ETF Momentum Rotation

EdgeLab Strategy Report | June 2026 | by Robin Eriksson | robin@edgelabtrading.com

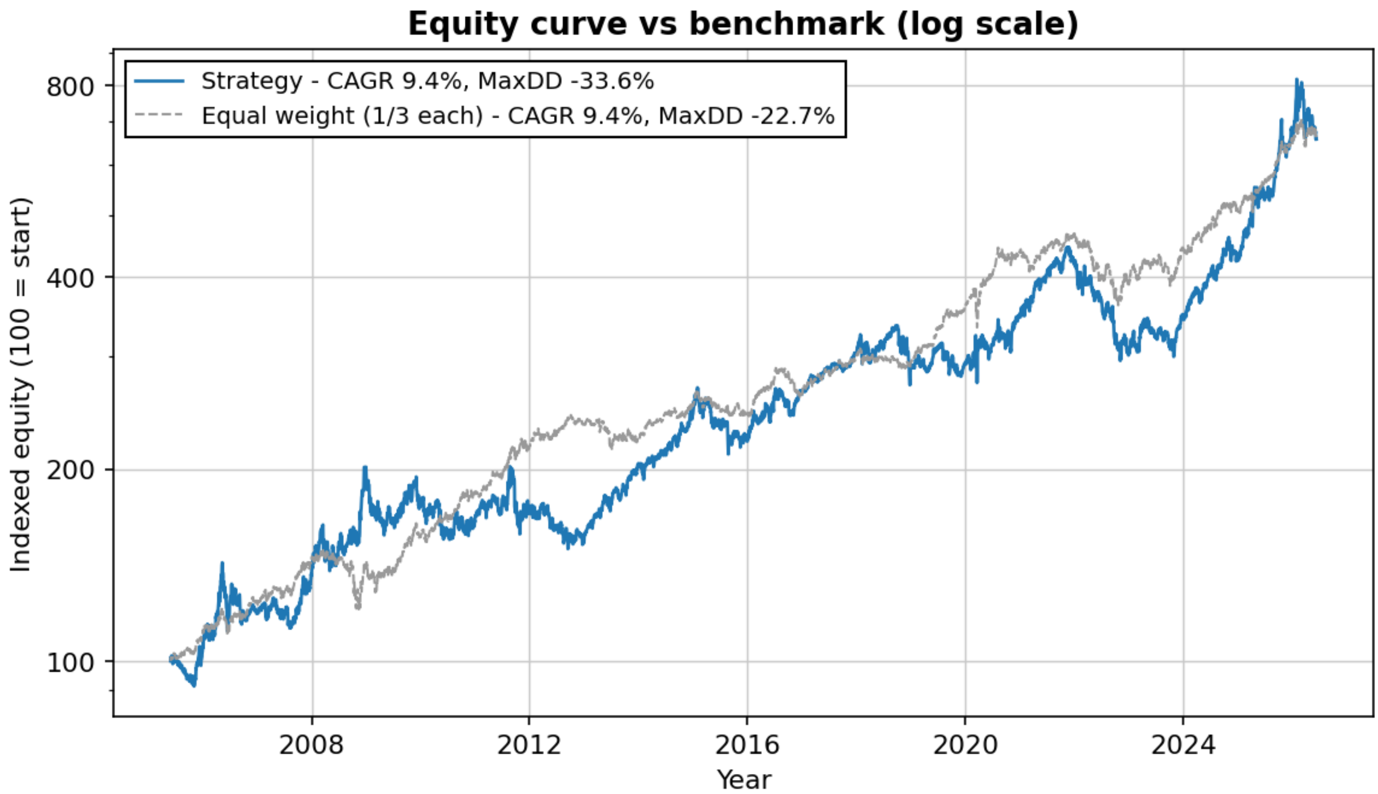
The rules

1. Universe: SPY (US stocks), TLT (20+ year Treasuries), GLD (gold).
2. On the last trading day of each month, rank all three by trailing 6-month total return.
3. Hold the winner - 100% - for the following month. Repeat.

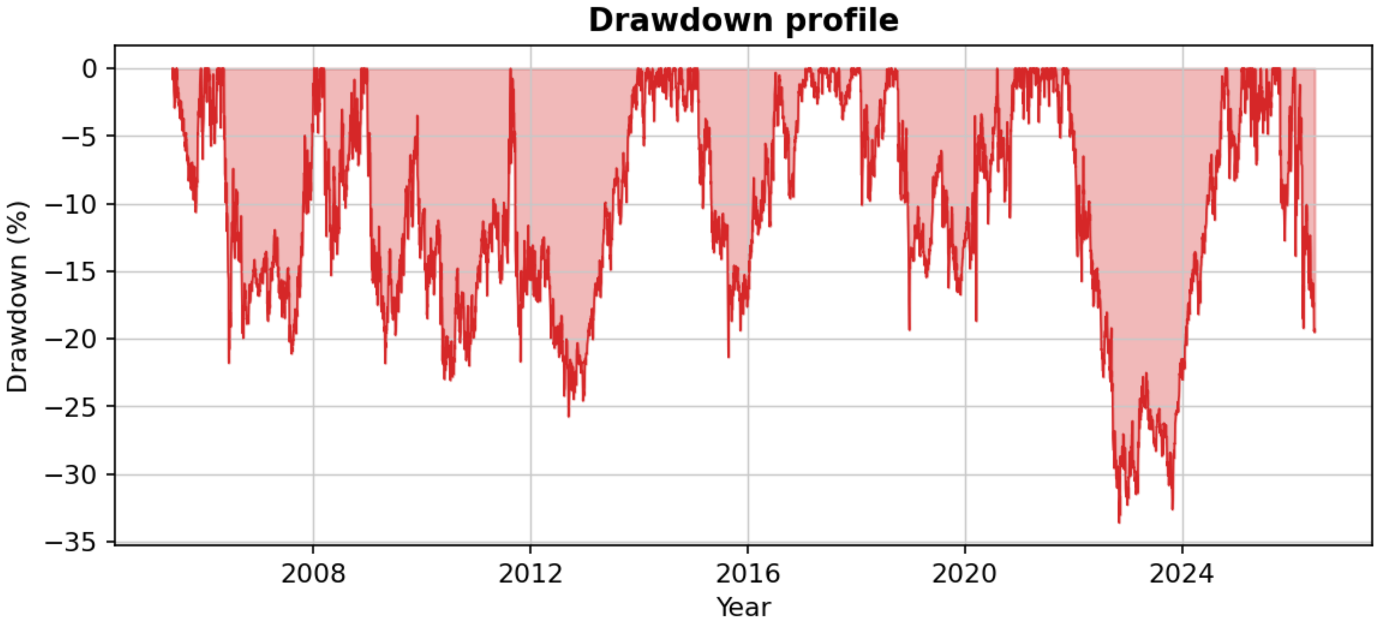
One parameter, one decision a month, about three switches a year.

