

# **Will The Equity Markets Become Unglued Again & What Lies Ahead For 2018-19?**

*Presentation Delivered on November 1, 2018  
by Geoff Garbacz*

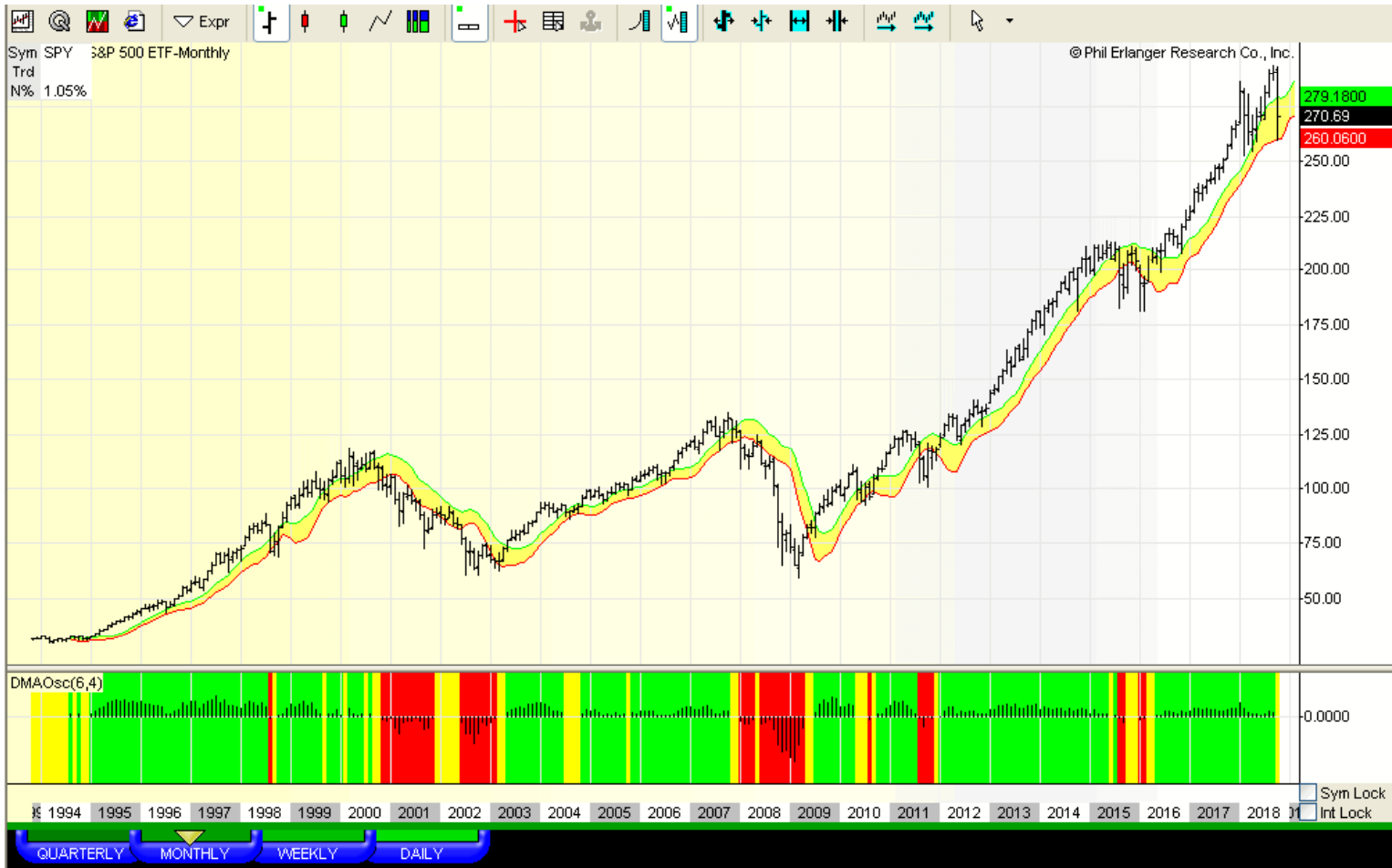
# YTD Returns

Q2	6/29/2018	P/L	% Change	9/28/2018	P/L	% Change	10/31/2018	P/L	% Change	% YTD	
											<b>Bonds</b>
	121.72	-0.18	-0.15%	117.27	-4.45	-3.66%	113.58	-3.69	-2.91%	-10.47%	TLT
	114.57	-2.82	-2.40%	114.93	0.36	0.31%	112.23	-2.70	-2.22%	-7.68%	LQD
	85.08	-0.56	-0.65%	86.44	1.36	1.60%	84.35	-2.09	-2.40%	-3.33%	HYG
											<b>Equity Indexes</b>
	2718.37	77.50	2.93%	2913.98	195.61	7.20%	2711.74	-202.24	-7.56%	1.43%	S&P 500
	7510.3	446.86	6.33%	8041.97	531.67	7.08%	7305.9	-736.07	-10.66%	5.83%	NASDAQ Composite
	7040.8	459.67	6.98%	7627.65	586.85	8.33%	6967.1	-660.55	-10.33%	8.92%	NASDAQ 100
	1951.67	72.67	3.87%	2019.55	67.88	3.48%	1825.1	-194.45	-10.23%	-3.97%	S&P 400 Mid Cap
	1643.07	113.64	7.43%	1696.57	53.50	3.26%	1511.41	-185.16	-12.06%	-1.57%	Russell 2000
	24271.41	168.30	0.70%	26458.31	2186.90	9.01%	25115.76	-1342.55	-5.43%	1.60%	Dow Jones Industrial
											<b>Commodities</b>
	118.65	-7.14	-5.68%	112.76	-5.89	-4.96%	115.15	2.39	1.93%	-6.88%	GLD
	15.15	-0.26	-1.69%	13.73	-1.42	-9.37%	13.41	-0.32	-2.00%	-16.14%	SLV
	23.7	1.15	5.10%	24.83	1.13	4.77%	26.7	1.87	8.02%	14.49%	UNG
