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A Confusing Quarter

The S&P 500 hit new all-time highs again in the third quarter as investors looked past a resurgence of COVID-19 cases in the U.S. and instead focused on the positive combination of a resilient economic recovery, ongoing historic support from the Federal Reserve, and strong corporate earnings. Market volatility did notably pick up during the final few weeks of September, however, reminding investors that the transition to a post-pandemic “new normal” isn’t always going to be smooth.

Stocks moved steadily higher to start the third quarter as the U.S. economy continued to return to pre-pandemic levels of activity while corporate earnings remained solid. To that point, second quarter earnings results, which were released in mid-to-late July, were stronger than expected and broadly did not show signs of the margin compression that some analysts feared might hurt corporate profitability. Additionally, at the July FOMC meeting, Fed Chair Powell reiterated that, despite economic progress, it was not yet time for the Fed to begin to reduce Quantitative Easing (QE), thereby ensuring the economy and markets would continue to enjoy full Fed support until late 2021. Those factors helped investors look past an increase in COVID-19 cases, especially across the Sunbelt, as the S&P 500 hit a new all-time high in late July.

The market tone changed in September, however, as many of the positive factors that supported stocks earlier in the quarter began to fade. First, corporate commentary turned more cautious last month. Profit warnings that cited supply chain constraints and margin compression came from multiple industries, and that caused investors to become more concerned about the outlook for corporate earnings. Then, economic data from August showed that the rise in COVID-19 cases had weighed slightly on the economic recovery. Finally, after investors ignored the looming policy battle in August, politics once again became an influence on markets as Democrats unveiled new details on a \$3.5 trillion spending and tax plan that included increases to the corporate tax, personal income taxes for high earners, and changes to capital gains and inheritance taxes.

Those factors weighed on markets initially in September, but the volatility was compounded by the news that the second-largest property developer in China, Evergrande, was likely going to default on debt payments. Fear of potential financial market contagion hit stocks in late September and the S&P 500 suffered its first

5% pullback in nearly a year. Markets remained volatile into the end of the quarter as the Federal Reserve confirmed market expectations that it will begin to reduce Quantitative Easing before year-end, while Washington approached the looming deadline of a government shutdown with no extension in sight, although that was avoided in the last few days of the quarter. The S&P 500 finished September with moderate losses although the index still logged a positive return for the third quarter.

In sum, the market remained resilient in the third quarter, but the final few weeks of September served as a reminder to investors that markets will face the resolution of numerous macroeconomic unknowns in the fourth quarter, and while fundamentals remain decidedly positive, an increase in market volatility should be expected.

Third Quarter Performance Review

The last few days of the third quarter had a substantial impact on quarterly index returns. For the majority of the third quarter, the Nasdaq had solidly outperformed both the S&P 500 and the Dow Jones Industrial Average as investors continued a trend from the second quarter by moving to less economically sensitive large-cap tech shares. However, during the last week of the quarter, as global bond yields rose, there was heavy selling in tech shares as investors rotated into other market sectors. The Nasdaq still slightly outperformed the S&P 500 while the Dow Jones Industrial Average produced a negative return for the third quarter thanks to the late September sell-off.

By market capitalization, large-cap stocks outperformed small-cap stocks in the third quarter. In fact, small-cap stocks had a negative return for the quarter as rising COVID-19 cases, mixed economic data, and the prospects of eventually higher interest rates caused investors to favor large-cap stocks as the outlook for future economic growth became less certain.

From an investment-style standpoint, growth outperformed value in the third quarter, thanks to tech sector gains, although the amount of that outperformance shrunk considerably during the final week of the quarter as tech shares declined.

On a sector level, performance was more mixed than the previous two quarters as six of the 11 S&P 500 sectors realized positive returns in the third quarter, with financials leading the way higher. For much of the third quarter, the tech sector outperformed, but as bond yields rose in late September, financial stocks rallied on the prospect of higher interest rates and overtook tech as the best performing sector in the quarter. Healthcare also performed well, bolstered by strength in pharmaceutical stocks following more COVID-19 vaccine mandates and booster shot approvals.

