

The Great Divide

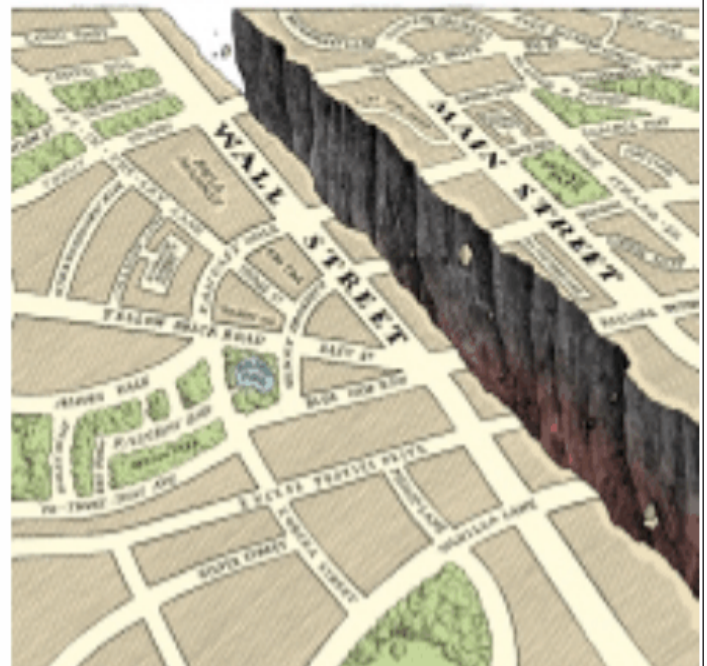
Depressionary Economy Vs. A Bull Market



Can the food system cope with covid?
Latin America's first millennial dictator
How the pandemic is changing science
Levee under lockdown
ISSN 0013-061X

A dangerous gap

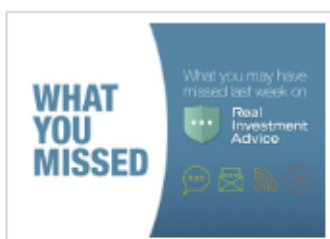
The markets v the real economy



- *The Great Divide: A Depressionary Economy Versus A Bull Market*
- *MacroView: "Savings Mirage" Won't Save The Economy*
- *Financial Planning Corner: The Great Reset (Webinar)*
- *Sector & Market Analysis*
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Catch Up On What You Missed Last Week



#WhatYouMissed On RIA This Week: 05-08-20


Written by Lance Roberts | May 8, 2020

Here is what you might have missed from the RIA Crew last week. A compilation of our best blogs, newsletter, podcasts, the daily radio show and commentary from RIAPRO.NET.

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The Great Divide

There is currently a "Great Divide" happening between the near "depressionary" economy versus a surging bull market in equities. Given the relationship between the two, they both can't be right.

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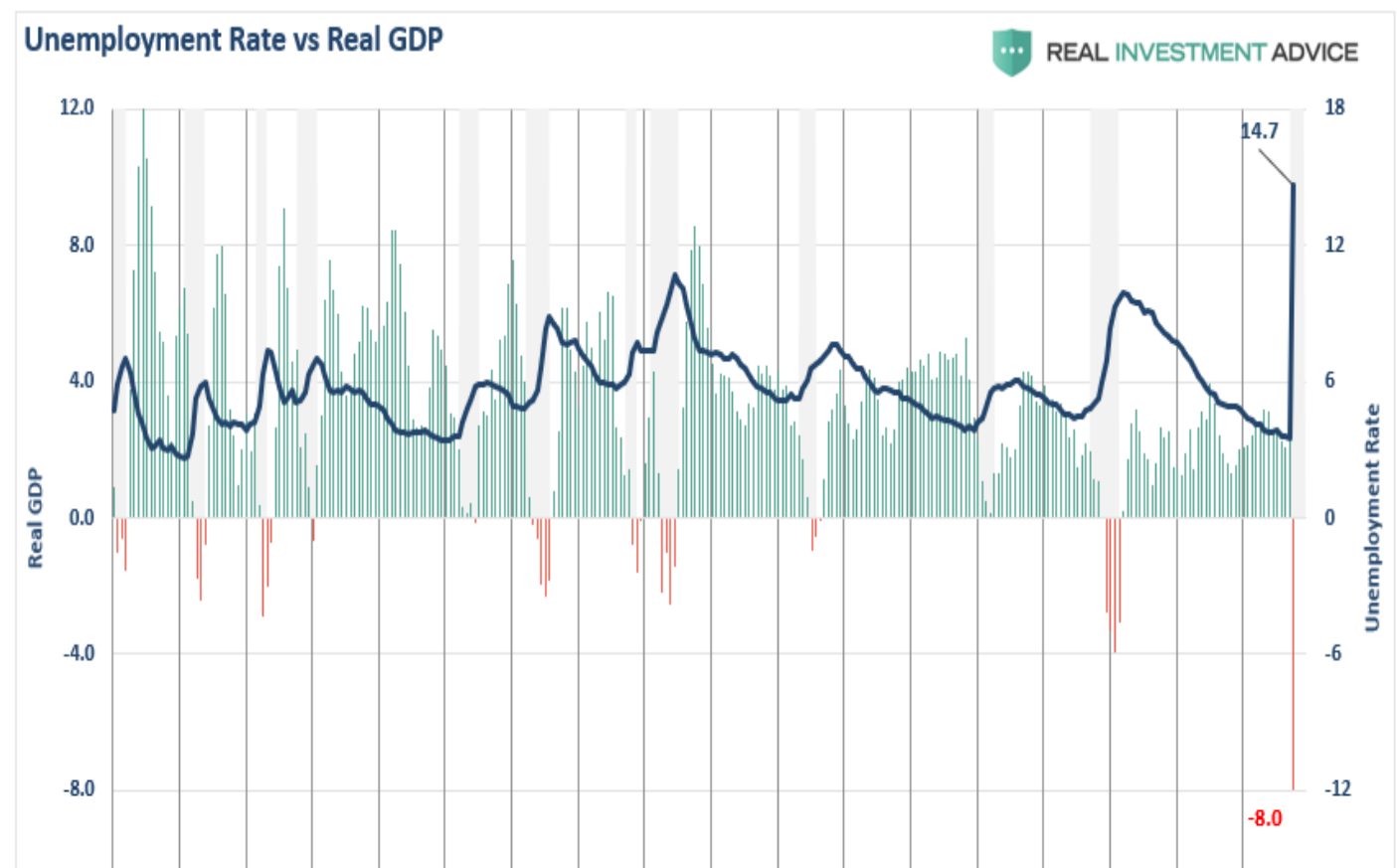
Depressionary Economy

As noted by Jay Denton from [Thinkwhy](#):

?April's job loss was the worst on record, and a continued climb in unemployment is likely over the next few months. ThinkWhy believes the impact on the labor market was very front-loaded, and the month-to-month totals for job loss should begin to moderate in May.

