# The Active Manager

Quarterly Journal of the National Association of Active Investment Managers

Vol. 19 Issue 1, January 2022

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### Trading Strategies



### NAAIM News



## Finding the Balance: Maybe not what you want, but probably what you need

GREG MORRIS AND GRANT MORRIS

INVESTING SUCCESSFULLY FOR THE LONG TERM requires a balance between give and take, choosing the pros and the cons of different investment approaches, taking the good with the bad, and accepting the risks with the rewards of investing. In other words, you can't have it both ways. You can't have your cake and eat it too; you will have to make some tradeoffs between what you want and what you need. Some investors expect to have all of the good without any of the bad, to get the rewards but not take the risks, to participate in all the upside and avoid all the downside. That is not possible and never will be. Chasing investments or investment strategies that promise the reward without the risk is foolish and will always lead to disappointment. It is much better for you to make an honest assessment of what tradeoffs you can tolerate and invest accordingly.

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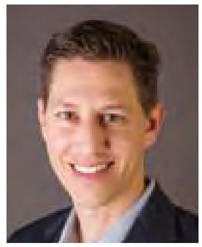
**The views and opinions of the authors are not necessarily those of NAAIM, its officers or Board of Directors.**

NAAIM
6732 W. Coal Mine Ave., #446
Littleton, CO 80123
888-261-0787
info@naaim.org
www.naaim.org

## President's Letter



*Matthew Spangler*

THERE SEEMS TO BE A NEW mood as we start 2022, a feeling that it's time to get back to business and move on. When I first heard a similar comment, my first thought was "Wait, we never stopped working." The investment advisory business is fortunate in that so much of our business is based on using technology that I think we were quicker than many others to adapt new ways to work with clients remotely. But we also didn't have a choice. When you are responsible for someone's financial future, you don't have the option to say, "I can't do this."

At NAAIM, we never stopped working. Whether it was our personal businesses or looking for ways to make our organization more essential to the membership, we've spent the last two years on the move.

2022 is no exception. The single most important priority for the NAAIM board is developing initiatives to grow the organization. We are working with some outside firms to explore ways to bring additional value to what we offer members, to promote NAAIM's strengths to grow membership and to help NAAIM members achieve greater success.

Among our challenges is to bring NAAIM's annual Uncommon Knowledge Conference back to in person. NAAIM will be meeting April 24-27, 2022 in Tampa, FL at the Westin Tampa Waterside. The agenda is coming together nicely with a number of great speakers lined up. While there's still work to do before we release information to the members, Ryan Redfern and his agenda committee have given NAAIM nice head start. There's a lot of work going on behind the scenes to promote the conference, including new marketing plans and resources.

The October OUTLOOK conference was the first step in getting back on track with in-person events. I think it was one of our best speaker lineups to date. We are working to build off that momentum to make 2022 a great year for NAAIM.

I hope everyone has had an opportunity to participate in the webinars NAAIM has been able to offer over the last 18 months. Here again, Ryan Redfern and his team deserve huge kudos. They took our agendas for Uncommon Knowledge for the last two years as well as the 2020 Outlook conference and transitioned them to a great series of online webinars. That is something you are going to see continue at NAAIM, even as we go back to in-person for UK and OUTLOOK. Webinars will continue to be an important part of involving the membership in new ideas.

I wanted to remind everyone that membership renewals are underway. In addition to sending in your own renewals, reach out to associate members and other firms that can

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# Uncommon Knowledge CONFERENCE 2022

**April 25-27, 2022**
**At the Westin Tampa Waterside, Tampa, Florida**
**Meet you at the Waterside - 725 South Harbour Island Blvd., Tampa, Florida**

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## Start Planning to Attend Uncommon Knowledge 2022

MAKE YOUR HOTEL RESERVATIONS FOR THE Westin Tampa Waterside at NAAIM's group rate of $195 plus taxes, by contacting the hotel directly (813) 229-5000 and request the NAAIM rate, or make your reservations online at **www.naaim.org/events/uncommon-knowledge-national-conference/**.

Pre-conference activities on Sunday, April 24th include the Solo Advisor's meeting at 4 p.m. and the NAAIM Golf Classic, with buses departing the hotel at 11 a.m. for the tournament.

The regular conference agenda begins Monday morning at 8 a.m. with registration, the opening of the Sponsor Hall and a New Member Breakfast & Orientation, continuing through the closing luncheon on Wednesday. Make certain you are signed up for the NAAIM News email alerts to receive updates on the conference.

### Save Money, Register to Sponsor Uncommon Knowledge 2022 Today

SPONSORSHIP COSTS FOR NAAIM'S UNCOMMON KNOWLEDGE CONFERENCE are scheduled to increase February 1st. The attached sponsor brochure outlines the new costs. To take advantage of historical pricing, contact NAAIM Administrator Susan Truesdale at **info@naaim.org** or 888-261-0787 and confirm your commitment to be a part of NAAIM's upcoming Uncommon Knowledge conference April 24-27, 2022 in Tampa, FL at the Westin Tampa Waterside. Upper tier sponsorship levels are limited and available on a first come, first served basis.

# Don't Miss NAAIM's Upcoming Webinar

**Creating Value with Active Management in an Indexing Environment**
SPEAKER: John Bollinger, Founder & CEO Bollinger Capital Management
**4:15 pm EST Wednesday, January 26, 2022**

Visit **www.naaim.org/events/webinars/** to register and for information on accessing recordings of past webinars.

NAAIM's December 2021 webinar featured **The New DOL Rule** with Ryan Walter, Esq., Stark & Stark. providing a high-level overview of regulatory issues confronting registered investment advisers and other investment professionals when providing advice to ERISA-qualified plans, participants of ERISA plans, and IRA owners. Topics included prohibited transactions, common examples, and an overview of how the New DOL Rule can be used as an exemption to prohibited transaction issues.

