

# Today's Future

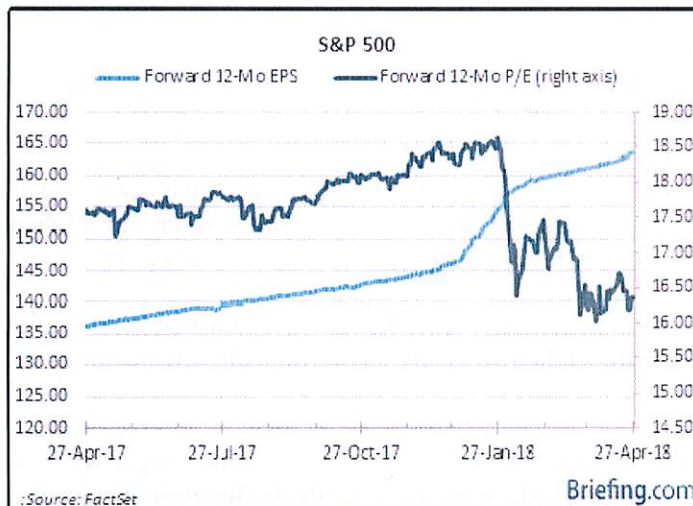
June 13, 2018

## Back to the Technicals...

Before this year started, the mantra of the equity market pundits was "This is the least volatile market ever". They're not saying now. January ended with a surge of **5.73%** in the S&P 500 only to be followed by a **-3.69%** loss in February and ending with a loss of **-2.54%** in March. The total return for the quarter was **-0.76%**.

*What gives? I thought you said that earnings were ok.* They're better than ok. On April 6<sup>th</sup>, earnings for the first quarter were forecasted to grow by 17.3%. Today the forecast is up to 23.2%! (according to Factset). The best growth since 2010. It certainly didn't hurt for Amazon to announce that their revenue grew by 43% from last year! The S&P 500, however, was flat during this time. Something smells a little fishy... Last week the first quarter GDP announcement was down a bit from last quarter at 2.3% but still stronger than forecasted. Kiplinger still maintains that year end GDP will be 2.9%, so the odds of a near term recession are remote at best.

*Isn't the stock market completely overvalued?* While that question can have many variables to consider, the chart below clearly indicates that with earnings accelerating and prices flat to negative, the markets appear to have better value every day.



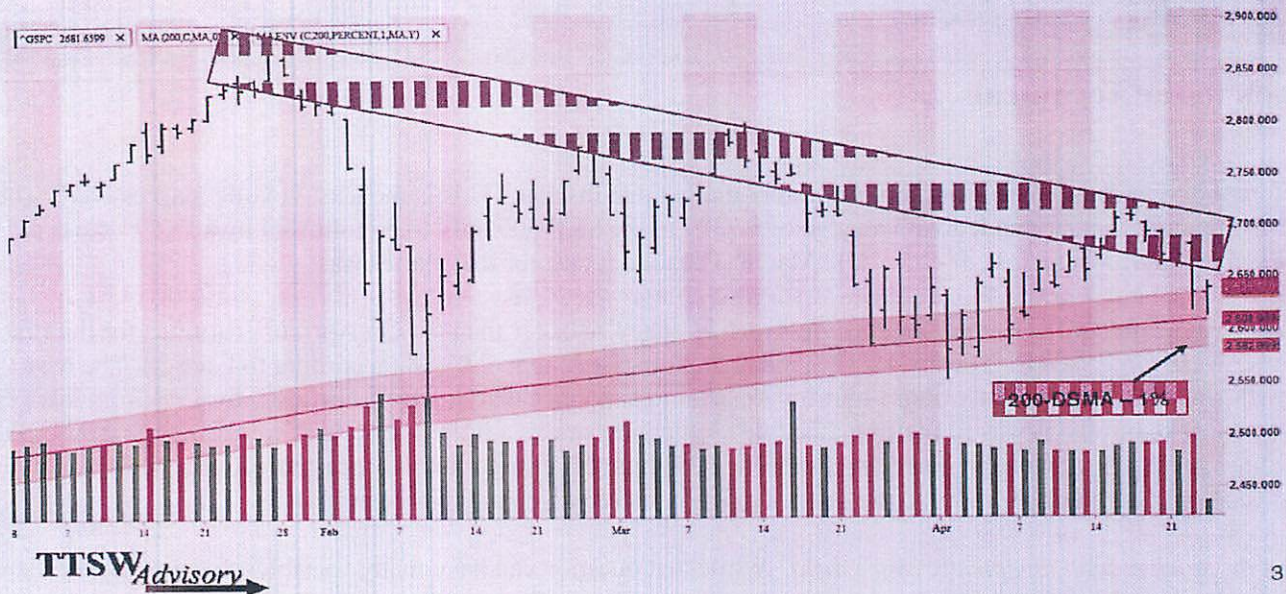
I suspect that the markets are having some digestion issues. Yes, earnings are good, but markets quite normally adjusted for this already last year and into January. Unemployment claims recently came out at the lowest level since 1969! This suggests that wages will continue to rise as corporations struggle to fill positions. *How are we going to pay higher wages?* A corporation has two choices. **They can pay it from current profits or they can increase the price of their products.** From a stock market point of view, these two options stink.

