There’s no way to sugar coat October. So far, the NASDAQ Composite Index is down 13.8% for the month as of Oct 29, which is the worst monthly decline since November 2008 when it fell 10.8%; but why?

- Maybe it’s because the markets are afraid the Federal Reserve will overshoot in raising interest rates. Chairman Powell’s recent comments that the Fed has a “way to go before reaching a neutral fed-funds rate,” and his comment that the Fed does not know what the “neutral rate” is, is a bit disconcerting. (The neutral rate is the Goldilocks interest rate at which the economy is at full employment, and inflation is subdued.) Is Chairman Powell really saying the Fed doesn’t know when to start raising interest rates? To us, that’s a bit scary!

- Maybe it’s because companies are saying future earnings may be negatively impacted by the strong U.S. dollar and tariffs.

- Maybe it’s because investors are fearful of the results of next week’s election.

- Maybe it’s because Italy wants to violate European Union rules by running a large budget deficit.

- Maybe it’s because the UK is having difficulty negotiating a smooth exit from the EU.

- Maybe it was the fast rise in the U.S. Treasury rate from around 2.80% to around 3.25% at the beginning of the month (it has since fallen back to 3.10%).

The way we see it, there is no specific reason for this sharp decline. If anything, it may be “program selling” in which computers are programmed to sell when certain price levels are violated. This can trigger other sell programs as stock prices fall. Then, individual investors start getting scared and they sell, which can cause other sell programs to kick in... you get the picture. Finally, the market reaches such a bargain level that buyers step in, and the process reverses.
In his Oct 29 Investment Strategy (attached), Raymond James’ Chief Investment Strategist, Jeff Saut, predicts continued weakness for another 2 – 3 weeks, followed by a year-end rally. He still believes, as do we, that this is a short-term correction in a secular (long-term) bull market, which has years left to run.

The fundamentals look solid to us:

- The most recent GDP report shows the economy is growing at 3.5% (inflation-adjusted).
- Unemployment is at an amazingly low 3.7%.
- The U.S. has reached trade deals with Mexico, Canada, and South Korea. We expect deals will be reached with the European Union and Japan. China: Who knows?
- According to Evercor ISI, third-quarter earnings are up an astounding 24% from a year ago. Approximately 13% of the gain is from tax cuts, and 11% from organic growth.
- Inflation is low and does not appear to be accelerating. The fact that gold prices remain depressed is a confirming indicator.
- Credit spreads (the interest rate investors demand about risk-free Treasuries for low-quality debt) have not expanded, indicating companies have healthy balance sheets and no credit crisis is on the horizon. One indicator we closely follow is the “TED Spread,” which is the interest rate difference between the 3-month Treasury bill and 3-month LIBOR. The TED spread is giving us a green light. (You can see it signaled trouble ahead in 2007.)
• By our calculations, the S&P 500 is selling around 16.7 times estimated 2018 earnings, and 15.2 times estimated 2019 earnings. Conclusion: the stock market is not expensive.

• We wouldn’t be surprised to see the Federal Reserve hike rates another 1/4% in December to 2.25% - 2.50%, and then strike a more dovish tone in its press release. If we’re correct, this will be bullish for equity markets.

In the Oct 29, 2018 issue of Barron’s magazine, Howard Marks of Oaktree Capital Management wisely opined:

“In the world of investing, perception often swings from flawless to hopeless. Nobody can say why this happens or why the tipping point was reached. But the psychology of the market is so irrational and excessive in its swings.”

We see no reason to make any portfolio changes at this point. If you have any questions or concerns, please don’t ever hesitate to call.

Michael & Erica Fisette

Michael J. Fisette, CFP®, MSF
President, Fisette Financial Services LLC
Raymond James Financial Services
P 425.507.9005 / F 425.369.4981
michael.fisette@raymondjames.com

Erica S. Fisette, CFP®
In the event that you no longer wish to receive these commercial emails please reply to this email and in the body of the email request that we remove you from our email list.

Any opinions are those of Michael & Erica Fisette, and not necessarily those of RJFS or Raymond James.

The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. The NASDAQ composite is an unmanaged index of securities traded on the NASDAQ system.

The foregoing information has been obtained from sources considered to be reliable, but we do not guarantee that it is accurate or complete, it is not a statement of all available data necessary for making an investment decision, and it does not constitute a recommendation. Indices are not available for direct investment. Any investor who attempts to mimic the performance of an index would incur fees and expenses which would reduce returns. Past performance may not be indicative of future results. Investing involves risk and investors may incur a profit or a loss. Gold is subject to the special risks associated with investing in precious metals, including but not limited to: price may be subject to wide fluctuation; the market is relatively limited; the sources are concentrated in countries that have the potential for instability; and the market is unregulated.

Investment Advisory Services offered through Raymond James Financial Services Advisors, Inc. Securities offered through Raymond James Financial Services Inc. Member FINRA/SIPC. Fisette Financial Services is not a registered broker/dealer, and is independent of Raymond James Financial Services.

Raymond James Financial Services does not accept orders and/or instructions regarding your account by e-mail, voice mail, fax or any alternate method. Transactional details do not supersede normal trade confirmations or statements. E-mail sent through the Internet is not secure or confidential. Raymond James Financial Services reserves the right to monitor all e-mail.

Any information provided in this e-mail has been prepared from sources believed to be reliable, but is not guaranteed by Raymond James Financial Services and is not a complete summary or statement of all available data necessary for making an investment decision. Any information provided is for informational purposes only and does not
constitute a recommendation. Raymond James Financial Services and its employees may own options, rights or warrants to purchase any of the securities mentioned in e-mail. This e-mail is intended only for the person or entity to which it is addressed and may contain confidential and/or privileged material. Any review, retransmission, dissemination or other use of, or taking of any action in reliance upon, this information by persons or entities other than the intended recipient is prohibited. If you received this message in error, please contact the sender immediately and delete the material from your computer.