

Bar Fly Investing

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January 25, 2020

1 Preface

This is going to out folks who often ask me about investing, where there is no easy answer to the 'what should I do with my money' question. This paper is a portional recap of the investment vehicles which exist and my opinions only of how to use them (and how I mostly use them). It is a bar fly's guide because not unlike life lessons or gossip learned at a bar, these are encapsulations of articles, research, tv talking heads and academia where there are not many truths or guarantees, but a vast sea of opinions sometimes converging on a theme and sometimes just the rants of the crazy toothless regular in the corner. But keeping your ear out there to see signs like when your grocery store cashier tells you they are getting their realtors license or your Uber driver telling you to buy Bitcoin...its time to get out! The goal is to get you interested and informed so that you can make your own decisions and learn why and how to figure out who is saying the right things versus telling you the magic formula for making money, because that does not exist. I implore people to just spend 5-10 minutes a day with the market - instead of Instagram or Facebook, I mean that is less time than a fantasy football league or March Madness bracket - setup CNBC alerts and read an article or two while learning what the alerts really mean to your money. Cannot stress enough how much that will help out down the line. A few statements I was going to save until the end, but warrant a more predominant role just got bumped to paragraph one. First, I am not a financial analyst, risk manager, wealth manager or financial planner. Simply an enthusiast who tries to learn a bit more every day. Second, if anyone says you need to invest in X or buy Y...take that with a grain of salt. Make them produce reasons beyond a friend of a friend gave a hot tip. Cite sources, reasons and ask why five times on the pros and cons of the argument and ask the timeline to hold the asset. Less holes the better but knowing when to get in, get out and when it is too late for either is an important idea. Third, invest something, anything, whether its through your 401K, IRA or just a TD Ameritrade account. With so many investing opportunities, you can make any type of investment from something that resemble instant gambling gratification to making sure the you of 30 years from now has a guaranteed extra percent or three of wealth. 2019 was a good year for all markets. S&P 500 rose 29%, meaning it was ridiculously easy for anyone to make decent money, the trick is to set oneself up to make at least the S&P gain, but also protect for when its a loss, which is will at some point. Corrections

will happen, recessions will hit, just because last year or the last decade were good times, knowing how to navigate the bad times is just as key as capitalizing when the iron is hot. Lastly, every person uses and needs money differently. \$1000 to one person is a night out, to another it's half of their overall wealth. Some people expect average of 10% returns (401K) each year. Others expect 1% returns each year (savings account). This is why when it comes to money, talking in percentages is the great equalizer. Returns of 40% a year are incredible and a great feat. Making \$40,000 on \$100,000 is fantastic but so is making \$40 on \$100, using buying power of your returns as a reason not to invest is a very short term way to think.

2 Risk Reward Tradeoff

Now onto the next boring part, but it needs to be said to understand my feelings toward making slash not losing money. Risk versus reward is the secret sauce. When you bet colors in roulette with just under 50% probability you win and with just over 50% you lose as then zero(s) can happen and betting both black and red both lose (The real world has very weird things happen). All investment vehicles operate similarly. JP Morgan Chase offers like 1% on savings accounts. The chances your savings account disappears because, banks die, the government stopped backing them and all hell broke loose is ridiculously low. The chances you make that 1% year over year is nearly absolute. 401K plans, let's say the good ol' fashioned Vanguard Target-Date fund, will return decently each year, 6-8% over any say 10 year period, with a mix of bonds, safe high dividend stocks and some strategic moderate risk mixes. You won't get overly rich off it, but you won't get poor - which is why its one of the most popular retirement funds. Lastly, crashes, recessions and fads happen - cannot get around that. 1989. Dot com bubble. Housing crisis. Bitcoin? Who knows. But in a crash of any kind, the only safe money might be under your couch or in the ground, so prepare that sometime in life you will drop a large percentage in a short time... but thats what investing is... winning the long term, not the short term. If you don't win in the good times, you can't make it through the bad times. If you don't stay through the bad times, you aren't in it to win during the good. Sure you can try and buy low sell high with the best of them, but if that were so true, 2009 would have eventually produced many more billionaires than it did. Also everyone would just, make easy money all the time. As the rest of this paper unfolds, a major theme will be explaining the level of risk and potential reward (or loss) of any given type of investment, stock, fund, etc. This risk is tied to time so buckle up, there are no easy answers, just information.

3 Short, Medium, Long Term Investing

What is the time period of your investment? Retirement might be 20, 30, 40 years away so prepping for the long haul is very different at all of those stages. Putting aside some money to capitalize on short term returns to try and make it big, also a very different portfolio look and feel. Let's break down a few scenarios. First and most importantly,

saving for retirement. The risk mix should decrease with age as your time to recover from a drop is less and less. At age 60, bonds should make up a good portion of your portfolio as they are more guaranteed returns and a snap financial crisis would not have much impact on your net worth with little time to work to make money back. At age 25, a much more aggressive strategy which you could afford major slumps as you will not only be able to recoup much of it as the market corrects, but assumingly will make more money as you grow in your career. The more you can pump up your account early, the more compound interest can take over over the years. This sounds like the risk section, as mentioned, the two are related. More toward the timing aspect, stocks, sector funds, options as we will explore all have some important timing aspects.

A related opinion is active investing at least to some extent is very important in this day in age. By active I mean, every 9-12 months making sure your portfolio is doing what you want it to. Is Google, the Financials Sector and your Vanguard 500 mix making you above market average returns or is there a better mix? Maybe Energy becomes hot, Tech drops and Emerging Markets become a haven for returns. These decisions on an annual basis can make major impact to your medium and long term investments. On the short term, daily and weekly news might impact your returns. When I talk about short term, I'm talking about 3-6 month holdings or less (ish). Riding a stock through earnings season or a fund through a global risk environment before major news breaks. Medium term is on the order of less than around the 2 year mark. Everything else will be longer term which I will not spend too much time on because again, active investing is important and more interesting than putting a mix out there and taking what the market gives over a 5-10 year span. Side note, I will not discuss real estate in this paper or start up investing or the like as they are not what I would call easily liquidated. The investments below can in most realistic scenarios be bought and sold at the latest the next business day.

4 Diversification and Portfolio Creation

This one is short. Diversify every aspect of your money. Short term to Long Term. Extreme Risk to Risk Free. An appropriate mix of stocks, bonds, options, commodities, cash which makes you comfortable with the worst case downside and the average case upside. Again, my opinion only, as I am not one to go 'all in' on the next big thing, rather opting to have a hand in many different cookie jars ready to move in and out of positions as the world turns differently. Let's get started on the variety of vehicles tour.

4.1 Stocks

When it comes to stocks, this is probably the most fun part, individual stock picking makes people famous, drives conversations and keeps the talking heads busy all day on tv. But also stocks are the fundamental building blocks to most all other investment vehicles you have access to so understanding them is crucial. First off, picking individual stocks is the hardest (and sometimes the most ill-advised) thing to do. Let's try it

anyway. Generally speaking there are two types of stocks, growth stocks, like Amazon (AMZN), NVIDIA (NVDA), Facebook (FB) and then dividend stocks like Target (TGT), CVS (CVS), Duke Energy (DUK). The difference is in the traditional expected growth year over year. Growths do not offer a payout for owning the stock, but shareholders bank on the stock being high-flying and growing 20-30% a year or probably much much more. Dividend stocks do not look for that sort of growth, they would like to grow at a comfortable 5-10% a year, but offer 3% or more per share per year, guaranteed. Of course this applies to the downside as well where a high growth stock may see swings of 10% or more in a week or a month, whereas dividend stocks usually see their monster swings hit around the 2-3% mark. Typically in good times or when a certain sector is performing well, it is fruitful to get into growth stocks (see below Technology in the past decade). In down times, dividend stocks offer a nice buffer to performance. Say CVS declines 7% in a year, the 3% dividend helps offset this loss a good deal. In times of high volatility, dividend stocks see much more action as they are deemed safer. Once things stabilize and the market can 'see' steady progress, growth stocks see the money flow in. This is a theme to keep in mind when tracking any investments, there is an old motto that people buy liquor during good times and beer during bad. Similar in the market, you buy the top shelf fliers during the good times and pocket cash and commodities, bonds, stable stocks during the bad. I'd like to introduce a third category, these are a set of stocks which see much more growth like periods than yield (dividend) stocks, but also offer a smaller dividend. Take for example Microsoft (MS), Apple (AAPL) or JP Morgan Chase (JPM) which offer about 2.5%, 1% and 2.5% respectively. These dividend allow for the company to have cash for growth and investments while offering protection against volatility and downside. My markers on being a growth, mix or high dividend stock are the buckets delimited by .75% and 2.75%, however, that is very much just my opinion. One last segment are leveraged ETFs, now ETFs will be covered later on with the Funds section, but I include them so often in my portfolio as well, leverage when I feel a sector or index has room to grow and I want to capitalize on it while accepting more risk. this gives them more of a 'picking stocks' feel, more explained below. The purpose of a leveraged ETF is to track a sector or fund like SPY which is the S&P 500 and produce constant returns (positive or negative) at typically 3x what the underlying index is doing. At all times. So a day where a regular ETF or sector goes up 1%, a leveraged ETF goes up 3%. This is a great way to ride a bull or bear of your choice.

