Market Update

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From: Mike Sullivan
Date: March 9, 2017
Subject: **The Trump Pump? … Part 2!**

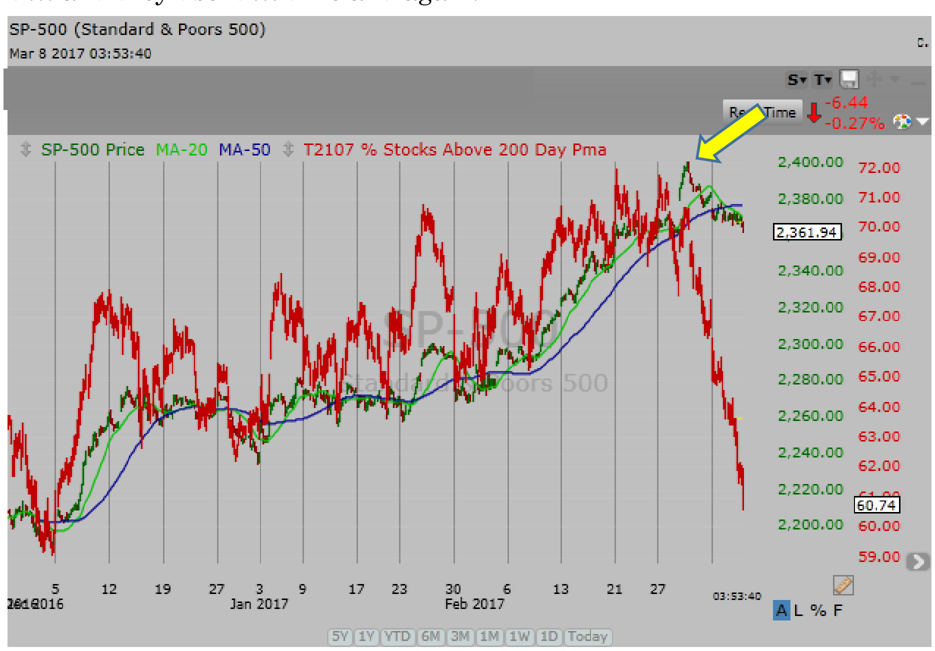
When last we reached out, we shared the similarities between the 'Trump Pump' market break out experienced by many major stock indices as they launched up and out their two year ranges.

Since then, it seems that *nothing* is able to stop the Trump Train: not geopolitical strife, not political turmoil, not leaks from intelligence agencies, not daily attacks from main stream media, not resistance by career government staffers, not even undermining attacks from opposition within the Deep State (the power centers that truly drive the direction of the country no matter who holds office).

Volality is near historic lows. The market simply floats upward … even though it is often just a teeny bit each day. The memories from 2008 and 2009 are finally squashed! Retail investors have finally shrugged off the destruction that was wraught by Wall Street's exploits. Apparently, eight years is the magic number. The 12-day winning streak by the Dow has done its job as evidenced by retail investors piling into S&P 500-linked investments on Wednesday March1st, the day following Trump's address to the nation. Such a euphoric pile-in has not been seen in years!

Interestingly, beyond the stock indices, much of the 'action' going on is *not* found yet in the real economy, but is rather found in 'sentiment' surveys such as the survey of small business owners. At the individual level, Trump supporters hope is soaring, but Trump detractors are full-out depressed. Last time we checked, it takes a substantial portion of the population to propel economies upward …

It would appear that not only do Wall Street players perhaps agree, they may be up to their typical tricks of handing off the bag to retail investors. The chart below illustrates the S&P 500 Index over the past three months. Note as the Index has climbed steadily upward (see the Trump 3/1 spike at the yellow arrow), the number of stocks above their 200 day averages (illustrated by the red line), have fallen off a cliff in a complete swan dive. This is a classic Wall Street tactic where they buy up large stocks (like Apple which has tickled new highs day after day for the past month) to prop up the indices, then sell everything else hand over fist. Retail investors see only the headline index. Wall Street knows it … and they use it … time and again.



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Here is a look at the gap just mentioned between 'soft data' like sentiment surveys and hard data ultra- wide. The stock indices are reflecting hope, not the manifestation of economic success … yet:

In our last quarterly letter, we stated that it is indeed quite possible Trump policies can pull off a sustained rally. That may be reflected above, *however,* Trump will most definitely need two things in his court that Obama enjoyed the preceding eight years:

1) Money to fund his infrastructure rebuilding and stimulus plans, and
2) The backing of the world's central banks

The good news is that the money to fund infrastructure efforts *already exists*. It is merely trapped overseas for now. We suspect Trump has likely already whispered in the ears of the many business leaders with whom he has met these past two months, indicating he may lower the taxes they would pay to bring that money back to America. We think *that* is behind the markets' rally year to date.

That would also explain the surge in jobs that have been added so far in 2017 … big businesses know there is more work coming soon. If that is true, and the money is 're-patriated' at a favorable rate, not only will some of it be put to use in the U.S. rebuilding infrastructure, some will almost certainly be plowed into stock-buybacks. Stock buybacks were the gimmick that was the primary driver of the stock markets advance over the past several years. Since its all a game, why not keep it rolling?

Regarding the second point, while the Federal Reserve is currently pretending it will not print any more money for now, other central banks are still cranking out $200 Billion per month and spewing it into asset markets around the world. So, that's still in place.

Ironically, the Fed is once again yammering about hiking interest rates. Having hiked only two times in the past 10 years, the odds of another ¼% boost at next Wednesday's meeting just reached 99% on Wall Street. That is somewhat amusing since, as indicated by the chart above, it is sentiment rather than economic reality that is rising. The Atlanta Fed's estimate for Q1 2017 GDP came out just today at a paltry 1.2%.

One last tid bit to keep things in perspective: while the headlines have screamed 'all time high!' for much of February, including 12 days in a row for the Dow Jones Industrial Average, the heavy lifting has been done by the biggest company stocks. The small businesses? The ones that generate most of the jobs, the ones that complete most of the soft-data surveys? Well, as of today, the Russell 2000 index which represents the smaller companies in the stock market are up a meager 0.5%.

What does it all mean to investors? It means it likely makes sense to be patient a bit longer. Its never fun to take the bag from Wall Street. If we can be of assistance, please contact us at (614) 734-WLTH (9584).

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