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%.)

<u>The way we see it, there is no specific reason for this sharp decline</u>. 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.

<u>The fundamentals look solid to us</u>:

- The most recent GDP report shows the economy is growing at 3.5% (inflation-adjusted).

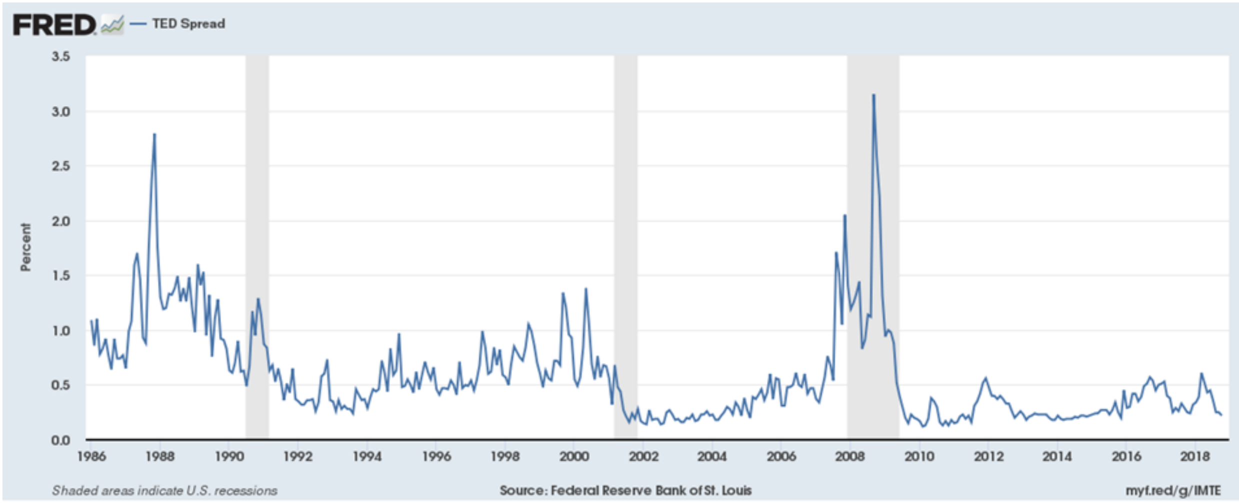
- Unemployment is at an amazingly low 3.7%.

- 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: <u>the stock market is not expensive</u>.

- 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."*

<u>We see no reason to make any portfolio changes at this point</u>. 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®

EVP, Fisette Financial Services LLC
Raymond James Financial Services
P 425.507.9006 // F 425.369.4981
erica.fisette@raymondjames.com

963 NE Discovery Drive
Issaquah, WA 98029
www.fisettefinancial.com

Fisette FINANCIAL SERVICES
PROFOUNDLY IMPACTING PEOPLE'S LIVES