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**“It is only through the relentless management of risk based on arithmetic metrics in which investors can continually triumph over EMOTION and create success and longevity...”** - Ben Graham, the father of securities analysis, in 1946

**Bottom Line:** Equity trends are positive, and internals are positive big picture. Short-term indicators strongly suggest a correction in stocks is coming. We do take steps to reduce weaker positions and increase defensive steps, like holding US Treasuries, but the Primary Trend is our main concern, and for now that appears to be up.

## In the Markets

### Our Fundamental View

As always, we rely on Ned Davis Research for our fundamental view of the global economy as they have proven for decades to be the most comprehensive and objective source of economic analysis. This week they report that Leading Economic Indicators rose for the third monthly gain in a row in July. The six-month year-over-year percent changes were again better than the lows in April, signaling a slowing of the slowing as it were, which is consistent with the early stages of an economic recovery.

Coincident Economic Indicators also rose last month, also its third gain in a row, but the smallest of the three, as secondary effects of the lockdowns are now being felt. Manufacturing activity has moderated and jobless claims have taken a turn higher. The result? Consumer comfort and economic expectations are weak.

This all suggests that while a recovery may have started, economic activity will remain weak into early 2021.

### Our Technical View

Stocks were quiet last week with the S&P500 and TSX little changed.

Technically speaking, stocks remain in pretty decent shape longer term. Our friend and market technician, Mike Hurley, points out that cyclical market bottoms are often formed when a ‘selling panic’ is followed by a ‘buying panic’, which clearly occurred earlier this year (March/April). At the same time Copper, a chart we featured in a recent ‘Chart of the Day,’ had another nice week, increasing the likelihood that Copper is starting a meaningful trend. Also a good sign.

With that being said, stocks could take a break or pullback some over the near term.

Why?

All components of our Primary Trend Indicator and other risk models have softened over the last two weeks. For example, the % of stocks in uptrends, by various measures, is now declining, suggesting reduced number of stocks in uptrends.

Further, the S&P500 hit new highs at 3386, on Wednesday and Friday of last week. However, somewhat concerning is the fact that the majority of stocks and many sectors are not participating. In fact, there were more stocks declining than there were advancing every day last week and many stocks are still down a lot in 2020.

Wayne Whaley, a long-time market analyst in Alabama, has a data base that goes back to 1972. Since that time the S&P500 has never made a new high after five days when there were more declining stocks than advancing stocks, making this an odd occurrence.

In fact, as of August 18th's new high, ~38% of the S&P stocks were higher than they were on Feb 19, Tech, and Healthcare were the only S&P sectors with more than half of their stocks higher than on Feb 19.

These are ideal conditions for consolidation.

## Conclusion

The breadth indicators we rely on and which make up our Primary Trend Indicator are, in our view, truly the best measure of the market footprint. It is the best tool to gauge market liquidity and gives sign to where supply and demand is headed.

While, it remains an art and can only indicate probabilities, the data is right there and can offer good guidance as to what may be coming next. For now, conditions are solid and a pullback in stocks would be normal behaviour at this stage.

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 week, please call or email with any questions, and we'll be in touch with you soon.

**Peter Schenk**

CMT, CIM | Portfolio Manager

## Words we live 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*