Executive Summary

• January 2018 •

Current Status of Market

1. The market is in a "melt-up / blow-off" stage. The Dow Jones Industrials have gone parabolic. The angle of ascent of the SP500 from 2/2016 till now is even more steep than that of the blow-off from 1998-2000.
2. This is the longest advance without a minimal -5% correction other than April 1994 to May 1996.
3. By many measures, the Dow Jones Industrials is now the most extremely overvalued and overbought of all time. Investor leverage is at an all time high even when it's adjusted for growth in the economy.
4. Signs of speculation are everywhere. (E.g., cryptocurrencies, penny stocks, etc.). Cryptocurrencies have crashed within the last two months with declines ranging from 50% and upwards in Bitcoin and others.
5. Commodities and emerging markets appear to be in the early stages of bull markets.
6. Major indexes in the USA are in the late stages of bull markets. The current buzzword among investors is "FOMO," or Fear of Missing Out.

Current Status of Economy

1. Firing on all cylinders.
2. The official unemployment rate is one of the lowest in history.
3. Consumer confidence as measured by the Univ. of Michigan is one of the highest of all time.

Current Status of Monetary Factors

1. The Federal Reserve has already raised interest rates *five times* in 2017. It's expected to keep doing so, predicted at *another four times* in 2018.
2. Central banks in Europe and Asia are tightening their monetary policies.
3. The US Dollar is breaking down and the 10 year Treasury note interest rate is breaking above a 17 year downward trend line.

Summary

This is a late stage bull market and caution is warranted. Upward momentum is positive, so there appears to be no imminent factor that can derail this bull market near term. Bull markets end when consumer confidence and employment numbers are the best in many years while the Federal Reserve has been tightening monetary policy for some time. The major media and brokerage analysts are usually quick to extol the virtues of markets at times like this, so no future clues of market direction will be found there.

Extremely overvalued markets can become even more so, but they usually end after a series of monetary tightenings by the central bank (i.e., Federal Reserve) and by some unexpected event hitting markets out of left field. Holding some cash in reserve is a reasonable strategy to follow at the current time.