



Turning Point Analytics utilizes a time-tested, real-world strategy that optimizes the client's entry and exit points and adds alpha. TPA defines each stock as Trend or Range to identify actionable inflection points.

*"In the short run, the market is a voting machine, but in the long run, it is a weighing machine."* - Benjamin Graham

## WORLD SNAPSHOT – COMMENTS & CHARTS

Thursday, May 27, 2021

General comments first and macro tables at the bottom. [Links for Explanations of Technical terms at the bottom of the report.](#)

### REASONS TO BE CAUTIOUS. MITIGATING FACTORS. SIGNALS TO WATCH FOR REAL PROBLEMS.

Since March 23, 2020, the U.S. stock market has enjoyed a consistent rally. The S&P500 is up 87% since the Covid-19 March 2020 panic low. Many investors, money managers, strategists and analysts are rightfully concerned about the rally's longevity and the levels of equity prices. Examining the measures TPA has used for over a decade, TPA is also concerned. At the same time, TPA is mindful that many mitigating factors are supporting the current rally. Some of these factors are historic. In this report, TPA will examine why clients are justified to be cautious, while acknowledging the factors that have and do support stock prices. Finally, TPA will provide signposts that clients should monitor to determine when the likelihood of a sell-off will increase.

#### **CONTENTS:**

##### **Caution**

1. Historically high valuations
2. Bubble characteristics
3. The level of margin used by stock investors is at a historic high

##### **Mitigating factors**

1. Reduced number of shares for investors to buy
2. FED activities
3. Fiscal stimulus
4. Low rates

##### **What to watch for that things are changing**

1. FED tapering or tightening
2. House price declines
3. Sustained weakening in consumer demand
4. Technicals.
  - Sustained risk-off signals
  - 50 DMA's of the major indexes starting to decline
  - Earnings announcement show negative price bias
  - Junk Bond Risk premium widening

Explained in depth below.

### Caution

*This report will outline many of the measures that worry strategists and analysts. Among those worries are:*

1. **Historically high valuations** exist; examining Price to Book Value over the past 18 years. The table below examines Price the Book Value for the U.S. broad market categories, large-cap sectors, and small-cap sectors. TPA examines the current Price to Book Value and determines standard deviations away from the mean for today's values. TPA looks at the entire 18-year period, the most recent 10 years, and the most recent 5 years. TPA has been doing this for clients for years.
  - The first observation is that many of today's Price to Book Values are at statistical extremes historically.
  - In particular, Large-Cap, Large-Cap Growth, and Large-Cap Value are 2.32, 2.09, and 2.40 standard deviations above the 18-year mean.
  - Large-Cap TECH and Consumer Discretionary stocks are 1.80 and 1.66 standard deviations above the 18-year mean.

