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Quarterly Update

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“Trump rally” cools. Yet, stock market remains at record highs.

From Election Day last November 8th through the end of February, the Dow Jones surged higher by 13% hitting an all-time high of 21,115 on March 1st. Fueled by increasing optimism among consumers and investors, the buying on Wall Street was steady and the markets barely paused to take a breath as new highs were hit every few days.

Even in a strong bull-market, this type of advance doesn't happen very often and it seems obvious to me that the market was due for a pause, if not an outright correction. The stock market was essentially flat in March and enters April with a slight negative bias, in my view. This does not mean that the overall advance in stock process is over.

On the contrary, I believe the advance is likely to continue in 2017. However, the market is certainly “due” for a 5%-10% correction. At today's levels, this means an ordinary, normal correction would involve the Dow Jones dropping 1,000 to 2,000 points. This would surely get your attention! And should it occur, it would surely cause a media flurry of breathless, breaking news reports. Nonetheless, we must remember that it would be quite normal.

2017 YTD Market Returns <small>(thru 4/1/17)</small>	
Index	%
Dow Jones <i>(DJIA)</i>	4.6%
S&P 500	5.5%
Small company <i>(Russell 2000)</i>	2.1%
International <i>(DJ World)</i>	7.4%
Bonds <i>(Barclay Aggregate)</i>	0.7%

Source: Bloomberg Financial, 4/1/17

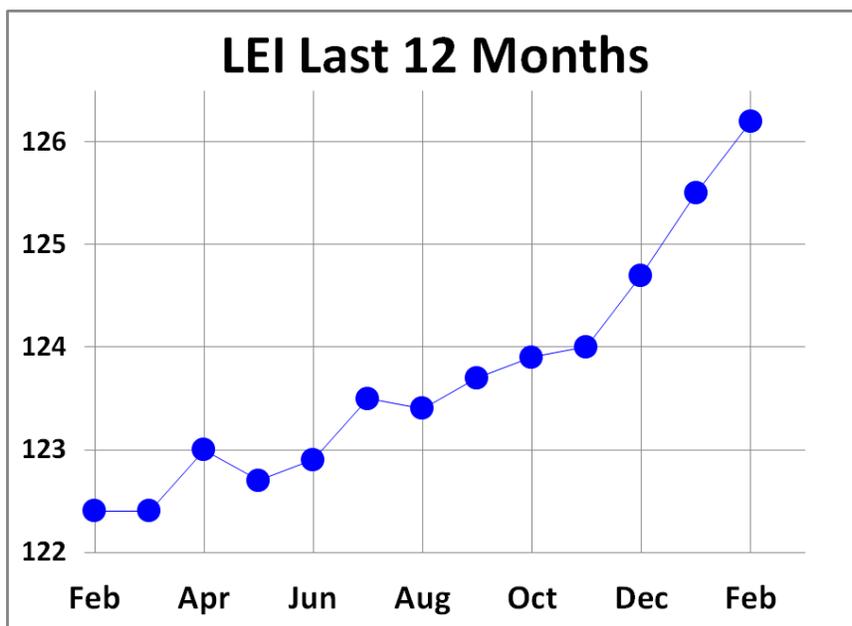
How high the stock market might reach before the next big draw down, or “bear market,” is anyone's guess. Certainly, every time we hit new highs there will be commentators suggesting it can't go much higher, or that we are in a “bubble.”

My own view is that the wind is at the back of the stock market and the overall trend will be higher as long as the underlying economic fundamentals continue to be positive. We will have pull-backs and corrections on a regular basis, but they will likely be rather short-term affairs and recovery to new market highs will follow. Eventually, the economy will begin to run out of steam and the current economic expansion will give way to another recession. This is almost a given.

Since most damaging “bear markets” occur during recessions, it is fairly important for investors to watch the change in economic indicators in an attempt to anticipate a potential recession before it arrives on our doorstep. Fortunately, there is much data available to us.

