In this 08-13-21 issue of "Bulls Charge Ahead On Hopes Fed Stands Pat."

- ***Market Rally Gains Steam***
- ***Market Internals Extraordinarily Weak***
- ***The Fed Gave Investors No Choice***
- ***Portfolio Positioning***
- ***Sector & Market Analysis***
- ***401k Plan Manager***

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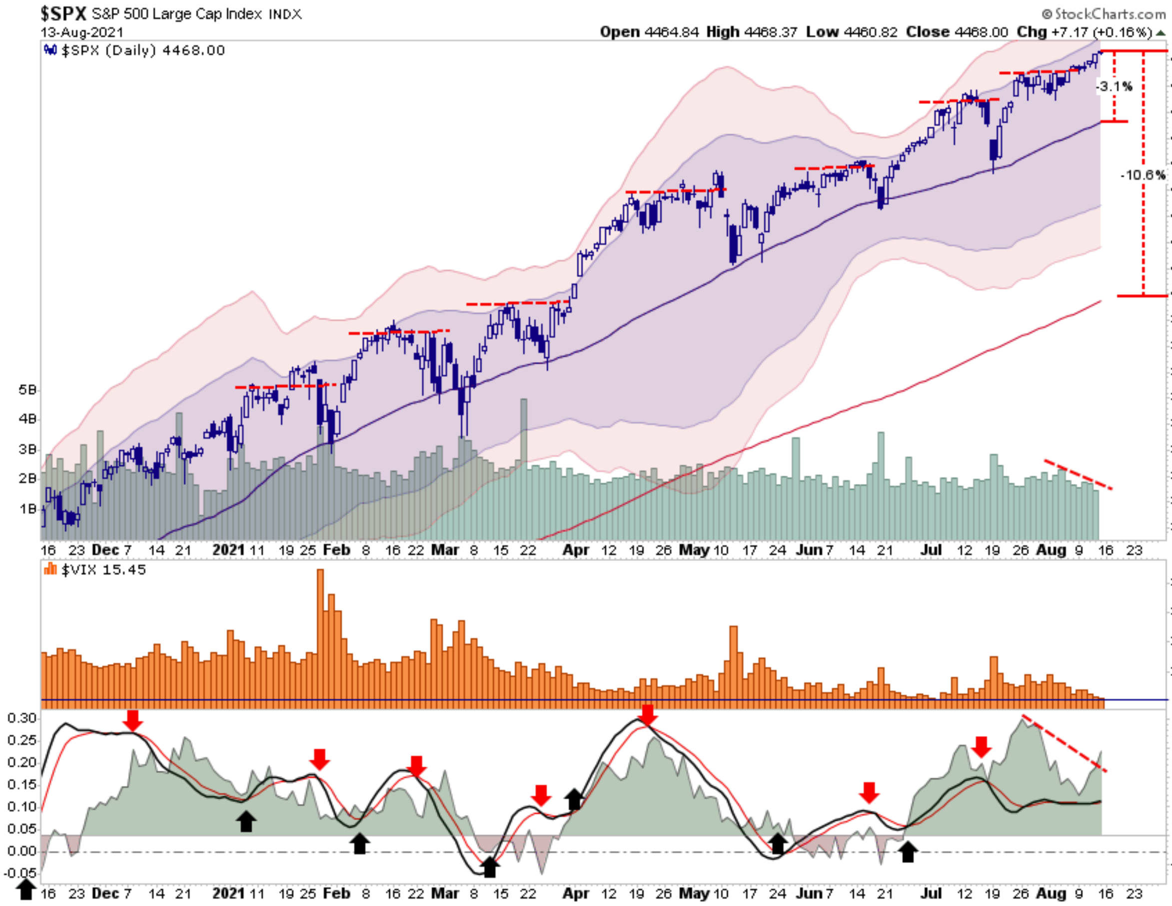
Market Rally Gains Steam

Last week, we discussed that further upside would be challenging with the market hitting new highs. As noted:

> *"Not surprisingly, the market didn't make much headway this past week, given the current extended and overbought conditions. For now, 'buy signals' remain intact, which likely limits the downside over the next week. However, a retest of the 50-dma is certainly not out of the question."*

This week, such was again much the same. The market did register new highs but only by a small fraction. What is important to note is that these incremental gains are burning through buying power. Such leaves the markets increasingly vulnerable to a correction, given the proper catalyst.

However, for now, with volatility very compressed, there seems to be little to worry about. **Despite falling consumer confidence, strong inflation readings, and weaker economic growth, the *"bulls"* continue to push risk on expectation the *"Fed has their back."***



With volatility currently at the lows of its recent range, a pick-up in volatility would not be surprising. Over the last 6-months, corrections remain range-bound to the 50-dma which is currently 3% lower than closing levels.

However, as noted last week, a retest of the 200-dma should not be dismissed which is roughly 11% lower. While such a decline is well within the norms of a correction in any given market year, the low levels of volatility will make it *"feel"* worse than it is.

While the data currently suggests risks are somewhat mitigated momentarily, such does not mean it should be ignored. It is this view that drives our current view on portfolio positioning which we discuss below.

