WELLINGTON-ALTUS
PRIVATE WEALTH

MARKET WATCH 07/17/20

THE SCHENK GROUP: MIXED MESSAGES

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"If you diversify, control your risk, and go with the trend, it just has to work."

– Larry Hite, Author of "The Rule"

Bottom Line

- Indicators supporting remaining invested but with the defensive team on the field. Tighter stop losses, lower equity exposure, and gold and bond exposure.
- Watching for longer term indicators to support a sustainable bull market.
- If the economy continues to improve, market may move from defense to offence.
- If weight of the evidence turns more bullish, we will reduce bonds and cash, and increase equity exposure.
- As always the character of the trend reveals itself one piece at a time.

In the markets

I was speaking with an investor who asked about Tactical Asset Allocation: why do we increase our exposure to equities at times and decrease it at other times. I told him that it was because if someone else was managing my money, **I would hope they had a system to determine the health of the markets they are exposed to and to adjust our exposures accordingly.**

I told him that I thought advisors and portfolio managers who didn't bother with active risk management were lazy and not working for their fees. I told him that I agreed with the legend Jeremey Grantham when he said, **"Market timing, by the way, is a tag some buy-and-hold investors use to put down anything that involves using your brain."**

Passive investing in the face of clearly measurable and observably increasing risks is no more prudent than sitting on a porch watching a hurricane come ashore and muttering softly, "This too shall pass." At the same time, once a hurricane hits it might be a little late to go outside and clean up the lawn furniture.

Ok, enough of that.

Where we are:

The stock market (The S&P500 in Chart 1 below) is now right up against the peak reached in Early June. That line is called a "resistance" level. This is the price where an asset meets pressure on its way up by the emergence of a growing number of sellers who wish to sell at that price. Resistance levels can be short-lived if new information comes to light that changes the overall market's attitude toward the asset, or they can be long-lasting. Think of it this way: every buyer of the S&P500 since June 8th is under water. One of the most common emotions for investors is 'buyer's remorse,' which tends to translate to "if I can only get it close to what I paid for it, I will sell it." and voila, you have resistance.

Support of course is the opposite, but it's amazing how often it comes into play. Technical analysis truly is Applied Social Psychology.

So the point is that in the short term, both resistance and support lines are clear and a breakdown of those former support or resistance levels will mean a lot as it relates to our Primary Trend Indicator and other risk models we monitor, referenced at the start of this note and on The Raps Sheet.

Chart 1.

