



Must Read

I recently read a fascinating piece on the crypto market that I think is a must-read.

Even if you have a passing interest in cryptocurrencies (I'm in that camp) or no interest, it's important to understand the market dynamics because cryptos play a considerable role in stock market volatility.

Also, the ultimate bottom in the stock market could come when all of the crypto "millionaires" are wiped out. Therefore, paying attention to the crypto market is essential to understanding when we will have another generational buying opportunity in stocks.

The interview is with UC-Berkley professor Nicholas Weaver.

It's from currentaffairs.org and titled *Why This Computer Scientist Says All Cryptocurrency Should "Die in a Fire."*

Spoiler Alert!!!

The professor thinks cryptos are worthless.

Of course, part of the title suggests cryptos should "die in a fire," so it's not a spoiler!

I think this is the best article/interview I have read on the topic of cryptos.

The professor tackles complex issues and describes them in simple terms.

He also covers a lot of bases beyond just Bitcoin and the major cryptos.

He talks about why blockchain technology is lacking (very enlightening for me), how venture capitalists are pulling the wool over investors' eyes and able to skirt federal securities laws (something I did not know), and why cryptos will tend to implode entirely in a 72-hour period (quicker than I expected).

I also found it incredibly interesting that Bitcoin miners can't sell their coins because the market is so thin, despite being the largest market. So, the miners borrow against the coin.

Of course, when something goes even *slightly* awry, it leads to margin calls. Then we get a nasty self-reinforcing cycle to the downside until the current batch of suckers is wiped out.

It's a fascinating interview!

As with anything, do read it with a bit of skepticism.

The professor may have an ax to grind. I'm not entirely sure. He uses colorful language and makes aggressive statements.

I think he views all of this stuff as such a sham that he wants to rip his hair out. I do not get the impression he was scammed.

Crypto markets are *highly* emotional. If you want some entertaining reading, check out the comments section of any article that criticizes cryptos even slightly.

I do not have strong opinions on cryptos other than I have never viewed them as currencies. Instead, in my opinion, cryptos are just levered speculative bets.

Trading crypto markets is no different from trading soybeans, corn, or Euro futures, except that soybeans, corn, and Euros are real.

I have never traded any cryptos. It just doesn't interest me. Just like mowing the lawn does not interest me.

I am glad I avoided these markets.

I am happy I have no interest in Non-Fungible Tokens (NFTs). NFTs make no sense. Neither does buying real estate in the metaverse.

Buying real estate in some fictional world with real money seems like the stupidest idea I have ever heard.

I have always been suspicious that these markets are ripe for schemes, scams, and manipulation. While Bitcoin has institutional support, that doesn't mean it's not vulnerable to the same issues facing other cryptos highlighted in this interview.

Pets.com had institutional support, and all that's left to show for it is a sock puppet.

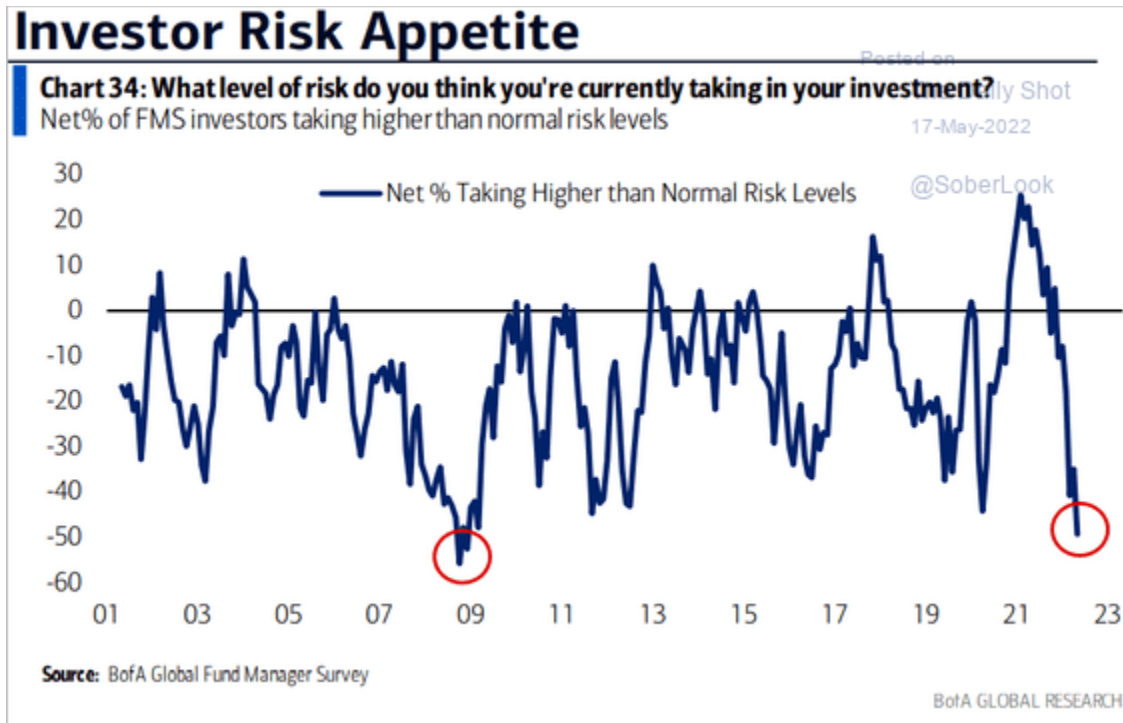
Shifting gears to the stock market...

