

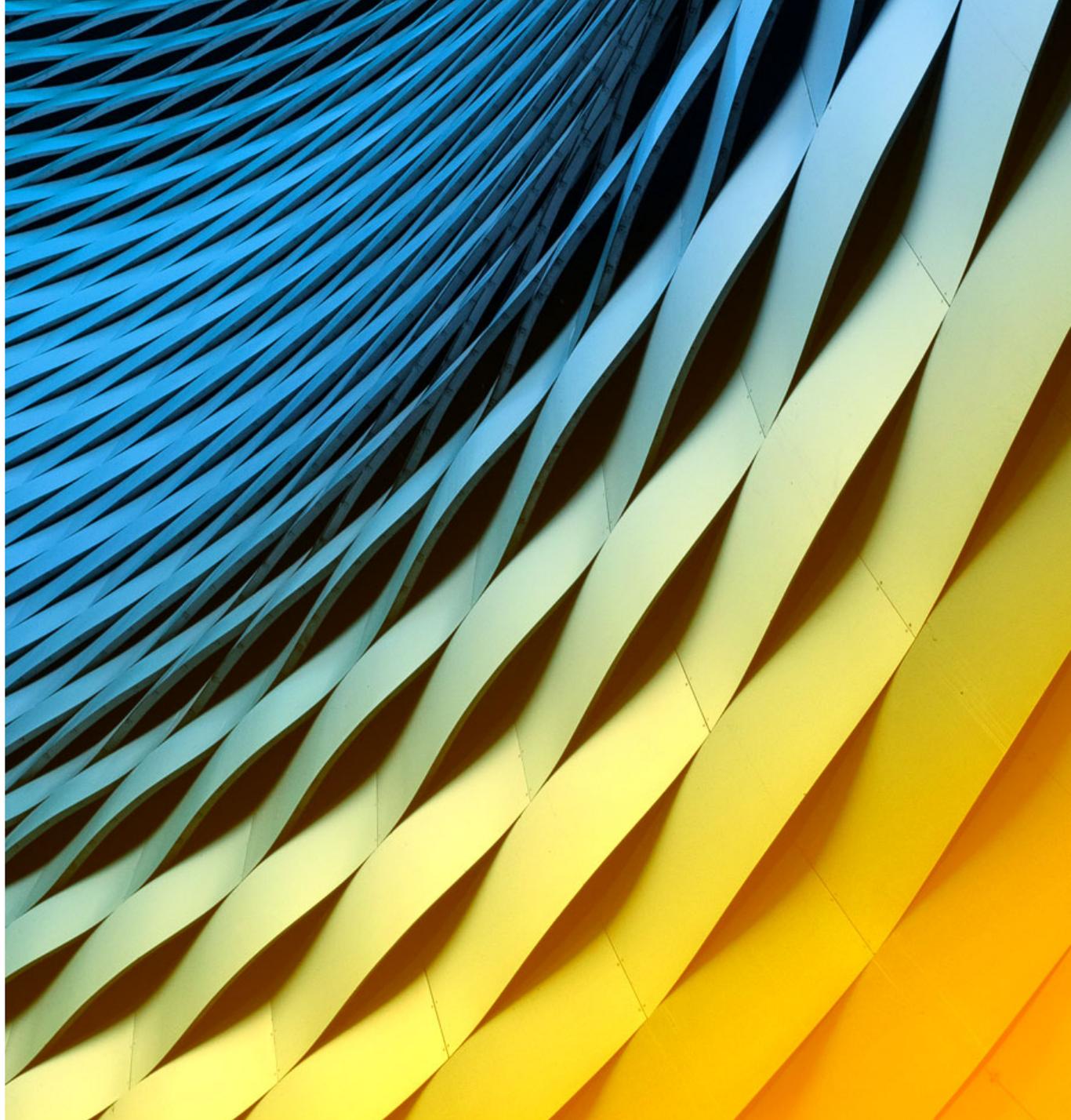
Athena Financial Solutions – What's Driving the Markets? Fundamentals, Technicals, Trends and Risks.

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What's driving the markets? Fundamentals, Technicals, Trends and Risks

James Brodie C.M.T.



