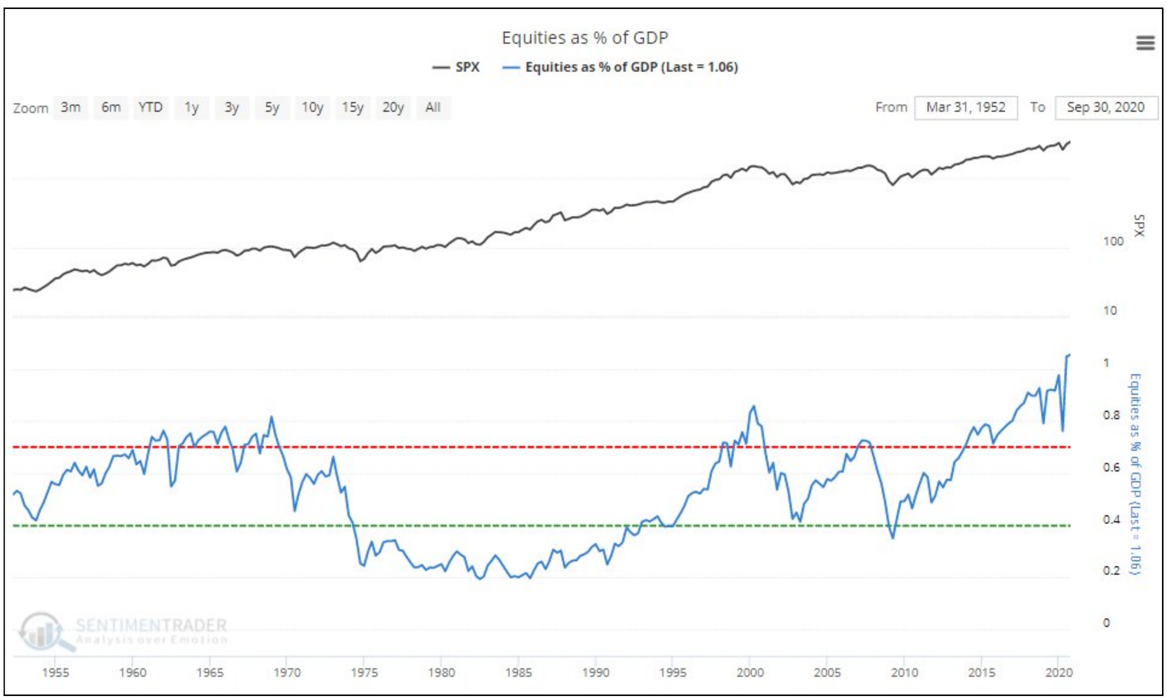
To: Investors!
From: Mike Sullivan
Date: December 28, 2020
Re: **The Market in Pictures …**

As referenced in our recent update, the optimism is off the charts due to central bank money printing. Anyone who stuck to their guns and counted on the Federal Reserve to goose markets right back up was rewarded once more … the wacky world of 2020!

