October 31, 2018

Mid-Quarter Update
Via email

Dear Clients,

As you may have noticed from the few non-political headlines the S&P 500 as well as our portfolios declined approximately 6.8% for the month with the brunt of the decline seen in the technology sector, with the NASDAQ index falling 9.1%. We felt the October stock market swoon deserved a mid-quarter update to put the decline in context and to reinforce our investment strategy and intended tactical execution.

The general attribution includes ongoing trade frictions, the continued path of projected interest rate hikes, frothy mid-term elections, out of favor FANG stocks, and the maturation of the current growth cycle and 10 year bull market in US equities. These are known issues, no real surprises in the lot, nothing that investors haven't discussed, evaluated and re-priced well before October. There is no concrete explanation; corrections happen, the pendulum swings too far in either direction and emotional behavior begins to dominate portfolio decisions at the expense of reasoned investment process. Current heightened volatility has not helped and can "wear out" investors and adversely influence strategic thinking.

Market history shows that sharp initial drops are the norm for the standard correction, defined as a decline of at least 10% from a recent high. On average, full recoveries follow within six months and rally within a year. In fact, following the 10 largest 35-day selloffs, stocks ended up bouncing back in nine cases. Only one eventually turned into a bear market. These typically start with controlled gentle drops continuing over an extended time frame. One of the most reliable indicators of a downturn, an inverted yield curve, is not present today and should comfort investors regarding October's sell off.

Supporting continued investment includes positive corporate growth fundamentals, robust gross domestic product growth, low unemployment and high consumer confidence figures. Consensus estimates for 2019 S&P 500 earnings per share have actually increased this month amid quarterly earnings reports. We believe that corporate earnings drive long-term stock gains and have maintained our invested posture. We will continue to trim poor fundamental performers, add to existing positions at better prices, and include new positions with significant upside as a result of recent declines.

We believe this is a correction in an ongoing bull market. Inevitably, the cycle will reverse and more frequent corrections and volatility should be expected as the growth cycle matures. We will exercise patience as we await evidence of a selling capitulation and positive flows into the market. As always, please do not hesitate to contact us if you have any questions. Thanks.

Best regards,
Beech Hill Advisors, Inc.