Disciplined Wealth Management

# 12/31/2021 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—

## Beneath the surface

The S&P 500 roared back last week to notch a fresh record closing high, as concerns over the omicron Covid-19 variant eased. But a look under the hood may indicate the market isn't fully out of the woods just yet.

Goldman's David Kostin noted that the market's breadth has sharply narrowed since April. He said that just five stocks — Apple, Microsoft, Nvidia, Tesla and Google-parent Alphabet — account for 51% of the S&P 500's returns in that time. The S&P 500 has seen a total return of 19.8% since April.

Breadth this narrow could signal some near-term turbulence for the market at a time when investors grapple with the prospects of tighter Federal Reserve policy and the emergence of new Covid variants.

"Following periods of sharply narrowing market breadth –similar to the recent experience –equities have historically exhibited weaker-than-average returns and deeper drawdowns," Kostin wrote in a note.

Kostin isn't the only one worried about the market's narrowing breadth. MKM Partners chief market technician JC O'Hara wrote that there "has been a breakdown in breadth and slight de-risking."

He noted that the volume seen in advancing stocks has remained weak, even after the market started to rebound from its late-November sell-off. "What we require to see now is conviction by the Bulls, in the form of strong volume in advancing stocks. That has been notably missing from the advance in equities last week."

O'Hara also said that last week's bounce took place even as investors added more exposure to consumer staples names relative to consumer discretionary stocks, indicating more "defensive posturing."

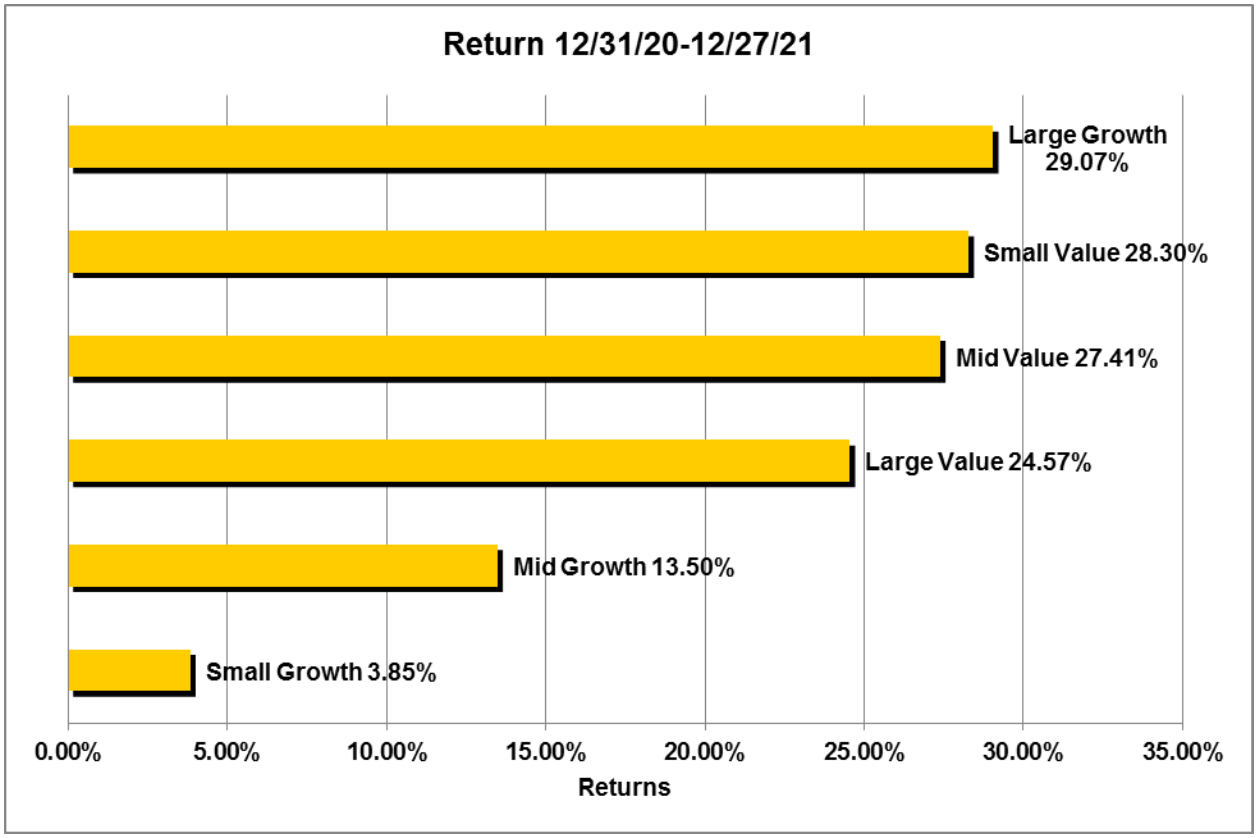
"This does not mean the market will roll over, but leadership is more defensive at this time," he said.

