



Market Outlook

By Mark T Dodson, CFA

FOMO Encore...Please Don't Stop The Music

Market Risk Index surpassed 85% as the Psychology Composite broke into the worst decile of readings, the zone of Euphoria for market psychology.

Monetary Conditions also worsened, moving into the worst half of readings – if you wanted to look at the Monetary Composite in binary terms, it crossed back into tight money territory. It is likely to continue to worsen over the coming weeks – our guess is that it reaches the worst third of readings (the most significant demarcation in terms of a drop in future stock market returns) at some point in April – coincidentally toward the end of the most seasonably favorable period after the end of a mid-term election.

We have highlighted the strong breadth of the stock market in January, as has every technician who follows the market. There is no shortage of headlines containing impressive breadth statistics, most of which are based upon advances and declines. We have also highlighted ad-nauseam, how both advances and declines have been skewed since decimalization. Those stats, as compelling as they are, aren't the same as they were 20 or 30 years ago. We should be used to reports of unusual breadth readings despite market conditions that don't look remotely like the environments that prevailed during previous records by now, but that doesn't seem to be the case. The fear of missing out on the next bull market has compelled a reignition of animal spirits and driven Psychology into euphoria territory before we've managed to rally to the level that generally defines new bull markets.

Psychology has become stretched on hopes of a soft landing as leading indicators clearly warn of the potential for a sharp recession. While valuations have improved since 2021's peak Euphoria, the returns offered by stocks today (even if we use the most generous stock market multiples based on regressions since 1995) suggest Treasuries will provide a better return today than stocks. Don't get caught up in the fear of missing out.

There is merit in the adage to not fight the tape. There is equal merit in the adages to buy cheap and sell dear – to not fight the Fed – and to be fearful when others are greedy. As

Market Risk Index

Rec Allocation 25% Underweight

85.5%

Category Percentiles

Psychology - P6

94.5%

Monetary - M4

54.9%

Valuation - Extremely Overvalued

95.7%

Trend

41.3%

Largest Psychology Influences

Leveraged Investments	Negative
Volatility	Negative
Option Activity	Negative
Consumer Confidence	Negative

Largest Monetary Influences

Interest Rate Spreads (Yield Curve)	Negative
Interest Rates	Negative
Inflation	Positive

Valuation

7-10 Year Equity Return Forecast	1.6%
10Yr US Treasury Yield	3.8%

Market Trends

US Equities	Bullish Trade
Intl Equities	Bullish Trade
REITs	Bullish Trade
Broad Commodities	Bearish Trade

Market Risk Index scales from 0 to 100%. Higher readings correspond with higher risk markets. Scores below 25% are bullish. Scores between 25-75% are neutral, and scores above 75% are markets vulnerable to major drawdowns.

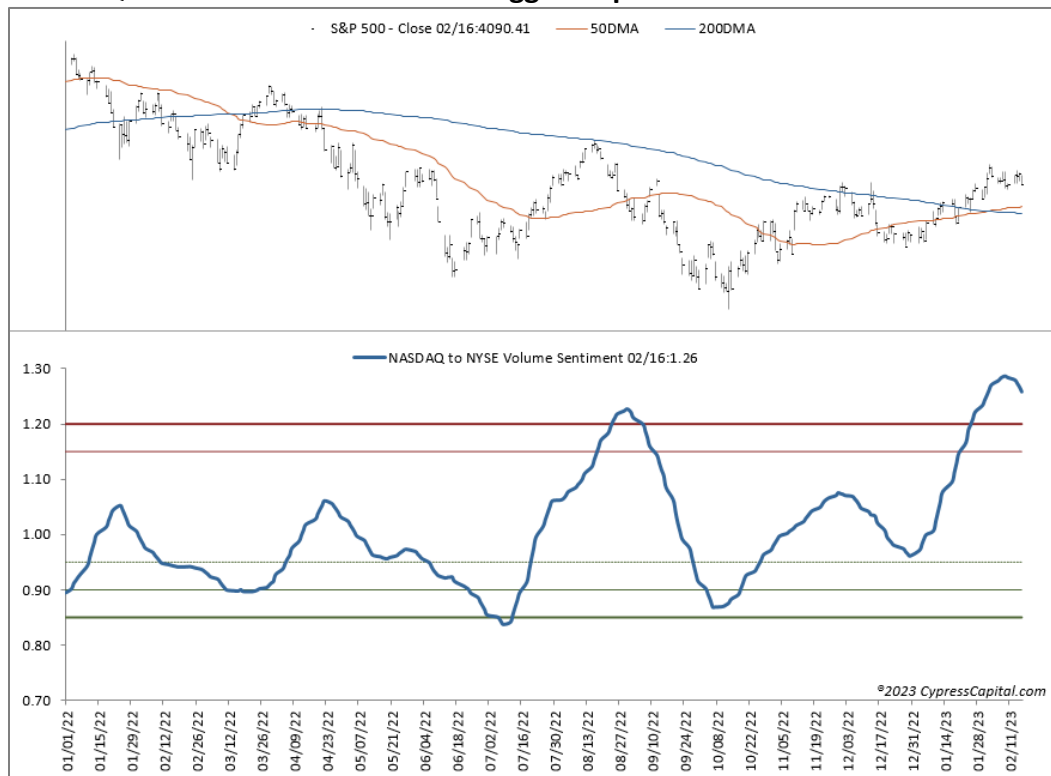
objectively as we can measure those adages in quantitative terms, only one of the four favors investing aggressively in stocks today.

