

Admin Message - Using the SimpleVisor Relative Rotation Pages

We have received many questions about our new relative rotation pages. As such, we thought writing up a case study on how to use it would be helpful.

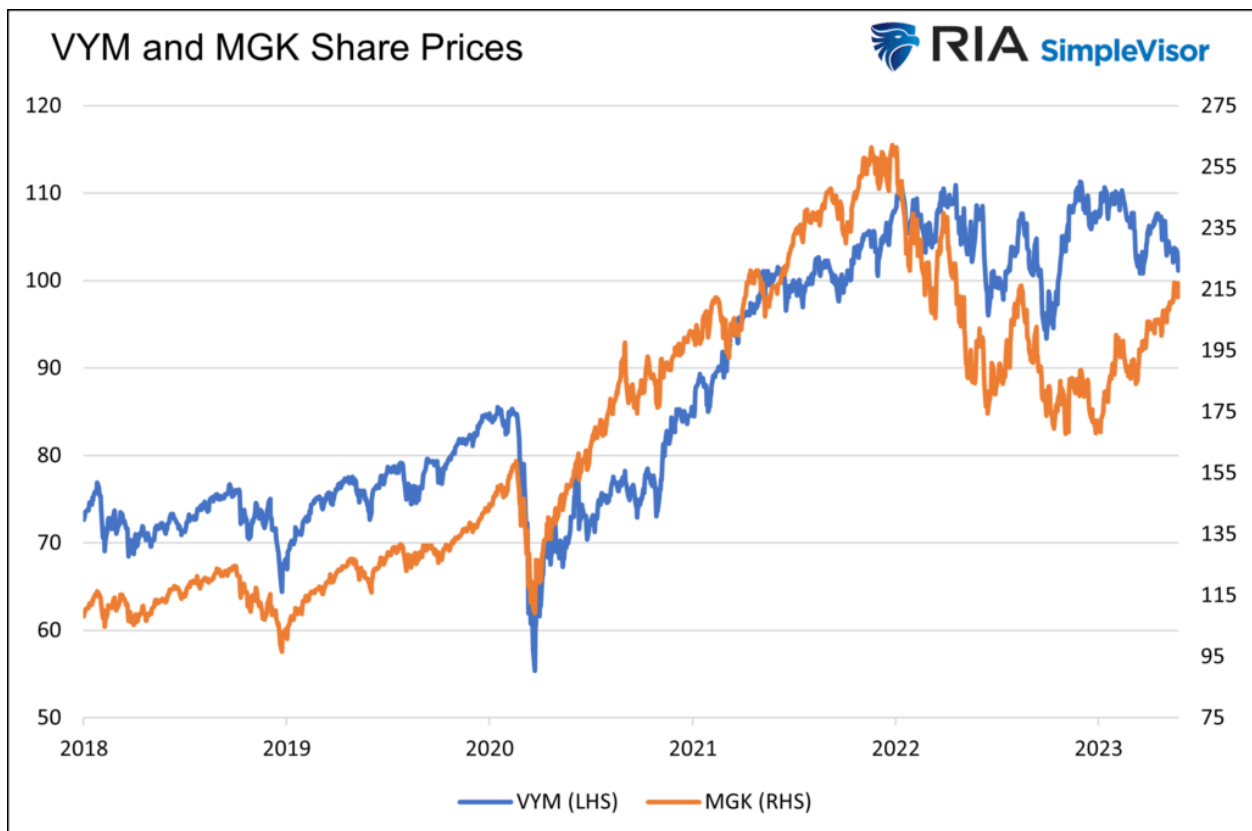
For starters, [Relative Rotation- Unlocking the Hidden Potential](#), an article we previously wrote, is a great introduction to relative rotation strategies on pairs of securities and how understanding and assessing the relationship can help investors better manage their portfolios during bull and bear markets.

