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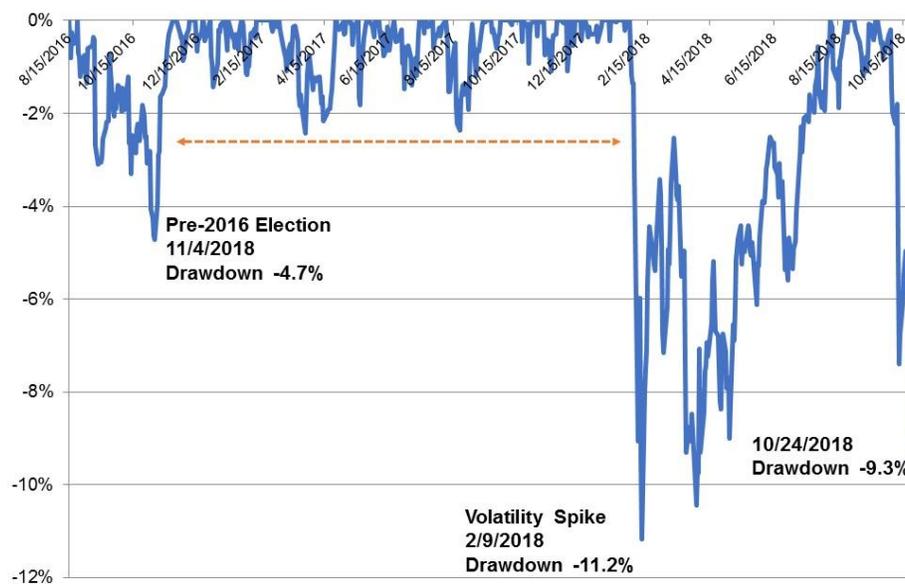
October 26, 2018

Finding Market Equilibrium

Stock market equilibrium is found at the price where buyers and sellers are equally engaged. We are experiencing the worst October sell-off since October 2008. With more sellers than buyers so far this month, the market is searching for its equilibrium.

S&P 500 Drawdowns

8/15/2016 – 10/24/2018



The volatility of recent weeks is normal in equity markets. The extreme low volatility post the 2016 election through this past January (orange dotted line above) was not. While we will never know with total certainty why sellers sell, some of the reasons this month could include rising interest rates, a stronger dollar, geopolitical concerns (Italy and Saudi Arabia), trade wars (China), declining foreign stock markets, and speculation that the S&P 500 is nearing “peak” earnings. On the technical side, some investors may be selling because of margin calls and high frequency traders (computer driven trades) may be taking advantage of the downside momentum in the short-term.

As stocks sell off, we look to see if company earnings are deteriorating. A week ago, FactSet's measure of consensus earnings growth for the third quarter was up 18.9%. With 17% of the S&P 500 companies having reported earnings, the consensus earnings growth rate increased to 19.5% this week. 80% of the S&P 500 companies have reported upside earnings surprises and 64% have reported better than expected revenues. JPMorgan Asset Management is forecasting that third quarter operating earnings growth will end up at around 26% year-over-year.

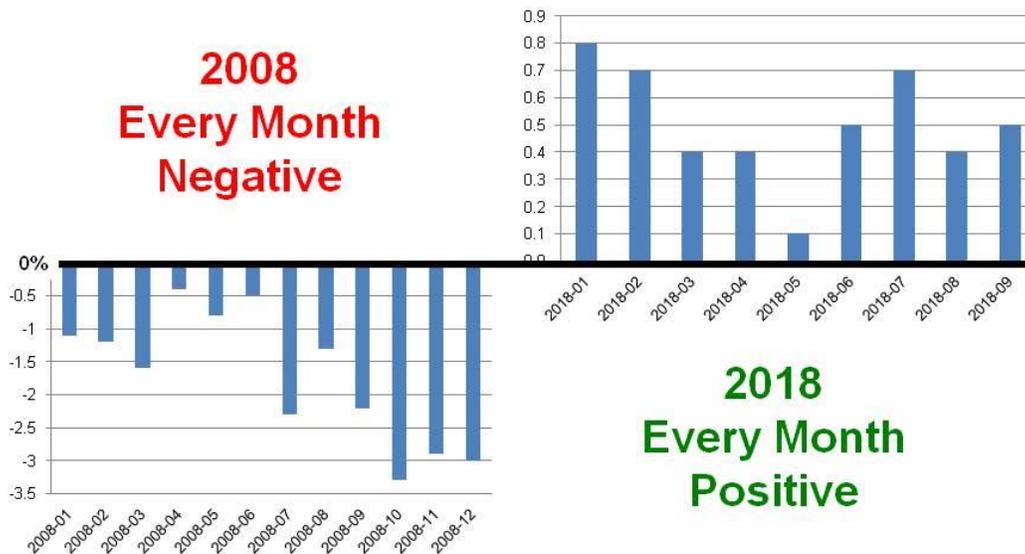
S&P 500 vs. Trailing 12-Month EPS



Other than the negative price action, this October has very little in common with October 2008. Earnings in 2008 were collapsing. The economy was in the middle of the largest recession since the Depression. Major financial firms were failing. There was no question either on Wall Street or on Main Street that the financial condition of the United States was deteriorating. Significant government intervention through the Federal Reserve and Congressional bailout programs were required to stabilize the economy and the stock market.

