Giving Thanks

This week is my favorite holiday of the year. I enjoy Thanksgiving because it's an occasion to enjoy a meal with family and friends, relax, enjoy some football, and for the most part, it's not commercialized.

I wish you a very Happy Thanksgiving.

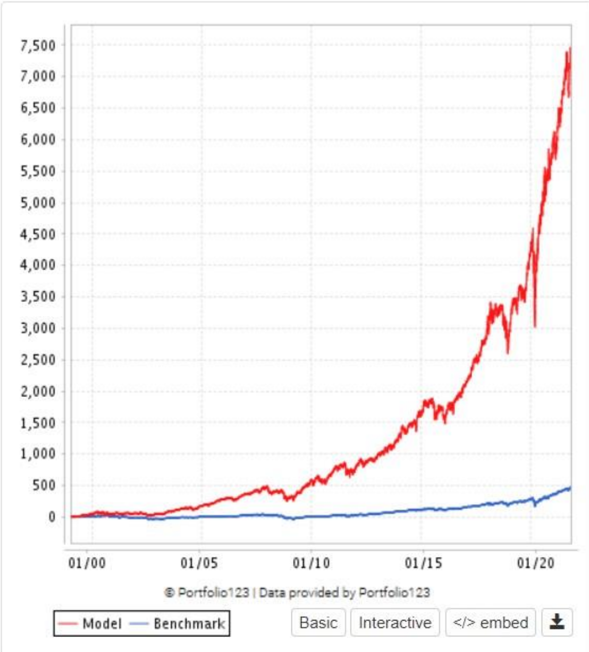
In the spirit of giving thanks, I have decided to add some features to this newsletter. The most common feedback I get from folks writing me via customer service is about trading stock options. The micro-cap stocks in the newsletter often have no options volume. The mid-cap stocks are more likely to have options traded, but the volumes are also small.

So today, I wanted to announce that I will include a large-cap version of the model in this newsletter. This model is very similar in its design to the two strategies already in the newsletter. I have had the model in my back pocket for some time. I didn't know what I wanted to do with it.

I have decided to give it to you as part of your subscription. This strategy buys stocks like Apple and Microsoft and some lesser-known big technology companies *when fundamental and technical trends are in their favor.*

Like the other two strategies, the large-cap version is entirely objective. The stocks in this strategy are very easy to trade both in and out of. You can trade this strategy in your sleep. You can buy the entire list of stocks or pick and choose. In addition, most of these stocks will have plenty of options volume on them for both short-term (weekly options) and long-term options (LEAPS) trading.

Here’s a historical performance test on the strategy back to 1999.



General Info

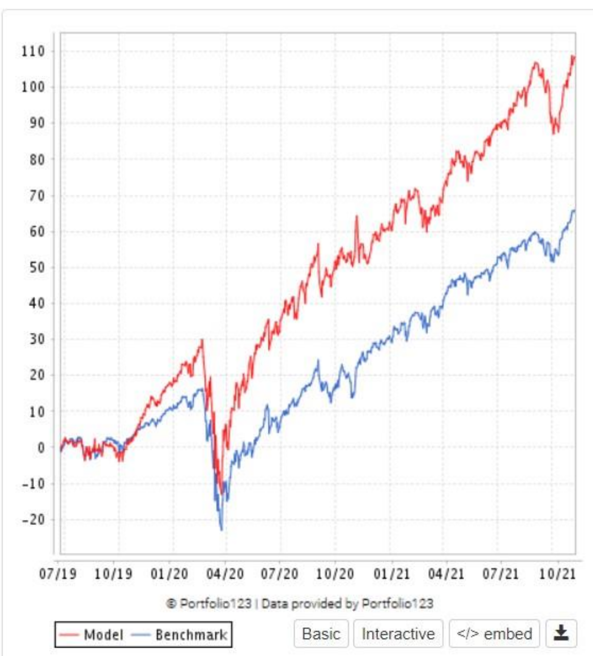
Total Market Value (inc. Cash)	$75,318,958.41
Cash	$3,609.60
Number of Positions	10
Last Trades (8)	11/08/21
Period	01/02/99 - 11/10/21
Sizing Method	% Portfolio Weight
Last Rebalanced (Every Week)	11/08/21
Benchmark	S&P 500 (SPY)
Universe	S&P500 LargeCap (IVV)
Ranking System	Core: Sentiment

Quick Stats as of 11/10/2021

Total Return	7,431.90%
Benchmark Return	473.27%
Active Return	6,958.63%
Annualized Return	20.81%
Annual Turnover	781.29%
Max Drawdown	-40.49%
Benchmark Max Drawdown	-55.19%
Overall Winners	(1035/1827) 56.65%
Sharpe Ratio	1.02
Correlation with S&P 500 (SPY)	0.78

The returns thump the market and with less risk. Although, it's worth pointing out there's still a 40% drawdown in the strategy.

