

# **Risk Exceeds Reward**

## **Why We Took Profits Last Week**



- *Market Struggles With All-Time Highs*
- *Sentiment Is Getting Overly Bullish*
- *Valuations Vs. Momentum*
- *Portfolio Positioning Update*
- *MacroView: The Fed Will Monetize All Debt Issuance*
- *Sector & Market Analysis*
- *401k Plan Manager*

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## Long-Term Care

The median national cost of a private room in a nursing home: **\$8,517 a month!**

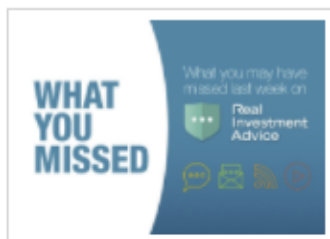
Are your finances prepared to handle that burden? Our next Candid Coffee with Richard Rosso and Danny Ratliff can show you how to protect your finances from the effects of a long-term care event, the myths to ignore, and how to prepare a plan to address the costs.

12/5 • 8-9am

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## Catch Up On What You Missed Last Week



### #WhatYouMissed On RIA This Week: 11-20-20

Written by Lance Roberts | Nov 20, 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](#)

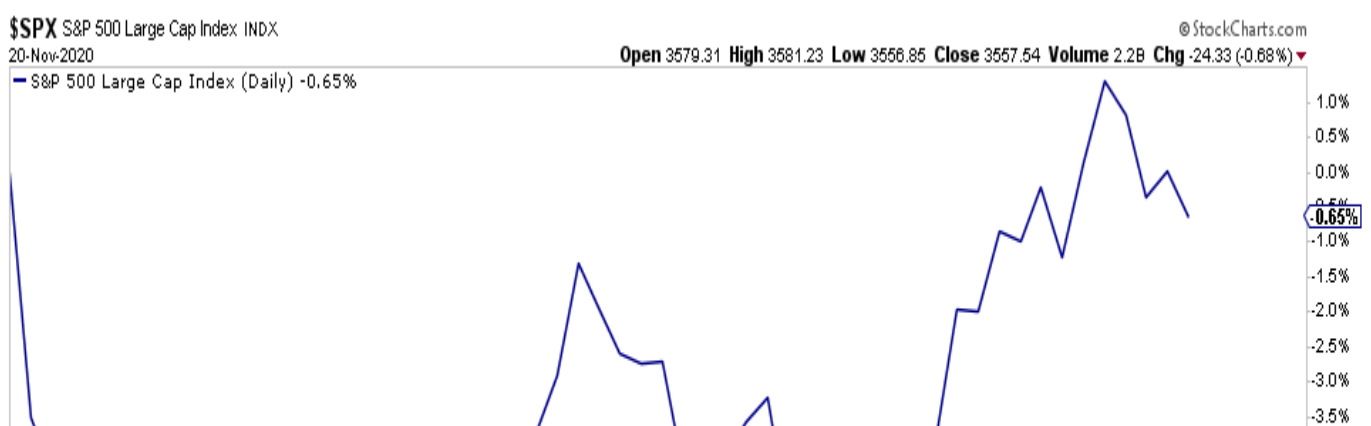
## Market Struggles With All-Time Highs

Last week, I started [\*\*"Market Breaks Out"\*\*](#) with the following paragraph.

*"If you like volatility, then this past week was for you. On Monday, the announcement by **Pfizer** sent markets screaming higher. Subsequently, the market faded into the end of the day. Since the highs of September, the market is now just **0.50% higher today**. Like I said, if you like volatility, you have gotten a good dose of it."*

Fast-forward to this past Monday, and I can repeat the same opening.

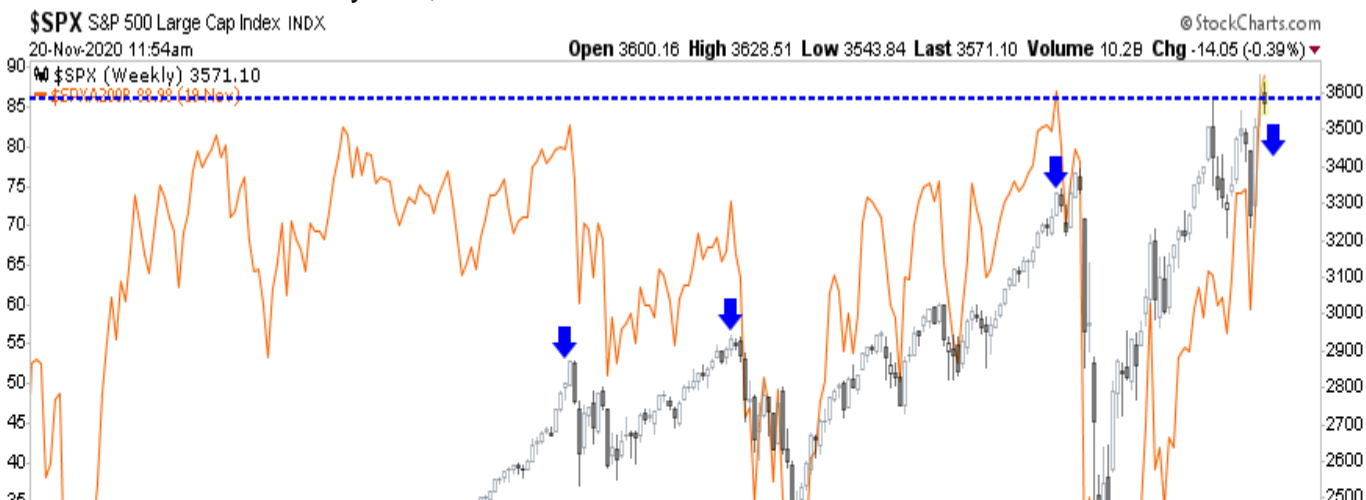
*"If you like volatility, then this past week was for you. On Monday, the announcement by **Moderna** sent markets screaming higher. Subsequently, the market faded into the end of the day. Since the highs of September, the market is **-0.65% lower today**. Like I said, if you like volatility, you have gotten a good dose of it."*



Importantly, just because the market is overbought, extended, and deviated from long-term averages does not necessarily mean an immediate correction. Such requires a catalyst. The overbought conditions provide the fuel for the correction. (*We discuss the potential catalyst in "Portfolio Positioning" below.*) However, with the market slowly "leaking" over the past week, a "sell" signal is approaching. Over the last few months, it has paid to be a bit more cautious at this point.



Furthermore, with the number of stocks now trading above their 200-dma at the highest level we have seen over the last 5-years, short-term corrections have often followed.

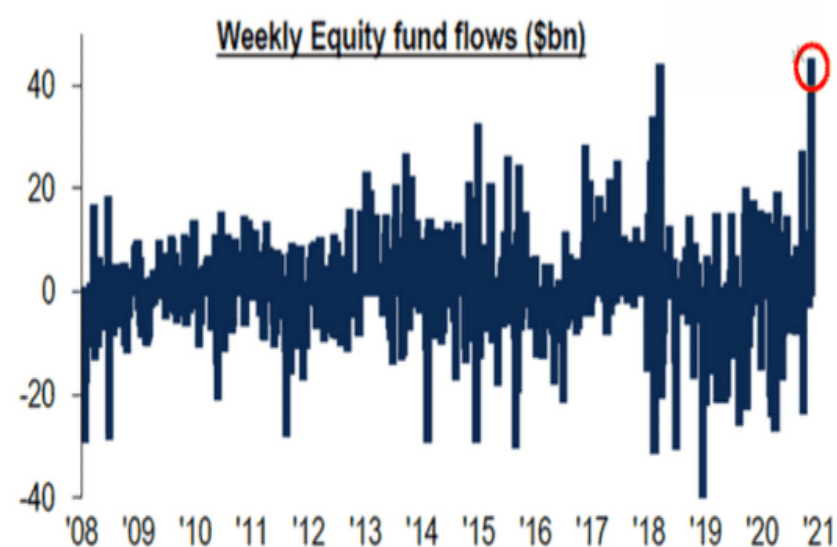


As we wrote in [\*"Bulls Go Ballistic,"\*](#) bullish sentiment has surged post-election despite rising virus cases, returning shutdowns, and lack of stimulus.

