

A snapshot of last week's market performance and what to watch in the week ahead from Chadd Mason, Cabana CEO and co-founder.

Last week we continued the conversation on and significance of the divergence in U.S and foreign equity markets. I suggested that the difference in performance had reached extreme levels and that foreign markets needed to catch up if we were to reasonably expect our markets to break out to new highs. The past few days have seen just that. Despite news that the trade war with China is full on, the Chinese market has bounced nearly five percent. Technically, there was strong evidence of *exhaustion selling* on August 15, and the large cap China stocks took off upward from there. Once again markets have shown an incredible ability to tune out "news" and assess price based upon the future rather than the present. Lo an behold, we learned over the weekend that the Chinese Central Bank is going to step up efforts to support growth and diversify away from risks associated with United States trade policy. European markets and other international markets followed suit and are up more than five percent. Whether this all reflects anything more than an oversold *dead cat bounce* remains to be seen. However, an uptrend in these markets has to begin sometime - and this seems to be a very good time indeed. We remain moderately bullish.



G. Chadd Mason
CEO, Cabana Asset Management

KEY TERMS:

1. *Exhaustion selling* occurs when we see a large down day on extreme volume. This price action typically follows a period of consistent selling on above average volume. This results in a situation whereby all weak holders of the stock are flushed out and there are no more sellers. From this point there are only buyers, which causes the price to rise.
2. A *dead cat bounce* is a small, brief recovery in the price of a declining stock.

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