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Evitar Corte & The Covid-19 Market Crash

How Evitar Corte beats the S&P 500 by 943% since 1992 by playing defense. A Guide to Managing Risk and Outperforming the Market Over Time with Minimal Effort

INTRODUCTION

The Evitar Corte Model has outperformed the S&P 500 by 943% since 1992, and it has worked during the Coronavirus Crash too.

The intention of this guide is simple, yet extremely important.

It has been created for long term investors to significantly reduce a portfolio's exposure to market volatility, while considerably increasing performance as well…with minimal effort.

At the time this is being published, our society is facing unprecedented uncertainty across many sectors, all the result of the Coronavirus (COVID 19) Pandemic, and the stock market is crashing.

The information contained in this guide is very important, and unfortunately, most people are completely unaware of the strategy that will be disclosed; I want to change that.

It is my sincere hope to add value to institutional and individual investors right now, and to provide a financial model that will teach you WHEN and WHEN NOT to PLAY DEFENSE in the markets.

This strategy is unlike traditional methods, and while not contrarian, the results that are possible are much different!

Before we go any further, let me introduce myself…

My name is Thomas H. Kee Jr. I am President and CEO of Stock Traders Daily, an online financial Newsletter that was founded in January 2000, at the peak of the Internet Bubble. Rooted in proactive risk-controlled strategies, Stock Traders Daily may be the longest standing proactive Newsletter on the Internet today.

I am also the owner and portfolio manager of Equity Logic, and its Managed Account Strategies, and the architect of these strategies as well.

In 2002 I founded The Investment Rate™, which at the time was the best measure of the rate of change in the amount of new money available to be invested into the US Economy over time.

My macroeconomic focus is Global Liquidity, my strategy focus is simple, nimble, and rules-based, and The Evitar Corte Model plays a significant role in my long-term investment decisions and directional bias.

THE EVITAR CORTE MODEL™

Without further ado, I'm happy to present The Evitar Corte Model.

The most profound thing I can share up front is that this proprietary model has proven to be 943% better than the S&P 500 since 1992…on only 10 trades!

Additionally, here are some key points:

- Defense Wins Championships, in sports and in the markets, and the defensive game is what The Evitar Corte Model is all about.
- The Model is based on FOMC Monetary Policy Decisions.
- Appropriate for: Hedge Funds, Money Managers, Institutional investors, Foundations, Pension Plans, Endowments, Trusts, and Individual Investors.

The Evitar Corte Model has been a tool that I've shared with my subscribers at Stock Traders Daily, and it has been well received. I'd like to share these details with you as well, with the hopes that you will benefit as my clients as have. For more information on Stock Traders Daily, go to https://www.stocktradersdaily.com.

I designed The Evitar Corte Model to identify periods of time in the stock market when investors need to play defense.

This is a long-term model dating back to 1992, premised on Central Banks.

As mentioned, since 1992, if the defensive measures offered by Evitar Corte were followed, the performance would beat the S&P 500 by 943% as of March 21, 2020 on only 10 trades.

CONTRARY TO POPULAR OPINION, YET NOT CONTRARIAN

The popular opinion offered by traditional brokerages on Wall Street is that investors should always stay invested no matter what happens to the stock market. There is a degree of self-preservation here, because big brokerage firms depend on investors staying invested for them to generate fees.

Sometimes, however, being invested is not a good idea, and Evitar Corte tells us when that is.

As of March 21, 2020, the Dow Jones Industrial Average (DJIA) had fallen by 33% YTD. Looking back over time, the return of the DJIA since September 2007 was now only 36%, and the return since January 1, 2000 was 66%. Over the past 20 years, if investors just stayed invested, their return was about 3.3% annually on average (during that time there were three major market crashes and plenty of volatility).

This could cause some investors to shy away from the stock market altogether (long term Treasury Bonds have done better than that), but there's a better way – simply play defense instead, when the time is right.

Evitar Corte tells us when the time is right, and the results are meaningful.

Evitar Corte is an extremely powerful model that can be used by institutional investors as well as smaller investors, to protect equity portfolios during times of trouble. If this model was followed since 1992, equity portfolios would have outperformed the stock market by 943%, smashing the 3.3% return that exists today on the DJIA.