Charts of the Week

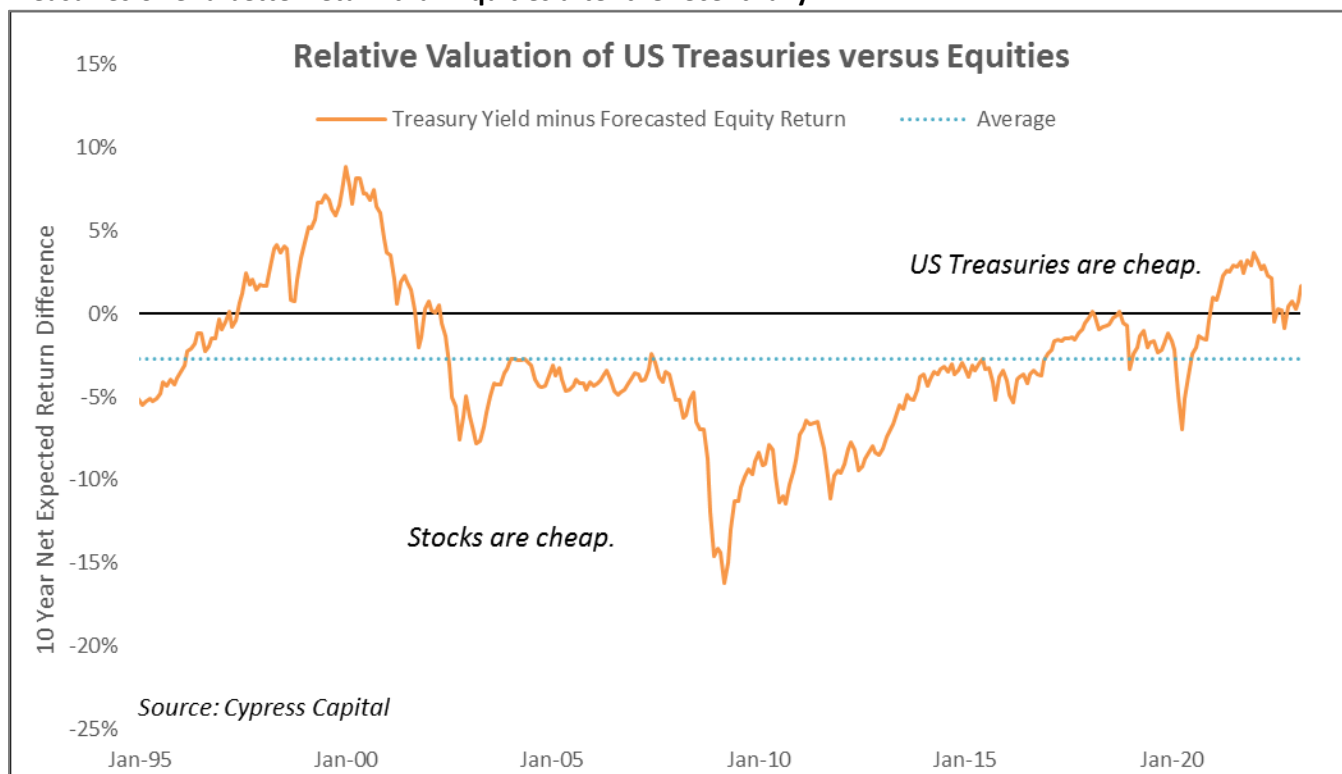
Cypress Psychology Composite is hitting the worst daily readings since the start of the bear market.