	15.06	1.97	15.05%	15.52	0.46	3.05%	13.79	-1.73	-14.40%	14.82%	USO
	16.44	-1.52	-8.46%	15.87	-0.57	-3.47%	16.12	0.25	1.49%	-3.88%	CORN
	16.24	-2.81	-14.75%	15.85	-0.39	-2.40%	15.62	-0.23	-1.29%	-12.64%	SOYB
	6.38	0.18	2.90%	6.25	-0.13	-2.04%	6.14	-0.11	-1.83%	2.33%	WEAT
											<b>Currencies</b>
	24.94	1.33	5.63%	25.26	0.32	1.28%	25.82	0.56	2.33%	7.45%	UUP
	112.06	-6.27	-5.30%	111.16	-0.90	-0.80%	108.41	-2.75	-2.38%	-6.23%	FXE
	128.08	-8.21	-6.02%	126.42	-1.66	-1.30%	123.97	-2.45	-1.87%	-5.51%	FXB
	86.47	-3.64	-4.04%	84.15	-2.32	-2.68%	84.71	0.56	0.66%	-0.51%	FXV
	94.75	-3.65	-3.71%	95.31	0.56	0.59%	92.66	-2.65	-2.74%	-4.31%	FXF
	74.04	-2.85	-3.71%	72.35	-1.69	-2.28%	70.81	-1.54	-1.97%	-9.28%	FXA
											<b>International Equities</b>
	66.99	-2.69	-3.86%	67.98	0.99	1.48%	62.46	-5.52	-7.85%	-11.16%	EFA
	43.33	-4.95	-10.25%	42.92	-0.41	-0.95%	39.17	-3.75	-7.96%	-16.87%	EEM
	42.94	-4.30	-9.10%	42.83	-0.11	-0.26%	39.29	-3.54	-7.67%	-14.90%	FXI
	57.91	-2.77	-4.56%	60.23	2.32	4.01%	54.84	-5.39	-8.99%	-8.49%	EWJ
	21.24	-1.50	-6.60%	21.56	0.32	1.51%	20.8	-0.76	-3.58%	-1.93%	RSX
	24.59	-0.54	-2.15%	23.95	-0.64	-2.60%	22.05	-1.90	-7.20%	-16.48%	PIN
	32.05	-12.83	-28.59%	33.75	1.70	5.30%	40.15	6.40	15.82%	-0.74%	EWZ
	22.61	0.59	2.68%	22.12	-0.49	-2.17%	20.6	-1.52	-6.56%	-11.09%	EWA