### PRICE/BOOK VALUE HISTORICALLY - SUMMARY

5/26/2021

	TODAY	ALL YEAR AVERAGE	ALL YEAR STD DEV	ALL YEAR LOW	ALL YEAR HIGH	ALL YEAR CURRENT STD DEV FROM AVG	10 YR AVERAGE	10 YR STD DEV	10 YEAR CURRENT STD DEV FROM AVG	5 YR AVERAGE	5 YR STD DEV	5 YEAR CURRENT STD DEV FROM AVG
<b>U.S. BROAD MARKET CATEGORIES</b>												
LARGE CAP	4.42	2.86	0.67	1.98	4.42	2.32	3.27	0.58	1.99	3.64	0.62	1.27
LARGE CAP GROWTH	12.09	6.11	2.85	2.90	12.09	2.09	7.93	2.63	1.58	9.95	2.22	0.96
LARGE CAP VALUE	2.73	1.89	0.35	1.40	2.73	2.40	2.05	0.32	2.14	2.18	0.42	1.34
SMALL CAP	2.75	2.08	0.35	1.47	2.75	1.93	2.17	0.33	1.74	2.20	0.46	1.19
SMALL CAP GROWTH	5.93	3.93	1.04	2.24	6.52	1.92	4.49	1.00	1.43	4.93	1.29	0.77
SMALL CAP VALUE	1.85	1.42	0.25	0.99	1.90	1.71	1.42	0.25	1.72	1.39	0.34	1.35
<b>RUSSELL 1000 SECTORS</b>												
UTILITIES	2.30	1.93	0.67	1.56	2.30	0.55	2.09	0.18	1.17	2.09	0.21	1.01
FINANCIAL	1.65	1.45	0.53	0.98	1.89	0.37	1.61	0.18	0.24	1.57	0.22	0.35
MATERIALS	3.58	2.83	1.05	1.73	3.65	0.72	3.00	0.53	1.09	2.89	0.54	1.28
HEALTHCARE	5.25	3.73	1.50	2.40	5.25	1.01	4.34	0.53	1.70	4.71	0.46	1.19
ENERGY	1.84	1.72	0.64	0.88	2.10	0.19	1.58	0.36	0.72	1.39	0.37	1.24
TECH	9.95	5.08	2.71	2.60	9.95	1.80	6.18	2.25	1.67	7.97	1.73	1.14
STAPLES	5.23	4.46	1.62	3.24	5.45	0.48	4.95	0.50	0.57	4.73	0.43	1.16
DISCRETIONARY	8.55	4.71	2.31	2.27	8.55	1.66	5.73	1.55	1.83	6.75	1.63	1.11
DURABLES/IND	5.85	3.79	1.60	2.24	5.85	1.29	4.46	0.76	1.83	4.86	0.84	1.18
<b>RUSSELL 2000 SECTORS</b>												
UTILITIES	--	7.47	12.65	1.59	46.36	--	10.95	15.99	--	19.68	19.61	--
FINANCIAL	1.32	1.30	0.46	0.96	1.59	0.03	1.33	0.23	-0.06	1.17	0.20	0.76
MATERIALS	2.52	2.11	0.82	1.32	3.01	0.50	2.29	0.48	0.49	2.08	0.42	1.07
HEALTHCARE	5.44	4.15	1.73	2.65	7.01	0.75	4.74	0.98	0.71	5.19	1.16	0.21
ENERGY	1.43	1.24	0.62	0.37	2.15	0.31	0.98	0.39	1.14	0.91	0.37	1.40
TECH	4.66	2.95	1.24	1.42	4.66	1.38	3.36	0.72	1.81	3.70	0.89	1.08
STAPLES	3.46	2.53	0.96	1.58	3.46	0.96	2.74	0.41	1.75	2.84	0.51	1.19
DISCRETIONARY	3.85	2.61	1.02	1.55	3.85	1.22	2.75	0.61	1.79	2.69	0.86	1.35
DURABLES/IND	3.00	2.10	0.78	1.51	3.00	1.15	2.26	0.41	1.81	2.33	0.55	1.21

2. **Bubble characteristics** exist that previously existed right before a market bubble burst. A recent WSJ/Marketwatch article outlines that the current rally checks many of the boxes outlined in the well-read book “Manias, Panics, and Crashes.” The table below shows that all of the 10 warning signs currently exist to some extent.

Criteria (and colour status)	
1	Historically high valuations
2	Overvaluations of multiple asset classes
3	High hopes for a “new era”
4	Ultra-easy monetary policy
5	Financial-sector deregulation
6	Rising leverage
7	A boom in “innovative” financial instruments
8	Overtrading and exponential price moves
9	An influx of foreign money
10	A rise in serious fraud

