April 2024 Mark(et) Rush Report

By

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Preface

Once again, it is time for my quarterly market review, when I examine world events and attempt to understand their implications on the markets. This report is my time to reflect on current events, portfolio performance, event scenarios, and their subsequent consequences on world equity markets and investment strategies.

It is my goal in life to have my money working for me instead of me working for my money.

Please remember that I am an *amateur* investor, and this document is a *hobby*. Any thoughts and concepts should be treated as such. Please consult a professional financial advisor before making any investment decisions regarding your investment ideas, goals, and strategies. Continue reading this document at your own risk…

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In plain English, I am NOT giving you investment, tax, or legal advice.

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Introduction

The past five months have been a period of significant deep analysis of the market for me. I've undertaken a comprehensive revision of my investment portfolio, the tools I've developed, my strategic approach, and my holdings. Despite these changes, my perspective on the market remains largely unchanged. A lot of analysis has led to not many new conclusions regarding market direction. This report will mostly echo the last one, but with all data updated. The strategy and outlook haven’t altered significantly in the last three months, just the instruments I’m now using to achieve my goals.

In this issue, I'll continue our discussion on covered call strategies, a method of volatility harvesting. We'll specifically focus on covered call ETFs as a means of generating income, a topic that we began in the previous report. This exploration aims to offer a detailed understanding of how these strategies function and their potential impact on investment income. You can expect to find my conclusions and various insights gained from my thorough analysis over the past few months.

As part of my portfolio revamp, I have now narrowed down to only five primary strategies and seven investment instruments. Managing the portfolio has become more efficient with these fewer instruments, focusing mainly on large liquid ETFs. More details on this will be in Chapter 7.

With the upcoming presidential election, we are entering a phase marked by uncertainty, typically not conducive to a rising market. Currently, we are sufficiently distant from the election for it not to overshadow our immediate strategy and outlook. However, it will likely become a central consideration in our next report and will almost certainly be a key focus by our October update.

Lastly, I've decided to update the section on country ETFs in the appendix each quarter. I've found that it isn't as labor-intensive as I initially thought and it adds valuable international data for review. I plan to keep this updated each quarter.

All data for this report was gathered and compiled on the weekend of March 31st. Please be aware that prices, ratios, indices, and outlooks may have changed materially since then.

For those seeking a concise version of this report, please refer to Chapter 7 and the updated investment analysis in the Appendices.

Mark

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Chapter 1
Considerations

Economy (Updated)

The economy is currently under the shadow of a potential recession, much like a storm cloud looming in the distance. It's a situation filled with speculation and varying opinions. The general consensus among market analysts and experts is that if we do face a recession, it's likely to be a relatively mild one. This optimism is grounded in various economic indicators and trends, suggesting that any downturn might not be as intense or long-lasting compared to previous recessions.

Supporting this view is the resilience shown by key sectors of the economy. Despite facing certain challenges, some industries have managed to remain robust and adaptable, helping to stave off a more severe recession. Signs like steady employment levels and consistent consumer spending are positive indicators, hinting at the economy's underlying strength to potentially weather a recession.

However, caution is still the word of the day. Forecasting economic trends is often a complex and uncertain endeavor. Factors such as global geopolitical events or unexpected major incidents can quickly shift the economic landscape. Moreover, the effects of even a mild recession won't be felt evenly across all areas and demographics. Some sectors and groups may find themselves facing more significant challenges than others. Therefore, it's wise for individuals and businesses to stay prepared for a range of scenarios, adjusting their financial strategies to navigate through potential economic difficulties.

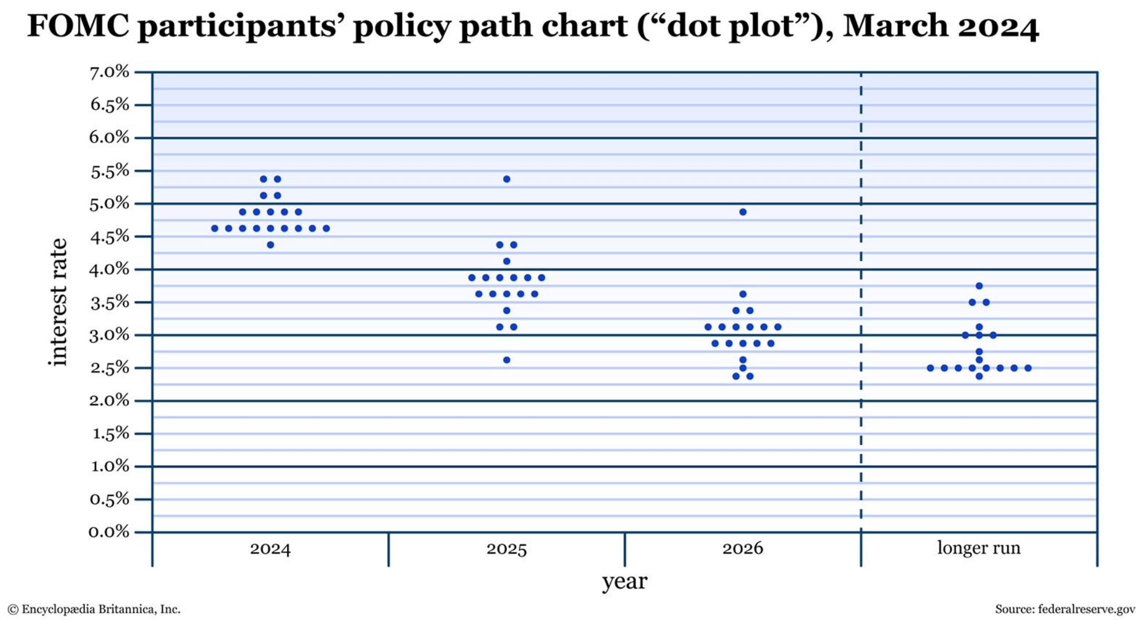
The consensus expectation is for a soft landing or no recession.

Inflation, The Fed, and Interest Rates (Updated)

The Fed's recent decision to stop raising interest rates for now is a big moment in their fight against inflation. With interest rates at 5.5% and inflation around 3.15%, they're taking a breather to see how things are going with the moves they've already made.

The main reason the Fed's been hiking up interest rates is to get inflation to cool down. Some people, including me, were a bit skeptical about whether this would work, but it looks like it might be starting to pay off. If we see inflation either staying the same or going down more, that's going to make the Fed's approach look pretty good. These early signs suggest they could be on the right track, but we should still be cautiously hopeful. The economy's got a lot of moving parts, and things can shift in ways you don't expect.

Right now, with the Fed putting a pause on upping rates and some early good signs popping up, it's a bit of a hopeful spot. But the real test of whether the Fed's moves have made a dent in inflation will show up over time.



Inflation has moderated, and the Fed has paused and indicated they are ready to cut rates.

National Debt (Repeat)

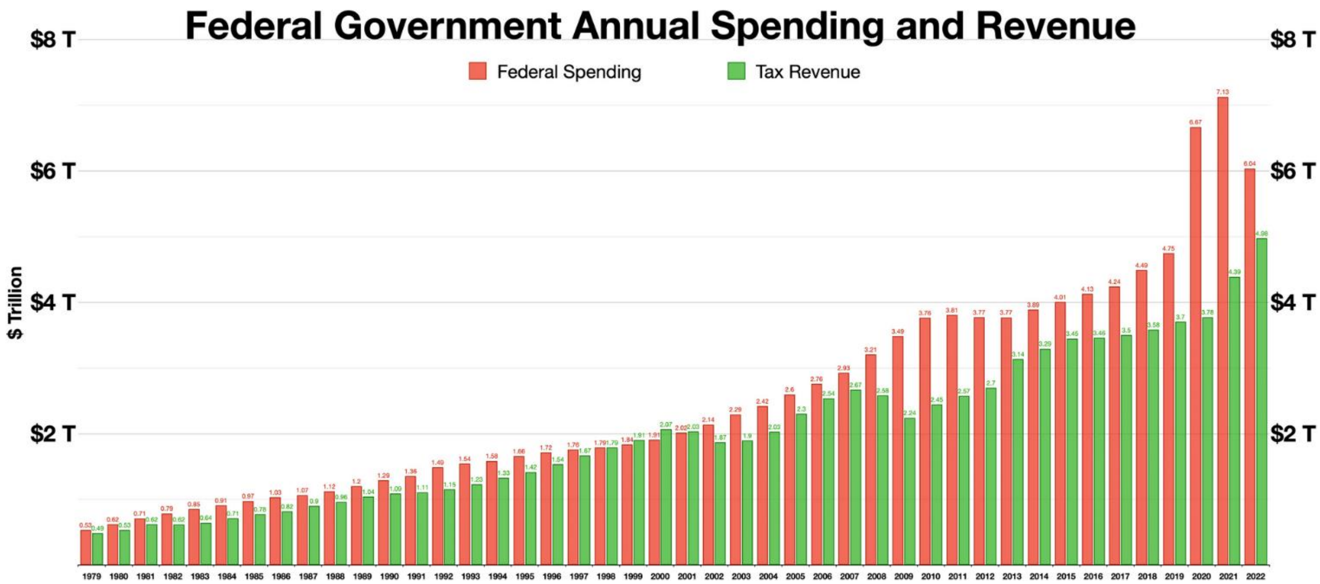
For the fiscal year 2024, we're looking at a deficit of $1.6 trillion, which is expected to jump to $1.8 trillion in 2025, then back to $1.6 trillion in 2027. Fast forward to 2034, and it's projected to hit $2.6 trillion. In terms of the gross domestic product (GDP), that's 5.6 percent of it in 2024, going up to 6.1 percent in 2025, then dropping to 5.2 percent for 2027 and 2028. After 2028, the deficit's chunk of the GDP starts to climb again, reaching 6.1 percent by 2034.

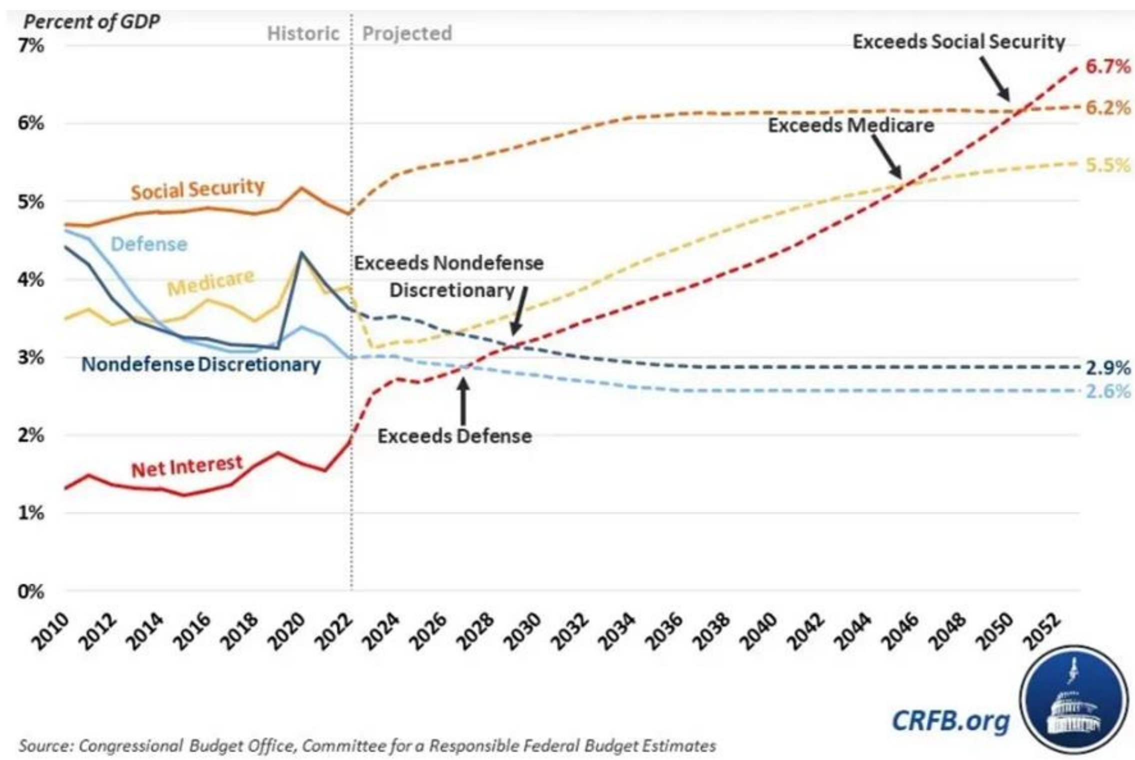
When we talk about revenue, it means we're only covering about 72% of our total spending with what we earn. Put simply, for every $3 we bring in, we're borrowing more than $1 to keep up with our spending. This shows a big gap in our budget system, where what we're spending is regularly more than what we're making.

