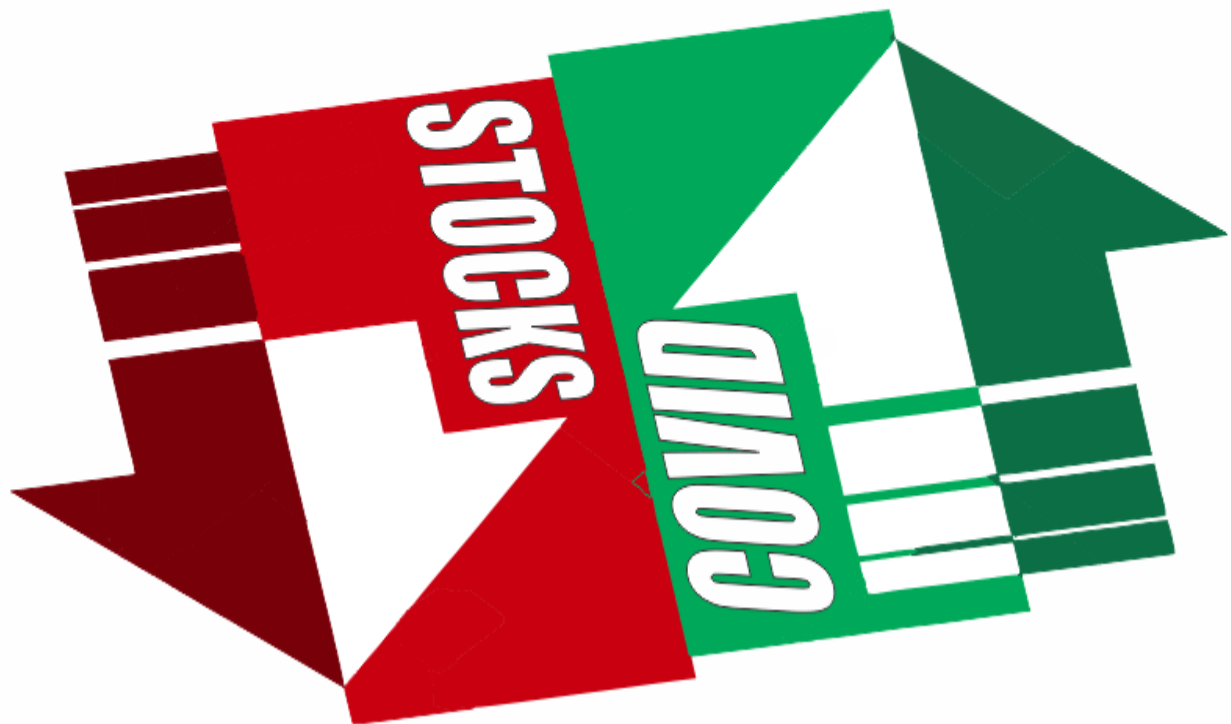


Market Corrects As COVID-19 Cases Surge



In this issue of "Market Corrects As COVID Cases Surge."

- *Market Holds Bullish Support*
- *From Bubble, To Bust, To Bubble*
- *The Problem With 2-Year Forecasts*
- *A Bearish Pattern Remains*
- *Portfolio Positioning*
- *MacroView: Rationalizing High Valuations Won't Improve Outcomes*
- *Sector & Market Analysis*
- *401k Plan Manager*


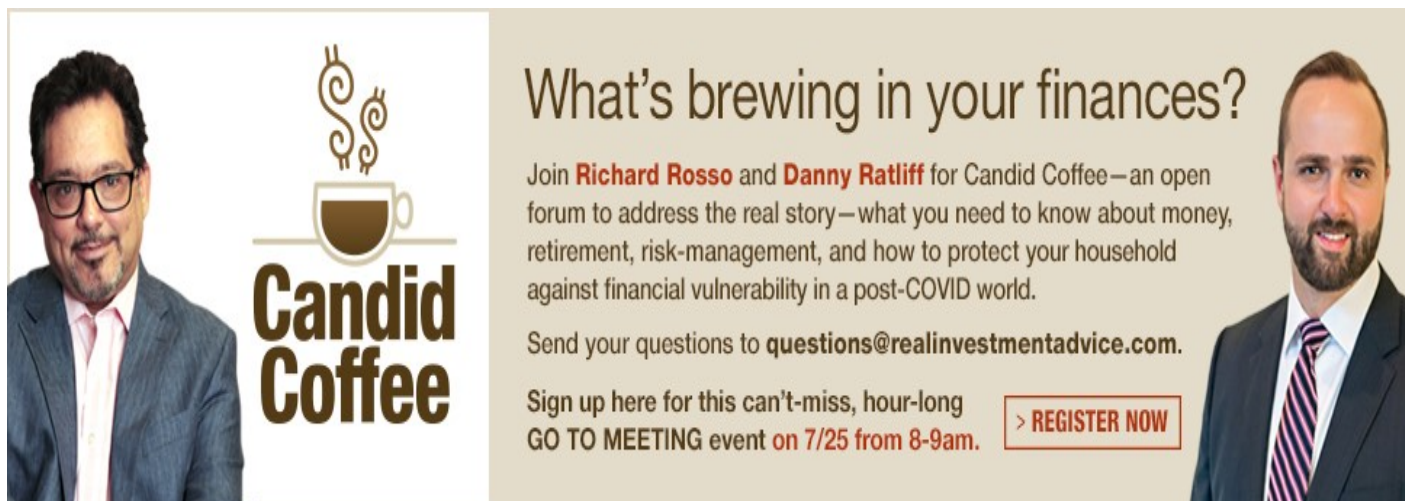
Follow Us On: [Twitter](#), [Facebook](#), [Linked-In](#), [Sound Cloud](#), [Seeking Alpha](#)

Upcoming Event• - CANDID COFFEE

Sign up now for this virtual "Financial Q&A" GoTo Meeting

July 25th from 8-9 am

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




Candid Coffee

What's brewing in your finances?

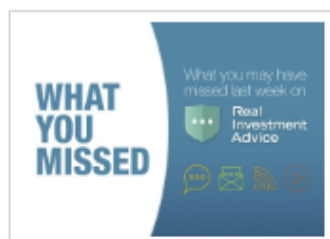
Join **Richard Rosso** and **Danny Ratliff** for Candid Coffee—an open forum to address the real story—what you need to know about money, retirement, risk-management, and how to protect your household against financial vulnerability in a post-COVID world.

Send your questions to questions@realinvestmentadvice.com.

