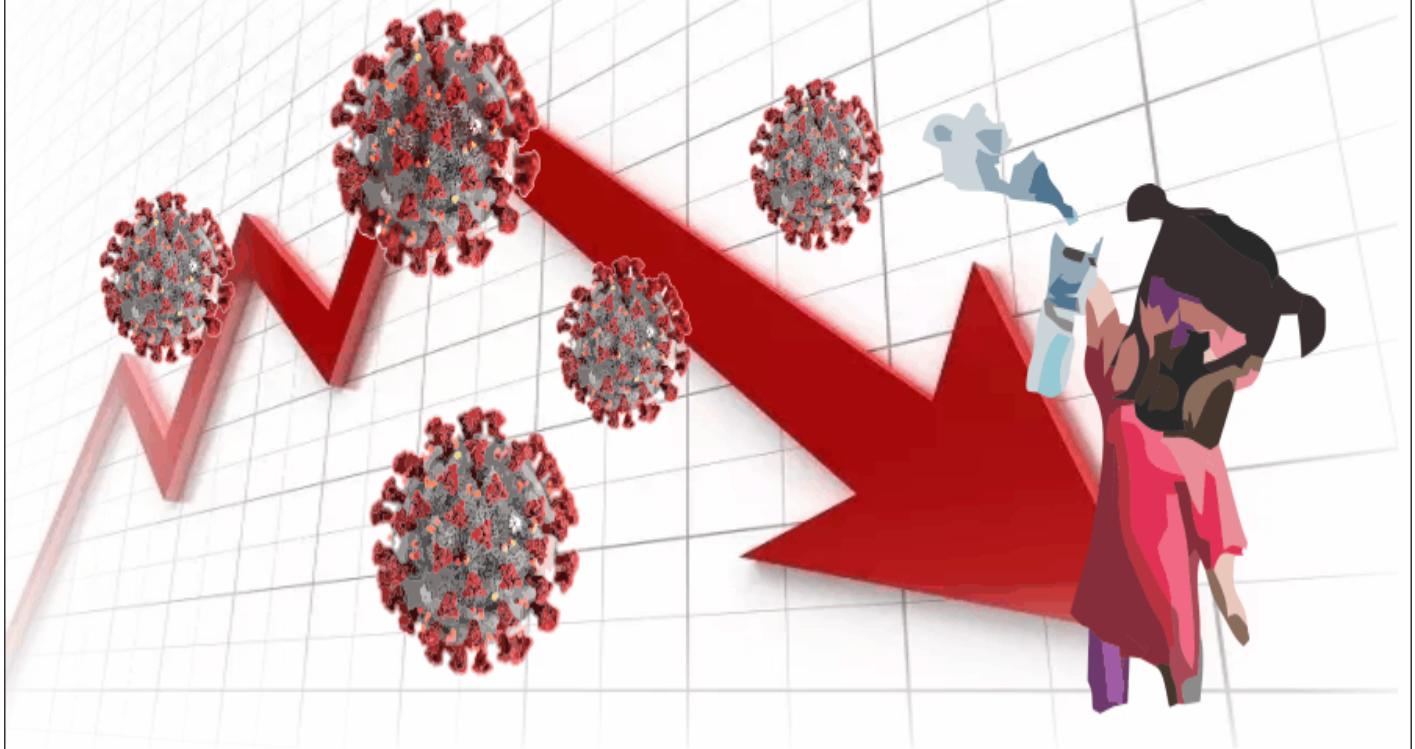


Market Corrects As COVID-19 Cases Surge



In this issue of "Market Corrects As COVID-19 Cases Surge:"

- *Market Correction*
- *Short-Term Excesses Reversed*
- *A Note Of Fed Forecasts*
- *The Bear Case Is Still Valid*
- *Technical Review Remains Bullish*
- *Portfolio Positioning*
- *MacroView: Rationalizing High Valuations Won't Improve Outcomes*
- *Sector & Market Analysis*
- *401k Plan Manager*

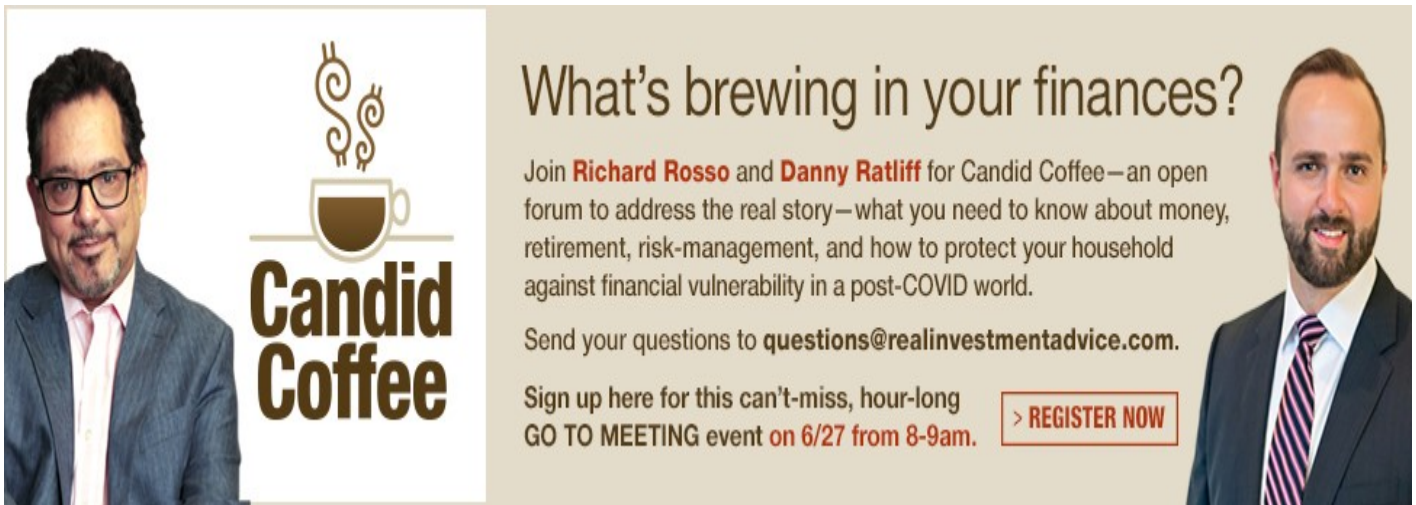
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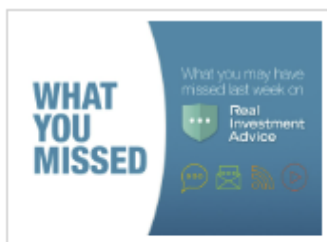
June 27th from 8-9 am

Send in your questions, and Rich and Danny will answer them live.



The banner features two men, Richard Rosso and Danny Ratliff, on either side of a central graphic. The graphic includes a coffee cup with dollar signs rising from it and the text "Candid Coffee". To the right, the text reads: "What's brewing in your finances? Join **Richard Rosso** and **Danny Ratliff** for Candid Coffee—an open forum to address the real story—what you need to know about money, retirement, risk-management, and how to protect your household against financial vulnerability in a post-COVID world. Send your questions to questions@realinvestmentadvice.com. Sign up here for this can't-miss, hour-long GO TO MEETING event on 6/27 from 8-9am. [> REGISTER NOW](#)

Catch Up On What You Missed Last Week



#WhatYouMissed On RIA This Week: 06-12-20

Written by Lance Roberts | Jun 12, 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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Market Correction

As [I wrote previously](#), the break above the 200-dma had changed the complexion of the market.

