

# Stuck In The Middle

## As The “Seasonal Sell” Signals Trigger

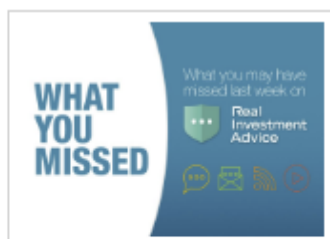


*In this issue of "Stuck In The Middle As Seasonal Sell Signals Trigger:"*

- *View Of The Markets & Portfolio Positioning*
- *MacroView: Why Jeremy Siegel Is Wrong About Bonds*
- *Sector & Market Analysis*
- *401k Plan Manager*

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## Catch Up On What You Missed Last Week



### #WhatYouMissed On RIA This Week: 05-15-20

Written by Lance Roberts | May 15, 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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# Stuck In The Middle

Currently, we seem to be stuck in the middle even as seasonal sell signals trigger. It reminds me of the lyrics of one of the classics.

***?Trying to make some sense of it all, But I can see that it makes no sense at all, Is it cool to go to sleep on the floor, ?Cause I don?t think that I can take any more Clowns to the left of me, jokers to the right, Here I am, stuck in the middle with you? ? Stealers Wheel***

It's a fascinating dichotomy in the markets currently. As [noted last week](#):

*"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."*

This week, the continuation of depressionary economic data continued:

- NFIB Survey fell to 90.9
- CPI fell 0.8% in one month
- PPI fell by 1.3% last month.
- Jobless Claims rose by 2,981,000
- Continuing Claims exceeding 22 million
- Retail Sales (40% of PCE) plunged by 17.2% last month
- Industrial Production declined by 11.2%

These are numbers not seen since the Great Depression, with expectations for economic growth in the second quarter at a **-31.5%** growth rate (*shown below*). The Atlanta Fed GDP Now is even worse with a **-42.8%** decline in GDP growth in the second quarter.

2020:Q2 | 2020:Q1 | 2019:Q4 | 2019:Q3

Last Release 11:15am EST May 15, 2020

ARCHIVE

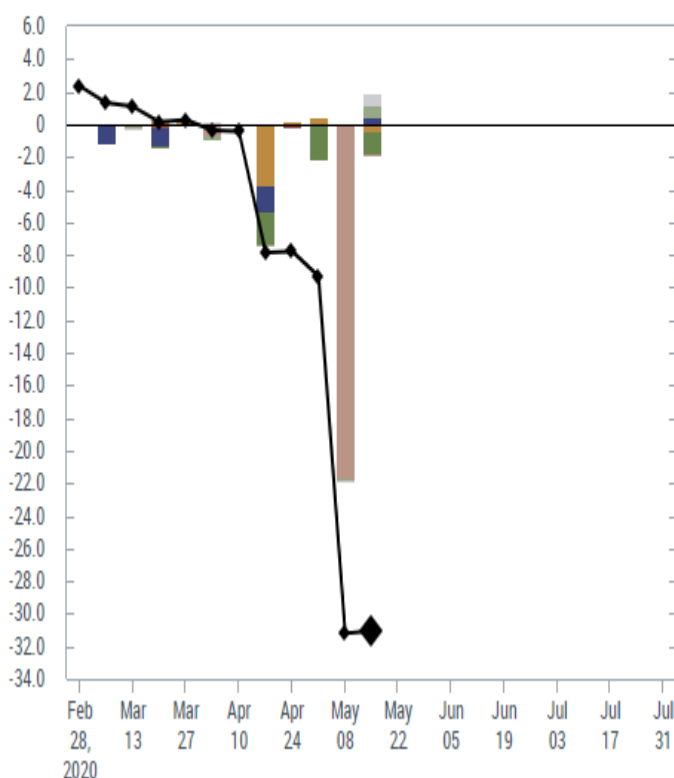
DOWNLOADS

LAYOUT

◆ The New York Fed Staff Nowcast ○ Advance GDP estimate □ Latest GDP estimate

■ Housing and construction ■ Manufacturing ■ Surveys ■ Retail and consumption ■ Income ■ Labor ■ International trade ■ Others

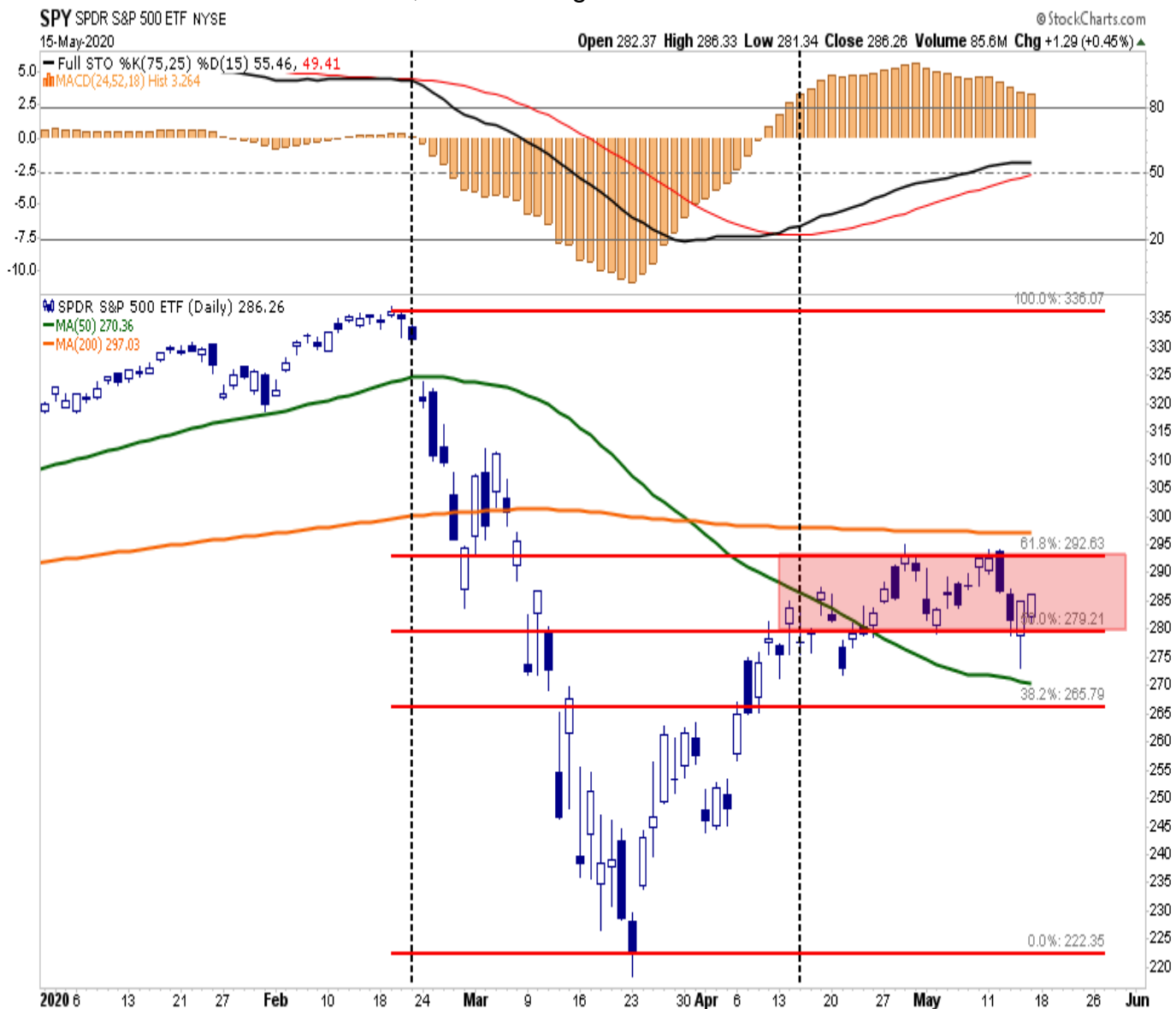
Percent (annual rate)



