

ETFSector.com

Research Study: Intermediate-term Momentum Energy Sector

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Momentum Indicator Study Details



ETFSector.com Intermediate-term Momentum Indicator

Construction:

- Indicator Value = (1M (Trailing) Excess Total Returns * 0.2) + (3M Excess Total Returns * 0.5) + 6M Excess Total Returns * 0.3)
- Binning Values by groups of 5
- Averaging coincident 1, 3, 6 and 12-month coincident excess total return vs. reference security by bin

Study Securities:

- Sector Proxy: XLE
- Reference Security: SPY

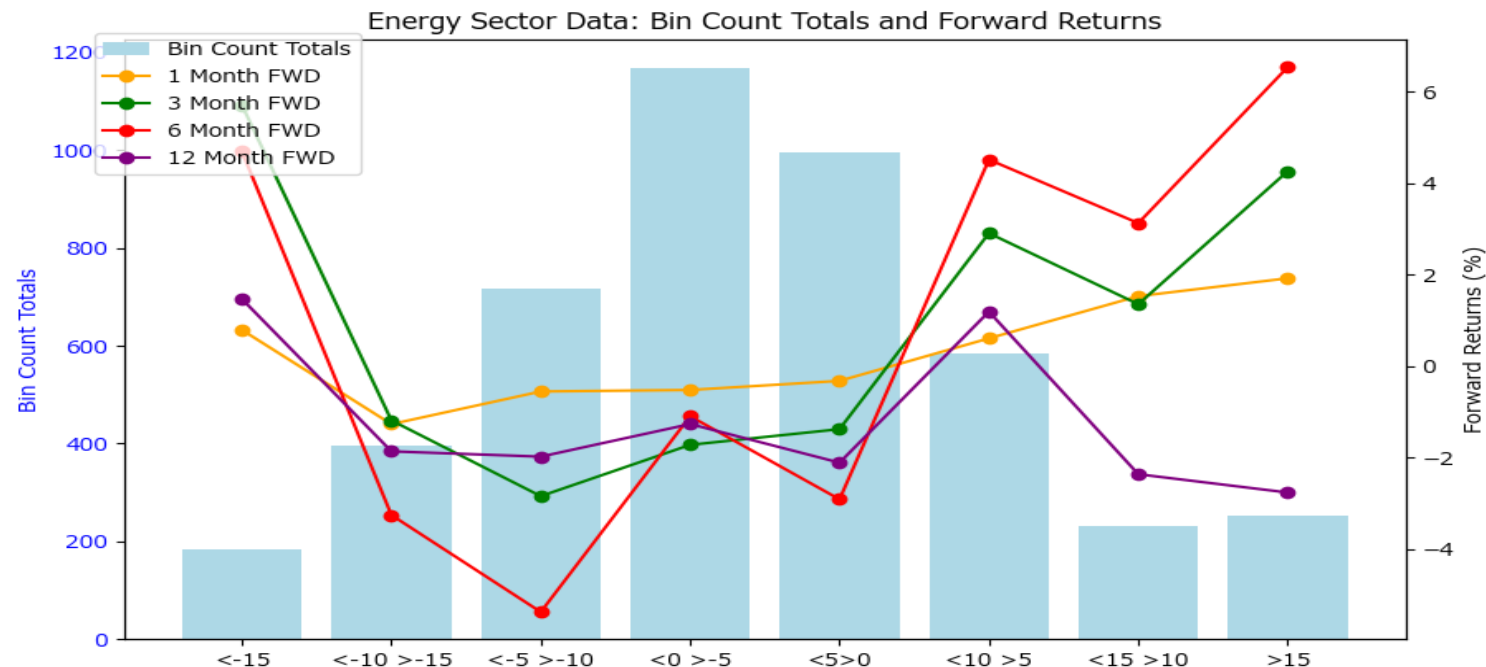
Look Back Period:

- 20 years (Chart)

Objective:

- Insight into the behavior of sector level momentum
- Identifying historical levels that coincided with positive excess returns historically

Momentum Indicator Study: Notable Results



Key Takeaways:

- Potential alpha opportunities from the indicator are highest in the 6-month forward window
- The highest average FWD returns coincide with the tails of the distribution at >15 and <-15
- Scores between values of -10 and 5 coincide with negative returns on average
- *Based on this research the current reading on the Energy Sector momentum oscillator (-8.59 on May 28, 2025) would suggest negative forward returns based on 717 observations over the previous 20 years of data*

Bin	Observations	Avg_1_Month_FWD	Avg_3_Month_FWD	Avg_6_Month_FWD	Avg_12_Month_FWD
<-15	185	0.793814538	5.710867928	4.694621897	1.470034754
<-10 >-15	397	-1.26638039	-1.184221327	-3.254751125	-1.861642654
<-5 >-10	717	-0.551642509	-2.842167525	-5.376463906	-1.977465896
<0 >-5	1167	-0.51842711	-1.718856906	-1.092810977	-1.264155299
<5 >0	995	-0.319885376	-1.375963986	-2.911500416	-2.109490551
<10 >5	584	0.610681746	2.911429959	4.52122609	1.195049912
<15 >10	232	1.53353314	1.357534572	3.131476632	-2.362249214
>15	253	1.924505804	4.267561803	6.544815272	-2.762433518

Momentum Indicator Study: Insights & Strategy Tips



Insights on the Research:

- The -15 value coincided with the high excess average excess returns over 3 and 6-month periods
- **However**, plotting out the signals in analog form (chart left, bottom) shows most of the sector excess returns were generated in the 2020-2022 period when the score rolled to extreme lows
- 5 is a key threshold on the upside as all previous upside moves of significance in the study window have generated scores above that level for a sustained period of time, generating a significant amount of the excess returns attributed in the study
- If we were to implement a trading strategy around this indicator it would include
 - Identifying the -15 and 5 levels as alerts
 - On the -15 threshold we set a technical accumulation signals based on downside trend deviation (overbought or oversold band around the price trend)
 - Holding period between 3-6 months
 - Longer holding periods with a risk management strategy like a hedge or a trailing stop loss
 - These characteristics would get you in at an extreme below the threshold level which is where the alpha in the study comes from