



The 4 Horsemen of the Apocalypse: How to Invest in a Bear Market

Presented By:

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Agenda



The 4 Horsemen of the Apocalypse, that is, the 4 metrics that when studied and examined together, accurately forecast the probability and timing of a recession.



Outlook and viability for the safest and also the newest asset classes. Are "safe" bonds dead? Was cryptocurrency a fad?



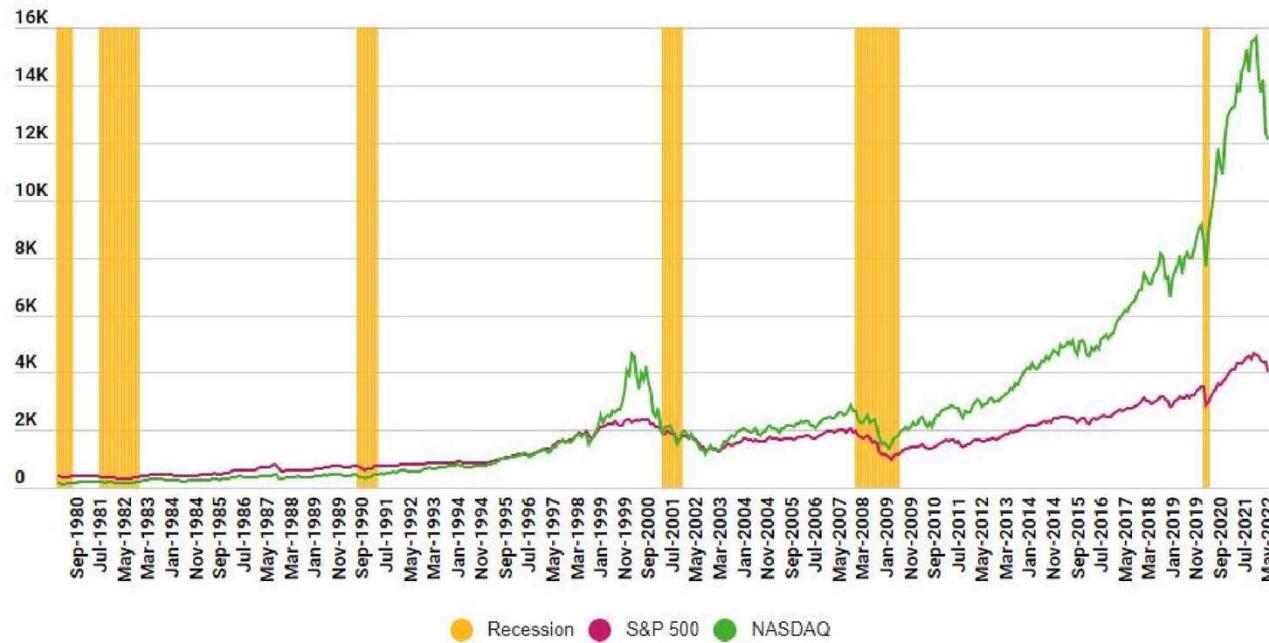
Dynamic rules for stocks - a playbook for when to buy stocks and how to buffer or sell their risks. Buy and hold is dead, but active management can fail without discipline and rules.



Investment success over the next 6 months. We present our best ideas, the ones that offer the best outcomes for investment success over the foreseeable future.



Stock Performance Over the Past 6 Recessions



RECESSIONS SINCE 1980:

1 of 6



6 months

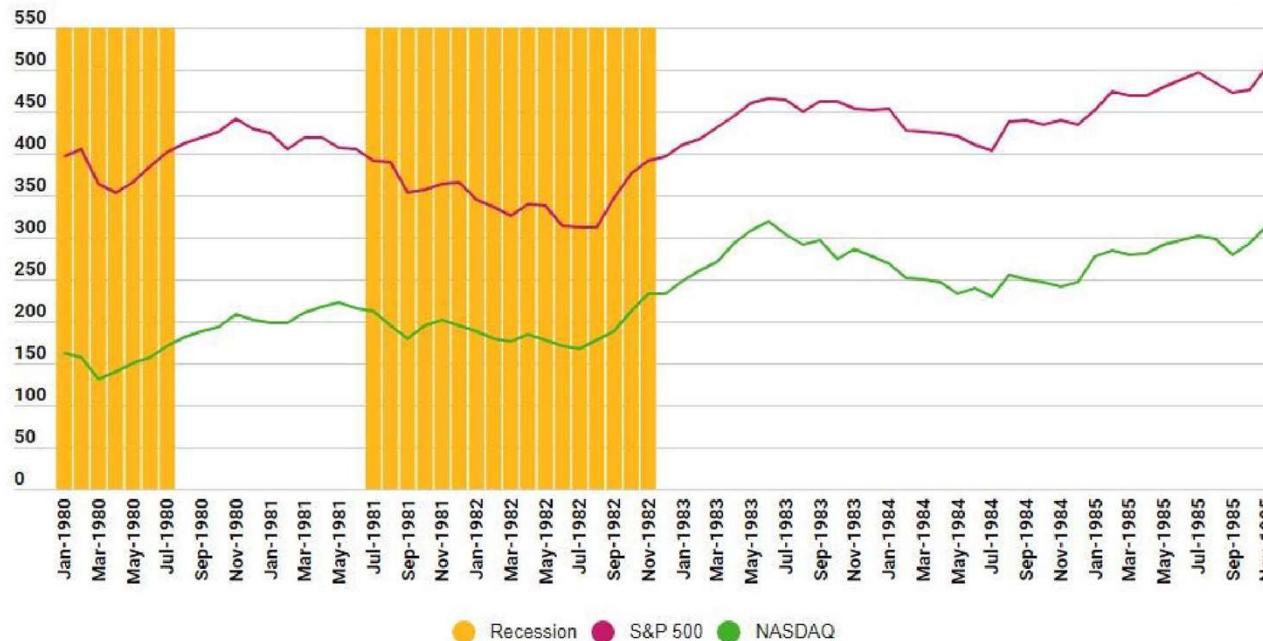
January - July
1980



Volcker raised
rates to 17% by
March 1980 to
fight 1970s
inflation of 11%



Stock Performance: 1980 Recession



Data source: FactSet (2022).

The S&P 500 gained 15.04% over the course of the recession. The NASDAQ gained 15.95%.

During the recession, the S&P 500 fell 19.83% from its highest point. The NASDAQ fell 27.99% from its peak.

RECESSIONS SINCE 1980:

2 of 6



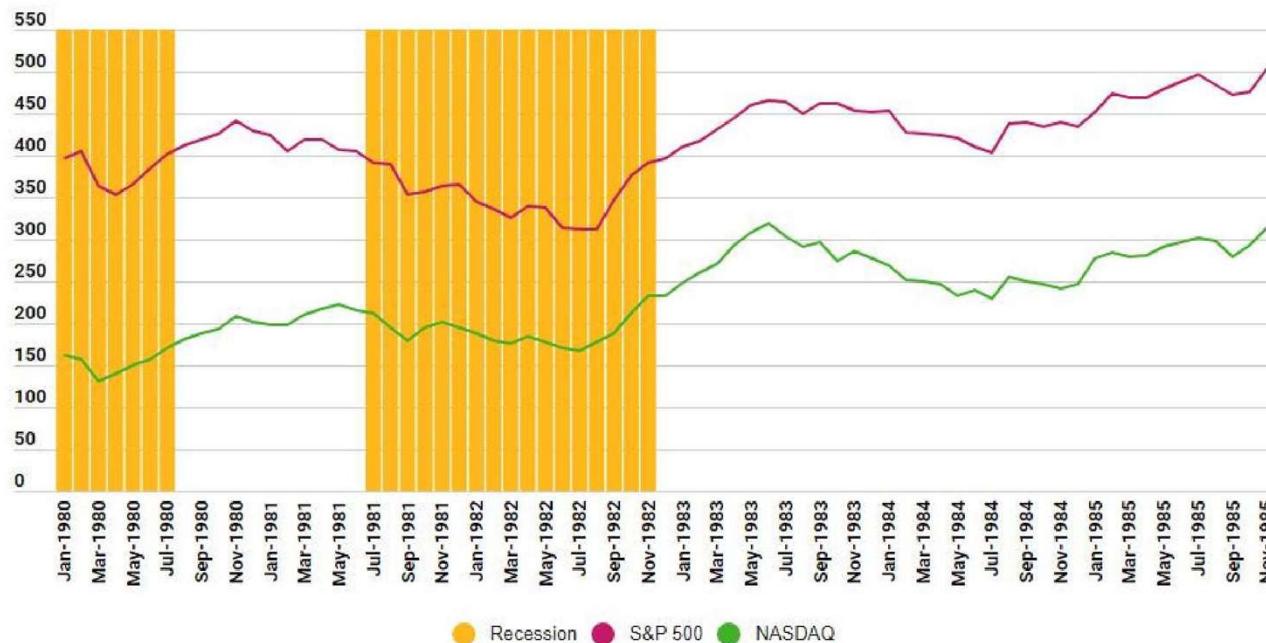
16 months
July 1981 -
November
1982



The double-dip
or "W"
recession
Jan 1981 Fed
funds = 19%



Stock Performance: 1981-82 Recession



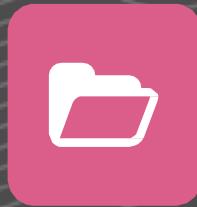
Data source: FactSet (2022).

Over the course of the 1981–1982 recession (July 1981 to November 1982), the S&P 500 gained 6.76%. The NASDAQ gained 8.24%.

During the recession, the S&P 500 fell 28.39% from its highest point. The NASDAQ fell 31.59% from its peak.

RECESSIONS SINCE 1980:

3 of 6



8 months
July 1990 -
March 1991



Relatively mild,
the early 1990s:
Gulf War spike
in oil Px, S&L
crisis.



Stock Performance: early 1990s Recession



During the recession,
the S&P 500 fell 21.57%
from its highest point.
The NASDAQ fell 32.53%
from its peak.

