MCDONOUGH CAPITAL MANAGEMENT
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"You First"

There is no shortage of negative market press floating around right now. Many pundits are predicting calamity right around the corner. The upcoming election has also contributed to highlighting all of the current weaknesses. But why is it that the negative drumbeat grows louder and louder right now. I suspect it has a lot to do with the following chart.

Historically, August starts with a small dip, followed by a peak late in the month.

Then September and October tend to be seasonally negative months for the S&P 500 as evidenced by the chart. The chart averages the S&P 500 performance over the past 37 years.

However, from a trend standpoint, all major averages remain above their short, intermediate and long term trend lines. But what about the seasonal tendency for market weakness over the next few months? Again, I go back to the current trends rather than trying to predict. The trends remain positive so I remain positive. Even the small caps are participating now. I have tried the prediction game and found it doesn't work for me. If the trends change, we will adjust accordingly.

In the meantime, the value of negative-yielding bonds swelled to $13.4tn this week, as negative interest rates and central bank bond buying ripple through the debt market.

The universe of sub-zero yielding debt — primarily government bonds in Europe and Japan but also a mounting number of highly-rated corporate bonds — has grown from $13.1tn last week, according to figures compiled by Tradeweb for the Financial Times. So as QE in Japan and Europe continues, our markets will likely benefit from flows toward the U.S. looking for better returns.

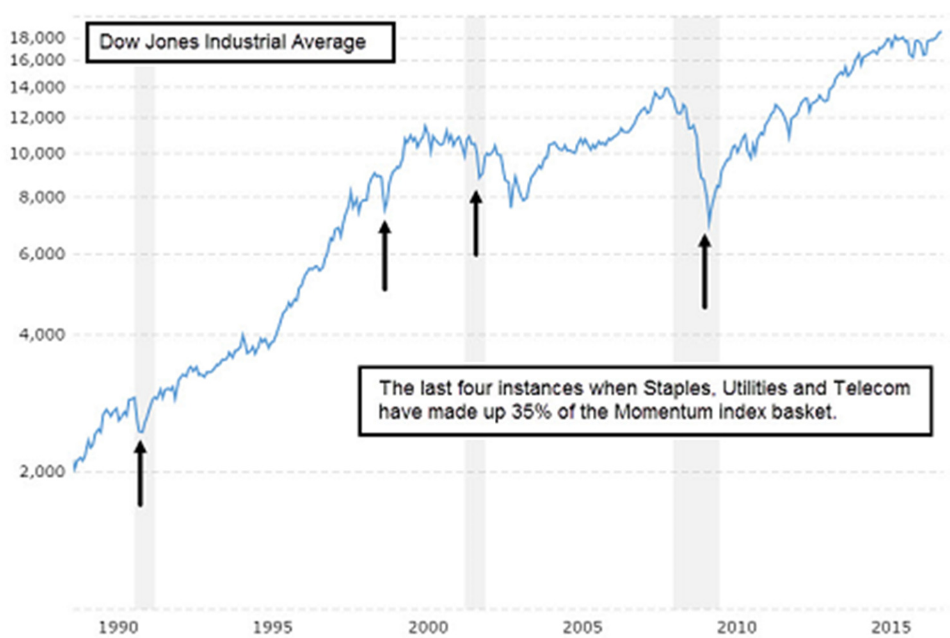
Finally, Barrons mentioned the extreme level of Defensive stocks making up the market's Momentum Index.

Directly from Barron's :

"The S&P 500 traded at a new high last Thursday, continuing a streak of records that began when it finally broke its May 2015 peak on July 11. Since that old high, however, the market's outperformers have been its safest stocks—utilities, telecommunication companies, and consumer staples. That's particularly apparent when looking at the top gainers over the past 12 months. More than 30% of the 100 best-performing equities in the Russell 1000—a group known as "high momentum" stocks—come from defensive sectors. That level has been breached just five times since 1990.

Momentum and safety, however, are strange bedfellows—and their pairing doesn't tend to last. While that could be bad news for investors in utilities, staples, and telecoms, it has historically been great news for the stock market."

Take a look at the following chart for a description of market action following the last 4 instances when Stables, Utilities and Telecom have made up 35% of the Momentum Index basket.



And so with that, should you ever have any questions regarding anything financial please don’t hesitate to contact us at 407-248-9647.

Warm regards,

Edward A. McDonough MBA, CFP® | Principal

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What's Your Risk Number?

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