October 2022 Mark(et) Rush Report
By
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Preface

Once again, it is time for my quarterly market review when I examine world events and attempt to understand their implications on the markets. This report is my time to reflect on current events, portfolio performance, event scenarios, and their subsequent consequences on world equity markets and investment strategies.

It is my goal in life to have my money working for me instead of me working for my money.

Please remember that I am an ***amateur*** investor, and this document is a ***hobby***. Any thoughts and concepts should be treated as such. Please consult a professional financial advisor before making any investment decisions regarding your investment ideas, goals, and strategies. Continue reading this document at your own risk…

Please read this before continuing!

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The material presented herein is for informational purposes only, is not guaranteed to be correct, complete, or up to date, and does not constitute legal, tax, or investment advice. While all information is believed to be reliable, it is not guaranteed by me to be accurate. Individuals should assume that all information contained in this document is not trustworthy unless verified by their own independent research. This report may contain numerous errors, and the opinions may change without notice. Past performance is not an indication of future results.

In plain English, I am NOT giving you investment, tax, or legal advice.

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Introduction

Winter is coming to Europe…

It could be a disastrous winter in Europe; natural gas has already skyrocketed to over six times the typical price. Worse, it is unlikely that there will be enough energy for everyone to keep warm and keep businesses open if it is a cold winter. I've seen reports of people stockpiling firewood and portable wood-burning stoves. A mild winter is needed to get Europe through its decision to rely on Russian energy while shutting down its coal and nuclear plants. Oddly this issue doesn't get reported on much in the media…

A partial shutdown of Europe will dent the global economy, representing about 15% of global GDP. A severe energy crisis in Europe will make stocks fall. There will be fewer goods and services globally, meaning higher prices, while the global economy will falter. No monetary policy can fix this. The old school term for this is stagflation. People equate money with goods and services; they are not the same thing, and not understanding this concept by those running things is one of the main reasons things are going off track.

The next few months will be tough to predict since there are so many moving parts but let's give it a shot…

All data for this report was gathered and compiled on the October 1st, 2022 weekend. Prices, ratios, indexes, and outlooks may have changed materially. For those who may want a shorter version of this report, please feel free to jump to Chapter 5 and review the investment ideas in the Appendixes.

Mark

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Chapter 1
Considerations

Global Economy

I'm frankly astounded by how well the global economy is still doing. Global GDP Growth projections were at 5.0% late last year but are now at 2.9%. It is expected to slow to 2.2% in 2023. The war, residual supply chain issues, Zero Covid Policy in China, inflation, higher interest rates, and high oil prices have struck several blows to the Global Economy.

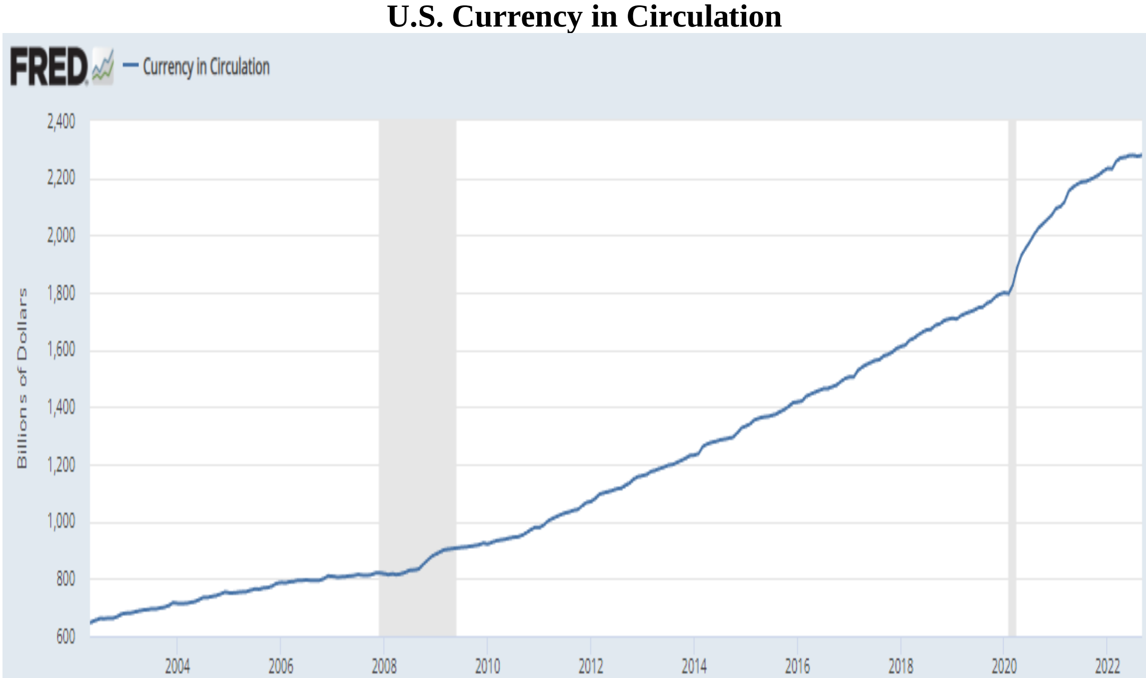
The global economy has softened and will likely continue softening

Inflation, The Fed, and Interest Rates

We are looking at a global recession, a Chinese credit crisis, and a Russian-induced energy crisis, and now we want to raise rates. I believe that we have two choices: inflation with economic growth or modest inflation with a global recession. In my opinion, the time to raise rates was when inflation was "transitory" I believe you have no choice but to let the inflation happen to some degree.

The currency in circulation has increased by 25% in the last two years. Below is a simple chart to explain current inflation. No emphatic hand-waving explanation, finger-pointing, or mean tweets are needed.

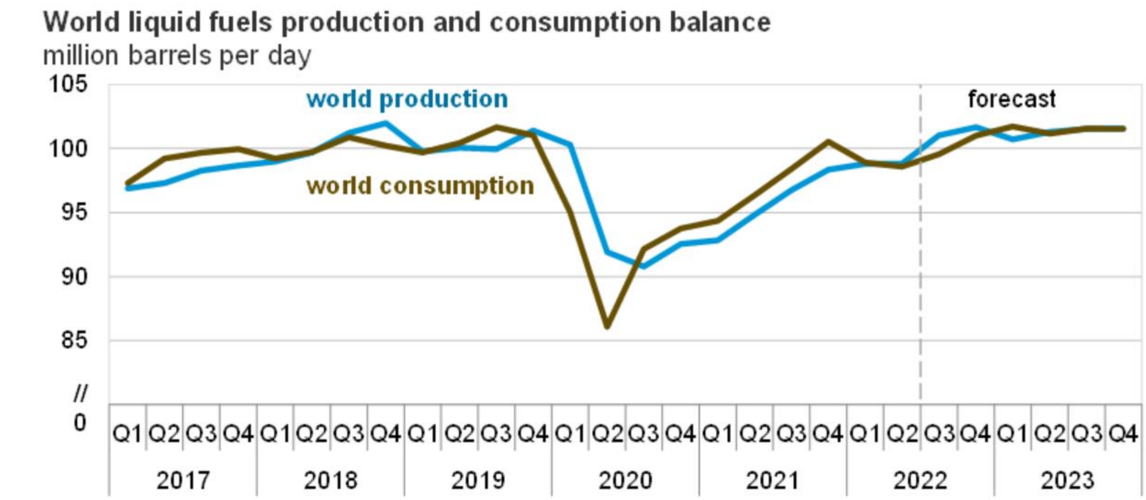
U.S. Currency in Circulation

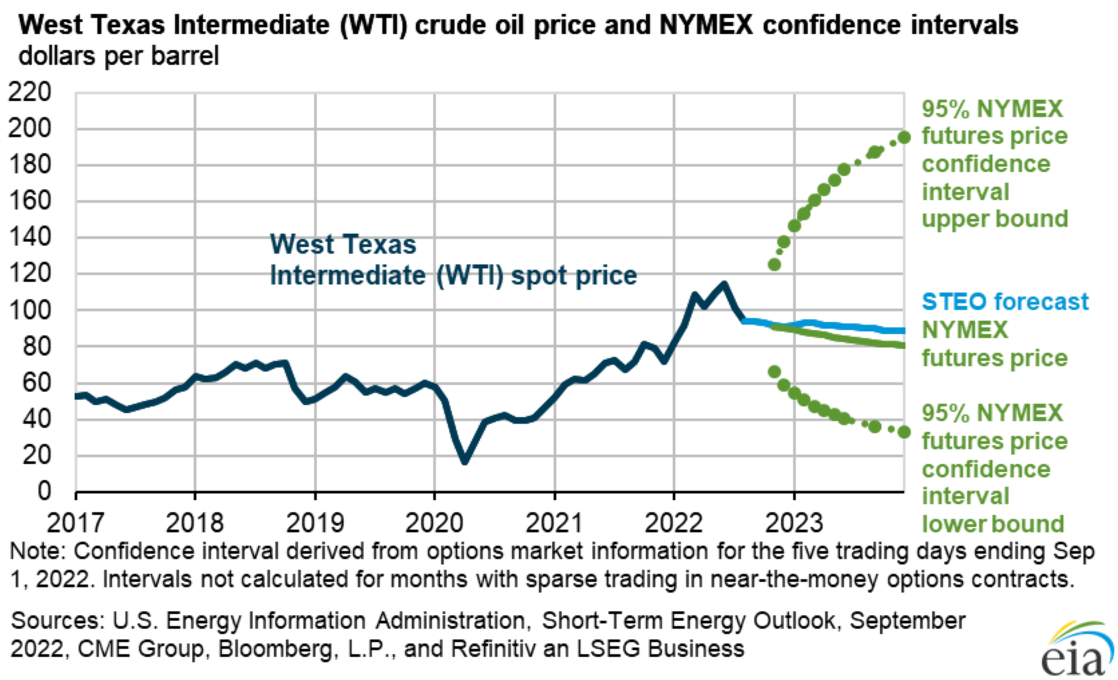


Higher inflation is bad for the market in the short run

Global Energy Crisis

The Ukrainian war, or more accurately, the sanctions on Russia from the war, complicates the current economic situation. Energy supply and demand seem to be coming in line but still below the pre-Covid levels. There are too many moving parts for me to make an accurate prediction of oil prices, so I will give you the official U.S. Government estimate for oil prices for the end of this year, which is somewhere between $50 to $190, with the base case around $100 per barrel up from the current price of ~$80/bbl.

