

# Explanation of ProVest Models

I, Noel B. Swain, CFP have been a financial advisor since June, 1984. I became a CFP Professional in 1994 and have kept my credentials current since that time.

In 2000-2002, and again in 2008, as my clients were nearing retirement, or, in-fact, retiring, I witnessed a tremendous downdraft of their retirement funds. I had always been a buy-and-hold advisor, knowing that the stock market had always recovered, thus believing that it was the safest place for someone to invest for the long-term.

My clients trusted me, but during those times, when their accounts were down 20 - 30% or more, I could see the fear in their eyes and hear the anguish in their voices as they questioned whether they'd have enough assets to last them through their retirement years.

In 2004 I had met a researcher, and I saw how some of his research had performed during the 2000 - 2002 market losses. So, I started using their Calendar Effects strategy through a third party. Being human, and wanting instant gratification, I saw our portfolios fall behind during the 2004 - 2007 time. Because of that I backed many of our clients out of that portfolio, thinking it didn't work anymore.

After studying all that had happened and how we might implement our own active management strategies using this research, we began to manage our own portfolios in 2012. Using primarily ETF's we now trade sectors or broad market indexes. We still use their research and signals. I use a slightly modified version of their Harmony models

We determine our trades according to the direction of three equities market indicators.

The research is much more sophisticated than I have the capability of doing on my own, so I rely on our research to give me the signals I need to make my trades. Below is the explanation of the research that goes into each of these three market indicators;

## **Bull-Bear Indicator (Longer-Term)**

The Bull-Bear Indicator is constructed from measurements of market internals and is intended to reveal the relationship of supply and demand at the longer-term timeframe of months to years. The measurements are ratios of supply and demand factors, normalized to a scale of 0 to 100. For example, the ratio of up-volume to (up volume + down volume) will always be in the range of 0 to 100, where the higher readings indicate a preponderance of demand (larger up volume) and lower readings indicate a preponderance of supply (larger down volume). Other examples of ratios of supply and demand are advancers to (advancers + decliners) and new 52-wk highs to (new 52-wk highs + new 52-wk lows). There are 7 inputs in total, 5 of which are these supply and demand ratios, and 2 are pure price inputs. These inputs are continuously re-examined over a trailing one-year period, and the ratios are then weighted, and combined into a single, statistically smoothed final Bull-Bear Indicator. When the Bull-Bear Indicator is in a Bull Market mode and then pierces the Bear Market Threshold, a new Bear Market is signaled. When the Bull-Bear Indicator is in a Bear Market mode and then pierces the Bull Market Threshold, a new Bull Market is signaled. Once a mode (Bull or Bear) is established, it is considered to remain in place until the Bull-Bear Indicator eventually pierces the opposite threshold.

## **Quarterly-Trend Indicator (Medium-Term)**

Designed to act only at quarterly intervals, it is a quarter-by-quarter look at the probable risk environment of each quarter, using the trend status of US and International equities. The trend labeling is derived from the slope of a tangent to a curvilinear regression going through the last 'n' data points of a statistically-smoothed closing price data series; stated more compactly, it's based on direction of the regression curve through a smoothed price series, and the 'prices' referred to are the Russell 3000 for the US, and the MSCI Ex-US for International. If either the US or International equities are in an uptrend, a lower-risk quarter is indicated; if neither the US nor International equities are in an uptrend, a higher-risk quarter is indicated.

## **The Short Term (Shorter-Term)**

The shorter-term Indicator is constructed from measurements of market internals within 36 sectors of the US market, and is intended to reveal the relationship of supply and demand at the shorter-term timeframe of weeks to months. Each sector is defined by a basket of stocks. Each stock within each basket is ranked as being in supply mode or demand mode, based on recent price action. If the majority of stocks within a basket are deemed to be in demand mode, the sector is deemed to be in demand mode; if the majority of stocks within a basket are deemed to be in supply mode, the sector is deemed to be in supply mode. Each sector in demand mode is assigned the value of 1, each sector in supply mode is assigned the value of 0. The indicator value is then the statistically-smoothed sum of these 36 assignments, which can therefore range from 0 to 36. A sum of 0 indicates all sectors are in supply mode and a sum of 36 indicates all sectors are in demand mode. Changes in the overall intermediate-term market outlook occur when the short-term indicator changes direction after reaching at least the half-way point of 18 (one half of 36). After reaching at least the half-way point, a reversal by 20% causes a change in labeling. When the

Short Term indicator is headed up, it is labeled as 'Positive'; when the Short Term Indicator is headed down, it is labeled as 'Negative.' A change from 'Positive' to 'Negative' occurs upon a reversal downward of at least 20% of the highest value reached. For example, a reversal from 'P' to 'N' after a move up that peaks at 30, will occur at 24 (20% less than 30). Similarly, a change from 'N' to 'P' occurs upon a reversal upward of at least 20% of the lowest value reached. For example, a reversal from 'N' to 'P' after a move down that bottoms at 5, will occur at 6 (20% more than 5).

I have found these indicators to be quite effective in the management of our assets. They help me identify trends in the market and adjust our portfolios in response to them. The risk inherent in this style of active management is that our portfolios can be 'whipsawed' by the market if the trends turn out to be short lived. For example, should we be fully invested in the market (we always hold 4 to 5% in cash) in one of our models because all of our indicators are positive, and we have several down-market days (which may cause one or more of our indicators to turn negative), we would trade out of our fully invested position and into an alternative strategy. If the trend immediately (or within a few days) turns back positive, we may have to buy those securities back at a higher price than we had sold them at. However, in our view, the short-term whipsawing effect we must inevitably go through is worth it to mitigate the hard losses of the market like we have seen in 2022.

