Ugly Week has Speculators Scrambling

The market got a bit ugly to start the week before rebounding Thursday and Friday. The inflation numbers scared speculators. I don't know about you, but I'm attuned to changes in prices because I live in the real world.

There's inflation in "stuff" that we need to live. You know, like food and gas. Those are items that are conveniently left out when economists like Janet Yellen tell you that inflation is “under control”.

I bought a new car about seven months ago. Not by choice. It simply was no longer economical to own my previous car, which I had taken over from my Dad. I parted with it with about 100,000 miles on the odometer (I think Ford does stand for **F**ix **O**r **R**epair **D**aily). I bought a foreign car that uses 91 octane versus the Ford's 87. Prices at the pump have surged 45% in that time, and I was paying a bit more because 91 is more expensive than 87.

Fortunately, I do not drive much. Maybe 7,000 miles per year. However, I feel the pain for the person that commutes to work, especially as the pandemic wanes and people head back to the office. Rising gas prices are a big bite out of one’s wallet.

Food is up a lot too, and despite what economists think, we need to eat. I pay attention to prices at the grocery store. There have been some substantial increases, especially in vegetables, meat and poultry. Again, this is a huge bite out of everyone’s wallet.

One cause for inflation might be that the supply chain was disrupted with COVID. Now demand is coming back, but the supply just isn't there to fulfill the demand.

I am mostly going to stay away from predictions in this newsletter. Everything I do is based on data. That said, I would not be surprised if there's an inflationary surge in the short term followed by a deflationary bust (I guess I just made a prediction).

Inflation hurts poor people. Deflation hurts rich people. Who do you think the politicians and central bankers are looking out for?

As the world gets back to normal, this inflation will cut into discretionary spending in a big way. For example, my desire to eat out at restaurants was curbed by COVID but will be even more so when I see a $60 steak on the menu.

Besides the higher prices, wearing a mask, wrapping myself in plastic, staying away from others, using a paper menu, and eating with disposable utensils, it isn't very quaint.

Why would I go to a restaurant and go through all of the protocols when I can cook a better steak and drink better wine at home?

I won’t.

I am also spending more at Costco. I suspect they will continue to be big winners. While I would like to support my local grocery store, the prices are insane. Costco hasn’t raised the price on their roasted chicken in over 30 years. They lose money on every chicken sold. It gets members in the door. I suspect they will keep prices low on many items to steal market share and eventually crush much of their competition.

Due to increases in pulp and plastics prices, many consumer goods will see high single-digit price increases later this year.

Again, this is in stuff we need. You know, like toilet paper.

The growth spurt post-COVID could then slow quickly since no one will have money left over to do anything for fun. In addition, there are a zillion dollars in debt out there. And liquidity has found its way into all asset classes, not just stocks.

Last week there were some big auctions in the watch market in Switzerland. The prices for some of the items sold are just completely bonkers. I wish the winning bidders luck. They’ll need it!

Eventually, someone will get caught holding the bag, and we could see a deflationary beatdown when debt starts to default.

If it happened sooner than later, the U.S. Dollar would have a massive rally. If it happens later, then maybe not. I am going to discuss this in the June monthly issue of *Unbounded Wealth: Max Profits*. Stay tuned!

On another note…

Thank you to all of you that have written into customer service after subscribing. And a special shout out to Dent’s master of customer service, Karen. She does a fantastic job.

I read all the comments. I reply if I feel the comment requires a reply.

I wanted to help you help yourself by understanding this newsletter a little better.

This newsletter is not an income letter. I will not write about income opportunities, nor are any of the stock picks income-oriented. If that is what you are looking for, you are in the wrong place. Dent does have an income letter written by Charles Sizemore. I have known Charles for many years, and I think he covers the income space very well. I would suggest you check his newsletter out if you have not already done so.

I do not trade stock options. I have no interest in stock options. I never have. I think my Dad gave me the best advice when he said, "stick to what you know, kid." That's what I do. I do not know stock options.

