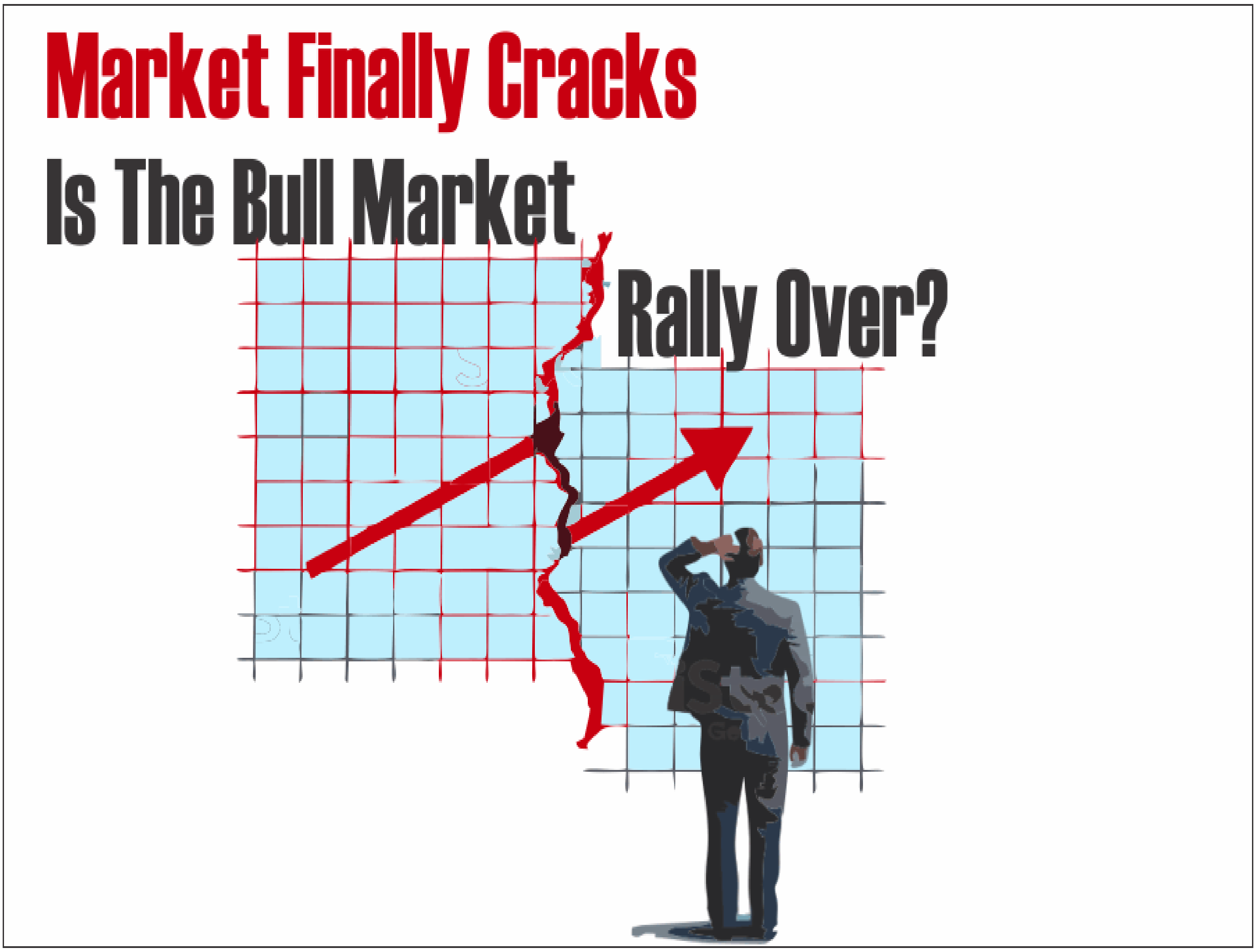

In this issue of "Market Finally Cracks. Is The Bull Market Rally Over?"

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September 12th from 8-9 am

***Please send your questions,** and Rich and Danny will answer them live.*

Catch Up On What You Missed Last Week

#WhatYouMissed On RIA This Week: 09-04-20

Written by Lance Roberts | Sep 4, 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 Finally Cracks

Over the last few weeks, we have discussed that while the markets were continuing their seemingly "*unstoppable"* advance, there were many *"technical extremes"* reached. Here is the problem with watching media headlines rather than paying attention to what is happening in the underlying market. On Wednesday was this headline:

