In this issue of "Correction Makes Speculators Even More Speculative."

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- ***MacroView: A Permanent Shift To Valuations***
- ***Sector & Market Analysis***
- ***401k Plan Manager***

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Upcoming Event ? CANDID COFFEE

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

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: 09-11-20

Written by Lance Roberts | Sep 11, 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

Special Video

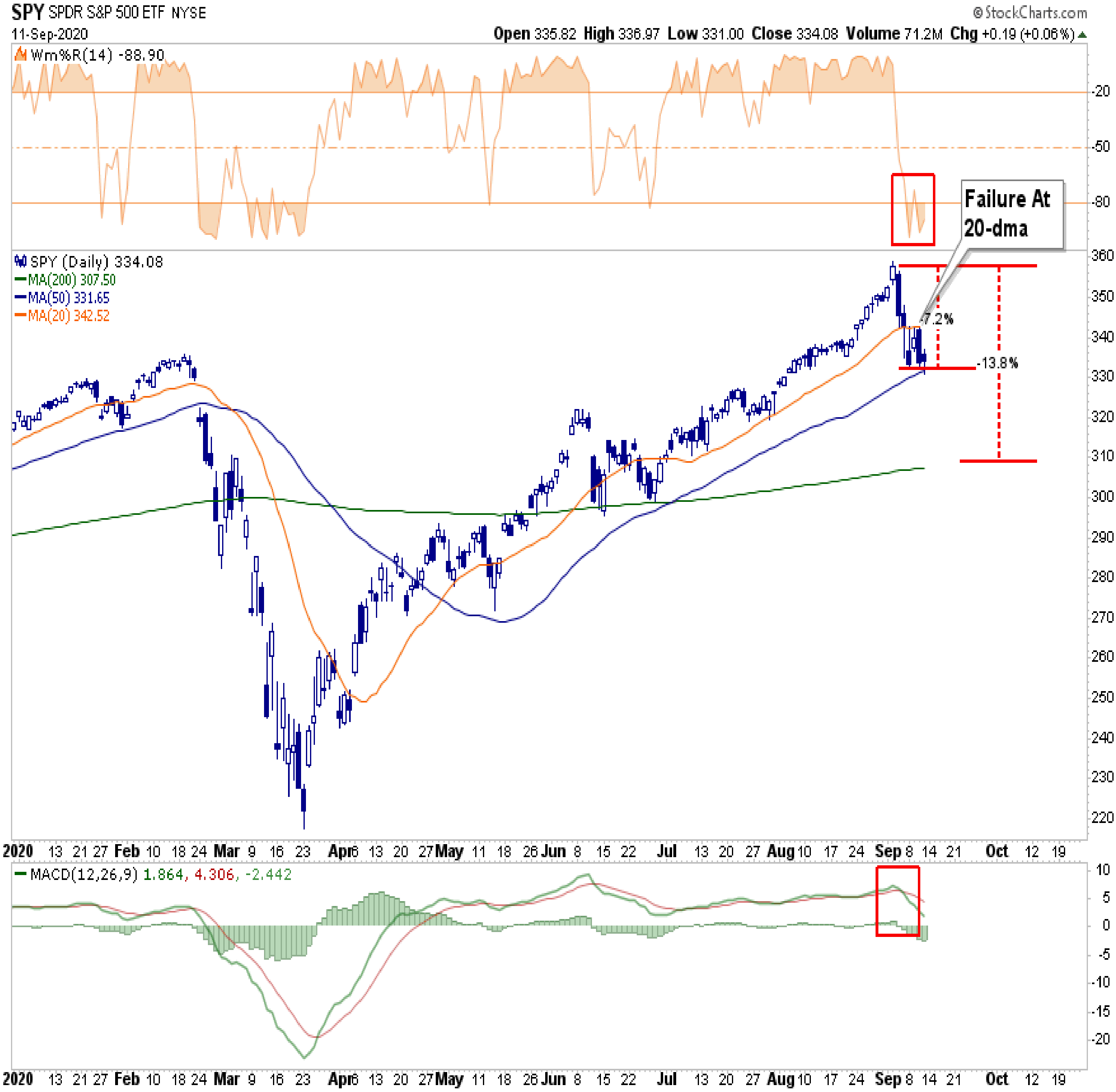
Much of today's commentary is also in the interview I did on Thursday with our friends over at ***Peak Prosperity.*** We discuss the market, portfolio management, risk controls, and why there is potentially still more downside risk to stocks in both the short- and intermediate-term.
https://youtu.be/qXIaaw7mhxQ

The Correction We Warned About

A couple of weeks ago, in "***Winter Approaches,"*** we discussed the potential of the correction this past week.

> ***"None of this data means the market is about to crash.*** *What it does mean, 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."***

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)"* As shown in the chart below, we had suggested a correction back to previous market highs was likely **but could extend to the 50-dma.** So far, the correction has played out much as we anticipated. However, **while we expect a rally next week, due to the short-term oversold condition of the market,** there is a downside risk to the 200-dma, which is another 5% lower from current levels. **Such would entail a near 14% decline from the peak, which is well within the historical norms of corrections during any given year.**



For now, the market remains trapped.

Trapped Between Resistance And Support

Thursday morning, I posted our 3-minutes video discussing the market's failure at the 20-dma resistance. *(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://www.youtube.com/watch?v=jODnfNLSt28 The chart below shows much of the same picture as above, but with a few more overlays. You can see the failure of the market at the 20-dma and the support at the 50-dma. What is essential are the upper and lower indicators.

1. ***Both of the upper indicators are currently registering short-term oversold conditions, suggestive of at least a reflexive bounce next week.***
2. ***Conversely, both of the lower "sell signals" have been triggered, and as noted in the video, it suggests there is additional selling pressure on stocks currently.***

As we note below in our "*portfolio positioning"* section, this suggests that over the next couple of weeks, investors should use rallies to reduce risk.

