January 2023 Mark(et) Rush Report
By
Mark Rush

http://traderwasteland.wordpress.com/

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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…

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

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Introduction

What comes next…?

We still have a lot of issues that may or may not resolve themselves this year. The Federal Reserve could have orchestrated a soft landing, or they could have caused a global debt crisis. Will the Fed get inflation under control, or are we in the early stages of a debt spiral? The war in Ukraine could escalate or get resolved. China's new Covid policy could help alleviate supply constraints or have a disastrous impact along with another dozen or so minor known and unknown unknowns.

Anyone who "knows" how this year will turn out is sadly mistaken or a charlatan…. Realistically, this year is a big wild card… it could turn out well, or it may be back to a 2008-like credit issues and stock market declines. Most likely something in between. My only solid prediction this year is that in 2024 it will be easier to make predictions.

This report is more of an update of the last report; the themes and objectives haven't changed much. The Appendixes were thoroughly updated, many names deleted, and several added. The next few months will be tough to get right but let's give it a shot…

All data for this report was gathered and compiled on the January 1st, 2022 weekend. Prices, ratios, indexes, and outlooks may have changed materially since that time. For those who may want a shorter version of this report, please feel free to jump to Chapter 6 and look at the investment ideas in the Appendixes.

Mark

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Chapter 1
Considerations

War

The war is going badly for Russia, and the west keeps providing ever-increasingly sophisticated weapons and funding. Russia has had several attacks on military targets in its home territory, and the tempo is increasing. Western aid now exceeds the entire budget for the Russian military.

Last year I was concerned about poking the bear. I am now apprehensive about backing the bear into a corner and hitting it repeatedly with a 2x4. The Russians are running out of options… Either Vlad resigns to prison or Russia uses the world's largest nuclear arsenal to end the conflict.

I would immediately buy the market if Vlad resigns to a gulag or retires via a third-story window. I expect a 10-20% drop in global stock markets if nuclear weapons are tested via underground test detonation within Russia. If nuclear weapons are used in Ukraine, expect a 20-30% drop in global stock markets. If nuclear weapons are used in Ukraine, and the western rhetoric continues to escalate, I would expect a 30-60% drop in global stocks. If nuclear weapons are used against the United States, I expect U.S. markets to drop by 100%, and China will inherit the planet.

This event will likely resolve itself this year… How and the direction is unknown

Global Economy

I'm frankly astounded by how well the global economy is holding up. Global GDP Growth projections for 2022 were at 5.0% in late 2021 but finished 2022 at 3.2%. I expected it to slow to 2.2% in 2023, but now we are only looking at 1.6% global growth this year. The war, residual supply chain issues, rapid spreading of Covid in China, inflation, higher interest rates, and high oil prices have struck several blows to the Global Economy.

Global GDP growth in 2023 is forecast only to gain 1.6% this year. Developed Market growth is forecast at 0.8%, U.S. growth is forecast at 1%, Euro Area growth is projected to come in at 0.2%, China's economy is forecast to grow at 4.0%, and Emerging Market growth is forecast at 2.9% in 2023

The global economy has softened and will likely continue softening

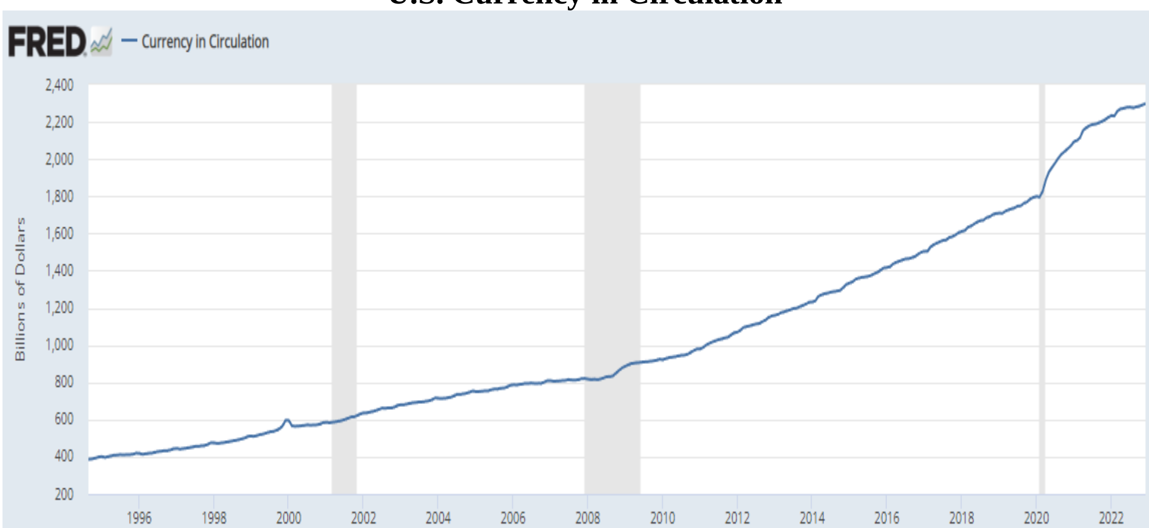
Inflation, The Fed, and Interest Rates

According to the Federal Reserve rate projections, they should stop hiking interest rates soon. Stopping the rate hikes should help the market. The question becomes how much effect the previous rate hikes had on the economy. How much inflation was triggered by monetary policy, the war, China lockdown, or the shrinking labor pool? There are a lot of unknowns here, and I'm not sure anyone has the answers.

We can debate the impact of one component of current inflation; the amount of U.S. currency in circulation has increased from ~$0.55 trillion in 2000, almost doubling by 2010 to ~$1.00 trillion. By 2020 it had nearly doubled again to $1.80 trillion; in the past three years, it ballooned 30% to ~$2.30 trillion. In the past 23 years, we have put 400% more currency into circulation.

Below is a simple chart to explain at least a portion of current inflation.