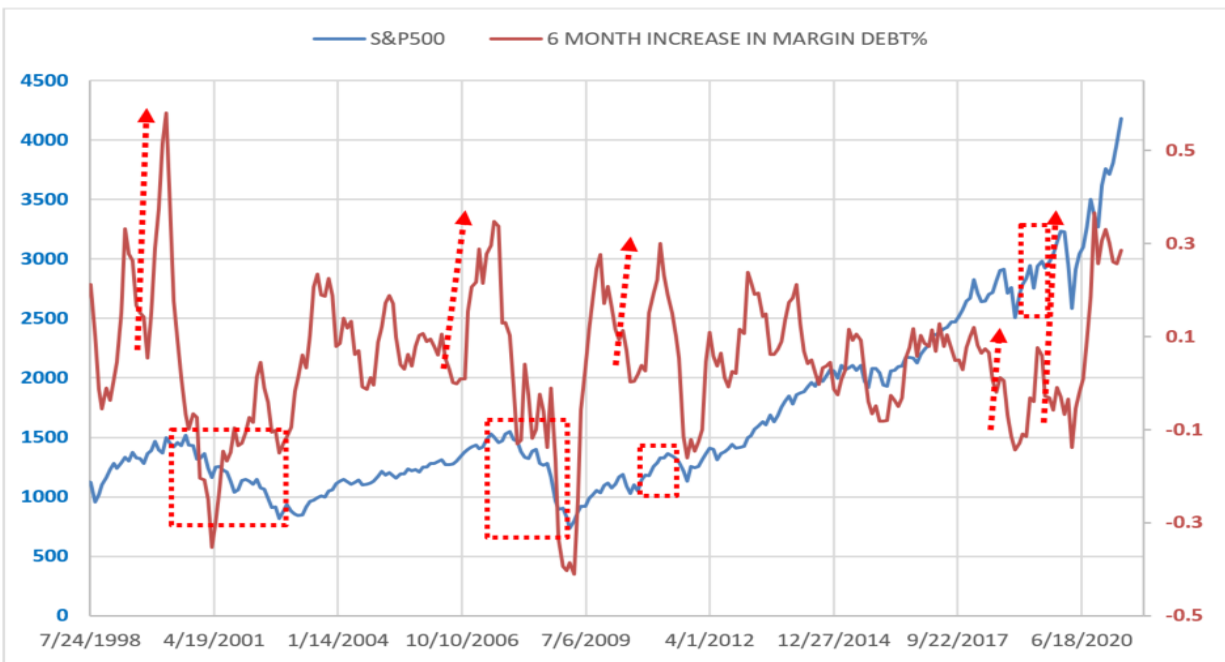
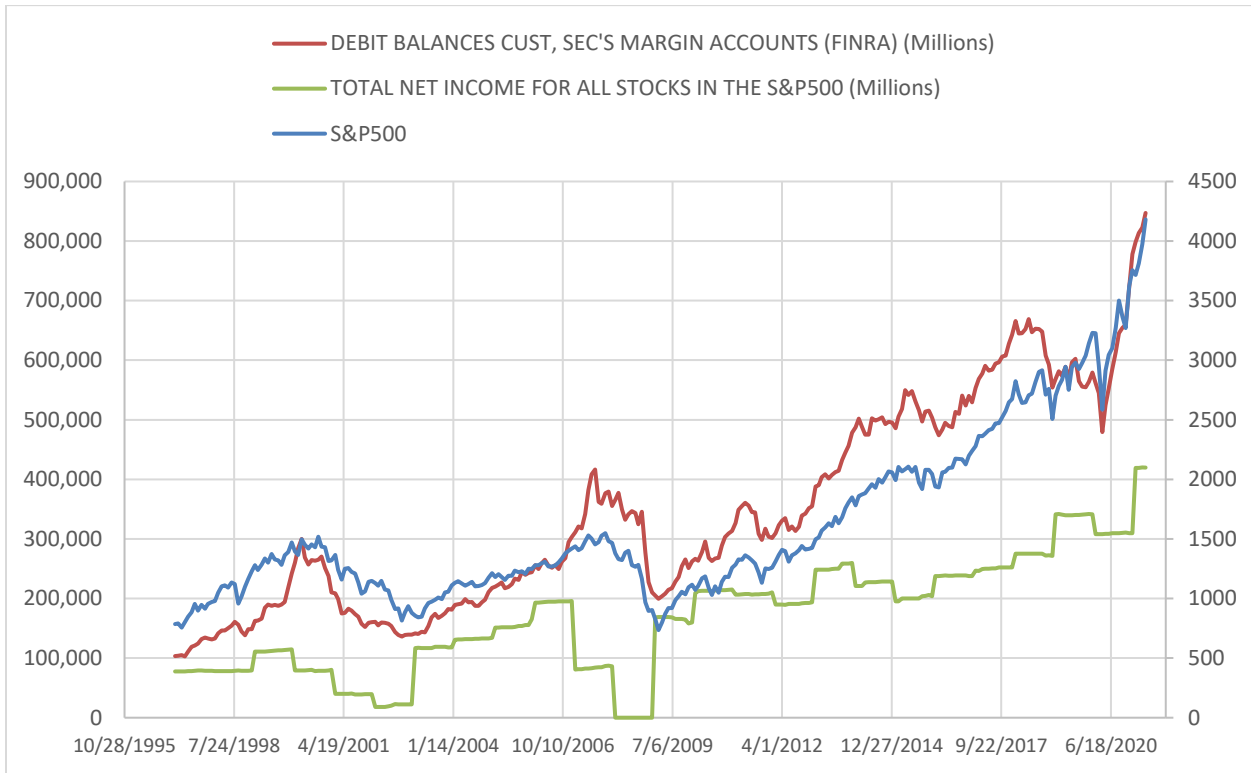
less of a concern  more of a concern

