



***In this 09-24-21 issue of "Correction Is Over, Bulls Jump Back Into The Risk Pool"***

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- ***3-Signs For The Next Bear Market***
- ***Portfolio Positioning***
- ***Sector & Market Analysis***
- ***401k Plan Manager***

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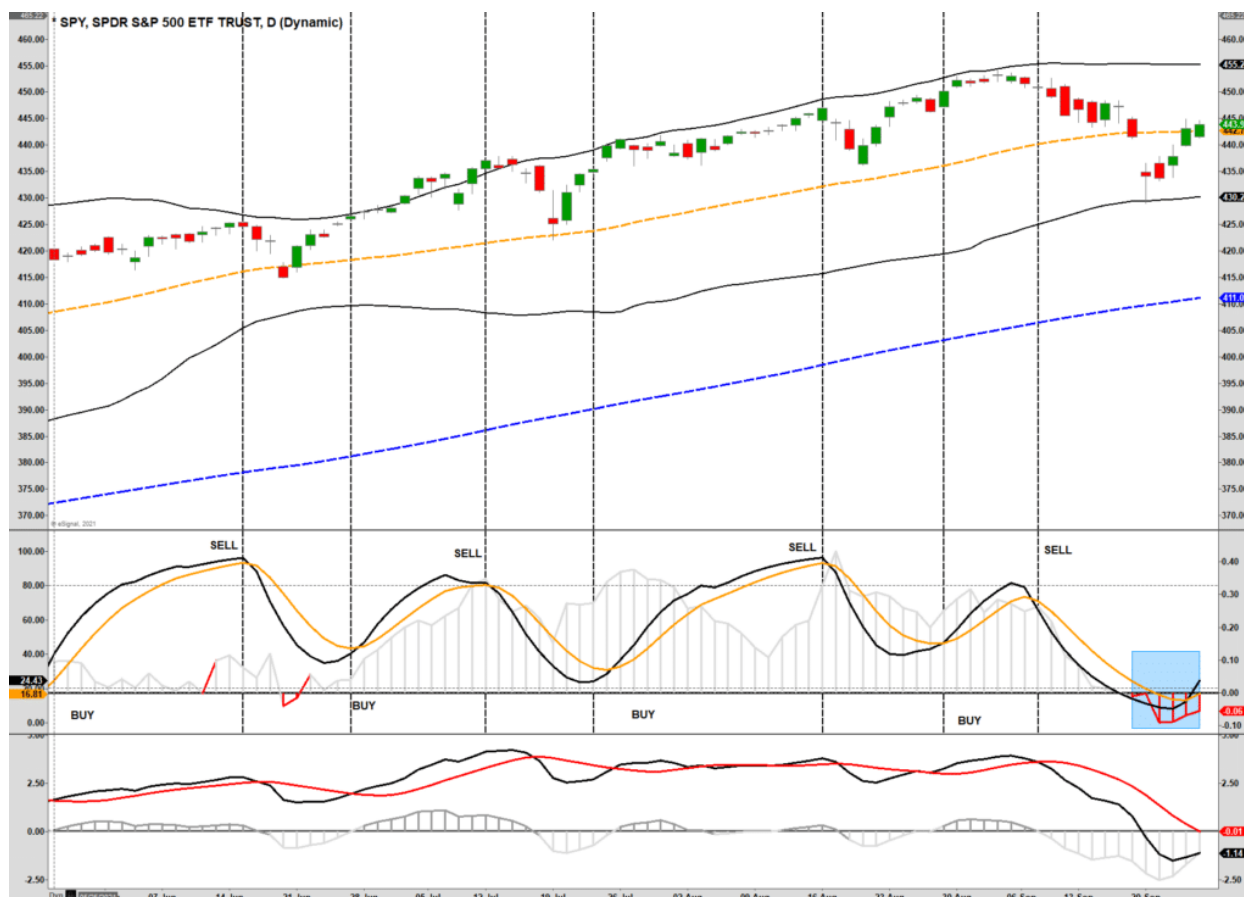
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## **Correction Is Over As Bulls Jump Back Into The "Risk Pool."**

As [noted last week](#), retail investors didn't step in right away to buy the dip at the 50-dma. However, they did show up on Monday afternoon and continued to buy through the rest of the week.

***"With the market very oversold, a counter-trend bounce next week will not be a surprise. However, if the market fails to hold the 50-dma, the risk of a more substantial correction is likely."***

Notably, two essential things occurred this week. The market regained its 50-dma and triggered our [RIAPRO Money Flow](#) "buy" signal. Both suggest that bulls have regained control, and we could see some follow-through buying next week.



Over the past several weeks, in various forms, we discussed our reduction in risk by rebalancing equities, raising cash, and extending our duration in our bond portfolio. To wit:

*"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. **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.***

***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.** " - August 13th.*

With the markets now deeply oversold on a short-term basis, we deployed some of our cash throughout the week to rebalance the portfolio toward normal allocation levels.

**We don't expect a tremendous amount of upside, given the ongoing weakness of market internals, but a retest of previous highs is not out of the question. Particularly since the Fed "threaded the needle."**



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**The Fed Threads The Needle On Taper**

