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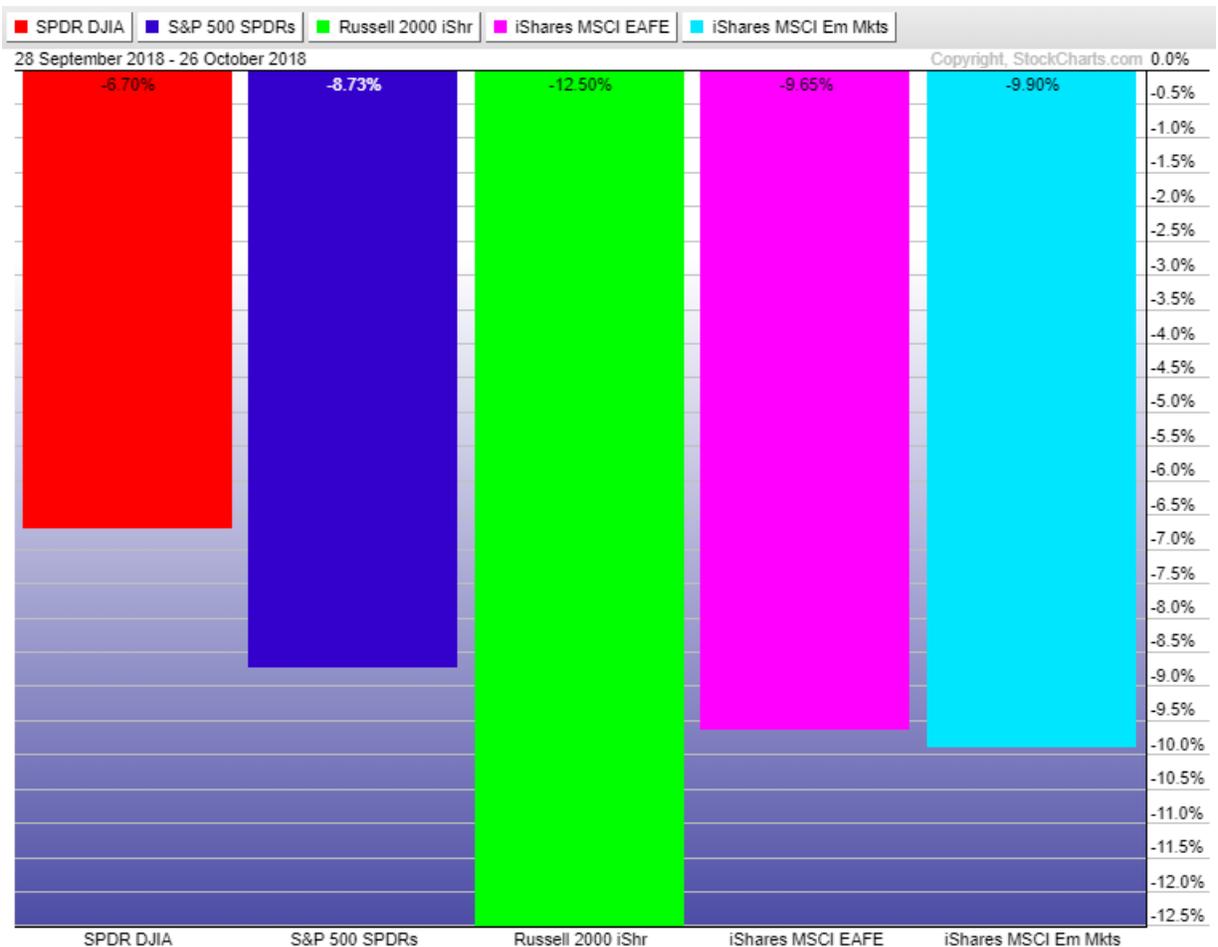
## Long Run Market Update – Oct 28, 2018

