

AlphaFlex Portfolio: A Hedge Fund Approach to Growth and Safety

AlphaFlex Portfolio by **ConsX** is an innovative investment strategy designed to provide superior returns by dynamically allocating between high-growth and defensive stocks based on prevailing economic conditions. Whether the market is experiencing growth, contraction, or balance, the **AlphaFlex Portfolio** adapts, ensuring investors are positioned for optimal performance.

Introduction

The **AlphaFlex Portfolio** combines the best of two investment worlds: **high-growth stocks** for aggressive returns and **safe, defensive stocks** for capital preservation. Using a sophisticated, data-driven methodology, **AlphaFlex** seeks to deliver high returns while managing risk effectively, no matter the economic environment.

With the flexibility to shift its allocation based on market conditions, the **AlphaFlex Portfolio** is designed for those who want to maximize returns while maintaining a robust safety net.

Performance Overview (as of January 15, 2025)

- **1-Week Return:** 2.81%
- **1-Month Return:** 2.68%
- **3-Month Return:** 20.11%
- **YTD Return:** 7.4%
- **1-Year Return:** 74.59%

For comparison, the **SPY (S&P 500 ETF)** shows the following returns:

- **1-Week Return:** 0.99%
- **1-Month Return:** -2.5%
- **YTD Return:** 1.2%
- **1-Year Return:** 24.57%

Dynamic Allocation Based on Economic Conditions

One of the unique features of the **AlphaFlex Portfolio** is its **dynamic allocation model**, which adjusts based on the broader economic environment. By continuously analyzing macroeconomic trends, we determine how much weight to allocate to the **growth** and **safe** components of the portfolio. This allows the **AlphaFlex Portfolio** to perform optimally in various market conditions:

- **Bull Market (Economic Expansion):** The portfolio leans more towards **high-growth stocks**, allocating more capital to the **AlphaFlex Growth** component.
 - **Bear Market (Economic Contraction):** The portfolio increases its allocation to **defensive stocks**, emphasizing the **AlphaFlex Safe** component to protect capital.
 - **Balanced Market:** The portfolio maintains a **50/50** allocation between the two components, ensuring diversification and risk management.
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Stock Picking Methodology

One of the core strengths of the **AlphaFlex Portfolio** is its meticulously crafted **stock picking methodology**. At ConsX, we employ a rigorous, data-driven approach to selecting stocks for both the **AlphaFlex Growth** and **AlphaFlex Safe** components of the portfolio. Our stock selection process is based on a combination of **fundamental analysis**, **technical indicators**, and **economic conditions**, ensuring that each stock in the portfolio is well-positioned to perform in a variety of market environments.

1. AlphaFlex Growth (High Growth Stocks)

The **AlphaFlex Growth** component targets companies with strong growth potential, generally in the technology, healthcare, and communication services sectors. The goal is to capture the high returns typically associated with fast-growing companies. Our stock picking process for the growth side of the portfolio focuses on:

Key Criteria for Stock Selection:

- **Revenue Growth:** We prioritize companies with **accelerating revenue growth** year-over-year. Growth in revenue is a fundamental indicator that a company's product or service is in high demand, making it a key factor in our stock selection.
 - *Why it matters:* Rapid revenue growth often signals strong competitive positioning, market demand, and the ability to scale quickly. It is an early indicator of potential profitability.
- **Market Capitalization:** We target companies with a **large market cap** (usually **over \$10 billion**) that have the stability to weather market volatility, but still retain the ability to scale and deliver high returns.
 - *Why it matters:* Large-cap companies are often more established, with proven business models and significant access to capital. These companies can sustain their growth trajectory over time while being able to absorb market disruptions.
- **Earnings Growth:** A focus on companies with **strong earnings growth** potential, both **quarter-over-quarter** and **year-over-year**. Specifically, we look for companies with EPS growth rates exceeding **30%** in the past year and future earnings growth projections above **40%**.
 - *Why it matters:* Earnings growth directly impacts stock prices and is one of the most important metrics for identifying companies with long-term potential.

- **Volatility and Risk Management:** Volatility is considered when determining stock weightings within the portfolio. While growth stocks are often more volatile, we manage this risk by adjusting allocations based on the **volatility** and **beta** of each stock.
 - *Why it matters:* Managing volatility ensures that the portfolio is optimized for risk-adjusted returns, even if certain growth stocks experience significant price fluctuations.
- **Momentum Indicators:** We incorporate technical indicators like **Relative Strength Index (RSI)** to ensure that stocks are not overly priced or in overbought conditions. We look for stocks with an **RSI greater than 50**, signaling upward momentum without being in the overbought territory.
 - *Why it matters:* Momentum strategies help identify stocks with strong relative performance, ensuring we are investing in companies that are likely to continue their upward trend.

Example of Growth Stock Selection:

For example, companies like **Meta Platforms (META)** and **Applovin Corporation (APP)** are included due to their strong market positions, consistent revenue growth, and positive earnings projections.

2. AlphaFlex Safe (Defensive Stocks)

The **AlphaFlex Safe** component focuses on mitigating risk and preserving capital during uncertain economic conditions or market downturns. We carefully select **defensive stocks**—companies that are likely to remain stable or continue generating strong performance during recessions or periods of market volatility.

