Stealth Crisis

Inflation. It's a topic constantly in the news. For the first time in a generation, we feel the effects of inflation. The price of everything is up, or so it seems.

If you read or follow investment news or subscribe to investing newsletters, you might think that with all of this inflation, the U.S. Dollar is in the dumps spiraling out of control with the eventual end of total worthlessness.

You would be wrong.

The U.S. Dollar was **very** strong in 2021. The following chart shows the weekly performance of the **Invesco D.B. U.S. Dollar Index Bullish Fund (NYSE: UUP).** The chart is distorted due to the COVID smash in 2020, but that was a once-in-a-lifetime event. I want to focus on 2021. Look at 2021 until mid-day January 7, 2022 (when I am writing this). The low for the index was $24.13, and the high was $25.97. At this moment, the fund is trading at $25.70.

That's a 6.5% increase off the low. That's a **big** move for a currency. With all the leverage involved in foreign exchange trading, if you made a bet against the U.S. Dollar and dug in your heels, you're wiped out. It's game over.

Currencies do not trade in isolation. Currencies trade in relation to something else. The UUP ETF trades the Dollar against a basket of the major currencies, including the Euro, Yen, Canadian Dollar, Swiss Franc, and Swedish Krona (I'm not sure why the Krona is in there and not the Australian Dollar).

As bad as it might seem in the U.S., it's worse just about everywhere else. The U.S. might be the prettiest house in an otherwise ugly neighborhood.

And it's ugly!

There's a stealth crisis unfolding right before our eyes. It's just hard to see.

Many markets around the world are deep in the red. Some of the worst-performing markets have the cheapest valuations and should be great buys by traditional measures.

Those markets have been great buys for a while. All that's happened by owning those markets is that your pocket has been picked.

In real terms (inflation-adjusted), Russia is down 58%, Brazil is down 24%, and China is down 35%. In less hyped-up markets such as Italy, Turkey, and Austria, the losses are 26%, 51%, and 26%, respectively.

The following chart shows the relationship between emerging markets and the S&P 500. Since the start of 2021, it's been a complete death spiral for emerging markets.

The situation is also dire for developed markets. On the next page is a chart of the total international market compared to the S&P 500.

The performance of international markets relative to the S&P 500 has been like a death-defying rollercoaster.

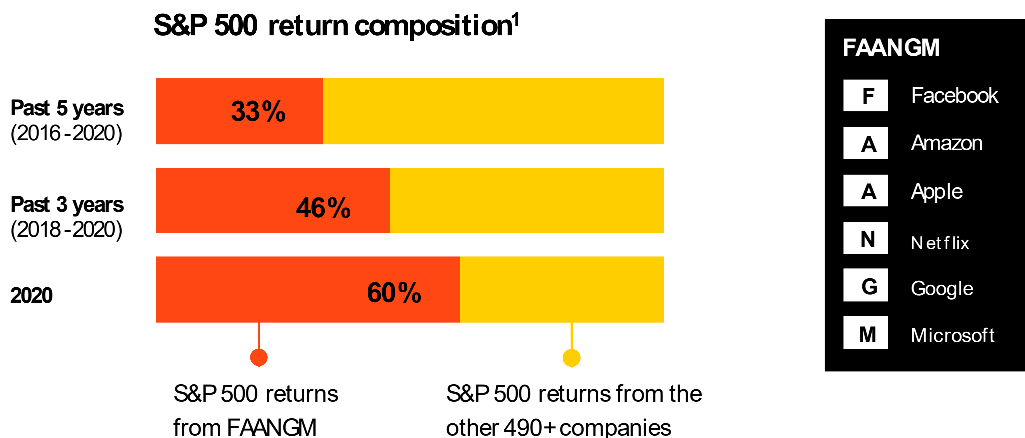
This trend is likely to continue until it doesn't. The trend is your friend until the end when it bends.

That's why in addition to fundamental analysis, I also follow trends.

The fundamentals suggest a good reason to own some international markets. The trends suggest you've been getting your butt kicked along the way.

This is a stealth crisis because, for those of us in the U.S., the major market indexes are masking a lot of pain being felt worldwide and outside of just a few enormous stocks like Apple, Microsoft, and Netflix.

On BlackRock's website is this table.



In 2020, just six stocks accounted for 60% of the market's gains. Over five years, that percentage is 33%. But, over three years, 46% of the profits were from those same stocks.

Recent action on the Nasdaq is concerning too. While the index is down modest mid-single digits from its high, about 40% of the stocks are down 50% from their highs. Again, the returns are driven by just a few stocks.

That should scare the shit out of you.

The market is getting narrower and narrower. That's **not** a good sign. Ideally, we want to see broad participation in the stock market as it grinds higher.

That's not happening. The fact that the strategies in this newsletter performed well in 2021 during this challenging period is a testament to the combination of accounting forensics and trend analysis. The indexes don't follow such a strategy, though. There are plenty of stocks moving in the wrong direction.

The crisis is already unfolding. By the time Apple, Microsoft, Netflix, and others get hit, *and they will get hit hard at some point*, the losses in the rest of the market are likely to be *already* staggering.