Sign up here for this can't-miss, hour-long GO TO MEETING event on 7/25 from 8-9am. [> REGISTER NOW](#)



Catch Up On What You Missed Last Week



#WhatYouMissed On RIA This Week: 06-26-20

Written by Lance Roberts | Jun 26, 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.

[>> Read More](#)

Note:

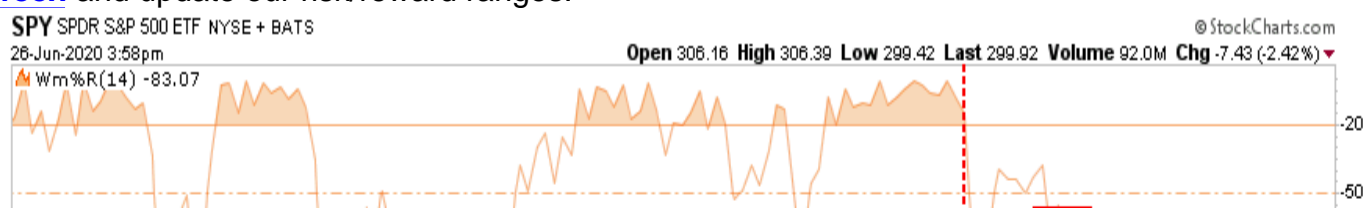
*I am on vacation next week, so while I will post a newsletter next weekend, it will only be a short market update as I will not have access to all of my usual data. However, I assure you everything will return to normal on my return. If you have **any questions**, I will continue to answer every question, every day. That is between sleeping on the beach, fishing, skiing, or eating. •*

Market Corrects As COVID Cases Surge

Three overriding catalysts were driving the correction this past week:

1. The market had gotten a good bit ahead of fundamentals.
2. The surge in COVID cases is undermining the V-Shaped recovery narrative.
3. End of the quarter portfolio rebalancing, which managers postponed in March.


We will go through each of these in more detail. However, let's start with where we left **off last week** and update our risk/reward ranges.



Currently, the risk/reward dynamics have become slightly less favorable. The good news is that the 50-dma and 200-dma are so close there is strong support short-term. Such should give the bulls a bit of optimism. However, a breakdown below that level and things will get ugly quickly.

- **-2.2% to consolidation highs vs. +3.1% to the top of the current downtrend. (Positive)**
- **-8.9% to previous consolidation lows vs. +7.7% to previous rally peak (Negative)**
- **-13.1% to March bounce peak vs. +12% to all-time highs. (Negative)**
- **-18.4% to April 5th lows vs. +12% to all-time highs. (Negative)**

As shown, with the sell-off on Friday, the short-term oversold condition, a reflexive rally next week would not be surprising. Given that COVID concerns are escalating, it may be wise to use any rally to reduce risk further and increase hedges.



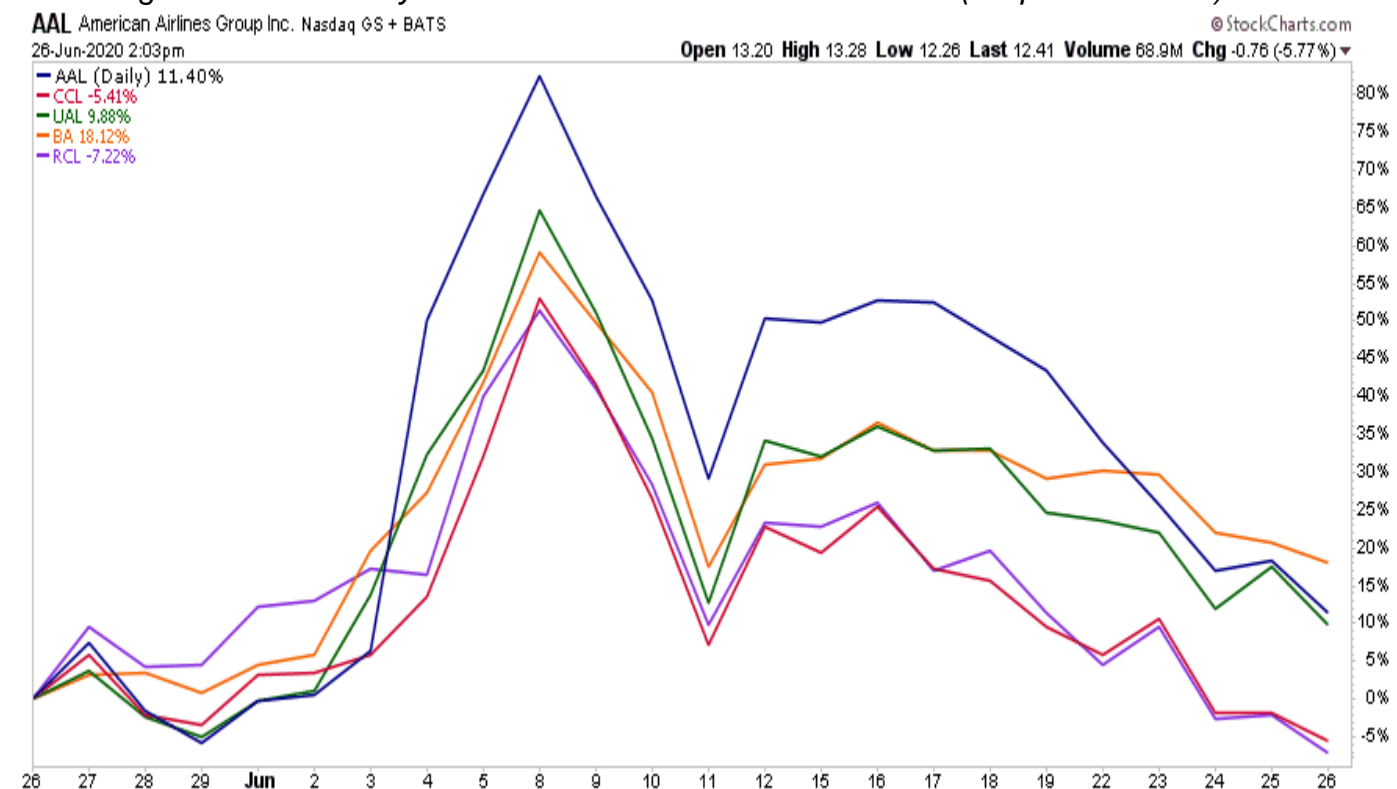
**REAL
INVESTMENT
ADVICE**

Have more than \$500k invested?
Get a better strategy than
"buy and hold"

