

Noah Sutherland CWM Interview Write-Up

An individual who is purely concerned with maximum growth and is not worried about volatility and is focusing on these six tickers, will purely focus on the previous returns of each ticker. The ticker with the highest performing month over the past five years studied is the S&P 500 (SPY), with a return of 12.6983% during April of 2020. The SPY also has the highest average monthly returns of any of the six tickers over the last five years, coming in at an average monthly return of 1.5148%. On top of this, the SPY has also outperformed any of the other five tickers over the three year time period of 2019-2021. While this individual is not concerned about volatility, even with the impressive returns of the SPY over the five year period of 2017-2021, the SPY still doesn't have the highest standard deviation of the six tickers. Invesco DB Commodity Index Tracking Fund (DBC) comes in with the highest calculated volatility, and lower returns than the SPY completely taking it out of contention for this individual's portfolio. The SPY is also extremely correlated with the Health Care Select Sector SPDR Fund (XLV) having an R-squared value of 0.662, the highest of any of the regression models done on the six tickers. Because of this, I would also not include XLV as to best diversify their portfolio and to keep their risk lower. The lowest correlation with the SPY is the iShares S&P National Municipal Bond (MUB). The MUB always had a positive annual return over the 2017-2021 time period, but also had the fifth lowest average monthly return of the six tickers. This makes the MUB not ideal for this individual who is focused on maximum growth. Generally, the only other option for this portfolio would be the iShares 20+ Year Treasury Bond (TLT) as the TLT has the third highest average monthly returns and the correlation of SPY with TLT is low with an R-squared of 0.085. The only downfall is the average monthly returns being nearly three times lower than that of the SPY, and so for this individual, it makes the most sense to have a portfolio that is 100% SPY.

An individual who is purely concerned with lower volatility and capital preservation and is focusing on these six tickers will need a low standard deviation with a low correlation among any of the other tickers as to diversify their portfolio. The ticker with the lowest standard deviation both monthly (0.000782) and yearly (0.00903) is the BIL, which shows extremely low volatility. The BIL also had a positive annual return for 2017-2020, and in 2021 when they had a negative annual return, it was less than a 0.01% loss. The BIL had the lowest worst month performance, while also having the lowest best month performance, however their best month performance was around 10 times better than their lowest month performance, showing the ability to preserve capital. The tickers that have the lowest correlation with the BIL include the MUB with an R-squared value of 0.000 and the XLV with an R-squared value of 0.042. The lowest standard deviation of these two tickers is MUB, with a monthly standard deviation of 0.009775 and a yearly standard deviation of 0.026809. The MUB has also shown a positive annual return from 2017-2021, which is all five years that were studied. Because of this, there should be an allocation for this individual of 60% BIL and 40% MUB. The correlation between the BIL and MUB is the lowest of any of the correlations in the regression study, meaning there is low correlating risk, and diversifying the portfolio of this individual should lower volatility even further. The MUB also has an extremely low standard deviation in comparison to the other tickers, being the second lowest behind the BIL. The BIL has a positive annual return four out of the five years studied, while the MUB has a positive annual return five out of the five years keeping the capital preservation the individual is prioritizing.