## Inflows into stock funds hit 20-year high

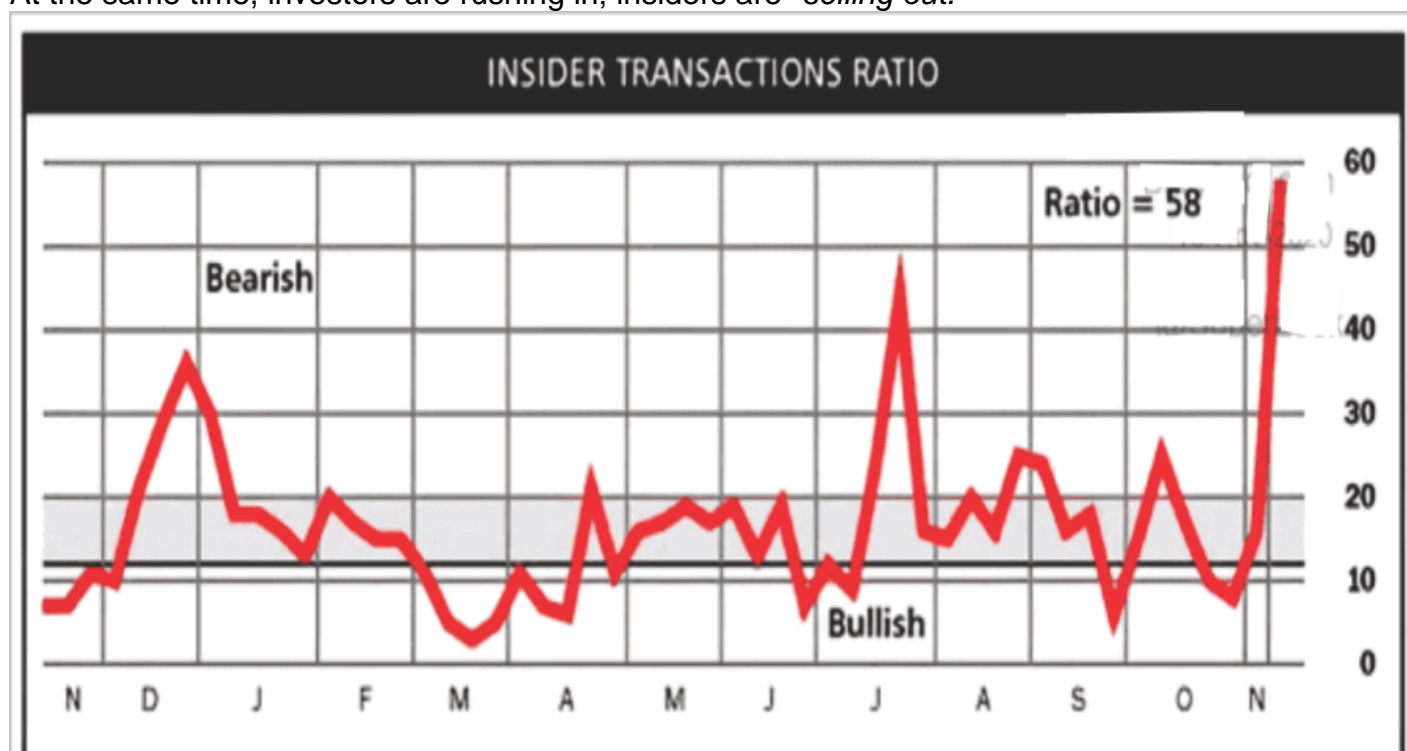
Firepower boosts equity markets on back of Covid-19 vaccine breakthrough

Chart 4: Largest week ever of global equity inflows



Source: BofA Global Investment Strategy, EPFR

At the same time, investors are rushing in; insiders are *"selling out."*



Ratio of Insiders Sales to Buys. Readings under 12:1 are Bullish. Those over 20:1 are Bearish.

The total top 20 sales and buys are 588,175,017 and 10,227,750 respectively;

Source: Thomson Reuters

For these reasons, we continue to suggest some caution through active portfolio risk management until some of the excesses get reversed.