The recording can be found in NAAIM's Info Hub / NAAIM Solutions - Webinar Series - **https://www.gotostage.com/channel/infohub.**

# NAAIM's Founders Award is Soliciting Entries for 2022

The deadline to submit a paper to the NAAIM Founders Award is Monday, March 14, 2022.
The winning author will receive:

- $5,000 cash prize
- Opportunity to present the winning paper at the 2022 Uncommon Knowledge Conference
- Uncommon Knowledge Conference registration, domestic coach airfare and one night lodging at the Westin Tampa Waterside during the conference

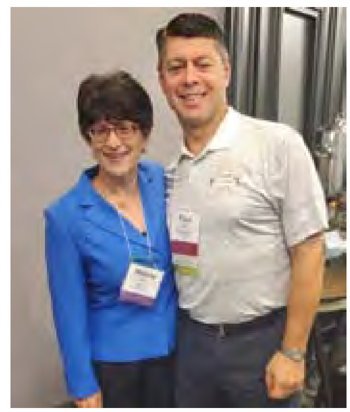
Submitted papers should cover an innovative topic in the area of active investing. This can be either a documented investing approach, an exploration into the validity of active investing, or research in the other issues related to active investing such as making investment decisions using technical analysis, quantitative analysis, etc. Papers can also address related topics such as position sizing techniques, money management approaches, scaling into and out of trades, exit strategies, tax harvesting, execution, etc.

Download the competition RULES and 2022 Intent to Submit at **www.naaim.org/programs/naaim-founders-award-2022/**. The webpage also provides a link to prior Founder's Award winning papers to provide an idea of the scope and content of winning papers.

OUTLOOK 2021
CONFERENCE

# Looking back at OUTLOOK 2021






*Clockwise: Helene Meisler set a high intensity pace with her opening presentation - Technical Take on Markets. Helene with Paul Schatz. Jim Bianco explains his Macro Viewpoint of the financial markets. Garrett Brookes presents his Founders Award paper. Greg Cornielle, Scott Webb, and Ryan Redfern on the Chicago Skydeck.*

OUTLOOK 2021
CONFERENCE

*Dinner at Giordano's provided attendees with an opportunity to network in a more casual setting. Clockwise from top: Delmar Gillette and Frank Tehel. Rich Davila and John McClure. Brian Kasal, Dave Morton, Barry Arnold, Ben Reppond, Dina Fliss and Garrett Brookes with Delmar Gillette in the background. Jim Applegate and Ron Rough.*


# Finding the Balance: Maybe not what you want, but probably what you need

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If you are the type of investor that likes to have your investment accounts at all-time highs whenever the market is making all-time highs, you should probably just be a passive index fund investor. You can do this with low-to-no-cost ETFs that give you exposure to the same market indices discussed on the financial news networks every day. When the news proclaims the market is at all-time highs, if all of your money is in an S&P 500 index ETF, then you will feel great that your account is also at all-time highs. Of course, when the S&P 500 is in a bear market, your account will be too.

It is important to realize, though, that choosing to be a passive investor tied to a particular index doesn't free you from having to make tradeoffs with your investments – you are still accepting the good and bad of passive investing and making a tradeoff with all the other ways one could invest. The "good" is the long-term returns of the index, the strong bull market periods, never underperforming the market, and having your account at all-time highs when CNBC is lauding the market highs. The "bad" is that you will never beat the market, you'll have high volatility, you'll have periods of sheer terror when massive drawdowns occur during bear markets, and there will be long periods of time spent just recovering losses after a bear market has bottomed with a drawdown of 30%, 40%, or 50%.

If you want the "good" listed above, you have to be willing to accept the "bad" too. You can't have one without the other.

People often choose to invest differently from a passive, index-based portfolio, in hopes of having their allocation change drive some outperformance to the market. It takes effort to do things differently, so unless there is an expected benefit, why else would one attempt it? The reasons could be numerous, but at the end of the day, if you do anything different than passive index investing, you are implicitly (or explicitly, for some) making tradeoffs in these good and bad aspects to investing. You are changing what risks you are willing to accept for the returns you seek.

If you are an investor with a typical benchmark 60% stock (SPY) and 40% bond (AGG) allocation, you have many portfolio-construction levers to pull (i.e., tradeoffs to make) in your effort to "beat the market". You may stay passive and chose to incorporate allocations to other index ETFs, such as the Nasdaq Composite or to the Russell 2000, because you think they'll outperform the large-cap stocks of the S&P 500. That outperformance could come from larger upside returns or smaller downside returns. Some tradeoffs you just made are that you may not be at all-time highs at the same time as the S&P 500 but you may have lower volatility because your portfolio is more diversified. You could also change your bond allocation away from AGG by incorporating longer- or shorter-duration bonds, or higher or lower credit quality, etc. These are all tradeoffs you are making with the "free and easy" benchmark portfolio, and you should be aware of them and why you are willing to make them.

Maybe instead of passive investing, you move to a more active strategy that involves stock picking, like trying to invest in a subset of S&P 500 stocks that will outperform the index. Stocks could be selected based on fundamental analysis, technical setups, or factor-based screening. You are still trading benchmark performance, with its specific risk and reward profile, for a different investment approach that may or may not have better returns or risks. One should assess if the new risk and reward profile is desirable and justifies the difference from the benchmark. One also should understand the tradeoffs made and if they are acceptable – i.e., if the difference from the benchmark is tolerable by the investor.

We think it is very important to have a good understanding of why you may want to be invested differently and the tradeoffs that are being made with the different allocation. Knowing and understanding how and why your portfolio will behave differently than the benchmarks is key to having the discipline often required to stick with something that is different.

We choose to invest differently because we know that the "bad" that comes with passive investing is just not acceptable to the vast majority of investors. We primarily manage strategies that are rules-based and 100% tactical. This means that we can move from being 100% invested in the stock market to being 0% invested in the stock market (100% defensive) based on the rules of our tactical ETF strategies. Why do we choose to manage money this way? For two main reasons: (1) the math of compounded returns, and (2) we believe it is what clients NEED, whether they recognize it or not.

## #1, The Math of Compounded Returns

Let's use a real-world example to illustrate. The US stock market had its first bear market in more than 11 years during 2020, due to the global pandemic. To the right are the monthly returns of the S&P 500 since 2020, and the average and cumulative compounded returns during these years.

