# THE STRATEGY REPORT

## The Secrets To 90 Day Profits

CYCLE 9 ALERT

## The *Cycle 9 Alert* Mission Statement

Consistently generate market-beating returns, with less risk, by strategically identifying stock market sectors, individual stocks, and/or alternative ETFs that are poised to outperform over the upcoming two- to three-month market cycle.

# The Secrets to 90-Day Profits with *Cycle 9 Alert*

It's time to stop caring about all the volatility of the stock market… all the irrational decisions and emotional over-reactions flying around like a swarm of blood-thirsty black crows reminiscent of Alfred Hitchcock's *The Birds*… all the knowns and unknowns, fantasy and fiction of company earnings… depressing world news and just downright horrible global economics…

Because none of it matters.

As of this moment, you're no longer a traditional investor.

You're no longer a slave to sentiment, Wall Street or Main Street.

You don't need to pay attention to any of the noise.

*You're now a trader.*

*You're* in control.

And you'll enjoy market-beating returns year after year after year, *without* the need to review a single earnings report, or pay any attention to what the Fed (or any central bank, for that matter) is doing, or look at a single news release to try to justify a trade.

All you have to do is understand and trust the system that I've been using for five years (and back–tested for 15)!

Trust isn't something you should give away freely, though. It's enhanced with understanding. So let's look at how my system works, *why* it works, and the results it's achieved…

## Tracking the Cycles

My *Cycle 9 Alert* strategy involves a lot of math and a ton of technical analysis. I won't go into those details. Instead, let's look at where I start: with sector rotation (based on Martin Pring's business cycle).

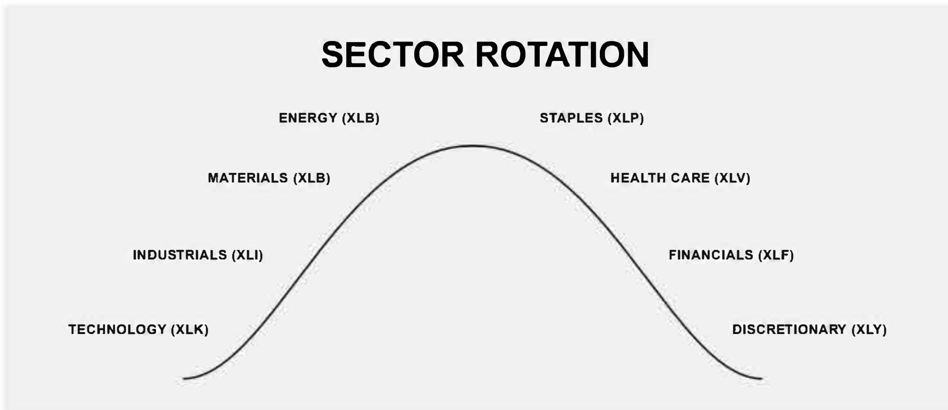
There are nine key sectors:

1. Consumer Discretionary (XLY);
2. Consumer Staples (XLP);
3. Utilities (XLU);
4. Healthcare (XLV);
5. Energy (XLE);
6. Materials (XLB);
7. Industrials (XLI);
8. Financials (XLF); and
9. Technology (XLK).

These sectors are in constant motion, rotating in and out of favor. Knowing which are powering up or powering down at any given time tells me where to focus my attention.

A slew of investment tenets and theories are based on this cyclical nature of the markets — even those that don't include the word "cycle" in their name. The popular investing idiom "Sell in May and Go Away," is based on the idea of seasonal cycles in the calendar year.

Pring's business cycle looks like this:




This graphic shows one complete market cycle, which is formed by a trough (or valley) on the left, a peak in the middle, and another trough on the right.

Sector rotation tells us that some sectors perform best heading into market peaks, while other sectors perform best heading into market troughs.