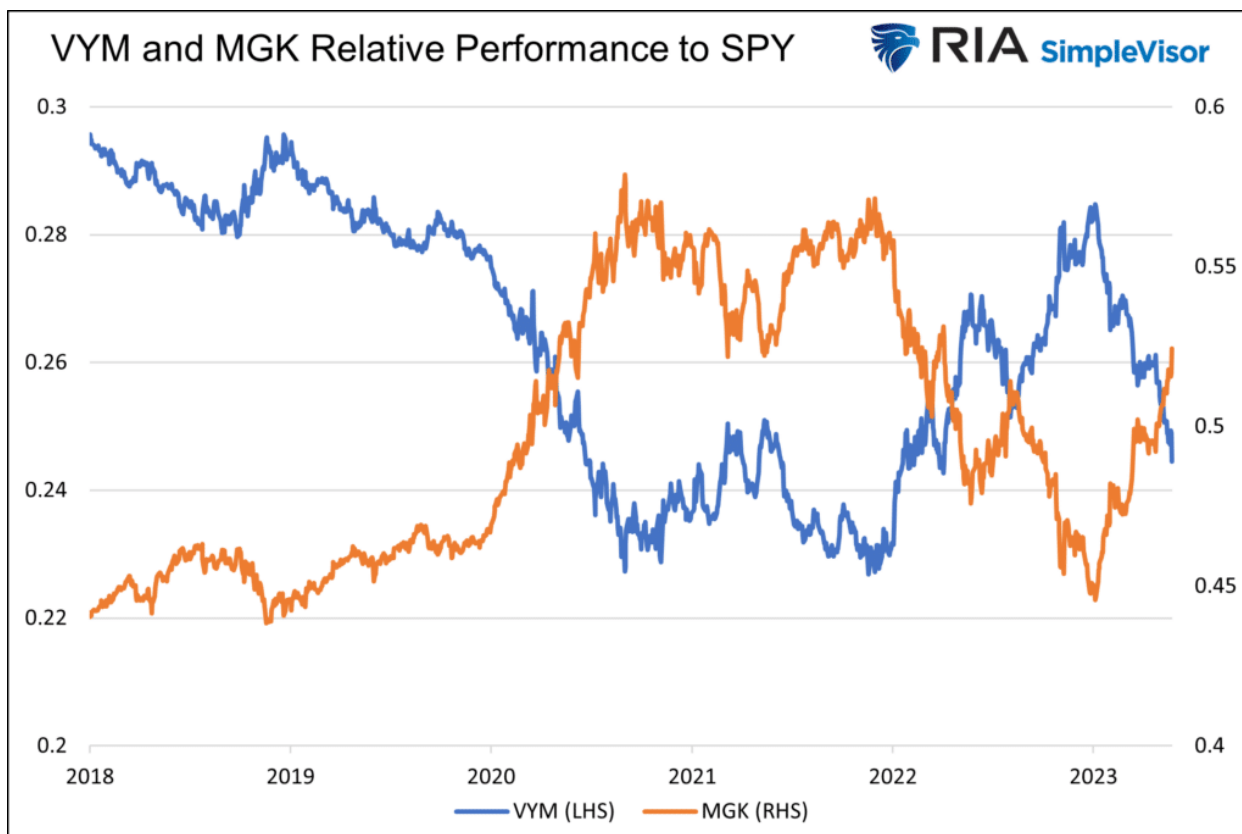
In parenthesis throughout this article, we share the location of each tool within the SimpleVisor site.

Why Did We Choose MGK and VYM?

In the article linked above, we created a simple trading strategy that used two ETFs, the mega-cap growth ETF, MGK, and VYM, the high dividend yield ETF. We selected the pair because, at the time, their relative performance versus the S&P 500 had the most negative correlation across three different time frames. Let's revisit the two graphs below.

The first graph, comparing the prices of the two ETFs, shows they tend to track each other well. The second shows their respective relative performance versus the S&P 500 are almost 100% opposite of each other.

