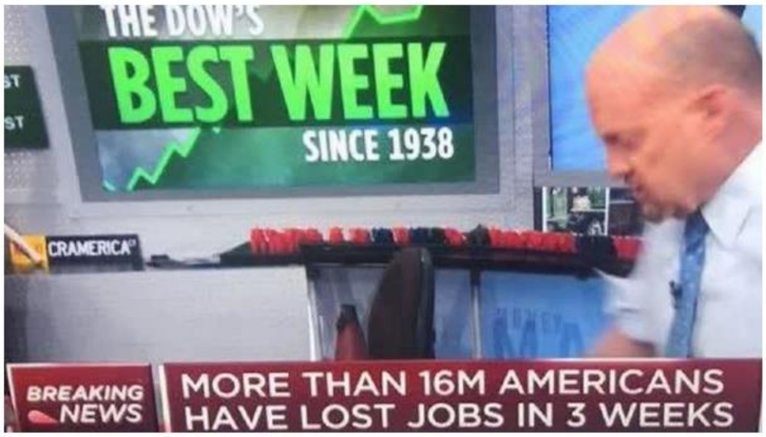
[11.09.2021 – 6000 or Bust]

(You are welcome to pass this note on to others)

For clients with accounts at Nationwide Advisory Services, while we were "flatish" for the 3rd quarter, accounts have risen sharply since. If you haven't checked your balances recently, you will be in for a nice surprise (of course, things can change quickly). This note is longer than usual with more detail. Please do take the time to read it all the way through as it might be the most important note I've sent to date.

Frequently I point out "factual" problems with the stock markets in the sense that certain valuations or sentiment are beyond historical norms. This note is going to be the opposite. This update is to share the positives and where I believe we are going over the next 18 – 24 months (which probably will surprise you). Obviously, I could be wrong and, if so, will adjust accordingly using my rules based system. As a wise person once said, "when the facts change, I change." My "predictions" have nothing to do with valuations or company sales or COVID or the Federal Reserve or interest rates or tapering or inflation or labor issues or supply chains or whatever other bogeyman is presented in the daily news that we so eagerly absorb. The following headline from TD Ameritrade in late October sums it up nicely:



"Stocks Made Record Highs in the Face of Tapering, Inflation, Supply Chain Issues, and Worker Shortages"