Key Criteria for Stock Selection:

- **Market Capitalization and Stability:** We select **large-cap stocks** (typically those with **market caps above \$10 billion**) to provide stability and resilience in challenging market conditions.
 - *Why it matters:* Larger companies with established track records tend to weather economic downturns better due to their size, financial strength, and diversified revenue streams.
- **Dividend Yield:** Dividend-paying companies are a central part of our safe stock selection. We prioritize companies with **dividend yields above 1%**, especially those with a **consistent track record** of increasing dividend payouts over time.
 - *Why it matters:* Dividends provide a steady stream of income, and companies with a history of increasing dividends tend to be financially stable and committed to shareholder returns. In market downturns, dividends can also help cushion losses.
- **Price-to-Earnings (P/E) Ratio:** We carefully screen for companies with a **low P/E ratio** (typically under **20**), which can indicate undervaluation and provide a margin of safety. These companies tend to have predictable earnings and lower price volatility.

- *Why it matters:* A low P/E ratio may suggest that the stock is undervalued relative to its earnings potential, and these stocks tend to be less volatile, offering greater protection during uncertain times.
- **Return on Equity (ROE):** We prioritize companies with **high Return on Equity** (greater than **10%**), indicating strong profitability and efficient capital use. These companies are better equipped to generate returns for shareholders, even in economic slowdowns.
 - *Why it matters:* A high ROE is a sign of financial health, reflecting the company's ability to generate earnings without requiring excessive external funding.
- **Institutional Ownership:** Stocks with **high institutional ownership** (greater than **60%**) are favored, as these stocks tend to be seen as safe investments by professional investors, and institutions usually have access to better resources and intelligence.
 - *Why it matters:* High institutional ownership indicates confidence in the stock's future performance, providing additional stability to the investment.
- **200-Day Simple Moving Average (SMA200):** We use the **200-day simple moving average** as a trend indicator. We favor stocks that are **trading above their SMA200**, indicating long-term positive momentum.
 - *Why it matters:* The 200-day moving average is a widely followed indicator of a stock's long-term trend. Stocks above the SMA200 are generally considered to be in a bullish long-term trend, which helps identify stable and well-performing stocks.

Example of Safe Stock Selection:

In the **AlphaFlex Safe** component, stocks like **Air Products and Chemicals Inc. (APD)**, **EOG Resources Inc. (EOG)**, and **Kroger Co. (KR)** have been selected due to their large market caps, consistent dividend payments, and ability to perform well in diverse market conditions.

3. Macro-Economic Adaptation

To further enhance stock selection, the **AlphaFlex Portfolio** takes into account the broader **economic landscape**. Through **monthly economic reviews**, **quarterly rebalancing**, and **annual assessments**, we adjust stock selections and allocations to align with macroeconomic trends such as:

- **Inflation Trends:** Inflation can significantly impact sectors differently. We adjust the portfolio to focus on stocks that perform well in either inflationary or deflationary environments.
- **Interest Rates:** Changes in interest rates can affect the valuation of growth and defensive stocks. Our methodology anticipates such changes and adjusts accordingly.
- **Economic Growth or Contraction:** Depending on whether the economy is expanding or contracting, we adjust the balance between **growth stocks** and **defensive stocks**, ensuring optimal returns while managing risk.

Rebalancing and Updates

The **AlphaFlex Portfolio** is rebalanced **annually**, ensuring that stock allocations remain aligned with the current economic climate. In addition, we perform **monthly** and **quarterly reviews** to assess

economic trends and make adjustments if necessary. Investors receive **weekly performance updates** to keep them informed of the portfolio's progress and any changes in the allocation.

Investing with AlphaFlex: Easy Access via M1 Finance

The **AlphaFlex Portfolio** is hosted on **M1 Finance**, a user-friendly investment platform. With just a **single click**, investors can gain access to the **AlphaFlex Portfolio** and start investing in the selected stocks. M1 Finance offers an intuitive interface, allowing investors to track their portfolio performance, view updates, and manage their investments with ease.

Conclusion

The **AlphaFlex Portfolio** by **ConsX** offers a sophisticated yet simple approach to investing, combining the best of both growth and safety in one dynamic, adaptive portfolio. By continuously analyzing economic conditions, using a data-driven stock-picking methodology, and maintaining an annual rebalancing strategy, the **AlphaFlex Portfolio** is designed to provide superior returns and effective risk management in any market environment.

Whether you're seeking aggressive growth or a safe, income-generating strategy, the **AlphaFlex Portfolio** offers a comprehensive solution that adapts to the ever-changing economic landscape. With **alpha** potential and **flexibility**, the **AlphaFlex Portfolio** is the smart choice for investors looking to maximize their returns while managing risk.

For further inquiries or to start investing in the AlphaFlex Portfolio, please visit ConsX at [ConsX.io](https://consx.io).

Disclaimer

This document is for informational purposes only and does not constitute financial advice, investment advice, or a solicitation to buy or sell any securities. The **AlphaFlex Portfolio** is a research-driven strategy, and we do not manage or hold custody of client funds. All investment decisions are made at the sole discretion of the investor. The performance data presented in this paper reflects past performance and is not indicative of future results. Investments in the **AlphaFlex Portfolio** and other securities are subject to market risk, including the potential loss of principal. Please consult with a qualified financial advisor before making any investment decisions.

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