<https://www.marketwatch.com/story/u-s-stocks-are-demonstrating-most-of-the-characteristics-of-a-bubble-but-dont-sell-yet-says-strategist-11622026399?mod=home-page>

3. **The level of margin used by stock investors is at a historic high.** In one way, this makes sense. As the first chart below shows, levels of margin track well with the price levels of stocks over time. In a recent WSJ/Marketwatch article, Hulbert found no statistically significant correlation between margin debt hitting a new all-time high and the stock market’s subsequent performance. TPA would concur.

TPA decided to dive deeper into investor margin by dividing margin by the net income of the S&P500. The ratio of margin/net income shows the leverage used by investors per dollars of net income in public companies. Chart 2 below suggest maybe it is not the level of margin, but the rate of increase in margin/net income that may matter. TPA created this chart using margin data

from FINRA going back to 1997. TPA highlights the periods of spikes in margin/net income and the stock market declines that follow. Although not conclusive, it does indicate that probability of a sell-off increases after a sharp rise in margin/net income.



<https://www.marketwatch.com/story/more-investors-than-ever-are-borrowing-to-buy-stocks-heres-what-this-really-means-for-the-market-11621583804?mod=home-page>

<https://www.finra.org/investors/learn-to-invest/advanced-investing/margin-statistics>