U.S. Currency in Circulation

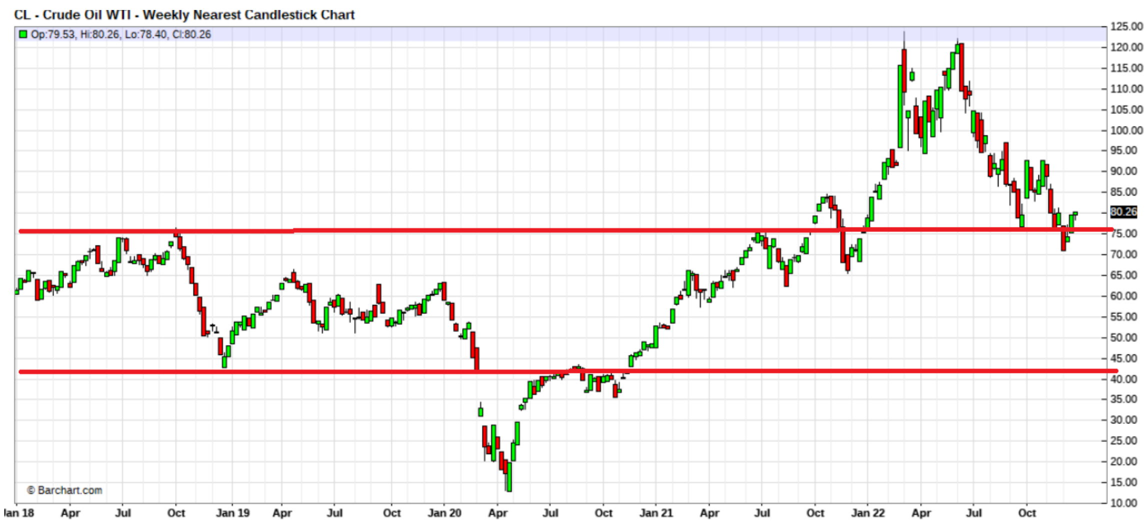


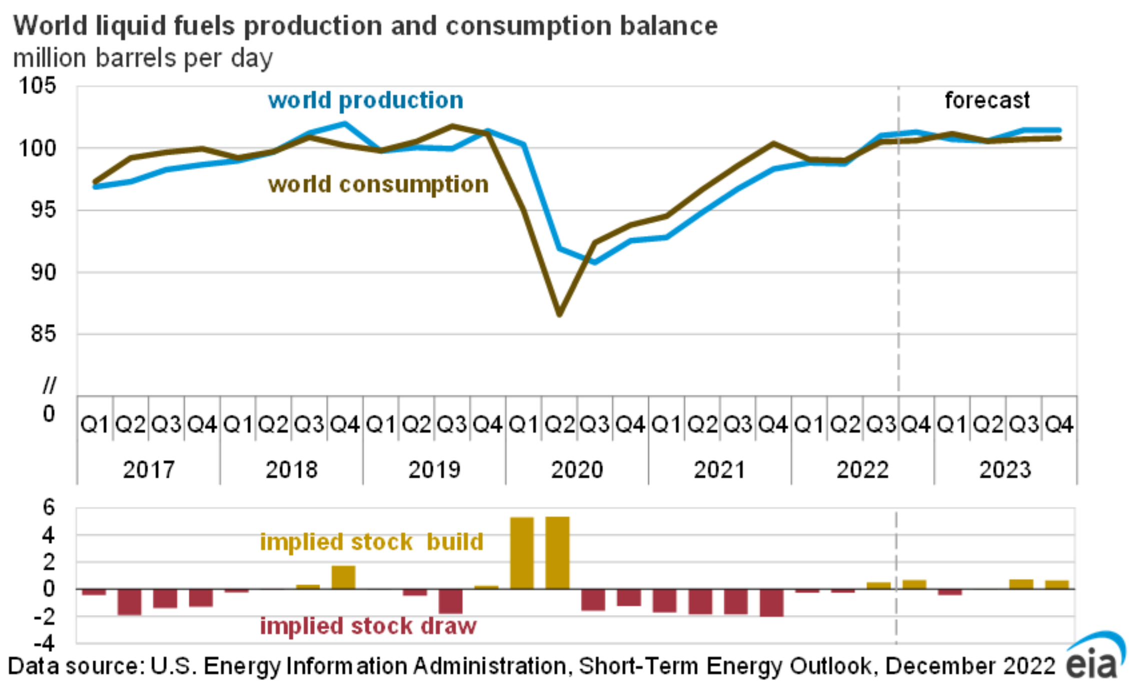
Higher inflation is bad for the market in the short run

Global Energy Crisis

The Ukrainian war, or more accurately, the sanctions on Russia from the war, complicates the current economic situation. Energy supply is coming in line but still slightly above the pre-Covid range of $42.5-$75/bbl.

If China opens and western economies avoid recession, oil will likely rise. If the war in Ukraine ends or a global recession, oil will go down. I expect oil to fall for the next couple of months until China gets the wave of current covid infections behind them.





Oil is still on the high side of the “normal” range

China Covid Policy

China has shelved its zero covid policy, and it appears the virus is running wild in China. The exact extent is hard to know because the official numbers are wildly out of line with western estimates. Chinese report roughly 5,000 new daily cases of the virus, with 20 in the past month, so there is fewer than one death per day. Some Western estimates suggest more than 25,000,000 new cases per day, with 9,000 deaths per day.

If western estimates are correct, China may slow economic output for the next few weeks until the virus runs its course. By March, the virus should have spread sufficiently to provide some degree of herd immunity. The real danger is that a new crazy variant comes to fruition and spreads around the globe.

We may see a drop in products coming from China, supply chain woes, and falling oil and commodity prices into Spring. If those drop during this pandemic, I think that is likely a buying opportunity for Chinese companies, energy, and commodities.

Virus outbreaks are always bad

Chapter 2
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 (3,839.50)

This chart is still trending negatively but not as bad as it was. I don't see any solid support for the market until 3400 (-11.5% more) and much more robust support at 3000 (-21.9%). It is possible, but unlikely, that we head toward 2600 (-32.3%).

The chart looks like there is more downside to come.

U.S. 10-Year Bond Rates

Rates are on an upward trend; something will give or break 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% from the peak, but some of that is offset by its 7% yield. An odd fact to ponder…

Since this instrument is tied to the inflation rate, lower inflation will make this yield drop, so the 7% may be temporary. Longer-term, Tips are worth watching.

