05.13.2022 – Pessimism Abounds

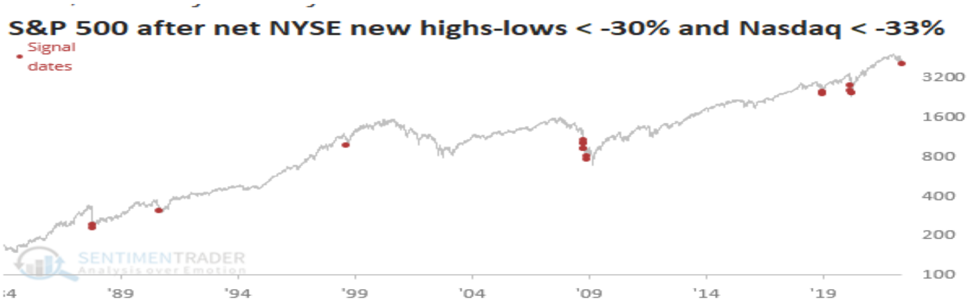
In 1650, the English theologian, Thomas Fuller, wrote "*It is always darkest just before the Day dawneth"* in his book "A Pisgah-Sight of Palestine and the Confines Thereof" ("pisgah-sight" means a distant view of something unobtainable and the book is a history of the old and new testament with lots of maps). Darkest before dawn, although factually incorrect since the darkest part of night varies depending on various circumstances, has come to my mind the last few days as the stock markets seem to crumple before our very eyes. While I certainly expected some washout this year due to the vast excesses since the beginning of the pandemic, being down -18% in the S&P 500* and -27% for the Nasdaq* was not something I was forecasting. Our managed accounts at Nationwide Advisory have been what I would call conservative across all risk levels, and that hasn't stopped them from being down more than I certainly wanted (although nothing close to the indexes). Other than cash or energy stocks, there have been few places to hide. The aggregate bond index, AGG, was down -10% until a couple days ago.* Energy stocks were slammed on Monday the 9th and lost 10% in a single day,* so our energy stocks "hiding place" that was offsetting the negative in the rest of the markets suddenly became an even bigger drain. With all that stated, all of my clients remain, "in the game." We remain well within our loss risk parameters for all risk levels.

You may remember from my last note, I have been reading the Talib book "Skin in the Game." As a trader, he writes about the principle that "in order to succeed, you must first survive." If an investor makes 100% compounded in years 1 and 2, then loses 90% in year 3, the ending value is 60% less than the starting value. The point being, it is better to be conservative and wait for the right opportunities rather than racing in the fast lane even if it seems like that's the place to be and all your friends are talking about how great their stock picks are. For the past couple of years, it seems investors have had stars in their eyes believing pigs really can fly (https://www.youtube.com/watch?v=O1TGRTuqDgU). Now, with interest rates rising, the Fed reducing its balance sheet, and the end of the trillion dollar government checks, those high risers have cratered. Here are the stats as of May 11th^:

- 50% of Nasdaq stocks are down more than 50%.
- 32% of S&P 500 stocks are down more than 30%
- Amazon, Nvidia, Facebook, and Netflix are down 40% to 75%
- Apple, Microsoft, and Google are down 20-25%

*Source: Yahoo Finance
^Source: The Market Ear and Yahoo Finance

So, the question always is, where do we go from here. Well, a couple things have happened which lead me to believe we may be ready for a big turnaround. If not immediately, then soon. First of all, the "fear gauge" as measured by several organizations is now at the "extreme" levels.



Signals (18)	1 Week	2 Weeks	1 Month	2 Months	3 Months	6 Months	1 Year
1987-10-19	1.3	13.7	8.1	8.1	10.9	14.7	22.9
1987-10-20	-1.5	5.9	3.7	5.2	2.4	8.1	18.0
1990-08-23	3.8	5.3	-0.8	1.7	2.9	19.1	27.4
1998-08-31	6.9	8.4	6.2	13.4	21.6	28.2	37.9
2008-10-06	-5.1	-6.8	-4.8	-20.0	-11.6	-22.8	-0.2
2008-10-07	0.2	-4.1	-4.4	-12.1	-9.0	-17.2	6.2
2008-10-08	-7.8	-9.0	-8.1	-7.6	-7.6	-13.0	8.2
2008-10-09	4.0	-0.2	2.3	-2.3	-2.2	-5.6	17.8
2008-10-10	4.6	-2.5	2.2	0.0	-3.2	-6.4	19.7
2008-11-20	19.1	16.4	15.8	10.6	2.8	21.0	45.0
2008-11-21	2.0	13.7	7.9	4.6	-4.4	11.6	38.3
2018-12-20	0.7	3.3	6.9	13.2	13.4	19.4	30.6
2018-12-21	3.7	6.5	9.3	15.7	16.6	20.7	33.4
2018-12-24	6.8	9.9	13.3	18.8	19.3	23.9	37.1
2020-03-09	-13.1	-18.5	-3.2	4.9	17.7	24.8	41.1
2020-03-12	-2.9	6.0	11.3	15.7	21.0	34.6	59.0
2020-03-16	-6.2	10.1	16.6	19.5	28.5	41.8	66.1
2020-03-18	3.2	3.0	19.9	23.2	29.8	41.2	63.3
2022-05-12							
Median	1.6	5.6	6.6	6.6	6.9	19.2	32.0
% Positive	67%	67%	72%	78%	67%	72%	94%

2) Several clients called yesterday (May 12th). When people are worried enough to call, that's often been a sign that things are about to turn. That's not meant to be condescending. Worry about one's finances is normal. I would have called me already too.

3) The "dumb money confidence indicator" shows the average retail investor has panicked. The 3-day average fell to 13% on Wednesday, matched only by Sept 9, 2001, Dec 24, 2018, and March 11, 2020. After each of those dates, the S&P 500 enjoyed double-digit gains over the next couple of months.^

4) The net percentage of highs - lows was below -30% on the NYSE (see the chart). When that happens the median return over the next year is above 32%.^ Be mindful that a few of the signals in 2008 and the couple in 2020 did lead to big losses before recovering.

5) A number of indexes have fallen to "support" levels that would indicate at least a reasonable bounce from these levels
^Source: Sentiment Trader

Whether we've hit bottom is impossible for me to state with certainty. I did make a small buy back into the market at close yesterday which worked out quite nicely today (May 13th). At the same time, to quote a note from Sentiment Trader, "It seems like we're on something of a precipice here - either the world is not crumbling, in which case the current conditions should lead to a multi-week or multi-month relief rally; or it is, in which case we'll likely get the next leg down that trigger true panic."

I remain concerned but now "hopeful."

As always, thank you for allowing us to be of service. Please let us know if you need anything.

Enjoy,

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