



Spread Trades

Long-time readers of my newsletters will know that I favor trades that are deeply out of favor in my taxable account.

These are *long-term* trades. That's the opposite of my tax-deferred retirement accounts, which are trend-following-oriented and may last only a short time.

Consider it a barbell approach with extremes on both sides. On one side, deeply out-of-favor markets. On the other, whatever is trending the best, with a few proprietary twists, on the assumption it will continue to move with the trend.

History shows us that both approaches can be massive winners if consistently applied.

These out-of-favor markets are trading out of whack relative to something else and to such a degree that when they bounce back, there's potential for massive and quick gains.

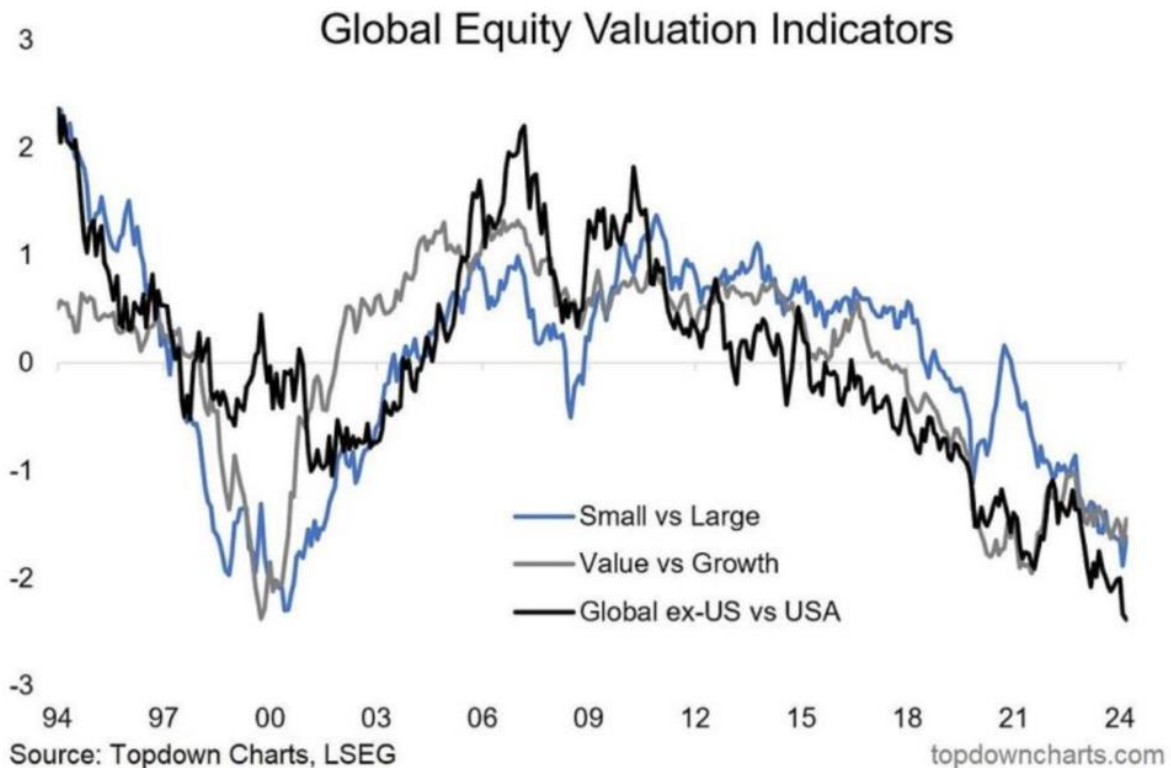
That something else these days is the S&P 500, which is dominated by just a handful of stocks.

For example, the value spread between small-cap and large-cap stocks has become so extreme that it has hit 20-year highs.

As a result, I have gradually bought small caps whenever the market is oversold, and my *Risk-O-Meter* is in the green or neutral zones.

