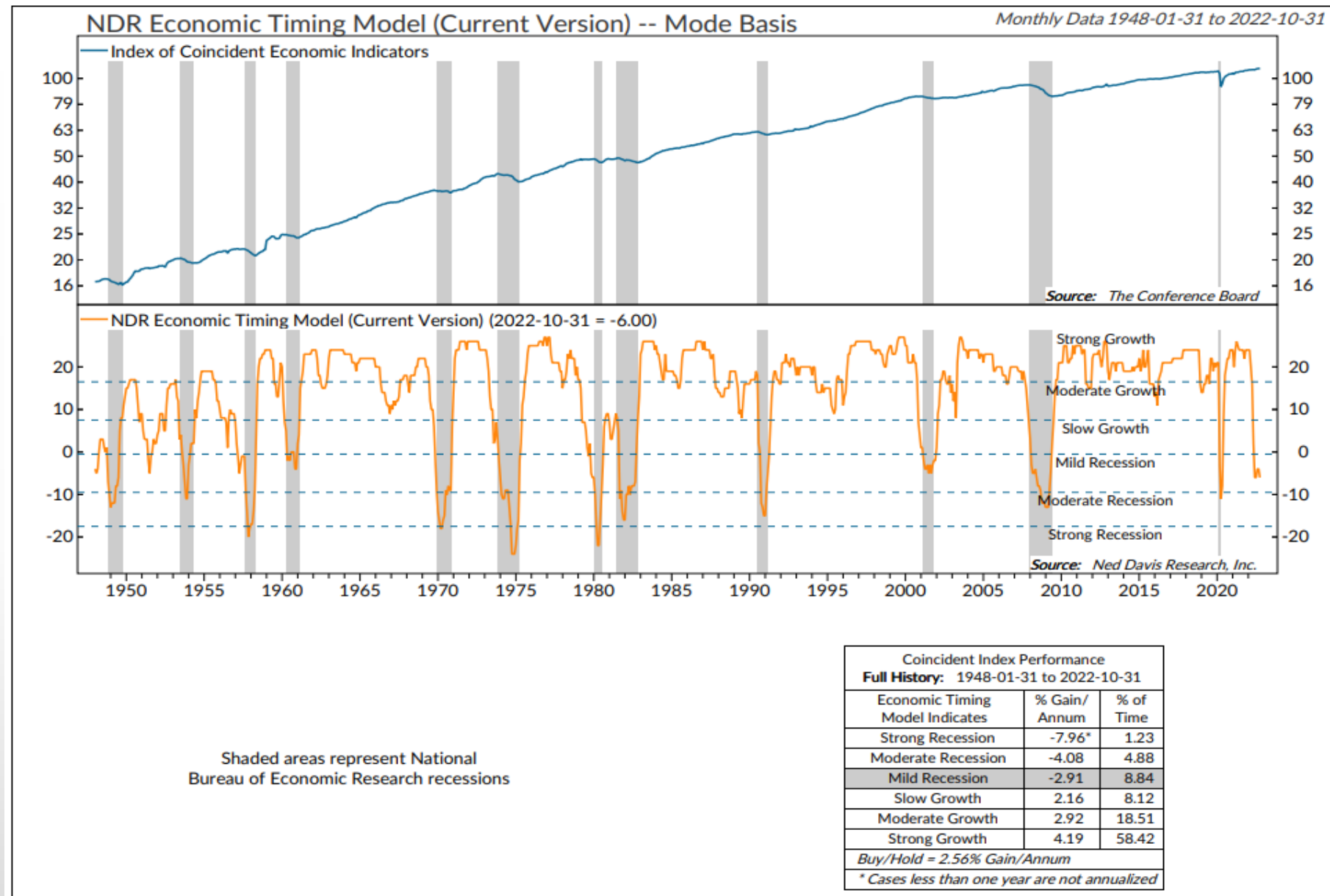




**BWM Investment Strategy  
2022, Year of the Bear...  
What is The Market's Next Act?**

# Economic weakness evident

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E2A



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# Are we in a recession?

