Disciplined Wealth Management

06/30/2021 Quarterly Newsletter

Discipline is the key to success

With every approach to the stock market, bear in mind that there will always be periods of over-performance and periods of under-performance. Here at Disciplined Wealth Management (DWM), our goal is to concentrate your portfolio in the leading asset classes while avoiding the performance-sapping lagging asset classes; over the long term, our approach strives to provide you with better performance compared to the overall stock market average (the S&P 500) and with less risk. In summary – stay disciplined during times of under-performance; don't become emotional and abandon a proven long-term strategy during a usually short period of under-performance, but stick with it and let the strategy work for you. If someone says they are never wrong, they have just proven themselves otherwise.

General Commentary—

Global Economy Roaring Ahead and Inflation

The global economy continued its strong path to recovery, expanding in May at its fastest pace in over 15 years, according to the latest global Purchasing Managers' Index (PMI). Vaccination rollouts, the easing of stringency measures, monetary and fiscal stimulus, and the adaptability and resiliency of humans during the pandemic have contributed to the boom and broadening of the global economic recovery.

The global composite PMI, a timely proxy for global Gross Domestic Product (GDP) growth, jumped 1.7 points in May, its fourth straight gain, to 58.4, indicating the fastest growth since April 2006. According to our calculations, the latest reading in the PMI is historically consistent with 6.5% annual global real GDP growth. We expect growth to continue to remain robust throughout the summer as more pent-up demand is unleashed, before leveling off later in the year. This means our projection of 6.1% global growth for this year is highly attainable.

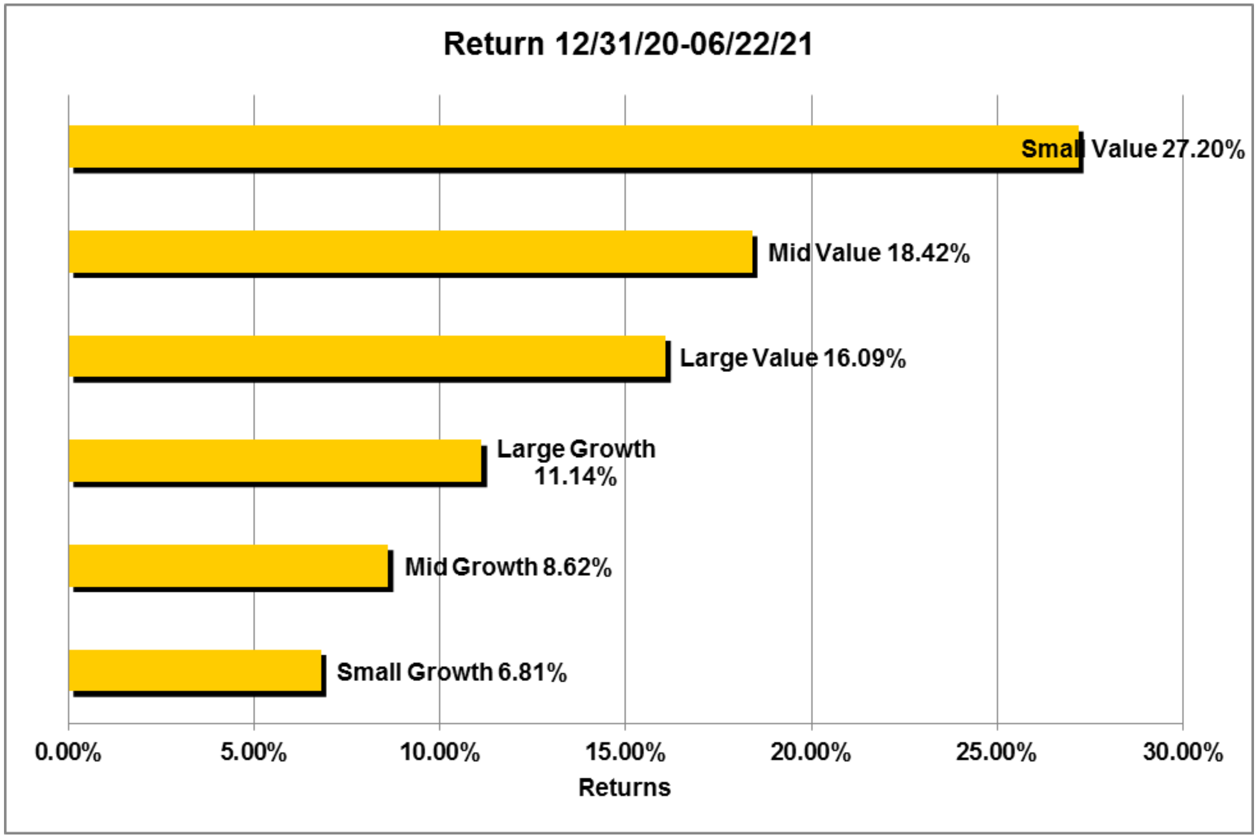
Even so, pockets of concern remain. Slow vaccine rollouts and rising COVID cases in some parts of the emerging world have caused areas of economic weakness. This is a harsh reminder that the threat of virus is still not yet behind us.

