



Market in a Minute

April 4, 2017

Index Performance: As of Mar. 31, 2017

Index	Price	Last Week	YTD
Dow Jones 30	20663	0.3%	4.6%
S&P 500	2363	0.8%	5.5%
NASDAQ	5912	1.4%	9.8%
Russell 2000	6752	2.4%	2.5%
Russell 2000 Growth	5730	2.0%	5.3%
Russell 2000 Value	10730	2.7%	-0.1%
Russell 1000 Growth	1090	0.9%	8.9%
Russell 1000 Value	1409	0.9%	3.3%
Shanghai SE Index	3375	-1.4%	3.8%
SPDR Gold Shares	118.72	-0.1%	8.3%
GS Crude Oil Total Return	5.59	7.5%	-11.7%
Powershares US \$ Index	25.94	0.8%	-2.0%
iShares EAFE Index	62.27	0.2%	7.9%
iShares Barclays 20+ Yr Treasury Bond	120.71	-0.1%	1.3%
Utilities Select Sector ETF	51.30	-1.1%	5.6%
Vanguard REIT ETF	82.59	0.9%	0.1%
iShares Mortgage Real Estate	45.29	2.4%	7.7%
Wells Fargo BDC	23.79	1.8%	4.8%
Alerian MLP ETF	12.71	1.3%	0.9%
iShares Global Telecom	59.48	-0.8%	1.3%

Source: Bloomberg & MSN, Returns are appreciation only.

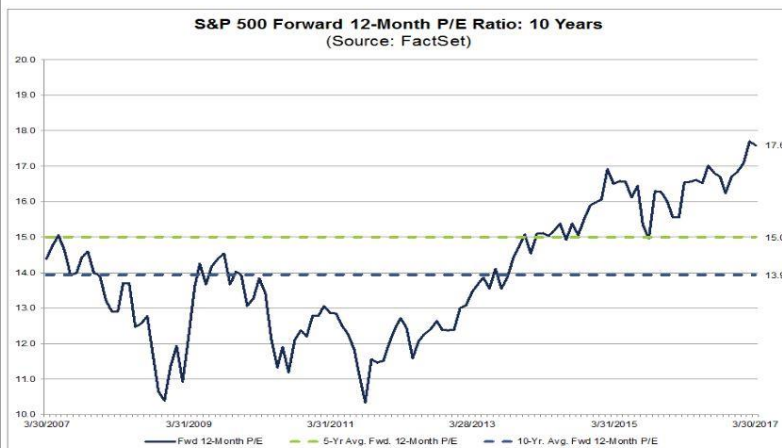
S&P Sector Performance

Index	Price	Last Week	YTD
Information Technology	906	1.1%	12.2%
Consumer Disc.	700	1.7%	8.1%
Consumer Staples	562	-0.1%	5.6%

A Word on the Market by Pat Adams, CFA

We thought we would review the valuation of the stock market this week. Many investors ask us about our process for hedging. It is comprised of both a fundamental and a technical view of the market, including individual stocks. The primary technical factor that we focus on is the 200-day moving average, and that continues to be in an uptrend. Other technical factors that we believe are important are investor sentiment, the VIX, margin debt, the put/call ratio, insider buying or selling, seasonal trading patterns, and various technical patterns. We believe many of the technical indicators are cautionary, but the overall technical trend is positive.

Generally, before any meaningful decline in the stock market the fundamentals will warn you. The problem with fundamentals is they can be very early. We believe a process of both technicals and fundamentals is best in evaluating the risks in the market. On the fundamental side, valuations at extremes, on a historical basis, are a very reliable warning of things to come prior to the technicals deteriorating. The first chart below is the 12-month forward P/E ratio, we believe earnings will come in lower than expected and valuations are more like 19x. Regardless these valuations are high.



Health Care	860	0.1%	7.9%
Financials	395	0.8%	2.1%
Industrials	560	0.9%	4.0%
Energy	514	2.2%	-7.3%
Telecommunications	168	-0.8%	-5.1%
Utilities	260	-1.2%	5.4%
Materials	329	1.3%	5.3%

Source: Bloomberg website, Returns are appreciation only.

