The Future Depends on What You Do Today

I was reading about Gandhi the other day when I came upon this quote from him in the headline.

Truer words may have never been spoken.

In saving and investing, our future depends on what we do today.

We must have a plan.

The plan should be well thought out and tested. We are not flying by the seat of our pants.

We must stick with the plan.

We must stick with the plan through thick or thin or hell or high water.

I plan to have a small slice of my portfolio in a model with rocket fuel.

Then just let it rip.

So I am releasing my levered ETF model right here and now. I've traded levered ETFs for a couple of years. 2020-21 was a great run. Then the volatility in 2022 and the fact that practically every asset was in a downtrend made it challenging to navigate.

Over the past couple of weeks, I have done plenty of thinking and testing.

I simplified my process.

Another great thinker of the 20th century, Albert Einstein, said, "Everything should be made as simple as possible…"

I simplified my model by focusing on a proprietary indicator I developed to analyze volatility.

Just one indicator.

Then based on the signal "risk on" or "risk off," the best-trending asset class is held. That could be stocks. It could be bonds. Cash can be held. The market can be shorted.

Levered ETFs are the jet fuel. They're inappropriate for anyone who wants to avoid the opportunity for outsized returns combined with outsized risk.

While there is the potential for considerable gains in a short period, nothing is free in finance. Huge losses also come with the territory.

Therefore, I have chosen a portion of my portfolio to risk in this model that will not cause me to lose one minute of sleep.

I will not get stressed out over losses.

I will not get too excited by significant gains.

My mood will never shift based on the model's results at any particular time.

My goal is to make 50x my investment in 10-12 years.

It's important to note that while I analyze volatility, I do not trade volatility funds directly. These come in the form of exchange-traded notes. The problem with an exchange-traded note is that the balance sheet and creditworthiness of the issuer back it.

With an exchange-traded note, it's only a matter of time before the issuer has some stress or goes tits up altogether, and the note doesn't trade like it's supposed to or goes poof and you lose everything.

This usually happens when you need the strategy the most.

ETFs function differently. While you can lose money in an ETF if the trade goes against you, you're much less likely to have the issues posed by exchange-traded notes.

Here are the results of the testing below.

The model trades monthly.

It is yours as part of this newsletter. My prerogative with this newsletter is not to upsell you every time a new "secret" emerges. I share my research freely.

Whether you trade the model or not, simply knowing that my proprietary volatility signal is in "risk on" or "risk off" mode can help inform the decisions you make in your investment portfolio.

I'll be making the trade myself on Tuesday when the market opens.

Summary Statistics

	CAGR	Sharpe Ratio	BNCH Correlation	Max Drawdn
Backtest	+42.8%	1.00	+0.18	-40.9 %
BNCH	+6.1%	0.60		-22.9 %

Trades	97
Total Periods	129
Total Days	2695

Winning periods	74	(57.4 %)	**Losing periods**	51	(39.5 %)
Periods outperformed BNCH	72	(55.8 %)	**Periods underperformed BNCH**	57	(44.2 %)
Best period		+63.07 %	**Worst period**		-20.23 %
Median winning period		+7.30 %	**Median losing period**		-4.08 %
Regime 1 total days	1303	(48.3 %)	**Regime 2 total days**	1392	(51.7 %)

The strategy returned 4,425.8% since April 2012 compared with 88.1% from the benchmark.

The best return was 63.7% in a month, while the worst was 20.23%.

The strategy spent 48.3% of the time in “risk on” mode and 51.7% in “risk off” mode.

Notably, the most significant drawdown was 40.9%. Losing half the assets in the account from time to time is the cost of obtaining 4,400% returns.

In "risk on" mode, the model will trade the best-trending asset class among the following:

- 200% S&P 500 (ProShares Ultra S&P 500 Ticker: SSO)
- 200% Nasdaq 100 (ProShares Ultra QQQ Ticker: QLD)
- 300% Semiconductors (Direxion Daily Semiconductor Bull 3x Shares Ticker: SOXL)
- Cash

Cash can be king. When everything is trending down, like in 2022, there's nothing wrong with holding cash and waiting for the storm to blow over, even if my volatility indicator suggests taking risks.

The inclusion of the 300% semiconductor ETF is also worth noting. It's like rocket fuel on top of rocket fuel with a lit match close by. There will be massive moves up and down in this ETF.

However, semiconductors are a good indicator of economic strength in my mind. If we get a situation where volatility is in "risk on" mode and the economy is either turning or already performing well, SOXL will be the place to make big gains quickly.

However, when it's wrong, it's *wrong*.

