

The Market the Way I See It

A monthly report for investors and friends from Eric Dugan
February 2021

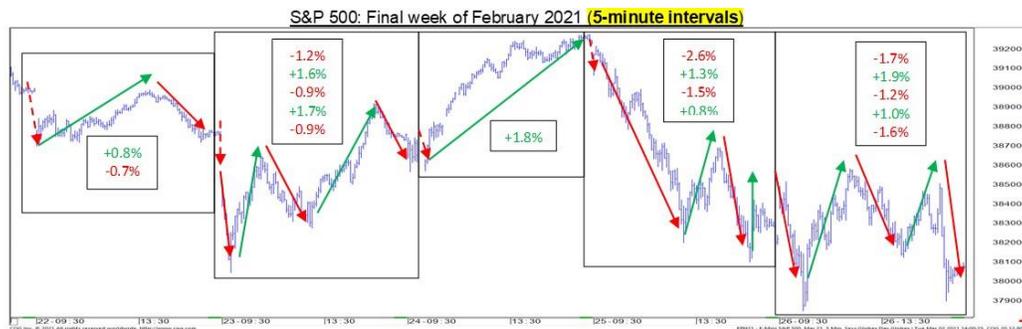
Another month, another new all-time high, and some signs of weakness.

The S&P 500 has made a new intra-month all-time high in 4 consecutive months, and in 6 of the last 7 months. In fact, February 2021 was the highest monthly close in S&P 500 history. Looking at the market from 50,000 feet you would think the market's historic +80% rally from the March 2020 low has a clear path to 4000. While that may be the case, if you drill down and look at what is going on in other markets around the world and with the S&P 500's own price action, there is another story developing and saying the S&P 500 is vulnerable. I was so concerned about what our analytics were telling me that I shared this video with you on February 22, 2021 urging stock market investors not to be complacent: [3D Capital Video](#).

Now let's take a look at the historic month of February. After breaking out higher in the first week of the month, the market opened at the same price on Feb 4 and Feb 24 (orange arrow). This was also reflected in the VIX which dropped -35% in the first three weeks of February. As you can also clearly see from the chart below, overnight gaps lower and intraday dips continue to be bought (for now). It was not until Feb 19 that signs of risk off started to appear. This was confirmed the following week when the S&P 500 dropped over -2%. Despite the sell-off in the final week, the S&P 500 settled at its highest monthly closing level in history.



The daily charts below provide a closer look at the final week of February. This is a clear reminder that **RISK HAPPENS FAST**. The market opened lower four consecutive days (red dashed arrows). The first three were followed by an average rally of over +1% from its intraday low. After opening lower on the fourth day, the market dropped over -2% before enduring intraday swings in excess of +/-1%. The final day of the week (last day of the month) the market had intraday swings of nearly +/-2%, which pale in comparison to the +/-8% intraday swings in March of 2020. Despite the unfavorable environment, i.e. "large" overnight gaps lower and intraday swings, managing risk one day at a time and remaining nimble to the message of the market enabled 3D Defender to capitalize on some of this intraday stock market weakness.



3D Defender is our Daily Dynamic Defensive S&P 500 program that is built to adapt to the daily narrative of the market and seeks to profit from intraday weakness (no overnight positions). It is a global-macro rules-based system that is based on decades of data and statistically significant patterns that are logical, symmetrical, and persistent. 3D Defender is one side (short side) of one market (S&P 500) for one day (no overnight risk).

The S&P 500 was down the last week of January 2021 and the last week of February 2021.

Last week of January 2021	
S&P 500:	-3.3%
3D Defender:	+0.3%

Last week of February 2021	
S&P 500:	-2.5%
3D Defender:	+1.4%

3D Defender is 25% funded, net of brokerage, and gross of 3D's fees.

**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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Here is a longer-term perspective of 3D Defender and other sources of stock market diversification /defense for the last seven years.

