The Active Manager

Quarterly Journal of the National Association of Active Investment Managers

Vol. 20 Issue 1, February 2023

INDEX

Revisiting Whipsaws

GRANT MORRIS, GREG MORRIS

IT IS A GOOD TIME TO REVISIT A TOPIC THAT IS always top of mind for tactical money managers and investors in rules-based strategies like trend following; and that is whipsaws.

Whipsaw trades are the one issue that will constantly concern investors using trend following strategies. Whipsaw trades can cause losses or cause you to miss out on gains, and aside from those monetary impacts, they are difficult to tolerate emotionally. If you are going to do anything different than being a buy & hold investor, you are always going to compare to "what could have been" if you were using a buy & hold strategy.

A whipsaw is basically a trade or change in your investment position that the market does not cooperate with. There are two ways to get whipsawed when trend following. One is to move from being invested to being defensive (i.e., selling) and then the market moves higher and forces you to buy back in at a higher price.

This type of whipsaw does not necessarily cause losses in your account but does cause you to miss out on gains. This trade makes investors think that if they stayed invested

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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

Ryan Redfern

WELCOME TO 2023!

This should be an interesting year for the investment advisory industry. After a down year in 2022, there seems to be a lot of optimism that 2023 will be a better year for returns. For the time being, many NAAIM members are more aggressively positioned to take advantage of an upswing in the market. And that is the great aspect of being an active manager. You don't have to predict the future. You can take a contrarian position, knowing that if conditions change, you have a strategy to adapt to that change.

As an investment advisor who once followed a buy-and-hold approach, it's easy to imagine how difficult the last year must have been for buy-and-hold investors. If 2008 had not opened my eyes and mind to active management, I doubt I would still be in this business. The volatility of the last year seems to be having a similar impact on a number of advisors. NAAIM has seen a steady influx of new members over the last year. If renewals come in strong, we should continue to see growth for the association in 2023.

Part of our success in getting the active management message out to advisors is a result of the board's focus on increasing NAAIM's social media presence. Our outreach is expanding every day, which I have to believe is contributing to the growing interest in NAAIM, particularly among younger advisors.

Coming up May 7-10 is the highlight of the NAAIM year — our Uncommon Knowledge Conference in Scottsdale, Arizona. This will be our third "post-Covid" conference and we are hoping to see registrations continue to grow back to pre-pandemic levels.

Uncommon Knowledge is three days — Monday through Wednesday — of non-stop presentations, activities, and networking. Pre-conference opportunities on Sunday include golf, a solo advisors session, and Welcome Party. For the first time in several years, we are bringing back a Sunday evening NAAIM's Active Investment Strategy Competition Final. This is NAAIM's version of "Shark Tank," where advisors have seven minutes to present their investment strategy, followed by seven minutes of questions and answers from the audience and judges.

Many of our past participants say it is quite a challenge to effectively explain and sell their investment approach in seven minutes. In past years, the competition has been held after the close of the agenda on Wednesday. We are hoping the move to presenting this competition pre-conference will give more members exposure to this exciting event.

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May 7-10, 2023
Hilton Scottsdale Resort & Villas
6333 North Scottsdale Rd., Scottsdale, AZ 85250
(480) 315-2010
Conference and Hotel Registration

REGISTER TODAY!

ATTEND Uncommon Knowledge to LEARN, NETWORK and RELAX!

NETWORK FROM SUNRISE TO WELL BEYOND sunset: Welcome Event, Solo Advisors Meeting, Golf, Platinum Sponsor Party and more …

LEARN from the very best! Among the presenters we look forward to hosting:

- **TRADING:** JC Parets, Founder & Chief Strategist, All Star Charts: https://allstarcharts.com/about/jc-parets/
- **COMPLIANCE:** Thomas Giachetti, Esq., Stark & Stark Attorneys at Law: https://www.stark-stark.com/attorneys/thomas-giachetti/
- **DIGITAL MARKETING:** Debbie Freeman, CEO, Paladin Digital Marketing: https://paladindigitalmarketing.com/
- **MARKETS:** Ryan Detrick, Chief Market Strategist, Carson Group: https://www.carsongroup.com/insights/blog/team-members/ryan-detrick/
- **BEHAVIORAL FINANCE:** Jay Moorland, MS, CFP®, Behavioral Finance Network: https://behavioralfinancenetwork.com/