RECESSIONS SINCE 1980: 4 of 6



8 months
**March - Nov
2001**

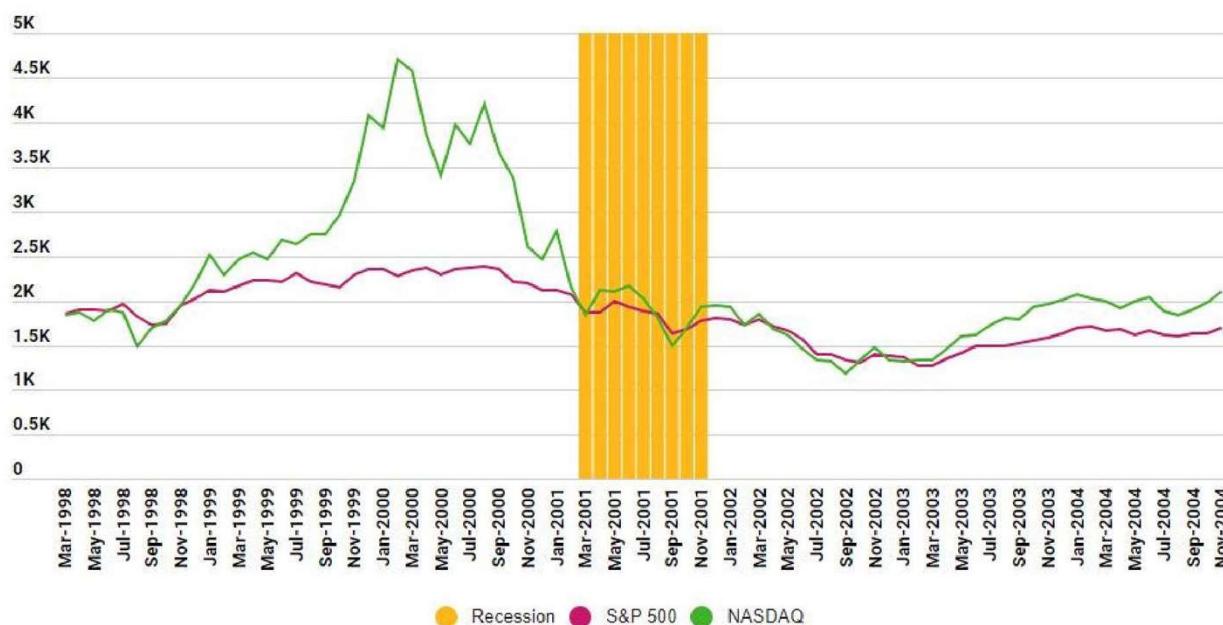


**Collapse of the
dot-com
bubble and 9/11**



Stock Performance: early 2000s Recession

How stocks performed during the early 2000s recession



During the recession, the S&P 500 fell 26.43% from its highest point. The NASDAQ fell 39.82% from its peak.

RECESSIONS SINCE 1980: 5 of 6



18 months
December 2007 - June 2009



**Subprime mortgage crisis
Collapse of Bear Stearns, Lehman, AIG**



Stock Performance: Great Recession

How stocks performed during the Great Recession



Over the course of the COVID-19 recession, which lasted from February to April 2020, the S&P 500 fell 9.99% and the NASDAQ fell 3.28%.

RECESSIONS SINCE 1980:

6 of 6



2 months
**February -
April 2020**

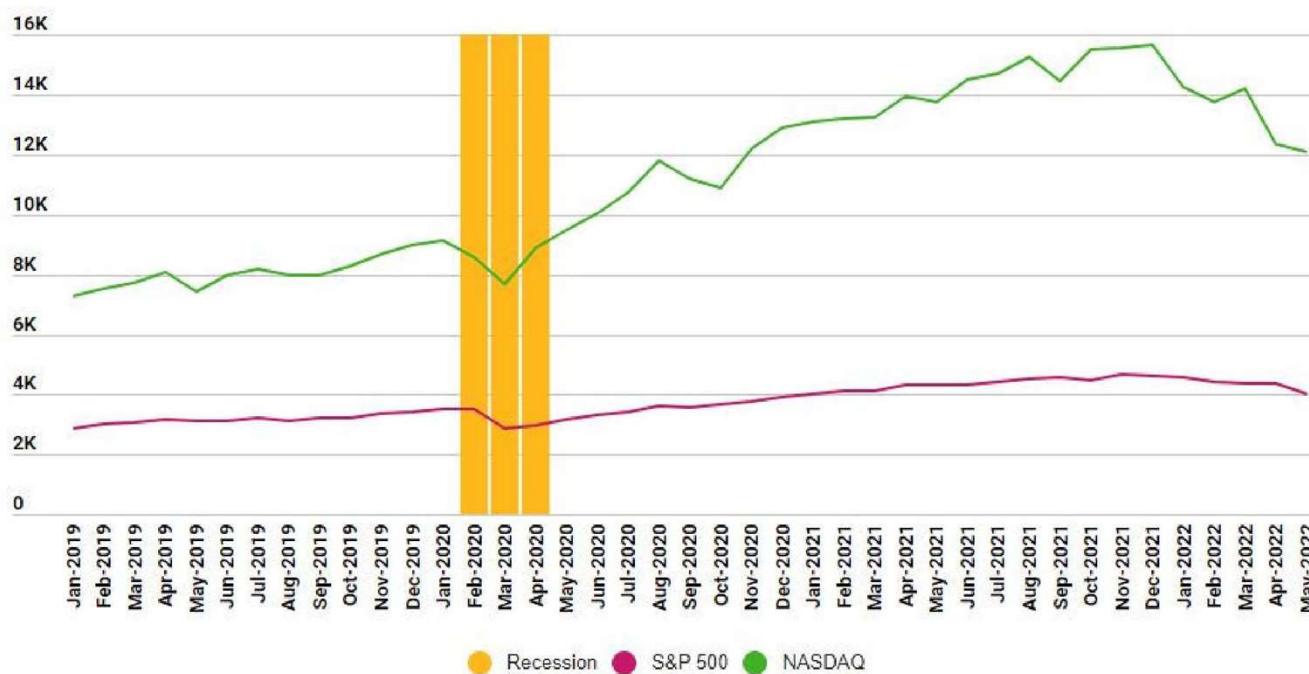


**Severe
economic
impact in Q1
with 24 million
people losing
jobs**



Stock Performance: COVID-19 Recession

How did stocks perform during the COVID recession?



Over the course of the COVID-19 recession, which lasted from February to April 2020, the S&P 500 fell 9.99% and the NASDAQ fell 3.28%.

The 4 Horseman of the Apocalypse



Housing Starts Peak





Housing Starts Peak



Cost of borrowing increases due to increasing personal income, then demand and inflation. Higher borrowing costs have a knock-on effect of slowing new building and so slowing the economy down.



Can be a noisy number so look at the trend to call a peak. Also, needs to be with other data as the timing for this data point is not predictable.



A sustained pullback in the sector typically comes *ahead* of the economic slowdown or a recession.



Generally peaks about 12 months ahead of recession. That number can be as short as 1 month (COVID-19 crash) or years (late 1980s).

Housing starts: 1959 to 2022





Housing starts (leads by 27 months) January 1998 to March 2002





Housing starts (leads by 23 months)