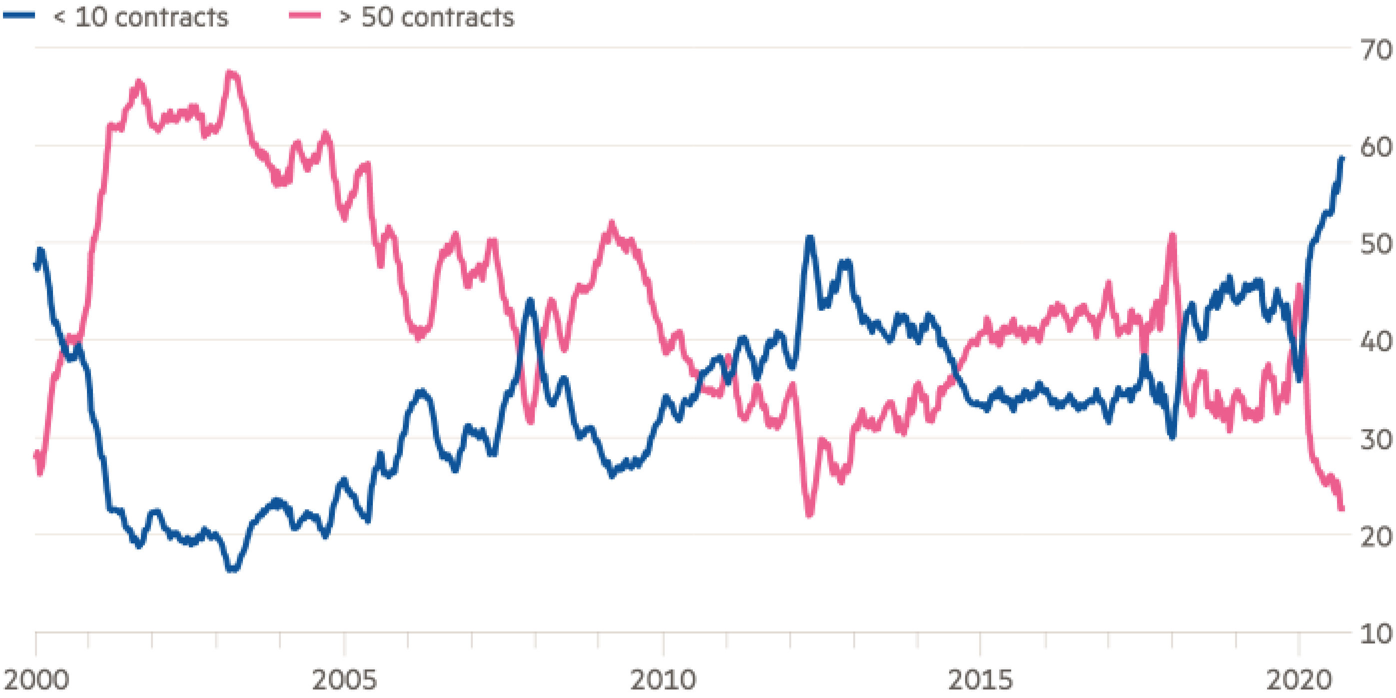
Speculators Get Even More Speculative

Another reason for our short-term concern is that you would typically expect a market decline to pull some of the "*greed"* out of the market. Such was not the case this time, and the drop did little to dent the "*enthusiasm"* of speculative options traders betting on a one-way ticket to wealth.

"Over the last three trading sessions, more than 1m Tesla calls traded a day, 50% above average over the last 20 days. Close to 2.5m Apple calls traded on average each day during the selloff, roughly double what?s been typical in the last 20 days." - Bloomberg

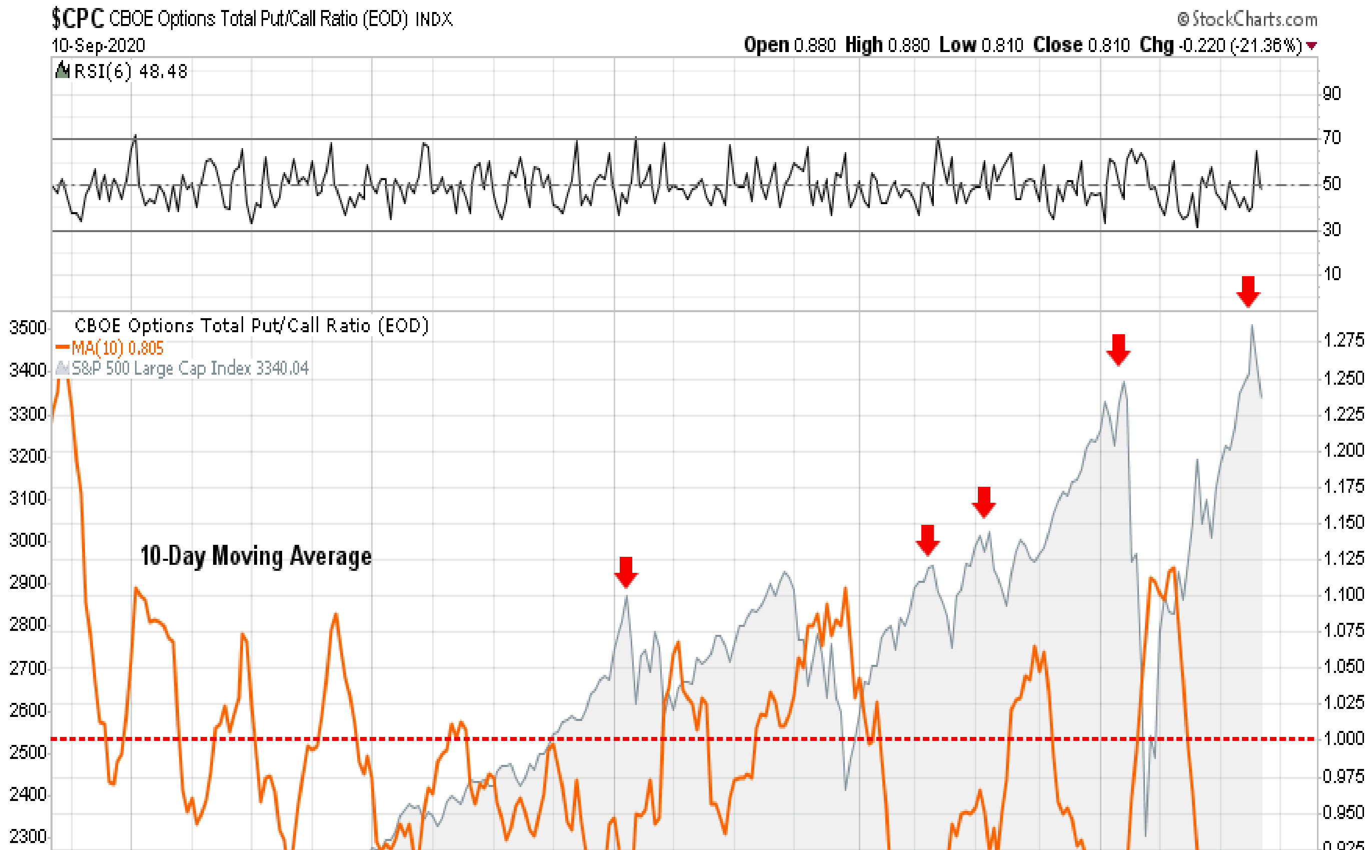
Smaller trades indicate retail frenzy in the options market

Share of US equity options market (%)



Rolling 10-week averages
Source: Sundial Capital Research, Options Clearing Corporation

The chart below is the 10-day moving average of the *"put/call"* ratio. While the market peaked, speculators got even more "*speculative"* on "*buying the dip."* Such is akin to doubling down in Las Vegas, it may work for a while, but eventually, the *"house always wins."*