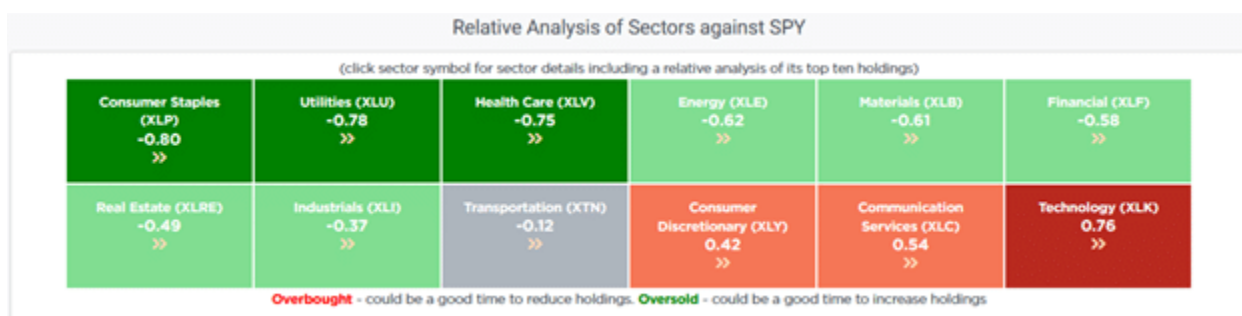




SimpleVisor has monitors to help appreciate how overbought or oversold sectors and factors are on a relative basis. For instance, the table below shows that the technology sector is very overbought on a relative basis, while staples, utilities, and healthcare are deeply oversold.

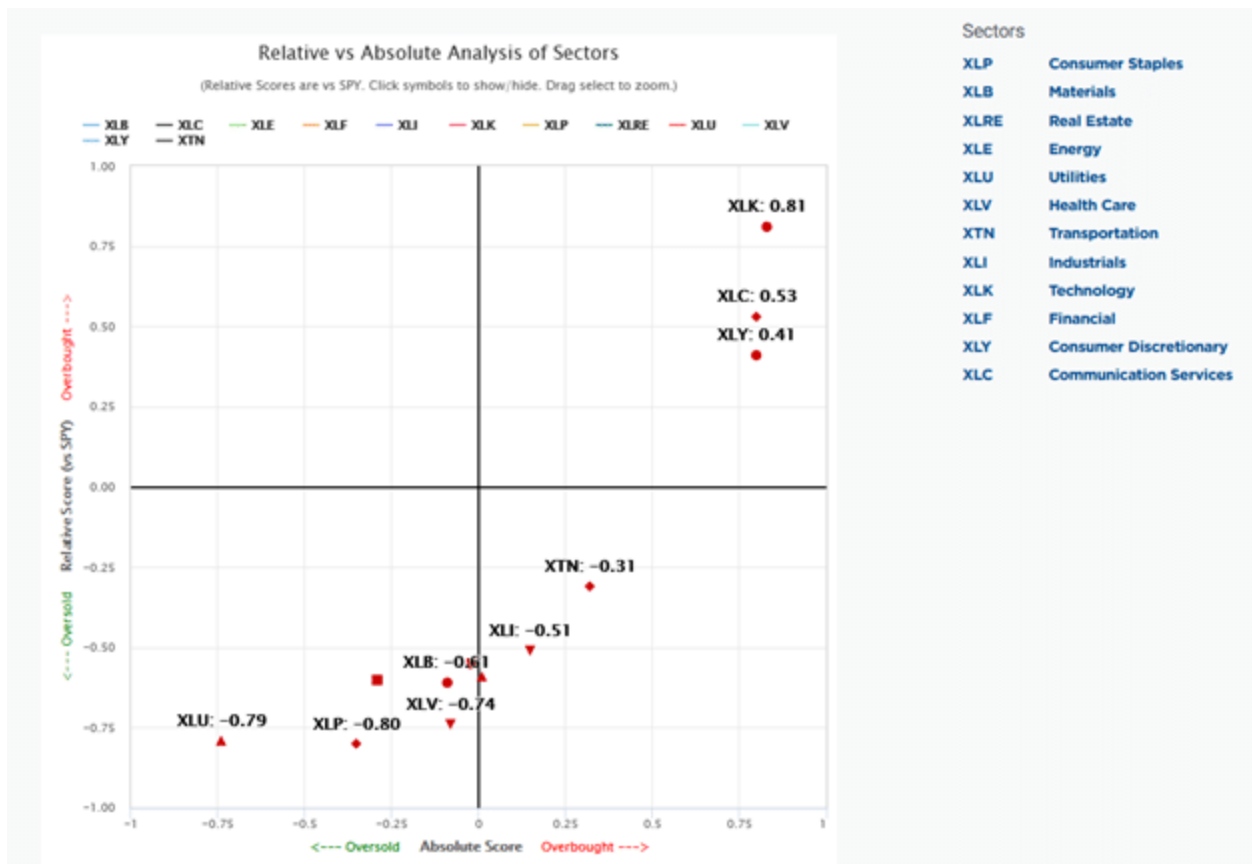
To determine the degree of relative overbought or oversold, we calculate the price ratio of said security to the S&P 500. We then compute a score using multiple technical studies. SimpleVisor also produces absolute scores which use the same technical analysis but solely on the price of one asset.

