

# MacroFocus Portfolios

Financial Advisor Brochure (SEC Form ADV Part 2)



## MacroFocus Portfolios

1626 Glenbrook Lane  
Thousand Oaks, CA 91320

voice: 310-309-0678  
fax: 805-823-6885  
email: [support@mf-portfolios.net](mailto:support@mf-portfolios.net)  
web: [www.mf-portfolios.net](http://www.mf-portfolios.net)

March 24, 2020

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 MacroFocus at 310-309-0678 or [support@mf-portfolios.net](mailto: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](http://www.adviserinfo.sec.gov).

## Material Changes

The following changes were implemented since the last annual brochure update:

1. A formal set of **approved funds** was introduced. The intent of this is to include only **old-fashioned long-only unleveraged equity/debt funds** having increasing levels of equity allocation and leverage for the more aggressive models. The review process utilizes a set of *qualification metrics* that include strict limits on stock and bond allocations and leverage, as well as screening based on fund name and objective.
2. Limiting turnover has gone from a recommendation to an algorithm by requiring a fund to not only be on the **approved funds** list, but to have a better longish-term performance relative to the fund it would replace. The longish-term is 4, 2, or 1 years for the *prudent*, *moderate*, and *aggressive* models respectively.
3. With the move to **old-fashioned long-only unleveraged equity/debt funds** having increasing levels of equity allocation and leverage for the more aggressive models, there is no longer a need for formal stops for either the positions or the portfolio. The old stops were removed and formal stops are no longer implemented.

# MacroFocus Portfolios

Financial Advisor Brochure (SEC Form ADV Part 2)



## Table of Contents

- Advisory Business
- Fees and Compensation
- Performance-Based Fees and Side-By-Side Management
- Types of Clients
- Methods of Analysis, Investment Strategies and Risk of Loss
- Disciplinary Information
- Other Financial Industry Activities and Affiliations
- Code of Ethics, Participation or Interest in Client Transactions and Personal Trading
- Brokerage Practices
- Review of Accounts
- Client Referrals and Other Compensation
- Custody
- Investment Discretion
- Voting Client Securities
- Financial Information
- Brochure Supplement for Edward Verner

# MacroFocus Portfolios

Financial Advisor Brochure (SEC Form ADV Part 2)



## 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:** MacroFocus offers specialized advice and procedures for helping investors manage their own portfolios. Consistent with SEC registration as an *Internet adviser*, MacroFocus mainly offers 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 either more specific advice, or discretionary trading for the client's account. The MacroFocus specialized advice and procedures are further described:

- **APPROACH:** The MacroFocus approach starts with a view of market behaviour as a non-stationary complex adaptive system that is guided by fundamentals over the long term, but difficult to fathom over the short term. 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*. This idea is also supported by recent *factor analyses* (*Finding Smart Beta in the Factor Zoo* by Hsu, and Kalesnik, 2014) suggesting that *value, momentum, and low-volatility* are the most significant *factors* in a robust sense. In the evolution of the MacroFocus methodology, such a longer-term measure of price *momentum*, along with *volatility*, have been found to be useful as a filter for the numerous mutual, exchange-traded, and closed-end funds representing many dimensions of diversity. The *value* part is left to the client to evaluate when considering a specific set of funds.
- **MARKET LIMITATIONS:** The MacroFocus methodology is dependent on a sufficient variety of investment options and longer-term trends. When correlations between all markets prevail, as in a crisis like the *Great Recession*, the variety wanes. When volatility increases, the 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 (*Revisiting Market Efficiency: The Stock Market as a Complex Adaptive System*, Mauboussin, 2002). This is also when the MacroFocus methodology seems to function well.
- **SUITABILITY:** Changing trends will produce turnover from time to time, which is better accommodated in a tax deferred account, and usually bad for trend-following methodologies such as this one. A suitable individual is probably someone who would normally choose to do their own investing and sees this service as an aid to that end. A professional with a some market knowledge, a do-it-yourself attitude, and a self-managed 401(k) account would probably be an ideally suitable 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.