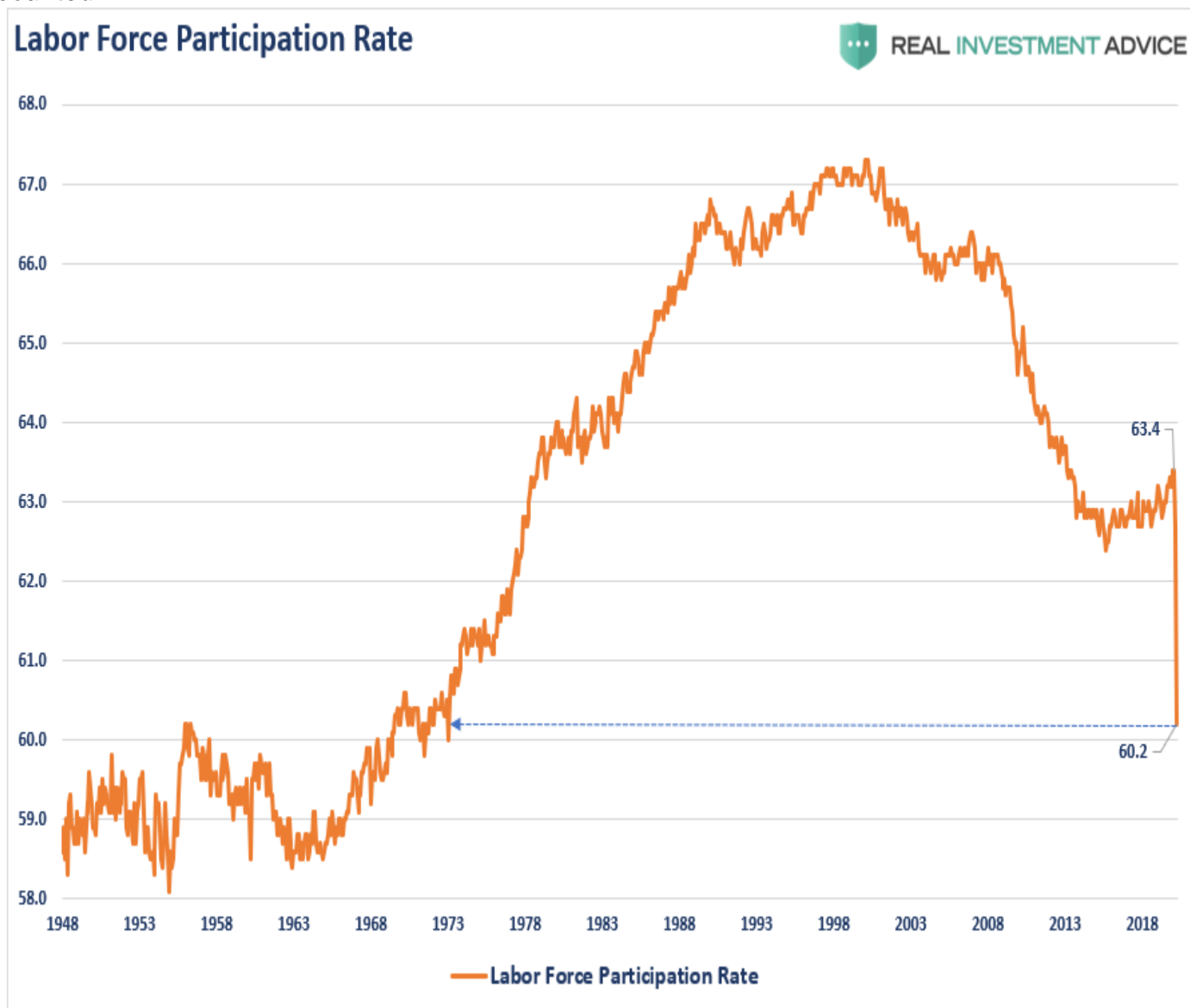
- Non-farm payrolls decreased by 20.5 million in April
- Labor force participation decreased to 60.2%
- Leisure and Hospitality jobs took the brunt of job losses at -7.653 million
- **Combined February and March revisions were down by 214,000 jobs**
- 32% of teenagers reported as unemployed
- 16.7% of Blacks and 18.9% of Hispanics reported as unemployed
- **Persons marginally attached to the labor force ? those not in the labor force who currently want a job ? numbered 2.3 million in April, up by 855,000 from last month**

Here are a couple of charts for context to the magnitude of the decline. Given the BEA will revise Q1-GDP towards -8%, and Q2 is estimated at nearly -20%, the unemployment rate of 14.7% will rise towards 20% in May's report. These are numbers not seen since the "Great Depression," and never seen in the official BEA data going back to 1948.