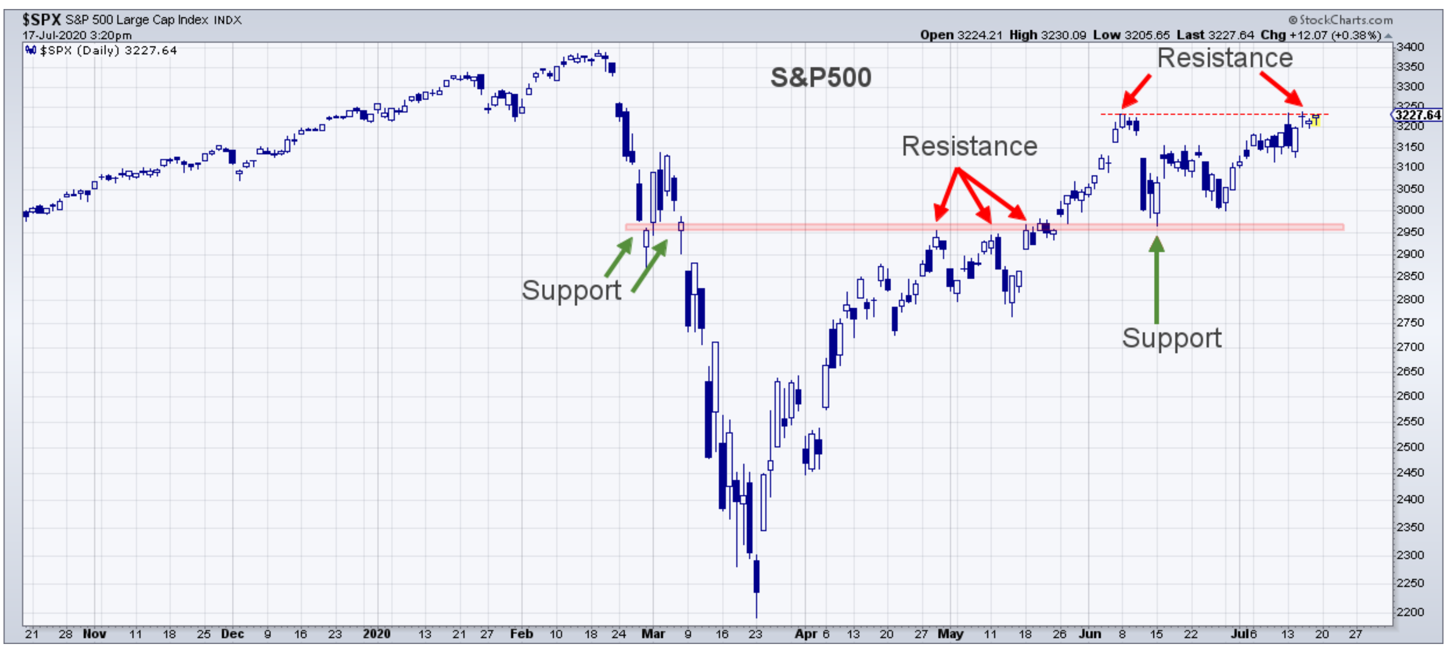
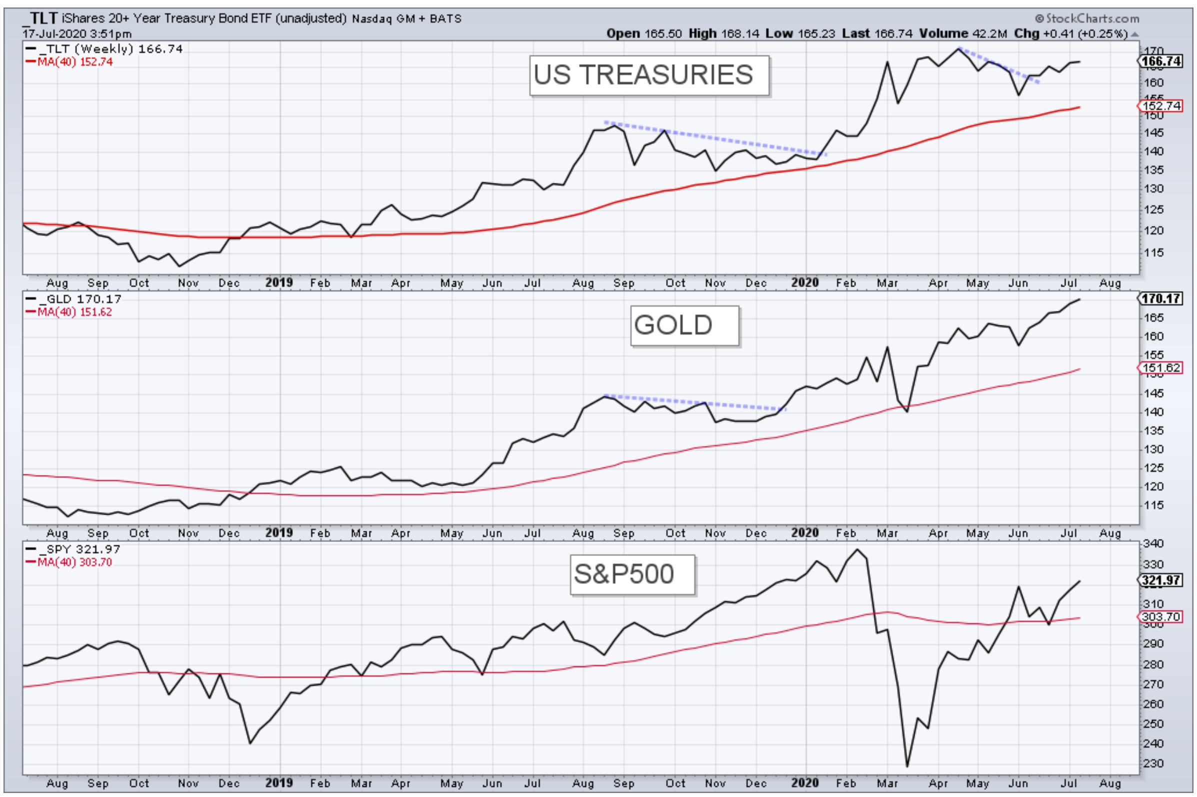


CHART OF THE WEEK: Safe havens Vs. The Stock Market

The chart below shows three Exchange Traded Funds The first is TLT, is a basket of long-term US treasury bonds. The second is GLD, which represents gold bullion. TLT is up 38% over the last two years, is up 45% and the S&P500 (SPY) in the lower window is up 15%. At up 15%, the S&P500 is not performing that bad, but seriously underperforming the other two, which are substitutes for stocks.

GLD and TLT are in clear uptrends and have stronger price charts. While this does not guarantee future outperformance, it does speak to the present situation and raises a few questions. Gold and Treasuries are generally considered safe havens. The rub here is that Gold is an alternative to fiat currencies and may benefit from heightened inflationary expectations but Treasuries, while safe havens, do not benefit from inflation expectations. In fact, they benefit from the opposite of inflation expectations, so what is going on? US treasuries are up more possibly because of the safe haven element rather than the inflation element. Government-issued treasuries are in demand when uncertainty is high, especially in the coming three to four months (back to school, covid trends, election, weakest four month stretch historically for the stock market).

Regardless of the reason why, **treasuries and gold are outperforming the stock market.** All else equal it is generally a negative that safe-haven alternatives are doing better than stocks are.



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Conclusion

Much of our work is an effort to determine the primary trend in the stock market to help us guide how much of your, and our, money we want to allocate there. Right now, when weighing all the data the message is very mixed.

Our Primary Trend Indicator remains negative and safe havens are outperforming the stock market, yet all medium-term stock market indicators have been improving and the S&P500 is close to breaking out into a new uptrend.

The point is that price is king and we have to lean into the up-trend with stocks while keeping hedging activity elevated. That includes not being fully invested in stocks, keeping some cash on the sidelines and maintaining our tight stop losses.

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.

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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