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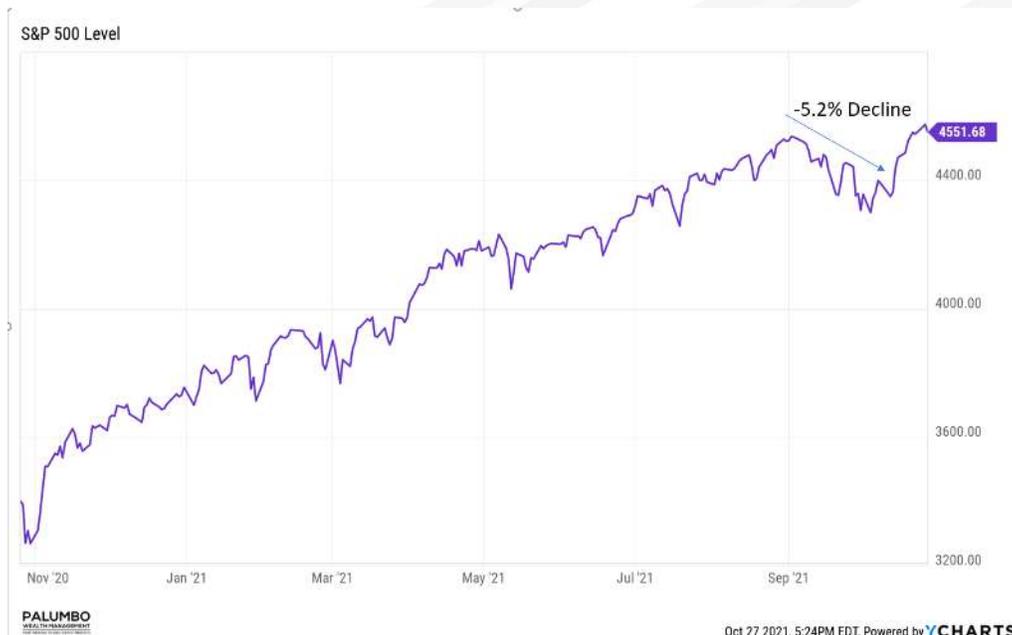
## Palumbo Pulse

October 30, 2021

### Story of the Week: Markets Hit All-Time Highs During the Week, Again!

This is why market timing is so difficult. When the market was declining in September, many Wall Street strategists like [Mike Wilson from Morgan Stanley](#), were calling for a 10-20% correction. Many thought we had seen the peak.

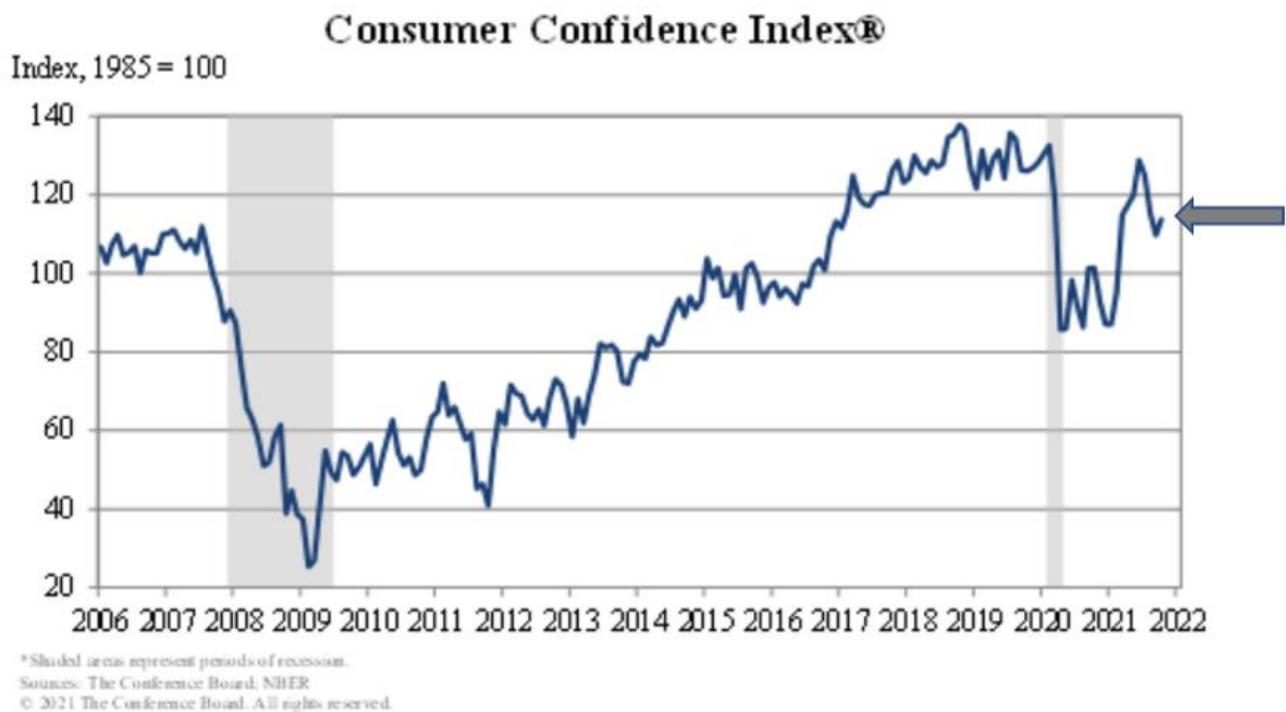
With all the resources that these major firms have, more often than not, they get it wrong and that has been the case throughout our many years of collective experience. After a -5.2% decline from the S&P 500's peak (see chart below), the market, once again, recaptured it's high during the week.