(Ideas ? Relative Analysis- Sectors)



The scatter plot below highlights the combination of relative and absolute scores for each sector. The x-axis, denoting the relative scores, shows technology, communications, and consumer discretionary stocks are overperforming while most other sectors are underperforming on a relative basis.

(Ideas- Relative vs. Absolute)



SimpleVisor also presents the same chart using stock factors instead of sectors. As you might suspect, MGK is in the upper right corner, and VYM toward the lower left corner.

Finding Other ETF Pairs with SimpleVisor

We can use the screen illustrations above to help guide us in our relative rotation decisions. But to further quantify strongly inverse relationships, SimpleVisor has another tool.

The following table shows the correlation between 22 stock factors over the last 252 trading days. We highlight that MGK and VYM have the most robust negative correlation of -0.93. The correlations are equally impressive at -.89 and -.96, respectively, using shorter 126 and 21-day periods.

(Research ? Factor Analysis)

SPY Excess Returns Over Time		SPY Excess Return Correlations														Excess Return Z-Score and Rank						Excess Return Z-Score and Rank - Filtered					
		Correlation Days: 757 126 21 998														Calculate						Price data of 2023-09-02 10:21:05 EST Refresh					
Name	Symbol	IWM	MDY	IVV	VBR	MDYV	IVE	SPLV	YYM	PKW	VBK	MDYG	IVW	MGK	MTUM	SPHB	SOXX	ARKK	RSP	EEM	VEA	EFA	GLTR				
Small Caps	IWM		0.93	0.08	0.79	0.75	0.36	-0.38	0.07	0.44	0.92	0.83	-0.10	-0.99	-0.05	0.52	0.13	0.46	0.61	0.08	0.32	0.07	-0.18				
Mid Cap 400	MDY	0.85		0.02	0.93	0.82	0.33	0.00	0.28	0.66	0.62	0.82	-0.31	-0.33	0.11	0.38	0.04	0.13	0.78	0.33	0.26	0.21	-0.09				
Core S&P 500	IVV	0.08	0.02		0.31	0.08	0.24	0.12	0.13	0.39	0.01	0.05	0.33	0.62	0.17	0.00	0.01	0.01	0.34	0.35	0.08	0.32	0.09				
Small Cap Value	VBR	0.79	0.93	0.11		0.93	0.48	0.08	0.42	0.73	0.44	0.78	-0.43	-0.44	0.24	0.26	-0.06	0.00	0.80	0.15	0.29	0.25	-0.09				
Mid Cap Value	MDYV	0.75	0.92	0.08	0.93		0.53	0.34	0.42	0.71	0.45	0.73	-0.50	-0.42	0.17	0.26	-0.05	0.00	0.85	0.17	0.29	0.23	-0.05				
S&P 500 Value	IVE	0.36	0.33	0.24	0.48	0.53		0.66	0.80	0.57	-0.21	0.09	-0.92	-0.80	0.60	-0.40	-0.45	-0.47	0.62	0.28	0.33	0.33	0.29				
Low Beta [Low Vol.]	SPLV	-0.38	0.00	0.32	0.08	0.14	0.66		0.76	0.28	-0.42	-0.11	-0.62	-0.75	0.68	-0.75	-0.68	-0.62	0.35	0.17	0.23	0.25	0.45				
