



## Where to From Here?

The market rallied sharply early last week from deeply oversold conditions.

I noted for a couple of weeks that a rally was probable because the market was too far stretched to the downside.

Then the second half of the week, indexes cratered. However, the major indexes ended up in the green for the week. Many individual stocks had powerful rallies.

There's still too much bearishness, and while the market is not as deeply oversold, it feels as though traders are looking for reasons to buy stocks.

Earnings releases will start coming in droves. Some recent reports have been poor. FedEx has warned of a slowdown. AMD and Samsung have warned of lower chip demand.

The most significant factor in driving returns from now on is the action of the Federal Reserve. Inflation numbers come out this week. At some point, the inflation rate will slow due to year-over-year comparisons that factor in higher rates a year ago.

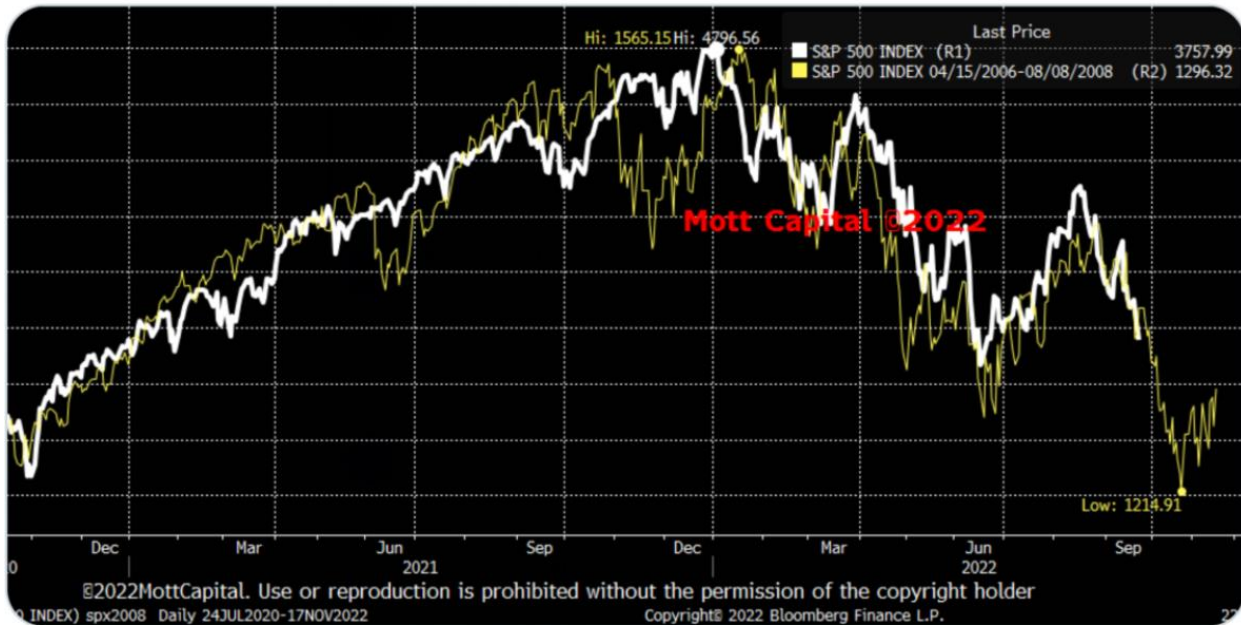
The Federal Reserve has no credibility. Therefore, I suspect that they may overshoot to the side of raising rates more than they should and give them some room on the other side when they need cut them down the road.

The liquidity situation is still unfavorable.

Here's an updated version of the "fun" chart I showed a few weeks ago that compares 2022 to 2008.

I am skeptical that there are a lot of parallels between the two time periods. However, I cannot deny that the correlation is remarkably tight.

This chart is updated through September 13, 2022. Since then, the correlation would remain tight because the rest of September was a shit show, then we did stage a bounce the first few days of October.



