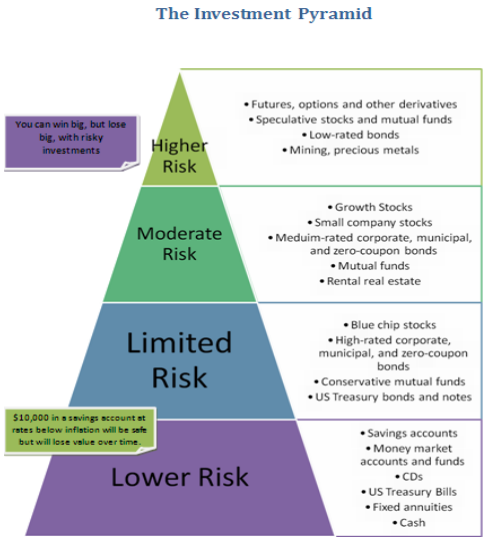
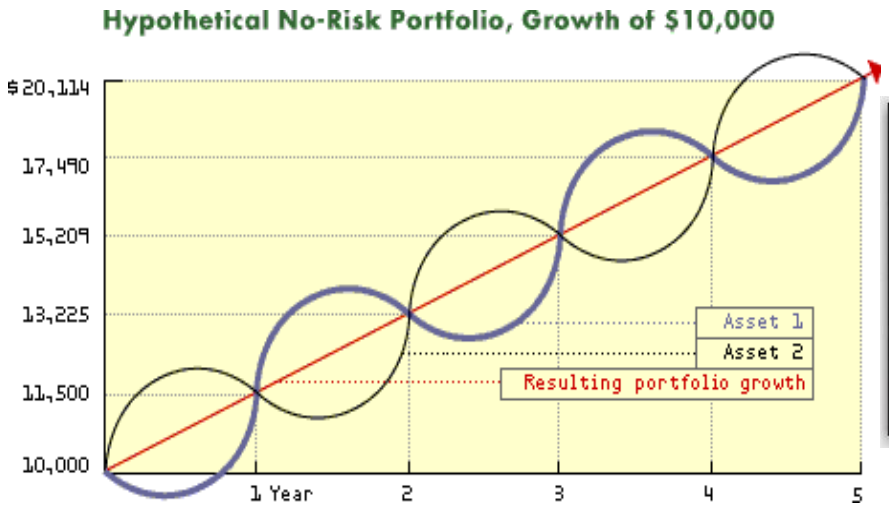
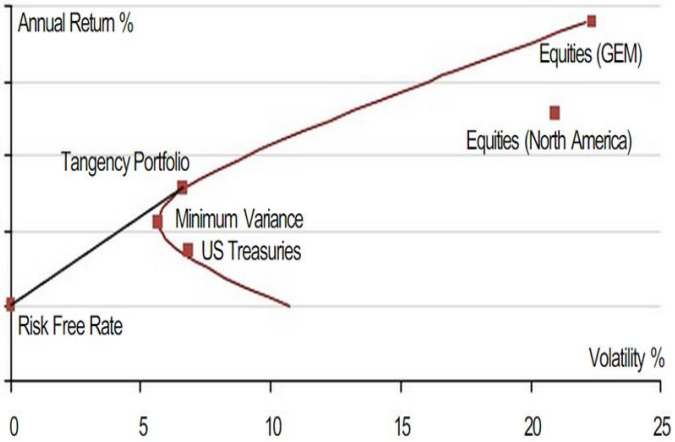
Shareholder Yield:

More "Fun with Volatility"







