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Global Markets in Sell-off Mode

The market's been feeling kind of spooky -- but not in the Halloween-y kind of way.

As Barron's on 10/26/2018 reports: "Investors would have to squint—really squint—to see any blemishes in Corporate America's latest quarterly results. Third-quarter earnings for companies in the S&P 500 are on track to rise 22.5%, down only slightly from the blistering 25% pace in the second quarter, according to FactSet."

Worries about corporate revenue peaking and a slowdown in China and Europe potentially spilling over into the U.S.

economy have sent stocks into a tailspin. Fast-growing internet firms have been some of the hardest hit during the turmoil, leading analysts to question whether companies that previously seemed immune to global growth fears can continue surging ahead.

As of 10/29/2018 the S&P500 index is at correction level (down 10%) as are many other market indexes. Some view this correction as healthy - we have had many corrections or worse before that were followed by rebounds to new all-time highs.

Many investors are buyers of the dips which is why we have had big swings when buyers take over from sellers. For example, on 10/29 the Dow had a 918 point swing from up 352 points, then down 566 and closed "only" down 245 points. The balance has been selling to take gains based on fears of what might happen. Automated machine trading increases volatility both up and down - other than market maker inventories whenever someone sells someone else is buying.

U.S. Fundamentals Remain Strong

As of 10/26/2018 with 48% of the companies in the S&P500 reporting for Q3: 77% are beating earnings estimates on track for a overall growth rate of 22.5%. All 11 sectors are reporting year-over-year earnings growth. Eight sectors are reporting double-digit earnings growth. 59% are beating revenue estimates with overall growth rate estimated at 7.6%, with all 11 sectors having revenue growth.

GDP continues strong with 3Q GDP growth better than expected at 3.5%. with consumer spending soaring 4% - the largest gain since 4Q 2014. The business investment component was very weak, which is what the large corporate tax cuts were expected to stimulate.

Why the Market Decline?

There has been a market rotation away from buzzy, high-growth stocks and that sell-off has

spread to the overall market. Trade war concerns are hitting some technology, industrials and transportation stocks but are not expected to have a major impact on most U.S. companies.

The "FANG" stocks have been especially hard hit, after their large gains and relatively high valuations based on their high earnings growth.

No Mass Selling and Buyers Slowly Investing

The wide swings in the market show lots of buying on dips and no mass panic selling. The market is adjusting to many concerns while many analysts consider the market oversold with more reasonable P/E ratios that are back to 2016 levels before the large gains in 2017. (CNBC 10/26/2018)

Wall Street Journal reports: "Some analysts said they are waiting until after next month's midterm elections, typically a boon for stocks, to decide how to react to the recent volatility. Many

companies will resume sizable stock buybacks following corporate earnings reports." Dave notes that most corporations are in a "black out period" where they can't do buybacks in the month before earnings reports are filed with the SEC.

Investors Slowly Bargain Hunting

10/25/2018 (Reuters) - U.S. fund investors snapped up shares of stock funds during the latest week despite wild trading, adding \$4.2 billion to the products, according to Lipper data. Demand for stock funds increased during a week when the S&P 500 benchmark erased its gains for the year.

"It's earnings season and we're seeing some fairly good numbers come out," said Tom Roseen, head of research services at Lipper, but he noted the market has also had a strong run for a decade. "It's been going up and up, and we need a breather."

S&P 500 third-quarter earnings are up 23.6 percent over the year prior, with four-fifths of companies' profits sitting above Wall Street's expectations, according to Refinitiv data.

Technology sector stock funds pulled in \$904 million during the week ended Oct. 24, the most cash since June, even as top tech names took a beating during the sell-off, Lipper said.

Bond funds remain under pressure from rising rate expectations. Taxable bond funds posted \$4.5 billion in withdrawals during the week, marking a fifth consecutive week of money being pulled out.

Outlook & Action Recommendations

The outlook for a recovery and growth in equities is on balance favorable but with risks. A well-diversified portfolio should span geographies as well as sectors of the market.

For a long-term growth objective, I recommend you stay the course. The risk in an equity

downturn is having to sell and lock in losses when you need cash. **For those who want to build an ark for some of their funds for more protection I recommend a strategy that participates in part of equity gains without downside risk and not having to recover market losses to have future annual gains, backed by a strong insurance company¹. I will provide more detailed information on request.**

A "Participation Yet Protect" equity growth strategy helps maximize potential market gains with a widely diversified portfolio. Instead of "dumb" index funds with no stock selection based on individual company outlooks, or similar ETF's (only make sense for traders, not investors), I suggest managers with long-term track records of outperformance compared to the category they invest in, and compared to the risk taken (Alpha vs. Beta in investment terms) – not just raw returns.

I suggest avoiding most bonds (due to ongoing expectations of higher interest rates), other than some forms of secured floating rate debt that can benefit from higher interest rates.

For those needing a steady cash income I have other ideas for clients.

¹All guarantees are based on the claims-paying ability of the insurance company

Required Disclosures: Past performance does not assure future results. Investors cannot directly invest in indices. There is no assurance that objectives will be met. Investments in securities do not offer a fixed rate of return. Principal, yield and/or share price will fluctuate with changes in market conditions, and when sold or redeemed, you may receive more or less than originally invested. No system or financial planning strategy can guarantee future performance of any specific investment, investment strategy or product will be profitable.

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