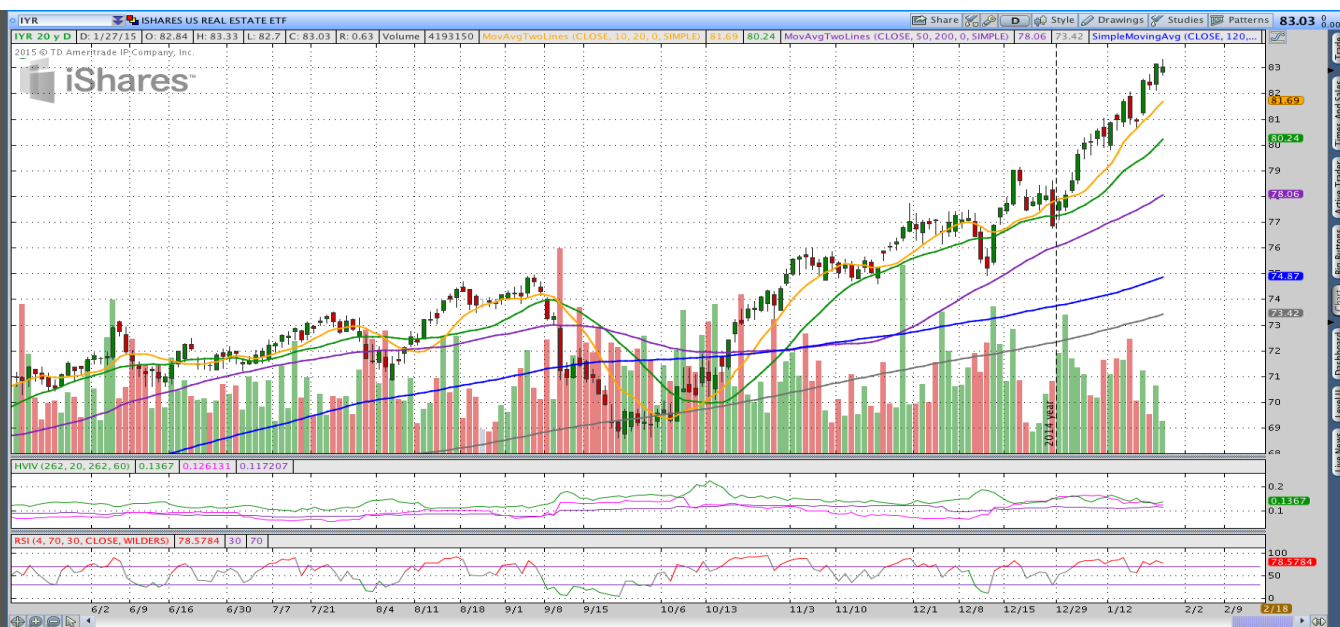


## Market Momentum



Note: All rankings presented in this newsletter are generated prior to the month end close. As a result, the actual positions taken by the systems may vary.

### Basic System

The Basic Rotation System covers a broad range of markets with limited granularity and overlap.

### Schwab System

The Schwab Rotation System trades a diversified group of Charles Schwab Commission Free ETF's.

### Positions

Actual and hypothetical returns will be available after January 1<sup>st</sup>. Current and planned positions are disclosed in the newsletter.

## Bouncing out of the gate . . . and sometimes falling down

There's a saying in the markets that, "As goes January, so goes the year." I hope it's wrong.

January wasn't a smooth or pretty start to 2015; however, the ETF Rotation Systems were still able to come through in positive territory. There was a good amount of fundamental turmoil that played out around the world and right now the feeling I get from the market is that the U.S. is where it's "safe" to be invested. That can always change.

The Swiss Central Bank decided to stop supporting a peg to the Euro currency and that caused the Swiss Franc to soar. I took a hit in my Forex account, but had good location in the trade and essentially just lost my open profit. For that, I consider myself lucky and the loss could have been much worse. Others

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weren't quite as lucky. Forex trading is almost always done with high leverage. When things go wrong with leverage, they can go wrong in a big way. The losses for FXCM (a large Forex Broker) were so great that they were on the verge of going under and my guess is that Hedge Funds with exposure are also taking a good amount of pain. Surely we've all learned something, no?

