



The Big Squeeze

Last year in this newsletter, I predicted that by April 2022, we could begin the start of a deflationary bust. While inflation has remained high and the reported job market has remained tight, my prediction may prove correct.

Of course, we will not know the entire story until after the fact.

Beneath the surface, the fundamentals have been deteriorating for months. Since April, many trends have turned South and have persisted in the wrong direction.

GDP was negative in the first and second quarters. Politicians can gaslight the public, but that is a recession. Furthermore, 87% of the public believes we are in a recession.

That means we are in a recession.

Jamie Dimon of JP Morgan, Jeff Bezos, and Elon Musk warned of recession.

Bloomberg recently pegged the odds of a recession next year at 100%.

It's a self-fulfilling prophecy.

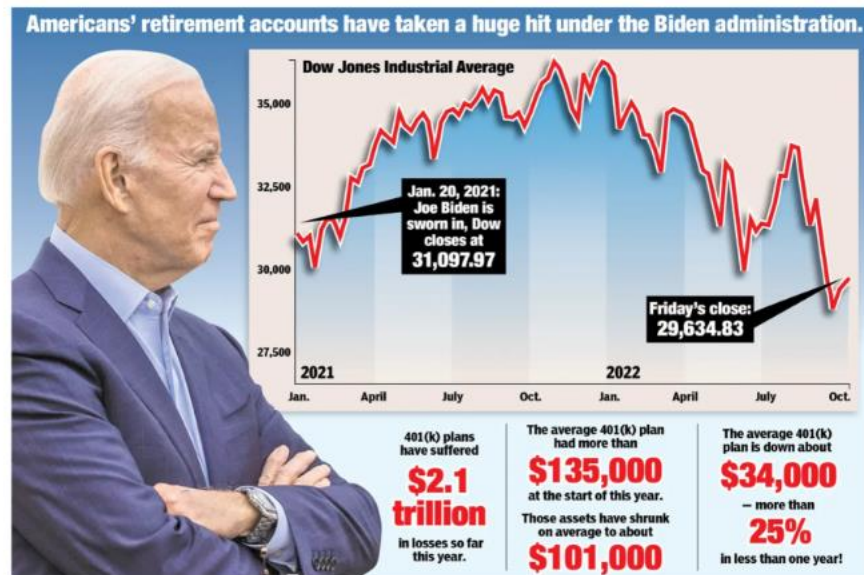
The two biggest concerns coming into a crucial election in a couple of weeks are the economy and inflation.

The average American, aka "Joe Six Pack" (since this is 2022, I should point out that Joe's pronouns are he/him), is getting squeezed in all directions.

First, his 401(K) has turned into a 301(K). Or, as *The New York Post* put it, 401 KO.

The market has been a knockout punch to hard-working Americans' retirement savings.

401 KO!



Next, mortgage rates are flirting with 7%. New construction is down; as I have pointed out previously, people are backing away from purchase contracts at record rates. Why would you dare move if you're locked into a 30-year fixed mortgage at 2.75%?

Joe can't tap into his home equity because he cannot afford the interest payment.

Meanwhile, his real income has been demolished due to inflation.

He's spending nearly \$500 extra monthly to keep pace with his usual lifestyle.