## Data Flow (May 15, 2020)

Model Update	Release Date	Data Series	Actual	Impact	Nowcast GDP Growth
May 15					-31.05
	10:00AM May 15	JOLTS: Total job openings	-813.00	-0.09	
	9:10AM May 15	Capacity utilization	-8.30	-0.11	
	9:10AM May 15	Industrial production index	-11.25	-0.28	
	8:30AM May 15	Empire State Mfg. Survey: General business conditions	-48.50	0.45	
	8:30AM May 15	Retail sales and food services	-16.45	-1.33	
	8:30AM May 14	Export price index	-3.27	0.33	
	8:30AM May 14	Import price index	-2.56	0.48	
	8:30AM May 13	PPI: Final demand	-1.27	0.18	
	8:30AM May 12	CPI-U: All items less food and energy	-0.45	-0.04	
	8:30AM May 12	CPI-U: All items	-0.80	0.29	
		Data revisions		0.29	
May 08					-31.22

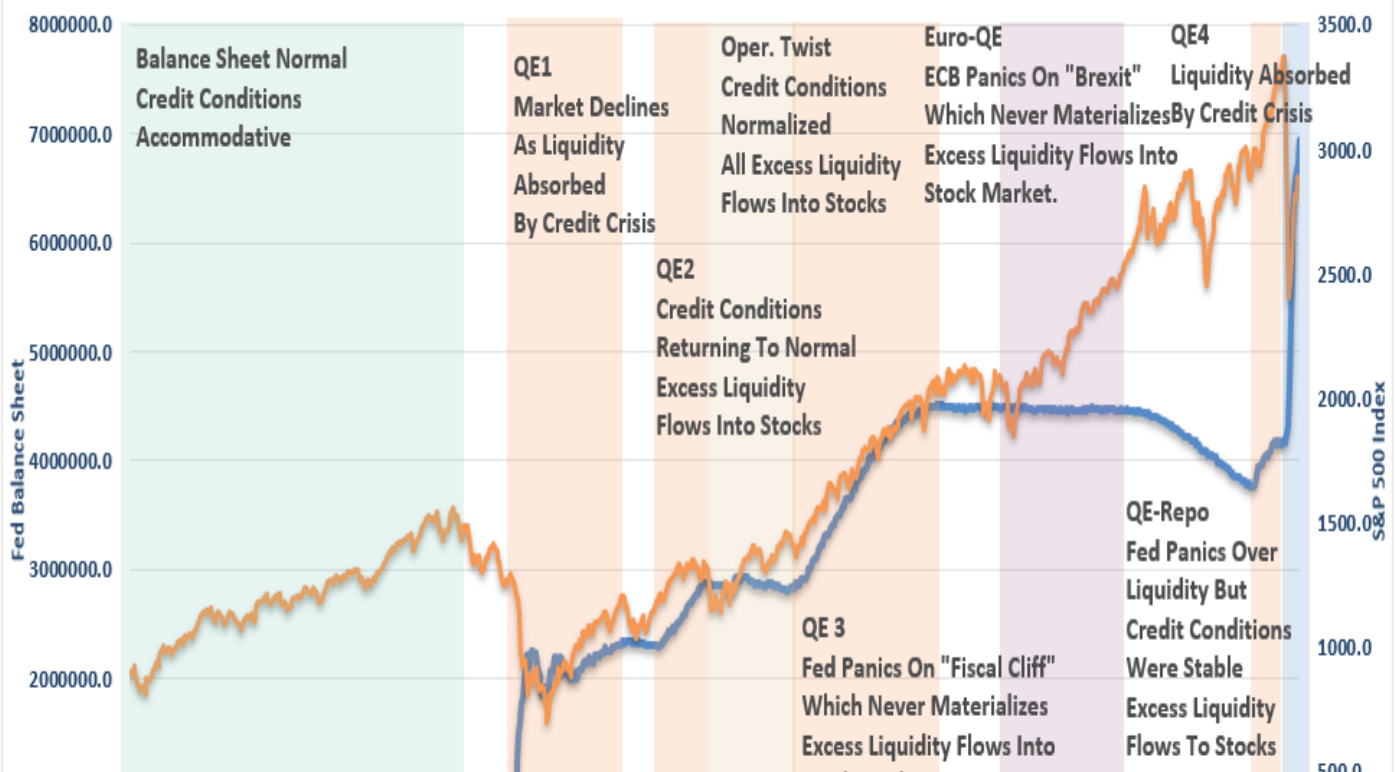
These numbers are mentally hard to grasp. Yet, the markets remain range-bound between the 50% and 61.8% retracement levels, consolidating the advance from the March 23rd lows.



The reason for the dichotomy is simple.

## Fed Balance Sheet

REAL INVESTMENT ADVICE



The bullish argument for stocks remains simple. As long as the Federal Reserve is pumping in liquidity, buy stocks.



**REAL  
INVESTMENT  
ADVICE**

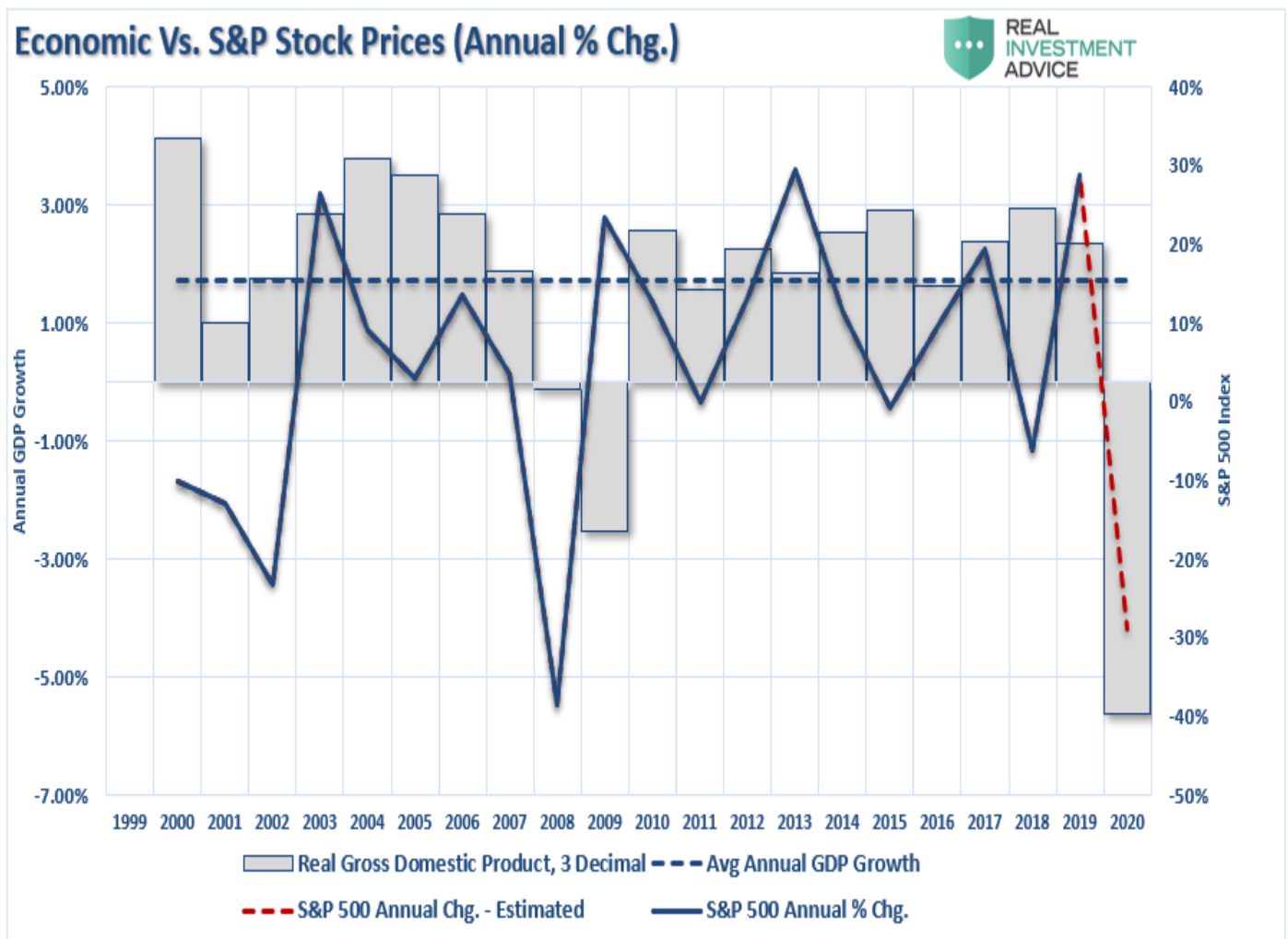
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## Earnings Continue To Decline

