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SPECIAL REPORT

Enron AI

How The AI Bubble Could Collapse And Take The Entire Market With It
A Hedging Trade Designed For 10x Returns

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A Hedging Trade Designed For 10x Returns

At the heart of every great financial mania lies a kernel of truth.

That truth typically involves a technological revolution that promises to change the world, causing investors to jump in with both feet with the dreams of striking it rich. But inevitably, investors take it too far. As the speculative frenzy builds, too much capital floods into an industry chasing increasingly marginal investments. The music inevitably stops, and the boom gives way to a devastating bust.

It's the most familiar pattern in finance.

We saw it in railroads and canals in the 1800s, radio and electrification in the 1920s, and with the rise of the internet in the 1990s. Each of these episodes delivered major leaps forward in technology and a new era of economic productivity that eventually changed the world. But they also promised to make investors rich overnight. And that promise led to unchecked speculation, with all of the predictable consequences. Even as the technology continued marching forward, the investors who rushed headlong into the speculative frenzy ultimately lost fortunes.

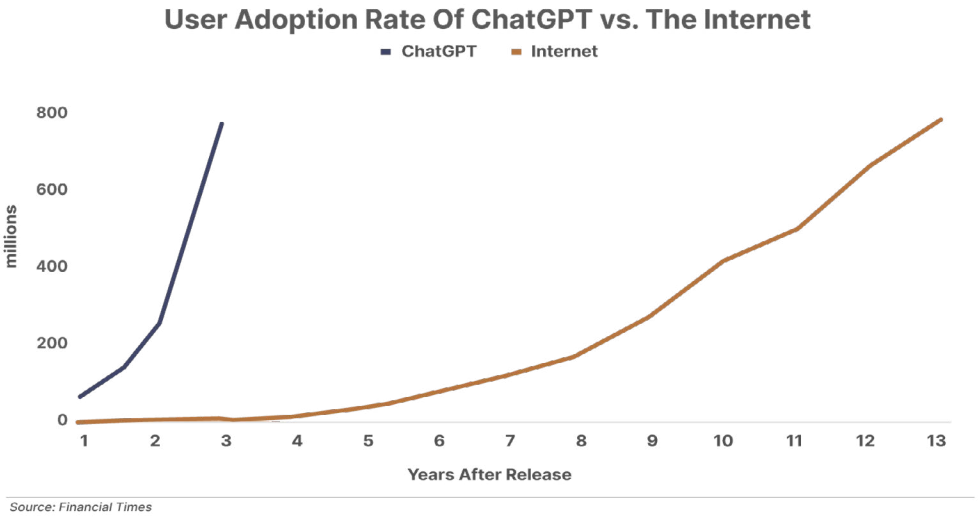
Today, we're seeing the same pattern repeat in the artificial intelligence ("AI") boom.

Like all those that preceded it, the AI bubble is rooted in a kernel of truth: a game-changing new technology that will change the world as we know it.

The AI Boom Begins

It all began in November 2022, when OpenAI launched the AI chatbot known as ChatGPT 3.5.

ChatGPT took the world by storm, racking up a million users within just five days. Two months later, in January 2023, the number had exploded to over 100 million users. It was the fastest adoption rate of any consumer product in history, exceeding the internet by a wide margin:

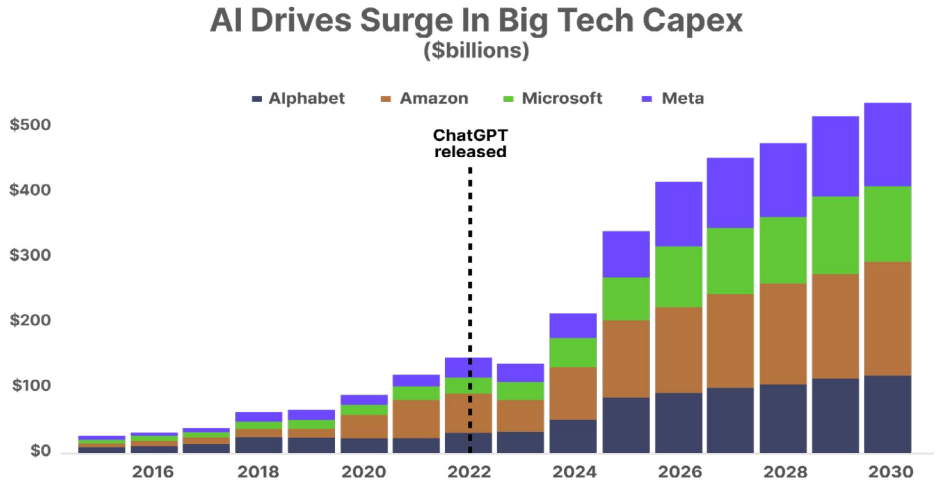


Source: Financial Times

With nearly a billion ChatGPT users today, there's no denying the power of this revolutionary new technology. And it will surely change the world. But the rampant enthusiasm about the promise of this technology has inspired a full fledged speculative mania, the likes of which we've never seen.

