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Market Structure EDGE

Market Structure: A Better Way to Manage Your Stock Portfolio

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Market Structure EDGE

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***Market Structure:
A Better Way to Manage
Your Stock Portfolio***

**Tim Quast, founder and CEO
Market Structure EDGE
Sep 10, 2024**

- **Tim Quast – founder of two market structure analytics firms**
- **Market Structure EDGE – Only quantitative Supply and Demand data for traders**
- *My market education will necessarily emphasize what I know.*



Let's suppose we want to beat the market in the simplest way possible. *This is how we do it.*



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NVIDIA Corporation (NVDA)

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109.21 **-7.81 (-6.67%)** **109.59** **+0.38 (+0.35%)**

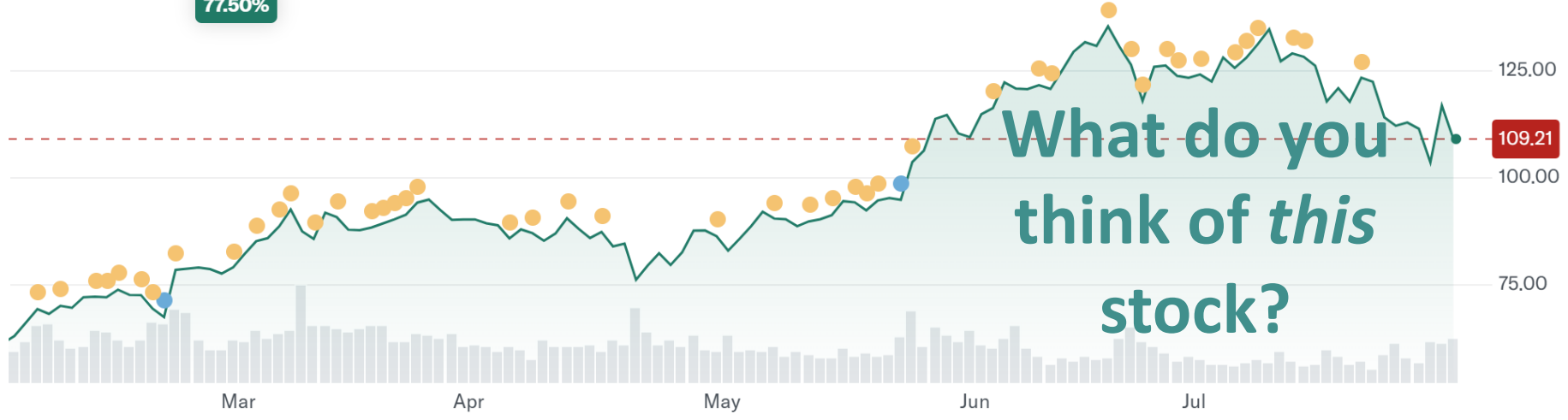
At close: 4:00 PM EDT

After hours: 5:43 PM EDT

1D 5D 3M **6M** YTD 1Y 5Y All

77.50%

Key Events



Previous Close	117.02	Volume	515,006,134	Earnings Date	Aug 28, 2024
Open	117.60	Avg. Volume	369,870,177	Forward Dividend & Yield	0.04 (0.03%)
Bid	109.20 x 100	Market Cap (intraday)	2.686T	Ex-Dividend Date	Jun 11, 2024
Ask	114.52 x 100	Beta (5Y Monthly)	1.68	1y Target Est	135.95
Day's Range	106.81 - 120.16	PE Ratio (TTM)	63.87		
52 Week Range	39.23 - 140.76	EPS (TTM)	1.71		

Source: <https://finance.yahoo.com/quote/NVDA/> Any stock, options or futures symbols displayed are for illustrative purposes only and are not intended to portray recommendations

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The Most Important Thing for Investors:

If you're going to invest, first know how the market works and what the money is doing.