Typically, after the stock market peaks, the consumer staples, healthcare and utilities sectors outperform the market. Once the market has bottomed, typically it's the technology, financials and consumer discretionary sectors that lead the recovery. And in a strong bull market, the industrials, materials and energy sectors are usually the strongest performers.

Sector rotation works over a full business cycle, which typically lasts many years. Seasonality, meanwhile, is a form of sector rotation that happens on an annual basis. Basically, each sector has a particular "season" of the year when it typically outperforms… and when it underperforms. I cover this topic in greater detail in *The Profitable Impact of Seasonal Clusters*. The point is, market sectors are always rotating in and out of favor throughout the calendar year.

Also important to know is that these sectors rotate in and out of favor over short timeframes... typically three-month periods. This is key to the *Cycle 9 Alert* algorithm (and its success). Analyzing these shorter cycles allows us to be nimble. We can hop on a hot energy sector play for a couple of months in the winter, and be out by May. Then, we can invest in the consumer discretionary sector heading into the holiday shopping season, and be out by February.

Basically, my analysis of these sector rotations helps us do two things:

**#1: It tells us when and where to get in.**
**#2: It tells us when to get out.**

And based on extensive research and back-testing, two to three months is the sweet-spot here, so that's typically how long we hold plays in the *Cycle 9 Alert* model portfolio.

For a clear, at-a-glance visual of where sectors currently stand in the rotation cycle, I created the *Leaders & Laggards Board*. With this, we can quickly see which sectors are gaining strength and which are falling behind.

Here's an example, but note that this is NOT current. It's simply for illustration purposes.

| LEADERS | |
|---|---|
| #1 | Industrials (XLI) |
| #2 | Utilities (XLU) |
| #3 | Consumer Staples (XLP) |
| #4 | Healthcare (XLV) |
| #5 | Financials (XLF) |
| LAGGARDS | |
| #6 | Consumer Discretionary (XLY) |
| #7 | Materials (XLB) |
| #8 | Energy (XLE) |
| #9 | Technology (XLK) |

I calculate the leaders and laggards each week by ranking the nine sectors on a scale from -3.0 to 3.0. Positive scores mean the sector is outperforming the market. Negative scores show that the sector is underperforming the market.

We want the magic number of +1.5. When an investment's score hits 1.5 or higher, I know there's a kinetic cycle developing and a 90-day window of profit opportunity has opened. There's no guesswork or emotion involved… it's completely formulaic.

We focus on outperforming, above-average sectors and stocks, making sure we stay invested only in the hottest spots in the market.

And while a market crash or a bear market does make the investing environment just that little bit tougher, such periods don't have any significant impact on my *Cycle 9 Alert* system.

That's because, whether we're experiencing an overarching bull or bear market, there's *always* a bull running somewhere within the sectors. One quarter it might be the energy sector, the next quarter it might be consumer discretionary. What we're interested in is their outperformance or underperformance relative to each other.

And when stocks aren't doing so well, my system identifies ETFs outside the stock market that we can play: bond ETFs… commodity ETFs… currency ETFs… etc.

Besides, we never marry any one sector, so we can jump from one opportunity to the next. We get in as a sector starts to heat up and outperforms the broad market… we get out in two to three months, when the run is over. Then, we move on to the next hot sector.

Knowing how sectors are rotating is only one step in the process. It tells us which pond to fish in. Next, we need to get more technical.

# Turning Cycles into Cash

To really see results, there is one indicator you need that consistently predicts future stock gains.

PRICE ACTION.

You see, I don't care about whether a stock is a value stock or a growth stock.

I don't care whether a stock is raising or lowering earnings estimates, improving profit margins or hiring a new CEO.

And I don't care who's in charge in the White House or whether Republicans or Democrats control Congress.

When it comes to finding stock market winners, I only care about two things…

1. Where has the stock price been?
2. Where is it going?

That's price action in a nutshell.

You don't need Bollinger Bands, moving averages, X-like crossovers or any other obscure chart signals. Besides, none of these technical signals alone accurately predict future stock prices.