Sector laggards included the industrials and the materials sectors, both of which finished with negative returns for the third quarter. Uncertainty surrounding the strength of the ongoing economic recovery in the face of higher COVID cases pressured industrials initially in the third quarter, as did a lack of passage of the \$1 trillion bipartisan infrastructure bill. Meanwhile, the materials sector declined late in the third quarter on Chinese economic growth concerns following the Evergrande debt drama. Broadly speaking, cyclical sectors, those most sensitive to changes in economic growth, lagged more defensive sectors in the third quarter due to the uncertainty of the economic recovery in the face of the COVID wave in July and August.

US Equity Indexes	Q3 Return	YTD
S&P 500	0.58%	15.92%
DJ Industrial Average	-1.46%	12.12%
NASDAQ 100	1.09%	14.58%
S&P MidCap 400	-1.85%	15.21%
Russell 2000	-4.36%	12.41%

Source: YCharts

Internationally, foreign markets declined in the third quarter. Emerging markets dropped sharply, initially on concerns that rising COVID-19 cases would derail the global recovery, but late in the quarter, emerging markets fell even further on Chinese growth worries that stemmed from the Evergrande debt issues. Foreign developed markets, meanwhile, declined modestly during the final few weeks of the quarter on general global growth concerns combined with potentially higher global interest rates.

Commodities posted strong gains for the fourth quarter in a row and again outperformed the S&P 500 over the past three months. Major commodity indices were led higher by a late-quarter rally in oil prices as members of “OPEC+” maintained a historically high compliance rate to self-imposed production targets while easing COVID-19 cases around the globe in September bolstered the demand outlook for refined petroleum products. Additionally, there was no progress on nuclear negotiations between the U.S. and Iran, and sanctions remained in place preventing Iran from selling oil on the global market. Meanwhile, gold posted a small loss in the third quarter as a firming dollar and rising interest rates helped offset still stubbornly elevated inflation metrics.

Switching to fixed income markets, most bond classes were little changed in the third quarter. The majority of bond indices were solidly higher through mid-September as investors rotated to safety following the rise in COVID-19 cases in July and August. But in late September, the Federal Reserve confirmed tapering of Quantitative Easing will begin this year. That, combined with still-high inflation statistics, weighed on fixed income markets during the final few days of the third quarter which erased most of the quarter-to-date returns for many bond indices.

Looking deeper into the bond markets, longer-duration bonds and shorter duration bonds had very similar returns in the third quarter. For most of the quarter, longer-term bonds outperformed shorter-term bonds on the growing expectation that the Fed would begin to taper QE late in 2021, and that interest rates would start to rise in late 2022. But the late-September rise in global bond yields resulted in a moderate drop in longer-dated bonds, which erased the earlier outperformance over short-duration bonds.

In the corporate debt markets, higher-yielding, lower-quality bonds outperformed investment-grade bonds thanks to a late September drop in investment-grade following the rise in global bond yields, as investors rotated out of lower-yielding, yet higher-credit quality corporate debt as global yields rose.

Fourth Quarter Market Outlook

Market performance in the third quarter reflected continued improvement in the macroeconomic outlook as a society, the economy, and risk assets showed resilience in the face of another wave of COVID-19, while corporate earnings were better than expected. However, that resilient performance should not be taken as a signal that risks no longer remain. In fact, the next three months will bring important clarity on several unknowns including future Federal Reserve policy, taxes, the pandemic, and inflation.

The Federal Reserve has communicated that it will begin to taper Quantitative Easing in the fourth quarter, but markets do not yet know when exactly the Fed will start to scale back those asset purchases or the pace at which they will be reduced. If the Fed starts to taper QE sooner than expected, or the pace of reductions is faster than the market has currently priced in, it will cause additional volatility.

Meanwhile, in the third quarter investors were reminded that politics can be a powerful influence on markets, and over the next several weeks we will learn whether the debt ceiling is extended and if there will be any significant tax increases. If policies from Washington are viewed as negative for corporate earnings or consumer spending, they will cause a rise in market volatility.

Regarding the still ongoing pandemic, COVID-19 remains a risk for the economy and the markets. Positively, effective vaccines have allowed policymakers to avoid re-implementing economic lockdowns that could hurt corporate earnings and the economy. But the risk remains that a new COVID-19 variant renders the vaccines less effective and that would put the economic recovery in jeopardy.

Finally, inflation remains elevated and at multi-decade highs, and that combined with continued supply chain disruptions, due to the ongoing pandemic, is starting to impact corporate margins and profitability. If an increasing number of companies warn about future profitability due to these factors during the upcoming third-quarter earnings season, it will negatively impact markets.