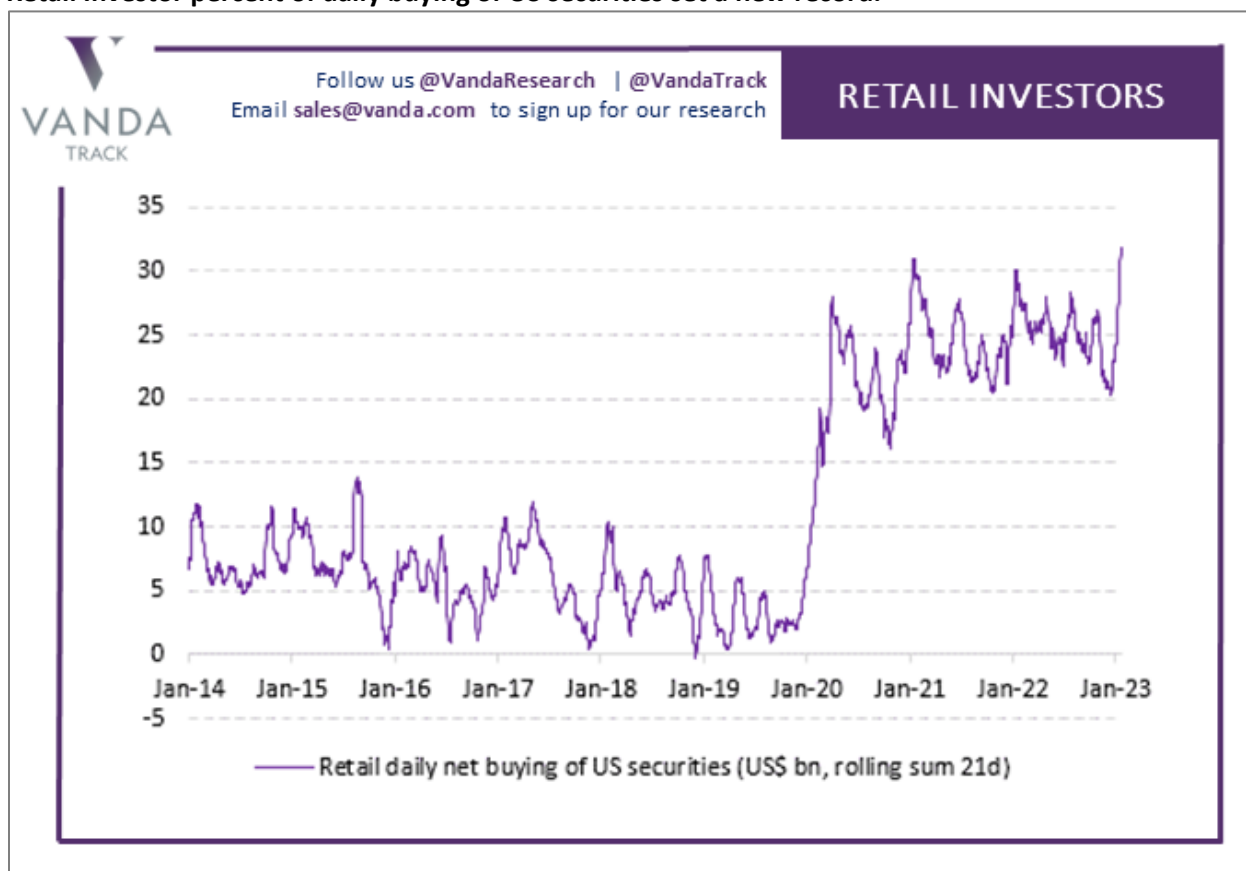
NASDAQ to NYSE Volume Indicator suggests speculators have not lost their zeal.