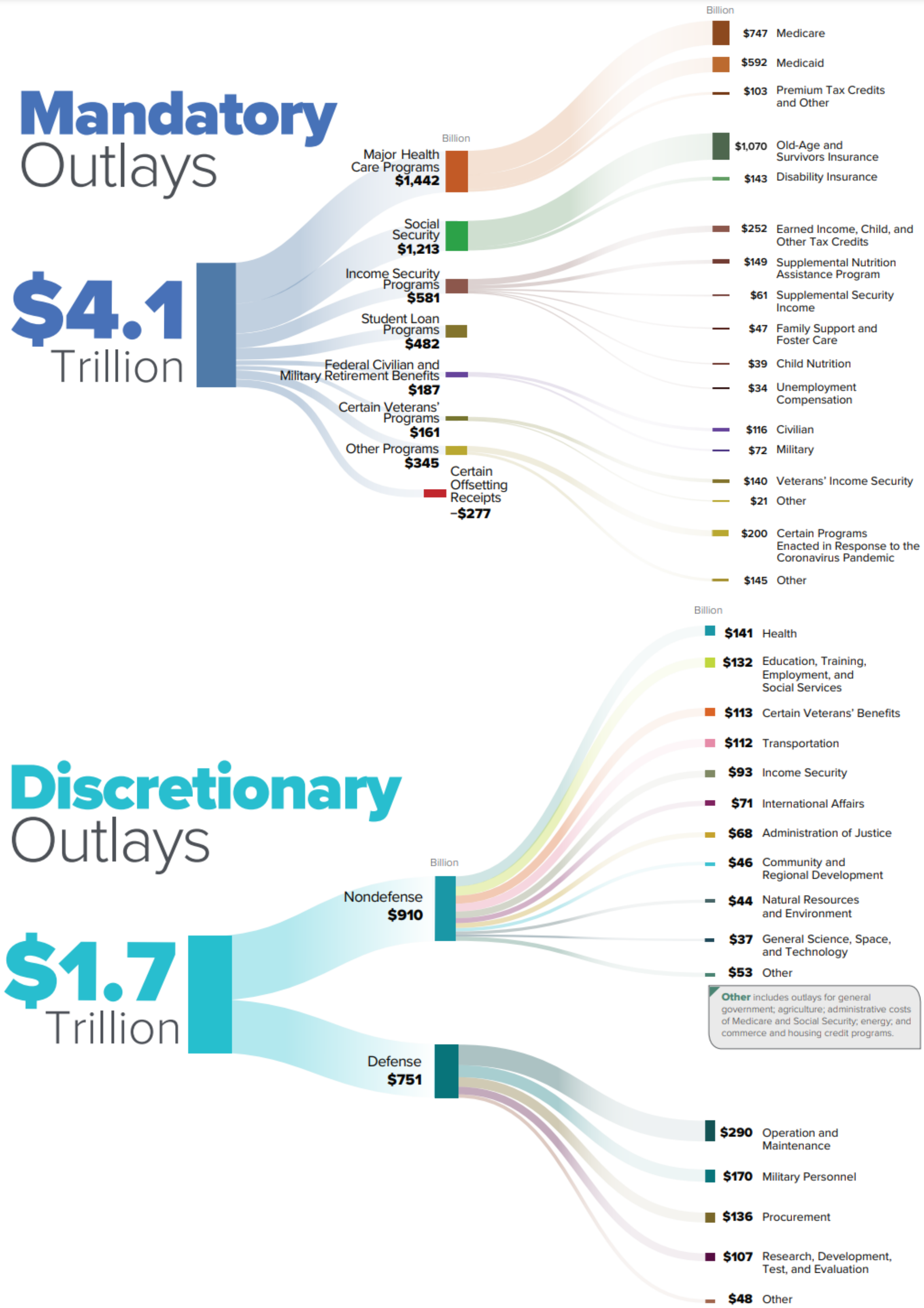
This way of handling finances is complicated and worrying. Relying on borrowed money for a big part of our budget could mean our national debt keeps growing, which could hurt our economy in the long run.

Looking to the future, this sets up a tough job for financial planning. We need to really think about what we spend money on and look for more ways to bring in cash. The goal is to balance taking care of now while also making sure we're set up for a healthy economic future. With the 2024 budget coming up, it's crucial to work on a plan that cuts down on borrowing and lines up better with our actual income.

It's also important to clear up a common misunderstanding: cutting military spending isn't going to fix everything. Only 12% of U.S. spending goes to the military. The big money is in health care programs and social security, with what we pay in interest on debt also being a major expense. Interestingly, defense spending is roughly equal to other necessary and discretionary spending categories.






Mandatory Outlays
$4.1 Trillion
Billion
Major Health Care Programs $1,442
Social Security $1,213
Income Security Programs $581
Student Loan Programs $482
Federal Civilian and Military Retirement Benefits $187
Certain Veterans' Programs $161
Other Programs $345
Certain Offsetting Receipts −$277
Billion
$747 Medicare
$592 Medicaid
$103 Premium Tax Credits and Other
$1,070 Old-Age and Survivors Insurance
$143 Disability Insurance
$252 Earned Income, Child, and Other Tax Credits
$149 Supplemental Nutrition Assistance Program
$61 Supplemental Security Income
$47 Family Support and Foster Care
$39 Child Nutrition
$34 Unemployment Compensation
$116 Civilian
$72 Military
$140 Veterans' Income Security
$21 Other
$200 Certain Programs Enacted in Response to the Coronavirus Pandemic
$145 Other
Discretionary Outlays
$1.7 Trillion
Billion
Nondefense $910
Defense $751
Billion
$141 Health
$132 Education, Training, Employment, and Social Services
$113 Certain Veterans' Benefits
$112 Transportation
$93 Income Security
$71 International Affairs
$68 Administration of Justice
$46 Community and Regional Development
$44 Natural Resources and Environment
$37 General Science, Space, and Technology
$53 Other
Other includes outlays for general government; agriculture; administrative costs of Medicare and Social Security; energy; and commerce and housing credit programs.
$290 Operation and Maintenance
$170 Military Personnel
$136 Procurement
$107 Research, Development, Test, and Evaluation
$48 Other

By the year 2033, the trust fund that adds a bit extra to Social Security payments is expected to run out of money. Right now, this fund makes up about 23% of the money that people get from Social Security.

The debt spiral has begun.

Long Term Inflation (Repeat)

Debt-induced inflation, a scenario where high levels of debt lead to escalating inflation, presents significant challenges for economies. This phenomenon was notably observed in the Weimar Republic following World War I, characterized by the government's excessive borrowing and rampant money printing efforts to service debts, which triggered hyperinflation. In Weimar Germany, this situation resulted in extreme price hikes and a substantial devaluation of the currency, leading to widespread economic disorder and contributing to social and political upheaval.

In more recent history, Zimbabwe and Venezuela have encountered similar predicaments. The hyperinflation in Zimbabwe during the 2000s, triggered by the government's decision to print money for settling debts, rendered its currency virtually valueless. The economic collapse in Venezuela during the 2010s, partly due to unrestrained government expenditure and accumulating debt, was exacerbated by declining oil prices, leading to hyperinflation.

The ramifications of debt-induced inflation are far-reaching. It erodes the purchasing power of consumers, leading to a decrease in actual income and savings, and in severe cases, propelling individuals into poverty. This type of inflation also undermines investor confidence at both domestic and international levels. The apprehension over currency devaluation can prompt investors to withdraw their investments, thereby reducing essential foreign direct investment and impeding economic expansion.

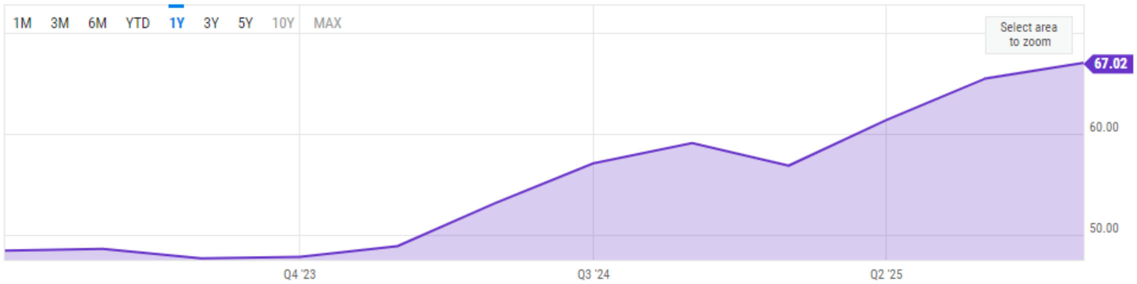
Furthermore, this inflation variant can precipitate socio-political instability. Extended periods of hyperinflation can lead to widespread public unrest and pose considerable challenges to governments in maintaining public services and order. Often, this situation necessitates austerity measures, which can further fuel public dissatisfaction.

Long term devaluation of the dollar is unavoidable.

S&P 500 Earnings (Updated)

For the current year, projections indicate a robust 14% growth in earnings by year-end, which is expected to correspond to a 14% gain in the market, assuming other conditions remain constant. It's important to note, however, that such forecasts are often subject to adjustments as the year unfolds, but they serve as a useful initial gauge for predicting market performance. To date, we have seen a 10% gain in the market, surpassing initial expectations due to more favorable economic conditions than originally anticipated.

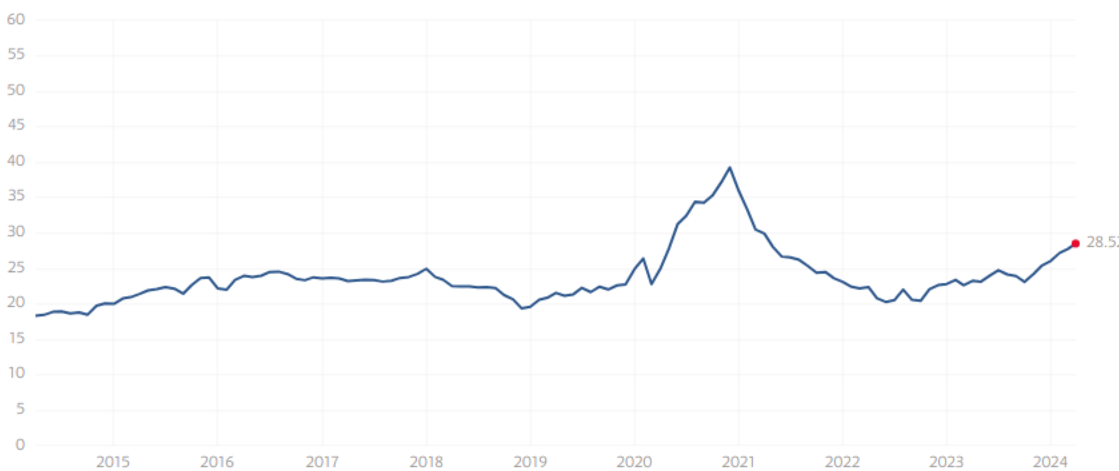
S&P 500 Earning Quarterly Projections



Focusing on the S&P 500, projections set the earnings target at $218.10 for this year, aligning with the figures at the year's start. Looking ahead to next year, there's an anticipation of earnings reaching $250.67, suggesting a potential 15% increase in earnings. Yet, when we convert these earnings figures into market yields based on the current index value of 5,254.35, the forecasted forward market yield is a modest 4.15%. This yield, when analyzed in the context of a price-to-earnings (P/E) ratio of 24.1, implies a market that may be overvalued.

Considering next year's projections, the expected earnings yield rises slightly to 4.77%, with a corresponding P/E ratio of 21.0. While this is an improvement, it is still on the higher side given the prevailing rate environment. If we assume that interest rates decrease and earnings remain stable, the current overvaluation isn't alarmingly high, but it is still significant. This suggests that the market may need to temper its upward trajectory in the coming year or two to realign with more sustainable valuations.

S&P 500 Historical Trailing Price/Earnings Ratio



S&P 500 Earnings expectation are up.

Housing (Updated)

The current dynamics of the housing market, characterized by a surprisingly low supply of houses despite increasing mortgage rates, are influenced by several pivotal elements. These factors include a combination of low vacancy rates, a surge in immigration, and a considerable portion of homeowners who secured mortgages at interest rates below 4%. With current interest rates hovering around 6%, these homeowners are showing reluctance to move, significantly contributing to the low housing inventory.

Immigration's influence, particularly on the more affordable segment of the housing market, is substantial. Border patrol statistics reported approximately 2.5 million crossings in 2023. Projecting from this data, there is a potential demand to accommodate nearly 10 million new individuals over the last five years. This continuous influx of new residents due to immigration creates a sustained demand for housing, which, in turn, offsets some of the impacts of rising mortgage rates.

Additionally, the prevalence of low-interest mortgages among existing homeowners is a decisive factor. A large number of homeowners currently benefit from mortgages with rates under 4%, and with interest rates rising to about 6%, their inclination to switch to a market with higher rates is significantly dampened. This advantage of having lower-rate mortgages is a key driver in reducing the turnover in the housing market. Consequently, the availability of houses in the market remains constrained, reinforcing the housing sector's stability and resilience despite the upward trend in mortgage rates.

Housing should be stable with lower rates.

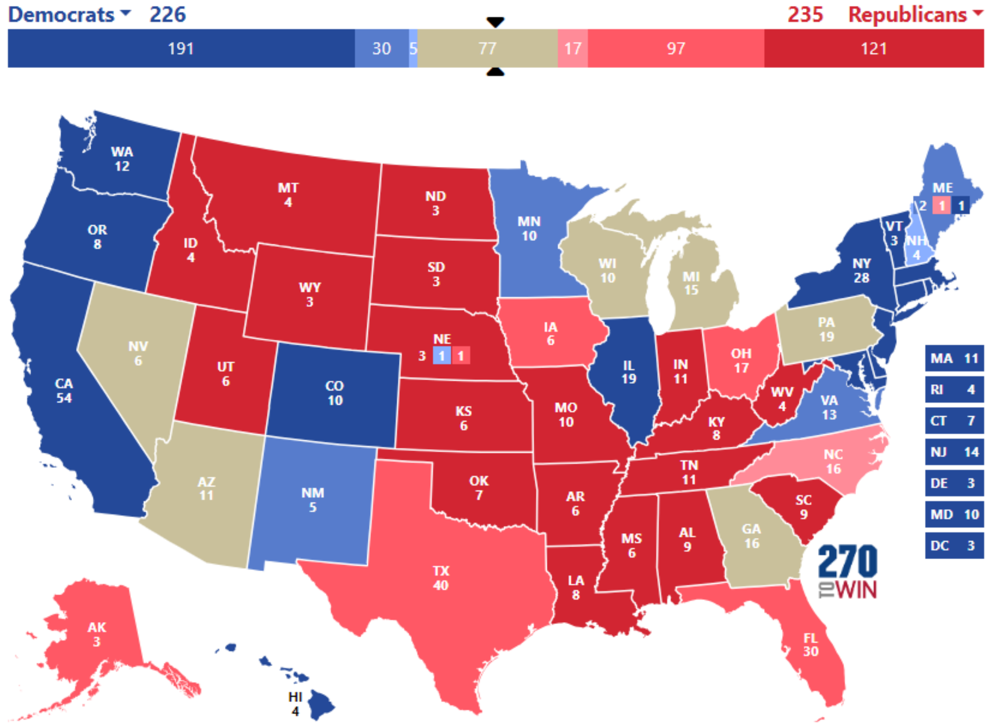
Election (Expanded)

The upcoming Presidential election, expected to be a close and contentious rematch between Trump and Biden, is likely to have a moderate yet notable effect on the markets. The uncertainty surrounding the outcome, which could bring significant changes in economic policy and regulation, is a factor that could increase market volatility as investors stay alert to potential shifts.

