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April 9, 2026

Trading in Uncertain Times – Building Correctly Diversified Systematic Portfolios

Adrian Reid

Founder
Enlightened Stock Trading

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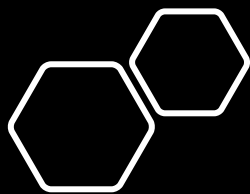
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Trading in Uncertain Times

Building Correctly Diversified Systematic Portfolios

Adrian Reid
Founder – Enlightened Stock Trading



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Trading in Uncertain Times

Building Correctly Diversified Systematic Portfolios

- Adrian Reid, Founder - Enlightened Stock Trading
- 20+ years systematic trading across ASX, US, TSX, HK, crypto
- Left a \$230,000 salary in 2012 when trading made more than the job
- Now trade in 20-30 minutes a day using end-of-day systems
- Fully automated - no screen-watching
- Founded Enlightened Stock Trading in 2014
- Tonight's goal:
Show you exactly how to build a portfolio that handles uncertainty -
with real trading systems



Have you noticed that the markets can be erratic, volatile and uncertain?

World Events That Can Impact The Markets

- Interest rate rise
- Interest rate cut
- Central bank stimulus program
- Central bank tightening monetary policy
- Government introduces new economic stimulus package
- Government raises taxes on corporations
- Government cuts taxes on corporations
- Trade war between two major economies
- Trade agreement between two major economies
- Increase in tariffs on imported goods
- Decrease in tariffs on imported goods
- Major geopolitical conflict or war
- Peace treaty signed between conflicting nations
- Economic sanctions imposed on a major country
- Economic sanctions lifted on a major country
- Natural disaster disrupts supply chains
- Natural disaster leads to rebuilding and recovery spending
- Global pandemic shuts down tourism and consumer spending
- New vaccine development boosts economic confidence
- Major technological innovation disrupts industries
- Major technological failure leads to business losses
- Stock market crash
- Housing market boom
- Housing market collapse
- High inflation
- Deflation
- Strong economic growth report
- Economic recession
- Bank failure or liquidity crisis
- Bank bailout by the government
- Major corporate bankruptcy
- Major corporate merger or acquisition
- Large corporate earnings beats expectations
- Large corporate earnings miss expectations
- Commodity prices surge (e.g., oil, gold)
- Commodity prices crash (e.g., oil, gold)
- Cyberattack on a major financial institution
- Cybersecurity improvements boost confidence
- Government shutdown or political gridlock
- Government passes major infrastructure spending bill
- Change in political leadership in a major country
- Diplomatic tensions between two global powers
- Major labor strike disrupts production
- Labor union agreement boosts worker productivity
- New environmental regulations imposed on key industries
- Deregulation in key industries spurs economic growth
- Corporate scandal leads to investor sell-off
- Corporate restructuring boosts investor confidence
- Climate change events causing shifts in agricultural or energy sectors
- War breaks out between two major countries
- Ceasefire agreement ends a long-standing war
- Terrorist attack in a financial hub
- Large-scale terrorist network dismantled
- Major data breach at a large multinational corporation
- Government imposes stricter privacy regulations on tech companies
- Global supply chain disruption due to transportation strike
- Opening of a new trade route or shipping lane
- Central bank intervention to stabilize currency fluctuations
- Currency devaluation by a major country
- New international sanctions on a key industry (e.g., energy)
- Major environmental disaster causes supply shortages (e.g., oil spill)
- International climate agreement signed, changing energy policies
- Discovery of significant new natural resource reserves (e.g., oil, gas)
- Nationalization of private industries by a government
- Privatization of state-owned enterprises
- International labor migration restrictions tighten
- Large-scale refugee crisis impacts regional economies
- Emergence of a global financial crisis due to debt defaults
- Bailout of a major national economy by international bodies (e.g., IMF)
- Introduction of universal basic income in a major economy
- Widespread adoption of renewable energy reduces demand for fossil fuels
- Technological breakthrough in renewable energy storage
- Major energy supply disruption (e.g., natural gas pipeline explosion)
- Breakthrough in nuclear energy development
- Cyberattack causes widespread blackout or infrastructure failure
- Development of autonomous vehicles disrupts transportation industry
- Trade sanctions on technology or semiconductor sectors
- Ban on cryptocurrency by a major country
- Legalization of cryptocurrency trading by a major country
- Major hack or compromise of cryptocurrency platforms
- Government announces a new digital currency
- National health crisis strains healthcare system and budgets
- Launch of a major new international space initiative
- Space industry breakthrough opens new commercial markets
- Major scientific discovery changes pharmaceutical or biotech sectors
- Significant failure in clinical trials for a highly anticipated drug
- Major technological disruption in the financial sector (e.g., fintech)
- New international regulations on cross-border data flow
- Major market manipulation scandal or insider trading bust
- Global banking regulations become stricter, impacting liquidity
- Breakdown of OPEC negotiations impacting oil prices
- Large-scale corporate layoffs or restructuring
- Change in pension fund regulations impacts investor behavior
- Nationwide protests disrupt economic activity
- Overhaul of a country's immigration policy
- Massive labor migration due to economic collapse in a region
- Discovery of life on another planet impacts market psychology
- Country withdraws from a key international trade bloc
- Large-scale ransomware attack on global critical infrastructure
- Sentient AI emerges unexpectedly
- Major AI breakthrough leads to automation of key industries
- AI outperforms human traders consistently in financial markets
- Regulatory crackdown on AI-driven financial systems
- AI-driven hedge fund collapses due to unforeseen algorithmic failures
- Widespread job displacement due to AI automation
- AI-powered cybersecurity solution prevents major cyberattack
- AI-generated deepfakes cause market panic and misinformation
- Global ban on autonomous weapons driven by AI technology
- AI enhances supply chain efficiency, driving down costs
- AI-driven medical diagnosis becomes more accurate than human doctors
- Major AI company faces ethical scandal over misuse of AI technology
- AI becomes central to military strategy, increasing global tensions
- AI-powered quantum computing breakthrough accelerates tech innovation
- AI startup develops general AI, reshaping entire industries
- Governments impose strict regulations on AI development and usage
- AI-driven content creation disrupts the media and entertainment industries
- AI develops its own cryptocurrency, bypassing traditional financial systems
- Mass AI adoption in agriculture improves crop yields globally
- AI-powered personal assistants revolutionize consumer behavior and spending
- AI is used to crack encrypted data, leading to global security concerns
- Large tech company releases open-source AI, driving widespread innovation
- AI-driven unemployment leads to massive government welfare programs
- New AI-based financial regulations disrupt algorithmic trading strategies
- AI assistants replace human call centers, leading to massive layoffs
- AI-driven autonomous vehicles dominate the transportation industry