We understand the risks facing both the markets and the economy, and we are committed to helping you effectively navigate this still-challenging investment environment. Successful investing is a marathon, not a sprint, and even temporary bouts of volatility like we experienced during the height of the pandemic are unlikely to alter a diversified approach set up to meet your long-term investment goals.

The economic and medical progress achieved so far in 2021 notwithstanding, we remain vigilant towards risks to portfolios and the economy, and we thank you for your ongoing confidence and trust. Rest assured that our entire team will remain dedicated to helping you successfully navigate this market environment.

Please do not hesitate to contact us with any questions, comments, or to schedule a portfolio review.

Enclosure #1 – Our first enclosure is the Investment Strategy Quarterly piece from Raymond James. This provides a quick understanding of relevant themes in the investment world. Additionally it provides an economic snapshot as well as a tactical outlook. We like to include this in the Weiss Report as a handy two-page reference – even in moments like this.

Enclosure #2 – Our second enclosure is a discussion on the costs of lockdowns. Brian Wesbury, from First Trust Advisors, gives some commentary on what the lockdowns on COVID have done that impact aspects of the economy today.

Enclosure #3 – Our last enclosure is a new writing from our team member Lenny Weiss. He provides a discussion on market crashes – specifically how they differ from “routine” corrections.

Important Disclosures

This report is not intended as a complete description of the securities, markets or developments referred to herein. It should not be viewed as an offer to buy or sell any of the securities mentioned. Information has been obtained from sources considered reliable, but we do not guarantee that the foregoing report is accurate and complete. Additional information and sources are available upon request.

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The authors' opinions are subject to change without notice.

Gross Domestic Product (GDP) is the annual market value of all goods and services produced domestically by the US.

It is not possible to invest directly in an index. The S&P 500 is an unmanaged index of 500 widely held stocks. The Dow Jones Industrial Average is an unmanaged index of 30 widely held securities. The NASDAQ Composite Index is an unmanaged index of all stocks traded on the NASDAQ over-the-counter market. Past performance may not be indicative of future results.

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Enclosure #2: Information was developed by First Trust, an independent third party. The opinions of Brian Wesbury are independent from and not necessarily those of RJFS or Raymond James.

*Prices of DJIA and NASDAQ as of 10/07/2021.

INVESTMENT STRATEGY QUARTERLY QUICKVIEW

OCTOBER 2021

THEMES



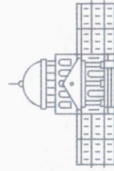
Fiscal Policy Beyond the Pandemic

To counter the economic effects of the COVID-19 pandemic, lawmakers approved \$5.2 trillion in fiscal stimulus in 2020 and 2021 and at the end of August, the national debt stood at \$28.4 trillion. However, the government is not like a household and our children and grandchildren do not have to pay off the national debt. The key issue is whether we can meet interest payments on the debt and whether we can roll over existing debt as it matures. While we don't have to balance the budget, we should eventually try to get our fiscal house in order. Achieving this could involve increased tax enforcement and debate about spending reductions, including entitlement reform.



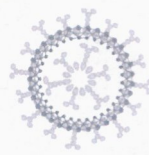
Emerging Markets: An Uneven Recovery

The global economy has recovered strongly from the pandemic, however, growth has been uneven. Advanced economies have led the recovery while emerging markets have faced considerable challenges. However, we believe that emerging markets offer strong long-term potential and diversification benefits, and while emerging markets have lagged as of late, we expect rising vaccination rates and a strong global recovery to turn the growth differential back in their favor.



Biden's Agenda: Defining Fall Policy Sprint

The political agenda is packed this fall with top-priority items such as passing the bipartisan infrastructure deal, negotiating a budget reconciliation package, funding the government for the next fiscal year, raising the US statutory borrowing limit ('debt ceiling'), and settling key defense and foreign policy decisions. These items coupled with a variety of must-pass deadlines creating a series of fiscal cliffs, could cause a fairly volatile several months in DC.



Q&A: COVID-19 Update

The COVID-19 Delta variant resulted in a new wave of cases in the US and created many questions around the impact of the Delta variant on the economy and supply chains; how the US compares to other nations in vaccination and pandemic responses; the effectiveness of vaccines against Delta; and possible future impacts of potential new variants - all of which are answered in our Q&A Covid-19 Update.