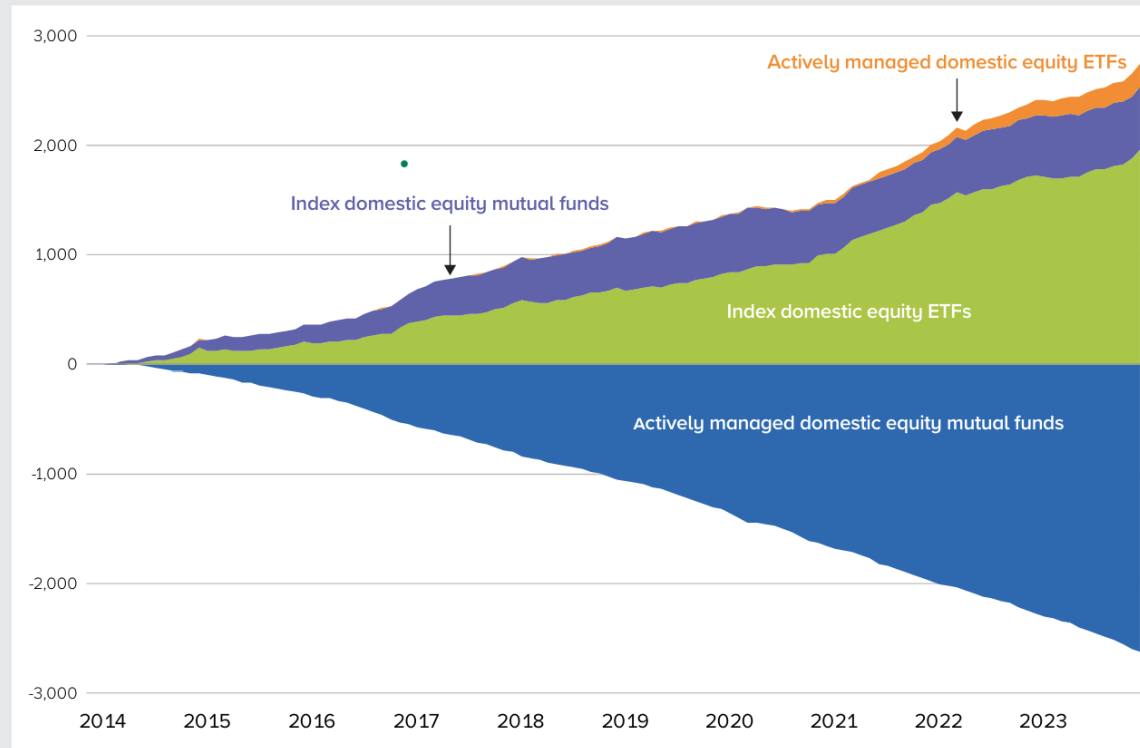
Passive Getting Bigger, Active Smaller

70% of AUM
at the top
seven US
money
managers run
on models
now.

FIGURE
3.9

Some of the Outflows from Domestic Equity Mutual Funds Have Gone to ETFs

Cumulative flows to domestic equity mutual funds and net share issuance of domestic equity ETFs, billions of dollars, monthly



Note: Mutual fund data include net new cash flow and reinvested dividends; ETF data for net share issuance include reinvested dividends.

Actives aren't driving
sustainable returns.

Source: Investment Company
Institute 2024 Factbook

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“85-93% of Active managers the past 20 years didn’t beat the benchmark. Sixty percent of the market is now ETFs, 80% of volume is in the S&P 500. Five growth stocks are 25-30% of the index. There is no alpha left in public equities.”

