

This Correction is Technical, Not Fundamental

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Well...what's up? The Chicago Cubbies, that's what. They've won 19 out of their last 23 games and have the fourth best record in Major League Baseball. Maybe hell really is about to freeze over. Cub's fans have been waiting for a very long time.

The only people more giddy with anticipation are the stock market pundits looking for The Big Short – II. It's an eagerly anticipated sequel of the Panic of 2008. The S&P 500 is tumbling again today, more than 10% below the peak in May.

The Pouting Pundits of Pessimism have been waiting for a long time for this. They haven't waited as patiently as Cubs fans, but they've waited. In the past six and one-half years, every time the market has gone down sharply for a day or two, or a piece of economic data turned negative, the decibels have risen. Technical moves in stocks, or seasonal patterns in data, are turned into a fundamental reason to run for the hills with weapons and gold.

These fear-mongers are traders, not investors. Macro-short-sellers face impossible odds because markets go up over time. To make money shorting, you have to know when to sell and when to cover. No one we know can do this successfully over time. Investing involves long-term thinking about fundamental factors, like profitability, new technology or serious policy changes. Trading is short-term, involving technical factors and emotion.

Shorts get power from fear and confusion, and nothing creates fear like the belief that market declines are being caused by some fundamental problem.

We don't see any serious fundamental problems.

1 – Private sector jobs have increased for 65 consecutive months. There is unambiguous improvement in housing and construction taking place. Auto sales are near record highs, and rising. Yes, it's Plow Horse growth, but profits, outside of

energy, continue to grow. Using total profits, or forward-PE ratios, which include the drop in energy profits paints a distorted picture.

2 – Since the crisis of 2008, pundits have convinced themselves that the bull market in stocks is because the Fed, and Quantitative Easing, have created a "sugar high." By definition, taking away the sugar is painful. But, there is no "proof" that QE is responsible for record high corporate profits. M2 (the money supply Milton Friedman told us to watch) has continued to grow at about a moderate 6% per year.

3 – Even though tapering didn't end the world, now they say rate hikes will. But, seriously, is there anyone out there who thinks a 0.375% federal funds rate will stop the iPhone7 from being introduced? There are still massive amounts of excess reserves in the system, and paying banks even 1% for those reserves (instead of 0.25%) is not going to cause the money supply to shrink.

4 – Yes, China is slowing. So what? Exports to China make up 0.7% of US GDP.

5 – The very same people who three months ago were saying the Chinese yuan would be the new reserve currency, now say Chinese devaluation is calamity. Which should we fear, a rising or falling yuan? Answer, neither.

6 – Corrections are about moving capital from weak hands to strong hands and are always scary, especially when the pundits argue loudly that the correction is due to fundamental factors.

But, this correction is not due to fundamental factors. It's technical. We can't prove it to you, but that's what corrections are all about – opportunity for those who can see through the fog. Die-hard shorts are just like Cubs fans – this is the year, until we have to wait for the next one.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
8-25 / 9:00 am	New Home Sales – Jul	0.510 Mil	0.497 Mil		0.482 Mil
9:00 am	Consumer Confidence – Aug	93.4	94.6		90.9
8-26 / 7:30 am	Durable Goods – Jul	-0.4%	+0.6%		+3.4%
7:30 am	Durable Goods (Ex-Trans) – Jul	+0.4%	-0.2%		+0.6%
8-27 / 7:30 am	Initial Claims – Aug 22	274K	273K		277K
7:30 am	Q2 GDP Preliminary Report	3.2%	3.3%		2.3%
7:30 am	Q2 GDP Chain Price Index	2.0%	2.0%		2.0%
8-28 / 7:30 am	Personal Income – Jul	+0.4%	+0.4%		+0.4%
7:30 am	Personal Spending – Jul	+0.4%	+0.4%		+0.2%
9:00 am	U. Mich Consumer Sentiment- Aug	93.0	93.0		92.9