

Investment Strategy

U.S. Markets	Close	Net	1 Day %	YTD %
Dow Jones	25709.27	399.28	1.58%	4.01
Dow Jones Transports	10769.84	190.94	1.80%	1.48
Dow Jones Utilities	683.73	-2.03	-0.30%	-5.48
S&P 500	2779.60	32.30	1.18%	3.96
S&P 400 Midcap	1914.93	10.70	0.56%	0.76
S&P 600 Smallcap	952.76	6.21	0.66%	1.76
NASDAQ	7421.47	84.07	1.15%	7.50
Russell 2000 (Smallcaps)	1559.33	10.15	0.65%	1.55
BKX (Banking)	115.30	1.07	0.94%	8.05
BTK (Biotech)	4724.34	28.49	0.61%	11.89
XOI (Oil Index)	1326.46	6.57	0.50%	-0.68
SOXX (Semiconductor)	1380.27	29.18	2.16%	10.15
XAU (Gold/Silver)	81.27	0.74	0.92%	-4.70

"Melt Up"

We heard the term again yesterday. It is a term we have heard many times over the last five decades. It was screamed at us by a professional trader when he said, "THIS IS A MELT UP!" As defined by Investopedia, "A 'melt up' is the informal term used to describe markets that experience a rapid rise in valuations due to a stampede of investors anxious not to miss out on a rising trend." Now we are not so sure it is true that it is "investors anxious not to miss out on a rising trend," but we do believe it is traders "anxious not to miss out on a rising trend." "Melt up" is certainly a catchy twist of words, however, we have always preferred the term "buying stampede" with the reciprocal term "selling stampede." As often mentioned in these missives such stampedes tend to last 17 – 25 sessions, with only one-to-three session counter trend pauses/pullbacks, before they exhaust themselves. It just seems to be the rhythm of the thing in that it seems to take that long to get all participants either bullish enough, or bearish enough, to throw in the towel and buy or sell. While it's true some stampedes have lasted 25 – 30 sessions, it is rare to have one go for more than 30 sessions. For the record this "buying stampede" is at session 11.

Our point was highlighted in the invaluable service T3 Live with the headline, "The Great Stampede Continues." The article goes on to say:

Starting on January 29, the S&P 500 began an 11.8% dip that took 10 trading days. It's making up that lost ground awfully fast, and today, the market was up for the 9th time in the last 11 sessions. The Nasdaq has recovered almost the entirety of the decline that kicked off on February 1. The Nasdaq is also now just -1.6% off the record high, and believe it or not, it's up 7% on the year.

And then there was this from our pal CNBC's Bob Pisani:

Volatility has returned in a big way. But does more volatility mean lower returns for stocks? Not necessarily. What's been weird about the markets is not the recent volatility, it's how absurdly low volatility has been. According to DataTrek, since 1958 the S&P 500 has on average gained or lost one percent or more on a daily basis on 53 days. That's about 20 percent of the time, or about one day per week. (Continued on page 2)

"A 'melt up' is the informal term used to describe markets that experience a rapid rise in valuations due to a stampede of investors anxious not to miss out on a rising trend."

... Investopedia

Index	Cur Future	Change		
Dow Jones	25,704	-54.00		
S&P 500	2,777	-7.40		
NASDAQ	6,984	-15.50		
Volume	ADV/DEC			
	1 Day Volume	Volume		
NYSE	810,915,859	2.62		
NASDAQ	1,839,088,033	2.86		
Foreign Markets		Intraday	Net	% Chg
U.K.	FTSE 100	7,290	0.00	0.00%
Germany	Germany DAX (TR)	12,465	-62.05	-0.50%
Brazil	Brazil Bovespa In	87,653	0.00	0.00%
Japan	Japan Nikkei 225	22,390	236.23	1.07%
Hong Kong	Hang Seng Index	31,269	-229.94	-0.73%
S&P Sectors		Close	% Chg	1 mo %
S&P 500 / Consumer Discretic		849.41	0.86%	-2.04
S&P 500 / Consumer Staples -I		562.51	0.66%	-6.99
S&P 500 / Health Care -SEC		998.11	1.21%	-5.61
S&P 500 / Information Techno		1208.38	1.58%	0.58
S&P 500 / Telecommunicatior		158.07	1.82%	-5.28
S&P 500 / Energy -SEC		508.91	0.66%	-10.69
S&P 500 / Financials -SEC		489.69	1.51%	-2.13
S&P 500 / Industrials -SEC		660.67	1.39%	-2.41
S&P 500 / Materials -SEC		385.39	0.47%	-3.95
S&P 500 / Utilities -SEC		253.56	-0.33%	-1.57
S&P 500 / Real Estate -SEC		190.26	0.44%	-4.16
Key Commodity Prices		Last	Net	
Crude Oil WTI (NYM \$/bbl) Con		63.650	-0.26	
Natural Gas (NYM \$/mmbtu) C		2.666	-0.02	
eMini Gasoline (NYM \$/gal) Cc		1.827	0.00	
Gold (NYM \$)		1334.300	1.50	
Silver (NYM \$/ozt) Continuous		16.570	0.02	
United States Dollar Index		89.833	-0.02	
eMini Copper (NYM \$/lbs) Con		3.198	0.00	
Cotton #2 (IFUS \$/lbs) Continu		0.816	-0.01	
Market Valuation		2017E	2018E	2019E
Consensus S&P 500 EPS		\$125	\$156	\$172
P/E		22.2	17.8	16.2
Earnings Yield			5.6%	6.2%
Equity Risk Premium (10 yr)			2.8%	3.3%
Treasury Yields		90D	10 Yr	30 Yr
		1.64	2.86	3.16



In 2017, there were only eight days where the S&P moved one percent or more. Eight days, versus an average of 53 for the past 60 years. So far in 2018, there have been 11. Reversion to the mean? Sure looks like it. Ready to lighten up on stocks? You shouldn't be, according to Jessica Rabe at DataTrek: "Just because US equities are more volatile does not mean negative price returns, at least when looking at the historical data," she wrote in a recent note to clients.

So where does this leave us? Yesterday's upside chart breakout (see chart) was consistent with our comments that the stock market's internal energy was geared to the upside. This is consistent with what we said at the February 9, 2018 "undercut low" having told investors to "BUY" that "undercut low." Our sense is the upside will continue in a stutter-step fashion. Yesterday's action puts any significant pullback out of the question, in my opinion. The type of scary pullback that began on January 29, which was quickly recaptured on the upside, is actually very bullish. Indeed, there should not be much trouble until around March 8 or 9. While those dates may stall the upside, we think the upside should persist into the November 2018 elections. This morning, however, the preopening S&P 500 futures are off about 3.5-points as we write at 5:19 a.m. on no real overnight news.

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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