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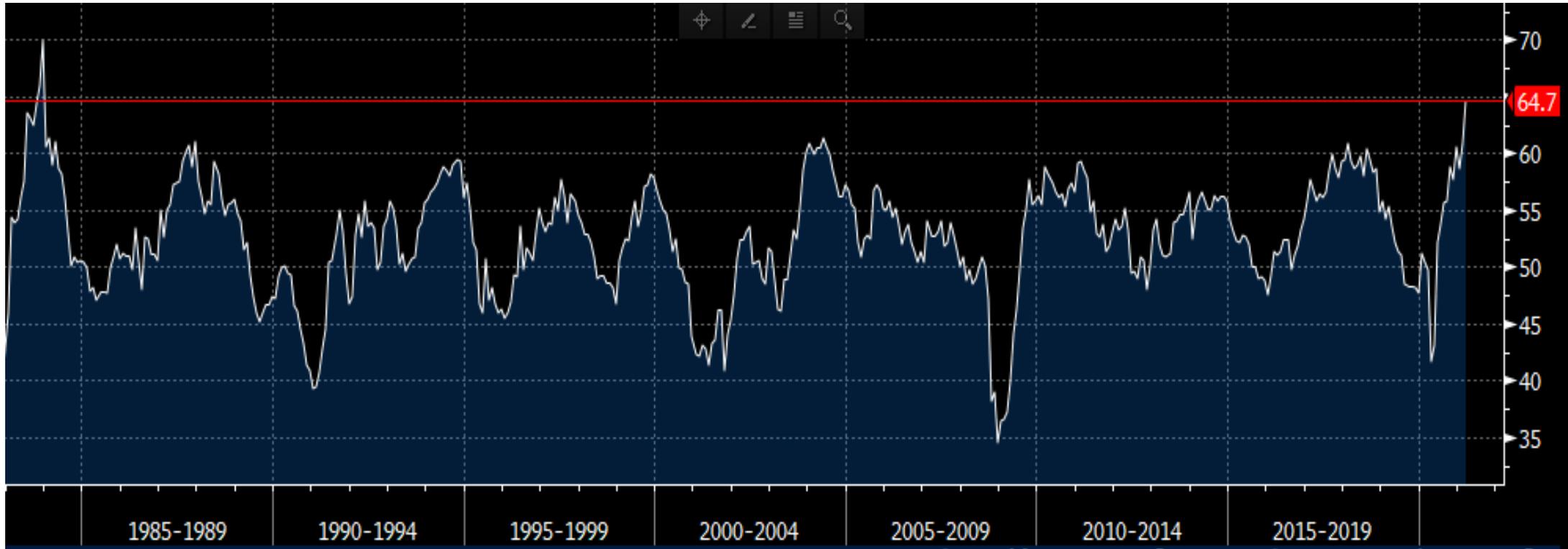
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1. Q.E. and central bank liquidity
2. Inflation fears and higher bond yields
3. U.S. dollar strength
4. U.S. equities trending higher
5. Leverage and it's risks
6. The resurgence of retail trading
7. Behavioural finance - are we making irrational trading decisions?
- & how we can over come them!
8. Risk management.....

(All charts sourced from Bloomberg)

U.S. ISM manufacturing survey

'Strongest growth since 1983. Firmest orders and production readings in 17 years.' But supply chain bottle necks.



BUT 10 year yields fell 7bp and dollar sold of 0.5%!

(Source: Bloomberg)