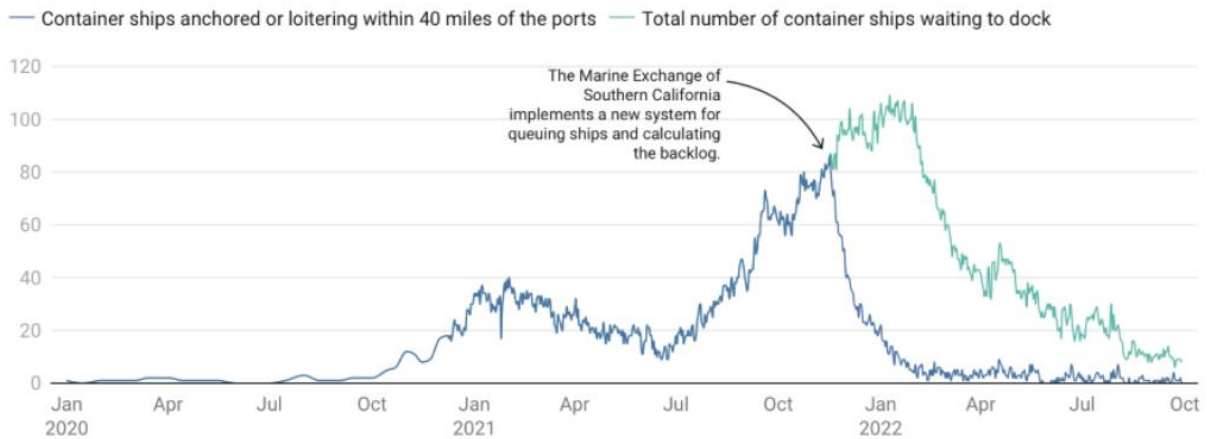
If he heats his home in the winter, he's about to get destroyed by higher energy prices.

Meanwhile, much of the craziness that occurred during the meat of the COVID pandemic has reversed course, and a massive deterioration of the fundamentals is underway.

Remember the supply chain issues?

Take a look at this chart. The number of ships waiting to enter the port in California has dropped from 109 to 10. And, it's just one ship, as nine ships are 40 miles or more off the coast.

Backlog drops at ports of Los Angeles and Long Beach after peaking in January



The supply chain is mainly cleared out.

FedEx has warned of a massive slowdown.

Inventories are starting to build.

The fertilizer shortage?

Gone.

Semiconductors?

Companies like AMD and Samsung are warning of waning demand.

Industrial commodities have imploded.

Here's a chart of copper.



Lumber prices surged early in the pandemic. They are crashing back to Earth. Demand is slowing.



The labor market is shifting from the employee having control (I want to work from home) to the employer calling the shots (You're gonna come into the office).

Layoffs are coming.

Big layoffs.

EXCLUSIVE

Deutsche Bank lays off bankers as dealmaking dries up: sources

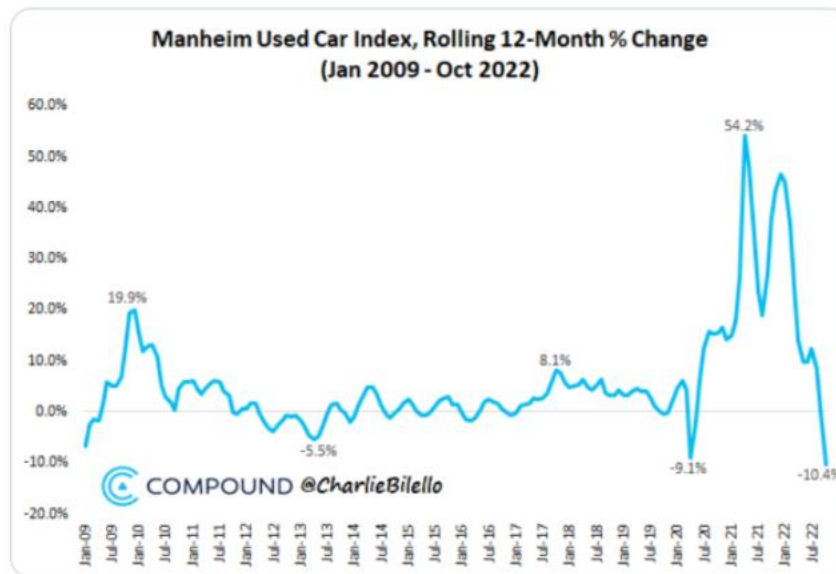
US housing market 'going to get worse' as home sales, listings hit new low

Home prices could fall 20% by next year as mortgage rates hammer market: economist

Goldman Sachs' junior bankers fear layoffs as David Solomon confirms restructuring plans

Microsoft reportedly slashed about 1,000 jobs amid slowdown

Used car prices have imploded. The 10% year-over-year decline is the largest on record.