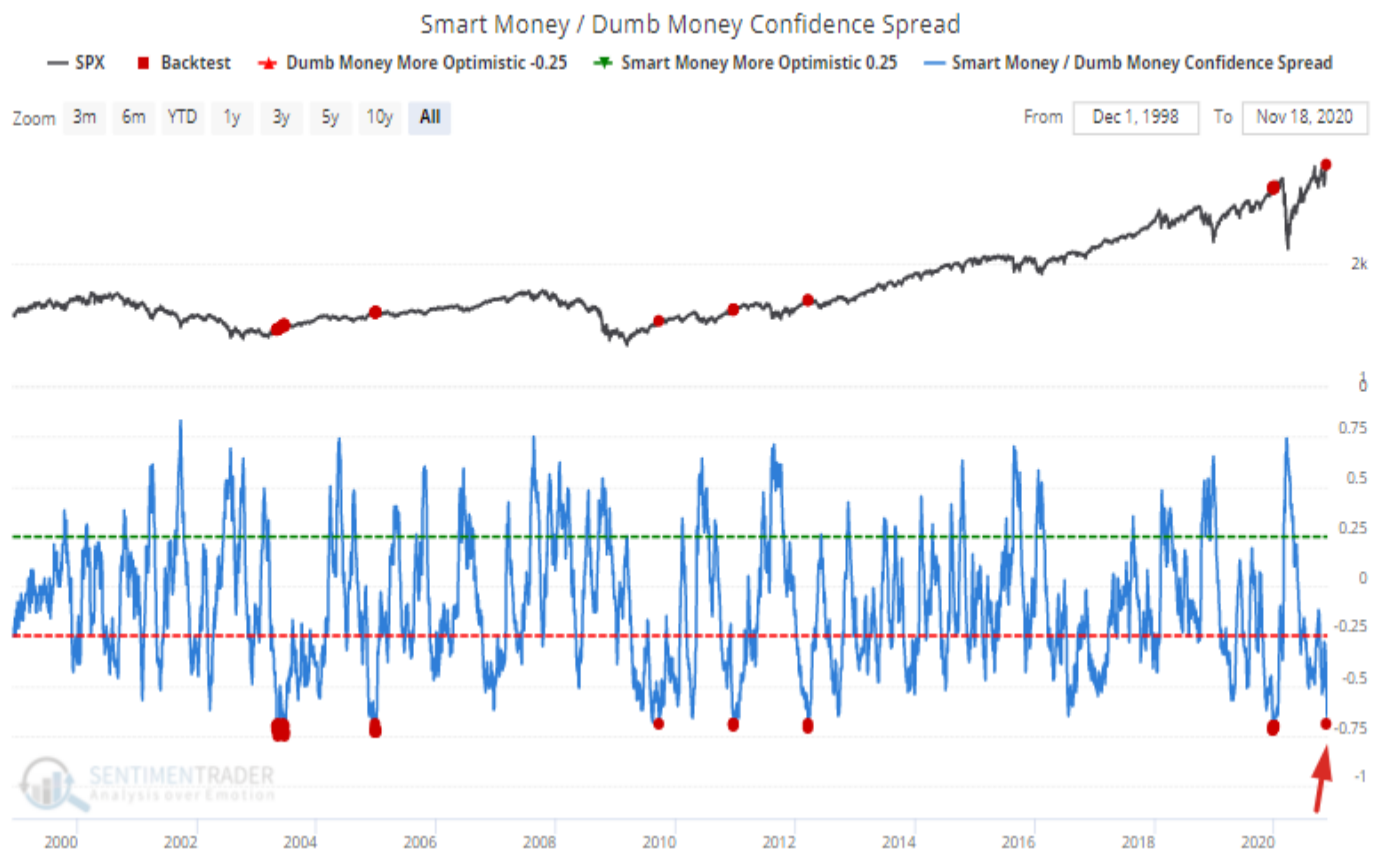
**Real Investment Show**  
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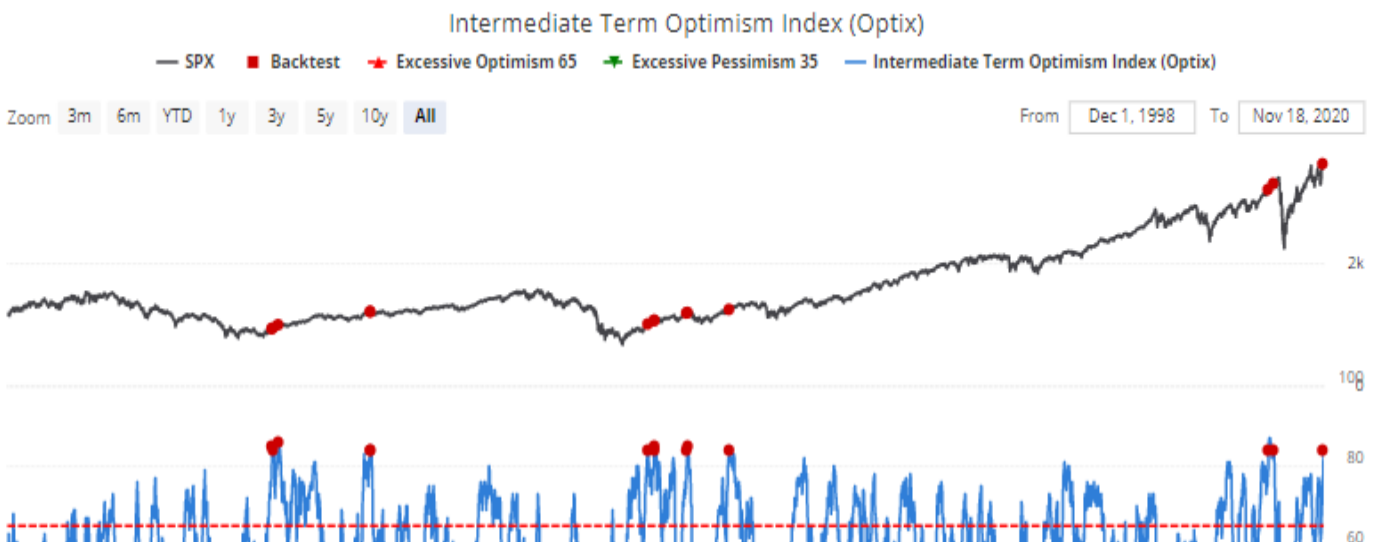
## Sentiment Is Getting Very High

As noted, it just isn't domestic "sentiment" becoming extended. SentimenTrader shows that sentiment has shot up to extremes on a global basis as well. To wit:

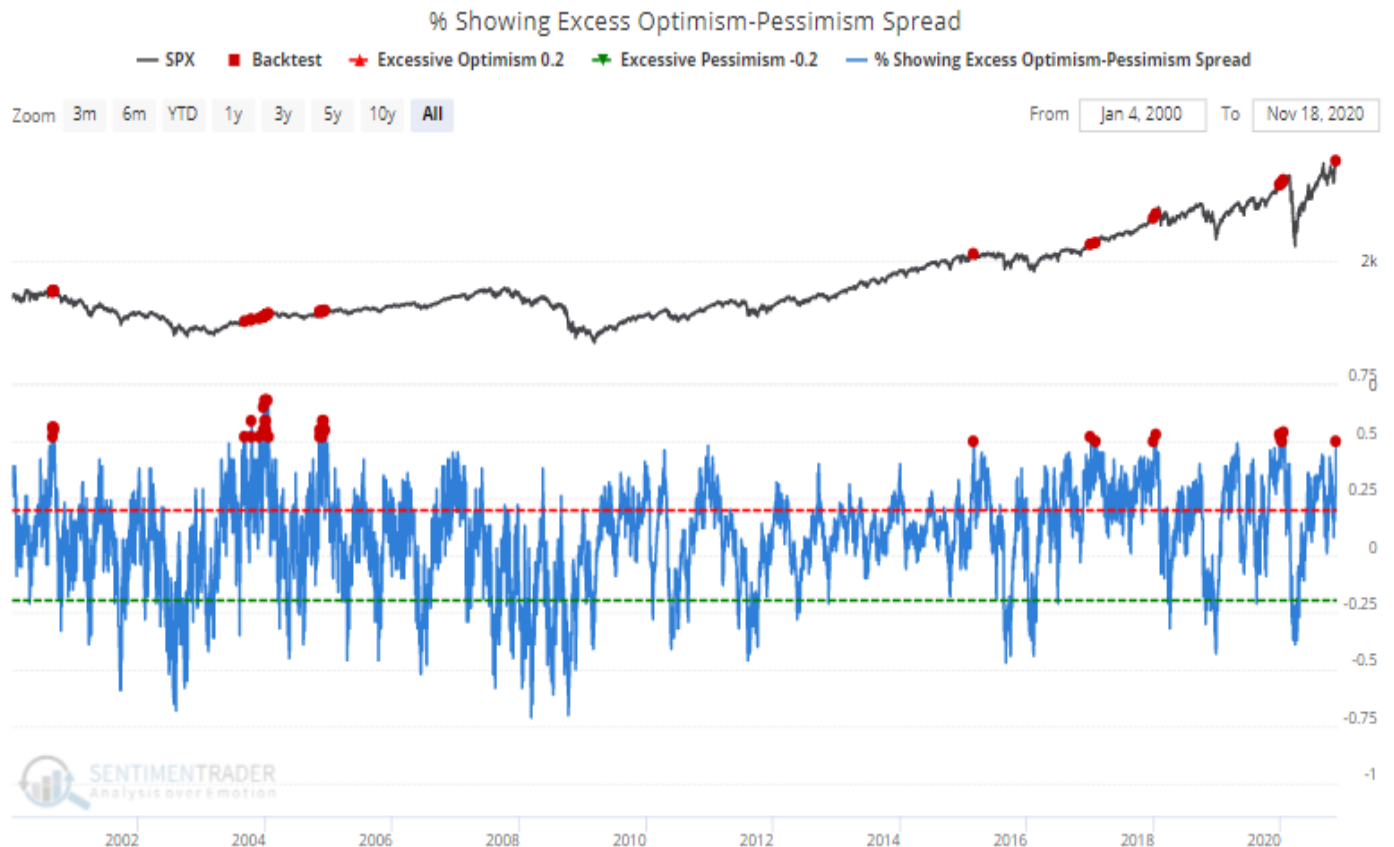
*"The stock market has mostly only gone in 1 direction since March: up. Since the various pullbacks along the way were very shallow, extremely optimistic sentiment never had a chance to properly wash out. As a result, sentiment across the world is now at sky-high levels. **For example, our Smart Money/dumb Money Confidence Spread is at -0.69, one of the lowest readings ever.**"*



And optimism on an intermediate-term basis is at one of its highest readings of 83.