**MEET WITH AN
RIA TEAM
MEMBER TODAY**

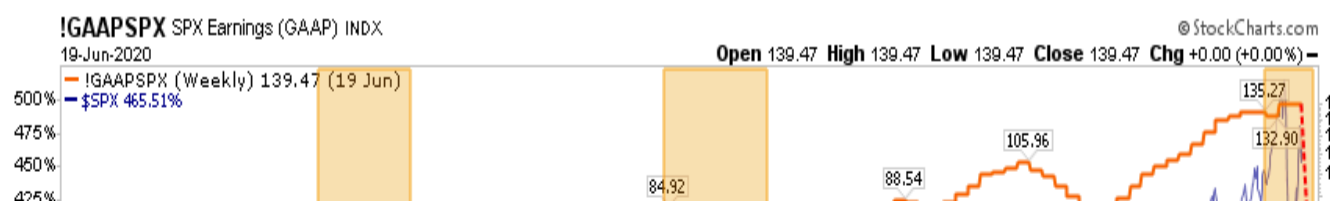
The Market Is Well Ahead Of Fundamentals

Part of the correction over the last two weeks is coming partially from the realignment of stocks back to reality. We specifically mentioned some of the more visible issues last week, but it was interesting to watch the "Daytraders Favorites" crash back to Earth (*No pun intended.*)



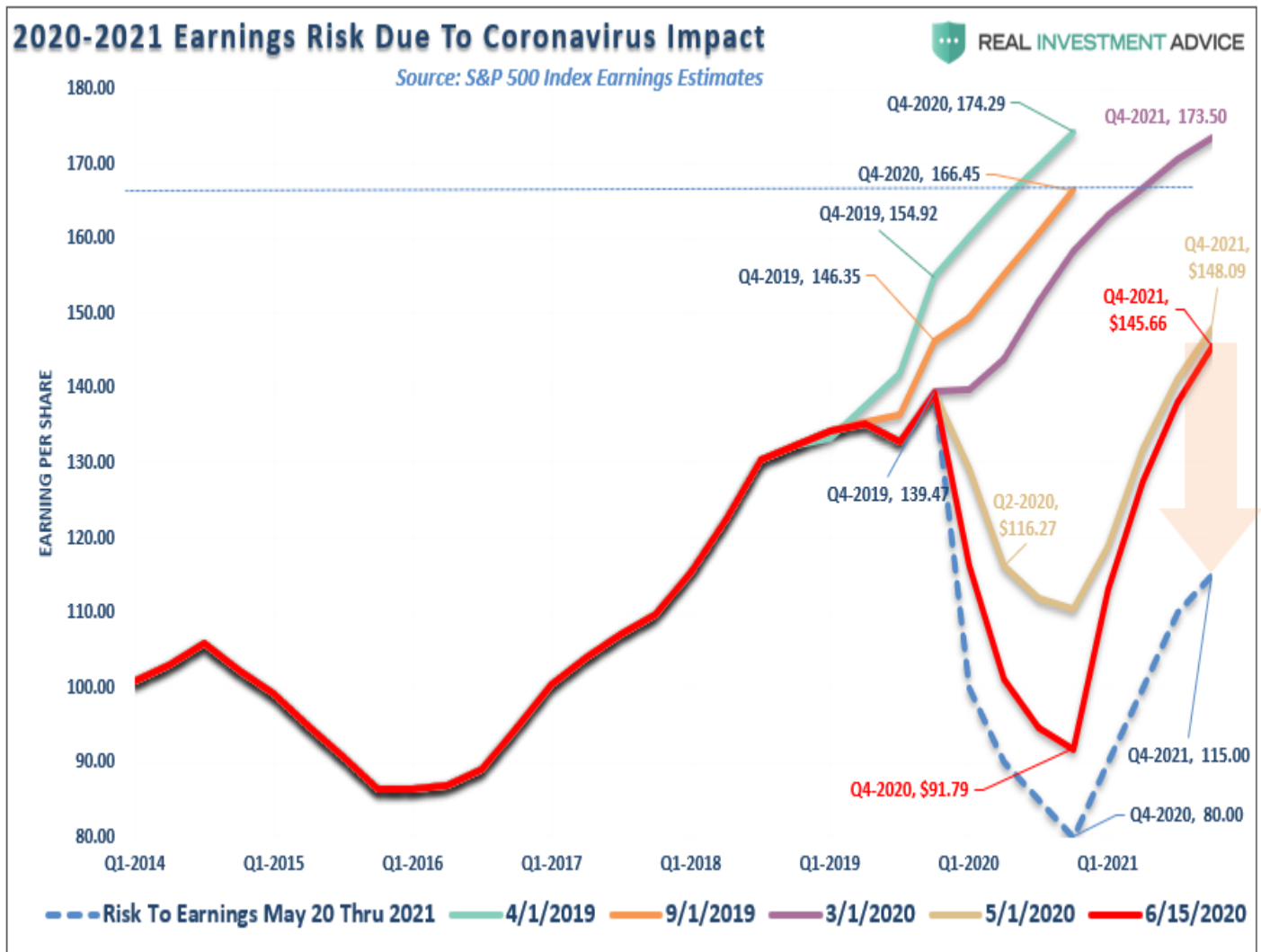
As we [addressed on Tuesday](#), it is hard to justify paying current valuations.

"Furthermore, given the depth of the economic crisis, 49-million unemployed, collapsing wages and incomes, and a resurgence in the number of COVID-19 cases, estimates are still too high. During previous economic downturns, earnings collapsed between 50% and 85%. It is highly optimistic, given the current backdrop, that earnings will only decline by 20%."



6-Downside Risks

With States now beginning to back off of reopening plans, it is highly likely current earnings estimates will need to be guided lower over the next couple of months.



The most significant risk to investors currently is a "reliance on certainty" about future outcomes, when, in reality, there is no certainty at all. As [Mike Shedlock](#) pointed out just recently, there are numerous risks still present. **Six Downside Risks**

1. **The future progression of the pandemic remains highly uncertain.**
2. **The collapse in demand may ultimately bankrupt many businesses.**
3. **Unlike past recessions, services activity has dropped more sharply than manufacturing?**with restrictions on movement severely curtailing expenditures on travel, tourism, restaurants, and recreation and social-distancing requirements and attitudes may further weigh on the recovery in these sectors.
4. **Disruptions to global trade may result in a costly reconfiguration**of global supply chains.
5. **Persistently weak consumer and firm demand**may push medium- and longer-term inflation expectations well below central bank targets.
6. **Additional expansionary fiscal policies?** possibly in response to future large-scale outbreaks of COVID-19?could significantly increase government debt and add to sovereign risk."

