

# **Irrational Exuberance**

## **The Bulls Remain In Control**

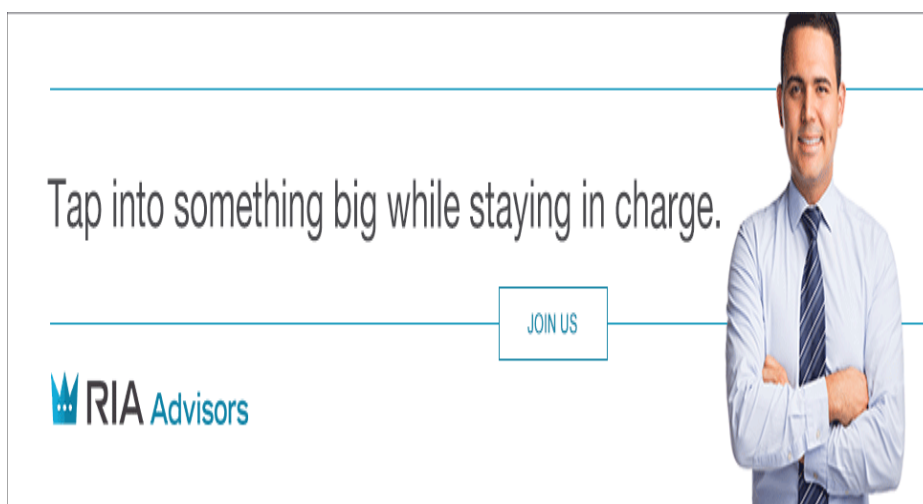


- ***Bullish Bias Continues***
- ***The Disposition Of Risk And Control***
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- ***MacroView: The Energy Rally Is Likely Premature***
- ***Sector & Market Analysis***
- ***401k Plan Manager***

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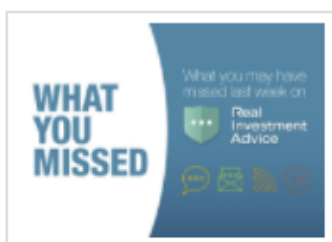
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## Catch Up On What You Missed Last Week



### **#WhatYouMissed On RIA This Week: 12-11-20**

Written by Lance Roberts | Dec 11, 2020

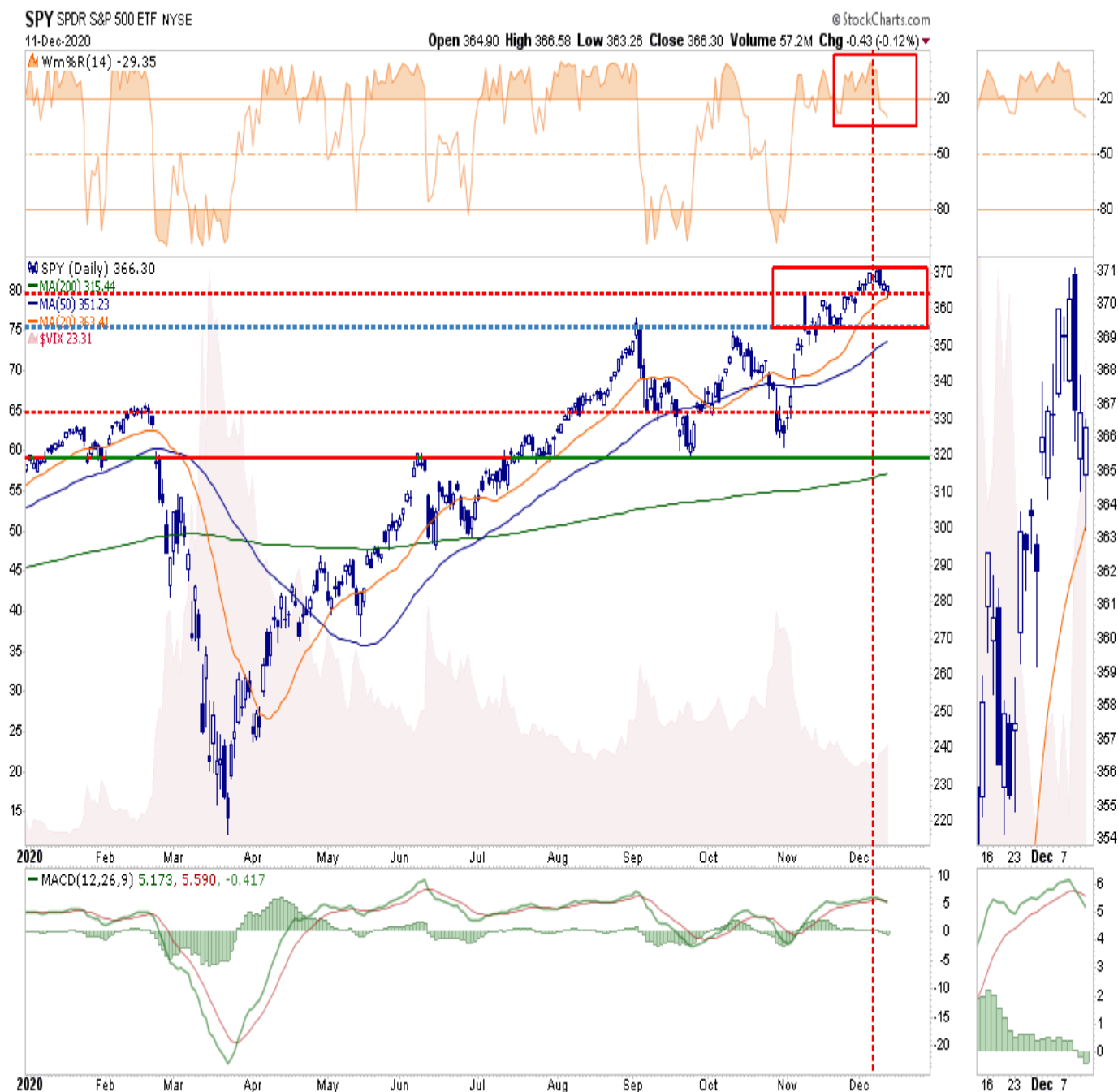
Here is what you might have missed from the RIA Crew last week. A compilation of our best blogs, newsletter, podcasts, the daily radio show and commentary from RIAPRO.NET.

