Sitting On Your 'Bunnies' Might Be Your Best Investment Yet

by: Guy R. Fleury

Sitting On Your 'Bunnies' Might Be Your Best Investment Yet will show you have a choice in building a long-term stock portfolio designed to serve as an increasing income stream of significance while in retirement and that your choice will be in the investment methods you will use. The emphasis is on an ever-increasing income stream while in retirement.

The expected overall performance level of your stock portfolio will depend on the average rate of return you can achieve or extract over the entire investment period. Essentially, you will have to choose your rate of return from your available choices.

The big question is: how much will YOU need?[1]

It is certainly not a question of how much the other guy needs. You couldn't care less. At the very least, you never cared about that in the past, so why would you now, even if you should?[2]

What is important to you, and not necessarily to others, is how much YOU will need, or how much will you consider a lot more than enough to last you a lifetime?

There is no need to make the point that you should build a worthwhile retirement fund. You already know you should.

The problem is the uncertainty of it all. And, there are a lot of **IF**s in this equation. The first is, will you be alive by then? That is, will you reach retirement age? How long will you live beyond retirement age is also a big question since it will determine how much money you might need.

Another critical question is: how are you going to do it? There are many ways to achieve your goals, some much easier than others.

Over the past few months, I have written on the value of self-managed stock portfolios and used them as building blocks for either investment or retirement funds, especially for individuals, as if they were the only way to achieve better long-term returns.

The emphasis was on continued portfolio growth even during retirement while making withdrawals. The obvious advantage was an increasing income stream

[1] Refer to the related files at the end of this paper for a more elaborate view.
[2] See **The Age Of The Individual Investor** for why you should be concerned.

during all the retirement years while at the same time building a substantial legacy fund.

A properly constructed retirement fund can serve a dual purpose.

The first is providing all the retirement income you might need and more while in retirement, and the second is having your portfolio grow while in retirement and, at the same time, building a legacy fund of significance for your loved ones. Both are commendable things to do.

But whatever. There is no obligation for anyone to build a retirement fund, let alone a self-managed one. Nor will anyone force you to do so, except for your government's pension plan. Nonetheless, a lot of people go without.[3] They did not need so much or, most often, never had the opportunity to build one, the resources, the money, the abilities, or the know-how. They were too busy, ready to defer that task to some future tomorrow. Furthermore, many considered the proceeds from their government pension plan or company pension fund would be more than enough for them to enjoy their retirement fully.

Regardless, everyone should plan to have more than enough to pay for all the bills and desired amenities money could buy during their retirement, no matter how long their retirement may last. Retirement is not sitting on your rocking chair, looking out the window, and waiting to die.

The Uncertainty

The problem is the uncertainty of it all. And, there are a lot of **IF**s in this retirement fund equation.

The first is, will you be alive by then? That is, will you reach retirement age? How long you live beyond retirement age is also a big question since it will determine how much money you will need.

Another critical question is: how are you going to do it? There are many ways to achieve your goals, some much easier than others.

The average life expectancy is increasing.[4] And it will continue to increase in the foreseeable future.

Some say that half of the children under age five will live to be 100 years old.[5] Should you not plan to get close to that mark for yourself? And shouldn't you also plan for your children to get there?

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[3] A rough estimate might put that at over two billion people.
[4] The average decreased slightly over the last few years, mainly due to the Covid-19 pandemic.
[5] Thanks to the developments in medicine and healthcare.

Time might be the most critical factor in building a retirement fund. And compounding the most formidable investment tool. The equation you will have to live by is:

$$\mathsf{E}[FV] = PV \cdot (1 + \mathsf{E}[\bar{g}])^t \tag{1}$$

where the future value is determined by the growth rate $\bar{g}$ on your initial capital (PV) over a number of years. Any person aged 30 might be looking some 70 years into the future, trying to determine the best course of action depending on their respective current financial state and life aspirations.

We understand the implications emanating from equation (1). We have done that type of calculation hundreds of times. But here, (t) is a lifetime, your lifetime. Equation (1) does not care whether you started your retirement fund.

However you put it, zero times any other number is zero. One thing you will find out relatively soon is that the clock is running, and you have an unspecified preemption date. In a word, you will not survive this. Now, that should brighten your day.

What will that future look like in some 50 to 100 years? How much will the world be transformed by new technology, energy, food supply, and healthcare? What kind of world will you have 50 years from now? That is where you and your children will live. What kind of society will you live in? Will you be under Chinese rule?[6]

Why not plan to give your children a better place to live, just as our parents did for us and their parents before them? They used the means they disposed of and tried to do the best they could, just as you will. The world has improved, generation upon generation, always moving forward to a better standard of living for all. We, undoubtedly and evidently, are not there yet. Much more work is needed before we can call this planet civilized or caring.

Sitting On Your Bunnies Might Be Your Best Investment Yet will again assume using a stock portfolio as the foundation for a retirement fund.

Nevertheless, there are other ways to build a worthwhile retirement fund. There is a thing called work and investing in oneself which could do marvels. Any asset that can appreciate in time could also be considered an investment. It includes real estate, collectibles, bonds, equities, and more.

A Self-Managed Fund

Presently, I will concentrate on a self-managed fund as was presented in my last paper: **Self-Managed Retirement Funds**.

The primary objective is to keep total control over your pension fund and not have

[6] See **The Age Of The Individual Investor** for this scenario.

an organization or government dictate how you should manage your fund. You do not want to be forced into withdrawing income from your fund if you do not want to. It should be your decision, and nobody else's, certainly not some government regulation. After all, it will be your money to manage. Do base your investment decisions on the assurance it all belongs to you. It is also where your problem starts.

You cannot rely on your government pension plan. The reason is simple: they might run out of money in 10 to 20 years and, technically, go bankrupt. Their first step will be to reduce your benefits to prevent or delay their running out of money. They will not be made accountable for their incompetence or the mismanagement of your funds. On the contrary, they will be promoted, with raises, and continue doing more of the same.

Try to see what would happen if your retirement income was cut in half for no fault of your own. Should you think that will not happen to you, look around; it has been done in the past, which is almost an assurance it will happen again.

Whereas if you manage your fund, no one can interfere with your decisions or take part of your fund away. If you give your government control over your retirement fund, they will eventually use that power, not for your benefit. All this to say you have to do it your way.

Equation (1) is all about expectations. What growth rate will you achieve, and how many years will it be applied? You should already know how much capital you have available.

