Disciplined Wealth Management

03/31/2022 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—

Federal Open Market Committee (FOMC) and inflation

The cost of money has been ultra cheap for years. Yet the Fed has made it clear that containing inflation is Job No. 1 right now.

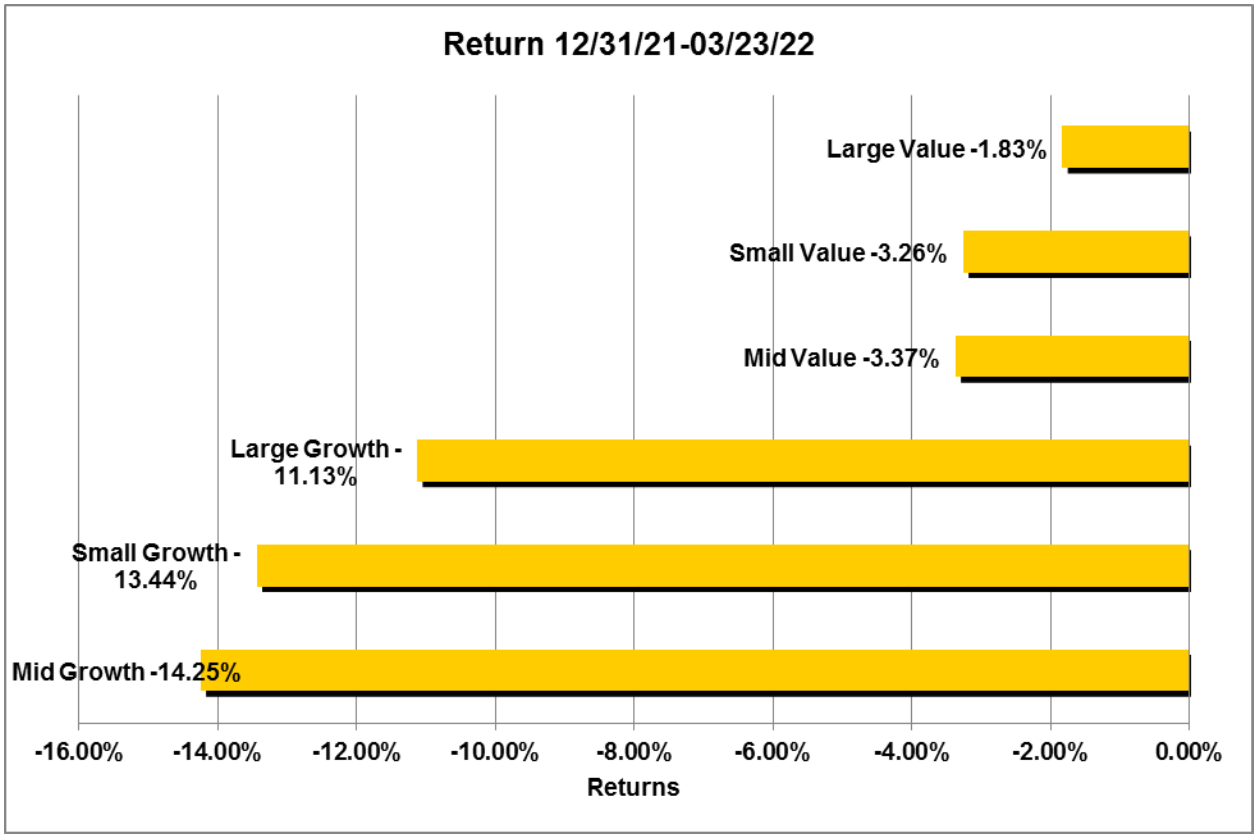
"The primary concern of the Fed is a full un-anchoring of inflation expectations which would then lead to a 1970s stagflationary environment," Joseph LaVorgna and Troy Ludtka, economists at Natixis, wrote in a Monday 3/14/2022 note to clients. "In response to such a development, the Fed may err on the side of causing a recession in order to further dampen already slowing demand with the intention of wringing inflationary pressure out of the system."