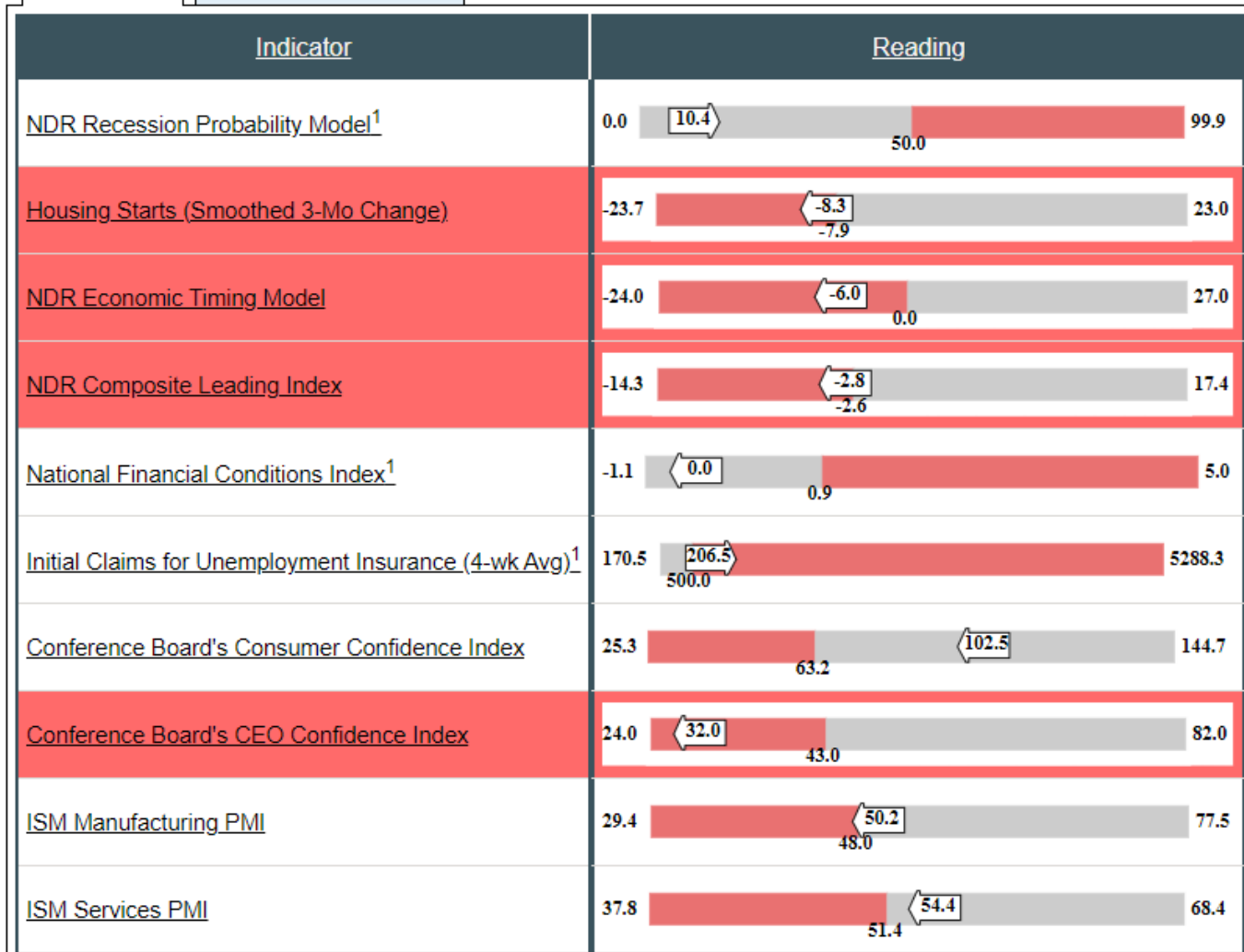


## Recession Watch Report

ECON\_20.RPT

Key Levels

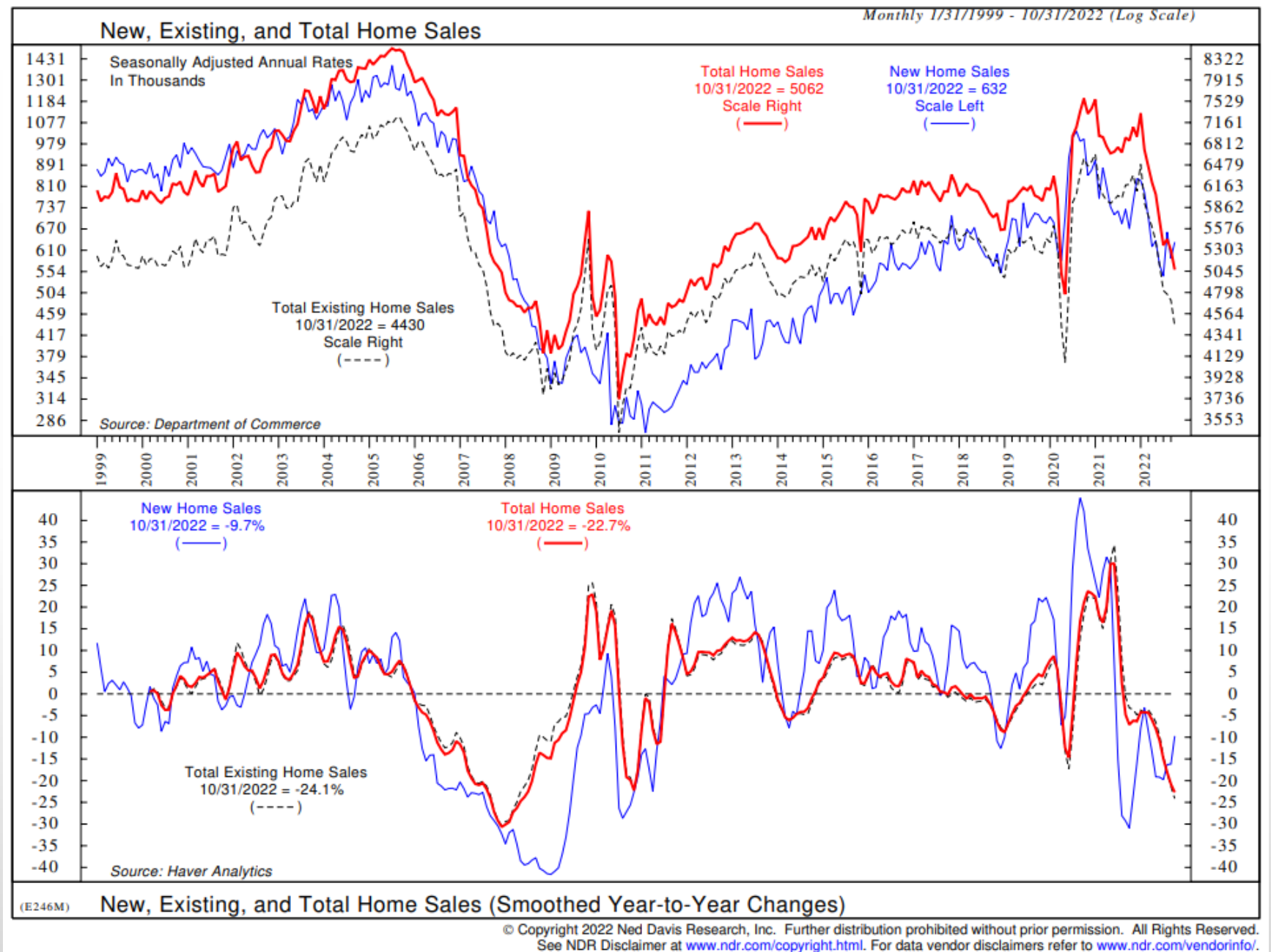
Recession Lead Times



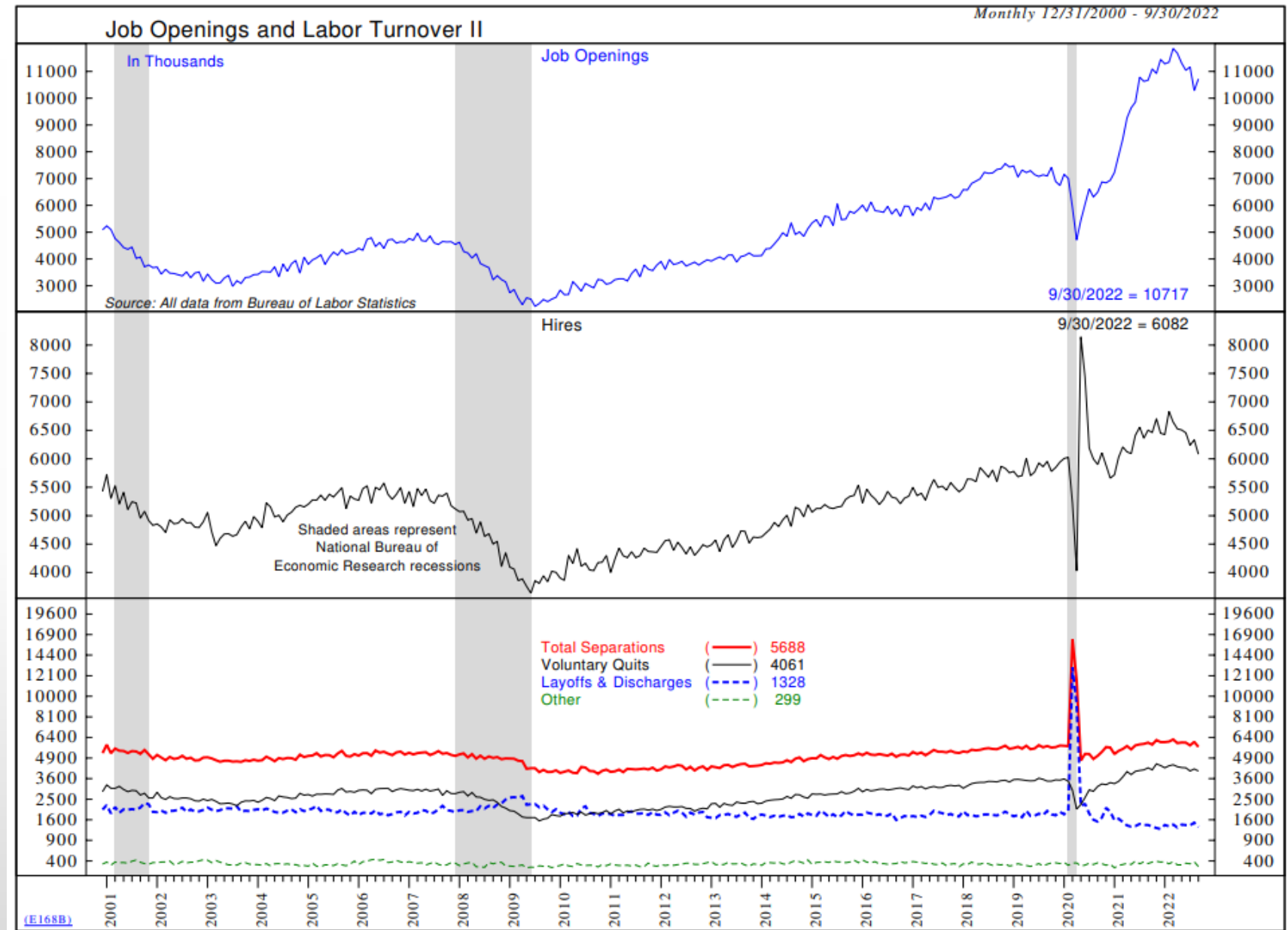
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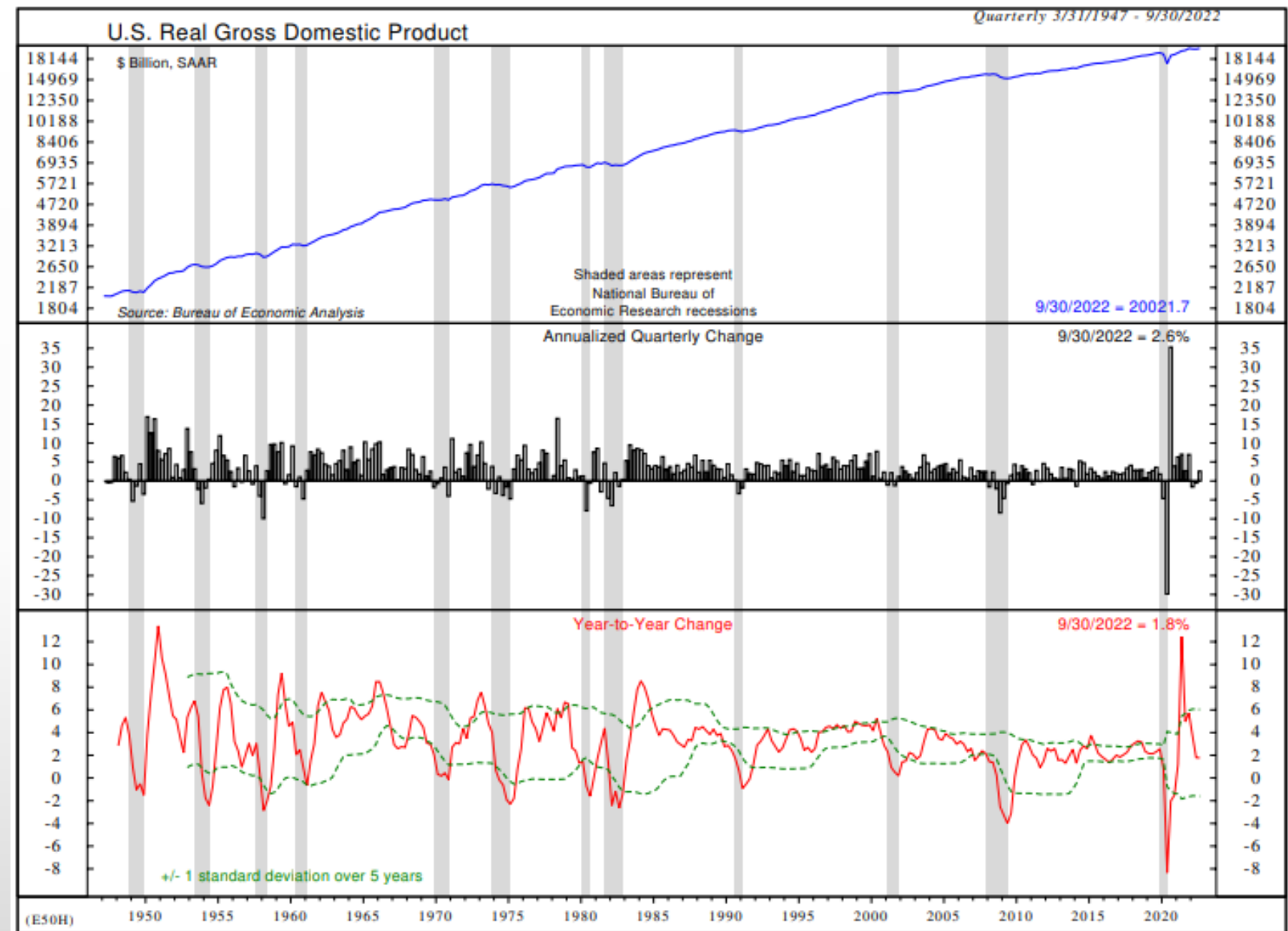
The housing market believes we are..