We can learn a few things from what happened in the Swiss Franc. One of the biggest lessons is that Governments have the ability to move markets in ways that we would never expect. Additionally, those moves can be significantly larger than that what

history has suggested is possible. Who went to bed thinking that an overnight drop of over 25% in USD/CHF was a possibility? Aside from the head of the Swiss Central Bank, very few people expected that move. Complacency in the markets is a recipe for disaster. We always need to be aware of the risk in our positions and focus on managing that risk.

U.S. Treasuries were well bid all the way through January despite hints at higher rates later this year. The move in U.S. Treasuries has been somewhat unexpected and acts as another reminder that we (or at least I) never know what will happen in the markets.

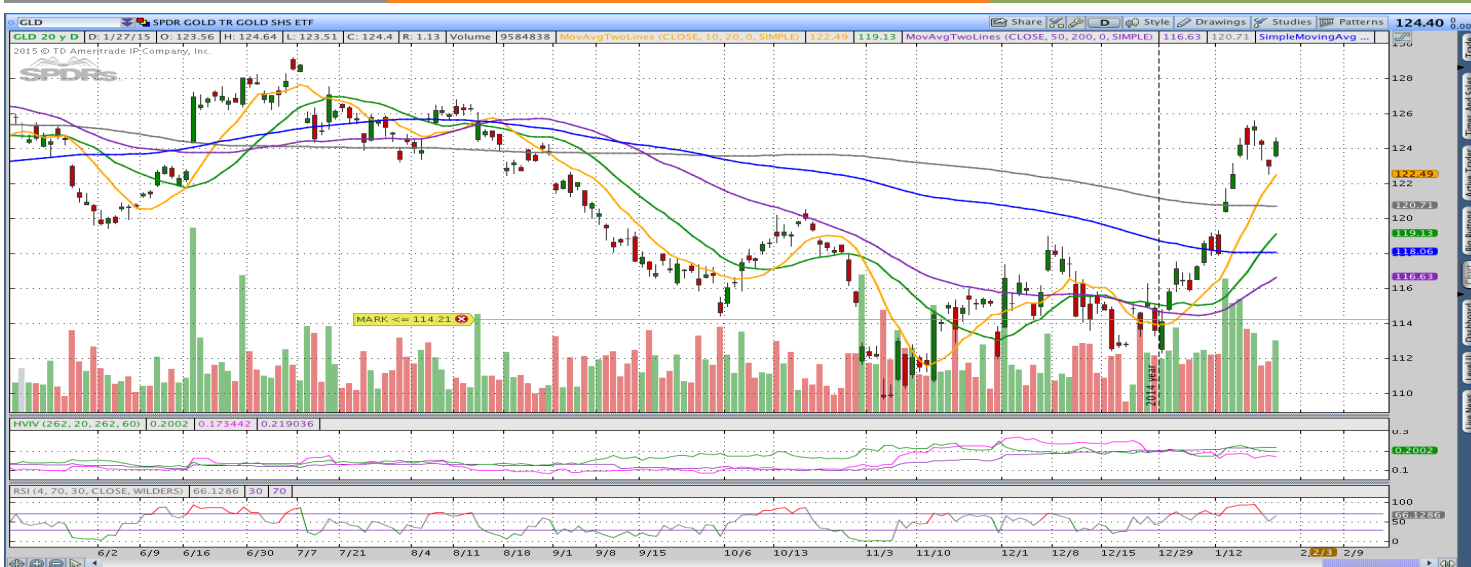
# Basic Rotation System

## Basic Markets ETF Rotation System

Prices as of January 27, 2015

Symbol	Description	Exposure	Last	Week % Change	Month % Change	3 Month %	AvgROC.3.6.12	Positions
SPY	SPDR TR S&P 500 ETF TR	US Equities	202.74	-1.09	-2.73	0.54	7.41	
IWM	ISHARES RUSSELL 2000 ETF	US Equities	118.69	0.48	-1.53	1.83	5.79	Jan
VNQ	VANGUARD REIT ETF INDEX	Real Estate	88.65	0.88	8.11	12.23	22.6	Jan/Feb
AGG	ISHARES CORE US AGGREGATE BOND ETF	US Bonds	111.6	-0.1	1.69	1.38	2.43	
TLO	SPDR BARCLAYS LONG TERM TREASURY ET	US Bonds	77.31	-0.05	7.29	11.85	16.53	Feb
PCY	POWERSHARES EMERGING MARKETS SOV DEB P	Int'l Bonds	28.59	-0.24	1.06	-1.62	1.43	
BWX	SPDR BARCLAYS INTERN TREASURY BD ET	Int'l Bonds	54.59	0.39	-1.87	-4.53	-6.78	
DJP	BARCLAYS BK PLC IPATH BLMBG COMDTY IDX T	Commodities	28.7	0.17	-6.02	-15.74	-20.73	
GLD	SPDR GOLD TR GOLD SHS ETF	Gold	124.4	0.14	8.33	10.42	2.96	
EEM	ISHARES MSCI EMERGING MKTS ETF	Int'l Equities	40.56	-0.49	2.89	-3.77	-0.82	
VEU	VANGUARD INTL EQUITY INDEX	Int'l Equities	47.81	0.93	0.27	-3.1	-2.57	

