

CHART OF THE MONTH

FEBRUARY 2018

The stock market continued to steamroll higher in January with the Dow Jones Industrial Average and the Standard & Poor's 500 gaining 5.8% and 5.6%, respectively. Of note, it was the S&P 500's best January since 1997.

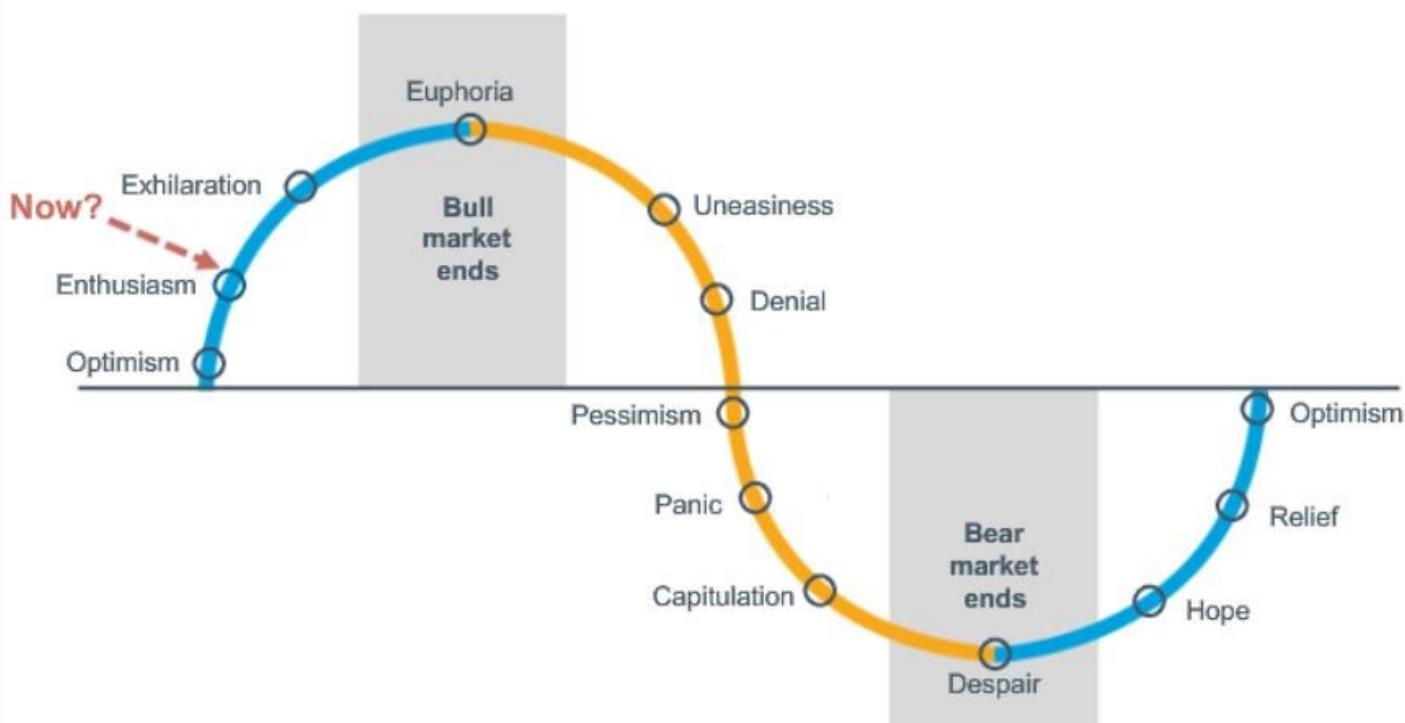
A widely followed market theory known as the January Barometer claims that "as January goes, so goes the year." Since 1950, the market historically has increased from February through December nearly 90 percent of the time with an average return of 12.2% when the opening month of the year was in the green. When the S&P has risen over 5% in January (as it did last month), the average return for the rest of the year has been 15.8%.

Not surprisingly, as of January 30, the bull/bear ratio tracked by Investors Intelligence was the highest reading in the past 30 years. The level of bullishness, which is a contrarian indicator, suggests that the market may be ahead of itself in the short run and vulnerable to a pullback on any disappointing news, especially in light of the fact that the S&P 500 hasn't experienced a 3% drawdown in a record 450 calendar days. As a reminder that streaks are meant to be broken, this index suffered back-to-back declines of 0.50% or more on Monday and Tuesday for the first time since before the election in November 2016, double the length of the second-longest streak.

While the economic and investment outlook remain strong, there is little doubt that we are approaching the latter stages of the cycle. As shown below, the market's emotional roller coaster has gone from despair at the bottom of the recession and bear market in 2009 to hope and relief during the Obama Administration and to optimism and enthusiasm under the Trump Administration.

If the past is prologue, the cycle will most likely continue its path toward exhilaration and end when it reaches the point of euphoria. Although some of the best results from both the economy and stock market may still be in front of us, we believe it is important for investors to stick to their long-term investment objectives and refrain from getting greedy this late in the game. In the meantime, we will continue to rebalance the stock and bond weightings to conform with the asset allocation targets of each client.

Market's emotional roller coaster



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