December 17, 2018

3:21 PM EST

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Inside this issue

Surrounded by Family

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Although I planned on this being the final Street$marts of 2018, I have a feeling you will be hearing from me again, especially with the Fed meeting this week and stocks correcting more dramatically than I thought.

I am scheduled to join Yahoo Finance's Morning Movers from 9 am to 10 am on Tuesday morning as well as Fox Business' Making Money at 2 pm and 2:50 pm. Given how stocks are behaving, there will certainly be much to talk about. December has been anything but pretty for the financial markets.

Although it seems like months ago, the family celebrated the Thanksgiving holiday (first picture below) and week in Orlando where we all got to enjoy Universal Studios and Seaworld as well as some downtime around the hotels. It was our first Thanksgiving without my dad and it just seemed like a good idea to get away.
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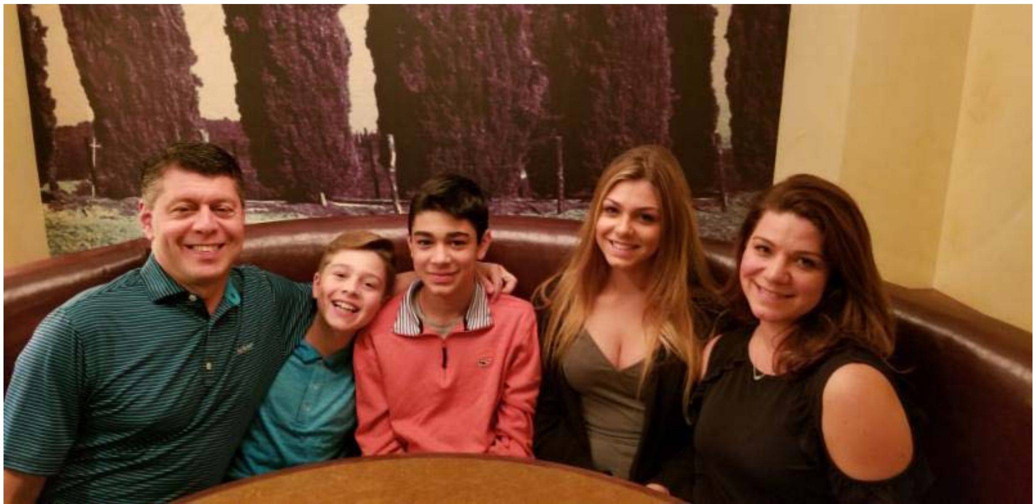

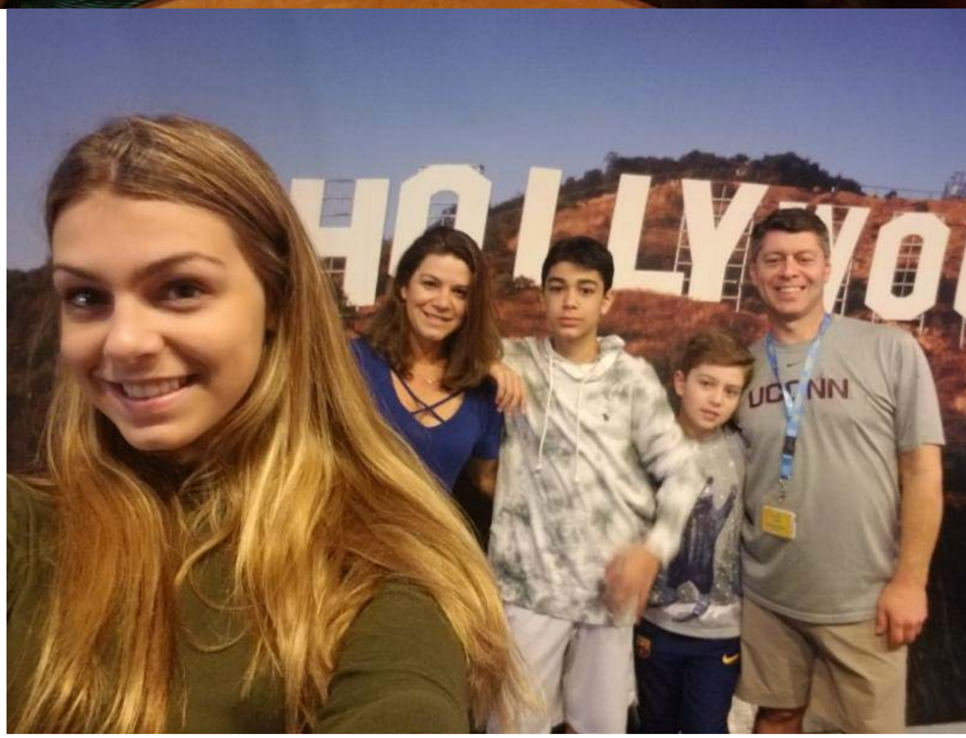

We had our fair share of laughs, pranks, arguments and a plethora of photo opportunities which the kids were not exactly thrilled about. I told them that they better enjoy themselves or they would be punished. Luckily, my wife's close friend and her kids joined us for a few days so everyone had a playmate. For the record, no one went on more insane roller coasters than yours truly.

