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Dow Jones Industrial Average: 21,079

The Fear Trade of 2017

Fear Trade, What Fear Trade???

Since November 6th, the Presidential election, the Dow Jones Industrial Average was been a steady performer, up 14.22% (through April 30th). * In fact, the FEAR TRADE has been anything but nervous. Since the election, the market has pretty much said, “Game On” or the term that sounds more professional, “Risk On”. Another way to visualize this: when the VIX (the S&P 500 Volatility Index) is 20 or higher, the market is factoring uncertainty. On October 30, 2016, the VIX was trading at 22.51, roughly six months later- the VIX closed on May 26, 2017 at 9.99 (source: Yahoo Finance).

With the anticipation of a rollback of regulations, tax reform, and repartition of cash by Corporate America- the Pro-Growth agenda of President Trump has fueled the “animal spirits” of the market, along with strong corporate earnings. **When you put corporate optimism and good corporate earnings into a blender, you get a market that is trading at or near their all-time highs.**

So, what is problem- and why is Patterson Wealth Management (PWM) recapping what CNBC has been saying for months? The answer to that question is that PWM is increasingly nervous that the market is too complacent, and it could see a sell-off without much issue prompting it.

There are a few reasons that I say this. By the way, I am not overly worried about the economy going into a recession or anything prolonged, but I do think that the market could have a few rocky days / weeks:

- Presently, much of the trading in the market is done by computers or “Algorithms”. Meaning that if there is a sell-off of 3 or 4 stocks in one industry, the computer programs have been wired to sell-off the whole industry. This was one of the culprits that caused the FLASH CRASH of 2015- the S&P 500 dropped 7% in one day. **

Additionally, there are new investment vehicles that double or triple the once day performance of an index. So, when you get a sell-off in the market, these new investments will amplify stock movements...both positively and negatively.

- If the market does not get the tax reform passed this year or some of the other agenda items, some of the optimism about the momentum of the Trump Agenda could deteriorate.
- Historically, there is a lack of good news in the market place during the summer, which prompts the market to drift lower.

ALL OF THESE FACTORS COULD CAUSE THE VIX TO TRADE HIGHER, which tends to cause selling in the overall market.

Another factor to consider taking a more cautious stance in your stock positions would be the “Seasonality” of the market, or the “Sell in May and Go Away”. I have provided this in a May 2015 commentary, I thought it would be a good thing to review again:

Theme 2: Sell in May and Go Away

There is an adage on Wall Street that has been around for over 70 years, which is “Sell in May and Go Away”. Which translates to the stock market tends to sell off due to summer vacations, weaker corporate earnings, and a lack of good news that tends draw down the overall market. The following are some statistics for your review, which give some credence to this adage:

Last 20 Years:

November 1 to April 30, average gain: +7.7%

May 1 to October 31, average gain: +0.2%

Last 50 Years

November 1 to April 30, average gain: +7.3%

May 1 to October 31, average gain: +0.03%

Data Source: Bespoke, October 29, 2015, "November Seasonality"

And here is some of the more recent years (remember that 2012 was a presidential year and in 2013 [after the uncertainty of the election] the S&P 500 was up roughly 32%:

<u>Year</u>	<u>November 1 to April 30</u>	<u>May 1 to October 31</u>
2009-10	+14.5%	-0.3%
2010-11	+15.2%	-8.1%
2011-12	+11.5%	+1.0%
2012-13	+13.1%	+9.9%
2013-14	+7.3%	+7.1%
2014-15	+3.3%	-0.3%
Average:	+10.82%	+1.55%

Source: Yahoo! Finance (using the S&P 500)

So, do we sell everything??? Of course not, if the market continues to go higher- investment accounts would miss out on the rally. But, taking ½ positions and transferring to a more conservative investment is not a bad idea (in my opinion).

Also, in my opinion, 10 days ago, investors received a shot across the bow:

On Wednesday, May 17th, the day that FBI Director was fired by President Trump, and supposedly there is a memo suggesting some type of obstruction of justice. *I am not going to get into the weeds on any part of the that story*, other than to convey the news driven result: the Dow Jones Industrial Average dropped 373 points. And the corresponding VIX Index moving from 10.50 to 15.40...in one day (source: Yahoo Finance).

So, the point (of my 2 pages of rambling and miscellaneous facts) is that this market is happy to go up, but it is also quick to sell-off. And if we are going into a period of weak news and historically weak momentum: **the market may sell-off (some) and the quiet VIX index might see some prolonged volatility.**

If you would like me to review your account to assess the market exposure during this time of uncertainty, please contact my office.

With all that negativity / cautious tone:

Please have a great summer, and remember the words of the 1999 hit by Baz Luhrmann: “Always Wear Sunscreen.”

Here is the video for your enjoyment & nostalgia:

<https://www.youtube.com/watch?v=sTJ7AzBIJoI>

* <http://www.marketwatch.com/story/how-trumps-stock-market-ranks-on-his-100th-day-in-office-2017-04-29>

** <http://money.cnn.com/2015/08/24/investing/stocks-markets-selloff-circuit-breakers-1200-times/>

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