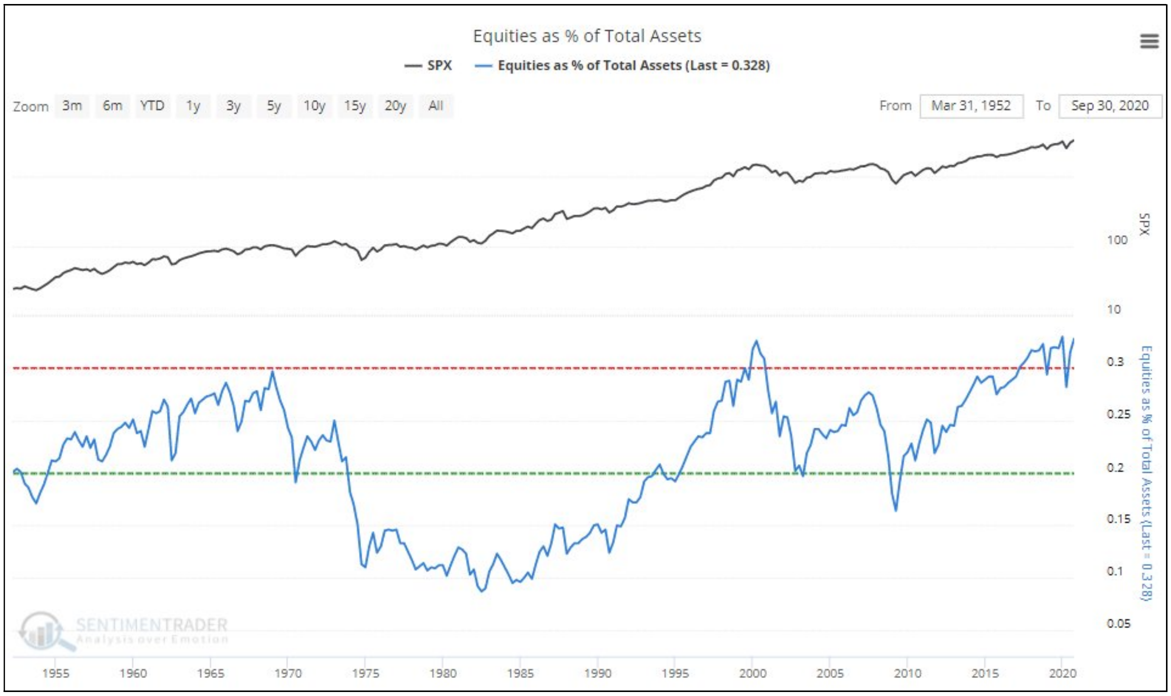
Following are a series of pictures from Sentiment Trader sculpted after the Twelve Days of Christmas. Instead, he simply depicts twelve indicators showing how extended up the markets are today … meaning a drop from here, while not certain, would not be surprising.

Of note, the Federal Reserve is printing $120 Billion per month to 'support markets'. That is what has lifted markets to levels not seemingly in line with economic reality. These charts show reasons for caution, and may mean less to long term investors than it might to older investors or those who wish to reallocate funds for near-term use, borrowing, etc. Younger investors and those who do not need access near-term, actually prefer stocks to drop once in a while so they can accumulate them at lower costs! While history suggests that these central bank antics do not succeed forever, they certainly have succeeded thus far. Nonetheless, here are a few charts:

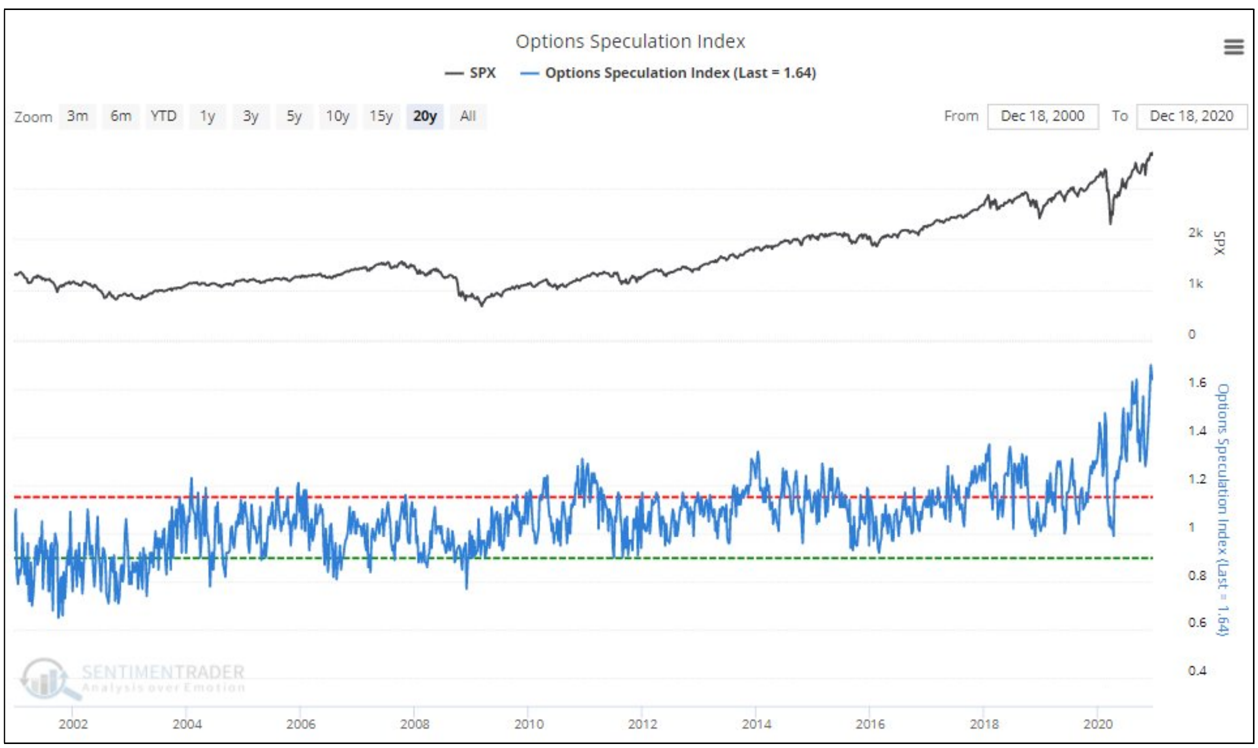


Equities as a percentage of Gross Domestic Product shows how stocks are more expensive versus GDP than ever before. Either stocks should adjust downward, or the real economy should accelerate rapidly … which assumes COVID world is behind us.

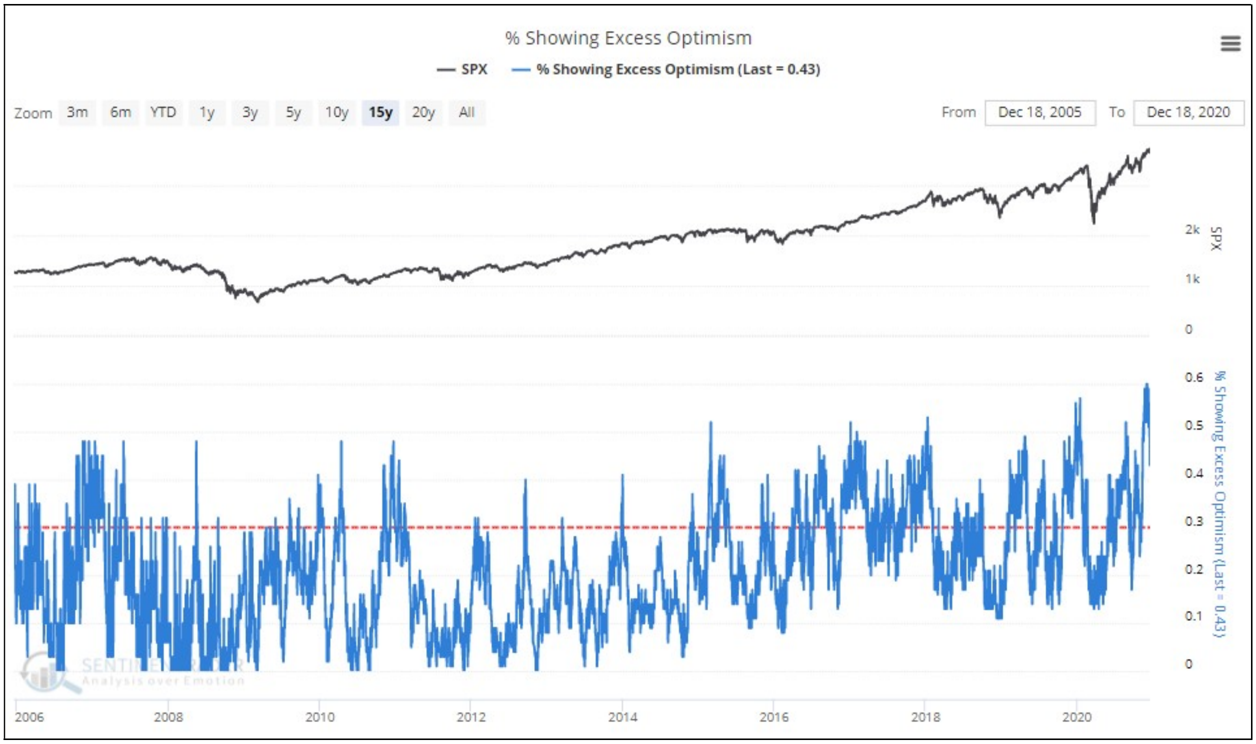
The following chart shows the percentage of total assets owned by individuals. Of note in this chart, equity ownership has reached the highest level since the world of Y2K in 2000 when the over-valuation of stocks goosed by the onset of the internet and the many companies that sprang into that new business corrected soon after. Will it happen again? We will soon find out.



