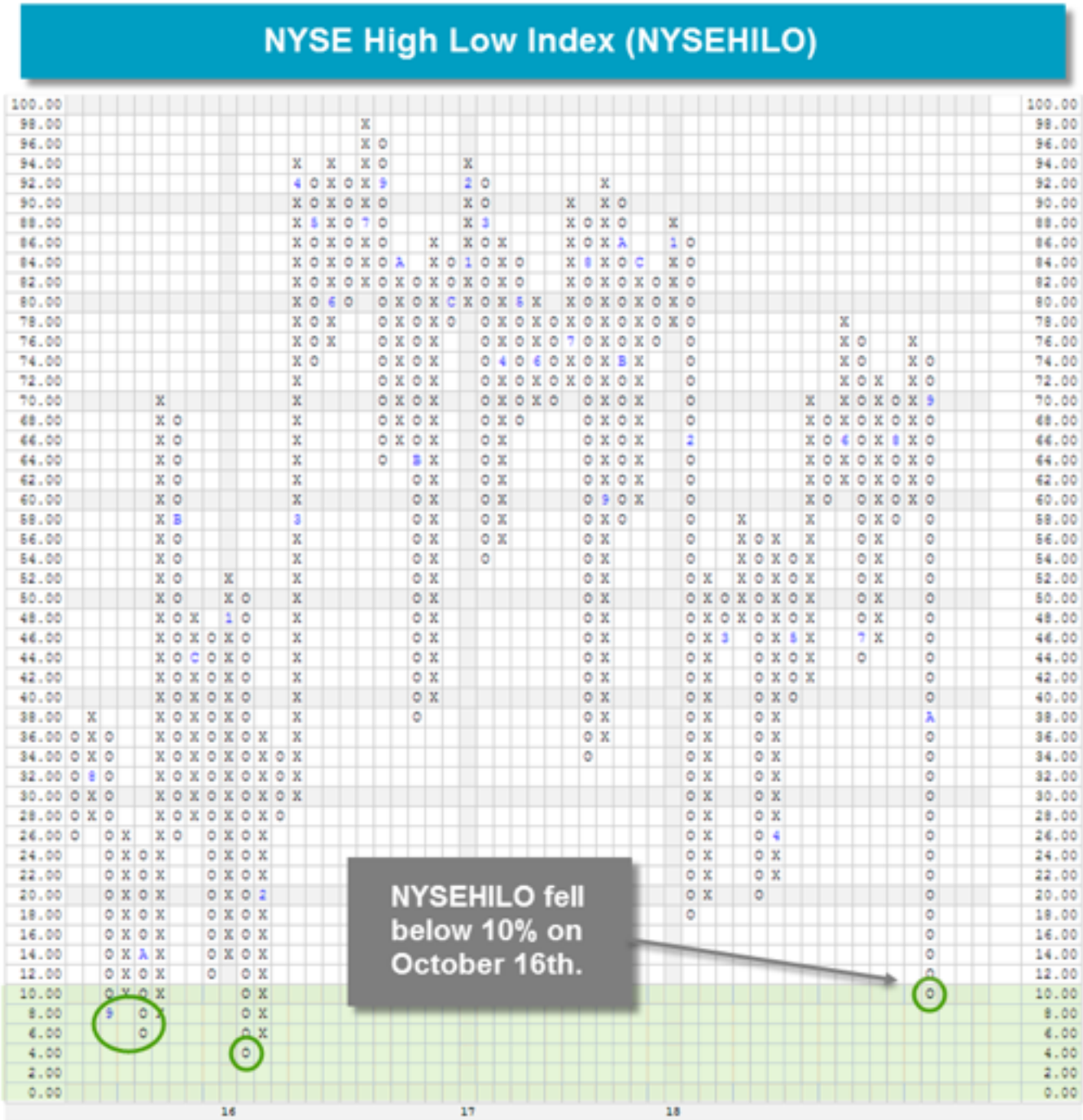
October 18, 2018

Monday's action pushed the NYSE High Low Index (^NYSEHILO) below 10%. Monday's reading was 9.86%, which is the first dip below 10% since early 2016. The NYSEHILO measures the number of new highs versus new lows on the New York Stock Exchange. We have found it to be a very reliable indicator for intermediate market bottoms. Dipping below the 10% level is very, very rare. The chart below shows the value of the NYSEHILO indicator going back to the beginning of 1995.



