



Margin Call

When markets fall this far this fast, it is usually due to two dreaded words.

Margin call.

In hot markets, too many people are way over their skis and have bought low-quality junk assets on margin. In the short-term, enormous gains are juiced even more by leverage.

Greed becomes a self-reinforcing emotion, and the boldest among us take more and more risks.

Then something happens (it always does), and margin calls lead to forced selling. Then greed turns to fear, which only exacerbates the downside.

People get wiped out.

We are in this situation right now. There has been a lot of forced selling.

People have been wiped out.

The other day in the *New York Post* I read an article (*Crypto Investors Panic in Market Bloodbath*), that discussed just how bad the situation is in the market's meme stock and cryptocurrency segment.

First, I do not believe *anything* I read or see in the media. I believe even less of what I might read or see on chat boards or YouTube.

However, as someone whose career is in financial services, I know there have been margin calls. The article confirmed what I already knew.

The situation people find themselves in is truly gut-wrenching. Some speculators have been battered on meme stocks and third-tier cryptocurrencies and are down 85% -99%.

For some, the only way out is suicide.

The notion that people get themselves into a situation where the only way out from a beating in the financial markets is suicide has weighed heavily on me the last couple of days.

It breaks my heart.

It's truly awful.

I pray no one that reads this newsletter is even remotely in a situation where they need to do anything drastic.

If you're losing sleep over recent financial losses, are angry, or downing a bottle of scotch with your morning bagel, you're doing it wrong.

You're simply taking too much risk.

You'll never get ahead when your emotions get in the way of achieving financial freedom.

I have suffered some losses on paper and the past week was especially bad. However, nothing in my life has changed one bit. I will keep plugging away.

When someone loses their house on a cryptocurrency that has fallen 99% that I have never heard of, I wonder where these speculative ideas come from.

Reddit?

YouTube?

Newsletters?

I am on the marketing email list for a bunch of newsletters. I recently received a promotion from one of the largest newsletter publishers that pissed me off.

The promo suggested that it's possible to regularly make 1,500% gains in a day trading the markets.

I am here to tell you that is a load of bullshit.

If I made 1,500% gains just two days in a row, I'd have billions of dollars.

It's just a stupid concept.

Who believes this stuff?

Worse, the publisher shut down a bunch of under-performing newsletters that presumably also made ridiculous assertions that it was possible to retire by dinnertime tomorrow.

That conveniently hides the truth of the beating folks have taken reading their crap.

So, we have had a beating.

Where to from here?

I'm out of the prediction business in 2022 but if I had to make a guess, here is how I think it could play out based on current conditions.

First, we get a huge bounce.

Every indicator that I look at is pressed to the floor. These indicators cannot go any lower.

We are at levels seen in October 2002, March 2009, and March 2020. Those periods marked the bottoms of the Internet Bubble, Financial Crisis, and COVID, respectively.

The initial wave of margin calls is over, and all of the sloppy selling in the market has tapered off for now.

After the bounce, we will have to see the conditions in the market, but I suspect another huge ass-kicking is coming.

Why?

The liquidity situation is much different today than in 2002, 2009, and 2020. The Federal Reserve could slow interest rate increases, but it's not likely. In addition, The Federal Reserve could use its balance sheet to pump more liquidity into the economy, but that is unlikely too.

It is also doubtful that there is any more stimulus coming. Senator Joe Manchin (D-WV) doesn't have the stomach for it. Politicians are about to return home to campaign for the mid-term elections. It's not probable for any big flush of cash into the system.

I was very bullish about two months before the bottom in 2009. That was painful because the market got pounded in those two months. However, the rebound was sharp.

In 2020 I was super bullish within about ten days on either side of the low COVID low. I was a bit more patient in buying in 2020 than in 2009.

In 2002 I managed a hedge fund and covered all my shorts near the exact low. The indicators were about four standard deviations away from the norm. It's like a mathematical impossibility to get there.

With a negative liquidity situation, I suspect the market will have another pullback after the bounce. The severity of the pullback would depend on the conditions at that time.

Lastly, the jet-setting "crypto millionaire" crowd that sips overpriced champagne while posting airbrushed photos of their adventures on Instagram will have to be completely wiped out before the bottom.

I'm not sure we are there yet.

The market has a way of luring you back in only to pick your pocket before the ultimate low.