# Buy The Rumor. Sell The News.

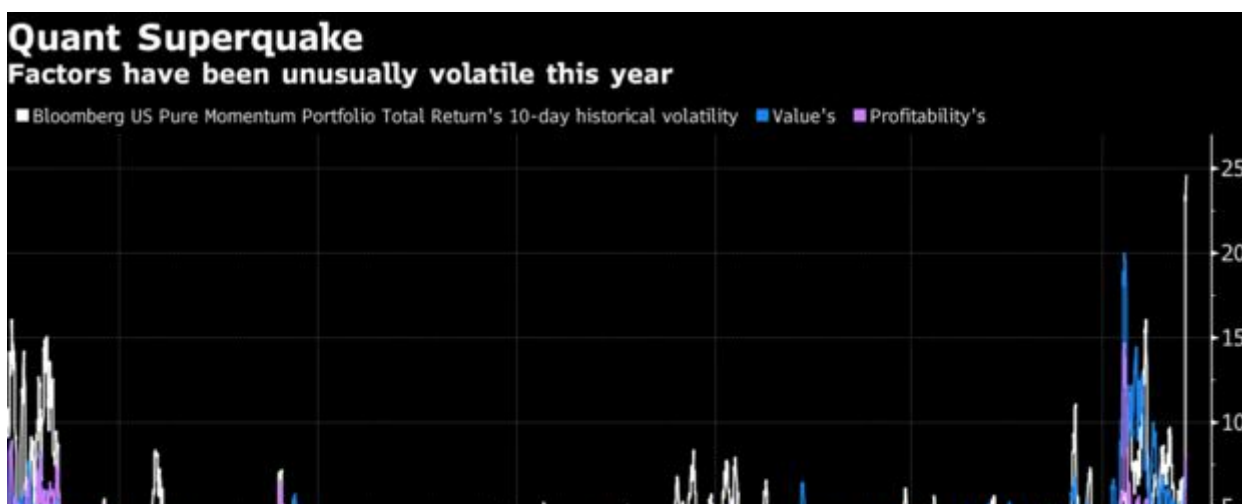
Jeffrey Marcus summed up our thoughts well in his Monday morning post to [\*\*RIA Pro Subscribers \(30-Day Risk-Free Trial\)\*\*](#)

*?The recent rally has been driven by the former losers and much of this performance happened after the PFEs 11/9 announcement of very positive vaccine data. **The moves since 11/9 are so dramatic that they have destroyed many statistical models.** Jon Quigley who manages \$3.8 billion wrote to clients, that events that happened statistically should never happen. The occurrence statistically only happens roughly once every:*

**?5,944,505,312,905,660,000,000,000,000,000,000,000,000,000,000,000,000,000,000,000,000,000,  
days in a normally-distributed return series, (Bloomberg 11/13/20).?**

How long exactly is that? It equates to roughly

- 1 in every  $1.629 \times 10^{76}$  years, OR
- $1.2 \times 10^{66}$  age of the universe.



***?In a market run in part by models, machines, and day-traders, this probably should not have been a surprise. Its not a coincidence were seeing more 6 sig+ moves relative to history, Cem Karsan, founder of Aegea Capital Management LLC, tweeted, using the symbol denoting standard deviation. These arent your fathers equity markets.***

Jeff concludes with two questions.

1. ***Is the current relative performance pattern sustainable?***
2. ***Should we now expect more fat-tail events?***

His answers were simplistic:

1. ***Maybe not; and,***
2. ***Definitely.***

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## So You Are Saying A "Crash" Is Coming?

No, that's not what I am saying, implying, or even remotely suggesting.

*For some reason, the markets have become more bipartisan than politics - with 'bulls' and 'bears' both 'social distancing' as much as possible." - [Real Investment Show](#)*

When it comes to investing, being either "bullish" or "bearish" is detrimental to your long-term returns. **Confining yourself into one "camp" or the other stops you from evaluating data that may run contrary to your view. In behavioral finance, such is called ["confirmation bias."](#)** To be a successful investor long-term, you must evaluate data for what it is **and make decisions even if it runs contrary to mainstream views.** The data tells us the current market advance is well ahead of itself in the short-term. **Historically, when "optimism" levels get to more extreme levels, the markets have experienced short- to intermediate-term corrections at the least, and sometimes more.** It is worth repeating my concluding point from last week:

***"When people take 'a little risk' and get rewarded for it, they are then encouraged to take 'a little more risk.' As my colleague Victor Adair notes, 'People in the 'crowd' don't appreciate the risks they are taking because they're surrounded by people who believe the market will keep going up.'"***

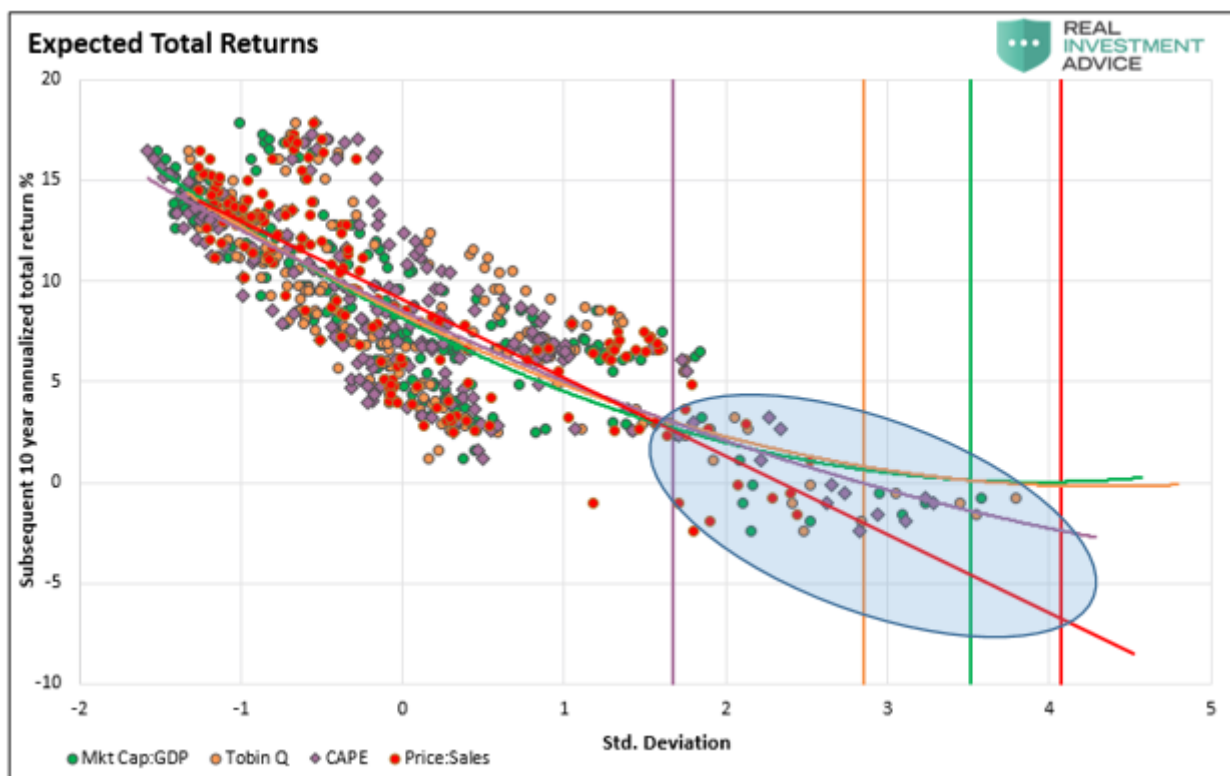
Such is currently the case. Everyone is now thoroughly convinced that markets can not go down due to the Federal Reserve interventions. Maybe they are right? Perhaps this time is different? Unfortunately, it usually just about the time "the crowd" becomes overly optimistic that an unexpected outcome occurs. As Bob Farrell once quipped:

***"When all experts agree, something else usually happens."***

## Valuations Vs. Momentum

My partner, [Michael Lebowitz, penned an excellent piece](#) this week on valuations and long-term returns. I highly suggest reading the entirety of the article, but here is the crucial point.

