

Investment Strategy

U.S. Markets	Close	Net	1 Day %	YTD %
Dow Jones	24962.48	164.70	0.66%	0.98
Dow Jones Transports	10428.87	56.81	0.55%	-1.73
Dow Jones Utilities	668.20	3.38	0.51%	-7.63
S&P 500	2703.96	2.63	0.10%	1.14
S&P 400 Midcap	1881.28	-2.76	-0.15%	-1.01
S&P 600 Smallcap	934.92	-0.01	0.00%	-0.14
NASDAQ	7210.09	-8.14	-0.11%	4.44
Russell 2000 (Smallcaps)	1529.99	-1.85	-0.12%	-0.36
BKX (Banking)	112.34	-1.58	-1.39%	5.27
BTK (Biotech)	4602.20	-21.36	-0.46%	9.00
XOI (Oil Index)	1294.80	15.59	1.22%	-3.05
SOXX (Semiconductor)	1322.09	-3.26	-0.25%	5.51
XAU (Gold/Silver)	80.02	-0.49	-0.61%	-6.16

"An Elephant Never Forgets"

We like this story from Beliefnet.com:

For 12 hours, two herds of wild South African elephants slowly made their way through the Zululand bush until they reached the house of late author Lawrence Anthony, the conservationist who saved their lives. The formerly violent, rogue elephants, destined to be shot a few years ago as pests, were rescued and rehabilitated by Anthony, who had grown up in the bush and was known as the 'Elephant Whisperer.' For two days the herds loitered at Anthony's rural compound on the vast Thula Thula game reserve in the South African KwaZulu – to say good-bye to the man they loved. But how did they know he had died March 7? . . . There are two elephant herds at Thula Thula. According to his son Dylan, both arrived at the Anthony family compound shortly after Anthony's death. 'They had not visited the house for a year and a half and it must have taken them about 12 hours to make the journey,' [Dylan is quoted in various local news accounts](#). The first herd arrived on Sunday and the second herd, a day later. 'They all hung around for about two days before making their way back into the bush,' said Dylan.

An elephant never forgets, but evidently, investors have forgotten that earnings are the mother's milk of secular bull markets as they ignore one of the greatest earnings seasons in a long time. This next quote is from an article on *Market Watch* explaining what's going on:

'We've been ignoring corporate news. The market has been focused on higher bond yields and rising rates, and those two concerns have overshadowed earnings, which have been strong,' said Mark Grant, managing director and chief global strategist at B. Riley FBR Inc., who added that 'investors need to consider all these factors' and that he expected fundamentals to return to the foreground of investor attention soon. . . . 'Investors have largely looked through one of the strongest earnings seasons on record,' wrote Goldman Sachs, noting the 'muted' responses to both positive and negative corporate results. (Continued on page 2)

"Researchers who studied African elephants in the wild learned that older, female elephants (called 'matriarchs') often lead herds. These matriarchs build up a strong memory over time that allows them to remember friends and enemies."

. . . Wonderopolis

Index	Cur Future	Change		
Dow Jones	25,111	98.00		
S&P 500	2,718	6.50		
NASDAQ	6,811	22.25		
ADV/DEC				
Volume	1 Day Volume	Volume / Issues		
NYSE	833,838,739	1.26 / 1.10		
NASDAQ	1,888,515,015	0.77 / 0.71		
Foreign Markets		Intraday	Net	% Chg
U.K.	FTSE 100	7,252	0.00	0.00%
Germany	Germany DAX (TR)	12,461	-0.70	-0.01%
Brazil	Brazil Bovespa In	86,686	0.00	0.00%
Japan	Japan Nikkei 225	21,893	156.34	0.72%
Hong Kong	Hang Seng Index	31,267	301.49	0.97%
S&P Sectors		Close	% Chg	1 mo %
S&P 500 / Consumer Discretic		831.05	0.10%	-2.12
S&P 500 / Consumer Staples -I		553.11	0.23%	-8.13
S&P 500 / Health Care -SEC		970.81	-0.15%	-5.63
S&P 500 / Information Techno		1164.32	0.08%	-2.00
S&P 500 / Telecommunicatio		154.02	0.16%	-6.65
S&P 500 / Energy -SEC		494.73	1.08%	-13.65
S&P 500 / Financials -SEC		475.46	-0.78%	-3.70
S&P 500 / Industrials -SEC		646.47	0.59%	-3.40
S&P 500 / Materials -SEC		378.20	0.69%	-4.37
S&P 500 / Utilities -SEC		247.81	0.46%	-2.00
S&P 500 / Real Estate -SEC		186.22	1.14%	-5.01
Key Commodity Prices		Last	Net	
Crude Oil WTI (NYM \$/bbl) Con		62.510	-0.23	
Natural Gas (NYM \$/mmbtu) C		2.621	-0.06	
eMini Gasoline (NYM \$/gal) Cc		1.766	0.00	
Gold (NYM \$)		1331.800	-0.90	
Silver (NYM \$/ozt) Continuous		16.555	-0.02	
United States Dollar Index		89.908	0.17	
eMini Copper (NYM \$/lbs) Con		3.206	-0.03	
Cotton #2 (IFUS \$/lbs) Continu		0.796	0.00	
Market Valuation		2017E	2018E	2019E
Consensus S&P 500 EPS		\$125	\$156	\$172
P/E		21.6	17.3	15.7
Earnings Yield			5.8%	6.4%
Equity Risk Premium (10 yr)			2.9%	3.4%
Treasury Yields		90D	10 Yr	30 Yr
		1.64	2.92	3.20

Source: FactSet Data as of: 2/23/2018



S&P 500 (Source: Stockcharts.com)

And then there was this from our friends at Bespoke:

For EPS, the 69% beat rate was the highest since Q3 2006 and the 6th highest over the last 20 years. For revenues, the 73.2% beat rate was the highest since Q4 2004 and the 4th highest over the last 20 years. What makes this season's extremely strong beat rates even more impressive is that analysts were hiking their earnings estimates heading into this reporting period faster than they had been at any point over the last 10 years!

Ladies and gents, ever since the "profits trough" of 2016, Andrew and I have been adamant that the secular bull market had transitioned from an interest rate-driven to an earnings-driven secular bull market, and that has certainly been the way it has played. Before the corporate tax cut, S&P had an earnings estimate for the S&P 500 (SPX/2703.96) this year of ~\$141. Now that estimate is up to \$156.25 and an eye-popping \$172.10 for 2019! If those estimates are true, it means, at the recent "under cut low" of ~2533 (we recommending buying it), the SPX was trading at 16.2x this year's estimate and 14.7x 2019's estimate.

As for the here and now, the two failures around the 2750 level basis on the SPX suggest we may be in for another upside consolidation into April. The action of the past four sessions reinforces that view, given that early strength has given way to an afternoon fade that has left the SPX near the bottom one-third of the session range. Late last night, the S&P 500 preopening futures were down about nine points but reversed to the upside on this headline, "U.S. Treasury Secretary Mnuchin Says Trump Policies Will Raise Wages Without Inflation." This morning, that "point pop" is holding with the futures up eight points as we write at 4:47 a.m.

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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