

April 1, 2025

Dow Jones	S&P 500	NASDAQ	Russell 2000	10 yr Treas	Bitcoin	Gold	Crude Oil
41,990	5,633	17,450	2,012	4.16%	84,917	\$3,151	\$71.17

Investment Strategy Report

Stocks Sell Off Amid Uncertainty. Is The Worst Over?

The slide in stocks that began in February continued in earnest in March, as the S&P 500, at its trough, fell 10% to enter into correction territory. Stocks peaked on Feb. 19th, with the S&P 500 hitting 6,144. That's when the selling began, which sent the index down to a closing low of 5,522 on March 13th, a drop of 10.1%. Stocks staged a recovery at that point, rising 4.6% through March 25th. And then, as often is the case, they tested that March 13th low yesterday (3/31) hitting an intraday low of 5,489 before reversing strongly higher, to end the day at 5,611. The tech heavy Nasdaq suffered worse, falling 16.0% from its 2/19 high to yesterday's intra-day low, before the strong reversal yesterday and today's continuing recovery.

After 2 years of strong gains, investors are not used to 10% corrections, let alone the more severe losses suffered by tech companies. What should be looked at as a normal pattern of market volatility is always harder to stomach when you are in the midst of the pull back. We always think that this time it is different. We fear that the tariffs will create chaos in the economy and that selling stocks now is our only option, since the chaos and uncertainty will continue to punish stocks, i.e., sell now and ask questions later.

However, the effect that the tariffs will have on our economy is still uncertain, and those who are letting their fear guide their investment decisions are ignoring the current strength of the US economy. Investors have been through a lot worse over the years, and the markets have done just fine. And contrary to previous adverse events, like the Covid pandemic and the financial crisis, investors are ignoring the possible positive developments that are being implemented that could push stocks higher.

Tom Lee of Fundstrats last week (3/27) on CNBC discussed how the reduction in regulations and the extension of the tax cuts can be two powerful forces that can help to stimulate the economy. He feels that once April 2nd (tariff implementation day) passes, the uncertainty will be behind us and market sentiment can stabilize. He believes that since market sentiment has already collapsed and billions of dollars have left stocks and have poured into money markets, "the odds of a V-shaped recovery are very high" and the "dry powder on the sidelines" can come back in and lead the recovery.

Mark Newton, the head of strategy at Fundstrats (CNBC, 3/19) spoke about the spike in fear that has hit the investment markets which he feels has turned into capitulation. This high level of fear, he stated, often corresponds with market bottoms. This was followed by two 90% up days in the market on 3/14 and 3/17 which very often signals the beginning of a market recovery. He also stated that fears of a recession are overblown. He cited that high yield (junk) bonds have been performing well, something that would not be happening if investors were fearing an economic slowdown.

Jason Goepfert (Sentimentrader.com, 3/18) also mentioned the "breadth thrust" of 3/14 and 3/17 as further confirmation that the worst is behind us. "By the time sentiment has gotten this poor, most of the losses have tended to be behind us. The next two to three months have generally been a time of regret for bears, as stock indices had a consistent tendency to rebound, often strongly".

Brett Eversole of StansberryResearch.com (3/19) not only thinks that stocks will recover from here, but he also thinks that small caps can lead the way. Looking at their relative strength index, he cites that the group is extremely oversold. Buying them at similar setups in the past has led to an average gain of 17.4% over the next 12 months.

Funding Your IRA Before April 15th – There is still time to fund your IRA accounts for 2024. You have until April 15th. Based on your tax return, you can determine how much you will save by contributing to a traditional IRA and whether that is more advantageous than contributing to a Roth IRA. Contact me for help in making that decision. *Jeff Feldman*