



# HCM Volatile Market Guide<sup>®</sup>

## Objective:

At Howard Capital Management, Inc. we understand many investors may feel uncertain about how to navigate today's increasingly complex market. This document combines research and strategy to serve as a guide for investors who feel unprepared or worried about investing. It is our mission to offer the knowledge, innovation and a defined plan in an effort to help investors maximize gains and minimize losses, even during volatile markets.

By Howard Capital Management, Inc.

All information, data and graphics have been sourced from Howard Capital Management's HCM Volatile Market Guide (HCM-021324-025)



**“We aim to take emotion completely out of the equation. Trading with emotions, in our opinion, ruins long-term returns.”**

Vance Howard on CNBC



# Table of Contents



The Problem Investors are Facing Today .....	04
Rise of Computerized Trading .....	05
Equity Returns in a Volatile Market .....	06
John Bogle’s Prediction .....	07
The Challenge of Recovering from Losses .....	08
Benefits of Missing the Worst Days in the Market .....	09
Benefits of Missing the Best Days in the Market .....	10
Proprietary Risk Management: The HCM-BuyLine® .....	11
Five Way to Navigate a Volatile Market .....	12
About McKinney Capital Management .....	13
About Howard Capital Management, Inc. ....	14

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## It's not always about how much money you make, but rather how much money you keep.

Markets are constantly evolving, as have investor needs. The events of recent years prove the increasing complexity that has gripped the market and its performance. The end of the longest bull market run on record came due to an unprecedented event that had the whole world worrying about the immediate future. While the gears of economic policy making triggered a quick recovery from the short downturn in 2020, the situation today seems to be far from stable.

At times like this, investors' approach to navigating downtrends is critical. Not just for the present, but also for the future when the bull market returns and to capitalize on that impending growth. While no one can predict when bear markets, recessions or depressions will hit, understanding how to prepare for market turmoil and knowing when the end is at the horizon is key for survival and growth.

<b>Factors</b> That Worry Investors	<b>Obstacles</b> Investors Face	<b>Solutions</b> Investors Should Consider
<ul style="list-style-type: none"><li>• Geopolitical risks</li><li>• Inflation</li><li>• Large government debt</li><li>• Getting stuck in a bond bubble</li><li>• Uncertainty of changing interest rates</li></ul>	<ul style="list-style-type: none"><li>• Rise of computerized trading</li><li>• Volatile equity and bond return on investments</li><li>• Identifying opportunities for diversification</li><li>• Interest rates that impact rate of return</li></ul>	<ul style="list-style-type: none"><li>• Utilizing math-based strategies to identify risks and opportunities without emotion</li><li>• A more active investing approach with the goal to minimize losses and maximize gains</li><li>• Defining financial goals through appropriate risk tolerance and diversification</li><li>• Gaining insight of market trends</li></ul>

**In the last decade, computerized and math-based trading has started to dominate the market. The evolution of trading is inevitable.**

The practice of high-frequency, algorithmic trading to identify beneficial trading opportunities is becoming increasingly popular in today's fast-paced market. Many investors are no longer trading or investing in a market based on fundamentals, technical analysis or chart reading; they are competing against a machine running complex and numerous algorithms each second. This current market structure positions everyday investors against highly sophisticated trading systems.

High-frequency traders, also known as quantitative traders, identify profitable trading opportunities based on mathematically-driven computer systems and research. It has grown increasingly more evident quantitative traders can push the market in the direction they want it to go, causing much of the extreme volatility we see today. The systems are gaining momentum and becoming so fast; they can buy and sell based off a few words from individual statements seen throughout the day.

**It has grown increasingly more evident, quantitative traders can push the market in the direction they want it to go, causing much of the extreme volatility we see today.**

The challenges in the investment world are as significant as they've ever been as we compete in a market driven by computerized trading. Going forward, investors working with firms who have already adapted to algorithmic trading might find themselves benefiting in the long-run.



