

“Our Clients’ Past Successes are Not Necessarily Indicative of Future Successes.”

Stamper Capital & Investments, Inc.

“Focusing on Upside Potential and Downside Protection Since 1995.”

January 2019 Market Commentary

(Note: Please see our previous [Annual Forecasts](#) and our [Blogs](#) for considerable background on our forecasts)

A quick review of 2018 returns:

Stocks - The Dow Jones Industrial Average (DIA) returned -3.7%

- The S&P 500 returned -4.38%
- The NASDAQ (“QQQ”) returned -0.14%
- The Russell 2000 returned -11.01%
- S&P 600 Small Cap returned -8.48%
- The Dow Transports (“XTN”) returned -17%

- High Yield Taxable Bonds (“JNK”) return was -3.3%
- High Yield Municipal Bonds (“HYD”) return was +2.2%

Bonds - The U.S. Treasury 30 Year Yield rose by about 20 basis points to 3.03%

- The U.S. Treasury 10 Year Yield rose by about 23 basis points to 2.68%
- The U.S. Treasury One Month Bill Yield rose by 116 basis points to a 2.41%
- The U.S. Treasury Two Year Yield rose by 58 basis points to a 2.50%

Commodities

- The Commodities (“DBC”) index returned -11.6%
- Oil (“USO”) returned -19.6%
- Gold (“GLD”) returned -20%
- Silver (“SLV”) returned -9%

BitCoin

- “BTCUSD” returned -58%

Real Estate – Of course, real estate is regional but some generalities can be made.

It moved up for the year by about 5% (according to Case Shiller through 10-2018)

2018 & Overall, Long Term Review

Looking backward, we think the most striking financial events of 2018 were the rise in interest rates at the short end of the curve (shown above), the fourth quarter plummet of oil prices by 43.5% from 10-3-18 down to 12-24-18 (same day as the December stock plummet bottom), the double top in the U.S. Equity market combined with the December 2018 plummet of the U.S. Equity markets which put most equities and equity indices in “official” bear markets (down 20%) at least briefly, and the meltdown of Bitcoin.

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Last year we said:

Looking forward, likely the most striking financial event in 2018 will be the rapid rise of the short end of the yield curve (rates going up), continuing what started in 2016 and 2015 (and even earlier) depending upon the maturity.

Taken together, these two highlights [(parabolic rises in asset prices and rising interest rates)] will likely combine in possibly spectacular fashion as rising interest rates (even just short term rates) will certainly impact the cost of carrying heavily leveraged financial assets, which includes almost all “investments” (or speculations) these days. Historically, assets with the most downside potential are those with parabolic rises [like Bitcoin (which did plummet) and equity indices (which have yet to plummet, at least fully)].

As you can see we did rather well forecasting 2018. Short term interest rates rose a lot. Speculative “investments” (or “cash equivalents”) like Bitcoin were demolished. There is much more detail in our Weblog [The Contraction Resumes](#) where we try to have monthly updates.

Last year with respect to stocks we said:

Stocks have been much more difficult, we think, largely because they are behaving/performing differently than most equity tops. Rather than a large widely dispersed top with different indices topping months or even years apart, they are all topping together. Not only that, while normally, their tops are “rounded,” in part, because of their dispersion, this time [(January 2018)], they are all in parabolic rises – prices rising at increasing rates – so a tight spike upwards.

Yes, we did have a big plummet in stock prices from 1-21-18 down to 3-18-18 but, now we know, we should have held to our previous guns of a widely dispersed top. Ha, we had essentially a spread out double top – January 2018 and September 2018. Most but not all equity indices and equities peaked in September 2018 but some peaked in January 2018 – prices at those two tops were at essentially the same levels. And, as we discussed briefly above, most equities and equity indices did fall into “official” bear markets (down 20%) if briefly at their 12-24-2019 bottoms.

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Long Term Perspective

To get a better perspective, our long term view of the past is on our [The Contraction Resumes](#) weblog summary (at the top of the weblog) where we have posted the following in regards to how tops usually form with specific example & **how various asset classes have been declining for years in what we believe is a Super Top:**

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Please note that, as we’ve discussed [many times] before, tops are usually rounded with various indices and media discussions occurring spread out over a longer time period than bottoms where they all spike down to the low together. For example, **the Commodities (CRB index) peaked April 2008 with a lower (20% lower) secondary peak in April 2011 – these tops have not been eclipsed [and still haven't],** while certainly many other indices have had new rebound highs since then. Also note, the size of a rebound generally indicates the period of time required for all the various areas to top; thus, a very large top takes a long time to put itself in place. For example, the 2000 equity top actually saw some indices topping back as far as 1998 and as late as late 2000; the 2006/2007 equity top was actually spread out over four years. With that said, this downturn will almost certainly be just as large and we think even larger, unfortunately.

