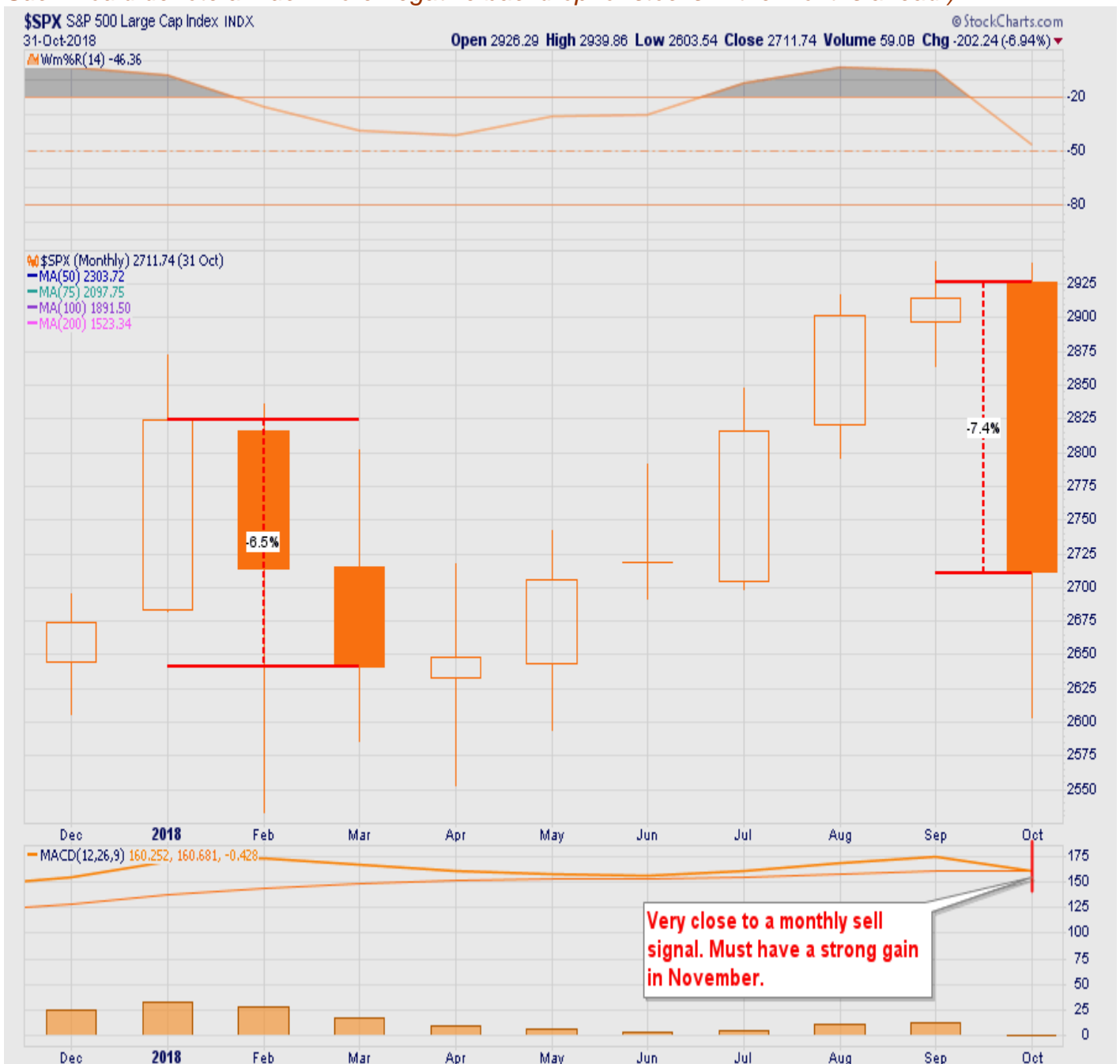


I have written about the "problem with passive" previously which mostly fell on "deaf ears." •Such should not be surprising after one of the longest advances in market history with virtually no volatility in 2017. However, as they say, "payback is a bitch." This year started off with a January rush higher followed immediately by a 2-week sell-off that wiped out the entire advance. But then it was over, and the market began to stair step higher ultimately reaching all-time highs. Once again, the "buy and hold" and "passive indexing" mantras were seemingly proved right. And then the month of October