How about if you regularly add funds or if you only do it from time to time? Will you be able to add or withdraw funds at any time of your choosing? Those questions can be answered with a yes for a self-managed fund. If it is a company fund or a government fund, you must follow the rules and restrictions set by those organizations.

Equation (1) will hold no matter what. You do not know how old you will get. It determines the value of t. And you do not know your future growth rate $\bar{g}$ since it will only be known at time t. However, you know the initial capital you are ready to put to work PV. You can continually evaluate the value of your fund at any time t that it be over ten years or 50.

All you can do, meanwhile, is speculate and make projections using $\mathrm{E}[\bar{g}]$ over the time interval you want. You could also draw expectations based on historical records.

People have been investing for hundreds of years.[7] What are the lessons we can take from it all? Which ones will be of use?

[7] see **Self-Managed Retirement Funds** (figures #1 and #2).

You have a choice based on your method of play. Growth rates of $< 5\%$, 6.9%, 10%, 15%, 20%, and more, including bankruptcy, are available. It means you could also lose it all, which is not your desired best scenario.

Your Minimum Choice

So, why would anyone choose an investment method that, over time, leads to a potential bankruptcy? If you have a choice, why not go for the $20\%^{+}$ and consider it your minimum?

You could always find ways to improve your strategy design. You have years and years to think about how to enhance your scenarios and investment methods.

In my recent articles, it was suggested that you should go for the $20\%^{+}$ overall average return. The best part is: it can be easily achieved.

If you have yet to see your current methods having done it in the past, do not think they will do it in the future? It is why it is suggested that maybe you need to change your methods and mindset to reach higher returns.

Nonetheless, it will take years to show you were right in adopting your new investment methods or maintaining your old ones. What will count over the years will be $\bar{g}$, your overall and final growth rate.

That you had projected a 15% growth rate over the next 50 years has no value if, after those 50 years, all you got was 5%. A simple comparison should make that point very clear. You have with $\bar{g} = 15\%$:

$$\$1,000,000 \cdot (1 + 0.15)^{50} = \$1,083,657,441$$

while a 5% rate would generate:

$$\$1,000,000 \cdot (1 + 0.05)^{50} = \$11,467,399$$

And yet, you can choose between the two! You could even choose:

$$\$1,000,000 \cdot (1 + 0.20)^{50} = \$9,100,438,150$$

and do better still with practically no effort at all. It remains a choice you have to make. And nobody is stopping you from choosing one of those three choices.

> Mr. Buffett started with $10,000,000. Therefore we should add a zero to the last equation:
>
> $$\$10,000,000 \cdot (1 + 0.20)^{50} = \$91,004,381,500$$

> Regardless, if you projected for the 20% growth rate and only got the 5%, that would be a bummer. And since all those years would have passed by, you would face a situation with few remedies, as time would be running out. On such long-term horizons, the reset fuse could be relatively short.

You must know from the start where you are going and what would be a good approximation of your expected CAGR. You still would have no guarantees, but at least you would have made every effort to get the best probable outcome.

Mr. Buffett has achieved and maintained his 20% CAGR for over 50 years, so no one can say it is impossible. And if you look around, you will find some that have had an even higher CAGR but over shorter time intervals.

Mr. Buffett often suggests future investors buy SPY (the S&P 500 index tradable proxy) and hold for a long time. At least, they would get the market's average growth rate, which outperforms more than 75% of portfolio managers.

It is hard to beat the market average. Only about 25% manage to do so. And the percentage of those making it big is a lot smaller.

Last year, the following two cited articles demonstrated that using QQQ as a trading vehicle could easily get results exceeding the 20% mark (simulations were on a slightly over 12-year period). See articles: **Use QQQ - Make the Money and Keep IT**, and **Take the Money and Keep it – II**. Some 34 tests were performed under various conditions, showcasing different points in trade aggressiveness. I also provided a link to the trading script used. So, anyone could redo all those simulations, get the same answers, and in doing so, get more familiar with the program used and the underlying rationale.

The same points discussed in those two articles apply today and even more so. This QQQ ETF's composition is why QQQ is designed to last for a very long time. But first, we need to look at price randomness since that strategy operated on what some would consider market noise. I will shed more light on these points.

Escaping Randomness

The above headline might be confusing since we will not escape randomness. It is pervasive and all present.

However, you can minimize its impact by extending your time horizon. There has not been any 50-year period in market history that turned out negative returns for the period.

That is not a 50/50 proposition anymore. It gives a probability of one that you will win

the game. What you want to know is by how much? And from the start, before you engage in this long-term venture of yours.

No matter how you look at the stock market, you will sometimes face what will be considered random events and their consequences. Some unpredictable events are classified as ”black swans”. They are called ”black swans” because they are rare and unpredictable. Or at least so rare that the cost of protective measures might exceed the loss from such outliers.

It is the environment your portfolio will have to live in and survive. Not only survive but also thrive in a financially hostile environment to the well-being of your stock portfolio.

Randomness is not rare. You have it daily, almost from trade to trade on any stock in this tradable universe. You rarely know how strongly who is pushing on whichever side of a trade. If we knew, we would develop appropriate trading strategies and greatly profit from them.

Sitting On Your Bunnies Might Be Your Best Investment Yet is more of a follow-up to the list of articles at the end of this paper. Consider reading them, as they provide more information and understanding of the long-term portfolio strictly designed to outperform market averages.

Do take the time to get more familiar with this subject. It will be to your benefit. And maybe, you already know all that stuff.

Let’s start with the assumption that stock market prices are totally random and then debunk that.

The simple fact that you cannot guarantee that the price will go up tomorrow should be sufficient evidence of some randomness in price movements. How much randomness there is is an interesting question. It is still without an answer. And if you knew, you could again design trading strategies that would greatly profit from the games you could play.

Not knowing if the price will rise or fall tomorrow implies that the odds for a stock price going up is about the same as for it going down, a 50/50 proposition which is a definition of randomness. That proposition is easy to simulate, and we can give it a mathematical formulation.

A Random Outcome Game

It is the same as playing heads or tails for a long time:

$$\mathsf{E}[F(t)] = F_0 + 100 \times 0.50 - 100 \times 0.50 = F_0 + 0$$

Say you have a 50% chance of winning one hundred just as you have a 50% chance of losing one hundred. It does not matter how many games you play or how long you play the game; the expectation remains the same:

$$\mathsf{E}[F(t)] = F_0 + 10,000 \times (100 \times 0.50 - 100 \times 0.50) = F_0 + 0$$

With those odds, you are not winning the game, nor do you lose it. You made 10,000 bets, and your expected gain or loss is still zero. It does not mean you will get a zero profit or loss scenario. You will most likely be off-centered from the mean of the expected zero profit. And your win or loss will have been generated by chance alone, by the outcome of 10,000 random events, each having a 0.50 probability of occurring.