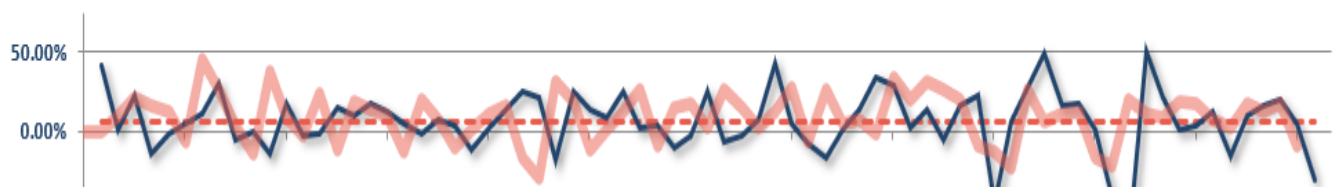
As investors, however, we need to be paying attention to earnings. There is a simplistic correlation between the economy and the markets. As I questioned in ["The Stock Market Is Not The Economy?"](#)

*"The relationship becomes more evident when looking at the annual change in stock prices relative to the yearly change in GDP."*



*"Again, since stock prices are driven in part by the 'psychology' of market participants, there can be periods where markets become detached from fundamentals. However, there is no point in previous history, where the fundamentals catch up with stock prices."*

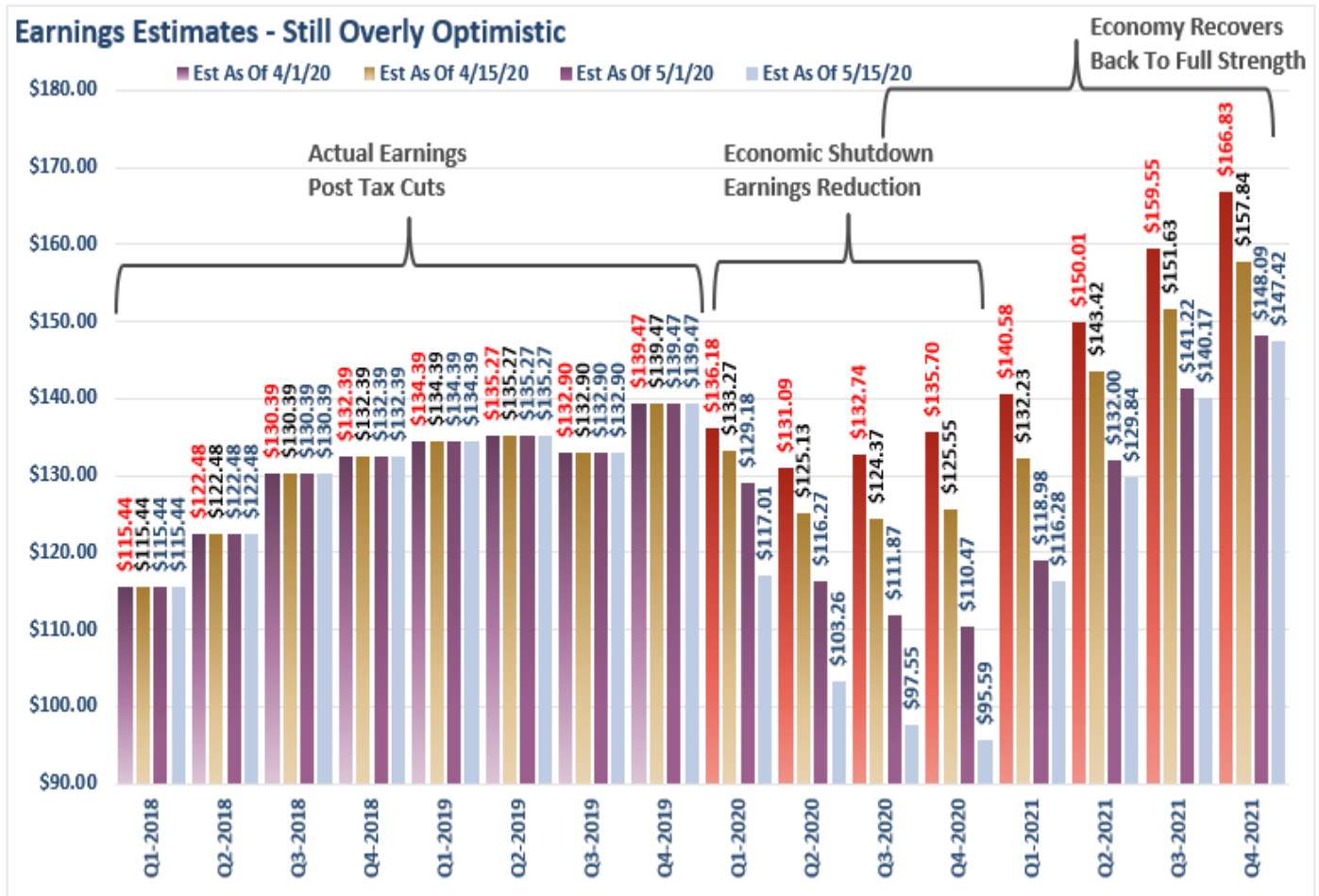
## S&P 500 EPS Vs. S&P 500 Price YOY % Growth



As stated, the equation is simplistic:

*"Slower economic growth = less consumption (due to unemployment) = lower profit and revenue growth."*

Based on the current economic devastation, earnings estimates for the next couple of quarters have fallen sharply. Unfortunately, they still have not compensated for the coming drop in revenues.

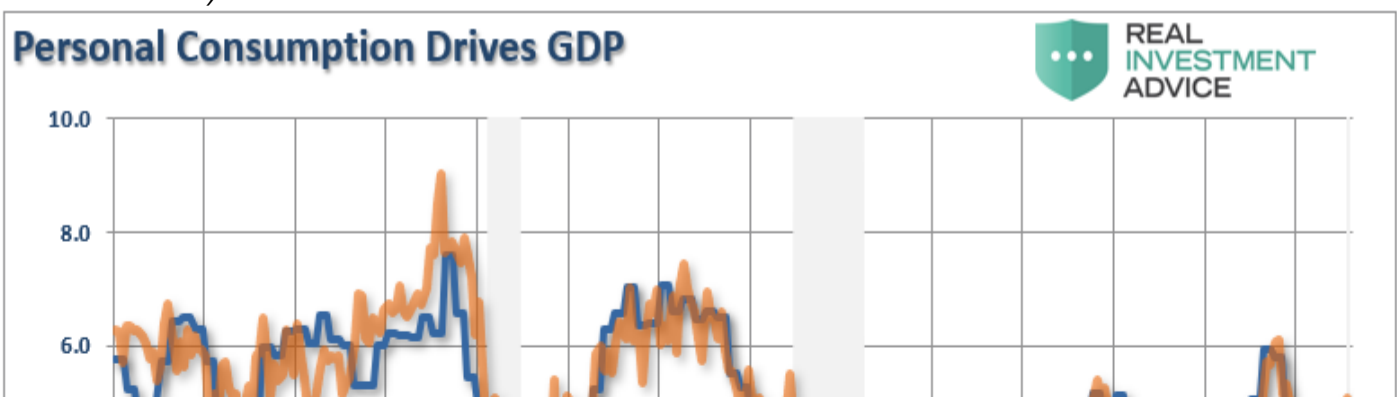


## It's The Economy Stupid

How do I know that?