What world events might impact the markets?

The Real Problem

Thinking about world events impacting the markets makes us feel like this...



A Better Question

~~"What world events might impact the markets?"~~

This is NOT a good question!

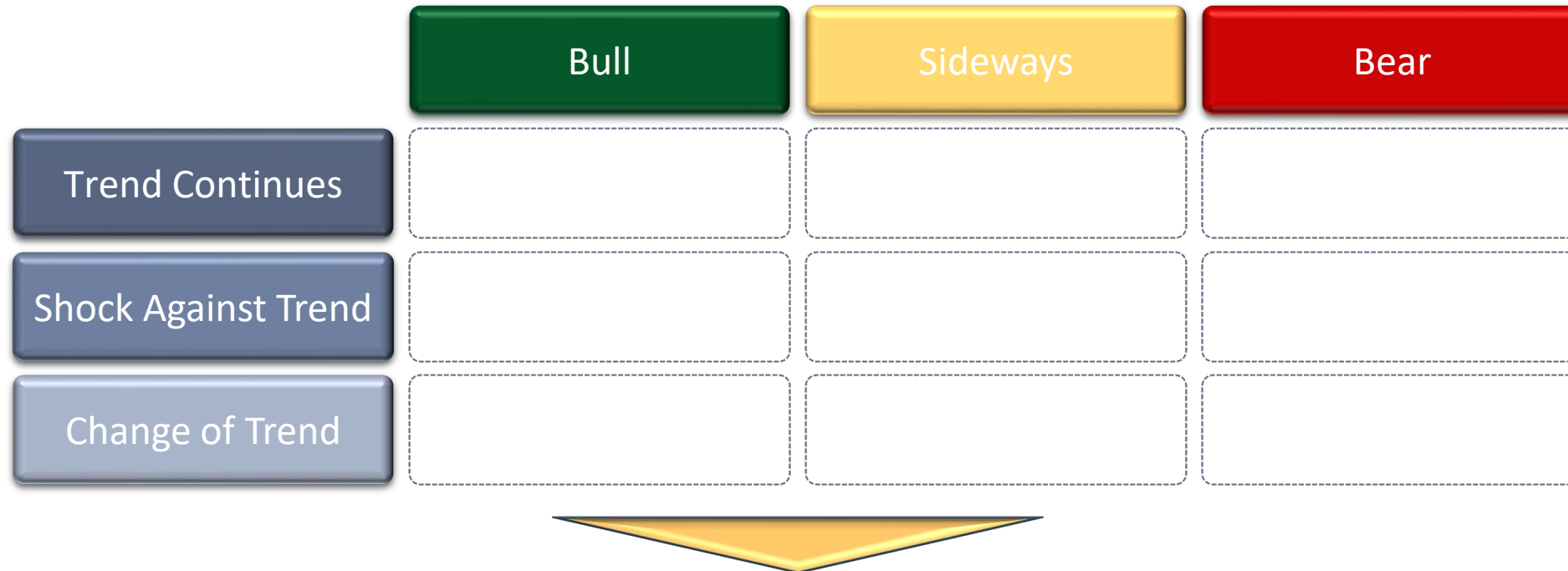
A Better Question...

"What could the markets do next?"

No matter what happens in the world, the market can only do a limited number of things. And we can prepare for all of them.

The Market System Map

There are 9 market conditions your portfolio should handle*



Where are you completely exposed in your portfolio?