Food prices remain stubbornly high. However, that is a blanket statement. Tomatoes sell for 25% less per pound than they did in 2015.

Avocados are down over 40% from their highs.

I read articles daily that highlight people struggling to pay their grocery bills. I have not experienced any noticeable food inflation in 2022. While I do not keep my receipts and track my grocery bills to the penny, I know what I typically spend each month.

I have a theory for why I have avoided much of the damage others seem to have experienced.

I will share that theory next week, along with the plan of action I have had in place for years.

The *Risk-O-Meter* has moved to the middle of the range. The market is no longer oversold. I suspect that until the liquidity situation turns favorable, we will have massive volatility in both directions.

This is classic bear market activity.

My long-term taxable account now focuses on three areas to nibble on when the market is deeply oversold.

First, emerging markets. Emerging markets have performed horribly for a decade or more. Everything reverts to the mean. This means that, at some point, emerging markets will shine. Those markets will make up for lost time. The out-performance will be huge.

No one knows when.

Second, small-cap stocks. Value stocks, particularly smaller companies, have lagged as well. However, the micro-cap strategy in this newsletter, which is the primary strategy, is close to all-time highs.

As an asset class, small caps have a gap to fill relative to larger companies.

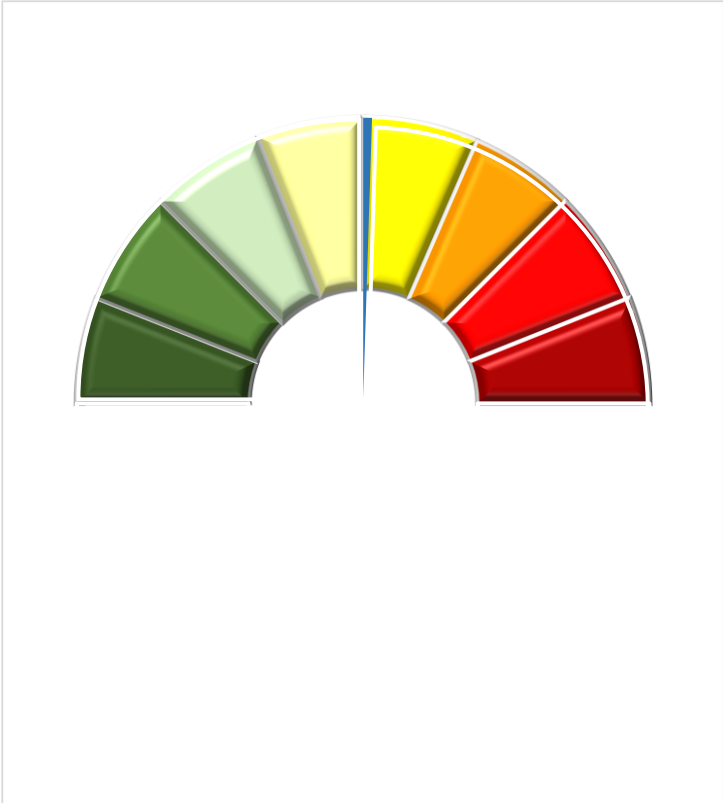
Third, equal-weighted Nasdaq 100. This is the ETF QQQE (there may be others, but this is the main one). Generally, the leaders of one cycle are seldom the leaders of the next.

This is terrible news for Apple, Microsoft, Meta/ Facebook, Alphabet / Google, Amazon, and Tesla.

