In this issue of "Bulls Continue To Push Stocks Higher As Risk Rises."

- *Bulls Push Stocks To New Highs*
- *Market Queuing Up For A Correction*
- *The Fed Broke It*
- *Portfolio Positioning*
- *The Illusion Of Soaring Savings Amid Rising Economic Uncertainty*
- *Sector & Market Analysis*
- *401k Plan Manager*

Follow Us On: *Twitter, Facebook, Linked-In, Sound Cloud, Seeking Alpha*

RIA Advisors Can Now Manage Your 401k Plan

Too many choices? Unsure of what funds to select? Need a strategy to protect your retirement plan from a market downturn? RIA Advisors can now manage your 401k plan for you. It?s quick, simple, and transparent. In just a few minutes, we can get you in the ***?right lane?*** for retirement.

Catch Up On What You Missed Last Week

#WhatYouMissed On RIA This Week: 1-22-21

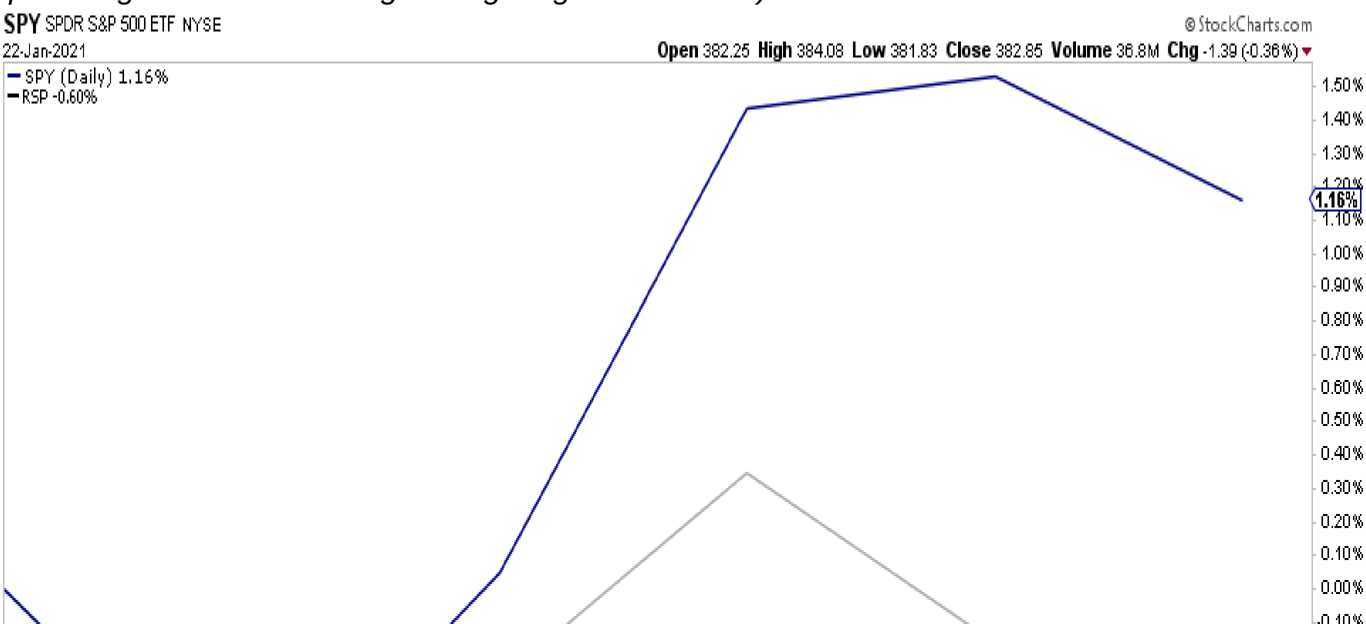
Written by Lance Roberts | Jan 22, 2021

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.