Global inflation has picked amid rising supply costs and an immunization-driven demand rebound. But we view this as transitory, as a negative output gap and long-term disinflationary trends (such as technology, globalization, and demographics) will likely keep inflation trends anchored in the intermediate to long-term.

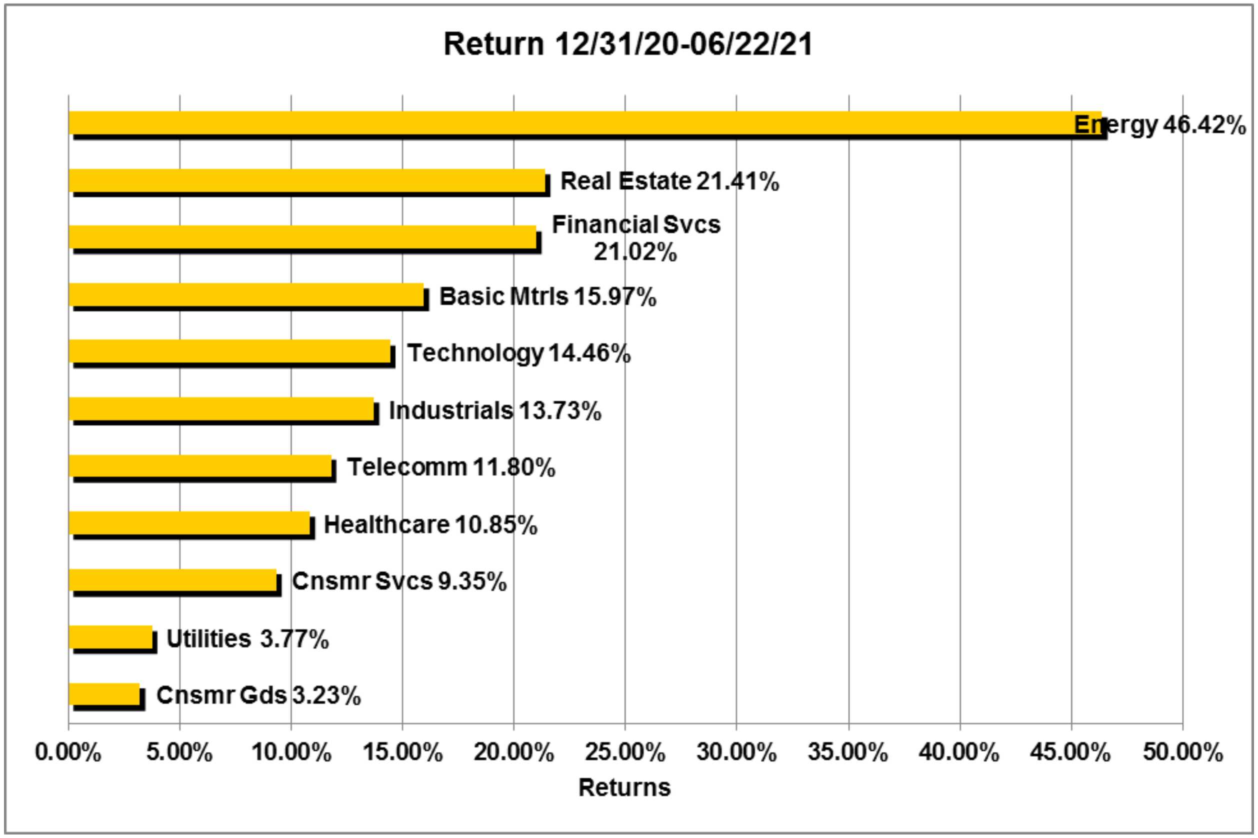
The cyclical pick-up in inflation supports our overweight position in global equities and favors commodities, financials, and small caps. But in the event that the high inflation trends are sustained, we will likely reduce equity exposure.