Sponsor Commitments

NAAIM is pleased to welcome the following firms as Sponsors of the 2023 Uncommon Knowlege Conference:

BLUE TRACTOR
CEROS Financial Services, Inc. ADVISORS PREFERRED
Direxion ETFs | Funds
EQUITY ADVISOR SOLUTIONS
GUGGENHEIM
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You Are Invited to Compete: 2023 NAAIM Active Investing Strategy Competition

EACH YEAR, NAAIM OFFERS ACTIVE INVESTMENT managers an opportunity to showcase their active investment strategies, models, and signals through the Active Investing Strategy Competition. For both competitors and audience members, the competition is an excellent opportunity to learn about different investment approaches and develop working relationships with fellow members.

NAAIM's Active Investing Strategy competitions are category specific. 2023 categories include, but are not limited to:

- Stock selection
- Tactical allocation
- Asset allocation
- Fixed income
- Alternatives

Competition Dates:

Preliminary Online Competition:
February 1 – March 17, 2023

Final Round – In-Person:
Sunday, May 7, 2023
(Uncommon Knowledge),
Scottsdale, AZ

Competition Structure: There are two rounds of competitions: Preliminary and Final. Each competitor is given seven (7) minutes to present their strategy. In the preliminary round, a question-and-answer period with NAAIM committee members will follow the presentation. In the final round, the Q-and-A session will include judges and audience.

The winners of the Preliminary Strategy Competition are selected by the NAAIM Active Investing Strategy Competition (AISC) Committee. Winning finalists will be announced on or before April 3, 2023 and will advance to the Final in-person round in May prior to Uncommon Knowledge 2023. The Grand Prize winner of the Final round is selected by the NAAIM AISC committee and a panel of outside judges.

The Grand Prize winner receives a $5,000 cash prize, promotion to the NAAIM membership and access to Global View Capital Advisors' platform. Pending due diligence approval, the winning strategy will be promoted to Global View's advisor base of active investment managers.

Who May Participate: The NAAIM Active Investing Strategy competitions are open to all trading and investing practitioners who have developed strategies with live, verifiable, real money track records. Note that NAAIM Membership is required to participate in the live NAAIM Competition Finals.

How to Apply: Managers wishing to participate in the upcoming event are requested to submit an application to the committee.

Download APPLICATION
(https://forms.gle/4eHwnDD6odXgeciX7)

Founders Award 2023 Deadline Update

NOW IN ITS 14TH YEAR, NAAIM'S FOUNDERS Award for Advances in Active Investment Management seeks papers of academic quality that cover an innovative topic in the area of active investing.

Launched in 2009, the NAAIM Founders Award is designed to expand awareness of active investment management techniques and the results of active strategies through the solicitation and publication of research on active management. $5,000 is presented annually for the best paper submitted to the competition. The winner is invited to attend Uncommon Knowledge to present the paper.

The competition is open to all investment practitioners, academic faculty and doctoral candidates in the field. Papers must be of practical significance to financial professionals and must discuss a strategy or idea that is realistically executable in current financial markets.

Deadlines

"Intent to Submit" form to NAAIM by Tuesday, February 7, 2023.

Papers due on or before midnight on Monday, March 20, 2023

Download rules and Intent to Submit form

Revisiting WhipSaws

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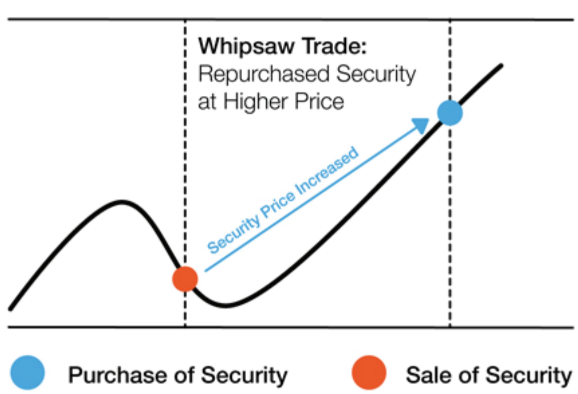
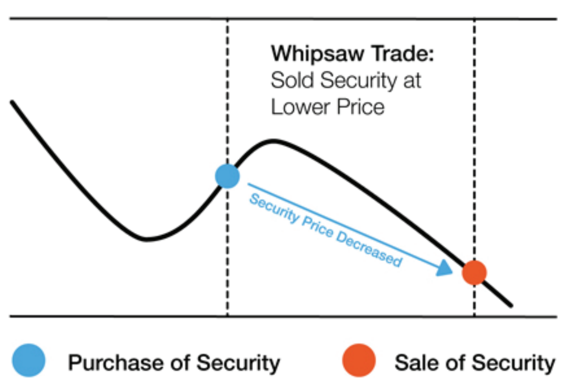


and not sold when they did, their account value would have increased; "Everyone else is getting rich and I'm not!"