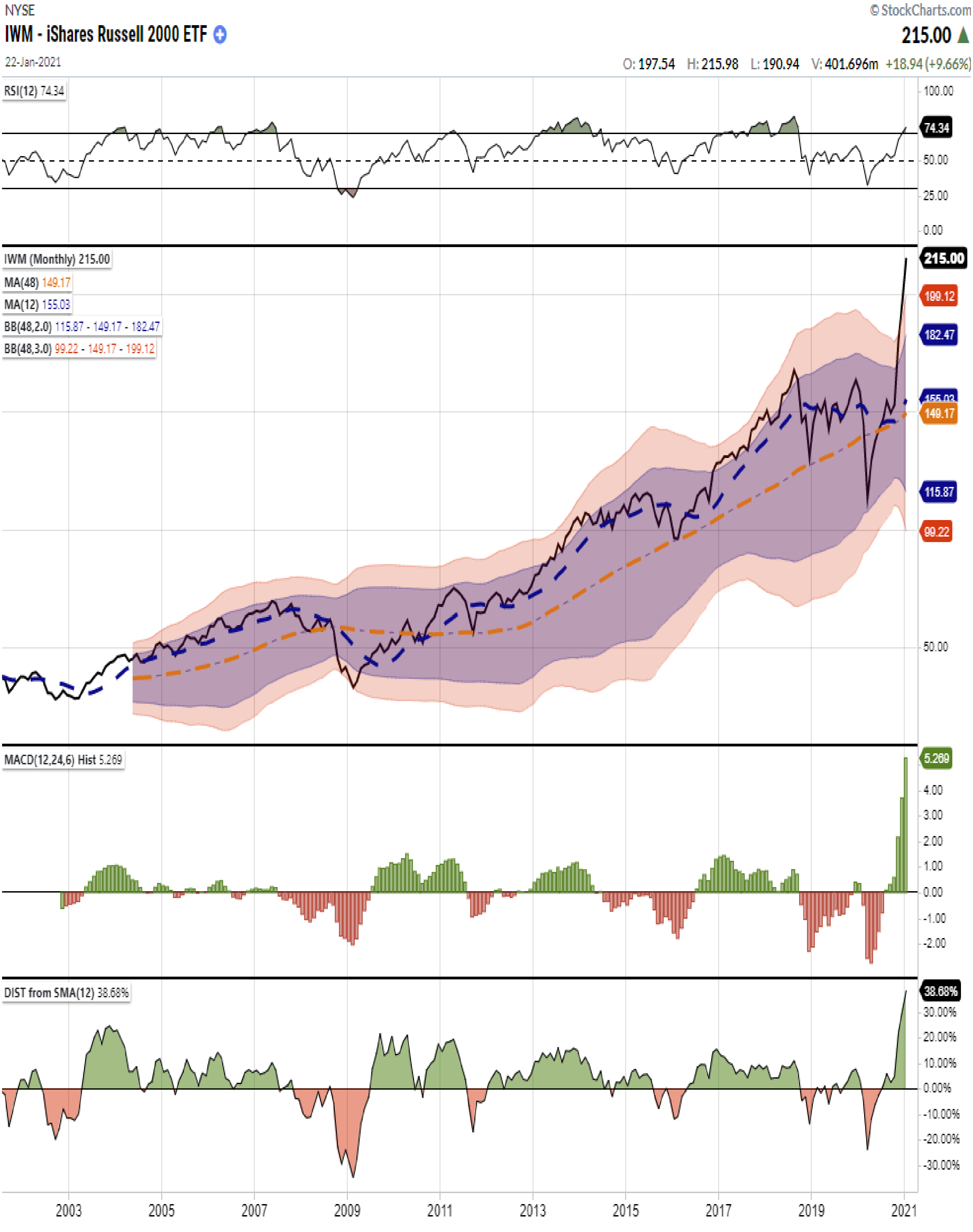
>> Read More

Bulls Push Stocks To New Highs

What better way to celebrate a new President than to push stocks to new all-time highs? On Wednesday, the market surged as Joe Biden got sworn in as the 46th President of the United States. **Interestingly, it was a rotation from the reflation trade back into the *"Old Gaurd"* of the FANG stocks that led the way.** In fact, despite hopes that the reflation trade would be the thing, it has been just the opposite. The chart below is the differential in performance over the last week between market-cap and equal-weighted markets. *(FANG dominates market cap whereas equal-weight has a much larger weighting in industrials)*



Notably, that rotation is a function of money managers repositioning portfolios to reduce risk. The risk gets reduced by moving from significantly extended and deviated areas of the market back to less extended or oversold segments. As noted last week, there is nothing screaming risk more at the moment than the small-cap sector.



