

MacroFocus Portfolios

Financial Advisor Brochure (SEC Form ADV Part 2)



MacroFocus Portfolios

5520 E Vista Del Este
Anaheim, CA 92807

voice: 310-309-0678
email: support@mf-portfolios.net
web: www.mf-portfolios.net

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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 MacroFocus at 310-309-0678 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

Most changes have to do with alternate recommendations for highly-correlated markets such as bull and bear markets. These, and others, implemented since the last annual brochure update are:

1. **2022-05 DEFINED A CASH-LIKE INVESTMENT CATEGORY (A BEAR-MARKET STRATEGY).** This investment category is useful in rising interest-rate environments when a recession or significant drawdown is likely. The *Cash-Like* investment category has the following properties:
 - **Almost never loses value**, which is based on *no significant loss of principal* in major market drawdowns, or rising interest-rate environments.
 - **Is available to typical clients** (eg Schwab and TD Ameritrade, with suitable initial investment limits).
 - **Has adequate liquidity.** Not Prime or Municipal money market funds, that are required to consider the utilization of fees and withdrawal restrictions when liquidity drops below certain limits. Government money market funds are not required to do so, and Schwab's funds do not.
 - **Has 5+ Year History**
This has been extremely useful with the highly-inverted yield curves of late.
2. **2022-08 DEFINED BEAR-MARKET RALLY MEASURES.** These measures are used to help determine how likely a bear-market rally is relative to previously observed bear-market rallies. With the October rally size peaking at the 91st percentile, it was comforting to know there have been bigger ones!
3. **2022-08 CHANGED MACROFOCUS MELTDOWN INDICATOR SMOOTHING ALGORITHM.** The smoothing algorithm was originally a 200-day exponential moving average, and was changed to a wavelet smoothing algorithm. What was ok for the 2001 Dot-com bubble), and the 2009 Great Recession, was far from adequate for the Wile E. Coyote moment caused by the 2020 COVID-19 recession, delaying the response by many months.

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4. **2022-12 DEFINED A BULL MARKET STRATEGY.** The bull-market strategy was designed to avoid trying to navigate in a stampede. This strategy:
 - utilizes a broad market index such as the *S&P 500*,
 - defines a method of limiting drawdowns, and
 - defines a method of getting in early, without significant penalty relative to remaining in *Cash-Like* assets
5. **2023-01 CHANGED ACCOUNT-HOLDER ACCESS.** The resources available to account holders who had not completed a profile and signed a contract, did not previously include recommendations, since these (now referred to as *Swap Recommendations*) required custom preparation based on asset holdings. Since the introduction of *Portfolio Recommendations*, with a method to avoid choosing highly correlated assets, recommendations are now available without custom tailoring based on account holdings. This, and the fact that these recommendations are much easier for client to utilize, and to utilize effectively, account-holders are now granted access to all recommendations except *Swap Recommendations*. Account holders now have access to the *Portfolio Recommendations* for building initial portfolios based on long-term performance, and the *Alternate Recommendations* for Bull and Bear market conditions. The account request requires certain data to be submitted, including a self assessment of applicant's investing experience. If we have a *Portfolio Recommendations* volatility class suitable for the applicant's experience, an account may be granted with access to those models.
6. **2023-02 CORRELATED-MARKET TURNING POINT INDICATORS.** Implemented a series of *Market Indicators*, and *Recession Indicators* to help determine turning points from bear to bull markets.
7. **2023-02 PERFORMANCE CALCULATIONS.** Performance calculations will no longer be provided except for a few *de minimis* clients for whom I directly manage portfolios, and those are calculated with *Fund Manager*. My performance calculations required clients to input transactions, not just positions, and even then, did not include cash. Clients that want a portfolio-level performance calculation, can buy the *Fund Manager* software at a reasonable price for home users, with the advantage of downloading transactions from their broker.