This is predicting a massive drop in inflation, possibly a recession…

Crude Oil

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

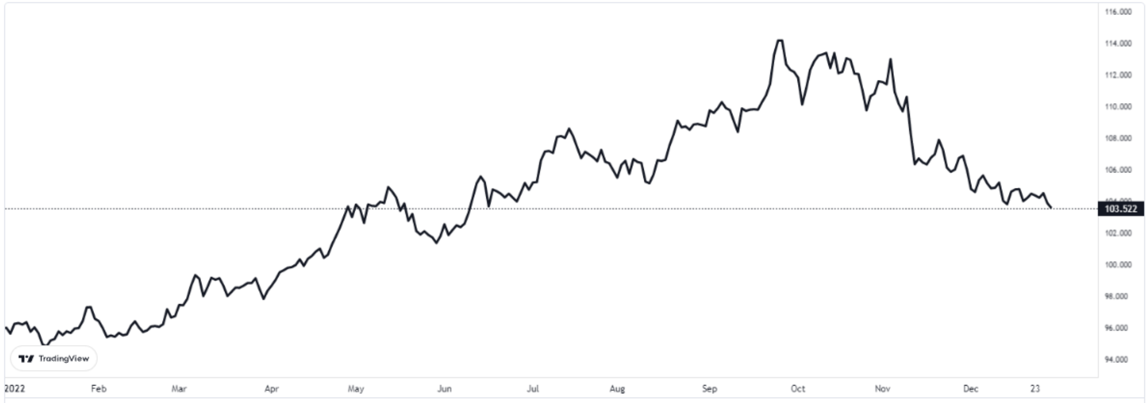
Copper

They say Dr. Copper has a Ph.D. in economics… it looks like copper is treading up? The chart probably indicates demand in China over the next few months.

European Natural Gas

The price of European natural gas collapsed as record warmth hit the continent, as predicted by the weather models.

U.S. Dollar



The dollar has weakened, which will help exports and stabilizes global debt.

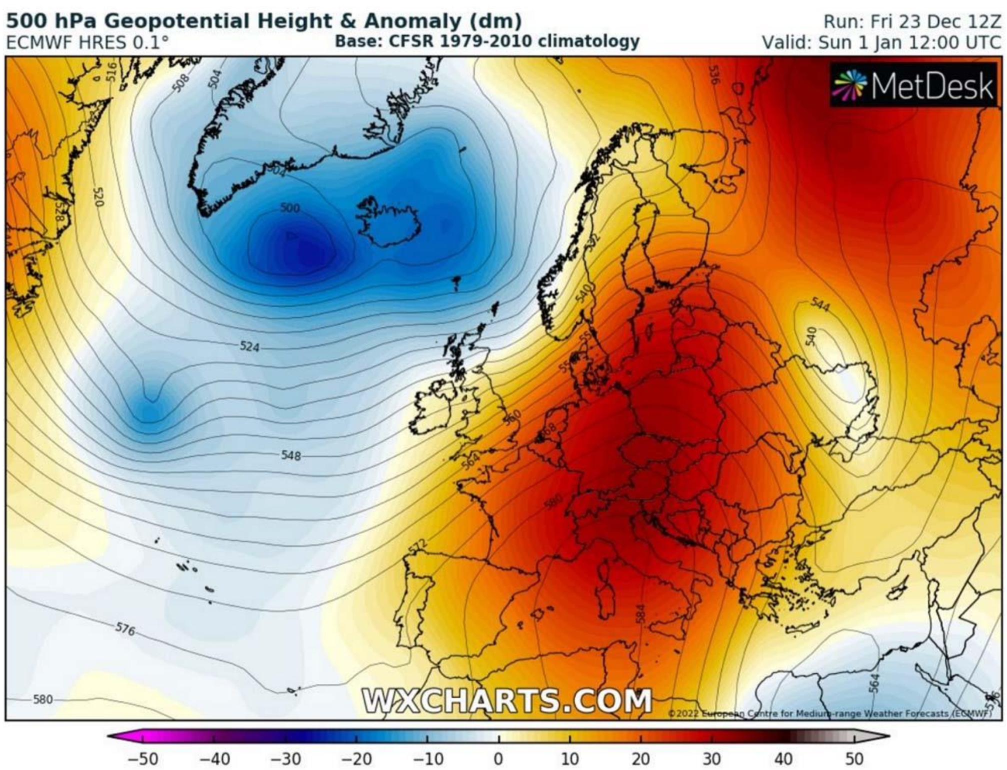
Wheat

Wheat seems to have stabilized…

Euro

The Euro may have bottomed, and the warm winter is good for their currency

European Winter Weather



The models predicted a warmer Europe this winter, and so far, this is what they got. The weather has possibly saved the day by reducing heating needs.

Conclusions:

S&P 500: Mostly a downtrend; the trend is shallower than the first half of 2022, and a bounce is possible.

Rates: Still trending up currently, a likely possible break to the downside.

Tips: Down, therefore this may mean lower inflation or just a recession

Oil: It seems to be treading down, which is good for the market but may indicate a recession.

Copper: It has stabilized and is possibly beginning a slight upward trend. This is a significant indicator this year. The opening up of China should be good for copper.

European Natural Gas: has returned to mostly normal prices due to a warm winter. This means European industry did not have to shut down this winter, boosting European and global GDP forecasts. It also means no pressure on the Europeans to resolve the Ukrainian war.

U.S. Dollar weakness: The Fed has slowed its rate rise to something more manageable.

Wheat: Russia is finding ways to avoid the sanctions. These factors may save millions from starvation this year.

Euro: They dodged a bullet…

Overall conditions have improved since the last report.

Chapter 3
The Fundamental Indicators

Economic Projections

The *headline numbers were my predictions at the beginning of 2022; these predictions may now be laughably wrong.*

US Gross National Product (GDP) > 4.0% by the end of 2022 (Actual 1.9%)
US Gross National Product (GDP) > 1.0% by the end of 2023

Global GDP Growth projections were at 5.0% for 2022 but are already down to 1.6% for 2023. Issues in Ukraine, China, Fed policy, and other factors may weaken it further.

The GDP projections are falling, and recession is likely

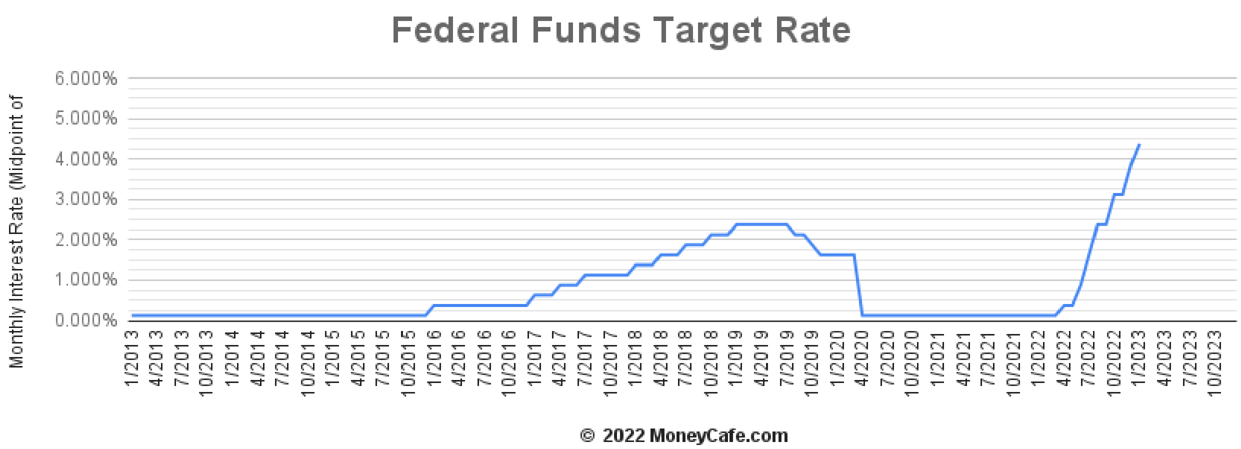
Unemployment will be < 4.0% by the end of 2022 (Actual 3.7%)
Unemployment will be > 4.0% by the end of 2023