Another troubling technical sign was highlighted by Bespoke Investment Group. The firm pointed out in a tweet that the average Nasdaq Composite stock is trading 39% below its 52-week high, while the benchmark itself came into Monday's session just 3.6% below a record.

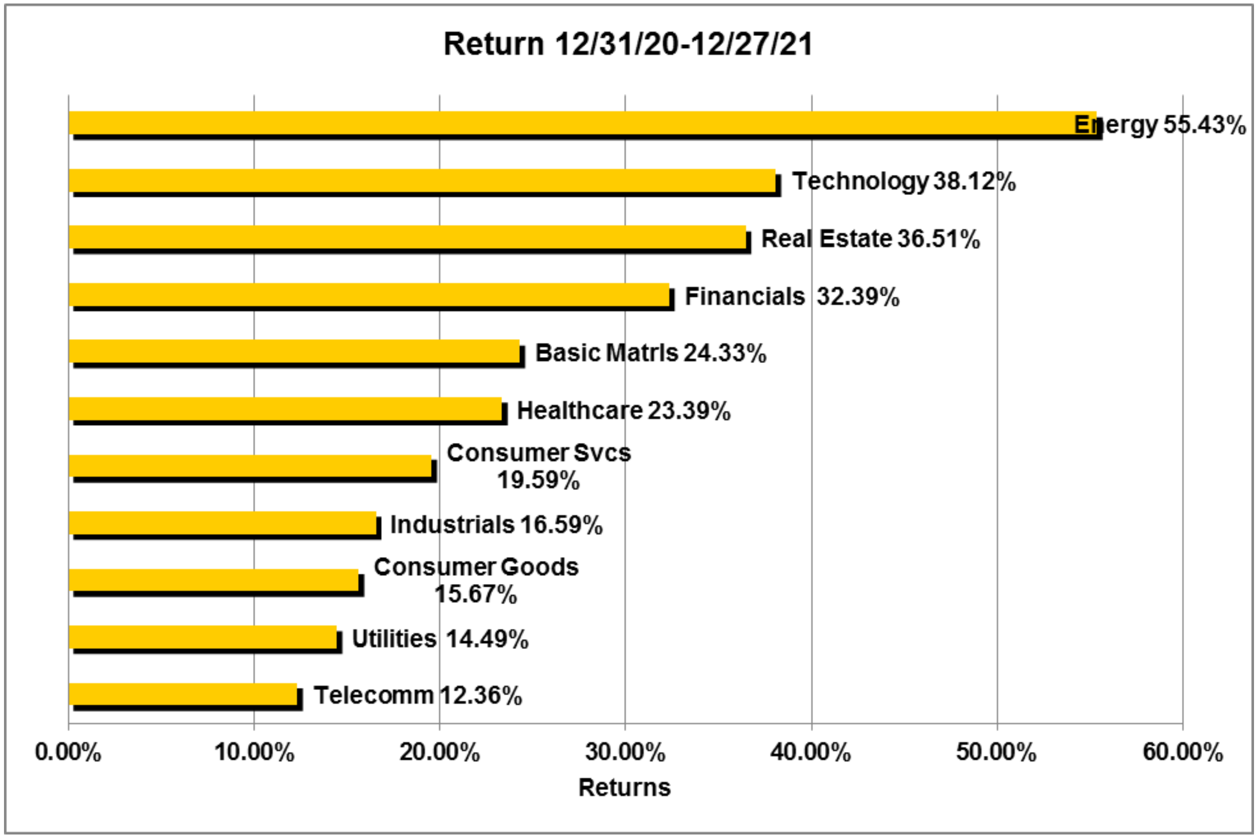
Bottom line: Don't sound the all-clear for the market just yet. There is something unusual happening underneath the surface that could signal a much weaker market than it appears.

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.