Economic Fundamentals

One of the best forward indicators is the Conference Board’s Leading Economic Indicator (LEI).



The LEI indicator is actually a combination of 10 separate data inputs which cover employment, manufacturing, construction and financial conditions. It is designed to forecast the likely direction of the US economy over the short-term and to signal potential turning points.

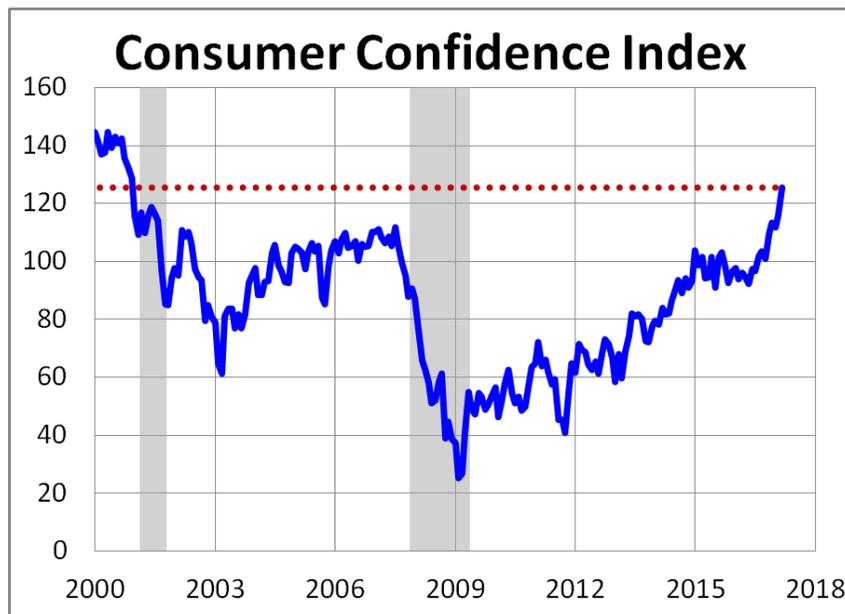
Historically, the indicator has proven successful at forewarning observers 6-9 months prior to the start of a recession.

Source: The Conference Board, www.conference-board.org

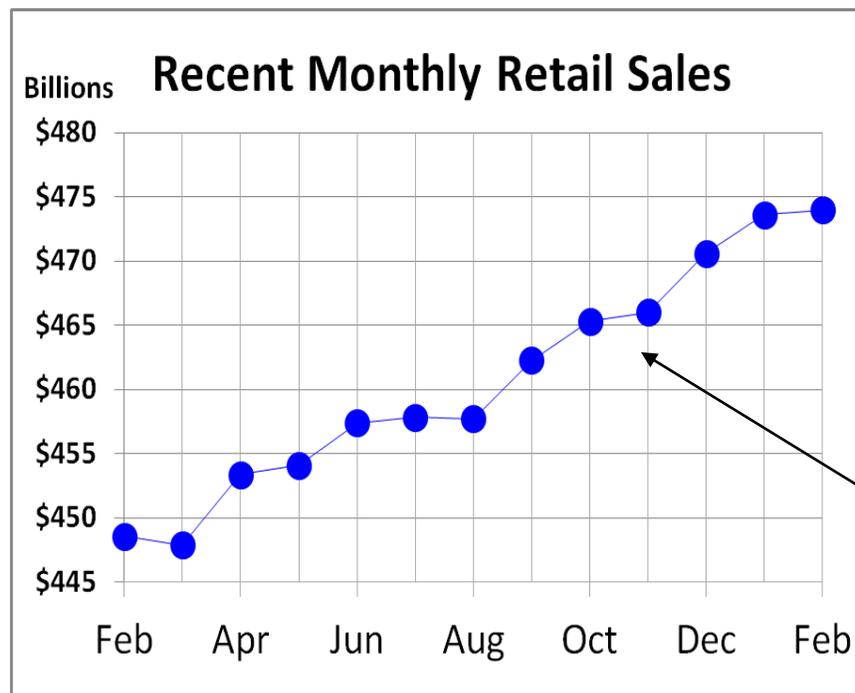
This gives an investor time to make changes to strategy and to the allocation of investments between stocks, bonds and alternatives.