Think of a rubber band stretched as far as it can go in one direction. Once you let go, all that stored energy is released...and...BAM...it snaps back violently in the other direction.

The same goes for financial markets. This week, I wanted to share a chart I saw that captures these spread trade opportunities in three markets and easily illustrates just how far out of whack these markets are.



Small stocks are out of whack relative to large stocks.

Value stocks are out of whack relative to growth stocks.

Non-U.S. stocks are out of whack relative to U.S. stocks.

The chart shows that these markets are near the widest spread this century. There has been a massive reversal since 2009, when large-cap U.S. stocks entered a bull market.

We know that just a handful of stocks are driving the S&P 500. That's not particularly healthy, and the index's market-cap weighting scheme masks the underlying weakness of hundreds of stocks.

When those top stocks get their ass kicked, it's going to be painful. The top stocks always get battered eventually, and the further they are extended from the rest of the market, the more painful the reversal is. Even worse, the leaders of one market cycle are seldom the leaders of the next.

The next bear market, like the last bear market, could reverse these trends on the chart. For one, the spread may simply reverse because the rubber band is stretched so far in

the opposite direction that value seekers flood the other markets with capital to take advantage of cheap valuations.

One thing to look for in real time is if the S&P 500 comes under pressure, these other markets stop going down and head higher while the S&P 500 is still falling. Value seekers may have gotten off their couches and started buying aggressively.

Although not recently, I have been building positions in small caps and emerging markets. My position in foreign stocks, excluding emerging markets, has been small. But I am going to start paying more attention from today onward.

What to do next?

I suggest going to etfdb.com and searching the database for the various ETFs that trade these markets.

It's a bit of legwork.

There are more ETF indexes in existence than there are individual stocks!

These days, you can buy an index that tracks anything.

There are three things I check initially.

First, I check the fund sponsor. Larger fund sponsors are more likely to continue to offer an investment product even if it's smaller and not profitable for them.

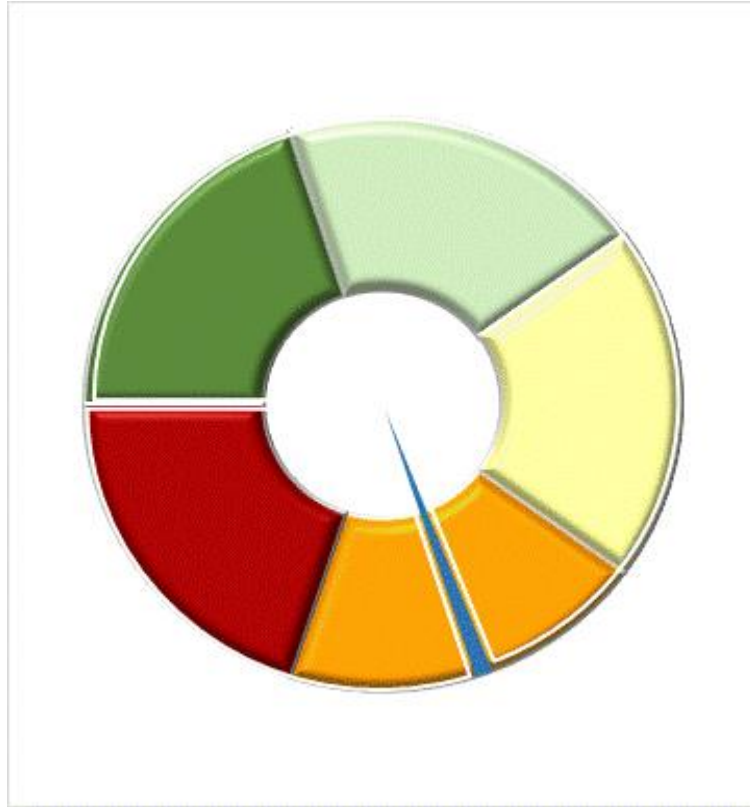
Second, I check the fees.

