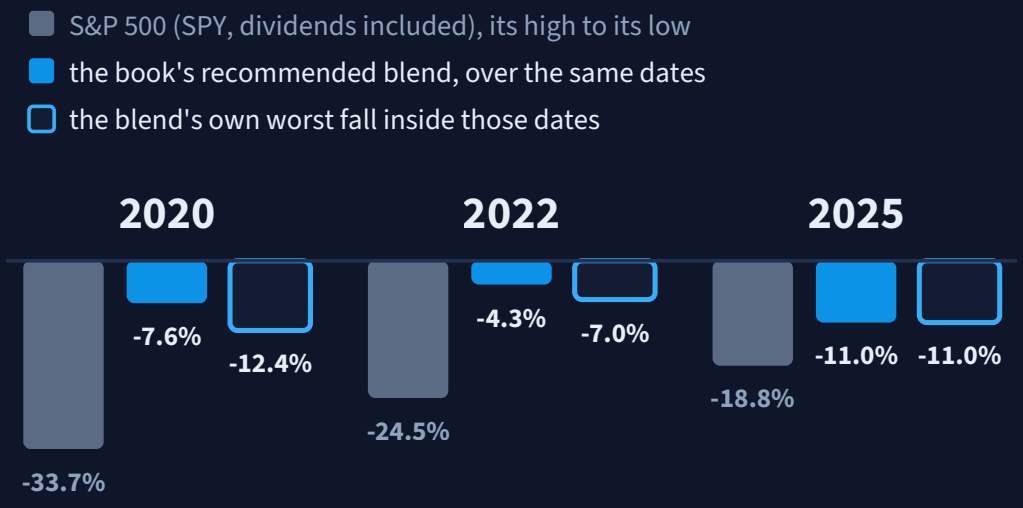
BestFolio

Tactical Asset Allocation

for Beginners

Five rules-based strategies for investing through good markets and bad



Backtested with costs. Each year runs from the S&P 500's closing high to its closing low: COVID crash 2020, 2022 bear market, April 2025 tariff shock. Blend = two of the five strategies, half each. Chapter 11.

Laurent Bonherbe

Founder of BestFolio

About the Author

Laurent Bonherbe is the founder of BestFolio (bestfolio.app), a service that tracks nearly a hundred published tactical asset allocation strategies and sends their monthly signals to investors in the US and Europe. He has been investing since the early 2000s and building and testing tactical allocation rules since 2013, and he designed one of the five strategies in this book, the Momentum-Correlation Triplet.

His research sits alongside the work of the people who shaped the field, and he works with Wouter Keller and Jan Willem Keuning, the researchers behind HAA. His own paper on the Sharpe Stability Ratio, which measures how consistent a strategy's results stay over time, is published on SSRN. BestFolio grades every strategy it tracks with the Deflated Sharpe Ratio of David Bailey and Marcos López de Prado, a check against results that only look good because many rules were tried.

He's French, lives in Budapest, and by day works in technology leadership for a European industrial group. Living outside the US means he's had to solve the European version of every problem in this book with his own accounts: funds he wasn't allowed to buy, accounts that wouldn't hold gold, and tax rules that treat every trade differently. That's why this book has two readers in mind from the first page.

Edition 1.1. Corrections since the first edition are listed at the end of Appendix C.

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About This Sample

This free sample contains the Introduction, Chapter 4 (what the strategies actually did, including the bad years), Chapter 7 (the 200-Day Trend) and the cheat sheet from *Tactical Asset Allocation for Beginners*. The 200-Day Trend workbook comes with it.

When a page refers to another chapter, that chapter is in the full book, at bestfolio.app/book.

Introduction

If you've invested for more than a few years, you've probably lived through at least one gut-wrenching drop in the market. Maybe you watched your retirement account fall by a third in a few weeks in 2020. Maybe you remember 2008, when the US stock market lost more than half its value and took almost five years to get back to where it started.

Most investing books tell you to sit tight through those drops, and for many people that's good advice. But sitting tight is hard. When the news is awful and your balance shrinks every day, plenty of smart people sell at the bottom and then miss the recovery. And if you're living off your savings, a big drop at the wrong moment can do lasting damage even if you never panic.

This book is about another option: a written set of rules that tells you, once a month, what to own. Some of those rules move you out of the way when markets turn ugly and back in when they recover. That approach is called *tactical asset allocation*, or TAA for short. I'll show you five versions of it, from a portfolio you touch once a year to strategies you check monthly, and I'll walk you through setting each one up, step by step, whether you live in the US or in Europe.

About This Book

Tactical asset allocation has a reputation for being complicated. Look it up online and you'll find research papers full of formulas, forum threads full of acronyms, and backtests that promise returns no real investor ever got.

This book skips all that. Every idea is explained in plain English before it's used. Every strategy is broken down into numbered steps you can follow with a spreadsheet. And the book's own performance tests were run specifically for this book, using real funds, real trading costs, and only information that was available at the time; the few longer published records it quotes are labeled as such. (Appendix C explains exactly how the tests were done, if you're curious.)