The official unemployment rate was stable at 3.7% for November, down from 4.2% last year. It looks like it is bottoming and likely to go up…

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

Federal Reserve rates will be 1.00 - 1.50% by the end of 2022 (Actual 4.25 - 4.50%)
Federal Reserve rates will be < 5.00% by the end of 2023

I was projecting more rate hikes than the common wisdom at the beginning of 2022, but I wildly underestimated the number and duration of the hikes. I believe we are near the end of rate hikes.

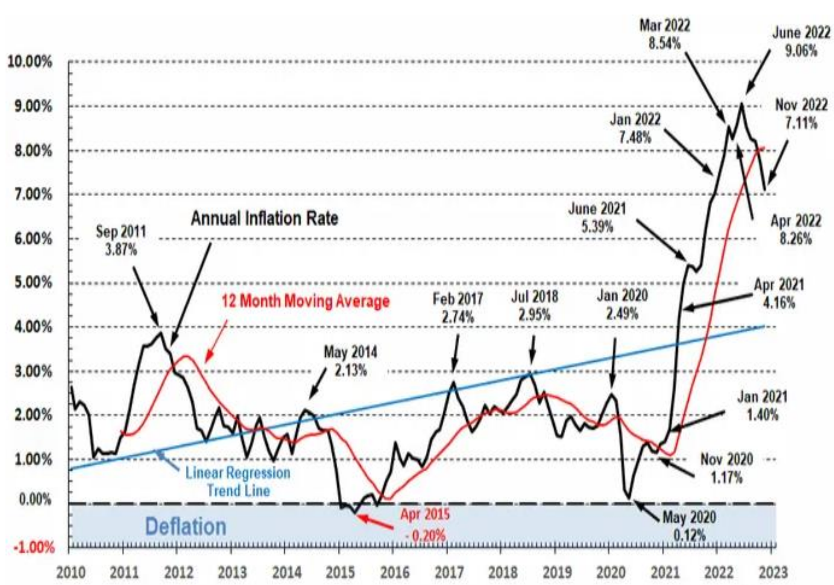


Rising rates are alarming for the market

Inflation < 4.0% in 2022 (Actual 7.11%)
Inflation < 4.0% in 2023

The latest inflation was an annual rate of 7.11%. We have likely saturated the money supply; I expect inflation to come down to 4% this year, but I think something in the 4% range is the new normal due to excessive U.S. debt levels.

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



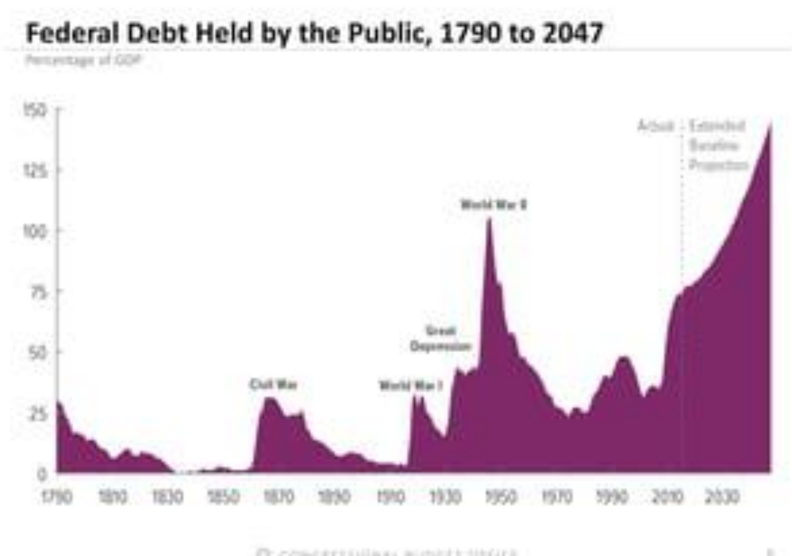
Current inflation is high; longer-term, it is another known unknown

S&P 500 index < 5000 at the end of 2022 (Actual 3839.50)
S&P 500 index > 4000 at the end of 2023

The S&P 500 index started 2022 at 4766.18. We are currently at 3,839.50 for a 19.4% loss this year. I believe we will go lower this year, but I expect it to bounce back above 4000 in the second half of this year.

The markets are trending down, and the direction by year-end is anyone's guess

<1.8 Trillion Dollar Budget deficit for F.Y. 2022 (Actual 1.4T)
>1.2 Trillion Dollar Budget deficit for F.Y. 2023



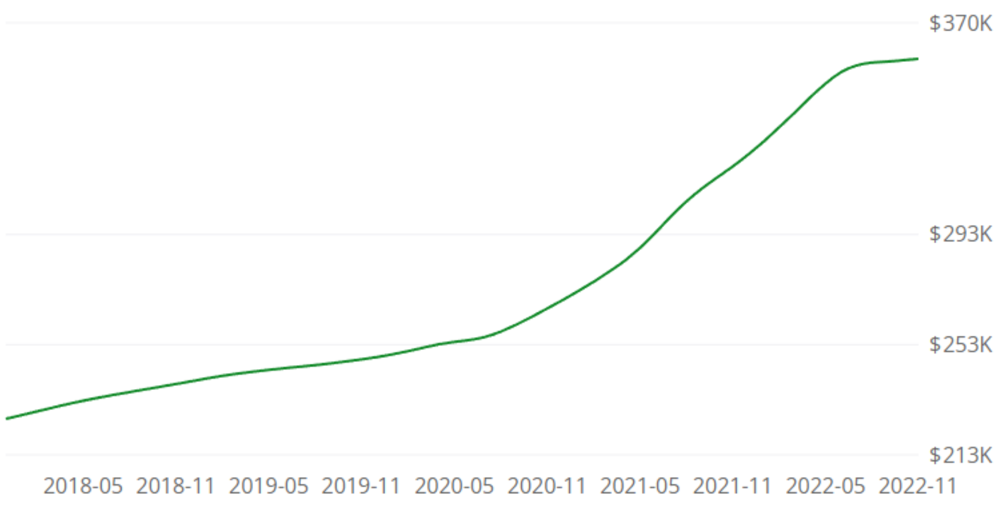
The debt spiral had already begun; the pandemic has only accelerated it.