Again, the market is trading well ahead of underlying fundamentals. While the "Fed Put" may indeed put a "floor" below stocks, that doesn't mean they can't correct to realign with economic and fundamental realities.

COVID Makes A Second Appearance

As we discussed previously, the market rallied from the March lows based on 4-underlying premises:

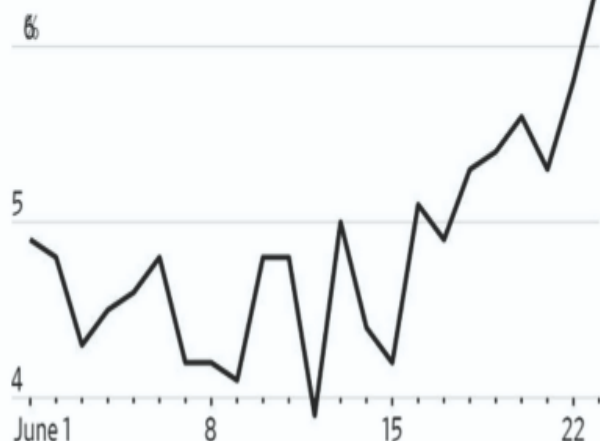
1. *There would be no second-wave of the virus.*
2. *There would be a vaccine available by year-end.*
3. *The economy would fully recover back to pre-pandemic levels.*
4. *And, of course, "The Fed."*

While the bullish fantasy indeed prevailed over the last couple of months, suddenly, the world has shifted. The hope was that cases in the U.S. would slow into the fall before the potential onset of a "second wave" during a more traditional flu season. Unfortunately, the spike in cases in the still ongoing "first wave" will delay economic recovery longer.

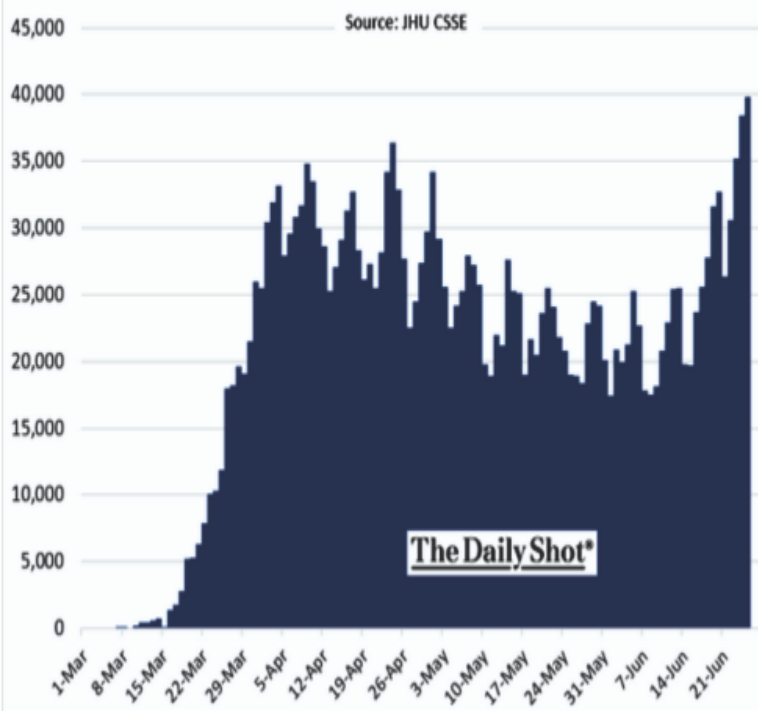
Seeing Where the Trend is Headed

How often cases come back positive is a strong indicator of community spread of coronavirus, with a lower rate indicative of slower spread and wider testing.

Positive test rate



Daily Number of New COVID-19 Cases in the United States



In Texas, where I live, the Governor has shut-down bars again, is keeping businesses at reduced capacity, and potentially will reverse more if needed. My wife went to the doctor recently for a test, and she received the "ole' swap up the nose." While the test came back negative. The doctor told my wife that COVID lives in the lungs and not the nasal cavity. Therefore, while her test was negative, it could be a false negative. **If the doctor is correct, the real numbers of infected could be 10x higher.** Such confirms a recent [Reuters article](#):

"Government experts believe more than 20 million Americans could have contracted the coronavirus, 10-times more than official counts, indicating many people without symptoms have or have had the disease, senior administration officials said. The estimate, from the Centers for Disease Control and Prevention, is based on serology

testing used to determine the presence of antibodies that show whether an individual has had the disease, the officials said."

If true, the ramifications could substantially impair the bullish thesis.