You don't have to read the book from cover to cover. Each chapter stands on its own, and whenever an idea from another chapter matters, I point you to it.

A few conventions make the book easier to use:

- **Bold** text marks the key action in a list of steps, or a term being defined.
- *Italics* flag a new word the first time it appears. Most new words also get a Jargon Buster box nearby.
- Fund *tickers*, the short codes like SPY or TLT that identify a fund on the stock exchange, appear in capital letters.
- Examples use US dollars unless they involve our European reader, Mara, who invests in euros.

This book was written with the assistance of AI tools. All content was reviewed and revised by the author, who takes full responsibility for it.

Foolish Assumptions

I've made a few assumptions about you while writing this book:

- You already have some savings invested, or you're about to, and you know what a stock and a bond are, at least roughly. If you don't, Chapter 2 covers everything you need.

- You own, or can open, an investment account where you can buy exchange-traded funds (ETFs).
- You're comfortable with a basic spreadsheet: pasting numbers into cells and reading the answer.
- You don't want to become a professional trader. You want a sensible plan you can run in twenty to forty minutes a month.

Two readers appear throughout the book to keep the examples concrete:

- **Sam** lives in the US. Sam has a regular brokerage account, a Roth IRA, and a 401(k) through work.
- **Mara** lives in France. Mara has a PEA, an assurance-vie contract and an ordinary brokerage account, and can't legally buy most of the US funds that American websites talk about.

If you live in the UK, Germany, Hungary or elsewhere in Europe, Mara's story will be closer to yours than Sam's, and Chapter 14 covers your accounts too.

Icons Used in This Book

Throughout the book, icons in the margin point out information worth your attention. Here's what each one means.



Tips are shortcuts and practical tricks: ways to save time, money, or a headache.



This icon marks the ideas worth keeping in your head after you close the book. If you skim a chapter, skim these.



WARNING

Warnings flag the mistakes that cost real money. Please don't skip these.



TECHNICAL STUFF

Technical Stuff is extra detail for the curious. You can skip it and still run every strategy in this book.



WORKED EXAMPLE

Worked Examples walk through a real month, with real numbers, one step at a time. They're the fastest way to see how a rule actually works.



JARGON BUSTER

Jargon Buster

These boxes translate a piece of investing vocabulary into plain English, right where you first need it.

Beyond the Book

This book comes with a folder of extras:

- **Seven Excel workbooks**: one for each strategy, one for blending them, and a portfolio tracker. You paste in prices and the workbook tells you what to hold. They use only plain formulas, so they also open in Google Sheets and LibreOffice. Appendix A shows you how to use them.
- **The code behind the book's tests**, for readers who like to check things for themselves. You don't need it to use the book.
- **A cheat sheet** at the very back that fits the five rules and the monthly routine on two pages. Tear it out, or print it.

Where to Go from Here

If you're brand new to this, start with Chapter 1. It explains *why* a plan for bad markets matters, and everything else builds on it.

If you already understand the basic idea and want to know whether it works, jump to Chapter 4, where you'll see what the five strategies actually did, including the years they did badly.

If you've already decided to try one and want to get going, turn to Part 2, pick a strategy, and then use Chapter 17 to set up your monthly routine.



WARNING

This book is education, not personal financial advice. I don't know your income, your debts, your taxes, or how you'll feel when your account is down 20%. Every strategy in this book has lost money, sometimes for years, and will again. Tax rules differ by country and change often. Before you commit real money, check the rules where you live, and if the amounts are large, talk to a professional who is paid to look after your interests.

CHAPTER 4

Reading the Scoreboard: What the Strategies Actually Did

IN THIS CHAPTER

- Understanding what a backtest is, and how ours were run
- Reading a results table, column by column
- Comparing all five strategies side by side
- Seeing what each one did in the crashes you remember
- Testing what the strategies meant for someone living off their savings
- Understanding why the start date changes the answer

Before you put money into any strategy, you want to know how it has behaved. Not in a sales brochure, but in real markets, with real costs, including the years it did badly.

This chapter shows you exactly that. First, though, you need to know how the numbers were produced, because most of the numbers you'll find online were produced in ways that flatter the strategy.

What a Backtest Is

Nobody ran these five strategies with real money in 2009 and wrote down the results. Instead, we take the rules and apply them to past prices, month by month, as if someone had followed them. That's called a *backtest*.

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Backtest

A test of a set of rules on past prices, to see what would have happened if you'd followed them. A backtest is only as trustworthy as the way it was built.