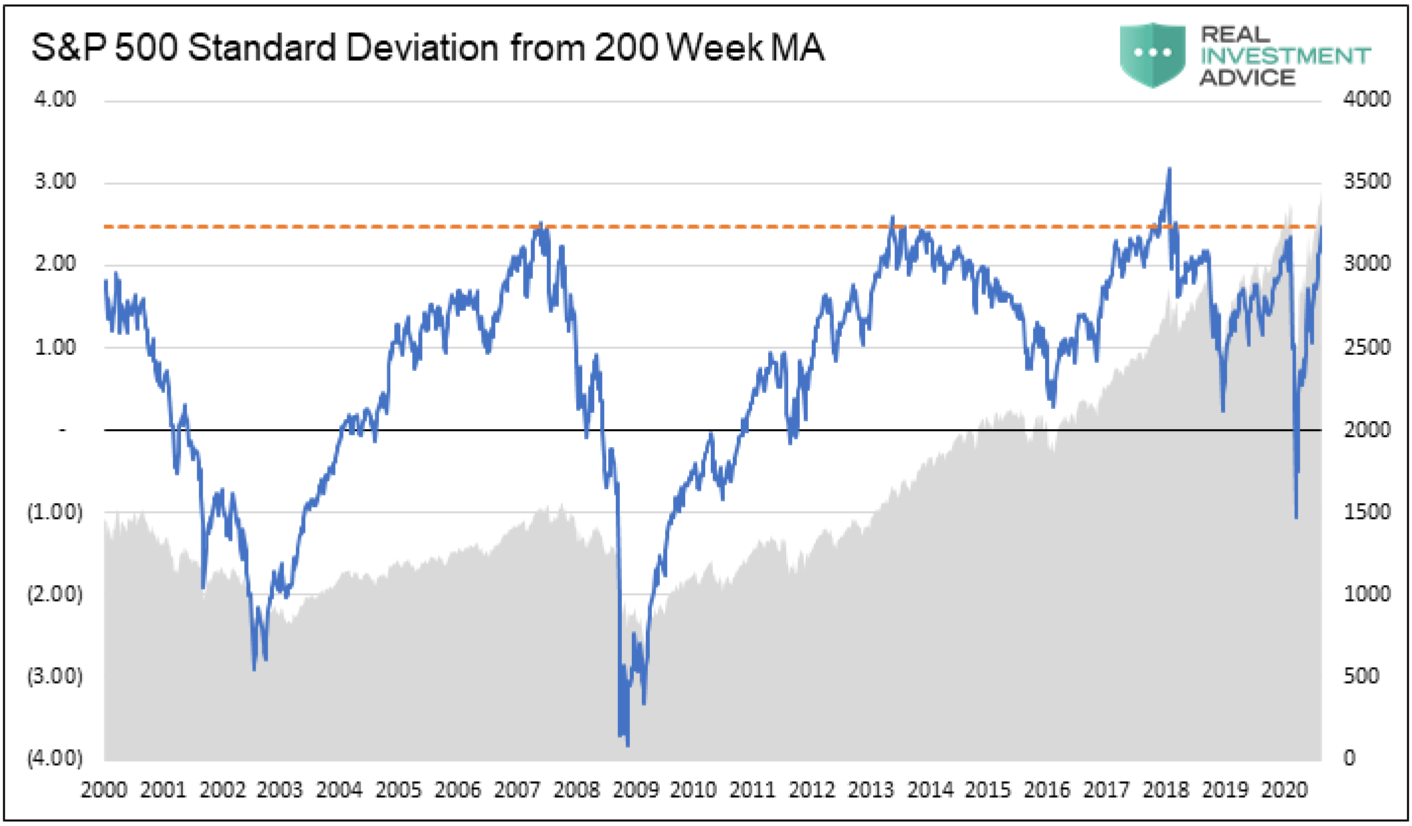
S&P 500 Rallies to Close Out Best Day in Almost Two Months

On Thursday, it was this:

Stocks Fall the Most Since June; Dow Down 865 Points, Nasdaq Off 5%

Thursday was not a surprise, As noted in "***Winter Is Coming:"***

*"The market is currently at historic market extremes. I explained this concept in much **[more detail in today's #Macroview.](#)** However, the most critical point of that article was the extreme deviation from long-term means. As noted, trend lines and moving averages tend to act as 'gravity.' The further away the market moves from the trendline, the greater the pull becomes.*



When markets are pushing extremes, it seems like it is a "*no-lose"* scenario for investors. It is at those moments when "*selling high"* becomes opportunistic, but is incredibly hard to do for the "*Fear Of Missing Out (FOMO)"* The question now? Was it a one day blip, or the start of a more significant correction process.

Signs, Signs, Everywhere Signs

Over the last three weeks, we have been publishing "*signs of exuberance,"* which have ranged from incredibly high options speculation to investor positioning. Some of these indicators are now at levels only seen in 1999. If you have 3-minutes, this video covers quite a few of the current indications which suggest risk continues to outweigh the reward.

