



Cornerstone Report: Weekly Market Update



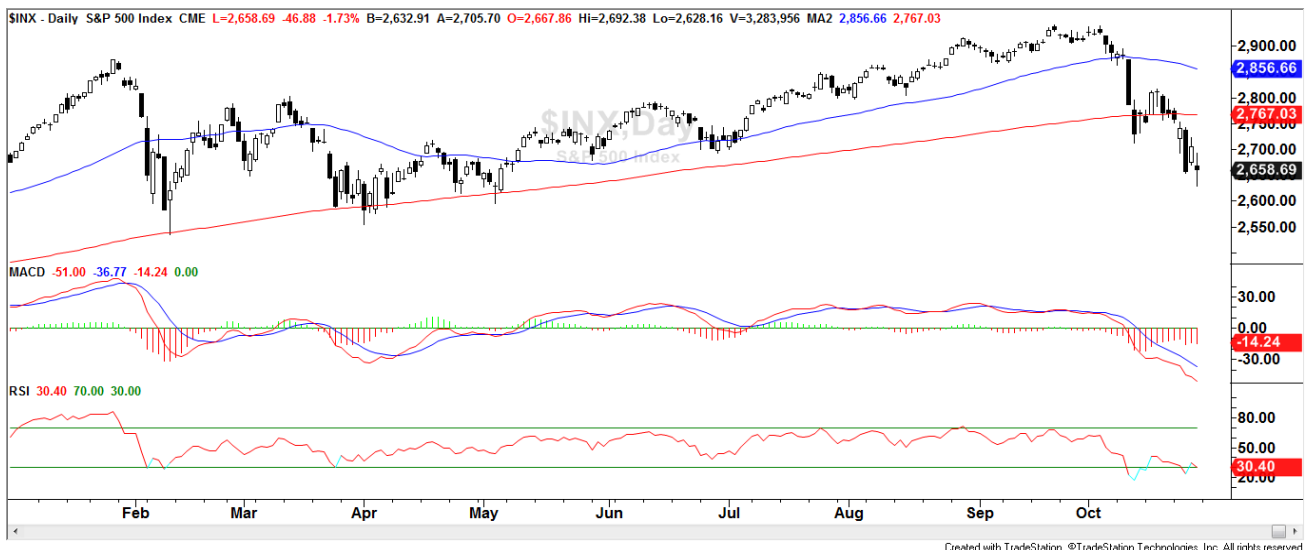
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October 26, 2018

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.