You would still end up having had a 50% chance of winning the whole game by a relatively small amount.

We know that the market does not behave that way. A simple chart, as presented in my last paper,[8] can easily make that point.

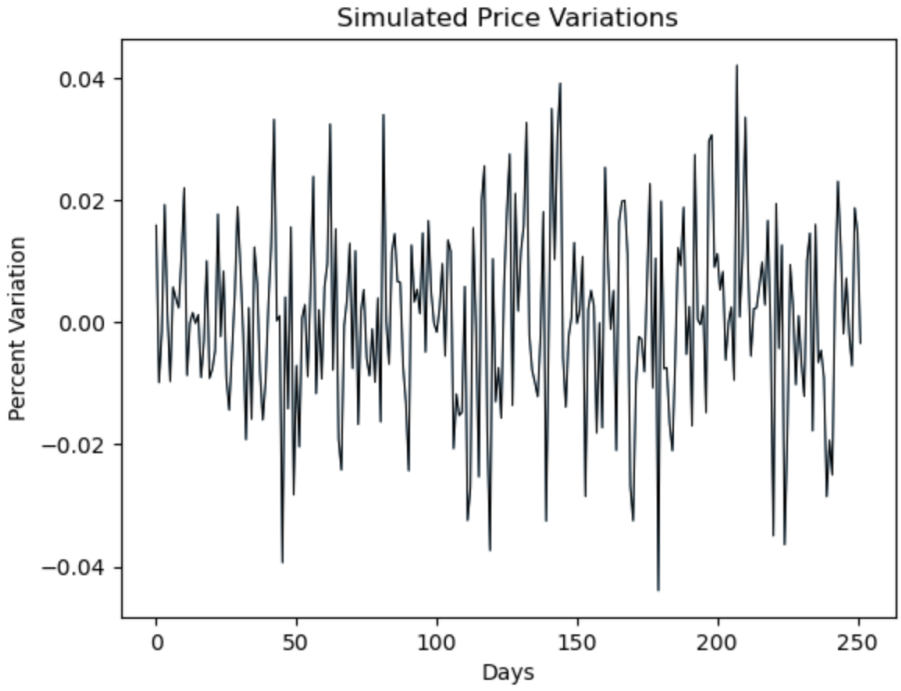

Figure 1: Price Series Percent Variations - 1 Year

From figure (1) above, we can observe how chaotic random variations can be. And it becomes understandable that we can hardly predict what will come next on any given day. We know that the future of that price series is just more random price

[8] See the first chart in **Self-Managed Retirement Funds**.

variations. That you redid figure (1) for ten stock price series at a time will not change the problem. The price variations will remain unpredictable.

