War and Oversold Markets

War rages on in Europe.

The pictures I have seen from Ukraine are both tragic and heartbreaking.

The equity markets have taken it on the chin. Stock markets rebound and come back.

Lives are lost forever.

I pray the situation improves immediately.

Not surprisingly, the risks remain elevated, and the *Risk-O-Meter* remains on a “sell” signal.

While risks are elevated, the markets remain deeply oversold. Typically, such a profoundly oversold condition would provide an excellent opportunity to capture some profits for a short-term rally in the markets.

Sadly, we are not in a typical market.

The fog of war in Ukraine will also cast chaos and confusion on the markets. The situation in Europe changes by the minute.

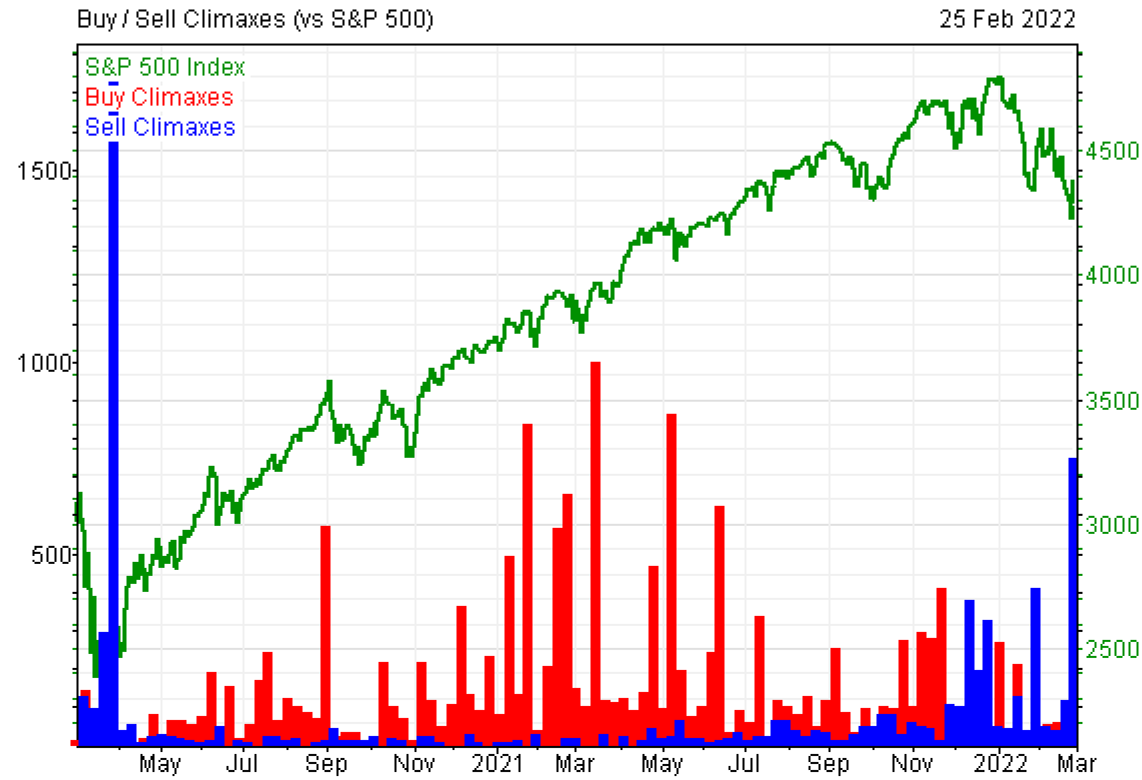
Therefore, volatility will remain high.

We could easily see some big up days when there is the hope of a resolution only to see stocks get hammered as tensions flare in Europe.

There are indicators supportive of stock prices right now.

For example, the number of stocks that made new lows only to finish the week higher was at the highest level since the beginning of the COVID rally.

See the chart below.



The blue line represents selling climaxes (new low followed by finishing up for the week). Selling climaxes were around 750 recently. While the number of selling climaxes does not indicate *the* low, it shows that the amount of selling has started to get exhausted.

Lots of selling climaxes are bullish. Stocks can only go so low.

Eventually, there's no more selling left.

Corporations are buying stock, which is bullish. As recently as March 3, 2022, 71 new stock buybacks were announced totaling $55.5 billion. Cash takeovers also hit a six-week high.

Meanwhile, there was just $1 billion in new offerings. This is the 10th consecutive week that offerings fell below $10 billion. The secondary market for offerings and the IPO market are both dead. D-E-A-D.

Both factors support stock prices.