That's why I've developed a system that boils all of this information down into two key metrics: trend and momentum.

I want to know how strong a stock is relative to others in the market. I also want to know the collective strength of several different metrics I use to evaluate thousands of stocks every day.

By using multiple signals in my evaluation, I'm able to filter out many of the mistakes other trading algorithms make.

But that isn't enough on its own. Once I find stocks within a clear trend, I look at their momentum and how strong the price action of the stock is. I want to know where it's been and where it's likely going.

These metrics work hand in hand. *That* is where their power lies…

Momentum trading has often been called the premier market anomaly because it refuses to conform with the notion of an efficient market. You see, in a hypothetical efficient market, stocks are always priced in agreement with all available information at any given time – everything happens reasonably and rationally.

There is NO efficient market. The theory is a bust!

Momentum and trend trading successfully capitalizes on other investors' emotions.

Countless studies have shown that momentum strategies work in the U.S. stock market and in emerging markets, on large-caps stocks and small-caps stocks, and consistently across all asset classes.

But there's one cautionary note for momentum investors: the signal being used to evaluate momentum can quickly come crashing down, turning a profit into a loss. I know this for a fact because I've back-tested my system extensively using 15 years of data. And I found a significant difference between owning a stock or ETF with the right trend and momentum (i.e. ripe for picking) and owning it any other time.

- Individual stocks gained an average of **70% per year while in that green zone** versus 11.7% per year without the green light to buy.

- Equity ETFs gained an average of **15.5% per year** versus only 3.2% per year when not in the right zone.

- Alternative ETFs (bonds, commodities, etc.) gained an average of **18% per year when in the green zone** versus a measly 0.7% per year outside of that zone.

Combine all these asset types and my *Cycle 9 Alert* algorithm produced an average of 46% per year versus only 6.7% per year without it. That's why momentum strategy forms the basis for my trading research service.

## What About the Fish?

This is where my love for number-crunching, technical analysis and all things mathematical come into play: deciding what fish we want to snatch from our chosen pond.

We have two options. Either we can trade a sector ETF, based on its positioning on the *Leaders & Laggards Board*, momentum, trend and all the other elements that make up my algorithm. Or we can trade a particular stock.

Sometimes, the sector ETF is our best option. These give us a great deal of diversification across a number of individual stocks in the sector. In general, sector ETFs don't give us quite as much bang for our buck, but they're generally less volatile and trade more consistently than individual stocks.

Other times, I'll identify a specific stock that's poised to beat the market *and* outperform other stocks in the same sector. Individual stocks are sometimes knocked off course by company-specific news, but they can also generate stronger returns when things go as planned.

Ultimately, *Cycle 9 Alert* is designed to identify the very best opportunities at any given moment. Sometimes the best opportunities are in ETFs… other times in individual stocks. And so we stay flexible and open-minded to playing both.

## Now for Our Hook – Options

Options trading is not nearly as risky as most investors think. I've recorded an Options Trading Tutorial for you, which you can find in your *Cycle 9 Alert* archives at www.dentresearch.com. Take the time to listen to that.

Options trading also allows us to maximize the gains we get when we make a play. That's because, when a stock moves by a few cents, an option contract's value can change by a few *dollars.*

It doesn't take a large bankroll to trade options, either. Most contracts are priced between $100 and $1,000. That means you can put a smaller amount of capital to work and still position yourself for double- and triple-digit gains.

What's more, buying an option contract gives you FULL CONTROL of risk management. You can

NEVER lose more than what you pay to buy an option contract.

There *are* options strategies that are complex and risky – some even expose your account to unlimited risk. But that's NOT how *Cycle 9 Alert* uses options. So throw away whatever misconceptions you have about options… and you'll quickly see their many advantages.

## About Position Sizing

I'm often asked: "How much should I invest in each position?"

Unfortunately, there isn't one definitive answer to that question. It's personal. Only ***you*** can decide.

