

Sigma asset class rotation portfolio

The power of momentum

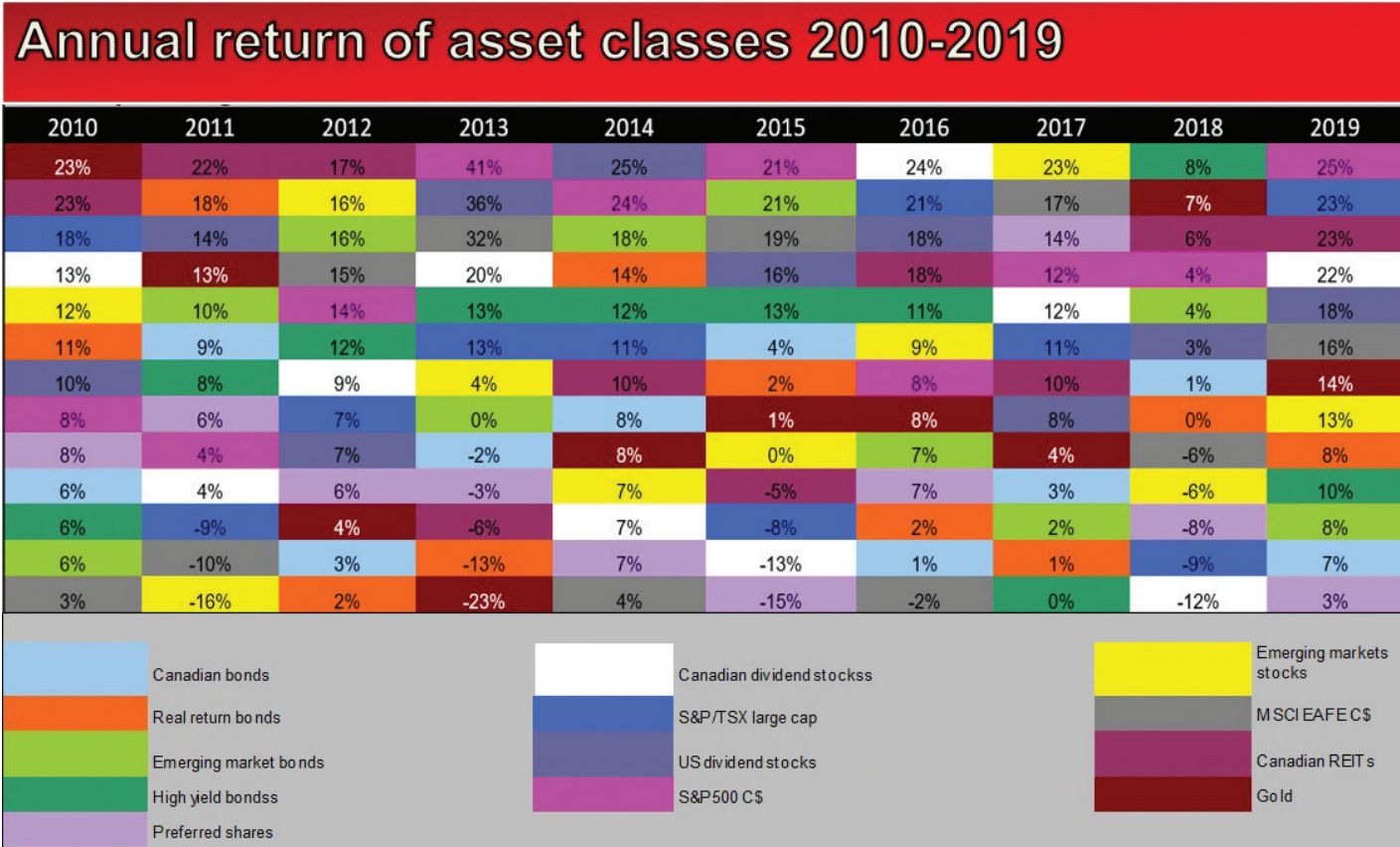


Relative performance (momentum)

Portfolio management is based on the principle that the asset classes that have performed best over a period tend to continue to outperform. Markets move in dominant cycles and themes that favor certain asset classes while favoring others over an extended period of time. The asset class rotation portfolio aims to leverage momentum principles to identify these trends and focus the portfolio among asset classes that are currently in a leadership position.