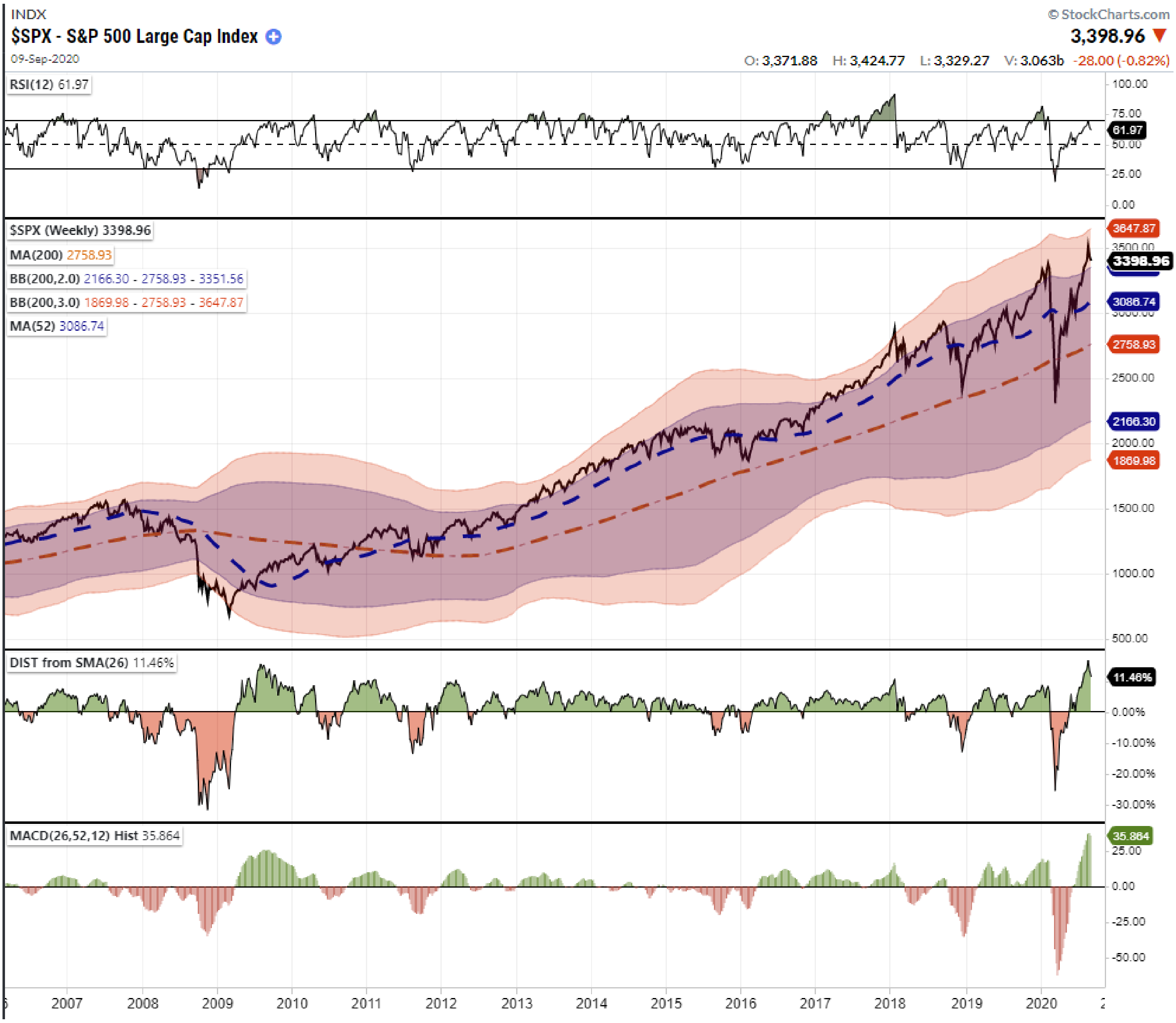


Let me be clear. In the very short-term, there is a high probability of a market bounce. That bounce should most likely be sold into as the longer-term dynamics remain overbought, extended, and deviated from norms.

Long-Term Market Remains Extremely Overbought

Such was a point I discussed with our [RIAPRO Subscribers (30-day Risk-Free Trial)] last week.

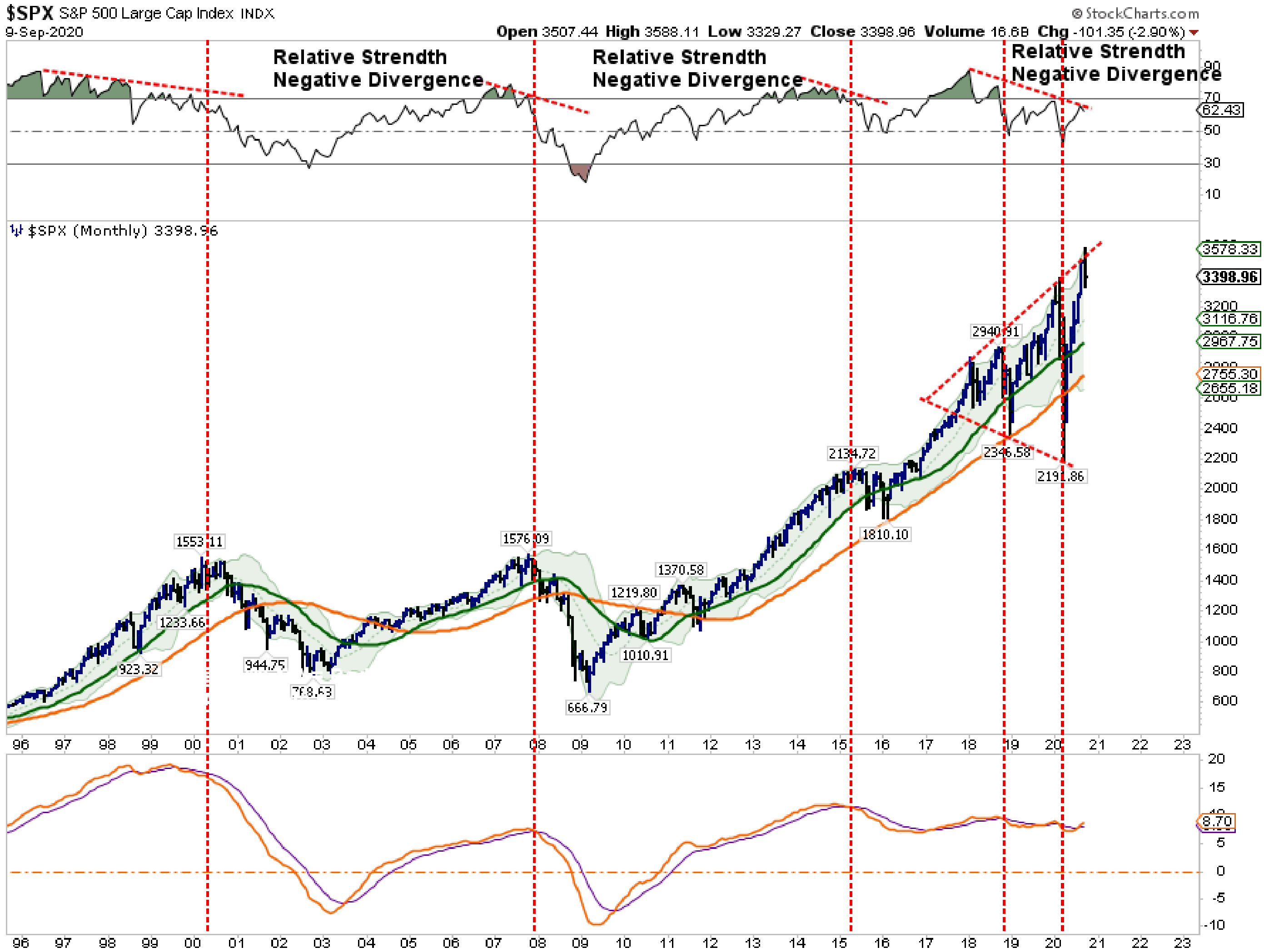
- *On a weekly basis, the market backdrop remains much more bearish*.
- *The market is very extended, overbought, and deviated on an intermediate-term basis.*
- *The correction barely moved the needle of a market trading 3-standard deviations above the long-term moving average.*
- *Read "**A Tale Of Two Bull Markets"** for more explanation and detail on this and other relevant charts.*
- ***Remain patient. The odds are high that more downside risk remains if the economy begins to show signs of weakening again.***



With the potential for a disruptive political election, weakening economic data, and a failure to garner more stimulus for households, the risks to earnings and growth have increased. On a longer-term basis, the technical backdrop is also problematic.