But labor market  
still 'tight'

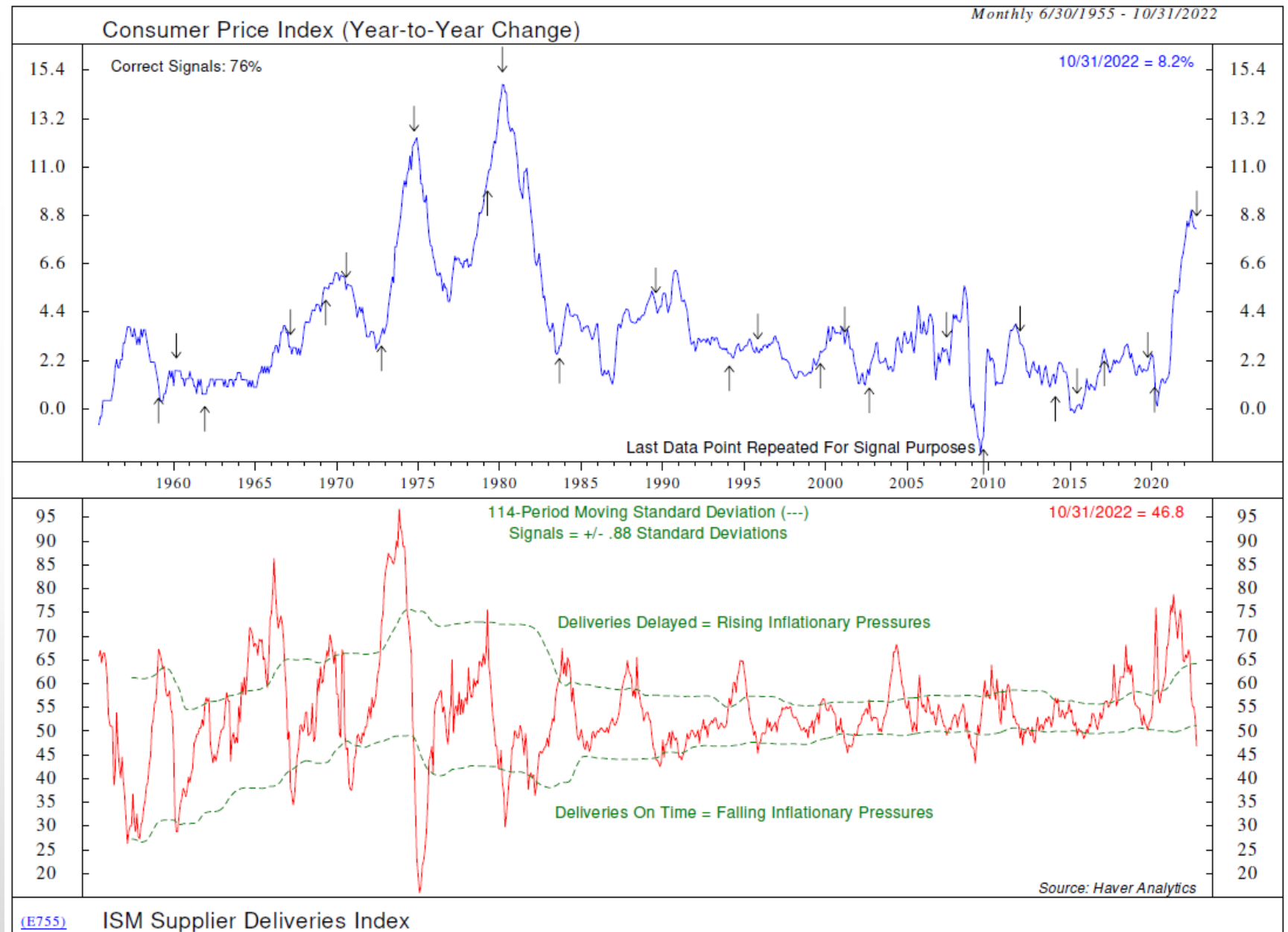


After 2 negative  
quarters, we saw  
growth again

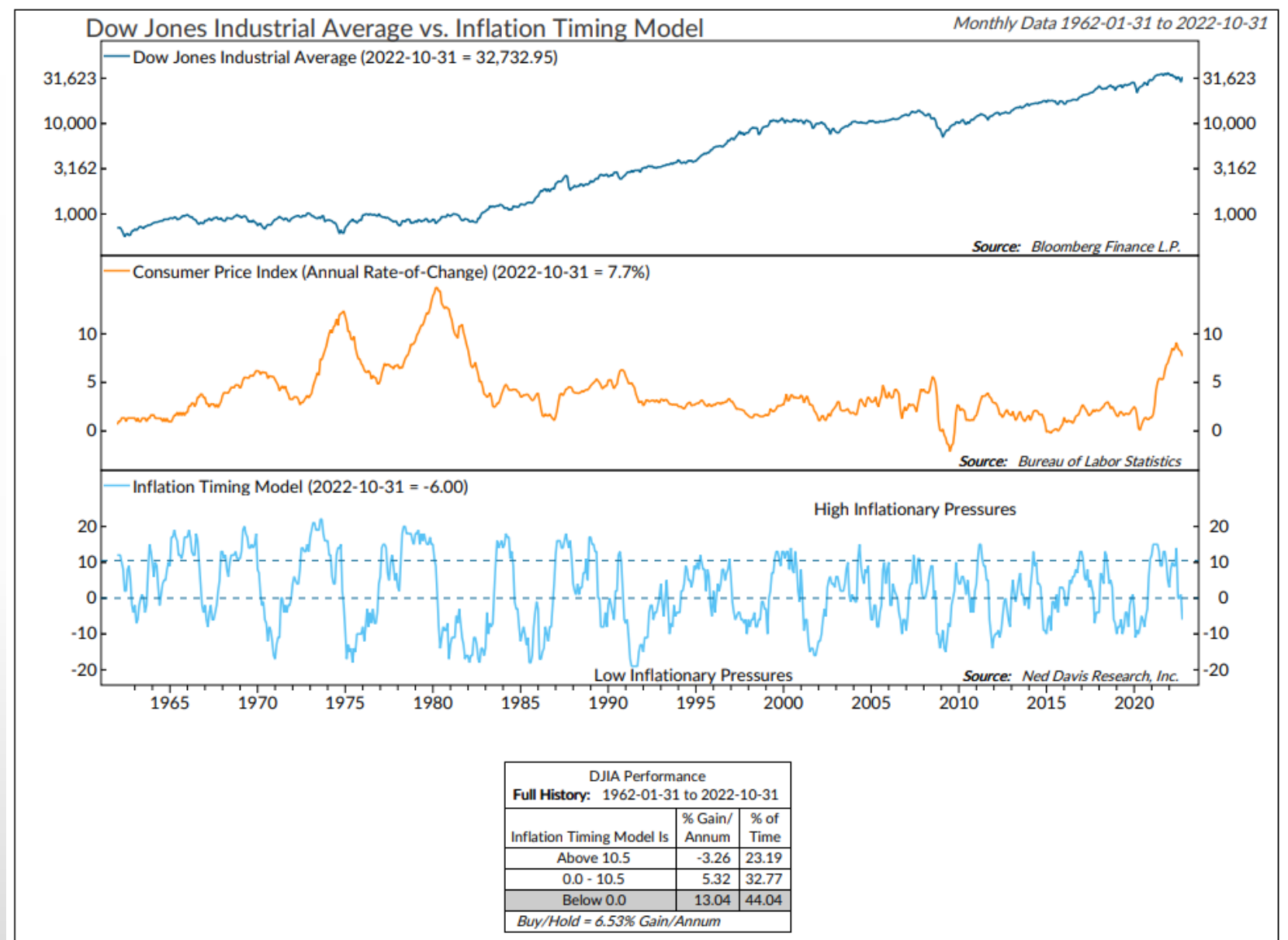




# Signs of falling inflation



# Signs of falling inflation



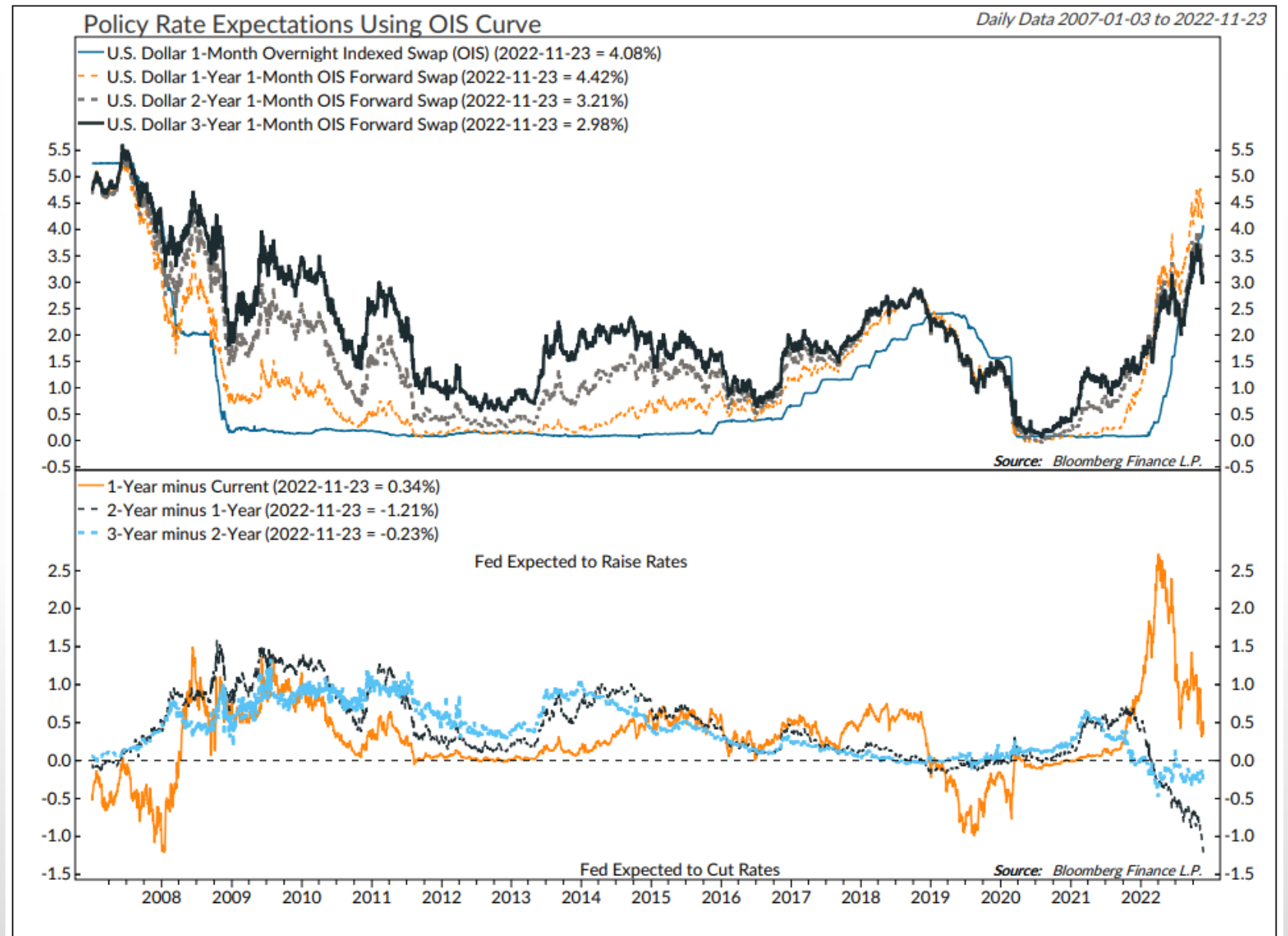
[S1090](#)



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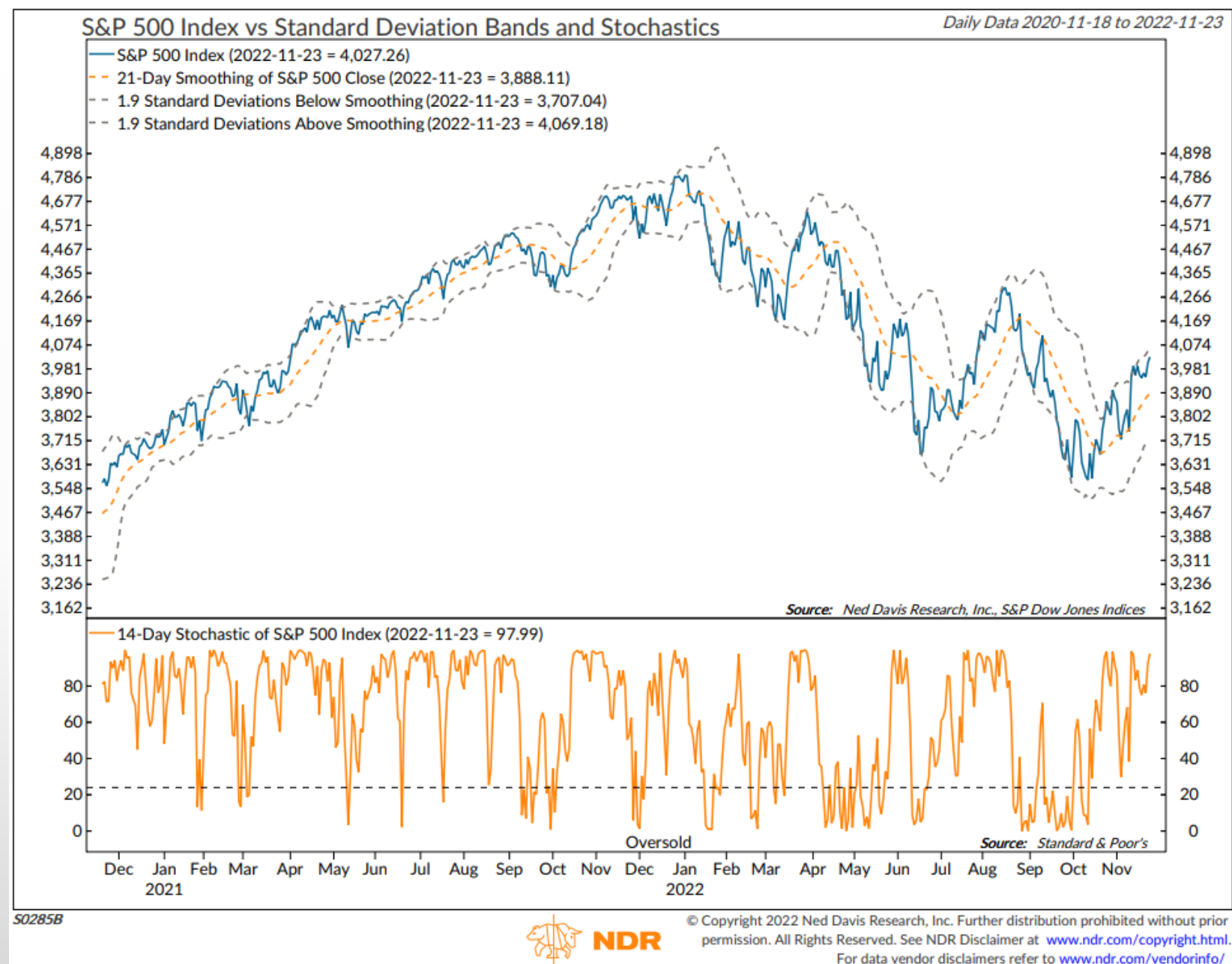