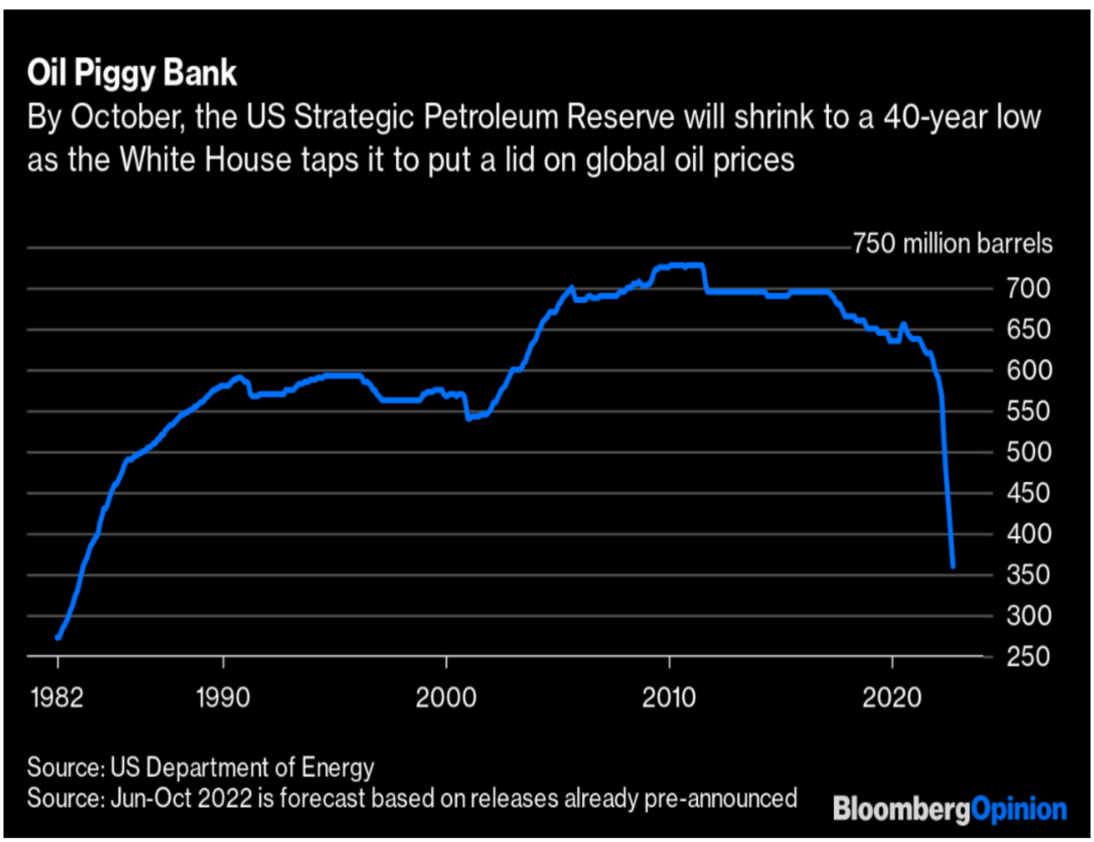




The Biden Administration decided to sell a lot of the Strategic Petroleum Reserve (SPR) to fight inflation. For those who don't watch U.S. contingency plans closely, after the oil embargos in the 70's nearly left the U.S. crippled militarily and economically, the U.S. built an emergency petroleum stockpile. The U.S. constructed a massive (to hold as much as $90 Billion in oil depending on price) oil reserve. This is enough oil to power the country for about 90 days in an emergency with *no other oil supplies*. A few OPEC countries do not produce as much oil as the SPR currently sends to market, which is about 1% of the global oil supply.

Administrations have always played around the edges with the SPR, but we have never seen this much oil drained this fast from the SPR. Current "Emergency" stockpiles haven't been this low since the early 1980s, and that was because they were filling the SPR. While we were withdrawing from this stockpile, the administration pressured the oil majors not to export any of that oil, even to our European allies, presumably to help keep U.S. gasoline prices low. They decided to end withdrawing from the SPR when the program was announced on October 31st.

Why did they recklessly drain the SPR so fast when there is a clear and present danger with Russia, potentially a nuclear war? Why would you plan on stopping withdrawing right before winter when heating demand spikes and Europe may freeze? Why would you stop withdrawing a mind-boggling amount of emergency oil sitting in reserve for nearly half a century and stop those withdrawals just one week before the 2022 mid-term election…

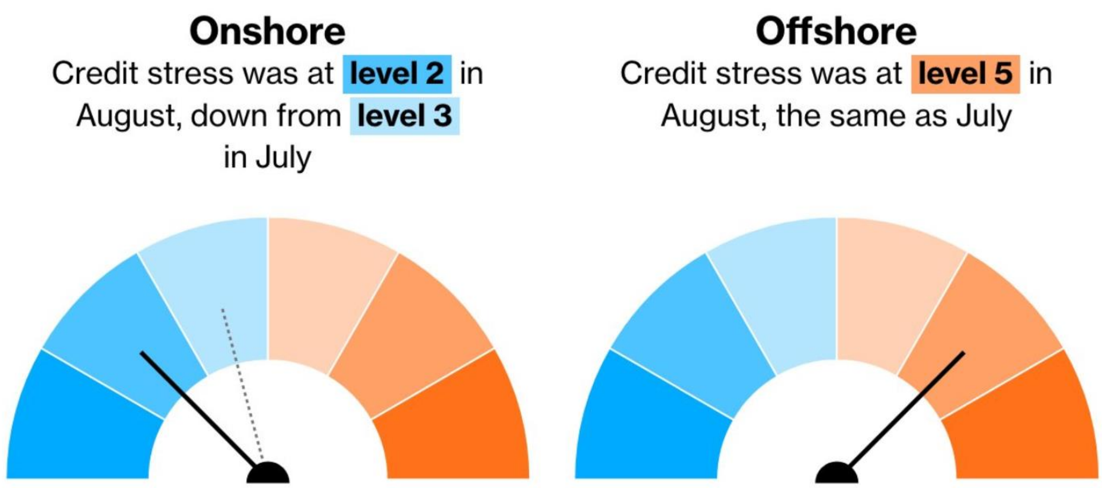


This is the most irresponsible series of actions I have seen from an administration. We had an emergency stockpile, and the world is inching closer to a combination of the 2008 financial and Cuban missile crises. At the same time, this administration decided to sell those reserves to help win the midterm election… It is clear what the priorities are for this administration. And the press? Crickets…

After the midterm election, about 1% of the global oil supply will suddenly disappear. It will take a decade to refill those reserves, but the administration has already spent the billions of dollars raised by selling the reserves. I'm unsure if the world economy can handle a 1% drop in the global oil supply. Under current conditions refilling the SPR would be catastrophic due to the additional demand on top of the loss of supply. If China got its act (and economy) together, global oil demand would surge.

