



Automated Investing with Discipline.

***The Strategy That Adjusts.
Automatically.***

AUTOMATED ALLOCATIONS

Introduction...

You are about to enter the world of AUTOMATED ALLOCATIONS. Before we start, let's do a quick overview of AA and the test scenarios we will share. AA uses two trading vehicles, each tracked separately.

AA was designed to follow the totality of "The Market". The S&P 500 is widely regarded as the best indicator of the market. The ETF **SPY** tracks the performance of the S&P 500 index on a *one-to-one* basis.

AA was designed to use the ETF **UPRO** which tracks the performance of the S&P 500 index on a leveraged, *three-to-one* basis. This is the first and starting position for users of AA.

For a second, more aggressive position, AA can be used to follow the NASDAQ 100. The Nasdaq 100 serves as a benchmark for the performance of technology-oriented and growth stocks in the U.S. financial markets. The ETF **QQQ** tracks the performance of the Nasdaq 100 index on a *one-to-one* basis.

AA was designed to use the ETF **TQQQ** which tracks the performance of the NASDAQ 100 index on a leveraged, *three-to-one* basis. This is an optional and secondary position for users of AA.

We have several scenarios to test AUTOMATED ALLOCATIONS. We will enter positions at market highs and market lows. We will compare each result of AA to market results.

To help us, we have a married couple with totally different investment methods. Our couple each inherited \$100,000 when one of their fathers passed away. After discussion, they decided they would each put half in the S&P 500 and half in the NASDAQ 100. After a more heated discussion, they agreed one would use AUTOMATED ALLOCATIONS while the other would stick to the indexes.

First, we have Mr. Buy & Hold (Mr. B&H). Mr. B&H starts with a \$50,000 position on SPY and a \$50,000 position on QQQ and holds on through thick and thin. This is known as "Index Investing".

Next, we have his wife, Automated Allocations (Mrs. AA). She will do things a little differently. She will allocate \$50,000 to UPRO and \$50,000 to TQQQ. But, she will only actually buy a bit more than ½ of her allocation, preserving the other ½ - her "dry powder" - for future purchases as dictated by Automated Allocations.

Both of their positions will be tracked over certain periods of time.

We will first look at four different notable market tops. We want to compare the two methods when a position is started at the worst possible time. We will then look at four major market bottoms. What happens then? Can AA outperform the market in either of these situations?

Notes on the screenshots of the final results...

- The grayed-out numbers above Date, Price, Shares, Deployed, and Avg Cost are where the position was started on day one.
- There are different methods of implementation of AA. The user can set up alerts if price gets close to a target, and then use GTC orders. Another method would be when closes violate the target price.
- In these scenarios, the daily closing prices are entered into AA. Action is initiated when the close violates the target prices. This is the easiest, most expeditious method for historical testing. The method used will make a negligible difference in the percent gain.
- The sheet of each position may be several pages long. We are showing a screen shot of the last line which shows all the information we need to see.
- The Annualized Rate of Return is based on the "Initial Account Plus Additions" field. In some scenarios, AA may not *allocate* the entire amount set aside for the account. In these situations, the annualized rate of return is still calculated on the full amount set aside. Obviously, this hurts AA's results, but makes a fair comparison to the buy and hold strategy.
- Currently, users should be able to attain between 4% and 4 ½% on cash. This income is not reflected in any of our studies.