Note: The AvgROC.3.6.12 averages the returns over 3, 6, and 12 months



Gold (\$GLD) has recently started to move higher. During January we saw Gold break above levels of previous resistance and price is now trading above the 200 day Simple Moving Average (gray). If the trend in Gold continues, it is likely to move into one of the top two spots in the ranking. It is currently 3<sup>rd</sup>.

January was a mixed month for the Basic System, which held positions in the Russell 2000 (\$IWM) and Real Estate (\$IYR).

The Russell 2000 position was under water for the entire month and only started to move higher towards the end of January. At the time of this writing, the position is likely leave the month with a small loss. Regardless of how the position ends the month, it looks like it will fall out of the top two spots in the ranking.

The Real Estate position (\$IYR) performed significantly better during the

month of January and is likely to be held again in February. The ETF pays a quarterly dividend, but that doesn't take place until March. My hope is that the positive performance in Real Estate will continue through the ex-dividend date.

As we approach the end of the month, it looks like the market that will move into the top slot for performance is the long term U.S. Treasury (\$TLO). Yields around the world have been falling as people pile into higher quality assets with yield and the long term U.S. Treasury has performed very well recently. The ETF currently yields around 2.53%.

## ETF Fees:

ETF's charge a small fee (generally under 1%), which covers administration and management. However, there are multiple ETF's for every market from different providers. This month the U.S. Treasury ETF \$TLT was replaced with \$TLO, the SPDR Long Term Treasury ETF. The benchmark indexes are similar and \$TLO has a slightly lower expense ratio.

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# Schwab Commission Free Rotation System

