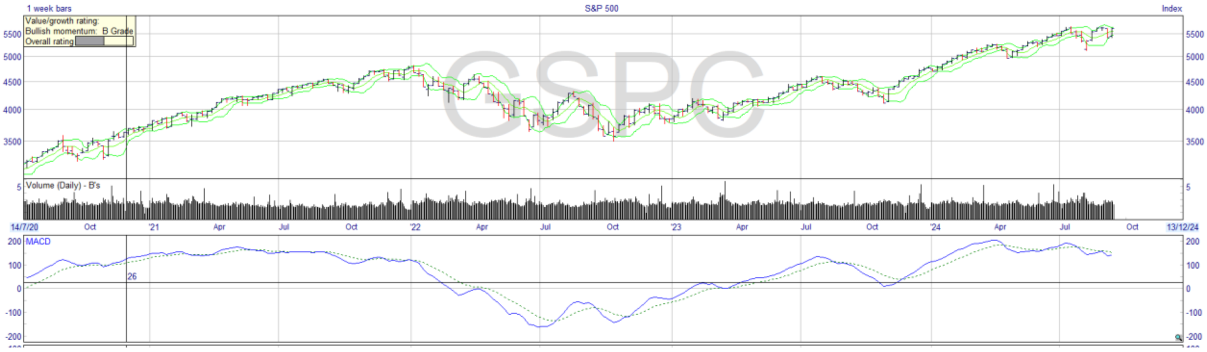
Alpesh Patel's Newsletter

Exclusively for ShareScope Alpesh Patel Special Edition Subscribers

20 September 2024

Overview



The S&P 500 is 'toppy and overbought. It's that simple. It's like 2021 – September again.

Risk Tolerance vs. Risk Capacity

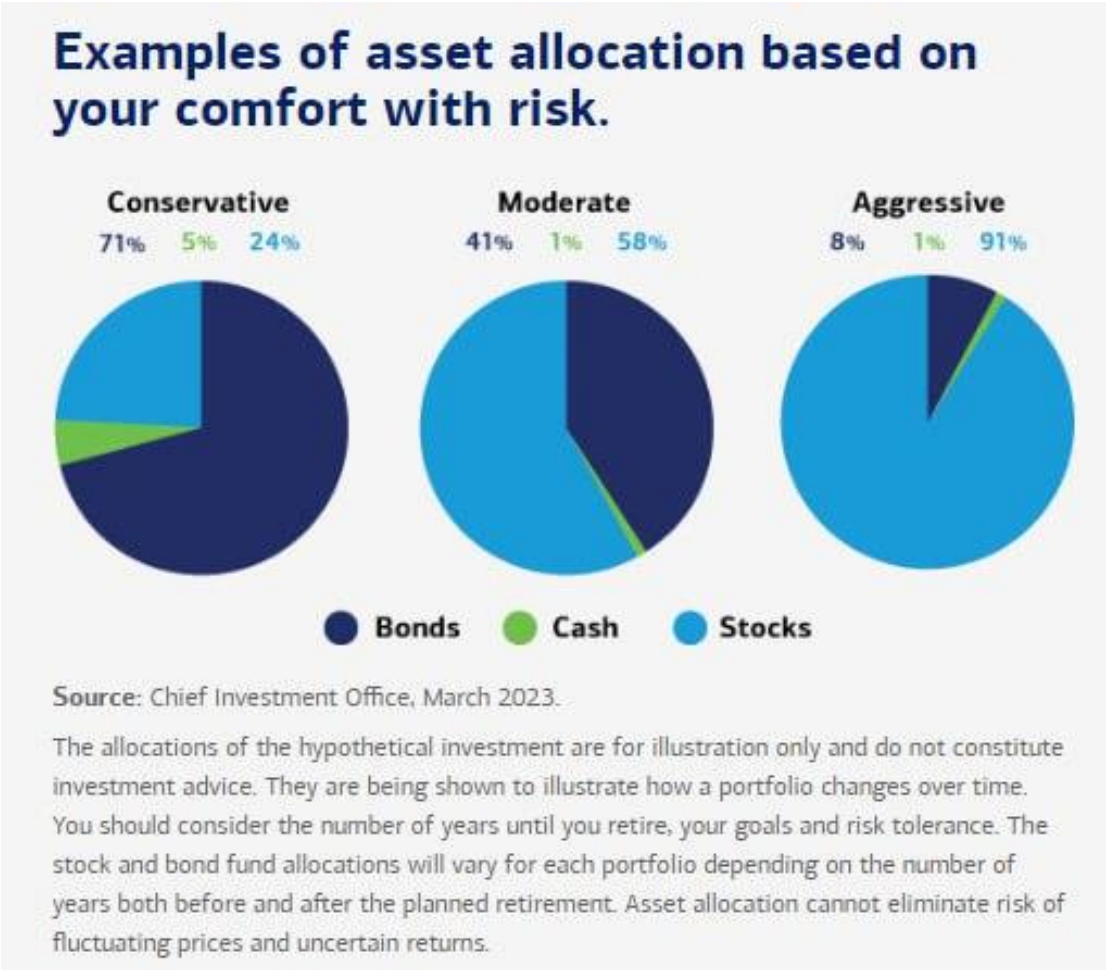
Risk tolerance refers to an investor's emotional ability to handle losses, while risk capacity measures the financial ability to absorb those losses. Risk tolerance is influenced by personal factors and is assessed through self-reflection, while risk capacity is determined by financial analysis and time horizon. Both are essential in financial planning: risk tolerance shapes comfort with investments, and risk capacity ensures realistic risk levels. Misjudging either can lead to emotional distress or financial hardship, highlighting the importance of professional guidance in balancing both.

Risk Tolerance vs. Risk Capacity

Aspect	Risk Tolerance	Risk Capacity
Definition	Emotional/psychological willingness to bear investment losses	Financial ability to absorb investment losses
Influencing Factors	Personality, experience	Financial situation, time horizon
Measurement	Often assessed through psychological questionnaires or self-reflection	Evaluated through objective financial analysis and assessments
Impact on Investment Strategy	Guides the types of investments one is comfortable with	Determines the level of risk one can realistically afford in their investment strategy
Professional Guidance	Financial advisors can help individuals understand their risk tolerance	Financial advisors can help assess and strategize based on an individual's risk capacity
Financial Planning Relevance	Crucial for constructing a portfolio that aligns with one's emotional comfort zone	Essential for developing a financially secure and realistic investment strategy
Real-world Consequence	Misjudging risk tolerance can lead to emotional distress during market downturns	Misjudging risk capacity can lead to financial ruin in adverse market condition

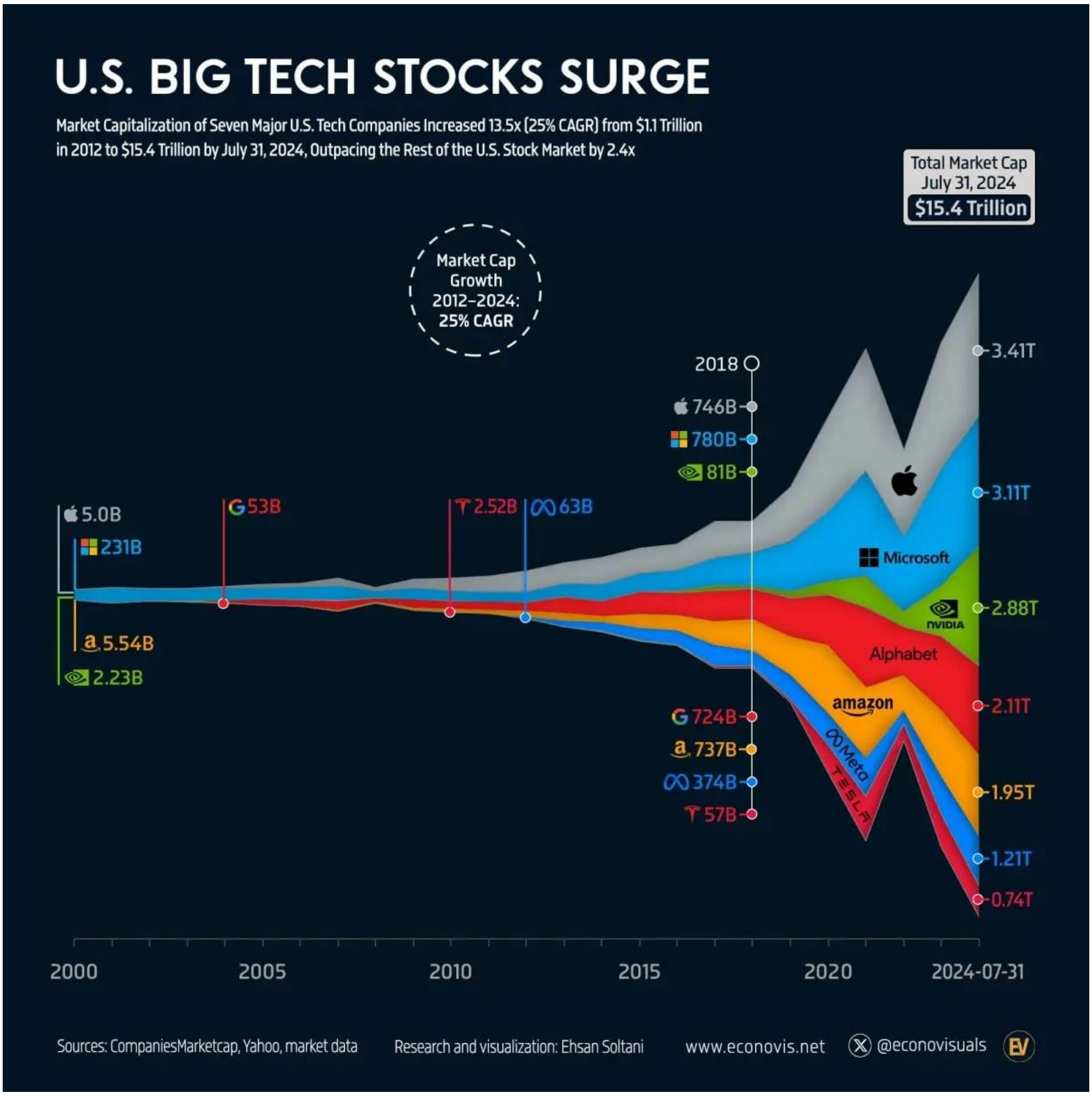
Asset Allocation Based on Risk Profiles

The chart illustrates three asset allocation strategies—conservative, moderate, and aggressive—based on an investor's risk comfort. A conservative portfolio is heavily weighted in bonds (71%) with limited exposure to stocks (24%) and cash (5%). A moderate approach shifts towards a balance, with 58% in stocks and 41% in bonds. An aggressive portfolio focuses almost entirely on stocks (91%), with minimal allocations to bonds (8%) and cash (1%). These allocations demonstrate how investment strategies vary with risk tolerance, helping investors plan portfolios according to their financial goals and timelines.