The table below clearly demonstrates that asset classes each in turn experience long periods of superior returns relative to others. For example, we note the outperformance of real estate companies from 2010 to 2012, and the US stock market from 2013 to 2015 and from 2017 to 2019. On the other hand, asset classes are also experiencing prolonged periods of underperformance, as was the case with gold (in red) from 2012 to 2017. Some asset classes, such as Canadian bonds, never do better than sixth place, attesting to the mostly upward trend of equity indices over these ten years, with U.S. markets outperforming. But as we all know, the context can change very quickly, resulting in a change in leadership among different asset classes. The objective of the Asset Class Rotation basket is to capture these trends of funds of intermediate durations, overweighting the best performing classes.

Relative strength among asset classes from 2010 to 2019



Sources: Blackrock, Bloomberg, Thomson.

Efficiency of the momentum approach

For example, the American stock market

The impressive performance of the US stock market over the past decade makes us forget that the situation was very different from the previous decade. The table below represents some of the analysis that is done to identify asset classes that outperform, and those that underperform. Our portfolio of the top five asset classes is represented by the grey area on the left (Tier 1 to Tier 5). Not all asset classes to the right of Tier 5 are part of the portfolio for that month. The composition of the portfolio is reviewed monthly. Note that the US stock market (SP 500 and DVY for dividend stocks) is in the portfolio for only two months out of this 27-month period.