The second type of whipsaw is when you are defensive and move to being invested (i.e., buying) and the market moves down after you enter, forcing you to sell at a lower price.



This type of whipsaw does cause losses in the account and makes you think that if you weren't so anxious to buy, you could have bought in later at a lower price; "I'm buying high and selling low, this strategy is not working!"

Whipsaws are an inevitable consequence of eschewing the buy and hold approach that will eventually cause you to become a victim of a bear market. Whipsaws are the "cost of doing business" if you want to avoid the devastation that comes during bear markets. We know this fact to be true, watching the market plummet from the sidelines is not a bad thing, emotionally or financially. We never know if a few down days are going to turn into a correction, or if a correction is going to turn into a bear market. No one can reliably predict such things (even though countless people try), but at least we are always prepared for the worst outcome. That is why we accept whipsaw trades in our trend following approach – for the benefit of the downside protection our selling rules provide. It allows us to try to participate in the good times and avoid the bad times. Are the calls always correct? Are the trades always positive? Definitely not, but we know that there is only one thing worse than being wrong, and that is staying wrong.

We don't think there is any way to get over whipsaw trades. We hate them, our clients hate them, and people quit using investing strategies because of them. Yet, they are never going away, they are absolutely part of the process and cannot be avoided. We think it just takes experience to get used to whipsaws, if one ever does. Taking a longer-term view of a strategy's investment results and not focusing on the current trade that may not be working is one way to make whipsaws more tolerable.

There are, however, ways to reduce the number of whipsaw trades that occur in any rules-based strategy, and that is to de-sensitize the model to the market's actions; one such example would be using wider stops. We caution against this approach to whipsaws as it may reduce the frequency of them, but can also reduce overall performance, especially during bear markets. Having wider stops means you'll stay invested during more uptrends, as smaller pullbacks do not trigger selling, but you'll inevitably not get out of the way as quickly during corrections and bear markets, forcing you to ride the market down further before selling. Know that whatever stop level you choose, there will be times when the market does not cooperate. Adjusting a model based upon sound principles so that the whipsaws in the recent past are reduced or eliminated likely leads to whipsaws at other times and worse returns where it matters most – in the future.

Ironically, most buy & hold investors are really just very de-sensitized tactical investors, because they do eventually sell near market lows when the pain of further losses is far more than they can tolerate! Very few have the ability to always implement the "hold" portion of buy & hold, and we don't think it is a good plan for most investors with serious money at stake. We think it is better to accept the whipsaws and avoid the devastation of bear markets.

Grant Morris, CFA, CFP® specializes in tactical investment strategies and technical analysis for McElhenny Sheffield Capital Management (MSCM). Grant joined MSCM after developing a rules-based trend following strategy to manage his personal investable assets. Grant now manages multiple tactical ETF strategies for MSCM clients as well as for his own accounts.

Greg Morris has been a technical market analyst for over 45 years ranging from analysis software development, to website analysis and education, to money management. He has written four books: Candlestick Charting Explained (and its companion workbook), The Complete Guide to Market Breadth Indicators, and Investing with the Trend. A graduate of the Navy Fighter Weapons "Top Gun" School, Greg is a former Navy fighter pilot. He also holds a degree in Aerospace Engineering from the University of Texas and has a long history of understanding market dynamics and portfolio management.

Financial Services' Inconvenient Need for WhatsApp Archiving

HARRIET CHRISTIE

IN SEPTEMBER 2022, THE SECURITIES EXCHANGE Commission (SEC) and Commodity Futures Trading Commission (CTFC) reached settlements totaling around $1.8 billion with 12 of Wall Street's leading investment banks1. The prominent institutions, which included Morgan Stanley, Citigroup, Goldman Sachs and Bank of America, were penalized for failing to monitor employees' use of unauthorized messaging apps, like Whatsapp, with colleagues and clients.