Monthly

- *First, from an investment standpoint, look at the last two bull market advances compared to the current Central Bank fueled surge. The present extension failed at the top of the rising upper-trend line* ***forming a "megaphone" pattern.***
- **This pattern is more indicative of a market topping process, rather than a continuation pattern.**
- *Secondly, the market is trading* ***MORE THAN 2-standard deviations above the long-term mean,*** *which was ideal for a more considerable corrective decline.*
- *The good news, however, is that a monthly BUY signal did get triggered with the liquidity fueled advance. Usually, these signals are slow to turn. However, in recent years these signals are becoming more frequent due to the increased volatility.*



Importantly, MONTHLY data is ONLY valid at the end of the month. *Therefore, these indicators are VERY SLOW to turn but do provide relevant analysis on price trends. However, this is why we use both Daily and Weekly charts to manage portfolio risk.*

Portfolio Positioning

Over the last few week's we have repeatedly discussed reducing risk, hedging, and rebalancing portfolios as we suspected this decline was a real possibility. As noted in "***Tending The Garden:"***

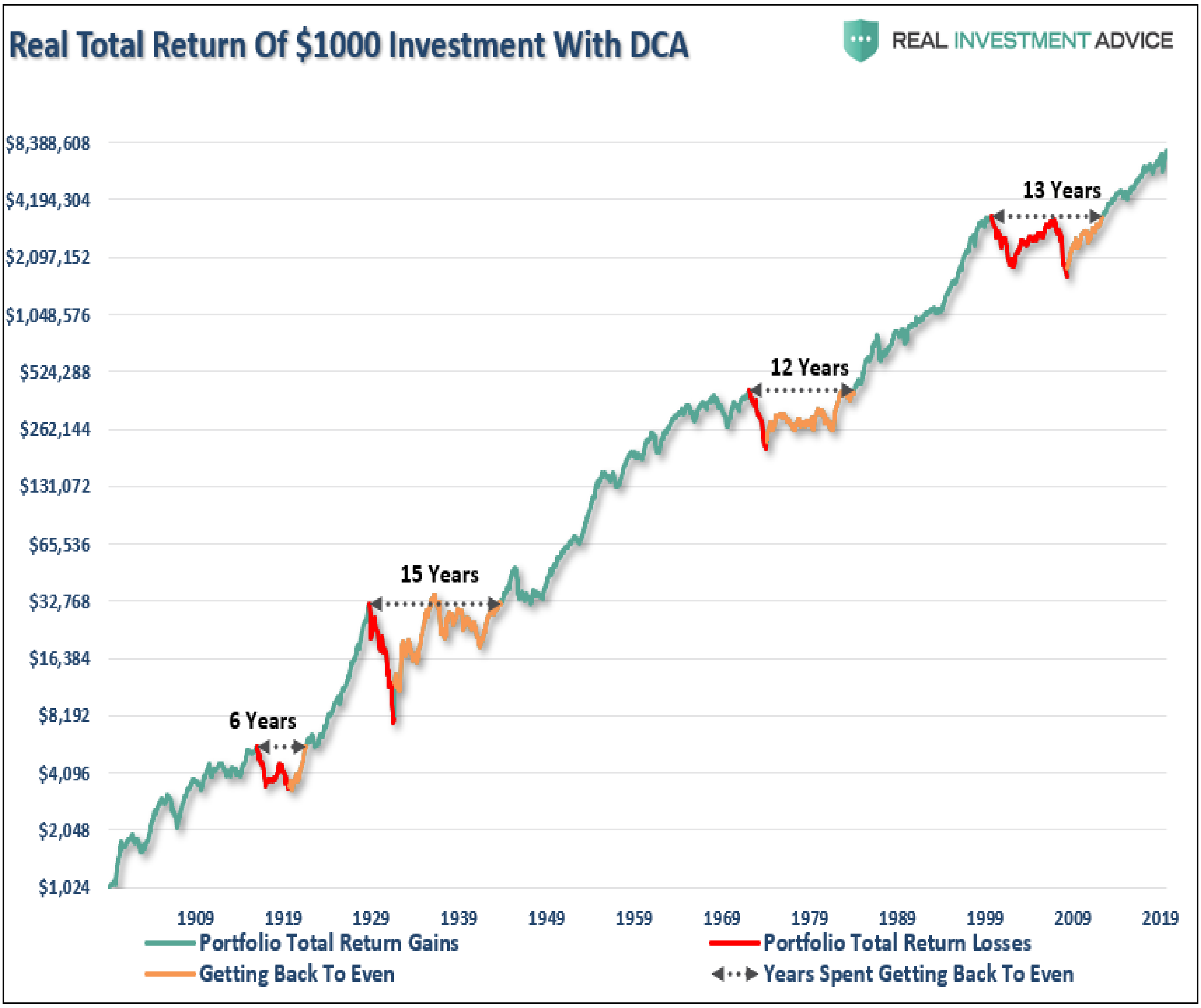
> *"Taking these actions has **TWO specific benefits** depending on what happens in the market next.*
>
> 1. ***If the market corrects,** these actions clear out the ?weeds? and allow for protection of capital against a subsequent decline.*
> 2. ***If the market continues to rally,** then the portfolio has been cleaned up and new positions can be added to participate in the next leg of the advance.*
>
> *No one knows for sure where markets are headed in the next week, much less the next month, quarter, year, or five years.* ***What we do know is not managing 'risk' to hedge***

against a decline is more detrimental to the achievement of long-term investment goals."

With the actions we have taken over the last few weeks, we now have some cash to deploy into assets that provide us our next opportunity.

Getting Back To Even

Such is the primary problem with "*buy and hold"* investing. Riding markets up and down is okay to a point, but eventually, the market will decline and provide a real opportunity to buy assets at discounted prices. Unfortunately, since a "*buy and hold"* strategy never raised any cash, there is nothing to buy discounted assets with. Yes, eventually, the market will recover its losses, and portfolios will return to even. However, you can never recover the time lost. *(You also don't have 100+ years to invest.)*



Such is why the primary rule of every great investor throughout history is to "*buy low and sell high."* **While it seems simple, it is incredibly hard to do, particularly when emotions overtake logic.** Currently, the "*speculative frenzy"* has engulfed the markets and the media. Such can last a lot longer than most expect, but it will eventually end. **Sometimes, the best investment strategy is knowing when to stop**. Remember, no rule states you can't play again tomorrow after a hot meal and a good night's sleep.

The MacroView

#MacroView: A Permanent Shift In Valuations?

Written by Lance Roberts | Sep 11, 2020

During extended bull markets, rationalization becomes commonplace to justify overpaying for value. One such rationalization is the permanent shift in valuations higher. But is it true,.

>> 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

S&P 500 Tear Sheet

SPY RISK INFO ZACKS REAL INVESTMENT ADVICE

Item	T 2-Yr	T 1-Yr.	YTD	% Diff YTD/T1-YR
Price Return	15.57%	11.26%	3.79%	(66.34%)
Max Drawdown	-35.63%	-35.63%	-35.63%	0.00%
Sharpe	0.46	0.58	0.17	(0.71)
Sortino	0.49	0.61	0.19	(0.69)
Volatility	25.86	32.55	38.64	0.19
Daily VaR-5%	(29.24)	(33.98)	(56.46)	0.66
Mnthly VaR-5%	(19.75)	(12.97)	(28.09)	1.17

Item	2 years ago	1 year ago	Current	1 Yr % Change	5 Year High	5 year Low	% From High	% From Low
Dividend Yield	1.73%	1.85%	1.58%	(16.96%)	2.20%	1.53%	(27.91%)	3.32%
P/E Ratio	20.26	18.74	23.72	20.98%	2372%	1599%	0.0%	48.30%
P/S Ratio	4.17	3.80	4.20	9.42%	4.40	3.21	(4.61%)	30.87%
P/B Ratio	5.28	5.06	5.75	12.02%	5.62	3.96	2.27%	45.22%
ROE	20.23%	21.70%	20.22%	(7.30%)	22.03%	17.61%	(8.21%)	14.84%
ROA	4.01%	4.23%	3.78%	(11.88%)	4.31%	3.51%	(12.19%)	7.97%