Markets Queuing Up For A Correction

Currently, managers can't afford to be out of the market and potentially suffer a performance drag. So, the rotation in the market reduces risk while still maintaining exposure to equities. However, as discussed last week, there is ample evidence that ***"everyone is currently in the pool."*** Such leaves the market ***vulnerable to three risks:***

1. *More stimulus and direct checks into the economy lead to an inflationary spike that causes the Fed to discuss hiking rates and tapering QE.*
2. *The current rise in interest rates continues over higher inflation concerns until it impacts a debt-laden economy causing the Fed to implement "yield curve control."*
3. *The dollar, which has an enormous net-short position against it, reverses moves higher, pulling in foreign reserves, causing a short-squeeze on the dollar.*

The reality is that both a rise in the dollar, with higher yields, is likely to start attracting reserves from countries faced with economic weakness and negative-yielding debt. Such would quickly reverse the tailwinds that have supported the equity rally since March.

In the following video, we discuss why the markets are setting up for a correction over the next month of 3-5%. ***(We publish a daily 3-minute video [click here to subscribe)](#)*** https://www.youtube.com/watch?v=80DMuOYhrWo ***Important Note:* *A correction can take on one of two forms.*** *The market either declines in price to alleviate the overbought condition, or it can consolidate sideways.*

The Fed Broke It

In his latest letter to investors, [The Financial Times reported](#) that Seth Klarman of Baupost Capital blamed the world's central banks for flooding the financial system with liquidity masking the US economy's real health. To wit:

> *?With so much stimulus being deployed, trying to figure out if the economy is in recession is like trying to assess if you had a fever after you just took a large dose of aspirin.* ***But as with frogs in water that is slowly being heated to a boil, investors are being conditioned not to recognise the danger.?***

While the entire article is worth a read, his point is what we addressed previously in [***"Moral Hazard."***](#) What exactly is the definition of *?moral hazard.?*

> ***Noun ? ECONOMICS*** "The lack of incentive to guard against risk where one is protected from its consequences, e.g., by insurance."

s adopting the idea of

Of course, given the price-

to-sales rat

paying for future

outcomes.

poorly without

More Of The Same

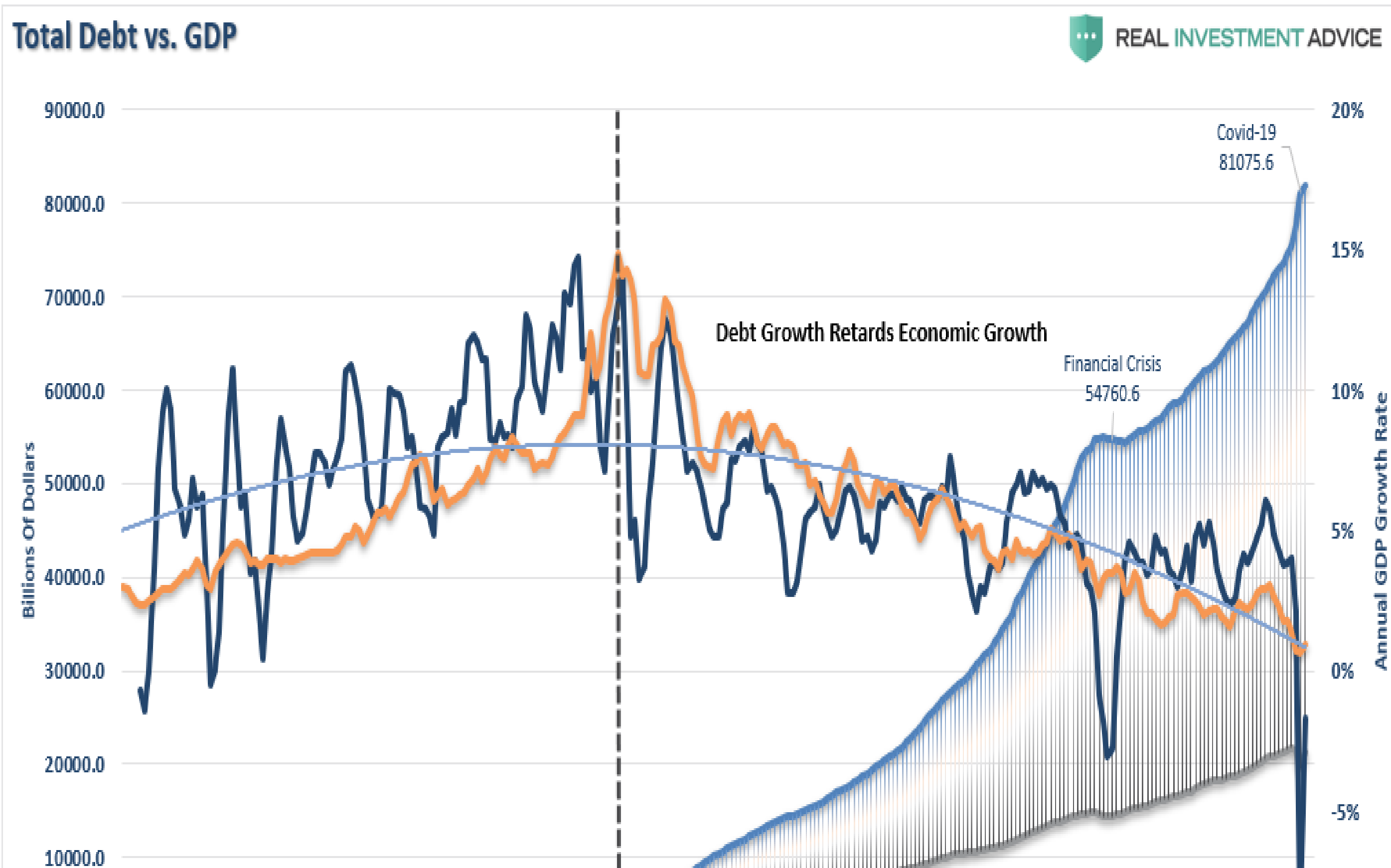
As Seth Klarman notes, it is the unprecedented flood of global liquidity that is driving the mayhem.

