Bar Fly Investing
3rd Edition

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Most are not as wealthy as they think they are, right now, which is a problem.

1 Preface

In this edition of BFI we continue to discuss the 2022 version of the question how should I invest my money? The highlights of this edition will be 1) why semi-active trading is becoming a necessity 2) managing risk reward as an introductory strategy 3) swirling concepts around the next big things - from metaverse to COVID variants to inflation. Again this 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.
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, that is less time than setting a fantasy football lineup or filling out a March Madness bracket - setup CNBC alerts and read an article or two while learning what the alerts really mean to your money.

These first two figures highlight what funds can do with minimal investing prowess (10% annualized returns), and minimal investments of $10,000 and $20,000 respectively. That actual intent of these figures is to show how you can supplement future investment growth when you have available funds, from a bonus check, savings after emergency funds...heaven forbid checking account funds. Again, these are not really to say go stick $10K in and watch it grow until some point in the future you probably don't care about - rather, to say, you are probably already doing that but if you can squeak out an extra few dollars here and there and put them to work it is well worth it. Those dollars might just

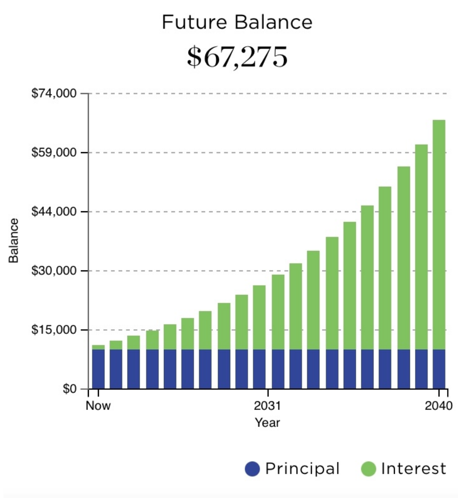


Figure 1: 10K over 20 years at 10% annually

be from the difference of active trading (what this edition is about) over just market returns. That is what 10-15 minutes a day can do.

Now a few disclaimers, 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, including me! 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. Third, invest something, anything, whether its through your 401K, IRA, or just a TD Ameritrade account.

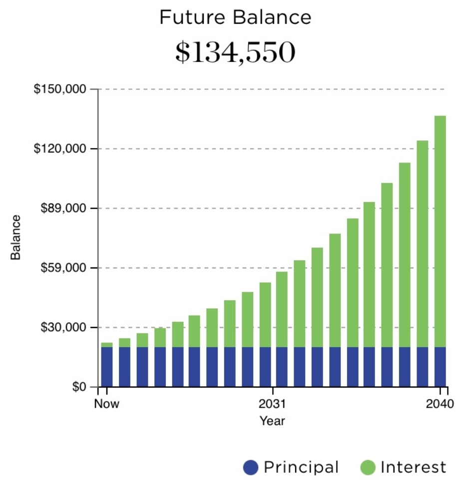


Figure 2: 20K over 20 years at 10% annually

COVID, turned out to be a great catalyst for wealth for the haves and 2021 was a good year for most markets. S&P 500 was up nearly 27%, meaning it was AGAIN 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 an average of 10% returns (401K) each year. Others expect .5% 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.

2 Risk Reward Tradeoff

Now onto the next boring parts, but it needs to be said to understand my feelings toward making slash not losing money. Risk versus reward is the secret sauce. The chances your savings account disappears because, banks die, the government stopped backing them, and all heck 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, at least 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? Covid. 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 that is 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. 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 or to help buy a home or just generate wealth, are also very different portfolio looks and feels. Let's break down some definitions and talk about where this edition of BFI will go.

Trading - Very short term trading, day trading. For the sake of this paper (not in the world), I will consider any buying and selling of stocks or options within the same week you bought them as *trading*, not investing. I do participate in trading strategies, but that is not the focus of this edition.

Momentum Trading or Active Investing - Short to midterm trading or active investing. This could be anything from buying a dip or bad news day in the market and selling the next week to holding stocks or options for up to 3-6 months. This is the focus of this edition along with longer term investing. I consider this more along the lines of active investing (opportunistic investing) as opposed to making extremely quick money from trades.

Long Term Investing - buying and holding at the minimum 9-12 month and beyond levels. This is typically what companies, in some form, offer for 401K or retirement investing. I hope the astute investor will seek to be an active investor to capitalize on the dynamics of the world and economies we live in, but at the least you should be pushing for somewhat better returns on a yearly basis.

4 Portfolio Creation Mindset

Now for the fun part, how do we create a portfolio?! In my process, step one is to get a big 'ol bucket of great companies. Not good companies or popular companies, but great companies with great CEO's and several ways to make money or beat everyone else at saving it.

This is important: I am not one to go big into the next big thing, the next speculative alt coin or meme stock. If you want to know how to double your money or 10x your money fast, talk to someone else (not that I haven't, but it is not the goal). Rather opting to have a hand in many different cookie jars ready to move in and out of positions as the world turns differently. I am a momentum trader or active investor, I make a few trades per week in some accounts, in others I make a few trades per quarter. I 'cover' anywhere from 20-25 stocks/ETFs. You should seek to do about the same. What covering means simply is to watch and study these particular stocks almost daily. News, prices, earnings, in order to get a feel for what happens on good/bad news or earnings and what happens just when the overall market goes up or down.

This is something I learned early on, its from nearly a century ago, but Keynes put things perfectly for this in the Keynes Beauty Contest:

Using an analogy based on a fictional newspaper contest, in which entrants are asked to choose the six most attractive faces from a hundred photographs, those who picked the most popular faces were then eligible for a prize.

"It is not a case of choosing those [faces] that, to the best of one's judgment, are really the prettiest, nor even those that average opinion genuinely thinks the prettiest. We have reached the third degree where we devote our intelligences to anticipating what average opinion expects the average opinion to be. And there are some, I believe, who practice the fourth, fifth and higher degrees." (Keynes, General Theory of Employment, Interest and Money, 1936).

What does this mean? Just because you think something is a great idea (Slack) and common sense says you need to use it etc...it does not matter. It is what the masses assess, and what they think future masses will assess, and how many times this sentence could continue.

Second, I diversify every aspect of my investment accounts by sector, by short term to long term, extreme risk to very low risk. An appropriate mix of stocks, bonds, options, commodities, cash which makes you comfortable with the worst case downside and the average case upside. This means sorting my great companies all those ways...into sectors, like technology, energy, financial, etc. As well, I sort them by long term growth, versus short term news or themes like stay-at-home stocks or metaverse stocks.