The S&P 500 has an average return each month of 1.54%, while the cumulative compounded return over this time period is 33.33%.

As mentioned in previous articles, our Trend Plus strategy did very well at getting out of the way of the COVID bear market and avoided all of the drawdown that occurred during the first half of 2020. Right of the S&P 500 returns are the results of Trend Plus over the same time period.

Trend Plus has an average return each month of 1.50%, while the cumulative compounded return over this time period is 34.45%.

*continued on next page*

# Finding the Balance: Maybe not what you want, but probably what you need

CONTINUED

| S&P 500 Index | | |
|---|---|---|
| | Monthly Rtn | Cumulative Rtn |
| 1/31/2020 | (0.16%) | (0.16%) |
| 2/28/2020 | (8.41%) | (8.56%) |
| 3/31/2020 | (12.51%) | (20.00%) |
| 4/30/2020 | 12.68% | (9.85%) |
| 5/29/2020 | 4.53% | (5.77%) |
| 6/30/2020 | 1.84% | (4.04%) |
| 7/31/2020 | 5.51% | 1.25% |
| 8/31/2020 | 7.01% | 8.34% |
| 9/30/2020 | (3.92%) | 4.09% |
| 10/30/2020 | (2.77%) | 1.21% |
| 11/30/2020 | 10.75% | 12.10% |
| 12/31/2020 | 3.71% | 16.26% |
| 1/29/2021 | (1.11%) | 14.96% |
| 2/26/2021 | 2.61% | 17.96% |
| 3/31/2021 | 4.24% | 22.97% |
| 4/30/2021 | 5.24% | 29.42% |
| 5/28/2021 | 0.55% | 30.13% |
| 6/30/2021 | 2.22% | 33.02% |
| 7/30/2021 | 2.27% | 36.04% |
| 8/31/2021 | 2.90% | 39.99% |
| 9/30/2021 | (4.76%) | 33.33% |
| *Average* | 1.54% | |

| Trend Plus | | |
|---|---|---|
| | Monthly Rtn | Cumulative Rtn |
| 1/31/2020 | 2.30% | 2.30% |
| 2/28/2020 | 1.20% | 3.54% |
| 3/31/2020 | 2.86% | 6.50% |
| 4/30/2020 | 3.63% | 10.36% |
| 5/29/2020 | 6.18% | 17.18% |
| 6/30/2020 | 5.22% | 23.30% |
| 7/31/2020 | 7.04% | 31.98% |
| 8/31/2020 | 10.04% | 45.22% |
| 9/30/2020 | (5.34%) | 37.47% |
| 10/30/2020 | (5.68%) | 29.67% |
| 11/30/2020 | 0.11% | 29.82% |
| 12/31/2020 | 4.64% | 35.83% |
| 1/29/2021 | 0.07% | 35.93% |
| 2/26/2021 | 0.24% | 36.26% |
| 3/31/2021 | (1.88%) | 33.70% |
| 4/30/2021 | 1.87% | 36.20% |
| 5/28/2021 | (1.31%) | 34.41% |
| 6/30/2021 | 5.27% | 41.49% |
| 7/30/2021 | (1.57%) | 39.27% |
| 8/31/2021 | 1.12% | 40.83% |
| 9/30/2021 | (4.53%) | 34.45% |
| *Average* | 1.50% | |

Trend Plus had a smaller average monthly return than the S&P 500 but the compounded return on Trend Plus is greater – and compounded returns are what matter to investors. This result is what we mean by the "math of compounded returns." If you can avoid large negative months (or quarters, or years), your returns can compound at a higher rate over time since large negative numbers destroy compounding – it's just math. Same as the trend-following truism that says, if you are able to miss most of the bad times, you don't have to participate as much on the upside to still come out ahead.

## #2, What Clients Need

For reason #2, we have found that most clients cannot tolerate large drawdowns. They NEED an investment approach that focuses on risk management rather then what they say they WANT, which is typically to achieve outsized returns. Most investors cannot successfully ride the bear market down 33.9% (like we saw the S&P 500 drop in 2020) and continue to hold onto their position until the market fully recovers. In theory, this type of investor must exist (academic finance is entirely based on their existence), but in practice, we never find them. The losses in bear markets are far too great to withstand. This is especially true for investors that are nearing retirement or already retired. Bear market losses can completely devastate your retirement plans when time isn't on your side to wait for a recovery. Thus, clients NEED risk management and a way to avoid the devastation of bear markets, while still getting "good" returns during bull markets.

Over the same months shown in the tables above, when the S&P 500 suffered the 33.9% drawdown, the Trend Plus maximum drawdown was only 10.7%. This happened in October 2020 just after the S&P 500 had fully recovered from the bear market (notably, our drawdowns occur at different times than the market's). We firmly believe that drawdown is the best measure of risk (as discussed in previous articles), and so our Trend Plus strategy was able to deliver higher compounded returns over this time period while taking significantly lower risk – that is why we invest differently.

There is no such thing as an investment strategy that gets it right all the time or has all the good without any bad. People always look for the holy grail of investing, something that provides the upside returns of the S&P 500 and somehow avoids the downside. It doesn't exist. What can exist is an acceptance of which risks and "bad" results you can tolerate, then find the strategy that provides the best returns based on accepting those risks.

The tradeoffs we make to manage money through our tactical strategies are numerous, and we have to fully accept the "bad" aspects of our approach. We suffer whipsaw trades and often underperform the benchmark portfolios, we frequently are not at new highs in our strategy when the market is making all-time highs, we have down days and months when the market is up, etc., etc. We are willing to make all of these tradeoffs in order to achieve the results that we and our clients NEED, even if it's not always what we WANT.

For tactical strategies, like the ones we manage at McElhenny Sheffield Capital management (**mscm.net/strategies/**), we think it is better to understand what market environments will cause underperformance and accept that "bad" as a tradeoff for the "good" that we provide at other times. Namely, when the major corrections and bear markets come, we typically do very well and tend to come out ahead.