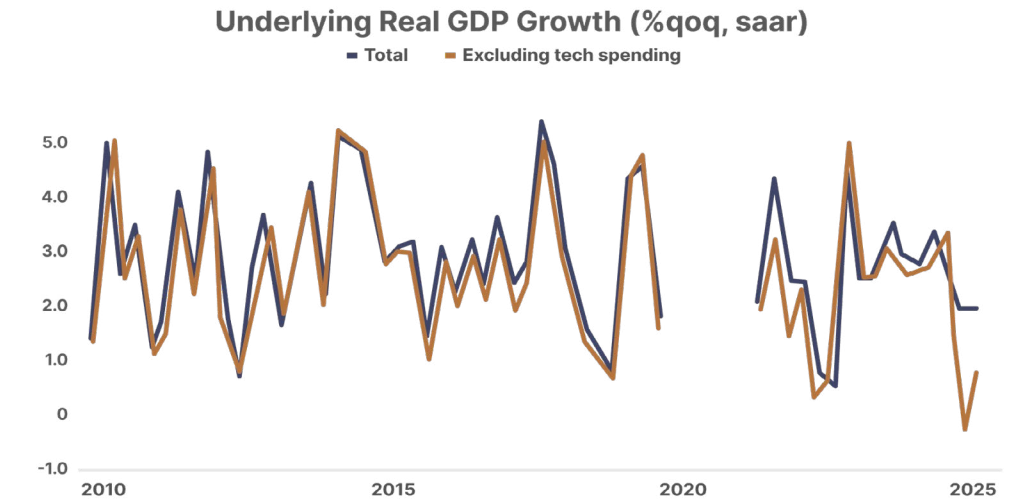
The meteoric rise of ChatGPT has sparked a feeding frenzy among America's leading tech companies to win the AI race at all costs. Leading the charge are the four "hyperscalers" – large-scale cloud computing giants that own the data center infrastructure required to run AI models – known as Microsoft, Meta, Google and Amazon.

These four companies alone will sink nearly $350 billion into capital expenditures this year, mostly focused on building data centers to power the AI revolution. This reflects a 10-fold surge in their capex budgets from a decade ago, and it's only the beginning. Over the next five years, this investment craze will exceed $2 trillion, equal to the size of the entire Canadian economy:



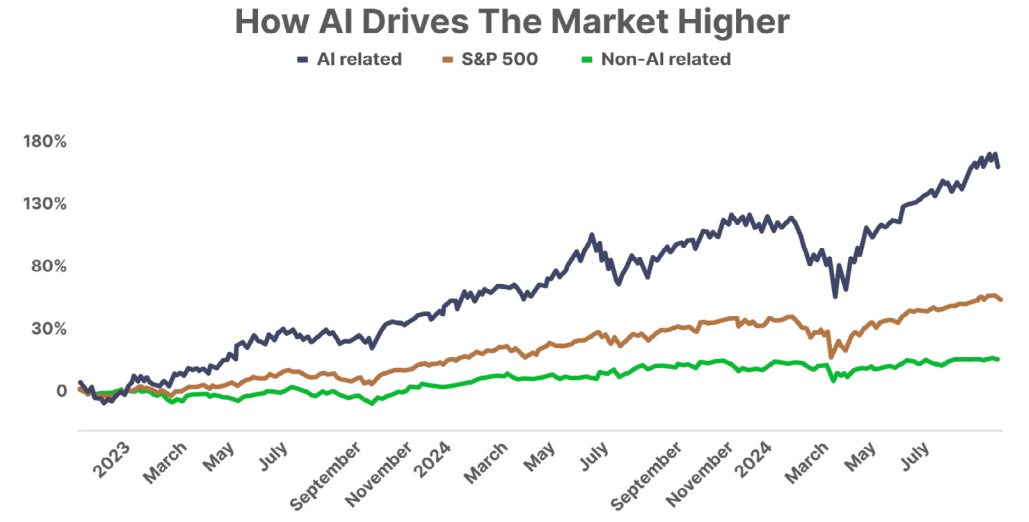
The sheer scale of this capex binge is unmatched in history. These investments into data centers and other AI-related infrastructure is now the single biggest factor propping up the U.S. economy.

The truth is that the underlying U.S. economy has been on the verge of recession all year. The ISM manufacturing index has declined for eight consecutive months. But the hundreds of billions in spending from Big Tech companies has prevented the economy from slipping into recession:



Source: Deutshe Bank Research

The AI trade is also propping up the overall U.S. stock market. The average non-AI stock in the S&P 500 is up a meagre 24% since the launch of Chat-GPT in November 2022. The vast majority of the gains in the overall market have come from the outperformance of AI-related stocks which have gained 165% over that same period:

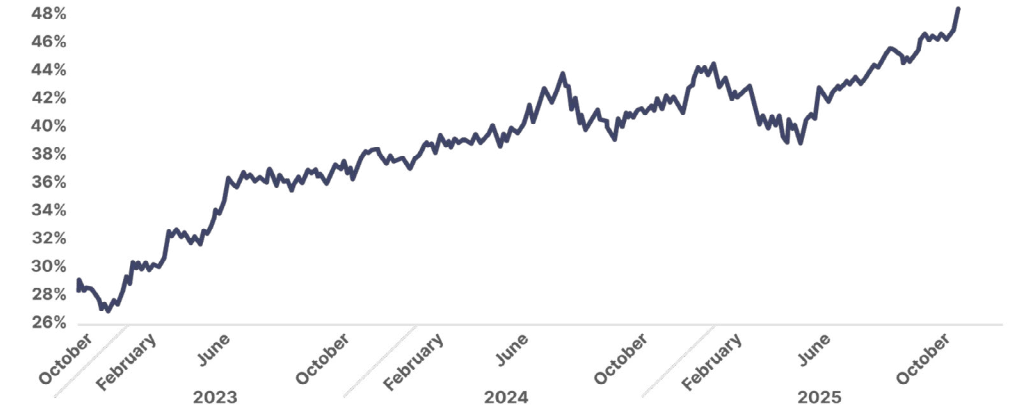


Here's the problem... the S&P 500 is constructed as a market-capitalization weighted index. This means that it will increase the index-weighting of stocks rising in market value, while reducing the index-weighting of stocks falling in value.

And thanks to the massive outperformance of AI stocks, just 41 companies in the 500-company index now make up nearly 50% of its weighting. This includes the Big Tech companies investing into data center infrastructure, the semiconductor manufacturers like Nvidia providing the chips that power these data centers, along with a handful of energy and utility companies supplying the energy.

With less than 10% of the companies in the index making up half of the index weighting, the U.S. stock market has never been so concentrated on a single investment theme.

