NINE SPECIFIC STRATEGIES TO MAKE MONEY IN RISING AND FALLING MARKETS

CRITICAL SIGNALS REPORT
WITH MATT PIEPENBURG

CRITICAL SIGNALS REPORT
WITH MATT PIEPENBURG

Investor's Report
From: Matt Piepenburg
For: *Critical Signals Report* Members

Nine Specific Strategies to Make Money in Rising and Falling Markets

Dear Subscriber,

In previous reports, I showed you **Seven Tailwinds behind a Final Market Surge, Eight Triggers of a Market Meltdown**, and finally **Three Stages of Profiting the Transition from a Melt-Up to a Meltdown**.

By now, you are more informed than the vast majority of investors as to *what* lies ahead, *why* we got to this point, and *how* to be prepared.

In this report, we take a deeper dive into nine specific strategies you can employ during the ride up – or "melt-up," as well as during the market's ride down, or "meltdown."

Four Specific Strategies for Rising Markets

1. Individual Stocks – like the FAANGs

During a melt-up, the best performers will be large-cap, individual stocks, or a group of stocks in top-performing *sectors* like technology stocks, which can perform well in surging "**GREEN**" Signal Boxes.

Such individual names, within key sectors, are a sure way to make tons of money in a melt-up.

That's where I bring into play certain indicators for the melt-up – for example, the FAANG stocks (Facebook, Apple, Amazon, Netflix, and Google).

I've shown elsewhere just how overvalued the FAANGs are in the report ***12 Ways to Protect and Grow Your Wealth Today***. Most of these names have very bad balance sheets and negative free cash flow.

Ultimately, these stocks will sink by greater than 50% in a downturn. But during a melt-up, these otherwise overvalued names will become even more absurdly overpriced. That's why they call it a melt-up.

For a brief period, one can enjoy this absurd ride up. During the 1928 melt-up, for example, the Radio Corporation of America (RCA) rose by over 1,000%, and names like General Motors (GM) and General Electric (GE) also rose by greater than 300% in that crazy period. In the late 1990s, I personally traded similar melt-up stocks like Yahoo, Cisco, and Microsoft.

Similar and rapid climbs will be true of other "big names," like the FAANGs in our current markets.

Individual groupings like these are a concentrated play in what's working yet remain diversified across a number of stocks.

2. Specific Exchange-Traded Funds

Again, I've already discussed the inherent risks that exchange-traded funds (ETFs) play in the long term. However, during melt-ups, informed investors can use these otherwise dangerous vehicles to secure short-term profits during the **GREEN** signal period.

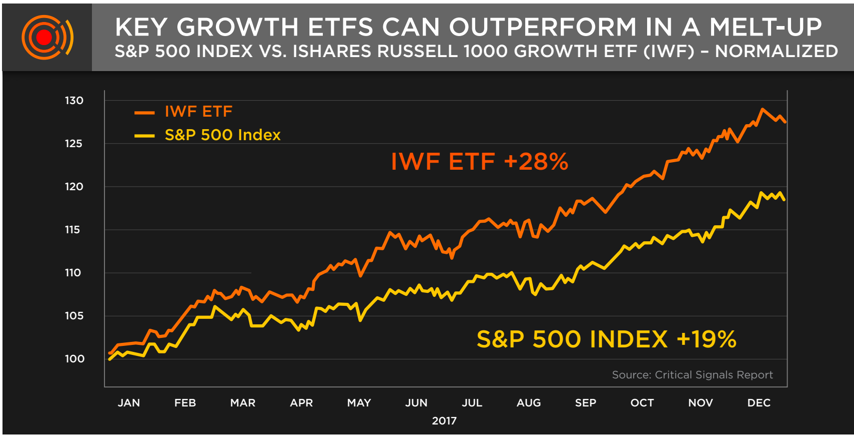
ETFs are plain and simple ways to play a stock market melt-up. An ETF is an investment fund traded on stock exchanges, much like stocks, and are therefore easy to trade.

ETFs hold assets that include stocks, commodities, or bonds and track indices, such as a stock or bond indices. They are low cost and tax efficient.

