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Founder and Managing Partner

DFD Partners: Technical Analysis for Risk Management

August 18, 2022

Our Approach

We use technical analysis to identify trends for:

- ✓ Risk management
- ✓ Market timing
- ✓ Alpha generation



Our Approach

Step 1: Understand top-down influences

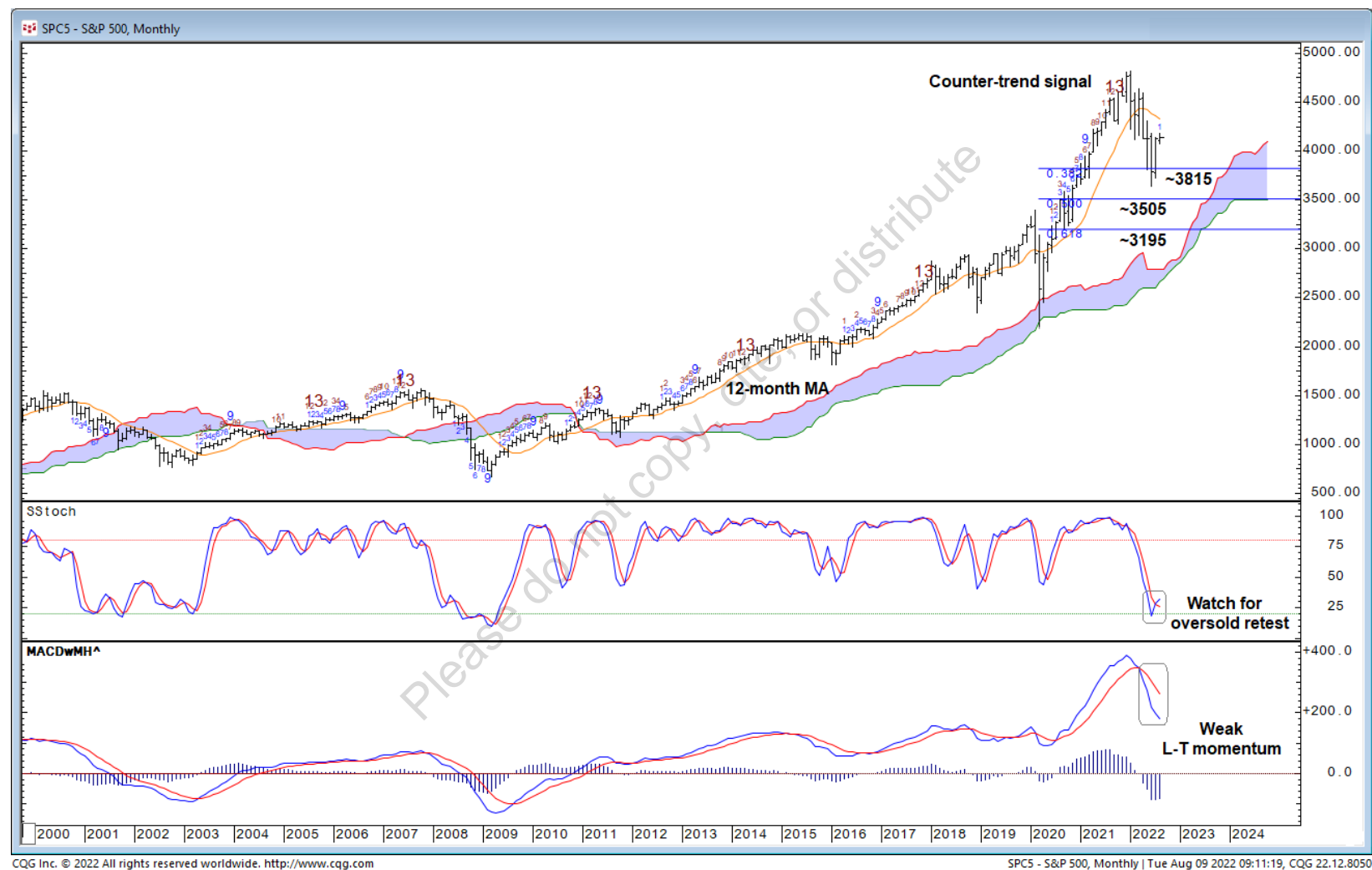
- § Primary Trends
- § Key Levels
- § Sector Rotation
- § Market Internals
- § Macro Technicals

Our Approach

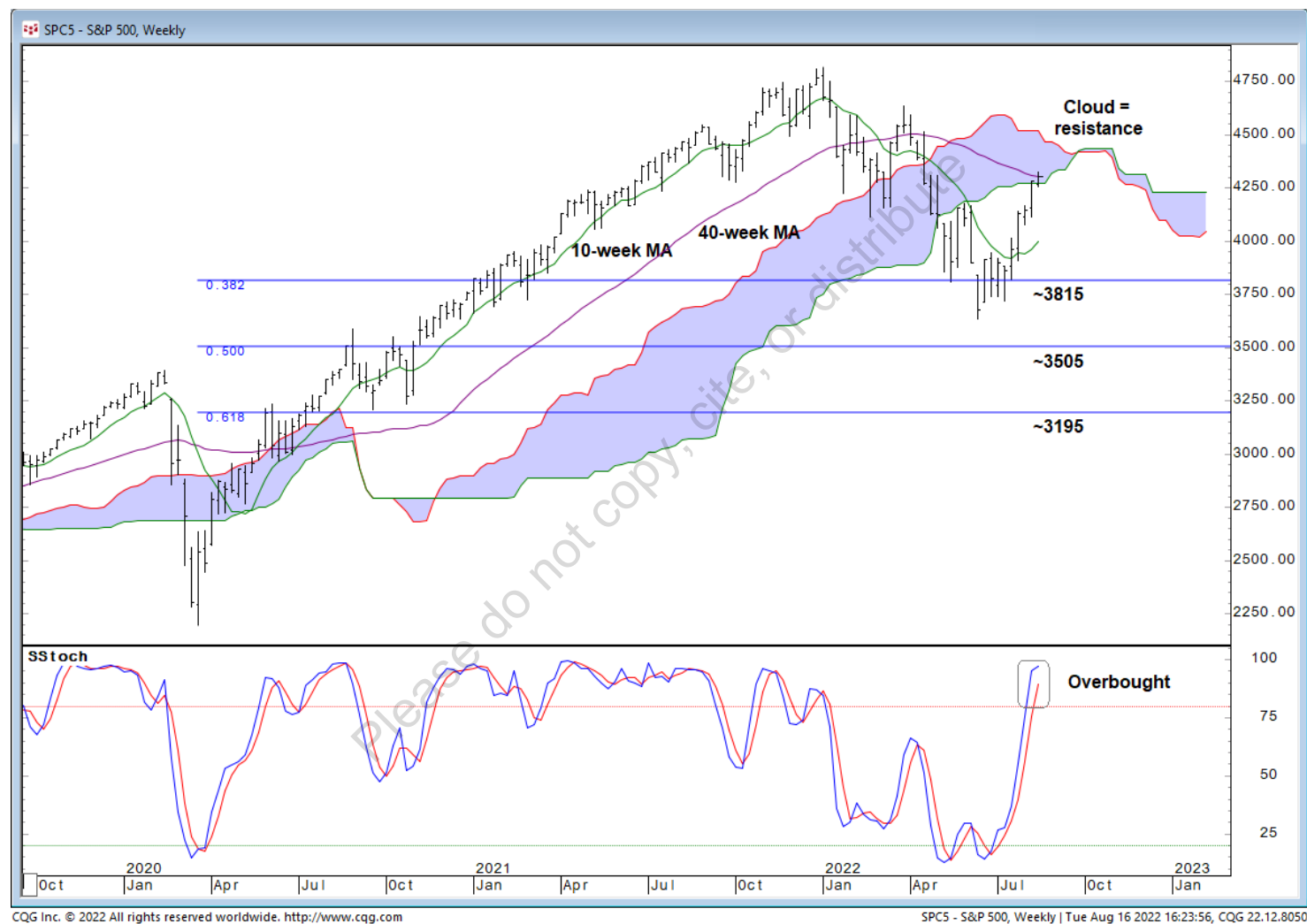
Step 2: Analyze charts bottom-up

- § Multiple Time Frames
- § Technical Catalysts
- § Supportive Indicators
- § Price Objectives
- § Stop-Losses

