This past week, financial markets cheered that CPI inflation had moderated. CPI increased 0.4% in October, and 7.7% over the past year. Indeed, the rate of inflation is falling. But it remains far above the Fed's 2% policy goal.

The re-industrialization of America is disrupting the economy's response to higher interest rates and making making the Fed's job more difficult. As a result, the Fed must raise interest rates far higher (and for longer) than most pundits now expect.

The recent stock rally offers a golden opportunity for investors to sell stocks and raise cash… before stock prices dive to painfully low levels.

The Re-Industrialization of America

It started with MAGA. Trump instituted tariffs to protect and rebuild vital manufacturing industries, like steel production.

It accelerated with the pandemic. Massive supply-chain disruptions highlighted the risk associated with far-flung global supply chains. American companies have since worked to reconfigure supply chains. Incrementally, companies are replacing overseas suppliers with North American suppliers. Additionally, subsidies from the CHIPS Act will promote the development of massive production capacity for semiconductors.

Finally, the Russia-Ukraine War is turbocharging America's re-industrialization. Europe's energy crisis constrains Europe's production capacity. So, Europe is buying more from America, which helps to keep America's factories humming. Going forward, European industry will move energy-intensive production capacity to America… to make goods such as chemicals, plastics, steel, fertilizer and industrial coatings.

Making the Fed's Job Harder

Re-industrialization requires more workers… and more productive workers. This raises labor inflation… which ultimately flows to the rest of the economy.

Due to re-industrialization, the Fed's record rate hike of 3.75% (so far this year) has neither hampered employment nor slowed wage inflation.

Therefore, the Fed must use the "Wealth Effect" to slow inflation. In other words, it must raise interest rates as high needed to drive down asset prices. When consumers see the value of their 401Ks collapse, they will increase savings, which in turn will reduce consumer demand… and hopefully lower the rate of inflation.

For the "Wealth Effect" to work, stocks must drop to historically cheap levels. It won't work until it causes a lot of pain.

Crypto Collapse Intensifies Downside Risk for Stocks

The Fed's previous Zero-interest-rate and quantitative easing policies inflated the Crypto bubble. Now, the Fed's interest rate hikes and quantitative tightening are deflating the Crypto bubble.

When asset bubbles collapse, the market bottoms out way below expectations. Many will lose a fortune. Those who do will be forced to sell stocks and real estate. Thus, crypto-induced liquidations will intensify downside risk for stocks.

Avoid the Pain - Cut Stock Exposure Now

The post-CPI rally represents a great opportunity to reduce stock-market risk.

The Log chart below shows the long-term market trend. The shaded area represents the "value zone". An extended period of high interest rates will push the market toward the bottom of the "value zone."

S&P 500 Chart- Log Scale – Long-Term Value Zone

Vigilante Investor forcasts the following downside targets.

- 3450 – very likely
- 3200 – likely
- 2800 – unlikely but possible

These targets represent declines of 14%, 20%, and 30% respectively. Meanwhile, upside potential will remain limited until the Fed subdues inflation and begins to lower interest rates.

So the market offers limited upside potential with substantial downside risk. Prudence argues for a substantial de-risking of the portfolio. Vigilante Investor recommends selling 25% of most energy stocks and 100% of the following: CNX Energy, Prudential Financial, Dorian LPG, and Granite Point Mortgage Trust.

The tables below show the revised model portfolios. The stocks with 100% cuts are displayed in red. The stocks with 25% cuts are displayed in brown.

Table 1: Vigilante Model Portfolio as of 11/11/2022

Sector	%	Selections	Symbol	Initial Price	11-Nov
5G	3%	Qualcomm Inc.	QCOM	$164.40	$121.43
Steel	4%	Cleveland Cliffs Inc.	CLF	$16.58	$15.11
Financials	16%				
		Prudential Financial	PRU	$81.96	$110.21
		Chubb	CB	$165.98	$202.26
		Aflac	AFL	$53.38	$70.30
		AIG	AIG	$47.54	$60.39
		WR Berkley	WRB	$53.58	$69.77
Transportation	0%	Dorian LPG Ltd.	LPG	$11.86	$18.62
Energy	25%	Diamondback Energy	FANG	$61.33	$164.35
		CNX Resources	CNX	$12.21	$18.48
		Black Stone Minerals	BSM	$17.36	$18.43
		Coterra Energy	CTRA	$18.69	$28.45
		Southwestern Energy	SWN	$4.06	$6.99
		Antero Resources Corporation	AR	32.67	37.24
		Nine Energy	NINE	$2.72	*$9.42*
		Plains All American Pipeln	PAA	$9.02	$12.32
		Cameco Corp	CCJ	$12.73	$24.44
Real Estate	0%	Granite Point Mortgage	GPMT	$9.87	$6.60
Agriculture	4%	Mosaic Co	MOS	$28.67	$52.79
Precious Metals	8%	Junior Gold Miners ETF	GDXJ	$46.02	$34.68
		Gold Miners Index	GDX	$29.30	$28.30
		Pan American Silver	PAAS	$21.13	$15.45
		Silver Miners ETF	SIL	$42.00	$28.23
TIPS	18%	VG ST Infl Protected Sec ETF	VIPSX	$12.90	$12.09
Cash	22%	Broker Money Market Fund			

Table 2: Vigilante ETF Model Portfolio as of 11/11/2022

All ETF Portfolio	%	Selections	Symbol	Initial Price	11-Nov
Broad Market	4%	VG Mid-Cap Value ETF	VOE	$122.88	$139.78
	4%	VG Large-Cap Value ETF	VTV	$121.81	$142.23
Financials	4%	VG Financials	VFH	$88.21	$87.96
	14%	iShares U.S. Insurance	IAK	$84.25	$90.83
Energy	24%	First Trust Revere Nat Gas	FCG	$19.01	$28.16
Precious Matals	5%	VanEck Vectors Gold Miners	GDX	$32.75	$34.63
	5%	Global X Silver Miners	SIL	$39.51	$28.23
TIPS	20%	VG ST Infl Protected Sec ETF	VIPSX	$12.90	$12.09
Cash	20%	Broker Money Market Fund			

All the Best

Steve Koomar

November 13, 2022

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Disclosures

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