Oil prices will likely be elevated through 2023, and prices are likely to go up after the midterm elections

China Credit issues

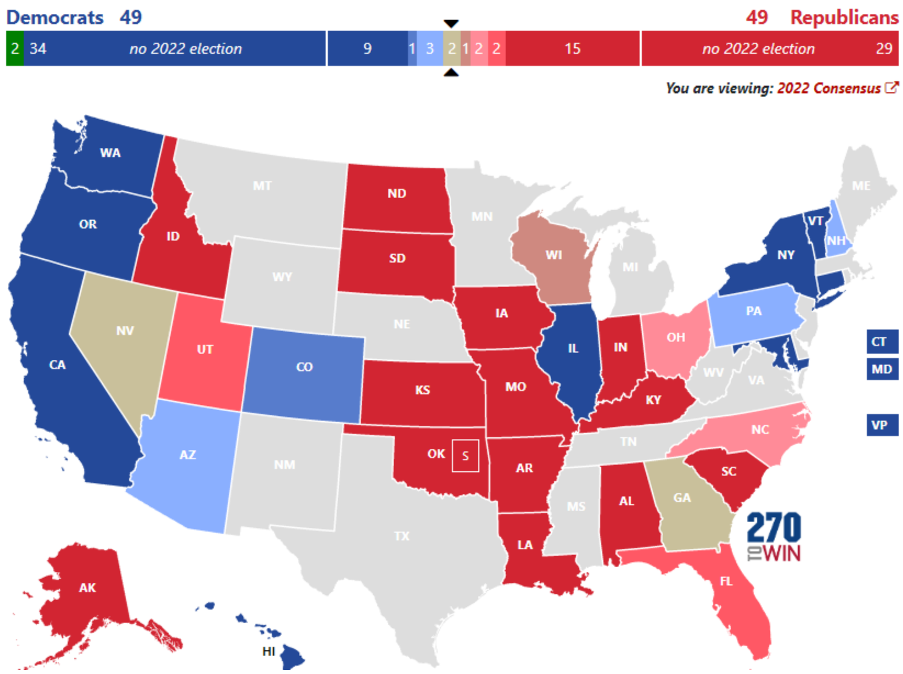


Conditions have improved slightly since the last report but are still high.

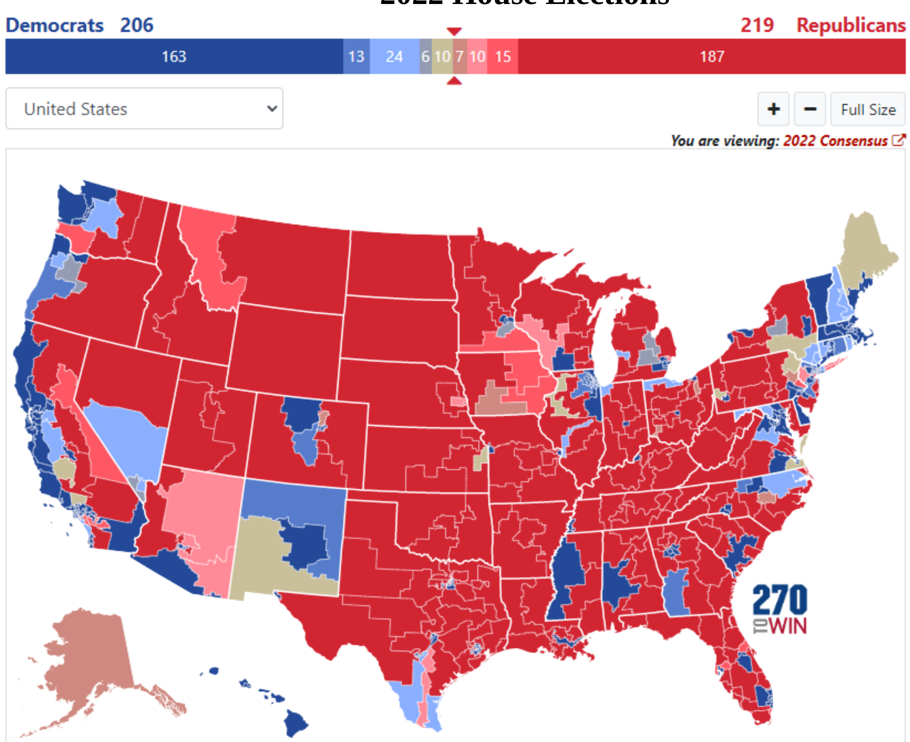
Credit issues are always bad

Politics

2022 Senate Elections



2022 House Elections



More or less, the Senate looks like a tossup. The smart money projects a 51/49 toward the Democrats. A 51/49 takes a lot of power away from Joe Manchin, who is probably the last moderate in the Senate. If any Supreme court position opens, it will be easily filled by a person very left of center. Regarding the House, it looks like the Republicans will win that race. This will slow down new legislation and spending. The market will like this since less spending will slow borrowing, leading to less inflation, and the Fed may become less aggressive.

Suburban homemakers decide elections. The Republicans had a lock on both chambers until the Supreme court decision on abortion. I still think Republican votes get undercounted in the polls, so I suspect the Republicans will beat the line, but my predictions still stand.

The Charts

A picture is worth a thousand words… In my case, it may be only a couple of dozen. Let's look at the charts to understand what has happened and what may happen.

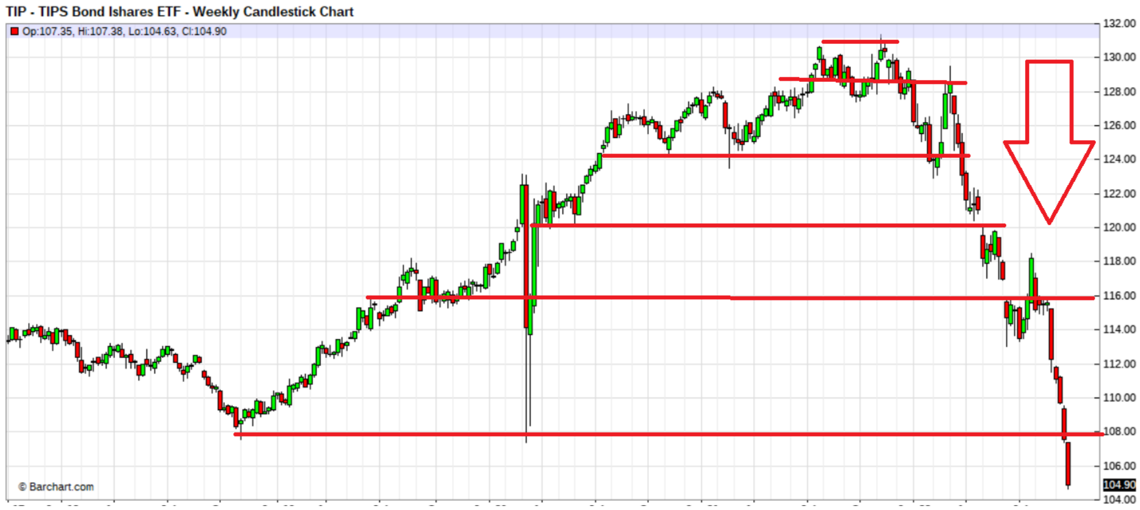
S&P 500 (3,585.62)

This chart is ugly. I don't see any support for the market 3400 (-5.2% more) and much more robust support at 3000 (-16%). It is possible, but unlikely, that we head toward 2600 (-27.5%).

Rates

Rates are on an ever-increasing upward trend; something will give soon

TIPS



You would think an instrument that specially hedges inflation would be outperforming the market right now? It is not, it is down 20% this year, but some of that is offset by its 7% yield. An odd fact to ponder…

Since this instrument is tied to the inflation rate, a low inflation number will make this yield drop, so 7% is not as high as it may turn out in good time.

If this is a predictor, then inflation is going down soon.

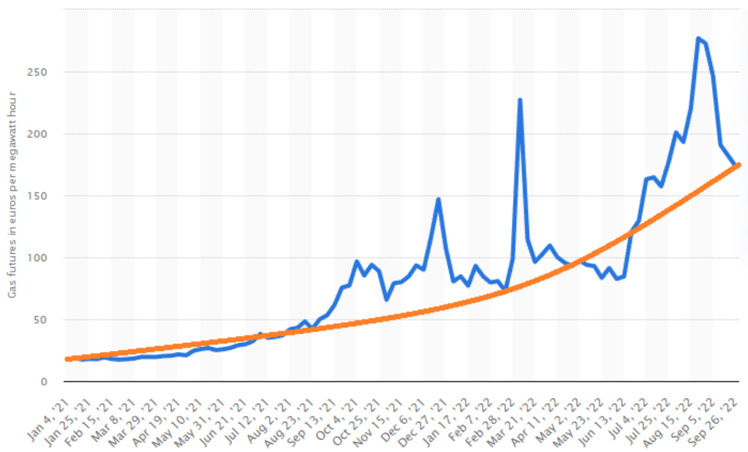
Crude Oil

I believe oil will end up between $50-$70 in the next few months

Copper

They say Dr. Copper has a Ph.D. in economics… we are near the top of the range I expect under current conditions. I expect it to head to the middle ($3.00) with a mild recession or to the low end of the range in a bad recession ($2.60).

European Natural Gas



Natural gas in Europe is about six times normal; this is recessionary; globally.

U.S. Dollar

We have a strong dollar that hurts exports, hurts S&P 500 earnings, and is causing financial stress in other countries.

