Unbounded Wealth: John’s Take 9-5-24

Stick With the System

Two weeks ago, I shared a market-beating strategy based on an idea from billionaire hedge fund trader Paul Tudor Jones.

I illustrated that less trading provides better results than more trading. More of a good thing is only sometimes better.

Like chocolate chip cookie dough ice cream.

This week, I am wrapping up this three-part series with the most important factor in trading.

Stick with the system.

While the strategy I posted spanks the market over the past 20+ years, 1,156.8% versus 842.7% for the market, it's not all fun and games. There's one statistic I didn't show you…until now…

Since 2019, the strategy has underperformed 168.9% to 242.3% for the market.

Does the fact that the system under-performed for five years make it bad?

I don't think so, but it's all a matter of opinion.

Most people will think it no longer "works". They jump from one thing to the next with no strategy whatsoever. So, it's a game of "whack a mole," and in the end, you lose.

Most people have no strategy. In fact, their investments don’t even beat inflation, on average. I reference these statistics in my book *Unbounded Wealth*.

Here's something to consider: The largest allocation to stocks ever in the *American Association of Individual Investors (AAII)* survey was in 1998, just before the Dot-Com Bubble implosion.

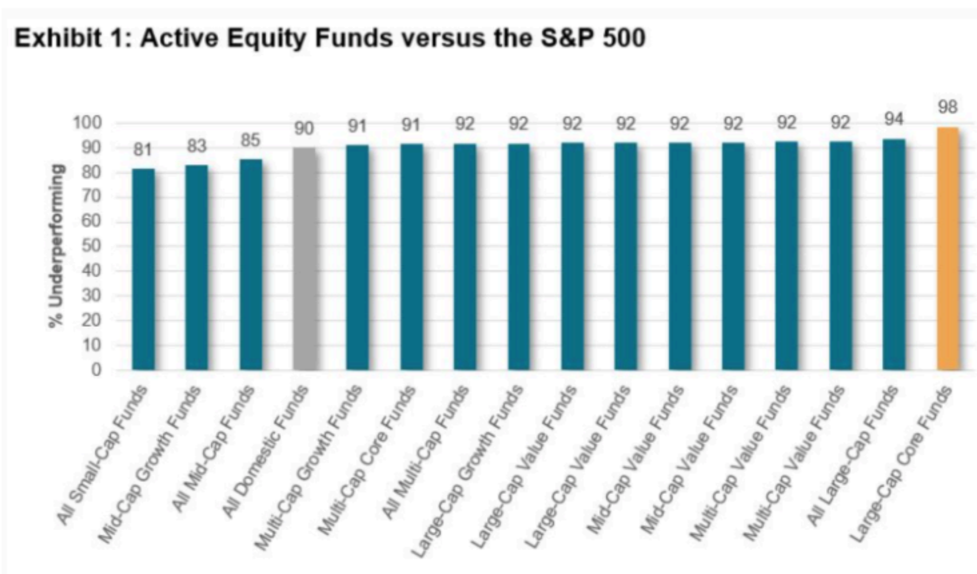
The *lowest* allocation to stocks ever in the *AAII* survey was in March 2009. *That was at the low* before one of the greatest bull markets of all time.

It turns out that professionals are no better. Check out this headline from *Evidence Investor*.

Only 2% of funds outperformed, which surprised me. I figured it was around 10%. That's still not awesome, but it's a heck of a lot better than 2%.

Relative performance gets better with small-cap funds. Small caps have historically had some benefit over larger stocks, but that's not been the case in recent years.

That's a topic for another week.

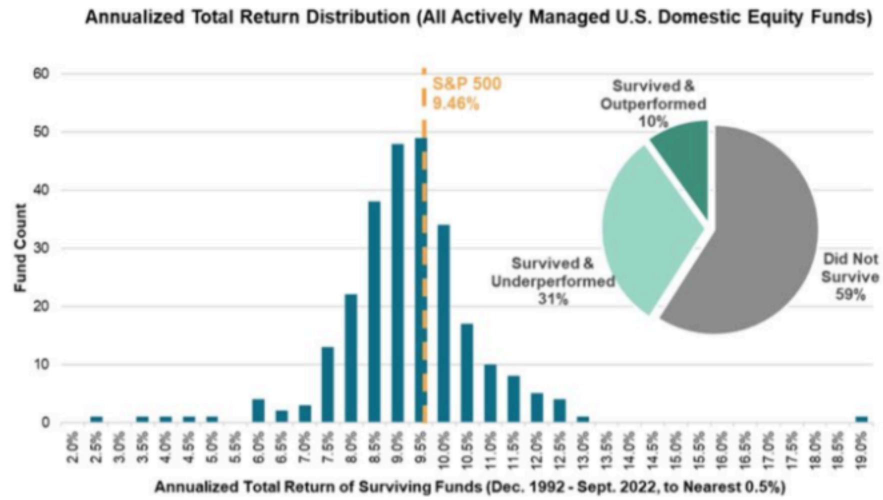


Worse, the distribution of funds outperforming is low, too.

Worse than worse, many funds simply went “poof”. They vanished because they underperformed, and investors pulled their money. I don’t blame the investors if the manager had no consistent strategy.

Only 10% of funds survived *and* outperformed.

Exhibit 2: Distribution of Active Fund Returns



Sources: S&P Dow Jones Indices LLC, CRSP, Lipper. Data from Dec. 31, 1992, to Sept. 30, 2022, as compared to the S&P 500 total return in USD. For details on the methodology applied, see S&P DJI's SPIVA U.S. Scorecard. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

One of the dirty secrets on Wall Street – and there are many of them – is that many people lick their finger and hold it up, wondering which way the wind is blowing.

Clueless.

Or sheep.

Sheep get slaughtered!

Anyway, there you have it.

Follow the trend using the 200-day moving average suggested by billionaire trader Paul Tudor Jones.

Trade monthly. More of a good thing isn't always better.

Stick with the system. *Over time*, you should absolutely do better than most.

While past performance is no guarantee of the future, trend following has been effective for *centuries.* Go test it yourself and see the results rather than take my word for it or simply not believe me without doing any work on your end.

The cream always rises to the top. It's not a straight line. Periods of underperformance test one's mental fortitude.

Best of all, the above strategy to help catapult you into the top 2% of investors is…FREE. While I have trend-following strategies that have higher returns and lower risk, you don't need to buy anything to trade the above.

Of course, it has underperformed for five years. Almost no one will stick with the system even though, *over time*, it's one of the best bets you can make.

Markets change. Human nature does not.

That's the secret.

The secret is there is no secret.

Next week, I will change gears to discuss current market conditions.

I use a variety of indicators when assessing the risk vs. reward of the market.

There's one indicator I use that suggests that *when* the next butt-kicking comes, it will be a doozy.

The indicator is freely available for anyone willing to take five minutes to look at it. I'll post the indicator, talk about how I use it, and explain why I'm currently on the far end of the "concerned" spectrum rather than feeling warm and fuzzy about making a big allocation to stocks right now.

Stay tuned…