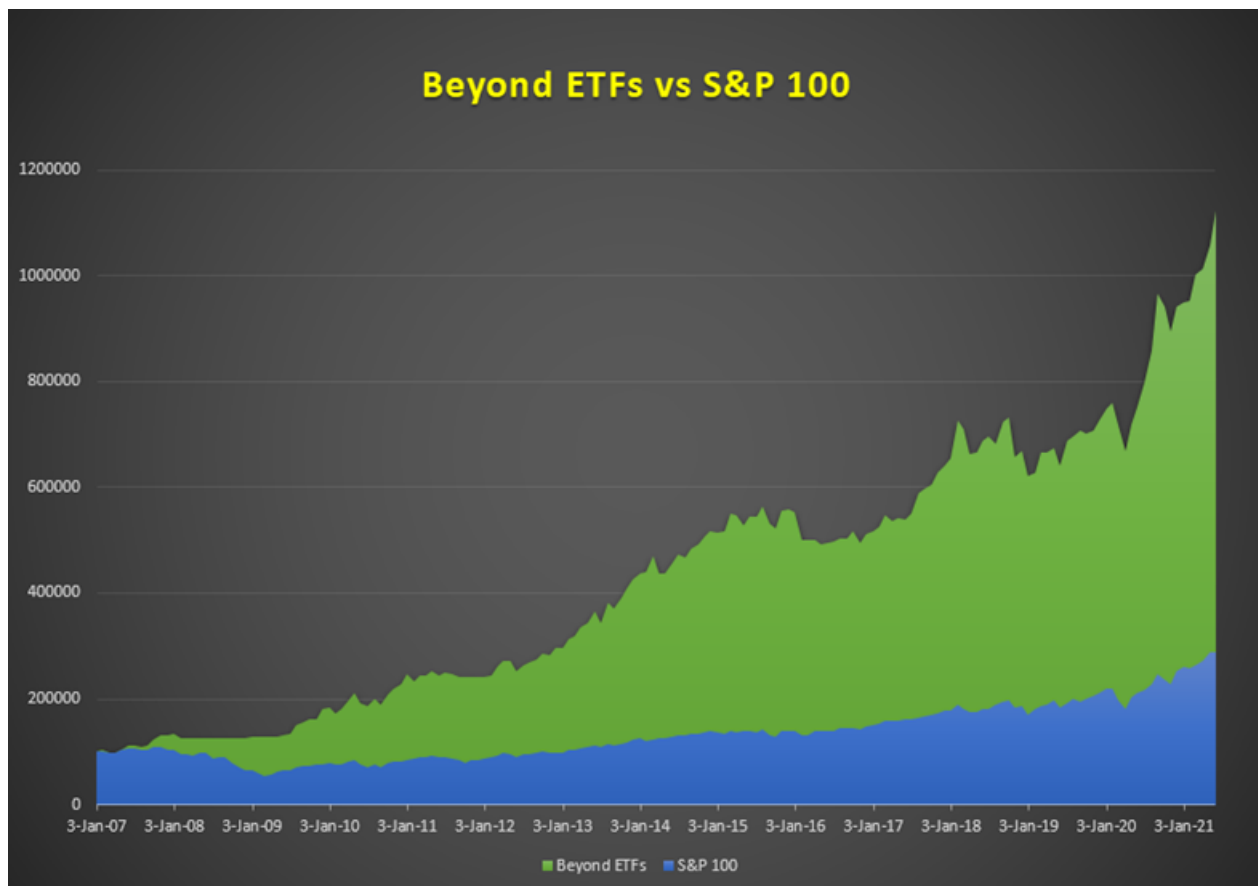


Introducing The Brockmann Method: How I Consistently Beat The Index *And So Can You*

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About the Author

I have always had a passion for the market. This was evident from a very young age. My Kindergarten report card from Reed Public School in Arlington, Virginia, reads: *"He is consistent in his actions participation in group projects, leads many projects involving the creation of stores (bakery, drug, food etc.) and the buying and selling of materials."*

By the fourth grade, I had my own insurance company. I provided sickness insurance for my family and the neighbourhood. For a nickel premium, I would pay out a quarter if you became sick and you had to spend the day at home and a dime for any days after that. I was the richest kid in the neighbourhood until the Altercation.