Third, I delve into the methodology for managing the portfolio. There are many different ways to define "value." Some are too basic, in my opinion. As a result, I don't think they're much different from holding a broader market index.

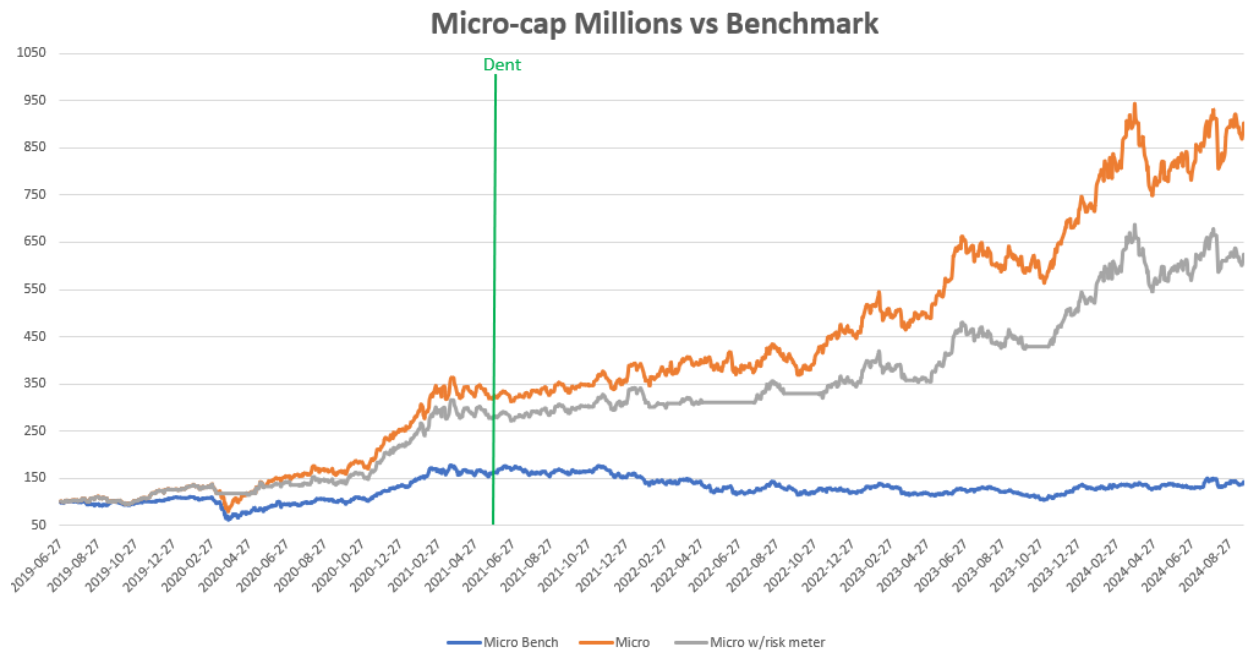
Yet, they've underperformed the broader market index. Otherwise, they wouldn't be a viable spread trade opportunity.

As of right now, I have no specifics because I've not made any recent trades in these markets. When I do, I'll know more, and you will, too!

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Micro-Cap Millions



There are two trades this week.

