

Investment Strategy

| U.S. Markets | Close | Net | 1 Day % | YTD % |
|--------------------------|----------|--------|---------|-------|
| Dow Jones | 24899.41 | 68.24 | 0.27% | 0.73 |
| Dow Jones Transports | 10663.16 | -50.41 | -0.47% | 0.48 |
| Dow Jones Utilities | 686.59 | -2.90 | -0.42% | -5.08 |
| S&P 500 | 2730.13 | 2.41 | 0.09% | 2.11 |
| S&P 400 Midcap | 1935.23 | -3.86 | -0.20% | 1.82 |
| S&P 600 Smallcap | 982.13 | -4.74 | -0.48% | 4.90 |
| NASDAQ | 7411.32 | 8.43 | 0.11% | 7.36 |
| Russell 2000 (Smallcaps) | 1600.34 | -6.45 | -0.40% | 4.22 |
| BKX (Banking) | 110.71 | -0.12 | -0.11% | 3.75 |
| BTK (Biotech) | 4715.54 | 51.73 | 1.11% | 11.68 |
| XOI (Oil Index) | 1550.01 | 14.78 | 0.96% | 16.06 |
| SOXX (Semiconductor) | 1367.51 | 17.04 | 1.26% | 9.13 |
| XAU (Gold/Silver) | 83.47 | -0.40 | -0.47% | -2.12 |

"Random Gleanings on a Trip to Traverse City"

Greetings from Traverse City, Michigan, which is one of the prettiest spots in the country and where we spoke last night to a packed audience at the Opera House. Everyone was in a good mood given the stock market's recent resurgence. Not in such a good mood were the Palestinians as the new U.S. Embassy opened in Jerusalem amid tragic protests, and deaths, of many Palestinians. While we will not attempt to understand the conflict, we will say that of all the worldly places we have traveled, last year's visit to Jerusalem was truly life altering. The recent conflict, combined with the U.S. withdrawal from the Iran Nuclear Deal, has sent crude oil prices northward (we continue to like the energy stocks). Indeed, oil is trading at the highest level since 2014, and the savvy crude oil analyst Mike Rothman (Cornerstone Analytics) thinks it is going higher. As Cornerstone's Nick Parsons writes:

Mike's flights are booked for the upcoming OPEC meeting in Vienna. And although we're still six weeks from kick-off, Mike's recent conversations with the delegations indicate that OPEC is highly likely to continue on its current course of grinding down inventory levels. Remember that the Saudi goal is to get global storages down to a level of 2.70-2.75 billion barrels: right now we're still over 2.80 billion barrels. What does all this mean for oil investments? Our MIKER inventory model kicks out a Brent price of above \$90/barrel if global storages get down to the wanted Saudi level, and oil equities still have tremendous potential to outperform the rest of the market.

The rude crude rally has not gone unnoticed by the gasoline market where there is the potential for gasoline prices to spike this summer with prices at a four-year high amid record demand ([prices](#)). So far such price increases have not bled into the inflation figures, but the truckers are seeing the pinch. To wit (as reprised by David Lutz):

Trucking companies increased leverage is applying added pressure to cargo costs as accelerating economic growth bolsters transportation demand and exacerbates driver scarcity. With first-quarter trucking spot rates up 27 percent from a year earlier, according to Bloomberg Intelligence, freight expenses are crimping profits at companies. (Continued on page 2)

"Let me tell you something that we Israelis have against Moses. He took us 40 years through the desert in order to bring us to the one spot in the Middle East that has no oil!"

... Golda Meir

| Index | Cur Future | Change |
|-----------|------------|--------|
| Dow Jones | 24,842 | -44.00 |
| S&P 500 | 2,727 | -3.90 |
| NASDAQ | 6,961 | -12.25 |

| Volume | 1 Day Volume | Volume | Issues |
|--------|---------------|--------|--------|
| NYSE | 730,551,049 | 1.06 | 0.91 |
| NASDAQ | 2,046,003,935 | 1.47 | 0.84 |

| Foreign Markets | Intraday | Net | % Chg |
|---------------------------|----------|---------|--------|
| U.K. FTSE 100 | 7,711 | 0.00 | 0.00% |
| Germany DAX (TR) | 12,962 | -15.98 | -0.12% |
| Brazil Bovespa In | 85,232 | 0.00 | 0.00% |
| Japan Japan Nikkei 225 | 22,866 | 0.00 | 0.00% |
| Hong Kong Hang Seng Index | 31,152 | -389.05 | -1.23% |