Timing Couldn't Be Worse

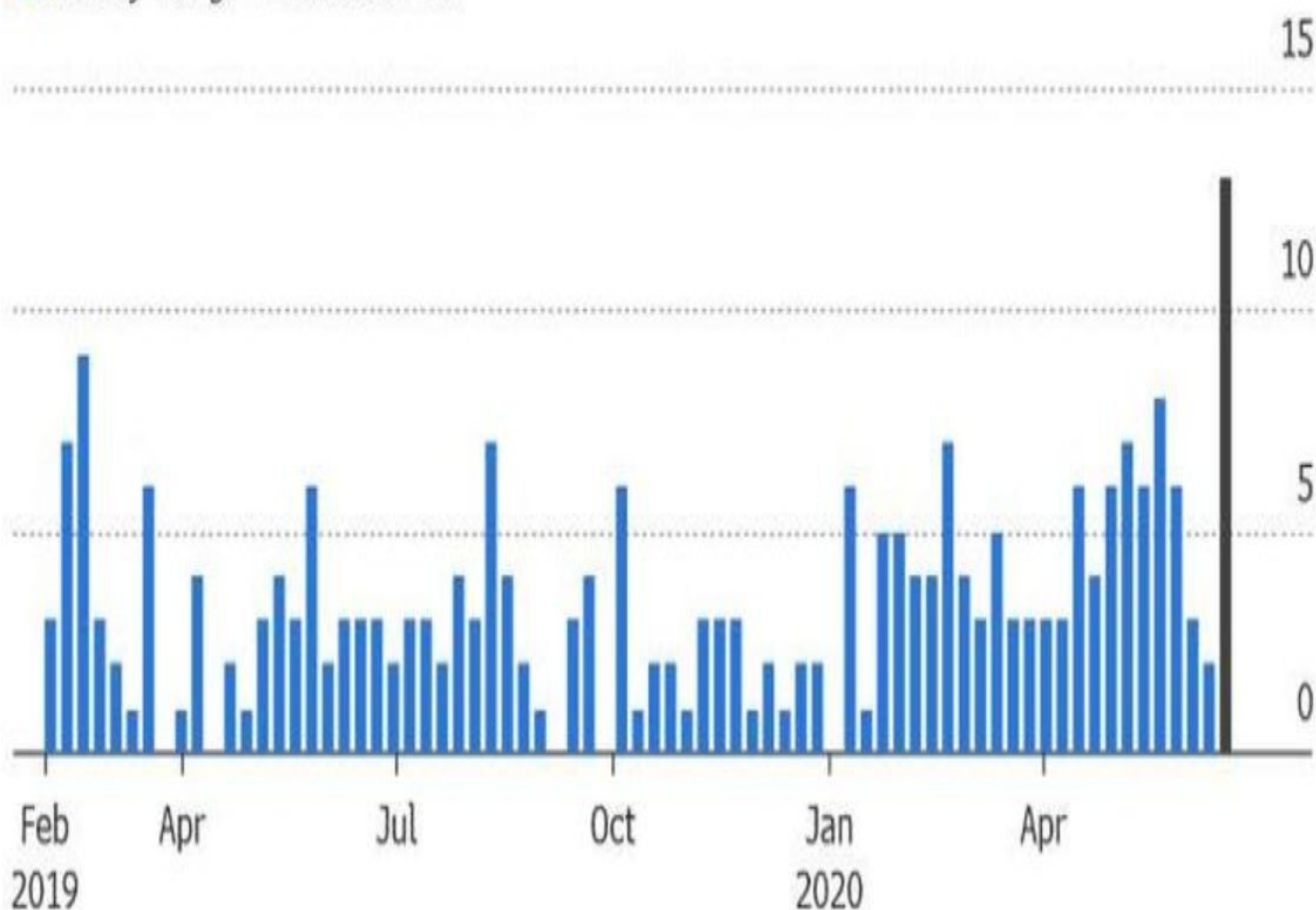
Without a bill to extend more Federal Aid via Payroll Protection Programs and increased unemployment benefits, the ongoing restriction on trade will likely lead to a further surge in bankruptcies and layoffs.

*"According to Bloomberg data, **no less than 13 U.S. companies sought bankruptcy protection last week, matching the global financial crisis's peak.**•The filings, led by the perennially weak consumer and energy sectors, **were the most for any week since May 2009.**"*

Insolvency Inflation

Weekly U.S. filings accelerate to highest since May 2009

■ Weekly filings ■ June 13-20

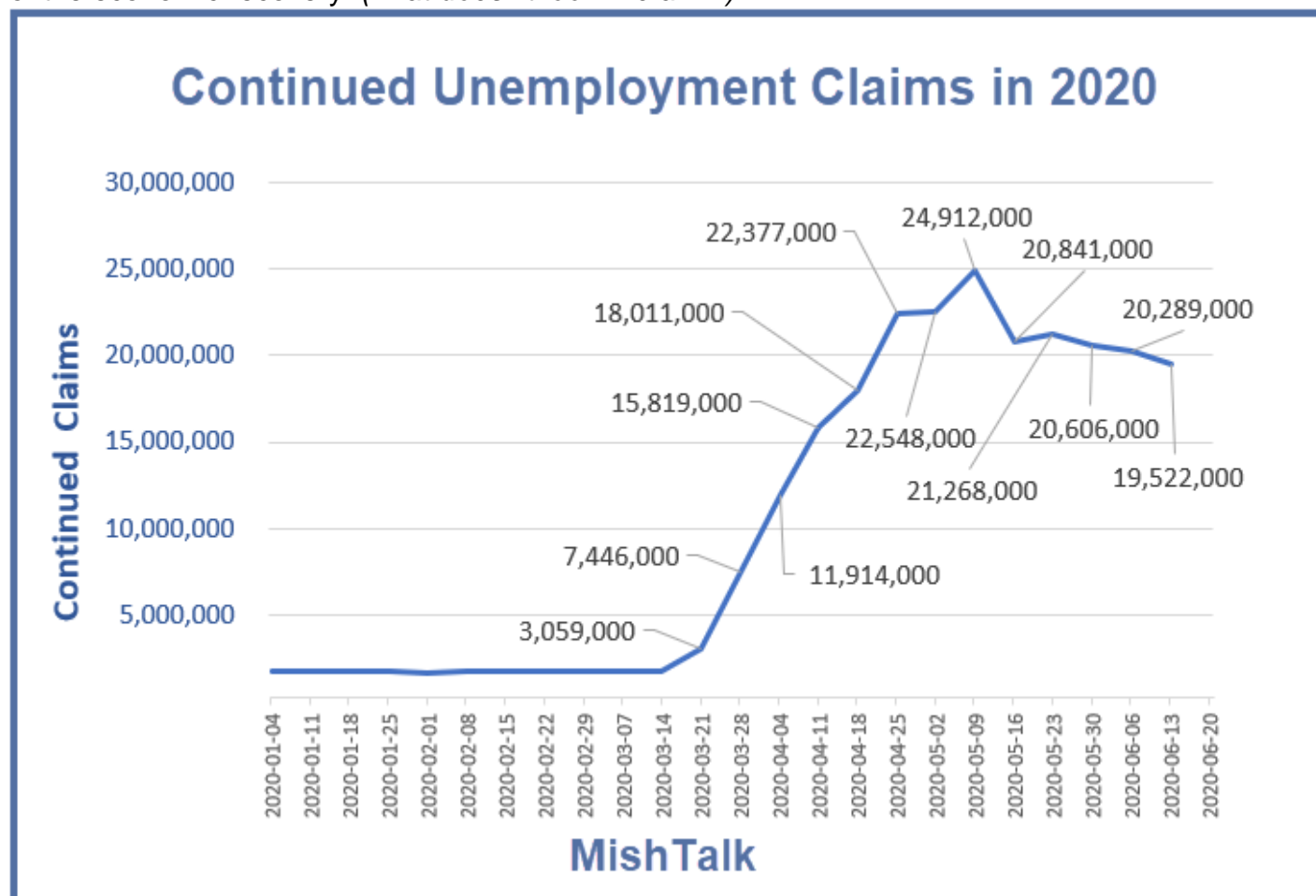


Source: Bloomberg

Note: Reflects Ch. 11 and 7s for public and private companies, liabilities \$50m+

