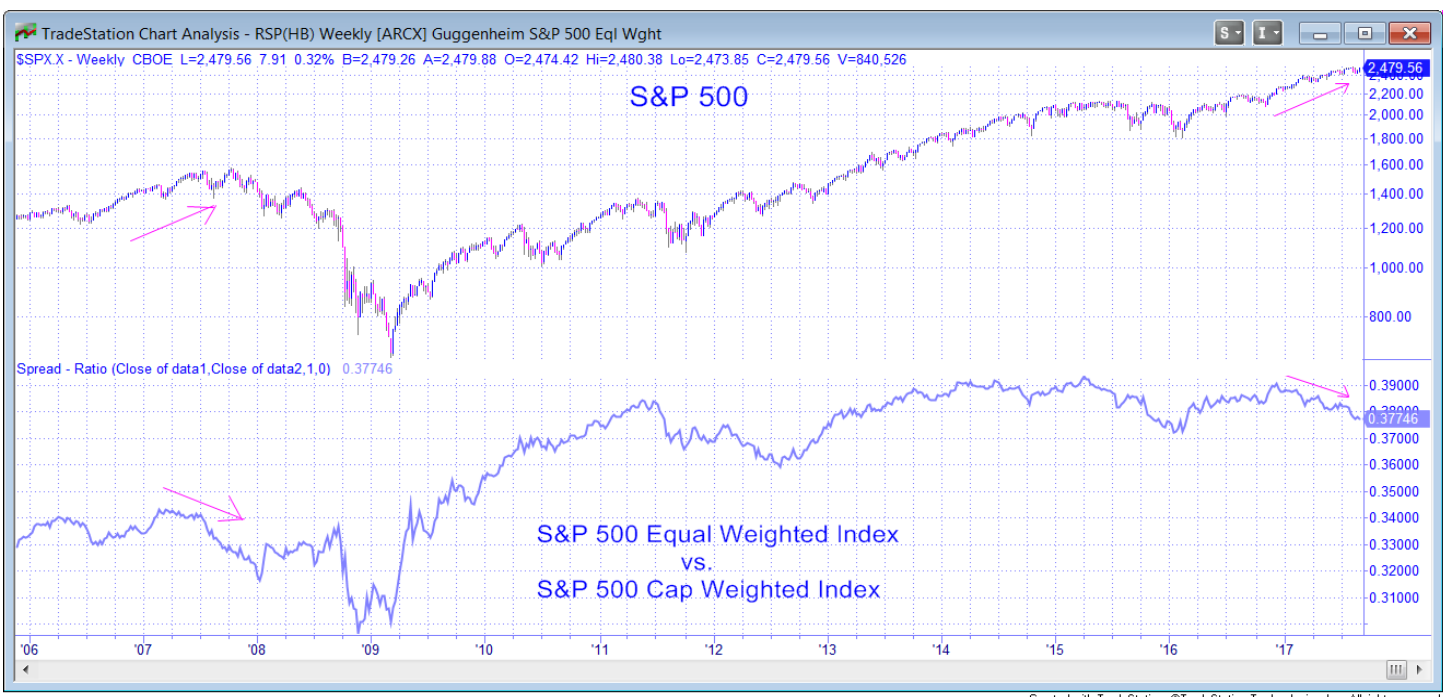
Titan Capital Management, LLC
Global Market Letter