As many of you know, I have gone to a quasi online calendar so you can book an appointment when you want to and not just when we're in the office or respond to your email. For now, I do not include evening meetings nor early morning ones, but I will try and accommodate as best I can.

If you would like to schedule a meeting, Skype, FaceTime or call, please click on the link below and give it a try. My calendar is now open through early January.

https://schedulewithpaul.as.me/

Don't forget about our blog, www.investfortomorrowblog.com for shorter-term analysis.

You can sign up to receive notifications when a new blog has been posted here.
http://www.investfortomorrow.com/BlogAlerts.asp

Is It a Bear Market?

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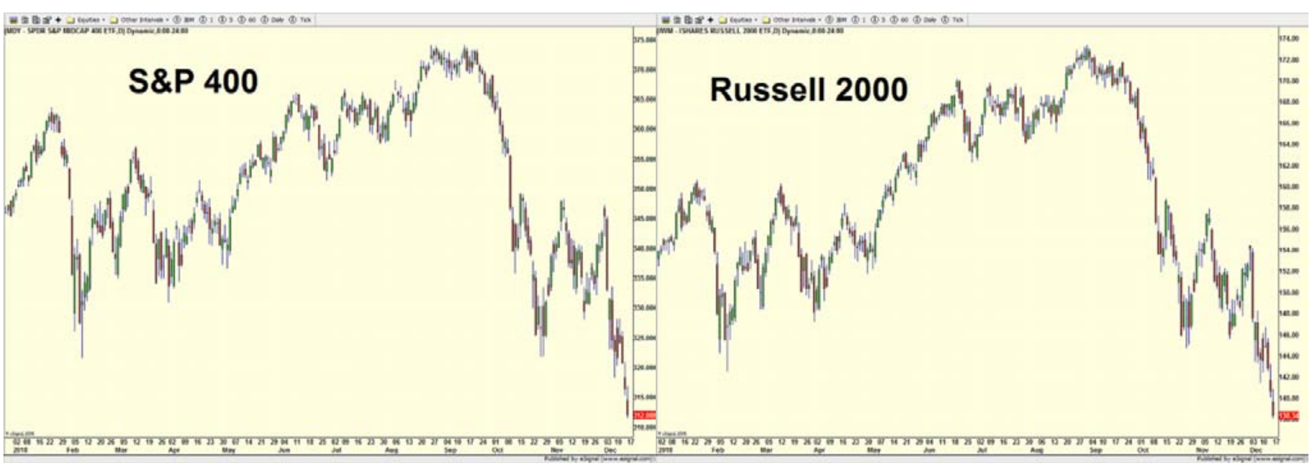
In rare fashion, the bears are certainly in charge this quarter, but especially this month. Historically, it's very difficult to see stocks under constant pressure during Q4, let alone December. The usual catalysts for decline are typically seasonally absent. While that doesn't mean that stocks can't decline this late in the year, a decline of the magnitude we are currently experiencing is very rare. 2002 saw a 6% decline in December and 1968 and 1957 had 4% declines, but that's about it going back to 1950.

As I have mentioned on www.investfortomorrowblog.com stocks just cannot seem to get out of their own way since the last peak on December 3rd. I had a lot of confidence during that rally from the mid-November low to strongly forecast new highs were coming in early 2019. And even after stocks slid down again a week ago when I joined Yahoo Finance's Midday Movers, I still felt strongly that a bottom was being hammered out.

Every little rally over the past week or so has been snuffed out immediately. Good news over the past month has only resulted in more selling which is a definite change in character for the stock market. In fact, without doing the research, I think this is only either the first or second time we have seen such poor behavior since the generational bottom in 2009. This is concerning to me.

The S&P 400 and Russell 2000 have now breached their respective 2018 lows.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The Dow Industrials and the NASDAQ 100 remain well above their respective lows with the S&P 500 falling somewhere in between.

It's not a stretch to say that the stock market needs the latter two indices to fend off attack and remain above their Q1 levels.

When I turn to the stock market sectors, I look for which sectors are not making new lows for the correction as well as holding above their Q1 lows. There aren't many. Software, telecom, healthcare, consumer staples, REITs and utilities are it. That means, semiconductors, banks, biotech, consumer discretionary, retail, builders, transports, materials, industrials and energy are all failing. This is also disconcerting.