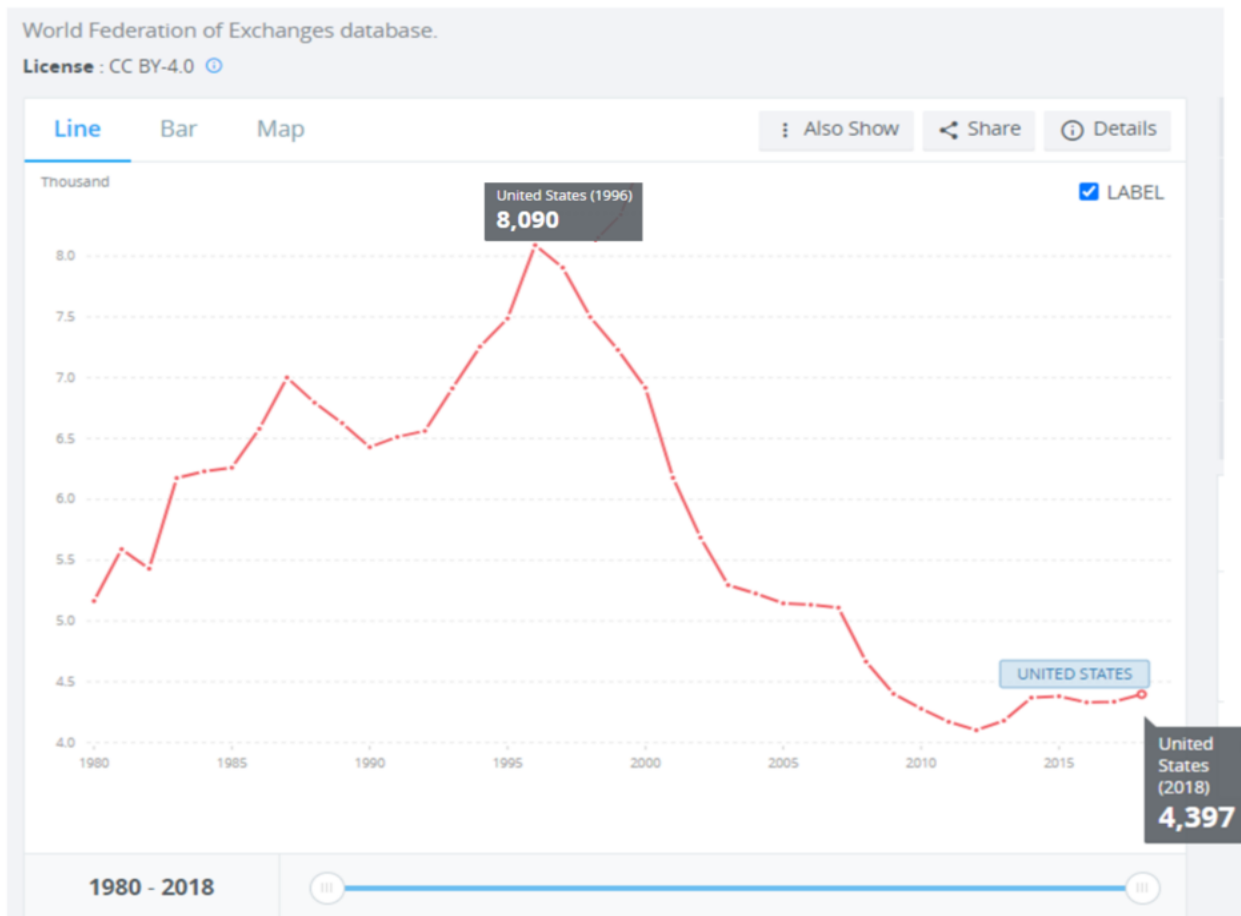
Bloomberg data

## Mitigating factors

*Investor caution should, however, be tempered by mitigating factors, which in part justify a sustained rally and higher prices.*

1. **A Reduced number of shares** for investors to buy means that more dollars are chasing fewer stocks. The number of publicly available shares for investors to buy has declined sharply since 1996 as the number of publicly traded companies has fallen. In 1996 there were 8,090 public companies. The number fell to 4,397 or 45% by 2018 (chart below) “By last count, the Wilshire 5000 index of investable stocks listed on U.S. markets totaled just **3,530.**” (IBD 11/27/20).

The number of public companies fell for many reasons, including stock buybacks, company acquisitions, increased regulations, and alternative sources of financing. A quick calculation below shows that the same \$10,000 used to buy 8,090 versus only 3530 stocks leads to an appreciation of 129%, Simple supply and demand.



Using \$10,000 to buy all publicly held stocks in 1996 vs. 2020. Increases price per share with fewer stocks.