Every test run for this book follows these rules:

- **Real funds only.** A strategy starts only once every fund it needs actually existed and traded.
- **Costs included.** Every rebalance pays 0.10% of the part of the portfolio that changes hands, to cover the broker and the difference between buying and selling prices, and up to three times that when markets are stormy.
- **The same rules as BestFolio.** The book's tests follow exactly the same conventions as the site's, so the same version of a strategy, on the same prices and period, shows the same history in both places. Holdings drift between trades, as real shares do.
- **Trading at the signal.** The signal is calculated from the closing prices on the last trading day of the month, and the test puts the new holdings in place at those prices. You can get close to that by trading just before the close, or first thing the next morning; Appendix C shows what a day's delay cost.
- **Dividends included.** All returns are total returns.

WARNING

Many backtests you'll see online don't follow these rules. They start in a convenient year, use index data from decades before the fund existed, ignore costs, or assume you traded at a price nobody could have gotten. If a strategy's advertised results look too smooth, ask how they were made. Chapter 22 gives you ten questions to ask.

How to Read a Results Table

Here's what each column in the tables below means:

- **CAGR:** the average yearly growth rate (Chapter 2).
- **Vol:** volatility, how bumpy the ride was (Chapter 2).
- **Sharpe:** return for each unit of bumpiness. Higher is better.
- **Max DD:** the worst drop from a high point, measured day by day.
- **Worst year:** the worst calendar year, and which year it was.
- **Underwater:** the longest stretch spent below a previous high, in years.
- **Trade months:** the share of months in which the portfolio had to change by more than 1% of its value. Smaller touch-ups are left out.

The Five Strategies Side by Side

This test runs from January 2009 to September 2026. It starts in 2009 because that's the first month all five strategies could be run with funds that existed. Two benchmarks are included for comparison: a classic 60/40 mix (60% US stocks, 40% bonds) and simply holding the S&P 500 fund, SPY.

Strategy	CAGR	Vol	Sharpe	Max DD	Worst year	Underwater	Trade months
Golden Butterfly	8.0%	8.6%	0.79	-19.3%	-13.8% (2022)	2.5 yr	8%
200-Day Trend	10.2%	12.7%	0.73	-25.0%	-20.5% (2022)	2.5 yr	14%
GEM	9.0%	16.1%	0.54	-33.7%	-17.0% (2022)	2.4 yr	14%
HAA	10.9%	11.7%	0.84	-16.5%	-3.1% (2015)	1.6 yr	68%
Triplet	13.0%	12.9%	0.92	-17.7%	-9.2% (2022)	2.0 yr	78%
60/40	10.1%	10.7%	0.83	-21.0%	-16.1% (2022)	2.1 yr	8%
SPY buy and hold	14.9%	17.7%	0.79	-33.7%	-18.2% (2022)	1.9 yr	0%

Start with the bottom row. Holding the S&P 500 and doing nothing returned 14.9% a year, more than any of the five strategies. The best of them, the Triplet, returned 13.0% with the best Sharpe ratio in the table, and needed sizeable trades in about four months out of five, with small top-ups in most of the others. HAA came second at 10.9%, with the smallest worst fall of the five. At the other end, GEM had the deepest fall of the five, as deep as the S&P 500's, and the weakest Sharpe ratio.

That's worth knowing before you go any further. If you decide after this chapter that an index fund is the right answer for you, that's a perfectly good outcome.

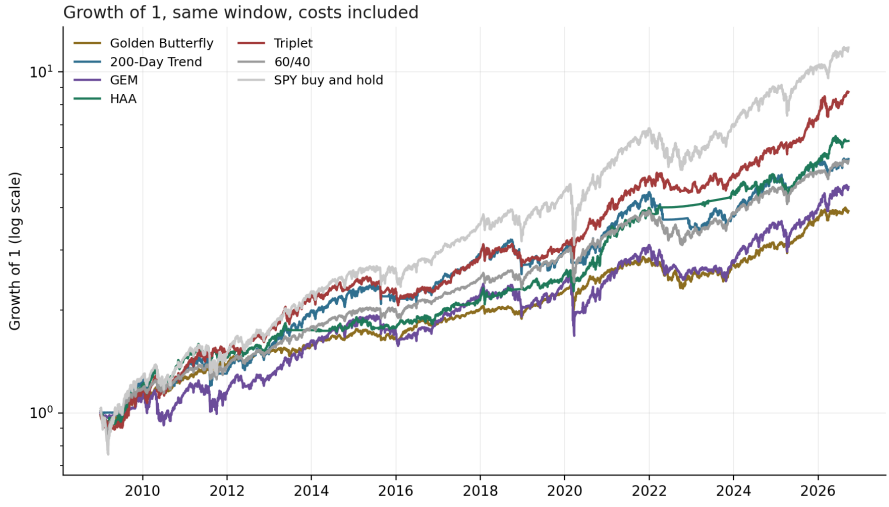


Figure: Growth of $1 in each strategy, with costs. Note the log scale: equal vertical distances mean equal percentage gains.

