

## Investment Strategy

U.S. Markets	Close	Net	1 Day %	YTD %
Dow Jones	24216.05	98.46	0.41%	-2.04
Dow Jones Transports	10307.56	-24.02	-0.23%	-2.87
Dow Jones Utilities	712.10	-0.41	-0.06%	-1.56
S&P 500	2716.31	16.68	0.62%	1.60
S&P 400 Midcap	1950.37	7.56	0.39%	2.62
S&P 600 Smallcap	1020.22	2.86	0.28%	8.97
NASDAQ	7503.68	58.60	0.79%	8.70
Russell 2000 (Smallcaps)	1645.02	4.56	0.28%	7.13
BKX (Banking)	104.07	0.61	0.59%	-2.47
BTK (Biotech)	4661.61	25.72	0.55%	10.41
XOI (Oil Index)	1502.73	-2.28	-0.15%	12.52
SOXX (Semiconductor)	1311.64	11.14	0.86%	4.68
XAU (Gold/Silver)	79.83	-0.10	-0.13%	-6.39

## "Terminal Velocity?"

Terminal Velocity is a 1994 action film starring Charlie Sheen and Nastassja Kinski. It follows a daredevil skydiver (Sheen) who is involved in a plot by Russian mobsters and therefore is forced to team up with an ex-KGB agent (Linski) in order to survive and stop the Russian mob from stealing some Russian gold. The term terminal velocity is also the constant speed that a freely falling object eventually reaches when the resistance of the medium through which it is falling prevents further acceleration. And that, ladies and gents, seems to be what happened yesterday with the equity markets as the S&P 500 (SPX/2716.31) fell through last Monday's intraday low of 2698.67 early in yesterday's session. Yet, the decline was arrested at roughly 2692, indeed terminal velocity. We had deemed last Monday's intraday low to be a pretty key level on a short-term trading basis, as written in Thursday's *Morning Tack*, "We must admit it is not going to look very good in the charts if the Industrials take out last Monday's intraday low."

Speaking to my models, the intermediate-term model remains on a "buy signal," while the short-term model is basically trendless, implying what we have been through is just a normal/standard retracement move despite the recent downside "heart attack." As often written, following a stock market heart-attack the equity markets typically need to convalesce for a few sessions before regaining their poise; and, it manifestly has been a few sessions. Looking at my "internal energy" model shows there is plenty of energy to make a rally attempt have a sustained "leg" to the upside. Accordingly, it would be surprising to Andrew and me to see the SPX come back down to yesterday's intraday low of 2691.99. Of interest is that the financial sector finally broke its 13 session losing streak, likely driven by the second bank stress tests.

Also as we have written, President Trump, at his North Dakota rally, reinforced what we have been saying, "[The] trade disputes will ultimately be worked out." On the economic front, our chief economist, Scott J. Brown Ph.D., writes:

The estimate of real GDP growth for the first quarter was revised lower, but the news is not market-moving. The story is the same.

(Continued on page 2.)

"Terminal velocity is the constant speed that a freely falling object eventually reaches when the resistance of the medium through which it is falling prevents further acceleration."

... Wikipedia

Index	Cur Future	Change
Dow Jones	24,325	105.00
S&P 500	2,729	9.50
NASDAQ	7,091	31.25

Volume	1 Day Volume	Volume	Issues
NYSE	806,543,904	1.84	1.50
NASDAQ	2,182,778,502	1.81	1.23

Foreign Markets	Intraday	Net	% Chg
U.K. FTSE 100	7,616	0.00	0.00%
Germany Germany DAX (TR)	12,291	113.87	0.94%
Brazil Brazil Bovespa In	71,767	0.00	0.00%
Japan Japan Nikkei 225	22,270	0.00	0.00%
Hong Kong Hang Seng Index	28,955	457.79	1.61%

S&P Sectors	Close	% Chg	1 mo %
S&P 500 / Consumer Discretic	868.77	0.76%	3.03
S&P 500 / Consumer Staples -I	529.85	0.17%	4.25
S&P 500 / Health Care -SEC	964.33	0.17%	0.72
S&P 500 / Information Techno	1218.54	1.08%	-0.26
S&P 500 / Telecommunicatio	149.05	2.30%	1.88
S&P 500 / Energy -SEC	557.93	-0.12%	2.00
S&P 500 / Financials -SEC	441.71	0.86%	-4.07
S&P 500 / Industrials -SEC	600.89	0.16%	-5.23
S&P 500 / Materials -SEC	362.82	0.44%	-1.35
S&P 500 / Utilities -SEC	263.22	-0.02%	3.70
S&P 500 / Real Estate -SEC	201.58	0.86%	5.55

