

3D Defender Program (Daily Dynamic Defensive S&P 500)

3dcapitalmanagement.com

September 25, 2020

This week the S&P 500 finished the week down -0.63% (red dashed line). If you knew nothing other than that you'd think it was a relatively quiet week and the market was down slightly. The latter is correct but not the former. After opening -1.8% lower on Monday, which was the largest gap open in either direction in the last 3 months (RISK HAPPENS FAST), there were multiple intraday swings throughout the week that exceeded +/- 1%. As of Thursday morning the S&P 500 was down nearly -3.5% on the week, but it was straight up from there as the market rallied +3% in the final two days of the week. In fact the S&P 500 was actually up +0.90% from Monday's open to Friday's close (green dashed line).



Now let's take a closer look at a few days this week. Thursday September 24, 2020 appeared to be a relatively quiet day with the S&P 500 up +0.20% for the day. The chart below tells a much different story and echoes the information I have shared previously about the new volatility regime.



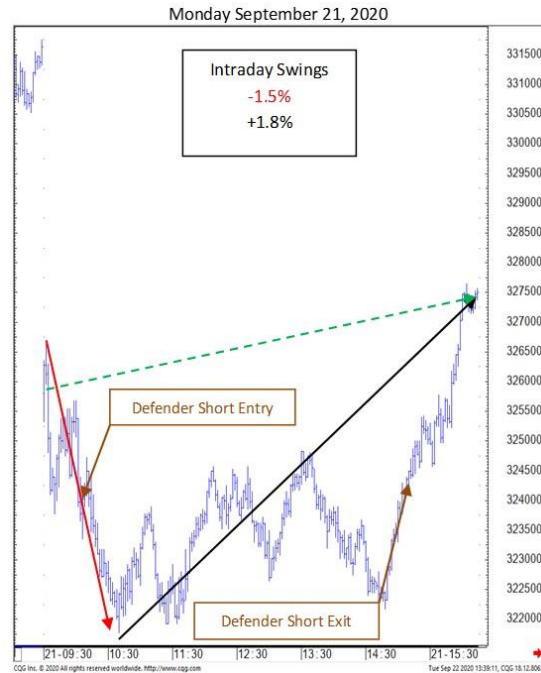
No position is a position and 3D Defender (Active Defensive S&P 500 Program) filtered this day as "noise" and no signal was generated.

3D Defender was short multiple times during the week and covered the positions when the market retraced too far off its low. 3D Defender is nimble to the message of the market and one example of 3D Defender "defending" and getting short this week was Monday September 21, 2020 when the S&P 500 was down -3% within the first hour. That was short lived (no pun intended), as the chart below shows the market rallied +1.8% off its intraday low and closed the day higher than where it opened (green dashed line).

The chart below shows where 3D Defender entered a short position when Defense was needed. The chart also shows where 3D Defender exited the short position when Defense was not needed. As you can see from the chart below the S&P 500 moved lower when Defense was needed and higher when Defense was not needed. The S&P 500 finished the day +1.1% higher than where 3D Defender exited the short position, i.e. the short exit price.

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The S&P 500 finished the week -0.63%. 3D Defender finished the week +0.08% (25% funded and gross of fees).

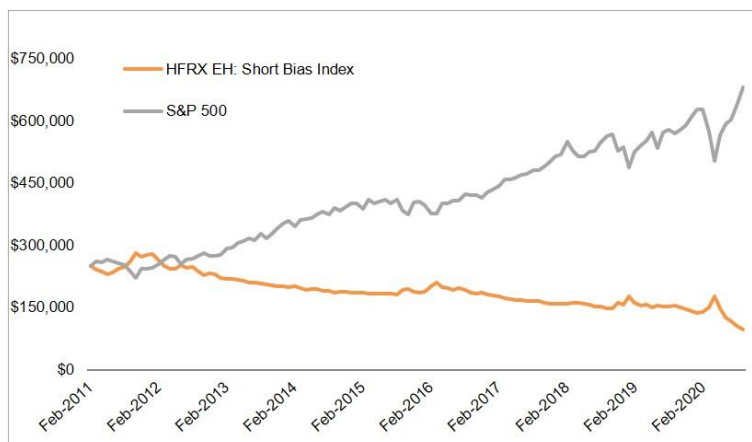
Now let's quickly review some FACTS:

1. The stock market goes up more often than it goes down and moves higher over time (this is why you buy and hold)
2. Buy-and-hold investors are guaranteed losses every time the stock market declines
3. Missing the worst days in the stock market matters more than missing the best days
4. The best way to profit from a falling stock market is to short it

Knowing these FACTS is why I founded 3D Capital and our 3D Defender Program.

