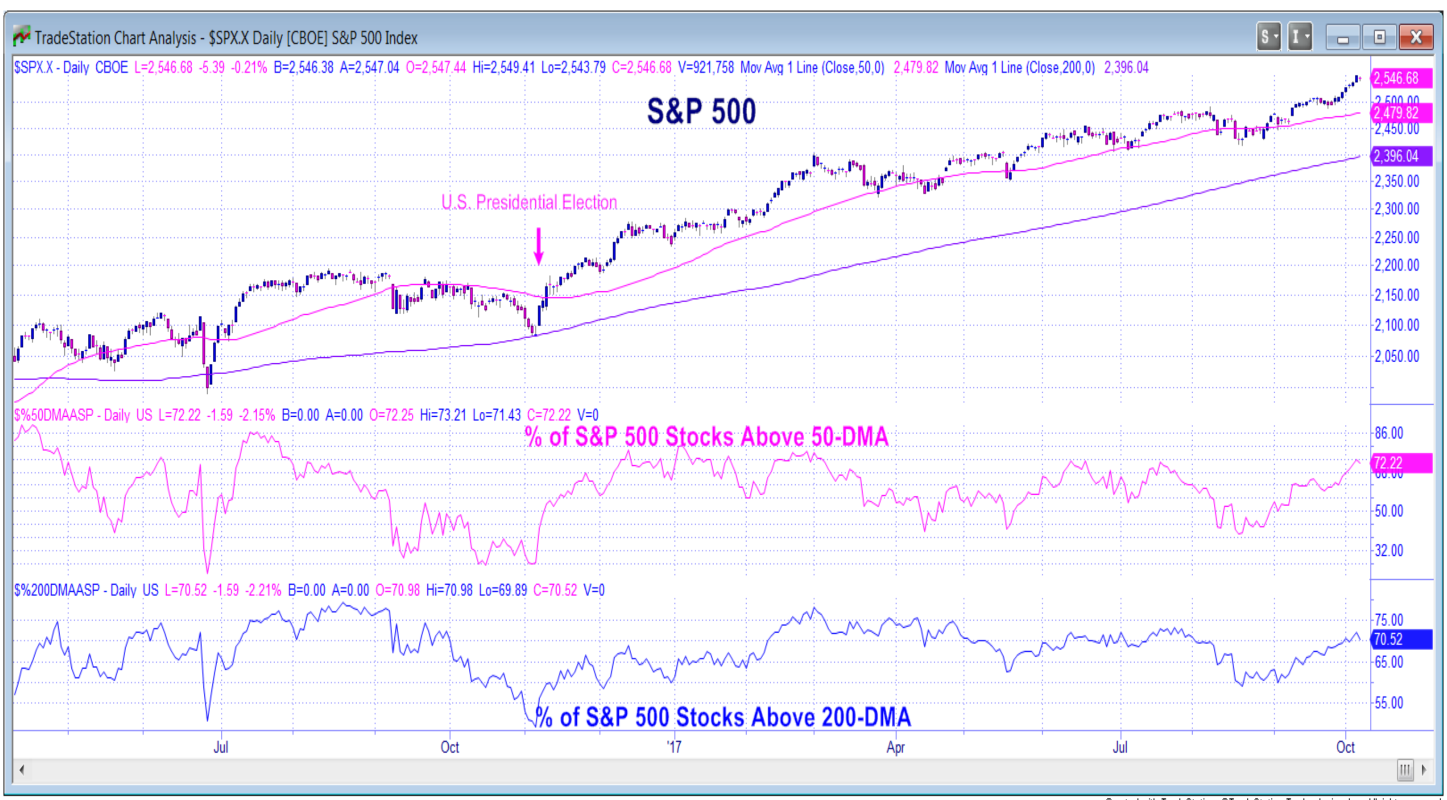
Titan Capital Management, LLC
Global Market Letter