Real Estate Average Home <$350k in 2022 (Actual $358k)
Real Estate Average Home <$325k in 2023

The 30-year mortgage rate is up from 3.02% at the beginning of 2022 to around 6.67%. The 2022 housing prices started at $316.4k and are now about $358k for a 12.5 % rise in one year. 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 year*. 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.

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

Chapter 4
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.

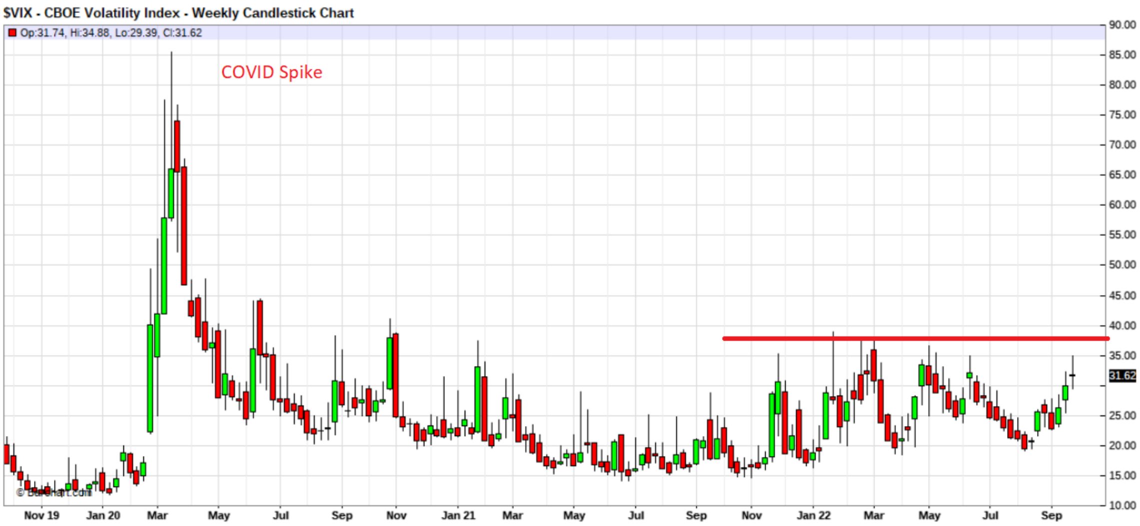
Model Portfolio and other technical indicators (+100% = strong buy; -100% = strong sell)

U.S. ETFs	12/31/21	7/1/22	1/1/23	Link
SPY	+100%	-100%	-72%	http://www.barchart.com/opinions/etf/SPY
QQQ	+96%	-100%	-100%	http://www.barchart.com/opinions/etf/QQQ
IWM	-24%	-100%	-88%	http://www.barchart.com/opinions/etf/IWM
International				
EFA	-72%	-100%	+56%	https://www.barchart.com/etfs-funds/quotes/EFA/opinion
EEM	-88%	-100%	-24%	http://www.barchart.com/opinions/etf/EEM

Bonds	12/31/21	7/1/22	1/1/23	Link
TLT	+64%	-88%	-72%	http://www.barchart.com/opinions/etf/TLT
SHY	-100%	-72%	-56%	http://www.barchart.com/opinions/etf/SHY
Gold/Oil/Dollar Index/Euro/Yen				
GLD	+56%	-72%	+56%	http://www.barchart.com/opinions/etf/GLD
USO	+64%	+56%	-72%	http://www.barchart.com/opinions/etf/USO
UUP	+80%	+100%	-56%	http://www.barchart.com/opinions/etf/UUP
FXE	-88%	-100%	+72%	http://www.barchart.com/opinions/etf/FXE
FXY	-100%	-100%	+56%	http://www.barchart.com/opinions/etf/FXY
Volatility Index (a positive number is bad for the markets)				
VIX Index	+16%	+32%	-100%	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

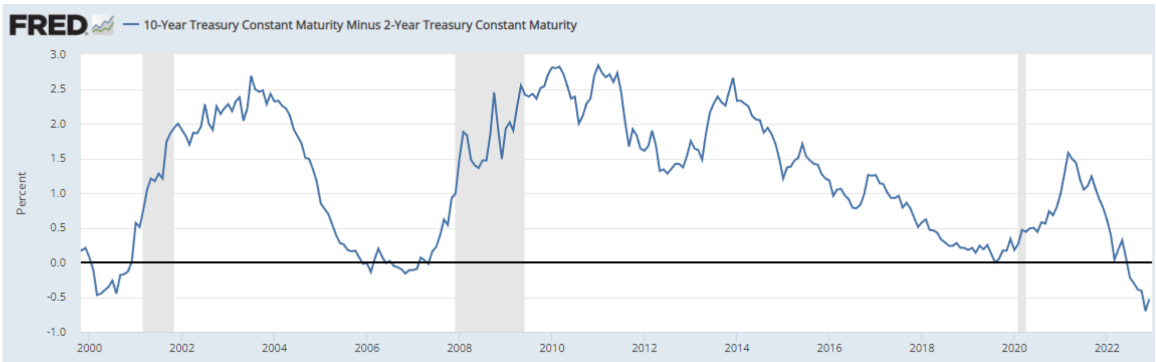
The German 10-year bond was at -0.179% at the beginning of 2022 and now has jumped to +2.57%. Those crazy Germans are demanding a return for loaning money to the government.

German 10-Year Bond Yield

I'm not sure what to make of this…

Ten's minus Two's

A good recession indicator is the difference between the U.S. 10-Year Treasury Yield and 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 (a vertical grey area) 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 recent reading of -0.70 was the most negative since the 1980s…

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

Technical Summary…

The worst for Europe (EFA, Euro) may be behind us. The dollar is weakening, so things based on the dollar are falling. The indicators tell me to invest in "things that are not based on dollars." it's been a while since I've said this, but Europe may be a decent speculative trade this year.

