



In this October 8, 2021 issue of "Is The Great 'Bear Market' Of 2021 Finally Over.?"

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- *401k Plan Manager*

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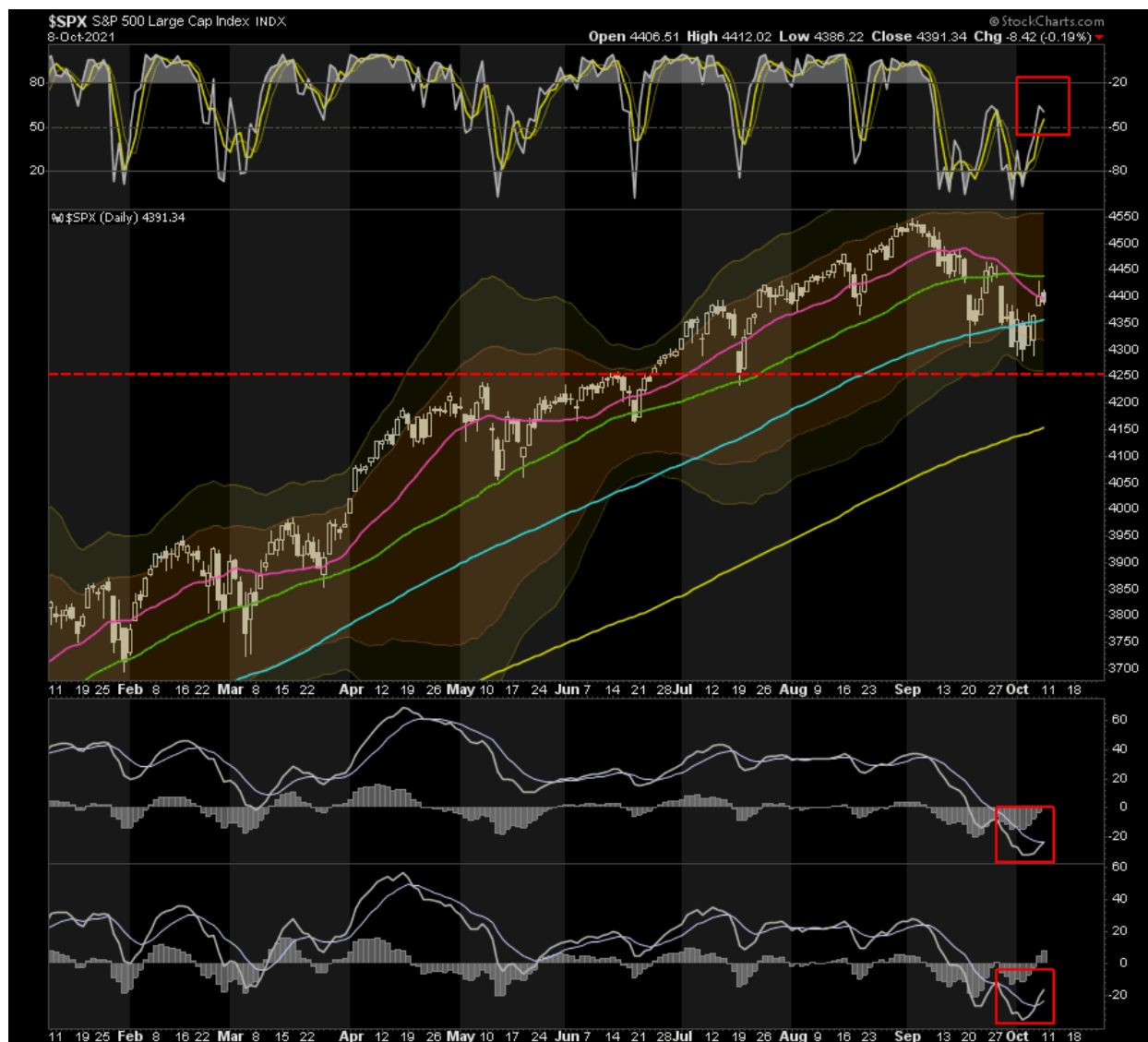
Is The Great "Bear Market" Finally Over?

In [last week's newsletter](#), we stated:

*"It is worth noting there are two primary support levels for the S&P. The previous July lows (red dashed line) and the 200-dma. **Any meaningful decline occurring in October will most likely be an excellent buying opportunity particularly when the MACD buy signal gets triggered.***

*The rally back above the 100-dma on Friday was strong and sets up a retest of the 50-dma. **If the market can cross that barrier we will trigger the seasonal MACD buy signal suggesting the bull market remains intact for now.***

