



Q3 Performance Update

The third quarter is over, and below is some performance and risk data for *Microcap Millions*, the primary strategy for this newsletter.

Next week, I will discuss a way to play in emerging markets. I've been investing in emerging markets here and there since the COVID-19 disaster, but I have found the investment choices limited. However, in my research, I stumbled across a fund at the top of my list. I will discuss that in more detail next week.

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Annual returns since inception, June 2019

	2019*	2020	2021	2022	2023 YTD	
Microcap Millions	24.45	106.2	52.2	18.23	59.55	32.59
Benchmark	9.39	20.88	18.67	-21.93	8.99	7.18
Excess	15.06	85.32	33.53	40.17	50.56	25.42

*June 21 2019 inception

Year-to-date the strategy is up 32.59% compared with 7.18% for the microcap benchmark.

The market continues to march higher, but it's dominated by the S&P 500's largest components. Underneath that, smaller companies have not performed as well.

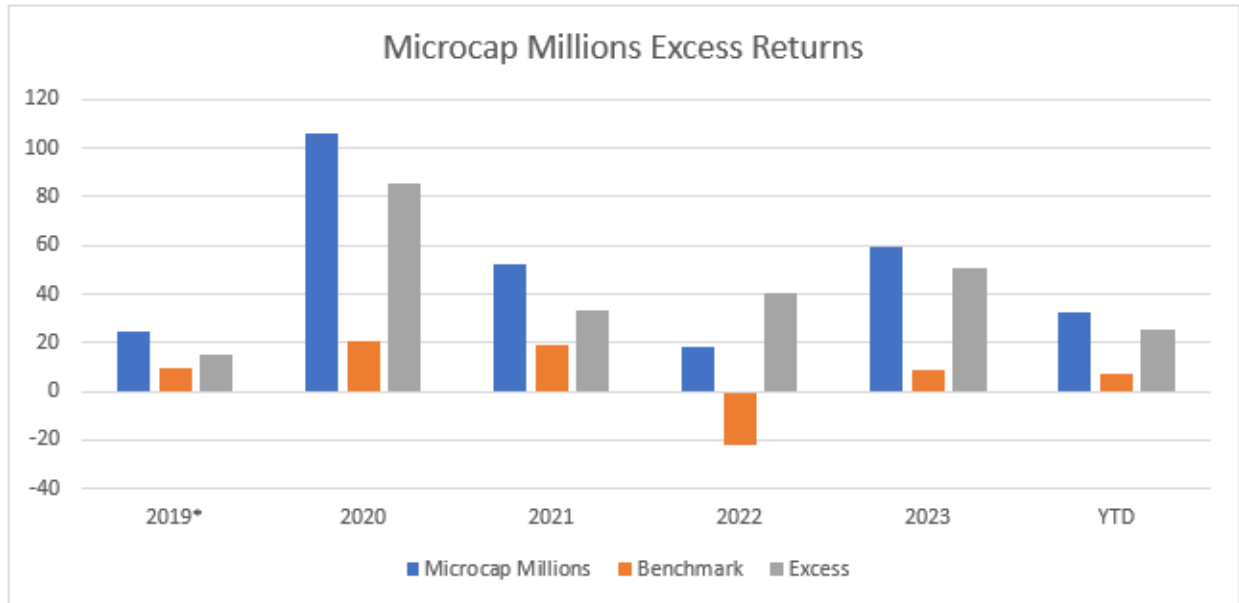
Thus, *Microcap Millions*' performance is impressive in that context, as microcaps have lagged badly compared with the S&P 500 and other major indexes. On the other hand, the strategy has outperformed regardless of the comparison one makes.

Will that continue?

I have no idea in the short term. Wall Street's Big Boys can't buy these stocks until they become much bigger, and there's a dearth of information and research on these companies.

Therefore, the microcap space offers one of the few places left in the market to exploit an edge. *Long-term*, I continue to have confidence in the space even if the market sells off sharply from here.

Here is the excess return comparison year-by-year:



The strategy has outperformed the benchmark every year. Of course, it's not realistic to expect that the strategy will outperform every year if we look out over the next 10 years!

That said, who cares? If we had a year in which the strategy was up 500% and then nine years in which it underperformed by 1% a year, it would still outperform dramatically.

However, this does show the value of consistency. Consistency makes it easier to stick with a system. Anything to stick with the system is a major plus.