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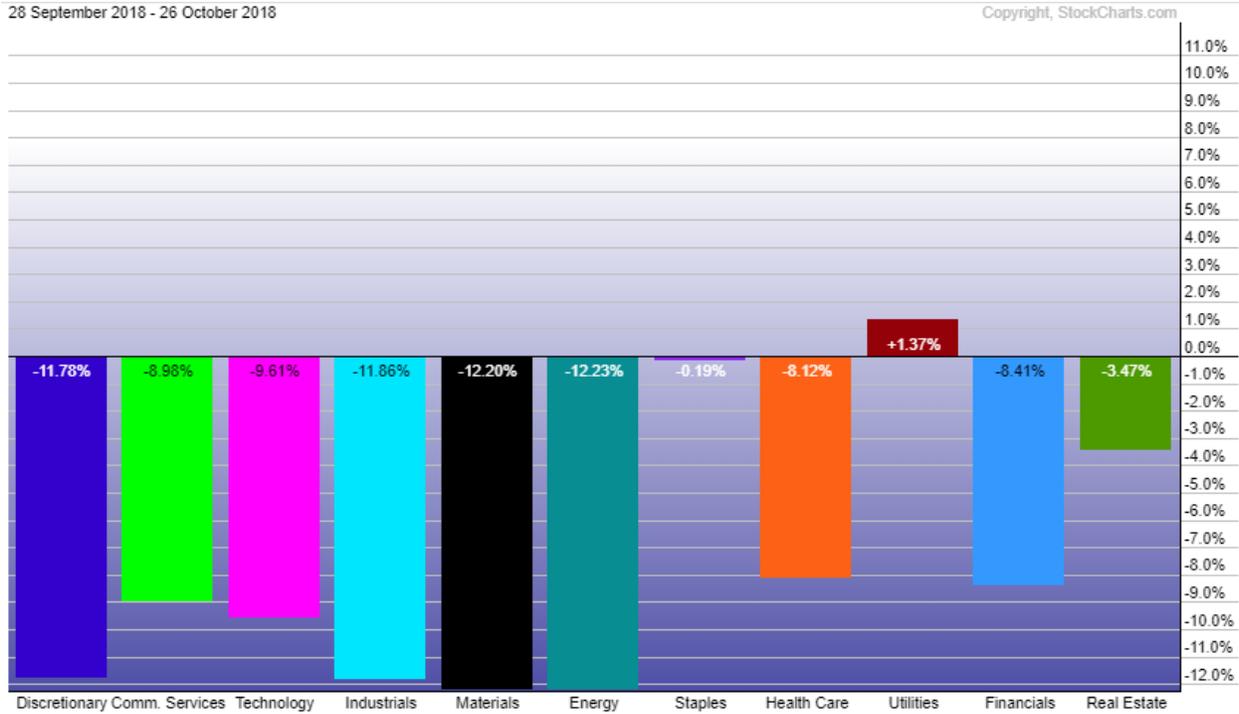
Two updates during the month is highly unusual, but markets are misbehaving and deserve additional commentary.

The S&P 500 ended September at an all-time monthly high. Gross domestic product grew at an annual rate of 3.5% for the three months ended 9/30, a pick-up from levels closer to 2% in recent years. Third quarter earnings have exceeded expectations for about 80% of companies that have reported. And with all this good news, the stock market has sold off hard and finished Friday in correction territory (defined as down more than 10% from the recent high).

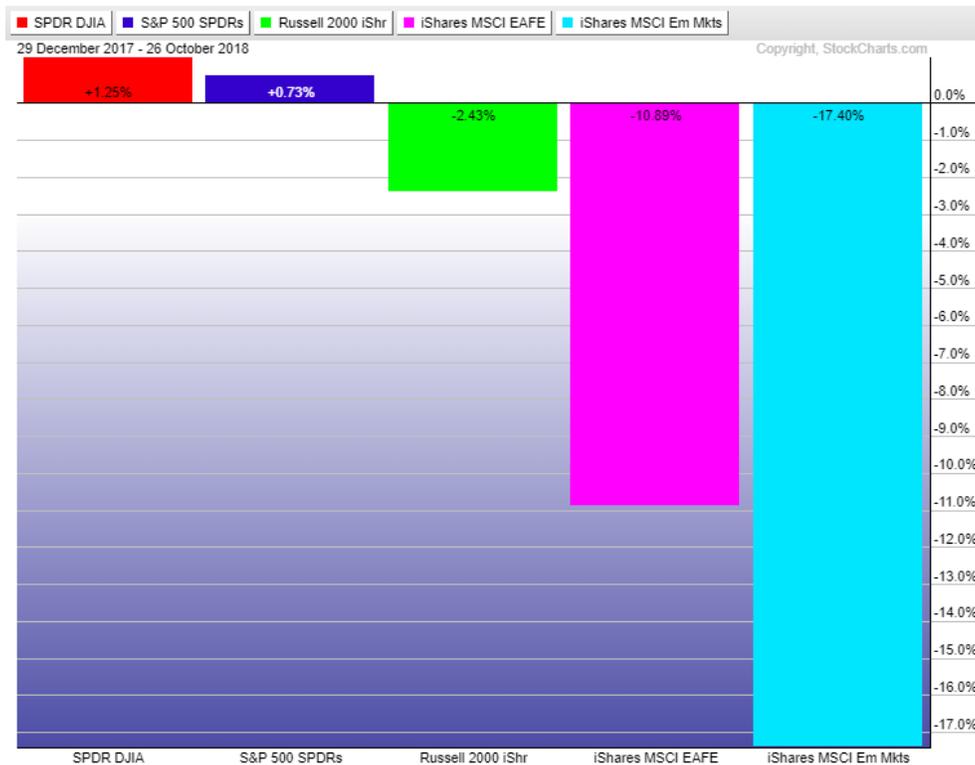
We have three trading days left in October. If things don't improve, this will be the worst month ever to follow an all-time monthly high. Ignore the talking heads on TV. Even the bears couldn't predict this one. All major equity indices, both US and international, are showing steep losses for the month.