* The market system map extends Van Tharp's Market Model which is incomplete as it does not include transitions
Each cell is a market condition that will happen, ideally, we want systems to profit from each condition

It's Not Just the Market State That Hurts

My 2008 Market Transition Experience

I thought I was diversified with long and short strategies

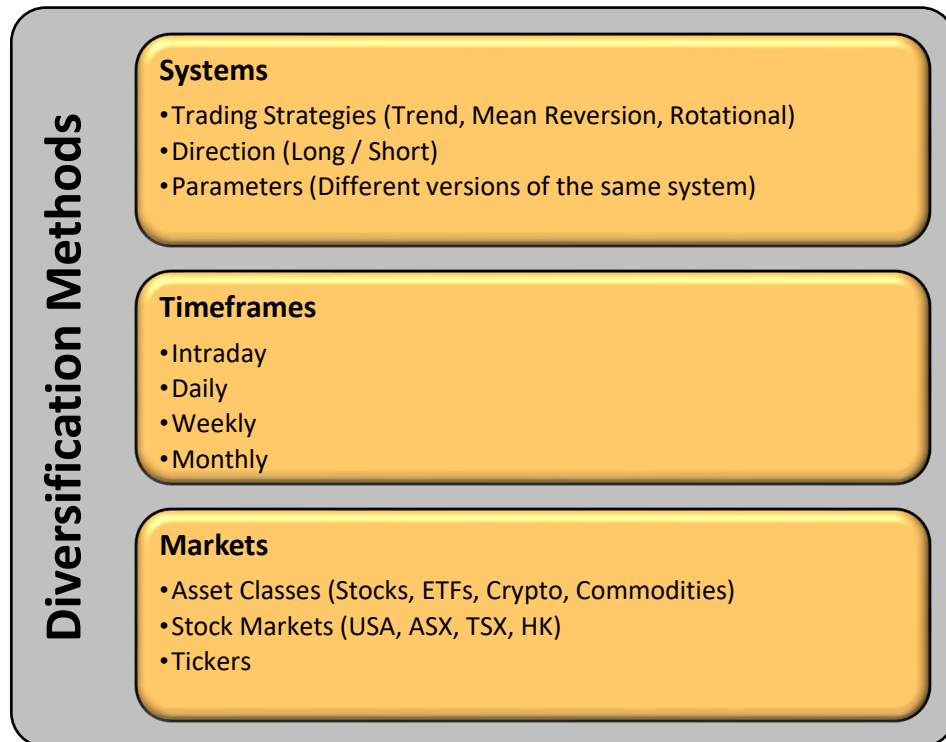


We need MORE than just Long and Short Exposure!

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The Diversification Illusion

Most traders think they are more diversified than they actually are



- Holding 20 (or even 500) stocks gives minimal benefit during a market dislocation
- Holding 10 long systems across 5 markets gives some benefit but remains highly correlated during extreme events
- When the market turns, correlated systems move together
- Most traders are stuck with one or two of these diversification methods... This dramatically underperforms vs. what's possible