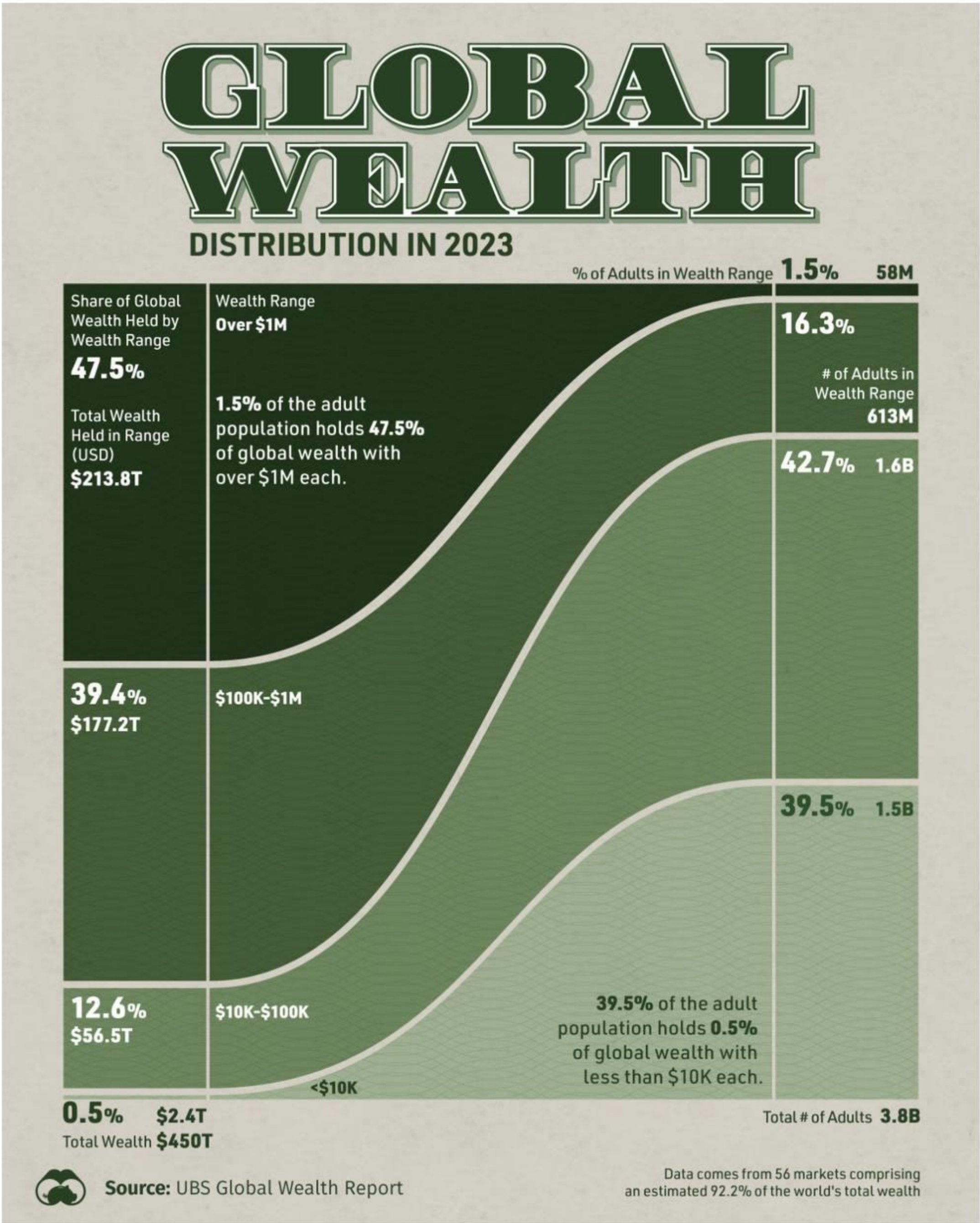
Big Tech Market Cap Surge: 2012–2024

The chart highlights the remarkable growth of seven major U.S. tech companies, whose combined market capitalization increased from $1.1 trillion in 2012 to $15.4 trillion by July 31, 2024. This represents a 13.5x increase at a compound annual growth rate (CAGR) of 25%, outpacing the broader U.S. stock market by 2.4x. Companies like Apple, Microsoft, and Amazon have driven this growth, with Apple alone reaching a market cap of over $3.4 trillion. The dominance of Big Tech in the stock market continues to reshape investment landscapes.



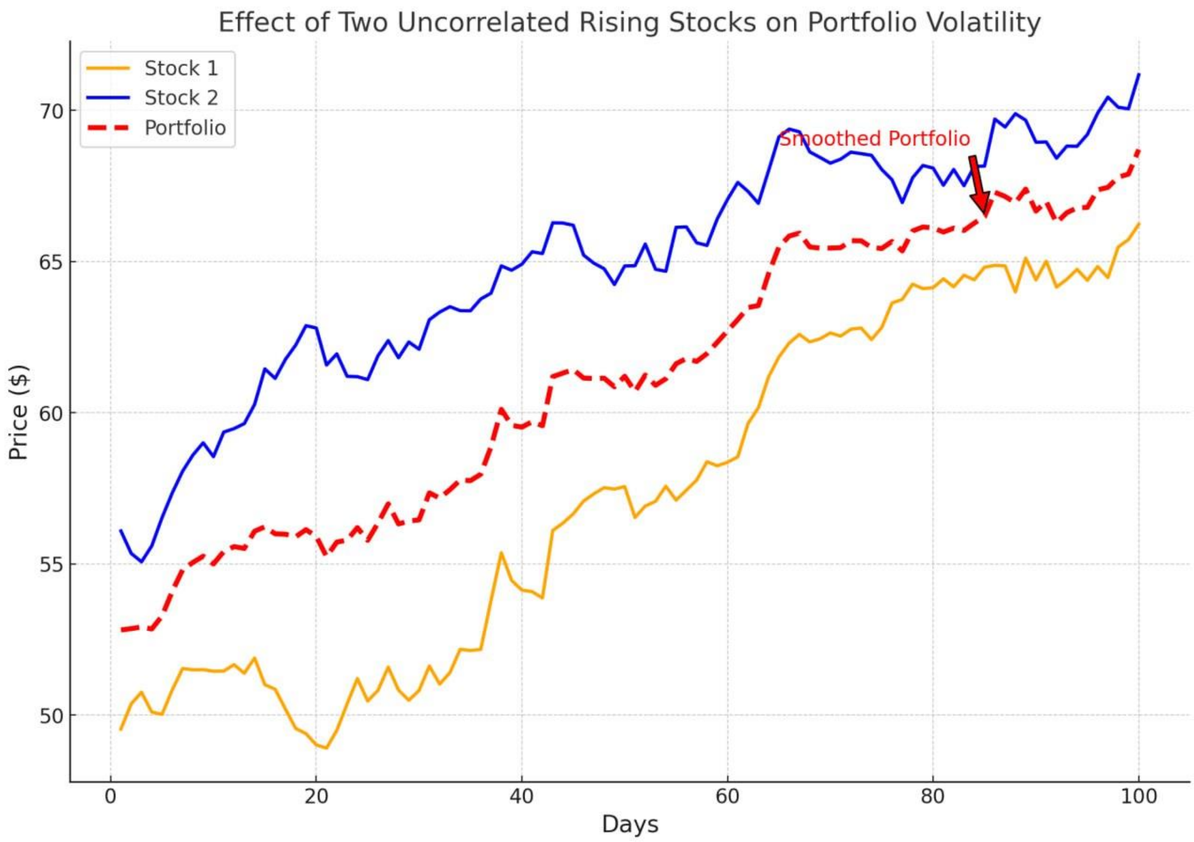
Global Wealth Distribution in 2023

This chart shows the stark inequality in global wealth distribution in 2023. A mere 1.5% of the adult population, or 58 million people, hold 47.5% of the world's wealth, with assets over $1 million each. In contrast, 39.5% of adults—1.5 billion people—hold less than $10,000, representing only 0.5% of global wealth. The middle ranges reflect that 16.3% of adults possess wealth between $100,000 and $1 million, while 42.7% own between $10,000 and $100,000. This wealth disparity highlights the global economic divide, where nearly half the world's wealth is concentrated among a small elite.



Diversification and Portfolio Volatility: The Power of Uncorrelated Stocks

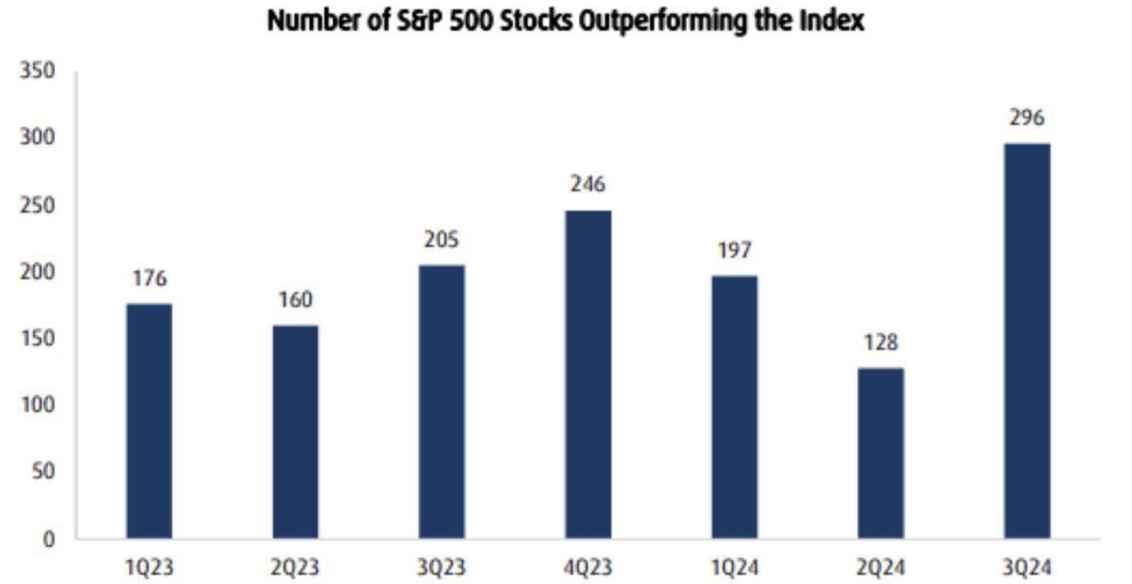
This chart demonstrates the effect of combining two uncorrelated rising stocks (Stock 1 and Stock 2) on portfolio volatility. While both individual stocks show price fluctuations, the portfolio (red dashed line) exhibits a smoother, more stable growth pattern. By combining uncorrelated assets, investors can reduce volatility and create a more balanced investment portfolio. This highlights the importance of diversification in managing risk, as a portfolio of uncorrelated assets is less likely to experience sharp, unpredictable changes in value.



S&P 500 Stocks Outperforming the Index: 2023 to 2024 Trends

This chart highlights the number of S&P 500 stocks outperforming the index from 1Q23 to 3Q24. Starting at 176 stocks in 1Q23, the number steadily increased to 246 by the end of 2023. After a dip in early 2024, the trend saw a sharp rise, with 296 stocks outperforming the index by 3Q24, marking one of the best performances since 2023. This surge indicates broad market strength and highlights the growing number of companies delivering higher returns compared to the overall index during this period.

