The Active Manager

NAAIM

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INDEX

TRADING STRATEGIES

NAAIM News

OUTLOOK 2021
CONFERENCE

There's Still an Opportunity to Attend

OUTLOOK 2021 IS IN PERSON AT THE MARRIOTT Chicago O'Hare October 11-12 and there are still a few spaces available for late registrants.

The strong agenda, thoughtful speakers and the opportunity to address issues in person promise to make this an invaluable conference for those able to attend. For more information, please see the agenda on page 3 and take a moment to listen to our presenters on NAAIM's YouTube Channel.

Practice management is a strong focus for the conference, but speakers will also address crypto trading, the outlook for the financial markets with two outstanding macro forecasters, marketing an the AI toolbox and a perennial concern – marketing effectively.

Monday evening, NAAIM will head downtown to the Willis Tower Skydeck to experience Chicago above the clouds at night, followed by dinner at Giordano's for a slice of their "world famous pizza" and fun!

Group hotel rates ($119.00 per person per night) are still effective at the Marriott. Register online and make your hotel reservations at **https://www.naaim.org/outlook/**.

The views and opinions of the authors are not necessarily those of NAAIM, its officers or Board of Directors.

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President's Letter

Matthew Spangler

NEXT UP ON THE NAAIM calendar is our 2021 OUTLOOK conference October 11-12 in Chicago. We anticipate meeting our 50-attendee maximum participation and selling out the conference in the next few weeks. I am looking forward to being among the attendees and having the pleasure of greeting members in person. While we have had some good networking online, it is hard to equal the opportunity to talk in person and exchange ideas. The conference agenda offers great presentations, panel discussions and roundtables (see page 3 for the full agenda). I hope you will join me in Chicago for OUTLOOK 2021.

Wrapping up 2021 and moving into 2022, NAAIM's focus will continue to be on offering on-line content through NAAIM Exchanges and Speaker presentations. One positive of the Covid 19 pandemic is that it forced us to become very creative in keeping members involved and adding membership value through NAAIM's on-line outreach. Thanks to this effort, membership numbers have held steady and the board is determined to continue on-line outreach as we return to a more "normal" business environment.

With that said, NAAIM's Uncommon Knowledge 2022 conference will be in-person, April 25-27 at the Tampa Westin Waterside in Tampa, Florida. We have a great location with lots of outside meeting space. Ryan Redfern and his agenda committee are already working on an outstanding lineup of speakers and topics; there will be a traditional sponsor hall, as well as on-site and off-site activities and networking. Put it on your calendars and keep an eye out for more details as we get into next year.

For our sponsors, conferences and the sponsor exhibit hall are critical to meeting members and building relationships. NAAIM has been very fortunate in the support our long-time sponsors have provided over the last two years of remote contact. We look forward to being able bring sponsors and members together in Tampa again, thanking them for their support, and welcoming new sponsors to the table.

With that said, I want to recognize Ryan Redfern for an outstanding job in his role as Vice President. Ryan spearheaded transitioning the 2020 conference to a series of monthly on-line programs, and then repeating the feat with a virtual OUTLOOK 2020. Together with the Agenda committee, he went on to fill the loss of Uncommon Knowledge 2021 with even more on-line opportunities for knowledge exchange and networking, assembled the agenda for OUTLOOK 2021 and is working on Uncommon Knowledge 2022.

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Take an In Depth Look at Today's Turbulent Markets at OUTLOOK 2021

Helene Meisler

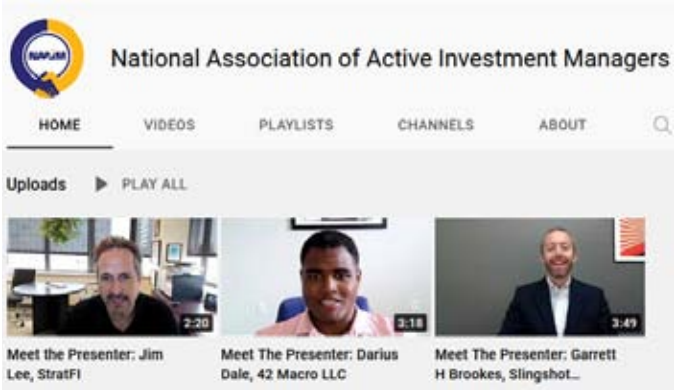
OUTLOOK 2021 KICKS OFF with "*Technical Take on the Markets*" by Helen Meisler, technical analyst and TheStreet columnist.