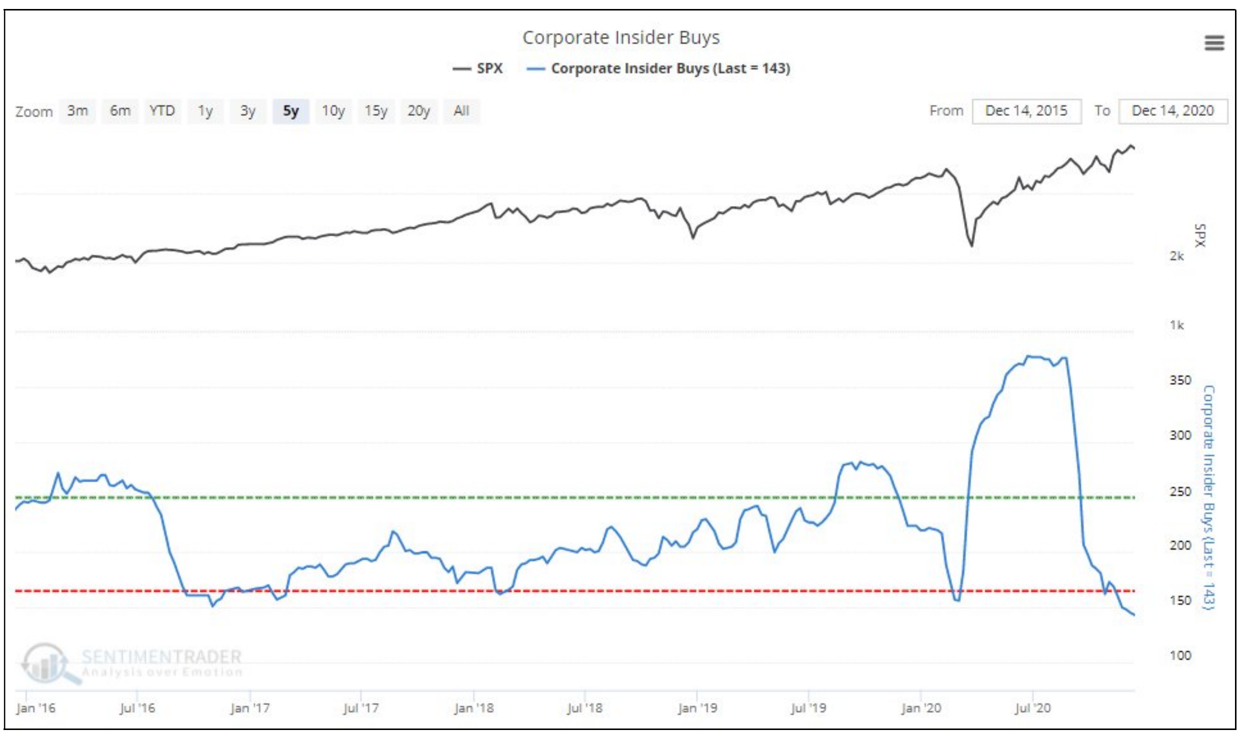
Below, Options Investors are more aggressively positioned than ever recorded. Often this results in reversal of market direction … but again, central bank support … it is hard to tell if or when that will matter and what the longer term implication will be.