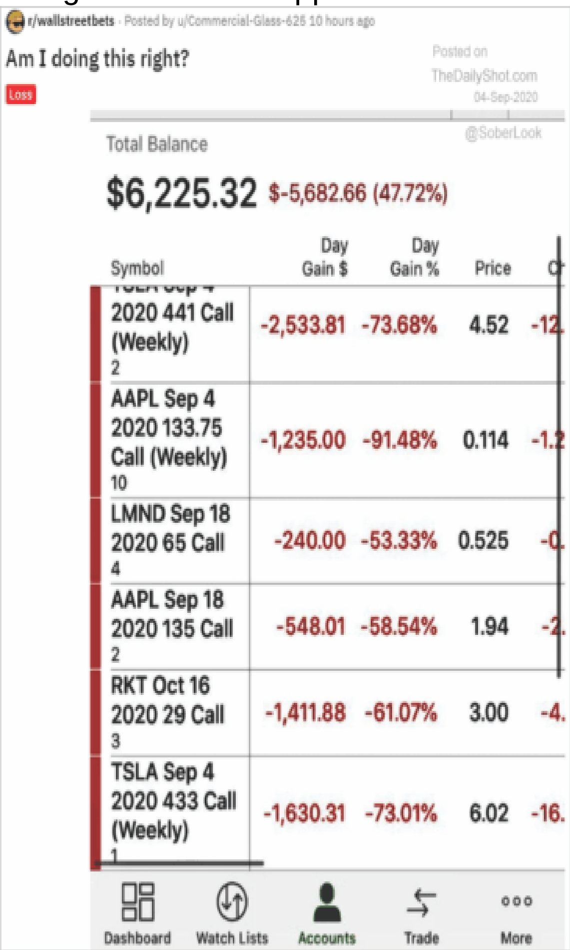
(We publish "3-Minutes" Monday-Thursday. ***Click here to subscribe to our YouTube*** *channel for email notification of all of our video postings and live-streams.)*

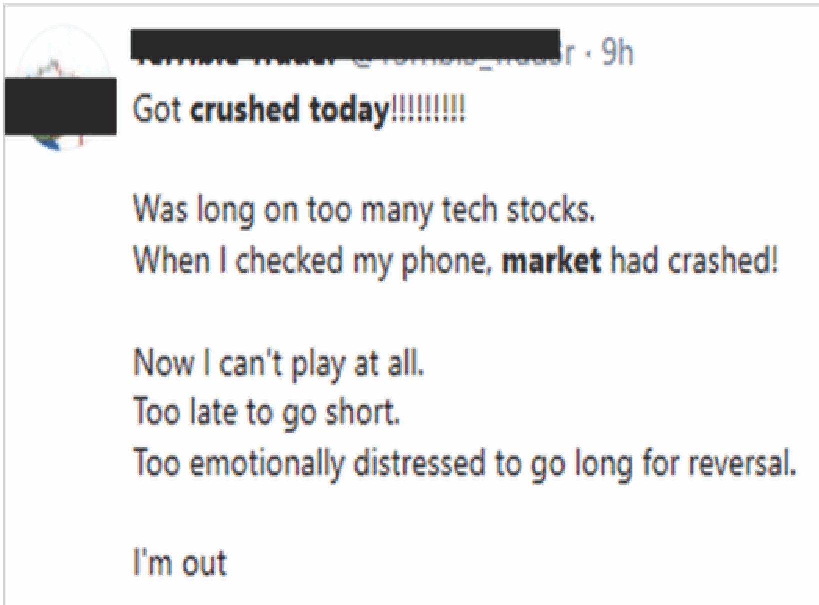
https://youtu.be/RqBQVPwdgwM I shot that video Thursday morning before the market opened. So, did the Thursday/Friday selloff reverse the majority of those excesses back to levels where reward now outweighs the risk?

The short answer is "*no."* On every level, the market remains overbought and extremely extended from intermediate moving averages. A one or two-day correction will not reverse those levels back to a "*buying opportunity."* **However, there is currently a tremendous amount of "*bullish sentiment"* in the market, which may lead to several attempts at "*dip buying"* before a correction is complete, which we saw on Friday.** Was that the 5% correction we talked about last week?

> ***"None of this data means the market is about to crash.*** *What it does mean, as discussed in ?**Winter Approaches,?** is that a correction of 5-10% has become increasingly likely over the next few weeks to two months.* ***While a 5-10% correction may not seem like much, it will feel much worse due to the high level of complacency by investors currently.*** *All of the data suggests that ?**Winter Is Coming.?** Therefore, this is why we are adding ?value? to our portfolios to prepare for colder weather."*

Not surprisingly, the selloff on Thursday and Friday shocked a lot of inexperienced investors that thought it couldn't happen.

