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“About twice a year we forget that markets do this about twice a year.” – Morgan House

Bottom Line:

Regardless of the short-term volatility, it seems likely that stocks are in the early innings of a major advance. The strength in copper argues for this, as do many other risk barometers, including: a steepening yield curve, strength in discretionary stocks relative to staples stocks, as well as the relative strength of the Dow Transports vs. the Utilities.

In the Markets

Below is a chart of the Nasdaq 100 Index, the strongest index in the world this year populated by the largest growth companies, including the big tech names that have driven most of the gains this year.

- I expect that we have entered a choppy period for the coming weeks that will see the broader market struggle by declining and going sideways.
- You can see that, starting last week, the NDX dropped 10% in three days, hitting the 50-day Moving Average (the blue line).
- It bounced back up to the dotted green line, which is the 21-day Moving Average, which acted as a support line for the market since coming off of the bottom in March.
- So far, the market cannot reclaim that line.
- The next leg, higher or lower, will likely be indicated by which ever line is crossed next, the 21-day dotted line or the 50-day blue line.
- Growing evidence suggests it will be the lower 50-day line.
 - o There continues to be measurable complacency by the number of people carrying portfolio insurance, or Put options, which act as a hedge by moving higher in a down market.
 - o The bottom pane in this chart shows that the number of stocks in the market that are above their own 50-day moving average has also been declining since June, showing weaker breadth, or participation as the market hit a new high.



Conclusion

Our view, based on weight of the evidence, is that major US and Canadian stock markets go higher this year. In the short term, however, we appear to be in for some corrective action.

This would likely be the best outcome for stock investors as a pause, or short term stock market decline, could be the pause that refreshes.

We remain completely open to any eventuality that the markets bring. Our strategies, tactics and tools will help us to successfully navigate whatever happens as we focus on monitoring supply and demand signals that the market provides us.

Have a very good weekend, please call or email with any questions, and we'll be in touch with you soon.

Peter Schenk

CMT, CIM | Portfolio Manager

Words we live by:

“Deliver to the world what you would buy if you were on the other end. There is huge pleasure in life to be obtained from getting deserved trust. The way to get it is to deliver what you would want to see if you were on the other end.”

-Charlie Munger

“Strive not to be a success, but rather to be of value.”

-Albert Einstein