



Froth

The other day, I was deep into the holiday cheer and enjoying my favorite beverage this time of year.

A frothy glass of eggnog.

As I read through my emails, I came across a fascinating list containing some froth.

Frothy markets.

The list is provided by my friend Meb Faber, a highly regarded quantitative analyst and best-selling author, and provided by his *Idea Farm* e-letter. The letter provided tidbits on 75 facts from 2023.

As a fan of manias, panics, and crashes, the market froth section caught my immediate attention.

Markets change.

The companies or asset classes that dominate the market change.

The metrics used to interpret market change.

Human nature never changes.

Human nature can be exploited.

Over and over again.

This is true even in an environment where computers generate most trades.

Like any other era in market history, there was plenty of froth in 2023.

These manias always end the same way.

Lots of losses.

Usually, the Joe Sixpack is caught holding the bag.

Here's the list for 2023:

Market Froth

"Roughly 70 special-purpose acquisition companies have liquidated and returned money to investors since the start of December. That is more than the total number of SPAC liquidations in the market's history" [Source: WSJ](#)

Over the past 40 months, the SPAC market has gone from \$25 billion to \$200 billion and back to \$25 billion (as of August 31, 2023). [Source: Accelerate](#)

114x annual recurring revenue — the multiple at which private, venture-capital-backed SaaS companies raised capital in 2021, up from "only" ~15x to 30x a few years prior (Source: Pitchbook/IVP). [Source: Phil Ordway](#)

Stripe did a funding round at a valuation of \$50bn (down from \$95bn two years ago), purely to manage liquidity and options for its employees. [Source: Stripe](#)

Tiger Global marked down the value of its investments in private companies by about 33% across its venture-capital funds in 2022, erasing \$23 billion in value. [Source: WSJ](#)

"Combined, First Republic, Silicon Valley Bank and Signature Bank held more in inflation-adjusted assets than the 25 U.S. banks that collapsed in 2008." [Source: FDIC](#)

The dramatic rise and fall of SPACs (aka blank check companies) is particularly noteworthy.

The sector ran up 800% only to crash 80% in three years!

The one that hasn't played out yet like a horror movie filled with a murder scene in a shower with blood and guts is that venture-backed software as a service company raises capital at 114X annual recurring revenue.

That's up from 15-30X not long before that.

Most of those companies will never go public.

Most of them will never be acquired.

The good news here is that Joe Sixpack mainly isn't invested in these venture-backed funds that are going to lose their ass unless he has a pension plan and the management team has an allocation to these types of funds.

Another fact that caught my eye but was in the “crypto” section instead of “market froth” (but is just as frothy) is this doozy:

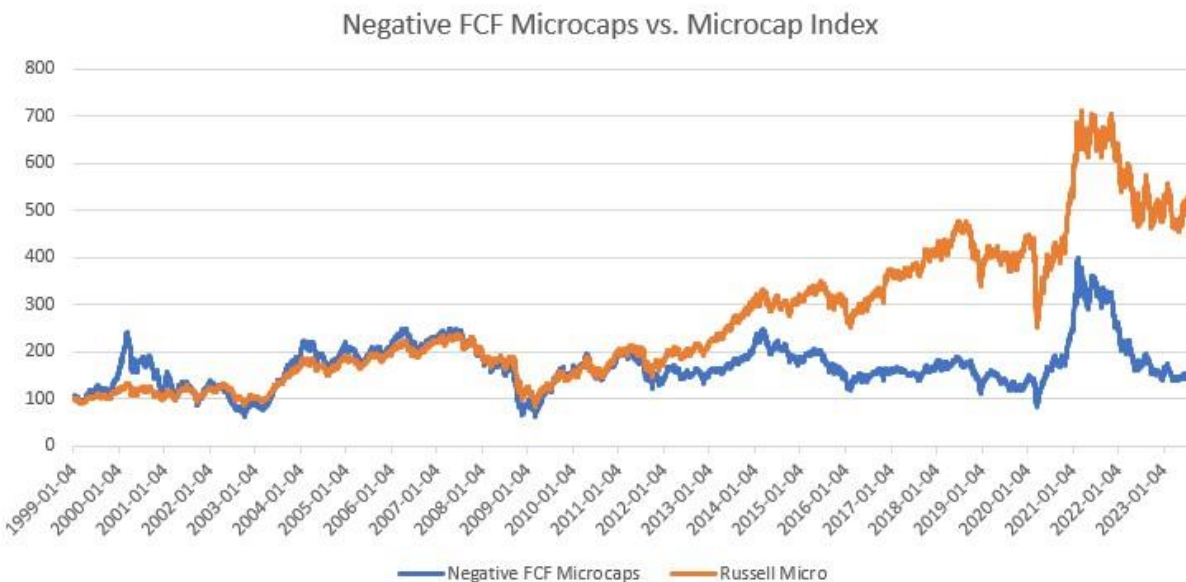
A new study estimates ~ 95% of people holding NFT collections are currently holding onto worthless investments. [Source: dappGamb!](#)