This newsletter does not use leverage. Leverage works until it doesn't. Then you go broke.

This newsletter does not trade bitcoin or other cryptocurrencies. I have nothing against that market. But I have no edge there. I appreciate the cryptocurrencies are volatile. You need volatility to make significant returns. However, there's no fundamental data that I feel comfortable tying to the trends in price. In addition, markets like soybeans offered much more significant return potential off the COVID lows. Soybeans have been around for thousands of years. Thus, there's nothing special about cryptocurrencies. It's just another market that goes up and down like soybeans. Some people will do very well in the crypto market, and some people won't.

This newsletter provides a well-tested strategy of ten stocks (ten at all times) that are under-followed, have solid earnings quality, and are starting to show price trends that indicate bigger moves could be ahead.

There's a lot of custom formulas and work that goes into creating these systems. I try to keep it very simple for you in its presentation.

Earnings quality is an area I have an edge. I am comfortable saying I can analyze financial statements better than 99.999% of the people in the world. It doesn't mean that will always lead to profitable investments.

It won't.

It does mean that I often can identify risks where others cannot. And, in market environments where stock-picking beats blindingly buying everything, then I should do well.

I think that time is coming now more than ever after a decade of domination by indexing. Hence, I thought it was the time to launch the newsletter that I wanted to write with the data I wanted to arm people with and with the best tools possible.

There is no difference between a ten stock or 20 stock portfolio except that ten stocks should be easier to manage. There is no statistical difference between the #1 ranked stock and the #8 rated stock.

Therefore, it's probably best not to cherry-pick. However, if you want to do so, that is certainly within your rights.

The way to think about this strategy, though, is like playing blackjack at a casino. In the blackjack game, it's possible from time to time, the odds could be in your favor even if you don't count cards. When the odds are in your favor, you want to spread your bets as much as possible. You don't bet it all on the one hand, but you let the odds work in your favor.

The strategy in this newsletter is about letting the odds work in your favor.

This strategy was created in June 2019. Coming into this past week, it was up nearly 230% since then. That said, there was still a 50% loss within the last two years.

Nothing is free in this world.

The question is can you withstand a 50% loss in a part of your portfolio to make 230% in less than two years? Only you can answer that question.

If anyone promises you significant returns with no risk, then you should run the other way. Such a thing does not exist. You will get burned.

That said, when it comes to risk, I wanted to offer my *Risk-O-Meter*. I call it that simply to make it a fun name because I created a gas gauge to illustrate where we are on the spectrum of risk. The meter is based on my couple of decades of experience.

The meter focuses on market sentiment (bullishness vs. bearishness), trends in the credit markets and the risks there, market volatility, and the quality of the price trends of the market.

A simple example of the quality of price trends is whether the stock market returns are being driven by just a few stocks or many. The more, the merrier! We don't want only to see Apple and Netflix leading the way. That's not a healthy market.

The *Risk-O-Meter* reduces risk. It does not pick exact tops and bottoms. If the market tanks 50%, you may still lose 25%. However, a buy signal after a significant decline is powerful, and it becomes much easier to make back those losses quickly and generate new gains. Over time, you end up well ahead of everyone else.

Only liars pick exact tops and bottoms.

The addition of the *Risk-O-Meter*, though, preserves the returns, and you likely won't suffer that 50% loss. The combination of the stock selection in this newsletter and *Risk-O-Meter* is designed to navigate the market at the risk level you are comfortable with so that you stick with it through thick and thin.

Lastly, if you seek income or want to trade options, I would encourage you to look through the top and bottom stocks in the FAST model I attach to the monthly issue of this newsletter each month (the last one was May 10th). There are enormous opportunities in those lists.

The FAST model is the same data I supplied as a consultant to multi-billion-dollar funds. It's the type of information pros use. Except now you have access to it.

In 2015 I was approached by one of the largest banks in Europe. They wanted to sell FAST to their clients. The team heading up this effort had sold a similar product at another firm. They sold the top 50 stocks to 14 clients for $500,000 per client.