My sister Barbara got sick at school, and my mother took her to the doctor's but returned her to school. That is how I remembered it. She said she stayed home for the day. Time has a way of changing memories, and I am going to say hers, not mine. Anyway, she misunderstood the contract and broke into my treasury to steal my money. After a short scuffle, the government intervened (my father) and closed me down. He had been paying the premiums for most of my clients (siblings) anyway.

My next endeavour was Wilfred's Bank. At the time, the banks were required by law to return 6% on all deposits. My brother Peter had just received \$10 for a special occasion, and I suggested he deposit it into my bank, and I would pay him 1%. He asked, "what's 1%," I said, "if you had \$1,000, I would pay you \$10" he looked at the crisp new bill in his little hands and quickly became the next depositor in Wilfred's Bank. It was like the song in Mary Poppins.... *a tuppence... railways to Africa...*

I was playing the interest spread. Shortly afterward, the government's heavy hand interceded again, and I was forced to refund all deposits and was levied a fine. Something about teaching me a lesson: sure did. Governments need to stay out of the path of innovative businesspeople—darn regulators.

Fast forward 15 years and two university degrees later, I was hired on October 20, 1980, by Merrill Lynch. Spent some time in New York City working and training and then set up my business in London, Ontario, Canada. In January of 1990, Merrill Lynch sold its Canadian retail division to CIBC Wood Gundy, and I went over with the furniture where I stayed until my

heart attack in August of 2015.

After the 2007-2008 'Great Recession, a movement began prompted by the regulators and edged on by the industry to move away from transaction-based approaches and more towards fee-based platforms. They felt it was a win-win situation. I was not so sure and still am not. It reminded me of an old brokerage joke about options trading. There are three people in every transaction. *'The brokerage firm makes money, the broker makes money..... Two out of three ain't bad.'* I suspect it is a means to reduce the potential for litigation. If everyone is doing the same thing, no lawsuits, then? The issue is it is like socialism. Everyone gets the same results, and performance moves towards the bottom.

My philosophy on performance and compensation is straightforward: *'When you prosper, I prosper. When you suffer, I suffer, and I don't like to suffer.'*

Management wanted me to fall in line and be a gatherer of assets and *just leave the investing up to them*". Charge the standard fee, call it a day and go home. Their "experts" knew what was suitable for my clients better than me. This is not what I signed up for in 1980.

I love the markets. It is a passion of mine. I want to help people make money. I love buying and selling stocks. Over the past 40 years, I have studied, developed and proved an investment method, cleverly called the **'Brockmann Method'** that is a disciplined approach to investing that has worked for me and can work for you too.

First Principles

*"We are what we repeatedly do.
Excellence, then, is not an act but a habit."*

Aristotle

If I didn't know any better, I would swear Aristotle was talking about investing. Good investing is not the luck of the draw or a single shot in the dark or acting on a "tip." It is not a one-time event. It is a *repeatable* procedure.

The ***Brockmann Method*** is, therefore, an investment process but not just any strategy. It needs two fundamentals - Knowledge and discipline - to work profitably.

Knowledge gives investors the confidence to know when to sell and what to buy. Discipline provides the courage to stick to the process when it might seem easier to let it slide.

'Good investing' must be adaptive to a changing environment because the market is a very changing kind of place, and as you know, very unforgiving. I have learned that together, Knowledge and discipline can form a very profitable habit that can be learned and, more importantly, reliably repeated.

For many of my clients, this has become the second most profitable habit they learn in their lifetimes, after their profession and job, and it lasts long after the last paycheck has been cashed.

A powerful way to think of the *Brockmann Method* is to think of it as an operating system like the one in every computer. Computer operating systems provide a set of instructions and rules that tells the machine how to run. Without an operating system, the software cannot run, and owners have no way to get the computer to do what they need or want it to do.

Successful investing works in the same way. Investors have an operating system, a set of rules firmly in mind to work from *before* becoming consistently successful in the investment process.

This is our operating system for investing, and it can be yours too.

The Brockmann Method

- the Knowledge

As investors, most of us have difficulty coping with the rapid-fire data stream presented to us in today's market. It is like trying to drink from a fire hose as it comes at us so voluminous and so fast. It is difficult to reason and think through any complicated process to make a decision. The problem is managing and processing this information to determine what is essential and what is not. In essence, we have a decision-input overload.

