Drag Audit Worksheet

Audit your active trading rules in 110 minutes. Stop the $337,979 leak before it compounds.

Why this matters. A 78% golden cross win rate still produces a 40-bps annualized drag versus buy-and-hold. On a $150,000 portfolio plus $2,000 monthly contributions, that drag compounds to $337,979 over 30 years. The structural cost is the 30% out-of-market window the strategy cannot trade away, regardless of zero commissions. This worksheet walks you through a 4-step audit to find that leak in your own portfolio.

> *“Win rate measures frequency. Wealth measures magnitude. The index does not care which one you choose to optimize.”*

Before you start

Have ready: your brokerage login, last quarter's statement, and 110 minutes. If you have multiple accounts (401k / Roth IRA / taxable), pull each one.

1 AUDIT — Pull every active rule

Step 1 · 5 minutes

Open your brokerage today and list every active trading rule. If turnover frequency exceeds 50% annually, your strategy carries the same 30% out-of-market exposure that produced the 40-bps drag.

- ☐ Log into each brokerage account and locate the "Realized Gains/Losses" tab.
- ☐ Count the number of round-trip trades in the last 12 months.
- ☐ Calculate turnover rate: (total round-trips × average position size) / total portfolio value.
- ☐ Flag red: turnover > 50% annually. Flag green: turnover < 20% annually.
- ☐ Note: 50/200 SMA crossover on daily closes typically produces 30–80% annual turnover.

2 ALLOCATE — Map each holding by tax treatment

Step 2 · 15 minutes

Account type determines the Iceberg drag layer. Taxable accounts pay an additional ~50 bps in short-term capital gains realization. On a 30% taxable allocation, that adds roughly $112,947 to the headline gap over 30 years.

- ☐ List your total balance across 401(k), Roth IRA, and Taxable brokerage.
- ☐ Compute the % of each account that holds crossover-strategy positions (vs core S&P 500).
- ☐ Multiply taxable % by 0.50 bps to estimate annual additional Iceberg drag.
- ☐ Add to base 40 bps to get your effective drag. Document the number.
- ☐ If Iceberg drag pushes effective drag past 60 bps, the 30-year gap likely exceeds $450,000.

3 APPLY — Switch to monthly-close discipline

Step 3 · 30 minutes

Replace 50/200 daily SMA with 200-day SMA on monthly closes only. Faber (2007) documented 63% profitable trades on the equivalent rule across S&P 500 1900–2005, with turnover under 0.7 trades per year. Drag narrows below 15 bps at that frequency.

- ☐ In your trading platform, change the timeframe of your MA overlay from daily to monthly.
- ☐ Set the trigger to evaluate only on the last trading day of each month.
- ☐ Disable any intramonth crossover alert that would prompt mid-month trades.
- ☐ Re-backtest in your platform: confirm new turnover < 1 trade/year.
- ☐ If your platform cannot evaluate monthly-only triggers, schedule a manual calendar reminder for the last trading day of each month and document the rule in writing.

4 AUTOMATE — Lock the rule in an IPS

Step 4 · 60 minutes

Write the final rule into an Investment Policy Statement (IPS). Automate the rebalance to remove the decision moment. The IPS is the structural intervention that prevents signal-chasing behavior.

- ☐ Draft a 1-page IPS: objectives, asset allocation, rebalancing trigger, exit rule, review cadence.
- ☐ Specify the exact moving-average rule and timeframe (e.g., "200-day SMA on monthly closes, evaluate last trading day each month").
- ☐ Define your rebalance band (e.g., ±5% drift from target allocation triggers rebalance).
- ☐ Schedule a quarterly IPS review on your calendar (not just annual — quarterly catches drift earlier).
- ☐ Print the IPS, sign it, photograph it. Keep both physical and digital copies. Re-read before any unscheduled trade.

Total time: ~110 minutes (≈ 1h 50m)

One sitting beats five years of mortgage payments lost to drag. Apply this audit before your next quarterly rebalance. Re-run after every major life event (new account, marriage, child, home purchase, retirement transition).

Your audit notes

Use the space below to record your audit findings. Carry them into your IPS draft.

Step 1: Turnover rate (%)	
Step 2: Effective drag (bps)	
Step 3: New rule timeframe	
Step 4: IPS review date	

Sources and methodology

QuantifiedStrategies (2026): 78% win rate across 33 S&P 500 golden cross signals 1960–2026 with 40 bps annualized drag versus buy-and-hold. Brock, Lakonishok & LeBaron (1992, Journal of Finance): pre-cost MA edge documented across DJIA 1897–1986. Han, Yang & Zhou (2013, JFQA): edge concentrates in high-volatility Decile 10. Faber (2007, Journal of Wealth Management): 200-day SMA on monthly closes — 63% profitable trades, S&P 500 1900–2005. 30-year wealth gap math: monthly compound, P=$150,000, PMT=$2,000/month, r_BH=7.2%, r_strategy=6.8%, t=30y → gap = $337,979.

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