12/31/2007	VWO	IAU	XIC	XBB	XR	XRB	XDV	CPD	VEA	S&P 500	XRE	AGG	PCY	HYG	BKLN	DVY	ICF
1/31/2008	IAU	VWO	XBB	XIC	XR	XR	AGG	PCY	CPD	XDV	HYG	S&P 500	VEA	XR	BKLN	DVY	ICF
2/29/2008	IAU	VWO	XBB	XR	XR	AGG	XIC	CPD	PCY	HYG	XDV	VEA	XR	BKLN	S&P 500	DVY	ICF
3/31/2008	IAU	XR	XBB	AGG	PCY	VWO	XIC	CPD	HYG	VEA	XDV	S&P 500	XR	BKLN	ICF	DVY	
4/30/2008	IAU	XR	XBB	VWO	PCY	XIC	AGG	HYG	ICF	CPD	VEA	XDV	XR	S&P 500	BKLN	DVY	
5/30/2008	IAU	XR	XIC	VWO	XBB	PCY	AGG	HYG	CPD	VEA	XDV	XR	ICF	S&P 500	BKLN	DVY	
6/30/2008	IAU	XR	AGG	XBB	XIC	PCY	HYG	BKLN	CPD	VWO	VEA	S&P 500	XDV	XR	ICF	DVY	
7/31/2008	IAU	XR	AGG	PCY	XBB	HYG	BKLN	XIC	CPD	ICF	S&P 500	XR	VEA	XDV	VWO	DVY	
8/29/2008	XR	IAU	PCY	AGG	HYG	XBB	XIC	ICF	BKLN	CPD	XR	XDV	S&P 500	DVY	VEA	VWO	
9/30/2008	IAU	AGG	ICF	XBB	PCY	XR	HYG	CPD	DVY	BKLN	XR	XDV	XIC	S&P 500	VEA	VWO	
10/31/2008	AGG	XBB	XR	IAU	PCY	BKLN	HYG	DVY	CPD	S&P 500	XDV	ICF	XIC	VEA	XR	VWO	
11/28/2008	AGG	IAU	PCY	XBB	DVY	XR	HYG	BKLN	S&P 500	XDV	CPD	VEA	ICF	XIC	XR	VWO	
12/31/2008	AGG	IAU	PCY	XBB	XR	HYG	DVY	CPD	BKLN	S&P 500	ICF	XDV	VEA	XIC	XR	VWO	
1/30/2009	IAU	AGG	PCY	XBB	HYG	XR	BKLN	CPD	DVY	S&P 500	XDV	VEA	XR	XIC	ICF	VWO	
2/27/2009	IAU	AGG	PCY	XBB	HYG	BKLN	XR	CPD	S&P 500	DVY	XDV	VEA	XR	XIC	VWO	ICF	
3/31/2009	AGG	IAU	PCY	XBB	HYG	XR	BKLN	CPD	DVY	S&P 500	XDV	VEA	VWO	XIC	XR	ICF	
4/30/2009	AGG	IAU	PCY	XBB	HYG	CPD	BKLN	XR	DVY	S&P 500	XDV	VWO	VEA	XIC	ICF	XR	
5/29/2009	IAU	AGG	XBB	PCY	CPD	HYG	XR	BKLN	VWO	XDV	XIC	VEA	S&P 500	XR	DVY	ICF	
6/30/2009	PCY	AGG	IAU	HYG	VWO	XBB	BKLN	XR	CPD	VEA	XDV	XIC	S&P 500	XR	DVY	ICF	
7/31/2009	VWO	HYG	PCY	IAU	XR	CPD	XIC	XDV	XR	XBB	VEA	BKLN	AGG	S&P 500	ICF	DVY	
8/31/2009	VWO	CPD	XR	HYG	XDV	XIC	XR	VEA	BKLN	PCY	ICF	XBB	S&P 500	IAU	AGG	DVY	
9/30/2009	XR	VWO	XDV	XIC	CPD	BKLN	HYG	VEA	PCY	XR	XBB	S&P 500	ICF	IAU	AGG	DVY	
10/30/2009	VWO	XR	XDV	XIC	VEA	CPD	ICF	XR	HYG	BKLN	S&P 500	PCY	XBB	DVY	IAU	AGG	
11/30/2009	VWO	XR	XDV	ICF	XIC	VEA	S&P 500	DVY	CPD	XR	HYG	BKLN	PCY	XBB	IAU	AGG	
12/31/2009	XR	ICF	VWO	XDV	XIC	VEA	CPD	DVY	S&P 500	HYG	BKLN	XR	PCY	XBB	IAU	AGG	
1/29/2010	XR	VWO	XDV	XIC	ICF	VEA	HYG	CPD	XR	DVY	S&P 500	IAU	BKLN	PCY	XBB	AGG	
2/26/2010	XR	ICF	DVY	XDV	VWO	HYG	S&P 500	XIC	PCY	BKLN	VEA	CPD	XR	IAU	XBB	AGG	

The same table for the period 2012-2014 shows us an American stock market that is doing much better! Moreover, over this 24-month period, there is only one month during which the US stock market is not part of the portfolio.

