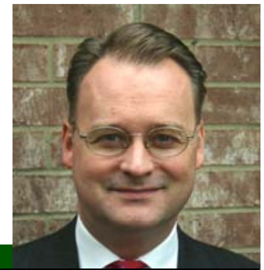
Cornerstone Report:
Weekly Market Update



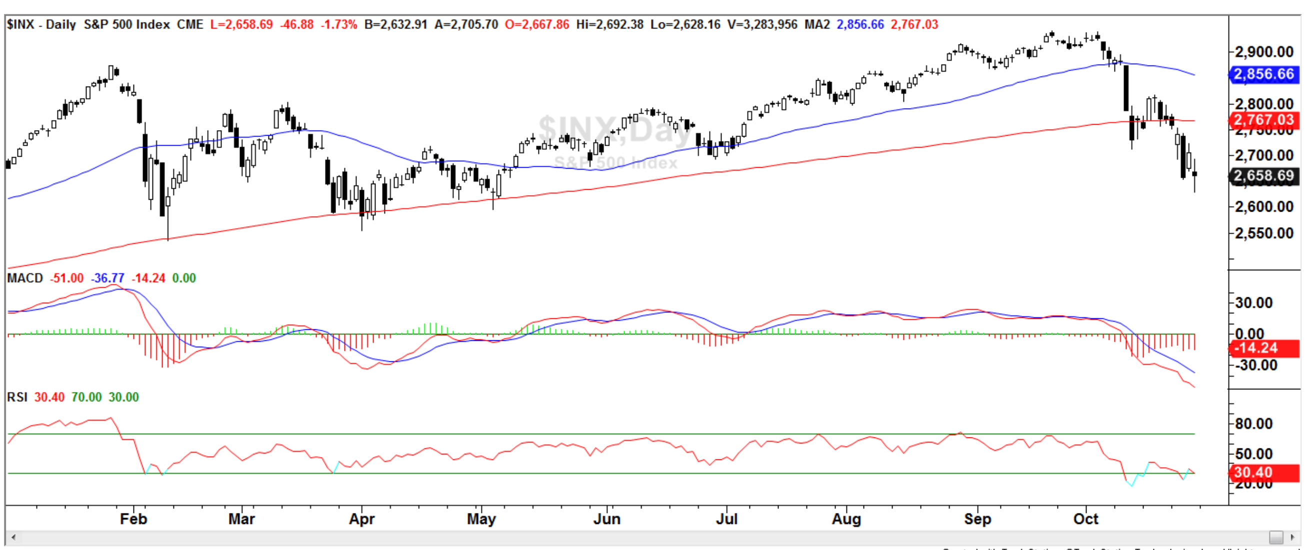
October 26, 2018

David McCord, CMT

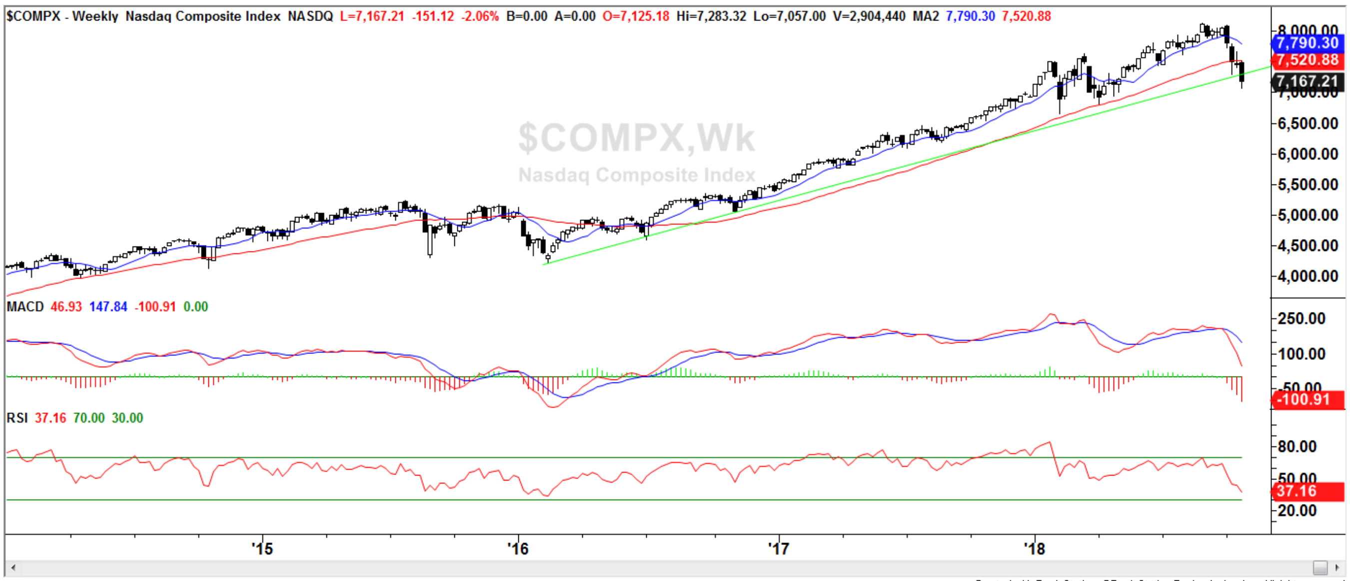
Changing the Way America Thinks About Investing.™

Another bad week for stocks, which is becoming a bit routine quickly. Monday moved lower from the start. Tuesday started with a huge drop, but managed to close only modestly lower, which renewed hope for the bulls, only to sell off hard on Wednesday. Thursday saw big gains, only to see Friday take back nearly all of that bounce. I won't necessarily call it a bear yet (I think these distinctions are often arbitrary and artificial), but it's definitely been bearish action. Now having broken the 200-day average and the uptrend off the 2016 low, the next significant potential support is around the lows earlier this year, and we're basically starting to test those now.

