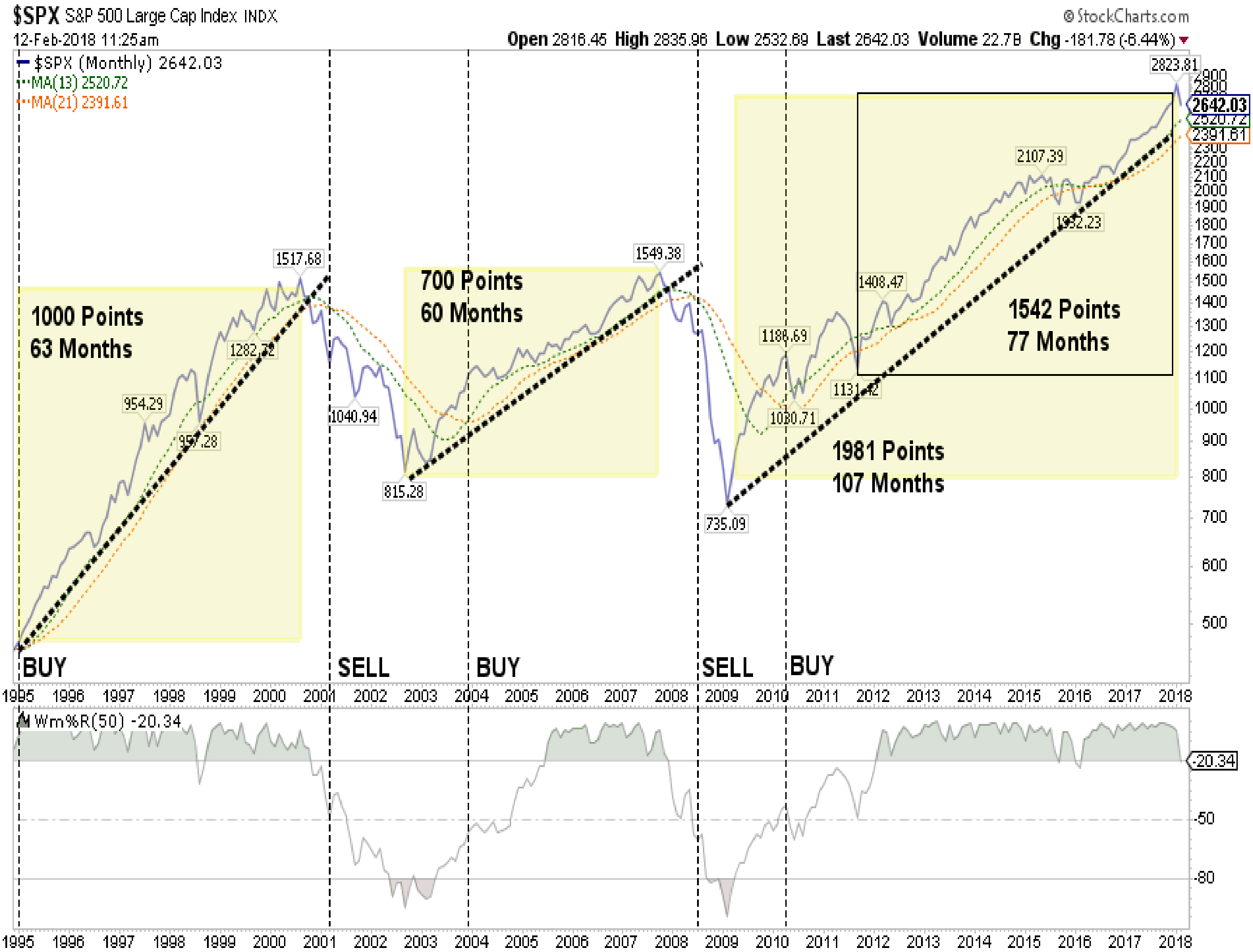
Over the last couple of months, we have been warning of an impending correction due to the massive extension above longer-term moving averages. [To wit:](#)

> ***"Just remember, bull-runs are a one-way trip.***•*Currently, there are just 200 points of upside until the S&P 500 hits a majority of its Wall Street targets of 3000."*

"I have taken the chart above and calculated several possible corrections and mean reversions to different levels."

