



FROM THE DESK OF KEN SOUTH

SPECIAL MARKET UPDATE

January 28, 2022

Our team adheres to a set of principles designed to provide an exemplary client experience.

We believe the trust of our clients is earned over time and remains our most important asset.

We take great pride in the professional quality of our work. Exceptional client service that is proactive, thoughtful, and customized.

Competitive investment returns with a focus on risk management.

Sophisticated financial planning — an essential pillar in the development of your customized investment strategy.

We believe in continuous improvement. As our clients' needs change, we learn and adapt.

We stress teamwork in everything we do and remain accountable for our responsibilities.

Integrity and honesty are at the heart of our business. Integrity: we do what we say we're going to do, full disclosure and no surprises.

Honesty means we give it to you straight, even if means having a difficult conversation

We regularly receive confidential information as part of our normal client relationship. It is our responsibility to protect against the unauthorized disclosure of this information.

Is it Hot in Here, or Is It Just Me?

Normally when you think of January you think cold temperatures or winter. But as of late, the markets have been heating us up and not in a good way. Maybe we can compare it to when you're wearing a thick turtleneck that you thought would keep you warm but it ended up being more of a thermal blanket that left you nervous that people would start to notice the beads of sweat gathering on your forehead or upper lip. Those nerves or surging fear is what keeps people from wanting to invest in the market, intimidates investors that should remain invested, and seeing red causes panic to rise and initiate the fight or flight instinct. And all of these feelings of uncertainty are blurring judgment as people act without taking the time to understand why things are happening the way they are.

With that said, I wanted to follow up my rather long diatribe from [Wednesday's Newsletter \(01/25\)](#) with some digestible nuggets about the lackluster Fed meeting that also took place that same that the newsletter when you. I will also paint a more vivid picture of how oversold we currently are by showing some informative charts that I find to be extremely helpful.

The Fed Meeting Commentary:

1. No surprises: he told us he was going to rein in the bond-buying and probably do an interest rate hike in March and Wednesday, he said it again.
2. Inflation well above the target 2% and strong labor, thus soon appropriate to raise Fed Funds rate.
3. Powell confirmed that he would use the Fed Funds Rate (the cost of funds charged to member banks of the Federal Reserve) as his primary tool.
4. The economy is continuing to strengthen. Thus far earnings for Q4 2021 are dramatically better than forecast and forward projections are stronger than initially thought.
5. Supply / Demand imbalances related to the pandemic are the cause of inflation. Since the supply chain issues are far from easing, this is expected to continue.
6. Will remain sensitive to economic changes and adjust accordingly. Didn't go on to mention a bunch more hikes.

What happened? The market was very strong at the open Wednesday due to Tuesday night earnings from the biggest software company on the planet far greater than expected. The difference that we have seen over the last three days was that there were fewer lows on Tuesday and Wednesday than there were on Monday. This implies that possibly this is the end of the decline and the beginning of a new basing process from which the markets could recover.

This brings me to my final point: where we are on the "downside momentum" spectrum. The Debbie Downers are out in force. Jeremy Grantham calling for an additional 50% downside, Ralph Acampora's call for another 20% down (he is affectionately called Ralph (I Can Make Ya Poorer)). On top of this, the UN is mobilizing troops to the Russia / Ukraine border, not to speak of China's cancerous continuous creep into Taiwan and the continuously declining support for the Biden Administration. Corrections can be sharp and deep, as we have experienced since the beginning of this year, but this does not necessarily begin a bear market. The market's current technical status is akin to a giant coiled spring fully compressed and ready for a violent snapback. Remember the adage of the sage of Wall Street, Warren Buffet, "Be fearful when others are greedy and greedy when others are fearful."

I am going to insert a few charts for comparative understanding. For starters, the markets are almost as sold off as they were at the COVID lows of March 2020. Some indicators are showing the most oversold readings on record! When these lows have been registered in the past, the next place the market traveled was upward. Here are five charts that I believe are worth at least considering.