That's why we need shortcuts and 'methods' to help us scale back the wide range of investment possibilities to a sufficiently small number that we can actually manage amid the normal day-to-day distractions, trials and tribulations of our busy lives.

There are many styles of investing and approaches to analysis. You may know, have tried or are familiar with some of these - value investing, fundamental analysis, Elliot Wave, Fibonacci, cycles, seasonality, candlestick charts, bar charts, insider actions, astrology-based or a host of other methods that any number of people are willing to embrace. Believe me, I've attended most if not all of these seminars.

At BAT, we only subscribe to one irrefutable law: Economics 101 - the law of supply and demand. Supply and demand are as valid and basis as it gets. It is a part of everyday life. Why not make it a part of your everyday investing?

When all is said and done, if there are more buyers in a particular stock than sellers are willing to sell, the price will rise. It doesn't matter why people are buying, it just is, and it shows up in the price action. On the other hand, if more sellers are in particular security than buyers are willing to buy, the price will decline. Maybe someone needs the funds for a new house or wants to pay for their daughter's wedding. It doesn't matter why people are selling; it just is.

If buying and selling are equal, the price will remain the same. This is the irrefutable law of supply and demand. The same reasons that cause

price fluctuations in produce such as potatoes, apples, and asparagus cause price fluctuations in stocks.

When it comes to stocks, there is one more critical extension of this law. Paraphrasing economics research summarized by professor Tobias Moskowitz¹. would describe the principle of 'price momentum' as:

"... stocks with prices that have been rising for the past 6-12 months are LIKELY to continue to rise for the next 6-12 months while stocks with prices that have been falling for the past 6-12 months are LIKELY to continue to fall for the next 6-12 months."

Relative Strength is an automated process of comparing one stock relative to another. We compare the Price Momentum 'strength' of each of the stocks in a universe of stocks' relative' to each other. This comparison gives us a ranking of where we should or shouldn't put our money.

In around February of 2017, my brother Peter told me he had fired his name-brand professional advisor.

Peter's 401(k) looked like someone had taken a shotgun and blasted at the markets to ensure every aspect was covered. ETFs represent large-cap, small-cap, growth style, value style, blended style and bonds. The account's theme or focus seemed to be 70% in equity ETFs and 30% bond ETFs.

What really pushed Peter over the edge was when Anne (his wife) pointed out the fees he had paid *for poor performance*. He declared that he would put his entire account into the S&P 100 ETF (OEF) and outperform his broker and save on the fees.

I said to him: "Why settle for just beating your broker? Why not beat the index?"

He said, "You can do that? You told me that 80% of active managers can't beat the index. How can I do it?"

"With Price Momentum and your *Self-Directed Fund*."

Let's have a look at the S&P 100. This index is made up of the largest 100 companies in America. These are mega-cap companies. It has exposure across all major industry sectors. It holds Apple and Microsoft in the information technology sector. It holds Amazon and Home Depot in the Consumer Discretionary sector. Boeing and General Dynamics in defence. Exxon Mobil and Chevron in energy. All recognizable names.

Without a doubt, it holds the largest and the finest companies in America. The problem is that if you hold the ETF, you hold the entire basket. And what happens if the energy sector is underperforming? It drags the whole basket down. What if the Technology sector is shooting out the lights and

1 http://business.nasdaq.com/media/Momentum_Investing_Tobias_J_Moskowitz_PhD_Investments_Wealth_monitor_IMCA_tcm5044.pdf

you still have that energy sector dragging you down? You don't get the total performance you deserve.

So, we rank the stocks of the index from top to bottom and compare each stock to every other stock in the index on a price momentum basis.

Price is the final arbitrator. It doesn't matter what the analyst or the company says. These aspects are already factored into the price of the stock at the moment in time. All that matters is the price momentum and how that stock compares to the other stocks in the index.

It is supply and demand in action.

Consider the process by which the athletes on the US Olympic Track & Field Team are selected. Olympic Trials are held, and athletes compete against one another. The winners of the Olympic Trials are chosen to represent the US at the Olympic Games.

Imagine a few different selection methods. A committee of "experts" decides which athletes should be on the team. Or, how about selecting a few losers from the Trails to be on the Team with the logic "they are due for a bounce."

