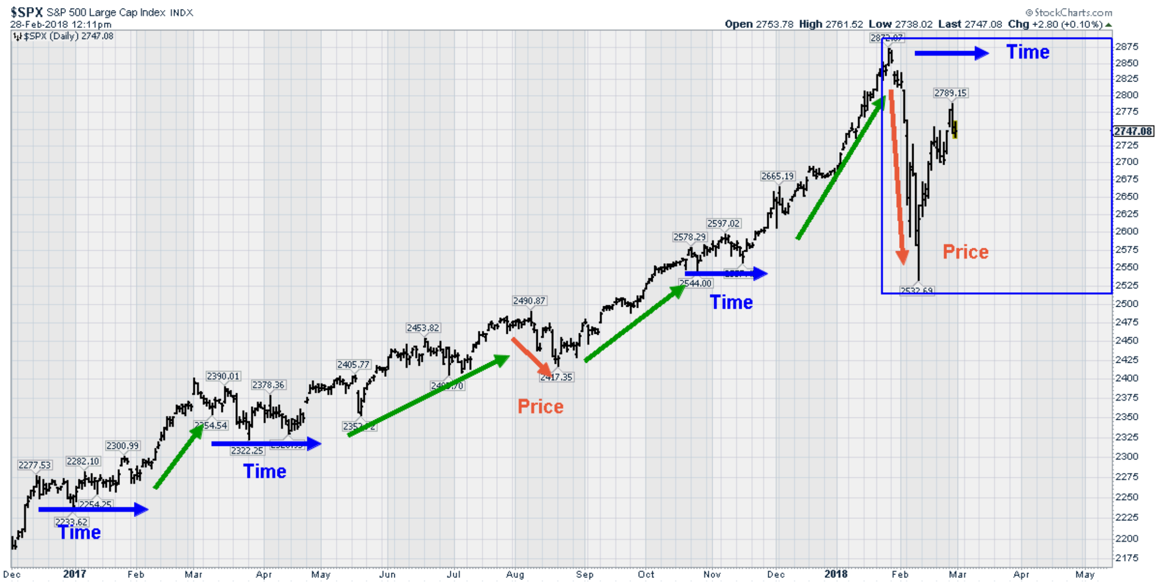
GBA Financial

Monthly Newsletter
March 2018

COMMENTARY

This month, we are going to do a throwback edition of the newsletter—and we're looking all the way back to . . . last month! The main point from February's newsletter was that the market was overbought, and we expected to see gains digested by a possible pullback (red, below) instead of gains being digested by time (blue) as we have previously seen in the last 14 months. From February: "The way this market has acted, we would expect to see this price advance digested with a little more price than we've seen in the past 14 months." The selling pressure we saw was fairly aggressive and more than what we were expecting in that short amount of time. Price levels reached November/December amounts on the selloff, but stocks have recovered quickly (maybe a little too quickly). We see the next few months as staying volatile. From a technical perspective, the recovery from the selloff has been strong, which could lead us back toward all-time highs. That said, the speed of the selloff and recovery were so quick that we expected there to be more selling to push the market back to February lows. The blue box in the chart is a good gauge of how the market range could be for a few months: up to new highs and back down to February lows. To reiterate from last month, "As long-term investors we should be open to a possible pullback (down 5-8 percent) in the market and have short-term trader/investors sell shares to us long-term buyers at a discount. [Currently] we see price pullback as a buying opportunity."



So is there new data out that could have been the trigger to the recent selling—and does it affect our views on the market? Yes and no. Our long-term thesis is still intact as we remain secular bulls (multiple years, the last two secular bulls lasted 17 years) and our short-term view (weeks/months) is noted above: we expect volatility to present ups and downs, leading the market to trade up to *(continued on next page)*

ECONOMIC HIGHLIGHTS

S&P 500	2,713.83
DJIA	25,029.20
NASDAQ	7,273.01
OIL	$61.64/barrel
GOLD	$1,317.90/ounce
10-YEAR TREASURY YIELD	2.87%
UNEMPLOYMENT	4.1%
GDP	2.5% (4th Qtr. 2nd Est.)
CONSUMER PRICE INDEX (CPI)	+0.5% / 12 month change: +2.1%
CORE CPI	+0.3% / 12 month change: +1.8%

Consumer Confidence: Consumers have jobs, wages are moving up, retirement accounts are growing and housing value continue to move higher. Consumer confidence continues to be at all-time highs.

Housing Market: Buyers are currently outnumbering selling, which is great for a seller that doesn't need to buy, neutral for someone selling and buying and outright terrible for new home buyers.

Volatility: You can say goodbye to the non-normal low volatility environment we had for the last year and say hello to our old friend market volatility. As volatility comes back, it's important to stay focused on the long-term.

(cont'd.) new all-time highs and lows down around the February lows. But the intermediate-term (6 to 12 months) did get some data that may have triggered some selling and that will require further monitoring. The data? Inflation. For months we have been watching inflation readings slowly move higher, which was/is a good thing if readings are around the 2.0% growth range. Consumer Price Index (CPI) and Producer Price Index (PPI) both have been around 2.0% for a while, but the one data point missing from inflation has been wage growth. For much of 2017, we have been waiting to see if wage growth would start to show up and February's report saw average hourly earnings increase 2.9% year-over-year. There are many moving parts here, but we'll hit the highlights. 1) The U.S. economy is driven by 70% consumer consumption, so more money in consumers' pockets should translate into a stronger economy. 2) Companies have to pay employees more, which hurts profit margins and, in turn, could affect stocks. 3) If inflation gets going too fast, the Fed will have to raise rates faster than currently projected, which could slow the economy down. Point three seems to be the logical culprit for the February selloff, as investors repriced securities off the possibility of more future rate hikes. So does this change our intermediate-term outlook? Not yet, but we have been waiting for a sign that we are moving into the next stage of the economic cycle. More data points are needed to confirm this, but if we get those data points then our intermediate-term outlook will turn from bullish to cautiously bullish. We want to emphasize that our long-term view is still bullish and we expect many, many great years for the economy and the market. Inside these large secular bull markets, of course, there will be downturns and recessions; it's the nature of the economic and stock market cycle. The key difference between downturns and recessions is that when we are in a secular bull market vs. a secular bear market, recessions are shorter in nature and the market corrections are less.

Overall, the long-term view of the economy is strong, with many indicators pointing to a bullish economy and strong stock market. An improving economy and strong balance sheets for U.S. consumers and businesses should continue to drive the economy forward, which should lead to an increase in investors' risk appetite. Here in the U.S., we are seeing healthy rotations in the stock market between style, size, and sector. This action speaks to the strength of the current bull market. International Equities look to be strengthened as the U.S. dollar continues to fall and commodities are breaking out. Our research team is constantly evaluating our products and tactical position inside both our fixed income portfolio and equity portfolio, looking at both larger trends and short-term opportunities. With daily monitoring to accounts on an individual basis, we continue to rebalance accounts when they fall too far from their equity-to-fixed income ratio.

MARKET TRACKER

Index	3 Mo	1 Yr	3 Yr	5 Yr
S & P 500	2.96	17.10	11.14	14.73
MSCI EAFE	1.89	20.13	5.65	7.06
BARCAP AGG BOND	-1.64	0.51	1.14	1.71

Data as of 2/28/2018. Investments cannot be made directly into an index.

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