4.2 Mock Portfolios

Now lets have fun before everyone is too bored and look at some mock portfolios that might be decent for 2020 and beyond. ASSUME as an axiom we have \$10,000 to work with (an easy number to increase or decrease based on your status) and are interested in a moderate aggressiveness (risk) portfolio, meaning we are ok losing 10-15% or more but are hoping to put together upside that is 30-40% or more especially when the market is returning well (which is 2019 was 29%). Estimates from the analysts groups are predicting a lesser 2020 to the tune of high single digits to around 10% on the plus side. We are now combining our risk segment into our sample portfolios. REMEMBER, these

are tools for you to look at how you might want to build a portfolio, not stock picking tips (although I will put out some opinions much later). Meaning if I say a stock like CostCo (COST) might fit into a bucket, what I am really referencing is the stature of the company, its dividend payout vs growth expectation and its sector. As this is a sample exercise to show how one might want to go about constructing two different types of portfolios. Later in the paper I add a section - Creating My Opinionated Portfolio - which goes into my personal gut check thoughts on what the future (2020) will hold and what I am looking to invest in. First off though, a sample portfolio for someone who wants to do on the side trading, not retirement, but personal investing say with TD Ameritrade versus having excess cash in just a savings or heaven forbid a checking account. As I will mention again and again, selecting a subset of the TYPE of symbols listed which show similar style is a good method to building your portfolio.

PORTFOLIO 1 - An Alternative To Savings

Very High Risk - See Options, Crypto Currencies (1K)

High Risk: (1-2K)

Leveraged ETF: SOXL, TECL, FAS, ERX (TECS, SOCS, SH)

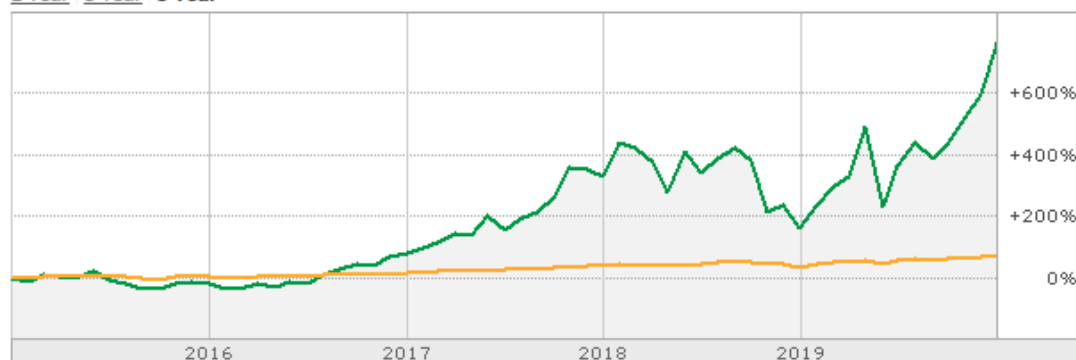
Looking for this layer to produce 30-40% returns on an upside.

These are leveraged sector like funds. 3x to be exact. As we saw with funds, they can track a specific sector. The first two mentioned above are two of my favorites for the semiconductors and technology. They goal of the fund is to match the underlying sector gauge (PHLX, XLK) by 3x the movement in growth. Again, for a 1% movement by all the semiconductors, SOXL should move 3%. This is how I like to be aggressive in the hot sectors. In the past decade these two have been the it crowd to invest in. Now this could mean they are over bought and are over valued. That is an opinion. But 3x funds are available in Oil (GUSH), Financial (FAS) and any other sector you can imagine. These are a good way to not only invest in a sector, but add some aggression to gains. Just be careful in timing as these tend to run and dip quick so monitoring an investment in these every few months is needed. This chart is at the end of the paper as well, but warrants double placement as this is how powerful (or sluggish) leverage can be. Why I like these ETFs - AI, Machine learning, Internet of Things (embedded systems) have taken over everything, various types of computer chips focused on maths, speed, implanted into everything have made these into fundamental building blocks of any product out there. To that same end, Facebook, Google, Amazon, Apple all have cash flows and the handle on their respective lanes to really set the price, crush competition and innovate with moonshots and next generation products very easily (not to mention M&A). More to come later in my portfolio building opinions and case studies section. As for what I call rising sectors, for me the best way to catch the wave on a series of good earnings calls from a particular group of stocks like banks is in a leveraged ETF. I do not need to worry about picking the 1 out of 4 which missed earnings while everyone else climbs and I get the leverage boost of hitting that 1 bank which crushed its earnings call. I

included in parenthesis an important call out, which is all of these 3x ETF's and even just regular market tracking ETF's come in bear form as well, meaning buying them is buying a down turn or negative market gains. Using these as hedge assets or simply instead of safe havens is another tool at your disposal.

Growth of \$10,000 As of 12/31/2019

[1 Year](#) [3 Year](#) [5 Year](#)



Comparison: ☒ SOXL ☒ S&P 500

	2015	2016	2017	2018	2019
SOXL Market Return	+123.20%	+141.71%	-39.06%	+231.85%	+231.85%
SOXL NAV Return	+123.30%	+141.55%	-38.94%	+231.52%	+231.52%
Trading--Leveraged Equity	--	--	--	--	+6.39%
vs. S&P 500 TR	+11.96%	+21.83%	-4.38%	+31.49%	+31.49%

Figure 1: SOXL 5 YR Performance vs. SPY

Moderate Risk (3-4K)

I'm looking for this range of risk to produce 20-25% returns.

Tech: NVDA, AMD, LRCX, TSLA, GOOG, AMZN, MSFT, AAPL

Banks: JPM, GS, C, MC

Defense: RTN, LMT, CRWD, SPLK

Why? Seems like doubling down on Tech and Semiconductors, but no need to buy both in both categories - I like to double down as they are too good lately. Or I buy a leveraged tech ETF and stocks in chips. NVDA, MU, LRCX are the darlings of the past few years and I believe along with AMD... the best in the space. Top rated innovations by every science metric, and R&D branches doing more than anyone else. Tech... growth is big, while they don't offer dividends, which keeps them a bit riskier, I see these as the blue chips of our day. This is like our parents buying GE, GM and Sears (SHLDQ) 30 years ago. There is volatility, and if the economy goes south, they may too or even lead

the charge... but the rebound is much faster typically speaking. Another area which is seeing a huge influx of money, policy and earnings wins is Financials. There are lot of people moving into banks after the meh last several years and now falling rates and fed policies. They are typically safer than several growth sectors and JPM, GS and MC are all looking very attractive. Whilst I'm not a huge fan of large ties to the economy and policy, JPM is hard to argue with steady growth through bad times and now more friendly banking conditions. They also own most of the worlds Silver, as an aside. What on earth are they doing with that. I put defense into two risk buckets because of the election year. But also added cyber security winners into this bucket as they offer a growing area of similar defense (offense) as the traditional companies. I think these areas have steady growth ahead but some risk of being close to overbought or have a few extra years already baked into the price.

Low Risk: (3-4K)

ETF: HDV, SPY

Tech: IBM

Defense: RTN, LMT, BA

Energy: PSX, MTO, SLB

Consumer Products: KO, COST, DEO

Market Owned Commodities: GLD, SLV

I look for a good 5-10% from this group.

Why? high dividends, sectors facing friendly conditions. Defense spending is way up and new innovations in offense and defense are securing big contracts for the next 3-5 years, huge and safe growth area with dividend. This is why they fit into both buckets of risk, which is quite alright in assessing your portfolio goals. KO is just a safe bet on small steady stable movement of a few percent with great dividend. Big Blue (IBM) is my newish favorite - jumped after earnings recently has seen its down time the past couple of years, but Watson will not be held down, quantum computing is around the corner and this is a blue chip of the last 30 years. Did I mention quantum computing? They are one of the leaders in the space and aside from startups conquering some early wins, this is the company who should deliver first on this. PSX and MTO offer very high dividends, here's my and many persons call into the 2020s - oil will climb, slowly. It's been super low, while every other sector has seen its decade highs. Market conditions are making it better for oil companies, and many companies are getting into new energy research and have their hands in other areas than just drilling. Their 3-4% dividends make this a safer (riskier) move with a lot of room to climb. HDV is a high dividend ETF - an interesting play I feel as this is a great hedge for any turbulence. High dividend stocks in an ETF mean you get the ATT, KO, telecoms, J&J wrapped into one - won't make you rich, but can get you some points if the market keeps up and up. Lastly, SPY never hurts. I mean it could, but with so many forecasts hinting at moderate growth, the market as a whole is the bar for returns so why not get in on the average of averages. I add commodities in here and discuss them later on as they are becoming a great diversification slash hedging tool with several ways to own metals and the industry surrounding them.

Very Low Risk: USMV, USD (1-2K)

USMV - Fund containing the historically lowest volatility companies you can own.

REIT's - Real Estate Investment Trusts, another type of ETF focused on real estate investments.

Cash for the real purpose of investing to get in when something gets hot or when something you like crashes. Short term 'Dry Powder' in order to buy low!

The very low risk section of an investment fund (not savings account) should really be a coiled snake ready to strike a higher risk asset when the time is right.

