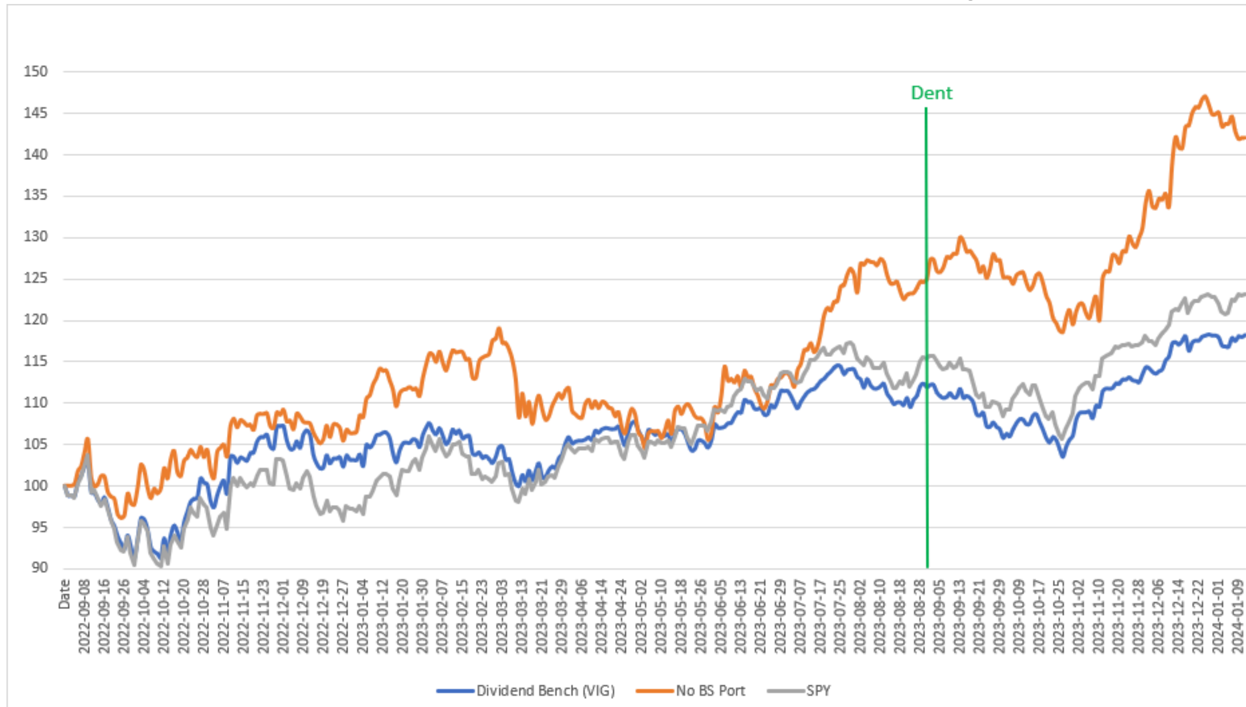
January 22, 2024

The NO BS Growth and Income Portfolio

By John Del Vecchio



New Trades this week: 1 Trade

Buy Scholastic Corp. (Nasdaq: SCHL)

Sell Cogeco Communications (OTC: CGEAF)

Current Portfolio January 22, 2024

Ticker	Name	Return	Days Held	Sector
AVT	Avnet, Inc.	-1.33%	130	Technology
CIVB	Civista Bancshares, Inc.	16.80%	74	Finance
FISI	Financial Institutions, Inc.	34.60%	67	Finance
HVT	Haverty Furniture Cos., Inc.	30.06%	249	Consumer Cyclicals
MCEM	The Monarch Cement Co.	9.95%	130	Non-Energy Materials
PSX	Phillips 66	37.39%	256	Energy
SCHL	Scholastic Corp.	0.00%	NEW	Consumer Services
THFF	First Financial Corp. (Indiana)	20.08%	234	Finance
VLO	Valero Energy Corp.	-0.80%	95	Energy
WEYS	Weyco Group, Inc.	30.27%	67	Consumer Cyclicals

A 60 / 40 Twist

Last week, I noted that Microsoft, Apple, Nvidia, and Amazon represent nearly 21% of the weight of the S&P 500 and that I don't find the S&P 500 interesting here.

That's moving a lot of dirt to push those companies even higher in market value.

