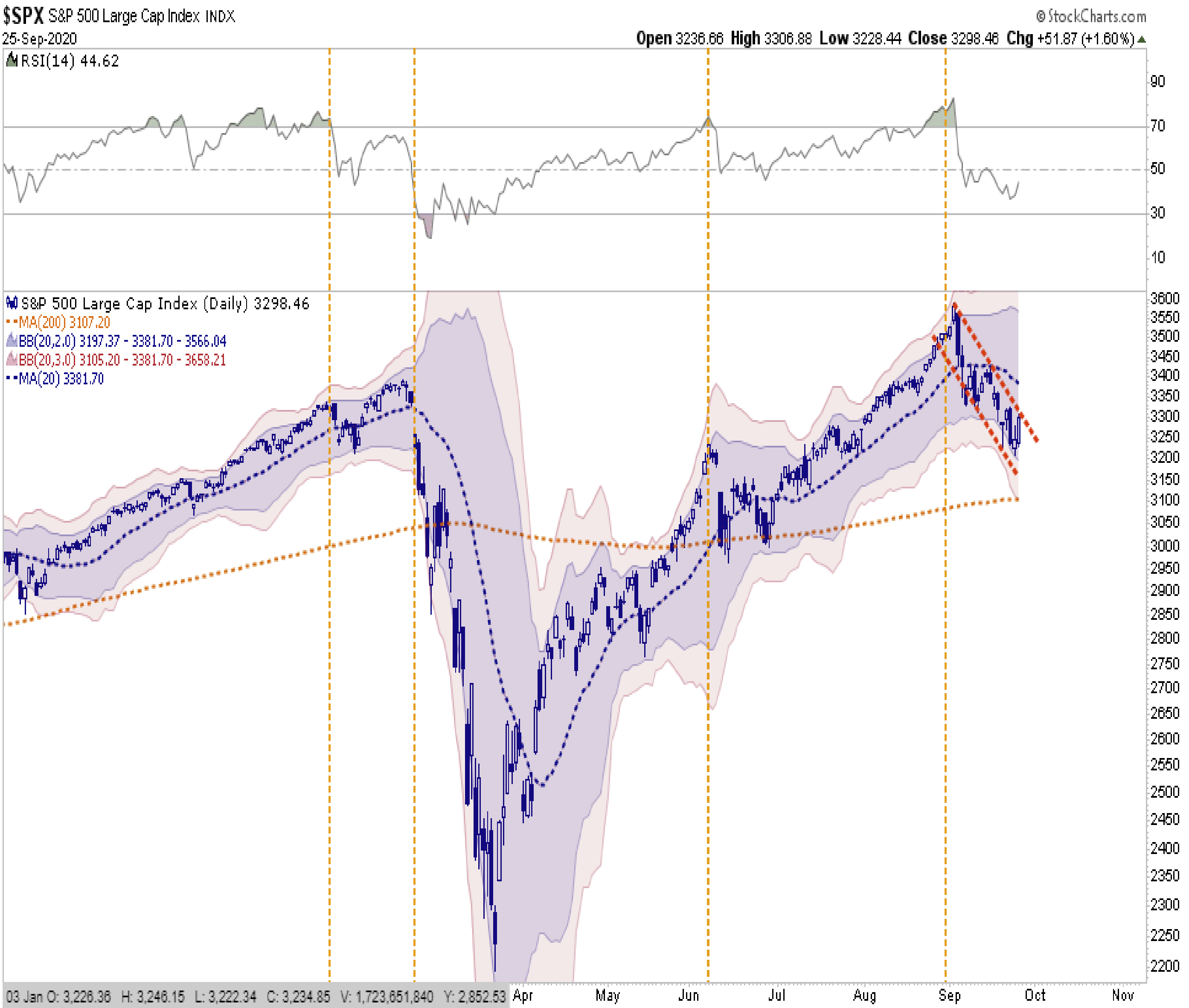
In this week's Technically Speaking, I wanted to review Paul Tudor Jones' 10-rules and how to navigate the market for the rest of 2020. Due to a small surgery, I am out of commission this week, so I had to write this article on Saturday. The data is as of Friday's close, but given we are looking at weekly and monthly charts, it doesn't change the analysis.