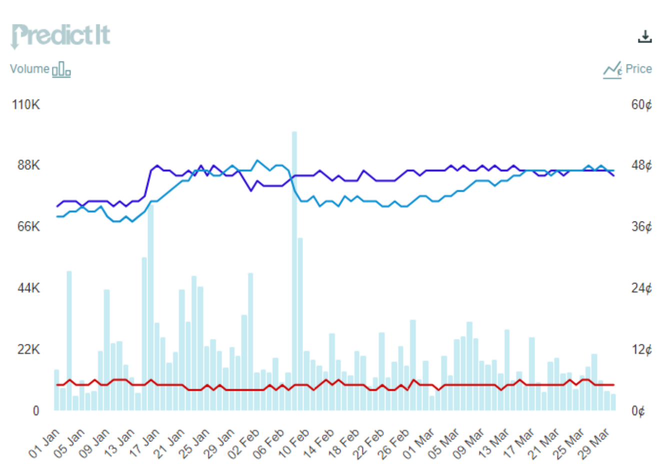
The risk of post-election unrest is another aspect influencing market behavior. The prospect of unrest might lead investors to adopt more cautious strategies, making the market more reactive to political news. Furthermore, the age and health of both candidates, who are among the oldest in presidential history, add another layer of unpredictability, potentially impacting market mood and decisions.

The implications of the election on policy are particularly crucial for certain sectors. Healthcare, energy, and technology, known for their sensitivity to regulatory, taxation, and government spending changes, are areas where investors and businesses might need to realign their strategies in anticipation of potential policy alterations.

A map accompanying this section will illustrate just how tightly contested this election is projected to be. The outcomes in six key states – Wisconsin, Michigan, Pennsylvania, Georgia, Nevada, and Arizona – are poised to be decisive. Everyone else can stay home unless you really want a participation trophy.

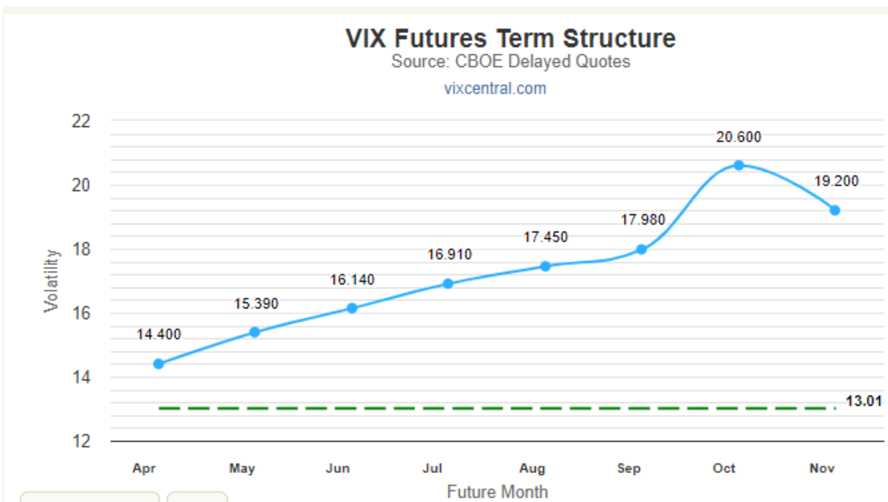


The betting market's view on the upcoming presidential election has been quite dynamic. Late last year, it favored Biden, indicating that he was the frontrunner in the race. However, as the year progressed, there was a noticeable shift, with Trump gaining the upper hand in the eyes of bettors for a significant part of the year. Now, it appears the situation has evolved yet again, bringing us back to a scenario where the odds are evenly matched, indicating a very tight race with no clear frontrunner at this point. This fluctuation in the betting market reflects the constantly changing perceptions and expectations of those closely monitoring the political landscape.



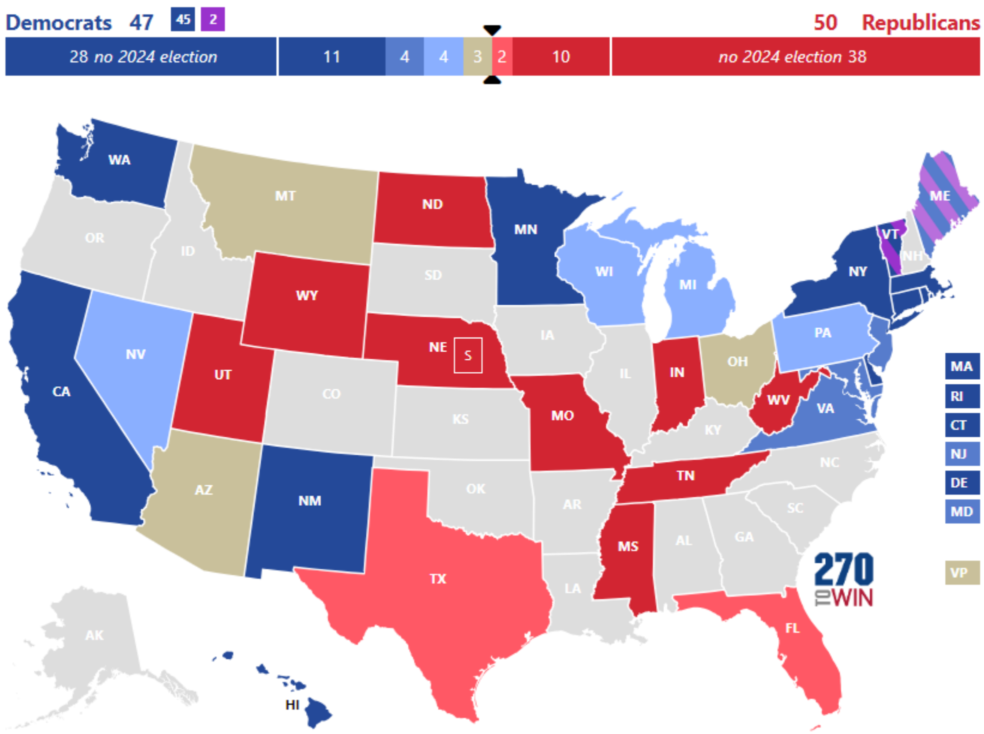
The behavior of the VIX futures in relation to the upcoming election is indeed intriguing. Typically, the VIX, or Volatility Index, exhibits a gently upward-sloping term structure. This usual pattern is indicative of increasing uncertainty or risk perceived by investors over time. However, the current term structure shows a noticeable deviation in October, right before the election.

This deviation suggests that there's an increased demand for 'insurance' or protective options against market volatility in October, approximately 10% higher than what the rest of the trend line would imply. Essentially, this indicates that investors are anticipating a significant spike in market volatility around the time of the election. They're willing to pay a premium in October for this 'insurance', reflecting their concerns about potential market fluctuations that could be influenced by the election's outcome. This heightened sense of caution leading up to the election is a testament to how significant political events can impact financial market sentiments and strategies.

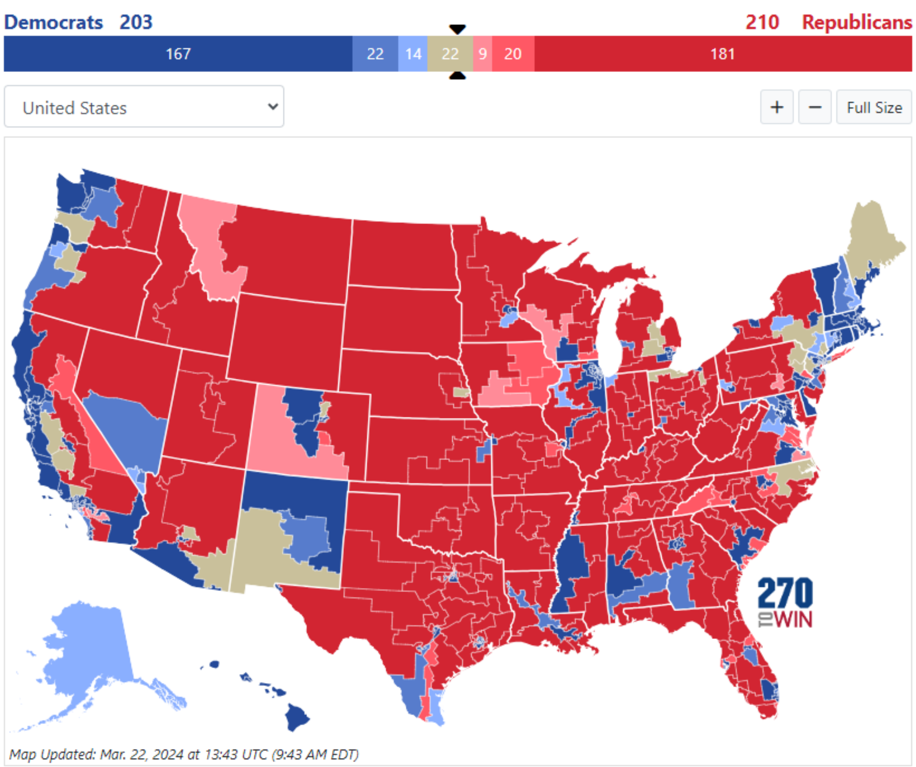


I believe the key factors that will critically influence the economy, specifically in terms of spending, and consequently affecting inflation and interest rates, are the outcomes of the House and Senate elections. For those focused on investment, these are the races that warrant close attention.

In terms of the Senate, the balance of power will likely be determined by the results in Arizona, Ohio, and Montana. For the Republicans to gain control of the Senate, they need to emerge victorious in at least one of these three states, or alternatively, win the presidential race. Essentially, this boils down to having four chances – akin to winning one out of four coin flips – to secure control. This scenario underscores the pivotal nature of these specific elections in shaping the legislative landscape, which in turn has profound implications for economic and fiscal policies.



Regarding the House of Representatives, the Republicans currently appear to have a slight edge. However, with 22 districts being too close to call at this moment, the final outcome remains uncertain. It's my suspicion that whichever party wins the White House will likely also secure control of the House. This situation highlights the interconnectedness of these elections and the potential for the presidential race to influence or reflect broader electoral trends, particularly in those closely contested districts.



My primary concern for both the stock and bond markets hinges on the possibility of the Democrats winning the tightly contested races and gaining control of the House, Senate, and White House. Such an outcome could lead to increased business oversight, a surge in new regulations, tighter restrictions on oil, heightened immigration impacting an already strained housing market, and a significant rise in spending and deficits.

This scenario may hasten the progression of the U.S. debt spiral, potentially leading to heightened inflation and an earlier rise in interest rates. On the other hand, a sweep by the New Republicans may not bring substantial change. Unlike the deficit hawks of the past, the current party does not seem to share the same fiscal conservatism. Both parties now appear to view the U.S. Treasury more as a means for patronage, with less consideration for its impacts on the economy, cost of living, economic growth, or currency stability.

In most election outcomes, the market outlook seems neutral to positive. However, in the scenario where Democrats gain complete control, the market could face detrimental effects. This assessment underscores the importance of political outcomes on financial markets and the need for investors to stay attuned to these developments.

The election is neutral to positive under most scenarios, detrimental in a one.

The Ukraine War

The situation in Ukraine appears to have reached a state of deadlock, with current developments suggesting a stalemate on the battlefield. Despite ongoing provocations from both sides, it's important to note the significant imbalance in military capabilities, particularly highlighted by one party's possession of a substantial nuclear arsenal, totaling 5,977 weapons. Given these circumstances, the resolution of this conflict seems unlikely in the near future. The presence of such a large nuclear arsenal adds a complex layer to the conflict, heightening concerns about the potential escalation and the broader implications for global security and stability.

Things may have stabilized; the lines are being drawn.

China (Repeat)

China's economic performance has heavily relied on investment growth, particularly since the 2008 global financial crisis. This growth, largely driven by the public sector and an inefficient banking system, contributed to two-thirds of GDP growth in 2009–10. While China's low capital-to-labor ratio justifies more investment, the concentration of bank credit in state-owned enterprises has often resulted in poor returns on these investments. The government's recent efforts towards rebalancing the economy involve shifting from investment-heavy growth to boosting household consumption and services sector growth. This shift has made progress, with household consumption now being a primary growth driver and the services sector overtaking manufacturing in economic contribution.

However, the real estate sector, a significant contributor to economic stability, presents vulnerabilities, especially with the increase in household debt driven by easy mortgage access. While China's debt accumulation is largely financed by domestic savings, reducing the risk of a financial crisis, the inefficiencies in capital allocation pose challenges. Major property developers facing financial troubles due to high debt and fragile balance sheets exemplify these inefficiencies. The government's control over major banks provides a safety net, preventing systemic financial meltdowns, but this also delays addressing underlying issues.

China's financial reforms have primarily focused on the financial sector and capital markets, leaving state enterprises and institutional frameworks relatively untouched. The need for broader reforms is clear to better manage risks and allocate capital effectively. The government's balancing act between market confidence and self-regulation has often led to increased market volatility. Transparent policymaking, improved corporate governance, and greater operational independence for regulatory authorities are needed to complement market-oriented reforms.

China's approach to economic growth and stability faces a delicate balance between market liberalization and government intervention. While the state has the resources to manage transitional risks, its direct interventions in markets could heighten volatility and lead to long-term issues. Clear communication of policy intentions and comprehensive reforms across various sectors are crucial for sustainable economic stability and growth.