As we go to press, the overall Market Environment Indicator (MEI) remains bullish and 100% invested. We will continue to monitor this indicator and make the necessary adjustments. For an individual performance review, please call 303-471-5189. Please note that, in the following pages, the performance charts for certain asset classes showing year-to-date returns, are for illustration purposes only and do not reflect our Relative Strength Analysis (RSA) system.

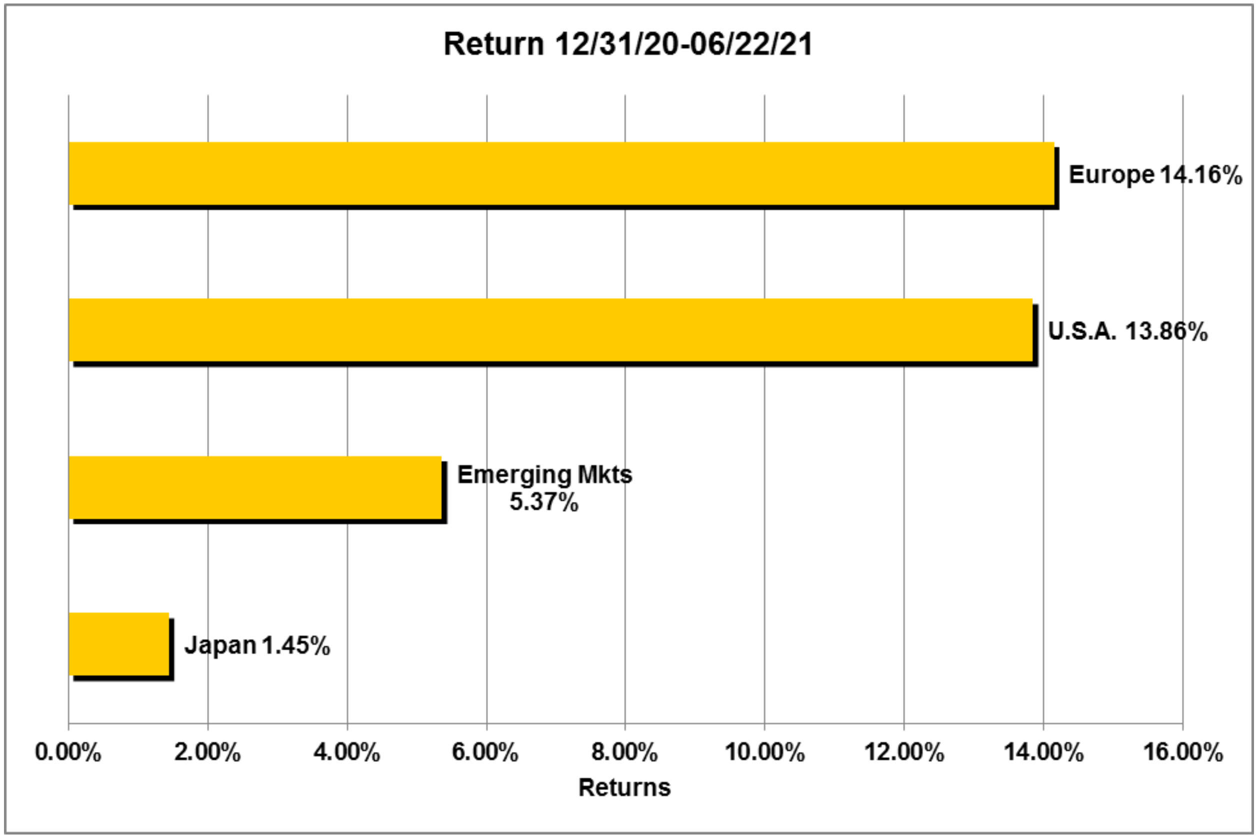
Style Boxes — As of June 22, 2021, Small Value didn't budge from last quarter's Relative Strength Analysis (RSA) and maintained its stronghold on the number one position. Mid Value mimicked Small Value and didn't move, maintaining its position at number two. Large Growth experienced the largest move up in my RSA, jumping two spots to claim the fourth position. Large Value moved up one spot to finish in third place. Small Growth fell the hardest, dropping three spots to finish in the last place at number six. As usual, we will continue to rely upon our time-tested RSA to guide our investments in Style Boxes.