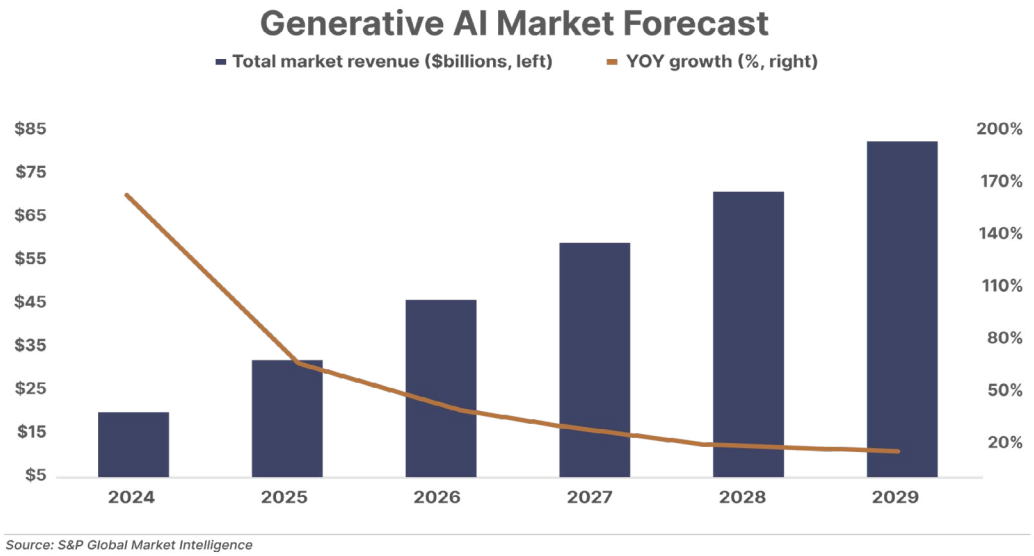
Percentage Of S&P 500 In AI Stocks



So both the U.S. economy and the stock market have become one massive, all-in bet on the fate of the AI boom. And in order to sustain all of this AI-fueled economic activity and stock price appreciation, hundreds of billions of dollars must flow continuously into new data center infrastructure each year.

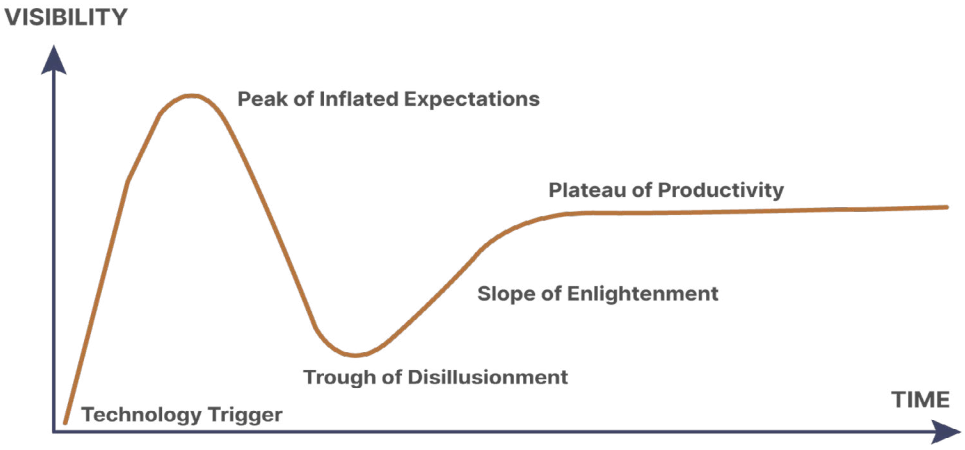
But here's the problem... the companies on the other end of this boom aren't generating anywhere near the revenue needed to earn a return on this investment.

This includes the leading AI applications like ChatGPT, owned by OpenAI – a company only making an estimated $13 billion in annual recurring revenue. Across all AI applications, the total revenue this year will add up to around $30 billion, and is estimated to reach just $85 billion over the next four years:



A report from MIT showed a staggering 95% of the companies who've adopted AI aren't seeing any meaningful results from it yet. Worst still, another report found that 42% of businesses had already scrapped most of their AI initiatives… up drastically from 17% last year.

So what we're seeing is all the classic signs of over-exuberance right now.



With $500 billion of investment each year flowing into an industry that won't even crack $100 billion in revenue by 2029, we've officially reached the peak of inflated expectations. And it doesn't take a financial wizard to see that the math simply doesn't add up.

It gets worse. So far, we've only covered adoption rates and revenue. But what about the actual economics of AI? That's where things go from bad to downright dismal.

The AI companies at the heart of today's boom are shoveling cash into an inferno. Let's consider the case of the industry leader, OpenAI. As a private company, there's limited public information about the state of OpenAI's finances. However, we can indirectly infer how much money it loses through the financial statements of Microsoft, which owns 27% of OpenAI.

Microsoft records gains or losses from its OpenAI's stake through the equity method investment accounting treatment in its income statement. Thus, if OpenAI makes money, it shows up as a positive benefit to Microsoft's net income (and vice versa when it loses money).

In Microsoft's most recent quarter for the period ending September 30, 2025, the software giant reported a $3.1 billion loss from its 27% OpenAI stake. This implies that OpenAI itself lost $11.5 billion in that same quarter. On an annualized basis, that a whopping $46 billion loss each year… for a business generating an estimated $13 billion in annual revenue.