Market Declines To:	Level	Size Of Correction	Likelihood Of Event	
2018 Bull Trend	2650.00	-5.44%	Extremely High	Normal Correction
52-Week Moving Avg.	2480.43	-11.49%	Very High	
2009 Bull Trend	2300.00	-17.93%	Possible With Pickup In Volatility	
2-Standard Deviations Below 52 WMA	2229.29	-20.46%	Possible With Pickup In Volatility	
Fibonacci Retracement 23.6%	2140.73	-23.62%	Possible With Pickup In Volatility	
Fibonacci Retracement 38.2%	2115.5	-24.52%	Coincident With Recession	Bear Market
Fibonacci Retracement 50.0%	1903.27	-32.09%	Coincident With Recession	
Fibonacci Retracement 61.8%	1691.03	-39.66%	Coincident With Recession	

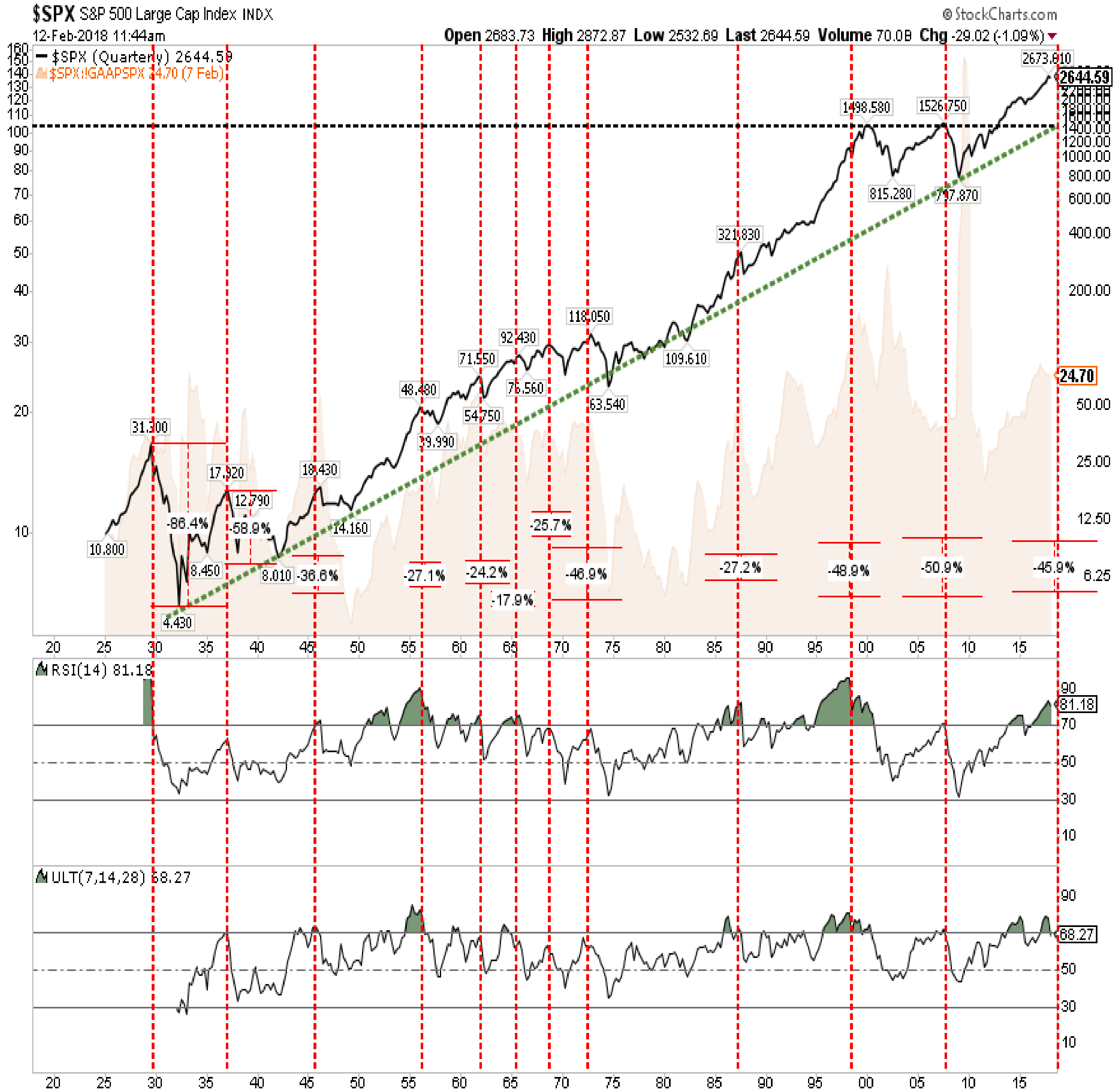
Well, as noted in the table above, the correction correction back to the 2018-bullish trend, a very high probability event, occurred. **While such an event has been expected, it still seemed to catch investors by surprise.**•Of course, given such a long period of upwardly trending prices with exceptionally low volatility, investors had been lulled into very high levels of complacency.•**The media had also fallen into the trap suggesting the one-day correction had been a major mean reverting event.** It wasn?t.