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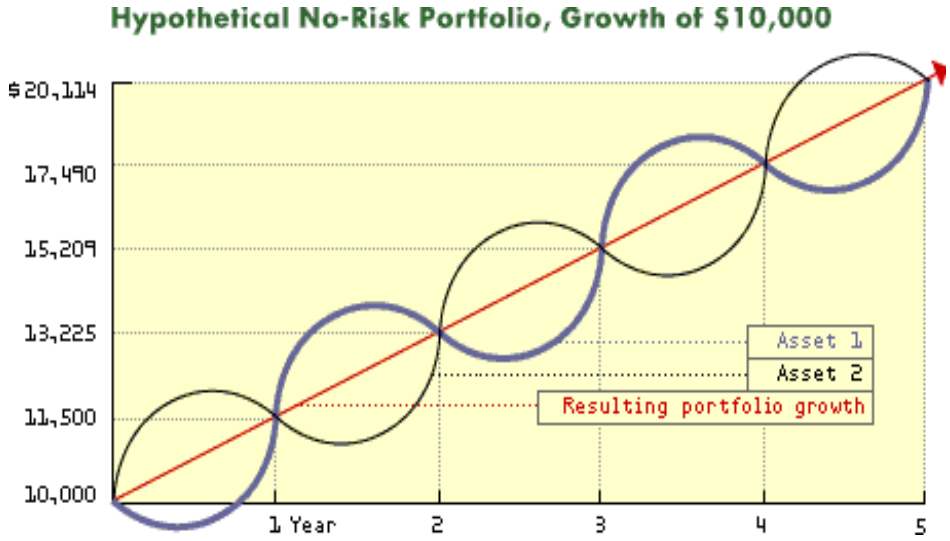
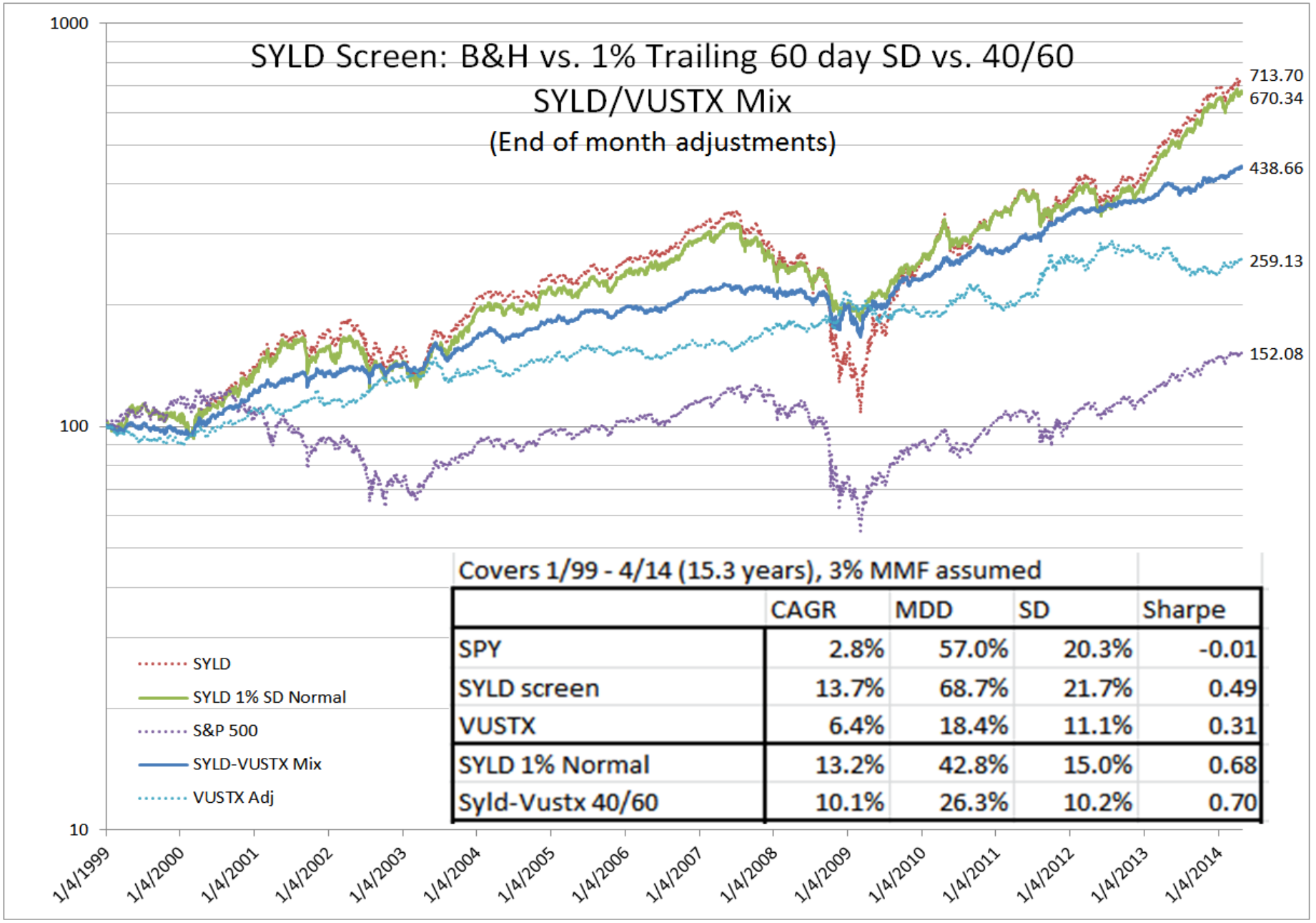
The 40/60 SYLD/VUSTX Mix