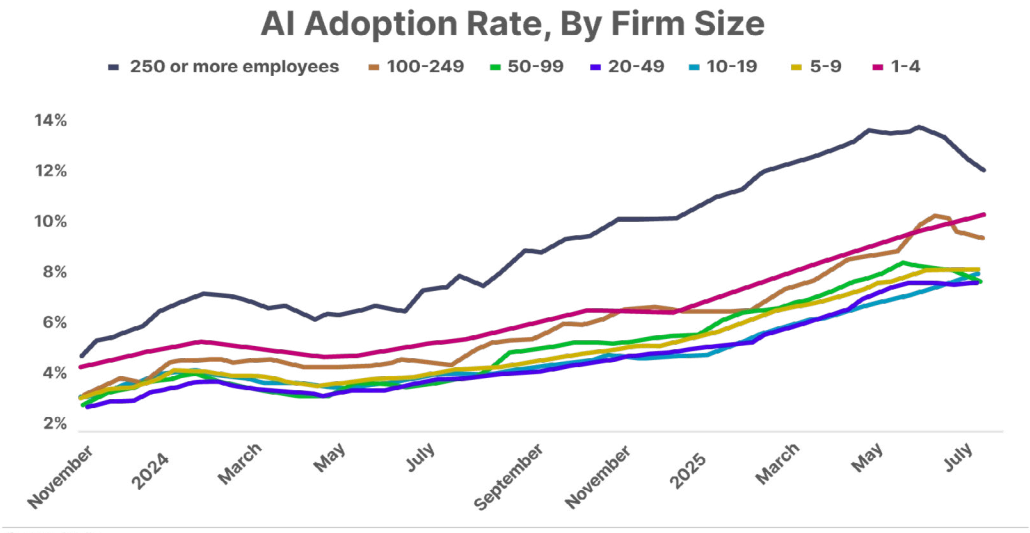
In other words, these numbers indicate OpenAI is losing $3.50 for every dollar of sales. And this cash flow inferno shows no sign of ending any time soon. Based on internal reports leaked to the press, OpenAI currently expects to lose an incredible $115 billion through 2029.

The same is true for the number two AI application, Claude, owned by private company Anthropic (which counts Amazon and Google as significant investors). Industry analysts estimate Anthropic's annual run rate of revenue at around $7 billion. And like OpenAI, Anthropic also generates billions in operating losses to generate this revenue.

In order to transform these businesses from cash-burning machines into profitable enterprises, research firm Bain & Company estimates that AI companies will need to find another $2 trillion in revenue by 2030. But absent a game changing new innovation that unleashes a windfall of new revenue, this scenario looks increasingly impossible.

The vast majority of consumers using AI products are not paying a dime for the privilege. According to industry analysts, OpenAI has only managed to convert approximately 35 million of its 800 million users to its paid plans. That's a conversion rate from free to paid users of less than 5%. And given the immense computing needs required to support the other 95% of free users, it's hard to see how the business ever turns a profit without a massive influx of new paid subscribers.

Meanwhile, OpenAI only has about 5 million business users. The big promise of the AI industry has long been the prospect of replacing expensive, white-collar workers with AI applications. But these promises have so far fallen well short of the hype, and AI adoption in corporate America has already stalled out based on the following data compiled by investment firm Apollo Global:



Source: Apollo

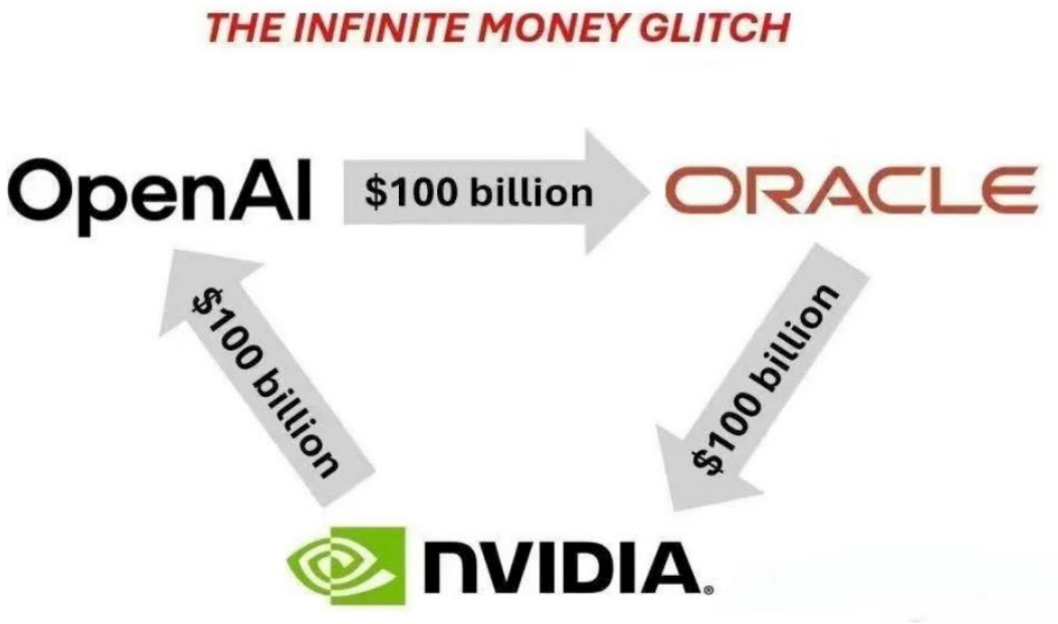
So, with no clear path toward generating the hundreds of billions of dollars in new revenue needed to become profitable, how are companies like OpenAI footing the bill for their cash flow inferno?

Artificially Inflated

The major players in the AI industry have constructed an elaborate financial mirage to keep the cash flowing and their share prices inflated. Consider a recent series of financing deals between OpenAI, Nvidia, and cloud computing giant Oracle.

On September 10, OpenAI signed a deal to spend $300 billion with Oracle on new data center infrastructure. Now remember, this is money that OpenAI doesn't have (it's losing billions each year). So where will the money come from? The answer was provided on September 22, when Nvidia agreed to invest $100 billion in OpenAI. OpenAI will use this money to pay Oracle, which will then buy GPU chips from Nvidia to build OpenAI's data centers.

In other words, it's an infinite money glitch and a perfect circle of financing. It starts with Nvidia's $100 billion investment into OpenAI, which goes to Oracle as the middleman, and then right back into Nvidia's pockets:



This is not an isolated example. Less than one month later on October 6, AMD signed a deal to sell "tens of billions" worth of chips each year to OpenAI (exact purchase commitments weren't disclosed). Once again, this is money that OpenAI doesn't have… so where's it coming from? AMD, it turns out. In exchange for signing the deal, AMD promised to give OpenAI up to a 10% equity stake in AMD based on certain contingencies. Thus, AMD effectively sold its own shares to OpenAI, in order to provide the funding for OpenAI to buy AMD chips.