Exhibit 5: Percentage of S&P 500 Stocks Outperforming Also On Pace for Best Performance Since 2023

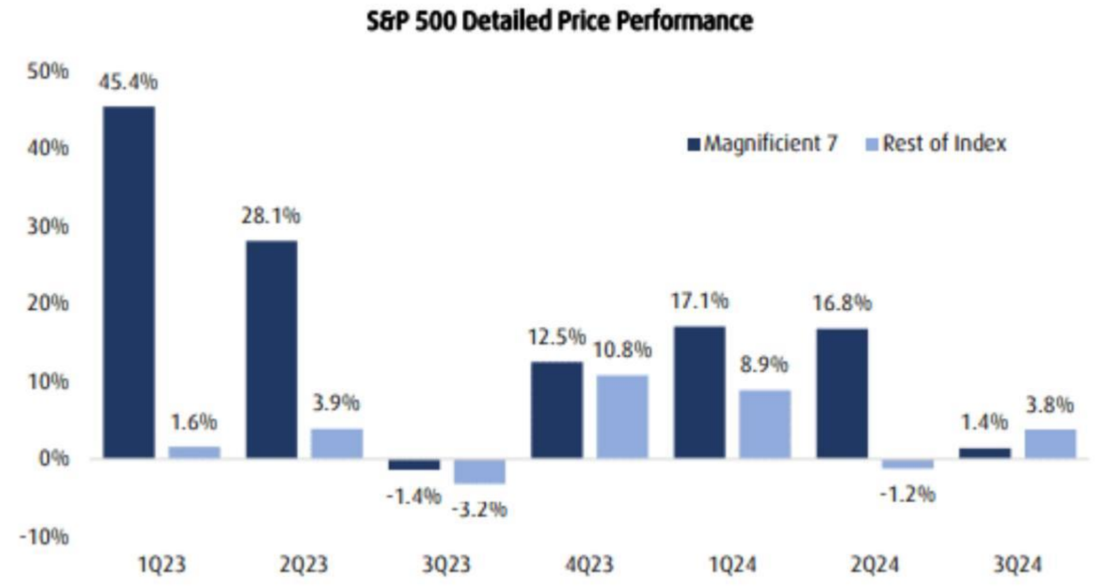


Source: BMO Capital Markets Investment Strategy Group, FactSet.

S&P 500 Ex-Magnificent Seven Outperformance Trend

This chart showcases the price performance of the S&P 500's "Magnificent Seven" stocks compared to the rest of the index from 1Q23 to 3Q24. The "Magnificent Seven" had a standout 1Q23 with a 45.4% gain, while the rest of the index rose only 1.6%. However, by 3Q24, the rest of the index started to catch up, with 3.8% gains compared to the Magnificent Seven’s 1.4%. This indicates a shift, with non-tech stocks beginning to outperform the tech giants for the first time in nearly two years, potentially signaling broader market strength.

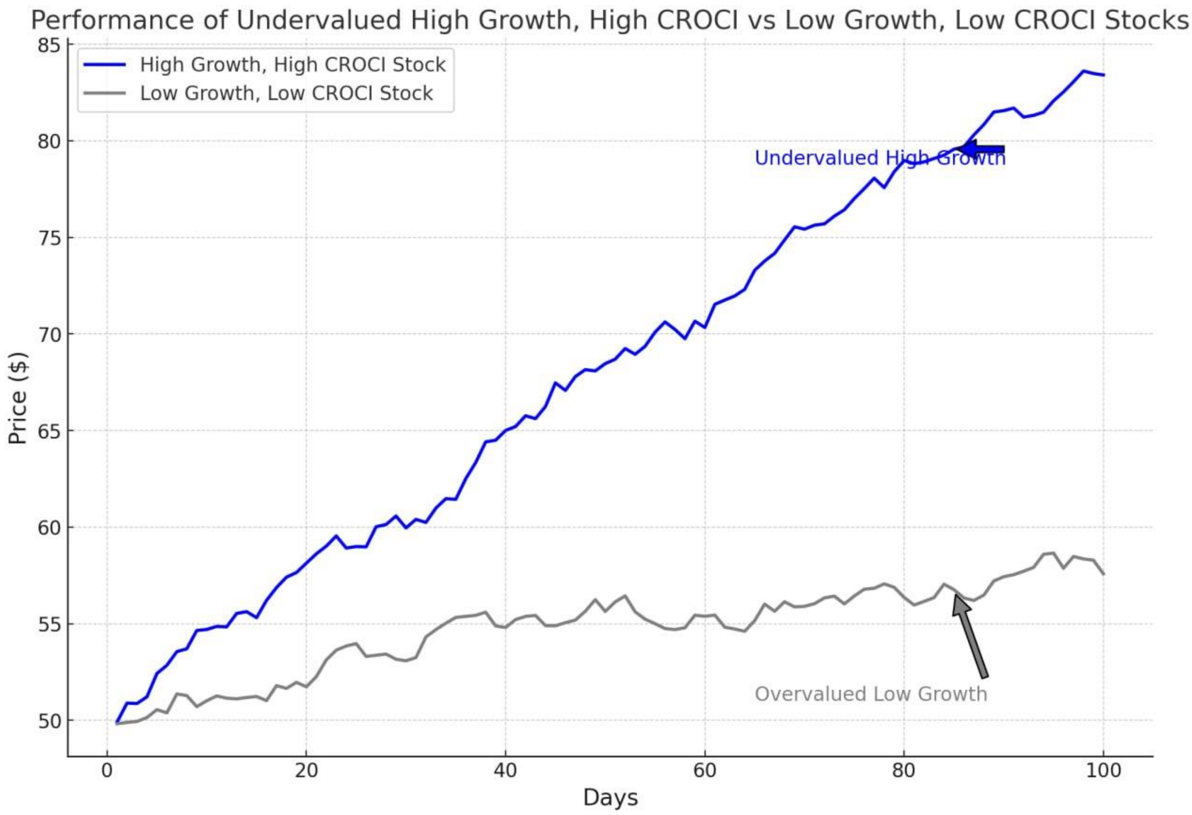
Exhibit 4: S&P 500 Ex-Magnificent Seven On Pace for First Quarterly Outperformance in Nearly Two Years



Source: BMO Capital Markets Investment Strategy Group, FactSet.

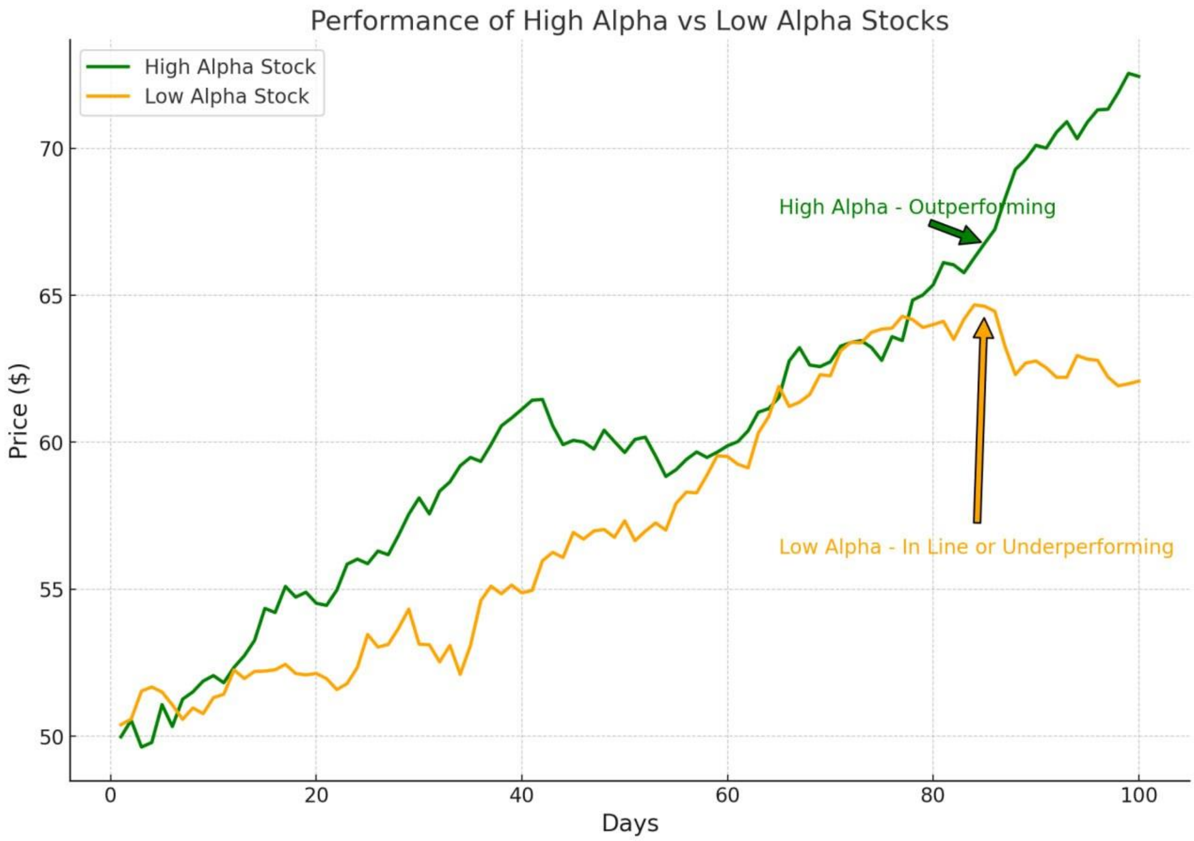
Performance of High Growth, High CROCI vs. Low Growth, Low CROCI Stocks

This chart highlights the significant performance difference between undervalued high-growth stocks with a high Cash Return on Capital Invested (CROCI) and overvalued low-growth stocks with low CROCI. The blue line shows that high-growth, high CROCI stocks consistently outperformed, steadily increasing in value over time. Meanwhile, the gray line indicates stagnant performance for low-growth, low CROCI stocks. This illustrates the importance of selecting high-growth investments with strong capital returns, as they tend to provide superior long-term performance compared to their low-growth counterparts.



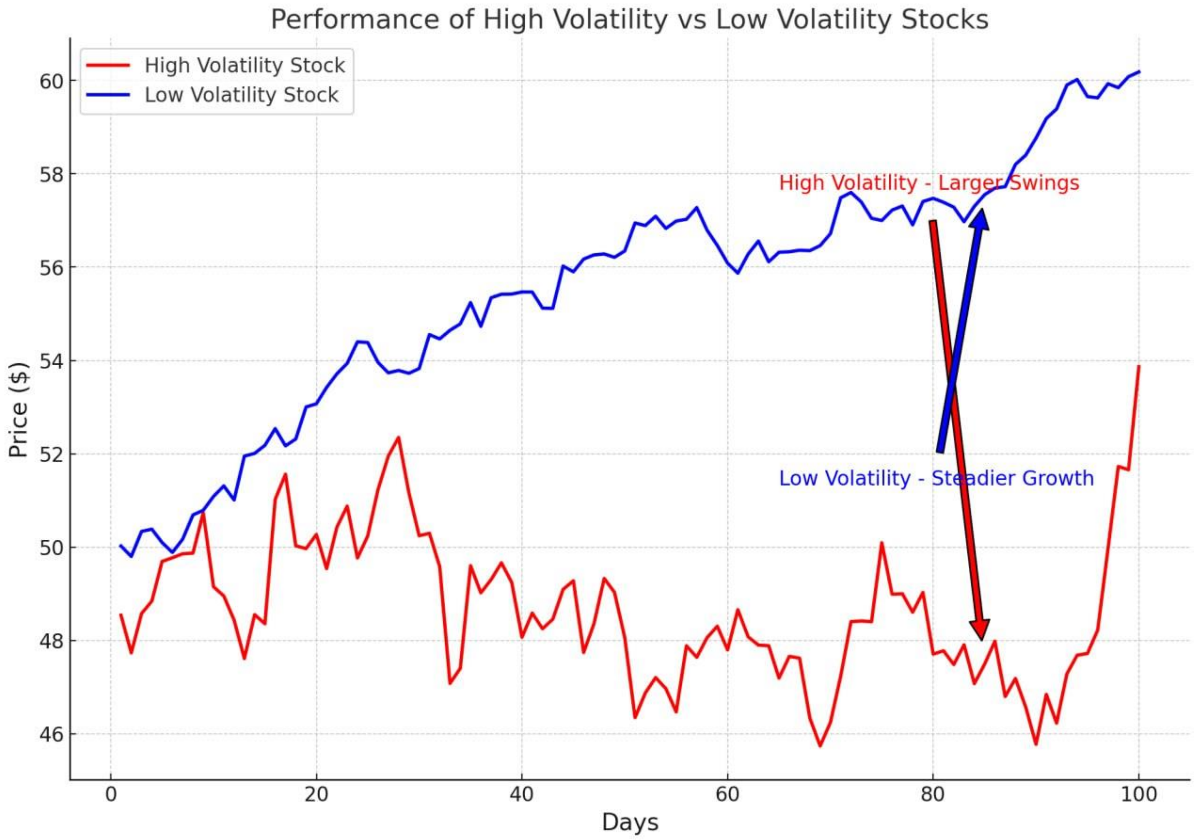
High Alpha Stocks vs. Low Alpha Stocks: Outperformance Over Time

