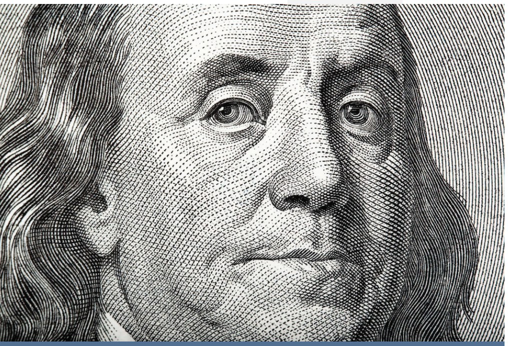
CREATING A BEAR-PROOF RETIREMENT:

INVESTMENT STRATEGIES TO REACH AND SUSTAIN RETIREMENT

TECHNICAL TRADERS LTD.

TECHNICALLY PROVEN STRATEGIES



“Time is money.”

—Benjamin Franklin

The town of Grafton, New Hampshire, knows what it’s like when the bears encroach. This small village of less than 1,500 people has had to adapt, and, as the state puts it, “learn to live” with the bears that swarm the town, saunter up to bird feeders and garbage cans, break into buildings, and make themselves at home on territory they clearly weren’t invited to.[1]

Depending on where you live, this might sound unbelievable. How do you “learn to live” with bears? Well, if your financial advisor is suggesting the same tried-and-true investment strategies now, even as bonds, the S&P 500, and growth stocks all slide into bear market territory, that’s exactly what you’re being told to do.

This paper will show you a better way—one that allows you to skip the average thirty-six-month recovery time we’ve endured over the last three bear markets and turn that into more profits. As Benjamin Franklin once said, “Time is money.”[2]

First, let’s look at some common problems we see in portfolios. Later on in the paper, we’ll talk about ways to fix them.

[1] https://www.vnews.com/Bear-breaks-into-Grafton-porch-45733489

[2] https://www.aarp.org/money/investing/info-2022/bear-market-field-guide.html

Bonds: From Bull to Bear

Few investors today remember the bond market before its forty-year bull run. The very idea of bonds going into bear territory is so outlandish that many investors and advisors are standing by the traditional wisdom of the 60/40 portfolio and extolling the virtues of increasing bond holdings as you age.

Yet, let's look at the ten-year treasury rate over the past forty years. One quick glance shows the rate trending down. In fact, since 2010 the rate hasn't risen above 3.75 percent.

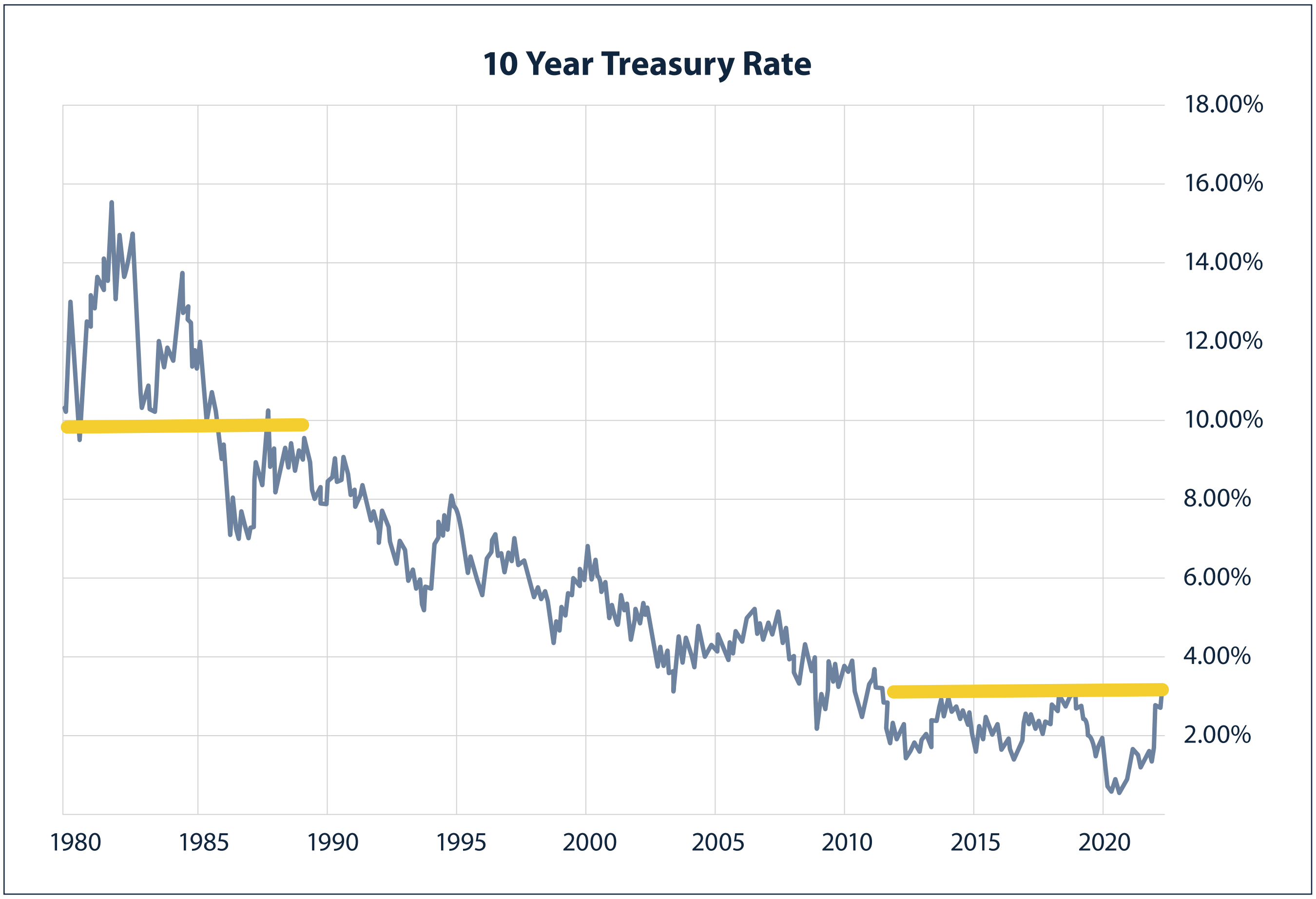


Figure 1

When you look at the actual performance of bonds over the last fifteen years, you can see volatility increasing, with 10 to 20 percent swings becoming standard in recent years. While volatility can be good for returns, it can also gut a portfolio. Worse, the larger your losses, the higher future gains need to be to get you back on track.

