John’s Take 12-19-24

The Impending Crash

The other day I received a question from a subscriber, and I wanted to answer it in this space because it's a great question. I figure if one person is thinking something, many others are as well.

Thank you, Jon G., for the great question.

Hello John,

I’m a long-term Dent reader and just started reading your FAST newsletter. Harry has been discussing an impending crash. For example, in his latest rant today, he thinks we are at a peak bubble for the overall world market. What's your plan with FAST when the market corrects, as Harry believes?

Thank you, sir,

Jon G.

I expanded my role when Rodney stepped away to continue his health battle. What I offer through Dent are the best models I have, and I have consolidated everything into the very best I have to offer.

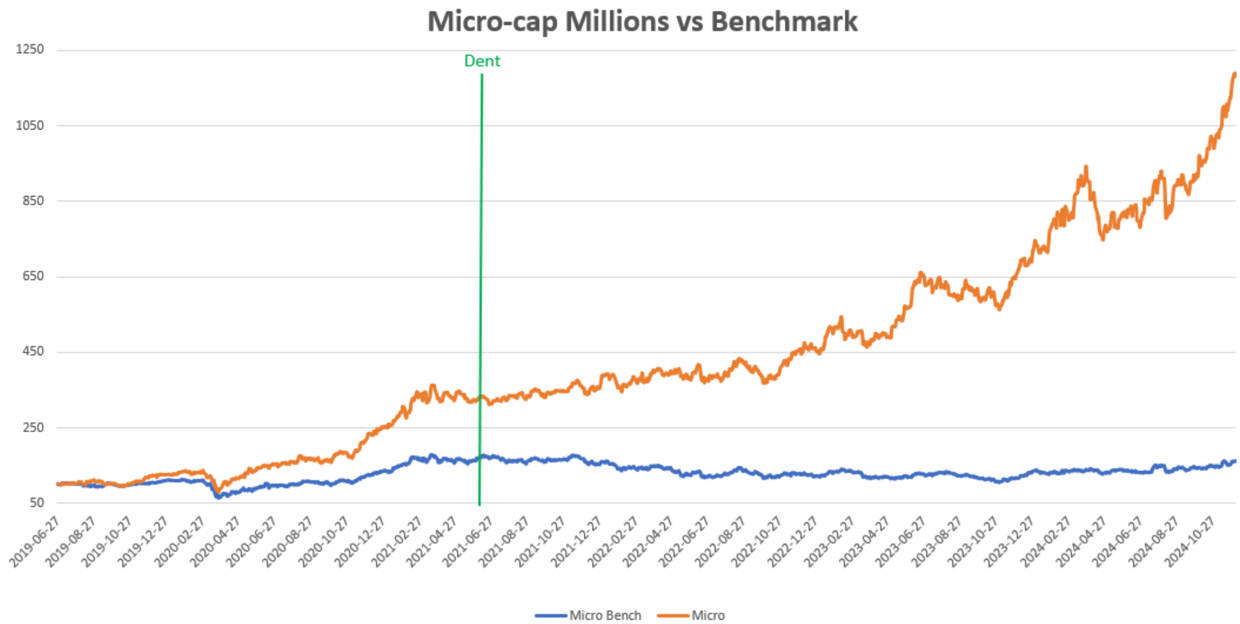
No fluff. Or, as I like to say, "No hype. Just returns."

Even great models with real-time track records will have periods of poor performance. The two stock-picking models are *F.A.S.T. Profits* and *Microcap Millions*.

Both have outperformed and with less market risk. However, it's not a straight line!

Microcap Millions had a 25% drawdown earlier this year and has since been on a tear.

If you want this:



Then, you need to be able to withstand some drops. Sometimes, scary drops!

Microcap Millions has a current position up 313%, another is up 108%, and another is up 116%. To get those returns, you need to *stick with the system*.

You do that by sizing the positions so you don't lose sleep over the ups and downs. You don't get angry and take it out on your dog. You simply just exploit the edge.