The CME FedWatch Tool shows a 61% probability that the fed funds rate will stand at least in a range of 1.5%-1.75% by the end of the June 15 FOMC meeting. This would imply at least one quarter-point hike in short-term interest rates at the 3/16/2022 (which occurred) and a combined five additional quarter-point hikes in May and June.

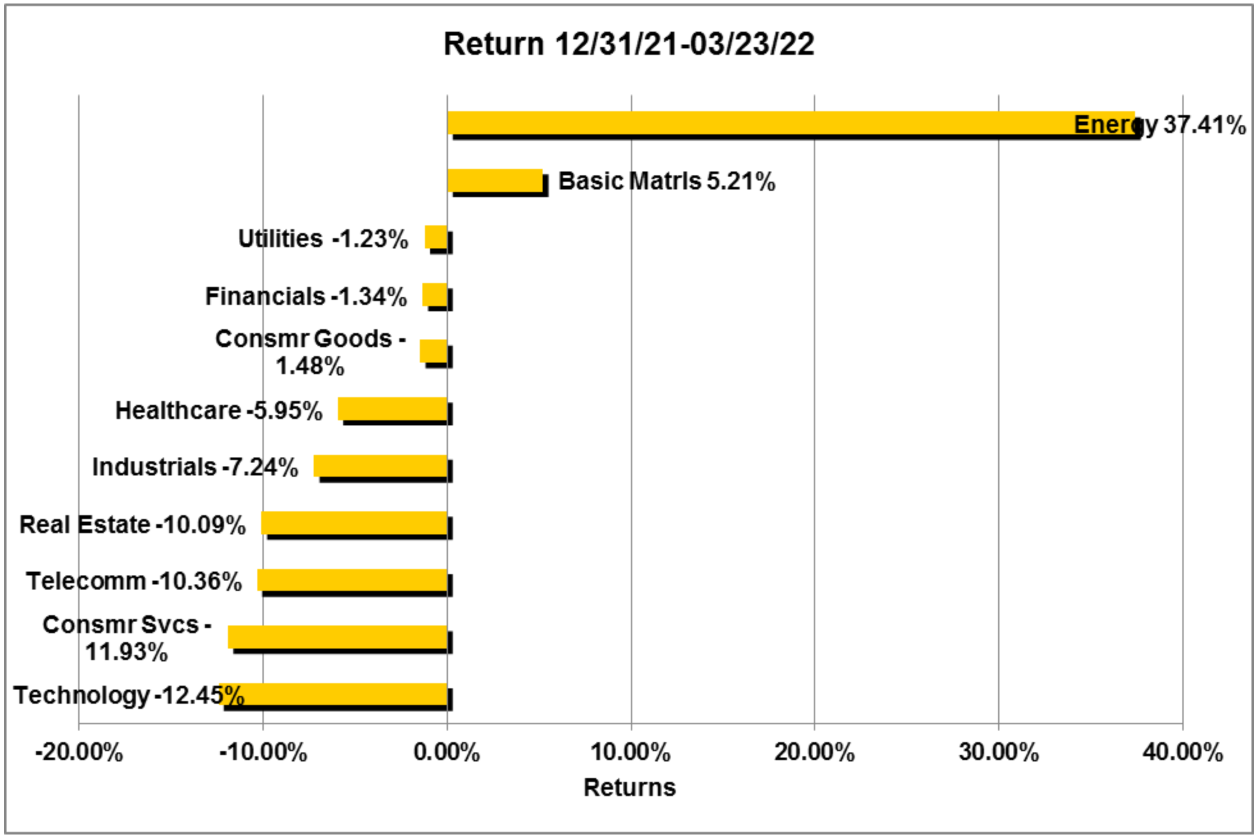
John Lynch, CIO at Comerica Wealth Management, notes the Fed has not clearly stated its plan about how it would shrink its balance sheet, currently swollen with purchases of long-dated Treasury bonds and agency-backed mortgage securities.
"We have used an assumption of $30 billion per month beginning in May that rises to $75 billion by September and continues at that level through 2025, when the Fed's balance sheet would still total around $6.4 trillion," Lynch wrote in an email to IBD.