It never ceases to amaze me how people get caught up in the hype.

Hype don't pay.

Take a look at this chart.

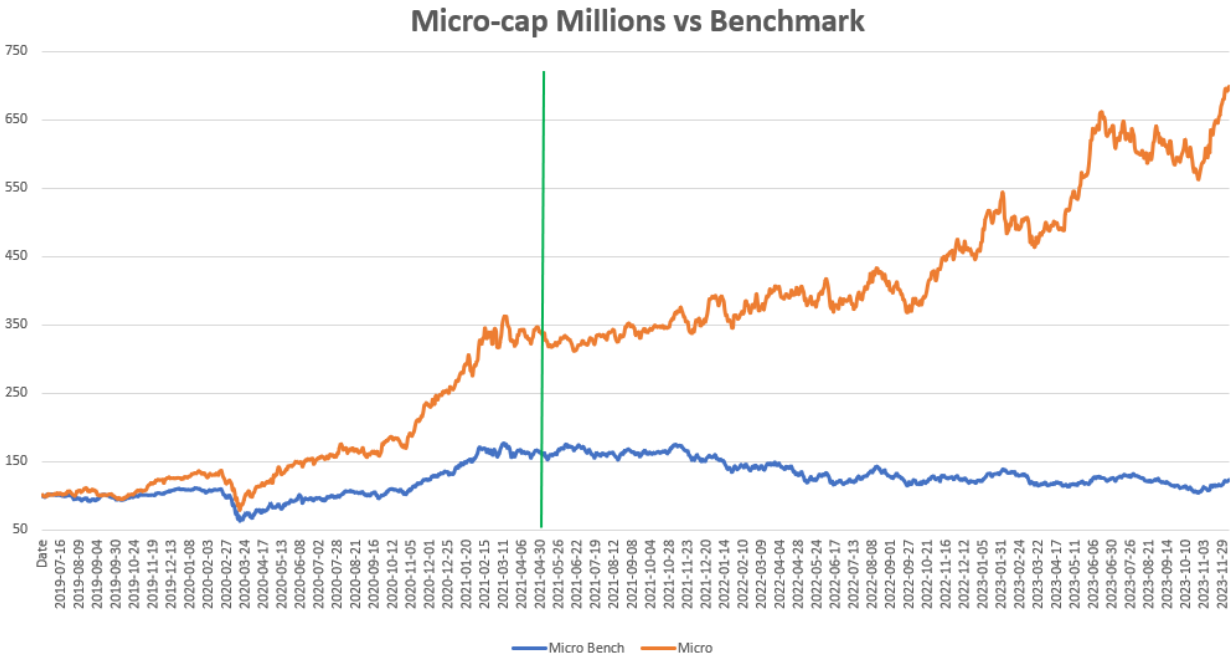
It shows that the most hyped small stocks have generated practically no return in nearly a quarter century!



Worse, these stocks are down about 75% in the last three years.

Now, that hurts.

Now take a look at this chart:



Micro-cap Millions is up 599% since inception in 2019 compared with just 23.2% for the benchmark. The hyped stocks are flat.

Micro-cap Millions is up 49% in 2023 compared with 5% for the benchmark.

This is the advantage of a consistent process.

That's not to say there won't be scary periods. *Micro-cap Millions* still suffered a drawdown of 42.7%. So did the market at 43.6%.

