

Market Commentary

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800 Pounds!

The 800-pound gorilla in the financial world is the stock market and how it is performing. Last week we repeated our advice of the prior three weeks, that investors should maintain a cautious posture short-term. We felt the correction probably had more work to do before resuming the upside. Our closing comment in last week's Market Commentary was, "we will not ignore for long what the market does despite what we are saying now." Market action turned positive early last week and we thus dropped our short-term cautious advice and recommended investors again go back to being selective buyers. There is often a classic battle in the stock market between a mere mortal's opinion and what the stock market is doing. Long ago we learned to join the 800-pound gorilla and not to fight it. Basically, investors must defer to a much stronger authority – market momentum.

Yes, we are aware of the many problems our nation is facing and the very high level of divisiveness in Washington and throughout the nation. It is a very difficult time and not likely to change anytime soon. That is why most investors missed the big rally that started March 9 and why they remain on the sidelines in disbelief and frustration. What those fearful doubters forgot is that the stock market looks ahead a year or so and focuses primarily on the economy. Market action is predicting a better economy and improving corporate earnings. Meanwhile, there is the strong bullish push coming from a continued, very positive supply/demand ratio for stocks, and the fact that interest rates on sidelined cash are very low. The high level of investor caution keeps the bull healthy. The old bromide says it all – "bull markets climb a wall of worry."

The positive market momentum early last week put us back on the "buy" side for investors, but that doesn't mean to throw caution to the wind. No one knows how high is "up" for the market, and corrections have not been repealed. We do know that the S&P 500 is up 62% from the March 9 lows, and that a number of economic indicators are more positive but already on the table. On the negative side, the University of Michigan's preliminary November consumer sentiment index declined to 66.1 from 70.6 in October. This represents concern about the job market, which will probably weaken further. However, we continue to believe employment will start to improve by next spring, and stock market action supports this opinion. We don't have to review the many domestic and international problems our nation faces. We do have to respect the action of the market, which is showing confidence in the basic resilience of our nation and economy. Investors are advised to buy selectively, not to mortgage the farm and to respect the positive message of the market until it changes.

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