MADISON PARK
CAPITAL ADVISORS

WEEKLY MARKET UPDATE

April 23, 2019

A Belated Update

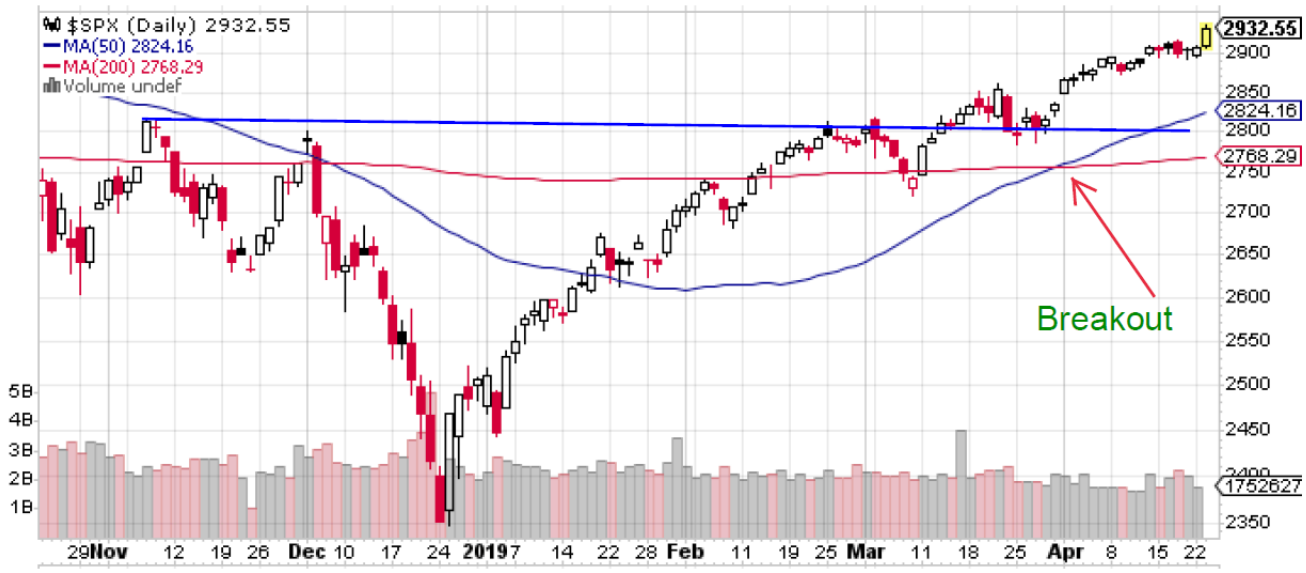
We are entering the heart of earnings season this week as some of the biggest companies will be reporting their Q1 earnings. Facebook, Microsoft and Amazon are among the bigger ones reporting in the next couple days. Earnings expectations have come down as analysts have lowered their forecast and are now expecting -4.3% earnings growth. If so, this would be the first time since 2016 that we have negative earnings growth (year over year). What's particularly amazing is that while earnings expectations have been coming down, the market has been generally trending higher as we have had one of the best quarters in a decade. Of course, that is on the heels of the worst 4th quarter since 1931, and so much of the upturn in Q1 was simply recovering from that historically bad quarter that preceded. As of today, we are just now tickling the all-time highs made back in September.

We have seen consistent outflows from equities since 2008 and continue to see investors making emotional decisions about their money at exactly the wrong time. Meaning, selling low and buying high. We find that a very hard way to make money, so we want to take the opposite path. With the FED neutral to lower on rates, assuming that inflation doesn't come roaring back (which we don't forecast at this point), the markets should continue in a generally upward fashion. Our friends at Riverfront have a 3-legged stool for evaluating the market. Those 3 legs are: 1) Don't fight the FED, 2) The trend is your friend, and 3) Beware of the crowd at extremes *(by the way, a great book to mention here is 'Extraordinary Popular Delusions and the Madness of Crowds').*

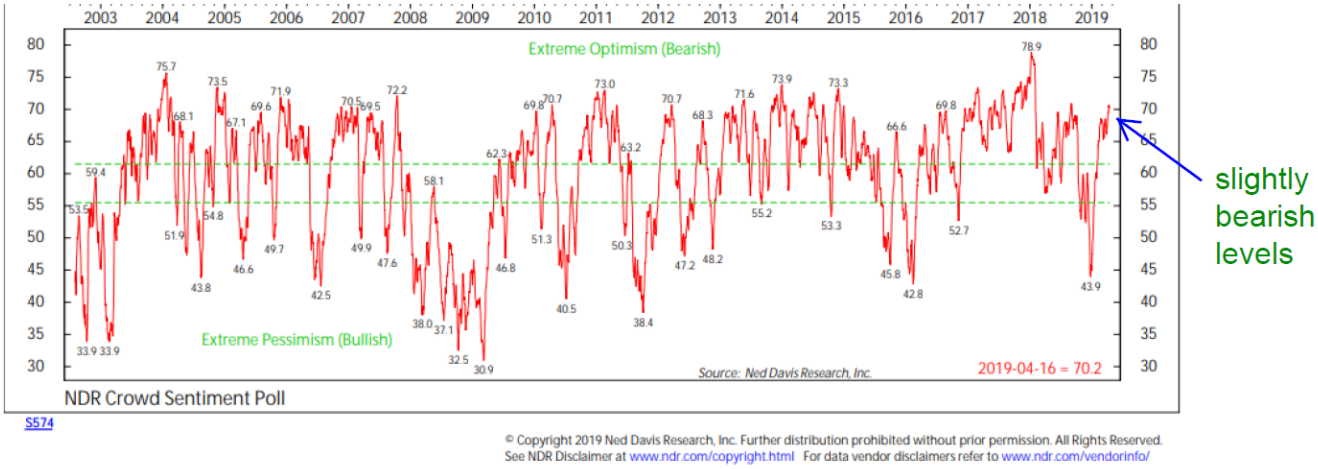
Where are we at with the 3 legs of the stool?

1) **Don't fight the FED:** The FED has stopped raising rates, may cut rates in the future, and said they would stop Quantitative Tightening (QT) in September. That is ***generally positive*** (unless the pull a 180 like they did in December).

2) **The Trend is your Friend:** The trend is generally positive, with the 50-day moving average (blue line) above the 200-day (red line), and the 200-day finally moving upward again after many months of flat to down. We would give this a ***cautious positive***.



3) **Beware of Crowds at extremes:** The crowd is not at extremes, but certainly is overoptimistic. While investors can get more "bullish," this is something of a cautionary flag for us to watch as the market unfolds. We would give this a ***slight negative***.



Overall, we are ***cautiously optimistic***, but we do have some 'dry powder' in case the market pulls back and gives us an opportunity to pick things up at a better entry point. With money market paying over 2% now, sitting in cash is not quite the headwind that it was several years ago.

So what's next? A move to all time highs seems likely with the potential for FOMO (fear of missing out) taking over and getting a blow-off top over the next 6 months. Just a guess, and since we don't like guessing with your capital, we'll continue moving forward with our disciplined process designed to participate and protect.

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