"The Fed?s policies and programs have directly contributed to exceptionally ... ***while downside***

While The Fed?s drastic measures have arguably helped to boost economic activity and rescue ailing businesses (or more correctly, raise stock prices enabling issuance and collapse yields and spreads enabling issuance), Klarman warns:

> ***"They have also kindled two dangerous ideas: that fiscal deficits don?t matter, and that no matter how much debt is outstanding, we can effortlessly, safely, and reliably pile on more.?***

Unfortunately, 40-years of history have already shown us the problem with debts and deficits in economic prosperity for the masses.



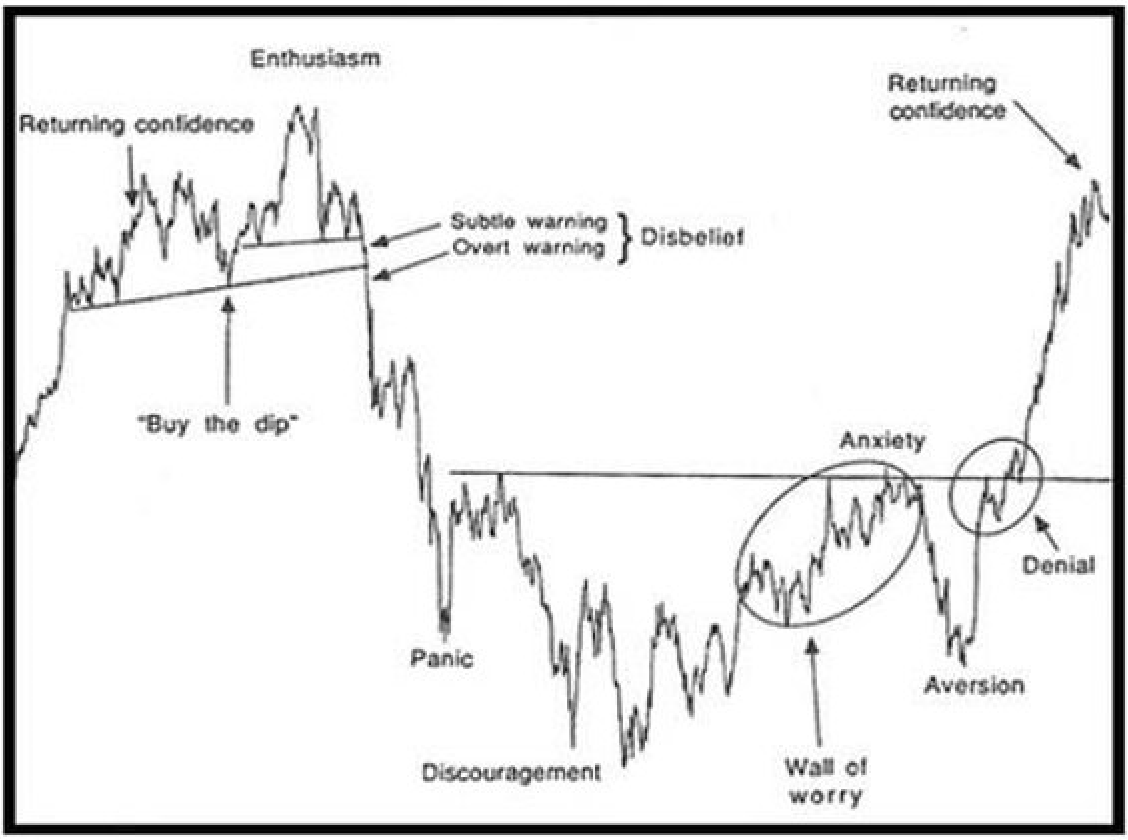
Another decade of the same should about finish the job.

