

CHART OF THE MONTH

NOVEMBER 2018

The stock market underwent a change in fortunes last month with the S&P 500 falling approximately 10% from the peak in late September to the trough in late October.

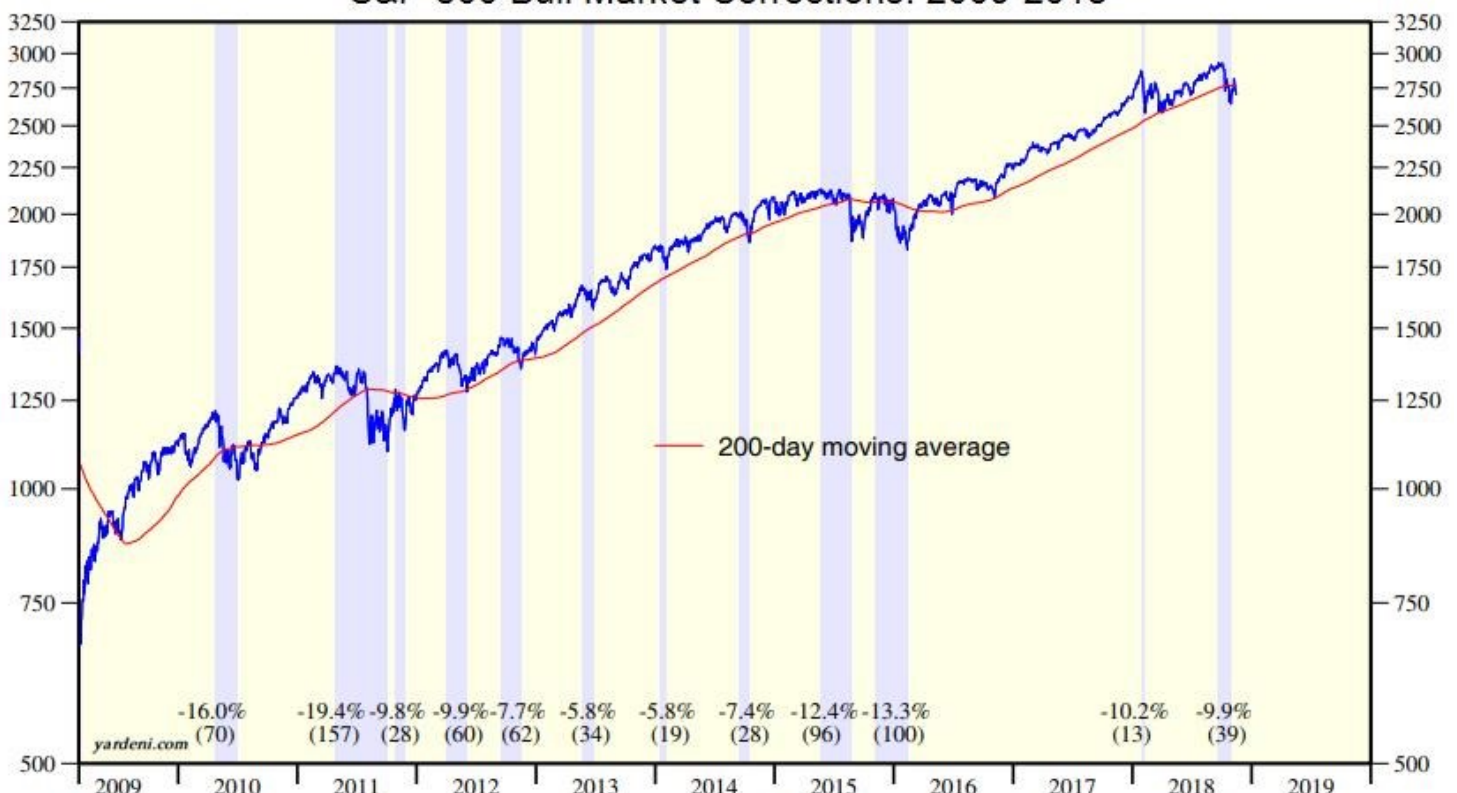
Since the bull market began nearly 10 years ago, the S&P 500 has experienced eight corrections of roughly 10% or more (as shown in the chart below). In other words, the index has encountered an average of almost one double-digit decline per year even in the best of times. As a result, the pullback has not been out-of-line with historical norms.

While the current reversal may not be complete, the change from best-to-worst levels thus far nearly matches the average correction of 10.6% and is a couple of weeks shy of the average duration of 59 calendar days. Although there are no guarantees that the averages will hold, the data suggest that, in the absence of a bear market, the vast majority of the drawdown (inclusive of today's decline) is in the past.

In our [Chart of the Month in October](#), we opined that the S&P 500's 200-day moving average at 2,750 could serve as an interim floor based on the previous pullbacks since the middle of 2016. Instead, the index fell another 5% below that technical indicator and then rebounded more than 2% above it in early November before pulling back once again toward a possible retest of the closing low (2,641) on October 29. While the moving average was pierced in 2010, 2011, and 2015, it coincided with interim bottoms from 2012 through 2015 as well as over the past two-plus years.

Going forward, all eyes are on the Federal Reserve (with respect to interest rates) and trade policy (particularly tariffs imposed on China). An overly aggressive Fed and/or Administration could cause headwinds to a growing economy and raise the specter of a contraction sooner than otherwise expected. It is our view that the market has been adjusting to these risks, potentially setting the stage for a snapback in stock prices if these issues are resolved more favorably than anticipated.

S&P 500 Bull Market Corrections: 2009-2018



Note: Corrections are declines of 10% or more, while minor ones are 5%-10% (all in blue shades). Number of calendar days in parentheses. Source: Standard & Poor's.



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