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Capture Ratio Analysis and The Materials Sector XLB: A Performance Review for 2010-2015

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Weighting Strategies for Materials Stocks

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Study Purpose:

- Develop Capture Ratio Weighting Strategies for XLB Sector

Weighting Model:

$$W_i = \frac{U_i/D_i}{\sum U_i/D_i}$$

$$UW_i = U_i / \sum U_i$$

$$DW_i = D_i / \sum D_i$$

Where:

- W_i = % invested in i th stock
- U_i/D_i = Up/Down Capture Ratio
- U_i = Upside Capture Ratio
- D_i = Downside Capture Ratio

Periods of Analysis: 2010-2015, 2010-2016

Sector Analyzed:

- XLB = Materials Sector

Table 1: XLB Cumulative Returns

	1/4/2010 - 1/2/2015	1/4/2010 - 1/4/2016
Up/Down Capture Ratio	120%	102%
Upside	103%	93%
Downside	125%	106%
XLB US Equity	43%	26%
SPY US Equity	81%	77%

Conclusions:

- XLB Up Down Capture Ratio outperforms both the XLB Sector and SPY for both time periods
- Upside Capture Ratio outperforms both XLB and SPY
- Downside Capture Ratio outperforms both XLB and SPY
- Downside Capture Ratio provides maximum performance