UNBOUNDED WEALTH

Stretching the Rubber Band

Not long ago, markets were stretched to the downside. *Massively* stretched.

While we could see the whites of the eyes of the average investor, scared to death by tariff news and other macroeconomic factors, the right play was to buy the market.

That turned into a triple-digit annualized trade as the stretched market, like a rubber band, released all that pent-up energy, and a huge rebound ensued.

Now, we have gone from stretched to the upside to *super duper* stretched to the upside.

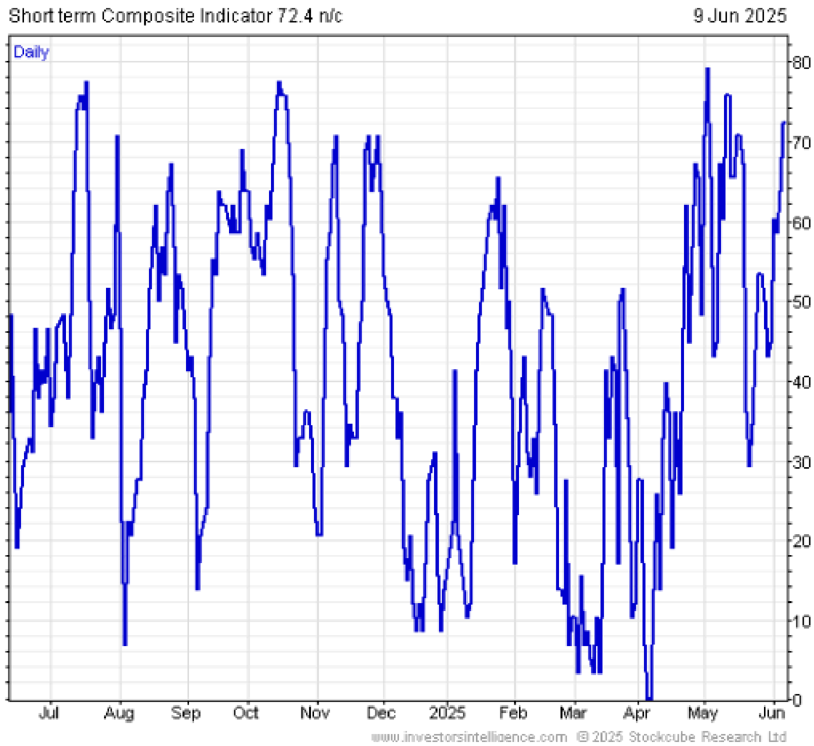
The **risk** is *now* to the downside, and the odds favor a swift ass-kicking for greedy speculators.

I'm not predicting a smash. I'm not market timing. I'm talking about *risk management*. Risk management is something few individual investors – and not enough professionals – engage in.

Here is the *Short-Term Composite* from *Investors Intelligence*. I've posted this chart before, and it quantifies dozens of objective technical indicators. When it's above 70, historically, stocks lose money. It's at 72.4

Way back in April, it was at 3!

It didn't take much to swing back to an obscenely overbought position.



Another interesting metric is the percentage of small-cap stocks above their 50-day moving average. As of April, fewer than 10% of stocks were above their 50-day moving average. Essentially, all stocks got smashed.

Today? Nearly 80% are above their 50-day moving average. It’s been a breathtaking rebound.

Meanwhile, stocks do not offer a sufficient risk/reward relative to U.S. government securities. Here's the S&P 500 risk premium versus the 10-YR.

It's essentially zero. And here's the *scary* part. In the most recent smash, U.S. government securities did not provide a hedge to a falling stock market.

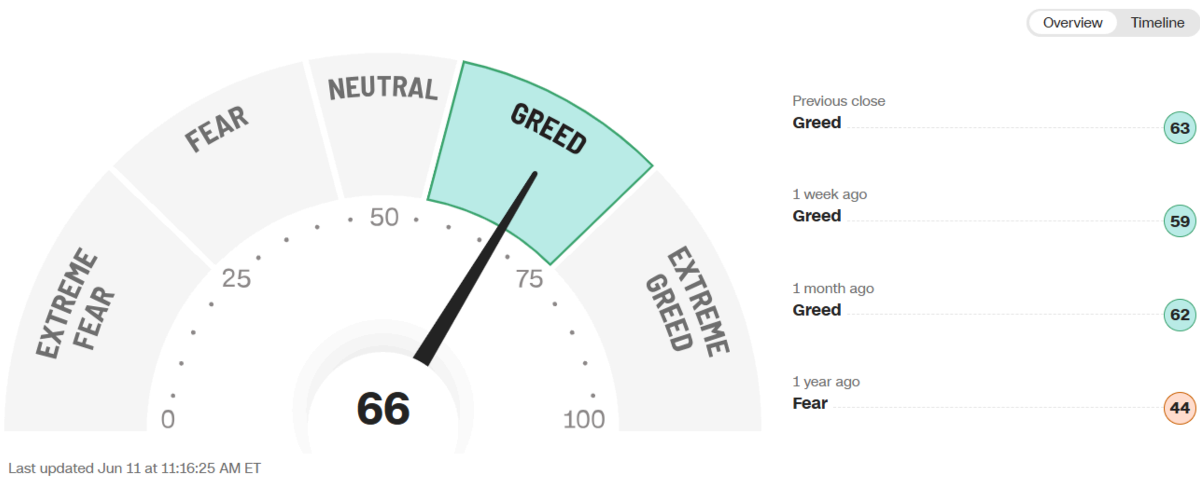
Almost nothing was working except gold.

We may have passed the point of no return regarding U.S. securities and the U.S. Dollar, making them a less reliable haven in times of crisis.

To me, the recent action in these markets was shocking and disappointing.

And, of course, now that the market has rebounded, most people are back in La La Land.

The *CNN Fear & Greed Index* has bounced back, and the markets are acting as if nothing happened and all is well.



Again, I'm not talking about timing the market.

I'm talking about managing risk.

Just as I was eager to buy stocks hand over fist a couple of months ago, I am in no rush today. Another opportunity will present itself. This isn't it.

That doesn't mean the market won't rally more from here. It does mean that the risk/reward ratio is significantly lower compared to what it was just a couple of months ago.

Tread carefully.

investment advisor (IA), or I.A. representative with the U.S. Securities and Exchange Commission, state securities or regulatory authority, or self-regulatory organization.

<u>WE MAY HOLD THE SECURITIES DISCUSSED.</u> *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 – who provides research to HSD Publishing via Parabolix Research, Inc.-- and Unbounded Wealth.