In "risk off" mode, the model will trade the best-trending asset class among the following:

- 200% 20-Year Treasuries (ProShares Ultra 20+ Year Treasury Ticker: UBT)
- 200% 7-10 Year Treasuries (ProShares Ultra 7-10 Year Treasury Ticker: UST)
- 100% short the S&P 500 (ProShares Short S&P 500)
- Cash

I have included the option to short the market. Shorting stocks is not for the faint of heart. I have also chosen SH, which is not a levered ETF. Levered short funds are one of the stupidest investments you can buy.

Index-based funds (as opposed to actively managed funds) are **designed to be held for one day.**

Of course, the market seldom crashes. We are in a grinding bear market that has developed over time.

When you own a fund designed to be held for one day, the longer you hold, the greater the risk you do not get the results you were hoping for.

The fund compounds the daily return of the index. However, the future daily returns of the index are unknowable. If there's a lot of volatility, which there always is in a bear market, then the return of the index fund versus the index can be quite different.

This is called "tracking error."

The tracking error is even more significant with short funds that provide 200-300% exposure to the market.

Bear markets are not the inverse of bull markets. They behave differently.

As a result, we must make adjustments to the portfolio.

If the past is prologue, 6-10 significant trends will develop over the next decade. Riding those trends is the key to success.

No one knows when those trends will develop.

No one knows how far those trends will run.

The trend is your friend until the end when it bends.

Therefore, it's essential to stick with the system.

The current trade is **SOXL**.

I'm ready to go for Tuesday, and I'll make a small trade each day next week to work into the position (those who have known me for a while know that I never jump in with both feet to start).

The *Risk-O-Meter* remains in the "green zone." However, the market is now overbought. The riskiest assets, in particular, have had a significant run-up in the early days of 2023.

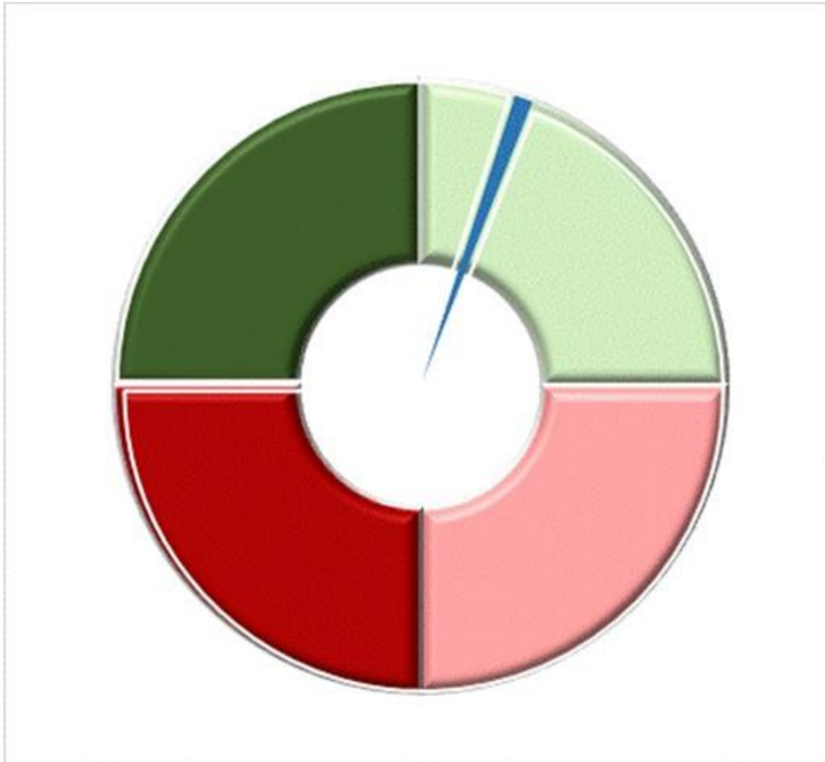
That’s not sustainable.

We do a lot of work on volatility. Here’s a comment from my programmer when he sent me this week’s trade file.

