Disciplined Wealth Management

06/30/2022 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—

Inflation

Some investors may fear that the current predicament is similar to that suffered in the 1970s, when Federal Reserve Chairman Paul Volcker unleashed enormous interest rate hikes to quell runaway inflation.

The federal funds rate reached a peak of 20% in June 1981. While this induced a recession, it also tamed inflation and ushered in an unprecedented era of economic growth.

Inflation had been running in double digits for nine years when Volcker took the helm. The U.S. also was coming through crises, including two oil embargoes and price control measures invoked by the Nixon administration. In contrast, current spiraling inflation is relatively short-lived.

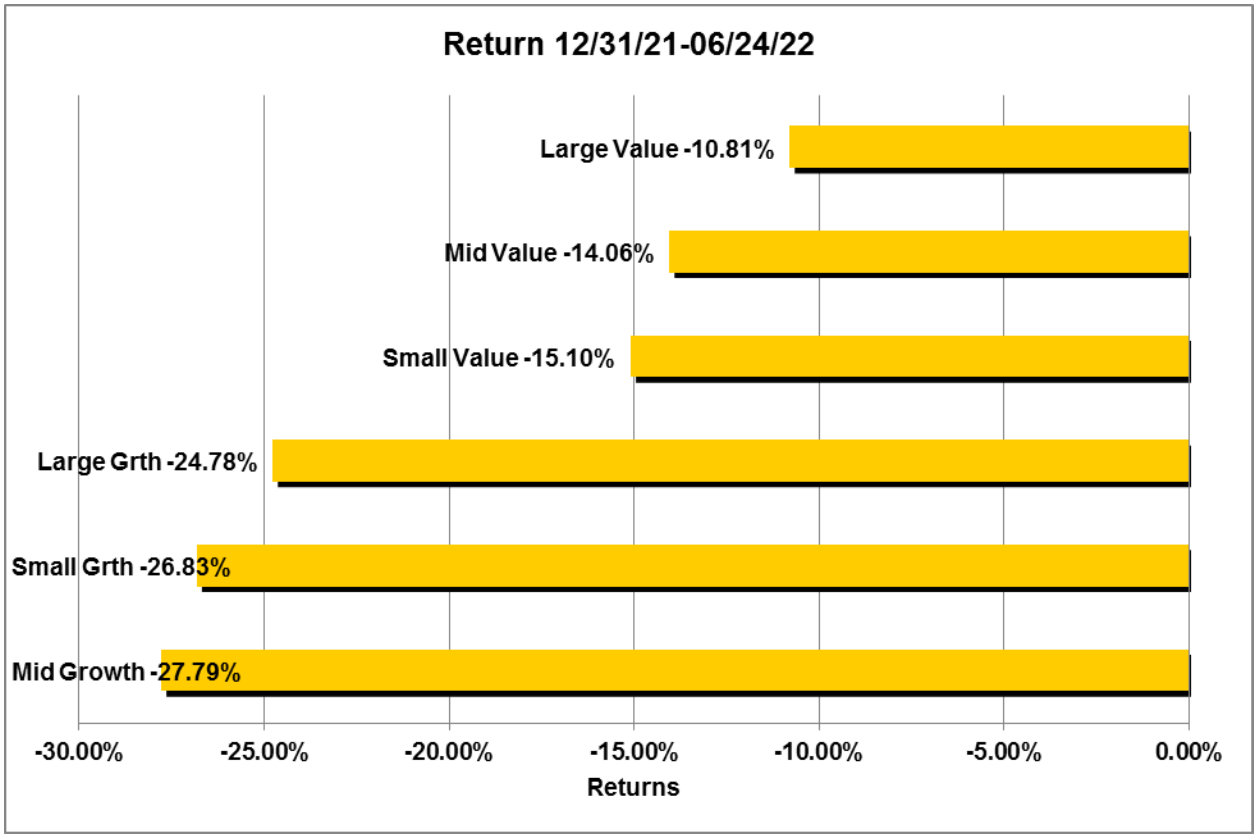
"Paul Volcker really had a massive job on his hands and rose the fed funds rate to 20% to kill what at the time was 14% inflation. If that sounds like today, I'm looking at the wrong data," Hogan said.

He points out Volcker would raise rates 2.5% at a stroke, and the first anyone would learn about it was when banks raised their rates in concert the following day. Nowadays investors are blessed with a plethora of information including Fed minutes, senior bank officials speaking to the media and post-meeting news conferences.

