HedgeFolios Strategy Advisory

"Bear Market Rallies"

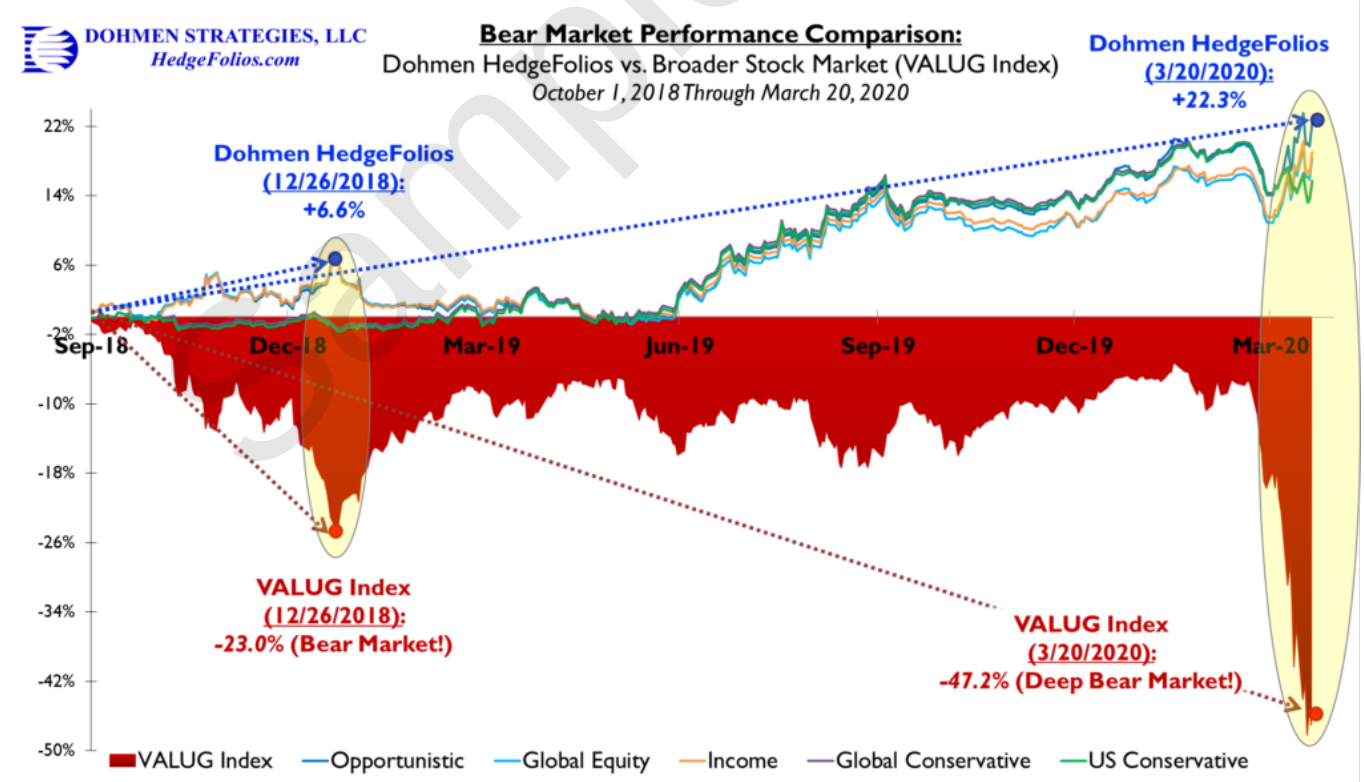
3-26-2020

Our Current View:

We just wish to congratulate you for being aboard HedgeFolios. That may have been one of the best investment decisions you have made in recent years. In a bull market, making money is not that difficult. But when markets crash, you need the most experienced and best guidance.