This chart shows the comparative performance of high alpha stocks (green line) versus low alpha stocks (orange line) over a 100-day period. High alpha stocks, which measure excess returns relative to the market, significantly outperformed low alpha stocks. After initially tracking similarly, high alpha stocks diverged, delivering consistent gains and rising sharply in value, while low alpha stocks remained relatively flat. This demonstrates the value of identifying high alpha stocks in a portfolio, as they tend to generate superior returns over time.



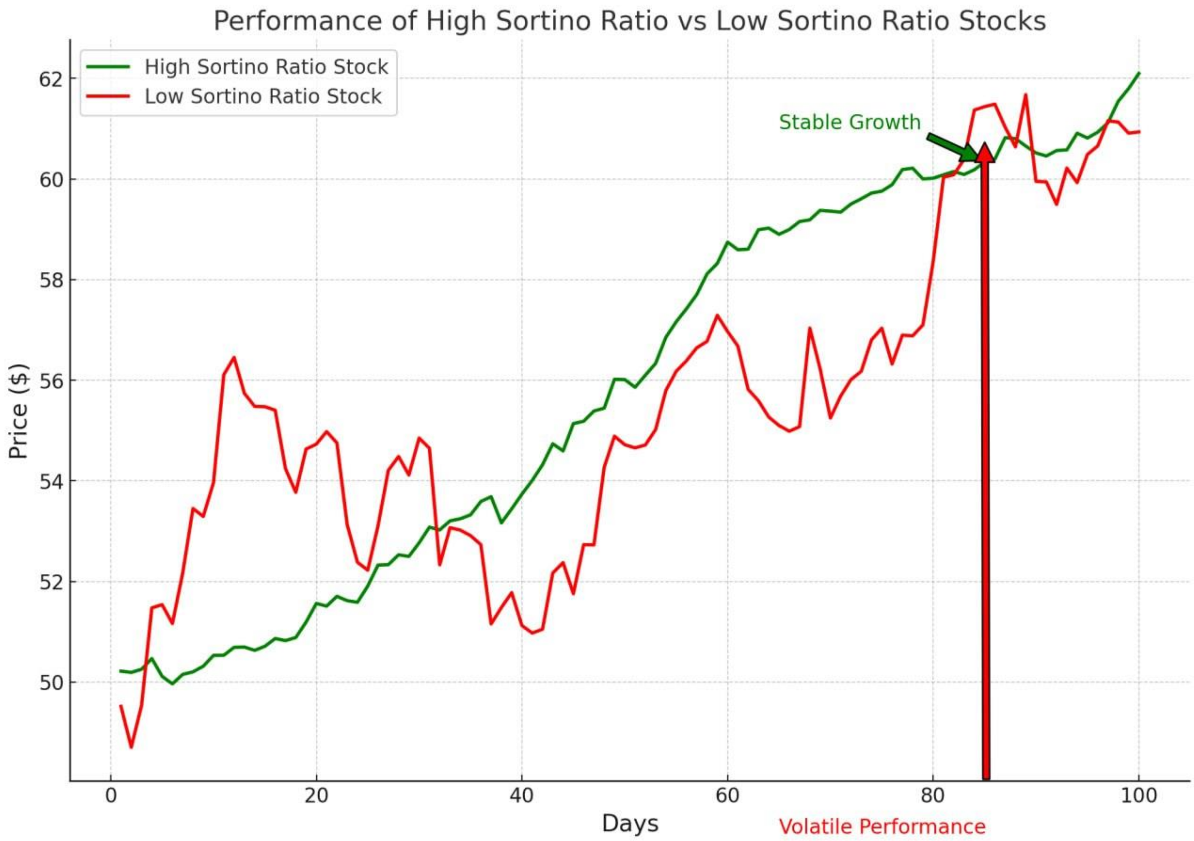
High Volatility vs. Low Volatility Stocks: A Performance Comparison

This chart illustrates the performance of high volatility stocks (red line) compared to low volatility stocks (blue line) over 100 days. High volatility stocks exhibit larger price swings, experiencing sharp gains and drops, whereas low volatility stocks show steadier, more consistent growth. While high volatility stocks can present opportunities for quick gains, they also come with increased risk. In contrast, low volatility stocks offer more stable returns over time, making them a preferable choice for risk-averse investors seeking gradual portfolio growth.



High Sortino Ratio vs. Low Sortino Ratio Stocks: Stability vs. Volatility

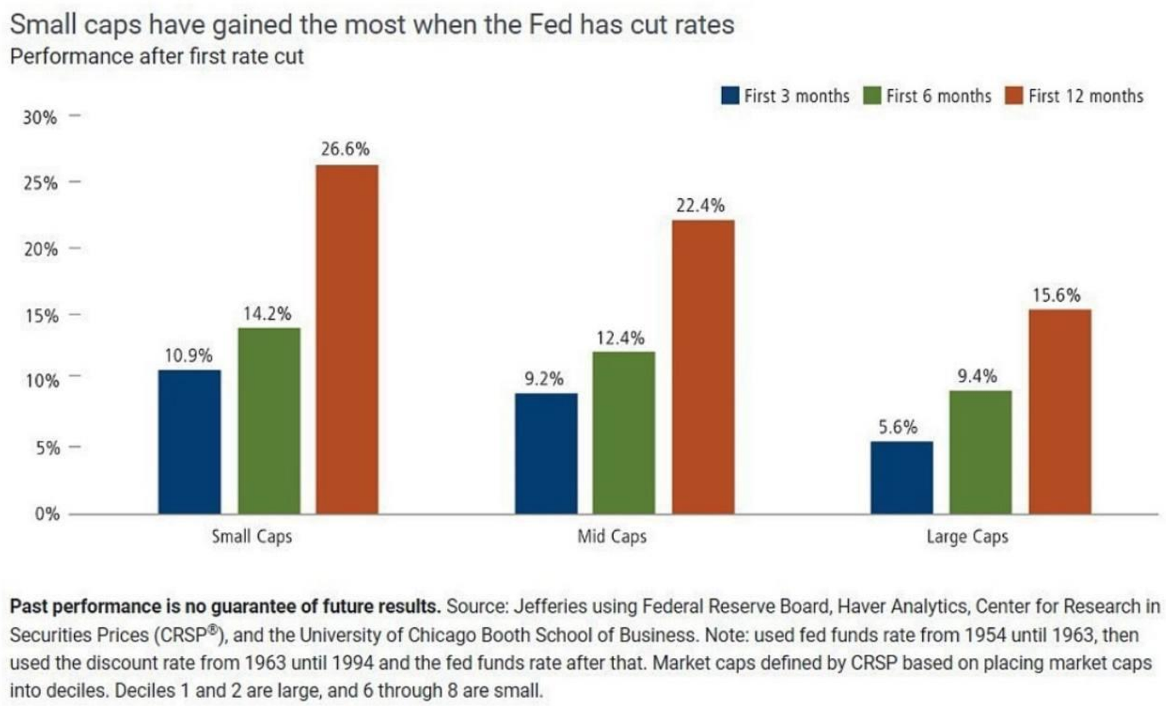
This chart compares the performance of high Sortino ratio stocks (green line) with low Sortino ratio stocks (red line). High Sortino ratio stocks, which measure risk-adjusted returns focusing on downside volatility, show steady and stable growth over time. In contrast, low Sortino ratio stocks exhibit much higher volatility, with sharp swings and less consistent gains. The chart highlights how investors favoring high Sortino ratio stocks can benefit from smoother, more reliable performance, while those opting for low Sortino ratio stocks face greater risk with more unpredictable outcomes.



Small Caps Lead Gains After Fed Rate Cuts

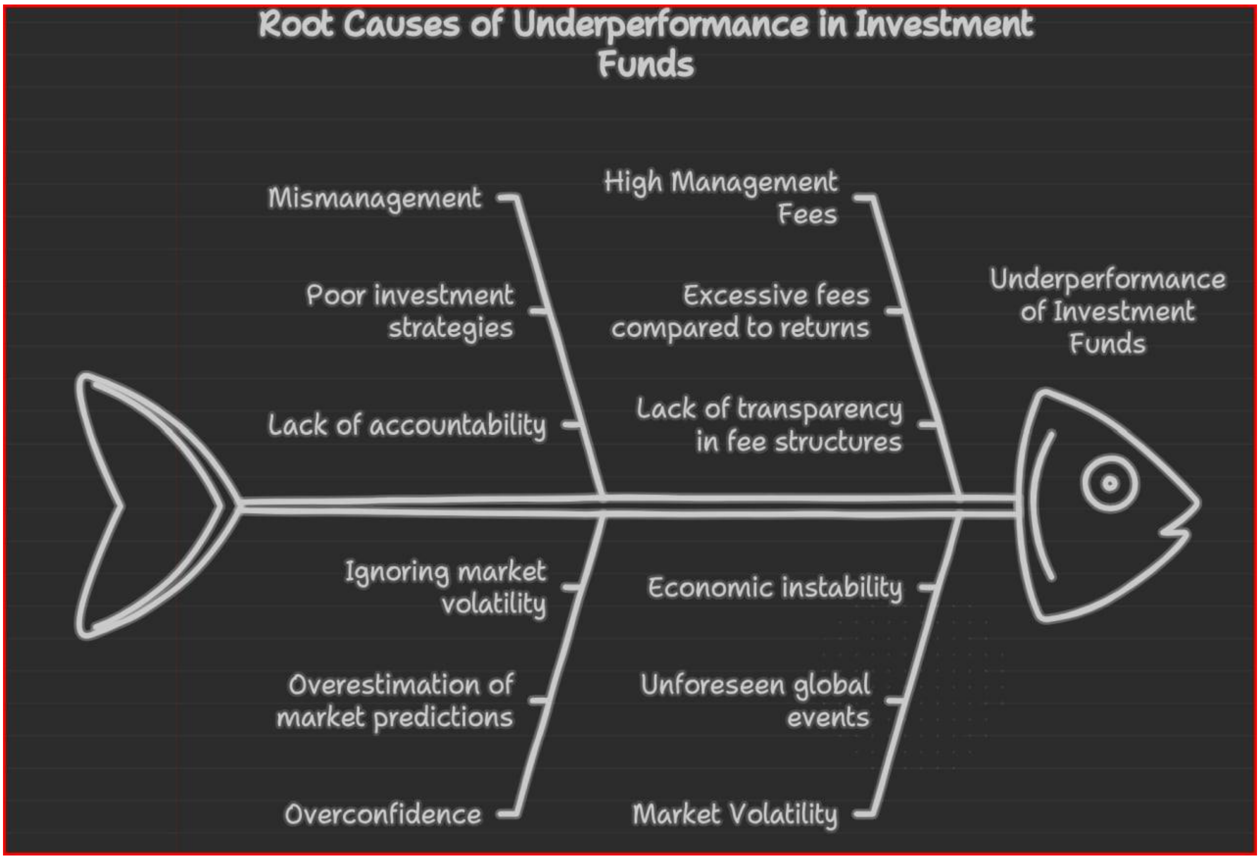
This chart highlights the performance of small, mid, and large-cap stocks following Federal Reserve rate cuts. Historically, small caps have shown the highest returns, gaining 26.6% within the first 12 months after a rate cut, compared to 22.4% for mid caps and 15.6% for large caps. The initial 3 and 6-month periods also see small caps outperforming their larger counterparts. This trend suggests that small-cap stocks tend to benefit the most from rate reductions, providing higher growth opportunities for investors in a lower interest rate environment.