The probe followed on from JP Morgan's $200 million fine in December 2021, with the floodgates apparently opening. Authorities seem to have used that initial $200 million settlement figure as a yardstick for the industry, signifying the end of an unofficial grace period afforded firms adapting to the pandemic.

Such monumental penalties have had a seismic impact on the financial services regulatory landscape, with repercussions reaching far beyond the behemoths evidently being made an example of. But how did we get to this stage, and how can firms address the employee behaviors which are clearly no longer going to be tolerated?

What's up with WhatsApp?

The SEC mandates[2] that banks maintain records of all communication between clients and brokers. Private exchanges, like those occurring through WhatsApp, are far more difficult to monitor, and the likelihood of data being compromised only increases as personal devices are introduced to the equation.

It's important to note that the issue here is not with WhatsApp itself; the same concerns apply with WeChat, Telegram, and other 'ephemeral' messaging apps. It is the difficulties in documenting communications on these encrypted platforms, and the subsequent contravention of record-keeping requirements, that is problematic.

Phone Call Fatigue

Until relatively recently, consumers had limited options available to them if they wanted to reach out to a regulated firm. To discuss their bank account, for instance, they'd need to either get on the phone or head over to their local branch for a personal discussion. Now, they are able to communicate with the organization through a multitude of digital channels.

It's not just an option, but a preference. WhatsApp, Facebook Messenger and Telegram were among the most downloaded apps in Q1 2022, and WhatsApp itself has an astronomical 2 billion active users worldwide. According to Forbes, 93% of US consumers want to communicate via text message, with speed, ease of use and (consumer) familiarity with the platforms proving decisive advantages.

This works both ways; it's also easier and more efficient for employees to communicate through tools that they're familiar with using in their day-to-day life, than one provided by their employer.

Remote Channels

The disruption of the Covid-19 pandemic led to far greater reliance on messaging apps, as physical proximity, even with colleagues, was prohibited. In 2019, 68.1 million U.S. mobile phone users accessed WhatsApp to communicate. This figure is projected to grow to 85.8 million users in 2023. A by-product of this reliance on new digital channels was an escalation in the number of workers using personal phones or tablets for business, as lines began to blur and professional and personal lives intertwined.

Employees are more likely to act casually when working remotely, whether that means taking longer breaks or messaging clients or colleagues through an unauthorized channel. Having allowed these communication habits to set in over a sustained period, they're now very difficult to shift back to a pre-Covid level, given the inherent convenience and usability that employees have become accustomed to.

Paying the Bill

JP Morgan's $200 million dollar fine in December 2021 was the first significant penalty in a probe that has also impacted the aforementioned dozen leading investment banks to the tune of $1.8 billion. The SEC's crackdown has since continued to expand, as Wall Street's private equity giants have revealed that they're under investigation.

The enforcement unit has also launched enquiries about smaller Registered Investment Advisor (RIA) protocols for 'off-channel' business communications. RIAs are subject to the same regulations as the larger firms that were previously penalized, so while they may have been spared the ambush of the initial investigations, they should be mindful that they're in the regulators' crosshairs nevertheless.

What Now?

The situation leaves business leaders and compliance teams in a quandary. Should they sacrifice convenience and operational efficiency in the pursuit of compliance, banning messaging apps outright and instead relying on the tried and tested solutions of email, phone calls and, to a lesser extent, social media?

This is probably a tempting option given the enormity of the penalties being administered. It has certainly been the

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1 *Wall Street Hit With $2 Billion of Fines in WhatsApp Probe,* by Sridhar Natarajan, Jennifer Surane and Katherine Doherty, September 27, 2022, Bloomberg

2 https://www.sec.gov/rules/final/2019/34-87005.pdf

Identifying New Strong Sectors with Candlestick Analysis

STEPHEN W. BIGALOW

CANDLESTICK CHARTS REVEAL SOME VERY powerful truisms. The chart graphics are based upon the most consistent investment indicator in the world – human nature. Candlestick analysis is a price/trend evaluation hybrid, a positive blend utilizing fundamental analysis in conjunction with technical analysis.

Candlestick analysis provides two major benefits for money managers. Candlestick charts produce an alert for revealing when a new sector becomes attractive, instigating research into the factors that may have changed and making that sector viable for establishing positions. Candlestick charts also reveal when established portfolio positions should be closed, based upon a change of fundamental factors or indicating one's research analysis may not have been correct.