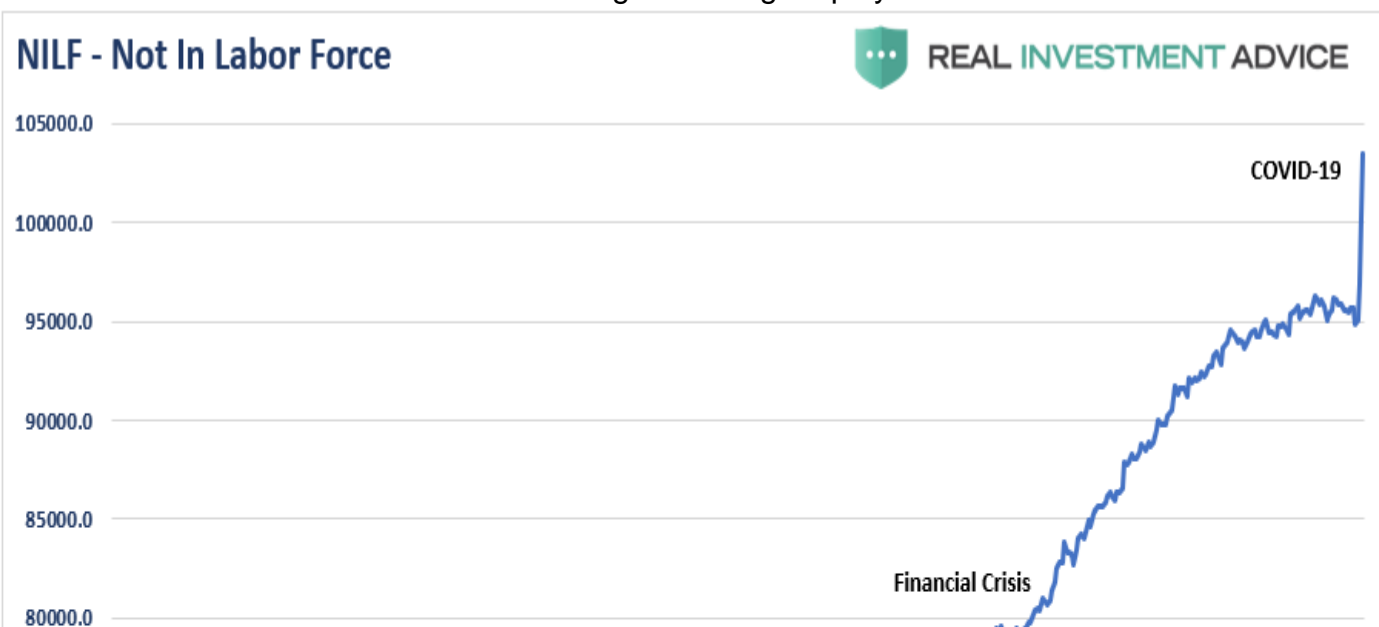


Labor Force Non-Participation

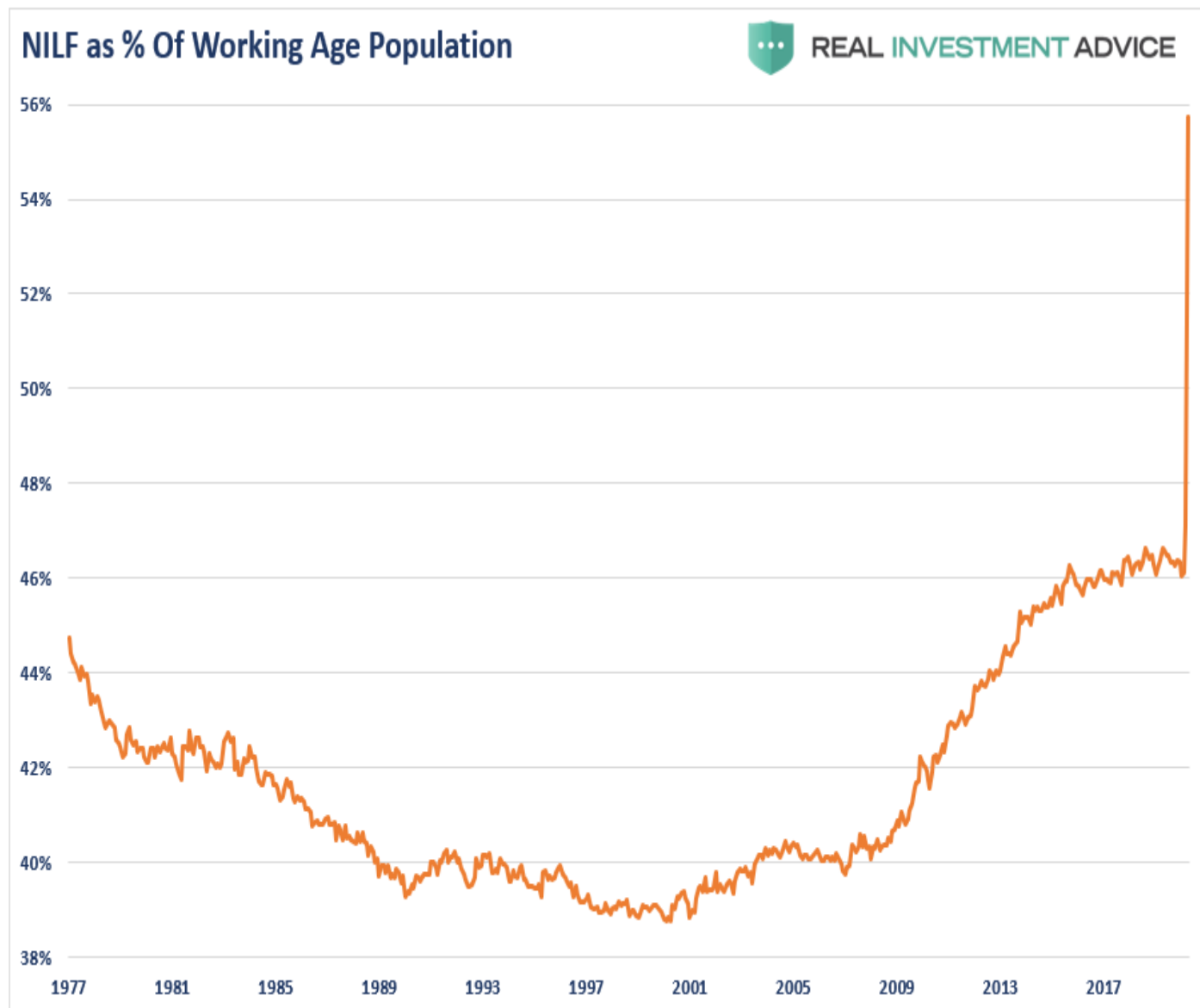
The participation in the labor force has dropped to levels not seen since 1973, and is a key measure to watch. Since the "*Financial Crisis*," the participation in the "*Labor Force*" never significantly rose despite "*record low unemployment rates*." Such is because the labor force was shrinking sharply over the last decade as more and more participants were simply "*no longer counted*."




Those "*Not In Labor Force*" has surged sharply over the last month. These are individuals that are considered out of the labor force and no longer seeking employment.



Do you really believe that nearly 56% of the working-age population are no longer looking for work?





Real Investment Show
with Lance Roberts

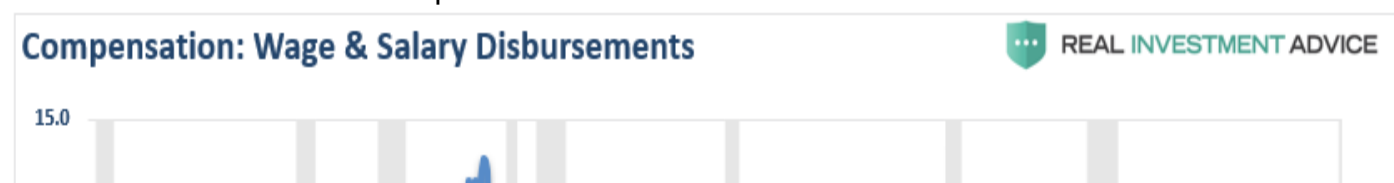
Monday to Friday,
from 6 to 7am. [> Get it now](#)

Wages Are Key

As we noted in our [#MacroView below](#):

"The impact on the economy from record levels of unemployment is going to have a wide range of impacts which will forestall an economic recovery. The first, of course, is a deep suppression of wage growth, which comes from both recessionary drags and job losses."

