

Stocks Enter Uncharted Waters During Most Volatile Time of the Year

Equity markets hit a wall on Thursday and selling began in earnest for the first time since March. In my opinion, the straight up move in equity indexes since the March 23 low was not supported by the country's basic economics. I have previously discussed the lack of participation by many important sectors, as well as the idea that the "stock market" advance was actually just an incredible advance by a few huge tech companies. Last week, I suggested that the conditions were ultimately unsustainable. Eventually, even the best and highest flying of tech companies would be impacted by very basic things like unemployment, a quarantined population and many businesses still operating at half capacity or less. Over three short days we have seen the S&P 500 drop 8%, while the Nasdaq dropped nearly 11%. The adage that the higher they fly, the further they fall has meaning in the world of investing.

The S&P 500 closed today at session lows and right at its 50-day moving average. The pullback to this level represents at best a much-needed dose of reality and some healthy consolidation before markets can move higher with broad participation. At worst, the high-volume selling is the beginning of a deeper correction representing a very murky financial outlook for the remainder of the year. One thing is for sure - we are in uncharted waters during the most volatile time of the year. Top that off with the most divided nation of my lifetime, a presidential election seven weeks away that epitomizes that divide, and the worst medical pandemic in one hundred years yet to be resolved...

I remain optimistic that investors got most of it right over the past five months and that the worst is behind us. We are still very much within the medium-term uptrend and that will not change until the S&P 500 closes below 3100. That technical level represents the all-important 200-day moving average and the summer lows. If we do not hold at current levels, expect a drop to those prices in the coming weeks. That would represent a correction of 14-15% from the recent highs. Given the advance of more than 50% since the end of March, a 15% correction would seem reasonable. A drop below that level would give me pause. I would expect volatility to continue over the next few weeks as this (and other issues) get resolved.

As always, it is when things get scary that investors need a process to fall back on. "Trust the process," is one of the most valuable pieces of advice I have ever heard.

Last week's market commentary can be found [here](#).



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