I think you will agree that these are less effective than the Olympic Trial approach

In mid-2013, GT Advanced Technologies (GTAT) was rising on my watch list. I bought the stock for several clients. It rose in rankings and price and then had started to underperform in the fall of that year. It went sideways for a while and then met my sell conditions, so I sold it.

In January 2014, it started to perform better and made it back onto my buy list, so I bought through January and into April. It peaked at \$19-ish in April and then drifted lower. I started to take some profits in May at the \$17 range, and then it dropped quickly to \$14.76. I looked at the rankings, and it had given me a sell signal, so I promptly called the remaining clients, and we sold that day.

Management and compliance were on me like a duck on a June bug. They demanded to see my reasons for the quick turnaround.

Churning is when the broker buys and sells to generate commissions to the benefit of the broker. I showed that the stock had fallen and had given me a sell signal. Of the 23 positions I sold that day, 21 were profitable, with the smallest profit being +34%, the highest profit of +84% and two losses of -12% and -18%. Later, I read that the company had secured a \$500 million loan from Apple. For a few months that summer, it seemed that I might have over-reacted...

... and then, on October 6, 2014, GTAT filed for bankruptcy.

Did I have inside information? No. Did the analysts get it wrong? Yes. I had at my disposal the same information that every investor had - the price action. It didn't matter what the company said. It didn't matter what the analyst said. It didn't matter what my management said.

Even with a large and stable financier and customer like Apple, the price action wasn't satisfactory. Price Momentum saw this company for what it was: a stock in decline. And so did I.

Simply stated, the best way to select future winners is to select current winners. This is what price momentum models are designed to do: build a market-leading portfolio and hold them only as long as they remain strong relative to others in the model.

"Price" represents a market's best guess about what might happen down the road, rightly or wrongly. Price is an informed guess because real people are putting real money on the line.

Price momentum is a handy way to measure what market participants are doing. There's no guarantee that they will do the same thing tomorrow. Still, perceptions generally change gradually over time as new information comes to light or new thinking about old information emerges. Staying with strong price momentum trends and departing when they weaken is the simplest way to keep in synch with the changing flow of information in the market.

For several decades, academics have been studying price momentum to understand why it works and how it compares to other methods. Some have gone so far as to apply the approach to analyze the stock market of the 19th century!

Others have reasoned that these securities performed better because there is more risk associated with them, but they couldn't find any.

Still, based on the work of the Nobel prize-winning work of Daniel Kahneman and Amos Tversky, others suggest that people react to new information at different rates and at different times. A trader would act differently to new information than a retail investor and so on.

Today, the root causes of momentum investing continue to be debated. What is clear from the evidence, support from all sorts of markets, asset classes, and periods is that *price momentum works, and it is not a random event.*

The observation that past winners tend to be future winners, and past losers tend to be future losers has been verified and established through hundreds of academic white papers on the topic... and my own market experience.

Tom Dorsey², a founder of Dorsey Wright & Associates, now a Nasdaq Company, explained:

"If I gave you a list of the 100 best golfers worldwide and asked you to pick who you thought would be in the top 10 at the end of the next quarter, who would you pick? My guess is you would pick the current top ten to be in the top three months from now. Even if I asked you to pick the ones who would be in the top ten after one year, you would probably pick the current top ten.

At the end of the contest some would have fallen out, and some would have moved up, but the majority would still be in the top ten. This is outperformance. It relates to Newton's Law of motion, which suggests that objects that are in motion tend to stay in motion until an external force acts upon them. So, in my world, this means that stocks that have good fundamentals, in a market that in general is supporting higher prices, and the chart pattern clearly shows that demand is in control of the stock, tend to continue to do well. Golfers who have good fundamentals, are in good shape, and at the top of their game, tend to continue to do well.

Buy the winners."

² <http://business.nasdaq.com/marketinsite/2017/Momentum-Demystified.html>

The Brockmann Method

- the discipline

We start with a selected universe of securities. In this case, we use the S&P 100 Index. We then rank each one against the other on a price momentum basis until we list the strongest performers ranked to the weakest. This listing not only gives us the strongest to consider but also the weakest to avoid.

A rank ordering of stocks to invest in is only partly helpful. To fully empower the self-directed fund, we need a few more boundaries.