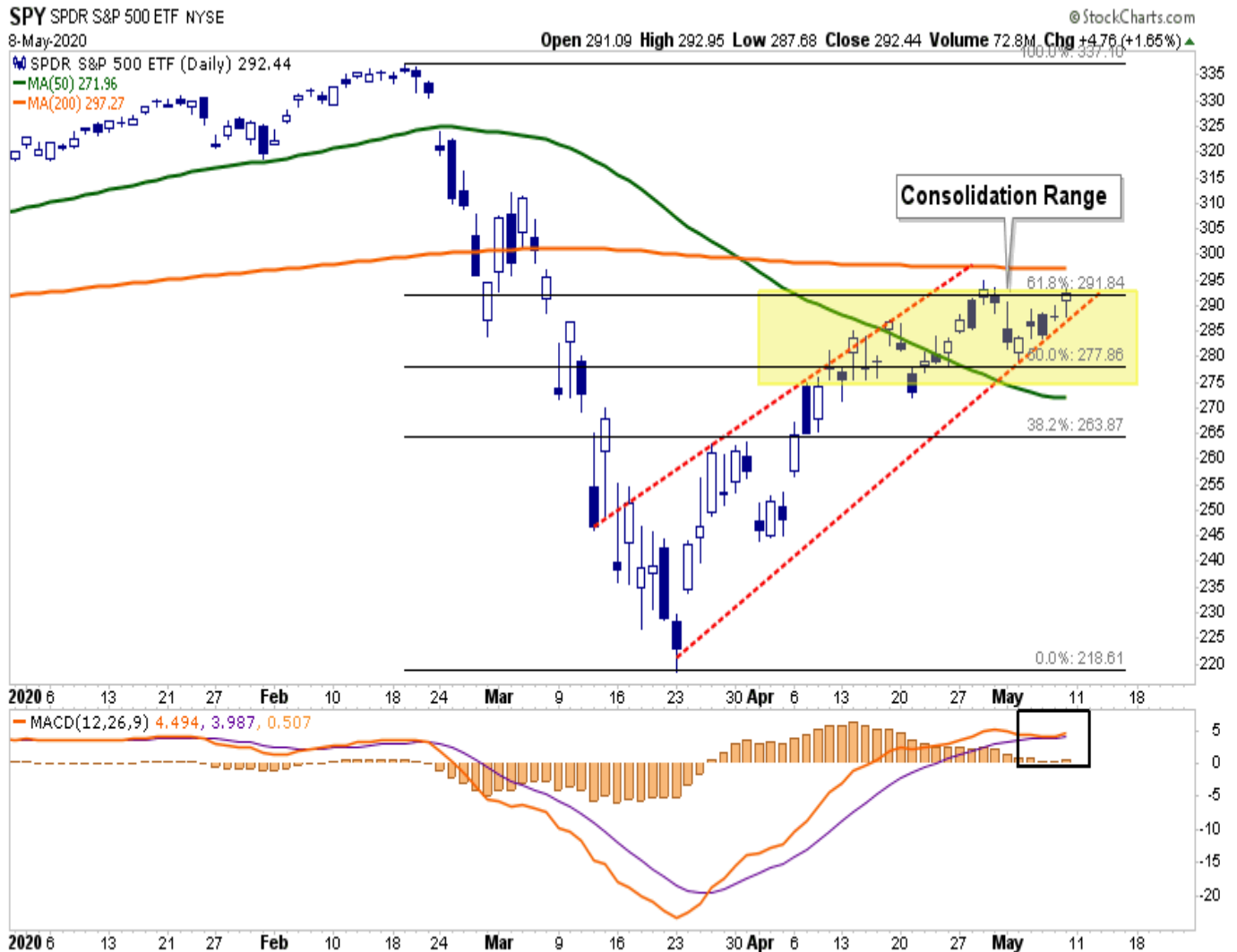
This data is just through the end of MARCH, with only two weeks of the shutdown accounted for. The decline in wage & salary disbursements with 20-million unemployed will far surpass the "Financial Crisis" lows in the April data.



Note the long-term trend in wages and salaries since 1980. **Such is why we fail to attain higher rates of economic growth when it is 70% based on consumption.** There will be no "V-shaped" economic recovery.

Bull Market Ignores It All

The juxtaposition between economic data and the "bull market" in stocks is quite astonishing.



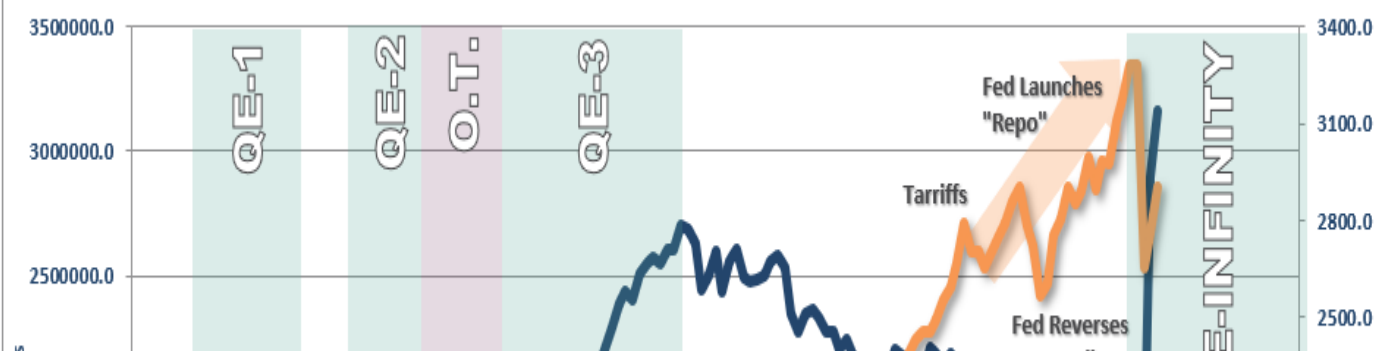
We tend to agree with BMO (Courtesy Of Zerohedge) on the underlying reasoning:

"Using this week's price action thus far as a guide, the biggest drivers have been the reality of ballooning Treasury issuance which has steepened the curve and the specter of negative policy rates in 2021 that has led the belly to outperform while pushing 2-year yields to record lows."

In other words, to no one's real surprise, the driver of the market is simply "The Fed." As the Fed engages in "QE," it increases the "excess reserves" of banks. Since banks are NOT lending to consumers or businesses, that excess liquidity flows into the stock market.

Bank Excess Reserves vs. S&P 500

REAL INVESTMENT ADVICE



As TPA noted on Friday for our [RIAPro Subscribers \(30-Day Risk-Free Trial\)](#)

"As bad as the economy is, stocks can only go lower if people sell and the subsequent liquidations take place. The asset management industry is overwhelmingly run by managers whose mandate is to remain invested in stocks. There is over \$100 trillion managed worldwide. The top 2 managers in the world are Blackrock and Vanguard. Blackrock manages most of the ETFs, and Vanguard is the largest index fund."

Guess who runs the programs for the Federal Reserve and the Treasury? **Blackrock**. If you want to chase risk currently, the advice is pretty simple.

*So far, we have not seen massive liquidations and until we do, investment managers will do their jobs and stay invested in stocks. We are advising clients to **keep a watchful eye trained for liquidations as a signal that the market will test new lows.**" - TPA*

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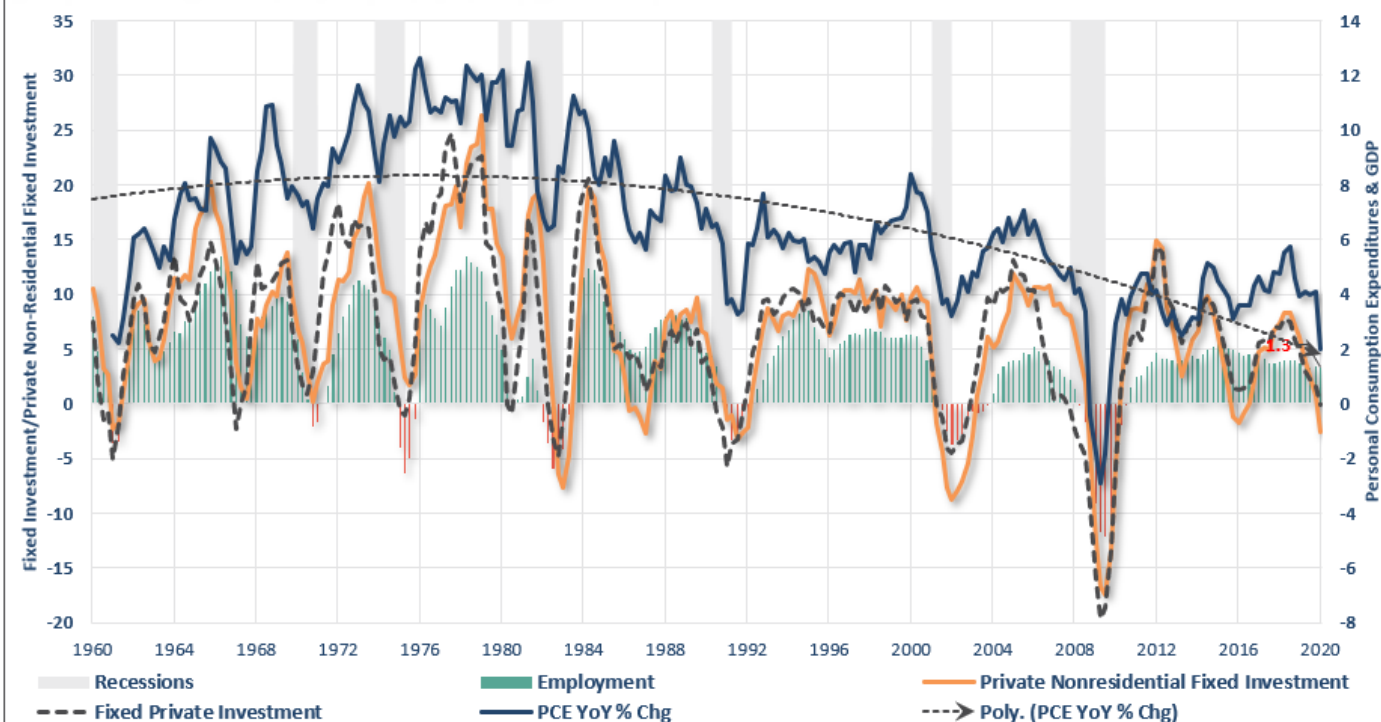
Bull Market Vs. Depression Economy

