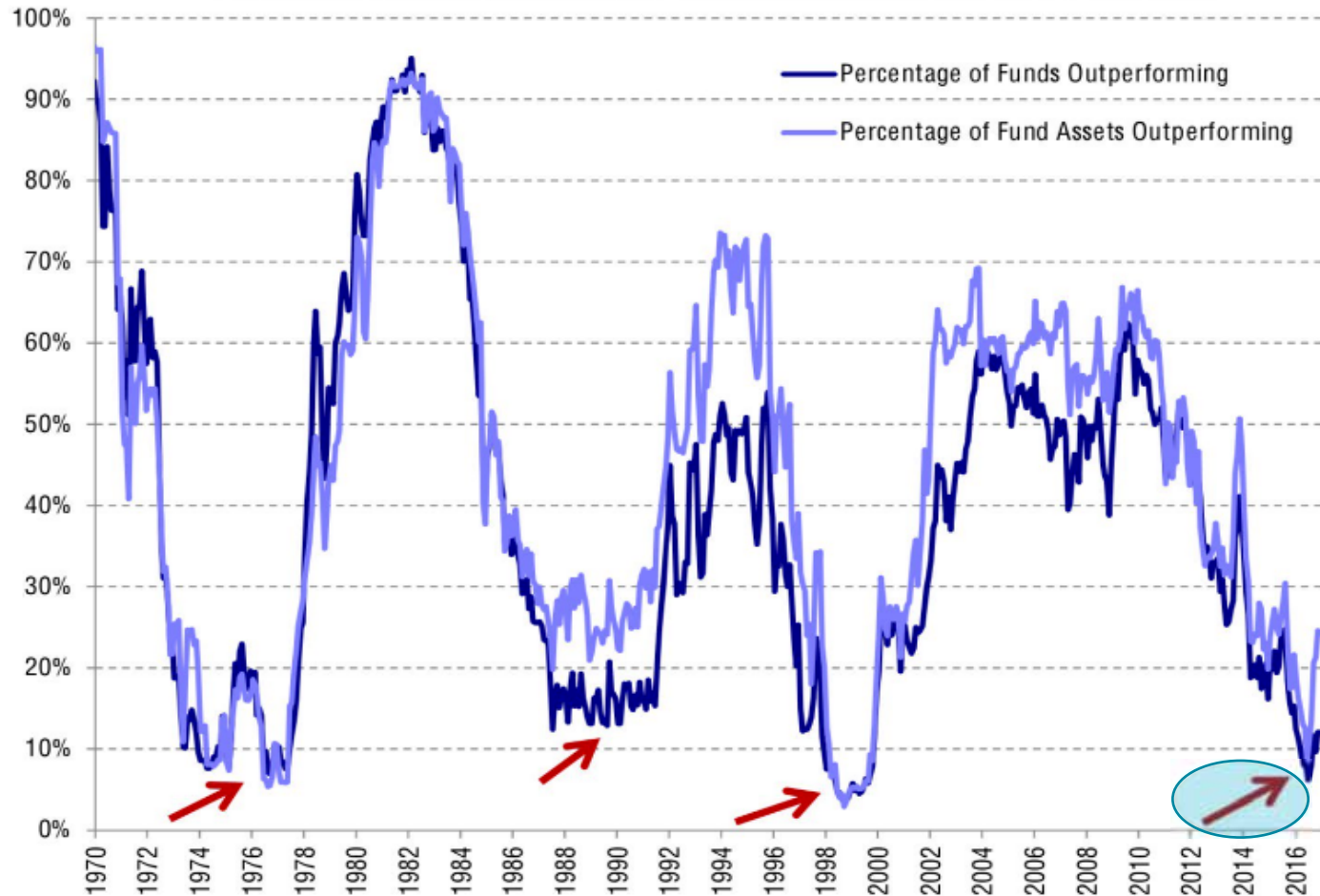
# TODAY INVESTORS WANT TO INDEX





## We Have Been Here Before – Each Trough Has Been Followed by Recovery

Percentage of Funds (Fund Assets) Outperforming S&P 500 on a 5-Year Basis



Note: For details, see Fig. 1 on page 2. Source: CRSP, Bloomberg, Robert Shiller data, Instinet research

Source: Nomura Securities

## Blackrock plans major changes to its active stockpicking business

-Reuters, 28 March 2017

**“BlackRock Inc., on Tuesday said it would overhaul its actively managed equities business, cutting jobs, dropping fees and relying more on computers to pick stocks in a move that highlights how difficult it has become for humans to beat the market.”**



**According to research conducted by the S&P Dow Jones, Most active US, global and emerging market funds have underperformed their benchmarks over the past decade.**

**Source: [www.investmentweek.co.uk](http://www.investmentweek.co.uk), 24 October 2016**

# Wall Street Rout: Indexes Beat Stockpickers 92% of the Time

Source: [www.wallstreetjournal.com](http://www.wallstreetjournal.com), 12 April 2017

## RHODE ISLAND PULLS MONEY FROM 7 HEDGE FUNDS



## PASSIVE INVESTING OR RULES BASED AUTO MANAGED PORTFOLIO?

“The greatest living investor’s instructions to the executors of his estate are perhaps the most convincing argument in favor of a passive approach. Mr. Buffet urged them to put 10% in short-term bonds ‘and 90% in a very low-cost S&P 500 index fund. (I suggest Vanguard’s.) I believe the trust’s long-term results from this policy will be superior to those attained by most investors – whether pension funds, institutions or individuals – who employ high-fee managers.”