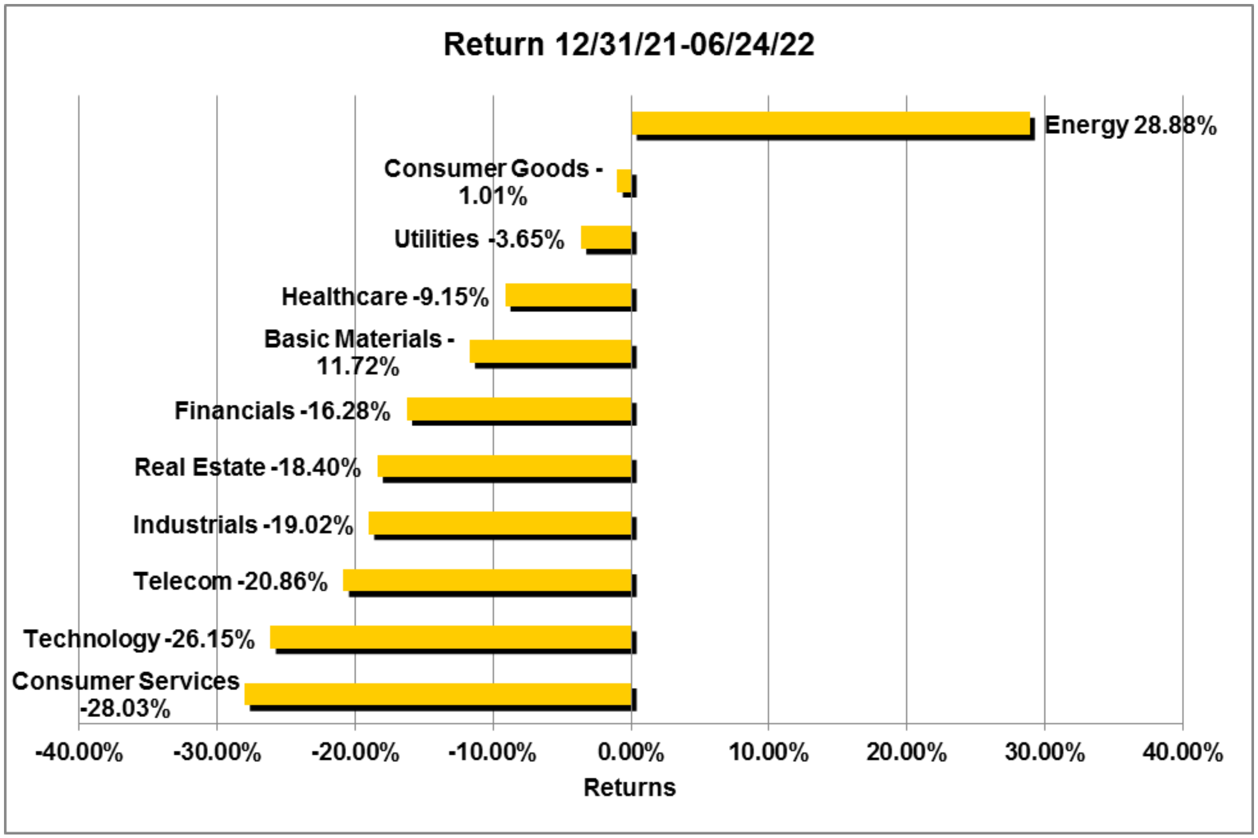
"Nobody has to guess what our Fed is doing and what they're thinking about," Hogan said.

As we go to press, the overall Market Environment Indicator (MEI) remains bearish, however the Individual Fund Signals (IFS) remain bullish. We will continue to monitor these indicators 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.

