Sharing Research

I am constantly working on different ideas, and from time to time, I wanted to share with you research that may help you in your quest for financial freedom or simply protecting what you may have worked so hard to achieve already.

The primary strategy in my book *Unbounded Wealth* is in Chapter 11. I call it The Sonic Jubulator. That name means absolutely nothing.

However, when I have mentioned to people that one of my main investment strategies is The Sonic Jubulator, they drop everything they are doing. Their eyes get wide open, and they pay very close attention to what I am about to say.

What's in a name? A lot, I guess.

I purposefully kept the strategy in the book very simple because most people do not have a system in the first place. They bounce around to whatever is hot, and they don't stick with anything long enough to reap the rewards.

I provide plenty of research in the book to support this view. The worst problem is that the typical portfolio does not keep up with inflation. This is my biggest worry as it relates to people who have subscribed to my work. I have a vested interest in your success. Therefore, I wanted to share these other versions of the strategy with you.

On page 70, I note research from DALBAR showing that inflation has been running 2.6% for 30 years, and portfolios are rising 1.6%. The stock market has been up 10% per year, yet the typical equity portion of a portfolio is up just 3.6%.

This is a huge problem, and I wrote the book to help people overcome this shortfall.

Remember, very few people own just stocks. Typically, investors have a mix of asset classes. They might hold bonds, commodities, and other asset classes mixed in.

Also, it's impossible to be always 100% invested in stocks long enough and not have 50%+ declines in your portfolio. No matter how many newsletter writers tell you that they have a magic formula to avoid such a situation.

So, the whole point of the strategy in *Unbounded Wealth* is to get close to stock-market-like returns but at much less risk. Historically when people take that 50% hit to their wealth, they jump ship. This is usually the exact wrong time to bail. Again, I provide plenty of research to support this notion in the book.

As an example, the lowest equity allocation by individual investors ever was in March 2009. *That was the exact low in the market*. People don't stick with their strategy and then miss out. This happens over and over again and is 100% predictable. The method in *Unbounded Wealth* exploits the entirely predictable shortcomings of human nature.

This week I wanted to revisit the strategy and highlight a handful of changes that can be made that increase returns a bit. Of course, the risk goes up too but not by so much that you will need to reach for Pepto Bismol.

There are two components to the strategy. One always stays the same. You can learn why by reviewing the chapter in my book. That remains unchanged. There are equal parts gold, the stock market, and 20-year + bonds. That represents 50% of the portfolio. Those three asset classes divided by three means you hold 16.67% in each. Always.

For this research project, I am going back to 2005 because that's the first full year of trading in gold exchange-traded funds (ETF). I have done more extended studies using gold the metal, and the results are consistent throughout decades and different market cycles.

That portion of the portfolio returns 9.4% annually with a drawdown (maximum loss) of 19.4%. Owning just stocks did a bit better at 10.2% annually, but the drawdown was 55.2%. Your 401K turned into a 201K, and then you had to wait years to get back to even. That's not my cup of tea.

The more traditional 60% stock / 40% bond portfolio returns 7.0% annually with a drawdown of 35.4%. We are already *well ahead* of the game of what most people are doing.

It's the other 50% of the strategy that I wanted to provide a few more options. This half of the process depends on whether the market is above or below the 200-day moving average. Again, the book offers plenty of support on why the 200-day moving average is a crucial metric to analyze.

It's effortless to see. You can pull up a chart for free on the Internet and determine within one second whether the market is above or below the 200-day moving average.

For example, you can easily find this information on stockcharts.com for free.

In the book, I went to cash when the market dipped below the 200-day moving average. If you go to cash with 50% of the portfolio, the overall return is 10.3% with a 20% drawdown. You beat the market with less than half the risk.

That was the goal. Mission accomplished.

