



Bear Market Odds Increase

Risks stayed unchanged for the week. The *Risk-O-Meter* remains on a buy signal. Investor sentiment is still flashing a warning sign while the other factors in the model teeter right on the edge of flipping red. Until they do turn into red flags, the signal stays on a buy.

CNBC recently interviewed legendary hedge fund investor Leon Cooperman. Cooperman ran Omega Advisors for decades and was consistently a top performer. Cooperman does not see a bear market any time soon (which directly contradicts other interviews he has done in the recent past), but he did make a fascinating point worth mentioning.

He said, "The market structure is broken. There are no stabilizing forces in the market now; it's all run by machines. When there's a real reason for the market to go down, it'll go down so quickly your head's gonna spin."

That's very true. A few years ago, JP Morgan put out a research paper estimating that over 85% of the volume traded is from machines. Of course, one of the most significant stabilizing forces in the market is practically a dinosaur. That would be short sellers. During panics, short sellers are covering their positions. That means they are buying stocks and support prices on the way down.

If there are no buyers, it could get excruciating on the way down. The *Risk-O-Meter* considers both fast- and slow-moving factors because no one knows what will be the driving force of a move higher or lower in the market.

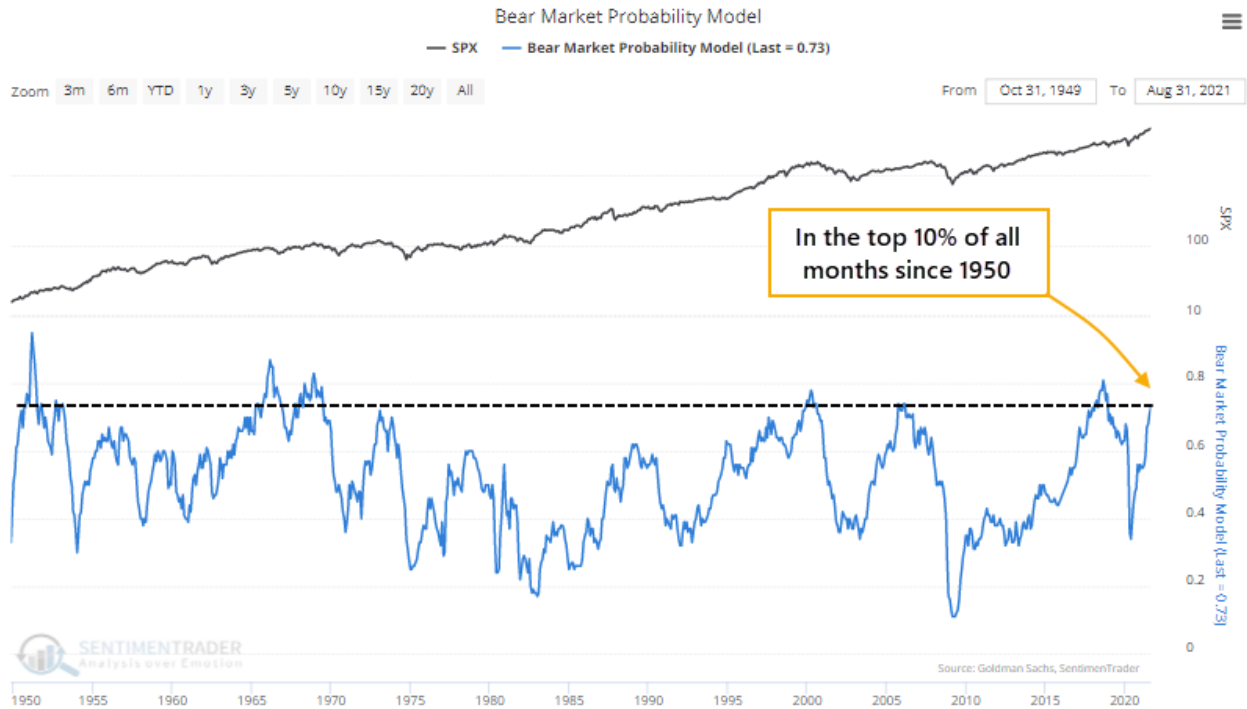
I agree, though, that a future decline could be a doozy.