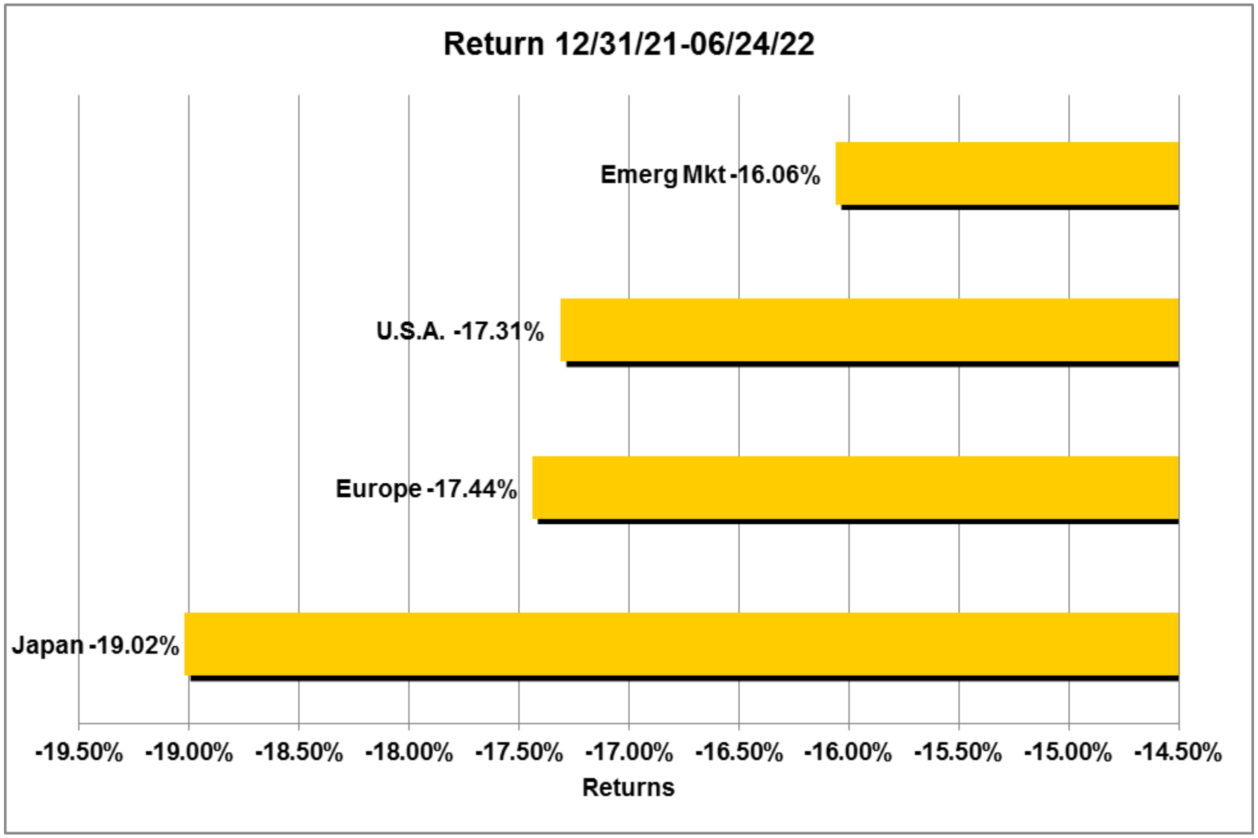
Style Boxes — As of June 24, 2022, value continues its stronghold on the top three positions in my Relative Strength Analysis (RSA). Large Value maintained its spot at the number one position. Mid Value did the same at number two. Small Value rounded out the top three. The only rotation that took place was at the bottom of my RSA as Small Growth and Mid Growth switched positions. As usual, we will continue to rely upon our time-tested RSA to guide our investments in Style Boxes.