What does this mean? I don't know about every possible stock to buy, nor do I care. I have a process for finding potential stocks to really follow over time, and have a process for getting in and out of different portfolio blends and risk levels. If you ask me for a random stock opinion, I'm not on CNBC, it is not my day job, I don't have that broad expertise - but hopefully you can follow this design and answer it for yourselves! With a bucket of great companies, I start to read about their recent earnings, analyst reports, add them to watchlists, visit tradingview.com for technicals and ideas. Basically, I want to get to know this stock and its sector in and out. How do they make money, what new innovations are they in, how are they affected by bumps in the road (supply chain, China, government policy)? Lastly, on a higher level, how is their sector performing and what is the sector outlook compared to and alongside overall market sentiment and outlook? Now I have my list of stocks and sector ETFs that I can monitor for prime times to buy in and when I need to take profit or cut my losses. My main lever, as you will see, is risk management.

For insights into all the different investment vehicles, see edition 1 (2020 version) of BFI. My goal is to make these more frequent, with much less preamble. Therefore this will be the last version encapsulating why and how to invest, versus current market themes and new ideas.

4.1 Buying & Selling Strategy

Equipped with my potential stocks and ETFs above (I think of that process as candidate generation), I now want to build a strategy around entering and exiting positions. Let me give a concrete example using my favorite of all time - semiconductors! The

Figure 3: SOXL vs SOXX vs SPY

candlesticks represent SOXL, a triple leveraged ETF which tracks the daily performance of semiconductors...but at 3x leverage! With great leverage comes great swings to both

sides. As Figure 3 shows in green the upper and lower Bollinger Bands™, representing two standard deviations above and below the middle green moving average. Typically when a stock hits one of the bands, say the high, it is a signal that it is too hot and its price should revert to the mean, which it often does. The dark purple line represents SOXX, an ETF which tracks the daily performance of semiconductors without leverage. You can see this 1 to 3 ratio growth and decline. So why not swap SOXL for SOXX when it gets too 'hot' and reverse the trade after a pullback or dip? This way, if you like semiconductors like I do and always want to be in them, you can do so whilst mitigating the huge 20-40% swings to the downside which come with the territory! For reference the SPY over the past six months is also shown. Not bad returns across the board in this chart compared to the market as a whole.
This is how I can manage risk while staying in my favorite sectors. This also works with stocks, to an extent. I'm a lover of NVDA and AMD, two great semiconductors with incredible returns lately. Figure 4 shows the rise of two components (stocks within both SOXL, SOXX). Again, we can leverage these individual two components - believing they will rise more than others in the sector - by simply buying heavier into those individual stocks and lowering our SOXL risk by replacing some with SOXX. This is a way of appropriately diversifying my entire portfolio with my mix of single stocks versus ETFs for risk balancing. You may be thinking well, what is diverse about all these semis? Well I can repeat this process for holdings in financials, energy, consumer discretionary, and the like, to always maintain a balance of stock picking, sector ETFs or broad market indices (SPY or QQQ).

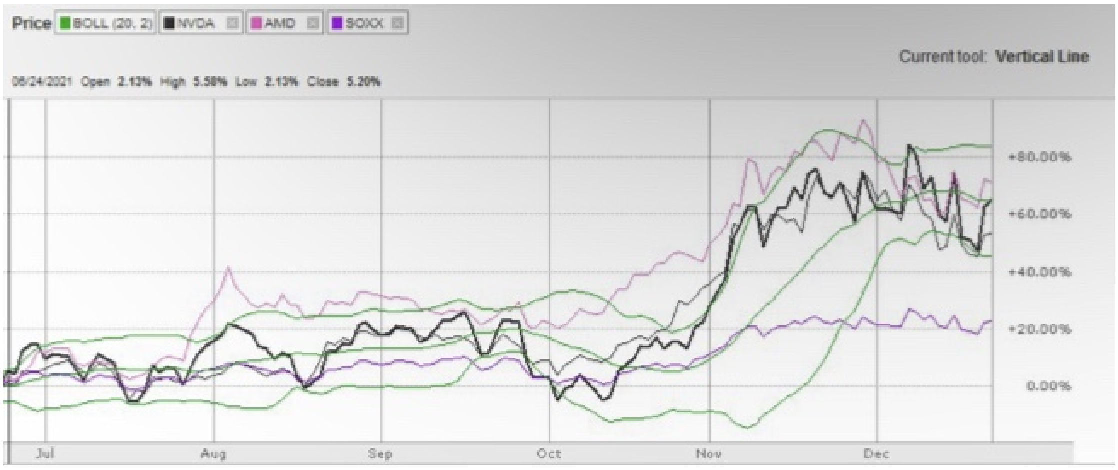


Figure 4: NVDA, AMD as components of semiconductor ETFs

4.2 2022 Portfolio Thoughts

Now to the fun part - my ideas for 2022, which I will monitor every few months to see what worked and what did not work to reevaluate. These ideas will be in various categories of risk and timing. This is how future editions of BFI will mainly look, new picks in, old ones out, along with some rants on themes.

VERY HIGH RISK - 10% of portfolio, looking for upside returns along with downside risk respectively of greater than 50%. Traditionally do not fit into the 'great companies', but into greater themes or next generation innovations.
Themes: Metaverse, Space Race, Covid Balancing, Next Gen. For others, this may include EV, ESG or newer Alt Coins.
Options: 45-60 days from expiry, slightly out of the money, growth oriented riskier/volatile stocks. Buy and monitor closely for 3-14 days and reassess or rollover.
Picks: SPCE, PYPL, RBLX, DOCS

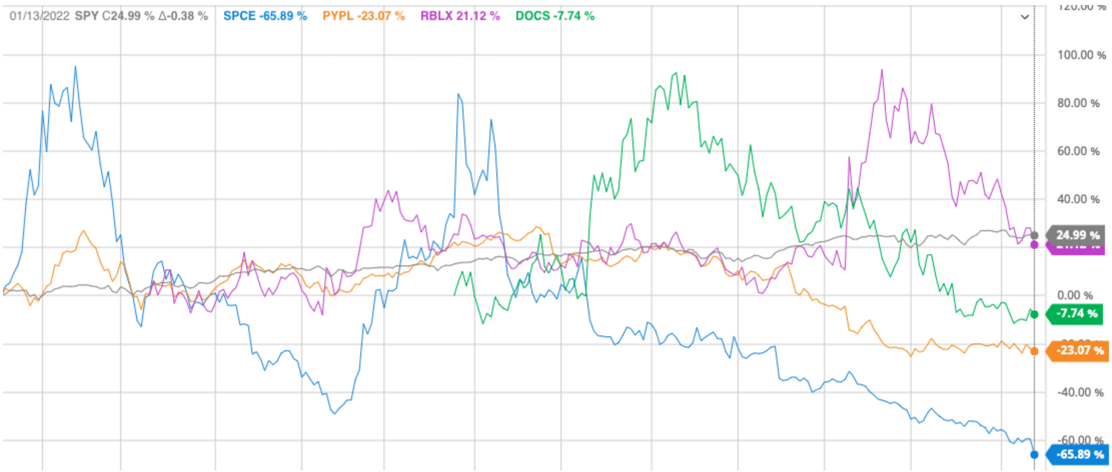


Figure 5: Category vs. SPY

Methodology:

SPCE: This is a stock which as seen much better days, hitting highs in 2021 over $60 per share. This is a very long term play for me, if you think the space race is over or just media hype, it is not. Musk and Bezos have not monopolized this and SPCE will continue to be highly volatile until more concrete deposits and flights are satisfied. Having seen the speculation drive this 5x higher than it is currently trading - my current holdings entail several options contracts around the $25 mark for early 2023.