China’s Housing market is unsustainable.

The Future Impact of AI on Corporate Profits and the Global Economy (Repeat)

The integration of Artificial Intelligence (AI) into the global economy is accelerating, positioning it as a key driver of economic growth and innovation. AI's ability to enhance operational efficiency, streamline supply chains, and accurately predict market trends has the potential to significantly elevate global GDP. By improving decision-making processes, automating repetitive tasks, and fostering innovative approaches, AI is poised to boost productivity and expand market opportunities for businesses around the world. The adoption of AI across various sectors is expected to lead to a significant increase in output and efficiency, thus propelling economies forward and contributing to extraordinary growth rates.

AI's role in reshaping the economic landscape extends to transforming traditional business practices. Industries such as retail, healthcare, and finance are leveraging AI for personalized customer experiences, advanced diagnostic tools, and sophisticated risk assessment models, respectively. This integration is not only enhancing the quality of products and services but also creating new business models and revenue streams. The advent of AI-driven technologies like machine learning, natural language processing, and robotics is opening up possibilities for groundbreaking applications, from autonomous vehicles to advanced research and development.

However, the sweeping changes brought by AI also present significant challenges, particularly in the labor market. As AI and automation become increasingly prevalent, certain job sectors may experience a decline. Roles in manufacturing, data entry, customer service, and aspects of financial analysis are at risk of being automated, leading to job displacement. The rapid advancement of AI necessitates a workforce that is agile, capable of adapting to new technologies, and willing to engage in continuous learning and skill development. While AI is expected to generate new employment opportunities and industries, the transition may pose difficulties for workers in positions susceptible to automation.

In conclusion, Kill all humans!!!

Chapter 2
Volatility Harvesting

The landscape of volatility harvesting ETFs has evolved significantly, marked by increasingly aggressive investment strategies. With over ten years in this field, I’ve witnessed its transformation from a relatively straightforward market to one that is both complex and highly competitive. Navigating this area requires a deep understanding of the operational challenges, such as managing bid-ask spreads and commissions. However, these ETFs do provide certain efficiencies in terms of time, economies of scale, and information.

Popular funds like QYLD, JEPI, and NUSI, which I have previously analyzed, are gaining traction. Their primary strategy involves selling near-the-money monthly calls and distributing the options premium as dividends. While these funds typically offer dividend yields of 10-12%, this approach can sometimes result in missed stock growth opportunities, especially during strong market periods. This year, for example, these funds underperformed their underlying assets, particularly noticeable during the significant year-end rally.

A new trend in this sector is the rise of higher-risk volatility harvesting ETFs. These funds focus on individual stocks, which are inherently more volatile than indices, and often handle weekly calls, deviating from the usual monthly options. They also employ off-exchange financial instruments for cost efficiency, though this introduces new counterparty risks.

For example, the YieldMax TSLA Option Income Strategy ETF (TSLY) saw an 11% drop in its stock price in 2023 but achieved an impressive overall gain of about 57%, driven by a 68% dividend yield. However, this was overshadowed by Tesla Stock's 109.7% increase in its underlying asset. Funds like these often absorb the full brunt of downturns in their underlying assets and tend to underperform in bullish markets, but they perform better in sideways or slightly downward markets.

The rising interest in these ETFs, particularly among less informed investors, raises concerns. The increased volume of volatility selling, fueled by this influx of capital, could significantly lower volatility pricing and affect fund performance. Identifying the point of market saturation, where excessive participation begins to diminish returns, is a crucial challenge. While we may not have reached this point yet, the influx of investment continues.

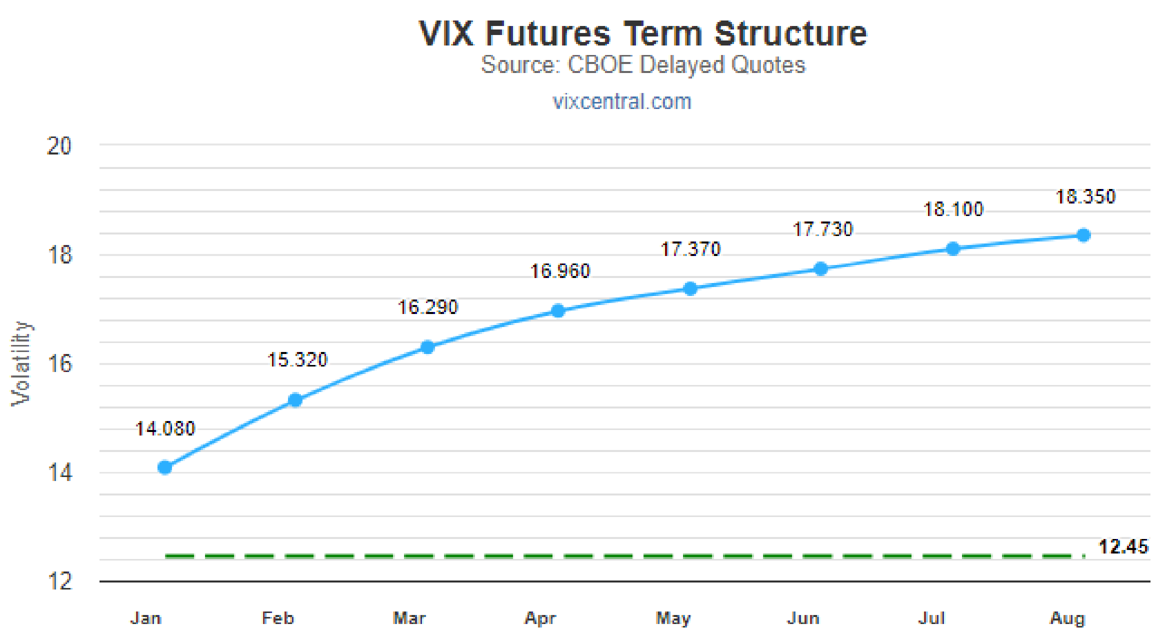
Drawing on my extensive experience in volatility trading, I’ve observed that large capital inflows can disrupt the risk-reward balance, sometimes with severe consequences for certain funds. The market downturn in 2020, where excessive short selling of the VIX and rapid market declines led to the collapse of several funds, is a prime example, leaving many investors with substantial losses.

My 2023 analysis, using hypothetical weekly options pricing from the year-end, suggested that buying weekly options was more advantageous than selling them. However, this is tied to the unique market conditions of the past year, including exceptional market gains and currently low volatility.

Although tens of billions are invested in these strategies, their impact on the broader US and global markets remains relatively limited. Nevertheless, they do affect overall market volatility, usually leading to a decrease, which in turn encourages more aggressive stock investments. For average investors, understanding hedging options is advisable, as lower market volatility can provide opportunities for cost-effective insurance strategies like put options due to massive volatility selling.

Currently, investors can fully protect their S&P 500 investments with protective puts, which cost about 5% of the ETF's value. This strategy helps mitigate losses while offsetting some of the expenses. Cheaper options with lower protection levels are also available, which I will explore in more detail in Chapter 6.

In conclusion, the accompanying chart projects upcoming Volatility Index (VIX) values. The VIX typically rises with increasing market uncertainty, serving as a risk premium indicator. In a strong market, the VIX tends to decrease, while in a declining market, it increases. Current trends suggest low but normal VIX values, but it's important to monitor this indicator closely.



Below is the 10-year chart of the Vix (S&P 500 Volatility Index), where the median Vix value stands at 16, usually fluctuating within a 12 to 20 range. Historically, we observe a spike in the Vix approximately every three years.

I recently took a thorough look into covered calls, pondering how to develop a strategy that surpasses existing market offerings.

To start, let's examine the 2023 performance of three key instruments: the S&P 500 ETF (SPY) with a 1.30% dividend yield, Global X S&P 500 Covered Call ETF (XYLD) offering a 9.82% yield through monthly covered calls, and JPMorgan Equity Premium Income ETF (JEPI) employing their unique covered call strategy yielding 7.85%.

A critical factor to consider is the Beta of each ETF. Beta measures the volatility or risk of a stock relative to an index, in this case, the S&P 500. For example, an ETF with a Beta of 0.5 would move half as much as the index. If the index rises by 1%, the ETF would increase by 0.5%. Negative Betas are also possible. Currently, the Betas for these instruments are SPY at 1.0, XYLD at 0.52, and JEPI at 0.61. Thus, we'd expect the two ETFs to mirror approximately half the movement of the S&P 500, with JEPI being slightly more responsive at around 60%.

Our comparison chart shows that the two covered call ETFs underperformed the index. However, we need to factor in the dividend yield. At 2023's start, XYLD offered a yield of 10.48%, while JEPI offered 8.44%.

Turning to the results on the next page, with SPY as the main chart, XYLD in green, and JEPI in blue, we observe SPY's 24.81% rise in 2023. In contrast, JEPI only increased by 0.94%, and XYLD marginally by 0.13%. Adding dividends (not shown in the charts), SPY's total return was 24.83%, including its 1.723% dividend yield. Meanwhile, XYLD's total return was 10.61%, and JEPI's was 9.38%. At first glance, these instruments seem to underperform.

Now, let's consider their performance during a downturn, specifically in 2022, which offers a contrasting narrative. Based on the results depicted below, with SPY as the main chart, XYLD in green, and JEPI in blue, we can observe that SPY experienced a decline of 19.48% in 2022. In comparison, JEPI was down 13.77%, and XYLD decreased by 22.06%.

To assess the overall impact, it's essential to factor in the dividends, which can help offset these losses. In 2022, SPY generated a 1.32% dividend yield, while XYLD and JEPI had yields of 11.34% and 10.79%, respectively.

When we integrate the dividends into the market losses for a more comprehensive view, the picture shifts. After accounting for dividends (which aren't included in the charts), SPY's total performance results in an overall return of -18.16%, combining its -19.48% loss with the 1.32% yield. XYLD's performance, factoring in dividends, amounts to a -10.72% return, and JEPI, with its dividends, registers a -2.98% return.

This analysis reveals that in a declining market, the performance of these instruments can differ significantly from their behavior in a positive market year. The inclusion of dividends is critical in understanding the total return and overall resilience of these investment strategies in varying market conditions.

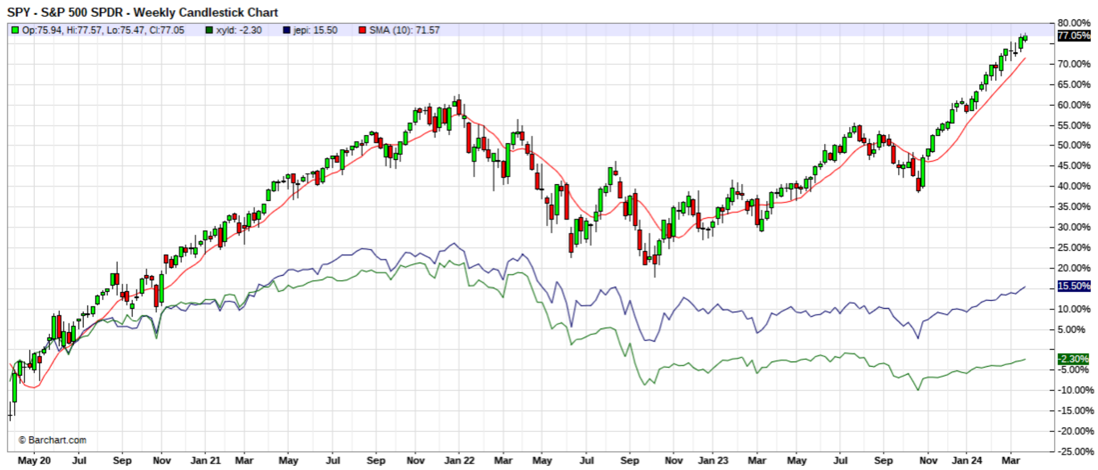
Results for 2022-2023

	2022	2023	Total 2 yr
SPY	-18.16%	24.83%	2.16%
XYLD	-10.75%	10.61%	-1.28%
JEPI	-2.98%	9.38%	6.12%

The 2022-2023 period provides two useful years for testing, though they don't represent a major stress test. Among the options, JEPI seems to stand out for a buy-and-hold strategy. However, it's important to remember that while three out of every four years tend to show an upward trend, they don't always climb as high as 25%. Including a couple of years with moderate returns, which have been somewhat rare recently, would be beneficial for a more comprehensive assessment before drawing any final conclusions. Also, for clarity, my analysis is based on the assumption that all dividends are reinvested in one go at the end of each year, and I haven't taken taxes into account.

To find a year that represented more "normal" conditions, I had to look back to 2018. At that time, JEPI wasn't available. Therefore, let’s consider the performance of SPY compared to XYLD during that year.

Here’s an overview of the performance chart for the three instruments over four years. To adjust the results for a broader perspective, let’s add an additional 8% to the SPY figures and 40% to both XYLD and JEPI. It’s important to note that this adjustment doesn’t take into account the reinvestment of dividends. Even with this modification, JEPI continues to stand out, particularly for its resilience during downturns. This tendency of JEPI to perform well in challenging market conditions is a key aspect that differentiates it from the other instruments, offering valuable insight for investment strategies, especially in more volatile or uncertain market environments.



In investing, it's important to remember that you don't get anything for free; what you're essentially doing is exchanging potential higher gains for improved protection during downturns. In a bear market, JEPI tends to perform well, offering better downside protection. However, it's crucial to note that it still significantly underperforms compared to short-term bonds, which are currently yielding about 5% and offer the added security of returning the principal.

The ideal investment strategy would involve being long on SPY during bull markets to capture growth, switching to JEPI in sideways markets for its yield and stability, and moving into short-term bonds during bear markets for their safety and guaranteed returns. However, the main challenge lies in accurately predicting these market conditions in advance, which is often an uncertain and difficult task. This complexity underscores the need for a nuanced and adaptable investment approach in the ever-changing landscape of the financial markets.