But investing roughly equal dollar amounts in each position should make for a smoother ride. So consider picking one number… YOUR number… and invest that amount on each recommendation.

To get to YOUR number, go to this position sizing calculator that I created for you: http://www.dentresearch.com/cycle-9-alert/c9-worksheet/. Then follow these steps:

**Step #1:** Determine the total value of your investment account and plug that number into the worksheet. This isn't your total net worth. It's the total amount of capital you want to play with.

**Step #2:** Next, consider the percentage of that total value you're comfortable risking on any one trade, and plug that number in, too. Remember, it's purely up to you to decide what you feel comfortable with.

**Step #3:** Finally, plug in a third number – the approximate price of the contract you're looking to buy (e.g. $2.20) – which I include for you in each *Cycle 9 Alert* recommendation.

The result is the number of contracts you should consider buying if you aim to maintain roughly equal investments in each recommendation.

Again, this worksheet does NOT tell you how much to invest, either in total or in each position. Instead, it's an educational tool designed to help you determine roughly equal position sizes.

To illustrate, here are some examples of how position sizing can impact returns.

The lazy man's approach to position sizing often involves him buying an arbitrary number of contracts each time he acts on a recommendation. Often he buys a round number of contracts. For this example, we'll make that number 10.

While that approach is simple and easy, it leaves him open to widely varying levels of risk. And, it can increase the volatility in his account balance. Buying an arbitrary number of contracts for each position can lead to volatile results.

Let's consider just two positions…

Call option "A" costs $2.20 per contract and call option "B" costs $5.10 per contract.

If you arbitrarily bought 10 contracts of each, you would have invested $2,200 in "A" and $5,100 in "B."

Now, let's consider two possible scenarios…

- Gaining 20% on "A" and losing 20% on "B"
- Losing 20% on "A" and gaining 20% on "B"

In Scenario #1, a 20% gain on your $2,200 investment in "A" gives you a profit of $440. Meanwhile, the 20% loss on your $5,100 investment in "B" gives you a loss of $1,020. On a net basis, you've lost $580.

In Scenario #2, your outcome is reversed. A 20% loss on your $2,200 investment in "A" gives you a $440 loss, while the 20% gain on your $5,100 investment in "B" gives you a gain of $1,020. On a net basis, you've gained $580.

So, if you arbitrarily bought 10 contracts of "A" and "B," you ignored the fact that the size of your investment in each is meaningfully different. And while you'd be very happy if you were lucky enough to encounter Scenario #2, you'd be very frustrated if you encountered Scenario #1.

The key point is this: the variability of your results – the difference between Scenario #1 and #2 – is purely because you didn't invest roughly equal amounts of capital into each position. After all, both scenarios involved making a 20% gain and suffering a 20% loss.

But you don't have to leave this variable to chance. You have control over how much capital you invest in each position. Here's how the scenario above looks if you invest roughly equal amounts of capital in each position:

Just as before, we'll assume the following outcomes:

- Gaining 20% on "A" and losing 20% on "B"
- Losing 20% on "A" and gaining 20% on "B"

But, instead of arbitrarily buying 10 contracts of each, we'll aim to invest about the same dollar amount in each. To do this, let's say the total value of your investment account is $100,000. That's how much you have to play with. And let's say you're willing to risk $2,000 (or 2% of our account) on any one position.

A little math shows you how many contracts of "A" and how many contracts of "B" you can buy, while keeping your investment in each at roughly $2,000.

Contract "A": 9 contracts (at $2.20 each) would cost you $1,980 in total… just under your $2,000 target.

Contract "B": 4 contracts (at $5.10 each) would cost you $2,040 in total… just over your $2,000 target.

Positioning this way would have resulted in the following outcome…

Scenario #1: $396 gain on "A" and a $408 loss on "B," resulting in a net loss of $12.

Scenario #2: $396 loss on "A" and a $408 gain on "B," resulting in a net gain of $12.

As you see, the net result isn't very different when comparing Scenarios #1 and #2. The spread between a $12 gain and a $12 loss is just $24.