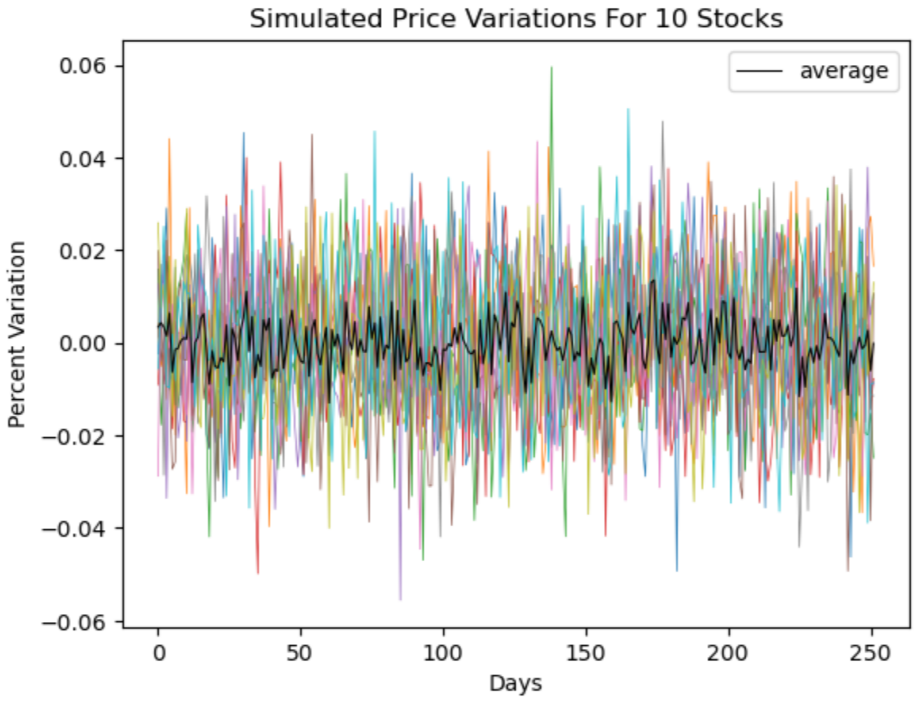

Figure 2: Price Series Percent Variations - 10 Stocks - 1 Year

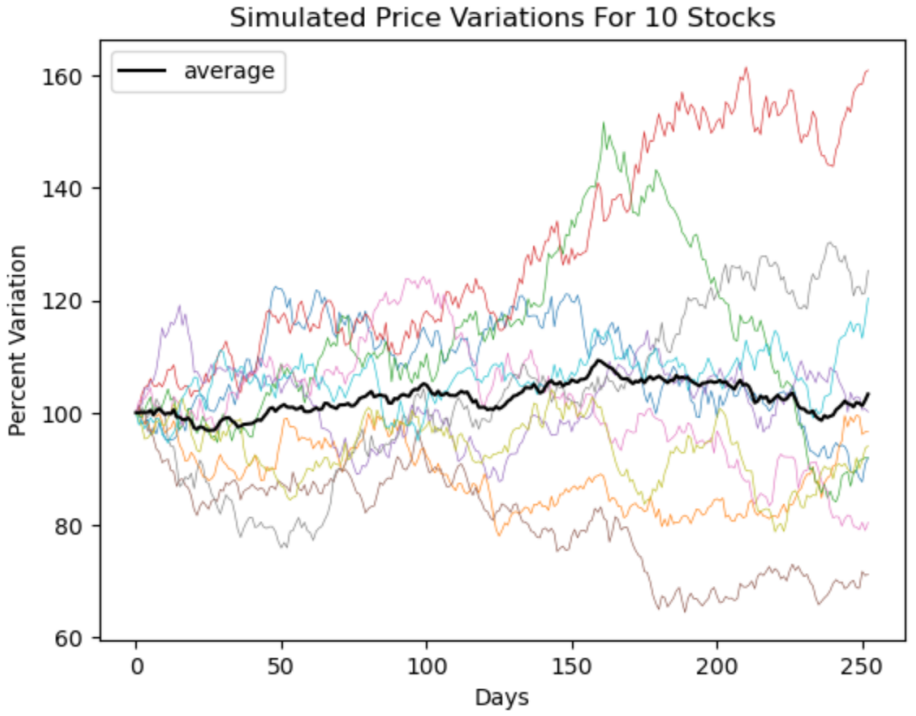

Figure 3: Price Series - 10 Stocks - 1 Year

We should observe in figure (2) that just using the average will reduce overall volatility, as illustrated by the black line in the middle of the chart (the average for the group). And that average will also be unpredictable.

Using 10 series did not change expectations. Overall, it remained zero.

We can convert those daily variations into price series by using the cumulative product of all those variations as in $p(t) = p_0 \cdot \prod_1^n (1 + r_i)$. It would translate into figure (3) for those ten stocks as presented in figure (2). Again, using the average (black line) would significantly reduce the volatility of individual price series.

If we went for a 100-stock scenario, it would not change the expected outcome, as illustrated in figure (4). Using the average would again only reduce overall volatility. And, still, it would not give you any expected gain or loss.

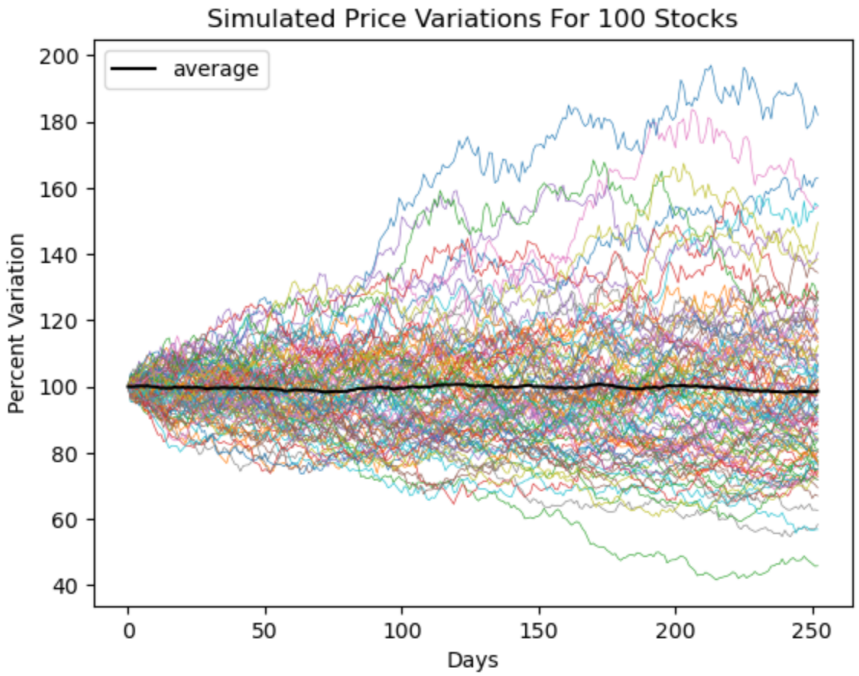

Figure 4: Price Series - 100 Stocks - 1 Year

The stock market is not as random as depicted in these figures, even though there is quite a lot of randomness in it, since we remain unable to predict with high probability what will come tomorrow.

It does not get any better should we extend figure (4) to 20 years as illustrated in figure (5). The expectation remains the same. On average, you do not win but do not lose either. The overall expectation remains zero gain, zero loss.

Knowing beforehand that forty years from now, after having invested your money and time, you would get zero in all probability should at least dissuade you from even

attempting this pseudo-capital appreciation endeavor.

You cannot rely on luck for your retirement.

As noted, that is not how the stock market behaves. We certainly could design a trading strategy that would play a 50/50 game for years, with each of the thousands and thousands of trades ending with a $\pm$\$100. But, we would know, even before we started, that it would not be a profitable proposition.

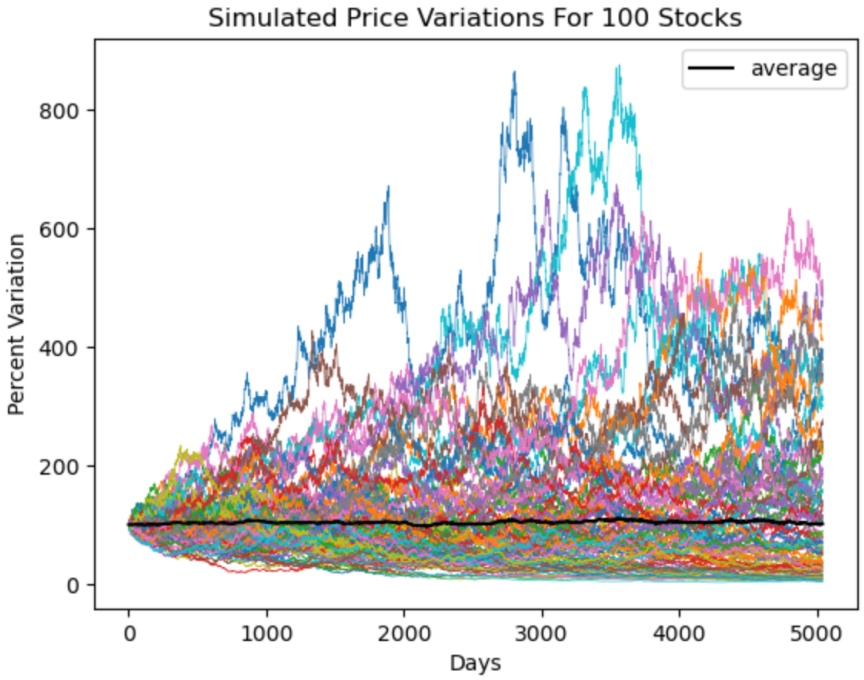

Figure 5: Price Series - 100 Stocks - 20 Year

What The Market Looks Like

The first thing to do is change the game you want to play. It might sound wild, but the market does not care how or why you play. It is just there as a medium of exchange to spread business risks. And all you do is try to speculate in which direction prices will go. There is a rationale for why prices move, but whatever you think it is, it might not be the underlying reason.

