



# INCISIVE INVESTOR

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## THE YEAR IN REVIEW 2017

For the year, the S&P gained 19.4%, and the Nasdaq rose 28.2%. The Dow added 25.1%, having hit 71 closing records over the year, itself a record. All three posted their best year since 2013, and the Nasdaq rose for its sixth straight year, its longest such streak since one that lasted from 1975 to 1980.

On average, trading volumes in 2017 hit a three-year low amid almost-absent volatility.

More broadly, expectations are growing that President Donald Trump's administration will shift attention to a \$1 trillion infrastructure-spending bill, which could deliver a further jolt to Wall Street buying after Republicans passed the most sweeping overhaul of the U.S. tax code in 30 years as well as a stopgap spending bill to keep the government funded into early 2018.

Additionally, the dollar has fallen sharply this week, which is good news for the big American exporters. The ICE U.S. Dollar Index was down 0.3% on Friday, deepening its 2017 loss—its largest yearly slide since 2003.

For a U.S. stock-market investor, the most remarkable thing that happened in 2017 may

have been the fact that so little happened, at least from the point of what used to be normal day-to-day fluctuations.

In perhaps the most unexpected trend of the year, U.S. stocks shrugged off all manner of political and economic uncertainty over the past 12 months, demonstrating basically nothing in the way of volatility or market pullbacks. How quiet were things on Wall Street? Let's put it this way: they haven't been this quiet since the Beatles made their debut on The Ed Sullivan Show on 1964.

Beyond the uninterrupted move higher, there was basically no risk to be had in risk markets. Of the 56 lowest closing levels in the history of the CBOE Volatility Index VIX (since 1990), 47 of them occurred this year. The so-called "fear index" also notched two all-time closing lows.

The volatility index is running at less than half its historical average of around 20 and has posted the largest number of prints below 10 in its entire history in just 2017. It has posted 27 closes below 10 in 2017, with more than 70% of its finishes at that level occurring this year.

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## The fourth quarter continued 2017's streak of broad-based stock strength

2017 was the year that basically everything came up roses for U.S. investors.

Across the economy throughout the year, there was broad-based strength in equities and most fixed-income categories, as well as precious metals like gold, which often have an inverse correlation to the types of assets perceived as risky.

The fourth quarter lately extended this trend, although a few modest cracks appeared in bonds, with prices of both so-called junk bonds and Treasuries falling in the final three months of the year. In some cases, that

weakness was enough to push prices lower for 2017.

Equities were supported by a number of factors over the fourth quarter, including continued strength in corporate earnings and improving economic data.

The passage of a tax-reform passage was seen as providing an additional tailwind to equities, with a lowered corporate tax rate—to 21% from 35%—seen helping to boost profits.

In the U.S., the stock market's advance was widespread. Of the 11 primary S&P 500 sectors, 10 of them posted positive returns over the quarter. For the year, nine of the 11 ended higher.

Sector	Price move over the quarter	Price move over 2017
Utilities	-0.6%	8.3%
Telecommunications	2.3%	-6%
Materials	6.4%	21.4%
Information Technology	8.7%	36.9%
Industrials	5.5%	18.5%
Health Care	1.1%	20%
Financials	8.1%	20%
Energy	5.3%	-3.8%
Consumer Staples	5.8%	10.5%
Real Estate	2.3%	7.2%
Consumer Discretionary	9.5%	21.2%

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Technology's strength of the quarter, and over the year overall, was a major contributor to market gains over the course of 2017. Because the sector represents the largest weight in the U.S. market, its price appreciation had an outsized influence on major indexes. One of the biggest stories of 2017 was the massive gain in

the so-called FAANG stocks, which refers to the quintet of Facebook (FB), Apple (AAPL), Amazon (AMZN), Netflix (NFLX), and Google parent Alphabet (GOOGL). Those five stocks alone provided much of the overall market's advance in 2017.