- WSJ, Spencer Jakab, 18 October 2016



Which Advisor  
will separate  
from the pack?



**CAN YOU BEAT THE S&P 500 INDEX WITH  
THE S&P 500 INDEX?**

**“SOUNDS CRAZY – MIGHT WORK”**

**-Bob Dunwoody**

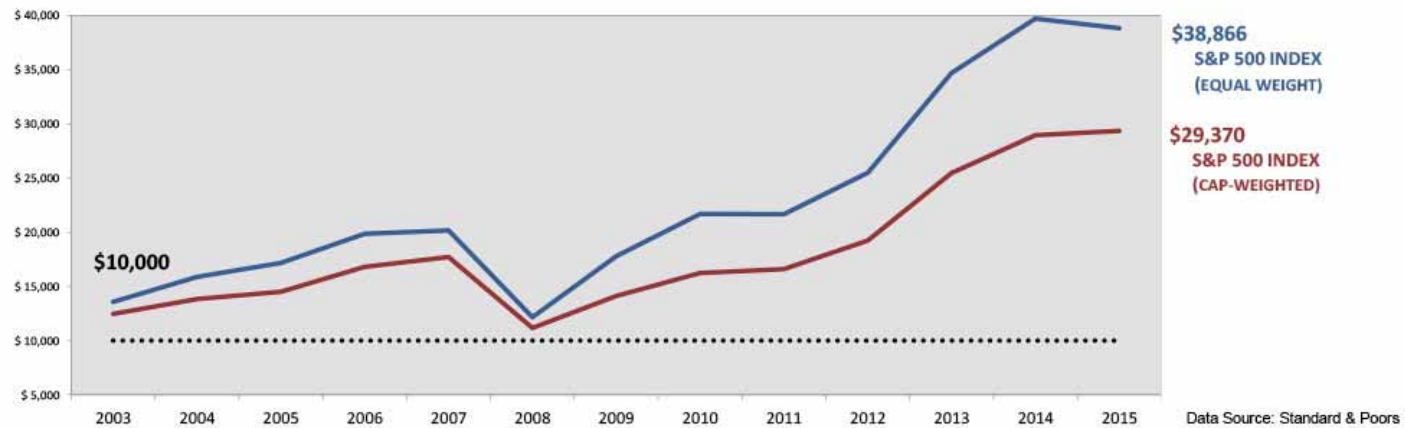


## Can you beat THE S&P 500 INDEX with THE S&P 500 INDEX?

Since the inception of the S&P 500 Equal Weight Index on 01/08/2003 through 12/31/2015, the S&P 500 Equal Weight Index beat the S&P 500 Market Cap Index 9 out of 13 years, and produced higher 1-year, 3-year, 5-year, & 10-year returns.\*

This sample period includes one of the worst stock market crashes in Wall Street history.

\*2003 returns are calculated from the S&P 500 EWI Index inception date of 01/08/2003 for both indexes. For purposes of this illustration, 2003 returns are counted as one full calendar year even though the first 4 days of trading of 2003 are not included in the test data. This illustration does not include any data before the inception date of the S&P 500 EWI Index. This is a hypothetical illustration which shows the growth of \$10,000 and does not include fees nor does it represent any actual investment. You cannot invest directly in an index. Past performance does not guarantee future results. Index returns are not Fund returns.



### S&P 500 EQUAL WEIGHT INDEX

Year	2003*	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Return	35.78%	16.95%	8.06%	15.80%	1.53%	-39.72%	46.31%	21.91%	-0.11%	17.65%	36.16%	14.50%	-2.20%
Value	\$10,000	\$13,578	\$15,880	\$17,160	\$20,174	\$12,161	\$17,792	\$21,689	\$21,666	\$25,491	\$34,708	\$39,741	\$38,866

