Happy Father's Day

Happy Father's Day to all the dads out there!

Last week's newsletter generated many responses from subscribers, and I wanted to address some of the common themes this week. I figure if a few people have questions or feedback on a topic, many more are thinking the same thing.

The first one relates to the article on cryptocurrencies I suggested everyone read. I stated that I thought that crypto millionaires or fanatics needed to be wiped out before we see an ultimate low in the market. The question is, what metrics do I look at to determine when people are wiped out?

It's a great question. There are no metrics. I think it's impossible to have metrics on something like cryptocurrency, which is volatile and subject to manipulation (not as much on Bitcoin but certainly lesser cryptos).

Instead, I pay very close attention to the world around me. I don't live in an ivory tower. I don't hang around elites. I live in the real world.

One market I pay attention to is the luxury watch market. There's a correlation between crypto and watches. People who made money in crypto used some of those gains to buy hyped-up watches.

At ridiculous prices.

That speculation has come to a screeching halt.

I have witnessed from various media sources I watch that there's tons of pain in the watch market. Buyers of watches that made their money in crypto are dumping their watches, cars, and who knows what else.

The watch market is inflated. It has been for a while.

Recent auction prices have been terrible, though.

It became evident that dealers were trading amongst themselves with no consumer in the mix and marking up the prices. When Bitcoin was $60,000, dealers were happy to accept cryptocurrencies in exchange for a watch.

This is a downward spiral now. I suspect 90% of the grey market watch dealers will be wiped out. They are holding inventory no buyer wants. Meanwhile, it turns out (from reading that article) that it's not that easy to unload a Bitcoin, let alone a lesser coin.

The most important thing I learned from that article is that Bitcoin miners cannot easily unload the coin as there is little liquidity. So, they borrow against it to get cash.

Well, that *always* ends in disaster.

That's just a fact.

It's been the same way since trade began thousands of years ago when two cavemen were trading pebbles, and the one that got screwed hit the other over the head with a club.

With the major coins down 70-80%, lesser coins are down 95-99%. While Bitcoin is a major coin, it's a bit like Microsoft. Everyone is trying to find the *next* Microsoft.

Same with crypto. Folks are trying to find the *next* Bitcoin.

So plenty of punters invested in lesser coins and got wiped out.

But we have not felt max pain. Bitcoin probably goes near the COVID lows before it's over.

The numero uno, indisputable metric, to know that we are at a low is when **no one** wants to talk about Bitcoin or crypto again.

Then you know we have hit bottom.

Topic number two is why I didn't use levered short funds to go short in the levered ETF model I introduced last week.

This is also a great question.

But first, a correction. The strategy's total return is 3,862% and not the stated 2,962%. The good news is it's 900% higher! The mistake came from assuming a $100 starting value to calculate the compounded return. I did the computation in my head at about 10 pm (stupid idea to do basic math in my head at 10 pm). I should have simply done it on the spreadsheet.

After several nights of 10 pm evenings analyzing data, my brain was fried. All the other numbers are correct.

I'm not too fond of levered short funds.

I have been involved with shorting stocks since 2000.

One of the significant flaws of levered index funds is that they compound *daily*.

This is a big problem that gets exposed in levered short funds especially.

In a bear market, volatility is *much* higher than in a bull market.

You will also see more 2% up days in a bear market than in a bull market.

Also, markets fall faster than they rise.

What you get then with a levered short index fund is that volatility, the daily compounding, sequence of returns, and the pace of the decline versus a bull market grinding higher is a big, giant, turd ball.

I didn’t even test a levered short index fund because I wouldn’t want to own one. There are much better strategies out there to deal with bear markets.

This talk about the problems with levered short funds leads me to another thought.

The strategy I outlined only trades ETFs. There's another type of structure called an ETN. An ETN is an exchange-traded note. In a nutshell, it's a debt instrument backed by the credit quality (balance sheet) of the institution that creates (adds more shares) and redeems (disposes of shares) the ETN.

Creations and redemptions are a function of supply and demand. More demand means more shares. Less demand means fewer shares, and those get redeemed.

The problem happens when the sponsor can no longer create or redeem shares, or their credit quality becomes rancid.

So, when Lehman Brothers goes bankrupt, and you own an ETN of U.S. government securities, you lose everything even though the U.S. bonds still had plenty of value.

This happened.

Trading ETNs is problematic. I avoid ETNs like the plague.

