The Market in Review

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This Week's Decline

So much for the second-longest stretch of calm markets in history.

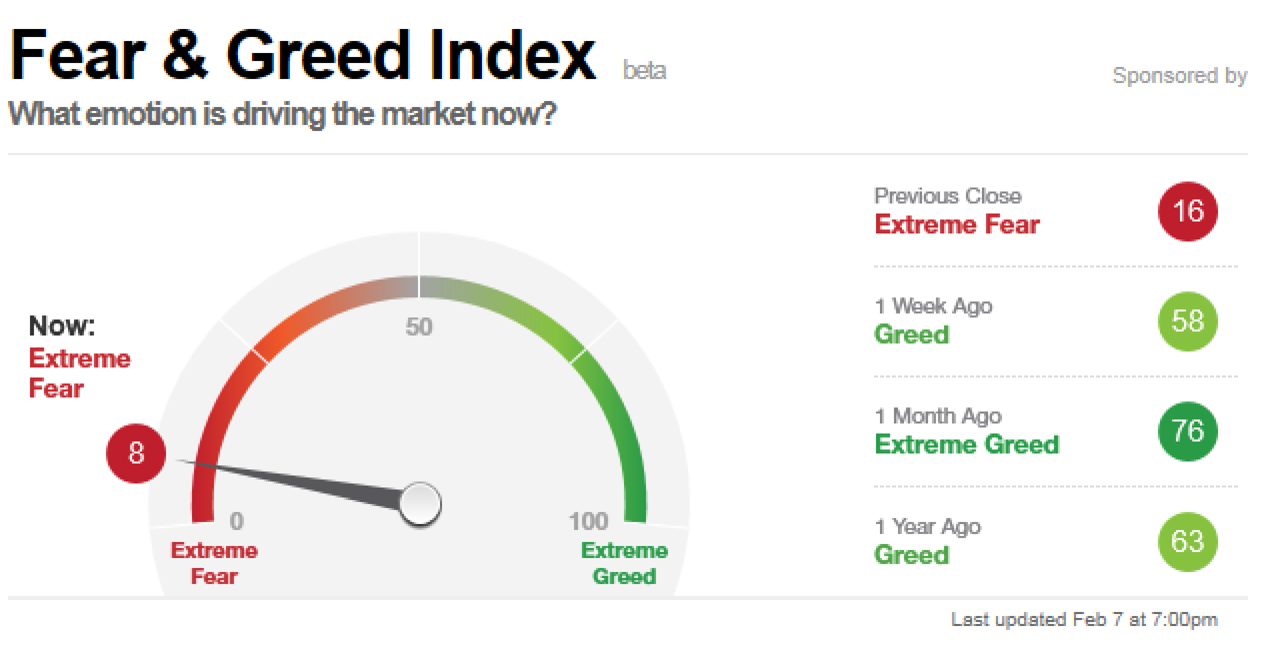
History shows that a new Fed chair is tested during the first six months of the term. Bernanke and Yellen were perceived as doves and to be counted on to add liquidity when needed. We do not yet know how the new Fed Chairman Jerome Powell will handle any crises.

While it may feel sharp and sudden, the S&P 500 has experienced a 10% correction about every 25 months, on average, going back to 1932. This means it has been almost right at 24 months since the last time the index had one.

The bad news is that stocks are down about 10% from their highs.

The good news is that we are now seeing signs that we are closer to the end of this decline than the beginning.