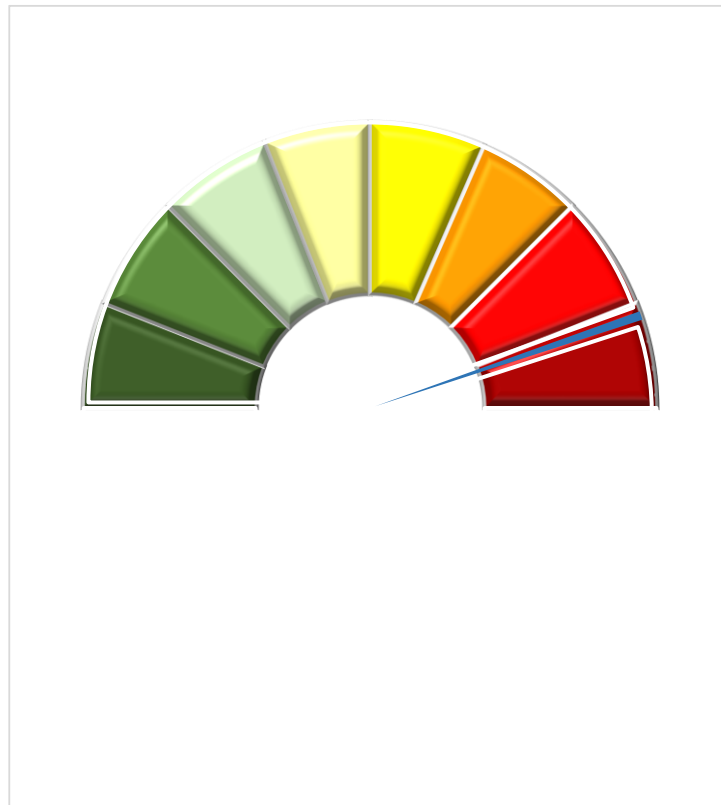
While a tradable short-term rally may happen, risks are still elevated. The *Risk-O-Meter* remains in the "red zone" and urges caution.

No matter what, please do not put yourself in a situation where you become stressed out by losses in financial markets. Your health is the most important thing you have.

There will be fantastic buying opportunities both in the short-term (like now, where the market is so oversold) and in the long-term (doubtful we are there yet), but you have to be in the game to benefit.

One bright note is that multi-billionaire trader Paul Tudor Jones is very bearish but thinks that trend following strategies will shine over the next 5-10 years.

Those are the strategies employed in this newsletter.



Now, the market may not bounce. Another option to work off the oversold condition of the markets is to spend time toiling around at current levels. This would take weeks to work off the oversold condition.

We will only know what happens after the fact.

However, due to the rapid decline, a bounce is more likely. Imagine a rubber band being stretched far in one direction. Then the rubber band is let go, and it snaps back hard in the opposite direction.

That's what the market looks like. A stretched rubber band.

While risks are elevated, the deeply oversold market takes precedence.

When things get this oversold, I buy a bit here and there day after day in my taxable account. I only trade big asset classes.

These include:

- Broad U.S. Stock Indexes
- Emerging Market Indexes
- Broad Foreign Stock Indexes
- U.S. Dividend Indexes (sparingly as there are plenty of crappy dividend companies)
- Gold
- Silver
- Platinum

I do not trade any bond markets in my taxable account. I move cash out of money market accounts, so I have bond exposure in those funds.

Typically I buy with the intent of not selling for decades. I've had one sale in the last three years that I can recall.

Right now, everything is down from its highs, so I sprinkle around the buying indiscriminately. It doesn't take much thought.

If the *Risk-O-Meter* were in the green zone and the market was this oversold, I would be buying very aggressively.

But it's not, so I'm not.

These deeply oversold situations seem to arise three to six times a year, and that's when I spring into action.

My intent is not to time the market but rather to put long-term capital to work when the risk/reward ratio is favorable because the market is so oversold and speculators are in fear mode rather than greed mode.

Regardless of market conditions, the other strategy I use is to buy some stock on the 9th day of the month.

Why the 9th day?

Well, there's a minimum of 28 days in a month. Between 1 and 28, my favorite number is nine.

That's how much thought went into picking the 9th day.

If you were 30 years old and had somewhere around \$40,000 - \$50,000 in assets invested and consistently added \$250, \$500, \$1,000, or whatever a month, it's impossible to end up on Skid Row.

I have run millions of simulations. It doesn't matter what day you pick.

It doesn't matter if you start the day before a major crash.

The most crucial factor is to be consistent.

I ignore all the news. I hold my nose. I close my eyes. I buy. Every month.