Signs Of Enthusiasm

Sentiment Trader had a great piece out on Thursday discussing sentiment and enthusiasm.

> *"The biggest challenge with this market, one we haven't really ever had to deal with before, is the conflict between an impressive recovery from a historic selloff, superimposed against a backdrop of record levels of speculative activity. Recoveries from a bear market typically take much longer. By the time they've recovered and been at new highs for a while, speculation comes in, markets plateau, divergences form, and sentiment cycles back down during a correction. If we look at a typical Sentiment Cycle, then we basically went from enthusiasm to panic and right back to enthusiasm, all in record time."*

Justin Mamis Sentiment Cycle



"*There is little arguing that we're in this part of the cycle. As the Knowledge Base article, "How do I use sentiment?" points out, this part of the cycle is identified by:*

- *High optimism -* ***CHECK***

- *Easy credit (too easy, with loose terms) -* ***CHECK***
- *A rush of initial and secondary offerings -****CHECK***
- *Risky stocks outperforming -* ***CHECK***
- *Stretched valuations -* ***CHECK***

> *All boxes are checked there. More objectively, when we look at the correlation between the S&P 500's price path lately versus the Enthusiasm phase of past cycles, there is a high positive correlation."*

Investors Are There

While none of this suggests the markets are about to crash, it does indicate that short-term risk/reward is not favorable currently. As SentimenTrader summed up:

> *"Sentiment is horrifically extreme and almost all signs are present, screaming at us that we're seeing the kinds of behavior that are almost solely and universally seen at medium-term peaks in stocks."*

As noted above, a short- to intermediate-term correction to reduce current levels of exuberance would be a healthy thing. Longer-term, the dynamics to support a continuation of the bull market will become more challenging, particularly if inflation and interest rates start to push higher.

Portfolio Positioning - A Correction Is Coming

As noted, a correction is coming. Let me clarify. **I am NOT saying the markets are about to crash.** However, after the recent runup from November, **all of our indicators are beginning to align. Such suggests a 3-7% correction over the next month.** Could it be 10% or more? Absolutely. Once the correction begins, we can garner a better understanding of the downside risk. Over the past year, **we have remained primarily allocated toward equity exposure but have also worked around the edges hedging risk,** raising stop levels, and staying mostly domestic-focused. Given our outlook for a steeper yield curve earlier this year, we also shortened the duration of our bond allocations and increased credit quality. On Friday, we did increase our cash levels and reduce our equity-index longs for the time being. We may be a bit early, but we feel the risk currently outweighs the reward. These portfolio adjustments to allocations follow our time-tested portfolio management rules.