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## Bullish Bias Continues

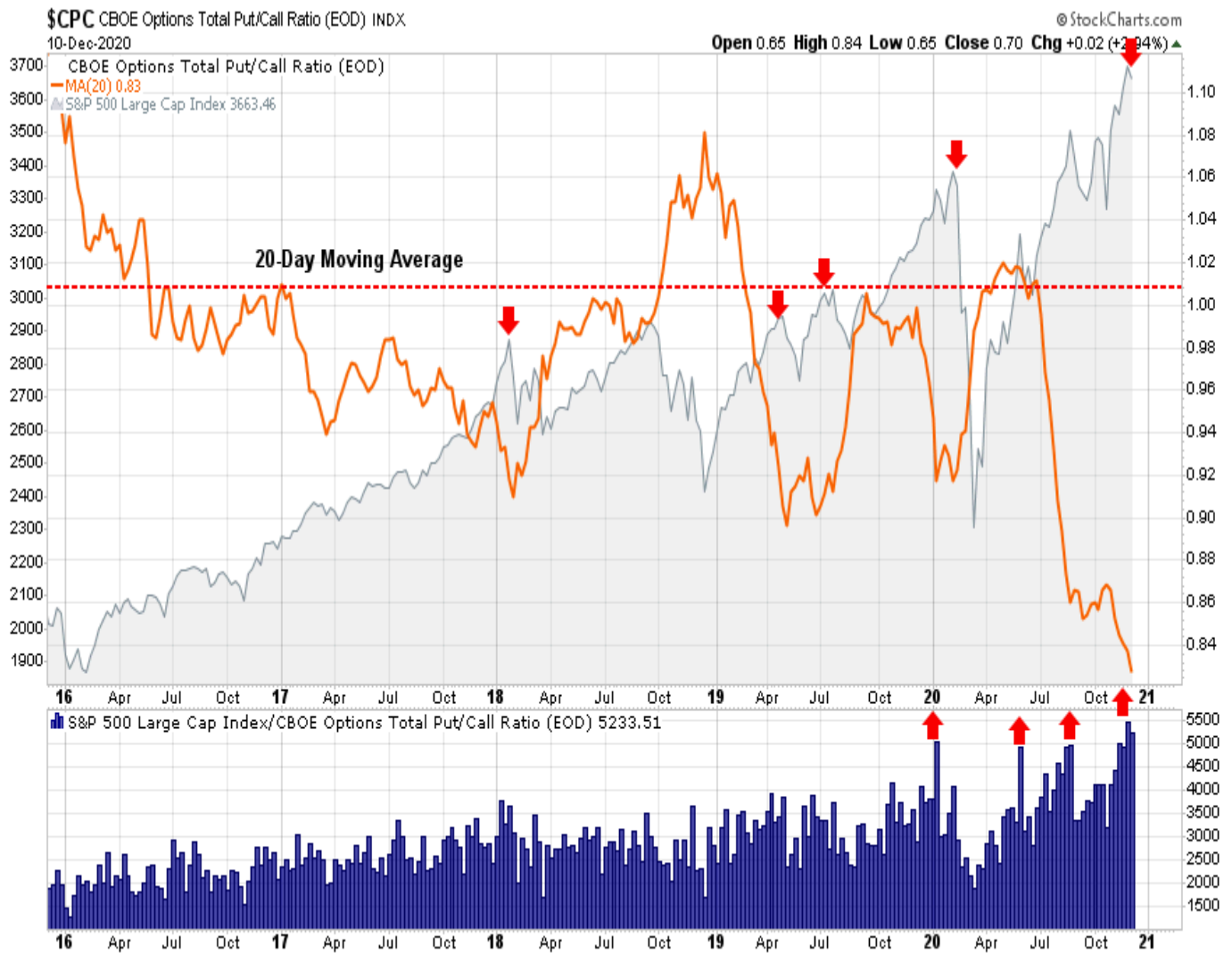
Over the past couple of weeks, we have talked about a short-term correction potential due to selling pressure from annual mutual fund distributions. We saw that taking place this past week with the market struggling to maintain its breakout levels.



The good news is the *"bullish bias,"* or rather momentum, of the market was strong enough to offset the selling pressure. Notably, the market held support at the recent breakout levels.

The not-so-good news is the markets remain significantly extended and deviated from means, and the bullish sentiment is very lopsided. Furthermore, the MACD signal has triggered a short-term "sell signal." Such setups have often been coincident with more important short-term corrections.

Nonetheless, we could get a bit more weakness into next week as year-end "options expiration" occurs on Friday. With the heavily skewed *"put-call"* ratio currently, **we could see volatility pick up as options traders roll positions over into 2021, or selling occurs to take "tax losses" for 2020.**



Such could provide a reasonable trading entry for a post-Christmas "*Santa Claus*" rally as portfolio managers add holdings to "*window-dress*" portfolios for year-end reporting.

However, once we get into 2021, much will depend on getting a stimulus package passed and the vaccine delivered. If either of those fails to occur promptly, or the economy slips back into recession, the downside risk increases.

That is a story for next year. For now, it is all about the "*Santa Claus*" rally and our year-end price target for the market.



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## Approaching 3750 Target

In August, I laid out a [target for 3750](#) for the S&P 500 by year-end.

*?Technical analysis works well when there are defined ?knowns? such as a previous top (resistance) or bottom (support) from which to build analysis. However, when markets break out to new highs, it becomes much more of a ?wild @\$\$ guess? or ?WAG.?*

That target was derived when I previously set out several [?risk/reward ranges.?](#)

*?With the markets closing just at all-time highs, we can only guess where the next market peak will be. Therefore, to gauge risk and reward ranges, **we have set targets at 3500, 3750, and 4000.?***

I have updated the chart below. The *?black arrow?* was where I initially did the analysis.



Since that point, the market spent a couple of months making very little headway. However, as noted in [?Market Surges As Election Turns Into Optimal Outcome:?](#)

*?It was quite the reversal. The rally pushed the market back above the 50-dma and the downtrend of lower highs. **Such sets the market up for a retest of all-time highs next week.?***

Since then, not only did the markets set a new high, but they have kept pushing higher despite a rising number of warning signs.

## **The Disposition Of Risk & Control**

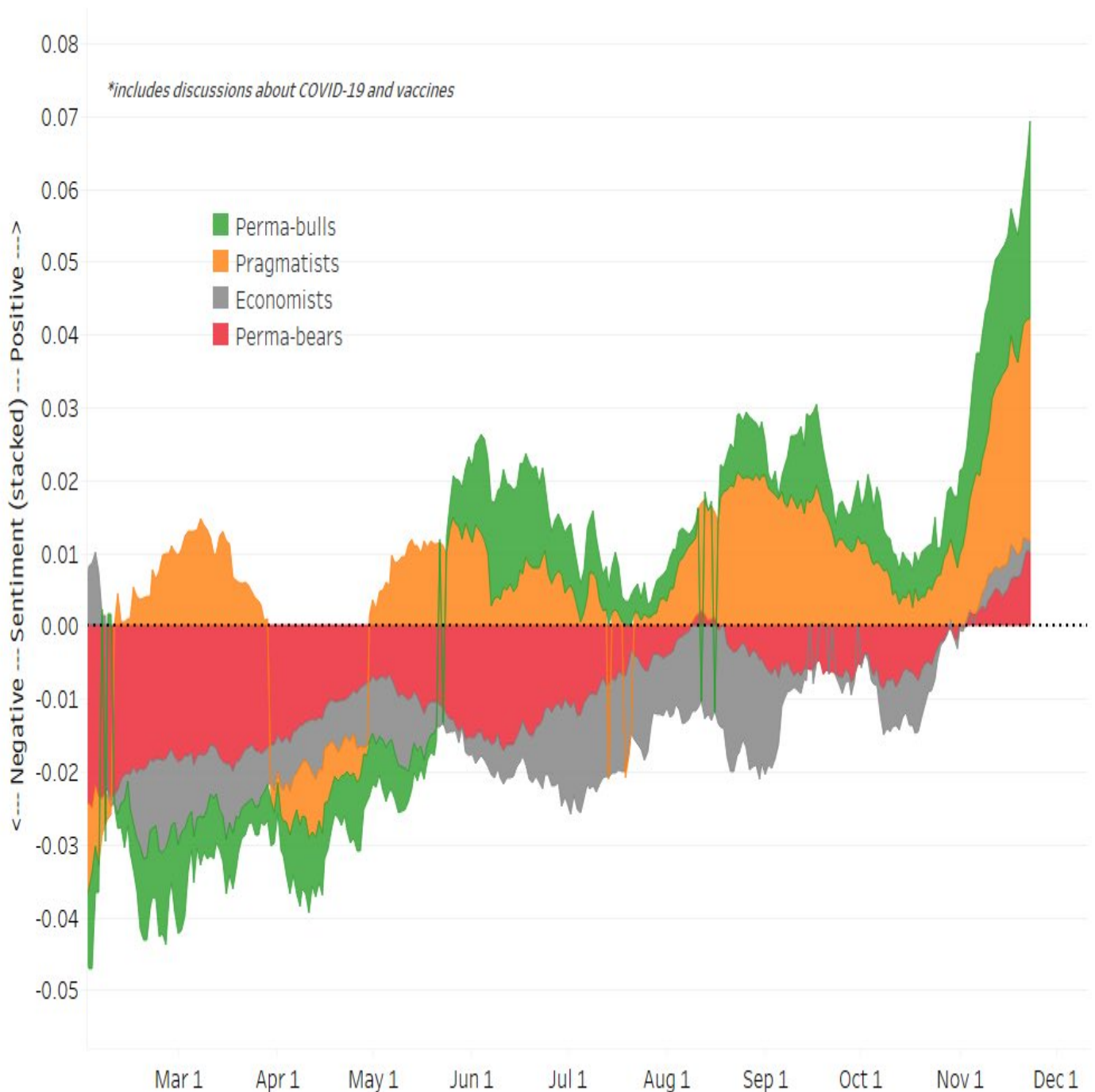
The one thing that tends to get investors in trouble, more often than not, is when the market remains irrational longer than logic would predict. When such occurs, individuals are prone to dispose of their regular *"risk controls"* and chase the markets higher.