But by ignoring the hype and glossy stories and methodically following a time-tested, unemotional model, the rebound was swift and powerful.

The best thing you can do is ignore the hype, ignore the glossy "story," ignore what your neighbor is doing (really, *really* ignore your neighbor), and methodically invest in time-tested strategies that are not dependent on the day's hot topic to succeed.

Speaking of which, last week, I mentioned that as my Christmas stocking stuffer to you, I would be offering the full *Forensic Accounting Stock Tracker™* (FAST) model in spreadsheet form starting next month.

No strings attached.

However, as a favor, if you still need to do so, take a look at Dent's latest newsletter, the *No BS Growth and Income Portfolio*, that I provided at the behest of Rodney Johnson, Harry's long-time right-hand man.

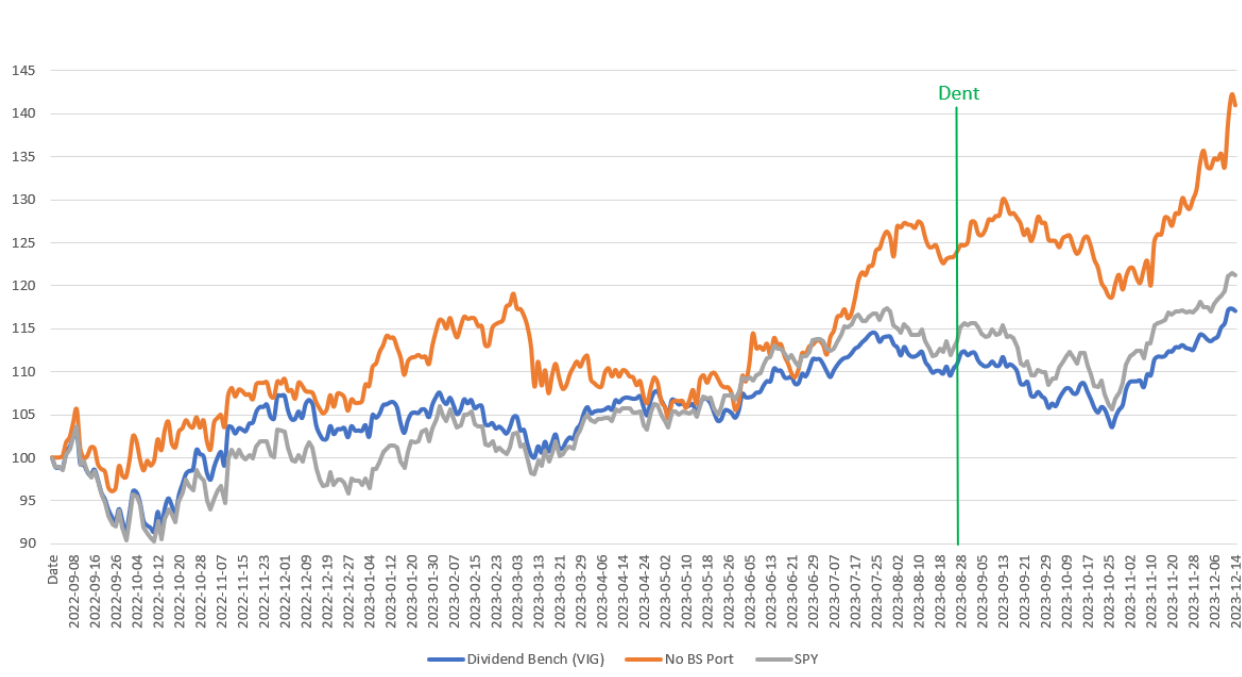
No BS is just that.

No hype.

Just returns.

Like anything else, there will be ups and downs.

Although the strategy is off to an excellent start, it's up 32.5% in 2023 compared with 13.5% for the dividend benchmark.



My research shows three edges over Wall Street and the average investor.

One is Microcaps. Microcaps are too small for big investors to get involved with.

In addition, the application of accounting forensics works well with smaller companies.

Often, they are simpler than say IBM, and the risks are easier to detect if you have the right tools.

The strategy has consistently outperformed in testing and real-time. As I said before, *Micro-cap Millions* is up about 49% compared with a 5% gain for the microcap universe.

