Jeffrey Feldman Ph.D., CFP
Certified Financial Planner
Principal

August 6, 2017

Dow Jones	S&P 500	NASDAQ	Russell 2000	10 yr Treas	Earnings Yield (S&P)	Gold	Crude Oil
22,093	2,477	6,352	1,412	2.27%	5.45%	$1,264	$49.58

Investment Strategy Report

Dow Tops 22,000. Are You Nervous Yet?

The Dow Jones Average surpassed 22,000 for the first time this past Wed. (8/2). It then continued to climb higher Thursday and Friday, ending the week higher every day, with a nine day win streak in progress. Stocks hitting all-time highs should be a positive sign. Right? After all, the trend is your friend. Stocks have had strong upside momentum all year and it appears that this will continue. A force in motion tends to stay in motion. What's more, analysts seem to have plenty of reasons to justify this advance. Corporate earnings have been coming in stronger than expected. Strong earnings drive higher stock prices. Last Friday's jobs report beat analysts predictions with 209,000 new jobs added. The employment reports all year have shown strength and consistency and the latest unemployment rate of 4.3% is a 16 year low. So what is there to worry about?

Well to begin with, human nature makes us worry, along the lines of *what goes up, must come down.* We are trained to buy low and sell high. When the stock market hits a new high, it's natural to try to sell at the top. Of course, nothing prevents the market from going higher, and higher as it has for 8 ½ years now. Trying to call the top has been a fool's errand for quite a while. Analysts are also worried that … not enough investors are worried! Market fear, as measured by the VIX index, is hovering near an all time low, meaning that investor complacency is very high. This points to the maxim that Warren Buffet often alludes to, *Be fearful when others are greedy and greedy when others are fearful.* In other words, investors are complacent (greedy), so be fearful!

Probably the biggest reason why investors are concerned today is that they can't figure out why stocks are doing so well while our national government seems to be in such disarray. Look at what's going on Washington and around the world, they say. Nothing is getting passed in Congress, special prosecutors are investigating collusion, North Korea is firing missiles. Why would anyone want to take a risk with their investments? Yet the market seems to shrug all this off.

Steve Sjuggerud of Stansberry Research offers his latest market comments in his August 3rd edition of his True Wealth Systems newsletter. He repeats his view which he has espoused for months now that while this bull market might be in its later stages, 1) not only is this bull market not over yet but 2) it is currently in its *melt up* phase, analogous to tech stocks in 1999, and sizeable gains are still to be had in stocks, i.e., that selling now would be a big mistake. He goes on to list warning signs to watch for to know when this bull market will end.

These warning signs basically look at the health of the market. Back in 1999, only a handful of stocks were powering higher while the broader market was showing weakness, i.e., a divergence. Today, there is no similar divergence as this market is showing a broad spectrum of sectors advancing. The financials, transports, and smaller companies are all doing well along with the larger companies and tech powerhouses (e.g., Apple, Amazon, Facebook, Google, etc.). It is a positive sign that all areas of the economy are delivering. He also points to the fact that the rest of the world is finally beginning to show signs of an economic recovery. This added energy of a global renaissance will give a boost to US economic growth. Following Steve's advice to stay with this market despite 8 ½ years of outsized gains seems to be the tough trade to make. But at least for now, it appears to be the right trade.

In last month's letter I described the sector rotation that was occurring, with the tech sector showing signs of weakness while financial and energy shares were rallying. However, since July 4th, we have seen the Nasdaq rebound 3.9% while the financial are up only 1.4% and energy shares are down 0.8%. I will therefore continue to have an overweight in growth funds in our portfolios. *Jeff Feldman*