Global ETF Switcher Strategies

Daily Report, 2012-01-13

Global View and Strategies for Friday, Jan. 13 2012

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© Fotis Papailias & Dimitrios Thomakos

www.quantf.com
info@quantf.com

Section 1a: Global ETF Switcher Picks

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ETFs issued before 2007

Picks	Strategy #1	Strategy #2	Strategy #3
GLOBAL (Group 1)	ILF	RF	RF
NORTH & SOUTH AMERICA (Group 2)	XLF	RF	XLF
EUROPE (Group 3)	EWL	RF	RF
ASIA/EURASIA/PACIFIC (Group 4)	EWT	RF	RF
CURRENCIES (Group FX)	FXA	RF	RF
BONDS (B)	RF	RF	RF
COMMODITIES (C)	IAU	IAU	IAU
All Around Picks	IAU	IAU	IAU

ETFs issued after 2007

Picks	Strategy #1	Strategy #2	Strategy #3
GLOBAL (Group 1)	FEFN	SHV	SHV
NORTH & SOUTH AMERICA (Group 2)	VXX	SHV	VXX
EUROPE (Group 3)	EWL	SHV	SHV
ASIA/EURASIA/PACIFIC (Group 4)	EPI	SHV	SHV
CURRENCIES (Group FX)	FXY	SHV	SHV
BONDS (B)	HYG	SHV	SHV
COMMODITIES (C)	DBA	SHV	DBA
All Around Picks	FEFN	SHV	DBA

Notes: "RF" denotes a risk-free asset (given the fact that there are no cash equivalent ETFs (e.g. SHV) with inception date prior to 2007).

Strategy #1 is the most aggressive. Strategies #2 and #3 are about to provide picks for investors with more conservative tastes.

SECTION 1B: GLOBAL ETF SWITCHER STRATEGIES

ETFs issued before 2007

Strategy #1	Equity	Bond	Equity	Bond	Com.
GLOBAL (Group 1)	0.314	0.686	0.197	0.431	0.372
NORTH & SOUTH AMERICA (Group 2)	0.365	0.635	0.236	0.410	0.354
EUROPE (Group 3)	0.313	0.687	0.196	0.432	0.372
ASIA/EURASIA/PACIFIC (Group 4)	0.397	0.603	0.261	0.397	0.342
CURRENCIES (Group FX)	0.402	0.598	0.265	0.395	0.340
Strategy #2	**Equity**	**Bond**	**Equity**	**Bond**	**Com.**
GLOBAL (Group 1)	0.500	0.500	0.349	0.349	0.301
NORTH & SOUTH AMERICA (Group 2)	0.500	0.500	0.349	0.349	0.301
EUROPE (Group 3)	0.500	0.500	0.349	0.349	0.301
ASIA/EURASIA/PACIFIC (Group 4)	0.500	0.500	0.349	0.349	0.301
CURRENCIES (Group FX)	0.500	0.500	0.349	0.349	0.301
Strategy #3	**Equity**	**Bond**	**Equity**	**Bond**	**Com.**
GLOBAL (Group 1)	0.500	0.500	0.349	0.349	0.301
NORTH & SOUTH AMERICA (Group 2)	0.365	0.635	0.236	0.410	0.354
EUROPE (Group 3)	0.500	0.500	0.349	0.349	0.301
ASIA/EURASIA/PACIFIC (Group 4)	0.500	0.500	0.349	0.349	0.301
CURRENCIES (Group FX)	0.500	0.500	0.349	0.349	0.301

Notes: Equity, Bond and Commodity represent the respective pick in each strategy in Table 1. The suggested weights for the construction of these strategies are reported above.

Strategy #1 is the most aggressive. Strategies #2 and #3 are about to provide picks for investors with more conservative tastes.