Growth ETFs

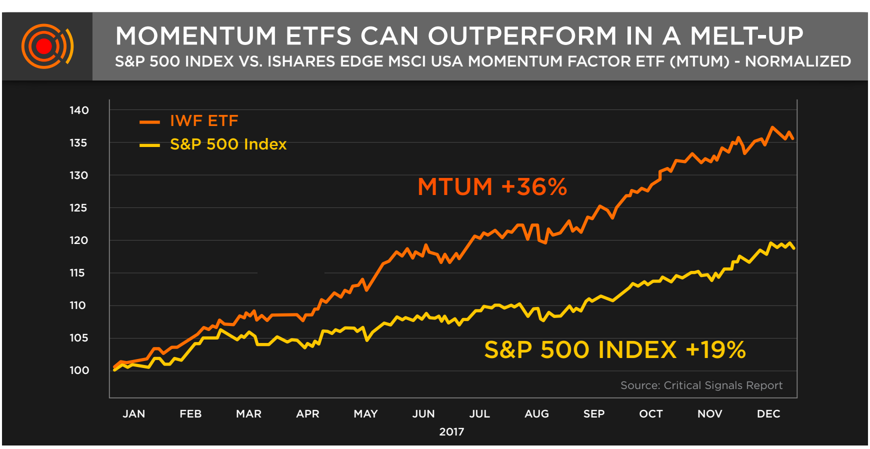
During a melt-up, ETFs that bundle and track key growth assets such as **iShares Russell 1000 *Growth* ETF** (NYSEARCA:IWF) will outperform the broader market.

In the 2017 melt-up, IWF outperformed the S&P 500 Index by 1.46 times; that's by 46%.



Momentum-Based ETFs: The Mid- and Large-Cap Names

Here's another strategy… deploy momentum-based ETFs in a melt-up, ETFs like the **iShares Edge MSCI USA Momentum Factor ETF** (BATS:MTUM), which provides exposure to large-cap and mid-cap U.S. stocks that exhibit relatively higher price *momentum* during melt-ups. Alas, "the trend is your friend."



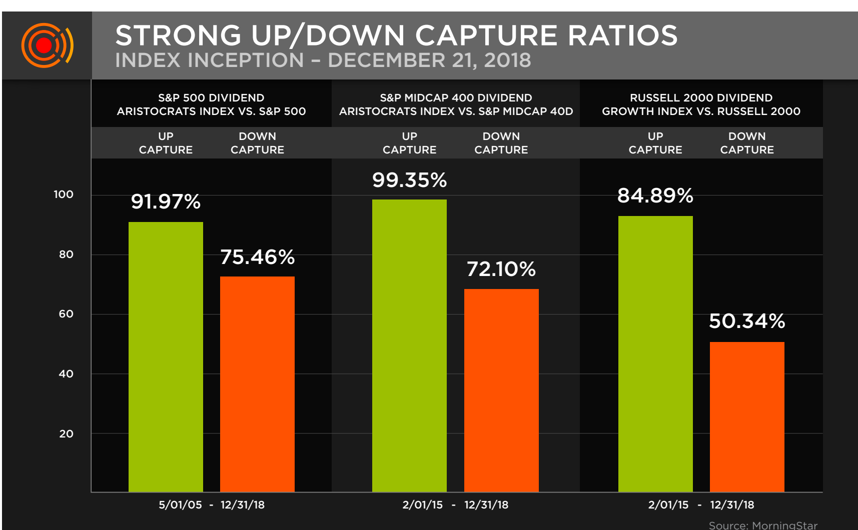
In the 2017 melt-up, MTUM crushed the S&P 500 Index by 85%, and this isn't a leveraged ETF (which I'm about to discuss). Momentum ETFs are especially effective when volatility (as "measured" by the VIX) is at historical lows – as at present…

Dividend Growth Stocks – a Safer Way for Some Investors

Here's yet another strategy if you believe there's a melt-up coming but you are not totally convinced and thus want to hedge a bit: Concentrate on dividend growth stocks.

Dividend growth investing has stood the test of time, standing up during periods of uncertainty. The concept is to buy stocks with a lengthy track record of consistent dividend growth.

For example, **ProShares S&P 500 Dividend Aristocrats ETF** (BMV:NOBL) buys S&P 500 companies that make up the ProShares S&P 500 Dividend Aristocrats Index, namely stocks that have grown their dividends consistently every year for at least 25 consecutive years, many for more than 40 consecutive years.



These are top companies like Coca-Cola, Johnson & Johnson, Sherwin-Williams, and McDonald's.

ProShares and vendors of similar ETF products capture most of the market melt-ups and less of the market meltdowns than non-dividend-oriented portfolios.

3. Leveraged ETFs

For those of you who have the capacity for greater risk , leveraged ETFs are another way to make outsized returns in a melt-up.