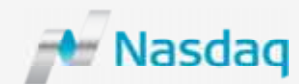
  

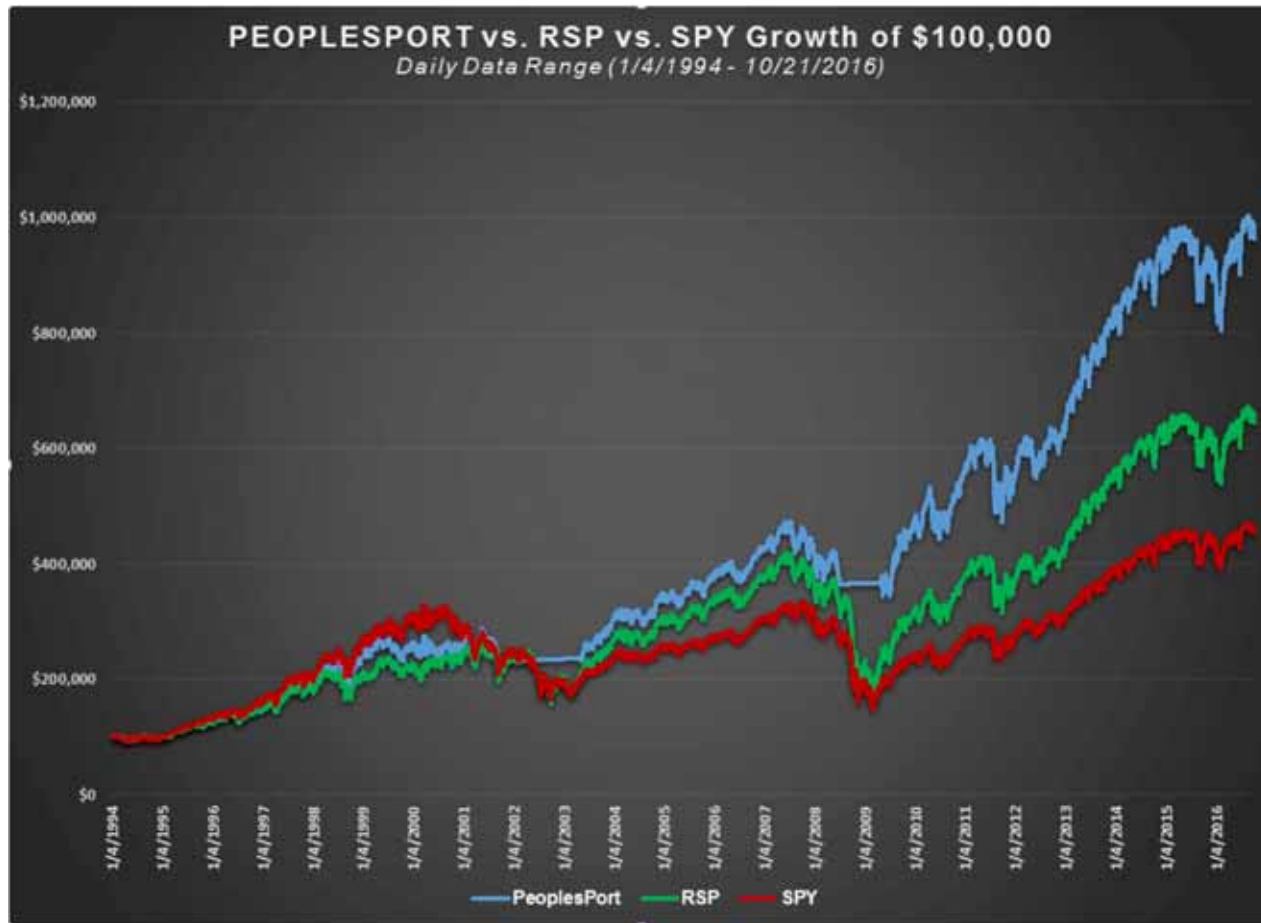
Year	2003*	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Return	24.73%	10.88%	4.91%	15.79%	5.49%	-37.00%	26.46%	15.06%	2.11%	16.00%	32.39%	13.69%	1.38%
Value	\$10,000	\$12,473	\$13,830	\$14,510	\$16,801	\$11,167	\$14,122	\$16,249	\$16,592	\$19,247	\$25,481	\$28,970	\$29,370

\* 2003 returns are calculated from the S&P 500 EWI Index inception date of 01/08/2003 for both indexes. This illustration does not include any data before inception date of the S&P 500 EWI Index.