<u>YEAR</u>	<u>FIXED</u>	<u>1996</u>	<u>\$10k/all shares</u>	<u>APPREC</u>
1996	\$10,000	8090	\$1.24	
2020	\$10,000	3530	\$2.83	129.18%

<https://www.investors.com/news/publicly-traded-companies-fewer-winners-huge-despite-stock-market-trend/>

2. In addition to fewer stocks, **the FED** has been engaging in a raft of activities that eventually lead to money entering the stock market. TPA briefly explains them below:

- **“Interest Rates** - The Fed cut its benchmark interest rate, the federal funds rate, twice during March 2020, once by 0.50% and a second time by 1.00%. This is notable because the Fed did not move interest rates in increments greater than 0.25% since cutting them during the Great Recession. On March 15, 2020, the Fed also cut its discount rate, another key interest rate, by 1.5%, down to 0.25%.
- **Quantitative Easing** - One of the simplest asset purchasing programs has been the quantitative easing (QE) program, in which the Fed directly buys assets like U.S. Treasuries and mortgage-backed securities (MBS). The Fed, which originally created the program during the Great Recession, restarted it on March 15, 2020.
- The Fed enormously expanded its **repo operations** on March 12, 2020, by \$1.5 trillion, then adding another \$500 billion on March 16 to ensure there was enough liquidity in the money markets.
- **Ongoing Federal Reserve Programs** - Besides direct asset purchases, the Fed set up several new lending programs, both as part of the CARES Act .
- **Paycheck Protection Program** - To help small businesses, in concert with the CARES Act, the Fed launched PPPLF on April 9, 2020. This program lends money to banks so that they can, in turn, lend money to small businesses through the Paycheck Protection Program.
- On March 23, 2020, the Fed created the **Primary Market Corporate Credit Facility** to buy corporate bonds to ensure corporations can get credit. At the same time, it created the related **Secondary Market Corporate Credit Facility**
- Also on March 23, 2020, the Fed resurrected another **Great Recession program, the Term Asset-Back Securities Loan Facility (TALF)**. It made up to \$100 billion in loans to companies and took asset-backed securities (ABS) as collateral.
- **Other programs:**
  - Main Street Lending Program - \$600 billion
  - Municipal Liquidity Facility 500 billion
  - Primary Dealer Credit Facility
  - Money Market Mutual Fund Liquidity Facility
  - Commercial Paper Funding Facility

<https://www.investopedia.com/government-stimulus-efforts-to-fight-the-covid-19-crisis-4799723>

<https://www.cnn.com/2021/05/26/politics/6-trillion-stimulus-where-it-went/index.html>

3. On the fiscal side, **Federal Stimulus programs** have put more cash in people’s pockets, increased unemployment checks, provided forgivable loans to businesses, stopped evictions, and delayed bankruptcies. All of this has also increased money that can be invested. Congress has passed about \$4 trillion in spending over the last year to respond to the pandemic and its economic effects.

