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Fund Managers

NEIL PEPLINSKI

Basing tactical moves on changes in investor optimism and pessimism


KAM TAI

By Dan Jamieson

THE FINANCIAL CRISIS could not have come at a better time for Neil Peplinski, managing partner at Good Harbor Financial LLC.

At the time, Mr. Peplinski, 42, was managing some money for friends part time while working a day job at Allstate Insurance Co., where he was responsible for managing a portfolio of synthetic collateralized debt obligations. He saw the writing on the wall as the real estate crisis unfolded in late 2007 — and in October 2008, he and his partner, Paul Ingersoll, a friend from business school, figured the time was right to go into money management full time.

Was it ever. Using a tactical ETF model that re-balances monthly, Good Harbor ducked the worst of the crash in 2008, eking out a 1.11% gain, according to its composite performance numbers. The S&P 500 fell 38.49% that year.

ATTRACTING ATTENTION

In 2009, Mr. Peplinski and Mr. Ingersoll did it again — this time capturing the rally with a 49.14% average gain in their accounts, doubling the 23.45% run-up in the S&P 500.

That kind of timing attracts attention, and Good Harbor's assets swelled as a result. The firm now oversees nearly $5 billion, mostly in separate accounts under its flagship U.S. Tactical Core strategy. The open-end Good Harbor U.S. Tactical Core Fund (GHUAX) was launched Dec. 31 and has about $6 million in assets.

Good Harbor's tactical core strategy was the top-performing managed ETF strategy over the five-year period ended Dec. 31, according to Morningstar Inc., adding $2.9 billion in assets just last year — mostly due to inflows.

"From a practical perspective, 2008 and 2009 played out very well for us," Mr. Peplinski said. "What we saw with other [tactical] managers was that they either got it wrong in 2008 and then made some of it up in 2009, or got it right in 2008 but left a lot on the table in 2009."

The firm's allocation model moves among U.S. stocks, Treasuries and cash, based on anticipated changes in investor optimism and pessimism. Portfolios are re-balanced monthly using a few broad-based ETFs that track the Russell 2000, S&P 400 and S&P 500 stock indexes, and Treasury bond ETFs with a duration of up to 10 years. Some leveraged ETFs are used to enhance returns and adjust volatility.

Good Harbor managers try to get ahead of the "risk on, risk off" dynamic by analyzing economic data, yield curve changes and momentum measures. As investors become more risk-averse, the model becomes more defensive, and vice versa.

"The industry found us in the right spot at the right time," Mr. Peplinski said. "After 2008, there was increased demand for [separately managed accounts], tactical strategies and broad-based ETF portfolios."

Mr. Peplinski first developed the model while working as an engineer for Motorola Mobility LLC, and rolled it out to some technology co-workers in May 2003.

"Like any engineering problem, I saw investing as a set of problems we needed to solve," he said. With technology stocks in the dumps, "there was a lot of angst surrounding the market" among his colleagues. The objective was to avoid consecutive monthly slides in the market.

Good Harbor's composite numbers sported an annualized total return of 13.77% from May 1, 2003 through Dec. 31, 2012, compared with the 6.83% annual total return for the S&P 500.

Mr. Peplinksi concedes his seven-year track record — dating back to when he was managing money part time — could be a matter of luck. But the model consistently has picked up changes in investor sentiment going back in history, he added.

Mr. Peplinski also acknowledges that a market-timing approach can get whipsawed and underperform.

"We tend to trail in mediocre quarters, like in 2005, when the market moves sideways, and it's easy to make a couple wrong moves," he said. That year, his accounts lost 2.49%, while the S&P 500 had a total return of 4.91%.

So does his strategy provide investors with the "good harbor" promised in the name? Mr. Peplinski sure hopes so. But the name actually comes from a bay on Lake Michigan near where he grew up.

Good Harbor U.S. Tactical Core Fund

Ticker: **GHUAX**
1-year return: *
3-year return: *
5-year return: *
Expense ratio: **1.55%**
Manager tenure: **<1 year**

As of March 28
*Fund not in existence
Source: Morningstar Inc.

djamieson@investmentnews.com
Twitter: @dvjamieson