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Bear Trap

Well, that was fun! Shades of January/February 2016, when the market corrected 11% only to have it "normalize" in March. Back then, just like today, the media was saying we "had" to have a correction because it has been too long since we had one… like it's a requirement. Well, in a strange way, it was. When the Bull/Bear sentiment indicator "red lines" in the "too optimistic" category, the markets have a way of taking your breath (and $) away. When the last "nervous Nellie" is finally convinced it's a bull market and gets invested… and nobody else is left to buy – BAM! The sky is falling!!!

Now that we had the famous 10% correction, some are talking of a 20% bear market and (gulp) a recession! After doing this 40 years, I have learned never to say never. BUT… for markets to drop from 10% to 20% down, two things have to be present. 1) High Inventory. Too much "stuff" and people quit buying. This is not even close to happening. 'Nuff said. 2) Inflation is out of control. Here the Fed is forced to raise rates. Usually, up to 5-6%. Since inflation is growing at 2 to 2 1/2 % for the past four years, that's not an impending problem. You should start to worry if inflation hits 4% – which could happen in 1 ½ to 2 years from now. For now – now worries.

In summary, you can't have a recession when corporate profits are rising 10-15% (20%?)! The two curveballs out there are 1) North Korea – which would have to happen in the next 6 months. Would we want to attach North Korea AFTER they get nuclear strike capabilities to the U.S.? 2) Ditching of all Trade agreements and we go into a trade war. This has a very low probability.

Over the next 6 months, watch for a more "controlled" market. Look for an "average" week to have up 3 days and down 2 days. I'll take it!

If you would like to discuss the market and/or your account(s), please call me at 713.428.2050, x2 or via email to josborn@houcap.com.

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