After massive  
rate hikes, Fed  
appears to pause  
after Dec?



# Is the bottom in?

- 1 – Oversold
- 2 – Rally
- 3 – Retest
- 4 – Breadth Thrust

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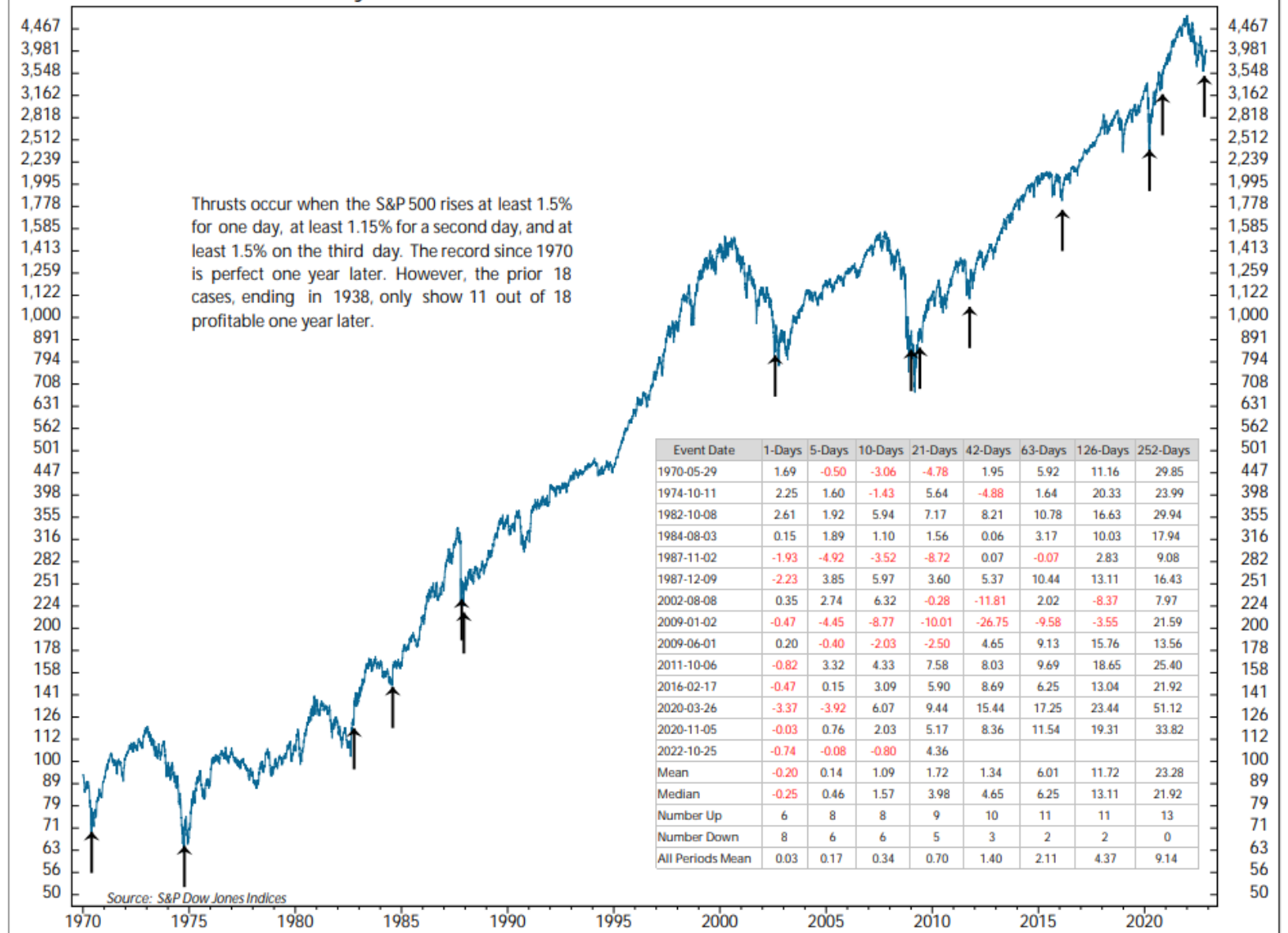
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# More breadth thrusts