Chart updated through Friday

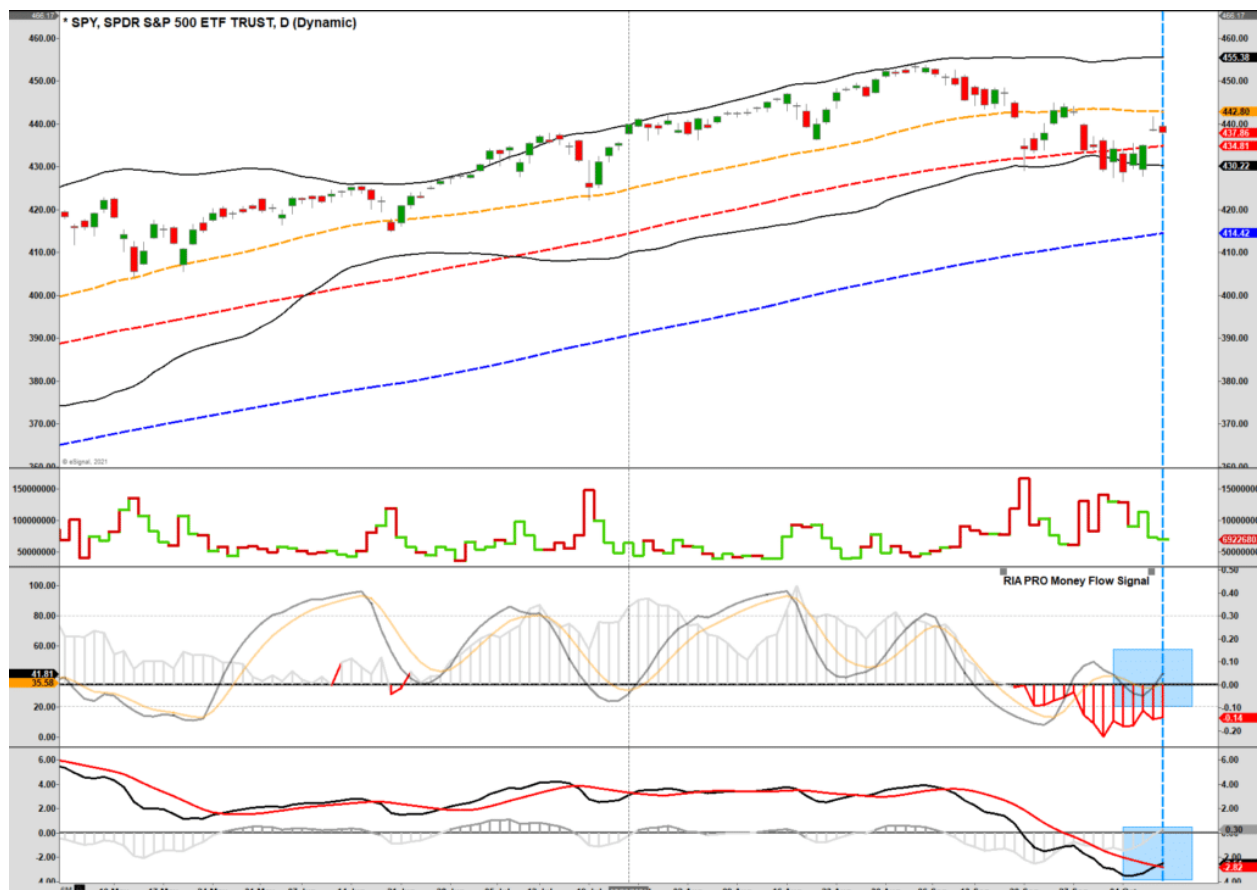


Notably, the very short-term moving average convergence divergence (MACD) indicator (*lower panel*) did trigger this past week. With markets not yet back to extremely overbought territory, and sentiment still very negative, the bulls are trying to reclaim the 50-dma.

Our seasonal MACD indicator (*next to the bottom panel*) also triggered, but just barely. We need to see some follow-through buying action next week.

Money Flow Buy Signal Also Positive

The [RIAPRO](#) Money Flow indicator also triggered a buy signal, becoming more robust support for a short-term rally this past week.



So, do all these signals mean the **"Great Bear Market Of 2021"** is behind us?

After a harrowing 5% decline, sentiment is now highly negative, supporting a counter-trend rally in the markets. Thus, we **think there is a tradeable opportunity between now and the end of the year**. But, as we will discuss below, significant headwinds continue to accrue, suggesting higher volatility in the future.

I want to reiterate our conclusion from last week:

"If you didn't like the recent decline, you have too much risk in your portfolio. We suggest using any rally to the 50-dma next week to reduce risk and rebalance your portfolio accordingly."

While the end of the year tends to be stronger, there is no guarantee such will be the case. Once the market ?proves? it is back on a bullish trend, you can always increase exposures as needed. If it fails, you won't get forced into selling."

That advice remains apropos this week as well. The biggest mistake investors make is allowing emotion to dominate their investment decision-making process. Such is why *"buy and hold"* investing is appealing during a bull market because it removes decisions from portfolio management.

However, as we discussed this past week in [**"The Best Way To Invest."**](#)

?Buy and hold? strategies are the ?best way? to invest until they aren't."



