



Unbounded Wealth: John's Take 8-29-24

Keep it Simple

Last week, I shared a market-beating strategy based on an idea by multi-billionaire trader Paul Tudor Jones.

Newsletter marketers prey on people's need to be "right."

So, they pitch investment ideas that "win" 90% of the time.

The problem is that "90%-winning" strategies always have a significant loss lurking around the corner.

You get burned and wiped out.

The need to want to be "right" isn't your fault.

It's part of human nature.

The best traders, like Mr. Jones, have overcome this human trait.

They win 20% of the time or less. And roll in the dough.

Often, the big trading secret is that there is no secret.

It's a simple philosophy and ruthless risk management.

And more is not better.

Newsletter marketers also pitch more, more, more.

More wins and more trades.

When I see this, I know that the strategy is flawed and a disaster waiting to happen, and I run as fast as possible from it.

More is seldom better.

Simple is often best.

As Einstein once said, "Everything should be made as simple as possible. But not simpler."

Let's revisit my strategy based on Jones' simple idea and see how more isn't always better.

Here's the rules:

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

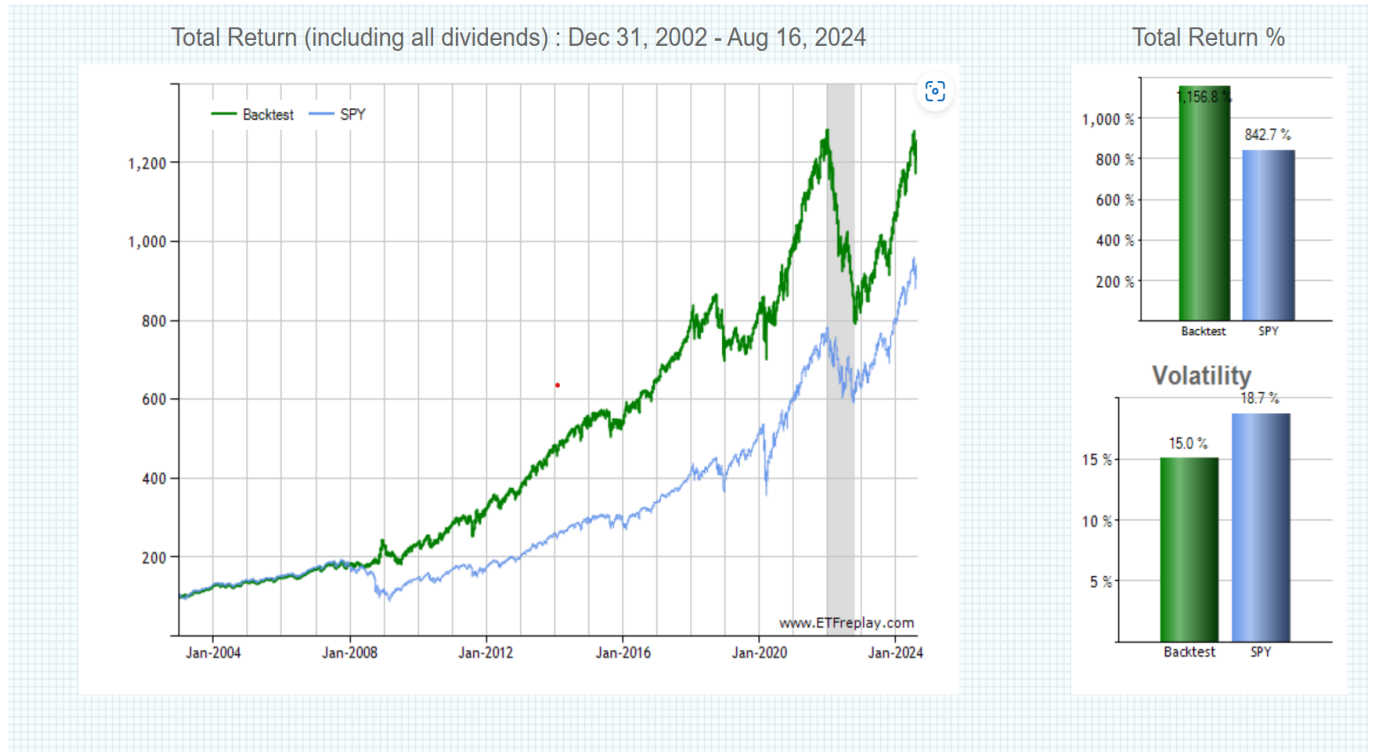
Hold long-term treasury bonds when the S&P 500 closes the month *below* its 200-day moving average.

That's it.