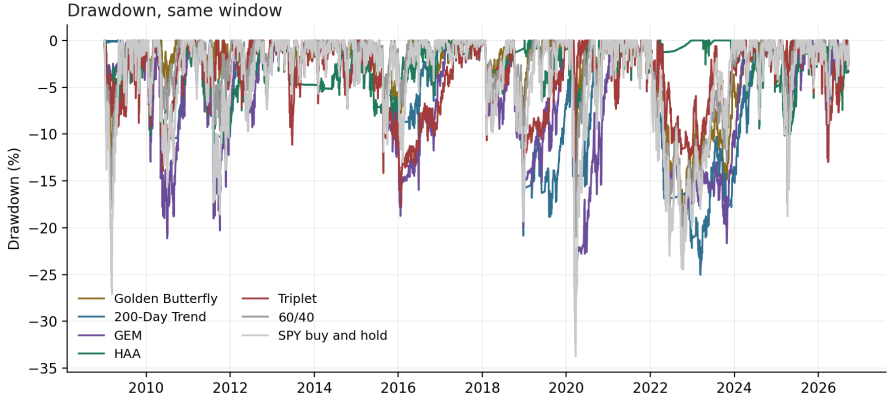


Figure: Drawdowns for the same period. The deeper the dip, the bigger the fall from the previous high.



TECHNICAL STUFF

The growth chart uses a *log scale*, where the distance from $1 to $2 is the same as from $5 to $10. That's the fair way to compare investments over long periods, because it shows percentage changes rather than dollar changes.

Why 2009 to 2026 Is a Tough Test for TAA

So why bother? Because this particular period is unusual.

From March 2009 onward, US stocks had one of the longest and strongest runs in their history. The big falls along the way were all over within a year. Two were fast: the COVID crash went from the S&P 500's high to its low in about five weeks (February 19 to March 23, 2020), and the 2025 tariff shock in about seven (February 19 to April 8). The 2022 bear market was the slow one: it took more than nine months to reach its low (January 3 to October 12, 2022), but it was still over in less than a year.

Tactical strategies are built for a different kind of market: long, grinding declines where prices keep falling for a year or more, like 2000 to 2002 and 2007 to 2009. Fast crashes are hard for a monthly rule to catch, and quick recoveries leave it behind. This period had two fast crashes, one slow bear market that ended within a year, and none of the multi-year declines these rules were built for.

It also starts *after* the worst of 2008, the one long decline of recent times, because three of the strategies needed funds that were launched in 2007 and needed a year of prices before their first signal.

What Happened in the Crashes You Remember

So let's look at the crashes directly. For this table, each strategy starts as early as its own funds allow, so the ones that can reach back to 2007 do. "n/a" means the strategy couldn't be run with real funds yet.

The columns are: the 2007 to 2009 financial crisis, the COVID crash of 2020, the 2022 inflation bear market, the April 2025 tariff shock, and the year of recovery that followed the March 2009 low.

Each crash column runs from the S&P 500's closing high to its closing low (SPY, dividends included) and shows what each strategy

returned over the same dates: October 9, 2007 to March 9, 2009; February 19 to March 23, 2020; January 3 to October 12, 2022; and February 19 to April 8, 2025. The recovery column runs from March 9, 2009 to March 9, 2010.

Strategy	Crisis 2007-09	COVID 2020	Bear 2022	Tariffs 2025	Recovery 2009-10
Golden Butterfly	-16.3%	-12.4%	-17.2%	-7.1%	+31.2%
200-Day Trend	-4.5%	-12.4%	-16.4%	-8.5%	+25.6%
GEM	n/a	-33.7%	-19.4%	-18.8%	+13.6%
HAA	n/a	-8.7%	+1.0%	-14.2%	+31.7%
Triplet	n/a	-6.5%	-9.4%	-7.8%	+28.2%
60/40	-33.7%	-21.0%	-20.5%	-11.1%	+42.7%
SPY buy and hold	-55.2%	-33.7%	-24.5%	-18.8%	+71.9%

A strategy's own high and low don't have to land on the market's dates, so what it returned over the window can be smaller than the worst fall it gave you inside the window. Here is that worst fall: the deepest drop from the strategy's own high to its own low, both inside the same dates.

Strategy	Crisis 2007-09	COVID 2020	Bear 2022	Tariffs 2025
Golden Butterfly	-18.8%	-15.5%	-17.9%	-7.1%
200-Day Trend	-9.9%	-12.5%	-16.9%	-10.0%
GEM	n/a	-33.7%	-19.5%	-18.8%
HAA	n/a	-13.2%	-7.4%	-14.2%
Triplet	n/a	-13.0%	-12.1%	-7.8%
60/40	-33.7%	-21.0%	-20.5%	-11.1%
SPY buy and hold	-55.2%	-33.7%	-24.5%	-18.8%

Here's how to read the first table, column by column. Where the second table tells a different story, it's mentioned.

The financial crisis. Holding the S&P 500 lost 55.2%. The 200-day rule lost 4.5% over those dates, and 9.9% at its worst inside them. The Golden Butterfly, which never trades except once a year, lost 16.3%. This column is the main argument for everything in this book.