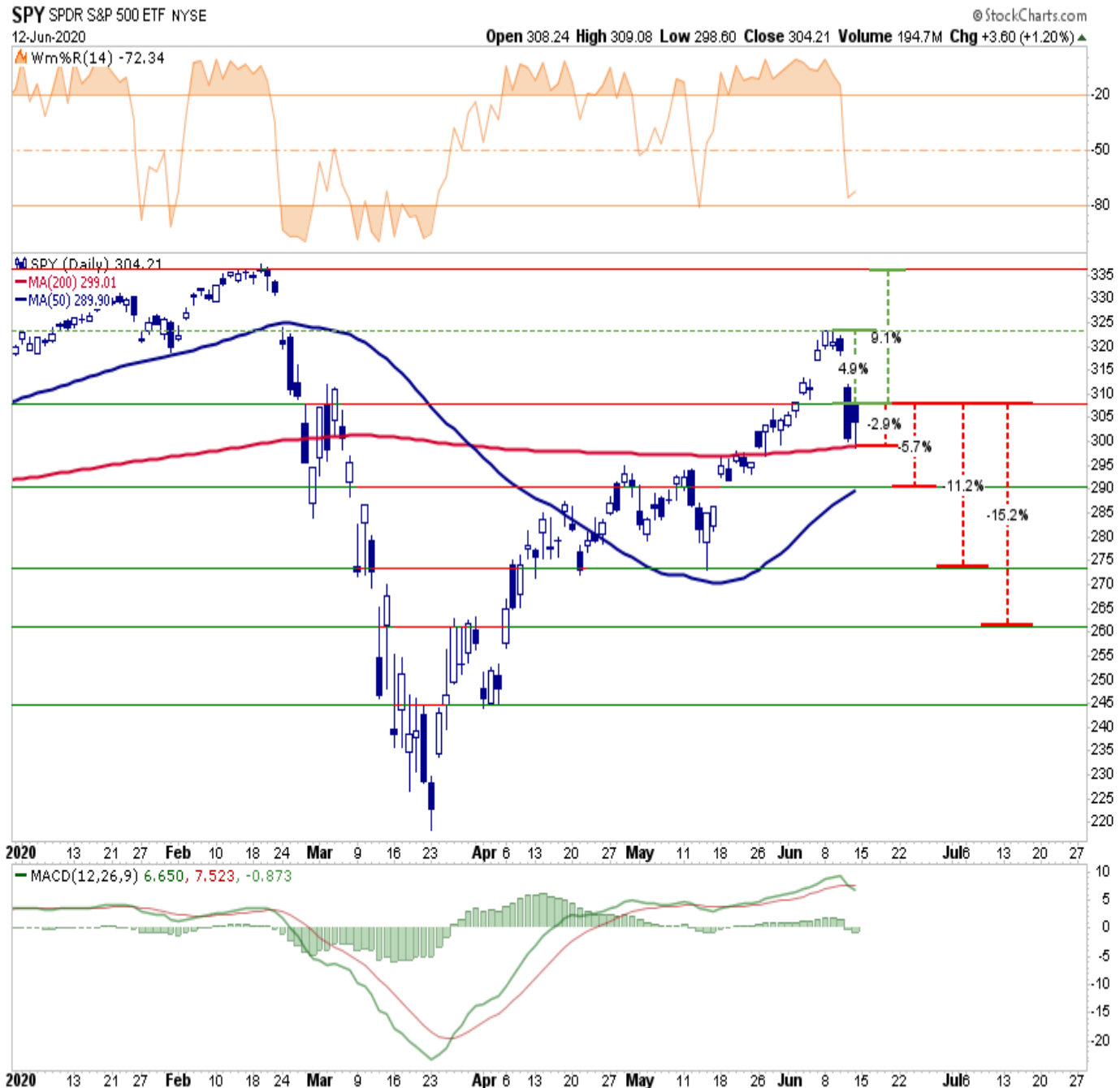
"If the markets can break above the 200-dma, and maintain that level, it would suggest the bull market is back in play."

However, [in our Tuesday follow up](#), we discussed how the market rally had gotten to an extreme. As such, we noted the need to become more defensive in the short-term. To wit:

"Regardless, the markets are bullish biased, and we must be respectful of that reality. No matter how you slice the data, the markets are back to more extreme overbought conditions on a short-term basis. The break above the 200-dma triggered a parabolic advance in the market over the last week. The market is making a 3-standard deviation move to the upside. With indicators very overbought, short-term corrective action is likely. (Note the market was just 3-standard deviations BELOW the 50-dma in March.)?"

That correction came swiftly on Thursday. The surge in COVID-19 cases in the U.S. undermined

the "V-Shaped" economic recovery meme. As we noted, the market had rallied into overhead resistance, and the correction found support at the 200-dma.



We can now update the risk/reward parameters from last week.

- **-2.9% to the 200-dma vs. +4.9% to previous high. (Positive)**
- **-2.9% to the 200-dma vs. +9.1% to all-time highs. (Positive)**
- **-5.6% to 50-dma vs. +4.9% to previous high. (Neutral)**
- **-11.21% to consolidation lows vs +9.1% to all-time highs (Negative)**
- **-15.2% to March bounce peak vs. +9.1% to all-time highs. (Negative)**

The market achieved the retracement to the 200-dma support on Thursday during the most intense sell-off since March. **Importantly, it was a good reminder of just how brutal markets can be when there is a complete lack of liquidity.**