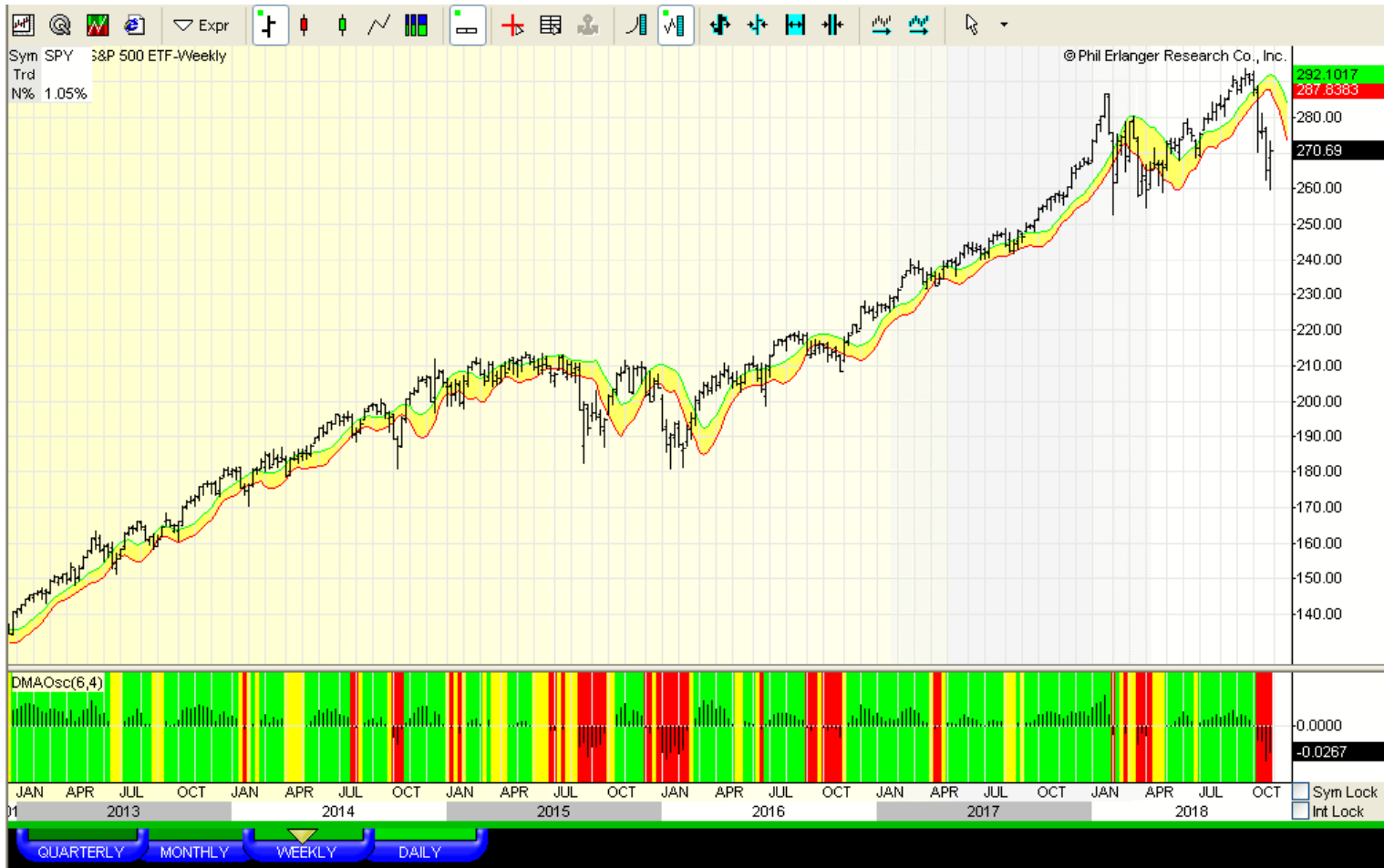
# YTD Returns

Q2	6/29/2018	P/L	% Change	9/28/2018	P/L	% Change	10/31/2018	P/L	% Change	% YTD	
											Sector ETFs
	60.96	0.57	0.94%	59.42	-1.54	-2.53%	53.99	-5.43	-9.23%	-8.26%	KRE
	26.56	-1.01	-3.66%	27.58	1.02	3.84%	26.27	-1.31	-4.69%	-5.88%	XLF
	71.65	-2.64	-3.55%	78.39	6.74	9.41%	69.88	-8.51	-11.25%	-7.59%	XLI
	109.3	8.01	7.91%	117.22	7.92	7.25%	105.38	-11.84	-12.00%	6.78%	XLY
	51.53	-1.10	-2.09%	53.91	2.38	4.62%	55.01	1.10	1.93%	-3.30%	XLP
	100.17	7.00	7.51%	111.46	11.29	11.27%	103.23	-8.23	-9.01%	12.98%	RTH
	75.94	8.53	12.65%	75.76	-0.18	-0.24%	67.13	-8.63	-11.95%	-7.07%	XLE
	16.96	2.40	16.48%	16.72	-0.24	-1.42%	13.59	-3.13	-18.27%	-20.67%	XES
	83.47	2.07	2.54%	95.14	11.67	13.98%	88.7	-6.44	-7.79%	7.28%	XLV
	58.07	1.13	1.98%	57.93	-0.14	-0.24%	52.61	-5.32	-8.79%	-13.08%	XLB
	59	2.17	3.82%	64.35	5.35	9.07%	60.44	-3.91	-6.59%	1.91%	PPH
	109.82	3.08	2.89%	121.94	12.12	11.04%	104.07	-17.87	-16.74%	-2.53%	IBB
	80.6	5.13	6.80%	80.1	-0.50	-0.62%	78.05	-2.05	-2.53%	-3.67%	IYR
	69.47	4.05	6.19%	75.33	5.86	8.44%	69.3	-6.03	-9.43%	8.37%	XLK
	102.5	-1.78	-1.71%	106.45	3.95	3.85%	93.46	-12.99	-13.28%	-4.45%	SMH
	182.68	12.98	7.65%	204.97	22.29	12.20%	183.26	-21.71	-14.05%	18.58%	IGV
	186.23	-0.80	-0.43%	204.55	18.32	9.84%	183.12	-21.43	-11.18%	-4.44%	IYT
	51.96	1.43	2.83%	52.67	0.71	1.37%	53.69	1.02	1.94%	1.98%	XLU

