When It Blows How Low Does It Go?

This past Saturday I joined as a panelist with Harry Dent and market technician JC Parets to discuss profit opportunities in today's markets. I presented two stocks which I think have 20X upside with limited downside risk, regardless of where the market goes from here. In presenting live with Harry, I am seven for seven in generating both profitable long and short ideas. If you're a subscriber to the full newsletter, you can get this information for free and attend a replay of the webinar. If you receive just the *Risk-O-Meter,* you can attend for a nominal fee.

JC Parets did the best presentation of crypto markets I have seen to date. Like me, he views cryptos as just another asset class. Cryptos are an important asset class but they or no different to trade than stocks, commodities, or fixed income markets. Through that lens, he really offered some great insight on how to trade cryptos.

I also like listening to Harry. I do not always agree with everything he says, but I thought his charts in this presentation were very compelling. It was the best presentation of big picture trends and cycles that I have seen in a long time.

One thing I do agree with is when the big smash comes, this sucker could go down in a big way. It's going to be epic.

I don't think we are there yet. *The Risk-O-Meter* is still on a buy. The core strategy I discuss in my book *Unbounded Wealth* is still as long the market as possible. The modified versions of that strategy that I have shared with you in this newsletter are still long. Other strategies I trade with my own money that make big bets on trends in the market are massively long.

That said, eventually the trend will end. I think tops are harder to see coming than bottoms. In a bottom it's obvious when everyone has sold. Fear is a more powerful emotion than greed, in my opinion.

That said, even though trends are favorable and the *Risk-O-Meter* is on a buy, it is worth thinking about what to do when sell signals and alarm bells go off!

The vast majority of investors have no strategy. I discussed in my book *Unbounded Wealth* the sad but true facts at just how terrible people are at investing and the horrible returns they achieve over time. It boils down to not having a strategy and sticking with it.

That one simple fact will get you into the 1% over time if you do the opposite of what everyone else does.

So, let's strategize.

I'm sure you follow multiple people in the finance space. Differing opinions would be expected. I suspect there's plenty of people who have been on an outright sell for a while. They have been dead wrong of course. We do know that eventually it will be time to sell. You won't know for sure until after the fact when you survey the damage.

So, it pays to have a strategy to act on sell signals. To that end, I'll discuss sell signals for the *Risk-O-Meter*.

The *Risk-O-Meter* is either in or out of the market. Since 1999, there have been 79 buy signals and 79 buy signals.

The typical buy signal is four times longer than a sell signal. This makes sense as markets tend to fall faster than they rise. When investors want out, they want *out*. Therefore, while the average buy signal lasts 84 market days, the average sell signal is just 21 market days.

The average buy signal generates a 10.27% return while the average sell signal generates a -0.21% return. Just because the *Risk-O-Meter* goes on sell, doesn't mean it's going to be a huge butt kicking. On average, only a slight loss occurs. However, you would only know if the market got crushed after the fact.

Ignoring a sell signal would be foolish because the *Risk-O-Meter's* max draw down is only 25.16% compared with 46.89% with the market. That's the key statistic. It's called the ***Risk****-O-Meter* for a reason. The focus is on risk. Return will come with a consistent strategy.

Most people bail because they cannot handle the losses. This has been proven over and over again in real time. The lowest allocation investors ever had to stocks was in March, 2009. That was right after a big loss and the exact low before a huge multi-year historic rally.

A 46.89% loss is painful. It's much more painful than a 25.16% loss. If you lose 46.89% on your money, you need to earn over 88% to get even. If you lose 25.16% on your money, you need to earn 33.61% to get even.

That's a big difference. It could take *years* to recover from the first scenario.

So, here's some things you can do:

First, you could just ignore the signal. You may simply use this as a guide. Maybe you only care about what I talk about each week. Maybe you could care less. I'm ignored a lot. It doesn't bother me one bit.

Second, when the meter is in the green and yellow zone, allocate to stocks with fresh capital but hold off in the orange zone, and either sell or hold off in the red zone.

This is how I use the *Risk-O-Meter*. I have investments in ETFs that I talk about in my book, and those strategies don't use the *Risk-O-Meter*. I also have capital that comes in though income that I want to invest and I do my best to allocate that capital when the risk is lowest. I use the *Risk-O-Meter*.

I also wait for a buy signal after a sell signal to get aggressive. I especially wait for a buy signal after a sell signal that resulted in a big loss in the market. The COVID smash is a perfect example. The market was so oversold that once the buy signal was back on, it was almost impossible to lose money. At that point, I was trying to buy as much stock as fast as possible.

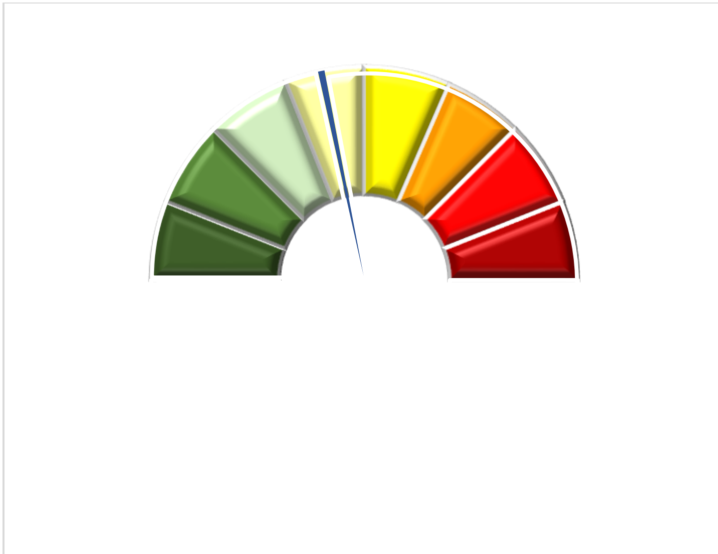
Lastly, if you take a sell signal and you're a subscriber to the full newsletter, you might consider selling the positions in *Mega-Tech Trends* and using options to hedge the positions in *Micro-cap Millions*.

The stocks in *Mega-Tech Trends* are big enough and liquid enough to get out quickly without too much damage.

That's not true for *Micro-Cap Millions*. If you just sell those stocks quickly, you'll get poor prices. Fools rush in where angels fear to trend. Instead, you could buy puts a few months out and 15-20% below the market. You'll also likely be able to hedge cheaply if the market is in greed mode. Since the average sell signal is about a month and the average return is flat, then if there's a huge decline, it's likely to happen quickly. We also don't know if a huge decline occurred until after the fact. So, there's no reason to buy puts a year out, for example.

As I noted earlier, when this market does blow, I think the downside is substantial. This will also set up a massive buying opportunity at some point.

I'll discuss my plans for that next week.



Happy trading!

John

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