Helene has worked in the financial markets for nearly four decades, having spent time at Cowen & Co, Goldman Sachs and Cargill, where she managed equity money for the Financial Markets Division. Later, her husband's job took her to stints in Singapore and Shanghai for an intensive insight into the Chinese markets. For the last 25 years she has written a daily column for Realmoney. Helene is passionate about markets and delights in sharing her perspectives on the market, including an invitation to NAAIM members to join her for Saturday Chart Fest on Twitter each week.

Other presentations on the agenda include crypto trading, techniques to grow your business, the AI toolbox, two contrasting macro views of the financial markets, as well as an overview of the winning paper for the 2021 NAAIM Founders Award. Top that off with member panels, round table discussions and a trip to the Willis Tower Skydeck and dinner at Giordano's and you have a great conference coming up.

OUTLOOK 2021 Presenters Featured on NAAIM YouTube Channel

THANKS TO NAAIM BOARD MEMBER AND BUSINESS manager of Scarecrow Trading, Ben Fox, introductions to the presenters at the NAAIM OUTLOOK 2021 conference are now available for your viewing on NAAIM's YouTube Channel. To meet Jim Lee, Darias Dale and Garrett Brookes, visit **https://www.youtube.com/channel/UComjtI7d_gcILC1rAEeDqcA**



AGENDA
OUTLOOK 2021 | October 11 & 12 | Chicago, IL

Monday, October 11

7:30 AM	Registration – Breakfast
8:15 AM	Welcome – Matt Spangler, NAAIM President
8:30 – 9:30 AM	**Technical Take on the Markets** – Helene Meisler, Market Columnist, Realmoney
9:30 – 10:15 AM	**Member Panel |** Practice Management – Delegating, Collaborating and Outsourcing
10:15 – 10:45 AM	Refreshment Break
10:45 – 11:45 AM	**Crypto Trading** - Matt McCall, Penn Financial Group
11:45 – 12:45 PM	Lunch
12:45 – 1:45 PM	**Monthly Macro Scouting Report - October 2021** – Darius Dale, Founder and CEO, 42 Macro LLC
1:45 – 2:30 PM	**Member Panel |** How you can use Marketing to Increase your AUM
2:30 – 2:45 PM	Refreshment Break
2:45 – 3:45 PM	**What Gets Watered Grows: How to Grow your Business from the Inside Out** – Scott Webb, Founder, Apple Orchard Consulting
3:45 – 4:45 PM	**Round Tables:** Marketing; Crypto Trading and Trading Techniques
5:30 PM	Bus leaves for Willis Tower Skydeck and Dinner at Giordano's

Tuesday, October 12

8:00 – 8:30 AM	Continental Breakfast
8:30 – 9:30 AM	**Macro Viewpoint with Jim Bianco,** President and Macro Strategist, Bianco Research, LLC
9:30 – 10:30 AM	**Member Panel | Technology to Improve your Practice Efficiency**
10:30 – 11:00 AM	Refreshment Break
11:00 – 12:00 PM	**Active/Passive Blending Based on The Liquidity Premium** – 2021 Founders Award – Garrett H Brookes, CFA, Slingshot Financial
12:00 – 1:00 PM	Lunch
1:00 – 2:00 PM	**AI Toolbox** - Jim Lee, StratFI – Professional Futurist
2:00 -- 2:15 PM	Refreshment Break
2:15 – 3:15 PM	**NAAIM Exchange:** An open mic, free style, ask your peers discussion about what you've learned while at the conference (or in the business) and what more you would like to know!

James H. Lee and Vivek Verma Win 2021 Active Investing Strategy Competition

FIRST PLACE WINNERS OF THE 2021 NAAIM Active Investing Strategy Competition virtual finals on June 23 and 24 were James H. Lee of StratFI and Vivek Verma of American Alpha Partners LLC.

James Lee of StratFI took first place for the Equity-Focus Strategies category. Lee's **StratFI Caffeinated Market Timing** model applying various calendar effects was unique in concept while demonstrating strong results over a lengthy track record. The strategy combines elements of risk management with tactical leverage, with the goal of being invested when the S&P 500 index has a greater than normal likelihood of generating gains. It stays in cash when the prospects of generating gains are below-average.

First place in the Conservative Blend category was Vivek "Vic" Verma's **American Alpha Income** strategy. Vic's quantitative fixed-income strategy demonstrated a strong multi-faceted process with well-defined risk management components supporting a strong track record while also being timely within the current market environment. The strategy seeks to invest in a diversified portfolio of fixed-income sub-asset classes based on an integrated decision-making model, which relies on economic data and quantitative statistical models. It trades approximately 2-3 times a year, does not take leverage or short sell.