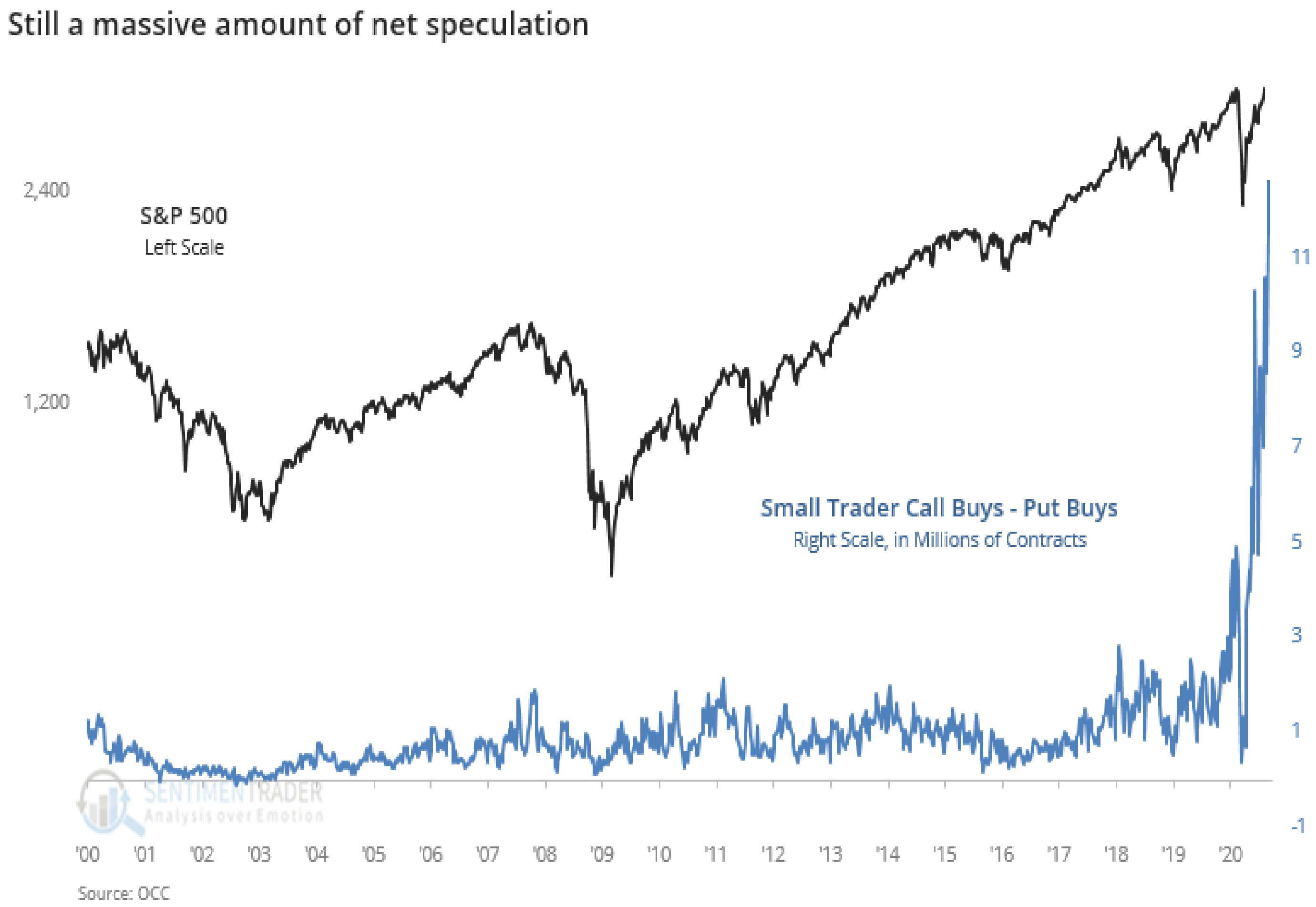




Momentum Is Hard To Kill

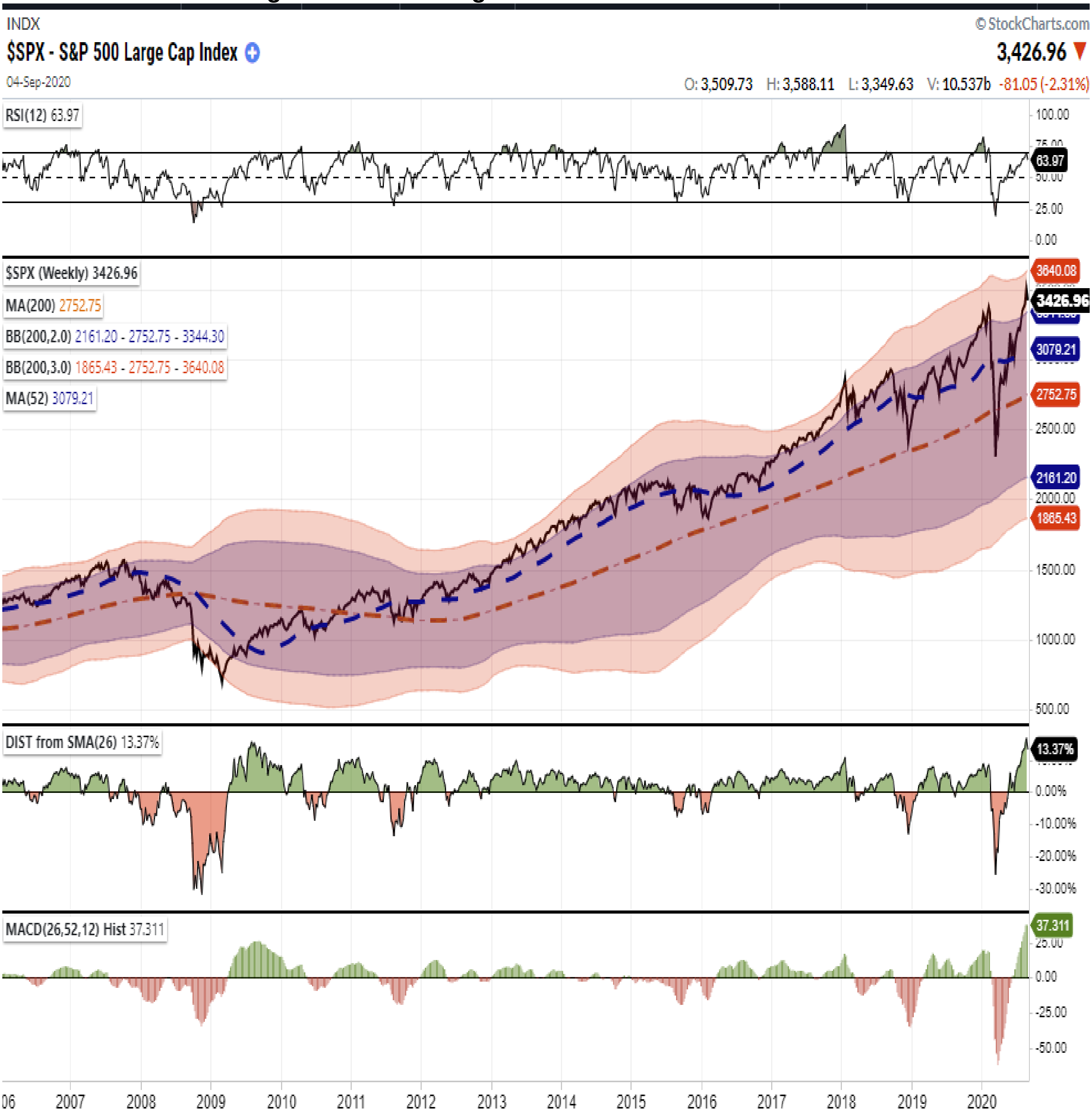
There is one crucial aspect of the market, which you should not dismiss - **"*momentum"* is extremely hard to kill.** Many "retail" investors will immediately view the selloff on Thursday and Friday, and the media, as a reason to pick up "*stocks on the cheap."* **The general bias in the**

short-term is that you should buy every "*dip,*" and for a brief period, they may indeed be proved right. We can validate that view by looking at speculative call buyers, who, despite the pullback, increased their leveraged market bets. (Chart via *Sentiment Trader*) Furthermore, **this amount of speculation is historically unprecedented. The eventual outcome when this all unwinds is obvious.**



However, in the short-term, the market has pulled back to very short-term support. We suspect the pullback will entice a lot of the momentum buyers, and those who "missed out," to jump back in. **A sellable bounce next week, in lighter post-holiday trading, is very likely.**

Furthermore, as we noted previously in a "***Tale of Two Bull Markets,"*** the deviations longer-term are still problematic. The extensions are so large it will require several days to weeks of a correction to work off the extremes. **As shown, last week's decline is barely noticeable and did little to reverse the longer-term overbought conditions.**