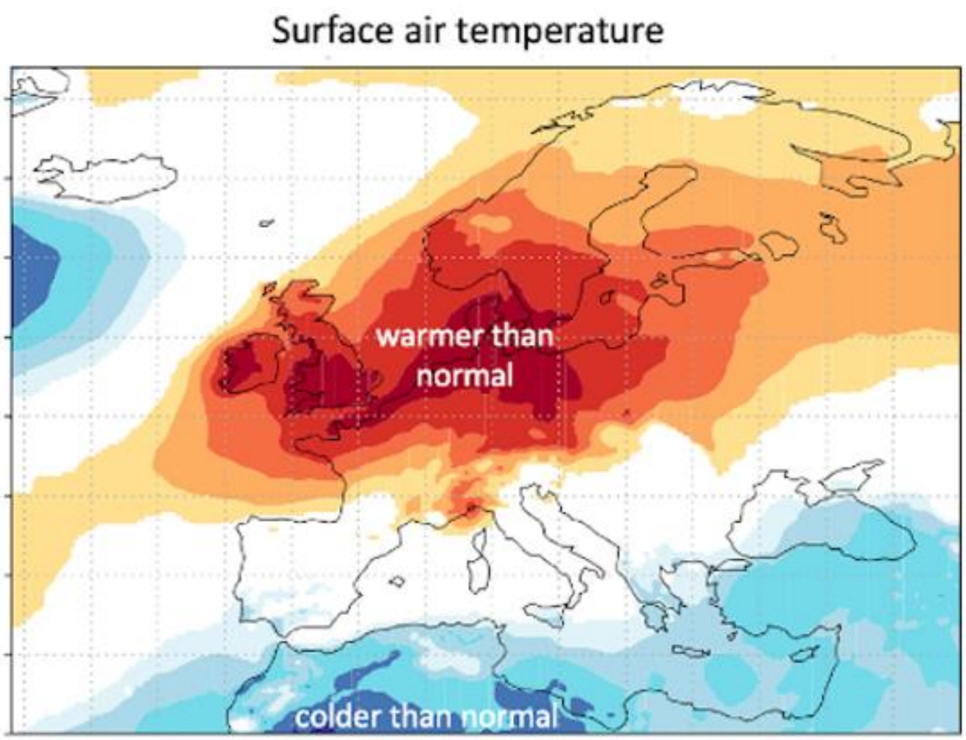
Wheat

Mass famine will likely be avoided in 2023, but U.S. production was down due to weather this year… We may have issues in 2024 having enough food to feed the world.

Euro

If you ever wanted to take a European vacation, this is the time to do it. If you decide to go this winter, pack a few extra sweaters.

European Winter Weather



Multiple models predict a warmer Europe this winter, possibly saving the day by reducing heating needs. An extended polar vortex will bring Europe to its knees.

Conclusions:

Oil: It's high and may fall but not back to pre-2020 levels. If it drops a lot, it signifies a significant recession has begun. If it goes up a lot, it will cause a recession; if it stays where it's at, it will cause a mild recession.

Copper, I was shocked when I pulled up this chart; it tells us that demand for this core metal has dropped precipitously; this is a significant recession warning.

European Natural gas has seen a 600% increase in price. It may be difficult for people to afford to heat their homes this winter and for energy-intensive industries to compete. I am almost sure there will be a severe short-term recession in Europe if it is a harsh winter.

U.S. Dollar strength: I see two factors for the strength of the U.S. Dollar. Higher interest rates will cause more people to want to hold U.S. Dollars, and if there is a recession, the items drop in value, and the inverse is also true so that the dollar will rise. We are seeing signs of a '08 type of financial crisis due to energy and high dollar. The Fed will need to stop raising rates very soon.

Wheat: Russia is expected to produce a record crop this year and is finding ways to avoid the sanctions. These factors may save millions from starvation this year.

Euro: The energy crisis is crimping their economy; their currency has dropped almost 20% in the past year. I expect it to worsen this winter.

Chapter 2
The Fundamental Indicators

<u>Economic Projections</u>

The *<u>headline numbers were my predictions at the beginning of 2021;</u> these predictions may now be laughably wrong.*

US Gross National Product (GDP) > 4.0% by the end of 2022

Projections for GDP were 2.8% and now have been revised down to 1.4%, which still may be too optimistic. Global GDP Growth projections were at 5.0% for 2022 but are already down to 2.7%. Issues in Ukraine, credit issues in China, Fed policy, and other factors may weaken it further.

The GDP projections are falling rapidly

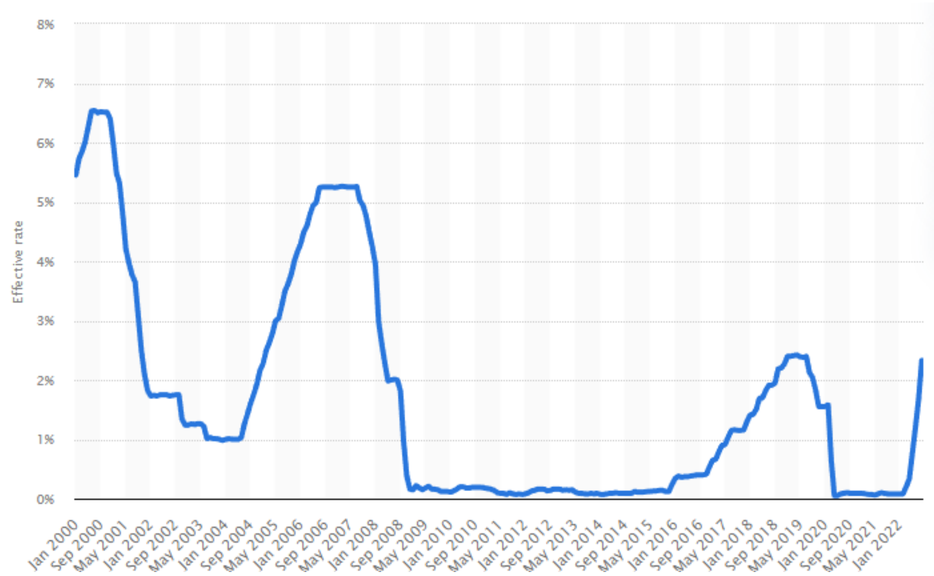
Unemployment will be < 4.0% by the end of 2022

The official unemployment rate was stable at 3.7% for May, down from 4.2% last year.

Unemployment spiked due to COVID; it is rapidly returning to normal

Federal Reserve rates will be 1.00 and 1.50% by the end of 2022

Short-term rates are now between 3.25%. Rates will be very likely to go up in the coming months. I was expecting 3-4 rate hikes this year, but we have seen the equivalent of 3 hikes in one meeting. More hikes are likely in the coming months.

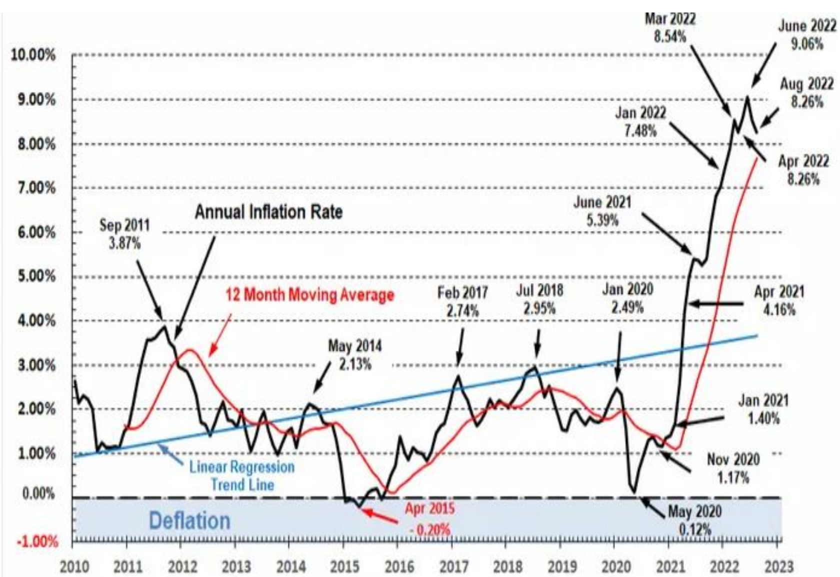


Rising rates are alarming for the market

Inflation < 4.0% in 2022

The latest inflation was an annual rate of 8.3%. We have likely saturated the money supply, and the economy has stabilized enough that inflation is more likely long-term.

It's a busy chart but worth looking at it and understanding.



Current inflation is high; longer-term, it is another known unknown

S&P 500 index < 5000 at the end of 2022

The S&P 500 index started 2022 at 4766.18. We are currently at 3,585.62 for a 24.8% loss this year.

Rates will continue to go up, pushing the market down.

