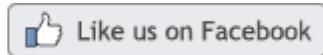




October 31, 2018

4:03 PM EST



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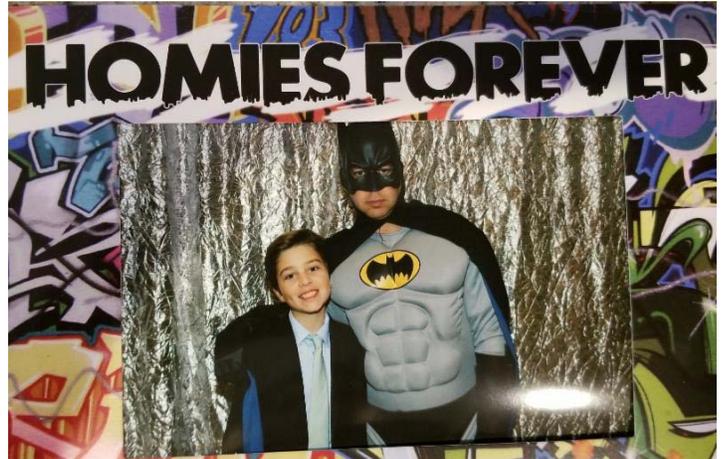
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Happy Halloween

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Last weekend appears to be our final insanely busy weekend of the year with baseball, a bar mitzvah and bat mitzvah. In between, there were plenty of errands and work. Not much in the way of relaxing. On Saturday night the family began at the bat mitzvah party of my niece and then quickly hustled to the bar mitzvah party of a friend which happened to be a costume party.

I have to give kudos to my wife for changing from cocktail party chic to Batgirl in the car with only 9 toenails in tow after losing one this week to the foot doctor. When the little guy asked me to take a picture with him, I was speechless at the border he chose. It made my day, week, month, quarter and year! I celebrated. At least someone likes me!!



October was a crazy busy month in the office as I mentioned in the last update. And the volatility in the markets only added to that. Below is a story Yahoo posted on Finance's homepage which was taken from when I joined them live via Skype on Monday. To be candid, the comment was really only in passing. I didn't intend it to get any traction, but I am happy it did.

[https://finance.yahoo.com/news/bull-market-fueled-3-things-investment-advisor-says-115911613.html?soc\\_src=social-sh&soc\\_trk=tw](https://finance.yahoo.com/news/bull-market-fueled-3-things-investment-advisor-says-115911613.html?soc_src=social-sh&soc_trk=tw)

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 through November so there is lots to choose from. By the way, the link is a new one.

<https://schedulewithpaul.as.me/>

Don't forget about our blog, [www.investfortomorrowblog.com](http://www.investfortomorrowblog.com) for shorter-term analysis.

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

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

## The Clues to Rally Were There on Monday

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For more than a month I have been calling for a mid to upper single digit decline in the stock market. The first leg down took the Dow from just under 27,000 to 25,000, where our shorter-term models began to turn positive. I opined that most of the price damage was likely over. However, after a three day rally that failed, the selling not only picked up again but accelerated and intensified through Tuesday afternoon. In all, since the peak, we have seen some of the most unrelenting selling waves of the entire bull market.