"The task of selecting winners among such a strong pool of competitors was exceedingly difficult," said Dave Moenning, a prior winner and chairman of the 2021 event. "Factors the judges considered included program concept, investment results, risk management techniques, presentation quality, fan favorites, and whether they wished to learn more beyond the admittedly brief nine-minute presentations."

Prior competition winners, formerly known as "NAAIM Shark Tank," have included Richard Paul, Potomac Advisors; David Bush ALPHATATIVE LLC; Len Fox, Scarecrow Trading; and John McClure, ProfitScore Capital Management; Dave Moenning, Heritage Capital Research; Bill Davis, Stance Capital LLC, and John Worthington, Dauble+Worthington Equity Portfolios.

James H. Lee

James H. Lee is an award-winning financial advisor with over 30 years of experience and founder of StratFI, a boutique investment advisory firm that focuses on "what happens next." In his latest book, *Foresight Investing: A Complete Guide to Finding Your Next Great Trade*, he explores opportunities in the emerging technologies of tomorrow, including the internet of things (IoT), augmented reality, cryptocurrencies, automation, artificial intelligence, longevity science, and new sources of energy. He is an active member of the Association of Professional Futurists and holds multiple professional certifications, including CFP®, CFA and CMT. **www.stratfi.com**

Vivek "Vic" Verma

Vic Verma is Managing Principal at American Alpha Partners LLC, based in New York. He focuses on a quantitative approach to capital markets and has extensive experience in designing tactical adaptive portfolios, which keep risk-management as their central goal to protect the principal, responding to ever-changing macro environments. American Alpha Advisors LLC, is a multi-family office providing services to ultra-high net worth families and foundations. **www.aapfunds.com**

Welcome New Members

Billy Brandenberger
RBC Wealth Management
1250 East Creek Dr.
Dripping Springs, TX 78620
281-685-3838

Garrett H Brookes
Slingshot Financial
1571 E. Bates Ave.
Englewood, CO 80113
303-933-7839

Garrett H Brookes Wins NAAIM Founder's Award


Garrett H Brookes

GARRETT H BROOKES, CFA and founder of Slingshot Financial, won NAAIM's annual white paper competition, the NAAIM Founders Award. Garrett received $5,000 for *ACTIVE/PASSIVE BLENDING BASED ON THE LIQUITIDY PREMIUM: A Practical Study.* He will present his paper at the OUTLOOK conference in Chicago, October 11-12, 2021.

Too often active and passive investment approaches are an either-or choice, according to Garrett. "I believe they belong together in a portfolio. There are times when passive will outperform and times when the market's risk level merits an active approach. My focus was to provide an easy-to-understand, easy-to-implement framework for blending passive and active with improved risk-adjusted returns."

ACTIVE/PASSIVE BLENDING is designed for asset accumulation portfolios, where investors are making regular contributions. The passive position invests in an equally weighted S&P 500 exchange traded fund (ETF). The active position uses a capitalization-weighted S&P 500 ETF and a money market fund.

To identify risk on, risk off periods of the market, Garrett uses the liquidity premium created by the spread between the U.S. Treasury 10-year and the 3-month securities. Flatter yield curves tend to occur later in the business cycle as greed takes over investor sentiment. A steeper yield curve typically occurs when there is fear in the market.

Among Warren Buffett's oft-quoted investment advice is "Be fearful when others are greedy and greedy when others are fearful." Using the liquidity premium provides a means of quantifying where the market might be on the scale from fear to greed. When the liquidity premium is low, risk is highest and new contributions are allocated to the Active portfolio. When the liquidity premium is high, indicating investors are fearful, new monies are allocated to the Passive portfolio. To test the effectiveness of the liquidity premium, simulations were run using a 50-50% contributions distribution, randomized contributions, reverse contributions and a randomized 2/3 passive and 1/3 active portfolio contribution distributions.

The second element of the Passive/Active Blend was determining how the active portfolio should be allocated between the cap-weighted S&P 500 ETF and a "cash" position. Again, seeking an easy-to-implement tool based on information readily available to the public, Garrett used the NAAIM Exposure Index as an equity/cash allocation strategy. This indicator represents the average level of exposure to the U.S. equity markets reported by the NAAIM membership on a weekly basis.