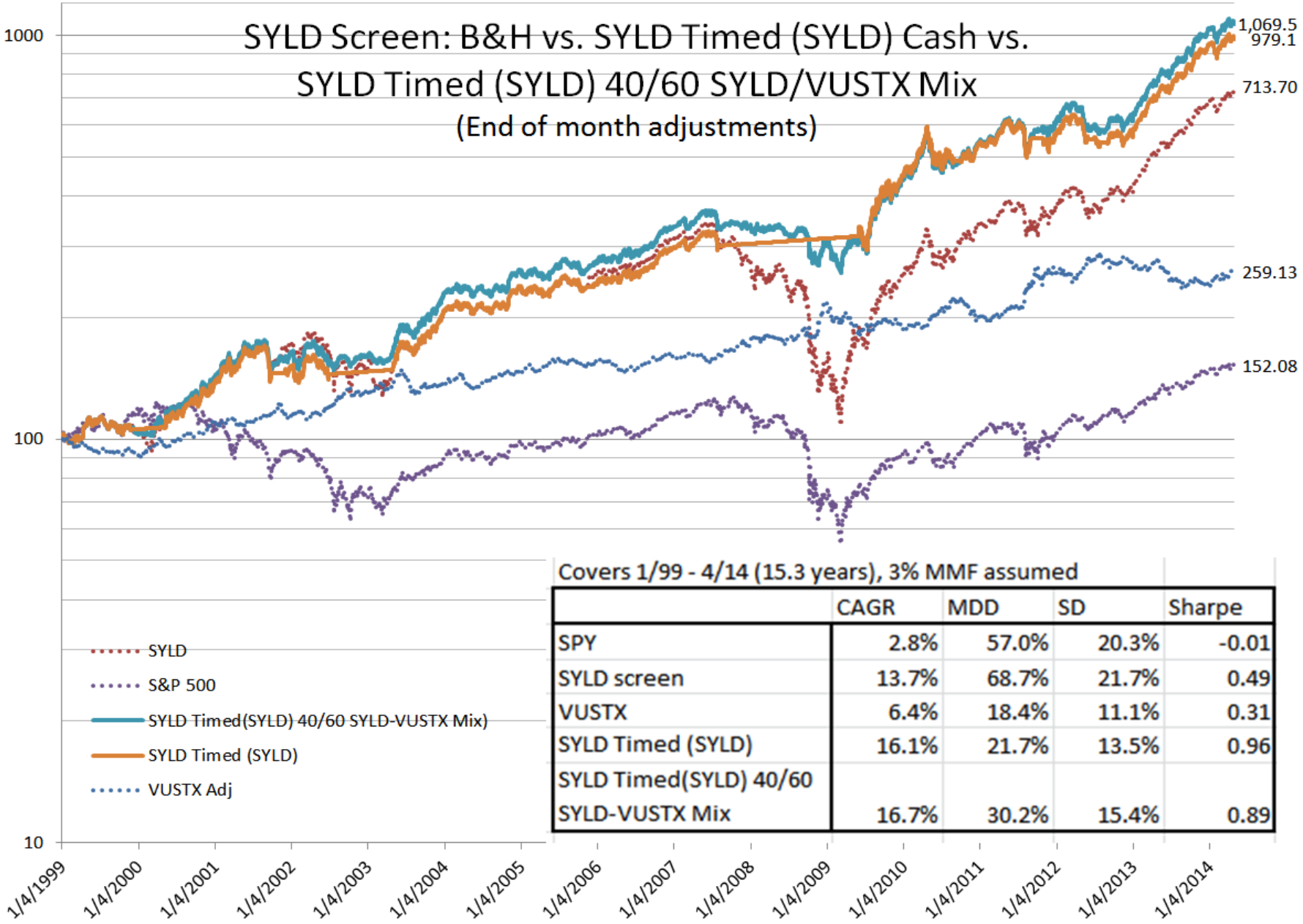
- So far we've looked at lowering volatility by adding cash
- What happens if we mix SYLD with a negatively correlated asset – e.g., LT bonds – instead??
- The following slides show results from different approaches:
  - A constant mix of 40/60 SYLD/VUSTX
  - Using a 40/60 mix only when a timing signal occurs
- Why VUSTX?? Has a long enough history for back-testing
  - Would use TLT in practice