If you own stocks long enough—especially indexes—*you're going to have 50% drawdowns.* It sounds great on paper that people periodically buy index funds and then go away and do something else.

Except they don't actually do that. We know the average investor pulled their money from the market at the *exact low* in 2009 when it bottomed out. This happens repeatedly.

If you periodically invest in index funds and let it be, you'll gravitate to the top 1% simply because almost no one else is doing it.

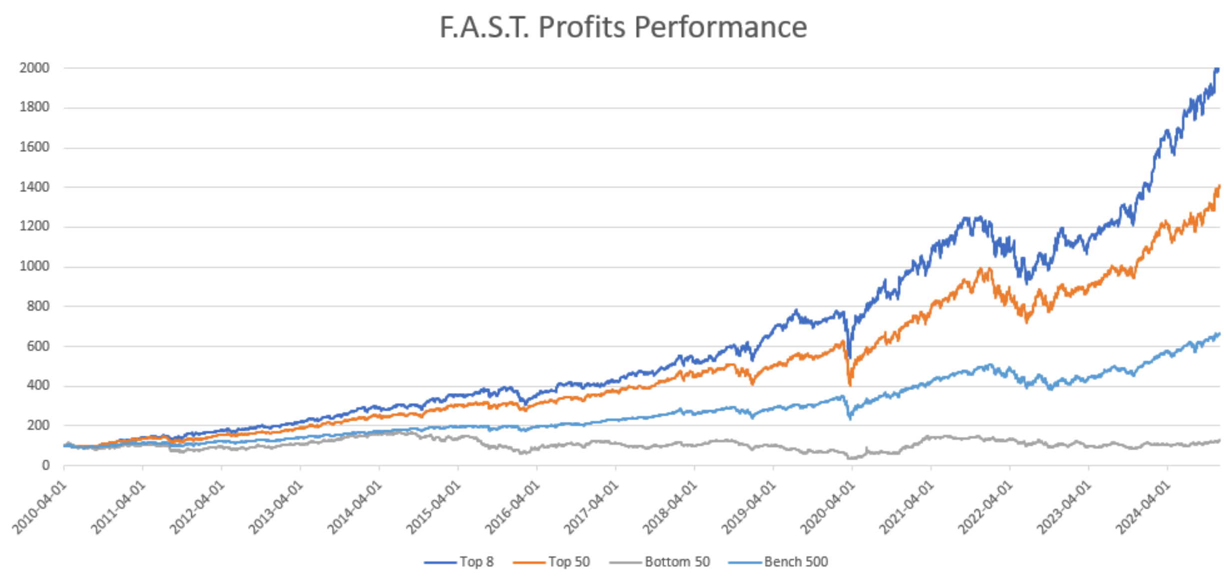
So, *Microcap Millions* and *F.A.S.T. Profits*' strategies are **long only** (although the *FAST* model itself is a powerful short-selling tool). Over time, they've done well. But if the market crashes, there will likely be some pain in the short term, at least.

<u>However</u>, these strategies exploit an edge. The stocks are just the means to exploit that edge. Don't think of it as owning companies. We could just as easily be playing Black Jack or betting on sports.

I had no interest in doing those two things, so I created stock models instead.

I started my own company in 2010 and delivered my *FAST* model to several clients.

FAST looks like this:



Then there's the third model. I call it *The Risk-O-Meter*.

That is how I deal with what Harry is talking about.

The *Risk-O-Meter* (and the actual portfolio called *The Simple Retirement System*) measures risk in a way that I devised to help me better understand how to allocate capital in my taxable and tax-deferred accounts.

I measure the market trend. There's nothing unique here. You can test trend-following systems back to 1792 and see how they've done. Over 200 years!

I want to know the market's trend, as it's important.

I've provided simple systems before free of charge that spank the market with less risk by following the trend.

