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THE PAUSE THAT REFRESHES

With growing anticipation of relief in the China tariff tiff, the hopeful prospect for reopening the U.S. government, and rising expectations for an exceedingly soft departure of Great Britain from the European union, investors are creeping in from the sidelines or holding their remaining stocks, trusting that we will see happy resolutions – or at least some hopeful words – that this trifecta of worry will be resolved by the end of winter. On Wednesday morning we increased our equity position from 0% to 10% with the purchase of the SPDR S&P 500 ETF (SPY) and the Invesco QQQ Trust (QQQ). The intention of these purchases is to capture a strategic return of 2% to 4% should the market rally further on perceived solutions to the above concerns, however temporary.

In spite of last year's brutal December and with the seeds for a potential liquidity crisis developing, stock markets have again moved back into a temporary "risk on" position which often creates a situation that we liken to "investor amnesia." In this mindset, investors often throw risk metrics to the wind and are often tempted to overstay their visit in stocks.

The anticipatory buildup and possibility of relief from the aforementioned issues has the potential to keep investors in the race too long, as we move from an event-driven market back into one where the underlying precarious market structure comes back into hard focus.

Helping to give the stock markets the illusion of being temporarily Teflon-clad is often an overture from a global central bank. This week it was the Chinese Central Bank that, after a slew of challenging economic news and slowing growth, decided to inject a record $83 billion into their financial system, creating an instant wave of liquidity that would find its way into global markets. On Monday, former Federal Reserve Chairperson Janet Yellen sweetened the pot by saying that "it's very possible we may have seen the last interest rate hike of this cycle." ***Additionally, other well-placed sound bites from regional Fed presidents have suggested either "patience" or not raising rates at all this year.*** It's obvious that the Fed sees worrying conditions embedded in the financial system and that it is deeply concerned about another swoon in the stock market. At the same time, this creates a temporary backstop and emboldens liquidity with an ensuing bout of risk-taking. Not long ago an injection like China's would provide a catalyst that could last for months of upside. Today, these actions last for shorter periods.

As oil prices fell 42% from October to December, not only was selling in the broad stock market invigorated, it also put a major scare in the riskier and over-subscribed bond markets. Since hitting bottom in December, oil has experienced a somewhat miraculous 17% rally off the December low, without as much as a wink from OPEC. This sudden reversal in crude oil has helped create the next leg up in stocks. ***Oil often acts as a propellant for stocks, as high frequency trading computers (which create more than 80% of stock market trades!) will automatically buy up major stock indexes for every penny that oil goes higher.*** Even as oil marches higher on literally no headline news, the weekly reports actually show that demand for oil, gas and distillates is weakening, production remains elevated, and inventories are substantially higher year-over-year. When markets are in an anticipatory buying frenzy, though, the actual fundamentals are temporarily ignored until the next triggering event.

The triggering event can be a failure to resolve one of the hoped-for events (either tariffs, Brexit, government shutdown) or it can be a too long glimpse at problems in the underlying financial structure. In this case it would be an issue in the debt markets. Junk bonds, leveraged loans, and even investment grade corporate bonds, have paved the way for the continuing survival of corporations who, based on actual capitalistic auspices, would have failed long ago. ***Today, most corporate breakdowns start with either a credit downgrade (and it looked like this was going to happen to General Electric!) to a missed bond payment followed by their bankruptcy filing (similar to Pacific Gas and Electric Company, which was incorporated way back in 1905).*** Regardless of these real time concerns, both the high-yield bond market and the leveraged loan market are levitating higher, at least for the time being.

With the government shutdown, certain critical economic reports are not being reported. This week, the all-important National Retail Sales numbers were shelved as was a key gauge on housing starts. When momentum and emotional investing are back in play, these reports (or lack thereof) almost appear to be non-events, as investors blindly throw money at the stock market. Depending on the status of the government shutdown, next week we are looking forward to reports on both existing and new home sales from December and durable goods orders.

This week saw a slew of bank earnings that beat substantially lowered estimates, allowing the beaten down sector to carry this rally higher. As we dig beneath the headlines, we quickly find that all was not rosy, as many of America's biggest investment banks – who are entrusted with peddling debt for quick economic growth (stock buybacks, junk bond offerings) – saw challenges in their market making and corporate debt businesses. In the coming weeks, we will be parsing through earnings reports from Johnson and Johnson, IBM, Proctor and Gamble, Intel, and Starbucks.

As always, we will continue posting articles that we believe to be of great informational value on our website, under the "Great Articles" tab, which is linked here:

http://summitplan.com/cgi-bin/htmlos.cgi/great_articles.html.

Additionally, the "Summit Planning Financial Hour" will be live this week on Radio 570-WSYR at 10AM on Saturday. Don't forget to tune in for a recap of the week's events. If you cannot tune in, check out our radio show archive on our website at http://summitplan.com/cgi-bin/htmlos.cgi/radio_shows.html.

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5. Investors FastTrack is the source for all quoted performance data.
6. The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings. Commodities include increased risks, such as political, economic, and currency instability, and may not be suitable for all investors.
7. Because of their narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.
8. Government bonds and Treasury bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value.
9. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.
10. International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.
11. The Dow Jones Industrial Average is comprised of thirty stocks that are major factors in their industries and widely held by individuals and institutional investors.
12. The Standard & Poor's 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.
13. The NASDAQ Composite Index measures all NASDAQ domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market. The market value, the last sale price multiplied by total shares outstanding, is calculated throughout the trading day, and is related to the total value of the Index.
14. The Russell 2000 Index is an unmanaged index generally representative of the 2,000 smallest companies in the Russell 3000 index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index.
15. CBOE Volatility Index is a measure of the implied volatility of S&P 500 index options, calculated and published by the Chicago Board Options Exchange (CBOE).
16. All indices are unmanaged and cannot be invested in directly.