1. ***Tighten up stop-loss levels*** *to current support levels for each position.*
2. ***Hedge portfolios*** *against major market declines.*
3. ***Take profits*** *in positions that have been big winners*
4. ***Sell laggards*** *and losers*
5. ***Raise cash*** *and rebalance portfolios to target weightings.*

Notice, nothing in there says, *?sell everything and go to cash.?*

Our Job As Investors

Remember, our job as investors is pretty simple ? protect our investment capital from short-term destruction so that we can play the long-term investment game.

- ***Capital preservation***
- *A rate of return sufficient to* ***keep pace with the rate of inflation.***
- ***Expectations based on realistic objectives.*** *(The market does not compound at 8%, 6% or 4%)*
- ***Higher rates of return require an exponential increase in the underlying risk profile.*** *This tends to not work out well.*
- ***You can replace lost capital ? but you can?t replace lost time.*** *Time is a precious commodity that you cannot afford to waste.*
- ***Portfolios are time-frame specific.*** *If you have a 5-years to retirement but build a portfolio with a 20-year time horizon (taking on more risk) the results will likely be disastrous*.

With forward returns likely to be lower and more volatile than witnessed over the last decade, the need for a more conservative approach is rising. **Controlling risk, reducing emotional investment mistakes, and limiting investment capital's destruction will likely be the real formula for investment success in the coming decade.**

The MacroView

The Illusion Of Soaring Savings Amid Rising Economic Uncertainty

Written by Lance Roberts | Jan 22, 2021

The post-pandemic savings level of Americans has been used to suggest an unprecedented level of security among Americans. The problem is that it is an illusion amid the reality of rising economic uncertainty.

>> 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

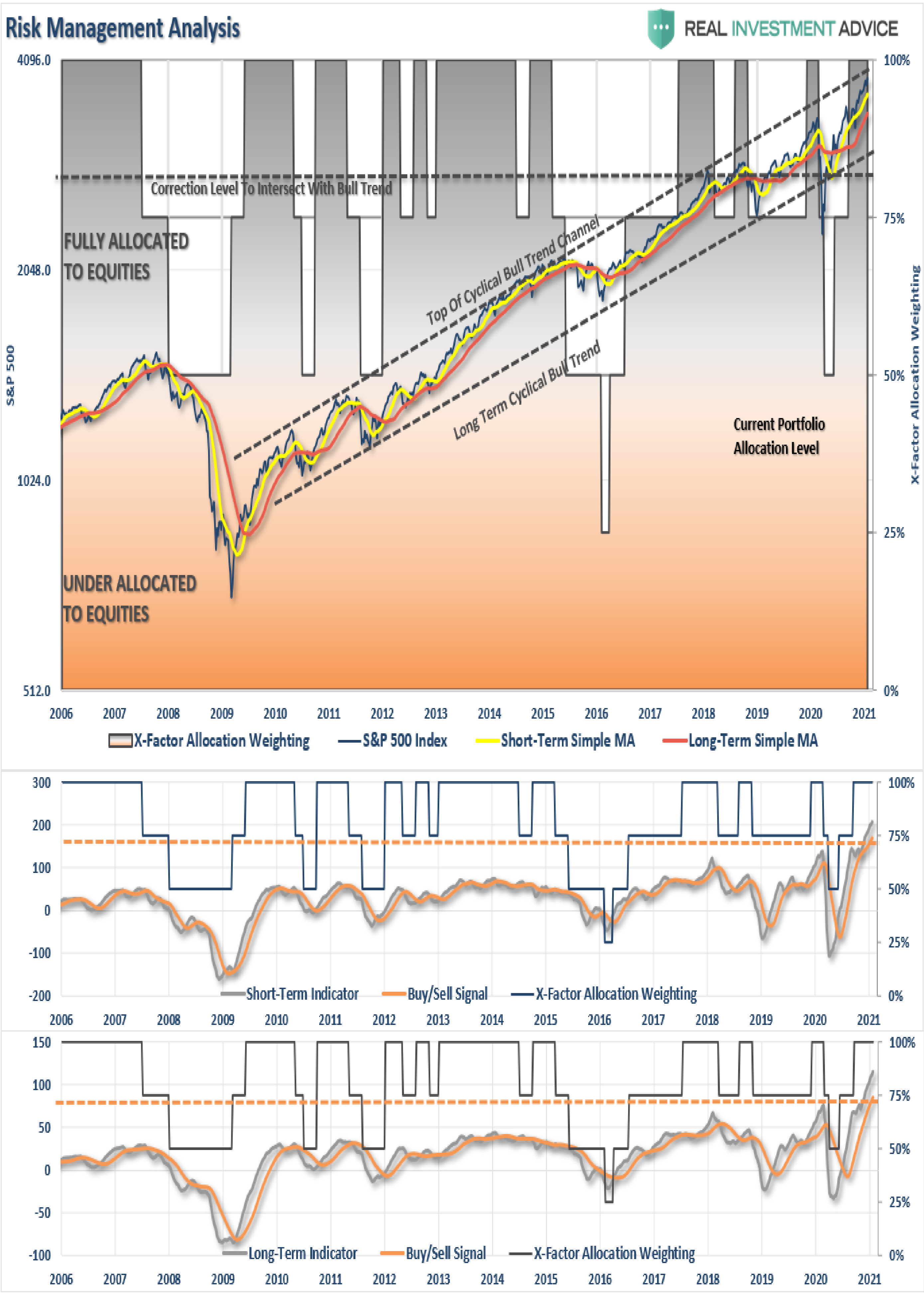
Discover All You Are Missing At RIAPRO.NET