The Debt Ceiling Non-Crisis

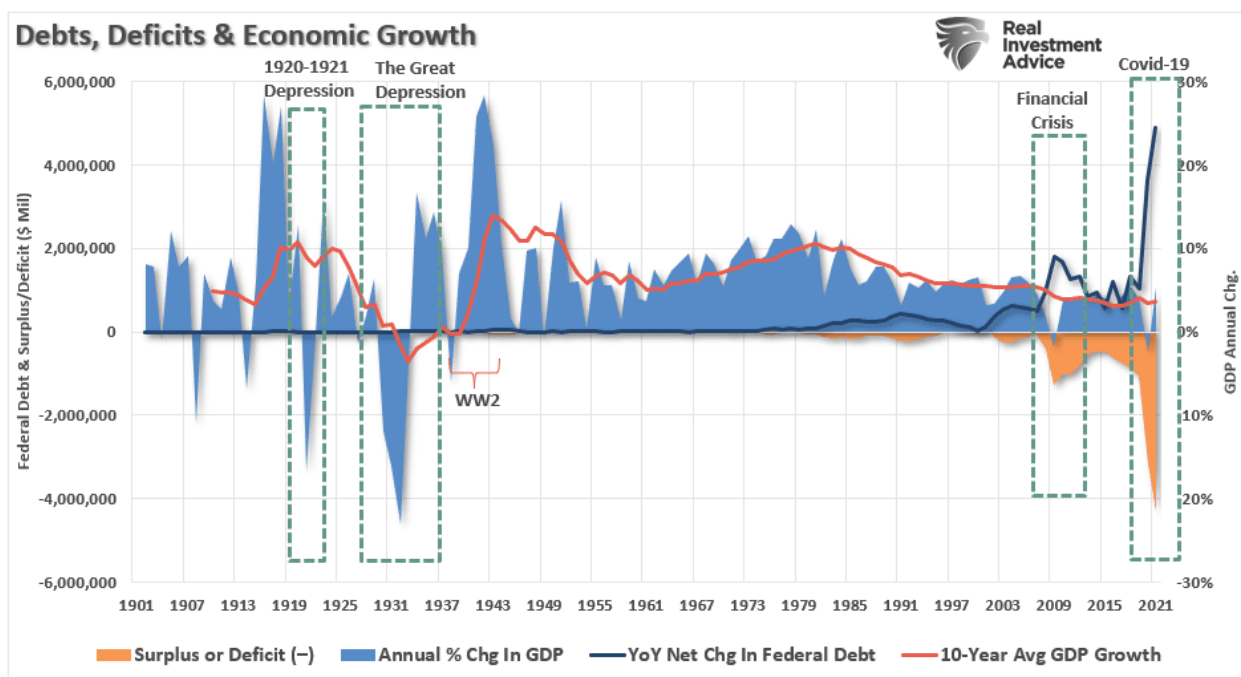
As discussed in the ["Debt Ceiling Non-Crisis,"](#) the hyperbole surrounding the debt limit was on full display, culminating with this tweet from Bernie Sanders:

<https://twitter.com/SenSanders/status/1442872469954514945?s=20>

While "Ole' Bernie" is trying to coerce his counterparts to raise the debt limit, his statement is full of misinformation to scare individuals. As noted in our article:

"In 1980, that all changed, and seven administrations and four decades later, Government debt surged, deficits exploded, and the debt ceiling rose 78 times. (49 times under Republicans and 29 times under Democrats.)

As Congress lifts the debt ceiling for the 79th time, the runaway spending and deficit increases continue to accelerate. The consequence of increasing debts and deficits is evident in the declining economic growth rates over the past 40-years."

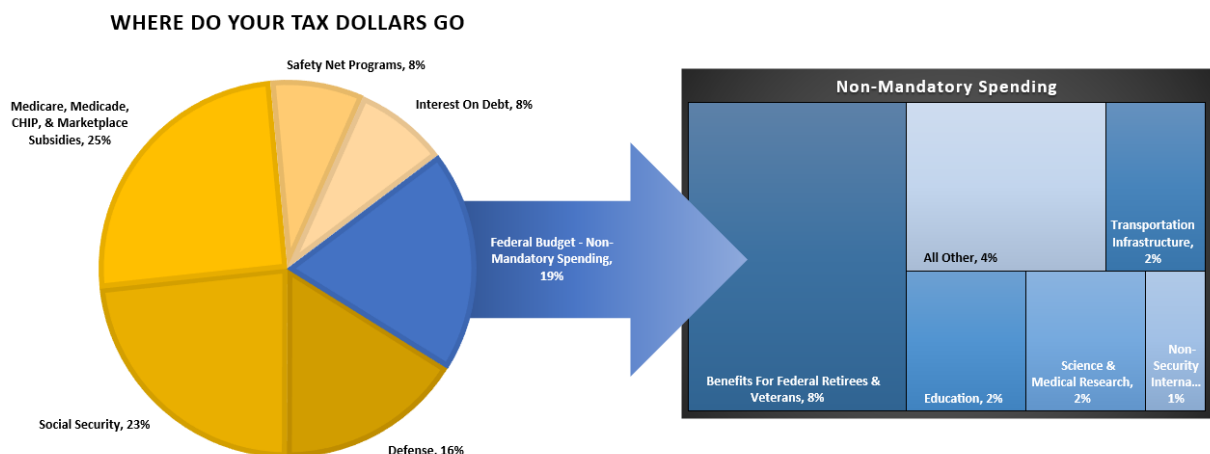


In other words, this isn't about paying bills from the Trump Administration, but also every President before him back to Ronald Reagan. For each year that we amass more enormous debts and deficits, the interest payments increase along with the growing burden of "mandatory spending."

The problem today, as discussed in the ["Insecurity Of Social Security,"](#)

?In the fiscal year 2019, the Federal Government spent \$4.4 trillion, amounting to 21 percent of the nation's gross domestic product (GDP). Of that \$4.4 trillion,

federal revenues financed only \$3.5 trillion. **The remaining \$984 billion came from debt issuance.** As the chart below shows, three major areas of spending make up most of the budget.?



In 2019, 75% of all expenditures went to social welfare and interest on the debt. Those payments required \$3.3 Trillion of the \$3.5 Trillion (or 95%) of the total revenue collected. Given the decline in economic activity during 2020, those numbers become markedly worse. **For the first time in U.S. history, the Federal Government will have to issue debt to cover the mandatory spending.**?