Portfolio Positioning

Currently, we are trapped. In the longer-term, markets are overbought, overvalued, and extended against a backdrop of weakening economics, a potential political upheaval, and poor earnings outlooks. On the other hand, we have an exceedingly bullish market, extreme momentum, and a shorter-term defined bullish uptrend. So what do you do? The same as do you with a "*porcupine."* **You deal with it very carefully.** On Friday, we used the early market lows to add to some of our technology positions that we had ***discussed reducing recently:***

> *"**Consequently, given the more extreme short-term overbought conditions and deviations, the risk of a short-term reversion has risen.** Therefore, we spent this past week harvesting some of our gains (AAPL, MSFT, CRM, ADBE, AMZN) and planting a few seeds for our 'Fall' garden (VIAC & T) **Importantly, this does not mean we sold everything and went to cash.** We continue to maintain our equity exposure to the markets. We are just reducing risk by 'hedging around the edges,' adjusting our bond duration, and adding more 'defensive' names to our equity allocation."*

The additions on Friday are only moving us back to target weights in some of our holdings from being underweight before the correction. **Importantly, we remain "*bullish"* on the markets currently as momentum is still in play.** However, we also realize the tremendous amount of risk that remains due to overvaluations, extensions, and deviations. **If the short-term trend of the market changes from bullish to bearish, we too shall change our positioning accordingly.** The problem for most investors is either a lack of a discipline to manage capital or an unwillingness to acknowledge that what was working no longer is. **We prefer to acknowledge change and have the discipline to deal with it.**

The MacroView

#MacroView: 5-Reasons The Fed's New Policy Won't Get Inflation

Written by Lance Roberts | Sep 4, 2020

At the recent Jackson Hole Economic Summit, Jerome Powell unveiled the Fed's new monetary policy designed to create inflation. Unfortunately, there are 5-reasons why the Fed will not get inflation, and why deflation is the bigger risk.

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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**

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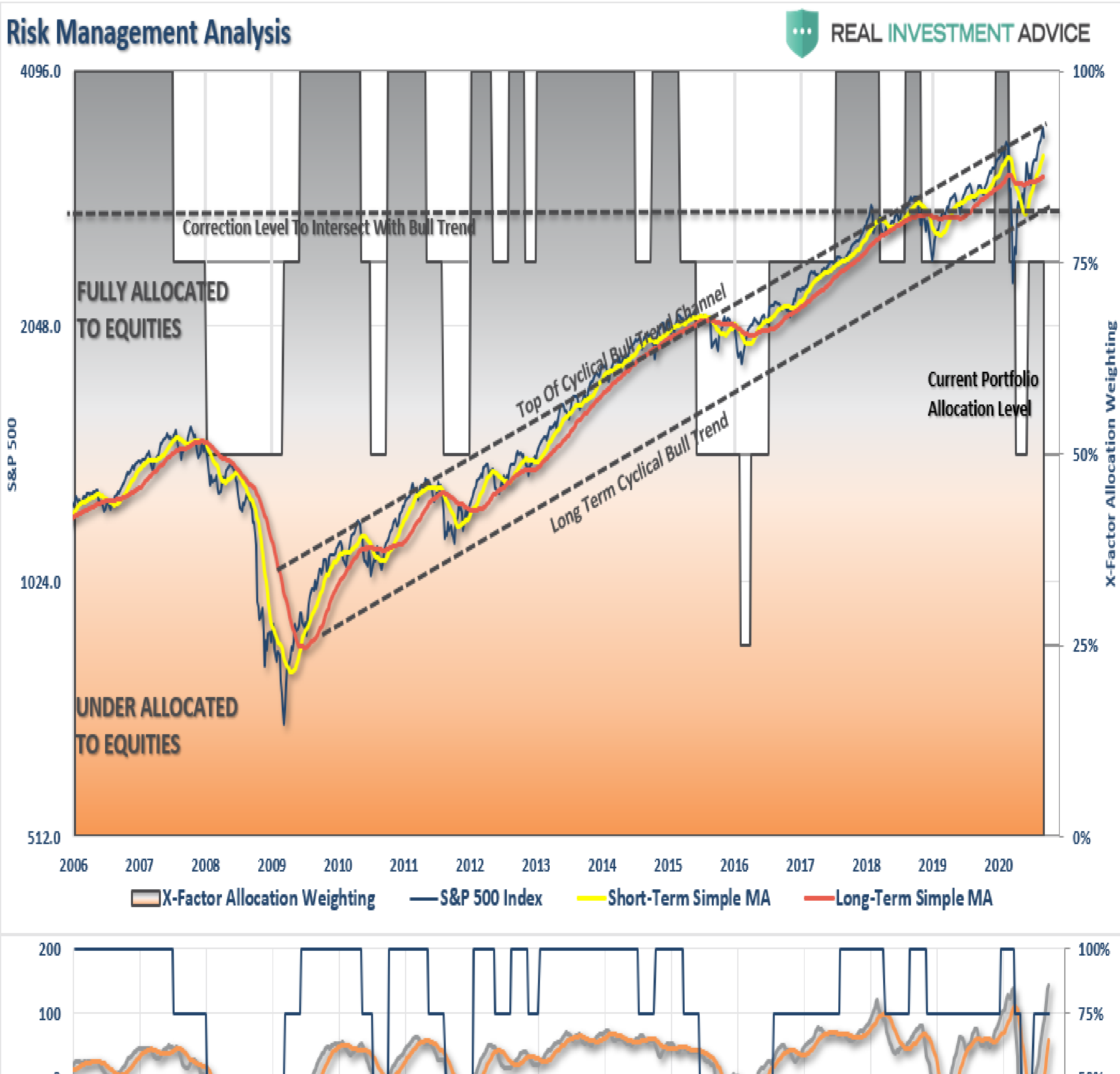
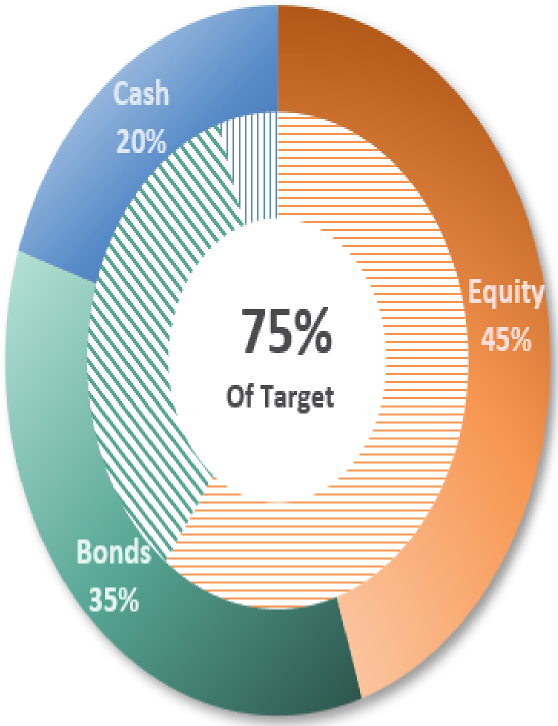