COVID. Over the market's dates, the Triplet lost 6.5% and HAA 8.7%. At their worst inside the window both were down about 13%: each still held some stocks, and in mid-March even Treasuries and gold dropped for a few days. That's still well under half of the market's fall. HAA's rules had moved three quarters of it into Treasuries at the end of February 2020 (Chapter 9 shows exactly how). GEM lost exactly what the market lost, 33.7%. It did check at the end of February, a week into the fall, but its twelve-month lookback still said "US stocks," so it stayed invested until the next check at the end of March, after the bottom.

2022. HAA *gained* 1.0% over the window, because its canary had sent it to T-bills at the end of January. It still fell 7.4% during January itself, before that month's check moved it out. The Triplet lost 9.4%, well under half of what the market lost. The Golden Butterfly and the 200-day rule did only a little better than the market, because bonds fell along with stocks.

The recovery. Look at the last column. In the year after the March 2009 low, the market gained 71.9% and the 200-day rule gained 25.6%. This is the price of protection: a rule that steps aside waits for proof before it gets back in, and it misses part of the rebound.



Across every crash we can measure, the tactical strategies usually lost less than the market, sometimes much less. They sometimes beat it in a good year (2020, for HAA and the Triplet), but not by enough to win over the whole test. You're buying smaller holes, not more money.

The Longer Records

Several of these strategies have been tested much further back, using index data from before the funds existed. Those tests can't be traded exactly, but they include market periods our 2009 test doesn't, like the 1970s inflation, the 2000 to 2002 dot-com crash and all of 2008.

Here are the longer records published by BestFolio, through 23 September 2026:

Strategy	Years tested	CAGR	Vol	Sharpe	Max DD
HAA	52.6	16.1%	10.0%	1.48	-19.7%
Triplet	38.9	15.0%	12.3%	1.27	-17.5%
GEM	40.6	13.2%	14.3%	1.03	-33.7%
200-Day Trend	35.7	10.6%	12.6%	1.02	-25.0%
Golden Butterfly	38.7	8.3%	7.9%	1.12	-19.9%
60/40	103.7	8.0%	7.7%	0.73	-65.8%

HAA returned 10.9% a year in our test and 16.1% in its long record. Both numbers are correct, for the same rules. They cover different decades: the long record includes the 1970s, the 2000 to 2002 crash and all of 2008, none of which are in our test.

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Proxy data

Price history borrowed from an index or a similar investment to stand in for a fund before it existed. It lets researchers test further back, but nobody could actually have bought the fund in those years, and costs and fees are harder to model.

Why the Start Date Changes the Answer

You've just seen one strategy report 10.9% or 16.1% depending on the period. The effect shows up even inside our own test. Here's each strategy measured to September 2026, starting in different years:

Strategy	Start 2009	Start 2012	Start 2014	Start 2015	Start 2017
Golden Butterfly	8.0%	7.0%	7.4%	7.3%	8.0%
200-Day Trend	10.2%	10.1%	8.4%	7.9%	9.0%
GEM	9.0%	9.7%	8.5%	8.1%	9.8%
HAA	10.9%	10.2%	10.6%	11.1%	12.8%
Triplet	13.0%	12.4%	11.4%	11.7%	14.5%
SPY buy and hold	14.9%	14.9%	13.8%	13.8%	15.3%

Start the Triplet in 2014 and you'd report 11.4% a year. Start it in 2017 and you'd report 14.5%. Same rules, same funds, same end date. And notice that buy and hold comes out on top whichever start year you pick in this period.

TIP

Whenever someone shows you a strategy's performance, ask when the test starts and why. If the answer is "the year that makes it look best," move on.

What It Meant for Someone Living Off Their Savings

Chapter 1 argued that smaller drops matter most to people who are withdrawing money. Here's that claim tested on the same data.

The test retiree starts with $100,000 already invested and an initial yearly withdrawal of 4%, which is $333.33 a month. Withdrawals are taken after each month's return, starting the following month, and are raised every January for US inflation. Balances are shown in purchasing power at the start of each retirement, so inflation is already taken out.

Retiring shortly before the financial crisis: October 2007

Only two of the five strategies, the Golden Butterfly and the 200-Day Trend, could be run with real funds from October 2007. The 60/40 mix and the S&P 500 are shown for comparison.

Strategy	Lowest month-end balance	When	Balance in Aug 2026	Highest starting rate that lasted
Golden Butterfly	$79,800	Feb 2009	$114,400	7.7%
200-Day Trend	$87,400	Jun 2009	$190,300	9.3%
60/40	$64,200	Feb 2009	$125,100	7.4%
S&P 500	$44,900	Feb 2009	$196,500	7.2%

These are hindsight results for this specific period, allowing the account to approach zero at its end. They are not safe withdrawal rates for a longer retirement.