In the model developed for the white paper, there is no rebalancing between the passive and active portfolios. While the Liquidity Premium Blend strategy internal rate of return lags the Passive portfolio internal rate of return by 1.3%, it outperforms alternative contribution distributions, while drawdown and risk statistics show significant improvement over the passive portfolio.

To read the full white paper, visit: **https://www.naaim.org/wp-content/uploads/2021/08/2021-00I_Active_Passive-Blending-by-Liquidity_Garrett-H-Brookes_CFA_pub-1.pdf**

President's Letter – CONTINUED FROM PAGE 1

Conference planning is one of the hardest challenges the board faces each year. Ryan has pulled it off admirably with Uncommon Knowledge 2022 marking his third year in the role. We could not have had the successes of the last two years without him, and I cannot thank him enough for his work heading this effort.

Looking back over the last year and a half, the NAAIM membership overall has done an exceptional job showcasing the benefit of active management, with some impressive returns as well as keeping clients invested through economic uncertainty and market disruptions. Even now, with many clients waiting for the bottom to fall out of the market, knowing their managers are watching the market and their models and are ready to take action keeps them from making fear-based decisions. That's huge.

At the same time, I know many members have had a more challenging time than others, from personal illness to that of family members, along with hurricanes, floods and fires and other disasters. I would ask that if you are facing a difficult time and need help, reach out to fellow members. Contact a board member. Let us know what is happening and how we might be able to help. If this pandemic has taught us anything, it is that we are stronger when we reach out and help one another.

Let's have a great fall and a very good holiday season ahead, and may the markets be with you!

Sincerely,
Matt Spangler

NAAIM President

Income Opportunities: Looking Beyond Dividend Yield

ALERIAN AND S-NETWORK GLOBAL INDEXES

WHEN LOOKING AT YIELD TABLES IT MAY SEEM indexes are trading at yields below their five-year averages. Does this mean these yields are insufficient? Not necessarily. Dividend yield is defined as the current annual dividend divided by the current stock price (or in the case of an index, it is divided by the current index value). The dividend yield changes constantly as the price (denominator) changes throughout the trading day.

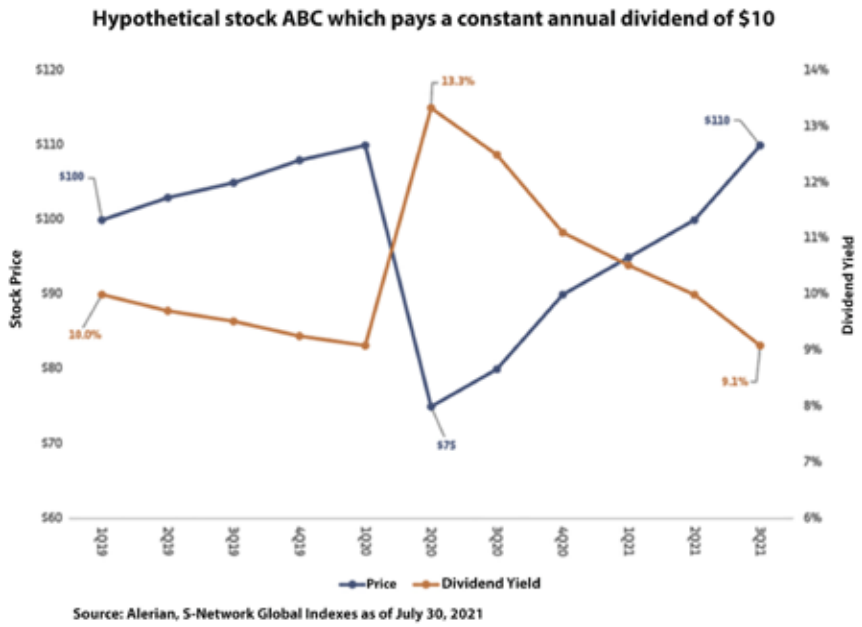
Although dividend yield can provide a picture of the income potential of an investment, investors must consider more context before investing.

Is the dividend yield high because the price of the investment fell? In this case, if the price normalizes back to median levels, the yield might be less than the investor desires. Or if the price stays low, the dividend might no longer be sustainable and could be cut.

Also, does the investment have a history of paying sustainable/growing distributions? In that case, a low dividend yield could be temporary. Using equity stocks as an example, many often set their dividend based on earnings growth. If the stock price rises and the dividend stays the same, the yield will steadily decrease. But if the company has a history of raising its dividend along with earnings growth, this could mean that the dividend (and the dividend yield) could eventually increase. More detailed reports on dividend sustainability can be found **here** for midstream/MLP investments and **here** for closed-end funds.

