October 1, 2023

Dow Jones	S&P 500	NASDAQ	Russell 2000	10 yr Treas	Bitcoin	Gold	Crude Oil
33,508	4,288	13,219	1,785	4.57%	27,190	$1,865	$90.77

Investment Strategy Report

September Pull Back Should Lead To Fourth Quarter Gains

Just about the only things that went up last month were the price of oil and interest rates, both events causing pain for investors. Both stocks and bonds had their worst month of the year. The major stock indexes dropped 4.9% (S&P 500), 5.8% (Nasdaq), and 6.1% (Russell 2000). Bonds, which of course are less volatile than stocks, fared better, but still saw a relatively out-sized drop, with the Vanguard Total Bond Market index losing 2.4%. September, which historically is the worst month of the year for equities, certainly lived up to its reputation.

Whenever we go through a correction like this, investors immediately think the worst. They fear that the bear market is back and it's therefore time to de-risk their portfolios and instead invest in cash, CDs, and 3 month Treasury bills. While getting a 5% annual return might seem attractive after a losing month, now might not be the time to run for the hills. In the investing world, adversity very often leads to opportunity.

Before investors panic, they should take a step back and put the current downturn in perspective. Prior to September's losses, the S&P 500 and Nasdaq were up about 19% and 36% for the year. Minor declines are normal market behavior. Historical returns of about 10% per year for equities come at the expense of higher volatility. Short term market fluctuations is the price that investors have to pay in order to realize the higher long term returns.

In this weekend's Barron's, Nicholas Jasinski writes "The most straight-forward argument for a near term bounce in the stock market is simple mean reversion". He then quotes Bespoke Investment Group analysts who said "One month periods where stocks do nothing but go down have usually seen a bounceback effect in the period that followed". They added that the S&P 500 was higher 79% of the time 3 months later by an average of 8.1%. Jasinski also notes that bearishness is reaching a high point, with "just 27.8% of respondents in the American Association of Individual Investors (AAII) survey describing themselves as bullish". This high level of pessimism increases the chances for a rebound in stocks.

Brett Eversole of StansberryResearch.com (True Wealth Systems, 9/13) also discussed how negative sentiment can lead to positive stock performance. He looked at the National Association of Active Investment Managers (NAAIM) Exposure index (exposure to stocks). "This index plummeted by a massive 66% in just 4 weeks, one of the largest 4 week declines we've seen over the last 15 years. Similar extremes led to 5.8% gains over 6 months, 17% gains over a year, and 29.4% gains over 2 years. Even more, stocks were up 100% of the time a year later … and even 2 years later". He also pointed out (9/22) that due to this pessimism, investors are hoarding cash. "Nearly $6 trillion is now sitting in money market funds, double the roughly $3 trillion we saw 5 years ago". He concluded "there's too much cash on the sidelines. According to history, a lot of that cash will flow back into stocks over the next few years. Even if only half of it gets reinvested, that would mean a few hundred billion dollars pouring into the stock market".

The analysts at Sentimentrader.com also see this pull back as a buying opportunity. Dean Christians wrote on 9/14 "the SPY liquidity premium, a measure of uncertainty, rose to the highest level over the last 4 months and reversed lower, triggering a buy signal for stocks. Following comparable sentiment-based shifts, the S&P 500 consistently exhibited a strong tendency to rally across short, medium, and long-term time horizons. This propensity shows an even stronger outlook when the S&P 500 exceeds its 200-day average" (which it currently does). And on 9/13, Jay Kaeppel's analysis concluded that "Despite ongoing short-term weakness, individual objective indicators continue to flash favorable signals for the stock market".

It's RMD Time Again – For those of you with mandatory IRA distributions, now is the time to make those withdrawals. I will make the cash available in your accounts. Let me know if you need my help with this. *Jeff Feldman*