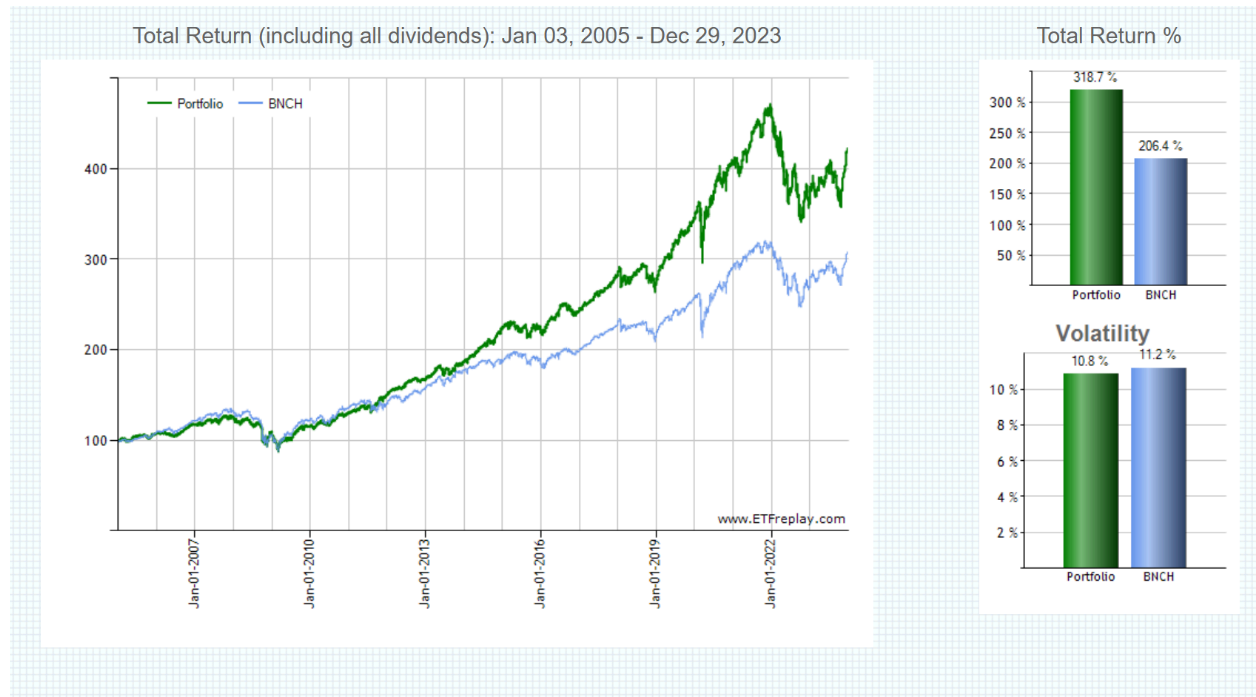
By coincidence, I had written a free report for non-subscribers to pique their interest in my work by showing them a simple alternative to a traditional 60 / 40 portfolio.

However, a version of the strategy can also be helpful here.

For reference, a 60 / 40 portfolio is 60% in stocks and 40% in bonds.

I used the S&P 500 for the stocks and 40% in long-term treasuries for the bonds.

Here's what that looks like:



Summary Statistics

	CAGR	Sharpe Ratio	BNCH Correlation	Track Error	Max Draw vs Start	Max Drawdown
Portfolio	+7.8%	0.59	+0.90	4.9%	-12.54 %	-31.42%
BNCH	+6.1%	0.42			-12.72 %	-35.40%

319% returns are not bad, and it's important to note that most people will not outperform the 60 / 40 mix.

I highlight the average person's dreadful experience in my book *Unbounded Wealth*.

What's more, is that the strategy has a drawdown of nearly 32%.