To help illustrate, in the image above, there is a hypothetical stock ABC at a price of $100 which currently pays a $10 annual dividend. In 1Q19, this is equivalent to a 10.0% dividend yield. The stock grows at a healthy pace until 1Q20. Then the stock price drops drastically to $75 in 2Q20 during the pandemic. Company management knows, however, that the operations are fundamentally strong and believe earnings will recover in 2Q20, so they stay committed to the $10 dividend. At this point, the dividend yield is 13.3%.

Management ends up being correct and by 3Q21, the stock price is at $110, which is above pre-pandemic levels. The dividend is still $10 (in this scenario, the company is waiting for stock price volatility to ease before raising the dividend to ensure that the dividend is sustainable). Even though the stock is now at record high levels, the dividend yield is only 9.1% (lower than the 10.0% yield at the beginning of the scenario and much lower than the 13.3% yield when the stock price crashed).



Bottom Line:

In an environment where Treasury yields are falling and investors are searching for high yield investments, it is important to remember that the dividend yield tells only part of the story for a dividend-paying investment.

Investors must also consider the health of the investment, price volatility, and past dividend history to evaluate the investment's income potential.

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Boost Investment Returns by Profiting from Performance Dispersion

ROCCO PELLEGRINELLI

MARKET DYNAMICS CONTINUE TO EVOLVE AS price trends are governed by a variety of factors where classic fundamental metrics have a diminished role and sentiment, social media, momentum players and fast rotation of big money flow drive the price action of individual stocks.

The shift from active management to passive products continues at a quick pace, but savvy active managers can beat their benchmarks, prove their value, and revert the trend if they turn their attention to the opportunities offered by "Performance Dispersion".

Performance Dispersion is a fact that can be observed and measured in any investment universe, regardless of whether the preference is Size, Factor-based, Sector, Geographical or Thematic (ESG, Faith-based, etc.).

For example, over the 12 months ending in July 2021, from the 700 largest cap US stocks, the top 25% of best performers produced an average gain of 121%, while the bottom 25% of worst performers posted an average profit of 2.8%. The mid 50% saw an increase of 37%.

The ability to capture part of the big winners while avoiding most of the underperformers can make a major difference for an actively managed portfolio, providing a good opportunity to beat the benchmark. Performance dispersion is a gold mine for active managers that have discretion over stock selection. What's the best approach to leverage this opportunity?

First, it takes a pragmatic, opportunistic attitude toward price trends. A trend is trend despite differing opinions of analysts and pundits. Once a trend starts it often gets stronger with the help of momentum players and sentiment building. Pretending to find a rational explanation to trends based on fundamental analysis is missing the big, complex picture of today's markets.

Second, it requires the right tools to identify trends early which gauge the quality of price action, irrespective of short-term volatility, technical corrections, and temporary sideways moves.

An overlay of analytics based on "trend identification and validation" regardless of investment style, can provide the foundation for intelligently profiting from the performance

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Boost Investment Returns by Profiting from Performance Dispersion

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dispersion across stocks with the goal of maximizing the exposure to medium-term trends (a few months to a year) that can make a big difference to annual performance returns.

There are many approaches in analyzing trends. Managers need to avoid falling prey to subjective judgment. Capturing trends requires a systematic, model-driven methodology that is not held hostage to human bias and at the same time is fully scalable and able to cover thousands of securities simultaneously.

In our research, our analysts have found the common momentum metrics have proven to be late during key trend reversals, as momentum requires a few months of price action prior to confirmation. This results in the late capture of bull trends and late exit upon a reversal.

Traditional technical analysis can be of some help, but every individual indicator may prove erratic from time to time, as changes in volatility and patterns may impact the accuracy in "reading the trend". The outcome is inconsistent results across different market cycles which is why any chosen indicator should be massively tested across a vast list of stocks and over a long history.

The approach that in our opinion works best, is a combination of multiple indicators, selected after a robust testing across not less than 20 years of daily data for 15,000 global stocks. The test can identify and measure the accuracy and robustness of individual indicators of across different market conditions. The selected indicators can then be combined into a master model, that can self-adjust to deal with changes in volatility for any specific stock. The result can be a "pattern recognition" methodology that can rate the actual direction and quality of price trends.

If a model captures two-thirds of the major bull trends and avoids two-thirds of verified downward trends, it can solidly support any investment strategy as a mission-critical, intelligent overlay to boost performance returns. It is important to note that a model must be effective on different markets on a global scale to be credible and avoid any risk of over-fitting.

