

They don't know to look for it because they don't even know it's there. I could only hope that one of these poor portfolio managers reads this book and this fact dawns on them while they are fighting to save their jobs.

## **Risk Off: Enhanced ETFs that Monetize the Removal**

Now that we know we want to avoid certain names that come with an index, it's time to construct a fund or ETF that offers what we wanted to begin with (i.e., the NDX without MSTR). This is the job of a mutual fund or ETF manager like BlackRock or Invesco (who run the two largest Nasdaq 100 ETFs). I performed this task successfully in my TradFi career, hedging large short liabilities on mutual funds (consisting of thousands of individual stocks), where the only hedging vehicles were a couple of indices. The act of hedging entails matching the index to the fund, which is a fancy way of saying we replicate the opposite of the liability using short positions in these indices.

For example, I sell a guaranteed insurance contract that pays the returns of a mutual fund or ETF of the buyer's choosing. Suppose they choose a new ETF that tracks 499 of the 500 stocks of the S&P 500, but it is missing Nvidia, and let's call this fund Pelosi. This is basically selling a put option to a customer on the account value of that fund, with the strike price being however much the customer chooses to invest (after fees, of course). If the customer puts \$1m into the fund, for example, then that account value will rise