

MacroFocus Portfolios

Financial Advisor Brochure (SEC Form ADV Part 2)



MacroFocus Portfolios

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This brochure provides information about the qualifications and business practices of MacroFocus Portfolios. If you have any questions about the contents of this brochure, please contact us. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Nor has the SEC implied a certain level of training or skill by registering MacroFocus Portfolios.

Additional information about MacroFocus Portfolios is available on the SEC's website at www.adviserinfo.sec.gov.

Material Changes

We have made significant changes to our methodology and its usability for investors since our last brochure issued March 13, 2012:

- Initiated a position stop-loss strategy with criteria based on deviation from the trend at position open, and on loss relative to our benchmark (*S&P Global 1200*).
- Initiated a portfolio stop-loss strategy designed to guard against global meltdowns of the *Great-Recession* variety, while not disrupting portfolios for normal market gyrations.
- Modified our recommendations strategy to avoid swaps when our core methodology is showing signs of ineffectiveness, or when global volatility exceeds certain limits. In this situation we only recommend selling excess positions or buying unfilled positions.

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Advisory Business

BUSINESS: *MacroFocus Portfolios* was started in 2009 as an internet-only provider of investment advice for individual investors. The basis of the methodology has been used since April of 2005 for family investments.

SERVICES: We offers specialized advice and procedures for helping an investor manage her own portfolio. Consistent with our SEC registration under 203A-2(f) (internet adviser), we mainly offer portfolio management *advice*, not portfolio management. Portfolio management is limited to a few special accounts allowed under the rule, where it takes the form of discretionary trading in the client's account utilizing our methodology (no custodial or brokerage services).

In the evolution of our methodology we have found it useful to measure the primary market trends of the numerous mutual, exchange-traded, and closed-end funds representing many dimensions of diversity, in hopes of discovering, by this empirical method, where the persistent momentum is within this convenient medium of investment. We particularly like to combine this momentum approach with value where we can, and were pleased to see academic validation of this concept in the work of Asness, Moskowitz, and Pedersen as [reported on MarketWatch](#) and on Pedersen's website in [slides](#) or [prose](#). This worked well from April 2005 to May 2008, yielding about 22% per year overall and 30% in some accounts. Since then, the methodology has been overcome by drastically changed global markets where correlations are very high both nationally and internationally, and volatility has approached the levels of the Great Depression. Our methodology is dependent on a sufficient variety of investment options (see eg [Requisite Variety from Cybernetics](#)), and longer term trends. These are not consistent with high volatility and high correlation. See our [Actuals / Overall](#) page for details on how we have fared since the Great Recession.

This momentum approach requires a relatively high turnover rate from time to time, and so it works better for tax deferred accounts. We have models that cover a reasonable range of investment profiles, but nothing for the day trader or the mattress stuffer. See our [Profile](#) page to evaluate which model is best for you. The quantitative aspect of the methodology identifies momentum and other characteristics, but the due-diligence and value aspect are not so well handled by computer models. While we are continually trying to infuse these aspects into our models, we will never replace the human in this respect. Therefore, the service works best for someone who is willing to do a little due-diligence to select from a short list of suggestions.

This is a specialized internet-only service that, by it's nature (trend-following using funds), has the following features and limitations.

- The service does not offer investment advice for anything other than mutual, exchange-traded, and closed-end funds.
- Mutual and exchange traded funds offer indirect access to most types of investments, including foreign and domestic, equities and bonds, commodities, precious metals, and bear market investments.
- The methodology is particularly well suited to self-managed retirement accounts where the turnover within funds and among funds will not generate tax consequences.
- As mutual funds have minimum investment requirements, a practical sized account might be \$18,000, consisting of six positions in mutual funds with minimum initial investment requirements of

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\$3,000 each.