I watch this indicator very carefully. Currently, the latest reading shows the LEI moving higher and, in fact, its’ pace of improvement has even accelerated in recent months. This gives me a measure of confidence that a recession is not likely during 2017.

In the event that the LEI indicator started to deteriorate for several months in a row, I would be highly motivated to make changes in the investment strategies we use for clients. Investments that have done well in the past several years, for example, may not fare as well during a recessionary environment.



Source: The Conference Board, www.conference-board.org



Source: The Census Bureau, dhort.com

I also note that Consumer Confidence has rebounded significantly in the past several months and now stands at a level slightly higher than before the last recession. Consumer Confidence is important because confident consumers are more likely to spend! Therefore, it's not surprising to see that Monthly Retail Sales are also at an all-time high.

Small Business Optimism, which had lagged behind consumer Confidence over the last year, has suddenly improved markedly. This is perhaps due to the election results, but I would be careful to ascribe too much of the change to politics.

Note: Consumers account for approximately 70% of the US economy. This is a good trend

Politics and Investing

I don't remember it always being the case that investing and politics were so intertwined. Very little economic or investment related news seems to be reported these days without a political slant. Breaking news stories of a political nature are often shown with the stock market ticker in the corner, as if they are in a symbiotic relationship.

Perhaps it is because both politics and money are emotional issues for humans. We would like to tie the two together in a neat narrative package. Here's a conversation often heard in our conference room with clients.

"The stock market is at all-time highs! Likely, this is because of the policies of (insert name of politician you like). Unfortunately, it may be in a bubble and if it bursts it's only because of (insert name of politician you do not like). I see the economy is doing well. Thank goodness (insert name of politician you like) got us on firm economic ground. We'd better enjoy it while we can before (insert name of politician you do not like) runs it into the ground!"

As an aside, I often observe corporate chiefs hiding behind this political shield, bemoaning their inability to achieve their expected results due to strangling regulation and stifling taxes. When they can't seem to grow their business they often blame the government. Curiously, I own a business and don't seem to be overly burdened by such issues.

Fortunately, it seems to me that (insert names of **ALL** politicians) have much less influence over the economy (and even less over investment results) than we give them credit for. As investors, we would do well to steer clear of political inferences and instead keep a cool, steely eye on the fundamental data. The US and global economies are incredibly diverse and dynamic and tend to move along without much concern as to which party is currently in power.

As it relates to the new Trump administration, the policies it enacts may well influence to some degree the path of the economy and corporate profits, but so far no substantial policies have been enacted. Therefore, it would be rather premature to either praise or blame the new administration for the underlying economic trends. These trends were fairly well established prior to the election. I believe it will take another year or so to see what legislation is passed, what policies are transformed and how these changes will impact the direction of the economy.

Practice Update

Sixteen creative, up-and-coming artists came out to our Painting with a Twist client event on March 29th! As you can clearly see, we have some talented painters. We look forward to holding similar events in the future.



Upcoming events. Save the date!

Date	Event	Location
Wednesday, April 26 10am	Workshop: “Putting it all Together: An Investment Primer”	Lewes Public Library
Wednesday, May 17 th 10am	Workshop: “Building an All-Star Stock Portfolio”	Lewes Public Library
Tuesday, June 6 th Noon	Annual Client Appreciation Picnic	Cape Henlopen State Park Picnic Pavilion
Tuesdays June 13, 20 and 27 10 – noon	Osher Class “Investing for the Rest of Your Life”	Osher Center for Life Long Learning, Lewes

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