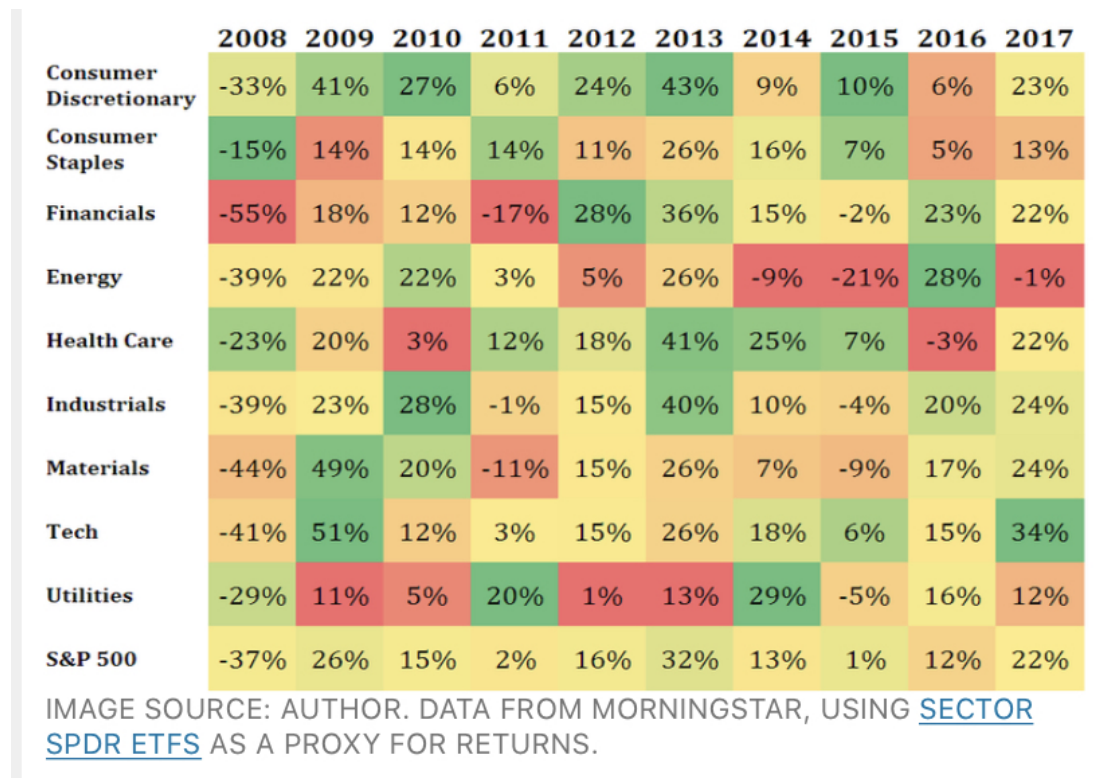


Figure 2: In and Out of the Great Recession - Transformation & Volatility

PORTFOLIO 2 - A Moderately Aggressive RETIREMENT Mix

This portfolio is for long term retirement wealth. Holding assets for 10-30+ years is very different in many aspects, especially risk tolerance. I've used many of the same symbols where appropriate to shine a light on the risk differences between short and long term goals. Again, selecting a subset of the listed assets and looking for similar style symbols to put in your portfolio is a great starting point. While I advocate actively monitoring your wealth, retirement funds tend to be a bit masked due to what your company might offer but also the tendency to 'set it and forget it'.

Very High Risk - Options, Crypto Currencies (Personal Investments Only)

High Risk: (1-2K)

Leveraged ETFs: SOXL, TECL, FAS, UGLD, USLV

Growth Stocks: NVDA, GOOG, AMZN, MSFT

Energy: SLB, PSX

Wait - weren't these in a different risk bucket? Yes. Because our goals were different. Keeping flammable products around for the long term and checking in on them yearly or less is very risky. You could see some great things like SOXL has brought, but owning them in a retirement fund you are probably asking for more risk than you realize. However, I do own all of these in mine. Why? Because they sort of hedge some individual stock picking and sheer time. Instead of getting in and out of various GOOG, AMZN, NFLX stocks, I can simply use the leveraged ETFs to quickly enter and exit positions after a good run. The Gold and Silver leverages, per the commodities section, tend to hedge my heavy growth stock percentages. This means if tech or the market overall starts fading, typically, money flows into Gold and Silver. High flying stocks are also riskier as they require more attention, but also can take out chunks of your wealth in a downturn or bad earnings call. However these are the blue chips of our time so I advise carrying some weight in these companies directly.

Moderate Risk: High Dividend Individual Stocks, Mutual Funds (2-3K)

NASDAQ Market Mix: QQQ

Defense: RTN, BA, LMT

Banks: JPM, GS, MC

Consumer Products: KO, COST, DEO

Funds: JAENX, CPOAX, 401K Emerging Market or International Funds

Again, individual stocks in a retirement fund demands attention at least at the yearly level. These offer a great way to grow wealth, but being lazy with them and leaving a fading blue chip household names like say GM or Kraft Heinz (KHC) in your portfolio for 3-5 years could spell massive trouble (the latter being down over 50% the past decade). Moderate risk is where I see managed funds, these are trying to beat the market which inherently screams a bit more risk but they are being managed by someone you are technically paying to every minute buy, sell and try to make you more money. Doing your research on a few of these can make a huge difference, however many 401K programs only offer a couple of selections. Use the comparison feature to see how they perform. I've had great success with JAENX up 35% in the past 12 months, but there are many others which grew as much as 400% in such a good year like 2019. I put QQQ in this mix which is the NASDAQ tracker (tech version of the Dow Jones), which is a great market indicator but because of its technology weighting it moves a bit more than just the largest industrials.

Low Risk: (4-5K)

ETF: USMV, HDV

Real Estate Investment Trusts

Market Funds: S&P 500 (SPY), Target-Date Funds, Commodities

This is where you want the bulk of your future self wealth created. It should be inherently safer, less prone to risk and steadily moving up (outside of recessionary times). There are a few ETFs which fit this bill like the high dividend HDV, but market funds like SPY or Vanguard 500 or whichever 500 you have access to is a GREAT starting spot for anyone. Target-Date funds are not the worst either, but I voice some concerns in the funds section about how to use them and what could go wrong (hint: just because we are the same age does not mean we have the same goals, liabilities or starting point). I think this is the right bucket as well for Gold or Silver ETF holdings as they typically move similar to the S&P just at different times. I would put a much higher weight mix of SPY than GLD or REIT while having some exposure. REIT's are a great way to capitalize on the real estate market which typically does not see volatility like the stock market, has longer periods of exposure without action needed and over the long haul does well (example the real, real estate market over say 30 years).

Very Low Risk: Corporate or Government Bonds, Cash (1-2K)

These are typically offered as a single option in a company run 401K, but if you are running your own IRA, there will be many options that should all be fairly similar. These are more along the lines of guaranteed dollars at a way future date so acquiring a slightly larger and larger share as time goes on is easy (less concern about picking the right one).

4.3 Mutual Funds, Index Funds, Target-Date Funds, ETFs

There are three major types of funds available to the retail investor. Starting with Mutual Funds, these are ACTIVELY managed funds, meaning people or algorithms with people watching are actively buying and selling portions of the fund to try and make you (and them) money. These come in many flavors, being by sector, risk level, country and many others. The key here is actively managed. This does not mean better, but these typically have 'high' fees associated. Now these fees do not really become a factor until the seven figure mark, but be aware they are there and can be a up to a couple percentage points of the value invested. The nice part of actively traded funds is someone has an eye out and possibly their job on the line to make you (well, mostly the very wealthy) money. I like this type of fund in my retirement account and I like this type of account compared to say cash in a money market account. It is highly liquid and the swings are minimal in the short term meaning as an alternative to money market which makes 1% a year or so, I can maybe get a few percentage points on this money while being able to jump out the same day and get into anything else. Next up is the Index Fund, the favorite of Mr. Buffet. These are PASSIVELY traded funds meaning no one is watching them, they are just tracking some sort of, well, index. What index?

Depends, again there are all sorts of flavors, you can get a fund tracking the S&P 500 or the Semiconductor sector or Energy or Emerging Markets or really anything. Even Bullish or Bearish Funds. These are usually very cheap to invest in less than a percent of your investment per year and as Warren Buffet proved last decade, over 10 years a generic Index Fund tracking the S&P 500 beat a hedge fund manager. The downside is potentially, the passive factor. Typically an Index Fund is just set up weighted by the appropriate stocks in a sector. For example the S&P 500 (say for SPY or the Vanguard 500) Fund may have a mix of CVS, Boeing (BA), Goldman Sachs (GS), AMD - making up 7-8% each in the fund with say another 10-15 companies making up 3-4% each and another set of companies rounding out the rest. This is diverse in a sense. But say the S&P (or any sector) drops by a significant amount or more likely one of the big players (2019-2020 Boeing) drops significantly, then the fund will suffer those drops and no one will trigger a sell or replacement stock as the weighting shifts throughout time. Again, I like Index Funds in my retirement accounts with the caveat that I actively manage them. Every 6-9 months I check in, see if the sector or market is doing what I want and move things around otherwise. Some sectors (see Figure 2) will outperform others and the market and I want into those.

Very similar to Index Funds are Target-Date funds. Many of the same ideas apply to these (retirement only) with an additional caution being that people are different. Well how so? Lets say you have a Target-Date fund for 2030, the fund doesn't know you or your wealth so it is treating someone who makes a tenth of someone else, or ten times someone else, exactly the same. This can severely miss your retirement goals if you are playing catch up or are way ahead of others or simply have other life dynamics (more or less kids, more or less debt, etc).