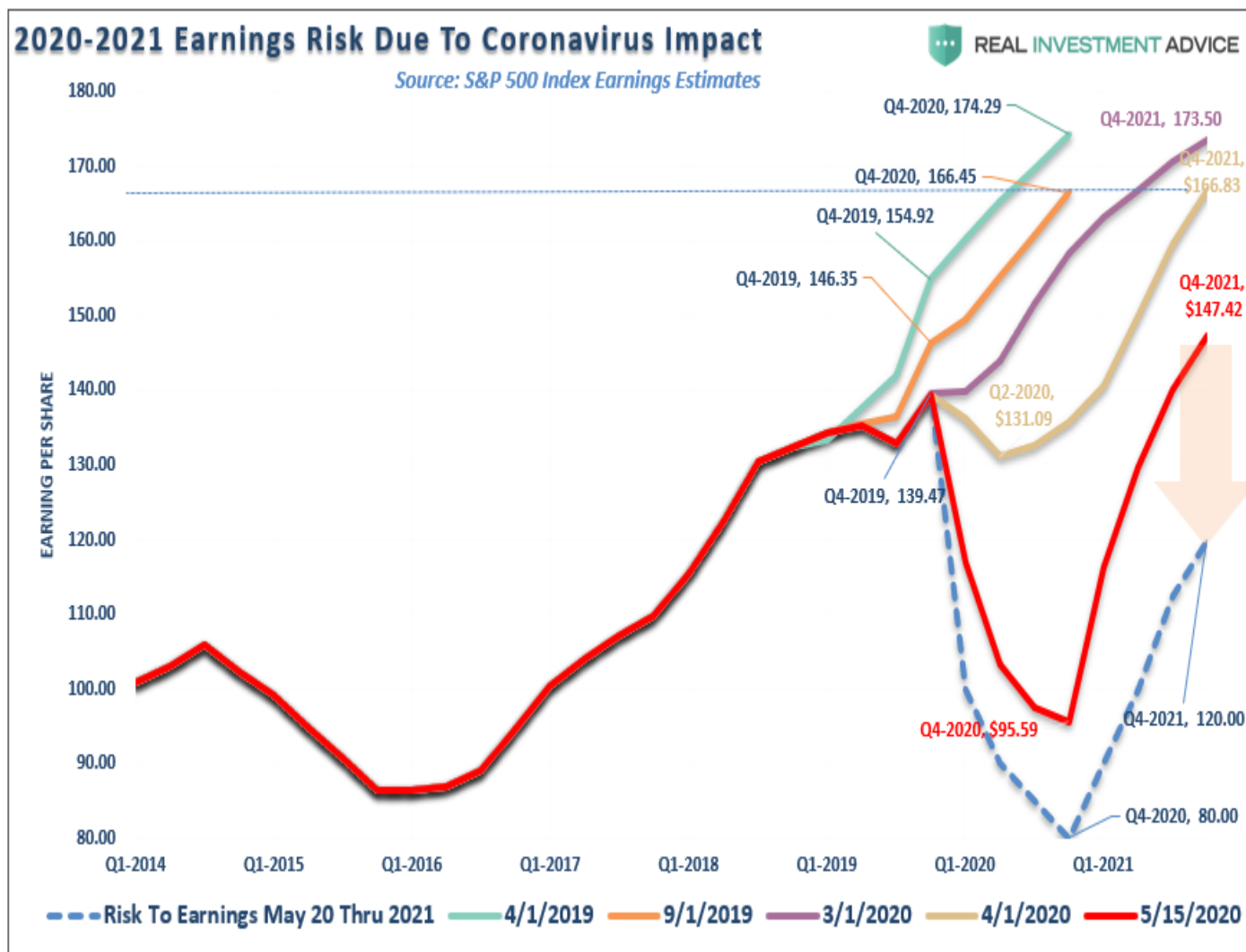
*?PCE depends on jobs and wages as well as an intact supply chain, neither of which are in good condition. Regarding unemployment, the U6 rate, which is a more reliable indicator of job market health, is at 22.8% currently and rising while the labor market participation rate has dropped to about 60%. These factors do not bode well for growth and earnings for most companies.? ? A Brinkley, Jr.*

His statement is correct. There is a precise correlation between PCE and GDP. Not surprisingly, if consumption contracts due to high levels of unemployment, then economic growth declines. (PCE is 70% of GDP)



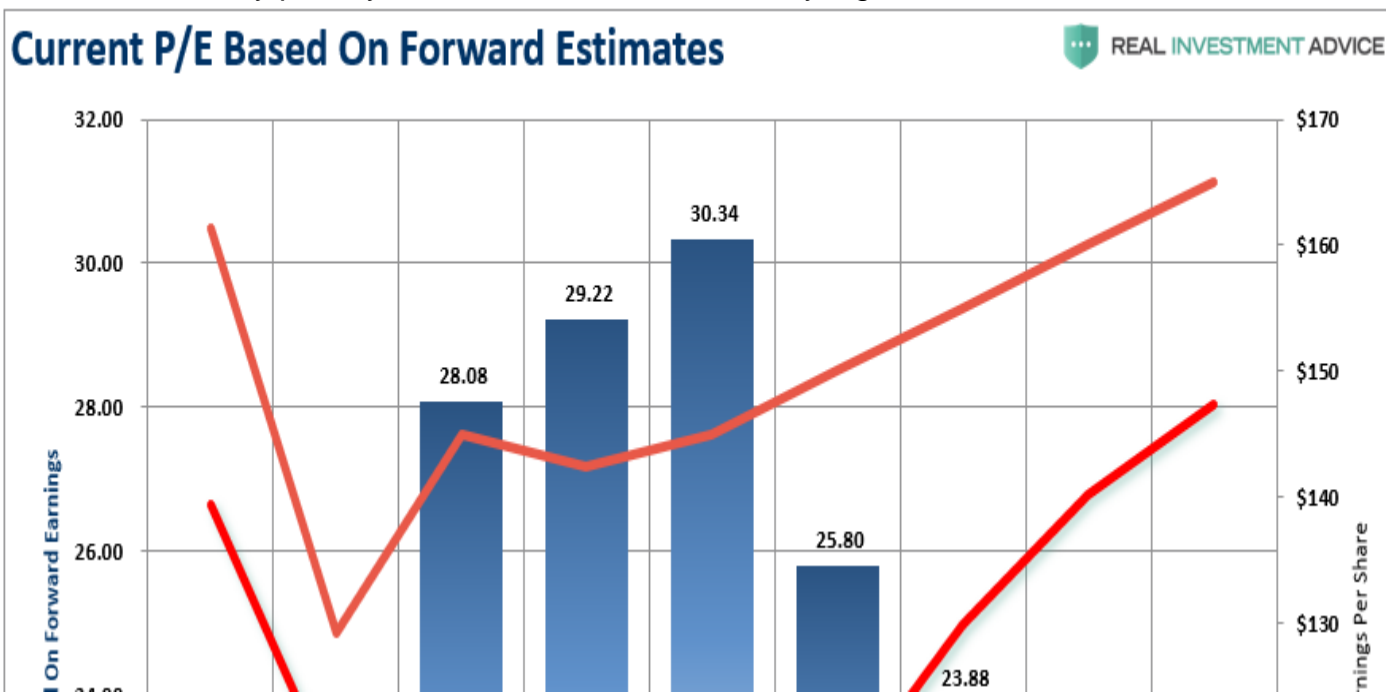


The other problem is investors remain overly optimistic about the recovery prospects for earnings going into 2021. As shown, in April 2019, it was estimated the S&P 500 would earn \$174/share (*reported earnings*) at the end of 2020. Today, estimates for Q4-2021 now reside at just \$147/share. This is a 15% contraction in estimates when we are discussing a 30-40% decline in GDP.