Money managers and hedge fund managers can dramatically enhance their performance by utilizing the information incorporated in candlestick analysis. The presumption is candlestick analysis is purely technical analysis. This **misconception** is based upon the lack of understanding of how candlestick signals and patterns are created.

Candlestick charts allow for putting 'all the stars in alignment!' First, the candlestick visuals indicate reversals and/or direction of the overall market trends. If the market is revealing an uptrend, simple candlestick scanning techniques reveal which sectors are showing the strongest signals. The same scanning techniques then reveal which individual stocks are demonstrating the strongest upside potential in that sector. The same process can be used for identifying the strongest bearish sectors and bearish stock positions in a market downtrend.

A money/hedge fund manager, applying the common sense expected results of candlestick signals and patterns, will greatly improve their ability to evaluate trend movement. If your current trend indicators work well, candlestick signals will greatly augment your trend analysis ability. Candlestick signals and patterns are not conjecture. They indicate the actual decisions occurring between the bulls and the bears.

Candlestick signals and patterns are developed based upon fundamental influenced decision-making. It can be assumed that the vast majority of investment decisions are made based upon fundamental criteria (90% of all investment transactions based upon fundamental research, 10% based upon technical decision-making?). The performance of money management research can be improved by correctly identifying the high probability elements effecting price movements.

This does not put candlestick analysis in the technical analysis category. However, it utilizes other technical analytical tools to confirm 'why' buying and selling is occurring at specific levels. Witnessing a candlestick 'buy' signal at a major support level, such as a moving average or trend line, reveals where investment decisions are being activated. Witnessing a candlestick sell signal at a resistance level dramatically improves the probability the sellers are taking control.

The logic is simple! Candlestick analysis is the graphic depiction of everybody buying and selling based upon 'everybody's' analysis. It is not delegated to any specific trading market or entity. It is the graphic depiction of human nature. Anything that involves investor fear and greed, which is all trading entities, market indexes, ETF's, stocks, commodities, currencies, tulip bulbs, can be evaluated with much greater accuracy using candlestick analysis.

There are approximately 50 or 60 candlestick signals. But there are only 12 major signals of relevance, six longs and six shorts. The '12 major signals' produce the strongest reversal indications. They are also the signals that occur the most often. The chart signals and patterns work on all time frames.

Long-term trading strategies have influences that can offset the best fundamental research analysis. The price of a stock, for example, with very strong bullish fundamental prospects, can be influenced by other factors: A major change of overall market direction, a change of investor sentiment regarding the sector, an upgrade or a downgrade from a financial institution. None of these factors may have anything to do with the long-term price move of a portfolio position, but it is going to affect the current performance.

Candlestick analysis provides a number of benefits that can help money management profit performance. Candlestick chart movements are not based upon projections or assumptions. They are created by 'actual' buying and selling decisions.

Candlestick analysis benefits.

1. Effectively identifying tops or bottoms of the overall market trend.
2. Identifying potential pullbacks of long-term positions, allowing for strategies to offset short-term price declines, i.e. writing call strategies etc.
3. Providing improved timing for establishing or closing positions.

But more importantly, if it is assumed that candlestick charts reveal the high probability price movement of a trading entity, there are two more inherent benefits:

- **Revealing adverse price movement of an existing position, indicating the research analysis and evaluation may have changed or a key element of the research had been missed.**

Strong bearish signals would produce a warning that new factors may have altered the fundamentals of a company/sector. Or the initial fundamental research analysis may have been flawed, not producing price movement expectations, indicating it is time to cut losses and move on to other positions.

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Identifying New Strong Sectors with Candlestick Analysis

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- **Producing alerts in the price movement of a position that would instigate research to see if something new is affecting that position or sector.**

If a sector ETF produces a very strong candlestick signal, it reveals there are factors that have greatly changed investor perspectives of that sector. This allows for researching the sector to assess whether this will be a long-term trend opportunity. This aids in allocating research resources to areas of the markets that are gaining new investor perspectives.

Market analysis

Having the ability to recognize a potential decline utilizing candlestick analysis allows money managers to establish hedging strategies to offset a decline in the portfolio value.

At point "A", identifying candlestick 'buy' signals, with stochastics showing upward trending conditions, would warrant establishing positions, improving timing. The next step would be scanning for new sector prospects that were demonstrating the strongest bullish candlestick signals, stimulating research into those areas.

