SCHENK WEALTH MANAGEMENT
INVEST WITH THE ODDS

MARKET WATCH
ALL SIGNALS GO

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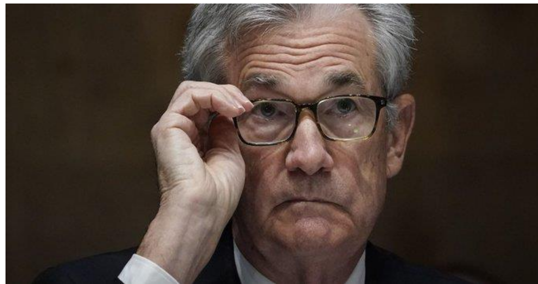
"They never miss a chance to pound this table. Then they are going to let inflation run hot!"
- Dan Russo, Chief Market Strategist at Chaikin Analytics on recent Jerome Powell Speech



https://www.wsj.com/articles/feds-powell-says-u-s-faces-tragic-risks-from-doing-too-little-to-support-economy-11601995201

Bottom Line: Our Primary Trend Indicator took some time to turn positive this year and even longer for our models that measure Buying Power. Since Late September we've formalized some shorter-term models which, after the start of October, are all on Buy signals. While we continue to believe that short term volatility will be high due to overwhelming influence of monetary/fiscal policy as of now, the odds that stock markets, and our retirement accounts, are in a new cyclical uptrend have increased.

Big picture

The stock market continues to show incredible strength in the face of uncertainty. Stimulus talks progress goes from good to bad to good to bad, but, the Fed is at the helm providing huge liquidity and interest rates near zero.

In last week's update, Thoughts on Q4 and Beyond, we talked about what I believe is the most dominant economic issue of the day, one which will affect our ability to save and invest our retirement accounts and frankly is already is affecting the value of our money and our cost of living.

Over the last week we have seen that the Fed is determined to push inflation higher from levels it considers dangerously low. Yes that's right, last week I learned that if things I need to buy don't get more expensive quickly enough, it will be dangerous. Got it.

Of course the real reason that they consider it dangerous is because for the governments of developed nations, including Canada, inflation is the only way to prevent them defaulting on their gross piles of debt.

Yes, the recent Fed stance puts them front and center. Last week Powel said "Even if policy actions ultimately prove to be greater than needed, they will not go to waste". Look out.

Most people think The Federal Reserve is a government entity. It's not. In fact it is a private company.

A little background on the Fed. Article 1, Section 8 of the Constitution states that Congress shall have the power to create money and regulate the value thereof. Today however, the FED, which is a privately owned company, controls and profits by printing money through the Treasury, and regulating its value. The FED began with approximately 300 people or banks that became owners (stockholders purchasing stock at $100 per share - the stock is not publicly traded) in the Federal Reserve Banking System. They make up an international banking cartel of wealth beyond comparison. The FED banking system collects billions of dollars in interest annually and distributes the profits to its shareholders. The Congress illegally gave the FED the right to print money (through the Treasury) at no interest to the FED. The FED creates money from nothing, and loans it back to the people through banks, and charges interest on the currency. The FED also buys Government debt with money printed on a printing press and charges U.S. taxpayers interest. Many Congressmen and Presidents say this is fraud. But I'll stay out of it.