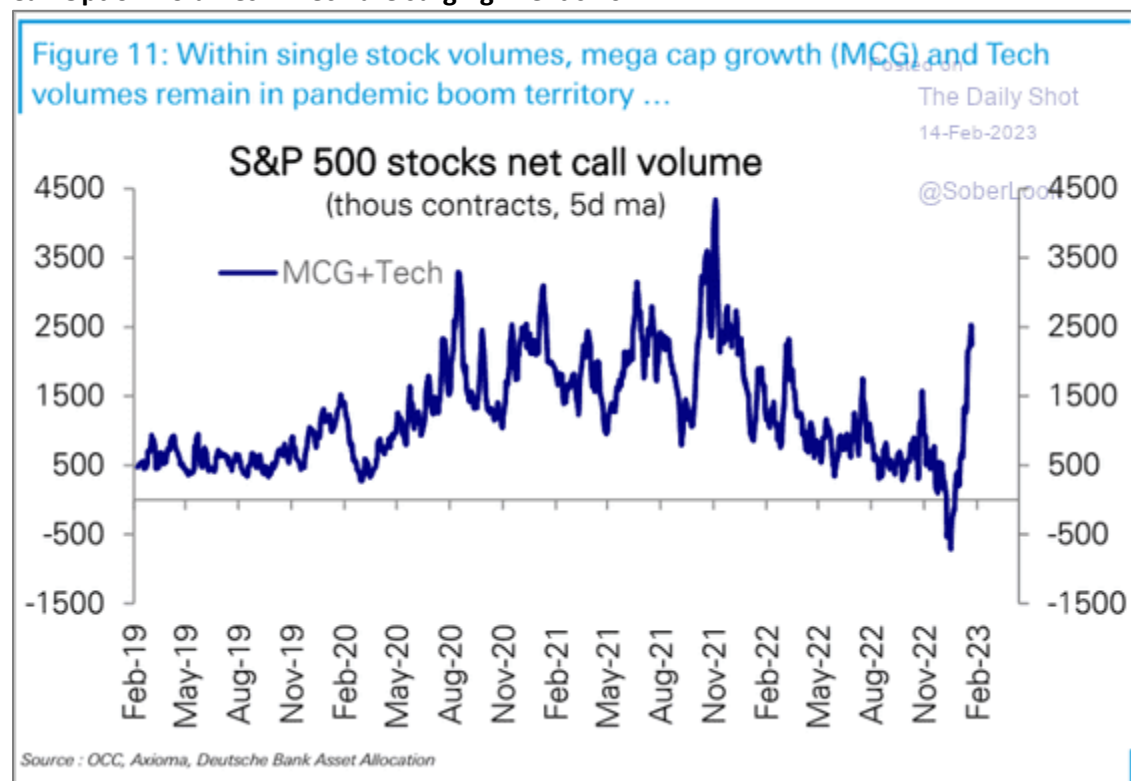
Treasuries offer a better return than Equities after the recent rally.



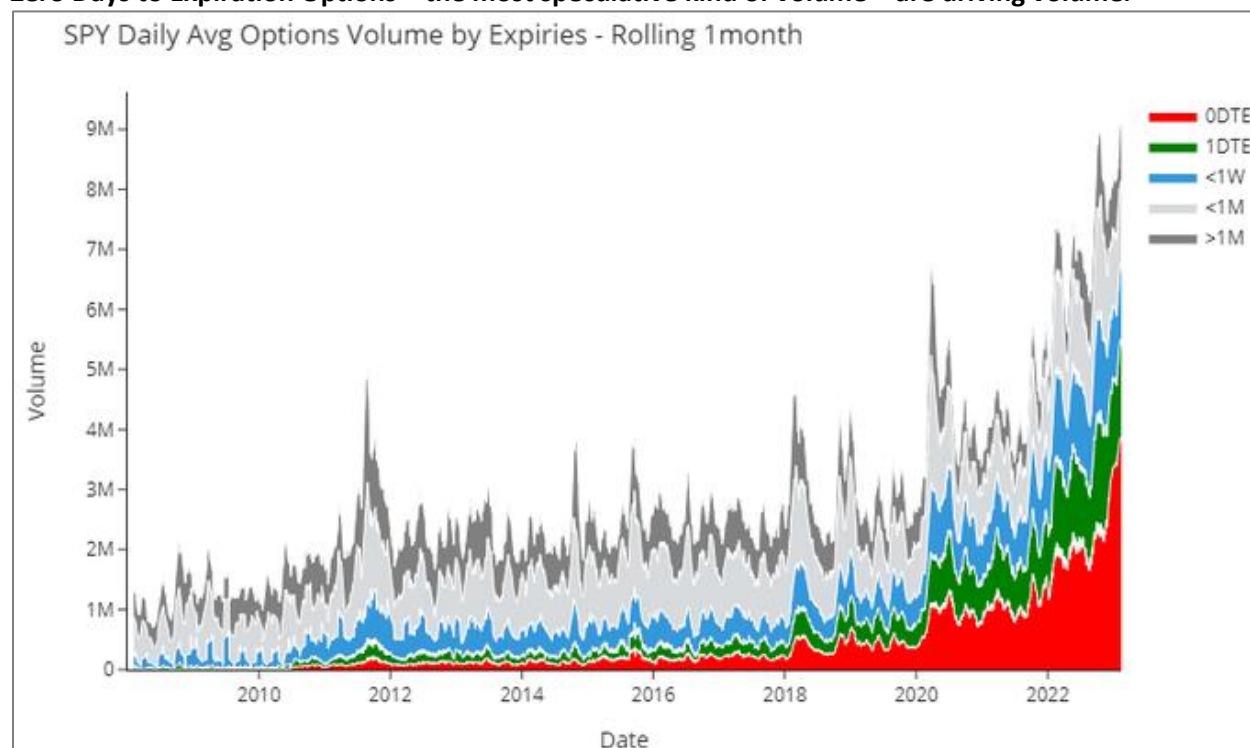
Retail Investor percent of daily buying of US securities set a new record.