For more information, refer to the full [Investment Strategy Quarterly](#).

Economic Snapshot

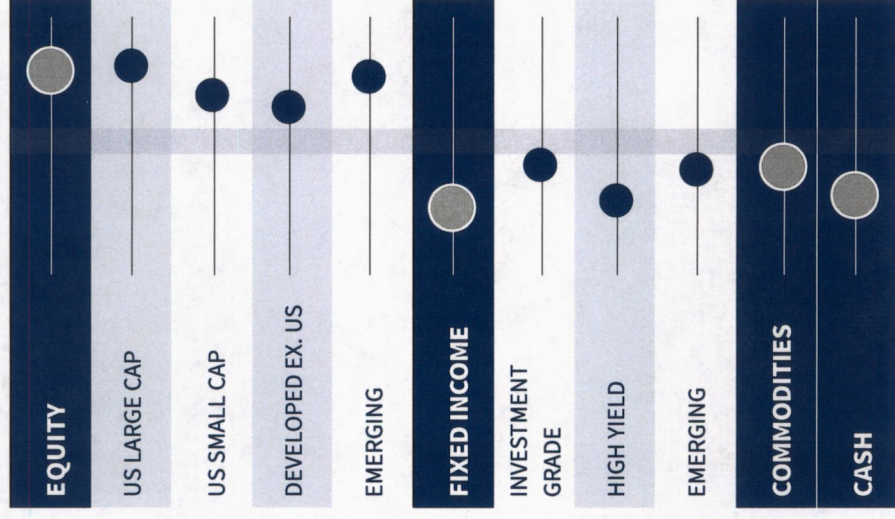
Economic Indicator

FAVORABLE	
GROWTH	
EMPLOYMENT	
CONSUMER SPENDING	
BUSINESS INVESTMENT	
MANUFACTURING	
HOUSING AND RESIDENTIAL CONSTRUCTION	
NEUTRAL	
THE DOLLAR	
REST OF THE WORLD	
INFLATION	
MONETARY POLICY	
LONG-TERM INTEREST RATES	
FISCAL POLICY	

Tactical Outlook

(9-12) months

- NEUTRAL +



The tactical asset allocation outlook above reflects the Raymond James Investment Strategy Committee's recommendations for current positioning. Your financial advisor can help you interpret each recommendation within this material relative to your individual asset allocation policy, risk tolerance and investment objectives.

From **Scott Brown, Ph.D.**,
Chief Economist, Raymond James

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INVESTMENT STRATEGY QUARTERLY QUICKVIEW

OCTOBER 2021

Capital Markets Snapshot

Sector Snapshot

EQUITY	AS OF 9/30/2021*	3Q 2021 RETURN**	12-MONTH RETURN**
DOW JONES INDUSTRIAL AVERAGE	33,843.92	-1.91%	21.82%
S&P 500 INDEX	4,297.50	0.23%	28.09%
NASDAQ COMPOSITE INDEX	14,448.58	-0.38%	29.38%
MSCI EAFE INDEX	2,281.29	-0.35%	26.29%
RATES	AS OF 9/30/2021	AS OF 12/31/2020	AS OF 9/30/2020
FED FUNDS TARGET RANGE	0-0.25	0-0.25	0-0.25
3-MONTH LIBOR	0.13	0.24	0.23
2-YEAR TREASURY	0.29	0.13	0.13
10-YEAR TREASURY	1.53	0.93	0.69
30-YEAR MORTGAGE	3.01	2.67	2.88
PRIME RATE	3.25	3.25	3.25
COMMODITIES	AS OF 9/30/2021*	3Q 2021 RETURN	12-MONTH RETURN
GOLD	\$1,757.00	-0.82%	-7.31%
CRUDE OIL	\$75.03	2.12%	86.55%

*Price Level
**Total Return

DISCLOSURE:

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International investing involves special risks, including currency fluctuations, different financial accounting standards, and possible political and economic volatility. These risks are greater in emerging markets. Commodities trading is generally considered speculative because of the significant potential for investment loss. Sector investments are companies engaged in business related to a specific sector and are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification. There is no assurance that any of the forecasts mentioned will occur. Asset allocation and diversification do not guarantee a profit nor protect against loss. Dividends are not guaranteed and will fluctuate. The value of REITs and their ability to distribute income may be adversely affected by several factors beyond the control of the issuers of the REITs. There is no assurance that any investment strategy will be successful or that any securities transaction, holdings, sectors or allocations discussed will be profitable. It should not be assumed that any investment recommendation or decisions made in the future will be profitable or will equal any investment performance discussed herein.

