

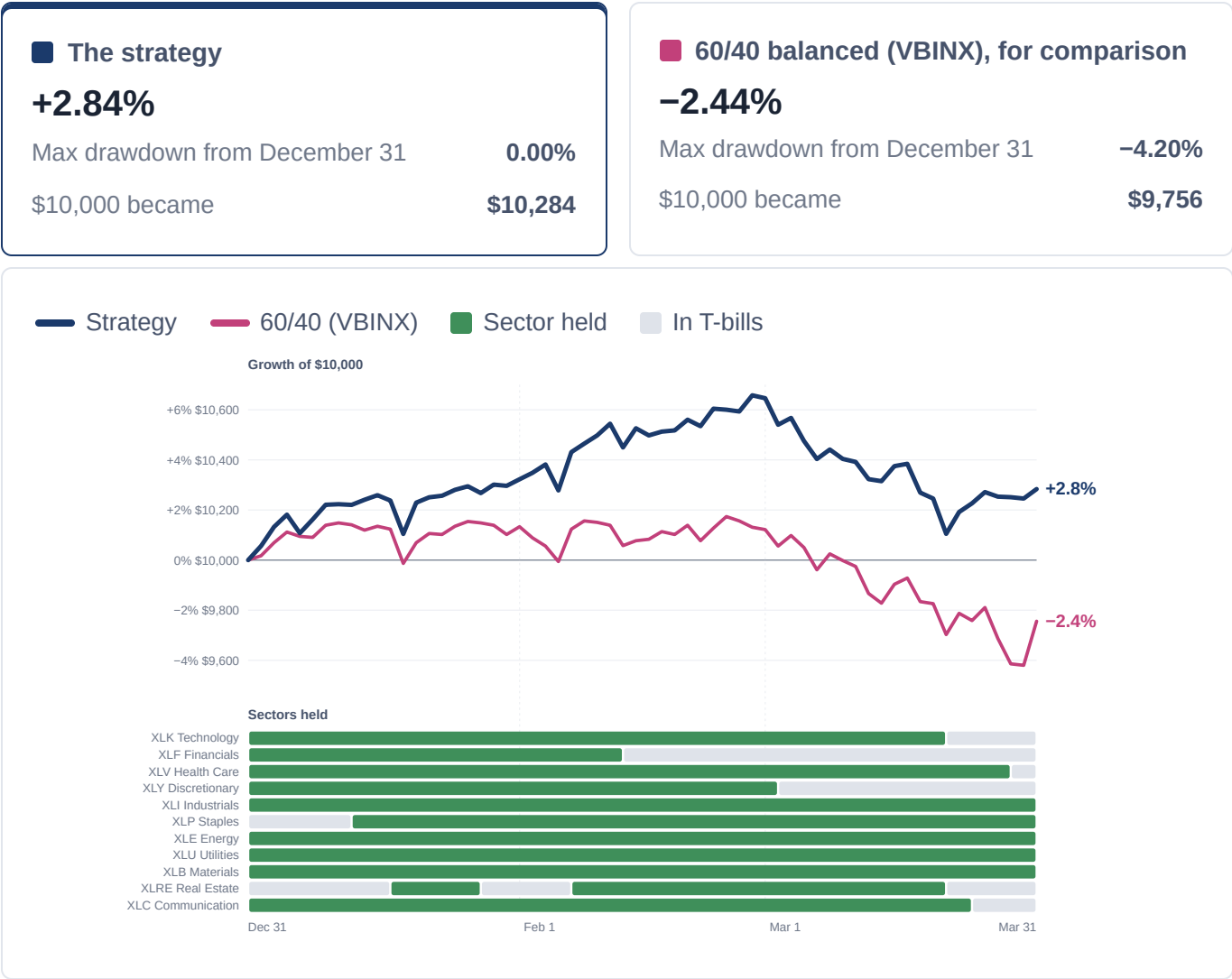
First Quarter Review: Up 2.8%

+2.84% for the quarter, a quarter-end note for subscribers, March 31, 2026

The first quarter is in the books. The strategy, which equal-weights the eleven stock market sectors and stays invested in each one only while it trades above its own long-term trend line (the average closing price over the past 200 trading days), finished the quarter up 2.84%. \$10,000 on December 31 was \$10,284 on March 31.

We run this as an **absolute-return strategy**. The goal is to grow your money and keep the declines along the way shallow, whatever the market is doing. By that measure the quarter did its job: a positive return, and the portfolio spent zero days below where it started.

Many investors hold a traditional 60/40 portfolio, meaning 60% stocks and 40% bonds, so we also show the Vanguard Balanced Index Fund (VBINX) as a familiar point of reference. It lost 2.44% over the same three months. Money the strategy held out of the market earned the 3-month T-bill yield, which averaged 3.58% a year during the quarter.