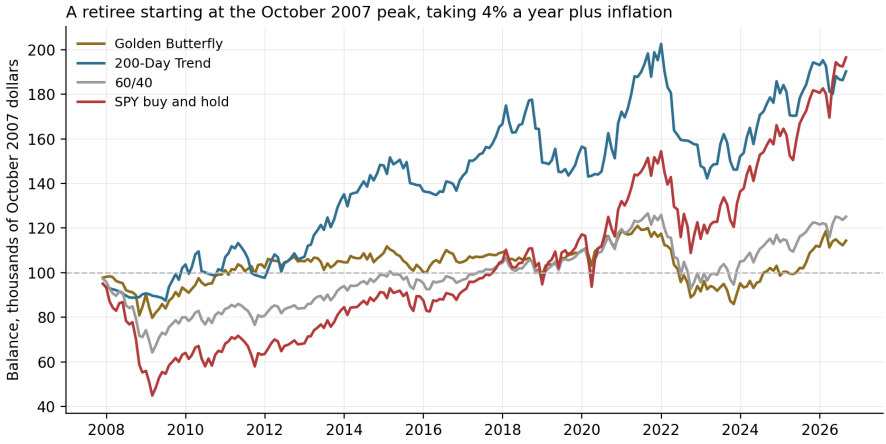


Figure: A retiree starting in October 2007, taking 4% a year plus inflation. Balances in October 2007 dollars.

Three things stand out:

- **The S&P 500 retiree's lowest month-end balance was $44,900**, less than half the starting amount, reached in the first 16 months while still taking out a paycheck. The 200-Day Trend retiree's lowest month-end balance was $87,400.
- **The trend rule supported the highest spending.** The last column is the highest starting withdrawal rate, in steps of 0.1%, that would still have left money in August 2026: 9.3% for the trend rule against 7.2% for the S&P 500.
- **The S&P 500 retiree still ended richest**, because the long bull market that followed repaired the damage. At its lowest month-end, that account held about 55% less purchasing power than at the start, reflecting investment returns, withdrawals and inflation.

Later retirement starts: 2009 to 2016

Now the other case. Here are 92 overlapping ten-year windows, with starting balances dated at each month-end from January 2009

through August 2016. The first withdrawal follows one month later, and the rules are the same: 4% plus inflation.

Strategy	Typical balance after 10 years	Worst balance after 10 years	Lowest month-end balance across windows
Golden Butterfly	$103,100	$79,900	$73,600
200-Day Trend	$132,100	$96,900	$83,000
GEM	$121,600	$82,800	$67,400
HAA	$138,600	$108,200	$85,400
Triplet	$168,000	$113,000	$81,500
60/40	$131,100	$106,900	$89,300
S&P 500	$216,800	$161,700	$81,400

Across these overlapping windows, the S&P 500 had the highest typical and worst ending balances. On the lowest month-end balance, the S&P 500 retiree was roughly level with the Triplet and behind HAA, the 200-Day Trend and the 60/40 mix.



REMEMBER

For the October 2007 start, the trend strategy had a higher minimum month-end balance and supported a higher historical withdrawal rate, while the S&P 500 finished with more money at the 4% starting rate. Across the later windows, the S&P 500 had the highest typical and worst ending balances. These overlapping historical windows don't tell you what future retirees should expect.



TECHNICAL STUFF

"Typical" is the median across the 92 shared start dates. Inflation uses the US consumer price index (CPI-U, seasonally adjusted, as published by FRED); each January's raise uses the index already published at the time, and the one month the government never published (October 2025) carries the previous value forward. Strategy trading costs are included. Starting wealth is assumed to be already invested; taxes and extra trading costs for funding withdrawals are left out. "Month-end" matters: balances in between were sometimes lower. GEM and HAA lack enough price history for their signals in October 2007, and the Triplet also needs a fund whose history begins later. The windows overlap heavily, so they aren't independent retirement experiences.

So What Are You Actually Buying?

Put all of this together and you get a fairly clear picture:

- **Smaller drawdowns in big crashes:** usually, across every period we can test, though not every strategy every time (GEM took the full COVID and 2025 falls).
- **Higher returns:** depends entirely on the period. In the last seventeen years, no.
- **Easier-to-live-with results:** only if you actually follow the rules every month.

That's why Chapter 1 spent so much time on sequence risk and on investor behavior. If a smaller drawdown keeps you invested, or protects a retirement that you're already drawing from, it's worth a lot. If you're 30, saving every month, and you sat calmly through 2020, it may be worth very little to you.

Chapter 5 helps you work out which of those describes you.



TIP

You don't have to pick just one of the five. Chapter 11 runs HAA and the Triplet together, half the money each. Over the same seventeen years that pair returned 12.1% a year and fell at most 13.5% from a high, less than any of the five on its own.