SECTION 1B: GLOBAL ETF SWITCHER STRATEGIES

ETFs issued after 2007

Strategy #1	Equity	Bond	Equity	Bond	Com.
GLOBAL (Group 1)	0.538	0.462	0.362	0.311	0.326
NORTH & SOUTH AMERICA (Group 2)	0.414	0.586	0.257	0.363	0.380
EUROPE (Group 3)	0.334	0.666	0.197	0.392	0.411
ASIA/EURASIA/PACIFIC (Group 4)	0.512	0.488	0.339	0.323	0.338
CURRENCIES (Group FX)	0.478	0.522	0.309	0.337	0.353
Strategy #2	**Equity**	**Bond**	**Equity**	**Bond**	**Com.**
GLOBAL (Group 1)	0.500	0.500	0.333	0.333	0.333
NORTH & SOUTH AMERICA (Group 2)	0.500	0.500	0.333	0.333	0.333
EUROPE (Group 3)	0.500	0.500	0.333	0.333	0.333
ASIA/EURASIA/PACIFIC (Group 4)	0.500	0.500	0.333	0.333	0.333
CURRENCIES (Group FX)	0.500	0.500	0.333	0.333	0.333
Strategy #3	**Equity**	**Bond**	**Equity**	**Bond**	**Com.**
GLOBAL (Group 1)	0.500	0.500	0.088	0.088	0.824
NORTH & SOUTH AMERICA (Group 2)	0.863	0.137	0.379	0.060	0.561
EUROPE (Group 3)	0.500	0.500	0.088	0.088	0.824
ASIA/EURASIA/PACIFIC (Group 4)	0.500	0.500	0.088	0.088	0.824
CURRENCIES (Group FX)	0.500	0.500	0.088	0.088	0.824

Notes: Equity, Bond and Commodity represent the respective pick in each strategy in Table 1. The suggested weights for the construction of these strategies are reported above.

Strategy #1 is the most aggressive. Strategies #2 and #3 are about to provide picks for investors with more conservative tastes.

SECTION 2: GLOBAL ETF SWITCHER VIEW

Global View

Region	Country	Ticker	Description	Switch
GLOBAL		IEV	S&P Europe 350	OFF
		EFA	MSCI EAFE	OFF
		EPP	MSCI Pacific Ex Japan	OFF
		ILF	Latin America 40	ON
		EEM	MSCI Emerging	OFF
		VGK	European ETF	OFF
		VWO	Emerging Markets ETF	OFF
		BKF	MSCI BRIC	ON
		AIA	S&P Asia 50	OFF
		TOK	MSCI Kokusai	OFF
		ACWI	MSCI All Country World	OFF
		AAXJ	MSCI All Country Asia ex Japan	ON
		ESR	MSCI Emerging Markets Eastern Europe	OFF
		EUFN	MSCI Europe Financials Sector	OFF
		FEFN	MSCI Far East Financials Sector	ON
		EUSA	MSCI USA	OFF
NORTH AMERICA	**USA**	SPY	SPDR S&P 500	OFF
		XLF	Financial Select Sector SPDR	ON
		QQQ	NASDAQ-100	ON
		IWM	Russell 2000	OFF
		VTI	Total Stock Market ETF	OFF
		NYC	NYSE Composite	OFF
		VXX	S&P 500 VIX Short-Term Futures ETN	ON
	CANADA	EWC	MSCI Canada	ON
	MEXICO	EWW	MSCI Mexico	OFF
SOUTH AMERICA		EWZ	MSCI Brazil	ON
		ECH	MSCI Chile	ON
		EPU	MSCI All Peru Capped	ON

SECTION 2: GLOBAL ETF SWITCHER VIEW

Global View (cont'd)