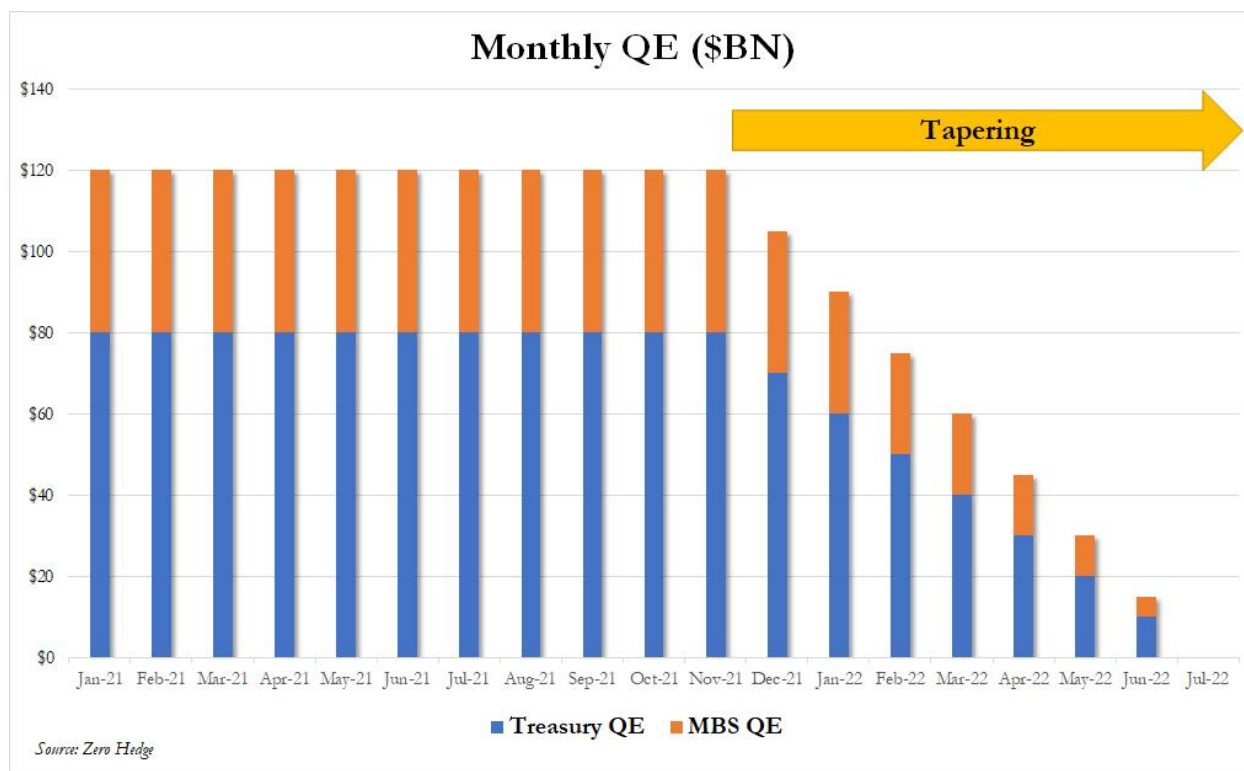
For weeks now, the Fed has been prepping the market for "taper talk." Stocks sold off a bit in anticipation of the announcement, effectively "pricing in" a mildly hawkish stance. Jerome Powell did not fail to deliver during his press conference by announcing taper with no timeline.

- With respect to progress towards taper, Powell commented, ***?In my own thinking, the test is all but met?***.
- ***?I think if the economy continues to progress broadly in line with expectations and the overall situation is appropriate for this, we could easily move ahead [with taper] by next meeting, or not??***
- Again, with respect to a decision for November taper, ***?I don?t need to see a good employment report next month; I just need to see a decent employment report?***. Powell is clearly signaling that Fed is likely to announce taper in November barring an unexpected deterioration in economic conditions.
- Powell commented that it may be appropriate for taper to conclude by mid-2022.
- As expected, Powell **left a back door open in case taper doesn?t go over well**. ***?If necessary, we can accelerate or decelerate the taper?***.

As we noted in our Daily Market Commentary ([subscribe for pre-market delivery](#)):

***"The Fed has done a decent job of telegraphing when tapering is likely to begin (most market participants believe the announcement will come this year), but more importantly it?s because the asset purchase reductions are likely to be trivial when seen in the context of how large the fixed income markets are today, and how overwhelming the demand for income has become. ? Rick Rieder, BlackRock?s CIO of Global Fixed Income***

From the market's perspective, a \$15 billion reduction in purchases says the Fed isn't removing the "punch bowl." However, as shown in the table below, taper becomes an issue in 2022.



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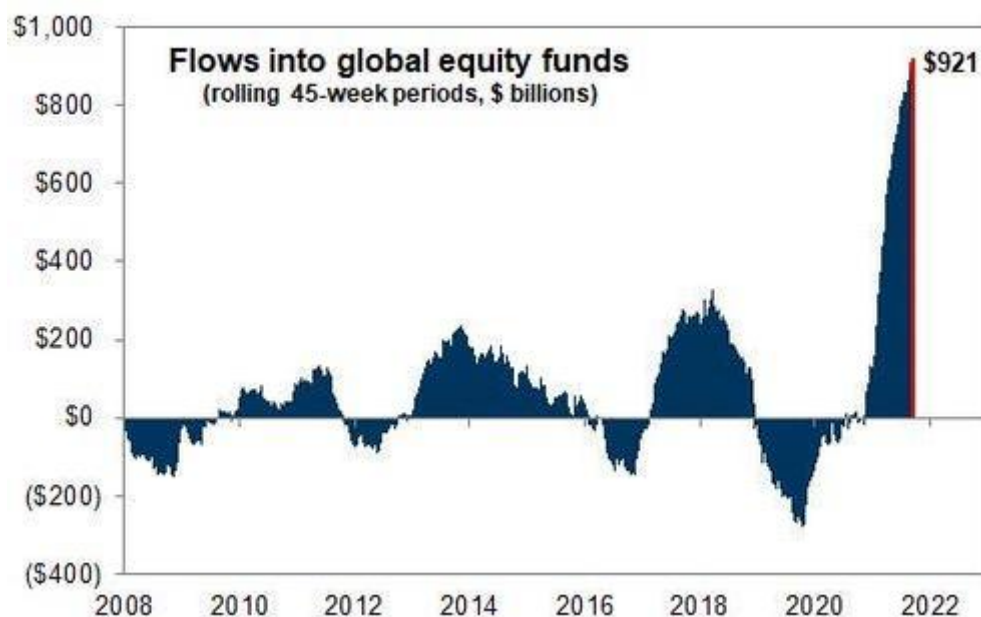
## 3-Signs Of The Next Bear Market

I previously warned that during the subsequent 5% correction, it would "feel" much worse than it was. However, gauging by the number of emails asking about the "crash," why we weren't heavily short the market, and we were crazy for "buying" the recent lows, it is clear sentiment has gotten extremely negative.