PYPL: WOW did this get lit up (meaning down) this year, from highs in the $300s to a free base fall into the mid $100s over several months. Six months ago, I would have had this in the high risk bracket because this is a heavily used payment operator with claws into crypto, debit/credit and buy now pay later. PYPL comes standard with most web checkout sites and has a strong commercial backing.I see this as (one of the) payments of the future - PYPL will win a great deal of market share due to its first mover position and flexible reach into new wave payment structures. I hold options in the low to mid $200 levels for mid year 2022.

RBLX: Metaverse play, pure and simple. The former go to for social media in the early teens (and today) is winning over the younger audience ages 12-18...well RBLX has done that but not for those purposes, but for building and creating in the future metaverse. This was a huge speculation stock of 2021, yet to see how the metaverse and all of the competition there within pans out, but this is another first mover advantage with a strong customer base and revenue streams. I see this being a very volatile stock with upside to the $130 mark during market happy times, but could see months in the $80-$90 range during risk-averse times. Currently I do not hold this due to the previous sentence, but would jump back in during a rally looking to capitalize on a potential $40 upswing. This is closer to a trading stock than investing stock, as the buy and hold for me, would last on the order of days to week long run ups and careful trail stop exits.

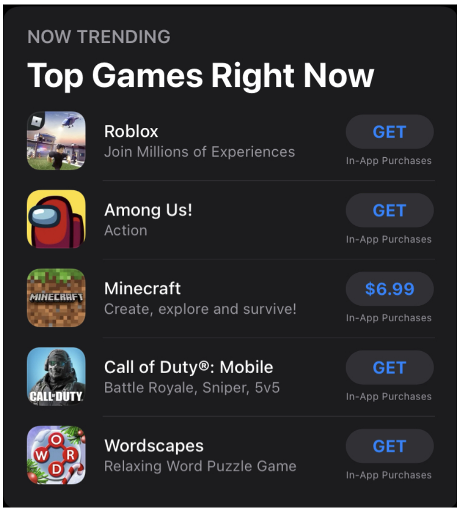


Figure 6: RBLX Atop Apple's App Store

DOCS: This was another quick run speculation stock of early 2021 until it wasn't. However, with the massive adoption of remote access (work, health, delivery, commerce), this is incredibly positioned for the future of tele health care. Not to mention cultivating a sort of LinkedIn for medical professionals, aka high net worth individuals, the reach into those pockets and the pockets of their patients is very deep. I have a small position in DOCS and have a price target of $90 sometime, later, in 2022. DOCS just went through all the downgrades (Dec 2021) and has price targets in the $60s from JPM and MS, I think one good revenue/user based earnings call in 2022 sends this skyrocketing. Which quarter that comes in...?

HIGH RISK: Up to 20% of my portfolio, since I am a market bull, I believe the overall market will increase, thus there is greater probability that great companies can outperform the broader market with fewer headwinds. This is an area of risk which I balance heavily with moderate risk as per the above example with SOXL and SOXX. While these are great companies, they have higher volatility or are cyclical, meaning when the

going gets good - they rocket, but can fall off a cliff pretty quickly and take 1-2 months to come back.
ETF Picks: SOXL, TECL, FAS, BITO
Individual Picks: QCOM, MU, AMD, NVDA, SHOP, DKNG, TSLA

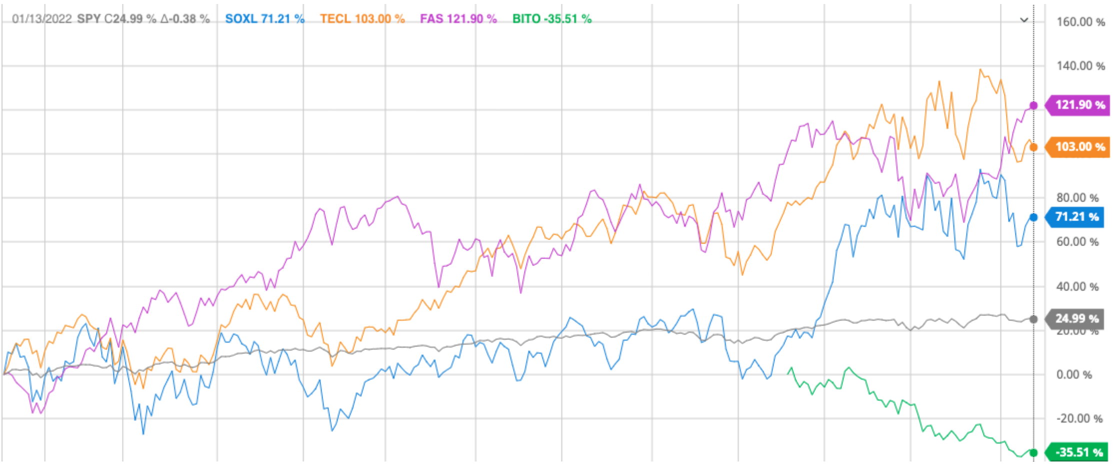
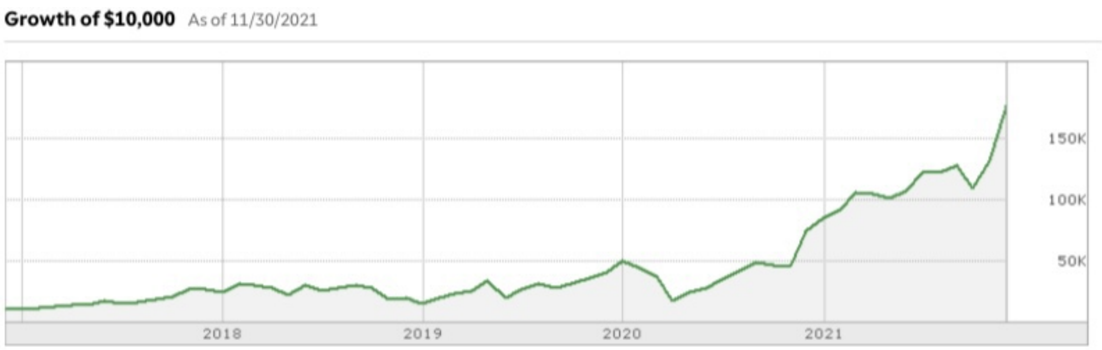


Figure 7: Category ETF vs. SPY

Methodology:

SOXL: My favorite ETF of all time, much info can be found within this edition (semiconductor talk) as well as the previous BFI. This is an incredibly volatile ETF so buckle up if this is for you.



