

MARKET COMMENTARY – NOVEMBER 1, 2018

*Verbolten!*

In the magical days of our youth, we loved our family's annual trip to Cedar Point. Rollercoasters, that today seem antiques (or have been decommissioned), were on the cutting edge of providing thrills. *Gemini! Corkscrew! Demon Drop!* These are just a few that we would ride again and again, as many times as the park's operating hours and the lengths of the lines would allow. Such well-worn tracks became familiar. We anticipated every bump, drop, or turn.

However, on a recent family vacation, now as a seasoned adult with children in tow, we had the occasion to travel to Busch Gardens in Virginia. Of course, none of these coasters were familiar. And something about being forty-something means that we can no longer tolerate more than two rollercoaster rides in a single trip. We'll never forget our second coaster of the day, called *Verbolten!*

The hills were tall and the track was fast, which came as no surprise. We'd gotten our tummy in sufficient working order to attempt it and zoomed along with relative joy. Then we entered a tunnel, a pitch black tunnel, and slowed to a complete stop. This being our first trip, we assumed that something up ahead had caused a delay and we'd resume our course shortly. Without warning the entire train dropped straight down. We don't understand the mechanics of how the track operates. We were utterly unprepared to have the ground beneath give way and ram our stomach into our throat.

That was a long way to get to the point. The market, based upon solid fundamentals was humming along fairly well. Then, in October, the bottom dropped out, leaving investors as woozy as us after our trip on the strange coaster. So, what gives?

We've shared with many of you that the returns in the market of late had gotten narrow. That means that only a few of the biggest of the big (mostly tech) companies had led to the majority of the returns (with some exceptions). In early October some of the highest flyers, that had likely gotten expensive, took a punishing dive. This wasn't necessarily unexpected or unhealthy. But what followed, the rapid drop across most sectors, was somewhat surprising. Finally, as these human-induced, manic-depressive events often go, investors began to use quite good earnings reports as reason to shove prices down further, claiming they just weren't good enough.

The last couple days of October showed a partial snap-back in prices. This was partly technical, in that some of the market forces and operations that help propel it downward so swiftly began to abate. It was also part fundamental as companies like Facebook and General Motors posted genuinely good numbers. We, of course, don't dare to predict the direction and magnitude of price changes for November. But we can offer our opinion on the economic and market backdrop as well as our thoughts on portfolio positioning.

You may refer to our commentary from last month entitled, *The Good, the Bad, and the Ugly*. Most all of the factors listed remain firmly in either the good, the bad, or the ugly camps and the overall market tips favorably to good. We do not believe that October '18 was the beginning of a protracted bear market. It was a swift correction in an intact bull. We expect companies to continue to report excellent earnings next year.

As to portfolio positioning, we usually spend a lot of time here talking about how bonds have NOT gone out of style. October should have done that bit of yapping for us, so we'll leave more discussion of fixed income for another time. But within stocks, it became very difficult throughout the summer and into fall, not to reduce diversification and own primarily overachievers like Amazon or Netflix. Johnson & Johnson seemed so passé. Well, we're here to announce that the best performing sector over the past month was none other than staples. That's right, boring food processors and grocery stores. Even more boring utilities were a close second.

It is for months like October that we encourage a diverse mix of growth and value. So, when that surprise *Verbolten!* drop comes, we are prepared to fight through the momentary nausea and again climb higher hills.

Stirling Bridge Wealth Partners, LLC is fortunate to count many of you as clients. In the good times and bad, we remain committed to providing customized investment solutions and robust financial planning wrapped in a package of exceptional service. We thank each of you for your dedication to us and for your trust.

Sincerely

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