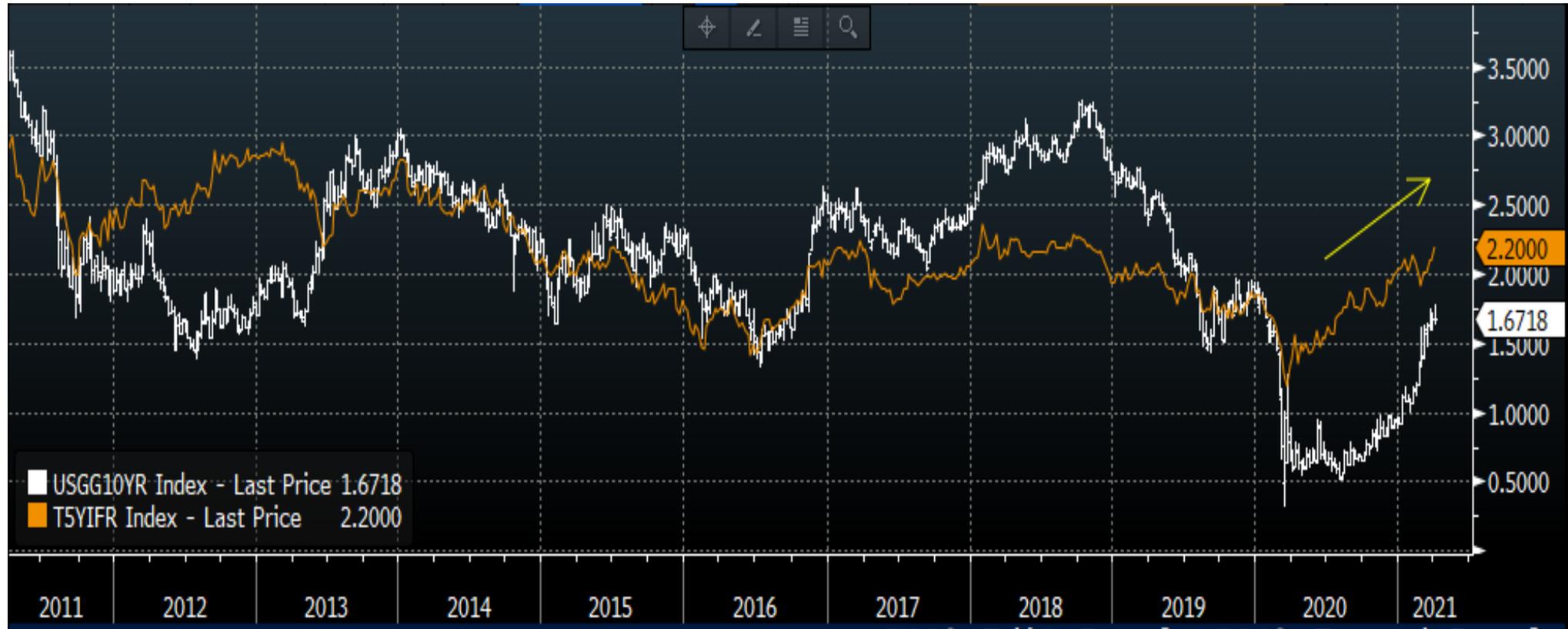
U.S. 3 year yield post employment data (2nd April)

When will the FED first mention 'taper talk'



(Source: Bloomberg)

U.S. 10 yr yield vs 5yr 5yr forward inflation expectations



(Source: Bloomberg)

Copper/Gold versus US 10 year

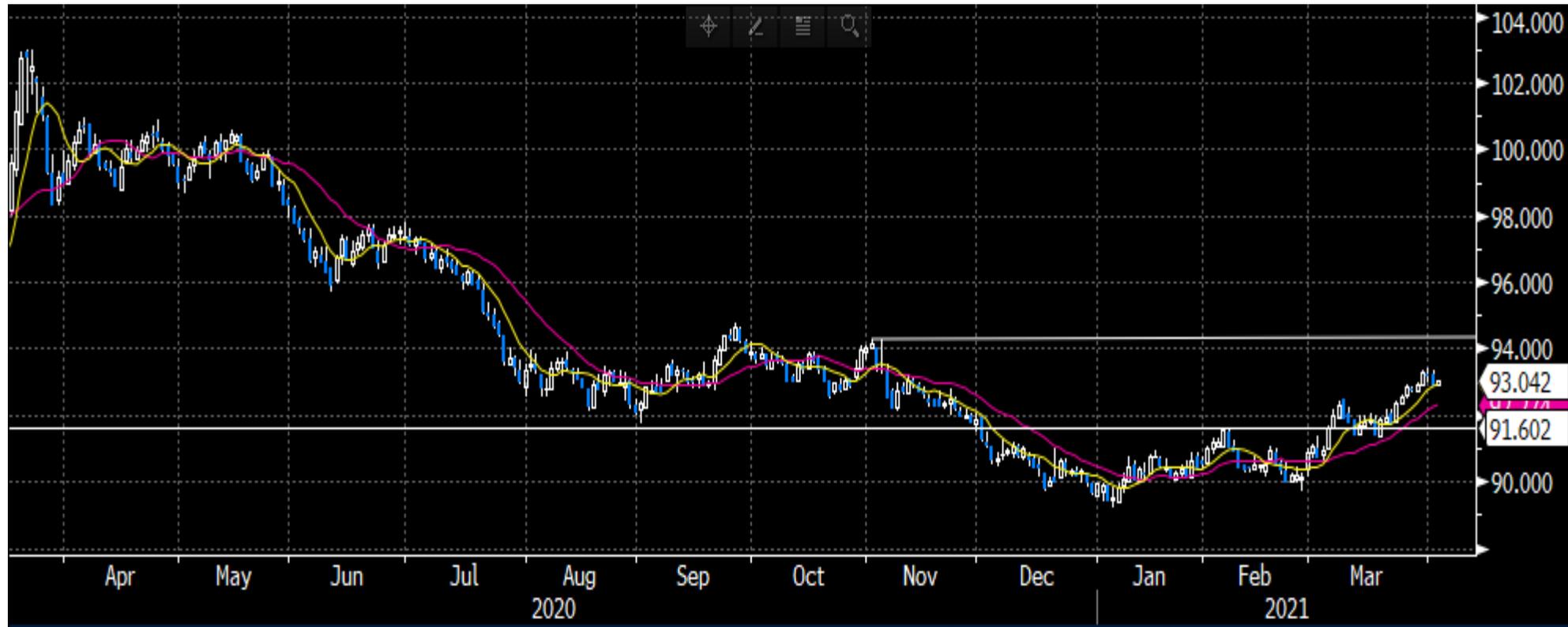


(Source: Bloomberg)