It's like a slap hitter in baseball, grinding out base hits repeatedly. Even if you don't hit home runs, you end up in the Hall of Fame anyway.

The next chart represents trailing three-year data.

To me, the most important statistic is drawdowns, which are about half for the strategy compared with the benchmark.

The drawdowns should be higher, given the nature of the strategy.

For one, there are ten stocks. So, if a stock gets pummeled in the face, it magnifies the drawdown of the entire portfolio.

That's just simple math.

Mostly, there's been good stock selection in the strategy.

It's probably some luck, too. However, the dramatic outperformance is not luck. The algorithm is one of the best I've seen and designed.

Again, it should work fine *over time*.

Achieving that type of return without a big ass-kicking despite COVID and a few other scary sell-offs does involve a bit of luck.

Never discount luck. I do not take anything for granted in any aspect of my life.

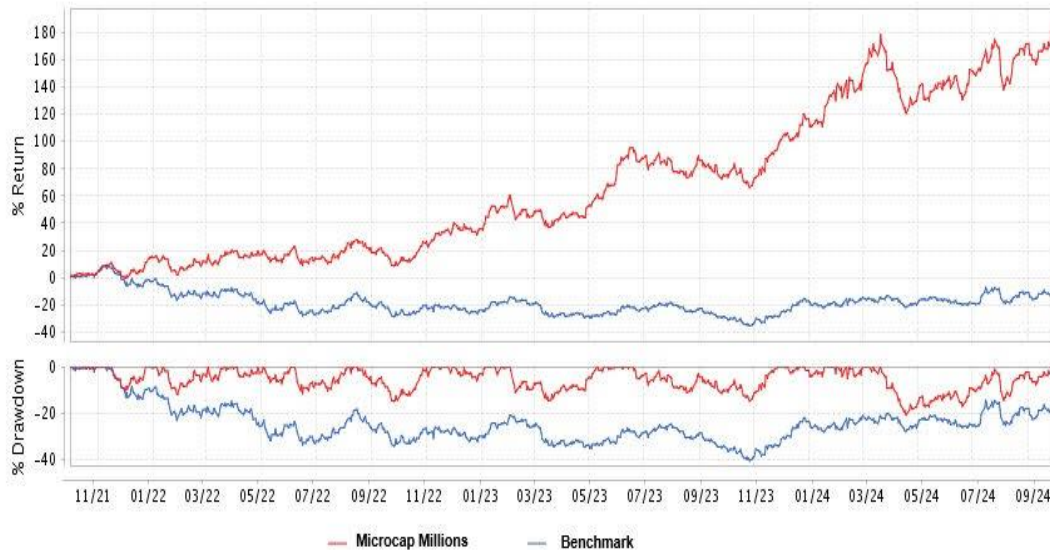
Trailing 3 Year

	Model	Russell Micro (IWC:USA)
Total Return (%)	183.78	-12.78
Annualized Return (%)	41.61	-4.46
Max Drawdown (%)	-20.65	-40.61
Monthly Samples	34	34
Standard Deviation (%)	24.82	24.48
Sharpe Ratio	1.37	-0.24
Sortino Ratio	1.97	-0.36
Correlation with Benchmark	0.72	-
R-Squared	0.51	-
Beta	0.73	-
Alpha (%) (annualized)	45.74	-

The last chart compares the strategy and benchmark's returns (top pane) with the drawdowns (bottom pane).

You may have yet to see a chart like this before. It's useful because it shows when the drawdowns occur relative to the performance differential.

The strategy has mostly had shallower drawdowns and quicker recovery than the index. The one exception is the drawdown from earlier in 2024 around March. The microcap universe sold off, but the strategy sold off more. However, the strategy bounced back in only a few months.



Overall, the strategy has performed well, and I have no concerns over the *long* term.

First, there's little competition. There are managers who allocate to microcaps. Because the area is so small, though, they don't dedicate vast resources to the market segment.