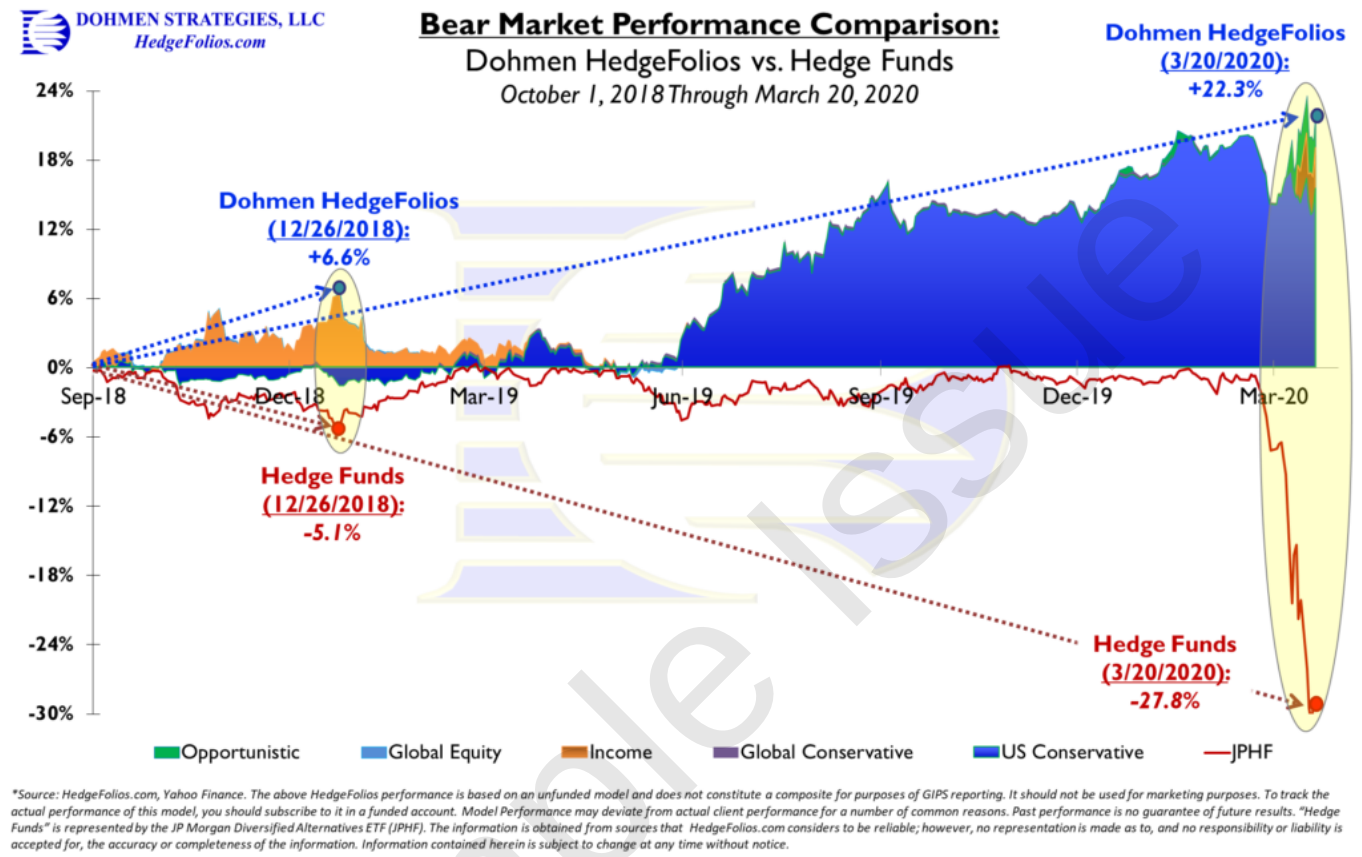
Superior long term investment performance depends on missing the huge declines. And that is always our focus.

Take a look at the chart below, which shows HedgeFolios versus the most representative index for the broader stock market, VALUG. We have taken the period of about 18 months, from the bull market top of the VALUG index on October 1, 2018 to last Friday, March 20, 2020. The outperformance of our top performing HedgeFolio is almost 70 percentage points versus the stock market.



*Source: HedgeFolios.com, WSJ.com. The above HedgeFolios performance is based on an unfunded model and does not constitute a composite for purposes of GIPS reporting. It should not be used for marketing purposes. To track the actual performance of this model, you should subscribe to it in a funded account. Model Performance may deviate from actual client performance for a number of common reasons. Past performance is no guarantee of future results. "Broader Stock Market" is represented by the VALUG Index. The information is obtained from sources that HedgeFolios.com considers to be reliable; however, no representation is made as to, and no responsibility or liability is accepted for, the accuracy or completeness of the information. Information contained herein is subject to change at any time without notice.

