Profiting in the Coming Bear Market (Without Shorting Stocks)

In Harry's weekly market take, he talked about how valuation levels are at extremes, setting up for a generational ass-kicking in the markets (my words, not his).

I encourage you to read his piece and review the chart.

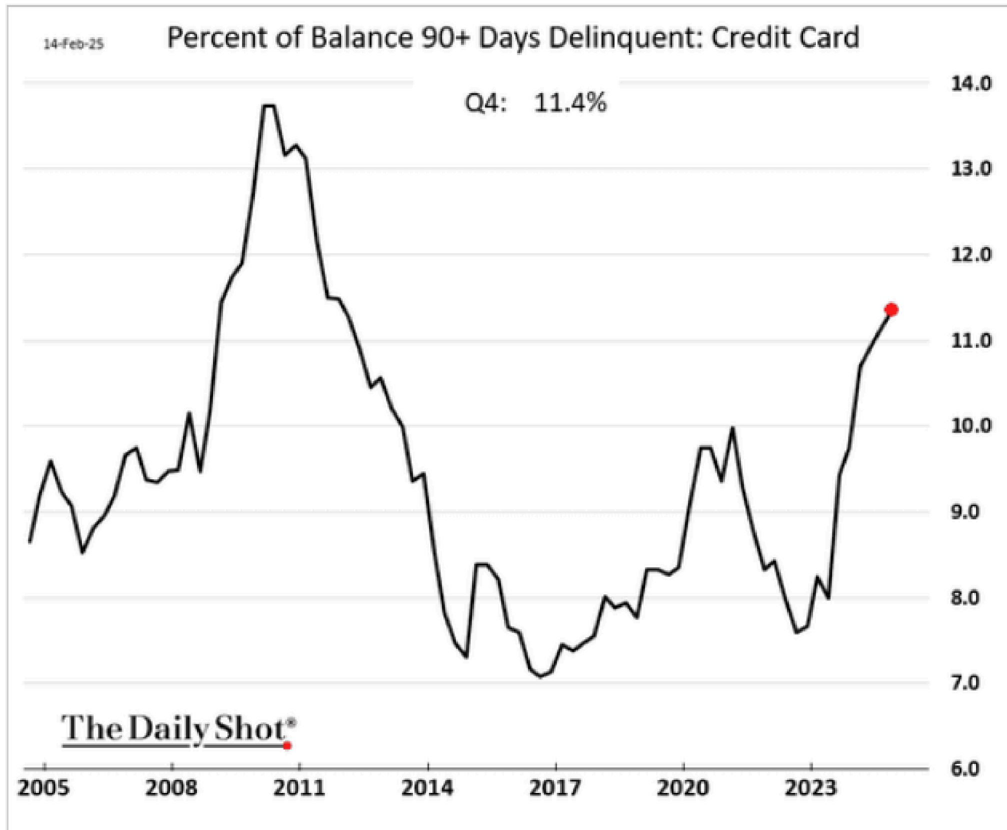
Valuations are undoubtedly at nosebleed levels. In addition, the market has been very "narrow," as I highlighted last week. This means few stocks are contributing to the index's gains.

They are the big stocks…the household names—Apple, Microsoft, Nvidia, etc.

That's no good.

That's really not good when valuations are through the roof.

Meanwhile, the U.S. consumer is increasingly in trouble. Credit card delinquency and car loan defaults are exploding.



My favorite comedian, George Carlin, joked that buying stuff you don't need with money you don't have is the American pastime—not baseball.

You won't get rich paying the bank 24% interest on your credit card.

Also, consumer habits are changing as younger generations hit peak earnings years. The wine market has collapsed as younger people drink less wine and booze.

You have to sell your left arm to dine out. Restaurants are closing.

Luxury goods are softening. The watch market, which saw a huge bump in the COVID-19 years, is in freefall.

Narrow markets, rich valuations, and a weak consumer don’t bode well for future stock returns.

However, there’s always opportunity in every market.

Even bear markets.