U.S. yield curve 2yr-10yr



(Source: Bloomberg)



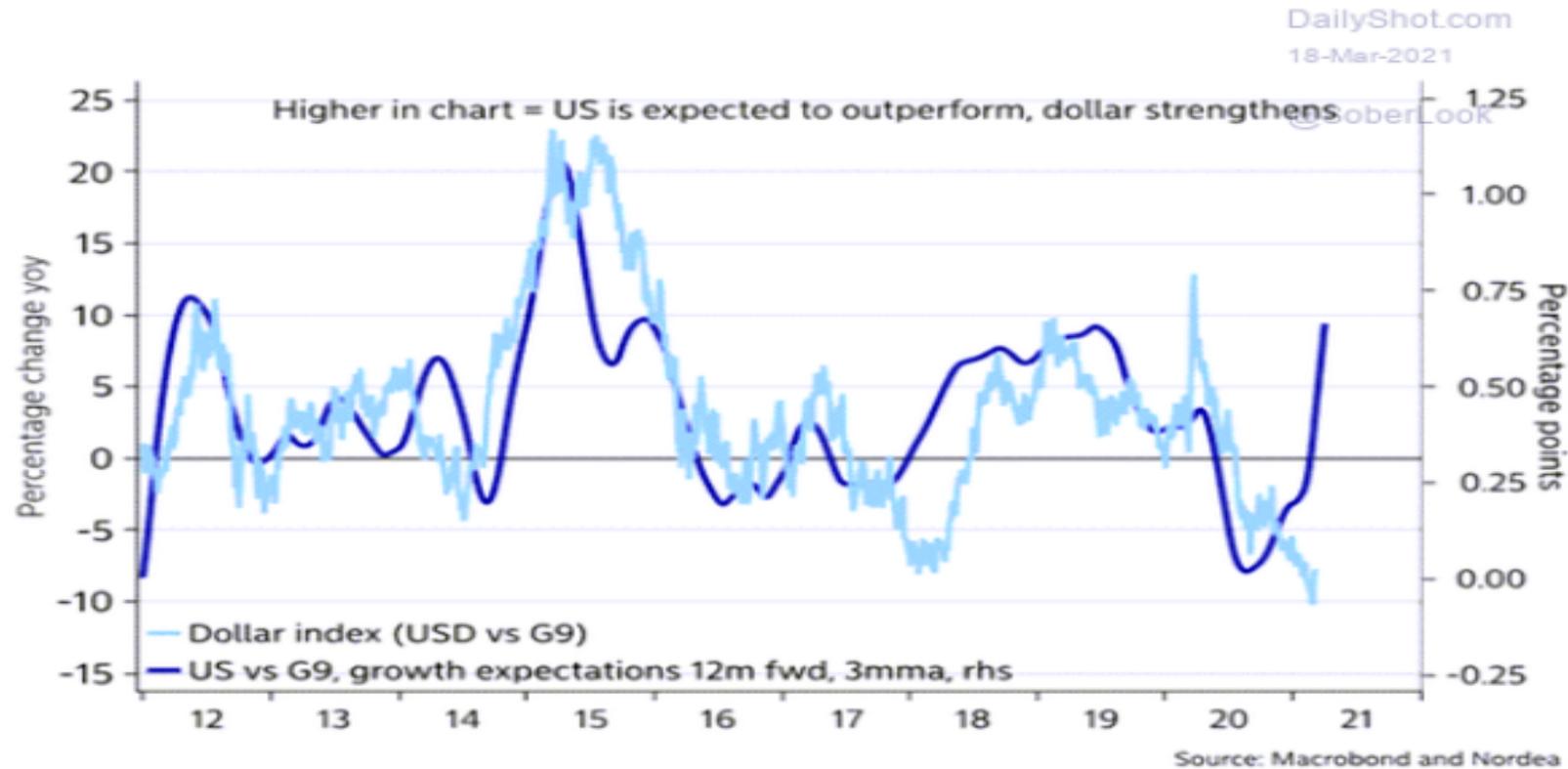
(Source: Bloomberg)