Here's the historical performance since the strategy was conceived in 2019.



General Info

Total Market Value (inc. Cash)	$2,080,237.25
Cash	$819.12
Number of Positions	10
Last Trades (8)	11/08/21
Period	06/24/19 - 11/10/21
Sizing Method	% Portfolio Weight
Last Rebalanced (Every Week)	11/08/21
Benchmark	S&P 500 (SPY)
Universe	S&P500 LargeCap (IVV)
Ranking System	Core: Sentiment

Quick Stats as of 11/10/2021

Total Return	108.02%
Benchmark Return	65.29%
Active Return	42.73%
Annualized Return	36.00%
Annual Turnover	581.49%
Max Drawdown	-33.04%
Benchmark Max Drawdown	-33.72%
Overall Winners	(102/168) 60.71%
Sharpe Ratio	1.84
Correlation with S&P 500 (SPY)	0.82

The return here is about 43% higher than the market. Both the market and the strategy have similar drawdowns of about 33%. The winning percentage (which is a useless statistic that, for some reason, people care about) ticked up to 61% versus 57% for the longer timeframe.

Since the start of this newsletter, the strategy has been up about 16% compared to about 10% for the benchmark.

The larger the company, typically the lower the return. *Over time*, you should expect the micro-cap strategy to perform the best. However, micro-caps will be the most volatile and hardest to trade.

The mid-cap stocks (aka *Mega-Tech Trends*) will have slightly lower returns, but the combination of the *Risk-O-Meter* should produce solid risk-adjusted returns. This is my preferred strategy.

Then the big-cap stocks will have a slightly lower return from the mid-caps. This should make sense. A micro-cap trading at a $200 million valuation could easily surge 10X if the company performs well. It's much harder for a $200 billion company to become a $2 trillion company. The advantage of the largest stocks is the ease of trading and the ability to lever returns through options trading.

With a combination of micro-cap stocks, mid-cap stocks, and large-cap stocks, as well as the Forensic Accounting Stock Tracker, you have my very best stock-specific models and strategies all in one place. Look for the new model in the next issue or two.

Risk-O-Meter

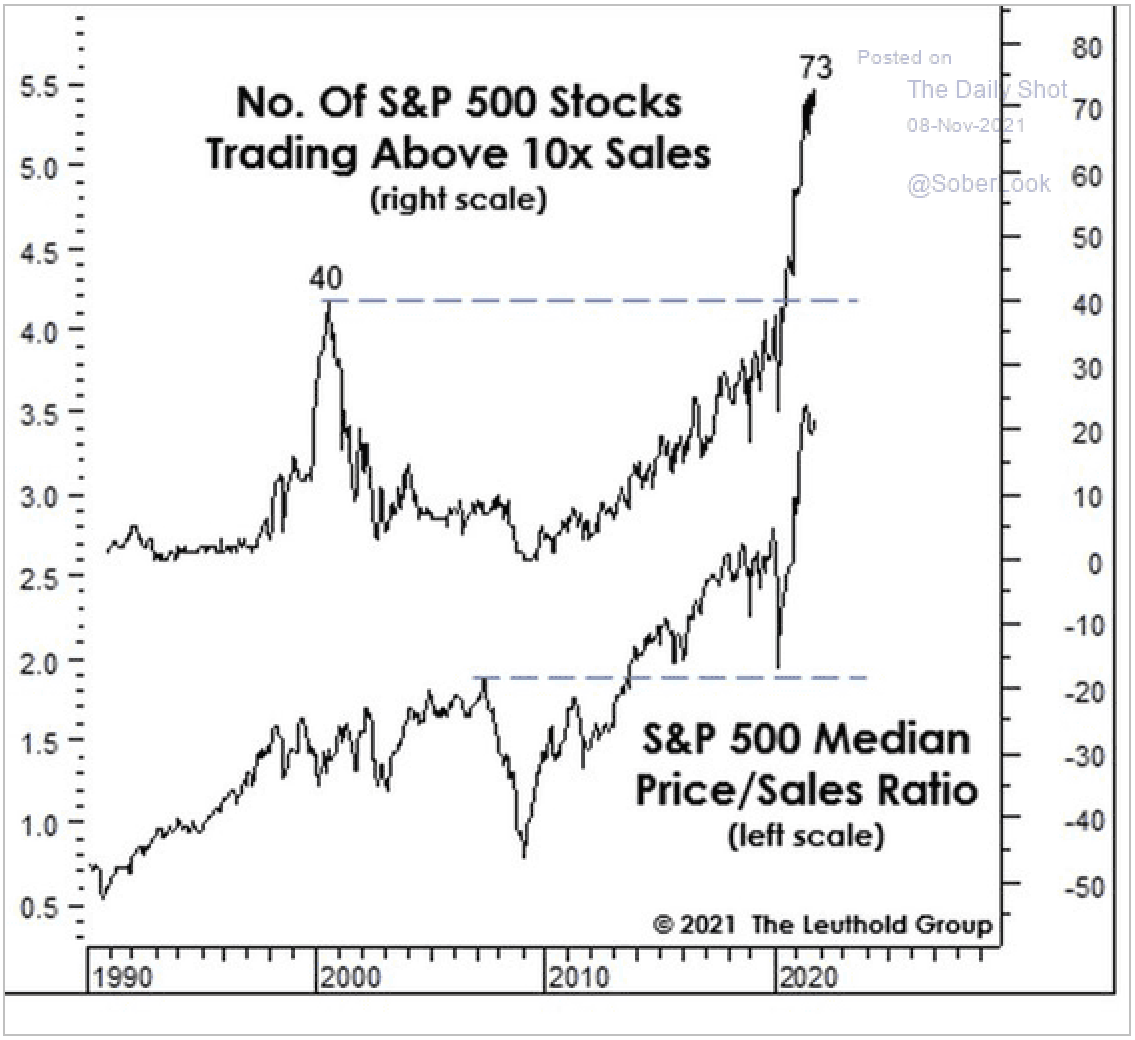
The *Risk-O-Meter* stays on a buy. However, sentiment is too bullish, and a layer of weakness is starting to show up in stocks outside of the major indexes.