Covers 1/99 - 4/14 (15.3 years), 3% MMF assumed

	CAGR	MDD	SD	Sharpe
SPY	2.8%	57.0%	20.3%	-0.01
SYLD screen	13.7%	68.7%	21.7%	0.49
VUSTX	6.4%	18.4%	11.1%	0.31
SYLD 1% Normal	13.2%	42.8%	15.0%	0.68
Syld-Vustx 40/60	10.1%	26.3%	10.2%	0.70



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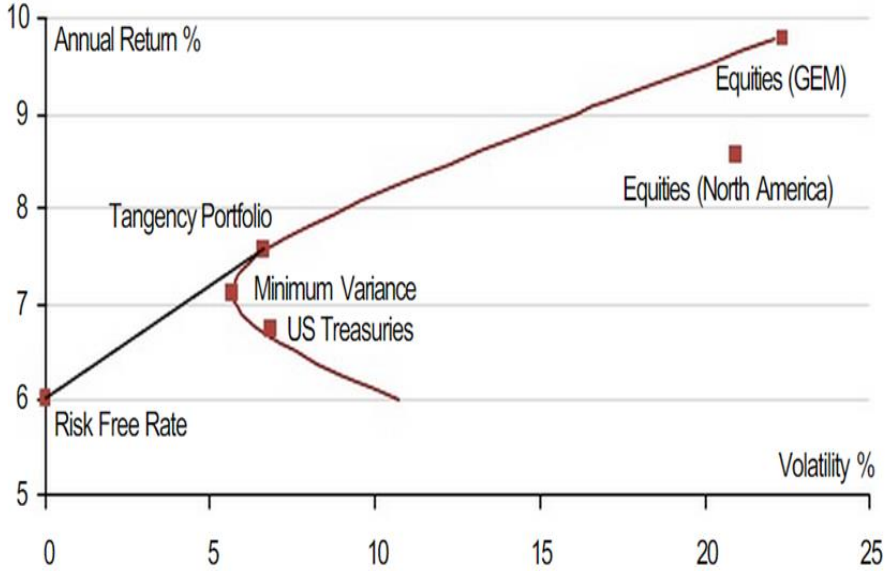
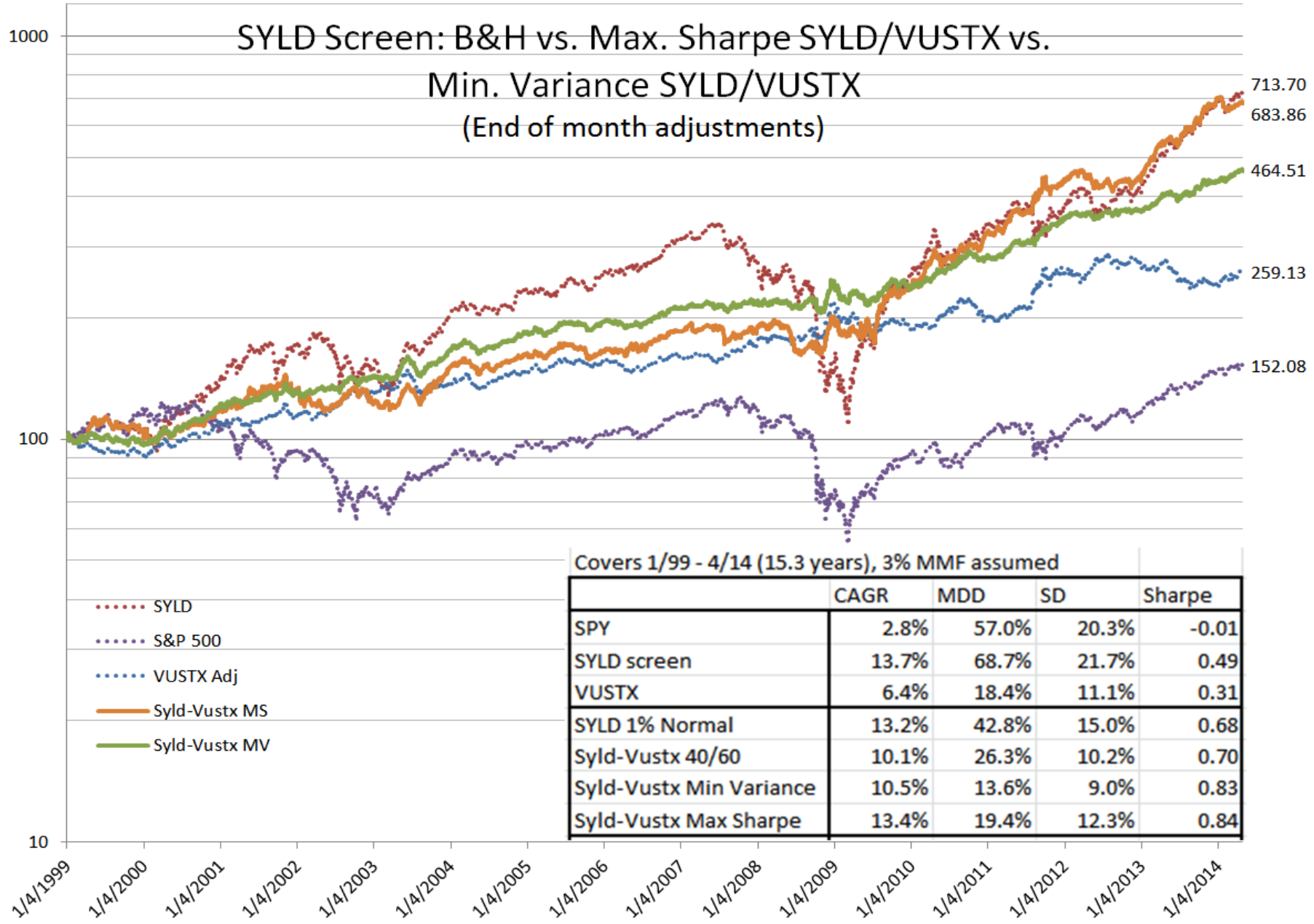
SYLD Timed (SYLD)	16.1%	21.7%	13.5%	0.96
SYLD Timed(SYLD) 40/60 SYLD-VUSTX Mix	16.7%	30.2%	15.4%	0.89