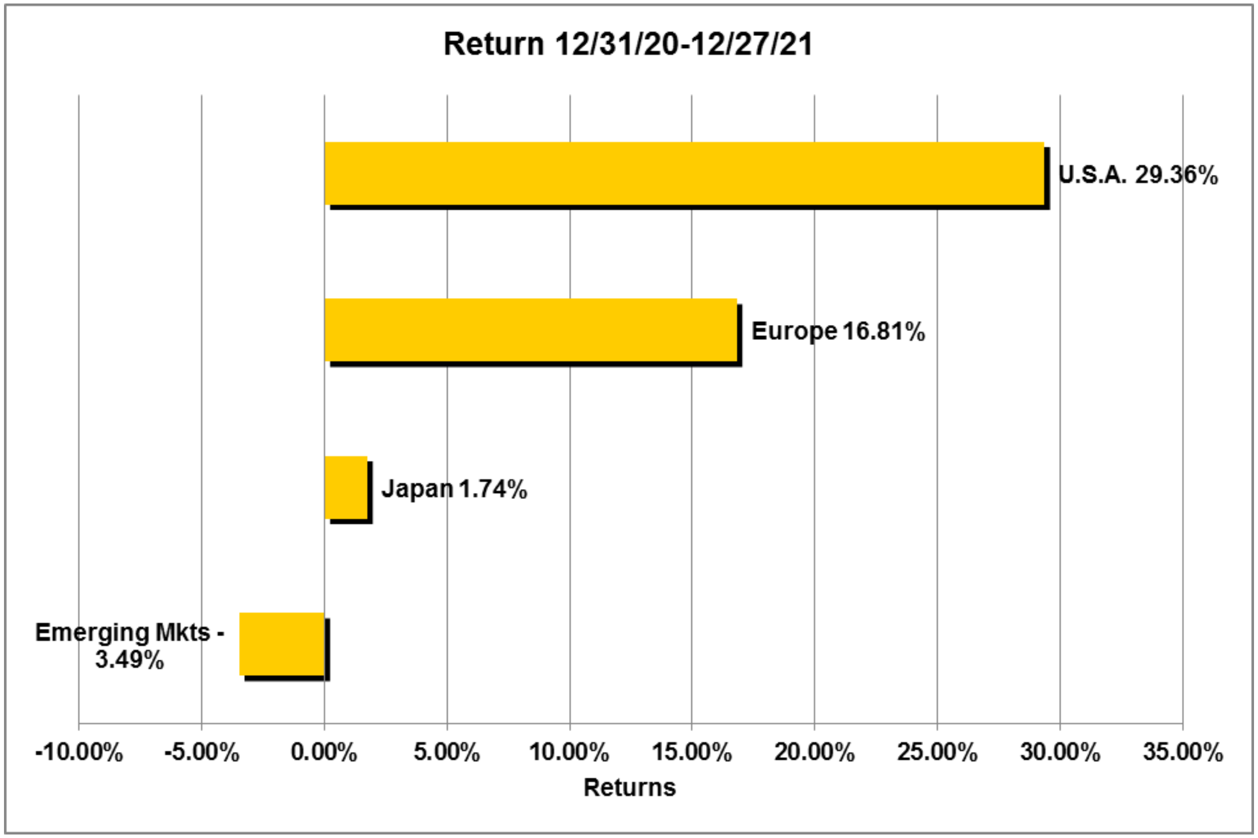
**Style Boxes** — As of December 27, 2021, large growth maintained its strong hold on the number one position in my relative strength analysis (RSA). Large value and mid value swapped positions from last quarters RSA, as large value jumped two positions and mid value fell two positions to finish in second and fourth place in my RSA. Mid value maintained its position at number three. Small value and small growth finished at unchanged from last quarter in the bottom of my RSA.  As usual, we will continue to rely upon our time-tested RSA to guide our investments in Style Boxes.



