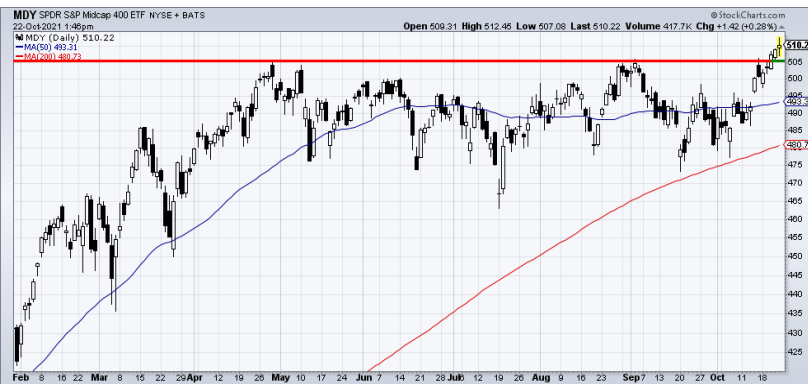




The rally that started off of the bottom of the September losses continued higher this week. Every day this week has been an up day and today is only down marginally. It looks like the market will finish the week with healthy gains and right at the previous highs. As expected, the market is stalling a bit at those previous highs. It would not be surprising for the market to pull back a little next week before making another push through the highs. We fully expect this to happen in the coming days/weeks and remain bullish in the near-term. We have our concerns, but the momentum is on the bull's side of the ledger as we get deeper into the 4<sup>th</sup> quarter.



While the S&P 500 has stalled at prior highs, the S&P 400 midcap index (represented here by the etf MDY) has broken above its long-standing trading range and its prior highs. The break-out is bullish. We took a small position in mid-caps this week and will likely add a little more on any pullback. While small caps haven't broken out yet, they also remain on our watch list for a possible (probable?) 4<sup>th</sup> quarter rally.

## Our Point

Buying the dips in the market has paid off all year long and the recent weakness in September was no exception. Since the bottom on October 4<sup>th</sup>, the S&P has gained over 5% and has risen right where it was on September 2<sup>nd</sup> (its previous highs). The September swoon was just a blip in the bull market that keeps on going no matter what is thrown at it. At some point, the buy the dip crowd will get burned but the bulls are not giving up easily. The bears are surely getting flustered and frustrated. We are in neither camp and just try to be on the right side of the market most of the time. As stated here before, we have no idea what the market is going to do next week, next month or next year but we can respond to current market conditions. As the famous economist John Kenneth Galbraith noted, "There are two kinds of forecasters. Those who don't know, and those who don't know they don't know." We agree and would rather follow the charts. There are a host of things that could upset the market over the coming weeks including the continuing (and worsening) supply chain issues, the continuing (and worsening) inflation issues, the Fed meeting on November 2<sup>nd</sup> and 3<sup>rd</sup> (where it is likely a tapering announcement will be made), the continuing debt limit fight that was kicked into December, the fight among Democrats on infrastructure spending that is endangering anything being done, tensions with China and North Korea, etc... There are a host of worries – there often is – and the market keeps climbing that wall of worry. The bough will break at some point, but nothing appears to be imminent and blue skies have broken through the clouds. As mentioned above, we made a small allocation to mid-caps this week and are likely to do a little more nibbling next week to fill out our portfolios. We almost always advise caution and still do. That said, things look pretty good right now. Speaking about looking good – how about those Monday night Titans – one of the best games I have ever attended. I won't say the same about the golf ball throwing Vols fans but I was very proud of the team and it looks as if things are looking up in Knoxville. With Bama this week my prognosis could change quickly. Have a great weekend with the ones you love.

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