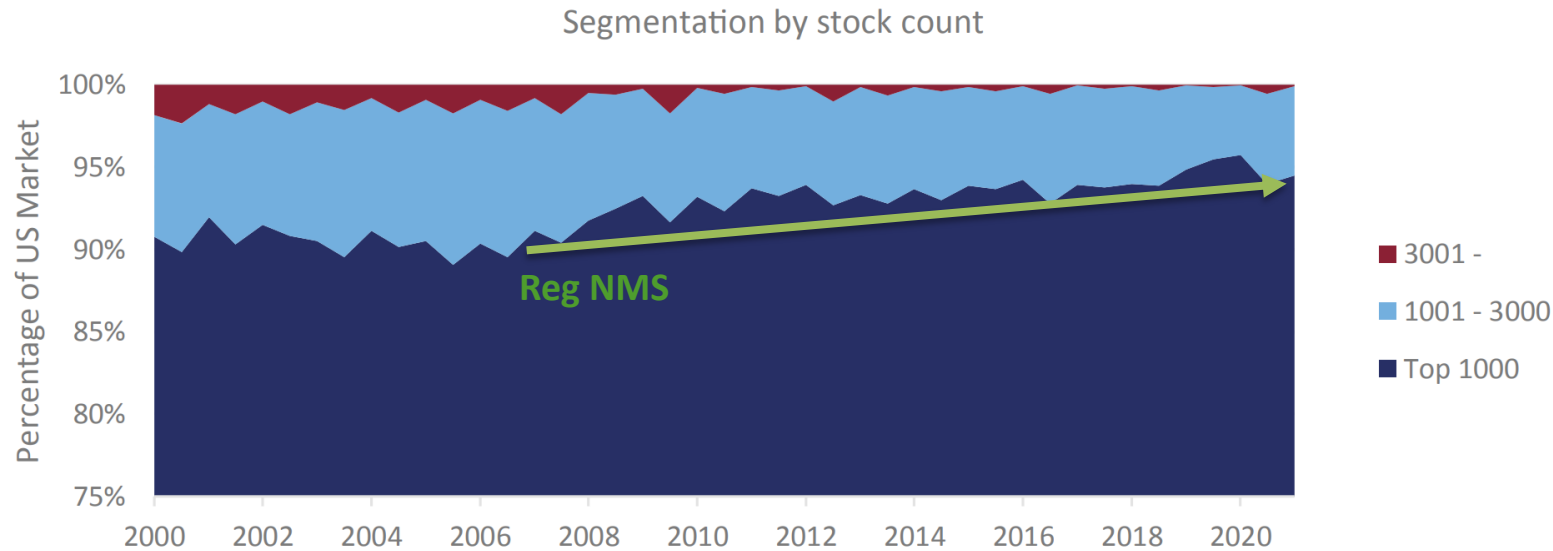
Marc Rowan, CEO and co-founder, Apollo Management Group, Economic Club of New York, interview with CNBC’s Andrew Ross Sorkin, June 7, 2023

Money buys catalysts (alpha) or characteristics (beta). And less than 1% of stocks deliver lasting alpha. The new IR goal? Beta.

The Stock Market is 800 Stocks

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Figure 3: Segmentation of the US Market by Stock Count and Cumulative Market Capitalization