October 6, 2017 **Abe Askil, CFP®**

FED TO UNWIND BALANCE SHEET

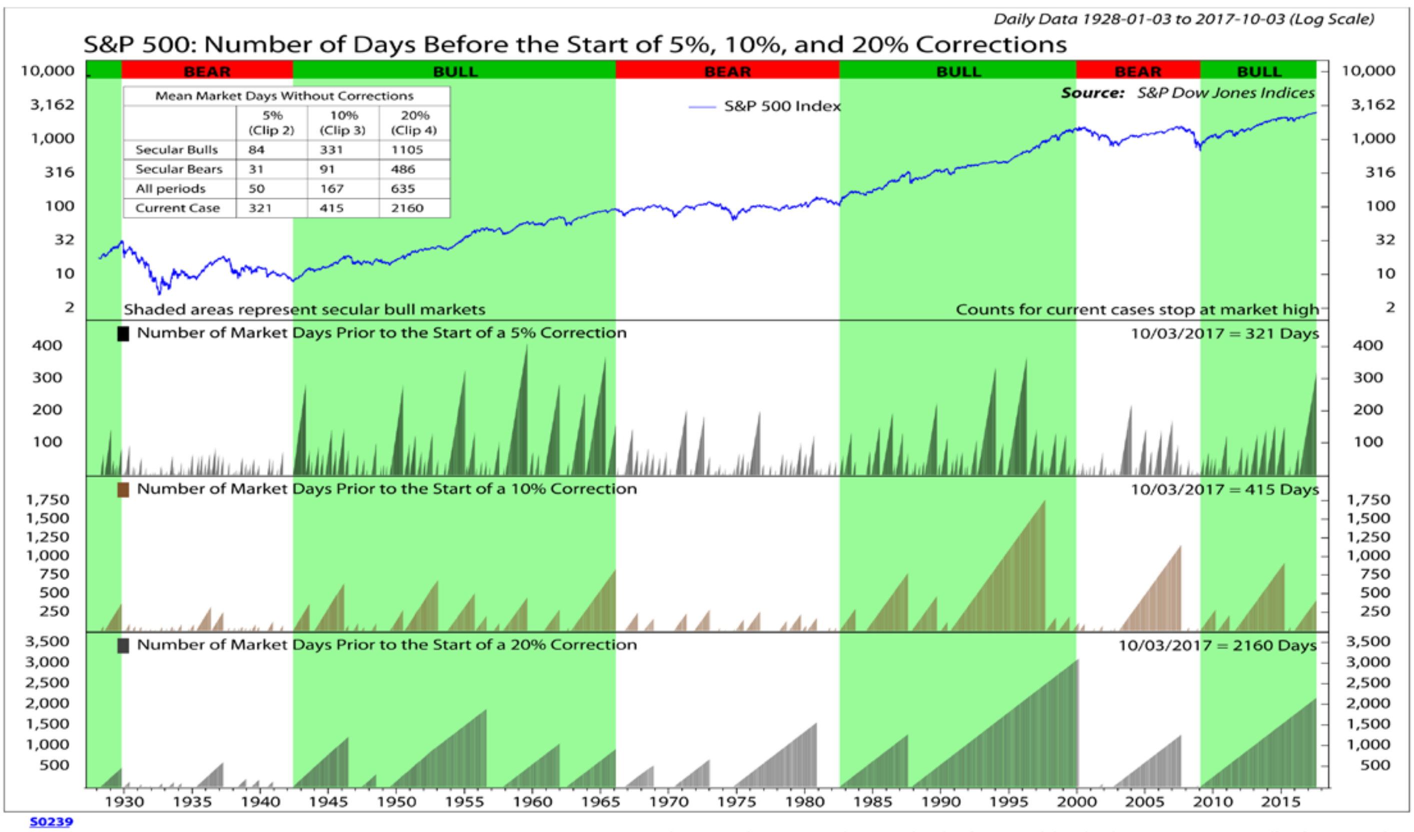
The Fed announced on September 20th that they will begin reducing (normalizing) their $4.5 trillion balance in October. They will start by allowing bonds to mature at a rate of $10 billion per month and will increase the rate at 3 month intervals over 12 months until they reach a total of $50 billion per month. A runoff of $50 billion per month (after the first year) will be equivalent to $600 billion per year which is substantial. This process is the opposite of Quantitative Easing (QE) and is a form of monetary tightening. If the Fed stops buying bonds and allows their bonds to mature, it could drive long-term interest rates higher. The Fed has raised short-term interest rates 4 times during the past two years. If they continue to raise short-term rates this is also a form of monetary tightening. The markets and economy have historically handled monetary tightening to a point, but eventually as rates move higher the economy and most asset classes have turned lower. Given that the markets have been artificially propped up since 2009 by global central banks via QE and Zero Interest Rate policies, it will be interesting to see how markets react as this stimulus is taken away. I suspect that it will have quite a negative affect at some point, but we shall see.

The stock market has had a nice rally since the November 8th 2016 presidential election. The S&P 500 has risen 19%, the Dow Jones Industrial Average is up 24% and the NASDAQ is up 29%. Stocks are overbought in the short, intermediate and long-term time frames. However, the market is healthy at this point based on improving breadth and broader participation amongst stocks. The chart below shows that 72% of the stocks within the S&P 500 are above their 50-day moving averages and 70% of stocks are above their 200-day moving averages. Generally, whenever these indicators are above 50% it means that the bulls are in control and it is positive for the market. When the indicators are below 50% it means that bears are in control and it is generally negative for the market. As of today the market is in an uptrend and based on the market internals the current rally appears to be healthy. There very well could be a pullback or correction at some point in the near future due to any number of issues related to monetary policy, fiscal policy or geo-political issues such as North Korea.



STOCKS OVERDUE FOR CORRECTION AND BEAR MARKET

Stocks are long overdue for a pullback, correction and bear market. A pullback is generally a 5% to 10% decline, a correction is a 10% to 20% decline, and a bear market is a drop of 20% or more. The chart below indicates that stocks are long overdue for all three. Historically stocks have had at least a 5% pullback every 50 trading days on average, but the current rally has gone 321 days without a pullback. Corrections of at least 10% have been seen every 167 days on average, but the market at the moment has gone 415 days without a correction. Historically, the market has declined 20% or more every 635 trading days or once every three years. The market has risen for 2160 trading days or 8.5 years without a bear market. I have mentioned before that this is the second longest running bull market in history, second only to the bull run from 1990 to 2000. The market is stretched in every timeframe and it’s just a matter of time before we see a pullback, which will turn into a correction and then a bear market. As I have explained many times we don’t know exactly when this will happen, but it will happen. This data shows that we are closer to the end of the current bull market than the beginning. We hope to capture as much of the upside that is left in the current rally and to avoid the bulk of the losses that are sure to come when the bear market arrives at some point in the future.



THE BOTTOM LINE

Our trend models Alpha and Omega are both positive. The market has been very resilient in the face of bad news and the worst two months historically. The current bull market is long in the tooth, but as long as stocks are rising we will stay fully invested. However, when the market rally ends and our models turn negative we will exit out of stocks and move into other asset classes in order to avoid the large losses that will most likely rival those of 2000 and 2008 at some point.

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