Sentiment has become extremely bearish. As a result, a significant snapback in the market is possible.

Investors do not want to take risks after the recent beatdown. As the chart below shows, the percentage of fund managers wanting to take higher than average risks is near the lowest of this century.

As we know in hindsight, the lowest level in 2009 was a massive bottom in the market. It was a generational buying opportunity.

Fund managers are typically wrong in the intermediate and long-term. I am betting they will be wrong again.



While they are willing to take less risk, they are accumulating much more cash. The chart below shows the average cash positions in the same *BofA Global Research* poll.

Again, we are at historical records when considering the 21st century.

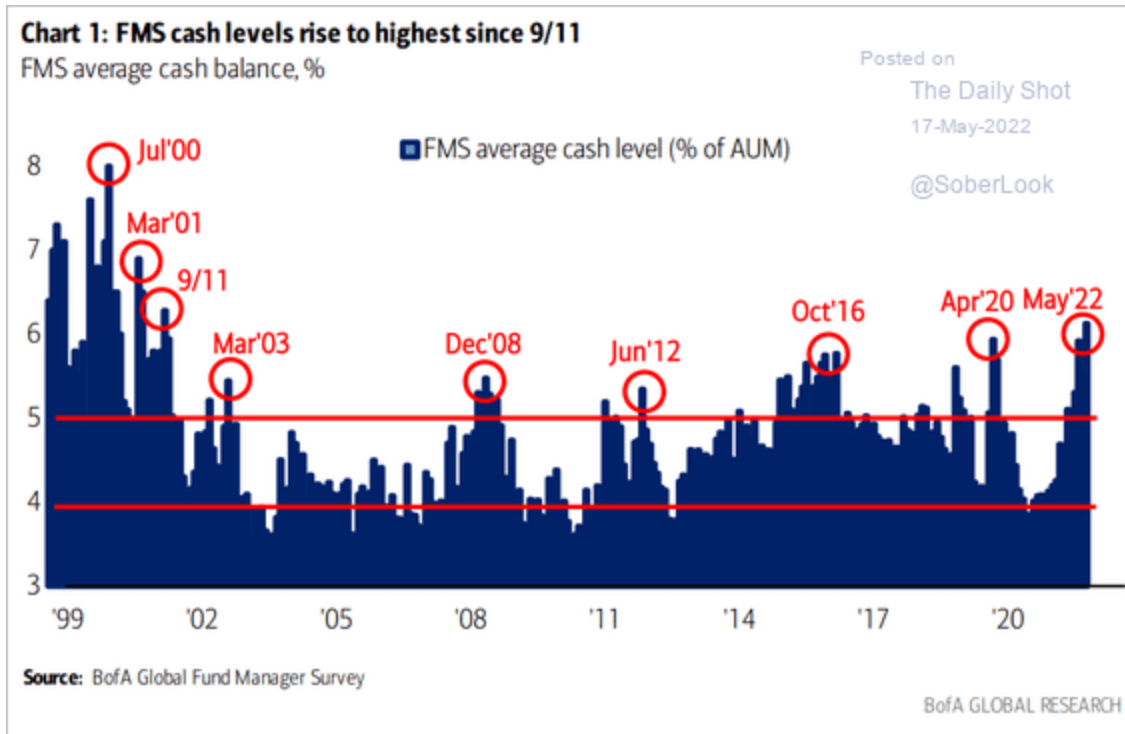
A level above a 4.5% cash position has historically been a bullish signal for the market.