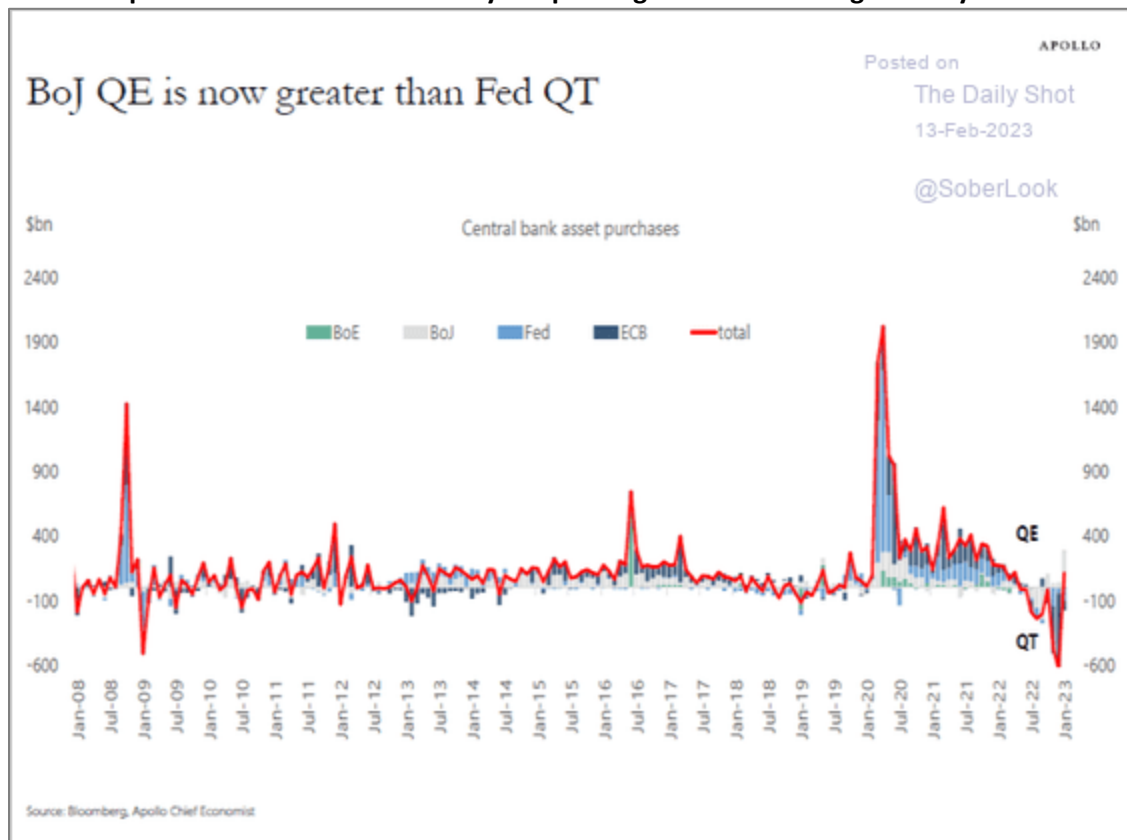
Call Option Volumes in Tech are surging like it's 2021.



