



Bullington Capital Management, LLC

FOLLOW THE LEADERS

What is the “Follow the Leaders” investment strategy? Make no mistake, “Follow the Leaders” is an aggressive strategy. I like to call it an *intelligently aggressive* strategy. The goal is to outperform the overall stock market with less risk through an intelligently designed strategy that tells you what to buy, when to buy it and when to sell it.

To put it simply, this strategy focuses on investing in top performing asset classes, industry groups or sectors. By aggressively focusing on the top performers and eliminating underperforming funds, an investor should be able to outperform the market as well as more traditional diversified funds.

Why? In a nutshell, institutions cannot buy all of the shares that they would like to into a particular industry group in one day. Institutions control such large amounts of money, they would push prices past the point that they would want to be sellers. You would see large increases in the share prices of the stocks they were buying and when they stopped, prices would come crashing down again. To prevent this, mutual funds tend to accumulate shares in industry groups or sectors rather slowly. It can take several weeks or even months to accumulate the positions in the groups of stocks they like.

Incidentally, the same process works in reverse. Big funds have to get out of positions over weeks and months as well. It’s the same process, only in reverse. If they sell too quickly, the prices drop too fast. Instead, they will unload their shares over the next several weeks or months. That is why declining share prices are often followed by further declines. It makes you want to think a little more about the buy low strategy doesn’t it? By the way, big funds have a tendency to sell shares faster than they buy them. The result; share prices go down faster than they go up.

Reflecting on the prior two paragraphs, you should be asking yourselves, what sense does it make to hold onto stocks in industries that are going down in price?

If you are a really long term investor, buying good quality companies when they are down can be a winning strategy. This style of investing is typically referred to as *deep value investing*. However, you are not likely to make much money in the short run by doing so. When you buy stocks that have gone down significantly in price, more often than not the stock has gone down for good reasons. It can take a long time, sometimes years, for analyst communities and professionally managed funds to begin recommending and buying a stock that has been severely damaged. I will readily admit that buying good quality at low prices can be a very successful strategy. However, extreme patience is required to practice deep value investing successfully.

People tend to ask, will the “Follow the Leaders” strategy always be the best performer from week to week, month to month and year to year; does it always win? The answer is no. No strategy is always ahead every day, every week, every month or even every year. When one industry group gets hot, it will outperform all the others. However, when it begins to under perform, the drop can be fast and furious. During this time, I like to call it the *transition period*, when leadership shifts amongst the various industry groups’, the “Follow the Leaders” strategy will under perform a more broadly diversified portfolio.

Don’t get too upset, because the reason that the “Follow the Leaders” strategy works, is that once an industry or group of industries begins to out perform, they will typically do so for many months, sometimes years. Our models will shift out of the old leaders and into the new ones in plenty of time to take advantage of this. They just won’t sell out of the old leaders at their peaks and buy into the new leaders as they bottom out. No one in the history of financial markets has been able to do that consistently.

As I stated earlier, the goal is to out perform the overall stock market and traditional stock mutual funds in general, with less risk through an intelligently designed strategy. To learn more about it, feel free to give me a call and I’ll be happy to set up a no-cost, no-obligation appointment.

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