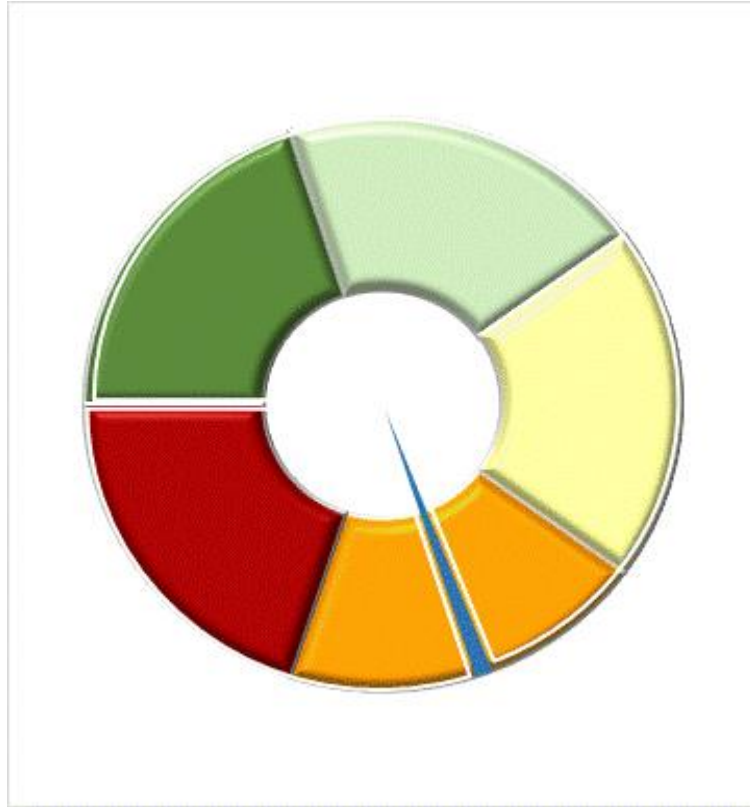
If a manager has \$50 million in microcap assets and \$1 billion in small-cap assets, where do you think the focus is going to be? I worked for a manager just like that, and that's where my idea came from.

I want the non-professionals to have the best tools to compete. Combine top-notch tools in a space with an information edge and....voila!

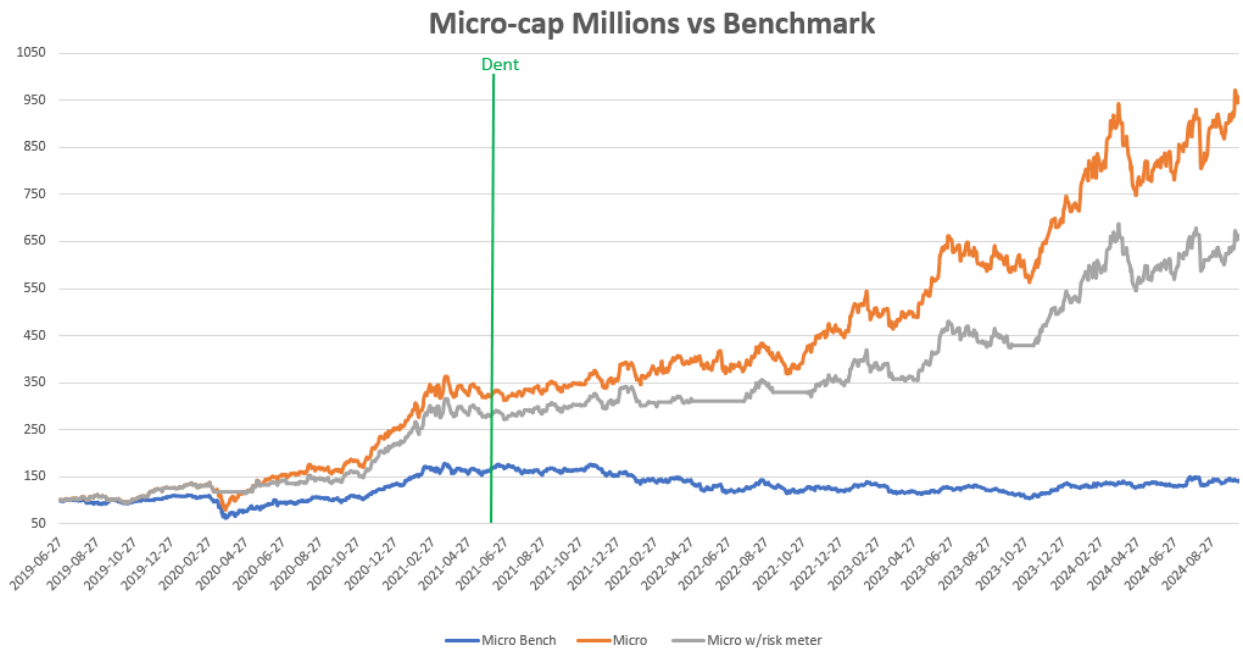
The edge should not disappear because it takes more work to implement.

