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WEEKLY PERSPECTIVE ON CURRENT MARKET SENTIMENT

For Now, the Traders are in Control

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Last Week's S&P 500 Index:
-3.9%

Key takeaways

» *When markets experience panic and massive volatility, price levels can dramatically differ from what the underlying fundamentals would suggest.*

» *Downside volatility represents opportunity. Be more nimble. Pick your spots and put sidelined funds to work.*

Global equity markets have been fluctuating wildly in recent days (and recent hours). The S&P 500 Index has dropped 8% in just a matter of days. Are you fearful and seeking shelter, or assertively looking for opportunities? If you are like most investors who don't manage other people's money for a living, you have probably been sitting on more cash than you liked as the market rallied to one record high after another over the course of the last 18 months and the fundamental outlook improved. You might have even been underinvested in stocks over much of the last eight years of this monster run higher in the market. You have largely been skeptical.

But when opportunity knocks, as the old saying goes, you need to open the door. We are hearing that knock now, in our opinion. We have talked repeatedly over the years—and certainly during this rally—that investors, especially those underinvested in stocks, need to have a plan that will allow them to take advantage of pullbacks in the equity market. You don't want to start thinking about a plan of action when the correction happens; you want to do it in advance. Preferably well in advance. Where are the holes in your portfolio? What are the most attractive sectors looking ahead given our economic expectations? How about just buying some broad exposure to the market?

We thought 2017 would offer at least one opportunity to take advantage of a 7% or 8% correction, but it never materialized as the market kept grinding higher throughout the year. Now we have an opportunity. The question is this: Do investors have a plan? If so, it is likely time to start executing that plan. In other words, we believe it's time to pull the trigger and start stepping into stocks. But where? At what levels? One thing this strategist can tell you with a high degree of confidence is that I will not be able to pick the exact bottom. But my goal is to look for spots to buy that offer some level of technical support that traders are likely watching.

Technical support? You mean those lines drawn on price charts? Yes we are talking about those lines. And yes, we are a fundamentally focused research department, but when panic sets in and equity market volatility soars, you need to look past earnings projections and price/earnings (P/E) ratios. Over time, the fundamentals drive the market, but in the short term, anything can happen. Over the course of a cycle, the stock market, from time to time, becomes detached from the fundamentals. Traders often, if not daily, use technical analysis to pick their entry and exit spots in the short term. And right now, investors need to think a little more like traders.

For this strategist, the initial price level where the market may find support (levels at which our technical analysis anticipates sellers outnumbering buyers and prices stabilizing) is the range dictated by the 100- and 125-day moving average (simple price averages for the given number of trading days). At the time of this writing, that range falls roughly in the 2600 to 2630 level in the S&P 500. Frequently more important to traders is the 200-day moving average, which currently stands in the 2535 area.

For now, in this strategist's opinion, investors need to be more nimble and lighter on their feet. Because for now, the traders are in control.

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