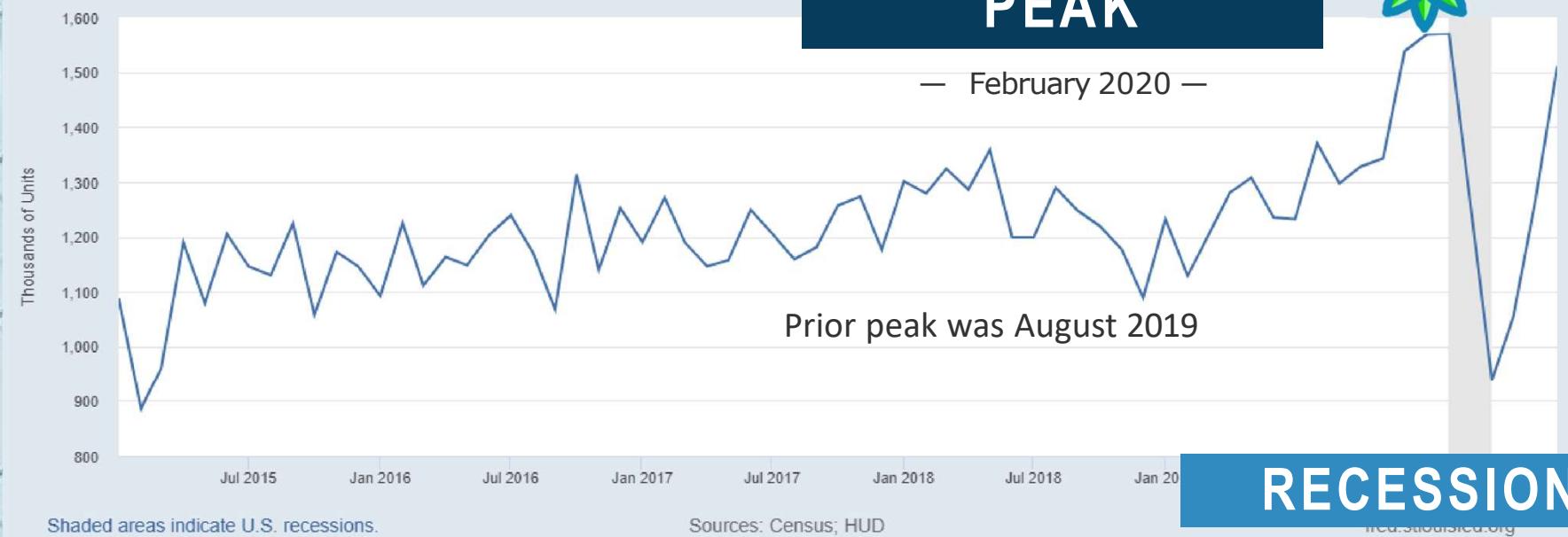
July 1 2002 to July 31 2012





Housing starts (leads by 1 month) January 2015 to July 2020

FRED — New Privately-Owned Housing Units Started: Total Units





Housing starts September 2017 to September 2022





12-Month Trailing Unemployment Average > Unemployment Rate

=Sorry We're=
CLOSED

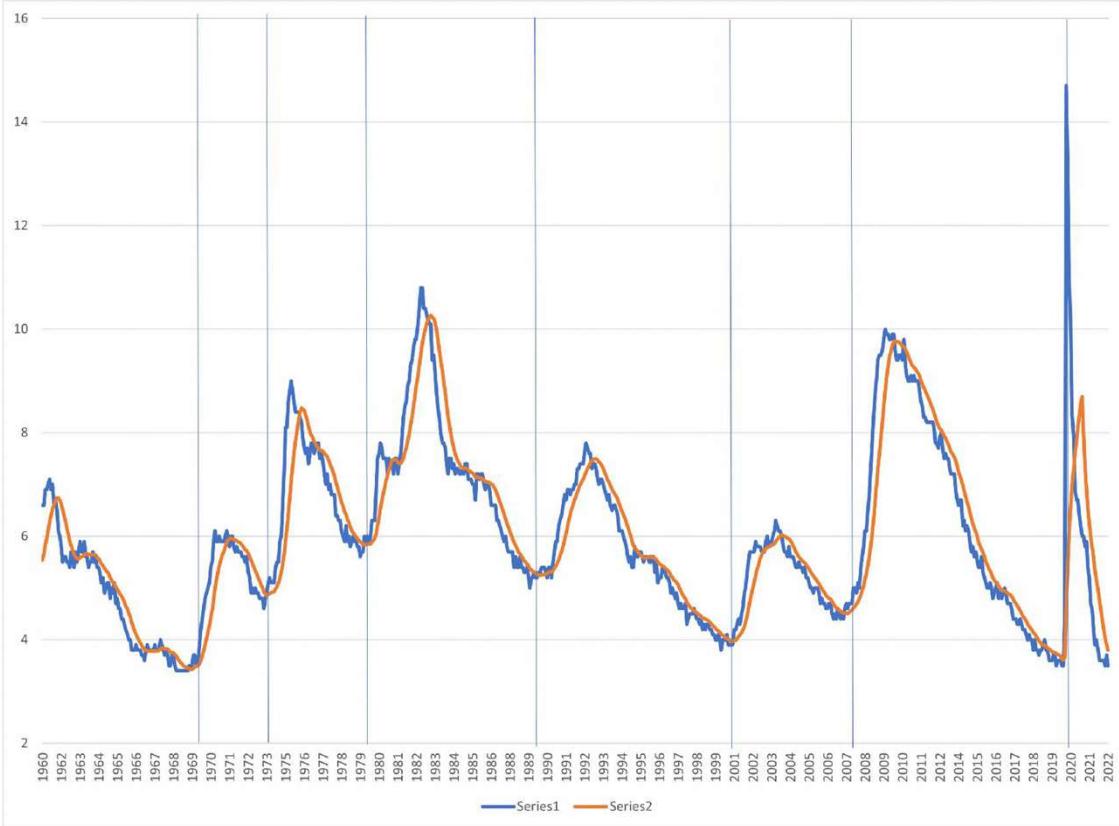
Unemployment Rate since 1968



Unemployment is helpful
but blunt.



Unemployment v. 12 month moving average



Unemployment rate is
below the 12 month
average



Unemployment rises higher
than its 12 month average
= negative sign

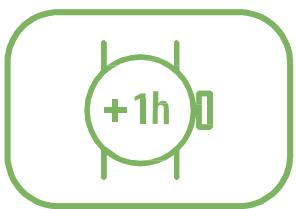


3.7%
unemployment



3.8%
12 month average

Sahm Rule on November

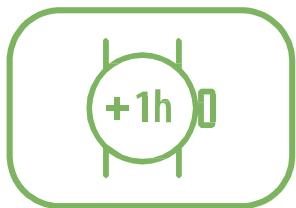


0.07%



Sahm Recession Indicator signals the start of a recession when the three-month moving average of the national unemployment rate (U3) rises by 0.50 percentage points or more relative to its low during the previous 12 months. average

Unemployment v. 12 month moving average



June '85

false alarm



Feb '86

false alarm



'95 & '96

false alarms



2020

coincident

Employment data

REFUTES

recession probability in 2023

Current level of
3.7%
is below the 12
month average of
3.8%

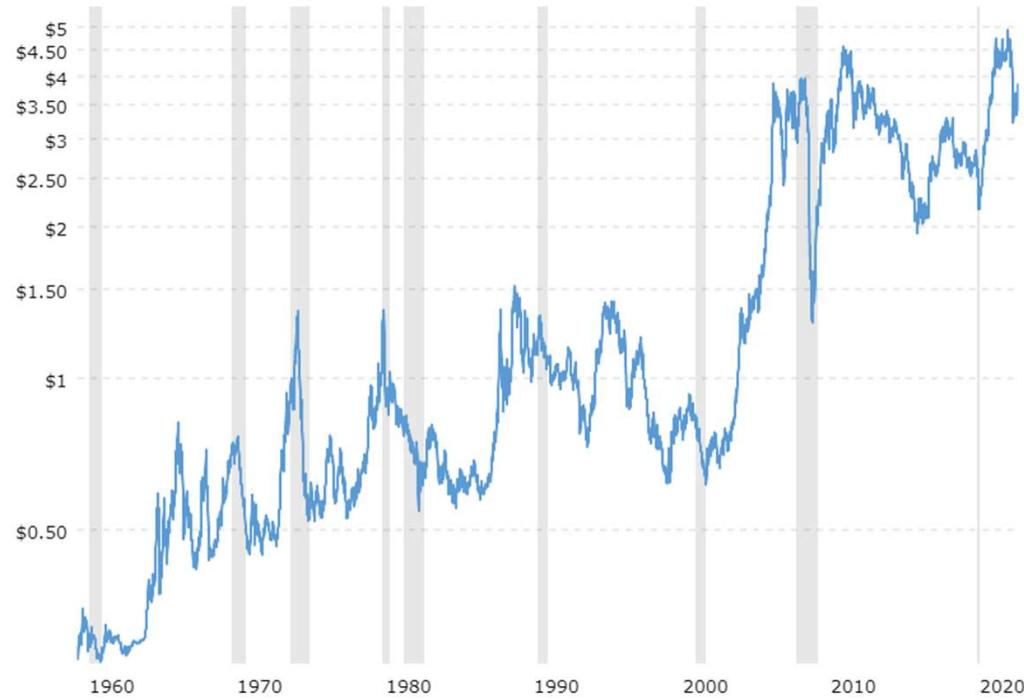
Copper Prices Peak



Zuma Wealth || www.ZumaWealth.com
Waves Happen. We Guide, Grow and Guard Your Wealth.



Copper prices: past 45 years



Because of its use across many sectors, copper is a leading indicator of economic health. Copper is used practically everywhere.





Copper prices: past 5 years





Copper prices in 2022



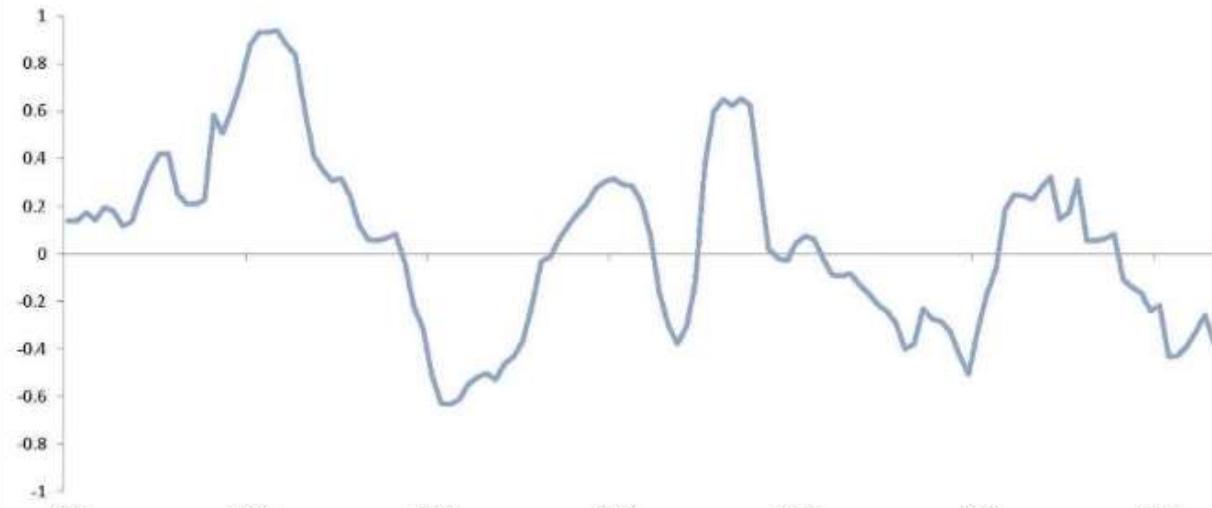
Copper prices are down close to 22% from their peak on March 4 to the price on November 8.



Copper and Stock Correlations

Inconsistent

Correlation coefficient of copper's four trailing quarterly returns with S&P 500's subsequent four