Only A Temporary Fix

Think about that for a moment. In 2021, we will spend more on our "**mandatory spending**" than "**revenue**" will cover. Such means the Government will continue to go further into debt every year just to run the country. On top of the required spending, our politicians now want to add another \$5 trillion in debt for "**infrastructure**."

See the problem here.

The "**debt ceiling**" was always a "**non-crisis**." It was just political brinksmanship playing out on national television. The resolution, as expected, came last week with Senate Minority Leader, Mitch McConnell, proposing a debt limit ceiling lift to \$29 trillion. Such will fund the government through December.

Democrats, Republicans agree to short-term debt limit increase

Proposal would allow more time to work out longer-term solution;
Democrats remain wary of reconciliation

?Senate leaders reached a bipartisan agreement Wednesday to defuse the impending debt limit crisis by allowing for a short-term increase in the statutory borrowing cap while lawmakers negotiate a longer-term solution.

Democrats said they would agree to an offer from Minority Leader Mitch McConnell that would pave the way for an increase in the debt limit into December. But the two parties

still disagreed on any long-term strategy.? ? Roll Call

While raising the debt ceiling may look like a victory for the Democrats, it may not be.

*?While raising the debt ceiling just once is proving to be a challenge, **the only thing worse would be having to vote to raise it twice***

?From a political perspective, the only thing less attractive than voting to raise the debt limit to \$31 trillion is voting to raise it to \$29 trillion and then voting a second time to raise it to \$31 trillion?? ? Zerohedge

In Case You Missed It



Why We Aren't Repeating The Roaring 20's Analog

Written by Lance Roberts | Oct 8, 2021

No. We are not repeating the "Roaring 20's" analog. Ben Carlson had a recent post...

[> Read More](#)

Odds Increasing We've Seen The Highs For This Year

There are reasons to be optimistic as we head into the seasonally strong period of the year. However, while the seasonal and technical backdrop is improving short term, we should not dismiss the numerous headwinds.

- **Valuations remain elevated.**
- **Inflation is proving to be stickier than expected.**
- **The Fed will likely move forward with ?tapering? their balance sheet purchases in November.**
- **Economic growth continues to wane.**
- **Corporate profit margins will shrink due to inflationary pressures.**
- **Earnings estimates will get downwardly revised keeping valuations elevated.**
- **Liquidity continues to contract on a global scale**
- **Consumer confidence continues to slide.**

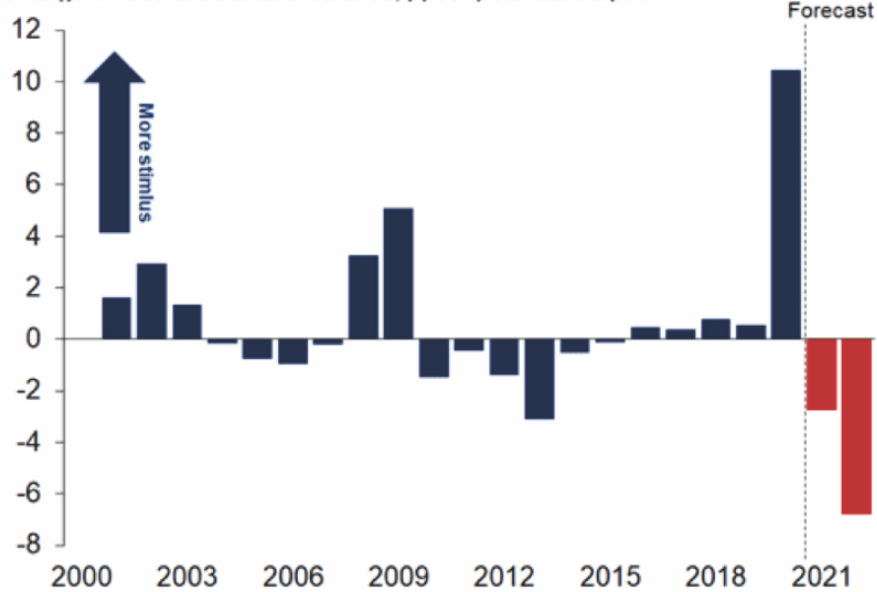
While none of these independently suggest a significant correction is imminent, they will limit the market's advance making new highs less attainable. Furthermore, given the "debt crisis" will return in December, the risk of volatility remains elevated.

Much of the mainstream media overlooks the rapid decline in liquidity that supported the market over the last year. While the "human infrastructure" bill will provide some support, the difference is the spending is spread out over 10-years versus the "checks to households" in 2020.

Figure 9: From a strong fiscal impulse, to a significant fiscal drag

US: Fiscal impulse

Change in federal structural balance, ppt of potential output



Source : Oxford Economics/Haver Analytics

Furthermore, that liquidity drain is rapidly deteriorating the outlook for economic growth. Here is the latest report from the [Atlanta Federal Reserve](#):

*"The GDPNow model estimate for real GDP growth (seasonally adjusted annual rate) in the third quarter of 2021 is **1.3 percent** on October 5, **down from 2.3 percent on October 1.**"*

