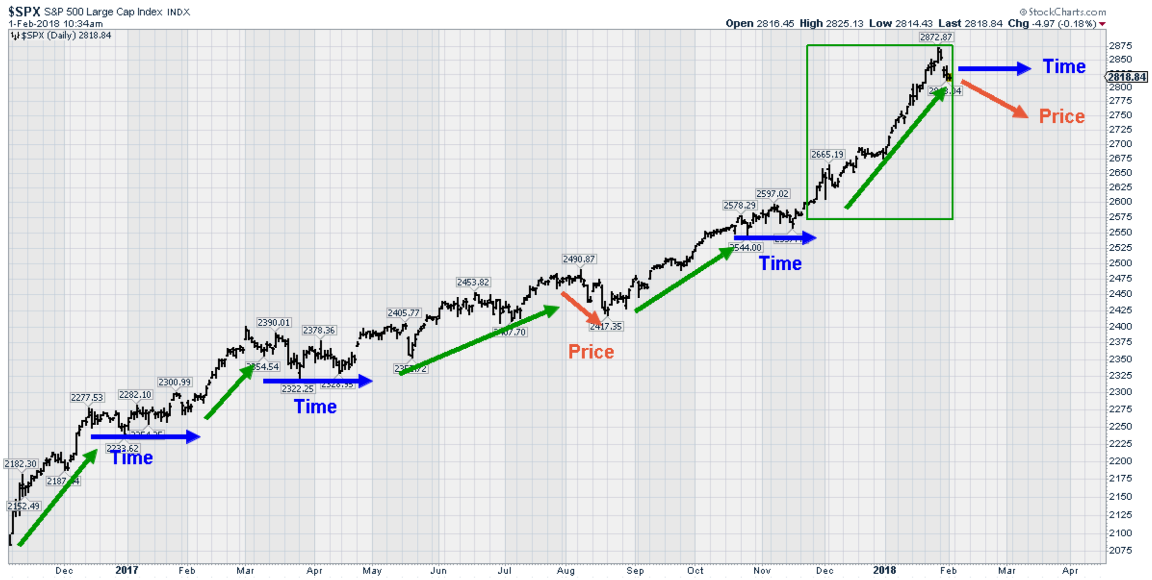
GBA Financial

Monthly Newsletter
February 2018

COMMENTARY

The market is overbought, plain and simple. But before the panic sets in, let us tell you why this isn't a bad thing … for long-term investors. The strength of the market has been remarkable for the past year with the S&P 500 total returning up 21.83 percent. Our long-term thesis is that we are in the early stages of a secular bull market and believe the strength we are seeing in stocks reflects this call. But that doesn't mean the market can't and won't get ahead of itself. As you can see on the chart, we see over the last year the market has moved up



(green arrow) and for the majority of the time span, and has been digesting the gains through time (blue arrow) not price (red arrow). Focusing in on the price action in December and January, we can see the market advance has accelerated fairly quickly, leaving many of our technical indicators at overbought levels. Short-term traders/investors (days-to-weeks) will most likely find this concerning, but for long-term investors (multi-years), this overbought level shouldn't be concerning. If we believed we were at different stages of the economic cycle, where a recession was looking more likely, this price action could be more concerning as recessions typically bring market corrections (down 20-25 percent). So as long-term investors, we should be open to a possible pullback (down 5-8 percent) in the market and have those short-term trader/investors sell shares to us long-term buyers at a discount. 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. As new data comes in, we will process it and examine our positions and views on the market, but currently we see price pullback as a buying opportunity.

(continued on next page)

ECONOMIC HIGHLIGHTS

S&P 500	2,823.81
DJIA	26,149.39
NASDAQ	7,411.48
OIL	$64.73/barrel
GOLD	$1,343.10/ounce
10-YEAR TREASURY YIELD	2.72%
UNEMPLOYMENT	4.1%
GDP	2.6%
CONSUMER PRICE INDEX (CPI)	+0.1% / 12 month change: +2.1%
CORE CPI	+0.3% / 12 month change: +1.8%

Personal Income and Wage Growth: Personal income increased 0.4 percent with wages and salaries up 0.5 percent. A double edge sword as consumers should benefit, but corporate profits could be hurt.

Retail Sales: The retail sector enjoyed a good holiday shopping season, but nothing that was out of this world. With the strength in consumer confidence and possible wage growth accelerating, we are hopeful as we move forward in 2018.

Lack of bad data/news: This may sound a little odd, but when we have ample amounts of good news and data and very little bad news and data, the contrarian in us has us searching for what we could be missing.

(cont'd.) A look at the recent economic numbers from December (reported in January) showed strong numbers for the most part. The ISM Manufacturing Index (based on surveys of more than 300 manufacturing firms by the Institute of Supply Management) kicked off January with a strong reading of 59.7 (greater than 50 signals increased economic activity); this has been higher than 52 for a year straight. The retail sector enjoyed a good holiday shopping season supported by consumer confidence.

Consumer confidence report beat consensus range and is just below the 2017 year high set in November. A strong job market has a lot to do with consumer confidence, and although December was only an okay month, we saw an increase of 148,000 jobs and a steady unemployment rate of 4.1 percent. One of the better reports for December was personal income, which increased 0.4 percent, with wages and salaries up 0.5 percent. The lone blemish came for the lower reading from the savings rate, which suggests consumers dipped into their savings accounts. Estimates for fourth quarter GDP came in at a solid 2.6 percent which made up mostly personal consumption expenditures. Inflation continues to trend towards the Federal Reserve goal of 2.0 percent in the Consumer Price Index (CPI) but not in the Personal Consumptions Expenditures index (PCE). Headline (CPI) latest reading was 2.1 percent increase year-over-year and core CPI (less food and energy) increased 1.8%. Headline PCE lagged CPI with a 1.7 percent increase and core PCE saw only a 1.5 percent increase. The Federal Open Market Committee (FOMC) voted 9 to 0 for no rate change in Fed Chairwoman Janet Yellen's last meeting. The market was largely expecting the FOMC to stand pat on a rate increase this month as it transitions leadership to Jerome Powell. With the wording change around inflation in the statement from the Fed, the March FOMC meeting shows many indications that a rate hike will happen and the market is pricing an 83% chance of a rate increase.

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 both at the 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	10.18	26.41	14.66	15.91
MSCI EAFE	7.72	27.6	9.39	7.85
BARCAP AGG BOND	-0.83	2.15	1.44	2.01

Data as of 1/31/2018. Investments cannot be made directly into an index.

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