New advanced analytics and cutting-edge technology can make this a reality for active managers. Technology can provide the intelligence required to profit from Performance Dispersion and a fantastic opportunity that passive managers cannot exploit. We believe that this will provide new life to active managers that share in this vision.

About the Author
Rocco Pellegrinelli is the founder of Trendrating, a global provider of advanced analytics and technology serving hundreds of portfolio managers. He started as a fund manager developing investment models. His previous fintech company Brainpower went public in 2000 and was subsequently acquired by Bloomberg. Mr. Pellegrinelli is a regular contributor on Nasdaq.com.

Foliobeyond Fixed Income Commentary: Yield Curve Twists

YUNG LIM

THE BOND MARKET HAS BEEN BUFFETED BY dramatic shifts in the shape of the yield curve in recent months. The bear market steepening from earlier this year made a quick U-turn as uncertainty related to the strength of the economic recovery and possible early withdrawal of Fed-induced liquidity worried investors.

The confluence of factors that drive changes in the yield curve's level and shape have often blindsided portfolio managers as the markets respond quickly to changing fundamentals, interpretation of Fed-speak, and technical forces. While it may be daunting to manage various possible yield curve fluctuations, it is helpful to analyze the key drivers of returns across a representative set of scenarios.

The table below summarizes four major curve twists and the likely associated economic backdrop and Fed stance. A bear steepening scenario was what we experienced early this year and we list some of the sectors that should perform well in that environment. This was followed by a bull flattening scenario that the market digested for a couple of months, with different bond sectors gaining favor. This quick turnaround impacted some of the hedge funds, with a large macro fund suffering significant losses.

Yield Curve Twist	Treasury Yield Change	Economic Forecast	Fed Stance	Sectors to Overweight
Bear Steepening	10-yr rises more than 2-yr	Bullish	Neutral	Short duration IG credit; Short duration TIPs; HY credit
Bear Flattening	2-yr rises more than 10-yr	Bullish	Hawkish	Intermed duration IG credit; Floating rate
Bull Flattening	10-yr falls more than 2-yr	Bearish/Bullish	Modestly Hawkish	Long duration Treasuries; Agency MBS; Long duration IG credit
Bull Steepening	2-yr falls more than 10-year	Bearish	Dovish	Int duration Treasuries; IG credit; Agency MBS

A bear flattening scenario would become more likely if the economic forecasts become rosy and the Fed decides to embark on a belt-tightening program sooner. A bull steepening scenario will get us back to the bull market we experienced in previous years if the economy were to stumble again due to the continued spread of the delta Covid variant or other factors.

These scenarios, however, are not meant to cover most of the outcomes.

First, the severity of the moves will have different implications. For example, during an initial period of bear steepening, High Yield Corporates, and TIPs might be in favor. But an over-extended move may end up eventually hurting High Yield Corporate spreads as higher rates will ultimately slow down the economy and absolute spread levels may need to be wider at higher yields to provide a similar percentage pick-up above risk-free rates. The belly of the curve may also move up and down without accompanying changes at the short and long ends of the curve, making barbell strategies attractive.

FolioBeyond's dynamic and comprehensive approach to optimizing Fixed Income portfolios in response to changing environments can provide several advantages. Our multi-factor, multi-sector model is reactive to the daily changes in relative value and risk characteristics. But it is also prospective by capturing forward-looking return expectations and implied volatility levels in the options market. It is disciplined and objective by automatically updating the analytics daily. It captures the technical factors by utilizing a 2-factor momentum model. Finally, it can efficiently rebalance large segments of the portfolio by trading liquid sector ETFs in contrast to the likely inefficient task of rebalancing large portfolios of individual CUSIP bonds.

As a reminder, our model portfolios are available as an S-Network FolioBeyond Optimized Fixed Income Index on SMArtX and C8 Technologies. It is also available on Folio Institutional and Boutique Exchange. Our algorithm can also be customized and linked to other custodian platforms. Please contact us to explore how our portfolio solutions can enhance your goals.

Yung Lim is the founder and CEO of FolioBeyond, an asset management firm that utilizes algorithmic investment strategies designed to build diversified portfolios, manage risk, deliver optimal returns, and provide advanced asset management solutions for both fixed income and equity portfolios.

The institutional-quality offerings emphasize factor-based optimization models for fixed income and factor-based, volatility wighted, and AI/machine learning methodologies for equities. These investment solutions are provided for RIAs, investment managers, family offices, insurance companies, and other financial market entities requiring portfolio construction and optimization.