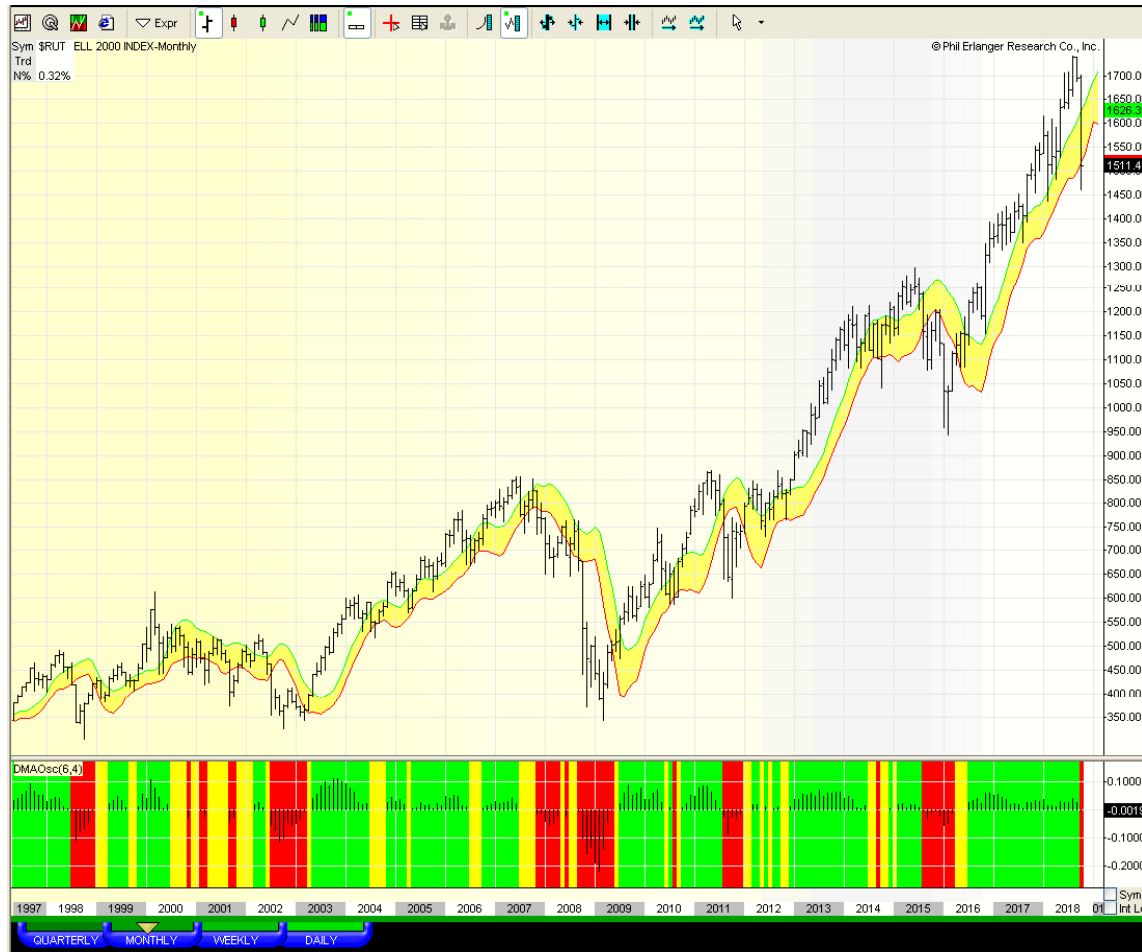
# S&P 500 -- 1997 to 2018



# S&P 500 -- 2013 to 2018

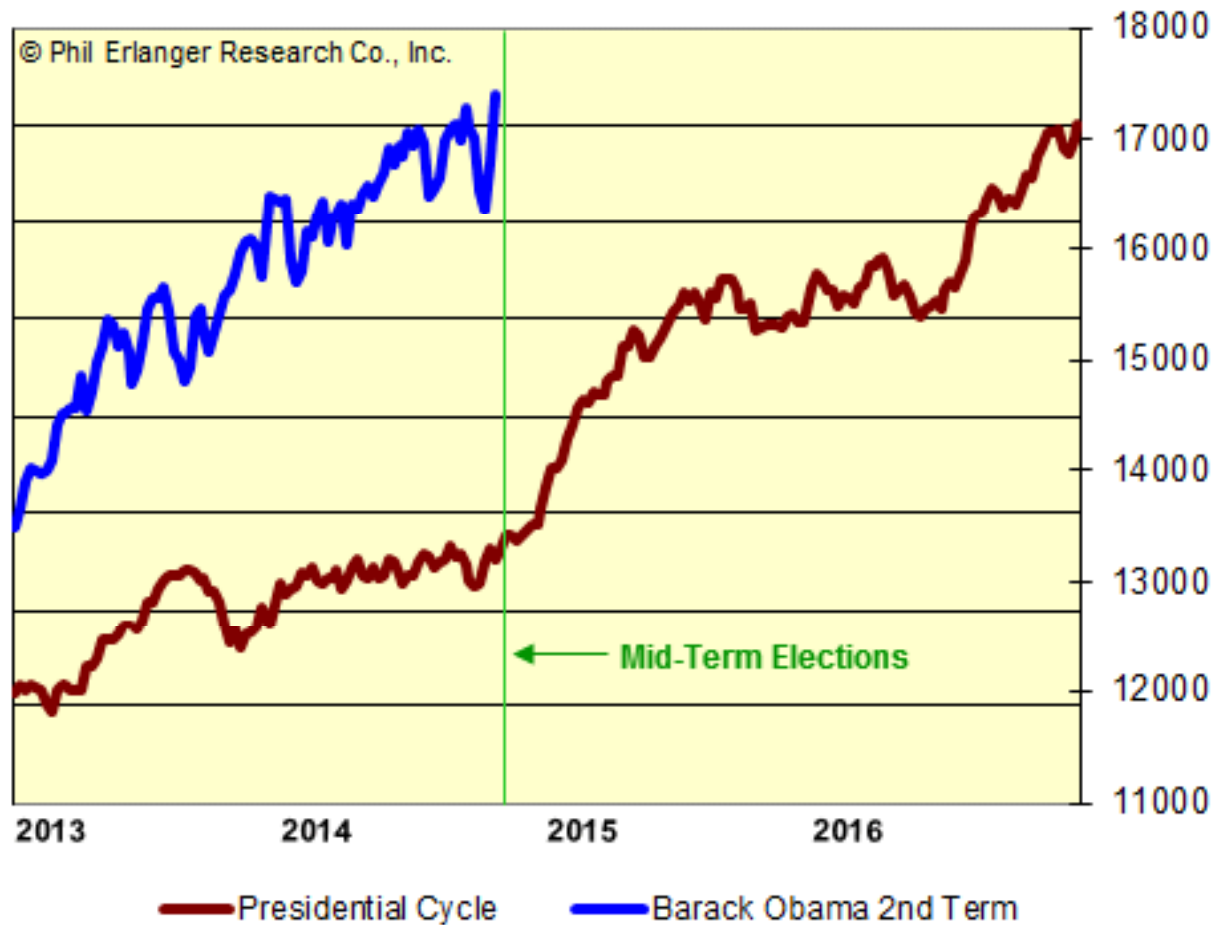


# Where is the Monthly DMA Channel? = Bias



# Presidential Cycle

Presidential Cycle  
Dow Industrials



# How to Improve Your Results

- It can be done and is not an insurmountable task but does require work.
- Requires organization of knowing where to find the data on the previous page.
- Once the data is compiled, then it does need to be turned into information.
- Information creates knowledge, which causes asset classes to rise in value.
- Best approach is let us do it for you. We have a process.



# U.S., Commodity & Int'l Indexes

- Pay attention to stock indexes in the U.S. and the return periods of 1 week, 2 weeks, 1 month, 3 months, 6 months, 1 year, 2 years and 3 years.
- ***Relative strength is best way to track returns.***
  - Dow Jones Industrial Average (Largest Companies)
  - Nasdaq Composite (Technology & Biotech Companies)
  - S&P 400 Mid Cap Index (Best Growth Companies)
  - Russell 2000 Index (Smaller Domestic Companies)
  - Bonds.
  - Currencies
  - International markets
  - [www.bloomberg.com/markets](http://www.bloomberg.com/markets)

