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## Investment Strategy

U.S. Markets	Close	Net	1 Day %	YTD %
Dow Jones	25029.20	-380.83	-1.50%	1.25
Dow Jones Transports	10381.99	-141.80	-1.35%	-2.17
Dow Jones Utilities	668.81	-3.21	-0.48%	-7.54
S&P 500	2713.83	-30.45	-1.11%	1.50
S&P 400 Midcap	1864.61	-22.60	-1.20%	-1.89
S&P 600 Smallcap	921.34	-16.49	-1.76%	-1.59
NASDAQ	7273.01	-57.35	-0.78%	5.35
Russell 2000 (Smallcaps)	1512.45	-24.03	-1.56%	-1.50
BKX (Banking)	112.70	-1.31	-1.15%	5.61
BTK (Biotech)	4576.21	-96.05	-2.06%	8.38
XOI (Oil Index)	1275.25	-29.87	-2.29%	-4.52
SOXX (Semiconductor)	1362.02	-12.69	-0.92%	8.70
XAU (Gold/Silver)	78.27	-0.70	-0.89%	-8.21

## "Fickle February"

Well, I almost wish I had written yesterday's *Morning Tack* because our short-term proprietary model suggested that last Tuesday's intraday "print high" of 2789.15 on the S&P 500 (SPX/2713.83) was likely "it" on the upside for the very short term. That is what we were telling clients, portfolio managers, and financial advisors yesterday. It's not that said model is looking for a big pullback from here, but rather the SPX may be going into a trading range for a while. Just like a heart attack patient doesn't get right up off the gurney and run the 100-yard dash, the stock market doesn't do that either. For the record, we would be surprised if the SPX actually retests the recent lows as some savvy seers suggest. It just seems to us that would be awfully convenient for those participants that missed buying the "undercut low" of 2-9-18 at ~2533; and, we were bullish after being near-term bearish on the month of February. Interestingly, "Fickle February" has brought to an end one of the longest rally strings in history. As MarketWatch's Ryan Vlastelica writes:

That monthly drop represents the benchmark index's first such decline since October 2016, meaning an uninterrupted 15-month rally is coming to a close. This is by far the longest such streak in the history of the S&P; the previous record, according to Dow Jones data, was a 10-month rally that ended in September 1995. Over the entire 15-month period, the S&P advanced more than 36% on a total-return basis, with the index rising from 3,758.7 at the end of October 2016 to 5,120 at the end of January. The S&P hit dozens of records over that period, and the 5.7% advance seen in the first month of this year represented the biggest monthly advance since March 2016. On a purely price basis, the S&P is set for a 2.8% decline in February, its first negative month of the past 11. Before February, its most recent negative month was in March 2017, when it fell 0.04%.

However, there are some very smart people on Wall Street that think a retest of the recent lows is in the cards. (Continued on page 2)

"Over the most recent 22-year time span the end of February has been prone to weakness. *The bulk of the weakness appears to land on the last trading day of the month or the penultimate trading day, but it can begin as early as the fourth to last trading day.*"

... Almanac Trader

Index	Cur Future	Change
Dow Jones	24,966	-72.00
S&P 500	2,708	-6.40
NASDAQ	6,852	-12.25

  

Volume	1 Day Volume	Volume	Issues
NYSE	1,100,326,391	0.23	0.41
NASDAQ	2,330,446,000	0.45	0.38

  

Foreign Markets	Intraday	Net	% Chg
U.K. FTSE 100	7,232	0.00	0.00%
Germany DAX (TR)	12,231	-205.04	-1.65%
Brazil Bovespa In	85,354	0.00	0.00%
Japan Japan Nikkei 225	21,724	-343.77	-1.56%
Hong Kong Hang Seng Index	31,044	199.53	0.65%

  