Never below where we started

	Q1 return	Max drawdown from December 31	Date of the low	Days below December 31 Value
■ Strategy	+2.84%	0.00%	None	0 of 61
■ 60/40 (VBINX)	-2.44%	-4.20%	March 30	19 of 61

We measure drawdown from the start of the quarter: if you had put money in on December 31, how far under water were you at the worst moment? The strategy closed above its starting value on every one of the quarter's 61 trading days. The 60/40 fund spent 19 of the 61 days below where it began, reached -4.20% on March 30, and finished the quarter under water.

Two things kept us above the starting line. Energy, held all quarter, gained 38%, and materials and utilities added 11% and 8%. And as prices weakened, the signal moved six sectors to T-bills one at a time: financials in February, then discretionary, technology, real estate, communication services and health care in March. By March 31 more than half the portfolio was in T-bills.

How much sat in T-bills

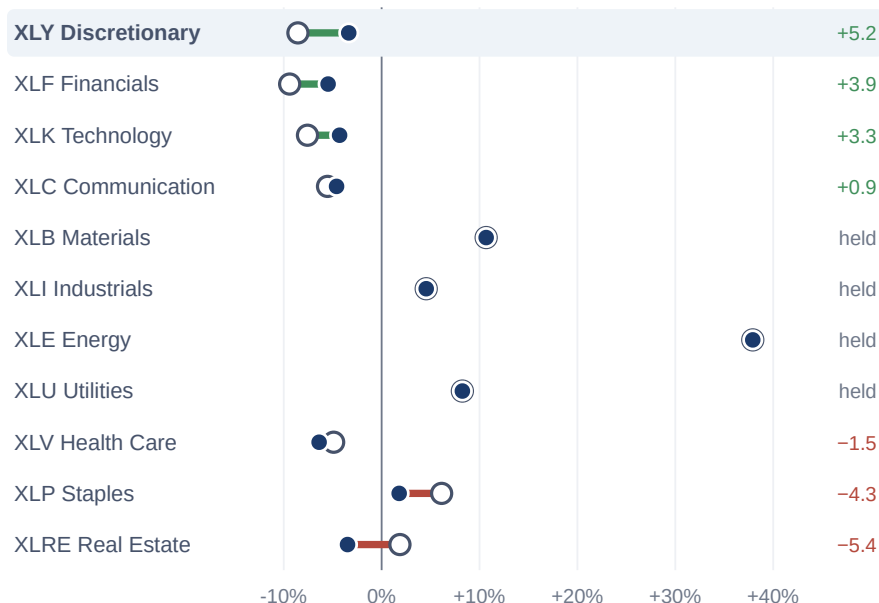
18%

In T-bills to start the quarter: 2 of 11 sectors
(staples, real estate).

55%

In T-bills at the March 31 close: 6 of 11 sectors.

What the signal did, sector by sector



Each row is one of the 11 sectors. Two marks sit on each row:

○ What the sector itself returned in Q1 ● What the strategy's position in that sector returned

When the two marks sit on top of each other, the strategy held that sector all quarter and got the same result. A green bar between them means the signal helped by moving to T-bills; a red bar means it cost. The number at the right is the gap in percentage points.

Reading one row: Discretionary (XLY)

XLY fell **8.6%** in Q1, so the open ring sits far to the left. The strategy started the quarter holding it and lost 3.6% on it through early March.

On March 3, XLY closed 1.1% below its 200-day average, past the 1% band. The strategy sold at the next morning's open, March 4. Over the rest of the month XLY dropped another **5.1%**, while that money earned 0.3% in T-bills.

Result: the strategy's discretionary position finished at **-3.4%**, which is where the solid dot sits. The green bar is the 5.2 points the sell signal saved.

Three rows went the other way, at the bottom. Real estate cost the most: its signal flipped four times, the strategy bought twice and sold twice, and the position lost 3.5% while XLRE gained 1.9%. Staples began the quarter in T-bills and had already risen 4.4% by the time the strategy bought on January 14. Health care was sold on March 30, just ahead of a 1.6% bounce.

Heading into the second quarter

Five of eleven sectors are held as of the March 31 close: industrials (XLI), staples (XLP), energy (XLE), utilities (XLU) and materials (XLB). Five went to T-bills during March: discretionary (XLY), technology (XLK), real estate (XLRE), communication services (XLC) and health care (XLV). Financials (XLF) has been in T-bills since February. The portfolio starts April 55% in T-bills, now yielding 3.60% a year, and each sector will move back in when its own signal turns.



We will keep you posted as the signals move.

John

For illustrative and educational purposes only. Past performance does not guarantee future results. Figures describe a model strategy and a hypothetical 60/40 balanced benchmark; they are not a recommendation to buy or sell any security.