ALPHAQUERY INTELLIGENCE

The Terms of the Deal Have Changed: Shorting IWF/IWD at the November 2023 Shelf

A STORM analysis of the growth/value ratio breakdown, regime-conditioned forward return modeling, and trade construction for the third — and likely final — test of the breakout zone.

RATIO (07/07/26)	DRAWDOWN FROM ATH	VS 65-DAY MA	65-DAY RETURN REGIME
0.4888	**−19.3%**	**−5.5%**	**70% neg**
IWF/IWD close	vs 0.6059 (10/29/25)	19 consecutive closes below	of days since Nov 2025

SITUATION

The IWF/IWD ratio — Russell 1000 Growth over Russell 1000 Value, the cleanest daily read on the large-cap growth/value factor — peaked at 0.6059 on October 29, 2025, a print that exceeded even the July 2000 dot-com apex of 0.5614. In the eight months since, the ratio has declined 19.3% and now sits at 0.4888, directly atop the November 2023 breakout shelf (0.4675–0.4865): the zone from which the entire AI-era growth leg launched. The June 25 low of 0.4832 already probed inside the shelf. This is the third test — April 2025 held it during the tariff shock, June 2026 pierced it intraday, and price has returned within two weeks. Technical convention holds that support weakens with each test; the tape is behaving accordingly, with the ratio unable to sustain more than a two-day bounce off the zone.

The structural context is the market's broader rotation debate. The ratio's October 2025 peak coincided with maximum index concentration in the AI-capex complex; the subsequent decline has tracked the small-cap and value rotation documented in our RTY/SPX work. What distinguishes the current episode from every pullback since November 2023 is not depth alone but character: momentum, dip-buying behavior, and trend structure have all inverted simultaneously.

TENSION

The tension is between two readings of the same chart. The bull reading: the ratio is oversold at major, thrice-defended support, the 65-day return (−2.5%) is recovering from its June trough of −5.3%, and every prior test of this zone since late 2023 has resolved higher — most recently April 2025, which preceded a 25% rally to the all-time high. Buying growth at this shelf has been the single most profitable systematic behavior in the factor space for thirty-two months.

The bear reading — ours — is that the machinery generating those bounces has demonstrably broken. We formalized the oversold-dip condition (price >4% below the 65-day MA with negative 65-day return) and measured forward returns by regime. During the AI leg (Nov 2023–Oct 2025), seven such entries returned a median **+6.9%** over three months. Since the October 2025 peak, nine entries have returned a median **−4.6%**, with the December and January signals losing 6.7–9.4%. The identical condition that paid dip-buyers for two years now penalizes them. Meanwhile the 65-day return has been negative on 70% of days since November 2025 — versus 25% during the AI leg, and statistically indistinguishable from the opening stages of the 2000–2002 unwind (68%) and the 2022 unwind (75%). The market changed the terms of the deal in December and has not announced it; price at unbroken support is the only remaining bull argument.

FIG. 1 — IWF/IWD WEEKLY, 2000–2026. GOLD DASHED LINE: NOVEMBER 2023 BREAKOUT SHELF ROOF (0.4865). SHADED: PRIOR UNWIND REGIMES.

FIG. 2 — DAILY SINCE JUNE 2023 WITH 65-DAY MA. SHADED BAND: BREAKOUT SHELF 0.4675–0.4865. THE THIRD TEST, WITH A DECLINING MA OVERHEAD.

FIG. 3 — PEAK-INDEXED ANALOG PATHS (PEAK = 100). CURRENT PATH (170 TRADING DAYS ELAPSED) TRACKS THE 2021–23 UNWIND SLOPE ALMOST EXACTLY; THE 2000 PATH WAS MATERIALLY FASTER.

OPTIONS

1. **Do nothing / stay long growth.** Respects thrice-defended support and thirty-two months of dip-buy profitability. Ignores the measured regime flip and the declining MA overhead. The bull case now requires the AI leg to resume from a structure it has never had to defend with negative momentum.
2. **Wait for confirmation below 0.4675.** Cleanest signal, sacrifices ~4% of the move and risks a gap through the shelf given how compressed the zone has become.
3. **Starter short here, add on the break (recommended).** Initiate half-size at 0.4885–0.4920 against the declining 65-day MA; complete the position on a confirmed daily close below 0.4675.
4. **Express via the small-cap rotation sleeve.** Long IWD/short IWF is the pure factor trade; the correlated RTY/SPX expression carries additional idiosyncratic small-cap risk but pairs with the existing rotation book.

FORWARD RETURN MODELING

We model forward paths from 0.4888 via block-bootstrap Monte Carlo (10,000 paths, 10-day blocks), sampling daily returns from three regimes: the 2022-style unwind, the first year of the 2000-style unwind, and — as the invalidation counterfactual — the 2023–25 AI-leg bull regime. Block sampling preserves the serial correlation that defines trends; the exercise quantifies the path *if the identified regime persists* — a modeling assumption, not a certainty.