Of course, it's not just the analysts that are overly optimistic. In the short-term, investors cling to the idea that *"fundamentals don't matter."* Such is not entirely incorrect as *"market momentum"* is a hard thing to kill. When the *"Fear Of Missing Out"* overrides logic, the markets can make irrational moves. As noted in [\*\*"Is The Narrative Priced In?"\*\*](#)

*"You have to wonder precisely how much gas is left in the tank when even perma-bears are now bullish. Therefore, the question we should ask is if everyone is in, who is left to buy???"*

## Fintwit: Euphoria Over Vaccines and COVID-19

Rolling 30-day sentiment of Twitter activity by 80+ most prolific fintwitters including economists, commentators, portfolio managers, and traders



Data Source: Twitter ©2020 Arbor Research & Trading, LLC All Rights Reserved

[datascience.arborresearch.com](https://datascience.arborresearch.com)

**Excessive bullish sentiment does NOT mean a correction MUST occur.** Much like *?gasoline?* stored in a tank, it requires a *?catalyst?* to ignite a change in an investor's outlook.

### No One Saw It Coming

Many issues could provide such a *?spark.?*

1. The vaccine is not readily available until after mid-year.
2. A problem emerges from the vaccine as, during distribution, unexpected side effects occur.

3. *Despite the vaccine, the economic data weakens more than expected.*
4. *Earnings growth falls short of expectations.*
5. *Corporations continue to hoard cash and reduce share buybacks, which leads to a rising number of earnings "misses."*
6. *The Republicans maintain control of the Senate, and expected stimulus bills are smaller.*
7. *Rent and Mortgage moratoriums do not get reinstated, and defaults and evictions surge.*
8. *Interest rates rise, and corporate defaults and bankruptcies surge as debt fails to get refinanced.*
9. *After the next round of stimulus runs out, everyone realizes the real problems with the economy.*
10. *The dollar surges, and foreign exchange flows into the U.S.*
11. *The "reflation trade" turns out to be "deflation trade."*

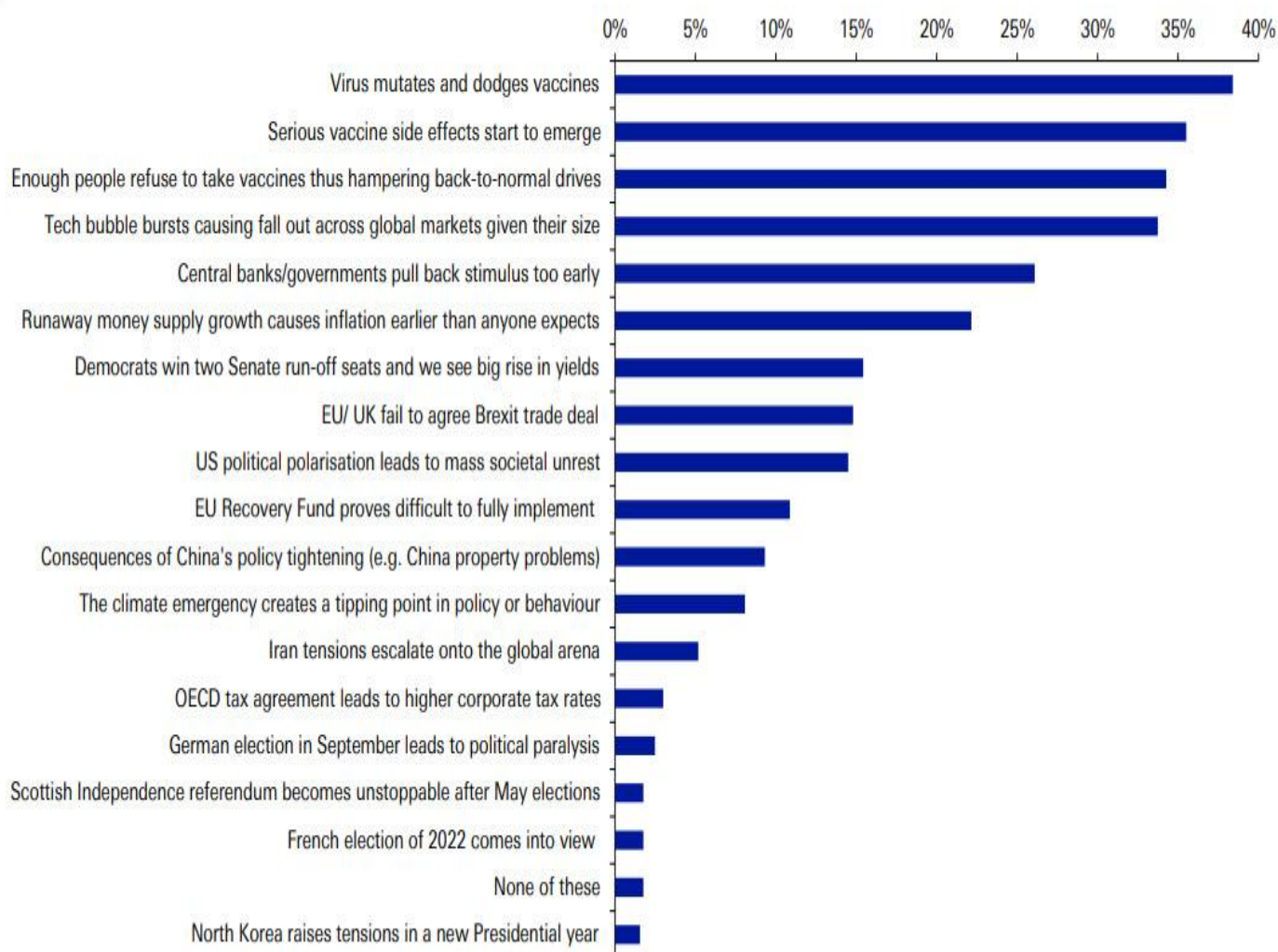
Which one will it likely be?

**My best guess is Number 12.**

You are correct. There is no "Number 12." **When everyone is long equities and leveraged, it is always an unexpected, exogenous event, which begins the rush for the exit.**

If you don't like my list, here is Jim Reid's list from Bank of America.

Figure 1: Which, if any, of these do you think are the biggest risks to global financial markets in 2021? Please select up to three



Source : dbDIG Survey, Deutsche Bank Research

What exactly will that catalyst be? No one knows, just as no one expected the *?pandemic?* in March.

Whatever the catalyst eventually is, the media's excuse will be:

***?No one could have seen it coming.?***

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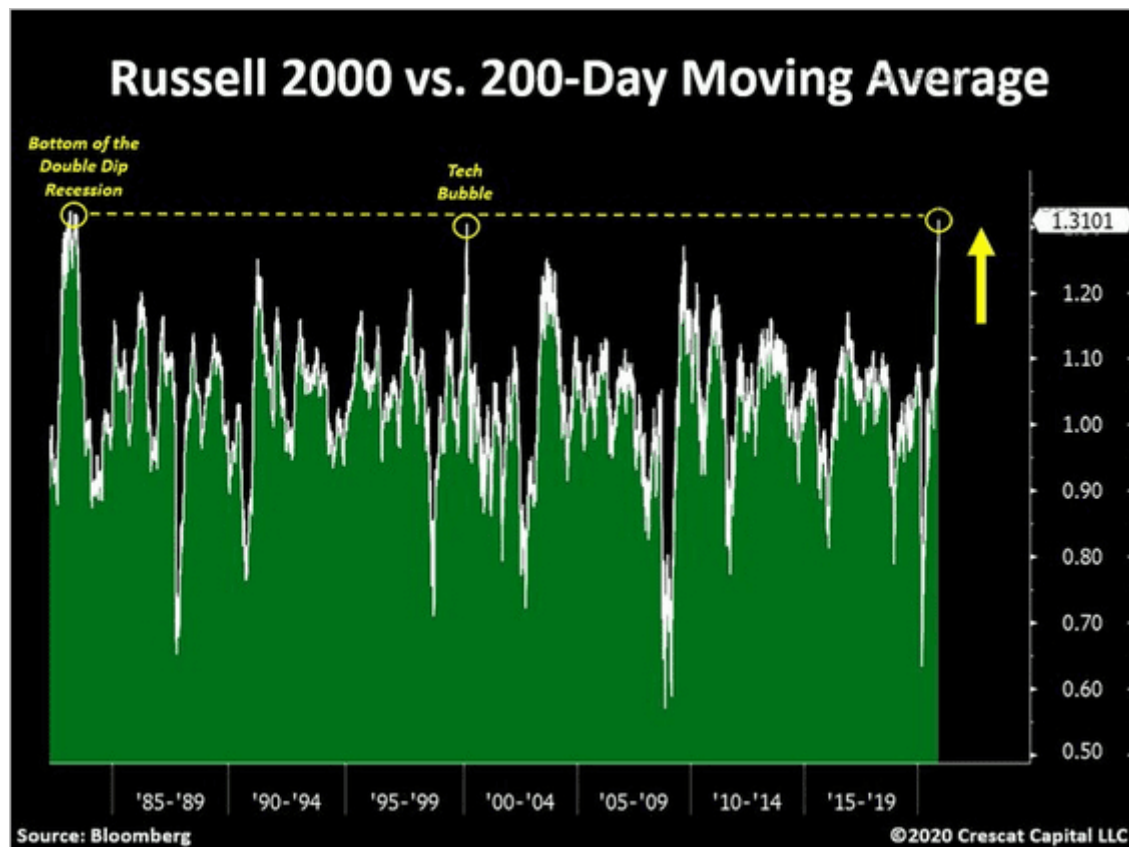
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## Mid-Cap Moonshot

In the short-term, the market seems headed higher. However, it is worth remembering the reason it is called a *"market peak."* Such is the point where prices stopped going up. **Previous peaks are the graveyard of investors who believed prices could not go down.**

Currently, there are some signs of more extreme conditions that have previously suggested investor caution. For example, the Russell 2000 is now as deviated from its 200-dma as it was in 1999.



Over the past 15-years, there is no point where IWM was more than 3-standard deviations above its 200-week (4-year) moving average, overbought, and trading above 3.5 on its MACD.

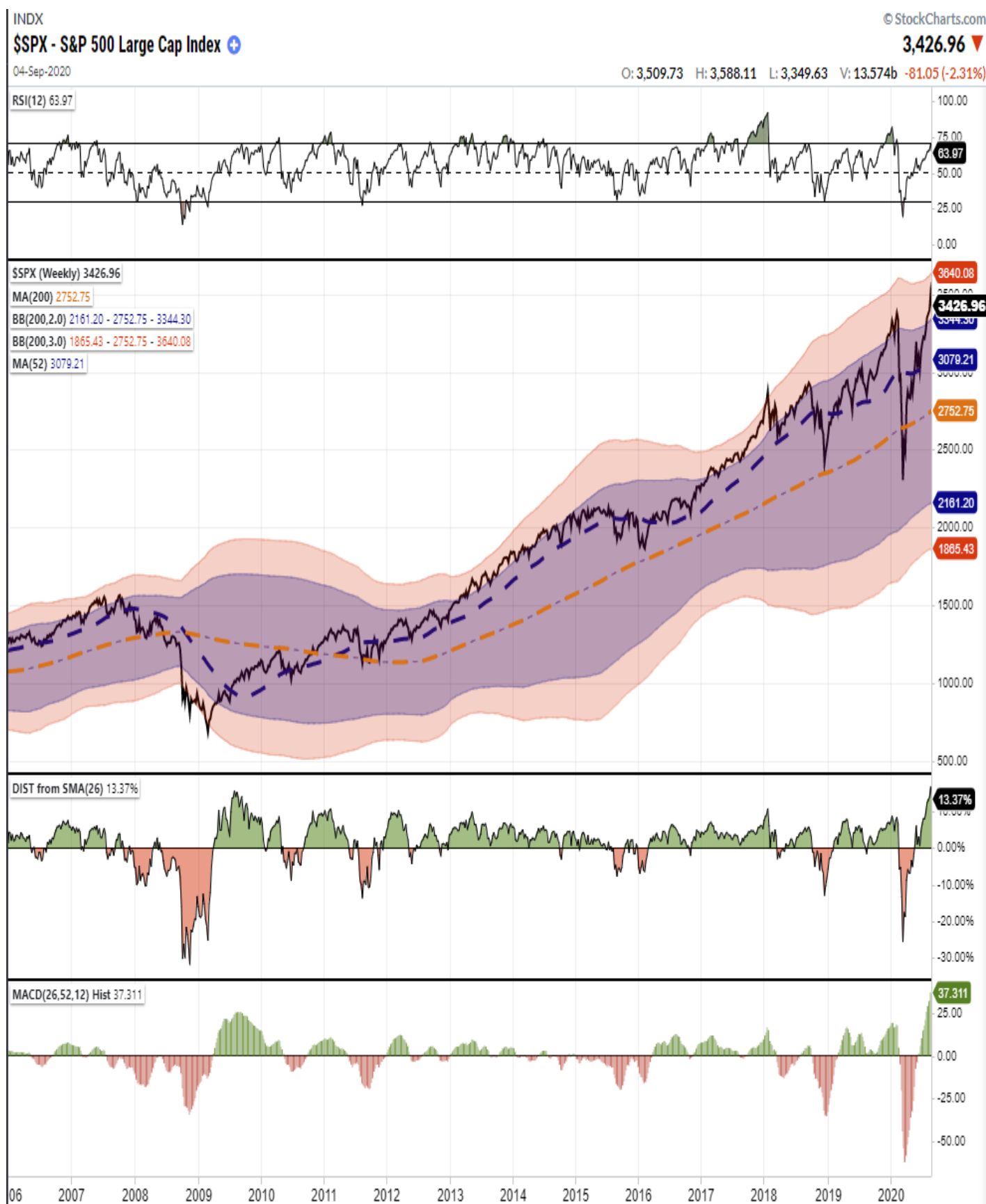


While these extreme measures can indeed be maintained "*longer than expected*," the very laws of physics require a reversion in price.

## S&P Extremes

We also see the same issues presenting themselves in the S&P 500 index as well.

1. Despite the rally since 2018, the market has continued to exhibit a negative divergence in relative strength.
2. The market is once again pushing well into 3-standard deviations above the 4-year (200-week) moving average.
3. The market is now 13.37% above the 26-week moving average, which matches previous highs.



Currently, the evidence is mounting that markets are reaching the limits of the current move. **By themselves, these signs reflect the prevailing extremely bullish attitude of market participants.**

However, importantly, these more extreme extensions provide the *?fuel?* for a sell-off given an unexpected catalyst. The ensuing *?reversion?* tends to catch overly confident *?bulls?* off guard.

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### Calculating The Madness

Let me repeat something which seems apropos currently:

Sir Isaac Newton once said:

***?I can calculate the motions of the heavenly bodies, but not the madness of the people..?***

**As we head into year-end, we will be navigating the risk of overly extended and bullish markets against the seasonally strong end of year period.**

We believe that over the long-term, capital preservation and risk management leads to better outcomes. However, sometimes, in the short-run, managing risk can undoubtedly be a frustrating endeavor as the *"Fear Of Missing Out"* overrides common sense and logic.

If you disagree, that is okay.

When the opportunity presents itself, and the *?madness has subsided,?* these are the questions we will ask ourselves before we add exposure to portfolios:

1. *What is the expected return from current valuation levels? (\_\_\_%)*
2. *If I am wrong, given my current risk exposure, what is my potential downside? (\_\_\_%)*
3. *If #2 is greater than #1, then what actions should I be taking now? (#2 ? #1 = \_\_\_%)*

How you answer those questions is entirely up to you.

What you do with the answers is also up to you.

