

Volume Factor Global Unconstrained (VFGU)

Q3 | 2024 Commentary

When introduced almost 70 years ago, modern portfolio theory provided evidence that diversification of assets may help lower risk within an investment portfolio. Since then, postmodern portfolio theory has shown that risk may be mitigated through a combination of asset diversification and tactical portfolio construction. The Volume Factor Global Unconstrained (VFGU) portfolio aims to pursue both theories of portfolio management intelligently, working to achieve the benefits of modern portfolio theory through widespread global equity diversification. At the same time, a proprietary risk management overlay serves to frame tactical portfolio construction. By utilizing both modern and postmodern portfolio management conjointly, the Volume Factor Global Unconstrained portfolio strives to achieve the dual objectives of delivering excess returns throughout bull market cycles while attempting to preserve capital during cyclical bear markets.

Defense:

Investors do not like fluctuations, they fear corrections, but it is bear markets that may destroy financial plans. For this reason, risk management is job number one with the Volume Factor Global Unconstrained strategy. Preserving capital via minimizing drawdowns can help defend investors from fluctuations and corrections that could alter their financial plans. One key to avoiding large drawdowns is distinguishing between market fluctuations, corrections, and bear markets.

Most risk management strategies employ trend data to determine market exposure. However, though generally effective, price trend data is a lagging indicator. Additionally, strategies utilizing a single indicator methodology may equate to timing the market. For these reasons Volume Factor Global Unconstrained's risk overlay employs four leading indicators to attempt to gauge the health of the market and seek to identify strategic reentries.

The strategy's robust risk management framework, which combines dynamic position sizing, diversification, and the use of volume as a leading indicator, is designed to mitigate downside risks while allowing for participation in market upswings. This balanced approach to risk and return may offer investors a compelling option for navigating uncertain market conditions.

Special teams:

A football team will often employ a special teams unit in the transition from defense to offense. Having a transition plan may be equally as important in equity markets as the strongest part of a bull market may be its beginning. VPCI V & W Bottoms are rare capitulation signals based upon oversold levels of the SPDR S&P 500 ETF's (**SPY**) coupled with wide asymmetry between an ETF's price movements and corresponding volume flows. These VFGU special teams units assist the portfolio to transition from defense to offense.



Lead Portfolio Manager Buff Dormeier, CMT®

Chief Technical Analyst

Buff Pelz Dormeier, CMT®, is a foremost expert in the field of volume analysis and founder of VolumeAnalysis.com. He has over 25 years' experience dynamically managing private investment portfolios for affluent individuals, institutions, trusts, endowments and financial advisors.

An Award winning industry innovator, Dormeier is the developer of Volume Weighted Moving Averages (VWMA), the VW-MACD, the Volume Price Confirmation Indicator (VPCI), VPCI Stochastics, the Anti-Volume Stop Loss (AVSL), the Trend Thrust Indicator (TTI), Capital Weighted Volume Indexes, as well as a host of capital weighted volume based breadth indicators.

Buff's work with market indicators and trading system design has been published and/or referenced in Barron's, Stock's & Commodities, C-NBC, The Financial Times, and Active Trader magazines, as well as the IFTA & MTA Journals.

Offense:

When the broad market is in a bullish phase, VFGU's goal is to run with the bulls. The Volume Factor Global Unconstrained ranking system identifies highly liquid equity exchange-traded funds garnering the most substantial capital flows confirmed by our proprietary volume indicators.

Q3 Overview:

The third quarter of 2024 presented a complex and dynamic global market environment, characterized by shifting economic indicators and geopolitical tensions. Against this backdrop, the Volume Factor Global Unconstrained strategy demonstrated its adaptability, leveraging its proprietary volume analysis to identify areas of capital inflow and outflow across various markets and asset classes. The strategy's focus on volume as a leading indicator of price movements reacted to perceived market rotations and emerging trends. As we delve deeper into the strategy's positioning, it becomes clear how these market dynamics influenced our investment decisions and outcomes during this eventful quarter.

At the end of the third quarter, VFGU's top four ETF holdings were iShares MSCI USA ESG Select ETF (**SUSA**), FT U.S. Equity Deep Buffer ETF – May (**DMAY**), Franklin FTSE Japan Hedged ETF (**FLJH**) and American Century US Quality Growth ETF (**QGRO**).

Q3 Tactical Risk Overlay:

The third quarter of 2024 demonstrated the adaptability of the Volume Factor Global Unconstrained strategy in a complex and volatile market environment. The strategy's dynamic approach to portfolio positioning is one of its keys, guided by proprietary volume analysis. The Volume Factor Global Unconstrained strategy is well-positioned to navigate the anticipated market challenges and opportunities. The ongoing divergence in global monetary policies, technological transformation across industries and selective opportunities in emerging markets present a rich landscape for the strategy's volume-based approach. Investors can expect continued vigilance in identifying strong capital flow trends.

Three triggers constitute VFGU's risk overlay: Capital Weighted Volume, Capital Weighted Dollar Volume (Capital Flows), and the NYSE Advance-Decline ("A-D") Line. At the commencement of the third quarter, VFGU's portfolio held a full equity position, as all our primary indicators of Volume Factor began the quarter well above their trends. However, despite advancing higher, both the Capital Weighted Volume and Dollar Volume trends weakened. In particular, Capital Weighted Volume showed significant deterioration against its long-term trend. Meanwhile, the NYSE Advance-Decline Line strengthened against its historical trend, breaking out to new all-time highs.

Despite the S&P 500 price index reaching new all-time highs, both Capital Weighted Volume and Capital Flows finished well below their June all-time highs. With the weakening of our Capital Weighted Volume indicator, the portfolio oscillated between a 100% and 75% equity position throughout the third quarter. Notably, this strategic approach reflects VFGU's commitment to informed risk management and dynamic portfolio adjustments based on the health of prevailing market conditions.

As markets continue to evolve, the strategy's focus on volume trends and capital flows positions it to attempt to identify and capitalize on emerging opportunities. At the same time, its robust risk management framework may provide a measure of stability in an increasingly complex investment landscape. For investors seeking a dynamic, globally oriented strategy emphasizing risk management, the Volume Factor Global Unconstrained approach may offer a compelling solution in today's challenging market environment. Risk management is often the path less taken but the steady course leading towards successful long-term financial outcomes. Should you wish to speak with one of our portfolio managers, please email investments@kingsview.com

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