Validea ETF Model Portfolio User Guide

Our goal at Validea is to follow proven quantitative strategies that work over the long-term. Our ETF portfolios utilize academic and investment practitioner research to build portfolios that seek to produce superior risk adjusted returns using proven factors like value and momentum, as well as economic and correlation-based analysis.

We offer three types of ETF Portfolios

1. **Factor Rotation Portfolios** – Our factor rotation portfolios rotate among the major investing factors using valuation, momentum, and macroeconomic variables.
2. **Sector Rotation Portfolios** - Our sector rotation portfolios use the same system to identify sectors that have the potential to outperform in the current market environment and to avoid those with the worst prospects.
3. **Risk Managed Portfolios** – Our risk managed portfolios use momentum and correlation analysis to blend stocks with other asset classes in an effort to reduce risk and boost risk-adjusted returns.

Our risk managed portfolios are included in our standard subscription and our factor and sector rotation portfolios are included in our professional subscription. All our ETF portfolios are rebalanced once per month (every 4th Friday). You can find the next rebalancing date on the main page for any of our ETF portfolios. It is important to note that our portfolios are model portfolios. That means that they do not invest actual money and they do not incorporate trading costs.

Factor Rotation Portfolios

Our factor rotation portfolios select ETFs from a universe of 15 ETFs that cover all the major investing factors, including size, value, quality, momentum and low volatility. At any given time, they will contain the top 5 scoring ETFs out of the 15 ETF universe.

We offer 4 main factor rotation portfolio approaches:

Value - This strategy invests in the factors that are the cheapest relative to their historical valuations (after screening out the factors with the lowest momentum).

Momentum - This strategy invests in the factors that have the strongest short-term (6 month) momentum.

Macro - This strategy invests in the factors that have performed best in similar historical macroeconomic environments to the current one. Each factor is ranked using a variety of macro variables, including GDP growth, inflation, and the slope of the yield curve, among others.

Composite – This portfolio uses a composite that takes into account value, momentum, and macroeconomic factors.

We offer two versions of each of our factor rotation portfolios. The standard version will invest in the highest rated factor ETFs regardless of the market environment. The “with trend” version will replace the factor ETFs with bond ETFs when the overall long-term market trend becomes negative, and more than half of the 15 ETFs used in the system turn negative using our trend following system.

Sector Rotation Portfolios

Our sector rotation portfolios select ETFs from a universe of 10 ETFs that cover all the major sectors. At any given time, they will contain the top 5 scoring ETFs from the 10 ETF universe.

As with factors, we offer 4 main sector rotation approaches:

Value - This strategy invests in the sectors that are the cheapest relative to their historical valuations (after screening out the sectors with the lowest momentum)

Momentum - This strategy invests in the sectors that have the strongest short-term (6 month) momentum.

Macro - This strategy invests in the sectors that have performed best in similar historical macroeconomic environments to the current one. Each sector is ranked using a variety of macro variables, including GDP growth, inflation, and the slope of the yield curve, among others.

Composite – This portfolio uses a composite that takes into account value, momentum, and macroeconomic factors.

Like our factor portfolios, we also offer a version of each of our sector rotation portfolios that utilizes a trend following based approach.

Risk Managed Portfolios

We offer 7 multi-asset risk managed portfolios that seek to limit volatility and reduce drawdowns during market declines.

Protective Asset Allocation - This strategy invests in the asset classes with the highest momentum using a selection universe of 12 ETFs. The asset classes covered are the S&P 500, the Russell 2000, the NASDAQ 100, European Equities, Japanese Equities, emerging market equities, long-term treasury bonds, high yield bonds, corporate bonds, commodities, gold, and real estate. The strategy will invest in the 6 asset classes with the strongest momentum on each rebalancing date. It will also move toward a crash protection asset (short or intermediate-term bonds) as the number of asset classes that are in a downtrend rises. Once more than half the assets in the selection universe are in a downtrend, the portfolio will invest 100% of its value in the crash protection asset.

Generalized Protective Momentum - This strategy uses the same universe as Protective Asset Allocation. It will invest in the 6 asset classes with the highest combined momentum and correlation score on each rebalancing date. It will also move toward a crash protection asset (short or intermediate-term bonds) as the number of asset classes that are in a downtrend rises. Once more than half the assets in the selection universe are in a downtrend, the portfolio will invest 100% of its value in the crash protection asset.

Robust Asset Allocation - Robust Asset Allocation was developed by Wesley Gray at Alpha Architect. The strategy invests in US and international stocks and couples them with diversifying positions in real estate, commodities and treasury bonds. The portfolio uses trend following and will remove any asset classes that are in a downtrend and replace them with short-term bonds.

Permanent Portfolio - The Permanent Portfolio seeks to offer smooth returns over time by investing an equal amount in 4 uncorrelated asset classes (stocks, long-term bonds, short-term bonds and gold).

Modified Permanent Portfolio - Our modified version of the Permanent Portfolio will invest only in the assets that are currently in an uptrend among the 4 in the standard Permanent Portfolio universe. If no assets are in an uptrend, it will invest 100% of its assets in short or intermediate-term bonds.

All Weather Portfolio - The All Weather Portfolio, which was created by Ray Dalio, seeks to offer investors a smoother ride across the economic cycle by investing in asset classes that perform well in both inflationary and deflationary environments. It invests in US stocks, long-term-bonds, intermediate-term bonds, commodities and gold.

Modified All Weather Portfolio - Our modified version of the All Weather Portfolio will invest only in the assets that are currently in an uptrend among those in its universe and will invest the remainder in short or intermediate-term bonds. If no assets are in an uptrend, it will invest 100% of its assets in short or intermediate-term bonds.

Using Our ETF Portfolio Page

Our ETF portfolio page allows you to view the simulated returns of our portfolios over a variety of time periods. You can change the time period using the right drop-down box on the page. Our ETF portfolios have simulated track records going back to 12/29/2006.

The left drop down on the page allows you to filter among the different portfolio types we offer.