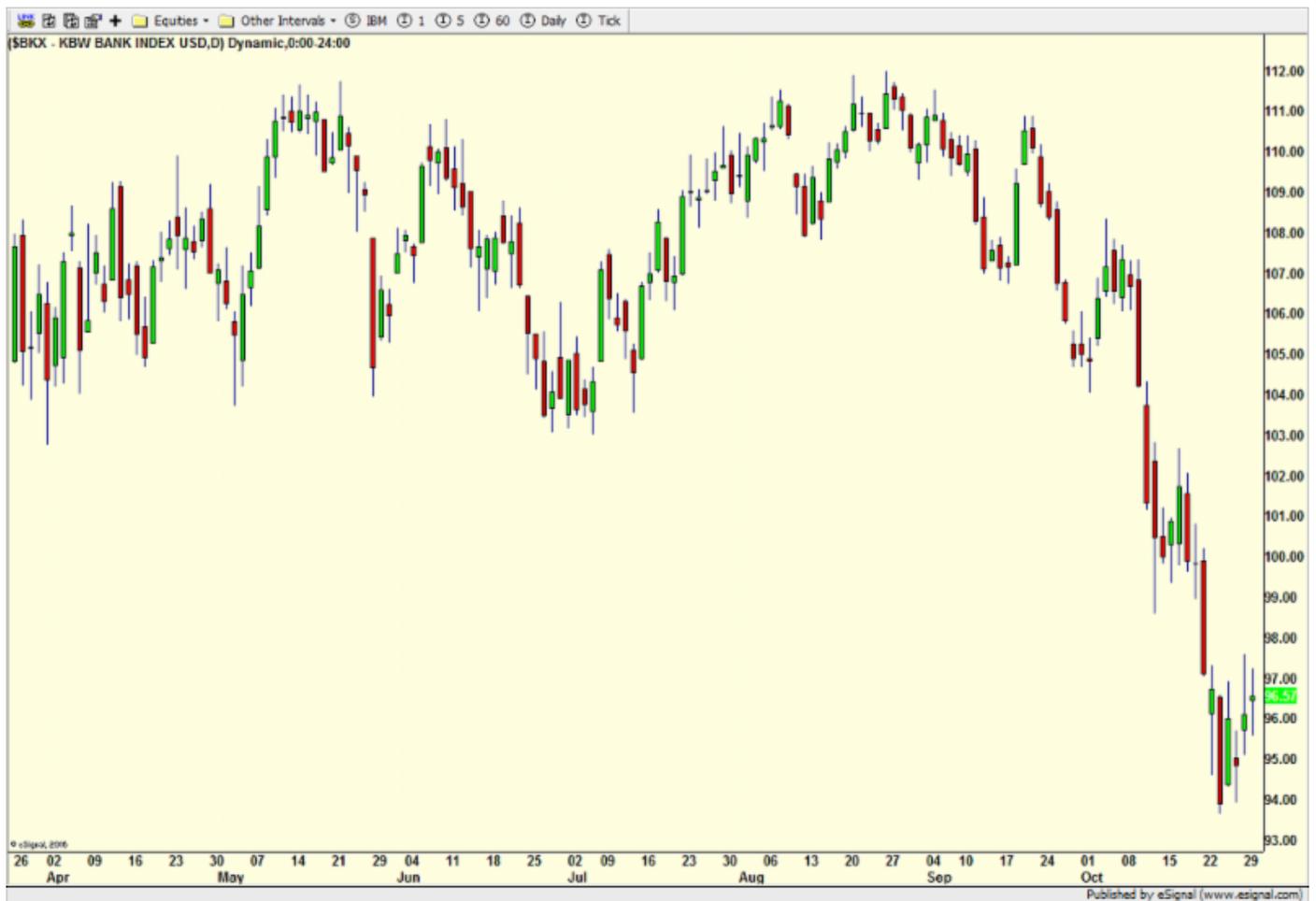
I have been patiently waiting for some light at the end of the tunnel to give me a handle on when a rally would materialize. Notice that I didn't say THE rally. In the last few updates I kept saying that the ultimate bottom was not in and I still do not believe it is, but it's getting closer.

On Tuesday morning, I published a piece on [www.investfortomorrowblog.com](http://www.investfortomorrowblog.com) where I began to see a few rays of light that the strongest downside momentum was beginning to wane on Monday. To be fair, I wasn't pounding the table to buy, buy, buy for the THE rally I see coming, but there was enough evidence to support a trading rally. In other words, something short-term for the nimble.

The small cap Russell 2000 did not make new lows on Monday when the other major indices did.