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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: 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 behavior 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 *factor* analyses such as *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 longer-term measures 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.
- **MARKET LIMITATIONS:** The MacroFocus methodology is dependent on a sufficient diversity of investment options and on longer-term trends. When correlations between all markets prevail, as in a crisis like the *Great Recession*, the diversity 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. To counter this limitation the MacroFocus methodology has evolved to invoke automated warnings against trading when market volatility and correlations are high. In response to the ultimate disrupters of longer-term trends like the *Dot-com Bubble*, *Great Recession*, the *MacroFocus Meltdown Indicator* was developed in 2013. In it's original form it did not respond nearly quick enough for the *COVID-19 Recession*, due to a lag induced by the smoothing technique. After introduction of a smoothing technique with minimal lag, it clearly warned of the *COVID-19 Recession*, and has been in an intermediate state between normal and abnormal up until 2023-02-27. Since early 2023, MacroFocus methodology invokes an automated shift to *Alternate Recommendations* specifically tailored to highly correlated bull and bear markets, when there are significant drawdowns in the *MacroFocus Meltdown Indicator*, or in broad equity market indices. We still consider our methodology as trend-following, but with the addition of *bull* and *bear* trends to be used under correlated market conditions.
- **SUITABILITY:** Changing trends will produce turnover from time to time, which is better accommodated in a tax deferred account. 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.

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- **FEATURES AND LIMITATIONS:** This is a specialized internet-only service that, by its 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, exchange-traded, and closed-end funds offer indirect access to most types of investments, including foreign and domestic, equities and bonds, commodities, precious metals, and bear market investments.

TAILORING: Our model portfolios are primarily filtered on volatility rank. A risk-profile questionnaire is available to help identify a suitable model portfolio. Recommendation candidates will meet the MacroFocus criteria for diversification, volatility rank, performance prediction, and long-term performance, according to the portfolio model. Candidate funds are periodically 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 category, all tailored to the portfolio model.

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 \$1,109k as of year-end 2022.

Fees and Compensation

PORTFOLIO FEES There is no fee for most recommendations, including *Portfolio Recommendations* based on forecasts utilizing long-term performance, and *Alternate Recommendations* for correlated bull and bear markets. The fee for *Swap Recommendations* is \$240/year, billed quarterly in arrears and is not negotiable.

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 any 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 for *uncorrelated markets* filters the fund universe based on predicted

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intermediate-term performance, volatility rank, and long-term performance. 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 limits on stock and bond allocations and leverage, as well as screening based on fund name and category, all tailored to the portfolio model. The intent of this is to include **old-fashioned, mostly-long, unleveraged equity/debt funds** having increasing levels of equity allocation and leverage for the more aggressive models.

For *correlated bull and bear markets*, we offer *Alternate Recommendation* that typically utilize short-term floating-rate bonds/credit for bear markets, and broad indices for bull markets, which avoid the difficulty of trying to navigate in a stampede.

For more aggressive investors, we offer *Swap Recommendations* (for use during *uncorrelated markets*) which try to look ahead based on shorter term momentum measures. After you have established positions using the *Portfolio Recommendations* that are based on longer-term trends, you may enter them on the website, and we will begin monitoring your portfolio by examining each of your positions, to see if any may have better prospects based on a shorter-term momentum ranking, with some long-term restrictions. If we find funds that may have better prospects, we present them to you with the admonition that you should not swap positions unless you consider it to be a *significant* upgrade.

The level of risk depends largely on the model filter for volatility rank, although all levels have risk. MacroFocus limits investments to **old-fashioned, mostly-long, unleveraged equity/debt funds** having increasing levels of equity allocation and leverage for the more aggressive models. With this stance, the risk is largely limited to common risks of owning assets (as listed below), 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 a subset of funds (mutual, exchange-traded, and closed-end) are recommended. The risks for this type of security are the same as the risks listed above. One exception is the very limited recommendation of *Trading-Leveraged Equities*, only for a bull-market trend, only with drawdown protection, only for suitable investors, only for broad market indexes, and only for highly liquid funds.

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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:

- *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.

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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 that Advisor owns, which 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 diversity of mutual funds.

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

Review of Accounts

Except for clients opting for *Swap Recommendations*, MacroFocus has no knowledge of client holdings. For *Swap Recommendations*, holdings are programmatically reviewed on a weekly basis, generating portfolio-specific recommendations 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 trade execution.

Voting Client Securities

MacroFocus Portfolios does not accept responsibility for voting client shares. Clients will receive proxies

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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.