How bad could it get? Well, right now, there are a few models that suggest the market may be due for a pullback.

Odds of a bear market are increasing.

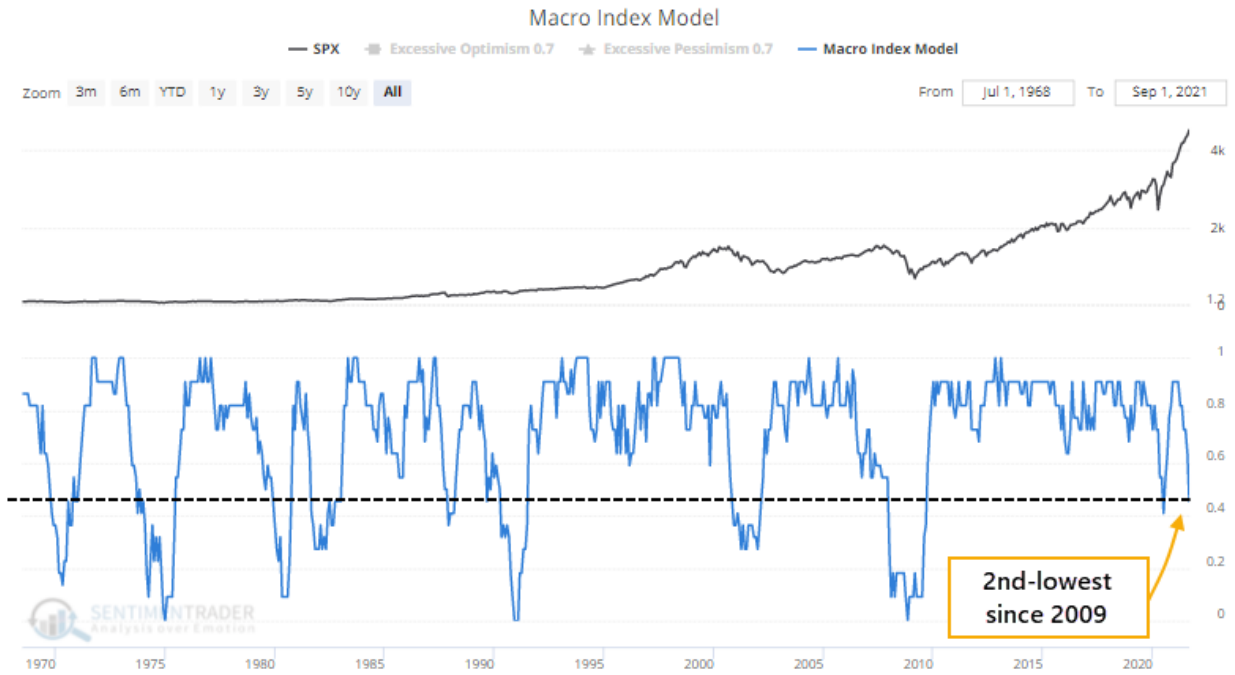
SentimenTrader.com has recently updated the Goldman Sachs Bear Market Probability Model. This model uses factors such as P/E ratios, unemployment, and the yield curve, among others.

Right now, the bear market probability model is in the top 10% of all months since 1950. That's a significant warning sign.



SentimenTrader then also updated its macroeconomic model. The thinking here is that the markets and the economy will move in the same direction over time. This is something that Leon Cooperman also noted in the CNBC interview.