Let's now compare HedgeFolios with how hedge funds have done. They charge very high fees but haven't done very well the past several years. In the below chart, we use the ETF for hedge funds as a proxy, JPHF. Note the huge outperformance of our top performing HedgeFolio versus the hedgefund ETF is over 50 percentage points.



A big rally started on March 24. In our trading services we advised to close out short positions in our March 20 and March 23 issues. Perfect timing for short-term traders.

On March 23 we gave all our reasons and clues we saw that led us to a bear market rally could commence the following day. It did!

Now the common question we get from investors is, "what should I buy?" That is a sign that the permanent bottom has not been seen yet. At a true bottom, investors, with the exception of our valued members, have no appetite for stocks.

Currently our view is that this rally is just a manipulated short squeeze triggered by the HFT outfits. It will trap the new bulls at the top again, just as in mid-February. It won't endure. All the fundamentally worse sectors such as hotels, time shares, cruise lines, airlines, and casinos are having the strongest gains. These are sectors that are seeing 80%-100% declines in sales.

Once the weak shorts are squeezed out, the market can decline again. The bailout programs just announced will give them life support, but that will only repair some of the damage and **not replace all the cash flow in a good economy.**

The important thing is not to be lured into another bull trap. **We warned of the last one being set, and that was sprung on February 24, one day after our warning to our** Wellington Letter **subscribers**. Our ***HedgeFolios*** were already prepared with their positions.

The inverse (bearish) ETFs were not initiated at the start because of the extreme volatility. We always weigh risk vs reward. In retrospect, getting into the inverse ETFs at the start of the crash would have been nicely profitable. However, the volatility was enormous and we know that most part time investors can't handle the emotions triggered by such volatility. With our own money, we are more adventurous.

Our HedgeFolios:

We first got out of the high dividend ETFs around mid-February. That was a great move.

We then got out of the Utilities sector which we liked for a while, but started triggering sell signals. We think the reason is that cash flow will take a big hit as people stop paying their utility bills.

That same day we got into the ETFs investing in medium and long term U.S. Treasuries expecting interest rates to plunge as the global central banks and the Fed lowered rates to fight a recession/depression. It happened and Treasury prices soared.