Often, those clients would buy the top 25 or top 50 stocks as a portfolio and spend the rest of their time engaging with their clients and managing their business.

Each month you have the top 50 stocks in my model. It's right there waiting for you to use it however it best suits your needs.

I received several comments from folks wanting transparency in a newsletter. That's precisely what you're going to get with me. I just told you that there's no way you're making 200% without losing 25-50% at some point. The models presented to you are exactly the ones I think represent my best work.

The whole point of me starting this newsletter was to create an edge for the non-professional investor and arm them with best of class technology in a simple to understand format. That is what you get.

Most important to me is that I want you to have a positive experience. I didn't create this newsletter for me. I created it for you. I want nothing but the very best for you.

Happy trading,

John

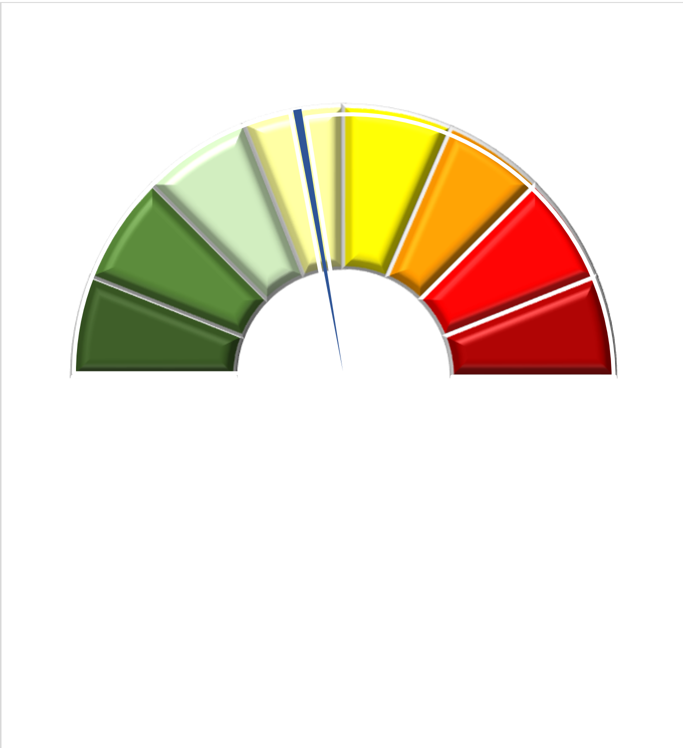
Risk-O-Meter

The *Risk-O-Meter* remains on a buy since July 2020.

Risks this week improved slightly. The credit market red flags tripped last week has eased off. In addition, the market is oversold at this point.

Expect a bounce, especially in growth-type investments.

Market breadth remained strong despite the indexes getting kicked in the teeth earlier in the week. Plenty of green was still on the screen.



A partner of mine in another business I am involved with had an interesting theory. I don't think he will mind me sharing his theory with you here.

Last year over 10 million new trading accounts were opened up. People were sitting around in their underwear without a whole lot to do, and the government just gave them a check. So, they started trading stocks.

From the lows, it's been virtually impossible to lose money. However…

A very reasonable theory is that people liquidated stocks to cover taxes on short-term gains since they traded in and out of growth stocks aggressively in 2020.

Hence, you would see some pressure a week to a month before taxes are due. The due date was moved to May 17th.

It makes sense.

Now some stocks have started to turn. Breadth is very favorable. The bullish sentiment has declined a bit. However, those folks are on the sidelines rather than in the bear camp. Call them "nervous" but not bearish. We need to see them move over to the bearish side of the market before getting a sell signal there.

Micro-Cap Millions

I have attached a *Quick Start Guide* below and will continue to do so for at least a few months as new people come aboard as subscribers. The *User Guide* located in your member area addresses how to get started with the micro-cap strategy. I strongly urge you to read it.

I also would suggest being a bit tactical in trading the positions. That means using limit orders or spreading the orders out over a bit of time.