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

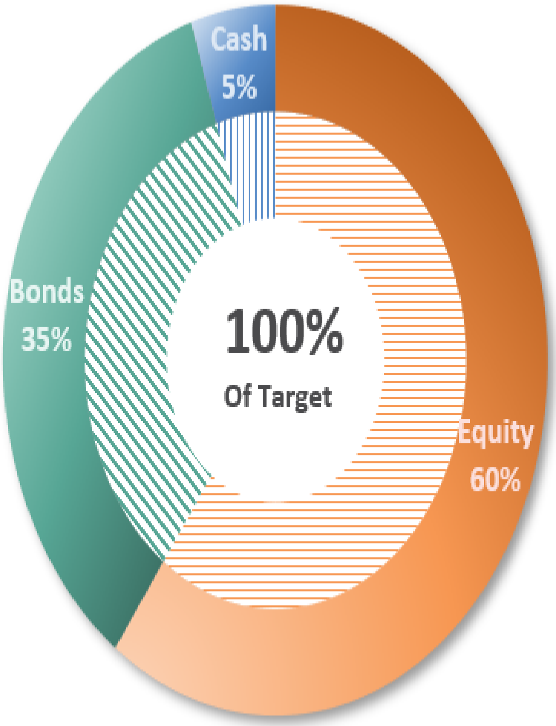
- *Sector & Market Analysis*
- *Technical Gauge*
- *Fear/Greed Positioning Gauge*
- *Sector Rotation Analysis (Risk/Reward Ranges)*
- *Stock Screens (Growth, Value, Technical)*
- *Client Portfolio Updates*
- *Live 401k Plan Manager*

THE REAL 401k PLAN MANAGER

A Conservative Strategy For Long-Term Investors



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

As we approach the end of January, the market is continuing to maintain new highs. However, on many levels the markets are extended, very overbought, and extremely bullishly biased. Such is often the makings of a short-term correction.

