TPA Analytics: Buy FDX, Sell XLI. RoboAdvisors Fail The Test

TPA sees an opportunity to buy FDX versus the industrial ETF XLI.&#2013266080; The top 21 holdings of XLI are provided below.&#2013266080; FDX is #21 and has a 1.58% weighting in XLI.&#2013266080; TPA?s target is +25% and the reasoning is explained in the charts below:

Ticker	Security	Weight %
UNP US	Union Pacific Corp	5.55
HON US	Honeywell International Inc	5.12
BA US	Boeing Co/The	5.43
RTX US	Raytheon Technologies Corp	4.79
LMT US	Lockheed Martin Corp	4.53
MMM US	3M Co	4.22
UPS US	United Parcel Service Inc Class	3.41
CAT US	Caterpillar Inc	3.35
GE US	General Electric Co	3.25
CSX US	CSX Corp	2.54
NOC US	Northrop Grumman Corp	2.41
ITW US	Illinois Tool Works Inc	2.32
DE US	Deere & Co	2.34
NSC US	Norfolk Southern Corp	2.2
LHX US	L3Harris Technologies Inc	2.04
WM US	Waste Management Inc	1.95
ROP US	Roper Technologies Inc	1.84
EMR US	Emerson Electric Co	1.86
ETN US	Eaton Corp PLC	1.74
GD US	General Dynamics Corp	1.73
FDX US	FedEx Corp	1.58

Charts below: The chart of the ratio FDX/XLI shows that FDX has been underperforming the sector for 2 years.&#2013266080; FDX is down 45% relative to XLI since the June peak of 2018.&#2013266080; Recently, however, FDX?s pattern of performance versus XLI has changed.&#2013266080; In March, FDX/XLI rose above 2 long term downtrends.

Ratio of FDX/XLI

The zoom chart shows that after breaking out in March, FDX/XLI has come back down and is not hovering just above the breakout areas = support and the newly formed 2-month uptrend line.

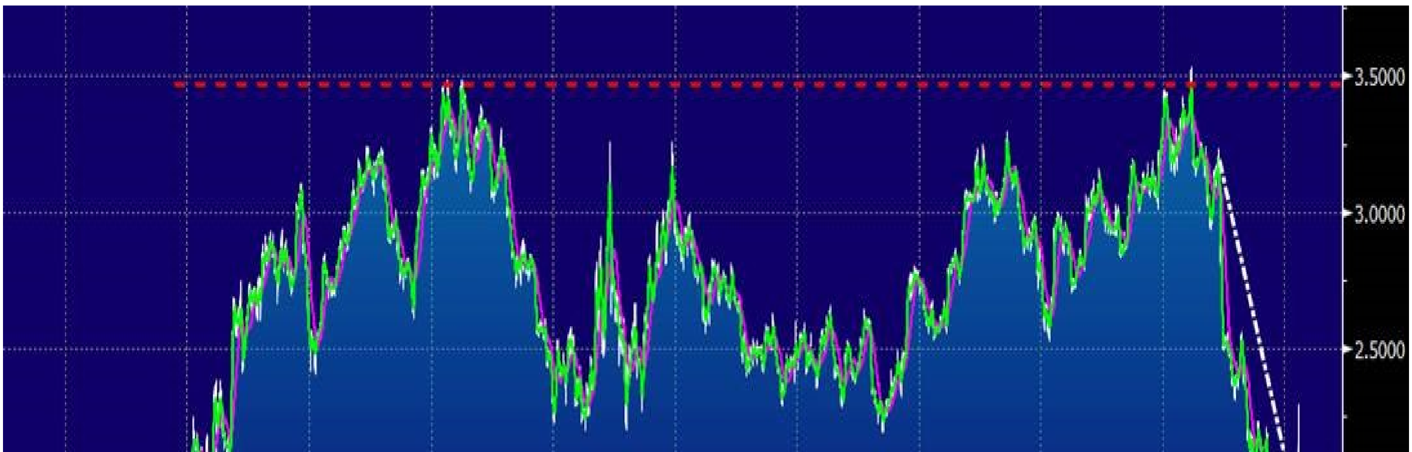
Ratio of FDX/XLI - zoom

1. FDX/XLI is also showing long term positive trend patterns as the 50DMA has moved above&#2013266080; the 200DMA for the first time since June 2018; which also presaged the start of&#2013266080; the long term decline.&#2013266080; Now, it should kick off the rally or a period of FDX outperforming XLI.