Below are the rules we go by, and how we invest our clients' assets, according to the number of positive indicators.

This is how we are invested at any time, according to the number of positive indicators;

# ProVest Models

## Positive Indicators

### Harmony Conservative

3	95% Buy/Replace	5% Cash	
2	50% Calendar Effects	50% Cash	
1 and 0	100% Cash or 95% Optimum Bond and 5% Cash – according to direction of bonds at the time		

### Harmony Moderate

3	95% Buy/Replace	5% Cash	
2	50% Buy/Replace	45% Calendar Effects	5% Cash
1	95% Calendar Effects	5% Cash	
0	95% Calendar Effects	5% Cash	

### Harmony Growth

3	96% 1.5X Sector Rotation	4% Cash	
2	50% 1X Sector Rotation	45% Calendar Effects	5% Cash
1	95% Calendar Effects	5% Cash	
0	95% 1X Inverse DOW	5% Cash	

### Harmony Aggressive Plus

3	95% 2X S&P 500	5% Cash	
2	95% 1X S&P 500	5% Cash	
1	95% Calendar Effects	5% Cash	
0	95% 2X Inverse DOW	5% Cash	

### Harmony Hybrid

3	48% Buy/Replace	48% 1.5 Sector Rotation	4% Cash
2	25% Buy/Replace	25% 1X Sector Rotation	45% Calendar Effects 5% Cash
1	95% Calendar Effects	5% Cash	
0	48% Calendar Effects	48% 1X Inverse DOW	4% Cash

### Harmony Growth Seeker

3	95% 2X NASDAQ	5% Cash
2	95% 1X NASDAQ	5% Cash
1	95% Calendar Effects	5% Cash
0	95% 2X Inverse NASDAQ	5% Cash

We made our last modification to the Harmony Conservative model in June, 2021 because we didn't want to 'have' to go to bonds if bonds were also trending down. The other models have had no modifications since May, 2019.

There are three additional strategies we use in our models which we trade into and out of, according to the number of positive signals we have at the time.

Here are descriptions of each strategy;

**Calendar Effects** – This model is a shorter-term model whose goal is to be invested only during those short periods of time during the calendar year that have historically shown a high probability of profit based on a reliable lift in volume these days frequently provide. There are about eleven of these short periods per year, totaling just 72-75 market days of exposure per year. The Calendar Effects strategy has been a particularly good performer in Bear Markets, but, because of its limited exposure to the market, normally trails the market during the Bull times. The Calendar Effects trade positions are determined at the time of trade entry, and are based on those asset classes (from among the nine style boxes + Dow 30 + Nasdaq 100 - these are the asset classes eligible for inclusion) which are judged to be the best performing at the time. The number of positions taken generally varies between one and three, and equal allocations are applied to each.

**The Buy/Replace** strategy is continuously invested in the Preferred 1 and Type 2 asset class selections. It chooses from the Asset Class Ranking Table's "Above Average - best for new positions" document. The model's selections are revisited quarterly for potential additions or deletions. The Buy/Replace strategy is an alternative to the buy-and-hold strategy of popular market indices.

**Sector Rotation / Leveraged Sector Rotation** strategy is a risk-managed strategy which invests either in high-ranked US Equity Sectors, or in high-ranked Bond Sectors. At the start of each calendar quarter a risk measurement is made to determine whether the strategy will invest in Equity Sectors or in Bond Sectors during that quarter. The Quarterly Trend Indicator is used for this purpose.

When invested in Equity Sectors, a reallocation of the portfolio is made monthly; when invested in bond Sectors, the reallocation of the portfolio is made quarterly.

ProVest takes a highly disciplined approach to managing our active models. As you can see, we rely on the research we receive each day from our research partners.

## Asset Management Fee Schedule

Minimum initial investment - \$250,000

Annual Fee, taken from investments monthly

1.60% First \$250,000

1.10% Next \$250,000

0.80% Next \$500,000

0.60% Everything Over \$1,000,000

Securities offered through Registered Representatives of Cambridge Investment Research, Inc., a broker-dealer, member FINRA/SIPC. Advisory services offered through Cambridge Investment Research Advisors, Inc., a Registered Investment Adviser. Cambridge is not affiliated with ProVest Wealth Advisors or The ProVest Perspective.

The models advertised herein are not designed based on the individual needs of any one specific client or investor. In other words, it is not a customized strategy designed on the specific financial circumstances of the client. However, prior to opening an account using the advertised model, Cambridge will consult with you to determine if your financial objectives are appropriate for investing in the model. You are also provided the opportunity to place reasonable restrictions on the securities held in your account. While strategies are built to obtain their stated objectives, there are no guarantees of success. Trends are intended to aid in forming investment strategies but cannot predict the movement of any securities or market Indices mentioned are unmanaged and cannot be invested into directly. Diversification and asset allocation strategies do not assure profit or protect against loss. Past performance is no guarantee of future results. Investing involves risk. Depending on the types of investments, there may be varying degrees of risk. Investors should be prepared to bear loss, including loss of principal.