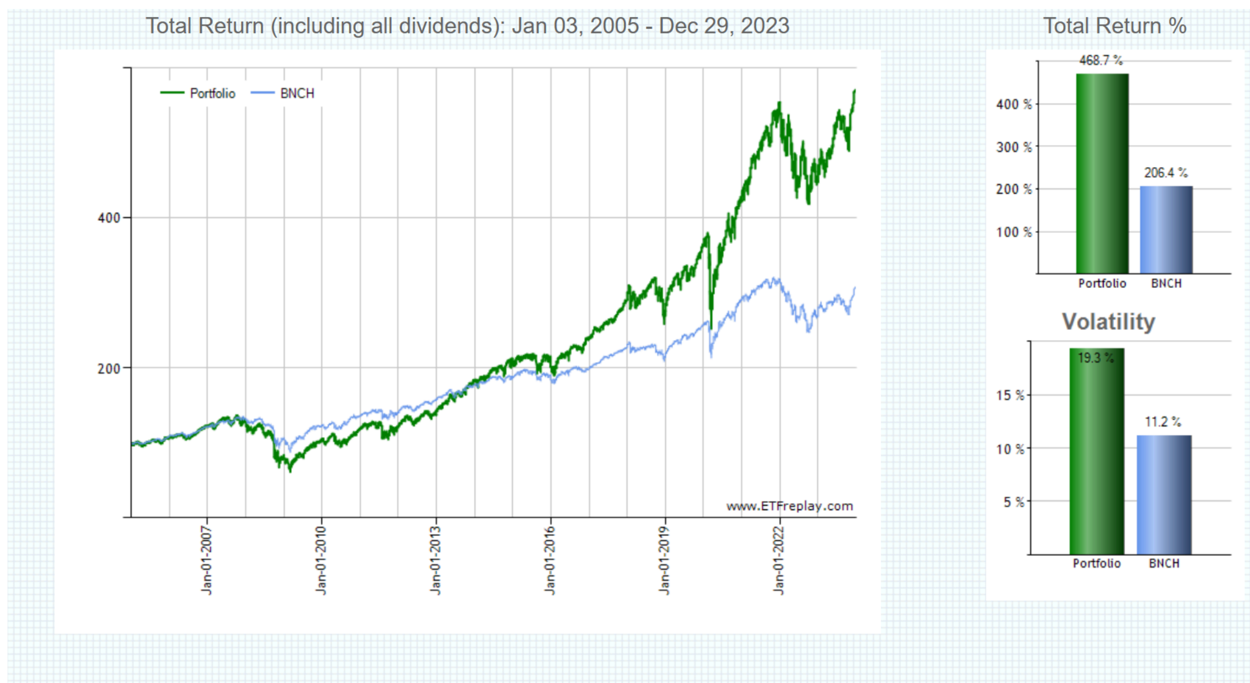
I call this the "punch in the nose."

Most people start freaking out with 32% losses and then sell everything, never capture the rebound, and end up as a mouse on a treadmill.

On the other hand, you could own just stocks.

Plenty of people have highlighted that, over time, stocks represent the best performance you can achieve.

Here's what it looks like to be 100% invested in stocks (again using the S&P 500)



Summary Statistics

	CAGR	Sharpe Ratio	BNCH Correlation	Track Error	Max Draw vs Start	Max Drawdown
Portfolio	+9.6%	0.47	+0.93	9.8%	-38.82 %	-55.20%
BNCH	+6.1%	0.42			-12.72 %	-35.40%

Better.

But now the "punch in the nose" is 55%, with up to a 39% loss from the start, depending on your start date.

You're kidding yourself if you think the typical investor can withstand 55% losses.

It's a rare bird that sits through brutal bear markets.

Time and time again, people bail out at the lows.

The lowest allocation to stocks by individual investors was at the exact low in March 2009, just before a bull market for the history books.

The 60 / 40 portfolio can be improved in three ways.

First, use trend following.

Trend following has hundreds of years of documented viability.

The models in my various newsletters use trend following in one form or the other.

To measure the trend, I use the 200-day moving average.

There is nothing super secretive there.

The trend is up if the market is above the 200-day moving average.

The trend is down if the market is below the 200-day moving average.

The second tweak is that the portfolio is invested only in stocks if the market trend is up and only in bonds if the market trend is down.

The third tweak is where it gets interesting.

If the market trend is up, you take the better performance of the S&P 500 or the equal-weighting S&P 500.