Ratio of FDX/XLI ? 50DMA > 200DMA

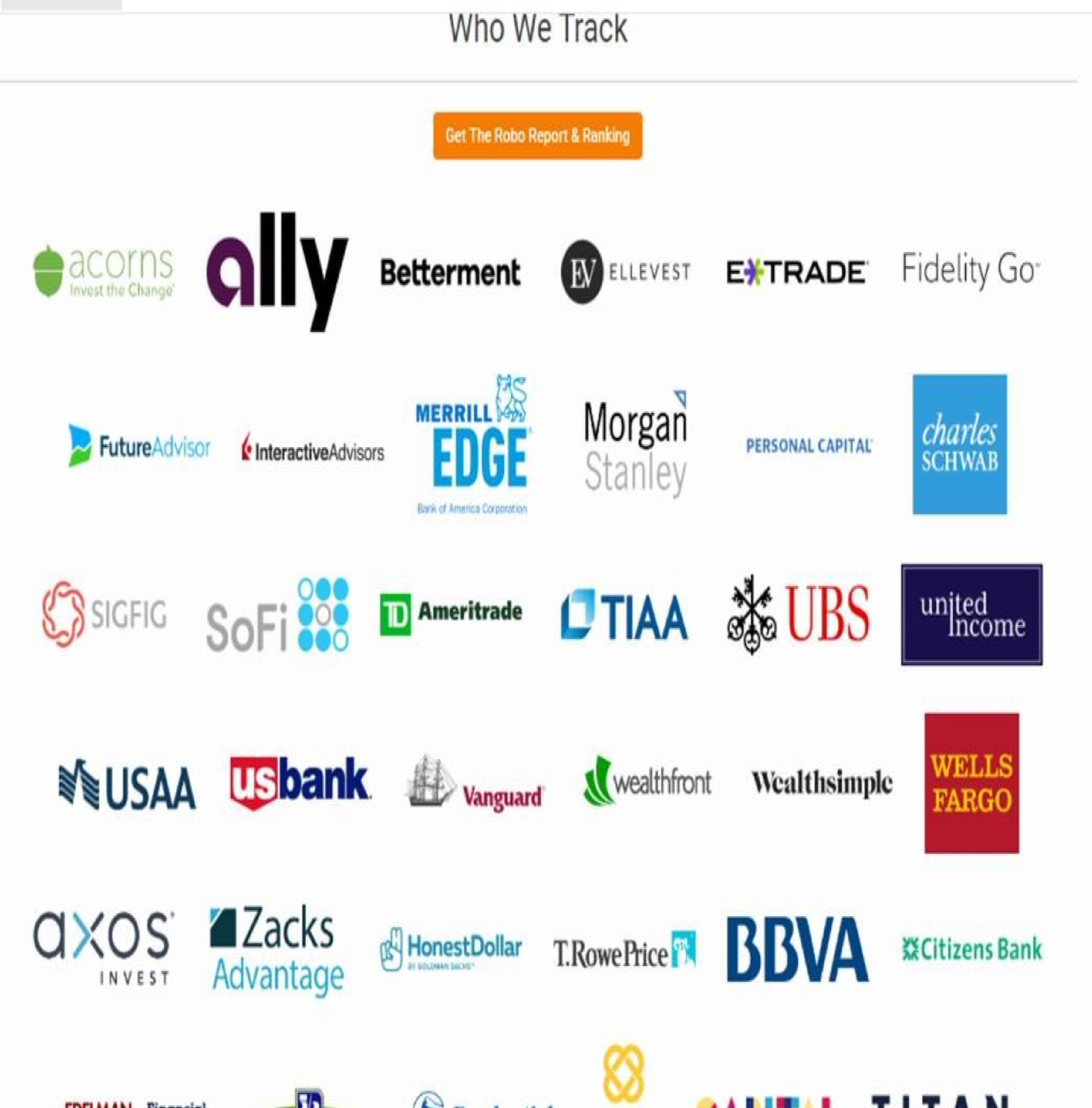
The final chart of the ratio FDX/XLI shows that the March low was an important long-term support from the breakout way back in 2001.&#2013266080; Also, chart 4 shows that FDX/XLI is very close to the low extreme of its 20-year trading range.

Ratio of FDX/XLI ? 1999-2020



ROBO ADVISORS UNDERPERFORM MANAGED ACCOUNTS

A new method of managing wealth came into fashion over the past few years promising lower fees and better performance.&#2013266080; Robo-advisors are on-line platforms that collect information from clients about their financial situation and future goals through an online survey and then uses the data to offer advice and automatically invest client assets.&#2013266080; These platforms promise to provide automated, algorithm-driven financial planning services with little to no human supervision.&#2013266080; The premise of Robo advisors is that the algorithm will provide better results than a traditional advisor and it will be lower cost since the work is done by a computer.&#2013266080; **Unfortunately for Robo advisors and the people that use them, the results do not bear out the claims.** Advisor Perspectives used results from Backen Benchmarking, which regularly tracks the performance of 60 Robo portfolios.&#2013266080; The company tracks the companies in the image below and others?.



The Study

The study shows that ROBO advisors consistently underperform managed accounts. &#2013266080; The lower expenses do NOT make up for the lower performance.&#2013266080; Not only did they underperform in the debacle of March 2020, they also underperform managed accounts in quarter 1 2020, 1, 2, 3, and 4-year trailing periods (see the table below).

	1Q 2020	1-Year Trailing	2-Year Trailing	3-Year Trailing	4-Year Trailing
Number of robos reporting	60	43	26	15	7
Average performance relative to the benchmark (annualized)*	-1.09%	-1.33%	-0.88%	-1.00%	-0.97%
Percentage beating the benchmark*	20.0%	20.9%	26.9%	13.3%	14.3%
Percentage beating the benchmark before 30bp costs**	11.7%	14.0%	7.7%	0.0%	14.3%

Advisor Perspectives also provides the following conclusions:

1. *?It is possible that, over time, a robo may emerge from the 60 studied by BEB that exhibits the skillfulness to outperform a passive benchmarks. But, given the large-scale failures documented in this table, that possibility is unlikely.?*
2. *?Investors would be better served in a randomly chosen active mutual fund than in a robo advisor.?*
3. *??there is no evidence that systematic rebalancing either improves returns or decreases risk. Nor is there evidence that tax-loss harvesting adds nearly as much value as is often claimed.?*
4. *??there is scant evidence that anything has been created that will consistently outperform a 60/40 portfolio.?*

After all the hoopla surrounding what was billed as the ?holy grail? of investing, this is a disappointing outcome for the new industry and a clear win for managed accounts.