The question I received the most was, *"Is this the beginning of a bear market?"*

The answer is *"no."*

Currently, bullish sentiment remains high, global liquidity flows are strong, and stock buybacks are at a record.



While those issues are supportive of stocks currently, they are also dependent on rising asset prices.

So, for investors, there are 3-signs that will signal the next bear market or recession is approaching, requiring a more defensive investment posture.

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## In Case You Missed It



### The Coming "Reversion To The Mean" Of Economic Growth

Written by Lance Roberts | Sep 24, 2021

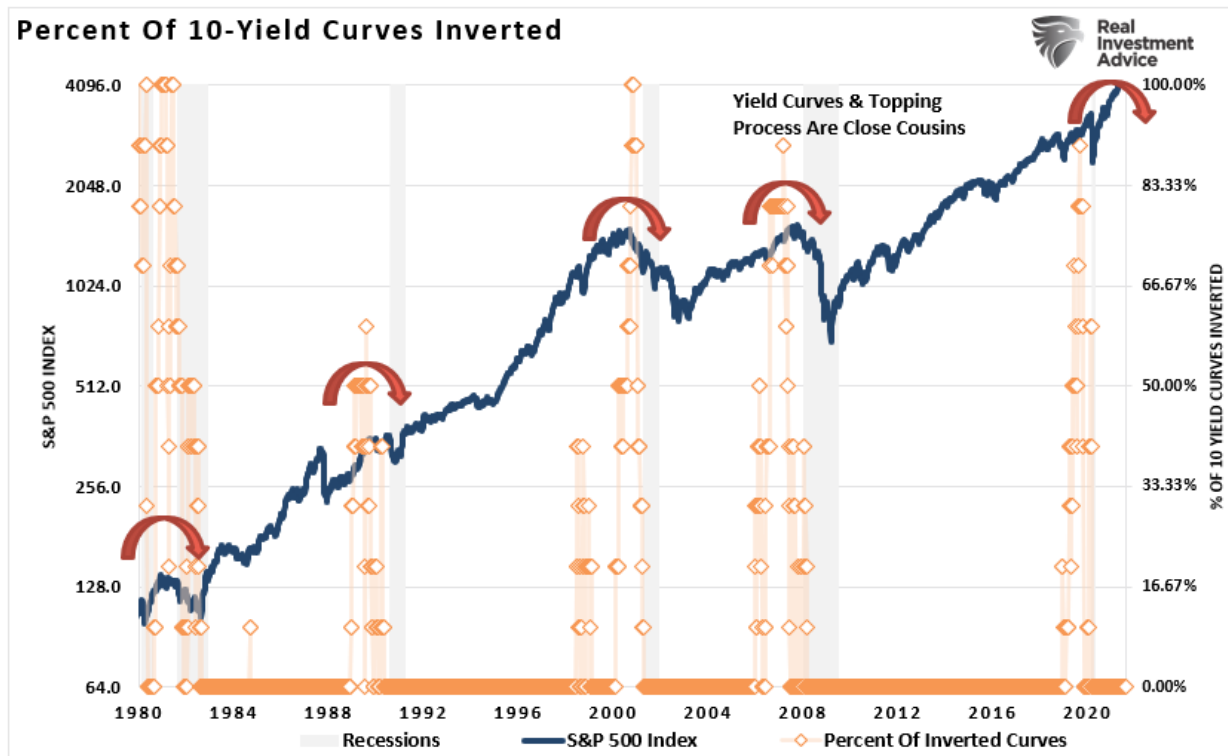
From stimulus boom to income thud, the coming "reversion to the mean" of economic growth is happening faster than economists expected.

[> Read More](#)

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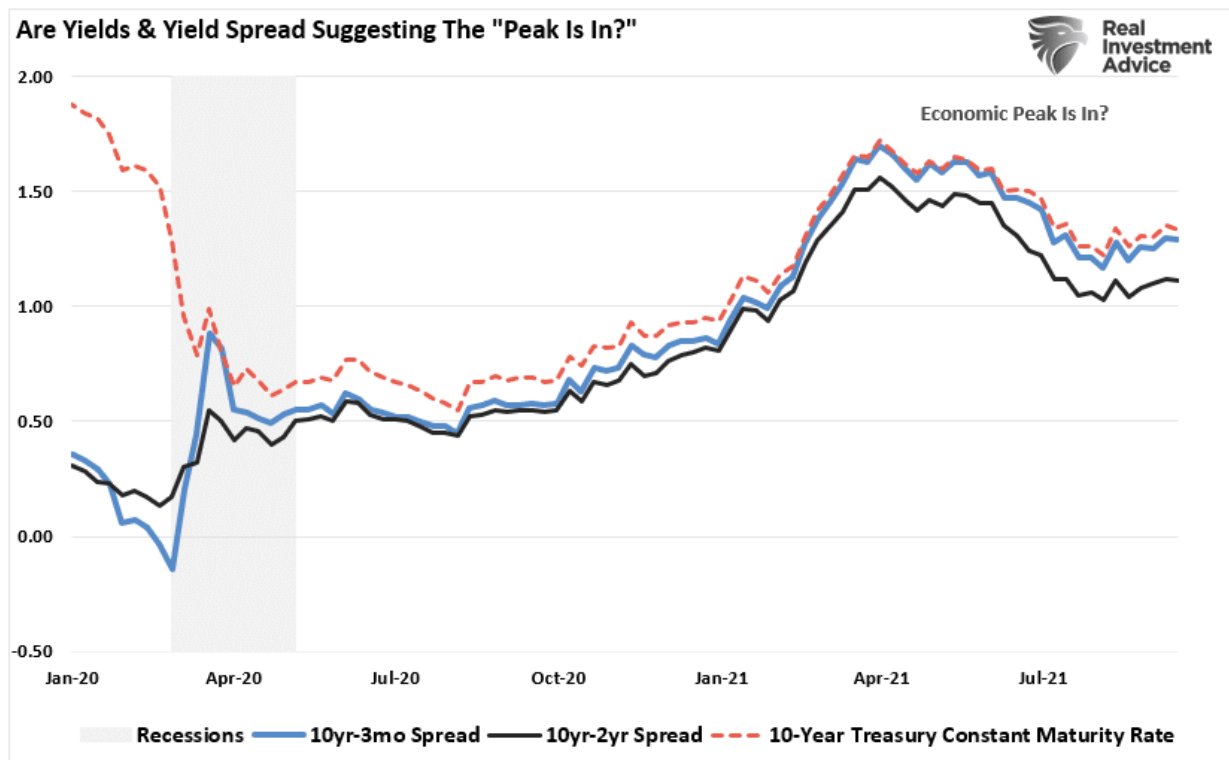
## Yield Curve Inversion (Not Yet)