There aren't many times when the indicator gets below 10%! This is indicative of a market that is really washed out on an intermediate-term basis. We looked at the dates when the indicator first dropped below 10% and then checked what happened to the S&P 500 Total Return 1, 3, 6, 9, and 12 months later. The dates we identified were only the dates when the indicator first crossed below 10%. If the indicator slipped around under 10% we didn't consider those other dates. In 2008, for example, the indicator dropped below 10% and bounced around for quite a while before the market finally recovered. We only considered the first date in the example. We are only looking at what the broad market did after that first cross.

S&P 500 Returns following moves below 10% for the NYSE High Low Index (NYSEHILO)

Date	1MO	3MO	6MO	9MO	12MO
8/4/1998	-9.01%	4.77%	17.33%	25.54%	23.45%
10/21/1999	10.83%	12.63%	12.05%	16.33%	10.01%
7/24/2002	12.58%	5.10%	3.07%	9.57%	18.51%
8/6/2007	0.98%	4.07%	-8.70%	-1.90%	-10.31%
7/8/2008	1.93%	-22.22%	-27.60%	-33.83%	-29.05%
8/9/2011	-1.32%	5.47%	16.64%	17.48%	22.39%
10/4/2011	11.67%	14.33%	25.89%	23.75%	32.98%
8/31/2015	-2.47%	6.07%	-0.92%	8.12%	12.55%
1/19/2016	2.20%	12.32%	16.31%	15.88%	23.00%
Average	3.04%	4.73%	6.01%	8.99%	11.50%
Min	-9.01%	-22.22%	-27.60%	-33.83%	-29.05%
Max	12.58%	14.33%	25.89%	25.54%	32.98%
%Positive	66.67%	88.89%	66.67%	77.78%	77.78%
Exclude GFC					
Average	3.50%	8.67%	12.91%	16.67%	20.41%
Min	-9.01%	4.77%	-0.92%	8.12%	10.01%
Max	12.58%	14.33%	25.89%	25.54%	32.98%
%Positive	57.14%	100.00%	85.71%	100.00%	100.00%

The returns above include dividends but do not include transaction costs. Investors cannot invest directly in an Index.
Past performance is not indicative of future results. Potential for profits is accompanied by possibility of loss.

There are only seven observations since 1995, which shows how rare this actually is. For the “small sample size” crowd saying we need at least 30 observations, I don’t know what to tell you. When something is rare it means something.

Looking out one month from the cross below 10%, the returns are actually pretty good on average. They don’t always work out, so we definitely could have a retest that pushes the market lower, but historically that push lower hasn’t been that damaging. The returns get better as time goes on. Looking out 12 months, there has historically been very good returns. The damaging periods come from the Global Financial Crisis (GFC), which are highlighted above. There is a second set of summary statistics excluding the GFC, which are even better than the full sample. Excluding the GFC, the market was up over 20% twelve months later on average, and all the observations were positive.

The question then becomes, "Are we in a market like the GFC, or aren’t we?" We can certainly have a correction or bear market, but it seems unlikely at this point it will reach the depths of the GFC. The first observation from the GFC above was in August 2007. By that time we had already had Freddie Mac announce it would no longer buy risky sub-prime mortgages, New Century Financial declared bankruptcy, and Bear Stearns had liquidated two subprime hedge funds. The wheels were already well in motion by the time of our first observation. By the time of the second observation in July 2008, we were in the middle of firms declaring bankruptcy and the government guaranteeing assets. That is a much different scenario than today.

Only time will tell how this most recent selloff resolves itself. We have used the HILO as a reliable intermediate bottom indicator for years. It is very rare to see readings below 10% and is indicative of a very washed out market. Historically, buying the broad market has worked well when the indicator dropped below 10% as long as you have an appropriate time horizon.