Nothing more.

It doesn't get simpler than that.

Here are the results:



Summary Statistics Hide

	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

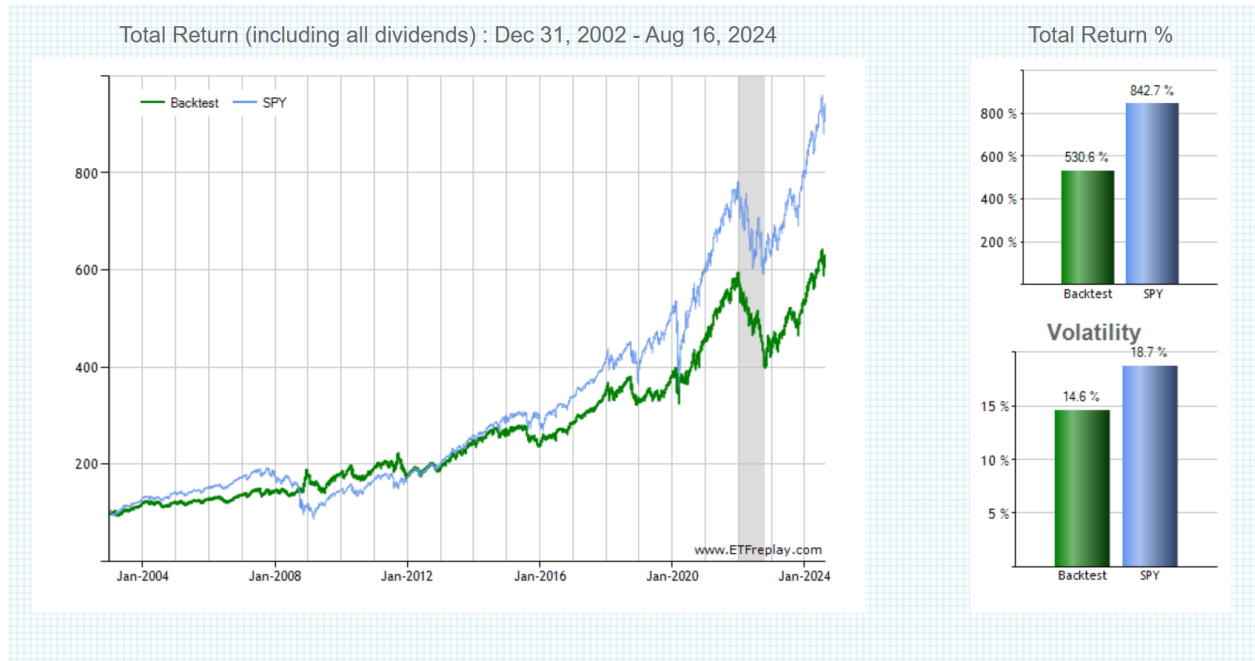
Now, for many people, the monthly strategy would be good enough.

Since the risk/reward profile is better than the market's, the number one question I get is, "Why not trade weekly instead of monthly?"

After all, more of a good thing must be better, right?

It's a great question.

Here are the results of trading this strategy weekly.



Summary Statistics

	CAGR	Sharpe Ratio	SPY Correlation	Max Drawn
Backtest	+8.9%	0.54	+0.29	-32.9 %
SPY	+10.9%	0.54		-55.2 %

Trades	155
Total Periods	1129
Total Days	5443

The return goes down by over 50%. Instead of over 1,150% returns, you get 530% instead.

An out-performer which excels above most **individual and professional investors** becomes average at best.

In addition, the risk factor only drops from a 38% drawdown to a 32% drawdown.

It's still significantly better than the market's 55% loss but a *negligible* improvement.

Big, liquid markets like the S&P 500 often move for no discernible reason.

That's why trend-following works well in the first place.

What goes up keeps going up until some force stops it from going up even more, and the trend ends.

We don't need to know *why*.

We often want to know "why" to most things in life.

Again, it's human nature.

In trend following, it doesn't matter. What matters is identifying the trend and jumping on board.

Then, ride the wave for as long as it lasts.

More trades often *interfere* with that process.

As stated last week, 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

It also makes life easier.

For example, you end up with more money in your pocket.

You know exactly what to do and when to do it.

No guesswork.

It's less stressful.

It takes a few minutes to manage your investments each week.

Imagine if you didn't have to stare at your computer all day to observe every wiggle in the market.

Time is our most valuable asset.

Investment strategies that allow us to have more time for ourselves are priceless.

But to seize that time and take advantage of it in our lives, we must do one critical thing.

I'll dive into that topic next week...

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