

Federal Balance Sheet Contraction Concerns Christian Financial Expert

The Issachar Fund (LIONX), is about 40% invested in 25 growth stocks as of June 21, 2020 (*Listen to this blog/podcast*). I sold stocks last week that I felt were a little overextended in price. I seek to purchase stocks with sound fundamental and technical chart patterns but did not have enough conviction to get more than 40% exposure. I am still finding leading stocks with three consecutive quarters of increasing sales and earnings with double-digit earnings estimates for next year, but it is harder to find attractive buy points. I believe there still may be a little gas left in the tank for the bulls, but the accent may be at a slower pace. I never have subscribed to a buy and hold philosophy, and I will always do my best to avoid life-changing losses for all LIONX shareholders. (*There is no guarantee that any investment will achieve its objectives, generate positive returns or avoid losses.*)

The Fed's balance sheet contracted by \$74 billion last week, and that has me a little concerned! From Feb. 28 of this year to last Friday, the Fed expanded its balance sheet by over \$3 trillion, and last week was the first time the balance sheet declined since then. I believe that a large portion of this \$3 trillion QE experiment found its way into the stock and bond market and has bid up prices. The Fed is not the only central bank adding "free money" to this market, but I believe they are the largest institution causing a rising tide to lift many boats. Higher earnings used to be a major force that would drive stock prices higher, but earnings have been declining since February due to COVID lockdowns while stock prices have been rising. The major technology index is less than 1% from an all-time high and the major large-cap index is less than 8%

from an all-time high. I am seeing a major divergence between declining earnings and rising stock prices that used to trade in sync with each other, but the lockdowns understandably are causing earnings to fall. How long can this divergence continue is anyone's guess, but I suspect it may get very ugly very quickly in the stock and bond market if the Fed continues to contract its balance sheet. I feel the stock and bond market is "hooked" on QE and could have serious "withdrawals" if the Fed cuts off the supply of liquidity. I cannot imagine the Fed would do something stupid, but they have been known to remove the party punch bowl early in the past, which has caused steep stock market declines. I am watching the markets very closely, and if I see signs of cracks in the foundation, I will not hesitate to pull the plug and go to an all-cash position. I expect the price action of leading stocks to reveal what may be happening under the surface as a warning of what may be coming to the broad market.

Bottom line: The election is on Nov. 3, and I do not believe the Fed will do anything to hurt President Trump's chances for reelection. However, if the Fed continues to contract its balance sheet at the current rate, I would not be surprised to see the stock market take a breather, but I do not expect a retest of the March lows. Leading stocks in the cloud, software and medical space continues to charge higher but if they start to show a few "kinks in the armor" I will not hesitate to do what is necessary to get out of harm's way. There is ample negative news on social media and TV, but fear not. God is still on the throne, and He gives wisdom freely to those who ask. Trust God; He will never leave you or forsake you.

"If any of you lacks wisdom, let him ask of God, who gives to all men liberally and without criticism, and it will be given to him" (James 1:5).

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