

July 2014 – U.S. Tactical Core Strategy



The U.S. Tactical Core portfolio further reduced equity exposure moving into the back half of August with an overall allocation of 25% large cap equities and 75% treasuries. The Good Harbor Tactical Core U.S. portfolio dropped 6.74% net-of-fees in July versus a loss of 1.38% for the S&P 500 Total Return Index. Small and mid-cap performance in July, with the Russell 2000 Total Return Index dropping 6.1% and the S&P 400 Total Return Index falling 4.3%, were significant contributors.

Degraded readings across all the model input categories were sufficient enough to shift the mid-month tranche into a fully defensive allocation, leaving the overall portfolio partially exposed to equities with a 25% allocation.

Momentum: Equity momentum weakened across the period although it did remain in positive territory. This was accompanied by increasing Treasury momentum as well; with both the short-term (5-Yr) measure and the longer dated (10-Yr) moving higher. This combination is generally indicative of a less favorable outlook for equity risk premiums.

Yield Curve: Rates dropped across the curve with the 10-year constant maturity level falling to 2.3%. Similarly, slope measures flattened across the entire curve.

Economic: Model credit spreads widened modestly. The VIX rose across the measurement period, ending at just over 13. The VIX futures complex also increased. The economic level and growth rate both declined.

This declining outlook on the US equity market does not mean stocks are guaranteed to fall over the coming weeks. There are many economic and geopolitical factors that can certainly disrupt the equity markets in either direction with little to no warning. However, our research suggests when we see the kind of moves we're seeing in our risk premium measures, it is better to reduce equity exposure. This has been our process over the last ten plus years and it is the consistent application of this process that we believe is most critical to implementing a sound investment strategy.

Good Harbor Financial

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