Market Insights for Week Ending Jan 26, 2018

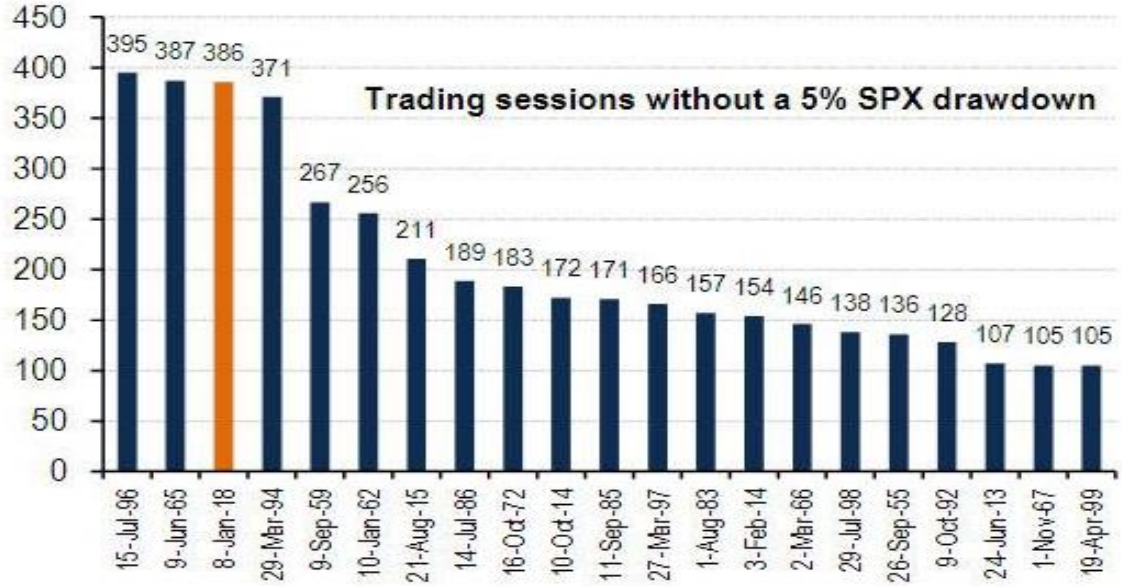
"2017-The Year of the Dart"

What does the weather and the market have in common?

From Dec 24th to Jan 6th, the city of Cincinnati and most of the US was frozen solid. Record cold temperatures swept across the nation, cars turned a familiar salt-grey and everyone openly wondered, "what is going on?!". Meteorologists began to describe the event with terms such as "extreme", "abnormal" and "historic". These descriptions were also appropriate for the equity markets in 2017. The equity markets in most investable regions of the world experienced double digit gains last year. In 2017, if you slipped a blindfold over your eyes, threw a dart at a map and invested where the dart landed, you walked away with a tidy profit. Some darts would have been more profitable than others, but overall, investing in 2017 was about as stress free as it gets.

Just about 4 weeks into the New Year, 2018 is doing its best to top 2017. The potential for a continuation of synchronized global growth, strong earnings and a boost from lowered corporate tax rates have many investors optimistic that markets can continue to grind higher.

Chart 21: The S&P 500 is less than two weeks away from beating the all-time record of the longest stretch without a 5% drawdown



Source: BofA Merrill Lynch Global Research

The chart above illustrates just how smooth the investment seas have been. The S&P 500 has already set another record this year. This time, the market has gone over 395 trading sessions (about a year and a half) without experiencing a 5% drawdown. This has challenged patient investors waiting to "buy the dip" to either strengthen their resolve or subscribe to a new philosophy of "buying the all-time high."

Why do we care?

The American economist Hyman Minsky postulated a theory that would later be named after him. It describes a process in which an extended period of market stability, which we have all enjoyed as evidenced by the chart above, encourages increased and unnecessary risk taking. This in turn leads to a period of instability and ultimately, an unwinding of the excesses that were created. The beginning of the downward portion of the cycle was later renamed the "Minsky Moment". Many strategists have spilled significant ink, or pixels, maintaining that this "Minsky Moment" is either past due or right around the corner.

HCM continues to be cognizant of the current risks in the market, including but not limited to the lack of volatility illustrated above. Despite this, we believe global economic growth will continue into 2018. And, while there are no reliable tools that can accurately predict short-term market movements, we believe that economic growth will support prices and limit any downturn to no more than a modest correction rather than a full-blown bear. We recognize that at some point, markets will go through a mean reverting process which will most likely lead to a sell off. While the "when" for this event is unknowable, HCM utilizes strict risk-management processes and procedures and we are prepared for the "what" part of that equation when the time comes.

Based on the strong growth of 2017, we are in the process of executing a strategic rebalancing. This will involve harvesting gains from positions that have grown past their maximum targets and shifting those dollars to positions in need of funds. We recently completed a trade in the HCM Dividend Growth Portfolio™ and will be making an adjustment in our foreign and domestic growth allocation.

Here's to a happy, healthy and profitable 2018!

Weekly Focus – Think About It

"It's not how right or how wrong you are that matters but how much money you make when you are right and how much you do not lose when wrong." –George Soros

Market Activity

Performance last week for the four major asset classes were:

- U.S. Stocks – Russell 3000 (IWV) – Gain of 2.03%
- Developed Foreign Markets (EFA) – Gain of 1.50%
- Emerging Markets (EEM) – Gain of 3.28%
- Fixed Income (AGG) – Loss of .03%

(Note: performance is based on the change in net asset value)

Last Week's Headlines

Global equities saw record weekly inflows of more than $33 billion. While U.S. stock indexes hit new highs, merger and acquisition activity in the first three weeks surpassed $150 billion, the highest for that period since 2000.

The U.S. dollar continues to slide, reaching a 3-year low against the Euro after comments from the U.S. Treasury secretary implied the possibility of weak dollar policy going forward.

European Central Bank and Bank of Japan policy was unchanged, though markets expected more dovish news. Eurozone economic data remains strong with regional composite PMI at a nearly 12-year high.

Eye on the Week Ahead

This week will see 40% of the S&P 500 report earnings. Changes to guidance as a result of U.S. tax overhaul will be in focus. Elsewhere, Japanese and European earnings will also be released, were a stronger Euro could hamper earnings from that region.

If you have questions about HCM's current view of the markets and economy, please contact a member of HCM's Wealth Advisory Team:

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Additional Notes:

- The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.
- Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.
- Past performance does not guarantee future results.
- You cannot invest directly in an index.
- Consult your financial professional before making any investment decisions.

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