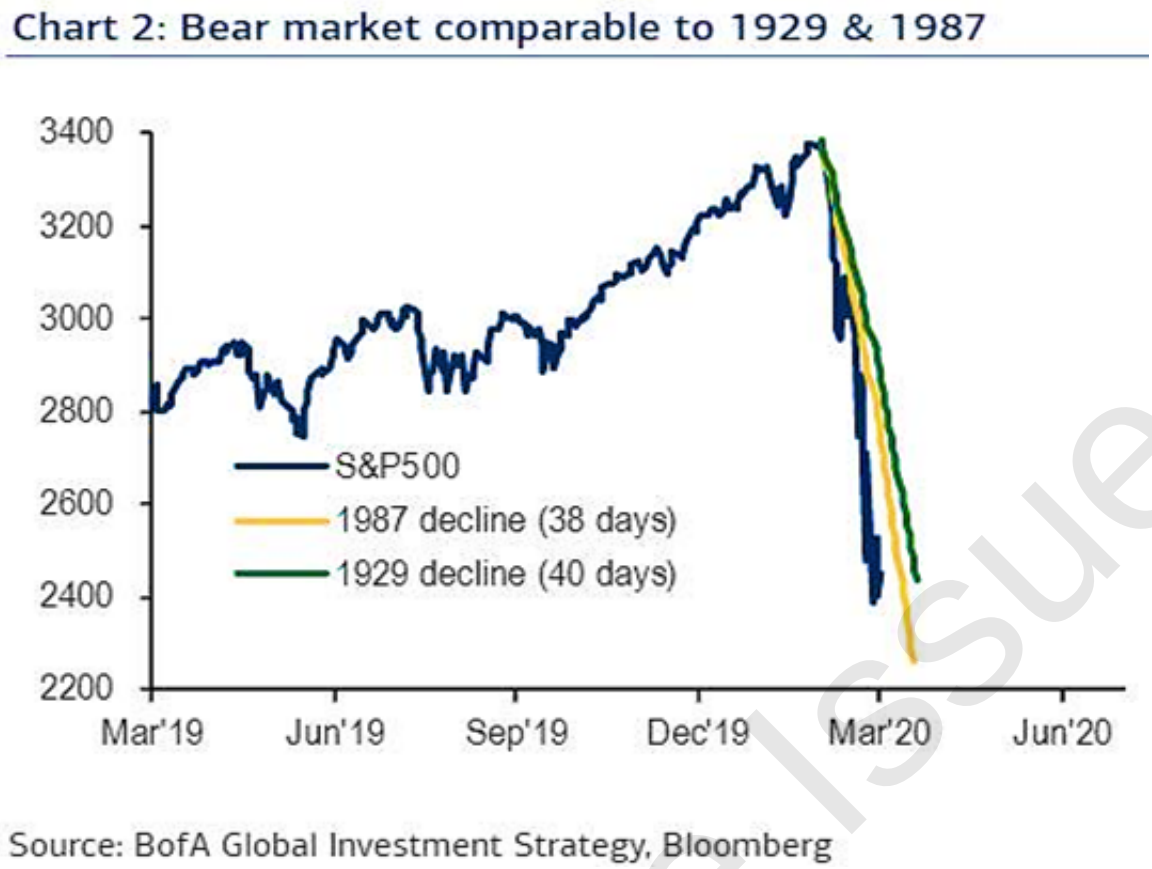
In early March we got into some of the inverse ETFs in our Opportunistic, Global Equity, and Income HedgeFolios (the only HedgeFolios that have the ability to utilize inverse ETFs) to benefit in case the crash went immediately to our ultimate target levels. The markets went lower, but we are not yet at our target levels. Therefore, we decided to stay with these during a technical bounce, which occurred the past three days. Keep in mind, we don't trade 2-3 day moves in HedgeFolios.

Lastly, today (March 26) we got into the Energy sector as we see good opportunities in this in this area, which has been decimated since the start of this year. More on this in our "Energy sector" commentary below.

We will take it one step at a time. In the meantime, you might want to read our book, Financial Apocalypse, if you haven't already. This book is a chronological account of the 2008 crisis and our analysis at that time versus that of Wall Street. We have called it a "guide to the next crisis." Well, the "next crisis" is here.

Where Are We Now?

