AAII San Diego Risk Management SIG Meeting, Wed 6-21-23

This meeting was a roundtable discussion, which followed a 3-point outline: 1) Market risk assessment; 2) Investment strategies/techniques; 3) Tools.

A 3-question introductory poll was taken to start the meeting.

Question 1. What type of investor are you? 43% of participants characterized themselves as buy and hold investors and 57% said they were tactical (active) investors.

Question 2. How do you classify yourself as an investor? 64% classified themselves as <u>moderate</u> investors and 36% said they were <u>moderately aggressive</u>. No participants classified themselves as <u>conservative</u> or <u>moderately conservative</u>.

Questions 3. What best describes your investment objectives? 71% said income, 64% said capital appreciation, 50% said capital preservation and 14% said speculation.

Possible answers to the following question were discussed: **How does one assess the level, or degree, of market risk?**

1) VIX is the ticker symbol and the popular name for the Chicago Board Options Exchange's CBOE Volatility Index, a popular measure of the stock market's expectation of volatility based on S&P 500 index options.

   Market risk can be roughly correlated with market volatility. The CBOE Volatility Index, or VIX, is a real-time market index representing the market's expectations for volatility over the coming 30 days. Investors can use the VIX to measure the level of risk, fear, or stress in the market when making investment decisions.

   Traders can trade the VIX using a variety of options and exchange-traded products, or they can use VIX values to price derivatives. The VIX generally rises when stocks fall, and declines when stocks rise.

2) Junk bonds tend to be a good barometer of the overall health of the stock market. As risk rises, junk bond investors demand higher yields to compensate them for the additional risk. As these yields rise, junk bond prices fall. Therefore, junk bonds tend to trend in the same direction as stocks. However, due to the low volatility nature of junk bonds (compared to the major stock market indices), they serve as a good indicator of overall risk.

   Investors can use the BAML High-Yield Master II Index to track the junk bond market. Using a 50-day moving average serves as a good trend indicator. When the index is above its 50-day moving average, it is an indication that market conditions are favorable. A drop below the 50-day moving average is an indication that risk is rising.

Not surprisingly, the BAML High-Yield Master II Index (junk bond index) turned down along with the rest of the market last year when risk was elevated. Junk bonds have been trending up this year, although it has been a choppy uptrend.

Strategies and Tools:

Strategies and tools were discussed with reference to the following resources:

Ed Yardeni, newsletter: Quick Takes (analysis of key variable driving the global economy and financial markets), author of Fed Watching for Fun and Profit, Predicting the Markets: A Pro Autobiography (2018).

Previous AAII San Diego meetings: Jeff Hirsch, CEO of Hirsch Holdings, editor-in-chief of the Stock Trader's Almanac and publisher of Almanac Investor.
Newsletter at https://www.stocktradersalmanac.com/.

Nick Atkeson, Principal of Delta Investment Management LLC.

Other

1) Stock Buy Backs: A discussion around stock buy backs and the impact on the market in the future was discussed by Michael Daillak.
2) Stop / Losses: a discussion of the value of stop losses