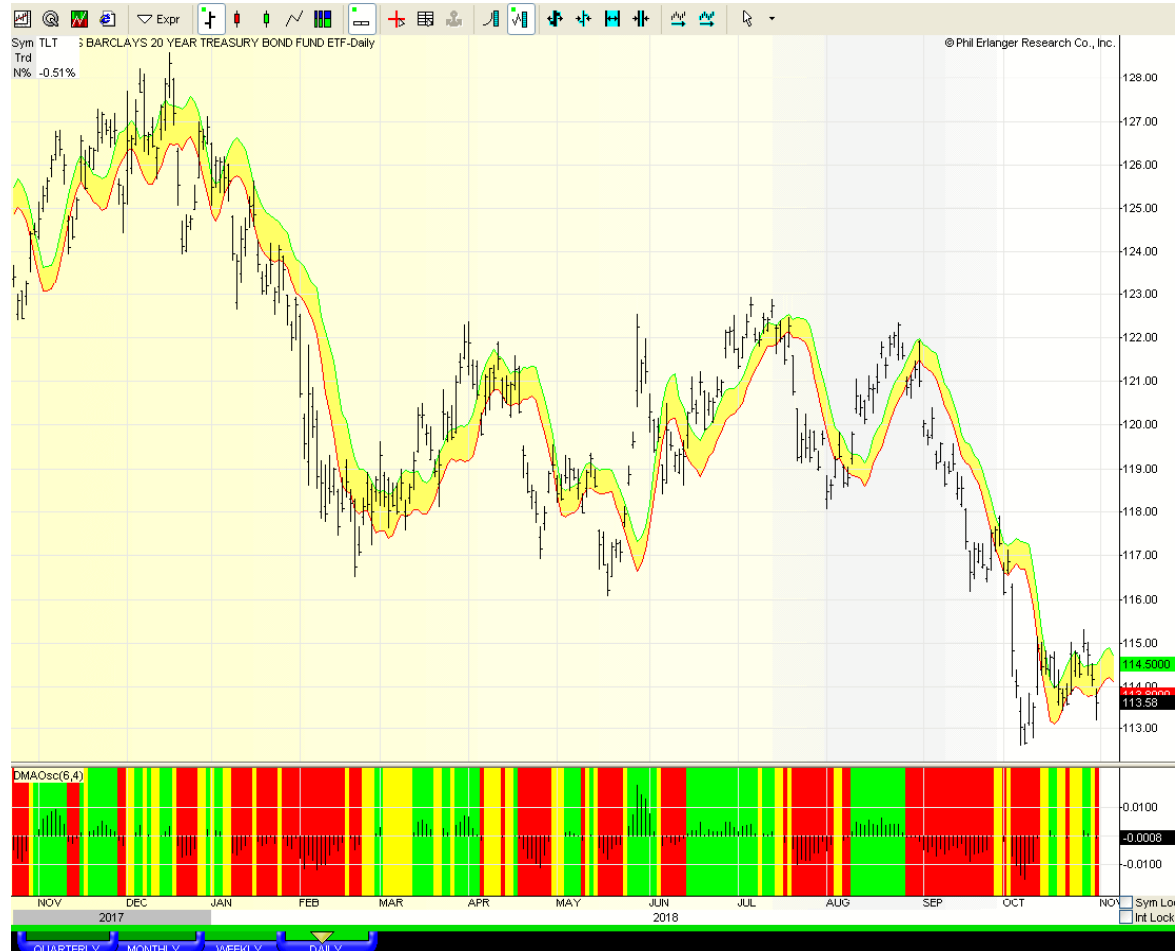
# International Markets

- Can monitor through Exchange-Traded Funds (ETF) or iShares as well as indexes. Most countries have ETFs or iShares.
- Example: Japan's ETF which is an iShare, EWJ.
- We track Emerging Markets (EEM) in Thursday's Weekly Charts.
- ETFs are an alternative to mutual funds. Greater liquidity and lower expenses.

# Fixed Income Markets

- The best source is [www.bloomberg.com](http://www.bloomberg.com). The specific page is:  
<http://www.bloomberg.com/markets/rates/index.html>
- Coverage of U.S. and major international bond markets.
- Coverage of municipal bond market
- Key interest rates are also found on that page.