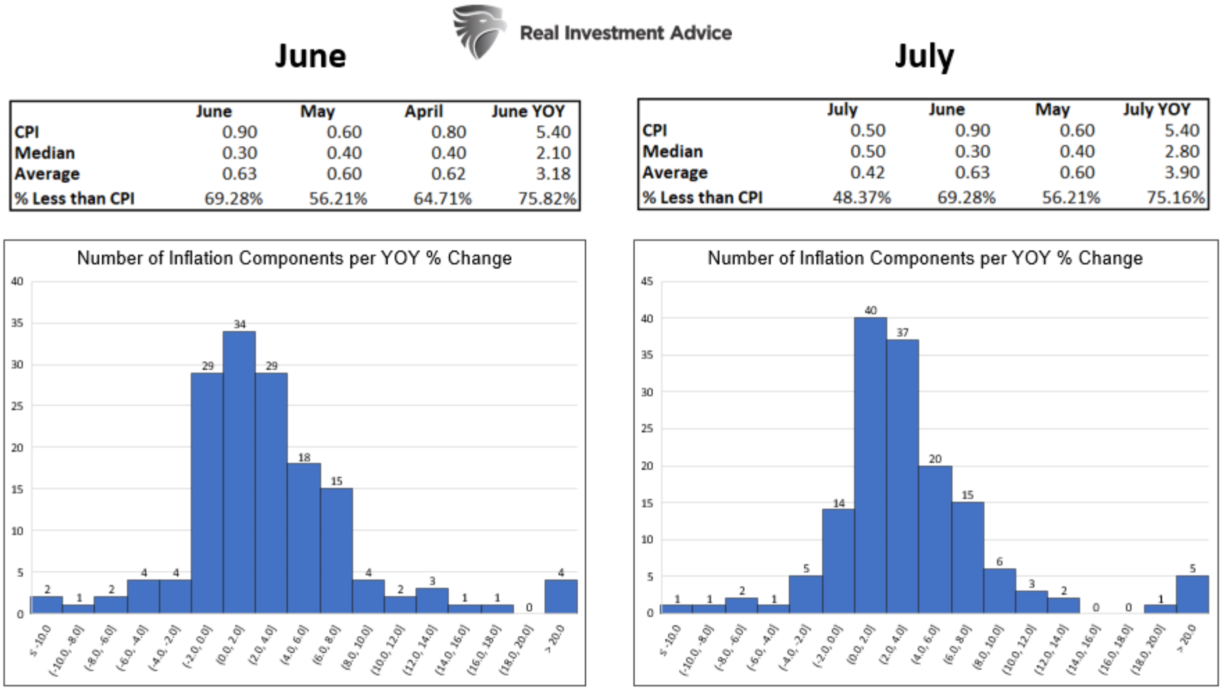
A Note On Inflation

This past week we saw the latest CPI print, which showed a modest drop in the annual rate of change in the index. Notably, while inflation weakened slightly, it is still running well above the pre-covid trend and well above the Fed's inflation target of 2%.

As Michael Lebowitz noted for our ***RIAPRO Subscribers (Try Risk-Free For 30-Days):***

> *"The graphs and tables below, breaking down 153 of the components of inflation, provide a broader analysis of Wednesday?s July CPI data as compared to June.*
>
> ***At the headline level, monthly CPI fell to 0.5% from 0.9%.*** *The average price of the 153 goods comprising CPI fell from 0.63% to 0.42%.* ***However, the median price rose by 0.20% to 0.50%.*** *Further, in June nearly 70% of the goods saw percentage price increases less than the CPI rate. In July that number fell to just under 50%.*

Also note, the average and median increases in the year-over-year changes rose significantly from June to July. ***The headline CPI number is supportive of those in the transitory inflation camp, but the underlying data is not as clear.*** *Yesterday's PPI data provides further concern that inflation may not have peaked yet."*



June

	June	May	April	June YOY
CPI	0.90	0.60	0.80	5.40
Median	0.30	0.40	0.40	2.10
Average	0.63	0.60	0.62	3.18
% Less than CPI	69.28%	56.21%	64.71%	75.82%