Leveraged ETFs, as their name suggests, use leverage (i.e. low carry-cost borrowing) to get more juice out of a rising stock market by doubling and even tripling down on realization multiples/leverage.

Normally, I am against leverage, as it adds greatly to the risk of a portfolio.

Those of you approaching retirement or who are otherwise averse to an outsized risk of loss should therefore avoid such instruments.

Why? Because more reward entails assuming greater risk. Leveraged ETFs skyrocket in rising markets but tank two or three times faster and deeper in falling markets. One must be very careful employing them.

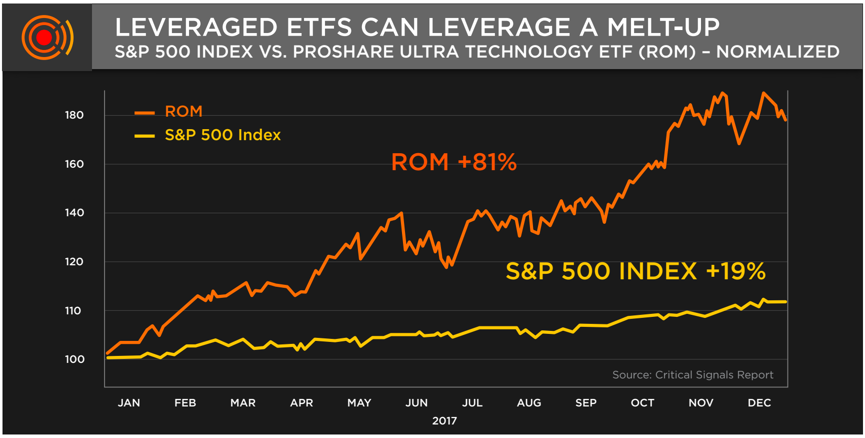
During a melt-up, however, investors who are able to accept such risk will see higher returns – as well as higher volatility as markets dip here and there during a melt-up.

Leveraged ETFs are specifically designed to move in the direction of a benchmark or index by an equal one-to-one ratio, or by multiples of two times or three times that of the index.

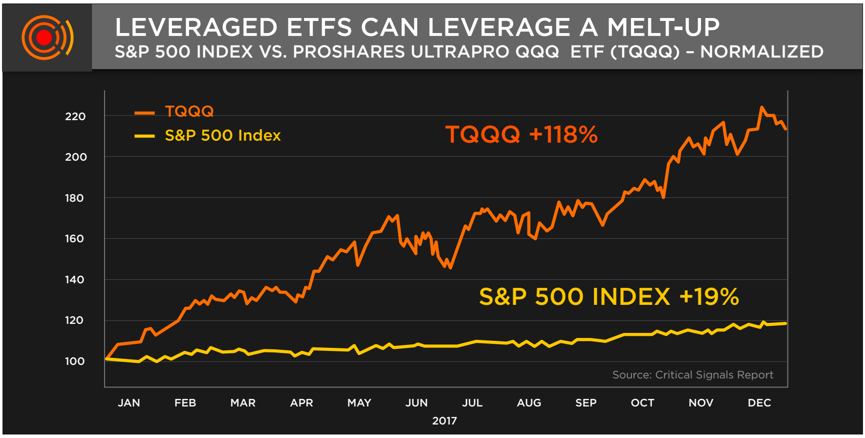
Used as a melt-up strategy, a leveraged ETF on the S&P 500 Index, for example, is designed to rise by 2% or 3% for every 1% rise in the S&P Index.

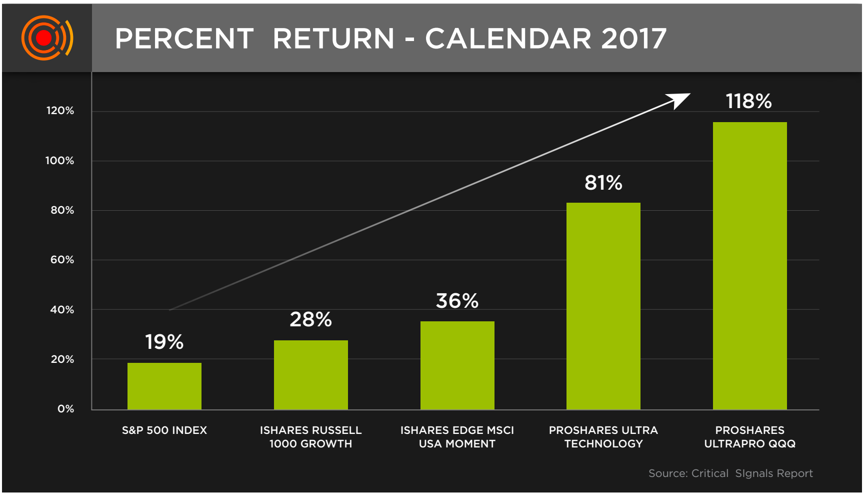
Such ETFs include **ProShares Ultra Technology** (NYSEARCA:ROM), which corresponds to two times the daily performance of the Dow Jones U.S. Technology Index.