S&P 500 Seven Largest Drawdowns Since November 2013						
Start Date	End Date	S&P 500	3D Defender	Hedge Funds	CTAs	Gold
Sep 19, 2014	Oct 15, 2014	-7.3%	32.2%	-4.2%	2.4%	-1.6%
Jul 21, 2015	Aug 25, 2015	-12.0%	8.3%	-3.8%	0.5%	1.5%
Nov 4, 2015	Feb 11, 2016	-12.7%	13.8%	-7.1%	10.7%	6.2%
Jan 29, 2018	Feb 8, 2018	-10.1%	8.3%	-2.9%	-9.2%	-2.7%
Mar 12, 2018	Apr 2, 2018	-7.3%	5.9%	-1.7%	-0.4%	1.2%
Sep 21, 2018	Dec 24, 2018	-19.4%	22.2%	-6.8%	-1.0%	4.1%
Feb 20, 2020	Mar 23, 2020	-33.9%	2.5%	-10.9%	-4.8%	-3.1%
Cumulative Return		-102.7%	93.2%	-37.4%	-1.8%	5.6%

Hedge Funds: HFRX Global Hedge Fund Index
CTAs: SG CTA Index is designed to track the largest 20 (by AUM) CTAs and be representative of the managed futures space
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11/2013 - 02/2021	S&P 500
Annualized ROR	11.1%
Correlation to S&P 500	1.00
Max Drawdown	-20.0%
Ann. Standard Deviation	13.9%
Sharpe Ratio (0% Ann.)	0.83
Skew	-0.4
Average Monthly Gain	3.0%
Average Monthly Loss	-3.3%
Up Monthly Deviation	2.6%
Down Monthly Deviation	3.1%
Gain to Pain Ratio*	0.92

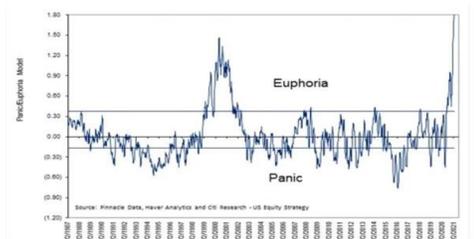
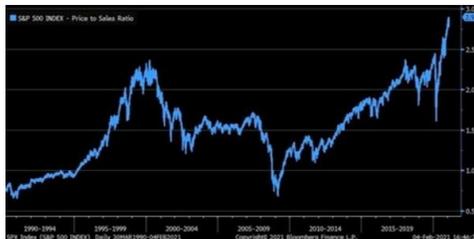
*High ratio means more efficient with losses.
3D Defender is 25% funded and net of fees.

SOURCES OF STOCK MARKET DIVERSIFICATION / DEFENSE				
3D Defender	Hedge Funds	CTAs	Gold	
9.7%	2.0%	2.9%	3.7%	
-0.20	0.86	0.16	0.02	
-13.8%	-9.0%	-14.3%	-19.0%	
17.3%	4.6%	8.2%	14.1%	
0.77	0.45	0.39	0.32	
1.1	-1.2	0.1	0.5	
5.0%	0.9%	2.1%	3.4%	
-2.4%	-1.1%	-1.8%	-2.9%	
4.5%	0.7%	1.5%	3.0%	
2.1%	1.2%	1.3%	2.0%	
0.91	0.43	0.32	0.27	

The month of February is another reminder how important it is to:

1. Manage equity market risk one day at a time;
2. Use price-based stops and time-based exits (price and time matter); and
3. That shorting the stock market is the best way to diversify your equity portfolio and profit from a falling stock market. More on that topic in this [video](#).

While we are rooting for the stock market to continue higher, we are concerned with what our analytics are seeing right now. Fundamentals and the charts below are also aligned with 3D's systems saying the stock market is vulnerable right now. Whether the market wants to continue its historic surge or wants to retreat from its recent all-time high, 3D Capital's expertise is managing equity market risk and helping investors seek profits from stock market moves in both directions.



Lastly and ironically, we now enter March which has a history of significant turning points (2000, 2009 and 2020). It will be interesting to see how March 2021 unfolds, and no matter which way the market goes, 3D Capital's expertise is managing equity market risk and making the stock market a better long-term investment.

Thank you and best wishes and health to all our investors and friends.

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