Will it be different this time?

Possibly.

But human nature never changes!

I still suspect we could get a big rally followed by another ass-kicking. However, no one knows what will happen in the future!



Therefore, I am buying small amounts of stock indexes here and there practically every day in my taxable account. Then if we do get another downturn, I have the cash to continue to invest.

What if this is the bottom. Then the S&P 500 rallied to 5,000. Then the S&P 500 pulls back to 4,000, and that's it?

No one knows.

Therefore, odds favor buying stocks a bit at a time while the market remains this oversold.

The *Risk-O-Meter* is in the "red zone," so risks are still elevated, and I consider that.

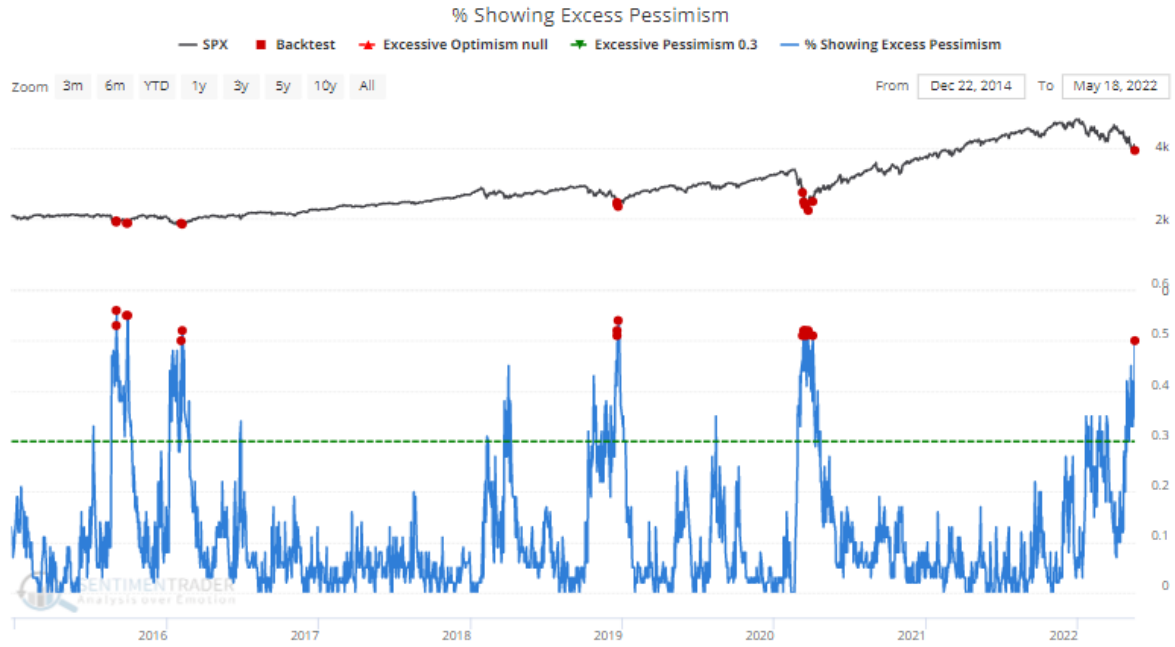
However, the market is also *deeply* oversold.

Once the *Risk-O-Meter* turns green, I will be more aggressive every time the market is oversold.

Here is a fascinating chart courtesy of *SentimenTrader.com* that shows the stock market's performance after the firm's proprietary sentiment indicators are pinned to the floor like they are today.

Sentiment is washed out, and breadth and volume indicators are stretched.