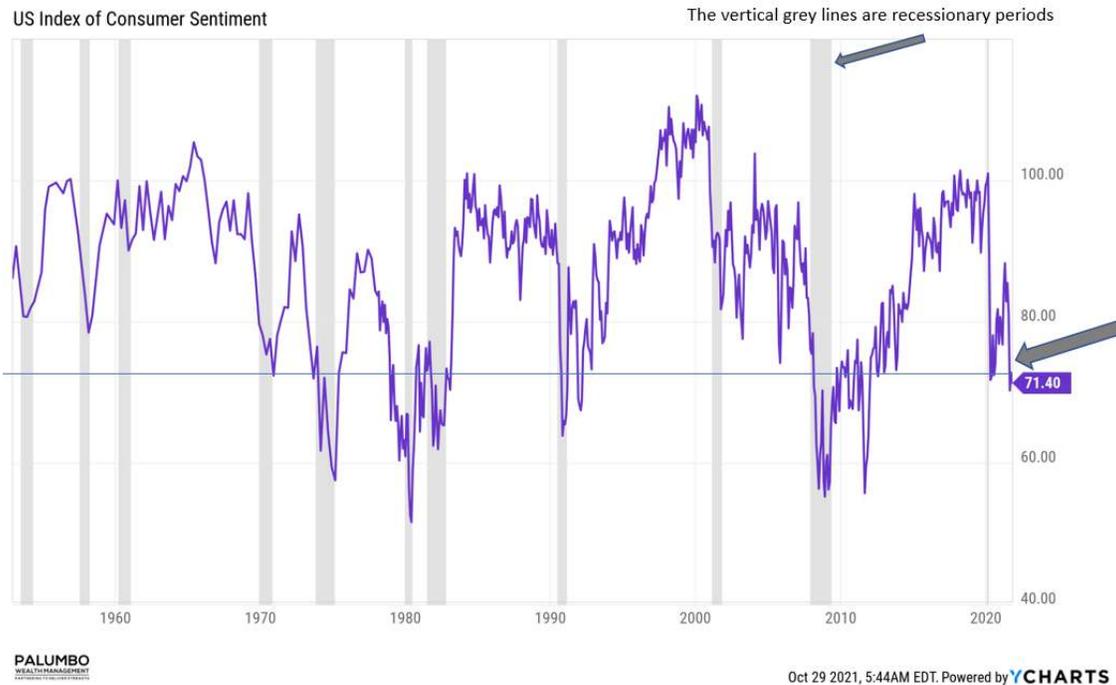


## Why?

1. Earnings continue to be strong
2. [Consumer confidence came in higher than expectations](#) (This monthly report details consumer attitude, buying intentions, vacation plans and consumer expectations for inflation, stock prices and interest rates).



As a side note to the Consumer Confidence Index chart above, **The University of Michigan US Index of Consumer Sentiment (tracks sentiment among US households' personal finances, business conditions, among other topics) last reading was concerning.** The current reading is typical during recessionary times. Please see chart on the next page.



What is my point in showing two consumer indexes?

Sometimes, economic data can be misleading and confuse investors. Making economic forecasts, like market timing, is very difficult to do and most economists track records are very poor.

