



COVE CAPITAL MANAGEMENT

Cove Views

October 25, 2018

Dear Client,

What a wild ride stocks have been on this month (with the S&P500 down over 9% as of yesterday's close)! It reminds us of the wild ride we had at the end of January (- 9% peak-to-trough) or March (- 8%) and many other setbacks we have suffered through before this. But, let's not also forget, stocks are up well over 300% in the last 10 years.

Everyone is wondering **what's causing this volatility** and we think it's a combination of: geopolitical risk, trade fears, rising interest rates and the shape of the yield curve, pervasive use of ETFs, potential inflation, and how far we've come.

People are asking if the market is 'cheap' or 'expensive' at these levels. It's not either. Not to get too technical, but in 2000, right before the 30% 2001 sell off, stock prices were very expensive, trading at about 27 times earnings. Now, prices are about 16 times forward earnings, just a bit above the long-term average of 15 times.

Clients are wondering **what we are doing to mitigate risk.** We are continuing to do what we have been doing for the past year: holding above average amounts of cash, trying to buy lower volatility stocks and value situations and, where appropriate, using options strategies to protect your portfolio from downturns.

Overall, we think this is normal market behavior. Investors have gotten used to a continuous increase in prices with unusually low volatility, and the market is reminding us that it is risky and sometimes erratic. Are we in the beginning of this movement or towards the end of it? Just like all the other corrections we've seen before, we won't know until it's over. And in the meantime, we will continue to do what we always do: watch the news and earnings, look for ways to limit our downside, seek out value opportunities and, most importantly, make sure your portfolio fits your appetite for risk.

Please don't hesitate to call if you want to discuss any of the above.

Best regards as always,

Dave Goldenberg

COVE CAPITAL IS A REGISTERED INVESTMENT ADVISER. INFORMATION PRESENTED IS FOR EDUCATIONAL PURPOSES ONLY AND DOES NOT INTEND TO MAKE AN OFFER OR SOLICITATION FOR THE SALE OR PURCHASE OF ANY SPECIFIC SECURITIES PRODUCT, SERVICE, OR INVESTMENT STRATEGY. INVESTMENTS INVOLVE RISK AND UNLESS OTHERWISE STATED, ARE NOT GUARANTEED. PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS. BE SURE TO FIRST CONSULT WITH A QUALIFIED FINANCIAL ADVISER, TAX PROFESSIONAL, OR ATTORNEY BEFORE IMPLEMENTING ANY STRATEGY OR RECOMMENDATION DISCUSSED HEREIN.