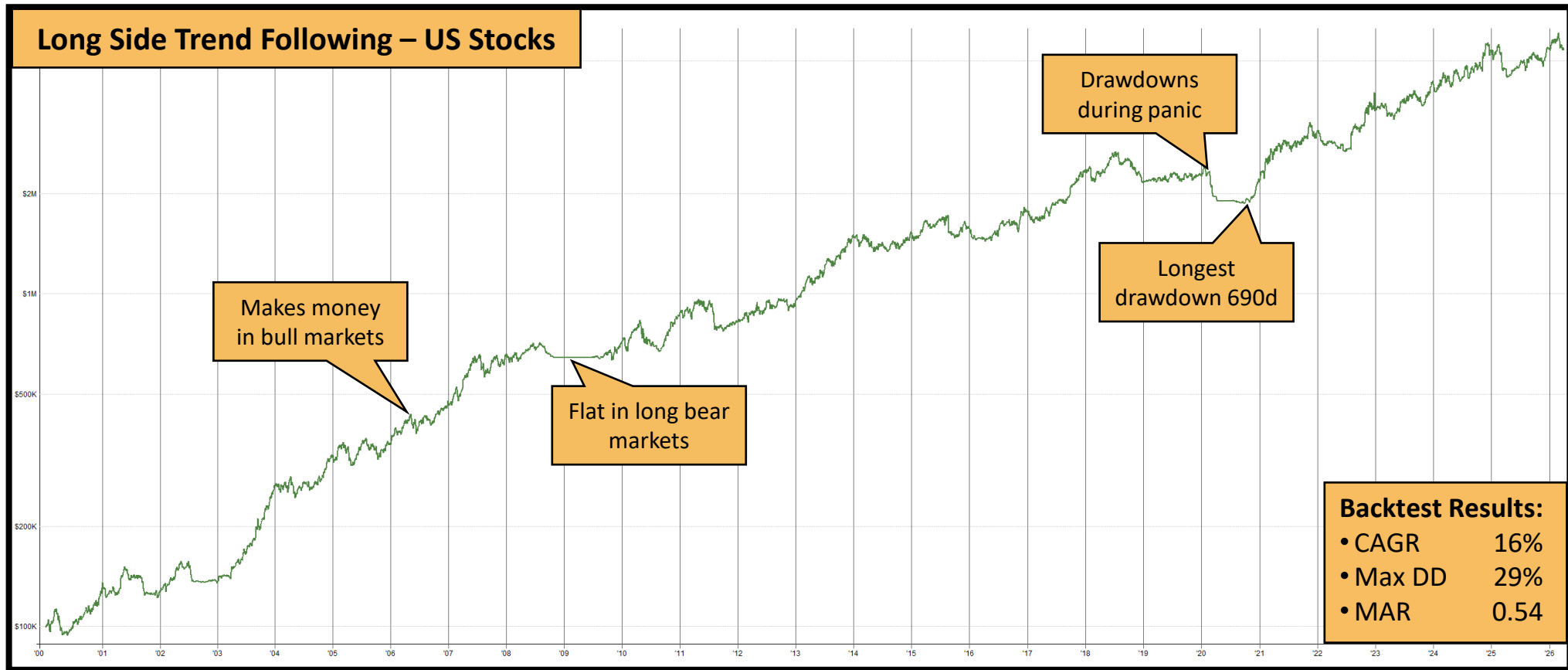


If you only make money in a bull market, are you diversified - or just over-exposed to long equities?

Let's close this gap right now (With Data!)

Have you have felt diversified going into a correction, only to find yourself in a drawdown?

Portfolio: Single Long Side Trend Following System



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You Can Combine 3 Core Strategies For Diversification

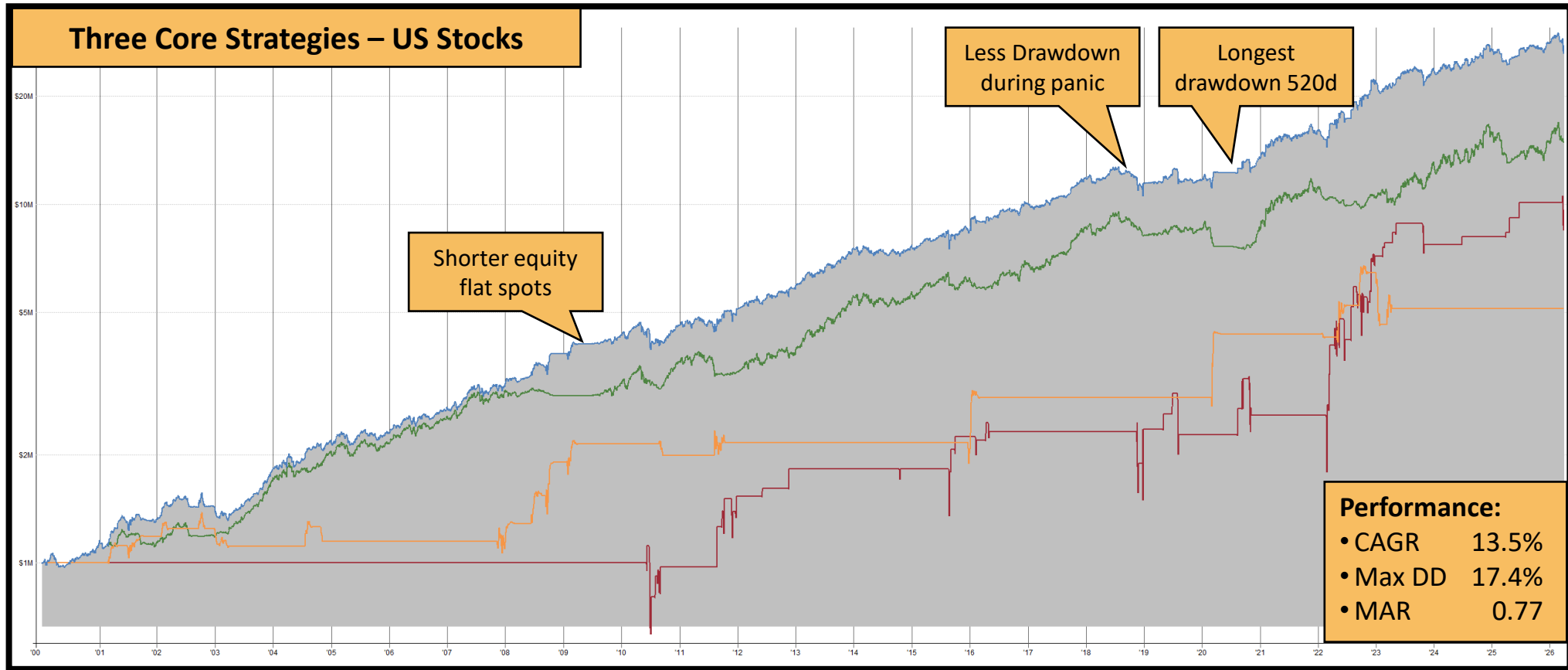
- **Long Trend Following:**
Profits when bull trends continue; bleeds during transitions to bear
- **Short Trend Following:**
Profits when bear trends continue; flat during bull runs
- **Mean Reversion (Long):**
Profits from shocks; catches the sharp dips and snaps that trend following is too slow for

	Bull	Sideways	Bear
Trend Continues	Green	Green	Green
Shock Against Trend	Green	White	White
Change of Trend	White	White	White

Which of these three do you currently NOT have in your portfolio?