## Valuations Matter

With expectations for the S&P 500 to return to all-time highs in 2021, such would mean that valuations currently paid by investors remain at historically high levels.



As Warren Buffett states: "Price is what you pay, value is what you get." While it seems these concerns are irrelevant due to the Federal Reserve's ongoing liquidity injections, fundamentals and valuations always matter over time.



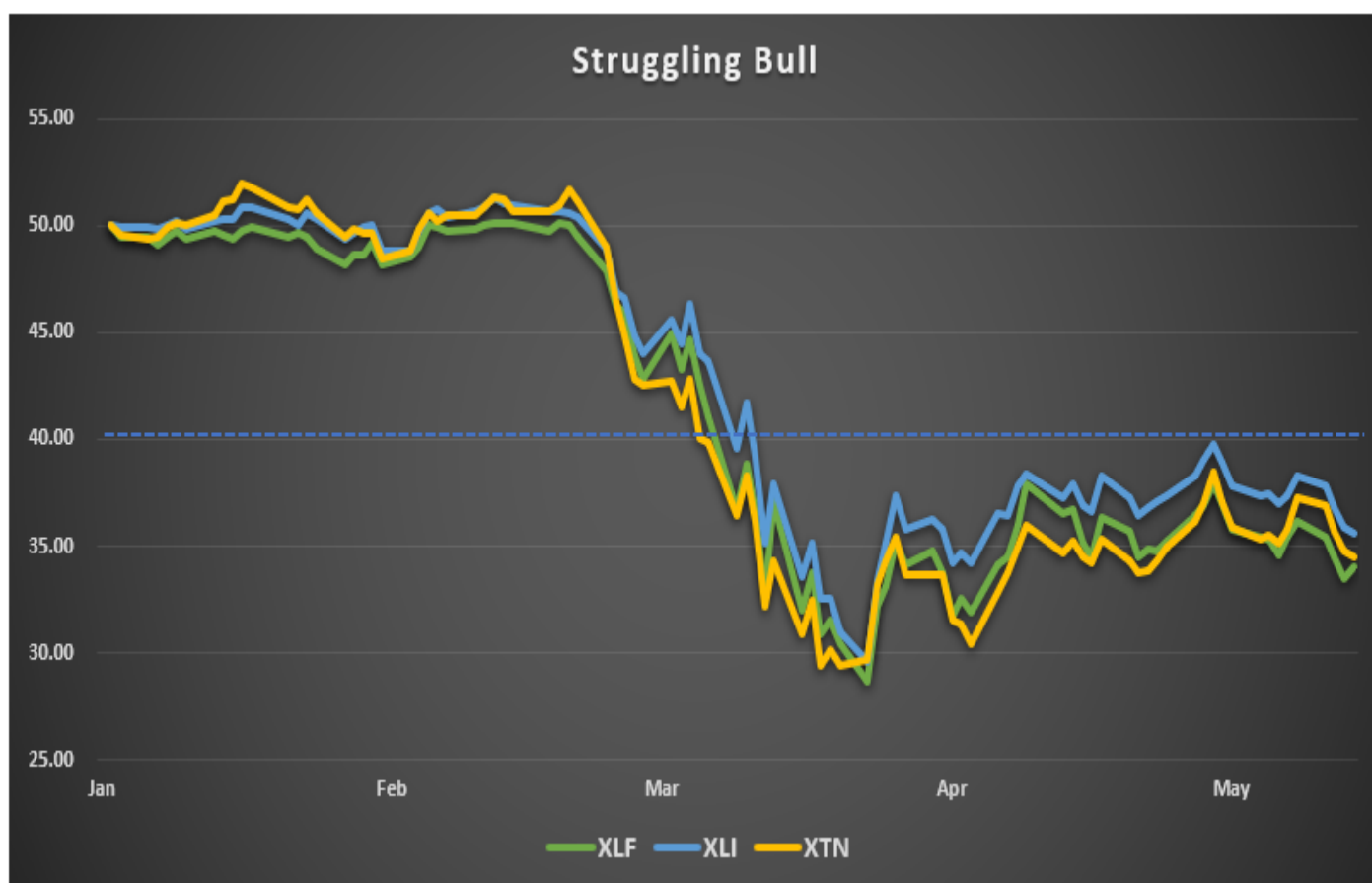
## Real Investment Show

with Lance Roberts

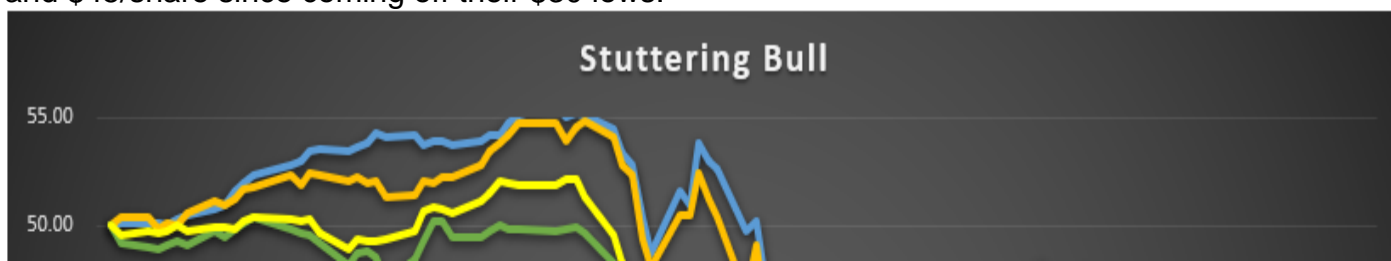
Monday to Friday,  
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### 3-Different Bulls