As shown in the chart above, **all indicators remain extremely overbought and the market has not even reverted back to the long-term moving average as of yet.**•While the markets may indeed rally further,•**it is quite likely the correction that began on last week is not complete as of yet.** Furthermore, after such a long period of low volatility, the sharp decline in asset prices is one week **FELT much worse than it actually was.**•This is the important, and often missed, point about?passive indexing.? While a 10% decline in the market certainly does SOUND bad, **a 200+ point loss on the S&P 500 FEELS entirely different.** This is where investors start making emotionally bad investment decisions where?*passive investing?*•ultimately becomes[?active selling.?](#) The?*buy and hold?*•mantra is essentially based on•the premise that stocks rise much more often than they fall, and since you are either too stupid, or lazy, to actually understand how investing actually works, you are just better off making investments and forgetting about them. Hopefully, you will win. This is the equivalent of saying:

> ***?Since 8 out of 10 people who play ?Russian Roulette? survive the first pull of the trigger, the odds are in your favor of winning.?***

While that is entirely true, it is the 20% of the time you lose that matters most. The chart below shows the long-term view of the market, going back to 1920, as compared to GAAP valuations.• **This is a QUARTERLY price chart which also shows the points in history where valuations have collided with extreme overbought conditions.•**



It is the?*lack of perspective?*•by investors that eventually lead them into the myriad of investment mistakes which destroys investment capital. Think about it this way.**If a 10% decline causes this much angst in the market, what happens when you double or triple that.** That can't happen? A

30% decline is *"average"* for a recessionary economy and given the extreme deviation from long-term means, combined with a massive amount of leverage, the next major correction will likely be larger than average.

So, Is It Over Now?

Maybe. But it is too soon to know for sure. The chart below shows the weekly view of the S&P 500 index going back to 2014. There are several important things to take note of.

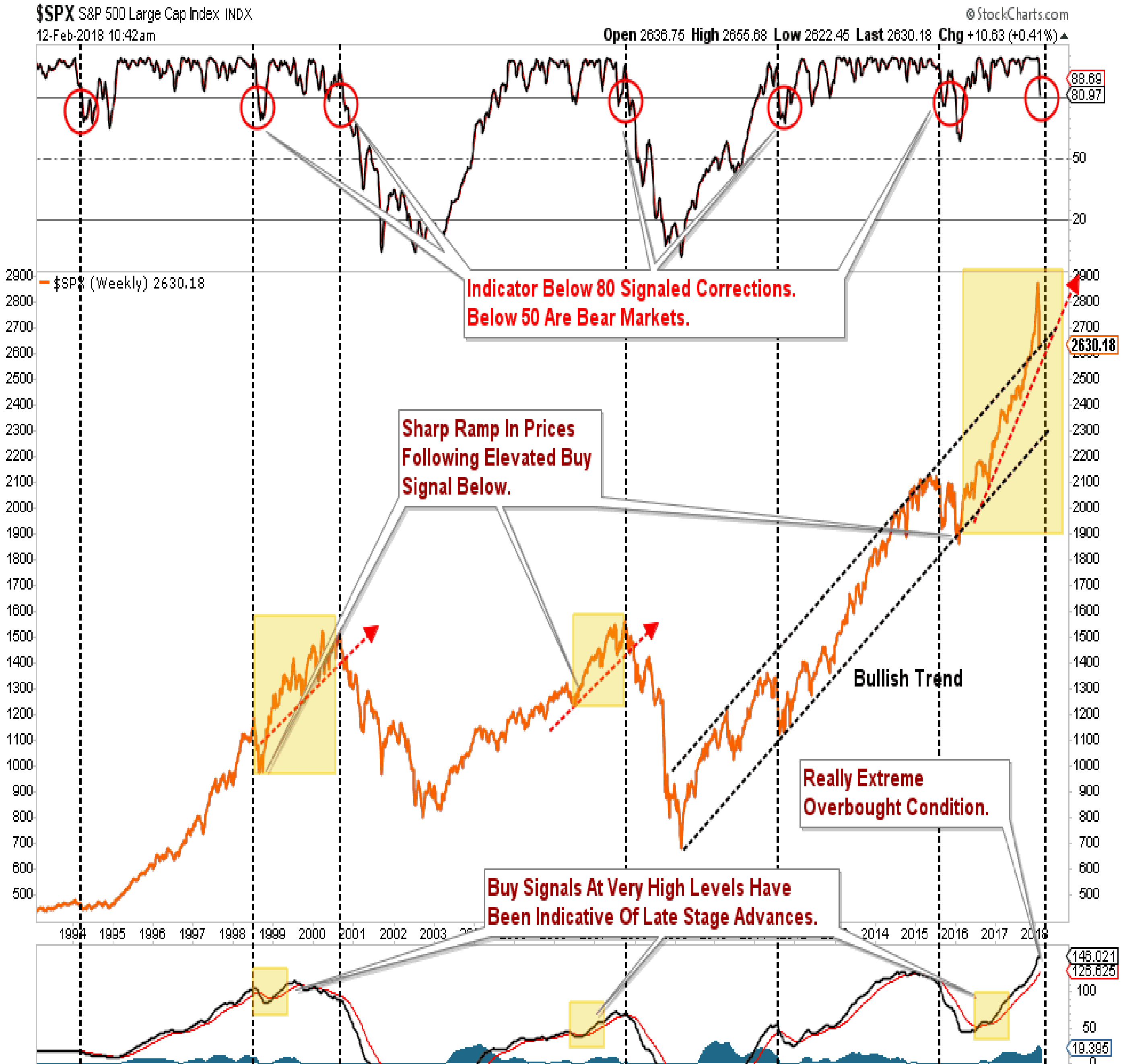
Don't get wrapped up in the technical specifics of the indicators, but instead focus on what they indicate.