The SPX is in a cyclical bear within a secular bull



Long-term indicators support the YTD downtrend



Market internal measures lean overbought with the relief rally

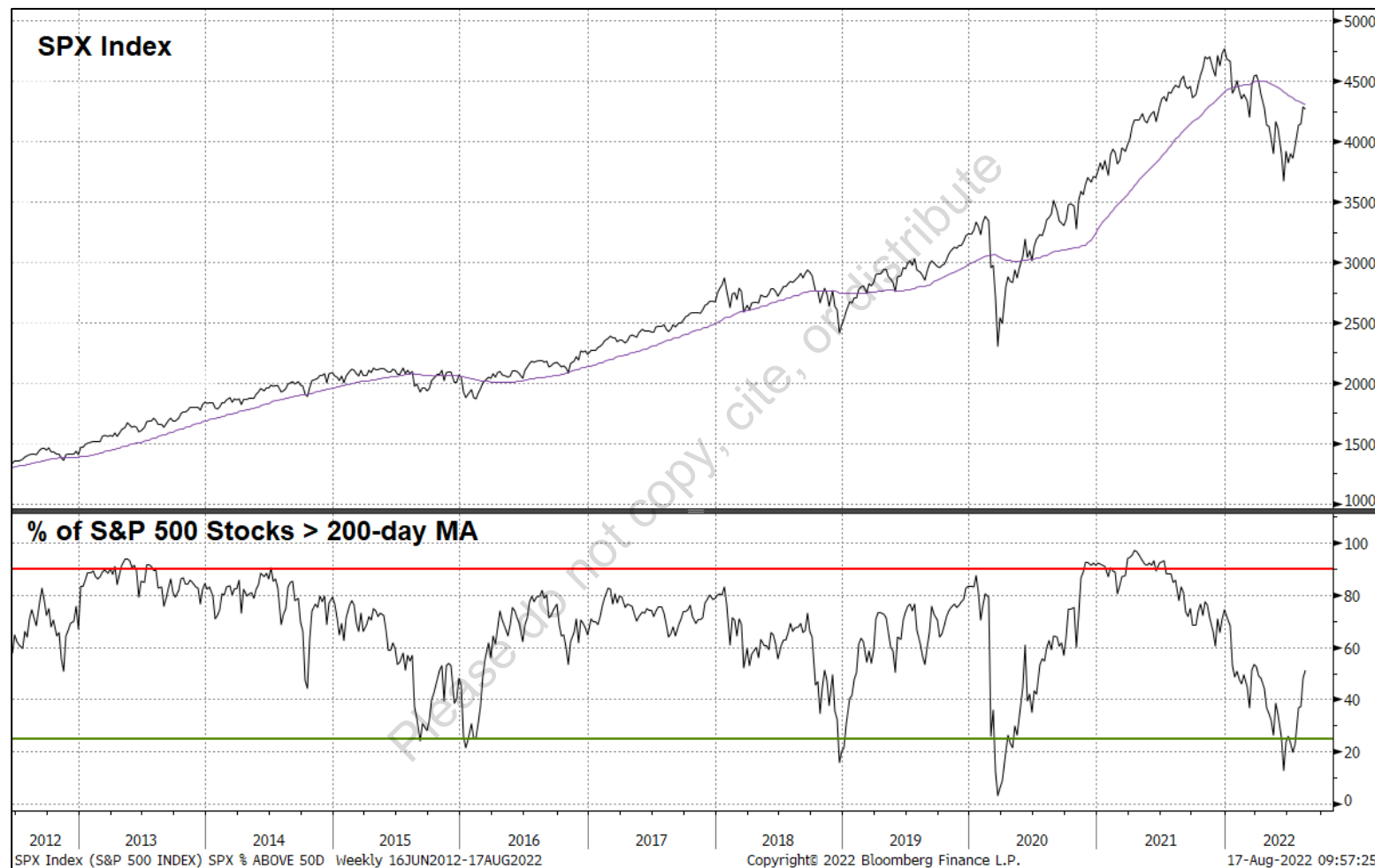
		16-Aug	15-Aug	12-Aug	11-Aug	10-Aug
Price	S&P 500 Index (SPX)	4305.20	4297.14	4280.15	4207.27	4210.24
	SPX % Change	0.19%	0.40%	1.73%	-0.07%	2.13%
Breadth	NYSE Advancers	2277	2172	3351	2536	3599
	NYSE Decliners	1859	1970	779	1632	639
	SPX % > 50-day MA	92%	91%	92%	88%	84%
	SPX % Oversold	1%	1%	2%	4%	5%
	SPX % Overbought	76%	71%	65%	44%	38%
	McClellan Oscillator	165	193	237	174	180
Sentiment	Fear and Greed Index	56	54	54	52	51
	AAll Bull-Bear Spread	-4.5	-4.5	-4.5	-4.5	-4.5
	CBOE Volatility Index (VIX)	19.69	19.95	19.53	20.2	19.74
Leadership	NYSE New 52-Week Highs	52	51	52	51	48
	NYSE New 52-Week Lows	13	12	13	13	17
	NYSE Highs - Lows	39	39	39	38	31
Volume	NYSE Volume (Billions)	4.17	3.52	3.65	4.46	4.35
	NYSE Up/Down Volume	1.7	-1.1	7.2	1.7	11.3