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*Grant Morris (**grant@mscm.net**) manages various tactical and trend following strategies at McElhenny Sheffield Capital Management for individual investors and other registered investment advisors. Greg Morris is a senior advisor to the firm. Additional trading perspectives by Greg and Grant Morris can be found at **stockcharts.com/articles/dancing/**.*

# Why Market Timers Must Leverage Their Long Positions

ROBERT R. CHAMPION

IN 1992, CHAMPION SECURITIES CONSIDERED THE question: Have SAAFTI[1] members whose timing signals are audited by the MoniResearch Newsletter statistically outperformed a passive buy-and-hold investment strategy of equivalent risk as measured by their average alpha?

Champion had introduced and was offering a proprietary investment product, "MarketPlus," that was designed specifically for active investment managers.1 Utilizing an interactive-voice-response computer system, MarketPlus enabled investors to index directly or inversely to the closing price of the S&P 500 or the Nasdaq-100 Index. Using MarketPlus's "Multiple," investors could leverage their position up to 2 to 1.

MarketPlus's leveraging cost was considerably lower than borrowing on margin at a broker. It was the risk-free interest rate in the futures market—at that time the 3 Month LIBOR rate—plus MarketPlus's "Indexing Fee" of 1.30%.

## The Research

To conduct this research project, Champion retained Dr. Don M. Chance, who is now the Endowed Chair of MBA Studies and Professor of Finance at Louisiana State University. Motivated by this research and the availability of actual market-timer signals, Dr. Chance—in collaboration with Dr. Michael L. Hemler—later published a peer-reviewed study confirming that market timing works providing transaction costs are sufficiently low.[2]

The database consisted of 25 active investment managers who had five years of MoniResearch-audited market-timing signals. With MarketPlus as the investment vehicle, the analysis was to determine daily account balances with all costs and calculate "alphas" and "t" statistics.

"alpha" would be the amount by which active management outperformed a passive asset allocation of equivalent risk – that is, a mix of S&P 500 and Cash such that the resulting ßeta would have been the same as that realized by the active strategy. "t" statistic on alpha would provide a measure of the degree of confidence one can have that a manager's average alpha was not zero.

Exhibit I lists the timers in the study by number and their respective signals. The term "signal" refers to an explicit market timing recommendation by a given timer, i.e., the first recommendation or a subsequent revision. Each timer gives daily recommendations explicitly or implicitly, from the time of his first signal until the end of 1994. The data are from MoniResearch Corporation, which published a newsletter that evaluated professional market timer performance.

*continued on next page*

## Exhibit I

| Timer[a] | Date of first signal | Date of last signal | Total number of signals | Number of signals at 0% | Number of signals between 0% and 100% | Number of signals at 100% | Median number of calendar days between signals | Average number of calendar days between signals | Standard deviation of number of calendar days between signals[a] |
|---|---|---|---|---|---|---|---|---|---|
| 1 | 1/02/86 | 11/30/93 | 22 | 11 | 0 | 11 | 77.0 | 137.6 | 141.0 |
| 2 | 1/02/86 | 12/13/94 | 44 | 22 | 0 | 22 | 64.0 | 76.0 | 48.2 |
| 3 | 1/02/86 | 3/29/94 | 69 | 12 | 41 | 16 | 18.5 | 44.2 | 60.3 |
| 4 | 1/02/86 | 12/30/93 | 26 | 13 | 1 | 12 | 44.0 | 116.8 | 133.4 |
| 5 | 3/03/86 | 10/20/94 | 42 | 21 | 1 | 20 | 64.0 | 76.9 | 62.8 |
| 6 | 3/03/86 | 11/25/94 | 89 | 5 | 72 | 12 | 29.0 | 36.2 | 32.7 |
| 7 | 5/01/86 | 12/21/94 | 23 | 11 | 0 | 12 | 106.5 | 143.5 | 122.2 |
| 8 | 5/01/86 | 12/22/94 | 66 | 10 | 50 | 6 | 27.0 | 48.6 | 57.8 |
| 9 | 5/01/86 | 3/30/94 | 26 | 13 | 0 | 13 | 71.0 | 115.6 | 222.3 |
| 10 | 2/02/87 | 12/19/94 | 26 | 13 | 1 | 12 | 70.0 | 115.1 | 107.0 |
| 11 | 4/01/87 | 3/30/94 | 62 | 30 | 4 | 28 | 29.0 | 41.9 | 40.0 |
| 12 | 4/04/88 | 10/20/94 | 99 | 49 | 3 | 47 | 7.0 | 24.4 | 64.3 |
| 13 | 4/04/88 | 10/14/93 | 24 | 12 | 3 | 9 | 39.0 | 87.8 | 105.1 |
| 14 | 7/03/89 | 12/30/94 | 303 | 152 | 0 | 151 | 5.0 | 6.6 | 6.4 |
| 15 | 11/01/89 | 12/05/94 | 34 | 17 | 0 | 17 | 41.0 | 56.4 | 45.5 |
| 16 | 4/02/90 | 12/09/94 | 15 | 5 | 7 | 3 | 87.5 | 122.3 | 122.7 |
| 17 | 12/03/90 | 12/29/94 | 84 | 29 | 42 | 13 | 13.0 | 17.9 | 15.5 |
| 18 | 1/02/91 | 11/21/94 | 41 | 20 | 0 | 21 | 17.0 | 35.5 | 46.9 |
| 19 | 2/01/91 | 3/17/94 | 9 | 4 | 0 | 5 | 93.5 | 142.5 | 112.3 |
| 20 | 3/01/91 | 10/24/94 | 52 | 26 | 1 | 25 | 21.0 | 26.1 | 23.0 |
| 21 | 8/01/91 | 12/22/94 | 24 | 9 | 5 | 10 | 49.0 | 53.9 | 36.9 |
| 22 | 8/01/91 | 12/21/94 | 17 | 8 | 1 | 8 | 68.0 | 77.4 | 54.5 |
| 23 | 8/01/91 | 12/13/94 | 71 | 35 | 0 | 36 | 6.5 | 17.6 | 26.7 |
| 24 | 4/01/92 | 12/15/94 | 12 | 6 | 0 | 6 | 74.0 | 89.8 | 75.1 |
| 25 | 8/03/92 | 12/21/94 | 77 | 30 | 16 | 31 | 8.0 | 11.4 | 11.2 |
| 26 | 8/03/92 | 12/28/94 | 106 | 53 | 0 | 53 | 6.0 | 8.4 | 6.9 |
| 27 | 12/01/92 | 12/28/94 | 123 | 62 | 0 | 61 | 5.0 | 6.2 | 5.6 |
| 28 | 1/04/93 | 12/14/94 | 13 | 6 | 0 | 7 | 60.0 | 59.1 | 55.3 |
| 29 | 8/02/93 | 11/21/94 | 34 | 17 | 0 | 17 | 14.0 | 14.4 | 10.0 |
| 30 | 12/01/93 | 2/18/94 | 2 | 1 | 0 | 1 | 79.0 | 79.0 | |