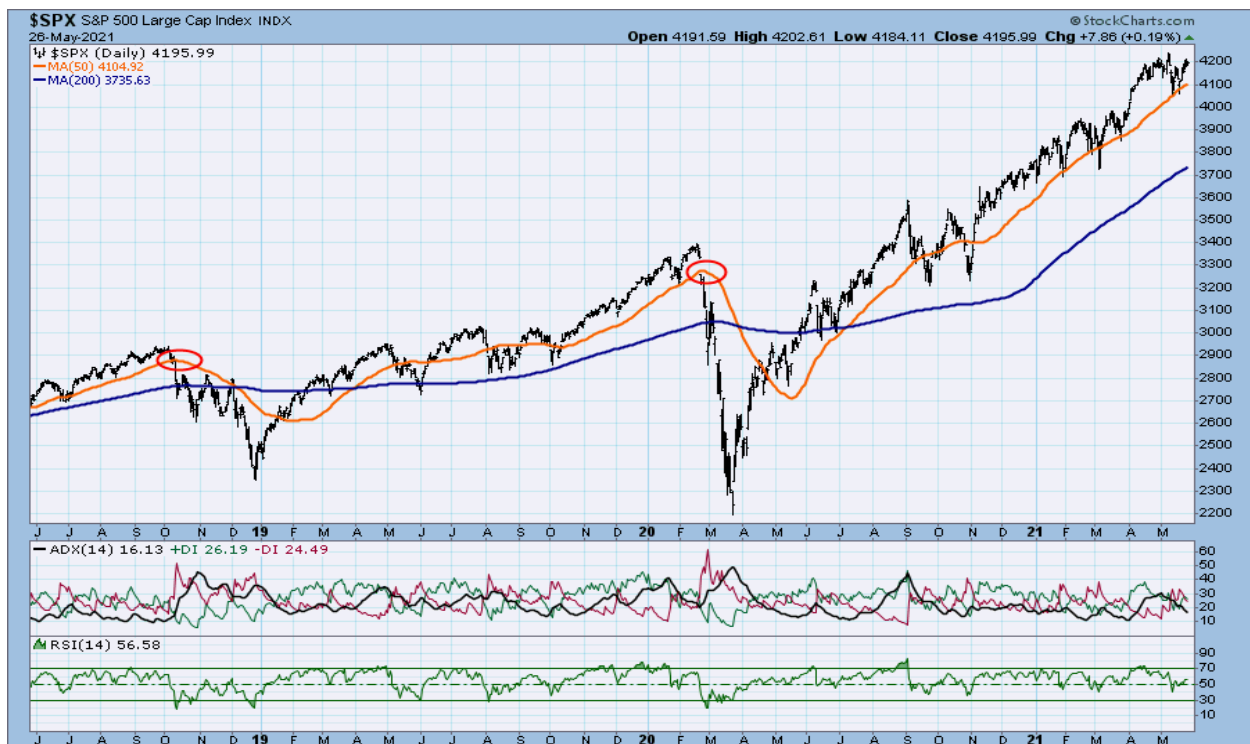
4. **Low rates** have reduced payments for consumers and increased demand for housing. As housing prices have rocketed higher, homeowners have more equity, are more prosperous, and, subsequently, are more comfortable taking risk – buying stocks.

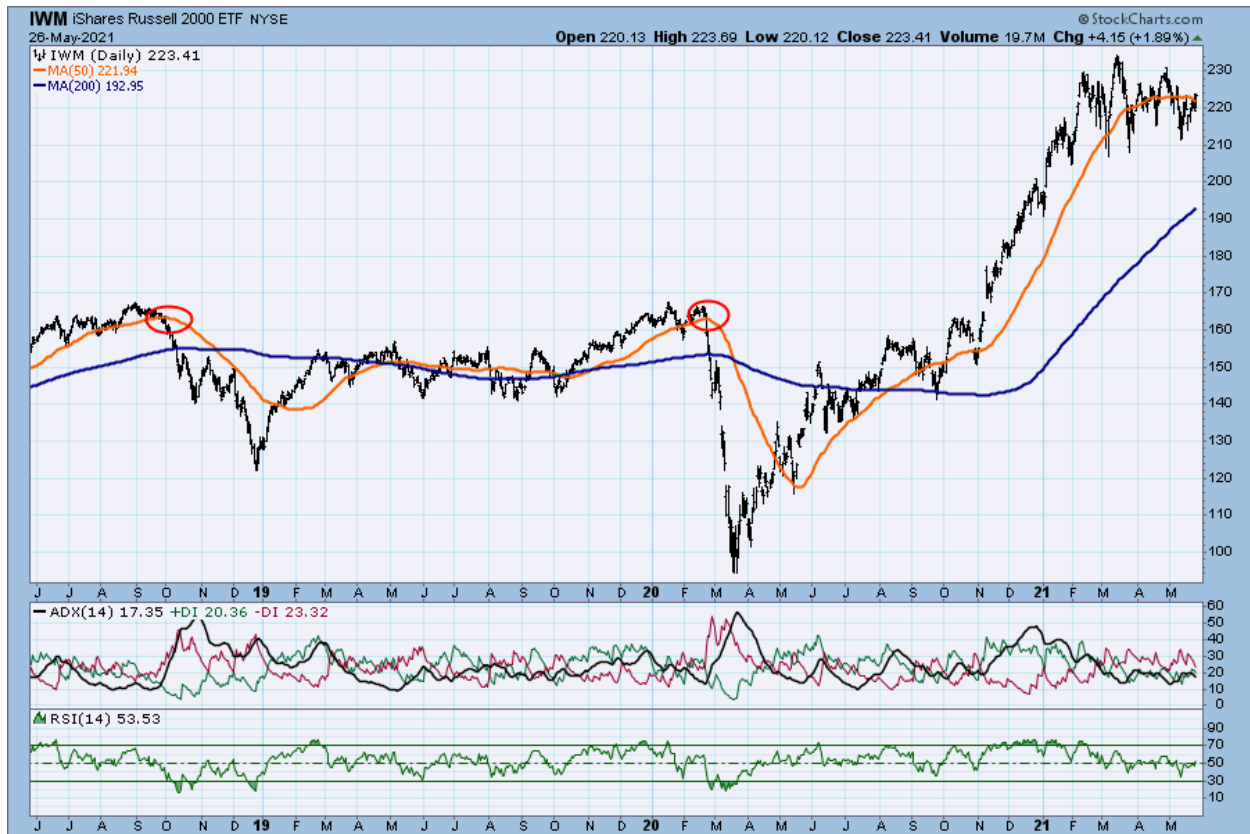
### What to watch for that things are changing