Lastly, the ETF. The beloved ETF. Inception of these were about a decade ago and highly popular from the get go. They are basically just a free Index Fund. Set it and forget it. These are typically free to buy and sell (no commissions) and come in even more flavors than Mutual or Index Funds. That being said, I'd recommend ETFs as your personal investments counterpart to an Index Fund like Vanguard or as an alternative to a sector of stocks you simply cannot narrow down. Example for the latter. Say you are in the boat of Technology stocks rising at or above the market for the next year. Instead of trying to pick a mix (a diverse mix, remember) of say FB, AMZN, GOOG and riding those while skipping out on Netflix (NFLX), Splunk (SPLK) and Salesforce (CRM) which may garner even bigger returns, you can buy XLK. An ETF tracking the Technology Sector and made up like an Index Fund of a medium sized set (but passive!) weighting of tech stocks which represents how the sector as a whole performs. My opinion, these are a great way to ease into an up and coming area like say energy which has been down and out for a while or Defense and Aerospace where it might be difficult to pick the best 2-3 winners for your portfolio but buying the sector and being able to jump in and out anytime is a nice benefit. The swings are also, like most funds, modest at worst. Even a declining ETF should give you time to jump out before snap correction or recession like pullbacks.

4.4 Cash, Bonds, Commodities

This is an interesting section, basically never, but potentially soon. How's that? Well cash is cash and is the most liquid of devices. I always suggest having some dry powder (slang) around to buy into a down market. But also for emergencies. One of the worst things when I went through a very rough part of life not so long ago, with a net wealth well in the negative. The last ditch effort to pay rent was to sell off the Citigroup (C) and Netflix (NFLX) stock I bought during the recession at 300-400% gains, which had I still had those shares would be 3000-4000% gains. Using cash in emergencies versus selling investments is highly recommended. So when I talk about cash in this paper I really mean cash held in your investment account ready to buy something at any minute, not your rainy day fund.

Bonds, these are guaranteed by the government or corporations through the government to payout a fairly low percent some time into the future. These are safe havens for returns in bad times and the very long term. Where do they fit in then - naturally, into longer term investments like retirement. As you grow older and take on less risk, these should become more and more the make up of your portfolio. When you are in your twenties your retirement account should probably have a good 5-15% depending on your risk tolerance of bonds. By the time you are a few years from retirement, these could make up 65-85% of your portfolio. Lastly, commodities, which could be their own section, but I think they are more longer term, potentially less liquid instruments so I'm including them with bonds and safe haven entities. Now commodities come in very different forms, corn, soybeans, etc. but I'm focusing on the precious metals being Gold, Silver, paladium, platinum and Copper. Lot of news about Gold and Silver lately, as well as in 2006-2008 and once in 2016. Why sporadically? Gold and to a slightly lesser extent Silver and on down the line above are seen as safe havens with negative beta to the market. This means as the market goes down, prices of metals goes up as people are pulling money out of risky investments into commodities. This holds vice versa for the good market days. Gold and Silver have been very heavily reported lately as fretting about a market bubble, meltdown or global economic recession fears hit. My opinion is to treat this phenomenon in one (or both) of two ways. First, it is a safe haven for long term investing. I would advise have some part of your retirement portfolio represented by Gold and Silver. There are several ways to do this. The fun way, JM Bullion (or others), and buy physical Gold and bury it in your safe or backyard or a safe in Switzerland. Seriously. Less liquid for sure, but you have access to it should the financial system collapse or another great depression. More easily, you can invest in a Gold or Silver ETF or Index Fund like GLD or IAU. These represent shares of the metal which someone else owns and is storing, a large financial institution. These, like bonds, are a good asset to fill 5-10% of your retirement portfolio as a safe haven for down market years. Now the second way to play commodities like Gold and Silver are in speculation of a market downturn. Many folks in 2006-2007 and the past year or so have been making very good cases for a big market pullback, globally, thus spiking the price of Gold or Silver or any other metals. Just like buying a hot stock or sector, the same applies for buying Gold or Silver. Getting in early before a market downturn could

provide short to midterm returns in the 20% or more range. Even 2019 which saw the best market returns in decades saw Gold jump over 23% on speculation of a catastrophic market event. It is not difficult to see when news rattles the market, if the Dow drops 300-400 points, you see Gold jump 3-4% in a 1-2 day period. Many folks believe this is a sign of volatility and instability in the stock market and a time to make returns on a dormant, for the past decade, asset.

4.5 Crypto Currency

It has been a while since the Wild West of trading Crypto, but not too much has really changed outside of some lesser volatility. There is not a clear front runner and there have been some barriers knocked down while others have sprouted up. Its becoming safe to say some of the very wild (low cost) Cryptos of the past (DogeCoin) have sort of been relegated down the speculative chain, but there may still be a good dozen with the legs to take off - not to mention new ones springing up from large tech firms with immediate reach to put their own Crypto Currency on the map. Let's talk pros and cons. The global market for FIAT has not calmed down, Venezuela is still a thing, Greece, Iran...the more turmoil, the better Crypto looks than those country's currency. As computing becomes more and more prevalent in developing countries, more folks have access to a world currency than before, another plus. The big one in my opinion, is the same one from way back when. Its cheaper and faster to move money than traditional check, ACH or wire transfer. Sort of. This is where it gets interesting, the once king Bitcoin (BTC), is not necessarily the easiest or cheapest to move around. That crown might go to Bitcoin Cash (BCH) now. Second places will probably fall to Litecoin (LTC) or Ripple (XRP) because of the transaction cost and traction they have in many apps, websites and countries around the world. Does that mean BTC is done? Definitely not. One of these aforementioned coins in my opinion will grow 5x or maybe 10x in the next 2 years. I think there is room for various uses for maybe 3-4 major coins (just like we have Gold, Silver, Copper, Platinum, Palladium...and then other very minor metals in comparison). The cons list however is somewhat different than before in that as the global environmental concerns grow, there will be a spotlight on the amount of energy consumption is needed to mine and keep ledgers. This will partially be solved by the semiconductors (better, faster, cheaper on power), but not by as much as is needed. This may contribute to a premium price on Crypto or contribute to its downfall. My suggestion, leave room in your personal portfolio for 5% Crypto as it has the opportunity to blow up, but be wary of the swings. Options futures on BTC just opened up with the first spreads indicating a huge variance to make money. Basically, the traders are banking on the bull case of BTC going past \$10,500 while the bears are banking on a drop under \$6,750. That is an amazing delta, but again, I don't see any current setbacks to it 5x'ing. My picks in order of growth right now (consolidate into the big ones) - BCH, BTC, LTC, XRP. Also, Bittrex just came out with an app so those available at a very liquid rate inherently have a leg up. A random musing on Crypto is the changing landscape of money in money out. Back in 2015 and 2016 those who had Crypto were the only ones in the game (sounds like a tautology), but it was hard to move money in

and out. So if BTC jumped then something else tanked. It was a zero sum game. Now with so many options to pull cash in and out or even gasp use Crypto as currency, the market generally moves in stride. Sure there is some variance, but if BTC is up then generally speaking so is LTC and BCH, etc. People are in or out of Crypto versus in and out of individual currencies. I think this is good for the long term, because it will help to weed out the weaker players. But it means you have to watch and wait to see if your horse wins.

4.6 Options

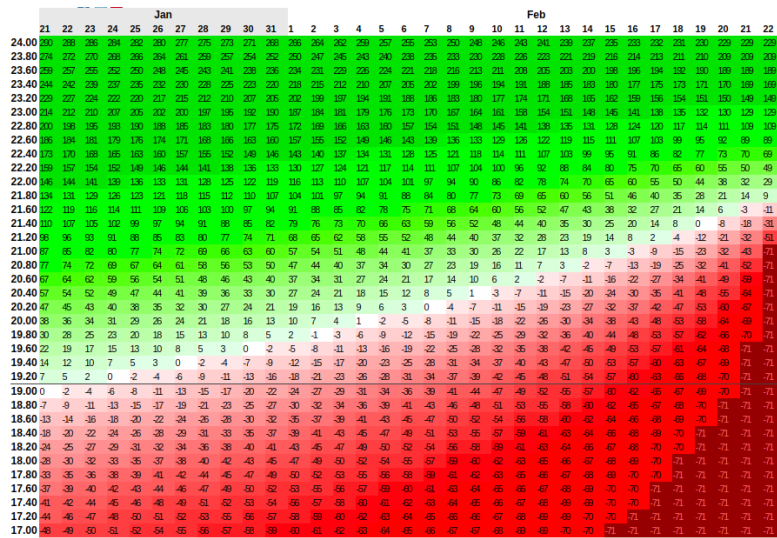
First off, if you are unfamiliar with the mechanics, visit <https://www.investopedia.com/options-basics-tutorial-4583012> for a step by step on options calculations. Options are amazing leverage for high risk high reward scenarios, but you need to fully understand the TWO types that apply to the average person trading. These are buying calls and buying puts. Selling either, in my opinion, is an advanced vehicle whereby risk is not limited to the investment amount. To show some of the mechanics of the leverage of options I want to present a case study using Snapchat (SNAP). I am not advising SNAP as an investment here, but as a cheap enough underlying (synonym for the stock SNAP) stock to serve as a sort of practice options trade, which I highly recommend. Of course, this is a much higher risk reward scenario so a small percentage of the portfolio should only be dedicated to this for balance, unless you are sincerely looking for that extreme leverage, like me.

