Good morning. As some of you may have noticed, the markets have finally found some forward momentum and this week as the major averages closed at 6-week highs. Also, worth noting that the S&P 500 closed above its 50-day moving average for the first time since April. The next challenge for the market would be for the 50-day moving average to break through the 100-day & 200-day moving average to set up what is known as a Golden Cross which usually marks the beginning of a Bull Market. Finally, the time-tested Dow Theory would have to turn bullish which would involve the Dow Transportation Average closing above the Dow Jones Industrial Average. None of these things have taken place yet but that is the direction we need to be headed in.

So, what are some of the factors behind the recent rally? Well, we turn to Tom Essay of the 7's Report to explain things further. ***There seem to be 3 primary factors behind the recent turn to optimism:***

1) Peak Inflation
2) Peak Fed hawkishness (most of the rate hikes are behind us)
3) Peak U.S. dollar strength (keep in mind a strong dollar hurts the profitability of U.S. companies abroad because it costs more to convert foreign currencies back into dollars if our currency is rising.

Why is this taking place? ***Well, there are 3 reasons for people to believe we may finally be on the other side of the bell curve:***

1) Commodity prices are declining
2) Forward looking inflation expectations have fallen below 3%
3) A recent drop in the Empire Manufacturing survey.

It is also worth mentioning that there may be some serious signs of capitulation in the consumer & professional investment community. Investors have become so bearish that everyone seems to be throwing in the towel. Some highlights of a recent Bank of America monthly fund survey:

• Stock allocations lowest since 2008 & Recession expectations the highest since the pan-demic, and before that the 2008 financial crisis

• Cash highest since 2001

• Growth and profit expectations at all-time lows

• The most risk-averse behavior since October 2008

While all of these factors are huge positives towards putting in a bottom it doesn't necessarily mean we are off to the races. It does, however, indicate we may finally be forming a bottom that we can establish an eventual bull market off of. **With that being said, we have recently changed our asset allocation to reflect our belief that the worst may be behind us**. This week we changed our asset allocation models from an allocation in a market neutral fund to a convertible bond fund that will give us more equity upside in an up market but still provide a cushion if we continue to see weakness. Convertible bonds are hybrid securities that pay a small coupon for yield and allow the holder to convert the security to shares of stock at a pre-determined price. If the stock trades above that conversion premium, an investor can participate in the upside. If not, you still get a small coupon. Many convertible securities are trading at their lows which makes it a potentially attractive time to be a new investor.

If you have any questions or comments, I always welcome them. I hope you enjoyed this update and you are having a fun and relaxing summer!

Regards,

Tim

See my Video: Thoughts on the markets April 29 2022

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