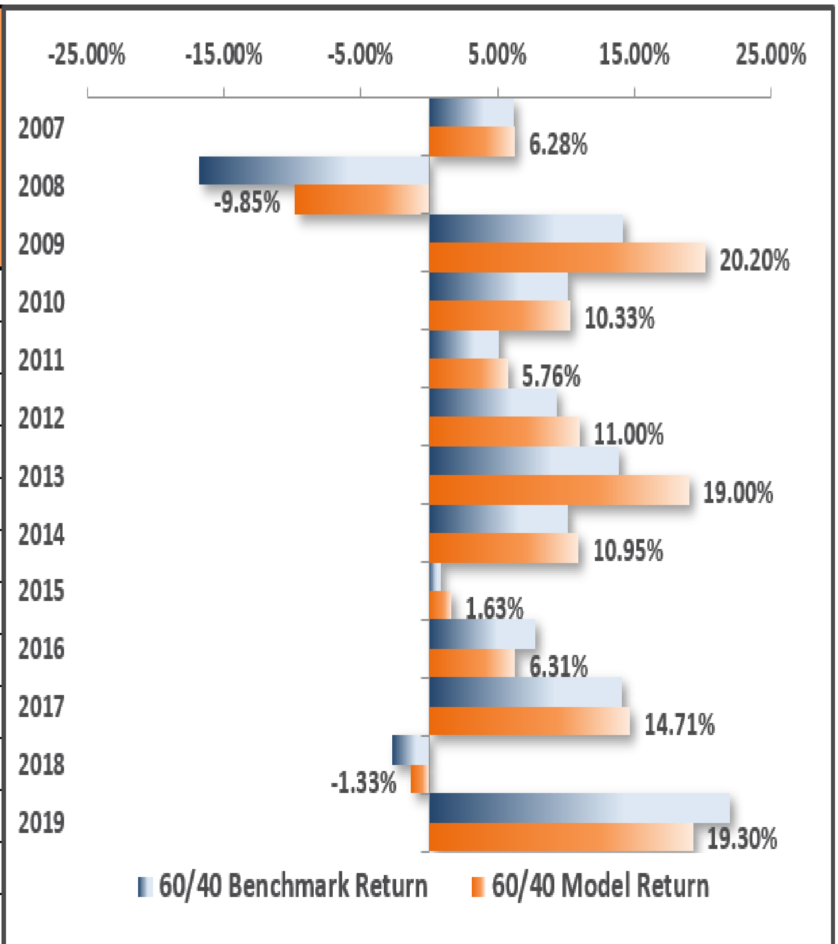
Heading into February, there is no reason to take any aggressive action with portfolios already fully allocated. Given that Februrary and March tend to be weak months, I would be reticent chasing more aggressive exposure in retirement plans currently. In fact, doing a bit of housecleaning by rebalancing weightings, reducing more aggressive positioning, etc., is likely a good practice currently.

Maintain exposures, but rebalance positions that have grown to outsize weightings in portfolio. Particularly in small/mid cap and international funds which are eggregiously overbought.

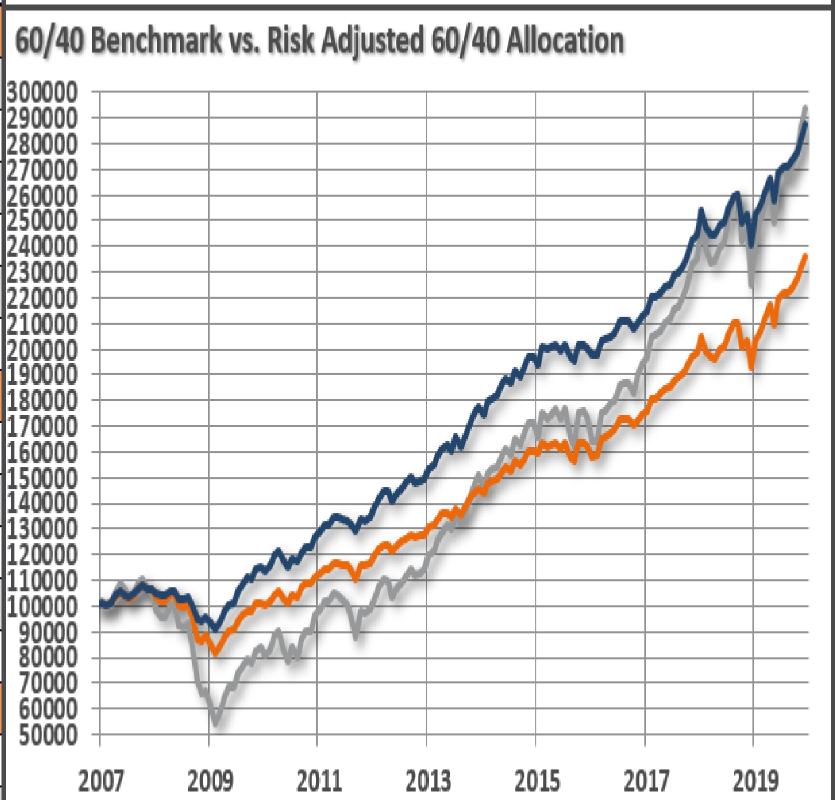
If you need help after reading the alert, do not hesitate to [contact me](#).

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



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 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.](#)**