The yield curve is one of the most important indicators for determining when a recession, and a subsequent bear market, approaches. The chart below shows the percentage of yield curves that invert out of 10-possible combinations.



At the moment, given there are no inversions, there is no immediate risk of a recession or "bear market. "

**Historically speaking, from the time yield curves begin to invert, the span to the next recession runs roughly 9-months.** However, note that yield curves are currently declining, suggesting economic growth will weaken. If this trend continues, another "inversion" would not be a surprise.



Given the strong track record of predicting recessions historically, when the subsequent inversion occurs, the media will quickly dismiss it just as they did in 2019.

Such would not be a wise thing to do.

## Fed Taper (Coming)

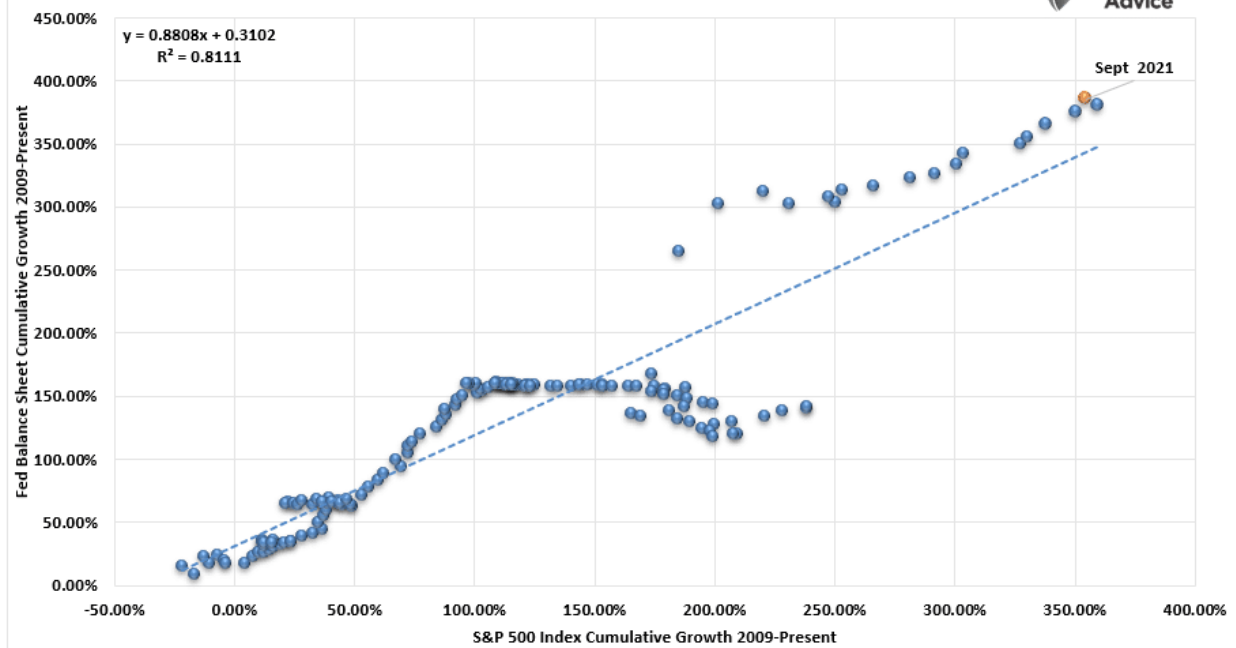
The issue of "*tapering*" is not as much about the Fed's actual reduction of bond purchases as it is about psychology.

***?The key to navigating Quantitative Easing and Fed policy in general is to recognize that their effect on the stock market relies almost entirely on speculative investor psychology. As long as investors get inclined to speculate, they treat zero-interest money as an inferior asset, and they will chase any asset with a yield above zero (or a past record of positive returns). Valuation doesn't matter because investors psychologically rule out the possibility of price declines in the first place.? ? John Hussman***

**In other words, "QE" is a mental formation. Therefore, the only thing that alters the effectiveness of the Fed's monetary policy is investor psychology itself. As shown, there is a very high correlation between the expansion of the Fed's balance sheet and asset price increases.**