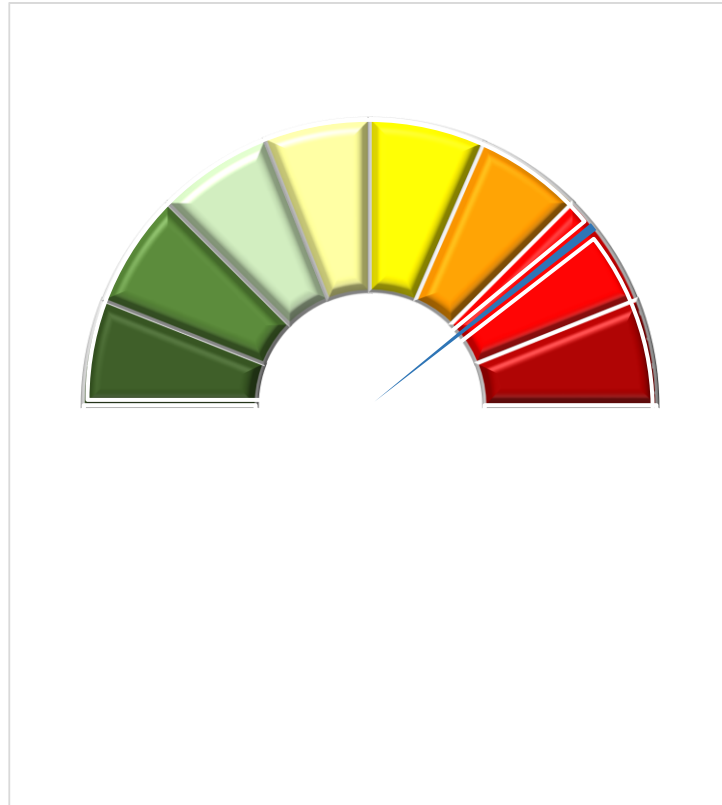
Average annual returns in these scenarios are 38.14%, with a 100% win rate.



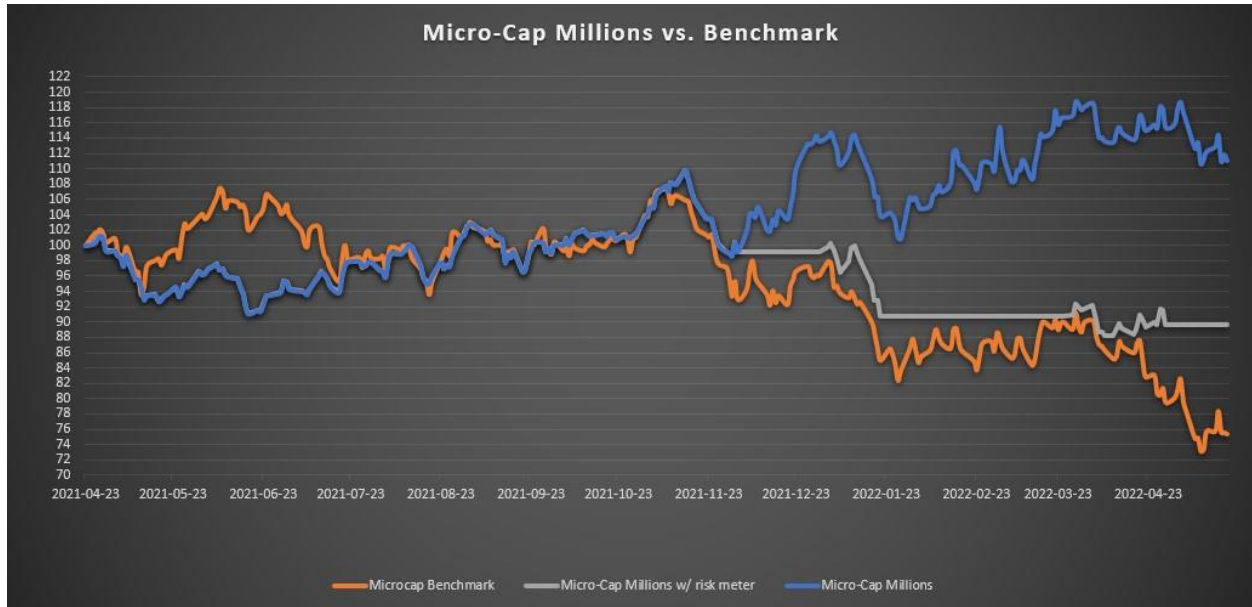
| | 1 Week Later (%) | 2 Weeks Later (%) | 1 Month Later (%) | 2 Months Later (%) | 3 Months Later (%) | 6 Months Later (%) | 1 Year Later (%) |
|-----------------|------------------|-------------------|-------------------|--------------------|--------------------|--------------------|------------------|
| Average Returns | 2.33% | 5.92% | 10.24% | 15.17% | 17.93% | 23.09% | 38.14% |
| Median Returns | 2.27% | 6.02% | 9.78% | 13.18% | 16.37% | 20.72% | 33.41% |
| Win Rate | 73% | 93% | 100% | 100% | 100% | 100% | 100% |

