3D CAPITAL MANAGEMENT
DAILY DYNAMIC DEFENSE IN THE S&P 500

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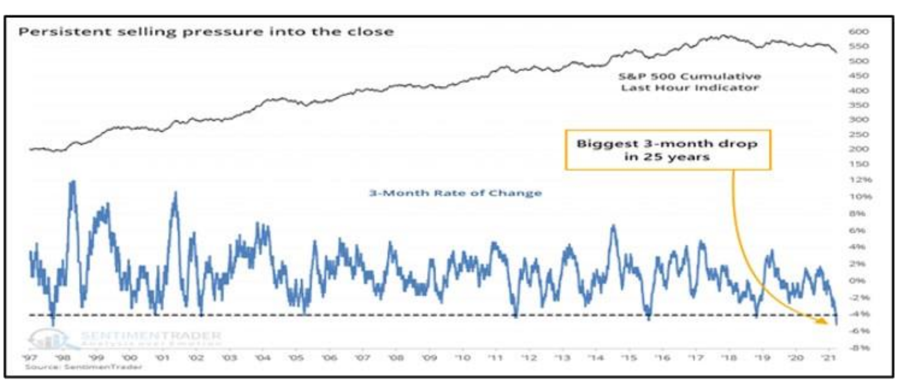
The Market the Way I See It

A monthly and quarterly report for investors and friends from Eric Dugan
March 2021

A year after historically plummeting into bear market territory in March 2020, the S&P 500 closed March 2021 at its highest monthly closing price in history. Through March 2021, the S&P 500 has now rallied +80% from the March 2020 low and has seen new intra-month all-time highs in eight of the last nine months.

The S&P 500 started the month of March by opening higher and rallying over +1% from its intraday low. This was a common theme throughout the month of March and Q1 of 2021, as the average rally off the intraday low was +1%. Just by looking at the chart above you can clearly see that dips were bought throughout the month. I have inserted green arrows on a few of the days in which the market rallied over +1% from its intraday low. The largest rally from the intraday low in March of 2021 was over 3%. This pales in comparison to the average rally of +5% from its intraday low in March of 2020.

As the S&P 500 marched to new all-time highs in March 2021, the VIX dropped -40% from its high. As you can see in the S&P 500 chart above, despite the average rally being +1% off the intraday low, the daily ranges also narrowed as the month progressed. The few days during March 2021 when the S&P 500 did see weakness, it took place late in the day. As stated in the last week of March 2021 by Sentiment Trader's Jason Goepfert, "What is especially notable about the current behavior *(in the S&P 500)*, is just how persistent the selling has been during the last hour. Over the past 3 months, the indicator has dropped 5%, which doesn't sound like a lot, but it's the biggest plunge in 25 years *(see chart below)".*



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This late sell-off price action in the S&P 500 and recent market behavior may trigger questions like "Has the price action in the market changed or "Eric, have you thought about researching a new rule for the systems to take advantage of this weakness?". As we can see from Jason's chart, late selloffs are not the norm, and before I answer the question let us look at the final 5 days of March 2021 and first 8 days of April when this report was written. I have entered a green or red arrow for the last hour of the day. As you can see in the chart below, the S&P 500 moved higher in the last hour in 9 of the 13 days, or 69% of the time and had a cumulative return of +1.5%. On a historical note, during that same 13 day span the S&P 500 closed higher than its open every day. This has not been done in 27 years.

S&P 500: March 25, 2021 – April 13, 2021 (15-minute intervals)

I am sharing this data because recency bias is human nature and is one of the many reasons why I like investing and building rules-based systems based on decades of data and multiple market cycles. Systems also remove emotion and curve fitting. In its most simplistic form, systems identify patterns, inefficiencies, and greed and fear, which like the market's moving up and down, will be with us forever.

So back to the question have things changed or do we plan on making changes? As a reminder 3D's systems are based on decades of global-macro data and statistically significant patterns that are logical, symmetrical, and persistent, so while the S&P 500 has demonstrated weakness in the final hour of the day in Q1 of 2021, this weakness does not necessarily mean things have changed. 3D's systems are very sophisticated, filter "noise" and are not just looking at the S&P 500. This is what has contributed to our success shorting the longest bull market and fastest bear market in history. While the S&P 500 is the only vehicle we invest in, there are many moving parts. This means there may be days in which we do participate in the final hour, but in general 3D's systems identify weakness in the S&P 500 within the first three hours of the day.

