October 30, 2018

- **SP500 on Edge of 10% correction**
- **Treasuries gain on chaos in stocks recently**
- **Primary culprit is tariffs with help from Fed's fixation on raising interest rates**
- **Cash level is high in client portfolios**
- **Fear levels measured by put/call ratio, indicate a level in stocks where a bottom is possible**
- **November begins the strong seasonal trend through tax day (April 2019)**

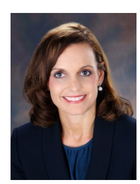
Briefly, the sharp decline in the stocks over the last month was ignited by renewed fears of rising material costs associated with tariffs. Yesterday, rumors of additional tariffs on virtually all Chinese goods sent stocks from a significant gain to a sharp loss. About 20% of companies are reporting increased tariff related cost according to a CNBC report. Within core holdings Hexcel, Xylem, Ecolab and SolarEdge have been hurt by tariffs directly.

So far, the down turn appears to be a pull back or correction, not a bear market. Although economic growth is slowing, it is not expected to decline. Corporate credit quality remains good, excluding a few dinosaurs such as Sears, Ford and G.E.

Looking forward, November begins the strong seasonal cycle in stocks through tax day. Also, stocks tend to perform well in the 4th quarter of mid-term elections increasing an average of 5% with a recovery of 82% according to data from Sam Stovall at CRFA. On a call today, Sam also highlighted that the recovery time for corrections (10% - 20% decline) averages 4 months, thus not significant for long term equity portfolios.

With cash on hand, we are looking to redeploy in both fixed income and equities. Preferred stocks are looking interesting. Finally, as we state frequently, stocks are subject to unreasonable moves due to computers and emotions, thus funds are suited for the long term.

Andrew D.W. Hill *President & Co-Founder, CFA*



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