

Halfway Through 2026: The Strategy Mirrors a Balanced Fund, But Keeps the Upside

+5.3% Year-to-Date — A mid-year note for subscribers, June 29, 2026

The first half of 2026 is almost behind us. The strategy, which equal-weights the eleven stock market sectors and only stays invested in each one as long as it is trading above its own long-term trend line (the average closing price over the past 200 trading days), is up about 5.3% year-to-date. That almost exactly matches the 5.2% year-to-date return on a standard 60/40 portfolio, meaning 60% stocks and 40% bonds (we use the Vanguard Balanced Index Fund as a proxy).

The strategy gained about 6.5% year-to-date by late February, then gave back 5.2% from that high during the spring selloff before bottoming on March 20. It has since climbed back to within a percentage point of that February peak. The 60/40 fund rose 1.7% year-to-date by late February, then dropped 5.8% from that high (putting it about 4% in the red for the year at its March 30 low), before going on to new highs in June. A scare like the spring one is not unusual on its own. Looking back more than fifty years, stocks have fallen five percent or more from a recent high in about four out of every five six-month periods.

Here is what was happening. As stocks slid in February and March, six sector signals flipped to cash because each had fallen more than one percent below its own trend line. That is why the strategy's worst decline, measured from its own high point, was about 5.2%, a touch smaller than the 60/40 fund's 5.8% drop from its peak. The strategy stayed in positive territory for the entire half, never dipping below where it started the year. The 60/40 fund, by contrast, spent 22 trading days below its starting level, reaching as low as minus 4% before recovering. The strategy's day-to-day and week-to-week swings were also somewhat smaller than the balanced fund's, which is not what most people would expect from an all-stock approach.

The bottom line: lower volatility, a shallower drawdown, and not a single day in the red, while remaining positioned to capture the full stock market upside when it comes.

Heading into the second half, nine of the eleven sector signals say stay invested. Consumer discretionary is barely below its trend line and would flip back in on a small bounce.

Communication services has fallen more than six percent below its trend line and has more ground to make up. No one knows whether these two are an early warning or just laggards in an otherwise healthy market, but the signal will do its job either way.

We will keep you posted as the signals move.