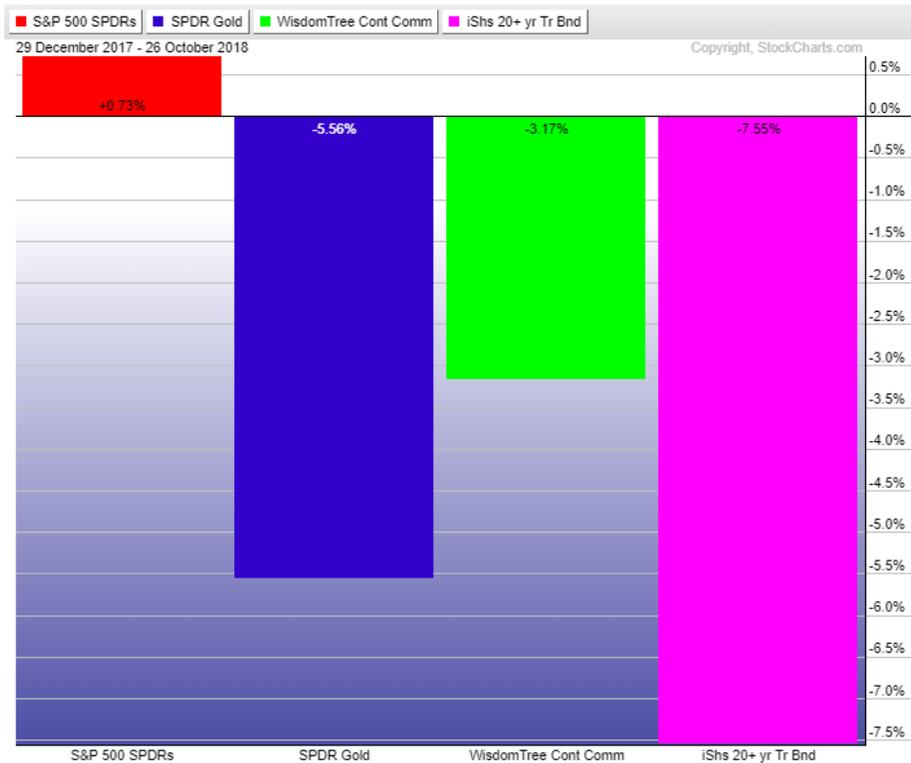
The sector breakdown for the S&P 500 shows that only Utilities are above water for October – nowhere to hide.



Looking year-to-date, US indices have given back most or all of earlier gains but look great compared with international equities.



Surely diversifying with Treasury bonds, gold or commodities would have helped smooth things out this year, right? Not so much, though gold and commodities are up a bit in October.



So we find ourselves in the middle of a second big 2018 pullback. Let's put this in historical context. Since 1950, the S&P 500 has seen a correction of at least 10% in more than half of those 68 years. Only five years did not see a drawdown of at least 5% (the most recent being 2017). None of those 10% drawdowns felt good. Most of them reversed before dropping 15%. A small percentage were the beginning of steeper declines and bear markets. No one knows which category this one will fall into. As I said two weeks ago, "Investors are spooked and may feel the urge to sell first and ask questions later." Now we get to find out if the selling has gone far enough to bring buyers back to the markets.

Please let me know if you have any questions.

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