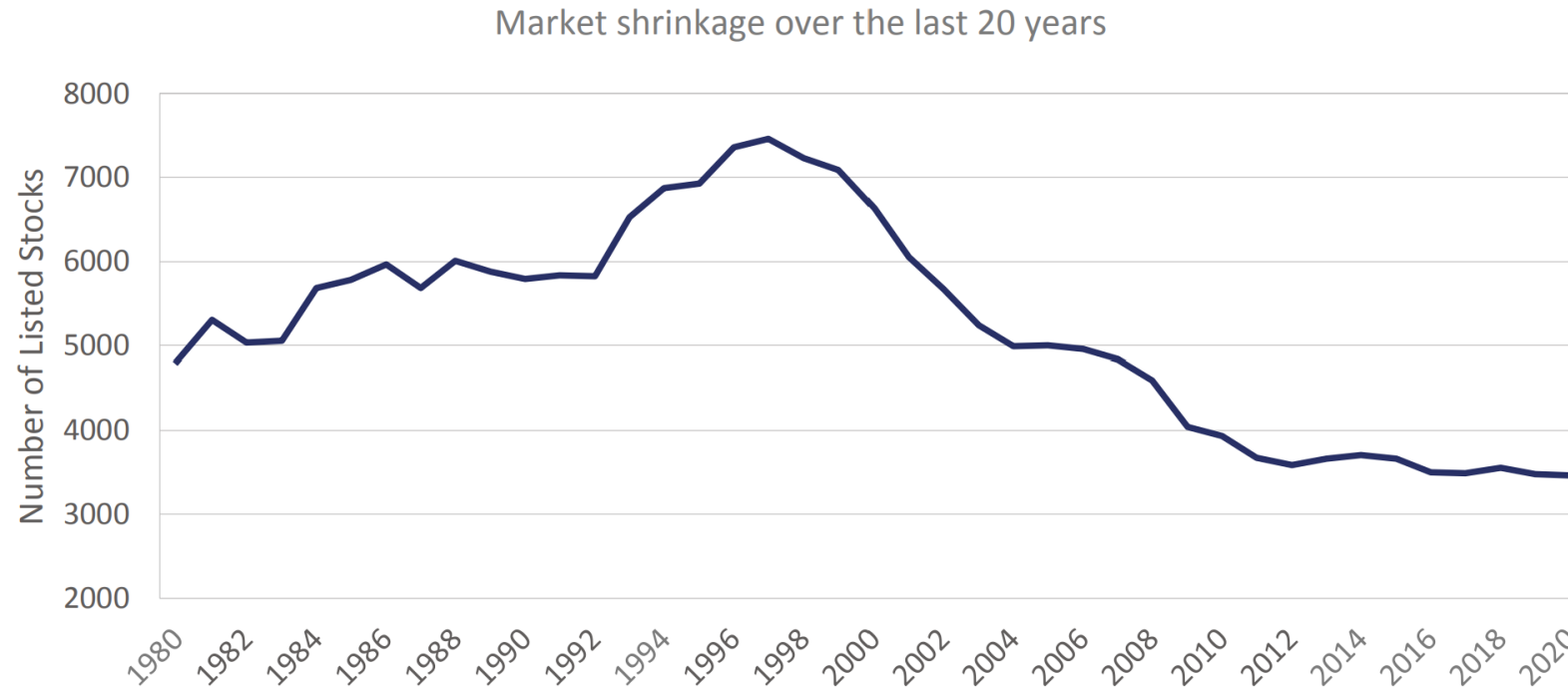
Index characteristics - Weights

	Number of stocks
FT Wilshire 5000 Index	3525
FT Wilshire US Large Cap	496
FT Wilshire US Mid Cap	289
FT Wilshire US Small Cap	1272
FT Wilshire US Micro Cap	1757

Wilshire 5000 Components - history

of components of the FT Wilshire 5000 over the last four decades.

Figure 1: Number of Listed Stocks in the US Market has contracted significantly



More money chases fewer goods. The big get bigger, the small die, the market concentrates into the largest stocks (consider AAPL, MSFT).

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SOURCE: Wilshire Associates. https://assets.website-files.com/60f8038183eb841e628c14df/62ceec895218c176d80032c8_Wilshire-SeeingThroughTheSizeMirageInUSEquities-ResearchNote_June2022%20FINAL.pdf

Most of the money follows models, not charts, financials.

Active Investment (80%)

Speculative Trading (10%)

Other (10%)



circa 2000 volume:
**Winning stocks: The ones
the best stock-pickers buy.**



2024 S&P 500 volume:
**The ones the best
stock-pickers buy have
a 1-in-10 chance of
winning.**

Active Investment (10%)
(This is Benjamin Graham)

Fast Trading (46%)

Investment horizon of a day or less –
speculation on prices

Passive Investment (25%)

Index Funds, ETFs, Quant Funds

Risk Mgmt (19%)