Sources: Bloomberg Finance, L.P. & Fairlead Strategies

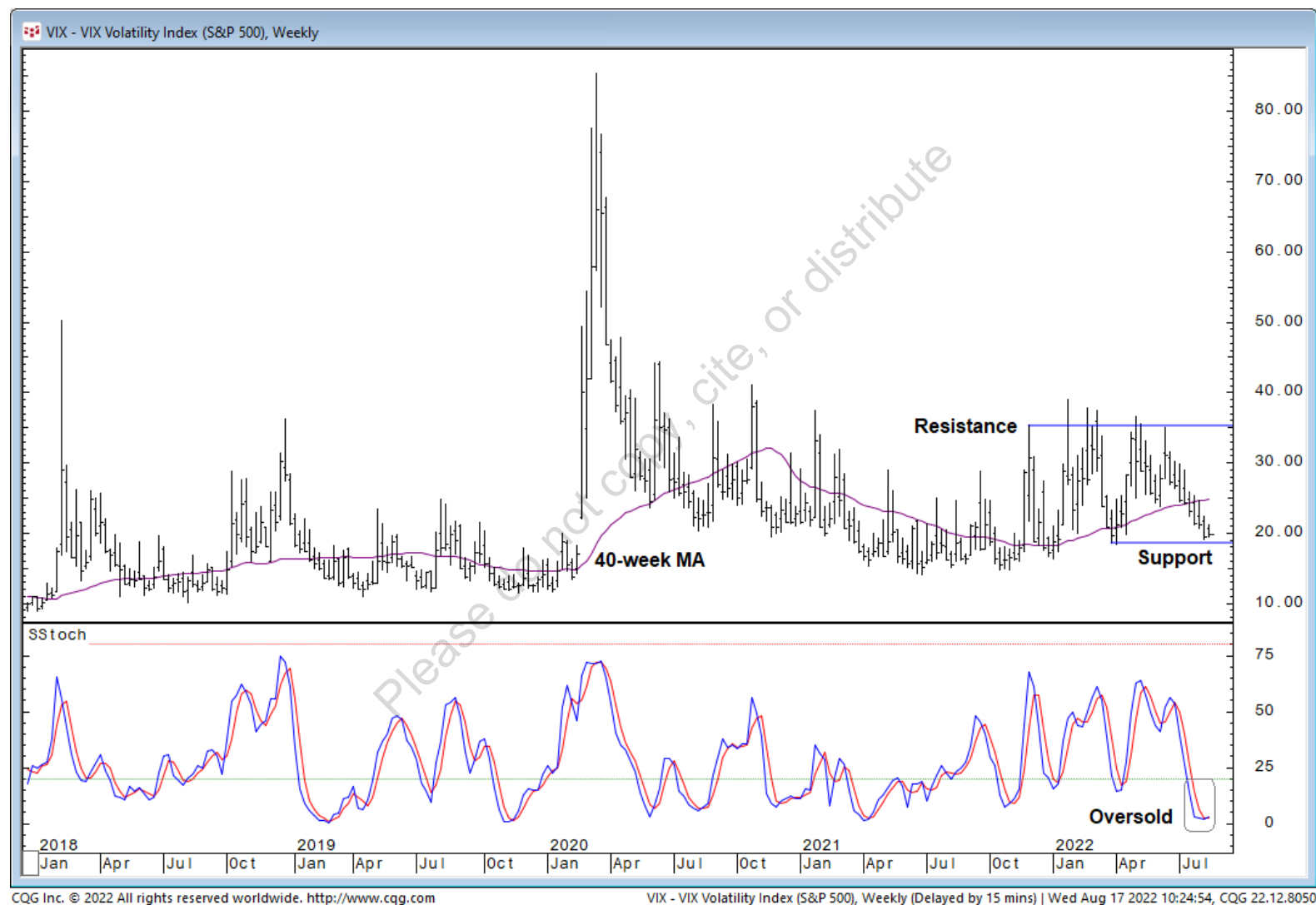
The breadth rebound yielded short-term overbought conditions



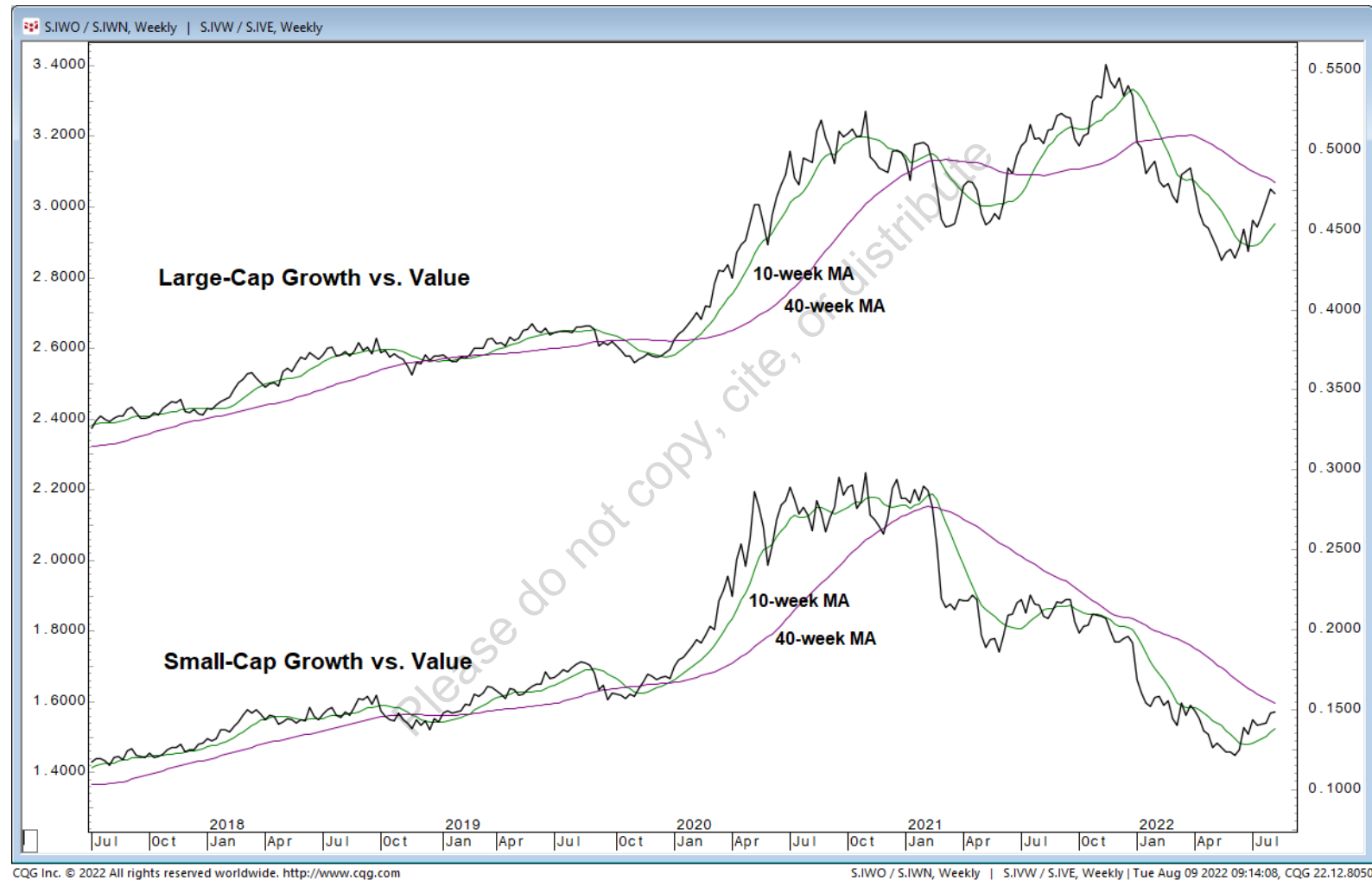
However, the contraction yielded long-term oversold readings