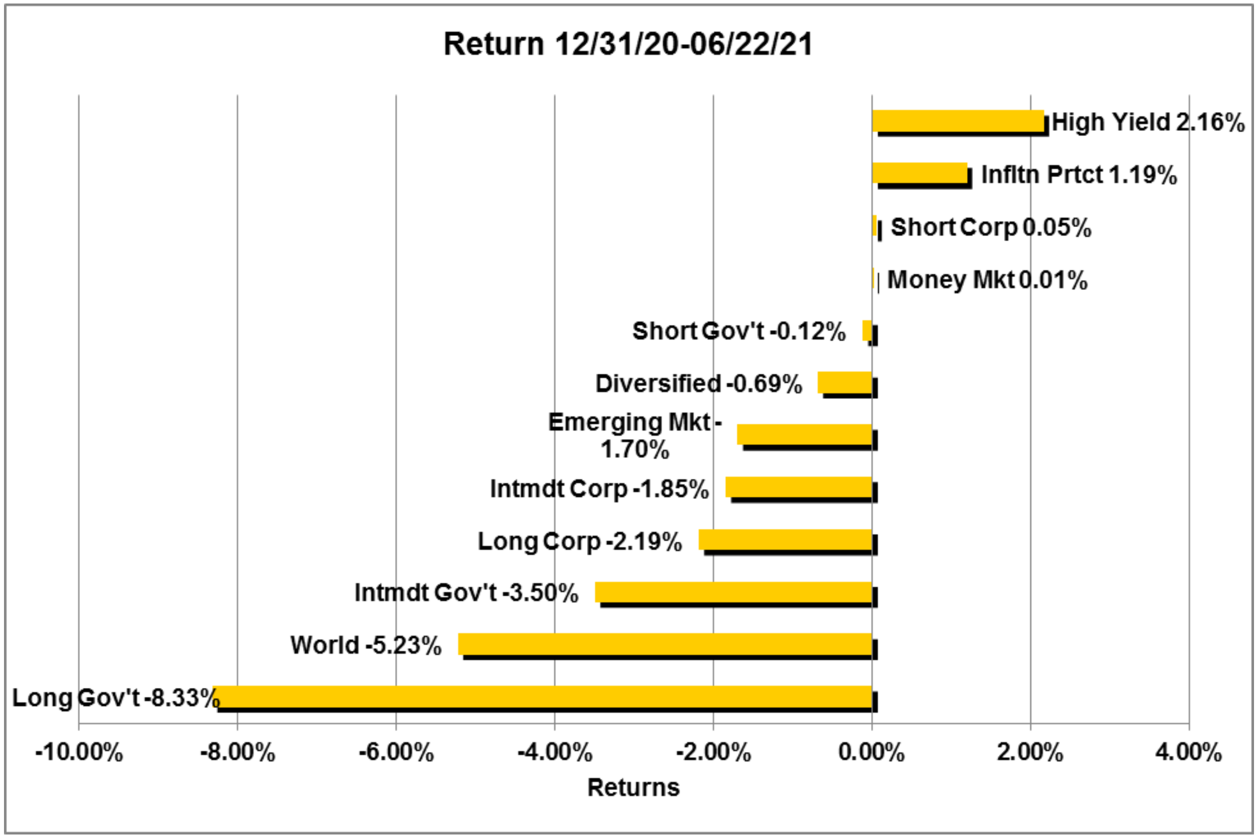
Sectors — As of June 22, 2021, Energy didn't budge from last quarter's RSA and maintained its stronghold on the number one position. Financial Services mimicked Energy and didn't move, maintaining its position at number two. Real Estate experienced the largest move up in my RSA, jumping six spots to claim the third position. Basic Materials fell one spot to round out the top four. Both consumer Services and Consumer Goods fell the most, dropping three spots to finish in ninth and 10th position in my RSA. As usual, we will continue to rely upon our time-tested RSA to guide our investments in Sectors.