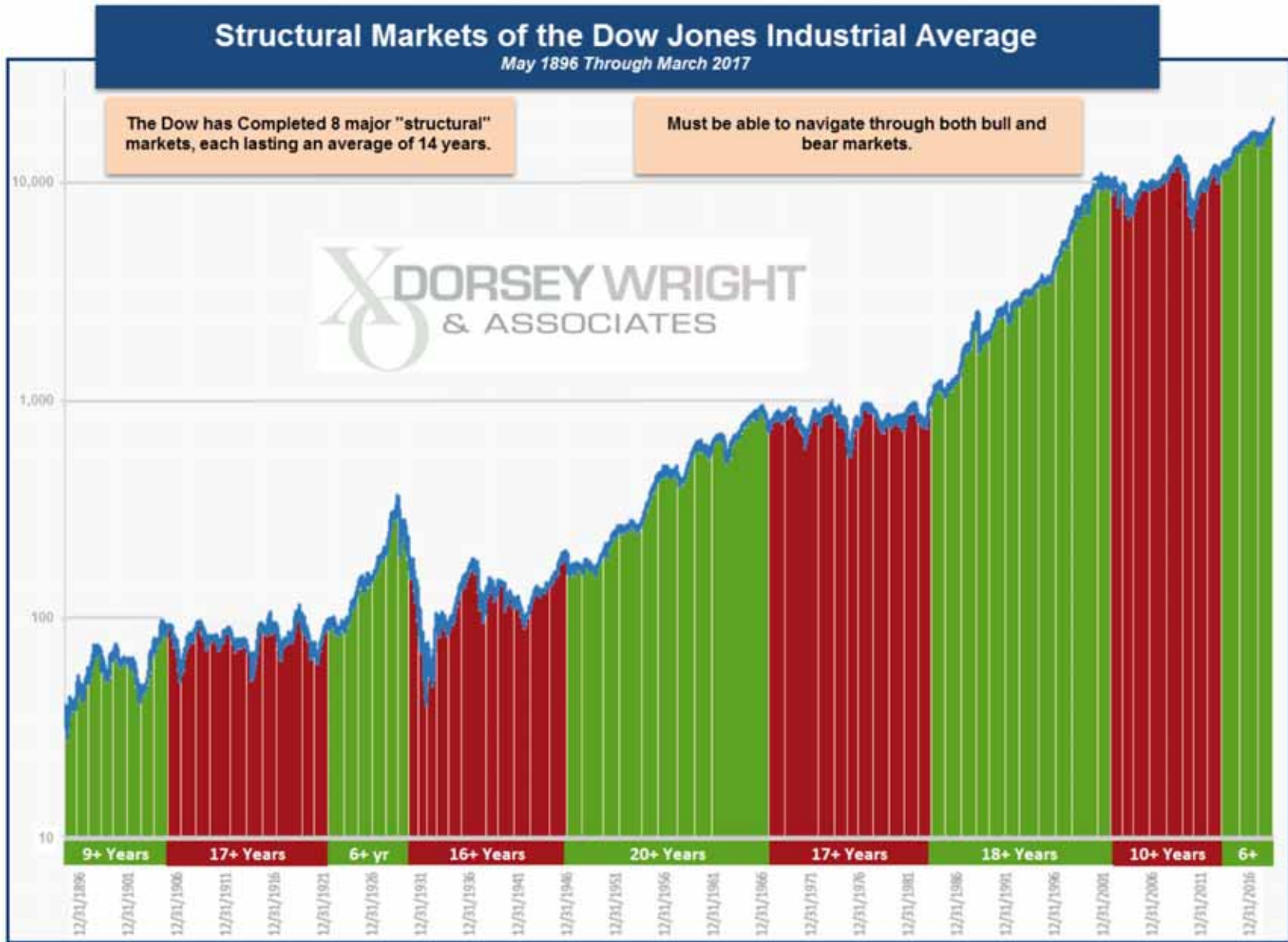
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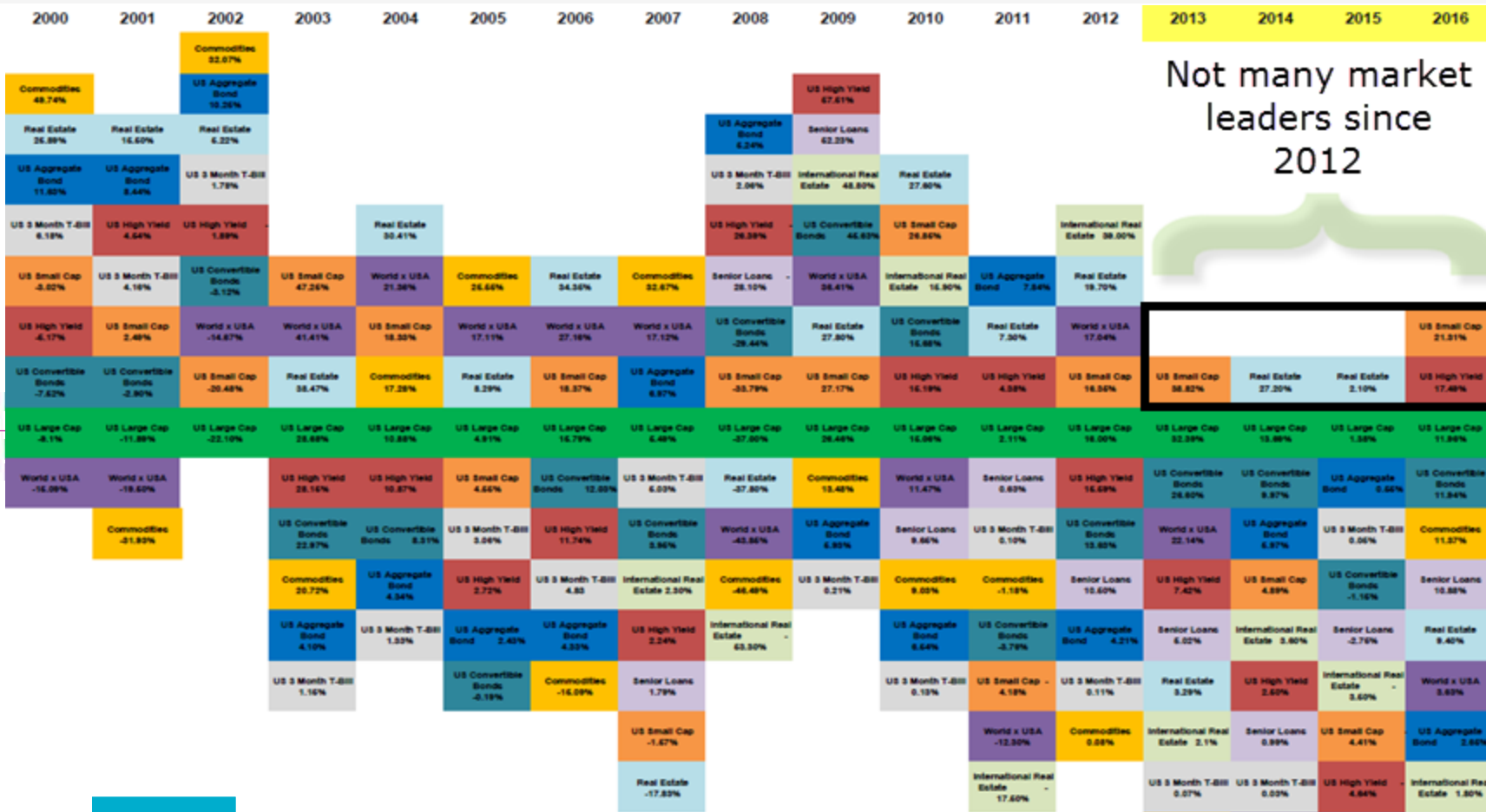
## WHO HELPS THIS LABORER?