arrived and stocks plunged more in one month (-7.4%) as compared to the decline from the closing highs in January to the lows of March (-6.5%). *(As noted, it is important that November musters a fairly strong rally to keep the monthly MACD sell signal from triggering. Such would denote a much more negative backdrop for stocks in the months ahead.)*



Over the last couple of months, we have repeatedly warned our readers that a pickup in volatility in October was highly likely due to the strong advances made by the markets during the preceding

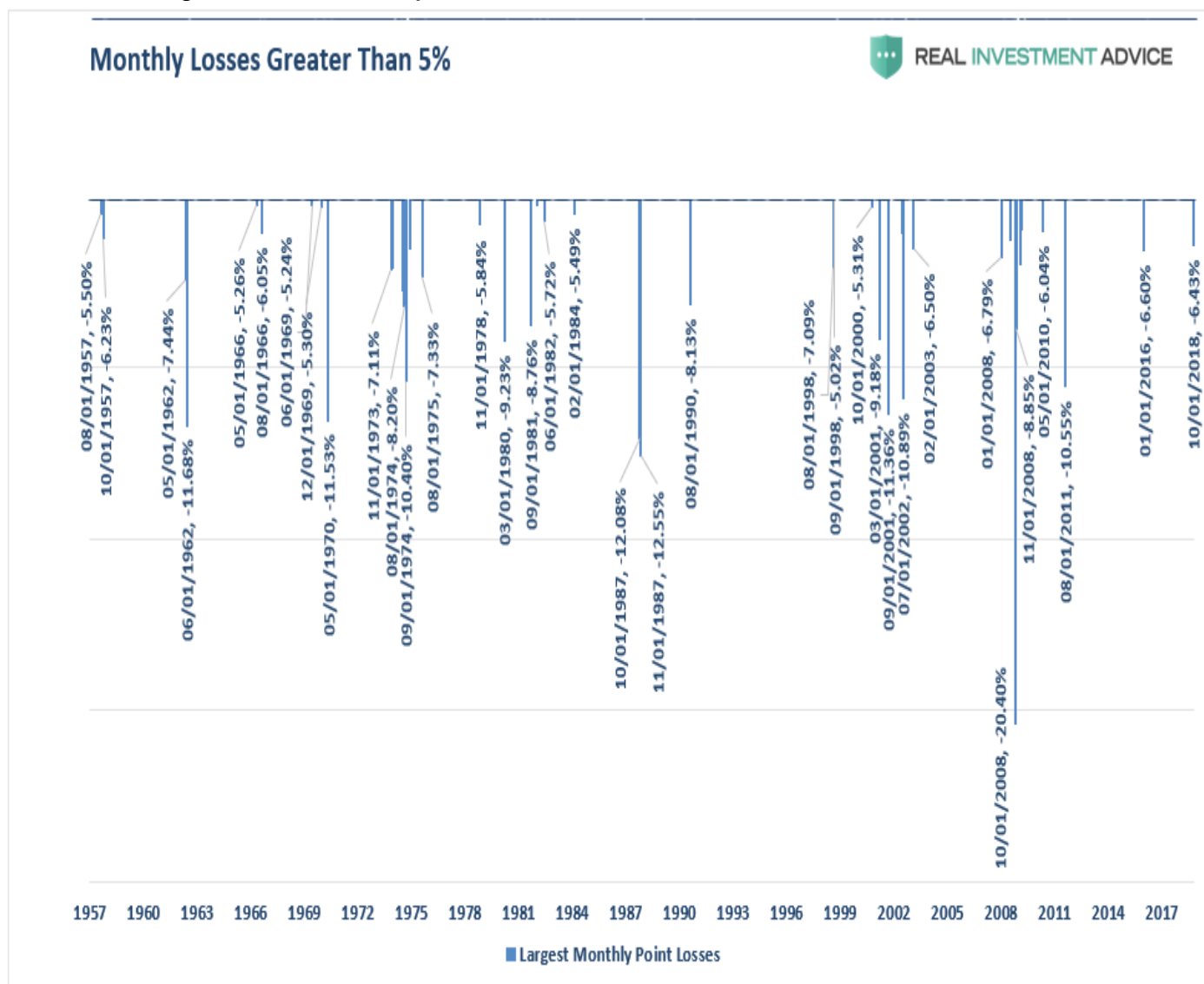
summer months. • At the beginning of [September I penned:](#)

