The Market Correction We've Been Awaiting Is Here…

By Robert T. Deitrick, CEO and Steven T. Morgan
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- ***The last Dow drop of 600+ points was on June 24th, 2016, the day after the Brexit vote or joke.***
- ***The Dow industrials tumbled more than 1,500 points at one juncture yesterday, the worst intraday fall in market history.***
- ***Steven and I believe this is a short-term reset and not a long-term calamity.***

Market corrections are not pretty; indeed, they can be downright homely at times. This past week the stock market took a nose dive from the "ugly tree" and it hit every branch on the way down... The first thing to understand about the market's capitulation from Friday and Monday is that this is not being caused by anything fundamental. There was no single piece of news that drove the major averages to capsize, a move that sent the DOW off more than 1,500 points in the final hour of intraday trading yesterday.

If you have ever seen the 2004 movie, The Day After Tomorrow, with Dennis Quaid and Jake Gyllenhaal, you will recall that when you walked out of the movie you might have thought the world was about to "come to an end". However, everything was fine. This decline in the market is much like that movie. It is surreal, and an aberration of the truth. The reality is that nothing has changed over the past week. The economy remains sound, our credit markets are solid, and the United States is in a very strong macro-economic position. Having said that, the market needs some ugliness from time-to-time to shore things up. We have said this on many occasions, but it is important for healthy bull cycles to have corrections like this – despite how painful they are in the short term.

The Dow Jones industrial average posted a record point loss Monday declining 1,175 points - representing a 4.6% decline. But while this was the biggest single-day point decline in history for the Dow, there were steeper percentage declines on several occasions during the global financial crisis and its aftermath, not to mention the 508-point drop in the Dow on Black Monday back in 1987 - which represented a 22.6% market crash. Having said that, remember that the absolute numbers don't matter – it is the percentages that are important.

Ranked by percentage, Monday's fall was not even in the Top 10. In fact, it was only the 99th largest percentage drop in history – not a big deal in the scheme of all things which are important.

As the Dow has soared over the past nine years from ~ 6,600 to 26,000 - point drops increasingly represent a much smaller percentage change. The 665.75 drop last Friday was a decline of just 2.5% for the Dow and Monday's decline was 4.6% so we are getting close to an actual correction (which technically speaking is a 10% decline from peak to trough) at this point. Below you will see some daily declines over the past 20 years:

Day	Close	Change	% Change
Friday, April 14, 2000	10,305.78	-617.77	-5.66%
Monday, September 17, 2001	8,920.70	-684.81	-7.13%
Monday, September 29, 2008	10,365.45	-777.68	-6.98%
Thursday, October 09, 2008	8,579.19	-678.91	-7.33%
Wednesday, October 15, 2008	8,577.91	-733.08	-7.87%
Monday, December 01, 2008	8,149.09	-679.95	-7.7%
Monday, August 08, 2011	10,809.85	-634.76	-5.55%
Friday, June 24, 2016	17,400.75	-610.32	-3.39%
Friday, February 2, 2018	25,520.96	-675.75	-2.75%
Monday, February 5, 2018	24,345.75	-1175.21	-4.60%

You might be asking, what do I need to do – if anything? Is this a time to worry - or not? It is always prudent to pay close attention to your surroundings. Indeed, observing the market is what Steven and I do on your behalf and for all our clients on a 24/7 basis. This is our primary job. We are watching these events carefully and we are concerned, but we are not in a panic state at all.

To respond to the prior two questions… Relax, enjoy your favorite cocktail, glass of wine, or your favorite beer, and please allow us to do the worrying for you. We have had very low volatility, as represented by the VIX for over 15 months, and now, we are finally getting the payback for this low volatility all at once. If this is indeed the correction we've been waiting for, and we believe it is, then Steven and I contend: Let's get it over with and move on. We had a great start in January - one of the best in history! The S&P 500 was up over 5.61% last month, beating the last break out year we had for equities in 2013 when the S&P 500 was up 5.04% in January. In 2013, we closed-up more than 32% that year.

What precipitated the drama and volatility over the past week? It has been a combination of things. Concern about rising interest rates and higher inflation, the GOP Memo which was unclassified and released Friday adding fuel to the mess which is Washington D.C. And most importantly, new FED Chair Jerome Powell started yesterday, and it has been a historical trend that the market treats incoming FED chairs with little respect. Anecdotally, the market dropped when FED Chairs Bernanke, Yellen and Greenspan entered that position as well.

The good news is that last Friday started strong as the U.S. economy added 200,000 jobs in January, per the BLS jobs report. Economists expected only 180K new jobs. Moreover, wages rose 2.9% on an annualized basis. The good news of the jobs report sent interest rates higher as the benchmark 10-year note rose to 2.85% on the back of the report - a four-year high. The oxymoron about the markets is that sometimes good news gets conflated into bad news... Steven and I believe this so called "bad news" is a short-term aberration.

We at PFP are cautious but remain very optimistic. We believe the U.S. is amid one of the greatest economic expansions in decades. We are in the most pro-business, pro-profit-creation environment since 1982. Our president, love him or hate him, is relentless in his embrace of our stock market. The new tax law means U.S. companies will be flush in cash. Corporate stock buybacks and capital returns will help the market recover from this selloff. Think of this terrifying process as the catalyst to get us back to more reasonable levels where we can have a real advance, not a parabolic move which will be repealed. Once this correction finds its bottom or foundation, the market will start growing again. There is simply too much good news to ignore…

We at PFP believe a buying opportunity exists once we burn off this euphoria. After that, we are optimistic and all into this market. As Jim Cramer put it recently, "It might be the end of the fairy tale world. Last year was fun and easy. It is about to get hard, so good stock, sector picks, and active management will be key moving forward". Please feel free to call or email Steven or myself with any questions at all. We are here to assist in any way that we can.

By the way, we will be having two seminars to discuss the market as well as the new tax law coming up in March – both will be at Eddie Merlot's. One will be a dinner function on Wednesday evening the 21st and one will be a luncheon on Friday, March the 23rd. Please RSVP to Steven or our intern Jace Dodge, or feel free to call us with any questions at all at: 614.901.3400. Have a terrific week and please try to relax, this too shall pass…