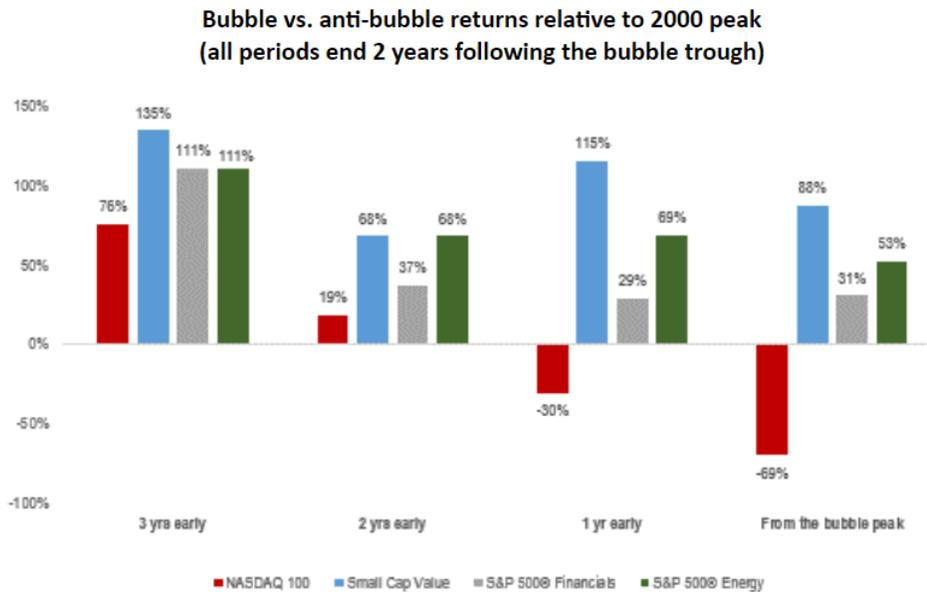
**So, why have we been talking about bubbles in various markets? ([Click Here To See Our Latest Interview](#))** In our view, **there is clearly excessive speculation occurring in various markets, including technology and real estate, not to mention the cryptocurrencies and NFTs (non-fungible tokens).** We discussed numerous times that the government has injected a **massive amount of money into the economy due to COVID (which was needed) but this money has not been distributed well, which has created excess for some, and little relief for others.**

**Should you sell your stocks because we think we are in a bubble?**

No! History has shown that it is impossible to consistently time the market, and bubbles can last far longer than would appear logical, or even feasible.



What we as investors should think about is encompassed in the chart below published by Richard Bernstein's team at RBA:

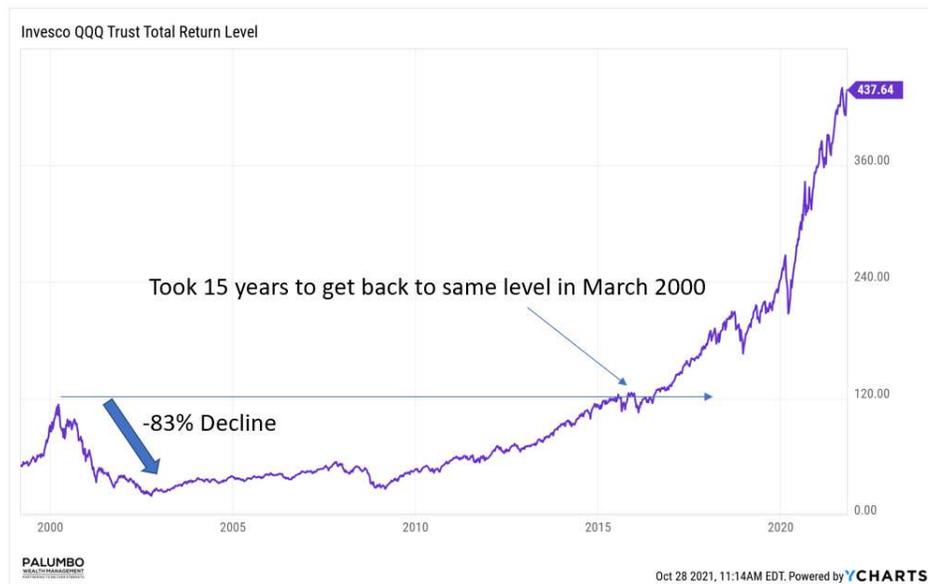


Source: Richard Bernstein Advisors LLC, Bloomberg  
Note: all periods begin relative to 3/27/00 peak and end on 10/9/2004

**The point of this chart is that even though there are bubbles in parts of the stock market, there are other areas that can perform well.** To help you understand what you are looking at, if you stayed invested in the Nasdaq 100 (last bars to the right) when the bubble burst, your return was a decline of -69%. At the same exact time, Small Cap Value, S&P 500 Financials and Energy had significantly better returns, up 88%, 31% and 53%, respectively. You can go through the same exercise 1 year, 2 years or 3 years earlier to see the same results.

That is why we always talk about the importance of rebalancing your portfolio. It forces you to sell investments that are performing well/over valued and reposition in other areas of the market that have underperformed and offer better return opportunities in the future.

Below is a chart of the Nasdaq 100 ETF (QQQ). As you can see, the **QQQ's peaked in March 2000 and then declined 83%**. It then **took 15 years to return to its prior peak**. **We are not suggesting that will occur now**, but we must be aware of how quickly markets can reprice stocks when they are at extremes.