Compare this to the spread when you simply bought 10 contracts of each. There, you made a $580 gain and a $580 loss, giving you a spread of $1,160. That's a huge difference!

The point is: don't try to guess which position will result in a winner and which will be a loser. And don't invest large sums of money in some positions, while investing small sums in others.

Instead, use a Position Sizing Worksheet like this one to help you calculate how many contracts you should buy if you aim to invest roughly equal amounts of capital in each position.

# What to Expect from your *Cycle 9 Alert* Subscription

My goal – the reason I get up at the crack of dawn every morning – is to keep you informed on which sectors and stocks are hot and which are not, and to give you easy-to-execute trade recommendations that help you beat the market's average return.

I achieve both by writing to you on a weekly basis (at the very least). You'll get an email from me every Tuesday.

I'll tell you which sectors are outperforming the market, and which are underperforming. I'll show you the latest *Leaders & Laggards Board* so you can see which sectors are gaining strength and which are falling behind. And I'll explain what's driving a sector's strength or weakness. My goal is to share my insights with you in a way that's easy to digest.

During the Tuesday email, I'll also update you on how any of our live trades are performing and what action you should take.

Like I said earlier, we typically hold our trades for about two to three months, so often times I'll tell you to just sit tight. Please do yourself a favor and listen to me. My system is designed to remove emotion from the equation. Jumping ship before I give the go signal could result in you losing money when the trade could have been a winner.

You're paying me to help you beat the market, to make real returns. Let me do my job! I'm good at it, and my system has proved itself over and over again.

If there are any new trades to put on, I will typically give you the details in your Tuesday email. I will give you all the information you need (except details of your position sizing, use the Worksheet for that) to place the trade. All you need to do is either call your broker and relay the instructions, or place the trade online.

These instructions will look something like this:

> Today, I'm recommending you place a bet against **Petrobras**, officially **Petroleo Brasilerio S.A. (NYSE: PBR).**
>
> **Action to take: Buy to open October 21, 2016, $7-strike put options on Petroleo Brasileiro S.A. at the market.**
>
> The current ask price (where you can buy at the market) is sitting at $1.08. I recommend buying up to $1.25.

When I issue a trade alert to exit a position, it will look very similar…

> I have two trades to recommend today.
>
> First, it time to take partials profits on **Lowe's (NYSE:LOW).** This home-improvement retailer's stock is up 10% in the last two months and hitting fresh all-time highs as I write.
>
> There's nothing stopping shares from moving higher, but we've been in this play for two months now and have accrued a handsome profit of around 80%. So it's time to take some money off the table.
>
> **Action to take: Sell to close half of your October 21,2016, $75-strike call options on Lowe's Co. (NYSE:LOW) at the market.**
>
> The current bid price (where you can sell at the market) is sitting at $8.85. You may be able to get a limit order filled at a price between the bid/ask spread, currently $8.85 by $9.10. Otherwise, you're welcome to exit with a market order.
>
> I recommend holding on to the second half of this position for the opportunity to capture bigger gains ahead.

| LEADERS | |
|---|---|
| #1 | Health Care (XLV) |
| #2 | Consumer Staples (XLP) |
| #3 | Financials (XLF) |
| #4 | Utilities (XLU) |
| #5 | Energy (XLE) |
| LAGGARDS | |
| #6 | Consumer Discretionary (XLY) |
| #7 | Industrials (XLI) |
| #8 | Materials (XLB) |
| #9 | Technology (XLK) |

It's important you read my instructions carefully. Sometimes I'll have you close out only half a position to bank some profits while we hold the other half for further gains.

My communication with you won't be limited to a Tuesday email only. Be on the constant lookout. I could send you a trade alert on any day of the week (except Saturdays or Sundays, or when the markets are closed). These could be to alert you to a new trade, or to give you instructions to exit a play you're already in.