Central banks offer us guidance, and all we need to do is listen.

However, the popular opinion on Wall Street is contrary to the findings of Evitar Corte. This model is not a contrarian model, it does not suggest to sell when everybody else is buying or to buy when everyone else is selling; it simply states that central banks offer us guidance, and if we listen to what they're saying, we're able to play defense when the time is right.

STIMULUS AND THE INVESTMENT RATE™

The guidance offered by central banks comes from the tools that they use to communicate policy. One of those tools is stimulus, which came into to play after the credit crisis, but monetary policy is still largely governed by adjustments to interest rates. (At the time this was written the Fed Funds Rate was 0%.)

The monetary policy decisions offered by global central banks influence global liquidity, which is also a main macroeconomic focus of Stock Traders Daily. New money matters most to asset price appreciation, and The Investment Rate, another model offered by Stock Traders Daily, measures the rate of change in the amount of new money available to be invested into the stock market every year (looking out to about 2070).

Dating back to 1900, The Investment Rate identified every major longer-term economic cycle in advance, including the credit crisis, by identifying the future changes in this measure. That was powerful, and it is still meaningful, but the Investment Rate is no longer the sole identification of new money flows.

Since Bernanke introduced stimulus to the world during the credit crisis, a new source of new money has emerged. Stimulus is now a form of new money when asset purchase programs are active. That puts stimulus and the Investment Rate on the same side of the equation when defining the rate of change in the amount of new money available to be invested into the economy over long-term periods of time.

However, where The Investment Rate measures the natural rate of change that is rooted in societal norms and lifetime investment patterns (that are as sure as death and taxes), and that will continue forever with minor adjustments over time, stimulus measures have a much shorter lifespan.

Furthermore, when stimulus-based asset purchase programs come to an end and central banks begin unwinding their balance sheets, like the FOMC began to do in 2018, the variable becomes negative. In other words, what was new money becomes old money, and when it is taken out of the economy it removes liquidity from the global economy and creates a headwind. We saw this in 2018.

Ultimately, stimulus created a massive asset bubble, and the findings of The Investment Rate were muted since 2011, until stimulus came to an end. The end of stimulus lasted until the Coronavirus Crash, and now it is back and playing a role again, but at the time this was written it had not yet had an impact.

Our estimates suggest that about $5 trillion of stimulus monies will be injected into the global economy between March 21, 2020 and the end of the year. That dwarfs what happened after the Credit Crisis in terms of dollars and duration (it is set to happen within months instead of years), and the velocity and magnitude of stimulus will play a material role in monetary policy going forward.

However, even with stimulus, the main monetary policy tool used by central banks is still their control over interest rates, and that is where The Evitar Corte Model is focused.

Where stimulus measures and asset purchase programs have had the direct intention of increasing asset prices in the past, which was the intention of QE 2 and the corporate bond buying program of the ECB (that led to the most one-sided up market in history in 2017), interest rates as a monetary policy tool are exclusively focused on economic conditions.

The decisions that the FOMC makes to increase interest rates, or lower them, is a direct reflection of their opinion about what is happening in the economy today and the repercussions that will likely occur as a result. They cut interest rates when times are bad in hopes that things will get better after they do this, and they increase interest rates when the economy is too hot in an effort to stifle out-of-control inflation and moderate growth.

Interest rate controls do not have as much of an immediate impact on equity and bond prices as direct asset purchase programs have, but they communicate policy much more effectively.

ENTER THE EVITAR CORTE MODEL

Evitar Corte uses the decision to increase or lower interest rates by the FOMC as a guide to playing defense in the stock market, and the result outperforms the S&P 500 by 943% on just 10 trades since 1992. This happened during Greenspan, Bernanke, Yellen, and Powell, during some of the most violent market crashes we have ever seen, and during some of the best conditions ever.

Leading into this discussion, I suggested that traditional investment philosophy, ingrained by big brokerage firms over time, was that investors should stay invested no matter what happens. We know that the rate of return on the DJIA for the past 20 years, as of March 21, 2020, was also only 3.3%, and investors were subject to massive levels of volatility during that time.