The Brockmann Method defines the scope of self-directed control as ten stocks. The top ten stocks are our initial **Buy zone**, and our 'want to own' list. The following 15 are our **Don't Buy More** zone. The remaining 75 are our **Avoid zone**. Position 26 is the **Sell Threshold**.

More than ten stocks can easily overwhelm the retail investor, pushing it beyond the retail investor's ability to digest what's really going on. Warren Buffet says that "Diversification is protection against ignorance." I say that diversification is usually 'de-worse-ification.'

I've also analyzed the Method with fewer and more stocks and a higher and lower Sell Threshold. These experiments show that this configuration consistently gives the best return over time.

Here are the simple disciplines of the Brockmann Method:

- Buy the stocks in the Buy zone.
- Sell the stocks below the Sell Threshold. Use the proceeds to purchase the stocks in the Buy zone that aren't already owned.

If you come across more money to invest, buy the stocks in the Buy zone you don't already own, or buy more of the top 2 or 3.

If you need to liquidate some of your portfolios, start selling the lowest-ranked stocks until you meet your liquidation goal.

The Brockmann Method - 13-year Back Test

Here is where the rubber meets the road. In our model, we select the top 10 ranked stocks of the S&P 100, and we hold them until they have fallen in rankings below the Sell Threshold and, with the proceeds, buy the top-ranked stock we do not own.

All Cash Directive

The Brockmann Method also has an '*All Cash Directive*' working in the background should the markets weaken to the point where a correction more significant than we expected is underway, so we need to go to cash. This gives us an exit plan to follow before the event. It is rules-based and, therefore, systematic, and it works.

The directive reviews seven different asset classes' quality and compares how they rank against each other: US equities, Canadian equities, International equities, Bonds, Currencies, Commodities and cash. On three occasions since 2007, the All Cash Directive kicked in, so the model went all-cash, where we stayed in cash until the analysis shows that we should return to equities.

Table 1 - January 3, 2007, ranking of the S&P 100.

Rank	Symbol	Stock	price
1	MA	MASTERCARD INC	9.64
2	GS	Goldman Sachs Group	200.72
3	HPQ	Hewlett Packard	41.62
4	AAPL	Apple Computers Inc	2.99
5	CSCO	Cisco Systems	27.73
6	GOOG	Alphabet	466.19
7	MCD	McDonalds Corp	43.87
8	MRK	Merck & Co Inc	44.02
9	MON	Monsanto Co	51.68
10	LMT	Lockheed Marietta	91.93
11	MET	MetLife	53.90
12	T	American Tel & Teleg Co	34.95
13	MS	Morgan Stanley	67.75
14	ETR	Entergy Corp	93.98
15	NSC	Noerthfolk Southern	49.23

16	BA	Boeing Co	89.17
17	XOM	Exxon Mobil Corp	74.11
18	WMB	Williams Companies	25.69
19	RTN	Ratheon	32.79
20	CMCSA	Comcast Corp Cl A	28.44
21	MO	Altria Co	20.01
22	GD	General Dynamics Corp	73.95
23	BAX	Baxter Int'l	46.5
24	JPM	JP Morgan Chase and Co	48.07
25	USB	U S Bancorp	36.17
26	DIS	Walt Disney Co	33.55
27	AEP	American Elec Pwr Inc	42.85
28	ALL	Allstate	65.28
29	NKE	Nike Inc	12.21
30	OEF	S&P 100 Index ETF	65.71
31	EXC	Exelon Corp	62.43
32	GILD	GILEAD SCIENCES INC	15.79
33	AXP	American Express Co	60.36
34	CVX	Chevron Texaco Corp	70.97
35	ORCL	Oracle Systems Corp	17.51
36	TWX	Time Warner	22.03
37	BAC	BankAmerica Corp	53.33
38	TGT	Target Corp	57.18
39	BRK-B	BERKSHIRE HATHAWAY	72.86
40	COP	Conoco Phillips	51.98
41	AMZN	Amazon.com Inc	38.70
42	BK	Bank of New York	39.69
43	XRX	Xerox	16.9
44	HNZ	HJ Heinz	45.75
45	MSFT	Microsoft	29.86
46	CL	Colgate Palmolive Co	32.84
46	HON	Honeywell Inc	44.88
48	EMR	Emerson Elec Co	43.86
49	UNP	Union Pac Corp	23.12
50	UTX	United Tech	62.81
51	C	Citigroup	552.50
52	OXY	Occidental Petroleum	46.72
53	DVN	Devon Energy	64.86
54	FDX	FDX Corp	109.77
55	PG	Procter & Gamble Co	64.54
56	WFC	Wells Fargo & Co	35.74
57	EMC	E M C Corp	13.2
58	SO	Southern Co	36.98
59	MDLZ	Mondelez Int'l	35.61
60	UNH	United Health Group	52.57

