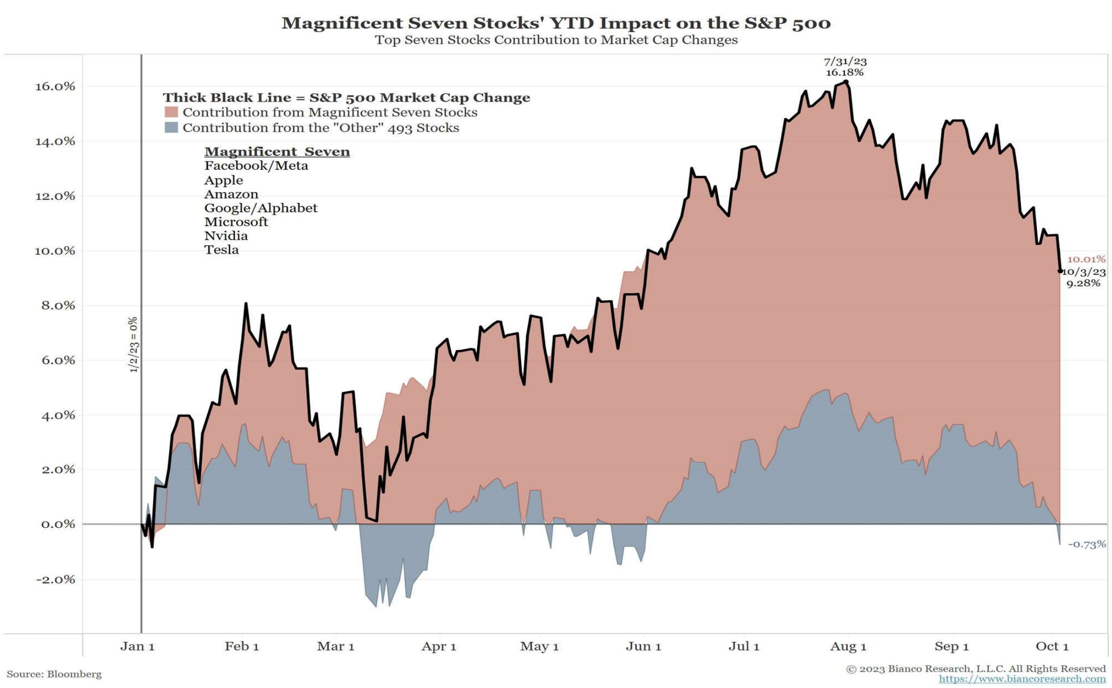
Interim Update Oct 3, 2023

It seems like déjà vu all over again. It was just one year ago that the markets had just finished a very weak September and started off on a very weak note in October. That was October of 2022. The financial markets were suffering all sorts of worries. There was the concern of higher interest rates, the November mid-term election and the market was experiencing extreme negative investor sentiment. Many of the top prognosticators were sure we were going to experience a recession and much higher unemployment yet in fact what occurred was the stock market bottomed out in October of 2022. The S&P 500 was at 3,491.58 and the Dow Jones industrial was at 28,660.94 and the Nasdaq Composite was at 10,088.83. In October of 2022 the average 6-month treasury bill rate was 3.5%. Today the rate is 5.46%. Now for some of this year's worries. Yesterday, the Speaker of the House, Kevin McCarthy**,** was ousted. This is the first time this has ever happened. Applications for home mortgages were the lowest since 1996. So here we are in October of 2023 with things to worry about again.

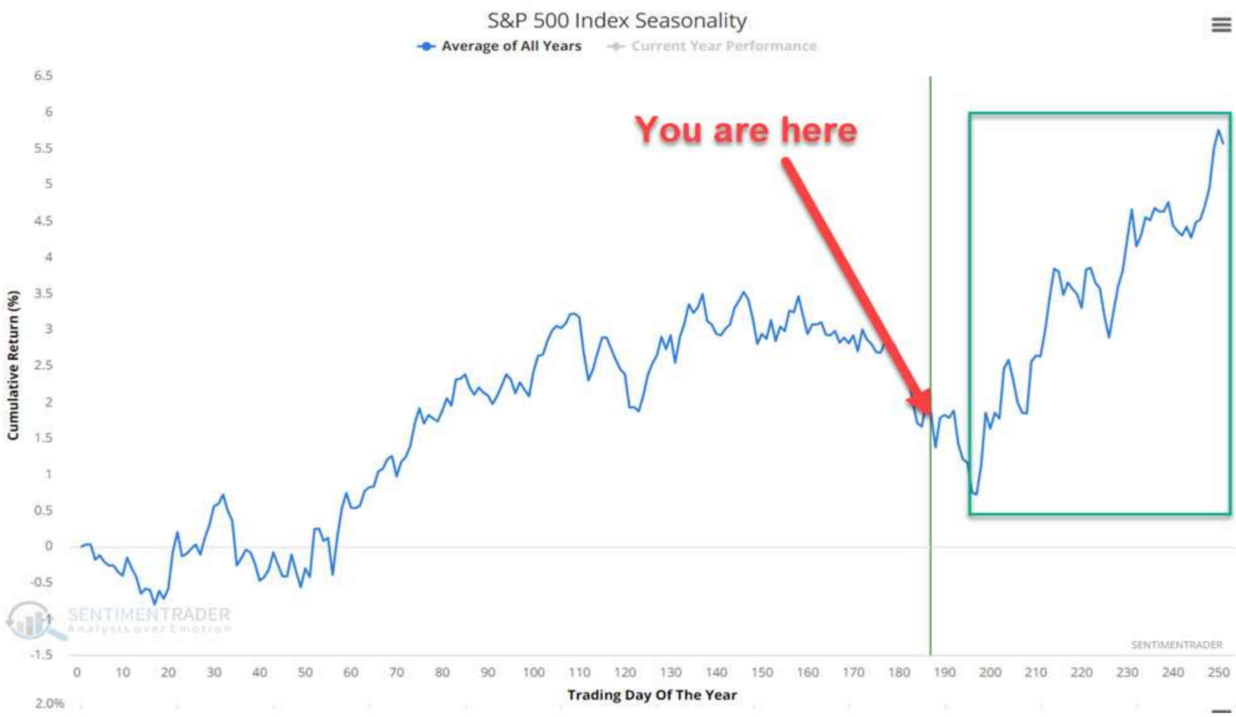
Now let's get into some details. The theme for the market over the last few months could be "higher for longer;" not stock or bond prices, but interest rates. The optimism from the first half of the year that the Federal Reserve would start to lower interest rates has yet to occur. The bond market is on pace for its third straight down year and has a negative total return over the last 7 years. Even though bonds are offering their highest yields in over 15 years there exists the potential of one more quarter percentage point rate hike by year-end. With treasury bonds and money market funds paying close to 5% money market accounts have finally become a reasonable alternative to investing in the stock market.