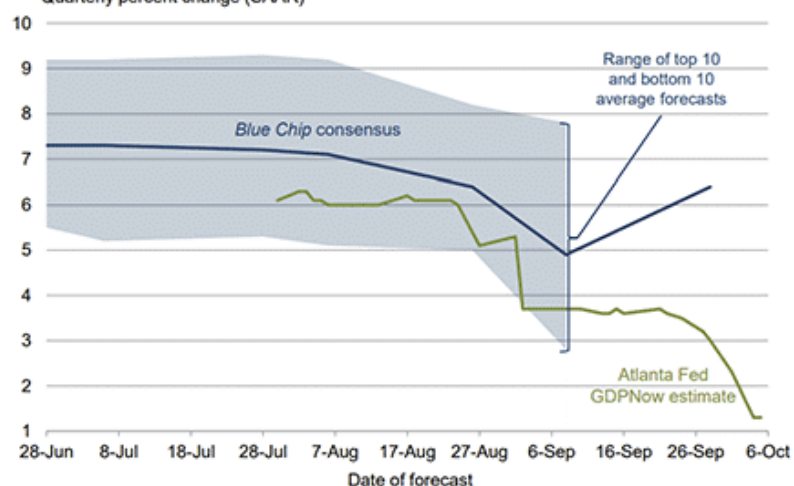


GDPNow

GDPNow is not an official forecast of the Atlanta Fed. Rather, it is best viewed as a running estimate of real GDP growth based on available economic data for the current measured quarter. There are no subjective adjustments made to GDPNow—the estimate is based solely on the mathematical results of the model.

In particular, it **does not capture the impact of COVID-19 and social mobility** beyond their impact on GDP source data and relevant economic reports that have already been released. It does not anticipate their impact on forthcoming economic reports beyond the standard internal dynamics of the model.

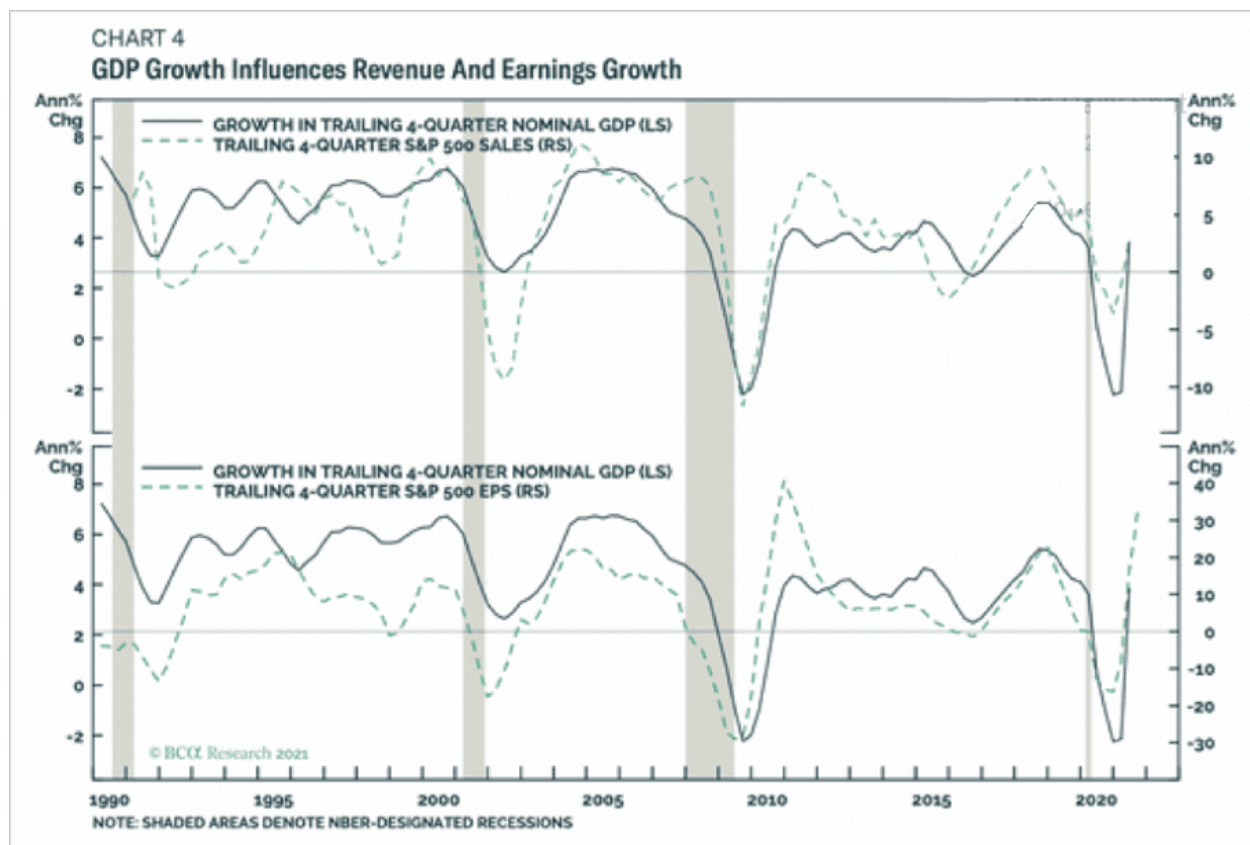
Evolution of Atlanta Fed GDPNow real GDP estimate for 2021: Q3
Quarterly percent change (SAAR)



Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the Blue Chip survey.

As BCA Research shows, as we head into the last quarter of the year and 2022, the slower economic growth rates will coincide with corporations' weaker revenue and earnings growth.



As noted, with valuations already elevated, a reversal in earnings growth will likely limit a stronger advance.