(Source: Jupyter Notebook & Bloomberg)

U.S. growth expectations move strongly in USD's advantage

US growth expectations moving strongly to the USD's advantage



Source: Macrobond and Nordea

Asset managers net USD position



(Source: Bloomberg)

Trend lines – Long term

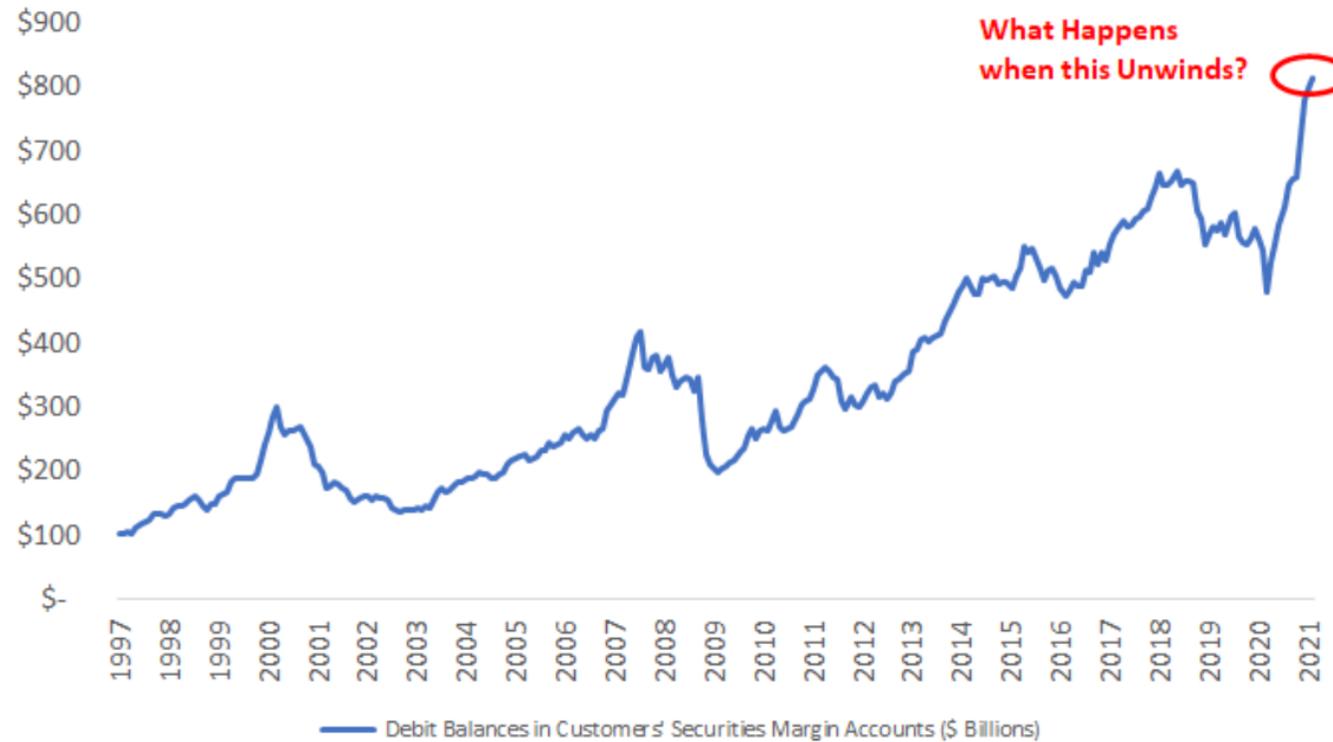
USDJPY



(Source: Bloomberg)

Record levels ??? But so are equity valuations which are trending higher.

US Margin Debt Reaches Record \$800 Billion



(Source: FINRA)