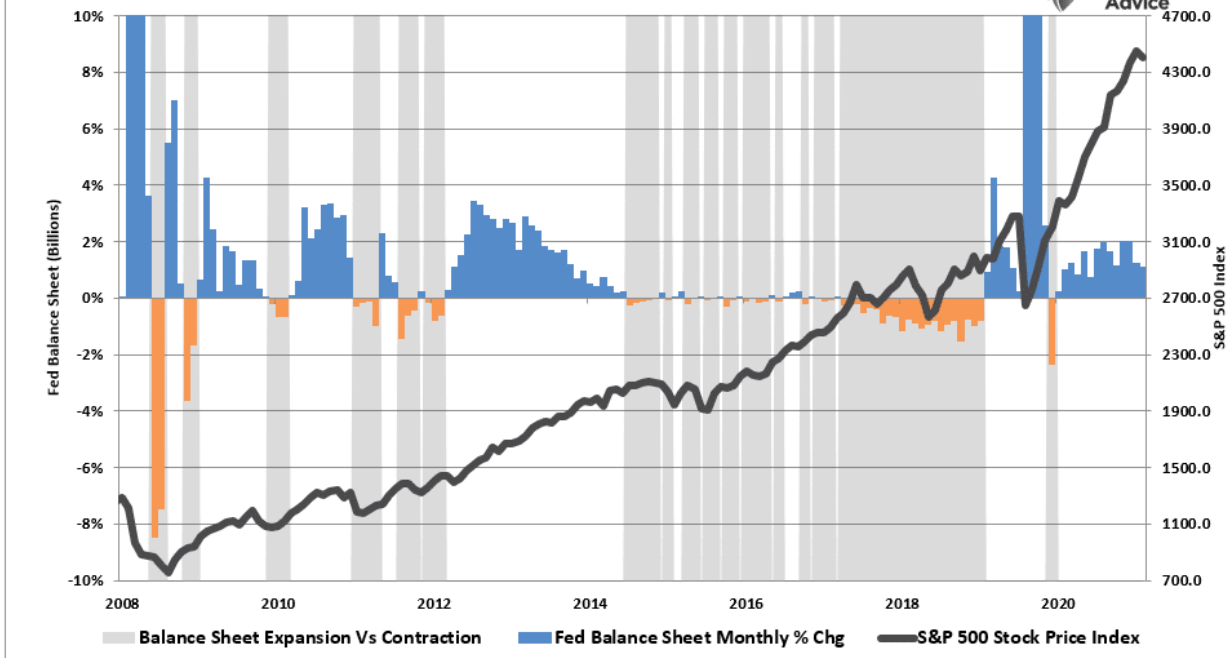
### Cumulative Growth Of Fed Balance Sheet 2009-Present



Whether the correlation is due to liquidity moving into assets through leverage or just the **"psychology" of the "Fed Put,"** the result is the same.

Therefore, it should also not be surprising that when the Fed starts *"tapering"* their bond purchases, the market tends to witness increased volatility. **The grey shaded bars in the chart below show when the balance sheet is either flat or contracting.**

### Fed Balance Sheet Expansion/Contraction Vs. S&P 500

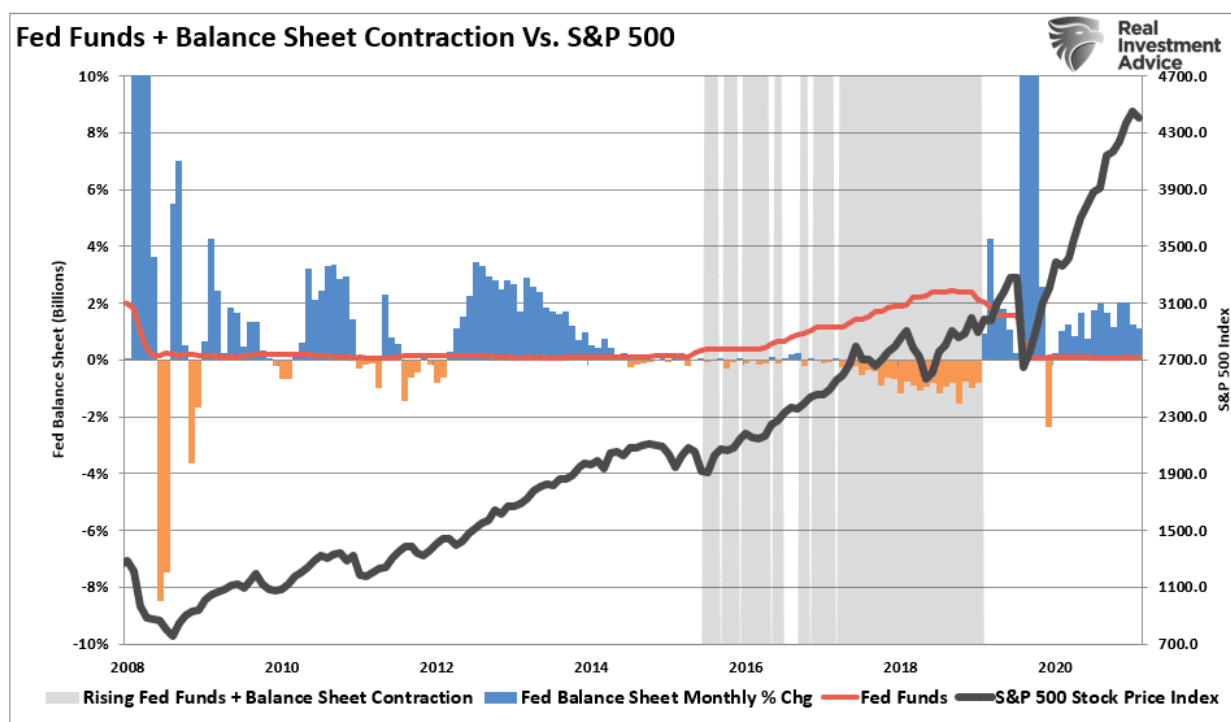


Notably, the period from the **initial tapering of assets and a market correction** is almost immediate.

So far, the Fed is only TALKING about taper. November, however, could be a different story.

## Fed Rate Hikes (Not Yet)

The risk of a market correction rises further when the Fed is tapering its balance sheet and increasing the overnight lending rate. **Currently, there is no expectation for rate hikes until late 2022.**



**What we now know, after more than a decade of experience, is that when the Fed starts to slow or drain its monetary liquidity, the clock starts ticking to the next corrective cycle.**

Once the Fed begins to hike interest rates, market corrections occur quickly, generally within 2-4 quarters. However, recessions and bear markets typically take longer and have been extended due to ongoing interventions. Recent history has moved the median time frame between the first rate hike and the onset of a recession to somewhere between 24 and 36 months.