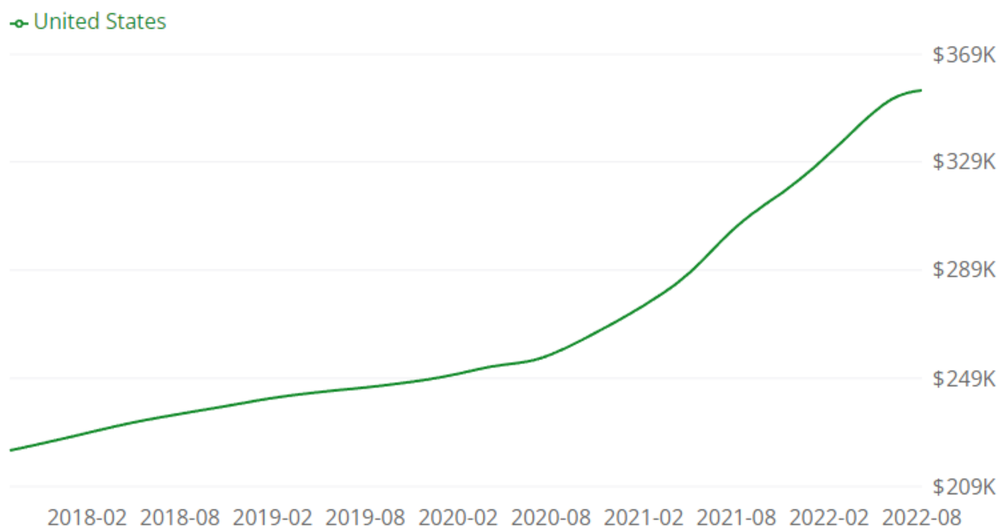
The markets are down a lot this year, and the next move is anyone's guess

Real Estate Average Home <$350k in 2022

The 30-year mortgage rate is up from 3.02% at the beginning of 2022 to around 6.61%. The 2022 housing prices started at $316.4k and are now about $356k for a 12.5 % rise in 9 months. The higher prices have also changed the average mortgage, assuming a 20% down payment ($71,200), from $879 in 2020, $1070 at the beginning of this year, to $1821 now. These prices and rate increases have resulted in a *70% increase in a typical mortgage for a median house in the past nine months*. This is very, very bad, if not frightening, and extremely unsustainable. *Housing values need to drop by 40%* to bring mortgages back to what they were at the beginning of the year. The Fed may have created another housing crisis.

National Average Mortgage Rates

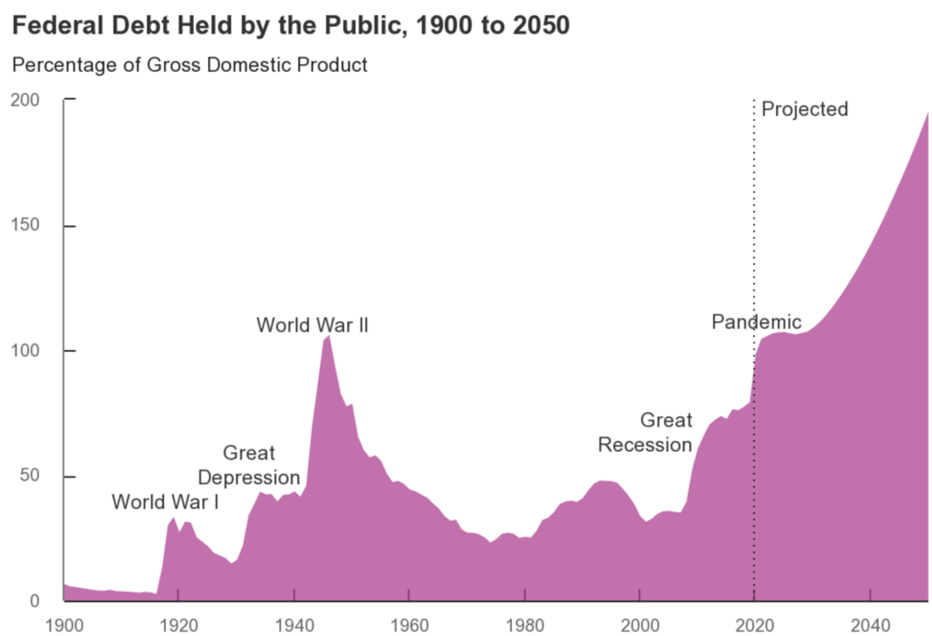
Housing price projections



After many years of providing market projections, Zillow has stopped making projections. That is a projection within itself.

Rising rates will be a headwind for the housing market, therefore for the stock market

<1.8 Trillion Dollar Budget deficit for F.Y. 2022



The debt spiral had already begun; the pandemic has only accelerated it.

Chapter 3
The Technical Indicators

Technical analysis attempts to forecast the future direction of prices by studying past market data. I use Barchart (http://www.barchart.com/) to develop an investment's final "objective" opinion. Its primary ability (flaw) is to predict the future by extrapolating past performance. One phrase does come to mind, "Past performance is not an indication of future results," although this is precisely what these calculations try to do.

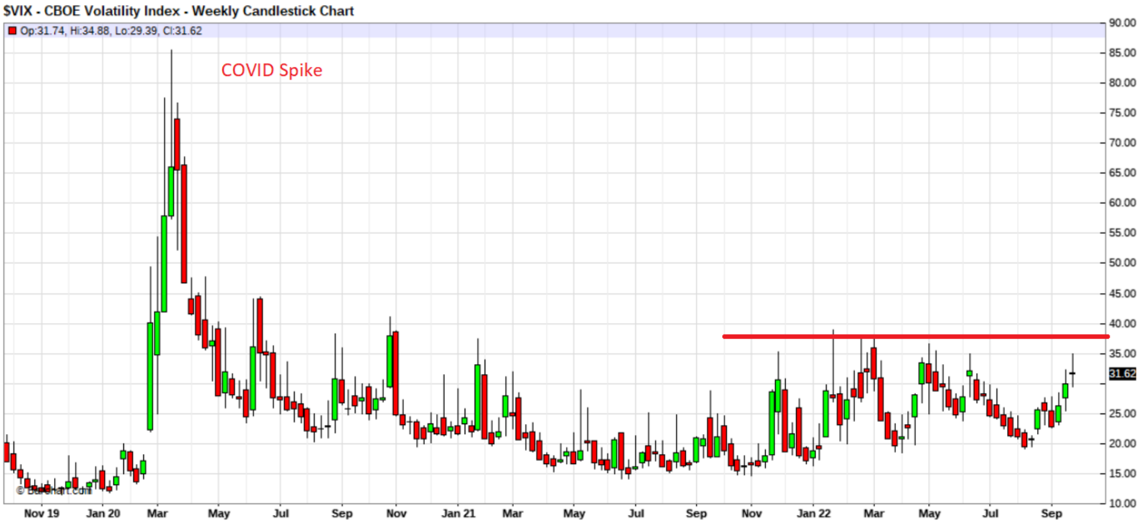
Model Portfolio and other technical indicators (+100% = strong buy; -100% = strong sell)

U.S. ETFs	12/31/21	7/1/22	10/1/22	Link
SPY	+100%	-100%	-88%	http://www.barchart.com/opinions/etf/SPY
QQQ	+96%	-100%	-88%	http://www.barchart.com/opinions/etf/QQQ
IWM	-24%	-100%	-88%	http://www.barchart.com/opinions/etf/IWM
International				
EFA	-72%	-100%	-100%	https://www.barchart.com/etfs-funds/quotes/EFA/opinion
EEM	-88%	-100%	-100%	http://www.barchart.com/opinions/etf/EEM

Bonds	12/31/21	7/1/22	10/1/22	Link
TLT	+64%	-88%	-100%	http://www.barchart.com/opinions/etf/TLT
SHY	-100%	-72%	-100%	http://www.barchart.com/opinions/etf/SHY
Gold/Oil/Dollar Index/Euro/Yen				
GLD	+56%	-72%	-100%	http://www.barchart.com/opinions/etf/GLD
USO	+64%	+56%	-88%	http://www.barchart.com/opinions/etf/USO
UUP	+80%	+100%	+100%	http://www.barchart.com/opinions/etf/UUP
FXE	-88%	-100%	-100%	http://www.barchart.com/opinions/etf/FXE
FXY	-100%	-100%	-100%	http://www.barchart.com/opinions/etf/FXY
Volatility Index (a positive number is bad for the markets)				
VIX Index	+16%	+32%	+56%	http://www.barchart.com/opinions/stocks/$VIX

Volatility

Volatility Chart (market fear index)



The Volatility Index (VIX) can be considered the level of "fear" in the S&P 500 stock index, but it is used as a proxy for the general U.S. stock market. A lower VIX indicates a lower level of fear in the market, and lower fear generally means more confidence, therefore, higher prices. A higher VIX shows more fear and declining prices.

The VIX has remained elevated but restrained. The Vix usually spikes when near the bottom of the market. I believe this means more downside in the market. I will stay bearish until we hit the 40-60 range on the VIX. I would like to see capitulation.

The VIX is well behaved… and I don't think that is good

German Bond Yields

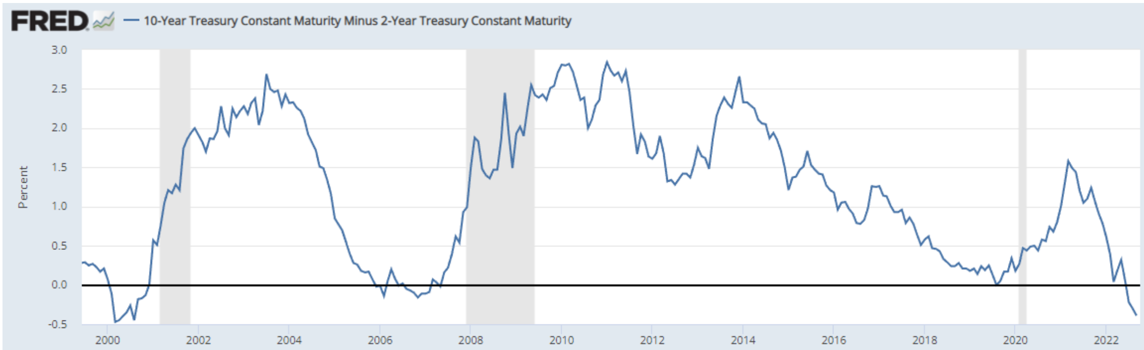
The German 10-year bond was at -0.179% at the beginning of the year and now jumped +2.118%. Those crazy Germans are demanding a return for loaning money to the government.