In the 2017 melt-up, ROM crushed the S&P 500 Index by 4.15 times (that's by 317%). Favored-sector ETFs can be especially effective as the masses start piling into these stocks during the final breaths of a melt-up.

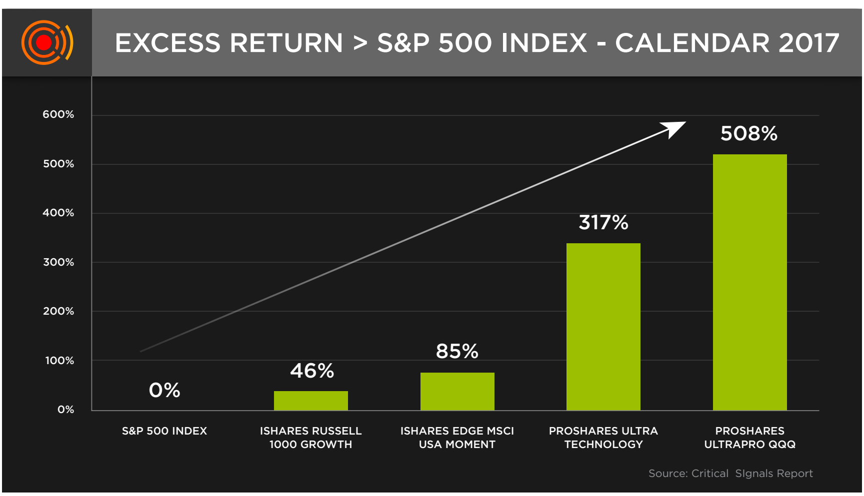


Leveraging the technology sector at three times boosts the returns even higher. Take the **ProShares UltraPro QQQ ETF** (Nasdaq:TQQQ). In 2007, TQQQ crushed the S&P 500 Index by 5.4 times (that's by 540%). Ultra-leveraged sector ETFs can be especially effective during a mass buying spree.





To summarize, here's how these strategies performed in 2017…



And here's the excess return generated over and above the S&P 500…

But again, caution is clearly warranted, as losses will be leveraged similarly in the *opposite* direction when rising markets experience inevitable dips. Of course, when markets finally turn fully south, these leveraged ETFs will experience extreme losses.

Leveraged ETFs deploy the use of complicated financial-engineering techniques like equity swaps, derivatives, rebalancing, and re-indexing to achieve the desired return. I won't go into such details here.

But for you the investor, the leveraged ETF is a simple, plain-vanilla fund that one buys much like a stock – only with a lot more "juice" behind it.

4. Call Option Strategies

Option strategies are a safer way to buy stocks at significant discounts; one literally buys the "option" to own the stocks for a limited window of time – hence the name.

Call options, simply known as "calls," give the buyer a right (or option) to buy a particular stock at a particular price (or the "strike price") for a particular period of time and are profitable only if the stock rises in value.

In short, calls are for bullish cycles.

If, however, the stock for which you bought calls *falls* rather than *rises* in value, you only lose the price you paid for the option (known as the "premium"), and thus your risk is significantly reduced on the downside. Of course, if the stock for which you bought calls rises, the upside is far higher than having simply bought shares of the stock outright.

Conversely, put options, simply known as "puts," give the buyer the right (or option) to sell a particular stock for a particular period of time and are profitable only if the stock *falls* in value.

In short, puts are for bearish cycles and meltdowns, as we'll discuss below.

Puts, just like calls, offer far greater reward for significantly less risk.

For example, if the stock for which you bought puts *rises* rather than *falls* in value, you are in a losing trade, as you were hoping to see the stock fall in price, which is why you bought the puts.

But by using a put *option* strategy, you lose only the premium you paid for the put, and thus your risk is significantly reduced if the trade goes against you. However, just like calls, your profits are significantly magnified if the trade goes your way.

In sum, options (calls or puts, depending on whether you are bullish or bearish on a specific stock) give you far greater reward for far less risk and are an exceptional way to trade a melt-up *or* a meltdown.