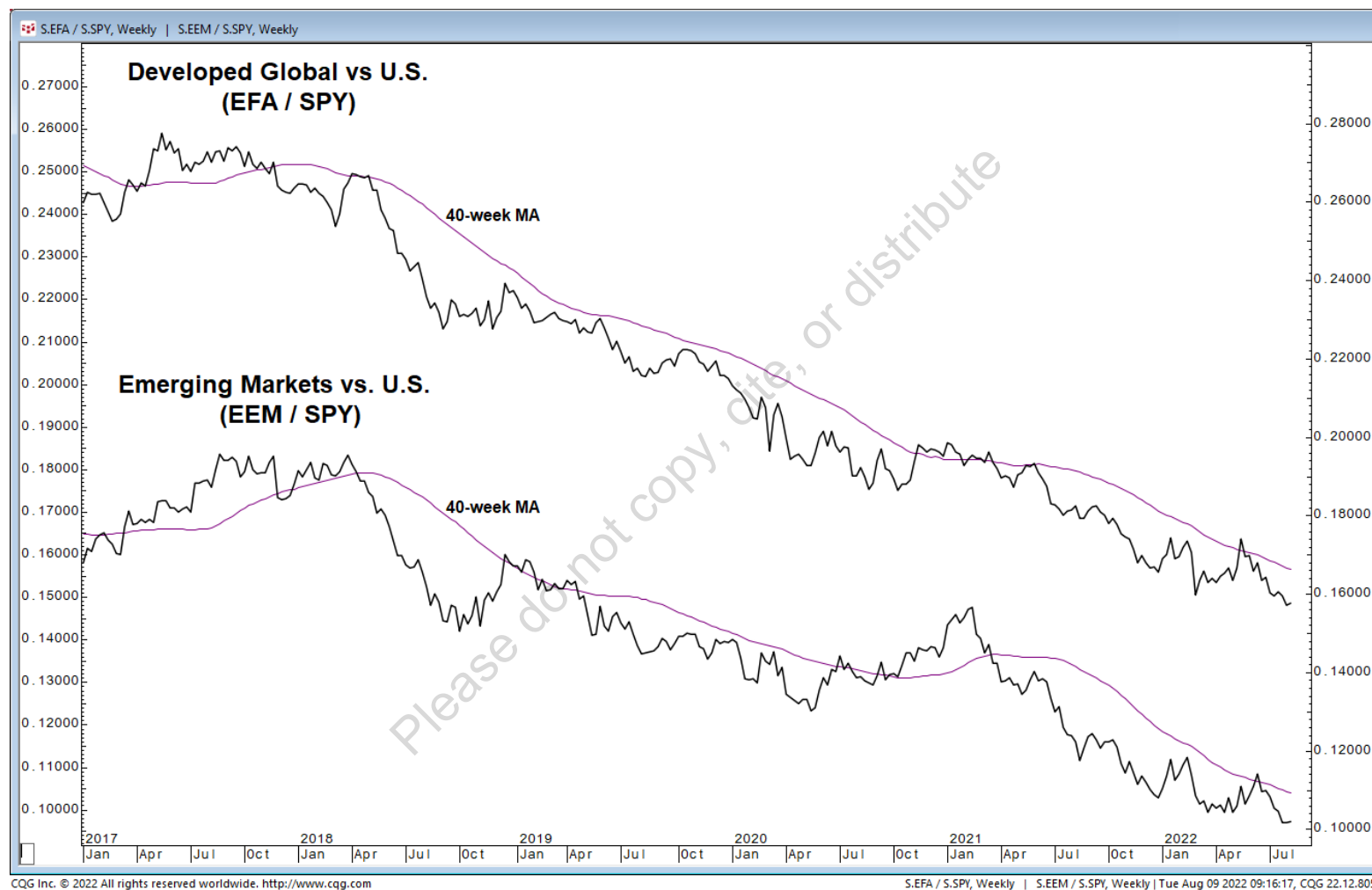
The VIX is into support in a high-volatility cycle



Growth has rebounded versus value, which remains favored



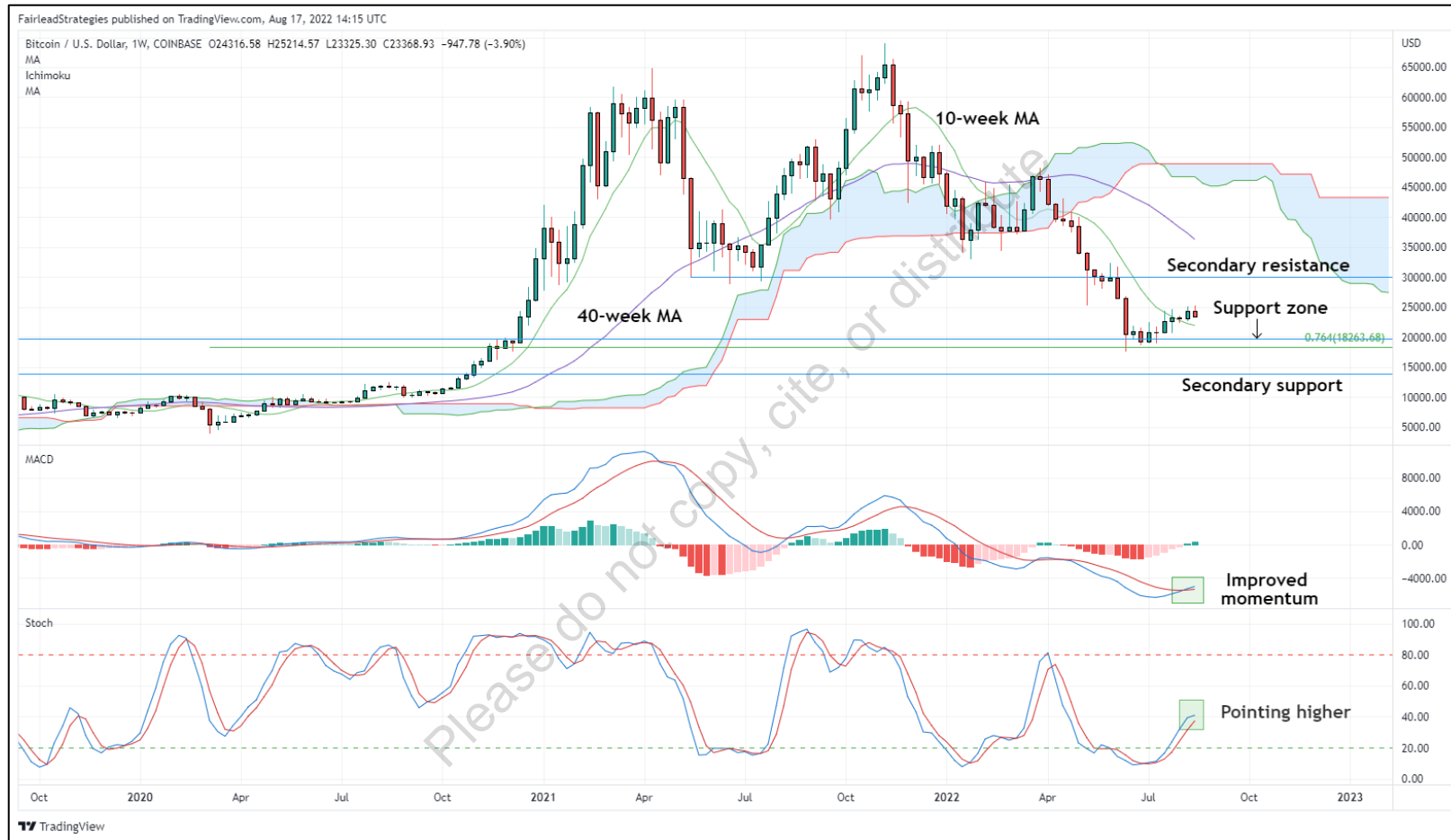
International markets remain in long-term downtrends vs U.S.