3/30/2012	IAU	S&P 500	XR	DVY	XR	ICF	PCY	HYG	AGG	XBB	XDV	BKLN	CPD	VEA	VWO	XIC	
4/30/2012	DVY	XR	ICF	S&P 500	PCY	HYG	AGG	XDV	XR	IAU	XBB	CPD	BKLN	XIC	VEA	VWO	
5/31/2012	ICF	XR	DVY	S&P 500	HYG	XR	AGG	BKLN	PCY	XBB	CPD	XDV	VEA	VWO	XIC	IAU	
6/29/2012	ICF	S&P 500	XR	DVY	HYG	PCY	XR	VWO	VEA	CPD	XDV	XBB	BKLN	XIC	AGG	IAU	
7/31/2012	XR	ICF	PCY	DVY	S&P 500	HYG	XR	XBB	AGG	CPD	BKLN	XDV	VEA	VWO	XIC	IAU	
8/31/2012	ICF	XR	S&P 500	PCY	HYG	DVY	XDV	XR	CPD	XBB	VEA	BKLN	AGG	VWO	XIC	IAU	
9/28/2012	XR	ICF	S&P 500	PCY	IAU	VWO	VEA	HYG	DVY	XIC	XDV	CPD	XBB	XR	BKLN	AGG	
10/31/2012	PCY	XR	ICF	DVY	S&P 500	HYG	VEA	XDV	AGG	CPD	XBB	BKLN	XIC	XR	VWO	IAU	
11/30/2012	PCY	ICF	HYG	DVY	XR	S&P 500	AGG	XR	XBB	XDV	VEA	CPD	BKLN	IAU	XIC	VWO	
12/31/2012	PCY	XR	HYG	ICF	VEA	CPD	DVY	XR	XBB	VWO	AGG	XIC	XDV	S&P 500	BKLN	IAU	
1/31/2013	VEA	ICF	PCY	HYG	S&P 500	DVY	XR	VWO	XDV	XIC	BKLN	CPD	AGG	XBB	XR	IAU	
2/28/2013	VEA	VWO	S&P 500	XDV	ICF	XIC	DVY	PCY	HYG	XR	CPD	BKLN	XBB	AGG	IAU	XR	
3/29/2013	VEA	S&P 500	DVY	XDV	ICF	XIC	VWO	HYG	PCY	XR	CPD	BKLN	XBB	AGG	IAU	XR	
4/30/2013	VEA	S&P 500	ICF	DVY	XDV	VWO	HYG	XIC	XR	PCY	BKLN	CPD	XBB	AGG	XR	IAU	
5/31/2013	VEA	S&P 500	DVY	ICF	VWO	XDV	HYG	BKLN	XIC	PCY	AGG	CPD	XR	XBB	XR	IAU	
6/28/2013	S&P 500	DVY	VEA	ICF	HYG	XDV	BKLN	AGG	VWO	XIC	PCY	CPD	XBB	XR	XR	IAU	
7/31/2013	S&P 500	DVY	VEA	ICF	XDV	HYG	BKLN	XIC	AGG	VWO	CPD	XBB	PCY	XR	XR	IAU	
8/30/2013	S&P 500	DVY	VEA	XDV	HYG	BKLN	ICF	XIC	AGG	VWO	CPD	XBB	PCY	XR	XR	IAU	
9/30/2013	S&P 500	DVY	VEA	XDV	ICF	HYG	XIC	BKLN	AGG	VWO	XBB	CPD	PCY	XR	XR	IAU	
10/31/2013	S&P 500	DVY	VEA	XDV	HYG	XIC	ICF	BKLN	AGG	VWO	PCY	XBB	PCY	XR	XR	IAU	
11/29/2013	S&P 500	DVY	VEA	XDV	HYG	XIC	BKLN	VWO	AGG	ICF	XBB	PCY	CPD	XR	XR	IAU	
12/31/2013	S&P 500	VEA	DVY	XDV	XIC	HYG	BKLN	VWO	AGG	PCY	ICF	XBB	CPD	XR	XR	IAU	
1/31/2014	S&P 500	DVY	VEA	HYG	XIC	XDV	BKLN	AGG	VWO	PCY	ICF	XBB	CPD	IAU	XR	XR	
2/28/2014	S&P 500	VEA	DVY	XIC	XDV	HYG	ICF	AGG	BKLN	PCY	IAU	VWO	XR	XR	CPD	XR	
3/31/2014	VEA	S&P 500	DVY	XIC	XDV	HYG	VWO	PCY	ICF	IAU	AGG	BKLN	XR	XR	XBB	CPD	
4/30/2014	VEA	S&P 500	DVY	XIC	XDV	ICF	HYG	VWO	PCY	XR	AGG	BKLN	XR	IAU	CPD	XBB	

Ideal investor and investment horizon

The Sigma asset class rotation portfolio represents the ideal companion portfolio to our Sigma balanced and Sigma income portfolios for any investor with an investment horizon of three or more years.

Our Sigma portfolios



- Sigma income
- Sigma balanced
- Sigma asset class rotation
- Sigma moderate asset class rotation

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