Bloomberg

There is a virtual spiral between job losses and bankruptcies. As more individuals lose their jobs, they have less to spend. Since consumption is what drives earnings for businesses, they have to lay off workers to stay in business. Pay attention to the "continuing claims," which will tell the story of the economic recovery. (That doesn't look like a "V")





Real Investment Show

with Lance Roberts

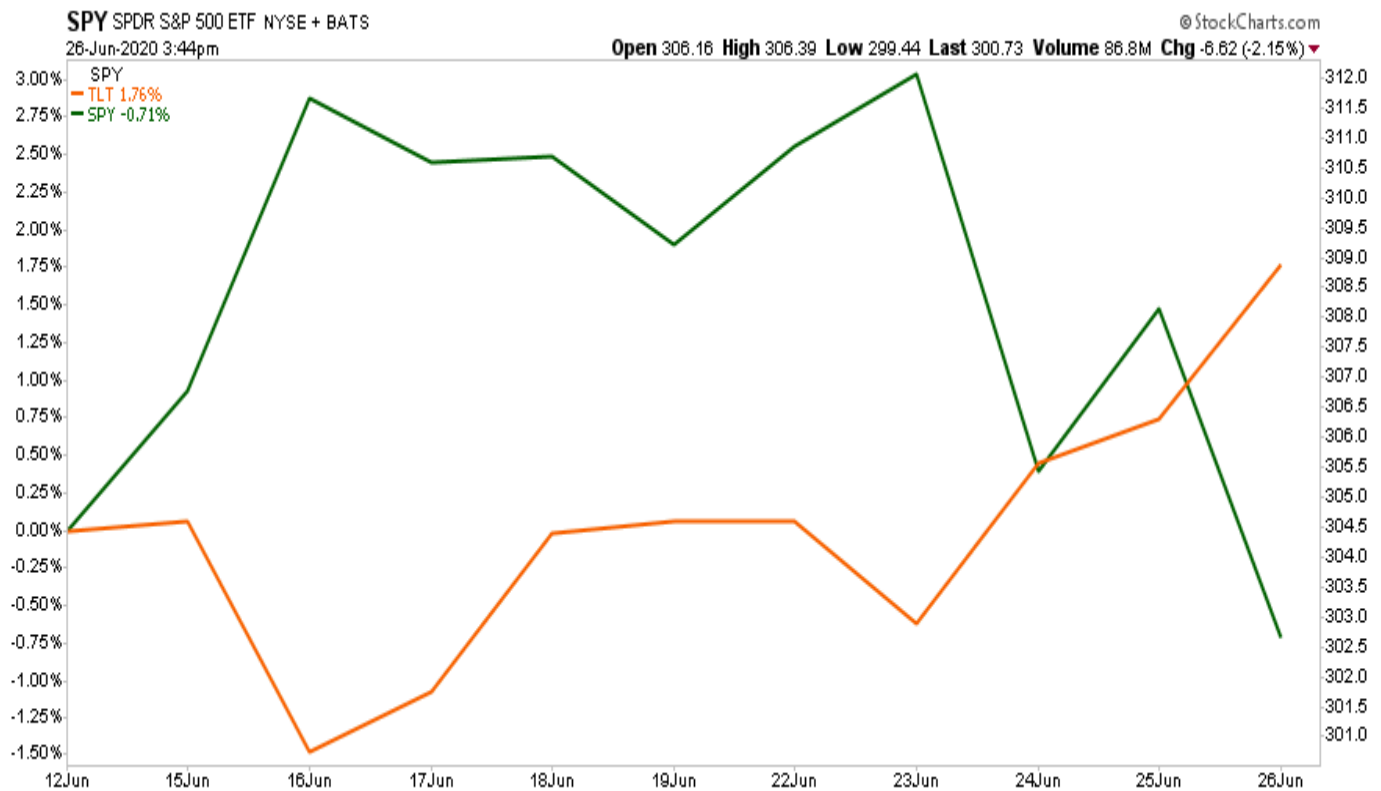
Monday to Friday,
from 6 to 7am. ➤ Get it now

End Of The Quarter Rebalancing

There was one other factor which has weighed on stocks this past week, which was noted recently by [ZeroHedge](#):

*"When adding all the other possible sources of the month- and quarter-end forced rebalancing, **the total amount 'for sale' soars to an unprecedented \$170 billion according to calculations by JPMorgan.** In the latest Flows and Liquidity report from JPM's Nikolas Panagirtzoglou, writes that after correctly pointing out at the market lows on March 23rd that there is a massive \$1.1 trillion in rebalancing flow ~~into~~ **into** equities, all of that has since balanced out, and three months later, we are looking at a substantial **outflow of about \$170BN** before month-end, resulting in a 'small correction.'"*

This rebalancing of portfolios was postponed by pension and mutual funds in March as they did not want to sell at market lows. That decision worked out well then, but now they need to rebalance portfolios by selling equities and buying bonds. We can see this action by looking at the performance between the S&P 500 index and Treasury Bonds over the last two weeks.



This rotation is either likely close to completion, or will complete early next week. As we stated previously, this is why we hedge our equity portfolios with fixed income. The risk offset reduces downside volatility and allows the portfolio to weather tough patches in the market. With the market very oversold short-term, it would not be surprising to see a reasonably decent reflexive rally into the start of July. However, that rally will likely be an excellent opportunity to rebalance risk and rethink exposures accordingly.

Portfolio Positioning Update

As stated last week, with our portfolios almost entirely allocated towards equity risk in the short-term, we remain incredibly uncomfortable. Our positioning in fixed income and gold has hedged the portfolio against the latest decline in the very short-term. Still, with the market getting very oversold short-term, as shown below, we expect a reflexive rally off of current support next week.



Most likely, we will use any counter-trend bounce to reduce equity risk a bit, rebalance exposures, and focus our attention on capital preservation for the next couple of months.

•With the virus resurfacing, the potential risk of disappointment to the earnings and economic recovery story has risen. **While it is easy for the mainstream media to write articles and post comments about the markets, it is an entirely different matter when you manage money.** Currently, there is a battle raging between the fundamental and “hope”-driven narratives. On the one hand, it's easy to see the fundamental problems in the market and the economy, which argues for much less risk exposure. However, on the other, you have the Fed and a Government, ready to throw money at, and “jawbone,” the markets at a moment's notice. **Trying to navigate the two is like trying to thread a needle, in a moving car, on a bumpy road, with your eyes closed.** Given we aren't prescient, we will have to resign ourselves to doing the best job we can for our clients with the information we have available. That is a fancy way of saying, “we are going to give it our best guess.” The goal remains the same as always, protect our client's capital, reduce risk, and try to come out on the other side in one piece. Sometimes, however, it just gets messy.

