04/18/2023 – Squirrel and Moose

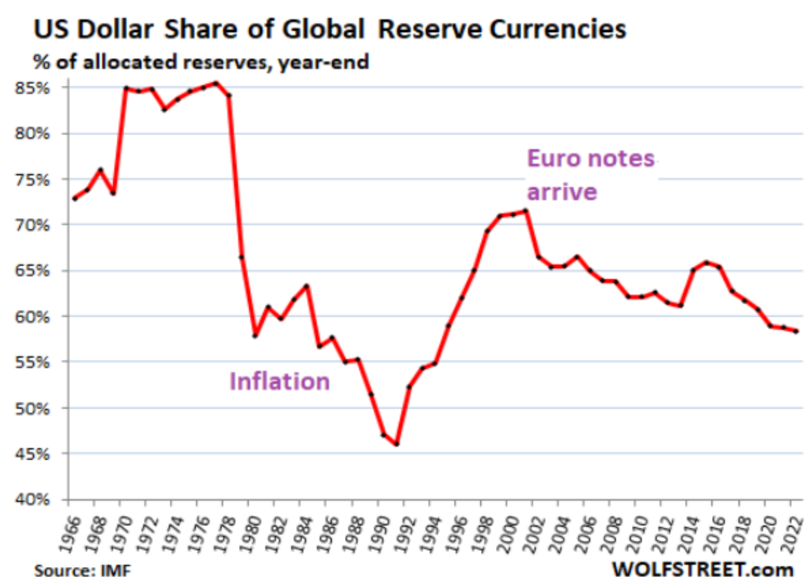
Everyone knows growing up today is vastly different than the 1960s and '70s. For example, I look at the shows my youngest daughter watches on her tablet or TV vs what I watched on TV and I, like any "old" person, wonder what is wrong with the world today? The cartoons in the "old" days, in my humble opinion, were much better than today (aside from "The Archies") and the perfect example is "Rocky and Bullwinkle" and, in particular, an episode (https://www.youtube.com/watch?v=Dr-4B6RbG08), where Bullwinkle is recruited to play for Wossamata U. The school is going downhill so, on the advice of coach "Rocky Kanute," the board decides to "fire a few English teachers" and "get the best football team money can buy." The show progresses into an eventual clash with Boris Badanov and Natasha Nogoodnik, which just shows how little has changed in over 50 years (so, maybe I'm wrong about some things being vastly different). Of course, Rocket J Squirrel and Bullwinkle the Moose triumph, showing the beauty of capitalism and freedom over a planned economy and communism, as was the theme of many of their episodes. Sadly, that battle is being fought again and the issues of those days are "back to the future."

We now find ourselves in conflict with the Russians and the Chinese, we have government overreach in the corporate world, people are worried about the US keeping it's "global reserve currency," and what seems to be an entrenched inflation situation whereby the latest report (April 12th)^ of 5.0% looks good only in relation to the previous 12 months of readings. On top of this, most of the other recent data^* show recessionary indications. In other words, shades of 1973 all over again. So, what to do?

^https://global-premium.econoday.com/byshoweventfull.aspx?fid=559228&cust=global-premium&year=2023&lid=0&prev=/byweek.asp#top
^*https://www.zerohedge.com/markets/hartnetts-dirty-dozen-doom-12-charts-coming-recession

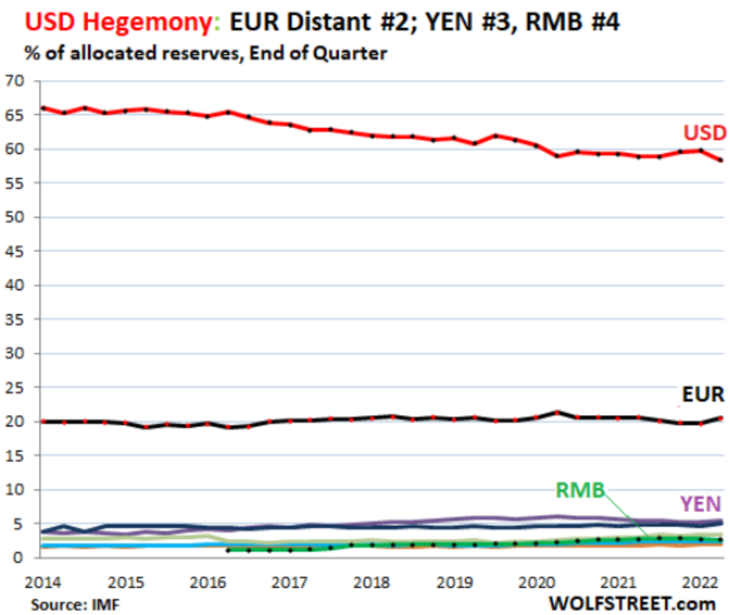
In this note, I'm going to touch on the fear out there about whether the US will be able to keep the dollar as the global currency, recent data pointing us towards a recession, and then offer some hope at the end.