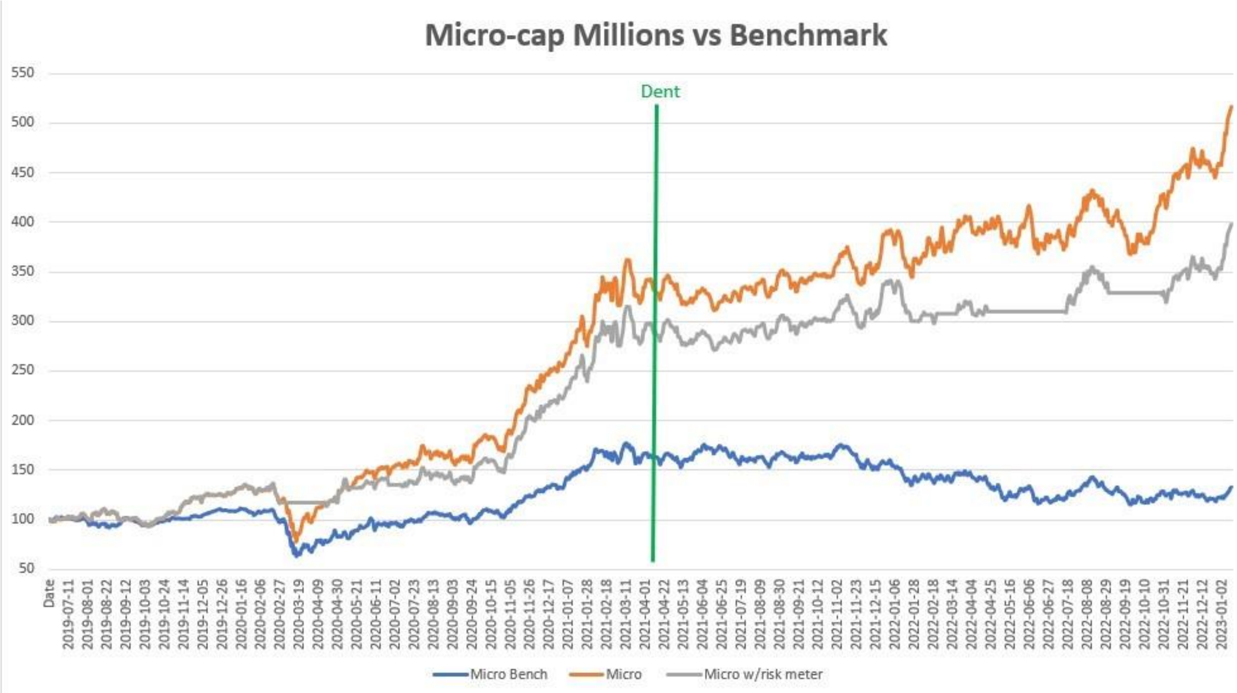
“This is the week of pain for short models. The market is going from elevated VIX (over 20) to lower VIX (18 at the moment and dropping). Once the VIX settles below 18 for a short period, the short factors start working well again. If the VIX spikes, the short factors also work well. But for this transition period, where fear subsides, people buy higher-risk assets. It seems crazy since the underlying market forces are fundamentally weak still. But people are becoming complacent. They have had enough rough markets and are buying up risk, which hammers pretty hard on the short factors. The good news is that it will either continue to get more complacent...which makes the shorts work well again...it will spike...which is good...or it will whipsaw...which is not great as you have to stay the course shorting higher risk assets as you gain good one week and lose bad another week.”

In a nutshell, we are approaching a volatility setup combined with an overbought market that will likely result in the riskiest assets getting a nice ass kicking.

Therefore, it's a good time to check your portfolio twice, and if you're a trader, adjust stops and be prepared to reduce positions as the reverse course.