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.

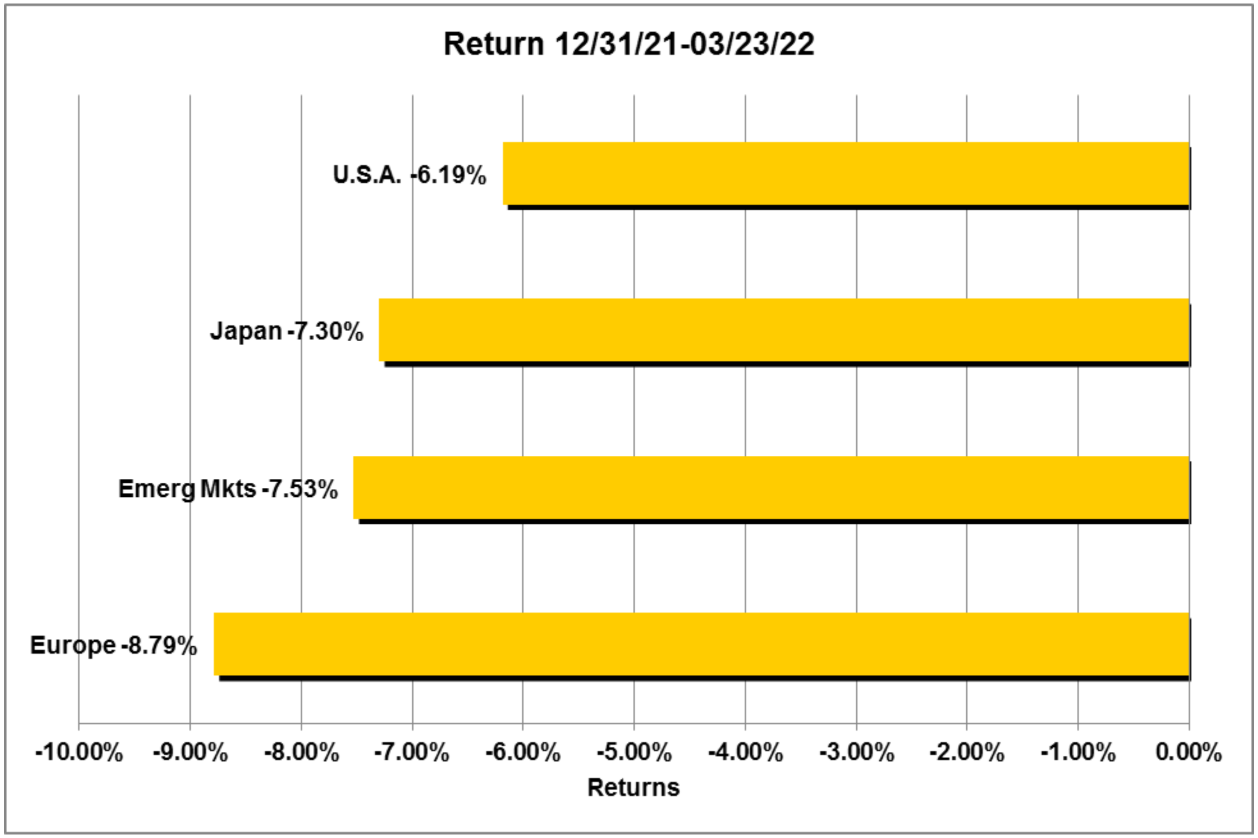
Style Boxes — As of March 23, 2022, Large Value jumped two positions in my RSA to finish in the number one spot. Mid Value maintained its stronghold on the number two position. Small Value also moved up two spots to finished third in my RSA. Large Growth fell the most dropping three spots to finish in fourth place. As usual, we will continue to rely upon our time-tested RSA to guide our investments in Style Boxes.