Currently, the economic destruction is playing out in real-time with expectations it will quickly reverse. I highly suspect it won't. As [we noted last week:](#)

"There is a negative feedback loop between employment and consumption. As unemployment rises, consumption falls due to a lack of income. Since businesses operate based on demand for goods and services, the correlation between PCE, fixed investment, and employment are high."

Businesses Operate Against Actual Demand

REAL INVESTMENT ADVICE

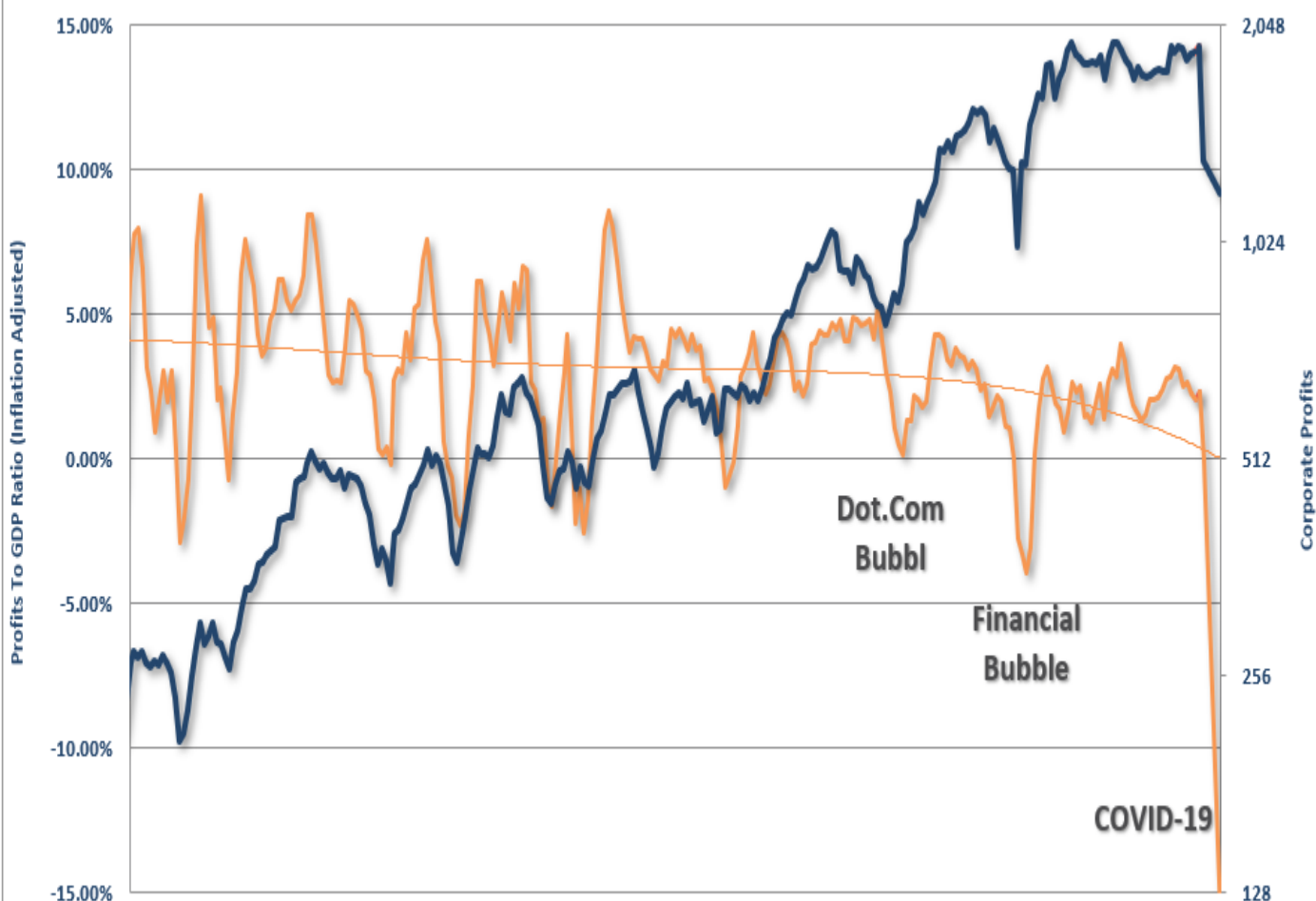


"Despite the reopening of the economy, businesses will not immediately return to full operational activity, until consumption returns to more normal levels. Such a recovery is likely going to frustrate policy-makers and the Fed."

It isn't just the economic data that is going to be horrid over the next few months, but earnings will likely be just as bad. Earnings can not live in isolation from the economy. As shown below, corporate profits ebb and flow with economic activity.