Taxable Junk bonds (as measured by Bloomberg Barclays High Yield Bond ETF (“JNK”)) also have a highest ever peak (December 2007) before the Financial Crash that has not been eclipsed. Its rebound peak since the 2009 Financial Crash bottom is **July 2014**. Since then it put in a spike low in February 2016. From there it rebounded to a lower high August 2017 and has been heading down from there ahead of the pack in the current down cycle. To be fair, a large portion of the taxable junk bond market is related to **oil**, which trended along behind the CRB index, as detailed above. Oil had its highest peak in June 2008 at \$161, with its crash bottom January 2009 at \$50, and a lower rebound high at \$127 **April 2011**; then crashing down to \$36 January 2016 before putting in a lower high of \$74 June 2018 and heading down, also ahead of the pack, from there.

Another example for this cycle’s top is the **high grade bond market** (remember interest rates up = prices down so the top is when interest rates start rising). **The tops of the various maturities are spread out over several years (from 2012 to 2016) – see the next few paragraphs.**

Yields on the Freddie Mac 30 year Mortgage bonds bottomed late 2012 (its bond market top). (Its yield shot up pretty high in 2013 but it fell again to a higher low in 2016, which is why it didn’t hurt the real estate market that much; however, from 2016 it stair-stepped upwards, passing its 2013 yield top in mid 2018, to a new high in yields, which did start to take a toll on real estate.)

The One Month T-Bill yield bottomed at essentially zero in 2014 and started to rise in late 2015 (its market top). The Three Month T-Bill similarly saw its yield bottom in late 2015 (its market top), as also did the One Year T-Note.

The Five Year T-Note yield bottomed in mid 2016 (its bond market top). Similarly with the U.S. Ten Year T-Note and the U.S. Thirty Year T-Bond

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(Long Bond) and the Bond Buyer Municipal Bond Index – it also had its price top in mid 2016.

Please note: most people will have no idea that this huge cycle started topping so early – 2008 for commodities & oil and taxable junk bonds (and lower rebound peaks of 2011, 2011, and 2014, respectively) and 2012 for high grade bonds, because more popularly followed stocks and real estate topped years later. Also, note, if adjusted for inflation peaks began in 1998 and 1999! depending upon the category.

Thus, if you read the above quote of ours, you can see that we believe we are in a huge topping process that began years ago, depending on the asset class.

Continuing, for our more in depth long term view on financial commodities and high yield bonds, in last year's forecast we said,

The situation is similar for **financial commodities** like gold and silver. As forecast, even after notable rebounds in 2017, **they are still in significant downtrends from their all-time highs.** Gold peaked in 2011 at around \$1800 per ounce. It dropped about 45% to a low in late 2015 before rebounding by 8% in 2016 and another 11.9% in 2017. Importantly, it is still below both of those tops. Silver typically is more volatile than gold & it is in this case. Its drop from its 2011 peak to its late 2015 low was 72%! Even with its 15% rebound for 2016, and its 3.6% rebound for 2017, it is still below both of those peaks.

In other interest rate categories, **High Yield Municipal Bonds** (measured by ETF “HYD”) and **Junk Taxable bonds** (“JNK”) both had their previous price highs hold as we forecasted – thus, they did not put in new yield bottoms and are in longer term yield uptrends.

Even with reasonable price rises in 2017, those previous commodity price highs have held and the tops have been more widely dispersed – industrial commodities are still in price downtrends, as forecasted.

Thus, you can see from what we wrote in our previous forecasts and weblogs, and from all the negative returns actually posted by assets in 2018 that we did pretty well forecasting for 2018.

Forecasts for 2019

Like last year, we believe interest rates will continue to rise. We expect we will see a continued stair-stepped rise in yields to significantly higher levels (bond prices lower). As previously, we do not expect the rise in rates to happen as a result of a stronger economy or from inflation but from international issues, including deflation abroad (and likely domestically) that we have been detailing in our [Annual Forecasts](#) and [Blogs](#). Also, as we have covered previously, and emphasized since 2017, extra supply from the Federal Reserve

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selling off part of their balance sheet (rather than purchasing) will put pressure on bond prices (driving interest rates up) and prices of riskier assets like stocks, real estate and commodities. So, like last time, “rising interest rates from supply & demand, not from inflation.” We believe that record levels of debt, unfortunately, along with rising interest rates will likely produce spectacular drops in assets prices.