*The performance simulation above is the result of a strategy back-test . Back-tested performance results have certain limitations. Such results do not represent the impact of material economic and market factors might have on an investment advisor's decision-making process if the advisor were actually managing client money. Back-testing performance also differs from actual performance because it is achieved through retroactive application of a model investment methodology designed with the benefit of hindsight. The performance numbers above are pure price returns, not inclusive of dividends, fees, or all transaction costs. PEOPLESPORT is a model based on indexes. Investors cannot invest directly in an Index. Indexes have no fees. Past performance is not indicative of future results. Potential for profits is accompanied by possibility of loss.*





Not many market leaders since 2012

Lead Market

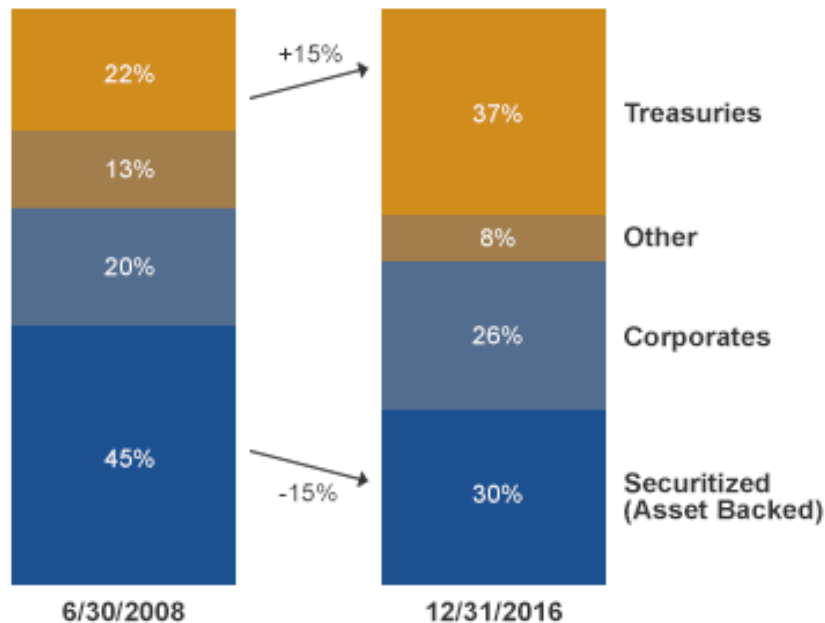
Lag Market

## Legend

US Aggregate Bond	Barclays US Aggregate TR Index	US Large Cap	S&P 500 TR Index	US Convertible Bonds	BofA Merrill Lynch U.S. Convertible All Qualities TR Index
US 3 Month T-Bill	BofA Merrill US T-Bill 3M TR Index	Real Estate	FTSE NAREIT All REIT TR Index	US Small Cap	Russel 2000 TR Index
US High Yield	BofA Merrill Lynch US High Yield TR Index	World x USA	MSCI ACWI ex US TR Index	International Real Estate	FTSE NAREIT Global ex US TR Index
Senior Loans	S&P/LSTA U.S. Leveraged Loan 100 TR Index	Commodities	S&P GSCI Commodity TR Index		

## Massive shift in composition of the Agg

From shorter-dated asset backs to longer-dated treasuries



Source: GMO, Barclays

*The Aggregate Bond Index (or, AGG) and all of the passive bond portfolios and ETFs tied to it, has seen a 62% increase in duration over the past 8 years.*

*Source: Advisor Perspectives, Wells Fargo Asset Management (3/6/17)*

### Recommended Reading:

<https://www.advisorperspectives.com/commentaries/2017/03/06/the-passive-aggressive-agg>

