MADISON PARK
CAPITAL ADVISORS

2018-Q4 Market Commentary

Sell in May and go Away – Has it worked this year?

One of the most famous sayings in the investment world is "Sell in May and go Away", and like many generalizations, it works more than it doesn't. That saying refers to the May–October investing period. Has is worked this year? It depends on what market you're looking at. We still have another month to go to see how it actually worked, but in the US markets, they are generally positive over that time, while most other markets are flat to negative for the same time. At this time, it is probably too close to call and we will have to wait and see.

As important as that saying is, the May to October months contain two particularly troublesome months. October has historically been the month where many market corrections peak. October 1929, Black Monday 1987, slides in 1990, 2001, and 2002 were some of the more famous times. The truth is that September is historically the worst month of the year. This September was generally okay, with most large-cap developed markets positive and most smaller-cap and emerging markets negative. The Barclays aggregate bond market was negative both for the month and the quarter. The bottom line, as we look toward the end of the year is the economy is doing well, wages are finally growing, consumer sentiment is close to all time highs – too many good things to list. So what's the problem?

The stock market is a discounting mechanism that looks out 6-9 months into the future. It tells a story of the future that we will be reading about in the newspapers and financial websites in the middle of next year. The trend is still up, although we are on a razor's edge (as we have been for much of the year). While we generally don't think we are headed for a nasty bear market at this time, we can't discount what the markets may be telling us. We, of course, will only know the story in hindsight. Keep in mind, as we have been saying for the better part of the last 10 years, that this environment is a financial experiment that governments have never tried before. In the "good ole days" when the economy would slow down, the FED would cut interest rates and the economy would slowly recover and people would go back to work. In 2008 rates were already very low, and as we went into the 'Great Recession' the FED lowered rates to zero, and when that wasn't enough they started to flood the economy with new money (debt). They came up with a fancy name, Quantitative Easing, and started up the printing presses and churned out Federal Reverse Notes (money). The FED's balance sheet went from less than $1 trillion to over $4 trillion, and now they are slowly trying to pull that money out of the system. They are doing two things, raising interest rates and reducing their balance sheet from $4 trillion (the opposite of printing money). Sounds good, right?

If cutting rates and printing money creates a better economy, what does raising rates and removing money from the system do? Do you remember the game called *Operation*? You had those little tweezers and you had to remove parts of the patient's body without touching the metal side or you would get a loud ***BUZZ***. Remember the commercial? *'It takes a very steady hand.'* Well, like the game of Operation, there

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isn't much room for error and if the FED removes too much money too fast or raises rates too fast, the economy could get a very loud ***BUZZ.*** Much like the market looking out 6-9 months, it also takes 6-9 months for interest rate increases to work their way through the economy. That is usually why the FED often creates a problem while trying to fix one, meaning that by trying to slow down a good economy, by the time they see evidence that they have actually achieved their goal, they still have several rate increases that haven't yet made it through the system. There you have the making of a recession and bear market in the stock market, then they proceed to rinse and repeat. Seriously – it is a cycle, and one that seems hard to not repeat.

Because the market goes up over time, our investment model was built to give the benefit of the doubt to the upward bias of the market, until it proves that it no longer is in an uptrend. At that point, we reduce risk (sell stocks) and buy conservative (bonds or cash) to preserve capital. Should we need to do that over the next weeks or months to preserve your assets we will, only to wait for the cycle to turn and add risk at hopefully lower prices.

As always, we encourage you to call or email if you wish to have a longer discussion surrounding these or any topics – and certainly we look forward to speaking with you. If you have friends or family that you would like to pass this along to, please do.

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