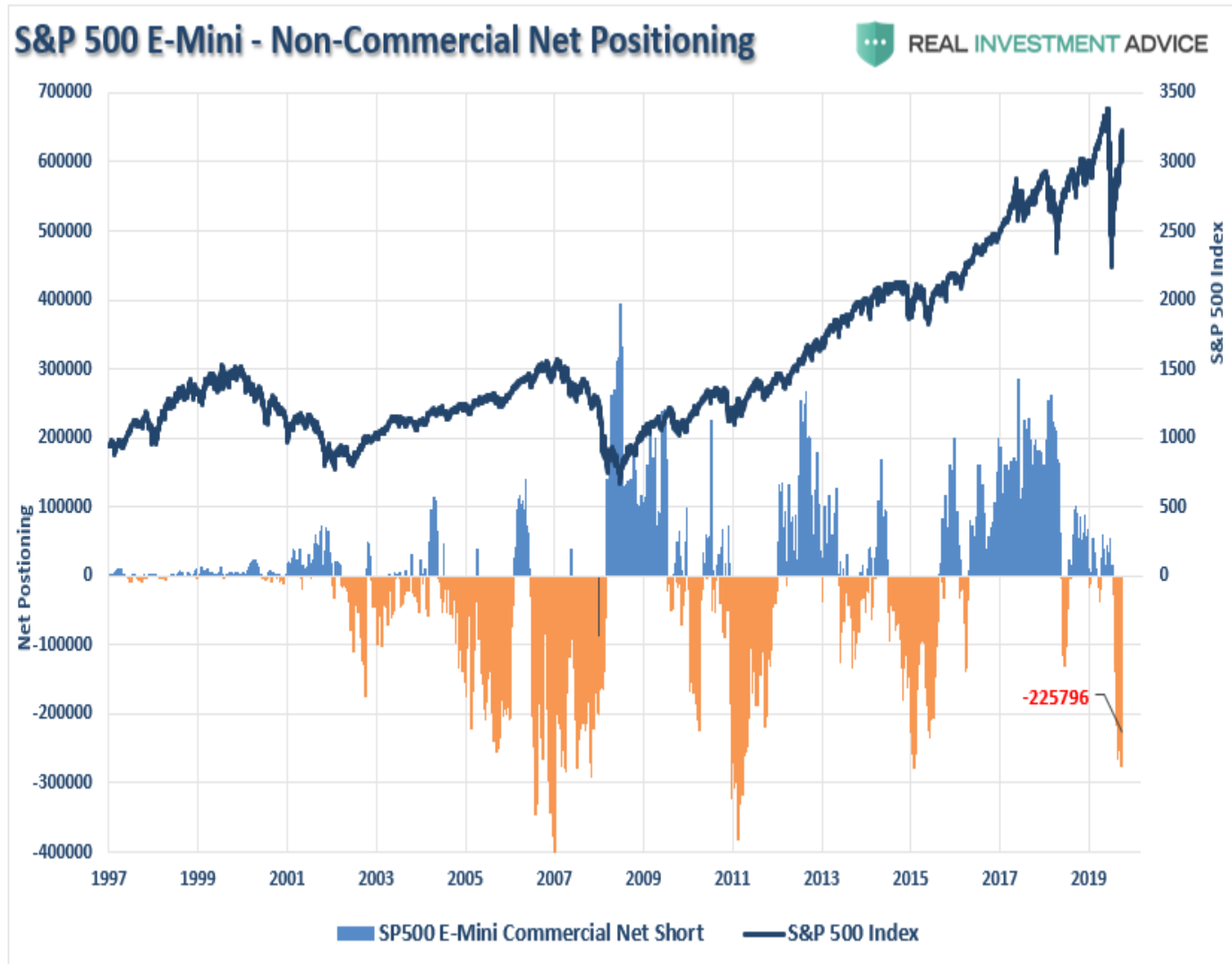
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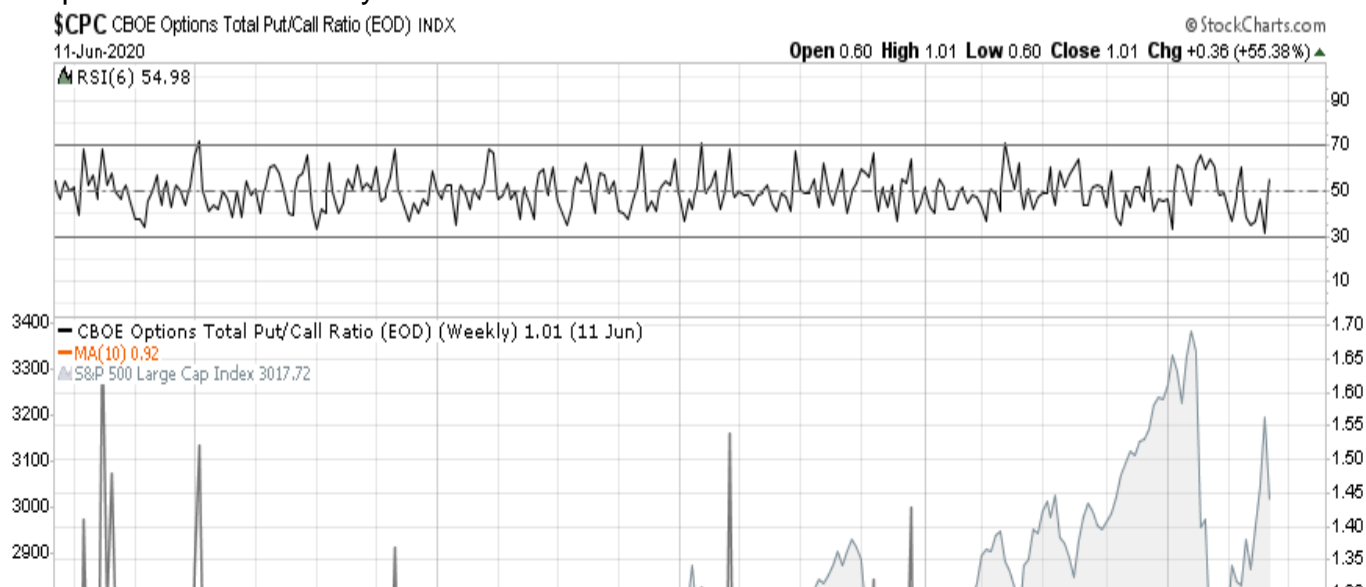
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Correction Reduces Short-Term Excesses

Previously we discussed the more extreme levels of optimism in the markets. These indicators have historically corresponded with short-term market peaks and corrections. The first was the large level of short-positions non-commercial speculators were carrying on the S&P 500. (*These are contracts on the S&P 500 in the futures market used for hedging long market positioning.*) Net-short positioning had reached a more extreme level, which historically aligns with short-term peaks and bear markets. The correction last week reduced some of that excess.



The same goes for the total put-call ratio, This ratio measures the total of option contract buying. Investors had gotten extremely aggressive in buying call options betting the market would only go higher. At extremes, retail "call option" buyers generally wind up on the wrong side of the trade. The quick rout on Thursday reduced some of those excesses.



Note, however, the 10-day moving average of the put-call ratio remains in more "bearish" territory, suggesting we may not be done with the correction just yet. **The issue remains that the markets have priced in a "V-shaped" recovery, which is well ahead of what the economic data suggests.**

A Note About The Fed

There were two catalysts that ignited the sell-off on Thursday. The first, as stated above, were headlines of a surge in COVID-19 cases. (As discussed in this week's [#MacroView below](#))

Second U.S. Virus Wave Emerges as Cases Top 2 Million

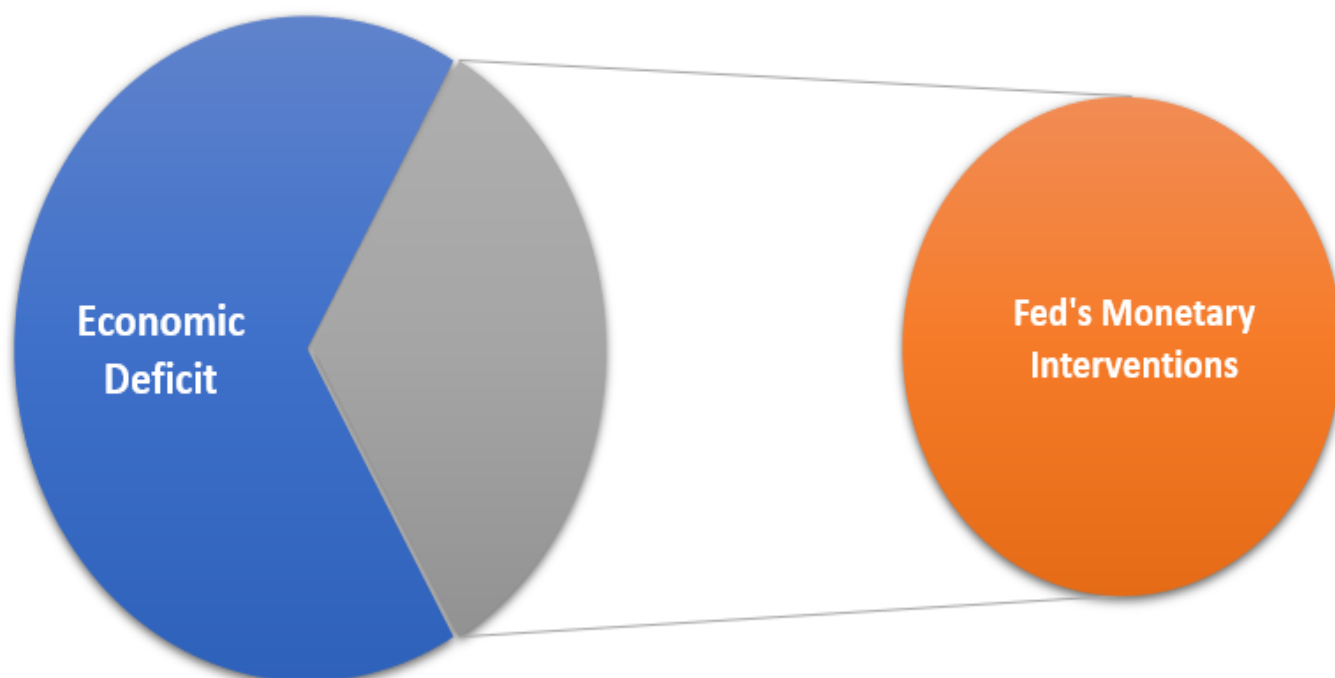
By [Emma Court](#) and [David R Baker](#)