# Not All Bonds Are Created Equal

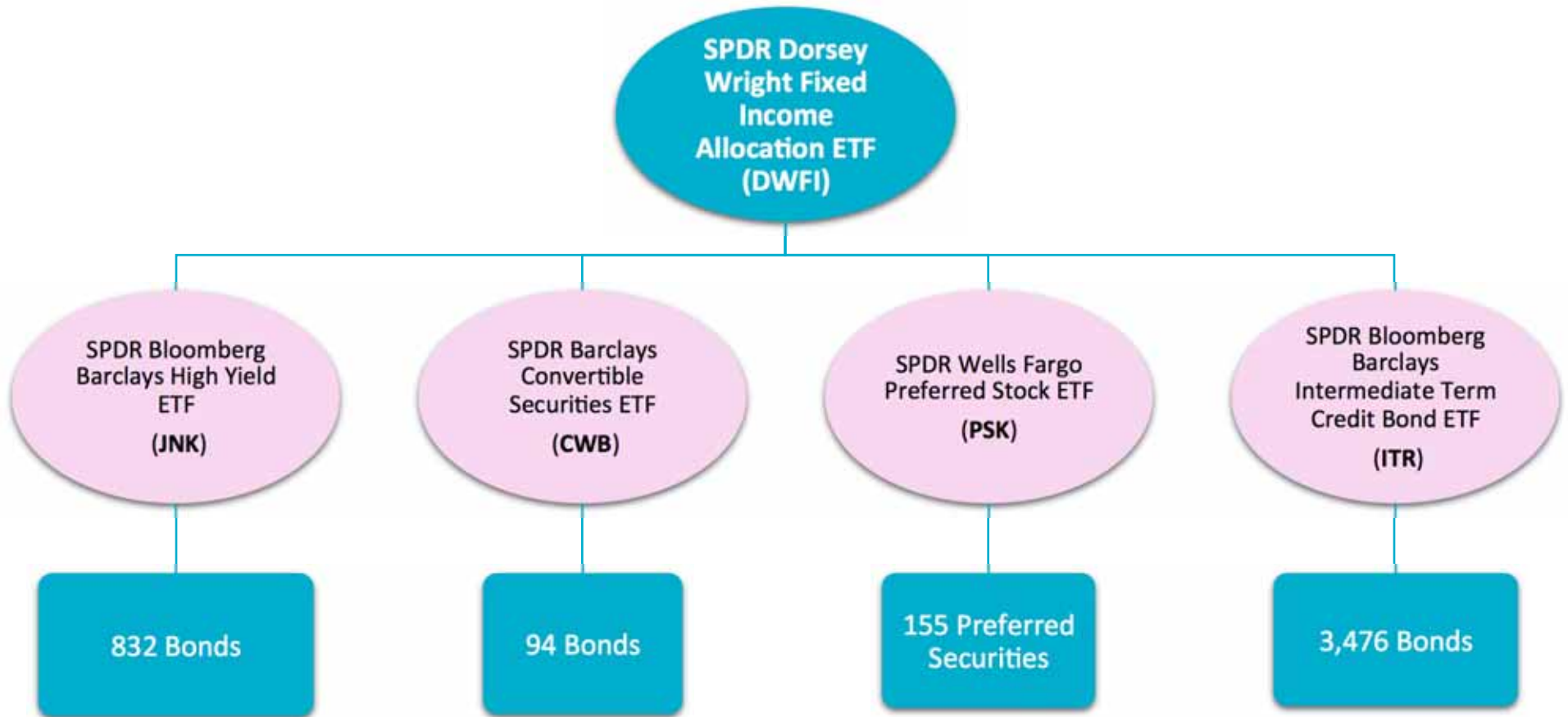
Correlation data based upon 5 years of weekly performance as of 01/04/2017, compared to US 10yr Yield Index (TNX)

## Fixed Income Sub-Sector Indices (correlation to TNX)

Barclays Long Term Treasury	-0.93	Highly sensitive
Barclays Intermediate Term Treasury	-0.91	
Barclays Aggregate Bond	-0.88	
Barclays Long Term Corporate Bond	-0.79	
Barclays TIPS	-0.76	
Nuveen Barclays Municipal Bond	-0.71	
Barclays Intermediate Term Credit Bond	-0.71	
Barclays Mortgage Backed Bond	-0.63	
Barclays International Treasury Bond	-0.54	
Nuveen Barclays Short Term Municipal Bond	-0.49	
Citi International Government Inflation-Protected Bond	-0.38	Insensitive
Barclays Short Term Corporate Bond	-0.37	
Wells Fargo Preferred Stock	-0.30	
Barclays International Corporate Bond	-0.27	
Barclays Emerging Markets Local Bond	-0.24	
Barclays Short Term International Treasury Bond	-0.24	
Barclays Investment Grade Floating Rate	-0.07	
Barclays 1-3 Month T-Bill	-0.07	
Barclays High Yield Bond	0.04	
Blackstone / GSO Senior Loan	0.20	
Barclays Convertible Bond	0.23	Inversely Correlated

Within the Fixed Income Asset Class there is a vast dispersion of “rate sensitivity” across the various investment options.

Correlation calculations are based upon 5 years of weekly data, ending 01/04/17.