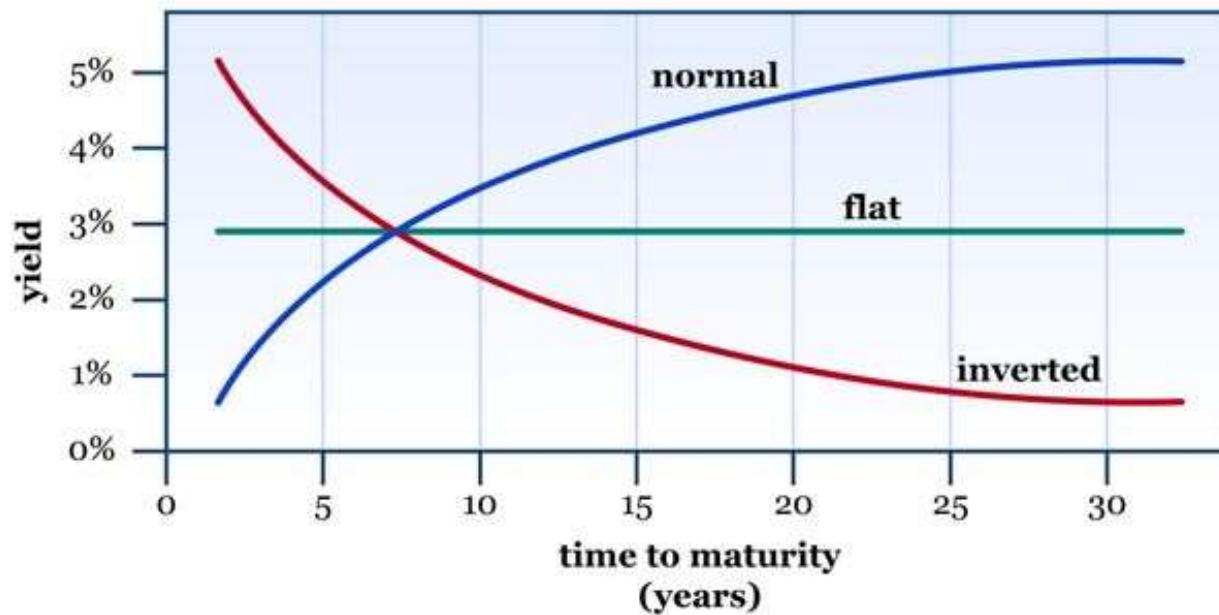


Source: Hulbert Ratings

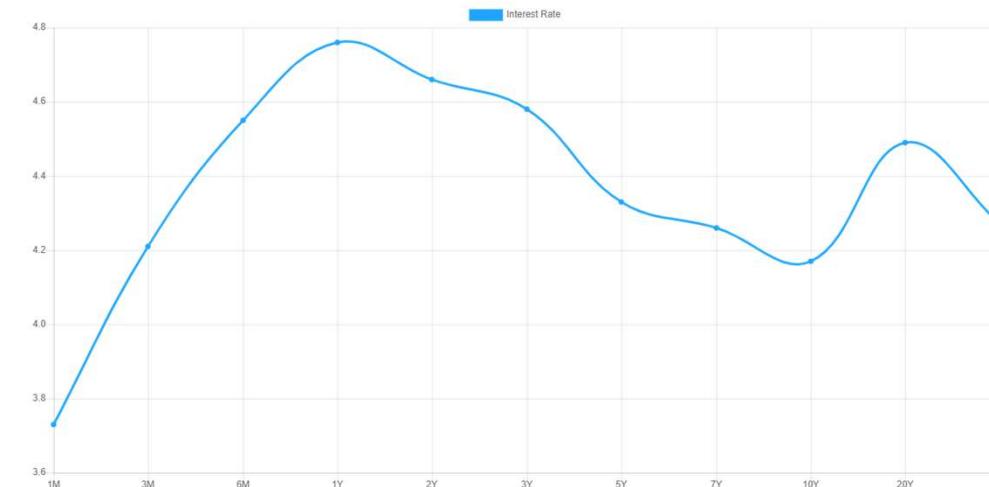
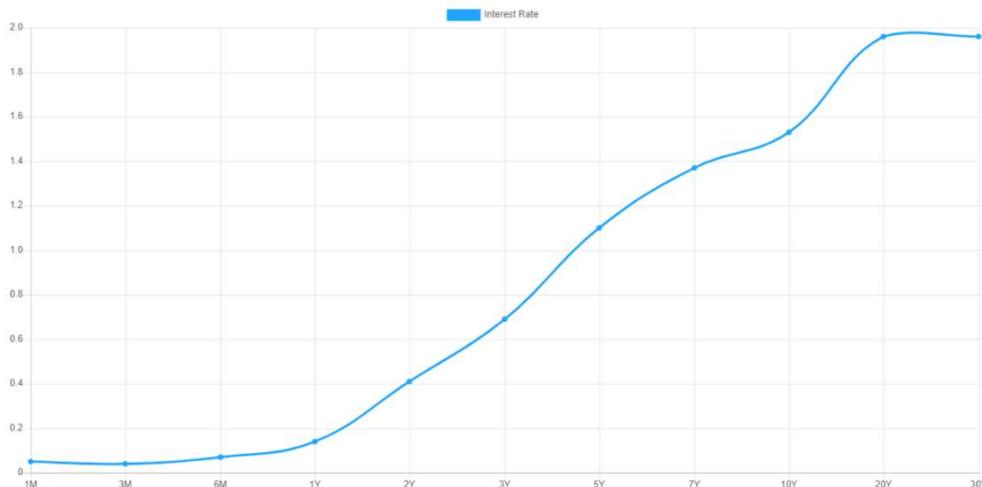
Yield Curve Inverts