OPTIONS CASE STUDY Below are four charts showing the (green) gains and (red) losses of buying SNAP options. On the top are calls on the bottom puts. What does this mean? First off you should have read and understood the above link on options trading. Second, in the case of the MARCH 20 Call Option, for \$.89 a share, and they come in buckets of 100, so for \$89 you buy the contract and the chart shows the revenue (in dollars) you make at various prices at various times. As you can see a nice bullish run into the \$23 dollar range has profits in the (estimated) mid \$200 range. That is a 3x on your investment. Of course a dip a few weeks out from purchase would send your investment running toward \$0. My suggestion, take something like SNAP, buy further out of the money for \$40 or so and watch the charts and value in your account to get a feel for the risk, volatility and reward. Now I'd like to talk more about how I play options and what something like 'out of the money' means. Now lets look at a shorter term call and put scheme for less than a month out. Why are the dates the way they are - typically option expiration dates are the third Friday of the month. Many underlyings have weeklies, but these are less traded and in my opinion less attractive vehicles. So for the average risk taker making money on options usually means paying more for an options contract which is 45-75 days out and at-the-money (ATM). At around the 45 day mark, ATM, you are going to see 6-7% value movement per 1% movement of the underlying stock. Backing up for a second. Let's go back to SNAP at \$19.01. An out of the money call option would mean any strike price over \$19.01 (\$19.20 in the chart). The same goes for puts, but to the downside \$18.80. At the money means the closest strike

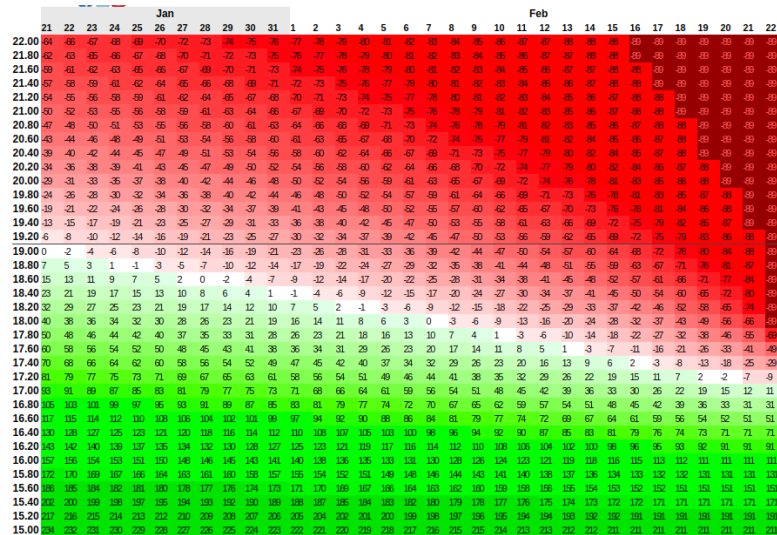
	Jan										Feb										Mar										
	21	23	25	27	29	31	2	4	6	8	10	12	14	16	18	20	22	24	26	28	1	3	5	7	9	11	13	15	17	19	21
24.00	192	289	386	483	580	677	774	871	968	1065	1162	1259	1356	1453	1550	1647	1744	1841	1938	2035	2132	2229	2326	2423	2520	2617	2714	2811	2908	3005	
23.80	177	274	371	468	565	662	759	856	953	1050	1147	1244	1341	1438	1535	1632	1729	1826	1923	2020	2117	2214	2311	2408	2505	2602	2699	2796	2893	2990	
23.60	161	258	355	452	549	646	743	840	937	1034	1131	1228	1325	1422	1519	1616	1713	1810	1907	2004	2101	2198	2295	2392	2489	2586	2683	2780	2877	2974	
23.40	147	244	341	438	535	632	729	826	923	1020	1117	1214	1311	1408	1505	1602	1699	1796	1893	1990	2087	2184	2281	2378	2475	2572	2669	2766	2863	2960	
23.20	132	229	326	423	520	617	714	811	908	1005	1102	1199	1296	1393	1490	1587	1684	1781	1878	1975	2072	2169	2266	2363	2460	2557	2654	2751	2848	2945	
23.00	118	215	312	409	506	603	700	797	894	991	1088	1185	1282	1379	1476	1573	1670	1767	1864	1961	2058	2155	2252	2349	2446	2543	2640	2737	2834	2931	
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22.60	90	187	284	381	478	575	672	769	866	963	1060	1157	1254	1351	1448	1545	1642	1739	1836	1933	2030	2127	2224	2321	2418	2515	2612	2709	2806	2903	
22.40	77	173	270	367	464	561	658	755	852	949	1046	1143	1240	1337	1434	1531	1628	1725	1822	1919	2016	2113	2210	2307	2404	2501	2598	2695	2792	2889	
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21.80	38	135	232	329	426	523	620	717	814	911	1008	1105	1202	1299	1396	1493	1590	1687	1784	1881	1978	2075	2172	2269	2366	2463	2560	2657	2754	2851	
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21.00	1	88	185	282	379	476	573	670	767	864	961	1058	1155	1252	1349	1446	1543	1640	1737	1834	1931	2028	2125	2222	2319	2416	2513	2610	2707	2804	
20.80	1	76	173	270	367	464	561	658	755	852	949	1046	1143	1240	1337	1434	1531	1628	1725	1822	1919	2016	2113	2210	2307	2404	2501	2598	2695	2792	
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19.00	0	-2	-5	-8	-10	-13	-16	-19	-22	-25	-27	-30	-34	-37	-40	-43	-46	-50	-53	-57	-60	-64	-67	-71	-75	-78	-82	-85	-89	-92	
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17.00	-56	-56	-58	-60	-61	-63	-65	-66	-68	-71	-73	-75	-77	-80	-82	-84	-86	-88	-91	-93	-96	-99	-102	-105	-108	-111	-114	-117	-120	-123	

(a) Snapchat MARCH 20 Call \$21 Option \$.89

	Jan										Feb										Mar											
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17.80	50	48	45	43	40	38	35	32	29	27	24	21	18	14	11	8	4	1	3	-7	-11	-16	-20	-25	-30	-36	-43	-50	-58	-65	-73	
17.60	60	58	55	53	50	48	45	42	39	37	34	31	28	25	21	18	15	11	7	3	-1	-5	-9	-14	-19	-25	-32	-40	-48	-56	-65	
17.40	70	68	65	63	60	58	55	53	50	47	44	41	38	35	32	29	25	22	18	15	11	6	2	-3	-8	-13	-19	-25	-32	-41	-48	
17.20	81	78	76	74	71	69	66	63	61	58	55	52	50	47	43	40	37	34	30	26	23	19	14	10	5	0	-5	-11	-17	-24	-28	
17.00	92	89	87	85	82	80	77	75	72	70	67	64	61	58	55	52	49	46	42	39	35	32	28	25	19	14	10	4	-1	-6	-8	
16.80	103	100	99	96	94	92	89	87	84	82	79	76	74	71	68	65	62	59	56	52	49	46	41	38	34	29	25	21	16	13	12	
16.60	115	113	111	108	106	104	101	99	97	94	92	89	86	84	81	78	75	72	69	66	63	60	56	53	49	46	42	38	35	32	32	
16.40	127	125	123	121	119	116	114	112	110	107	105	102	100	97	95	92	89	86	84	81	78	75	72	68	65	62	59	56	53	52	52	
16.20	140	138	136	134	132	130	127	125	123	120	118	115	113	111	109	106	103	101	98	96	93	90	86	83	80	77	74	73	72	72	72	
16.00	154	152	150	148	146	143	141	139	137	134	132	130	127	125	123	120	118	115	113	110	107	105	102	99	96	93	90	87	85	84	84	
15.80	167	165	163	161	159	157	155	153	151	148	146	144	142	140	137	135	133	130	128	126	123	121	119	117	115	114	113	112	112	112	112	
15.60	181	179	177	175	173	172	170	168	166	164	162	160	158	156	153	151	148	146	144	142	140	137	135	133	131	130	130	130	130	130	130	
15.40	196	193	192	190	188	186	183	181	179	176	174	172	170	168	165	163	160	158	156	154	152	150	147	145	143	142	142	142	142	142	142	
15.20	210	208	207	205	203	202	200	198	196	194	192	190	188	186	184	182	180	178	176	175	174	173	172	172	172	172	172	172	172	172	172	
15.00	225	224	222	221	219	218	216	215	213	212	210	209	207	206	204	203	201	199	198	198	198	198	198	198	198	198	198	198	198	198	198	198



(a) Snapchat FEB 21 Call \$21 Option \$.79



(b) Snapchat FEB 21 Put \$18 Option \$.89

Figure 4: Comparing Snapchat FEB 21 Calls and Puts at Current Price of \$19.01

MARCH 20 call option at a strike of say \$20 (vs in the chart example of \$21) and sell it, hopefully for a profit when or if I hit 20% gains by February 20th. As long as I am not down a great deal I probably would sell regardless by March 1st, although there are many schools of great reason which show buying and holding an option until expiration is the best strategy. I say otherwise as I'm a ordinary trader looking for leverage and not running a hedge fund or really holding much of any hedging positions. One other successful strategy I have used for options or for simply hedging is to buy call options on a stock like NVIDIA (NVDA) which is a semiconductor, and owning several other

semiconductors like AMD, Lam Research (LRCX) and buying a fairly short term well out of the money put option on SOXL, the leveraged semiconductor ETF which means if my NVDA option and stocks fall sharply, more than likely the whole sector is taking a hit therefore my SOXL put will increase in value at a very high rate because of the timing aspect. The same goes for TECL the leveraged technology ETF. A cheap out of the money put (say 10% out of the money) to counter a near the money call on FB or SNAP or AMZN or say a big part of your portfolio which recently had a run up on those stocks might not be the worst idea.