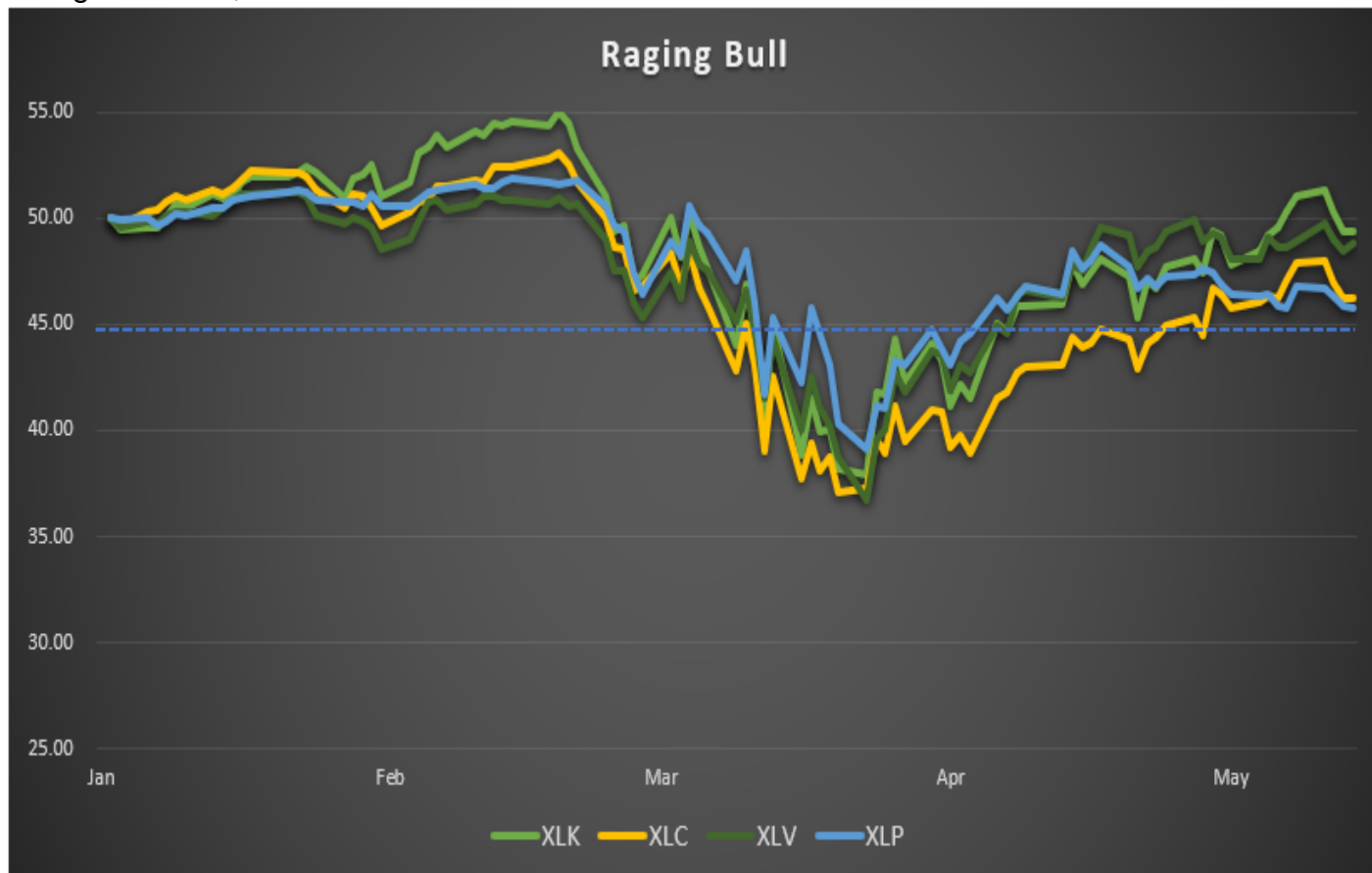
We have talked before about the "narrowness" of the market. Since the March 23rd lows, the "bull market" advance was three different "bull markets." The three charts below break out the sectors of the market down into "bull market" groupings. I have recalibrated each sector to a \$50 starting price in January of this year. The "Struggling Bull" market has been in sectors that we currently maintain **no exposure to in portfolios**. These are the sectors most exposed to either the "Coronavirus" impact, or the Fed's monetary liquidity and zero interest rates.



Industrial and Transportation stocks are most affected by the economic shutdown, while Financials are impacted by reductions of net interest income from zero interest rates, and rising delinquency rates. All three sectors remain below \$40, and only marginally above the March 23rd lows. The next group we classify as a "Stuttering Bull" as the recovery has been better, but the sectors continue to underperform overall. These sectors have been primarily range-bound between \$40 and \$45/share since coming off their \$30 lows.



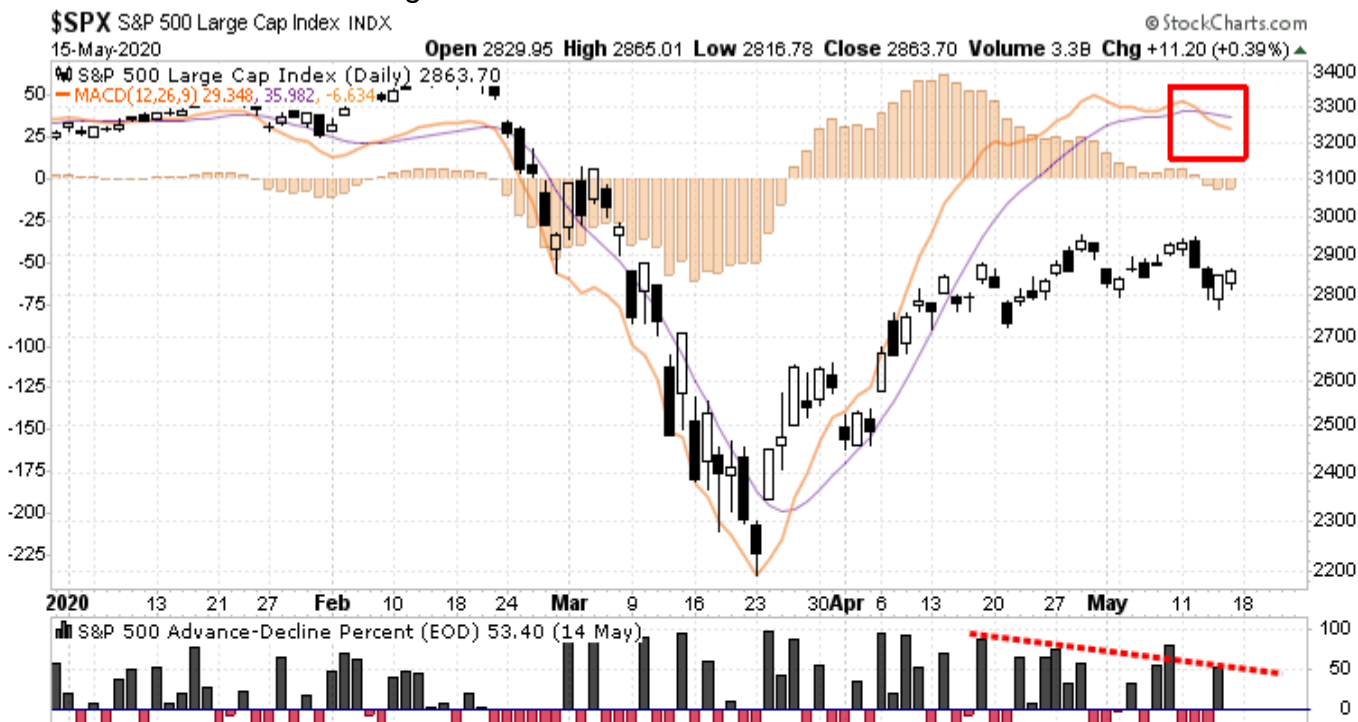
These sectors are still susceptible to the impacts of the "economic shutdown" from reduced revenues, bankruptcies, unemployment risks, etc. **The last grouping are the sectors we remain most heavily weighted in.** These are the companies that are "deemed" to be the most protected from the impacts of the "economic shutdown." These sectors did not decline as much as the others during the selloff, and now all trade above \$45/share.



The sectors are in a "Raging Bull" market and are within striking distance of all-time highs. This data tells us two important things.

1. If you wanted to beat the S&P 500 this year, you needed only to own 4-market sectors, and;
2. While earnings may not seem to matter at the moment, they eventually will. Staples, Technology, Communications, and Healthcare are all trading at very elevated valuations.

Most importantly, while the advance has been notable, participation has not only remained weak but continues to weaken during this consolidation.





With the MACD "seasonal sell" triggered, it may be time to turn a bit more cautious for the summer.