July

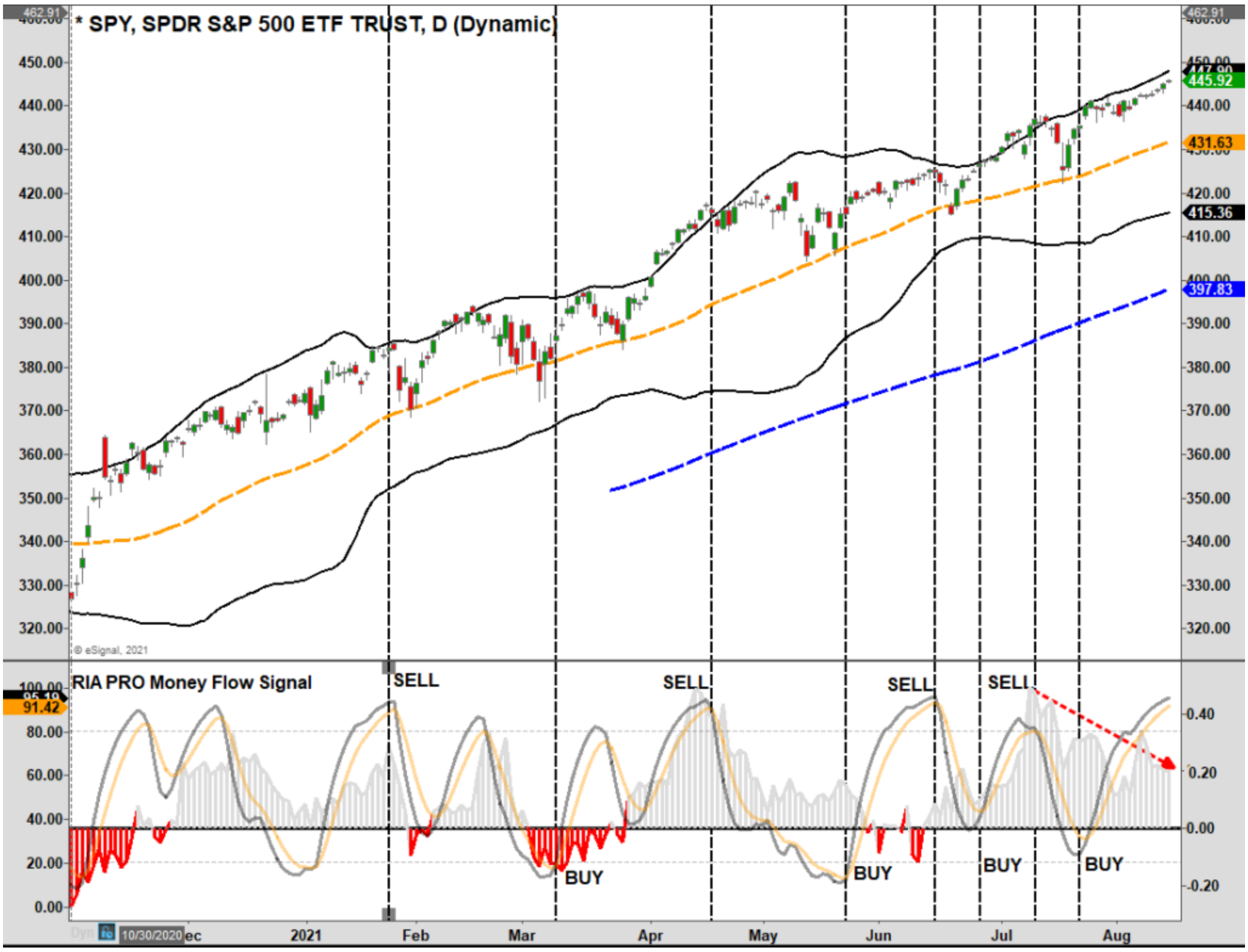
	July	June	May	July YOY
CPI	0.50	0.90	0.60	5.40
Median	0.50	0.30	0.40	2.80
Average	0.42	0.63	0.60	3.90
% Less than CPI	48.37%	69.28%	56.21%	75.16%

Between inflation, pressure from Congress, and robust employment reports, the Fed is getting pushed towards tapering current monetary policy. With numerous Fed speakers eluding to needing to taper and raise rates sooner than expected, we suspect Powell could make comments as early as the end of the month.

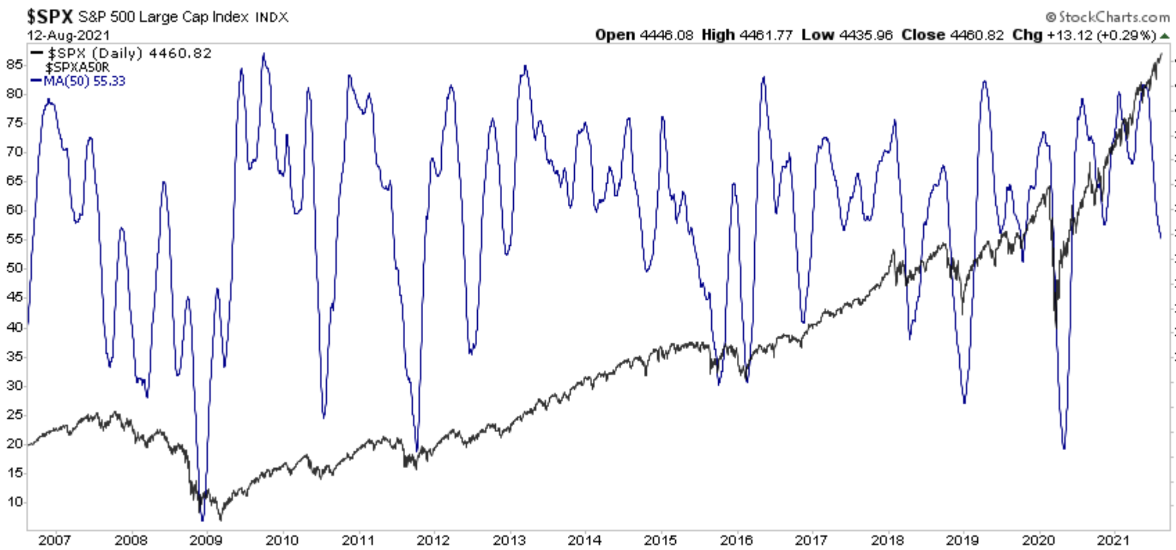
The Fed's monetary accommodation continues as the primary market support. Therefore, it is worth noting a potential reversal.

Market Internals Continue To Deteriorate

As noted, the market rallied nicely to marginal new highs this past week, but market internals remains relatively weak. Moreover, money flows continue to slow.



