

Hello Everyone,

Today's missive gets a little wonky as we look at what analysts call the market's internals. A CSI theme is thus used to make the wonkishness (is that a word?) a little more palatable.

As usual, I hope this quick-read will expand your understanding of what is going on out there.

Signed, YourThinks-Those-Blue-Lights-The-CSI-Guys-Use-To-See-Blood-Are-Cool Financial Advisor,

Greg

KKOB 10.26.2018 CSI Wall Street

Bob: So, Greg, even after yesterday's rally, the markets are still showing some weakness. The Dow is down about 1800 points from its high... which translates to down 6.5-7.0%. That's hardly a crash. Nevertheless-- watching the market swing down 600 then up 400 sure makes people feel edgy.

Greg: I agree. So, let's play CSI Wall Street, and let's do some market forensics. Do you remember a couple of months back when we talked about the lack of market breadth with respect to the markets hitting new highs?

Bob: I do. You said healthy bull markets see lots of stocks advancing at the same time. That's your "market breadth" term. But, recently we've seen only a handful of stocks pulling up the market. And, those stocks were the usual suspects--- Apple, Amazon, Netflix, Google...those guys. I think I even joked the market had bad breadth.

Greg: Exactly. So, let's look a little deeper. As you know, the S & P 500 is comprised of America's 500 biggest stocks. Yet, even after yesterday's rally, 75% of those stocks are down 10% or more from their highs. And, more than half of those are down 20% or more.

And among these are what I call bread-and-butter stocks---names like Caterpillar, Campbell Soup, Goodyear.

So, now you start to do the math. And you ask, "If so many stocks are down double digits, how is it just a few can hold up so many?" And, the

down double digits, how is it just a few can hold up so many?” And, the answer is ----weighting. The stocks at the top are over-weighted “percentage-wise” when the index is calculated.

All of which brings us back to the current market swoon.

Over-weighted favorites like Google (Alphabet) & Facebook have recently tipped over---and are now negative for the year. Plus, Apple, Netflix, Amazon & Microsoft have all lost momentum. They’re still positive year-to-date, but they’re off anywhere from 5%-25% from their highs.

Anyway, that weakness at the top was all it took for the markets’ strength to be questioned.

Bob: So, if we’re playing CSI Wall Street, is this a gunshot wound to the chest for the market? I mean, should we look for more bleeding?

Greg: That’s kind of a gory analogy, but I started the CSI thing, soooo....right now, I’d say it’s just a flesh wound. But, flesh wounds sting, and it’s natural to wonder if more shots are coming.

So, no, it’s not a gunshot wound to the chest.

Next, should we look for more bleeding? What you’re really asking is, “Is this the start of the great correction? After a nine-and-half year bull run, is it finally time to exhale?” And to that, I will offer the very unsatisfying, “I don’t know” answer. We had a sell-off in August of ‘15 and bounced right back. Then, we had abrupt, yet mild, sell-offs in February and June of this year. Still, by September, we were at all-time highs.

I’ll say this, (and to keep our CSI theme going) the financial forensic pathologists at the top—the guys at Goldman, Nomura, B of A, & J P Morgan...have all turned cautious. Of course, this is after almost a year of quietly trimming their big clients’ stock exposure.

Bob: Which is why you’ve always told us to watch insider selling statistics.

OK...so, one last question. Do you think the mid-term elections have much to do with all this?

Greg: That’s tough one. Until recently, everyone assumed the democrats would gain control of the House or the Senate. That meant

gridlock; and historically Wall Street has embraced gridlock, because gridlock meant government would leave business alone.

I think, however, President Trump changed that. For the most part, businesses like what's been happening. Plus, past gridlocks were at least polite. Today, gridlock could be so acrimonious its effects could spill over into everything from stocks to the dollar. Maybe that's what the market is telling us. But, hey, I'm just Greg from Albuquerque speculating now. Don't bet the ranch on my predictive political powers.

Bob: Predictive-political-powers...I like the alliteration. Good report as usual. How do people reach you?

Greg: My number is 508-5550, 508-triple-5-zero. Or, go to my website at zanettifinancial.com.

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