These are just two recent examples of OpenAI's dealmaking frenzy that has resulted in this single company wracking up over $1.4 trillion in future purchase commitments, including the notable deals shown below:

- Broadcom (AVGO): $350 billion for the development and deployment of custom AI accelerators and chip racks (10 gigawatts of capacity).
- Oracle (ORCL): $300 billion in cloud-computing and data-center infrastructure
- Microsoft (MSFT): $250 billion in Azure cloud-computing commitments
- Nvidia (NVDA): $100 billion in data-center GPUs
- Advanced Micro Devices (AMD): an estimated $90 billion for the purchase of Instinct GPUs (6 gigawatts of capacity).
- Amazon (AMZN): $38 billion in Amazon Web Services commitments
- Coreweave (CRWV): $22.4 billion in data-center usage rights

On the surface, it all looks like growth… but we've seen this movie before. It's the same style of vendor financing that led to the dot-com collapse.

It's Starting To Look A Lot Like The 1990s Tech Bubble

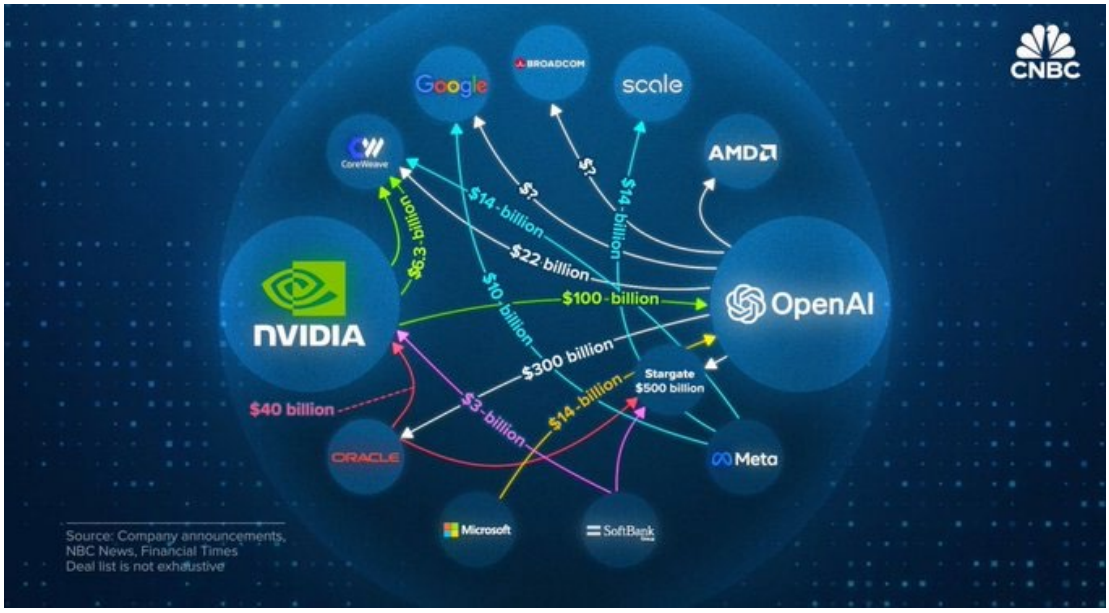
In the late 1990s, the leading telecom and hardware giants of the day used the same kind of vendor financing to prop up revenue growth:

- Lucent Technologies lent billions to telecom startups like Winstar and Global Crossing, who then used that money to buy Lucent's own equipment
- Nortel and Cisco juiced sales by financing customers that couldn't actually afford the routers they were buying
- Sun Microsystems extended credit to dot-com start ups that never generated enough cash to pay it back

When the funding cycle broke, those "customers" went bankrupt – and so did the illusion of sustainable demand.

Today's AI bubble is even more fragile, because the entire circular financing scheme rests upon the whims of a single company, OpenAI. A business that generates just $12 billion in annual revenue while burning through tens of billions in cash to generate that revenue. This single company is responsible for over $1.4 trillion in future capital commitments that the entire AI complex is banking on to sustain its growth.

That's how OpenAI has positioned itself as the single point of failure in today's AI boom.



Our basic premise is that there's a massive and underappreciated risk that these commitments never get made. And if that scenario unfolds, the future outlook for revenue and earnings growth among America's leading technology companies will collapse… and with it, the overall U.S. economy and broader stock market.

And that's how we could see a repeat of the dot-com collapse, which we believe presents the number one risk to today's investor.

How The Nasdaq Could Drop 75%

The bull market in AI-related stocks has pushed the technology-heavy Nasdaq 100 Index into rarefied valuation air, currently trading at a 45x price-to-free cash flow multiple. The index has only traded above this valuation at one other time in history: at the peak of the dot-com bubble. In March 2000, the Nasdaq reached a valuation of 50x free cash flow… and we all know what happened next. The dot-com boom went bust, sending the Nasdaq-100 into free-fall, dropping 35% in a span of three weeks. And it was just the start of a brutal two year bear market that culminated in a 78% collapse that took 16 years to recover from.

We believe the stage is set for a repeat performance if today's AI boom goes bust. And that's why we're selecting the Nasdaq as a hedge, via the Invesco QQQ Trust (Nasdaq: QQQ), which is an exchange traded fund ("ETF") that tracks the performance of the Nasdaq 100.

But choosing the right instrument to express this hedging trade is critical. When most investors think about hedging against the collapse of a stock or ETF, one of the most common trades involves short selling. The problem with short selling is that it requires impeccable timing. If you're too early in taking on a short position, and prices continue soaring higher, the potential losses are unlimited. And even if your timing is perfect, the most you can make from a short sale is 100% – and that's in the unlikely event that the price falls to zero. This creates a lopsided risk/reward ratio, where the potential upside is limited versus unlimited downside risk.