High Dividend Yield	YYM	0.07	0.28	0.14	0.42	0.42	0.80	0.75		0.63	0.81	0.73	-0.75	-0.91	0.84	-0.57	-0.54	-0.62	0.60	0.29	0.40	0.38	0.39				
Buyback Achievers	PKW	0.44	0.66	0.19	0.73	0.71	0.57	0.28	0.63		0.15	0.54	-0.51	-0.61	0.44	-0.02	-0.26	-0.22	0.77	0.15	0.30	0.26	0.04				
Small Cap Growth	VBK	0.82	0.62	0.01	0.44	0.45	-0.21	-0.42	-0.31	0.15		0.74	0.25	0.30	-0.38	0.75	0.32	0.75	0.39	0.00	-0.01	-0.07	-0.20				
Mid Cap Growth	MDYG	0.83	0.82	0.05	0.78	0.75	0.09	-0.11	0.13	0.54	0.74		-0.05	-0.15	0.03	0.46	0.12	0.27	0.67	0.09	0.23	0.17	-0.08				
S&P 500 Growth	IVW	-0.10	-0.31	0.33	-0.43	-0.50	-0.92	-0.62	-0.76	-0.51	0.25	-0.05	0.63	-0.56	0.43	0.47	0.52	-0.55	-0.23	-0.28	-0.27	-0.25	-0.25				
Mega Cap Growth	MGK	-0.09	0.33	0.02	0.44	0.42	0.60	0.74	-0.91	-0.61	0.30	-0.15	0.83		-0.83	0.56	0.55	0.63	-0.58	-0.25	-0.35	-0.36	-0.32				
Momentum	MTUM	-0.05	0.11	0.17	0.24	0.17	0.60	0.68	0.84	0.44	-0.38	0.03	-0.56	-0.83		-0.66	-0.55	-0.62	0.30	0.25	0.28	0.30	0.36				
High Beta	SPHB	0.52	0.38	0.00	0.26	0.26	-0.40	-0.75	-0.57	-0.02	0.75	0.46	0.43	0.36	-0.66		0.71	0.72	0.17	-0.05	-0.09	-0.14	-0.37				
Semiconductors	SOXX	0.13	0.04	0.01	-0.06	-0.05	-0.45	-0.68	-0.54	-0.26	0.32	0.12	0.47	0.55	-0.55	0.71		0.39	-0.17	0.01	-0.08	-0.10	-0.23				
Disruptive Tech	ARKK	0.46	0.33	0.01	0.00	0.00	-0.47	-0.62	-0.62	-0.22	0.75	0.27	0.52	0.63	-0.62	0.72	0.39		-0.07	-0.11	-0.24	-0.25	-0.34				
Equal Weight S&P 500	RSP	0.61	0.78	0.14	0.80	0.83	0.62	0.35	0.60	0.77	0.39	0.67	-0.55	-0.58	0.30	0.17	-0.17	-0.07		0.22	0.39	0.33	0.13				
Emerging Markets	EEM	0.08	0.33	0.33	0.15	0.17	0.28	0.17	0.29	0.15	0.00	0.09	-0.23	-0.25	0.25	-0.05	0.01	-0.11	0.22		0.64	0.62	0.35				
Developed Markets	VEA	0.12	0.26	0.08	0.29	0.29	0.33	0.23	0.40	0.30	-0.01	0.23	-0.28	-0.35	0.28	-0.09	-0.08	-0.24	0.39	0.64		0.38	0.60				
EAFE	EFA	0.07	0.21	0.32	0.25	0.23	0.33	0.25	0.38	0.26	-0.07	0.17	-0.27	-0.36	0.30	-0.14	-0.20	0.33	0.62	0.90		0.56	0.56				
Precious Metals	GLTR	-0.18	-0.09	0.09	-0.09	-0.05	0.29	0.45	0.39	0.04	-0.20	-0.08	-0.25	-0.32	0.36	-0.37	-0.23	-0.34	0.13	0.55	0.60	0.56					

Given that MGK is exceptionally overbought and VYM extremely oversold, and they have a powerful negative correlation, we have a high degree of confidence that if VYM comes back into favor versus the market, MGK will likely underperform the market.

When Should We Rotate?

With strong candidates for a relative rotation trade, we need to figure out when a rotation may occur.