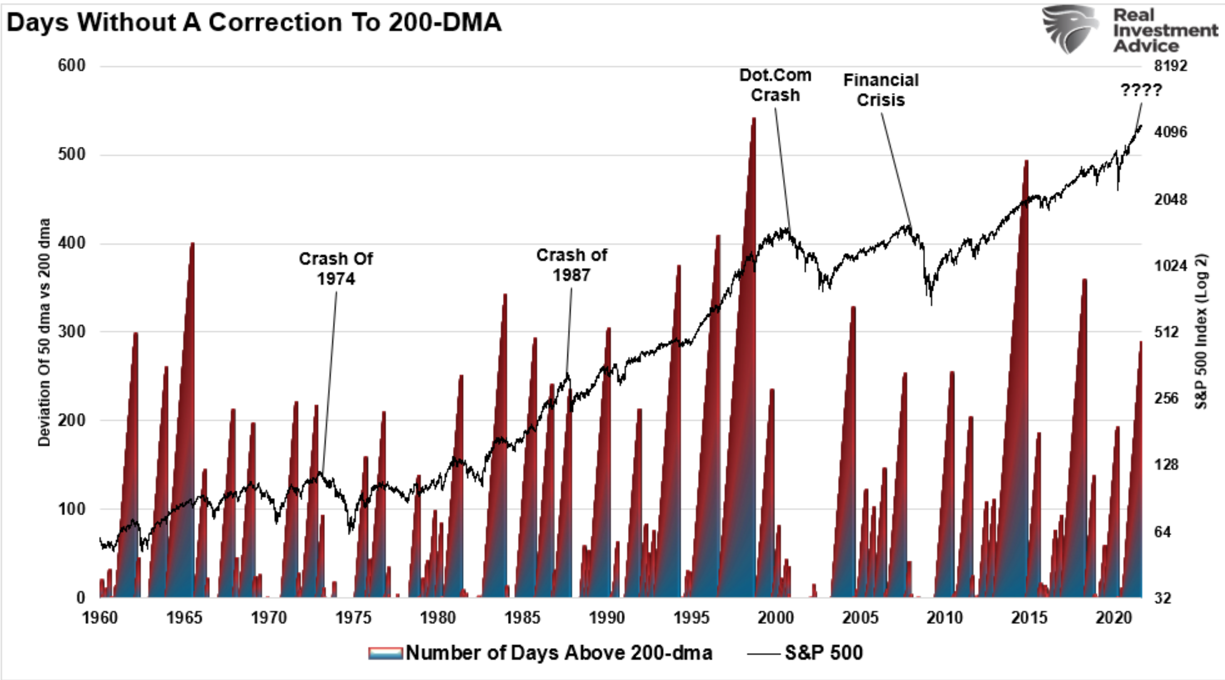
Notably, despite a market trading at all-time highs, the number of stocks trading above the 50-dma is feeble.



Furthermore, deviations from long-term moving averages continue to get more extreme. ***[As noted this past week,](#)*** the deviation from the 200-dma poses a credible threat in terms of magnitude and duration.

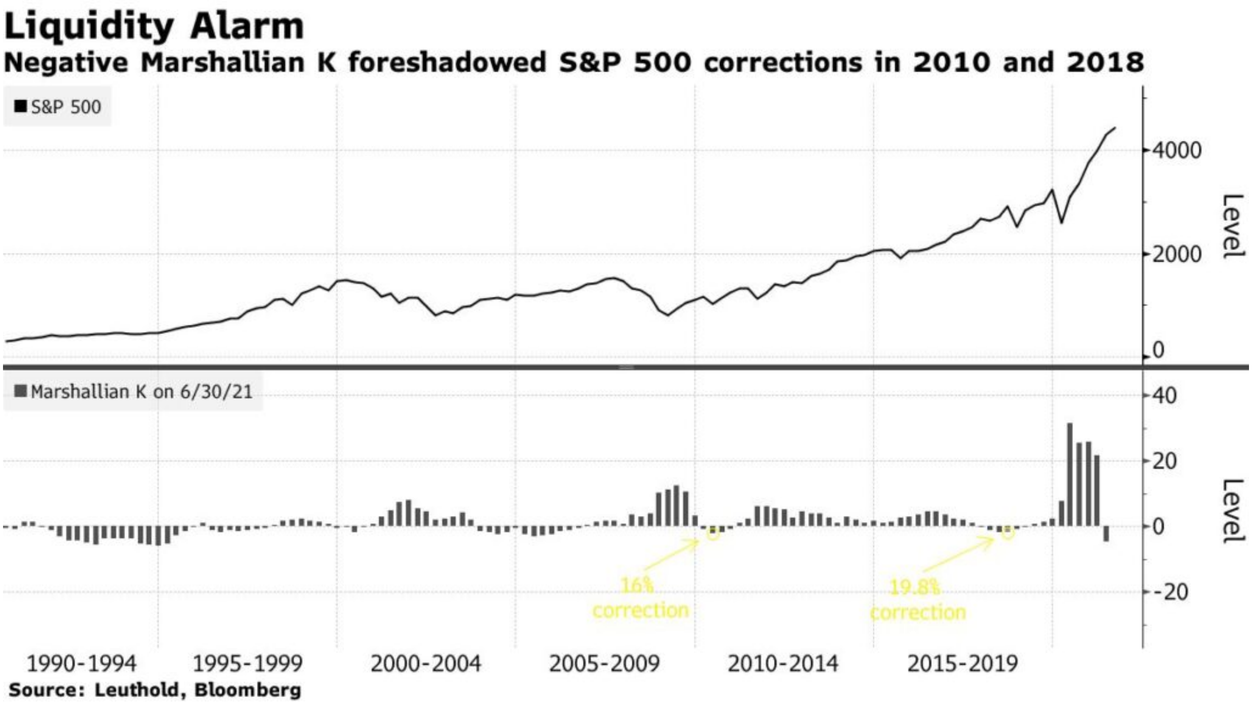
> *?'If the SPX stays above its 200-day, **2021 would mark the 14th year it did so since 1929.**'*

In other words, it is possible the S&P could remain above the 200-dma for the rest of the year. The visualization of such deviations suggests an elevated risk it won?t.



