Dynamic Wealth Advisors

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Market Update: Despite Scary Stories, Stocks Show Strength

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Market Update

Happy Halloween! There are many scary movies that come out around this time of year, but some of the scariest stories are in the financial media. Recession looming, high inflation, inverted yield curve, rate hikes and many other fear mongering phrases continue to be highlighted in the press. However, it's important to remember that just like in the movies, the media loves a good scary story.

The stock market has actually been rebounding since about mid-October—despite the headlines. The primary drivers for this growth have been:

1. **Corporate earnings:** Results have generally been favorable (meeting or beating expectations); approximately 20% of S&P 500 companies have reported third quarter earnings with about 73% exceeding earnings forecasts.
2. **Oversold conditions:** Investor sentiment had reached excessively pessimistic levels in early October—the lowest since 2008, according to the AAII bull-bear sentiment indicator. This tends to be a contrarian indicator and often sets up the market for a bounce.
3. **Hints of Fed slowdown:** Some Federal Reserve officials have begun to signal a desire to slow down, or even stop, the raising of interest rates early next year.

Is this a short-term reversal or have we seen the market hit bottom?

The last component mentioned above is perhaps the most important indication to help identify a potential market bottom. When inflation begins to drop and the Fed jointly reaffirms a desire to stop the rate hikes are when we'll most likely see a more prolonged market rebound. Unfortunately, only time (well, and the Fed), will tell.

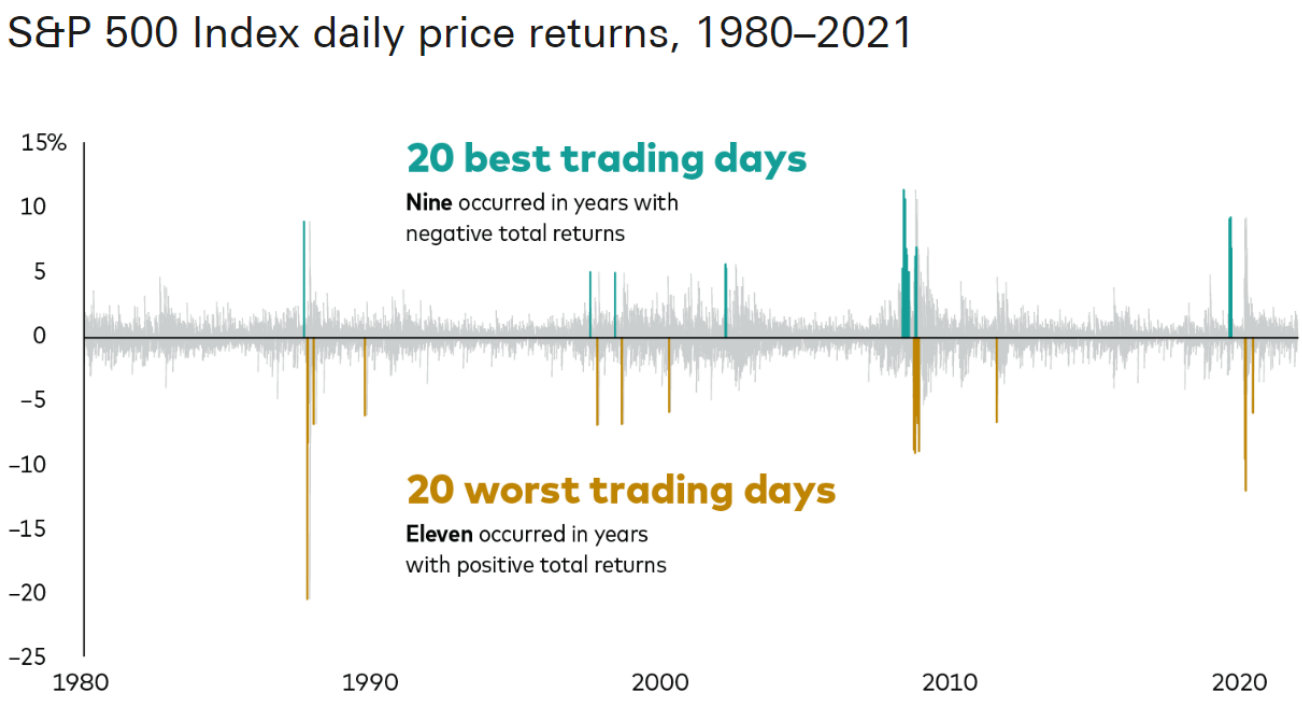
If history is any guide, trying to determine when the market will bottom, or peak for that matter, has a low probability of success. Timing the market is nearly impossible, and one of the reasons is because some of the best days of the market happen right around some of the worst. A few key observations from the chart below on pg. 2, "The Best and Worst Trading Days Happen Close Together":

1. Most the best days cluster around the worst days.

2. About half of the best days happen in years with negative returns (and many during a bear market or recession).

3. **You cannot avoid the bad days and only participate in the good; the best chance of success is to remain invested in the market, even during periods of high volatility.**

The Best and Worst Trading Days Happen Close Together



Source: Vanguard calculations using data from Refinitiv as of December 31, 2021. Past performance information is given for illustrative purposes only and should not be relied upon as past performance is not an indication of future performance.

As always, Dynamic recommends staying balanced, diversified and invested. Despite short-term market pullbacks, it's more important than ever to focus on the long-term, improving the chances for investors to reach their goals.

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