We'll introduce a trading strategy designed to bet against the AI boom going bust, but with the opposite risk/reward dynamic. This trade will involve risking a small and limited amount of capital in the event that we're wrong (or early), while offering upside of as much as 10x or greater returns.

Hedging With Put Options

The trading instrument we'll use to hedge against a potential AI bust is a type of option contract known as a put.

Note: if you're new to options, we suggest starting with our *Trading Club Playbook*, **which you can find here**. You'll also need to set up your account with options trading permission, which we explain **in this document**.

As a brief overview, a put option gives its buyer the right, but not the obligation, to sell a specific stock or ETF at a fixed price – called the strike price – on or before an expiration date. The buyer pays an upfront fee for the contract, known as the "premium." And each contract entitles the buyer to sell 100 shares of the stock or ETF.

In simple terms, a put option provides the same net exposure as being short 100 shares of stock (or ETF) at the option strike price, up until the expiration date. Think of this as an insurance contract that will pay off if the underlying stock drops below the strike price, with a contract length that lasts until the end of the expiration date.

As a simplified example, let's say a stock is trading at $120 and you purchase a $100 put option for $5 that expires in three months. This option gives you the right to sell the stock at $100 at any time up until the expiration date.

Fast forward three months as the expiration date approaches, and one of two outcomes is possible:

1. The stock price rises to $200, or above the $100 option strike price. The option price falls to zero, because the ability to sell the stock at $100 is worthless if the stock trades at $200. Thus the option price expires at a price of zero, and the insurance contract did not pay off. But you limited your losses to the upfront premium cost of $5 (versus the significant losses of short selling the stock that soars in value).
2. The stock price falls to $60, or below the option strike price. The option price rises to $40, because it allows for the opportunity to sell a $60 stock at $100 (i.e., $40 more than the current trading price). Thus, the value is calculated as the option strike price minus the stock price. Since the original option price was $5, the net profit is $40 minus $5 or $35, reflecting a 7x return.

Up until the expiration date, the option price will fluctuate based on a number of factors.

The first is the distance between the strike price and the current stock price (also known as "delta"). As a stock price falls and moves closer to the put strike price, it increases in value (all else being equal). That's because the likelihood of a payoff event (i.e. the option being worth more than zero at expiration) increases as the stock price falls towards the strike price. And once the stock price falls below the strike price, the option is "in the money." At this point, the option will increase in value mostly based on how far below the strike price it moves.

The second key factor is the length of time until the expiration date (also known as "theta"). Options with further out expiration dates cost more than shorter-duration contracts, because they offer protection for a longer period of time (i.e. a 12-month insurance policy is worth more than a six-month insurance policy).

The third and final key option-pricing factor you should know about is implied volatility ("IV"), which is the market's way of estimating how much the underlying stock will move over a given period of time (also known as "vega"). Using our auto-insurance analogy, IV is the market's way of estimating the likelihood of an "accident" – or a sharp decline in the price of the underlying stock. Stocks with higher IV are like the "high-risk drivers" more likely to get into a crash. As a result, traders charge higher premium rates for options on stocks with higher IV.

The key feature of IV is that it's a dynamic variable. It changes each trading day based on changes in the volatility outlook for a given stock. IV is also heavily influenced by the overall market backdrop, with premiums rising during environments of higher expected volatility for stock prices in general. The CBOE Volatility Index (VIX) is a measure of the 30-day IV of the S&P 500, and thus provides a good barometer for investor expectations of future volatility in the broader market.

With that background, let's get into the details of our QQQ hedging strategy.

Hedging Versus Speculating

First, we place special emphasis on the term "hedge" for this trade. This means we're not speculating and hoping to make outsized returns from a market crash. In fact, we're perfectly ok with losing money on this position.

The key with this trade is to avoid thinking about it in isolation. When viewed this way, the temptation will be to think we're throwing money away in the event that this trade slowly erodes to zero over time (which is the most likely scenario when buying put options).

Instead, view this trade as an insurance policy. You don't buy car insurance with the intention of making a profit in the event of a crash. You buy insurance with the hope that you'll never need to file a claim on the policy. Thus, the value doesn't come from cashing in on the policy. Instead, the real value from the insurance is that it allows you to do things like drive to work each day and make money from your job, without the risk of wracking up a six-figure liability from an accident.

The same applies to buying portfolio insurance. The insurance we're buying is designed to protect the rest of our portfolio in the event of a worst-case scenario: a market crash. The goal is to safely remain fully invested and continue earning returns with the majority of our capital, without exposing ourselves to catastrophic losses.

That brings us to the most important element of this trade: position sizing.

Buying enough insurance to fully cover 100% of the downside risk in a portfolio becomes prohibitively expensive over time. Our goal is to take an acceptable amount of risk in search of above-average returns, and not overpay for insurance to eliminate all risk.

Thus, we attempt to hedge approximately 50% of the risk in a portfolio. So in a $100,000 portfolio, that means hedging about $50,000 of the capital. And we aim to spend no more than 2% of our total portfolio capital for this protection on any given hedging trade.

Now, we'll provide a tangible example from *The Trading Club* that reveals exactly how this works.