Finally, our in-house indicator of stock market regime turned fully red for the first time since Q1 2016. Before that, you have to go back to Q3 2011 and then Q1 2008 for similar conditions. This indicator only warns and turns red after a decline of some significance has already been seen, but does a very good job of staying heightened until trouble has passed. In other words, it probably warns of continuing trouble 10 times for every three or four that actually pan out, but it never misses a protracted decline.

Between stocks falling on good news, lack of healthy sectors and the regime change, it certainly doesn't feel very good right now to be a bull. Still, stocks are down low double digits, nothing cataclysmic, and have not made a new 18 month low, at least not yet. Negative sentiment is getting to an extreme and will support a snapback. If I fall flat on my face and I am absolutely, unequivocally wrong about the bull market living on, stocks should still find a low very shortly and rally before falling harder at some point in 2019.

If this is really a bear market, stocks will meaningfully break to new lows for 2018, rally short of Dow 26,000 and then fall much harder in 2019. I am just not ready yet to put a fork in the old and wrinkly bull market.

1994 Offering a Clue for 2018

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As you know, I am a passionate student of market history and I rely on past behavior to help guide me in the future. Markets evolve over time which is why markets rhyme instead of repeat. "They" give you clues but rarely make it easy. However, human emotion and behavior never change or at least they haven't over the past 100+ years. Recall that after the many bull market mini-crashes we have seen over the past few decades, I typically break out my tried and true "post mini-crash playbook" which has done a super job of offering paths into the future.

I also like to look at similar periods in time, like the bull market peaks in 1973, 1980, 2000 and 2007. Again, there is almost always some kind of rhyming to glean info from for a forecast. Today, with the backdrop of a Fed that's gone way too far raising rates and selling assets concurrently, I look back in history at other rate hike cycles with similar stock market behavior.

Far from perfect, 1994 comes to mind as the Fed made a surprise rate hike in Q1 and kept pressing the issue all year. Stocks initially soared in 1994, yet also saw all of the price damage in Q1 but spent the rest of the year hammering out a very complex and frustrating bottom that led to the single greatest bull market year of the modern era, 1995. A year that was Clinton's third year of his first term.

Sound familiar at all?

This is Donald Trump's second year with similar stock market price action. Q1 peak followed by a stiff correction. 2018 saw new highs also later in the year as tax reform and reduced regulation juiced the economy which 1994 did not have. Late year corrections in both years as you can see below. A very good rhyme so far.

1994 saw the final bottom in December, as Orange County, CA was filing for bankruptcy. The S&P 500 held above the Q1 low. Today, the S&P 500 is getting perilously close to the lows it sets in Q1, not exactly warm and fuzzy for the bulls.
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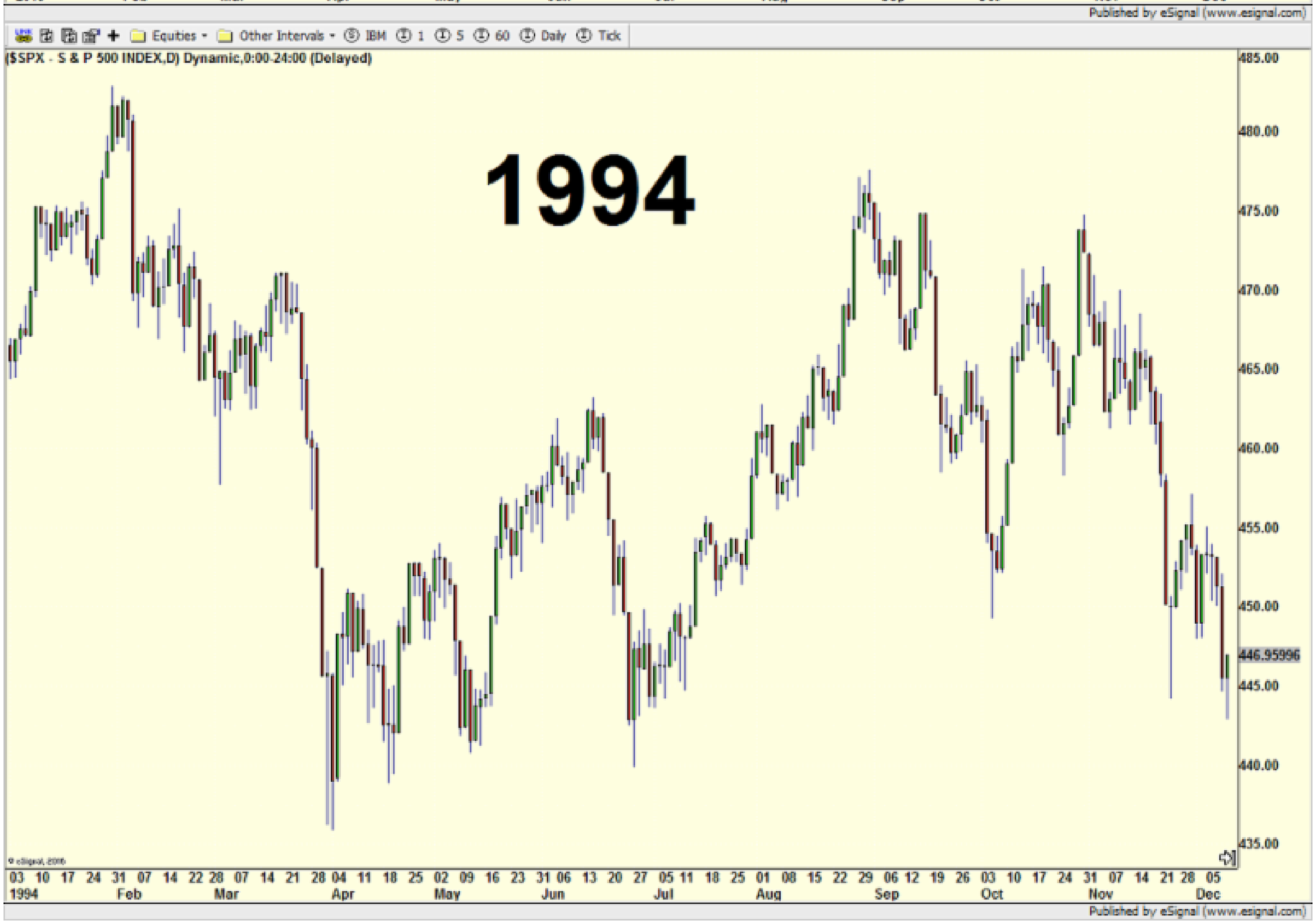
($SPX - S & P 500 INDEX,D) Dynamic,0:00-24:00 (Delayed)
S&P 500
Published by eSignal (www.esignal.com)