	2017	2018	2019	2020	2021
SOXL Market Return	+141.71%	-39.06%	+231.85%	+69.99%	+108.05%

Figure 8: SOXL 5 YR Performance on $10K Investment

TECL, FAS: These two sectors should be the top 2 or top 2 of 3 in 2022. I use these as mentioned in the risk example to ride 3x leverage during rallies and trade out for their counterparts or individual stocks below during riskier times.

BITO: This might be the safest and best way to play Bitcoin right now for the long term. While I see Bitcoin having another good run in 2022 (latter half), hodling this as part of your portfolio is a nice way to get in without worrying about wallets and tracking taxes. Since this tracks the daily BTC rise and fall, this is just as volatile but not traded 24/7. Therefore it has upside and downside closer to very high risk than for high risk, so this is more of my stance on crypto into 2022, being that BTC should calm down a bit to the down side and be slightly more probably to rise 30-40% than fall those amounts.

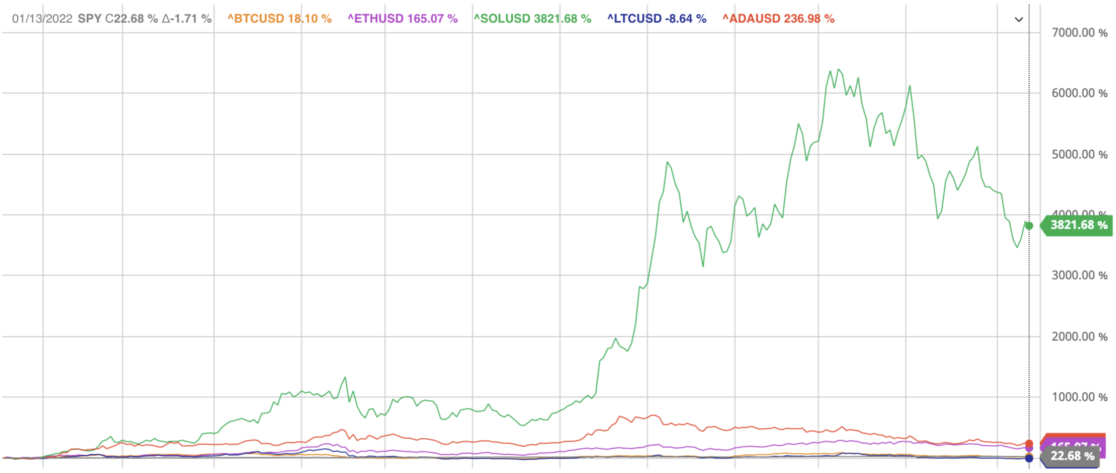


Figure 9: 1 year performance of major cryptocurrencies

QCOM, MU: Before I get into these, let me say, there are several other GREAT semi plays out there. Some are listed below, one that just broke out, MRVL, is not on this list but a current crowd favorite. Why I like these - QCOM is everything RF, 5G, period. One more time, they are 5G. I see QCOM similar to AVGO, but newer to the limelight. Not a newer company, just lurking in the midst of SOXL for many years and finally becoming a true player in the future of everything. MU on the other hand is the player in memory (DRAM specifically)...meaning they aren't going away anytime soon. Why are they in the high risk bucket? Because they have had an incredible run up, meaning while they may continue to outperform, steady growth of say another 20% into 2022 may be tough to come by and a pullback may hit them even harder. However, their CEO on recent earnings made an unheard of proclamation, that supply chain issues were minor and decreasing. Days later, a small town in China threatened that comment so, maybe some are only safer than others. That being said, semiconductors are my big bull bet again in 2022, so I set my price target at $110 by June. I hold positions and options on both of these, with an exit plan to taper down upon breaking $100.

AMD, NVDA: Lisa Su and Jensen Huang, end of paragraph. This is what investing in GREAT CEOs looks like. Take a minute to check the stock price of these in 2015. Aside from that, try doing anything in deep learning (computer vision, reinforcement learning, embeddings) without a GPU. That covers self driving cars and autonomous real world vehicles. Now try and process all of the terabytes of information coming at corporations through cyber tracking, image capture, social network posts to move and store this efficiently. That covers data centers for AMZN, GOOG, FB and the like. Try mining crypto...try gaming, one upping your neighbors graphics card...you get the point. Now enter the metaverse or as NVDA deems it the Omniverse. Sure it is 5 years or so out, but you cannot do any of that without all of the above and it is powered by truly a few companies from an infrastructure and capabilities standpoint. NVDA, AMD, and possible QCOM/MU blend (wearable hardware). The downside to all of this, retail investors touting their stories on Reddit, turning fund managers into binning fools who put these into crypto or metaverse plays. These are not fad plays, these are 2 of the top 10 companies in the world. AMD back to $160, NVDA to $350 in H1 of 2022. The threat - semiconductors cycle out and inventory issues from China hit during an unfortunate time being after rates get priced in and after reopening plays happen. Triple whammy but I don't see it holding them back long, H2 if any of those hit.

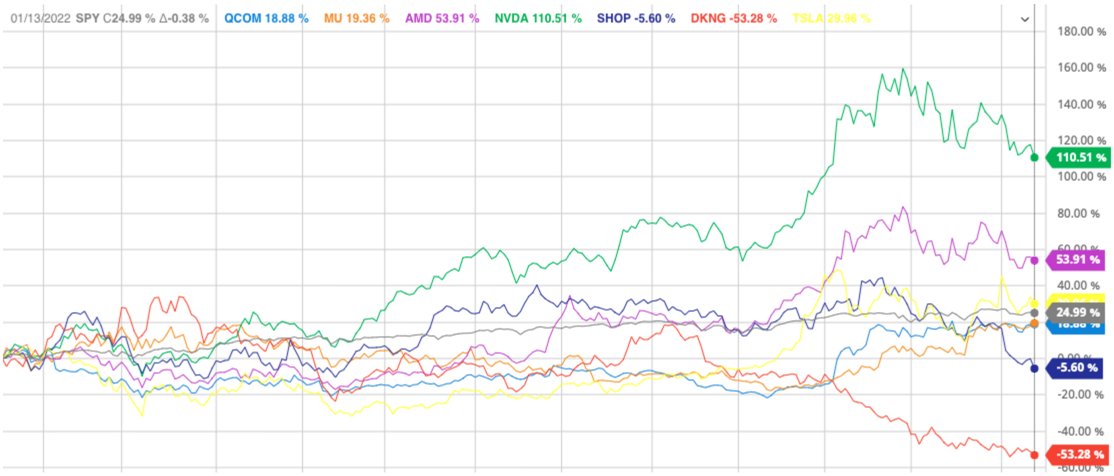


Figure 10: Category vs. SPY

SHOP: Slightly angry this stock got beat up as a stay at home play. This stock is everywhere in ecommerce land. It is basically the engine on which most every web portal, cart, checkout is made. They have the finger on the pulse of consumer spending and commercial trends. This is a pure growth stock, it swings heavy, thus the high risk, but this stock should see $1650 in 2022. Between subscription fees and commission like (not unlike Visa, MasterCard, Amex) revenues, the only thing...'only thing' stopping SHOP is consumer spending slowing. A slower economy is predicted, but with higher inflation (higher prices) and a hungry consumer from Covid, I think SHOP is well positioned for some run ups. Sure people call on the acquisition costs, but the lifetime value of a customer and retention rates will continue to climb because those using these tools rarely shift out.

