

Third Quarter Review: Up 1%

+0.99% for the quarter, a quarter-end note for subscribers, September 30, 2026

The third 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 0.99%. \$10,000 on June 30 was \$10,099 on September 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 one day 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 0.57% over the same three months. Money the strategy held out of the market earned the 3-month T-bill yield, which averaged 3.78% a year during the quarter.

■ The strategy

+0.99%

Max drawdown from June 30 **-0.15%**

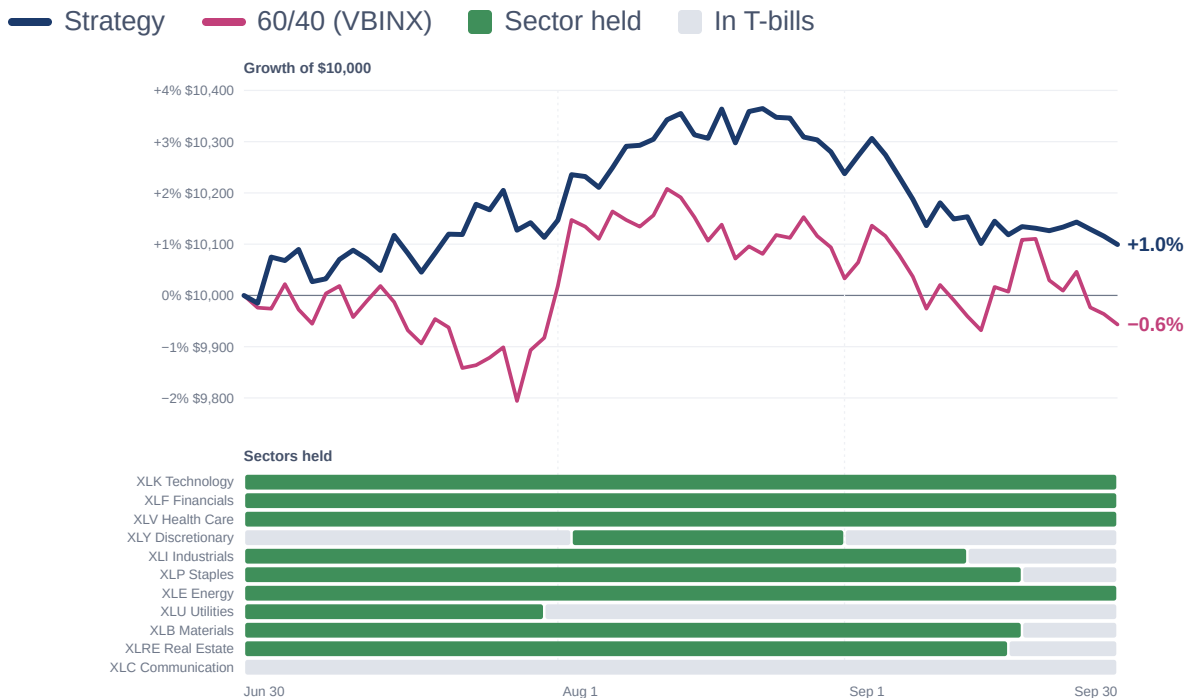
\$10,000 became **\$10,099**

■ 60/40 balanced (VBINX), for comparison

-0.57%

Max drawdown from June 30 **-2.06%**

\$10,000 became **\$9,943**



Almost never below where we started

	Q3 return	Max drawdown from June 30	Date of the low	Days below June 30 Value
■ Strategy	+0.99%	−0.15%	July 1	1 of 64
■ 60/40 (VBINX)	−0.57%	−2.06%	July 29	25 of 64

We measure drawdown from the start of the quarter: if you had put money in on June 30, how far under water were you at the worst moment? The strategy slipped 0.15% on July 1, the first trading day, and never went below its starting value again. The 60/40 fund spent 25 of the quarter's 64 trading days below where it began, reached −2.06% on July 29, and finished the quarter under water.

Two things kept us above the starting line. We began the quarter with 18% already in T-bills. And when utilities broke below their trend line at the end of July, the signal moved that money to T-bills before most of the sector's 12% slide, as the next section shows.

How much sat in T-bills

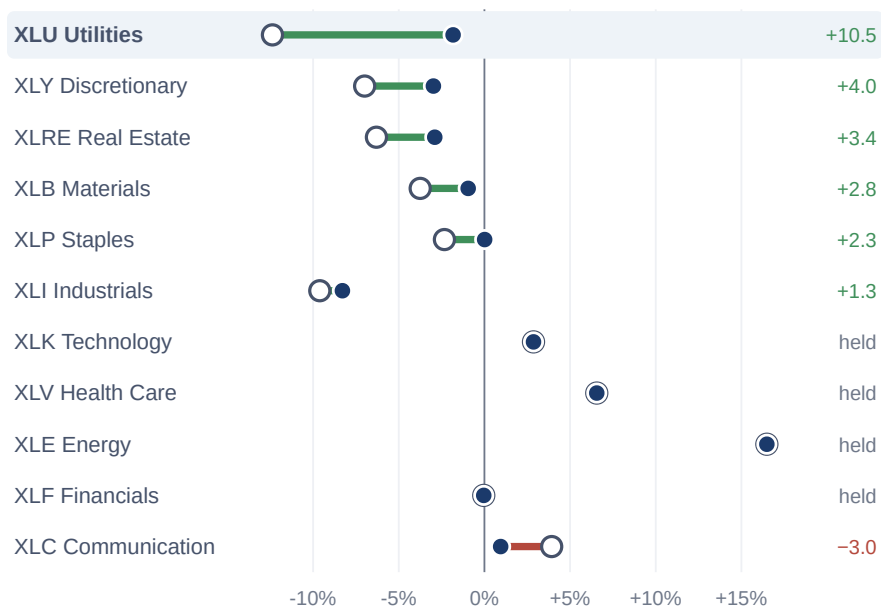
18%

In T-bills to start the quarter: 2 of 11 sectors
(discretionary, communication services).

64%

In T-bills at the September 30 close: 7 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 Q3 ● 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: Utilities (XLU)

XLU fell **12.4%** in Q3, so the open ring sits far to the left. The strategy started the quarter holding it and lost 2.2% on it in July.

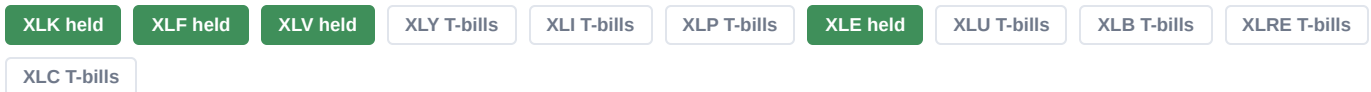
On July 31, XLU closed 1.2% below its 200-day average, past the 1% band. The strategy sold at the next morning's open, August 3. Over the next two months XLU dropped another **10.2%**, while that money earned 0.6% in T-bills.

Result: the strategy's utilities position finished at **-1.8%**, which is where the solid dot sits. The long green bar is the 10.5 points the sell signal saved.

The one row that went the other way is communication services at the bottom. It stayed below its 200-day line all quarter, so the strategy held T-bills and earned 0.9% while XLC gained 3.9%.

Heading into the fourth quarter

Four of eleven sectors are held as of the September 30 close: technology (XLK), financials (XLF), health care (XLV) and energy (XLE). Five went to T-bills during September: discretionary (XLY), industrials (XLI), real estate (XLRE), staples (XLP) and materials (XLB). The portfolio starts October 64% in T-bills, now yielding 4.03% 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.