



Investing Using Sector Rotation – But Does It Work?

Let's start with the basics. Sector rotation is an investment strategy where an investor or manager seeks to increase performance by opportunistically switching (rotating) from one sector to another based on the market stages of a normal economic cycle. Much has been written about identifying those specific industries that will do better/worse as the market moves through a normal economic cycle. In a sector rotation strategy, an investor would overweight the sectors which he believes are poised to outperform, while reducing exposure in those which he believes will decline. The fundamental premise is to achieve excess performance over a traditional buy-and-hold strategy. The below illustration highlights certain sectors that may be best positioned at various points in the economic cycle, and also identifies the industries which may suffer over short periods of time due to any regulatory or market developments. As this cycle moves from contraction to expansion, each different phase would favor companies in different sectors.

During our environment of continued economic uncertainty, a sector-based investment strategy can be of increased importance while offering clients significant diversification and return opportunities – whether through tactical portfolio tilts or strategic sector. A money manager who claims to employ a successful sector rotation strategy will suggest the critical analysis of the affects of our recent recession on each sector is essential in achieving enhanced results for investors. But there maybe other ways to accomplish this!



At Summit Asset Strategies our goal is to offer clients the comfort of a well-diversified customized portfolio which is constructed using fundamental asset allocation principles across the many, many asset classes. A primary task is to continuously assess the economic landscape in search of valuable clues in what the market future holds. If we recognize a cyclical trend developing that may lead to value in owning any combination of sectors; then we may buy the market leaders in those favorable sectors/indexes as a way to achieve an overexposure in 'advantaged sectors'. If the Health Care sector is appealing, then maybe adding

shares of JNJ, Pfizer, and Merck would make sense. When the Tech sector becomes attractive, we may plan to add shares of Apple, Microsoft, or IBM as a way to seek excess returns. This seems to provide our clients the benefits of a customized blend of leading, quality companies that may strategically reflect current cyclical trends while still maintaining the important proper diversification guidelines we use.

For more information please call Summit Asset Strategies Wealth Management at toll free: (877) 386-7823 at 10655 NE 4th Street Suite 500, Bellevue, WA 98004

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