**The global high-frequency trading market size was valued at USD 8.5 billion in 2021.**

**The industry is expected to expand at a CAGR of 6.84% during the forecast period, reaching USD 12.7 billion by 2027.<sup>1</sup>**

Global High Frequency Trading Industry Research Report, December 2022

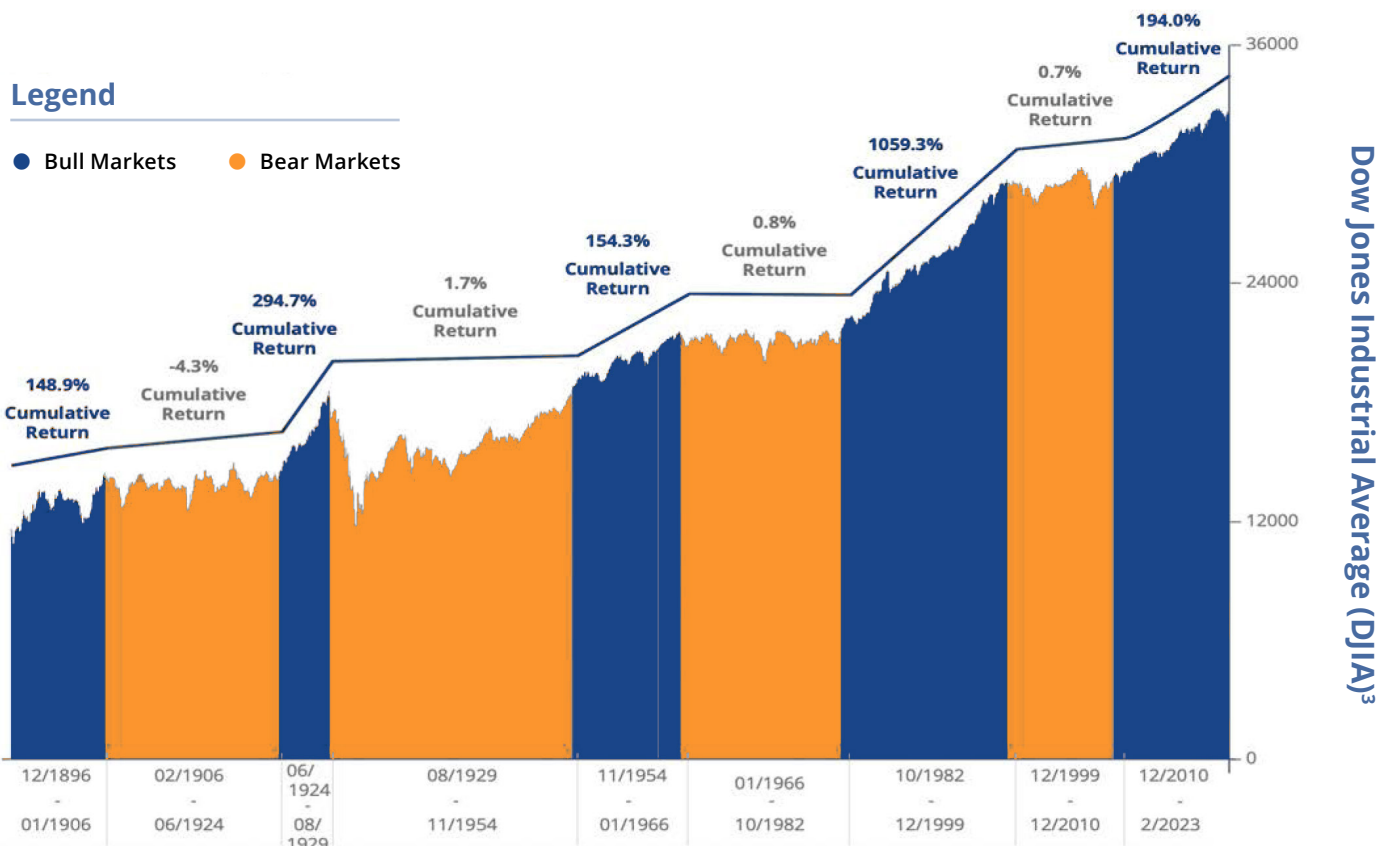
1. Global High Frequency Trading Industry Research Report, December 2022: [marketgrowthreports.com/global-high-frequency-tradingindustry-research-report-competitive-landscape-market-21366106](https://marketgrowthreports.com/global-high-frequency-tradingindustry-research-report-competitive-landscape-market-21366106)



## Volatility, or the frequency and rate of change in a security's value, is important to consider when determining an investing strategy for portfolios.

History shows the market typically moves in cycles. In the past 150 years (1870-2020), there have been six secular bull markets and six secular bear markets.<sup>2</sup> Investment strategies that work in bull markets may not be effective in bear markets. Market volatility can make it hard to capitalize on growth opportunities. Take the “lost decade” for example. The term has been used to refer the U.S. economic conditions from 2000 to 2010, during which there was little or no return from the broad stock market. The economic boom that occurred in the middle of that decade was not enough to make up for all the losses from the bear markets in 1999 and 2008.