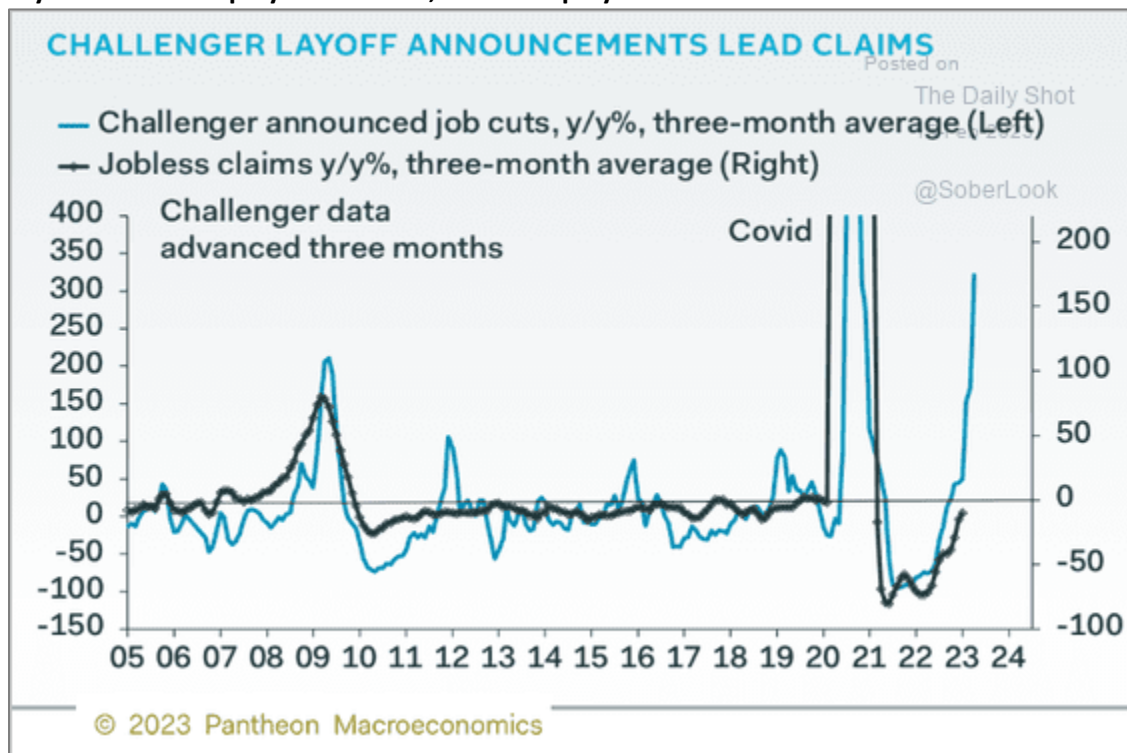
Zero Days to Expiration Options – the most speculative kind of volume – are driving volume.



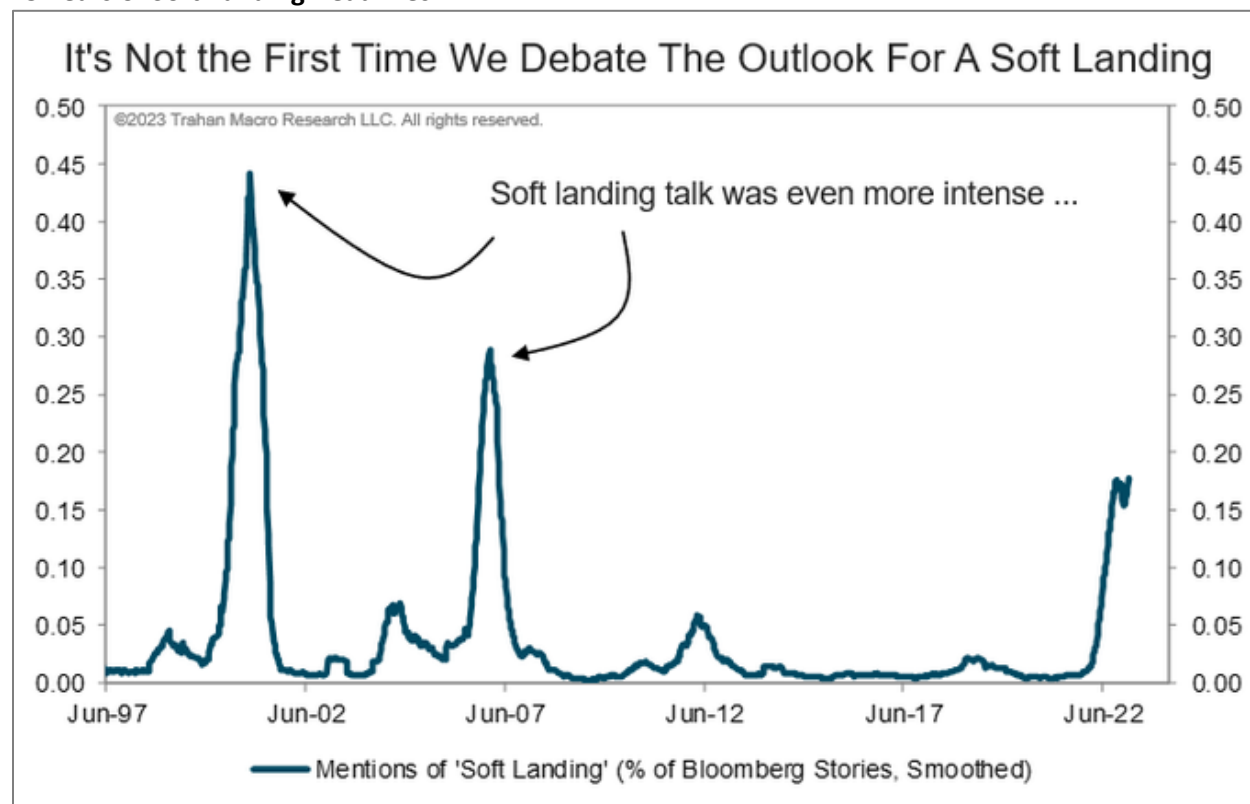
Bank of Japan is back on the sauce. They are printing more than enough money to cover the Fed's dry January.



