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US Roller Coaster Market Reaction

"2,547 Point Move in a Single Day"

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Once again, I feel compelled to advise against reading and even listening to the headlines; even if they may be considered 'trusted' newscasters. Tuesday evening while watching *NBC Nightly News*, I was greeted with the following: "Whiplash, as the meltdown continues." "…come crashing back to earth at the bell." "…after Monday's Wall Street wipeout, stumbled badly at the finish line." "…almost the mirror image of Monday's collapse…" All of this was in the first two minutes of the Nightly News. No wonder individual investors often sell out just before the end of a correction and fail to get back in until much of the recovery has already occurred. The real time to get in is when everyone else is scared and running for the hills, and the time to take some money off the table is when everyone believes you cannot lose.

The US market opened with far more volatility than I originally expected on Monday, but it appears this was driven by foreign investors and not US investors. In the first few minutes, the Dow dropped 1,089.42 points. This was clearly panic selling driven mostly due to losses in overseas markets, such as in Hong Kong (Hang Seng) and Japan (Nikkei) both of which had closed prior to our opening. Europe's markets were also significantly weaker Monday morning and continued this weakness through our opening and until their close at 11:30 AM Eastern. Shortly after the large initial drop, money rolled in and purchased many of the positions which had been pulled down with the panic selling. This resulted in a significant reversal over the next few minutes. By the time we reached European's close, the markets had succumbed to selling pressure from Europe and once again had lost some of its recovery. Once Europe was closed, our markets continued to reduce the losses for the day coming within 110 points of the opening value.

Due to the size of the early morning drop and subsequent partial recovery, computer trading stepped back in Monday afternoon taking profits from the early morning purchases and once again lowering the Dow several hundred points. The 2,547 point move was the initial drop of 1,089, a recovery of 979 points followed by another slide of 478 points. Naturally the markets had many ups and downs in the middle of each of these broad moves, but this represents historic moves in the US Dow. For the market to reach the bottom, all of those who are not convicted with staying power must be shaken out of the market; otherwise, every time it shows some signs of recovery, those waiting to sell on a bounce come in and the gains fade.

Understanding why the markets respond to particular news or other actions can provide answers and highlight opportunities. It may require days, weeks, or perhaps months to determine if those selling Monday morning were in

Doug's Insights

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error or anticipated things to come. It is my view the US economy is still in a moderate growth mode. Housing sales are strong and the housing markets are doing well. Interest rates remain low assisting in refinancing and home purchases, and the size of this industry is a key indicator of the strength of the general economy. Automobile sales are also strong with the last reported annualized pace exceeding 17 million units. This is another key component of our economy showing robust sales. Add in the benefit of lower oil prices and the extra dollars this adds to the disposable income of consumers, and we should see continued growth of revenue at retailers and restaurants.

In my last market *Insight,* I commented I expected China to stimulate their economy in some fashion. On the 25th after the close of their market, China lowered their interest rate and reduced the requirements on bank reserves thus enabling more funds for their economy. Generally, they release such stimulus at the end of the week after the close; but, in doing so last evening indicates they are wanting an immediate impact. China's index (Shanghai) moderated on this news but was slightly lower. Their markets opened for Wednesday morning at our time Tuesday night at 8:30 PM, since they are 13 hours ahead of our Eastern Time zone. China again released more economic news by injecting 22 billion into their economy which will be positively received around the world. Hong Kong's index, the Hang Seng, did reflect a reversal and closed up ¾ of a percent this morning. This is the index used by most foreigners who want to invest in China's economy.

The Chinese investment markets are still young by comparison; and in my opinion, this is still an emerging market. It is a very large economy due to the size of its land mass and number of citizens, so it will impact the World's economies as it goes through its growing pains.

The US market opened with significant gains Tuesday morning, but late in the day closing lower once again as the buyers were standing on the sidelines. Wednesday appears to open once again with gains, but we will have to wait and see if it holds through the day.

Caution is still the best action. Just remember your ***long term*** objectives and not the noise from short term events. Be aware also that most of this noise is coming from those classified as **'traders'** and not most of us classified as **'investors'**! I reviewed some of the headlines over the last 15 years, and it appeared there were always reasons for caution and perhaps for avoiding the investment markets. Yet, we are sitting significantly higher now than at the time of the headlines.

We continue to watch the markets and will take action should it be required.