I spoke about the magnificent 7 mega stocks on my last quarterly update call. These stocks helped the stock market in the first half of this year, and they have finally run out of steam as market participants try to figure out how high interest rates will go up and when will higher interest rates slow down the economy.



Most investors do not realize that most stocks are down on the year with the average stock now down over 30% from its 52-week high. It is interesting that only 7% of S&P 500 stocks are trading above their 50-day moving average. This is the lowest since October 2022 (last year's market low) and one of the lowest levels in the last 6 years. Historically when this reading gets below 10%, it results in at least a short-term bounce in the S&P 500.

Historically September is the worst month for the S&P 500 as it is only up 45% of the time and loses 1.1% on average going back to 1928. That proved true again this year. This is known as the "September effect" with little major corporate news or earnings to push stocks higher.



When stocks are down more than 1% in August and September, the fourth quarter has been higher 12 of the past 13 times with decent gains for October and the fourth quarter. Additionally, pre-election years since 1949 have shown an average gain of +16.8%. Pre-election years after a midterm bear market like 2022 has seen the market average a return of +20.3%.

Down Big In August and September Isn't a Bad Thing

S&P 500 Performance When Down 1% Or More In Both August and September

			S&P 500 Index Returns	
Year	August	September	October	Q4
1952	-1.5%	-2.0%	-0.1%	8.3%
1956	-3.8%	-4.5%	0.5%	2.9%
1957	-5.6%	-6.2%	-3.2%	-5.7%
1959	-1.5%	-4.6%	1.1%	5.3%
1974	-9.0%	-11.9%	16.3%	7.9%
1975	-2.1%	-3.5%	6.2%	7.5%
1981	-6.2%	-5.4%	4.9%	5.5%
1985	-1.2%	-3.5%	4.3%	16.0%
1990	-9.4%	-5.1%	-0.7%	7.9%
2001	-6.4%	-8.2%	1.8%	10.3%
2011	-5.7%	-7.2%	10.8%	11.2%
2015	-6.3%	-2.6%	8.3%	6.5%
2022	-4.2%	-9.3%	8.0%	7.1%
2023	-1.8%	-4.2%	?	?
	Average		4.5%	7.0%
	Median		4.3%	7.5%
	% Higher		76.9%	92.3%

Source: Carson Investment Research, FactSet 09/24/2023
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We have always paid close attention to investor sentiment. When everyone gets on one side of the boat, we tend to get a shift in the other direction. It usually does not happen immediately, but it seems to always happen at some point.

So far this year, investor have brushed off fears of high inflation, a slight decline in corporate earnings, a standoff on the U.S. debt ceiling, and the largest bank failures since the global financial crisis and have held steady.

The CNN Fear & Greed Index entered "Extreme Fear" for the first time since March and has shown in the past to be a better time to buy stocks than to sell stocks. At a level of 17 it is near the same level as October of 2022.

Another sentiment indicator we rely on is market sentiment from Ned Davis, which today is oversold at 30. Historically since 1994, with almost 30 years of data, whenever this indicator is under 41.5 the S&P 500 rises at an annualized rate of +26.7%. Today, both indicators tell us the market is oversold. Investors have become very negative in the stock market.

In summary, no one can predict when the stock market correction that has occurred since July 27th will be over. We do know that investor sentiment is extremely bearish at this moment. That is Bullish. We know our other indicators are stronger than they were when compared to last October. We don't think we are on the verge of a major recession. We know there is a record amount of cash sitting on the sidelines. Lastly, we know over the last 10 years the most favorable period to invest your assets in the stock market has historically occurred is between the months of October through April of the following year.

It is important at times like this that we stay disciplined and don't overreact. The market is certainly lower than it was in July and many indicators are telling us investor sentiment is clearly too negative at this moment in time. We are looking to take advantage of any opportunities that present themselves in this current environment. I will be doing our quarterly update for the 3rd quarter on November 2nd at 7 PM. I look forward to providing a full update on the markets at that time.