The indicators are "Risk-off" except for EFA, Gold, Euro, and Yen

Chapter 5
Mark's Model ETF Portfolios

Asset Allocation

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

U.S. large-company funds:	**Stock Market Symbol**
S&P 500 fund	**SPY**
Nasdaq 100 (Tech) fund	**QQQ**
Dow Jones Industrial Average fund	**DIA**
Vanguard value fund	**VTV**
U.S. small-company fund:	
Russell 2000 small U.S. company fund	**IWM**
International company funds:	
Europe, Australasia, and Far East	**EFA**
Emerging Markets Fund	**EEM**
Fixed Income (Bond) funds:	
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**
Short bond term fund (cash):	
iShares 1-3 Year U.S. Treasury Bonds	**SHY**

Allocation of Portfolio by Risk Level

	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	1/1/23 price	Yield Rate (Est.)	2022 Gain w/ Dividend
S&P 500 fund	SPY	$474.96	$382.43	1.65%	-18.15%
Nasdaq 100 (Tech) fund	QQQ	$397.85	$266.28	0.80%	-32.53%
Dow Jones Industrial Average fund	DIA	$363.32	$331.33	1.91%	-7.06%
Vanguard Value fund	VTV	$147.11	$140.37	2.52%	-2.18%
Russell 2000 Small-Cap fund	IWM	$222.45	$174.36	1.48%	-20.46%
Europe, Australasia, and Far East fund	EFA	$78.68	$65.64	2.69%	-14.33%
Emerging Markets fund	EEM	$48.85	$37.90	2.50%	-20.48%
20+ Year U.S. Treasury Bond fund	TLT	$148.19	$99.56	2.68%	-31.01%
7-10 Year U.S. Treasury Bond fund	IEF	$115.00	$95.78	1.98%	-15.07%
U.S. Aggregate Corporate Bond fund	AGG	$114.08	$96.99	2.39%	-12.95%
Investment Grade Corporate Bonds	LQD	$132.52	$105.43	3.30%	-17.82%
1-3 Year U.S. Treasury Bond fund	SHY	$85.54	$81.17	1.08%	-4.09%

RESULTS	Low Risk	Balanced	Growth	Aggressive
’22 Return	-16.80%	-16.95%	-17.23%	-17.59%
’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	**5.86%**	**6.32%**	**7.62%**	**7.48%**

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 6
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
- Warm weather in Europe preventing the European economy from shutting down
- Fed rate hikes are nearing their endgame

The Bad
- Rising interest rates
- Millions of Chinese are getting infected by covid each day
- 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 smacking the bear armed with thousands of thermonuclear weapons
- Potential for an above-ground nuclear “test” by the Russians outside their territory
- Potential for a Fed-induced global financial crisis
- Unsustainable Federal, State, and local debt
- A populous that doesn’t understand how their basic needs are fulfilled
- 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 3.88%, while the 2-year rate is at 4.41%. The 10’s minus 2’s is at -0.53%. As rates increase, some will want that guaranteed 4-5% 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 -3%.

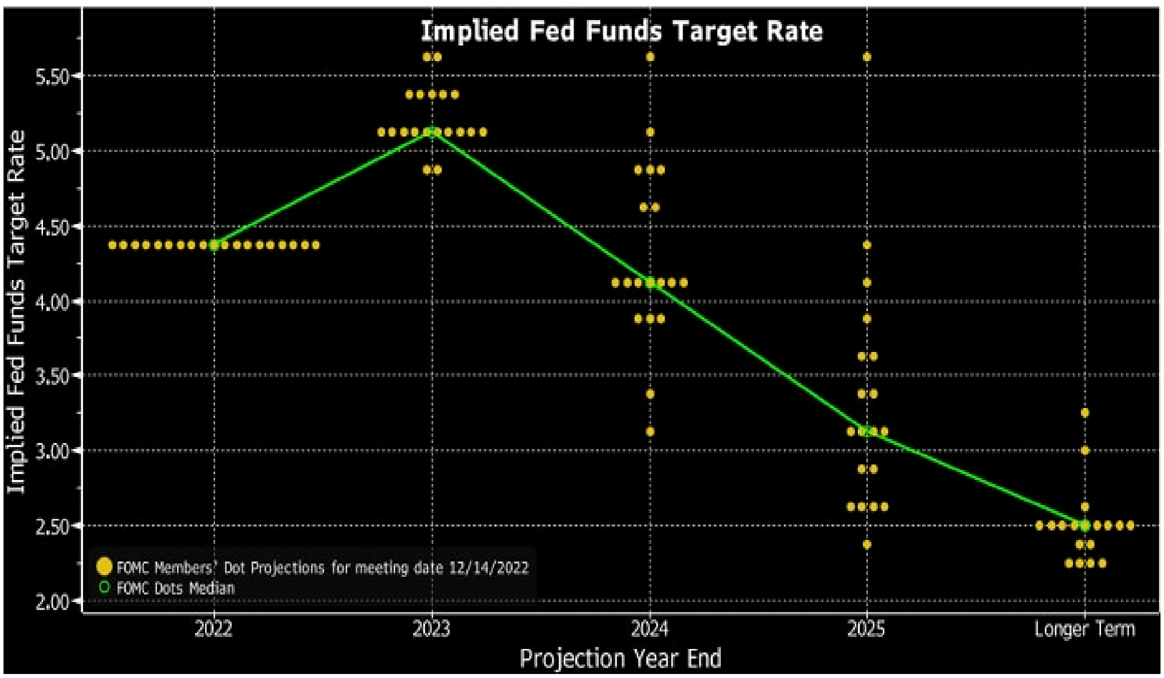
We should be on the cusp of seeing a pause in inflation in the next few months. The commodities market has already signaled falling prices, and the bond market has already signaled an economic slowdown. Don’t be surprised if we see a low single-digit or slight negative headline inflation in the coming 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 likely 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 ahead of the imminent brutal recession.

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 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?