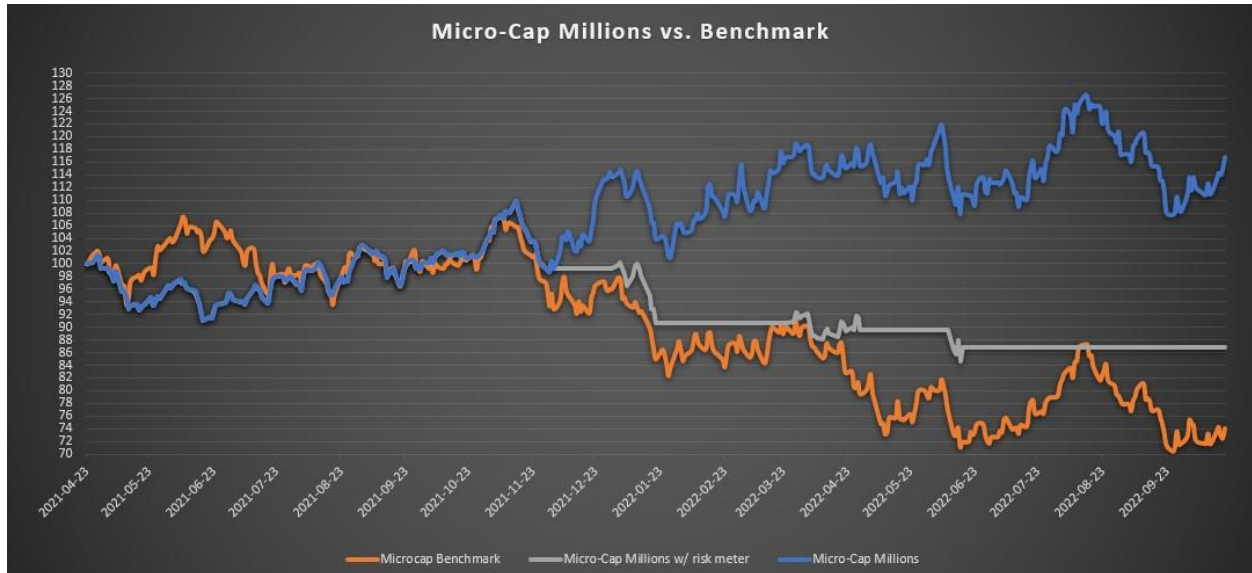
It doesn't mean that they won't do well. However, those stocks have carried the entire technology market on their back for years.

The other companies in that index are overdue to share some heavy lifting. By equal-weighting, the index, the huge bias toward Apple and the others, which is about 50% of the market cap-weighted index is removed.

The fee is only 0.15% higher a year to buy the equal-weighted index than the QQQ (QQQ is 0.20%, and QQQE is 0.35%).