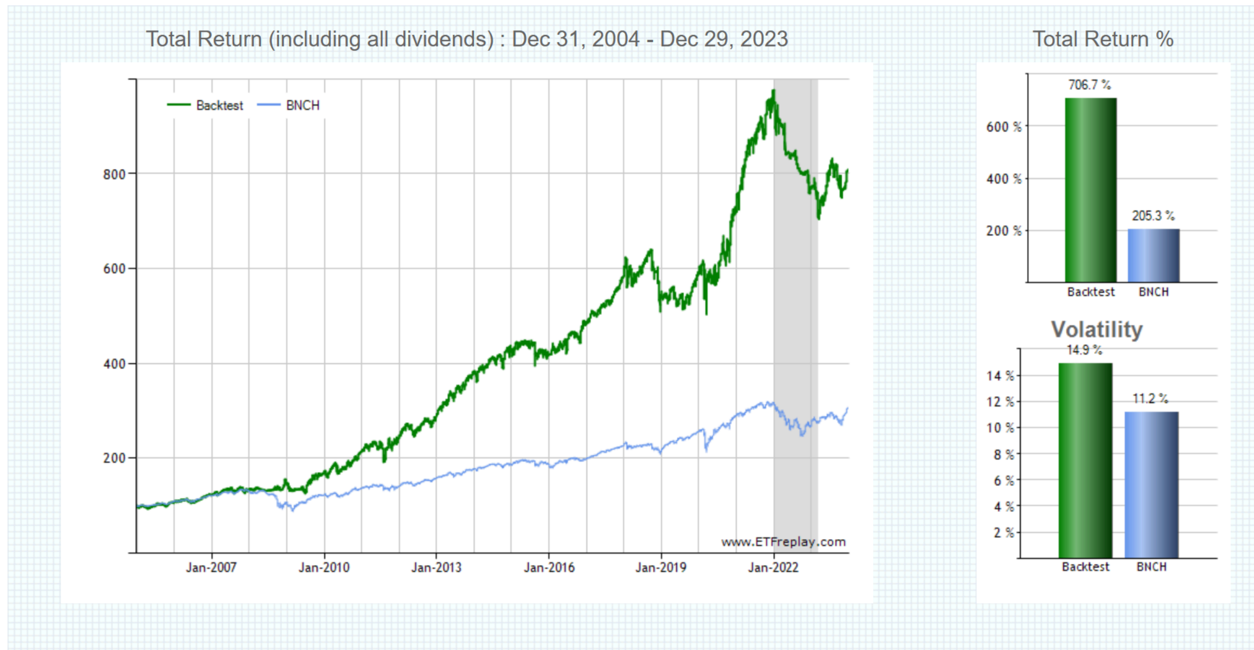
As I noted above, four stocks represent over a fifth of the weight in the S&P 500 today.

In an equal-weighted portfolio, all stocks are equal. In this case, they would be 0.20%.

Then, if the trend is down, you own the best-performing short-term, intermediate-term, or long-term bonds.

That way, you're better positioned wherever the yield curve is performing better while you wait for a better environment to buy stocks.

Here’s what that looks like



Summary Statistics Hide

	CAGR	Sharpe Ratio	BNCH Correlation	Max Drawdn
Backtest	+11.6%	0.69	+0.41	-27.9 %
BNCH	+6.1%	0.42		-35.4 %

Trades	155
Total Periods	228
Total Days	4781

707% represent much higher returns than the prior two strategies.

More important, the risk is lower.

The “punch in the nose” is 28%

Should you run out and start investing money into this strategy?

Not necessarily.

I have better strategies, such as my *Simple Retirement System*, which does about 3X better, and the "punch in the nose" is 11% historically.

However…

One helpful use is comparing the market-weighted S&P 500 and the equal-weighted S&P 500.

Today, the model favors the equal-weighted S&P 500 for the first time in a year.

That could benefit the average stock in general.

The average stock is closing some of the massive performance gap developed last year between the top stocks in market-cap weighting and the others.

As a result, I favor picking individual stocks versus the traditional index.

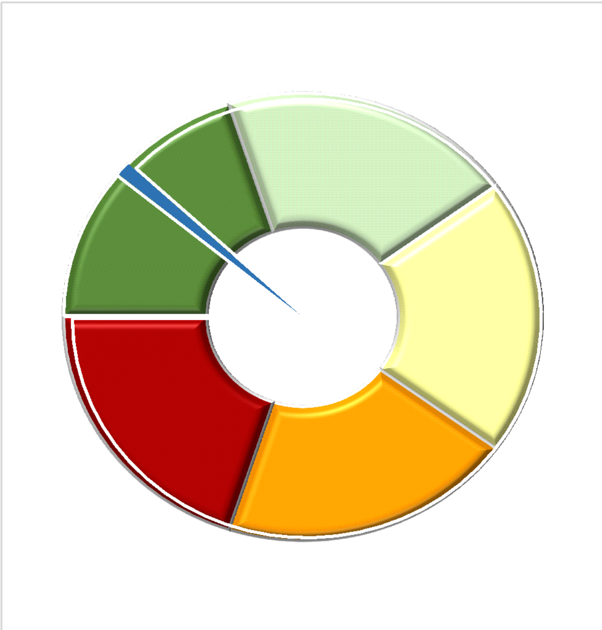
That may bode well for the strategies in my newsletters and other newsletters you read.

Of course, anything can happen with any particular trade.

Regardless, what I just showed you is free and will take about five minutes a month to implement.

You could use a website like stockcharts.com, pay nothing, execute the strategy, then spend your time on something fun or productive like playing golf or mowing the lawn!

Risk-O-Meter



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