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S&P 500 With Three-Day Price Thrust Indicator

Daily Data 1970-01-02 to 2022-11-23 (Log Scale)



S44B

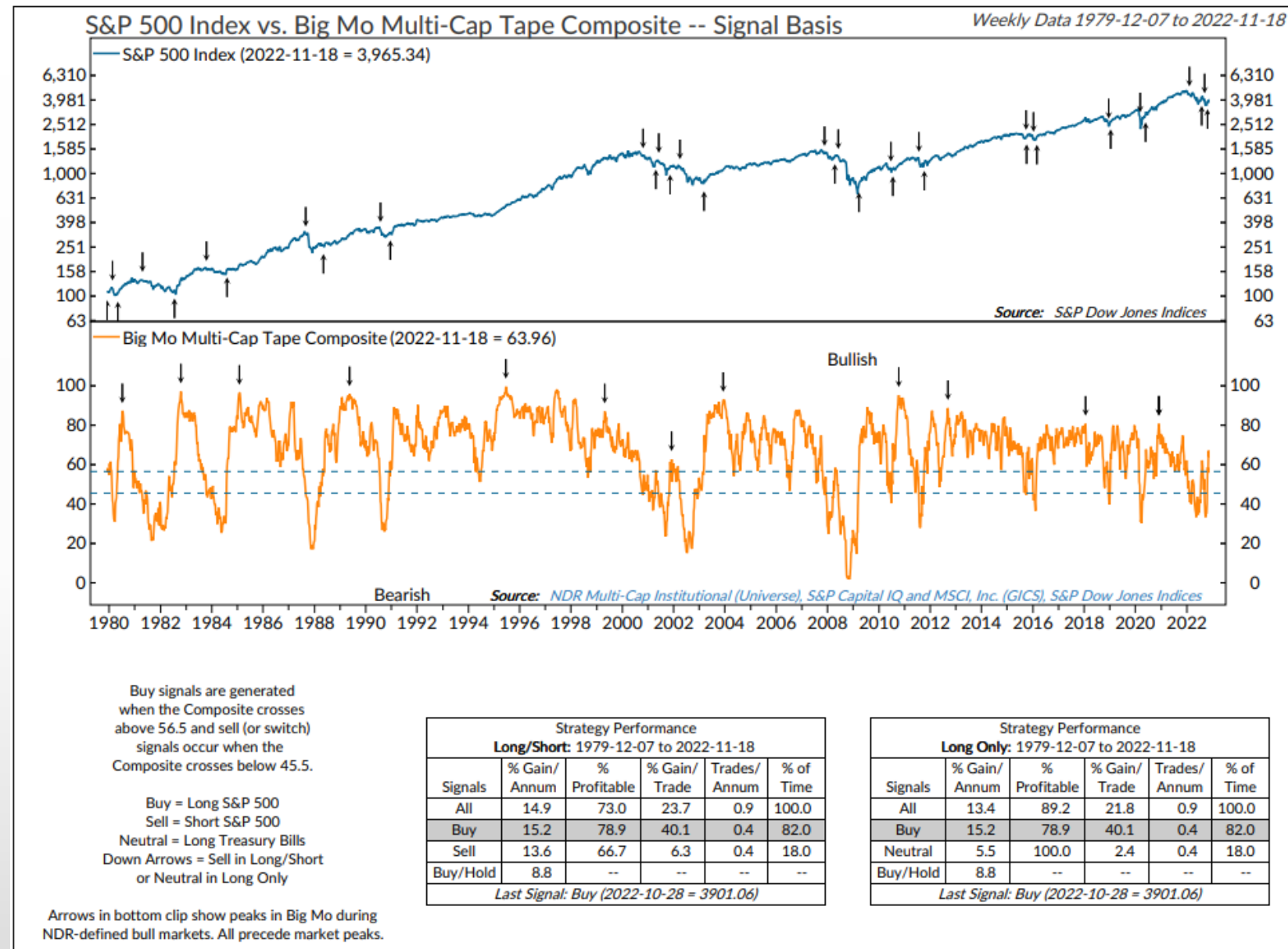


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# Momentum indicators turn positive...again



[DAVIS250A](#)



