WT WEALTHMANAGEMENT JAN. 2014

SECTOR SELECTION USING THE BUSINESS CYCLE

USE ECONOMIC SIGNALS TO SEE WHAT SECTORS MAY SHINE AT WHAT TURN IN THE BUSINESS CYCLE.

At any given time, asset price fluctuations are driven by various short-, intermediate-, and long-term factors. For this reason, adopting a comprehensive asset allocation strategy that analyzes underlying factors and trends among two time bands can be an effective approach: tactical (6 to 12 months) and strategic (six months to five years).

Over the intermediate term, asset performance is often driven largely by cyclical factors tied to the state of the economy—such as corporate earnings, interest rates, and inflation. The business cycle, which encompasses the cyclical nature of an economy over many months or a few years, therefore can be a critical determinant of equity market returns and the performance of equity sectors. Here we will demonstrate our business cycle approach to sector investing.

Every business cycle is different in its own way, but certain patterns have tended to repeat themselves over time. Fluctuations in the business cycle are essentially distinct changes in the rate of growth in economic activity, particularly increasing or decreasing rates of growth in corporate profits, credit, inventories, and employment. While unforeseen events can sometimes disrupt a trend, changes in these key indicators historically have provided a relatively reliable guide to recognizing the different phases of an economic cycle.

SPECIFICALLY, THERE ARE FOUR DISTINCT PHASES OF A TYPICAL BUSINESS CYCLE

Early-cycle phase: marked by an acceleration in economic activity (e.g., gross domestic product, industrial production, employment). Credit begins to grow amid easy monetary policy, creating a healthy environment for profit growth. Business inventories are low, while sales growth improves steadily.

Mid-cycle phase: Typically the longest phase of the business cycle. The mid cycle is characterized by a positive but more steady rate of growth than that experienced during the early-cycle phase. Economic activity gathers momentum, credit growth becomes strong, and profitability is healthy against an accommodative—though increasingly easy to neutral—monetary policy backdrop. Inventories and sales grow, reaching equilibrium relative to each other.

Late-cycle phase: Is a mature economy poised to slip into recession and hindered by above-trend rates of inflation. Economic growth rates slow to “stall speed,” against a backdrop of a restrictive monetary policy, tightening credit availability, and deteriorating corporate profit margins. Inventories tend to build unexpectedly as sales growth declines.

Recession phase: Features a contraction in economic activity. Corporate profits decline and credit is scarce for all economic actors. Monetary policy becomes more accommodative and inventories gradually fall despite low sales levels, setting up the next expansion.

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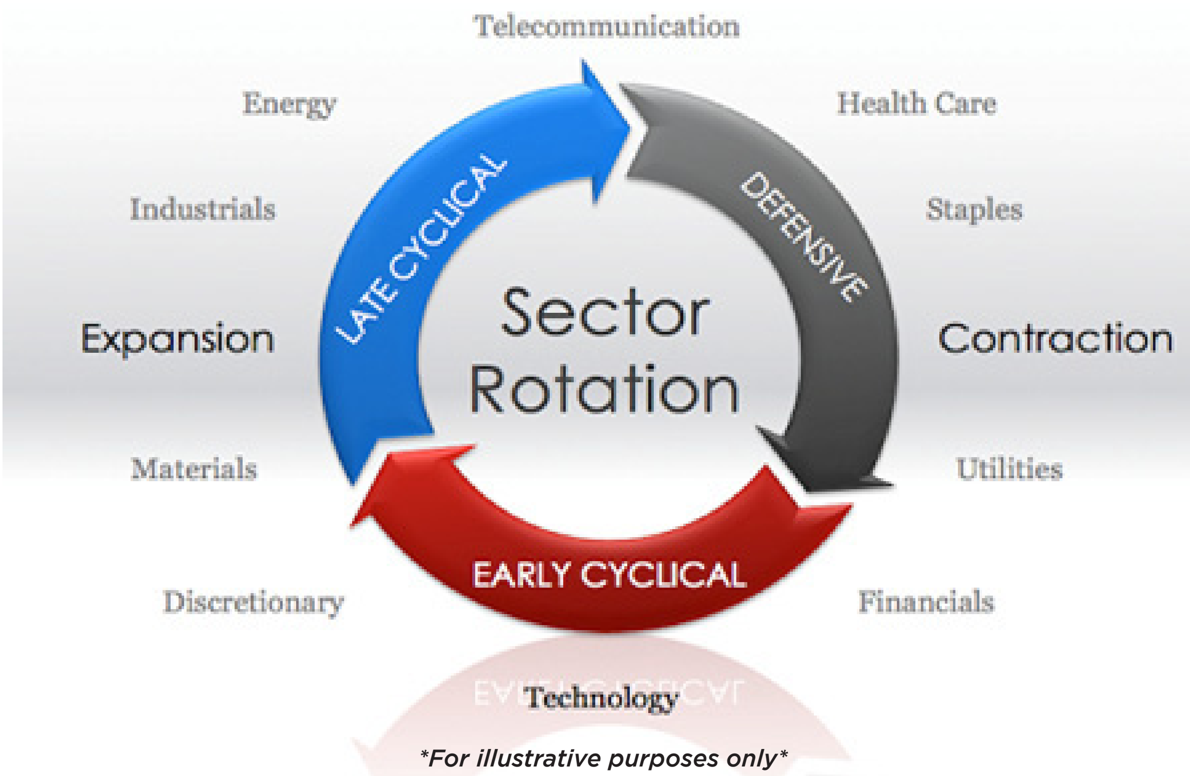
EQUITY SECTOR PERFORMANCE PATTERNS

Historical analysis of the cycles since 1962 shows that the relative performance of equity market sectors has tended to rotate as the overall economy shifts from one stage of the business cycle to the next, with different sectors assuming performance leadership in different economic phases. Due to structural shifts in the economy, technological innovation, varying regulatory backdrops, and other factors, no one sector has behaved uniformly for every business cycle.



For illustrative purposes only

INVESTMENT IMPLICATIONS

Every business cycle is different, and so are the relative performance patterns among equity sectors. However, using a disciplined business cycle approach, it is possible to identify key phases in the economy, and to use those signals in an effort to achieve active returns from sector allocations within your portfolio. At WT Wealth Management we selectively use ETF's to provide clients with exposure to sectors within the S & P 500 that have the most potential in the next 6-12 months.

DISCLOSURE

Any opinions expressed on this website are the opinions of WT Wealth Management and its associates only. Material listed on this website is neither an offer to buy or sell securities nor should it be interpreted as personal financial advice. You should always seek out the advice of a qualified investment professional before deciding to invest. Investing in stocks, bonds, mutual funds and ETF's carry certain specific risks and part or all of your account value can be lost.

At WT Wealth Management we strongly suggest having a personal financial plan in place before making any investment decisions including understanding your personal risk tolerance and having clearly outlined investment objectives.

Investment decisions should be based on an individual's own goals, time horizon, and tolerance for risk. Keep in mind that investing involves risk. The value of your investment will fluctuate over time and you may gain or lose money. Diversification does not ensure a profit or guarantee against loss. All indices are unmanaged. You cannot invest directly in an index. Because of their narrow focus, sector funds tend to be more volatile than funds that diversify across many sectors and companies. These funds are considered non-diversified and can invest a greater portion of assets in securities of individual issuers than diversified funds might. Thus, changes in the market value of a single investment could cause greater fluctuations in share price than would occur in more diversified funds.