October 31, 2018

**October: Good, Bad, Ugly**

In election years, October has historically been a bad month for the markets. The S&P 500 has averaged -0.7% since 1950. That’s bad. This year October has been ugly, dropping approximately -7%. The good news is that October typically represents a great time to buy.

When markets correct, they drop 10% or more from their highs, usually stemming from recession fears, or profit recessions, excessive valuations or problematic inflation. These corrections happen even during bull markets. When markets fall into a bear market, they drop 20% or more from their highs. These bear markets usually happen during recessions.

So, is this a correction or a bear market? Time to sell, or time to buy? I believe the markets can see a sharp rebound if our economy doesn’t go into a recession, and therefore it would be a time to buy. Since 1957, when corrections aren’t followed by recessions the average S&P gain six months later is 18.5%. If we are slipping into a recession, we could see over -10% more downside from here and would indicate a time to sell.

I do not expect a recession in 2019, nor a decline in S&P earnings per share (EPS). As I wrote previously, we still have favorable global growth, U.S. tax cuts, and a likely compromise solution with the U.S. and China on tariffs. Nothing has changed except the volatility in the market. This volatility has created opportunity, and I look forward to taking advantage of that.

Time to buy.

George Panopoulos