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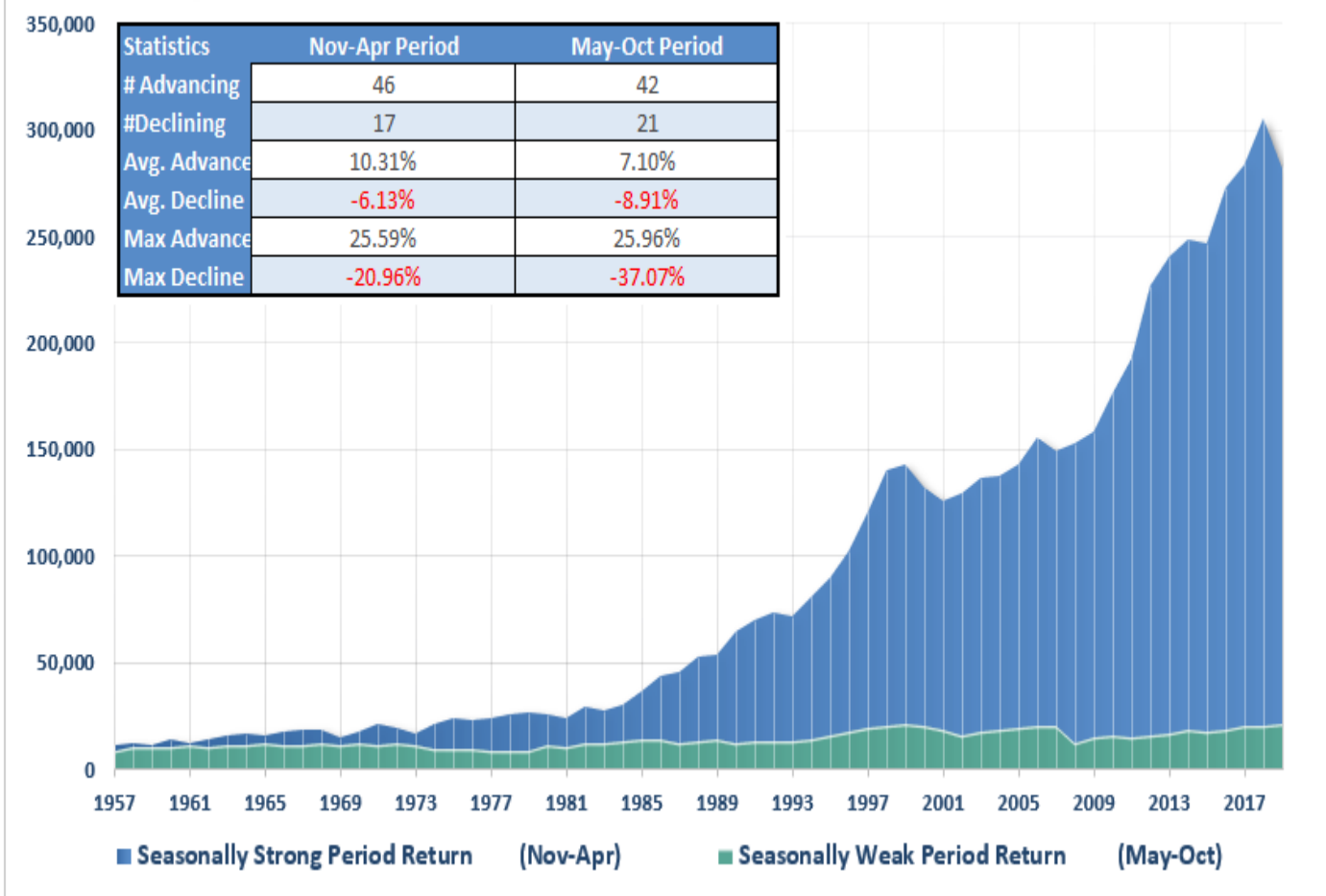
## Seasonal Sell Signals Trigger

As I discussed with our [RIA PRO subscribers \(30-day RISK FREE Trial\)](#) the "Sell In May" strategy might be worth paying attention to this year. To wit:

*"While not every 'summer period' is negative, the long-term history of investing during the summer months is not stellar."*

### Growth Of \$10,000: Strong vs Weak Periods

REAL INVESTMENT ADVICE



***"However, the adage 'Sell in May' may be more appropriate this year given the state of the actual economy, earnings risk, and a potential revaluation of markets. The odds of a weak summer period have risen markedly."***

With the "seasonal sell" signal now firmly entrenched, the markets overbought on many levels, and participation remaining weak, the "risk" of having aggressive equity exposures has risen. While the market can undoubtedly resolve stretched conditions by grinding sideways, such won't fix the issues of participation and momentum.

\$SPX S&P 500 Large Cap Index: INDX

© StockCharts.com

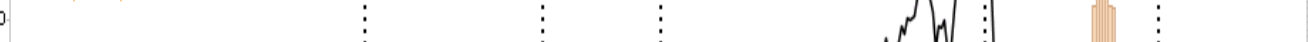
15-May-2020

Open 2829.95 High 2865.01 Low 2816.78 Close 2863.70 Volume 3.3B Chg +11.20 (+0.39%)

■ \$SPX (Daily) 2863.70

■ MA(200) 2998.43

■ MACD(12,26,9) Hist -6.634



## Positioning Update

With seasonal sell signals in place, we are very focused on our positioning. While we did modestly increase our equity exposure during last week's pullback, we did so in areas which remain defensive. We also balanced that increase in exposure with matched weights in shorter-duration Treasury bonds to hedge our risk. Taking profits in our trading positions continues to be a "staple" in our management process. Such is particularly the case in positions like Clorox (CLX), which have become grossly extended. Importantly, as noted in the sector performance analysis above, we also continue to rebalance portfolios into outperforming areas of the market. The process is simple. As we continue to adjust our equity exposures to participate with the markets, we are balancing those increases with offsetting hedges, and a larger than average level of cash, to protect against sudden declines. As I concluded last week:

"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.**"

We don't like the risk/reward of the market currently, and suspect we will have a better opportunity to increase equity risk later this summer. But, if things change, we will also.

## Real Investment Report

Market updates, sector analysis, 401k plan manager & more.

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## The MacroView



### #MacroView: Why Siegel Is Wrong About End Of Bond Bull Market

Written by Lance Roberts | May 15, 2020

Jeremy Siegel, will likely be proved wrong about the end of the "40-year bond bull" market. History suggests it likely has quite a long way as the U.S. become more like Japan over time.

[>> Read More](#)