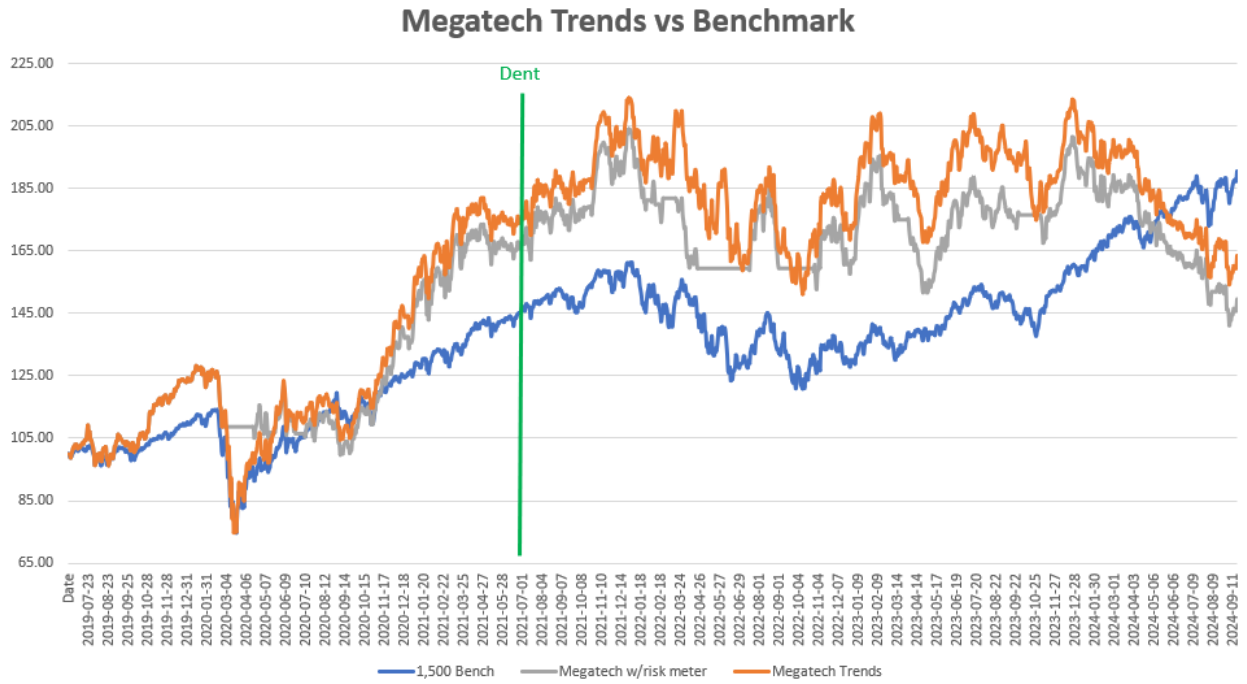
Buy Climb Global Solutions, Inc. (Nasdaq: CLMB) and Ituran Location & Control Ltd. (Nasdaq: ITRN)

Sell AstroNova (Nasdaq: A LOT) and WidePoint Corp. (NYSE: WYY)

Here is the current portfolio:

Ticker	Name	Return	Days Held	Sector
BWAY	Brainsway Ltd.	37.78%	185	Healthcare
CLMB	Climb Global Solutions, Inc.	0.00%	NEW	Technology
DDI	DoubleDown Interactive Co., Ltd.	1.92%	212	Technology
DSP	Viant Technology, Inc.	113.26%	325	Technology
ELMD	Electromed, Inc.	49.20%	212	Healthcare
ITRN	Ituran Location & Control Ltd.	0.00%	NEW	Telecommunications
KMDA	Kamada Ltd.	-5.71%	59	Healthcare
MPTI	M-tron Industries, Inc.	24.08%	129	Technology
MTLS	Materialise NV	-16.40%	45	Technology
RDVT	Red Violet, Inc.	48.90%	129	Technology

