

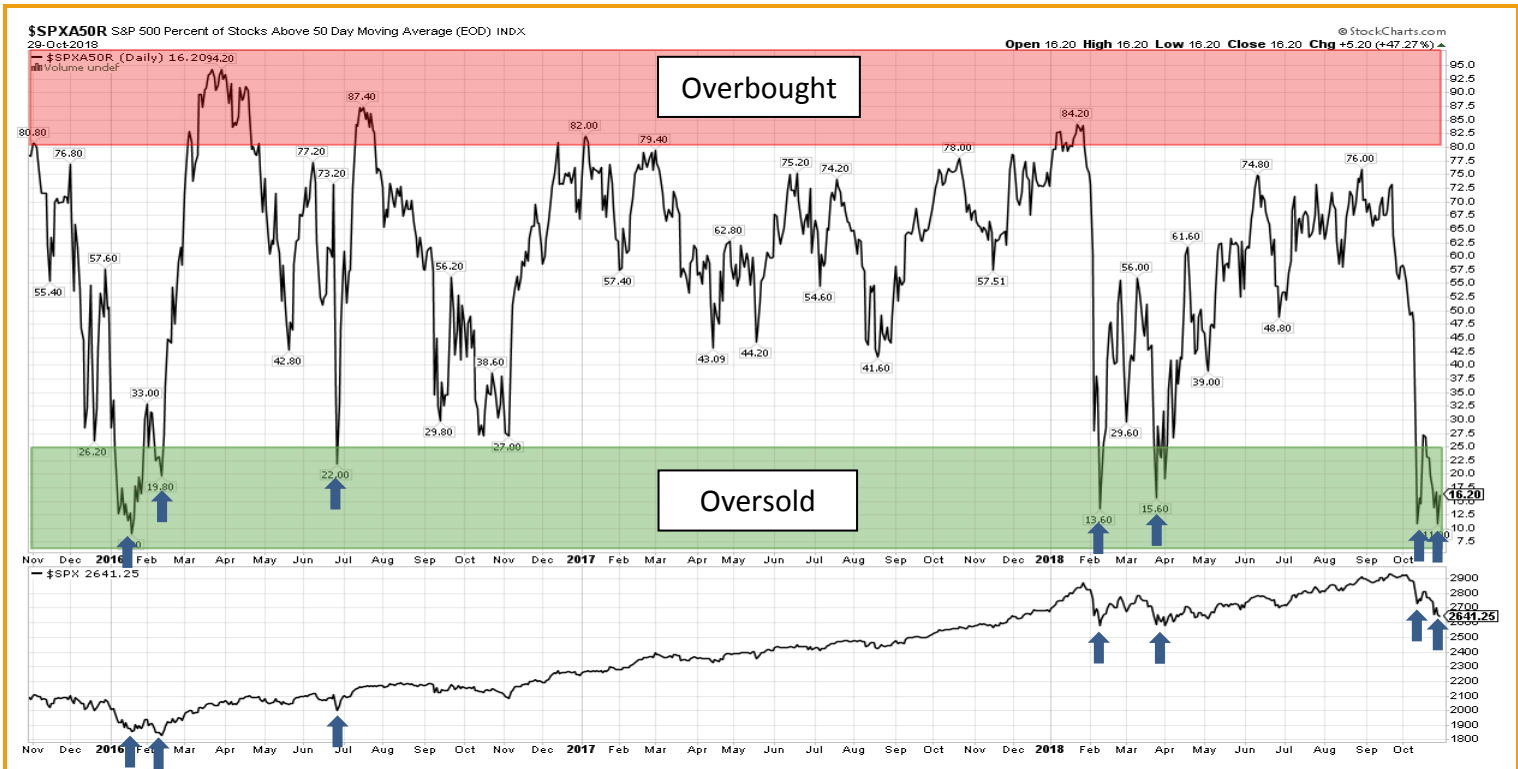


RGB Perspectives

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The stock market continued to decline last week. The S&P 500 Composite Index (large-cap stocks) and the Russell 2000 Index (small-cap stocks) both lost a little over 4% over the last five trading days; the Nasdaq 100 Index (growth and technology stocks) lost almost 6%. The Merrill Lynch High-Yield Master II Index (junk bonds) lost approximately 0.7% and remains below its 50-day moving average. Bottom line is that the market is weak.

On the bright side, the stock market is extremely oversold and due for at least some sort of a bounce. The top half of the chart above shows the percentage of stocks in the S&P 500 Composite Index that are above their 50-day moving average (\$SPXA50R). The bottom is a chart of the S&P 500 Composite Index. Generally, when the \$SPXA50R drops below 25, the stock market will stage some form of rally. It does not mean the market can't continue to decline, but it does increase the probability that the market will form at least a counter trend rally.

Last week, that reading reached 11%, a fairly low reading indicating a deeply oversold market. Note that the market reached these extremes a few times over the last three years (indicated by a) and generally a rally formed in the not too distant future. There is no guarantee that the market will rally from this point, but odds favor that a counter trend rally could develop.

The longer-term trend of the market remains up and I believe the current correction still represents a correction within an ongoing bull market. There is a lot of uncertainty in the markets with mid-term elections, trade wars with China, and a Federal Reserve that is focused on tightening monetary policy. When some of this uncertainty is removed (i.e. mid-term elections are next week), the market volatility may subside a bit and put us in position for a year-end rally. If there is any positive news on the monetary policy or trade war front, it could propel the stock market higher.

This has been a challenging month for the market and for the RGB Capital Group investment strategies. Although the Conservative and Flexible strategies are positioned with volatility that is less than that of the market, they have both experienced some declines. The new, Flex+ strategy that is more closely aligned with the overall market has performed in sync with the overall market.

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