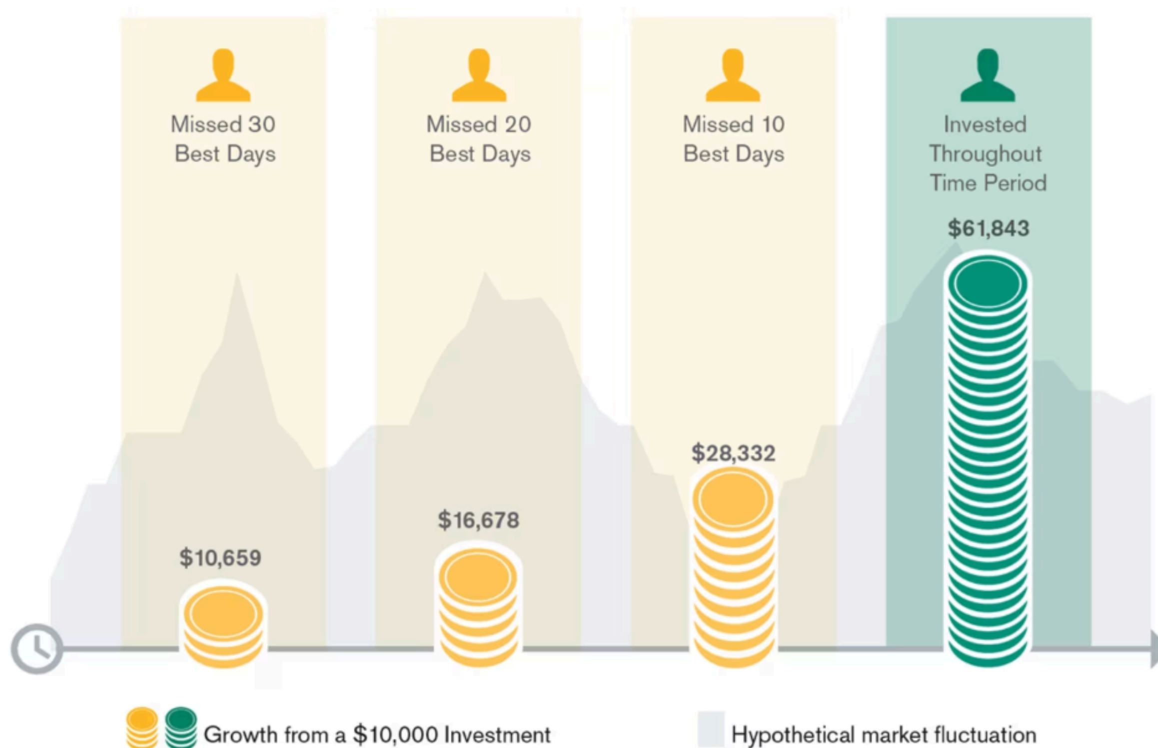
Here’s how I’m playing it.

First, I make a contribution at regular intervals in my taxable account. I call this the "one-minute-millionaire" strategy. Consistency and time work in my favor. Since most

people won't do this, I gravitate to the 1%. I don't need to watch *CNBC* or read the *WSJ*, nor do I care who controls Congress or the White House. You don’t either.

I wrote about this in my book *Rule of 72*. If you consistently buy the market in bits and pieces, even during the 1929 market collapse, you do much better than simply not buying the market periodically.

I will continue on this path through thick and thin.



Source: FactSet. Growth of $10,000 in the S&P 500® Index. Data from 01/01/1999 – 12/31/2023. The index does not reflect fees, brokerage commissions, taxes or other expenses of investment. Investors cannot invest directly in an index. **Past performance is no guarantee of future results.**

Second, I will ramp up my trend-following strategies. I suspect these strategies will do better than "buy and hold". I'm not the only one. Billionaire investors such as Paul Tudor Jones expect a resurgence in the performance of trend-following strategies. They've not done well comparatively in the last three years or so. Because we live in a TikTok world and the average person has the attention span of a fruit fly, they assume what's not working today must no longer work even though there are 200 years of data to support trend-following.

Lastly, there will be tactical opportunities for quick profits. My favorite indicator is the *Short-Term Composite* by *Investors Intelligence* (I have no affiliation with the company; I just think the indicator is fantastic), which uses dozens of point-and-figure calculations to determine the market's overbought and oversold state.

When the market gets deeply oversold, there will be opportunities for quick profits on the rebound. There were huge rebounds even in bear markets such as 2001 and 2008. Lots of volatility works in your favor if you're willing to buy in oversold markets and get out after a big rebound leads to overbought conditions. This works well in a tax-deferred account.

As the chart below highlights, during the Dot Com Bubble collapse, the Nasdaq nose-dived 79.1%. Meanwhile, several rallies occurred between 28% and 51%.

Nothing goes straight down. Or up.

Source: Optuma

Changing markets require changing thinking, and while the major companies may take it on the chin, there should still be plenty of opportunity to profit in the years ahead.

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