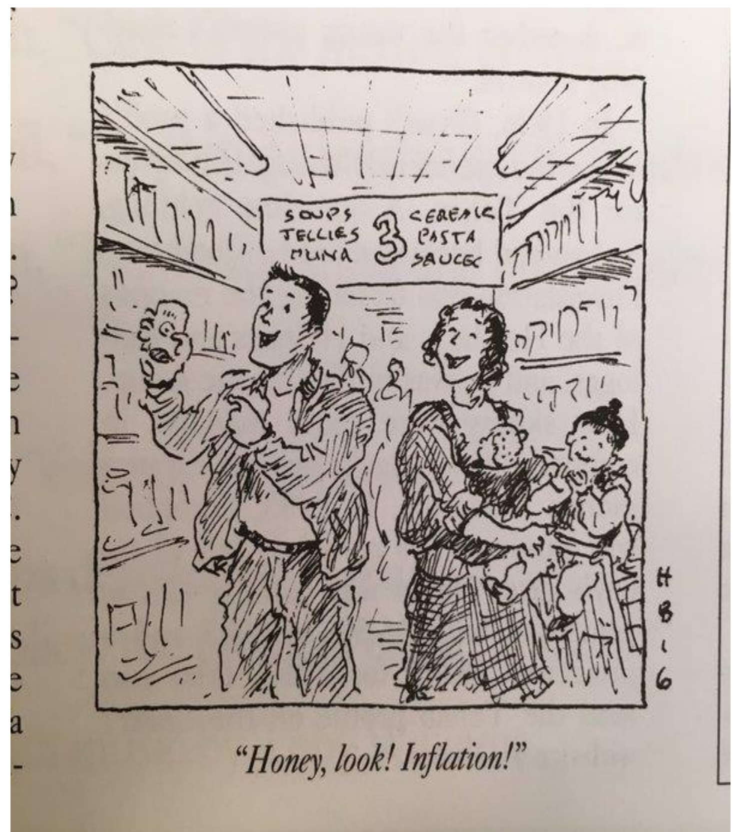
The point is, the idea that the Fed is independent is not true, and now they appear to be reaching for an ever-greater role in fiscal policy that is usually reserved for elected officials.

Tuesday Jerome Powell, in an extraordinary political intervention, entered into the coronavirus relief talks. The Fed Chairman urged Congress to pass what he called more "policy intervention," both fiscal and monetary in a seeming attempt to influence the heated ongoing fiscal "stimulus" debates.

This is highly unusual. The Fed's job is monetary policy and financial regulation. But now a Fed chief is lobbying Congress, on behalf of a fiscal debate. This is government spending, not the purview of a central bank. "The recovery will be stronger and move faster if monetary policy and fiscal policy continue to work side by side to provide support to the economy until it is clearly out of the woods," Mr. Powell said.

Side by side? This sounds as if he sees the Fed as a political partner of Congress and the U.S. Treasury, if not a subsidiary.

2020 is indeed an incredible year. Politicians want to keep spending and now the head of the largest central bank in the world sees the coronavirus as an ideal political justification to cross the Rubicon into untraveled territory, encouraging more spending and deficits, as if they needed encouragement



"Honey, look! Inflation!"