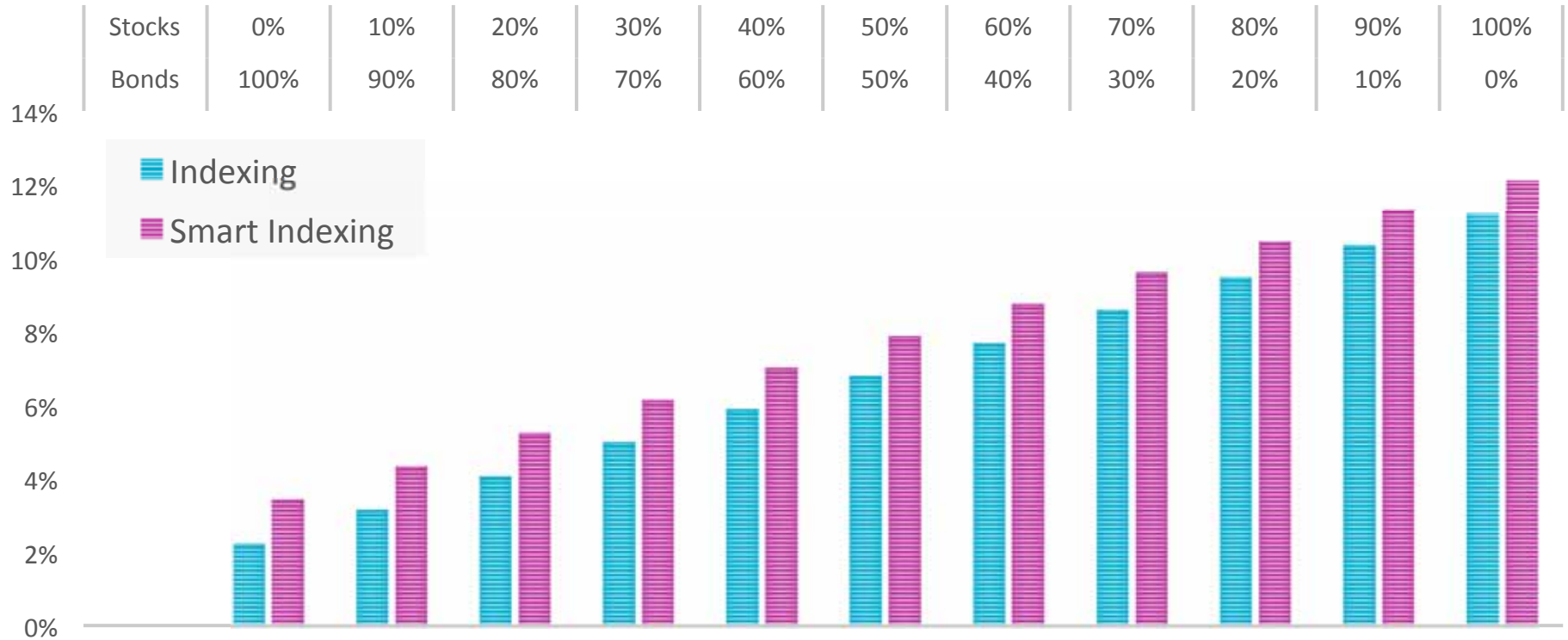
**4,557 Total Securities (Bonds: 4,402; Preferreds: 155; Treasuries: 0)**

*holdings as of 3/14/2017*



# Is Smart Indexing Heavy Lifting?

**INDEXING VS SMART INDEXING SAMPLE ALLOCATION**  
 (MARKET DATA: 5YR ANNUALIZED RETURNS, APRIL 2012-APRIL 2017)



**Indexing**  
 Stocks: SPDR S&P 500 ETF (SPY)  
 Bonds: US Total Bond ETF (AGG.TR)

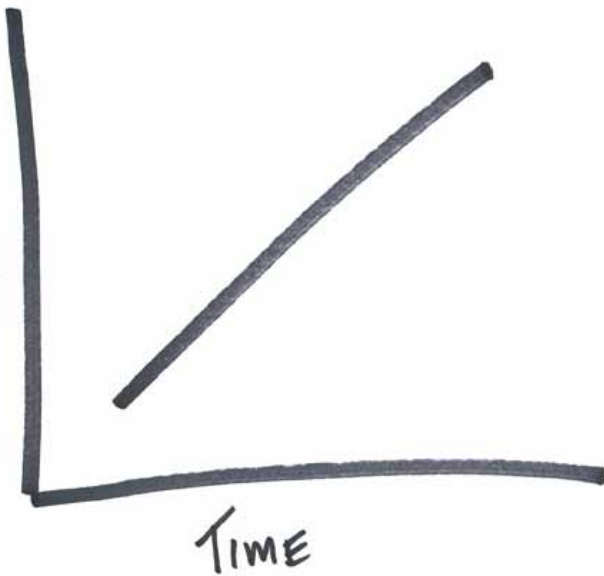
**Smart Indexing**  
 Stocks: DWA People’s Portfolio (PEOPLESPORT)  
 Bonds: State Street Fixed Income Model (SSFIXED.TR)

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**The Pilot Fish to survive, must go where the shark goes.**



BENEFIT OF DISCIPLINE



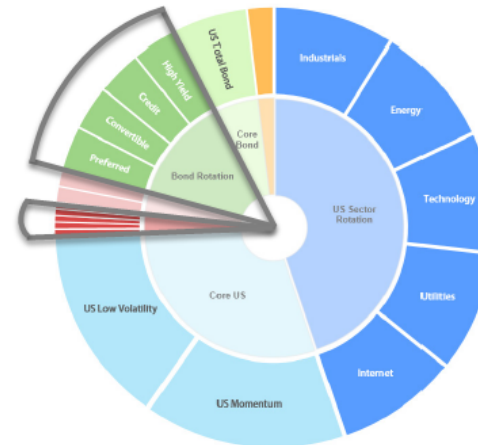
## Tactical Tilt Model

Moderate Allocation

### Current Holdings (as of 3/15/2017)

Domestic Equity	International Equity	Fixed Income
First Trust Dorsey Wright Focus Five Fund	First Trust Dorsey Wright International Focus Five Fund	SPDR Dorsey Wright Fixed Income Allocation Fund
Core Exposure:	Core Exposure:	Core Exposure:
PowerShares DWA Momentum Portfolio	PowerShares DWA Emerging Portfolio	iShares U.S. Core Bond ETF
PowerShares S&P 500 Low Volatility Portfolio	PowerShares DWA Developed Portfolio	
		Cash
		Money Market / Cash

