

October 20, 2025

The Coming Wave of Major Moves

Good Afternoon,

I believe present conditions suggest a favorable period for trend-following over the coming years. The compression of volatility in many asset classes, an extremely overvalued stock market, a chaotic political situation and an economy showing signs of weakening all together, in my opinion, increase the likelihood of major trends coming.

We actually already may be seeing early signs of it. Our Eupatrid Global Trends program has gained +30% since June 1st thanks mostly to gold, live cattle and some stocks. But we are still very much in the early innings.

I've pounded the table over the past 15 years about buying into trend-following drawdowns. Many who have come before me have done so as well. Historically, drawdowns offer statistically favorable entry points to invest and I believe now is yet another opportunity to do so.

In this write-up, I highlight some of the key factors I believe support my thesis that major trends are coming our way. My hope is that this will motivate you to take a look at your investing plan, particularly your current risk controls and maybe even consider making a trend-following investment.

Thank you.



Michael Melissinos, Founder

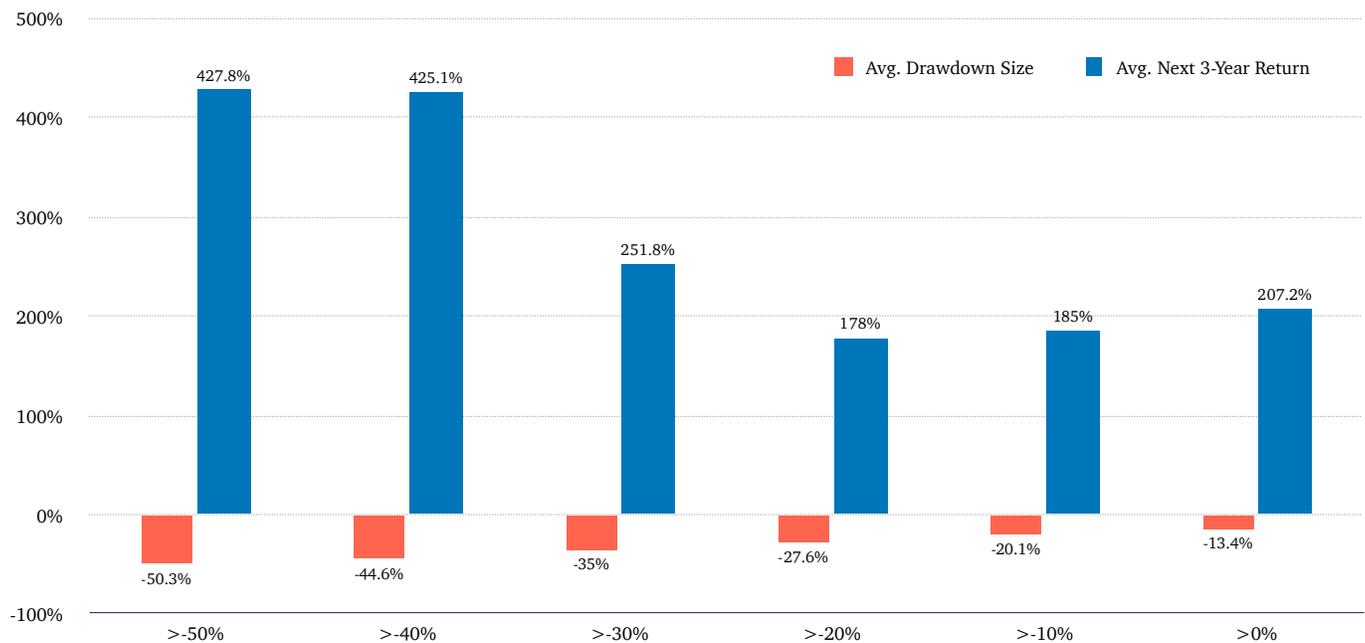
The Natural Cadence of Trends and Consolidations

We've endured a few years of volatility compression. Throw in some gnarly whipsaws around Liberation Day and you get a sizable drawdown for trend-following. But from afar without knowing any particular fundamental factors, this drawdown would look like many others. It's not special. Just another in a long line of drawdowns.

So, if we look at the historical performance of a simple trend-following system since the late 1970's, we can see that very strong profitable periods tend to follow drawdowns. The system I use as a proxy is the same system I use in all of my writings. Other examples [The Path Out of Drawdowns](#) and [Embrace Pareto's Principle](#).

In Q1, this system's drawdown grew to -63%. Historically, very strong performance periods follow — again, for those who stick with it. Who knows what will happen this time, but again, all we can do is make the best statically-based decision possible based on the present information.