**Investors have several primary indicators to follow to navigate market risk and potential bear markets. While there is currently no indication of a recession or bear market, the Fed starting to "taper" its asset purchases will increase volatility.**

Once the Fed begins to hike rates or yield curves start to invert, the time to become much more defensive will become evident.

**However, such could all change quickly with the introduction of an exogenous event.**

In the meantime, remain invested but don't be lulled into complacency.

**Changes in markets always happen slowly, then all at once.**

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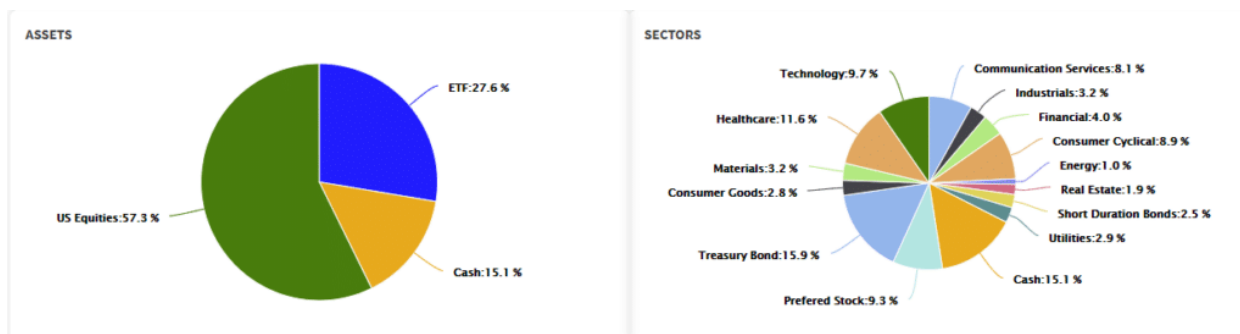
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**Portfolio Update**



As noted above, we discussed taking profits, increasing duration in our bond portfolios, and holding extra cash during the last several weeks. Such was to reduce our portfolio risk in advance of a market decline.

With that short-term correction now complete, we began putting some of that extra cash to work, increasing our equity exposure from 52% to 57%. As shown below, we increased our weight to utilities, real estate, financials, and technology.



Do we still think there is a longer-term risk to the markets? Absolutely.

However, as discussed many times, our job is to take advantage of markets when a reasonable risk/reward opportunity presents itself. Therefore, we can take advantage of those short-term opportunities without sacrificing our risk management strategies.

Our clients need us to create returns opportunistically to attain their financial goals. As discussed in ["Picking Up Pennies:"](#)

***?Our job is to participate in the markets with a bias toward capital preservation.***

*As noted, the destruction of capital during market declines has the most significant impact on long-term portfolio performance. ?*

There is little denying we are in a strongly trending bull market, driven by massive amounts of exuberance and liquidity. **As such, we have to keep managing our portfolios for "what is" rather than "what we think it should be."**

I do understand there is a significant risk. Or, as Seth Klarman from Baupost Capital once stated:

***?Can we say when it will end? No. Can we say that it will end? Yes. And when it ends and the trend reverses, here is what we can say for sure. Few will be ready. Few will be prepared.?***

We are not in the "prediction business."

We are in the "risk management business."

Have a great weekend.

By Lance Roberts, CIO

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## Market & Sector Analysis

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


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## **THE REAL 401k PLAN MANAGER**

***A Conservative Strategy For Long-Term Investors***

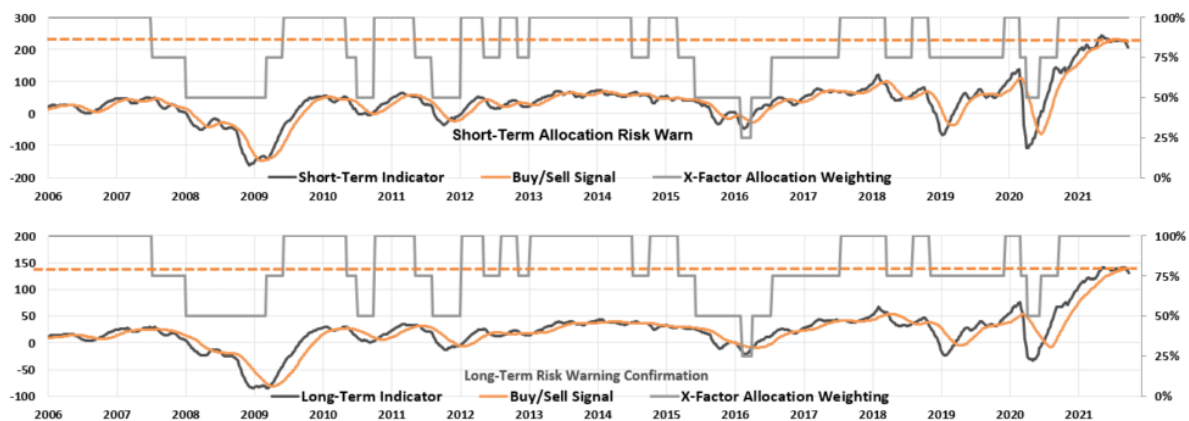
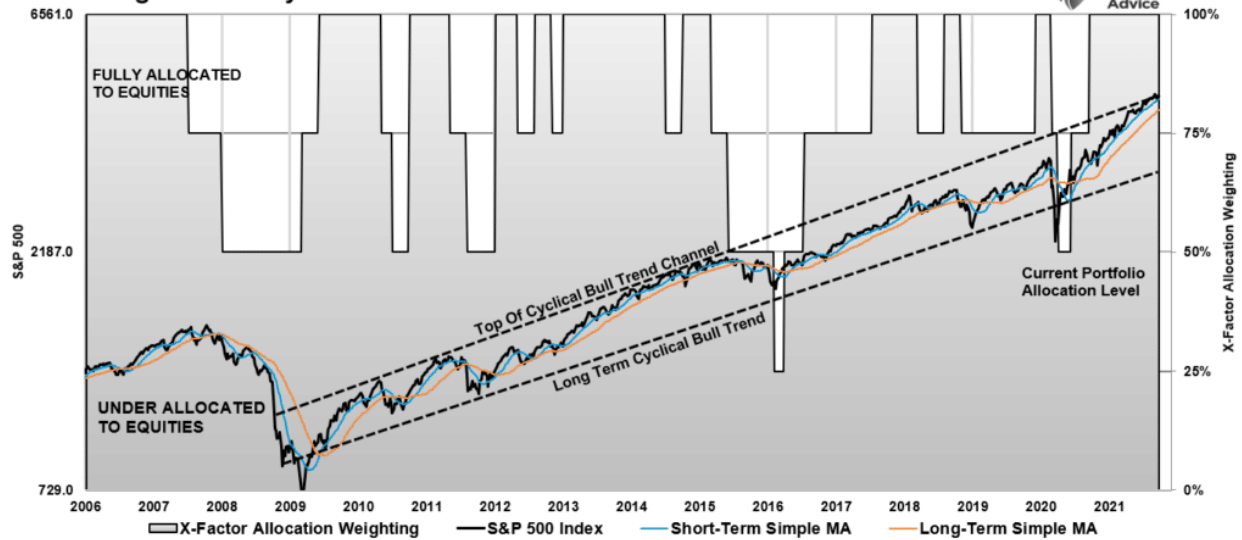
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	<p><b>Looking for the 401k Plan Manager?</b></p> <p>Find it in the Retirement section of our website.</p> <p><a href="#">&gt; Find It Here</a></p>
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**Attention:** In the next couple of weeks, the 401k plan manager will no longer appear in the newsletter. However, the [link to the website](#) will remain for your convenience. Be sure to bookmark it in your browser.