**"Regardless of the economic environment, taking significant risks, and accepting pitiful expected returns is a bad idea. The average of the 10-year expected returns from the four gauges is -0.75%. When the Fed backs off, whether by its design or due to inflation, slower economic growth, or massive debt overhead, rich valuations will matter."**



*"The NYSE is the only place in the world that when the sign says 'Everyday high prices', everyone gets excited. If Walmart had the same sign, instead of 'Everyday low prices', no one would show up." - Peter Boockvar*

## Running With The Herd

As we have stated, "valuations" are a terrible "market timing" indicator. However, valuations tell you everything you need to know about future returns. It is about "sentiment" and "herd psychology" more than anything else in the very short-term. As my colleague, Doug Kass observed on Thursday in his "Real Money Diary."

*'Time and time again traders and investors robotically and often emotionally follow price and ignore the simple notion that **higher stock prices are the enemy of the rational buyer and lower prices are the ally of the rational buyer.** Too often as stock prices rise, investors cheer and **commonly ignore the consequences of buying at a high and elevated entry price.** And, too often as stock prices drop, investors panic and **commonly ignore the consequences of selling at a low and depressed exit price.** Thanks to a changing market structure, where active investing is overwhelmed by passive investing, mentalities have changed. Such also helps explain the popularity and proliferation of exchange-traded funds, quant strategies, and products that worship at the altar of price momentum. **In its essence, 'buyers live higher and sellers live lower.'** This evolution in market structure has arguably resulted in the **least informed investor base in history as machines and exchange-traded funds know nothing about price and everything about value.**'*

The problem is volatility has become a "wicked master." As we saw in March, the "elevator down"



can come swiftly. With investors piling into ETFs, and algorithmic quant strategies chasing momentum, markets will be more susceptible to wild future swings. When investors and robots try to *"exit the theater"* simultaneously, the drops will be swift with little notice.

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### Portfolio Positioning Update

Last Monday, just after Moderna made their vaccine announcement, I tweeted: Our job is to adjust our allocations to capture profits and protect capital when the *"risk/reward"* profile becomes unbalanced. On Monday, we reduced our exposure by increasing our bond holdings last Wednesday and raising cash levels Monday. Such was the point I made Tuesday in our ["3-Minutes" video](#). <https://www.youtube.com/watch?v=JbwZkDDGiXg>

### A Catalyst For A Decline

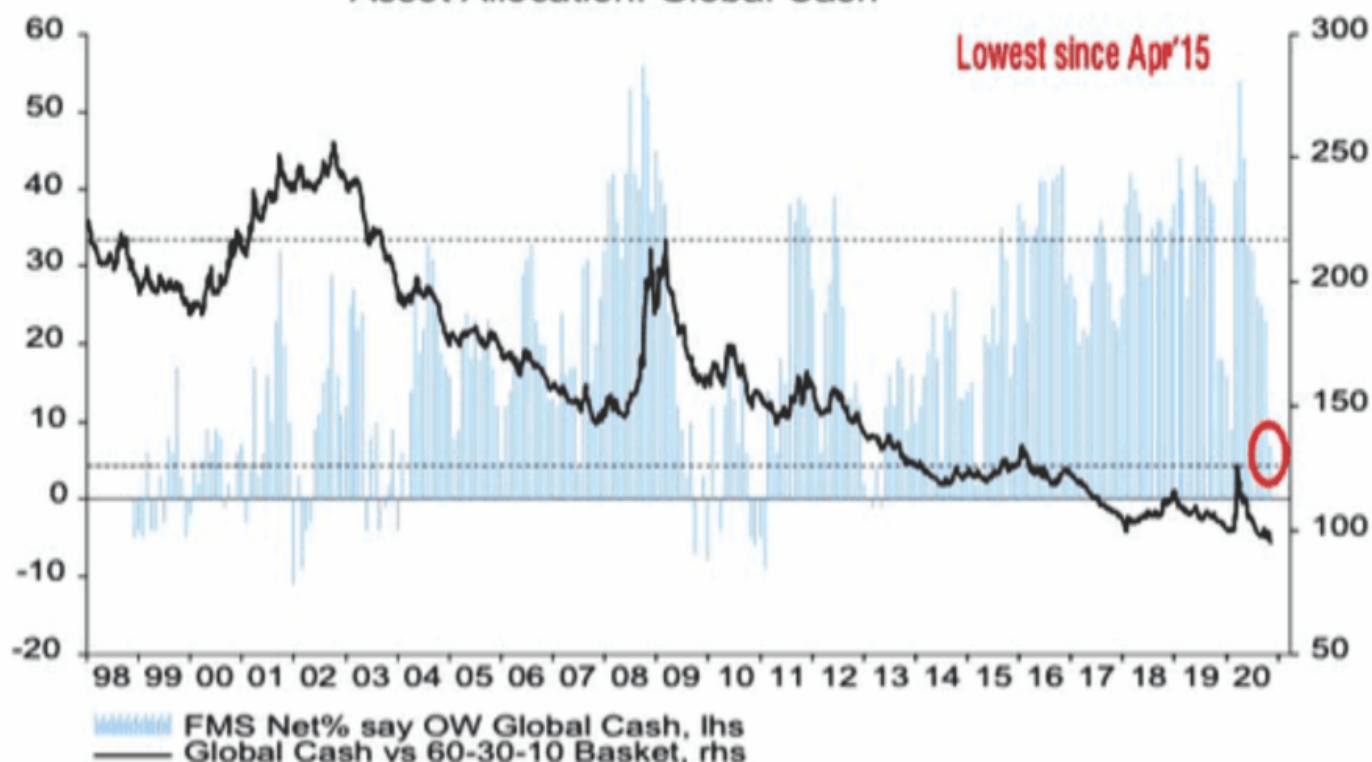
When markets are incredibly exuberant and extended, all that is needed to spark a short-term corrective process is a *"catalyst."* Following Thanksgiving and into the first two weeks of December, mutual funds must distribute their capital gains and interest for the year. **As shown below, fund managers are carrying some of the lowest cash balances on record; we could see selling pressure to make distributions.**

FMS cash allocation fell 16ppt MoM to net 7% overweight, the lowest level since April 2015.

Current allocation is 1.1 stdev below its long-term average.