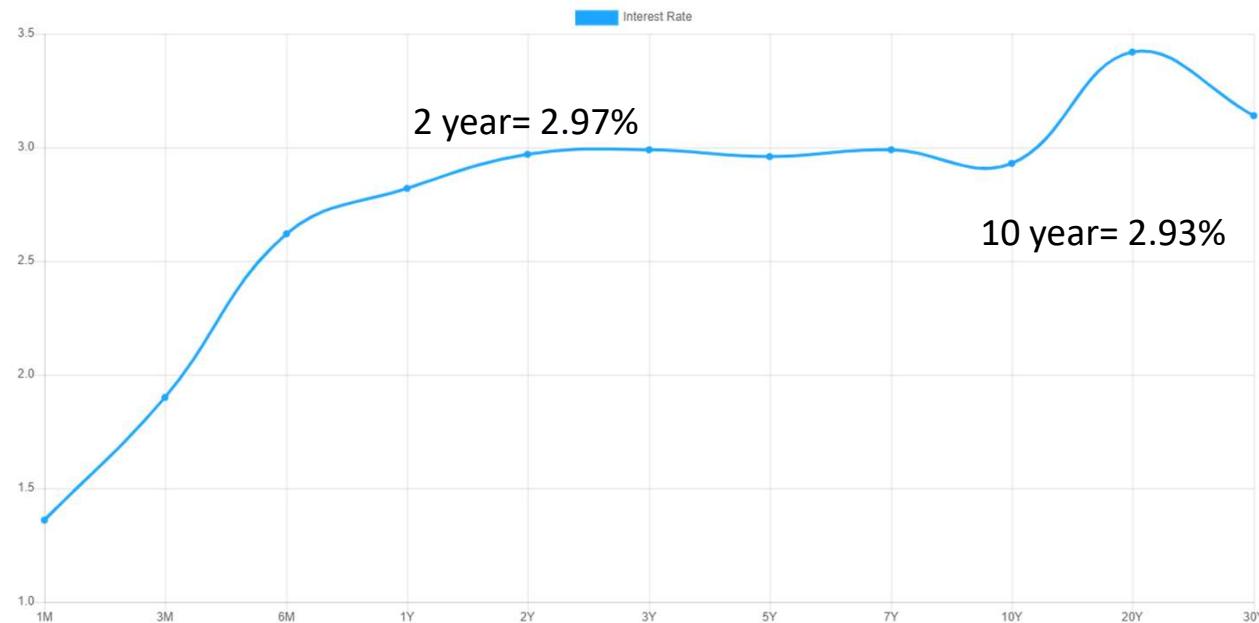
The Yield Curve



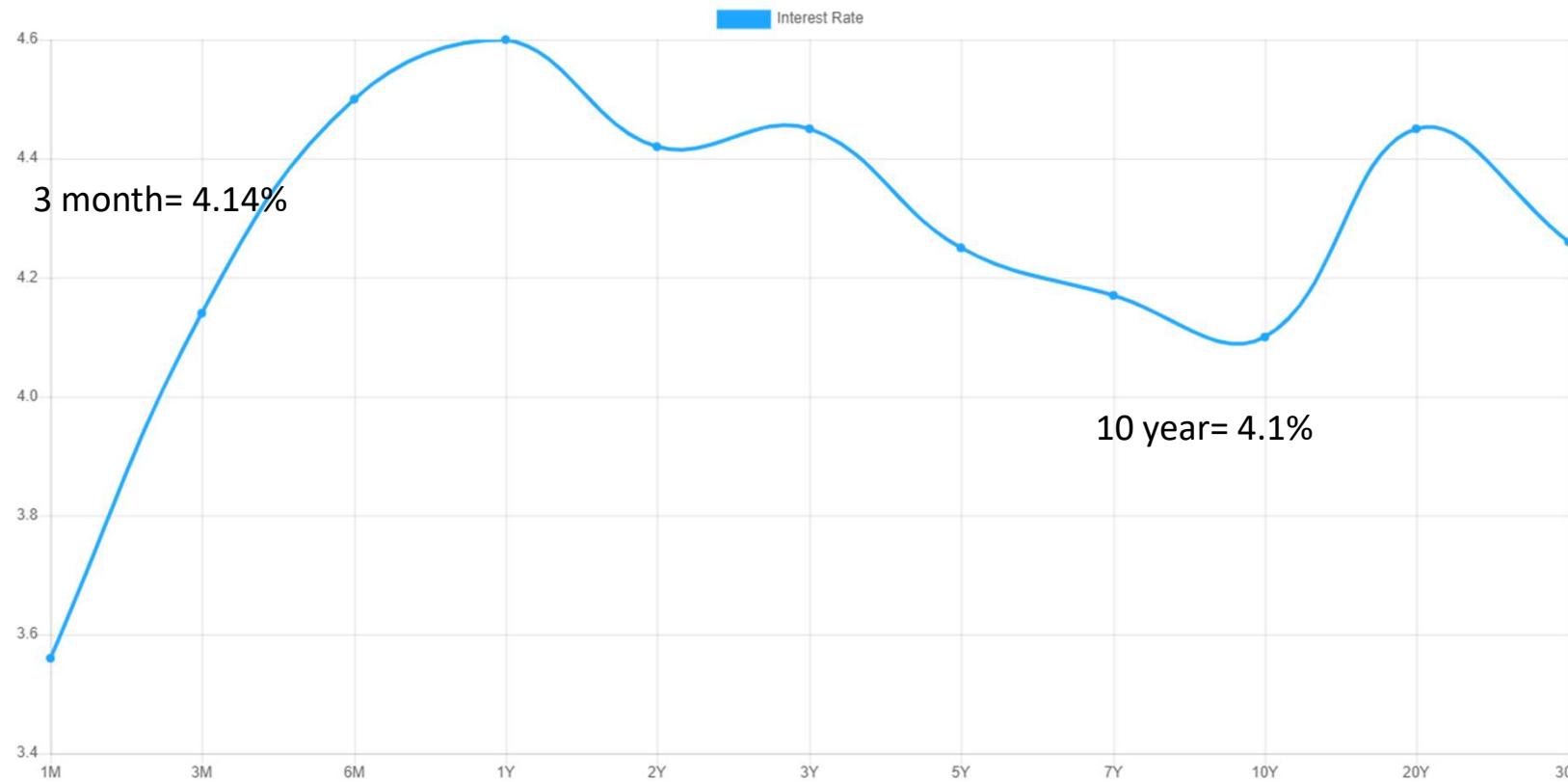
Yield curve – Nov 4 2021 v Nov 2 2022



Yield curve – July 6 2022: 2s10s invert



Yield curve – Oct 25 2022: 3 month10s invert





10 Year Treasury Minus 2 Year Treasury 1976 to October 2022

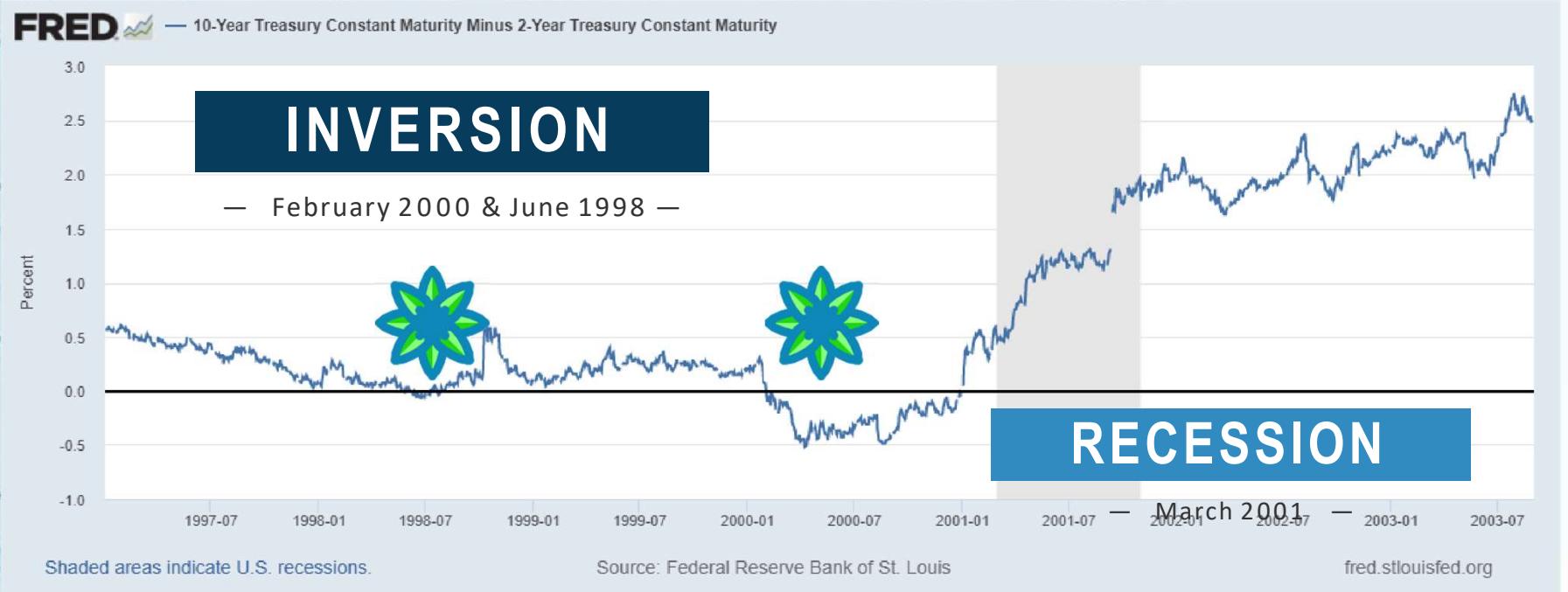


10s-2s (18 month warning and 3 month confirmation) October 1987 to July 1992





10s-2s (19 month warning and 14 month confirmation) January 1997 to September 2003



10s-2s (15 month warning and 7 month confirmation) January 2005 to October 2010





10s-2s: What Is the Curve Saying? January 2019 to October 2022





4 Horsemen

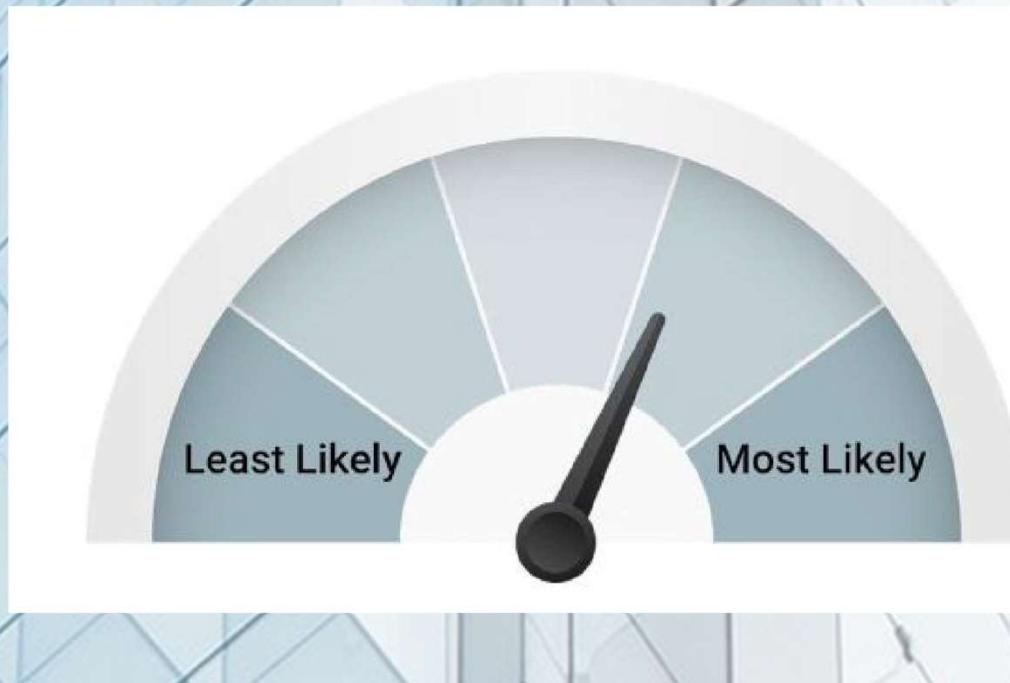
Housing starts peak: trending towards red.

Employment rate rises above its 12-month moving average. Trending towards red.

Copper prices peak: yellow

Yield curve inverts

Our take: Recession is Most Likely Scenario...but the Question is: How Shallow or Deep?





What is Different This Time. Jay Powell and Friends. Legislative Spending.

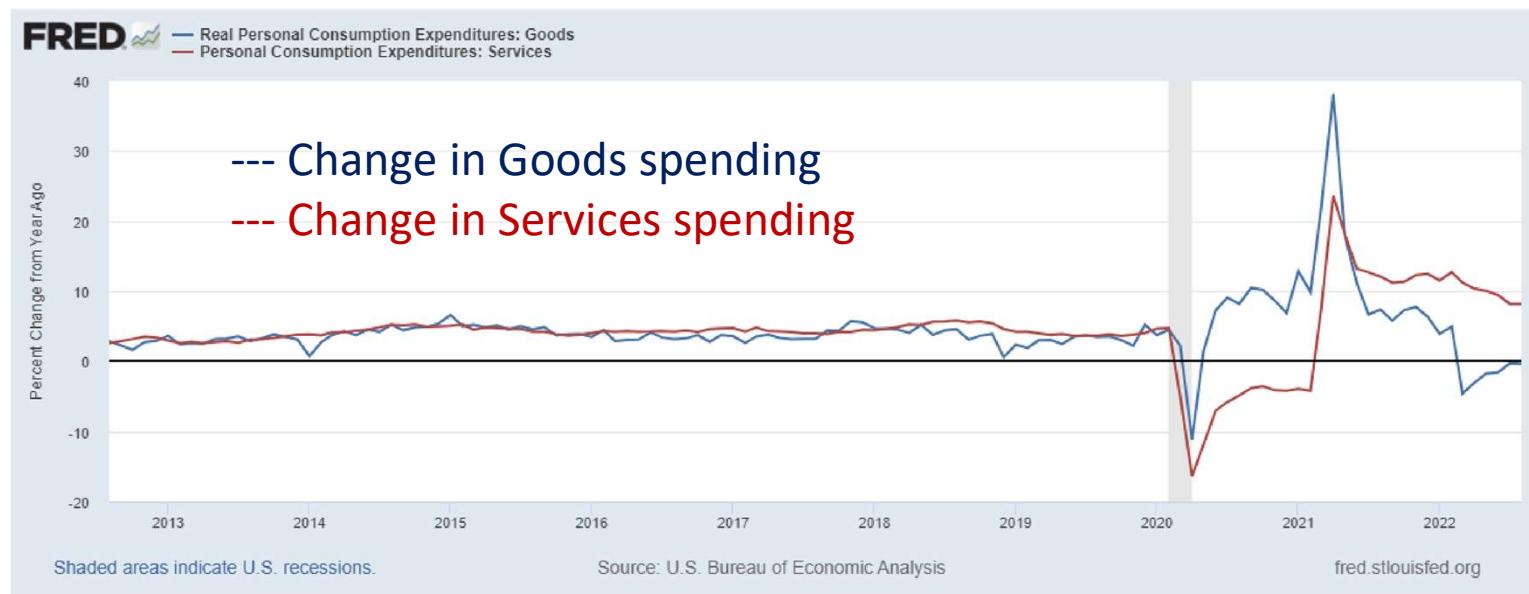


BIG MISTAKE

- Lockdown
- Printed \$4 trillion of new money and the government used a lot of that money to pay people not to work.
- Services were literally shut down.
- Goods were wide open.
- Couldn't go to movies, sporting events, restaurants.
- Between lockdown and today, \$1.3 trillion of above trend spending in goods sector.



Personal Consumption: Goods v Services



After the spike in demand
for goods, year over year
change is now contracting.

What is a One Trillion?

One million times one million
12 zeroes
1,000,000,000,000
1 million seconds = 12 days
1 trillion seconds = 31,710 years





How the Fed funds rate works

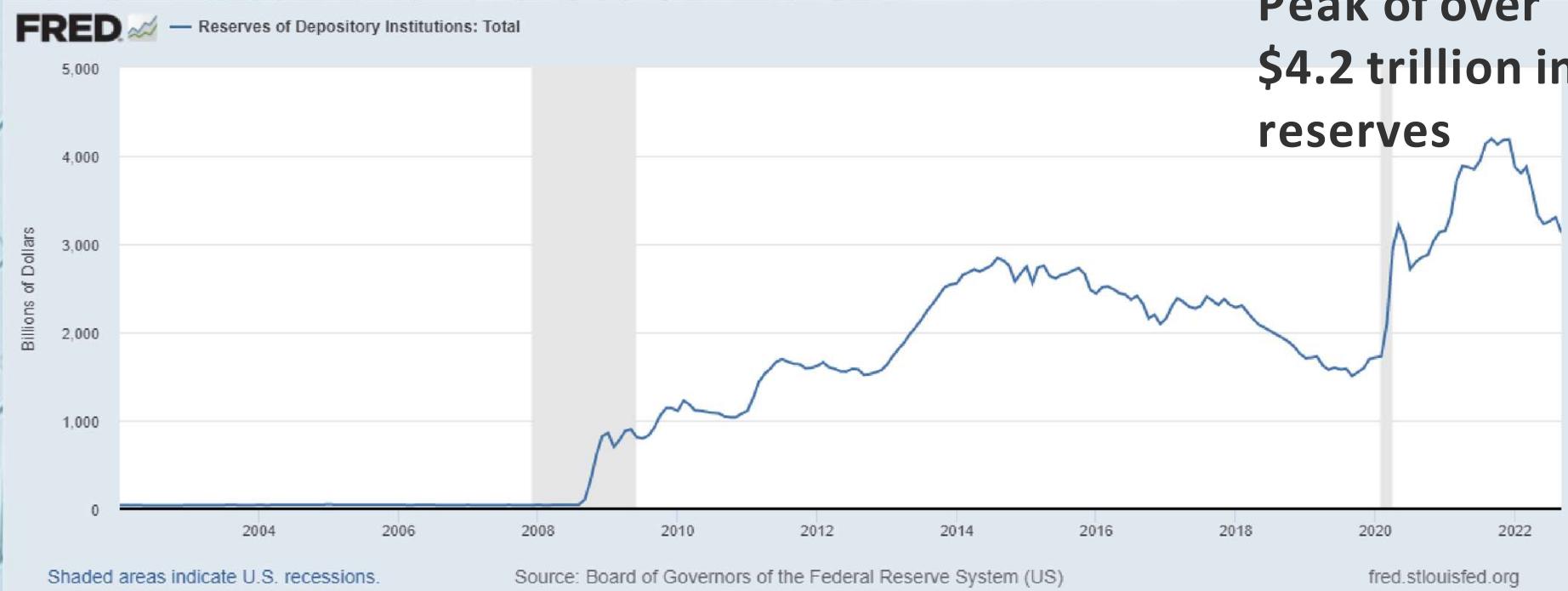


Years past:
I deposit \$1000 at my bank.
10% reserve requirement.
Bank puts \$100 (10%) at a
Federal Reserve bank.
Loans or invests the other \$900.