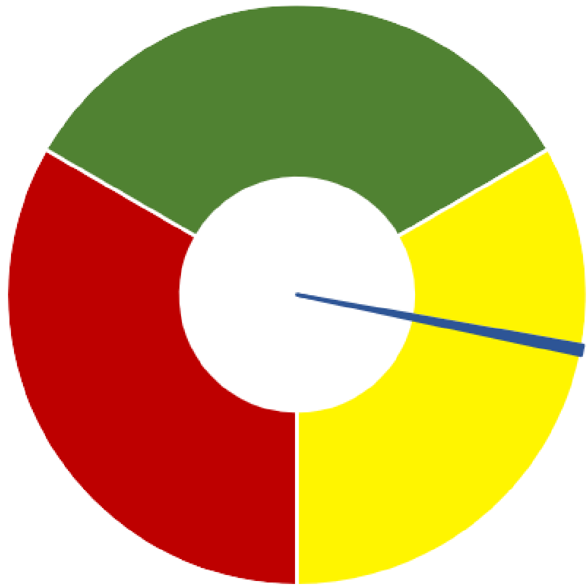
I then do that a bit differently: I build indicators that create their own trend and then invest either in stocks or defensively based on that trend.

For example, I created my own sentiment/volatility indicator. I analyze the trend for that indicator *independent* of the market. If that trend is positive, I invest in stocks. If it's trending down, I invest in something defensive.

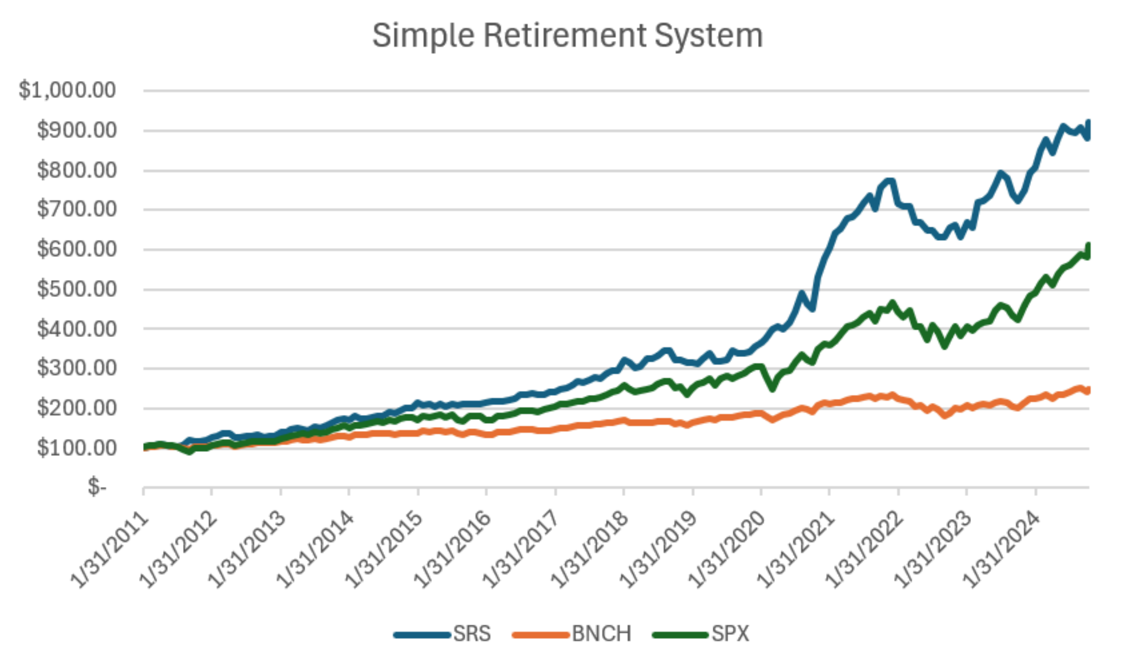
The result is that I know the market's trend, and my own indicators also tell me where we are in the **risk spectrum.**

Currently, the trend is up, and the market is around all-time highs. *However*, we are *close* to the riskier end of the spectrum. My *Risk-O-Meter* is in the middle of the range.