Current Portfolio Weighting



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	Hold Exposure At 75%	Hold Exposure
Equal To Target Allocation	Hold Exposure At 75%	Hold Exposure
Over Target Allocation	Hold Current Exposure	Hold Exposure

Commentary

As noted last week, *"the markets are extremely overbought short-term, earnings season is over, and there is no more Government stimulus at the moment. We are looking for a slight correction to give us a better opportunity to increase equity exposures to 100%."*

That correction started on Thursday and Friday and with the markets 5% lower, we will look for a short-term oversold condition to add exposure to equities.

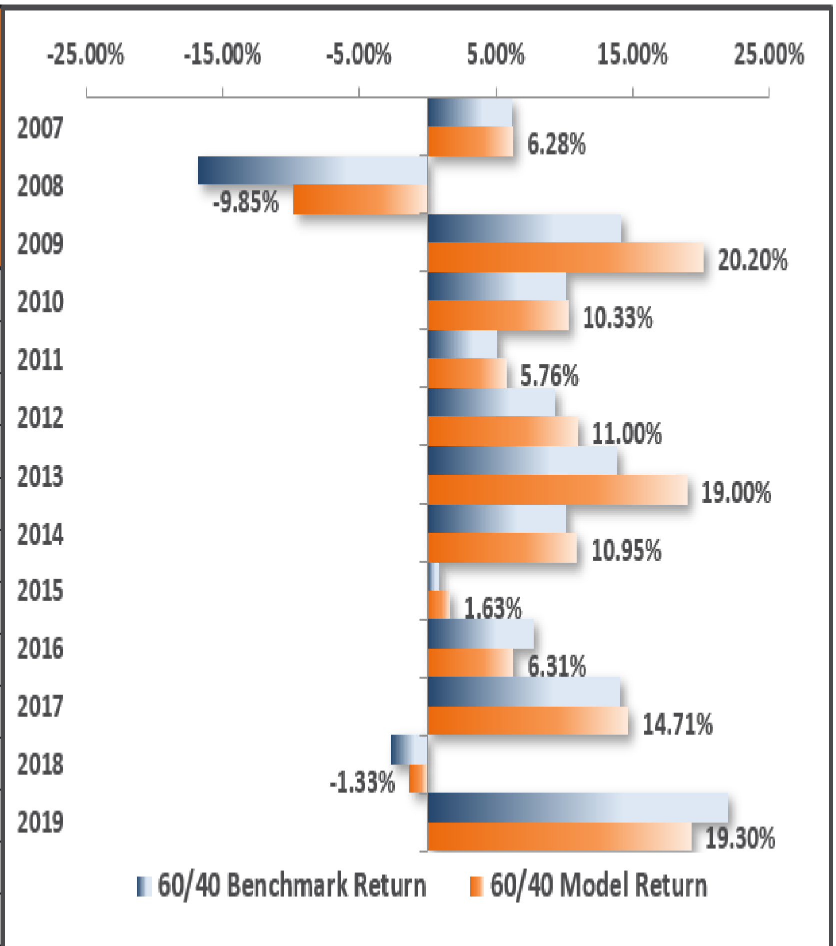
In the longer-term the markets remain extremely overbought and with an election approaching, there is downside risk. So we will remain cautious for the moment and move slowly as opportunity presents itself.

