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January 5, 2018

Investment Strategy

U.S. Markets	Close	Net	1 Day %	YTD %
Dow Jones	25075.13	152.45	0.61%	1.44
Dow Jones Transports	10854.55	33.81	0.31%	2.28
Dow Jones Utilities	700.52	-6.00	-0.85%	-3.16
S&P 500	2723.99	10.93	0.40%	1.88
S&P 400 Midcap	1928.45	5.09	0.26%	1.47
S&P 600 Smallcap	945.33	2.09	0.22%	0.97
NASDAQ	7077.91	12.38	0.18%	2.53
Russell 2000 (Smallcaps)	1555.72	3.15	0.20%	1.32
BKX (Banking)	108.67	1.00	0.93%	1.84
BTK (Biotech)	4321.63	-52.41	-1.20%	2.35
XOI (Oil Index)	1384.45	11.33	0.82%	3.66
SOXX (Semiconductor)	1317.24	7.38	0.56%	5.12
XAU (Gold/Silver)	87.79	0.70	0.81%	2.95

"The Great White Hurricane"

It seems like once a year we dredge up the story of the Great White Hurricane of 1888. Given what just happened to the East Coast over the past few days, and the new idiom "bomb cyclone," we thought it would be appropriate, since what NYC has experienced pales in comparison to the storm of 1888. To wit:

"'Unseasonably mild and clearing,' was the weather forecast going into the Ides of March back in the year of 1888. And it was true, as temperatures hovered in the 40s and 50s along the East Coast. However, torrential rains began falling, and on March 12th the rain changed to heavy snow, temperatures plunged and sustained winds of more than 50 miles per hour blew. The 'Great White Hurricane' had begun! In the next 36 hours, some 50 inches of snow would blanket New York City and the winds would whip that snow into 40- to 50-foot snowdrifts. Telegraph and telephone lines were snapped, fire stations were immobilized, New Yorkers could not get out of their homes, 200 ships were blown aground, and before the storm was over 400 people would die. The resulting transportation crisis led to the construction of New York's subway system."

Clearly what NYC just experienced is nothing when compared to the Great White Hurricane of 1888. Speaking of storms, there has been a "storm" on the Street of Dreams since the beginning of October as stocks have swirled higher, with the S&P 500 adding on another 227 points (9.1%). The upside skein has left investors questioning, "Is this as good as it gets?!" Our response to that question is that we don't think so. However, if you are nervous, try buying the laggards. In the current case, we believe the best candidates are commodity-centric stocks. As previously stated, they are unloved and under-owned. Study the nearby chart, which shows commodities relative to stocks are at their cheapest levels in nearly 50 years.

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"Gov. Andrew M. Cuomo of New York on Thursday morning declared a state of emergency for the southern part of the state, including Westchester County, New York City and Long Island. Other governors or local leaders have declared emergencies and blizzard warnings were in effect in Delaware, Maine, Maryland, Massachusetts, New Jersey, Rhode Island and Virginia."

... The New York Times (1/4/18)

Index	Cur Future	Change	
Dow Jones	25,135	82.00	
S&P 500	2,731	7.20	
NASDAQ	6,629	25.75	
Volume	ADV/DEC		
	1 Day Volume	Volume	
NYSE	893,977,307	1.64	
NASDAQ	2,061,523,330	1.78	
	Issues	1.45	
Foreign Markets	Intraday	Net	% Chg
U.K.	FTSE 100	7,696	0.00%
Germany	Germany DAX (TR)	13,314	146.07
Brazil	Brazil Bovespa In	78,647	0.00
Japan	Japan Nikkei 225	23,715	208.20
Hong Kong	Hang Seng Index	30,815	78.16
S&P Sectors	Close	% Chg	1 mo %
S&P 500 / Consumer Discretic	804.02	0.32%	3.66
S&P 500 / Consumer Staples -I	585.34	0.26%	0.68
S&P 500 / Health Care -SEC	978.47	0.10%	3.13
S&P 500 / Information Techno	1139.40	0.48%	5.67
S&P 500 / Telecommunicatior	163.79	0.59%	2.24
S&P 500 / Energy -SEC	554.51	0.60%	8.20
S&P 500 / Financials -SEC	470.51	0.94%	1.65
S&P 500 / Industrials -SEC	650.89	0.75%	4.35
S&P 500 / Materials -SEC	390.73	0.84%	4.97
S&P 500 / Utilities -SEC	260.73	-0.87%	-7.61
S&P 500 / Real Estate -SEC	199.38	-1.72%	-1.60
Key Commodity Prices	Last	Net	
Crude Oil WTI (NYM \$/bbl) Con	61.430	-0.59	
Natural Gas (NYM \$/mmbtu) C	2.822	-0.06	
eMini Gasoline (NYM \$/gal) Cc	1.807	0.00	
Gold (NYM \$)	1317.900	-3.70	
Silver (NYM \$/ozt) Continuous	17.195	-0.07	
United States Dollar Index	92.032	0.18	
eMini Copper (NYM \$/lbs) Con	3.242	-0.02	
Cotton #2 (IFUS \$/lbs) Continu	0.793	0.00	
Market Valuation	2016A	2017E	2018E
Consensus S&P 500 EPS	\$106	\$125	\$145
P/E	25.7	21.8	18.8
Earnings Yield		4.6%	5.3%
Equity Risk Premium (10 yr)		2.1%	2.9%
Treasury Yields	90D	10 Yr	30 Yr
	1.40	2.45	2.79

Source: FactSet Data as of: 1/5/2018



Source: Bloomberg

As for the stock market, we wrote earlier this week, “It feels like the equity markets are beginning a whole new leg to the upside.” And, for all of y’all that wrote Andrew Adams and me regarding Jeremy Grantham’s statement that we are in a melt-up before a stock market crash, we do not believe a crash is in the cards.

While a short-term decline might occur at any time, we think it would be shallow and short baring a major geopolitical event. Our models, however, suggest this short-term strength could last into February, where our models suggest there could be an energy peak. This morning at 5:17 a.m., the preopening S&P 500 futures are better by some 8 points as North Korea agrees to talks after the military drills are postponed.

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.

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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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