



Unbounded Wealth: John's Take 8-22-24

90% Winners are for Losers

I'm sure you've seen this.

If you've ever read a sales promotion for an investment newsletter or subscribed to one, you may have encountered a strategy that "wins" 90% of the time.

It's an easy sell.

People want to be "right".

You feel good if you're "right" 90% of the time.

Marketing people know this.

They are *preying* on your emotions.

There's no room for emotions in successful trading.

But it's human nature to want to be right.

Markets change.

Human nature *never* does.

Great traders could care less about being right.

They care about making money.

Over the past 25 years, I have met many top traders, greats profiled in *Market Wizards*, and billionaires.

One thing they have in common is that a small percentage of their trades account for *all* their gains.

As little as 10%.

They don't win 90% of the time.

90% winners are for losers.

When you see those strategies, ruuuuuuuunnnnnnn...

Great traders manage risk better than most.

90% winners win often only to eventually take a ***big loss*** and wipe you out.

Happens all the time.

Those strategies are devoid of solid risk management.

One of those great traders and risk managers is the billionaire hedge fund manager Paul Tudor Jones.

Mr. Jones famously made \$100 million when the market crashed in 1987.

That's back when \$100 million was \$100 million.

It was a *lot* of money.

I have never met Mr. Jones, although I do have an acquaintance with one of his former "right-hand men."

Jones taught a class at the University of Virginia where he told his students, *"I'm going to save you from going to business school. Here, you're getting a \$100k class, and I'm going to give it to you in two thoughts, okay? You don't need to go to business school; you've only got to remember two things. The first is that you always want to be with whatever the predominant trend is.*

My metric for everything I look at is the 200-day moving average of closing prices. I've seen too many things go to zero, stocks and commodities. The whole trick in investing is: "How do I keep from losing everything?" If you use the 200-day moving average rule, then you get out. You play defense, and you get out."

Most individual investors don't beat the market.

Most professional investors don't beat the market.

Jones' lesson provides a valuable technique for doing just that.

Below I created and tested a simple trend-following strategy based on Jones' free \$100,000 lesson that has beaten the market, and most investment managers, with less risk over the past twenty years.

Here's the rules:

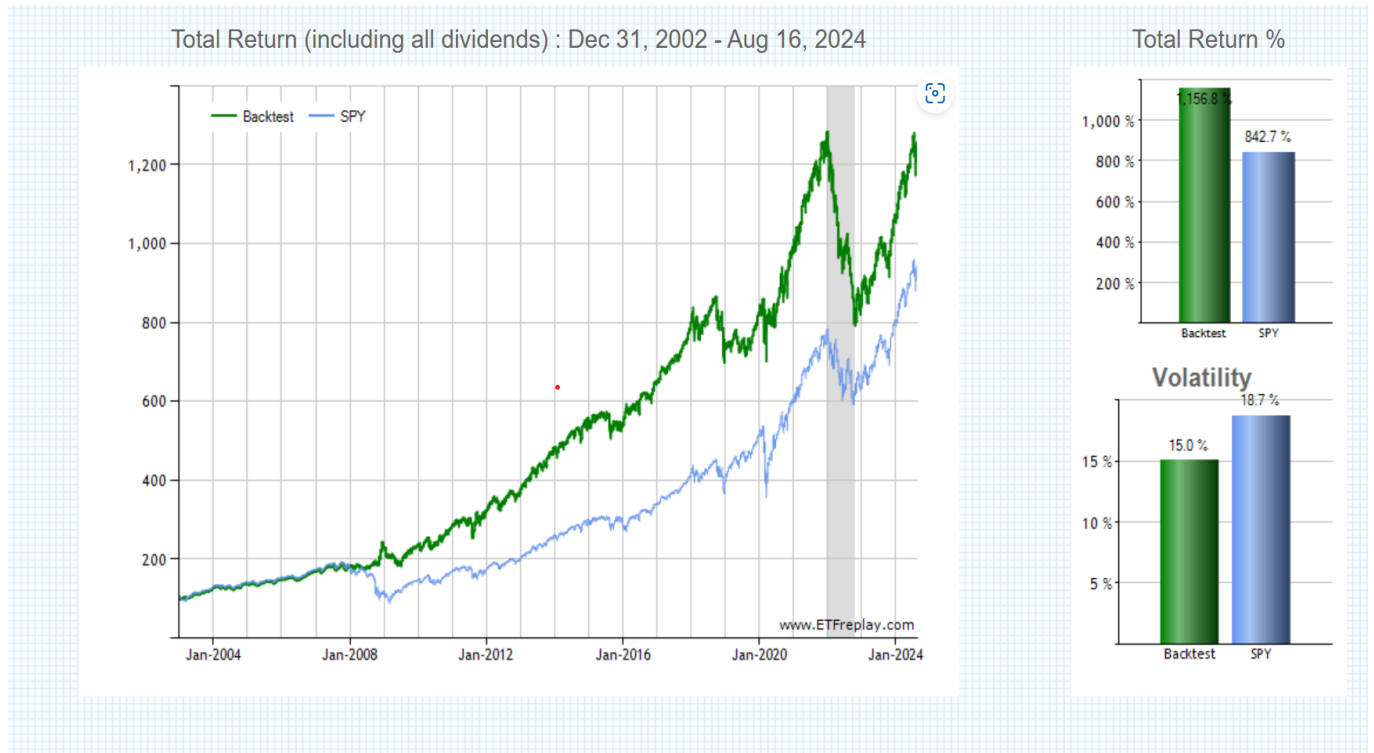
Buy the market when the S&P 500 closes the month *above* its 200-day moving average.

When the S&P 500 closes the month *below* its 200-day moving average. Hold long-term treasury bonds.

That's it.

Nothing more.

Here's the results:



Summary Statistics

	CAGR	Sharpe Ratio	SPY Correlation	Max Drawdn
Backtest	+12.4%	0.74	+0.36	-38.3 %
SPY	+10.9%	0.54		-55.2 %

Trades 55
 Total Periods 260
 Total Days 5443

Since 2003, this simple strategy, which trades less than three times per year, has generated about 40% higher returns than the market (1,157% vs. 843%), with about 70% of the risk (38% drawdown vs. 55% drawdown).

The strategy “wins” 67% of the time. Not 90%!

It takes a couple of minutes a month to implement, and there's no need for sophisticated software.

You could fire your financial advisor and not pay them fees.

Fees which would eat into half of your retirement savings over a 30-year period.

Now...can you do better than this?

Absolutely.

Much better.

I have developed systems that quadruple the return with a quarter of the risk.

All my *Unbounded Wealth* strategies contain an element of trend following.

It's a key component of stellar performance in both testing and real-time.

Higher returns + lower risk = Holy Grail

More on that for another time...

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