Region	Country	Ticker	Description	Switch
EUROPE		EWD	MSCI Sweden	ON
		EWG	MSCI Germany	OFF
		EWI	MSCI Italy	OFF
		EWK	MSCI Belgium	OFF
		EWL	MSCI Switzerland	ON
		EWN	MSCI Netherlands	OFF
		EWO	MSCI Austria	OFF
		EWP	MSCI Spain	OFF
		EWQ	MSCI France	OFF
		EWU	MSCI United Kingdom	OFF
		EPOL	MSCI Poland Investable Market	OFF
ASIA	**JAPAN**	EWJ	MSCI Japan	OFF
	CHINA	FXI	FTSE China 25	OFF
		FCHI	FTSE China (HK Listed)	ON
		ECNS	MSCI China Small Cap	OFF
	INDIA	EPI	India Earnings Fund	ON
		INDY	S&P India Nifty Fifty	ON
	REST	EWH	MSCI Hong Kong	ON
		EWM	MSCI Malaysia	OFF
		EWS	MSCI Singapore	ON
		EWY	MSCI South Korea	OFF
		EWT	MSCI Taiwan	ON
		EIS	MSCI Israel Capped Investable Market	ON
		THD	MSCI Thailand	OFF
		EIDO	MSCI Indonesia Investable Market	OFF
		EPHE	MSCI Philippines Investable Market	ON
AUSTRALIA		EWA	MSCI Australia	OFF
ZEALANDIA		ENZL	MSCI New Zealand Investable Market	ON
AFRICA		EZA	MSCI South Africa	OFF
EURASIA		RSX	Market Vectors TR Russia ETF	OFF
		TUR	MSCI Turkey Investable Market	OFF
		ERUS	MSCI Russia Capped	OFF

SECTION 2: GLOBAL ETF SWITCHER VIEW

Global View (cont'd)

FX, B & C	Country	Ticker	Description	Switch
CURRENCIES		FXE	CurrencyShares Euro Currency Trust	OFF
		FXA	CurrencyShares Australian Dollar Trust	ON
		FXC	CurrencyShares Canadian Dollar Trust	ON
		FXF	CurrencyShares Swiss Franc Trust	OFF
		FXS	CurrencyShares Swedish Krona Trust	OFF
		FXB	CurrencyShares British Pound Trust	OFF
		FXY	CurrencyShares Japanese Yen Trust	ON
		UUP	DB USD Index Bullish	OFF
BONDS		SHY	Barclays 1-3 Year Treasury Bond Fund	OFF
		TLT	Barclays 20 Year Treasury Bond Fund	OFF
		BND	Total Bond Market ETF	OFF
		HYG	iBoxx $ HY Corp Bond Fund	ON
		BIL	SPDR Barclays 1-3 Month T-Bill ETF	OFF
		JNK	SPDR Barclays Cap. Hi Yield Bond ETF	ON
		TBT	UltraShort Barclays 20+ Year Treasury	OFF
COMMODITIES		GLD	SPDR Gold Trust	ON
		IAU	COMEX Gold Trust	ON
		DBC	DB Commodity Index Tracking Fund	ON
		SLV	Silver Trust	OFF
		USO	United States Oil Fund	ON
		DBA	DB Agriculture Fund	ON
		UNG	United States Natural Gas Fund LP	ON
		DZZ	DB Gold Double Short ETN	ON
		DGP	DB Gold Double Long ETN	ON
		UCO	Ultra DJ-UBS Crude Oil	ON
		SCO	UltraShort DJ-UBS Crude Oil	ON
		AGQ	Ultra Silver	OFF
		GLL	UltraShort Gold	ON
		ZSL	UltraShort Silver	ON

GLOBAL ETF SWITCHER STRATEGIES

What is this all about?

The "Global ETF Switcher Strategies" or "ETF Switcher" for short is the new product of www.quantf.com website. It consists of a series of daily reports with monthly performance summaries and occasional commentary – all based on the rotating selection of various ETF picks from a large group of almost 100 such instruments. The idea and intuition for this kind of strategy belong to the market timing/rotation investment approach. We will offer two kinds of investment information, a global view (where we will assign an "on" or "off" switch to all ETFs in our selected universe) and a group-based pick of what, our methodology tell us, are the most suitable ETFs to invest in for the coming day.

Methodology

Market timing and rotation strategies have always been popular approaches for systematic trading and there are many different methods for implementing such strategies. Here we follow a coherent methodology that differs from what we have already seen in the academic literature and in various places that discuss market timing approaches. The gist of the method is to rank our universe of ETFs based on a particular characteristic of their returns and from this ranking to produce "on"/"off" signals (for being in or out of the market) and to offer trading recommendations on ETF groups that are defined from all ETFs that we consider.