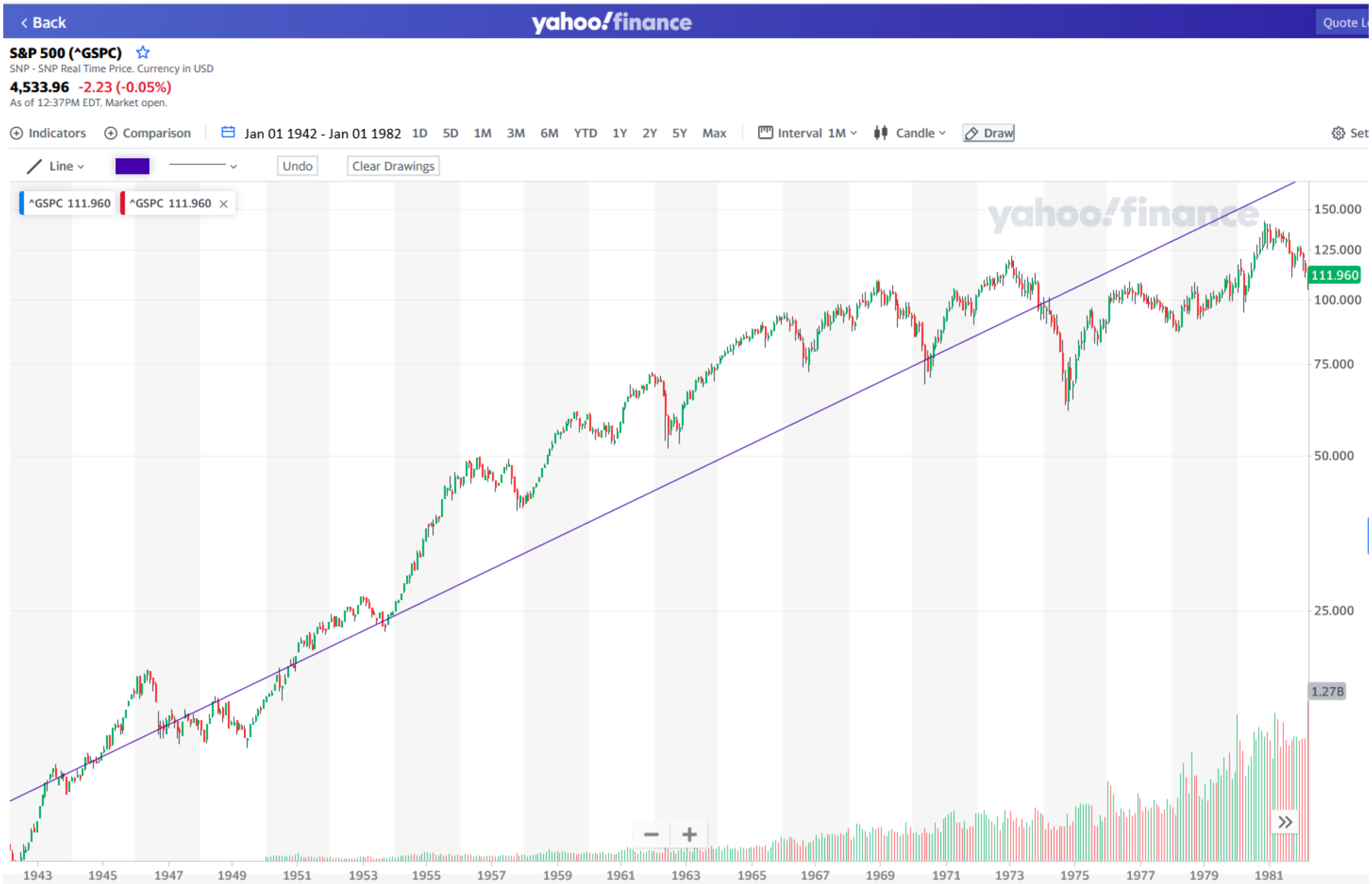
The question is, how is it possible stock markets are up so much when so many are so sure that any one of the above mentioned issues should have been enough to send the market plummeting. On Oct 28th we saw GDP reported at well below expectations*. Despite that, the market rallied almost 1%^ that day and hasn't looked back since. What does this mean? Why is the market continuing to go up in the face of all the troubles and tribulations and valuation measures and fears of rate hikes and tapers and whatever else comes up?
*https://www.bea.gov/news/2021/gross-domestic-product-3rd-quarter-2021-advance-estimate
^www.finance.yahoo.com

Some of the reasons are easy to understand and seem to logically point to higher stock prices.

From Goldman Sachs: (their Oct 15th update):

- Earnings are still going strong
- Federal Reserve still buying mass amounts of bonds despite the tapering
- Buybacks are historic. Potentially over $1 trillion of company stock buybacks over the next 12 months)
- The consumer is healthy
- Corporations are healthy (markets loves buybacks but will take dividends, too)
- (So far) comfort that China's property problems are not globally systemic.
- Federal Government has delivered another $trillion tailwind via infrastructure and possibly another $trillion or so coming up soon