Small caps have gained the most when the Fed has cut rates



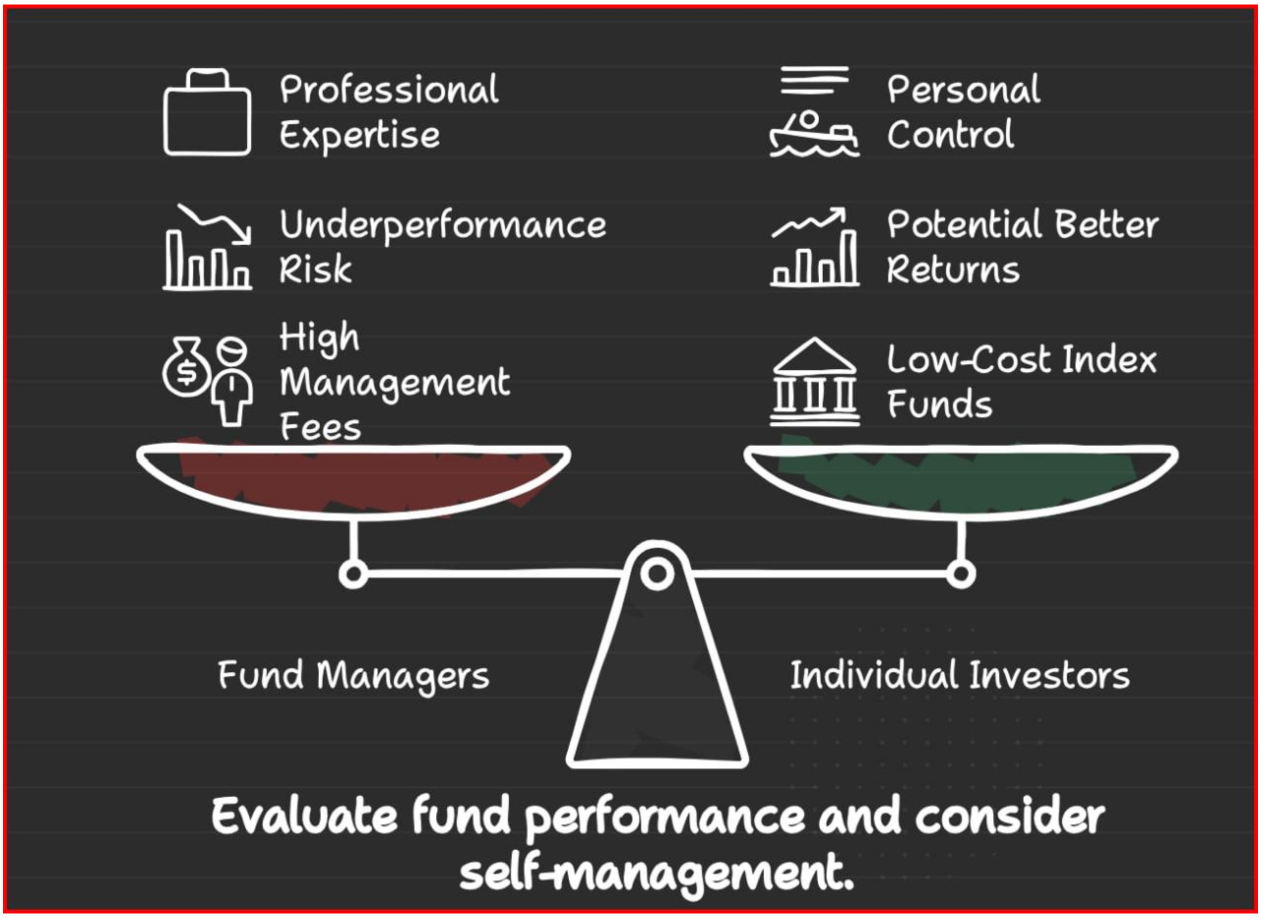
Root Causes of Underperformance in Investment Funds

This diagram outlines the key factors that contribute to the underperformance of investment funds. Mismanagement, poor investment strategies, and a lack of accountability are internal issues that can hinder fund performance. High management fees and excessive or opaque fee structures reduce returns, further weakening fund performance. External factors such as economic instability, market volatility, and unforeseen global events also play a significant role. Overconfidence and overestimation of market predictions can lead to misguided strategies, while ignoring market volatility compounds risk. Investors should be mindful of these factors when selecting funds to avoid potential pitfalls.



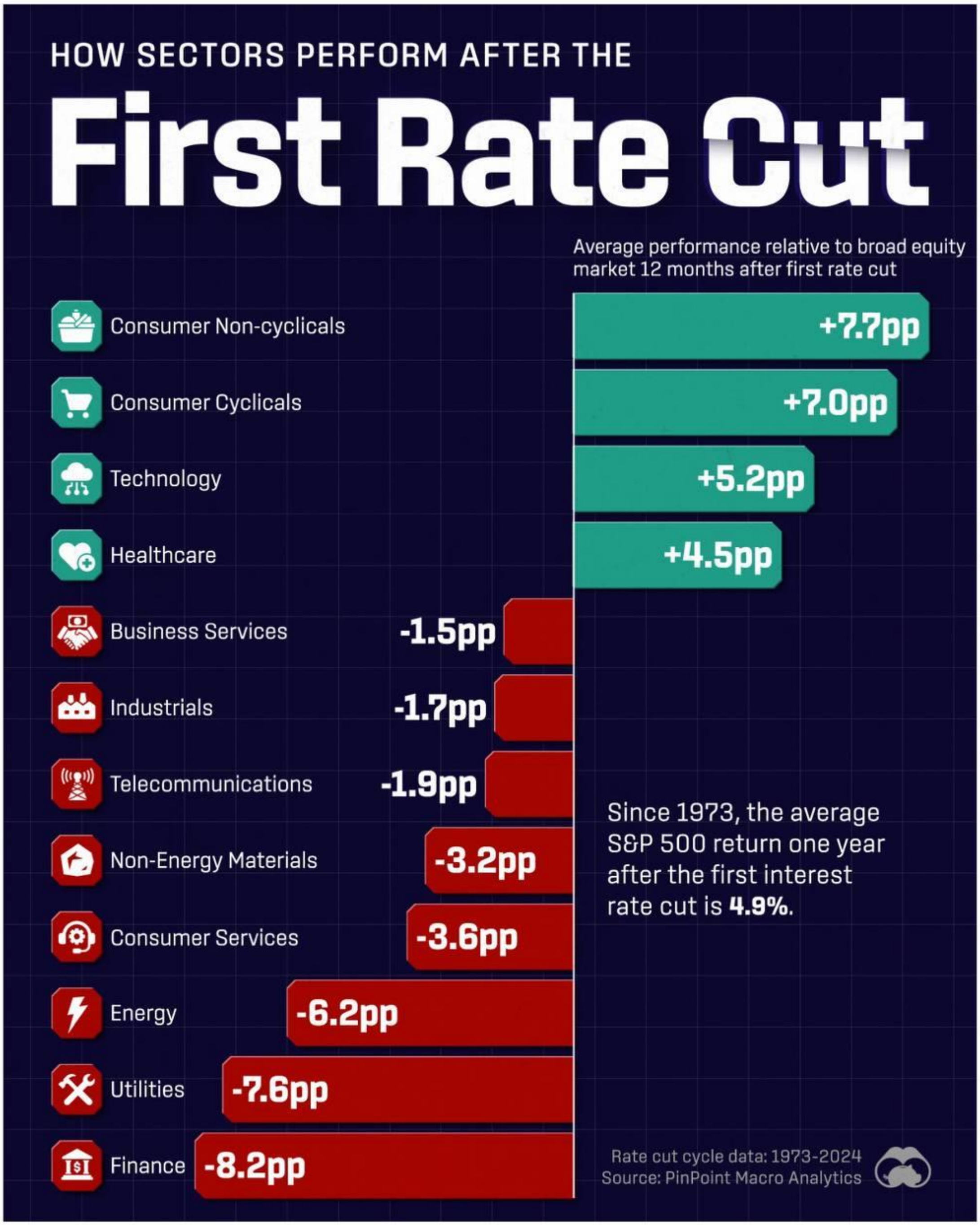
Weighing Fund Management vs. Self-Management in Investing

This graphic illustrates the trade-offs between relying on fund managers and opting for self-managed investment approaches. Fund managers offer professional expertise but may come with the risks of underperformance and high management fees. On the other hand, individual investors can maintain personal control and potentially achieve better returns through low-cost index funds. Evaluating the performance of managed funds against the potential gains from self-managed portfolios can help investors make informed decisions that align with their financial goals and personal risk tolerance.