As a reminder 3D Defender is a global-macro and rules-based defensive active equity program that only invests in the S&P 500. It manages equity market risk every day because everyday matters; and is built to adapt to the daily narrative of the market, profit from intraday declines (no overnight positions), and step aside during market rallies.

Profitably shorting the stock market is arguably the most difficult investment there is and understandably many think it is not possible. After all look at the Short Bias Index performance below.



Fortunately, I began my investment career with legendary Hedge Fund Manager Monroe Trout and learned very early on the importance of managing risk. It's now been 28 years that I have been managing equity market risk one day a time. I'm going to repeat

**PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.  
THERE IS NO ASSURANCE OUR PROGRAMS WILL ACHIEVE THEIR OBJECTIVES OR AVOID LOSSES.**

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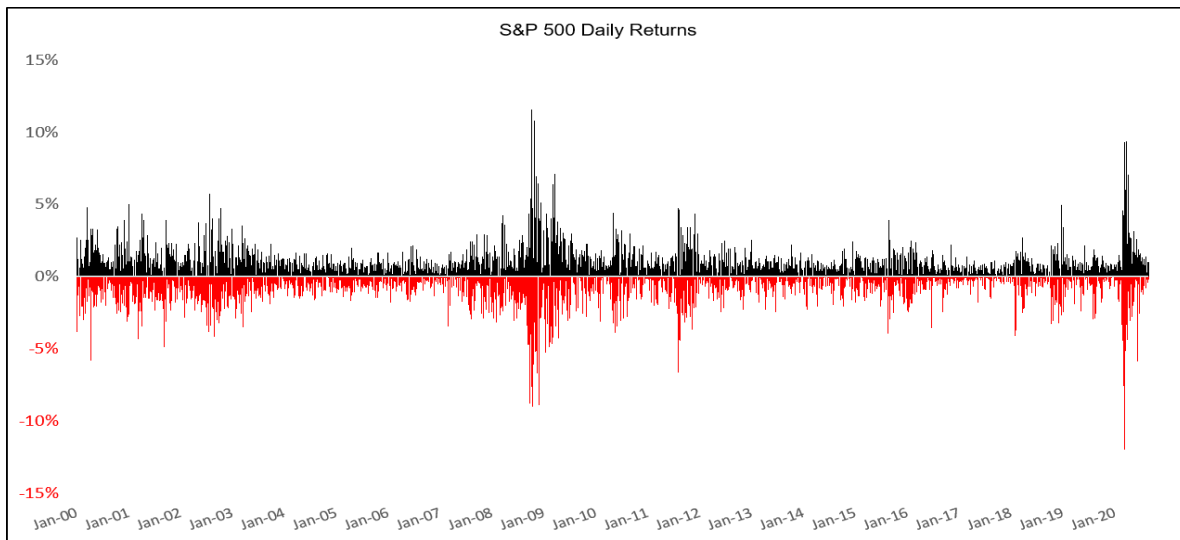
that because I believe it's important. For 28 years I have been researching developing and managing equity market risk one day a time. This includes actively trading and managing risk in the Pacific Rim and European markets and multiple asset classes around the globe, which has provided me invaluable experience, knowledge, and insight into what is the moving the S&P 500. Here are some examples of 3D's systems identifying the direction of the S&P 500.