| Trade Date | 1 Week Later (%) | 2 Weeks Later (%) | 1 Month Later (%) | 2 Months Later (%) | 3 Months Later (%) | 6 Months Later (%) | 1 Year Later (%) |
|------------|------------------|-------------------|-------------------|--------------------|--------------------|--------------------|------------------|
| 2015-09-01 | 1.47% | 4.26% | 0.52% | 8.65% | 9.86% | 4.16% | 13.43% |
| 2015-09-02 | 0.18% | 2.12% | 0.13% | 7.96% | 6.70% | 2.62% | 11.39% |
| 2015-09-28 | 5.59% | 7.21% | 9.78% | 11.01% | 9.29% | 9.68% | 14.78% |
| 2015-09-29 | 5.09% | 6.35% | 10.95% | 10.93% | 10.31% | 9.32% | 15.25% |
| 2016-02-05 | -0.81% | 3.48% | 5.28% | 8.61% | 9.42% | 16.11% | 21.94% |
| 2016-02-08 | 2.27% | 3.66% | 7.33% | 10.48% | 11.07% | 17.67% | 23.72% |
| 2018-12-20 | 0.74% | 3.33% | 6.94% | 13.18% | 13.41% | 19.37% | 30.55% |
| 2018-12-21 | 3.73% | 6.53% | 9.34% | 15.70% | 16.63% | 20.72% | 33.41% |
| 2018-12-24 | 6.76% | 9.95% | 13.34% | 18.83% | 19.32% | 23.93% | 37.10% |
| 2020-03-11 | -12.52% | -9.70% | 1.77% | 6.89% | 16.37% | 23.99% | 43.70% |
| 2020-03-12 | -2.87% | 6.02% | 11.33% | 15.70% | 21.02% | 34.61% | 58.96% |
| 2020-03-16 | -6.23% | 10.08% | 16.65% | 19.55% | 28.52% | 41.80% | 66.07% |
| 2020-03-18 | 3.23% | 3.02% | 19.87% | 23.18% | 29.83% | 41.17% | 63.27% |
| 2020-03-23 | 17.40% | 19.05% | 25.11% | 31.78% | 39.35% | 46.65% | 74.78% |
| 2020-04-03 | 10.97% | 13.44% | 15.26% | 25.06% | 27.77% | 34.55% | 63.70% |
| 2022-05-18 | | | | | | | |

While the *Risk-O-Meter* remains in the "red zone," given the stretched nature of the market on the downside, the meter could flip quickly.



Micro-Cap Millions



Two trades this week.

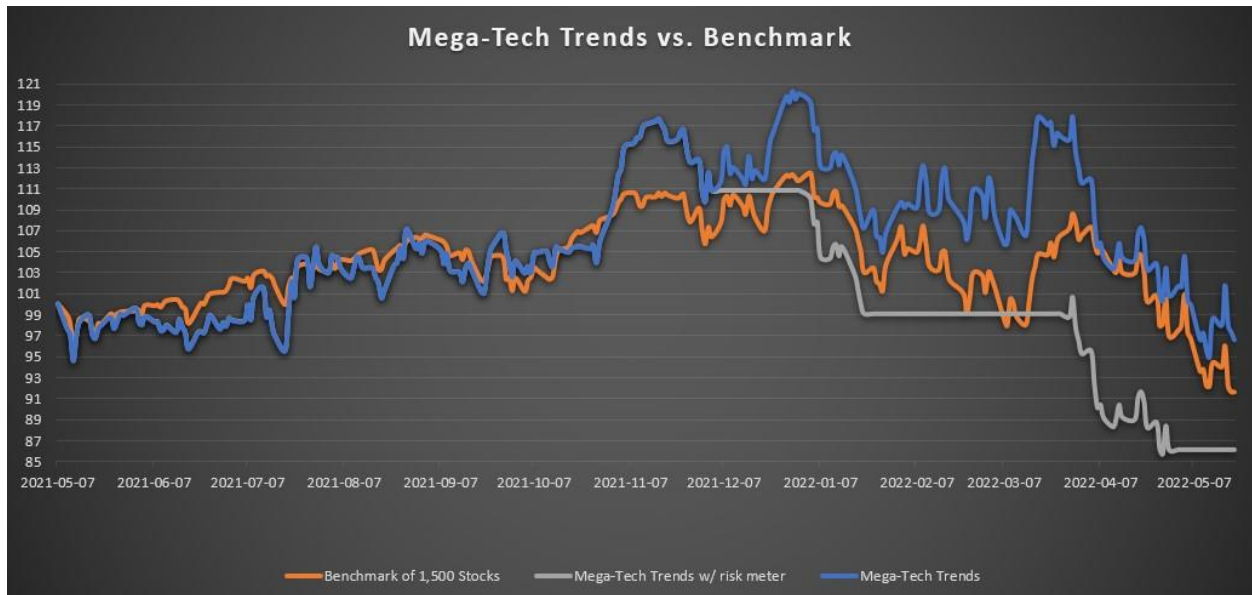
Buy NL Industries, Inc. (NYSE: NL) and Wayside Technology Group (Nasdaq: WSTG)

