Churchill Management Group

Monthly Market Update

November 6, 2018

TACTICAL STRATEGIES

PREMIER WEALTH TACTICAL & PREMIER WEALTH TACTICAL CORE

October lived up to its reputation as the stock market's most volatile month of the year. All the major indices sold off and officially entered intermediate correction territory before bouncing off the lows. An intermediate correction is where the major indices fall at least 10% from the highs on an intraday basis.

The technical damage to the market was extensive, and is expected to take some time to repair. The Dow, S&P 500 and Nasdaq all fell below their 200-day moving averages in October, and, so far, only the Dow has reclaimed that benchmark line.

The major indices also broke their longer term uptrend lines as volume picked up markedly. In addition, the number of stocks hitting new lows spiked.

The two major concerns continue to be the Federal Reserve and trade. The Fed is now a double-barreled headwind, with the raising of interest rates combined with its balance sheet reduction. In fact, the selling began on the day Chairman Jerome Powell said "we're a long way from neutral" in terms of interest rates.

The future of international trade remains uncertain. The market is starting to realize that a resolution may take much longer than originally thought. The tariffs that were supposed to be leverage for the negotiating table are beginning to affect Main Street, as one-third of companies reporting earnings have cited higher prices as a result of tariffs. Negotiations with Europe and China will be much harder than those with Canada and Mexico.

We called this market a later-stage technical rally because the fundamental and sentiment indicators had raised enough red flags to give us concern. However, it had not yet been confirmed by the technicals, which until last month, had remained strong. The technical damage we saw in October led us to promptly go into capital-preservation mode.

Will this market recover and extend what is already the longest bull market in history? Or will this end up being part of a topping process leading to a bear market? The answer is yet unknown. But our job is to protect capital if the risks become elevated, and we are clearly in a period of heightened risk.

Only time will tell which way the market goes, but regardless, our minimum expectation is a lengthened period of volatility. Should this end up being a bear market, the good news is that we will have a great buying opportunity to look forward to down the road.

TACTICAL OPPORTUNITY

Troubles in the market did trigger some sell signals in October, leading to an increase in cash holdings in the portfolio. We currently have 23 positions in what would be a portfolio of 35 holdings if fully invested. Recent arrivals Starbucks and Cigna held up best during the month. Amazon, a long-term winner, is showing trouble, but we are trying to be patient with this core holding.

FULLY INVESTED

ETF SECTOR ROTATION

Tech lead the headlines last month – and for good reason. The sector was down around 10%, compared to the market’s 7% decline. However, Industrials were down just as much, and the worst-performing sector was actually Energy, falling over 11%. Hurt by a tough month for Amazon, Consumer Discretionary stocks were also weak. The best sector was defensive Consumer Staples, which managed a 3% gain in a difficult environment.

Broad markets were down across the board, with Value holding up better than Growth. Small Caps flashed sell signals during the market turmoil, and we moved those positions to neutral for now. While Internationals were down slightly less than U.S. stocks, we continue to have an “Avoid” for the group.

EQUITY GROWTH AND VALUE

Individual stocks certainly reflected, or even exaggerated, the general market turmoil. Apple, Google parent Alphabet, and Amazon – all previous leaders – had tough months as their P/Es reset a bit after their latest earnings reports. The few winners to be found in October were the defensive holdings.

As with the Equity Dividend strategy, tax-harvesting opportunities were taken advantage of in October by selling some short-term losers. While trying to remain as patient as possible, we also made some moves to rotate out of weaker holdings. Quick rotations among leading groups at the initial signs of weakness can sometimes lead to whipsaw action.

EQUITY DIVIDEND INCOME

Dividend stocks were not immune to the market volatility in October, although they did hold up better than the indices in general. Rotation did increase as some stop-losses were triggered and certain tax-harvesting opportunities were executed. We will continue to look for the best opportunities we can find within the group.

For a full description of each strategy, please click here.

Best regards,

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