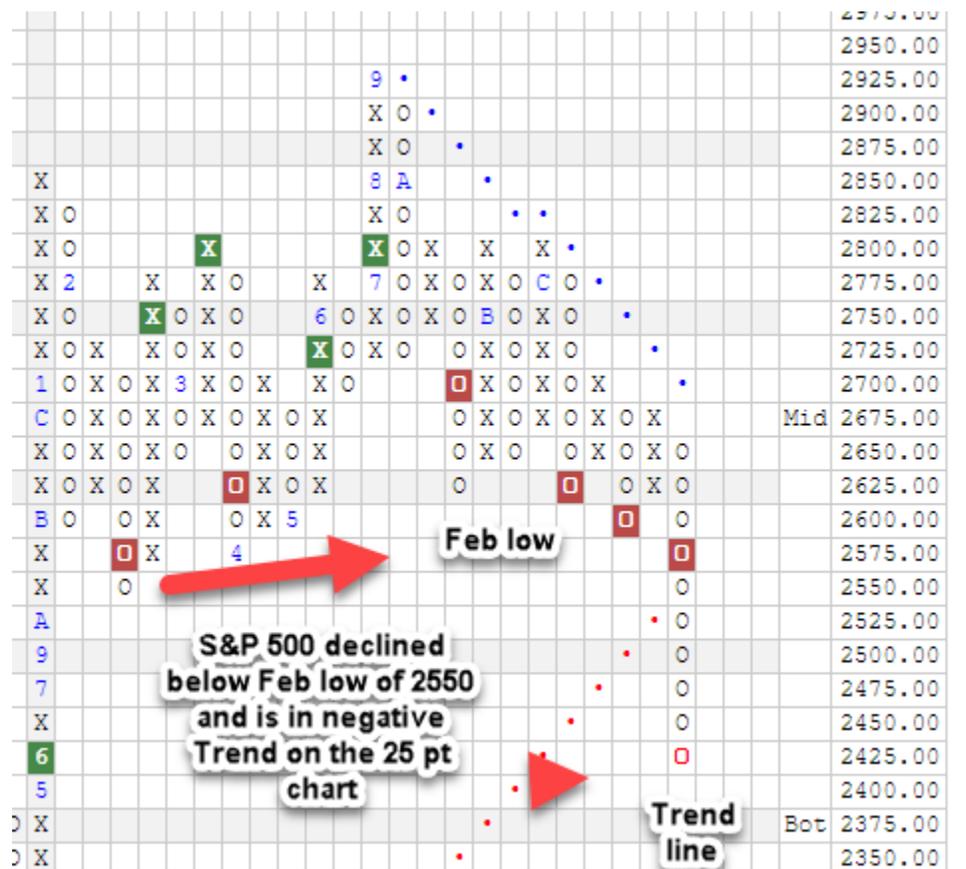