### Current Asset Allocation (as of 3/15/2017)



Asset Sleeves	Sleeve Allocations
US Sector Rotation	44.7%
Core US	29.8%

Country Rotation	2.4%
Core International	2.4%

Bond Rotation	13.2%
Core Bond	5.6%

Cash	2.0%
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### Disclosure

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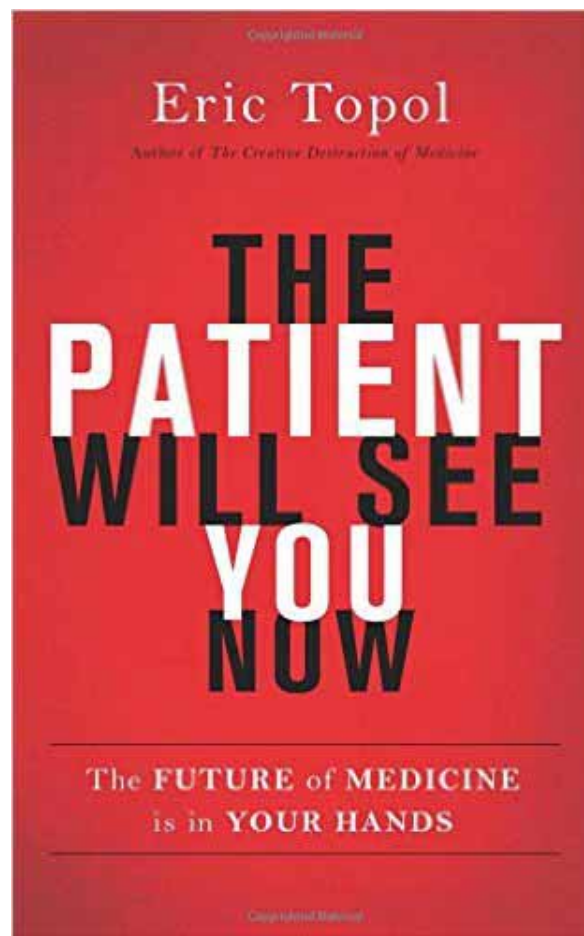


Vs  
•

**“People don’t want to buy a quarter-inch drill. They want a quarter-inch hole!”**

**- Theodore Levitt**

# THIS IS WHERE YOU'RE GOING – EMBRACE IT



- 1. The Patient Will See You Now**
- 2. Disruption**
- 3. The Inevitable**
- 4. 400 Things Cops Know**
- 5. Shantaram**

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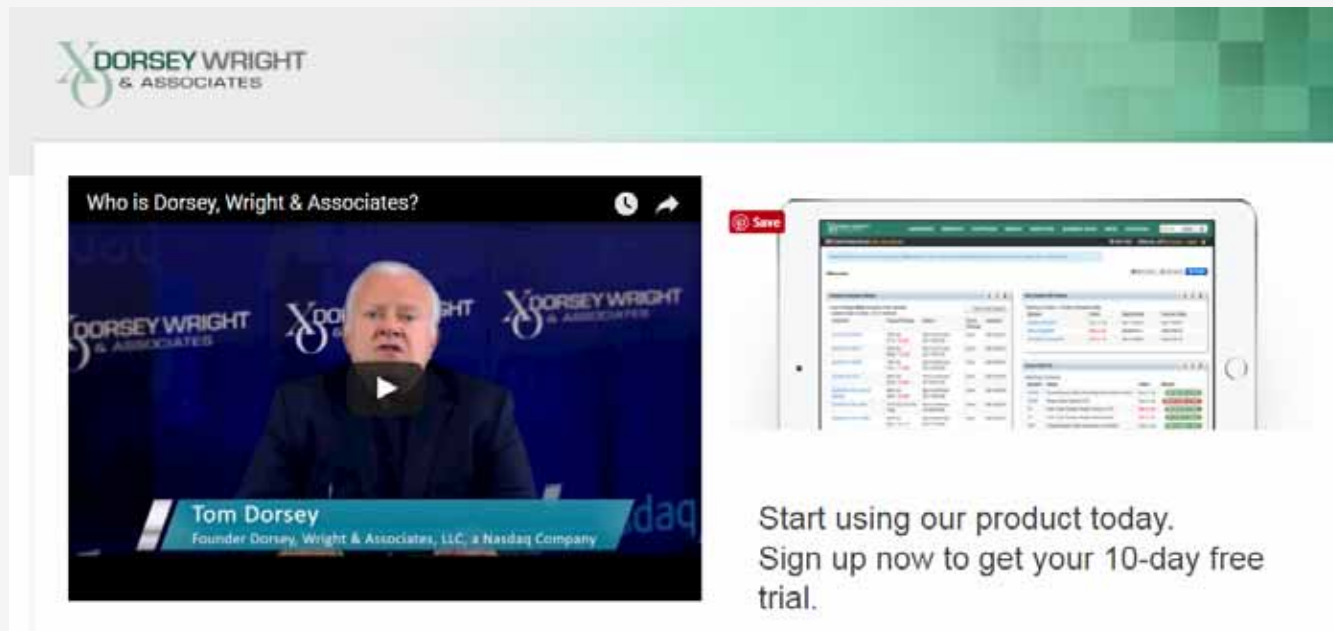
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[Business.Nasdaq.Com/Dorsey-Wright-Trial](https://Business.Nasdaq.Com/Dorsey-Wright-Trial)

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