MINK WEALTH MANAGEMENT
LEGACY & RESPONSIBILITY TO FAMILY

MACRO MUSINGS

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Rush Zarrabian, CFA
Portfolio Manager
Corbett Road

SUMMARY

- **In this issue, we are introducing our microCAST™ risk model as a complement to MACROCAST™. The microCAST™ model takes a shorter-term focus, looking for weakness in market internals, while MACROCAST™ takes a more holistic view, aimed at identifying recessionary bear markets.**
- **The past three quarters saw positive performance across various asset classes, with particular strength in international stocks, which were buoyed by a weaker dollar.**
- **The S&P 500 gained more than 8% in the third quarter. Historically, when Q3 was up by more than 7.5%, the remainder of the year saw positive returns.**

INTRODUCING microCAST

While MACROCAST™ measures the attractiveness of risk assets by looking at the **VITALS**, microCAST™ measures the short-term risk and volatility of the market by looking at **TUMS** — **T**rend, **U**nderlying Breadth, **M**omentum, and **S**entiment.

Aggregating the signals across the underlying TUMS indicators, microCAST™'s risk posture is classified into one of five distinct tiers that indicate the model's recommended exposure to risk assets: most aggressive, aggressive, neutral, defensive, and most defensive. Strategies utilizing the microCAST model can quickly add or reduce risk exposure, moving between 100% invested in risk assets to 100% in cash, depending on the level.

There are several key differences between MACROCAST™and microCAST™:

1. While MACROCAST™ measures the risk of a sustained, recessionary bear market, microCAST™ shows general market pressure, regardless of the cause. As a result, microCAST™-based strategies will trade more often.
2. In other words, MACROCAST™ seeks to mitigate downside potential in the intermediate-term (6 to 18 months), while microCAST™ focuses on the short-term (1-3 months) downside potential.
3. MACROCAST™ tracks a broader range of indicators that consider the strength of the economy and implications of Fed policy; microCAST™ focuses exclusively on technical measures of market internals.
4. MACROCAST™ accepts and rides out the smaller, intermediate-term drawdowns that regularly occur over the course of a bull market, recognizing the fact that outside of a recession, the market generally resolves higher; whereas, microCAST™ aims to reduce volatility by acting on what the market is *doing* and not what it's *expected* to do.
5. microCAST™ is best suited for the risk-averse and drawdown sensitive, seeking to minimize short-term volatility.

A CASE STUDY: Q4 2018

The best way to explain this multi-pronged approach is through an example. In the fourth quarter of 2018, the stock market sold off 20% from peak to trough, driven by concerns of a slowing global economy and a Federal Reserve that was determined to keep raising interest rates.

During this time, MACROCAST™ never went negative. The model indicated that this was a slowdown during an economic expansion, similar to 2011 and 2015-16, and not the start of a new recession.

However, despite our conviction, the volatility was jarring, particularly in December 2018 when the S&P 500 dropped over 15% from the start of the month into Christmas Eve.

While MACROCAST™ correctly forecast the drawdown would be temporary and remained fully risk on, the indicators we use to track microCAST™ would have been more aggressive in reducing risk, thereby, potentially reducing the overall drawdowns for any account using the microCAST™ filter. Note that this does not mean that microCAST™ strategies would have seen better overall returns during this period, just that they would not have remained fully invested during this episode of market volatility.

WHAT IS microCAST™ SAYING NOW?

After a September market correction that saw microCAST™ shift to neutral, the current signal is most aggressive, which implies being 100% invested in risk assets. Despite the expected volatility around election season, the market is acting well.

ASSET CLASS REVIEW THROUGH Q3: A STRONG QUARTER FOR RISK ASSETS

The below table highlights the performance of major asset classes through September 30th:

	Index Total returns (%)		
Asset class	Q3 2020	YTD 2020	3-Year (Annualized)
International small cap stocks	10.2	-4.2	1.4
Emerging markets stocks	9.6	-1.2	2.4
U.S. large cap stocks	8.9	5.6	12.3
Gold & other precious metals	6.7	24.6	13.7
U.S. small cap stocks	4.9	-8.7	1.8
International large cap stocks	4.8	-7.1	0.6
High-yield bonds	4.5	-0.1	4.0
Treasury Inflation Protected Securities (TIPs)	3.0	9.2	5.8
Emerging markets bonds	1.8	-1.6	2.1
U.S. real estate investment trusts (REITs)	1.6	-17.1	0.2
Investment-grade corporate bonds	1.5	6.4	6.2
Municipal bonds	1.2	3.3	4.3
U.S. Treasuries	0.3	7.3	4.6
Securitized bonds	0.2	3.9	3.8