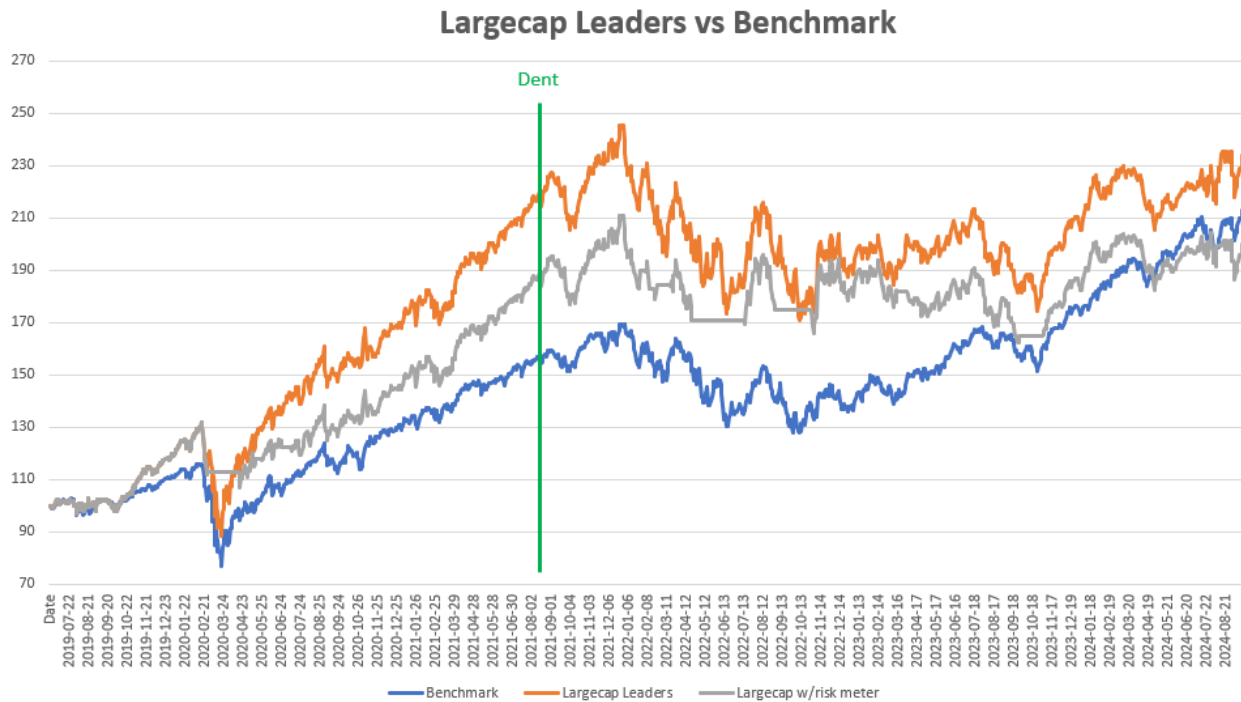
Mega-Tech Trends



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

Ticker	Name	Return	Days Held	Sector
CVLT	Commvault Systems, Inc.	0.42%	20	Technology
FFIV	F5, Inc.	26.38%	73	Technology
GDDY	GoDaddy, Inc.	10.61%	73	Technology
JAZZ	Jazz Pharmaceuticals Plc	0.01%	38	Healthcare
JNJ	Johnson & Johnson	0.57%	45	Healthcare
META	Meta Platforms, Inc.	14.25%	45	Technology
NXPI	NXP Semiconductors NV	-11.21%	73	Technology
QCOM	QUALCOMM, Inc.	-12.86%	73	Technology
QRVO	Qorvo, Inc.	-6.66%	31	Technology
RMBS	Rambus, Inc.	-27.58%	73	Technology

Large Cap Leaders



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

Ticker	Name	Return	Days Held	Sector
AVGO	Broadcom Inc.	11.79%	55	Technology
BMJ	Bristol Myers Squibb Co.	-0.66%	31	Healthcare
FFIV	F5, Inc.	20.73%	241	Technology
GDDY	GoDaddy, Inc.	10.74%	73	Technology
JNJ	Johnson & Johnson	0.61%	45	Healthcare
KEYS	Keysight Technologies, Inc.	1.72%	20	Technology
META	Meta Platforms, Inc.	5.78%	73	Technology
NXPI	NXP Semiconductors NV	-10.57%	73	Technology
QCOM	QUALCOMM, Inc.	-12.03%	73	Technology
QRVO	Qorvo, Inc.	-4.11%	45	Technology

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