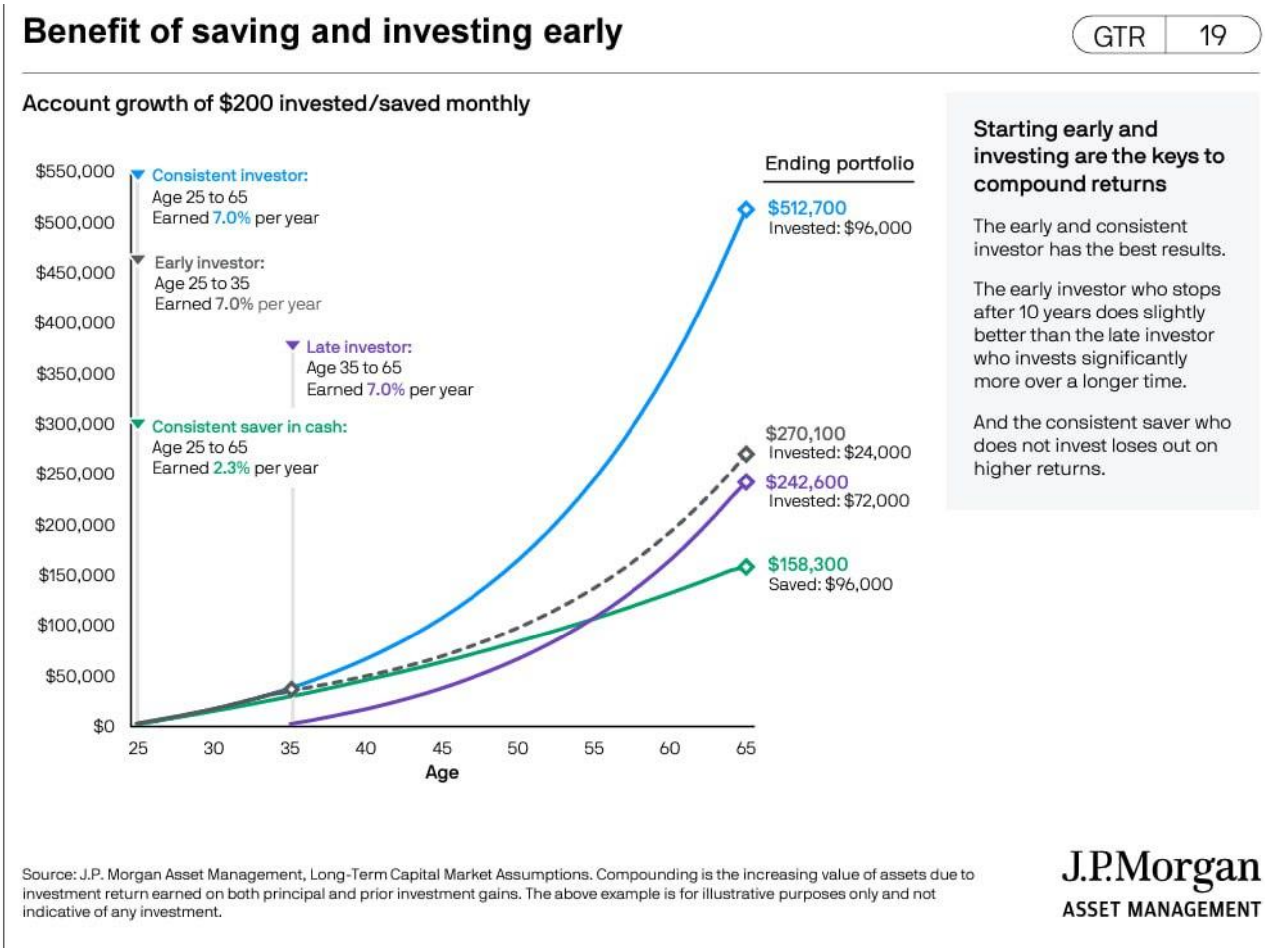
Sector Performance After the First Fed Rate Cut

This chart outlines how different sectors perform in the 12 months following the first Federal Reserve rate cut. Consumer non-cyclicals and consumer cyclicals show the strongest performance, outperforming the market by +7.7 and +7.0 percentage points, respectively. Technology and healthcare also see solid gains, while sectors like finance (-8.2pp), utilities (-7.6pp), and energy (-6.2pp) underperform. Historically, since 1973, the average S&P 500 return one year after the first rate cut has been 4.9%. Investors should consider these sector trends when adjusting their portfolios in response to rate cuts.



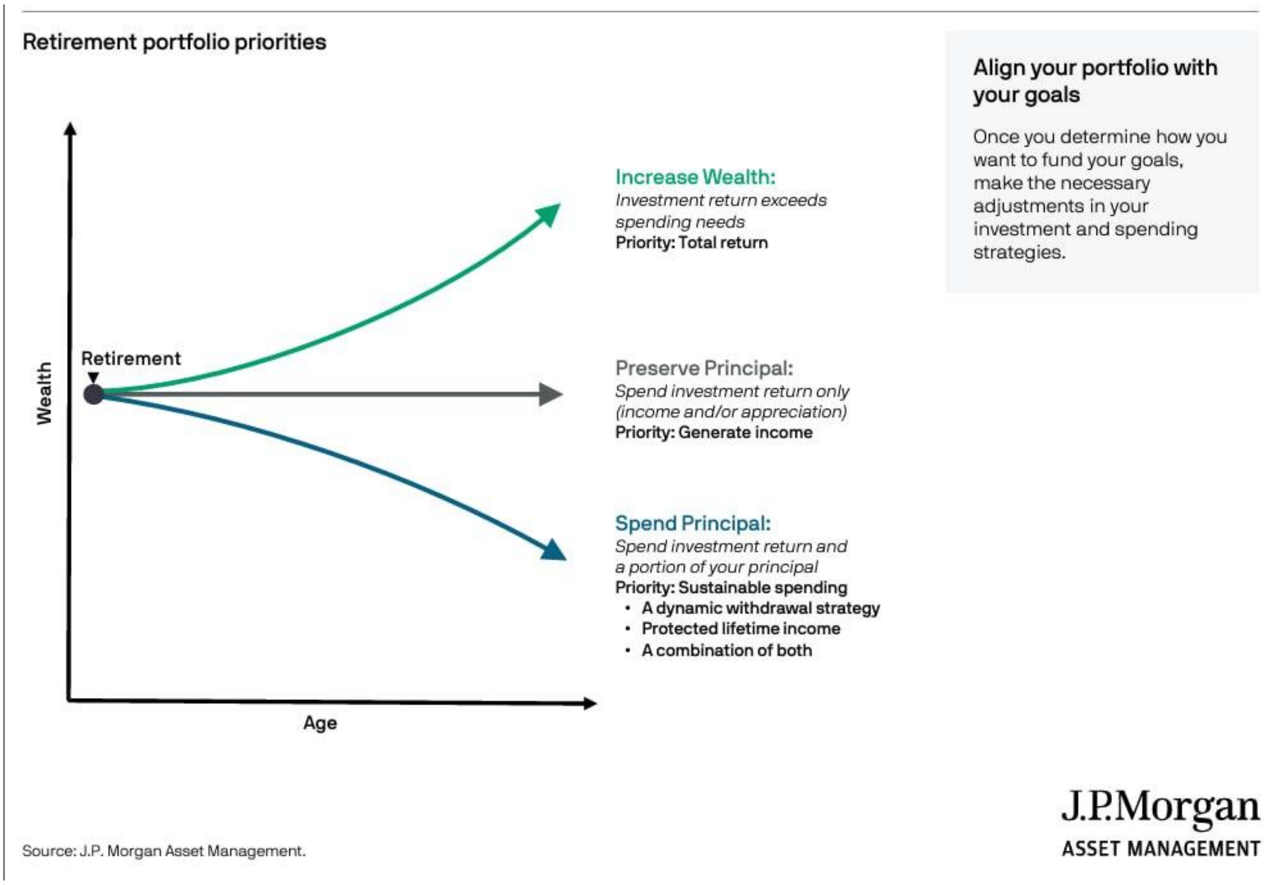
The Power of Early and Consistent Investing

This chart illustrates the benefits of saving and investing early, showing how a consistent investor who starts at age 25 and invests $200 monthly achieves the best results. By age 65, they accumulate over $512,700 with a 7% annual return. Even an early investor who stops after 10 years (age 35) still outperforms a late investor who starts at age 35 and invests until 65, despite contributing less overall. Meanwhile, consistent savers in cash see much lower returns, ending with only $158,300. The key takeaway: starting early and investing consistently maximizes the power of compounding, leading to significantly higher returns over time.



Aligning Retirement Portfolio with Your Goals

This chart highlights three retirement portfolio priorities: increasing wealth, preserving principal, and spending principal. Investors aiming to **increase wealth** should focus on total return, allowing investment returns to exceed spending needs. Those looking to **preserve principal** should generate income by spending only the investment return, maintaining the core capital. Lastly, **spending principal** involves utilizing both the investment return and part of the principal, often through sustainable spending strategies. Aligning your portfolio with your retirement goals helps ensure that your investment and spending strategies support your financial future.



Biggest Underperforming Funds by Size

This table highlights the ten largest underperforming funds, showing how they have lagged behind their benchmarks over the last three years. For example, the **SJP Global Quality Fund**, with £10.69 billion under management, underperformed by 27%, with £100 invested over three years growing to just £106. Similarly, the **Ninety One Global Environment Fund** suffered the worst underperformance, lagging its benchmark by 37%. This data underscores the importance of monitoring fund performance, especially for large funds, as significant underperformance can erode potential returns for investors.

10 biggest underperformers by size of fund

Fund	Sector	Size (£bn under management)	Value of £100 invested after 3 years	3-year underperformance (%) vs benchmark
SJP Global Quality Fund	Global	10.69	£106	-27%
Fidelity Global Special Situations Fund	Global	3.34	£121	-12%
Fidelity Asia Fund	Asia Pacific excluding Japan	2.71	£85	-12%
Ninety One Global Environment Fund	Global	1.63	£96	-37%
Fidelity Emerging Markets Fund	Global Emerging Markets	1.59	£81	-12%
Baillie Gifford Japanese Fund	Japan	1.49	£91	-26%
Liontrust Sustainable Future Global Growth Fund	Global	1.46	£102	-31%
St James's Place Greater European Progress	Europe excluding UK	1.39	£111	-8%
Columbia Threadneedle Responsible Global Equity Fund	Global	1.34	£116	-18%
Jupiter Japan Income Fund	Japan	1.16	£109	-8%

Source: Bestinvest Spot the Dog Report, August 2024

Top 10 Biggest Fund Underperformers

This table lists the ten biggest underperforming funds over the past three years. The **Artemis Positive Future Fund** showed the steepest decline, with £100 invested returning just £62, reflecting a 71% underperformance relative to its benchmark. Other notable laggards include the **Baillie Gifford Global Discovery Fund** and the **FTF Martin Currie Japan Equity Fund**, both losing over 60%. These figures highlight the significant impact of underperformance on investor returns and stress the need for careful fund selection and ongoing portfolio review to mitigate potential losses.

10 biggest under-performers

Fund	Sector	Value of £100 invested after 3 years	3-year underperformance (%) vs benchmark
Artemis Positive Future Fund	Global	£62	-71%
Baillie Gifford Global Discovery Fund	Global	£40	-65%
FTF Martin Currie Japan Equity	Japan	£53	-64%
AXA ACT People & Planet Equity Fund	Global	£80	-53%
Aegon Sustainable Equity	Global	£82	-52%
IFSL Marlborough Global Innovation Fund	Global	£82	-51%
L&G Future World Sustainable UK Equity Foc	UK All Companies	£74	-51%
Baillie Gifford Japanese Smaller Companies Fd	Japan	£56	-47%
FSSA Japan Focus Fund	Japan	£70	-47%
Baillie Gifford European	Europe excluding UK	£74	-46%

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Source: Bestinvest Spot the Dog Report, August 2024

Global Stock Market Returns: A Decade in Review

This chart shows the annual performance of major global stock markets from 2013 to August 2024. Japan’s TOPIX index led the returns in 2023, gaining 28.3%, followed by the US S&P 500 at 19.5%. Historically, the US S&P 500 has consistently been a top performer, ranking first in several years, including 2021 and 2019. Emerging markets (MSCI EM) and Europe ex-UK have seen more variability, with both experiencing significant losses and gains across the decade. This highlights the importance of geographic diversification in a portfolio, as market leadership shifts across regions year-to-year.