"Our universe" consists of about 100 ETFs that are selected based on the geographical location they represent and their average volume. We tried to cover all major geographies and markets and to account for ETFs on equities, bonds and cash equivalents, currencies and commodities. In this way we can take advantage of different types of risk and to allow for more flexible selection across the whole universe and the different groups we define.

On the geographical coverage of our approach we have ETFs that are labeled "global" and represent larger areas and/or sectors not tied to a specific country or market; we then have ETFs for the north and south American markets that include the U.S. and Canada, Mexico, Brazil, Chile and Peru; we then have ETFs for Europe but (mainly for data availability) for developed economies: Austria, Belgium, France, Germany, Italy, Netherlands, Spain, Sweden, Switzerland, United Kingdom and from Eastern Europe Poland. Moving on to Asia and the South Pacific we have ETFs that cover China, Hong Kong, India, Indonesia, Israel, Japan, Philippines, South Korea, Taiwan, Thailand and then Australia and New Zealand. Finally, we consider two ETFs on Russia and one on Turkey.

As noted before, the ETFs that belong to this geographical categorization are mostly equity-based ones or sectorial ones (such as financials). We have three more categories /groupings that we consider. We have a group of currency ETFs for the euro, the Australian dollar, the British pound, the Canadian dollar, the Japanese yen, the Swedish krona and the Swiss franc, as well as an ETF on a U.S. dollar index. We then have a group of bond and cash equivalent ETFs and finally we have a group of ETFs on commodities that include ETFs on gold, silver, oil and gas and one ETF on agriculture.

The above ETFs are split in two categories according to their inception date: all ETFs issued before 2007 and all ETFs issued after 2007 (including the first category as well). A more clear picture is given in the appendix at the end of this document.

What does this report provides?

The two sections at the beginning offer two different pieces of "advise". In the first section we provide explicit investment recommendations, by combining the "global view" (from the second section) with ETF rankings.

In Section 1A the "best" ETF is picked in three different strategies using the ETFs issued before and after 2007. For each strategy the "All around" pick is given for those that need to track only one instrument.

Strategy #1 is the most aggressive. Strategies #2 and #3 are about to provide picks for investors with more conservative tastes.

In each of these groups the following procedure is followed and reported:

1. A selection from the group of bond and cash equivalent ETFs is made.

2. A selection from the group of commodity ETFs is made.
3. A selection from the group of equity ETFs is made.

In Section 1B we report the weights for each strategy when the bond and commodity are combined with the equity ETF.

In Section 2 we provide the switching signals for our universe of assets. All ETFs are given a market or risk signal, either "on" or "off": when the signal is "on" it means that investing in this ETF for the next day is a plausible option; when the signal is "off" it means that a recommendation to exit the market is issued. It is important to stress out that this "global view" is not geared towards actual investment in the ETFs but rather it intends to show the "global" conditions as they are quantified with our methodology. So, one could use this information to create a variety of strategies: for example, a possibility would be to invest in the geographical region or group when all signals are "on". In this way the "global view" becomes a hybrid of both economic and investment information and allows the end user to tailor the signals to her own investment needs. Furthermore, one can track over time how the signals move around the world or across different asset classes.

Switcher: noun (/ˈswiCHər/), is a small railroad locomotive intended not for moving trains over long distances but rather for assembling trains ready for a road locomotive to take over, disassembling a train that has been brought in, and generally moving railroad car around – a process usually known as switching (source: Wikipedia).