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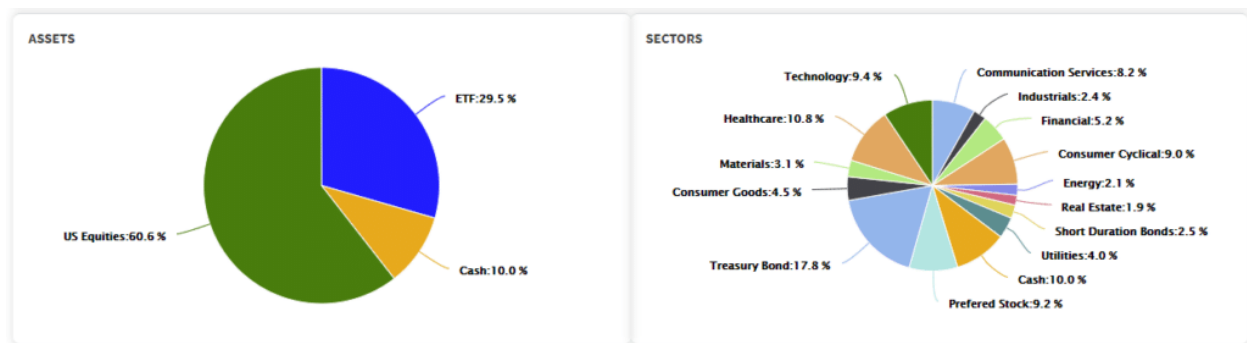
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Portfolio Update

We [discussed last week](#) that after taking profits in August and raising cash, we slowly started adding back into our equity holdings. **The recent spike in bond yields also allowed us to increase the duration of our bond portfolio this week.**

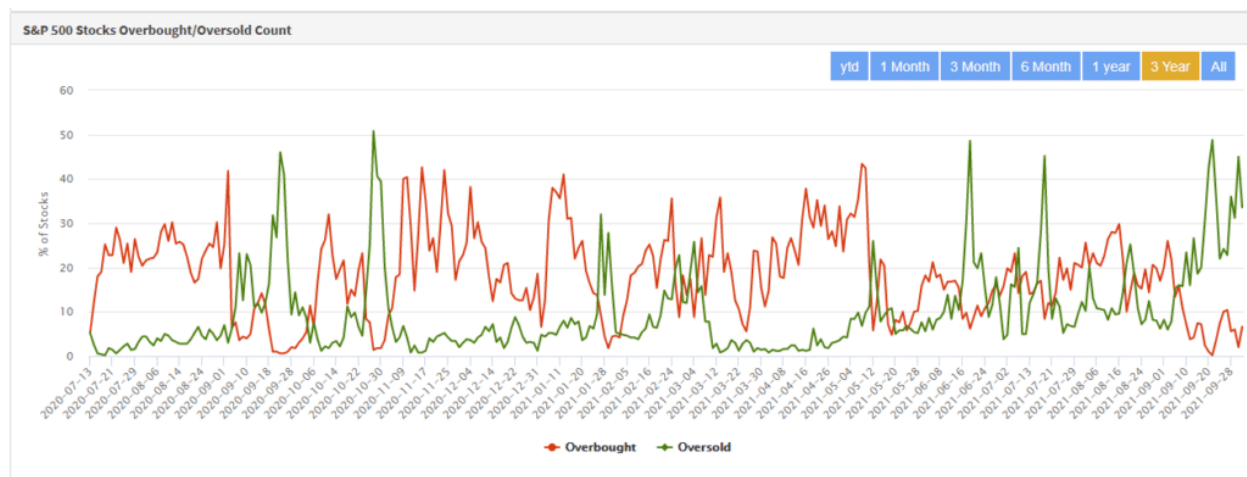
We continued that process early this week, adding additional exposures and rebalancing portfolio risk by reducing laggards.

We are now at target weight in our equities, slightly overweight in cash, and our duration is somewhat shorter than our benchmark. As noted above, while we are looking for a market recovery through year-end, we are keeping a slightly cautious positioning bias to our models. **If we are wrong** and the market breaks vital support levels, **we will reverse our positioning.**



For now, we are giving the market the benefit of the doubt. However, we are keeping our positioning on a very short leash. With valuations still elevated, the technical deterioration of the market remains a primary concern. Such was a point we made in our [Daily Market Commentary](#) this week:

On [RIAPRO](#), we provide the sentiment and technical measures we follow. The number of oversold stocks is back towards extremes, which supports the idea of a short-term rally.?



?However, the overall *breadth* and *participation* of the market remains highly bearish. **Thus, to avoid a deeper correction, breadth must improve.?**



We are watching these technical measures very closely as they will dictate our next course of action.

Have a great weekend.

