



# KKM Tactical Rotation powered by Nasdaq Dorsey Wright

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## Model Objective

The purpose of the Tactical Rotation Model is to identify major themes in the market, have exposure to those sectors controlled by demand, and eliminate exposure to those sectors controlled by supply. The Model is designed to hone in on the strongest ETFs from the inventory listed below and will attempt to capture the strongest trends and avoid the weakest trends. It is dispersion of returns within the Model inventory that creates the opportunity for a relative strength evaluation process to identify worthwhile trends to follow, as well as those critical to avoid. The Tactical Rotation inventory of funds provides a diversity of investments that is generally advantageous to trend-based tactical rotation strategies.

## Relative Strength Methodology

The most adaptive tool we have found to identify the strongest trends from the weakest within an investable universe is Point & Figure Relative Strength. Our relative strength calculation is designed to target long term themes of outperformance, while also remaining responsive enough to allow for rotation when market trends necessitate. In short, relative strength attempts to minimize exposure to underperforming positions, while letting profitable positions run. Most importantly, this systematic and rules-based approach eliminates the subjective or "emotional" trades, as the calculation is derived from price data alone.

## Systematic Portfolio Rules

- The first level of relative strength analysis is between US Equities and Fixed Income. When US Equities are favored, the Portfolio will be 100% US Equities. When Fixed Income is favored, the Core U.S. Aggregate Bond ETF (AGG) will have a 30% weighting and the remaining 70% will be US Equities.
- The universe used is comprised mainly of sub-sector ETFs, however several commodity and broad based market ETFs are also included in the investable inventory.
- In addition to the AGG comparison versus US Equities, the remaining positions below are evaluated on a relative strength basis to one another. The Portfolio can hold eight to nine positions, with the ninth position being AGG.
- If the relative strength of a holding falls significantly out of favor versus the other potential Model members, it will be removed and the member with the best relative strength that is not currently in the Portfolio will be added. At that time, the Portfolio will be rebalanced.

## Model Inventory

SYMBOL	ETF NAME
AGG	Core U.S. Aggregate Bond ETF
EFA	MSCI EAFE ETF
IAI	U.S. Broker-Dealers & Securities Exchanges ETF
IAT	U.S. Regional Banks ETF
IBB	Nasdaq Biotechnology ETF
IDU	U.S. Utilities ETF
IEZ	U.S. Oil Equipment & Services ETF
IGN	North American Tech-Multimedia Networking ETF
IHE	U.S. Pharmaceuticals ETF
IHI	U.S. Medical Devices ETF
IJR	Core S&P Small-Cap ETF
ITB	U.S. Home Construction ETF
IYC	U.S. Consumer Services ETF
IYJ	U.S. Industrials ETF
IYM	U.S. Basic Materials ETF
IYZ	U.S. Telecommunications ETF
SOXX	PHLX Semiconductor ETF
DVY	Select Dividend ETF
GSG	S&P GSCI Commodity-Indexed Trust
IAK	U.S. Insurance ETF
IAU	Gold Trust
ICF	Cohen & Seers REIT ETF
IEO	U.S. Oil & Gas Exploration & Production ETF
IGE	North American Natural Resources ETF
IGV	North American Tech-Software ETF
IHF	U.S. Healthcare Providers ETF
IJH	Core S&P Mid-Cap ETF
ITA	U.S. Aerospace & Defense ETF
IVV	Core S&P 500 ETF
IYG	U.S. Financial Services ETF
IYK	U.S. Consumer Goods ETF
IYT	Transportation Average ETF
SLV	Silver Trust

## DISCLOSURE

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