We are not in an environment where complacency will do well. That said**, I do not think we should overreact.** Instead, we need to be aware of the trends and act accordingly.

I have mentioned in this space in the past that strength or weakness in the U.S. Dollar is the number one indicator to watch concerning crises. The Dollar is still a place investors and speculators flock to in times of distress. When that is no longer the case, then we have a massive problem on our hands.

We are not there yet.

The *Risk-O-Meter* remains on a buy signal this week. The only indicator flashing red is the credit market indicator. All of the indicators are equal-weighted. However, when the credit market indicator flashes red, it does concern me. Bond analysts and investors are way more level-headed and fundamentally adept than stock analysts.

Many people trade stocks in their underwear while sitting in front of a computer screen.

No one trades bonds in their underpants.

Bonds are serious business.

That said, the *Risk-O-Meter* is on a buy signal. If the market sells off from here and gets oversold, that presents an excellent opportunity to buy stocks for intermediate-term gains, as long as the *Meter* stays green. I'll be watching that closely to let you know if/when that is the case.

How can the *Risk-O-Meter* be on a buy when I just spent four and a half pages talking about a stealth crisis?

One has nothing to do with the other. The *Risk-O-Meter* is purely objective. It doesn't care about my feelings or opinions or any metrics outside of the indicators it uses to calculate the level of risk in the market.

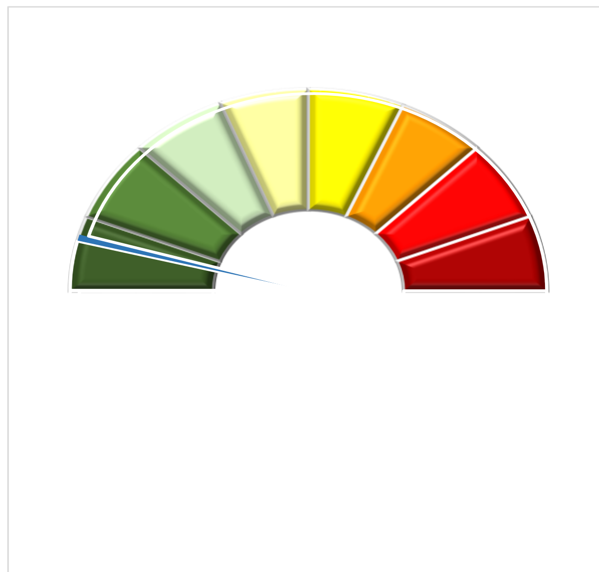
The *Risk-O-Meter* isn't measuring the returns in Russia. However, when stocks like Apple, Microsoft, and Netflix get hit, and the sentiment around the U.S. market shifts, the *Risk-O-Meter* will reflect this accordingly.

There are plenty of reasons to think the market would dive.

It hasn't.

If you've been sitting out of this massive move since the COVID lows, you missed a generational opportunity to double your money with little risk.

The risk has been much greater **not** being in the indexes over the last 20 months. It has been very costly to folks on the sidelines while the trends have indicated higher stock prices in the U.S. That could change in a short period. However, for right now, the *Risk-O-Meter* is flashing a green light.



DISCLAIMER:

THIS COMMUNICATION IS FOR EDUCATIONAL AND INFORMATION PURPOSES AND DOES NOT CONSTITUTE INVESTMENT ADVICE. *Any Publishing Service offered by HSD Publishing is for educational and informational purposes only and* ***should NOT be construed as a securities-related offer of solicitation or be relied upon as personalized investment advice.*** *HSD Publishing strongly recommends that you consult a licensed or registered professional before making any investment decision.*

THE RESULTS PRESENTED ARE NOT TYPICAL OR VERIFIED. *HSD Publishing has not verified information regarding the historical trading performance presented. Subscribers' trading results have* ***NOT been tracked or verified,*** *past performance is not necessarily indicative of future results,* ***and the results presented in this communication are NOT TYPICAL.*** *Actual results will vary widely given a variety of factors, such as experience, skill, risk mitigation practices, market dynamics, and the amount of capital deployed. Investing in securities is speculative and carries a high degree of risk; you may lose some, all, or possibly more than your original investment.*

HS DENT IS NOT AN INVESTMENT ADVISOR NOR A REGISTERED BROKER. *Neither HSD Publishing nor any of its owners or employees is registered as a securities broker-dealer, broker, investment advisor (IA), or I.A. representative with the U.S. Securities and Exchange Commission, any state securities or regulatory authority, or any self-regulatory organization.*

WE MAY HOLD THE SECURITIES DISCUSSED. *HSD Publishing has not been paid directly or indirectly by the issuer of any security mentioned in the Services. However, HS Dent, its owners, and its employees may purchase, sell, or hold long or short positions in securities of the companies mentioned in this and future communications.*

John Del Vecchio is not an employee or partner of HSD Publishing. HSD Publishing is acting solely as the marketing arm for John Del Vecchio and Unbounded Wealth: Max Profits.

© 2021 HSD PUBLISHING. ALL RIGHTS RESERVED. 15016 Mountain Creek Trail Frisco, TX 77573.