We believe prices of industrial commodities (like oil) will continue to drop but their drop has already been so huge that we would not be surprised to see a major bottom sometime during 2019. Financial commodities (like gold and silver) have been rising in a choppy fashion. We believe this rise will continue followed by large drop and then a large rise. Thus, we believe it will be very difficult to forecast where these will be at the end of the year but we do expect increased volatility for financial commodities.

We believe stocks' double top last year (2018) will be the all-time top; however, given how irrational this market has been, we cannot count out a new all-time high later in 2019, before the “top is in.” Still, to us, the upside potential is very small and the downside probability is very high and we speculate that 2019 will see a huge drop in the prices of equities.

In last year's forecast we said and we still believe:

In summary, we believe it is incredible that there is so much risk [and debt] in the system (covered for many years in our [Blogs](#)).... I guess you would call it a Super Bubble. On the other hand several markets topped over the past few years, but this fact seems to go unnoticed, as does the large rise in short term interest rates about which we have been beating the drum [although most did notice the short end of the curve rising in 2018]. With equity prices [still] priced for perfection in the face of the problems and issues we have highlighted [over the years], we believe the upside potential of riskier assets is minimal while their downside is [large and] very probable.

Our summary for this year's forecast is: Rising interest rates on huge debt levels financing risky assets will result in huge price drops similar to those of the Financial Crash that bottomed in 2009.

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As mentioned previously, please review our previous [Annual Forecasts](#) and [Blogs](#) if you want to get considerable background information why we are making these forecasts.

As always, we at Stamper Capital will continue to focus on the upside potential and downside protection of the assets we manage.

**Thank you for your patronage,
Stamper Capital & Investments, Inc.**

Since 2001, “Safety” was our watchword for the 2000-2009 decade.

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It was our watchword again from the Housing Bubble to the Financial Crash. Unfortunately, “Safety” is our watchword yet again for this Super Bubble, until we get to the final bottom, which we believe is much much lower.

(Posted January 27, 2019)

FOOTNOTES:

Stamper Capital Composite Return Calculation Footnote:

Returns are presented in United States Dollars. Composite returns are calculated monthly using a Monthly Discounting Model. No cash carve outs are made. Quarterly returns are time-weighted rates of return calculated by geometrically linking the composite’s monthly returns. Annual returns are time-weighted rates of return calculated by geometrically linking the composite’s quarterly returns. Gross Returns are after transaction costs but are before management fees; Net Returns are after Stamper Capital management fees. Investment advisory fees will reduce client’s returns. Fees are hypothetically taken out of non-fee paying accounts when reporting net-of-fee returns. Other costs reducing returns are custody account fees and possibly ticket charges, which can vary depending upon the custodian used. Also, see Disclaimer, below.

Morningstar & Lipper Total Returns Calculation Footnote:

Returns - Figures quoted are total returns calculated for the share class and time periods shown. Performance includes the reinvestment of income dividends and capital gains distributions. Performance does not reflect the deduction of taxes that a shareholder would pay on a fund distribution or the redemption of fund shares. Please go to Morningstar's and/or Lipper's website for more information.

Calculation of Risk-Adjusted Performance Returns Footnote:

Statistical Standard Deviation is the measure typically used, and we are using, as a proxy for risk. Standard Deviation is measured versus a composite's or competitor's own returns. Importantly, Standard Deviation is an attempt to measure risk that has been experienced; however, there may or may not be other risks that were taken on (by our clients or our competitor's clients, etc.) that were not experienced and/or that were not measured by Standard Deviation. Importantly, those risks will likely ultimately, at some time, be realized as we saw in the financial collapse of 2008. Stamper Capital's Upside Potential/Downside Protection Analysis and Implementation attempts to consider these risks and we believe is, in a large part, responsible for our historical outperformance during more unusually volatile periods. Of course, past performance is not necessarily and indication of future success.

Morningstar Risk-Adjusted Star Rating Footnote:

For each fund with at least a 3-year history, Morningstar calculates a Morningstar Rating based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance (including the effects of sales charges, loads and redemption fees),

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placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. Please go to Morningstar's website for more information.

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