Recap

As noted in "***The Sell-Off Is Overdone,"*** on a very short-term basis, the recent correction has played out much as we suggested in the middle of August.

> *Over the last couple of weeks, we have been discussing the ongoing market correction. As shown below, the sell-off has been orderly and not one of a ?panic? induced decline. The market did retrace from the top of the 2-standard deviation range to the bottom, which is part of a healthy correction process.* ***As we noted last week, the correction also aligns with the historical weakness seen in September and October, particularly in years preceding an election.***



*"**While the sell-off in the market has gotten overdone short-term, we still suggest using rallies back to the 50-dma to rebalance portfolio risks.** Look at the first chart above. The market is currently in a very defined downtrend. Friday?s march failed to break out of that resistance. In the chart below, we see the market rallied back to the previous consolidation lows with the 20-dma approaching a cross of the 50-dma. **Such would suggest more downward pressure on prices short-term. The 200-dma is roughly 7% lower from Friday?s close.** If the market can break above resistance on Monday, clear the 50- and 20-dma?s, then old highs should not be an issue.*

But what about for the rest of 2020. For that, we need to look at weekly and monthly charts for better understanding.

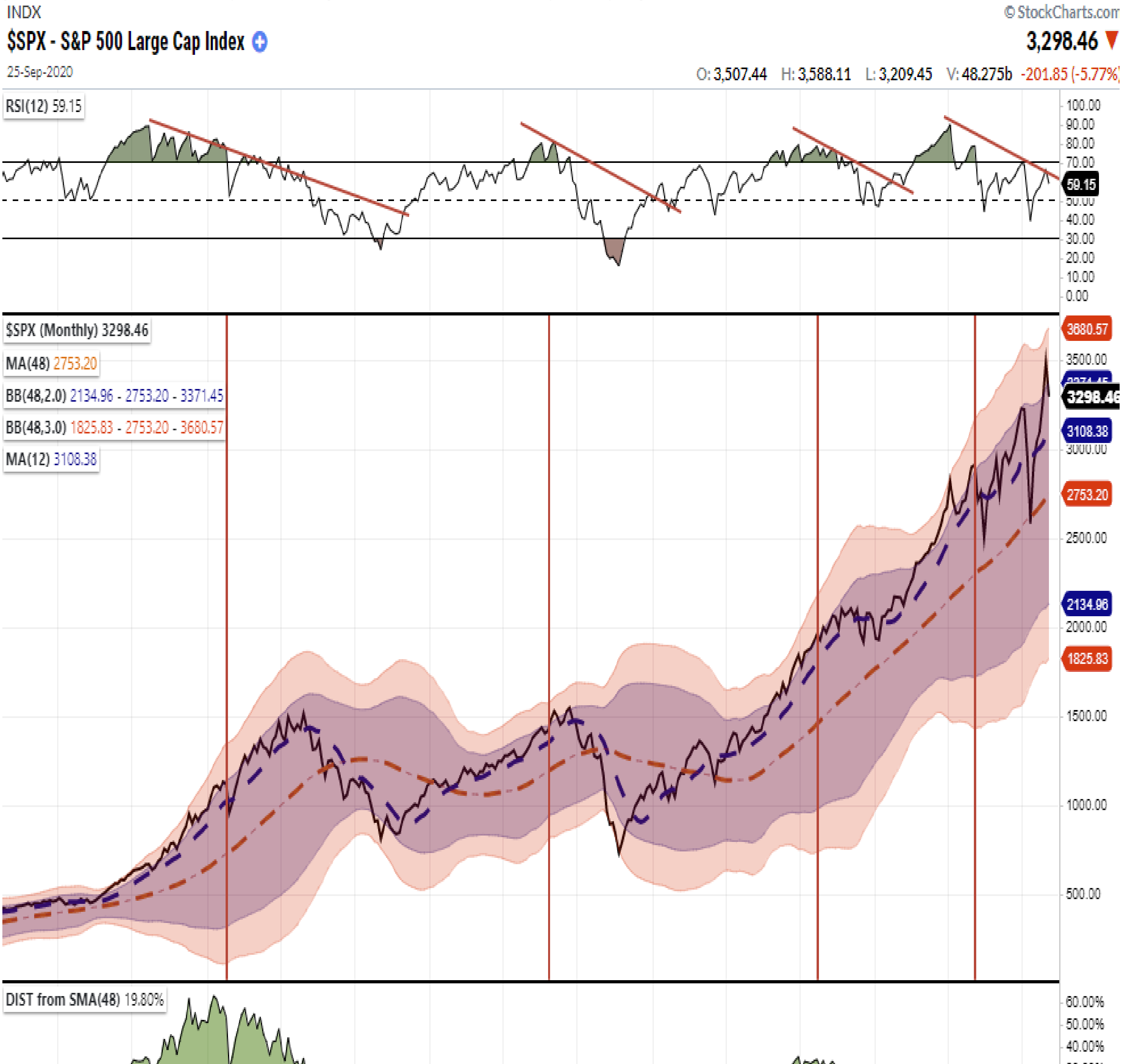
A Look At Weekly Data

It is essential to understand that time-frames are important in analysis. If you are a day-trader, you can skip to the bottom of the article. However, if you are a longer-term investor looking to grow capital and manage risk, weekly analysis becomes more beneficial. The reason we look at weekly data is that it smooths out the day-to-day price volatility and tends to reveal overall market trends more clearly.

While the market is working off some of the more extreme overbought conditions, it remains 2-standard deviations above its 200-week (4-Year) moving average. Even a correction back to the 52-week *(1-year)* moving average still requires another 7% decline from current levels. It is also important to note that relative strength has negatively diverged from the market, going back to the beginning of 2018. The still overly extended market from long-term means with declining RSI suggests investors should remain cautious over the remainder of the year and manage portfolio risk accordingly.

Monthly Data Suggests Caution

