

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

## **Stamper Capital & Investments, Inc.**

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

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### **2021 Market Commentary & Forecasts**

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

Wow these are truly fantastic times. In 2020 equity markets plunged from All-Time highs into the Corona Virus low of March 2020. After that very sharp sizable drop from “The Then All-Time Tops,” the market chopped and seesawed all the way back up to new All-Time-Highs in most equity indices by then end of 2020.

This most recent spectacular rise created an incredible dichotomy. Record high prices with a record weak economy, principally, due to the Corona Virus lockdowns. Yes, there were sizable Federal and some State government bailouts but, to us, the key to the rebound was huge Confidence. Is the Confidence misplaced? We do not know for sure. We do know that most state and local governments and municipalities are precariously perched financially (as we have documented so many times). People believe the Federal government can bail everything out. We are not so sure they can, and are less sure that they will. If their confidence falls, they most likely will not.

So, now we are back at where we've been for many years. At or near All-Time Tops in equities. This positioning along with record debt levels and all the other fundamentals which, in conjunction with the high prices, give the market huge downside potential and little upside probability just like it did at year end 2019, from which we had the Corona Virus crash.

Importantly, there are other indicators of a market top. Confidence is “off the charts” high.

One of the best indicator of “super high confidence” is the price action in Bitcoin. After a parabolic rise into huge peak late 2017 (which we documented in real time), it plummeted down around 80% down into a bottom around January 2019. Since then, and mostly in 2020, it rose in a new, even larger parabolic peak top on 1-9-2021 at \$40,000+. From there it dropped to around \$31,000 on 1-27-2021. From there it has risen to a “double top” at \$40,000+ on 2-6-2021. Why does this represent “super high confidence?” Well, besides the newest, even larger, huge parabolic rise is its underlying fundamentals. There are lots of reasons why so many people love Bitcoin. Cutting to the chase, it isn't really backed by anything. You can say the same thing about the U.S. Dollar these days (not backed by gold nor silver); however, the U.S. Dollar has to be used to pay income taxes. Also, the U.S. Dollar, currently, has to be used to purchase oil in most international situations. If Bitcoin achieves that status it will be a game changer but for now, that's not the case (that is all we are going to say with respect to that aspect). For now, owners of Bitcoin are relying on others buying, at what ever price, if they want to “raise cash” - it has no underlying value, currently. It doesn't produce income like a

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bond or like a real estate rental, etc.. It is more like gold or silver (in the way they do not deliver any income) except that “Cryptocurrencies” don’t really have limited quantities, currently – look how many “Bitcoin Look-A-Likes” are around now – there is nothing to stop more startups. So, to us, this situation shows an incredibly high level of confidence. (Please note, to us, this is not “investing” - this is speculating. Also, we do believe governments will likely eventually adopt Cryptocurrency technologies for their currencies.) While we expect Bitcoin to experience another spectacular crash, we expect first Bitcoin will put in one new notable all-time high shortly. Of course, that is speculative – the downside potential is huge and the upside potential is much smaller. A new notable all-time high could come and go in a blink, with very few exiting at or even near its tip top.

An example of “super high confidence” come (and, probably gone) is the price action in Game Stop (“GME”). It traded from \$39 on 1-20-2021 up to \$347+ a week later! on 1-27-2021 in a huge parabolic rise (note: we’ve documented many times how parabolic price rises almost always end with a plummet back to near where the rise began. For example, see our commentary in our Weblog [The Contraction Resumes](#)). From that “Super High Confidence Top” it has plummeted all the way back down to \$53 on 2-4-2021, not far from where the huge rise began. Game Stop makes old fashioned video games – old fashioned in that they are delivered by CD and run on the owner’s computer, not all on-line. Also, note that the huge upward price action was driven, principally, by “Millennials,” with limited market experience, making their first “investments” - obviously, they had an unusually high level of confidence to get involved in such a speculative situation. In addition, some hedge funds were short (mostly, with some holding long positions who made a lot of money (if they sold out before the plummet back down) and experienced margin calls and lost billions of dollars. There is a huge amount to this story; however, our purpose is to use it to illustrate the high level of confidence in the markets. Also, we note how people discuss this story and talk about “investing” - to us it shows how most “investing” is “speculating” during these hugely leveraged times. Finally, the plummet back to reality.

The key with “super high confidence” is that it cannot get much higher – but it can go lower - a lot lower. With increasing confidence comes higher and higher prices – we’ve seen that. If (when) confidence plummets, asset prices will likely follow along, especially given their terrible fundamentals (which we have documented so many times over the recent years). To us, downside potential from current tippity-tippity-top level is as high as “confidence” currently is. Downside protection is minimal.

We point out that the record amounts of financial leverage is in essentially all asset classes (we have documented this over and over again over the past several years). Thus, if (or when) the confidence falls, prices of essentially all asset prices will fall – stocks, real estate, junk bonds, all but the highest quality municipal bonds, collectibles, and commodities and precious metals, etc. So, prices of almost all assets falling but the U.S. Dollar rising. This would be the same situation as the 2006-2007 Real Estate Bubble top down into the 2009-2011 Financial Crash bottom. We expect this All-Time top will be called the “All Everything Bubble” or, maybe, the “E-Commerce Bubble” as certainly,

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the E-Commerce firms like Amazon, Google, etc. have seen their asset values go sky high. Or, maybe, “The Super Bubble.”

Interest Rates – The yield of the U.S. Treasury 30 year put in its all-time low on 3-9-2020 at 1.02%. From there, it has chopped and seesawed, almost doubling! up to 1.98% on 2-5-2021. Similarly, the yield of the U.S. Treasury 10 year put in its all-time low a bit later on 8-4-2020 at 0.51% Since then, it has chopped and seesawed, more than doubling! up to 1.18% on 2-5-2021. The numerous higher highs and lower lows in these yields means the trend in interest rates is up. Although the trend has been choppy, the percentage rise has been huge, yet the absolute rise has still been small, so far.

We expect these highest quality interest rates to see their rises accelerate. If this happens, it will push down prices of asset classes that are highly leveraged (which is essentially all asset classes). If prices of assets fall, interest rates of lower quality buyer will rise even faster (than higher quality interest rates) with credit quality yield spreads widening out. From the incredibly high asset prices levels we are currently at, rising rates and widening spreads could create a self-reinforcing cycle making the price falls even larger. These are the increased risks of buying/owning “investments” at such an Asset-Bubble top which also has near all-time low interest rates and near-record tight credit quality yield spreads.

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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 2-5-2021)

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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-

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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), 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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