

Perspective: Dip Recovery Aftershock Tells Important Story

Mar 04, 2018

Dear Scott,

February's Dip Recovery Disparity

As we asserted in February's newsletter, the sharp market drop was not the beginning of a market crash, but rather an overdue correction after a steep run up in a healthy and improving economy. Technical traders demanded and received their self-fulfilling prophesy of a twice-tested 10% correction and have again relinquished control back to more ordinary markets. The recovery, however, has not been without a prejudicial shift: Tech stocks (represented by QQQ) dipped less and rebounded more than the overall market (represented by SPY), as illustrated in the chart (right).



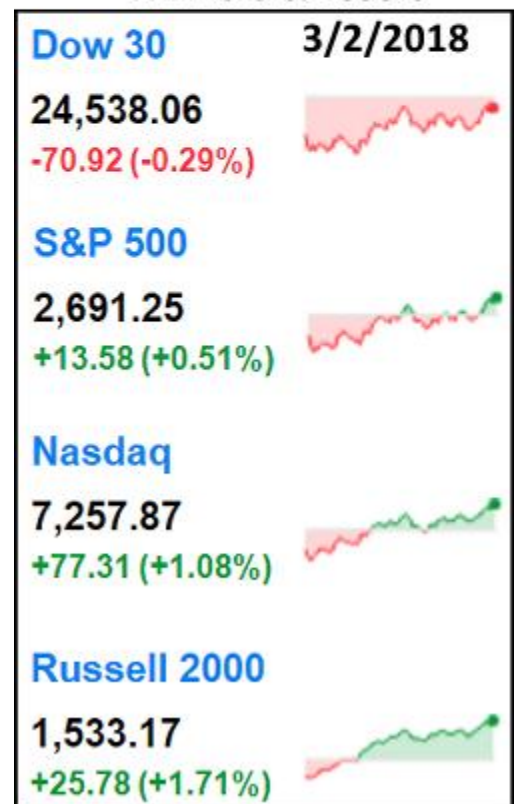
The Tariff Dip Aftershock Tells a Story

Just when it seemed like the market was recovering well, President Trump pulled the pin on a "tariff hand grenade" that rattled both domestic and international markets. Politicians, policy experts and media around the world were quick to criticize and condemn the proposed steel and aluminum tariffs as inflationary and likely to induce a serious trade war. However, just two days later, the market's seemingly conflicted behavior (right) now tells a different story. The initial shock and awe has apparently now subsided and more patient investors are weighing in differently. What's that about?

There are four primary groups reacting to Trump's tariff announcement: (1) Trump's political and economic foes, (2) his political and economic supporters, (3) those that enjoy the current advantages and feel threatened, and (4) those that have been suffering and see hope for a more level playing field. Strong and immediate reactions came from investors in groups 1 and 3 who fervently believe great harm will follow and quickly pulled the plug on many of their investment positions. Meanwhile, groups 2 and 4 watched in amazement, but saw only a wonderful buying opportunity forming in front of their eyes. Two days after the drop the market refused to go lower. The S&P 500, Nasdaq and Russell smallcap index moved strongly higher: 0.5%, 1.2% and 1.7% respectively. However, the Dow 30 Industrials (more likely to be affected by the tariffs) lost an additional 0.3%. This may be an indication that technology will lead industrials while this plays out. Why tariffs, and why now?

Since the 1890 Sherman Act, the US Justice Department has prosecuted and/or broken up companies that use anti-competitive behavior to gain unfair advantage or adversely affect consumer prices. Today, even Amazon is being considered as a

Winners & Losers



breakup target based on claims that profits from their profitable businesses are fueling growth of their new businesses through predatory pricing practices ... much like the dumping practices reported in international trade. Unfortunately, there are few remedies for dealing with such practices in international trade — tariffs being among the most common. Love him or hate him, addressing the trade imbalance has been on Trump's talking points list for decades, and became a plank in his election platform. He believes the country has been a cowering co-dependent in an economically abusive relationship for decades. For decades politicians have not had the will power to act because they've feared upsetting China, which holds large amounts of U.S. treasury debt. While fierce debate and uncertainty continues on the impact of tariffs, one thing certain is that political paralysis will be broken. We don't know what the final form will be or if the changes will work, but we do know there will be changes. Changes create new sets of winners and losers. The losers will cry foul, and the winners will rejoice, creating more market bumps to come. Be prepared! Fortunately, so long as the economy remains sound and growing, these will be only bumps.

Ultra ETF Strategies and Portfolios
Streamed Live Tuesday March 6th, 7PM PST



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Designing Ultra ETF Strategies and Portfolios

[Meetup Event Information Tuesday March 6, 2018 7PM PST](#)

We will review Ultra ETF trading volume concerns, leveraged ETF safety issues, the reasons and methods for extending ETF data, methods for avoiding hindsight selection bias, secrets for successful Strategy-of-Strategy design, and a few Ultra ETF Portfolio design concepts. That'll keep us off the streets and out of trouble for a while.

Speaking Engagement Calendar.

- [San Francisco, CA: AAI Chapter](#) - 9:00 AM Sat March 17, 2018
- [San Antonio, TX: Riskalyze Fearless Investing Summit](#), Marriott Rivercenter – October 17-19, 2018
- [Las Vegas, NV: AAI National Convention](#), Paris Hotel - October 26 - 28, 2018

Surf Well and Prosper,



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