Whether you're embracing the traditional stock/bond 60/40 approach, or you go super conservative at 10/90, or embrace a higher-risk approach with just 10 percent of your portfolio in bonds, you can expect your portfolio to underperform the S&P compared to prior years. You will also have to endure even more uncomfortable drawdowns—just as you have during the last three bear markets.

> "It is crucial to have a strategy in place before problems hit, precisely because no one can accurately predict the future direction of the stock market or economy."
>
> —Seth Klarman

Look at Figure 2. Here, you can see how four portfolios performed—and it turns out whether they had just 10 percent in bonds or 90 percent in bonds, they all underperformed the S&P 500 while providing no significant downside protection during 2001, 2009, 2020, or today.

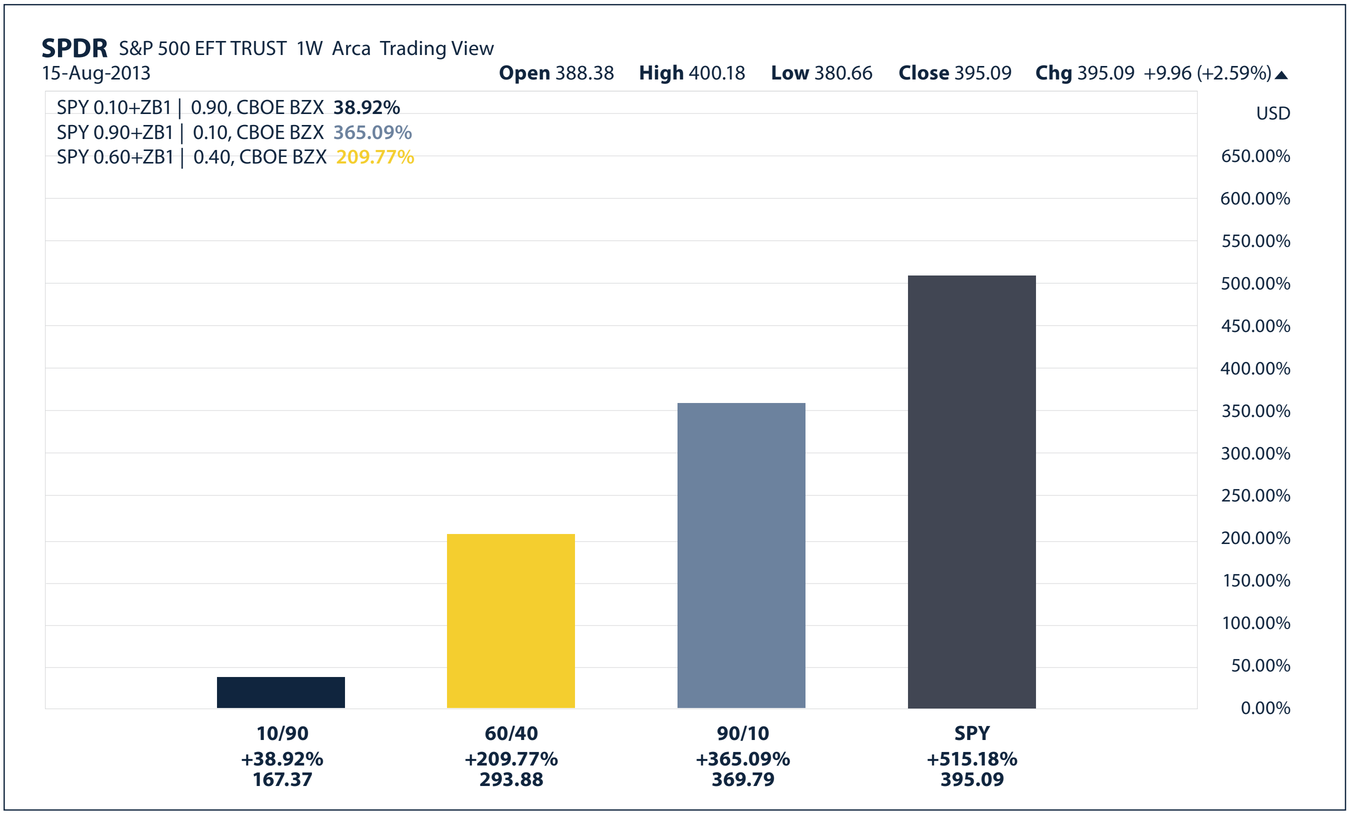


Figure 2

There definitely was a time when bonds—whether corporate, municipal, or treasury—were a conservative, defensive investment. Yet, in recent years, even treasury bonds have been increasingly shorted. According to fund managers responding to a Bank of America survey, their largest short positions in recent years have been US treasury bonds, creating downward-selling pressure on the asset's value as shorting investors position themselves to profit from a drop in value.[3]

Now, after over a decade of pumping money into bonds through quantitative easing (QE), the Federal Reserve has begun unloading its accumulated assets in a process called quantitative tightening (QT).[4] No one knows exactly how QT will affect the broader bond market, but many expect interest rate volatility to increase.[5]

[3] https://www.reuters.com/business/finance/us-bond-investors-worry-deep-slide-will-end-40-year-bull-market-2022-04-28/

[4] https://www.northerntrust.com/united-states/insights-research/2022/weekly-economic-commentary/unwind-quantitative-easing

[5] https://www.ft.com/content/2496105a-d211-4abe-ab5d-46a91876428f

The signs are everywhere. The number of emerging market corporate bonds trading at 60 percent below face value has increased over 300 percent in the past year, the amount of high-yield corporate bonds trading 30 percent below face value has doubled, and the New York Fed recently unveiled a new Corporate Bond Market Distress Index to help investors see early warning signs of bond market problems.[6,7,8] High-yield corporate bonds have fallen, and corporate bond ETFs like HYG and LQD have followed suit, losing substantial value , with HYG losing over 13 percent and LQD losing over 16 percent between January and June 2022.