What is the aggregate outcome of millions of individuals and highly sophisticated trading programs reacting or not to what could be quasi-random events and changing market conditions?

You could guess or give out whatever reason(s), and somewhere, someone might listen. But would it be the underlying reason for the price move?

If we knew the reason for the price move in advance, we would profit from it. Period.

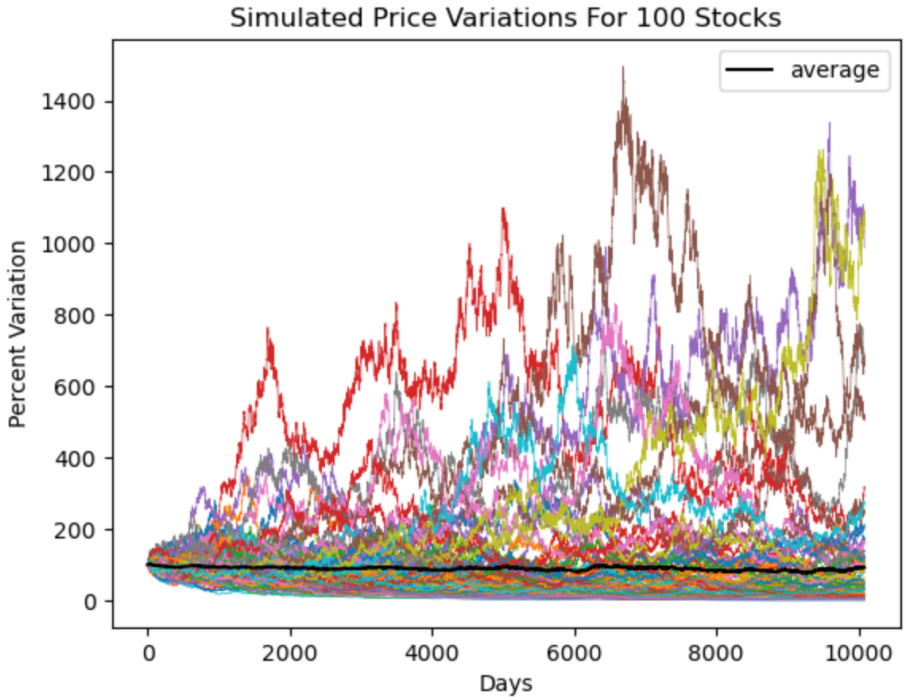

Figure 6: Price Series - 100 Stocks - 40 Year

You cannot change whatever the market will do. You know it does not behave as depicted in figure (5), and even if you extended it further, it would not change the overall expectations. To illustrate the point, figure (5) was expanded to cover 40 years (see figure (6)).

What might be accomplished could be a total waste of time. You would not get any closer to being profitable. The net expectation would remain zero.

Therefore, you have to change your game, your method of play.

What will it take? My estimate is not much!

All the charts presented above had a random normal distribution with a mean of zero, explaining why the charts went nowhere, whether for one year, 10, 20, or 40 years. It would be the same if we expanded those charts even further.

What kind of change would be required to make it a winning game? Well, as said, not much.

A Slight Upward Bias

All that is needed is a slight upward bias, translating into a small positive value above the expected zero mean.

Giving the mean a slight edge: $\mu = 0.20$ would have this positive effect. Figure (7) illustrates this point. We see the average rising with time, as most stocks are.

Which skills would be required to get a mean of 0.20 ($\mu = 0.20$)?

None at all, as will be illustrated as we dig deeper. Our first observation from figure (7) is that we see the average price rise, and it tends to simulate better what can be seen in figure one of the cited-paper: **Self-Managed Retirement Funds**.

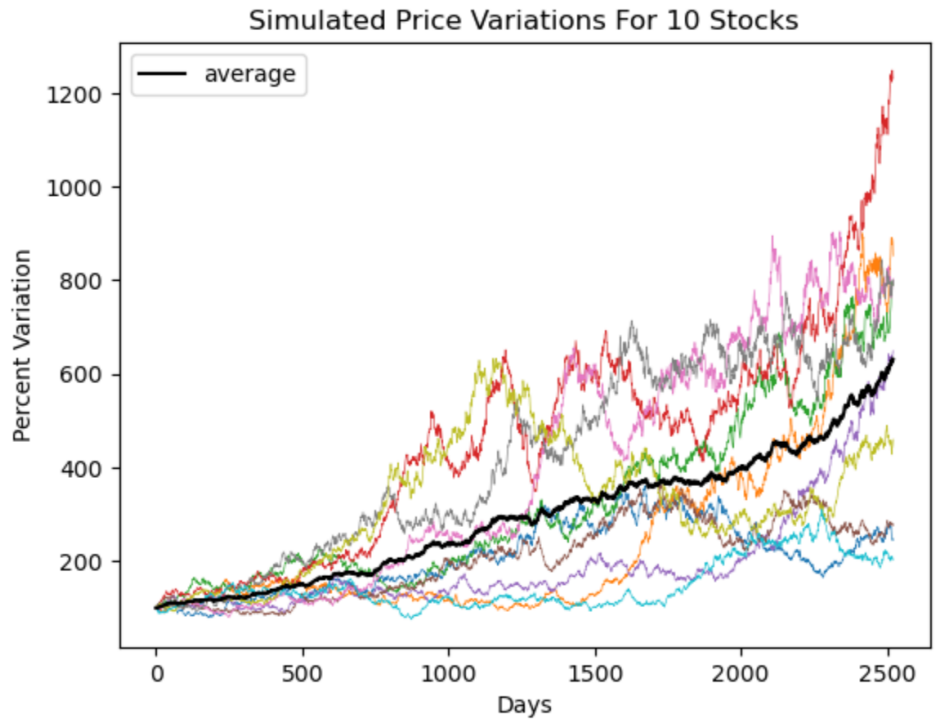

Figure 7: Price Series - 10 Stocks - ($\mu = 0.20$) - 1 Year

What we tried to introduce with the mean of 0.20 ($\mu = 0.20$) is already built in the market, meaning no effort is required to reap its benefits. It is literally given away in exchange for your participation in the game. Again refer to the above-cited paper.

Figure (7) only showed what would happen over ten years. What would be the outcome over some 40 years? The outcome would be as in figure (8) below.