Results, 2005-2026 (0.05% commission per side)

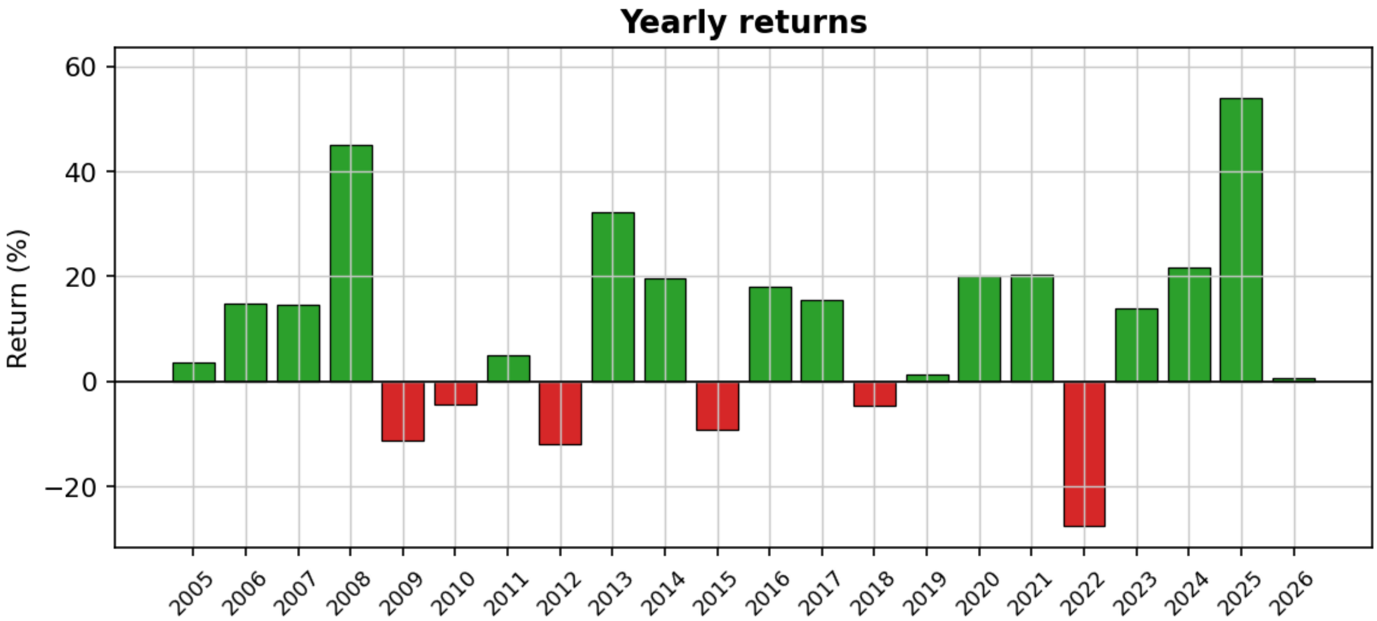
	Strategy	Equal weight (1/3 each)
CAGR	9.4%	9.4%
Sharpe ratio	0.61	0.96
Max drawdown	-33.6%	-22.7%
Time in market	100.0%	100%



Drawdown profile



Yearly returns



Robustness: does the exact parameter matter?

Performance across momentum lookbacks (2005-2026):

Lookback	CAGR	Sharpe	Max drawdown
3 months	10.6%	0.67	-31.1%
6 months	9.4%	0.61	-33.6%
9 months	8.8%	0.58	-30.6%
12 months	9.2%	0.58	-34.1%

Monte Carlo: how bad can drawdowns get?

We reshuffled the strategy's monthly returns 2,000 times and measured the worst drawdown of each alternate history. The historical path is only one of many that the same returns could have produced:

Percentile	Max drawdown
Median path	-29.9%
Worst 10% of paths	-40.4%
Worst 1% of paths	-49.3%

Position-size against the worst 10% column, not the historical number.

How we use it - and the honest caveats

Read this before trading it: over the full sample the strategy earns roughly the same as holding all three ETFs untouched, with a deeper drawdown and a lower Sharpe ratio. Our full article explains why we treat it as a building block (its returns are weakly correlated with short-term mean reversion) rather than a standalone system. Use a tax-advantaged account - every switch realizes gains.