Micro-cap stocks are tiny, and the volume traded can be pretty low. This is not like buying shares of Apple.

This newsletter trades on Monday because the data needed to calculate all of the formulas is updated over the weekend.

There is nothing special about Monday. Fools rush in where angels fear to tread. Be reasonable.

Here’s the portfolio for this week:

ALJJ	ALJ Regional Holdings, Inc.
BKTI	BK Technologies Corp
CRAI	CRA International, Inc.
CRD.A	Crawford & Company Class A
HMTV	Hemisphere Media Group, Inc.
IHC	Independence Holding Company
ISDR	Issuer Direct Corp.
LOV	Spark Networks SE
NAII	Natural Alternatives International, Inc.
WSTG	Wayside Technology Group

There are no new trades this week. That’s a good thing!

I received my second shot on Friday, and I am not feeling 100% and need a couple of days to rest.

I wish everyone good health!

QUICK START GUIDE

It's time to get started! In just a few minutes you'll be on your way to living life on *your* terms!

There are three ways to implement my strategy: Aggressive, Conservative, and Moderate. I use Option #3, Moderate. Choose the one that is right for you.

Option #1, Aggressive – Go all in. Just buy the stocks that are listed in the newsletter on Monday! It's entirely random whether the Monday you get started will help or hinder your returns. No one knows. But this is the easiest way to get on the program and by far requires the least decision-making. After that, you have one job; stick with the strategy!

Option #2, Conservative – Use the *Risk-O-Meter* and wait until there's a **new** buy signal **after** the next sell signal.

Bottoms are easier to spot than tops because once investors have sold, there's nothing left to sell.

Tops in the market are much harder to see. People can buy, and buy, and buy some more. The *Risk-O-Meter* went on a buy-in July 2020 and remained that way at least through April 2021 as I wrote this. This Bull Market will continue until it stops. **The *Risk-O-Meter* does not predict. It reacts.**

It could go red next week. Who knows? Some investors are more comfortable buying after a pullback. That's fine. It's up to you. In this case, waiting around would have cost returns of 30% to 50% or more.

The next time the *Risk-O-Meter* goes on a buy after the next sell, the world might look like there's a bunch of reasons not to buy stocks.

That will be precisely the time to buy. After that, you have one job; stick with the strategy!

Option #3, Moderate – The middle ground. If the *Risk-O-Meter* is currently on a buy signal, then dollar-cost average over four to six weeks, adding consistent dollar amounts to your portfolio each Monday, until fully invested. You won't invest everything at the top, and you won't catch the bottom. You will earn an average over the weeks that it takes to build a full position.

After that, you have one job; stick with the strategy! This is the approach I choose in my investing. I never jump in with both feet first. I work into the positions. The exception would be new buy signals after the *Risk-O-Meter* comes off a sell signal, at which point I would get fully invested.

You might have noticed that I repeated one line, "After that, you have one job; stick with the strategy!" There's a reason. The strategy is designed to be just that. It's a strategy.

It's not a collection of individual stock picks. Of course, you can cherry-pick the stocks in the system if you want. That is your choice. But I don't recommend it.

It's a 10-stock portfolio because the performance is better than a 20-stock portfolio without much change in risk. 10 stocks are much easier to manage. I am all about the path of least resistance.

Of the 10 stocks, some will undoubtedly look more compelling than others. That doesn't mean anything, though. I certainly cannot differentiate which among the 10 stocks will outperform the others.

The best way to follow this strategy is to risk an amount of capital that will not prevent you from remaining invested when there are bumps in the road. There will be losses. There will be times when the system underperforms the broad markets. Often the financial markets feel as if they are designed to test your mental strength. When you jump ship, the ship usually rights itself, and the performance of the strategy starts to move in the right direction.

You must pick an investment approach that suits your own ability to stick with the system. Then you must stick with it through thick, thin, and hell or high water.

Do that, and you'll be way ahead of 99% of the other investors out there.

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