At the risk of eyes glazing over in a soft haze, the first chart shows the yearly percentage of world-wide trade in dollars over the past 50 years and the chart on the next page shows the amount of dollars used in trade vs other currencies.



You'll notice we've been here before. Since the early '70s, as a percentage of the world's trade, the dollar has bounced from 85% to 45% to 71% and now about 58%. As you can see in the 2nd chart, the Euro is used in about 20% of trade and the "feared" Chinese currency, the Renminbi (RMB aka Yuan) is hardly noticeable at about 2% (the Ruble is non-existent). People are wringing and gnashing their teeth over the latest headlines of trade deals between Russia/China, Saudi Arabia/China, Brazil/China, India/Russia, that will be conducted in their respective currencies rather than in dollars. In my opinion, this is a good thing in the long term. The simple thought is, if dollars are in less demand, the US will be forced to "print" fewer dollars which means debt and deficits will decline or rise more slowly, and that is in the best interest of every US citizen.

The past several years have seen the US take advantage of their reserve currency status by unleashing a torrent of green paper on the world and we are now experiencing the results in used cars costing 50%* more than a few years ago, dinners out that used to total $40/person now costing $60/person (or more), and strawberries at TJs that were $5/carton are now over $7.^ The "threat" of other countries discovering they can transact trade in their own currencies is the proverbial wake-up call to us (meaning our elected politicos) to reign in the excess. This is exactly what happened after the inflation of the 70s/early 80s and was, in my opinion, one of the drivers of stock market and economic market gains during the '90s and forward.



As someone who has traveled around the world, I believe it will be a long time before we see the vendors of Mexico, Europe, Costa Rica, Australia, Japan, and Brazil clamoring for a fistful of Rubles, Rupees, Yuan, or Riyals as payment. So, I wouldn't give up on the dollar, over the long term, just yet.

At the same time, the world is absolutely seeing some fragmentation into geopolitical blocs, with those blocs based mainly on commodities, and rival currency schemes are emerging.^^ This will have an effect on the dollar and, most likely, will be inflationary. World growth since the 1850s has been based on the concept of specialization. You do something better than me, and I do something better than you. So, we each do our thing and sell to each other at a lower cost than if we did it ourselves (no way can I shoe a horse). So, unless rising interest rates put us into a (great) recession/depression, most likely, higher prices are here to stay.

*https://wolfstreet.com/2023/04/13/turning-point-cpi-used-vehicles-not-seasonally-adjusted-jumped-for-first-time-since-july-tracked-wholesale-price-surge-with-two-month-lag/

^ Source: Me

^^ https://www.zerohedge.com/markets/it-wasnt-mistake-or-slip-lagarde-hints-raising-central-bank-inflation-target

A quote I've often used and attributed to Herb Stein is "if something can't go on forever, it won't." As noted above, the years 2020 – 2022 witnessed the most massive hurricane^ of "fabricated" currency in history. Out of whole cloth, the world's central banks printed an additional $12 trillion in money from 2020 – 2022 to reach $31T in assets held by CBs.* That has since declined by about $2T and I expect that trend to continue (at least for a while). Reducing liquidity often results in reduced economic activity, hence a recession.

There are 2 stages leading to a recession^. One is the "warning" of below trend growth and then the "transition" to below trend growth. We are now in "stage 2." Since 1970, stage 2 has triggered an average of six months before the recession started. We are now in month 5 since stage 2 began in this cycle. It's possible we are being misled by the recent stock market strength. On March 16th, 2008, Bear Stearns bank collapsed, and stocks rallied about 10% for the next 2 months before the stock market rolled over. Silicon Valley Bank fell on March 10th, and we've rallied as the Fed has set up emergency lines of credit for the banks. While this has been a bit of a reprieve and thrown a bunch of liquidity into the market, I don't believe it is sustainable and recent bank lending has dropped the most on record^*. Bank of America's Research Team shows that recessions are reliably negative for equities throughout history and not discounted in advance. **Since 1929, 2/3 of the S&P 500 peak-to-trough drawdowns have occurred during, not before, US recessions; 8 of the last 10 recessions saw S&P 500 drawdowns of over 20.***

*https://www.yardeni.com/pub/peacockfedecbassets.pdf

^https://seekingalpha.com/article/4593519-three-sequential-signals-of-recession?mailingid=31133812&messageid=2850&serial=31133812.9061&utm_campaign=rta-author-article&utm_medium=email&utm_source=seeking_alpha&utm_term=31133812.9061

^* https://www.bloomberg.com/news/articles/2023-04-07/us-bank-lending-declines-sharply-for-a-second-straight-week

**https://www.zerohedge.com/markets/hartnetts-dirty-dozen-doom-12-charts-coming-recession

This note is already long enough so, for those who want to see the recent charts pointing to a recession, please click the link. https://img1.wsimg.com/blobby/go/5940ac87-6751-4d0d-9e50-ab1e0386ba56/downloads/04.18.2023%20Addendum%20to%20Squirrel%20and%20Moose.pdf?ver=1681944990307

Now that's serious stuff if we are going into a recession. Who wants to see their stocks drop another 20% or more? Of course, it often happens that, if everyone is predicting something, the exact opposite happens. And there are a couple of quite positive data points for stocks that indicate higher values over the coming year.