Large Profits Tend to Follow Large Drawdowns — For Those That Stick With It



Past Performance Does Not Necessarily Indicate Future Results. This illustration is for informational purposes only.

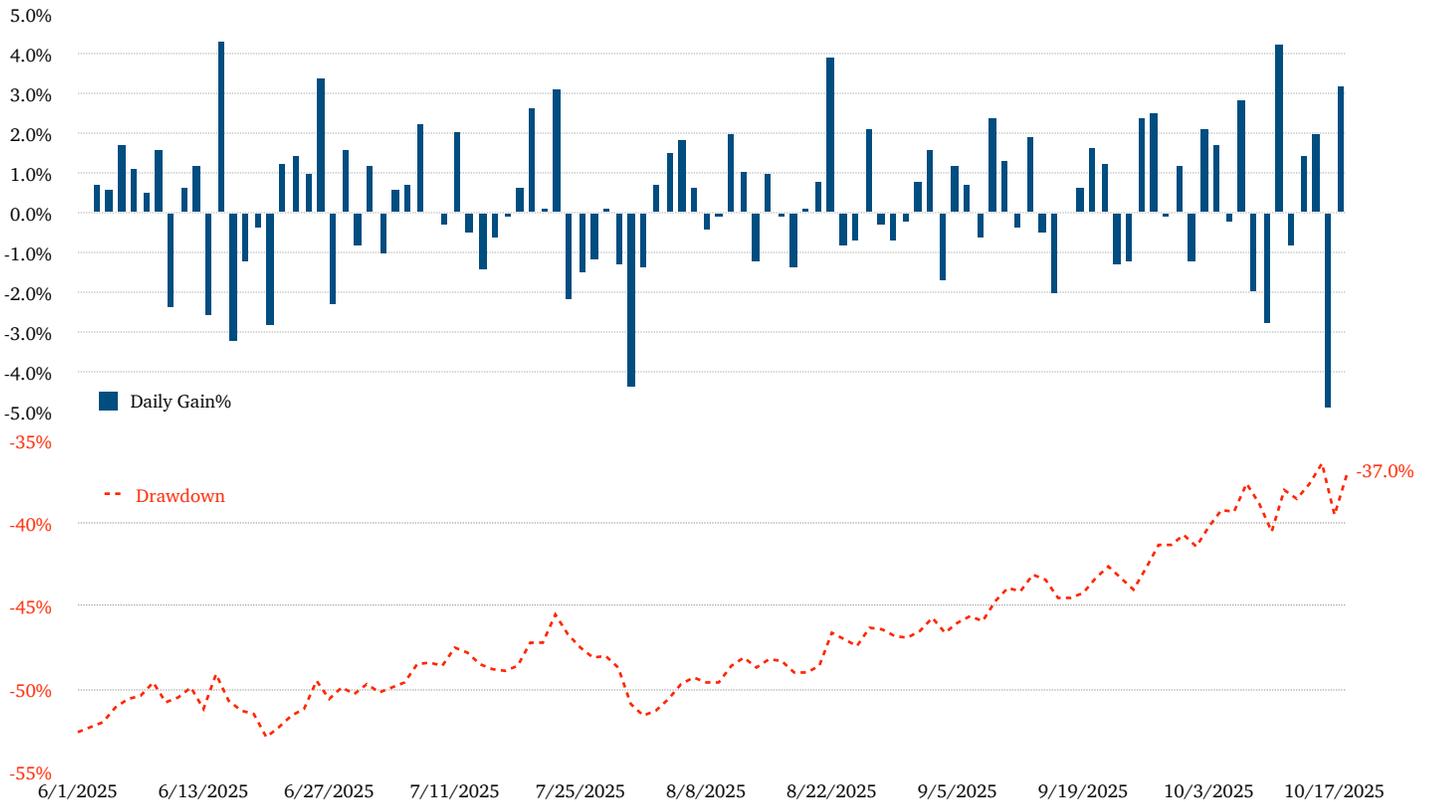
A Present Opportunity

Our EGT program's drawdown grew to -52.6% in May. Gnarly, but well within expectations given our aggressive posture. As I mentioned on the first page, it has gained approximately 30% since June 1st. As of this writing, our drawdown sits at -37.0%.

Below is the daily performance graph showing the path out of this drawdown. For similar historical examples of how a trend-following system performs during drawdowns, please check out [The Path Out of Drawdowns](#).

