



Special Report

Are The Market Tremors Foreshadowing Something Bigger?

On Monday, January 25th the US stock was under heavy selling pressure. According to Bloomberg news, the Dow Jones Industrial average was down over 4% during the trading session only to recover and etch out a minor gain. ¹ Larry McDonald, editor of the Bear Traps Report, states that this type of large inter-day reversal happened 9 time between 2000-2022 and 3 times in 2008.

² We all understand how those markets treated investors. What are the markets telling us...is this the calm before the storm?

You may not know, but the markets have had a bit of trouble for the last several months (we call it a rotation). The 5 largest firms in the Nasdaq and S&P have been able to mask the pain. The overall Nasdaq market was up approximately 20.7% from Jan 1, 2021, thru Dec 1, 2021 according to Yahoo Finance. ³ But, as our friend Paul Harvey would share, here is the rest of the story.

The Nasdaq Composite is an index comprised of over three thousand companies and is weighted in proportion to the size of each company. Thus, larger companies have significant influence over the performance of the index. Had we removed the 5 largest companies from the index for the first 11 months of 2021, we would have found the index down over 15% adding to the Bear Traps Report

⁴ We have been warning clients of a coming market correction for months.

Patriot Asset Advisors believes this to be very reminiscent of the 1999-2000 time frame. During that point in history the bubble in the so-called Dot-Com market burst. In this current cycle we have witnessed investors and speculator pouring money into anything benefiting from the stay-home trend. They have driven a select group of companies to nose-bleed valuations. In recent months, the air has been coming out of the speculative tech names. We believe there will be much selling of the biggest technology names in the weeks and months to come.

Without getting too deep into the weeds, we will share with you that 2022 may be a challenging year for the markets. We think the Federal Reserve has their collective backs to the wall. If they aggressively raise rates, they risk a recession. We believe the Fed will tread very lightly which should favor the investments that we are recommending to many clients.

¹ Bloomberg Surveillance New Broadcast, January 25, 2022

² Yahoo Finance, Historical Date January 25, 2022

³ Bear Trap Report, January 25, 2022

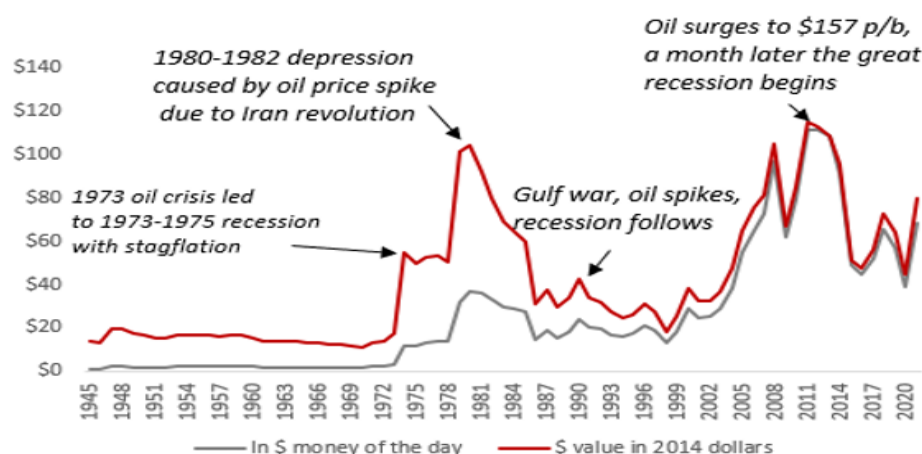
⁴ Bear Trap Report, December 10, 2021

A few months back we shared a report with you about ESG (Environmental Social Governance). This concept has been adopted by the global elites from political figure to corporate tycoons to asset management firms. According to the Bear Traps Report, the ESG crowd has removed over 2 trillion dollars of market value from the oil and gas business.⁵ This has resulted in a significant reduction in oil reserves, rig counts and energy exploration. Any type of “Black Swan” energy shock may trigger a “2008 like” super-spike in oil prices.

As we all know, oil prices impact us in many ways: transportation, shipping, delivery, heating and more. Every market cycle presents opportunities. We believe that the US is in the early stages of a significant shift for the stock market. If it has been some time since you reviewed your portfolio, NOW IS THE TIME. The market/business cycle changes has seasons just like the weather. You don’t want to be left out in the cold.