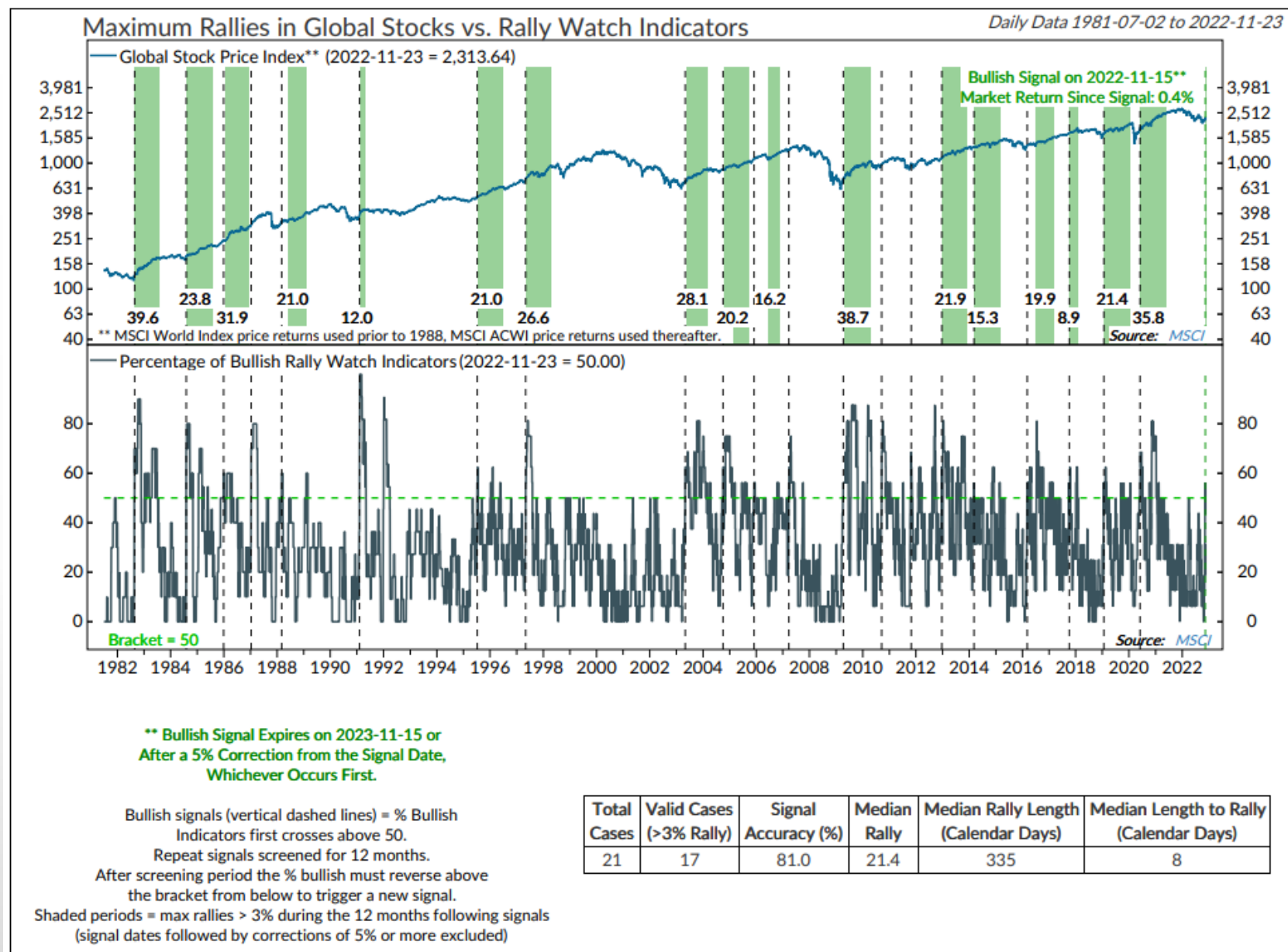
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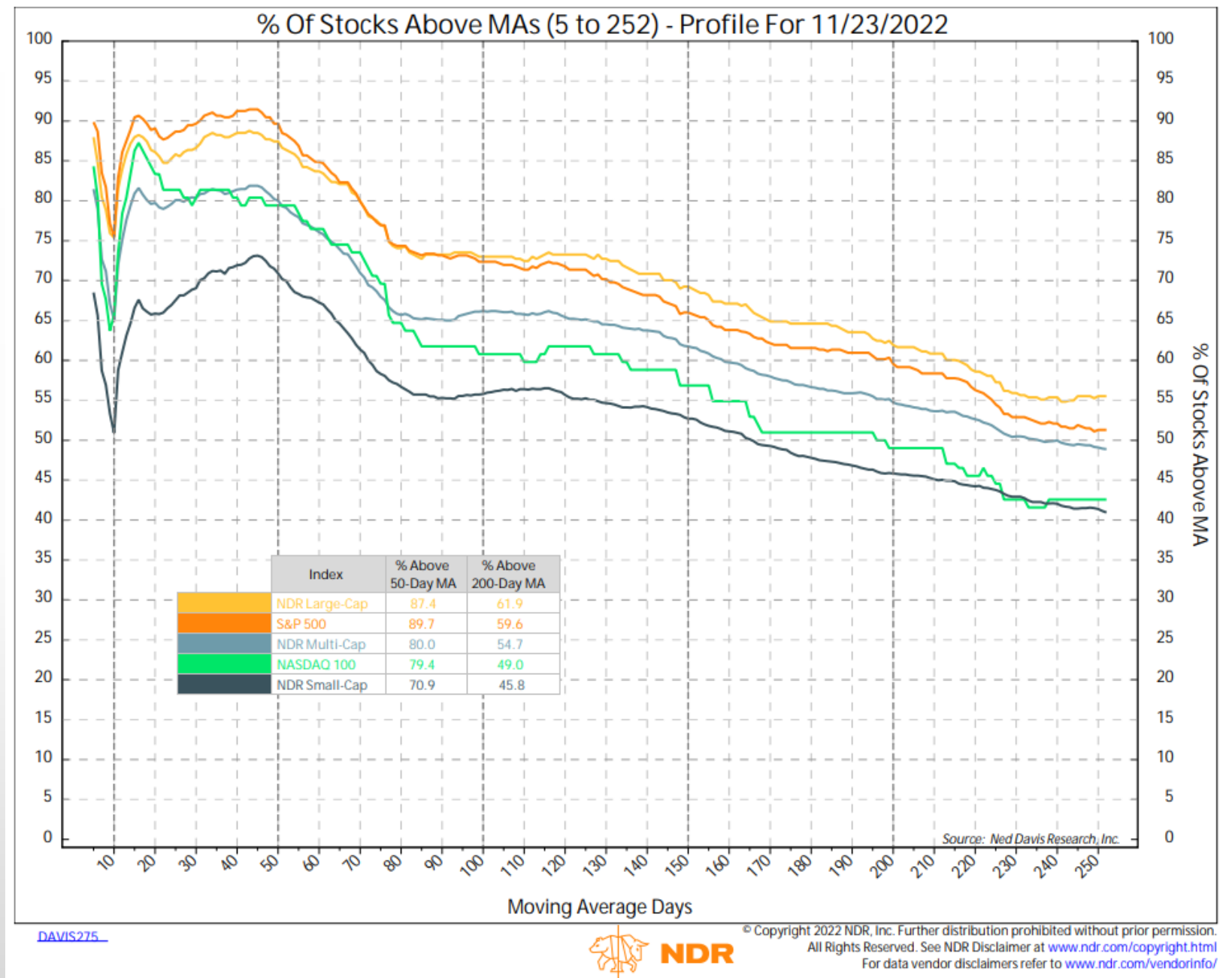
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# Buy signal on Rally Watch