By Lance Roberts, CIO


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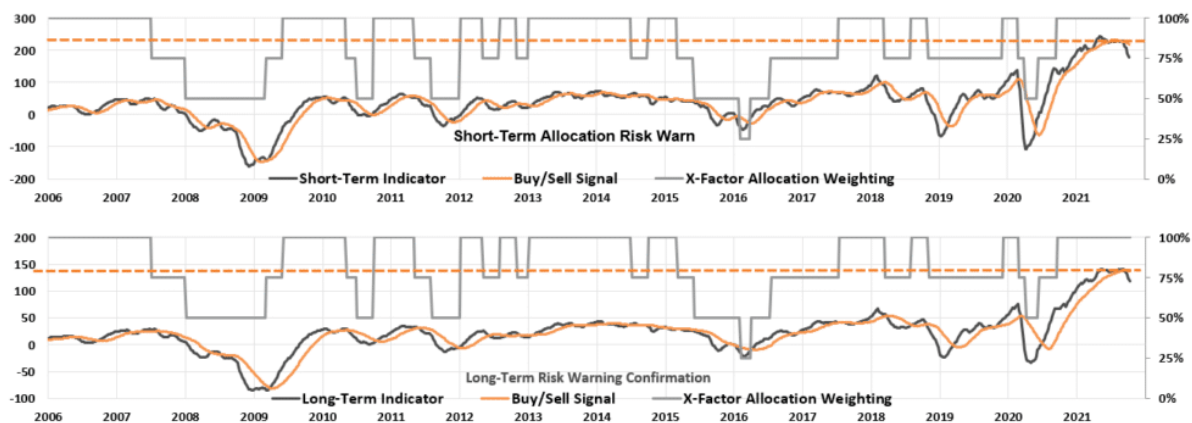
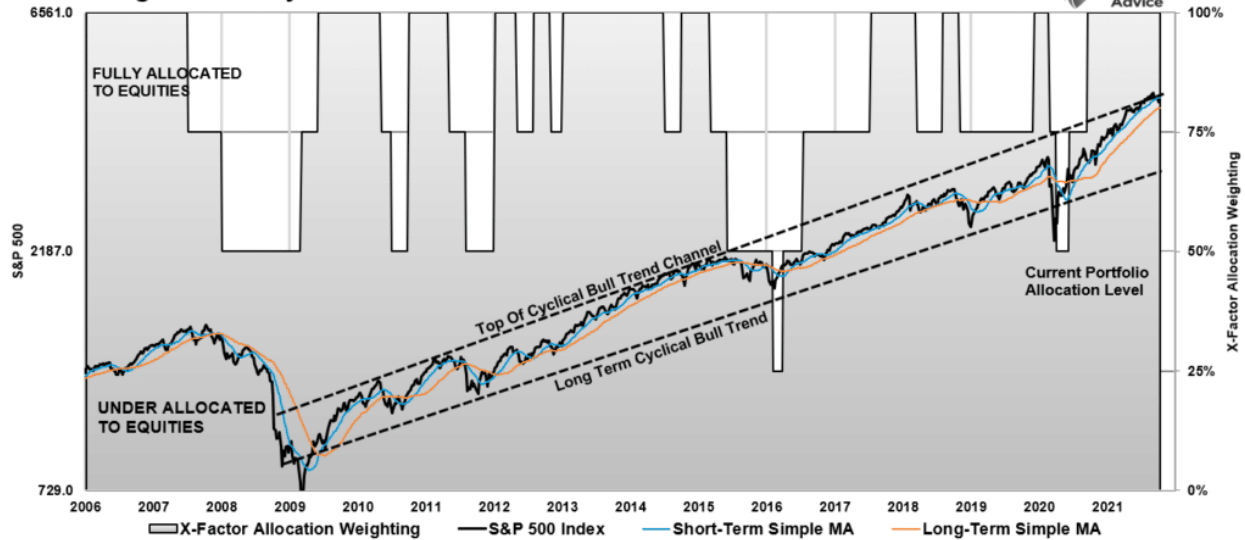
Looking for the 401k Plan Manager?

Find it in the Retirement section
of our website.

[> Find It Here](#)

Attention: The 401k plan manager will no longer appear in the newsletter in the next couple of weeks. However, the [link to the website](#) will remain for your convenience. Be sure to bookmark it in your browser.

Risk Management Analysis



Commentary

This past week, the markets finally bounced solidly off of support and above the 100-dma. With the markets approaching the "seasonally strong" period of the year, we are looking for our MACD signals to confirm our current positioning. As noted in this week's newsletter, we may have seen the highs for this year, and 2022 may well see an increase in volatility.

As noted last week:

*"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."*

That remains the case again this week. Importantly, continue to remain overweight large-cap domestic stocks and vastly underweight international, emerging markets, small and mid-capitalization stocks. Inflationary pressures will hit those areas the hardest in the future.