From the Desk of Larry McDonald, Bear Trap Report

Oil and Recessions



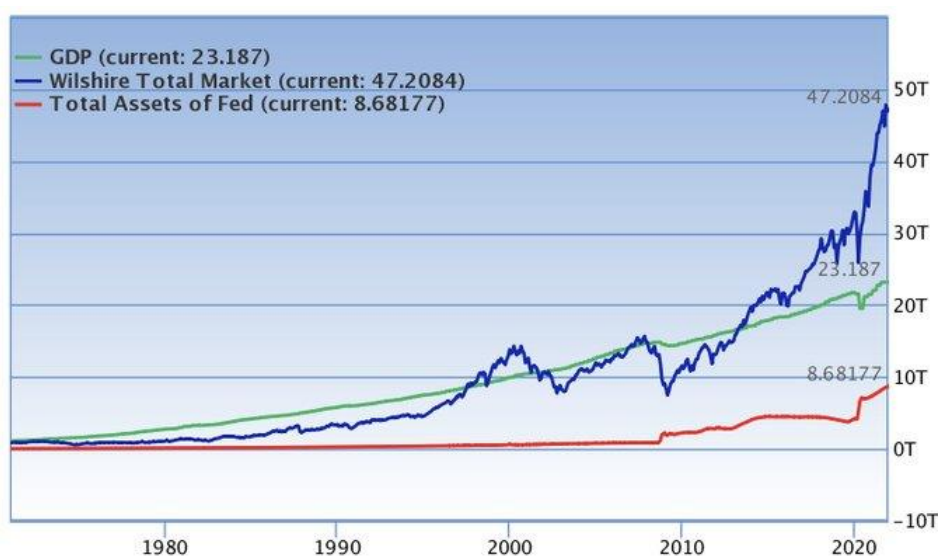
Oil’s 2006-2008 - triggered a surge in interest rates - then triggered the mortgage resets which blew up the US Housing market. Oil has played a vital role in almost all major U.S. recessions since World War II, which is when oil became the prime source of energy for the U.S. and global economy. U.S. GDP declined by 3.2% from 1973 until 1975, following the 1973 oil crisis. The oil price quadrupled as OPEC threatened to stop supplying oil to the U.S. in retaliation for its support for Israel in the Yom Kippur war. This combination of surging prices of oil and a declining economy is now known as the period of stagflation. In 1979, the Shah of Iran was deposed in the Iranian revolution. Once again oil prices soared, and the U.S. entered a double-dip recession (1980 and 1981-1982) as the Federal Reserve raised the Fed funds rate to 20% to eradicate runaway inflation. In aggregate, the U.S. economy declined by 4.9% during this period. In 1990 oil prices briefly surged as Iraq invaded Kuwait and international forces, led by the U.S., started the Gulf War to remove Iraq from Kuwait. A brief recession followed, whereby the U.S. economy contracted

⁵ Bear Trap Report, January 24, 2022

⁶ <https://www.theburningplatform.com/2022/01/23/fourth-turning-2022-bad-moon-rising-part-2/>

1.4%. The root cause of the great recession of 2008 was the debt-fueled housing boom. But a vital straw that broke the economy's back was the surge in oil prices in H1 of 2008, when oil rallied from \$95 in the beginning of that year to \$147 a barrel by early July. The rally in oil (and other commodities) was partially related to Chinese buying ahead of the 2008 summer Olympics and the weakening of the US dollar driven by the divergence of Chinese and U.S. economic growth. Either way, the already fragile U.S. economy went into a deep recession shortly after, which reduced GDP by over 5%. If oil prices quickly surge to \$135 in reaction to the inability of Russia to export its oil, global growth could see a 75% haircut this year from 4% to 0.9%. Given that oil is the single biggest driver of headline CPI inflation, the Fed may be forced to react late to such an abrupt slowdown. Headline inflation could double in a \$150 p/b oil scenario. Of course, when enough economic data show the economy is sharply slowing down and financial conditions deteriorate enough, the Fed will likely reverse course, but history tells us that it can then take months for the economy to recover.

From: <https://www.theburningplatform.com/2022/01/23/fourth-turning-2022-bad-moon-rising-part-2/>



“So far, 2022 is looking a little dicey for the markets. The millions of twenty and thirty something investment gurus have never experienced a bear market, as Jerome Powell and the Janet Yellen have guaranteed their unbeatable buy the dip “investment strategy” for the last decade.”

“NASDAQ high-fliers are tanking. Bitcoin has lost 50% in two months. The 10 Year Treasury yield has more than tripled in two years. Whenever the markets began to tank since 2009, the Fed came to the rescue with QE or slashing rates. That is why stock valuations have reached stratospheric levels exceeding the 2000 Dot.com bubble. They are now exceeding that historic bubble by 70%.”

Large tech companies (growth stocks) have had the wind at their backs for 15 years. What has changed, you ask? The era of cheap money may be ending as the Fed ponders rate hikes. The rotation from growth investment names into value has been under way for months, but the movement has been interrupted by the periodic resurgence of the virus. Additionally, the stock price of the big tech names has increased well beyond any “reasonable” valuation. In short, their stock price is significantly too high.

Weather you heed our advice to make investment changes or not, you should at least evaluate your investment holdings. If the current sell off is only a tremor, you may not like the quake. If you would like Patriot Asset Advisors to provide you with a second opinion, please contact us at 614-944-5225.