So here it is, in a solid short-term downtrend, with only 2-4% buffer zone to finish hashing out a low in a range that could still be considered constructive and potentially ward off official "bear market" designations. If you look back at the above chart, you can see the uptrend from 2009 is currently around 2400, and a decline to that level would keep the longer-term uptrend intact, and "only" be around a 19% decline.



Nasdaq's would be around 5300, which no realistic trader is going to wait around for. The good news is that the decline so far has remained within the normal "correction" magnitude up til now. The bad news is that most of the action has been bearish and resolving negatively. So, the odds increase that this is something worse than usual, barring a nearly immediate reversal and change of tone. The difficulty with that is that declines often seem to take on life of their own, as negativity feeds on itself. Apart from maybe one session, we haven't really seen much of what I'd call panic-type selling. Ironically, that's more dangerous than seeing it, as those are often emotional climaxes that then allow for reversals. Nothing is more deadly to bulls than systematic, orderly and persistent selling, and so far, that's what most of the action has seemed to be.



After an initial lag, bonds have responded to the stock selloff, and benefited a bit as yields have eased. However, yields remain above their breakout point, and you can see that they have retraced only a small portion of their gains from the last few months.

The dollar has regained strength after a month of sideways, and is challenging its highs for the year. A break of that should get momentum back in swing for a challenge of the resistance around 100.

Despite the dollar's strength, gold is holding the intitial bounce. The risk-off environment seems to have revived its calamity hedge reputation, at least somewhat.

LAST WORD:

Selling pressure remains intact, and no rally attempts have been sustained for more than very brief periods. So, the path of least resistance remains down until we see signs of a reversal, which have not yet materialized. Based on our prior comments about trying to stay out of harm's way until the dust settles, it appears there's more of a wait in store.

All technical analysis and resulting conclusions and observations are based upon historical chart formations and patterns. Therefore, observations are a function of each analyst's interpretation of the charts—and also a function of mathematical probabilities. In effect, technical analysis is a study in probabilities. What happened x number of times in the past per a particular chart pattern does not mean it will always recur in the future. It logically follows that historical precedent does not guarantee future results.

**MACD is the difference between a security's 26-day and 12-day exponential moving averages.*
** The S&P 500 is an unmanaged index comprised of 500 widely-held securities considered to be representative of the stock market in general. You cannot directly invest in the S&P 500 index.*
** The NASDAQ Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System. You cannot directly invest in the NASDAQ Composite index.*
** The S&P SmallCap 600 Index is an unmanaged benchmark index made up of 600 domestic small capitalization stocks chosen for market size, liquidity, and industry group representation.*
** The Russell 2000 is an unmanaged index comprised of 2000 smaller company stocks and is generally used as a measure of small cap stock performance*
** The Amex Pharmaceutical Index (DRG) is a market capitalization weighted index designed to represent a cross section of widely held, highly capitalized companies involved in various phases of the pharmaceutical industry.*
** The Dow Jones Equity REIT Index is a capitalization-weighted index composed of 114 US listed Equity real Estate Investment Trusts (REITs) comprising 95% of the equity REIT investable universe*
** The PHLX Semiconductor Index (SOX) is a price weighted index composed of 18 companies primarily involved in the design, distribution, manufacture, and sale of semiconductors.*
** Small Cap stocks may be less liquid and subject to greater price volatility than large cap stocks.*
** Sector investing may involve a greater degree of risk than investments with broader diversification.*
** Investing in securities involves risk including the loss of principal invested. Past performance is no guarantee of future results.*
** The price of commodities, such as gold, is subject to substantial price fluctuations of short periods of time and may be affected by unpredictable international monetary and political policies. The market for commodities is widely unregulated and concentrated investing may lead to higher price volatility. In addition, investing in commodities often involve international investing in emerging markets, which involve significant risks. Please consider all of these risk factors before making a decision to invest in any product.*
** Investments in real estate have various risks including the possible lack of liquidity and devaluation based on adverse economic and regulatory changes. As a result, the values of real estate may fluctuate resulting in the value at sale being more or less than the original price paid.*
** The Amex Securities Broker/Dealer Index (XBD) is an equal-dollar weighted index designed to measure the performance of highly capitalized companies in the U.S. securities broker/dealer industry. Included in this group are companies in the U.S. that provide securities brokerage services, market making, U.S. Treasury Primary Dealer functions and other functions dealing with U.S. and international securities.*

For investment advice or portfolio review, call (800) 327-4285. There is no charge or obligation for initial consultation. Jerry Tuma is a registered representative offering securities through Independent Financial Group, LLC (IFG), a registered broker –dealer, member FINRA/SIPC. Advisory Services offered through Cornerstone Financial Services, Inc. (CFS), a Registered Investment Advisory firm. CFS and IFG are not affiliated firms.

Changing the Way America Thinks About Investing.™

Cornerstone Financial Services, Inc.
14901 Quorum Dr. Ste 785
Dallas, TX 75254

Jerry E. Tuma, CFP®, Senior Editor

David McCord
Contributing Editor