This type of analysis can be extended to various covered call strategies in the market. However, I haven't yet conducted an in-depth review of the newer Zero Days to Expiration (0DTE) ETFs, primarily due to their recent emergence and lack of long-term data. While these ETFs offer exceptionally high yields, there's a noticeable tendency for them to rapidly deplete their capital base to achieve these results.

Take, for instance, JEPY, a recent entrant in the market focusing on S&P 500 0DTE (daily covered calls), along with its more aggressive counterpart, QQQY. In the six months since its inception on October 2nd, JEPY has yielded an impressive 21.8% in dividends based on its opening price but has experienced a 7.3% decrease in value. This still translates to a notable 14.5% gain in half a year, which seems impressive at first glance. However, it's crucial to compare this with the performance of the S&P 500 during the same period. The S&P 500 saw a rise of 22.41%, excluding dividends. If we add approximately 0.75% for dividends, it provides a fuller picture of the market performance against which JEPY's results should be evaluated.

When examining the charts that feature SPY at the top, JEPI in purple, and JEPY in green, we need to mentally adjust the yields – adding about 1% to SPY, 4% to JEPI, and a significant 22% to JEPY for dividend yields. Even with these adjustments, SPY emerges as the front-runner, with JEPI and JEPY closely contesting at around 14%, though JEPY has a slight edge. However, JEPY faces challenges related to taxation and asset value decline. Its dividends decrease monthly since they are based on the underlying asset's price and the one-day option market. As this strategy becomes more crowded, and more participants sell these options, the prices are likely to drop. There's also a theory that the current low VIX is partially due to the widespread selling of covered calls by individuals and ETFs. While JEPI seems like a viable option, the same can't be confidently said for JEPY, where a significant portion of earnings might be consumed by fees and transaction expenses.

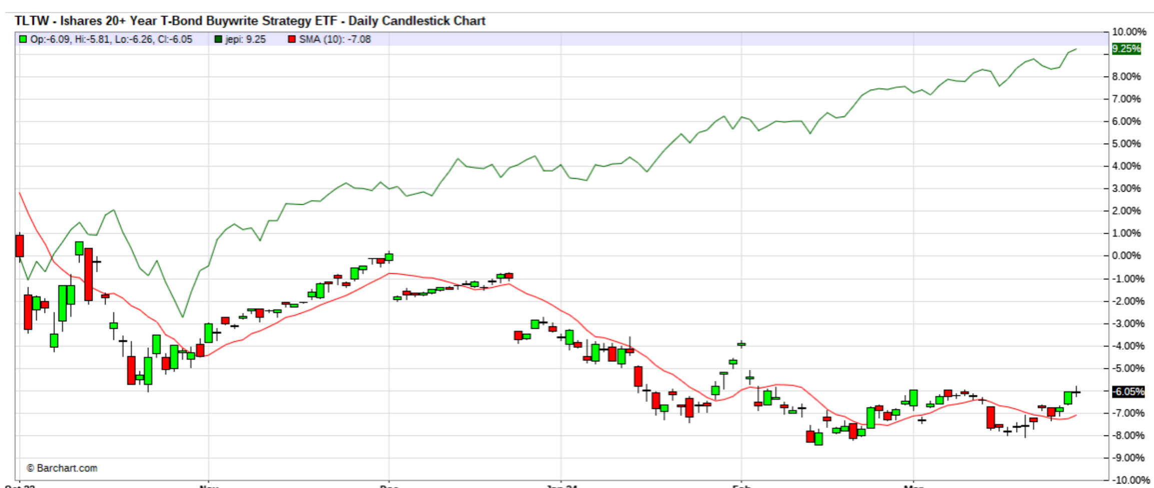
Next, let's delve deeper into the covered call strategy with the iShares 20+ Year Treasury Bond Buywrite Strategy ETF (TLTW). This particular ETF caught my interest because it applies the covered call approach to bonds, an intriguing concept. Additionally, its trailing yield of 19.28% on a bond ETF is particularly captivating, presenting the possibility of having two high-yield, uncorrelated instruments.

TLTW is relatively new, having been introduced since September 22, so a full assessment is challenging due to its limited history.

In the chart below, the iShares 20+ Year Treasury Bond ETF (TLT) is the primary focus, with TLTW represented in green. From the analysis, TLTW appears to perform well when bond prices are dropping (and rates increasing), aligning with the expectations of a covered call strategy. However, its performance isn’t as strong when bond values rise. The aggressiveness of the covered calls seems to limit any potential upside in bond prices. TLTW may benefit from a less aggressive approach, allowing it to better align with the underlying bonds. For now, TLTW is worth monitoring, but it might not be an ideal investment until it’s better tuned. The most recent dividend trends suggest a yield now closer to 10-15% in a more stable bond market.

The optimal scenario would involve pairing two such instruments that behave in opposite directions, effectively complementing each other. This was the rationale behind pairing TLTW with JEPI. Presented here is their performance over the past six months, and it's important to note that each has a yield of around 10%.

If TLTW could align more closely with its intended strategy, it might be possible to pair these two higher-risk instruments in a way that they offset each other. This could create an attractive combination offering a high yield. It's a situation that merits close observation, although it hasn’t been fully realized yet. It’s likely that eventually, an ETF will be developed specifically to achieve this kind of balanced, high-yield pairing.



So, diving deeper into the rabbit hole for high yield income, we return to a familiar and favored instrument of mine: volatility.

Let's take a look at VXX, SVIX, SVXY, and then SVOL.

The iPath Series B S&P 500 VIX Short-Term Futures ETN (VXX) stands as a key player in VIX trading. It sees over 10 million shares traded daily and boasts Assets Under Management (AUM) of $189 million. Intriguingly, despite its high trade volume, it typically experiences a 75% annual decrease in value. It’s often likened to market insurance; as the market dips, VXX usually rises, which explains its popularity. My strategy involves short selling it through options to capitalize on its value decay. While I mention it for context, I believe it may not be the best fit for the average investor.

Next, we have the -1x Short VIX Futures ETF (SVIX), which essentially operates as the inverse of VXX. It's a relatively new fund, created in the wake of its predecessor's collapse during the 2020 COVID crisis. Trading just under a million shares daily, it has about 130 million in Assets Under Management (AUM). While this fund can perform exceptionally well, its stability is unproven under severe market stress. In the event of major market disruptions, it’s likely to lose a significant portion of its value in just a few days. Due to this high level of risk, I personally steer clear of investing in SVIX.

Next, let's consider its calmer counterpart, the ProShares Short VIX Short-Term Futures ETF (SVXY). This ETF previously operated similarly to the new SVIX ETF but suffered a devastating loss of over 90% of its value in just one week, barely surviving the ordeal. Presently, it only allocates half of its assets to shorting the VIX, resulting in approximately half the return and half the risk of its predecessor. This can be observed by comparing the charts of the two ETFs. SVXY trades just under 1.5 million shares daily, with around 330 million in Assets Under Management (AUM). While I occasionally use options on this instrument, I find the options market to be too illiquid for consistent use. Positions are challenging to enter and even harder to exit, so I generally avoid them most of the time unless a unique opportunity arises.

Now, let's focus on a VIX ETF that's truly practical.

Enter the Simplify Volatility Premium ETF (SVOL). While it only trades a little over 600k shares a day, it boasts $735 million in assets under management and is steadily growing. What sets this fund apart is its objective to achieve a modest gain each month and distribute it as a 16% annual dividend, roughly 1.35% each month, a feature unique among other short VIX ETFs. Additionally, SVOL distinguishes itself by purchasing hedges that have safeguarded it from losses that have afflicted other VIX funds in the past. Furthermore, SVOL is actively managed rather than blindly following a formula, a strategy that may prove beneficial when faced with another inevitable market crash. I've allocated a significant portion of my IRA and ROTH to this instrument, leveraging tax-deferred accounts to avoid paying taxes on the monthly dividends.

Initially, this fund grappled with being overly aggressive, but it appears to have refined its approach over the past 18 months. Its performance range over the past year has fluctuated from a 2% decline to a 6% increase while maintaining a 16% dividend yield. Many bond funds would struggle to sustain such stability, and certainly none can match its yield.

However, there are risks associated with this fund, despite their efforts to manage them. Therefore, caution is warranted when dealing with a 16% dividend yield. It's advisable to closely monitor its performance and implement stop-loss measures, or preferably, longer-term put options. Personally, I have set up alerts in my brokerage account to notify me if the fund drops more than 5% from its peak and have implemented a trailing stop at 7%.

I have replaced all my high-yield instruments with this one. It's an easily manageable instrument with a higher yield than any other high-yield investment I've utilized over the years. This decision was part of my portfolio simplification plan.

Other covered calls deep dives:

I also conducted extensive backtesting on the effectiveness of selling weekly options, and to cut a long story short, I didn't find a significant advantage. While my study focused on the IWM, the findings are likely applicable to other instruments as well. It became apparent that on rare occasions when the market surged beyond the value of the options, particularly a few times a year, covered calls were, at best, fair value and often slightly to moderately undervalued in a low volatility market that is on the rise.

This realization has prompted me to adjust my approach. Instead of only selling covered calls, I now lean towards buying puts on days or weeks of uncertainty, such as significant inflation reports, Fed minutes releases, and similar events.

Conclusion:

I once held the belief that covered calls were akin to free money, but that perspective has shifted. After months of contemplation, I've come to realize that the market is efficient, and options are appropriately priced. Especially in times of low volatility like the present, the risks associated with owning such options likely outweigh the benefits of selling them.

There is, however, a potential advantage to selling covered calls if the proceeds are used to purchase puts, thus mitigating overall risk. Apart from that, much of the activity involved in selling short-dated options tends to be eroded by brokerage fees, market friction, AI algorithms, and the profits of market makers. While there are techniques like rolls and time spreads to mitigate these effects, they can be laborious and transaction-intensive.

SVOL strategically sacrifices some upside potential to temper its market gains, aiming for stability and sustainability. By reducing the amount of short volatility to achieve over 100% gains to around 20% gains, SVOL effectively dampens the volatility associated with a short volatility fund. This fund will likely misbehave under market stress, just not as bad as some of the others.

Chapter 3
The Charts

A picture may be worth a thousand words, but sometimes, as in my case, we will have to accept only a dozen or so. Let's dig into the charts to understand past trends and anticipate future developments.

S&P 500 (5,254.35)

Looking back at the previous year, our performance has largely followed the seasonal trends depicted in Chapter 7, albeit with certain variations and timing adjustments. Considering the current patterns of seasonality and momentum, it's likely that the S&P 500 will sustain its present course until May, followed by a brief slowdown in June, before resuming its upward movement through August. A period of consolidation is expected in September, leading to a potential selloff in October, influenced by the uncertainty surrounding the election. Post-election, irrespective of the outcome, the market is poised to continue its upward trajectory, unless significant disruptions occur.

We are already well beyond my 2024 year-end projections.

The chart continues to be bullish

U.S. 10-Year Bond Rates

As soon as expectations arose that the Federal Reserve might halt its interest rate hikes, the 10-year Treasury yield underwent a notable adjustment. This change resulted in a drop of over 1% in the yield, declining from nearly 5% to just below 4%. I am inclined to invest if the rates stabilize within a long-term range of 3.7% to 4.4%. Rates significantly exceeding this range may suggest a return of inflation, whereas rates considerably below it could indicate the market's anticipation of a more pronounced economic slowdown.

Rates are going up as if there is more inflation around the corner.

TIPS

The yield of this financial instrument is closely linked to the inflation rate, suggesting that a reduction in inflation could result in a corresponding decrease in its yield. The deviation from the long-term trend line signals that the market expects moderate inflation. Given this, it would be wise to closely monitor Treasury Inflation-Protected Securities (TIPS) for indications of inflationary shifts. TIPS have experienced a downturn since the containment of inflation, now standing 15% below their 2021 highs.

The instrument suspended its dividend in the first quarter of this year but has resumed it this month, though its current yield is still below 1%. The market seems to be indicating that inflation is approaching a state of equilibrium. While this instrument may not be a great investment choice at the moment, it serves as an excellent barometer for inflation.

This chart shows a drop in inflation expectations

Crude Oil

Oil is a critical barometer for forecasting economic trends, particularly potential downturns, making its vigilant monitoring essential. Its current price trajectory suggests an expectation of robust global economic growth. From my perspective, an oil price below $80 per barrel is acceptable, but a drop significantly below $70 could be indicative of economic frailty. An exception to this would arise if the Ukraine conflict is resolved, potentially granting Russia improved market access and increasing its pursuit of hard currency. The prevailing trend suggests an increase in oil prices, but I believe this is more attributable to supply issues rather than inflation.

Lower oil is good for the economy.

Copper

Copper prices are currently exhibiting a mostly sideways trend, indicating economic stability. While a slight decrease in prices would be preferable, the current trend suggests that copper demand remains robust, even amidst the challenges faced by China's economy.

They say Dr. Copper has a Ph.D. in economics… copper has been stable.

U.S. Dollar

Again, we are in the range of stability.

The dollar has weakened, and now need to be watch to see if it gets too weak.

Conclusions:

S&P 500: Up
Rates: Down
Tips: Down, stable
Oil: Stable, slight up bias
Copper: Stable, slight up bias
U.S. Dollar: Stable, slight up bias

Conditions are very good but they need to be watched for any changes.