German 10-Year Bond Yield

I'm not sure what to make of this…

Ten's minus Two's

They quit publishing the TED Spread earlier this year, so I will revert to the 10-Year Treasury Yield minus the 2-Year Treasury Yield. The first chart shows 20+ years of the index, and the grey areas are recessions. If you notice, the 10's minus 2's spread usually goes negative (horizontal black line) several months before a recession.



Historically that usually indicates an impending recession, not always, but usually. Notice we are significantly below that line once again.

The 10's minus 2's spread is flashing a recession warning

Technical Summary…

Bonds, stocks, foreign and domestic, metals, and other currencies. Everything has a sell signal except the U.S. dollar. There is nowhere to hide except pure cash, which is getting eaten up at 8%/year by inflation. The indicators say take an 8% loss on your real wealth and be happy. The alternative is to have some losses on investments plus the 8% inflation hit.

The indicators are decidedly "Risk-off"

Chapter 4
Mark's Model ETF Portfolios

<u>Asset Allocation</u>

I have constructed four portfolios, each with varying levels of riskiness from lower to higher risk, just by using a combination of 12 (or less) Exchange Traded Funds. The results (next page) include fund fees but not broker transactions or money manager fees.

<u>U.S. large-company funds:</u>	**<u>Stock Market Symbol</u>**
S&P 500 fund	**SPY**
Nasdaq 100 (Tech) fund	**QQQ**
Dow Jones Industrial Average fund	**DIA**
Vanguard value fund	**VTV**
<u>U.S. small-company fund:</u>	
Russell 2000 small U.S. company fund	**IWM**
<u>International company funds:</u>	
Europe, Australasia, and Far East	**EFA**
Emerging Markets Fund	**EEM**
<u>Fixed Income (Bond) funds:</u>	
20+ Year U.S. Treasury Bonds	**TLT**
7-10 Year U.S. Treasury Bonds	**IEF**
US Aggregate Corporate Bonds	**AGG**
Investment Grade Corporate Bonds	**LQD**
<u>Short bond term fund (cash):</u>	
iShares 1-3 Year U.S. Treasury Bonds	**SHY**

<u>Allocation of Portfolio by Risk Level</u>

	Low	Balanced	Growth	Aggressive
SPY	5%	7.5%	10%	7.5%
QQQQ	5%	7.5%	10%	7.5%
DIA	5%	7.5%	10%	7.5%
VTV	5%	7.5%	10%	7.5%
IWM	10%	10%	20%	30%
EFA	5%	10%	15%	20%
EEM:	5%	10%	15%	20%
TLT	12.5%	8.75%	2.5%	0%
IEF	12.5%	8.75%	2.5%	0%
AGG	12.5%	8.75%	2.5%	0%
LQD	12.5%	8.75%	2.5%	0%
SHY	10%	5%	0%	0%

Model Portfolio Results

Name	Symbol	12/31/21 Price	10/1/22 price	Yield Rate (Est.)	2022 Gain w/ Dividend
S&P 500 fund	SPY	$474.96	$357.18	1.69%	-23.84%
Nasdaq 100 (Tech) fund	QQQ	$397.85	$267.26	0.74%	-32.45%
Dow Jones Industrial Average fund	DIA	$363.32	$287.30	2.19%	-19.62%
Vanguard Value fund	VTV	$147.11	$123.48	2.68%	-14.37%
Russell 2000 Small-Cap fund	IWM	$222.45	$164.92	1.42%	-25.07%
Europe, Australasia, and Far East fund	EFA	$78.68	$56.01	3.56%	-26.91%
Emerging Markets fund	EEM	$48.85	$34.88	1.38%	-27.86%
20+ Year U.S. Treasury Bond fund	TLT	$148.19	$102.45	2.19%	-29.73%
7-10 Year U.S. Treasury Bond fund	IEF	$115.00	$95.99	1.55%	-15.56%
U.S. Aggregate Corporate Bond fund	AGG	$114.08	$96.34	1.99%	-14.29%
Investment Grade Corporate Bonds	LQD	$132.52	$102.45	2.80%	-21.06%
1-3 Year U.S. Treasury Bond fund	SHY	$85.54	$81.21	0.75%	-4.52%

RESULTS	Low Risk	Balanced	Growth	Aggressive
’22 Return	-20.29%	-22.04%	-24.27%	-25.25%
’21 Return	5.46%	8.89%	14.06%	13.63%
’20 Return	13.13%	14.37%	16.39%	16.47%
’19 Return	16.75%	19.79%	24.18%	24.53%
’18 Return	-3.6%	-5.29%	-7.97%	-10.06%
’17 Return	12.10%	16.88%	22.60%	24.16%
’16 Return	6.92%	8.34%	11.58%	12.73%
’15 Return	-0.91%	-1.48%	-2.47%	-3.96%
’14 Return	9.16%	8.31%	6.71%	4.25%
’13 Return	8.34%	13.31%	22.72%	24.75%
’12 Return	8.97%	11.56%	15.30%	16.86%
’11 Return	7.02%	3.30%	-2.52%	-6.51%
’10 Return	11.17%	12.45%	15.53%	16.91%
’09 Return	11.14%	19.65%	31.48%	36.54%
’08 Return	-8.18%	-18.66%	-33.90%	-39.60%
’07 Return	7.82%	9.40%	10.04%	10.45%
’06 Return	9.72%	13.63%	19.09%	21.83%
’05 Return	5.49%	7.55%	9.73%	11.77%
Average annual return	**5.66%**	**6.04%**	**7.23%**	**7.05%**

I have never seen bonds take a beating like this before.

Many pension funds and endowments would have paid handsomely for this performance. Yet, here they are offered up to anyone…. for free.

Chapter 5
The Plan

Every trader reserves the right to make a more intelligent decision today than he made yesterday. - Sheldon Natenberg

The Good

- Innovations and efficiencies are creating new real wealth daily

The Bad

- Rising interest rates
- Falling global and US GDP expectations
- Labor and input scarcity
- Excessive money printing
- Partisan politics
- The possibility of an underground nuclear "test" by the Russians in their territory
- Supply and demand equilibrium
- Known unknowns

The Ugly

- Unrelenting poking the bear armed with thousands of thermonuclear weapons
- Potential for an above-ground nuclear "test" by the Russians outside their territory
- Reduced food production in Ukraine; Lower crop yields in the U.S.
- Reduced food and raw materials exported from the Soviet Union
- The potential Chinese credit crisis
- Beginnings of a Fed-induced global financial crisis
- Unsustainable Federal, State, and local debt
- A populous that doesn't understand how their basic needs are produced
- Leadership unable to contemplate the consequences or outcomes of their actions
- Unknown unknowns, the kind that blindsides you at 4 p.m. on some idle Tuesday

U.S. 10-Year Treasuries

The 10-year bond yield is at 3.7%, while the 2-year rate is at 4.22%. The 10's minus 2's is at -0.52%. As rates increase, some will want that guaranteed 4% yield, and some will sell stocks to own bonds again. If we believe that inflation is really at 7-8%, then the real return on 10 Year Treasuries is around -4%.

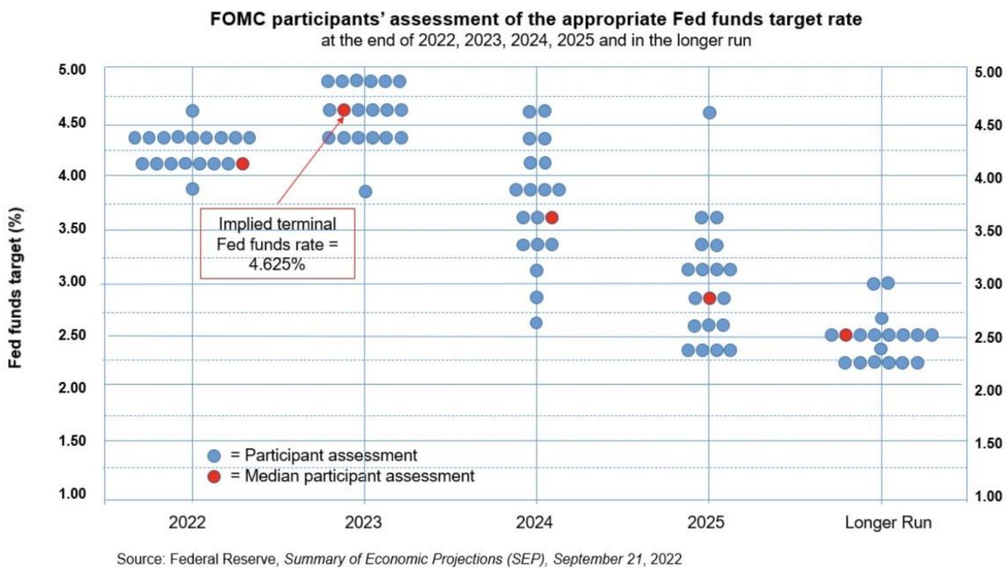
I believe we are on the cusp of seeing a pause in inflation in the next few months. The commodities market has already signaled falling prices, and the bond market has already signaled an economic slowdown. Don't be surprised if we see a low single-digit or slight negative headline inflation number in the coming months. It should not be celebrated, but it will be by those who are naïve about economics… Mostly from your government in a desperate attempt to show they know what's going on and are in control of the situation. They are not…

Stocks will probably bounce on this news, but when this occurs because "the Fed beat inflation," it has not. Smart money will sell into the bounce after it has run its course.