"However, there are plenty of warning signs that the • good times? • are nearing their end, which will likely surprise most everyone."

Then I reiterated that point two weeks later. [To wit:](#)

*"While we are long-biased in our portfolios currently, such doesn't remain there is no risk to portfolios currently. **With ongoing • trade war? • rhetoric, political intrigue at the White House, and interest rates pushing back up to 3%, there is much which could spook the markets over the next 45-days.**"*


The chart below only shows months where the market lost more than 5%. You will notice clusters of losses during the centers of major bear markets such as 1974, 2000, and 2008.



So, with October behind us, the market should march back to all-time highs. Right? Maybe not, as [this time is not like last time.](#)

- The Fed is hiking rates versus either lowering or keeping them at zero.
- The Fed is reducing rather than increasing their balance sheet.
- The current Administration is insisting on a ?trade war? which slows global growth.
- The economic cycle is mature rather than recovering.

- Record levels of debt at risk of rising rates versus a re-leveraging cycle with ultra-low rates.
- A mature housing, auto, and consumption cycle versus a recovery.
- Global central bank interventions have begun to taper versus expansion
- Peak earnings growth versus expansion
- Peak valuations versus expanding valuations



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While the sell-off this past month was not particularly unusual, it was the break of material levels of support which was different. Furthermore, **the uniformity of the price moves revealed the fallacy of passive investing** as investors headed for the door all at the same time. Such a uniform sell-off is indicative of what we have been warning about for the last several months and should serve as a warning.

With everyone crowded into the ETF Theater, the exit problem should be of serious concern. Unfortunately, for most investors, they are likely stuck at the very back of the theater. However, I am suggesting that remaining fully invested in the financial markets without a thorough understanding of your risk exposure will likely not have the desired end result you have been promised. As I stated often, my job is to participate in the markets while keeping a measured approach to capital preservation. Since it is considered bearish to point out the potential risks that could lead to rapid capital destruction; then I guess you can call me a bear. Just make sure you understand I am still in the theater, I am just moving much closer to the exit.

Despite the best of intentions, individual investors are NOT passive even though they are investing in passive vehicles. When these market swoons begin, the rush to liquidate entire baskets of stocks accelerate the decline making sell offs much more violent than what we have seen in the past. This concentration of risk, lack of liquidity, and a market increasingly driven by robot trading algorithms, reversals are no longer a slow and methodical process but rather a stampede with little regard to price, valuation, or fundamental measures as the exit becomes very narrow. October was just a "sampling" of what will happen to the markets when the next bear market begins. Oh, I almost forgot, the other problem with the whole passive investing mantra is that getting back to even is not a successful investment strategy to begin with.

#YouHaveBeenWarned

Just something to think about as you catch up on your weekend reading list.