#### Exhibit 32: Net % AA Say they are overweight Cash

Asset Allocation: Global Cash



## We Play The Probabilities


While many will read this article as being *?bearish,? it isn't*. As portfolio managers, we manage the risk of capital loss against the potential for reward. In other words, we ***?we prepare for the probabilities, but leave room to adjust for the possibilities.?*** No one knows with certainty what the future holds, which is why we must manage portfolio risk accordingly and be prepared to react when conditions change. **I am neither bullish nor bearish.** I follow a straightforward set of rules that are the core of our portfolio management philosophy. We focus on capital preservation and long-term *?risk-adjusted?* returns. Importantly, no discipline is perfect. Nothing works *"all the time."* However, any discipline or strategy works better than *"no strategy at all."*



### 15-Risk Management Rules To Follow:

1. Cut losers short and let the winner's run. *(Be a scale-up buyer into strength.)*
2. Set goals and be actionable. *(Without specific goals, trades become arbitrary and increase overall portfolio risk.)*
3. Emotionally driven decisions void the investment process. *(Buy high/sell low)*
4. Follow the trend. *(80% of portfolio performance is determined by the long-term, monthly, trend. While a "rising tide lifts all boats," the opposite is also true.)*
5. Never let a "trading opportunity" turn into a long-term investment. *(Refer to rule #1. All initial purchases are "trades," until your investment thesis is proved correct.)*
6. An investment discipline does not work if it is not followed.
7. "Losing money" is part of the investment process. *(If you are not prepared to take losses when they occur, you should not be investing.)*
8. The odds of success improve greatly when the fundamental analysis is confirmed by the technical price action. *(This applies to both bull and bear markets)*
9. Never, under any circumstances, add to a losing position. *(As Paul Tudor Jones once quipped:*

Everyone approaches money management differently. Such is just the way we do it.

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## The MacroView



### #MacroView: A Vaccine And The “New New Normal”

Written by Lance Roberts | Nov 20, 2020

Pfizer announced a potential vaccine for COVID-19 that was 90% effective. While a “vaccine” will eventually come to the market, it will only ensure a return to the “New New Normal.”

[>> 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

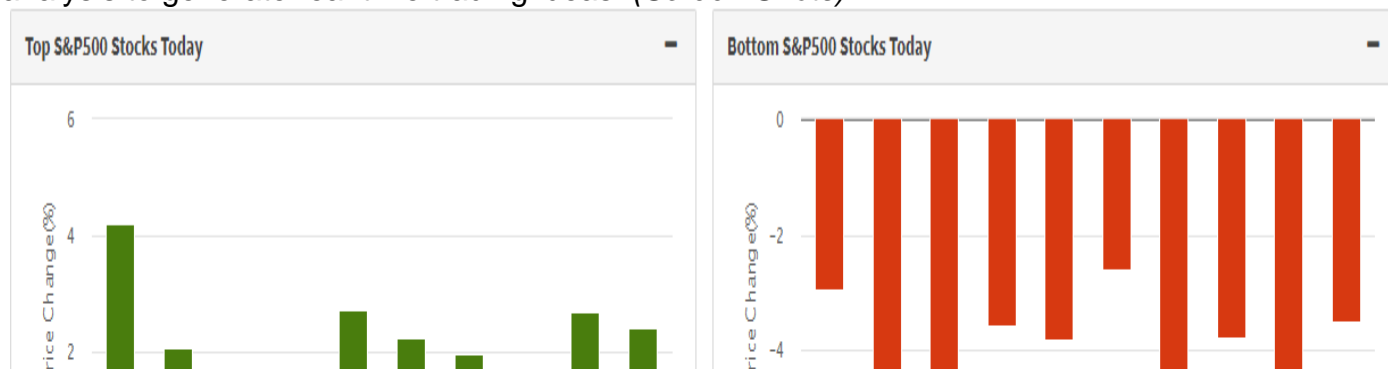
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We just launched an all-new dashboard with tons of market data and stock and ETF specific analysis to generate real-time trading ideas. (Screen Shots)



Today's Top & Bottom Performer by Sector (Click On Symbol to See Details)

Communication Services			Industrials			Financial			Consumer Cyclical			Energy			Real Estate			Utilities			Materials		
TTWO	TWTR	DISCA	HWM	URI	DE	MKTX	NDAQ	CB	HAS	DPZ	LB	FANG	OXY	WMB	SLG	EQR	UDR	EVRG	NI	CMS	CF	ALB	DD
2.7 %	2.43 %	1.88 %	1.81 %	1.28 %	1.16 %	2.23 %	1.26 %	1.02 %	1.38 %	1.17 %	1.08 %	1.01 %	0.97 %	0.89 %	1.52 %	1.17 %	1.11 %	1.53 %	1.27 %	1.11 %	4.2 %	1.68 %	0.81 %
VIAC	DISCK	EA	GE	MMM	SNA	CME	PYPL	MET	SEE	NKE	HOG	APA	COP	CXO	BPX	AVB	SPG	PEG	DUK	LNT	FCX	CTVA	NEM
1.88 %	1.6 %	1.44 %	1.04 %	0.75 %	0.7 %	0.93 %	0.93 %	0.79 %	0.88 %	0.81 %	0.7 %	0.78 %	0.48 %	0.37 %	0.89 %	0.94 %	0.61 %	1.02 %	0.98 %	0.76 %	0.66 %	0.54 %	0.39 %
ATVI	CHTR	NFLX	CPRT	AVY	IR	SIVB	TRV	AFL	HBI	GM	LEG	PSX	CVX	NBL	PLD	ARE	VNO	AWK	ATO	WEC	MOS	IFF	APD
1.16 %	0.75 %	0.74 %	0.58 %	0.32 %	0.14 %	0.64 %	0.51 %	0.3 %	0.52 %	0.51 %	0.48 %	0.23 %	0.07 %	0 %	0.28 %	0.24 %	0.23 %	0.68 %	0.6 %	0.58 %	0.15 %	0.1 %	0.04 %
FOX	DISH	CTL	GPN	DAL	RHI	AIG	AMP	NTRS	IP	RCL	PVH	NOV	OKE	KMI	VTR	DRE	WY	NEE	XEL	PPL	EMN	ECL	LIN
0.82 %	0.09 %	0 %	0.08 %	-2.08 %	-2.13 %	0.18 %	-2.09 %	-2.11 %	0.41 %	-2.5 %	-2.58 %	0 %	-1.02 %	-1.04 %	0.21 %	-0.72 %	-0.83 %	0.58 %	-0.08 %	-0.27 %	0.04 %	-0.13 %	-0.4 %
NWSA	VZ	NWS	HII	LHX	LMT	RF	FITB	ADS	KSS	RL	EXPE	HES	SLB	XOM	REG	WELL	FRT	SO	PNW	EIX	VMC	NUE	SHW
-0.17 %	-0.28 %	-0.4 %	-2.14 %	-2.18 %	-2.24 %	-2.28 %	-2.28 %	-2.31 %	-2.61 %	-2.94 %	-3.28 %	-1.13 %	-1.22 %	-1.23 %	-1.05 %	-1.06 %	-1.11 %	-0.31 %	-0.38 %	-0.38 %	-0.51 %	-0.53 %	-0.62 %
DIS	CMCSA	LYV	UAL	TDG	BA	WLTW	DFS	WFC	WYNN	MGM	CCL	MRO	HFC	MPC	O	HST	PSA	EXC	D	NRG	LYB	DOW	CE
-0.46 %	-0.63 %	-0.9 %	-2.54 %	-2.8 %	-2.94 %	-2.49 %	-2.55 %	-2.6 %	-3.5 %	-3.78 %	-4.51 %	-1.58 %	-1.69 %	-2.1 %	-1.18 %	-2.08 %	-2.25 %	-1.13 %	-1.39 %	-1.39 %	-0.71 %	-1.1 %	-1.23 %
FB	GOOG		GWW	FLS		WU	MA		LVS	NCLH		FTI	DVN		AMT	SBAC		AES	FE		FMC	MLM	
-1.19 %	-1.23 %		-3.21 %	-3.35 %		-2.83 %	-3.28 %		-4.54 %	-4.9 %		-2.58 %	-2.95 %		-2.42 %	-2.57 %		-2.2 %	-3.58 %		-1.38 %	-1.47 %	

