Hamilton-Bates
Market Update

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What a Difference a Week Makes

Just a week ago the market was wrapping up one of its worst weeks in YEARS, a week that saw 2 days where the DJIA fell a 1000 points or more. Fortunately there was also a day with an 800 point gain sandwiched in the middle—it could have been worse.

Now another week has passed, with the stock market zipping back higher for its best week in YEARS (+4%), helping to cut the prior correction's losses to what much more 'tolerable' levels. This week was as much about a sigh of relief that last week's forced selling was over (for now). The weekly whipsaw moves have been dramatic, with investors and managers now left to make sense of the goings on.

The Bull Market Doesn't Seem Dead Yet

For a little frame of reference let me repeat what we have wrote in prior Updates. We do not believe the bull market in equities is over just yet, based on the fact that we were not seeing any of the major warnings that would normally accompany a significant market even like 1999 or 2007. There are no signs the economy is faltering, nor is there signs of weakness in earnings.

However this in NOT the bull market of 2013, 2016, or 2017. The Central Banks are no longer flooding the financial markets with money as they were then. The Fed is now in the process of reversing its super supportive QE policy. This doesn't doom the market. But neither will it always be as resilient as its seemed in the past. We would expect greater volatility in the future. The long-running bull market in bonds is probably over, or least on a long hiatus, and rising rates affect prices for everything-including stocks. So we are now more actively managing fixed income holdings. Investors have to be cognizant that moves in bond yields can have an affect on stocks (positive or negative). For over 30 years the bond market has been a friend to stocks. Maybe not anymore. The bond market has just added another factor to the investment equation.

The Key to Long-Term Investment Success

As a rule we prefer rising markets. The sun is brighter, the sky is bluer, and life is generally better. Some folks like to be 'right', they take an opinion and 'demand' the market prove them right. If they are bearish they delight when the market goes down. If they are bullish they are dismayed if the market goes down.

In our experience successful investing is NOT about 'preferences', 'demands', or about being proven 'right'. Success in investing is like success in other endeavors, like business or sports. Especially sports (where our Eagles won the Super Bowl for the first time!). The Eagles won even after losing their MVP caliber quarterback to season ending injury by adapting to those changing conditions, and playing to their strengths. The backup was not forced to try to do what the starter did, they adapted the playbook to the backup's unique skill set.

Successful investing really is about having the tools to evaluate the financial markets, and the willingness, flexibility, and fortitude to ADAPT to whatever the new reality is. The market is always 'right'. The market does not care about what we want or need to happen, it will do what it will do. Successful investors adapt and adjust.

As Great as this Week was Its Not an All-Clear

Last week felt like getting kicked by a horse, and we

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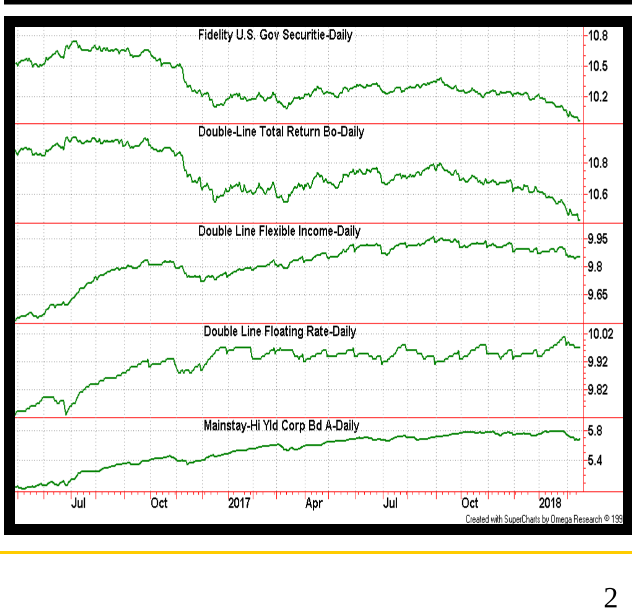
know what that's like. Fortunately we healed up very quickly and have been 'back in the saddle again' most of this week. We said earlier we prefer gains, and so we are as happy as most to see the rebound this week. However, most market corrections don't 'V' bottom. The pattern looks more like a 'W'. The market could certainly go up to the old high, or even beyond, but we should be prepared for a more normal process. Normally after this bounce we see another decline that holds at or above the recent lows.

Market Game Plan

Last week we were buying for NEW clients and NEW money, and we were not selling equity. That was correct. After this week's rally we are now not buying for NEW clients and NEW money. We believe there will be better if not safer opportunities in the weeks ahead. We also DE-RISKED portfolios slightly on the rally this week, exchanging from one S&P index fund that operated with a bit of leverage to one that does not. If the market does back off a bit from here, the new fund will drop much less than the prior holding.

We are happy to see the gains, but we are prepared if there is more selling to come. Not selling was the key to last week—this week it was sitting tight or making modest adjustments for downside protection.

Market Charts : Stocks Bounce Right at Expected Support—All Bonds Are Not the Same



S&P 500—The pullback was sharp, but stopped right at the 200-day average. Last week's crazy decline stopped right at the long-term mean (in yellow)! Markets are not as chaotic as they seem! We would now expect those lows to hold, and for dips to not exceed the prior lows to any significant extent, or even hold above them. 'Normal' bottoming processes happen in terms of weeks rather than days. It would be better for the long-term health of the market for it NOT to try to attack the old highs too quickly. That would simply be repeating the mistake of a few weeks ago—too steep an angle of advance.

Bond Market & Interest Rates—Bonds in general are negatively affected by expectations of rising rates. But all types of bonds are affected equally, in some cases not at all. As professional managers we saw this move in yields developing some time ago and had rotated bond holdings to the types of bonds less sensitive to rising yields. We did so months ago. The chart at left shows various sectors of the bond market, and not all have been equally affected by rising rates. The top two sectors (Govt, Total Return) have been much weaker than the other three (Flexible, Floating Rate, and High-Yield). Our holdings have been concentrated in the bottom three areas. It just one way we make portfolio adjustments to better position portfolios.