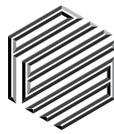
Finally, last weekend, we organized a positive and negative list of what can assist the S&P 500 to move higher or lower over the next 12-months. The following were my notes:

**Lower:**

1. The Federal Reserve will be tapering and possibly raise rates next year.
2. Inflation continues to be an issue and corporate margins get squeezed.
3. Higher corporate and/or personal tax rates under the Build Back Better plan.
4. A worsening of the energy shock in the U.S.
5. Supply shocks fail to correct quickly.
6. Additional dangerous COVID variants.

**Higher:**

1. More fiscal stimulus through the infrastructure and Build Back Better Plan.
2. Buybacks (which have also returned to record levels) from corporations.
3. The TINA (there is no alternative) trade because bonds are so unattractive.



I am sure we have missed some items, but this is the core of what we think about. **These are the known unknowns, and to figure out how this is going to play out, is an impossible game.**

**That is why we put emphasis on the importance, today more than ever, to stay balanced and rebalance portfolios when risk becomes unbalanced.** We all agree, more or less, that risky investments today are valued a lot higher than they normally are.

## What We're Reading

[\*The Role and Use of Alternative Investments\*](#)

[\*Labor shortage, supply constraints and inflation holding back the economy\*](#)

[\*What Are The Policies Both Sides Agree On?\*](#)

[\*Are Workers Returning to the Office?\*](#)

[\*Hamptons Tries Extreme Climate-Proofing to Save Itself\*](#)

[\*To Tax Billionaires, Democrats Should Keep It Simple\*](#)

[\*US consumer spending strong; robust wage gains hint at long spell of high inflation \(Subscription Required\)\*](#)

[\*Higher inflation primary risk to portfolios as funds trim bonds \(Subscription Required\)\*](#)

## Markets This Week

This week we saw a nice bounce back for growth stocks relative to their value counterparts. Emerging markets were the main losers alongside commodities, energy, financials, and gold. Gold suffered on the strong dollar and financials hot hit hard due to poor bank earnings. Fixed income, especially on the long-end of the curve also performed well this week, Treasuries the best performers here.

US Equities	1 week	YTD	Fixed Income	1 week	YTD	Sector Breakdown	1 week	YTD
S&P 500 (SPY)	1.35%	24.03%	20+ Yr. Treasuries (TLT)	2.47%	-5.27%	Consumer Disc. (XLY)	4.36%	25.68%
Dow (DIA)	0.42%	18.64%	Barclays US Aggregate (AGG)	0.51%	-1.68%	Info. Technology (XLK)	1.97%	24.95%
NASDAQ (QQQ)	3.21%	23.11%	Intermediate Municipal (MUB)	0.35%	0.29%	Financials (XLF)	-0.89%	38.30%
Russell 1000 Growth (IWF)	2.67%	24.10%	US Corporate Bonds (LQD)	0.88%	-1.69%	Health Care (XLV)	1.63%	19.26%
Russell 1000 Value (IWD)	-0.41%	21.90%	Barclays US High Yield (HYG)	0.10%	2.64%	Utilities (XLU)	-0.51%	9.17%
Vanguard Mid-Cap (VO)	-0.12%	23.07%				Industrials (XLI)	-0.30%	19.12%
Vanguard Small-Cap (VB)	-0.30%	18.80%				Energy (XLE)	-0.83%	56.68%
						Materials (XLB)	0.34%	19.12%
International Equities	1 week	YTD	Commodities	1 week	YTD	Consumer Staples (XLP)	-0.06%	7.56%
MSCI EAFE (EFA)	-0.01%	11.82%	Commodities (PDBC)	-1.34%	45.02%	Comm. Services (XLC)	-0.10%	19.62%
MSCI Emerging (EEM)	-2.15%	-1.01%	Gold (GLD)	-0.67%	-6.57%	REITS (VNQ)	0.00%	30.87%
						Homebuilders (XHB)	0.47%	35.18%

The table above is an analysis of the weekly and year to date returns of various markets/sectors that we follow (More RED = worse performing markets/sectors; More GREEN = best performing markets/sectors). Source: IEX Trading & PWM Research.



## Retirement Planning:

### [Using Annuities as an Alternative to Bonds to Secure Retirement Outcomes](#)

In retirement, a steady stream of income is important. In low interest rate environments, annuities can provide an option to give you the income you need during retirement.

## Tax Planning:

### [Minimizing Taxes When You Inherit Money](#)

Some inherited assets are tax-friendly, but under new rules, others come with a hefty tax bill.

## Health:

### [5 Sneaky Tricks for Enjoying Exercise After 50](#)

As we age or ability and desire to exercise slowly diminishes. Here are some ways to remain and enjoy being active.

## Entrepreneur:

### [3 Ways to Transform Your Instagram Into Your Resume and Control Your Personal Brand](#)

Social media has now, more than ever, become more and more important to reaching and expanding our businesses. Here are some ways to utilize Instagram to reach your target audience.

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