June 10, 2020, 12:34 PM CDT Updated on June 10, 2020, 10:43 PM CDT

- ▶ Rises in Texas, Arizona, Florida, California sound alarms
- ▶ Experts say that surges can't be linked directly to reopenings

The second, and probably more important reason, **was what the Fed didn't say** following this week's Fed meeting. **While the markets were hopeful for announcements for more stimulus to support the markets, the Fed simply reiterated their current stance.** More importantly, the Fed stated that QE would remain at \$40 billion per week or \$120 billion per month. This is substantially less than the current level of Treasury issuance. As Tavi Costa of Crescat Capital noted this week: <https://twitter.com/TaviCosta/status/1270877261462253568?s=20> [As noted previously](#), while the Fed is doing a massive amount of QE, the "hole" they are trying to fill is substantially larger. In what I call the "PacMan" chart below, the "economic deficit" will consume more than the Fed has currently committed. (Economic deficit is the estimated loss due to ongoing unemployment, reduced growth, and impact of debt and deficits.)

The Potential Economic Deficit Is Roughly Twice As Large As The Fed's Monetary Support



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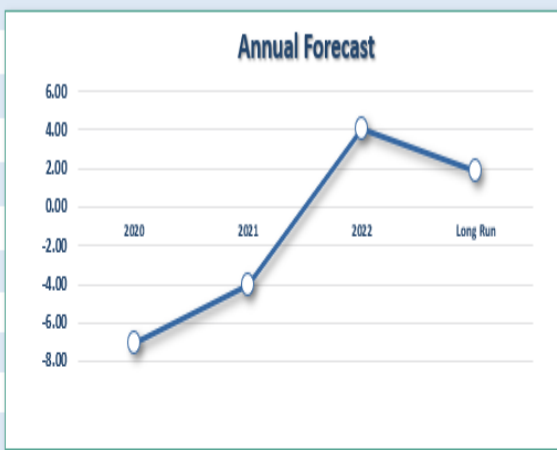
The Worst Economic Forecasters Ever

The Federal Reserve must qualify as the worst economic forecasters ever. Despite annual promises of stronger economic growth, such has yet to be the case. Ever.

FOMC Economic Projections (Avg. Of Range)

REAL INVESTMENT ADVICE

| Meeting Date | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Long Run | Actual 2011-2020 GDP |
|--------------|------|------|------|------|------|------|------|------|------|-------|-------|------|----------|----------------------|
| Jan-11 | 3.7 | 3.95 | 4 | | | | | | | | | | 2.7 | 1.54 |
| Apr-11 | 3.3 | 3.65 | 4 | | | | | | | | | | 2.7 | 1.54 |
| Jun-11 | 2.75 | 3.1 | 3.75 | | | | | | | | | | 2.7 | 1.54 |
| Nov-11 | 1.7 | 2.9 | 3.35 | 3.6 | | | | | | | | | 2.6 | 1.54 |
| Jan-12 | | 2.55 | 3.1 | 3.55 | | | | | | | | | 2.6 | 2.22 |
| Apr-12 | | 2.55 | 3.1 | 3.6 | | | | | | | | | 2.6 | 2.22 |
| Jun-12 | | 2.05 | 2.85 | 3.4 | | | | | | | | | 2.6 | 2.22 |
| Sep-12 | | 1.8 | 2.9 | 3.4 | 3.35 | | | | | | | | 2.6 | 2.22 |
| Dec-12 | | 1.8 | 2.6 | 3.4 | 3.35 | | | | | | | | 2.6 | 2.22 |
| Mar-13 | | | 2.5 | 3.2 | 3.15 | | | | | | | | 2.5 | 1.83 |
| Jun-13 | | | 2.3 | 2.9 | 3.05 | | | | | | | | 2.5 | 1.83 |
| Sep-13 | | | 2.1 | 2.75 | 2.95 | 2.85 | | | | | | | 2.3 | 1.83 |
| Dec-13 | | | 2.3 | 2.75 | 2.9 | 2.8 | | | | | | | 2.15 | 1.83 |
| Mar-14 | | | | 2.55 | 2.85 | 2.8 | | | | | | | 2.1 | 2.49 |
| Jun-14 | | | | 2.3 | 2.9 | 2.8 | | | | | | | 2.15 | 2.49 |
| Sep-14 | | | | 2.05 | 2.65 | 2.55 | 2.3 | | | | | | 2.2 | 2.49 |
| Dec-14 | | | | 2.4 | 2.65 | 2.55 | 2.35 | | | | | | 2.25 | 2.49 |
| Mar-15 | | | | | 2.6 | 2.55 | 2.15 | | | | | | 2.15 | 2.87 |
| Jun-15 | | | | | 2.0 | 2.65 | 2.25 | | | | | | 2.15 | 2.87 |
| Sep-15 | | | | | 2.2 | 2.45 | 2.25 | 2 | | | | | 2.25 | 2.87 |
| Dec-15 | | | | | 2.1 | 2.35 | 2.15 | 2.05 | | | | | 2.05 | 2.87 |
| Mar-16 | | | | | | 2.20 | 2.00 | 2.05 | | | | | 2.10 | 1.62 |
| Jun-16 | | | | | | 2.00 | 2.00 | 1.85 | | | | | 2.00 | 1.62 |
| Sep-16 | | | | | | 1.85 | 2.05 | 1.90 | 1.90 | | | | 1.90 | 1.62 |
| Dec-16 | | | | | | 1.90 | 2.05 | 2.00 | 1.85 | | | | 1.90 | 1.62 |
| Mar-17 | | | | | | 1.59 | 2.00 | 2.05 | 1.85 | | | | 1.90 | 2.34 |
| Jun-17 | | | | | | | 2.25 | 2.00 | 1.85 | | | | 1.85 | 2.34 |
| Sep-17 | | | | | | | 2.45 | 2.15 | 1.85 | 1.70 | | | 1.85 | 2.34 |
| Dec-17 | | | | | | | 2.50 | 2.50 | 2.05 | 1.65 | | | 1.95 | 2.34 |
| Mar-18 | | | | | | | | 2.75 | 2.40 | 1.90 | | | 1.95 | 2.89 |
| Jun-18 | | | | | | | | 2.75 | 2.40 | 1.85 | | | 1.90 | 2.89 |
| Sep-18 | | | | | | | | 3.15 | 2.45 | 2.05 | 1.80 | | 1.90 | 2.89 |
| Dec-18 | | | | | | | | 3.05 | 2.35 | 1.85 | 1.75 | | 1.95 | 2.89 |
| Mar-19 | | | | | | | | | 2.00 | 1.95 | 1.85 | | 1.95 | 2.31 |
| Jun-19 | | | | | | | | | 2.20 | 1.90 | 1.80 | | 1.90 | 2.31 |
| Sep-19 | | | | | | | | | 2.25 | 2.00 | 1.90 | 1.85 | 1.90 | 2.31 |
| Dec-19 | | | | | | | | | 2.20 | 2.05 | 1.95 | 1.85 | 1.95 | 2.31 |
| Jun-20 | | | | | | | | | | -7.10 | -4.00 | 4.00 | 1.90 | -1.30 |

