

Volume Factor Global Unconstrained (VFGU)

Q4 | 2023 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 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 portfolio. 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, price trend data, though generally effective, is a lagging indicator. Additionally, strategies utilizing a single indicator methodology may equate to timing the market. For these reasons, the Volume Factor Global Unconstrained risk overlay employs four leading indicators to attempt to gauge the health of the market and seek to identify strategic reentries.

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

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 is designed to identify highly liquid equity exchange-traded funds garnering the strongest capital flows confirmed by our proprietary volume indicators.



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 (VWMAs), 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.

Three triggers constitute VFGU's risk overlay: Capital Weighted Volume, Capital Weighted Dollar Volume (Capital Flows), and the Advance-Decline Line. To activate VFGU's risk overlay, two out of the three indicators must fall below the trend. When two of the three bearish conditions are satisfied, VFGU's risk overlay begins trimming equity exposure.

At the commencement of the fourth quarter, VFGU's portfolio held a full equity position, as both our primary indicators of Volume Factor, namely Capital-Weighted Volume and Capital-Weighted Dollar Volume, began the quarter well above their trends. In contrast, the Advance-Decline began the quarter below trend but concluded the quarter above it.

The 100% equity position was thus sustained throughout the quarter, driven by the persistent upward surge in our leading volume indicators. Notably, both Capital Weight Volume and Capital Weighted Dollar Volume broke into new all-time highs, reinforcing the merits of holding a risk-on stance. This strategic approach reflects VFGU's commitment to informed risk management and dynamic portfolio adjustments based on the health of prevailing market conditions.

At the end of the fourth quarter, VFGU's top three ETF holdings by weight were the Global X Uranium ETF (**URA**), the Xtrackers MSCI USA ESG Leaders Equity ETF (**USSG**) and the iShares ESG MSCI USA Leaders ETF (**SUSL**).

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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