The opposite is true today. Although there are fears of an eventual slowdown sometime in the next several years, the data show an expanding economy and rising earnings. For comparison purposes, the chart below shows the Leading Economic Index percentage change month over month in 2008 and 2018.

LEI % Change Month/Month 2008 vs. 2018



When you buy stocks today, you are getting more for less. You are buying higher earnings at a lower price. In theory, you are buying a higher potential future return.

Rapid market declines can cause investor emotions to run high in the short-term. Given the positive fundamental backdrop, it is likely that anxiety and value will find its equilibrium in the near term. Investors should take the long view and use these periods to align their portfolios with their risk tolerance and investment time horizons.

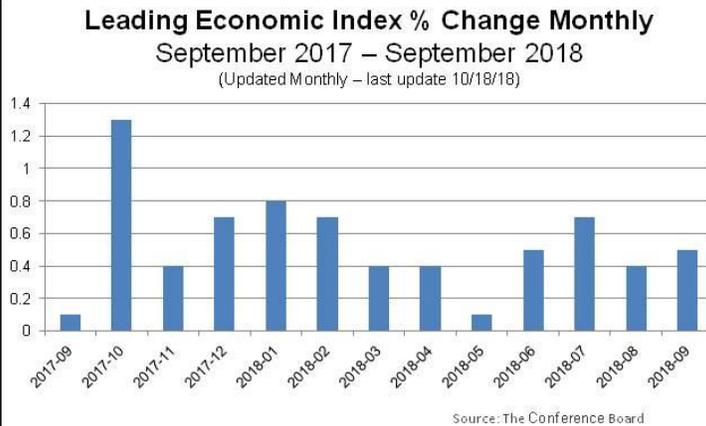
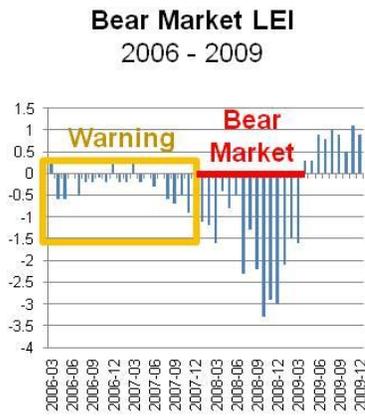
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"An 'ability to smell fear' is a quality I've never seen listed on a resume before."

Delta Stock Market Dashboard



MARKET SENTIMENT IS

BEARISH

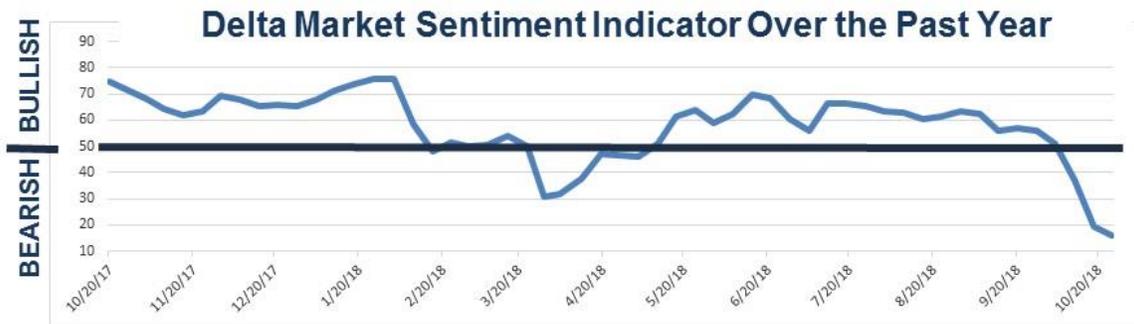
THIS WEEK'S NUMBER IS

Our technical indicator decreased this week from 19.6 to 16.0

INDICATOR STATISTICS

Consecutive Bearish Weeks:	3
Cycle Inception Date:	10/11/2018
Range:	16.0 - 37.4
Mean:	24.3
Bullish Weeks YTD:	34
Bearish Weeks YTD:	9
*S&P 500	-4.7%
*DJIA	-4.0%
*NASDAQ	-4.2%

* Percentage change during current cycle



(Delta MSI is published in *Barron's*)

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