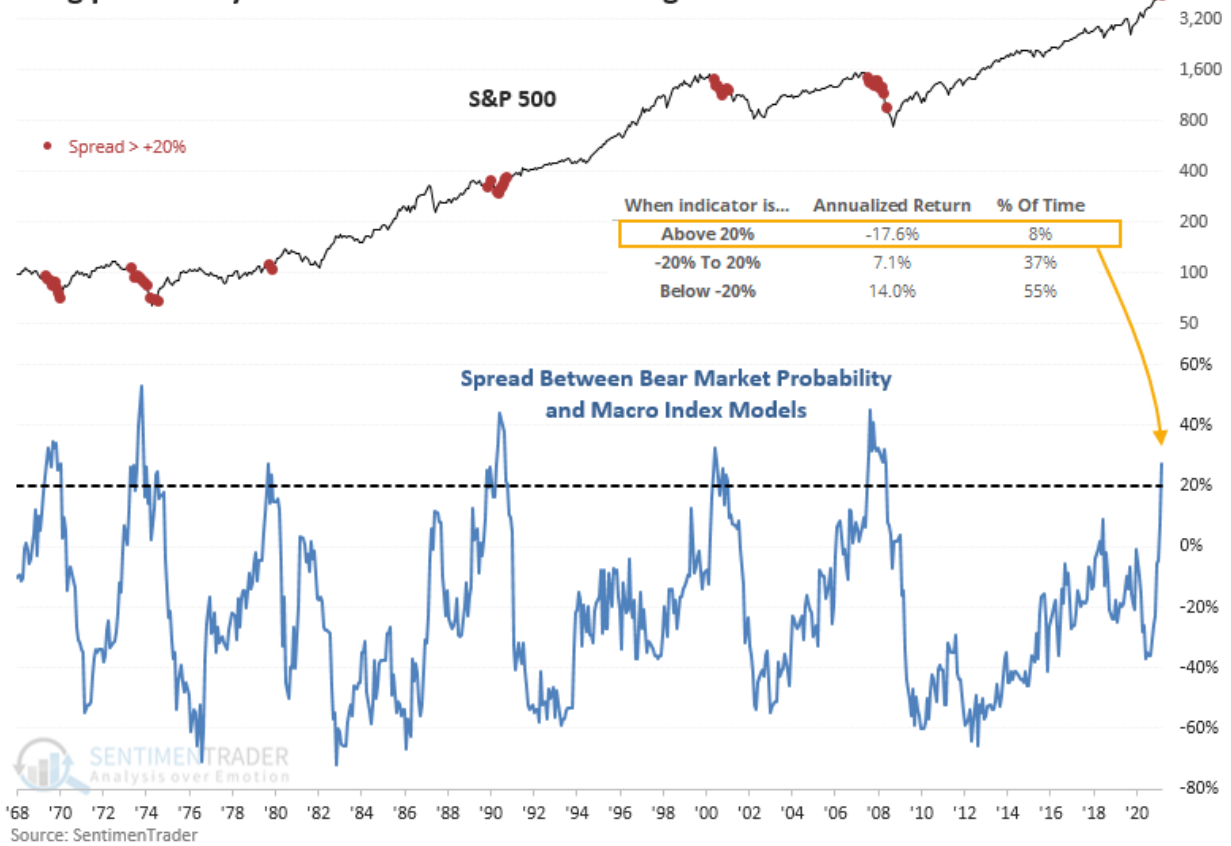
SentimenTrader uses 11 different factors, such as new home sales and initial jobless claims. The outlook is weakening.



The real power is in combining the two models. When the spread between the two models exceeds 20%, things get ugly. The 20% spread is only exceeded 8% of the time, but the annual losses are near 18%. On several occasions, there have been even more considerable losses over two years.

It would not be out of the ordinary to have a nasty two-year bear market when the next one comes.

Rising probability of bear market + deteriorating macro conditions



Cooperman doesn't see any fundamental reason for the market to break from here. Again, this contradicts statements he made just a few months ago.

However, one potential factor could tank the market, but I would put it at a low probability. One of the main issues over the coming week will be the size of Biden's spending package and how to pay for it. There's a slew of potential tax increases that are being proposed.