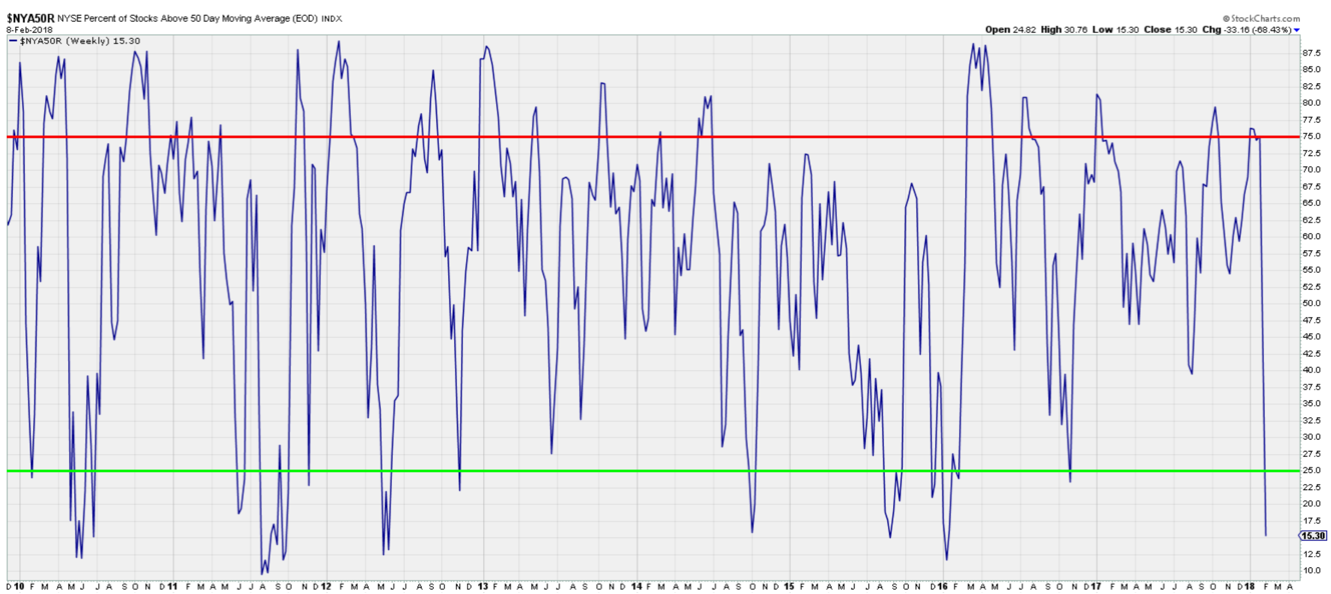
Fear is very high:



Source: CNN Money

And the number of stocks still in strong uptrends is very low:

NYSE Percent of Stocks Above the 50 Day Moving Average Since 2010



From our technical analysts:

“By many measures yesterday’s selling was not as bad as we have seen recently despite the S&P 500 falling to its lowest point during this pullback:

- The VIX topped out at 36 yesterday compared to 50 on Monday.
- Fewer stocks in the S&P 500 closed at new 52-week lows yesterday than did so on Monday.
- Equity Put/Call Ratio not as stretched in favor of puts as on February 2.
- 111 NYSE common stocks closed at new lows compared to 175 on Monday.
- Advancing issues vs Declining issues on the NYSE and NASDAQ was not as weak yesterday as on Monday.
- Volume in declining stocks as a percentage of total volume was less on the NYSE yesterday.”

The economic picture remains strong, and is getting stronger. Earnings are up more this quarter than we have seen in many years and we have seen many companies increase their dividends. Unemployment is at multi-year lows.

So, what caused this sudden decline?

A strong economy and market in December was “goosed” by the new Trump tax cuts in January. This led to a euphoric rally that saw the Dow Jones Industrial Average rise +7% in under a month.

Also, a number of new investment products linked to profit from a calm market have sprung up. Called “Low Volatility” notes, or baskets, these have coined money for years. Until last week. The sudden decline caused them to implode, taking markets down with them.

Good riddance – they were yet another Wall Street invention to create new fees. Hopefully, we are almost through their demise.

Finally, Warren Buffett reminds us that he does not view declines like these as *stocks crashing*, but as *stocks going on sale*.

Expect a churning market as nervous pessimists sell out to new optimists. This could take weeks or months. For now, we are proceeding cautiously, as always. These sudden dips give investors opportunities to buy stocks at very attractive prices, especially if they plan on holding them for years, as we do.

In the immortal words of Douglas Adams in the **Hitchhiker's Guide to the Galaxy:**

Don't Panic

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Prices shown are as of close February 9th, 2018.

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