We are all trying to answer the question, *"how much of the 'narrative' already got priced into the market?"*

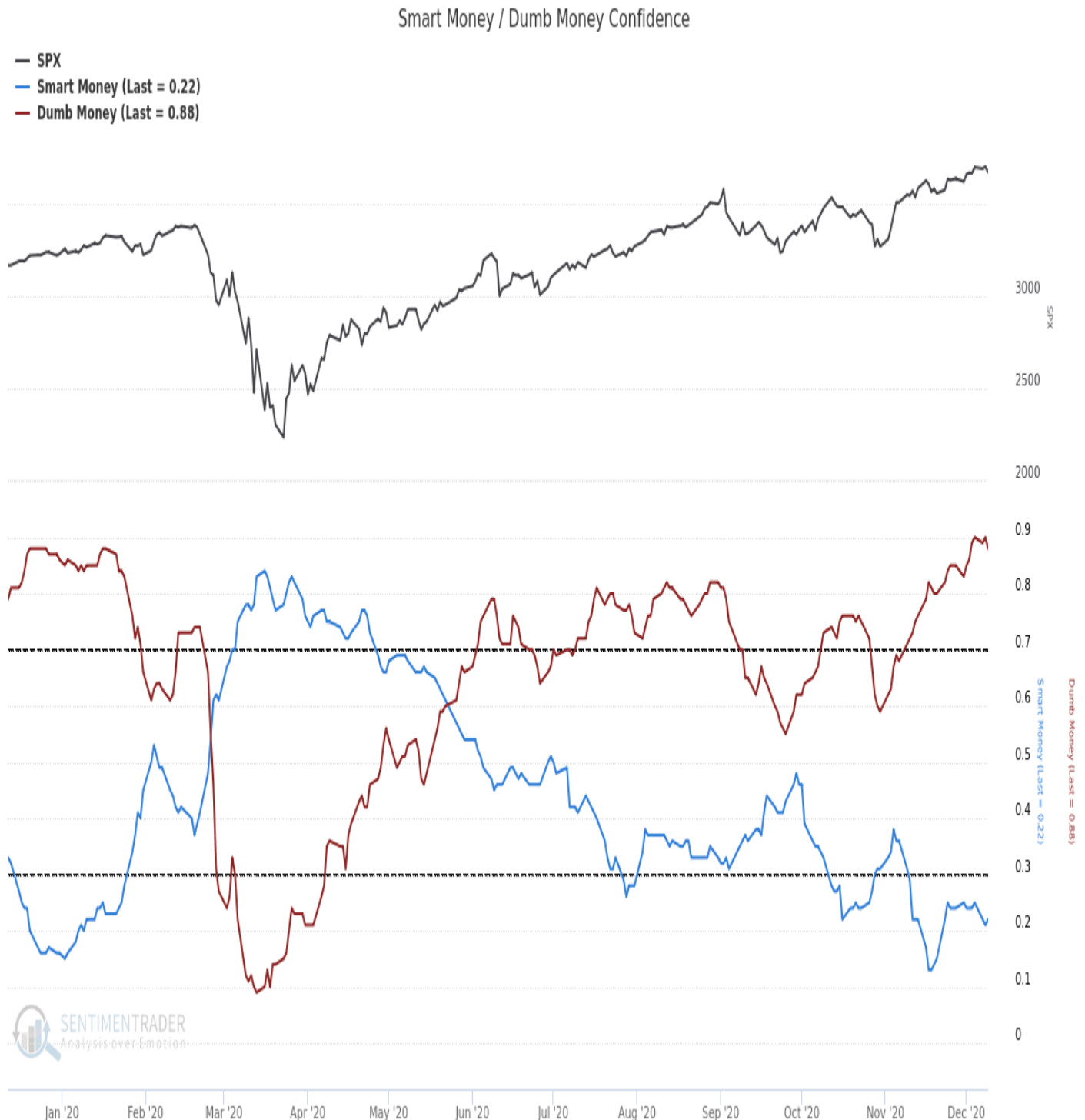
By looking at the data, it would be easy to assume the answer is *?much.?*

### Portfolio Positioning Update

While we remain primarily long-biased in our portfolios, we hold a higher than average level of cash. Such is for several reasons.

1. *Cash provides a risk-free hedge against market volatility.*
2. *It provides us an opportunity to add exposure for a year-end "Santa Rally" selectively.*
3. *It also gives us the ability to reposition into either further defensive or offensive, positioning depending on outcomes.*

In short, having cash gives us the flexibility to take advantage of "*dumb money*," which is historically wrong near market peaks. The trick is having the patience to wait it out.

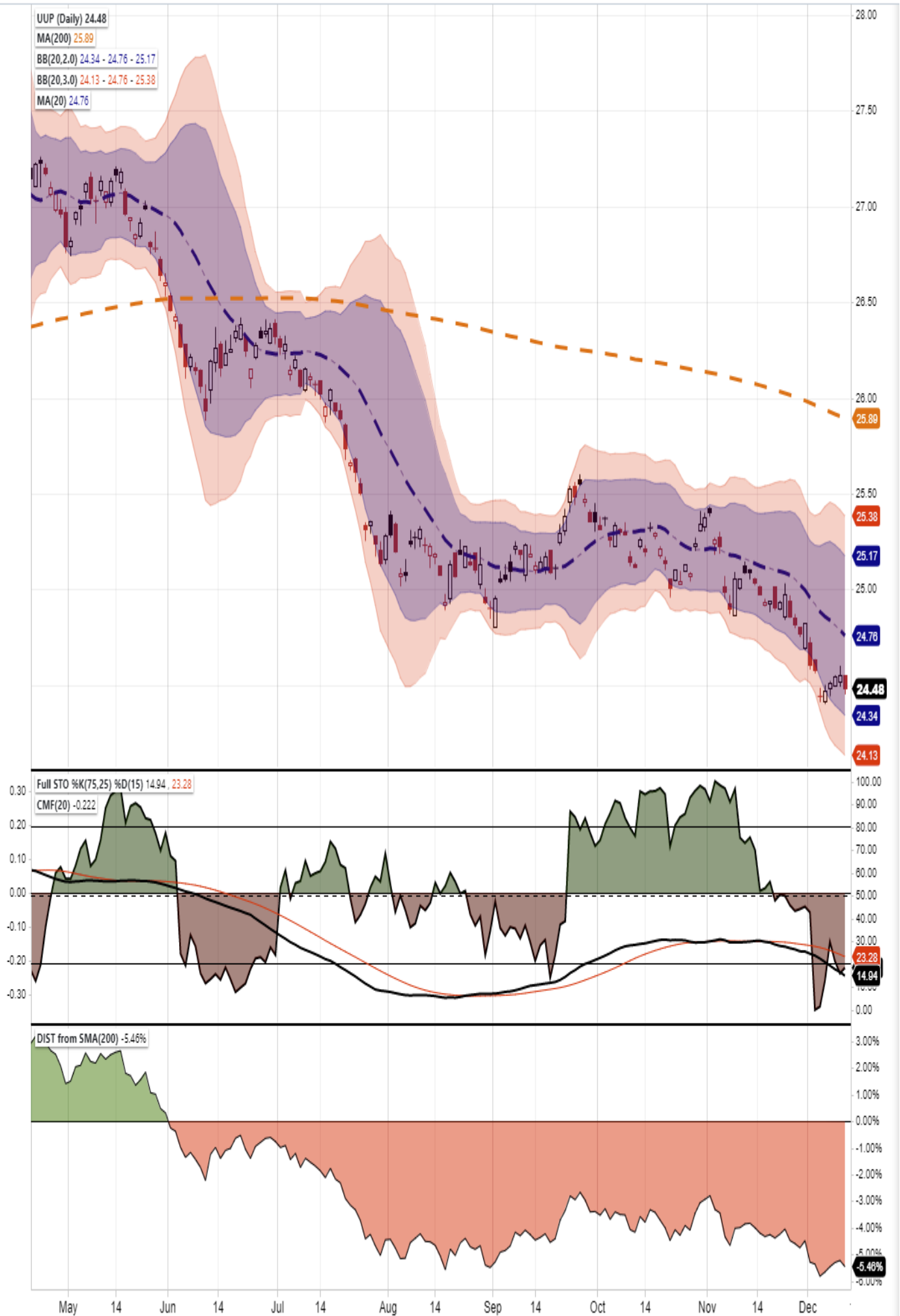


Lastly, we are also watching the U.S. Dollar very closely. It is now extremely oversold with a large net-short position. **Such is a prime setup for a rather sharp reversal, which would lead to lower prices in commodities, stocks, emerging markets, international markets, and bitcoin.**

UUP - Invesco DB US Dollar Index Bullish Fund 24.48 

10-Dec-2020


O: 24.55 H: 24.55 L: 24.45 V: 608.696k -0.07 (-0.29%)



The markets are indeed currently exceedingly exuberant on many fronts. **With margin debt back near peaks, stock prices at all-time highs, and *junk bond yields* near record lows, the bullish media continues to suggest there is no reason for concern.**

Of course, such should not be a surprise. At market peaks *everyone's in the pool.*

*The investor's chief problem and even his worst enemy is likely to be himself.* Benjamin Graham

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## The MacroView



### #MacroView: Earnings Growth Will Disappoint In 2021

Written by Lance Roberts | Dec 11, 2020

It's that time of year when Wall Street analysts started trotting out the predictions for earnings growth and stock market targets for the coming year. Unfortunately, each year these overly optimistic estimates are ground down reality disappoints fantasy. 2021 may be much weaker than expected.

