

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 at 805-410-4106 or support@mf-portfolios.net. 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

Since our last annual brochure update on March 3, 2013, there have been a few changes that might be considered *material*.

- We have replaced our *prudent* model portfolio with one that we previously called *low volatility equities*. The volatility requirement for this new *prudent* model is less restrictive than the old *prudent* model.
- We have enhanced our capital preservation mechanisms:
 - Buy recommendations have been curtailed during periods of high volatility and low effectiveness, with the attendant result that any stop loss sales are replaced by cash.
 - The Position-Trend Stop-Loss recommendations are invoked more often by decreasing its trigger by 60%.
 - The Market-Relative Stop-Loss recommendations are invoked less often by increasing its trigger by 25%.
 - We have replaced our Market Stop-Loss criteria in favor of a variation on Gary Antonacci's [Absolute Momentum](#) approach where negative market momentum is a signal to move to cash. Market momentum measures are displayed on the website, and email notification is issued if Advisor recommends moving to cash.
- We have changed our standard contract to reflect the possible use of a smaller number of positions or positions with a smaller initial investment. There are two reasons for this
 - We are now more comfortable with a small number of positions because of some successful experiences.
 - Exchange traded funds have become prevalent enough to consider having portfolios composed

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solely of exchange traded funds or closed-end funds. This combined with the fact that they have a smaller effective minimum initial purchase than mutual funds, allows for smaller portfolios.

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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. Edward Verner is the owner.

SERVICES: We offers specialized advice and procedures for helping investors manage their own portfolios. Consistent with our SEC registration as an *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). Our specialized advice and procedures are further described:

- **APPROACH:** We believe in the newer market theories based on complex adaptive systems. We believe that these systems are guided by fundamentals over the long term, but difficult to fathom over the short term. Complex adaptive systems do a better job of explaining *trend persistence* that is found throughout nature. The corollary to the idea that the market is guided by fundamentals over the long term is that *price momentum measured over the longer term correlates with fundamental value*. Our experience also correlates with recent factor analyses that suggest *value*, *momentum*, and *low-volatility* are the most significant factors in a robust sense. In the evolution of our methodology we have found it useful to utilize such a longer-term measure of price momentum to filter the numerous mutual, exchange-traded, and closed-end funds representing many dimensions of diversity.
- **MARKET LIMITATIONS:** We believe our methodology is dependent on a sufficient variety of investment options (see eg *Requisite Variety from Cybernetics*), and longer term trends. When correlations between all markets prevail, as in a crisis like the *Great Recession*, we loose the variety. When volatility increases, our trends are disrupted. Studies of complex adaptive systems, suggest markets function well when there is a diversity of decision rules and agent errors are independent, and we believe this is when our methodology functions well.
- **SUITABILITY:** The more aggressive models, in terms of volatility tolerance, require a relatively high turnover rate from time to time, and so work better for tax deferred accounts. Fortunately, the least aggressive model often works better than the more aggressive models. Also note that we usually generate several likely candidates for purchase, rather than a single recommendation. Therefore, the service works best for someone who is willing to do a little due-diligence to select from a short list of suggestions. A professional with a self-managed 401(k) account would be a likely candidate.
- **FEATURES AND LIMITATIONS:** 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.

TAILORING: We have three models for different risk profiles that we label *aggressive*, *moderate*, and *prudent* (aka Low Volatility Equities or LVE), along with a questionnaire to help in selecting a suitable _____

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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 momentum. Clients that wish to impose further restriction on investing in certain securities or types of securities, may do so by simply ignoring any purchase candidates they do 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 **\$695k** as of 2015-03-20.

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.

Methods of Analysis, Investment Strategies and Risk of Loss

Any investment entails potential for both gain and loss, and no strategy can remove the potential for 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 portfolio) and to exchange funds that are ranked significantly higher by our analysis. We maintain diversification by numerically limiting the initial 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 period before swapping (typically 4 to 13 weeks), but will sell on stop-loss criteria at any time.

The level of risk depends largely on the model filter for relative volatility. The aggressive and moderate

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models include leveraged funds that are typically configured to return a multiple of an index for a day. The math works out so that a fund that returns twice the index on a daily basis, would be down about 2% if its index went from 10 to 11, and back to 10. $[(1+(1/10)*2)*(1-(1/11)*2) = 0.9818]$. These also add risk.

In periods like the Great Recession, our analysis will suggest alternate or more conservative investments which may mitigate the market risk somewhat. We also utilize a variation on Gary Antonacci's [Absolute Momentum](#) approach where negative market momentum is a signal to move to cash. Market momentum measures are displayed on the website, and email notification is issued if Advisor recommends moving to cash. 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 (market) 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.

We invest only in funds (mutual, exchange-traded, and closed-end). The risks of this type of security is the same as the risks listed above.

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 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. Additionally, a copy will be supplied upon request. The code consists of three sections and a glossary:

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- *General Principles 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, Advisor may buy or sell for himself, securities that are recommended to clients. One potential conflict of interest occurs because a trade by Advisor, just before a trade of the same security for a client, could adversely affect the price to the client. Another conflict of interest occurs if Advisor recommends securities to clients in order to help push up the prices of his own holdings. For normal clients (those for whom the only recommendations are computer generated), there is little potential for conflict of interest, because

1. the computer algorithms are not affected by Advisor's holdings
2. Advisor has no knowledge of when (during the week), or if, the client may act on the recommendation, and
3. the recommendations usually lack specificity on the buy side, being of the form "sell this position, and buy one of these several securities".

For a few (de minimis) clients, Advisor makes specific choices of whether to act on the recommendation, and if so, which security to purchase. In these cases Advisor executes the client trades first.

Brokerage Practices

MacroFocus does not have any relationship with any broker other than a personal brokerage account. 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 unlikely to be a significant factor influencing total return of our portfolios. However, the success of our methodology will be enhanced if a brokerage handles 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.

MacroFocus does not aggregate orders and has no ability to do so.

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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.

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 provides specific recommendations. Clients may select among the *prudent* (aka *low-volatility-equities*, or *LVE*), *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 its ability to fulfill its contractual obligations.

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Supplement - Edward Verner

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Current through: 2015-03-20

This brochure supplement provides information about Edward Verner that supplements the MacroFocus Portfolios brochure. You should have received a copy of that brochure. Please contact MacroFocus Portfolios if you did not receive MacroFocus Portfolios's brochure or 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, CCO, 805-410-4106 is responsible for supervising Edward Verner. This relationship is such that supervisee never does anything unless supervisor is in complete agreement.