Market Brief

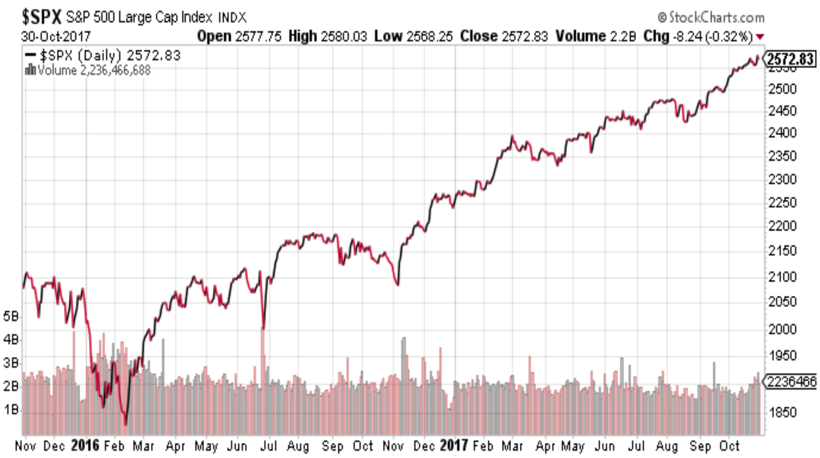
October 30, 2017

Market Snapshot

Closing Values as of 10/30/2017

Dow	23,348
S&P 500	2,572
Nasdaq	6,698
Gold	$1,277

This year has been a record year for records.



October, which is traditionally considered one of the most volatile months of the year, has been as calm as the rest of the year…and the rest of the year has been unusually calm. The average daily change in value during the month of October has been 0.29%, the tightest range since August 1964. It should also be noted that 1964 holds the record for being the least volatile year on record, 2017 may not claim the title but it is right in there.

Adding to the record count, 2017 now officially holds the title for the most trading days without a pullback of 3% or more, and in just a few days it will hold the record for most days (trading or not) without a 3% pullback. Even without the benefit of a minor pullback to entice investors, money has continued flowed into the markets. So far this year the S&P 500 has seen more than 60 new highs and bonds remain near their highs.

It may not be a record but the week ending 10/27/17 marked 7 consecutive "perfect weeks" in which the S&P 500 closed higher than the week prior. Until now, the longest streak of perfect weeks has been 7, with the 8th week giving back some or all of the gains. With high-flying companies like Apple, Facebook, Starbucks and Tesla due to report earnings this week a first ever, 8th consecutive perfect week might be possible. I am inclined to believe we won't see an 8th week of gains, if for no reason other than the tendency for the markets to follow historical trends …but this is the year of new records.

<u>Market Outlook</u>

Investor sentiment and put/call ratios suggest the market is likely to push higher but history suggests a 3-5% pullback is increasingly likely. I believe the market has become overvalued, pushed higher by low volatility and enthusiasm over tax reform and stronger economic data. The longer the markets run without a normal, health restoring pull-back, the more likely any future pull-back becomes a more significant correction. Even with economic momentum building, the potential for a political stalemate derailing tax reform or impacting the debt ceiling (a mid-December issue) remains a potential catalyst for correction. And of course the possibility of a black swan event stemming from geo-political tensions or some as of yet unknown issue is a reason to always be prepared for a correction.

With so much "good" news already baked into the markets and the unusually long period of low volatility the potential for a pullback/correction is high enough to suggest reducing market exposure. Since BOTH fixed income and domestic equities are trading at or near all-time highs, I recommend reducing exposure to domestic stocks and longer dated bonds in favor of an increased cash position. Owning a diversified portfolio including quality stocks (domestic and international), lower duration fixed income products and cash or cash-like instruments will allow you to participate in continued gains with less risk and the opportunity to take advantage of opportunities as they present themselves.

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