[a]Timer 15 gave two sets of recommendations depending on whether the market corresponds to the S&P 500 or Nasdaq. In order to have one set of recommendations per timer, we use the recommendations corresponding to the S&P 500. The rationale for choosing the S&P 500 over Nasdaq is that the S&P 500 is the more popular and familiar benchmark. In addition Timers 3 and 6 used only stocks and cash during this period, but they were not restricted to using only stocks and cash; they could invest in other asset classes.

1 SAAFTI, Society of Asset Allocators and Fund Timers, Inc. was the original name of today's NAAIM.

2 Chance, Don M. & Hemler, Michael L, 2001, 'The performance of professional market timers: daily evidence from executed strategies', Journal of Financial Economics, vol. 62, Issue 2, pp. 377–411

# Why Market Timers Must Leverage Their Long Positions

CONTINUED

## Exhibit II

**ANALYSIS OF ALPHAS OF 25-TIMER STUDY**
**September 30, 1985 - September 30, 1990**

| | |
|---|---|
| Buy / Sell: | +1/0 |
| Risk-free rate: | 6.98% |
| Market Return: | 17.53% |
| Market Std. Dev: | 21.16% |

| Timer | Actual Return | Std.Dev | Beta | Expected Return | Alpha |
|---|---|---|---|---|---|
| 724959 | 13.74% | 14.23% | 0.67 | 14.07% | -0.3348% |
| 674553 | 13.62% | 20.10% | 0.95 | 17.00% | -3.3815% |
| 664935 | 17.17% | 14.21% | 0.67 | 14.06% | 3.1051% |
| 655959 | 14.40% | 14.49% | 0.68 | 14.20% | 0.1955% |
| 746239 | 11.75% | 12.55% | 0.59 | 13.24% | -1.4872% |
| 734742 | 9.41% | 13.97% | 0.66 | 13.95% | -4.5352% |
| 764552 | 15.29% | 14.54% | 0.69 | 14.23% | 1.0606% |
| 665348 | 20.15% | 14.91% | 0.70 | 14.41% | 5.7361% |
| 705952 | 11.44% | 13.23% | 0.63 | 13.58% | -2.1362% |
| 705753 | 9.11% | 16.80% | 0.79 | 15.36% | -6.2462% |
| 565948 | 15.85% | 12.91% | 0.61 | 13.42% | 2.4333% |
| 655352 | 13.88% | 12.74% | 0.60 | 13.33% | 0.5481% |
| 624547 | 14.76% | 13.67% | 0.65 | 13.80% | 0.9644% |
| 605639 | 21.16% | 14.20% | 0.67 | 14.06% | 7.1001% |
| 605348 | 19.66% | 12.79% | 0.60 | 13.36% | 6.3031% |
| 576249 | 21.16% | 11.13% | 0.53 | 12.53% | 8.6308% |
| 564952 | 11.04% | 10.91% | 0.52 | 12.42% | -1.3795% |
| 555037 | 16.78% | 11.35% | 0.54 | 12.64% | 4.1411% |
| 665957 | 13.05% | 14.73% | 0.70 | 14.32% | -1.2741% |
| 674552 | 13.55% | 13.73% | 0.65 | 13.83% | -0.2755% |
| 675554 | 15.98% | 14.31% | 0.68 | 14.11% | 1.8653% |
| 674939 | 16.40% | 13.59% | 0.64 | 13.76% | 2.6443% |
| 674952 | 10.74% | 13.05% | 0.62 | 13.49% | -2.7465% |
| 734735 | 11.82% | 12.09% | 0.57 | 13.01% | -1.1879% |
| 806739 | 14.95% | 13.20% | 0.62 | 13.56% | 1.3887% |
| **Average** | | | **0.65** | | **0.8453%** |
| **Std. Deviation** | | | | | **3.5645%** |
| **T - Statistic** | | | | | **1.19** |
| | | | | | **« Not Significant »** |

## Exhibit III

**ANALYSIS OF ALPHAS OF 25-TIMER STUDY**
**September 30, 1985 - September 30, 1990**

| | |
|---|---|
| Buy / Sell: | +2/0 |
| Risk-free rate: | 6.98% |
| Market Return | 17.53% |
| Market Std. Dev: | 21.16% |