S&P 500 Market Cap Analysis

Item	12-M Ago	Current	% Chg
Shares	3,235.6	3,048.5	(5.78%)
Sales	71,918	70,400	(2.11%)
SPS	22.2	23.1	3.90%
Earnings	11,580	10,430	(9.93%)
EPS TTM	4.6	4.1	(11.57%)
Dividend	1.6	1.6	(0.49%)

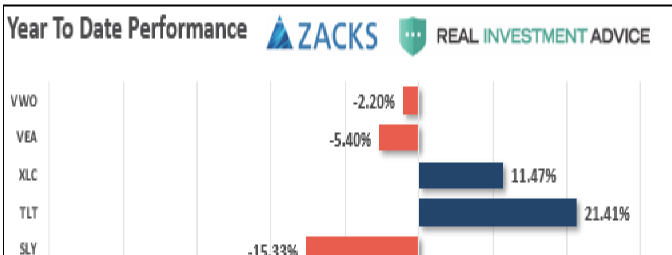
S&P 500 Asset Allocation

Sector	1 Year Price Return	Weight	Beta	P/E	P/E High-5yr (Mo.)	P/E Low - 5Yr (Mo.)	P/E % From Peak	ROE	DIV. YIELD	TTM Earnings Yield	Current Forward Earnings	Forward PE
Energy	(45.51%)	2.26%	1.74	27.28	124.10	11.36	(78.0%)	2.8%	6.6%	3.66%	0.68	46.79
Materials	11.93%	2.64%	1.31	23.95	23.19	13.86	3.2%	7.7%	2.0%	4.20%	3.21	21.45
Industrials	(6.00%)	8.19%	1.11	24.53	24.62	14.65	(0.4%)	12.9%	1.7%	4.12%	3.20	24.72
Discretionary	26.82%	11.47%	1.30	46.82	49.13	20.48	(4.7%)	15.2%	0.7%	2.11%	3.81	38.87
Staples	6.40%	6.98%	0.58	22.40	22.83	17.62	(1.9%)	28.4%	2.6%	4.47%	3.95	21.61
Health Care	14.41%	14.04%	0.76	17.62	19.46	15.06	(9.5%)	29.3%	1.7%	5.67%	6.98	16.88
Financials	(11.04%)	9.81%	1.28	14.31	18.50	10.51	(22.6%)	8.2%	2.3%	7.03%	4.46	14.47
Technology	40.85%	27.82%	1.10	29.88	32.71	14.62	(8.6%)	51.7%	1.1%	3.29%	4.60	29.20
Telecom	16.16%	11.01%	0.92	25.37	27.01	17.61	(6.1%)	16.0%	0.7%	3.91%	6.09	24.27
Utilities	(6.59%)	2.94%	0.44	18.24	22.10	15.58	(17.5%)	10.7%	3.5%	5.49%	3.74	17.90
Real Estate	(7.53%)	2.69%	0.89	19.94	21.41	16.91	(6.9%)	8.4%	3.0%	4.98%	4.06	20.60

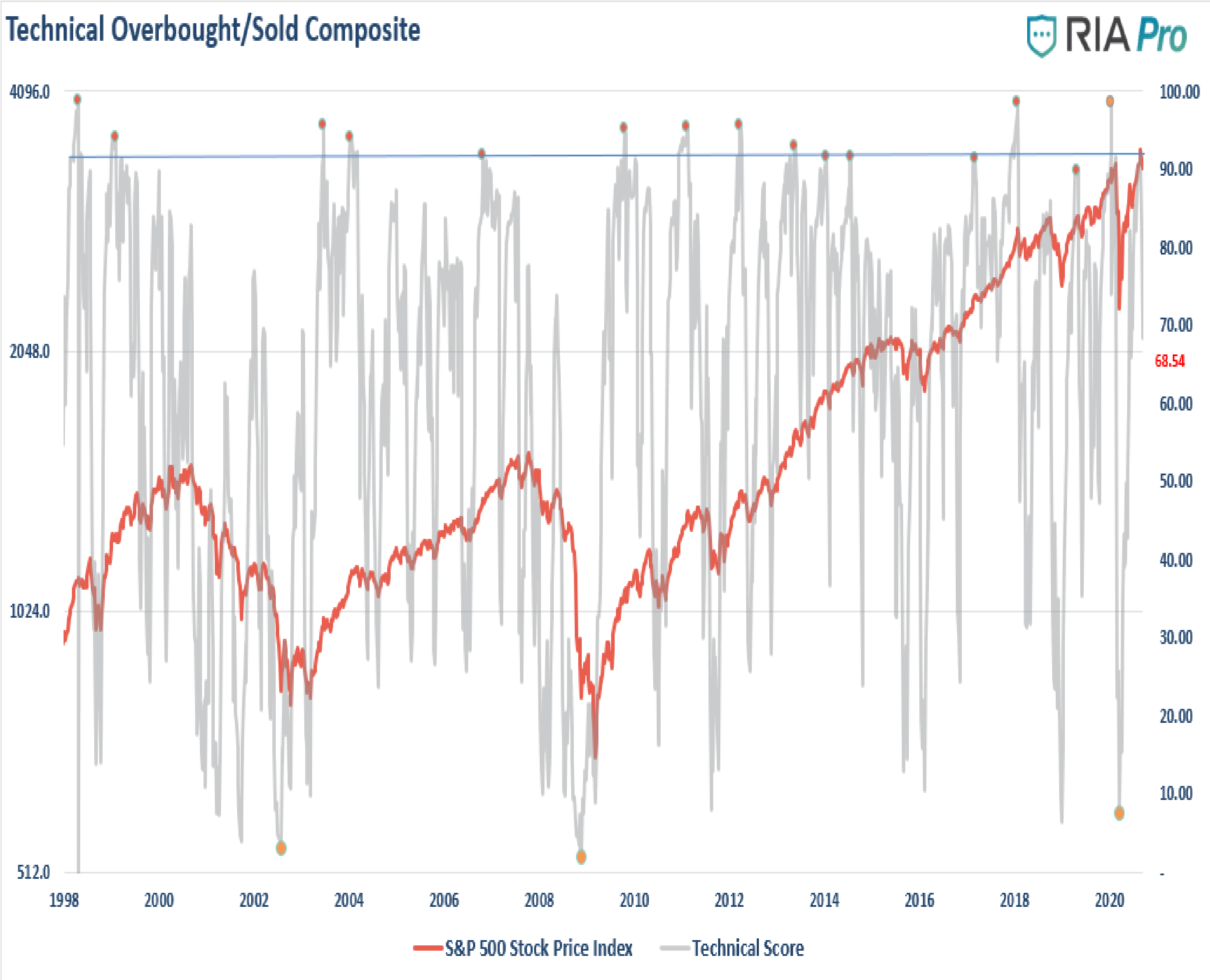
Momentum Analysis

Item	Price	ROC 50-Days	50-DMA	# Days Since Cross	% Dev 50-Day	200-DMA	# Days Since Cross	% Dev 200-Day	% Dev 50-200 DMA	% From 52-W High	% From 52-W Low	Buy/Sell
Large Cap	334.06	6.99%	332.25	50	0.54%	309.47	55	7.95%	7.36%	(6.88%)	53.06%	Buy
Mid Cap	338.65	4.55%	343.17	3	(1.32%)	331.67	39	2.10%	3.47%	(11.92%)	58.09%	Buy
Small Cap	61.34	4.75%	62.40	3	(1.70%)	61.39	29	(0.08%)	1.65%	(17.36%)	50.41%	Buy

Performance Analysis



Technical Composite



Sector Model Analysis & Risk Ranges

How To Read.