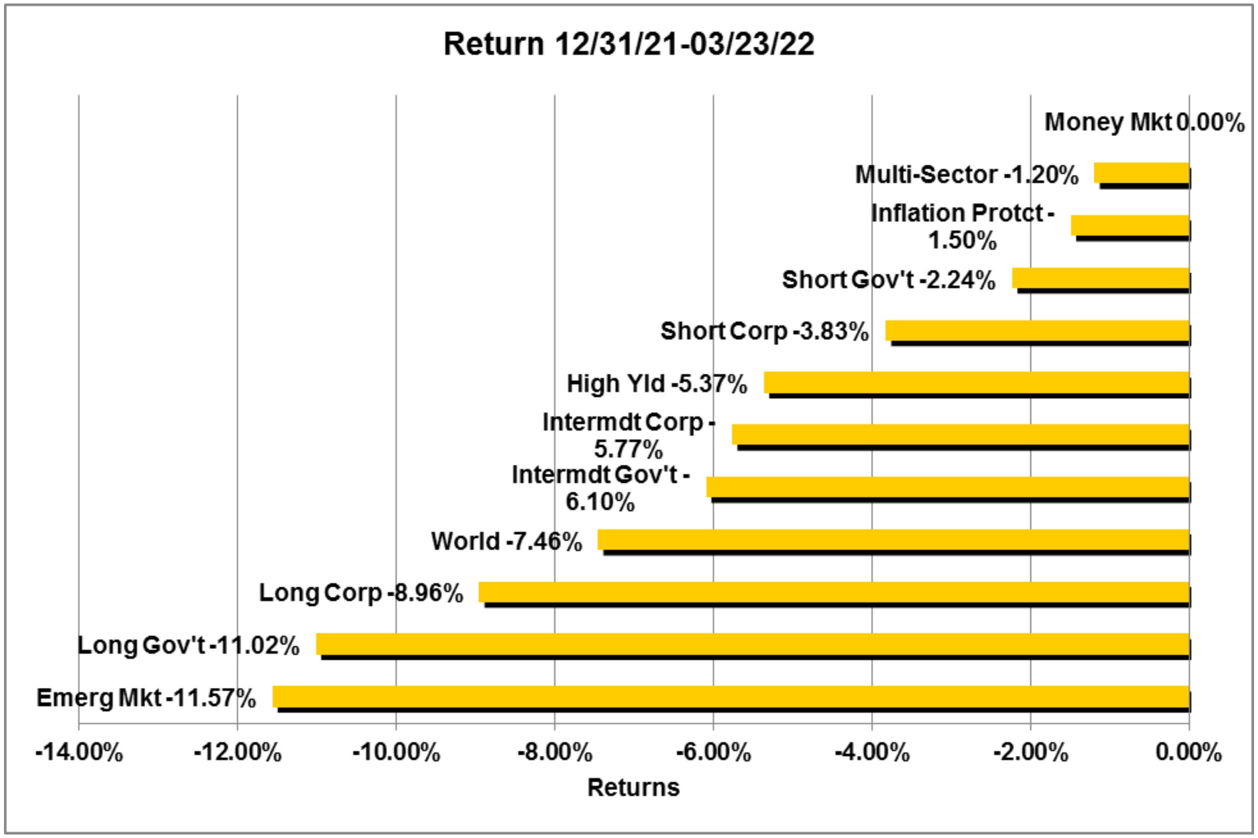
Sectors — As of March 23, 2022, the price of oil has hit its highest level since 2009 pushing the energy sector into the number one position in my RSA jumping a whopping eight spots. Basic Materials experienced the second largest move up, jumping four spots to finish in the second spot. Utilities maintained its stronghold on the third position. Consumer goods moved up one spot to round out the top four. Technology experienced the largest drop falling seven spots to finish at number eight in my RSA. As usual, we will continue to rely upon our time-tested RSA to guide our investments in Sectors.