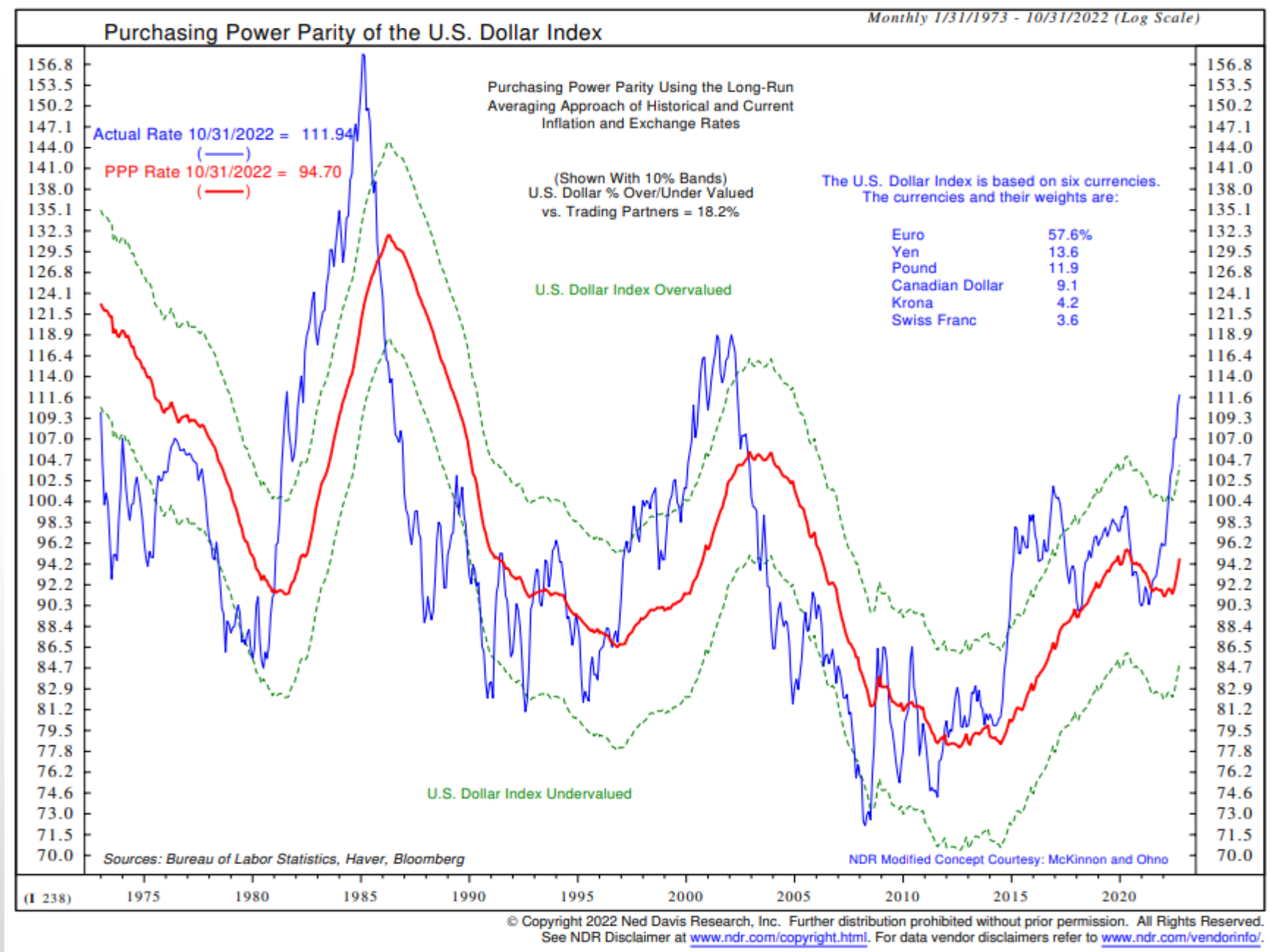


Missing positive  
long-term trend



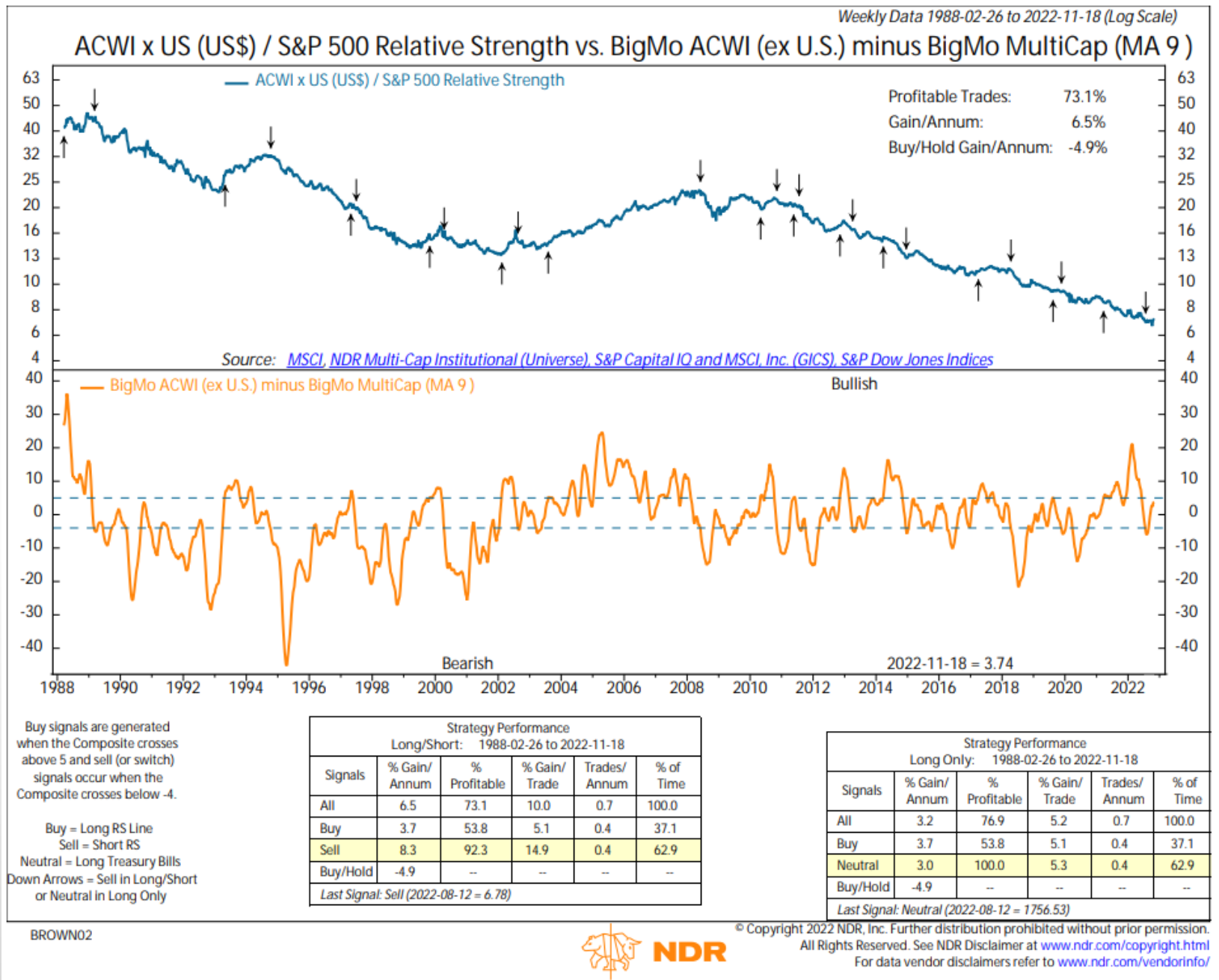


Overvalued  
dollar...a boost to  
Int'l returns as it  
corrects?

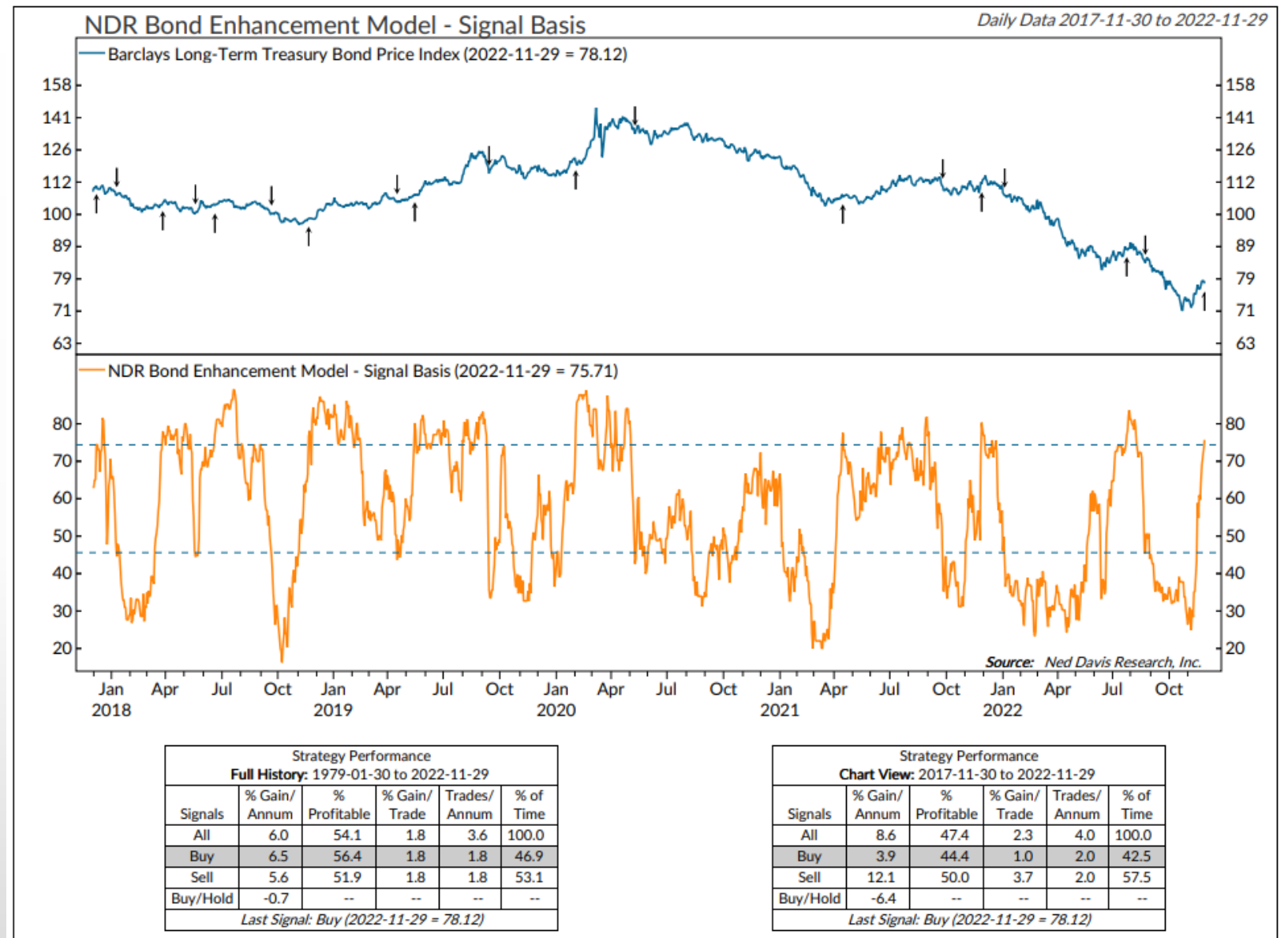


# Plenty of opportunity for International outperformance

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# Bonds on sale?



B891



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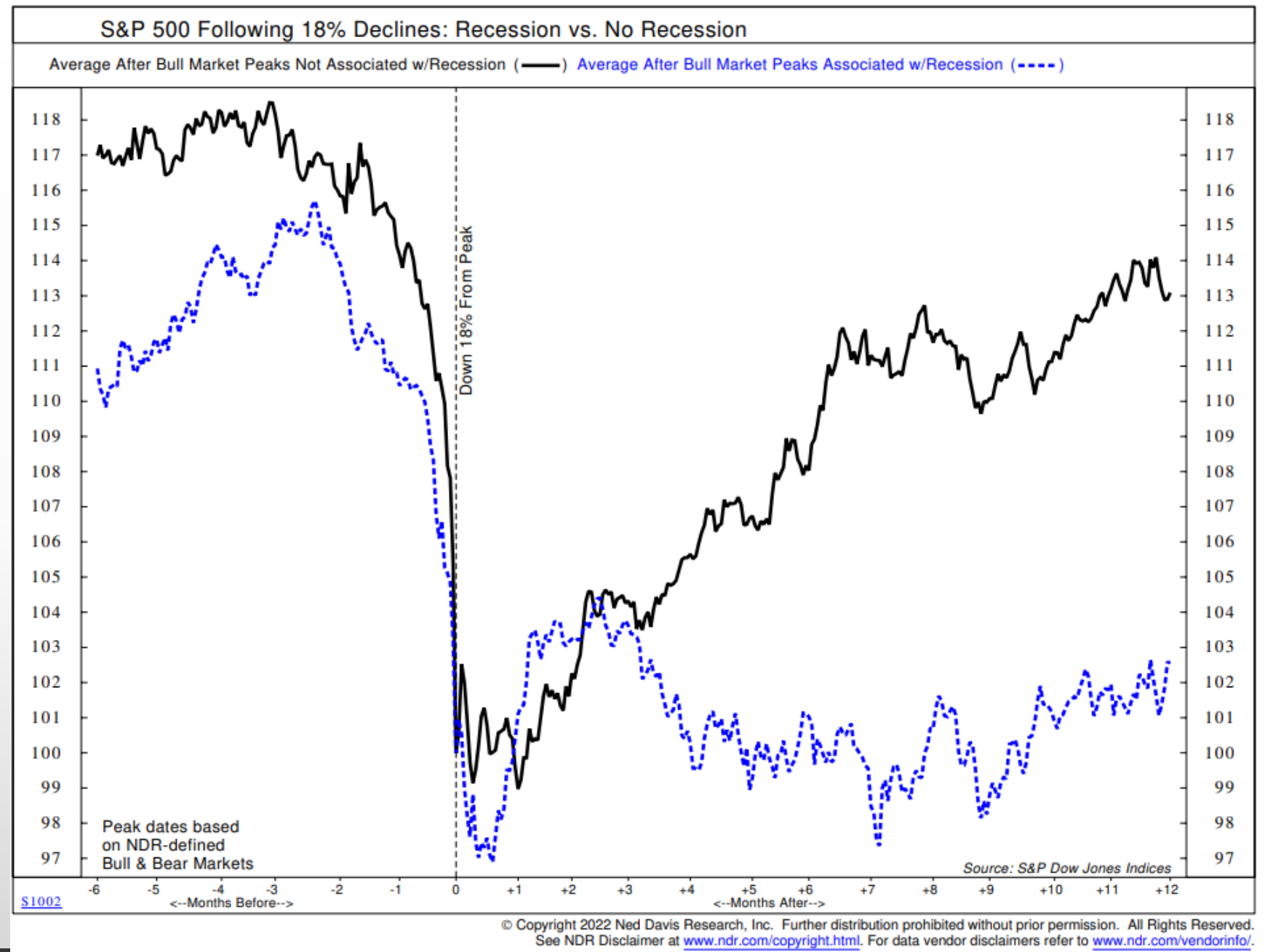
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# FTX collapse further pressures Crypto