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INDEX DESCRIPTIONS: Please note that all indices are unmanaged and investors cannot invest directly in an index. An investor who purchases an investment product which attempts to mimic the performance of an index will incur expenses that would reduce returns. Standard & Poor's 500 (S&P 500): Measures changes in stock market conditions based on the average performance of 500 widely held common stocks. Represents approximately 68% of the investable U.S. equity market. The Dow Jones Industrial Average is an unmanaged index of 30 widely held securities. The NASDAQ Composite Index is an unmanaged index of all stocks traded on the NASDAQ over-the-counter market. The MSCI EAFE (Europe, Australia, Far East) Index is an unmanaged index that is generally considered representative of the international stock market. The returns noted do not include fees and charges which will affect an investor's return.

SECTOR	S&P WEIGHT
OVERWEIGHT	
CONSUMER DISCRETIONARY	12.3%
FINANCIALS	11.0%
COMMUNICATION SERVICES	11.4%
INDUSTRIALS	8.0%
ENERGY	2.5%
EQUAL WEIGHT	
INFORMATION TECHNOLOGY	27.9%
HEALTH CARE	13.5%
MATERIALS	2.5%
REAL ESTATE	2.7%
UNDERWEIGHT	
CONSUMER STAPLES	5.8%
UTILITIES	2.5%

The Cost of Lockdowns

Last March, when the government was considering whether to lockdown the economy, we argued that the longer we stayed locked down the more permanent the damage we would do to the underlying economy.

It is now clear that the cost of the lockdowns is immense. We aren’t just talking about the \$5 trillion in government borrowing from future generations, but the clear damage done to small businesses and supply chains.

The US economy cannot be switched off and on like a light bulb. Every day, countless decisions are made in order to get the simplest of things on store shelves. One of our favorite economic essays is “*I, Pencil*” by Leonard Read in which he writes, “not a single person on the face of this earth knows how to make me (the pencil).”

Think about it. We all know the simple components of a pencil (wood, graphite, paint,...etc), but it’s a complex chain of people and events that put it together. Loggers need equipment, food, and clothing. So do all the other suppliers. Each part of the process depends on those before, and if just one part is thrown out of whack, making a pencil gets harder.

Locking down the economy threw complicated supply chains into chaos, and restarting them is not as easy as many seem to think. Markets are robust, and sturdy, but government decisions (made by bureaucrats who, at most, can handle a dozen pieces of information) destroy the information flow necessary for smooth functioning.

Add into this mix that government locked down the supply-side of the economy, while simultaneously providing rocket fuel (through printing and borrowing money) to the demand-side. A massive spike in consumer spending by people who weren’t producing is a recipe for unbalanced markets.

It’s like causing a car accident and saying that morphine is the cure. Once the morphine wears off, the injuries remain, and

the pain resurfaces. Here, inflation is one clear result.

We have seen ports in Los Angeles and New York thrown into chaos as ships wait weeks to be unloaded. And the cost to ship those containers has soared by nearly 500%. Dollar Tree, which sells items (many imported) for a dollar, now says they can’t do it anymore and will sell more items for above a dollar.

Oil, gasoline, and natural gas prices are rising. Europe, which also locked down, is heading into the winter with a shortage of fuel. Government attempts to alter a well-established industry by forcing it to create more green energy are failing. Government can’t possibly manage such a complicated system.

The United States Postal Service is slowing down deliveries to save money as financial losses go ever higher. Automobile manufacturers cannot get semiconductors and are seeing production levels, in the face of strong demand, fall behind.

All of this was predictable. A market economy only works when information (through the price system) is allowed to flow freely. Turning it off, or trying to manage it to fit some politician’s utopian vision of the future, creates chaos.

In the economy, there is the “seen,” and the “unseen.” The seen is the fact that you can’t buy toilet paper, or food prices are going up. The unseen is the market system; what Adam Smith called the “invisible hand.” The market provides because people work together as a team, even though they don’t know each other. They do it to earn a paycheck or make a profit.

To call this system “greedy” misunderstands the role of profit, and how resources are allocated by the marketplace. Free markets require unimpeded information. Locking down the economy and attempting to manage it from Washington, DC is guaranteed to create more problems.