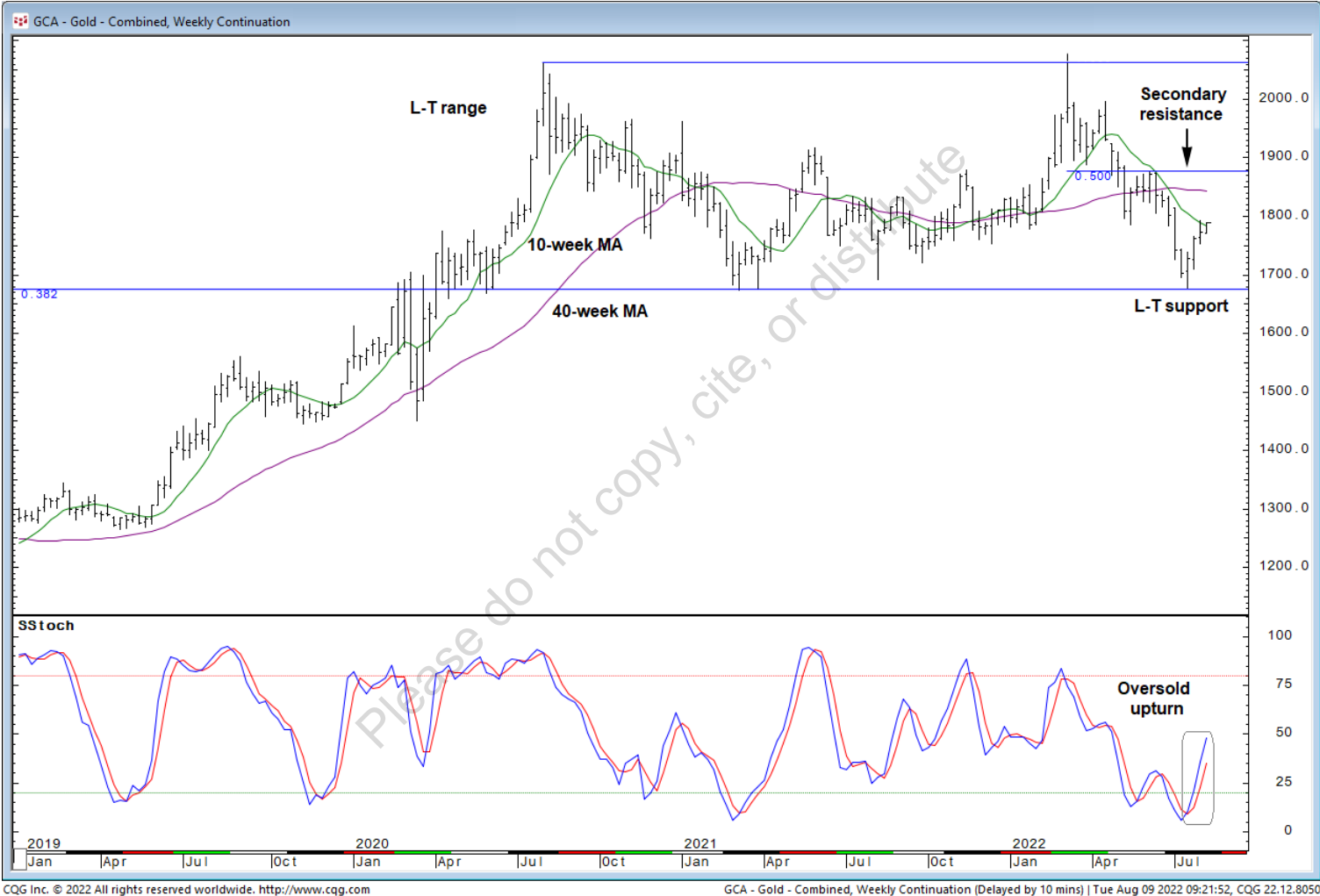
The dollar is in a long-term strengthening trend



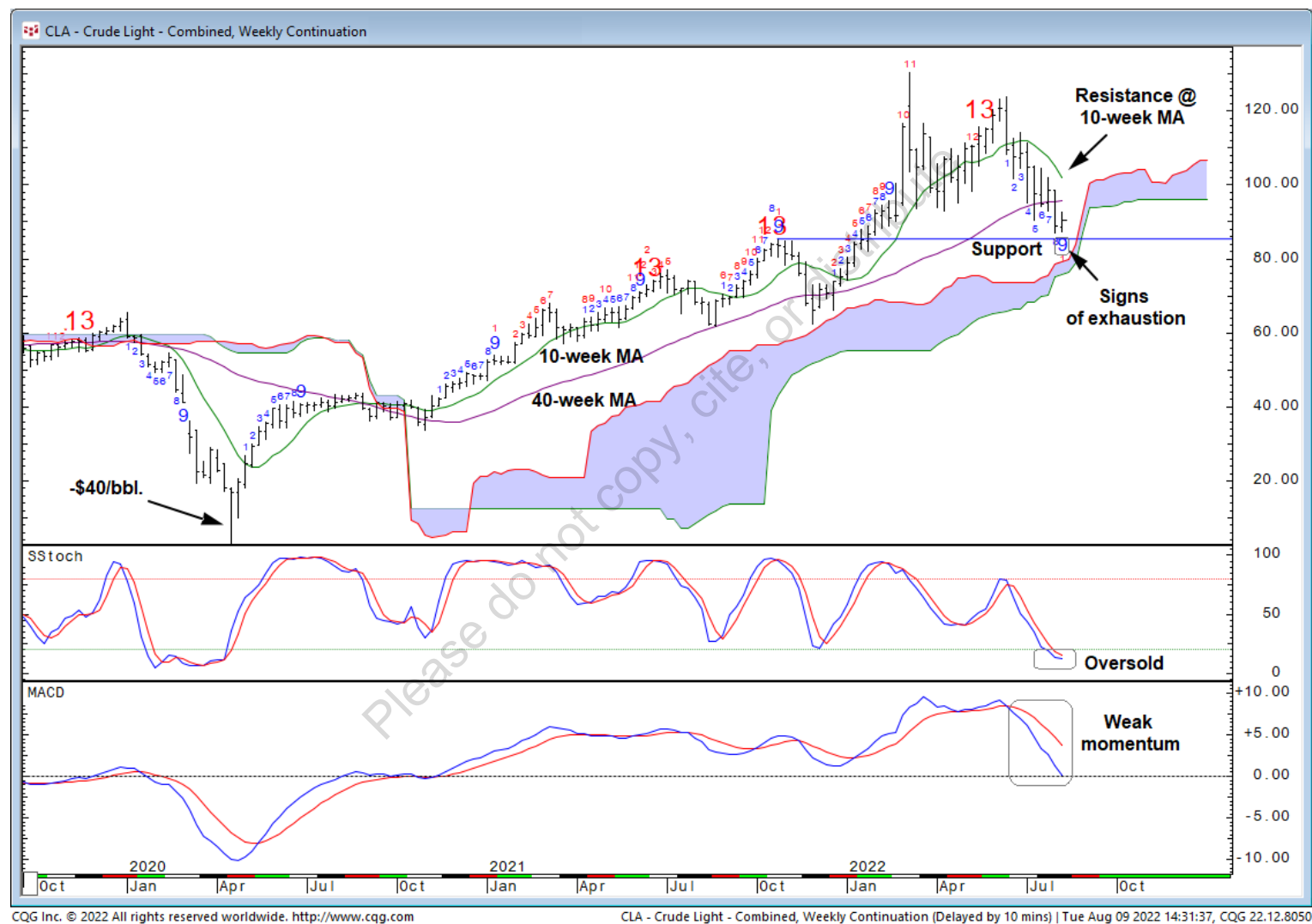
Bitcoin has stabilized near support within its downtrend