[>> 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

***Analysis & Stock Screens Exclusively For RIAPro Members***

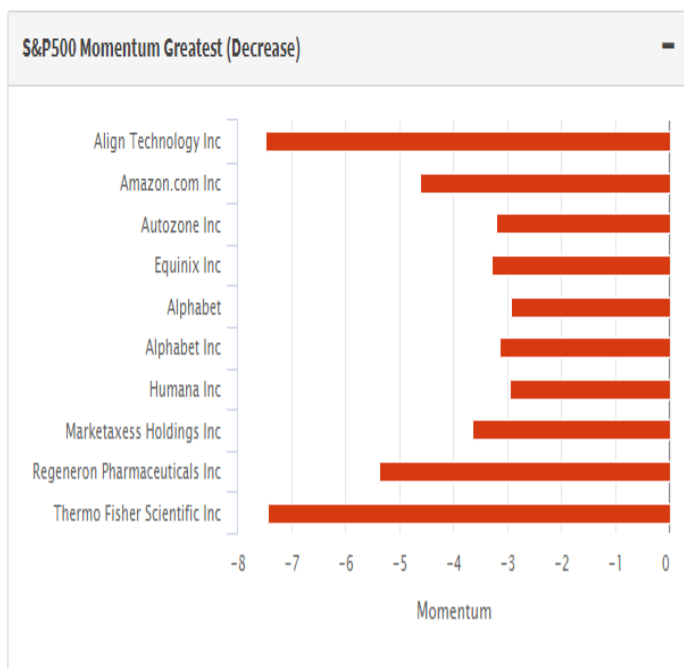
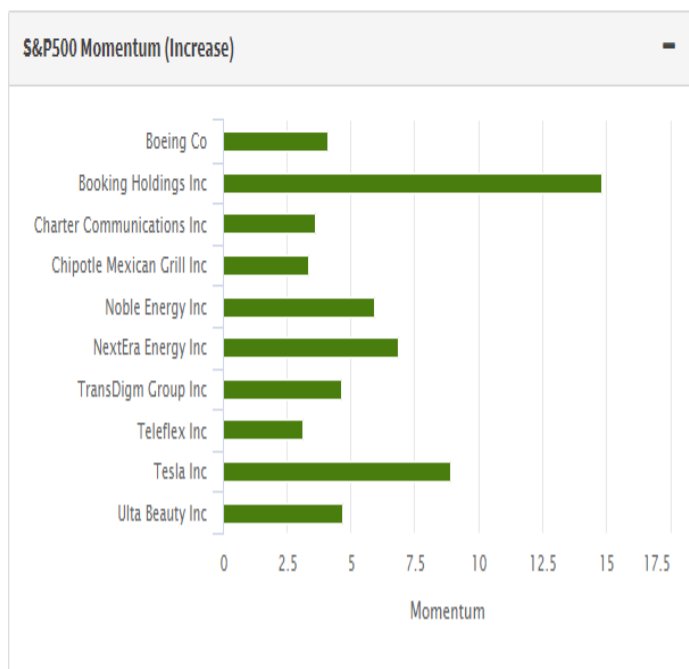
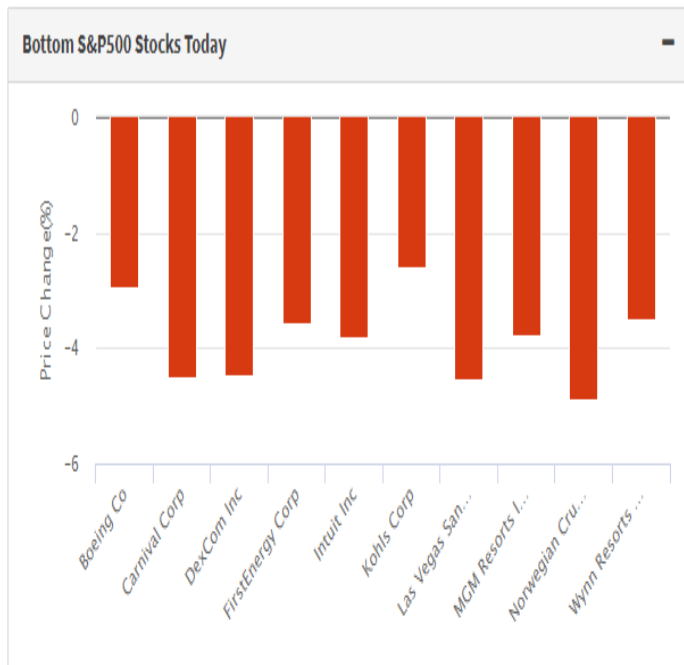
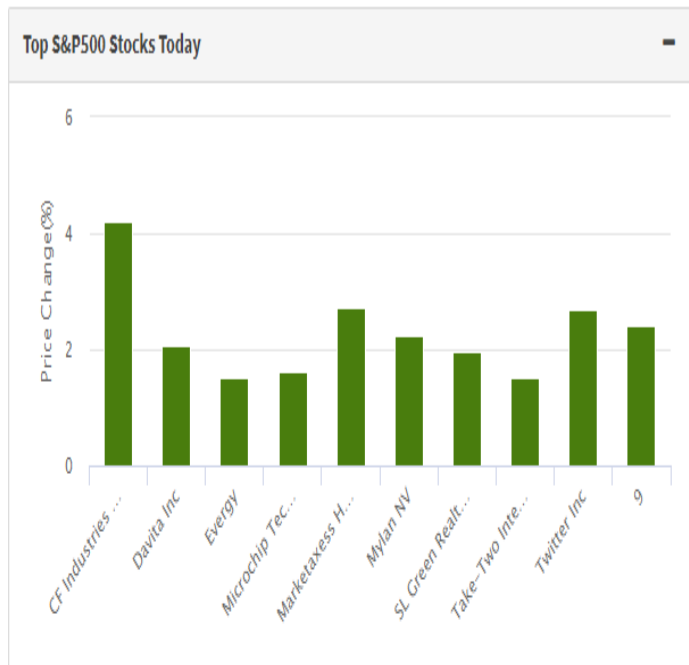
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We just launched an all-new dashboard with tons of market data and stock and ETF specific analysis to generate real-time trading ideas. (*Screen Shots*)



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

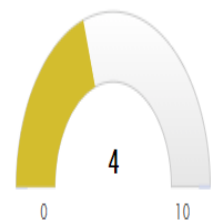
Communication Services			Industrials			Financial			Consumer Cyclical			Energy			Real Estate			Utilities			Materials		
TTWO	TWTR	DISCA	HWM	URI	DE	MKTX	NDAQ	CB	HAS	DPZ	LB	FANG	OXY	WMB	SLG	EQR	UDR	EVRG	NI	CMS	CF	ALB	DD
2.7 %	2.43 %	1.88 %	1.81 %	1.28 %	1.16 %	2.23 %	1.26 %	1.02 %	1.38 %	1.17 %	1.08 %	1.01 %	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 %	-1.89 %	-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 %	