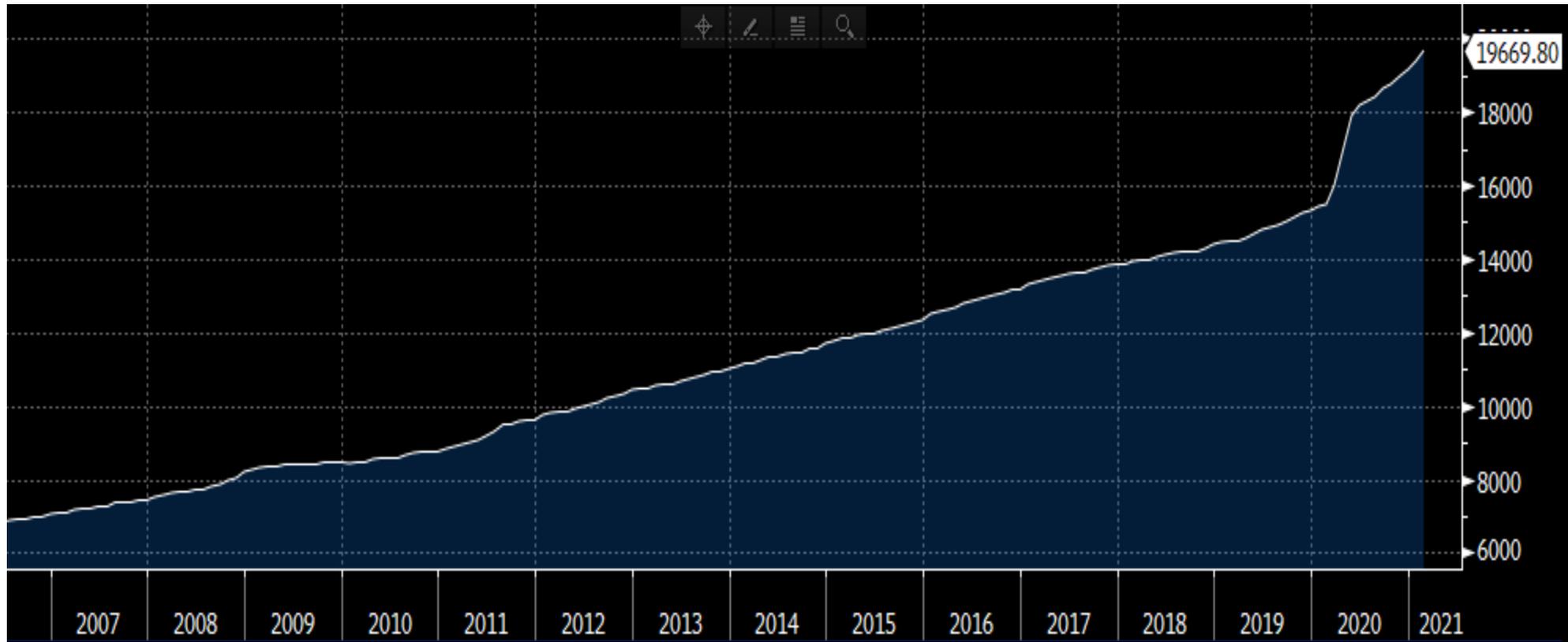
Equity valuations – expensive?

S&P P/E ratio



(Source: Bloomberg)

U.S. M2 money supply



(Source: Bloomberg)

- Trading is not about predicting the future, but seeing the present.
 - **process** (risk & trade management)
 - **discipline**
 - **self-awareness**

BUT people prefer narratives

- but remember most narratives are based on perception, **NOT FACT!**

Retail traders win:loss ratio

Research from over 43 million retail traders FX trades in 15 different currencies

(Source: DailyFX)

What percentage of their trades do you think were profitable?

- **A. 13%**
- **B. 18%**
- **C. 27%**
- **D. 39%**
- **E. over 50%**

Retail traders win:loss ratio

Research from over 43 million retail traders FX trades (Source: DailyFX)

