

## "Selling"

Up until last Monday (October 29, 2018) we had focused on our short-term model's "sell signal" of October 2, 2018. The "S" word alone makes most investors uneasy. They find the "B" word, "buying" more pleasant. The reason for this is perhaps best explained in a book written by Justin and Robert Mamis titled "When to Sell." Here are some pertinent excerpts:

\*Stocks are bought not in fear but in hope. No matter what the stock did in the past it assumes a new life once a purchaser owns it, and he looks forward to a rosy future – after all, that's why he singled it out in the first place. But these simple expectations become complicated by what actually happens. The stock acquires a new past, beginning from the moment of purchase, and with that past come new doubts, new concerns, and conflicts. The purchaser's stock portfolio quickly becomes a portfolio of psychic dilemmas, with ego, superego, and reality in a state of constant battle.

\*The public is most comfortable when they are sitting with losses, because if their stocks are down from where they bought them, they don't have to worry about selling them. Once he's got a loss, the typical investor is sure he isn't going to sell. He bears the lower price because in his mind it is temporary and ridiculous: it'll eventually go away if he doesn't worry about it. So selling at a loss becomes absolutely out of the question. And since it is out of the question, and his mind is made up for him, the struggle of any potential decision vanishes and he's able to sit comfortably with the loss.

\*To the public mind, selling is NEVER sound. It always conveys the possibility of being wrong twice: first, admitting that they've made a buying error; second, admitting that they might be wrong in selling out. And if the stock has actually gone up, they're tormented: should they take the profit or hold for a bigger one? That creates anxiety, and anxiety breeds mistakes. But as long as they've got losses, and never have to decide, they can sit back comfortably and dream instead.

\*Through the entire market cycle lurks the fear of finalizing the deed of taking it from dream to reality by selling. By not selling, by tightly holding on to his stocks, the investor never has to face reality.

And "selling" was the theme for October, because since the September peak the Russell 3000 lost about \$3.5 trillion in market capitalization. Technology was hit the worst, losing some \$759 billion, with Financials in second place at \$580 billion. In fact, there was only one sector that saw an increase over the same timeframe and that was Utilities, but we digress.

To repeat, "Up until last Monday (October 29, 2018) we had focused on our short-term model's 'sell signal' of October 2, 2018." That focus changed a week ago because last Monday was the eighteenth session in the "selling stampede;" and to state to the point of *ad nauseam*:

Selling stampedes tend to last 17 – 25 sessions with only 1 – 3 session counter trend pauses/rally attempts before they exhaust themselves on the downside. It just seems to be the rhythm of the thing in that it seems to take that long for most folks to get bearish enough to sell and make the bottom. While it is true some selling stampedes have lasted 25 – 30 sessions, it is RARE to see one last for more than 30 sessions.

Indeed, last Monday was session eighteen in the downside skein and at that point the various markets registered some of the most extreme oversold, and negative sentiment readings seen in recent history. Moreover, the 14-day Stochastic crossed above its moving average (read: short-term buy signal). Of interest is that despite last Monday's half a percent price drop by the SPX, the session had positive breadth. We would term that a positive breadth divergence and it reinforces our sense that the "selling stampede" is over. Further, if next year's earnings estimate for the S&P 500 (SPX/2723.06) of \$176.30 by Standard & Poor's is anywhere near the mark, at last Monday's intraday low (2603.54) the SPX was trading at 14.7 times the 2019 estimate.

Despite the stock market's monthly meltdown, U.S. consumers are pretty optimistic as can be seen in Chart 1. Notice how their confidence picked up following the November presidential election. Clearly some of that confidence is driven by the strong employment situation, punctuated by Friday's better than expected employment report. As our friends at the invaluable Bespoke Investment Group write:

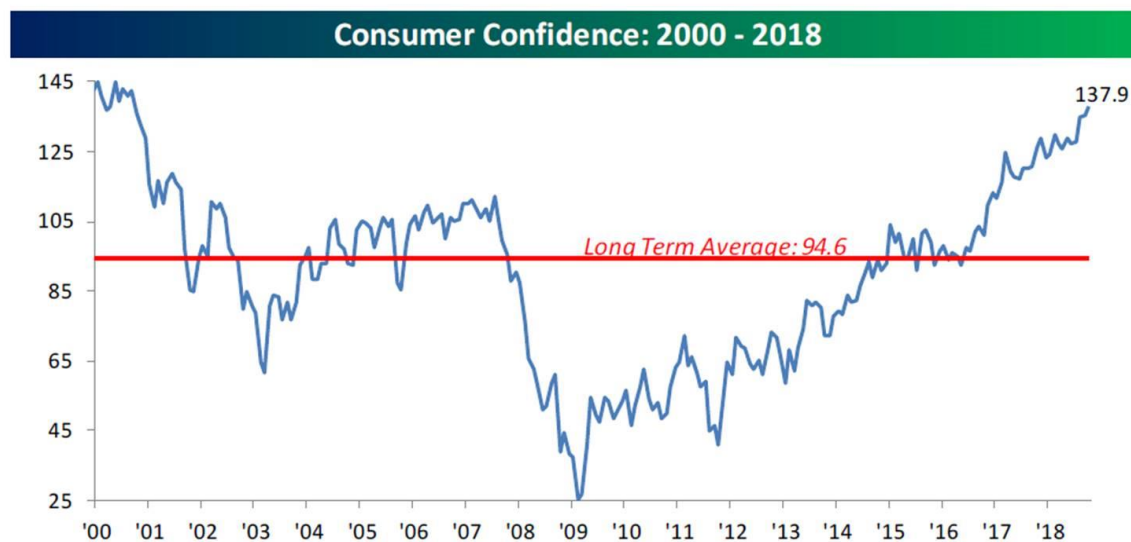
Both the indices of Confidence in the Present Situation and Expectations hit new highs for the cycle in October. In terms of the Present Situation, that index reached its best level since December 2000 while the index for Expectations hit its best level since September 2000. US consumers are a lot more positive about the present than they are the future [Chart 2].

This week, however, such economic reports will likely be ignored while the Street puts on "rabbit ears" for the mid-term election results. Here too, Bespoke has some interesting comments:

Looking at each of the individual periods where Republicans controlled the Oval Office and Senate while Democrats had the House shows that the averages are a bit misleading. The main reason for the Dow's weak average return is the 70% decline during the 72nd session of Congress during the midst of the Great Depression. The 99th session of Congress where the DJIA rallied more than 60% also skews the results substantially. With such a small sample size and such varied results, it's pretty hard to read much of anything into the DJIA's performance during these periods as a blueprint for what to expect this time around. A better set-up based on historical returns would be either party actually controlling both chambers in [Chart 3] the next session.

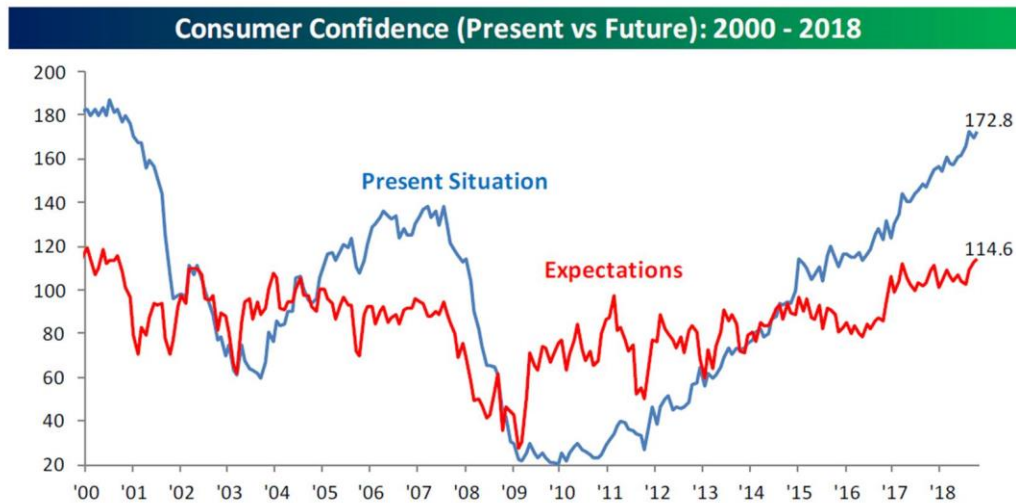
**The call for this week:** Last week the SPX attempted to close above 2750, which we deemed to be an important resistance level that would bring into view the next resistance level of 2800 - 2820. Yet the rally attempt failed to better 2750, which is usually the case on the first attempt to clear such a level. It also stopped short of its 200-day moving average (DMA) at 2764.66. On a bullish note the Buying Power Index has crossed above the Selling Pressure Index and the Cumulative Net Volume Index has held up very well. And, the percentage of stocks above their respective 10-DMAs is pretty bullish, as is the same for stocks trading above their 30-DMAs. We think the "lows" are in, but the ideal bottoming process would be a rally into the 2800 - 2820 zone followed by a pullback to the 2600 - 2650 level.