Chapter 4
The Fundamental Indicators

<u>Economic Projections</u>

The *<u>headline numbers were my predictions at the beginning of 2023;</u> these predictions may now be laughably wrong.The Second headline is my prediction for 2024*

US Gross National Product (GDP) > 1.5% by the end of 2024

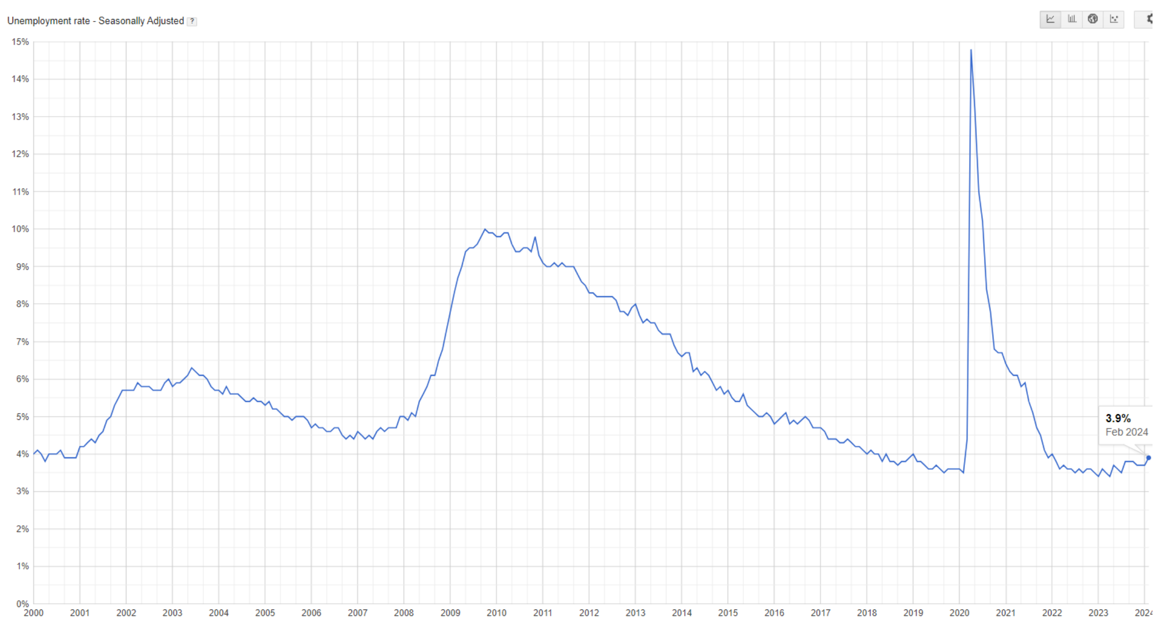
Current forecasts suggest that the US GDP growth will be around 2.4% a significant increase in the last 3 months from 1%.

The projections for Global GDP are an anticipated growth rate of around 2.5%. This is being held back due to China, while he eurozone continues to stagnate, with Germany's recession weighing on France and the rest of the group.

The GDP projections are stable, but a recession is possible later this year

Unemployment will be > 4.0% by the end of 2024

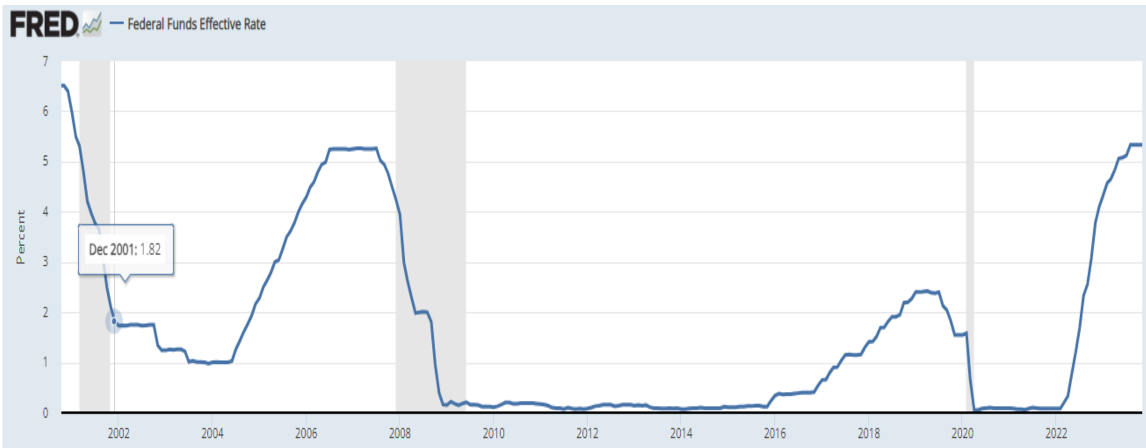
The official unemployment rate has demonstrated remarkable stability in recent times, we have a 3.9% in February up slightly from 3.7% in the last report. This stability in the unemployment rate indicates a certain level of resilience and steadiness in the job market, suggesting that the economy is managing to sustain its employment levels despite various external challenges.



Unemployment currently is beneficial

Federal Reserve rates will be > 4.00% by the end of 2024

Currently, the Federal Reserve's interest rate stands at 5.25% to 5.50%, reflecting the ongoing efforts to balance economic growth and inflation. Market projections are anticipating as many as three rate cuts within the year, aiming to bring the short-term rates down to approximately 4.75% from the current level of 5.5%. The expectation of fewer rate cuts assumes that the economy will demonstrate better than expected growth, thereby reducing the need for the Federal Reserve to intervene as frequently as predicted by current market expectations.



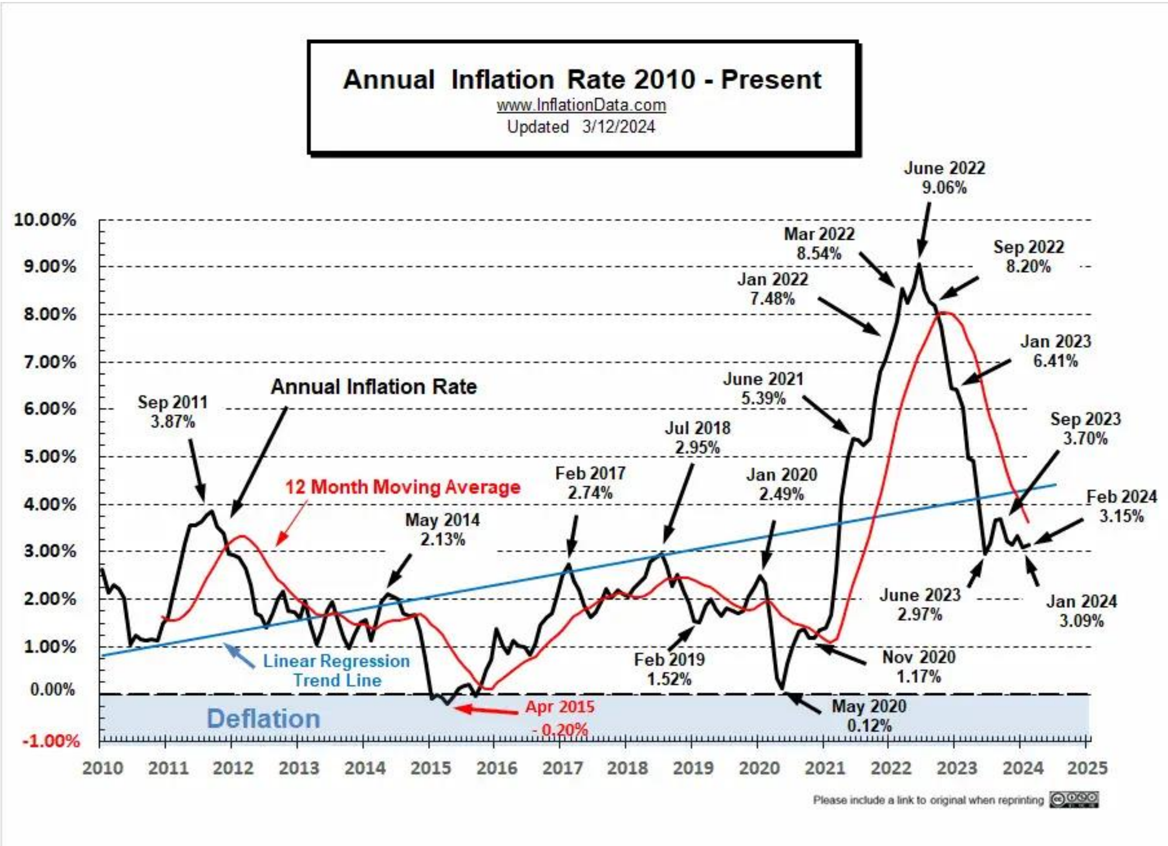
Shaded areas indicate recessions

I believe the Federal Reserve is done raising rates and should lower them soon.

Inflation < 4.0% in 2023 (Actual 3.14%)
Inflation >3.5% in 2024

The most recent inflation data shows an annual rate of 3.15% down from 3.67% last time. Given the likelihood that we've reached the saturation point of the money supply, I anticipate that inflation will remain above 3% this year. A range of 3-5% could become the new norm, largely due to the excessive debt levels in the U.S.

Although the corresponding chart is quite detailed, it's worth examining and comprehending to fully understand these trends.



Current inflation is under control and trending down…

S&P 500 index > 5150 at the end of 2024

The S&P 500 index began 2024 at 4,769.83 and has since climbed to 5,254.35, marking a significant rise of 10.1% so far this year.

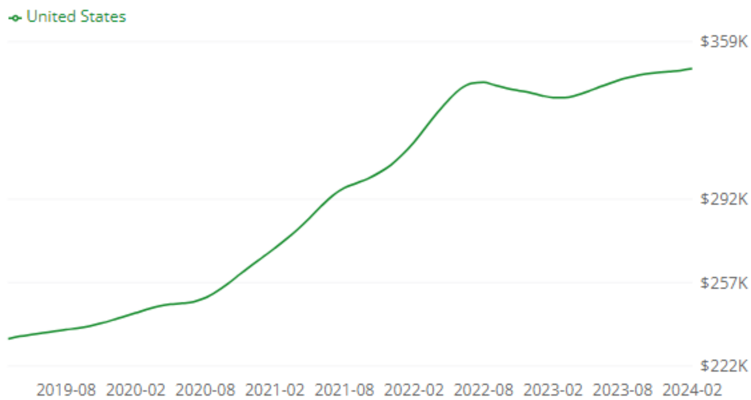
The markets are trending up but may be due for a pause.

Real Estate Average Home >$370k in 2024

As of 2024, housing prices started at $343.9K and have risen to $347.7K. During the same period, there has been a notable increase in the 30-year mortgage rate, now at 6.49% according to this report. The shifts in housing prices and mortgage rates over the last few years have significantly impacted the average mortgage payment. With a 20% down payment, the average monthly mortgage payment, which stood at $1,070 in 2022, is currently $1,756. Consequently, due to increased mortgage costs and the additional taxes resulting from higher income, an individual now needs to earn an additional $4.00 per hour after taxes to keep up with these expenses.

National Average Mortgage Rates

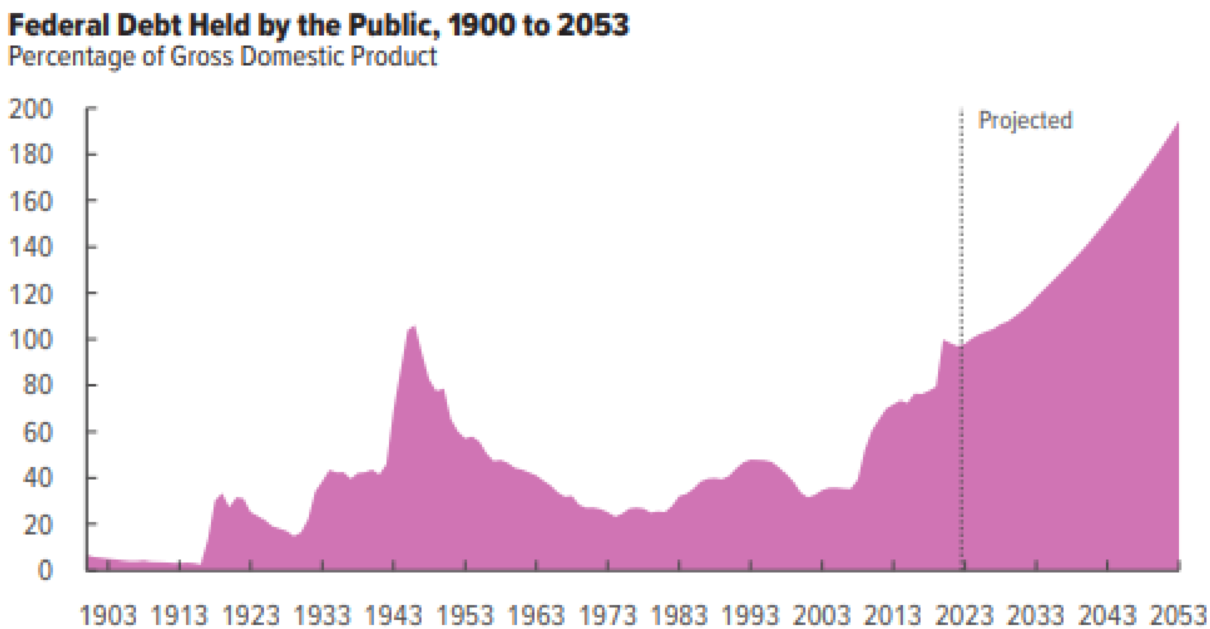
Housing price projections



The rise in rates and home prices may have paused, but it is still too high

>2.0 trillion Dollar Budget deficit for F.Y. 2024

The projected budget deficit for this year has escalated to $1.850 trillion, a significant increase even in the absence of an officially approved budget. This surge in the deficit reflects the gap between the government's anticipated revenues and expenditures. The lack of a formal budget for the year adds a layer of complexity to fiscal planning and economic forecasting, as it leaves uncertainties around government spending and resource allocation.



The debt spiral had already begun. We will be unable to maintain the value of the dollar sometime around 2035.

Chapter 5
The Technical Indicators

Technical analysis attempts to forecast the future direction of prices by studying past market data. I use Barchart (http://www.barchart.com/) to develop an investment's final "objective" opinion. Its primary ability (flaw) is to predict the future by extrapolating past performance. One phrase does come to mind, "Past performance is not an indication of future results," although this is precisely what these calculations try to do.