ETNs are popular with futures markets such as trading the VIX or oil, for example. This has to do with the way futures markets trade and have specific expiry dates that roll over to a new futures contract.

I wouldn't trade an ETN with counterfeit money, and any strategy built on it is destined to suffer severely at some point.

You may also lose trading ETFs, but that's because whatever market you bought went against you. ETFs do not lose due to structural issues like ETNs. If the sponsor of an ETF goes out of business, the positions will be sold off and the cash returned to you.

Put simply, if you own an ETF that holds Apple, and the ETF goes out of business, the shares in Apple are sold, and the cash returned to you.

Not so with an ETN. While levered ETFs pose some risks, I am unaware of one shutting down due to a sponsor's credit risk.

The next topic is that folks want to make sure I outline what I am doing with my money weekly.

I thought I made this clear, but clearly, I did not.

I have a lot of money allocated to the *Investable Risk-O-Meter.* I have several retirement accounts, and the bulk is invested in this. The strategy has mostly been in cash, and I've been easing into it. But the intermediate-term plan is to go all-in on those retirement accounts I have allocated to this strategy.

The levered ETF model is 100% cash now, but this will also be something I allocate to retirement accounts. As I noted last week, I'll have at least 10X more dough in the *Investable Risk-O-Meter* than the levered ETF model.

After I wrote last week's newsletter, Monday happened. That was a bloodbath. It might have been 30-1 stocks down to up. It doesn't get much worse than that.

I *love* those opportunities in my taxable account.

I bought a bit here and there, especially on every leg down.

Only small amounts.

I believe there will be a generational buying opportunity sooner than later, and you need to have cash on hand to go all-in when you're holding a Royal Flush.

No one can predict the future so the best you can do is react based on the odds in real-time.

The market is very oversold now. I want to buy aggressively when risks are lower than average ***and*** the market is oversold. I'm talking about indexes and not individual stocks. Anything can happen with a particular stock.

Everyone I know who knows what I do for a living is complaining about their stock performance. I mean *everyone*. That's a positive for me.

Liquidity is very unfavorable right now.

Rates are going up. Companies are **not** buying back stock hand over fist.

Stock buybacks have been the *key* driver of returns since 2009.

Stock buybacks have dried up a bit.

The situation is different than the COVID low because the economy was flushed with money. Companies bought back stock. Today that is not so.

Liquidity is important. The market will go where liquidity goes.

I became interested in the stock market when the market crashed in 1987.

I was 11 years old.

I started watching *Wall Street Week* on PBS.

My favorite guest was Martin Zweig.

He had a perpetual look of worry on his face. For many years, Zweig-Dimenna was a top-performing hedge fund.

Zweig followed liquidity.

I always think, "what would Marty do" regarding my own money.

Right now, he would not fight the Fed. The liquidity situation is unfavorable.

That said, when the market is this oversold, you must buy here and there as a function of discipline.

Furthermore, the dividend yield on the indexes is no longer competitive with interest rates.

Something will give at some point.

It could be 18 months from now, for all I know.

So I nibble here and there every time the market gets oversold.

The S&P 500 was oversold at 670. Then many times, between 670 and 4,000, it was oversold. Building the position over time is what generates wealth.

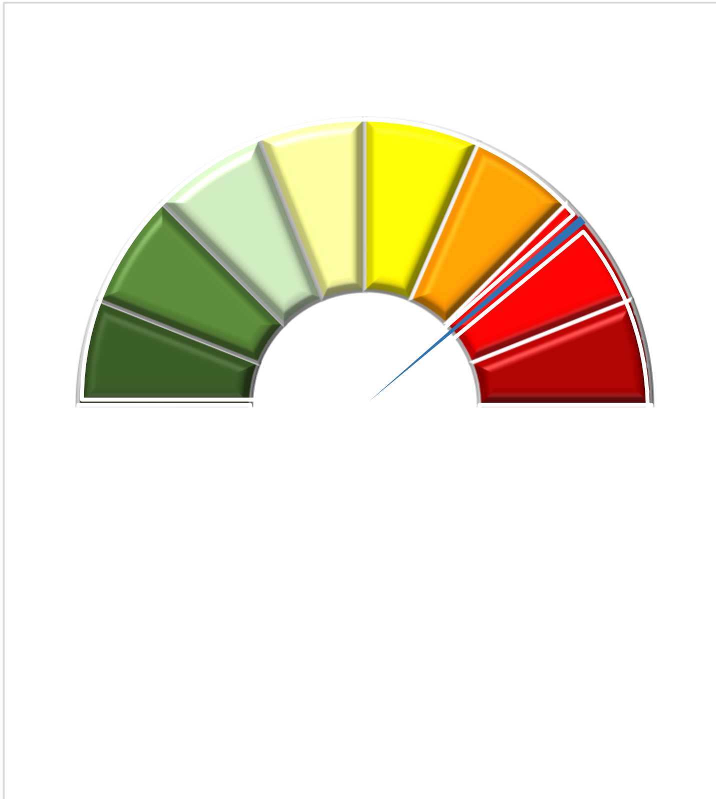
Putin could die tomorrow, and the market will be up 12%. Or the war in Ukraine could end for many reasons.