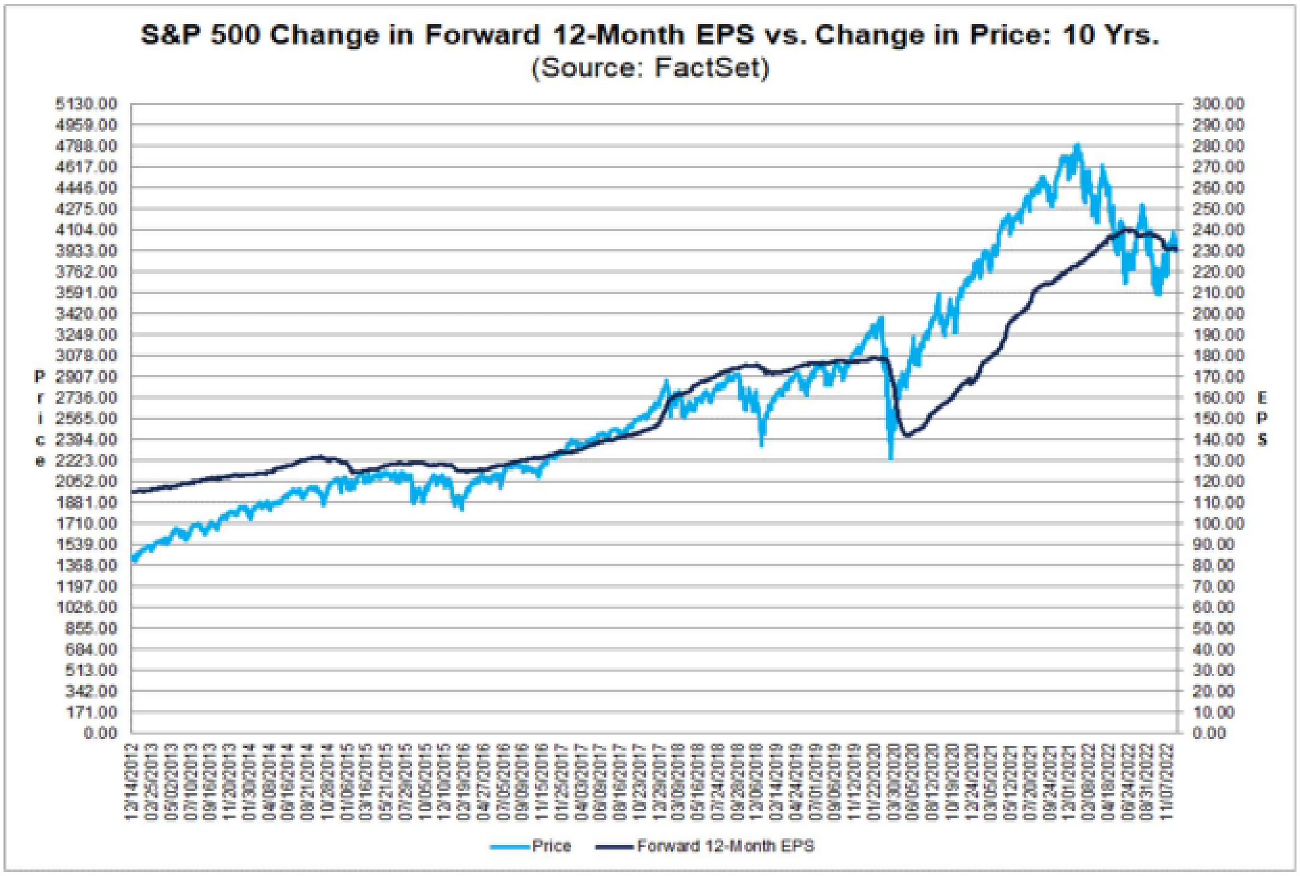


Assuming the Fed can predict the future, we could see high interest rates for at least the next two years.

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. Also, fair value was calculated with a much lower interest rate.

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

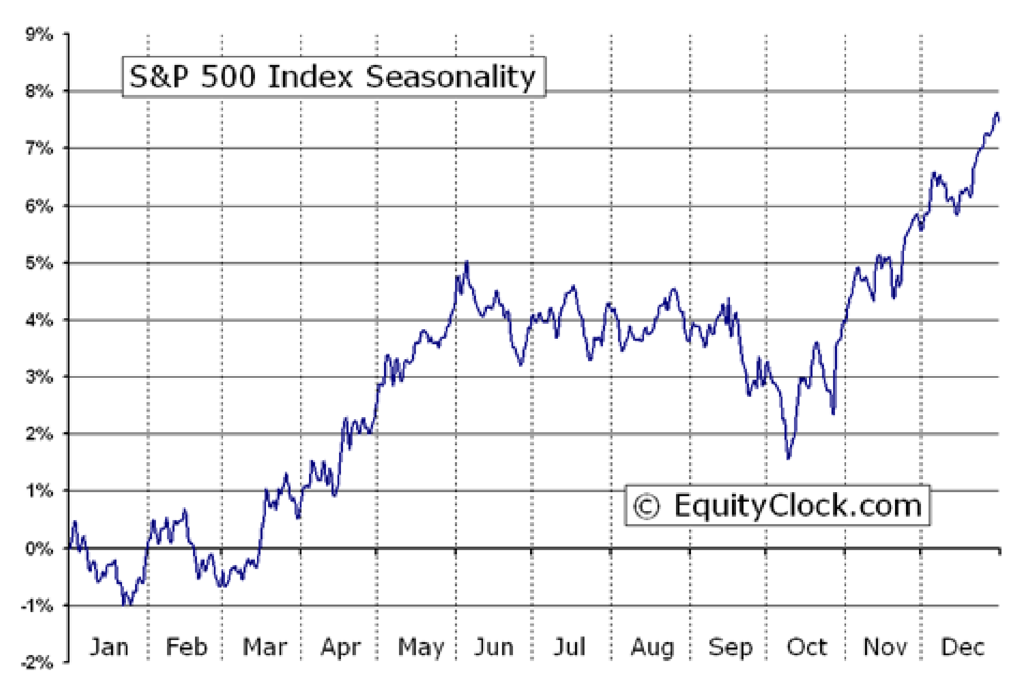


With my expectations that earnings will fall due to a recession, higher rates, and a strong dollar, this chart still points to a lower market. I expect a drop into the 3000-3400 range on the S&P 500. The question at that time is this a buying opportunity. I am unsure.

Valuations are still high but better

Seasonality

We are now in a time when the market tends to drop and hit bottom over the next couple of months, then bounce. I expect an upmarket in the Spring lasting several months. I expect 4-8 weeks of a falling market, especially around earnings season. This thesis will need to be revisited frequently.



The markets have been historically down until mid-March

The plan (subject to change without notification):

Let's review my assumptions before digging into the plan.