Gold is reacting to oversold conditions within its trading range



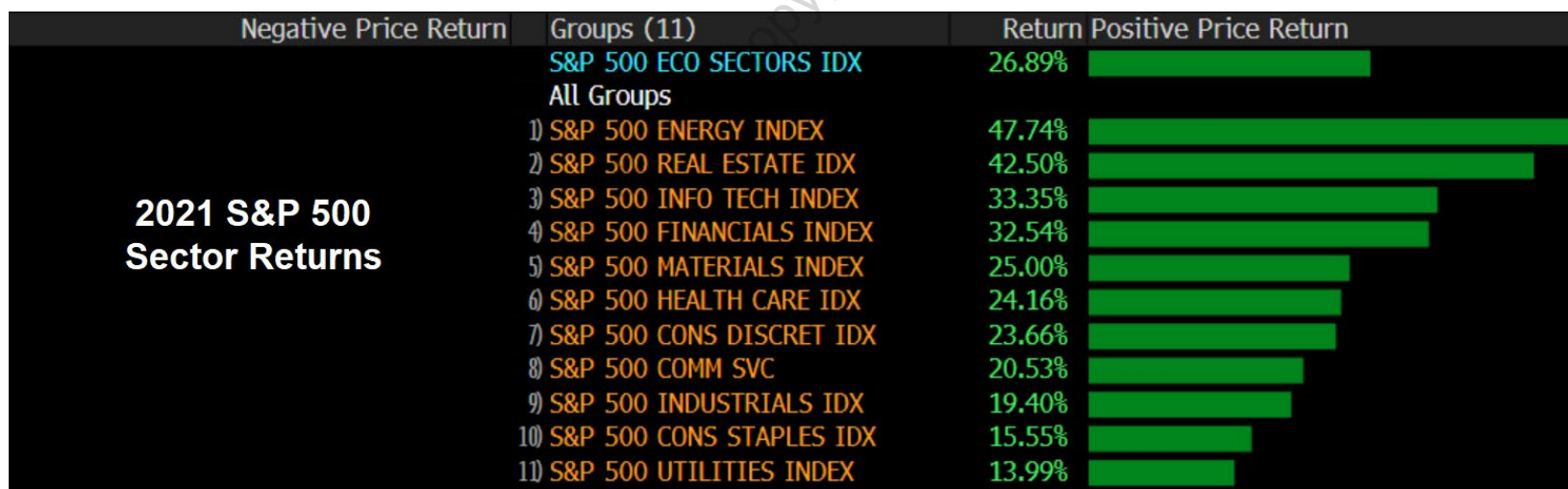
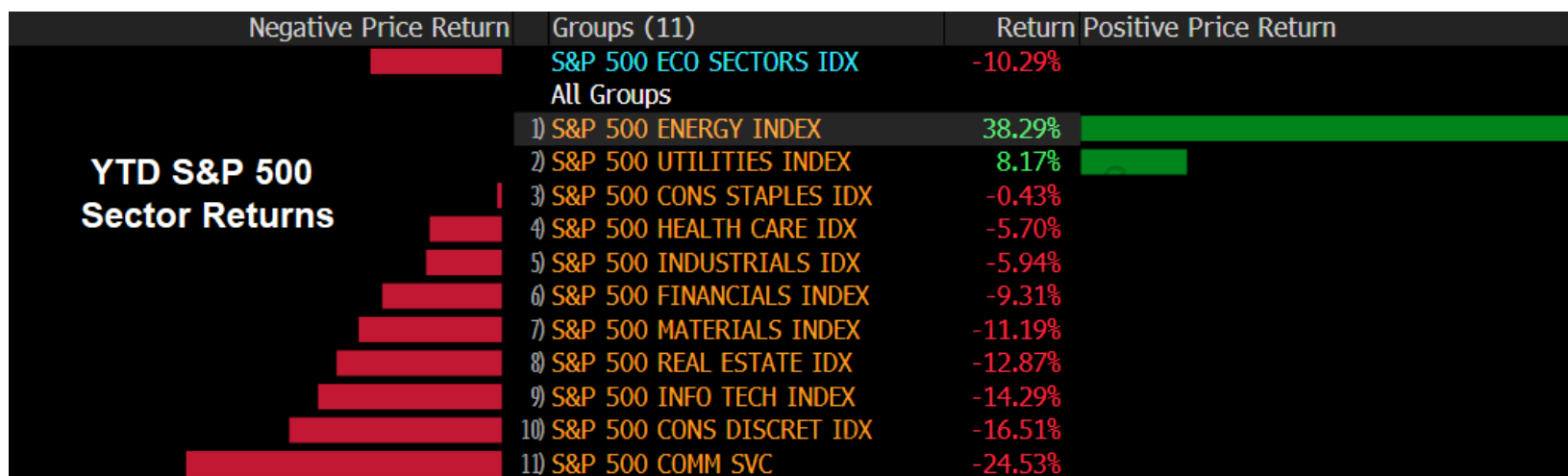
WTI crude oil is oversold within its long-term uptrend