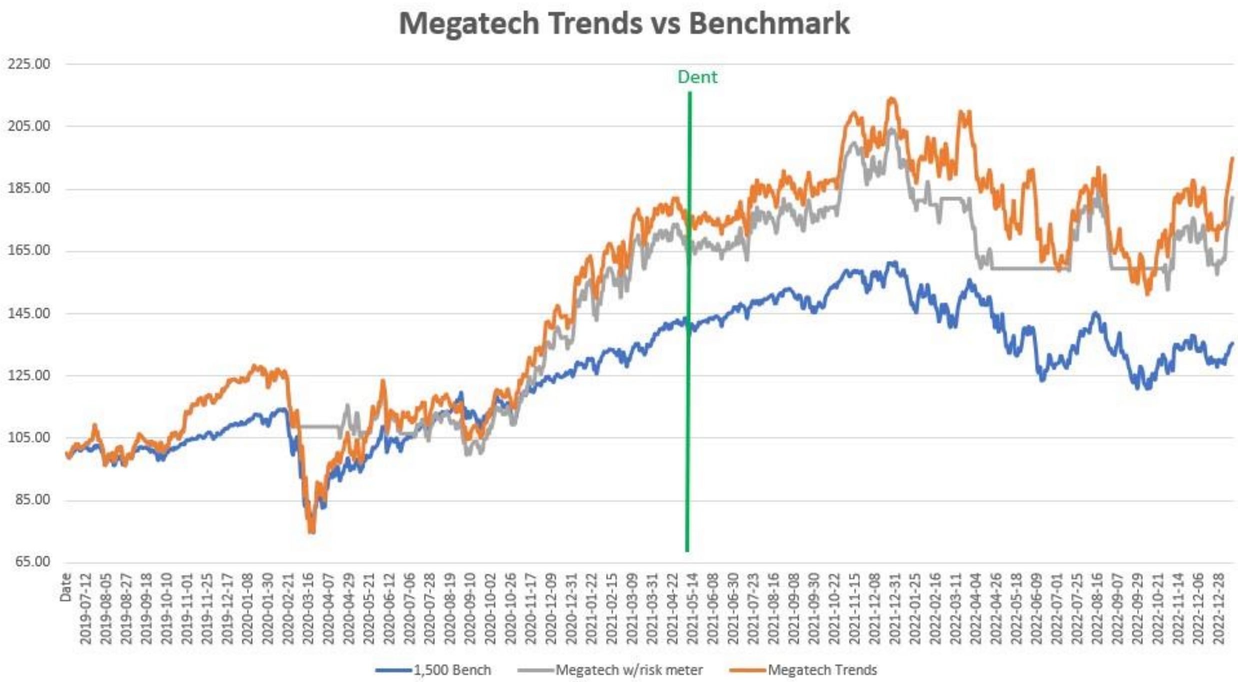
Micro-Cap Millions



There are no trades this week. Here is the current portfolio:

Ticker	Name	Return	Days Held	Sector
BELFB	Bel Fuse, Inc.	26.59%	144	Technology
DPSI	DecisionPoint Systems, Inc.	5.85%	4	Technology
HCKT	The Hackett Group, Inc.	0.33%	298	Technology
IRMD	IRadimed Corp.	8.33%	67	Healthcare
IVAC	Intevac, Inc.	33.78%	67	Technology
KMDA	Kamada Ltd.	30.59%	25	Healthcare
KNSA	Kiniksa Pharmaceuticals Ltd.	4.71%	67	Healthcare
PERI	Perion Network Ltd.	69.47%	179	Technology
SMLR	Semler Scientific, Inc.	36.02%	67	Healthcare
TCMD	Tactile Systems Technology, Inc.	50.45%	60	Healthcare

