Stamper Capital & Investments, Inc.

"Focusing on Upside Potential and Downside Protection Since 1995."

January 2020 Market Commentary

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

A quick review of 2019 returns:

Stocks - The Dow Jones Industrial Average returned 23%
- The S&P 500 returned 31%
- The NASDAQ ("QQQ") returned 33%
- The Russell 2000 returned 25.53%
- S&P 600 Small Cap returned 22.78%

Bonds - The U.S. Treasury 30 Year Yield fell by about 58 basis points to 2.39%
- The U.S. Treasury 10 Year Yield fell by about 74 basis points to 1.92%
- The U.S. Treasury Two Year Yield fell by 92 basis points to a 1.58%
- The U.S. Treasury One Month Bill Yield fell by 92 basis points to a 1.48%

Commodities
- The Commodities ("DBC") index returned 8.80%
- Oil ("USO") returned 29.5%
- Gold ("GLD") returned 20.1%
- Silver ("SLV") returned 14.3%

BitCoin
- "BTCUSD" returned 89.9%

Real Estate – Of course, real estate is regional but some generalities can be made.
It moved up for the year by about 3% (according to Case Shiller through 11-2019)
We believe lots of markets topped in summer 2019.

2019 & Overall, Long Term Review

Looking backward, important events of 2019 were the drop in interest rates all along the curve (show above), rise in the prices of the largest equity indices (Dow Industrials, S&P 500, NASDAQ) to all time highs, but, importantly, not all equity indices put in all time highs (the S&P Small Caps (SML), for example). A summary for 2019 could be: 2019 was pretty much a reversal of what happened in 2018. However, there are a couple of what we think were striking events for 2019 – see Striking Events for 2019, below).

Last year, with respect to U.S. Equities we said:

> 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.

Good thing we put in the “irrational” caveat since that is what happened at least for the large cap indices; although not all equity indices put in all time highs. So we did pretty well with what we said.

With respect to commodities, last year we said,

> 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.

That is pretty much what happened for commodities.

Our forecast for interest rates for 2019 was completely wrong. We expected interest rates to continue to rise and they fell across the board.

Long Term Perspective (This is quoted from last year as our long term perspective has not changed):

> 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 indicies 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.
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> 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.**
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> 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.)
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> 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.
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> 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 (Long Bond) and the Bond Buyer Municipal Bond Index – it also had its price top in mid 2016.
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> 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.
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> In other interest rate categories, **High Yield Muncipal 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.
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> Even with reasonable price rises in 2017, those previous commodity price highs have held and the tops have been more widely disbursed – industrial commodities are still in price downtrends, as forecasted.

[end of quote]

New information is that the yield of the U.S. 30 year put in a new all time low in 2019 while the yield on the U.S. 10 year did not – its all-time low is still in 2016. **Divergences** like these are typical at market turns. We believe this divergence and other divergences explained above, and previously, will be telling. Of course, time will tell.

Striking Events of 2019 - Other important, striking to us, events that happened in 2019 that we documented in our Blogs ("The Contraction Resumes" is our most recent blog; it gives a long term perspective on this Super top presented with monthly updates) were the two very large, what we are calling, **"Liquidity Ripples"** in the last half of 2019 and also the large parabolic (increasing at an increasing rate) price graphs that we discovered and discussed. On January 27, 2020 we wrote:

> A month or so ago we started noticing some **parabolic price rises**. Importantly, we have used spotting parabolic rises to call quite a few major tops and associated downdrafts over the years in these pages. Most notable was the parabolic rise and huge collapse in the price of bitcoin. On August 8, 2019 we said (double quoting ourselves):
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> > The most recent asset to see an incredible parabolic price rise decimated is BitCoin whose collapse we forecasted based on that parabolic rise. It is now down 67% from its parabolic peak of 12-16-2017. Just two days after that peak in these pages on 12-18-2018 we wrote:

> 'Right now [Bitcoin] is quoted at approx. $19,000 – what is a few dollars when it is going up and down a $500 a couple of times per day. Anyway, from March 2017 it has risen in a parabolic rise (increasing at an increasing rate to now near vertical) by a factor of 19x, or by 1800%. Accordingly, other assets priced in Bitcoin (rather than U.S. Dollars) have dropped in price 95%! – an incredible crash – across the board – all of them, if priced in Bitcoin. It is rather astounding. Looking forward, obviously it is highly speculative. Bitcoin is in a bubble, but when things are this irrational you could see further huge gains and huge bouts of volatility, up & down. It maybe, when the stock market starts its huge drop, people will, at least at first, sell stocks and move into Bitcoin (this is what happened in 2000 in Real Estate after the Tech Top but before the Tech Wreck really got going) – so it would go even higher (of course, it may not – its run maybe near over). Bitcoin could go a lot higher. **But, ultimately, we believe this bubble will burst with a drop all the way down to the levels that its parabolic rise started at** – so $1,000 (a 95% drop) or even lower. Bitcoin's "market cap" is huge, so a collapse would mean a lot of people would lose a lot of money, unfortunately.'