Portfolio: Three Core Strategies

Combined Backtest = Trend Following + Mean Reversion + Short Trend Following



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Closing The Gap

Trading Long / Short with Multiple Strategies can potentially improve returns and consistency

What the Core Three Still Miss

Let's intentionally close the gaps in the Market System Map



How the Intraday Breakout Works

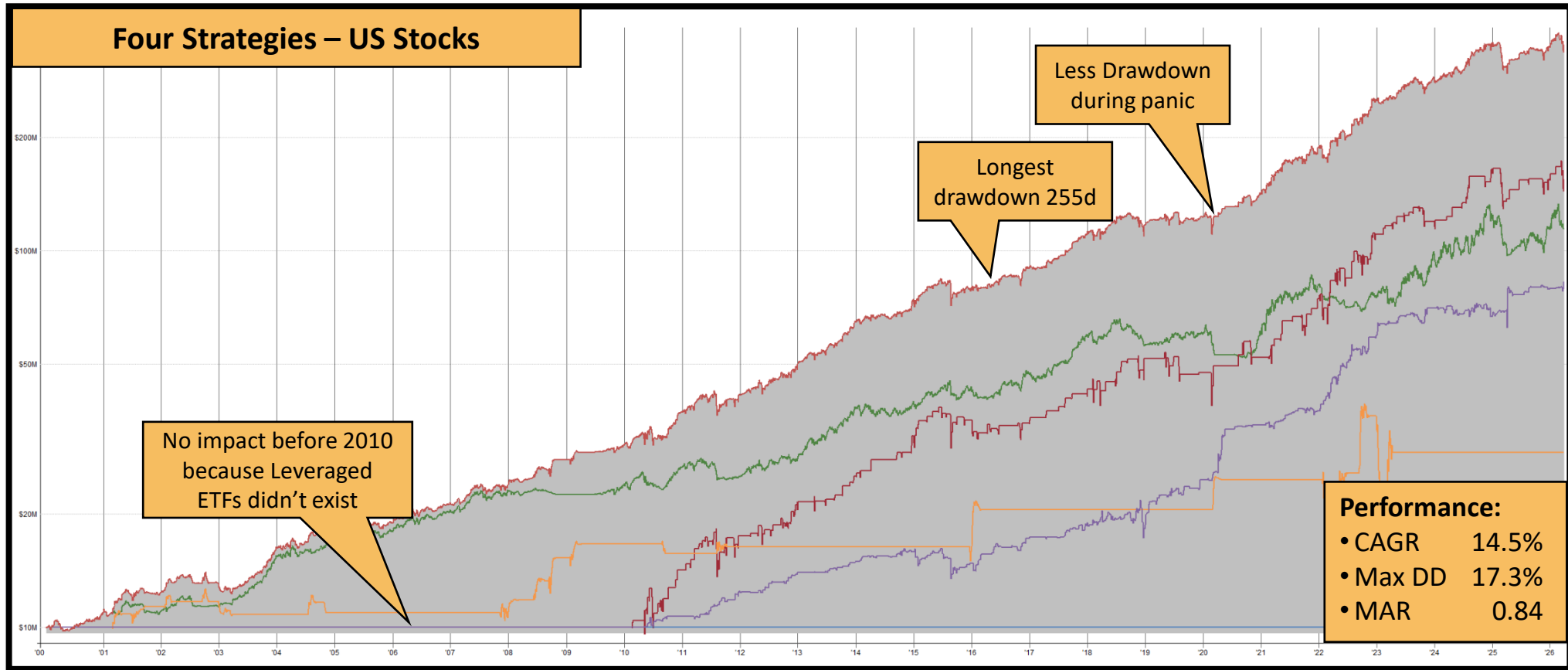
The high volatility in bear markets allows you to profit on the long side with intraday breakouts



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Portfolio: Four Strategies

Combined Backtest = Trend Following + Mean Reversion + Short Trend Following + Intraday Breakout