| S&P Sectors | Close | % Chg | 1 mo % |
|-------------------------------|---------|--------|--------|
| S&P 500 / Consumer Discretic | 836.11 | 0.16% | 3.83 |
| S&P 500 / Consumer Staples -I | 507.26 | -0.02% | -6.08 |
| S&P 500 / Health Care -SEC | 966.41 | 0.65% | 2.13 |
| S&P 500 / Information Techno | 1225.28 | -0.02% | 6.04 |
| S&P 500 / Telecommunicatio | 146.12 | -0.36% | -2.93 |
| S&P 500 / Energy -SEC | 568.85 | 0.63% | 8.14 |
| S&P 500 / Financials -SEC | 468.00 | -0.06% | 2.88 |
| S&P 500 / Industrials -SEC | 626.54 | -0.19% | 0.84 |
| S&P 500 / Materials -SEC | 370.04 | 0.39% | 1.80 |
| S&P 500 / Utilities -SEC | 254.00 | -0.44% | 0.90 |
| S&P 500 / Real Estate -SEC | 192.98 | -0.72% | 2.49 |

| Key Commodity Prices | Last | Net |
|---------------------------------|----------|-------|
| Crude Oil WTI (NYM \$/bbl) Con | 71.560 | 0.60 |
| Natural Gas (NYM \$/mmbtu) C | 2.834 | -0.01 |
| eMini Gasoline (NYM \$/gal) Cc | 2.200 | 0.00 |
| Gold (NYM \$) | 1309.100 | -9.10 |
| Silver (NYM \$/ozt) Continuous | 16.440 | -0.21 |
| United States Dollar Index | 92.763 | 0.17 |
| eMini Copper (NYM \$/lbs) Con | 3.102 | 0.01 |
| Cotton #2 (IFUS \$/lbs) Continu | 0.837 | 0.00 |

| Market Valuation | 2017E | 2018E | 2019E |
|-----------------------------|-------|-------|-------|
| Consensus S&P 500 EPS | \$125 | \$157 | \$174 |
| P/E | 21.8 | 17.4 | 15.7 |
| Earnings Yield | | 5.8% | 6.4% |
| Equity Risk Premium (10 yr) | | 2.8% | 3.4% |

| Treasury Yields | 90D | 10 Yr | 30 Yr |
|-----------------|------|-------|-------|
| | 1.90 | 2.99 | 3.13 |

Source: FactSet Data as of: 5/15/2018



S&P 500 (Source: FactSet)

To us, the creeping inflation, and marginally higher interest rates, suggests the economy is going to strengthen in the back half of 2018. Certainly that is what the stock market is telegraphing as earnings continue to ramp-up. As we write, the D-J Industrial Average has made it eight consecutive winning sessions, leaving the equity market very overbought in the short term. Also worth consideration is that the Industrials rarely make it more than nine straight sessions in any one direction. Consequently, there could be a pause in the upward onslaught or even an attempt to pull stocks back. However, we think the S&P 500 (SPX/2730.13) should be well supported at the 2670-2685 level and that should contain any decline barring unexpected news. Also waxing bullish is the TD Ameritrade Investors Movement Index, which is back down to its 2015-2016 levels. That means investors are not very optimistic currently and, therefore, not buying stocks. Further, there was over \$8 billion of money flows into prime money market funds last week. These are not the kind of metrics one sees at stock market tops. However, it's May option expiration week, which has been bearish for the last nine years, and with stocks stretched for the aforementioned reason, look for some kind of pause/pullback that does not get very far.

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.

Commodity Price Information: The *CRB Index* measures the overall direction of commodity sectors. The *US Dollar Index (USDIX)* is an index (or measure) of the value of the United States dollar relative to a basket of foreign currencies. Commodities are generally considered speculative because of the significant potential for investment loss. Commodities are volatile investments and should only form a small part of a diversified portfolio. There may be sharp price fluctuations even during periods when prices overall are rising.

Market Valuation Information: The *McClellan Oscillator* is a market breadth indicator that is based on the difference between the number of advancing and declining issues on the NYSE. Technical Analysis is a method of evaluating securities by analyzing statistics generated by market activity, such as past prices and volume. Price Earnings Ratio (P/E) is the price of the stock divided by its earnings per share. The earnings yield is earnings per share divided by the current market price per share. The equity risk premium is the earnings yield minus the current rate on the 10-year U.S. Treasury note and is the excess return that the stock market provides over a risk-free rate.

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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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