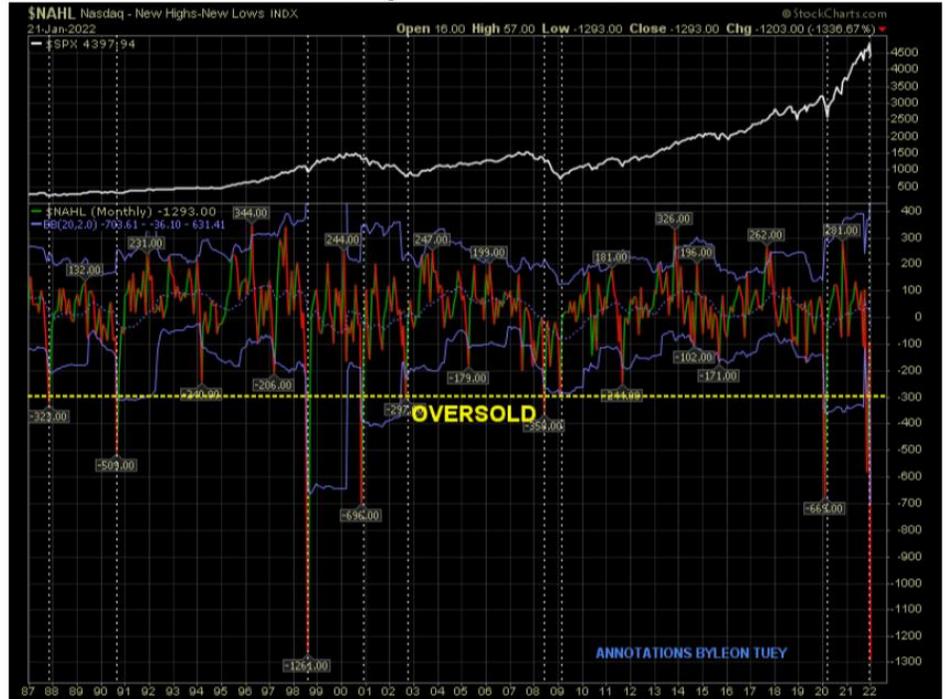
NASDAQ UP-DOWN VOLUME RATIO



Oversold readings are seen at or near market bottoms. Currently, NAUD is registering the most oversold reading on record.

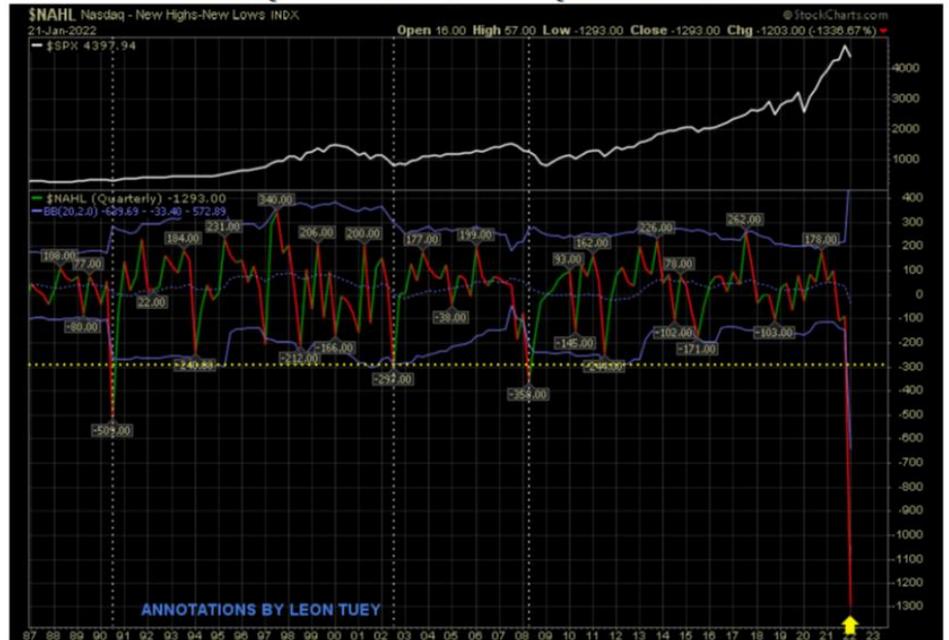


NASDAQ NEW HIGHS-NEW LOWS



Similarly, the NAHL also registered the most oversold reading on record.

