Cumberland Advisors Market Commentary – Human Emotions, Structure of Strategy, and Diversification of Risk

Below is a 20 year comparison of MDY (the S&P 400 midcap index) and SPY (the S&P 500 largecap index). The 20 year relative performance gap is obvious. Please look carefully at those interim periods when MDY violently outperformed SPY and also look at reversals.

20 year comparison of MDY (S&P 400 midcap index) & SPY (S&P 500 largecap index)

The typical investment question is "what happens next?"

One of Cumberland's very long term successful strategy approaches is based on not knowing the answer to this question. That strategy is based on the human inability to predict the future.

The strategy has a basic 40% weight in actively managed investment grade bonds (we use municipal tax free for individuals) and investment grade taxable bonds for ERISA and charitable accounts). The bonds are continuously surveilled for credit worthiness and market trading opportunities. This is NOT a buy bonds and hold forever approach. Active means active.

60% is deployed on a formulaic structure in SPY and MDY. The formula attempts to position the cheaper area as relative prices change.

The entire 100% is under regular review and rebalance occurs when realignment makes sense. This is a low cost and steady return approach. We've been doing it for many years. We have GIPS verification results starting in 2012.

The structure of the strategy reduces the human emotional input and it emphasizes diversification of risk. Please email me if you would like to see information.

Please be safe and careful.

David R. Kotok
Chairman of the Board & Chief Investment Officer
Email | Bio

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