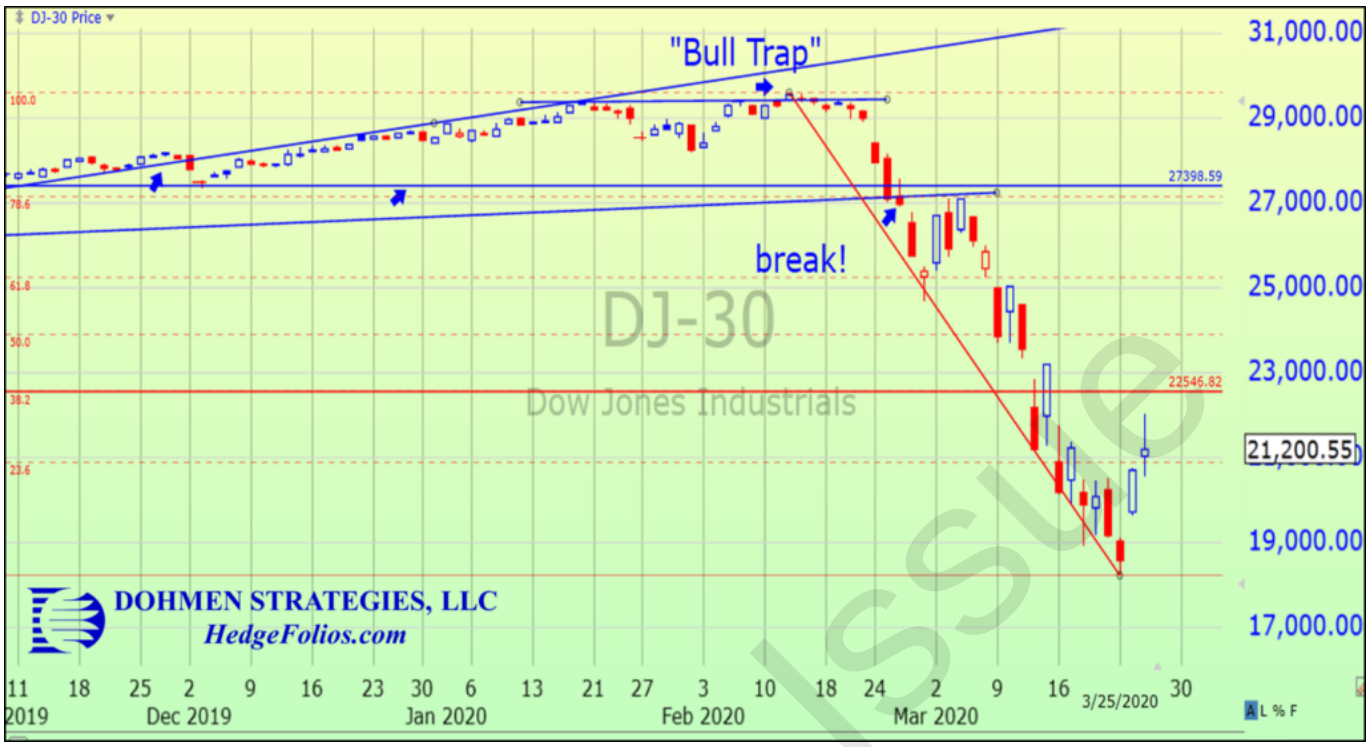
The crash in the S&P 500 has now been worse than the Crash of 1929. Imagine, you prospered during this one. You can brag to your friends about that. It was your decision to trust us instead of financial TV.



This chart of the VALUG index below shows the support level from 2011 that was reached on Monday March 23. That was one of the reasons to expect a rally the next day.

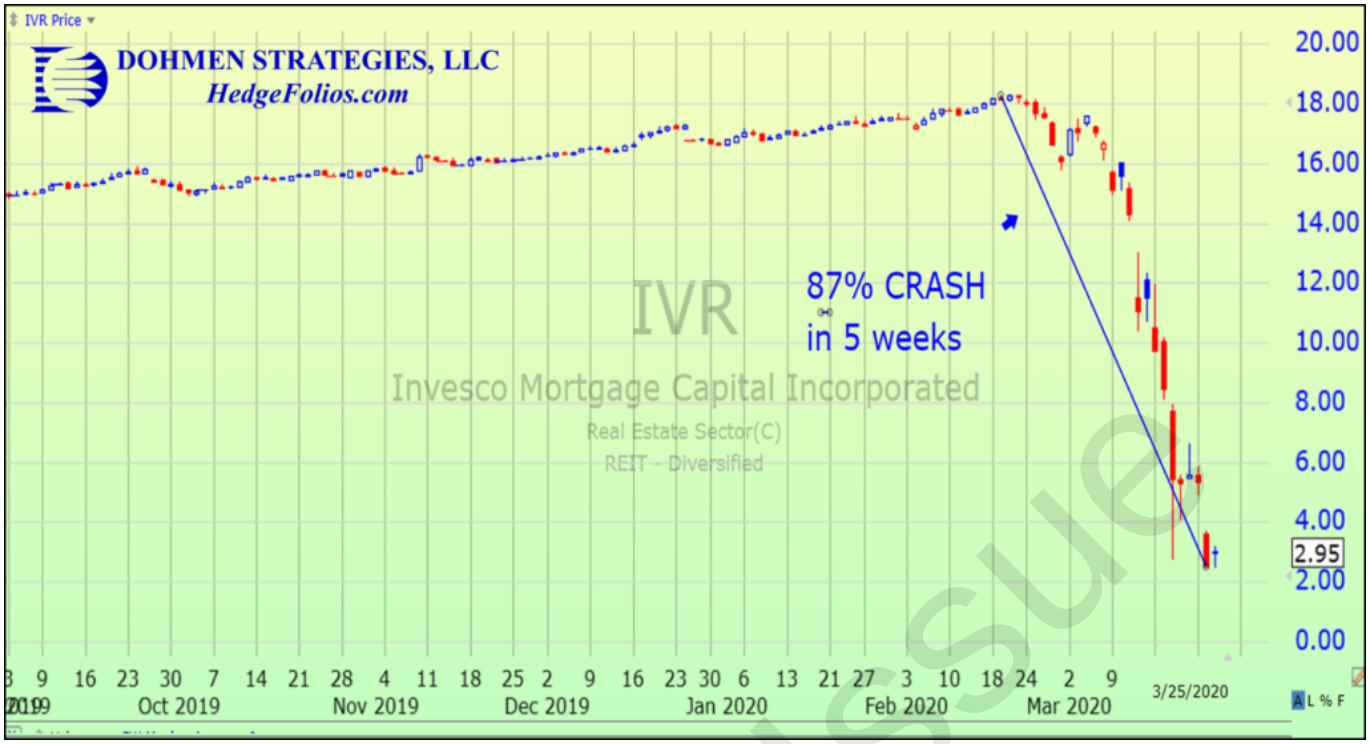
The bear market rally in the DJI is shown below. Our upside target given 2 days ago was almost