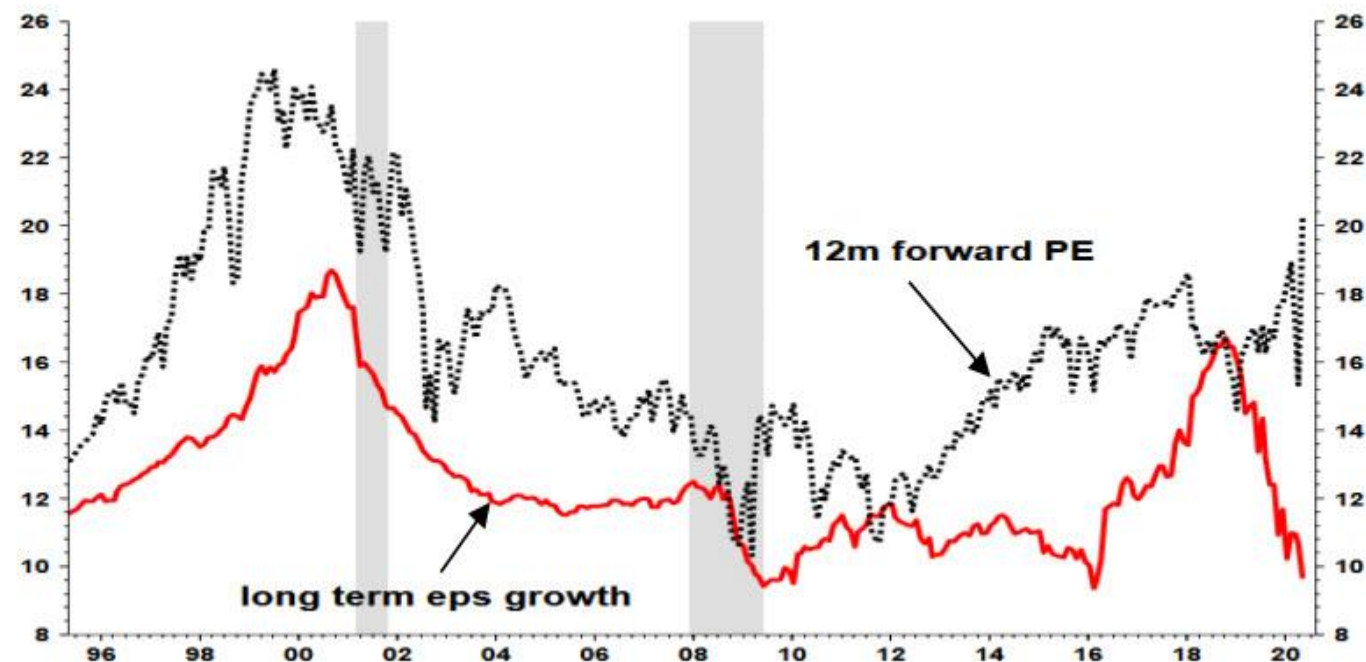
Link Between Corporate Profits & GDP

REAL INVESTMENT ADVICE



It may not seem to matter at the moment as it's all about "the Fed." However, you shouldn't dismiss the simple fact markets are deviated from long-term earnings. Historically, such deviations don't work out well for overly "bullish" investors. (Chart courtesy of Albert Edwards via SocGen)

The PEG ratio has entered a new era – of extreme overvaluation!



Source: Datastream

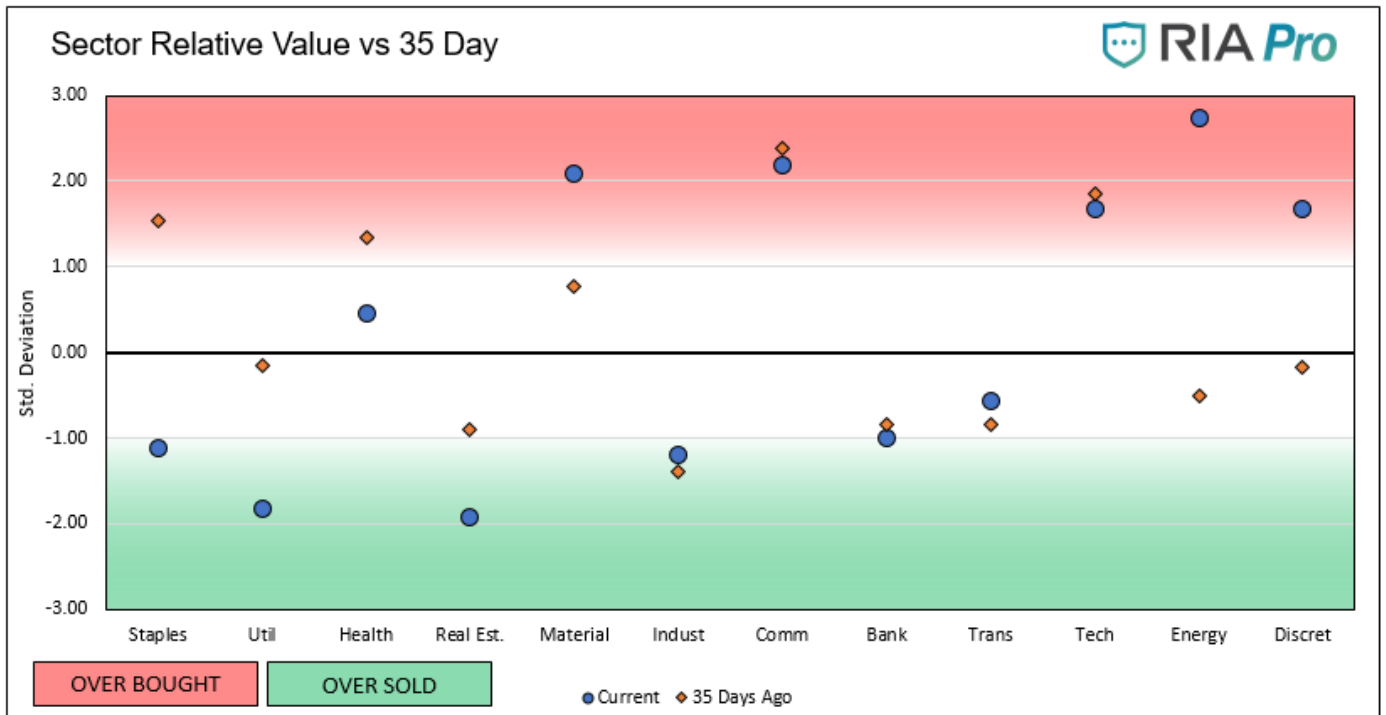
Just remember two simple rules:

- *So goes earnings, so goes the market.*
- *Reversions happen fast.*

Bull Market Rotation

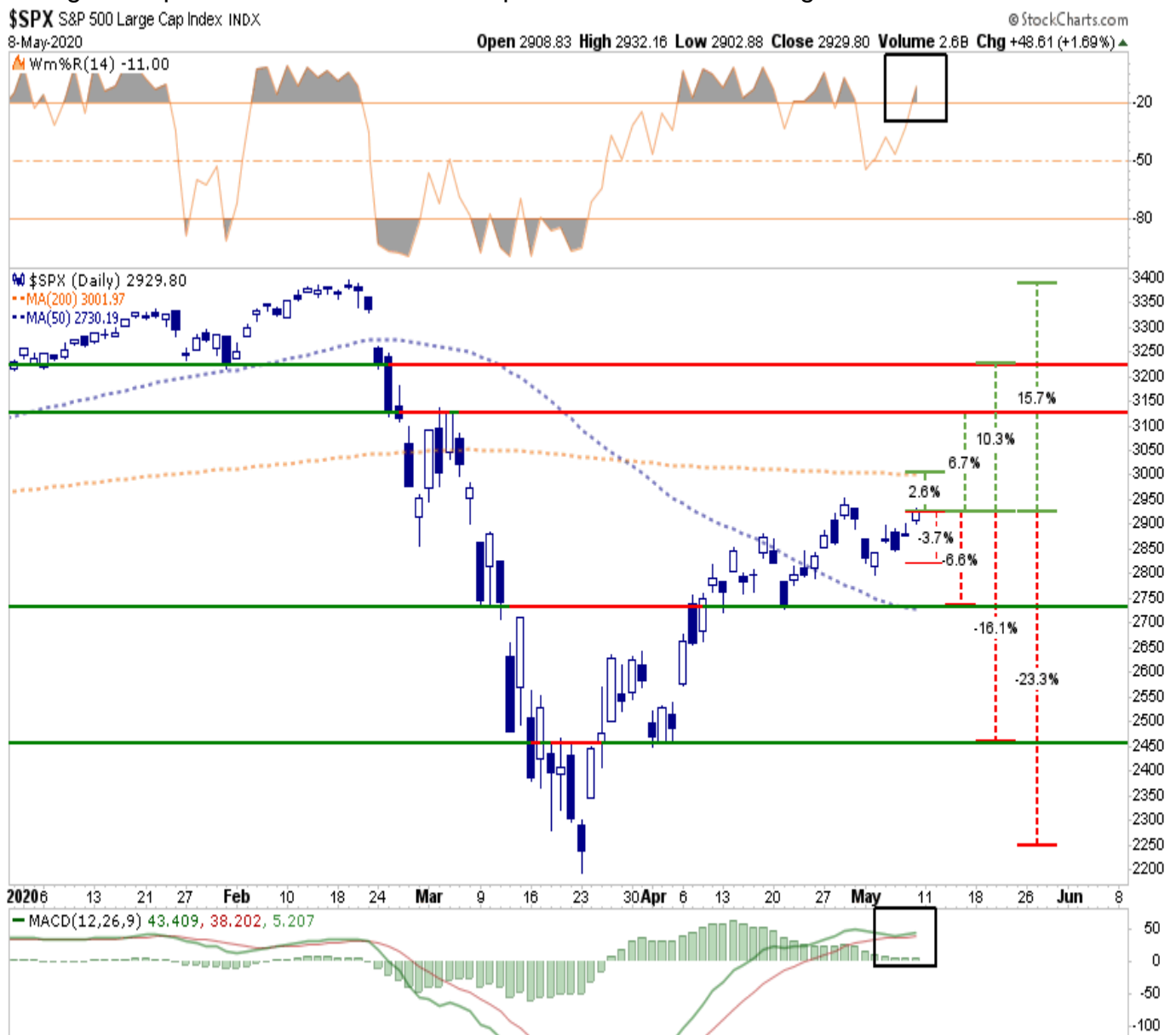
What this all suggests is that "risk" still outweighs the potential "reward" of being aggressively invested in the markets. **However, this DOES NOT mean you shouldn't have exposure to the markets.** It just means understanding how much risk you are undertaking. This past week, we discussed our sector positioning in our portfolios and analysis of holdings with our [RIAPro Clients \(30-day RISK-FREE Trial\)](#).