# State of Bond Market 2018



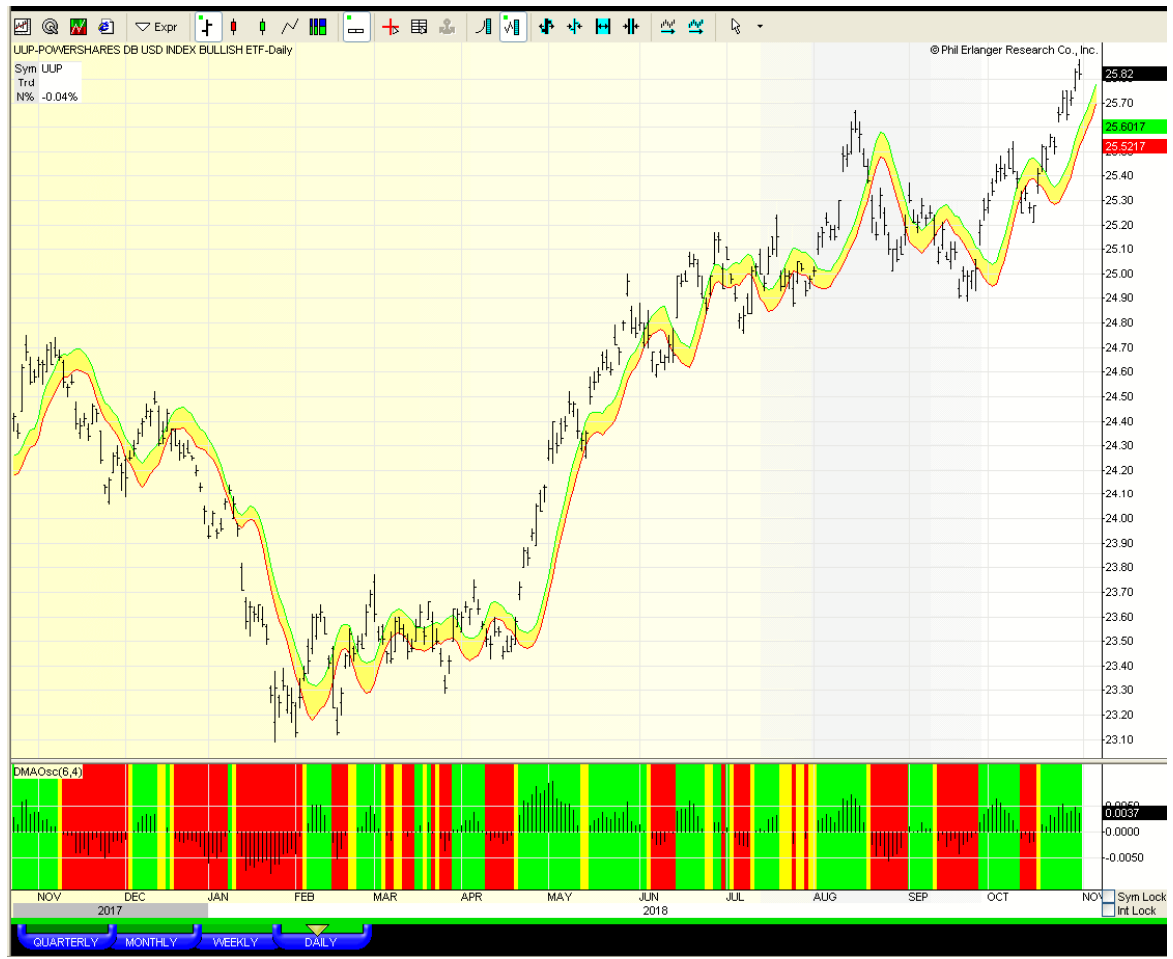
# What the Yield Curve Predicts

- The shape of the curve tells the state of the economy.
- Upward-slopping curve (normal)
- Inverted curve (usually precedes recession)
- Flat yield curve (rates remain steady or short-term volatility outweighs long term)

# Currency Market

- The currency market tracks the relationship of various currencies against each other.
- We are concerned with foreign currencies against the dollar.
- The main currencies we care about are those that the U.S. interacts with for trade purposes.
- The dollar has been in a downtrend that began in January.
- A drop in the dollar is causing crude oil and gold strength. Creates inflation.
- Dollar weakness resolves global nightmare.

# PowerShares DB U.S. Dollar Index Bullish ETF (UUP) weekly chart



# How to Track the Greenback

- The PowerShares DB U.S. Dollar Index Bullish(UUP)
- The PowerShares DB U.S. Dollar Index Bearish (UDN)
- The U.S. Dollar Index is compared to the Euro, Japanese Yen, British Pound, Canadian Dollar, Swedish Krona and Swiss Franc



# Other Markets

- **Credit Default Swaps (CDS)** are still unregulated. However, ICE has created a central clearinghouse for them.
- **Ted Spread** difference of interbank loans and T bills.
- **Options Markets** track the buying and selling of puts and calls on stocks, ETFs, indexes and futures. Lots of info on <http://www.cboe.com>
- The futures markets are what drive the markets in after-hours trading and can cause wild swings during the day. Pay attention to the direction each day: <http://money.cnn.com/data/premarket>

# Characteristics of 'Morning Matters' Stocks (12-stock portfolio)

- Positive earnings growth