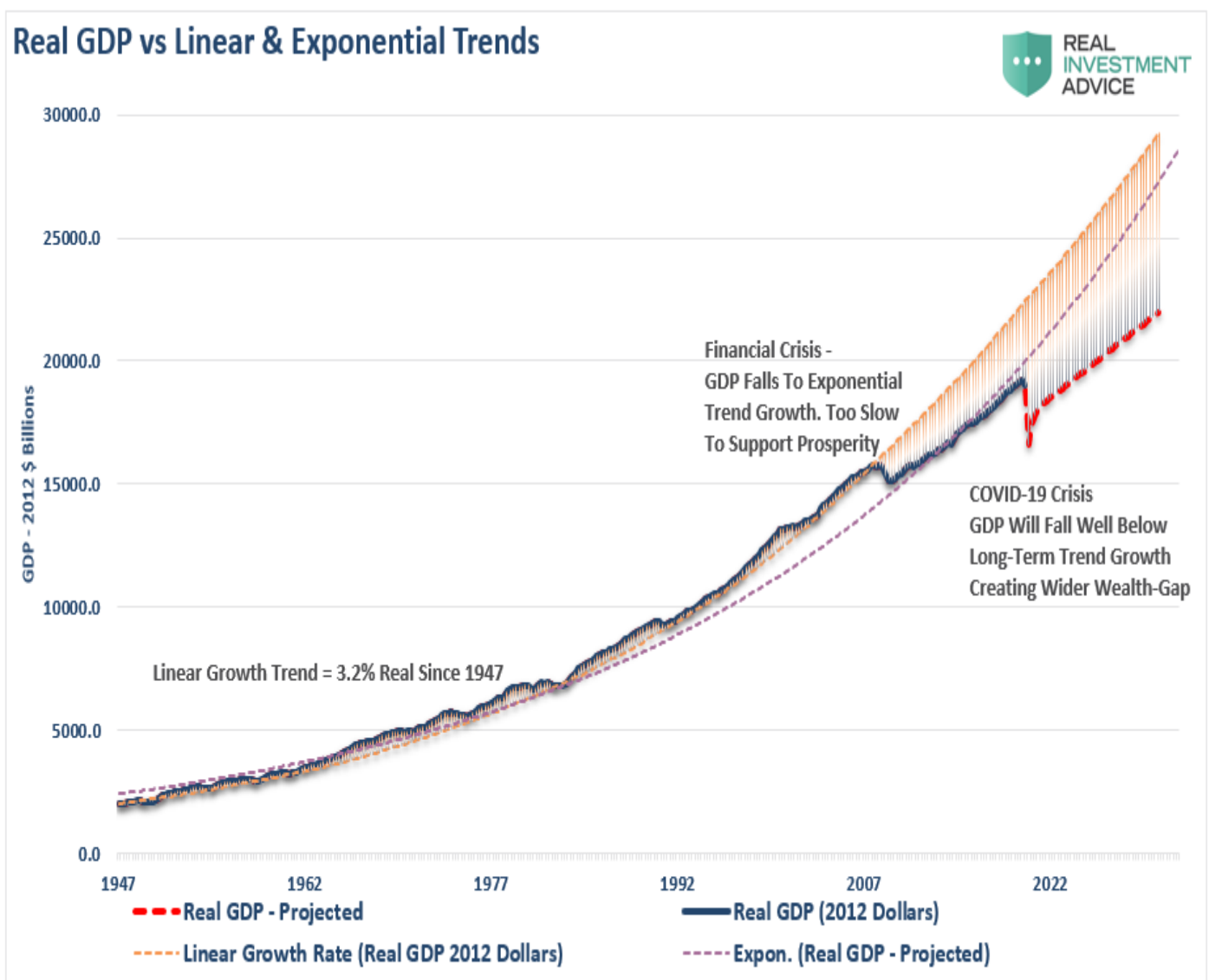


While the economy will indeed recover in 2021 and 2022, the Fed is likely overestimating the outcome. However, in the short-term, they have little choice.

"Unwittingly, the Fed has now become co-dependent on the markets. If they acknowledge the risk of weaker economic growth, the subsequent market sell-off would dampen consumer confidence and push economic growth rates lower. Therefore, they have to be overly optimistic."

As discussed Friday, the surging levels of debts and deficits, combined with demographics, will suppress economic growth below 2%. Such leaves very little room for the Fed to make a policy mistake.

?Before the ?Financial Crisis,? the economy had a linear growth trend of real GDP of 3.2%. Following the 2008 recession, the growth rate dropped to the exponential growth trend of roughly 2.2%. Instead of reducing the debt problems, unproductive debt, and leverage increased.?



While the Fed had an opportunity to disconnect monetary policy from the market, they failed to do so. Instead, they once again opted to bail out financial markets at the expense of economic prosperity longer-term. <https://twitter.com/LanceRoberts/status/1271413051489738758?s=20>

By voting to avoid short-term pain, the Federal Reserve has locked the economy into a long-term economic malaise. Like a "frog in boiling water," the vast majority of Americans will see their

economic prosperity slowly fade. *The stock market is not the economy. It is a distortion of economics.*