S&P Sectors	Close	% Chg	1 mo %
S&P 500 / Consumer Discretic	827.35	-0.49%	-4.55
S&P 500 / Consumer Staples -I	548.98	-1.04%	-9.22
S&P 500 / Health Care -SEC	971.88	-1.64%	-8.08
S&P 500 / Information Techno	1188.55	-0.70%	-1.05
S&P 500 / Telecommunicatior	153.36	-1.16%	-8.10
S&P 500 / Energy -SEC	490.67	-2.29%	-13.88
S&P 500 / Financials -SEC	478.88	-1.28%	-4.28
S&P 500 / Industrials -SEC	642.76	-1.50%	-4.99
S&P 500 / Materials -SEC	372.92	-1.78%	-6.93
S&P 500 / Utilities -SEC	247.70	-0.64%	-3.84
S&P 500 / Real Estate -SEC	185.98	-0.10%	-6.31

  

Key Commodity Prices	Last	Net
Crude Oil WTI (NYM \$/bbl) Con	61.220	-0.40
Natural Gas (NYM \$/mmbtu) C	2.648	-0.02
eMini Gasoline (NYM \$/gal) Cc	1.925	0.00
Gold (NYM \$)	1311.700	-6.30
Silver (NYM \$/ozt) Continuous	16.305	-0.10
United States Dollar Index	90.744	0.13
eMini Copper (NYM \$/lbs) Con	3.112	-0.02
Cotton #2 (IFUS \$/lbs) Continu	0.829	0.00

  

Market Valuation	2017E	2018E	2019E
Consensus S&P 500 EPS	\$125	\$156	\$172
P/E	21.7	17.4	15.8
Earnings Yield		5.7%	6.3%
Equity Risk Premium (10 yr)		2.9%	3.5%

  

Treasury Yields	90D	10 Yr	30 Yr
	1.65	2.87	3.13

Source: FactSet Data as of: 3/1/2018



S&P 500 (Source: Stockcharts.com)

One of them, and arguably the smartest strategist on “The Street,” is my friend Tony Dwyer, who writes:

Why bother worrying about a retest? Given our positive fundamental core thesis and 3100 target, many wonder why we bother calling for a retest of the “shock drop” ending the week of 02/09. The answer is simple – when a retest happens, fear it is something more significant causes many to reduce risk, just at the very time history suggests increasing it. In all prior occurrences of such a historic spike in the 10-week rate-of change in volatility as measured by the CBOE Volatility Index (VIX), there was an average bounce of 5.62% (ex-2008 instance) prior to the retesting of the low 30 trading days later. With a gain of 4.89% from our signal highlighted in “Shock drops, pops and flops,” the market is following the script, which means the comfort of the rebound should soon fade, either from fear of Fed, disappointing data, or some combination of the two.

Obviously, opinions vary on the “Street of Dreams,” but that’s what makes a market. We happen to think a full retest of the “selling climax lows” is not going to happen, but then anything can happen in the equity markets. So what caused yesterday’s Dow Dump (-380 points). Well, we think it was cognitive dissonance, which would be the ability to hold two disparate thoughts at the same time. In the current case it is whether to believe the softening headline economic reports (durable goods, housing, etc.), or the details within those reports that show final sales up 3.3%, domestic final sales better by 4.3%, and private domestic final purchases improving by 4.6%, which suggest the economy is really strong. We continue to think the economy is stronger than a “garlic milkshake!” This morning the S&P 500 futures are off about 7-points as we write at 5:12 a.m. as the Street awaits Fed head Powell’s part 2 testimony to lawmakers. Clearly, Wall Street is currently of the belief that Jay Powell is more hawkish than his predecessors. Surely time will tell; but, until he demonstrates a more dovish disposition, the perception will be the new Fed Chair is a hawk.

**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.

**Foreign Markets Information:** The FTSE 100 Index is a share index of the stocks of the 100 companies with the highest market capitalization listed on the London Stock Exchange. The *DAX* (German stock index) is a blue chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. The *Bovespa* Index is a gross total return index weighted by traded volume and is comprised of the most liquid stocks traded on the Sao Paulo Stock Exchange. The *Nikkei 225* is a price-weighted index consisting of 225 prominent stocks on the Tokyo Stock Exchange. The *Hang Seng Index* is used to record and monitor daily changes of the largest companies of the Hong Kong stock market and is the main indicator of the overall market performance in Hong Kong. International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets.

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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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