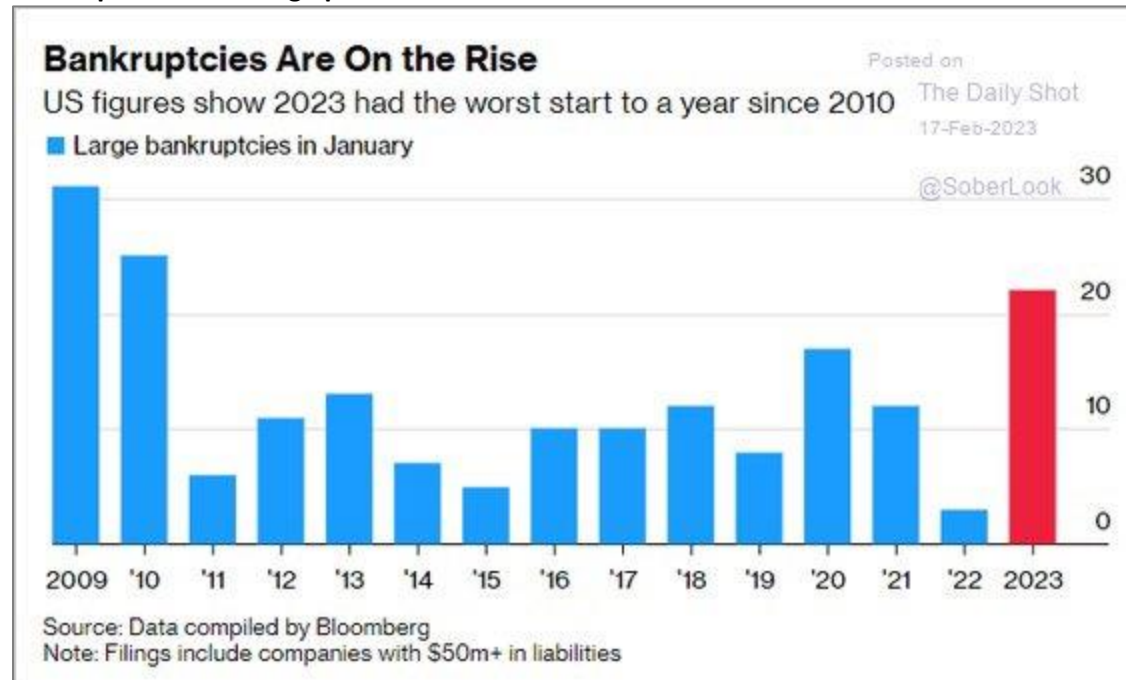
Layoffs lead unemployment claims, but unemployment claims drive headlines...