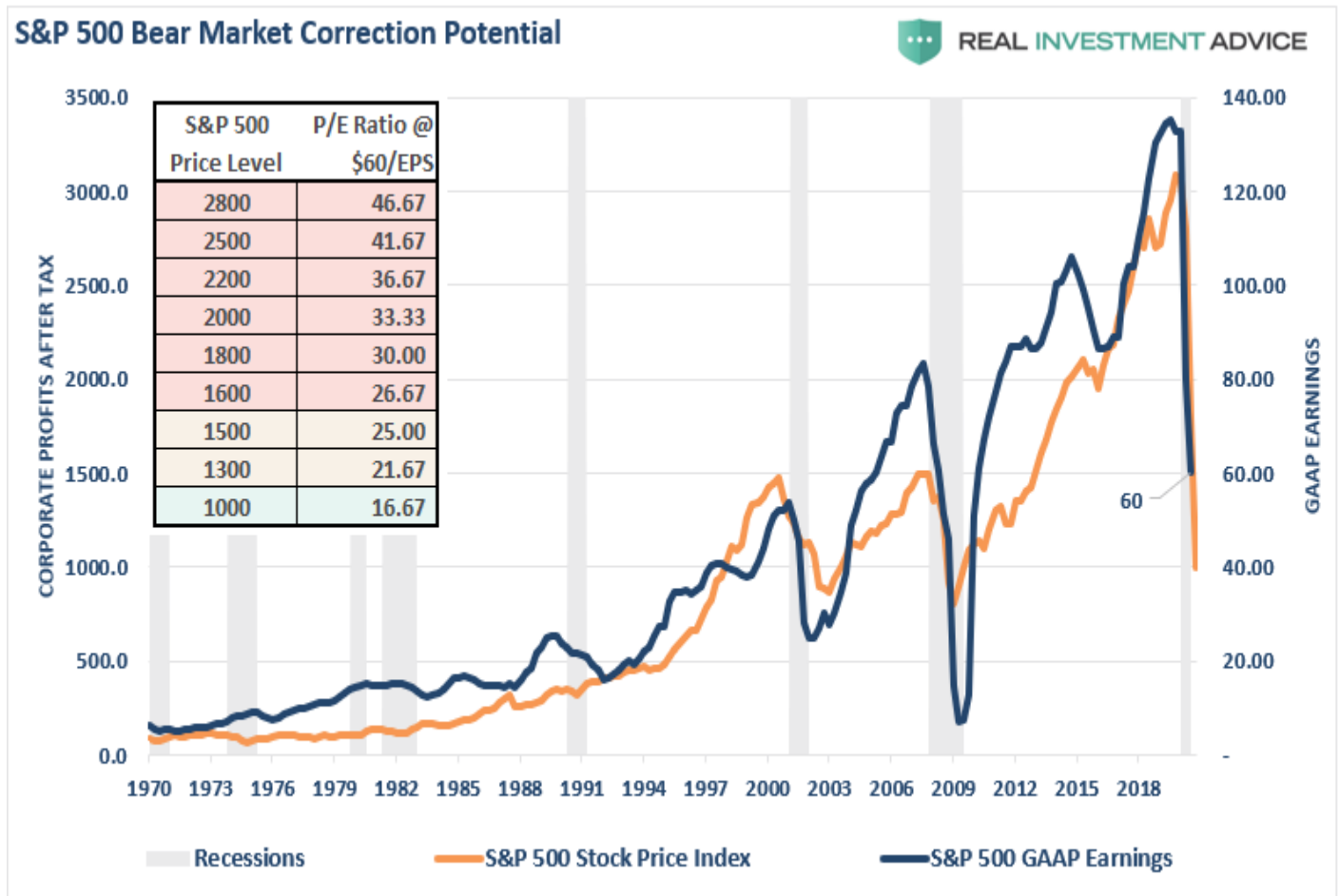
The Bear Case Is Still Valid

As my colleague Doug Kass pointed out on Friday:

Yesterday provided at least five reasons for the markets to decline:

1. *Federal Reserve Chairman Powell delivered a cautionary economic message for not only this year but for several years to come. **To me, this renders the rosy EPS projections of the consensus, and many high-profile strategists (like my friends Dave Kostin and Thomas Lee) are unrealistic.***
2. ***There was mounting evidence that Covid-19 is still not tamed.***
3. *Wells Fargo CFO John Shrewsberry said **second-quarter loan loss reserves would be higher than in 1Q-2020.***
4. *The Robinhood traders' objects of affection, stocks of bankrupt companies, took a sudden dive. **Silly speculation is almost always evidence of a maturing bull market.***
5. *Technical signposts are flashing red: **Investor sentiment has increased as stock prices rose as a bull market in complacency has quickly unfolded from the depths of March. Market breadth has started to wane.***

I agree with Doug and have been well ahead of the media in lowering forecasts. As [noted previously](#): "Given the horrific data we now have coming in, we already know our previous estimates of \$100/share were too high. A more realistic, and still overly optimistic 50-60% decline in earnings, makes current valuations even more challenging to support. (Using the chart and table below, you can pick your price and valuation level.) "



What is essential to understand is that while Fed liquidity is currently fueling a *"bull market,"* the *"bear case"* still has teeth. Eventually, the market will fill the gap between *"fantasy"* and *"reality."*



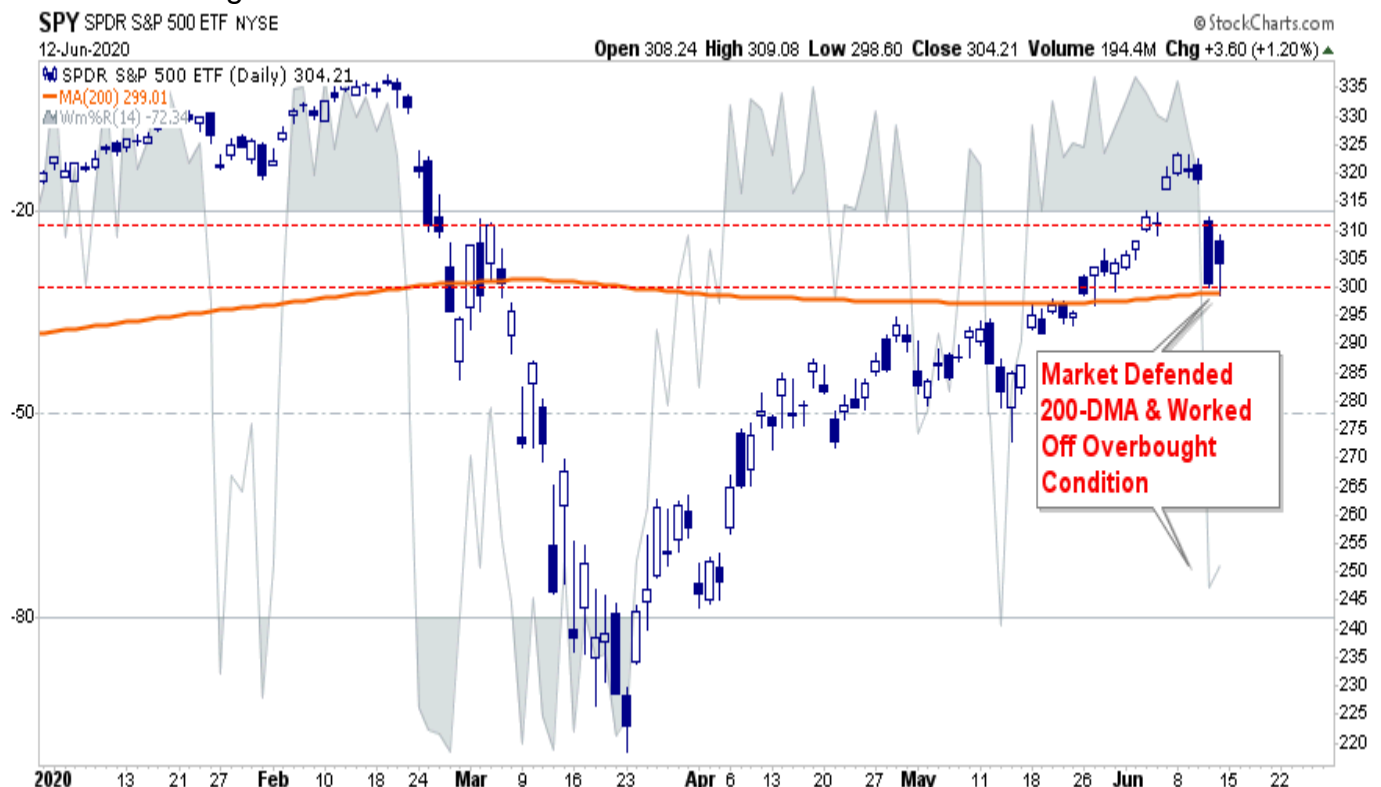
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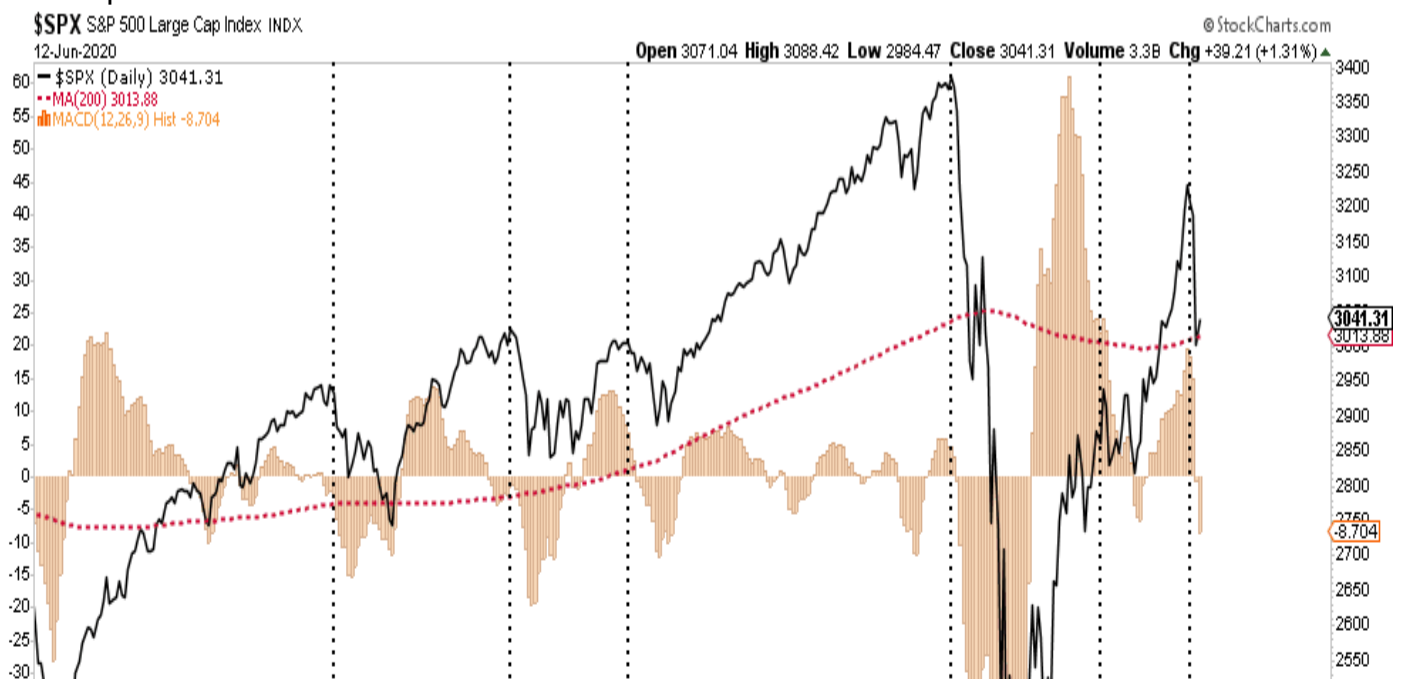
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Technical Review Remains Bullish