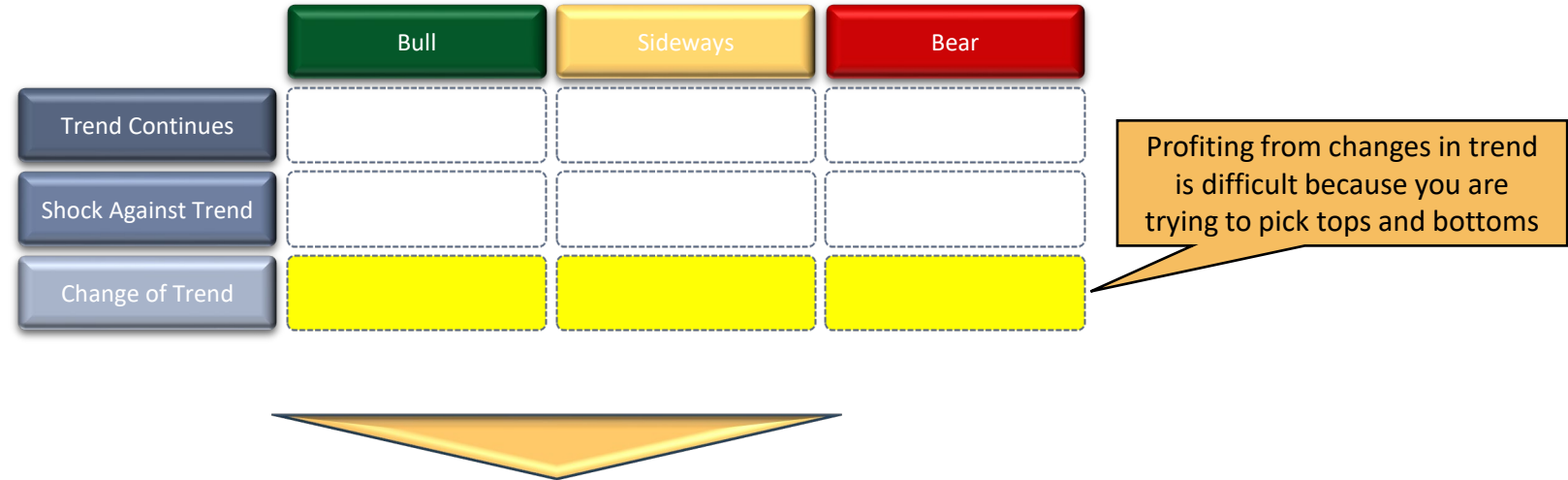
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Closing The Gap

Adding multiple timeframes (e.g. Intraday) often results in more stable returns further & shortens drawdowns

Diversifying Against The Trend Change

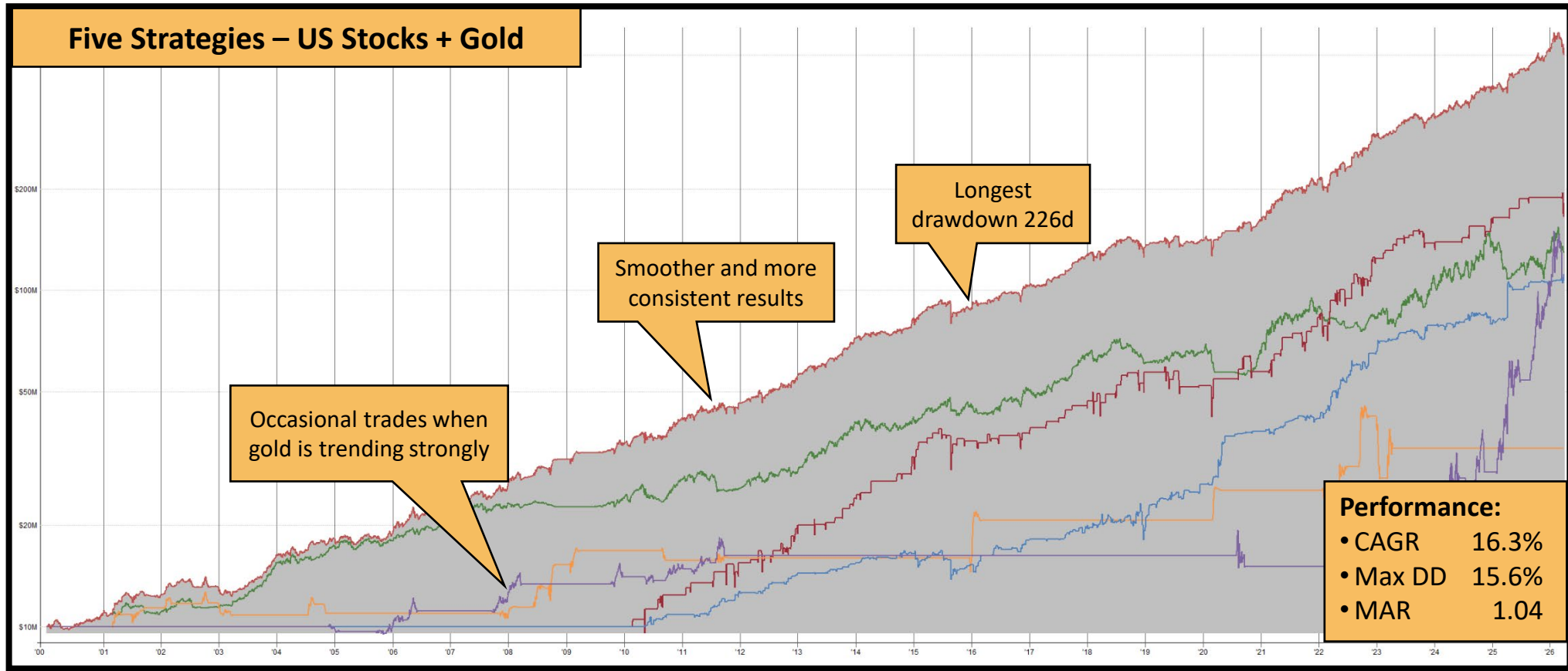
Different asset classes have different trends



