

October 1, 2019 Investor Update

Overall, September saw assets basically trade sideways as there was some rotation from growth and momentum stocks to value stocks and those most heavily shorted. As usual, the political noise has been deafening and the global economy has continued to struggle. We have been talking for months about how everything appears to be pointing to the late part of the economic cycle and how this warrants a more cautious stance but not completely defensive. This is most likely why the market has really been just churning around since January 2018 while providing some real episodes of indigestion but not breaking down. The problem we face now is that the global weakening over the last 12 months has left very little room for the economy to absorb any negative shocks.

At the time of this writing, it was very curious that the US market was higher as global manufacturing numbers were collapsing overnight with contractionary numbers even worse than expectations. The view was that the US would remain immune as expectations were for a rebound at least back to the 50 level (above 50 is expanding and below is contracting). As you can see around 10 am this ended up not being the case.

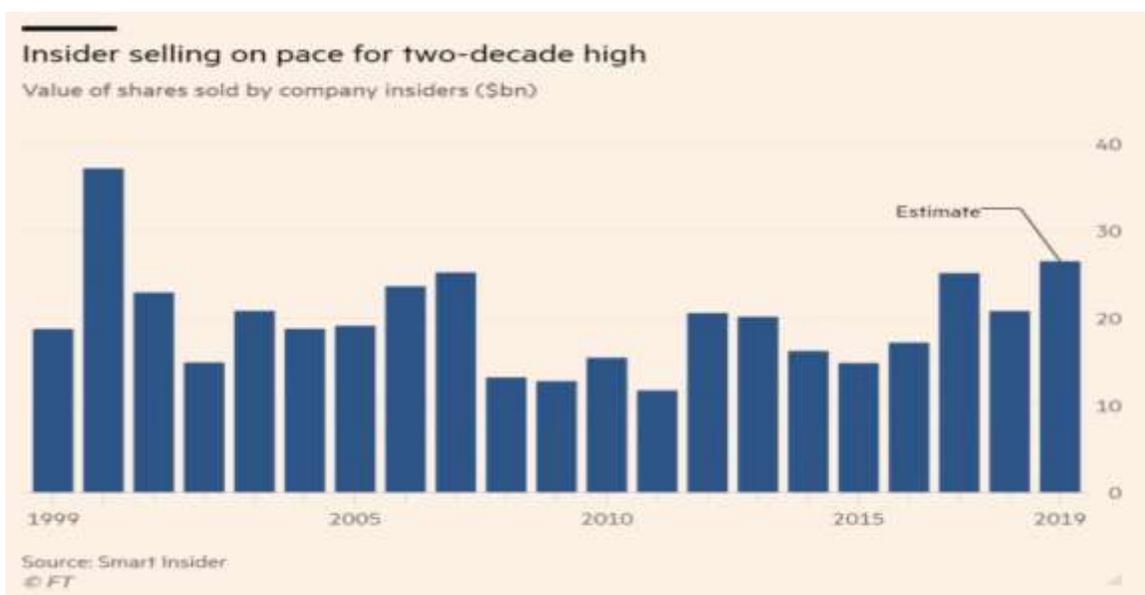


	Date	Time	A	M	R	Event	Period	Surv(M)	Actual	Prior	Revised
21)	10/01	09:45				Markit US Manufacturing PMI	Sep F	51.0	51.1	51.0	--
22)	10/01	10:00				ISM Manufacturing	Sep	50.0	47.8	49.1	--
23)	10/01	10:00				ISM Employment	Sep	--	46.3	47.4	--
24)	10/01	10:00				ISM Prices Paid	Sep	50.5	49.7	46.0	--
25)	10/01	10:00				ISM New Orders	Sep	--	47.3	47.2	--
26)	10/01	10:00				Construction Spending MoM	Aug	0.5%	0.1%	0.1%	0.0%

On the positive side, the rotation we saw in September allowed the breadth of the market to move to all time highs as shown below. The general view is that breadth leads price. While the market as a whole still sits below an all time high, breadth has moved higher and prices should follow later. The important thing to remember with indicators like this is that it is for the very near future, or a few months. Breadth moving to record highs is part of the reason why we only got defensive in July and not completely negative. Should breadth begin to deteriorate this will be the confirmation we need to position the portfolio for a negative market/economic outcome. Right now it is still too early to make the call even with the rising risks.



One last thing that is very interesting is the amount of insiders selling stock. Insiders are corporate executives who have the best information about the fortunes of their company. At a time when companies are borrowing money in order to purchase shares of their stock in the open market, these same decision makers are selling personal shares more than they have since 1999. This seems counter-intuitive, but you need to think about it this way, they are buying shares with someone else's money and selling shares with their own money. Now it begins to make some more sense about where they think things are headed in the intermediate term. Especially when you consider insider pay and bonuses are usually linked to stock price.



Going forward our positioning has continued to remain defensive while waiting for confirmation to get us to turn negative or a catalyst to make us turn positive. This has lead us to emphasize a focus on time horizon for investors. The way it appears right now, the very short term (daily) is headline driven, the short term (months) should be higher based on solid breadth, intermediate term (year or two) is negative based on weakening economy, corporate insiders, and valuations, long term (several years away) is good based on the history and adaptiveness of our economy and markets. While risk and reward are usually the primary focus of investors and advisors, we are urging more attention be paid to time horizon as we enter a very unpredictable part of the economic and market cycle. If you have any questions or would like some more in depth analysis, please contact me at 908-376-3041.

Sincerely,

A handwritten signature in cursive script, appearing to read "Mark R. Painter".

Mark R. Painter, CFA