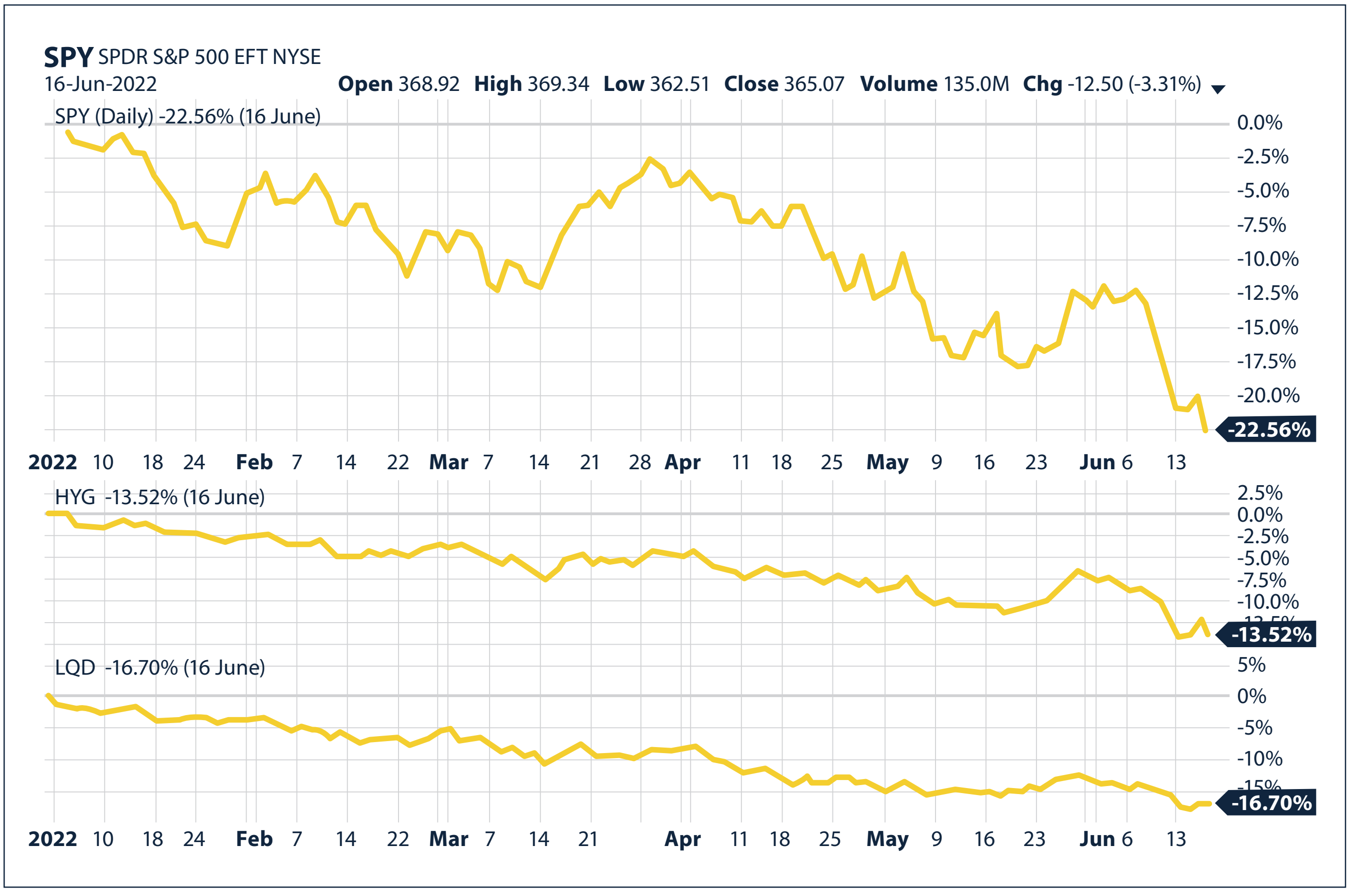


Figure 3

[6]https://news.bloomberglaw.com/bankruptcy-law/emerging-market-corporate-bonds-in-distress-quadruple-in-a-year

[7]https://www.ft.com/content/4153d2e3-af2b-43f3-b346-c83df0cdb690

[8]https://www.newyorkfed.org/research/policy/cmdi#/overview

This isn't just something that has happened in recent years either. Look at the downward trajectory of the same bond-focused ETFs during the 2020 downturn:

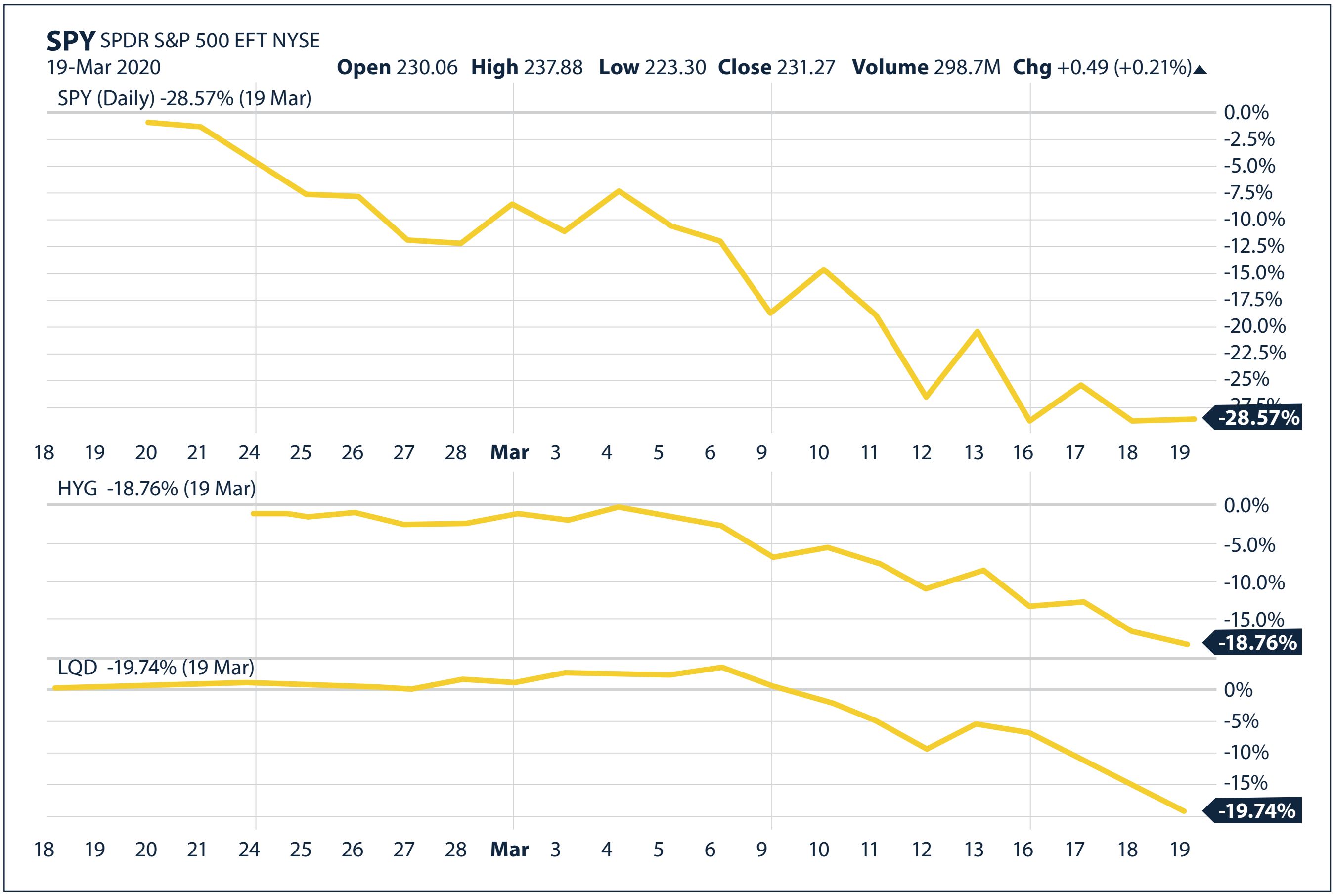


Figure 4

In short, if you are looking for consistent growth for your retirement portfolio, bonds are not the answer.