It's important to remember that this chart stops before Lehman Brothers blew up off the Earth's face.

If the correlation remains tight, we should expect much lower prices ahead.

How low?

Probably S&P 500 around 2,500.

Here's another chart that illustrates something terrible might be on the horizon.

This chart is not "fun."

It's downright spooky.

Just in time for Halloween!

The chart shows the price action of Credit Suisse (blue) and Deutsche Bank (orange).

These stocks are in a death spiral.

Both companies are not hitting 52-week lows. They are hitting *multi-decade* lows.

Can you imagine what might be lurking under the hood at Deutsche Bank?

Scarier than a Stephen King novel!

\$DB \$CB



The Germans are already up to their eyeballs in an energy crisis.

Imagine if they have a banking crisis too?

A banking crisis could sink the entire country.

Few financial firms learned anything from 2008. They continue to take excessive risks that are magnified using leverage.

Lord only knows who the counterparties are to these weapons of mass financial destruction.

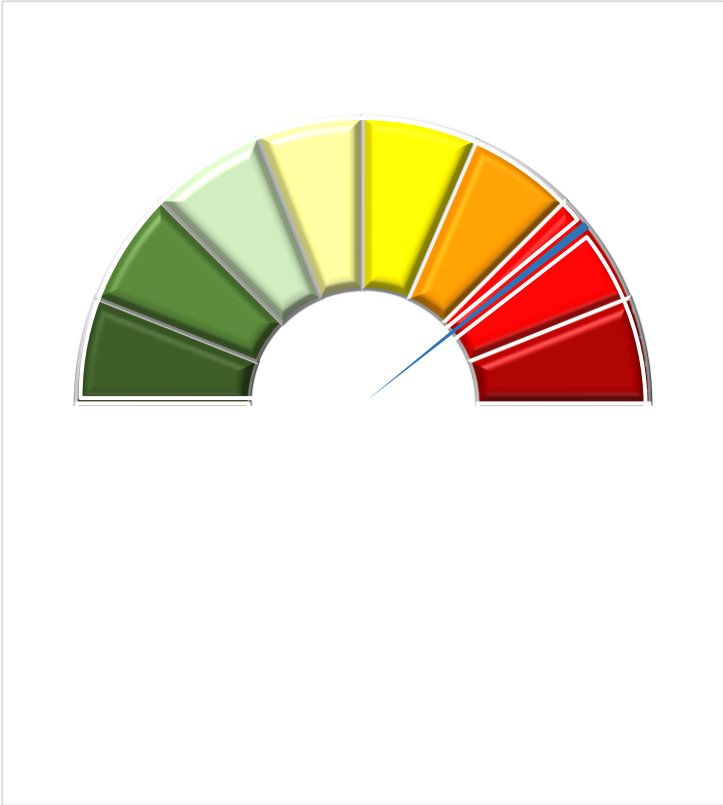
From here, we should expect continued volatility. All eyes will be on the Federal Reserve.

Companies in denial may start to take down their numbers. They should have done this last quarter, as I advocated for them to do so in this newsletter.