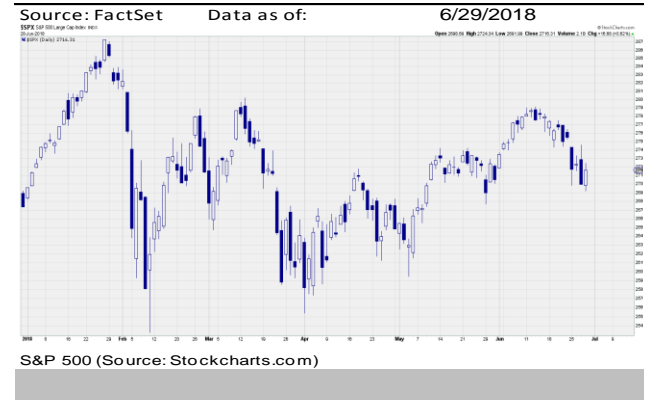
Key Commodity Prices	Last	Net
Crude Oil WTI (NYM \$/bbl) Con	73.290	-0.06
Natural Gas (NYM \$/mmbtu) C	2.943	0.00
eMini Gasoline (NYM \$/gal) Cc	2.133	0.00
Gold (NYM \$)	1252.100	1.30
Silver (NYM \$/ozt) Continuous	16.015	0.07
United States Dollar Index	94.755	-0.63
eMini Copper (NYM \$/lbs) Con	2.944	-0.02
Cotton #2 (IFUS \$/lbs) Continu	0.839	0.00

Market Valuation	2017E	2018E	2019E
Consensus S&P 500 EPS	\$125	\$158	\$175
P/E	21.7	17.2	15.5
Earnings Yield		5.8%	6.4%
Equity Risk Premium (10 yr)		3.0%	3.6%

Treasury Yields	90D	10 Yr	30 Yr
	1.92	2.85	2.98



Consumer spending growth was lackluster (but that followed a strong 4Q17, and appears to have picked up in 2Q18). Business fixed investment was moderately strong, led by structures (partly energy) and intellectual property products (likely noise). Equipment spending slowed (and appears lackluster in 2Q18, but year-over-year gains remain strong thanks to robust growth in the second half of 2017). Inventories and foreign trade did not contribute much to GDP in 1Q18 (but a narrower trade deficit is expected to add significantly to GDP growth in 2Q18, advance estimate due July 27).

In conclusion, as readers of these missives know we have long stated that the equity markets have transitioned from an interest rate, to an earnings, driven secular bull market. So anytime you think about liquidating your stock positions look at the attendant earnings chart as seen in our friend Tom Essaye's must have "Sevens Report." We suggest pinning it to your office wall and whenever you think about selling look at it. This morning the preopening S&P 500 futures are in upside follow through to yesterday's "win" with a +13 point print at 5:00 a.m.

Chart 2

<b>The Market's Maginot Line: Valuation</b>			
	<b>Bbrg Consensus Full Year EPS</b>	<b>Annual EPS Growth</b>	<b>S&amp;P 500 Valuation</b>
<b>2018</b>	\$159		17.0
<b>2019</b>	\$175	10.06%	15.4
<b>2020</b>	\$193	10.29%	14.0

Source: Bloomberg; *Sevens Report*

**U.S. Markets Index Information:** *U.S. Treasury securities* are guaranteed by the U.S. government and, if held to maturity, offer a fixed rate of return and guaranteed principal value. The *Dow Jones Industrial Average* is an unmanaged index of 30 widely held securities. The *Dow Jones Transportation Average* is the most widely recognized gauge of the American transportation sector. The *Dow Jones Utility Average* keeps track of the performance of 15 prominent utility companies. The *S&P 500* is an unmanaged index of 500 widely held stocks. The *S&P Mid Cap 400 Index* is a capitalization-weighted index that measures the performance of the mid-range sector of the U.S. stock market. The *S&P Small Cap 600 Index* is an unmanaged index of 600 small-cap stocks. The *NASDAQ Composite Index* is an unmanaged index of all stocks traded on the NASDAQ over-the-counter market. The *Russell 2000 index* is an unmanaged index of small cap securities which generally involve greater risks. The *KBW Bank Sector (BKX)* is a capitalization-weighted index composed of 24 geographically diverse stocks representing national money center banks and leading regional institutions. The *NYSE Arca Biotechnology Index (BTK)* is an equal dollar weighted index designed to measure the performance of a cross section of companies in the biotechnology industry that are primarily involved in the use of biological processes to develop products or provide services. The *NYSE Arca Oil Index (XOI)* is a price-weighted index of the leading companies involved in the exploration, production, and development of petroleum. The *PHLX Semiconductor Sector Index (SOXX)* measures the performance of U.S.-traded securities of companies engaged in the semiconductor business, which includes companies engaged in the design, distribution, manufacture, and sales of semiconductors. The *Philadelphia Gold and Silver Index (XAU)* is an index of 16 precious metal mining companies that is traded on the Philadelphia Stock Exchange.

**Futures:** Futures prices are current as of the publication of this report, but will fluctuate. Please contact your financial advisor for updated information.

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**Exponential Moving Average (EMA)** - A type of moving average that is similar to a simple moving average, except that more weight is given to the latest data.

**Relative Strength Index (RSI)** - The Relative Strength Index is a technical momentum indicator that compares the magnitude of recent gains to recent losses in an attempt to determine overbought and oversold conditions of an asset.

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