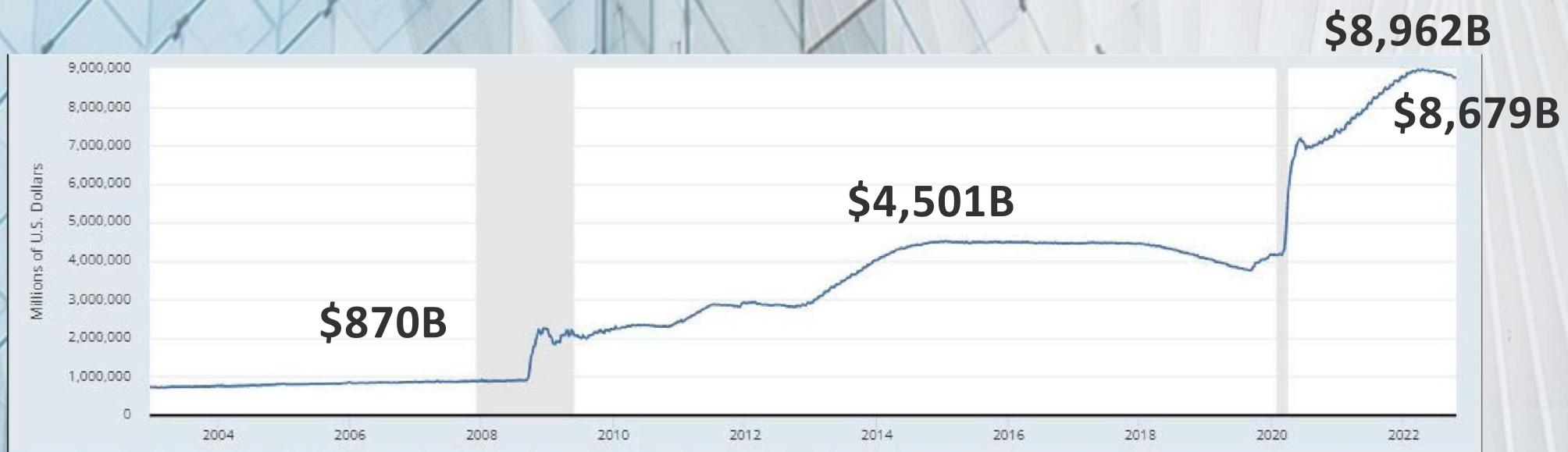
Total Reserves 2003-2022



Peak of over
\$4.2 trillion in
reserves



The Fed's Balance Sheet 2003-2022



Why We Have Inflation



Nearly 30% spike in money supply

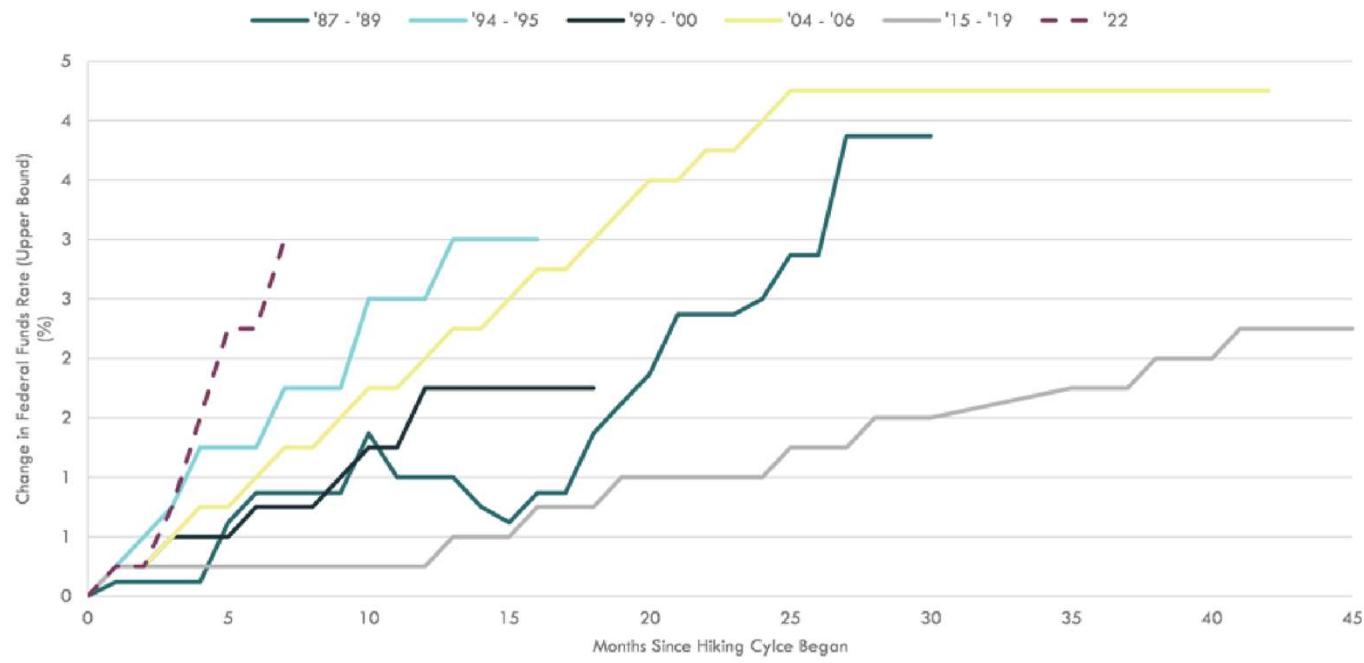


Why We Have Inflation

Year	Reserve Bank Credit	M2	M2 / Reserve Bank Credit	GDP / M2
2007	\$805.8 Billion	\$7,649.4 Billion	8.8X	1.9X
2014	\$4,457.8 Billion	\$11,678.7 Billion	2.6X	1.5X
2019	\$4,127.0 Billion	\$15,337.9 Billion	3.7X	1.4X
2021	\$8,719.0 Billion	\$21,553.1 Billion	2.5X	1.1X

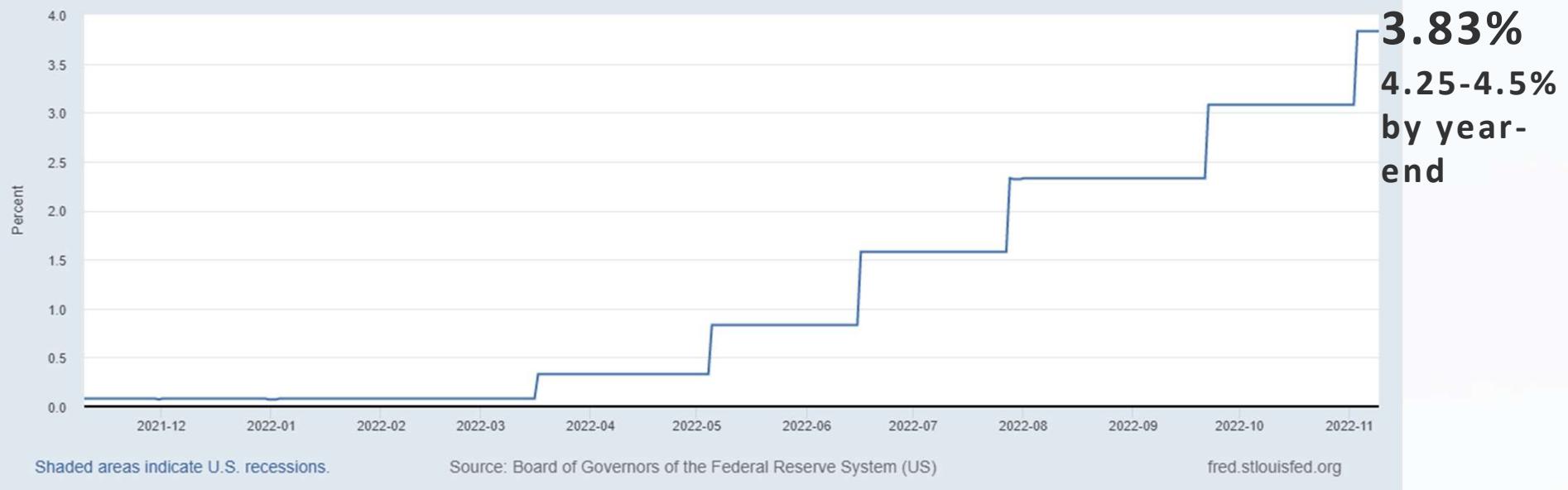


Fastest Hikes in Modern History



Source: Bloomberg LP

Is It Enough to Curb Inflation? Federal Funds Effective Rate



Is It Enough to Curb Inflation?