REGIME MODEL	HORIZON	P10	MEDIAN	P90	MED. RETURN	P(<0.4675)	P(<0.436)
2022-style unwind *(base case, 50%)*	3M	0.4162	0.4566	0.4976	−6.6%	64%	26%
	6M	0.3753	0.4275	0.4836	−12.5%	83%	58%
	12M	0.3119	0.3729	0.4444	−23.7%	95%	87%
2000-style unwind *(tail case, 15%)*	6M	0.2919	0.3631	0.4553	−25.7%	92%	85%
	12M	0.1994	0.2705	0.3737	−44.7%	98%	97%
Bull resumption *(invalidation, 35%)*	6M	0.4533	0.5165	0.5842	+5.7%	16%	5%
	12M	0.4548	0.5438	0.6471	+11.3%	14%	6%

> **Probability-weighted expectation** (50% base / 15% tail / 35% invalidation): −8.1% at 6M, −14.6% at 12M. The asymmetry is the trade: the invalidation branch recovers roughly +11% over a year while the two bear branches lose 24–45%, and the regime evidence — dip-buy failure, momentum inversion, declining MA — argues the weights shown are, if anything, generous to the bull branch.

FIG. 4 — MONTE CARLO FAN, UNWIND-COMPOSITE REGIME, 252 TRADING DAYS FROM 0.4888. BANDS: P10–P90 AND P25–P75; GOLD LINE: MEDIAN PATH. RED DASHED: SHELF BASE 0.4675 AND 2022-ANALOG OBJECTIVE 0.436.

RECOMMENDATION

Short the IWF/IWD ratio (long IWD / short IWF, dollar-neutral), half position at market, completing on a confirmed daily close below 0.4675. Twelve-month base-case objective 0.436 (the October 2023 base and the −28% peak-drawdown symmetry of the 2022 unwind), with staged interim targets at 0.4675 and 0.450. Hard invalidation on a reclaim and two-day hold of the 65-day moving average with the 65-day rolling return turning positive.

PARAMETER	LEVEL	DISTANCE	RATIONALE
Entry (tranche 1, 50%)	0.4885–0.4920	—	Current price beneath declining 65d MA
Entry (tranche 2, 50%)	<0.4675 close	−4.4%	Confirmed break of full shelf
Target 1	0.4500	−7.9%	September 2023 pivot low
Target 2 (base case)	0.4360	−10.8%	Oct-2023 base; −28% ATH drawdown (2022 analog)
Target 3 (extension)	0.4192	−14.2%	March 2023 shelf
Stop / invalidation	~0.4985	+2.0%	65d MA reclaim (declining) + ROC65 positive hold

Reward-to-risk on tranche 1 is approximately **4:1** to Target 1 and **5.4:1** to Target 2 against the moving-average stop. Kelly-Thorp sizing at our standard quarter-Kelly discipline, using the probability-weighted branch structure above, supports a 3–5% NAV allocation to the pair at current volatility; the position should be re-marked if the ratio's realized 65-day volatility (currently elevated versus the AI-leg norm) expands further.

MECHANICS

Instruments. Primary: short IWF / long IWD in equal dollar legs, rebalanced monthly or on 5% leg drift. The ratio is expenseless to model but not to hold — borrow on IWF is negligible, and the carry differential (IWD's ~2.0% yield versus IWF's ~0.5%) is a modest tailwind of roughly 150bp annualized to the short-ratio position. Options overlay: IWF put spreads financed by IWD covered calls replicate the position convexly for accounts that cannot short. The RTY/SPX futures expression correlates ~0.7 with this trade and should be netted against it in the rotation sleeve to avoid doubling factor exposure.

Execution and monitoring. Tranche 2 triggers on a daily close, not intraday penetration — the June 25 session demonstrated the zone's capacity for intraday violation and reclaim. Monitor three regime gauges weekly: (1) the 65-day rolling return — a sustained move above zero is the leading invalidation signal; (2) the dip-buy scoreboard — any post-signal three-month forward return turning positive on new oversold entries would indicate the December regime flip is fading; (3) breadth confirmation from the RTY/SPX and equal-weight/cap-weight complexes, which should decline in sympathy if this is a genuine factor unwind rather than an IWF-idiosyncratic event.

Honest Caveats

Regime-conditioned samples are small (seven AI-leg entries, nine post-peak) and the post-peak entries overlap; the −4.6% median is directional evidence, not a distribution. The unwind analog set is n=2. Block-bootstrap Monte Carlo assumes regime persistence — it quantifies the conditional path, not the probability of the condition. The shelf has not yet broken on a closing basis, and third tests of major support do sometimes hold; tranche sizing exists precisely because the confirmation signal costs 4% of the move. Ratio data is BATS composite; ETF ratios embed distribution timing noise around ex-dates. Nothing herein is investment advice; this is research for sophisticated counterparties who will make their own determinations.