CHAPTER 7

The 200-Day Trend: One Fund, One Rule

IN THIS CHAPTER

- Understanding why a simple trend rule sidestepped most of the 2008 crash
- Following the rule, step by step
- Walking through two real months, one good call and one late one
- Knowing when trend following lets you down
- Setting it up in the US and in Europe

This is the simplest tactical strategy there is. You own one stock fund, and once a month you ask a single question: is the price above its average of the last 200 trading days? If yes, you stay in. If no, you move to T-bills.

It's also the yardstick for every other tactical strategy. If something more complicated can't beat this, it isn't worth the complication.

The Big Idea

You met trends and moving averages in Chapter 3. The idea is that markets don't usually collapse in a single day. Big declines tend to unfold over months, and during those months the price sits below its longer-term average. A rule that steps aside when the price drops below that average gets out of the way of most long declines, at the cost of being a little late and sometimes wrong.

Investment researcher Meb Faber made this rule famous in a 2006 research paper, *A Quantitative Approach to Tactical Asset Allocation*, still one of the most widely cited papers on the subject. Versions of the idea go back to market writers of the 1930s.



REMEMBER

The 200 in "200-day" isn't a magic number. It's roughly ten months, and nearby numbers give similar results. That's actually a good sign: a rule that only works with one exact setting was probably fitted to the past.

The Rule, Step by Step

Once a month, on the last trading day, after the US market closes:

1. **Find the adjusted closing price** of SPY, the S&P 500 fund.
2. **Find the average** of SPY's adjusted closing prices over the last 200 trading days. (The workbook does this for you.)
3. **Compare them.**
   - If the price is **above** the average, hold **SPY** next month.
   - If the price is **at or below** the average, hold **BIL** (T-bills) next month.
4. **Trade no later than the next trading morning**, but only if the answer changed. Most months it doesn't, and you do nothing.

You're always either 100% in stocks or 100% in T-bills. There's no halfway.

Walking Through Two Real Months



WORKED EXAMPLE

February 2020: a good call.

On Friday, February 28, 2020, SPY closed at $269.38. Its 200-day average was $275.04. The price was 2.06% *below* the average.

The rule said: sell SPY, hold T-bills. On Monday, March 2, you'd have sold. Over the next three weeks, the market fell roughly another quarter.



WORKED EXAMPLE

January 2022: a late one.

On January 31, 2022, SPY closed at $422.28, 2.19% *above* its 200-day average of $413.22. The rule said stay invested. The market then fell for most of the year, bouncing above and below the average several times before the rule finally stepped aside.

Both months are here on purpose. The rule doesn't know what happens next. It caught COVID early and it was slow in 2022, and 2022 is the more typical experience.

The figure in Chapter 3 (the one with gray shading) shows both of these periods: the clean exit in early 2020 and the stop-start in 2022.

How It Did

From January 2009 to September 2026, with costs:

Measure	200-Day Trend	S&P 500 (SPY)
Average yearly return (CAGR)	10.2%	14.9%
Volatility	12.7%	17.7%
Worst drawdown	-25.0%	-33.7%
Worst calendar year	-20.5% (2022)	-18.2% (2022)
Months holding T-bills	18%	0%
Switches	29 in 17.7 years	0

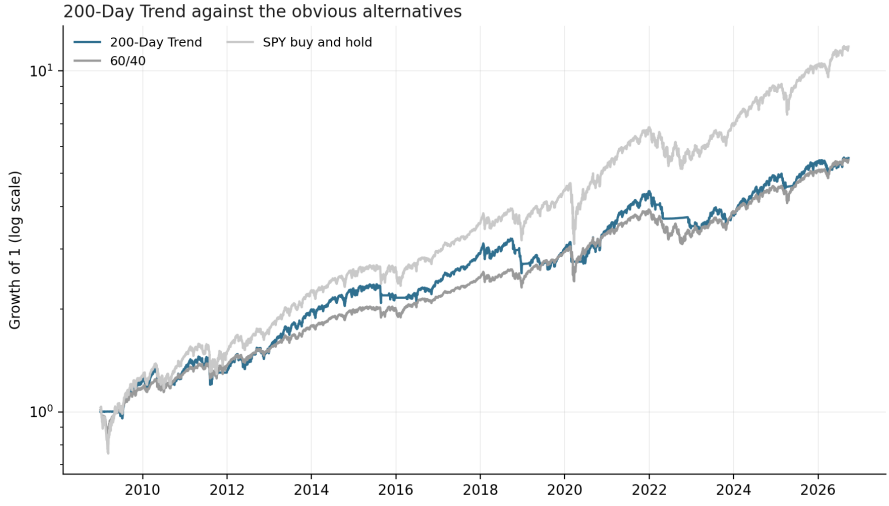


Figure: The 200-Day Trend compared with a 60/40 portfolio and the S&P 500, 2009 to 2026.

Over this period the rule trailed the market by 4.8 percentage points a year and didn't even avoid much of the worst drop, because the two big crashes of the period were too fast or too choppy for a monthly check.