Figure (8) has an 18.3% CAGR over those 40 years. And should we want to consider a 100-stock portfolio, the overall outcome with the same mean of 0.20 ($\mu = 0.20$) would generate figure (9).

This time, over those 40 years, the CAGR came in at: 21.3%. If I reran the simulation, I would get a totally different chart with all the price series changed but keeping the same randomness characteristics.

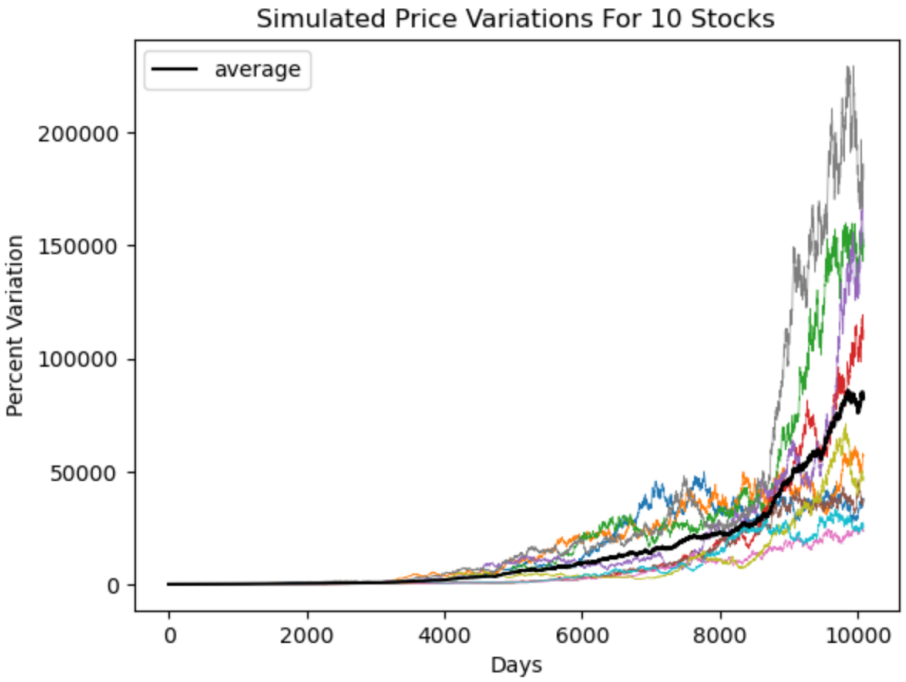

Figure 8: Price Series - 10 Stocks - ($\mu = 0.20$) - 40 Year

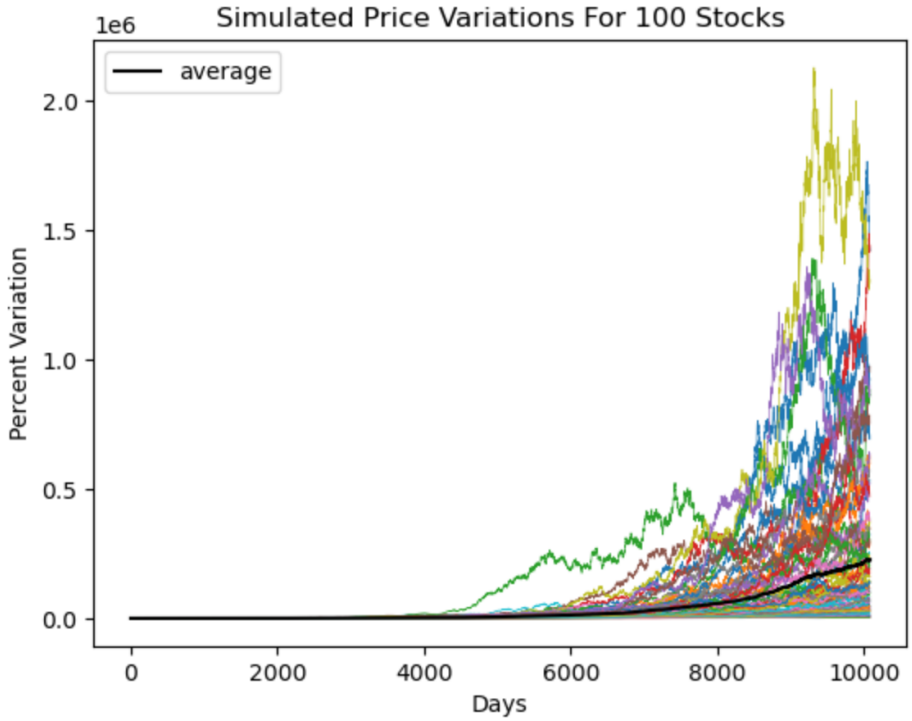

Figure 9: Price Series - 100 Stocks - ($\mu = 0.20$) - 40 Year

A second simulation put the CAGR at 23.2%. But that should be expected. Each time you ran this simulation, you would have different numbers for all the time series

and their average.

A third simulation came in at a 20.6% CAGR. I would need hundreds of simulations to determine the expected average $\bar{g}$ based on a mean of 0.20 ($\mu = 0.20$). I would have to run a whole new set of simulations for whatever change to the expected mean μ.

Increasing the mean to 0.30 ($\mu = 0.30$) would tremendously impact the overall outcome. To make the point, using figure (9) as base, the mean was increased to 0.30 ($\mu = 0.30$). It generated figure (10) with a CAGR of 33.8%.

Figure (10) should show how sensitive the upside bias could be over the long term. Sure, some work would be needed to sustain a $30^{+}\%$ CAGR over those 40 years. But, then again, maybe not that much.