| Timer | Actual Return | Std.Dev | Beta | Expected Return | Alpha |
|---|---|---|---|---|---|
| 724959 | 21.23% | 26.87% | 1.27 | 20.38% | 0.8531% |
| 674553 | 23.73% | 38.41% | 1.82 | 26.13% | -2.4005% |
| 664935 | 27.83% | 26.37% | 1.25 | 20.13% | 7.7024% |
| 655959 | 22.96% | 28.07% | 1.33 | 20.98% | 1.9848% |
| 746239 | 17.46% | 24.68% | 1.17 | 19.29% | -1.8250% |
| 734742 | 12.73% | 26.82% | 1.27 | 20.35% | -7.6220% |
| 764552 | 22.40% | 25.45% | 1.20 | 19.67% | 2.7311% |
| 665348 | 32.74% | 27.27% | 1.29 | 20.58% | 12.1637% |
| 705952 | 17.09% | 25.74% | 1.22 | 19.81% | -2.7235% |
| 705753 | 13.55% | 34.42% | 1.63 | 24.14% | -10.5912% |
| 565948 | 25.20% | 24.28% | 1.15 | 19.09% | 6.1144% |
| 655352 | 21.53% | 24.53% | 1.16 | 19.21% | 2.3198% |
| 624547 | 23.28% | 26.57% | 1.26 | 20.23% | 3.0527% |
| 605639 | 36.03% | 26.37% | 1.25 | 20.13% | 15.9024% |
| 605348 | 32.58% | 22.82% | 1.08 | 18.36% | 14.2224% |
| 576249 | 37.67% | 20.40% | 0.96 | 17.15% | 20.5189% |
| 564952 | 15.35% | 21.27% | 1.01 | 17.58% | -2.2348% |
| 555037 | 26.84% | 20.03% | 0.95 | 16.97% | 9.8734% |
| 665957 | 19.97% | 27.61% | 1.30 | 20.75% | -0.7759% |
| 674552 | 21.17% | 26.71% | 1.26 | 20.30% | 0.8729% |
| 675554 | 26.25% | 27.12% | 1.28 | 20.50% | 5.7484% |
| 674939 | 26.84% | 26.11% | 1.23 | 20.00% | 6.8420% |
| 674952 | 14.98% | 24.47% | 1.16 | 19.18% | -4.2003% |
| 734735 | 18.23% | 24.09% | 1.14 | 18.99% | -0.7608% |
| 806739 | 23.64% | 25.23% | 1.19 | 19.56% | 4.0808% |
| **Average** | | | **1.23** | | **3.2740%** |
| **Std. Deviation** | | | | | **7.1696%** |
| **T - Statistic** | | | | | **2.28** |
| | | | | | **« Significant at 98% Confidence Level »** |

## Findings

As Exhibit II shows, although—as a group—the managers produced a positive alpha, the "t" of 1.19 showed that it was not significant. That is, one could not be confident that the group's alpha was not really zero.

According to the editor of the MoniResearch Newsletter, Steve Shellans, "About 50% of the timers we track use trend-following methods," which is an "after-the-fact" indicator. Except for "seasonality" and—to some extent—"cyclical" methodologies, virtually all active managers include some form of "trend-change" forecasting algorithm in their timing methodology.

Shellans goes on to say, "No market timer I know of claims to be able to capture the full uprise and the full downfall. They only claim to be able to capture the fat part of the move."

Depending on their methodology, by buying after a bottom and selling after a top, even an outstanding active manager could routinely miss, on average, 15% to 25% of the uprise.

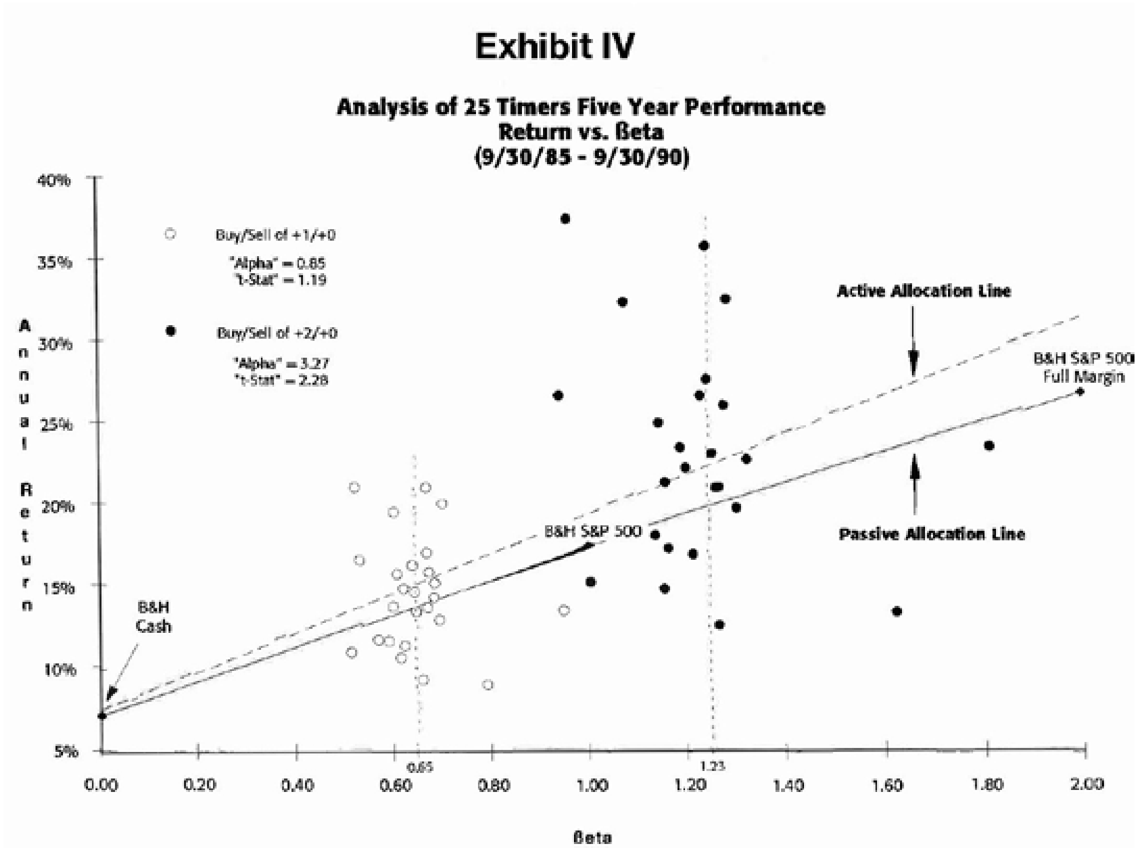
Because MarketPlus had such a low leveraging cost, Champion wanted to see the effect of rerunning the analysis with the timers implementing their buy signals with a Multiple of +2.00.