In addition, my process works better in areas where there is a premium on analysis.

The biggest risk is simply having a concentrated portfolio and getting something very wrong. That's where risk management comes in. The strategy doesn't sit around "hoping" things get better. It cuts losses and moves on. Concentrated portfolios also provide the opportunity for outsized returns. So, it depends on what floats your boat.



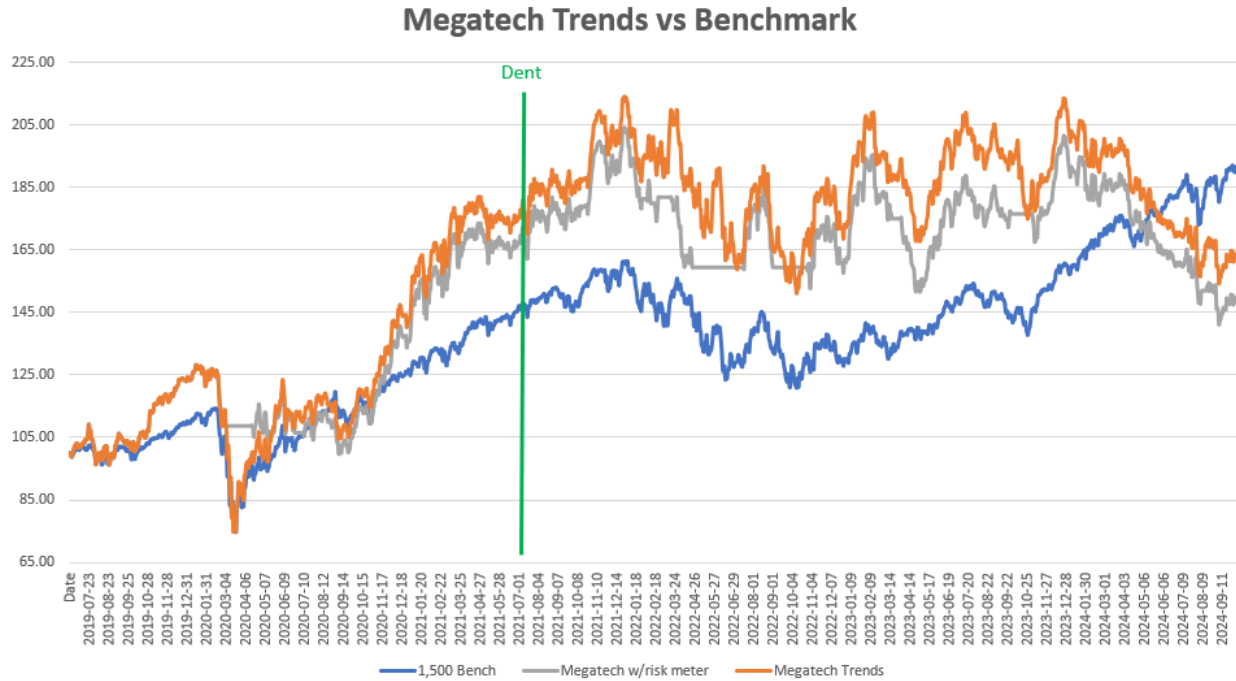
Micro-Cap Millions



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

Ticker	Name	Return	Days Held	Sector
BWAY	Brainsway Ltd.	58.30%	206	Healthcare
CLMB	Climb Global Solutions, Inc.	2.33%	20	Technology
DDI	DoubleDown Interactive Co., Ltd.	6.31%	233	Technology
DSP	Viant Technology, Inc.	120.19%	346	Technology
ELMD	Electromed, Inc.	62.37%	233	Healthcare
ITRN	Ituran Location & Control Ltd.	-2.42%	20	Telecommunications
KMDA	Kamada Ltd.	-10.03%	80	Healthcare
MPTI	M-tron Industries, Inc.	67.54%	150	Technology
MTLS	Materialise NV	-18.83%	66	Technology
RDVT	Red Violet, Inc.	27.20%	150	Technology