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

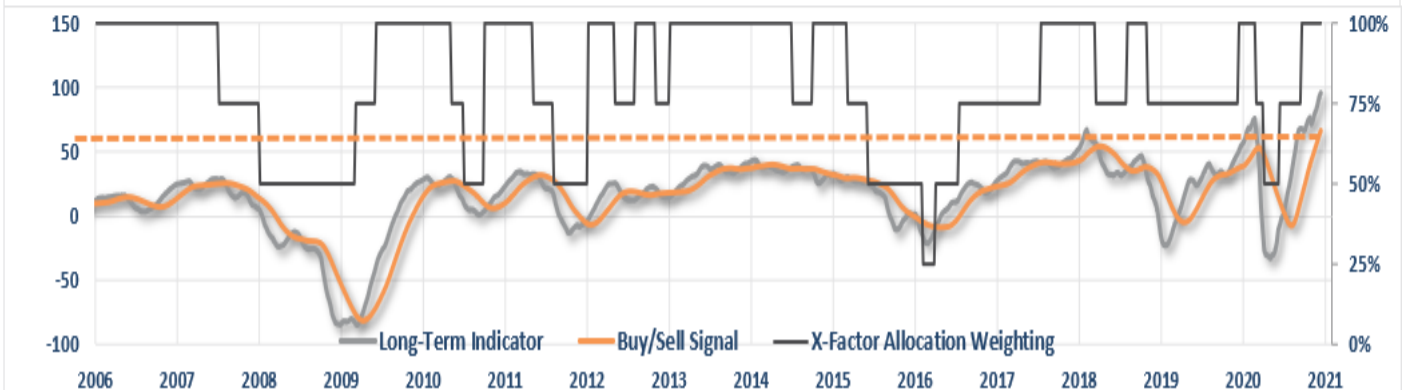
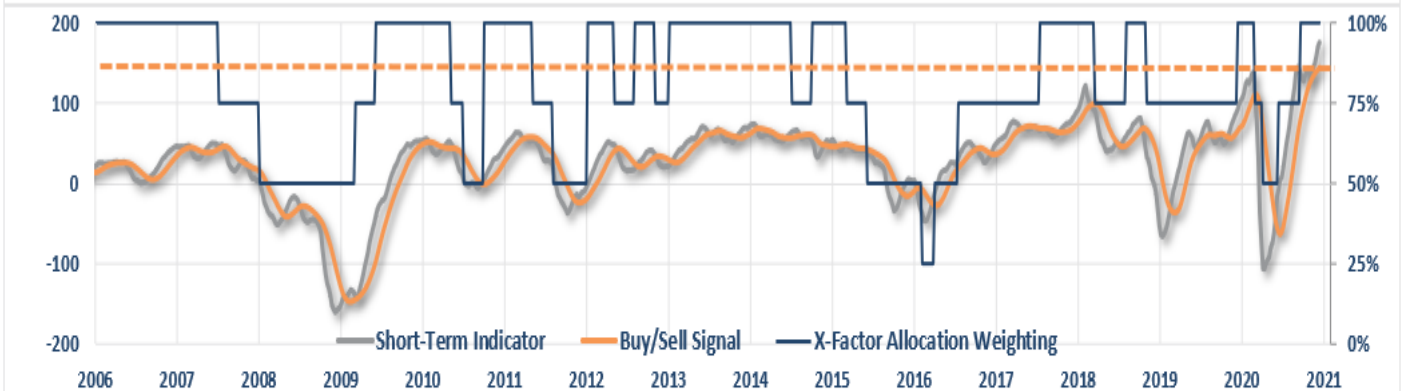
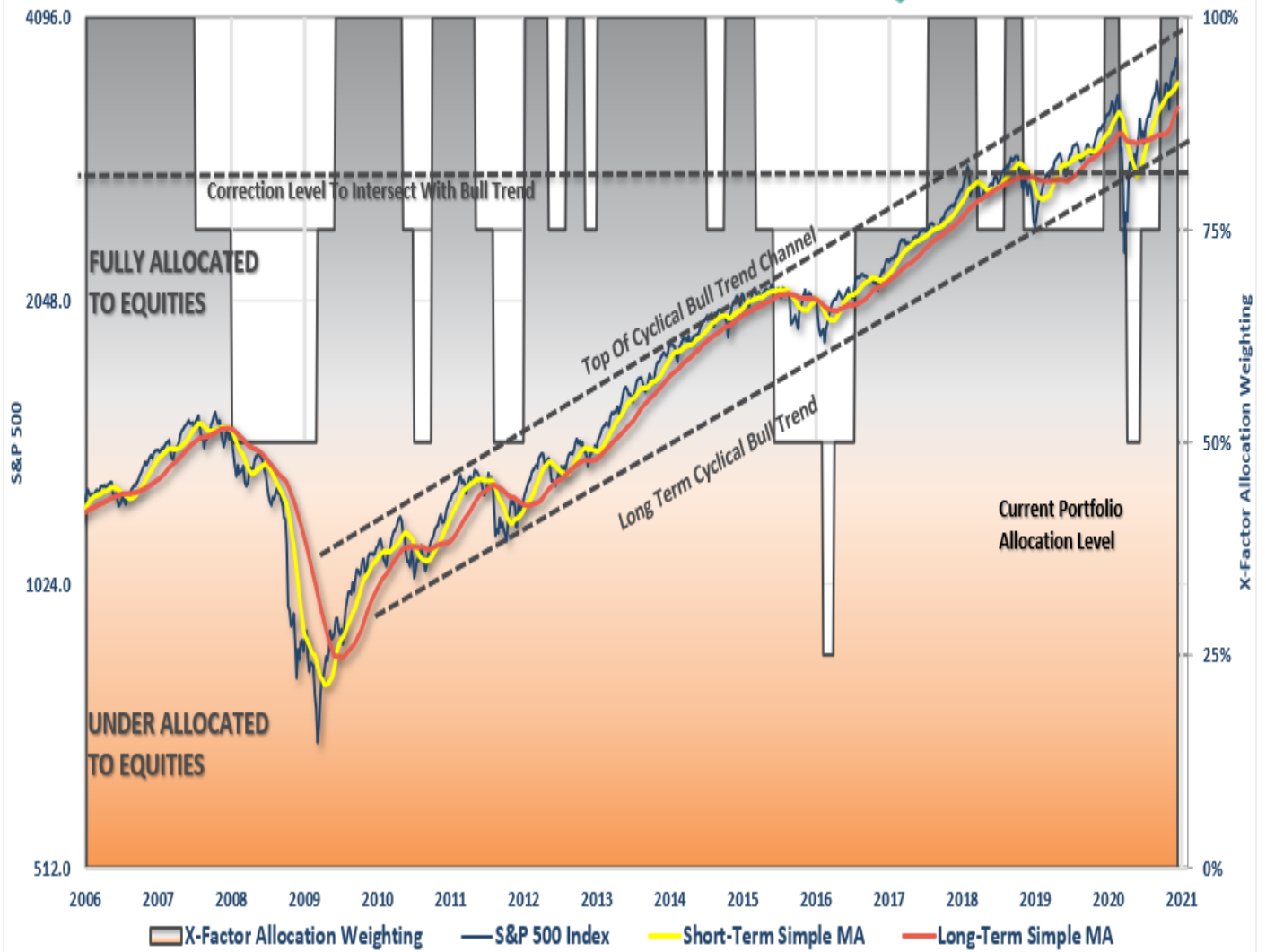
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## THE REAL 401k PLAN MANAGER

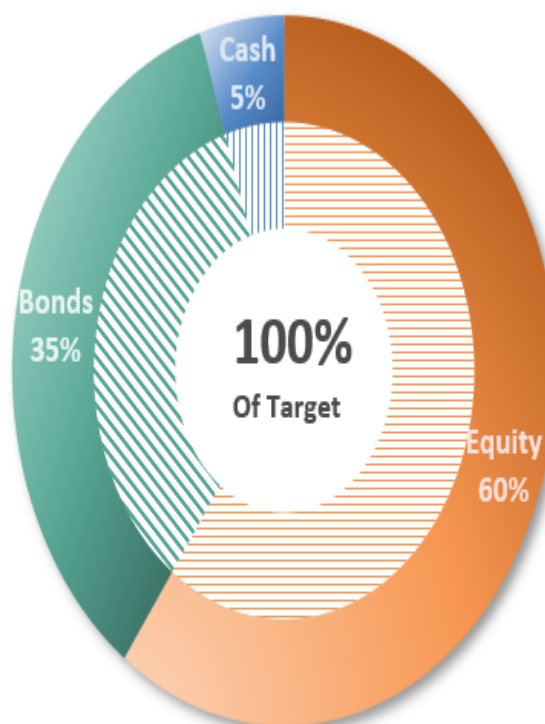
*A Conservative Strategy For Long-Term Investors*

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# Risk Management Analysis



## 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 bullish bias to the markets continued this past weeks as hopes of a vaccine delivery and more stimulus continues to fuel the bullish advance. As shown in the chart above, the "buy signals" for the market are now grossly extended along with the markets from long-term means and trends.

