MARKET WATCH

SHORT TERM VOLATILITY EXPECTED TO CONTINUE IN PRIMARY MARKET UPTREND

SCHENK WEALTH MANAGEMENT | *SEPTEMBER 7, 2020*

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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 for September 7, 2020:

The bears fired a shot across the bow, but one or two days is not enough to reverse a strong uptrend. There were already warnings of a correction which we’ve discussed in recent updates.

While it may not knock the bulls out, it is enough to destabilize the market for a period. The US and Canadian stock market stumbled for two to three weeks after the June 11th decline. This implies that a correction may need some time to run its course.

In the markets

- There is nothing abnormal about last week’s behavior. Add a huge amount of noise, as usual. Patience is critical here - one day at a time.
- In fact this is the most bullish path for the market to take durable returns follow selloffs and deeply oversold conditions, not after pretending "stocks only go up".
- With broad markets correcting on higher volume, we are prepared to deploy cash into markets that get stretched to the downside.
- Including our US treasury position we had been carrying about 20% in cash. Though we bought a market fund position in the Ishares Dynamic Global Dividend ETF on Friday, should weakness in markets broaden, we won’t be afraid to reverse that and raise cash to 30% - 50%.
- We continue to see a rotation in the market from higher momentum names in web-based companies and into more cyclical groups such as industrials, basic materials, consumer discretionary and now financials also.
- This rotation is actually bullish for the markets. Mega cap tech is still our top ranked group here, but we would like to see some stability in that group.
- Financials are improving as well as consumer discretionary and other cyclicals.
- We continue to believe, as has been the case over the last 4 to 6 weeks, that the market is pricing in an economic recovery, which is a positive development.
- This is evident in the improving cyclicals charts.
- When the market perceives slow to no-growth, it concentrates in companies that are growing rapidly, like cloud and tech and away from companies that are more sensitvey to the economy. We call those types of companies ‘cyclical’ like industrial metals, heavy equipment. When the market perceives

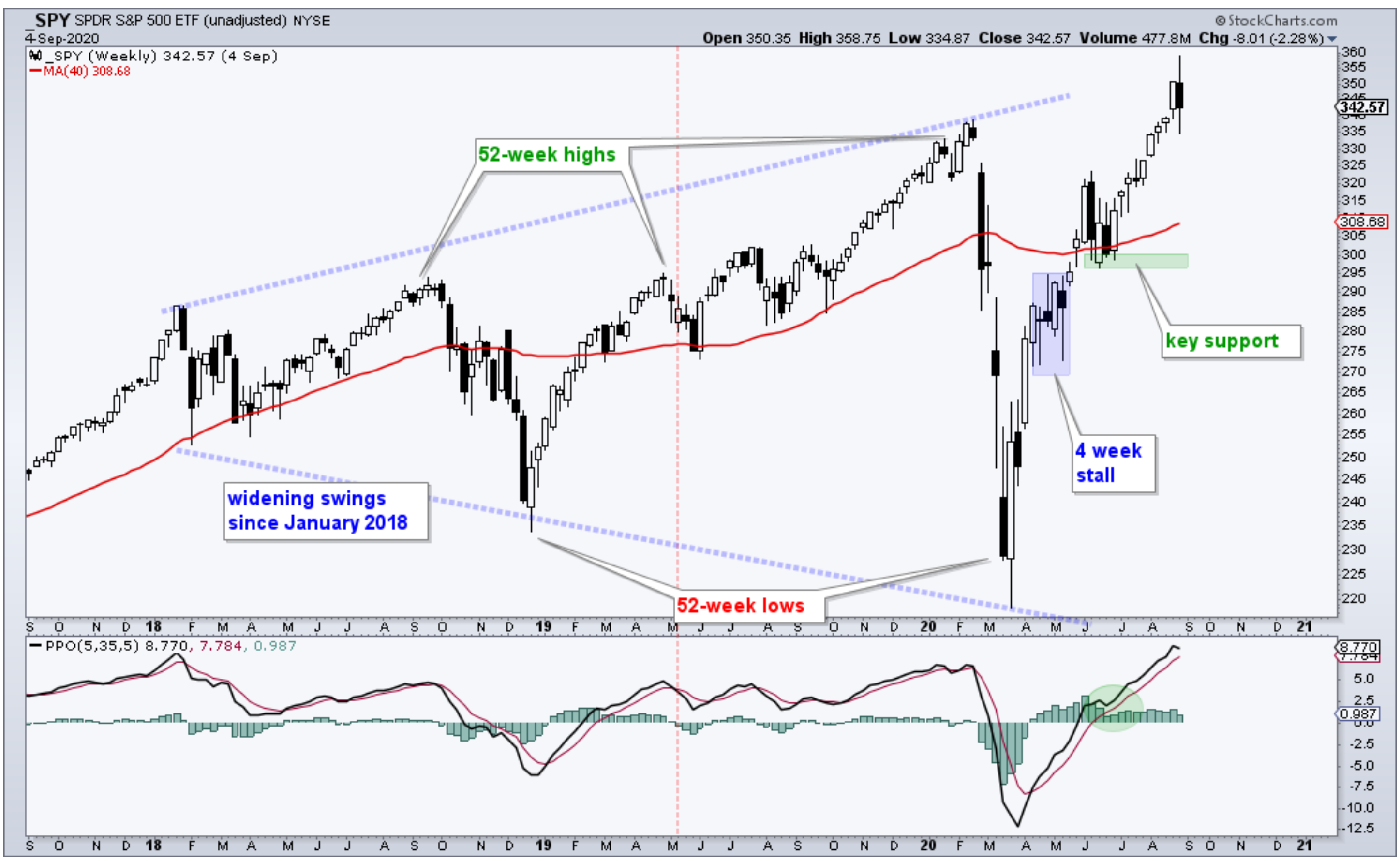
improving economic growth, it moves into cyclicals and reduces the growth stock concentration, which is what we are seeing currently.

- The cloud and momentum stocks are seeing the most selling right now. If the selling intensifies in tech, it could carry over into other groups.
- We view this as a sharp pullback in the longer-term uptrend for now.
- We are slightly more defensive here, but looking to reinvest capital on some stability.

Technically speaking

There are reasons that some areas come into play as areas that may support a declining market. Most of those reasons have to do with human psychology. While it is a subjective exercise it can provide a framework by which to judge the trend.

In the chart below of the S&P500 ETF (SPY) we can look for some clustering and combine this with other aspects of the price chart to come up with a base case. At this point, I see a retracement cluster in the 315 to 330 area with key support around 300, the June lows. There is also broken resistance from the June highs and a small consolidation in late July in this area. A 10% decline, which would seem like the end of the world to some, would extend to the middle of this area.



Conclusion

Sharp drops off of new highs historically had mixed results over the next week, but worked themselves out over the next Quarter. None occurred at the onset of any of the major Bear Markets.

We are in the weakest part of the year historically, and the market was due for a correction. Still a crack up here on a non-news event should probably be viewed as healthy as it makes headlines, gets people scared and shakes out less committed investors.

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