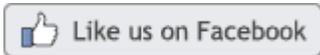




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Busy AND Fun at the Same Time

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With volatility returning to the stock market and our call for lower prices hitting the nail on the head, I did my fair share of media this month. At the 5:20 mark of Yahoo Finance's Midday Movers, you can see my recent interview below.

<https://finance.yahoo.com/news/stocks-red-yesterdays-big-selloff-150134476.html>

NBC 30 in CT sent a crew to my office to shoot an awful lot of footage last week when stocks collapsed. However, much of it was left on the editing floor.

[https://www.nbcconnecticut.com/on-air/as-seen-on/Expert-Discusses-Stock-Market-Dive\\_Hartford-497054361.html](https://www.nbcconnecticut.com/on-air/as-seen-on/Expert-Discusses-Stock-Market-Dive_Hartford-497054361.html)

And finally, a very unusual one for me as the Washington Post called to do a story in late September about my market call. It took longer than the writer expected to get it published and he was deft enough to shift the focus on the fly.

[https://www.washingtonpost.com/business/economy/even-if-the-bull-market-is-heading-toward-a-correction-its-likely-to-keep-on-charging/2018/10/12/b7196d1e-c346-11e8-97a5-ab1e46bb3bc7\\_story.html?noredirect=on&utm\\_term=.d834ab48f8d0](https://www.washingtonpost.com/business/economy/even-if-the-bull-market-is-heading-toward-a-correction-its-likely-to-keep-on-charging/2018/10/12/b7196d1e-c346-11e8-97a5-ab1e46bb3bc7_story.html?noredirect=on&utm_term=.d834ab48f8d0)

I really, really enjoyed the down time in August I had from coaching, taking the kids to practices and lessons and then schlepping from tournament to tournament every weekend in June and July. August was nice. Well, I just couldn't leave well enough alone. As Labor Day came, I made the mistake of saying how nice it would be to have a little more action going on.

Now, my head and calendar are spinning with something going on Friday and most of the day and evening on Saturday and Sunday. Luckily, fall sports conclude in less than two weeks. And with the calendar soon turning to November, UCONN basketball is back in action. A few weeks ago, the little guy and I bumped into the team at the USA against Canada game in Bridgeport. I was really proud that he had no problem running over to Crystal Dangerfield, the shortest one, and asking for a group picture. And he was excited that they remembered him from last season.



Also in recent weeks, my high school had a film showing of The Catcher was a Spy with a very small group in New Haven. The writer was a man I went to high school with, Nick Dawidoff, and his best friend growing up is one of my favorite actors, Paul Giamatti. Paul's mom and Nick's mom both taught English at Hopkins and they were my teachers. The evening was a kick off event to endow scholarships for inner city kids in English and the arts. It was beyond fun and the movie was excellent!



As many of you know, I have gone to a quasi online calendar so you can book an appointment when you want to and not just when we're in the office or respond to your email. For now, I do not include evening meetings nor early morning ones, but I will try and accommodate as best I can.

If you would like to schedule a meeting, Skype, FaceTime or call, please click on the link below and give it a try. I just opened up my calendar for the next month so there is lots to choose from.

<https://heritagecapitalllc.acuityscheduling.com/schedule.php>

You can sign up to receive notifications when a new blog has been posted here.

<http://www.investfortomorrow.com/BlogAlerts.asp>

Don't forget to check our blog for intra-issue updates. [www.investfortomorrowblog.com](http://www.investfortomorrowblog.com)

## Volatility Not Over. Election Looms

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As you know, I had been calling for a mid to upper single digit decline in stocks since late September. That pullback has certainly come to fruition this month with the major stocks market indices down between 7% and 10%. Last Thursday brought short-term panic readings in some indicators and that served to mitigate more weakness, at least for now. Usually when these conditions occur, the bulk of the price damage has been done for the time being and at this point, I don't think this time is any different. As such, we redeployed some of our dry powder back into the stock market late last week.

Just because the odds favor most of the price damage being done, it doesn't mean that the volatility is over. As I wrote about last week, I believe the markets will see heightened movement in both directions through early November and the mid-term elections. In other words, the market has now shifted to a short-term time horizon or a trader's market where weakness should be bought and perhaps, in limited situations, strength should be sold.

This is all in the context of an ongoing bull market. Usually during declines, the same group of gloom and doomers email or tweet me that the bull market is over and armageddon is upon us. If I had time, I would go back and see just how awful this group was at forecasting. I would bet that they typically contact me within a day or two of a bottom.

Anyway, regarding the end of the bull market, I will publish a full canaries in the coal mine next week. But in the meantime, bull markets do not typically end with stocks going from all-time highs to multi-month lows in a period of a few weeks. As you may recall, bull markets tend to work sideways and roll and roll over time. The first decline does not generate much in the way of panic. More on this next week.

## Hedge Funds Caused the Decline? REALLY???

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As I said, volatility reigns. However, there are lots of instruments worth buying or putting on your shopping list. While stocks have bounced sharply from the lows last Thursday, I do think there is a scenario or even two where those levels will be breached over the coming few weeks. It would be very unusual for a 5%+ decline to end with a large red day where stocks closed near their worst levels of the day. Stay closely tuned. I keep watching the parade of pundits who advise buying right now. Those are the same pundits who never saw the decline coming in the first place and were fully invested. So how can they "buy" when they were fully invested throughout?