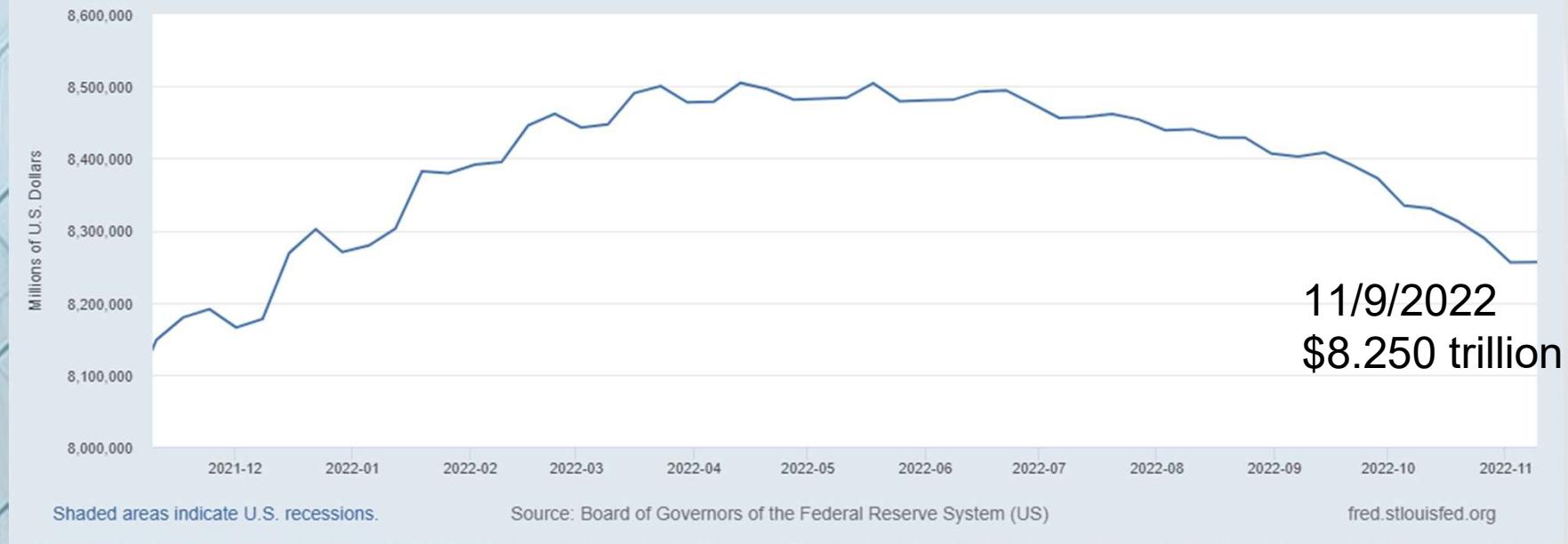
Fed's Reserves



Is It Enough to Curb Inflation?



Fed's Balance Sheet





Blunt Instrument, not a Scalpel

Tightening Cycle	Months after cycle start where consumer spending began falling	Months after cycle start where consumer spending bottomed
1972-1974	12	24
1976-1980	(3)	50
1980-1981	11	25
1983-1984	4	46
1988-1989	(2)	35
1994-1995	2	21
1999-2000	9	27
2004-2006	13	38
2015-2018	32	53
Average	9	35

Source: Bloomberg LP. Consumer Spending is measured on year-over-year % basis



What is so different now.



Today, still a Fed funds rate, but they now just make it up.



Fed is now on its own completely. There are no banks involved.



Money supply causes inflation (not interest rate). Printed 40% more money.
The M2 is manipulation by Treasury.



Blunt instrument, not a laser scalpel.
We have never managed the economy with combo of inflation and loose money.

The “R” Question

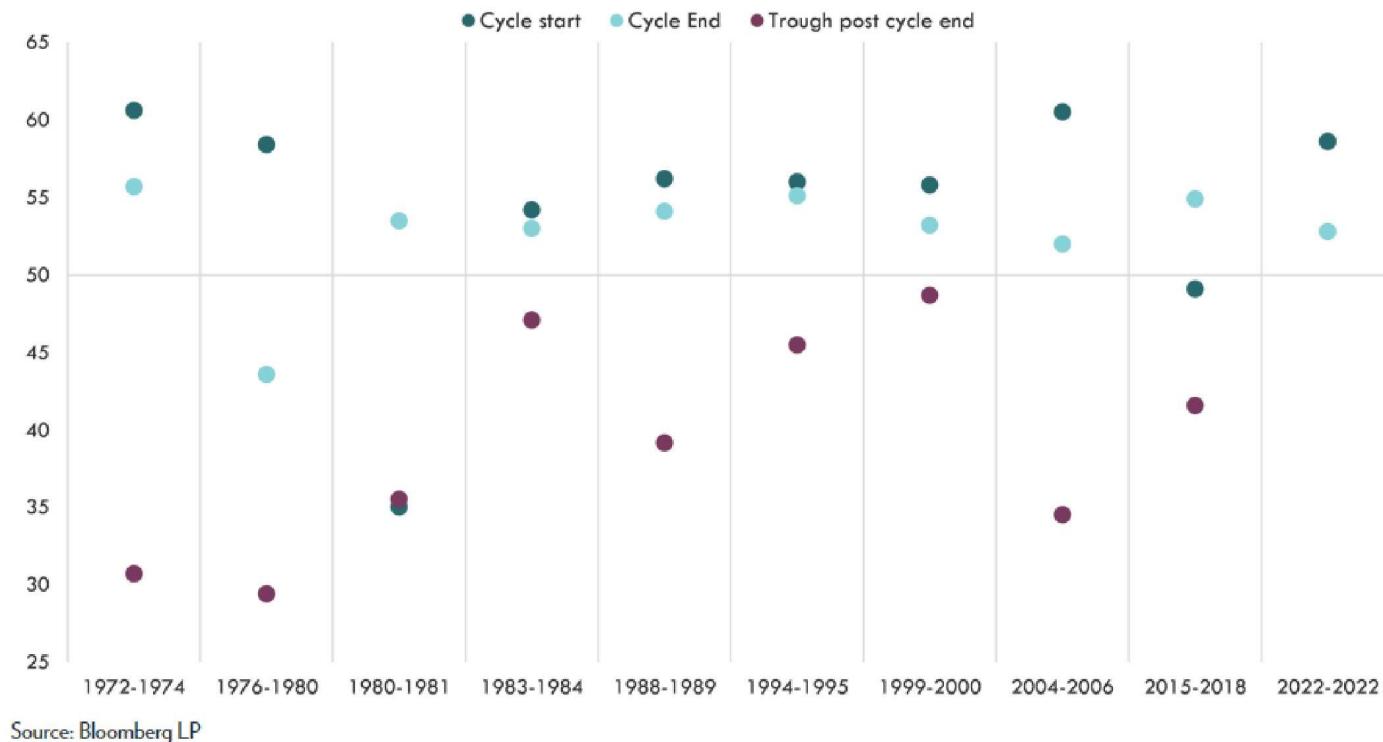


**Likely, we are in or will soon be declared in recession.
The question is how shallow or how deep that will be?**



Not a Precise Process

Manufacturing PMI through Tightening Cycles



FED = SLOW TO
START AND
SLOW TO STOP



Investment Implications. Our Best Ideas Right Now.

Bonds and Stocks in 2022 through November 7



-17.3%
Year-to-date



-20.3%
Year-to-date

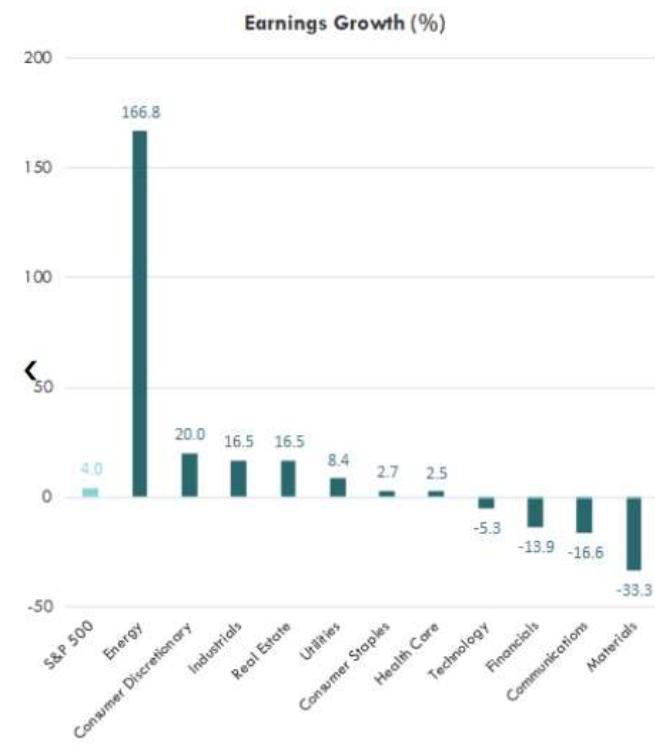
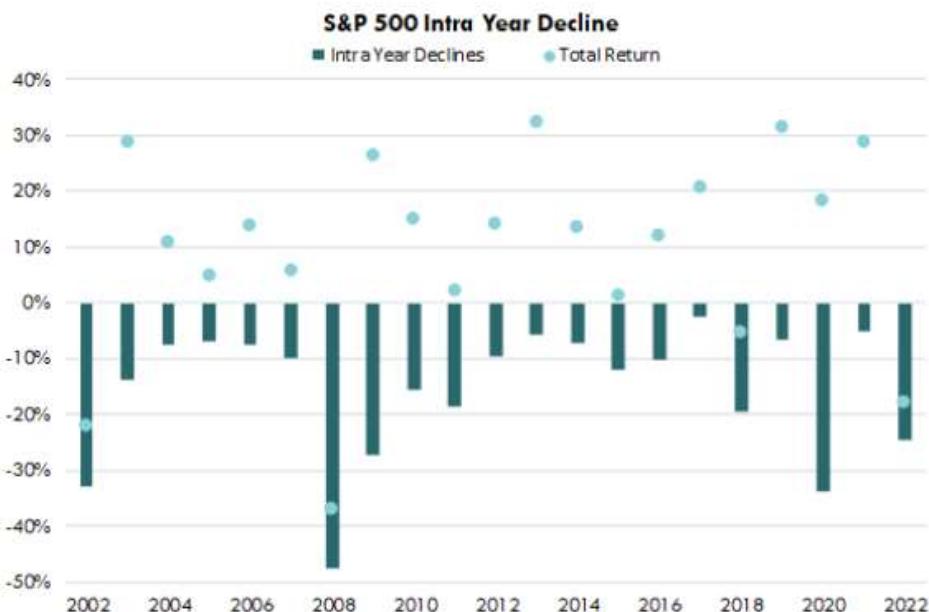
Tech stocks down 32.5%