The Cash-Strapped Portfolio

How many times have you heard cash in your portfolio being referred to as a waste, missing out on opportunities—after all, if your cash isn't actively invested, it isn't working for you—right? Nope.

Just like any investment, cash is a position. More than that, it's a hedge against having to sell assets for liquidity during a bear market and a hedge against falling stock and bond prices—or both. It also protects you against sequence of returns risk.

Sequence of Returns Risk

One of the most damaging things a retiree can do is liquidate stocks at the wrong time. Let's say you have 100 shares of Company A and 100 shares of Company B. If Company A is priced at $100 per share, you have to liquidate ten shares to get $1,000. This leaves you with ninety shares participating in any rise in the stock's value. If Company B is $200 per share, you only have to liquidate five shares to get that same $1,000, leaving you with ninety-five shares participating in rising stock prices.

Company A: 100 shares $100 p/s	Company B 100 shares $200 p/s
Liquidating 10 shares	Liquidating 5 shares
$1000	$1000
90 shares	**95 shares**

Now imagine you need to withdraw another $1,000, but the price of Company A has fallen to $50 per share. You now need to liquidate twenty shares to get your withdrawal, leaving you with just seventy shares participating in the upside potential. If, at the same time, Company B's share price has risen to $250 per share, you need only liquidate four shares, leaving you with ninety-one shares.

Company A: 90 shares $50 p/s	Company B: 95 shares $250 p/s
Liquidating 20 shares	Liquidating 4 shares
$1000	$1000
70 shares	**91 shares**

When depressed assets are liquidated early in retirement to meet income needs, it quickly reduces the amount of remaining shares that can participate in any market recovery. Over a short period with repetitive liquidations, especially in a bear market, a retiree can run out of money far sooner than expected. This risk increases when an investor refuses to consider cash a position during a market downturn.

The Problem with Buy and Hold

Remember those bears in Grafton? Part of the reason they are overwhelming that town is that the local government isn't interfering with them to curb their population growth, instead taking a laissez-faire approach to fish and game management. If you think that avoiding interfering with the bears and allowing nature to take its course is a bad idea for bear management, why wouldn't it be bad for your portfolio?

Essentially, this is what buy and hold is—investing in positions and avoiding active management of your portfolio to allow the market to "do its thing." This kind of strategy can work, especially during a bull market. But with increasing volatility, the potential for a bear market, and that we aren't getting any younger, buy and hold is, at best, inefficient and, at worst, a great way to run out of money early.

Just look at how a December 2020 investment in subsector ETFs such as HAIL, TAN, and ARKW, as part of the Best Asset Now (BAN) strategy, far outperformed the NASDAQ and S&P 500. These are the moves you can make when you know where to put your money during even the most turbulent times.

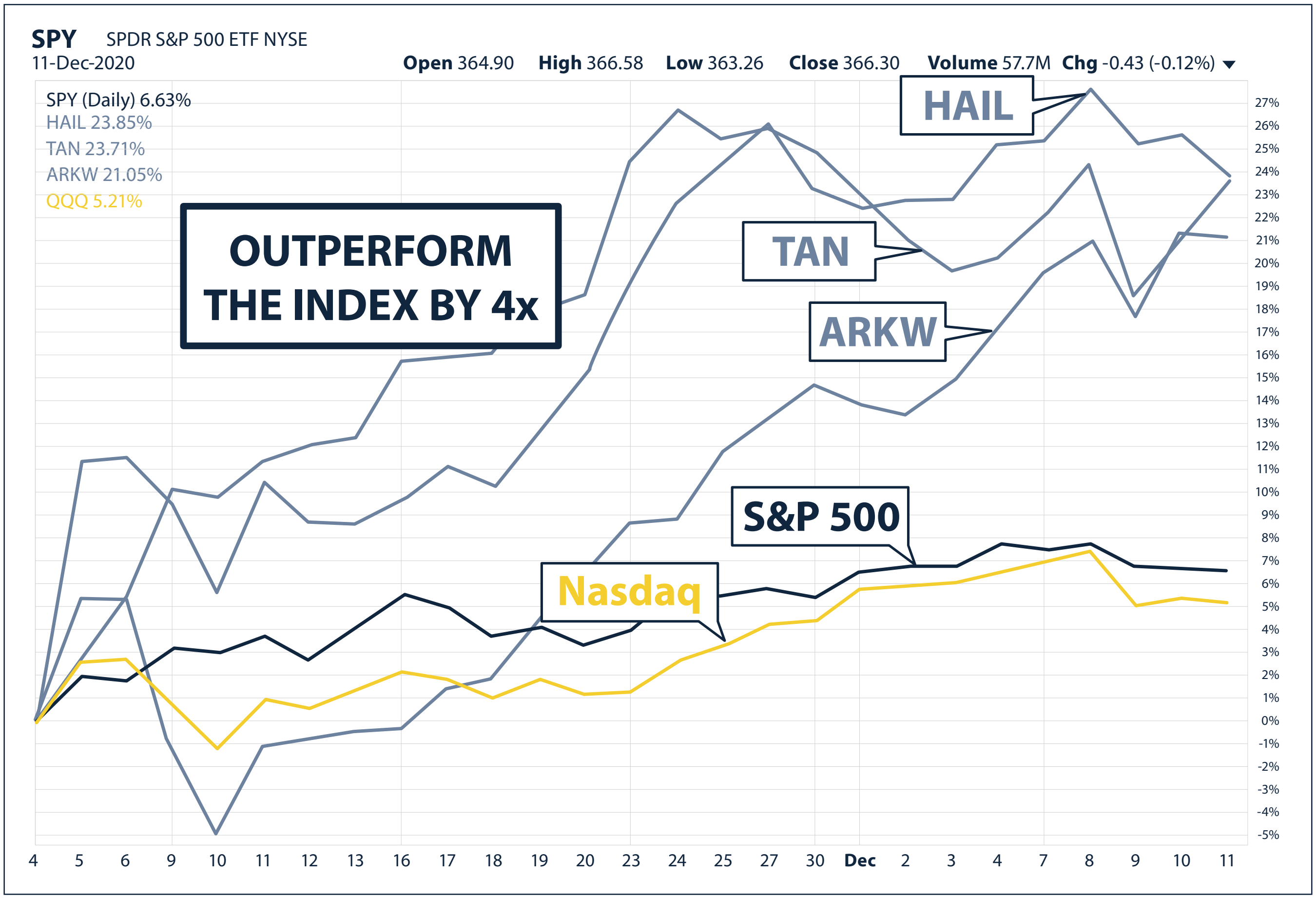


Figure 5

The Dividend Divide

Investors, especially those nearing or in retirement, are often told that dividend stocks are the Hail Mary pass of investing. When explaining why, many advisors discuss how dividend reinvestment creates a perfect environment for dollar-cost averaging—especially during a bear market.

