

Forbes

Surf Only When the Waves Are Good: How to Develop A Market Momentum Investing Strategy By Michael P. Leanza, CFP®

It may seem strange to discuss surfing at this time of the year particularly when the winter freeze is on in so many parts of our country. However, surfers know something about how to take advantage of natural forces, which translates well to portfolio management. By definition, surfers ride their boards on the *crest of a wave* as it carries them toward the shore. They find the best the ocean has to offer and take advantage of its *momentum*.

So how do we find the equivalent in the markets, and participate in the market during periods of price appreciation and help minimize downside when markets are falling – In other words, how do you surf only when the waves are good?



My interest in market momentum was sparked during a discussion with a long-time client in the wake of the 2008 market crash, who asked me, “How much further *down* do I have to ride this thing?” As I talked to more clients, it became clear that “buy and hold” had become “buy and hope” as a strategy. Put simply, investors felt helpless and were hungry for a new idea that brought a more understandable and proactive discipline to the picture.

With this in mind, I believe advisors and investors, by taking the following steps, can build a market momentum portfolio that helps strike an optimal balance for clients when it comes to transparency, consistency and control.

- The first step is to keep costs low and transparent while ensuring that the portfolio encompasses all key component sectors of the economy. As such, consider a model comprised of exchange traded funds (ETFs) representing major sectors of the market. Commissions may be involved in the purchasing and selling of securities.
- From there, the approach is simple: Buy or sell based on an ETF’s 200-day moving average. We buy when an ETF is above its average and sell if it falls below a pre-determined trigger.

- Importantly, as part of this model, one should consider cash an asset class and be prepared to go to *all cash* if necessary.

Overall, this model helps offer clients more consistency on a variety of levels.

1. First, it offers *consistent decision making*. Because we use objective data points to determine buy/sell moves, the model eliminates the emotional aspect of these choices. Clients understand exactly how and when their portfolio will be adjusted according to a set of pre-determined parameters. It’s a concept that clients can grasp and can explain to others, which has been a good source of referrals for us.

2. Second, it offers *consistent money management*. The strategy is designed to have little trading when markets are good and more trading when markets are volatile. We seem to have touched upon a level of activity with which clients are comfortable. When there is too much trading, clients may feel it’s too risky and question if our decisions are self-serving. With too

little trading, clients may ponder what we’re doing to earn our keep and why we aren’t being more proactive. The model is predictable and clients can anticipate moves in their portfolios based on how the market is behaving.

3. Finally, this model offers *consistency in the monthly statement* (something clients haven’t seen in a while). Our basket of ETFs is the same in every portfolio. Clients know exactly what they are holding and since we manage the money directly and block trade accounts, we can react quickly to market momentum. Clients see all trade confirmations and know when, or if any, portfolio moves have taken place during the month.

Much has been written on the topic of market timing, but I believe it is important to know the distinction between market timing and being aware of when the market sends some objective signals indicating the coming wave of momentum—positive or negative. I believe advisors who adopt this approach will find that their clients are ultimately willing to accept some exposure, but to make it more palatable I have to deliver it in a framework of consistency.

They simply don't want to feel the dramatic life-altering pain of another market decline. In short, investors appreciate it when advisors place their "surfboards" in the water, and start proactively waiting for the next best wave to catch.

Keep in mind, the strategy discussed is not a long-term investment strategy and may involve complicated tax issues. It does not protect against loss and there can be no guarantee it will be successful or meet its objectives. Please consult a qualified tax advisor regarding the tax implications of the strategy.

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