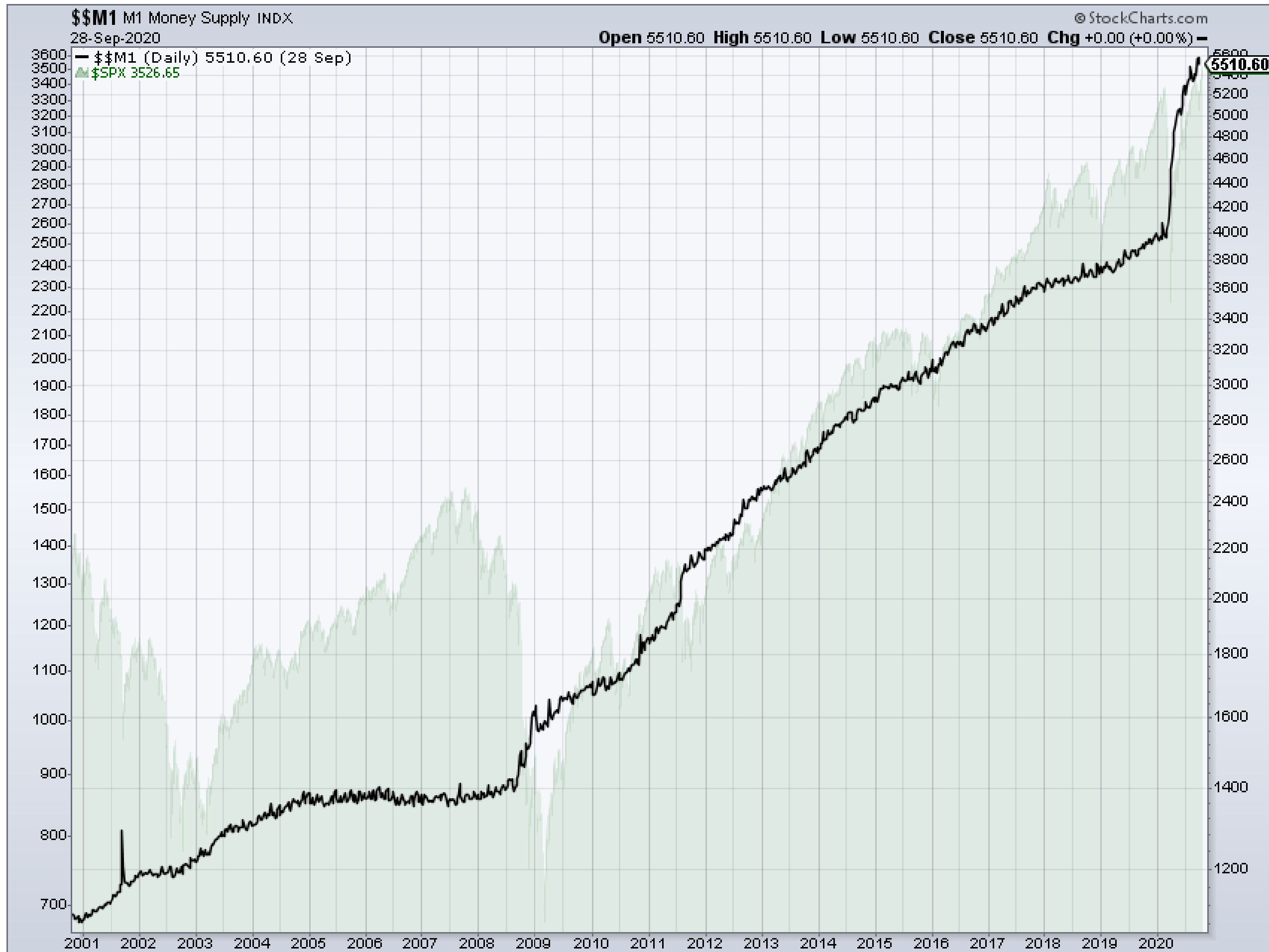
Elected officials the world over are more than willing to spend money they don't have, and the US is no different. Both sides of the political aisle seem to feel that the current economic chaos has presented great opportunities to take the lid off spending.

Thanks to corona lockdowns, the US deficit for 2020 fiscal year in September is a record $3.1 trillion, more than triple the shortfall in 2019. (Congressional Budget Office) It was the fifth year in a row that the deficit, as a share of the economy, grew. As of the end of August, the total US national cumulative debt is $26.7 trillion. The Federal Debt as a % of GDP is the highest it's been since 1945 but now the Central Bankers want to get in on the act and push the deficit even higher.

Yes fiscal and monetary profligacy is not new. The current rate of change however is new. Consider M1.

M1 money is a country's basic money supply that's used as a medium of exchange. M1 includes demand deposits and checking accounts, which are the most commonly used exchange mediums through the use of debit cards and ATMs.

Below you see a chart of “M1” (black line) over top of the S&P500 (green shading). Going back to my analogy of the heart patient; Mr. Market had a heart attack in 2008. The Fed began to inject a new medication (money supply growth known as QE). Since then, the patient has been very reliant on this medication, as each time even the rate of the meds was reduced the patient suffered further problems. Note the growth acceleration of M1 since the patient started receiving higher doses of medication (money printing) in 2008, and the acceleration in dosage since the stock market decline this year.