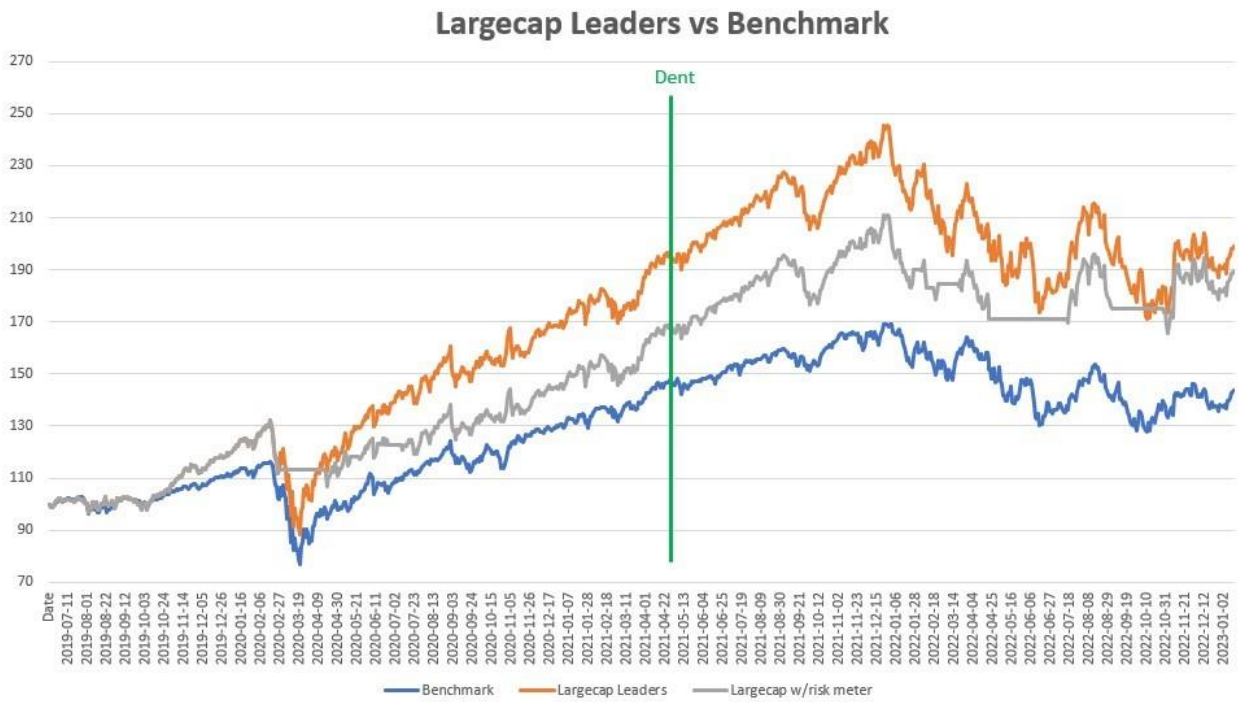
Mega-Tech Trends



There are no trades this week. Here is the current portfolio:

Ticker	Name	Return	Days Held	Sector
ACLS	Axcelis Technologies, Inc.	23.43%	25	Technology
AEIS	Advanced Energy Industries, Inc.	12.05%	67	Technology
BDC	Belden, Inc.	8.33%	67	Technology
BHE	Benchmark Electronics, Inc.	2.17%	74	Technology
CDW	CDW Corp.	21.85%	109	Technology
FN	Fabrinet	7.13%	17	Technology
ICHR	Ichor Holdings Ltd.	7.79%	25	Technology
JBL	Jabil, Inc.	30.87%	165	Technology
RAMP	LiveRamp Holdings, Inc.	3.74%	4	Technology
TTMI	TTM Technologies, Inc.	10.76%	25	Technology

Large Cap Leaders



There is one trade this week.

Buy FactSet Research Systems, Inc. (NYSE: FDS)

Sell Fortinet, Inc. (Nasdaq: FTNT)

Here is the current portfolio:

Ticker	Name	Return	Days Held	Sector
ADI	Analog Devices, Inc.	1.13%	46	Technology
APH	Amphenol Corp.	2.04%	340	Technology
BDX	Becton, Dickinson & Co.	-1.35%	4	Healthcare
CDW	CDW Corp.	14.06%	116	Technology
CSCO	Cisco Systems, Inc.	-1.65%	39	Technology
EPAM	EPAM Systems, Inc.	-4.00%	60	Technology
FDS	FactSet Research Systems, Inc.	0.00%	new	Technology
KEYS	Keysight Technologies, Inc.	2.26%	46	Technology
KLAC	KLA Corp.	30.65%	74	Technology
MRK	Merck & Co., Inc.	3.19%	32	Healthcare

DISCLAIMER:

THIS COMMUNICATION IS FOR EDUCATIONAL AND INFORMATION PURPOSES AND DOES NOT CONSTITUTE INVESTMENT ADVICE. *Any Publishing Service offered by HSD Publishing is for educational and informational purposes only and* ***should NOT be construed as a securities-related offer of solicitation or be relied upon as personalized investment advice.*** *HSD Publishing strongly recommends that you consult a licensed or registered professional before making any investment decision.*

THE RESULTS PRESENTED ARE NOT TYPICAL OR VERIFIED. *HSD Publishing has not verified information regarding the historical trading performance presented. Subscribers' trading results have* ***NOT been tracked or verified,*** *past performance is not necessarily indicative of future results,* ***and the results presented in this communication are NOT TYPICAL.*** *Actual results will vary widely given various factors, such as experience, skill, risk mitigation practices, market dynamics, and the amount of capital deployed. Investing in securities is speculative and carries a high degree of risk; you may lose some, all, or possibly more than your original investment.*

HS DENT IS NOT AN INVESTMENT ADVISOR NOR A REGISTERED BROKER. *Neither HSD Publishing nor any of its owners or employees is registered as a securities broker-dealer, broker, investment advisor (IA), or IA representative with the US Securities and Exchange Commission, any state securities or regulatory authority, or any self-regulatory organization.*

WE MAY HOLD THE SECURITIES DISCUSSED. *HSD Publishing has not been paid directly or indirectly by the issuer of any security mentioned in the Services. However, HS Dent, its owners, and its employees may purchase, sell, or hold long or short positions in securities of the companies mentioned in this and future communications.*

John Del Vecchio is not an employee or partner of HSD Publishing. HSD Publishing is acting solely as the marketing arm for John Del Vecchio and Unbounded Wealth: Max Profits*.*

© 2023 HSD PUBLISHING. ALL RIGHTS RESERVED. 15016 Mountain Creek Trail Frisco, TX 77573.