Dollar-cost averaging through dividend reinvestment, which occurs when dividends are not taken in cash but are instead used to purchase additional shares at the market price, affects the overall cost basis for the holding. But a reduced cost basis will not help you reach your savings and investing goals. What does help, however, is asset appreciation.

Even if a dividend stock is outperforming the S&P 500—have you ever thought about what a terrible benchmark that is in a bear market? What a low bar it is to have your assets outperform an index that is losing value? When you have large portfolio holdings in both utility and blue chip, high dividend-paying stocks, your portfolio may temporarily outperform the S&P 500 index during a bear market, but your portfolio is still dropping in value.

If dividend stocks are dramatically outperforming the benchmark during a bear market, all that means is that your portfolio will be down less than the benchmark—yet, your assets will still be falling in value—something that can take your portfolio years to recover from. When it can take years to recover from a downturn, and you need a significant recovery to do so, you don't have the luxury of simply "outperforming" a losing benchmark.

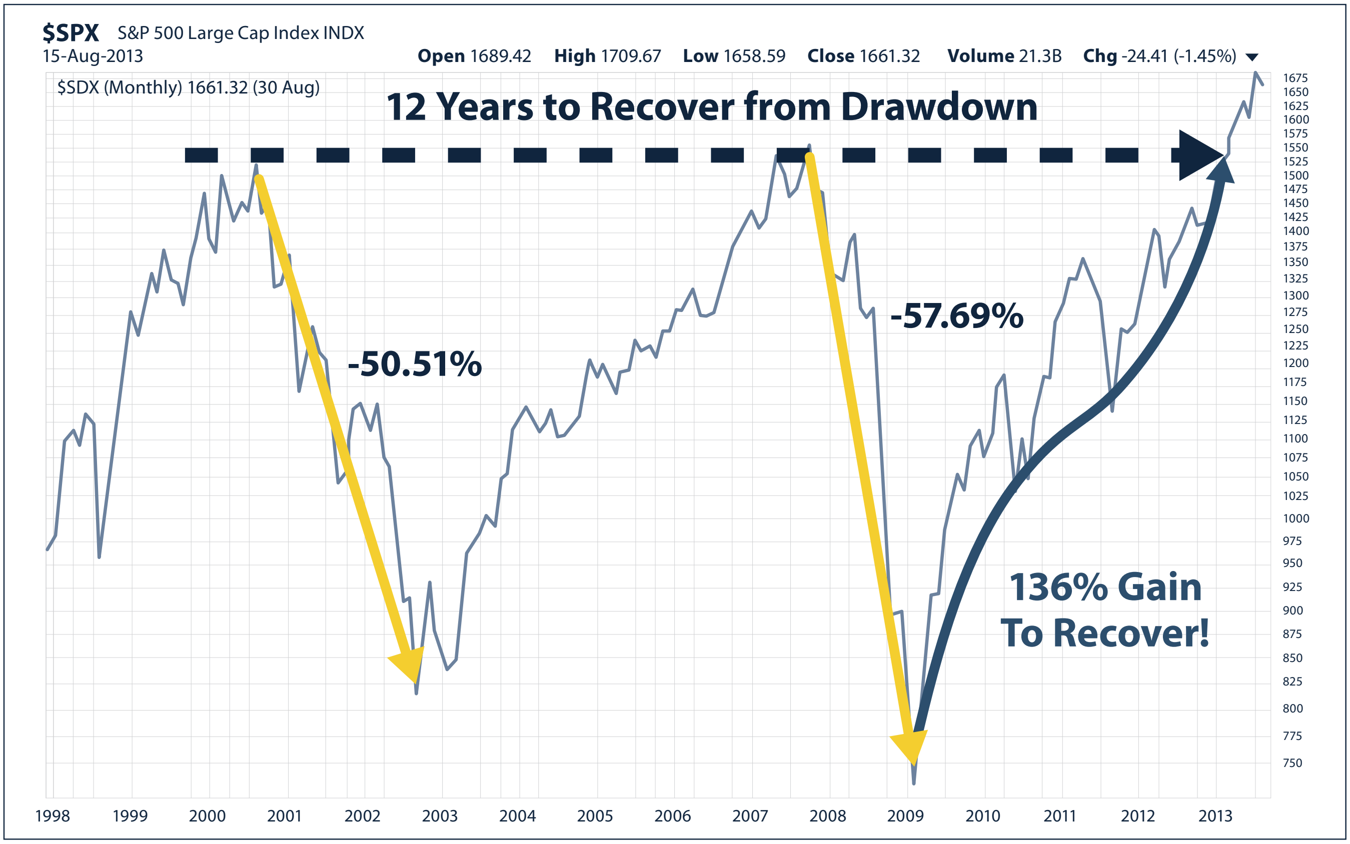


Figure 6

Dollar-cost averaging through dividend reinvestment so you can own more shares at a lower price of a stock sounds great—but it is nowhere near as effective as owning positions that are rising exclusively or holding cash when all other assets are falling.

Implementing Strategic Systems to Bear-Proof Your Portfolio

Grafton residents, abandoned by the fish and game department, have no choice but to consider the signals they are sending the bears. Bird feeders, outdoor grilling, and unsecured garbage are all welcoming and inviting signals, and the bears embrace them.

Likewise, investors today need to interpret and act on the signals the markets are sending them. It is only through following proven research, trend analysis, investing signals, and position management that investors can generate consistent growth during all market stages. Technical trading strategies expose critical signals that, when followed, can better manage both risk and returns. This approach can limit large losses while also helping investors act on opportunities others might miss.

> "I don't think the objective of investment should ever be to take a risk in order to get a return. I think the objective of shrewd investment should be to find opportunities which offer a larger return than the average, combined with adequate safety."
>
> —Benjamin Graham

During a bear market, technical analysis is especially critical because it provides a clear signal for each trade prior to entering and exiting, essentially putting the odds in your favor for each trade you make. It works on any type of trading instrument and any time frame. For those who like the income provided by dividends, technical analysis can take that a step further by showing you where to place your protective stop order, and when to take partial profits on the first sizable surge in your favor. Embracing this trading philosophy reduces emotion and downside risk, and it increases the number of winning positions you will make.