reached, but not quite yet.



The DJ Transports are often ignored. We consider it very important. The candlestick formed yesterday (March 25) looks precarious for the bulls.

The mortgage market is experiencing an “ice age” according to one mortgage specialist. This mortgage REIT may not make it and is now down over 87% in just 5 weeks.



Conclusion: in this bear market, the person who loses the least is the winner. Our ***HedgeFolios*** have done superbly. Hedgefunds that charge huge fees would give a lot to have this performance.

We will work hard to guide you successfully through these unprecedented times.

In the meantime, keep an open mind. **The fatality rate of the Wuhan Virus is less than the annual flu.**

President Trump has it right. He says, “we should not make the cure worse than the disease.” But that is exactly what local politicians are doing with their insane policies driving the USA economy into depression.

Don’t be driven into panic by the media. Here is an article to read with quotes from about 12 rational, accomplished medical experts. It puts things into perspective.

Link: https://www.rumormillnews.com/cgi-bin/forum.cgi?read=143024

The Energy Sector:

The oil and energy sector could be the next big opportunity. We took a position today. On March 19 we wrote:

> "We would be careful in shorting this sector now. When things get precarious for an essential industry like oil, governments step in, especially now.
>
> **What can Washington do? Impose big tariffs on imported oil. You would see a**

giant rally in this sector."

Tariffs would increase the price of oil in the U.S. It would be a way to save the U.S. energy industry which now has the majority of firms “distressed” and in danger of failure. Now we read that this is gaining traction, but got no publicity as all the media is occupied with the virus.

There are numerous benefits to putting tariffs on oil imports:

1. Many of the frackers would be saved from bankruptcy and many jobs would be saved.
2. The biggest issuers of junk debt have been energy firms, with over $230 billion of junk bonds outstanding. It would save the junk bond market, and downgrades of investment grade bonds to junk, thus solving a major credit market crisis.
3. Our “friends” abroad such as Iran and Russia would see their situations worsening.
4. The U.S. would show that it is energy independent and OPEC would likely break up.
5. President Trump would make lots of friends in the big energy industry.

We now see that some powerful people in Congress are sponsoring this idea. We had to go to Tulsa World publication to read it. Apparently, some people don’t want to get this out.

The Tulsa World paper reported:

> *Almost unnoticed this week amid the furor surrounding the spread of COVID-19 was Sen. Jim Inhofe’s attempt to prop up dropping oil prices by imposing tariffs on Russia and Saudi Arabia. Inhofe is seeking a Section 232 finding against the two countries, which have been flooding the world markets with cheap oil in what is generally perceived as a three-way fight with the United States.”*
>
> *Inhofe said: “We don’t want to lose the ability to produce our own oil and to fight a war.” He is a powerful Senator. He doesn’t say this because he wants to waste time*.

Important to note: Section 232 of the 1962 Trade Expansion Act allows the president to impose punitive tariffs for national security reasons. It was used by President Donald Trump against aluminum and steel in 2018.

Wishing you successful investing,

Bert Dohmen and team
Dohmen Strategies, LLC