TSLA: Batteries. Musk aside, this is potentially the worlds next best source of energy. A UK company just had a $17B IPO which effectively places a dollar amount on a somewhat lagging similar play. Tesla sales have been steady, if the supply chain loosens at all, production can meet demand. Analysis are all over the board from $3K a share down to $300 a share. Unfortunately this has become a meme stock and Musk a meme figure, however the higher the price tag on this stock the less it will be day traded (I hope). I have a decent size position in TSLA with a target of $1500 by mid-year 2022 as regardless of how much of a celebrity Musk is, he is a relentless CEO and innovator. TSLA runs in spurts so a tapering exit plan from there while continuing to add to my position on major dips.

DKNG: My call on DKNG is partly what makes MGM a safer play, people love to gamble. DKNG seems to always run into legislature not unlike a cannabis stock, but they have too many hooks into the consumer at this point. This is not a stay at home play, this is not a consumers will spend money elsewhere play, this is a they are not even in NY, CA, FL, TX and about 30 other states yet play! This will be highly volatile while things get sorted out, but down about 65% from ATH, this has some huge upside potential and I am going to put a target - by the end of 2022 or early 2023 - of $90. Sure that may be a way off, but DKNG could pop 20% every time one of the big states even whispers about a vote on legalizing online gambling.

MODERATE RISK - 40% of portfolio, looking for upside returns which at least slightly beat the overall market.
ETF Picks: SOXX, GUSH, DWAS, SLV, XLK
Individual Picks: AVGO, LRCX, GOOG, AMZN, MSFT, AAPL, BTC, ETH, SOL, JPM, BLK, GS, CVX, DIS, MGM

Methodology:

SOXX, XLK: These are the lower risk versions of SOXL, FAS respectively and have been discussed.

GUSH: Energy continues to be in the headlines, after a phenomenal year in 2021, this Direxion ETF is now a 2x (versus 3x) and has 30% gains to the upside before hitting 3 year highs. I have a moderate position in GUSH dating back to 2020 and do not plan on exiting soon.

SLV: Silver is a rather volatile commodity, however I do not see it reaching pandemic

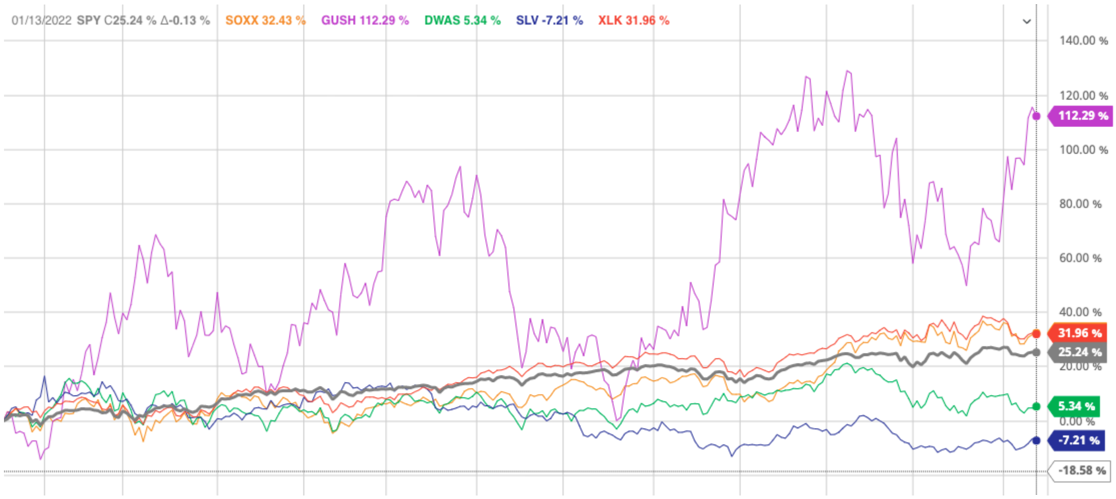


Figure 11: Category EFT vs. SPY

lows in the low teens but rather as semiconductors and supply chain woes ease, silver can make upside of 20% and still be well off its 52-week high. SLV tends to trade fairly flat for extended periods of time which is why the risk level as it is, it is easier to exit with falling prices and manage a 5-10% window.

DWAS: Small caps tend to outperform in economic recovery mode. While I believe we have a stronger economy than 'recovery mode' there are several tailwinds for small caps, being a completey disrupted labor force which should only go up by spring. Unemployment should be less of a topic with labor shortages healed in the coming months, and there are simply a lot of names in the Nasdaq and Dow which are unwritten about on the daily and continue to perform. If money should continue to come out of the Nasdaq 100 and the 10 year lingers over 1.7, 1.8...in an otherwise healthy economy the small caps serve as a nice hedge for growth.

LRCX, AVGO: Top of class semiconductors in their respective lanes, being the pipeline for semiconductor manufacturing. If NVDA is a metaverse enabler, but agnostic metaverse winner play, these stocks are analogously similar to semis. 20% upside for both the next 9 months.

GOOG, AAPL: The talking heads have conjured these up (maybe rightfully so) as safe haven stocks. Pandemic or not, supply chain woes or not, people still want access to latest phone technology, paid search and cloud computing. Simple. AAPL to $200 is likely in 2022, $GOOG to $3100 is my target there after a more than decent 2021. Both of these are potential players in the metaverse, EV, and are supply chain agnostic to a point. I own both AAPL and GOOG, albeit smaller positions.