Dates of 10 Signals	1 Week Later (%)	2 Weeks Later (%)	1 Month Later (%)	2 Months Later (%)	3 Months Later (%)	6 Months Later (%)	12 Months Later (%)
1975-05-12	-0.4	0.2	1.6	6.0	-3.5	-5.9	10.1
1978-04-25	1.6	2.4	4.8	5.7	8.3	6.7	17.5
1979-08-03	1.7	3.7	4.1	5.5	-4.4	13.8	20.9
1982-09-03	0.5	2.2	3.7	22.4	30.3	46.1	61.8
1989-04-14	1.5	2.4	4.4	7.9	7.5	15.4	4.5
1995-02-07	1.5	1.1	2.2	4.6	8.9	28.0	39.8
1997-05-21	2.1	1.2	5.3	13.8	18.6	16.5	32.6
2003-06-18	-4.4	0.1	1.9	3.7	12.3	14.7	18.5
2005-06-09	0.6	-0.3	2.8	4.7	4.3	8.4	2.8
2009-09-08	3.2	5.3	3.6	3.3	7.5	15.8	9.4
2023-03-31							
Median	**1.5**	**1.7**	**3.6**	**5.6**	**7.9**	**15.1**	**18.0**
% Positive	**80%**	**90%**	**100%**	**100%**	**80%**	**90%**	**100%**

The percentage of stocks in the Nasdaq 100 that are down 20% or more from their 52-week high, recently dropped below 24%. That's the lowest since January 2022 and is a huge shift from last year when nearly 80% of companies were down at least 20% in price. Over the past 50 years, this type of positive momentum has witnessed the Nasdaq stock market up 100% of the time over the next 12 months with some huge returns and positive 90% of the time 6 months later (see the blue outlined box)

Source; https://sentimentrader.com

In a similar theme to the table above, another momentum indicator called a "Zweig Thrust*," is also showing considerable strength and historical returns after previous similar occurrences have showed positive returns 100% of the time 6 and 12 months out.*

Dates of 11 Signals	1 Week Later (%)	2 Weeks Later (%)	1 Month Later (%)	2 Months Later (%)	3 Months Later (%)	6 Months Later (%)	12 Months Later (%)
1962-07-11	-2.7	-2.2	-0.5	1.2	-0.9	12.1	20.8
1962-11-05	1.9	3.6	7.8	11.0	13.8	20.0	24.8
1971-12-03	0.6	3.3	5.2	7.9	11.2	13.1	20.9
1974-10-10	2.0	0.6	7.3	-3.6	4.0	20.6	26.6
1975-01-03	2.7	0.4	10.1	17.2	14.4	33.4	28.6
1982-08-20	3.6	8.5	10.5	23.2	22.4	30.5	44.7
1984-08-03	1.9	1.1	1.6	0.1	3.2	10.0	17.9
2004-05-25	1.1	1.6	1.9	-1.6	-0.7	5.7	6.9
2009-03-18	2.5	2.1	9.5	14.5	14.6	34.5	46.8
2015-10-08	0.5	1.9	4.3	2.5	-4.5	1.4	7.0
2019-01-07	1.3	3.3	7.1	7.6	13.6	16.9	27.0
2023-03-31							
Median	**1.9**	**1.9**	**7.1**	**7.6**	**11.2**	**16.9**	**24.8**
% Positive	**91%**	**91%**	**91%**	**82%**	**73%**	**100%**	**100%**

^https://www.investopedia.com/terms/b/breadth-thrust-indicator.asp

*Source: www.sentimentrader.com

It's possible both above scenarios could be right. We could have a recession and stocks could drop significantly and then have a recovery as the Fed lowers rates and turns on the QE spigot again. For now, for allocations at Nationwide Advisory Service, we remain somewhat cautious in stocks hoping to be on the right side of an oversold bounce with heavy weightings of "real" stuff and lots of short term bonds.

If I haven't spoken with you about some ideas to reduce risk in your accounts, please call to set a time to talk.
Thank you for allowing us to be of service.
Enjoy,

Thomas B. Paine
Paine Financial Services
www.tacticaladvisoryservices.com
Centaurus Financial Inc.
6627-A Bay Laurel Pl
Avila Beach, CA 93424
805-473-6679
805-258-5476 (fax)
Supervisory Branch Office: 1186 E. Grand Ave., Arroyo Grande CA 93420; 805-473-6670