



# WEALTH MANAGEMENT INTERNATIONAL, LTD.

Proactive Investment Management & Financial Planning

## Economic Chart of the Week November 7, 2018

U.S. stock prices fell sharply in October, registering a decline that very nearly qualified as a “correction” (a drop of at least 10% from a recent high). As measured by the S&P 500 index, stocks at the end of the day on October 29 were down 9.9% from their record-high close in late September. Since current economic and financial fundamentals still look so positive, we think stock prices can and will recover from the rout. In fact, some key technical indicators suggest a lasting recovery has already started.

One key technical gauge that we track shows the rise and fall of buying momentum in the stock market. In the lower panel of this week’s chart, the blue line shows the “moving average convergence/divergence oscillator,” or MACD. This indicator is calculated by subtracting a version of the S&P 500’s 26-day moving average from its 12-day moving average. When the S&P 500 is rising, the MACD will tend to be above zero, and vice versa. Importantly, when the MACD falls to an extreme negative reading and then rises above the gold “signal” line (its 9-day moving average), it often suggests a downturn has run its course and a new uptrend is beginning. That’s exactly what happened at the end of October. The MACD isn’t a flawless indicator, but we think its recent behavior helps confirm that the October stock rout was merely a re-pricing of risk and not the start of “the big one.” Stocks appear to be on the upswing again, so we don’t think it’s time yet to cut our equity allocations beyond the modest moves we made in late summer, although we’ll continue to use the MACD and other tools to gauge where things are really going.

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