When analyzing the monthly data, the bearish backdrop is more evident. From an investment standpoint, look at the last two bull market advances compared to the current Central Bank fueled explosion. The recent extension failed at the top of the rising upper-trend line ***forming a "megaphone" pattern.*** Secondly, the market is trading **MORE THAN 2-standard deviations above the long-term (4-Year) mean,** ideal for a more considerable corrective decline. As noted above, combine the extreme extension with a negatively diverging RSI, the risk of a more massive mean-reverting event becomes evident. When both the MACD and deviation from the 4-year moving average have coincided with previous declines in relative strength, it signaled more important correction processes. However, those correction processes did not occur immediately. As markets do, they tend to "suck" the most investors into the peak just before it gives way. **Importantly, MONTHLY data is ONLY valid at the end of the month.** Therefore, these indicators are VERY SLOW to turn. Using Daily and Weekly charts are better for managing your immediate portfolio risk. Monthly charts provide a better long-range prediction of market trends.



Investing For The Rest Of 2020

Given the technical backdrop above, it should be evident that "risk" likely outweighs "reward" for the rest of this year. There are more than enough potential catalysts to upend markets unexpectedly:

1. *A contested election*
2. *Lack of fiscal support*
3. *A reduction in Federal Reserve support*
4. *A resurgence of the pandemic.*
5. *Economic growth weakens*
6. *Earnings fail to meet expectations*

You get the idea. However, currently, investors are merely chasing performance. However, why would you NOT expect this to be the case when financial advisers, the mainstream media, and WallStreet continually press the idea that investors "*must beat"* some random benchmark index from one year to the next. Investing, ultimately, is about managing the risks, which will substantially reduce your ability to "*stay in the game long enough"* to "*win."* However, the distinction between investing and speculating has disappeared. As Ben Graham noted, we should be concerned:

> ***?The distinction between investment and speculation in common stocks has always been a useful one and its disappearance is a cause for concern.*** *We have often said that Wall Street as an institution would be well advised to reinstate this distinction and to emphasize it in all its dealings with the public.* ***Otherwise the stock exchanges may some day be blamed for heavy speculative losses, which those who suffered them had not been properly warned against.? - Ben Graham -The Intelligent Investor:***

Yes, the risks are high. However, as investors, we can not merely sit on the sidelines, which is why a set of "*rules"* to manage risk is so essential. Such is something we can learn from the legendary investor Paul Tudor Jones.