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

## Market & Sector Analysis

### *Data Analysis Of The Market & Sectors For Traders*

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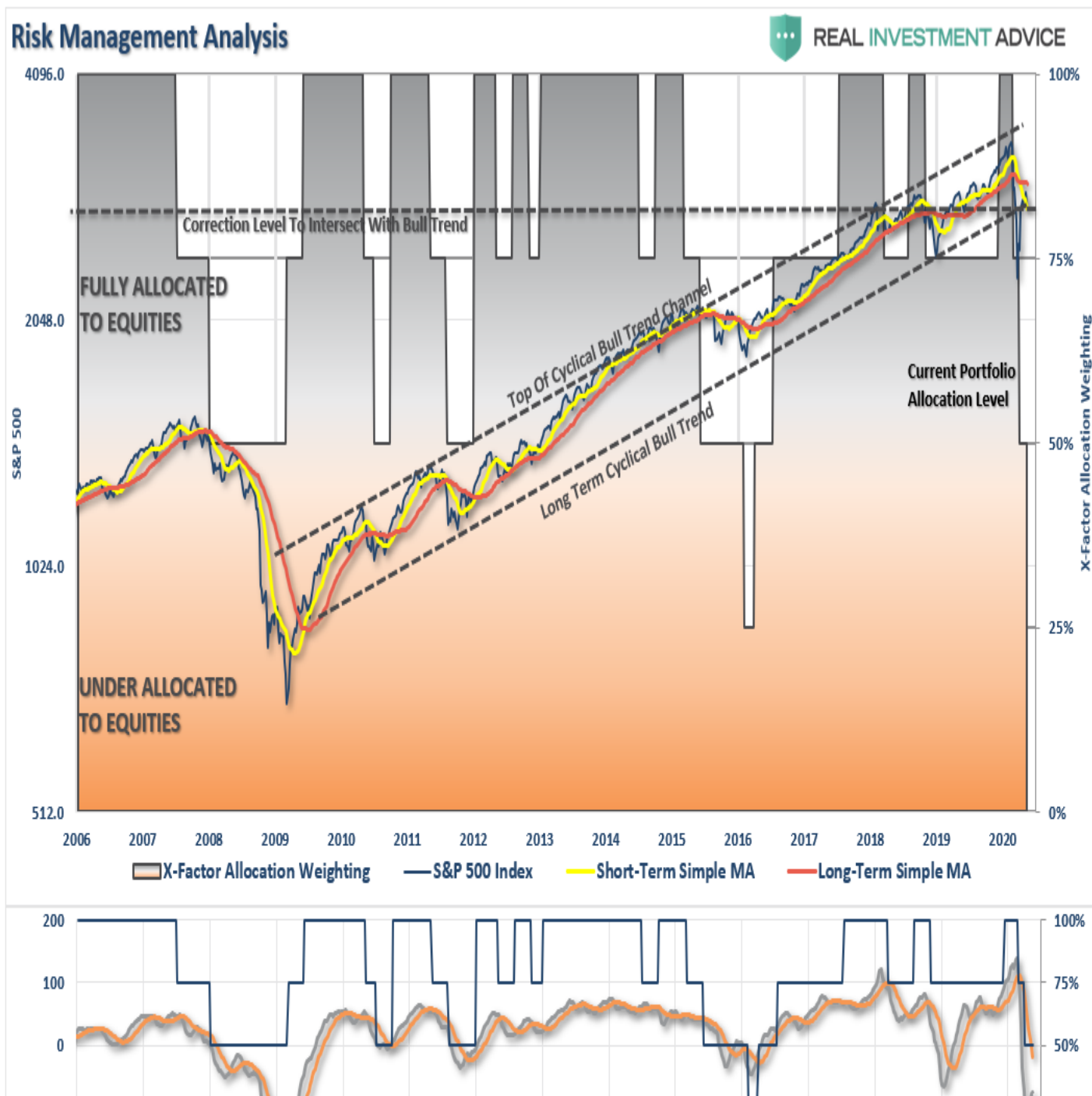
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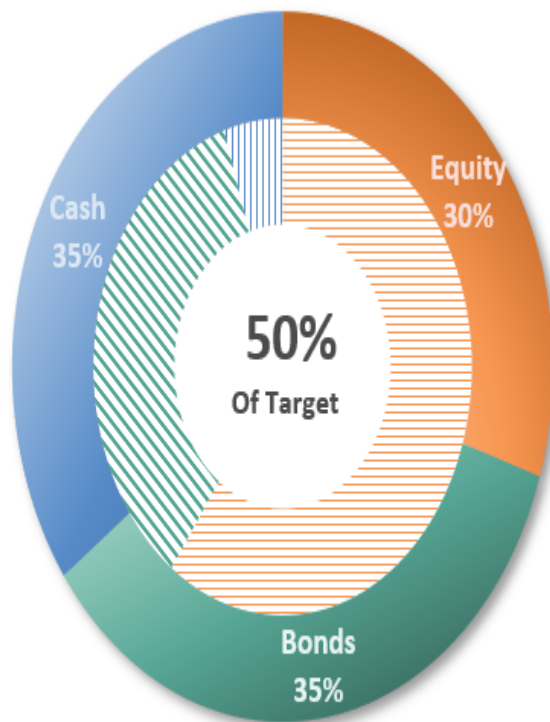
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## THE REAL 401k PLAN MANAGER

*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	Remain @ 50% Max Equity Tgt	No Change From Last Week
Equal To Target Allocation	Remain @ 50% Max Equity Tgt	No Change From Last Week
Over Target Allocation	Remain @ 50% Max Equity Tgt	No Change From Last Week

## Commentary

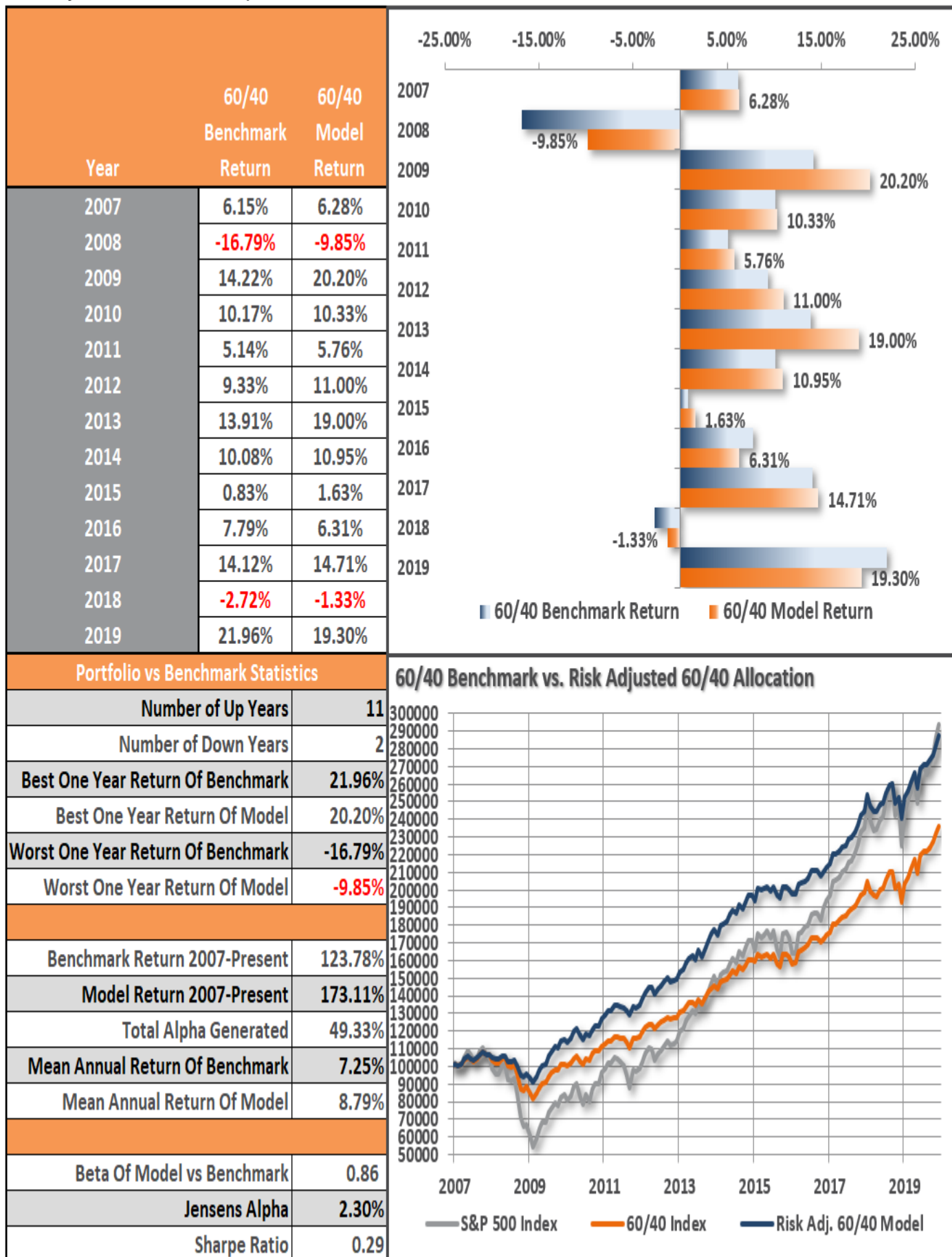
Previously, we wrote as the market hit the 61.8% retracement level: **"The opportunity to reduce risk is likely as good as it is going to get currently. While the market could rally some more next week, risk outweighs reward."**

The market sold off last week, tested support and is now trading in the same range as before. We have a couple of tough months ahead of us and have triggered a MACD Sell Signal on a short-term basis.

Maintain equity exposure at 50% of whatever your maximum equity exposure is 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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From The RIA Investment Team

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Macro

Ideas

Research

Portfolio

401K- Beta

Symbol

Help

This is the Beta version of 401K. Some Errors are expected ! Click Here to report Issues

My Portfolios

CVS Health

Enter Portfolio Name

Add Portfolio

Delete Portfolio

Rename Portfolio

My Info

Fund Selection

Comparison

Summary

Commentary

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