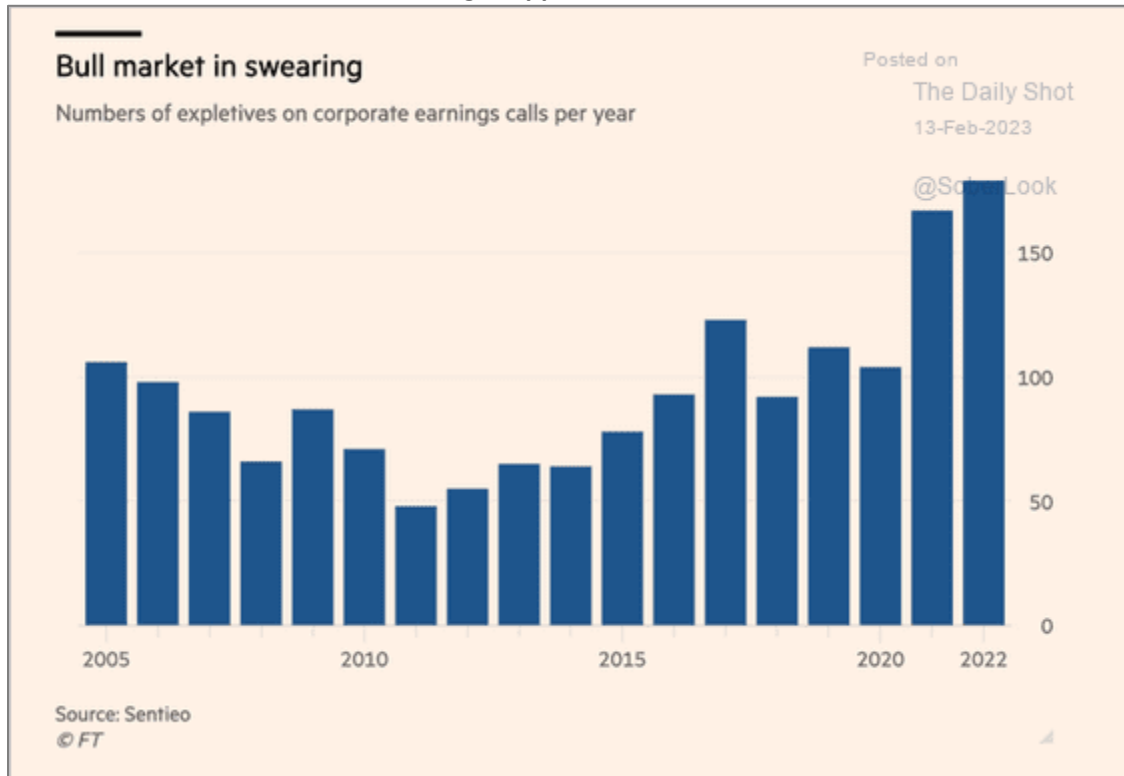
25 Years of Soft-Landing Headlines



Bankruptcies are ticking up.



A record number of F-Bombs are being dropped on conference calls.



Earning Yield on stocks minus Treasury Yield falls to 2007 Levels



Median Prices inside the CPI are still climbing...

Asset Management – Portfolio Lineup

The essence of investment management is the management of risks, not the management of returns.
– Benjamin Graham

Select Dividend – Bottom-up risk-managed dividend portfolio of up to 40 stocks that can hold cash and fixed income when markets aren't presenting attractive individual equity opportunities. A portfolio built upon Cypress Capital's metrics that measure dividend quality and safety. The portfolio is divided 75/25 into payers and growers. Payers are stocks having above-average yields with a long-term history of paying dividends, where the dividend is perceived to be safe. Growers are companies with high total shareholder yields and perceived to be high-quality, franchise companies. The portfolio is generally made up of familiar, household names.

Global Allocation – Multi-asset class portfolio that invests in low-cost exchange-traded funds across eight asset classes based upon the margin of safety offered by each asset class to avoid significant drawdowns.

Strategic Income – Disciplined, value-biased income portfolio that practices patience in awaiting excellent risk-reward opportunities in fixed income. Disciplined in its refusal to reach for yield and put capital at risk of permanent impairment.

Asset Neutral – Absolute return-focused multi-asset class portfolio that allocates assets based upon the margin of safety offered in each asset class. The portfolio can go defensive and hold up to 100% cash in some environments.

US Opportunity – Concentrated value portfolio of up to 50 stocks that increases allocations to cash and fixed income when the margin of safety offered by equities is too narrow. Portfolio quantitatively buys the cheapest, highest quality stocks that it can find. Quantitative sell discipline sells individual holdings based on value and momentum factors.

[Contact us](#) for more information.