At point "B", witnessing candlestick sell signals at the 200-day moving average, produces an indication this is where the sellers are taking control, at an obvious observable resistance level. Sell signals at the resistance level, the dojis, would prepare the manager for getting ready to activate hedging strategies to offset a decline in the portfolio value. And a close back below the T line, point C, is a very strong probability factor that a downtrend is starting. This would allow for the activation of hedging strategies to offset a portfolio value decline

The market trend analysis probabilities are greatly improved by adding indicators that enhance those probabilities. A very powerful trend indicator is the T line. **The T line acts as a natural support and resistance level of human nature.** Apply in conjunction with candlestick signals and patterns, which are the graphic depiction of investor sentiment, and you have one of the most powerful and accurate trend analysis combinations.

The T-line rule

The T-line rule is very simple. Witnessing a candlestick buy signal and a close above the T line, an uptrend is in progress, with an extremely high degree of probability. Witnessing a candlestick sell signal and a close below the T line indicates the end of the uptrend. The same is true for a downtrend. Witnessing a candlestick sell signal and a close below the T line produces a high probability a downtrend is in progress. Witnessing a candlestick buy signal and a close back up above the T line indicates probability that the end of the downtrend is occurring.

Utilizing the combination of candlestick signals and the T line produces very high probability price movement results, based upon investor sentiment. The Dow chart below reveals a very strong reversal factor.

Point A is 'not' a candlestick reversal signal. Why is this relevant? Because the Japanese rice traders have had 400 years of observing and analyzing candlestick formations. If this was

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Financial Services' Inconvenient Need for WhatsApp Archiving

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more popular approach given that, in July 2022, just [15% of financial firms were monitoring WhatsApp].

But it's not quite that simple. Banning employees from using particular channels doesn't necessarily mean that all risks are eliminated. The prohibition of helpful tools will probably lead to disgruntled employees and "compliance gaps" in the workplace. The safer option is for business leaders to understand the platforms that employees and consumers prefer to use, then developing suitable policies accordingly.

Ultimately, if employees want to use unauthorized apps, they will do so, unless a supervisory procedure is in place to police it correctly. This has had immense repercussions for the likes of Goldman Sachs, Bank of America et al, who have not succeeded with this step, despite their resources.

Can WhatsApp be Monitored?

The preferable option here is surely to empower staff to utilize the platforms with which they're most comfortable, minimizing limitations wherever possible.

To achieve compliance on encrypted platforms like WhatsApp, business leaders must ensure they can capture, preserve, and monitor conversations. This is easier said than done, and the process has historically been a source of great difficulty. However, in recent years, new solutions have been developed specifically to tackle this emerging necessity.

Much as they had previously for social media platforms, leading digital archiving vendors have built the technology to capture and archive communications data from apps like WhatsApp, WeChat, Signal and Telegram. This rescues business leaders from the frustration of having to choose between efficiency and compliance; both can now co-exist very peacefully.

Crucially, firms can also allocate secondary numbers on personal devices, allowing employees to differentiate between business and non-work-related contacts, and capture pertinent data accordingly. This means that privacy can also be maintained despite heightened levels of professional scrutiny.

It would be counter-intuitive to ignore the rising demand for encrypted messaging apps in the workplace. Thankfully, businesses no longer have to.

Harriet Christie, Chief Operating Officer - Harriet graduated from the University of Sheffield in 2010, with a BA in Management Accounting, Entrepreneurship, Business Law, BSR, HR. She entered the Tourism space, starting as an Accounts Executive at LateRooms.com, and earning the title of Global Accounts Manager within 3 years. She occupied this role for a further 5 years as the business continued to evolve and flourish, before taking up her role as a Key Account Manager with [MirrorWeb], a communications archiving solution based in Manchester.

Harriet was appointed Chief Operating Officer in 2020. Since then, she has helped oversee the evolution of the MirrorWeb product and service offering, as well as the business' impressive growth since her taking on the role.

Identifying New Strong Sectors with Candlestick Analysis

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a bullish reversal signal, the Japanese rice traders would have identified it and explained what the results would be. The fact that it is not described as a reversal signal implies there is not a high probability trend expectation.

Point B is a Bullish Engulfing signal with a close above the T line. This combination produces a much stronger probability that the bulls are taking control and an uptrend is in progress. The T line now becomes an effective trend indicator The uptrend remains in progress until witnessing a candlestick sell signal and a close below the T line.