The second edge is in trend following.

Massive Wall Street firms use trend following. Smaller investors tend not to. Instead, smaller investors tend to hold onto losers too long and not onto winners long enough.

History has proven this, and I have discussed this in my book *Unbounded Wealth*.

My retirement systems use trend following.

And they trade the biggest markets, so big players cannot influence the trends there.

It takes only one good trend about every two years to have a respectable rate of return.

This is part of my monthly service through the *Simple Retirement System*.

The third edge is in income stocks.

This is what NO BS focuses on.

Many of the investment products out there screen for dividends.

However, many companies with high dividend rates are crappy businesses.

Eventually, they cut the dividend, which is death for the stock.

Over time, dividend cutters have negative returns. Much like microcaps, applying accounting forensics helps separate the best prospects from the rest. Again, both testing and real-time performance have been solid.

So, microcaps provide an opportunity for growth. Trend following is my preferred approach to retirement trading with an over 200-year empirical record. NO BS is a strategy to exploit income with the potential for capital appreciation in a way others are not doing.

If you're interested in dividends, contact Karen at info@hsdent.com and tell her I sent you!

The Risk-O-Meter

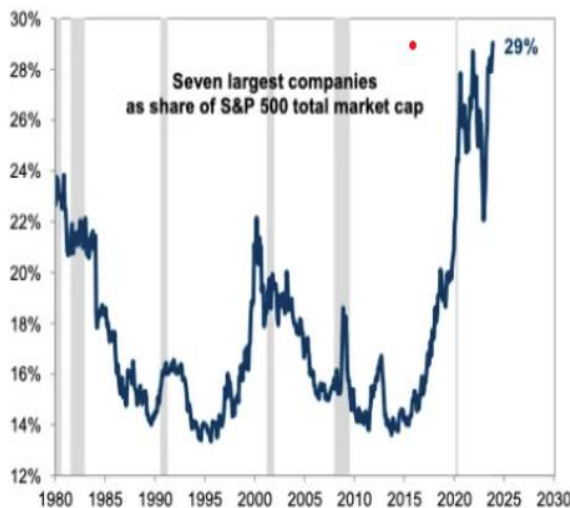
The *Risk-O-Meter* remains in the "green zone."

The allocation to small caps throughout the year when the market has been oversold has paid off nicely.

On rebounds, the small-caps have generated some excellent juice relative to the mega-caps in the S&P 500.

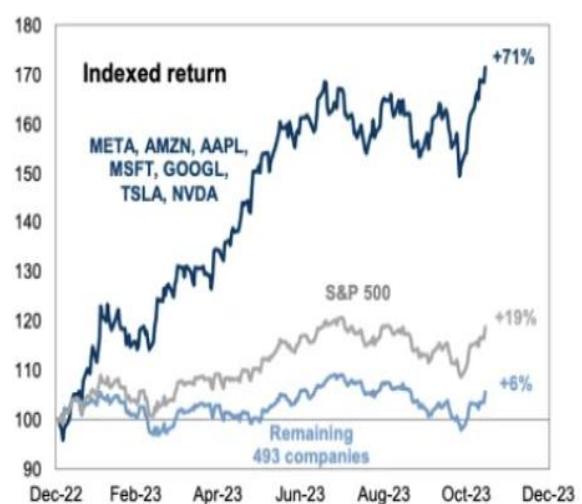
It's widely known that a large portion of the returns in the market is driven by the "Magnificent Seven," and the other 493 stocks have barely returned more than holding cash.