As Exhibit III shows, the result was a highly significant "t" of 2.28. A "t" statistic of 2.28 indicates that we can be almost 98% confident that the positive alpha of these active managers' investments was not zero.

Thus, the answer to our research question was, "Yes." These SAAFTI members were in and out of the market at the right times. But they missed enough of each move—by getting in or out too late or too early— to outperform a passive strategy of equivalent risk.

To make up for the missed part of up moves, active managers need to leverage their long positions at low cost to capitalize fully on being "mostly right." Exhibit IV shows graphically the overall analysis of the 25 SAAFTI members.

*continued on next page*




As one active manager phrased it, "If you're going to be late getting out of the gate, you better have a fast horse!"

## Postscript

The advent of the Internet and the Commodity Futures Modernization Act of 2000 allowed Market- Plus to be indexed to the total return of an investment in both U.S. and international exchange-trad- ed futures contracts. Now called an "iTRACsm," this innovative financial instrument will make available a unique, entirely Internet-based way in which to implement indexed-trading strategies.

Investors will be able to leverage their "Asset Allocations" up to 3X in 0.05 increments. That is, if an investor allocates $100,000 to track a futures price and selects a "Multiple" of +3.00, they will have an indexed position of $300,000. Indexing can be direct (a plus Multiple) or inverse (a negative Multiple) and can be changed at any quarter-hour during U.S. and after-hours trading.

Patent-pending algorithms enable an iTRAC to accurately track both inverse and leveraged positions over any time horizon. Importantly, iTRAC's operating expense ratio of 20 bps and transaction cost of 1 bps will make it quite competi- tive in today's marketplace. Importantly, they also are at the cost level that Chance and Hemler found to be necessary for successful market timing.

While working to register iTRACs with the SEC—so that non-accredited investor RIA clients could purchase it—a newly formed Bermuda-based financial institution, Invesdex Ltd, modernized the MarketPlus software and successfully offered the product to non-U.S. active managers.

Invesdex operated in accordance with all agreements, satisfied all redemption and termination requests, and success- fully hedged over $6 billion in indexed positions. The 2008 financial crisis killed a needed financing, and Invesdex was forced to cease operations, terminate all MarketPlus contracts, and pay each investor the then full value of their contract.

Champion is now seeking a highly respected bank to acquire the iTRAC technology, modernize the system software, and—then—offer iTRACs to active and other investment managers.

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*Author Robert (Bob) Champion is a Founding Member of NAAIM/ He is President of MarketPlus Capital Company, which is in SEC registration to issue the MarketPlus "iNotes." He is a co-founder of MCC's parent, Champion Securities limited partnership (CSLP), and is president of its general partner. Bob is licensed with the Financial Industry Regulatory Authority (FINRA) as a General Securities Representative, a General Securities Principal, an Introducing Broker & Financial Operations Principal, and has passed FINRA's Series 63 Uniform Securities Agent State Law Exam He can be reached at .***robertrchampion@gmail.com**

## President's Letter – CONTINUED FROM PAGE 1

benefit as associate members and encourage them to either continue or start their membership. This has been one of the most difficult areas for NAAIM to provide value because so much of the value we offered sponsors was to meet face to face with you and develop working relationships. Sponsors help keep our conferences affordable, provide funding for special projects and bring new ideas and products to the membership. They are vital to our members and we want to do all we can to encourage them to be a part of upcoming events.

You were also emailed a survey earlier this month as part of our growth initiative. Our goal is to find out what you like or don't like about NAAIM and to give us direction on how to make NAAIM better. If you have not completed the survey, please take some time to do so today. Let us know what you want from your membership.

One thing I do know is that we have a very interesting year ahead. After unbelievably good market returns for the last two years, financial markets are under pressure from inflation and the Federal Reserve signaling higher interest rates and a reduced bond portfolio ahead. The state of the economy is uncertain with signs that the recovery is potentially slowing. We face a big challenge finding good employees, learning to manage Covid as an ongoing part of our lives, reaching out to old and new clients and so much more.

On the positive side, this is a good opportunity for active management to add value. But it's also a good time to have friends in the industry that you can talk to about challenges and opportunities. NAAIM opens doors to relationships that help us cope with changes, to better understand where we are going and to laugh with when life gets a little too ridiculous. Reach out to other members. I am continually amazed at how much value I have found within the NAAIM organization. I hope you will take advantage of that value as well.

Let's make 2022 a very good year for our personal lives, our businesses and our clients.

Sincerely,
Matt Spangler

NAAIM President

## Welcome New Members

### NAAIM Regular Members

**Marcantonio Antamoro**
**Alpha RIA, LLC**
40 Wall Street, 28th Fl.
New York, New York 10005
(212) 933-9301

**Guy-Robert Porter**
**Engineered Risk Advisory**
14611 Rogue River Dr.
Chesterfield, MO 63017
(314) 565-4910

### Associate Member

**Robert Champion**
**MarketPlus Capital Company**
PO Box 1796
Carmel-by-the-Sea, CA 93921
(831) 620-1525

**REMINDER:** NAAIM's Member Renewal Campaign is underway for 2022. If you have not yet renewed your membership, please visit your INFO HUB profile and click on your Billing Tab. Renewing is simple! If you are unable to access Info Hub, contact Susan Truesdale at (888) 261-0787.

NAAIM
National Association of
Active Investment Managers

# FOUNDERS AWARD

FOR ADVANCES IN
ACTIVE INVESTMENT MANAGEMENT

## Call for Papers

2022

## Whitepaper Competition

The National Association of Active Investment Managers (NAAIM) was formed in 1989 as a non-profit association of registered investment advisers who provide active money management services to investors. The goal of the NAAIM members is to promote active investment management strategies as an alternative to passive allocation. NAAIM includes more than 120 member firms nationwide, managing an estimated $32 billion. Associate members include mutual fund companies, ETF providers and a variety of other firms that provide professional services to RIAs.

**FINAL PAPER** (up to 30 pages) together with a required 750-1000 word abstract **must be submitted electronically to: info@naaim.org by Monday, March 14, 2022** to qualify for the competition.