One of those tax increases is to tax stock buybacks. It's not clear to me the mechanics of taxing the buyback (I think the Democrats just threw a bunch of stuff on the board to try and figure out how to pay for the package). Buybacks have been a key driver of stock market performance during this entire bull market. Every day, companies buy back billions of dollars worth of shares. The reduction in the supply of shares has been a critical component in demand exceeding supply and causing prices to rally higher.

If buybacks are taxed, the market will tank.

Another proposal that I think has little chance of getting through is to tax IRAs above a certain amount. If you want to lose your election, then raise taxes on savings and people doing the right things with their money.

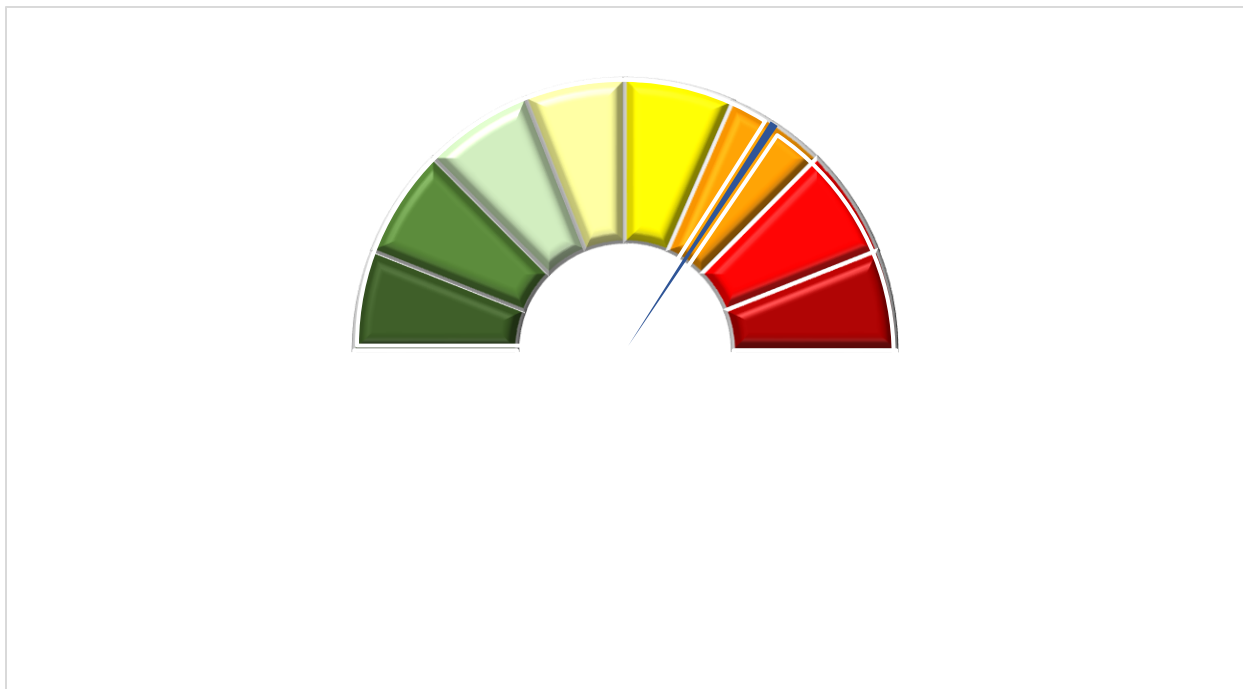
Since there will be zero Republicans voting for the package, the Democrats cannot afford to lose anyone in the Senate and only a tiny handful in the House. There are 28 Blue Dogs and 19 Democrats in the Problem Solvers Caucus (and there is some overlap between the two with members a part of both groups).

They'd be crazy to vote for these types of tax increases. They will get destroyed in 2022.

While these represent low probabilities of getting through, **it does illustrate that something out of left field could completely sink the market—an unknown unknown of sorts.**

Strange tax increases that have unintended consequences are one thing that could come out of left field.

For now, though, the *Risk-O-Meter* remains unchanged for the week and is on a buy signal, although all of the factors remain vulnerable to completely flipping very quickly.



