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On Monday, I spent a good deal of time publishing [9th Correction of the Bull Market - Dow 30,000 Coming in Q3]. I think I did a pretty good job of putting the correction into proper context against the 8 other corrections during this bull market. So far, last Friday certainly has all the makings of the internal or momentum low I usually discuss during corrections. I will spare you and not post a deluge of charts, but here are some indicators that screamed.

Why the Stock Market Bottomed on Friday

Put/call ratios which widespread negativity, the exact opposite of the greed they showed for all of 2020 into the peak. Percentage of stocks above their 10, 50 and 200 day moving averages all plummeted to levels seen near lows. Down volume and stocks going down surged to 90% on two occasions. McClellan Oscillator, an indicator of stocks going up and down, saw one its lowest readings ever recorded. Only October 19, 1987 and August 11, 2011 were lower. Number of stocks making new 52 week lows spiked to more than 950.

Price sees its fastest move from an all-time high to a correction as well as four-month low. All (almost) assets collapse with U.S. stocks like gold, oil and emerging markets. Volatility as measured by the popular VIX soared to nearly 50, a level which always comes near bottoms in a bull market. Volume in ETFs which profit when stocks go down exploded higher as did volume in the most popular conventional ETFs, like SPY and QQQ.

Believe it or not, there is a lot more. So many things were lining up for a bottom coming. It was easy to know the market was close to a low in time as I wrote, but where in price was a different matter.

Lots of folks asked me why I wasn't more concerned. First, I am always worried. That's one of the things my clients pay me to do, their worrying. The big picture things I hold so importantly did not scream catastrophe at the stock market's all-time highs. One of them is the behavior of the credit markets which usually sniff out recession coming long before stocks do. All year, those markets have been tight and while they loosened a bit during the decline, it was nowhere near the levels that would cause me to say something serious is in front of us. Additionally, the canaries in the coal mine I mention so often were not sufficiently dying at the peak to forecast the end of the bull market.

As stocks began to recover on Friday and several times this week, we have seen clear and present institutional buying in and around the 3000 level on the S&P 500 which usually offers intermediate-term ammunition, even if stocks breach that level.

Here is What to Expect

With the short, sharp plunge we saw last week, I expect a few things to happen. We should hear that corporate insiders bought their own stock like Jamie Dimon so perfectly did in December 2018. That usually clues the market in that there's real value in a company if an insider puts their own money to work. In other words, it's a sign of confidence. Companies should increase their share buyback programs which create a steady demand for a company's stock each and everyday.

Assuming the internal or momentum bottom was last Friday which I believe it was, the playbook calls for stocks to regain somewhere between half and two thirds of what was lost. On the Dow, that's 27110 to 27700. On the S&P 500, that's 3125 to 3190. From there, it gets trickier. Rather than post all 9 charts again, please refer to [Monday's post] for more information.

The vast majority of the time stocks will then decline again to revisit the internal or momentum low, sometimes staying above it like we saw in early 2018, 2016 and 2015 or fully breaching it for a short spell like we saw in 2010, 2011 and 2012. In rare cases like 2014 and late 2018, the initial bottom was the internal or momentum low and the final low. December 2018 as I wrote in Q1 2018 was the most unusual bottom I have seen in my 31 year career. When I look at our investment models, they usually turn positive around the internal or momentum lows. 2011 was the definite exception as they did not start ringing the bell until the second bottom was being hammered in.

My forecast remains unchanged. I am looking for all-time highs in Q3 with the Dow hitting 30,000. It's that expected rally which I will be watching more closely than any since the bull market began 11 years ago. That next rally to new highs will have the highest potential of failing and possibly rolling over into a 20%+ decline that doesn't quickly recover like the others have.

Lots of people want to know when all will be clear. When will the green light come? From a stock market perspective, you can follow the playbook I just offered. However, the real confirmation will be when we see awful economic reports, but stocks don't go down. Companies announce bad earnings or warn and their stock doesn't decline. Finally, at the end of the crisis we should see the stock market go up in the face of bad headlines regarding the virus. When those things all happen, we will know that the market has priced in the worst and that scenario isn't going to happen. That's what happened during Q1 2009.

The Fed to the Rescue

Yesterday, the FOMC made an emergency rate cut of 1/2% at 10am. When I first saw the headline waiting to join FOX61's morning show, I thought it was fake news. What knucklehead would cut interest rates during the trading day? And after a 1300 single day rally in the Dow? I thought Jay Powell should don some makeup and put on a red nose and wig. The Fed had all weekend to meet and perhaps coordinate with other central banks around the globe. After all, stocks had just collapsed from an all-time high to a four month low in record fashion along with correcting in only 6 days.

How could the Fed not cut rates on Sunday night if they were in such a hurry?

From my seat, Powell just continued to erode whatever credibility was left. If they couldn't cut rates on the heels of one of the worst weeks ever before the stock market opened, why wait until a 1300 point rally? Why not then just sit tight until the stock market declines again, if it does.

Here is what I said to [Investment News](#) yesterday.

As I mention every single time there is a stock market decline, whether we planned for it or not, were successful or not, use the correction to take your own temperature on your risk tolerance and investing objectives. If you are watching the market trade all day because you are worried, that's not healthy. I watch it every day anyway so that would be two people both watching the same thing and only one of us gets paid to do that.

If you are unnerved by the correction, then I would suggest reassessing your risk tolerance and making a change on the next rally rather than into the teeth of a decline. If you feel really comfortable and want to add more money or risk, I also suggest revisiting your risk tolerance, but taking action right here and now. For me, I am using this decline as an opportunity to begin adding my 2020 money for my retirement account although with adding more risk to my kids' college funds.

As always, please don't hesitate to call, email or Skype with any questions, comments or concerns.

If you are looking to schedule a meeting or call, here is the link to my calendar. https://schedulewithpaul.as.me/

Early mornings, evenings and weekends should be scheduled directly with me.

Thanks

To Your Financial Success,

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