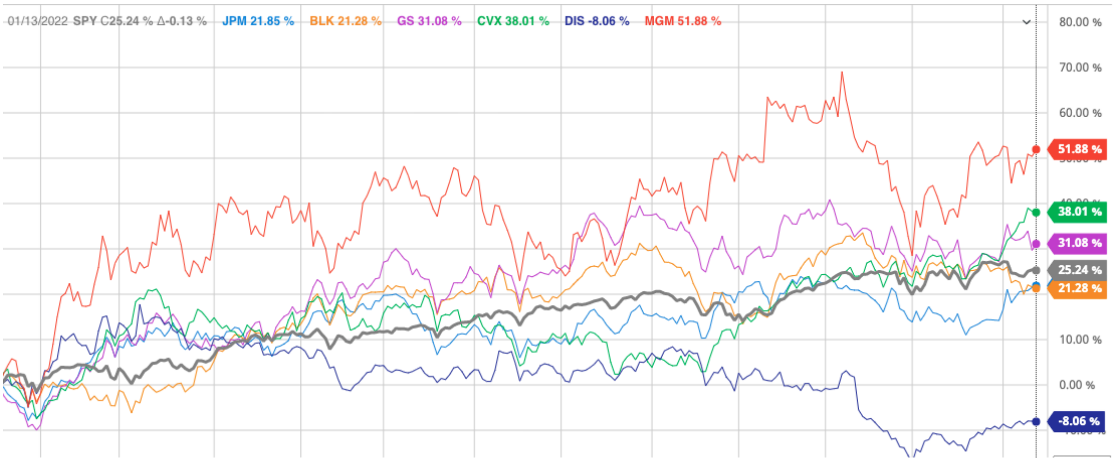


Figure 12: Category vs. SPY

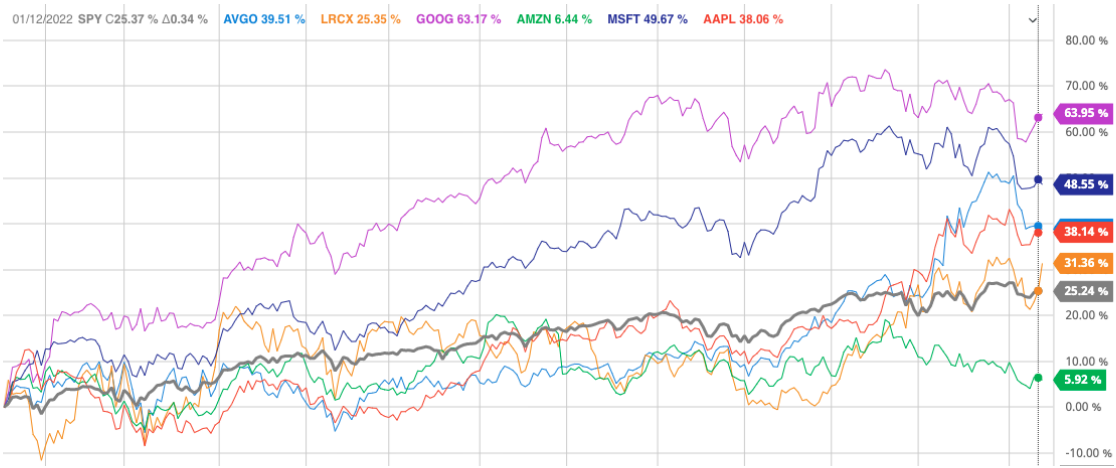


Figure 13: Category vs. SPY

AMZN: Every analyst has a buy rating, every talking head has this as their top pick for 2022 (technology that is). Think about this...AMZN was outperformed by the S&P by 24% in 2021. Basically anything can send this skyrocketing 15-20% over a month or two. It is hard not to be long AMZN at least with a few shares of expensive stock. Cautionary tale is inflation + supply chain + interest rates + 10-year bond, which may equal a lagging tech sector as a whole and dampen the should be run by AMZN. Either way, 5-10% is in the works by April and I will set a price target for spring of $3650.

JPM, BLK, GS, MS: Financials are set up to win the sector race in 2022 - I think FAS is a solid play into this, but as not all companies are created equal these are where I see outperformance. There are a lot of folks in the regional bank camps, but I still think there is a lingering threat of over leveraged debt in the corporate real estate sector but these more 'wealth management' plays should do well with rising rates. JPM continues to make interesting plays in crypto and commodities because Jamie Dimon knows all.

DIS: Great company, Eisner may be out, but this company is priced right after 2021. I wish the focus would come off of Disney+ subscription numbers. They very well will and have competed just fine here, but folks need to stop comparing this to NFLX and Peacock. Parks will open, Mickey sells, their resort and movie options are prolific and will only increase as the pandemic comes to a close. This is another company which just has revenue is so many areas and imagine a world where you choose your own Disney adventure (metaverse)...

CVX: Energy is back as mentioned, for now, but with a 4% yield to boot, CVX is a good 'safe' play. Cyclical rotation play. Lower volatility play. Analysts starting to move calls up, means there is still room to run (plus dividend!). Don't overlook SLB as well in a similar boat.

MGM: Similar to DKNG, gaming will take off sooner than later and MGM is real good at gaming. Macau took some revenue off the plate, but MGM will get that back. There are still reopening aspects to this, but this company has always been a little in front on the trend in travel & leisure for innovation. As gaming moves to new frontiers, I think MGM goes over $50 by spring break and once any sort of corporate travel comes back, I'm looking at September/October convention season, this should be a winner.

Low Risk: 20% of portfolio currently as there are many variables outstanding from Build Back Better to China to Covid variants, to inflation or even stagflation and jobs. Typically, during a more certain times this would be closer to 10-15% with no leftover dry powder (cash).
ETF Picks: SPY, QQQ, JEPI, QYLD
Individual Picks: LMT, RTX, WMT, MSFT, KO, T, GLD

Methodology:

SPY, QQQ: Most 401K plans come with some flavor of this, as Buffet would say, eventually the S&P will outperform. Probably not great to disagree with Warren, however in this day in age, QQQ is very similar. Take this preview of future BFI's - big tech heavy (FANNG+) QQQ represents the largest share of this index ever. But also the S&P. This means something like 97% of Americans with a 401K own some piece of stake in FANNG+. Why is this important - too big to fail. Monetary, fiscal, and legislative policy cannot ignore this.

JEPI, QYLD: I am a bit new to these but love them for their stability and yield. 9% and 12% respectively is hard to beat. I think these are my stablecoin, cash alternatives. Would rather take the yield and low volatility in these over safe haven cash. Checking

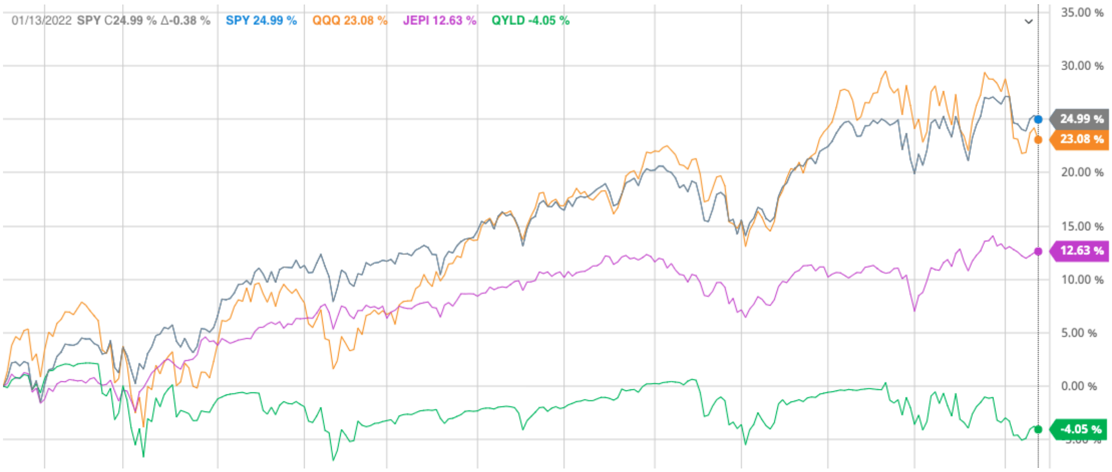


Figure 14: Category ETF vs. SPY

back to 2018, 2020, these plays check out (adding in yield) for funds you have tucked away.