Now the other side. Started in August 2007, the earliest month its funds allow, the rule lost just 4.5% from the October 2007 peak to the March 2009 bottom, while the market lost 55.2%. Its longer published record, over 35.7 years, shows 10.6% a year with a worst drawdown of 25.0%.

That's the character of trend following in a nutshell. For years it seems to do nothing useful, and then in one particular kind of market, a long, deep decline, it keeps you out of most of the damage.

When It Hurts



Whipsaws. The market dips into month-end, you sell, it recovers the following week, and you buy back higher. You've paid costs and locked in a small loss for nothing. This happened several times between 2009 and 2026, and it's the main reason the rule trailed the market.

- **Fast crashes.** A crash that starts and ends within a month goes straight past a monthly rule. In 2020 the timing happened to work. It won't always.
- **Choppy declines.** In 2022, prices fell for months while repeatedly climbing back above the average, the worst possible shape for this rule.
- **All or nothing.** Your portfolio flips between 100% stocks and 100% T-bills. Some people find that much harder to live with than they expect.

Your Job Each Month

Twelve checks a year, about five minutes each once the workbook is set up. Over the 17.7 years tested, the rule switched 29 times, fewer than two switches a year on average. Switches cluster: you might have four in six months and then none for three years. Each switch moves your whole portfolio.

Setting It Up in the US

Sam holds SPY (or the cheaper VOO or IVV, which track the same index) and BIL for T-bills (SGOV is a common alternative). That's it.



WARNING

In a taxable account, every switch out of SPY can create a taxable gain, often short-term. Sam should run this in the Roth IRA if possible. Chapter 16 shows the numbers.

Setting It Up in Europe

What	European fund	ISIN	Ticker (London)
US stocks	iShares Core S&P 500 UCITS ETF	IE00B5BMR087	CSPX
T-bills	iShares $ Treasury Bond 0-1yr	IE00BGSF1X88	IB01



REMEMBER

Calculate the signal on SPY, even if you hold CSPX. The rule was designed and tested on the US fund. CSPX trades in a different place, in different hours and possibly in a different currency, so its own 200-day average can give a slightly different answer. SPY's prices are free online everywhere. Check SPY, then trade CSPX.



TIP

Mara can run this one inside her PEA using a PEA-eligible S&P 500 tracker. The US T-bill fund isn't allowed in a PEA, so when the rule says "step aside," she holds cash in the PEA, or a PEA-eligible euro money-market ETF (Chapter 14). That's a small change from the tested rule, so she notes it in her plan (Chapter 12).

Using the Workbook

Open `02-200day-trend.xlsx`. Paste 200 daily adjusted closing prices of SPY into the Prices sheet, oldest at the top. The Signal sheet shows the latest price, the average, how far apart they are, and in a green box, what to hold. If the gap is within about 1%, expect the signal might flip next month.

Cheat Sheet

The five strategies and the pair

Golden Butterfly: 20% each in US stocks, small-cap value, long Treasuries, short Treasuries and gold. Rebalance once a year.

200-Day Trend: hold SPY if its price is above its 200-day average, otherwise T-bills.

GEM: if US stocks beat T-bills over 12 months, hold whichever of US or world stocks rose more; otherwise bonds.

HAA: the defender is whichever of IEF and T-bills scores higher. If TIP's score is zero or below (or missing), all in the defender. Otherwise the top 4 of 9 funds, 25% each; any of the four scoring zero or less goes to the defender.

Triplet: of 14 funds, keep those beating T-bills, take the top 5, hold the 3 that moved least alike. Fewer than 3 qualify: a third in each, the rest in T-bills.

The pair: run HAA and the Triplet, give each target half of the account, add them up fund by fund.

Signal day (last trading day, after the US close)

1. Copy the adjusted closes (Yahoo's Adj Close column) for the **US** tickers.
2. Paste into the yellow cells.
3. Check the date.
4. Read the green box.
5. Write the target down before looking at your account.

Trade day (next morning, after the first 15 minutes)

1. Update Holdings and prices in the tracker.
2. Paste the targets into Orders, with 0% for anything you're selling.
3. Sell first, then buy.
4. Limit orders only.
5. Record the fills.

What the strategies did, 2009 to 2026

	Return	Worst drop
Golden Butterfly	8.0%	-19.3%
200-Day Trend	10.2%	-25.0%
GEM	9.0%	-33.7%
HAA	10.9%	-16.5%
Triplet	13.0%	-17.7%
HAA + Triplet, half each	**12.1%**	**-13.5%**
S&P 500	14.9%	-33.7%

In 2007 to 2009 the S&P 500 lost 55.2%; the 200-Day Trend lost 4.5%.

Europe in three rules

1. Buy UCITS funds, searched by ISIN.
2. Calculate signals on the US tickers.
3. Write down every substitution.

Never

- Check prices between signal days.
- Override the rule because of the news.
- Change the rule outside your yearly review.
- Start in the middle of a crash without phasing in.