Our Recommended Put-Option Trade

The trade we'll walk through below is a current active recommendation in *The Trading Club* tracking portfolio, which we recommended in an October 30 alert titled ***Reducing Risk And Raising Cash***:

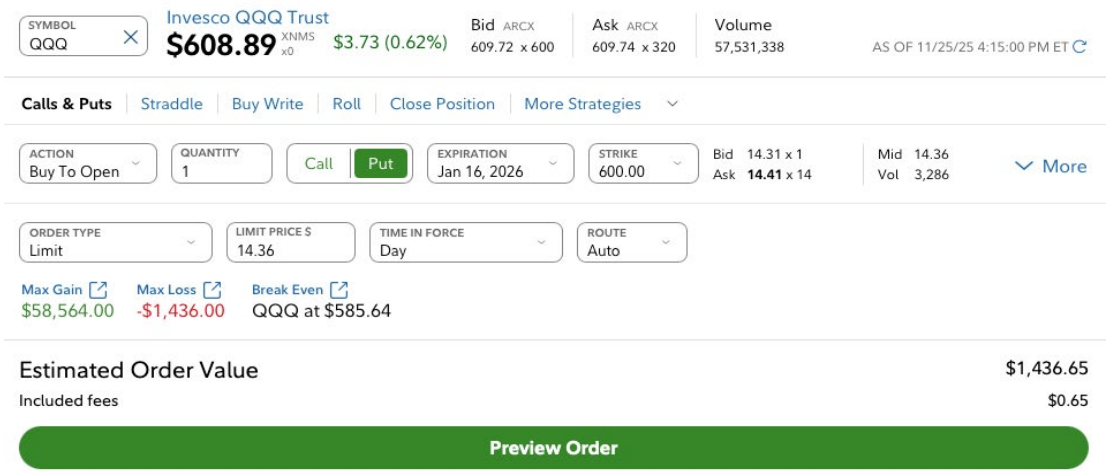
Action to Take: Buy to open one Invesco QQQ Trust (Nasdaq: QQQ) $600 put option, expiring January 16, 2026, trading for around $11.20

This is a current position in *The Trading Club* tracking portfolio, and we recommend buying this option contract up to a price of $15 as a hedge against the rest of the portfolio. As of the close of trading on Tuesday, November 25, this option contract traded for around $14.36.

Let's begin with the key trading steps involved in placing this order. Navigate to the option trading interface of your brokerage and enter the following inputs for the trade:

- Ticker symbol: QQQ
- Action: Buy to open
- Quantity: 1
- Option type: Put
- Expiration date: January 16, 2026
- Strike price: $600

Here's what this looks like in the Fidelity brokerage interface:



Next, let's walk how this trade can play out and what the risk/reward looks like. Note that we will use our maximum recommended "buy up to" price of $15 per contract in this analysis. However, the lower the price you manage to pay for the contract, the better the risk/reward becomes versus what we show below.

To start, recall that each put contract gives the buyer the right to sell 100 shares of the underlying stock or ETF (QQQ) at the strike price ($600) up until the expiration date (January 16, 2026). So this trade provides an effective short position in the QQQ equal to $60,000 until mid-January, but with one important caveat.

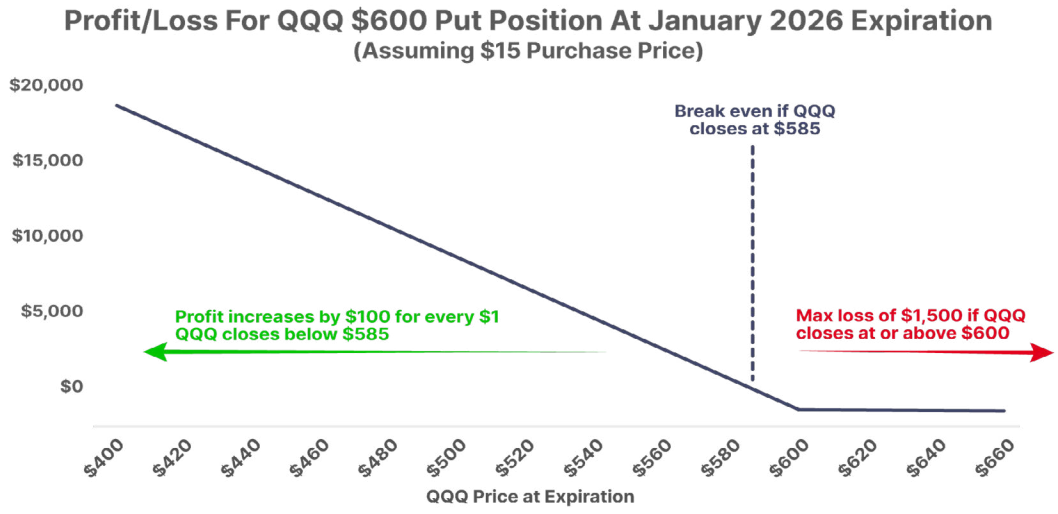
That is, the short position only applies in a situation where the QQQ trades below $600 at the expiration date. That's when the option is "in the money" and thus offers a positive value (since the option to sell QQQ at $600 only has value if the market price of QQQ is less than $600).

Conversely, if the QQQ price trades at or above $600 at expiration, then option expires "out of the money," meaning it will expire worthless. In that case, this trade will result in a 100% loss on the upfront premium payment.

So before we even enter the trade, we know our maximum risk upfront: the $1,500 premium payment for the put contract, if QQQ trades at or above the $600 strike price at expiration.

Next, let's consider the upside scenario. For every one dollar that QQQ trades below $600 at expiration, the option gains $100 in value – this is our effective short position of 100 shares of QQQ taking effect below the strike price. The breakeven point occurs at $585, when the option value is worth the $1,500 we paid for it. And from there, every additional dollar decline in QQQ produces $100 in profit on the trade.

The chart below summarizes the risk/reward of this trade based on a range of QQQ prices at the expiration date:



The table below shows the numbers in more detail, including the percentage decline in the QQQ from its recent trading price of $608 and the corresponding value and profit/loss of the put option at various prices at the expiration date:

Now, let's consider a hypothetical scenario where this hedging trade pays off.