As much as that traditional philosophy is something that I disagree with, here is another…

Wall Street popularizes interest rate cuts as being a good sign for the stock market, but The Evitar Corte Model suggests the opposite. If Evitar Corte is right, and we've seen that the numbers don't lie, then popular traditional philosophy is wrong.

Objectively, when the FOMC begins cutting interest rates, they do it because they foresee problems, and the stock market doesn't like problems. Therefore, when the FOMC is engaged in a rate-cutting cycle, the stock market experiences severe levels of volatility.

WHEN DEFENSE IS THE BEST OFFENSE

Evitar Corte, loosely translated, means *avoid the cuts*.

It implies that rate-cutting cycles suggest trouble, and further suggests that the stock market will react adversely, and that is the time to play defense.

More specifically, the most opportune time to play defense according to The Evitar Corte Model is when rate-cutting cycles begin. During the Coronavirus Crash, the interest rate cutting cycle began on March 3, the S&P 500 was about 3100 then, but as of March 21, 2020 it was under 2400. The difference is 22%.

Playing defense does not mean portfolios will be completely sheltered from all of the declines; even the best defensive basketball teams get scored on sometimes, but defense does win championships they say, and the conclusions of Evitar Corte support this too.

To put that into quantified perspective using the DJIA, as we did earlier, the annual rate of return on average since January 1, 2000 was only 3.3% when this was published, but if this simple risk control metric offered by The Evitar Corte Model was implemented when the FOMC began cutting rates on March 3, 2020, the annualized rate of return would more than double to near 7.1% instead.

Imagine doubling the return of the market every time you played defense, and you'll start to see how Evitar Corte realizes this massive outperformance!

The stock market is at a much higher level now than it was in 2000, so a decline of significant magnitude like this has a much more material impact on the annualized rate of return.

Anyone who is following the traditional philosophy of staying invested and not playing defense has been subject to the entirety of these declines, and the same thing happened during the credit crisis and internet debacle.

THE CORONAVIRUS CRASH

This current example of The Evitar Corte Model makes the conclusion tangible, but at Stock Traders Daily I have been discussing Evitar Corte's conclusions with subscribers regularly for many years. Before the Coronavirus Crash, our most recent discussion came when the FOMC stopped cutting interest rates at their October 2019 meeting. That was a signal to remove defensive measures.

Evitar Corte is not only a model that tells you when to play defense, but it also tells you when to *stop* playing defense in the stock market. In order to make money from the stock market portfolios need to be exposed to the stock market sometimes; the truth is that being exposed most of the time works best, but not all the time - sometimes the entire portfolio needs to be protected.

Largely, the traditional philosophy of staying invested through thick and thin has something to do with this. Because remaining invested most of the time makes sense over the long term, traditional brokers and Investment Advisors suggest this to their clients. It is, of course, easier too.

However, the easiest way is not always the best way. Most of the time it is, but there are times in which defensive measures need to be implemented.

According to The Evitar Corte Model, defensive measures need to be implemented when FOMC rate-cutting cycles begin, and the best time to remove those defensive measures is when FOMC rate-cutting cycles end. That is what happened in October 2019, and there was a signal from Evitar Corte. This signal to expose portfolios lasted until the Coronavirus Crash.

During the Coronavirus Crash, the rate-cutting cycle by the FOMC lasted less than two weeks. Anyone paying attention to news during the Coronavirus Crash saw many headlines that talked about "the most aggressive declines ever", "the most aggressive increases ever", "the fastest declines in history", and more, and the defensive measures implemented by Evitar Corte are no different.

The shift from defensive to exposed in Evitar Corte happened faster than any time in history as well.

As of March 21, 2020, Evitar Corte, a model that has beaten the S&P 500 by 943% since 1992 on only 10 trades, suggested that investors should remove their defensive measures and become exposed to the stock market as a result.

The FOMC slashed interest rates to 0 at the equivalent of 2400 in the S&P 500, and that is about the official re-entry point for The Evitar Corte Model.

Importantly, The Evitar Corte Model is not going to shelter investors from everything. As mentioned earlier, even the best sports teams get scored on, and volatility will exist at times other than the FOMC rate-cutting cycles. Evitar Corte will not pinpoint the exact market highs, and it will not pinpoint the exact market lows.