No changes this week to models or holdings.

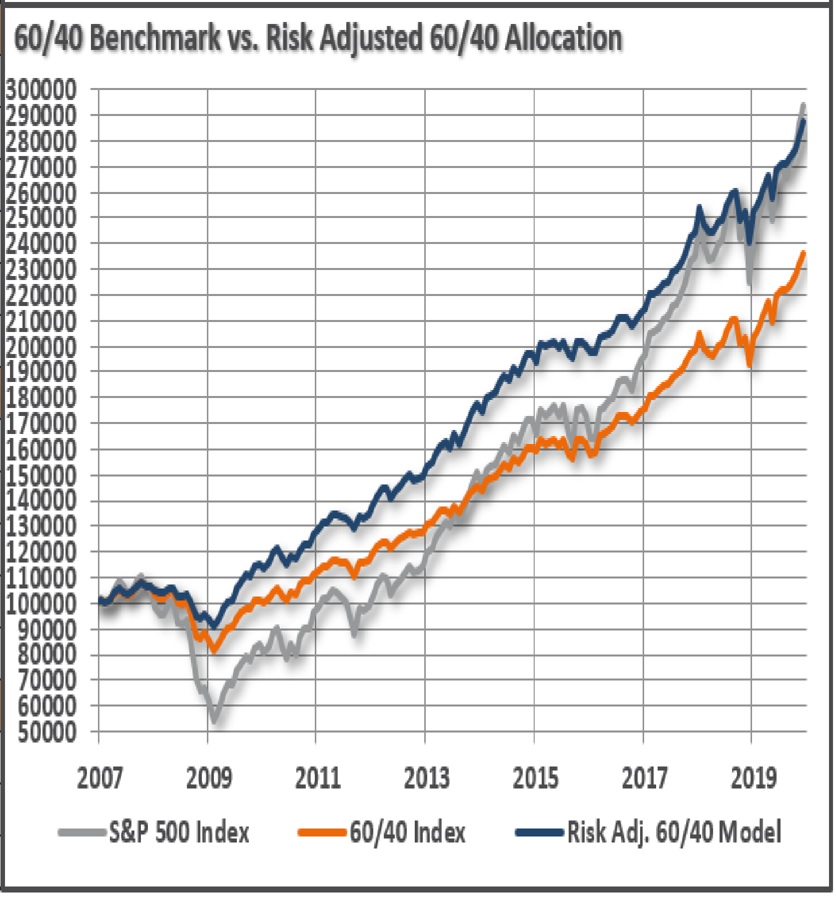
If you need help after reading the alert, do not hesitate to [contact me.](#)

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 one should not rely on it for any reason. Past performance is not a guarantee of future results. Use at your own risk and peril.

Year	60/40 Benchmark Return	60/40 Model Return
2007	6.15%	6.28%
2008	-16.79%	-9.85%
2009	14.22%	20.20%
2010	10.17%	10.33%
2011	5.14%	5.76%
2012	9.33%	11.00%
2013	13.91%	19.00%
2014	10.08%	10.95%
2015	0.83%	1.63%
2016	7.79%	6.31%
2017	14.12%	14.71%
2018	-2.72%	-1.33%
2019	21.96%	19.30%



Portfolio vs Benchmark Statistics	
Number of Up Years	11
Number of Down Years	2
Best One Year Return Of Benchmark	21.96%
Best One Year Return Of Model	20.20%
Worst One Year Return Of Benchmark	-16.79%
Worst One Year Return Of Model	-9.85%
Benchmark Return 2007-Present	123.78%
Model Return 2007-Present	173.11%
Total Alpha Generated	49.33%
Mean Annual Return Of Benchmark	7.25%
Mean Annual Return Of Model	8.79%
Beta Of Model vs Benchmark	0.86
Jensens Alpha	2.30%
Sharpe Ratio	0.29



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.**