There's a lot of air in stocks from here, and they could get spanked hard from these levels.

Consider this astonishing statistic.

The number of stocks in the S&P 500 trading ***<u>over</u>*** 10x sales has skyrocketed to 73. Meanwhile, the median price to sales ratio for the index has hit a nosebleed 3.5x. When this bull market started in 2009, the ratio was less than one, and you would have had to look hard for a stock trading above 10x sales.

Look at the surge in valuation levels based on sales!



Historically, price/sales have been an effective valuation measure. Sales can be manipulated. I wrote an entire chapter in my book *What's Behind the Numbers?* on many ways management teams can artificially boost the top-line.

However, the games played are more desperate at the top of the income statement. Meanwhile, there are many levers management can pull between revenue and earnings to generate earnings and "hit the number" to please investors. As a result, price to sales is often a preferable measure of valuation than earnings.

Ken Fisher introduced the measure in *Super Stocks*. Back in the 1980s, it was crazy to see technology companies trading above 3x sales. We've come a long way! Fisher pointed out that when companies trade at those premium levels, all it takes is a glitch to send the stock plummeting.

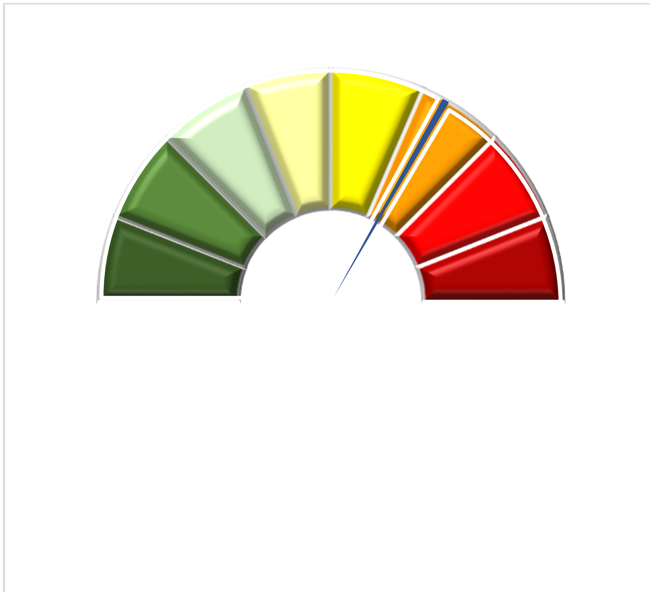
It could be a revenue shortfall. Or increased competition. Possibly pricing pressure. It does not matter what. Expectations were so high that only perfect execution would do.

Now the entire index is trading over that level. 15% of the index is trading over 10X sales.

Should a glitch occur, and it could be anything, the downside is tremendous from here.

It's likely to be epic.

Risks are elevated. Don't get complacent.



Happy trading!

John

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