October 4, 2022

Dow Jones	S&P 500	NASDAQ	Russell 2000	10 yr Treas	Bitcoin	Gold	Crude Oil
30,316	3,791	11,176	1,776	3.62%	20,287	$1,734	$86.27

Investment Strategy Report

After A Brutal September, Will October Be The Bear Killer?

I had thought (as did many others) that after a stock market plunge in June, which was followed by a surge later that month and into July, that stocks had bottomed in mid June and that the worst was over. Indications that inflation was easing, and the decline in interest rates, were encouraging signs for investors. Those signs, together with an economy that was still showing some strength and resiliency, instilled confidence in investors that stocks could continue to climb out of their bear market hole. It was also my hope, as I wrote last month, that these signs of a decline in inflationary pressures would become evident to the Fed and that they would ease up on the brakes of their monetary tightening schedule.

This latter hope was dashed during September when the tough talk from the Fed continued. They seemed bent on following the backward looking CPI figures that showed that year over year prices had increased in the neighborhood of 8%. Never mind that month over month changes were closer to 0%, and in some cases negative. These comments from the Fed caused investors to sell first and ask questions later, sending the major stock indexes down approximately 9% for the month.

My frustration with the Fed was shared by many analysts, most notably by Wharton Professor Jeremy Siegel. I wrote about his statements last month, when he declared on Sept. 1st that inflation was in fact moving down. He repeated these sentiments on 9/23 on CNBC when he said that the Fed got it 100% wrong last September when they saw no inflation, and are now equally in the wrong when they see stubborn inflation that requires the Fed to stay tight all the way to 2023. “This makes no sense”. “Calling this poor monetary policy would be an understatement”.

At some point, market forces are more powerful than even the Fed. And we may have seen some evidence of this the last 2 days, the first 2 trading days of October, that have seen the major indexes surge 5%. Despite continued hawkish statements from the Fed, it appears that the markets feel that the Fed will be forced to follow the data, which continue to show that an economic slowdown is imminent.

There is also an abundance of technical and sentiment indicators that are showing that the severe selling pressure and negative sentiment exhibited over the last month has been so bad, that from a contrarian standpoint, might prove positive for stocks. Sentimentrader.com published a study by Jay Kaeppel on 9/27 that stated that 1) Fewer than 5% of S&P 500 stocks are holding above their 50-day moving averages and 2) the McClellan Oscillator has plunged, and almost all stocks are oversold. Readings like this have preceded gains in the S&P 500 over the next year every time.

StansberryResearch.com published a study on 9/28 that showed that investors are buying puts (bets against the market) on the S&P 500 at record all time highs. And they show that after such spikes in put buying, stocks tend to soar. The next day (9/29) they showed the results of the Bank of America Global Fund Manager survey which showed that professional money managers are the most bearish they’ve been in decades. They own fewer stocks right now than at any time since the data began in 2002. During previous periods of bearishness, the market inflicted the most pain it could (on managers betting against the market), sending stocks dramatically higher.

Eric Johnston of Cantor Fizgerald, as of yesterday (10/3) has turned very bullish with a very high conviction. He feels that once investors feel that the Fed is done, the market will rally. Once the CPI, currently over 8%, falls below 6%, the market every time has formed a V bottom. He feels that investor capitulation, something that many investors feel is necessary before a bottom forms, has already occurred with the big retail selling that occurred in September. He feels that the S&P can climb 10% this quarter.

Time For Required IRA Distributions – I will soon begin to contact those of you who are required to take IRA distributions. For those of you with inherited IRAs, you are required to take distributions this year even if the IRA owner passed away in 2020 or later. Let me know if you want to make charitable donations from your IRA account to save on taxes. *Jeff Feldman*