## Risk Management Analysis



## Commentary

From peak to trough, the market declined by 5%. However, as we discussed previously, such a correction is within the norms for any given market year. However, since we remain in a+ very low volatility market this year, we warned the correction would "feel" worse than it was.

Gauging by the number of emails I received, I can assume I was correct.

With the correction complete, and markets very oversold short-term, portfolio allocations can remain at current levels. Cash that accumulated over the past few weeks can now get deployed to allocations. Also, rebalance your bonds back to weightings after the recent rise in rates.

There is no need to be aggressive here. There is likely not a lot of upside between now and the end of the year.

## Model Descriptions

1. Understand your allocation options:

CORE STRATEGY

The core strategy consists of holdings that are based on market fundamentals, valuations, and long-term market trends. These are holdings that should be considered "long-term" investments and should primarily track the benchmark index over time. The turnover of the portfolio should be extremely low with the exception of rebalancing periods due to market gyrations.

TACTICAL STRATEGY

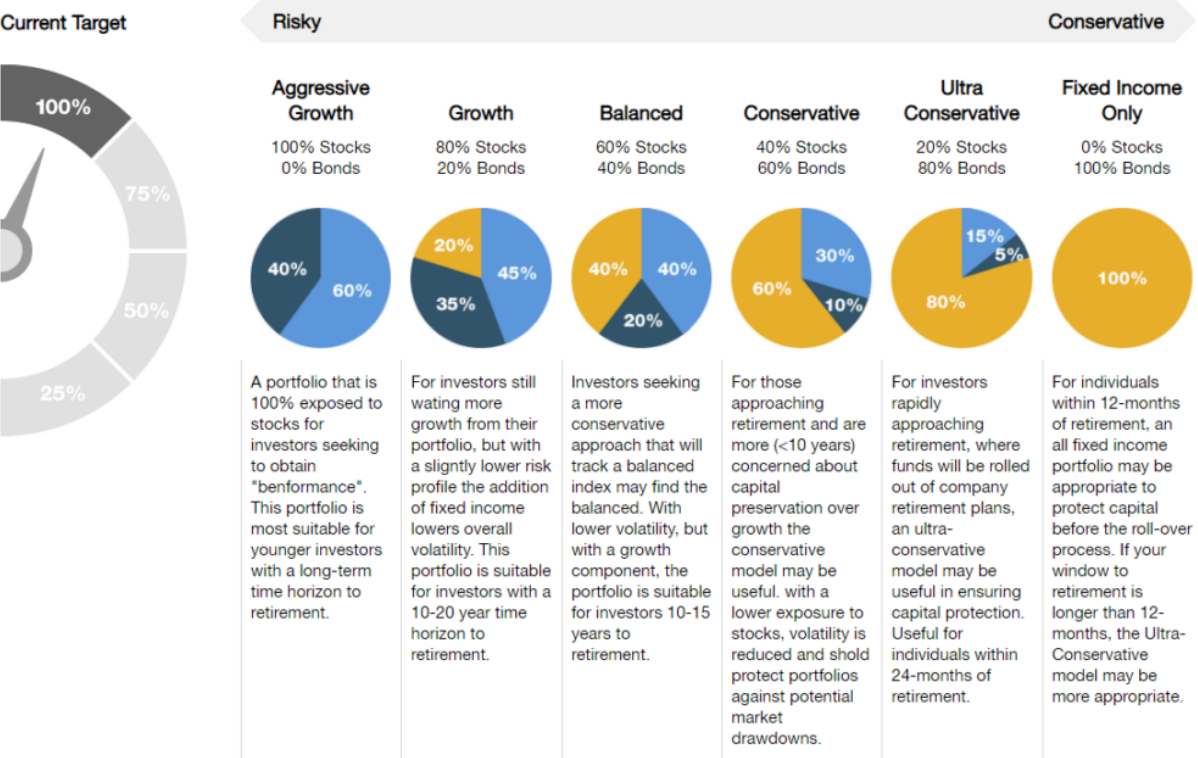
The tactical strategy consists of holdings which based on the short- to intermediate-term trends of the market. As macro-economic, monetary and fiscal policy, and investor psychology impacts markets, the holdings in the tactical strategy will shift to take advantage of market rotations. Importantly, this portion of the portfolio can move to all cash if needed to reduce risk in the event of a market downturn.

