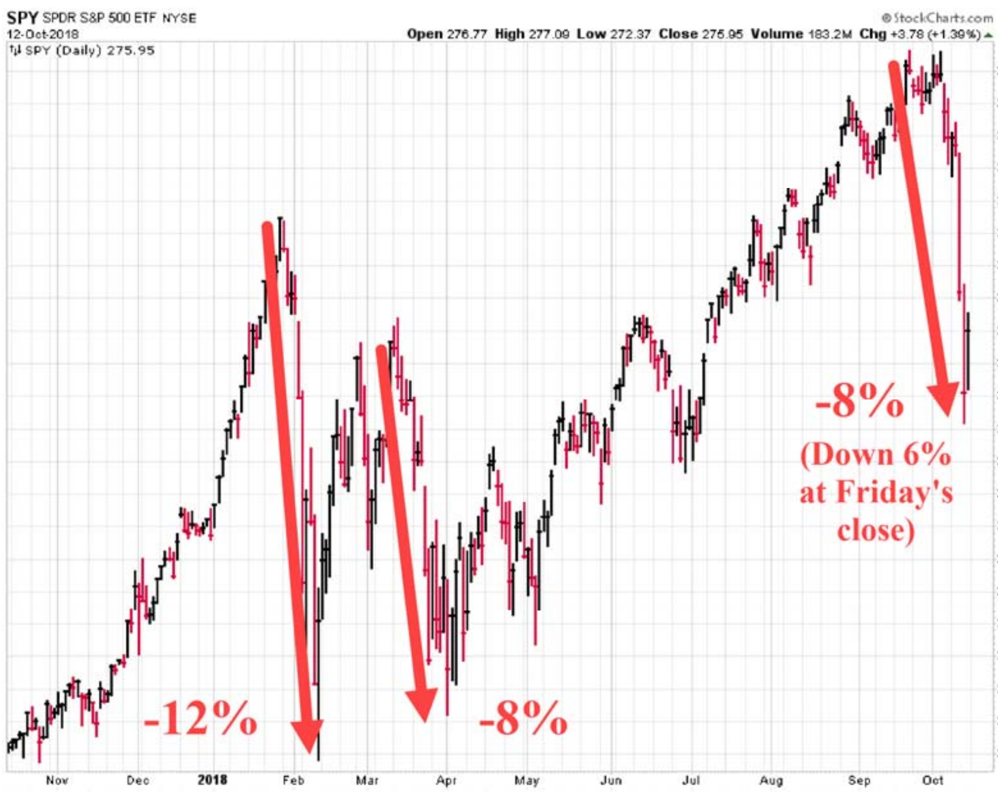
Long Run Market Update – Oct 14, 2018

U.S. equity markets have had a rough time so far this month. When something goes wrong, we always want to know the cause. We want a narrative that explains what happened and, especially, what will happen next so that we can either relax or take action.

In this case, we have a number of potential catalysts:

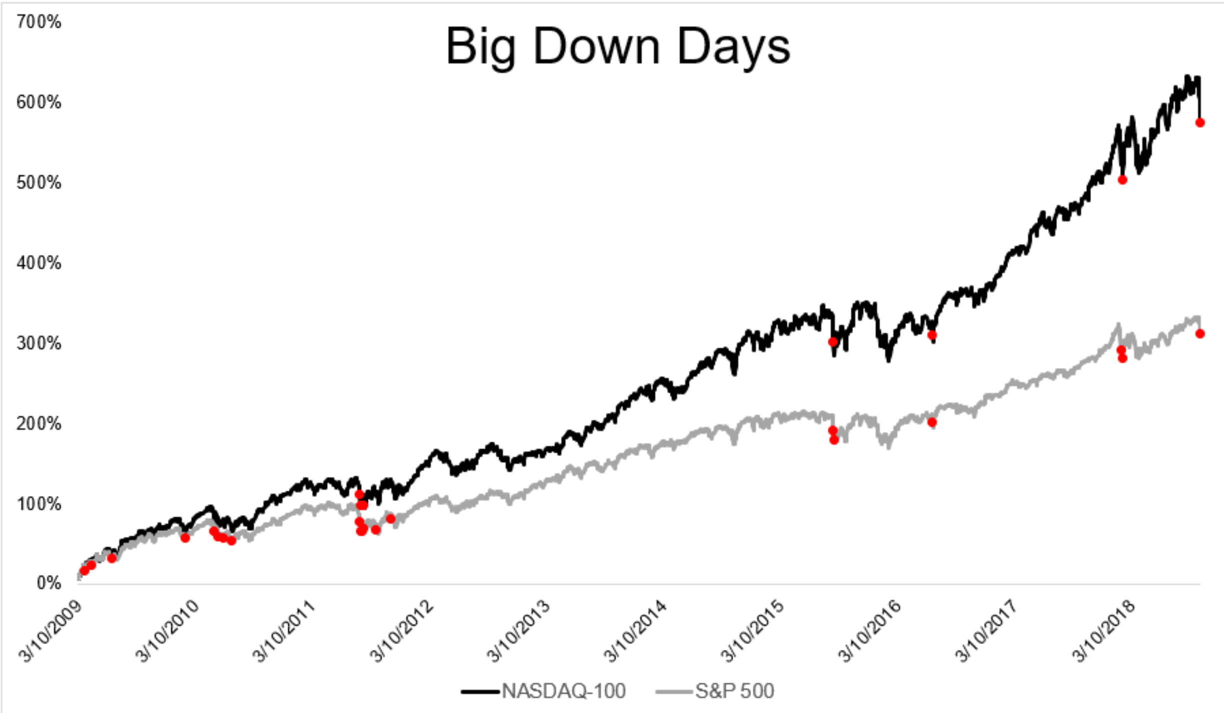
- Rising interest rates that may signal the latter stages of the economic recovery.
- A blackout on corporate stock buybacks during earnings season.
- Profit-taking in technology stocks that have been big winners.
- Concerns that mid-term elections may add to ongoing political turmoil.
- The potential for trade wars to negatively affect corporate earnings.