Exhibit 2: World stock market returns

2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	YTD	Aug '24
Japan TOPIX 54.4%	US S&P 500 13.7%	Japan TOPIX 12.1%	UK FTSE All-Share 16.8%	MSCI Asia ex-Japan 42.1%	US S&P 500 -4.4%	US S&P 500 31.5%	MSCI Asia ex-Japan 25.4%	US S&P 500 28.7%	UK FTSE All-Share 0.3%	Japan TOPIX 28.3%	US S&P 500 19.5%	US S&P 500 2.4%
US S&P 500 32.4%	Japan TOPIX 10.3%	MSCI Europe ex-UK 9.1%	US S&P 500 12.0%	MSCI EM 37.8%	UK FTSE All-Share -9.5%	MSCI Europe ex-UK 27.5%	MSCI EM 18.7%	MSCI Europe ex-UK 24.4%	Japan TOPIX -2.5%	US S&P 500 26.3%	Japan TOPIX 16.0%	MSCI Asia ex-Japan 2.0%
MSCI Europe ex-UK 24.2%	MSCI Europe ex-UK 7.4%	US S&P 500 1.4%	MSCI EM 11.6%	Japan TOPIX 22.2%	MSCI Europe ex-UK -10.6%	UK FTSE All-Share 19.2%	US S&P 500 18.4%	UK FTSE All-Share 18.3%	MSCI Europe ex-UK -12.2%	MSCI Europe ex-UK 17.3%	MSCI Europe ex-UK 12.5%	MSCI EM 1.6%
UK FTSE All-Share 20.8%	MSCI Asia ex-Japan 5.1%	UK FTSE All-Share 1.0%	MSCI Asia ex-Japan 5.8%	US S&P 500 21.8%	MSCI Asia ex-Japan -14.1%	MSCI EM 18.9%	Japan TOPIX 7.4%	Japan TOPIX 12.7%	US S&P 500 -18.1%	MSCI EM 10.3%	MSCI Asia ex-Japan 12.0%	MSCI Europe ex-UK 1.4%
MSCI Asia ex-Japan 3.3%	UK FTSE All-Share 1.2%	MSCI Asia ex-Japan -8.9%	MSCI Europe ex-UK 3.2%	MSCI Europe ex-UK 14.5%	MSCI EM -14.2%	MSCI Asia ex-Japan 18.5%	MSCI Europe ex-UK 2.1%	MSCI EM -2.2%	MSCI Asia ex-Japan -19.4%	UK FTSE All-Share 7.9%	UK FTSE All-Share 11.3%	UK FTSE All-Share 0.5%
MSCI EM -2.3%	MSCI EM -1.8%	MSCI EM -14.6%	Japan TOPIX 0.3%	UK FTSE All-Share 13.1%	Japan TOPIX -16.0%	Japan TOPIX 18.1%	UK FTSE All-Share -9.8%	MSCI Asia ex-Japan -4.5%	MSCI EM -19.7%	MSCI Asia ex-Japan 6.3%	MSCI EM 9.9%	Japan TOPIX -2.9%

Source: FTSE, LSEG Datastream, MSCI, S&P Global, TOPIX, J.P. Morgan Asset Management. All indices are total return in local currency, except for MSCI Asia ex-Japan and MSCI EM, which are in US dollars. Past performance is not a reliable indicator of current and future results. Data as of 31 August 2024.

UK Pension Funds Shift Away from British Stocks

This headline from the *Financial Times* highlights a significant trend: UK pension funds have reduced their allocations to British stocks to a historic low. Many retirement schemes are increasingly shunning London-listed equities in favor of alternative investments, such as private markets. This shift reflects concerns over the performance of domestic equities and a broader trend towards diversification in global and private asset classes. Investors relying on UK pensions should be mindful of this trend, as it may impact the structure and returns of their retirement portfolios.

FINANCIAL TIMES

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UK pension funds' allocations to British stocks hit historic low

Retirement schemes shun London-listed equities and private markets

25 Years of Pensioner Pain: A Long-Term Shift Away from UK Stocks

This image contrasts a 1999 *Financial Times* column by Alpesh Patel, where he discussed moving investments from UK to US stocks, with a 2024 headline about UK pension funds reducing allocations to British stocks. The trend has come full circle, as UK pension funds now hold historically low levels of British equities. This long-term shift reflects ongoing concerns about the performance of UK-listed equities compared to global markets. Investors who pivoted early, as Patel did in 1999, have largely benefited from the stronger returns of US and global stocks over the last 25 years.

S&P 500 Performance After Rate Cuts: A Historical Overview

This chart illustrates the historical performance of the S&P 500 following Federal Reserve rate cuts from 1973 to 2019. While returns vary, the S&P 500 tends to show positive growth six months and one year after a rate cut, with average gains of 4.4% and 4.9%, respectively. Notable years like 1980 and 1982 saw substantial gains, with the index rising over 30% a year after the cut. However, some periods, such as 1973 and 1981, experienced significant losses. This data highlights the mixed short-term impact of rate cuts on the stock market but demonstrates a general tendency for longer-term recovery and growth.

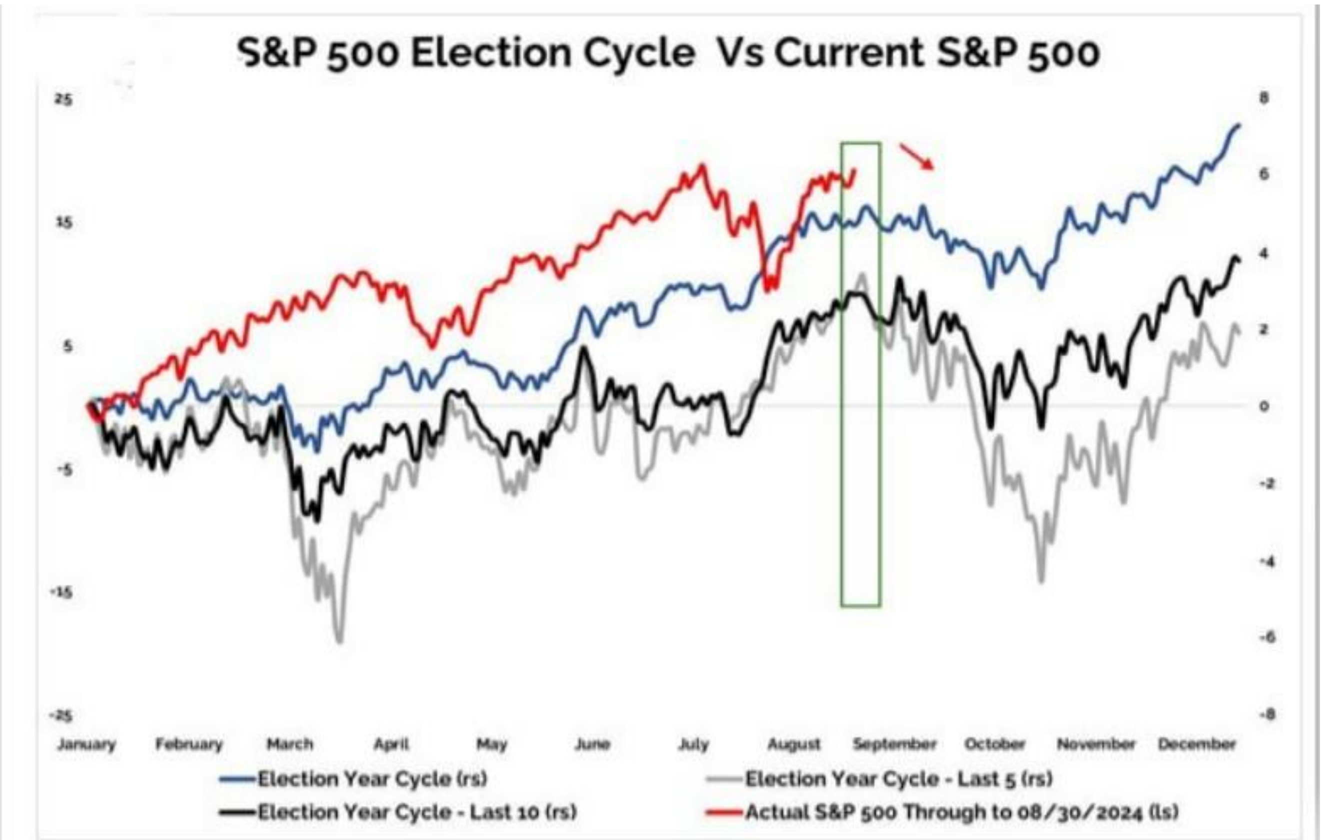

S&P 500 Returns
AFTER RATE CUTS

Year of first rate cut	3 months after first rate cut	6 months after first rate cut	1 year after first rate cut
1973	-10.2%	-6.2%	-36.0%
1974	-14.7%	-15.3%	7.5%
1980	15.0%	28.9%	30.3%
1981	-11.0%	-7.9%	-17.8%
1982	-4.8%	17.4%	36.5%
1984	-1.2%	7.2%	10.5%
1987	0.1%	1.7%	7.5%
1989	7.4%	7.5%	11.9%
1995	5.1%	8.0%	13.4%
1998	17.2%	26.5%	27.3%
2001	-16.3%	-12.4%	-14.9%
2007	-4.4%	-11.8%	-7.2%
2019	3.8%	13.3%	14.5%
Average	-1.1%	4.4%	4.9%

Source: PinPoint Macro Analytics

S&P 500 Election Cycle vs. 2024 Performance

This chart compares the S&P 500's performance during election years over the past 5 and 10 years to its actual performance in 2024. The red line shows the S&P 500's trajectory in 2024, which has generally outperformed the historical election year trends (blue and black lines). Notably, the 2024 performance saw stronger gains earlier in the year, followed by a dip around September, in line with typical election-year volatility. Historically, the market tends to experience fluctuations in election years, making this period critical for investors to monitor closely.



The Case Against Misleading Fund Management: Why You Should Take Control of Your Investments

Investing your hard-earned money should be a pathway to financial growth, not a road littered with disappointing returns and underperformance.

BIGGEST FUNDS IN THE DOGHOUSE

Fund	Value of £100 invested after 3 years	Three-year return (%)	Benchmark three-year return (%)	Relative Performance
St James's Place Global Quality	£106	5.9	33.3	-27.4
Fidelity Global Special Situations	£121	21.4	33.3	-11.9
Fidelity Asia	£85	-15.1	-3.6	-11.5
Ninety One Global Environment	£96	-3.8	33.3	-37.1
Fidelity Emerging Markets	£81	-18.7	-6.5	-12.2
Baillie Gifford Japanese	£91	-8.6	17.0	-25.5
Liontrust Sustainable Future Global Growth	£102	2.5	33.3	-30.9
St James's Place Greater European Progress	£111	10.9	19.3	-8.4
CT Responsible Global Equity	£116	15.6	33.3	-17.7
Jupiter Japan Income	£109	8.7	17.0	-8.3

ource: Bestinvest. Funds ranked by size of assets under management

Yet, as the image above illustrates, many of the biggest investment funds in the market are falling far short of expectations.

For those trusting these funds to grow their wealth, the reality is sobering—and it underscores why taking control of your own investments is not just preferable, but necessary.

Dissecting the Poor Performance

The chart showcases ten of the biggest funds that have significantly underperformed over the last three years, with some delivering shockingly low returns.