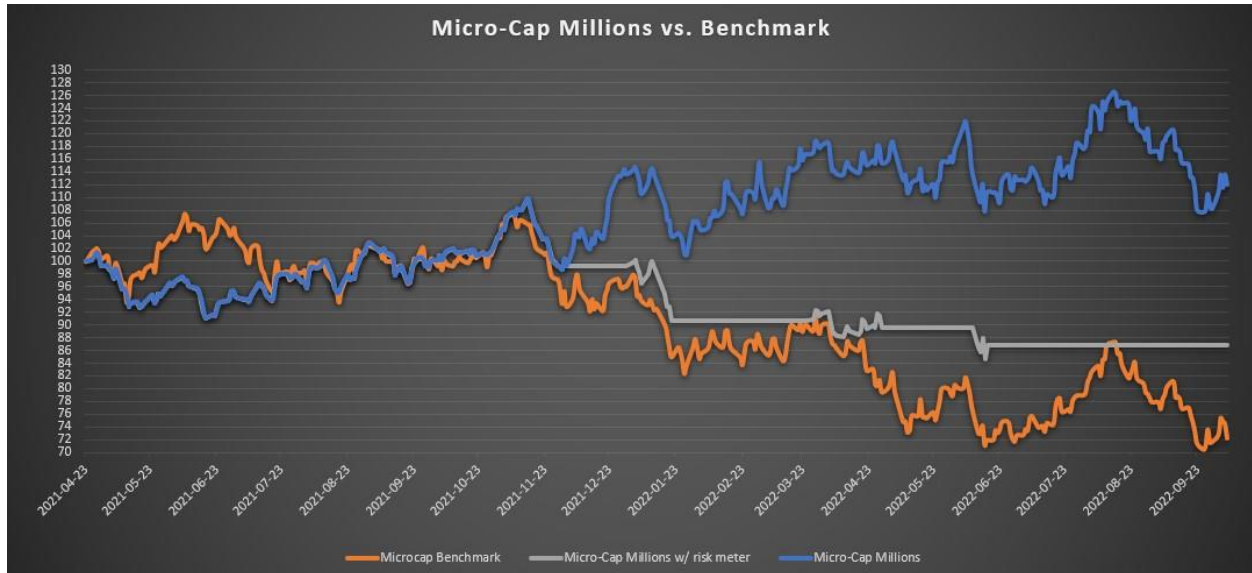
Finally, the price performance of major financial companies suggests something terrifying lurking around the corner.

The *Risk-O-Meter* remains in the "red zone." The market is not as oversold as it was the last two weeks. However, there's too much bearishness.

In my opinion, we are in "no man's land" in the short term.



# Micro-Cap Millions



There is one trade this week.

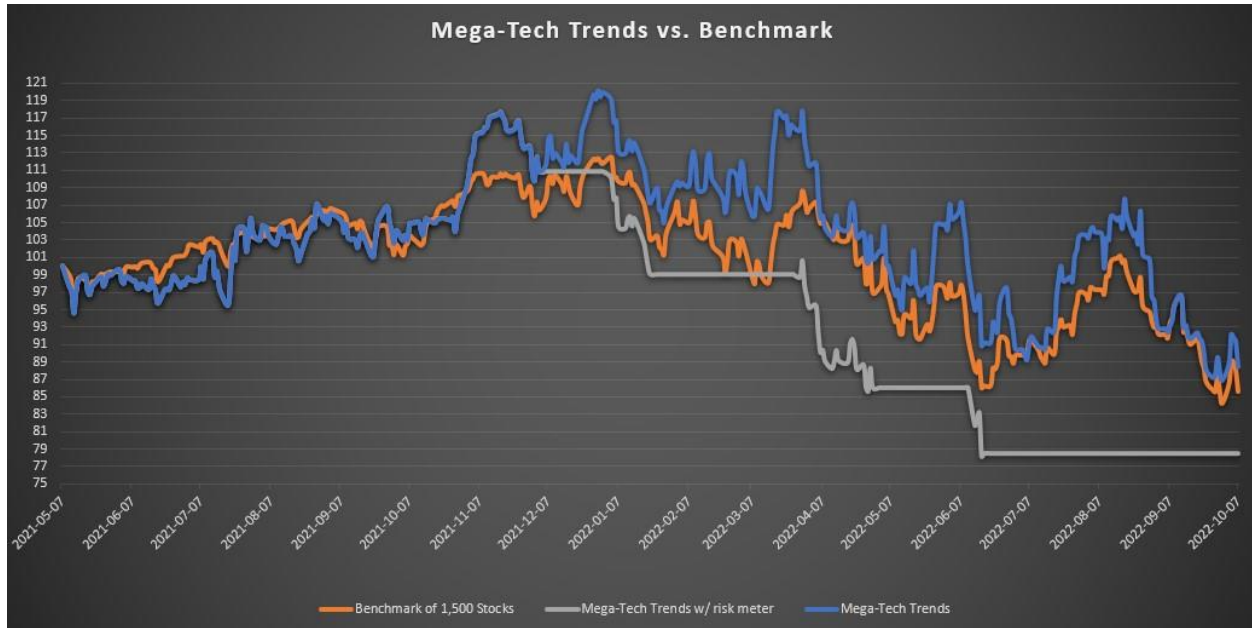
**Buy Aviat Networks, Inc. (Nasdaq: AVNW)**