The Federal Reserve

The Federal Reserve "dot plot" shows they expect short-term rates to be around 4% by the end of this year, peak in 2023, and ease sometime in 2024 and beyond. Current short-term rates are at 3.25%, so expect a few more rate hikes soon, assuming the Fed stays the course.

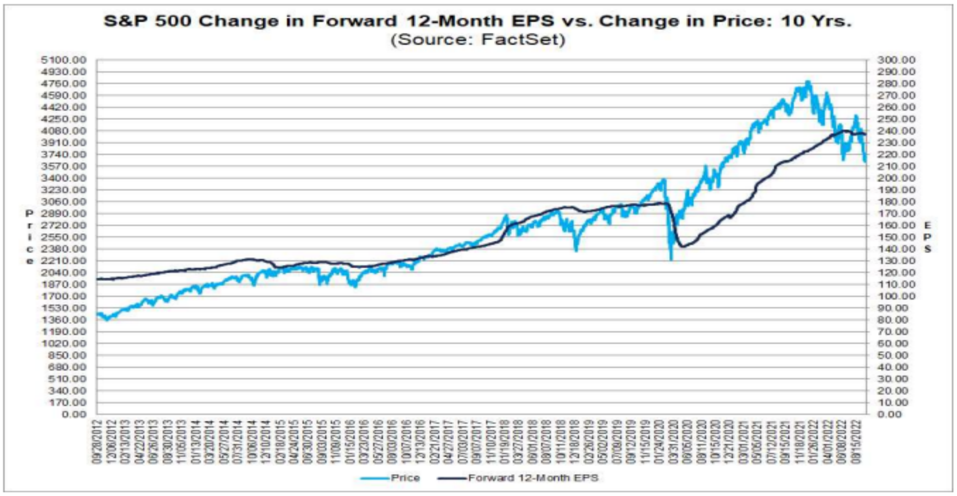
The Fed's aggressive stance makes me not want to hold stocks, but many of the expectations are factored into the market. I still believe we have triggered the debt spiral, but it is hard to judge when the ill effects will occur in a year, three, five, ten, or last quarter?



S&P 500 Valuation

This chart shows that the S&P 500 reached "fair value" during the recent selloff. Time to buy? Probably not… What is missing from this chart is earnings will likely decline due to a strong dollar and high interest rates. These items will lower the assumed fair value (black line) even more.

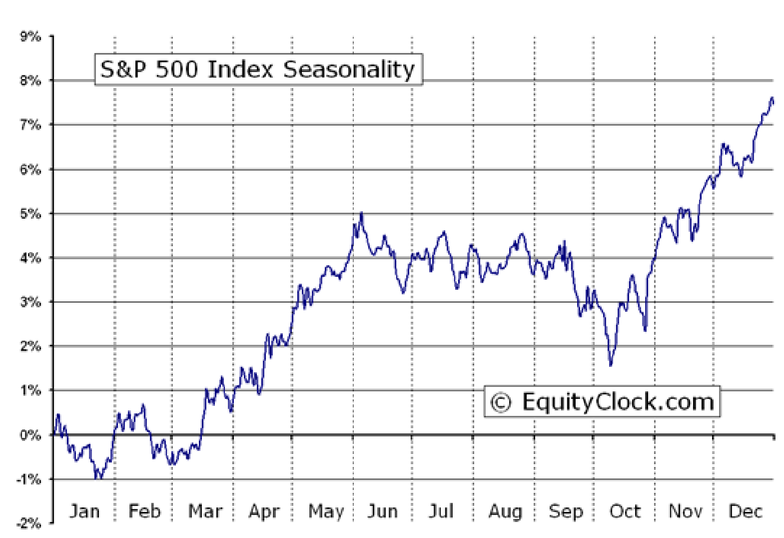
Current earnings estimates are falling slightly but are still optimistic. Eventually, higher inflation will be more favorable for stocks, but we are not there yet.



With my expectations that earnings will fall due to a recession, higher yield, and strong dollar, this chart still points to a lower market, possibly 3000 on the S&P 500.

Seasonality

We are now in a time when the market tends to bottom and bounce. After the midterm election, we may get a bounce that will last for 4-8 weeks based on seasonality.



This is the time of the year when the market tends to bottom

The plan (subject to change without notification):

This year, we have many moving parts—inflation, war, interest rates, economic growth, recession, labor force participation, and supply chain issues.

Let's look at my assumptions before digging into the plan.

My Q4'22-Q2'23 assumptions

- Moderate to bad recession in 2023
- Earning forecasts will continue to drop
- Easing inflation to -5% to +5% range
- Continued Ukrainian war but paused for winter, escalation in spring
- China remains stable in its credit unstableness
- Fed Pauses before its first 2023 meeting
- Bonds top out around 4.5%
- Housing semi-collapses or collapses
- Supply chain stable with slight improvement with lower demand
- Labor tightness eases but still relatively low unemployment
- Republicans control the House; The Senate is 51 Democrats

If the market was stable, earnings estimates were assured, interest rates were steady, and inflation was tamed, this would be a once-in-a-decade buying opportunity, but they are not. I am more comfortable with current stock market valuations since the significant price decline. Still, we are likely looking at a modest to a large global recession, if not a global financial crisis.

With labor and commodities easing, I suspect inflation may be taming itself. The taming of inflation is a much-needed break for the market, but recession fears will offset it. I fully expect a "good" inflation reading soon.

A quick way to find a decent level to buy stocks is to look back to the March 2020 lows. Suppose stocks approach those levels again; it is probably a decent buy. I don't expect the S&P 500 or other major indexes to reach those levels. I would be a buyer if they did.

I expect a choppy market for the next nine months. Using seasonality, fundamentals, technical analysis, and Elliot Wave Theory, what I am expecting goes something like this for the next nine months.

Selloff until the Midterm election (S&P goes to 3000-3400)
The Fed pause and/or a positive (lower) inflation report
The market goes up from early November until the end of the year (3400-3600)
A reversal (down) in January-February (3000-3400)
A march – June bounce… (back to 3400-3600)
Followed by one big question mark…

Please don't put too much faith in this outline since my view changes almost daily. Information and conditions change frequently. Most certainly, it is wrong; it is what I expect today with the information I have.

The safe play…

With all the ups and downs and more downs predicted with many moving parts and unknown and known unknowns, how would a person deal with the market over the next several months?

I plan to put more of my portfolio in short-dated U.S. bonds, with some in longer-dated U.S. bonds. I believe interest rates are close to peaking, so for the first time in 5-10 years, I think bonds may be a decent investment for their risks and rewards. You should be thinking, "but in chapter 4, didn't bonds get decimated with a 20-30% hit"? They did, but yields are now hovering around 4% on government bonds. I expect inflation to drop to a more manageable level, and the Fed is nearly done raising rates. It is also additional protection if the war goes… wildly off track or the economy goes into systemic risk mode. The risks to a U.S. Government Bond portfolio are low, but the rewards are decent to good.

Yes, bonds… Long-term readers know I rarely like bonds; current circumstances are one of those times. Things are so up in the air that things can seriously go sideways, and rates have gotten high enough that this is where I am moving toward. If the recession is bad or we get a global financial crisis, they will be the place to be for the months to years. I think to be safe, and it should be U.S. government bond funds since the extra yield on foreign or corporate debt may not be worth the additional risk/reward.

SHY - iShares 1-3 Year Treasury Bond ETF
BSV - Vanguard Short-Term Bond Index Fund

IEF - iShares 7-10 Year Treasury Bond ETF
TLT - iShares 20+ Year Treasury Bond ETF

The first two are easy decisions regarding cash. The last two are more of a bet that rates have peaked for now. I estimate a potential 10% loss for a possible 20-30% gain with the TLT in the next nine months. It's not often I can say that with bonds…

The only significant risk with bonds is if inflation increases and rates continue to go up. Under most other situations, U.S. Government bonds will come out ahead.

Black Swan Event (BSE)

I believe planning for unlikely but cataclysmic events in the next nine months is wise.

- Test or use of nuclear weapons in or around Russia
- A drop in the housing market in the 20-40% range
- The collapse of major European bank

One of these events could move the market down by 20-50% in days to weeks.

Longer-Term plans (After March of 2023 or November 2023)

I have a very long list ready to go. It will mostly be growth, tech, and China. A 50-200% return in the next 2-5 years may be achievable in tech stocks and China when the time comes. The risks of investing in China are high, but so are the rewards if they can get their act together.