The submission of a paper for review means that the author certifies that the manuscript is not copyrighted, and consents to NAAIM's non-exclusive use of the paper.

www.naaim.org

# $5,000 Cash Prize to be Awarded for Best Paper

**Paper Topics:** The papers should cover an innovative topic in the area of active investing. This can be either a documented investing approach, an exploration into the validity of active investing, or research in other issues related to active investing such as making investment decisions using technical analysis, quantitative analysis, etc. Papers can also address related topics such as position sizing techniques, money management approaches, scaling into and out of trades, exit strategies, tax harvesting, execution, etc.

**Who may submit:** The competition is open to all investment practitioners, academic faculty and doctoral candidates in the field.

**Selection Criteria:** Papers must be of practical significance to financial professionals and must discuss a strategy or idea that is realistically executable in current financial markets. The prize will be awarded to a paper resulting from research into active investment management, which NAAIM broadly defines as investment strategies and techniques that improve upon the risk-adjusted return obtainable from a passive, buy-and-hold investment strategy. Many NAAIM members strive for consistent outperformance and focus on quantitatively or technically oriented investing. However, papers that explore other types of active investment management or issues germane to active investment management will also be considered.

A jury of scholars and investment professionals will review entries and award the prize.

**Submissions:** All submitted papers should be recent, unpublished and of a quality appropriate for publication in a peer-reviewed academic journal. **Inquiries and submissions should be electronically submitted to info@naaim.org** and the subject line should indicate "2022 Paper Submission." Papers should be numbered, double-spaced and readable in a PDF format and filed prior to the deadline.

**Intent to Submit a Paper:** You are encouraged to complete an "Intent to Submit" form and return it to NAAIM by Tuesday, February 8, 2022. This will allow us to contact you if needed if there is a change to the competition, clarification of rules, or in the event that your paper does not arrive by the competition deadline at NAAIM headquarters.

**Online "Intent to Submit" form Link:**
2022 Intent to Submit Form

# FOUNDERS AWARD

FOR ADVANCES IN ACTIVE INVESTMENT MANAGEMENT

## Competition Rules

The National Association of Active Investment Managers (NAAIM) sponsors the Founders Award annually to seek out papers of academic quality that cover an innovative topic in the area of active investing. The following rules govern the submission, judging, ownership and awarding of the papers.

1. All decisions of the NAAIM Founders Award committee are final. Any occurrence that arises that is not covered in these rules will be adjudicated by the committee.
2. Papers will be judged by a panel selected by the NAAIM Founders Award committee. The prime criteria used in judging the papers are:
   1. Practical significance to practitioners of active investing
   2. Quality of exposition
   3. Analytical rigor
   4. Novelty of results
3. Papers should be submitted electronically in PDF format to info@naaim.org and the subject line should indicate "2022 Paper Submission." Please submit TWO copies of the paper: 1) Anonymous– with no reference of the author(s)' name or their affiliation with a company or university; 2) The paper should include the author(s) and affiliation with a company or university.
4. Papers must be 30 pages or less and include a separate required 750–1000 word abstract within the paper. Papers must be numbered, double-spaced, with a minimum font size of 14, and filed prior to the deadline. Papers failing to adhere to these requirements are subject to disqualification.
5. By virtue of submission, the author certifies that the manuscript is not copyrighted, consents to NAAIM's non-exclusive use of the paper and abstract, and agrees to be bound by the rules set forth herein. NAAIM will request approval of the author prior to any publication of the paper.
6. Delivery of papers to NAAIM is the sole responsibility of the participants. Therefore, it is encouraged that they complete an "Intent to Submit" form that will allow NAAIM to contact them, if needed.

   NAAIM will attempt to do so if the situation arises, such as a change to the competition, clarification of the rules, in the event that their paper does not arrive by the deadline at NAAIM headquarters to the specified email address, etc. An email confirmation of receipt of the paper will be sent by NAAIM within three days of submission. It is the author's responsibility to contact NAAIM at info@naaim.org prior to Monday, March 14, 2022, in the event a confirmation is not received by the author in the 3-day time period.
7. Papers are due at NAAIM on or before midnight on Monday, March 14, 2022.
8. The winning paper will be announced prior to the NAAIM 2021 Uncommon Knowledge conference (date to be determined).
9. The author of the winning paper will win a $5,000 Cash Prize and the opportunity to present at the annual NAAIM conference. Domestic coach airfare, one night of lodging and conference registration is included for one author per winning paper only.

# FOUNDERS AWARD

FOR ADVANCES IN ACTIVE INVESTMENT MANAGEMENT

## Intent to Submit

**Please submit your intent by Tuesday, Feb. 8, 2021**

☐ **Please place me on the list to participate in the FOUNDERS AWARD Competition**

The following information will only be used for the purpose of contacting participants with reminders or information about the contest. If more than one author, please include additional author(s)' names and emails, as well.

PLEASE PRINT OR TYPE

Name ______________________________

Title ______________________________

Company, University or Organization

______________________________

Address ______________________________

City ____________________ State ____ Zip ________

Email Address ______________________________

Phone ______________ Cellphone ______________

How did you hear about the NAAIM Founders Award?

☐ Previous Competitor/Winner
☐ NAAIM New Member Orientation
☐ NAAIM Email/NAAIM News
☐ Academic Faculty
☐ LinkedIn Post
☐ Internet Blog/Bulletin Board
☐ NAAIM Event
☐ Other: ______________

**To Submit Your Intent by Tuesday, Feb. 8, 2021:**

Download or print this document. Complete the form on page 3 and then submit it to **NAAIM.** You can submit via:

Email: info@naaim.org (preferred)
Fax: 720-749-1367
Mail: NAAIM, 6732 W. Coal Mine Ave., Ste 446
Littleton, CO 80123

Please call 888-261-0787 with any questions.

**2022 "Intent to Submit" Form**

**National Association of Active Investment Managers**

888-261-0787 or
303-979-1280
Fax: 720-749-1367

www.naaim.org
info@naaim.org