



Market in a Minute

April 10, 2018

Index Performance: As of April 6, 2018

Index	Price	Last Week	YTD
Dow Jones 30	23933	-0.7%	-3.2%
S&P 500	2604	-1.4%	-2.6%
NASDAQ	6915	-2.1%	0.2%
Russell 2000	7469	-1.0%	-1.1%
Russell 2000 Growth	6697	-1.5%	0.8%
Russell 2000 Value	11219	-0.5%	-3.2%
Russell 1000 Growth	1301	-1.5%	-0.1%
Russell 1000 Value	1490	-1.2%	-4.0%
Shanghai SE Index	3279	-1.2%	-5.3%
SPDR Gold Shares	126.39	0.5%	2.2%
GS Crude Oil Total Return	6.89	-5.7%	5.4%
Powershares US \$ Index	23.63	0.1%	-1.7%
Ishares EAFE Index	69.40	-0.4%	-1.3%
iShares Barclays 20+ Yr Treasury Bond	121.10	-0.7%	-4.5%
Utilities Select Sector ETF	50.42	-0.2%	-4.3%
Vanguard REIT ETF	75.27	-0.3%	-9.3%
iShares Mortgage Real Estate	42.57	0.2%	-5.8%
Wells Fargo BDC	19.97	0.9%	-3.8%
Alerian MLP ETF	9.35	-0.2%	-13.3%
iShares Global Telecom	57.40	0.1%	-5.2%

Source: Bloomberg & Yahoo.com, Returns are appreciation only.

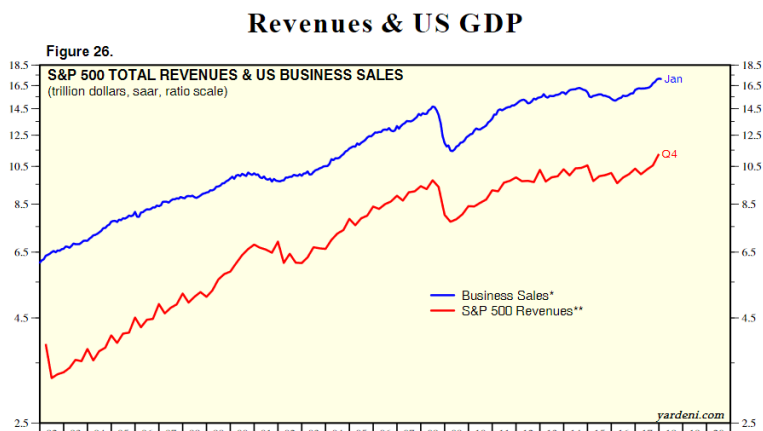
S&P Sector Performance

Index	Price	Last Week	YTD
Information Technology	1115	-2.3%	0.8%
Consumer Disc.	802	-0.7%	2.1%
Consumer Staples	540	-0.3%	-8.0%

A Word on the Market by Pat Adams, CFA

Growing up in the stock market over 30 years ago, it seems that there has been a significant amount of money, particularly now, that is index or ETF based. Value in certain stocks seems to take longer to be realized, but it eventually does. We are sometimes surprised how long it takes the market to connect the dots, especially in this late stage as investors are focused on a few technology stocks. When news is more than obvious for an individual stock then stocks perform very strongly. There is a big void in the due diligence by investors.

The headlines about China have created significant volatility in the markets as investors whip in and out of ETFs. Most stocks have very little exposure to China. You can see below the revenues of all the companies in the S&P 500 are about \$11 trillion. The S&P 500 generates about 5% of revenues from China, with \$50 billion in tariffs from China on our farm goods, we see very little impact on revenues for U.S. companies, yet it is causing major volatility. Clearly the \$600 billion of revenue for the S&P 500 companies exported to China is not going away. Psychologically, tariffs are scary, but not unless a very large amount of the \$600 billion in sales went away would it be an issue.



The market should not be so concerned about China. Rather, the issues for the markets are high valuations in sectors such as technology, with over 9 years of a bull market there is not pent-up demand for stocks, and the Federal Reserve is a big negative by raising interest rates and shrinking their balance sheet. There are political concerns but nothing that seems to be material, North

Health Care	925	-1.7%	-3.3%
Financials	451	-1.4%	-2.8%
Industrials	612	-2.0%	-4.0%
Energy	498	-0.1%	-6.7%
Telecommunications	151	-0.2%	-8.8%
Utilities	256	-0.1%	-4.3%
Materials	354	-0.7%	-6.6%

Source: Bloomberg website, Returns are appreciation only.