5 2010-2019

While we are out of the calendar decade, we are not out of one of the longest bull runs of economic expansion in a century. But not everyone was equal in growth the past decade. Would you have liked to been in Oil or Tech? GE or Broadcom? History is sometimes important (whoa). Why do people have so much more disposable income to explore all these investment vehicles and enjoy things like a booming real estate market, desirable interest rates, low unemployment and stable inflation? The below explains where money was made and as I outline later in the paper, this is where I look to start getting into more lagging sectors that are starting to make the turn for one reason or another. Another item I outline is investing thought process, think back over the decade and these top stocks and think about the open doors (maybe lack of competition or regulation) and hurdles they overcame (maybe heavy competition or regulation or trade wars) and how they created value over a full decade and not just flash in the pan jumps.

Sector Returns for the Decade			Company	Ticker	2000 - 2009 stock rank	2010 - 2019 % ch.	2010 - 2019 rank	Sector
Sector	SPDR ETF Ticker	Annualized Returns 2010s (%)	Netflix	NFLX	N/A	3,698.3%	1	Communication Services
Consumer Discretionary	XLY	17.1%	MarketAxess	MKTX	N/A	2,610.9%	2	Financials
Information Technology	XLK	16.7%	Abiomed	ABMD	344	1,948.9%	3	Health Care
Health Care	XLV	14.6%	Broadcom	AVGO	N/A	1,648.1%	4	Information Technology
Industrials	XLI	13.6%	United Rentals	URI	326	1,500.1%	5	Industrials
S&P 500 Index	SPY	13.4%	Regeneron Pharmaceuticals	REGN	160	1,444.8%	6	Health Care
Financials	XLF	12.1%	Align Technology	ALGN	N/A	1,444.5%	7	Health Care
Consumer Staples	XLP	12.0%	Ulta Beauty	ULTA	N/A	1,285.7%	8	Consumer Discretionary
Utilities	XLU	11.6%	Old Dominion Freight Line	ODFL	16	1,261.0%	9	Industrials
Materials	XLB	8.8%	Amazon.com	AMZN	172	1,200.0%	10	Consumer Discretionary
Energy	XLE	3.3%						
Real Estate	XLRE	9.9%						
Communication Services	XLC	6.0%						

Source: S&P Global Market Intelligence, N/A denotes stock didn't trade yet on 12/31/1999

(a) Decade Performance by Sector

(b) Top Individual Stocks

Figure 5: The Decade In Review

6 Selected Studies

Mentioned in this paper are some redundancies in several stock or fund picks. The method to the madness is in some of the research below. This is not all encompassing, but my thoughts on why I am bullish on these almost regardless of the market as a whole (but not independent of the market as a whole).

6.1 NVDA

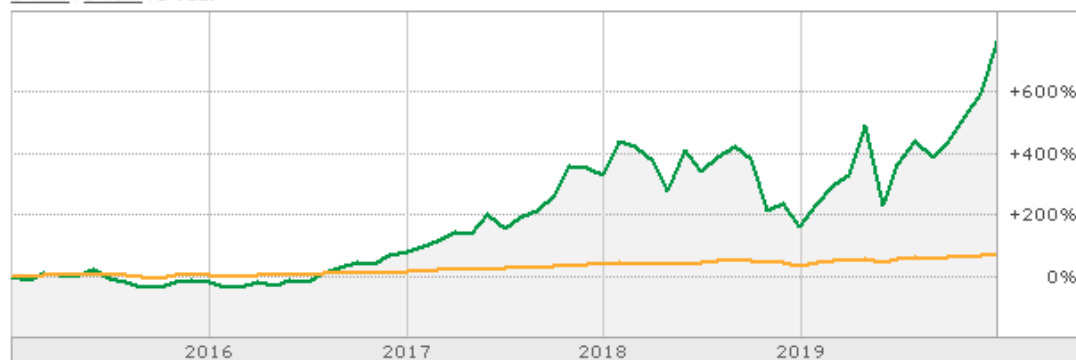
In 2009, NVIDIA (NVDA) invented, yes invented a programming language for GPUs. What does that even mean? For decades our computer screens (all types of screens), had graphics cards. Some higher end than others, but a necessity. Then NVIDIA did something out of this world. They figured out that these dumb devices which really could do one thing - display pixel intensity R,G,B at value X, could do just a bit something more. They could do really easy math like add two numbers or multiply two numbers. Since each pixel gets its own little core telling it what to do, each pixel's core could now do a simple math problem. Turns out most all of machine learning is based off a part of something called linear algebra which often boils down to matrix multiplication and matrix addition. So billions of additions and multiplications could now happen on these dumb little devices formerly only used to put pretty colors on a screen. They named this language interface CUDA and now you cannot do real machine learning or artificial intelligence without it. How does Tesla (TSLA) self driving technology function? With Neural Networks running on - you guessed it - NVIDIA CUDA capable GPUs. How do you become an elite gamer like 'Ninja' make \$500K per month, by being awesome at games and the only way to get those renderings at the speed of an elite PRO Gamer - you guessed it, an NVIDIA CUDA capable GPU. Speaking of gaming - yes it is on ESPN now, it probably is here to stay (for a while) so buckle up and watch leagues form everywhere. So how do you mine for Bitcoin or other Crypto Currency? Three guesses. An NVIDIA GPU. They run Amazon (AMZN)'s data centers, Google's (GOOG) data centers. If you want to compute something fast its through NVIDIA, the 'smartest company in the world' several years running as voted by MIT. My opinion, this stock hits \$310 this year pending global economic trade war fallout. What else could stop it? Different memory being used in data centers. FPGAs, another type of dumb chip which is really only good for one thing, until now, when you can do a second dumb thing...add and multiply. Lastly, the environment. There is a major movement happening in the world of Environment Social Governance (ESG) Investing. Socially conscience investing is on the up and all those computes cost a lot of energy cycles, so as ESG is a strain on Crypto Currency, it will be a strain on chip stocks. They can fight back easier, however, as these companies are making more energy and computationally efficient products all the time. Along with NVDA, I like AMD in the GPU space, Micron (MU) and Lam Research (LRCX) as the leaders in the semiconductor space.

6.2 SOXL

The chart below will do the talking but this is one huge reason I love leveraged ETFs. When the good is good, its actually really great. Semiconductors are cyclical meaning for some years everyone figures out they need a chip for everything. The new iPhone, latest computers, data centers, IoT, National Laboratory Super Computers. But at some point they look around and say ok we bought what we needed for a few years at today's prices and can stop ordering for a while. This sort of happened in late 2018 early 2019. Many analysts say things are back on track for high growth. China is the big question mark along with a minor lagging question of 'do it yourself'. China (mainly Hauwei) buys the most chips from us. Meaning the supply chain containing hardware, assembly, production, manufacturing and wholesale - all the semi 's stocks. So if they decide to make their own chips or we slap tariffs on the chips they buy, then they simply won't buy them from us and the whole sector will slide. We seem to be moving past that, but only time will tell if we get back to 2016, 2017 levels. Along similar lines, every year or so a company like Apple (AAPL) comes out saying they are making custom chips for their products and not buying AMD or NVIDIA. This typically fails for several reasons, but the very minor threat lurks in the background for someone somewhere to find the secret sauce.

Growth of \$10,000 As of 12/31/2019

1 Year 3 Year 5 Year



Comparison: ☒ SOXL ☒ S&P 500

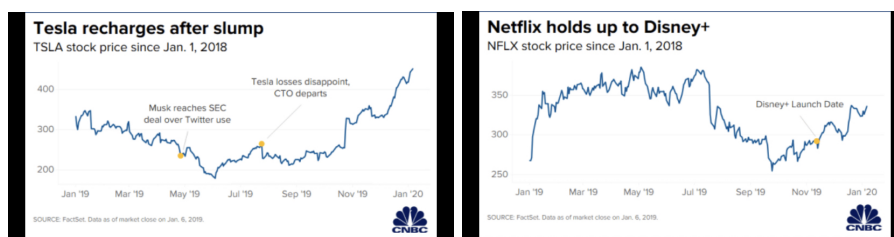
	2015	2016	2017	2018	2019
SOXL Market Return	+123.20%	+141.71%	-39.06%	+231.85%	+231.85%
SOXL NAV Return	+123.30%	+141.55%	-38.94%	+231.52%	+231.52%
Trading--Leveraged Equity	--	--	--	--	+6.39%
vs. S&P 500 TR	+11.96%	+21.83%	-4.38%	+31.49%	+31.49%

Figure 6: SOXL 5 YR Performance vs. SPY

6.3 TSLA, NFLX

Many investors forget the time aspect of their investments. For the short term trader (Options Trader) the news cycle is very important. But for mid to long term trading, stock picking or ETFs the news is typically not something to realign your portfolio to -clearing my throat on Boeing (BA) 2019. Here are a couple of charts showing the effect of, at the time, extremely topical news stories and headline makers. First Elon Musk and the highly publicized production failures and Twitter (TWTR) scandal regarding company plans. As of writing the stock is over \$100 higher than charted which is post Cyber-Truck marketing fiasco.

On the right, Netflix (NFLX), which is also up further as of writing. The introduction of competitors (see below as well) is a very short term thought process and shareholders and investors have many other figures to concern themselves with long term. The NFLX slump in the chart was due to a severely missed earnings report in which North American subscribers fell drastically short of predictions. No company will run the gauntlet on earnings reports and it was probably a much needed growth breather. But as you can see the streaming wars of 2020 are not impactful to the leader in the space.



(a) Tesla News.