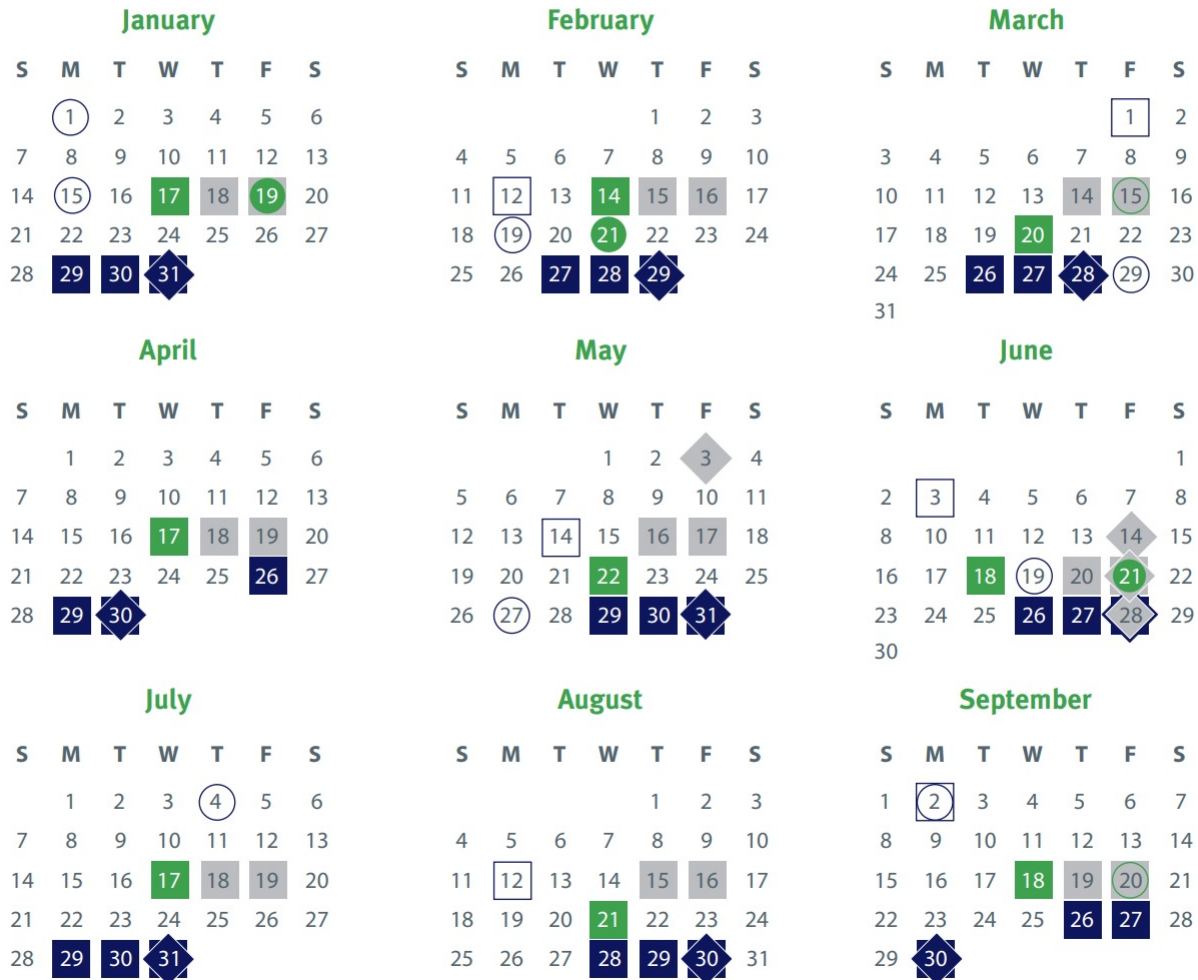
Using derivatives, leverage

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Sources: 2000 data are estimated based on firms making markets at the time, Investment Co Institute data on fund assets. 2024 data from ModernIR models, 200-day averages.

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And because most of the money follows models that have to be matched to an index, options-expirations take on massive importance. Indexes, ETFs, use options, futures (monthlies, month-end, not weeklies, dailies) to true up tracking.



- Exchange holiday: markets closed
- Options expirations: stocks, indexes, currencies, interest rates, treasuries
- VIX (Volatility Index) options expirations
- S&P quarterly rebalances: quarterly share updates to S&P 500, Mid-cap 400, Small-cap 600, Total Market
- MSCI Barra Rebalances: announcement and effective date of quarterly changes to Morgan Stanley/Barra quantitative theme and strategy indexes
- ◆ Russell Rebalances: annual reconstitution of Russell indexes; rankings May, estimates early June, final late June
- Month-end portfolio balancing: poor time for good news/good time for bad news
- LEAPS expirations: S&P futures for long term portfolio hedges
- ◆ S&P 500 End of Month (EOM) options expire

Manage Your Risk With Broad Sentiment In Three Ways:

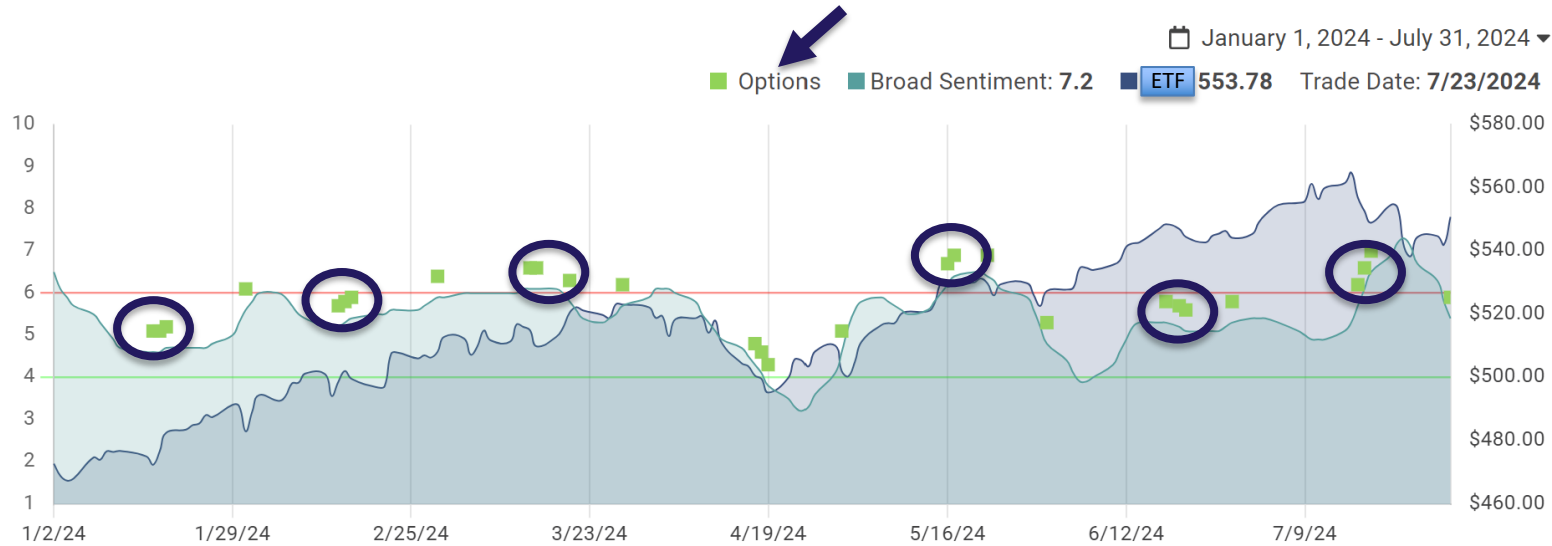
1. **Avoid Expirations** Periods (a week a month)
2. **Modulate Exposure** with Red and Green lines (I'll explain!)
3. **Periodically**, one can *short the broad market*



