**“Two Super-Contagious Diseases - Fear and Greed”**

By Tommy Williams, CFP®

In mid-December, Reuters reported Fed funds futures indicated there was a 97 percent probability the Fed would raise rates one-quarter percent at its December Federal Open Market Committee (FOMC) meeting. In addition, all 120 economists polled by Reuters agreed rates were headed higher.


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However, it was the dot plot – a chart showing FOMC members' assessments of appropriate monetary policy going forward – that unsettled investors. Barron's explained:

*“The market, however, was surprised when the Fed turned ever-so more hawkish, with its ‘dot plot’ indicating three rate hikes [in 2017], up from two. Still, stocks handled the news better than might be expected, with the [S&P] 500 index dropping 0.8 percent immediately following the announcement but still finishing the week down just 0.1 percent to 2258.07. The NASDAQ…fell 0.1 percent to 5437.16, while the Dow Jones…gained 86.56 points, or 0.4 percent, to 19843.41, its sixth consecutive winning week.”*

Bond market investors weren't too happy at the close of 2016, either. The yield on 10-year Treasury notes has nearly doubled during the past five months, rising from 1.36 percent to 2.6 percent. When bond rates move higher, bond prices move lower.

However, if there is a silver lining for bond investors, it may be some specialists believe changes in Treasury rates will be modest during 2017. Barron's reported, *“For what it's worth, the 10 firms surveyed in our Outlook 2017 see the 10-year yield at 2.69 percent late next year, just a tad above today's level.”*

While bond market investors have been a little grumpy, you may have noticed investors have been pretty enthusiastic about U.S. stocks in recent weeks. The fervor for U.S. stocks may be due to improving corporate earnings growth or it may reflect expectations for the incoming U.S. President. The Economist reported:

*"…the American stock market rally since the election has been quite remarkable, given the qualms expressed by many investors before the election. The big hope is that Mr. Trump will focus on his plans for fiscal stimulus and corporate tax-cutting; this will boost America's economy and corporate profits. But, it may also push up inflation so investors are switching out of Treasury bonds and into equities. At the same time, investors are counting on Mr. Trump to forget about, or downplay, his protectionist rhetoric; as yet, they have been remarkably sanguine about his twitter wars with China."*

Last week, the American Association of Individual Investors (AAII) Sentiment Index showed more than 40 percent of participants (44.7 percent) are optimistic share prices will move higher during the next six months. The historic average for bullish sentiment is 38.4 percent. About 32 percent of participants were bearish, which is also above the historic average of 30.3 percent. It's interesting to note the percentage of bearish participants rose by 5.8 percent from the previous week when it was below the historic average.

Any time investors become exuberant, the words of Warren Buffett come to mind: *"Two super-contagious diseases, fear and greed, will forever occur in the investment community. The timing of these epidemics will be unpredictable...We simply attempt to be fearful when others are greedy and to be greedy only when others are fearful."* The U.S. bull market may have further to run, but contrarians may see better relative opportunities elsewhere.

While 2016 was a bumpy ride in all respects, it's in the past. It's a new year; let's make this one count!



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