10-year Treasury yields have reversed their downtrend channel

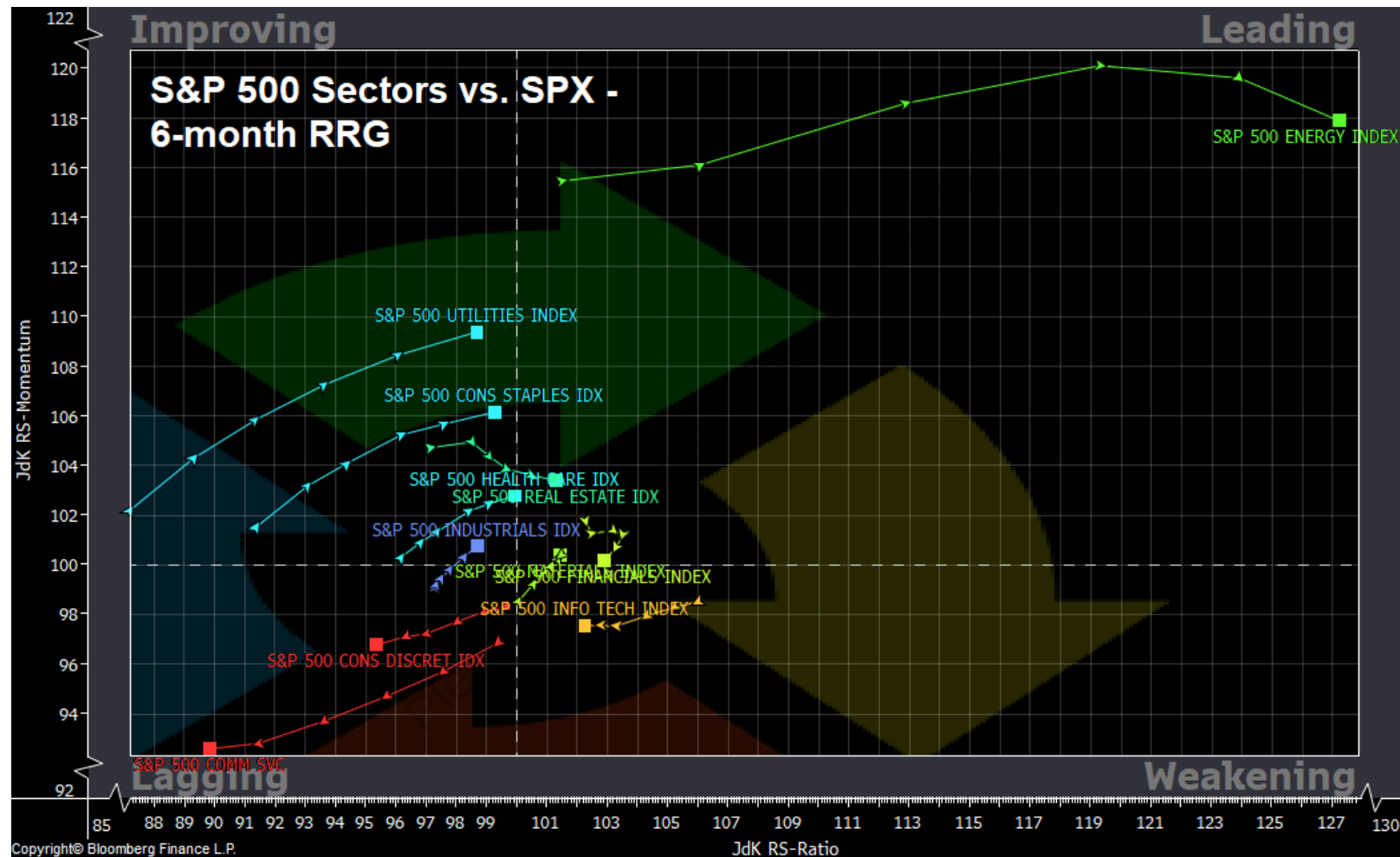


Sector performance has favored energy and utilities



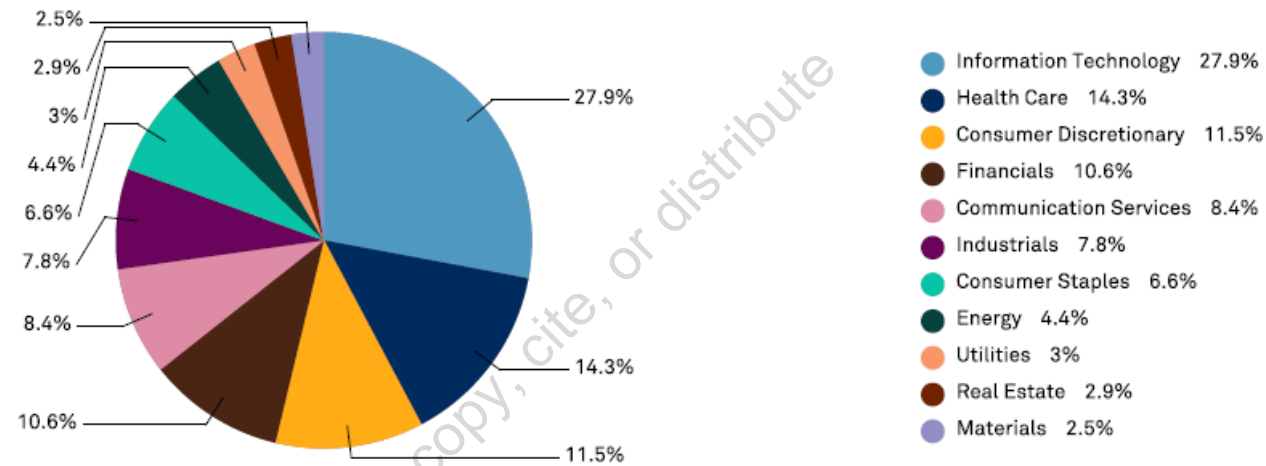
Source: Bloomberg Finance L.P.

Momentum continues to favor defensive sectors vs. the SPX



The technology sector has the biggest influence

Sector* Breakdown

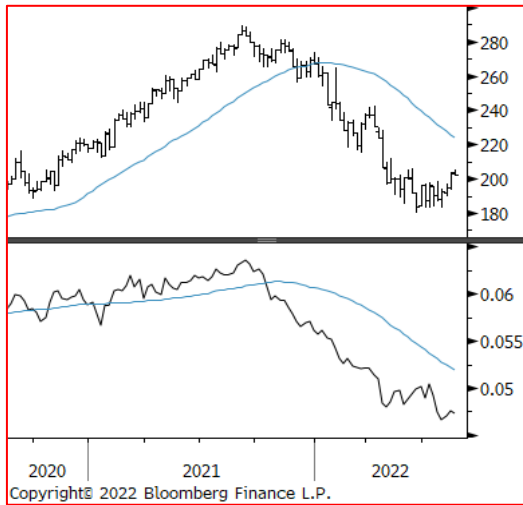


*Based on GICS® sectors

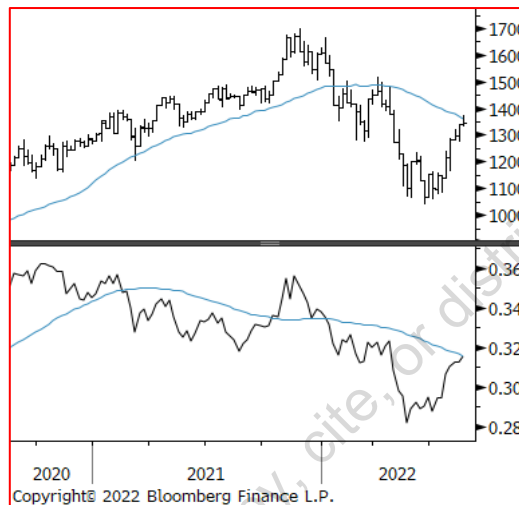
Source: www.spglobal.com

We rely heavily on sector relative strength trends

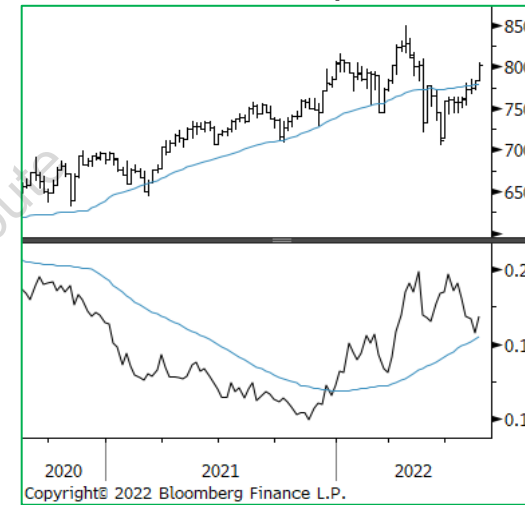
Communication Services



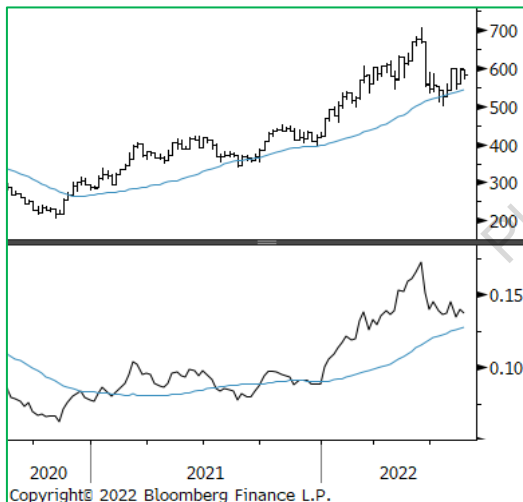
Consumer Discretionary



Consumer Staples



Energy



Financials



Healthcare

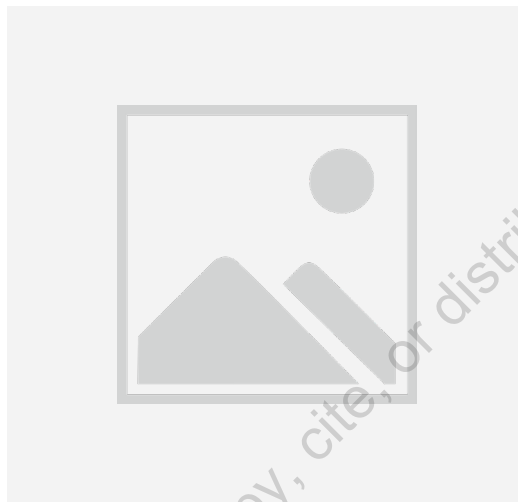


We are currently overweight defensives and energy

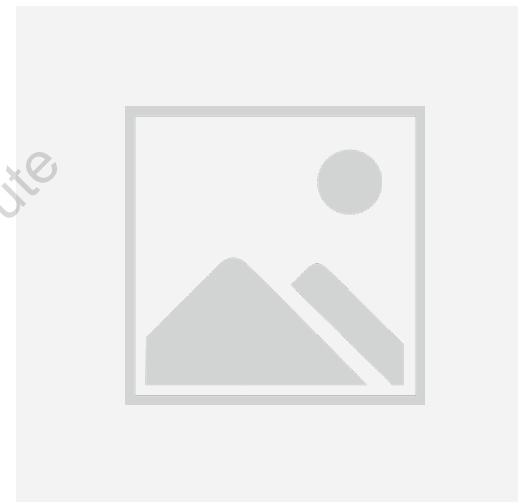
Industrials



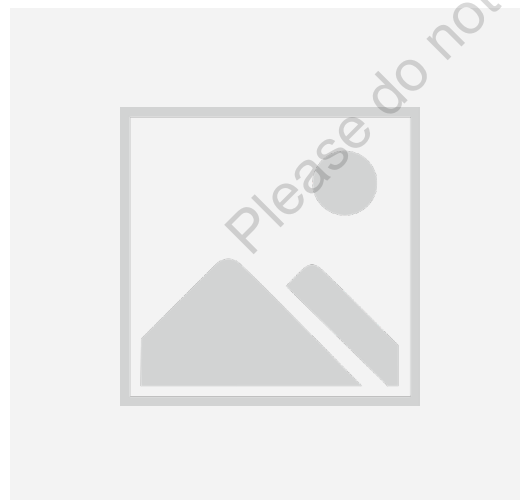
Materials



Real Estate



Technology



Utilities



Our Approach

Step 3: Have a mental checklist

- ⌘ What are the prevailing trends?
- ⌘ Does the long-term support the short-term?
- ⌘ Are market internals at extremes?
- ⌘ Is the macro environment favorable?
- ⌘ Is there a technical (and fundamental) catalyst?
- ⌘ Does support/resistance lend a favorable risk/reward?
- ⌘ Is sector relative strength supportive?