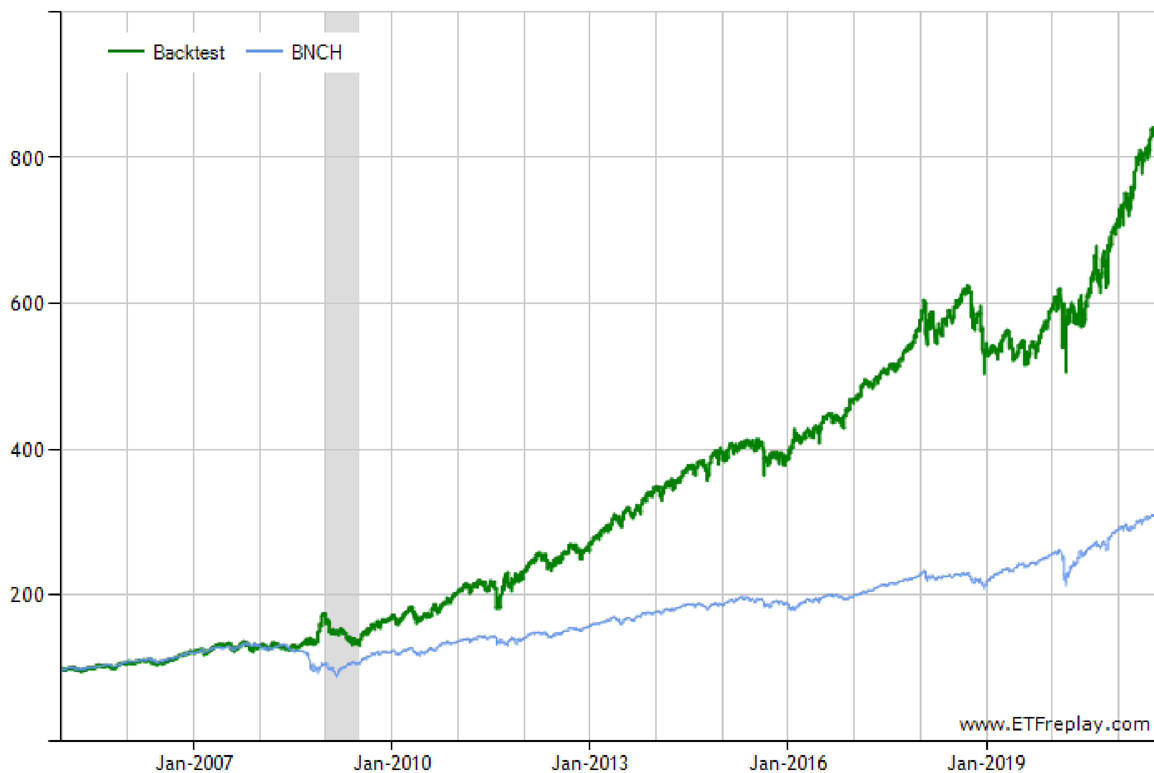
However, you can do a bit better by trading into the 20-year + bond ETF instead of going to cash when the market is below the 200-day moving average. The ETF I use is the ticker TLT.

I love TLT's. They always seem to do what I need them to do when they are supposed to do it. I happened to own a bunch of them before the COVID smash. Now, I had no idea that COVID was coming, but I did know that market risk was very high just before it hit. The TLT's saved my bacon. Then I was able to rotate back into stocks after the market had tanked.

Time and time again, they have worked liked they are supposed to. If we do get a significant market decline from here, TLT's are capable of a huge run. Depending on the damage done, the returns could be 50% or more.

If you use TLT instead of just going to cash, you get 11.6% annually with a drawdown of 22.4%. Now you're beating the market by more and still with less than half the risk.

Here's what that looks like just for 50% of the strategy that trades in and out of TLT:

