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## Market Timing In An ETF Wrapper

By [Cynthia Murphy](#) (/contributors/cynthia-murphy) | August 20, 2015

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*In the ETF space, it's not easy to find a supporter of the idea that trying to time the market is anything but a fool's errand. But Hull Tactical, the firm behind the new-to-market [Hull Tactical US ETF \(HTUS\)](#) (<http://www.ETF.com/HTUS>) is working to change that perception.*

*Steve McCarten, chief operating officer of Hull Tactical, tells us why the time is ripe to dispel old notions about market timing and embrace the art of making calculated bets through a systematic approach.*

### ETF.com: In the world of ETFs, the concept of market timing gets a bad rep. Does it deserve that negative connotation?

**Steve McCarten:** Historically speaking, I agree it has had a negative connotation. But a lot of things have changed, especially recently. Look at how data is analyzed today, how it's gathered, how it's mined across various industries.

Data is king, and there's never been a time prior to now where the data was available more than it is now to do research, nor has there been the ability to take such large amounts of data and analyze it multiple ways. Financial markets are just one industry to benefit from that.

### ETF.com: So you think it's really possible to buy and sell at the right time? Anyone in behavioral finance would argue that people do just the opposite because emotions get the best of them.

**McCarten:** That's a great question, because people have been market-timing for a long time, and the negative connotation has always been there, and people continue to market-time anyway.

They just do it wrong. Their emotions get in the way and they buy at the top and sell at the bottom. And that just further increases the volatility or the price fluctuation.

The key is to have a systematic, disciplined approach; that's based on data and on analyzing that data to remove emotion.

### ETF.com: What's the biggest misconception people have about market timing?

**McCarten:** The idea of market timing in general is very polarizing. Historically, people felt it doesn't work. And I'd agree that for the last 30 years, it may have been irresponsible to market-time. But we feel that going forward to the next 30 years, it would be irresponsible not to try to market-time.

#### RELATED ETFs

TICKER	FUND NAME
<a href="#">HTUS</a>	<a href="#">Hull Tactical US (/HTUS)</a>

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The time is right now. The data is available. The ability to analyze that data is here. We see numbers come out daily that are acted on by the markets. We know those numbers influence markets. We put together a model that represents that and captures a best-bet alpha. It can be done.

**ETF.com: Is there a time when it's more appropriate to time the market—a certain market environment, a certain market cycle?**

**McCarten:** If you're looking at a systematic, disciplined approach, we don't really look at any one time as better than another. We research continuously. We're constantly updating our model. We're continually making changes. We look at variables that go into the model that academic papers have been published about. We have some proprietary variables we look at.

But again, those variables looked at, studied, researched, put in the model lead to an outcome. What comes out is what comes out. There is no passion, there is no emotion.

**ETF.com: Is it possible to make good market-timing calls on every asset class?**

**McCarten:** We are only doing it in the U.S. equity space.

**ETF.com: To touch on your ETF—HTUS—should investors be concerned about capital gains payouts? Market timing here means we should expect to see a lot of internal portfolio turnover given the ETF is constantly adjusting between long, short and leveraged positions.**

**McCarten:** The short answer is yes. Investors should be aware that this ETF is best-suited for a tax-deferred or tax-sheltered account. There will be capital gains. We do trade.

That said, we did look at this from the perspective of keeping capital gains as low as possible. First, by putting it in an ETF wrapper, the creation/redemption process allows us to somewhat offset some of those capital gains through the shares that are delivered through the process. But we have also put controls in place whereby we try to reduce the amount of trading while still keeping the best Sharpe ratio and return for the fund.

But yes, the investor should be aware that there would be capital gains on this because we trade throughout the year.

**ETF.com: What could go wrong with your model?**

**McCarten:** The investor should do the research; understand the product and how it works; understand the tax consequences and how that plays into returns. The concern would be someone investing [in our model] without fully understanding that it's a long-term product that should be in a tax-deferred or tax-sheltered account.

The banner is divided into two identical horizontal sections. Each section features the 'ETF.com' logo on the left, followed by the text 'FIXED INCOME CONFERENCE'. To the right of the text are two circular headshots of speakers: Jeffrey Gundlach (DoubleLine Capital) and Rick Rieder (BlackRock). Below the headshots is an orange button with the text 'LEARN MORE!'.

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The advertisement features a background image of a stone wall with a moat. At the top right is the 'MOTI' logo in a red box, with 'POWERED BY MORNINGSTAR' below it. The main headline reads 'Harness the Power of Moats'. Below the headline is a 'Learn more >>' link and the 'Van Eck Global SINCE 1955' logo. At the bottom, it says 'Van Eck Securities Corporation, Distributor | View Prospectus'.

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##### Daily ETF Flows

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The SPDR S&P Bank ETF 'KBE' had outflows to the tune of 6.6 percent of its assets on Wednesday, Aug. 19.

##### Daily ETF League Tables

(/sections/etf-league-tables/etf-league-table-2015-08-19)

Outflows from 'SPY' and 'KBE' fuel a \$1.7 billion drop in SSgA's total assets on Aug. 19.

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**Accelerates** (/sections/blog/death-mutual-funds-accelerates)

By Matt Hougan

New data from Charles Schwab show that the death of mutual funds is happening faster than we thought.



##### Precidian Ups Ante With Active ETF

**Rebuttal** (/sections/blog/precidian-ups-ante-active-etf-rebuttal)

By Dave Nadig

Grab the popcorn. Precidian just doubled-down on its nontransparent active ETF proposal with the SEC this morning.



##### Sinking Oil ETFs Devour Foolish Money

(/sections/features-and-news/traders-throw-millions-sinking-oil-etfs)

By Sumit Roy

USO and UWTI saw a combined \$1.5 billion in inflows just in July.



##### NextShares & The Death Of Mutual Funds

(/sections/blog/nextshares-death-mutual-funds)

By Matt Hougan

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