Furthermore, as noted by Bloomberg, liquidity is evaporating from the market even as investors continue to chase stocks higher. [To wit:]

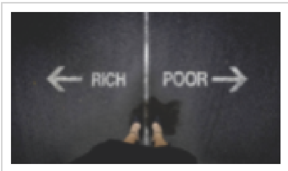
> *"'**Put another way, the recovering economy is now drinking from a punch bowl that the stock market once had all to itself,'** Doug Ramsey, Leuthold Group?s chief investment officer, wrote in a note last week.*
>
> *How big a threat is this? While stocks kept rising during frequent negative Marshallian K readings in the 1990s, the pattern since the 2008 global financial crisis, a period when the central bank was in what Ramsey calls a 'perpetual crisis mode,' begs for caution."*



Nonetheless, bullish sentiment remains robust, with investor allocations remaining at record highs. Moreover, the market seems to think all of these issues are only temporary anomalies.

But such is the result of more than a decade of monetary interventions that have left investors with very few choices.

In Case You Missed It



[The Data Shows The Fed Is Behind The Surging Wealth Gap]

Written by Lance Roberts | Aug 13, 2021

The data shows the Fed is behind the surging wealth gap. Such is despite protestations "Quantitative Easing" and "Zero Interest Rate Policy" do not affect the financial markets. But is that really the case?

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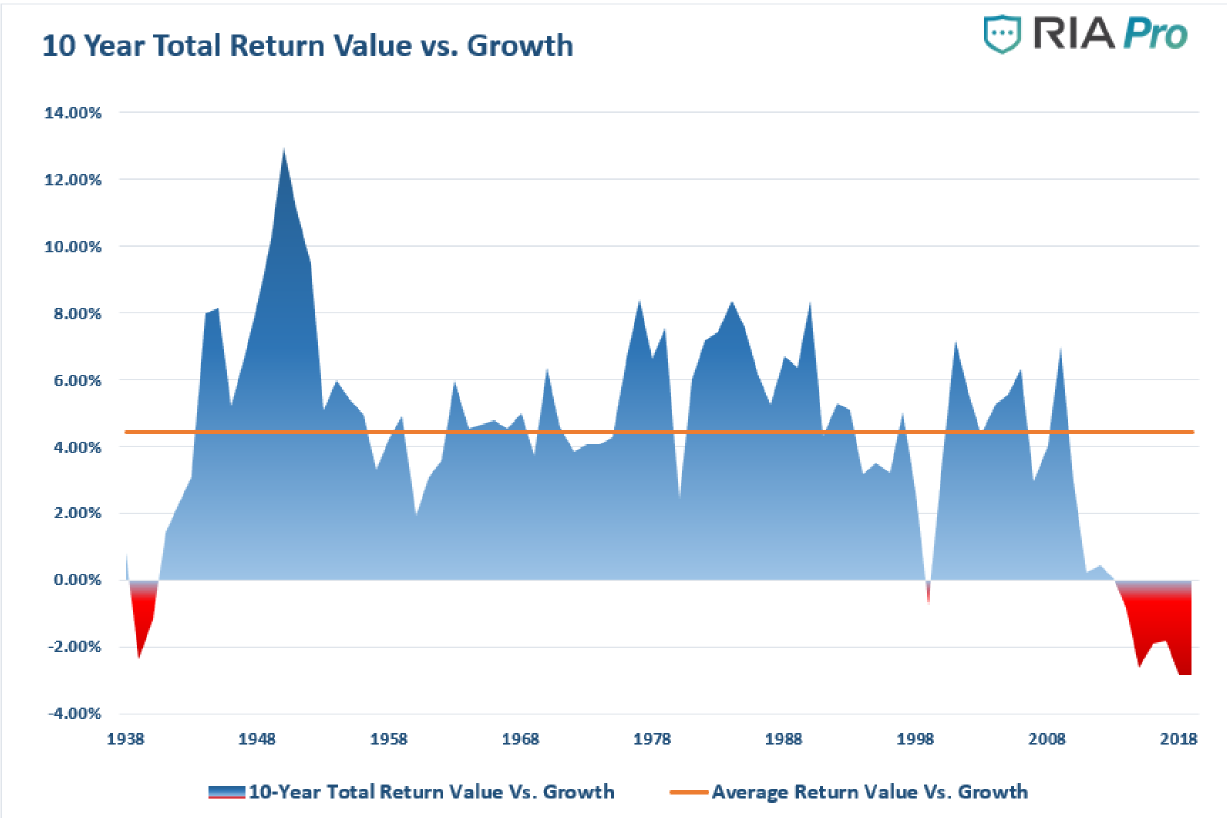
The Fed Gave Investors No Choice

Over the last few years, there has been much ink spilled over the value versus growth trade. Such was a point even we discussed in ***"Value & The Art Of Doing Nothing:"***

> *The graph below charts ten-year annualized total returns (dividends included) for value stocks versus growth stocks.*