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APPENDIX: ETF GROUPS SPLIT

All Groups

Region	Country	Ticker	Inception	Before 2007	After 2007
GLOBAL		IEV	2000-07-25	Group 1	Group 1
		EFA	2001-08-14	Group 1	Group 1
		EPP	2001-10-25	Group 1	Group 1
		ILF	2001-10-25	Group 1	Group 1
		EEM	2003-04-07	Group 1	Group 1
		VGK	2005-03-04	Group 1	Group 1
		VWO	2005-03-04	Group 1	Group 1
		BKF	2007-11-12		Group 1
		AIA	2007-11-13		Group 1
		TOK	2007-12-10		Group 1
		ACWI	2008-03-26		Group 1
		AAXJ	2008-08-13		Group 1
		ESR	2009-09-30		Group 1
		EUFN	2010-01-20		Group 1
		FEFN	2010-01-20		Group 1
		EUSA	2010-05-05		Group 1
NORTH AMERICA	**USA**	SPY	1993-01-22	Group 2	Group 2
		XLF	1998-12-16	Group 2	Group 2
		QQQ	1999-03-10	Group 2	Group 2
		IWM	2000-05-22	Group 2	Group 2
		VTI	2001-05-24	Group 2	Group 2
		NYC	2004-03-30	Group 2	Group 2
		VXX	2009-01-29		Group 2
	CANADA	EWC	1996-03-12	Group 2	Group 2
	MEXICO	EWW	1996-03-12	Group 2	Group 2
SOUTH AMERICA		EWZ	2000-07-10	Group 2	Group 2
		ECH	2007-11-12		Group 2
		EPU	2009-06-19		Group 2

APPENDIX: ETF GROUPS SPLIT

All Groups (cont'd)

Region	Country	Ticker	Inception	Before 2007	After 2007
EUROPE		EWD	1996-03-12	Group 3	Group 3
		EWG	1996-03-12	Group 3	Group 3
		EWI	1996-03-12	Group 3	Group 3
		EWK	1996-03-12	Group 3	Group 3
		EWL	1996-03-12	Group 3	Group 3
		EWN	1996-03-12	Group 3	Group 3
		EWO	1996-03-12	Group 3	Group 3
		EWP	1996-03-12	Group 3	Group 3
		EWQ	1996-03-12	Group 3	Group 3
		EWU	1996-03-12	Group 3	Group 3
		EPOL	2010-05-25		Group 3
ASIA	**JAPAN**	EWJ	1996-03-12	Group 4	Group 4
	CHINA	FXI	2004-10-05	Group 4	Group 4
		FCHI	2008-06-24		Group 4
		ECNS	2010-09-28		Group 4
	INDIA	EPI	2008-02-22		Group 4
		INDY	2009-11-18		Group 4
	REST	EWH	1996-03-12	Group 4	Group 4
		EWM	1996-03-12	Group 4	Group 4
		EWS	1996-03-12	Group 4	Group 4
		EWY	2000-05-09	Group 4	Group 4
		EWT	2000-06-20	Group 4	Group 4
		EIS	2008-03-26		Group 4
		THD	2008-03-26		Group 4
		EIDO	2010-05-05		Group 4
		EPHE	2010-09-28		Group 4
AUSTRALIA		EWA	1996-03-12	Group 4	Group 4
ZEALANDIA		ENZL	2010-09-01		Group 4
AFRICA		EZA	2003-02-03	Group 4	Group 4
EURASIA		RSX	2007-04-24		Group 4
		TUR	2008-03-26		Group 4
		ERUS	2010-11-10		Group 4

APPENDIX: ETF GROUPS SPLIT

All Groups (cont'd)

FX, B & C	Country	Ticker	Inception	Before 2007	After 2007
CURRENCIES		FXE	2005-12-09	Group FX	Group FX
		FXA	2006-06-21	Group FX	Group FX
		FXC	2006-06-21	Group FX	Group FX
		FXF	2006-06-21	Group FX	Group FX
		FXS	2006-06-21	Group FX	Group FX
		FXB	2006-06-21	Group FX	Group FX
		FXY	2007-02-12		Group FX
		UUP	2007-02-20		Group FX
BONDS		SHY	2002-07-22	B	B
		TLT	2002-07-22	B	B
		BND	2007-04-03		B
		HYG	2007-04-04		B
		BIL	2007-05-25		B
		JNK	2007-11-28		B
		TBT	2008-04-29		B
COMMODITIES		GLD	2004-11-18	C	C
		IAU	2005-01-21	C	C
		DBC	2006-02-03		C
		SLV	2006-04-02		C
		USO	2006-04-10		C
		DBA	2007-01-05		C
		UNG	2007-04-18		C
		DZZ	2008-02-27		C
		DGP	2008-02-27		C
		UCO	2008-11-24		C
		SCO	2008-11-24		C
		AGQ	2008-12-01		C
		GLL	2008-12-01		C
		ZSL	2008-12-01		C