Intrinsic Investors

The Month in Review

October Takeaways

- Just in time for Halloween, a bear scare managed to spook investors this month sending stock prices plummeting and wiping out most of the gains for 2018. Part of the return to normal?

- While it is not normal to experience two corrections (> down 10%) in a year, they can and do happen. Unlike what we experienced in July and August, investors chose to ignore positive earnings growth in the third quarter and focused instead on trade issues and the rise in interest rates.

- We mentioned rotation in the August letter and that's exactly what appears to be happening. Although it might be premature to write growth off in favor of value, investors sold off many of the stocks that fueled gains in 2018 in favor of previously mentioned consumer staples, health care and dividend paying stocks.

- The economy continues to impress, although housing and auto sales are showing signs of fatigue in the face of tightening credit conditions. We'll monitor this to see if it spills over into other sectors.

- Last month, we noted that trailing earnings were starting to flatten. It's normal going into the fourth quarter for analysts to pull their horns in a bit to avoid appearing to be over-bullish. We were wondering whether the earnings "bull" would continue into the 4th quarter and haven't been disappointed. For the month, trailing earnings increased 4.97% for Dow stocks.

- While this should have been upbeat for equities, unlike previous months, stocks couldn't shake the interest rate, trade and geopolitical concerns that have dogged the markets for months. New turmoil in the EU (Italy's budget, German elections, more Brexit angst) are raising fears of a global bear market. Might happen; we're watching.

- Finally, for those not following the Recession Predictor weekly (https://intrinsicinvestors.us1.advisor.ws/charts) on our website, it is worth noting that, while the prospects of recession are still well over the horizon, currently it's a 50/50 toss-up for a recession in the next two years. But the odds are rising. Recessions are a normal part of the business cycle, but we hope to be on the sidelines when the next one hits.