In the short-term, however, the technical backdrop of the market remains bullish. The market had gotten overheated over the last couple of weeks, but the correction successfully retested the 200-dma. Such establishes important support. Concurrently, the correction reversed most of the more extreme overbought conditions.



However, if we slow our analysis down a bit, we find that the current sell signal remains intact. Such suggests the market could still experience further corrective or consolidative actions over the next couple of weeks or months.



The short-term technical structure remains bullish and overbought currently. However, the longer-term fundamentals remain worrisome in light of the economic devastation. While the Fed's monetary policies mitigated much of the downside risk, it can not be removed entirely. **As experienced on Thursday, "reversions happen fast."**

Portfolio Positioning For An Overbought Market

As I noted last week:

*"With 'coronavirus cases' likely to rise sharply following Memorial Day celebrations and recent crowded protests, the risk of disappointment has risen. **Such has been an exceptionally rally. All of our equity positions are now extremely stretched and overbought. Conversely, all of our hedges VERY oversold.**"*

That reversion happened this past week, with our hedges of Treasury bonds and the U.S. dollar offsetting the decline in our longs on Thursday. We did use the secondary retest of the 200-dma on Friday to add some *"Pandemic exposure"* stocks back to our portfolio. As we detailed to our [RIAPRO subscribers \(30-day Risk-Free Trial\)](#).

*"After the market dropped over 5% yesterday and successfully tested the 200-day moving average, we made slight additions to the portfolios. The positions are small, and we remain vigilant to potentially more downside as the S&P 500 sits on top of its 200-day moving average. **Equity Portfolio Buys***

- CMCSA ? Initiate 1% position
- CSCO ? Initiate 1% position

ETF Portfolio Buys

- XLE ? Add 1% to bring total to 2%
- XLP ? Add 1% to bring total to 5.5%

We continue to hold our TLT and UUP positions for now as a hedge."

As discussed over the last several weeks, we have slowly added equity exposure in areas we like. However, we focus on dividend yield, and continue to hedge increases in equity risk with offsetting hedges. We also still carry a higher than normal level of cash. **This is a very risky market. Caution is advised.**

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The MacroView



#MacroView: The Great Divide Between Stocks & The Economy

Written by Lance Roberts | Jun 12, 2020

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

[>> 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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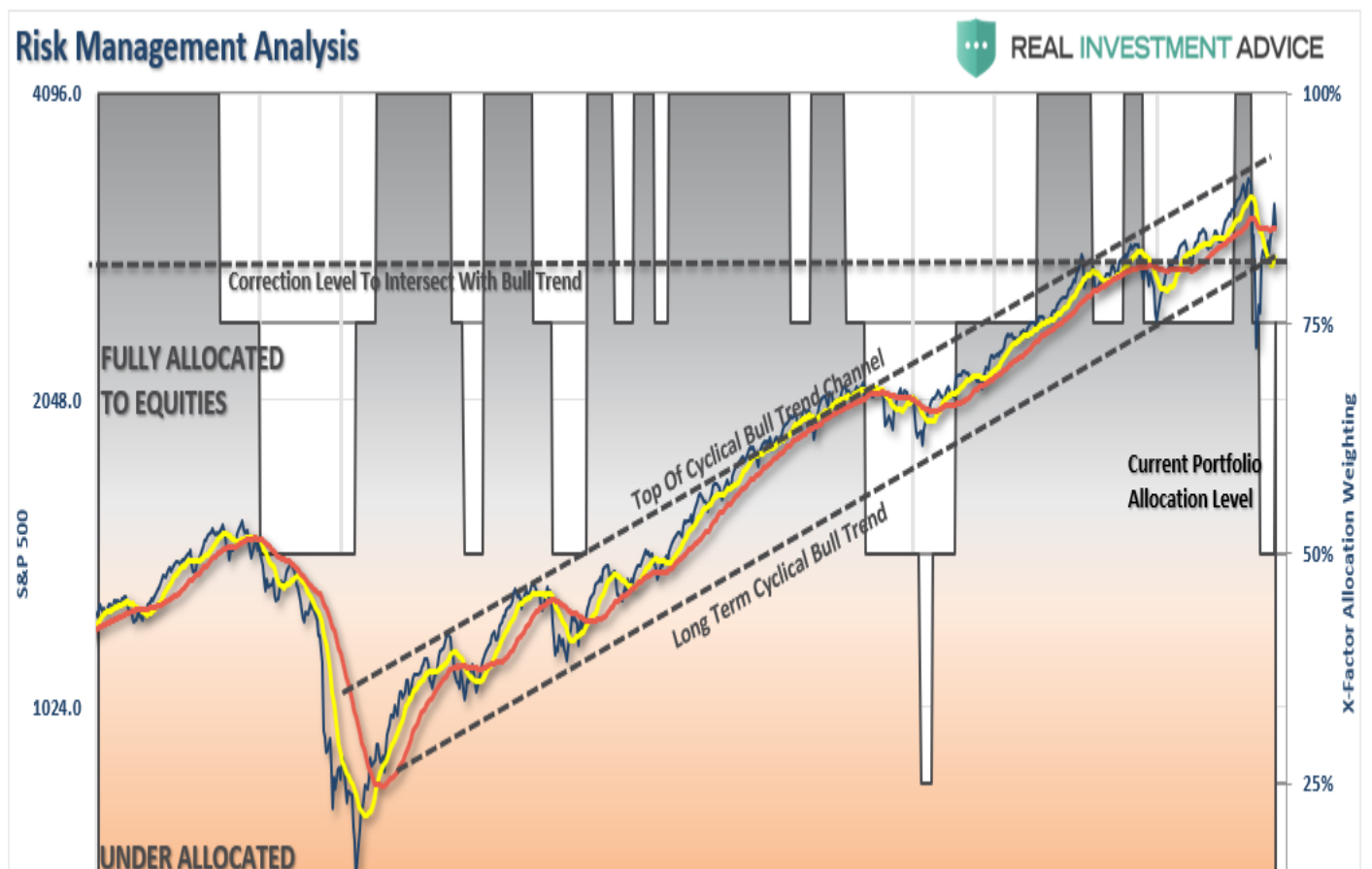
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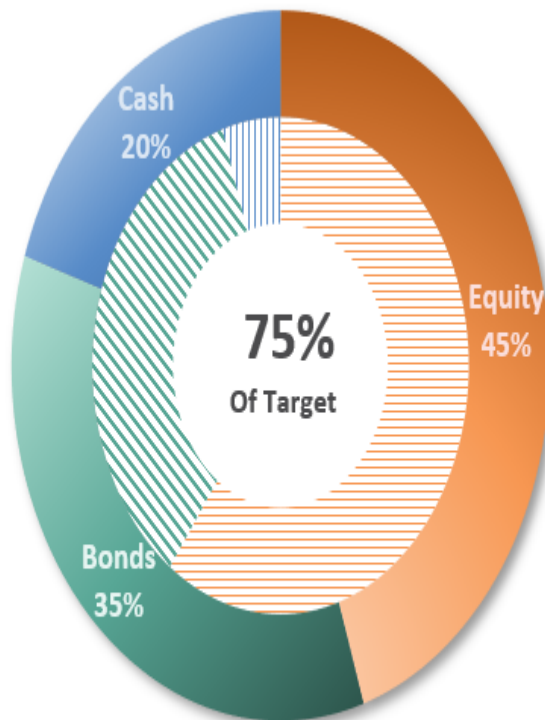
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Current Portfolio Weighting