(b) Netflix News

Figure 7: Case Studies On The News Effect

6.4 Raytheon (RTN) or other Defense

Defense and Aerospace companies have had a hay day for the past few years. Spending is seemingly always on the rise from new traditional weapons technology to space and cyber strategies. Defense stocks are a great lower risk stock pick with typically decent dividends. But politics plays a role and will be an important one come November. Expect pricing to fluctuate wildly over the summer and fall leading up to the election as various polls produce probabilistic models on who will win. Should the current administration hold the election, expect another run like in 2016, 2017. Should the administration turn over, my opinion is the market may feel like spending will be cut so short and mid term positions might take a hit, but longer term I do not see issues as both budgets and contracts are typically held 5-10 years out and are in place as of last year and this year. This is just a great example stock of many Defense stocks which fluctuate with political news in the short term, but can be more easily predicted as to direction of the stock in the mid to longer term.

6.5 Splunk (SPLK), CrowdStrike (CRWD), FireEye (FEYE)

This is what I should have called the Cyber Security Section. Splunk (SPLK) is not really a cyber stock, but it is a stock that reminds me of why I bought Netflix (NFLX) in 2010 and why I bought NVIDIA (NVDA) in 2015. This is becoming ubiquitous for storing real time data and accessing it with other tools or APIs. However, one of the biggest real time systems is cyber data which at a Fortune 500 company can run several TBs per week. These systems become very hard to change over to another provider so its sort of a buy it for life entity. The government relies heavily on it and buying more of it. So this is an example of a field or industry taking over a use case for a company. Back to strictly cyber - CrowdStrike (CRWD) and FireEye (FEYE). In an age of escalated threat of war, these wars will not as much be fought on the ground as in cyber space. These two companies are the most well known and innovative companies with technologies that again are so sticky (sitting on a users laptop between user space and company space) it would be hard to replace them. With the growing threat in cyber and companies wanting the 'easiest' implementation, both of these companies are starting to look like the Microsoft (MSFT) Windows option for cybersecurity.

7 Opinions - The Next Recession

7.1 Tech Bloat

The last recession was caused by a bloated housing market and a flawed systematic banking system. One of the biggest culprits as highlighted in a great filmumentary 'The Big Short' was the Consolidated Debt Obligation (CDO). In the movie Margot Robbie explains the underlying aspect in very fun terms of this as a basket of subprime loans (bad risky loans) all rolled into one investment vehicle offering. What used to be a set of great loans quickly got filled with mediocre and eventually really really bad loans which eventually defaulted and blew up the global economy. To me this reminds me of the ETF. Now an ETF has many benefits to an individual, I will not be getting out of them like someone who wished out of the housing market in 2007. Owning a fund or ETF is not the bad part! But these are passive. As I have recommended in this paper to invest in technology and other sectors as well as the market as a whole through this vehicle, lets hypothesize a bad scenario playing out. The chart below shows the top 5 stocks in the S&P 500. Over 20% is made up (as of writing) with 5 stocks, all of which are TECH! These top 5 make up over 50% of the NASDAQ! What if we hit a horrible earnings run and add on government regulation and see tech just slump 30-40% or more? Their heavy weighting on the S&P would crush the value of this important sector of the market. Everyone who holds SPY, the safe play, the standard Vanguard retirement choice, or XLK the tech ETF or the supply chain for tech being semiconductors and manufacturers (iPhones are made by someone!) and on down the line. A horrible dump of these stocks would go unmanaged because of passive ETFs and deplete the value of most people's retirement funds by that amount simply because of the weight they have grown into in the market as a whole. This is very dangerous. Also much harder for

government to step in like with banks a decade ago. These are consumer or business products or online services, you cannot make people spend more money as most are in retirement funds, so changing rates to help spending doesn't do much. All in all I see this is as a big risk factor, the biggest reason to pay attention to your money every 6-9 months and diversify as the market is secretly not.

Top five S&P 500 companies

As of market close on Jan. 10, 2019

Company	S&P 500 Weighting	Market Cap
Apple	4.79%	\$1.4T
Microsoft	4.55%	\$1.2T
Alphabet	3.16%	\$986B
Amazon	2.90%	\$934B
Facebook	1.94%	\$622B

SOURCE: FactSet. Data as of market close on 1/10/2019.



Figure 8: Skewed Weightings in the S&P 500

7.2 Gig Economy

The other rising risk - the gig economy. This one is a little further fetched but hear me out. What is a gig? A non-employee job, think freelancers, contractors, etc. Maybe a content writer for a marketing company or website. Many journalists which contribute to OpEds. Seasonal workers and many in the arts and entertainment community. The big one - Uber and Lyft drivers - and sort of messenger, delivery, etc workers. With the rise of say GrubHub (GRUB), well now fall, but, Instacart or Prime all of these gig folks have turned side jobs into careers. Talk to your Uber drivers - many of them in tier 3 and smaller cities - took out car loans and households have quit their jobs to drive full time. College kids from lower tier schools drive for the hours and money. This does several things, the first being it takes people out of resume building jobs, getting that raise every year or so. Second, many take out big loans or at the very least are depreciating a horrible investment (<https://www.cnbc.com/2019/11/04/follow-this-simple-rule-for-car-buying-if-you-want-to-get-rich-says-millionaire-money-expert.html>) much quicker then originally expected. These factors alone make it very risky for a large portion of the population

to fall into default of mortgages or car payments. But wait there is more! Next up, government regulation has already begun in California where based on the definition of a gig worker one cannot decipher between Uber driver and sitcom jingle writer (a job which has been around for decades). So the regulation applies to all of them the same forcing companies to classify them as employees. This means wage requirements, benefits, insurance and all of the HR slash corporate legal entities which come with that classification. This is a huge cost to organizations utilizing the gig economy. Can they sustain the costs - probably not without passing this along to the consumer. So something will give, profits or outsourcing to gig workers. This could either impact the above Tech Bloat or simply leave many folks without work and higher prices across the nation. Done yet? Nope, the biggest point forthcoming.

Automation and Artificial Intelligence. What happens when, not if, when self driving cars take over a bigger portion of day to day operations. Maybe this is 2 years out, maybe 5 or 7 years out, but autonomous vehicles at the least are here. So now take away Uber drivers (most of them), take away delivery and messenger types. Now all of these folks with all of the aforementioned issues being high loans and decreasing desirable skills are just completely out of luck. Where does a husband and wife who spent the past five years driving Uber 12 hours a day go to replace that income? Income paying for an upgraded home and cars by the way? Probably not corporate America who would favor an entry level college applicant or experienced employee with no gaps in employment and someone who has tracked changing technology (5 years out of the office and now Microsoft Excel is a requirement - good luck with getting that job). This is a huge risk to the overall economy when millions of gig workers all of a sudden find themselves without work and without desirable skills. Ouch.

8 Creating My Opinionated Portfolio

This section is dedicated to my maybe sort of outlandish opinions, but more importantly this is me thinking out loud about how I build my portfolio in the various risk buckets and potential winners for the next 6-9 months or 1-3 years. I will try to clearly mark where I am making investments in these wild claims (that I hear), and where I am just thinking out loud but not putting my money into just yet. Others should investigate on their own, I think they are all worthy, but I consider them speculative for now.

Roku (ROKU) - esques.

The stock has tripled in a year, but lets put a thought out there. What was Comcast or Time Warner or RCN doing over the years - broadcasting NBC, CBS, ESPN, Hallmark, AMC, etc. - and each of these networks had original programming and reruns and movies they bought (or made). Now I have Netflix, Disney+, Hulu, Amazon Prime - and each of those 'streaming networks' have their own original programming and reruns and movies they bought (or made). So it seems like something should serve as the new conglomerate provider. Is it my iPhone? Maybe my smart TV. If it is, then it is probably

Roku as the front runner. Now others like Facebook (FB) have claimed they are rolling out a product to service all the apps, I mean networks, but nothing has come to fruition yet. I think ROKU and possibly whomever comes next are going to go on big runs into the next year of streaming wars. Speculating for now as I made a little bit on the run up, waiting to see who enters the game and how companies like ComCast handle this.

Virtual & Augmented Reality and things of the sort.

Kara Swisher, founder of RECODE was on CNBC recently and made a statement I had to laugh at (and agree with). 'We walk around interacting with our phones like neanderthols, looking down fumbling around on small screens'. Someone will crack wearable technology which will allow our phone actions to take place some other way. Visually, verbally, some other cool mind trick way. But right now Facebook (FB) and Snapchat (SNAP) with their hardware division might be the front runners both with a product in hand and capital investments. Microsoft (MSFT) and Google (GOOG) are probably very close as well. This play when it pans out will be a huge growth area to the tune of the iPod of the mid-200s.

Environmental and Social Goods.

I mentioned this earlier a few times as disruptors to energy using stocks and mechanics. But ESG stocks and ETFs will find new growth companies who can crack sustainable energy or at least lower expenses to go socially conscience. I see this play as short to mid term for now, as this is more of a movement (politics aside) for now that should gain enough hype to melt up some key companies in the game like Edwards Lifesciences (EW), Owens Corning (OC), W.W. Grainger (GWW). Now these companies are not fully vetted into making money off of these ideas. But they are on the news cycle of those talking ESG conscience organizations. I see two ways to invest in these companies, or should I say two types of these companies. Those partaking in social good, like Bill Gates and Microsoft (MSFT) and those building products as a staple line of business NextEra Energy (NEE).

Space Race.