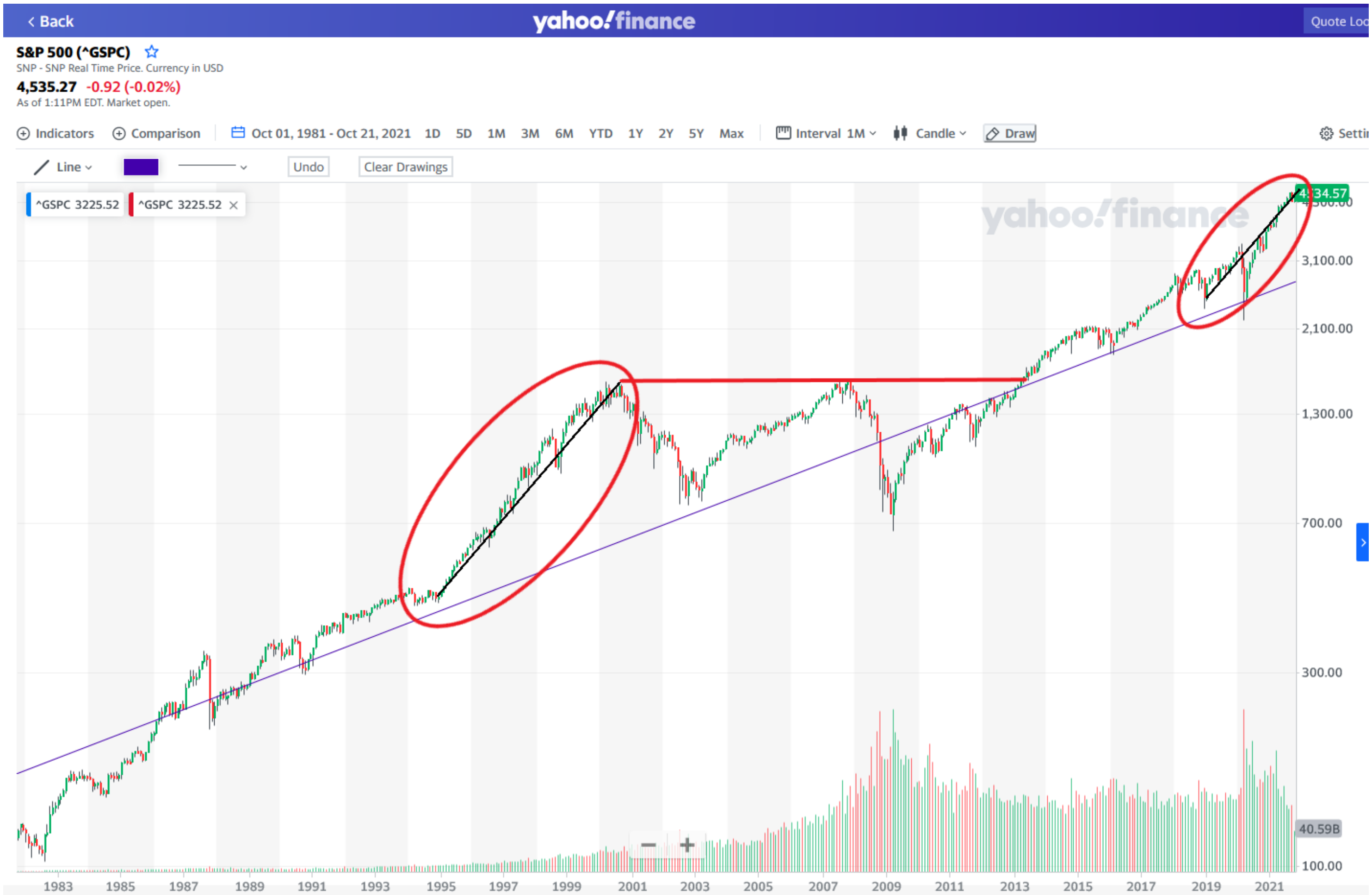
As you can read, there are a number of reasons to be "bullish" on the stock market. The problem with focusing on "logical" reasons is highlighted by the accompanying screenshot taken a few weeks into the pandemic last year, 16 million jobs were lost. Yet, the Dow Jones Average had its best week since 1938. How is that possible based on any "factual" analysis? I will get to what I believe to be the answer below. First, let's look at the



following two charts (I advise looking at this on your computer rather than a phone. You can click on the charts to stretch them out if you wish).

The first chart shows the S&P 500 Index* from 1942 to 1982. You'll notice a 70 degree sloped purple trendline running through the index as it gyrates upward. You'll also notice that when the index veers vertically from that trendline, often at a 40 degree slope, after a period of time, there is a correction. Sometimes it's relatively small but it always happens. In other words, the market has "waves" that seem to recur in varying patterns. Also notice that the index stayed above the trendline for a long time from about 1954 to 1973, then it fell below the trendline and didn't rise above the line until about 1986 (you'll see that on the next chart). If I had included a chart from 1920 to 1942, you would have seen the stock market above the same trendline from about 1922 to 1930 and then below or near the trendline from about 1930 to 1954. In other words, the stock market, historically, has stayed above the trendline for long periods of time and then has reverted to going below the line for long periods of time. This is the natural ebb and flow of cycles in nature, humanity, and stock markets.