Model Portfolio and other technical indicators (+100% = strong buy; -100% = strong sell)

U.S. ETFs	12/31/22	12/29/23	3/31/23	Link
SPY	-72%	+100%	+100%	http://www.barchart.com/opinions/etf/SPY
QQQ	-100%	+100%	+100%	http://www.barchart.com/opinions/etf/QQQ
IWM	-88%	+40%	+100%	http://www.barchart.com/opinions/etf/IWM
International				
EFA	+56%	+56%	+100%	https://www.barchart.com/etfs-funds/quotes/EFA/opinion
EEM	-24%	+56%	+100%	http://www.barchart.com/opinions/etf/EEM

Bonds	12/31/22	12/29/23	12/29/23	Link
TLT	-72%	+24%	+24%	http://www.barchart.com/opinions/etf/TLT
SHY	-56%	+88%	+48%	http://www.barchart.com/opinions/etf/SHY

Gold/Oil/Dollar Index/Euro/Yen				
GLD	+56%	+88%	+100%	http://www.barchart.com/opinions/etf/GLD
USO	-72%	-72%	+72%	http://www.barchart.com/opinions/etf/USO
UUP	-56%	-56%	-24%	http://www.barchart.com/opinions/etf/UUP
FXE	+72%	+56%	+8%	http://www.barchart.com/opinions/etf/FXE
FXY	+56%	+24%	-100%	http://www.barchart.com/opinions/etf/FXY

Volatility Index (a positive number is bad for the markets)

VIX Index	-100%	-100%	-56%	http://www.barchart.com/opinions/stocks/$VIX

Volatility

Volatility Chart (market fear index)

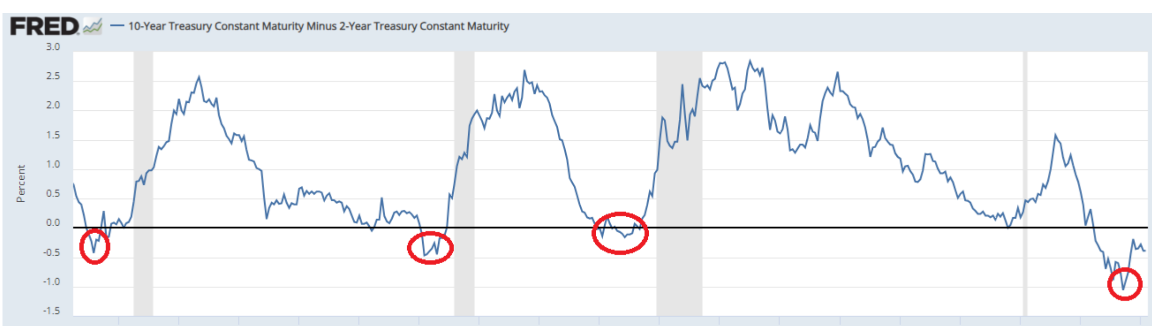
The Volatility Index (VIX) is often referred to as the "fear gauge" of the S&P 500 stock index and is used as a proxy for the general U.S. stock market. A lower VIX indicates reduced market anxiety, which typically correlates with increased investor confidence and, consequently, higher stock prices. Conversely, a higher VIX suggests elevated fear, signaling potential caution or uncertainty in the market.

If we stay below 18, I believe the market is in good shape. We are now at 13.01 which is on the low end of the scale.

The VIX is very subdued for now

Ten's minus Two's

The '10s minus 2s' spread, which is the difference between the U.S. 10-Year Treasury Yield and the 2-Year Treasury Yield, serves as a trusted indicator of potential recessions. The accompanying chart offers a 20-year historical perspective, with grey areas marking periods of recession. It's observed that historically, this spread often turns negative, indicating an inverted yield curve, several months prior to the beginning of a recession. This pattern underscores the spread's predictive value in signaling economic downturns.



Traditionally, such a trend often signals a looming recession. While it is not always a definitive indicator, it usually points in that direction. Note that we have dipped below that threshold once more. From the previous level of -1.06, we have moved up to -0.39.

The 10’s minus 2’s spread is still indicating a recession warning

Technical Summary…

In the current technical landscape, the market predominantly signals strong buying opportunities across various sectors, except for the Yen and the dollar. The recent move by the Bank of Japan to raise rates, with an eye toward normalization, likely explains the lackluster indicators for the Yen.

Interestingly, a declining trend in the US dollar generally bodes well for stocks. A weaker dollar can enhance the competitiveness of US exports, potentially boosting corporate revenues, especially for companies with substantial international business. This can have an overall positive impact on stock prices.

Therefore, while the broader market abounds with buying opportunities, movements in the US dollar warrant attention. A falling dollar could further reinforce the positive outlook for stocks, contributing to the current bullish sentiment in the market.

The indicators are “Risk-On” overall.

Chapter 6
Mark's Model ETF Portfolios

Asset Allocation

I have constructed four portfolios, each with varying levels of riskiness from lower to higher risk, just by using a combination of 12 (or fewer) Exchange Traded Funds. The results (next page) include fund fees but not broker transactions or money manager fees.

U.S. large-company funds:	**Stock Market Symbol**
S&P 500 fund	**SPY**
Nasdaq 100 (Tech) fund	**QQQ**
Dow Jones Industrial Average fund	**DIA**
Vanguard value fund	**VTV**
U.S. small-company fund:	
Russell 2000 small U.S. company fund	**IWM**
International company funds:	
Europe, Australasia, and Far East	**EFA**
Emerging Markets Fund	**EEM**
Fixed Income (Bond) funds:	
20+ Year U.S. Treasury Bonds	**TLT**
7-10 Year U.S. Treasury Bonds	**IEF**
US Aggregate Corporate Bonds	**AGG**
Investment Grade Corporate Bonds	**LQD**
Short bond term fund (cash):	
iShares 1-3 Year U.S. Treasury Bonds	**SHY**

Allocation of Portfolio by Risk Level

	Low	Balanced	Growth	Aggressive
SPY	5%	7.5%	10%	7.5%
QQQQ	5%	7.5%	10%	7.5%
DIA	5%	7.5%	10%	7.5%
VTV	5%	7.5%	10%	7.5%
IWM	10%	10%	20%	30%
EFA	5%	10%	15%	20%
EEM:	5%	10%	15%	20%
TLT	12.5%	8.75%	2.5%	0%
IEF	12.5%	8.75%	2.5%	0%
AGG	12.5%	8.75%	2.5%	0%
LQD	12.5%	8.75%	2.5%	0%
SHY	10%	5%	0%	0%

Model Portfolio Results

Name	Symbol	12/31/23 Price	3/31/24 price	Yield Rate (Est.)	2024 Gain w/ Dividend
`S&P 500 fund	SPY	$475.31	$523.07	1.22%	**10.38%**
Nasdaq 100 (Tech) fund	QQQ	$409.52	$444.01	0.52%	8.56%
Dow Jones Industrial Average fund	DIA	$376.87	$397.76	1.77%	6.01%
Vanguard Value fund	VTV	$149.50	$162.86	2.47%	**9.61%**
Russell 2000 Small-Cap fund	IWM	$200.71	$210.30	0.99%	5.04%
Europe, Australasia, and Far East fund	EFA	$75.35	$79.86	0.00%	5.99%
Emerging Markets fund	EEM	$40.21	$41.08	0.00%	2.16%
20+ Year U.S. Treasury Bond fund	TLT	$98.88	$94.62	2.56%	-3.70%
7-10 Year U.S. Treasury Bond fund	IEF	$96.39	$94.66	2.05%	-1.29%
U.S. Aggregate Corporate Bond fund	AGG	$99.25	$97.94	1.20%	-1.02%
Investment Grade Corporate Bonds	LQD	$110.66	$108.92	2.87%	-0.87%
1-3 Year U.S. Treasury Bond fund	SHY	$82.04	$81.78	2.36%	0.27%

RESULTS	**Low Risk**	**Balanced**	**Growth**	**Aggressive**
’24 Return	1.81%	3.32%	5.51%	5.73%
’23 Return	11.33%	14.34%	18.49%	18.34%
’22 Return	-16.80%	-16.95%	-17.23%	-17.59%
’21 Return	5.46%	8.89%	14.06%	13.63%
’20 Return	13.13%	14.37%	16.39%	16.47%
’19 Return	16.75%	19.79%	24.18%	24.53%
’18 Return	-3.6%	-5.29%	-7.97%	-10.06%
’17 Return	12.10%	16.88%	22.60%	24.16%
’16 Return	6.92%	8.34%	11.58%	12.73%
’15 Return	-0.91%	-1.48%	-2.47%	-3.96%
’14 Return	9.16%	8.31%	6.71%	4.25%
’13 Return	8.34%	13.31%	22.72%	24.75%
’12 Return	8.97%	11.56%	15.30%	16.86%
’11 Return	7.02%	3.30%	-2.52%	-6.51%
’10 Return	11.17%	12.45%	15.53%	16.91%
’09 Return	11.14%	19.65%	31.48%	36.54%
’08 Return	-8.18%	-18.66%	-33.90%	-39.60%
’07 Return	7.82%	9.40%	10.04%	10.45%
’06 Return	9.72%	13.63%	19.09%	21.83%
’05 Return	5.49%	7.55%	9.73%	11.77%
Average annual return	5.47%	6.57%	8.06%	7.93%

Many pension funds and endowments would have paid handsomely for this performance. Yet, here they are offered up to anyone…. for free.

Chapter 7
The Plan

Every trader reserves the right to make a more intelligent decision today than he made yesterday. - Sheldon Natenberg

The Good

- Innovations and efficiencies create new real wealth every day.
- AI will foster economic efficiencies, reducing costs and increasing production.
- The Fed seems to have entered the lowering of rates phase of its interest rate policies.
- Lower interest rates.
- Resilient global GDP growth.
- Likely stabilization in housing market due to lower rates.

The Bad

- Potential underground nuclear "test" by Russia within its borders.
- "Ten minus twos" still signaling a looming recession.
- Commercial real estate concerns.
- Deepening partisan politics.
- Another contentious Presidential election.
- Known unknowns.

The Ugly

- AI's potential to soon displace a large portion of skilled workers.
- Escalating federal, state, and local debt levels reaching unsustainable heights.
- China may invade Taiwan.
- Possibility of an above-ground nuclear "test" by Russia outside its borders.
- A populace unaware of the intricate system that provides for all their wants and needs.
- Leadership that seems incapable of foreseeing the repercussions of their decisions.
- Unknown unknowns, the kind that blindsides you at 4 p.m. on some idle Tuesday.

S&P 500 Valuation

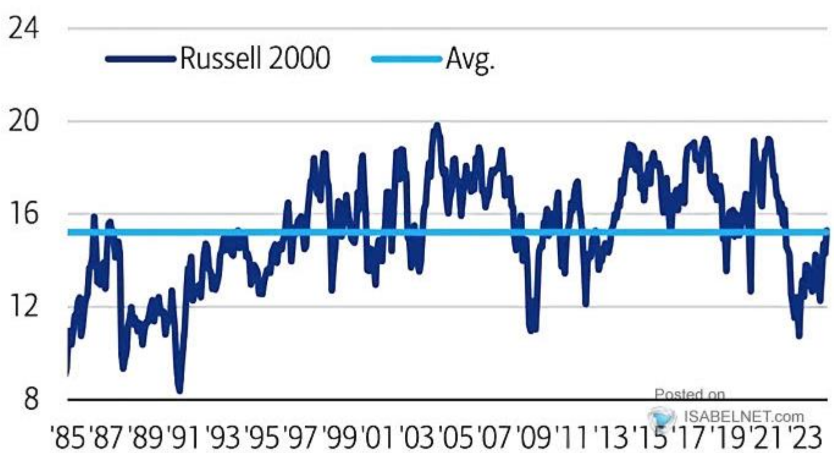
The discussion of the S&P 500 Earnings in Chapter 1 suggests that the S&P 500 is near fair value last year, however, due to recent market advances, it might be slightly overvalued.

On another note, the Russell 2000's performance is intriguing. Despite a respectable 17% gain last year, it trailed behind the S&P 500's 26% and the Nasdaq's impressive 55% gains. The accompanying chart shows the Russell 2000 lagging its historical average P/E ratio. This is one of my main investment themes this year.

Considering a potential economic rebound accompanied by lower interest rates, smaller companies, like those in the Russell 2000, are likely to experience quicker growth compared to larger firms. Moreover, in adverse economic conditions, this group might not face as steep a decline as it hasn't risen as sharply as its larger counterparts. This dynamic makes the Russell 2000 an interesting segment to watch in the evolving economic landscape.

Exhibit 1: Small cap forward P/E above the long-term average

Russell 2000 Forward P/E, 1985-2/29/2024



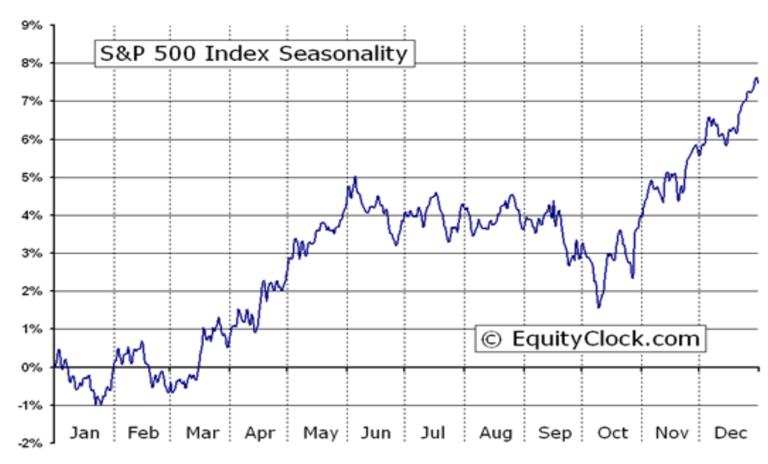
Source: BofA US Equity & Quant Strategy, FactSet

My back-of-the-envelope math suggests a 10% normal growth, coupled with an additional 15% from P/E multiple expansion. My base case predicts a 25% gain in the Russell 2000 this year, which could potentially reach 35% with a stronger economy. The question is, will this occur in 2024, or will we need to wait until 2025 or 2026?