Economy & Fed

- The Post-Election Blame Game Is Already In Place [by Caroline Baum via MarketWatch](#)
- Last 2X Economy Was This Strong, A Recession Came [by Lakshman Achuthan via ZeroHedge](#)
- Red Hot Economy? Women Aren't Convinced [by Ben Casselman & Jim Tankersley via NYT](#)
- Trump Wants To Cut Taxes, Cut Tariffs Instead [by Scott Hodge via Washington Examiner](#)
- What Problem Is A Basic Income Attempting To Solve? [by Sebastian Johnson via Slate](#)
- Are Tax Cuts Paying For Themselves? [by Tim Fernholz via QZ.com](#)

- **Why America Needs Another Baby Boom!** [by Steven Mosher via New York Post](#)
 - **Trump Is Right: Fed Has Moved Too Fast** [by Jonathon Trugman via NY Post](#)
 - **GDP Prices The Final End Of Hysteria** [by Jeffrey Snider via Alhambra Partners](#)
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Markets

- **Kolanovic Triples Down On Year-End Squeeze Higher** [by Tyler Durden via Zerohedge](#)
 - **5 Reasons: To Buy Or Leave The Market** [by Jeff Reeves via MarketWatch](#)
 - **If You Weren't Worried, You Should Be Now** [by Howard Gold via MarketWatch](#)
 - **Bond Market Says More Turmoil To Come For Stocks** [by Simon Constable via Forbes](#)
 - **Is The Cliffhanger Market Just Beginning** [by Dana Lyons via The Lyons Share](#)
 - **6-Scary Charts For Halloween** [by Laura Frost via BondVigilantes.com](#)
 - **Key Reasons Behind Octobers Nasty Drop** [by Mark DeCambre via MarketWatch](#)
 - **Are We Still In A Bull Market** [by Louis-Vincent Gave via Evergreen Gavekal](#)
 - **Corrections: How Bad & How Long Are They** [by Adam Shell via USA Today](#)
 - **Stop Blaming Computers For Steep Market Drops** [by Vasant Dhar via MarketWatch](#)
 - **Biggest Rallies Come In Bear Markets** [by JC Parets via AllStar Charts](#)
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Most Read On RIA

- **A Sellable Rally?** [by Lance Roberts](#)
 - **The Fed's Mandate To Pick Your Pocket** [by Michael Lebowitz](#)
 - **Who Survived The October Curse & Who Didn't** [by John Coumarianos](#)
 - **Playing The (Trading) Fool** [by Doug Kass](#)
 - **The Important Role Of Recessions** [by Lance Roberts](#)
 - **3-Facts Investors Are Learning The Hard Way** [by Richard Rosso](#)
 - **Grantham's Best Long-Term Investing Advice** [by Lance Roberts](#)
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Research•/ Interesting•Reads

- **The Number Of Americans Expecting Stocks To Drop At 2007 Lows** [by Tyler Durden via ZeroHedge](#)
 - **Thriving With Systematic & Discretionary Investing** [by Seth Levine via The Integrating Investor](#)
 - **Inside The S&P 500 Correction** [by Macromon via Global Macro Monitor](#)
 - **Junk Bond Bubble In Six Images** [by Mike "Mish" Shedlock via MishTalk.com](#)
 - **What Investors Can Learn From Gamblers** [by Jason Zweig via WSJ](#)
 - **Active Management Has A Future, This Is What It Looks Like** [by Jason Voss via Essentia Analytics](#)
 - **A Simple Way To Beat A Bear Market** [by Brett Arends via MarketWatch](#)
 - **Megyn Kelly's NBC Crash In A Word: "WOW"** [by John Koblin & Michael Grynbaum via NYT](#)
 - **Siegel Vs Shiller: Is The Market Overvalued?** [by David Hay via Evergreen Gavekal](#)
 - **The George Costanza Portfolio** [by Cliff Asness via AQR Capital Management](#)
 - **Where Did The Money Go? Inside Big Crypto ICO's Of 2017** [by Jeff Kauflin via Forbes](#)
 - **Not All Corrections Become Bear Markets** [by Sue Chang via MarketWatch](#)
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?You get recessions, you get stock market declines. If you don't understand that's going to happen, then you are not ready and you will not do well in the markets" -Peter Lynch

Questions, comments, suggestions ? please [email me](#).