

October 18, 2018

Good Morning,

As I wrote last week, it was a nasty one for stocks. The S&P 500 finished down 4% despite a decent rally on Friday. While there were certainly some concerns among investors, the sharp selloff was most likely influenced by programmed trading (known as algorithms) which trade with market momentum in large blocks of shares. This has the impact of accelerating stock movements – up or down. In the case of last Tuesday and Wednesday, the “machines” took over and dumped stocks as buyers disappeared. The resulting lower prices created some buying opportunities which fueled this Tuesday’s strong rally.

Remember that stocks ultimately trade on earnings. Q3 earnings season has started and initial results look very good. We expect companies with strong earnings growth to be rewarded with higher prices. Those that miss their targets, or guide lower going forward, will be taken out to the woodshed. (As IBM was on Wednesday.)

As you know, I support the Trump Administration’s tougher stance on trade with China. Our current trade agreements were established some 30 years ago in an effort to bring China’s economy from third world status to modern. Back then, it was Japan that had the US concerned about trade. Things have changed fast. In 2008, China’s economy (\$4.5 trillion) was smaller than Japan’s (\$4.9 trillion). In 2018, China’s economy (\$12 trillion) is more than twice the size of Japan’s (\$5 trillion). Along with the elimination of state-sponsored patent theft and corporate espionage, it’s time to update the agreements with China.

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http://www.commonwealth.com/RepSiteContent/weekly_comm/commentary_redirect.htm

As always, if you would like to discuss this or anything regarding current market conditions or your portfolio, feel free to contact me at any time.

Have a great week,

Wade

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