The Rules That Made Tudor Jones Successful

Rule #1: Cut Losers Short & Let Winners Run.

It takes tremendous humility to navigate markets successfully. There can be no such thing as hubris when investments do not go the way you want them. Investors plagued with big egos cannot admit mistakes, or they believe they're the most significant stock pickers who ever lived. To survive markets, one must avoid overconfidence.

Rule #2: Investing Without Specific End Goals Is A Big Mistake.

Before investing, you should already know the answer to the following two questions:

1. ***At what price will I sell or take profits if I'm correct?***
2. ***Where will I sell it if I am wrong?***

Hope and greed are not investment processes.

Rule #3: Emotional & Cognitive Biases Are Not Part Of The Process.

If your investment (and financial) decisions *start* with:

- *I feel that*
- *My friend told me*
-
- *I hope*

You are setting yourself up for a bad experience.

Rule #4: Follow The Trend.

> *"80% of portfolio performance is determined by the underlying trend***. "**

Rule #5: Don't Turn A Profit Into A Loss.

Investing is about creating returns over time. If you don't harvest gains, and then allow them to turn into a loss, you have started a "*financial rinse cycle."* Most importantly, "*getting back to even"* is not an investment strategy.

Rule #6: Odds Of Success Improve Greatly When Technical Analysis Supports Fundamental Analysis.

The market for a long-time can ignore fundamentals**.** As John Maynard Keynes once said:

> *"The stock market can remain irrational longer than you can remain solvent. "*

Applying a technical overly to determine the "*when"* to invest can significantly improve the return and control the capital risk of the "*what"* fundamental analysis uncovers.

Rule #7: Try To Avoid Adding To Losing Positions.

Paul Tudor Jones once said, "*only losers add to losers."* The dilemma with "averaging down" reduces the return on invested capital, trying to recover a loss than redeploying capital to more profitable investments. **Cutting losers short allows for more significant growth over time.**

Rule #8: In Bull Markets You Should Be "*Long."* In Bear Markets ? "*Neutral"* Or "*Short."*

To invest against the major "*trend"* of the market is generally a fruitless and frustrating effort. During secular bull markets ? remain invested in risk assets like stocks or initiate an ongoing process of trimming winners. During bear markets ? investors can look to reduce risk asset holdings overall back to their target asset allocations and build cash. An attempt to buy dips believing you've discovered the bottom or "*stocks can't go any lower"* generally doesn't work out well.

Rule #9: Invest First with Risk in Mind, Not Returns.

Investors who focus on risk first are less likely to fall prey to greed. We tend to focus on the potential return of investment and treat the risk taken to achieve it as an afterthought. The objective of responsible portfolio management is to grow money over the long-term to reach specific financial milestones and to consider the risk taken to achieve those goals. Managing to prevent significant drawdowns in portfolios means giving up SOME upside to prevent the capture of MOST of the downside. **While portfolios may return to even after a catastrophic loss, the precious TIME lost while "getting back to even" can never be regained.**

Rule #10: The Goal Of Portfolio Management Is A 70% Success Rate.

Think about it ? Major League batters go to the "*Hall Of Fame"* with a 40% success rate at the plate. Portfolio management is not about ALWAYS being right. It is about consistently getting "*on base"* that wins the long game. There isn't a strategy, discipline, or style that will work 100% of the time. Once you understand that, the other 9-rules above become much simpler to incorporate,

Conclusion

> *?The biggest investing errors come not from factors that are informational or analytical, but from those that are psychological.? - Howard Marks*

The biggest driver of long-term investment returns is the minimization of psychological investment mistakes. As Howard Marks opined:

> ***?The absolute best buying opportunities come when asset holders are forced to sell.?***

As an investor, it is merely your job to step away from your "*emotions"* for a moment. Look objectively at the market around you. Is it currently dominated by "*greed"* or "*fear?"* Your long-term returns will depend much not only on how you answer that question but how you manage the inherent risk.

> ***?The investor?s chief problem ? and even his worst enemy ? is likely to be himself.?*** ? Benjamin Graham

Whether it is Paul Tudor Jones or any other great investor throughout history, they all had one core philosophy in common; the management of the inherent risk of investing.

> ***?If you run out of chips, you are out of the game.?***