61	DD	Du Pont	49.04
62	IBM	IBM	97.27
63	VZ	Verizon Communication	35.18
64	WY	Weyerhaeuser	72.5
65	SLB	Schlumberger	60.82
66	ABT	Abbott Labs	48.97
67	DELL	Dell	25.49
68	S	Sprint	19.04
69	PEP	Pepsico Inc	62.72
70	HAL	Halliburton	29.87
71	BHI	Baker Hughes	71.5
72	CAT	Caterpillar Inc Del	61.16
73	GE	General Elec Co	37.97
74	COST	Costco Co.	52.84
75	BMY	Bristol Myers Squibb Co	26.38
76	AVP	Avon Products	33.6
77	KO	Coca Cola	48.58
78	JNJ	Johnson & Johnson	66.40
79	NOV	National Oilwell Varco	58.24
80	LOW	Lowe's Cos Inc	32.04
81	CVS	CVS Corp.	30.84
82	MDT	Medtronic Inc	52.57
83	HD	Home Depot Inc	41.07
84	DOW	Dow Chemical	40.27
85	WBA	Walgreens	46.07
86	INTC	Intel Corp	20.35
87	FCX	Freeport McMoran	50.49
88	PFE	Pfizer Inc	26.29
89	MMM	3M Company	78.26
90	AMGN	Amgen Inc	68.40
91	APA	Apache Corp	64.55
92	COF	Capital One Financial	77.25
93	QCOM	Qualcomm Inc	37.46
94	UPS	United Parcel Service	74.97
95	TXN	Texas Instrs Inc	28.56
96	ARNC	Arconic	29.33
97	WMT	Wal Mart Stores Inc	47.55
98	F	Ford Mtr Co	7.51

If you had settled for the index, it was ranked as number 30. Was the model interested in Ford? No way, not at that time. It was ranked number 99; however, Ford did climb into the Buy zone, so the model bought it on May 5, 2009. It moved from last to number 1.

As part of this backtest, we ran the ranking each day to make sure none of the holdings had slipped to number 26, and sure enough, on February 28, 2007, Alphabet (GOOG) dropped 5 notches to # 27, forcing us to sell it the next day and buy the highest-ranked stock we did not already own. In this case, it would be Entergy Corp (ETR).

Table 2 - Top 30 ranking of the S&P 100, February 28, 2007. Bolded stocks are owned by The model.

Rank	Symbol	Stock	price
1	MA	MASTERCARD INC	107.18
2	GS	Goldman Sachs Group	201.75
3	MON	Monsanto Co	52.71
4	LMT	Lockheed Marietta	97.21
5	HPQ	Hewlett Packard	39.35
6	ETR	Entergy Corp	98.75
7	T	American Tel & Teleg Co	36.80
8	MCD	McDonalds Corp	43.69
9	MET	MetLife	63.16
10	CSCO	Cisco Systems	27.73
11	WY	Weyerhaeuser	85.91
12	GD	General Dynamics Corp	76.38
13	BAX	Baxter Int'l	50.01
14	GILD	GILEAD SCIENCES INC	71.56
15	AAPL	Apple Computers Inc	84.61
16	MS	Morgan Stanley Dean Witter & Co	74.92
17	MRK	Merck & Co Inc	44.15
18	AEP	American Elec Pwr Inc	44.9
19	MO	Altria Co	84.28
20	RTN	Ratheon	53.55
21	NKE	Nike Inc	104.47
22	EXC	Exelon Corp	65.93
23	BA	Boeing Co	87.26
24	JPM	JP Morgan Chase	49.39
25	WMB	Williams Companies	26.97
26	DIS	Walt Disney Co	34.25
27	GOOG	Alphabet	449.45
28	AVP	Avon Products	36.66
29	USB	U S Bancorp	35.66
30	XOM	Exxon Mobil Corp	71.68

Table 2 shows how the entire process is dynamic and responsive as things develop in the market. Ford? On this day, it was ranked # 70. Still a long way off from making it into the Buy zone. Note that Ford is both bought and sold several times over the past 13 years of the model. When a stock

needs to go, it goes. If it starts to perform well again, it comes back in. It has no good or bad memories. They are just numbers.