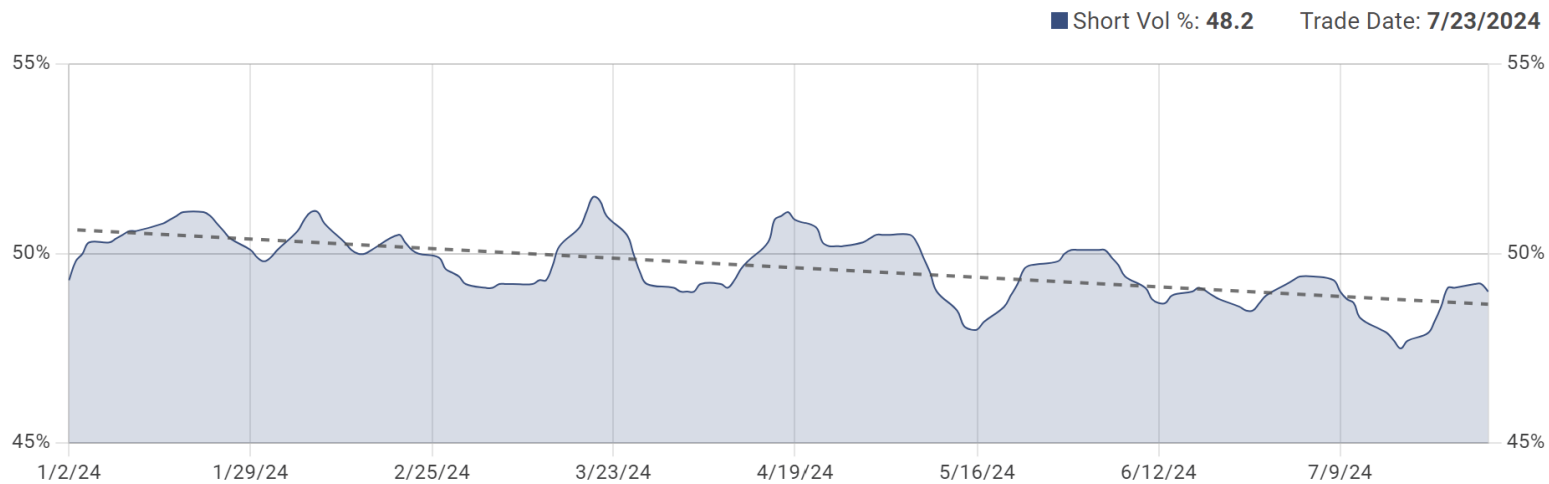
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Broad Sentiment for Risk Management

Broad Sentiment, the EDGE risk-management tool, reflects average Market Structure Sentiment™ (Demand) for composite S&P 500 stocks versus the price of S&P 500 ETF. Green squares show monthly options and futures expirations.



Short Volume (Supply) is the average percentage of daily volume in S&P 500 stocks that's short (borrowed, created by market-makers).



1. Avoid Expirations Periods

YTD 2024 view of S&P 500. Sit out expirations plus new ones (five days).