TAILORING: We have three models for different risk profiles that we label *aggressive*, *moderate*, and *prudent*, along with a questionnaire to help in selecting a suitable model. The client will upload confirms of trades, or equivalent information, so that we are able to calculate portfolio performance, and to evaluate sell and replacement candidates that are consistent with position size and the client's broker. Our suggested purchase candidates meet our criteria for diversification, volatility, and past amenability to our methodology. If a client wishes to impose further restriction on investing in certain securities or types of securities, she may do so by simply ignoring any purchase candidates she does not want to consider.

ASSETS UNDER MANAGEMENT: SEC *Internet Investment Advisers* are precluded by definition from managing assets, apart from a few *de minimis* accounts. Our *de minimis* account assets totaled **\$498,000** as of 2012-12-31.

Fees and Compensation

PORTFOLIO FEES The fee for recommendations for a specific portfolio is \$20/month, billed quarterly in arrears and is not negotiable. For a few (*de minimis*) accounts we provide personal recommendations and execution, but none of those accounts are being charged a fee currently.

OTHER CHARGES We have no other charges. We do not provide directly or indirectly either brokerage or custodial services. The client will arrange separately and independently for a broker/custodian. The client's broker/custodian, as well as the funds (investment companies) we recommend or order for the client, will charge fees. The client's total investment fees will include such fees as well as our fees (see also [Brokerage Practices](#)).

Performance-Based Fees and Side-By-Side Management

Does not apply.

Types of Clients

Services are intended only for individuals, trusts, estates, and charitable organizations. We do not provide services to banks, thrifts, investment companies, pensions plans, or profit sharing plans. A MacroFocus client might have a self-directed retirement account, a long investment horizon, and an appreciation of the advantage of a few percentage points in return over the long run. A practical sized account that utilized mutual funds might be \$18,000, consisting of six positions in mutual funds with minimum initial investment requirements of \$3,000 each.

Methods of Analysis, Investment Strategies and Risk of Loss

We utilize a trend-following or momentum method of analysis that focuses on primary price trends. We filter on volatility relative to the S&P Global 1200 index, and on performance tests of our methodology. Our strategy is to maintain a limited number of mutual or exchange-traded funds (eg six funds in a

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portfolio) and to exchange funds that are ranked significantly higher by our analysis. We maintain diversification by numerically limiting correlation between positions. We provide customized portfolio recommendations weekly, and will recommend a position be swapped out if we have possibilities that are significantly better in the sense of our trend assessment. We hold for a minimum of 13 weeks before swapping, but will sell on stop-loss criteria at any time. The processes of swapping out and of stopping out help us find trending assets as well as protecting against losses.

Our *aggressive* investment approach may be considered to have high risk of loss and high potential reward. Our experience with these portfolios **through** the Great Recession has shown trailing year returns between -60% and +70% with volatility between 1 and 2 times the S&P Global 1200.

Our *moderate* investment approach may be considered to have moderate risk of loss and high potential reward. Our experience with these portfolios **since** the Great Recession has shown trailing year returns between -12% and +50% with volatility between 1 and 1.4 times the S&P Global 1200.

In periods like the Great Recession, our analysis will suggest alternate or more conservative investments which may mitigate the market risk somewhat. We also have incorporated automated signals that would avoid most of a *Great Recession*, while not triggering during normal market gyrations. We invest in funds only, so we have very little risk of the type associated with individual companies, such as bankruptcy.

Our significant/material/important risks are listed below. Most of these have a potential upside as well as a downside, and most are mitigated by the methodology.

- World risk (such as the Great Recession of 2008) for all funds.
- Country risk for country funds such as all domestic equity funds, or country index funds.
- Industry risk for funds that are focused on a single industry.
- Currency risk for funds focused on foreign investments.
- Commodity risk for commodity funds, especially those that are narrowly focused on a single commodity.
- Precious metals risks for funds focused on precious metals.
- Interest rate, income, call, inflation, and credit risk for funds focused on bonds.
- Management risk for all actively managed funds.
- Frequent-trading risk with respect to taxes and expenses.

As we invest only in mutual, exchange-traded, and closed-end funds, *management risk* is the only risk peculiar to a large portion of our potential investments (those funds that are actively managed). This risk is mitigated by our methodology.