Our Approach - TACK

Step 4: Build a model

- § **Define Goal(s):** Invest in the U.S. equity market with preferred risk/reward metrics, leveraging sector leadership during uptrends while minimizing downside risk during downtrends
- § **Determine Investible Universe:** ETPs representing sectors, Treasuries (S-T/L-T), gold
- § **Establish Portfolio Standards:** Technical/Quantitative Filters, Risk Thresholds, Equal-Weight, Monthly Rebalance
- § **Backtest:** Different Environments

Our Approach – TACK

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RISK ON:

Sectors with the best uptrends and the best momentum

- Qualifying sector ETFs fill up to 8 buckets of approximately equal size



RISK OFF:

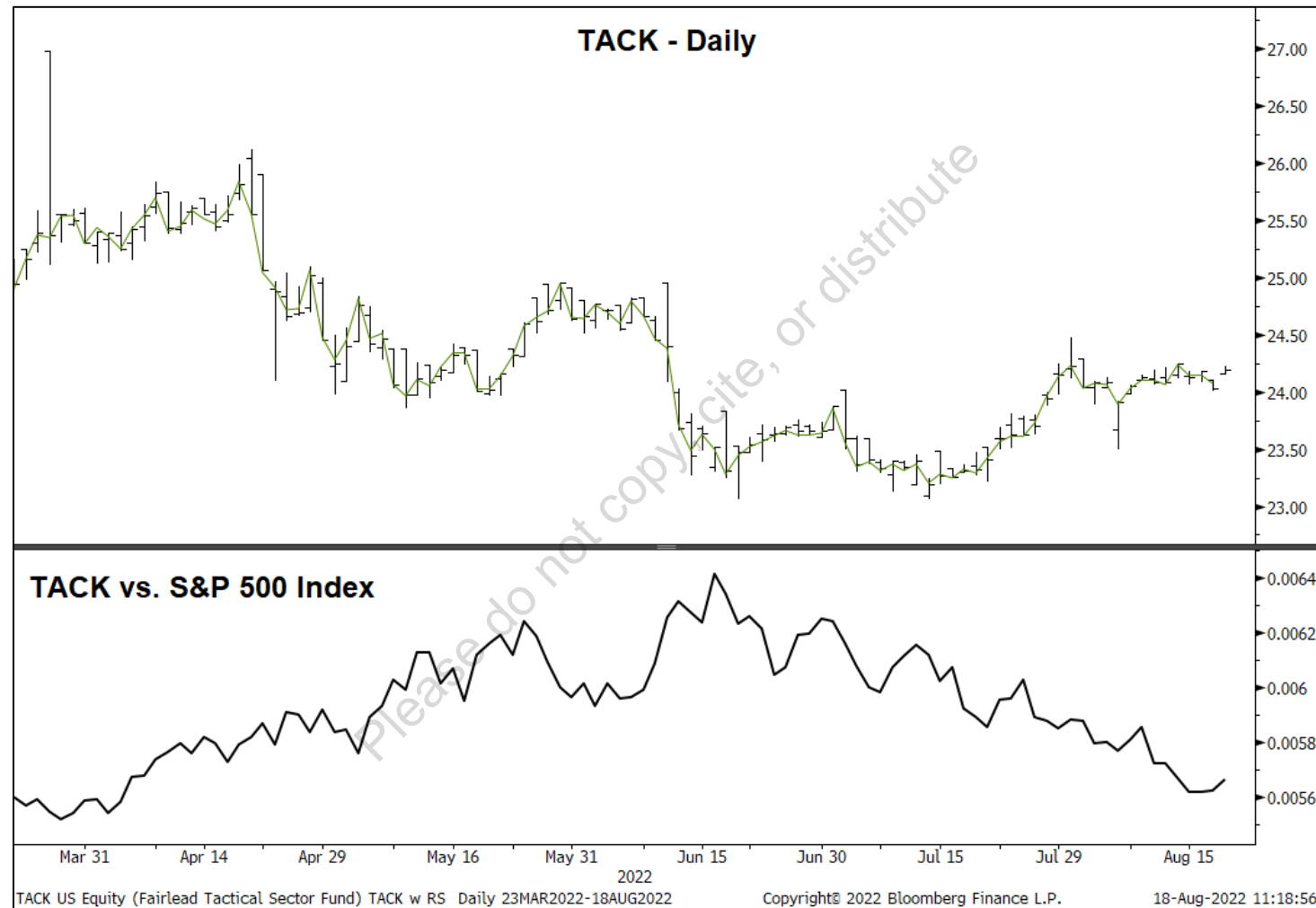
If 8 sector ETFs don't pass the trend-following filters

- Buckets not taken by sectors will be filled with "risk-off" assets



See Defined Terms section at end for definitions.

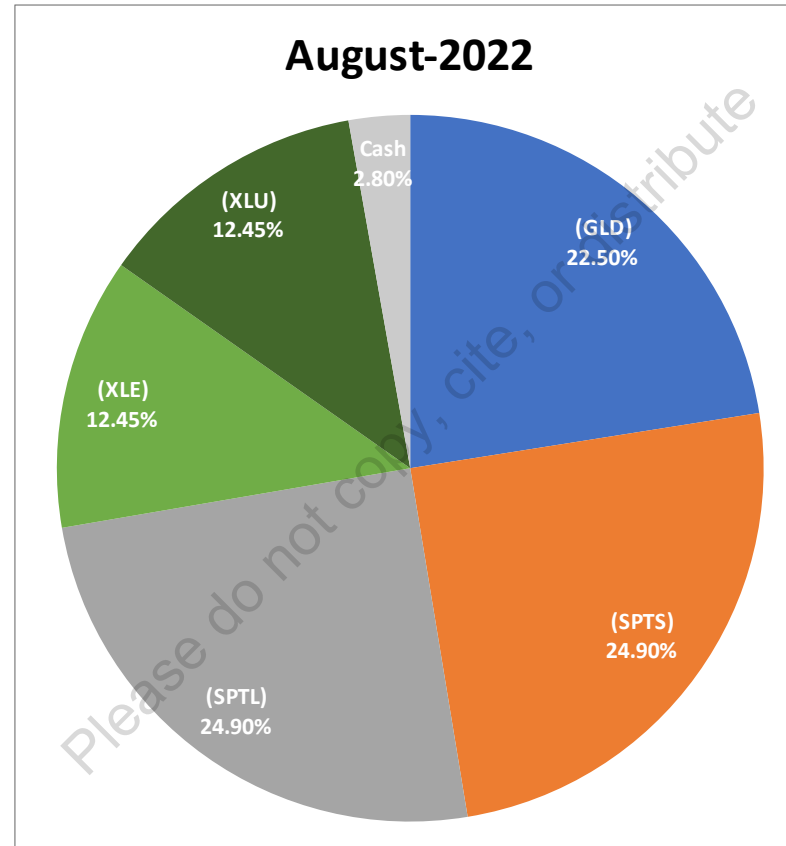
TACK Price and NAV History



Past performance is not indicative of future performance. There is no guarantee that this, or any, investing strategy will be successful. Companies involved in commodity-related businesses such as gold may be subject to greater volatility than investments in companies involved in more traditional businesses.

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For more information about **Fairlead Strategies**
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