Chart of the Month

December 2017

S&P 500 Up YTD All Year
S&P 500 Performance (%)

Year	Entire Year	Next Year
1943	19.45	13.80
1951	16.35	11.78
1958	38.06	8.48
1964	12.97	9.06
1967	20.09	7.66
1975	31.55	19.15
1976	19.15	-11.50
1979	12.31	25.77
2012	13.41	29.60
2013	29.60	11.39
2017	20.16	?
Average	21.19	12.52
Median	19.45	11.58

The three major stock market indexes made all-time highs on Monday with the Dow Jones Industrial Average producing a record close for the 70th time this year, breaking the previous mark of 69 from 1995. To put that achievement into perspective, it means that one out of every four trading sessions has produced a record close. The Dow is also on pace to gain 5,000 points in a year for the first time ever.

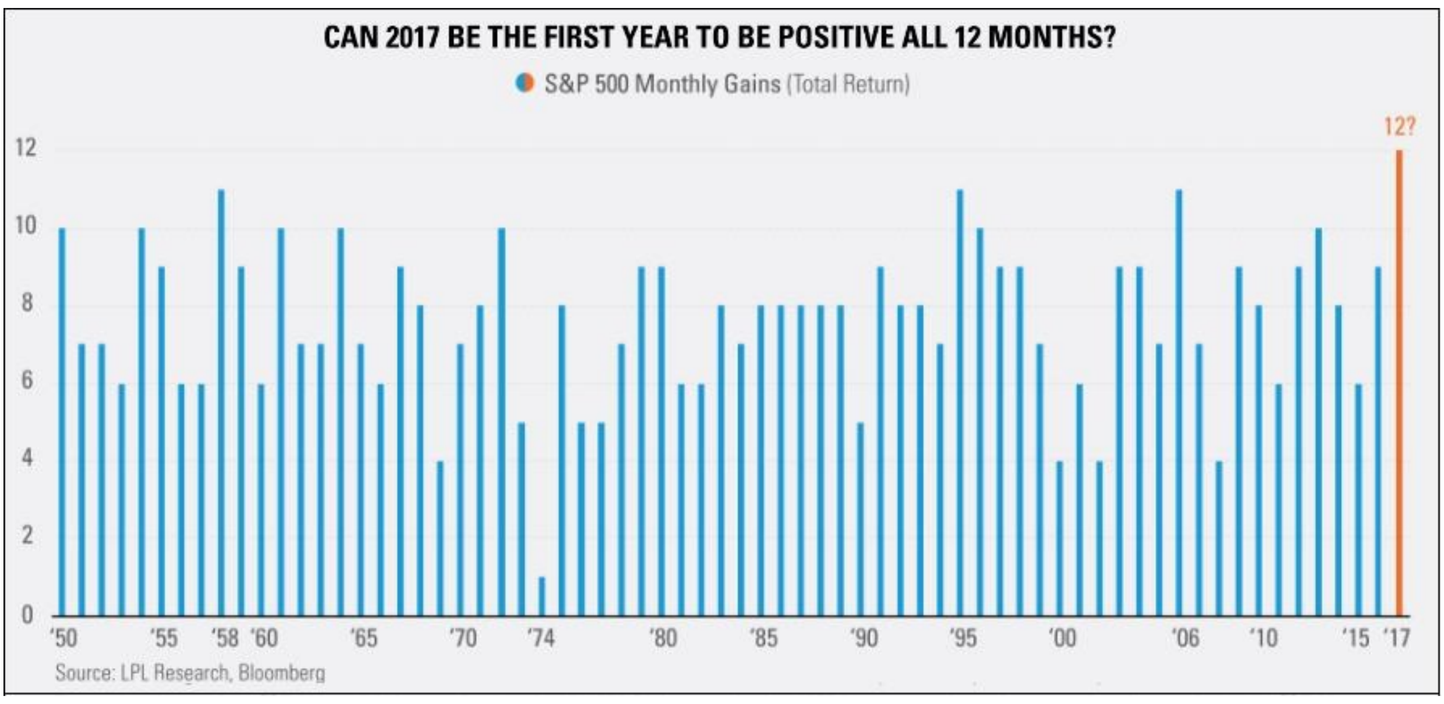
Amazingly, the S&P 500 has never been in the red this year as it was up the first day in January and subsequently worked its way higher and higher, never falling below its beginning level at any time. As shown above, there have only been ten prior years where the S&P went the entire year without trading into negative territory. Following those occurrences, the index traded up the next year nine times and down just once. The average return was 12.52% and the median return was 11.58%.

In addition, if the S&P 500 can close the month of December in the green, then 2017 would become the first year in history where all 12 months of a calendar year generated positive total returns (dividends included). With the S&P up roughly 1.50% with only seven trading days to go, the odds favor that the market will set another record this year. As shown below, there have only been three years (1958, 1995, and 2006) where the S&P advanced in 11 of the 12 months. Of note, the index increased the following year all three times with an average annual return of 13.41%.

Since 1950, the S&P 500 has logged an annual gain of 20% or more 18 times. In those prior occurrences, the index advanced 16 times the next year, including double digits more often than not.

While the past may not be prologue, we believe the fundamentals also support the possibility of a double-digit return in 2018. Our projections of 3% real and 5% nominal GDP growth should lead to at least 5% revenue growth and 10% or more earnings growth due to the benefits of operating and financial leverage as well as lower corporate tax rates. With no change in the price-earnings multiple, stocks could appreciate by a like amount, leading to an overall return of approximately 12% with dividends. In round numbers, we estimate that the S&P 500 may rise from its current level of just under 2,700 to 3,000 over the course of the next year or so.

We're mindful of the risks (including geopolitical or an overly aggressive Fed) and recognize that the above scenario may not play out as anticipated. As such, we continue to recommend balanced portfolios with commitments (based on goals and objectives) to real estate investment trusts, shorter-term bonds, and/or cash to provide diversification and cushion the downside.



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