# MacroFocus Portfolios

Financial Advisor Brochure (SEC Form ADV Part 2)



**TAILORING:** There are three models that are labeled *aggressive*, *moderate*, and *prudent*, along with indices to help pick the more effective model, subject to risk tolerance as graded by a risk-profile questionnaire. The client will provide trade information so that portfolio performance can be calculated, and trade candidates can be tailored to current positions. Recommendation candidates will meet the MacroFocus criteria for diversification, volatility, momentum, and long-term performance, according to the model for the portfolio. The candidates for recommendation will then be reviewed for addition to the approved funds list. The review process utilizes a set of *qualification metrics* that include strict limits on stock and bond allocations and leverage, as well as screening based on fund name and objective, all tailored to the portfolio model. Swaps for a position will be limited to those with a better medium-term performance, where long-term is 10-years and short term is 1-year. For the *prudent* model, better 4-year performance is the current criteria.

**ASSETS UNDER MANAGEMENT:** SEC *Internet Investment Advisers* are precluded by definition from managing assets, apart from a few *de minimis* accounts. The MacroFocus *de minimis* account assets totaled **\$871k** as of year-end 2018.

## Fees and Compensation

**PORTFOLIO FEES** The fee for recommendations, regardless of the number of portfolios, is \$240/year, billed quarterly in arrears and is not negotiable. For a few (*de minimis*) accounts, more specific recommendations are provided, but none of those accounts are being charged a fee currently.

**OTHER CHARGES** There are no other charges. Neither brokerage nor custodial services are provided. The client will arrange separately and independently for a broker/custodian. The client's broker/custodian, as well as the funds (investment companies), may charge fees. The client's total investment fees will include such fees as well as those charged by MacroFocus (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. Services are not provided 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. The MacroFocus methodology filters the fund universe based on price momentum, volatility rank, and long-term performance, with criteria depending on the portfolio model (*prudent*, *moderate*, *aggressive*). The resulting short list are candidates for recommendation. The candidates for recommendation are reviewed for addition to the *approved funds list*. The review process utilizes a set of *qualification metrics* that include strict limits on stock and bond allocations and leverage, as well as screening based on fund name and objective, all tailored to the portfolio model. The intent of this is to

# MacroFocus Portfolios

Financial Advisor Brochure (SEC Form ADV Part 2)



include only **old-fashioned long-only unleveraged equity/debt funds** having increasing levels of equity allocation and leverage for the more aggressive models.

The client would maintain a limited number of funds in a portfolio (eg six), and consider exchanging funds that are ranked significantly higher in price momentum, but no sooner than a minimum hold period (typically 13 weeks). Diversification is maintained by numerically limiting the initial correlation between positions. Recommendations are provided weekly.

The level of risk depends largely on the model filter for volatility rank, although all levels have risk. MacroFocus limits investments to **old-fashioned long-only unleveraged equity/debt funds** having increasing levels of equity allocation and leverage for the more aggressive models. Furthermore, the more aggressive models are not currently utilized by any clients, and are unlikely to be recommended. There is also a temporary bias against bond allocations because of the volatile bond market, with seemingly nowhere to go but down in price (up in yield). With this stance, the risk is largely limited to business risk, and suffers little, if at all, to risk of gambling mechanisms common in funds of late.

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.

Only funds (mutual, exchange-traded, and closed-end) are recommended. The risks for this type of security are 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](http://www.mf-portfolios.net/doc/reg/ethics). Additionally, a copy will be supplied upon request. The code consists of three sections and a glossary:

- *General Principles of Conduct* covers 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. The only recommendation that MacroFocus makes in this regard, is that a broker should offer an adequate number and variety of mutual funds.

# MacroFocus Portfolios

Financial Advisor Brochure (SEC Form ADV Part 2)



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

## 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*, *moderate*, and *aggressive* model portfolios. Managed accounts will issue an additional Buy/Sell Memo with specific buy this and/or sell that instructions. Some existing family accounts have orders executed by Advisor based on a limited power of attorney 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. No advice is offered 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.

# MacroFocus Portfolios

Financial Advisor Brochure (SEC Form ADV Part 2)



## Supplement - Edward Verner

### MacroFocus Portfolios

1626 Glenbrock Lane  
Thousand Oaks, CA 91320  
310-309-0678

Current through: 2019-03-15

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](http://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, 310-309-0678 is responsible for supervising Edward Verner. This relationship is such that supervisee never does anything unless supervisor is in complete agreement.