The Max Sharpe & Min Var Mixes

- Another approach is to dynamically (monthly) optimize SYLD/VUSTX weights
- Max Sharpe optimizes weights to get the best Sharpe ratio
- Min Var optimizes weights to get the lowest volatility (variance)
- A trailing 60 trading day window is used for all calculations
- Weights are adjusted in 10% increments for SYLD & VUSTX
  - For example: 0/100, 10/90, 20/80/, …. 80/20, 90/10, 100/0





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Syld-Vustx Min Variance	10.5%	13.6%	9.0%	0.83
Syld-Vustx Max Sharpe	13.4%	19.4%	12.3%	0.84

More "Fun with Volatility" Take-Aways

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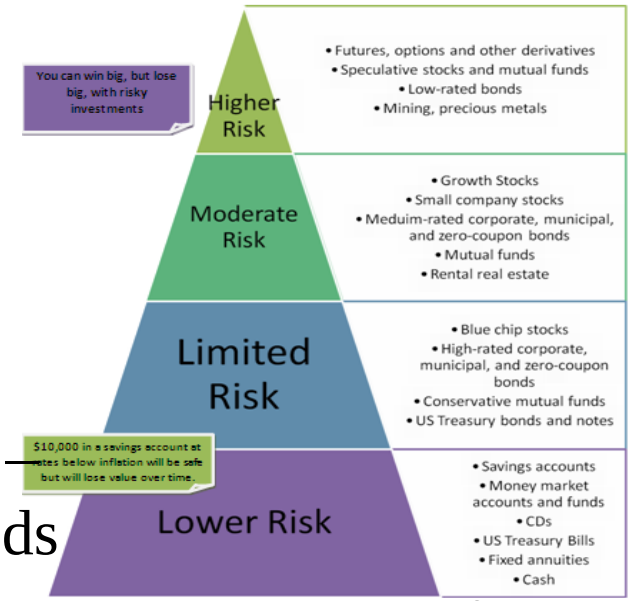

- Mixing negatively correlated assets helps reduce volatility with reasonable returns
- Pick the alg based on your risk/reward tolerance and trading activity level
- Can mix algs – e.g., Max Sharpe & Min Var – to get the risk reward curve that fits your needs