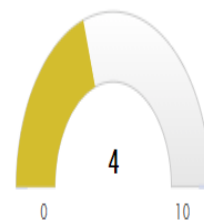
Consumer Goods			Healthcare			Technology		
KHC	TGT	DLTR	DVA	A	LH	MCHP	FLIR	FTNT
1.19 %	0.55 %	0.44 %	2.06 %	2.03 %	1.99 %	2.72 %	1.17 %	0.93 %
CLX	HRL	MKC	MYL	DGX	IDXX	AKAM	SWKS	NOW
0.29 %	0.28 %	0.23 %	1.86 %	1.63 %	1.55 %	0.81 %	0.74 %	0.73 %
PEP	NWL	PG	VRTX	LLY	PFE	FFIV	QRVO	IT
0.07 %	-0.1 %	-0.16 %	1.53 %	1.45 %	1.41 %	0.57 %	0.36 %	0.19 %
MNST	GIS	HSY	WST	MCK	ABC	GRMN	NLOK	KEYS
-0.25 %	-1.03 %	-1.08 %	1.25 %	-1.2 %	-1.41 %	0.17 %	-1.43 %	-1.52 %
TAP	WMT	KMB	PRGO	HOLX	BSX	ANET	ANSS	FIS
-1.09 %	-1.24 %	-1.4 %	-1.43 %	-1.46 %	-1.49 %	-1.6 %	-1.81 %	-2.39 %
STZ	TSN	SYU	ANTM	UHS	HCA	FLT	CRM	DXC
-1.78 %	-2.57 %	-2.76 %	-2 %	-2.22 %	-2.33 %	-2.44 %	-2.5 %	-2.59 %
LW	COTY		BAX	DXCM		NVDA	INTU	
-2.77 %	-3.2 %		-2.38 %	-4.47 %		-2.62 %	-3.8 %	



ytd 1 Month 3 Month 6 Month 1 year 3 Year

FOX - FOX : Synopsis

Neutral



FOX is currently rated a 4 out of 10 on the technical rating score, which technically is a Neutral reading. For the last 12 months FOX is down -21.1% compared to the S&P 500's 16.74%.

If you are long: Currently, FOX is basically neutral and in a holding pattern and not showing evidence of any significant directional trend moves

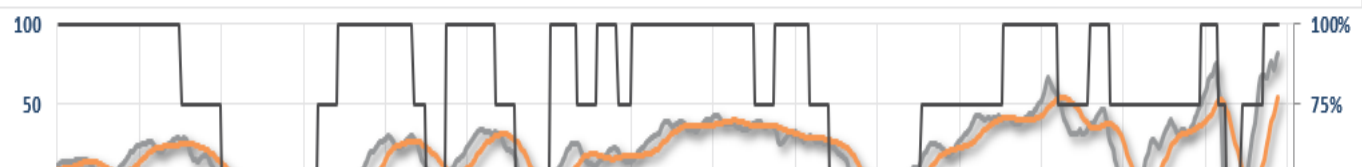
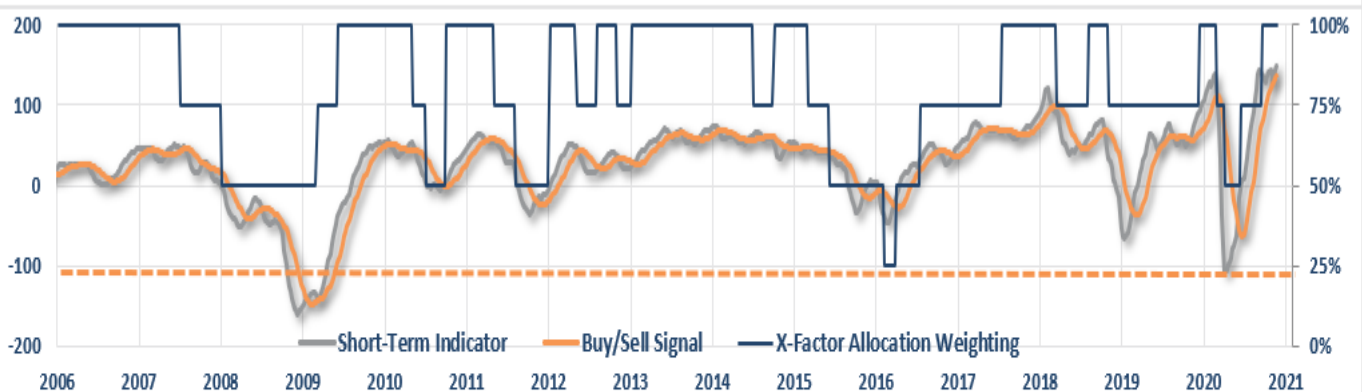
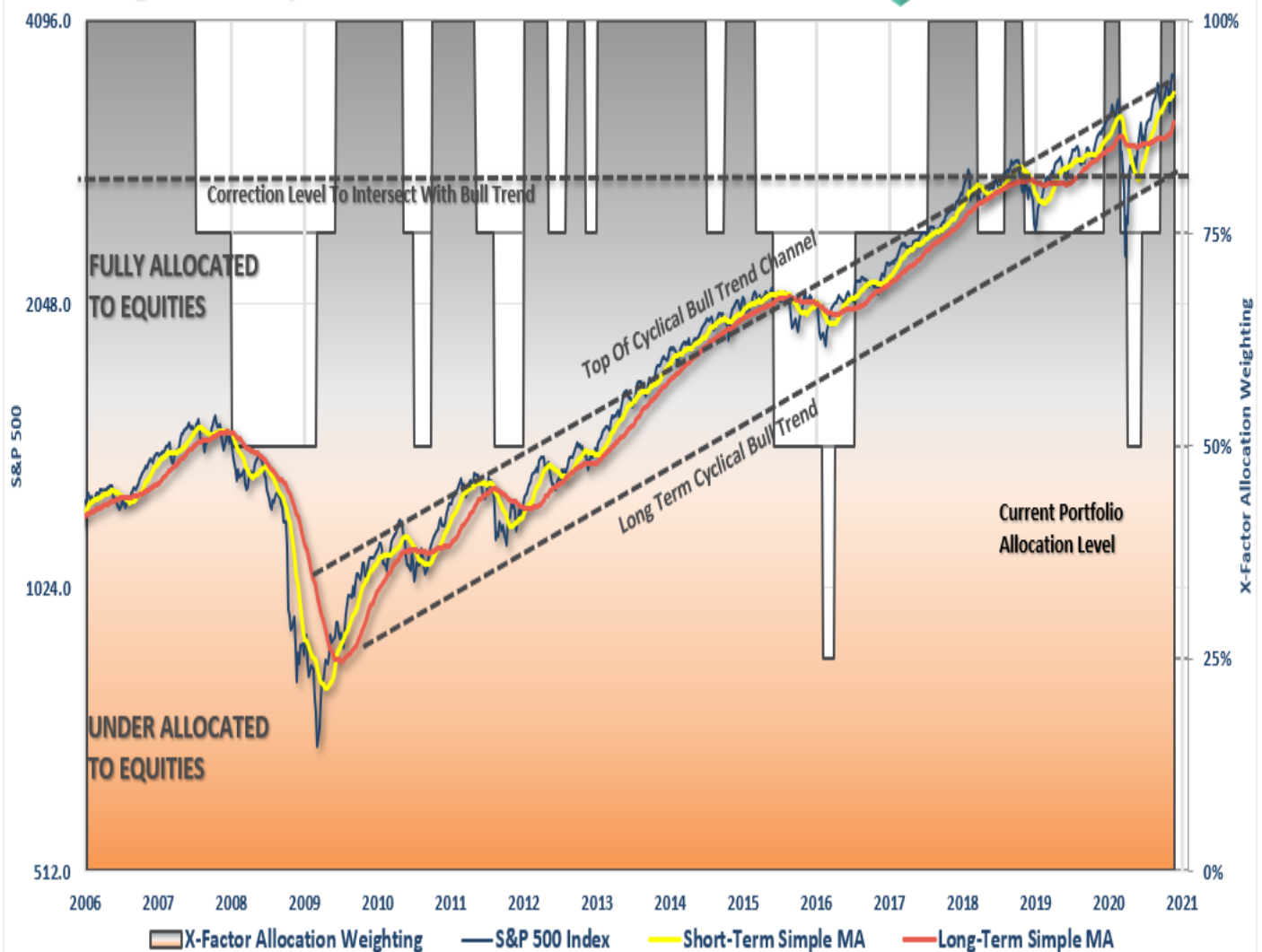