Instead of predicting the top and bottom of a trend (hard), let's diversify into different asset classes so our markets don't all change trend at the same time

Portfolio: Five Strategies

Combined Backtest = Trend Following + Mean Rev + Short Trend Following + Intraday Breakout + Gold



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Closing The Gap

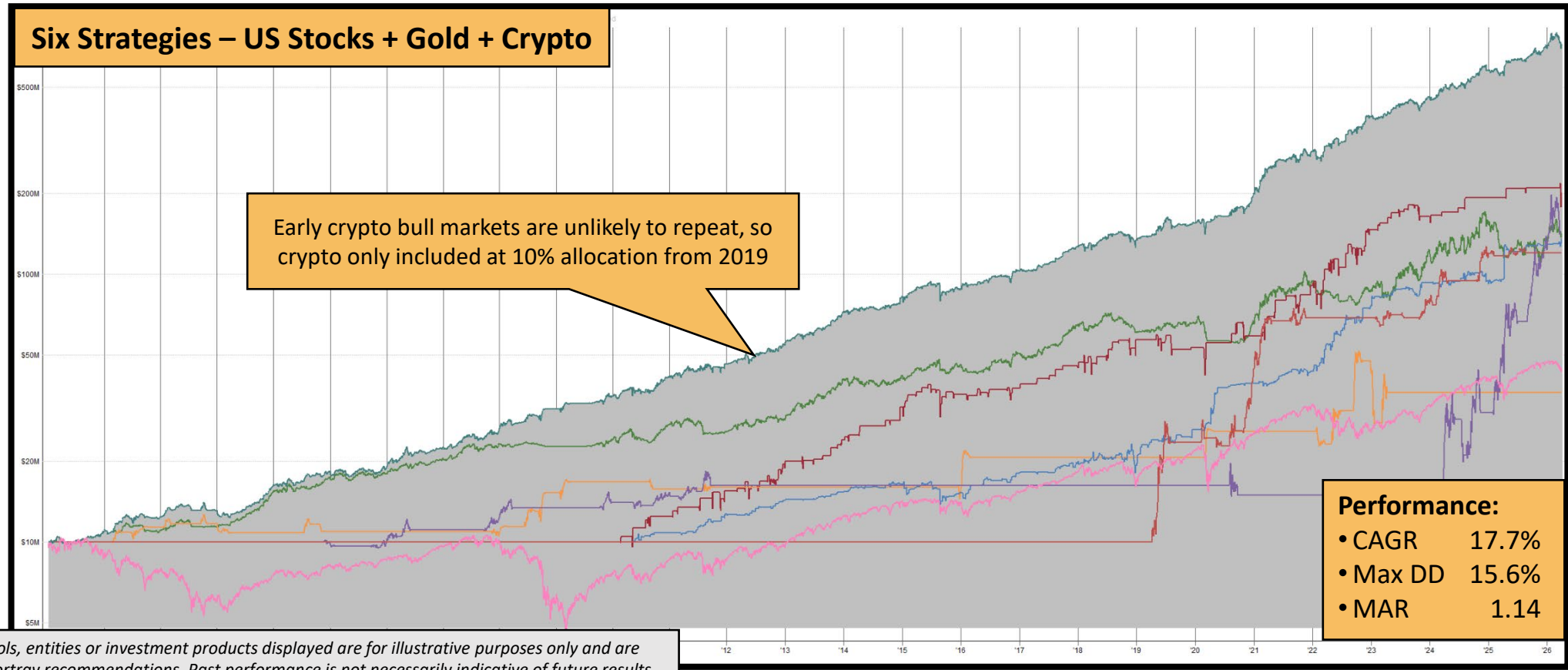
Adding low correlation assets may contribute to more consistent returns.

Diversification isn't about owning more assets... it's about owning assets that behave differently when it matters most

Non-correlated assets and strategies are what keep your portfolio standing when one part inevitably falls

Portfolio: Six Strategies

Combined Backtest = Trend Following + Mean Reversion + Short Trend Following + Intraday Breakout
+ Gold + Crypto (BTC & ETH only with small allocation)