For instance, St James's Place Global Quality Fund, which many would expect to be a safe bet, has only returned £106 on a £100 investment after three years. Worse still, its benchmark performance was 33.3%, highlighting a relative underperformance of -27.4%.

Even more dismal is the Ninety One Global Environment Fund, which returned £96 compared to its benchmark's 33.3%, resulting in an abysmal -37.1% relative performance. This is not just a failure of fund management but a betrayal of investor trust.

If professional fund managers, with all their resources and expertise, cannot even match the market's average, what value are they providing?

Other funds like Fidelity Asia and Baillie Gifford Japanese are also notable for their negative returns, underperforming by double digits compared to their benchmarks. This should serve as a stark warning for investors who assume that a reputable name equates to reliable performance.

The Illusion of Expertise

The common defense of these fund managers is market volatility or unforeseen global events. However, the consistent underperformance across multiple funds suggests a deeper issue—mismanagement and overconfidence in their strategies.

Investors are often led to believe that professional fund managers can navigate complex markets better than they could on their own. But when you look at these figures, it's clear that the value added by these managers is highly questionable.

The relative performance figures—where all but one of the listed funds are negative—highlight that these funds are not just underperforming but are actually losing ground compared to broader market indices.

This is a critical point for investors to consider: why pay high management fees for returns that you could achieve, or surpass, by investing in low-cost index funds or ETFs?

Take Control of Your Financial Future

The time has come to reconsider the traditional investment approach. Instead of relying on so-called experts, it's more prudent to educate yourself, make informed decisions, and take direct control of your investments.

This doesn't mean you need to go it entirely alone, but leveraging tools, educational resources, and communities that promote financial literacy can drastically improve your outcomes.

One such resource is **[Campaign for a Million]** (https://www.campaignforamillion.com), a movement dedicated to empowering individual investors to become millionaires by taking control of their financial future.

Here, you'll find strategies, insights, and tools designed to help you invest smarter, without the need to depend on underperforming funds.

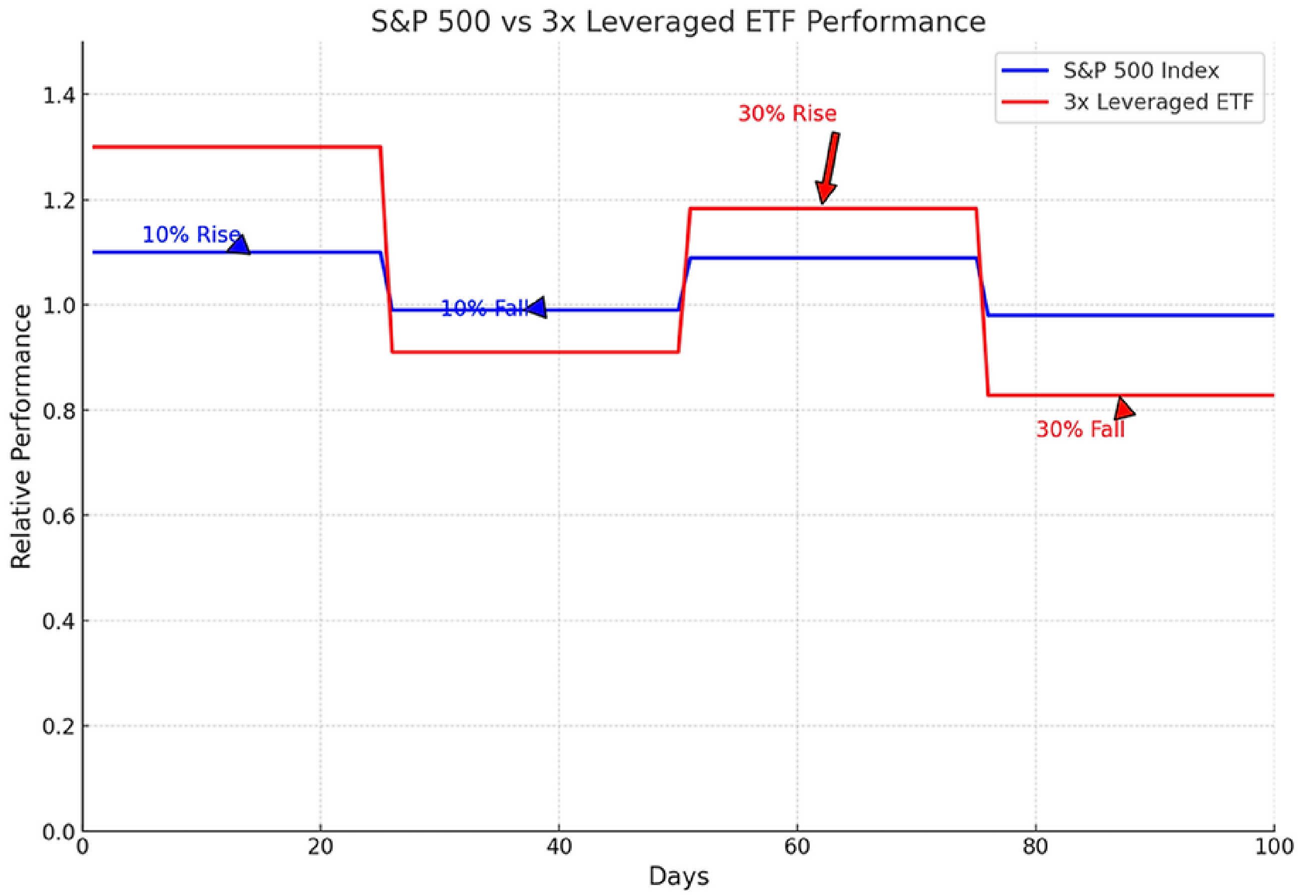
The Bottom Line

The evidence is clear: many of the biggest funds on the market are failing to deliver on their promises. Rather than continuing to trust in a system that so often disappoints, consider a new approach—one where you are in control.

Visit [Campaign for a Million] (https://www.campaignforamillion.com) and start your journey towards financial independence today. Don't let poor fund performance be the anchor holding back your financial growth.

The Impact of Leverage: How a 3x Leveraged ETF Performs in a Volatile Market

To illustrate the mathematical impact of the S&P 500's movements versus a 3x leveraged ETF, let's break down each step of the performance using simple percentage calculations.



Scenario: S&P 500 and 3x Leveraged ETF

We assume the S&P 500 starts with a base value of 100, and we apply the following changes:
1. 10% rise: S&P 500 increases by 10%.
2. 10% fall: S&P 500 decreases by 10% from its new level.
3. 10% rise: S&P 500 increases again by 10% from the new level.
4. 10% fall: S&P 500 decreases by 10% from this new level.

The 3x leveraged ETF experiences these same percentage changes, but magnified by a factor of 3.

Step-by-Step Calculations:

1. First 10% Rise:
- S&P 500:
  - Initial Value: 100
  - After 10% rise: \(100 \times 1.10 = 110 \)
- 3x Leveraged ETF:
  - Initial Value: 100
  - After 30% rise: \(100 \times 1.30 = 130 \)

2. First 10% Fall:
- S&P 500:
  - Starting Value: 110
  - After 10% fall: \(110 \times 0.90 = 99 \)
- 3x Leveraged ETF:
  - Starting Value: 130
  - After 30% fall: \(130 \times 0.70 = 91 \)

3. Second 10% Rise:
- S&P 500:
  - Starting Value: 99
  - After 10% rise: \(99 \times 1.10 = 108.9 \)
- 3x Leveraged ETF:
  - Starting Value: 91
  - After 30% rise: \(91 \times 1.30 = 118.3 \)

4. Second 10% Fall:
-S&P 500:
  - Starting Value: 108.9
  - After 10% fall: \(108.9 \times 0.90 = 98.01 \)
- 3x Leveraged ETF:
  - Starting Value: 118.3
  - After 30% fall: \(118.3 \times 0.70 = 82.81 \)

Summary of Final Values:

S&P 500: Ends at 98.01, which is a slight overall decline from the original value of 100.
3x Leveraged ETF: Ends at 82.81, reflecting a significant overall decline due to the compounded effects of leverage.

Key Takeaways:

Leverage Magnifies Losses: The 3x leveraged ETF shows how gains are amplified by the leverage, but it also demonstrates how losses are exacerbated. After two cycles of 10% rises and falls, the S&P 500 is down about 2%, while the leveraged ETF has fallen by nearly 17.2%.

Volatility Decay: The leveraged ETF's performance illustrates the concept of "volatility decay," where frequent fluctuations lead to a lower end value than would be expected from a simple linear growth model.

This example can be used to explain how leveraged ETFs can lead to unexpectedly large losses in volatile markets, even when the underlying index ends close to its original value.

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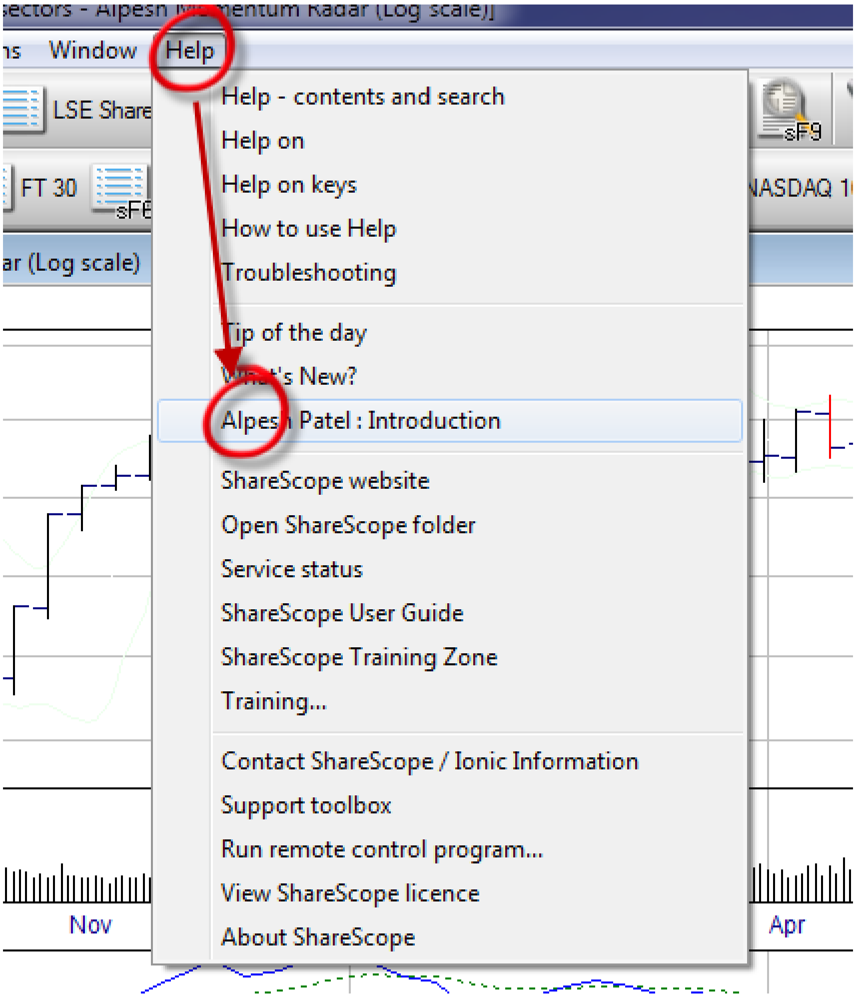
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