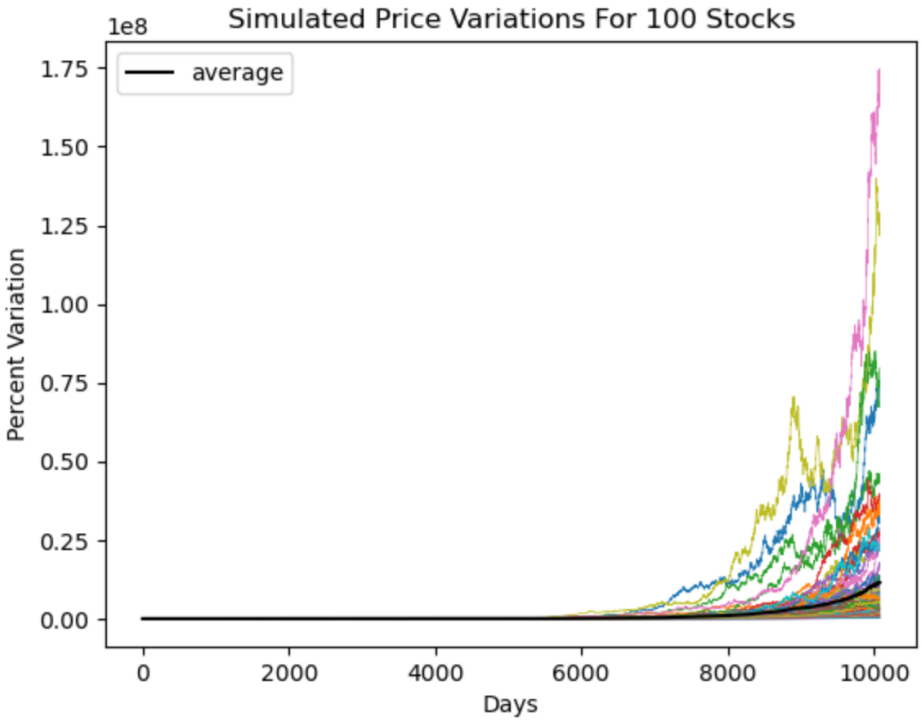

Figure 10: Price Series - 100 Stocks - ($\mu = 0.30$) - 40 Year

If you added some volatility to the portfolio, you could see it fly since it would tend to increase your CAGR over the period. To illustrate the point, see figure (11) below with a CAGR of 36.6%.

Not much was required in the execution of figures (10) or (11).

All the price series were randomly generated. The only difference was a slight increase in volatility and mimicking the visible upside bias seen in stocks over the

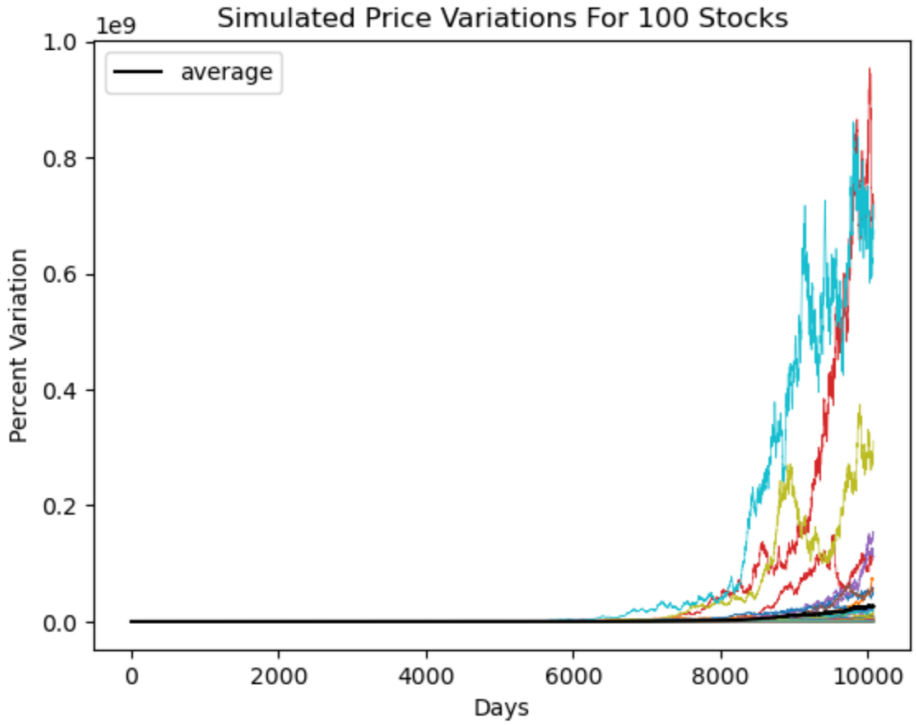

Figure 11: Price Series - 100 Stocks - ($\mu = 0.30.\ \ \Delta\sigma = 0.20,$) - 40 Year

past two centuries. Nothing extraordinary there.

Again, It Is Your Choice

What can you do to take advantage of what is available?

If you make projections over 40 years, the first question should be: will you get there? Will you reach retirement age? And how much older will you get after that?

Your prerequisite is survival.

Previous articles, like **Self-Managed Retirement Funds**, took the example of a 30-year old building his/her retirement fund with for objective to retire at age 65. But that is only part of the problem. There is also, what will you do to cover the next potential 35 years after retiring?

The above-cited paper suggested the following equation for this 30-year old:

$$FV = PV \cdot \left[(1 + \bar{g} - 0.04 - 0.01)^{35}\right] \cdot (1 + \bar{g} - 0.04 - 0.01 - 0.05)^{35} \quad (2)$$

where the person would first reach 65 and then survive another 35 years to reach his/her 100^{th} birthday. The equation made provisions for an average inflation rate of 4%, trading expenses of 1%, and a withdrawal rate of 5% per year during retirement.

What is at stake over the first 35 years? Well, it could easily be the following:

$$\$1,000,000 \cdot (1 + 0.20)^{35} = \$590,668,229$$

It is not negligible. And over the next 35 years:

$$\$590,668,229 \cdot (1 + 0.20 - 0.05)^{35} = \$78,662,550,586$$

which includes the yearly 5% withdrawal which is increasing at a 15% rate. The first year of retirement would allow a withdrawal of $\$590,668,229 \times 0.05 = \$29,533,411$, and it would increase by 15% per year. It would be more than enough to pay for the beer and a few extras.

The only things remaining vague in equation (2) are PV, the initial capital put to work, and the average overall return $\bar{g}$. The above cited-paper proposed using the QQQ ETF to get some ready-made and built-in alpha.

The emphasis should be PV and how to substantiate it since it will compound over all those years. As is being demonstrated, $\bar{g}$ is relatively easy to get.

The reasoning is simple. QQQ holds the top 100 stocks by value on NASDAQ[9] and therefore should outperform the 500 stocks part of the S&P 500. QQQ should outperform SPY by construction: the top 100 is better than the top 500.

The QQQ ETF is a subset of the S&P 500 value-weighted selection. Buying the QQQ's stock selection process is sufficient to give you some added alpha and gain extra long-term performance points. The above-cited paper demonstrated that.

A sub-selection out of the QQQ ETF, such as its top 50 stocks, would further increase overall performance. The average of the top 50 stocks will be higher than the average of the top 100, almost by definition. The stocks are ordered by value. Therefore, a ranked sub-group from the top would have a higher average value than the whole group. The top 50 would do better than the top 100, just as the top 100 would do better than the top 500, or the top 2000, for that matter.

