

Date Issued: 2020

Contact: [mtuttle@tuttletactical.com](mailto:mtuttle@tuttletactical.com)

Matthew Tuttle is CEO and owner of Tuttle Tactical Management, LLC, and manages publicly-traded ETFs.



# Trend Aggregation: An Approach to Aggressive Growth

Tuttle Tactical Management

## Contents

### Definition

Page 01

### Stocks and Sectors

Page 01

### Composing the Core

Page 02

### Mitigating Downside Risk

Page 03

### Notes on Conservative Approaches

Page 04

## Definition

A **Trend Aggregation Approach to Aggressive Growth** generally seeks to beat the market both on an absolute basis and on a risk-adjusted basis. In attempting to achieve a higher form of growth than a standard growth model, this approach can have some volatility but can, when done properly, still aim to be as protective as other less-aggressive approaches.

## Stocks & Sectors

One of the main principles behind applying a trend aggregation approach for aggressive growth involves buying stocks and sectors that are doing well and not owning the ones that aren't.

The views and opinions expressed in this article are those of the CEO of Tuttle Tactical Management LLC (TTM) and are current to the date of publication. The information contained in this article may be subject to change without prior notice. TTM may invest client assets in the securities or products referenced; however, references to the issuers of sponsors of such offerings are intended for illustrative purpose and, in no manner, should be construed as recommendation to make or to not make an investment. Investors should contact a financial professional for guidance prior to making any investment.

© 2020 Tuttle Tactical Management LLC, a SEC-registered investment adviser. All rights reserved.

## Stocks & Sectors (cont.)

Consider the S&P 500, for example. It may be fairly balanced among the various sectors, but at any given time, some of those sectors may not be performing well (e.g., energy, financial, industrial). Other sectors (e.g., technology and biotech) may be performing very well. Within these sectors, there may be companies who will be doing well or not depending on the current environment. The question at the heart of this issue is simple: Why, if someone has this knowledge and is able to move on a dime, would they own all sectors and the stocks within those sectors? Why not own the ones that are doing well?

With this in mind, one can begin to see how a trend aggregation aggressive growth philosophy could be comprised of a core basket that includes stocks and sectors that are performing well while avoiding the ones that aren't performing well.

Discussing the building or evaluating of baskets refers to how multiple positions of securities are grouped based on specific criteria, themes, sectors, or industries. Using a trend aggregation approach often involves creating baskets and then selecting only the stocks or securities from each basket that meet a certain standard or criteria (e.g., when combined, the stocks that provide the highest Sharpe Ratio<sup>1</sup>). The tactical aspect means that at any time, one can be in or out of certain baskets depending on how the markets are performing.

## Composing the Core

In applying a trend aggregation approach to aggressive growth, it's advisable to generally evaluate the composition of the core on a monthly basis. Say, for example, that there are six different baskets created, somewhat diverse, on purpose. For each of these baskets, a combination of the six stocks that had the highest modified Sharpe Ratio would be taken, resulting in six different baskets with six different stocks. Overlap is a possibility, especially with must-have stocks like Amazon.

If this process resulted in, for example, thirty-three stocks (accounting for overlap), each with different weightings based on how they were weighted in the basket, that would be the basket to which models would be applied for the month. The next month, the process would repeat.

---

<sup>1</sup> A **Sharpe Ratio** measures risk-adjusted return. The equation for determining this index is:

$$(total\ portfolio\ return) - (risk-free\ rate) / (portfolio\ standard\ deviation)$$

The higher the result, the better the portfolio performed when considering risk. It's possible for a portfolio to have a higher rate of return than another, but also with a lower Sharpe Ratio.

## Composing the Core (cont.)

In addition to evaluating each basket, there is the calculation of how to combine each of the six baskets. Questions about which are overweighted and which are underweighted can also be addressed using the modified Sharpe Ratio.

In terms of what stocks might be included in an aggressive growth strategy vs. a standard growth approach, it may be the case that a standard growth strategy includes stocks that are more familiar to investors. An aggressive growth strategy may include equities that are not necessarily household names.

## Mitigating Downside Risk

There are two general types of downside risk that should be mitigated with most trend aggregation approaches: 1) a downside that slowly grinds away the market over an extended period of time and 2) a downside that occurs with little-to-no warning and results in a freefall before the average investor can respond.

It is advisable to consider preparing for both types of downsides by surrounding a core basket with at least two sleeves: a bear market sleeve, which could, for example, go long or short S&P 500, NASDAQ and volatility, and a correction sleeve that could buy treasuries and gold, which historically can dampen volatility and are typically not going to be a drag on a portfolio because they can go up when the market is going up.

By incorporating a bear and correction sleeve, one does not have to rely on individual stock models getting out during a downturn, even if these models generally would. These different protection mechanisms, designed to be neutral or positive carry, can provide the agility to respond to different conditions as they occur.

What makes this different from traditional tactical is that while traditional tactical might rely on one model, the trend aggregation approach incorporates multiple models, each of which is designed to respond to a specific condition. For example, there may be twenty different models for volatility built into a bear market sleeve. If volatility spikes, then it is expected that some but perhaps not all models will be triggered.

## Mitigating Downside Risk (cont.)

This level of complexity requires 1) building into the equation that not every model is going to be right, 2) stacking edges<sup>2</sup> while avoiding overkill, and 3) monitoring on a minute-by-minute basis.

## Notes on Conservative Approaches

While trend aggregation can be applied to aggressive growth approaches, this same underlying philosophy can also help build more conservative portfolios that aim to beat the market on a risk-adjusted basis.

Factors to keep in mind:

1. Consider a core comprised of fixed income securities, (e.g., MLPs, dividend paying equity stocks, REITs, etc.).
2. Consider hedging this core with additional sleeves. Examples include:
  - A Correction Sleeve (e.g., gold, treasuries)
  - A Bear Market Sleeve (e.g., inverse REIT, inverse high-yield bond, inverse S&P)

In attempting to navigate today's market environment, it is important to determine how and when to hedge appropriately. Incorporating multiple models and sleeves that can be managed tactically may provide more protection than traditionally constructed conservative funds.

---

<sup>2</sup> **Stacking edges** — For example, take the S&P 500. Say an investor wants to do better. They can take the 50 stocks in the S&P 500 that have had the strongest momentum over the last six months. That's one edge. Say they want to do even better. Of those 50 stocks, they may take the 25 that have the strongest earnings quality. Now they've stacked two edges and chances are they may do better. There is a point, however, where they're down to 1-2 stocks, and it's extreme, resulting in total overkill. It's advisable to be cognizant of this potential issue and balancing not having overreliance on any one model vs. not being able to make the moves that one needs to make.