3.7.19

HITTING A BRICK WALL

Our net equity exposure remains in an underexposed position, as markets are still in a continued topping formation which is not an appropriate time to be buying stocks. Key indexes, such as the Dow Jones Industrial Average, the Russell 2000, and even the S&P 500, are all hitting resistance at current levels. When markets rally like they have this year, emotional investors often believe that the market has done nothing but go up, up, up.

When looked at with a little perspective, you'll see that while the aforementioned indexes have performed well year-to-date, they've had little-to-no gains for the past two weeks and, more importantly, they have experienced no gains for more than a year!

The purchases we made in early February represent a safer and substantially less risky way to navigate the return of volatility that we foresee as the probability increases for equity markets to funnel downward before the next upswing.

It helps to get real-time confirmation of what is actually transpiring on a day-to-day basis, as pained economic news is paired with bait-and-switch tactics by the administration and an impressionable media that can only briefly buoy markets.

Let's see how it went last week…

Last Monday, the U.S. decided to delay applying additional tariffs on China. Result? The Dow Jones Industrial Average rallied 210 points. How long did that rally last, though? Just three short hours – and then the Dow proceeded to substantially sell off following the "big" news. So, now it appears that a new strategy is in play, one that we call the delay game! Is this a potential way to invest? Unfortunately, it looks that way... Brexit negotiators are applying the same dynamic, as Britain decides whether to avoid Brexit all together or to soften their divorce demands or to just delay, delay, delay.

The obsession with the Federal Reserve was in full force with Jerome Powell's testimony in front of congress last week. On Tuesday, the Fed Chairman played his own version of the delay game by gifting the markets with his now oft-repeated response that the Fed will be patient in its interest rate policy. Stock market response? The Dow rises a nifty 120 points before – predictably, we think – selling off at the end of the day and closing down.

By Thursday, the two new "Princes of the Soundbite," Trump economic advisor Larry Kudlow and Treasury Secretary Steve Mnuchin, were on CNBC to boast of progress and unity in talks with China. They've learned that when the benefit of the delay game wears off, switching to the tease game sometimes produces the same result. The result this time, though, was the Dow ending down for the day!

So… On Friday, the tease was perfected by an unnamed source who primed the pre-market with a trade resolution rumor! Dow rallied 200 points as soon as this was released, but early in the day the rally faded as the Dow dropped 215 points when it became apparent that there was going to be no official confirmation to back up the claim, although the Dow did rally to end slightly positive for the day – but with no returns for the week!

When a soundbite fails, apparently one must try, try again! Like a bad déjà vu, pre-markets were treated with this soundbite on Monday morning "U.S. and China in final stages of trade deal." Response? Predictable, the Dow bursts up 110 points at the open. Then, almost immediately, the euphoria wears off and the market reverses course, dropping 465 points in just two hours! Our expectation? Time for another soundbite!

All of this priming of the markets has essentially priced in almost all of the benefit of any real trade agreement coming to fruition – then what?

The real economy hasn't been supporting this rally.

There was a bevy of economic news released last week, some of it having been delayed due to the 35-day government shutdown, that was relegated to the last page or no page at all. It may offer some clarity and insight as to why so much massaging was needed through the media last week. We feel that these recent anomalies, like rising stock prices during worsening economics not only here but throughout the globe, will have their day of reckoning. And it is approaching soon…

Here is a quick list of economic news that kept a lid on any runaway rallies.

- 4th quarter GDP dropped from 3.4% in the 3rd quarter to 2.6%
- First estimate of 1st Quarter GDP by the Atlanta Federal Reserve is an abysmal 0.3%
- Imports by China and Emerging Asia plunge most since 2008
- Consumer Spending, which accounts for more than 2/3 of U.S. economic activity, dropped 0.5% in December, representing the biggest decline since September 2009
- U.S. personal income in January posts first drop in over three years
- U.S. vehicle sales freeze in February
- Housing starts fall 11.2% in December
- Construction spending falls 0.6% in December with year-over-year growth declining to a tepid 1.6%, the weakest growth in three years

The consumption of less-than-great economic reports has yet to be reflected in stock markets world-wide – and particularly the leveraged loan and corporate bond markets. The consistent rise of world-wide markets has also taken out almost all short position holdings. Shorts during a downturn help reduce the severity of any decline. ***Because of this, the next market decline could be swift and unexpected.***

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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4. All performance referenced is historical and is no guarantee of future results. Index performance is not indicative of the performance of any investment.
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.