Anatomy of Bitcoin "Bubble Bursts" (75%-plus declines)					
Date BTC reached > 75% decline	Date BTC Bottomed	Market Days till Bottom	Further % Decline to Bottom	Total % Decline	% Return 12 mos later
09/06/11	11/18/11	54	-70.1	-93.1	47.2
01/05/15	01/15/15	9	-28.6	-83.0	64.2
11/20/18	12/14/18	17	-24.4	-83.1	104.4
11/09/22	?	?	?	?	?
Mean		27	-41.0	-86.4	71.9
Mean (2015, 2018 cases)		13	-26.5	-83.1	84.3
Ned Davis Research				T_TO_OR202211231.3	

A 2023 recession  
will determine  
the next 12 mos

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# NDRs Odds










Jay Powell and the Three Bears				
Scenario	Odds	Short Description	Market Direction	What to Watch
Too Hot	15%	Inflation lingers, Fed continues to tighten aggressively, recession starts late 2022/early 2023	Bear resumes in Q4 2022	Alternative inflation metrics, geopolitics, labor market
Too Cold	55%	Inflation moderates, Fed slows pace, economy falls into recession in 2023	Rally in Q4, then bear resumes in 2023	Inflation expectations, yield curve, commodity prices, Growth/Value
Just Right	30%	Fed pivots correctly, avoids recession	Bear close to over	Investor sentiment, breadth thrusts, intermediate-term breadth confirmation
Ned Davis Research				T_SSF22_46.1



# BWM Tactical Positioning



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	OVERWEIGHT	MARKETWEIGHT	UNDERWEIGHT
Stocks			
Bonds			
Cash			
U.S.			
Large Cap			
Mid/Small Cap			
International			
Credit			
Duration			

No strategy assures success or protects against loss.

# Bottom Line

---

- Economic indicators continue to weaken, yet jobs remain strong
- Two quarters of negative GDP growth already occurred in US and growth has resumed...for now
- Signs that inflation has peaked causing Fed expectations to tamper down
- Our 4-step bottoming process suggests that a bottom could be in...
- Bonds and International equities on watch for upgrade
- The odds of a “Just Right” scenario have increased, but still not most likely scenario
- BWM is currently overweight equities watching economic and momentum indicators for the next allocation adjustment



Please see important disclosures, chart explanations, summary and commentary at the end of this report.

# Executive Summary



Please see important disclosures, chart explanations, summary and commentary at the end of this report.

- Slide 2 – this chart shows the performance of the economy (measured by the Index of Coincident Economic Indicators, top clip) and the latest version of NDR's Economic Timing Model (bottom clip), along with its hypothetical performance. The NDR Economic Timing Model consists of 27 different economic indicators that monitor a different sector of the economy. The individual indicators are combined to produce an indication on the direction of the economy. Currently the model indicates mild recession.
- Slide 3 – This chart shows NDR's Recession Probability Model which uses 10 underlying economic indicators to predict a recession. Historically, a reading above 50% has indicated either a recession or a significant slowdown in growth. There are currently 4 out of 10 indicators showing recessionary readings.
- Slide 4 – this chart shows new, existing, and total home sales in the top clip and the year-to-year change for new, existing and total home sales in the bottom clip. The chart currently shows that sales have declined sharply over the last year.
- Slide 5 – This chart plots Job Openings in the top clip, Hires in the middle clip, and Total Separations in the bottom clip based on the Job Openings and Labor Turnover Survey, a monthly survey of private nonfarm establishments and local government entities.
- Slide 6 – This chart shows the Real Gross Domestic Product of the United States. The Top clip plots the yearly GDP for the US in billions of dollars. The middle clip plots the annualized quarterly change and the bottom clip plots the year-to-year change.
- Slide 7 – this chart shows the 12-month rate of change of the Consumer Price Index (top clip) and ISM Supplier Deliveries Index with a 114-period moving standard deviation (bottom clip). This chart measures inflationary pressures by monitoring the volume of deliveries that are delayed and on-time.
- Slide 8 – this chart shows the Dow Jones Industrial Average in the top clip, CPI in the middle clip, and NDR's Inflation Timing Model in the bottom clip. The model consists of 22 individual indicators primarily measuring various rates of change of such indicators as commodity prices, the Consumer Price Index (CPI), producer prices, and industrial production. The model currently suggest low inflationary pressure.
- Slide 9 – This chart uses overnight interest rate swaps to gauge the market's expectation of Federal Reserve policy rates. The top clip plots the 1 month OIS with the 1, 2, and 3 year forward swap rates. The bottom clip plots the difference between OIS 1-year and current swaps, 2-year and 1-year swaps, and 3-year and 2-year swaps, with positive values indicating expectations the Fed will raise rates and negative values indicating expectations the Fed will cut rates.
- Slide 10 – This chart plots the S&P 500 in the top clip along with the 21-day moving average, and 1.9 standard deviations below and above that moving average. The bottom clip shows the 14-day stochastics, a measurement of whether stocks are closing near the top or bottom of their price range. A stochastic level below the dashed line may indicate that a market is oversold.
- Slide 11 – This chart identifies when a three-day thrust occurs. As stated on the chart, a thrust occurs when the S&P 500 Index rises at least 1.5% each day for three straight days. Historically, each thrust has led to the market being profitable one year later. A thrust indicates an unusual demand for stocks, which has been a very good indicator that the market will be profitable up to a year later. Breadth thrusts of this magnitude are rare events; however, they are such reliable indicators that it is worth taking notice of when one does happen and acting on it.
- Slide 12 – The top clip of this chart plots the S&P 500 index and the bottom clip plots the NDR Big Mo Multi-Cap Tape Composite Model, an aggregate of over 100 component indicators that generates a reading between 0% and 100%, reflecting the percentage of the component indicators which are currently giving bullish signals for the S&P 500 Index. The indicator is currently bullish.

# Executive Summary

- Slide 13 – This chart shows the largest rallies in global stocks following bullish Rally Watch indicator readings of 55% or higher. The top clip plots a blended benchmark of global stocks (MSCI World Index price returns prior to 1988 and MSCI ACWI price returns thereafter), while the bottom clip plots the aggregate percentage of bullish indicators from NDR's Rally Watch Report. The current percentage of bullish indicators is 50%.
- Slide 14 – This chart shows the percentage of stocks in a given index that are above their various moving averages from 5 days to 252 days for the latest available market date. This aids in comparing the shorter-term versus intermediate- and longer-term market breadth for a given index, as well as comparing different indexes.
- Slide 15 – this chart plots the Purchasing Power Parity (PPP), an estimate of the fair value of the US Dollar based on historical and current inflation and exchange rates, and the US Dollar Index, a measure of the actual value of the dollar based on exchange rate against six currencies. A current rate that is 10% above or below the PPP rate suggests the dollar is over/under-valued.
- Slide 16 – This chart compares the momentum of international equities to the momentum of U.S. equities. When the momentum of U.S. equities is stronger than international equities, the indicator will have a negative reading. When the internals of international equities is more favorable than U.S. equities, there will be a positive reading. International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors.
- Slide 17 – this chart shows NDR's Bond Enhancement model, a composite of underlying indicators that measure trend, sentiment, and fundamentals of the bond market. When the composite reading crosses above 74.4 it generate a buy signal, and when the reading crosses below 45.6 it generates a sell signal.
- Slide 18 – this table lists four incidents when Bitcoin has declined in value by more than 75% and lists various statistics for each event.
- Slide 19 – this chart shows an average of the S&P 500 in the 6 months before and 12 months after a decline of 18% or more. The blue line represents an average of the S&P 500 during periods associated with recession and the black line represents periods not associated with recession
- Slide 20 – this table shows three potential economic and market scenarios that could develop over the coming months and NDR's approximation of the probability of each scenario.
- Slide 21 – we are currently overweight stocks, underweight bonds, and overweight cash. Within the equity allocation, we are marketweight US, large cap, mid/small cap, and international. Within fixed income, we are marketweight credit and have a focus on owning bonds with shorter duration.

Investment advice offered through Stratos Wealth Partners, Ltd., a Registered Investment Advisor DBA BWM Financial.

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