Looking back at the FOMC decision that happened in early 2009, which was the end of the FOMC rate- cutting cycle associated with the Credit Crisis, the stock market fell a little more, but not for long.

Looking at this current Coronavirus Crash, Evitar Corte did not start playing defense until the market was down 8.6% from its all-time high.

These observations suggest that The Evitar Corte Model is not perfect, but we do not need to be perfect in order to beat the stock market substantially over time. All we need to do is play defense sometimes, and the FOMC tells us when to do that using their most powerful monetary policy tool, interest rates.

Looking forward, Evitar Corte also suggests something else that is contrary to popular opinion.

Instead of considering interest rate hiking cycles to be a negative indicator for the stock market, the opposite is true according to Evitar Corte.

Using an objective mindset again, just like I did when discussing the conditions in the stock market during interest rate cutting cycles and how the stock market doesn't like those conditions, the opposite is true during interest rate hiking cycles. The FOMC increases rates because conditions are too good, and the stock market likes conditions like that. One of the best times to be invested in the stock market is when interest rates are increasing.

When we couple that with stimulus it becomes even more powerful.

The FOMC began raising interest rates after the credit crisis in November 2015, when the stimulus baton was handed to the ECB. Stimulus was in full force at the same time interest rates were increasing, and it was one of the best conditions the stock market has ever seen.

Will this happen again?

What we know so far is that the FOMC slashed interest rates to combat economic conditions associated with the Coronavirus, and once conditions stabilize those accommodative measures are likely to be reversed. That means interest rates are likely to move higher again after the Coronavirus conditions stop impacting economic conditions so severely.

Will that happen at the same time as the aggressive stimulus measures of global central banks are in full force? Answer: Maybe!

Could this rival the Tulip Bubble? Only time will tell.

THE CHARTS

Let's take a look at the charts to get a visual overview of The Evitar Corte Model….

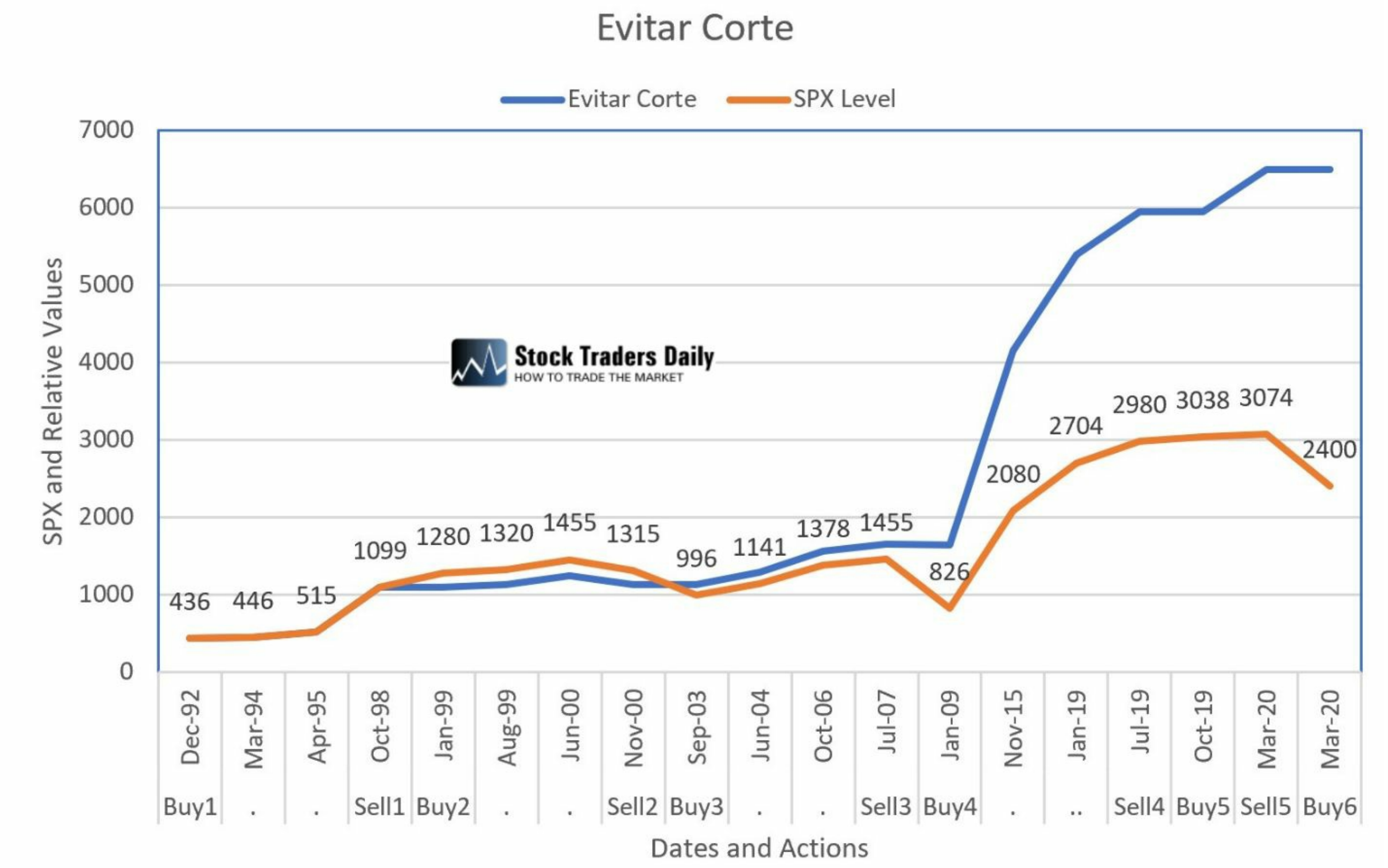
Here are some key points to consider:

- Since 1992, there have been 10 triggers – this is a long-term model.
- They show outperformance, but not volatility. While the entry and exit points may not look significant, it does show the events (and associated risk) that happened in between.

The Evitar Corte chart below does not adequately reflect the volatility that existed in the markets during rate-cutting cycles and market crashes dating back to 1992. The Internet Debacle, Credit Crisis, and Coronavirus Crash declines created much more volatility for investors than this graph shows.

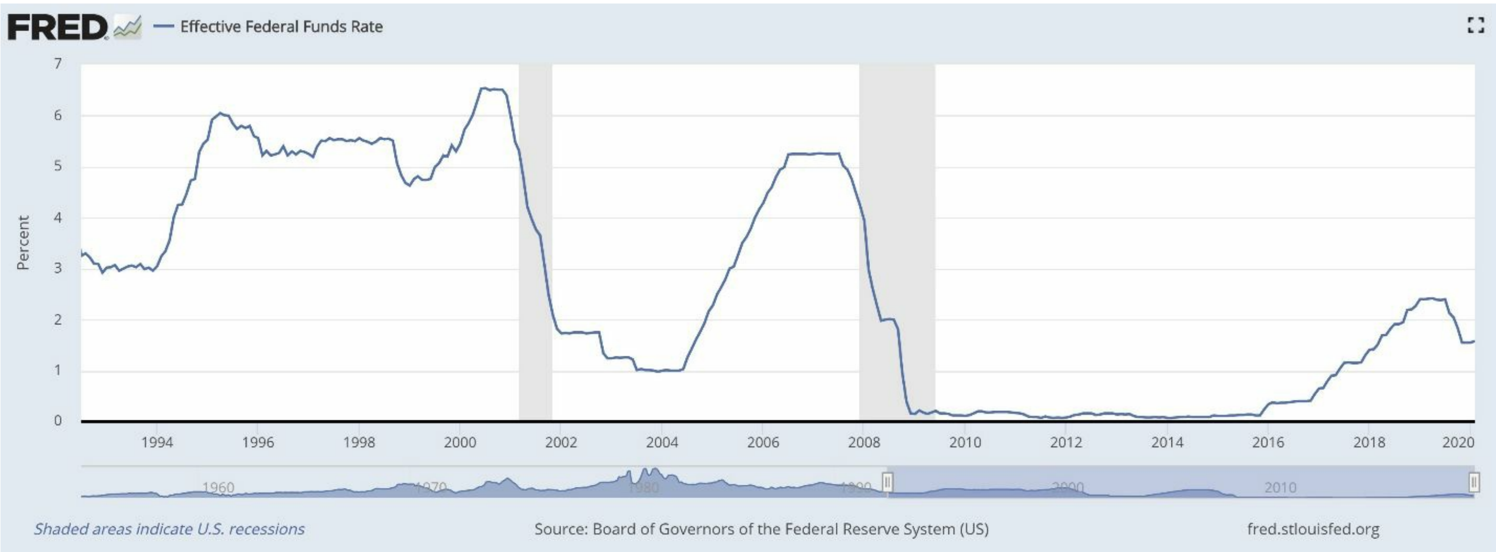
This graph has been smoothed to show only the actions of the FOMC and market values associated with those actions. In other words, the declines in between rate-cutting cycles during the Internet Debacle, Credit Crisis, and Coronavirus Crash were more serious and caused much more volatility than this graph shows.