Results YTD: S&P 500 up 15%, we are up 16% (in 35 fewer trading days).

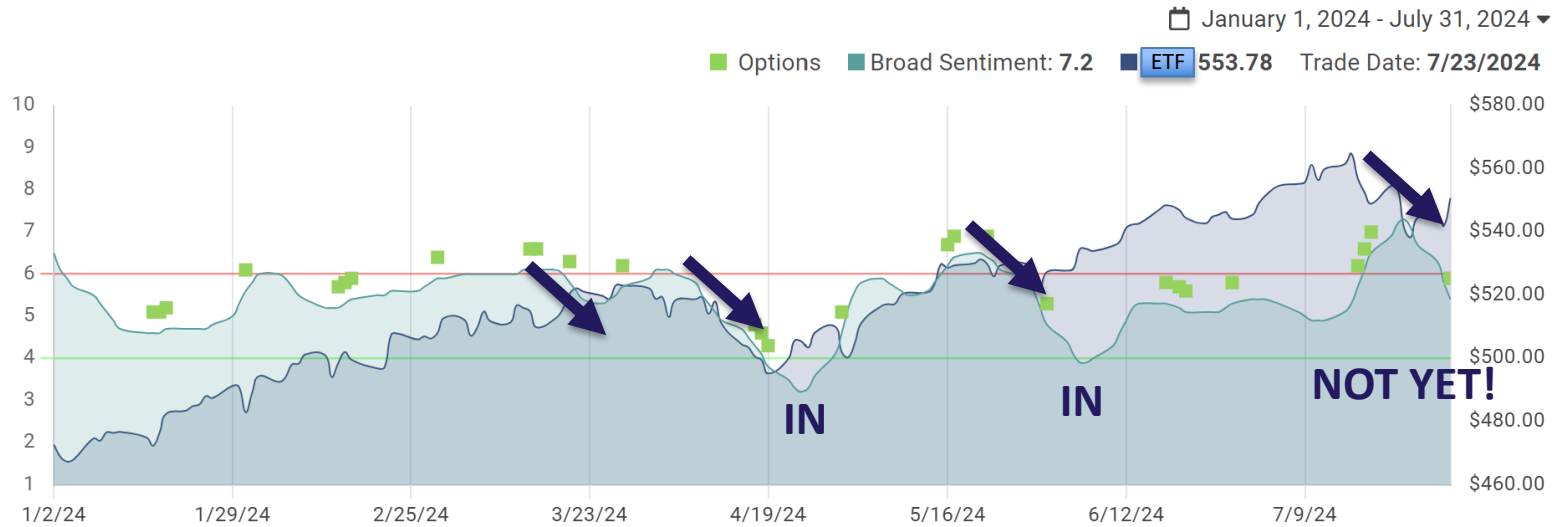
Source: Market Structure EDGE, options expirations dates from ModernIR.com IR planning calendar.

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2. Use Red and Green Lines.

WHEN Demand peaks over 6.0, AND declines, move to cash.

RETURN when Demand bottoms.

Results: Up 19.8% -- beating benchmark by 21%, in 28 fewer days.