Options are often deployed to gain exposure to a specific type of opportunity or risk while eliminating other risks as part of a trading strategy. A very straightforward strategy might simply be to buy a single put or a single call, depending on which way the market is trending.

Five Specific Strategies for Trading a Meltdown

When it comes to making money in a downturn, there are so many ways to invest, ranging from simple cash holdings or hedging strategies to outright shorting, options, and more.

1. Cash Is King

Remember: The surest way to make a fortune is simply to avoid losing a fortune.

When grossly over-valued markets tilt toward a meltdown, the simplest and smartest strategy is to just get out of their way, avoid massive losses by going to cash (or a money market fund), and then be patient.

Later, when the markets are nearing a bottom, stocks can be bought at massive discounts. This elegant, simple approach is the one taken by the most successful investors. In fact, it is so simple that almost *no one* else actually does it.

Why? Primarily because human nature hates to sit still, fears missing out, and lacks the discipline and patience to simply wait out the storm.

As for me, once a market has handed me a small fortune (as the post-08 markets have done, rising greater than 300% since 2009), the simplest move is to calmly take such a fat pitch of profits and walk away until such grossly overvalued markets are cheap rather than expensive.

In short, selling high and buying low.

But again, almost no one does this. It just fascinates me…

As I've shown **here**, such a common-sense millionaire strategy has made me a ton of money in past bubbles. I highly recommend it, especially for those of you approaching retirement who are not able to afford the risk of losing 50% or more of your portfolio in a meltdown.

For the rest of you, however, I understand that staying in the game is part of your risk profile. Toward that end, there are other strategies you can employ in a meltdown that can lead to huge returns while markets are tanking.

2. Portfolio Hedging – Beware of Traditional Stock/ Bond "Diversification"

Expansions time out. Rising markets, including melt-ups, eventually turn red and signal a trend toward falling markets.

While the current expansion is on track to be the longest in American history, it, like every expansion, will have a bookend – i.e. an "Uh-Oh Moment." At ***Critical Signals Report***, we track just how near or far that moment is.

Portfolio hedging helps to manage risk as growth cycles peter out, especially after the needle tips of a melt-up.

When markets sell off big-time, correlations among traditional diversifiers rise. In other words, all assets fall together – even the so-called "diversified" assets of traditional pie-chart portfolios.

Stocks and corporate bonds are more correlated than before and riskier than at any other point in market history I've seen.

They have climbed all walls of worry since the Fed lowered interest rates to zero after the Great Recession, yet we have not heard anyone provide sound reasoning as to why these so-called "diversified" allocations will not fall faster than they rose when interest rates rise.

What goes up together (i.e. stocks and corporate bonds) can fall together, especially during periods of extreme market declines, and that's where hedging comes in. The Fed's non-traditional monetary experiment has put traditional portfolios at risk. Let's say that again…

The Fed's non-traditional monetary experiment has put traditional portfolios at risk.

To distance their portfolios from those big, bad bears, experienced investors hedge against risk as their portfolios needle up. They use a "hedging approach" to safeguard their portfolios and offset the pain from when markets turn without selling out and triggering unwanted capital gains.

Sound strategies to hedge portfolios – and to just flat-out make money when markets tank – include short selling, buying put options, and using inverse ETFs.

3. Shorting Stocks

Shorting stocks (i.e. betting against them) is a highly effective strategy – but only for the most experienced investors, and thus I will not go into this approach in great detail here.

I believe using put options is a far more realistic way of making money and hedging in falling markets for most retail investors.

To illustrate my preference for using put options as opposed to short selling, I will have to give a brief explanation of how stock shorting works, as it is an otherwise largely misunderstood strategy.

When you "short" a stock, this involves borrowing a stock you don't own with the intent of buying it at a lower price later. Simply stated, one shorts a stock if one thinks the price will go down, rather than up.

This is very different from the traditional idea of going "long" on a stock that you think will go up in price. When you go long on a stock –

say IBM – and you buy it at $100/share, if it scoots up to $150/share, you are up $50 – or 50%.

Shorting is the opposite. When you go short IBM, you *borrow* the stock and sell it at $100/share as per a contractual deal. Hopefully, the stock then drops to $50/share, and you *buy* it back at that discounted price.

Thereafter, and per your pre-arranged contract, you then sell that $50 stock to your contractual counterparty for $100. The result? You are again up $50/share.

After all, you bought it back at $50/share and you sold it "short" at $100/share. Only this time, you doubled your money. When you sell the stock, you return it to the lender, thus covering the short.