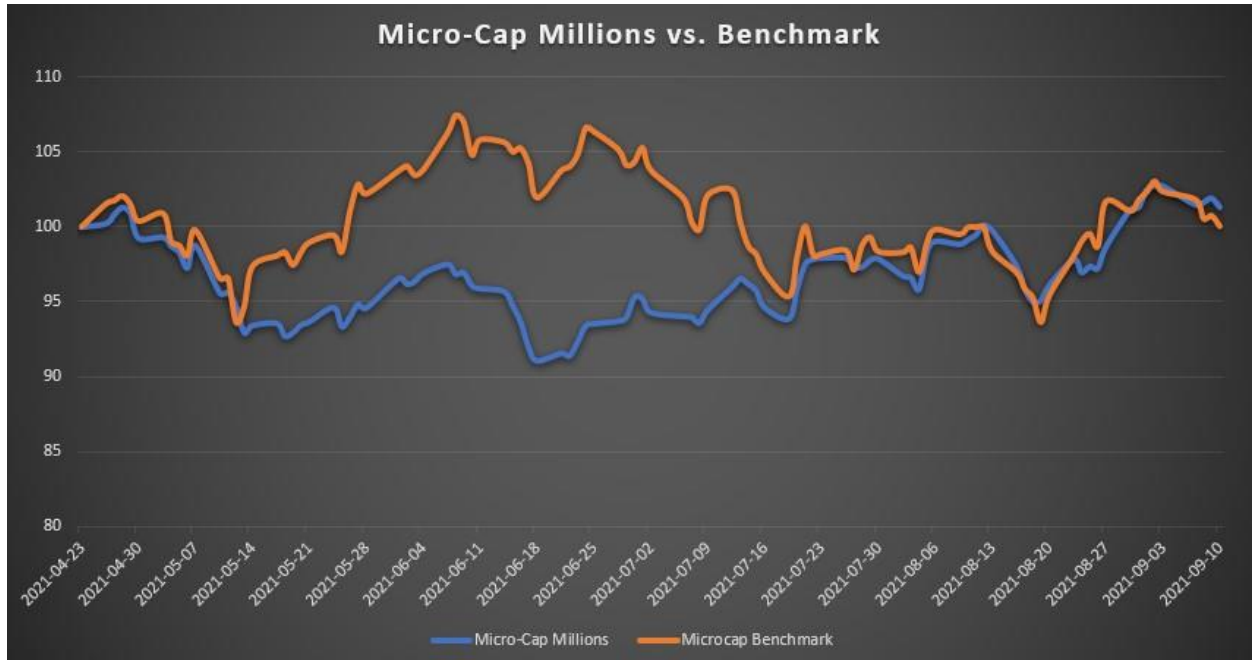
Happy trading!



John

Micro-Cap Millions

Once again, there are no new trades for the strategy this week. Here is the updated performance chart followed by the current portfolio.