September 1, 2017 **Abe Askil, CFP®**

ONE DOWN AND ONE TO GO

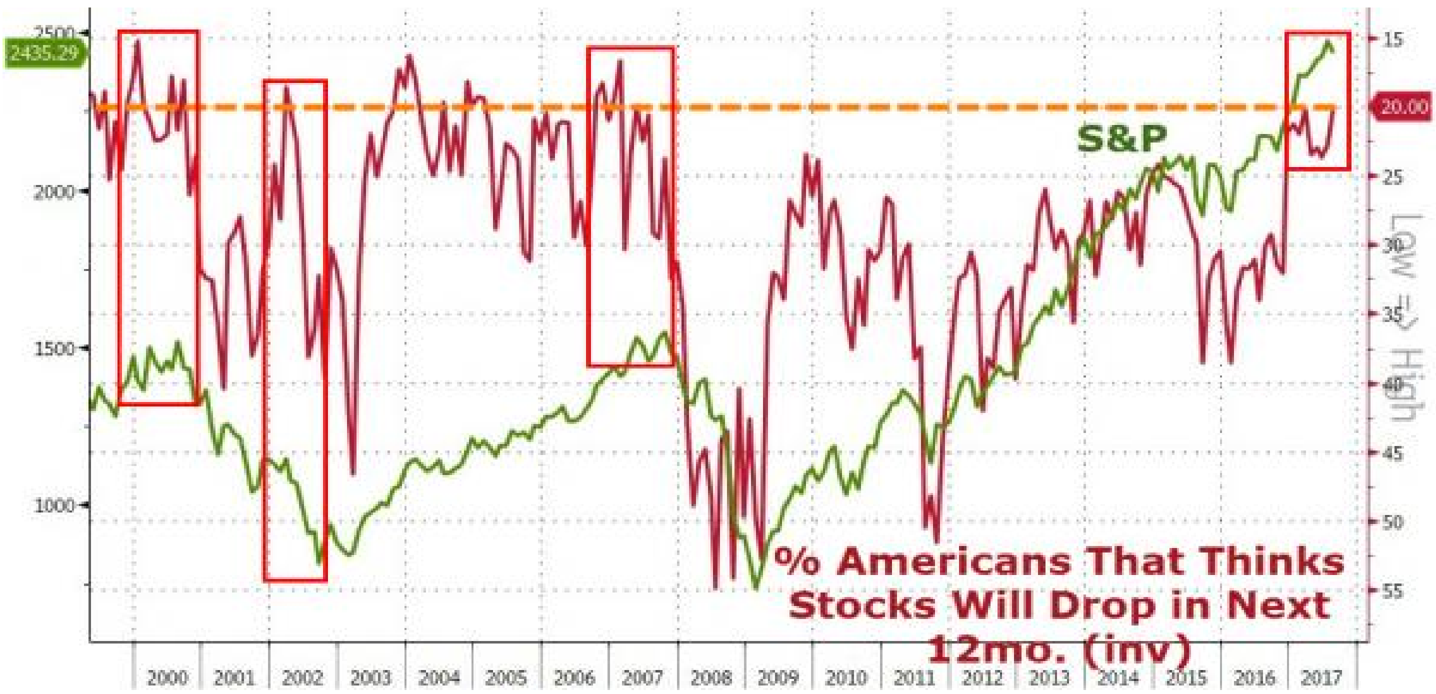
Historically August and September have been the worst two months of the year for the stock market. Stocks were very resilient in August despite geo-political issues such as North Korea and Hurricane Harvey which has devastated many people in the great state of Texas. Our prayers and support are with all who were affected. The major U.S. indices managed to finish roughly flat for the month which is a victory all things considered. September is the worst month of the year for the market with an average loss of -0.50%. There will be many potential market moving events including the Fed's rate decision on September 20th, the debt ceiling deadline and potential government shutdown on September 29th, and ongoing saber rattling over North Korea. We'll see if the market can dodge another historically bad month and be as resilient in September as it was in August. Something that could move the market higher is tax reform. If, and this is a big if, congress is able to pass tax reform sometime this year, then the market could potentially move higher on the news. The question is whether or not investors have already priced in tax cuts. We will not know the answer until tax reform actually gets done and we see how the market reacts to it.

The Dow, S&P 500 and NASDAQ are close to their July all-time highs, while small-cap and value stocks continue to underperform. Growth stocks are outperforming value stocks and large-cap stocks are outperforming small-cap stocks. Our strategies are overweight large-cap growth stocks and have very little or zero exposure to small-cap and value stocks. Even though the major indices are marching toward their all-time highs, they are doing so with low participation amongst stocks. The problem with narrow leadership is that eventually it catches up to the market. Think of 10 people rolling a 500 lbs. boulder up a hill. If 6 people drop out, how long can the 4 remaining people push the boulder higher and how long before they get tired and the boulder tumbles down the hill. The stock market works exactly the same way. The chart below shows the performance of the S&P 500 Equal Weighted Index where all stocks are weighted equally versus the S&P 500 Cap-Weighted Index where the largest stocks get the most weight. You can see in the second pane that the equal weighted index is underperforming the S&P 500. It is moving lower while the S&P 500 (first pane) is moving higher. The last time we saw a divergence like this was in 2007 just before the market topped. A small number of stocks will not be able to lift stock prices higher indefinitely. Eventually the market will collapse under its own weight. We saw this in 2000–2002 and 2007–2009. Stock participation must improve if the market is going to continue to make new highs.



MOST INVESTORS HAVE VERY LITTLE FEAR

When we look at various investor sentiment indicators, market valuation indicators, and the VIX fear indicator we see that there is very little fear amongst investors. The chart below (which is inverted) reflects the results of a survey conducted by the Conference Board. It shows that 80% of Americans surveyed believe that stock prices will not be lower in the next 12 months. Only 20% of investors surveyed believe that the market will fall in the next 12 months. This is the lowest level since mid-2007 just before the market topped in October of 2007 and the S&P 500 went on to declined 55%. You can also see in the chart that there was very little fear amongst investors in the late 1990’s and 2000 just before the market topped in March of 2000 and the NASADAQ plunged 80%. The markets are most vulnerable when investors are too optimistic and when they least expect a decline. We saw this in 2000 and 2007, and I suspect we will see it again in the future. When the market is in the late stages of a bull run, valuations are high, and investors are extremely optimistic…you have the ingredients for a major market decline. We are still fully invested and will remain so until our models turn negative. We know that a major bear market is coming in the future, but we don’t know exactly when. Our goal is to participate in the market rally as long as it lasts, but we are also prepared for the point in time when it comes to an end. We are not in the business of predicting the future. We are focused on reacting and adapting to the current market environment. We make investment decisions based on what is happening, not what may happen or what we think should be happening.



THE BOTTOM LINE

Our trend models Alpha and Omega are both positive, although our Alpha model could turn negative over the next few weeks if market breadth continues to weaken and investor optimism remains excessive. The current rally is still narrow as only a handful of stocks are participating. Fortunately, we are allocated to the areas that are outperforming such as Emerging Market, Large Cap Growth, and Technology stocks. The market has been resilient in August and we’ll see if it remains that way in September. Either way we have our hands on the wheel. I hope you all enjoy the Labor Day weekend!

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