Back to Work

Happy Labor Day! Markets are closed today. Hopefully, you get to enjoy some time with family, friends or do something enjoyable at the unofficial end of Summer.

Labor Day recognizes the economic and social achievements of workers in the United States. Of course, without the struggles that many workers faced before us, we would not be the country we are today. We should take a moment to reflect on their contributions.

It's also a time where people are going to head back to work. The COVID pandemic created an unprecedented time in our lives and significantly impacted the labor force.

The government responded with a massive stimulus. That now comes to an end. Gone are the extra unemployment benefits. Those benefits are unlikely to return anytime soon. Also gone is the eviction moratorium. We could have some increased volatility as the day-to-day activity in people's lives starts to return to pre-pandemic levels.

Now it will be interesting to see if the job market gets flooded. Jobless claims were way down last week to pandemic lows. The jobs numbers massively disappointed on Friday.

I think that number was meaningless. The market didn't seem to care much. People will be getting back to work.

Is that evidence of a rebounding economy? Or is it evidence that people are not stupid, and if they can make more money staying home than working, they will stay home rather than work?

I think it's the latter. People aren't stupid. I'm the first to admit I would stay at home.

A lot of people made more money staying at home. For example, roughly 40% of workers earn more money by sitting at home. In 39 states, the benefits exceed average hourly wages.

We will also see what impact going back to work might have on inflation and if there's only been a blip higher in prices or something more permanent.

What happens when a massive chunk of the labor force gets a significant wage cut because they make more than their typical hourly wages until now?

I think we're about to find out.

Lumber prices have crashed as chainsaws work overtime in places like Canada. Prices are down 75% from their highs, and I suspect they could plunge even more from here. However, there are still bottlenecks in the supply chain. There are ships galore stuck at sea, with a record 44 ships off the California coast. These supply chain issues will need to get resolved before prices can normalize.

Then there's a couple of big-spending bills coming before Congress. There is roughly $5 trillion in spending that is earmarked within these bills. While the smaller $1 trillion bill is bipartisan, the enormous bill is not.

We will see if the events in Afghanistan have weakened Joe Biden and whether that impacts the domestic agenda. Even more importantly, with the economy opening up, do more politicians balk at the price tags of these bills?

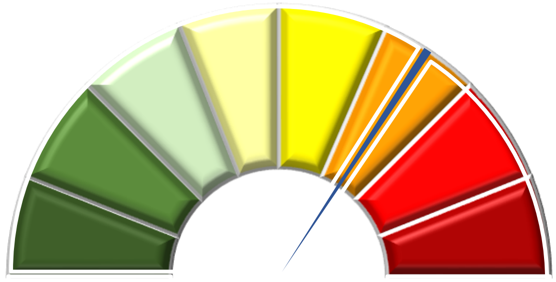
Joe Manchin form West Virginia just did. He wrote in the *Wall Street Journal* that we should hit the pause button. *Nothing* gets done without his vote. It is hard to tell though if he can be swayed.

There's a huge election coming up next year. Inflation hurts poor people. It's top of mind for many folks because inflation numbers conveniently leave out food and energy prices. Everyone needs food and energy to survive.

I suspect that if there are enough marginal Democrats, the big-spending bill will be pared back dramatically from here. It's already down from $6 trillion.

What does all of this all mean for risk?

Well, the *Risk-O-Meter* moved up a bit this week but remained on a "buy" signal. While the signal was unchanged, there was a new development over the week. The market sentiment indicator flipped to a warning sign.



The level of bullishness in the market has been excessive for some time. This remained the case as the market continued to push to new highs. Now, even though the market is near all-time highs, the level of bullishness has started to drop, and investors are moving over to the bear camp.

This surprised me because traditionally, people become scared *after* a bit of a drop. For example, there are many bulls, the market drops 10%, and any wishy-washy, weak-handed investors get afraid and dump stocks.

That didn't happen this time. I would never have predicted that bears would start growing in numbers near an all-time high.

And, that's an important lesson.

The market doesn't care about my predictions. The market doesn't care about your predictions either. That's why it pays to have a systematic approach to analyze risk. The *Risk-O-Meter* analyzes risk in an unemotional fashion. The model has worked very well in both testing and real-time.

It pays to *react* and **not** to guess.

All of the other factors in the *Risk-O-Meter* are right on the edge of a "sell" signal. However, those factors have not flipped. Who knows? Next week could register a "sell" or maybe not. Again, it is better to react than to predict.

Lastly, I have added more value to the Forensic Accounting Stock Tracker (FAST) model for subscribers. There's a lot that goes into the model, and I have done my best to simplify the presentation of the results. The big institutional investors I have worked with often prefer groups of stocks to buy or sell, such as the top 25 rated stocks in the model.

However, I have pulled out several stocks among the top and bottom-ranked lists to highlight as worthy of more attention. I have included a short commentary for each stock. While they are not official recommendations in this newsletter, I think it will make life easier for you if you're inclined to trade individual stocks.

I'm all for making life easier…

Happy trading!

John

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