Chart 1



Source: Bespoke Investment Group

Chart 2



Source: Bespoke Investment Group

Chart 3

**Congressional Sessions With GOP President, GOP Senate, and Democrat House**

Session of Congress	Start	End	President	Senate	House	DJIA Change (%)	Annualized Return
62	3/4/1911	3/4/1913	R	R	D	-1.33	-0.67
72	3/4/1931	3/4/1933	R	R	D	-70.25	-45.41
97	1/3/1981	1/3/1983	R	R	D	5.58	2.75
98	1/3/1983	1/3/1985	R	R	D	15.85	7.62
99	1/3/1985	1/3/1987	R	R	D	61.98	27.27

Source: Bespoke Investment Group

## Important Investor Disclosures

Raymond James & Associates (RJA) is a FINRA member firm and is responsible for the preparation and distribution of research created in the United States. Raymond James & Associates is located at The Raymond James Financial Center, 880 Carillon Parkway, St. Petersburg, FL 33716, (727) 567-1000. Non-U.S. affiliates, which are not FINRA member firms, include the following entities that are responsible for the creation and distribution of research in their respective areas: in Canada, Raymond James Ltd. (RJL), Suite 2100, 925 West Georgia Street, Vancouver, BC V6C 3L2, (604) 659-8200; in Europe, Raymond James Euro Equities SAS (also trading as Raymond James International), 40, rue La Boetie, 75008, Paris, France, +33 1 45 64 0500, and Raymond James Financial International Ltd., Broadwalk House, 5 Appold Street, London, England EC2A 2AG, +44 203 798 5600.

This document is not directed to, or intended for distribution to or use by, any person or entity that is a citizen or resident of or located in any locality, state, country, or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. The securities discussed in this document may not be eligible for sale in some jurisdictions. This research is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. **Investors should consider this report as only a single factor in making their investment decision.**

For clients in the United States: Any foreign securities discussed in this report are generally not eligible for sale in the U.S. unless they are listed on a U.S. exchange. This report is being provided to you for informational purposes only and does not represent a solicitation for the purchase or sale of a security in any state where such a solicitation would be illegal. Investing in securities of issuers organized outside of the U.S., including ADRs, may entail certain risks. The securities of non-U.S. issuers may not be registered with, nor be subject to the reporting requirements of, the U.S. Securities and Exchange Commission. There may be limited information available on such securities. Investors who have received this report may be prohibited in certain states or other jurisdictions from purchasing the securities mentioned in this report. Please ask your Financial Advisor for additional details and to determine if a particular security is eligible for purchase in your state.

The information provided is as of the date above and subject to change, and it should not be deemed a recommendation to buy or sell any security. Certain information has been obtained from third-party sources we consider reliable, but we do not guarantee that such information is accurate or complete. Persons within the Raymond James family of companies may have information that is not available to the contributors of the information contained in this publication. Raymond James, including affiliates and employees, may execute transactions in the securities listed in this publication that may not be consistent with the ratings appearing in this publication.

Raymond James ("RJ") research reports are disseminated and available to RJ's retail and institutional clients simultaneously via electronic publication to RJ's internal proprietary websites ([RJ Investor Access](#) & [RJ Capital Markets](#)). Not all research reports are directly distributed to clients or third-party aggregators. Certain research reports may only be disseminated on RJ's internal proprietary websites; however such research reports will not contain estimates or changes to earnings forecasts, target price, valuation, or investment or suitability rating. Individual Research Analysts may also opt to circulate published research to one or more clients electronically. This electronic communication distribution is discretionary and is done only after the research has been publically disseminated via RJ's internal proprietary websites. The level and types of communications provided by Research Analysts to clients may vary depending on various factors including, but not limited to, the client's individual preference as to the frequency and manner of receiving communications from Research Analysts. For research reports, models, or other data available on a particular security, please contact your RJ Sales Representative or visit [RJ Investor Access](#) or [RJ Capital Markets](#).