Current Drawdown & Recovery

Size: -52.6%; **Length:** 999 days, Sep 22 — Jun 25; **Recovery:** +30% over 100 days through Oct-20th



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Bubble Territory

According to the Schiller PE and Warren Buffett Indicators, we have an incredibly overvalued stock market. There are no givens of course, but present valuations suggest U.S. equities could see annualized returns of +2% to -2% over the next decade. Howard Marks spoke about this in a recent memo [The Calculus of Value](#).

We're in bubble territory. Speculation is running rampant. Complacency is high. Very few people are considering the downside risks. The risk of a major humbling bear market is high in my opinion.

When you get so many people on one side of the trade, you have to worry and protect your ass. Everyone focuses on predicting when or what could end this trend but few worry about actually taking the steps to manage risk.

I suspect whenever this trend shifts, it will have cascading effects on the markets in general — providing us with an abundance of opportunities.

Schiller PE (CAPE) Ratio



Source: multpl.com

Buffett Indicator: Value vs. Historical Trend



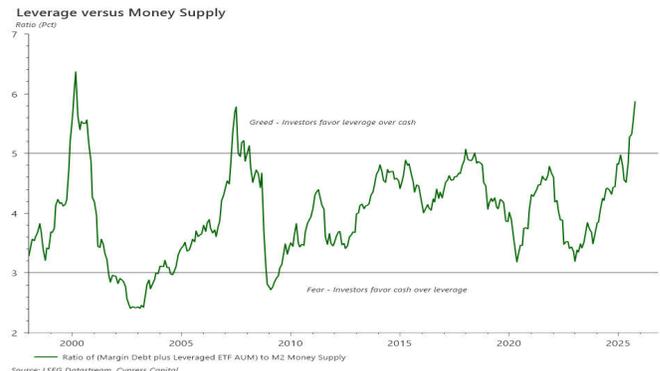
Source: currentmarketvaluation.com

NYSE Margin Debt



Source: i3invest.tech

Leverage-to-Money Supply Ratio



Source: LSEG Datasheet, Cypress Capital

Source: cypresscapital.com

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Gold Sends an Ominous Signal

While stocks continue to trend up, they have begun to break down versus Gold and other precious metals. Over the past 50+ years, the long-term trend of Gold:SP500 has not produced many signals (five), but we are now getting a bullish signal.

The uptrend in the Gold:SP500 ratio suggest equities could underperform for an extended period of time. While only a sample size of two, the two stretches where stocks underperformed Gold (#1 and #3 below), this also overlapped with above-average equity valuations and major bear markets.

Gold-to-S&P 500

2-Year EMA (Blue), 4-Year EMA (Orange)



Performance Figures

Trend	Date Range	Total Return		Worst Decline		
		Gold	S&P 500	Gold	S&P 500	
1	Up	Jul 70 — Apr 83	1,110%	124%	-62%	-48%
2	Down	May 83 — Dec 02	-20%	440%	-50%	-49%
3	Up	Jan 03 — Sep 13	280%	90%	-38%	-57%
4	Down	Oct 13 — May 25	148%	252%	-47%	-34%
5	Up	Jun 25 — Present	25%	11%	—	—

Gold vs Tech



Gold vs Yields



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Compressed Volatility Fuels Trends

The charts say it all. On page 2, I mentioned the natural cadency of volatility expansion and compression; of trends and whipsaws. Well this is what it looks like. I believe the next phase is expansion and trends across multiple asset classes.

S&P Goldman Sachs Commodity Index



This illustration is for informational purposes only. It does serve as a recommendation to buy, sell or stay out.

U.S 10-Year Treasury Note



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Final Thoughts

Let's recap. We have a statistically favorable situation for future trend-following returns. We have extremely overvalued stocks and even recent underperformance vs. Gold (plus other precious metals). We have low and compressing volatility across many asset classes that historically serve as fuel for strong trends.

The other two items I did not mention in detail are the political environment, specifically how policies will affect global trade, and the potentially weakening economy. Inflation remains above target. The U.S. ISM Services Business Activity at 5-year lows and housing is showing signs of strain.

We do not necessarily need a recession to experience a bear market in stock prices. During the dot-com crash, for example, the U.S. experienced only a mild recession (two negative GDP quarters) but the Nasdaq declined -80%. Remember: the company does not equal the stock.

Our "leaders" try to manipulate this natural cadence of the market cycle. They only want up up and away prices, but stimulating the economy via debt and regulations do not work. All it does is increase asset prices, for a while at least, and weaken our economic and societal foundation. Eventually, all of this string pulling can lead to a rug pull — and an abundance of opportunities for adaptive trend-followers.

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