Knowing these aspects of human nature, the graphics provided by candlestick signals give great clarity as to when it is time to buy and when it is time to sell. Keep in mind, if candlestick signals and patterns did not work, like any other investment technique on Wall Street, the technique will disappear very quickly. Candlestick analysis has strong validity for producing improved portfolio results based upon hundreds of years of successful profit application.

Money managers not taking advantage of candlestick analysis to augment their portfolio returns, are disregarding an inherent price movement truism. Fundamental research is constantly influenced by investor sentiment. Candlestick chart evaluation is merely the graphic depiction of human nature/investor sentiment, producing more accurate insights into price/trend movement.

***Stephen W. Bigalow** is owner of [www.candlestickforum.com]. His 45 years of investment trading features a heavy emphasis on candlestick analysis, and provides a learning forum of candlestick analysis. Bigalow consults for money managers and hedge fund managers for improving market and positioning timing. He holds a business and economics degree from Cornell University and has worked as a stockbroker with Kidder Peabody, Cowen, Oppenheimer. & Company. His publications include "Profitable Candlestick Trading", "High Profit Candlestick Patterns", and "Candlestick Profits, Eliminating Emotions".*

Does Your Firm Have a Robo-Advisory Partner?

JOSEPH GISSY

THE TECHNOLOGICAL EVOLUTION OF FINANCIAL services has reached a new level. Where once robo-advisors were viewed as a threat, there's now a new generation of auto-investing platforms that are viable growth partners for RIA, IAR, and W2 financial advisors. Does your firm have a robo-advisory partner?

We're not talking about Betterment or Wealthfront here. Those are Gen1 robos that provide a passive savings vehicle for the retail crowd. Wealth managers want serious investors with significant assets.

How do you attract *High-Net-Worth* and *Ultra-Net-Worth* prospects? Asking them to open an investment account with no minimum balance won't cut it. Presenting overused passive investment strategies doesn't work either. Landing the big fish requires a different approach.

We call it Tactive investing. It's the development of models that combine tactical thinking with active trading.

Tactive's online WealthTech platform is an entry point for investors to start their financial journey with active investing. As clients grow with us and seek additional products and investment advice, they can easily connect with Tactive Wealth Advisors through our integrated Tactive Workstation. Think of it as a qualified lead generation engine for your advisory practice.

Let me break down exactly what I mean by all that.

Why do HNW and UNW Prospects Need a New Approach?

The need for Tactive investing is most pressing for individuals with significant assets. S&P 500 returns have been declining since 2001. Index fund losses were higher last year than they've been in decades. Inflation and interest rates are both still rising.

Investors will tell you their primary concern is volatility. The real issue is losing money due to inactivity. Wealth managers get fired when they tell a multi-million-dollar investor to "wait until the market rebounds." That's terrible advice in this economic climate.

Dressing up an old investment strategy to make it look new doesn't change the results. A pig with lipstick on is still a pig. Innovative advisors are looking for a G.O.A.T. to bring into the barnyard. Tactive investment models could be that G.O.A.T. for you.

In 2022, the S&P 500 and Nasdaq are both down more than 20%. "Ultra-net worth" is a title used to describe anyone with more than $30 million in assets. That much money invested in index funds would have meant a $6 million loss this year. Wouldn't you fire you for that?

I'm not suggesting that's your strategy, but those are the potential pitfalls of index fund and ETF-focused models offered by Gen1 robos and passive wealth managers. HNW and UNW investors don't want more of the same. They're looking for new and different.

How Does Tactive Investing Work?

Tactive is not just a brand name. It's a different way of thinking about investment model construction. Our firm looks for emerging money managers and strategists who are not afraid to think outside the box. We don't want "old school" thinkers. You can find those anywhere.

Adjusting the timing on rebalancing eleven market sectors is not tactical thinking. The modern world of wealth management gives us more options than that. Insurance products, real estate, alternatives, and crypto are just a few of the many holdings we like to see in our models.

The absence of this progressive mindset is the reason why most advisors choose not to partner with traditional robo advisors. As financial professionals, we know the only way to minimize downside is to trade out of bad positions. Gen1 robos don't do that. Ours does.

It's easy to get good returns during a bull market. Wealth management in the latter half of 2020 and all of 2021 was like a blind man throwing darts. That's changed in 2022. Meeting and exceeding client expectations is much more challenging when the bear is roaming.

How Do You Scale with Tactical Models?