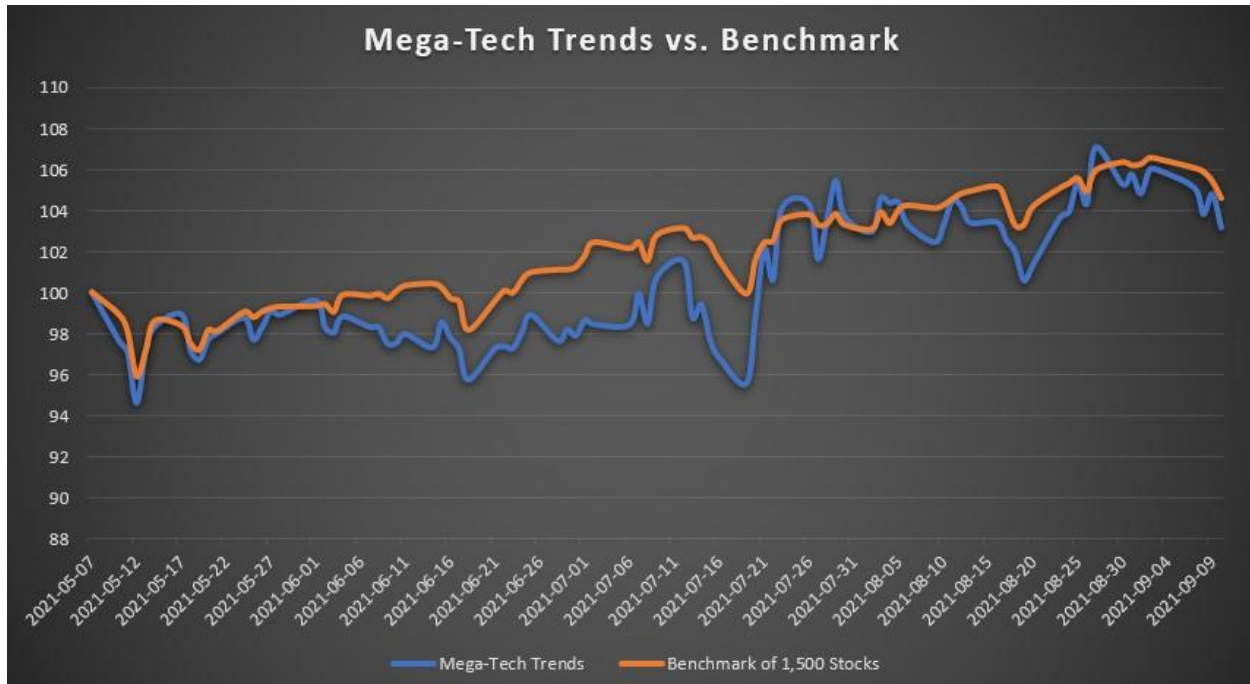


Here is the current portfolio:

BBSI	Barrett Business Services, Inc.
EVC	Entravision Communications Corp.
FEIM	Frequency Electronics, Inc.
HSII	Heidrick and Struggles International, Inc.
IHC	Independence Holding Company
MNDO	MIND CTI Ltd.
NAII	Natural Alternatives International, Inc.
SGA	Saga Communications
PCOM	Points International Ltd.
TSQ	Town Square Media

Mega-Tech Trends

Here is the performance chart for *Mega-Tech Trends*.



There are two trades again in the strategy this week:

Buy Jabil, Inc. (Ticker: JBL) and Photonics, Inc. (Ticker: PLAB)

Sell Korn Ferry (Ticker: KFY) and Western Digital (Ticker: WDC)

Here is the current portfolio:

ACLS	Axcelis Technologies, Inc.
ADTN	ADTRAN, Inc.
BDC	Belden, Inc.
BYD	Boyd Gaming Corp.
CCRN	Cross Country Healthcare, Inc.
FORR	Forrester Research, Inc.
JBL	Jabil, Inc.
LFUS	Littlefuse, Inc.
LIVN	LivaNova PLC
PLAB	Photonics, Inc.

Photronics, Inc. (Ticker: PLAB) is a leading manufacturer of photomasks (it looks like a plate that allows light through) which are components for flat panel displays and integrated circuits.

Obviously, demand has been strong during the pandemic and is expected to continue. The company's trailing 12-month revenue is trending strongly and hitting 15-year highs. Earnings quality has been persistently strong and operating cash flow handily exceeds net income. The balance sheet is in good shape with working capital under control.

Over the past year, like many technology stocks, the shares have seen a big rally in prices. Recently, there's been a minor pullback within a big bullish trend. If the stock can breakthrough \$15, it could be off to the races from there.

Shares of **Jabil, Inc. (Ticker: JBL)** are up nearly 100% over the past 12 months. If past is prologue, there could be much more upside from here even after the big move.

The trend has been steady. The stock chart is a thing of beauty.

The company has a diversified business but specifically has a big presence in supply chain management. This is another area with exploding demand as the pandemic continues on.

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