Morgan Stanley has a target on the S&P 500 at 3,400. The S&P 500 would have to fall to 2,400 for dividends to be more competitive with rates.

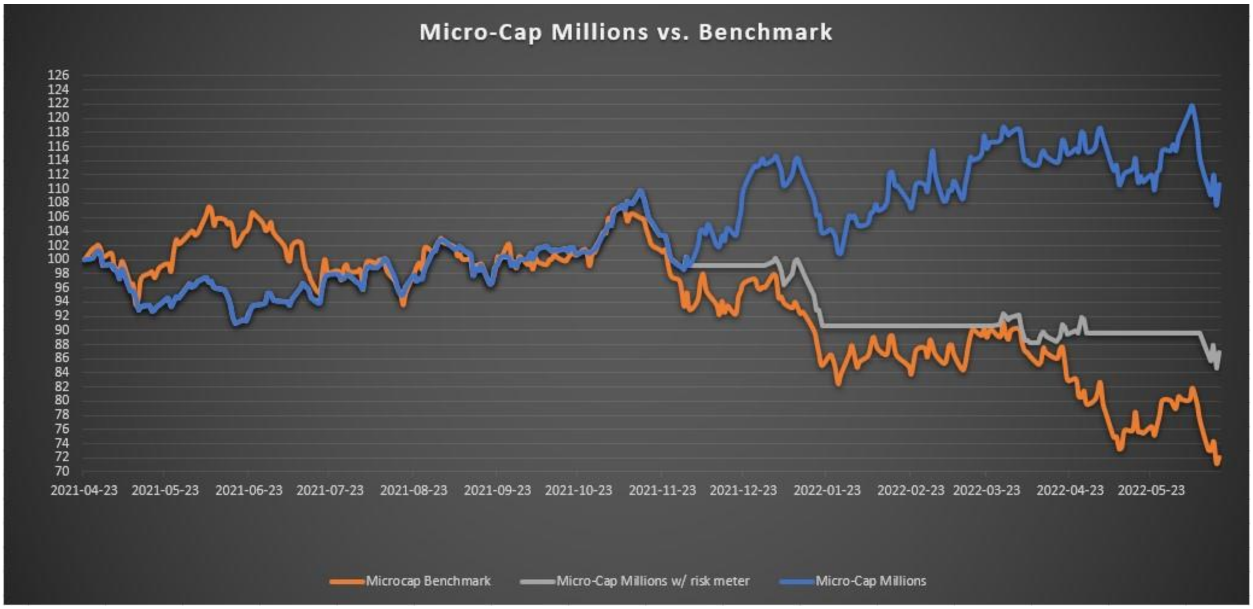
Both levels are possible.

That said, the liquidity situation will drive the market, and it would need to become more favorable for the start of a new bull market.

The *Risk-O-Meter* whipsawed back slightly in the "red zone," so I am buying a bit due to the oversold nature of the market. But I am not buying aggressively.