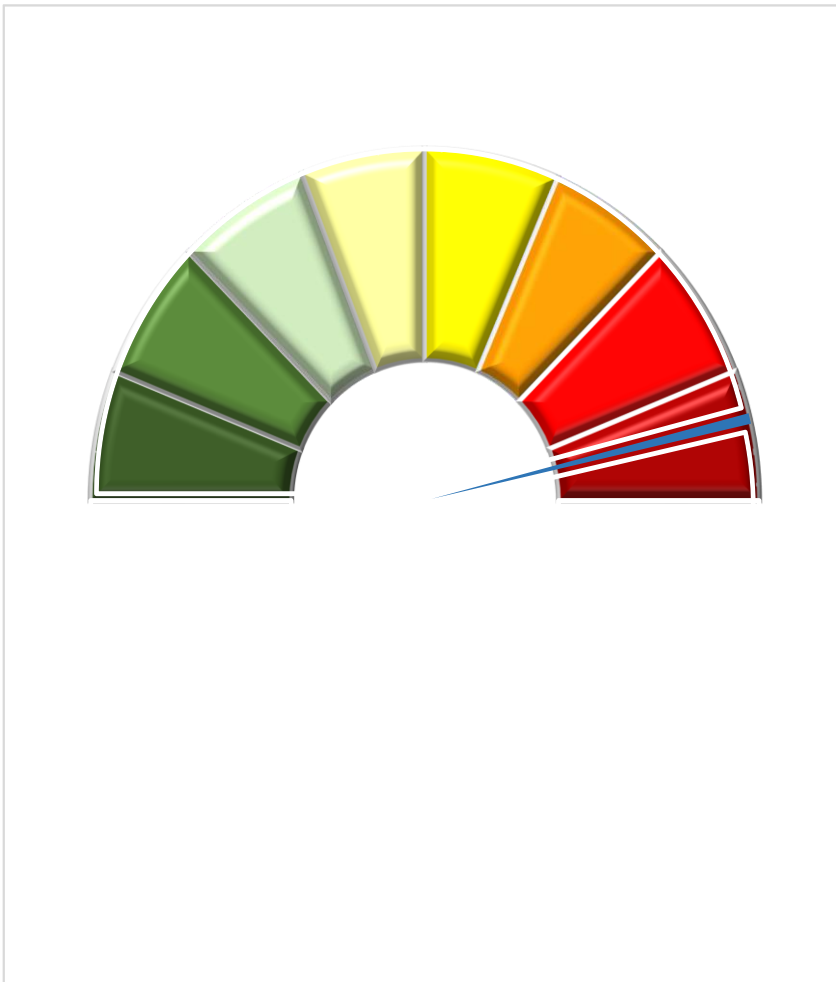
So, where to from here?

Well, if there is some resolution to the attack on Ukraine, the market would likely rip big-time. The rally would probably happen so fast that you would not have time to react.

On the other hand, if the war escalates, then the factors supportive of higher stock prices will not matter much in the short term. All of the news is about the war in Europe, and it is sucking up all of the oxygen related to market news.

Interestingly, different market caps of the market are widely diverging. The micro-cap strategy of this newsletter is ***near all-time highs*** on a fully invested basis. Meanwhile, large caps, which had the most significant gains before the recent downturn, have given those gains up for the most part. Mid-caps are in the middle. Therefore, there's still a great deal of value in individual stock picking. Not all stocks are falling. Far from it.

For now, the Risk-O-Meter remains on “sell."



Risk-O-Meter 2.0

The investable *Risk-O-Meter* was defensively positioned over the past month. For the most part, "risk-off" positions have been the place to be in hiding.

The trends and indicators in the *Risk-O-Meter 2.0* are intermediate-term in nature. Therefore, if the market rebounds sharply over the next month, the *Meter* will lag in performance.

That's OK.

What matters most is that there is at least one big trend in a year. *A lot* of performance can be generated with just one big trend to the upside or avoiding massive damage to the downside.

Here are the four components and their positions for March.

Component	Position	Position Size	Risk ON or OFF
Market Trend	Cash	25.0%	OFF
Sentiment	Cash	25.0%	OFF
Volatilty	IEF	22.5%	OFF
Levered Volatility	UST	2.5%	
Credit Risk	TLT	22.5%	OFF
Levered Credit Risk	UBT	2.5%	OFF

This month, all of the indicators in the Model are in "risk-off" mode. With what is going on in the world, this makes perfect sense.

A great offense is a good defense.

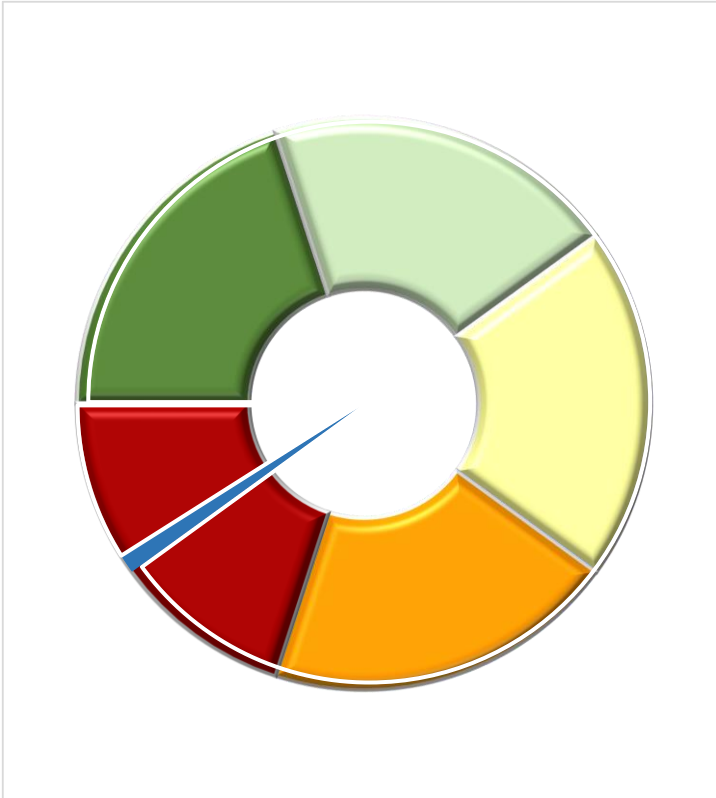
Should the market bounce or start a new uptrend in March, the *Risk-O-Meter* will miss out on the initial phase of a new rally.

That's OK. If the trend is sustainable, the *Risk-O-Meter* will adjust.

It is far more important to catch the meat in the middle of a trend than worry about timing tops and bottoms.

The only trade is to buy TLT and UBT (if you want to use levered funds) and sell SPY and QLD (again, if you use levered funds).

<u>This portfolio represents my version of an investable Risk-O-Meter.</u> You can make adjustments that suit your purposes (like I do with SCHB instead of SPY), such as not using levered ETFs if you wish.



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