Internationals — As of June 22, 2021, U.S.A. jumped two spots to claim the number one position, and as Emerging Markets fell two spots to finish in third place, they basically switched positions from last quarter's RSA. Europe maintained its stronghold in the number two spot and Japan finished in the last place at number four, reflecting no changes from last quarter. As usual, we will continue to rely upon our time-tested RSA to guide our investments in Internationals.



Bonds — As of March 22, 2021, High Yields jumped one spot to claim the number one position in my RSA. Inflation Protection experienced the largest move up, jumping five positions to finish in second place. Money Markets moved up two spots to claim the number three position. All the other bonds are not even worth considering as they are weaker than the safest bond investment out there — Money Markets. Why take the risk of investing in another bond position that could lose money when the yield is higher in Money Markets? As usual, we will continue to rely upon our time-tested RSA to guide our investments in Bonds.



Forecast —

Is the market due for a correction or not?

The current bull market is 14 months old and has yet to experience a 10% correction (S&P 500 Index). Corrections of over 10% are quite common and to be expected in any bull market run. However, they are not required.

The secular bull market from 10/11/1990-7/17/1998 gained over 301.7% before ending with a 20% correction (intraday high-to-low). During that run, it experienced just one 10% correction, 10/27/1997-10/27/1997. So basically, the bull market ran for almost seven full years before a 10% correction.

The current bull market is much younger, but we are seeing individual sectors having price adjustments and 10%+ corrections at different times; therefore, the overall S&P 500 has been able to avoid its own 10% correction. A few examples are below:

Energy -19.1% with the 2nd and 3rd quarter of 2020 combined.
Financials -15.0% in the 2nd quarter of 2020.
Industrials -12.9% in the 2nd quarter of 2020.
Utilities -11.8% with the 4th quarter of 2020 and the 1st quarter of 2021 combined.

As we head into the 3rd quarter, often the weakest part of the year, a correction (greater than 10%) is always possible, but with all the internal sector corrections and rotations, it is not inevitable. A booming economy will be a continued tailwind for revenue while much of the companies' pandemic-era cutting remains in place, which will boost profit margins during the recovery. As a result, rising earnings should provide, at a minimum, a floor for stock prices and, hopefully, the fuel for higher prices.

Will this be the case? No one knows for sure and only time will tell. DWM, for one, will continue to rely upon its tactical tools to stay in line with the market's fluctuations. Always remember: the key to investment success is to stay disciplined and flexible in an ever-changing market environment. The moment you start to second-guess your decisions is usually when you shouldn't.

Troy M. Schield, CFS
Disciplined Wealth Management – DWM
Registered Investment Advisor
Troy.Schield@dwm.guru
www.dwm.guru
Office: (303) 471-5189

Sources: Style box data = i-Shares Russell Indexes. Source: Investors FastTrack.
Sector data = DJ US Sector Indexes via I-Shares. Source: Investors FastTrack.
International data = i-Shares for Emerging Markets, Europe, Japan, S&P 500 Index for U.S.A. Source: Investors FastTrack.
Bond data = various bond exchange traded funds (ETF). Source: Investors FastTrack.