Annualized returns of		
Beyond ETFs and S&P 100		
	Beyond	S&P100
2007	36.79	3.84
2008	-6.97	-37.06
2009	83.25	19.13
2010	32.4	10.07
2011	-0.29	0.87
2012	23.03	13.38
2013	46.61	27.4
2014	18.15	10.27
2015	7.27	0.34
2016	-6.39	8.78
2017	26.3	19.34
2018	-4.67	-5.8
2019	19.99	29.57
2020	26.83	19.3
2021-31 May	17.73	10.69
Annualized		
Jan 2.2007	18.22%	7.62%
to 31 May,2021		
Source: Brockmann.com		

There is an average of 31 transactions per year. So it might be reasonable to expect an average of one sell and one buy each month. Sometimes there are long stretches of no activity, like December 2, 2016, to June 19, 2017. We sat back and just watched as the model grew 16.2%

Summary of Results

Account Statistics/Analysis		Beyond ETFs		
Start date:	01/02/07			
End date:	05/29/21			
		Winners	Losers	Neutral
Number of trades:	410	209	200	1
Average periods per trade:	113.57	169.95	54.94	56.00
Maximum Profit/Loss:		165.12 %	(33.40)%	
Average Drawdown:	(7.47)%	(6.31)%	(8.70)%	
Average Profit/Loss:	7.32 %	19.62 %	(5.49)%	
Probability:		50.98 %	48.78 %	
Average Annual ROI:	23.52 %	42.13 %	(36.51)%	
Reward/Risk Ratio:	3.73			
Portfolio:				
Starting Balance:	100000.00			
Ending Balance:	1117874.89			
Gain/Loss:	1017874.89			
Gain/Loss (IRR) %:	1017.88 %	Annualized:	18.23 %	
Drawdown:		From	To	
Maximum Continuous:	(15.25)%	02/18/20	02/25/20	
Portfolio High:	(4.83)%	05/07/21	05/12/21	
Peak/Valley:	(37.29)%	01/02/07	02/12/07	

Account Statistics/Analysis		S&P 100		
Start date:	01/02/07			
End date:	05/29/21			
		Winners	Losers	Neutral
Number of trades:	1	1	0	0
Average periods per trade:	5262.00	5262.00	0.00	0.00
Maximum Profit/Loss:		189.01 %	0.00 %	
Average Drawdown:	(51.21)%	(51.21)%	0.00 %	
Average Profit/Loss:	189.01 %	189.01 %	0.00 %	
Probability:		100.00 %	0.00 %	
Average Annual ROI:	13.11 %	13.11 %	0.00 %	
Reward/Risk Ratio:	100.00			
Portfolio:				
Starting Balance:	100000.00			
Ending Balance:	288437.07			
Gain/Loss:	188437.07			
Gain/Loss (IRR) %:	188.44 %	Annualized:	7.63 %	
Drawdown:		From	To	
Maximum Continuous:	(12.81)%	02/19/20	02/28/20	
Portfolio High:	(4.06)%	05/07/21	05/12/21	
Peak/Valley:	(55.86)%	10/09/07	03/09/09	

For the 13 year test, we beat the index by 3.88 times.

\$100,000.00 invested on January 3, 2007, using the **Brockmann Method** would be worth approximately \$1,117,874.89 for an annualized return of **18.23%** as of May 29, 2020, before transaction fees.

During the same period, the index would have increased from \$100,000 to \$288,437.07 for an annualized return of **7.63%**

Rules are Rules

Yes, Rules are Rules, and they are meant to be followed. We follow them for several reasons. First of all, it takes the guesswork out of making decisions.

You want to be like a robot or a cyborg. You come across a situation, and you know exactly how to deal with it. If A, then you do B. End of story. No second-guessing. No, should I wait a little longer?