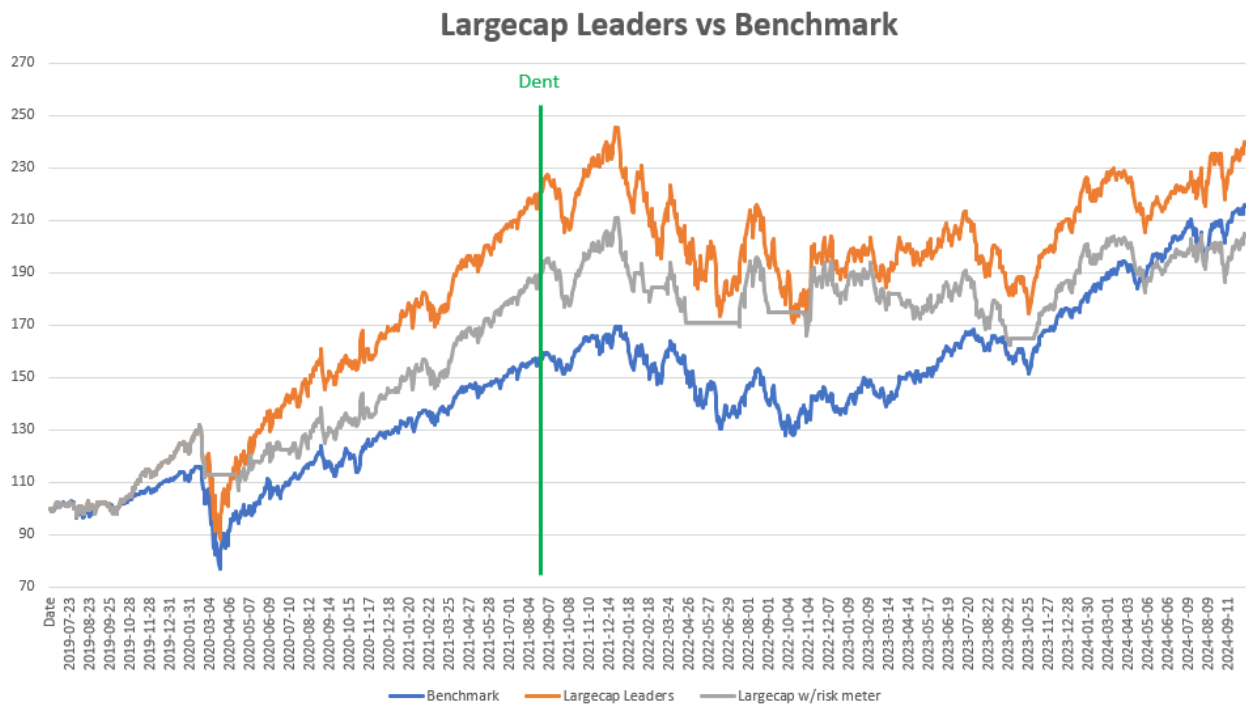
Mega-Tech Trends



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

Ticker	Name	Return	Days Held	Sector
CVLT	Commvault Systems, Inc.	5.40%	41	Technology
FFIV	F5, Inc.	28.91%	94	Technology
GDDY	GoDaddy, Inc.	11.64%	94	Technology
JNJ	Johnson & Johnson	-1.97%	66	Healthcare
META	Meta Platforms, Inc.	18.86%	66	Technology
NXPI	NXP Semiconductors NV	-11.80%	94	Technology
QCOM	QUALCOMM, Inc.	-15.00%	94	Technology
QRVO	Qorvo, Inc.	-7.85%	52	Technology
RMBS	Rambus, Inc.	-19.61%	94	Technology
VIAB	Viavi Solutions, Inc.	0.11%	13	Technology

Large Cap Leaders



There are no trades this week.

Buy Adobe, Inc. (Nasdaq: ADBE)

Sell Broadcom, Inc. (Nasdaq: AVGO)

Here is the current portfolio.

Ticker	Name	Return	Days Held	Sector
ADBE	Adobe, Inc.	0.00%	NEW	Technology
BMJ	Bristol Myers Squibb Co.	5.87%	52	Healthcare
FFIV	F5, Inc.	22.95%	262	Technology
GDDY	GoDaddy, Inc.	11.77%	94	Technology
JNJ	Johnson & Johnson	-1.95%	66	Healthcare
KEYS	Keysight Technologies, Inc.	3.09%	41	Technology
META	Meta Platforms, Inc.	10.34%	94	Technology
NXPI	NXP Semiconductors NV	-11.07%	94	Technology
QCOM	QUALCOMM, Inc.	-14.14%	94	Technology
QRVO	Qorvo, Inc.	-5.41%	66	Technology

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