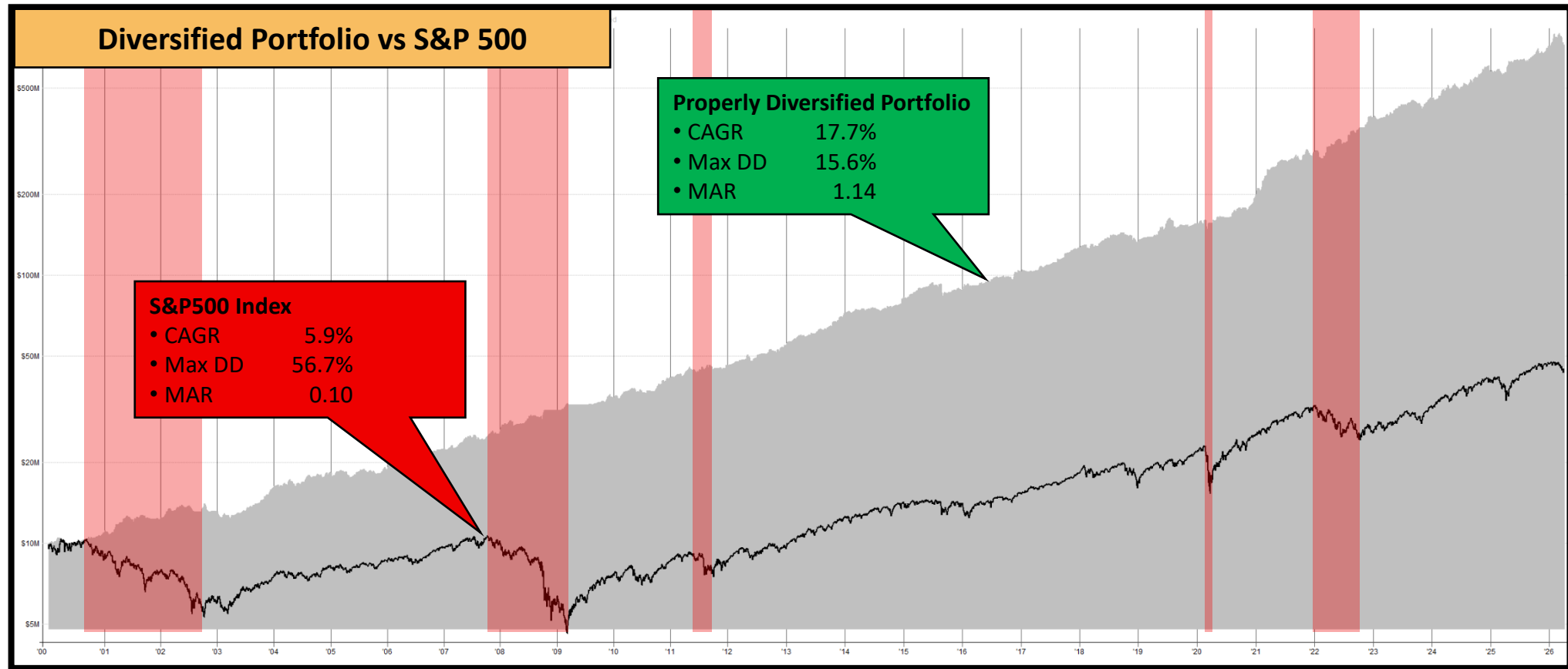


Closing The Gap

The more asset classes you have systems for, often contributes to greater consistency in results.

Correct Diversification Makes a Huge Difference

The difference is especially noticeable during bear markets



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Closing The Gap

This is what correct diversification actually looks like...
Not a 500-stock passive index, not 5 variations of the same
idea but systems that profit from different strategies,
markets & timeframes

PLUS There's Even More We Can Do!

- Strategic weighting of systems to potentially improve returns
 - Optimization of capital management / exposure
 - Selective use of leverage (these results are with zero leverage)
 - Trade more markets for greater diversification
 - Deploy a wider range of trading strategy types
- ... and more

This Takes 20-30 Minutes a Day - Not 8 Hours

- All of these systems use end-of-day data. No intraday monitoring!
- Order generation can be 100% automated with Interactive Brokers
- The trader's job is to create the portfolio of systems, then let them execute while you monitor the performance
- A systematic approach means your trading process is the same whether the market is calm or in crisis - no panic, no scrambling



How much time are you spending on trading each day? What if you could manage a more diversified portfolio in less time than you spend on a single strategy now?

Stop Thinking Like a Trader and Do This Instead

Discretionary Trader



Which stock should I buy?



Systematic Portfolio Manager



Which gap in my portfolio should I fill?

- Systems should be evaluated by how much they improve the portfolio (not by standalone returns)
- The Market System Map is your planning tool. Find your gaps & build or find systems that fill them
- This shift is the single biggest upgrade most traders can make

When was the last time you added a system specifically because it was uncorrelated to everything else you had - rather than because it looked profitable on its own?

Trading Mastery Checklist

These 5 actions can help you master trading in uncertain times

Step 1: Map your current systems onto the Market System Map - identify gaps

Step 2: Add systems across different strategies, markets & timeframes

Step 3: Add short side exposure and profitable long bear market exposure

Step 4: Diversify asset classes e.g. volatility, gold, crypto, or other non-equity assets

Step 5: Stress test the combined portfolio and allocate capital conservatively

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- How To Build Unshakeable Confidence In Your Stock Trading System

4 Trading Cheat Sheets to Improve Your Results Fast

- Daily Trading Process Cheat Sheet
- Trading Mistakes Cheat Sheet
- Portfolio CPR Cheat Sheet
- Trading Confidence Cheat Sheet

3 Engaging Trading Courses to Deepen Your Understanding

- The Millionaire Trader Code
- The Trading Confidence Builder
- How to Evaluate a Signal Service

The Trader Quiz

- Specific actions to improve your trading today

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QUESTIONS?



SCAN ME