In the Market

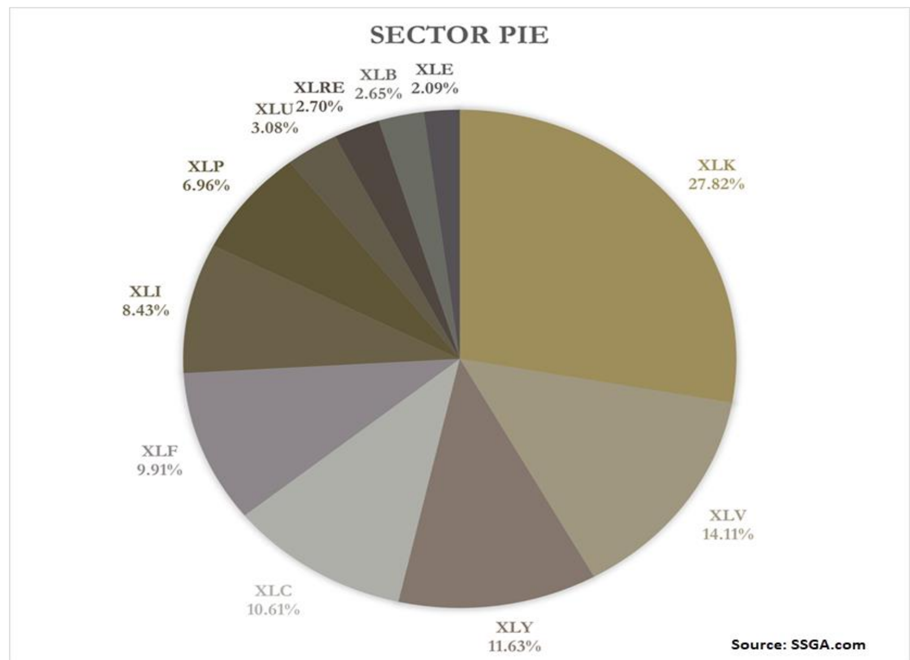
Every pullback tells a story. The stock market decline in September told a story of a market that does not appear to be ready to give up. The pullback was orderly and the internal strength of leading stocks mostly held up well. (for you TA nerds, note the strong RSI on leading names through September). Since then, we have witnessed a strong response by the patient demonstrated in a broad expansion in stocks on the rise. A good sign in general.

There are 11 sectors in the S&P 500, but the big six account for a 82.5% of the S&P 500, which leaves the other 5 with just 17.5%. If we look at these six sectors, Technology (XLK), Industrials (XLI), Consumer Discretionary

(XLY), Communications (XLC), Healthcare (XLV) and Financials (XLF) we can see see broad participation behind the advance of the last two weeks and this is bullish for the broader market.

If we want to look at the "degree" of participation behind a market move we can look at the percent of stocks advancing (ADP). This indicator shows net advances (advances less declines) as a percentage of the total stocks in the sector. Below you can see the S&P500 in the top pane and the ADP for the Technology sector below it. The green and red dots show when official thrusts, positive and negative were reached.

Market moves backed by breadth thrusts in the majority of sectors carry more weight and have a better chance of continuing. It is like a rocket lifting off. Last week five of the big six completed these thrusts. In the chart below you can see when 5 of 6 triggered positive and negative over the last few years. August 2019 (negative), September 2019 (positive), February 2020 (positive) and April 2020 positive. Last week we got another positive ⅚. The S&P 500 chart shows how the market responded when those occurred.



Conclusion

For markets, coronavirus is mostly over. There will be no more shut downs. Data doesn't support them & they were bad policy to begin with. Normalization will happen slowly but it's actually possible that, partly due to reduced inventories 2021could be roaring as long as policy doesn't mess it up.

The S&P has a strong tendency to finish the year in the same fashion in which it began. The S&P's performance from November 19 through January 19 is often useful in ascertaining what to expect for the remainder of the year. Since 1950, when this time period, at the turn of the year has experienced an S&P move greater than +3.5%, the S&P performance at the end of that same year Oct15-Dec31 is 29-5 for an average/median gain of 4.02%. The 2020 TOY was 6.71%.

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.

Happy Thanksgiving 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