FIXED INCOME

The fixed income strategy is designed to both take advantage of changes in interest rate and inflation expectations, but also deliver a lower degree of volatility to the overall portfolio. The primary focus of the fixed-income portfolio is to protect capital, generate income, and lower overall portfolio volatility.

Choose The Model That Flts Your Goals

2. Choose the financial strategy that best fits your retirement goals and let RIA do all the work for you:



Model Allocations

## Asset Class

CORE STRATEGY						
Large Cap Blend (Ex. S&P 500 Index)	25	20	20	15	5	
Large Cap Growth	10	5				
Large Cap Value			5			
Large Cap Dividend			5	10	10	
Mid Cap Growth	10	5				
Mid Cap Value			5	5		
Small Cap Blend	15	15	5			
TACTICAL STRATEGY						
International Growth	5	5	5			
International Value			5	5		
International Blend	5	5				
Emerging Markets	10	5				
Real Estate	10	10	10	5	5	
Commodities	10	10				
FIXED INCOME						
Short Term Core			5	10	20	35
Intermedia Core		10	15	30	30	30
Global Fixed			10	10	15	10
High Yield Bond		10	5			
Inflation Protected			5	10	15	25
CASH						
Retirement Reserves/Stable Value						
5 Year Standard Deviation	15.8	13.1	9.8	6	4.4	3
5 Year Annual Return	16.7	13.8	10.7	7.9	5.8	3.4
5 Year Maximun Drawdown	-34.3	-30.2	-24.5	-16.7	-11.2	-8.2

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

**Or, let us manage it for you automatically.**

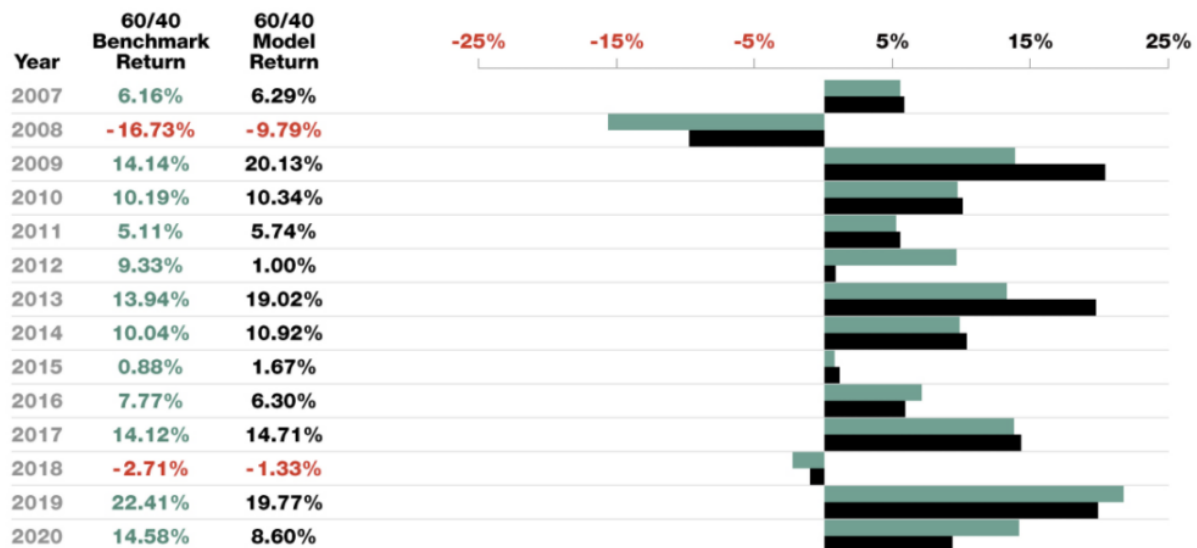


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## 401k Model Performance Analysis

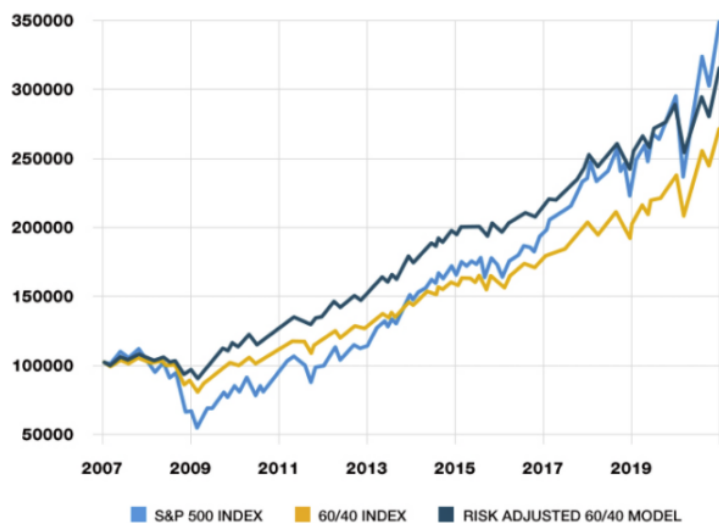
*Model performance is a two-asset model of stocks and bonds relative to the weighting changes made each week in the newsletter. Such is strictly for informational and educational purposes only, and one should not rely on it for any reason. Past performance is not a guarantee of future results. Use at your own risk and peril.*



#### 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

#### 60/40 Benchmark vs Risk Adjusted 60/40 Allocation



Have a great week!