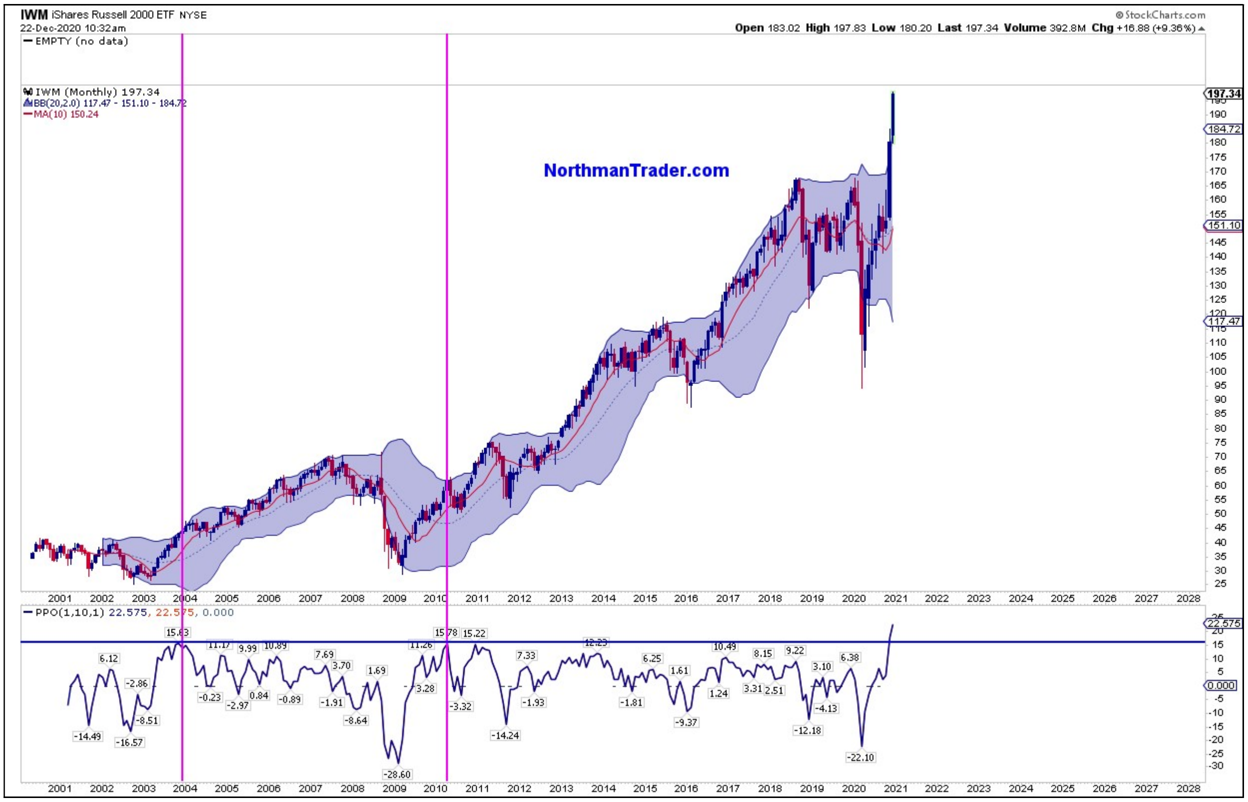
Psychologically, the 'gift' of markets rising despite small businesses shuttering their doors across the country has investors flat out giddy. The following Investor Optimism chart reflects it:



But one group of investors is selling: corporate insiders. That could be because they believe their company's stock is overpriced, or it could be that they are just banking their pay. As we know, many corporate executives are paid in stock so they may just be cashing in. But regarding this last point, they are paid in stock year after year, so the degree of cashing out this year-end is rather large compared to prior years … and it heavily outweighs any buying they're doing.



The last chart is one of the Russel 2000, an index of Small Company stocks. The Russell has simply exploded since November 1st. The launch goes hand in hand with a heavy dose of new money uncorked by the Fed on November 1st, spiked further according to the narrative by the arrival of vaccines. The vaccines are being credited for economic recovery and 'life returning to normal'. The Russell, however, is extended far beyond normal as seen back to year 2000:



The bottom section of the preceding chart shows extension beyond any point in the past twenty years.

Each investor sees things differently. Risk tolerance has a wide range. And personal circumstances dictate time horizons, long and short. With this year's unprecedented 6 Trillion US Dollar money boost in our country alone, it is impossible to tell how long the surge will continue. China signaled last night that their stimulus in 2021 will pull back. Our Federal Reserve has given no indication of doing so yet. It seems unlikely they will until January is past.

Also in January we have the Electors selected on January 6th. While the mainstream media shields all of the controversy surrounding the election, many other sources are chock full of details that suggest a rocky road may well lie ahead in the next few weeks.

Several sources suggest that pension funds that target 60%/40% stock vs bond allocations will have to sell some of their stock holdings into year end to get back to the 60% ratio which may cause at least some moderate declines. Normally, Wall Street players are gone for the balance of the year, and would prefer to see valuations sustain levels into December 31st.

The chart above might suggest some investors bank some gains, or at least be prepared mentally for any pull-back in stocks. On the flip side, there are many indications that the down-cycle in commodities such as oil, copper and precious metals is poised for upward movement given the on-going destruction of the US dollar so perhaps that slot represents an opportunity.

If you have not participated in the surge, and are considering upping your risk exposure here, use this information as input to that thought process. We should be available this week.

As always, call us at (614) 734–WLTH (9584) if we can be of assistance.

Happy New Year!