Internationals — As of March 23, 2022, emerging markets was the only position to move up in my RSA jumping one positon to finish in third. Japan fell one spot to claim last at number four. U.S.A. maintained its stronghold on the number one position, and Europe at number two. As usual, we will continue to rely upon our time-tested RSA to guide our investments in Internationals.



Bonds — As of March 23, 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 inflation protection bond maintained its stronghold on the number one spot in my RSA. The safest bond play (money markets) came in second place. Long gov't bonds experienced the largest drop in my RSA falling seven positions to finish in ninth place. As usual, we will continue to rely upon our time-tested RSA to guide our investments in Bonds.



Forecast —

“Why a 50% gain in the Dow is possible from its 2022 low to its 2023 high.”

Officially, the NASDAQ has entered bear market territory and the question is will the S&P 500 Index follow suit. No one has the answer to that, only time will tell. However, history does suggest that lower lows are possible:

- Investors are rightly concerned about the increased risk of recession. A spike in energy prices have historically preceded most recessions, but not every spike has been followed by a recession.
- “Ed Yardeni seeing S&P 500 drop to 4000.” A recent headline at CNBC. “We now think that this could turn out to be one of the most dangerous years for stock investors of the current bull market,” Ed Yardeni, Yardeni Research said in a note. “For the U.S. economy, we now see stagflation, with persistently higher inflation and less economic growth than expected before the war. A recession can no longer be ruled out.” CNBC 3-7-22
- Since 1913, the Dow has dropped -20.1% on average from its post-election-year high to its subsequent low in the following midterm year, according to the 2022 Stock Trader’s Almanac. A 20% decline from the 2021 high of 36,488 for the Dow would be a further decline to 29,150.

In the 2022 Stock Trader's Almanac, Jeffrey Hirsch and Christopher Mistal note that corrections during midterm election years often set up significant advances afterward. They note that in the last 14 midterm election years, bear markets began or were in progress nine times. "Since 1914 the Dow has gained 46.8% on average from its midterm election year low to its subsequent high in the following pre-election year,"

We looked at more recent data (since 1950) on the broader S&P 500 index. The average gain for the S&P 500 was an impressive 44.8%, similar to the Dow data. But separate out the years between those that occur in secular bull and secular bear markets and a slightly different picture appears.

- During the secular bear markets, 1968-1982 and 2000-2011, the average gain from the midterm election year low to the pre-election year high was 37.7%.
- But during secular bull markets, 1949-1968, 1982-1999, and 2011-current, the average gain jumped up to an average of 48.3%.

Of the 18 cases, the top four performing cases occurred in secular bull markets, 1954-55 gain of 87.1%, 1982-82 jump of 68.6%, 1986-87 rises of 65.6%, and 1998-99 advances of 58.4%.

	Mid-Term Year Low		Pre-Election Year High	S&P 500 % Gain
1950	16.65	1951	23.85	43.2%
1954	24.8	1955	46.41	87.1%
1958	40.33	1959	55.21	36.9%
1962	52.32	1963	75.02	43.4%
1966	73.2	1967	97.59	33.3%
1970	69.29	1971	104.77	51.2%
1974	62.28	1975	95.81	53.8%
1978	86.91	1979	111.27	28.0%
1982	102.42	1983	172.65	68.6%
1986	203.40	1987	336.77	65.6%
1990	295.46	1991	417.09	41.2%
1994	438.92	1995	621.69	41.6%
1998	927.69	1999	1469.05	58.4%
2002	776.76	2003	1111.92	43.1%
2006	1223.69	2007	1427.09	16.6%
2010	1022.58	2011	1363.81	33.4%
2014	1741.89	2015	2130.82	22.3%
2018	2351.10	2019	3240.02	37.8%
		All Years		44.8%
		Secular Bear		37.7%
		Secular Bull		48.3%

Source: 2022 Stock Trader's Almanac

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.