HedgeFolios Strategy Advisory

â??Reducing Risk During the Volatile Period Aheadâ??

04-07-2025

Our Current View:

In yesterdayâ??s ***Strategy Advisory*** we wrote,

> â??The weekend could have generated enough bearish sentiment to get that big panic dumping early this coming weekâ?¦ However, there are always counter-trend bounces or rallies. One could start early next week after one more bout of dumping.â?•

We believe we saw that **panic dumping** in the first half of the trading session today. Although late in the trading day (2 hours before the close) the indices looked like they were going to be pushed higher and all close in the black, only the NASDAQ Comp was able to end the day with a gain (up a fraction, i.e. +0.1%).

The Russell 2000 suffered the biggest loss (-0.9%) while the DJI finished 349 points lower after swinging 2595 points intraday from its low to its high.

The **S&P 500 entered bear market territory** at its early morning low as it was **down 21%** from its recent high. However, that triggered the algos to buy, propelling the S&P higher and closing off its lows, although it still ended 0.2% lower.

Usually Wall Street does what it can to keep losses from entering deep into bear market territory on the first encounter. That offers temporary support.

Whatâ??s interesting is that the S&P 500 also hit important long term trendlines at todayâ??s lows. See the monthly chart of the index below, which goes back to 2016. It hit the upward sloping blue trendline, connecting a few market bottoms since 2020, exactly today at the low.

Furthermore, there is support from the horizontal blue line, which goes back to the 2021 peak. Thus, there are **two important supports**. They should not be ignored.

We also have support from the 50% retracement level of the last bull market. That is a very important level in this age of algo-traders. Below is the weekly S&P 500 chart that shows the 50% retracement line (long blue horizontal line). That was also hit exactly today!

Such a confluence of chart signals **should not be ignored**. It suggests that the market has likely reached an **interim bottom**. This lines up perfectly with our forecast from Friday saying, *â??further selling should be expected on Monday. However, thereafter we will be watching for a bounce.â?•*

Today we also saw the **â??% of stock above their 200-day m.a.â?•** indicator reach our target level we gave on April 3 when we wrote â??We should see this indicator fall to the 12-13% range (â??Xâ?•), which was the **low of the last bear market in 2022**.â?•

On the weekly chart of the indicator below we can see it closed today at 12.98 after breaking the blue horizontal support line intraday. Notice how over the past **15 years** this support has only been reached and/or penetrated at **6 different brief periods including today, most of which lasted a week or two (yellow shaded areas).**

The only time this indicator stayed below this level for longer than that was during the Covid crash when its spent 9-10 weeks at those extreme lows (at the very low just 2.4% of stocks were above their 200-day m.a. in late March 2020).

Chart patterns repeat because they reflect the cycles of human emotions, contrary to popular belief. Even the fundamentals are similar to the Covid Crash. Remember, at that time world trade and commerce basically came to a standstill for a while with all the lockdown measures that were implemented.

Currently, world trade is still ongoing, but it could end in a global trade war, although we donâ??t believe it will go that far with Trump in control. He is trying re-write the rules of global trade. Itâ??s gutsy, but if thereâ??s anyone who can get it done, itâ??s him.

Sentiment is finally bearish enough for an interim bottom. Today **we saw worry on financial TV**. Statistics confirm that retail investors had given up on bargain hunting and were selling. Hedge funds are now fully committed to the short side.

That all suggests that a temporary bottom was very likely reached. **But it doesnâ??t mean that a big rally is ahead**. We shall see.

We believe that the markets will be very choppy for a few weeks. That is the phase where bulls and bears both lose lots of money because of a trendless market.

Our HedgeFolios:

In our 3 flagship HedgeFolios (Opportunistic, Global Equity, and Income), **we exited our inverse (bearish) ETFs today because of the choppiness period we foresee ahead. Those are often painful for bears that hold their shorts or inverse ETFs.**

We prefer to avoid that risk and therefore sold out of our inverse positions. That puts the portfolios into an enviable position of no exposure to equities during the next period of choppiness where many active investors trying to play it will be chopped up.

There are very few investors who had such low risk exposure during the past weeks instead of losing a bundle. Reducing risk at the proper time is extremely important.

We also said yesterday that *â??Even if there is a near-term bounce, remember that **the current (longer term) market trend is lower**.â?•* Therefore, when we see next opportune time to get back into some bearish positions, we will do so. However, there is no hurry.

After todayâ??s changes, we now hold between 38% cash in all 5 of our models, in addition to the 40% in the short-term T-bill ETF, BIL. **That is 78% cash equivalents**. That Is about the same as 77% cash we held during the CRASH OF 1987. Cash is now king for a while.

Our Conclusion:

Our HedgeFolios members were safe ahead of the big plunge and even prospered during the past month as stocks tumbled. **We held 82% in cash, cash equivalents, and T-bonds just ahead of the major selling that started on March 26.** That is worth the membership cost a hundred times over.

We only mention that to remind casual active investors who try to invest their hard earned money by following and reading â??freeâ?• sources and services. Often**, â??freeâ?• can be very expensive.** Our success is due to decades of experience. It is one of the few benefits of getting older.

We believe having no or low equity exposure for the very near term is the prudent thing to do. Volatility will subside in a couple of weeks. We foresee great opportunities, but this is when capital preservation is of utmost importance.

Wishing you successful investing,

Bert Dohmen and Dion Dohmen