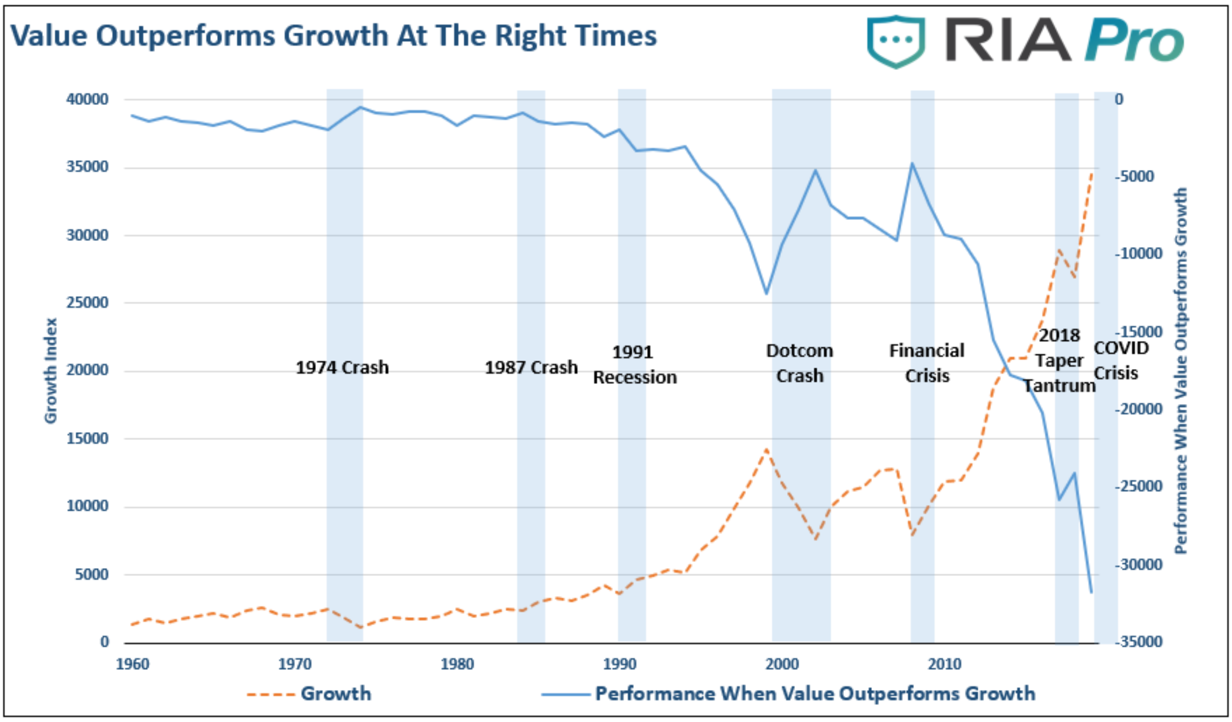


There are two critical takeaways from the graph above:

- ***Over the last 90 years, value stocks have outperformed growth stocks by an average of 4.44% per year*** *(orange line).*
- ***There are just eight ten-year periods when value stocks underperformed growth stocks.***

First, of those eight periods, two occurred during the Great Depression, and one spanned the late 1990s preceding the "Dot.com" crash. Second, the other five are recent, representing the years 2014 through the present.

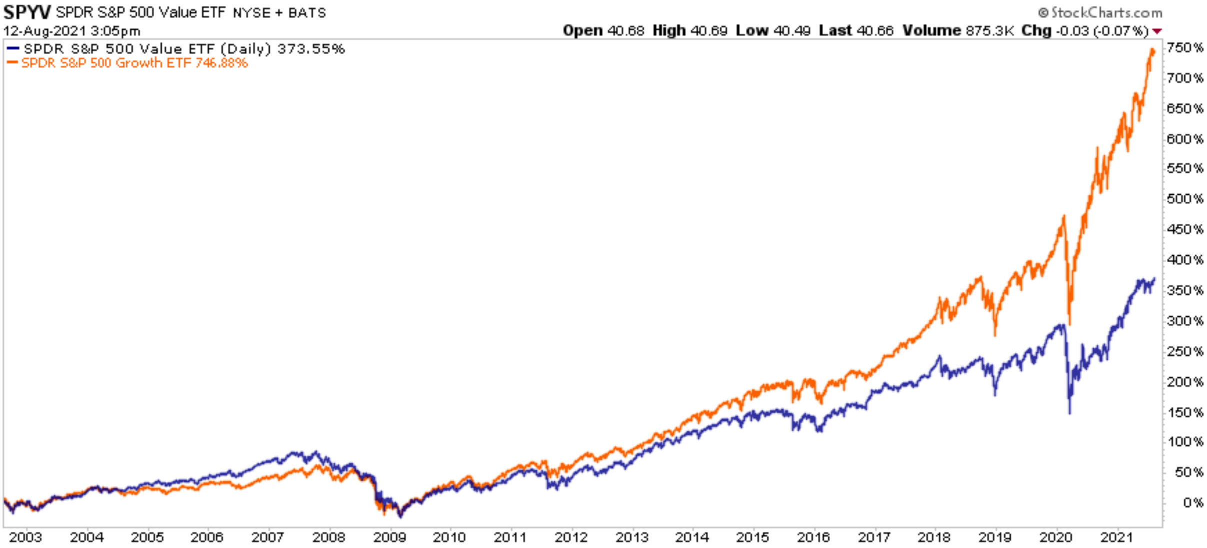
> *?The chart shows the difference in the performance $100 invested in a ?value vs growth? index.* ***While value investing has always provided consistent returns, there are times when growth outperforms value.*** *The periods when ?value investing? has the greatest outperformance, as noted by the ?blue shaded? areas, are notable.?*



Kailash Concepts made an interesting observation this past week:

> *"Over the last few years, the debate over growth vs. value has become intense. The bifurcation around the various approaches to different methods of investing money in the stock market has become almost personal.* ***We believe some of this may be due to the pavement-scraping interest rates*** *offered by everything from money market accounts, municipal bonds and corporate bonds.* ***As the days of high yield savings accounts vanished, anything that has generated high returns over the short term is being hailed as genius regardless of merit.***"

They are correct. In the process of inflating another market bubble to kindle ***"Animal Spirits,"*** the Fed forced investors to take on tremendous risk.



It?s A Lose-Lose Game

Investors are currently playing a *?Lose-Lose?* game.