Even in bull markets, market volatility can take a toll on portfolios. It is typical to see at least an average 10% correction per year.



2. A Perspective on Secular Bull and Bear Markets: [advisorperspectives.com/dshort/updates/2023/02/03/a-perspective-on-secular-bull-and-bear-markets](https://advisorperspectives.com/dshort/updates/2023/02/03/a-perspective-on-secular-bull-and-bear-markets)

3. Chart Source: [finance.yahoo.com/quote/%5EDJI/history/](https://finance.yahoo.com/quote/%5EDJI/history/)

## Settling Into an Era of Volatility

Vanguard founder John Bogle's prediction of declines stretching up to 50% during the 2010-2020 decade did come true, albeit in the short-term. Overall, for the decade, the S&P 500 remains firmly in positive territory and the bear market for decade-long perspective remain firmly in place. That said, volatility can deter even the most seasoned investor. In recent times, we have witnessed growing volatility in the markets.

**77% of respondents said they think the stock market will continue to be very volatile in 2023, as it was in 2022.**

2022 Q4 Quarterly Market Perceptions Study from Allianz Life

From 2019-2023, the markets experienced a frenzied reaction to numerous events that were of somewhat an unprecedented combination. The covid-19 pandemic, the unexpected Russia-Ukraine war and supply chain problems, all combine to present a very complicated picture for any investor. This extends beyond just equities, as commodities also experienced volatility. Even though there were signs of recovery and sustained growth, all of them seem to have come with certain conditions.

In the information age, this unique combination of economic challenges have given rise to numerous opinions about what that could mean

for the immediate future of the markets. While the more seasoned investors believe in holding strong on their beliefs and practices, the newer generation may not be so patient. The massive sell offs of 2020, the surge in energy prices and the supply side inflation concerns were all borne out of investors' emotional response to such events. While a somewhat deep recession is being heavily mooted for 2023, as spring is sure to arrive after winter, so will prosperity and growth at the end of this recession.<sup>4</sup>

4. Source: [businesswire.com/news/home/20230124005429/en/Majority-of-Americans-are-More-Concerned-About-Paying-Bills-Right-Now-Than-Financial-Future](https://www.businesswire.com/news/home/20230124005429/en/Majority-of-Americans-are-More-Concerned-About-Paying-Bills-Right-Now-Than-Financial-Future)

## With speculation of the equity market's direction after a shaky start to 2020, the need to construct portfolios designed to weather market volatility is crucial.

Remember, markets are cyclical. Shaky upswings followed by market drawdowns can be destructive to a portfolio's performance, primarily because on a percentage basis, you must earn more than you lost to get back to even.

The table below demonstrates how much an investment needs to gain to break even for a number of downward price movement scenarios.

### The Mathematics of Losses and Gains

If a \$10,000 investment loses X%, how much in gains are needed to break even?