My Q1'23-Q3'23 assumptions

- Moderate to bad recession in the second half of 2023
- Earning forecasts will continue to drop
- Easing inflation to -5% to +5% range
- Ukrainian war escalation in the Spring
- China slows down due to Covid through March but has a strong comeback
- Fed Pauses by the March meeting
- Bonds top out at around 4.5%
- Housing semi-collapses but very slowly
- Supply chain stable with slight improvement with lower demand in Spring
- Labor tightness eases but keeps a relatively low unemployment

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 chance of a global recession and potentially 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 six months. Using seasonality, fundamentals, and technical analysis, what I am expecting goes something like this for the next nine months.

S&P grinds down to 3000-3400 by March
The Fed pauses and/or a positive (lower) inflation report
A March through June market bounce… (back to 3400-3800)
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.

<u>The safe play…</u>

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?

Most of my portfolio will be in short-dated U.S. bonds, with some in longer-dated U.S. bonds for the next 2-4 months. 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 5, 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.

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, my investments will stay there for several months. To be safe, these investments will 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 15-25% gain with the TLT in the next twelve months. It's not often I can say that with bonds…

The only significant risk with bonds is if inflation keeps increasing despite Fed action, which causes rates to continue upward. Under most other situations, U.S. Government bonds will come out ahead except in a continuing inflation scenario.

Black Swan Event (BSE)

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
- Covid mutating unfavorably

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

Longer-Term plans (After March of 2023 or October 2023 selloff)

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

Outline

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

- Growth
  - CMG
  - BKNG

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

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.

Buy

- LLY
- SPY puts, put spreads, put butterflies
- BSM
- ARLP
- AMLP
- SPXS as an offset

Sell

- OHI
- STR
- GPN
- IIPR

Watch

- JEPI
- MO

Prepare to buy (after the selloff)

- CMG
- BKNG
- JD
- BABA
- TQQQ

Watch for…

- 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

How I can (will) be wrong

- Russian escalation or de-escalation
- The Federal Reserve increases the number of rate hike
- China credit meltdown
- Virus lingers in China, sustained through summer
- The virus mutates again
- Economic changes to GDP, inflations, and USD valuations
- Known unknowns
- Unknown unknowns
- Anything and everything
- Odds are I will be…

Final Thoughts

A bounce is possible, but a selloff this year is what is trending currently. 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 also signs of light at the end of the tunnel.

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

Short-term bonds for the safe play!

Have a list ready of beaten-down stocks….

This is the conclusion of my report!!

I expect my next report to be sent out around April 4th, 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	**9.6%**	**30.8%**	**3.2**
Citizens Financial	CFG	4.3%	13.2%	7.6
Black Stone Minerals	BSM	**10.7%**	12.6%	7.9
ING	ING	2.8%	12.1%	8.3

This list is short since my criteria are low P/E, favorable to neutral momentum, and year-over-year earnings growth. With a down market and lower earnings forecast, it was hard to find any recommendations.

ARLP is a high reward for moderate risk, but I'd call it speculative, and BMY has a good yield for a modest-risk stock but is still a commodity play, so modest risk.

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
Black Stone Minerals	BSM	**10.7%**	L.P.
JPMorgan Premium Income	JEPI	10.6%	ETF
Alliance Resources	ARLP	9.6%	Corp
MPLX LP	MPLX	9.6%	L.P.
Energy Transfer	ET	8.9%	L.P.
Altria	MO	8.2%	Corp
Enterprise Products Partners	EPD	7.9%	L.P.
Plains All American	PAA	7.4%	L.P.
Alerian MLP ETF	AMLP	7.3%	ETF
Hess Midstream LP	HESM	7.3%	L.P.
Vector Group	VGR	6.8%	L.P.
Global X SuperDividend U.S.	DIV	6.3%	ETF
Amplify Enhanced Div Income	DIVO	4.6%	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

Many high-yield investments held up despite rising interest rates. If rates were to go down, these instruments would see price appreciation.

I highlighted the most interesting based on risk vs. reward in my subjective view. The lazy trade is buying the AMLP and paying the fees to own a basket with several decent names.

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	**58.9%**	37.0	15.2%
Chipotle	CMG	**28.9%**	32.2	**27.4%**
JD.com	JD	**26.8%**	18.5	4.6%
Booking Holdings	BKNG	**26.6%**	**16.4**	**50.9%**
PayPal	PYPL	16.9%	**14.9**	11.4%
Alibaba Group	BABA	16.8%	**9.9**	0.4%
Tencent Holdings	TCEHY	11.1%	21.2	2.0%
Baidu	BIDU	8.9%	**12.0**	0.5%
Eli Lilly	LLY	7.3%	43.9	**18.5%**

S.Q. offers the best year-over-year growth, while PayPal has a high growth rate at a reasonable P/E. I believe CMG and BKNG offer 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

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

Country	ETF symbol	2022 Total Return
Australia	EWA	-5.44%
Brazil	EWZ	**13.36%**
Canada	EWC	-12.25%
Chile	ECH	**22.63%**
China	FXI	-18.83%
EU	VGK	-15.22%
France	EWQ	-11.31%
Germany	EWG	-21.28%
Greece	GREK	2.95%
India	INDA	-8.41%
Indonesia	EIDO	-0.52%
Israel	ISRA	-25.80%
Italy	EWI	-13.13%
Japan	EWJ	-16.99%
Mexico	EWW	3.22%
Russia	RSX	Delisted
South Africa	EZA	-3.09%
South Korea	EWY	-26.39%
Spain	EWP	-4.6%
Sweden	EWD	-26.78%
Switzerland	EWL	-17.53%
Turkey	TUR	**105.1%**
UK	EWU	-4.35%
USA	SPY	-18.14%

The big winner was Turkey, with a respectable 105.1% gain last year.

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
SPXS – Tripple short S&P 500
SHY – iShares 1-3 Year Treasury Bond ETF
BSV – Vanguard Short-Term Bond Index Fund

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

Cash
SHY - Short-term US Bond fund
TLT – iShares 20+ Year Treasury Bond ETF
SPXS - Triple short S&P 500

STR - Sell
GPN – Sell
IIPR – Sell

* Denotes options positions

My to-do-list for printing

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

Watch

- Watch for expansion or contraction of monetary policy and any other Fed action
- Watch China Covid impact
- 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 3.25%

<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
- A China covid situation
- Positive inflations news

Adjust all trailing stop losses

Add SHY, TLT
Sell IIPR, OHI, STR
Buy BSM, ARLP, AMLP
Buy Healthcare (BMY, LLY)
Buy put or put spreads on SPY for a Black Swan Event (BSE)
Buy Chipotle on a dip for a long-term hold
Buy June 300 puts on the SPY in case, well, just in case, very bad things happen
Buy some Healthcare
Buy China, oil, and commodities on a Covid-induced dip in China…