RIAPro

Get the latest trades, analysis, and insights from the **RIA Pro** team.

[> Sign up now](#)

The MacroView



#MacroView: The Fed Has Inflated Another Asset Bubble

Written by Lance Roberts | Jun 26, 2020

In March, it appeared as if the bubble had finally popped. However, the Fed's quick response and massive monetary interventions ceased the asset bubble's deflation and reinflated it.

[>> 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

MISSING THE REST OF THE NEWSLETTER?

This is what our [RIAPRO.NET](#) subscribers are reading right now! **Risk-Free For 30-Day Trial.**

- Sector & Market Analysis
- Technical Gauge
- Sector Rotation Analysis
- Portfolio Positioning

- Sector & Market Recommendations
- Client Portfolio Updates
- Live 401k Plan Manager

RIAPro

Get the latest trades, analysis, and insights from the **RIA Pro** team.

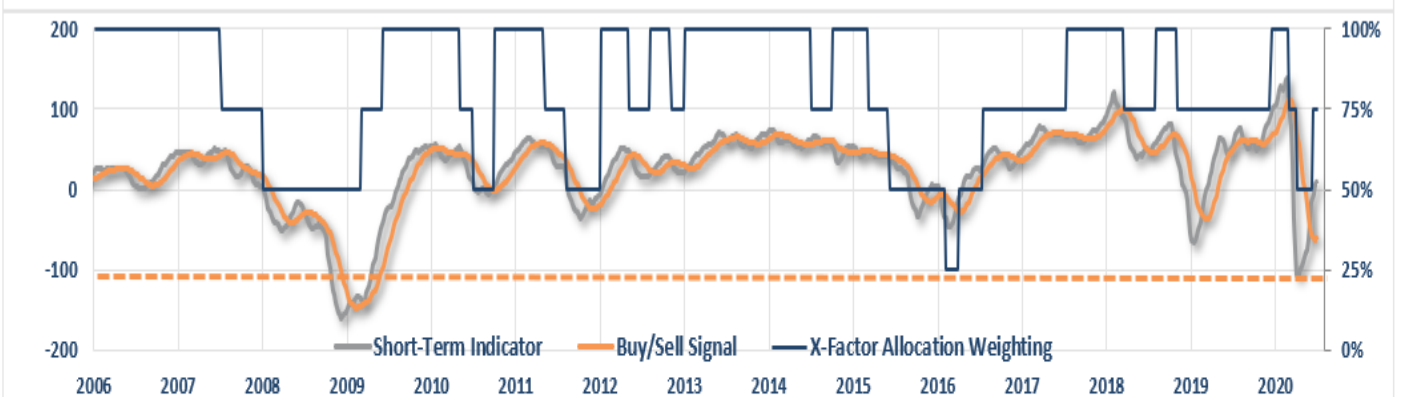
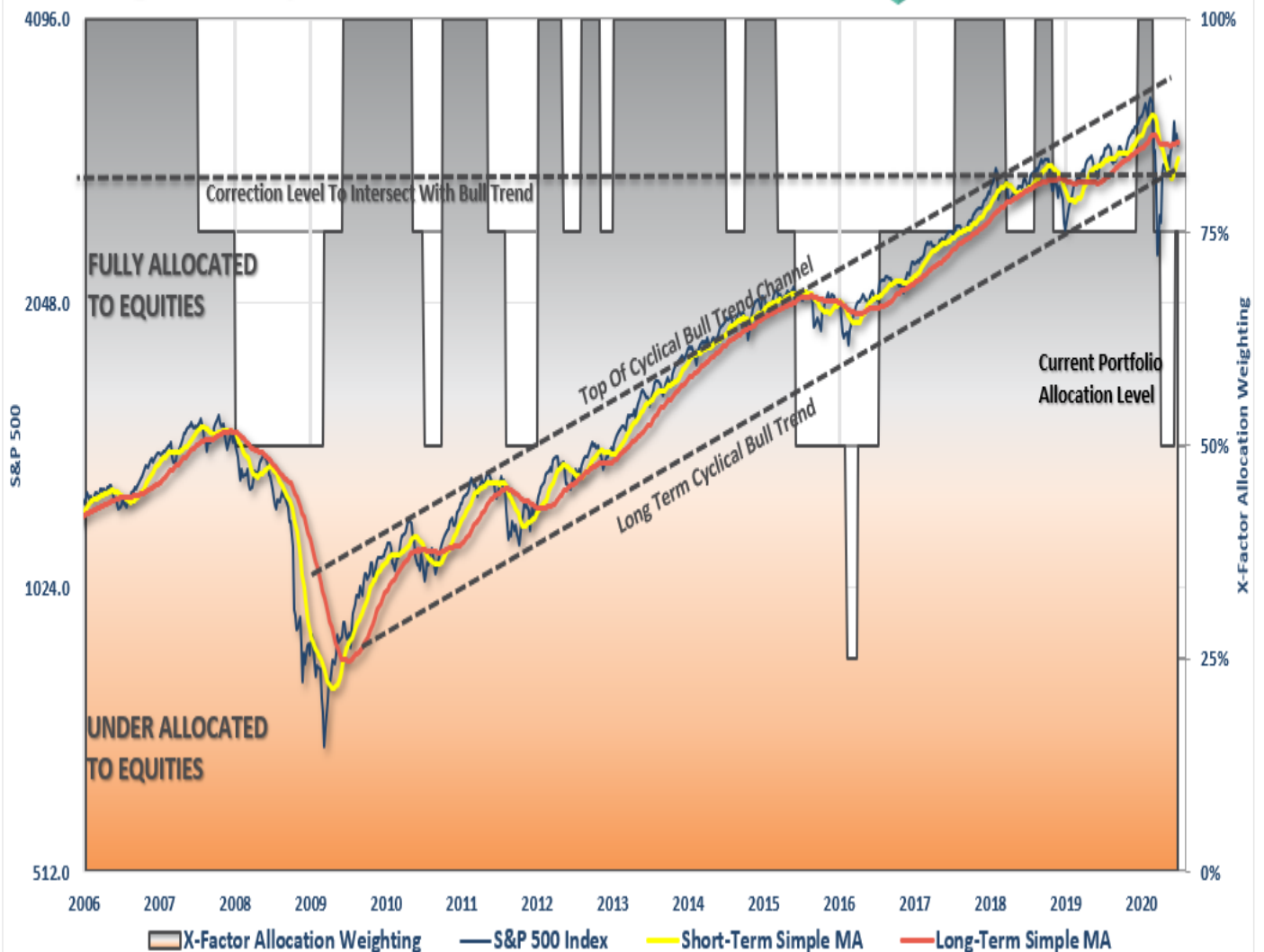
[> Sign up now](#)