Nice job. In other words, you doubled up on the way down. Hedging via outright shorting can make you gobs more money than long investing in declining markets.

But all the borrowing, contracting, and counter-party arrangements discussed above reveal how complex such a trading strategy can be for everyday investors.

Hence, my preference is for using put options as both a hedging strategy in volatile markets and a profit strategy in falling markets.

4. Buying Put Options

Buying put options may sound sophisticated, but now that you understand short selling, it's a piece of cake – and a whole lot less risky.

Let's recall that when we shorted IBM, we sold it at $100/share. And if it went down by 50% (to $50/share), we made $50/share on the trade, or 100%. This is all good, right?

Well, there are risks in any investment strategy.

Let's say we shorted IBM at $100/share and it sadly went up (not down) by 50%. Uh oh.

In this example, the trade went against us… we sold the shares at $100/share and covered the short by buying the shares back at $150/share. That means we bought at $150/share and sold at $100/share, so we lost $50/share on a $100/share cost – or 50%. That could be a bunch of money.

When we buy a put, however, the trade is infinitely less dangerous if the trade goes against us and is far simpler to transact.

Take the IBM example of using a put option rather than shorting the stock.

With a put, we pay just the premium associated with the put; say that's a $10/contract (contracts generally come in 100 share denominations). In the case of put options, that $10 is our "premium" or cost, no matter what happens.

If IBM happily goes down by $50/share, we sell the put and are up by $50/share (less the cost of the put) – a small price to pay for such a whopping gain.

If, however, IBM sadly goes up by $50/share, we simply let our $10 contract/premium expire worthless, and we'd lose just $10 on a 100-share contract, not $50/share for 100 shares had we shorted the stock ($50x100 shares = $5,000).

By buying puts, we hedged, and the hedge only cost us $10, not the $5,000 from shorting the same stock. And herein lies the power of put options when markets fall. The same is true of call options when markets rise.

Does this still sound complicated?

No worries – because when the time comes, ***Critical Signals Report*** will be signaling when to buy puts in a market meltdown and when to buy calls in a market melt-up.

5. Buying Inverse ETFs

Like buying puts, inverse ETFs are designed to move in the opposite direction of a benchmark or index, by a one-to-one ratioor even by leveraged multiples of two times or three times.

Used as a hedge or an outright shorting strategy, an inverse ETF on the S&P 500 Index is designed as a simpler way to *rise* by 1% (or 2% or 3%) for every 1% the S&P Index falls.

Stated simply, when the market falls, inverse ETFs linked to a stock index rise.

Inverse ETFs are much easier to understand and deploy for most investors, and unlike put options, they have no expiration date. Plus, the use of options may require setting up margin accounts and qualifying for brokerage approvals.

We are here to help.

As with put and call options, ***Critical Signals Report*** will be signaling when to use Inverse ETFs, and we'll tell you which ones to use.

Bottom Line

Keep it simple. Shorting markets, i.e. short selling, can be enormously profitable in a meltdown, but it can also be overly complicated and cause you to lose more than you invested, leading even to unlimited losses if the stock price goes against you.

Put options solve the unlimited-loss problem but come with their own quirks – rollover requirements and other complications.

Inverse ETFs are by far the easiest to understand and deploy in falling markets or as a hedge in rising markets. They require no special accounts or margin requirements, and the maximum loss cannot exceed the value of the ETFs you buy.

Plus, inverse ETFs are designed not only to hedge or short (i.e. bet against) stock indexes as a whole, but also individual sectors, including stock-sector indices, bonds indices, currencies, and commodities.

Risk can be reduced by selecting among these options, but it cannot be eliminated.

Of course, and once again, we at ***Critical Signals Report*** will and can help guide you through the best vehicles and strategies in both rising and falling markets.

Please Note: From time to time, Money Map Press will recommend stocks or other investments that will not be included in our regular portfolios. There are certain situations where we feel a company may be an extraordinary value but may not necessarily fit within the selection guidelines of these existing portfolios. In these cases, the recommendations are speculative and should not be considered as part of Money Map Press philosophy.

Also, by the time you receive this report, there is a chance that we may have exited a recommendation previously included in our portfolio. Occasionally, this happens because we use a disciplined selling strategy with our investments, meaning that if a company's share price falls below a certain price level, we immediately notify our subscribers to sell the stock.

MONEY MAP PRESS

1125 North Charles Street, Baltimore, MD 21201
Phone: 888.384.8339 or 443.353.4519

Privacy Notice