Polaris Greystone FINANCIAL GROUP, LLC

Polaris Greystone Educational Series

For more information or to schedule an introductory consultation contact us at: info@polarisgreystone.com I (800) 268-9046 I www.polarisgreystone.com

Retesting Lows & Retesting Nerves

Here we sit just a few days away from Thanksgiving with all three major indices at or below their recent October lows. While we are not quite at the lows experienced earlier this year in February and April, the past few days have many of you concerned about a further deterioration in the markets. We understand. The most recent negative price action has dragged all major indices into negative territory for the year, and your portfolio has suffered along with it.

Sentiment is the only thing driving these markets down. Investors are worried about everything from higher interest rates, a strong dollar, oil prices going higher (higher cost of operations and an inflation gauge), oil prices going lower (the negative impact to the oil industry), the US-China trade war, concern about an economic slowdown, concern about the global economy, additional Federal Reserve Fed Fund hikes, or whatever is making news on any particular day.

Throwing the Baby Out with the Bathwater

The average investor is feeding off of the negative sentiment of the market and selling out of their entire portfolio. They are worried about what might happen in the future rather than looking at what is currently happening. There are so many positive things going on that it has made selling very difficult.

- As of November 16th, 92% of S&P 500 companies had reported earnings. 78% of these companies reported a positive earnings per share surprise. Actual earnings growth has been 25.7%, well above the 19.4% expected growth rate.
- The forward 12-month P/E ratio is 15.6, below the 25-year average of 16.1. This is as a result of the S&P 500's correction and the excellent earnings reports.
- Last quarter, the United States reported GDP growth at 4.1%, giving it a 2.9% annual growth rate. This is well above 2.3% average growth rate we've experienced since the Great Recession.
- The Index of Leading Economic Indicators shows no signs of slowing or of a recession in our near-term future.
- Goldman Sachs' research places a 50% probability that the S&P 500 finishes the year at 2,850. That would be an almost 8% pop in the markets before the end of the year. In other words, we'd experience a Santa Claus Rally.

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Patience Is A Virtue

Historically, sentiment-driven corrections are short-lived and are quickly forgotten. We are trying our very best to remain clinical, disciplined, and patient during this sentiment-driven market. This patience has created some short-term losses in your portfolio. The difficulty of this year is that non-dividend payers have significantly outperformed dividend payers. The Russell 1000 Value (large dividend payers) was only up 4.36% for the first nine months of the year, while the Russell 1000 Growth (large non-dividend payers) was up 18.23% during the same period. When looking at a benchmark like the S&P 500, realize that most of its 7.20% price return came from companies we don't invest in (save one investment strategy).

Our hope is this sentiment-driven correction is like corrections of days past. We will recover our losses quickly. Those who have sold will be too skeptical to put their money back in the market until it's too late.

Price Doesn't Lie

One of my favorite financial phrases is from the economist John Maynard Keynes: "the markets can remain irrational longer than you can remain solvent." Investing is a tricky business. It's not about being right. It's about being right at the right time. The S&P 500 is sitting on a support level. If we break that support level, the S&P 500 will most likely retest the lows in February, which is only a drop of 2.3%. If we don't hold at this level the markets are at risk of substantially larger losses for no other reason than people are nervous.

We've tried to be patient, but if this market does not want to hold its ground here, you will see Polaris Greystone get aggressively defensive with your portfolio by selling what we feel are the investments in your portfolio at the greatest risk of further downside. We will sell incrementally. Getting defensive is only half the equation. If we are forced to sell, we will need to determine a good re-entrance point.

As always, I welcome your questions and comments. Happy Thanksgiving!

Sincerely,

Jeffrey J. Powell
Managing Partner and Chief Investment Officer