Links to third-party websites are being provided for information purposes only. Raymond James is not affiliated with and does not endorse, authorize, or sponsor any of the listed websites or their respective sponsors. Raymond James is not responsible for the content of any third-party website or the collection or use of information regarding any website's users and/or members.

Additional information is available on request.

**Simple Moving Average (SMA)** - A simple, or arithmetic, moving average is calculated by adding the closing price of the security for a number of time periods and then dividing this total by the number of time periods.

**Exponential Moving Average (EMA)** - A type of moving average that is similar to a simple moving average, except that more weight is given to the latest data.

**Relative Strength Index (RSI)** - The Relative Strength Index is a technical momentum indicator that compares the magnitude of recent gains to recent losses in an attempt to determine overbought and oversold conditions of an asset.

International securities involve additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets.

Small-cap stocks generally involve greater risks. Dividends are not guaranteed and will fluctuate. Past performance may not be indicative of future results.

**Investors should consider the investment objectives, risks, and charges and expenses of mutual funds and exchange-traded funds carefully before investing. The prospectus contains this and other information about mutual funds and exchange-traded funds. The prospectus is available from your financial advisor and should be read carefully before investing.**

**Not approved for rollover solicitations.**

*For clients in the United Kingdom:*

**For clients of Raymond James Financial International Limited (RJFI):** This document and any investment to which this document relates is intended for the sole use of the persons to whom it is addressed, being persons who are Eligible Counterparties or Professional Clients as described in the FCA rules or persons described in Articles 19(5) (Investment professionals) or 49(2) (High net worth companies, unincorporated associations etc) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) or any other person to whom this promotion may lawfully be directed. It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons and may not be relied upon by such persons and is therefore not intended for private individuals or those who would be classified as Retail Clients.

**For clients of Raymond James Investment Services, Ltd.:** This report is for the use of professional investment advisers and managers and is not intended for use by clients.

For purposes of the Financial Conduct Authority requirements, this research report is classified as independent with respect to conflict of interest management. RJFI, and Raymond James Investment Services, Ltd. are authorised and regulated by the Financial Conduct Authority in the United Kingdom.

*For clients in France:*

This document and any investment to which this document relates is intended for the sole use of the persons to whom it is addressed, being persons who are Eligible Counterparties or Professional Clients as described in "Code Monétaire et Financier" and Règlement Général de l'Autorité des Marchés Financiers. It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons and may not be relied upon by such persons and is therefore not intended for private individuals or those who would be classified as Retail Clients.

**For clients of Raymond James Euro Equities:** Raymond James Euro Equities is authorised and regulated by the Autorité de Contrôle Prudentiel et de Résolution and the Autorité des Marchés Financiers.

*For institutional clients in the European Economic Area (EEA) outside of the United Kingdom:*

This document (and any attachments or exhibits hereto) is intended only for EEA institutional clients or others to whom it may lawfully be submitted.

*For Canadian clients:*

This report is not prepared subject to Canadian disclosure requirements, unless a Canadian analyst has contributed to the content of the report. In the case where there is Canadian analyst contribution, the report meets all applicable IROC disclosure requirements.

**Proprietary Rights Notice:** By accepting a copy of this report, you acknowledge and agree as follows:

This report is provided to clients of Raymond James only for your personal, noncommercial use. Except as expressly authorized by Raymond James, you may not copy, reproduce, transmit, sell, display, distribute, publish, broadcast, circulate, modify, disseminate or commercially exploit the information contained in this report, in printed, electronic or any other form, in any manner, without the prior express written consent of Raymond James. You also agree not to use the information provided in this report for any unlawful purpose.

This report and its contents are the property of Raymond James and are protected by applicable copyright, trade secret or other intellectual property laws (of the United States and other countries). United States law, 17 U.S.C. Sec.501 et seq, provides for civil and criminal penalties for copyright infringement. No copyright claimed in incorporated U.S. government works.