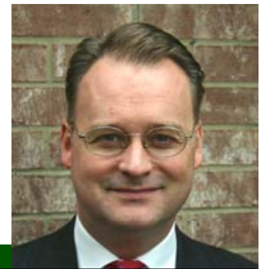
Cornerstone Report:
Weekly Market Update

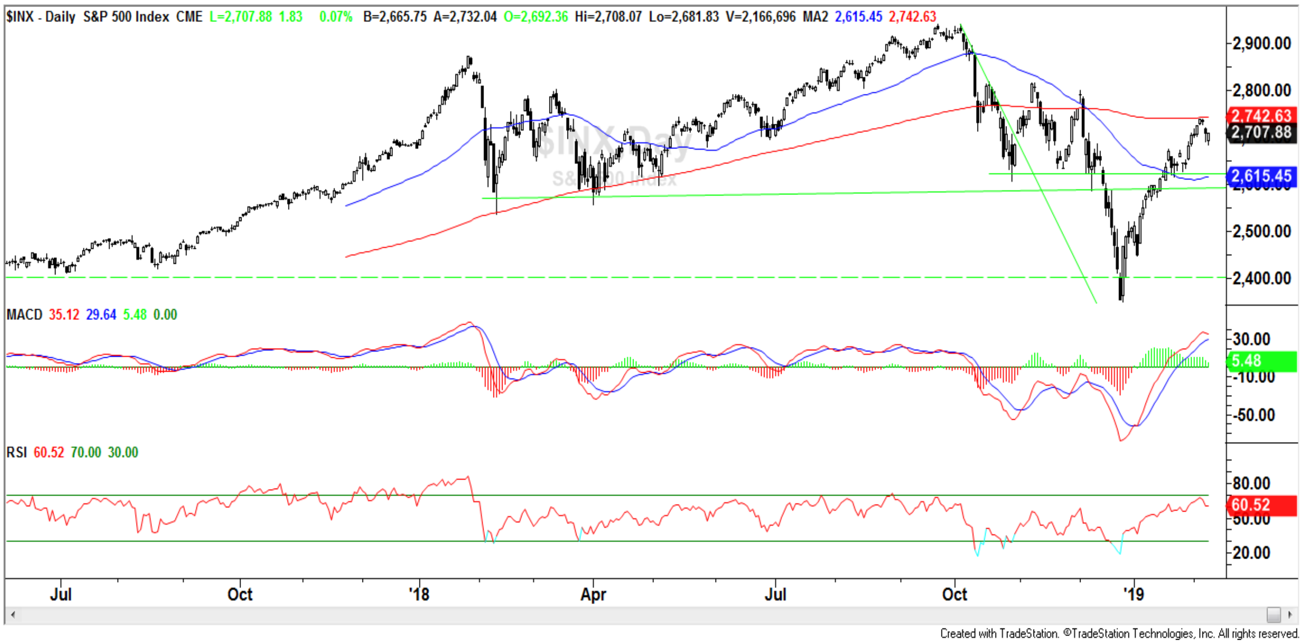


February 8, 2019

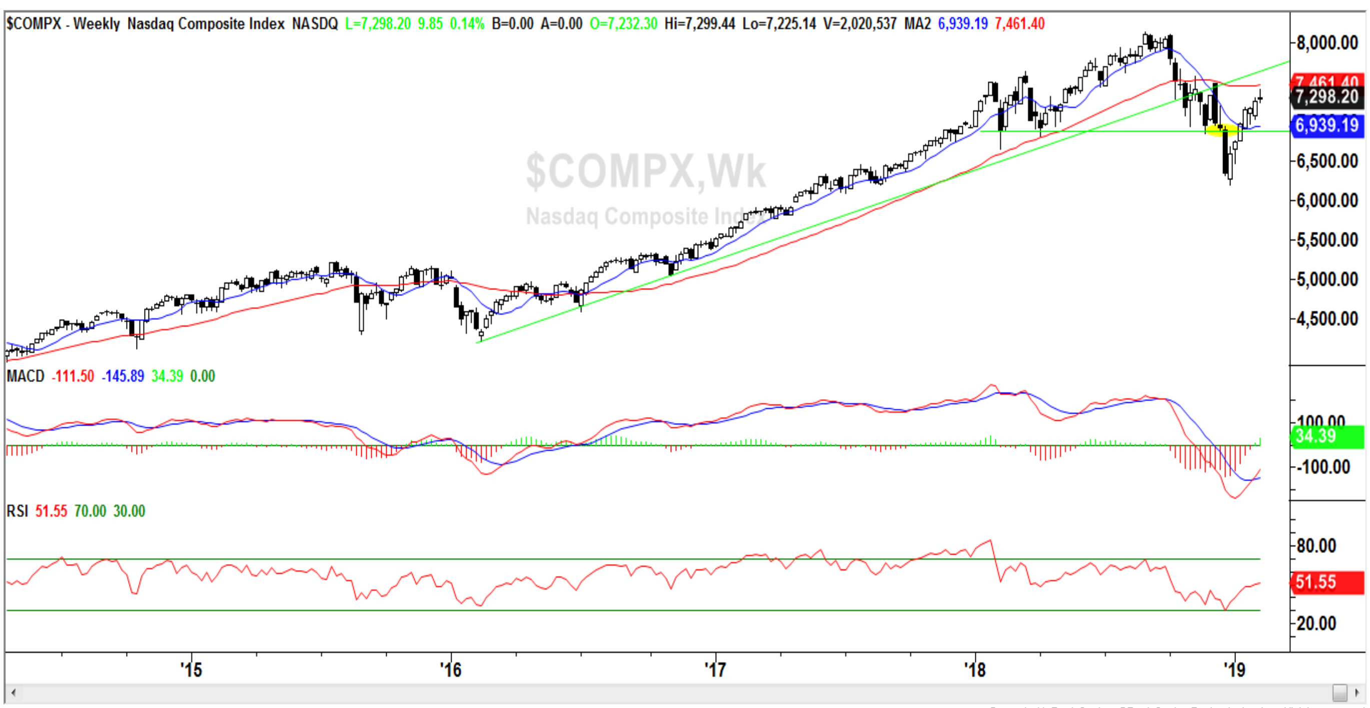
David McCord, CMT

Changing the Way America Thinks About Investing.™

After a rocket move off the lows, which impressively ate into a good chunk of overhead resistance, stocks were turned away at the 200-day average. I'm starting with the daily charts so you can see it clearly: both S&P and Nasdaq are similarly situated. Momentum looks in danger of rolling over, so barring a quick reversal back to the upside, the daily timeframe is looking potentially weak. At a minimum, you'd want to see that initial support line hold, which is also right at the (blue) 50-day average.



On the weekly, momentum has turned up, but still has a series of lower highs. It may just take some time and patience for the weekly structure to set up and clarify. Short-term moves like we've seen off the lows are clearly not sustainable, so the question remains whether this is the beginning of a recovery move, which will likely take some back and forth to solidify, or whether its just the second phase in the process of building a bigger top. That also is something that typically takes time, and it's not always clear immediately.



Bonds are right on the line, as yields have dropped very close to the same levels during the stock panic selling in late December. A break of that line would imply a further drop in yields, and probably not be that bullish for stocks, because of the implications for the overall economy.

The dollar had a strong week, but primarily due to the misfortunes of others, as global weakness continues and was highlighted in this week's European worries, of which there were several. From a technical perspective, it's also bouncing right off the 200-day average.

Gold didn't particularly like that dollar strength, but it's still in an uptrend, and holding above recent support, so still positive on balance.

LAST WORD:

Despite the strength of the rally off the lows, there's still a lot of economic tug-of-war going on. We're seeing European weakness pick up, as this week industrial production in Germany saw declines, and more than expected. Also, the EU substantially reduced their growth estimates for 2019, and Italian bond yields rose, a reminder of the risk held by European banks.

So, that helped the dollar, where despite early signs of slowing here, it's not as entrenched. Initial jobless claims, which are a fairly coincident indicator, have now surpassed expectations for a couple of reports, a possible inflection point. Voluntary quits, a report which can be leading, had already turned down. Meanwhile global PMI reports continue to point lower.