Figure 1.



The dates in The Evitar Corte Model above (Figure 1) reflect the Fed Funds data from the St Louis Fed Below (Figure 2). FRED had not updated the Fed Funds Rate as of 3.21.20 because the data is monthly. The effective Fed Funds Rate, however, has dropped to 0 and that will be reflected after 4.1.20.

Figure 2



The data below (Figure 3) shows the hiking cycles and the easing cycles of the FOMC since 1992. The actionable triggers for Evitar Corte are based on the interest rate cutting cycles. The quantification method starts with equivalent values for SPX and Evitar Corte, but The Evitar Corte Model values do not change while rate-cutting cycles exist. They are frozen during rate-cutting cycles, which is the equivalent of protecting accounts from decline during those cycles, and then exposing them at the end again, thus preventing the loss.

Figure 3

Signals	Date	FOMC action	SPX Level	Evitar Corte
Buy1	Dec-92	cuts stop	436	436
.	Mar-94	hikes begin	446	446
.	Apr-95	hikes stop	515	515
Sell1	Oct-98	cuts begin	1099	1099
Buy2	Jan-99	cuts stop	1280	1098
.	Aug-99	hikes begin	1320	1133
.	Jun-00	hikes stop	1455	1248
Sell2	Nov-00	cuts begin	1315	1128
Buy3	Sep-03	cuts stop	996	1128
.	Jun-04	hikes begin	1141	1292
.	Oct-06	hikes stop	1378	1561
Sell3	Jul-07	cuts begin	1455	1648
Buy4	Jan-09	cuts stop	826	1648
.	Nov-15	hikes begin	2080	4151
..	Jan-19	hikes stop	2704	5396
Sell4	Jul-19	cut begins	2980	5947
Buy5	Oct-19	cuts stop	3038	5947
Sell5	Mar-20	cuts begin	3074	6501
Buy6	Mar-20	cuts stop?	2400	6501

Remember, this data does not adequately show the reduced volatility; it is smoothed.

For example, between November 2000 - September 2003, there was a major market crash, but Evitar Corte calculations do not show that swoon. The same is true between 2007 – 2009 (Credit Crisis). The major volatility that existed during market crashes are not adequately reflected in this data because it has been limited to monthly data to conserve space.

CONCLUSION

In review, here's what The Evitar Corte Model (943% better than the SPX since 1992) indicates:

1. Protect portfolios when the FOMC starts cutting interest rates
2. Expose Portfolios when the FOMC stops cutting interest rates

I hope this simple approach can help anyone manage risk effectively, and in doing so, realize material outperformance versus the market itself over time. Defense matters, and it has an important place in every long-term investment portfolio.

ADDITIONAL RESOURCES

The Evitar Corte Model, designed by Thomas H. Kee Jr., President and CEO of Stock Traders Daily, identifies periods of time in the stock market when investors need to play defense.

For more information on **The Evitar Corte Model** – Stock Traders Daily

For more information about **Stock Traders Daily** – Stock Traders Daily

For more information on **The Investment Rate** – Stock Traders Daily

To learn how to **Protect Portfolios without triggering Tax Consequences** – please review the CORE Portfolio Strategy at Stock Traders Daily

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