LMT, RTX: Russia is a thing, a thing that Ukraine is worrying about, which means its thing we worry about in the US. Along with nation state cyber attacks, these two are poised to make runs as we move out of pandemic headlines. Not to mention nice little (not little!) yields on these.

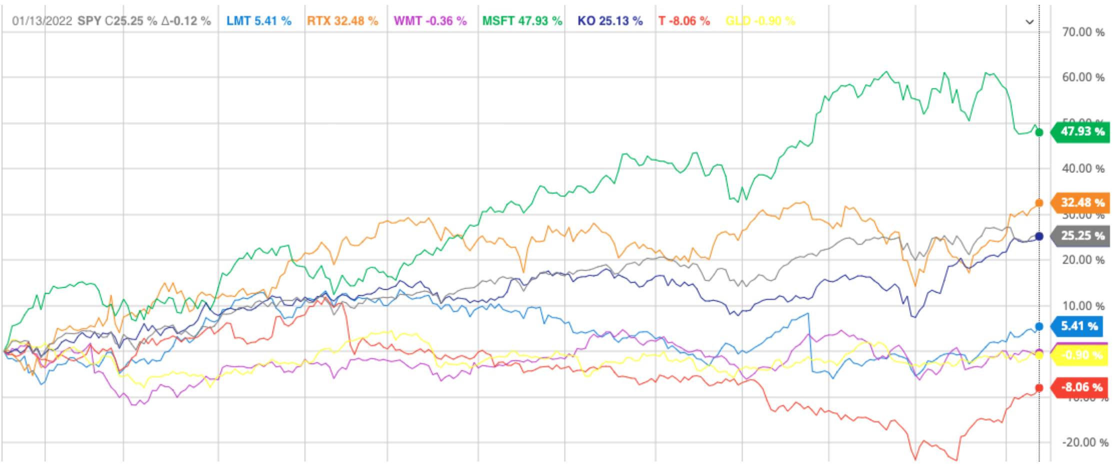


Figure 15: Category vs. SPY

KO, T: Dividend heavy, cyclical plays with slow volatility. Not that T did not see its share of downturn, but it generally is a slower one, so the 7% dividend can offset much of that while you move out. KO is having a nice run, a classic Buffet stock and a nice near 4% yield makes this a risk averse play if you are seeking one.

WMT: This has room to run when supply chains loosen! Setting a target of $155 in H1 of 2022 with a little dividend to boot. The logistic king will once again reign (with AMZN), along with its partnership with Amex, and potentially the metaverse (ha), this is a steady handed asset which took a hit with a missed earnings call. Should be a safe buy here.

MSFT: Word on the street, even after a 40%+ 2021, this is the stock to watch. Great earnings, incredible guidance, strong strong strong CEO. If MSFT really goes bearish, start looking to safer assets and cash. Covid brought enterprise everything here to stay and MSFT continues to capitalize on that. Target at $340 in mid-2022.

Very Low Risk: Cash, USDC - inflation

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! Let's be clear here, with the US facing near 7% inflation, holding cash is really not helping much. Reminder for the purposes of BFI, cash is deemed an investment aid, not emergency funds or regular savings. Therefore, until we figure out where 2022 is headed, bumping cash reserves to 10-15% or more is not a bad play, to assist in moving in and out of risk.

5 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).

5.1 Metaverse, Omniverse, AR, VR, IRL

The next BFI will be more focused on these plays, however, as it pertains to stocks, the metaverse is coming, probably. Whether it does or not, the infrastructure will be built. That means compute resources and wearables. Semiconductors, AAPL, FB are in the lead. But let me paint a picture that might not be in Ready Player One, but first watch:

Bill Gates - the Internet

Currently, there is not one item in a grocery store which is not wholly optimized by price (cite: Priceless, William Poundstone), location, shape, size, color, etc. As a shopper walks in, every most probable physical turn and eye line of site is optimized, to the point of tracking systems at faux stores with hired focus group volunteers. Now this same want of behavioral analysis exists on apps and on the web, but it is much less robust. Why? Sensors. We cannot fully emulate line of site, or the idea that when you walk into a grocery store, you think health but after you have done all of that you finish up with desserts and snacks. Altho many studies show web progress, like top left to bottom right sight, this its still just based on our vision sensor and data captured by monitor size or phone size with scrolling through mouse clicks which is hard to store from a data perspective. This is not an immersive experience-websites rely on historical data and mouse movements not the full range of exploration.

People know how to traverse a store IRL. So when the tech comes around to a more realistic less choppy version of hilarious bad marketing tweets... you are giving the worlds largest and foremost innovators/optimizers of customer experience the ability to simply replicate it with a smart AI staff liaison at every step (free labor), and bring each person out of the difficult to optimize web and into a tried and true in store optimization. Those who can replicate IRL mechanics which they have already optimized for human behavior, experience, and profit will get to bring people out of 2D land and mimic the IRL experience 24/7 without human costs. For this retail case study, the biggest Covid winners for market share and margin were going after not online orders, definitely not in store orders but the 'click and collect'. Order and pickup curbside. Labor reduced!

Read: Click 'n Collect Share of Market

Web 3.0, click and collect or click and deliver... cut the bottom line, up the top line. So do I want to invest in say WMT which can hold your hand, virtually, from your living room to their now 'infinite' supply aisles-no real estate needed-to add items to cart and assist in pairings and reminders and add-ons... optimized for margins... to be delivered quickly, same day, to your door? Yes. Absolutely. But to bring this to reality, it is not about just WMT, but where this lives (FB?), how it comes to life (Semis), how you link the two (AAPL?), and who else probably wins in this (AMZN, GOOG, SNAP if it becomes a hardware company and the like).

This was probably the most boring case study for the metaverse one could imagine - I will try to Pixar-ize my studies in the next BFI.