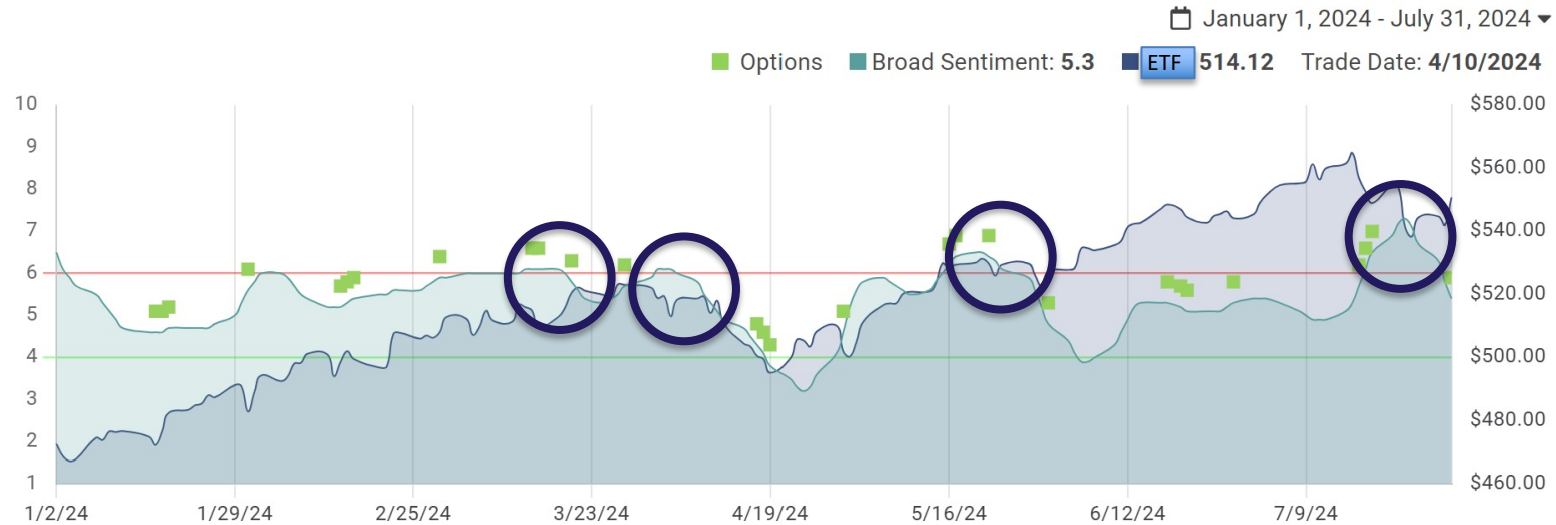
Source: Market Structure EDGE, options expirations dates from ModernIR.com IR planning calendar.

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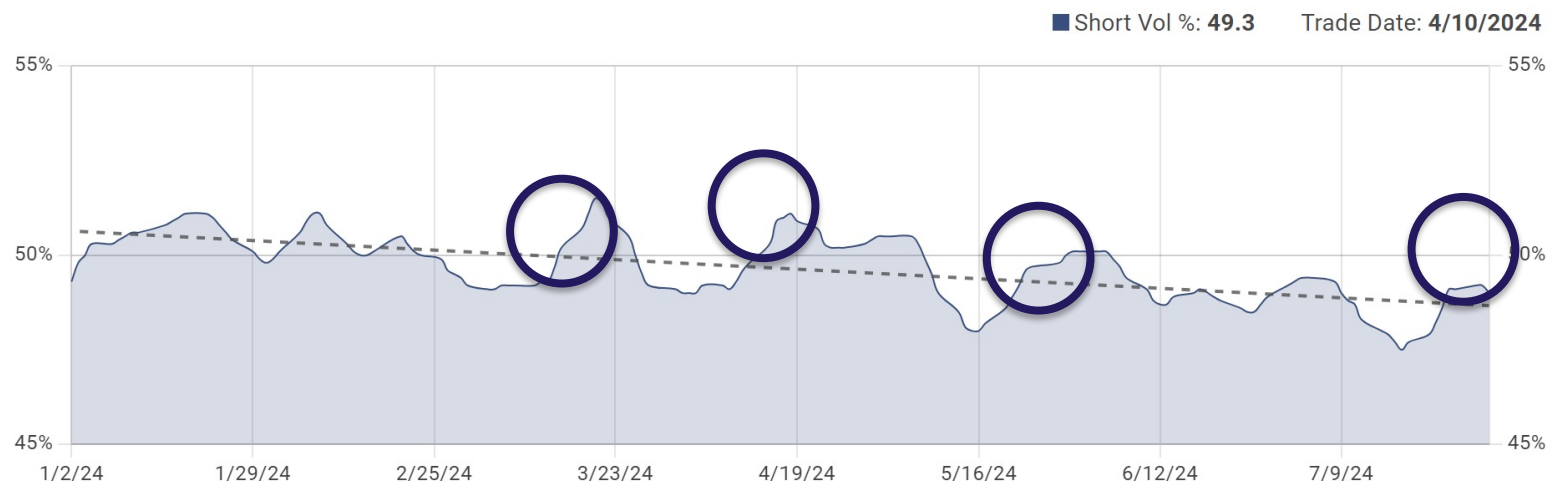
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3. Add a SHORT tactic.

Four opportunities this year where Demand peaked over 6.0, and Supply rose:

Short opportunities using leveraged ETFs. **WARNING: Shorting, leverage, are both risky!**

Results with 3x leverage: Boosts performance by 18.2%, total return of 39%.

Source: Market Structure EDGE, options expirations dates from ModernIR.com IR planning calendar.

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Daily Trading Ideas at Interactive Brokers...**