- *If they fail to chase ?risk,? they suffer the loss of return, not to mention the psychological beating from the financial media, to adjust their savings for inflation.*
- *If they do chase risk, the odds are high that at some point, a reversion will occur that will take away a large chunk of their assets.*

Such was the conclusion from the American Institute:

> *?The Federal Reserve has done more in the past 25 years than its founding legislators and early governors surely ever conceived it would. With that in mind, one wonders what the end game is, especially in light of two facts."*

- *Foremost, the inclination of monetary authorities is toward lower and lower thresholds for intervention.*
- *And second, that fiscal and monetary policies have a way of suddenly finding limits when the tax-paying everyman is on the receiving end.*

> *"**If there is a component of the growing disposition for risk inspired by the idea that the Fed will swoop in to save retail investors from failed ETFs, collapsed SPAC prices, a wave of microcap stock delistings, or any other consequence of their understandable but reluctant march up the risk curve, it is ill-advised.** Any lasting solution is far more likely to come from markets themselves.?*

So what do you do?

Portfolio Update

For us, and our clients, this means generating portfolio returns without taking on excessive levels of risk. As noted last week:

> *"Not surprisingly, with earnings season in full swing, the markets maintained their bullish stance again this week. However, with that said, the upside remains limited, as we suggested previously.*
>
> ***With money flows continuing to weaken** and technical indicators setting up to produce sell signals, we reduced exposure a bit more this week by increasing cash and reducing our financial holdings. With interest rates falling and yield curves flattening, there will be impacts to the earnings for major money center banks in the future.*

For now, *"doing nothing"* has been a winning strategy.

However, the longer this *"low volatility"* regime lasts, the greater the risk of a sudden decline becomes. Such is just the way the market works and why we continue to hedge risk accordingly.

A Lack Of Options

As noted, our portfolios are long-biased, meaning we have more equity risk in our allocation than fixed income and cash. Given the market?s current structure, we only have three choices in how we manage our client portfolios currently:

1. **Do Nothing** ? if the markets correct, we lose some of our gains and have to wait for the portfolio to recover.
2. **Take Profits** ? as we did recently with extremely overvalued assets. Taking profits, raising cash, and reducing equity exposure in advance of a correction is always prudent. Such actions mitigate the damage of the decline. Then we can repurchase positions, add new ones, or resize portfolio holdings in the future.
3. **Hedge** ? adding a position to the portfolio that is the *?inverse?* of the market. *(the position goes up in value as the market declines.)* Such allows us to keep existing positions intact. By *?shorting against the portfolio,?* we effectively reduce our equity risk *(and related capital destruction)* during a market correction.

Currently, there is a *"lack of options,"* as #2 remains the optimal strategy. The ultra-low volatility environment, and a persistent bid under stocks, keep shorting a suboptimal strategy. Doing nothing leaves us too exposed to an unexpected *"volatility shock"* in the market.

As such, our choice remains to reduce capital risk opportunistically. We realize that we give up some performance in the short term but can potentially add incremental *?alpha?* if a correction occurs.

In our view, we have a choice to either manage risk or ignore it.

The only problem with *"ignoring risk"* is that such has a long history of not working out well.

Have a great weekend.

By Lance Roberts, CIO

Market & Sector Analysis

Analysis & Stock Screens Exclusively For RIAPro Members

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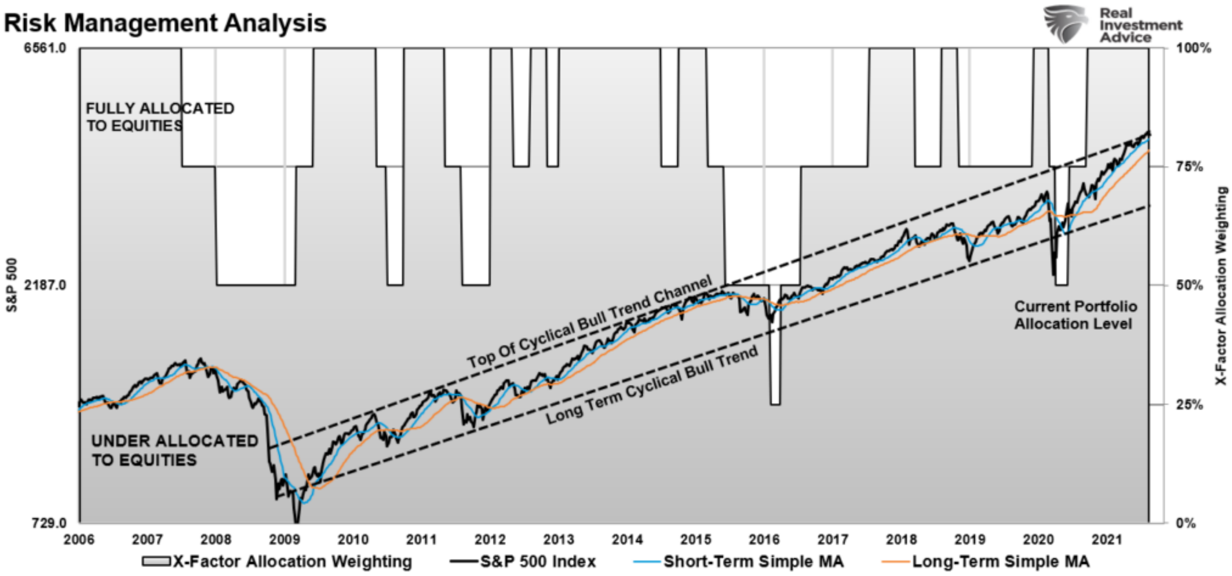
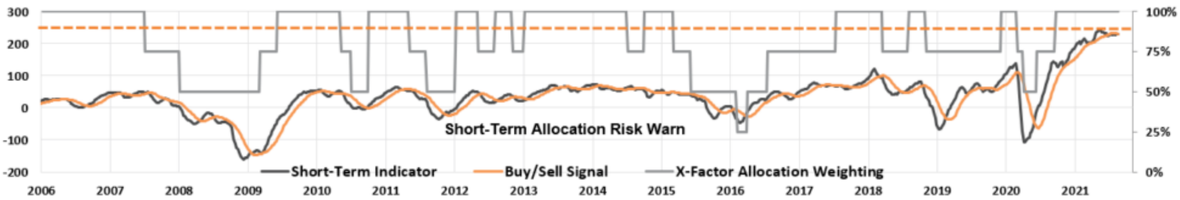
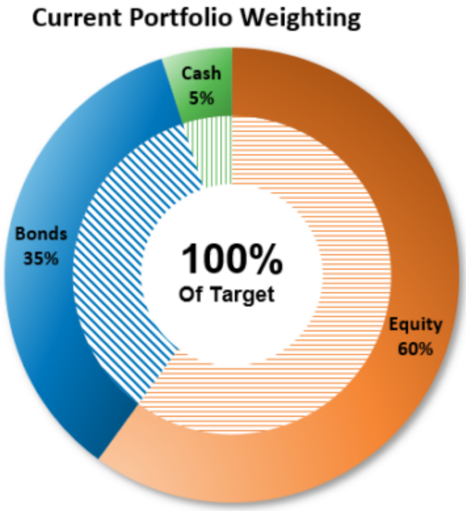
A Conservative Strategy For Long-Term Investors