At times like these I rely on my technician. His firm is able to conceptualize many of these variables and put them into a historical context. The next chart summarizes the first quarter. Much of his verbiage is "inside baseball" and not always clear, but soon we'll either continue like we have been for the last year or we'll set another course.....



## A tug of war between two bands

Since January, the S&P500 has been stuck between the *purple resistant band* and the *200-DSMA support band* (with  $\pm 1\%$ ). According to Jeremy Siegel, the 200-DSMA  $\pm 1$  band worked better than the 200-DSMA line. From February to April, the S&P500 always bounced back from inside the *200-DSMA band*. As long as the bottom of the band doesn't break, the long-term trend is intact. The short-term future of the market hinges on which band wins after they collide next week. As long as FQS remains bullish at the end of April, the odds favor a breakout to the upside.



## Miscellaneous

-One quick reminder that I'll be out of the office May 9<sup>th</sup> through the 18<sup>th</sup>. Let me know before if you need anything special taken care of!

-Schwab is switching your brokerage sweep money fund from the money market to a Schwab bank account. This was done to meet ongoing regulations. The bottom line is that your sweep account is safer with FDIC insurance, but earns very little interest. I tend to keep very little money here anyway so it's mostly a moot point.

-A widow is entitled to her own social security benefit as well as her deceased husband's as well. In February it was announced that **the social security administration failed to notify 82%** of the eligible people about this benefit. Please call here before reviewing your options...

-Flexible spending accounts, offered by many employers, can be used to tax deduct expenses related to child care, nannies etc. **They also could be used for the expenses of caring for an elderly dependent parent.**

-Google search results for "rising interest rates" hit the highest rate since 2004.

-14.6% of the companies in the S & P 1500 index **could not pay their debt interest payment** based on the fourth quarter 2017. The number was 5.7% at the start of the great recession. (Bianco research)

-42% of the Russell 2000 (smaller) company debt is **floating rate** vs 9% for the S&P 500. *Time to lock it in boys.* (Bianco research)

-Charitable Deductions-Now that the standard deduction is \$24,000, it's going to be hard to qualify for a charitable deduction. One strategy is to **double up your contributions** in one year to possibly qualify for your deduction. You then could also deduct your state and local taxes as well.

-The S&P Dow Jones Indices and the MSCI Inc. have decided to create a new sector -**Communication Services**. This new sector will replace the telecom sector which has recently plummeted and has lagged since 1990. Behind the scenes, there are going to be major shifts of money when all institutions will be forced to rebalance their indexes.

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