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Perspective: StormGuard Still Triggered ... What's Next?

Dec 09, 2018

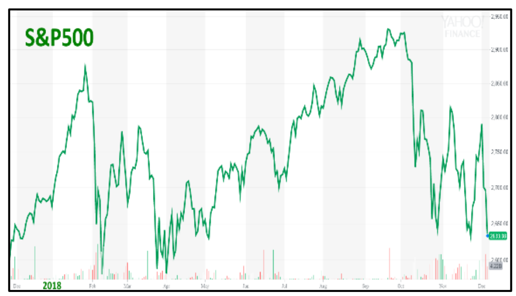
Dear Scott,

StormGuard Still Triggered

Following the sharp 10% drop in October, the market rallied half way back twice only to retest the bottom each time with great precision (chart right). While pattern traders suggest that a double bottom is a strong sign for heading higher, it carries with it the need for continuing higher highs and higher lows. While today we have neither, the good news is that the pattern also has not broken to the downside.

S&P500 Index - 6 Months

While market chart patterns do not control events, such as natural disasters, wars, innovations and politics, they do influence our short-term beliefs and create self-fulfilling prophesies. The only reason for a 10% decline and subsequent re-test of the bottom is that a preponderance of investors believe it is the proper definition of a correction and their behavior makes it so. In February of this year, the chart (right) told us a similar market correction story. To wit: Mark Twain is reputed to have said "History doesn't repeat itself but it often rhymes."



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What's Next?

In the prior Perspective Newsletter the notion of a buyers' strike was discussed, where concerns about the mid-term election, interest rates, tariffs and the Mueller probe caused investors to sharply retreat (as indicated by the sharp declines in the institutional volume and value sentiment portions of StormGuard-Armor. While the mid-term election uncertainty is resolved and there is positive movement on the tariff front, it is now apparent that the threat of another interest rate hike on December 19th is the primary factor weighing on the market. Higher interest rates directly affect housing costs and business operating costs.

click to view all StormGuard charts

Whether this is an ordinary market correction or the start of a serious bear market is the question at hand. Of course, there are plenty of credible experts on each side of the debate. The Recession Dashboard (right, provided courtesy of legendary "Money Talks" radio program host and financial advisor Chris Kline of Capstone Wealth Management) provides an important perspective of today's situation relative to prior recessions. The seven recessionary measures shown for each of the six prior recessions are very different from those economic measures today, as shown in the bottom row of the chart. While the current market volatility is quite unsettling, it is difficult to believe that this is anything more than a market correction — a pulling back on the reigns of euphoric market growth as the FED adjusts interest rates "toward neutral."

If the FED pauses its former plan for another rate hike on December 19th, perhaps the market will get a last-minute Santa Claus rally. Until then, market nervousness may continue. In the meantime, StormGuard-Armor remains our ally. As I indicated last month, a bear market is not in the cards, providing nothing terrible happens to throw more cold water on continued economic growth.

Recession Dashboard

Recession Dashboard

Start of Recession	Yield Curve	Inflation Trends	Job Creation	Credit Perform	ISM Mfg.	Earnings Quality	Housing Market
Nov-73	↓	↓	↓	↓	↓	--	↓
Jan-80	↓	↓	↓	↓	↓	--	↓
Jul-81	↓	↑	↑	↓	↓	--	↓
Jul-90	↓	↓	↓	↓	↓	↓	↓
Mar-01	↓	↓	↓	↓	↓	↓	↔
Dec-07	↓	↓	↔	↓	↓	↓	↓
Present	↑	↔	↑	↑	↑	↑	↑

Key: ↓ Recessionary ↑ Expansionary ↔ Neutral

Prepared by Jonathan Stump, CFA

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Surf Well and Prosper,

Scott Juds
President & Chief SectorSurfer
SumGrowth Strategies, LLC
www.SumGrowth.com