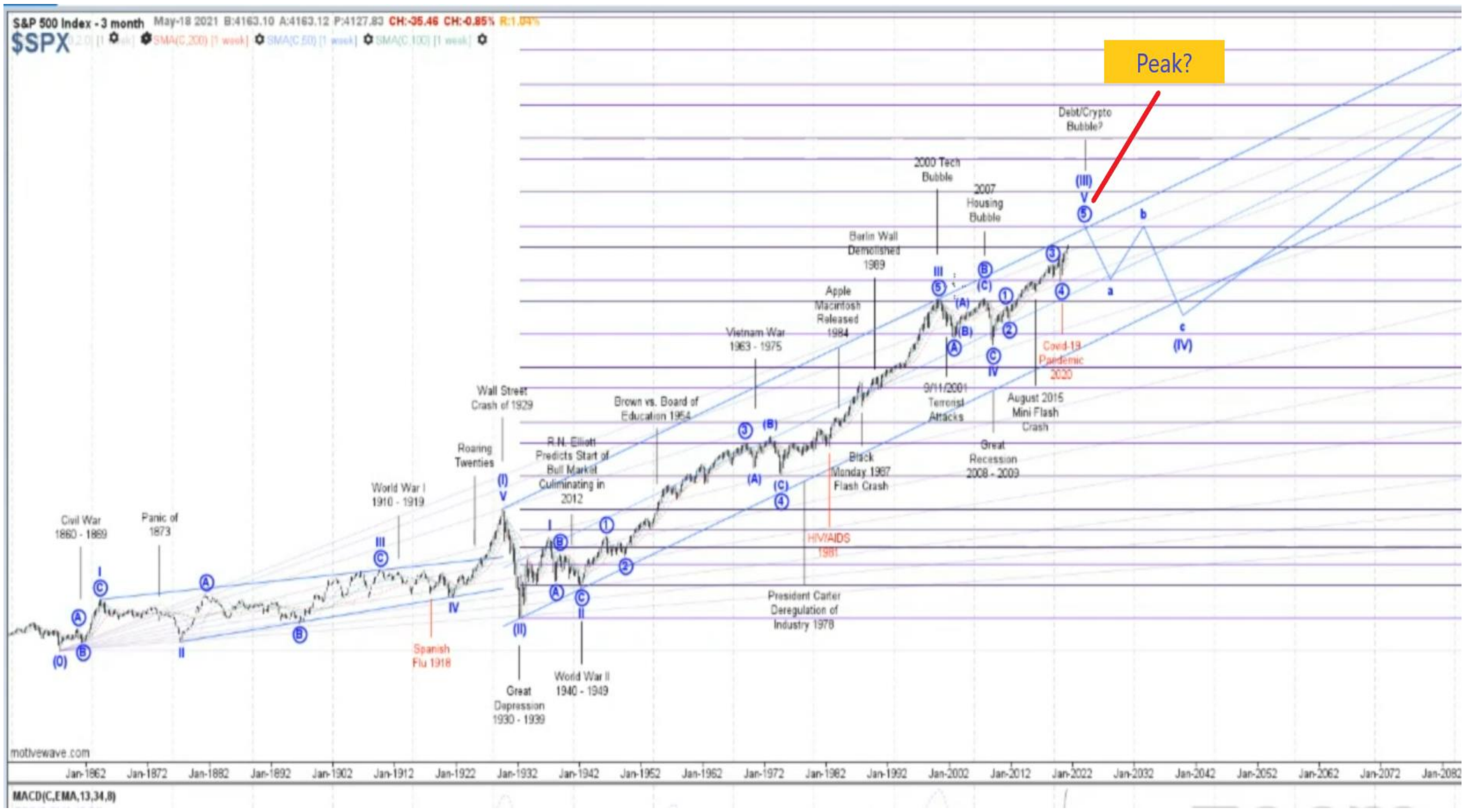
*Indices used in the illustrations are unmanaged and it is not possible to invest directly into an index. The Standard & Poor's (S&P) 500 Index is comprised of 500 widely traded industrial, transportation, financial and public utility stocks and is used as a benchmark.



I hope you're still with me because here is where it gets exciting. This 2nd chart is for roughly the 40 years after the chart above. So, from late 1981 to present. The 70 degree sloped purple trendline is a continuation of the one on the other chart. What I want you to focus on are the two red circled market moves, one from 1995 – 2000 and the other from Jan 2019 to present. Both are 40 degree slopes. During the 5 years ending shortly after we all started worrying about whether Y2K would destroy our world, the index more than tripled (3.3x). Also, notice it took about 13 years to regain that peak once the market topped (flat red line).