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

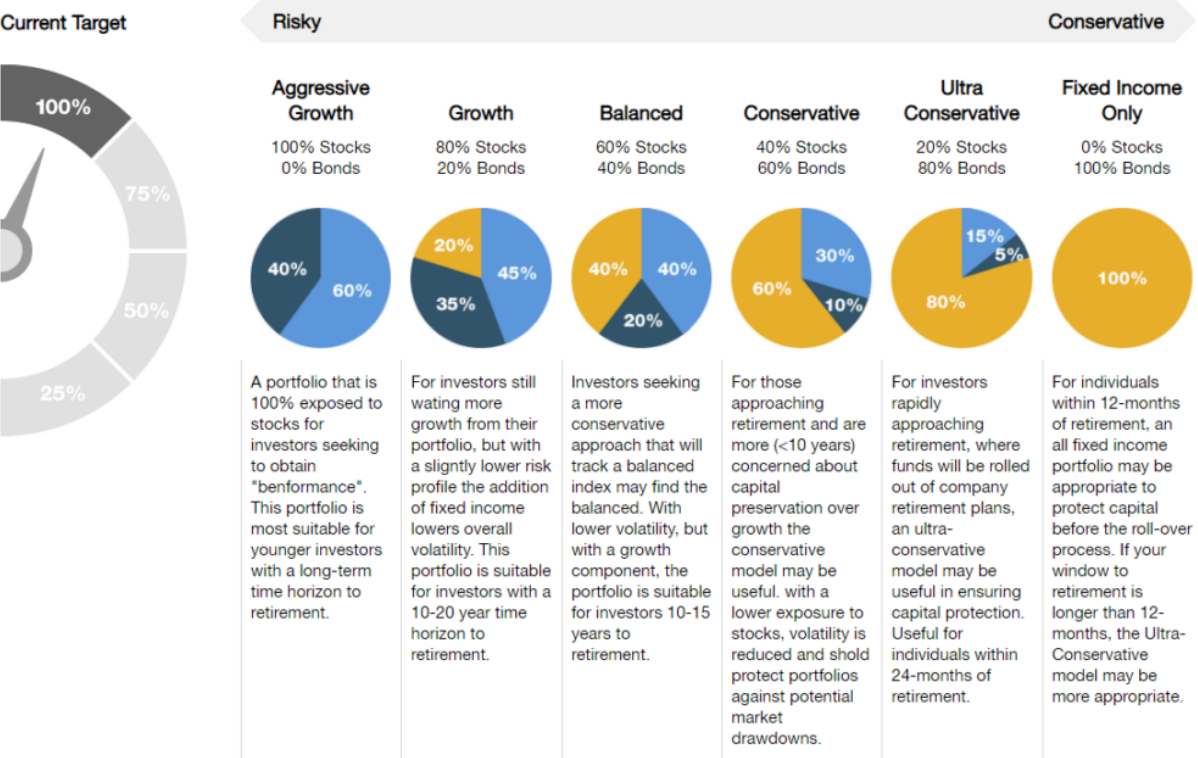
The tactical strategy consists of holdings which based on the short- to intermediate-term trends of the market. As macro-economic, monetary and fiscal policy, and investor psychology impacts markets, the holdings in the tactical strategy will shift to take advantage of market rotations. Importantly, 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.

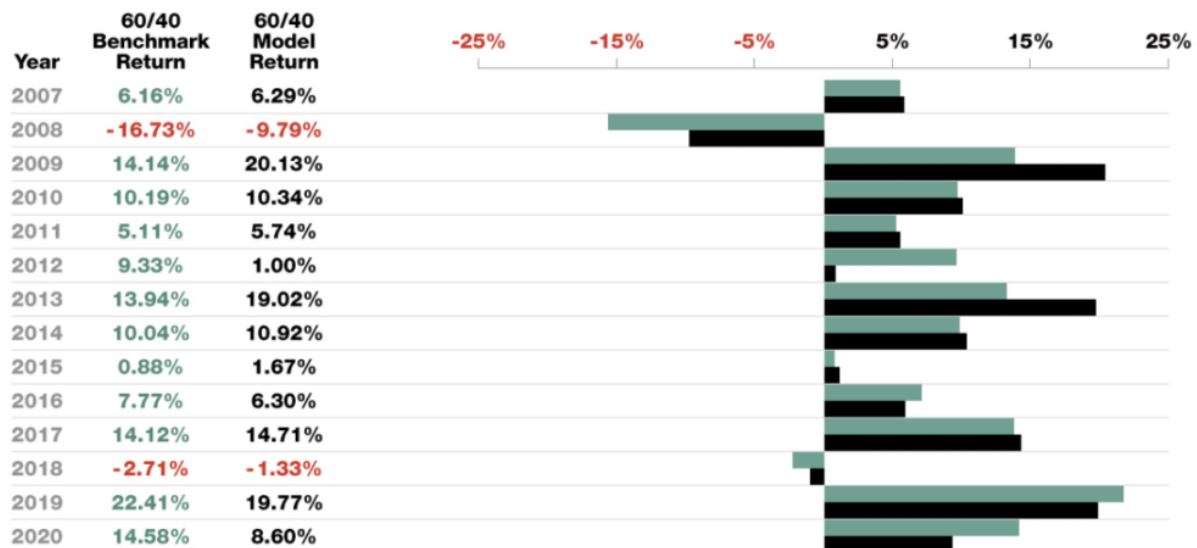


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401k Model Performance Analysis

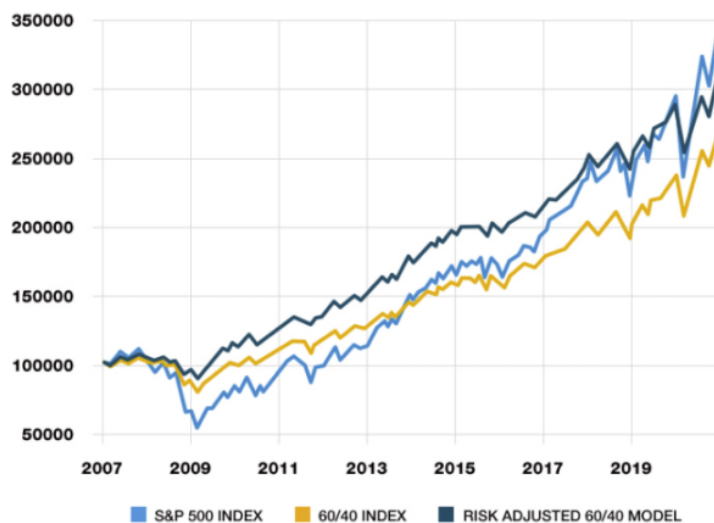
Model performance is a two-asset model of stocks and bonds relative to the weighting changes made each week in the newsletter. Such is strictly for informational and educational purposes only, and one should not rely on it for any reason. Past performance is not a guarantee of future results. Use at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