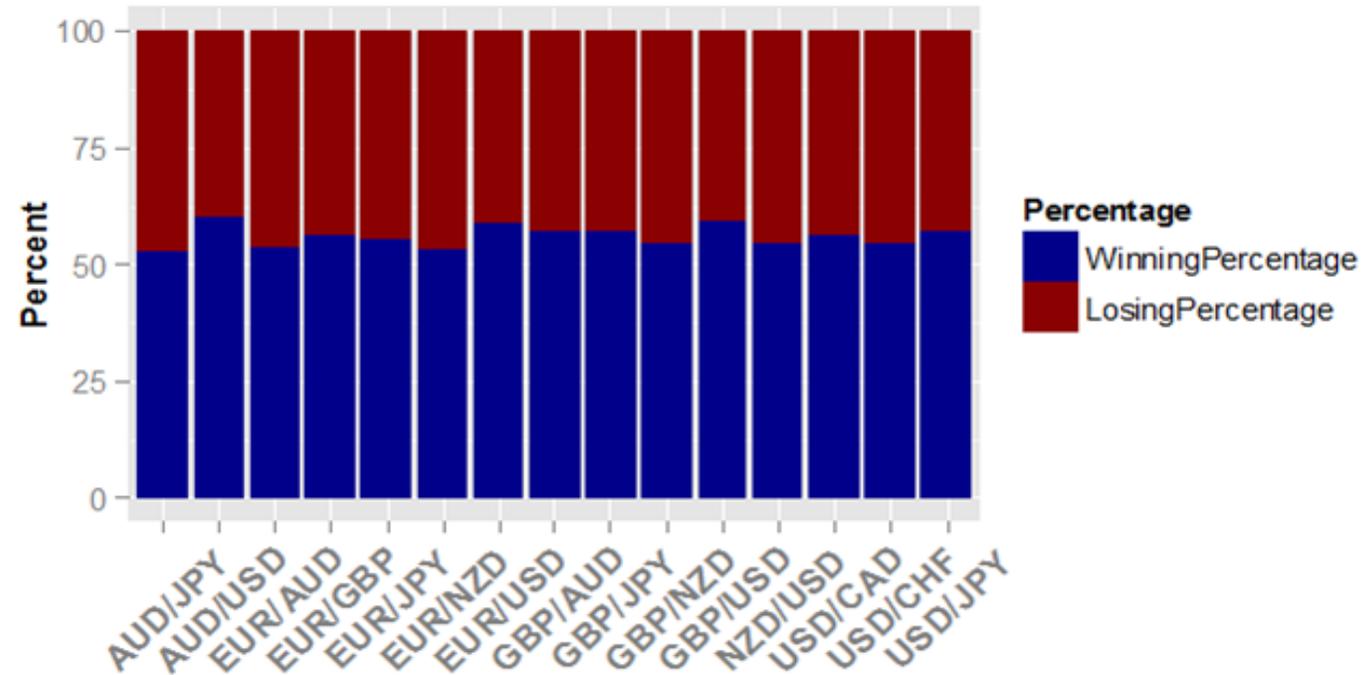
What percentage of their trades do you think were profitable?

- **E. over 50% - correct**

Retail traders win:loss ratio

Research from over 43 million retail traders trades

(Source: DailyFX)



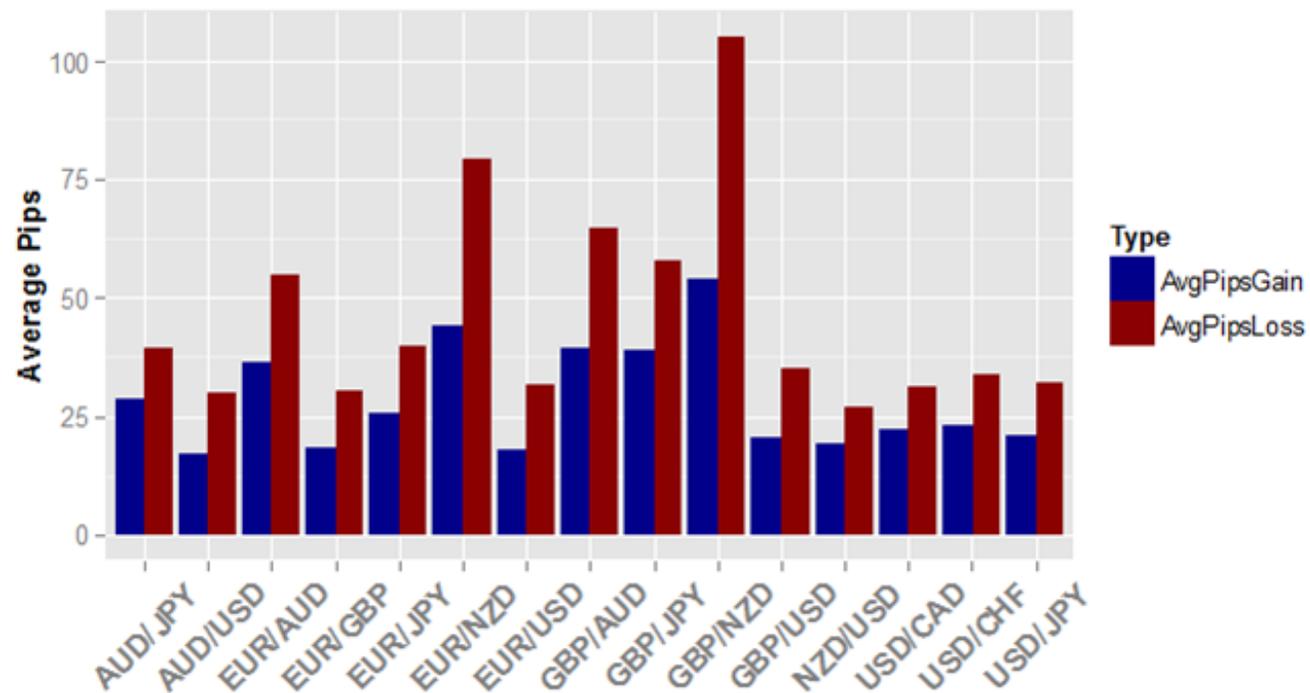
So why do so many lose money?