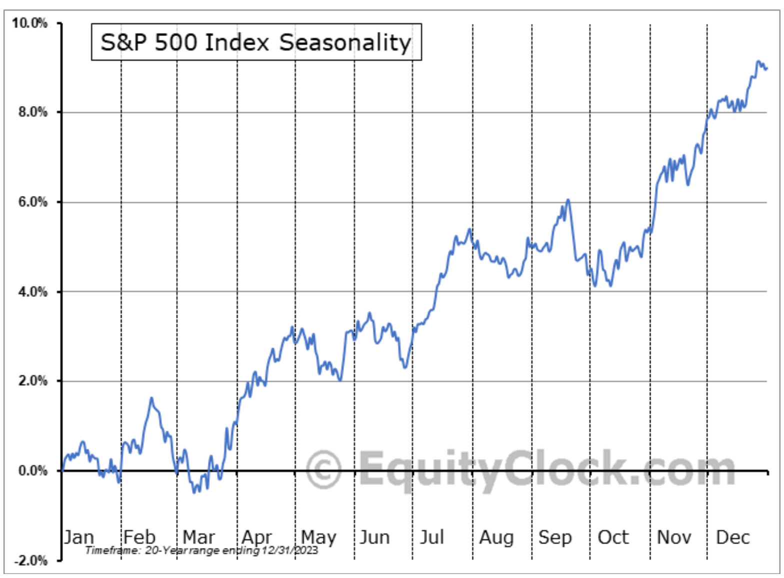
The Russell 2000 is poised to do well in the next two years.

Seasonality

We are currently in a period where the market often goes up until June. Based solely on seasonality, I anticipate some volatility in the next few months but overall bullish. Historically, late June has been a more favorable a short-term top, but it is worth noting that this indicator is not always foolproof.



I have relied on the previous seasonality chart for the past decade, but I've now included an updated version. Moving forward, I plan to utilize both charts. The new chart suggests a continuous upward trend throughout the year, almost without interruption.



The markets tend to go up until at least June.

The plan (subject to change without notification):

Let us review my new assumptions before digging into the plan.

My market assumptions:

- Anticipate a slowdown to a very moderate recession late in 2024.
- Expect inflation to stabilize within the 3-5% range.
- Foresee a pause in the Ukrainian war or a ceasefire.
- Believe the Fed will start cutting rates.
- Assume bonds yields have peaked in 2023.
- Expect labor market tightness to ease, but with unemployment staying low.
- The impact of AI will start to show in the economy later this year, especially in tech companies dependent on efficient or innovative software.
- The 2024 Presidential elections will have little unexpected economic drama.
- China stabilizes.
- China does not invade Taiwan.

I anticipate 2024 will be a relatively calm year for the markets until September, although I remain vigilant. Any significant global upheaval or new conflict could dramatically alter my perspective, potentially requiring a reevaluation of my investment strategy.

Navigating these challenges, particularly in light of ongoing geopolitical tensions and an inflationary climate, is key to building a strong, resilient portfolio. However, current valuations in the chips, Nasdaq 100, and S&P 500 are starting to raise concerns.

The labor and commodities markets are showing signs of relaxation, hinting that inflation might ease in the near term. Nonetheless, I expect an inflation rate of approximately 3-5% to become standard over the next few years. As Artificial Intelligence increasingly influences the economy, we may witness a period where subdued inflation coexists with a rise in unemployment.

In the short term, my outlook is for a modestly upward-trending market over the next three months, largely driven by seasonal patterns and a stable Federal Reserve policy. I'm anticipating a sideways market this Summer.

My big buckets for this year.

The Russell 2000 (IWM) will be my core instead of S&P 500 ETF (SPY)
Aggressive Tech/Growth: SMH, QQQ
Value: IWM
High Yield such as AGNC, MORT, BSM, ET have all been replaced by SVOL
Limited use of crypto such as ETHE, and GBTC
Volatility harvesting is short VXX put spreads and SVOL

With an aggressive portfolio and cheap options, I will buy a lot of hedges. I will be Selling short dated call (weekly) options and use that money to fund long dated (quarterly) near the money put options. I'm giving up upside to limit downside.

This is my portfolio currently looks like and expect it to stay this way until September.

- Core/Value
  - Russell 2000 (IWM), fully hedged using covered calls income to fund puts.

- Growth
  - Chip sector (SOXX), hedged
  - Nasdaq (QQQ), hedged

- High Yield
  - SVOL, 7% trailing stops

- Speculative
  - iPath Series B S&P 500 VIX Short-Term Futures (VXX), self-hedging
  - Grayscale Bitcoin Trust (GBTC), 20% trailing stops
  - Grayscale Ethereum Trust (ETHE), 20% trailing notification

- Safety/Cash (minimal)
  - Cash

Watch…

- The VIX, sell 1/3 of portfolio and exit all of SVOL with VIX above 18.
  - Sell another third at Vix 20.
- China's economy
- Ukraine
- Dr. Copper

<u>How I can (will) be wrong</u>

- Russian escalation.
- Renewed inflation.
- A softer economy.
- Economic meltdown in China.
- Known unknowns.
- Unknown unknowns.
- Anything and everything.
- Odds are I will be…

Final Thoughts

Anticipate my next report around July 5th, 2024. At that time, I will once again attempt to entertain you with my updates, opinions, reflections, lousy grammar, and exceptionally bad poofreading. 😉 – Mark

Appendix 1
Value Stocks

This is a short list of some cheap stocks I like. I also show the expected earnings yield for next year, what it is expected to earn in ’24 versus its current stock price (i.e., return on investment), and for those who prefer P/E ratios, I have included those also.

Stock	Symbol	Dividend Yield	Est. Earnings Yield (Earnings/Price)	Forward (‘24) P/E
Alliance Resources	ARLP	**13.87%**	19.50%	5.13
ArcelorMittal S.A.	MT	1.58%	19.40%	5.16
Vale S.A.	VALE	**14.41%**	19.30%	5.17
General Motors	GM	1.08%	18.80%	5.32
Precision Drilling	PDS	-	15.30%	6.53
BP	BP	4.53%	14.30%	6.99
Golden Ocean Group	GOGL	4.69%	13.90%	7.2
AGNC Investment Corp	NLY	**13.20%**	13.80%	7.27
Black Stone Minerals	ESNT	1.90%	11.80%	8.44
Citizens Financial Group	CFG	4.69%	11.10%	8.98
GSK PLC	GSK	3.42%	10.60%	9.44
Citigroup Inc	C	3.32%	10.50%	9.5
Olin Corporation	OLN	1.37%	10.50%	9.53
American International Grp	AIG	1.84%	10.40%	9.6
Diamondback Energy	FANG	4.13%	10.00%	10
Starwood Property Trust	STWD	**9.44%**	10.00%	10.01
Halliburton Company	HAL	1.73%	9.90%	10.06
Enterprise Products	EPD	**6.87%**	9.70%	10.35

ARLP is a high reward for moderate risk, but I would call it speculative, and EPD has a good yield for a modest-risk stock. All the bolded stocks are expecting a 20% or more earning growth in 2025 over 2024.

These need to be watched closely with current conditions.

Appendix 2
High Yield

High yield is a precarious investment by nature. Here is a short list of a few of the high-yield investments I like, along with the current market yield.

Stock	Symbol	Yield
iShares Bond Buy/Write Strategy	TLTW	19.28%
Simplify Volatility Premium	SVOL	16.22%
AGNC Investment Corp	AGNC	14.57%
Alliance Resources	ARLP	13.87%
Annaly Capital Management	NLY	13.20%
VanEck Mortgage REIT Income	MORT	12.89%
Blackstone Mortgage Trust	BXMT	12.46%
Global X SuperDividend ETF	SDIV	12.28%
Invesco High Dividend Yield	KBWD	12.04%
Black Stone Minerals	BSM	11.99%
Global X NASDAQ Covered Call	QYLD	11.55%
Blackstone Strategic Credit	BGB	11.48%
MS Emerging Markets Debt	MSD	11.16%
PennyMac Mortgage Investment	PMT	11.02%
Kimbell Royalty Partners, LP	KRP	10.77%

Many high-yield investments held up despite rising interest rates. If rates were to go down, these instruments would see price appreciation. The bolded stocks are the ones I would buy in my portfolio. I own SVOL.

In my subjective view, I highlighted the most interesting based on risk vs. reward.

Most of these investments are not regular stocks and typically do not qualify for special tax treatment under U.S. capital gains rules. Most of these investments are a Trust, Real Estate Investment Trust (REIT), Bond fund, Master Limited Liability Partnership (LLP), Master Limited Liability Partnership (MLP), or other tax landmines. I put these instruments in my IRA rollover to avoid most of these tax headaches, but even that potentially creates some tax burden. Be sure you and your investment (tax) advisor know what you may be getting into before investing and getting a crazy high tax bill at the end of the year.

Appendix 3
Growth

Here is my short list of high-growth investments and the current projected year-on-year growth, forward price-to-earnings ratio, and analyst annual growth projections for the next five years.

Many more stocks had good growth, but their charts could have been better. Last year's sell-off was brutal to all growth stocks; these names may have bottomed.

Stock	Symbol	'25 growth	Forward P/E	5 Yr. Growth
Sea Limited	SE	**159.3%**	38.36	**128%**
Marvell Technology	MRVL	**69.5%**	29.66	18%
AMD	AMD	**50.6%**	35.67	23%
ASML Holding N.V.	ASML	45.9%	31.94	22%
Eli Lilly	LLY	45.6%	42.77	**50%**
Snowflake Inc	SNOW	44.3%	115.43	18%
Super Micro Computer, Inc	SMCI	40.3%	32.76	48%
Celsius Holdings	CELH	40.0%	53.84	55%
Block, Inc.	SQ	29.4%	**19.62**	58%
Amazon	AMZN	25.6%	37.5	15%
Nvidia Corporation	NVDA	24.2%	32.12	35%
Netflix, Inc.	NFLX	23.5%	30.92	23%
Chipotle Mexican Grill	CMG	21.2%	44.84	22%
AeroVironment, Inc.	AVAV	21.1%	45.22	18%

Eli Lilly offers the best year-over-year growth but my **pick for this year is Nvidia**, despite all the hype and recent spectacular price appreciation. The combinations of exceptional Growth, low P/E, and astounding projected long-term growth for a core investment. For a non-tech play, Eli Lilly is my pick but its valuation is very high, and would need to hold these growth rates for 2-3 years to make it reasonable. Lower on the list is Chipotle Mexican Grill and Booking Holdings Inc but solid for those who want growth without being so heavily weight in tech. Nvidia Corporation, Block, Inc., Meta, and Booking Holdings Inc. all have very reasonable, if not cheap, P/E ratios. Nvidia, Amazon, and Block are the kings as far as the projected growth rates for the 5 years.

If Nvidia were to hold that growth rate for the next 5 years, it should be worth around 16,000 a share, obviously I do not believe that projection, but even a quarter of that would spectacular.

* Indicates stocks that I own at the time of this publication.

Appendix 4
Country ETFs

The yields shown below are ’23 total returns, including dividends.

Country	ETF symbol	2023 Total Return	2024 YTD Gains
Australia	EWA	15.6%	1.3%
Argentina	**ARGT**	**54.0%**	4.8%
Brazil	EWZ	**33.3%**	**-7.3%**
Canada	EWC	14.8%	4.4%
Chile	ECH	8.5%	-5.8%
China	FXI	-12.9%	0.2%
EU	VGK	20.1%	5.0%
France	EWQ	21.6%	5.7%
Germany	EWG	23.2%	6.9%
Greece	GREK	**42.7%**	8.0%
India	INDA	17.7%	5.7%
Indonesia	EIDO	2.2%	0.9%
Israel	ISRA	0.3%	7.3%
Italy	EWI	**30.6%**	**11.2%**
Japan	EWJ	20.1%	**11.2%**
Mexico	EWW	**40.6%**	2.1%
South Africa	EZA	-0.6%	**-7.3%**
South Korea	EWY	19.9%	2.4%
Spain	EWP	**30.1%**	5.0%
Sweden	EWD	**26.0%**	1.2%
Switzerland	EWL	16.7%	-1.4%
Turkey	TUR	-9.2%	**11.3%**
UK	EWU	12.4%	3.5%
USA	SPY	**26.6%**	10.4%

The big winner was Argentina in 2023, with a respectable 54.0% gain last year. This year Turkey is in the lead while South Africa and Brazil are the laggers.

My To-Do-List for Printing (Q2/24)

Watch

- S&P 500 break below 4450 for 2-3 days
- China's economy
- Ukraine
- VIX above 18
- Dr. Copper
- IWM

Implement: 10% of cash each week for 10 weeks on Thursdays:
(1/4) (1/11) (1/18) (1/25) (2/1) (2/8) (2/15) (2/22) (2/29) (3/7)

- Core/Value (35%)
  - Russell 2000 (IWM)

- Growth (20%)
  - Nvidia (NVDA)
  - Chip sector (SOXX)
  - Nasdaq (QQQ)
  - Amazon (AMZN)
  - Booking (BKNG
  - Eli Lilly (LLY)

- High Yield (25%)
  - AGNC Investment Corp (AGNC)
  - VanEck Mortgage REIT Income (MORT)
  - Black Stone Minerals (BSM)
  - Energy Transfer (ET)
  - Alliance Resource Partners (ARLP)
  - Enterprise Products Partners (EPD)

- Speculative (10%)
  - Simplify Volatility Premium ETF (SVOL)
  - ProShares Short VIX Short-Term Futures (SVXY)
  - iPath Series B S&P 500 VIX Short-Term Futures (VXX)
  - YieldMax TSLA Option Income Strategy ETF (TSLY)
  - ARK Innovation ETF (ARKK)
  - Grayscale Bitcoin Trust (GBTC)
  - Grayscale Ethereum Trust (ETHE)

- Safety/Cash (3%/7%)
  - Cash
  - Buy put or put spreads on SPY for a Black Swan Event (BSE)
  - Buy call spreads on VXX corresponding to 25+ VIX for BSE
  - Hedges on TSM