Equity/Bond Correlation



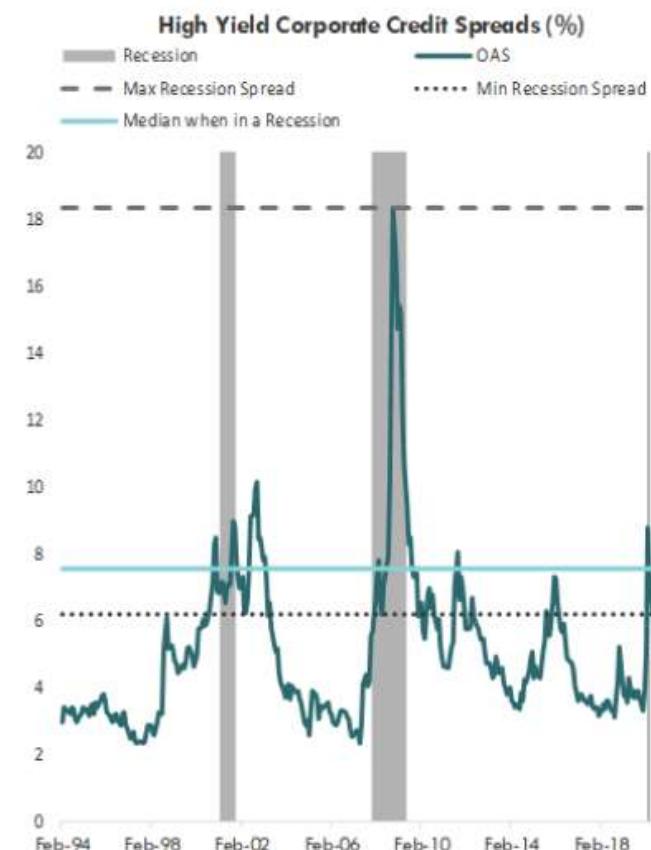
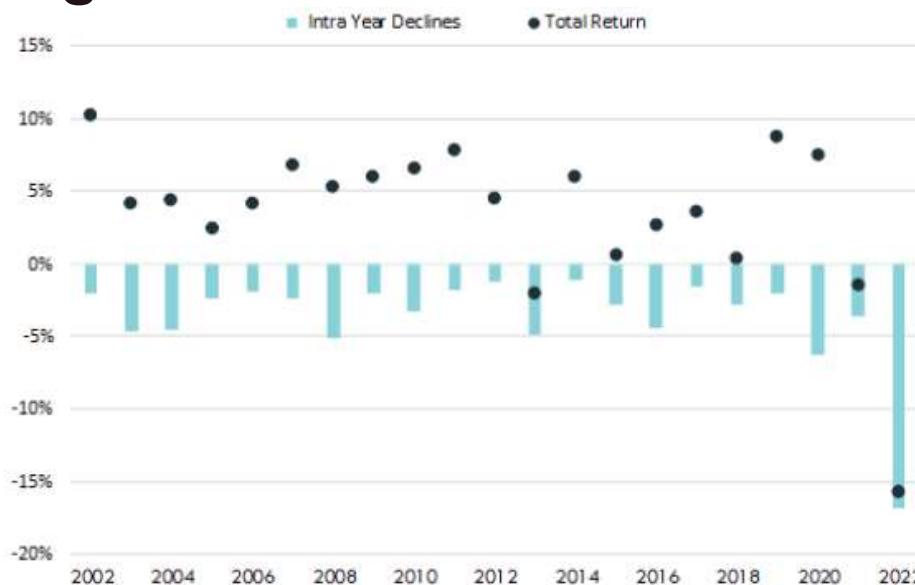
Stock Dashboard



Core Bond Dashboard



High Yield Bond Dashboard

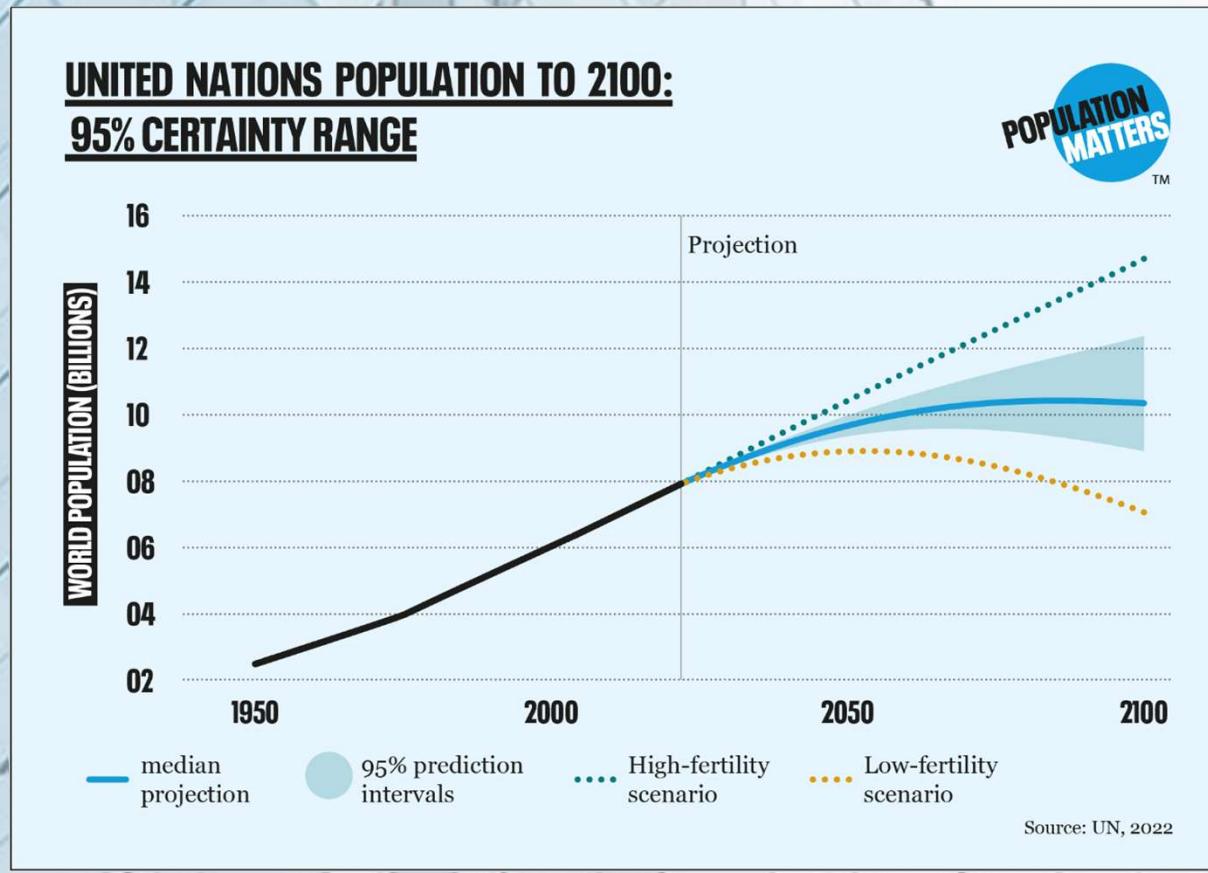


Best Ideas Right Now

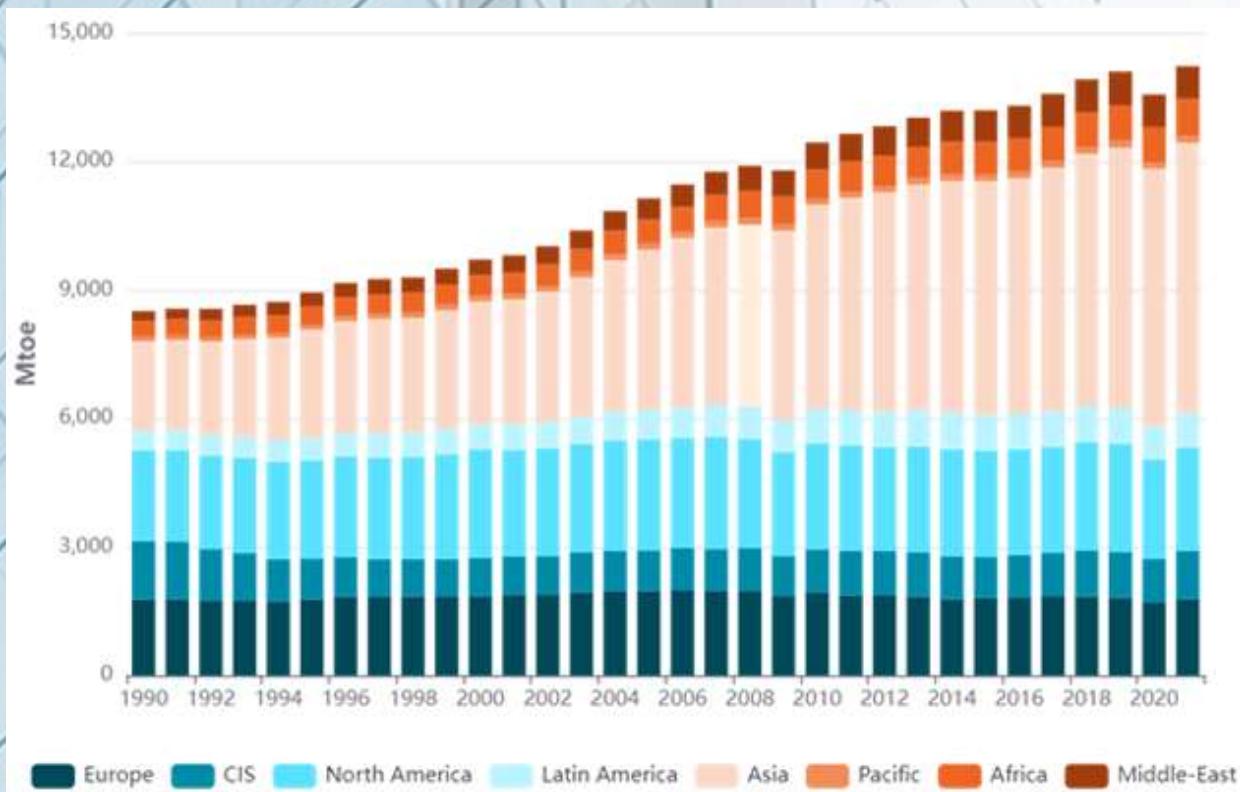


1. Energy
2. Low Vol Stock ETFs
3. High Yield Bonds + Covered Calls

Demand Driven by Population Growth



Energy Consumption



Valero Energy <VLO>



- Oil refiner
- Surging profits
- Upward forward earnings revisions
- 6X trailing 12-month earnings
- 2.9% dividend yield
- Risks: 1.65 beta, tough YOY comparisons

Energy Transfer LP <ET>



- Natural gas pipelines and storage
- Declining leverage helping to boost earnings
- Upward forward earnings revisions
- 9X trailing 12-month earnings
- 8.7% dividend yield
- Risks: 1.65 beta, tough YOY comparisons

Buffered S&P 500 ETFs



Defined outcome with predetermined cap and buffered losses
<PNOV> Predetermined cap of up to 17% over next 12 months
Buffered losses from 5-35%
PNOV protects against 5-15% declines

EXAMPLE OUTCOMES:

S&P 500 rises 15%, PNOV rises 15%
S&P 500 rises 20%, PNOV rises 17.3%
S&P 500 falls as much as 15%, PNOV drops 2.7%
S&P 500 falls 20%, PNOV drops 5.1%

High yield corporate bonds



- Own when S&P 500 is trending up
- 13% Energy versus 5.4% for S&P 500
- +467 bps = fairly valued
- Yield on HYG = 5.1%
- Sell 2-3% OTM calls 30 days out for additional 5-6% return/year
- Sell HYG on 2% decline from top, buy back on 2% rise from bottom (IF above 30 DMA)



THANK YOU.



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Waves Happen. We Guide, Grow and Guard Your Wealth.