Source: Morningstar Direct, as of September 30, 2020. Performance figures shown are total returns for each asset class during the designated period. Indexes used are: U.S. small cap stocks, Russell 2000® Index; U.S. large cap stocks, S&P 500® Index; International developed market small cap stocks, MSCI EAFE Small Cap Index; Emerging markets stocks, MSCI Emerging Markets Index; International developed market large cap stocks, MSCI EAFE Index; U.S. real estate investment trusts, S&P United States REIT Index; Gold and other precious metals, LBMA Gold Price; High-yield bonds, Bloomberg Barclays High Yield Very Liquid Index; Investment-grade corporate bonds, Bloomberg Barclays U.S. Corporate Investment Grade Index; Emerging markets bonds, Bloomberg Barclays Emerging Markets Local Currency Government Bond Index; Treasury Inflation Protected Securities, Bloomberg Barclays TIPS Index; Municipal bonds, Bloomberg Barclays Municipal Index; Securitized Bonds, Bloomberg Barclays Securitized Index; U.S. Treasuries, Bloomberg Barclays U.S. Treasury 3-7 Year Bond Index. **Past performance does not guarantee future results.** Indexes are unmanaged and cannot be invested in directly.

Source: Charles Schwab

Reviewing asset class performance in the third quarter and year to date, the most interesting takeaways are:

1. ***Every major asset class generated positive returns.*** From stocks to bonds to precious metals, Q3 saw positive returns across the board.
2. ***International stocks topped the leaderboard, thanks in part to a weaker US Dollar.*** The best performing asset classes were international small cap and emerging market stocks. Those categories tend to outperform US equities when the dollar weakens, and last quarter, the dollar was lower by 4% versus other major currencies.
3. ***Bonds are still outperforming stocks year to date.*** Despite the big rally in stocks since the end of March, most bond categories are outperforming stocks in 2020. Bonds remain a valuable diversifier, even in a low interest rate environment.

BIG GAINS IN Q3 LED TO BIG GAINS IN Q4

The S&P 500 was up 8.5% in the third quarter (8.9% including dividends). Historically, strength beget strength. Historically, when Q3 performance was up at least 7.5%, it led to Q4 gains every time (table from LPL):

A Big Third Quarter Could Bode Well For The Fourth Quarter

Big Quarterly Gains For The S&P 500 Index In Q3 Historically See Continued Strength In Q4

Year	Quarterly Gain >7.5%	Fourth Quarter Return
1950	9.9%	5.0%
1951	11.0%	2.2%
1954	10.6%	11.4%
1958	10.7%	10.3%
1970	15.8%	9.3%
1980	9.8%	8.2%
1982	9.9%	16.8%
1984	8.4%	0.7%
1989	9.8%	1.2%
2009	15.0%	5.5%
2010	10.7%	10.2%
2020	8.5%	?
	Average	7.3%
	Median	8.2%
	% Positive	100.0%

Source: LPL Research, FactSet 09/30/2020 (1950 - Current)
All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.
The modern design of the S&P 500 Index was first launched in 1957. Performance before then incorporates the performance of its predecessor index, the S&P 90.

Only two of those years were presidential election years (1980 and 1984), and while 1980 was up over 8%, the market was essentially flat in 1984, rising just under 1%.

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IN CASE YOU MISSED IT…

The latest episode of the Corbett Road Podcast was published last week. We discuss historical stock market performance around election season, as well as the continued economic recovery.

The Corbett Road Podcast is available on all major podcasting platforms, including Apple, Google, and Spotify. Search “Corbett Road Podcast” and hit Subscribe to get the latest episode as soon as it’s released. You can also listen to it on our website at https://wealth.corbettroad.com/podcasts.

A LOOK AHEAD: OUTLOOK 2021

We will publish our next edition of Macro Musings in early December, which will cover our firm’s initial thoughts on the year ahead. I believe we can speak for most of our clients and partners in saying, here’s hoping that 2021 will be a less eventful year.

Thank you for reading our latest thoughts and analyses. We appreciate any feedback and value your continued relationship and trust.

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