The following graph charts the price ratio of MGK versus VYM and includes three technical studies. *(Research ? Money Flow ? SV Money Flow Two Symbol Analysis)*



The top graph shows that the price ratio of MGK versus VYM has increased from 1.55 to 2.10 since January.

The first chart below the ratio graph is our proprietary stochastic study. Like the other two stochastic studies below it, a buy signal (buy MGK/sell VYM) triggers when both lines are low, crossing, and turning upward. The red and green bars within the three graphs emphasize the buy/sell indications. Green signals a buy signal, and red a sell signal.

The most reliable signals tend to occur when the three indicators confirm each other and the lines in all three graphs cross at very high or low levels.

In this case, they are at high levels and ready to cross. While a cross and the sell signal is inevitable, it doesn't mean a profitable rotation is at hand. The prior two sell signals resulted in a consolidation of the ratio. If the price trend of the relationship continues, the next sell signal may also result in consolidation, leaving little benefit to rotating positions.

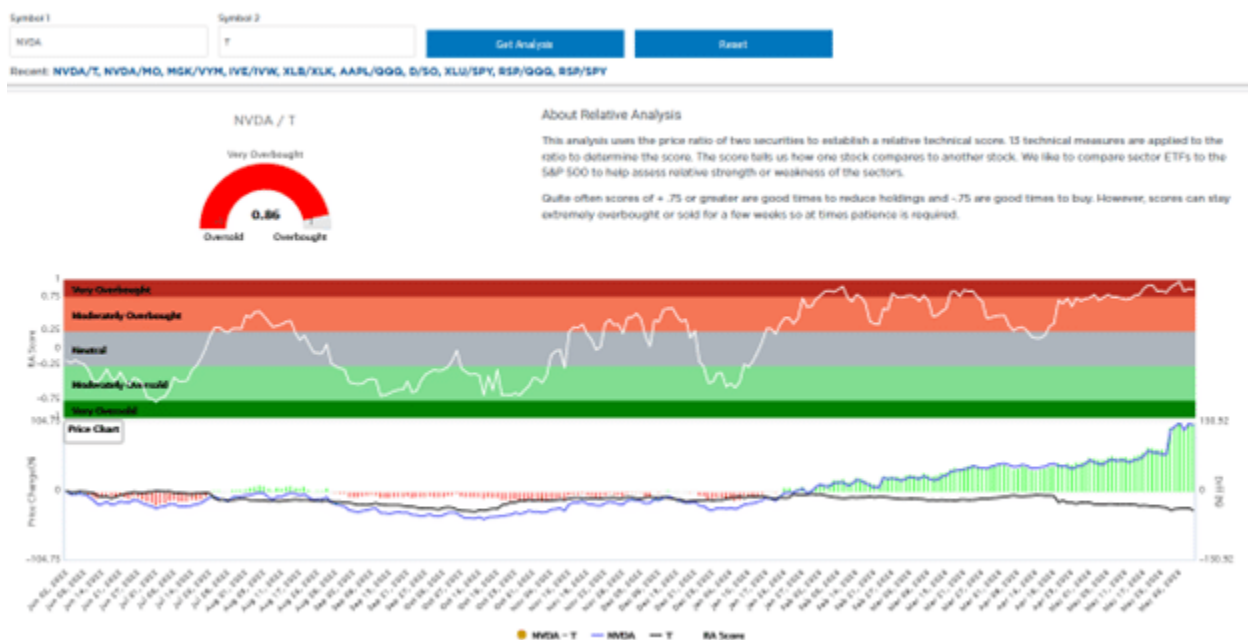
As we discussed above, long-term trends can persist despite extreme relative performance differences.

Pick Your Rotation Pairs

Thus far, we have only shown analysis for sectors and factors. SimpleVisor also allows users to select any two stocks or ETFs and see how they perform relative to each other.

The screenshot below shows that the NVDA is very overbought versus T, and the outperformance has been extreme all year.

(Ideas ? Relative Analysis ? Pair)



The following graph charts the price ratio of NVDA to T. NVDA's relative outperformance is indeed long in the tooth, and its signals have turned bearish or will likely soon. While hard to recommend given recent price action, the analysis favors selling NVDA and buying T.

(Research ? Money Flow)