QQQ $600 Put Option Trade Overview

CHANGE IN QQQ PRICE FROM $608	PRICE OF QQQ AT EXPIRATION	PRICE OF QQQ $600 PUT AT EXPIRATION	VALUE OF QQQ $600 PUT CONTRACT AT EXPIRATION	PROFIT (LOSS) FOR 1 CONTRACT POSITION ($)	PROFIT (LOSS) FOR 1 CONTRACT POSITION (%)
-34%	$400	$200	$20,000	$18,500	1,697%
-33%	$410	$190	$19,000	$17,500	1,607%
-31%	$420	$180	$18,000	$16,500	1,517%
-29%	$430	$170	$17,000	$15,500	1,427%
-28%	$440	$160	$16,000	$14,500	1,338%
-26%	$450	$150	$15,000	$13,500	1,248%
-24%	$460	$140	$14,000	$12,500	1,158%
-23%	$470	$130	$13,000	$11,500	1068%
-21%	$480	$120	$12,000	$10,500	978%
-19%	$490	$110	$11,000	$9,500	888%
-18%	$500	$100	$10,000	$8,500	798%
-16%	$510	$90	$9,000	$7,500	709%

QQQ $600 Put Option Trade Overview

CHANGE IN QQQ PRICE FROM $608	PRICE OF QQQ AT EXPIRATION	PRICE OF QQQ $600 PUT AT EXPIRATION	VALUE OF QQQ $600 PUT CONTRACT AT EXPIRATION	PROFIT (LOSS) FOR 1 CONTRACT POSITION ($)	PROFIT (LOSS) FOR 1 CONTRACT POSITION (%)
-14%	$520	$80	$8,000	$6,500	619%
-13%	$530	$70	$7,000	$5,500	529%
-11%	$540	$60	$6,000	$4,500	439%
-10%	$550	$50	$5,000	$3,500	349%
-8%	$560	$40	$4,000	$2,500	259%
-6%	$570	$30	$3,000	$1,500	170%
-5%	$580	$20	$2,000	$500	80%
-3%	$590	$10	$1,000	($500)	-10%
-1%	$600	$0	$0	($1,500)	-100%
0%	$610	$0	$0	($1,500)	-100%
2%	$620	$0	$0	($1,500)	-100%
4%	$630	$0	$0	($1,500)	-100%
5%	$640	$0	$0	($1,500)	-100%
7%	$650	$0	$0	($1,500)	-100%
9%	$660	$0	$0	($1,500)	-100%

Let's assume our worst-case scenario unfolds and the AI bubble begins melting down in the coming weeks. We could envision a situation where the QQQ drops by as much as 35% over the next roughly seven weeks when the option expires. That would put the QQQ price at around $400, making our $600 strike put worth $20,000 (calculated as 100 shares multiplied by the $200 difference between the $600 put strike price minus the $400 QQQ price). That would result in a profit of $18,850 on our $1,500 investment, or a 1,700% return.

Of course, this is an extreme scenario… but it's not without precedent. For some historical perspective, consider the following price declines in the Nasdaq during past market crises:

- After the Nasdaq peaked in March 2000 at the height of the dot-com bubble, the index dropped by 50% over the next four weeks
- During the 2008 financial crisis, the Nasdaq fell by 30% in the three weeks following the Lehman Brothers bankruptcy
- In the five weeks following the initial outbreak of the COVID-19 pandemic starting in late February 2020, the Nasdaq dropped 30%
- Earlier this year, the Nasdaq dropped by over 25% in eight weeks from late February through early April, caused in part by President Donald Trump's "Liberation Day" tariff announcement

These are the kind of extreme moves we're attempting to hedge against – not a garden-variety 5% or 10% correction.

Now, let's consider the impact on the rest of our tracking portfolio for *The Trading Club* in this kind of environment. With a current portfolio value of around $113,000, we'll assume a worst-case scenario where we're fully invested and all of our other long positions (excluding the hedge) suffer an average 35% decline. That would result in a loss of around $38,500 on our long positions. However, the offsetting $18,500 in gains from the put position would limit our total loss to around $20,000. So instead of a 35% decline in our portfolio, we limited the drawdown to around 18%.

Based on the asymmetry of large drawdowns, it's far easier to recover from a 18% loss (requiring a 22% gain to recover to breakeven) versus a 35% loss (requiring a 54% gain to recover to breakeven). And the most important part is we achieved this protection without taking any outsized risks – like short selling a stock or an ETF that could result in unlimited losses.

The bottom-line outcome in this scenario is that we cut our potential losses in half by spending a little more than 1% of our capital on the hedging trade.

Relative to the current size of our account at around $113,000, the $1,500 put option contract reflects a position size of 1.3% of our capital. And the $60,000 of short exposure provided by the put position represents a downside hedge equal to about 54% of our total portfolio value.

This fits within our general goal with these trades: to hedge approximately 50% of the portfolio, while only spending approximately 1% to 2% of capital on the put option. Remember that we're not trying to hedge 100% of the risks, as that would become prohibitively expensive. We're simply trying to limit the fallout from a worst case scenario.

For investors with a different portfolio size, it's possible to apply this same basic framework to reach the same outcome.

Consider a hypothetical example of an investor with a $2 million portfolio who wanted to construct the same hedging trade. With an account value about 20 times the size of our $113,000 portfolio, they could have roughly replicated this trade by purchasing 20 of the same QQQ put contracts. That would have provided an effective short position equal to $1.2 million (or about 56% of capital) and would have cost about $22,260 (or about 1.1% of portfolio capital).

The key thing to keep in mind is that, in most scenarios, this hedging trade will result in a 100% loss. But we view this as an acceptable outcome given that we limit our risk on these positions to 1% to 2% of the portfolio. And in the majority of scenarios where the market doesn't drop enough to generate a pay off on our hedge, we're ideally earning much more than 1% during the course of this trade from the rest of our portfolio remaining invested in the market.

To be clear: we're not rooting for such an outcome. In fact, we would much prefer a continued bull market. In this case, the 98% of our portfolio we plan on allocating to long stock and bond positions should thrive. And we'd be happy to lose the 1.5% on our put position in that environment.

The real value of the hedging strategy we've laid out here is the peace of mind it provides. And with that in place, we can remain invested in the market even despite the growing risks of an extreme market event that causes prices to crash across the board. We've taken the worst case scenario off the table, and with that, we can continue putting capital to work without trying to time the market or predict exactly when the next crisis will emerge.

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P.S. If you'd like to learn more about the Porter & Co. team, you can get acquainted with us **here**. You can follow me (Porter) on **X** here: **@porterstansb**