Typically, the subject line in these emails will indicate it's a trade alert, but in case one doesn't, be sure to open any and all emails I send you!

Make sure to white list info@dentresearch.com. This will help stop any messages ending up in your spam folder. It's not a guarantee though, so from time to time check your spam folder to make sure you haven't missed anything.

You can also sign up to receive text alerts when I send out a trade alert. Simply complete this online form to opt in.

I played baseball for many years growing up. One thing I learned is that great hitters are a lot like stock traders. Some players are just power hitters – swinging and missing a lot, occasionally launching a moonshot. Other players hit for average – racking up a consistent string of singles and doubles.

But some hitters do it all. They hit for average. They hit for power. They put on a show every night. They're destined for the Hall of Fame.

And there's one thing that sets them apart: the ability to hit the curve ball. Baseball players who don't learn to hit the curve ball are quickly exposed and rarely make it to the big leagues.

Stock traders are exactly the same. If you can't adapt to the curves the stock market will throw at you, you'll struggle to stay afloat. As John Maynard Keynes said so well:

*"Markets can remain irrational longer than you can remain solvent."*

That's why I created a trading system that removed all of the irrational behavior of investors and the markets… a system that makes it unnecessary to try to out-think the market… a system that is so easy, all you need is a simple signal telling you when to buy.

Now that you know some of the mechanics of my *Cycle 9 Alert* system, know what and how I'll be working with you, and know what to expect… that's exactly what you have.

# BROKERS

It's likely you already have a brokerage account, possibly even one that you already use to trade stock options. But if you don't have your account established yet, here's a list of brokers you can look into.

If you already have a broker, call to confirm that you're set up to trade options. You might need to fill out a one- or two-page form indicating what options strategies you'd like to trade. For this, select "buying calls and buying puts." That's what I'll be recommending.

We've already confirmed that these brokers allow options trading on stocks and ETFs from a common brokerage account.

- TD Ameritrade www.tdameritrade.com 1-800-454-9272
- Interactive Brokers www.interactivebrokers.com 1-877-442-2757
- Charles Schwab www.schwab.com 1-800-435-4000
- Fidelity www.fidelity.com 1-800-343-3548
- e*Trade www.etrade.com 1-877-921-2434
- Options Xpress www.optionsxpress.com 1-888-280-8020
- EverTrade www.evertrade.com 1-866-653-8025

We have no relationships with any of these brokers.

# GLOSSARY

These are some of the common terms you'll either encounter in my emails and notes to you, when you're talking to your broker, or when you're placing a trade online…

**Call Options (aka "Calls")** — An options contract that gives the buyer the right to BUY stock (read: option, or choice) at a specified price (the "strike price").

**Put Options (aka "Puts")** — An options contract that gives the buyer the right to SELL stock at a specified price.

**Strike Price (aka "Strike")** — The fixed price at which stock will be bought or sold if the option is exercised.

**Expiration Date** — The date on which the options contract expires. For stock options, it is usually the third Friday of the expiration month. Many index options expire the day before, on Thursday.

**Premium** — The dollar amount required to purchase a call or put (debit), or the amount received from selling a call or put (credit). The buyer pays the debit; the seller receives the credit.

**Market Order** — An order to buy or sell an option at the current price. (You cannot determine the specific price you're willing to pay). The advantage of a market order is that it's guaranteed to execute; the disadvantage is that you don't know the exact price until you receive a confirmation. Use market orders when execution takes priority.

**Limit Order** — An order to buy or sell an option that allows you to choose the maximum price you're willing to pay (if buying) or minimum price you're willing to receive (if selling). The advantage of a limit order is that it prevents any unfavorable prices. The disadvantage is that the order may not execute.

# CYCLE 9 ALERT

Publisher............................Shannon Sands
Editor.......................................Adam O'Dell

**Cycle 9 Alert**
819 North Charles St
Baltimore, MD 21201 USA
USA Toll Free Tel.: (888) 211-2215
Contact: cycle9@dentresearch.com