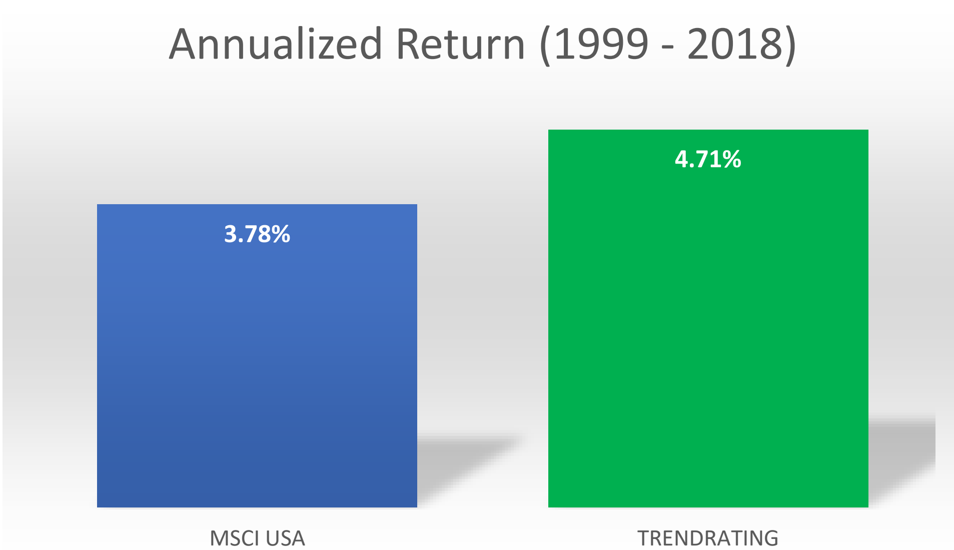
Sector Allocation Results

Introduction

Trendrating's innovative and proven trend capture model has been helping stock and ETF investors outperform their benchmarks. The purpose of this study is to discover if the same bottom-up ratings can be used to create asset allocation guidelines. We look at the MSCI USA monthly constituents starting in January 1999 and running through November 2018. These results show that Trendrating can indeed add alpha through asset allocation alone. When also utilizing Trendrating for security selection, the results are magnified.

Methodology

To arrive at our monthly sector allocations, we delineate the MSCI USA universe of stocks into five groups based on their Smart Momentum Score (SMS). Any stock that has retraced at least 20% from a trend high is considered an outlier. The sector allocation is then found by looking at the proportion of names within quantile one for each sector. To control risk, no sector can represent more than double its weighting in the index. This same process is run monthly.



Results

The results were promising across multiple markets. In the US, the average annualized return was 0.93% higher than the universe return, and the information ratio improved from 0.26 to 0.33. As the results below show in more detail, this same sector allocation strategy could be applied affectively to global markets. The same methodology applied to the MSCI Developed Market index added, on average, 1.36% annually.

USA

Portfolio	Annualized Return (%)	Annualized Volatility (%)	Information Ratio
MSCI USA	3.78	14.36	0.26
TRENDRATING	4.71	14.31	0.33
Relative	0.84	3.26	0.26

Global Developed Markets

Portfolio	Annualized Return (%)	Annualized Volatility (%)	Information Ratio
MSCI DM	2.86	13.59	0.21
TRENDRATING	4.22	13.59	0.31
Relative	1.29	2.65	0.49

Global Emerging Markets

Portfolio	Annualized Return (%)	Annualized Volatility (%)	Information Ratio
MSCI EM	5.74	15.23	0.38
TRENDRATING	6.81	14.67	0.46
Relative	0.90	2.22	0.40

Developed Europe

Portfolio	Annualized Return (%)	Annualized Volatility (%)	Information Ratio
MSCI Europe	1.19	14.79	0.08
TRENDRATING	2.43	15.02	0.16
Relative	1.22	3.00	0.41

Conclusion

The results drawn from this study clearly illustrate the effectiveness of Trendrating's model in creating sector allocations. Clients will soon have access to these allocation recommendations on a monthly basis.

Trendrating clients seamlessly integrate our coverage on over 18,000 global stocks and ETFs into their process in multiple ways: customized daily alerts, portfolio optimization, enhanced screening, back testing, strategy creation and much more. We're excited to be able to add asset allocation insights to the long list of ways Trendrating adds value.

***Contact us* to request a free trial of Trendrating's web-based platform**