Over the last few years, the ten highest-valued stocks in QQQ accounted for over 60% of its overall return, giving even more emphasis to following a QQQ sub-group operating near the top of the list.

You are always looking at ways to gain more alpha above market averages, and there you have it.

As silly as it may seem, you can simply buy some alpha from the start.

[9] The same 100 stocks mimicking the same weights as in the NASDAQ 100 Index (NDX).

It is an easy choice that is available without even researching to determine or find new ways to extract more alpha from your portfolio.

Building your long-term portfolio using the highest-valued stocks part of QQQ has several advantages. At first view, it will be your bet on America by investing in its highest-valued and most profitable companies.

Remarkably, that stock selection, by its very nature, has an internal stop-loss built in.

Here is the rationale. The stocks part of QQQ have a low probability of going bankrupt while on the list.

Over the last 20 years, not a single stock on its list has gone bankrupt. None has done so since QQQ's inception. If a stock drops out of the list, its entire position is automatically liquidated. It gets replaced with a new contender for the top spot making your overall stock selection the top 100 again.

In addition, a top-100 list of the most valuable stocks will still be around 50 or 100 years from now. The content of that list will change quite a lot.

For instance, from the 30 highest-valued stocks in 2000, only two remained on that list 20 years later, while the highest-valued stocks when from a valuation $100B to over $1,000B.

But whatever the changes, the list will contain the top 100 in any of those years. Only the names will change and their respective ranks.

You are assured of having a long-lasting stock selection process where you are not the one making the selection. It is all done automatically for you and kept up-to-date by a group of people watching how these stocks evolve, grow, or retreat out of the list. Stocks being replaced by new ones could always come back on the list should they re-qualify.

The stocks part of QQQ represents the easiest way to populate your portfolio of survivors.

In this investment game, it is all you want: the stocks you invest in must prosper and last. Otherwise, they do not deserve to be in your portfolio and should be sold. Should any of those stocks underperform, meaning drop from the list, they should be liquidated and replaced by better candidates with better prospects.

The stocks at the bottom of the list are the ones usually being replaced. These are the stocks having the smaller portfolio weights of the group. And since the QQQ is value-weighted, those dropping out will represent less than 1% of the total portfolio. Most often, much less.

Stocks are being replaced by new blood aspiring from their low-weight entries to some higher standing in the group. They enter the list from the bottom and gradually will have to make their way up if they can. It should be considered quite a feat to have reached the top 100 status. It will require a lot more work for them to stay on it.

> *Some two years ago, Mr. Buffett won a bet he had made ten years prior. He had challenged any hedge fund manager (using their investment techniques) to outperform the S&P 500 if they could. The prize: $1,000,000.*[10] *Only ONE individual out of the thousands that could have taken that bet did. And he lost. All the while, he could have won easily by playing a closet indexer, buying QQQ, and waiting it out.*
>
> *It is often said that 75% of portfolio managers fail to beat the market average. And yet, the chart below shows how easy it could have been. You would have in QQQ a one-decision portfolio outperforming SPY. Notice the increasing spread between those two lines.*

The best part of this strategy is that you have very little to do. You buy QQQ and then wait, and wait some more, for a long time. You could do it for decades, being assured that your portfolio will grow no matter what unless you adhere to some apocalyptic scenarios where mass extinction or worldwide enslavement is the outcome. Quite some time ago, I decided also to take Mr. Buffett's bet on America. America will do great in the coming decades. It will survive and thrive, just as many other countries will.

Figure 12: SPY vs QQQ - Since 2010

So, all this gets you back to the title of this paper: **Sitting On Your Bunnies Might Be Your Best Investment Yet**. And it might be exactly what you need to do after you have taken a sufficient position in QQQ.

[10] The $1,000,000 went to charity as was specified in the original bet.

This QQQ portfolio will be totally under your control. It could be your piggy bank where you can add more capital at any time to increase your positions or extract some funds when you need to for whatever purpose.

Figure (12), generated on Yahoo! Finance, says it all. No need for words. Since 2010, QQQ has outperformed the S&P 500. And it will continue to do so due to its composition. The best top 100 are better than the top 500. Simple enough.

The primary intention is to have a reliable, steady, and growing income stream while in retirement. And, at the same time, grow a legacy fund for your loved ones. They are the only ones that will say thanks for the legacy. The alternative is leaving it all to your government, some institution, or your dog. And that might not be the best of choices. Have someone thankful, remembering your passage on this planet.

In reality, you face a common sense problem where you do not know the future, and your future depends on it. Practically nobody 100 years ago predicted all we have available today. And again, almost nobody can predict everything that will be there in 100 years.

But, do you need to know what will be there 100 years from now? You might not even be there. And therefore, why should it matter to you at all? It will matter to your children and, in turn, theirs.

Your concern might be day-to-day. So, let tomorrow be tomorrow, and let your portfolio grow. Let it follow equation (2). Your vision is not only for you. It is also for those you will leave behind.

If you do not see what is behind figure (12), I cannot help you. Or, maybe, you cannot help yourself.

Figure (12) is the minimum you could do until you have something better. It should be the way to go.

You want to win. You want to win big. And you want to be sure you will win.

Yet, to do this, you will have to play in a world of uncertainties, ruled by a lot of randomness, and in a chaotic financial system where you can hardly guess what will come tomorrow.

But your job is not to outguess what the market will do tomorrow; it is to build a worthwhile retirement fund that will grow and last you a lifetime, hopefully for decades.

I hope you do more, like adding protective measures to minimize the downside. You want your portfolio to grow, and as was alluded to in the above equation, the average

growth rate you achieve over the entire period will matter even more so while you will have retired.

The average growth rate could be expressed as $\bar{g} = \bar{r}_m + \alpha_1 + \alpha_2 + \alpha_3$ where $\bar{r}_m$ is the average long-term market return used to represent the return from something like SPY. α_1 is the added alpha provided by selecting QQQ, α_2 could originate from selecting a sub-group of stocks from QQQ, and α_3 is the result of your added trading procedures. If you have other alpha sources, they could also be added to your average return equation.

You have for guide equation (2) above. It covers not only up to retirement but also after. And it will depend on how much return $\bar{g}$ you can extract from the market over the long term. At least, you will know that you will win that game with minimal effort and mostly by staying put, sitting on your bunnies, waiting for your game to pan out as anticipated.

Your 'bunnies' can now gain the respect they deserve.

Guy R. Fleury

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