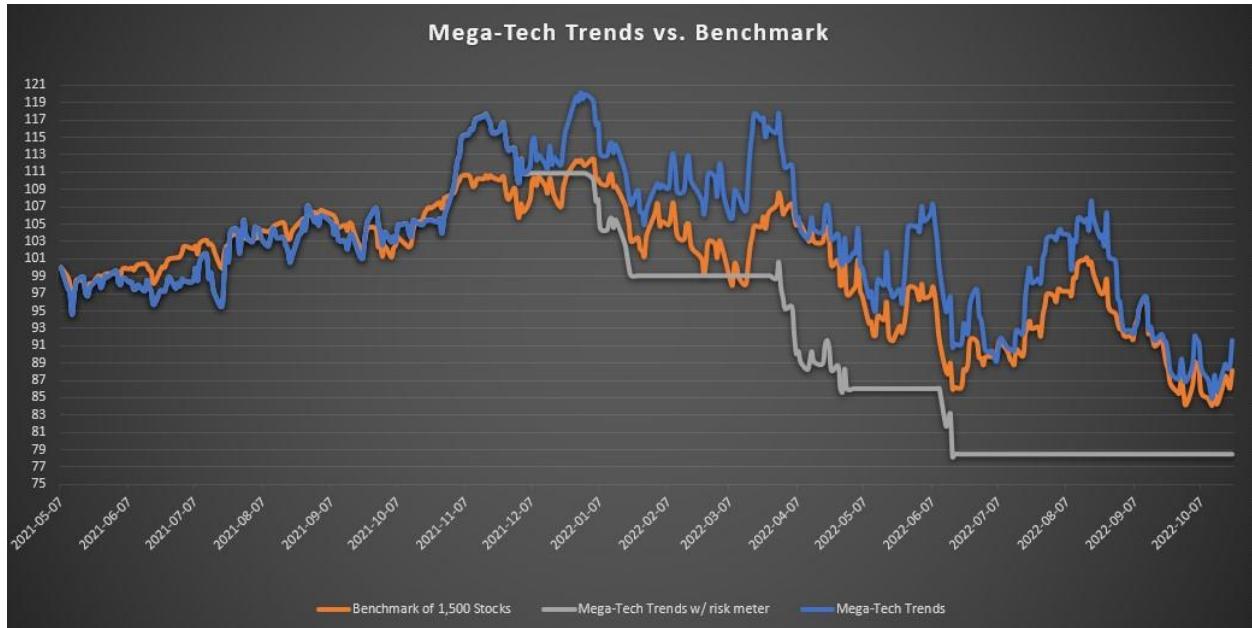
Micro-Cap Millions



There are no trades this week. Here is the current portfolio:

Ticker	Name	Return	Days Held	Sector
AVNW	Aviat Networks, Inc.	7.09%	11	Technology
BELFB	Bel Fuse, Inc.	5.35%	60	Technology
CTG	Computer Task Group, Inc.	-18.69%	137	Technology
EDAP	EDAP TMS SA	-0.44%	45	Healthcare
HCKT	The Hackett Group, Inc.	-2.59%	214	Technology
MRAM	Everspin Technologies, Inc.	-17.83%	45	Technology
PCTI	PCTEL, Inc.	-7.08%	67	Technology
PERI	Perion Network Ltd.	32.56%	95	Technology
UTMD	Utah Medical Products, Inc.	-5.17%	39	Healthcare
WSTG	Wayside Technology Group, Inc.	-21.01%	151	Technology

Mega-Tech Trends



There is one trade this week.

Buy NetApp, Inc. (Nasdaq: NTAP)

Sell TTEC Holdings, Inc. (Nasdaq: TTEC)

Ticker	Name	Return	Days Held	Sector
AMKR	Amkor Technology, Inc.	-14.39%	74	Technology
CDW	CDW Corp.	1.58%	25	Technology
CNXN	PC Connection, Inc.	2.60%	74	Technology
CRUS	Cirrus Logic, Inc.	-10.12%	39	Technology
JBL	Jabil, Inc.	5.39%	81	Technology
NTAP	NetApp, Inc.	0.00%	NEW	Technology
PLAB	Photronics, Inc.	1.48%	11	Technology
SANM	Sanmina Corp.	10.86%	74	Technology
TTMI	TTM Technologies, Inc.	-11.70%	67	Technology

Large Cap Leaders



There are two trades this week.

Buy Autodesk, Inc. (Nasdaq: ADSK) and Broadcom, Inc. (Nasdaq: AVGO)

Sell Abbott Labs (NYSE: ABT) and Verizon (NYSE: VZ)

Here is the current portfolio:

Ticker	Name	Return	Days Held	Sector
AAPL	Apple, Inc.	-2.10%	25	Technology
ADI	Analog Devices, Inc.	5.20%	18	Technology
ADSK	Autodesk, Inc.	0.00%	NEW	Technology
APH	Amphenol Corp.	-9.15%	256	Technology
AVGO	Broadcom, Inc.	0.00%	NEW	Technology
CDW	CDW Corp.	-4.92%	32	Technology
MPWR	Monolithic Power Systems, Inc.	-10.35%	25	Technology
NTAP	NetApp, Inc.	-0.73%	11	Technology
SNPS	Synopsys, Inc.	-18.32%	60	Technology
WST	West Pharmaceutical Services, Inc.	-20.07%	45	Healthcare

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