Exhibit 22: Share of largest seven companies' market cap in S&P 500 is at an all-time high



Source: Compustat, Goldman Sachs Global Investment Research

Exhibit 23: The Magnificent 7 have led the index higher in 2023



Source: FactSet, Goldman Sachs Global Investment Research

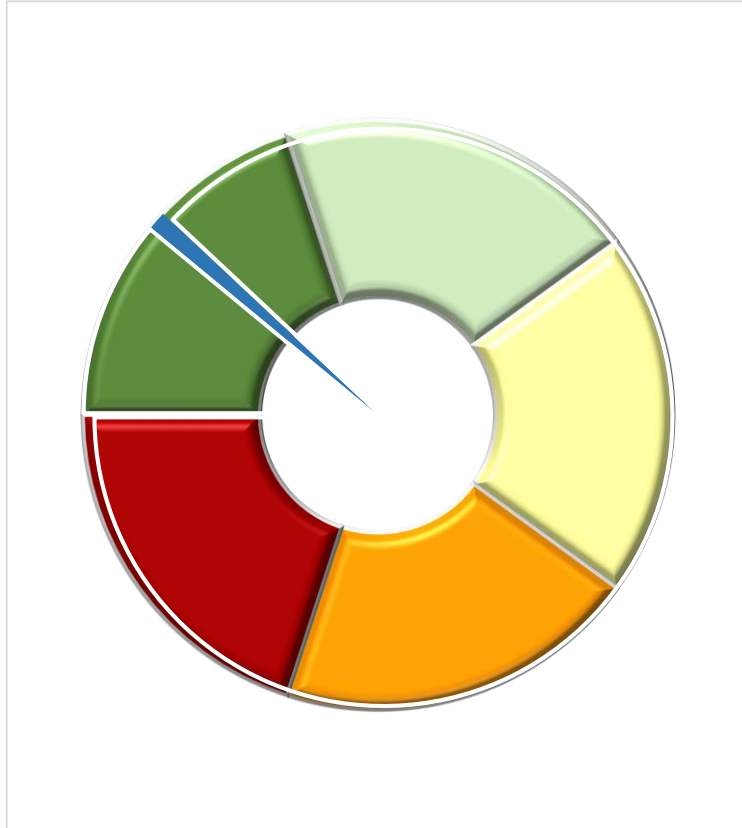
I don't think much matters when markets are "super duper oversold" (my very professional and technical term).

You want juice.

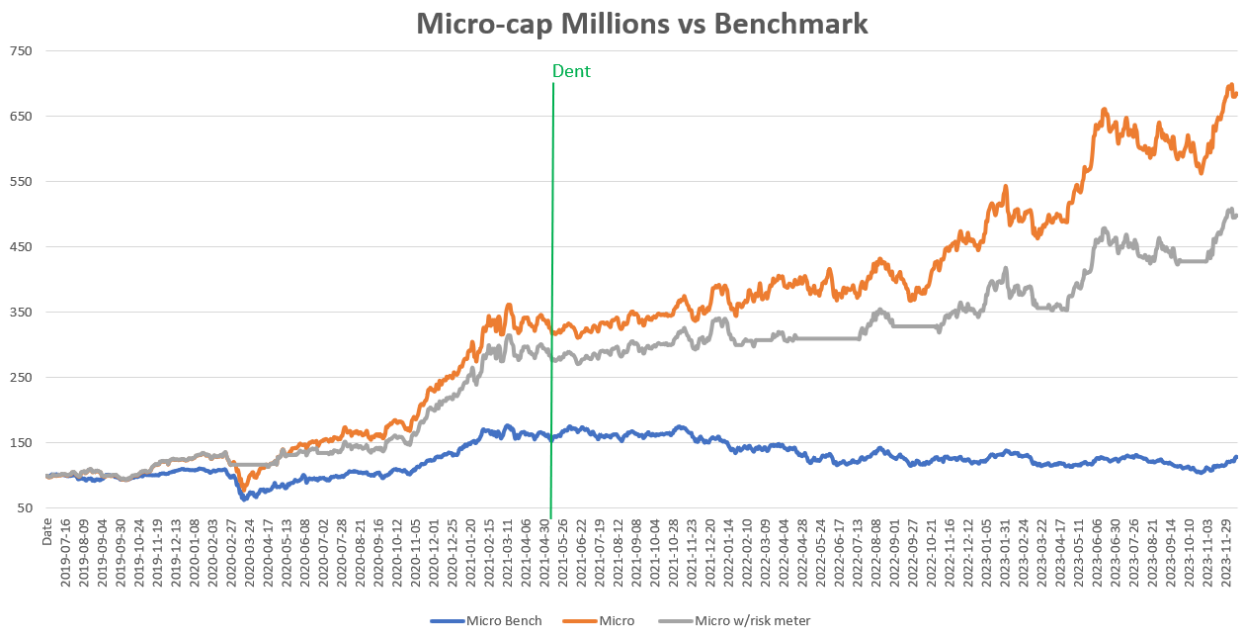
Small caps provide juice.