**Sell Genfit SA (Nasdaq: GNFT)**

Here is the current portfolio:

Ticker	Name	Return	Days Held	Sector
AVNW	Aviat Networks, Inc.	0.00%	NEW	Technology
BELFB	Bel Fuse, Inc.	-5.17%	46	Technology
CTG	Computer Task Group, Inc.	-22.47%	123	Technology
EDAP	EDAP TMS SA	-4.57%	31	Healthcare
HCKT	The Hackett Group, Inc.	-10.35%	200	Technology
MRAM	Everspin Technologies, Inc.	-11.89%	31	Technology
PCTI	PCTEL, Inc.	-2.71%	53	Technology
PERI	Perion Network Ltd.	23.74%	81	Technology
UTMD	Utah Medical Products, Inc.	-10.28%	25	Healthcare
WSTG	Wayside Technology Group, Inc.	-23.97%	137	Technology

# Mega-Tech Trends



There is one trade this week.

**Buy Plantronics, Inc. (Nasdaq: PLAB)**

**Sell SMART Global Holdings, Inc. (Nasdaq: SGH)**

Here is the current portfolio:

Ticker	Name	Return	Days Held	Sector
AMKR	Amkor Technology, Inc.	-20.88%	60	Technology
CDW	CDW Corp.	-0.18%	11	Technology
CNXN	PC Connection, Inc.	-6.30%	60	Technology
CRUS	Cirrus Logic, Inc.	-9.73%	25	Technology
JBL	Jabil, Inc.	1.45%	67	Technology
<b>PLAB</b>	<b>Photronics, Inc.</b>	<b>0.00%</b>	<b>NEW</b>	<b>Technology</b>
SANM	Sanmina Corp.	-0.40%	60	Technology
TTEC	TTEC Holdings, Inc.	2.62%	4	Technology
TTMI	TTM Technologies, Inc.	-16.83%	53	Technology

# Large Cap Leaders



There are two trades this week.

**Buy Abbott Laboratories (NYSE: ABT) and NetApp, Inc. (Nasdaq: NTAP)**

**Sell Broadcom, Inc. (Nasdaq: AVGO) and Merck & Co, Inc. (NYSE: MRK)**

Here is the current portfolio:

Ticker	Name	Return	Days Held	Sector
AAPL	Apple, Inc.	-6.87%	11	Technology
<b>ABT</b>	<b>Abbott Laboratories</b>	<b>0.00%</b>	<b>NEW</b>	<b>Healthcare</b>
ADI	Analog Devices, Inc.	4.00%	4	Technology
APH	Amphenol Corp.	-10.91%	242	Technology
BIO	Bio-Rad Laboratories, Inc.	1.66%	11	Healthcare
CDW	CDW Corp.	-6.56%	18	Technology
MPWR	Monolithic Power Systems, Inc.	-2.33%	11	Technology
<b>NTAP</b>	<b>NetApp, Inc.</b>	<b>0.00%</b>	<b>NEW</b>	<b>Technology</b>
SNPS	Synopsys, Inc.	-15.42%	46	Technology
WST	West Pharmaceutical Services, Inc.	-14.25%	31	Healthcare



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