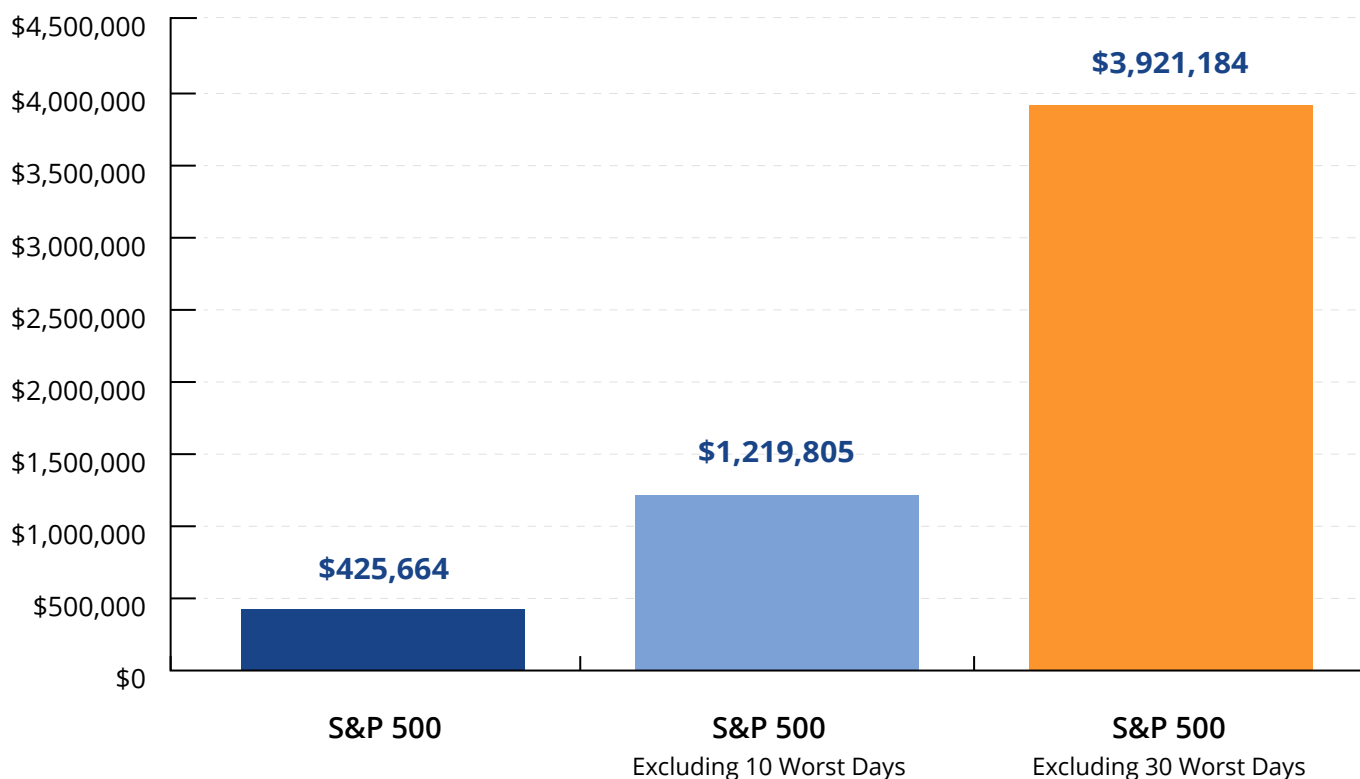
% of Losses	Value Remaining After Loss	% of Gain Needed to Break Even
10%	\$9,000	11%
15%	\$8,500	18%
20%	\$8,000	25%
25%	\$7,500	33%
30%	\$7,000	43%
40%	\$6,000	67%
50%	\$5,000	100%
60%	\$4,000	150%

## One way to minimize downside risk is to miss the worst days of the market. It could save you more than you think.

The way a portfolio weathers downturns could go a long way in defining its investors' experience over the next decade. It's important to note, bear markets are a common part of investing. There have been roughly 25 cyclical bear markets since the Great Depression of 1929. Utilizing faster, computerized trading trends might allow investors to be more confident about their portfolios.

Based on historical returns from Yahoo Finance, missing some of the worst days in the market could save investors more than they think. Below is an illustration of the S&P 500® Index vs. S&P 500® Index excluding some of the worst days from 12/31/1979 to 02/13/2023.<sup>5</sup>

### Growth of \$10,000 From 12/31/1979–02/13/2023



5. Source: Gain/Annum (%) and Growth of \$10,000 of S&P 500® Stock Index Excluding Worst Days. S&P 500 Market price data - Yahoo Finance [finance.yahoo.com/quote/%5EGSPC/history?p=%5EGSPC](https://finance.yahoo.com/quote/%5EGSPC/history?p=%5EGSPC)