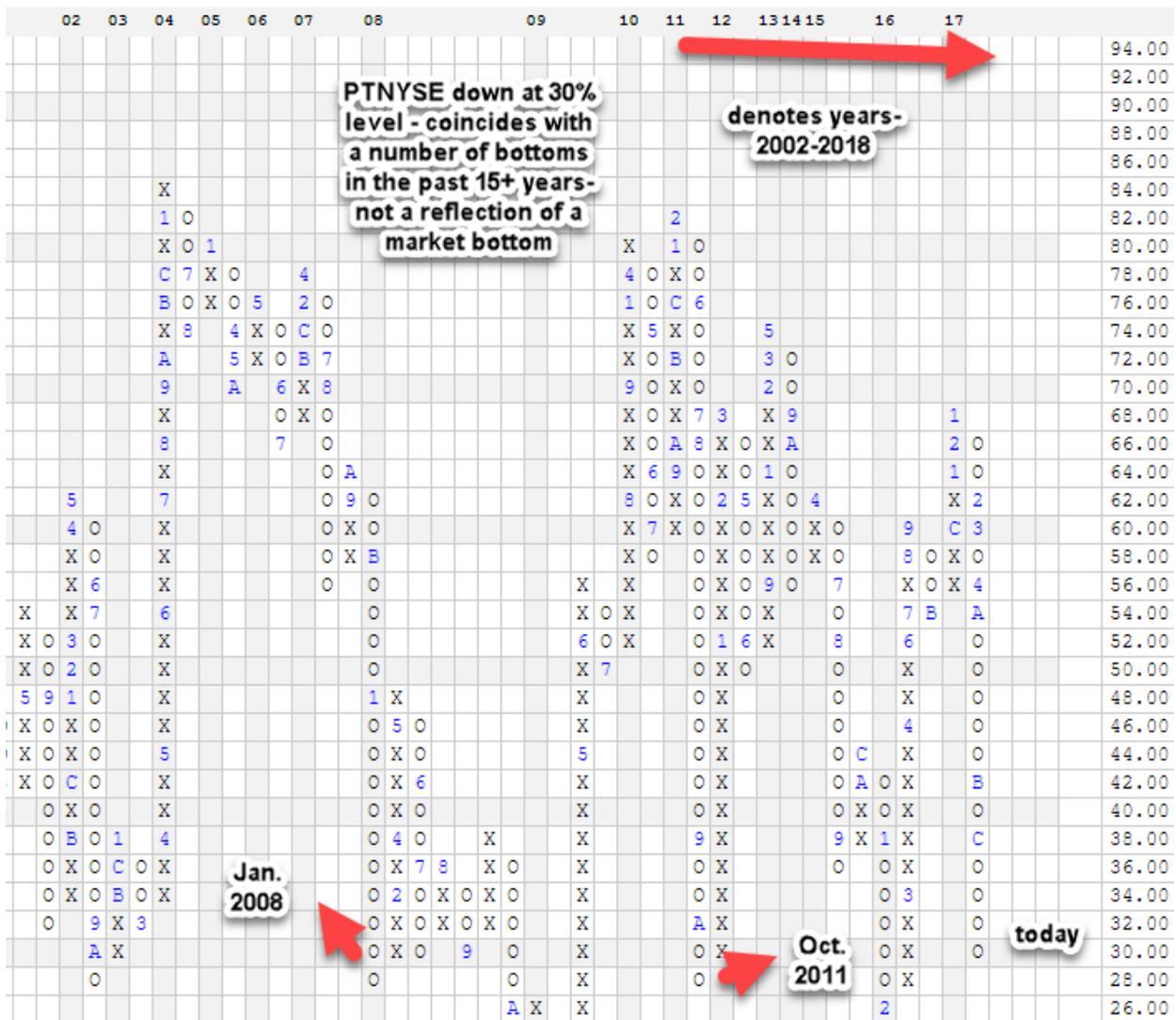