Going through this list, none of these are new concerns and I haven't seen or heard anything that served as a singular trigger for the sharp decline. As much as we want a clear cause and effect, sometimes a selloff happens the same way people rush for the exits in a movie theater if someone yells "Fire!" In 2018 alone, we have now seen three episodes with pullbacks of 7% or more (see chart). After the scares in February and March/April, equity indices rallied to new all-time highs.



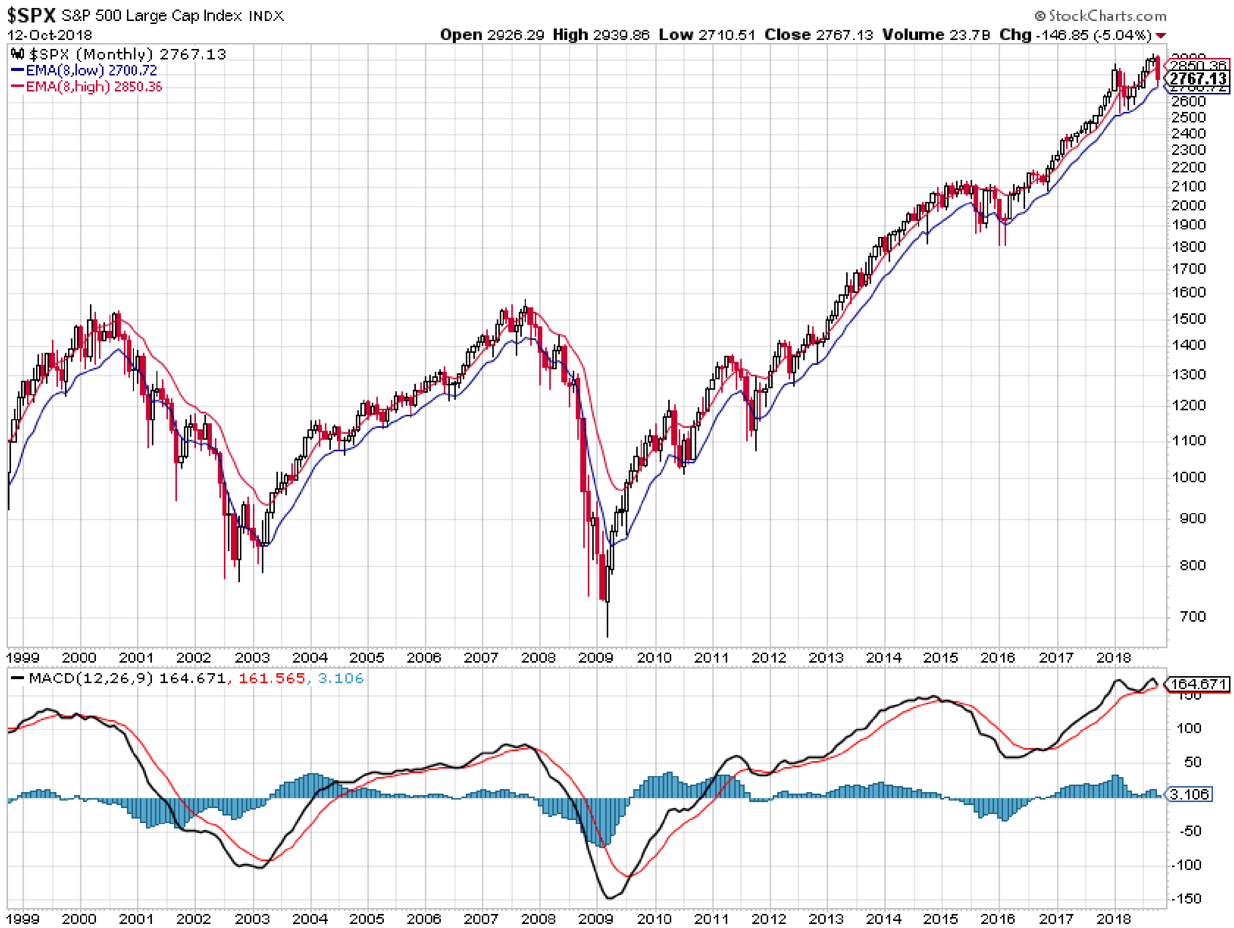
LONGRUN
CAPITAL MANAGEMENT

Charting the pullbacks in 2018 looks pretty dramatic. Taking a broader view back to 2009, this is the 20th time that the S&P 500 has seen a single-day retracement of 3% or more and it's the 8th time that the Nasdaq 100 has dropped more than 4% in a day. These don't seem nearly as scary in the rearview mirror. (Chart from The Irrelevant Investor)



The worry, of course, is that this time is different and will lead to a much deeper correction or even the start of another bear market. Either one of those outcomes is certainly possible and would lead to LongRun's strategies adopting a defensive posture.

But let's compare current market conditions to the tops preceding the last two bear markets. As shown on the next chart, the S&P 500 showed clear signs of rolling over before inflicting the worst damage in the collapse of the Internet bubble and the Global Financial Crisis. The current market remains in an uptrend, at least for now.



No one should be surprised if markets remain volatile for a few weeks or even longer. Investors are spooked and may feel the urge to sell first and ask questions later. Emotional responses to market movements are seldom rewarded, but portfolios can be adjusted if risk tolerance is being tested. Please contact me with any questions you may have.

Jim Carroll
jim@longruncapital.com
914-202-2755

LONGRUN
CAPITAL MANAGEMENT