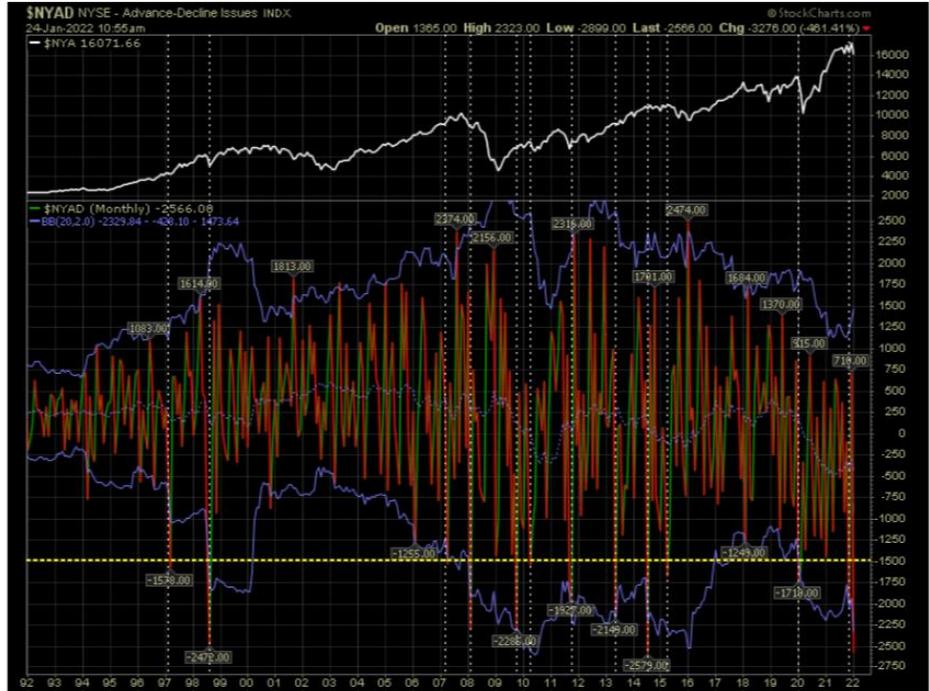
NASDAQ NEW HIGHS-NEW LOWS - QUARTERLY CHART



This chart also registered the most oversold reading on record



NYSE ADVANCE-DECLINE RATIO – MONTHLY CHART



On Monday morning, January 24th, this indicator slid to a record low

NYSE ADVANCING-DECLINING VOLUME RATIO – MONTHLY CHART



Readings below -1000 are oversold. At this writing, the NYUD is registering the most oversold reading on record.



These are five charts that provide perspective. What they don't provide is an exact answer. Every time is a little different. What we do know is there is no major calamity (like COVID) in the offing. What Powell is doing is because our economy is good, not because it is bad. I am not about to tell you that the market decline is definitely over, but rather that it is much closer to an end than a beginning. We are paying attention to what we own, why we own it, and what is going on in the world to provide runways for their respective futures.

We are here to answer any questions you may have, address your individual concerns, and make any changes you would like us to make to assist you in achieving your individual goals and objectives. I realize that the information I have provided above is really quite technical in nature, but I am hoping that the pictures make the technical nature understandable. If you would like a greater explanation, please call us and we will answer your questions.



IMPORTANT DISCLOSURES:

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial professional prior to investing. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested into directly.

All information is believed to be from reliable sources; however LPL Financial makes no representation as to its completeness or accuracy.

Investing involves risks including possible loss of principal.

The Standard & Poor's 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Dow Jones Industrial Average is comprised of 30 stocks that are major factors in their industries and widely held by individuals and institutional investors.

The Nasdaq-100 is a large-cap growth index. It includes 100 of the largest domestic and international non-financial companies listed on the Nasdaq Stock Market based on market capitalization.

The Russell 2000 Index is an unmanaged index generally representative of the 2,000 smallest companies in the Russell 3000 index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index.

This information is not intended to be a substitute for specific individualized tax advice. We suggest that you discuss your specific tax issues with a qualified tax advisor.