When I was with the firm, I had a lot more time on my hand than my colleagues. I would take the pile of research reports accumulated on my desk, go around to the rookies, and hand them out.

They were astonished that I didn't want them and couldn't get their heads around that I didn't read them either. In fact, the last economic or research piece I read was in 2012. It was the monthly piece from the research department that was maybe 6 to 8 pages or so. It had a lead-off article from the head of research and a report on bonds and interest rates and later on the stock of the month to speak and discuss maybe the strategy or model portfolio they were suggesting that clients follow.

Now this lead-off piece by the head of research was about value investing. In the last paragraph of this research piece, he concluded by saying that the value investor should be willing to wait up to 10 years for value to be realized. Upon reading that I spat out the coffee, I had just sipped. Ten years! Really. Give me a break. I don't know any investor let alone an advisor who would or could wait ten years for something to finally come to fruition.

Value investing is an investment strategy in which the analyst looks at a series of fundamental factors and makes a projection of the stock's value. With this analysis, they determine that the market has mispriced the stock. When the market realizes it, investors will be rewarded when the stock rises to the level they've just calculated as the 'true' value of the stock.

James Osborne debunked this style best:

"If you want to come to me and say "The intrinsic value of this stock is \$45... so it is a buy at \$30," my simple question is: why isn't the market willing to pay for those earnings today? Ultimately, intrinsic value is decided by the market. It is an odd bit of dissonance to state that today the market is wrong about a stock's "intrinsic value" but to expect the market to get things "right" sometime in the future."

Then one morning, the analyst that covered a particular stock was pounding the table that you had to buy this stock today because tomorrow they are

reporting quarterly earnings, and they were going to be a blowout. Buy them and buy them now, he said. I looked at the chart, and the market was saying it wasn't sure about that. It had drifted lower and was sitting around the \$23 area. I called my client and sent him the full report, but I said I didn't want to buy it. I told him that I thought the analyst was dead wrong. So we sat it out. I did sweat out the earnings call, and he was right; the earnings were a blowout, BUT THE STOCK OPENED DOWN 15%.

Graph 5 - Point and Figure chart of Priceline (PCLN) October 20, 2017.

We have just to let the Method do its job.

On the evening of Friday, October 20, 2017, I ranked the S&P 100. I noticed that Priceline had fallen from the Don't Buy More zone past the Sell Threshold.

The Method says that if a stock falls from the Buy or Don't Buy More Zone past the Sell Threshold (position 25), sell it and with the proceeds buy the highest-ranked stock you don't already own. Simple. Don't overthink it, just do it.



If we look at the individual stock itself, it doesn't look too bad. It had been on a sharp rise since January of 2017 and had run into resistance in May-June. It bounced around for the summer, making a run to new highs in August but slammed into selling pressure. At the beginning of October, it looked like it was going to challenge the high in August. Still, on a relative basis, other stocks were performing better, and it pushed Priceline lower in our rankings, so it had to go, and something else came in. No emotions, just act.

So I called my brother Peter and told him what had happened and suggested selling it on the open on Monday and with the proceeds buy PayPal and we did. On Monday morning, the stock opened at \$1950.00. I happened to enter my trade a few minutes later and got a fill at \$1954.825.

A habit I have gotten into, and I suggest you do the same, is that once I am finished with the position: It is History. I remove it from my screens, from my watch list. Once I am out, I don't want to, nor do I care what it does from there on in. If it ranks in the Buy zone in the future, it gets brought in again. Sort of like the cycle of life.

So we were out of Priceline on October 23, and then after the close on November 6, they reported earnings below consensus estimates and lowered their forward guidance. The next day it dropped like a stone to a low of \$1,638.10 and closed at \$1,645.72. A drop of over \$309 or -15.5% from where we sold it.

Did I have inside information? No. Did I read something that predicted this? No. I can say that I sold it because my rules said to sell it and move on, which I did.

Does it work every time? No. It works overtime.

Conclusion

This is the **Brockmann Method**.

An approach to price momentum investing that provides simple signals on when to sell and what To buy. It leverages both Knowledge and discipline to allow the investor the confidence to make their Investing a habit of success.

It certainly works for my clients and me. It can be put to work for you.

Graph 6 - Point and Figure chart of Priceline (PCLN) November 7, 2017.