Current 401k Allocation Model

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Primary concern is the protection of investment capital

Examples: Stable Value, Money Market, Retirement Reserves

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Bond Funds reflect the direction of interest rates

Examples: Short Duration, Total Return and Real Return Funds

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Therefore, select on ONE fund from each category.

Keep it Simple.

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25% Large Cap Growth (S&P 500 Index)

0% International Large Cap Dividend

0% Mid Cap Growth

Portfolio Instructions:

| Allocation Level To Equities | Recommendation | When To Take Action |
|------------------------------|--------------------------|---------------------|
| Less Than Target Allocation | Increase Exposure To 75% | Increase Exposure |
| Equal To Target Allocation | Hold Exposure At 75% | Hold Exposure |
| Over Target Allocation | Hold Current Exposure | Hold Exposure |

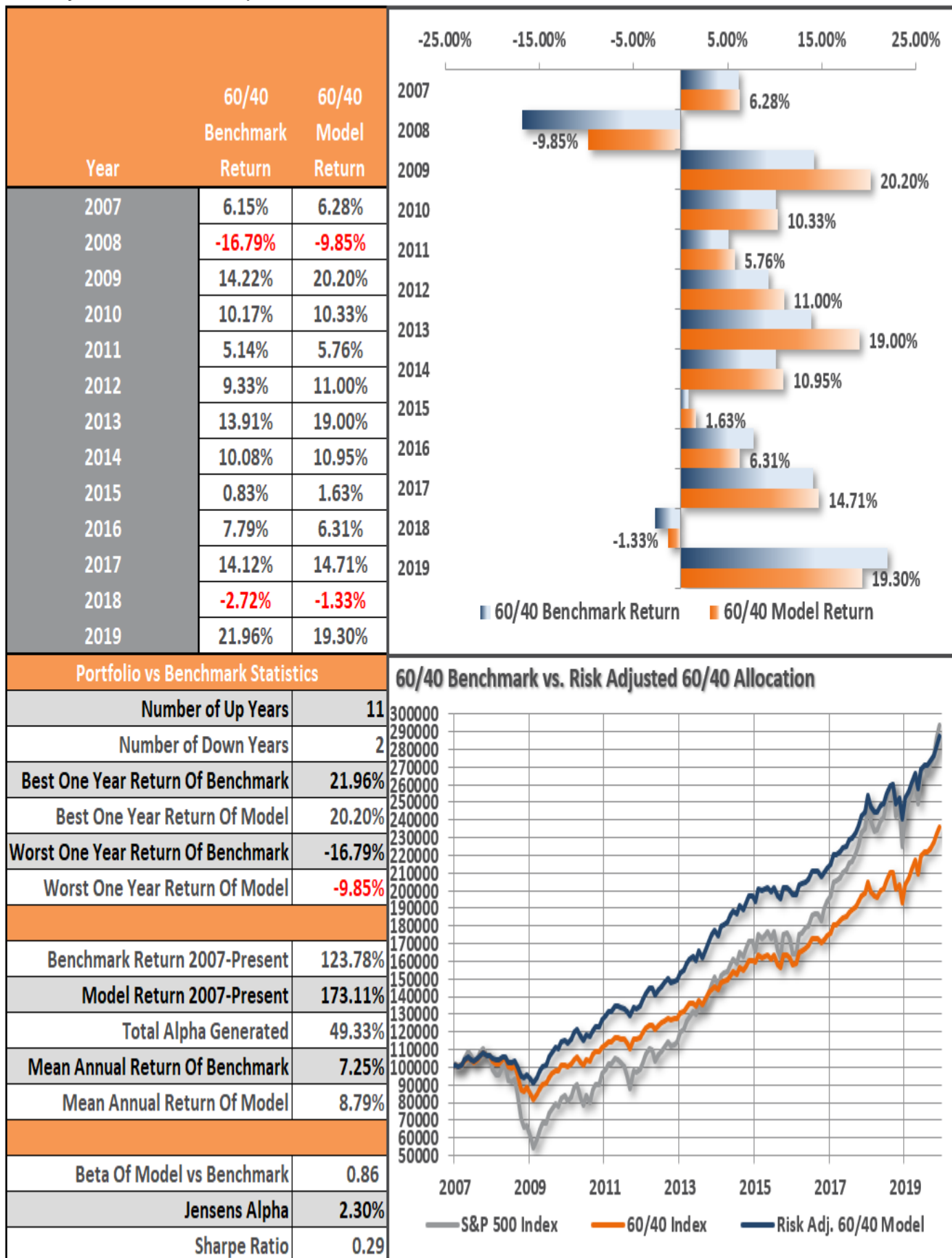
Commentary

As I stated last week: "The market broke above the 200-dma but remains very overbought. Despite an economy on the verge of a recession, markets are now back into bull mode. We need to see the market hold the break above the 200-dma and work off some of the extreme overbought."

That correction happened on Thursday and Friday and the market did hold the 200-dma. We can now more reasonably increase risk in the portfolio. Increase target allocations to 75% of whatever your total target equity allocation is. *(In a 60/40 equity model, 75% of 60% total targeted equity, is 45% as noted above)*

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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Investment Analysis, Research & Data
From The RIA Investment Team

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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

+