1Q2019 Review: Market Volatility ETF

Bucking the trend of the fourth quarter of 2018, the US stock market has had a solid first quarter in 2019 – the best performance since 1998.

Our quantitative strategy produced multiple entry signals between late October and Christmas Eve. An exit signal occurred near the end of February and the first entry group went to cash. As readers have learned in the past, our quantitative strategy utilizes a binary model that either fully invests each separate account or stays in an all-cash position. The cash position allows us to buy when the market dips. We can also adopt leverage as a choice for less-risk-averse investors.

Our bullish view of the equity market built from the end of the fourth quarter last year and expanded into the first quarter in 2019. We continued adding to our positions during the sell-off and held those positions throughout the volatility of the past four months. Although our model decided to exit one entry group near the end of February, we want to clarify that we were not making a market top call. Each of our exit decisions is carefully calculated through our mathematical optimization process. Rather than calling the top, the model targets the optimal exit point, where we will not miss the next dip to re-enter. This quarter marks the three-year anniversary of the strategy.

Our quantitative model currently remains neutral. We are waiting for the next buy signal to reinvest the cash position, or, exit signal for the remaining 2018 entry groups.