Automated Allocations

The Strategy That Adjusts... Automatically.

Video Script
Video 6
All About AA Plus!

In this video we'll be looking at AA Plus. It falls under the purview of Rule Number 2, and, generally, uses the same time-frame as the PAMMY - the beginning of January, May, and September.

We use AA Plus to add additional cash to the Automated Allocations portfolio. AA Plus is optional. It is an opportunity to add funds to your investment.

One situation when the user would apply AA Plus would be when the account has run out of cash. In this instance, the user would add the specified AA Plus amount to the account per rule number two. Automated Allocations is stellar without it. All of the studies show the results of standard AA alongside the results of AA Plus. It’s easy to see that adding a small amount to our investment, only when we are out of funds, and only three times a year, gives back several times over.

The next situation when the user would apply AA Plus would be a one-time large cash receipt. Maybe a tax refund, a sale of an asset, or something else. In this case, AA Plus would be used to enter the funds into AA. This can be done anytime.

Another situation when the user would apply AA Plus would be consistent, periodic deposits. Review the studies under “AA on Steroids.” This is where we show the results of adding a fixed amount on the first of every year. We even have a fictitious twenty-year-old that started with a thousand dollars, saved three dollars and twenty-nine cents a day and, well, look it up. In this case he saved a hundred dollars a month, and applied $400 to AA every four months.

The AA Plus amount will vary based on the initial commitment and the current price of the ETF. Generally, this will only be seen in smaller accounts. When applying AA Plus, the AA Plus amount shown on the menu is a MINIMUM amount. If we want to add new cash to the account, but it’s not enough to meet the AA Plus minimum, we can use the Add Funds menu. We’ll review that in a later video. Let’s go back to our test portfolio. First, we’ll run the account out of money, and then apply a few AA Plus trades.

In the last video we discussed the PAMMY. Now it's time to review AA Plus. We're back on our test portfolio. Let's scroll down here and take a quick look at the trades we have posted thus far. There's our three PAMMYs where we used a bit of our cash on hand. And speaking of cash on hand, let's look at our cash. It's getting a bit low. Our first example of AA Plus will be when the account is out of cash. So, let's enter a few more buys and see what happens.

The market continued down and our good till cancel order was hit. We enter the date and then the fill price, which happened to be exactly as planned, $70.72. And then our 3 shares. Once entered, AA posts our new targets. Let's keep going. The market continued to fall and we placed the next buy order with our broker. A couple weeks later, it was filled buy 4 at $67.14. We enter the filled trade into our portfolio.

Wait a minute, we've got to see where we are. We have a next buy, 1 at $63.06. Now let's see our cash, $91.51. I guess that's why it's 1 share. Let's put it in and see what happens. Again, we put in our good till canceled order. A few days later, we received our fill alerts. We book the trade into our portfolio. The date, price of $63.06 and 1 share. Well, we are definitely pretty much out of cash. Our next buy box is showing no shares and the price has a line through it. Automated Allocations does seem to adjust automatically. We are definitely out of business until we have a sale to generate some dry powder. I guess it's time to study up on AA Plus and decide what we're gonna do. Let's look at that AA Plus button on the menu.

Let's take a look at this menu. We can see this is very similar to the PAMMY menu. We have the date, price, amount, and shares fields. They serve the same purpose as on the PAMMY menu. We don't have a cash available box, but here we're adding new funds to AA. We have a funding shares box, so we can guess how that is used, and we now have an Optional AA Plus box with an amount in it. We have the reminder about Rule Number 2 in January, May, and September.

It's been about 3 months and we've decided to add the $110 to AA. We just looked and UPRO is trading at $75. As usual, we enter the date. Double check the price. And then the price, $75. The amount will be the AA Plus Amount, $110. Just like the PAMMY, AA loads the funding shares box, in this case one. We put that in the shares field and hit the enter. Well, that was easy. We've done our first AA Plus.

Let's take a look at that trade. As you would guess, it shows up in the trade history as AA Plus. The trade amount shows the $110 we added to the portfolio. One share at $75. And look at that. Our cash on hand increased by $35. The math adds up.

For the user, entering an AA Plus transaction is very similar to entering a PAMMY transaction. However, that's where the similarities end. The PAMMY is the way to put cash already in the portfolio to work. AA Plus is the way to add new funds to the portfolio.

We have to do another one. We still have a bit of cash, but not much, only enough to buy one share if the price goes down enough. Four more months have passed and our user has decided to add another AA Plus amount to the portfolio. The date goes in as usual. Then we need to check on the current price, and UPRO is trading at $96.23. We enter the price in the price field.

Now get to the AA Plus menu. Hmm, the AA Plus amount is higher than it was last time, $129 now. It was $110 before. Remember, the AA Plus amount will vary due to the current UPRO price and the original commitment. It's not that big of a change, we can do it. The $129 goes in the amount field. Our funding shares comes up 1. We put that in the shares field. Done.

As a point of interest, we know the worst-case scenario for running out of money, not returns, in all of our studies was a position put on in February of 2019, which was at the start of the COVID-19 bear market. This position then endured the 2022 bear market. At one point during the 2022 bear market, the portfolio ran out of money for 16 consecutive months. There were a total of five opportunities in a row to add the AA Plus amount to the account.

Also, let's not forget about or totally ignore our header. There's a lot of good information there. We have the initial commitment plus the funds added. Our two AA Plus transactions gives us the total investment. Then the current market value plus the cash on hand gives us the current account value. Account value less total investment gives us our cash gain and percent return.

We haven't really discussed the Next Buy and Next Sell boxes lately. As we add funds and purchase shares via AA Plus, our next buy and next sell targets and number of shares to buy and sell are adjusted.

So, the AA Plus, like the PAMMY, is a simple transaction. We're going to assume we have the basics covered. What about the user that has a large one-time hunk of cash they would like to put into Automated Allocations? No problem. Remember, Automated Allocations adjusts automatically. Let's imagine our current user had a birthday in November and Grandpa was so impressed with what he or she was doing, he gifted a birthday present of $3500. Let's see what happens when we drop that into our portfolio. Here we go.

It's a few days after the family birthday celebration, and we're ready to put our new $3500 to work. We enter the date, the price of UPRO. It's currently at $95.36. Let's get to the AA Plus menu. We've got our amount field. The optional AA Plus amount is $128. That's not for us today. We put our $3500 into the amount field. Funding shares comes up 37. That's exciting. We now get to enter that 37 into the shares field, 37, and done.

At this point, we are now proficient at entering buy and sell trades, PAMMYs and AA Plus transactions. We've seen how the Automated Allocations App adjusts price targets and share amounts for each transaction. It adjusts decisions based on the amount of cash that is in the account. Even with all the complexity of its algorithms, the Automated Allocations App remains simple and intuitive. In the next video, we'll learn all about the PAMMY Plus.
Enjoy.