> *(We will provide all our specific indicators to subscribers at RIA Pro, [click here to get on our list] for pre-subscription information)*

The market has clearly remained in a bullish trend since the lows in 2009. The vertical black lines mark the points where the lower two indicators **BOTH** registered a sell signal.

- ***The first of the two is simply an "ALERT"*** *signal which suggests investors should "pay attention" to their risk related allocations and rebalance those risks accordingly.•*
- ***When both lower signals are triggered, a confirming signal,*** *such has generally been a good indication to more proactively reduce allocations, raise SOME cash, and further reduce risk related exposure.*
- ***The final signal, not seen since late 2015, is the moving average crossover*** *(blue box) which is an indication to substantially reduce risk and protect capital.•*

Currently, the deviation between the short and long-term moving averages is so large it will take a more significant consolidation/correction process, to trigger that *"signal."* **For now, this remains a correction within a bullish trend**. BUT,• DO NOT be overly complacent and assume we will simply return back to a long-term upward trend. The chart below takes a longer-term look at the current market backdrop and the risk we are currently facing.



Starting at the top of the chart and working our way down.

- *The long-term overbought/oversold indicator has not violated 80 as of yet.* ***Historically, market corrections are triggered when the indicator breaks below 80 but remains above 50.*** *Breaks below 50 are indicative of more important•"bear markets."•*
- *Sharp ramps in prices, yellow boxes, are also more indicative of "late stage" bull market exuberance.•*
- *Combine the sharp ramp in prices with the lower "buy/sell" signal we can make an important observation. When "buy signals," matching yellow boxes,* ***are triggered from high levels, it has been more coincident with late stage bull markets and topping processes.•***

Currently, the lower signal is at a level rarely seen in history. Combine that signal with a very *"late stage"* bull market price advance and the risk to investment capital should be more apparent. **No, this does NOT mean "*sell everything*" and bury your cash in the backyard.•**Neither chart above suggests we are entering into a deeper *"bear market"* correction currently. As stated above, the market **has not** violated the accelerated bullish trend nor the bullish trend support levels from the pre-2016 correction advance. It doesn't mean it won't happen. It just hasn't happened yet. But, given the recent break, we are much more concerned about short-term risks particularly as it relates to•internal deterioration, rising rates, and liquidity concerns. As such•we are using the current rally to•**reduce and rebalance portfolio risk, adjust hedges and raise some cash.** This is the essence of *"risk management"* and what we attempt to achieve in our portfolio management process. **This is also NOT the time to be throwing all your money at stocks either as the technical backdrop has not confirmed an end to the selling pressure as of yet.•**Just be patient. While hindsight is pretty clear about what eventually happens, the ultimate outcome took months to develop.•**Just as with the•*?boy who cried wolf,?*•warnings eventually fell on•*?deaf ears?*•at the point those warnings actually mattered.•Currently, the long-term bullish trend that began in 2009 remains intact.•**The correction that began in early 2016 was temporarily cut short by massive, and continuing, interventions of global Central Banks. There is a limit, of course, to the efficacy of those interventions. Will Central Banks come to the rescue again? We will have to wait and see. **All I can be fairly certain of is that a violation of the long-term bullish trend, and a failure to recover, will signal the beginning of the next *?bear market?* cycle.** Such will then change portfolio allocations to be either•*?neutral and/or short.?* •**BUT, until that violation occurs, portfolios should remain biased to the long side.** The current market advance both looks, and feels, like the last leg of a market•*?melt up?*•as we previously witnessed at the end of 1999. There were also corrections that led to new highs before the *"bear market"* actually started. How long the current process lasts is anyone?s guess.•**However, it should be remembered that all bull markets do come to an end** and those endings are very•disastrous to long-term investing objectives.