- **"Currently, only two (Health Care and Transportation) of the eleven sectors are not in either oversold or overbought territory.**
- Technology (XLK) and Communications (XLC) remains relatively strong as they are perceived as shelter from the economic impact of the Corona Virus. (We stay overweight)
- Energy (XLE) has been a favorite over the last two weeks and is now extremely overbought. **We are comfortable with our stop loss and the sector is fundamentally cheap.**
- The Real Estate (XLRE) and Utility sectors (XLU) are relatively cheaper in part due to the recent slight increase in bond yields. (We have added to these areas)
- Staples (XLP) are more appealing as a potential position add on. XLP has worked off its overbought condition and moved into oversold territory.
- Discretionary (XLY) is approaching deeply overbought territory. We do not own XLY, as many of the underlying companies are very sensitive to the economic impact of the virus."



Market Risk Still Outweighs Reward

While the market did rally this week back to the top of its ongoing consolidation range, the risk still outweighs the potential reward. We have updated the chart and ranges from last week.



With Friday's advance, the risk/reward ranges remain unfavorable for now.

- **-3.7% to the 50% retracement vs. 2.6% to the 200-dma.** Risk/reward negative.
- **-6.6% to the 50-dma vs. 6.7% to the March bounce peak.** Risk/reward equally balanced.
- **-16.1% to the April 1st lows vs. 10.3% to January's bottom.** Risk/reward negative.
- **-23.3% to the March 23rd low vs. 15.7% to all-time highs:** Risk/reward negative.

The risk of a downside retracement, as we head into summer months, outweighs the upside currently. Importantly, this does NOT mean the markets can't rally to all-time highs. It is possible, just not probable, and as investors, we must weigh our outcomes. **While it may seem currently such a correction "can't happen," that is usually just about the time that it does.**

Positioning Update

As noted above, we continue to take profits in trading positions, and as noted in our sector rotation analysis, continue to rebalance equities in areas that are outperforming. We continue to balance our equity exposure with offsetting hedges, and still maintain a larger than average level of cash. There is only one thing I am sure of, a raging bull market in stocks can NOT co-exist with a depressionary economy for long. **The stock market is NOT the economy. But the economy is a reflection of the very thing that supports higher asset prices - corporate profits.** You do the math.

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The MacroView



#MacroView: "Savings Mirage" Won't Save The Economy

Written by Lance Roberts | May 8, 2020

The fiscal and monetary responses to the "coronavirus" created a surge in savings. While many...

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If you need help or have questions, we are always glad to help. [Just email me.](#) See You Next Week **By Lance Roberts, CIO**

Financial Planning Corner

12-Smart Money Moves In An Economic Crisis

Our next ["Financial Planning and Investment"](#) Webinar is coming up May 16th.

If you have been laid off, furloughed, or forced to retire early, this is the webinar you need to watch to make sure you are doing the right things with your money. Got money at risk in the markets? We will discuss navigating a "bear market" and protecting your money.



WEBINAR **The Great Reset**
12 Smart Money Moves In An Economic Crisis.

1. So, you're underemployed, now what?
2. How to navigate a severance package.
3. What you must know about bear markets.

Saturday, May 16, 2020 > 9am-11am

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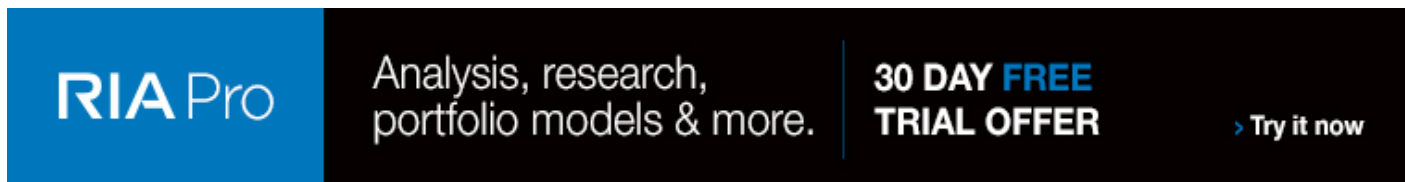
Market & Sector Analysis

Data Analysis Of The Market & Sectors For Traders

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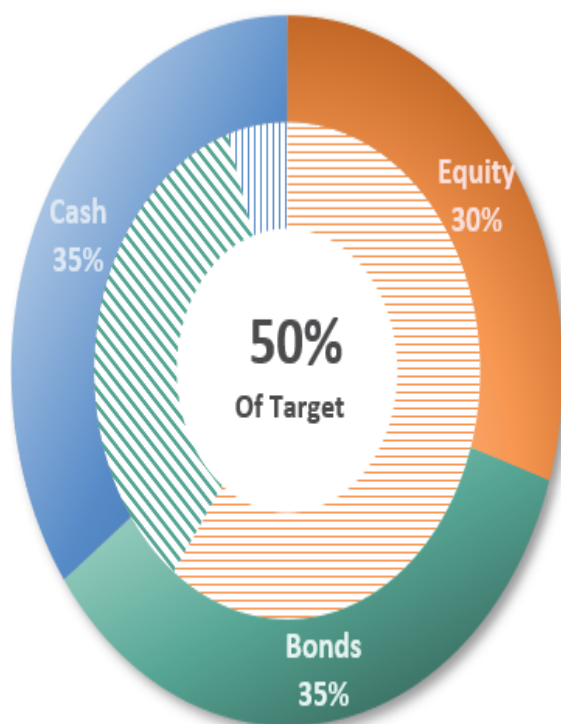
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THE REAL 401k PLAN MANAGER

A Conservative Strategy For Long-Term Investors



Current Portfolio Weighting



Current 401k Allocation Model

35.00% Cash + All Future Contributions

Primary concern is the protection of investment capital

Examples: Stable Value, Money Market, Retirement Reserves

35.00% Fixed Income (Bonds)

Bond Funds reflect the direction of interest rates

Examples: Short Duration, Total Return and Real Return Funds

30.00% Equity (Stocks)

The vast majority of funds track an index.