See it here:



And here's the performance chart, which includes some backtesting, unlike the previous two performance charts.



We also know by looking at market breadth, which currently is awful, that there's a lot of risk in the market. Few stocks are driving the returns right now. My sentiment/volatility indicator has been bearish for a few months as well.

Right now, I'm not allocating fresh funds to my taxable account because while the trend is up – and we must respect the trend – risk is elevated, too. I respect risk more than anything else.

Often, the *Risk-O-Meter* will shift before a major market meltdown. It's not perfect, though. So, expect 15-20% drawdowns instead of 50% drawdowns if you only own stocks.

Just before the COVID smash, my indicators were bearish. The market got spanked and then became too oversold. The trend turned up in a lot of indicators, and it was time to buy while everyone else was freaking out.

I find indicators most useful at *extremes.*

If you're a subscriber and you like my work, an allocation to my strategies might look something like this:

80-85% -- *Risk-O-Meter / Simple Retirement System*

8-10% -- *FAST Profits*

8-10% -- *Microcap Millions*

Then, you have enough exposure to the stock strategies that they can help returns without the anxiety of the violent swings should the market sell-off.

The *Risk-O-Meter* then deals with changes in trends and risk, and if there's a persistent market meltdown, it should stay out of the way for the meat in the middle.

If we wake up tomorrow with an outright crash, the *Risk-O-Meter* will feel some pain. Crashes are few and far between. Bear markets can be a long grind; my models should help me navigate them reasonably well. They've done so in the past.

I also have no reason to think they won't in the future!

Now, in this space, which is a free space, I will regularly talk about indicators and charts that I find interesting as it relates to **risk.**

Again, *right now*, the trend of the market is up but the risk level is *elevated*.

It's a good time to see where you might tighten stops on trading positions. Is there a loss anywhere you could take at year end for tax purposes? Does it make sense to allocate fresh capital here and now (probably not)?

We are far from a period where it's "safe" or "easy" to buy the market hand over fist. Only a few stocks are driving the returns of the market. That's another risk factor to consider.

The best bet is to enjoy your holiday season and not lose too much sleep over it!

That's what I plan to do.

DISCLAIMER:

THIS COMMUNICATION IS FOR EDUCATIONAL AND INFORMATION PURPOSES AND DOES NOT CONSTITUTE INVESTMENT ADVICE. *Any Publishing Service offered by HSD Publishing is for educational and informational purposes only and* ***should NOT be construed as a securities-related offer of solicitation or be relied upon as personalized investment advice.*** *HSD Publishing strongly recommends that you consult a licensed or registered professional before making any investment decision.*

THE RESULTS PRESENTED ARE NOT TYPICAL OR VERIFIED. *HSD Publishing has not verified information regarding the historical trading performance presented. Subscribers' trading results have* ***NOT been tracked or verified,*** *past performance is not necessarily indicative of future results,* ***and the results presented in this communication are NOT TYPICAL.*** *Actual results will vary widely given various factors, such as experience, skill, risk mitigation practices, market dynamics, and the amount of capital deployed. Investing in securities is speculative and carries a high risk; you may lose some, all, or possibly more than your original investment.*

HS DENT IS NOT AN INVESTMENT ADVISOR NOR A REGISTERED BROKER. *Neither HSD Publishing nor its owners or employees is registered as a securities broker-dealer, broker, investment advisor (IA), or I.A. representative with the U.S. Securities and Exchange Commission, state securities or regulatory authority, or self-regulatory organization.*

WE MAY HOLD THE SECURITIES DISCUSSED. *HSD Publishing has not been paid directly or indirectly by the issuer of any security mentioned in the Services. However, HS Dent, its owners, and its employees may purchase, sell, or hold long or short positions in securities of the companies mentioned in this and future communications.*

John Del Vecchio is not an employee or partner of HSD Publishing. HSD Publishing serves solely as the marketing arm for John Del Vecchio and Unbounded Wealth: Max Profits*.*