Disciplinary Information

Does not apply. Neither MacroFocus Portfolios nor any management person has been involved in any disciplinary event, material or otherwise.

Other Financial Industry Activities and Affiliations

Does not apply. Neither MacroFocus Portfolios nor any management person has any other financial

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industry activities or affiliations, material or otherwise.

Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Code of Ethics

The MacroFocus Code of Ethics is published on the website at www.mf-portfolios.net/doc/reg/ethics. The code consists of three sections and a glossary:

- *General Principals of Conduct* cover's the fiduciary duties of supervised persons, their confidentiality duties, and a requirement for independence in investment decision making.
- *Standards of Business Conduct* covers compliance with laws and regulations, avoidance of conflicts of interest, prohibition of insider trading, pre-clearance of certain personal securities transactions, limitations on business gifts and entertainment, confidential treatment of client information, and serving on certain boards of directors.
- *Compliance* covers reporting by access persons of holdings (annually) and transactions (quarterly), monitoring of holdings and transactions, as well as reporting of violations and acknowledgment of receipt of the code of ethics.
- *Glossary* defines access persons, adviser, de minimis value, pre-clearance, reportable securities, and supervised persons.

Participation or Interest in Client Transactions

MacroFocus Portfolios only recommends mutual, exchange-traded, and closed-end funds. Neither MacroFocus Portfolios, nor any related person has any interest in any mutual, exchange-traded, or closed-end fund.

However, management may buy or sell for itself, securities that MacroFocus recommends to clients. These are all mutual, exchange-traded, or closed-end fund securities and do not represent a potential conflict of interest.

Brokerage Practices

MacroFocus does not provide, directly or indirectly, brokerage services. If it were not for the fact that we utilize a lot of mutual funds, we would have little interest in which brokerage a client might use, since Brokerage fees are usually not a significant factor influencing total return of our portfolios. However, it is critical to the success of our methodology that a brokerage handle an adequate number and variety of mutual funds. We will recommend in a general way, that clients will have better results with a brokerage that caters to mutual fund investors by having a large selection of funds to choose from.

Review of Accounts

All portfolio accounts are programmatically reviewed on a weekly basis, generating portfolio-specific recommendations and performance results that are delivered by website and email.

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Client Referrals and Other Compensation

Does not apply.

Custody

Does not apply.

Investment Discretion

Investment discretion is utilized in only a few (de minimis) *managed* accounts, where MacroFocus executes trades in the client's brokerage account. Clients may select among the *prudent*, *moderate*, and *aggressive* model portfolios. *Managed* accounts require that a limited power of attorney be executed by client and registered with client's broker.

Voting Client Securities

MacroFocus Portfolios does not accept responsibility for voting client shares. Clients will receive proxies directly through their brokers. We do not offer advice on how to vote shares of mutual, exchange-traded, or closed-end funds.

Financial Information

MacroFocus Portfolios is not aware of any financial condition that would limit our ability to fulfill our contractual obligations.

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Supplement - Edward Verner, Sole Proprietor

Supplement prepared 2013-02-14

This brochure supplement provides information about Edward Verner that supplements the MacroFocus Portfolios related information presented earlier. Please contact us if you have any questions about the contents of this supplement.

Additional information about Edward Verner is available on the SEC's website at www.adviserinfo.sec.gov.

Educational Background and Business Experience

Edward Verner was born in 1943. He received BS (1966) and PhD (1971) engineering degrees from the University of Texas at Austin. He retired from TRW Space and Defense in 2002. Since then he has been investing family funds, and since 2005 has been applying the MacroFocus methodology to family investments.

Disciplinary Information

No disciplinary related events of any type.

Other Business Activities

No *other* investment-related business activities of any type.

Additional Compensation

No additional compensation of any kind.

Supervision

Edward Verner, Sole Proprietor, 310-309-0678 is responsible for supervising Edward Verner. This relationship is such that supervisee never does anything unless supervisor is in complete agreement.