- Positive cash flow growth
- Little or no debt
- Cash high relative to working capital needs
- Business model that can grow in a recession
- Do not buy turnaround plays lacking the above criteria unless they are being scalped with tight stops

# **Stock fundamentals are strong. What else do I need to review?**

- Relative strength against the S&P 500 & Russell 2000
- Are investors betting against company, shorting?
- Are option players betting it?
- What are its seasonal patterns?
- Are institutions (big money) net buyers or sellers?
- Are short-term technical measures in sync?

# Concluding Thoughts

- Cash levels remain at high levels.
- Buybacks will pickup again.
- Markets are still vulnerable despite couple of day move. The ultimate risk is the Euro is dissolved, Russia goes off the reservation on elections & China trade issue not resolved.
- Pay attention to the inner workings of markets, advance/decline line.
- Markets are controlled by neither the bulls nor the bears, at this point HFT.
- Economic turnaround will be driven by the consumer and job-creation. .
- Stocks may not trade higher collectively until 2019 or beyond, post election. Adopt a trading mentality.
- The definition of long term is the length of time it takes a move of magnitude to occur.
- The investment models are going to change as markets evolve. Hedge Funds underperformed in the current environment.
- To survive need to be a good stock picker, portfolio manager AND a risk manager.
- Know what you own and are invested in. Read your Morning Briefings, monthly economic/market outlooks and all Trade Alerts.
- Ask questions if not comfortable with strategy.