A bear market leads many investors to feel like they have two choices:

1. Close their eyes and hope for the best, while trying to minimize capital withdrawals.
2. Take a stab in the dark at when they should enter and exit various positions.

Technical analysis provides clarity on market direction and risks while removing the guesswork from trading.

Of course, recognizing signals is the start—but then investors need to systemize their actions to act on those signals, rather than simply react to market fluctuations in an emotional and lagging fashion. Technical analysis with risk/position management is the ideal philosophy for creating a simple, repeatable, rules-based system to generate profits from the market—whether bearish or bullish.

Technical analysis controls risk by following price trends, holding positions when assets are rising, and quickly exiting underperforming positions, creating dramatically lower volatility within a portfolio. When any rule has been triggered, the investor knows to take action and enter or close indicated positions, ultimately avoiding big losses and multiyear drawdowns to outperform the average market returns over the long run.

Trading systems based on technical analysis provide proven, repeatable processes that introduce consistency, control, and capital preservation. They reduce emotional stress so you can properly execute a trading strategy. In some cases, trading strategies can be autotraded within a portfolio, all based on rules, not predictions or emotions, providing a clearer path to a predictable outcome. Best of all, systems generate results—and that's what you want to see in your portfolio.

Challenging the Status Quo

Let's take a brief look at each of the portfolio problems discussed on previous pages and see an example of how a new systematic approach to tactical investing might benefit you.

Beating Bonds

Flight to the perceived safety of bonds is understandable, but as we now see, bonds are no longer safe. Instead, investors should bask in the safety of signals and systems-based tactical investing that not only reduces their potential for losses but also increases their potential for profit.

Technical traders and investors believe two things:

1. The way to make money is to own and hold rising assets and to exit positions not moving up.
2. Technical traders can analyze and follow asset price charts and know with a high probability when these positions are rising, range bound, or trending lower.

Technical analysis allows us to reduce risk, own strong trending assets, and avoid unnecessary market volatility by moving capital as needed to lower-risk assets that are rising in value. The top assets for portfolio growth are US stocks. Decades of study have shown that the S&P 500 (SPY) and Nasdaq (QQQ) are the preferred indexes providing the strongest long-term growth potential with the largest price fluctuations (volatility).

The stock market can have double-digit swings during each month. If the US stock market is favorable and trending higher, it is the best asset to hold.

The next asset to focus on if stocks are not favorable is long-term treasury bonds (TLT). Bonds can fall out of favor and may not be a suitable investment just because stocks are falling. While this has caught many investors and advisors off guard, it does not surprise technical analysts who follow price.

What's nice about bonds is that they are not generally as volatile as stocks. The hierarchy table in Figure 7 shows TLT can move a little more than half of what stocks move, which means investors can use them to protect capital in a slower-moving asset that's still rising in value during increased market volatility.

Symbol	Correlation	Trend	20-Day Max Percent Volatility	20-Day Daily Percent Volatility
SPY	1.00	Bearish	14.28%	2.45%
TLT	-0.10	Recovery	8.18%	1.74%
UUP	-0.30	Bullish	3.57%	0.71%
UDN	0.30	Bearish	3.98%	0.75%
BIL	-0.20	Bearish	0.09%	0.02%

Figure 7

If neither stocks nor bonds are in favor, the next asset to look at within our investment hierarchy is the US Dollar Index. Currencies generally have consistent trends and low volatility compared to stocks and bonds. Figure 7 shows the Dollar Index moves roughly 4 percent, half of what bonds move. Because the dollar has no correlation to stocks or bonds, and there is a long and inverse dollar index ETF, investors can move their money into whichever of these dollar ETFs are trending higher. This provides yet another way to consistently and slowly grow a portfolio during even the most difficult market conditions.

Figure 8 shows what happens when we move money from SPY (US stocks) into TLT (bonds), then into BIL (T-bill/Cash), then back into SPY. This illustrates how our position management works during a market downturn, and how we tactically navigate assets for constant price appreciation. As Figure 8 shows, our capital moved from one asset to the next avoiding falling assets, and then back into stocks at a lower price once the market correction cycle completed.

Figure 8

Embracing Cash

The last position is a cash position. Naturally, our portfolios rotate to this position as market conditions change, and investors manage risk by locking in partial profits as positions and asset trends mature and reverse direction.

There is an ETF for this as well (BIL) which is a one- to three-year T-Note. It's just like a cash position, and it can generate some interest income while a portion of our portfolio waits in cash for new opportunities.

To avoid sequence of returns risk, it's critical to sidestep the bear market and take advantage of clear signals to exit positions and move to cash within your portfolio.

As mentioned before, withdrawing funds when a portfolio is in a drawdown can be very costly to your long-term financial outlook. But with active tactical investing explained in this paper, a strategy should never have any big losses or multiyear drawdowns. That means a portfolio will generally be near a high watermark (all-time high), leaving the investor free to use capital as needed.

Buy and Sell

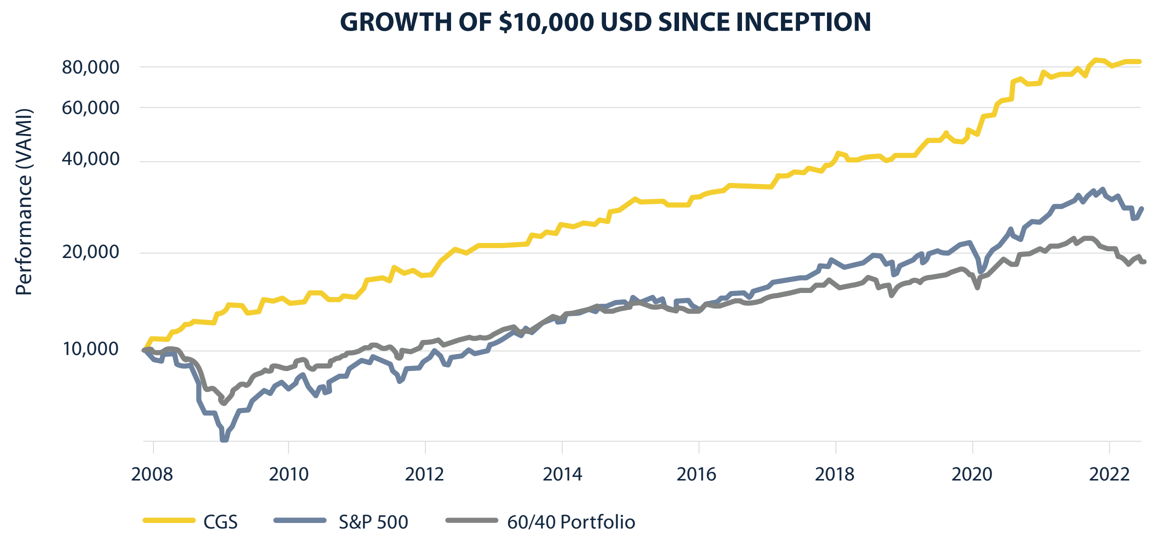
If you have traditionally used a buy-and-hold strategy, then the way you approach asset allocation has to change. Instead of becoming attached to your positions and allowing an emotional investment to form, consider them simply rented out. Then, you will be in a better mental space to take advantage of rising market trends while avoiding declining markets through tactical investing.

