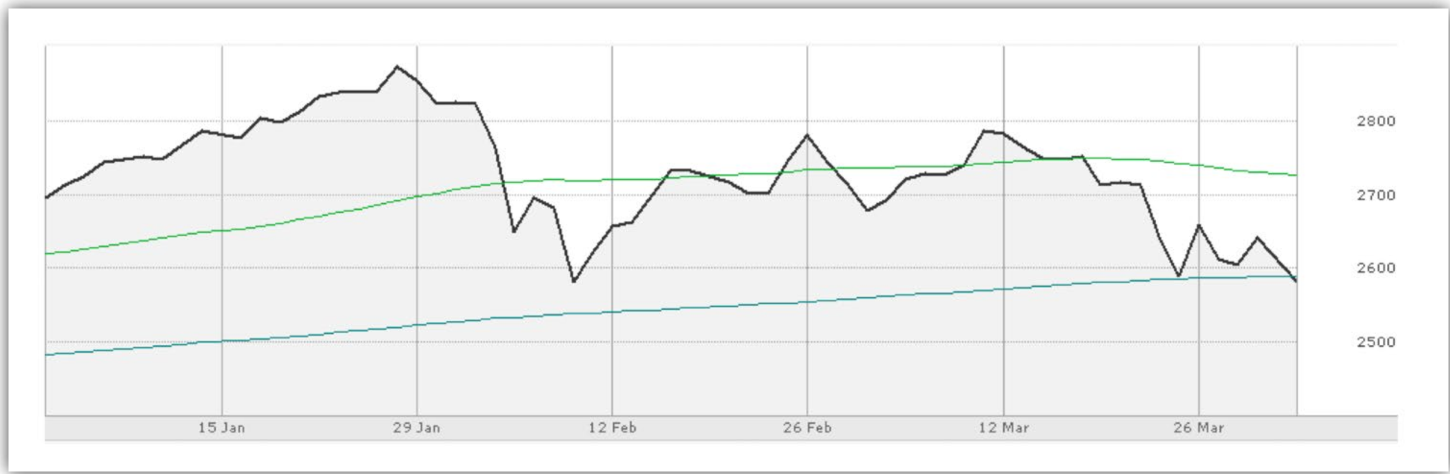
Polaris Greystone FINANCIAL GROUP, LLC

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

Time to Sell or Buying Opportunity?

After stock prices peaked on January 26th, the S&P 500 has dropped from its all-time high of 2,872.87 to 2,581.88 on April 2nd (as I write this email to you). This is a 10.13% drop from the high, but only a decline of 3.43% from where the S&P 500 began the year, at 2673.61. Should you be concerned? Should you get defensive and sell some of your stocks? Or is this an opportunity to buy at a great price?



Fundamentally, Nothing Has Changed

The most recent economic data shows the United States economy, known as Gross Domestic Product (GDP) is growing at an annual rate of 2.9%. This is above historical norms. The government has cut taxes for most Americans and corporations. This should further boost the economy. Inflation is at 2.4%, a very manageable figure. According to the Bureau of Labor Statistics, unemployment is at 4.1%. Wages increased 2.9%, the strongest increase since June 2009. Even though the Federal Reserve raised rates, they are still at a historically low rate of 1.50%. Fourth quarter 2017 saw the S&P 500 report record earnings, and the expectation is for even stronger earnings for first quarter 2018. Things look strong abroad. According to the International Monetary Fund (IMF), the global economy is growing at 3.7%. Again, this is above historical norms.

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So Why is the Market Dropping?

The easiest way of putting it is the market's drop is a sentiment driven sell off. Meaning, that people are afraid and they are allowing their emotions to drive them to sell into an already declining stock market. The VIX index, which measures volatility, has now moved to above average territory finishing today's market at 23.62. This is well below the reading that we were getting in February, when the VIX hit 50, but above the historical average of 20. Several of our sentiment readings are at levels often seen at the bottom of markets. These "fear" gauges help us understand the mood of the general investor which in turn helps us to better understand short-term price movements in the markets. Again, most of our readings are showing extreme pessimism which is typically found at the bottoms of markets.

Most of the fear in the markets is being driven by the fear of a trade war erupting. As we discussed in our last **education email**, we believe the likelihood of a full-fledged tariff war with China is very unlikely. We believe that it will take tough rhetoric, and perhaps several salvos shot by both sides, to bring the Chinese to the negotiating table. Trump struck first with $50 billion in steel and aluminum tariffs. While China was not directly named in the tariff, it was widely understood to be a tariff to stop the "dumping" of steel and aluminum on the open market. China responded with $3 billion in new tariffs directed solely at the United States. A total of 288 products now have new tariffs on them, mostly in food products. This was a very passive response to the tariffs we placed.

What Happens From Here?

While there may be some additional downside in the markets and volatility could continue to rise, we feel that there is no reason to panic and sell at or close to the market's lows. You would be falling prey to a very common mistake that investors make, allowing your emotions to dictate your investment decisions. We want to buy low and sell high, not the other way around.

We already took some defensive measures in all of our strategies several weeks ago. Our hope is that the markets hold on here at the 200 day moving average, which is typically a strong support level. If they do hold here, we will be looking at buying into this pullback as soon as we get confirmation that the trend has reversed.

If the markets don't want to hold at these levels, we may be forced to get more defensive until the negative sentiment settles down. Fundamentally, everything looks great. It is the negative sentiment that has turned many of the market's technical indicators neutral or in some cases negative. We will be looking for a good entry point to invest into a market that is lower today than where it was two months ago.

As always, I welcome your questions and comments. I encourage you to meet with your Polaris Greystone wealth advisor to keep up to date with our service offering.

Sincerely,

Jeffrey J. Powell
Managing Partner, Chief Investment Officer