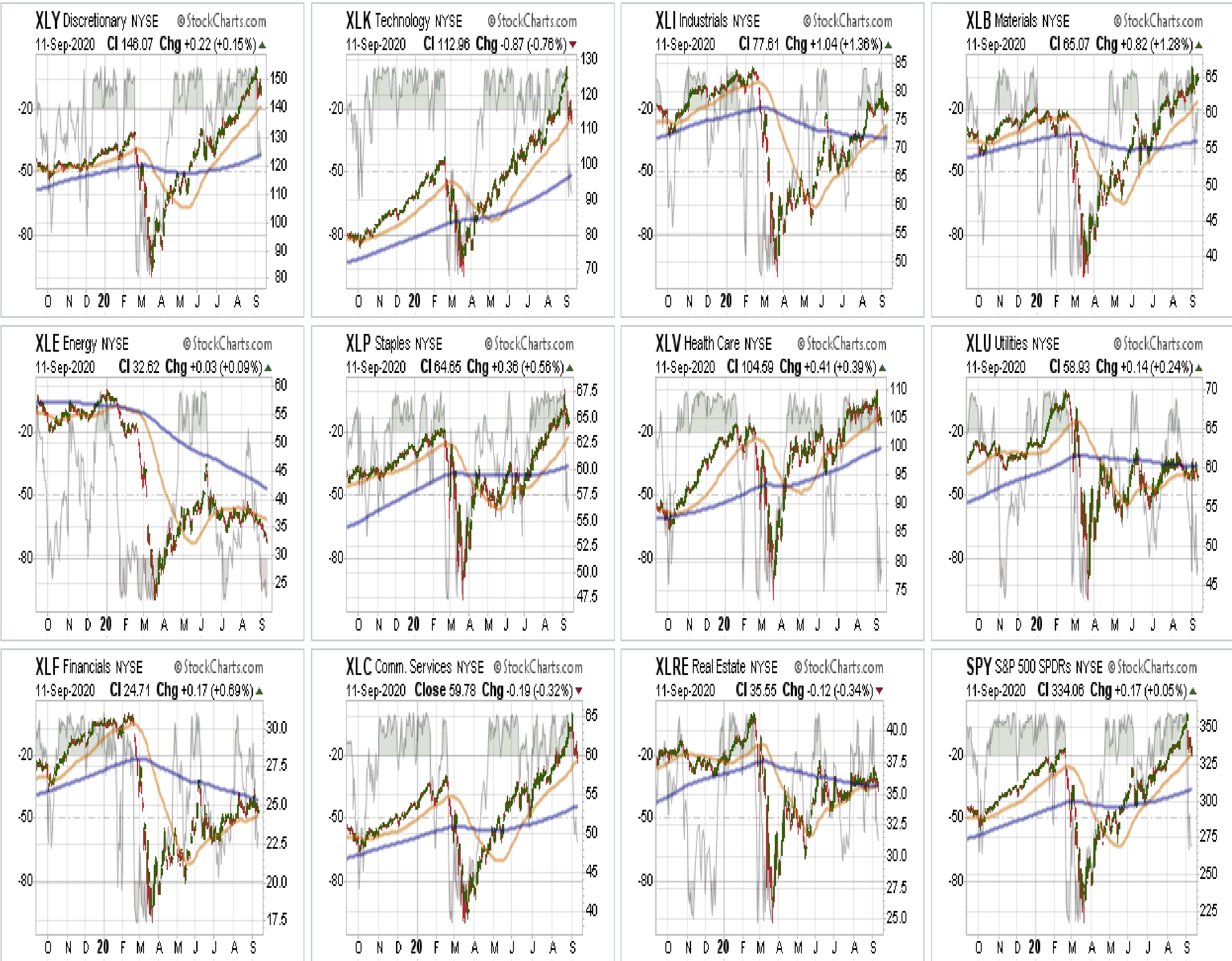
- *The table compares each sector and market to the S&P 500 index on relative performance.*
- *The "MA XVER" is determined by whether the short-term weekly moving average crosses positively or negatively with the long-term weekly moving average.*
- *The risk range is a function of the month-end closing price and the "beta" of the sector or market.*
- *The table shows the price deviation above and below the weekly moving averages.*

RELATIVE PERFORMANCE		Current	PERFORMANCE RELATIVE TO S&P 500 INDEX					SHORT	LONG	MONTH	REL S&P	RISK RANGE			% DEV -	% DEV -	M/A XVER
Ticker	ETF NAME	Price	1 Week	4 Week	12 Weeks	24 Weeks	52 Weeks	WMA	WMA	END PRICE	BETA	HIGH	LOW		Short M/A	Long M/A	SIGNAL
IVV	ISHARS-SP500	335.38	(2.50)	(0.83)	8.28	31.91	10.73	328.09	308.40	350.77	1.00	359.54	342.00		2%	9%	BULLISH
XLB	SPDR-MATLS SELS	65.07	3.48	4.73	7.54	15.10	(0.71)	60.52	55.81	62.99	1.15	65.29	60.69		8%	17%	BULLISH
XLC	SPDR-COMM SV SS	59.78	(0.74)	0.75	(0.65)	7.89	5.82	58.42	53.71	63.26	0.99	65.47	61.05		2%	11%	BULLISH
XLE	SPDR-EGY SELS	32.62	(3.95)	(13.75)	(25.85)	(16.77)	(57.33)	36.89	39.31	35.65	1.61	37.12	34.18		-12%	-17%	BEARISH
XLF	SPDR-FINL SELS	24.71	0.21	(1.04)	(5.24)	(14.30)	(24.00)	24.23	24.51	25.06	1.15	25.97	24.15		2%	1%	BEARISH

Sector & Market Analysis:

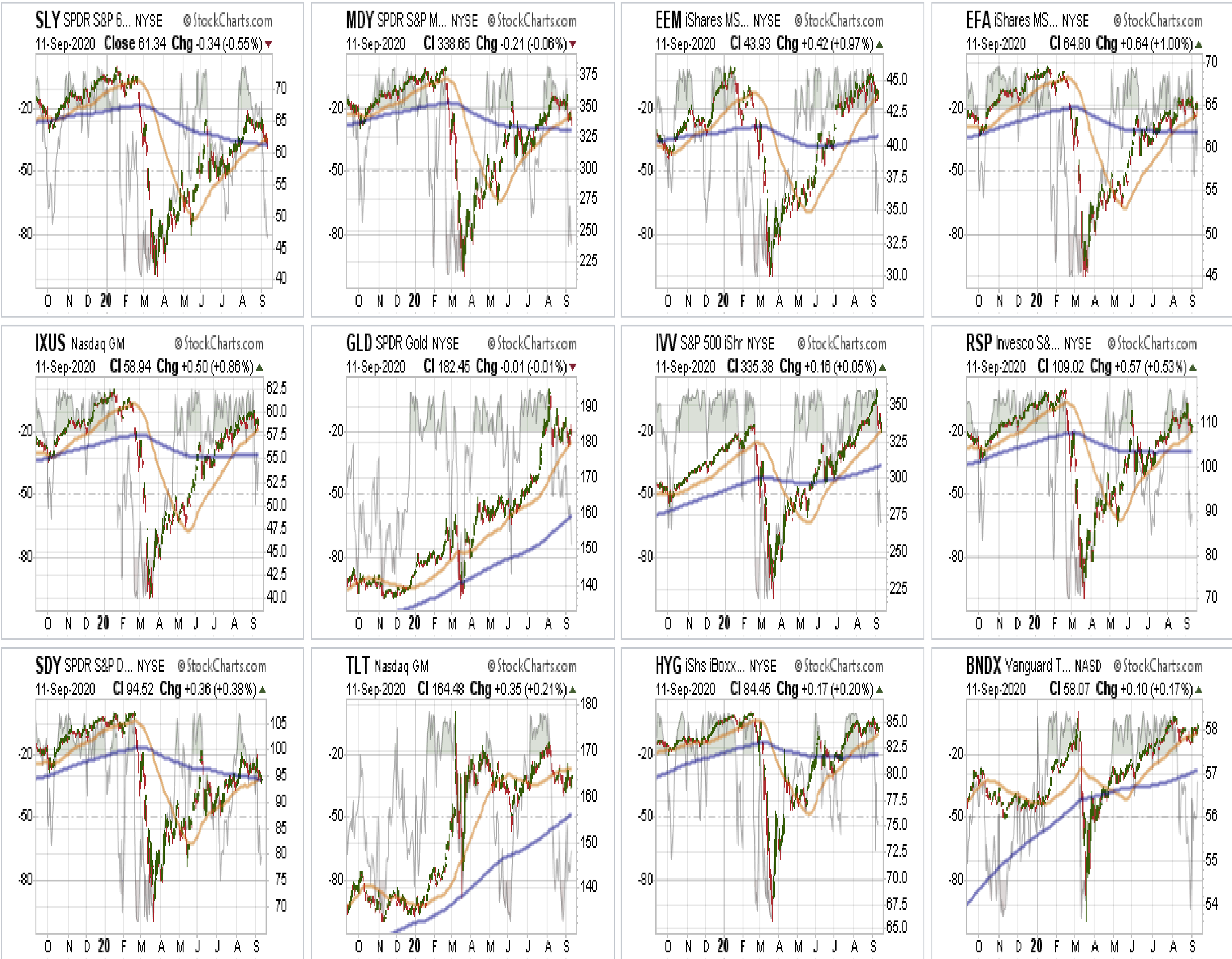
Be sure and catch our updates on Major Markets (Monday) and Major Sectors (Tuesday) with updated buy/stop/sell levels.