3D CAPITAL S&P 500 FORECAST		FOLLOWING WEEK
September 4, 2020 "There continues to be warning signs around the globe that say the S&P 500 is vulnerable" - Weekly Update	→	S&P 500 -3.5% following 3 weeks
June 29, 2020 "As of today's open we are seeing strength" in the S&P 500. - LinkedIn video	→	S&P 500 +3.6% following week
June 12, 2020 "While the S&P 500 had a terrible week this week, as of now, the trend is still up." - Weekly Update	→	S&P 500 rallies +5% in 3 days
June 9, 2020 "Beginning to see signs that the stock market is now vulnerable" - LinkedIn video	→	S&P 500 drops -5.4% the following 3 days
April 3, 2020: "Sets up for the S&P 500 to move higher" - Weekly Update	→	S&P 500 is +12%
March 4, 2020: "S&P 500 price action reminds me of 2008" - Bloomberg TV Appearance	→	The S&P 500 drops -30% the following 13 days
December 12, 2019: "I'm concerned that the VIX and S&P 500 is similar to January of 2018" - Bloomberg TV Appearance	→	The S&P 500 drops -20% the following quarter (Q1 2020) and enters bear market territory

The biggest problem we all face as stock market investors is guaranteed losses every time the market declines.

Since the 2011 low the S&P 500 has rallied over 230%. Most recently it has made a new all time high and rallied +65% in 5 months. This has included the best 100 days in stock market history. One would naturally think that a short bias and defensive S&P 500 program would be getting killed in this environment and understandably so given the Short Bias Index chart above and what many are taught, read or hear from others who likely have not managed equity market risk one day at a time for the last three decades.

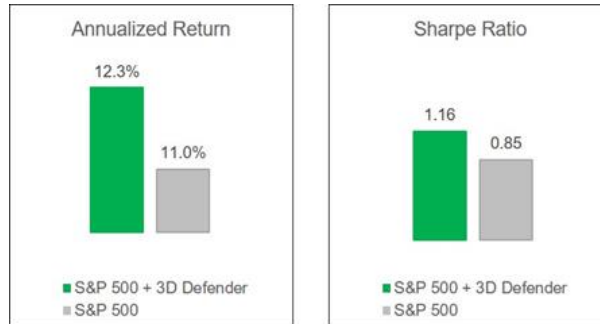
The 3D Capital team has over 100 years of experience managing equity market risk and researching and developing equity risk mitigating strategies. Our WHY is to protect stock market investors and we take great pride in defending investor's equity portfolio's every day because everyday matters. The red bars in the S&P 500 chart below are the problem that needs to be managed. This is our expertise.



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You will often here me say if you are a stock market investor you are better with 3D than without. This can be seen in the statistics below (February 2011 – August 2020), which include the longest and strongest Bull market in history, the fastest Bear market in history which happened overnight and the best 100 days in stock market history.



*Green column is 20% 3D Defender and 80% S&P 500  
(3D Defender is 25% funded, net of fees, and does not include interest income.)*

Last week we mentioned the S&P 500 was sick and that the market was vulnerable to the downside (need confirmation). We saw that confirmation in a hurry as the market opened -1.8% lower on Monday and dropped nearly -3.5% on the week before bouncing +3% and finishing the week down -0.63%.

Though global equity markets and EURJPY continue to say the S&P 500 is vulnerable to the downside, the move in the S&P 500 on Friday now says the S&P 500 can continue higher. There is no better indicator than the market itself and we will have to wait for the S&P 500 price action to confirm its strength on Friday or the warning signs from around the globe that say the S&P 500 is vulnerable.

Diversifying into other asset classes is arguably the most popular and conventional way to manage equity market risk. Diversification is an important first step, but it is not the only step.

Please consider these two quotes:

1. John Maynard Keynes said, "Worldly wisdom teaches us it is better to fail conventionally than to succeed unconventionally."
2. Actor Ed Harris in the Apollo 13 movie says, "Failure is not an option."

I think every stock market investor would agree that tolerating a loss when the stock market declines is not a solution. 3D Capital is here to help you profit from stock market declines because we agree "failure is not an option."

We welcome a call or Zoom Meet to discuss how we can help you too.

Enjoy the rest of your weekend and best wishes and health to you and your families.