Furthermore, on a longer-term basis, the spread between small-caps and mega-caps will narrow, which will provide even more performance.

Therefore, small caps remain my focus.



Micro-Cap Millions



There are two trades this week.

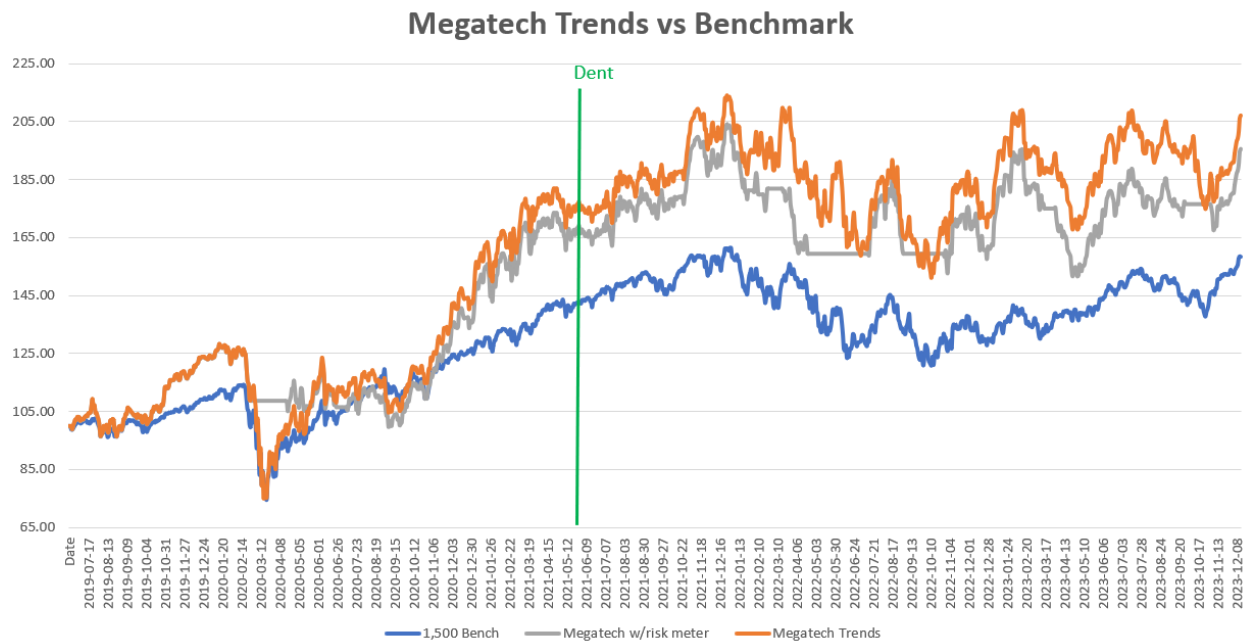
Buy Crexendo, Inc. (Nasdaq: CXDO) and Eltek, Ltd (Nasdaq: ELTK)

Sell Frequency Electronics (Nasdaq: FEIM) and M-Tron Industries (NYSE: MPTI)

Here is the current portfolio:

Ticker	Name	Return	Days Held	Sector
CXDO	Crexendo, Inc.	0.00%	NEW	Technology
DSP	Viant Technology, Inc.	36.58%	46	Technology
DTST	Data Storage Corp.	16.79%	116	Technology
EGAN	eGain Corp.	17.81%	32	Technology
ELTK	Eltek Ltd.	0.00%	NEW	Technology
GILT	Gilat Satellite Networks Ltd.	10.89%	214	Technology
ITRN	Ituran Location & Control Ltd.	12.99%	193	Telecommunications
MIXT	MiX Telematics Ltd.	46.67%	32	Technology
MTLS	Materialise NV	15.95%	32	Technology
RCMT	RCM Technologies, Inc.	7.80%	25	Technology

