

CFM - Stock Market Observations

The recent stock market downturn coupled with extreme volatility yesterday give pause, particularly in the aftermath of the financial crisis. A few observations may help keep these events in perspective:

- It appears that yesterday's record breaking drop in the DOW was triggered by trading glitches and potentially erroneous trades in multiple stocks. More will be learned about potential systemic trading flaws soon.
- When stock markets advance significantly over a twelve to fourteen month period, it is not unusual to have a 5 to 10 percent correction.
- The debt crisis in Greece could trigger a 5 to 10 percent stock market correction, but does not explain an intra-day 1,000 point drop in the DOW.
- Both Ned Davis Research (NDR) and InvesTech remain at maximum stock allocation, but are vigilant for technical signs of a wavering stock market. Market breadth, volume, leadership, advance-decline remain OK. NDR's Big Mo chart has significant influence on their tactical asset allocation decisions. Big Mo is a compilation of over 100 global stock market technical indicators. Last week 85 percent of those indicators remained positive. Big Mo will be updated Monday and CFM will inform clients of any significant change.
- NDR tactical decisions are not triggered by daily activity but near-term trends. Historically their tactical changes in asset allocation have been timely and CFM concurs with their methodology.
- While Greece's economy represents only 2 percent of total European Union economies, their debt woes are a warning for most Western Europe countries and the U.S. where both deficit and debt levels are unsustainable. Stock and bond markets react accordingly. Creating opportunity out of crisis is possible if policy makers and politicians react with fiscal restraint coupled with viable economic stimulus.
- CFM core bond funds are positive four to five percent YTD and have held up well in the recent stock market downturn. CFM core stock funds were down yesterday less than the S&P 500, which was down 3.22 percent. The Asian region remains the strongest performer substantiating CFM's regional over weight. CFM also remains over weight bonds relative to each portfolio's guideline. The combination over weight Asia and bonds has resulted in outperformance YTD relative to blended indexes.

Because CFM stock allocation is already lower than NDR's, our first defensive move may not be as large as NDRs. CFM is capable of timely reallocation when NDR changes asset allocation. If you have questions or concerns please contact us.