Why do they lose money with more winning trades than losing?

Retail traders average win: average loss ratio

Because the average loss per trade far outweighs the average profit

(Source: DailyFX)



\$HTZ (bankruptcy): up 114% in 1 day, and 1250% the following week
 - when price fell \$20 -> \$1 , retail holdings rose 10X

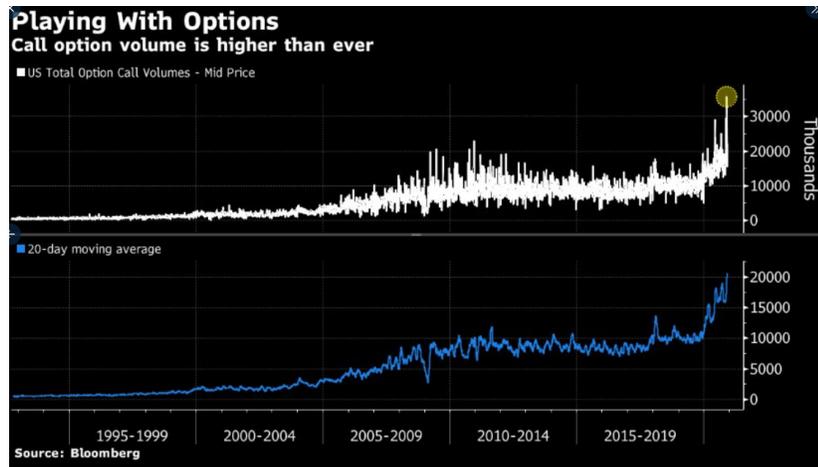
(all data source Bloomberg)

\$JCPNQ (bankruptcy): up 96% in 1 day

\$CHK (bankruptcy): up 175% in 1 day

\$NKLA (without revenue): up 104% in 1 day

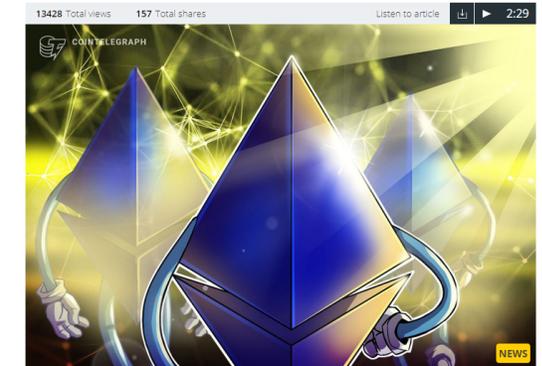
- \$1.15mio cash on hand, yet mkt cap \$33bio !!!!!!!!



U.S. equity and index call option volume 2nd Dec 2020 (Source: Bloomberg)

Grayscale Ethereum Trust Trading at 515% Premium

Investors looking for a safer way to buy ETH are willing to pay a premium of more than 500% to buy it via Grayscale's Ethereum Trust.



Investors are paying a 515% premium to buy Ether through the Grayscale Ethereum Trust.
 It costs \$90.55 to buy a share in Grayscale Investments' Ethereum Trust (ETHE), however its Ether holdings per share are currently worth just \$16.10. That means it's

Ethereum ETF at 515% premium (Source: Coin Telegraph)

Loss aversion & the disposition effect

- Retail investors are **2.5x** more likely to close a winning position than a losing position.
- Professional fund managers are **1.7x** more likely to close a winning position than a losing position.
- The best performing funds were those with the **HIGHEST** percentage of losses realised.
- The worst performing funds had the **LOWEST** percentage of losses realised.
- When traders have both a Stop Loss and a Take Profit in place, they are still nearly **4x** more likely to manually close a profitable trade compared to a losing one.

(Sources: Barber, Odean & Zheng 2001 'The behaviour of mutual fund investors' , and Frazzini 2004 'The disposition effect and the under reaction to news')

Complacency.... Risk management is the key

XIV ETF and the collapse of risk parity trading in 2018.



(Source: Bloomberg)

Trend lines & moving averages

Russell 2000



(Source: Bloomberg)

Trend lines & moving averages

AARK



(Source: Bloomberg)

Majority focus simply on **Entry**

And overlook - Stop Loss – Lock in gains - Position Size – Market positioning – Economic data

“The elements of good trading are cutting losses, cutting losses & cutting losses. If you can follow these three rules, you may have a chance.”

Ed Seykota



THANK YOU!

James Brodie



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