## Schwab Commission Free ETF Rotation System

Prices as of January 27, 2015

Symbol	Description		Last	Week % Change	Month % Change	3 Month %	AvgROC.3.6.12	Positions
SCHB	SCHWAB US BROAD MARKET ETF	US Equities	49.32	-0.74	-2.24	1.02	7.49	
SCHA	SCHWAB US SMALL CAP	US Equities	54.89	0.51	-1.31	1.72	5.85	
SCHH	SCHWAB SCH US REIT ETF	Real Estate	42.62	0.73	8.01	13.11	25.04	Jan/Feb
RWO	SPDR GLOBAL REAL ESTATE ETF	Int'l Real Estate	51.41	0.43	6.33	7.98	15.69	Jan
SCHZ	SCHWAB AGGREGATE BOND ETF	US Bonds	53	-0.08	1.49	1.65	2.61	
SCHR	SCHWAB INTM TERM US TREASURY ETF	US Bonds	54.49	-0.06	2.19	1.83	2.61	
TLO	SPDR BARCLAYS LONG TERM TREASURY ET	US Bonds	77.31	-0.05	7.29	11.85	16.53	Feb
SCHP	SCHWAB US TIPS ETF	US Bonds	55.4	0.14	2.57	1.41	1.29	
PGX	POWERSHARES PFD PORT	Pref. Stock	14.82	0.27	1.65	1.51	4.17	
SGOL	ETFs GOLD TRUST	Gold	126.87	0.11	8.32	10.48	2.96	
USCI	UNITED STATES COMMODITY INDEX SUMMERH	Commodities	46.18	0.63	-5.17	-14.83	-17.68	
SCHF	SCHWAB INTL EQUITY ETF	Int'l Equities	29.41	1.38	-0.27	-4.79	-4.13	
SCHE	SCHWAB EMERGING MARKETS EQUITY	Int'l Equities	24.77	-0.25	3.34	-4.47	0.93	
SCHC	SCHWAB INTERNATIONAL SMALL CAP EQUITY	Int'l Equities	28.961	1.24	0.25	-6	-7.34	
PCY	POWERSHARES EMERGING MARKETS SOV DEB P	Int'l Bonds	28.59	-0.24	1.06	-1.62	1.43	
BWX	SPDR BARCLAYS INTERN TREASURY BD ET	Int'l Bonds	54.59	0.39	-1.87	-4.53	-6.78	



The Schwab system held Long Term U.S. Treasuries (\$TLO) for a few months before it was swapped for International Real Estate (\$RWO) in January. It looks like U.S. Treasuries will be held again in February.

January was a good month for the Schwab Commission Free ETF Rotation system, which had exposure to Real Estate (\$SCHH) and International Real Estate (\$RWO).

Despite the strong performance in Real Estate in general, it's possible that International Real Estate (\$RWO) will fall out of the top two and be replaced with the Long Term U.S. Treasury ETF (\$TLO). That shift would create

essentially identical exposure in the Basic and Schwab systems. It would also be the first time the systems have held equivalent positions.

I've been keeping an eye on Gold in the rankings (\$SGOL), which has been moving up quickly and recently broke out to new multi month highs. If the trend in Gold continues, it may show up in one of the top two ranking slots sometime in the next few months.

## Position Sizing:

The systems presented in this newsletter have been backtested and designed to work by taking positions in the top two markets. Each position was equal to 50% of account equity during testing. The addition of a third market (top three rather than top two) had the effect of decreasing both portfolio volatility and returns. The Top 2 method employed here is intended to maximize returns.

## Position Summary & Estimated Returns

Prices and returns as of January 27, 2015 close

### January Positions

Symbol	Description	Last	Est. Jan. Return
SCHH	SCHWAB SCH US REIT ETF	42.62	9.42%
RWO	SPDR GLOBAL REAL ESTATE ETF	51.41	7.71%
IYR	ISHARES US REAL ESTATE ETF	83.03	8.06%
IWM	ISHARES RUSSELL 2000 ETF	118.69	-0.01%

### Expected February Positions

Symbol	Description	Last	Existing or New
SCHH	SCHWAB SCH US REIT ETF	42.62	Existing
TLO	SPDR BARCLAYS LONG TERM TREASURY	77.31	New
IYR	ISHARES US REAL ESTATE ETF	83.03	Existing
TLO	SPDR BARCLAYS LONG TERM TREASURY	77.31	New

January was a rough month for the Basic system with the Russell 2000 position; however, both systems should end the month in positive territory. The estimated returns above use adjusted close data.

Shortly after February 1<sup>st</sup>, the actual and hypothetical results will be posted at [www.thetatrend.com](http://www.thetatrend.com)

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