Interest Rates

Fed Fund	0.75	5-Year	1.93
3-Month	0.76	10-Year	2.40
6-Month	0.91	30-Year	3.02
2-Year	1.27		

Source: Bloomberg.com

Economic Events This Week

3-Apr	ISM Index	57.0	57.7
3-Apr	Construction Spending	1.0%	-0.4%
4-Apr	Factory Orders	0.9%	1.2%
6-Apr	Initial Claims	245K	258K
7-Apr	Nonfarm Payrolls	180K	235K
7-Apr	Nonfarm Private Payrolls	175K	227K
7-Apr	Unemployment Rate	4.7%	4.7%
7-Apr	Wholesale Inventories	0.4%	-0.2%

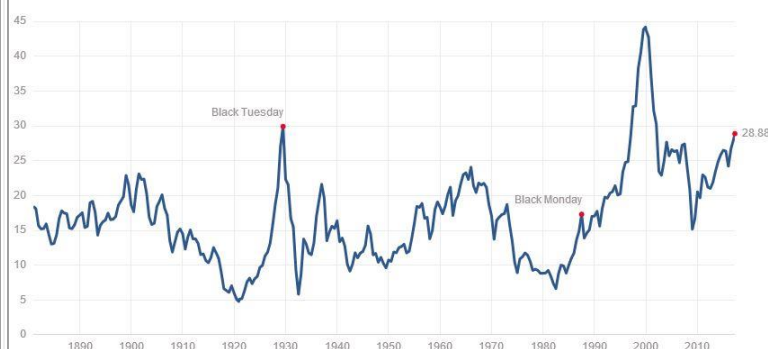
Source: Briefing.com

Economic Events Last Week

Date	Event
28-Mar	Consumer Confidence for Mar. was reported at 125.6 which was higher compared to forecasts of 113.3
30-Mar	GDP-Third Est for Q4 was 2.1% vs. estimates of 2.0%
30-Mar	GDP Deflator-Third Est. for Q4 came in at 2.0% which was in line with expectations

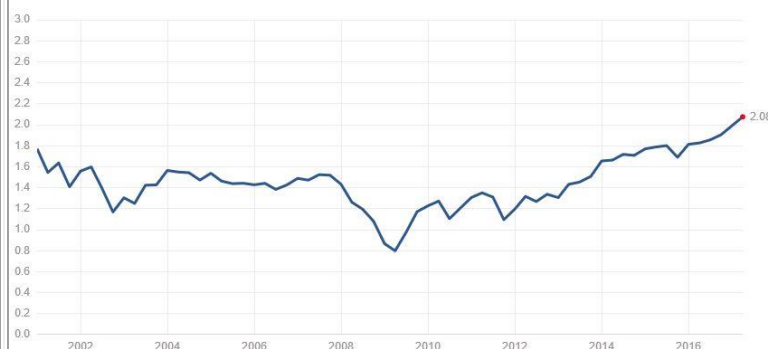
The next chart is the Shiller P/E, it adjusts earnings for inflation, so the valuations are more consistent with less noise. You can see below based on this valuation the market is very richly valued.

Shiller P/E



The chart below is the valuation of the market using revenues of the underlying companies instead of earnings. We really like this methodology. We are at the highest level for this valuation methodology.

S&P 500 Market Cap to Sales Ratio



The last chart on valuation is again at a very high level. This is one of the most unique ways we look at valuation and it is attributed to Warren Buffet, it is the total market value of equities versus the size of the U.S. Economy.

The Ratio of Total Market Cap to US GDP



30-Mar	Initial Claims for the week of 3/25 were reported at 258K which was higher vs. estimates of 245K
24-Mar	Durable Orders ex-transportation for Feb. was up 0.4% compared to expectations of 0.7%
31-Mar	Personal Income for Feb. rose 0.4% which was in line with forecasts.
31-Mar	Personal Spending for Feb. rose 0.1% compared to expectations of 0.2%
31-Mar	The Chicago PMI for Mar. came in at 57.7 which was slightly higher than estimates of 55.8
31-Mar	The Final Michigan Sentiment for March was reported at 96.9 vs. consensus forecasts of 97.6
Source: Briefing.com	

There is a consistent pattern to the valuation of the market, it is very high, and there are clear signs of excessive risks. The Federal Reserve needs to operate without a glitch, but that may not even matter, at some point the market will correct as if it reverts back to the mean, the downside is significant. Buying the market at this level is buying high and hoping for higher. The only bull case, as we see it, is all of Trump's policies get approved without delay, and the Fed is very slow in raising interest rates to allow the market to grow into this huge excess.

The first quarter of the year we saw a clear rotation out of value and into growth, as an example, the Russell 2000 Growth was up 5.3% and the Russell 2000 Value was down -0.1%. Technology was the big winner up over 12%, energy was down -7.3% and telecommunications -5.1%. We would expect rotation back into the underperforming sectors this quarter. If not, we would view this as very concerning for the markets.

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