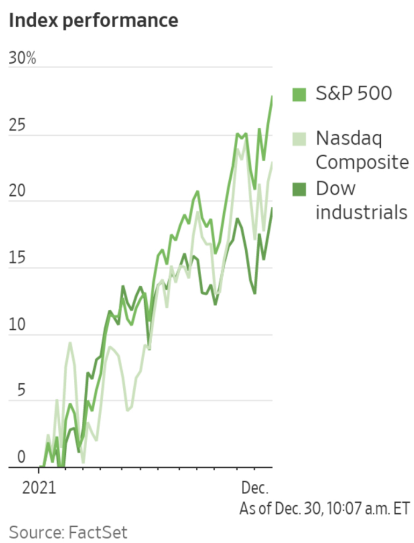
5.2 Tech Bloat

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. Over 25% is made up (as of writing) with 5 stocks, all of which are TECH! 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. We are seeing this already happen as interest rates rise and the future value of money is depleted. It is expected the 10-yr goes well over 2% this year which also means discounting the future value of risk assets - over the last decade, this is not overly worrisome, but short/mid term this will definitely drive confusion, uncertainty, and volatility.

However, again not all assets are created equal and below is a chart to show the horrid abuse of risk that SPACs and no revenue tech (see metaverse plays, meme stocks, etc) that folks pumped money into. These companies do not make money. They may. This is why the QQQ underperformed SPY for the first time in a long time, because it is weighed down by bad overbloated tech and teetering on the brink of big tech holding it up and is very dangerous.

Do I advise against tech? NO! Invest in good tech, FAANG is still there, MSFT is still great, but will RIVN hit $200 this year or $20? Maybe put those in your high risk bucket, but for me, this is tradeable but not investable just yet.



(a) S&P outperformed QQQ in 2021

(b) Not a great year for IPO headliners

5.3 Headline Claim

So many people feel rich right now. Too many.

There are so many unknown variables coming out of Covid - from inflation at 7%, to what the Fed will do about it, to fiscal policy getting passed, to (re)opening or new variants coming, to the great resignation, remote work, unemployment, and so on. The cost of housing in many markets is untenable. Home prices have skyrocketed on the backs on 2 years of low interest rates. So because your neighbor's house sold for 30% more than they bought it for 2 years ago - does that mean you are 30% wealthier? NO. Yet all over the country people are taking out cash from their homes to buy goods, run more cheap debt, buy an investment property, buy an inflated new car, etc. The above chart on IPOs is a glaring tell of this. Why? Because when you feel wealthy, even I have done this in the recent past, you invest in random high risk assets to 10x on house money. After huge runs in a few areas, I bought a metaverse spaceship...for a thousand crypto dollars. Why?!? Because it was 'free money'. This is happening everywhere. So if your house is potentially worth 30% more than it was in 2019, and your crypto wallet is up 50% from 2020, and all market indices are up to all time highs - you feel wealthy! So you take 'house money' (sorry for being ambiguous) and in a sense gamble it on IPOs or riskier crypto. So what happens when rates raise, inflation stays, or simply...people stop working remote and the new normal stops changing. Not that it has not changed, but that is stops changing more. People run to the exits, like we say in December and early January. Stocks drop 5-10%, crypto drops 40% and housing...we will see, but mortgages are slowing while rates rise and the spring housing market is coming around to a work force returning to the office. Something has to and will give. Sensible minds (sensible assets) will prevail. Does that mean there is no growth in these riskier assets? NO. It just means the idea of making a quick buck, a quick 30-50% on speculation is coming to an end. So just as you as an individual might be saying eh I don't think I want to buy more BTC or I'm not buying AMC now that everyone knows meme stocks...also means most people are. But it goes much further than that - you might think also that housing is over done too, everyone has two now - so that growth slows and people who got in over their heads in cheap debt and the prospect that their assets were going to do nothing but go up are now getting to feel a bit more break even and hesitant to pump more money into the risk assets. My advice - assume your assets, stocks, crypto, housing, gold, NFTs, cars - are worth either what they were in early 2020, or at least dock 20% from their current prices. Invest under the assumption that discounted value is what you, and as importantly, others have to play with. Do not be the last one out of an inflated world. Oh, and by the way, with 7% inflation, that also means that something that typically costs a dollar now costs $1.07, if you can even find something to buy. While this may not hit every wealth category, it is a major thing, keep this in mind. Controlling it will cause some chaos, the stickiness of it, will hit parts of society we really do not want it to, which will cause even more downstream uncertainty.

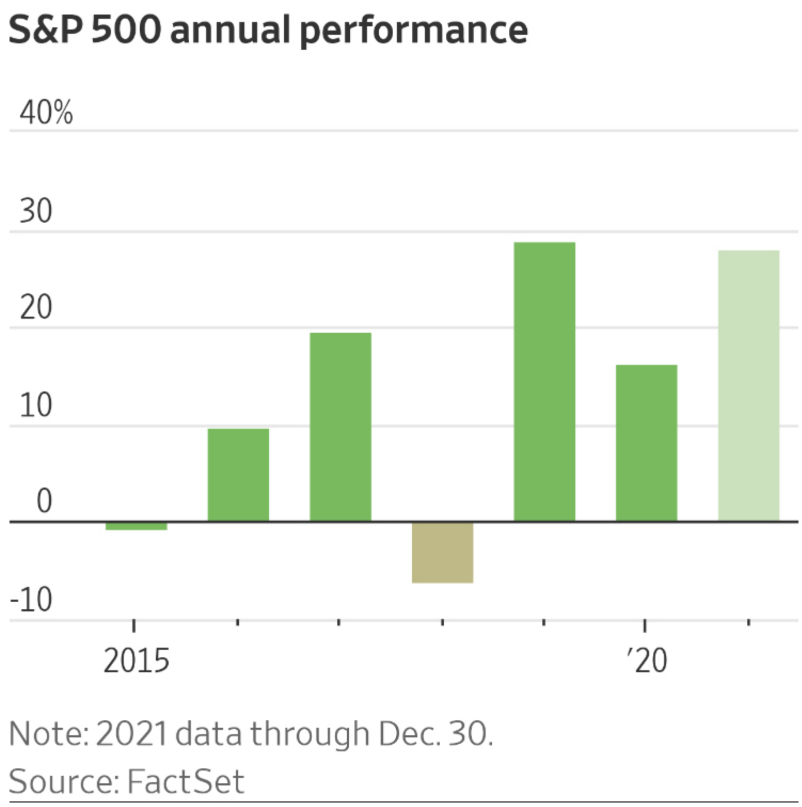


Figure 17: A lot of easy money

5.4 Disclaimers

This was written in late December 2021, but put into the wild during the WILD first weeks of 2022. Asterisks galore!

5.5 Feedback

I hope you found this 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 NFTs or Clase Azul. Better yet sign up for TD Ameritrade 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 random non-financial credentials see LinkedIn: stevebschmidt.