One of those is inflation. It isn’t transitory, it’s a natural outcome of decisions that have been made in the past year. Lockdowns will cause more problems than COVID itself.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
10-4 / 9:00 am	Factory Orders – Sep	+1.0%	+0.5%		+0.7%
10-5 / 7:30 am	Int’l Trade Balance – Aug	-\$70.7 Bil	-\$71.3 Bil		-\$70.1 Bil
9:00 am	ISM Non Mfg Index – Sep	59.9	60.5		61.7
10-7 / 7:30 am	Initial Claims – Oct 2	350K	340K		362K
2:00 pm	Consumer Credit– Aug	\$17.3 Bil	\$20.0 Bil		\$17.0 Bil
10-8 / 7:30 am	Non-Farm Payrolls – Sep	488K	575K		235K
7:30 am	Private Payrolls – Sep	450K	545K		243K
7:30 am	Manufacturing Payrolls – Sep	25K	25K		37K
7:30 am	Unemployment Rate – Sep	5.1%	5.1%		5.2%
7:30 am	Average Hourly Earnings – Sep	+0.4%	+0.4%		+0.6%
7:30 am	Average Weekly Hours – Sep	34.7	34.7		34.7

Consensus forecasts come from Bloomberg. This report was prepared by First Trust Advisors L. P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.

Stock Market Crash?

By: Leonard A. Weiss

We are fielding many questions about our thoughts of an upcoming market crash. We understand why. I Googled "stock market crash" and received just over 8 million hits. Investors cannot escape this subject; it can be very scary. Any time the market declines for three days the howls of a crash intensify. All the publicity drives many clicks and media subscriptions.

To us, a market decline of 10%-20% is not a crash, it's a correction. This type of action is a natural event in bull market cycles. History shows that corrections occur every year or so. The last correction occurred in February 2020 as a reaction to the Covid shutdown of the economy. Before that, the market fell into correction in December 2018 on media predictions of an imminent recession that never materialized. Corrections are temporary as they are usually followed by new highs in the months after.

So how do we define a market crash? A crash is defined as a decline of 25% or more in a short period of time. A true crash takes years to recover from as they are associated with negative economic events such as recessions and/or unexpected events known as "Black Swans."

In 1980 the market crashed due to the FED raising interest rates to 20%+ levels to extinguish the double-digit inflation cycle of the 1970s. The Standard and Poor's 500 Stock Index (S/P 500) declined over 35% from peak to trough. Markets didn't make new highs until the summer of 1982.

In 1987, the market crashed after five consecutive positive years. It fell just over 30% in two months. The cause was excess speculation and a complete overhaul of the tax code in 1986. This one piece of legislation led to the demise of the Savings and Loan industry a few years later. The market did not recover until late in 1989.

In 2000-2002 the market declined 49%. It was called "the dot.com" crash. Between 1995-1999 the market rocketed on the innovation and popularization of the Internet. In the period the market more than tripled. Speculation was rampant as Tech IPOs turned the market into a Saturn rocket. The crash began with the highest market valuations since 1929. The market didn't make a new high until 2013!

In 2008, the mortgage and banking collapse saw the market decline 53% in just 14 months. The market did not make a new high until 2013. The biggest problem was an over leveraged financial sector. A strong recession followed the crash. Don't forget that GM filed for bankruptcy in the fall of 2008. It got very ugly.

In our opinion, market crashes like those mentioned above occur after a long period of pressure building up. The markets do not have a 'bleed valve'. When pressure builds for a prolonged period markets tend to cave in on themselves.

As of the date this was written, September 27th, 2021, we don't see any rising pressure that would have us believe that the next downturn would be a crash. The financial system is not signaling distress. Earnings and GDP growth is robust. And, we don't see measures of overvaluation popping up.

Another reason why we do not see building pressure is a natural result of one of our favorite market truths. The stronger the consensus is about a thing – whether it be an "impending" crash or "sure fire" up markets – the less likely we believe it to be true. In this case, market sentiment is overwhelmingly negative. Turn on the news or go to any financial website and headlines warn of an imminent crash. In our view, the stronger the drumbeat for an outcome, the more we look in other directions.

We agree that market corrections can occur at any time. But as mentioned above, they are part of an ongoing bull market. We like to say: "Keep it simple and make money. Let the intellectuals worry their way out of a fortune".