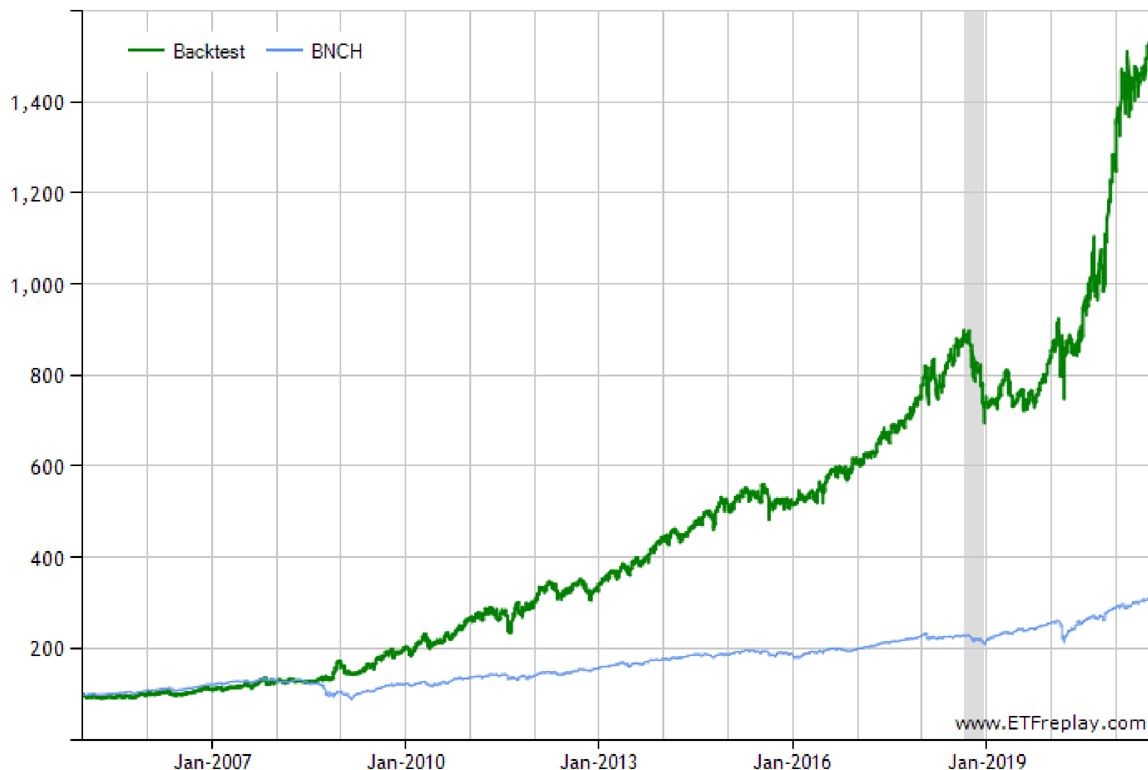


The next version of the strategy I wanted to share is trading in whatever is performing *best* over the past three months. Momentum is a mighty force in the universe, which I talk about in the book. When the market is trading above the 200-day moving average, you buy whatever is trading best among the three main stock indexes—large stocks (SPY), small stocks (IWM), or Nasdaq stocks (QQQ).

When the market is trading below the 200-day moving average, you trade the best-performing bond funds. Those funds are 20 year + treasuries (TLT), junk bonds (JNK), or municipal bonds (MUB).

This strategy returns 13.7% annually, with a drawdown of 21.0%. Now you're in rarified air since the vast majority of investors aren't even close to those type of returns.

Here's what that looks like just for 50% of the strategy that trades in and out of the best performing stock or bond index depending on whether the market is above or below the 200-day moving average:



There are several advantages to all of these strategies.

1. They work overtime.
2. They exploit human nature, and human nature does not change.
3. They are low cost to implement, and by not paying an advisor or even brokerage fees, you gain on other people that are getting hosed on fees.
4. They are easy to implement.

5. Very few trades happen per year. Therefore, you can get on with life and enjoy it rather than staring at a computer screen.

Are there other strategies with even higher returns? Yes, however that comes with greater risk. At the core of my portfolio, I want something consistent and at a risk level that won't keep me up at night. In my opinion, these strategies accomplish that, and that is why I outlined an elementary version in *Unbounded Wealth*.

Even if you do not implement these strategies, this research may give you some food for thought to investigate strategies that fit your mental makeup and allow you to accomplish your financial goals!

Happy trading!