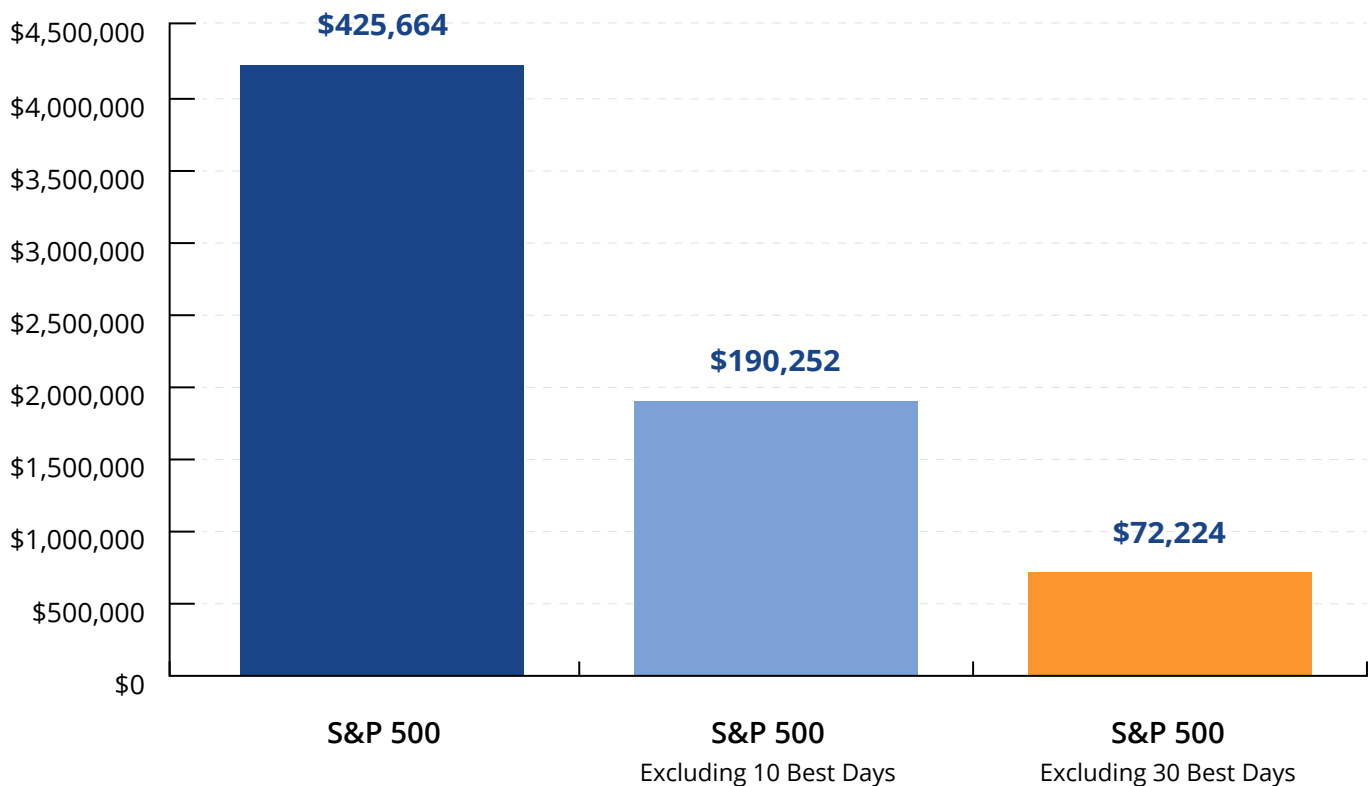
## The Difference of Missing the Best Days in the Market

Conversely, not entering back into the market at the right time could cause set backs.

Missing the worst days of the market can save an investor's portfolio quite a bit, but failing to enter the market and capture some of the best days of the market can also hurt long-term performance.

Based on historical returns from Yahoo Finance, missing some of the best days in the market could hurt investors more than they think. Below is an illustration of the S&P 500® Index vs. S&P 500® Index excluding some of the best days from 12/31/1979 to 02/13/2023.<sup>6</sup>

### Growth of \$10,000 From 12/31/1979–02/13/2023



5. Source: Gain/Annum (%) and Growth of \$10,000 of S&P 500® Stock Index Excluding Worst Days. S&P 500 Market price data - Yahoo Finance [finance.yahoo.com/quote/%5EGSPC/history?p=%5EGSPC](https://finance.yahoo.com/quote/%5EGSPC/history?p=%5EGSPC)

## Mathematically striving to minimize downside risk with our stoploss strategy.

The HCM-BuyLine® is our proprietary, math-based indicator designed to mitigate downside risk. It is a quantitative, disciplined strategy that aims to take the emotion out of investing. Driven by mathematical market ratios, the model attempts to avoid significant market downturns by moving out of equities while seeking to take advantage of market upturns. The symbols indicated on the chart below represents the signals given by the HCM-BuyLine®.

When the HCM-BuyLine® turns negative, the indicator signals to move clients' investments to cash, cash equivalents, or lower volatility investments. When the HCM-BuyLine® turns positive, those investments will then be redeployed as indicated. During the financial meltdown in 2008, the HCM-BuyLine® signaled to exit the stock market, avoiding much of the worst market draw-down in the past decade (as indicated below).