No need to look further than Virgin Galactic (SPCE) 173% rise in the past two months to see space everything (tourism, defense, offense, colonization) is going to take off. When...is the big question. For now the best way to get into space is through the big defense & aerospace companies. I do this through Raytheon (RTN) and looking to get into Boeing (BA). SPCE might be rocketing now (all these puns!), and it may be a blue chip stock of 2030 but how to justify its potential revenue will be extremely difficult for a while. This is something I am thinking about putting some retirement money towards here and there to see where it lands in a decade. Lastly, an off the cuff mention to the sort of newly created Space Force as the sixth wing of the US military - this should very much signal the age of space everything from war to tourism is coming.

Gold and Silver and Weed. Huh?

These are examples of two greatly misunderstood concepts i.e. people thinking they are the same type of investment. First, Gold and Silver, are notionally in the investment world, safe havens in turbulent times. As of late they have gained a lot of steam, media, and almost Crypto Currency like fame. While I believe this is a good investment for returns, I see precious metals, especially Gold and Silver each seeing %20+ upside as soon as the market starts shaking. It is a better viewed as a hedge while the market is soaring. I admit I am not a macro economics person looking for market trends throughout the globe. I'm looking to strategically make good to great returns and hunting for small pockets to dip in and out of as a hedge. Now many folks like to be speculative, early adopter types, innovators. This is where the difference between metals and weed comes in. There were VERY great early wins for weed stocks in what now is almost fad like fashion. I would not consider weed a hedge stock or a safe haven. It is no different than the above space race, where only time will tell where things land and getting in late to the party feels like getting in years early to steady returns. Point being, just because something is a hot topic does not mean it should be a majority of your portfolio entity or even a long term play. Assets should be treated appropriately and diversity should never be shorted outside of your high risk buckets. That being said, I do own various types of Gold and Silver and Copper. I own it as a hedge to the market and hope to see low risk long term gains with spikes of prolific behavior during a market downturn in the next 3 years.



Figure 9: Is Metal Ready To Rock?

Energy and Financials.

These two sectors finished low and middle of the pack in the twenty teens. Financials have already soared the past year and with the fed acting the way they are, even a slight downturn would keep banks on pace to be a top few sector performer. I recently got into JPM, BLK and GS and am looking to add a leveraged bank ETF to my portfolio in the next dip. Energy on the other hand lagged so far behind the past decade and oil is just getting hammered. Even the Iranian situation didn't send oil over \$70. However oil at \$100 was typical in the early 2010's. A recovery will happen sometime so I slowly add to my positions in GUSH and PSX when prices fall. Schlumberger (SLB) was also a

worst performer list member of the past decade but showing a lot of upside and dividend moving forward so I am looking at an entry point with them. I am still researching the best clean energy company with a decent dividend as much like the pharma world stock prices get driven by patents and regulations. Bold claim - Tesla (TSLA) will go up another 50% with its battery division in the next year. After a meteoric rise the past month I need to see pullback before getting in but their energy line, along with Microsoft (MSFT) could shake up the landscape.

Fashion & the Internet.

If I was not so busy buying tech stocks I would short the entire fashion, retail, department store, brick \$ mortar world. New drinking game, do a shot every time a retailer closes down. This is quickly moving toward Amazon (AMZN) and the e-commerce nation. What is yet to come is an innovative new wave of experiential shopping. I am banking on VR or shared retail spaces (hoteling for merchants). Seriously, what is going to replace the largest square footage buildings on say Michigan Ave. in Chicago? Movie theaters? Is it 1980? Residential on the miracle mile and 5th Avenue? Wow. This is quickly (has quickly) moved online. So who runs online besides AMZN and their algorithms serving up styles and products? Subscription services maybe, but I'm holding my breathe for the StitchFix (SFIX) take over (not a great IPO year). So far and I say into the future is Shopify (SHOP). Now sure they have only quadruple in value the past 15 months, but they have much more room to run. Salesforce (CRM) is in a similar boat once they see revenue from Tableau as they are the de facto how to do B2B and consumer sales. These backend systems which run cookie cutter web products are going to keep winning...unless they become too easy to copy. Wix (WIX) I am staring at you. But as more and more of the retail industry moves out of the physical world, more and more value is being added to the virtual supply chain from websites to algorithms which give you the experience you once had walking past Mrs. Fields.

My go to picks.

If you know me or read between the lines in this paper you see I love my tech and semiconductors so I won't dedicate too much more in harping on my belief that chip stocks are a great asset along with the big tech stocks. My single favorites are NVDA, AMD and AMZN and of course in the roll up world - SOXL and TECL.

Stock Picking In General.

My advice to those who love the stock picking game, build a strategy that is yours. Mine is to pick a baker's dozen symbols (including ETFs). Load them into your iPhone swipe left shortcuts stocks menu, put them in a watch list in your brokerage account and add them to your CNBC feed. You don't need to manage the market just know when your picks are low and know what you believe them to be at highs. I use a method where I take larger big name companies or sectors (AMZN, SOXL) which exhibit decent volatility and watch for them to be well off their 52 week highs. AMZN hit a bad earnings last year and dove from \$2000 a share to \$1600 a share. In a few months they are back to

\$1900. From monitoring them over a couple years I can somewhat easily see the writing on the wall for lows and where they should be (holding market conditions constant) to maneuver in and out at somewhat optimal times. This is exactly why I am about to get into Boeing (BA). Behemoth of a company with all the government contracts, space contention and well yes they make planes (poorly once). They are also a staple of our economy for not only jobs but supply chain. The government will do what they can to right the ship through back channels as long as BA plays nice in the media. Well off their 52 week high which getting back to would be a 50% gain, but off the market gains as a whole since then. The question is when will the bad end for them. July looks promising, so I am planning on waiting another 3-4 weeks for either another bad news cycle or an overall market dip period and get in hopefully around the \$310 mark. My hope is by this time next year they are back in the mid \$400's. This is an example of how I enter and exit positions in any account of mine.

Another indicator I use for some of my medium term holdings is that I watch how companies I am following do in earnings. Like the AMZN example above the opposite can be used as well. I referenced IBM at some point having great earnings and heading higher. A great earnings call and increase forecast can be a good sign of a 3 month period of steady gains until the next report. My method is follow a good earnings with patience for a day or two if it gets a slight pullback from the hype, get in and ride a stock into the next earnings call in 90 days. I advise people to monitor stocks they are personally interested in - those who took my advice years ago with Lululemon (LULU) saw this work. Do not buy stocks just because you like the company - watch and learn about a stock because you like the company, this allows you to track information most would never think to look at. Watch companies where you believe in the CEO, this is exactly how I got into Netflix (NFLX) because of Reed Hastings, Salesforce (CRM) with Benioff and Tesla (TSLA) with Elon Musk.

At the end of the day there are so many asset types and stocks (publicly traded companies) so please do not take this paper as the world of potential companies. Find your own set of likes and dislikes - there is nothing wrong with Visa (V), Alteryx (AYX), Budweiser (BUD), Walmart (WMT) at different times - if work in a niche field with high visibility into future trends (maybe pharmaceuticals or medical) or simply love a product, look up the ticker symbols and investigate how to get involved with a company at the level of risk you want.

8.1 Disclaimers and 2017 Paper Symbols

This is a list of symbols from my 2017 paper should you have bought them. Hopefully again, you only took my methods and not my strict stock picking, but actually it turned out really ok. Mostly BECAUSE ALL MARKETS HAVE BEEN GREAT! My 2017 rant was more focused on answering people's questions about how much money to put into Crypto, but I outlined it in similar form to building a portfolio. Named assets from the document are the following:

SOXL, TECL, NVDA, MU, LRCX, TSLA, PSX, HP, GOOG, AMZN, MSFT, BA, RTN, JPM, KO, HV, IBM, BTC, ETH, LTC, XRP, XRM, ZEC, DASH, NEXT, LSK, DOGE, SC, QTUM, IMG, ADA

Also as a disclaimer, here is a list of positions which I hold in all accounts in some order of weighting sans some 401K specific bond and total market (S&P 500) mixes as well as precious metals bullion:

VITPX, SOXL, AMZN, TECL, JAENX, RTN, NVDA, BLK, USLV, UGLD, AMD, MU, LRCX, GUSH, JPM, GS, PSX, BTC, BCH, XRP

Last disclaimer - I really do feel like the top of the market is nearing. 2021 probably sees the top for a little while but this could come faster due to a general sense in the market and news cycles of a very fragile market just waiting for bad news. As viruses or missiles hit, trade war concerns, politics or even a bad earnings period could be the straw that breaks this camels back and many of the bullish elements in this paper come crashing down. This is why again I believe in active trading. This is why when I say move into or out of a position I mean taking some percentage out of say growth stocks and moving into safe havens like commodities or at the least dividend stocks. This paper was rather (maybe very) bullish - remember there is yin and yang, so for every TECL, there is a triple leveraged technology sector bear ETF (TECS) and for every SPY there is an 'short the entire market' (SH) EFT...or simply the great United States Dollar.

8.2 Feedback

Hope you found this paper informational or at least a reason to hate my opinions. If, however, you loved it, feel free to give me US Dollars or Gold or Bitcoin Cash or Woodford or Budweiser. Better yet, sign up for a TD Ameritrade account with my referral by sending me an email: steveschmidt [at] uchicago [dot] edu. Or just hangout and discuss other thoughts and reckonings on investing or whatever. For more background on my non-financial credentials see <https://www.linkedin.com/in/stevebschmidt/>.