THE REAL 401k PLAN MANAGER

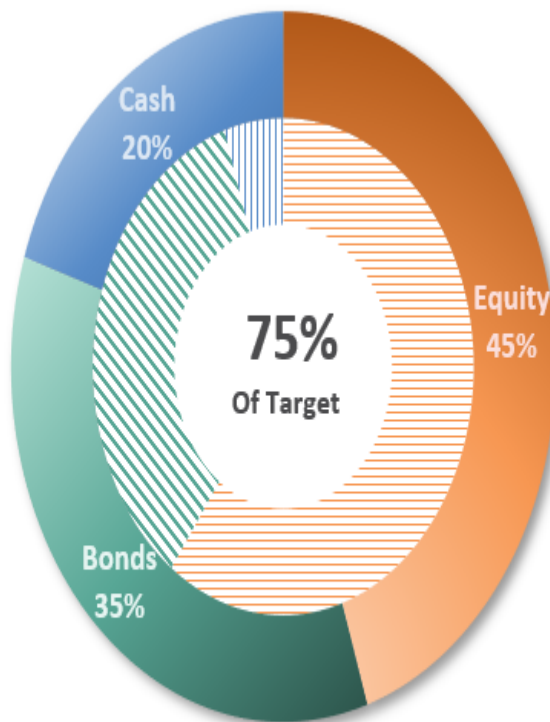
A Conservative Strategy For Long-Term Investors

Risk Management Analysis

REAL INVESTMENT ADVICE



Current Portfolio Weighting



Current 401k Allocation Model

20.00% 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

45.00% Equity (Stocks)

The vast majority of funds track an index.

Therefore, select on ONE fund from each category.

Keep it Simple.

20% Equity Income, Balanced or Conservative Allocation

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

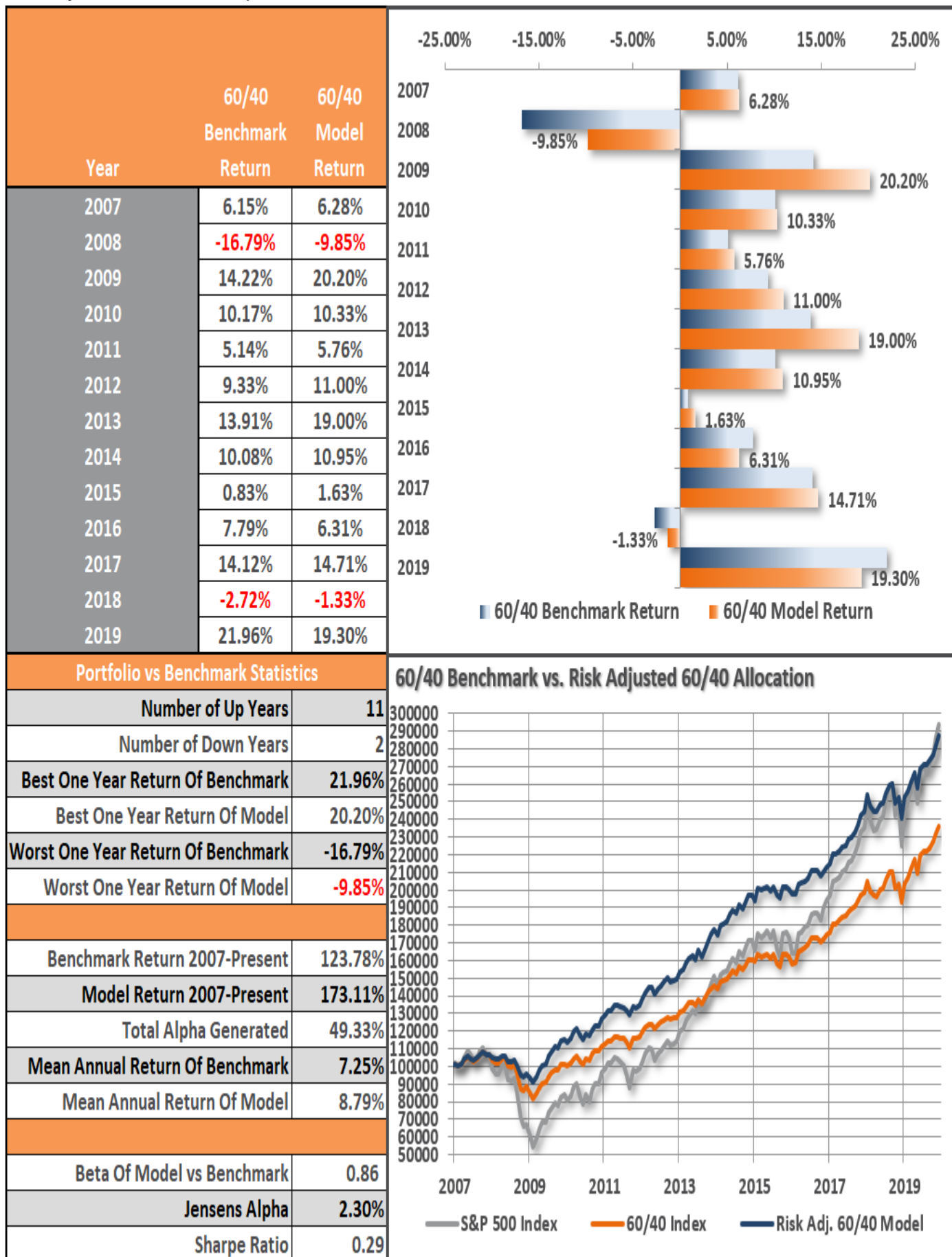
As noted last week: "Market action remained sloppy this past week, but the market did hold the 200-dma once again. It remains opportune to increase exposure accordingly for now. However, if the market begins to break down we will need to reverse actions. That remains a possibility still even with the Fed in play."

The market is threatening to violate the 200-dma, but the 50-dma is sitting just below that level. There is good support at this juncture and the market is short-term oversold. However, with the "Virus" starting to resurface we are going to hold off any further changes until the market stabilizes and begins to show some improvement.

Hold positions for now, but if the market breaks the 50-dma, we will need to make a "course correction."

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.](#)**

RIAPro

Investment Analysis, Research & Data
From The RIA Investment Team

Dashboard

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