Interest Rates

Fed Fund	1.625	5-Year	2.60
3-Month	1.76	10-Year	2.78
6-Month	1.93	30-Year	3.02
2-Year	2.29		

Source: Bloomberg.com

Economic Events This Week

10-Apr	PPI	0.2%	0.2%
10-Apr	Core PPI	0.2%	0.2%
10-Apr	Wholesale Inventories	1.1%	0.8%
11-Apr	CPI	0.1%	0.2%
11-Apr	Core CPI	0.2%	0.2%
12-Apr	Initial Claims	230K	242K
12-Apr	Michigan Sentiment	100.6	101.4

Source: Briefing.com

Economic Events Last Week

Date	Event
2-Apr	The ISM Index for Mar. came in at 59.3 which was slightly below consensus estimates of 60.0
2-Apr	Construction Spending for Feb. rose 0.1% compared to expectations of 0.5%
4-Apr	Factory Orders for Feb. was up 1.2% vs. forecasts of 1.8%
5-Apr	Initial Claims for the week of 3/31 came in at 242K

Korea seems to be behaving. It seems our military will need to react to the Syrian chemical attack, but no economic issues will come out of it. Trump's lawyers being raided by the FBI...wow, there are laws that keep attorney client communications confidential...this is going nowhere anyway, but it may be entertaining. All this translates to the market being very late stage, with lots of very undervalued stocks and lots of extremely overvalued stocks. We see the ability to hedge against market declines as very important and actual research on individual stocks being critical!

A couple of interesting stocks that could be big winners, Alzheon (ALZH) which is expected to IPO on Thursday. ALZH has a phase 3 Alzheimer's drug and has been fast-tracked by the FDA. However, they are raising a lot of money (\$70 million), and, therefore, we believe the stock will be very attractively priced for investors. The total market cap, assuming all goes as planned, would be worth about \$220 million. An approved Alzheimer's drug could be worth as much as \$10 billion. We would caution investors that if it does not work, it would have no value.

The other stock, that is a quality company, Olin. An interesting acquisition recently occurred which sets the private market value for assets such as OLN. A division of Akzo Nobel is being acquired by the Carlyle Group for \$12 billion or 12x EBITDA. Olin has similar assets and trades for half the valuations, in other words, there is 100% upside in the shares of OLN. There were 2-3 other bidders for the Akzo Nobel assets, which means OLN is a clear acquisition target for the other bidders. OLN trades for roughly 6.5x EBITDA and the peer group is 9.1x. There is significant upside potential for OLN and limited relative downside. Think about this, what do you think the private market value would be for some of the FANG stocks, what a joke!

Our point in highlighting a couple of stocks to you, both very different, is there is clearly undervalued stocks in the market and owning technology or the FANG stocks to make money is not necessary. We are hoping the market rotates out of technology, and into other sectors, rather than going into a bear market. Investors need to do a little work and not to focus on ETFs.

Again, this week, looking at the chart of the S&P 500, the purple line is the 200-day moving average. As the S&P 500 slowly has lost its momentum, it has drifted down to important technical levels. You can see from the Bollinger Bands the market is starting to roll over, but so far has not broken down. Our technical model has not gone to a sell signal. The technicals of the market need to be closely monitored. The market needs to hold in these levels. Once the market begins its decline, most investors wait for a bounce that never occurs and they ride the market all the way down. We encourage investors who don't already have one, to get a plan.

S&P 500, 6 months

which was above estimates of 225K

6-Apr

Nonfarm Payrolls for Mar. were reported at 103K which was well below expectations of 175K

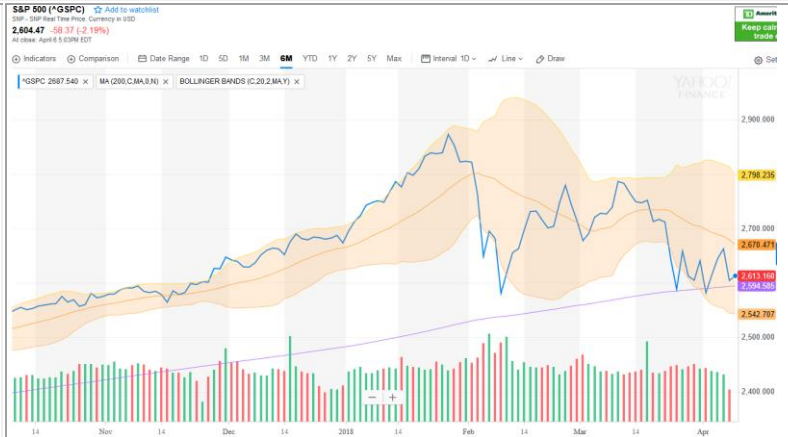
6-Apr

Nonfarm Private Payrolls for Mar. came in at 102K compared to forecasts of 180K

6-Apr

The Unemployment Rate for Mar. was 4.1% vs. consensus estimates of 4.0%

Source: Briefing.com



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