Sell CyberOptics Corp. (Nasdaq: CYBE) and Saga Communications, Inc. (Nasdaq: SGA)

Here is the current portfolio:

| Ticker | Name | Return | Days Held | Sector |
|--------|------------------------------|---------|-----------|-------------------|
| BTN | Ballantyne Strong Inc | -5.41% | 39 | Consumer Services |
| CPHC | Canterbury Park Holding Corp | 1.29% | 39 | Consumer Services |
| HCKT | Hackett Group Inc (The) | -6.92% | 60 | Technology |
| HSON | Hudson Global Inc | 28.95% | 87 | Business Services |
| NL | NL Industries Inc. | 0.00% | new | Technology |
| NTIP | Network-1 Technologies Inc | -12.55% | 172 | Technology |
| RCMT | RCM Technologies Inc | 26.85% | 4 | Business Services |
| RGP | Resources Connection Inc | -1.50% | 11 | Business Services |
| WSTG | Wayside Technology Group | 0.00% | new | Technology |
| WTT | Wireless Telecom Group Inc. | -24.40% | 151 | Technology |

Mega-Tech Trends



Two trades this week.

Buy CDW Corp. (Nasdaq: CDW) and CTS Corp. (NYSE: CTS)

Sell Forrester Research, Inc. (Nasdaq: FORR) and PC Connection, Inc. (Nasdaq: CNXN)

Here is the current portfolio:

| Mega-Tech Trends | | | | |
|------------------|---------------------------|---------|-----------|-------------------|
| Ticker | Name | Return | Days Held | Sector |
| ACLS | Axcelis Technologies Inc. | 12.37% | 255 | Technology |
| AVT | Avnet Inc | -1.53% | 11 | Technology |
| CDW | CDW Corp | 0.00% | new | Technology |
| CTS | CTS Corp | 0.00% | new | Technology |
| HOLX | Hologic Inc | 5.72% | 186 | Healthcare |
| JBL | Jabil Inc | -8.36% | 60 | Technology |
| KFY | Korn Ferry | -21.37% | 151 | Business Services |
| LFUS | Littelfuse Inc | -1.74% | 4 | Technology |
| PLAB | Photronics Inc | -11.19% | 67 | Technology |
| TBI | TrueBlue Inc | -11.96% | 11 | Business Services |

Large-Cap Leaders



No trades this week.

Here is the current portfolio:

| Ticker | Name | Return | Days Held | Sector |
|--------|--------------------------------|---------|-----------|-------------------|
| AMD | Advanced Micro Devices Inc | -1.93% | 11 | Technology |
| APH | Amphenol Corp | -13.12% | 102 | Technology |
| CDNS | Cadence Design Systems Inc | -5.23% | 74 | Technology |
| CDW | CDW Corp | -6.11% | 11 | Technology |
| HOLX | Hologic Inc | 4.91% | 11 | Healthcare |
| HUM | Humana Inc. | -1.11% | 18 | Healthcare |
| IT | Gartner Inc | -2.14% | 4 | Technology |
| KLAC | KLA Corp | 5.08% | 18 | Technology |
| RHI | Robert Half International Inc. | -8.71% | 11 | Business Services |
| WDC | Western Digital Corp | -2.81% | 4 | Technology |

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