Outline

- Cash Substitutes (Short-term)
  - SHY
  - BSV

- Growth
  - CMG

- Safety
  - Bonds
  - Healthcare (BMY, OHI, LLY)
  - Buy out of the money put or put spreads on SPY for a Black Swan Event
  - Buy call spreads on VXX corresponding to 50+ VIX for BSE

- Income
  - OHI

- Avoid interest rate-sensitive sectors and stock
  - Avoid high yield
    - Pipelines, REITs, Real Estate
    - Avoid energy, metals, and commodities for now
  - Avoid companies with large debt
  - Avoid Europe like the plague

- Be ready for a post-election bounce

To-Do List

Be ready for a November bounce followed by an end-of-year bull market. Reduce at the end of the year in anticipation of a bad start to 2023.

Watch

- Watch for expansion or contraction of monetary policy and any other Fed action
- Watch China
- Watch foreign markets to invest in if the U.S. theme changes
- And clearly Ukraine
- Watch Crude oil
- Watch the VIX
- Watch 10's minus 2's
- Watch Dr. Copper
- Watch European winter weather forecasts

My reentry/buy points

- Vix above 50
- U.S. 10-year below 3.3%

How I can (will) be wrong

- Russian escalation or de-escalation
- The Federal Reserve slows or increases the number of rate hike
- China credit meltdown or gets resolved
- Economic changes to GDP, inflations, USD valuations
- Known unknowns
- Unknown unknowns
- Anything and everything

Final Thoughts

Another bounce may be likely, but a more significant selloff next year is also expected. There are no easy answers, and everything is a guess… The market still looks weak, and there are early signs that there is a global financial crisis in the making.

There are some very low chance high-impact events brewing out there… be careful.

Buy short-term bonds for now…

This is the conclusion of my report!!

I expect my next report to be sent out around January 3rd, 2023. At that time, I will once again attempt to entertain you with my updates, opinions, reflections, lousy grammar, and exceptionally bad poofreading. 😜 – Mark

Appendix 1
Value Stocks

This is a short list of some cheap stocks I like. I also show the expected earnings yield for next year, what it's expected to earn in '23 versus its current stock price (i.e., return on investment), and for those who prefer P/E ratios, I have included those also.

Stock	Symbol	Dividend Yield	Est. Earnings Yield (Earnings/Price)	Forward ('23) P/E
Alliance Resources	ARLP	**7.4%**	26.5%	**3.8**
Suncor Energy	SU	4.9%	21.8%	**4.6**
Carlyle Group	CG	5.0%	16.7%	6.0
Western Digital	WDC	-	16.4%	6.1
Devon Energy	DVN	**10.3%**	16.4%	6.1
ING	ING	**11.6%**	16.2%	6.2
Black Stone Minerals	BSM	**8.0%**	13.9%	7.2
Plains All American	PAA	**8.3%**	13.0%	7.7
Bristol-Myers Squibb	BMY	3.0%	11.2%	8.9
Cigna	CI	1.6%	9.1%	11.0

ARLP is a high reward for moderate risk, and BMY has a good yield for a relativity-safe stock. The longer-term growth forecast for WDC is 20%/year for the next five years is also worth considering.

Appendix 2
High Yield

High yield is a precarious investment by nature. Here is a short list of a few of the high-yield investments I like, along with the current market yield.

Stock	Symbol	Yield	Structure
MPLX LP	MPLX	9.4%	L.P.
Omega Healthcare Investors	OHI	9.1%	REIT
Magellan Midstream Partners	MMP	8.7%	L.P.
Energy Transfer	ET	8.3%	L.P.
Plains All American	PAA	8.3%	L.P.
Innovative Industrial Prop	IIPR	8.1%	REIT
Enterprise Products Partners	EPD	8.0%	L.P.
Black Stone Minerals	BSM	8.0%	L.P.
Alliance Resources^	ARLP	7.4%	Corp
Global X SuperDividend U.S.	DIV	5.9%	ETF

* Are stocks that I own at the time of this publication.
^ Indicates a qualified dividend and may give you a lower tax rate on dividends

This list is small because high yield does poorly as rates go up. Most of these names are energy or mineral plays that may take a severe hit if we go into a hard recession. The one that stands out is OHI, a healthcare REIT.

Most of these investments are not regular stocks and typically don't qualify for special tax treatment under U.S. capital gains rules. Most of these investments are a Trust, Real Estate Investment Trust (REIT), Bond fund, Master Limited Liability Partnership (LLP), Master Limited Liability Partnership (MLP), or other tax landmines. I put these instruments in my IRA rollover to avoid most of these tax headaches, but even that potentially creates some tax burden. Be sure you and your investment (tax) advisor knows what you may be getting into before investing and getting a crazy high tax bill at the end of the year.

Appendix 3
Growth

Here is my short list of high-growth investments and the current projected year-on-year growth, forward Price to Earnings ratio, and analyst annual growth projections for the next five years.

There were many more stocks with good growth, but their charts looked abysmal. The selloff was brutal to all growth stocks; these may have bottomed. If the market is near the bottom, growth is very interesting.

Stock	Symbol	’23 Growth	Forward P/E	5 Yr. Growth
Block (Square)	SQ	**72.2%**	35.5	13.0%
Tesla, Inc.	TSLA	39.3%	45.3	**54.8%**
Chipotle	CMG	30.1%	35.1	**26.1%**
PayPal	PYPL	21.9%	**18.0**	12.9%
Eli Lilly	LLY	18.8%	33.2	18.1%
Etsy	ETSY	18.3%	38.8	-1.7%
Global Payments	GPN*	15.0%	**9.9**	18.8%
Innovative Industrial Prop	IIPR	11.6%	14.6	N/A

SQ offers the best year-over-year growth, while PayPal has a high growth rate at a reasonable P/E. Tesla provides the best long-term projected growth, but I believe CMG offers the best combinations of growth, P/E, and predictability for a long-term investment.

* Indicates stocks that I own at the time of this publication.

Appendix 4
Country ETFs

Economic Growth (GDP) Forecast by Country for 2021

China	8.0%	United Kingdom	4.2%	U.S.	3.2%	Brazil	2.6%
India	7.9%	Indonesia	4.0%	South Africa	3.0%	Israel	2.3%
Vietnam	6.8%	Mexico	3.6%	Turkey	2.9%	Japan	2.3%
France	6.0%	European Union	3.6%	Germany	2.8%	Switzerland	2.2%
Spain	5.0%	Canada	3.5%	South Korea	2.8%	Greece	0.9%
Chile	4.2%	Australia	3.3%	Russia	2.8%	Venezuela	-1.9%

The yields shown below are '21 total returns, including dividends. I only update this section at the beginning of each year.

Country	ETF symbol	2021 Total Return
Australia	EWA	8.55%
Brazil	EWZ	-19.10%
Canada	EWC	**27.41%**
Chile	ECH	-6.01%
China	FXI	-20.10%
EU	VGK	13.57%
France	EWQ	18.35%
Germany	EWG	5.21%
Greece	GREK	3.58%
India	INDA	23.23%
Indonesia	EIDO	3.94%
Israel	ISRA	10.06%
Italy	EWI	11.67%
Japan	EWJ	3.73%
Mexico	EWW	9.97%
Russia	RSX	21.45%
South Africa	EZA	5.11%
South Korea	EWY	-7.49%
Spain	EWP	-0.54%
Sweden	EWD	18.59%
Switzerland	EWL	12.37%
Turkey	TUR	**-27.10%**
UK	EWU	14.52%
USA	SPY	26.67%

The big winner was Canada, with a respectable 27.41% gain last year. With its fairytale economic policies, it shouldn't surprise anyone that Turkey came in last with a loss of 27.1%.

Appendix 5
My Current Portfolio Holdings

Roughly 90% of my portfolio is currently in cash or bonds

Trading Portfolio (Taxed) - *Options, short positions, short-term trades*

Cash
SPY* - Long Iron Fortress and long put spreads
SHY – iShares 1-3 Year Treasury Bond ETF
BSV – Vanguard Short-Term Bond Index Fund
TLT – iShares 20+ Year Treasury Bond ETF

IRAs (Tax-deferred) - *Income and high yield*

SHY – iShares 1-3 Year Treasury Bond ETF
BSV – Vanguard Short-Term Bond Index Fund
TLT – iShares 20+ Year Treasury Bond ETF
GPN – Global Payments (long-term growth)

* Denotes options positions

My to-do-list for printing

I keep a hard copy of this on my desk to remind me of the plan and take notes.

Be ready for a change in direction by the Federal Reserve

Watch

- Watch for expansion or contraction of monetary policy and any other Fed action
- Watch China and clearly Ukraine
- Watch Crude oil
- Watch the VIX
- Watch 10's minus 2's
- Watch Dr. Copper

My buy Signals (subject to change without notification):
- Vix Above 50
- U.S. 10-year below 3.3%

<u>These items should make you reevaluate your assumptions</u>

- Russian escalation or de-escalation
- The Federal Reserve slows or increases the number of rate hike
- China credit meltdown or gets resolved
- Economic changes to GDP, inflations, USD valuations
- Positive inflations news
- Very cold or very warm winter in Europe
- Elections

Adjust all trailing stop losses

Add SHY, BSV, TLT
Buy Chipotle on a dip for a long-term hold
Buy March 300 Puts on the SPY in case, well, just in case, very bad things happen
Add OHI for income
Buy some Healthcare