

RAYMOND JAMES®



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*Top: Craig, Kayleigh
Bottom: Ben, Kim, Peter*

Dear Friends,

The below article, written by Jeffrey Saut of Saut Strategies back on October 7th, is one that we at The Mendall Financial Group felt would resonate with many of you at home. Please let us know if you have any questions or would like to discuss this topic further.

Most people acknowledge that losses will happen regardless of the type of business venture. A light bulb manufacturer knows that two out of three hundred bulbs will break. A fruit dealer knows that two out of one hundred apples will rot. Losses per se don't bother them; unexpected losses and losing on balance does. Acknowledging that losses are part of business is one thing; taking and accepting those losses in the markets is something else entirely. In the markets, people tend to have difficulty actively (as opposed to passively as in the case of the fruit dealer and the bulb manufacturer) taking losses (i.e., accepting and controlling losses so that the business venture itself doesn't become a loser). This is because all losses are treated as failure; in every other area of our lives, the word loss has negative connotations. People tend to regard the words loss, wrong, bad, and failure as the same, and win, right, good and success as the same. For instance, we lose points for wrong answers on tests in school. Likewise, when we lose money in the market, we think we must have been wrong

. . . . "What I Learned Losing a Million Dollars," by Jim Paul and Brendan Moynihan

What determines your stock market performance is not how you manage your winners, but how you manage your losers. Indeed, everyone knows how to win, but few know how to lose. Yet the secret to making money in the market is knowing how to lose; or how to control your losses. Listen to the pros:

"I'm always thinking about losing money as opposed to making money. Don't focus on making money; focus on protecting what you have." – Paul Tudor Jones

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“The majority of unskilled investors stubbornly hold onto their losses when the losses are small and reasonable. They could get out cheaply, but being emotionally involved and human, they keep waiting and hoping until their loss gets much bigger and costs them dearly.” – William O’Neil

One investor’s two rules of investing:

- 1) Never Lose Money
- 2) Never forget rule No. 1– Warren Buffett

All those pros have different market philosophies. They have contradictory strategies for making money. Some are traders; some are value players; some are growth-stock advocates; others are emerging-growth seekers; etc., etc., etc. But their message is clear – “Learning how not to lose money is more important than learning how to make money!”

Over the years we have spent a lot of time emphasizing how important not losing money is. How to manage risk. As Benjamin Graham writes, “The essence of portfolio management is the management of RISKS not RETURNS. All good portfolio management begins and ends with this premise.” Accordingly, we are much prouder of our Dow Theory “sell signal” calls of September 23, 1999 and November 21, 2007 than we are of the “call” everyone remembers; that would be our March 2, 2009 call that, “The stock market bottoms this week.” Indeed, “Learning how not to lose money is more important than learning how to make money!” Last week “not losing” came to the fore as Tuesday and Wednesday’s two day “two step” shed some 836 points off the senior index (INDU/26573.72). For weeks we had advised to be wary of the first part of October but had no idea the carnage would be that severe and that quick. Such market action caused us to issue a Trading Flash Wednesday night. Unfortunately, while it was posted on our website for subscribers (www.sautstrategy.com), a technical glitch only permitted a few folks on our email list to receive the Flash.

The next day (Thursday) the S&P 500 (SPX/2952.01) tagged an intraday low of 2855.94. I wish I could say that we bought that low, but we did not having spent the morning at the doctor’s office. When we returned to our trading turret the SPX was back above 2900 and we decided to sit on our hands and do nothing. Alas, to be successful in this business one needs to be able to ignore two out of every three money making opportunities. That said, such trading nuances are just that “trading nuances.” Longer term we have never wavered on our secular bull market “call” that should have years left to go. Read this from Royal Bank of Canada’s (RBC) technical strategist Bob Dickey:

The indexes being near their all-time highs while the bulk of the economic and world news is negative could be a sign that the future may be better than we realize. Therefore, we regard any near-term market corrections as temporary blips within the long-term bull market of the past 10 years that may still have some surprising upside potential ahead for us.

That quip was sent to us by our friend and brainy portfolio manager Mary Lisanti who captains a small cap growth mutual fund. I told Mary that quip sounded a lot like me. She replied, “Great minds think alike.”

Then there was this from Tom Bowley, another mutual fund manager:

Before I talk about jobs, let's discuss the S&P 500. We're consolidating. In a secular bull market, that's fashionable. We went through this from 2014 through early 2016. This is simply the 2018/2019 version. Every downturn and we hear from the recession camp and the bear market camp. How many recessions have been called in the past 18 months? I just laugh . . . and so does Wall Street. The fear mongers generate the emotional selling and Wall Street happily buys their shares. And when the news hits its ugliest level, the stock market takes off. During our last period of consolidation from 2014 to 2016, here's the GDP growth: 2014: +2.5%; 2015: +2.9%; 2016: +1.6%. The S&P 500 consolidated as we approached the slowdown but took off during the year that actually posted the worst GDP growth number. Why? Because the stock market is the best leading economic indicator.

That too sounds a lot like me; or as Old Turkey use to say in the book *Reminiscences of a Stock Operator*, "It's a bull market you know!" One good thing about a pullback is that you get to see which stocks hold up the best.

The call for this week: Last week brought back déjà vu memories of last year's October to December "SPOOS SWOON" that lopped ~20% off the S&P 500. For the record our models targeted that October 2018 peak as well as the December 2018 "selling climax" low. You can pick your reason for last week's 1300-point Dow Dive (from Tuesday's intraday high of 27046 to Thursday's intraday low of 25743). Those worries range from Warren's presidential potential, softening earnings, China trade, Brexit, Hong Kong, economic growth, recession, etc. Again, as Tom Bowley writes, "Every downturn and we hear from the recession camp and the bear market camp. How many recessions have been called in the past 18 months? I just laugh . . . and so does Wall Street." Besides, as one portfolio manager said to me over the weekend, "If global growth is indeed rolling over, then you would assume the semiconductor capital equipment makers would be following suit since these are some of the most cyclical companies in the world. Yet these companies are holding up much better than the S&P 500. Those working on the assumption that the economy is now tipping into a recession may have to wait a while longer." And, as the astute Jason Goepfert (SentimenTrader) notes:

Hard economic data have shown much more positive surprises than soft data (i.e. surveys). As Troy notes, when it happens to this degree during long-term uptrends, stocks have a strong tendency to gain over the next 3-6 months.

Provided there are not any more shocking news revelations, it looks to us like the stock market bottomed last Thursday morning. However, unlike August 5th's V-shaped "selling climax" low this bottom should be more of a process with the potential for a few retests of last week's low (2855 basis the SPX). Eventually, the SPX should switch back to a mildly bullish mode and move towards the all-time highs. The problem is the stock market's "internal energy" has been used up making a rally to above new all-time highs difficult in the short run.

Announcement!

We would also like to share some facts about an eco-friendly company called Ecosia our team has recently been introduced to and are currently using! It is an internet search engine that has developed a convenient and effective method to actively restoring areas of deforestation. Sound too good to be true? Ecosia, similar to its search engine counterparts, is no cost to users, but generates ads with every search you make. The only difference is that Ecosia donates 80% of those profits from ads to non-profit organizations that focus on reforestation. As of October 2019, the company is responsible for planting over 70 million trees since it was founded in 2009.

Here's a link to their blog where you can view financial transparency and tree planting locations!

<https://blog.ecosia.org/>

Sincerely,



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