


April 3, 2017 Noon	Dow Jones	S&P 500	NASDAQ	Russell 2000	10 yr Treas	Earnings Yield (S&P)	Crude Gold	Oil	
	20,538	2,346	5,871	1,367	2.34%	5.54%	\$1,253	\$50.59	

Investment Strategy Report

Stocks Stall in March As Health Care Reform Fails

March came in like a lion, as stocks surged on March 1st to top 21,000 for the first time. But the markets couldn't hold onto those gains as stocks drifted lower throughout the month, highlighted by an 8 day Dow losing streak. True, the index lost only 1.9% during this stretch, but clearly the momentum had been lost. The biggest disappointment for stock market bulls came on March 24th, when the Republican health care plan failed in the House of Representatives. The good news was that the major stock sell-off that was anticipated never materialized. The Dow fell the following Monday, March 27th 184 points, but managed to recover by the end of the day to a decline of just 46 points. And on that Tuesday the 28th, the Dow rose a surprisingly strong 150 points.

Stocks have proven to be resilient during this 5 month post-election rally. The initial phase was fueled by an anticipation of great things to come, or as skeptics like to point out, more hope than substance. The skeptics belief was that once investors realized that a reliance on government to make positive policy changes was a fool's errand, than the market would adjust downward to a more reasonable level. But that hasn't happened. This has been a market that investors love to hate, as this bull market continues to climb the "Wall of Worry".

As Jim Cramer (CNBC) pointed out this past Friday (3/31), the "Negative Nancys" got it wrong. They shorted stocks like Facebook, Apple, and Amazon, only to see them hit all-time highs. They claimed that Trump was too erratic and that he would provoke trade wars. They said that the Fed's rate increases would be an impediment to stocks.

The reality is that they are missing many potential positives for our economy. The belief that if health care reform failed, than everything else will fail is misguided. The prospect of tax relief can lead to a reinvigoration of economic growth. If this is combined with a repatriation of offshore profits, this can result in trillions of dollars flowing back to the US. A plan to rebuild America's infrastructure can result in another boost to our economy.

This past week, strong economic data helped to keep the stock market afloat. Consumer confidence in March climbed to its highest level in 16 years. Fourth quarter GDP was revised upwards to 2.1% from a previous estimate of 1.9%. The inflation rate popped up above 2% for the first time in 5 years, indicating that growth is beginning to move at a faster pace.

Another positive for stocks is that for the first time in years, economic growth is occurring globally, not just in the US. As I mentioned in previous letters, it might finally be time to begin getting exposure to overseas markets, and last month, I began to do that. If the rate of growth in these international markets can continue, we can expect sizeable gains since they are beginning from depressed levels relative to the US markets. One problem that these markets faced after the November election was that the surging US market led to a strengthening of the dollar. This had a negative impact on foreign markets and led to a huge disparity in their performance in November and December. However, in 2017, the dollar's ascent has stopped and its value has begun to decline. As an example, the Mexican peso, which lost almost 20% during the last few months of 2016, has rebounded about 15% in 2017. These markets are now outperforming. My plan is to continue to add to them if the uptrends remain in place.

2016 IRA Contributions – There is still time to make your IRA contributions for 2016. The filing deadline this year is April 18th. Please let me know if you need my help with this. *Jeff Feldman*