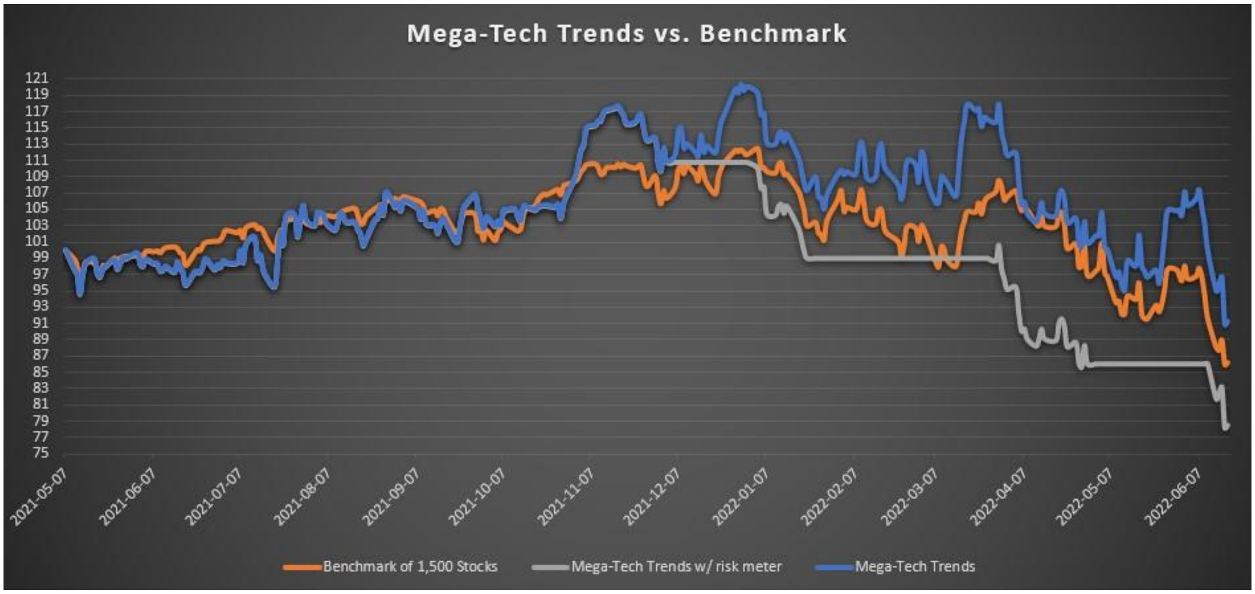
Micro-Cap Millions



No trades this week. Here is the current portfolio:

Ticker	Name	Return	Days Held	Sector
CPHC	Canterbury Park Holding Corp	17.32%	67	Consumer Services
CTG	Computer Task Group Inc	-2.45%	11	Technology
HCKT	Hackett Group Inc (The)	-14.40%	88	Technology
HSON	Hudson Global Inc	13.74%	115	Business Services
NL	NL Industries Inc.	16.45%	25	Non-Energy Materials
QIPT	Quipt Home Medical Corp	-0.41%	11	Healthcare
RGP	Resources Connection Inc	5.88%	39	Business Services
SCSC	ScanSource Inc	-19.15%	18	Technology
WSTG	Wayside Technology Group	-11.36%	25	Technology
ZDGE	Zedge Inc	-23.44%	18	Technology

Mega-Tech Trends



There are two trades this week.

Buy Humana, Inc. (NYSE: HUM) and SMART Global Holdings, Inc. (Nasdaq: SGH)

Sell CTS Corp. (NYSE: CTS) and Hologic, Inc. (Nasdaq: HOLX)

Here is the current portfolio:

Ticker	Name	Return	Days Held	Sector
CDW	CDW Corp	-2.50%	25	Technology
CNXC	Concentrix Corp	-8.18%	4	Technology
CRUS	Cirrus Logic Inc.	-8.65%	4	Technology
DIOD	Diodes Inc	-13.87%	11	Technology
HUM	Humana Inc.	0.00%	new	Healthcare
KFY	Korn Ferry	-29.13%	179	Business Services
LFUS	Littelfuse Inc	-7.68%	32	Technology
PLAB	Photronics Inc	12.19%	95	Technology
SCSC	ScanSource Inc	-18.83%	11	Technology
SGH	SMART Global Holdings Inc	0.00%	new	Technology

Large-Cap Leaders

There is one trade this week.

Buy Broadcom, Inc. (Nasdaq: AVGO)

Sell Synopsis, Inc. (Nasdaq: SNPS)

Here is the current portfolio:

Ticker	Name	Return	Days Held	Sector
ADI	Analog Devices Inc	-13.68%	18	Technology
AMD	Advanced Micro Devices Inc	-14.44%	39	Technology
APH	Amphenol Corp	-20.14%	130	Technology
AVGO	Broadcom Inc	0.00%	new	Technology
CDNS	Cadence Design Systems Inc	-7.50%	102	Technology
CDW	CDW Corp	-8.45%	39	Technology
HOLX	Hologic Inc	-8.41%	39	Healthcare
HUM	Humana Inc.	-3.63%	46	Healthcare
IT	Gartner Inc	-9.86%	32	Technology
MRK	Merck & Co Inc	-2.94%	4	Healthcare

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