

Second Quarter Review: Up 2.6%

+2.56% for the quarter, a quarter-end note for subscribers, June 30, 2026

The second 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 2.56%. \$10,000 on March 31 was \$10,256 on June 30.

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 just two 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 gained 9.58% over the same three months, well ahead of the strategy. The sections below explain why. Money the strategy held out of the market earned the 3-month T-bill yield, which averaged 3.61% a year during the quarter.

■ The strategy

+2.56%

Max drawdown from March 31

-0.11%

\$10,000 became

\$10,256

■ 60/40 balanced (VBINX), for comparison

+9.58%

Max drawdown from March 31

0.00%

\$10,000 became

\$10,958



Steady, and well behind a sharp rebound

	Q2 return	Max drawdown from March 31	Date of the low	Days below March 31 Value
■ Strategy	+2.56%	−0.11%	April 1	2 of 62
■ 60/40 (VBINX)	+9.58%	0.00%	None	0 of 62

We measure drawdown from the start of the quarter: if you had put money in on March 31, how far under water were you at the worst moment? The strategy slipped 0.11% on April 1, the first trading day, closed 0.02% below its starting value on April 2, and stayed above it for the rest of the quarter. The 60/40 fund closed above where it began on all 62 trading days and gained 9.58%.

The gap comes from where the quarter started. After the March decline the strategy held 55% in T-bills, and the market turned up sharply in April. Each sector came back only after its own price closed more than 1% above its 200-day average, so the strategy missed the first leg of the rebound in the six sectors it had sold. The same rule kept the portfolio above its starting value all through the first quarter. The next section shows what it cost in the second, sector by sector.

How much sat in T-bills

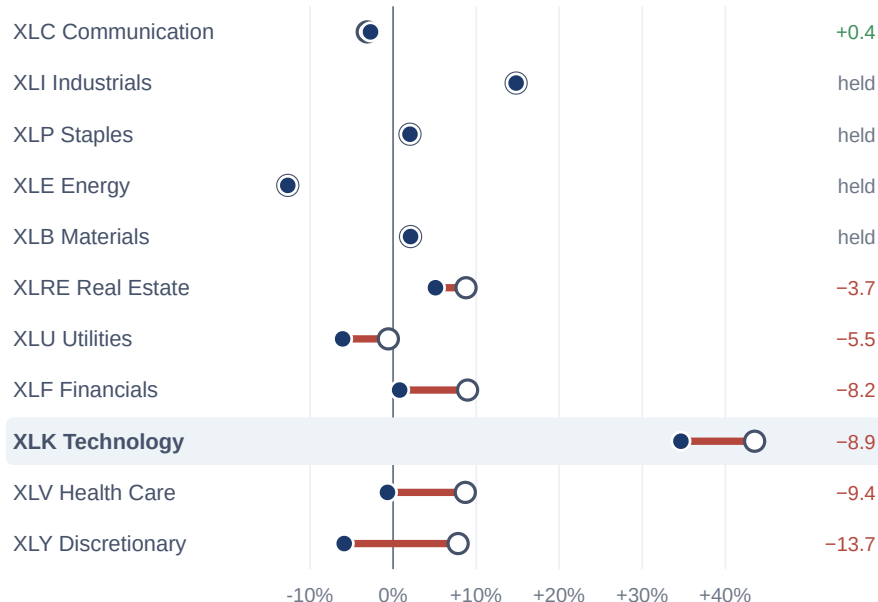
55%

In T-bills to start the quarter: 6 of 11 sectors
(technology, financials, health care, discretionary,
real estate, communication services).

18%

In T-bills at the June 30 close: 2 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 Q2 ☒ 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: Technology (XLK)

XLK gained **43.5%** in Q2, so the open ring sits far to the right. The strategy started the quarter with that money in T-bills, because XLK had closed below its band in March.

On April 8, XLK closed 2.1% above its 200-day average, past the 1% band. The strategy bought at the next morning's open, April 9. By then XLK had already risen **6.7%** from its March 31 close. From the purchase to June 30 it gained another 34.6%.

Result: with the first week's T-bill interest added, the strategy's technology position finished at **+34.7%**, which is where the solid dot sits. The red bar is the 8.9 points that waiting for the signal cost.

Discretionary, at the bottom, cost the most. Its signal flipped four times: the strategy bought on April 16 after XLY had already risen 8.6%, sold and bought back in May, and sold again on June 8. The position lost 5.9% while XLY gained 7.8%. Health care, financials and utilities each cost between 5 and 10 points for the same two reasons: a late re-entry or a signal that reversed. Financials did not come back until June 15, after XLF had risen 8.9%.

Four sectors were held all quarter and matched their sectors exactly: industrials, staples, energy and materials. Communication services was the one row where the signal helped, by 0.4 points.

Heading into the third quarter

Nine of eleven sectors are held as of the June 30 close: technology (XLK), financials (XLF), health care (XLV), industrials (XLI), staples (XLP), energy (XLE), utilities (XLU), materials (XLB) and real estate (XLRE). Two went to T-bills in early June: discretionary (XLY) and communication services (XLC). The portfolio starts July 18% in T-bills, now yielding 3.73% a year, and each sector will move back in when its own signal turns.

XLK held

XLF held

XLV held

XLY T-bills

XLI held

XLP held

XLE held

XLU held

XLB held

XLRE held

XLC T-bills

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.