Sector-by-Sector



Improving ? Financials (XLF), Staples (XLP), and Industrials (XLI) During the correction this past week, Financials continued to outperform the S&P 500 by not falling nearly as much. Likewise, Industrials and Staples held up as well. The outperformance during the correction was not surprising, as they have lagged the S&P 500 on the way up. The sectors are still way too overbought to buy into, so we may yet see more of a correction in the near term. ***Current Positions: XLI, IYT, XLP*** **Outperforming ? Materials (XLB), and Discretionary (XLY)** Discretionary stocks, which were being primarily being driven by AMZN, had a sharp correction back towards the 50-dma. The correction was not surprising, as we have been talking about the risk for the last few weeks. After taking profits previously, we are now looking for an opportunity to build back into our holdings. **Current Positions: *None* Weakening ? Technology (XLK), and Communications (XLC)** Technology and Communications holdings are also finally corrected. After having taken profits previously, we are looking for an entry point to increase our weightings again. We are maintaining tights stops currently. **Current Position: XLK, XLC Lagging ? Energy (XLE), Healthcare (XLV), Utilities (XLU), Real Estate (XLRE), and Staples (XLP)** Energy continues to underperform for the time being and has weakened further. At this juncture, our stops were broken, so we have reduced our exposure to the sector currently. We still value in the industry, but for now, the market does not agree with us. We continue to maintain our core defensive positions Healthcare, Staples, Utilities, and Real Estate, which performed better than the market during the correction. Currently, we are looking for opportunities to add to our positions we took profits in previously. **Current Position: XLU, XLV, XLP, XLRE**

Market By Market



Small-Cap (SLY) and Mid Cap (MDY) ? Both of these markets continue to underperform, and declined back to their respective 50-dma's last week. These markets need to hold here if they are going to get a bid. We had suggested taking profits previously. If these markets can continue to remain above critical support while working off the overbought conditions, we may have a reasonable entry point to add exposure for a trade. We are getting close to an oversold condition, so we will look for further weakness as a potential setup for a trade.   **Current Position: None Emerging, International (EEM) & Total International Markets (EFA)** Emerging and International Markets have performed better during the decline as well. However, last week they also corrected back to their respective 50-dma. Like small and mid-caps, they must hold these levels next week. There may be an opportunity to add to these names short-term, but the risk is high. Furthermore, the dollar remains extremely oversold, which is also a threat to international exposures. **Current Position: None S&P 500 Index (Exposure/Trading Rentals)** ? We currently have no "*core"* holdings. **Current Position:** ***None*** **Gold (GLD)** ? We continue to hold our gold and gold miner positions. No change this week. **Current Position:** ***IAU, GDX, UUP*** **Bonds (TLT) ?** We continue to hold our bond holdings as a hedge against market risk. As noted, we did take some profits out of Treasuries. This week bonds rallied again as market weakness showed up. *(Lower rates.)* **Current**

Positions: ***TLT, MBB, & AGG***

Portfolio / Client Update

If you have a few minutes, please watch my interview with MacroVoices. It is a good encapsulation of what our thoughts are currently and what we are watching for in our portfolio management process. Over the last week, we have taken some further actions to reduce risk during the recent decline. While the market is currently holding its 50-dma, and we will likely see a bounce next week, we suspect there is still some downside risk heading into the election. As such, we are preparing portfolios accordingly to minimize that risk. As noted in the main body of this missive, "*momentum"* is tough to kill, so we are looking for a short-term trading opportunity to rebalance risk in portfolios. We are also maintaining very tight stops just in case. Also, over the next few months, we are going to consolidate our portfolio holdings to reduce our total holdings from 32 to 25. Such will provide us with the ability to concentrate positions a bit more to increase overall portfolio yield, while also improving performance on a relative basis to the market. If you have any questions, all the advisors at RIA have been briefed on the strategy and will be happy to discuss it with you.

Portfolio Changes

We have a new report out on one of our value holdings CVS which is seen currently as grossly underpriced. https://realinvestmentadvice.com/nick-lane-the-value-seeker-report-cvs-health-nyse-cvs/ In both of our portfolios, we did sell two positions this week due to violations of stop losses. While we like Exxon Mobil (XOM) very much as a company, it is underperforming the sector and did violate a rather generous stop loss. We can't give it any more room for now, but we will be watching the company for signs of relative strength to add it back to the portfolio eventually. We also sold Pfizer (PFE) in the equity portfolio. It was an initial position, which failed to perform as anticipated and violated its stop loss. **EQUITY PORTFOLIO: SELL**