# THE REAL 401k PLAN MANAGER

## A Conservative Strategy For Long-Term Investors

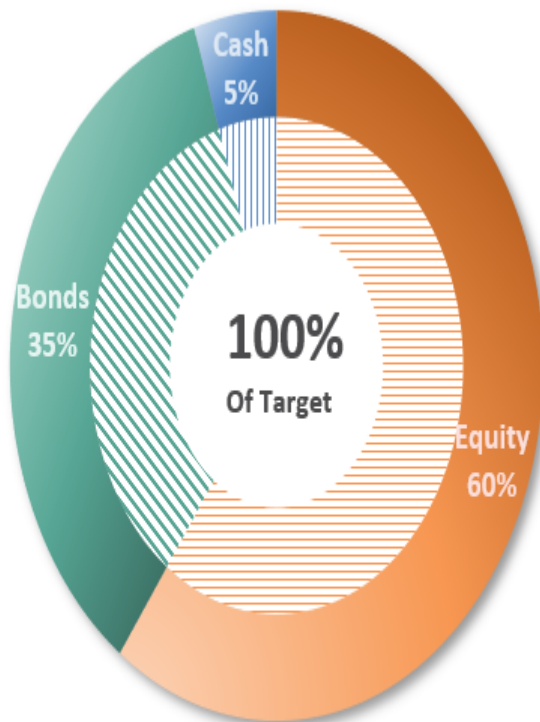
### Risk Management Analysis

REAL INVESTMENT ADVICE





## Current Portfolio Weighting



## Current 401k Allocation Model

### 5.00% 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*

### 60.00% 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*

*30% Large Cap Growth (S&P 500 Index)*

*5% International*

*5% Mid-Cap*

## Portfolio Instructions:

Allocation Level To Equities	Recommendation	When To Take Action
Less Than Target Allocation	Hold Current Exposure	Hold Exposure
Equal To Target Allocation	Hold Current Exposure	Hold Exposure
Over Target Allocation	Hold Current Exposure	Hold Exposure

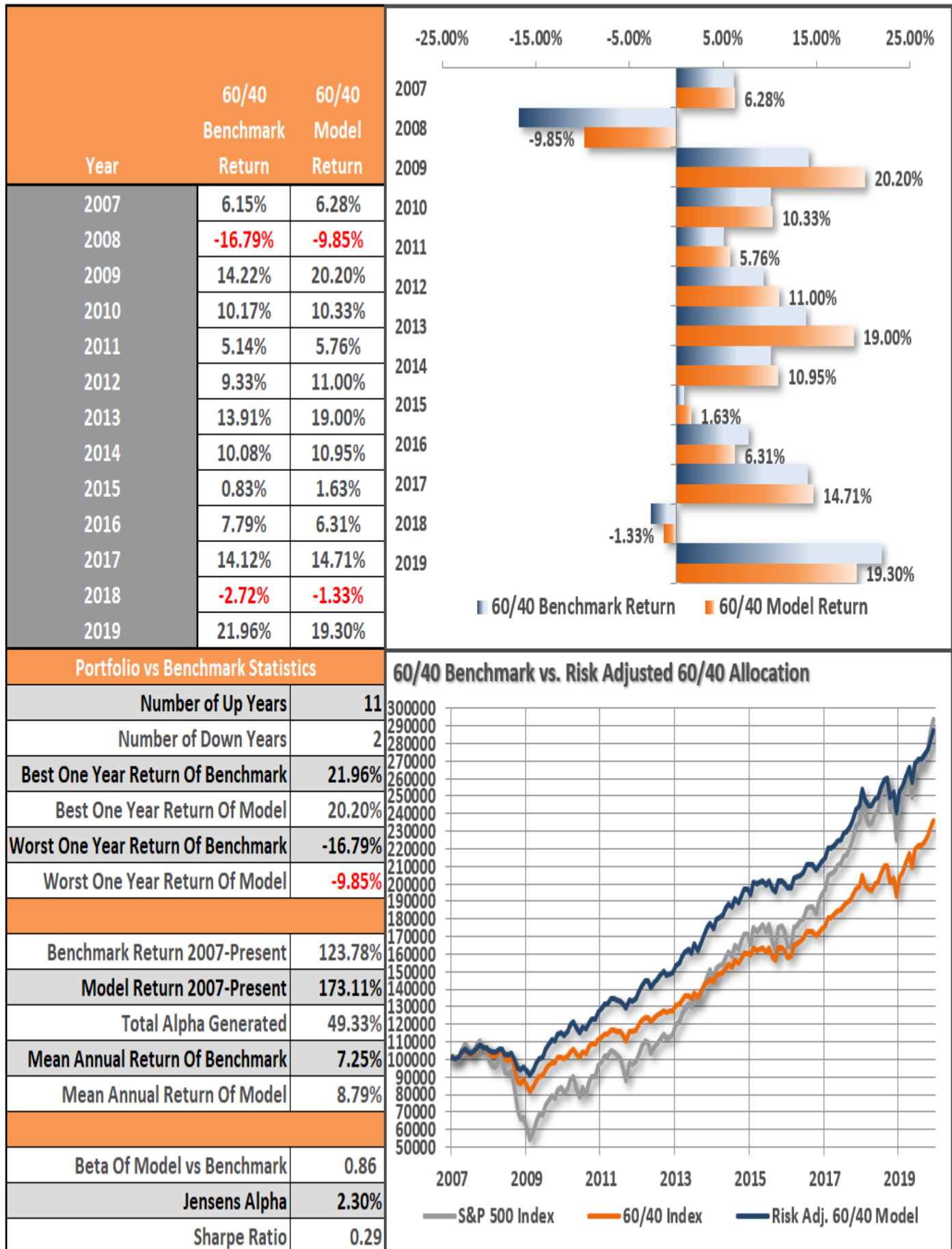
## Commentary

The market is now back to short-term overbought conditions. Continue to hold current exposure, but if you are looking to put "money to work" currently, you may want to wait for a correction. Normally, we see mutual funds distribute capital gains in the first two weeks of December which typically leads to a short-term correction. Look for that opportunity to increase allocation models accordingly.

With the election over, the market is going to start expecting more stimulus soon from Washington given the rising number of virus cases. If that fails to appear, there is downside risk to the market. Maintain exposures for now as we head into the end of the year, but if you are close to retirement, or are concerned about the markets, there is nothing wrong with holding extra fixed income or cash in portfolios currently.

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.*



# 401k Plan Manager Live Model

As an [RIA PRO subscriber](#) (You get your first 30-days free), you can access our live 401k plan manager. Compare your current 401k allocation to our recommendation for your company-specific plan and 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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Portfolio

401K- Beta

Symbol

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

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CVS Health

Enter Portfolio Name

Add Portfolio

Delete Portfolio

Rename Portfolio

My Info

Fund Selection

Comparison

Summary

Commentary

My Portfolio

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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