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# Markets continue their volatile ways

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In my previous column, I predicted that September and October would be volatile months. In October, the S&P 500 slid to a low of 1,820, temporarily erasing all of this year's gains. The market volatility index soared 51 percent in just eight days. At its low, the S&P was down 9.1 percent from the beginning of the month. The S&P crossed below its 200-day moving average.

Fears of a slowdown in China, deflation in Europe, plus Ebola fed the market decline. Additionally, the Fed decided to end its quantitative easing program, but suggested that low interest rates might continue "for a considerable time." Encouraged by a supportive Fed, the market began its ascent.

In its statement, the Fed took credit for "solid job gains" and a falling unemployment rate. It said that a range of labor market indicators suggest that labor market slack is "gradually diminishing." In the process it struck from its statement an earlier assessment that "labor market slack was substantial" – a phrase investors have been watching closely for signs that the Fed was becoming more confident about the economy.

Of course, one of the reasons that the unemployment rate has fallen is that the participation rate (those looking for work) has fallen to multiyear lows. Furthermore, real median household income has fallen six years in a row and is at its lowest level since 1996. However, during this time transfer payments and other government programs, funded by massive fiscal stimulus in the form of U.S. government debt, has kept consumer confidence robust.

Twice before, Fed officials declared that the Fed would stop bond buying, only to restart the effort later when growth, hiring and inflation appeared to sag. The Fed's rate assurance included a new qualifier: "If the job market improves more quickly than expected or inflation rises, rate hikes could come sooner."

No doubt the Fed's aggressive bond buying program saved the country from an ugly depression, but we have remained mired in a slow growth economy far too long. The tepid growth was not solely the fault of the Federal Reserve, which should get credit that the economy was not worse. The blame for the slow growth economy lies squarely with the government's executive and legislative branches, which did all they could to impede growth by placing unprecedented new burdens on business and job creation.

Oil stocks continued their decline as the price of a barrel of oil declined. The four largest airlines, which had been on an uptrend, but had their ascent interrupted by Ebola fears, resumed their rise and ended October up on average 55.6 percent year to date.

The markets were buoyed by good earnings reports, with 75 percent exceeding estimates and earnings up 9.6 percent, which was better than expected. Earnings were accompanied by strong guidance regarding future earnings. Consumer confidence increased to 89.6 percent and new home sales also helped.

Gross domestic Product for the second quarter was revised upward to 3.5 percent from 3.1. The volatility index declined. The dollar strengthened.

Japan announced its own version of quantitative easing, which caused global markets to jump. Investors, who just weeks before couldn't wait to get out of the market, became buyers. The S&P finished the month of October up 2.3 percent and up 10.8 percent from its October lows, gaining that ground in just 14 days.

During the month, the Dow and the S&P traded at all-time highs, and the NASDAQ traded at its highest total in 14 years. The market ended the month just six basis points off its yearly highs. "Sell in May and go away" did not work for the second year in a row, as the market increased 7.1 percent between May 1 and Nov. 1. Lesson learned: Stay fully invested with a long-term point of view in a well-diversified portfolio.

Déjà vu: Our old friend Alan Greenspan reappeared right before Halloween with a recommendation to buy gold. Consistent with his past forecast record, the price of gold dropped 5 percent in the next few days.

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