You will likely have several 50% declines in that portion of your portfolio on your road to retirement. However, consistently adding each month dramatically cuts down on the time you're underwater (if you're older, you'd need to start with a more significant initial stake, but I analyzed this off a 30-year-old's scenario).

And you end up with a comfortable nest egg.

You probably won't be flying around on private jets or sunbathing on your yacht. But you'll be well enough off.

You will likely be able to fly first class once in a while.

If I want to go on the lake, I call my cousin. I show up with a six-pack of craft beer and a bottle of rosé wine, bounce around on the lake for a few hours on *her* boat, and then go home. It doesn't cost much!

Sadly, if the people that have just lost \$500,000 on crypto and are in dire straits only pursued a modest strategy such as this, they'd be very well off in time.

It's not sexy.

It won't sell any newsletters.

It works just fine.

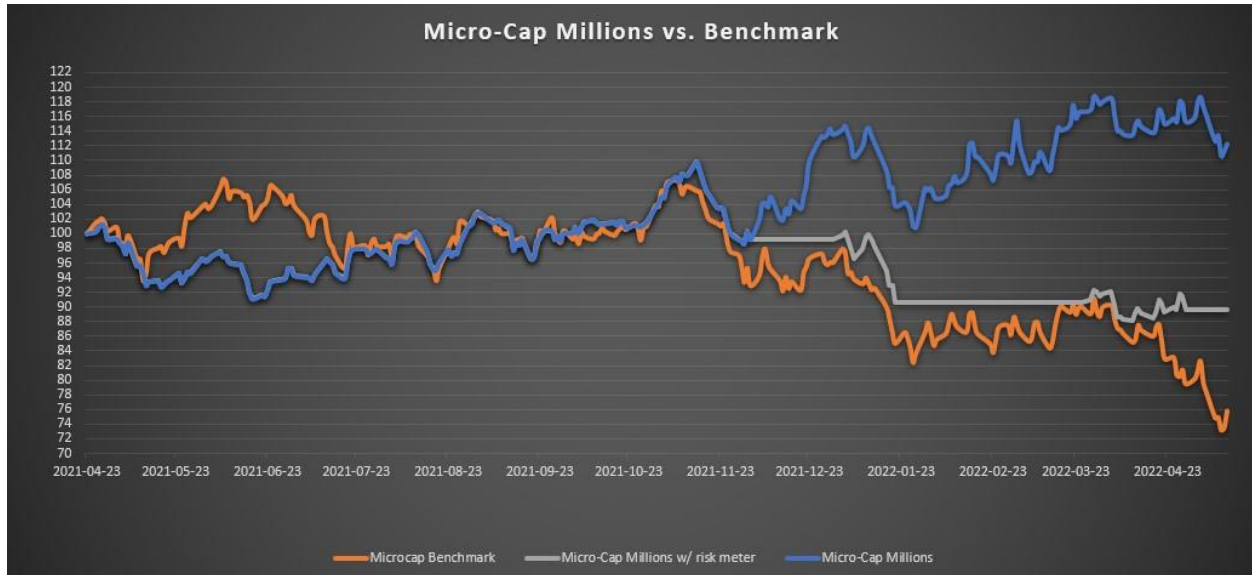
This month, I missed the 9th, so I invested on the 10th. This worked about 4%-5% in my favor simply because the market was down so hard. I was lucky that I couldn't make a trade on the 9th (if the 9th falls on a weekend, I trade on the following Monday or the first day I'm able to make a trade).

The recent losses are no fun.

It's part of the game.

I keep plugging along.

Micro-Cap Millions



There is one trade this week.

