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Weighting Strategies for Information Technology Stocks

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Study Purpose:
• Develop Capture Ratio Weighting Strategies for XLK Sector

Weighting Model:

\[
W_i = \frac{U_i/D_i}{\sum U_i/D_i} \quad WUi = \frac{U_i}{\sum U_i} \\
WDi = \frac{D_i}{2a\sum D_i}
\]

Where:
• \( W_i = \) % invested in with stock
• \( U_i = \) Upside Capture Ratio
• \( D_i = \) Downside Capture Ratio


Sector Analyzed:
• XLK= Information Technology Sector

Table 1: XLK Cumulative Returns

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Up/Down Capture Ratio</td>
<td>146%</td>
<td>162%</td>
</tr>
<tr>
<td>Upside</td>
<td>145%</td>
<td>166%</td>
</tr>
<tr>
<td>Downside</td>
<td>129%</td>
<td>145%</td>
</tr>
<tr>
<td>XLK US Equity</td>
<td>77%</td>
<td>82%</td>
</tr>
<tr>
<td>SPY US Equity</td>
<td>81%</td>
<td>77%</td>
</tr>
</tbody>
</table>

Conclusions:
• XLK Up Down Capture Ratio outperforms both the XLK Sector and SPY for both time periods
• Upside Capture Ratio outperforms both XLK and SPY
• Downside Capture Ratio outperforms both XLK and SPY
• All Capture Ratio weighted portfolios have increasing returns from 2014 – 2015 as the market declines