Earnings reports for US based firms are showing risks hitting home from both European and Asian weakness, with additional uncertainties coming from the trade outlook. The latest news on that front hasn't been particularly encouraging. While domestic growth has been good, it's unwise to extrapolate that forward while assuming that the US will escape altogether. And while the earnings numbers have been received mostly positively by the market, the bar had been lowered as the market dropped during the entire fourth quarter of 2018.

The end of earnings season should reopen the buyback window, so that's a plus. Clearly the Fed is in sync with the market at least for the moment. While that is a plus also, it likely just removes the Fed as a creator of new problems for this cycle. Until the Fed either cuts rates or halts QT, there's no real "help" from the Fed, as things they've already done remain, and were enough of a problem to spark the selloff. And while the Fed can still pretend to have some credibility by modifying QT, it's unlikely that rate cuts will be forthcoming without economic trouble big enough to cause stocks problems.

The technical picture can improve if the pullback to this rally is modest and quickly followed by more gains. Yes, I realize that sounds like “things can get better if they start getting better”, but incremental improvement is what you look for. Sentiment has improved, but not to euphoric levels, and there’s definitely more than enough angst to keep the proverbial “wall of worry” built for the market to climb. It’s a bit counterintuitive, and perhaps ironic, but if stocks can keep advancing after a bit of chop, it’s probably more believable if there isn’t an obvious reason why.

But how they will act remains unknown, as do the conditions and newsflow that give us the context to judge that market action.

For now, stock action remains constructive, pending how serious the current small dip turns out to be. Bond yields appear to be telling a more bearish story, as does the dollar. Investor psychology, while somewhat stronger after the partial recovery from last fall’s big drop, has not fully recovered. That’s a building block for more upside should economies stabilize, but also a potential trapdoor if they don’t. The lesson of the past four months is that sentiment can change dramatically in either direction. Either buckle in for a potentially wild ride, reduce exposure and be patient while giving up some possible upside, or shorten the time horizon and try to surf in sync with the currents. All of these things have trade-offs, and all have their difficulties in real-time execution.

Either way, it still appears that more chop is likely ahead, regardless of recent strength.

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.

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

Jerry E. Tuma, CFP®, Senior Editor

David McCord
Contributing Editor

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