This past week, the markets traded sideways and triggered a short-term sell signal which does put prices at risk in the short-term. If you are overweight equities, you may want to reduce to target weights currently as we head into options expirations next week. There is some risk given the extreme overbought conditions currently.

We do not recommend adding additional exposure at this time. In fact, the more prudent course of action currently is to rebalance portfolios back to original weightings. This will reduce the overall risk profile of the plan currently.

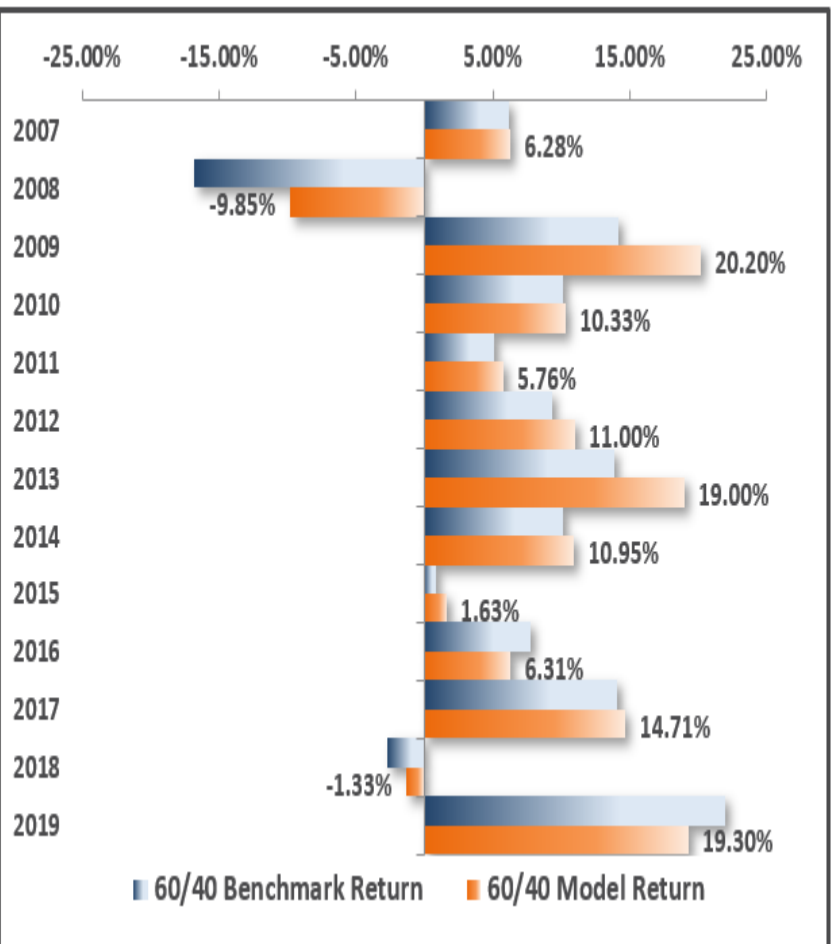
If you are close to retirement, a little extra caution is certainly worth taking.

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

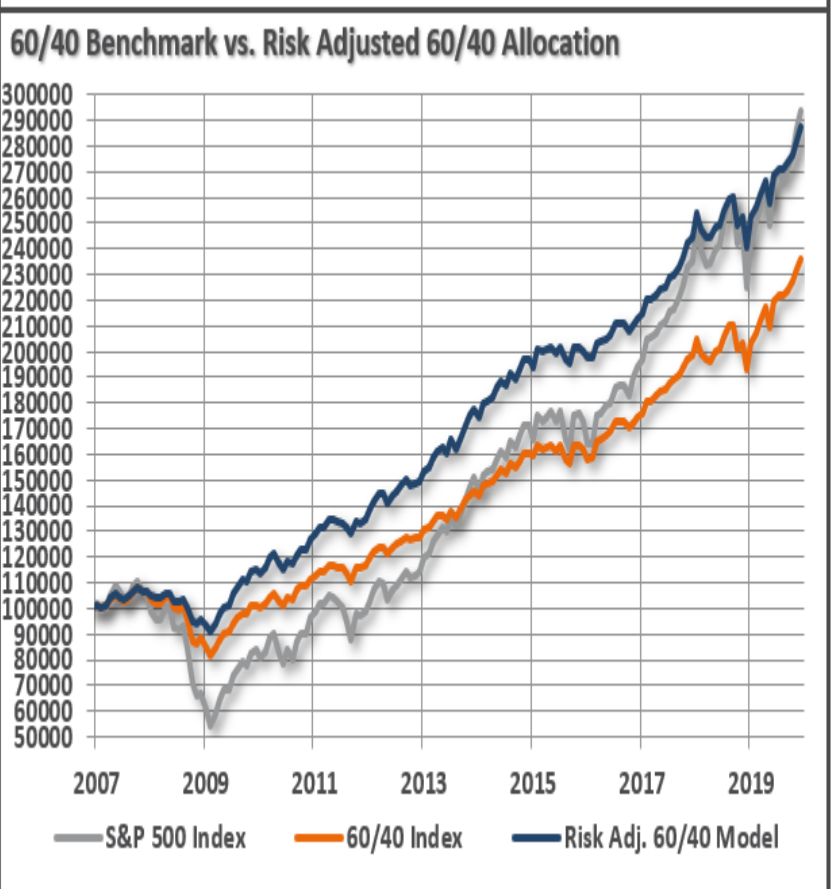
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*Model performance is a two-asset model of stocks and bonds relative to the weighting changes made each week in the newsletter. Such is strictly for informational and educational purposes only, and one should not rely on it for any reason. Past performance 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 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.](#)**

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

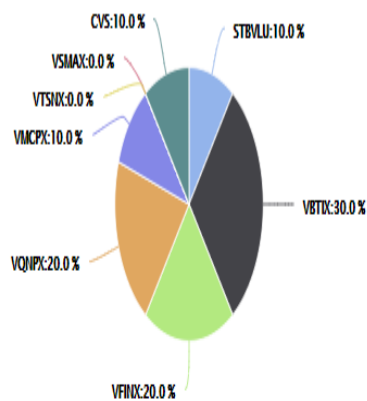
### My Portfolio

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

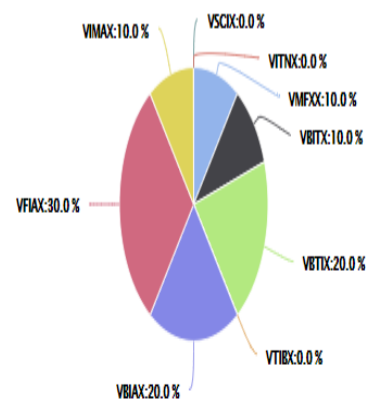
### RIAPro Portfolio RIA PRO MODEL PL

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



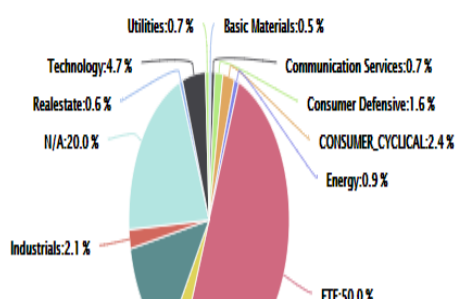
### RIAPro Fund Composition



### My Asset Composition

### RIAPro Asset Composition

### My Sector Composition



### RIAPro Sector Composition