If you don't do this, not only do you miss out on tremendous accumulation opportunities to reinvest at the low end of the volatile bear market, you also risk having to liquidate assets when they've lost value. Whether that lost value is because of a market correction or a long-term bear market, liquidating assets when they are down creates a loss of principal you simply cannot recover from.

Over the long run, active trading and investing strategies that enter and exit more frequently to avoid big losses and drawdowns generally outperform the stock index and the traditional stock/bond portfolio over a longer period.

Today's stock market is primed with opportunity, and that means the buy-and-hold approach is no longer suitable. Whether it's the Fed, algorithmic traders, or fund managers, the volatility brought about by modern trading trends creates an environment with price movement that is better suited to active, tactical investing.

In Figure 9, see how our [CGS tactical investing strategy] helps increase the potential growth of $10,000 versus simply buying and holding SPY.



The graph represents the cumulative performance of a hypothetical $10,000 investment compounded. Performance is compounded. Returns do not reflect dividend income, or the payment of any brokerage commissions, brokerage costs incurred as a result of buying or selling shares, the subscription fee, and does not reflect the deduction of taxes.

STRATEGY PERFOMANCE

	3M	YTD	1 Yr	3 Yrs	5 Yrs	Since Inception	Max DD (Daily)
CGS	-0.56%	-0.16%	10.76%	80.00%	129.70%	735.24%	-5.95%
S&P 500	-0.03%	-13.34%	-6.04%	38.57%	67.19%	181.27%	-53.00%
60/40 Portfolio	3.06%	-15.58%	-12.51%	10.32%	23.23%	87.92%	-38.52%

Past performance does not guarantee future results. Performance data quoted represents past performance and current returns may be lower or higher. Performance is compounded.

Figure 9

Ditching Dividends

Dividends are a weak reward for holding on to a losing asset, and dollar-cost averaging during a bear market is not a "win." Sure, dividend stocks may outperform a chosen index, but when that index is falling, that's not a great achievement. The real trick is to not just buy what outperforms the market but assets that are trending higher and rising in value.

When real bear market selling pressures take hold, blue chip stocks—including dividend stocks—sell off. The tactical play is to move into something with no correlation and less volatility during market uncertainty and falling stock prices. If bonds are not trending higher, then we look to other areas. This is what we did in 2022, when the UUP Dollar Index ETF was the play.

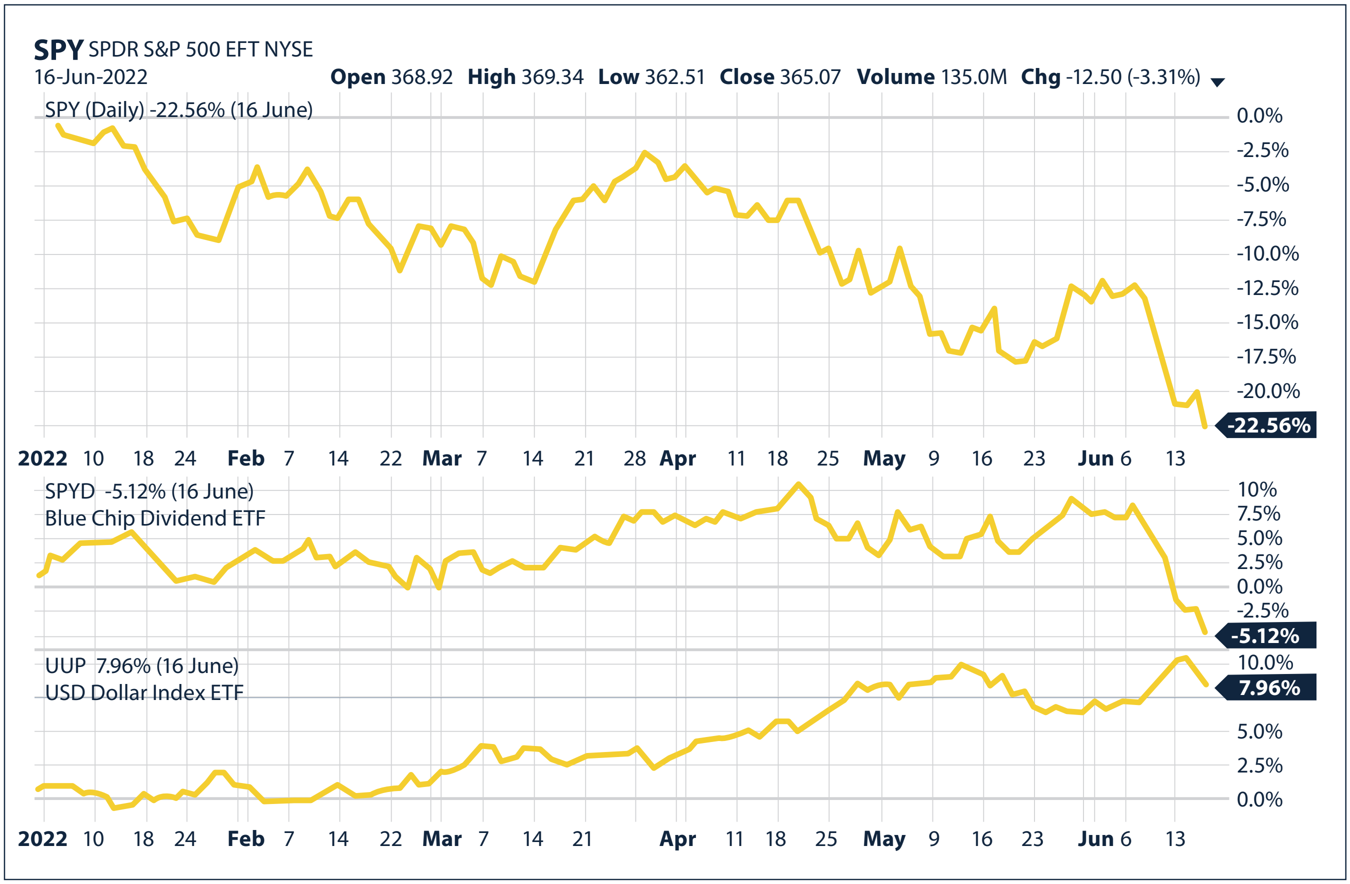


Figure 10

You can lose a lot of money by owning an asset that is outperforming the stock market or bonds during a bear market. In Figure 12, you can see how long it takes to recover from a drawdown and the multitude of gains necessary to restore lost asset values. Rather than setting yourself up for this kind of pressure to recover, avoid the losses from the beginning—and **win by not losing!**