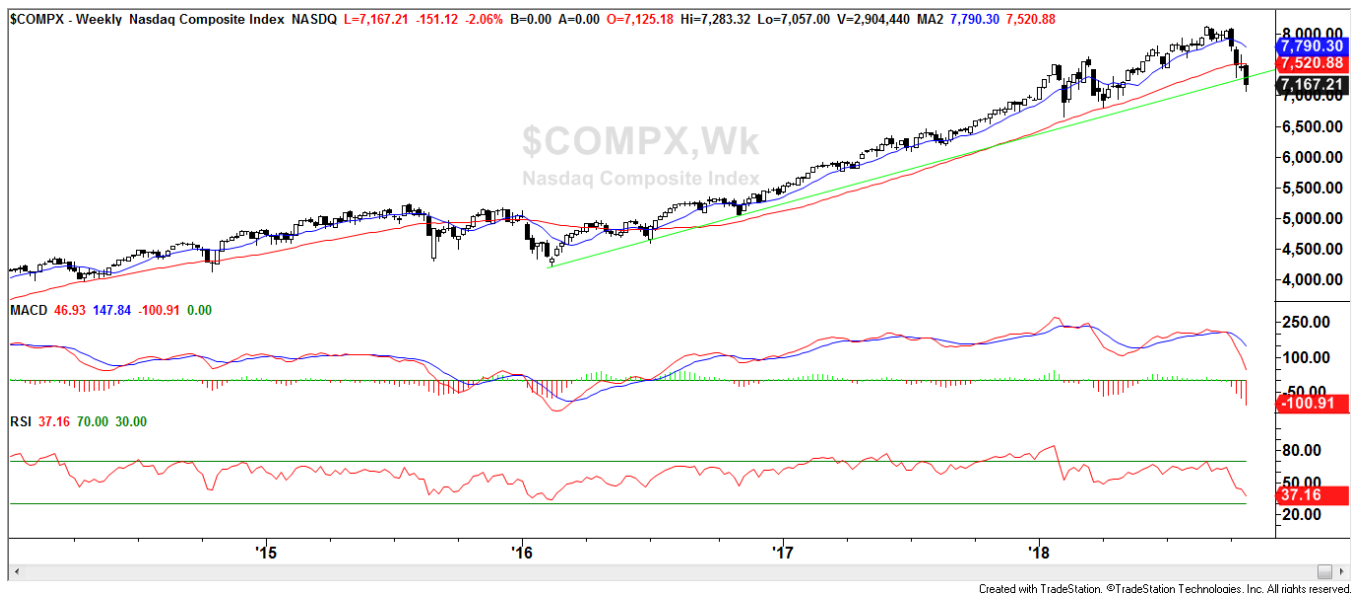


So here it is, in a solid short-term downtrend, with only 2-4% buffer zone to finish hashing out a low in a range that could still be considered constructive and potentially ward off official “bear market” designations. If you look back at the above chart, you can see the uptrend from 2009 is currently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



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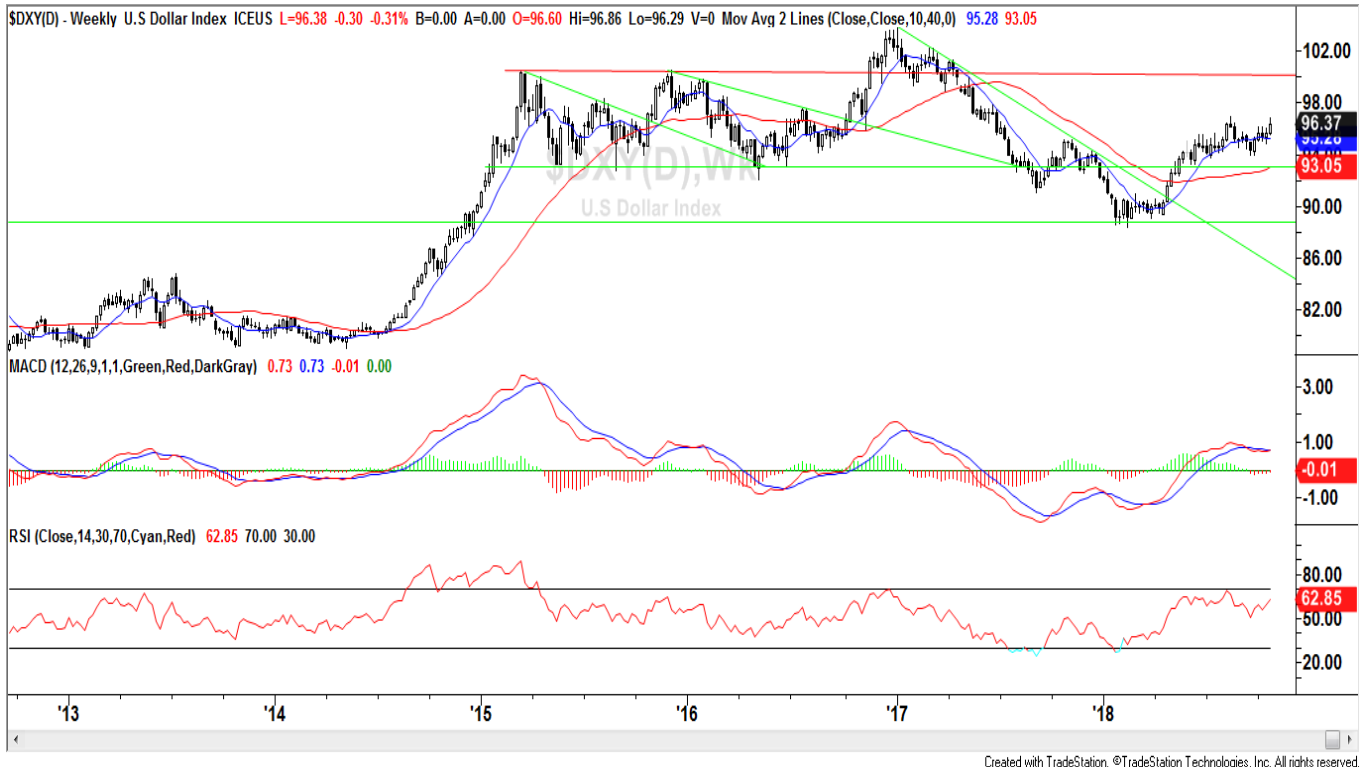
Nasdaq's would be around 5300, which no realistic trader is going to wait around for. The good news is that the decline so far has remained within the normal "correction" magnitude up til now. The bad news is that most of the action has been bearish and resolving negatively. So, the odds increase that 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 initial 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.

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