Most of us hear "active trading," and we think "more work." It's okay. We get it. Spending time trading in and out of positions is time-consuming unless you have a tactical model that dictates when to trade and a platform that automates it for you.

This marriage of tactical investment strategy and automation technology is what's been missing in the WealthTech space. It's the reason why advisory firms don't use them for lead generation. The users are there. The results aren't. They're not programmed for this type of market.

The algorithm is only as smart as the programmer who created it. The data input dictates how an application will perform. Betterment uses a passively managed stock/bond mix that produces an average return of 6.3%. That's since their inception in 2008.

Advisory firms can scale their practice by positioning their clients to beat that number. You don't need to advertise return rates, so tell compliance to relax. Clients talk to friends and family. UNW clients have UNW connections. When tactical models do well, they spread the word.

Adding a robo-advisory platform to this mix creates a prospect pool for you. The retail crowd on our Tactive platform isn't coming to us because we have a low minimum deposit. That helps weed out the tire kickers.

Joseph Gissy is the founder and CEO of Tactive. With more than $350M in AUM, Tactive is disrupting the financial advisory space and ushering in the new evolution in WealthTech. Prior to Tactive, Gissy served as an advisor for HNW individuals and COO for Capital Management Services.

President's Letter

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NAAIM Vice President Paul Schatz and his team are doing a great job putting together an exciting agenda for the conference. Check the NAAIM website (naaim.org) for periodic updates and make certain you are on our email list to receive conference news and information about our speakers.

From a personal business side, my firm is steadily growing. A lot of our focus is on reaching out to younger, middle-income prospects. For years, it seems the trend in the industry has been to market to older, high-net-worth individuals. The problem is that audience isn't around for the long run, so you have to keep chasing new clients. I can see myself in the advisory business for another 10-20 years. It would be nice to spend those years working with long-time clients and helping them achieve their financial goals. Not only would I enjoy that; it can also amount to a ton of AUM when you keep losses to a minimum, as we active managers have the ability to do.

To those reading this letter, if you are a NAAIM member, don't miss the opportunity to participate in the best part of NAAIM: networking in person. If you are not a member, this is a good year to become one. Active management is going to keep a lot of investment advisory firms in business and prospering this year and for many years to come. You can make certain your firm is among them by joining us.

The very best of the new year to everyone!

Sincerely,

Ryan

Ryan Redfern
NAAIM 2022-2023 President

Welcome to New NAAIM Regular and Associate Members

Regular Members:

Kenton Kilmer
Addigence Corporation
200 Vesey Street, 24 Floor
New York, NY 10281
917-698-0659

Niraj Manglani
Addigence Corporation
200 Vesey Street, 24 Floor
New York, NY 10281
973-489-7891

James Gissy
Capital Management Services, Inc.
410 Sovereign Ct Suite 14
Manchester, MO 63011
636-207-5829

Nick Winstead
Changing Parameters, LLC
171 Main Street, Suite 260
Los Altos, CA 94022
650-327-7705

Jake Eggett
Copperwynd Financial
14256 N Northsight Blvd, Suite B-115
Scottsdale, AZ 85260
480-348-2100

Asher Rogovy
Magnifina
85 Broad St, Fl 16
New York, NY 10004
800-732-0818

Matthew Weed
Pinkerton Retirement Specialists, LLC
2000 John Loop
Coeur d'Alene, ID 83814
208-667-8998

Brian Wiley
Tree City Advisors of Apollon
1673 Shoreline, Ste. 140
Boise, ID 83702
208-888-1244

Donald Allenbrand
Wealth Enhancement Group, Inc.
7640 N. Luceren Ct.
Kansas City, MO 64151
816-931-7633

John Llodra
New Harbor Financial
146 Main St., Ste. 302
Worcester, MA 01608
978-537-7701

Associate Members:

Tricia Sandoz
Investment Management Support Solutions, LLC
404 Applebriar Lane
Marlborough, MA 01752
774-254-2578

Simon Goulet
Blue Tractor Group, LLC
57 W. 57th Street, 4th Floor
New York, NY 10019
212-847-1370

Mark Avers
Head of Business Development and Marketing
Equity Advisor Solutions
6000 Greenwood Plaza Blvd., Ste. 100
Greenwood Village, CO 80111
720-583-8831

Amy Mattingly
AVP, Advisory Annuity Distribution
Nationwide Advisory Solutions
10350 Ormsby Park Place
Louisville, KY 40223
502-587-3879