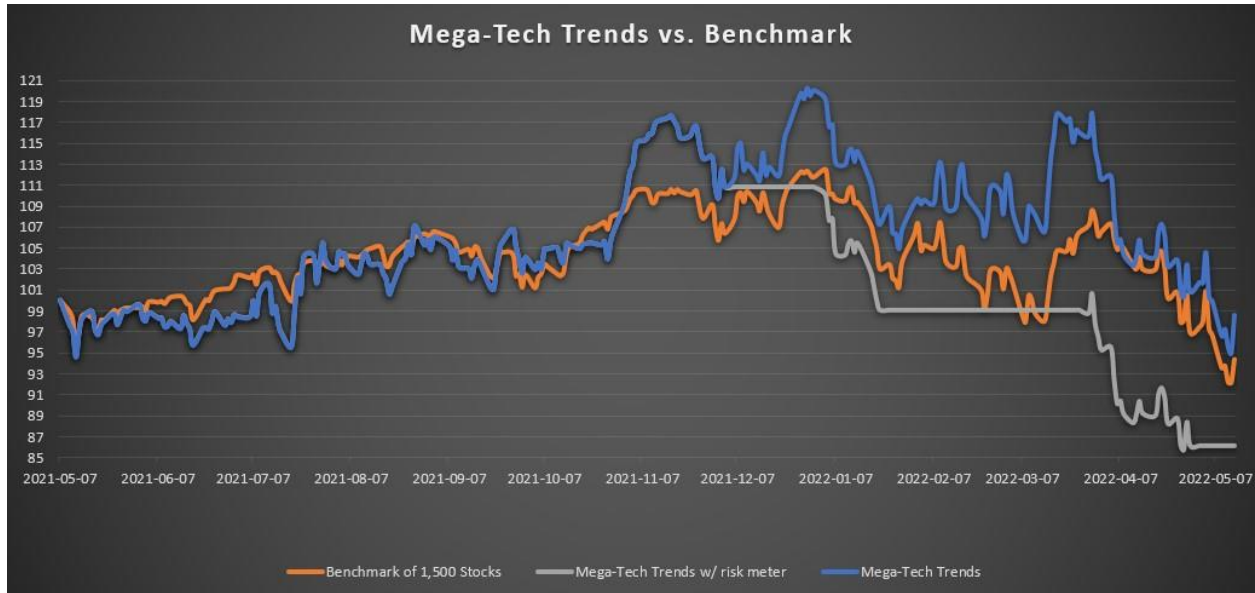
Buy RCM Technologies, Inc. (Nasdaq: RCMT)

Sell Issuer Direct Corp (NYSE: ISDR)

Here is the current portfolio:

Ticker	Name	Return	Days Held	Sector
BTN	Ballantyne Strong Inc	-2.87%	32	Technology
CPHC	Canterbury Park Holding Corp	43.07%	32	Consumer Services
CYBE	CyberOptics Corp	19.20%	32	Technology
HCKT	Hackett Group Inc (The)	-0.33%	53	Technology
HSO	Hudson Global Inc	12.51%	80	Business Services
NTIP	Network-1 Technologies Inc	-7.01%	165	Technology
RCMT	RCM Technologies Inc	0.00%	NEW	Healthcare
RGP	Resources Connection Inc	0.00%	4	Business Services
SGA	Saga Communications Inc.	1.25%	277	Consumer Services
WTT	Wireless Telecom Group Inc.	-23.39%	144	Technology

Mega-Tech Trends



There are two trades this week.

Buy PC Connection, Inc. (Nasdaq: CNXN) and Littelfuse, Inc. (Nasdaq: LFUS)

Sell Fabrinet (NYSE: FN) and SMART Global Holdings, Inc. (Nasdaq: SGH)

Here is the current portfolio:

Ticker	Name	Return	Days Held	Sector
ACLS	Axcelis Technologies Inc.	17.16%	248	Technology
AVT	Avnet Inc	-0.26%	4	Technology
CNXN	PC Connection Inc	0.00%	NEW	Technology
FORR	Forrester Research Inc	-9.61%	28	Business Services
HOLX	Hologic Inc	3.73%	179	Healthcare
JBL	Jabil Inc	-7.21%	53	Technology
KFY	Korn Ferry	-19.85%	144	Business Services
LFUS	Littelfuse Inc	0.00%	NEW	Technology
PLAB	Photronics Inc	-9.67%	60	Technology
TBI	TrueBlue Inc	-9.59%	4	Business Services

Large-Cap Leaders



There are two trades this week.

Buy Gartner, Inc. (NYSE: IT) and Western Digital, Inc. (Nasdaq: WDC)

Sell EPAM Systems, Inc. (Nasdaq: EPAM) and Steris PLC (NYSE: STE)

Here is the current portfolio:

Ticker	Name	Return	Days Held	Sector
AMD	Advanced Micro Devices Inc	-0.23%	4	Technology
APH	Amphenol Corp	-10.53%	95	Technology
CDNS	Cadence Design Systems Inc	-7.92%	67	Technology
CDW	CDW Corp	-0.75%	4	Technology
HOLX	Hologic Inc	2.93%	4	Healthcare
HUM	Humana Inc.	-1.28%	11	Healthcare
IT	Gartner Inc	0.00%	NEW	Technology
KLAC	KLA Corp	5.37%	11	Technology
RHI	Robert Half International Inc.	-3.68%	4	Business Services
WDC	Western Digital Corp	0.00%	NEW	Technology

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