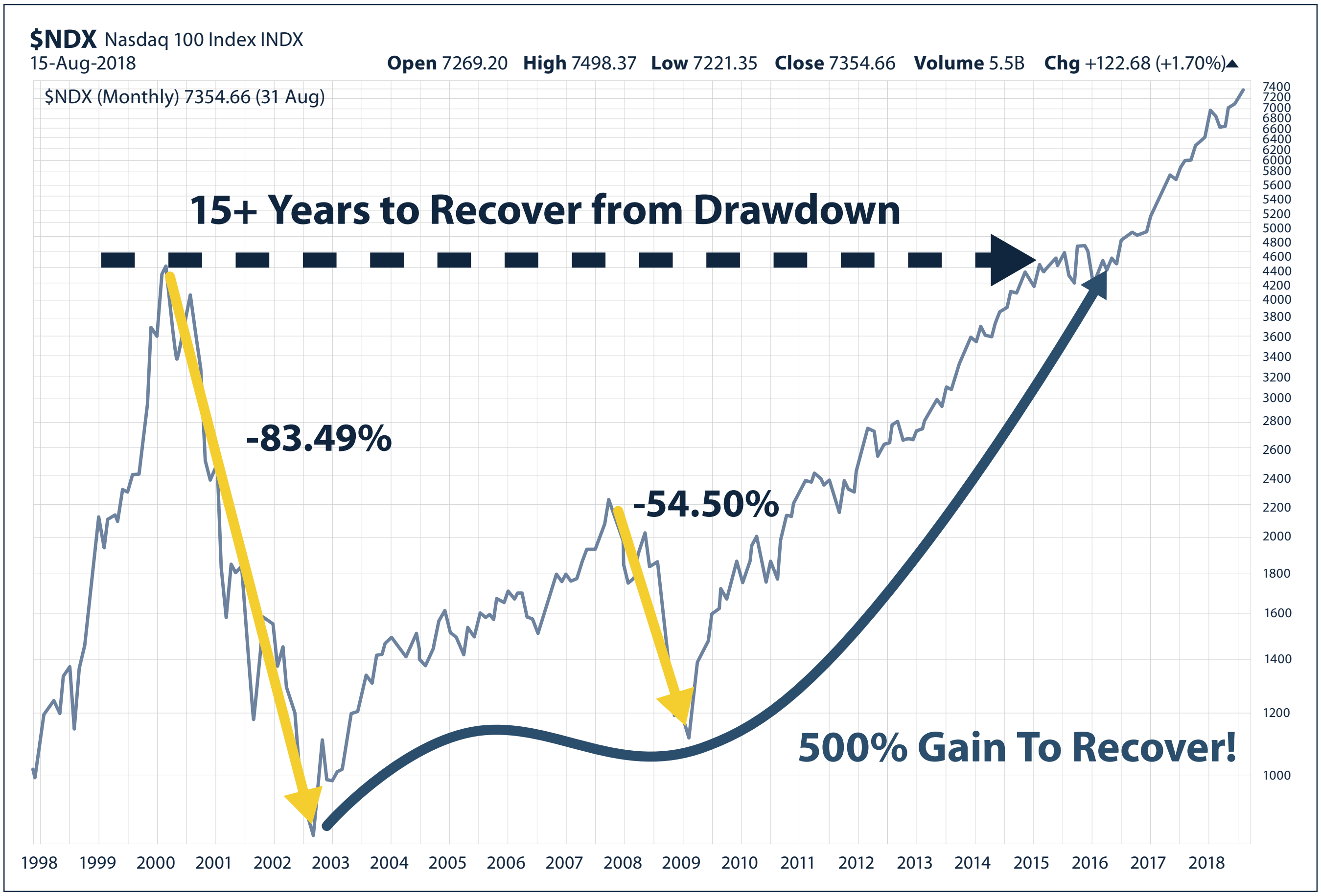


Figure 12

Changing Your Mindset

The primary goal of every investor should be to preserve capital. You cannot prioritize a short-term battle over the long-term war. Without your capital, you have no means to access the upside potential that is offered by tactical investing. To preserve their capital, investors must:

- Cut losses and not hold on to positions falling in value.
- Own fewer positions to reduce costs and generate market-beating returns.
- Wait for quality trends and positions to present themselves.
- Use cash as one of the most powerful positions during specific market conditions (extreme volatility, mixed bull/bear markets).

At The Technical Traders, Ltd., we provide investing models to guide investors in a more tactical approach to both asset accumulation and preservation in any market environment. Our CGS strategy helps investors and advisors outperform by solving the major investment issues of avoiding market corrections, reducing portfolio volatility, and replacing the role of bonds when they are not acting as a safe haven to provide growth. It seeks to achieve this investment objective by investing in an alternative way using the S&P 500, Nasdaq 100, US Treasuries, US dollar, inverse ETFs, and holding cash relevant to The Technical Traders' investment theme of protecting capital.

Its tactical asset allocation navigates market advances and declines by using a combination of dividend, growth, bonds, currency, and inverse exchange-traded funds. The CGS strategy can be followed via email and mobile app trader alerts, or auto-traded and executed in a self-directed trading account. Under abnormal market circumstances, up to 100 percent of the portfolio can hold a cash position for protection of capital.

Whether you're already retired or heading in that direction, the alternative strategy of investing only in rising assets can be a critical method of protecting your investments while generating consistent returns. No matter the market stage, investing a portion of your capital in the strategies provided by The Technical Traders can give you the asset preservation and growth you need to enjoy the kind of retirement you want to live.

About Chief Investment Officer Chris Vermeulen

Chris Vermeulen has spent more than 25 years as a technical analyst, equities trader, investment strategist, thought leader, and educator.

His extensive trading and investment background come from devoting his life to studying the financial markets, technical analysis, and risk management. Having traded and invested through multiple bull and bear market cycles, Chris understands the importance of capital preservation.

He is the author of *Technical Trading Mastery - 7 Steps To Win With Logic* and has been a guest on numerous financial sites and stations, including Sprott Money, Cheddar, YahooFinance, and KITCO.