Now, that TPA has explained why you are justified in your caution, but why prices can be justified for a while, it is time to set in place signs that will tell us that stocks may begin to take a new direction.

Clients should monitor the following as signals that the good times are either becoming harder to maintain or ending:

5. **FED tapering or tightening** would signal that the spigots that have kept the money flowing may be tightening or stopping.
6. **House price declines** would signal that demand and supply have reached a level where buyers will not pay the market price. In the past, this has led to a slow down in production and hiring and growing caution among homeowners.
7. **Sustained weakening in consumer demand** would signal that the stimulus and other measures taken are no longer having a positive effect.
8. **Technicals.** Look out for one or all of the following by monitoring **TPA's Risk Dashboard** and **TPA's Marketscope**
  - **Sustained risk-off signals** – Utilities, REITs, Staples, Large-Cap outperforming and Financials, Materials, Energy, Industrials, Small Cap underperforming. (TECH is a mixed message because the largest companies are TECH).
  - **50 DMA's** of the major indexes starting to decline. The charts below if the S&P500 and IWM (Russell 2000 ETF) show that a declining 50DMA signaled more losses in 2018 and 2020.





- **Earnings announcement show negative price bias** – when stocks decline or do not move higher on positive surprises and get hammered on negative surprises, it will be time to lighten up. That will mean that investors are finally seeing the cup half-empty after seeing it half-full for years.
- **Junk Bond Risk premium widening** – investors demanding higher premiums for risk = risk-off.

In conclusion, stocks prices are historically high, but there are many reasons why this is justified. While there is no reason to panic, clients need to watch carefully for signals that the pattern, which investors have counted on for years, is changing.

CLICK ON LINKS BELOW FOR TECHNICAL INDICATOR EXPLANATIONS:

[ASCENDING - DESCENDING TRIANGLE](#)

[BASING-TOPPING-CONSOLIDATION](#)

[BREAKOUT \(Breakdown\)](#)

[CHANNEL & RANGE](#)

[DIRECTIONAL MOVEMENT INDEX \(DMI\)](#)



[DOUBLE BOTTOM or DOUBLE TOP](#)

[MACD-MOVING AVERAGE CONVERGENCE-DIVERGENCE](#)

[MOVING AVERAGES](#)

[RELATIVE STRENGTH & PEER STOCK PERFORMANCE](#)

[REPEATING PATTERNS](#)

[RSI-RELATIVE STRENGTH](#)

[SUPPORT, RESISTANCE, BREAKOUT, BREAKDOWN](#)

[TREND](#)

**ALWAYS REMEMBER: No strategy exists in a vacuum – always evaluate the relevant sector & market.**  
*Over 80% of portfolio performance is determined by sector and market forces (Ibbotson & Kaplan study – January/February 2000)*

**Turning Point Analytics Disclaimer**

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