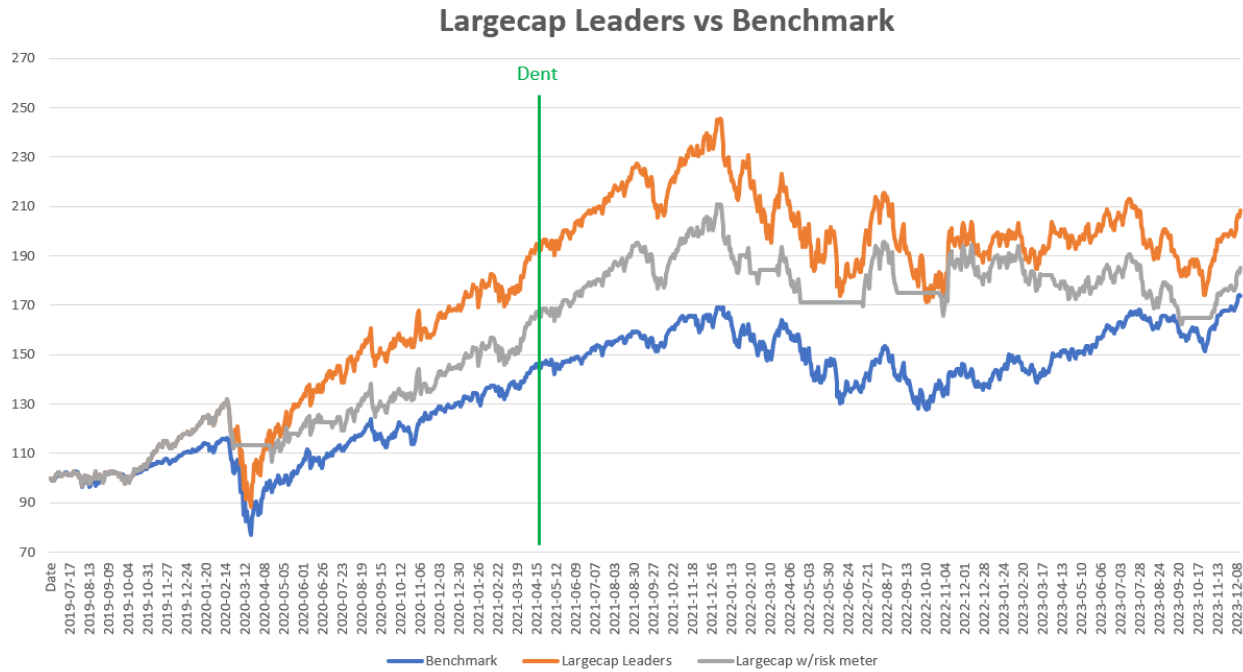
Mega-Tech Trends



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

Ticker	Name	Return	Days Held	Sector
AVT	Avnet, Inc.	3.62%	4	Technology
CALX	Calix, Inc.	20.62%	39	Technology
CDW	CDW Corp.	5.46%	32	Technology
CNXN	PC Connection, Inc.	13.08%	39	Technology
DFIN	Donnelley Financial Solutions, Inc.	11.27%	39	Technology
FN	Fabrinet	10.10%	25	Technology
GDDY	GoDaddy, Inc.	10.97%	18	Technology
PLUS	ePlus, Inc.	52.93%	199	Technology
PLXS	Plexus Corp.	7.49%	4	Technology
SCSC	ScanSource, Inc.	6.78%	4	Technology

Large Cap Leaders



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

Ticker	Name	Return	Days Held	Sector
ANET	Arista Networks, Inc.	10.88%	39	Technology
APH	Amphenol Corp.	25.18%	46	Technology
BSX	Boston Scientific Corp.	1.57%	4	Healthcare
CDW	CDW Corp.	3.02%	18	Technology
CRM	Salesforce, Inc.	4.30%	4	Technology
FTNT	Fortinet, Inc.	10.87%	4	Technology
MSFT	Microsoft Corp.	16.95%	81	Technology
NOW	ServiceNow, Inc.	26.03%	46	Technology
ROP	Roper Technologies, Inc.	13.87%	46	Technology
SNPS	Synopsys, Inc.	17.54%	70	Technology

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