John

Risk-O-Meter

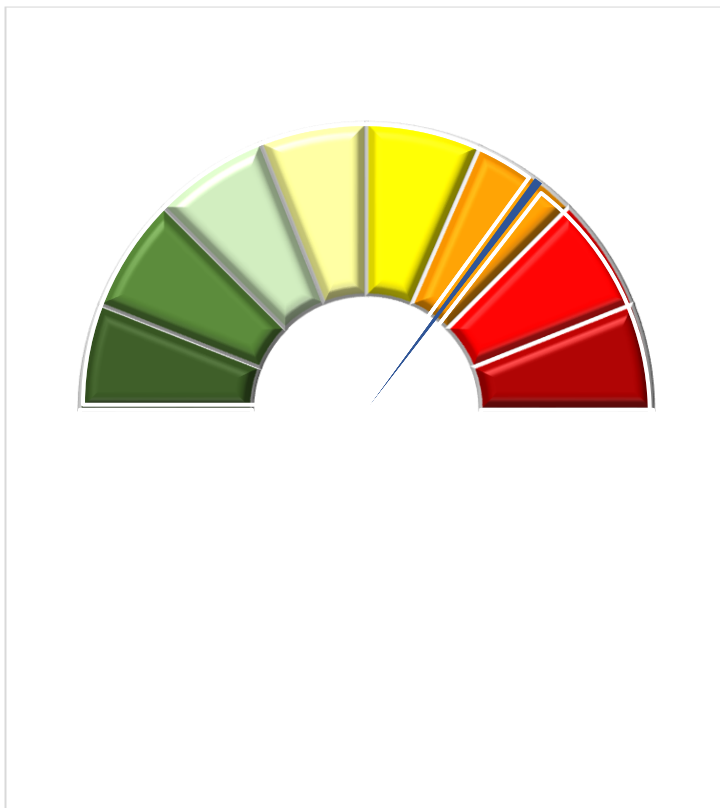
The *Risk-O-Meter* is unchanged this week and **remains on a buy signal**. Small-cap stocks have been under pressure in the last couple of weeks. This past week, I saw a chart that I cannot share here due to copyright issues of the correlation between smaller stocks and the market leaders.

That correlation is the lowest since 1933. All smaller-stock strategies are under-performing.

Even as the major indexes have held up reasonably well, there's been a layer of weakness underneath the market, and that weakness has been in smaller stocks.

This hurts the strategy in the newsletter because the focus is on smaller stocks.

However, I would expect a bounce in the market from here as this market segment is oversold in the short term. Should that happen, smaller stocks could out-perform dramatically in the near term.



Micro-Cap Millions

As I mentioned in the *Risk-O-Meter* discussion, smaller stocks have been under some pressure in recent weeks relative to the market indexes. The micro-cap strategy is down about 2% compared with the S&P 500, up about 3% since the start of the newsletter.

While that's well within normal expectations, let's face it, we all want positive returns.

I'm disappointed to be treading water. It's just the way it is. One culprit of the slight loss is a near 20% decline in Taitron Components, Inc. (Ticker: TAIT). It remains in the model for now, but it has weighed down the entire portfolio.

I also provide the model with larger stocks, called *Mega-Tech Trends*, because they will be easier to implement. All of these stocks are in indexes, which means constant buying and selling. That makes them easier to trade as volumes are higher.

Conversely, the chances are that the micro-cap stocks are not in any indexes. The advantage is getting in on a trend before anyone else. The disadvantage is it takes a bit more babysitting the position.

Therefore, consider putting more weight on the *Mega-Tech Trends* strategy to make life easier on yourself.

Here’s the portfolio for this week:

CRAI	CRA International, Inc.
CRD.A	Crawford & Company Class A
DLHC	DLH Holdings Corp.
FEIM	Frequency Electronics, Inc.
HMTV	Hemisphere Media Group, Inc.
IHC	Independence Holding Company
ISDR	Issuer Direct Corp.
MGIC	Magic Software Enterprises Ltd.
TAIT	Taitron Components, Inc.
WSTG	Wayside Technology Group

No new trades again this week

Mega-Tech Trends

Mega-Tech Trends also has a slight loss compared with flat performance for the market. Again, we are treading water here for now.

Here is the current portfolio:

AMEH	Apollo Medical Holdings, Inc.
BCOR	Blucora Inc.
BDC	Belden, Inc.
HRC	Hill-Rom Holdings, Inc.
IT	Gartner, Inc.
JBL	Jabil, Inc.
KFY	Korn Ferry
LFUS	Littlefuse, Inc.
MKSI	MKS Instruments
XRAY	Dentsply Sirona Inc.

Buy Belden, Inc. (Ticker: BDC)

Sell Forrester Research, Inc. (Ticker: FORR)

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