Risk Levels Remain Elevated

As we mentioned at the beginning of October, the US stock market has been climbing a wall of worry since January this year and even went to new all time highs in September – seems like such a long time ago. However, the breakout to the upside in September was quite brief in duration and **last week we experienced a significant break to the downside on many markets** but the widely followed US S&P 500 broke through it's major February support leaving a lot of room to the next area of downside support which is coincident with the breakout following the US Presidential election in November 2016.



Many of our leading indicators are at “opportunity” or depressed levels not seen since previous significant market pullbacks in 2016, 2011, 2008, 2001, and 1998. The immediate response here is always unknown but we first need to see some positive movement to the upside to assess a response to the upside. Currently there is more selling than buying. We have discussed many times in the past about the main indicators falling below the 50% level after being above this level for an extended time period. The Postive Trend Indicator for NYSE or PTNYSE has only made this movement a handful of times as indicated above and in prior blogs. This movement below 50% was once again not an exception to previous market action - ie the S&P 500 became oversold.



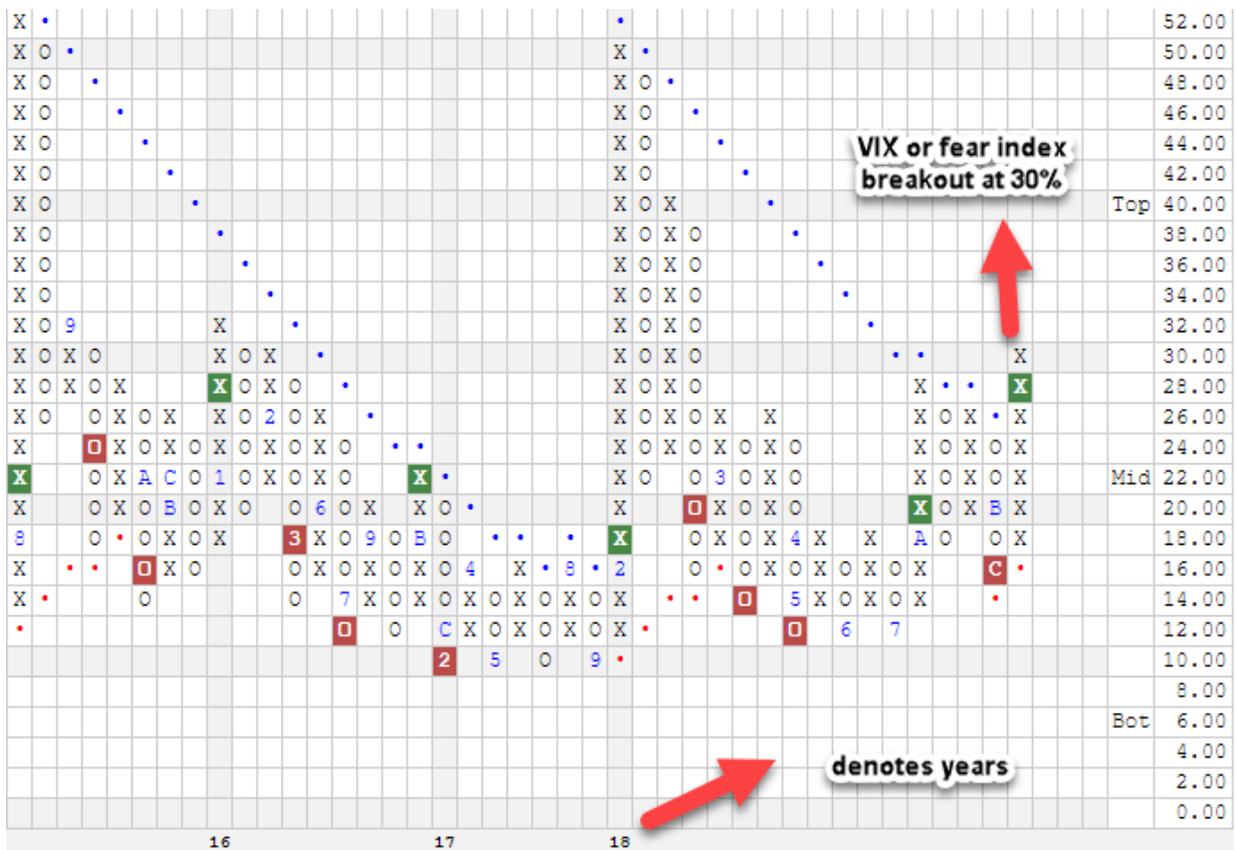
We also experience a significant first buy signal for cash or money market over the S&P 500 based upon the Point & Figure methodology. The last time that happened was in 2008-2009 and also during 2000-2003. This cash buy signal is the first buy signal that we need to monitor. **In the prior two negative stock market cycles, there were multiple buy signals.** One signal is certainly significant but each market is different and one could certainly claim that the 2000-2009 time period is different than the current period. However, it certainly needs to be respected.

2					0.5995
6		X			0.5806
9		C			0.5623
B	2	B			0.5446
C	X	O	X		0.5275
1	X	O	X		0.5109
0		B			0.4948
					0.4792
					0.4641
					0.4495

12 16 17
13 18
14
15

Cash vs. S&P 500 on a buy signal

Finally, it is not surprising that the S&P 500 volatility index or fear index, VIX, is at a sensitive potential breakout point on December 21, 2018 where the debate will range from more fear selling or a great buying opportunity. As usual, nobody knows the immediate outcome but risk is very high which can create opportunity or further immediate downside. Remember, the next area of support for the S&P 500 is much lower.



I would suggest that we are likely to see some large movements in price movement going forward. The very recent movement has mostly been to the downside. As or **when that downside movement reverses, we will be able to reassess and potentially look for upside opportunity.** It remains a time of elevated risk and one should respect the environment you are in. Investment time horizon is of paramount importance during any time but especially now.

Please remember we never know which way the market will go in the short, medium and long term but we can adjust our sails to reflect the current market environment.

Please call or email with any questions

Point & Figure Charts and stock market data provided by Nasdaq Dorsey Wright

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