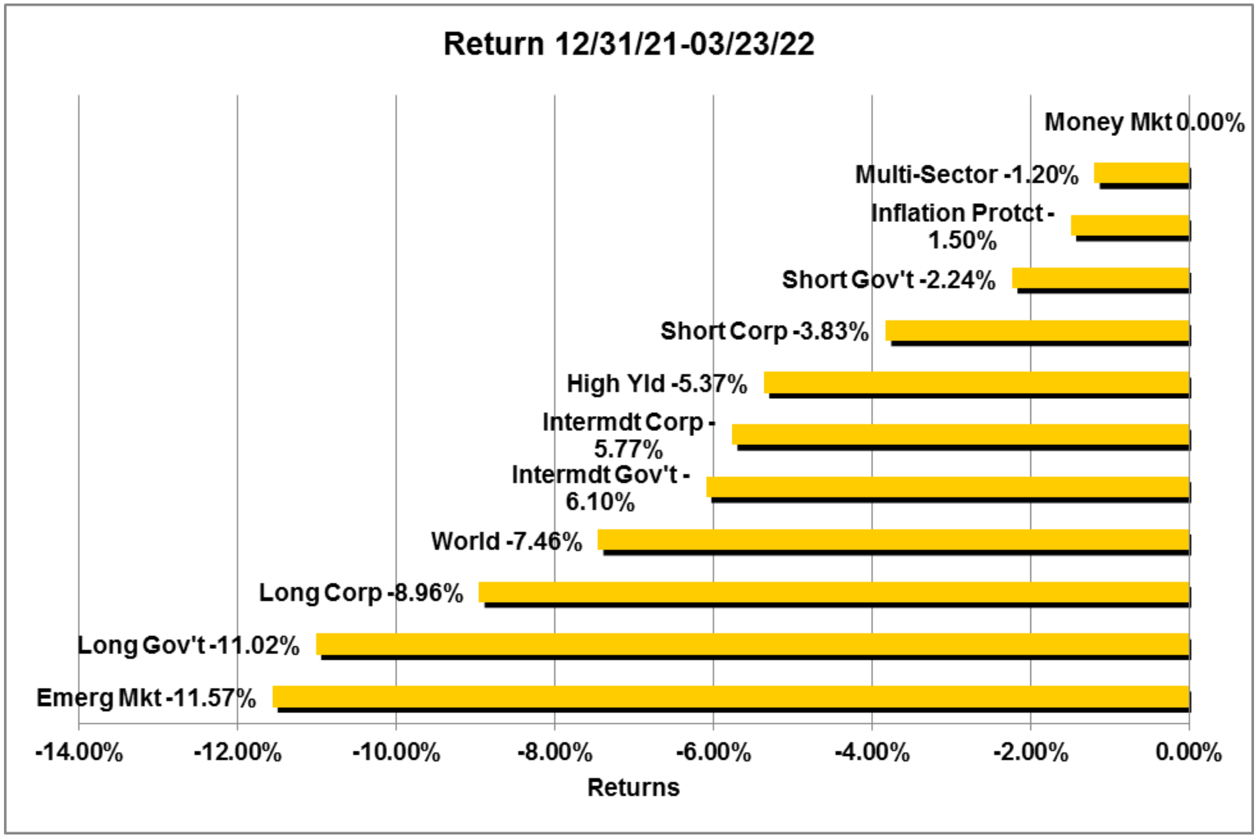
Sectors — As of June 24, 2022, there was slight rotation in my RSA from last quarter. Energy continues to maintain its stronghold on the number one position and is the only sector year-to-date with a positive return. Consumer Goods jumped two spots to claim the second position in my RSA. Utilities maintained its place at number three. Healthcare also jumped two spots to round out the top four. Basic Materials fell the hardest, dropping three spots to finish in fifth place 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 24, 2022, Emerging Markets jumped two positions to claim the number one spot from the U.S.A. from last quarter's RSA. Both Europe and U.S.A. fell one position to round out the top three positions in my RSA. Japan continues to be the weakest, coming in fourth. As usual, we will continue to rely upon our time-tested RSA to guide our investments in Internationals.



Bonds — As of June 24, 2022, Bonds had a negative start to 2022, with interest rates rising, bond prices move inversely to rates. With inflation hitting the highest level in forty years it comes as no surprise the safest bond play (money markets) came in first place. This is a rare situation and doesn't happen very often, but when it does that will be the only position to concentrate on as all the others are losing value. As usual, we will continue to rely upon our time-tested RSA to guide our investments in Bonds.



Forecast —

Why The Stock Market Can Bounce Back Amid A Recession

The stock market tends to look six to 12 months ahead in terms of valuation, which means it acts as a forward indicator.

Hogan believes inflation's impact on the stock market already has been significantly priced in by investors.

"By the time we declare a recession, which is typically in the middle rather than the beginning of it, the recession is well along its way," he said. "If we declare a recession, is it going to surprise anyone that's been trading equities over the course of the last 24 months? No, that's the number one concern investors have had."

Further, stocks already have made a significant contraction that is not obvious when looking at the indexes themselves.

"The average stock on the S&P 500 from its recent high is down 30%. The average stock on the NASDAQ composite is down 48%. So I think, again, we've priced in some worst-case scenarios that might not come to fruition," he said.

CFRA's Stovall said a normalization of inflation could encourage investors to dial up exposure.

"The market could experience a relief rally if investors start to convince themselves that the Fed may need to dial back their aggressiveness," he said.

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.

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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, pan, S&P 500 Index for U.S.A. Source: Investors FastTrack.
Bond data = various bond exchange traded funds (ETF). Source: Investors FastTrack.