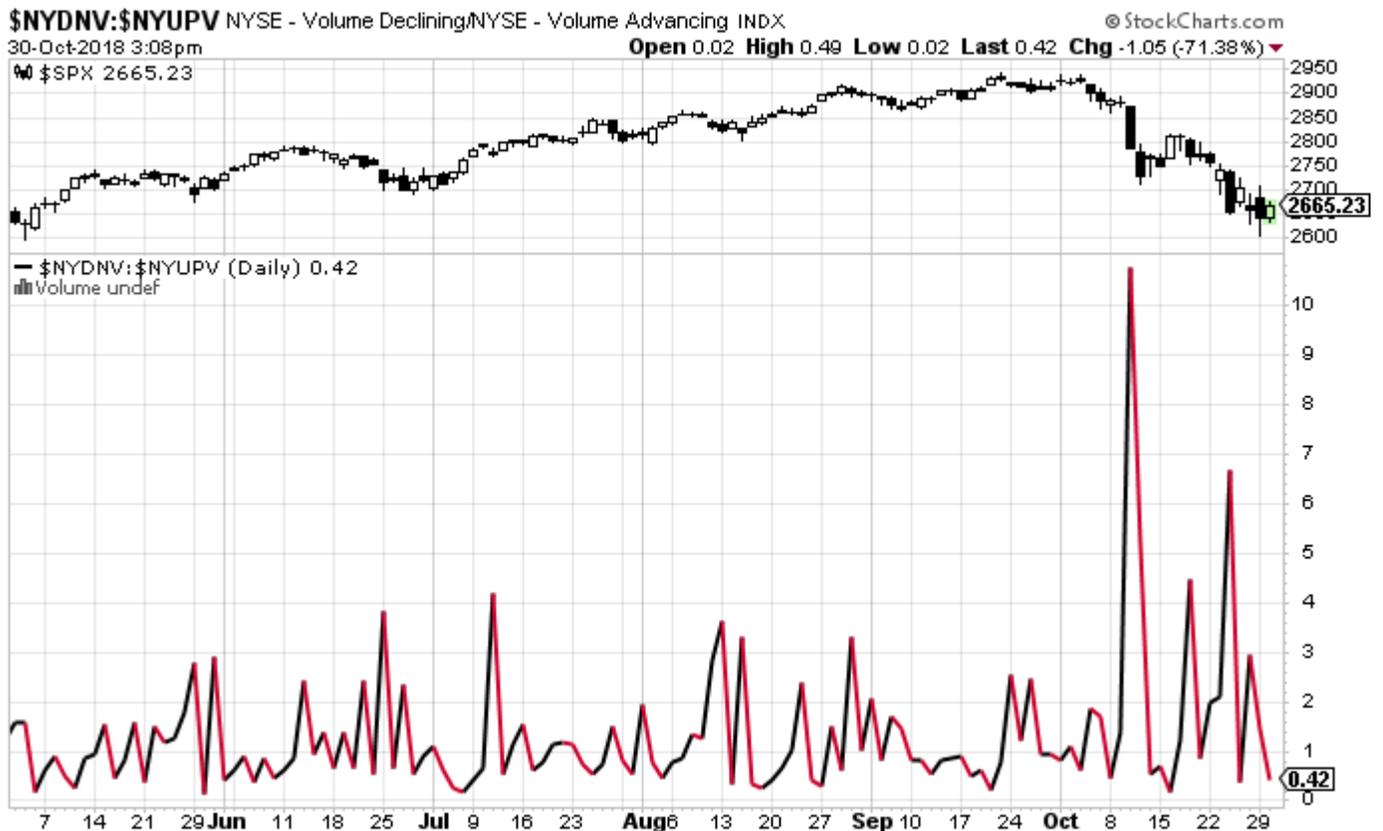
The same can be said the decimated banks below which look like death. The group is starting to look so bad, they might actually be good. Earnings have been strong and their capital position is about as good as it's ever been. While they may not see new highs anytime soon, don't be surprised if dividend increases are announced sooner than later which gives some juice to this beaten down sector. A 10% to 20% rally is certainly doable.



Next you can see the Volatility Index or VIX which spiked to its peak on October 11th. This index typically moves higher when stocks move lower. While the major stock indices have traded much lower than October 11th, the VIX has not, another sign of waning downside momentum to go along with the first two above.



Finally, below you can see the ratio of downside volume to upside volume on a daily basis. On October 11th, downside volume swamped upside volume by more than 10:1. Yet during this latest leg lower, the bears could only muster a reading just short of 7:1, signaling some loss of downside thrust.



While I was a little nervous covering shorts and closing out hedges, it was the right thing to do regardless of where stocks ultimately end up. All markets involve a few steps in one direction and one step in the opposite direction.

## WHY Have Stocks Been Going Down

Let's go away from the very short-term picture and talk about the intermediate-term. This correction has been very fast and furious. The old saying that stocks take the stairs to the tops and the elevator to the bottom definitely rings true here. This decline has been relentless with strong wave after strong wave of selling.

I can spend a lot of time debating why stocks have declined, but does it really matter? The stock market usually discounts economic activity 6-9 months down the road. However, it's far from perfect. The media feels like they must assign a reason for each and every daily move in stocks. That's not how markets work.

Several weeks ago, I published a blog piece about what was looking like an interest rate driven decline. <http://investfortomorrowblog.com/archives/3825> The thing is, long-term rates peaked on October 5 and went straight down to October 26. They are not well correlated although perhaps there is a lead/lag relationship.

Many high profile companies have beat their earnings estimates, however their top line revenue numbers have missed. Investors didn't sell because of what happened last quarter. That's old news, history, in the rear view mirror. They sold because they believe that lower revenues will continue and begin a new trend.

I happen to believe that the election is causing more consternation in the investing community than people are publicly admitting. Although I will update my election model this weekend, it certainly looks like the House will go blue by at least 5 seats and the Senate will gain one or two red seats. Basically, that's a return to gridlock and an end to the GOP's pro-growth, low tax agenda. That's one of the reasons I have been forecasting the ultimate low during the first two weeks of November. We have an election overhang.

## 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"

## To Your Financial Success,



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