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Flu-like Symptoms? It's Probably The Flu

by Kamyar Kashfi CFS

Fever? Body ache? Runny nose? Chills? Fatigue? Your first response wouldn't be to call in the guys in the HazMat suits, right? The chances are you have the flu. Despite the media's best efforts to convince you otherwise, you most likely have not been infected by Ebola. The flu is not a death sentence and will often pass without any treatment and can be treated quite effectively as well with rest and medicine. The flu is not something you need to freak out about. Some people, on the other hand, always freak out. They are called hypochondriacs. Investor behavior is often quite similar. Every correction is not the beginning of the end for the market or even a Black Monday. You wouldn't sell all of your stocks every time the market dipped, right? Some investors would and perhaps they know their time horizon and risk tolerance better than anyone else. For investors who think long term, being diversified, rebalancing, exercising patience, and buying on dips are the best medicine. With time, like the flu, market dips shall pass. Once in a lifetime events like the financial crisis in 2008 – 2009 are called once in a lifetime events for a reason and the reason is they are rare. The market has the flu. The market doesn't have Ebola and things will eventually work their way back to health.

The catalyst for the current market pullback, in my opinion, was the recent decline in crude oil prices and crude related equities. From June 27th through October 17th, Nymex crude oil traded from $105.74/barrel down to $83.08/barrel, the Philadelphia Oil Services Index traded from 308.97 down to 240.16 and the NYSE Energy Index traded from 15960.37 down to 13430.43. These values represent declines of 21.4%, 22.2% and 15.8%, respectively. Those are big declines for just over one quarter's time. By comparison, the S&P 500 was at 1961.47 on June 27th and traded down to 1886.76 on October 17th for a decline of only 3.8%. Crude oil and crude related stocks declined four to five times more than the S&P 500 during that time. Oil stocks are a major component of price weighted and market cap weighted indexes and 20% declines will move the needle a bit on the overall market. Sector investors might look to add money to areas that are depressed or out of favor. Currently, the most oversold area and most compelling buys, in my opinion, are crude oil related stocks. The fundamental backdrop for the economy and market still appear to be improving. While oversold doesn't mean prices are rock-bottom, a 20% sector decline in an otherwise healthy market signals it's time to think about buying rather than selling.

The S&P 500 finally caught the oil flu virus and the S&P's temperature as measured by the Fear Index ($VIX) hit a high of 31.06 on October 15th. When the Fear Index trades over 20, historically it has signaled investors are too fearful and it's time to buy. The selling in oil stocks which began at the end of June finally spilt over into the broad market and investors began capitulating. Rates are still low, the Fed is accommodative, employment is improving and growth is picking up in the Unites States. Before the market corrected, some investors who were on the sidelines said the market was high and that they were waiting for a correction before they buy. The market has corrected and bargains now exist in certain sectors as well. It's the flu, not Ebola. It's a buying opportunity and not the beginning of the end. Call or email me today so we can review your portfolio.

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