Therefore, select on ONE fund from each category.

Keep it Simple.

15% Equity Income, Balanced or Conservative Allocation

15% Large Cap Growth (S&P 500 Index)

0% International Large Cap Dividend

0% Mid Cap Growth

Portfolio Instructions:

Allocation Level To Equities	Reommendation	When To Take Action
Less Than Target Allocation	Stay Below Target	No Action Needed
Equal To Target Allocation	Reduce To Or Stay At Target	Immediately
Over Target Allocation	Reduce To Or Stay At Target	Immediately

Commentary

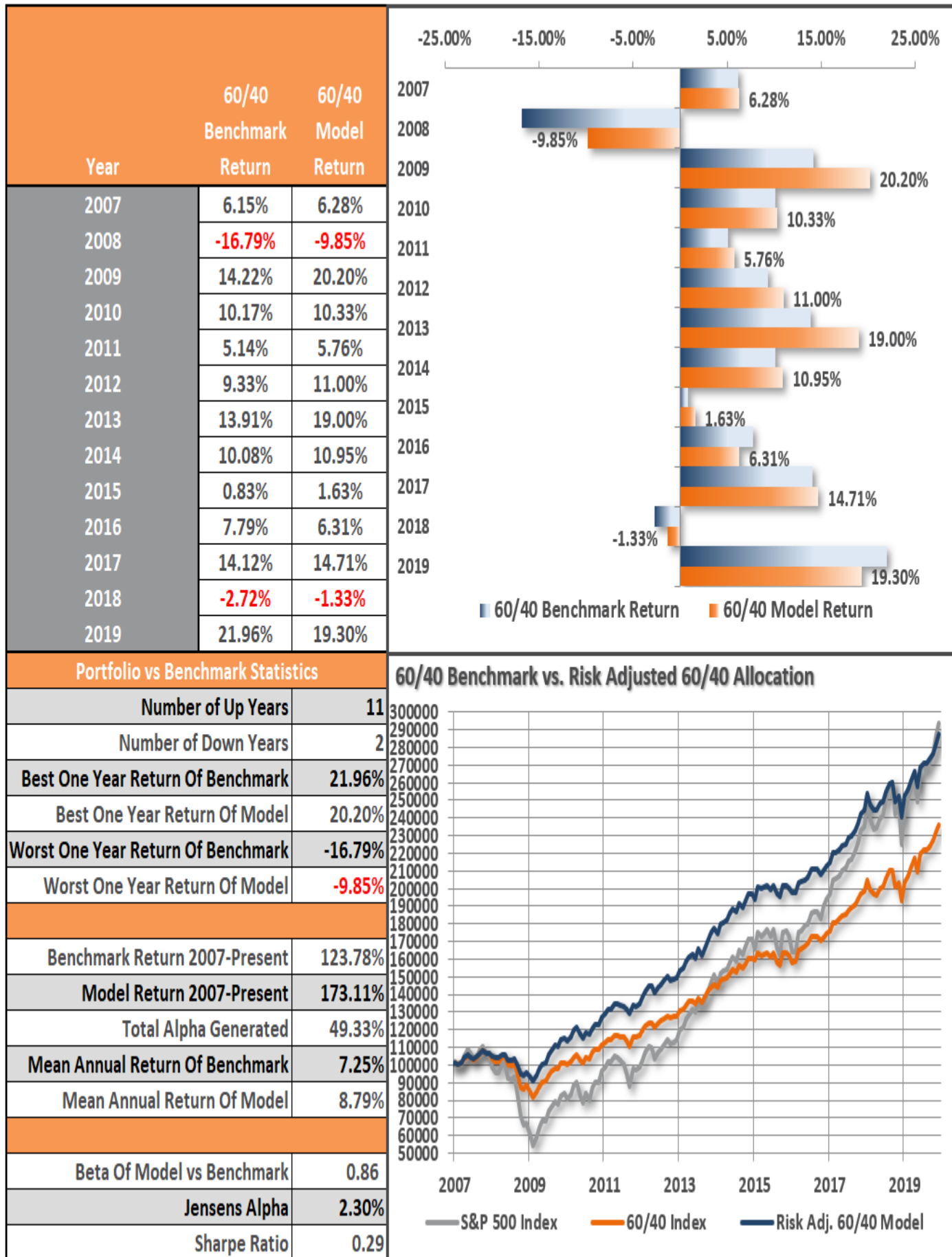
Previously, we wrote as the market hit the 61.8% retracement level: **"The opportunity to reduce risk is likely as good as it is going to get currently. While the market could rally some more next week, risk outweighs reward."**

The market sold off previously, tested support and is now back to the same level as it was before. It is still not too late to reduce exposure, but use any rally on Monday to take action. We have a couple of tough months ahead of us and are VERY close to triggering a MACD Sell Signal on a short-term basis.

Continue reducing equity exposure to 50%, or greater if you feel it is necessary, to remove potential risk of another down leg for now. We will have plenty of time to wait for the bottom to be formed to buy back in for the next bull market cycle when it occurs. The important thing now, is to conserve our principal.

If you need help after reading the alert; do not hesitate to [contact me](#)

Model performance is a two-asset model of stocks and bonds relative to the weighting changes made each week in the newsletter. Such is strictly for informational and educational purposes only and should not be relied on for any reason. Past performance is not a guarantee of future results. Use at your own risk and peril.



401k Plan Manager Live Model

As an [RIA PRO subscriber](#) (You get your first 30-days free) you have access to our live 401k plan manager. Compare your current 401k allocation, to our recommendation for your company-specific plan as well as our on 401k model allocation. You can also track performance, estimate future values based on your savings and expected returns, and dig down into your sector and market allocations. **If you would like to offer our service to your employees at a deeply discounted corporate rate, [please contact me.](#)**

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My Portfolio

RIAPro Portfolio

RIA PRO MODEL PL

Retirement Income (My Portfolio Annual ROR 9.44 %)

Current account balance	10,000
Estimated Retirement Balance	632,861
Estimated Retirement Balance (Inflation Adj)	620,204
Monthly Income	2,768
Monthly Income (Inflation Adj)	2,713
My Cumulative Contribution	172,934
Employer Cumulative Contribution	103,760

Retirement Income (RiaPro Annual ROR 9.02 %)

Current account balance	10,000
Estimated Retirement Balance	609,786
Estimated Retirement Balance (Inflation Adj)	597,590
Monthly Income	2,667
Monthly Income (Inflation Adj)	2,614
My Cumulative Contribution	172,934
Employer Cumulative Contribution	103,760

My Fund Composition

RIAPro Fund Composition

My Asset Composition

RIAPro Asset Composition