March 2021 and Q1 of 2021 is a great example of why you will often hear me say the best way to protect your equity market risk is with the equity market itself. The data makes it clear (see both 3D programs below), and it is logical too. The best way to protect your historic stock market gains and profit from a falling stock market is to short the stock market when you need protection and step aside when you don't. Buying other assets or investments are great for taking advantage of rallies in those markets but you still must protect your "equity market eggs". Why would you buy another asset and hope it goes up when your stocks go down? Especially if those other assets or investments have a history of going down when you need them to go up, and you can profit from shorting the stock market and the largest risk in your portfolio is stock market risk. Of course, buying other equities are also guaranteed to lose money when the market goes down.

The fact remains: The best way to make the stock market a better long-term investment is to short the stock market when you need protection and step aside when you do not. That is our expertise at 3D Capital. Now let's dive into the data and look at Q1 of 2021 and how the typical "safe-haven" or stock market defense solutions performed compared to the S&P 500 and 3D Defender, which is our Defensive Short S&P 500 Program. Note the recent intraday swings of 1% (i.e., moves lower and subsequent bounces in the S&P 500, and the descent in the VIX are an unfavorable environment for 3D Defender.

	March 2021	Q1 2021
S&P 500	4.2%	5.8%
3D Defender	-0.9%	-2.4%
Gold	-0.9%	-9.8%
US Bonds	-1.3%	-3.4%

As you can see in March of 2021 and Q1 2021, 3D Defender outperformed the typical "safe-haven" or defensive stock market solutions. This is consistent with 3D Defender's performance Vs *other* stock market defense solutions during the seven largest drawdowns in the S&P 500 in the last seven years and cumulative performance during the same time period on the following page.

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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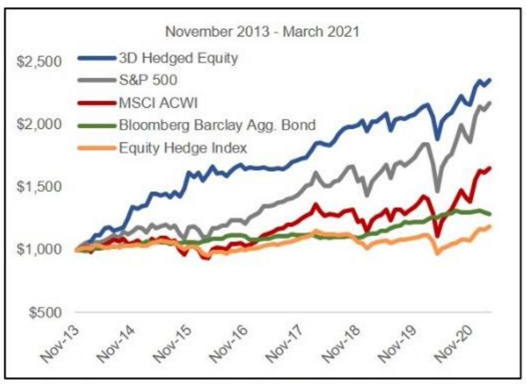
S&P 500 Seven Largest Drawdowns Since November 2013

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.
3D Defender performance is net of brokerage and gross of 3D's fees. 3D Defender is 25% funded and does not include interest income.
Past performance is not necessarily indicative of future results. No assurance program will achieve objective or avoid losses.

After nearly a decade of success shorting the S&P 500, we are very excited to now announce a new tailored program which investors have been asking for and we are going to deliver. This new program combines buy and hold or passive investing with active investing and Daily Dynamic Defense. The market moves in two directions and we are happy to help investors continue to profit from stock market rallies while also helping them protect their historic gains and profit from stock market declines. **The new program we are offering, and that can be customized, is our 3D Hedged Equity Program. 3D Hedged Equity combines S&P 500 Offense & S&P 500 Defense (via 3D Defender).**



Nov 2013 - Mar 2021	3D Hedged Equity	HFRX Equity Hedge Index	S&P 500	Bloomberg Barclays Agg. Bond	MSCI ACWI
Ann. Return	12.6%	2.5%	11.7%	3.2%	7.4%
Corr. to S&P 500	0.72	0.88	1.00	-0.03	0.97
Ann. Standard Dev	9.8%	7.0%	14.1%	3.1%	13.8%
Sharpe Ratio	1.26	0.39	0.85	1.04	0.59
Gain to Pain Ratio	1.73	0.37	0.94	1.21	0.59

***Dark Blue line is an example of 60% S&P 500 plus 40% 3D Defender's live track record.** 3D Defender is 25% funded, net of all fees, and does not include interest income. 3D Defender uses constant account sizing. Past performance is not necessarily indicative of future results. No assurance program will achieve objective or avoid losses. 3D Defender live track record begins in February 2011 and was enhanced in November 2013. The track record since inception is available upon request.

The stock market is at its highest level in history and by many metrics more overvalued now than in history. Now is the time to ask yourself or your advisor what is in your portfolio that is specifically built to help you preserve your gains and profit from a falling stock market. This recent quote I read has resonated with me and thought it was prudent to share. "Managing risk is most important when everything is going well". After 30 years of managing risk I agree wholeheartedly. Our expertise at 3D Capital is managing equity market risk and making the stock market a better long-term investment. Risk happens fast and you cannot prepare after the fact. **If you or your advisor/consultant have questions about how we can help you profit from stock market moves in both directions reach out now, we can help.**