MARKET WATCH

SIGNIFICANT IMPROVEMENT IN RISK MODELS

June 5, 2020

"The only certain thing about the future is that it will surprise even those who have seen furthest into it."
- Eric Hobsbawm

Bottom Line: All of our market health inputs improved quite a bit this week and our Primary Trend Indicator is likely to turn positive. As such, we will be investing much of the cash we have been hoarding for protection.

In the Markets

Our Risk models and Asset Allocation

This week was a very good week for the markets and our risk models. U.S. economy added 2.5 million jobs in May when the consensus expectation was for another 8.25 million job losses over April. Canada added a comparable 290,000 jobs as well. This was truly a surprise for market watchers. Unemployment usually peaks a couple months before the economy bottoms so this suggests the bottom may be in, or close to it, for the US economy.

Our **Primary Trend Indicator (PTI)** is like an angiogram, getting right into the arteries to see how smoothly things are flowing or if there is any occlusion that may cause further pain and risk to the patient. We look to two other models for confirmation to our PTI model which include a Money Flow model which measures buying and selling pressure as well as the Asset Allocation Models from Ned Davis Research.

There is no better gauge of market liquidity than our PTI, but Money Flow indicators are pretty close, and there have been few better risk managers over the years than Ned Davis Research. Ned Davis just added exposure to stocks this week and our Money Flow Model is likely turn positive soon.

Some might say, *"well that does no good after the market has come all this way back from the bottom, an actual 39% rally off the lows."* I'll make a couple of quick points on that.

First, we use our PTI to get us fully invested and to confirm an uptrend. We begin to get into the market after evidence of a market bottom comes available, usually from components of the PTI. We deployed cash starting in March and early April. We had a great April, reduced our exposure in early May and were up a bit for the month. June is just starting and we are adapting to our improving risk metrics. We'll see what comes next.

What I know is this, the quote for this update is very true, and it's very important. The market's job is to take the most people by surprise and the future will likely surprise everyone; that is why we adapt to changing trends and conditions. There are times when we will be offside with the market a bit but until our models confirm each other, we will always lean more defensive. This means carrying more cash and employing tight stop-losses when risk is high.

A very similar up move of about 40% came after the bottom in 2009, when the world was still very pessimistic on the outlook for the economy and the markets. A move, much like today would have put us where the grey arrow is in the chart below. If this is the start of a new bull market, there will be plenty of upside to come. If not, then we'll want to be getting more defensive again anyway. Patience is the most underrated and often the most underutilized skill in investing.

Conclusion

We remain completely open to any eventuality that the markets bring. Our strategies, tactics and tools will help us to successfully navigate whatever happens as we focus on monitoring supply and demand signals that the market provides us.

Have a very good weekend and we'll be in touch with you soon.

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Words we operate by:

"Deliver to the world what you would buy if you were on the other end. There is huge pleasure in life to be obtained from getting deserved trust. The way to get it is to deliver what you would want to see if you were on the other end." -Charlie Munger

"Strive not to be a success, but rather to be of value." – Albert Einstein