- ***100% of XOM***
- ***100% of PFE***

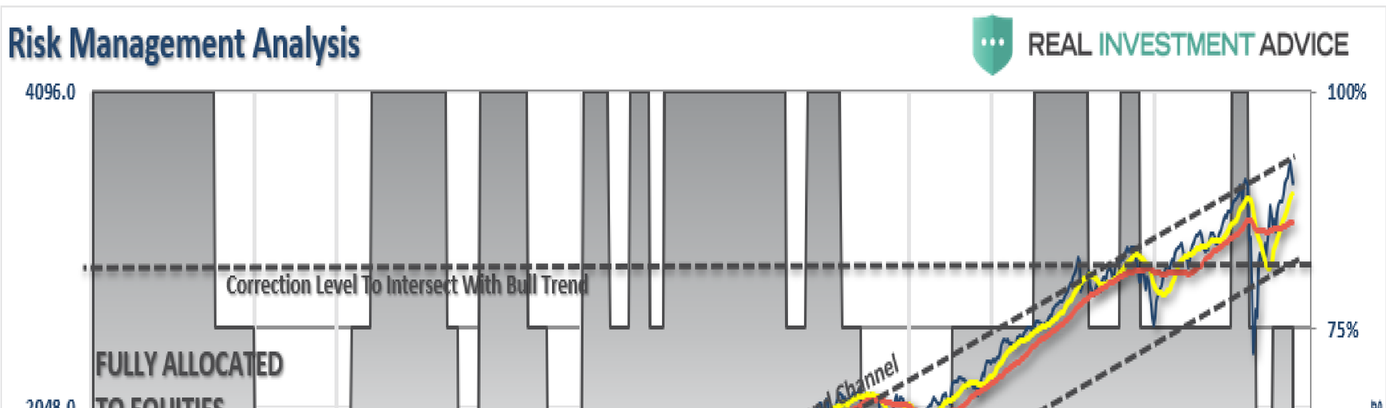
ETF PORTFOLIO: SELL

- ***100% of XOM***

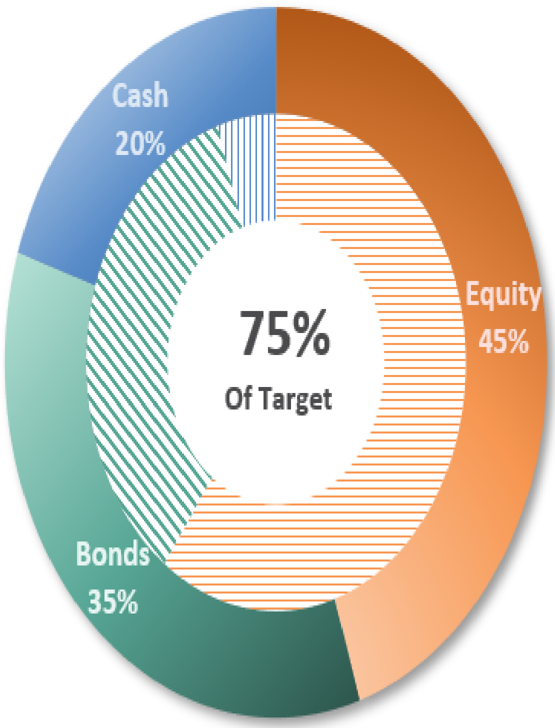
We continue to look for opportunities to abate risk, add return either in appreciation or income, and protect capital. Please don't hesitate to contact us if you have any questions or concerns. *Lance Roberts CIO*

THE REAL 401k PLAN MANAGER

A Conservative Strategy For Long-Term Investors



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: *"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."*

The market is getting fairly oversold short-term, so if you are wanting to increase exposure there is a tradeable opportunity to do so. However, in the longer-term the markets remain extremely overbought and with an election approaching, there is downside risk.

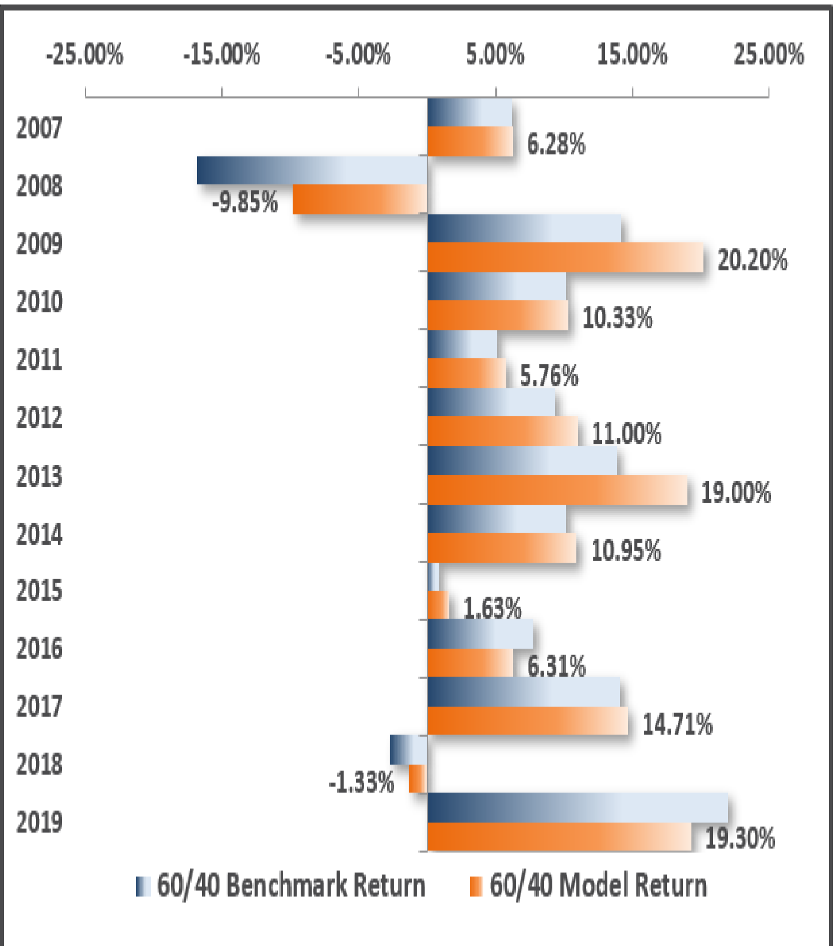
So we will remain cautious for the moment and look to see if markets can hold support next week.

No changes this week to models or holdings.

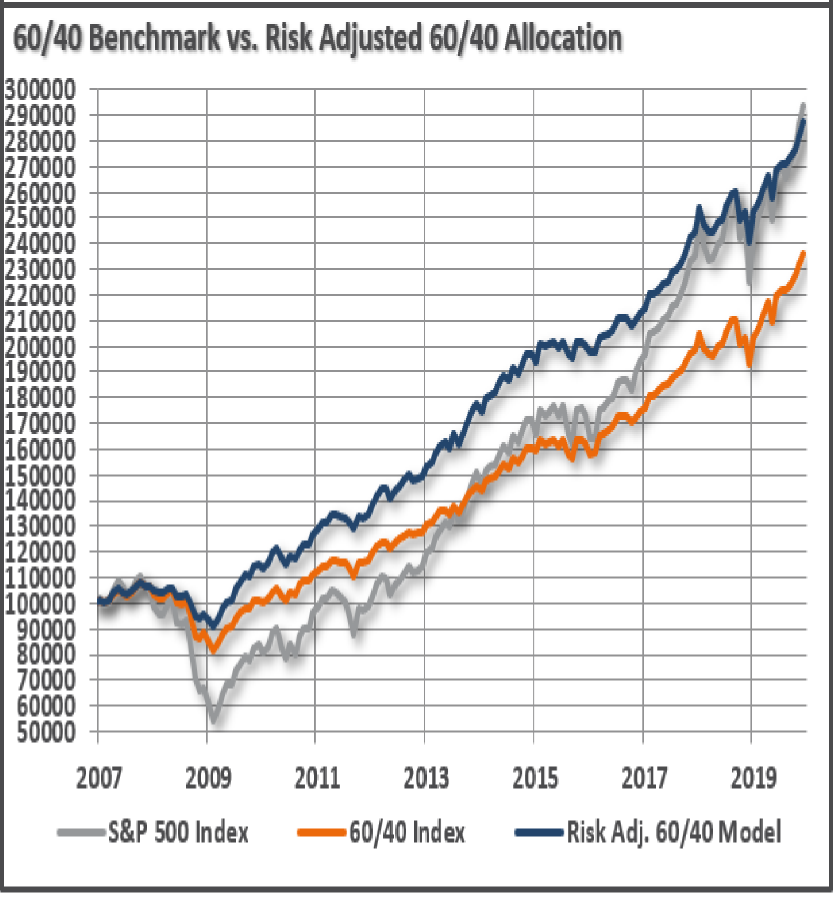
If you need help after reading the alert, do not hesitate to [contact me.](contact me)

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

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