From the starting point of the second red oval in very late Dec 2018, the Index has just about doubled. If this bull market continues for the same length of time as the late '90s, the 40 degree slope takes us to somewhere around 6000 on the S&P 500 Index, which is an increase of about 27% from where we closed on Nov 5th 2021. Until I started looking at this, and some other research I'll get to, I would have laughed at the idea of the market going that high. Of course, who wouldn't have laughed at the idea of the stock market tripling from Jan 1995 to March 2000. During that particular run-up in prices, there were a number of minor corrections and 1 major scare in 1998 (very similar to Feb/March 2020). During that bull run, there were numerous columns about how the market was over-valued and yet it continued going up up up. The last year, especially, has changed my mind to realize that the negative headlines in the news make little difference, at least not yet. Who, after the monster correction of Feb/March 2020 would possibly have expected the stock market to be where it is now? Actually, there is at least one person who expected that outcome* (and it wasn't me, unfortunately). That's for the next chart, which is where things get a bit complicated.

*https://seekingalpha.com/article/4429877-sentiment-speaks-its-the-roaring-20s-again-begin-to-prepare-for-the-same-ending



This chart^^ shows stock values from 1862 to present and is far more challenging to understand. It is based on EWT ("Elliot Wave Theory")^ which was developed in the 1930s by Ralph Elliot after he identified recuring fractal wave patterns in stock markets. He became known for making some well-timed market calls.^. To some degree his theories are based on humans' "herding instinct."^* I'm not going to go into depth on EWT. You are welcome to read the Investopedia page to which I've linked below and to read various books on the subject. A simple explanation of EWT is it's a way to identify recurring wave patterns in stock prices and human behavior. These patterns tend to follow certain ratios and often come in cycles of 5 "motive" waves up and then 3 "corrective" waves down. In between major wave patterns, there may be minor wave patterns that often exhibit the same cycles. Often these patterns exhibit certain ratios (Fibonacci numbers)*^ that are found in nature and mathematics.

I realize some of you reading this think this is Ouija board stuff. Stocks are supposed to move based on earnings or the Fed or some logical reason. I promise you, I've thought the same thing for a long time. Our recent success for managed accounts at Nationwide, I credit, in part, to EWT. Just scroll back up and really think about the picture of Mr. Jim Cramer and the backdrop of 16 million jobs lost while the Dow had its best week since 1938. How is that possible based on any "factual" analysis? For those who want to explore the human behavior side of stocks, you are welcome to read the paper to which I've linked below.*

Please let me emphasize - EWT is designed to create a framework for investing. It doesn't create absolute certainties. It deals in probabilities. At this time, as you can see in the chart (red line), EWT shows a current target of 5500 – 6000 on the S&P 500 Index before descending into a long bear market. These numbers coincide with the stock charts I created above. This doesn't mean this is a certainty or that it will be a nice easy ride. No doubt there will be a number of ups and downs over the next couple years. Where I'm most concerned is beyond the next couple years, where longer term EWT targets show a long and substantial bear market lasting for well over a decade. This longer term (7+ years) vision coincides with a number of other predictions based on various valuation measures some large hedge funds have made. I will go into this in a future note with thoughts on what we will do at that time. For many of you, this may seem like heresy. Our current bull market has conditioned us to buy every dip. However, the stock market can't let everyone win continually. We have forgotten the lessons from 1995-2000 from where it took 13 years to regain the peak. Markets have always looked to frustrate the most people, so I don't think we have entered into some new universe with perpetually rising values allowing us to invest in stocks with abandon forever.

^^created by Garrett Patten of ElliottWaveTrader – (https://seekingalpha.com/article/4429877-sentiment-speaks-its-the-roaring-20s-again-begin-to-prepare-for-the-same-ending)
^https://www.investopedia.com/terms/e/elliottwavetheory.asp
^*https://www.investopedia.com/terms/h/herdinstinct.asp
*^ https://www.investopedia.com/terms/f/fibonaccilines.asp
*https://arxiv.org/pdf/cond-mat/9704127.pdf

If you have made it this far, thank you for your patience. Obviously, with a "call" like this, I could fall flat on my face. That's okay. As noted above, if the facts change, I will change as well.
As always, thank you for allowing me to be of service. Please let us know if you need anything.

Enjoy,

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