### S&P 500's best performers in 2017

Company/ticker	2017 % gain	Sector
NRG Energy Inc. <b>NRG</b>	132%	Utilities
Align Technology Inc. <b>ALGN</b>	131%	Health care
Vertex Pharmaceuticals Inc. <b>VRTX</b>	103%	Health care
Wynn Resorts Ltd. <b>WYNN</b>	95%	Consumer discretionary
Boeing Co. <b>BA</b>	89%	Industrials
Micron Technology Inc. <b>MU</b>	88%	Tech
D.R. Horton Inc. <b>DHI</b>	87%	Consumer discretionary
PayPal Holdings Inc. <b>PYPL</b>	87%	Tech
<u>Nvidia Corp.</u> <b>NVDA</b>	81%	Tech
PulteGroup Inc. <b>PHM</b>	81%	Consumer discretionary



**THE YEAR IN REVIEW**

## S&P 500's worst performers in 2017

Company/ticker	2017 % loss	Sector
Baker Hughes, a GE Co. <b>BHGE</b>	51%	Energy
Range Resources Corp. <b>RRC</b>	50%	Energy
Under <u>Armour</u> Inc. A shares <b>UAA</b> /C shares <b>UA</b>	50% / 47%	Consumer discretionary
<u>Scana</u> Corp. <b>SCG</b>	46%	Utilities
Envision Healthcare Corp. <b>EVHC</b>	45%	Health care
General Electric Co. <b>GE</b>	45%	Industrials
Mattel Inc. <b>MAT</b>	44%	Consumer discretionary
Chesapeake Energy Corp. <b>CHK</b>	44%	Energy
Advance Auto Parts Inc. <b>AAP</b>	41%	Consumer discretionary
Signet Jewelers Ltd. <b>SIG</b>	40%	Consumer discretionary

## Global stocks just made history by rising in every month of 2017

Between North Korea, global populist uprisings and nearly nonstop political uncertainty, 2017 was a year of turbulence—except in stock markets.

World stocks, as measured by the MSCI All-Country World Index, have risen every month this year, the first time in history that a calendar year has passed without a monthly decline. In fact, the index hasn't had a down month since October 2016. It ended up 0.5% in December, and rose 21.8% over the course of the year.

Already the uninterrupted bull market has set records, some that are literally unbeatable, and can only be tied. 2017 will be the year with the fewest monthly declines in the history

of the world index, which goes back to 1988. Before this year, the record stood at three monthly declines in a year, which has happened eight times. (On the other end of the ledger, the record for most monthly declines is eight out of 12, which last occurred in 2015.)

A similar record occurred in the U.S., where on a total-return basis, the S&P 500 has risen for an unprecedented 14-straight months, though December. On a purely price basis, the S&P 500 has risen for nine straight months, its longest such streak since 1983. The Dow Jones Industrial Average also rose for nine straight months in December, its longest streak since 1959.

The world index was supported by broad gains across various geographic regions. There has



been a jump of about 30% in emerging markets and a 23% rise in European stocks. The S&P rose 19.4%.

Trading was historically quiet this year. According to the WSJ Market Data Group, the absolute daily percentage change for the Dow was 0.31% in 2017. It was 0.3% for the S&P 500, and in both instances, that represents the smallest absolute daily percentage since 1964. For the Nasdaq Composite Index, the absolute daily percentage change was 0.44%, the smallest since 1989.

Among other records set this year, the S&P 500 has gone an unprecedented length of time without a pullback of at least 3%. The broad-market benchmark hasn't experienced a decline of at least 3% since Nov. 7, 2016. That period without a single-session drop of that magnitude broke the previous record that stretched from Jan. 26, 1995 to Jan. 9, 1996.

It is also closing in on the longest streak ever without a decline of 5%. According to Calamos Investments, which cited data from Bespoke Investment Group, the S&P has gone about

530 days without such a pullback, compared with the record 593-session streak that spanned from December 1957 to August 1959.

It has currently been more than 660 sessions since the S&P 500 saw a correction, defined as a 10% drop from a peak. It is a long way from beating this record, however, which currently stands at 2,553 sessions, a stretch lasting from October 1990 through October 1997.

**Fixed income** posted the worst returns of the quarter, relative to other assets. Much of the trading was driven by Federal Reserve policy; the Fed raised interest rates for a third time in 2017 at its December meeting, and it is expected to continue hiking rates in 2018.

In the fourth quarter, the only Treasuries to rise were those with the longest maturities. There was heavy weakness in government paper, with shorter maturities, which in some cases pushed those categories into negative territory for the year. Bond prices and yields move inversely.

2017, what a year!



I will be glad to show you how I have helped many other area residents plan for a more secure future for themselves and their heirs. Have you done enough to determine that your investments allocated properly for you goals, dreams, and legacy? Call today to schedule your personal appointment date and time.

**-Randall Fielder**

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