(Note we have written considerable commentary on Bitcoin and other indices that had parabolic price rises and their resolutions in these pages)

Recently, Tesla's ("TSLA") price graph is one of them – It is fairly easy to see in a five year graph. It may be easier to see on longer term charts. The low was in early May 2019 at around $155 – this is where this parabolic rise starts. It rises at an increasing rate up to just over $401 on 1-22-2020. The deal with parabolic rises is that the top is very difficult to forecast its top, as the more vertical it goes, the more it feeds on itself (instead of fundamentals) and it can go quite vertical, or not. While Tesla seems to be looking a lot of future competition from the major car manufactures (Porsche and BMW), its price has kept shooting up. Some people think the rise is driven by short covering. Could be, but what we know and have documented many times in real time is that these parabolic moves most often reverse quite rapidly and the price falls all the way down to the beginning of the price move.

Another huge parabolic move we have just run into is the price of the commodity Palladium. It has kind of a compound parabolic move but especially from a low in September 2018 at above $80 rising to a high near January 2019 at about $150 with a hiccup downwards to May 2019 at about $125 and then an even steeper move up to over $200 currently (a couple of days ago, when we first discovered it).

Another one is the spectacular rise in the Semiconductor Index ("SOX). Starting on 10-1-2008 at 445.49 and rising in a huge parabolic shape up to 1,945.37 on 1-23-2020.

Importantly, we believe we can watch for breaks of the parabolic uptrends as indicators of declines in the broader markets. As, I'm sure anyone reading this knows, downside volatility has just stepped up rather dramatically, attributed to the Coronavirus breakout. We don't know if that is the cause but we do know that the

> markets valuations and fundamentals seem a perfect setup to us (as we’ve documented in these pages) for huge potential price declines. We see a lot of indices that have curved up – maybe not dramatic parabolic rises, but if those with parabolic rises see their prices plummet, we would expect that the prices of these curved up price graphs will follow the new sharp downward trend. Some of these would be Bitcoin (which we have been using as a “canary in the coal mine” for quite some time), the price of gold. Others with more sideways rises (with lower and lower momentum) like U.S. Domestic stock indices and prices would also likely follow along as we’ve been forecasting.
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> **Repo Market, Fed Funds, Fed Balance Sheet** (resumption of asset (bonds) purchases). We first touched on this subject below on September 25th, 2019 – pointing out that we just saw what we called a “ripple” in the financial markets similar to what we saw prior to the Financial Crash. We talked about how we saw (and documented back then) similar ripples a few months apart back in 2007 which turned out to be the Lehman Bros derivative crisis which is arguably the cause of the Financial Crash (along with the huge debt buildup, etc. that we documented over and over) down into early 2009. Since 9-25-2019 there has been a second ripple. Another liquidity squeeze whose cause has still not been explained (similarly to early and mid 2007 when what had happened came out much later), where Fed Funds and Repo rates shot up. In addition, the Federl Reserve which had been shrinking its balance sheet by not purchasing bonds as maturies were running off, announced that during these two ripples in 2019 that they made multiple tens of Billions of dollars plus of purchases to stem those two potential panics and that they were now going to expand rather than contract their balance sheet. Note, in the run up to the Financial Crash, the Federal Reserve stepped up their purchases after the ripples, but this time they are stepping in concurrently with the ripples. This timing could indicate a problem even more serious than the Lehman Derivative Crisis.
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> [end of quote]

Forecasts for 2020

Given the super low interest rates, the huge debt levels, and the prices of most assets at extreme overvaluation levels, and the divergences – all of which we have been documenting (here and in our previous Annual Forecasts and Blogs) - our forecast is fairly straightforward, at least to us. Last year, as discussed above, we hedged on forecasting “The Top” because the market is so irrational. However, this year we just had two “Liquidity Events” similar to those prior to the top before the Financial Crash down into 2009. And, interest rates are lower – and super low across the entire curve. Thus, we have a lot more confidence this year, unfortunately. Also, if those rising parabolic price graphs break, it will give us more confidence that “The Top(s) is in.” If it is “in” it will be obvious very quickly as price drops will be breathtaking – swift and large. So, we should get verification fairly rapidly. Importantly, even if we are incorrect, the upside potential of almost all asset classes is very very small, while the downside is very large (at least to us) – so, to us, it makes a lot of sense to be extra defensively postured.

So our forecast is for prices of U.S. Equities, junk bonds, commodities, real estate – pretty much all higher risk asset classes – to fall. Interest rates are a tougher call, but we will stick our neck out and forecast generally rising interest rates, since they are at such low levels and across the board/curve and because of the all-time yield divergence between the Ten Year and the Thirty Year that we documented. In fact, as we have gone over so many times previously, since, generally, assets are very highly leveraged across the board right now, rising rates from such low levels will put huge pressure on prices of assets.

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.
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 28, 2020)

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 (includeing the effects of sales charges, loads and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category reveive 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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