The Line indicated on this the S&P 500. Historical performance for the SPDR® S&P 500® ETF Trust (Symbol: SPY) is provided for informational and illustrative purposes only. SPY seeks to provide investment results that, before expenses, correspond generally to the price and yield performance of the S&P 500® Index, a diversified large cap U.S. index that holds companies across all eleven Global Industry Classification Standards sectors. SPY performance is shown net of internal fund expenses, including fund management fees and transaction costs. It should not be assumed that your account or any Howard CM strategy or model holdings correspond directly to SPY or any comparative benchmarks. There can be no guarantee that the HCM-BuyLine® indicator will perform as anticipated. Stoploss protection will not necessarily limit your losses to the desired amounts due to the limitations of the HCM-BuyLine®, market conditions, and delays in executing orders. It is not an actual stoploss order that automatically sells securities in the portfolio at a certain price.

- 1** **Seek to avoid major losses through risk management**

Overlaying investments with a risk management strategy can potentially help identify major market downturns to avoid portfolio devastation.
- 2** **Seek to implement a math-based strategy**

The rise of computerized trading is consequently making investing challenging. With a math-based strategy, investors can seek to move in and out of the market faster, striving to minimize losses and maximize gains.
- 3** **Move to cash/lower volatility investments during major market declines**

It could take months or even years to recover from devastating losses. Investors who avoid much of a significant drop by moving to safety not only attempt to preserve assets in major market declines, but position them ready to capture major upturns (and potentially at attractive prices).
- 4** **Seek to remove emotion from the equation**

Investors can be emotional with the swings of the market — holding a stock as it falls or selling it before it reaches its full potential can wreak havoc on a portfolio. An emotional approach to investing can hinder the ability to effectively manage investments.
- 5** **Stay the course**

Commit to a strategy and risk level that not only could help one sleep at night, but also with the objective of meeting current income needs and long-term financial goals.

We come from hardworking backgrounds and we know just how intimidating and unnecessary financial jargon can be. At the heart of our services is a belief that financial planning should be for everyone, which is why we avoid financial jargon and embrace simplicity to help every single one of our clients succeed.

Through an educational approach, we help clients understand their retirement plans and the financial world, to provide them with confidence throughout their journey. We do this in a very straightforward manner that enables them to understand how to get to where they want to be in retirement.



## Matt Semeyn, CFP®

McKinney Capital Partners | Partner, Financial Advisor

Matt Semeyn is a managing partner at McKinney Capital Management. After earning a BS in Finance at Miami University in 1993, he built a career in banking enroute to becoming a financial advisor. Earning his Certified Financial Planner® Certification in 2004, Matt has been dedicated to helping working class Americas maximize their company provided 401(k) and 403(b) plans.

**“With the majority of employees’ savings tied up in company retirement plans, it is crucial that they have access to personal financial advisors who can guide, assist, and manage their funds effectively,” says Matt, “that is why we founded Fix My 401k and Fix My 403b!”**

When he is not working, Matt enjoys watching college football, golfing, and being a girl dad.



## Frank McKinney, CFS

McKinney Capital Partners | Founder, Partner, Financial Advisor

Frank McKinney, III is a founding partner of McKinney Capital Management in Houston, Texas. Raised by parents dedicated to nonprofit work, he embraced values of service and integrity. After briefly pursuing medicine, Frank found his passion in financial advising. He excels in simplifying complex financial concepts and helping clients achieve their goals. A devoted family man, he enjoys hunting, fishing, golf, and barbecuing.

Financial Advisor: Securities and advisory services offered through Cetera Advisors LLC, member FINRA/SIPC, a broker/dealer and a Registered Investment Advisor.

**Howard Capital Management (HCM)** is an SEC-registered investment advisory firm, specializing in money management services for private clients, brokers, and broker dealers since 1999. The vision for HCM originated during the 1987 stock market crash with the opinion that incurring financially devastating losses from market volatility may not be necessary. We developed a methodology with the objective to help protect capital during market downturns.

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**We practice active money management. We do not believe in buy and hold, nor do we favor asset allocation. We must be strategic and tactical to bring our best defense against a market that does not think or feel.”**  
Vance Howard, CEO and Portfolio Manager of Howard Capital Management, Inc.  
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After years of research, we developed a quantitative, disciplined, math-based indicator called the HCM-BuyLine®. In 2000-2002 as the market dropped, we reduced clients' exposure to equities as signaled by the indicator, and in 2008, the HCM-BuyLine® again signaled to exit the stock market, consequently moving clients' investments to the sidelines during much of these declines.

HCM offers a variety of investment options through separately managed accounts, proprietary mutual funds, ETFs, and retirement tools.

For more information regarding our services, please visit [www.howardcm.com](http://www.howardcm.com).



# We guide clients to their planned retirement destination.



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