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KUMMER FINANCIAL STRATEGIES, LLC

Helping You Create Financial Independence

February 9th, 2018

Weekly Market Update

Global financial markets continued the wild ride they started last Friday in what was a record week for intraday and daily price swings in the Dow Jones Industrial Average. We saw many major global indices cross the unofficial threshold marking a correction (down 10 percent or more). Meanwhile, yields remained near their highest levels in years as inflation worries remained prevalent. Computer trading, "crowded trades" around volatility and inflation fears have been blamed for the surge in volatility and the widespread weakness across risk assets. Little has changed from a fundamental perspective in our view and we are likely seeing pent up anxiety being released following an abnormally calm period. We have previously warned about a rise in yields and that if it unfolded too quickly, we could see markets suffer. As our colleague William Greiner, Chief Investment Strategist at Mariner, recently wrote in a piece on volatility, "the long-awaited correction" is here. You can view his full commentary on the return of volatility and what is driving it here.

As corrections go, this is not yet as severe as some of the other ones we've seen since 2009 when the bull market began. It is, however, one of the fastest we've seen in a long time. In fact, it was one of the worst weeks for the Dow in roughly nine years. We could see more downside over the short-term as anxiety over inflation and higher interest rates are unlikely to subside very quickly. But we do not see this as the end of the current bull market given the positive fundamental backdrop of strong earnings and accelerating economic growth.

During such violent market events, we typically allow things to calm down before making any portfolio changes, particularly if the fundamentals have not really changed. The dynamic sleeve was fully invested coming into 2018 and favored equities over bonds. We have maintained this positioning in it because of the solid fundamentals and because we have been expecting interest rates to rise amid Fed tightening, faster economic growth and an uptick in inflation. We have also expected equity-market volatility to pick up and that it will likely reach more normal levels as the year unfolds. Our indicators continue to point to a low risk of near-term recession and we believe this correction will be relatively short lived. In addition, the latest shakeout in equity markets has made equity valuations more attractive to us. In our view, this pullback is a healthy development that could serve to extend the current bull market run. In the meantime, we will continue to monitor our economic indicators for signs that the fundamentals may be changing.

Regardless of the market's near-term direction, it is important to remember that setting the appropriate strategic asset allocation for your circumstances and risk preferences are important steps to executing your financial plan. If you would like to discuss your asset allocation, time horizon, or risk tolerance please contact us at 303-470-1209 and we would be happy to address your concerns.

Disclosures:

- Kummer Financial Strategies, LLC is an SEC registered investment advisor.
- Investors should be aware of risk when investing, including potential loss of principal.
- Past performance is not a guarantee of future results. Rebalancing, asset allocation or alternative strategies may or may not produce positive results.
- Performance, economic, and market statistics were provided by Yahoo Finance and Ned Davis Research.

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