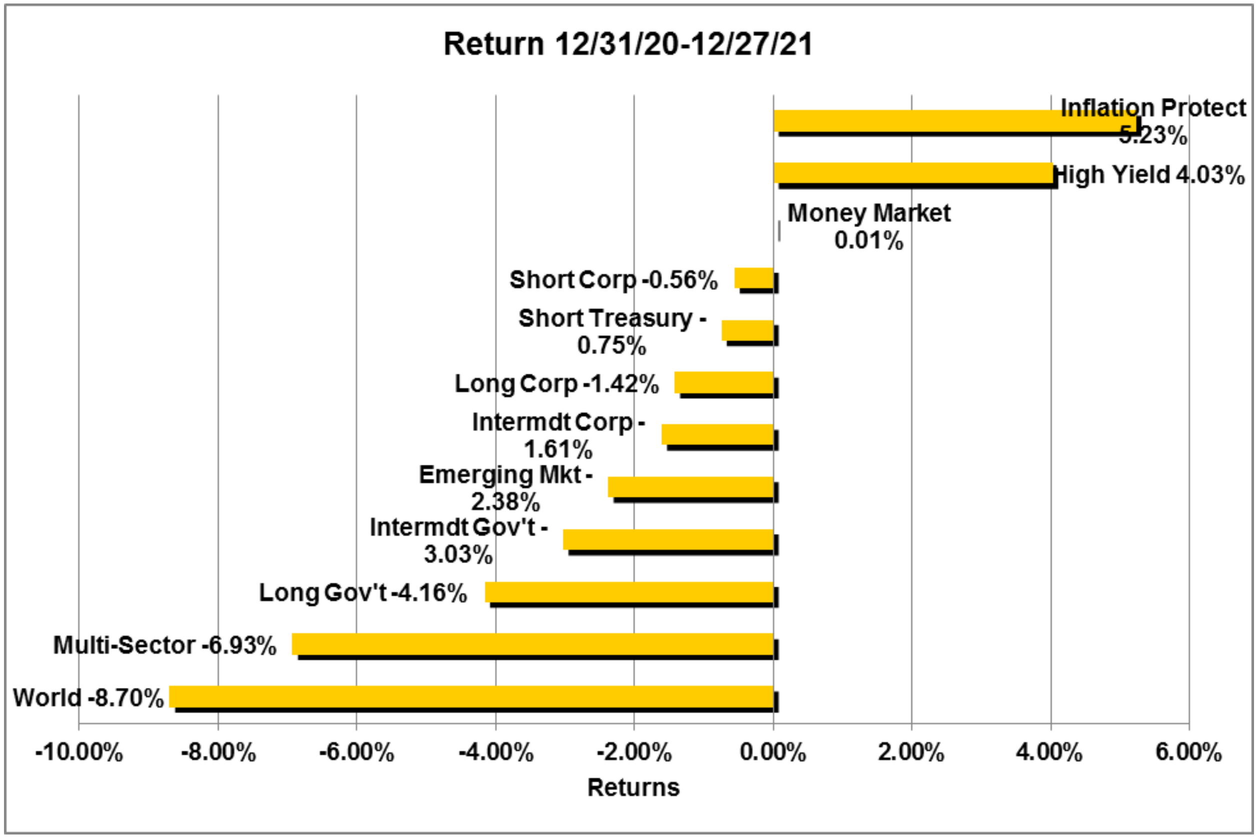
**Sectors** — As of December 27, 2021, not a whole lot of movement in my RSA surrounding the sector universe. Technology maintained its stronghold on the number one position. Real estate had no changes from last quarters RSA staying at number two. Utilities experienced the largest jump in my RSA, jumping seven positions to claim the third spot. Health care experienced no change maintaining it position and rounding out the top four positions in my RSA. Financial services and energy both fell four positions to finish at seven and nine. As usual, we will continue to rely upon our time-tested RSA to guide our investments in Sectors.



**Internationals** — As of December 27, 2021, no rotation took place in my RSA surrounding Internationals. The U.S.A. continues its strong hold on the number one position, which comes as no surprise with the widespread availability of vaccines. Europe continues to hold its own at the number two position. Japan finished in third place, and emerging markets rounds out the bottom, at number four. As usual, we will continue to rely upon our time-tested RSA to guide our investments in Internationals.



**Bonds** — As of December 27, 2021, not a whole lot of rotation took place in the bond market in the fourth quarter. Long gov't maintains its stronghold on the number one position. Inflation protection also experienced no changes remaining in second place in my RSA. High yield experienced the largest move up in my RSA, jumping three spots to finish in third. Intermediate gov't moved up one spot to round out the top four positions surrounding bonds. Emerging market fell the most in the RSA falling six positions to finish in tenth place. As usual, we will continue to rely upon our time-tested RSA to guide our investments in Bonds.



## Forecast —

## 2022 Outlook

The year ahead should include plenty of reversals. Several major central banks will send interest rates higher. Global economic growth will head lower. Earnings growth will roll over. Market valuations will start to worsen. The uncertainty surrounding these changes should make for a more volatile year. But not all of them will be bearish for equities. If the world continues to make progress in the battle against COVID, supply chain constraints should reverse, helping to turn around the trend of rising inflation. The likely increase in volatility will raise the risk of a double-digit drop. But global equities should remain in their 13-year secular bull, ending 2022 with a gain for the year.

We expect rate hike criteria for the Fed to be fulfilled by next summer. U.S. economic growth should moderate to 3.5%-4.0%, and inflation should slow to 3.0%-3.5%. The 10-year U.S. Treasury yield should migrate toward 2.25%, and the yield curve should flatten. Our year-end S&P 500 target is 5000, or 7% above current levels.

Macro conditions favor higher quality areas of the market — large-caps over small-caps and stable Growth over cyclical Value. A deeper equity pullback would allow defensive sectors to outperform.

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.