Risk Management Analysis







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 did gain marginal new highs this week, but barely so. More importantly, volume and money flows continue to weaken suggesting risk to the current rally.

Inflation came in slightly below expectations but with the strong jobs report it is still possible to see the Fed start discussing "tapering" at the Jackson Hole summit. We will see if they do, but given the high degree of dependence on monetary interventions, a change to their tone could move markets.

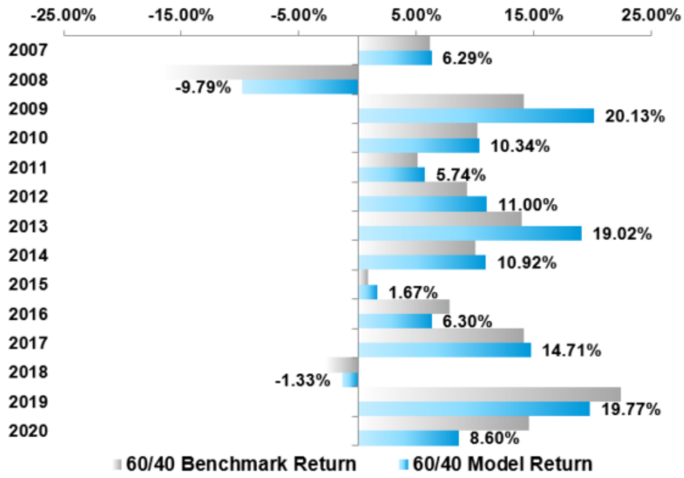
For now, keep exposures at current weights, but continue to hold new contributions in cash for now. There likely is not a lot of upside here to warrant chasing markets, but if we continue to consolidate over the next month or so, we will have a better opportunity to deploy cash for a stronger year-end performance.

If you need help after reading the alert, do not hesitate to **contact me**.

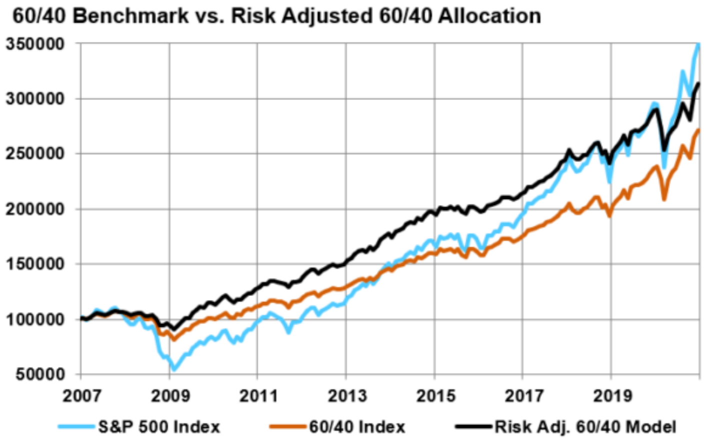
401k Model Performance Analysis

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	6.16%	6.29%
2008	-16.73%	-9.79%
2009	14.14%	20.13%
2010	10.19%	10.34%
2011	5.11%	5.74%
2012	9.33%	11.00%
2013	13.94%	19.02%
2014	10.04%	10.92%
2015	0.88%	1.67%
2016	7.77%	6.30%
2017	14.12%	14.71%
2018	-2.71%	-1.33%
2019	22.41%	19.77%
2020	14.58%	8.60%



Portfolio vs Benchmark Statistics	
Number of Up Years	12
Number of Down Years	2
Best One Year Return Of Benchmark	22.41%
Best One Year Return Of Model	20.13%
Worst One Year Return Of Benchmark	-16.73%
Worst One Year Return Of Model	-9.79%
Benchmark Return 2007-Present	171.16%
Model Return 2007-Present	213.32%
Total Alpha Generated	42.17%
Mean Annual Return Of Benchmark	7.80%
Mean Annual Return Of Model	8.81%
Beta Of Model vs Benchmark	0.87
Jensens Alpha	1.91%
Sharpe Ratio	0.29



Have a great week!