



Harry's Take

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Thinking of Buying Cathie Wood's Infamous ARKK Fund? Don't!

Cathie Woods' ARKK fund became one of the hottest tech funds in the last few years. But as of March 14, it crashed 67% from its top back in February 2021... What? How could one of the hottest fund managers do so poorly when the Nasdaq and tech stocks continued upward strongly until late November?

Few people haven't heard Cathie Woods' name in recent years. She came out of nowhere after starting the ARKK fund in 2014 as the up-and-coming, new, rising-star fund manager. How did she do that? By picking smaller, lesser-known rising stocks and unsung heroes in the tech sector. While most people just invest in the largest best-known leading stocks, she finds those rising and hidden gems. In her last great year, 2020, her fund returned 156% vs. the Nasdaq at 43%. That's what a great fund manager does, and she did a great job of it until a trend she did not anticipate emerged...

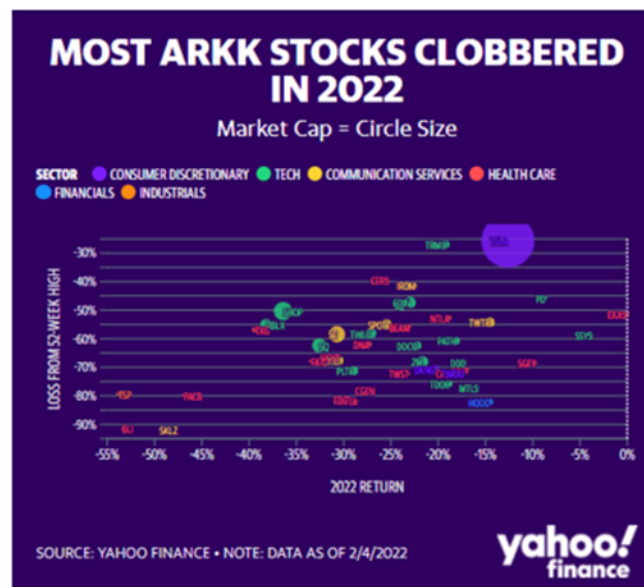
In the late stages of a bull market, the dumb money plunges in, and they chase only the largest, best-known leading stocks.

So, here's the truth: It was the dumb money that took down one of the very best fund managers in this great bubble market.

There are people like Cathie who are great in this micro realm of picking stocks, and there are people like me who focus on the macro realm. Cathie's stock-picking skills didn't fail her, she missed this major macro factor. The increasing masses of dumb money that pour in toward the end of a major bull

market do not care about these hidden gems and have no way of finding them. Hence, these higher growth, smaller stocks are outpaced increasingly by the largest-cap stocks.

The Unknown Heroes Cathie Woods Picks Beat by Large Caps 2021+



Source: <https://news.yahoo.com/investors-pour-into-cathie-woods-arkk-despite-funds-downturn-194542894.html>

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Look at this chart of Cathie's stock holdings. Do you recognize any of these stock tickers? Tesla (TSLA) is the only true large-cap holding, and Twitter (TWTR) is the only other one I recognize. Smaller-cap stocks like the rest of these peaked back on November 8. And the tech stocks also peaked on November 22, well ahead of the broader S&P 500 on January 4. So, that's two strikes against Cathie and is why her fund started underperforming in early 2021 forward. The market shifted rapidly away from her type of stocks and she got crucified; it's that simple.

So, should you take a flier on ARKK now that it is selling at a whopping 67% discount, while the Nasdaq is only down 23% at worst and the S&P 500 is down a mere 13%? The answer is NO: You are going to have to wait until this major long-term crash is over before you look at her again as a tech stock picker. If this is the first crash, it still has much farther to fall to be down more

like 40% by late March or early April. Could ARKK end up down as much as 80% before bottoming, just in this first crash?

ARKK is likely to bounce stronger in that first relief rally that should happen for a few months after the first crash before the great crash continues... that is the only time you may want to take a flyer, but only very short term, as ARKK is likely to bounce much stronger than the Nasdaq after such a rout. But that sounds too risky to me.

I just hope that Cathie Woods survives long enough to be around after this great crash bottoms, likely around late 2023 or early 2024. She is a star stock picker, just in the wrong place at the wrong time here... and for the next 2 years plus, in the crash of a lifetime ahead!

Harry

Got a question or comment? You can contact us at info@hsdent.com.