($SPX - S & P 500 INDEX,D) Dynamic,0:00-24:00 (Delayed)
1994
Published by eSignal (www.esignal.com)

The trillion dollar question is whether 2019, Trump's third year of his first term, will yield anywhere close to what 1995 did. Price action certainly leans in that direction IF stocks can find a floor sooner than later. Extremely negative sentiment readings also support a big rally coming earlier in 2019. We will have to look at the market's internals after stability returns, either right here or at lower levels.

Upcoming Appearances

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Yahoo Finance Market Movers - December 18th at 9:00 am

Fox Business' Making Money - December 18th at 2 pm & 2:50 pm

You can view most of the past segments by clicking below.

[Media Appearances](http://www.investfortomorrow.com/InMedia.asp)

(http://www.investfortomorrow.com/InMedia.asp)

Investment Quotes/Adages To Live By

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"In God we trust, all others bring data."
- W. Edwards Deming

"The only easy day was yesterday."

- The U.S. Marines

"When in doubt, get out!"

"If it's obvious, it's obviously wrong."
-Joe Granville

"It's ok to be wrong, but it's not ok to stay wrong."

"This time is different."

"The markets require the patience of a dozen men."
-Robert Rhea

"Luck is the residue of effort."

"The most bullish thing a market can do is go up in the face of bad news."

"The most bearish thing a market can do is go down in the face of good news."

"The market can stay irrational longer than you can stay solvent."
-John Maynard Keynes

"Government is best which governs least" - Thomas Jefferson

Inflation is the one form of taxation that can be imposed without legislation.
-Milton Friedman

"You cannot legislate the poor into freedom by legislating the wealthy out of freedom. What one person receives without working for, another person must work for without receiving. The government cannot give to anybody anything that the government does not first take from somebody else. When half of the people get the idea that they do not have to work because the other half is going to take care of them, and when the other half gets the idea that it does no good to work because somebody else is going to get what they work for,that my dear friend, is about the end of any nation. You cannot multiply wealth by dividing it." - Dr. Adrian Rogers, 1984

"Bear markets seem to be divided into three phases: the first being the abandonment of hopes upon which the final uprush of the preceding bull market was predicted; the second, the reflection of decreased earnings power and reduction of dividends, and the third representing distressed liquidation of securities which must be sold to meet living expenses. Each of these phases seems to be divided by a secondary reaction which is often erroneously assumed to be the beginning of a bull market."
- Robert Rhea

"Free enterprise is a rough and competitive game. Nobody too big to fail. Nobody too small to succeed. It is a hell of a lot better than government control." - Ronald Reagan via Dan Kennedy

"A government big enough to give you everything you want is big enough to take everything you have." - Gerald Ford via Dan Kennedy

"The problem with socialism is that, sooner or later, you run out of other people's money." - Margaret Thatcher

"Diversification alone is no longer sufficient to temper risk... You need something more to manage risk well."
- Mohamed El-Erian

"A little bit at a time adds up to a lot in no time"

To Your Financial Success,

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