This morning I watched an interview with Larry Fink, CEO of Blackrock, one of the world's largest asset managers. Fink has been one of those pundits who is habitually on the wrong side of market moves. I often find that pundits who are wrong have a higher degree of being wrong than those are who usually on the right side of markets.

Today, Fink didn't give so much of an outlook as he did an explanation of why stocks went down. Hedge funds. Yes, he said hedge funds. There have been a number of funds liquidating and returning money to investors and Fink believes they caused a 7%+ decline in stocks. Incredulously, I just shook my head. What hedge fund manager with the vast majority of their net worth in the fund is just going to hit the sell button all at once or over two days? The answer? NO ONE! It was an absurd explanation. Unless a fund is forced to sell because of some type of margin call, they would liquidate in an orderly fashion over a period of weeks or longer.

As I pick this back up in the evening, I am now in Baltimore for two days visiting with clients and stocks have exploded higher, led by technology and small caps. Why tech and small caps? Because initial snapback rallies usually see the most beaten down, rally the hardest. During the decline, it seemed like there were way too many pundits talking about the charts and technical indicators. All of a sudden when fundamentals failed to explain the decline, the masses had to turn elsewhere. But don't worry. As soon as a rally really gets moving, they will abandon the technical rationale and go back to spewing about the economy and earnings. It happens every time. Rinse and repeat.

## **Pink & Blue Means More than Just Baby Stuff**

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And speaking of charts, I want to spend a few minutes explaining the most basic and easiest to understand technical indicators which is what you generally hear in the public domain because most pundits aren't advanced enough to take it any further.

The next three charts are of the Dow Industrials, S&P 500 and NASDAQ 100. The pink lines represent the average price of the last 200 days, also known as the 200 day moving average. It's "moving" because every day as one piece of data is added, one piece of data from 200 days ago falls off. Many people simply use the pink line as a gauge of whether stocks are in an uptrend or downtrend. When price is above the pink, it's said to be positive and in an uptrend while the opposite when price is below the pink line.

You will also notice three upward sloping blue lines which do nothing more than connect the lowest prices from earlier in the year. That's also known as a trend line. The more times price touches a trend line, the more important that line becomes. Two times is obviously the bare minimum and not exactly all that important.

During the decline, I heard some pundits opine that computer driven algorithms or trading programs were the cause of the drop. They were said to be gunning for the pink line so others who buy and sell based on the pink would be forced to take action. I find that mostly nonsensical.

What you can see from the three charts below is that all three indices declined to briefly breach their average price of the last 200 days along with saying hello to those trend lines.

What's more important is that at least for now, the bulls put up a stand at the levels they are "supposed" to, namely those pink and blue lines.





Summing it all up, the downside objective of the mid to upper single digit decline I forecast last month has been met, but I am not yet ready to declare an all clear. The vast majority of the damage should have been done for now, but stocks are in need of some repair which can be accomplished with time passing.

While a 7% pullback usually recovers in a few months, seeing the indices head right back to all time highs in straight line fashion would be very atypical and cause me to have the most concern since the bull market began in March 2009. That scenario could even lead to the end of the bull market like we saw from the August 2007 low to the October 2007 peak.

## Investment Quotes/Adages To Live By

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"In God we trust, all others bring data."
- The Elements of Statistical Learning

"The only easy day was yesterday."
- The U.S. Marines

"When in doubt, get out!"

"If it's obvious, it's obviously wrong."
-Joe Granville

"It's ok to be wrong, but it's not ok to stay wrong."

"This time is different."

"The markets require the patience of a dozen men."
-Robert Rhea

"Luck is the residue of effort."

"The most bullish thing a market can do is go up in the face of bad news."

"The most bearish thing a market can do is go down in the face of good news."

"The market can stay irrational longer than you can stay solvent."
-John Maynard Keynes

"Government is best which governs least" - Thomas Jefferson

Inflation is the one form of taxation that can be imposed without legislation.
-Milton Friedman

"You cannot legislate the poor into freedom by legislating the wealthy out of freedom. What one person receives without working for, another person must work for without receiving. The government cannot give to anybody anything that the government does not first take from somebody else. When half of the people get the idea that they do not have to work because the other half is going to take care of them, and when the other half gets the idea that it does no good to work because somebody else is going to get what they work for, that my dear friend, is about the end of any nation. You cannot multiply wealth by dividing it." - Dr. Adrian Rogers, 1984

"Bear markets seem to be divided into three phases: the first being the abandonment of hopes upon which the final uprush of the preceding bull market was predicted; the second, the reflection of decreased earnings power and reduction of dividends, and the third representing distressed liquidation of securities which must be sold to meet living expenses. Each of these phases seems to be divided by a secondary reaction which is often erroneously assumed to be the beginning of a bull market."
- Robert Rhea

"Free enterprise is a rough and competitive game. Nobody too big to fail. Nobody too small to succeed. It is a hell of a lot better than government control." - Ronald Reagan via Dan Kennedy

"A government big enough to give you everything you want is big enough to take everything you have." - Gerald Ford via Dan Kennedy

"The problem with socialism is that, sooner or later, you run out of other people's money." - Margaret Thatcher

"Diversification alone is no longer sufficient to temper risk... You need something more to manage risk well."
- Mohamed El-Erian

"A little bit at a time adds up to a lot in no time"

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