CBL WEALTH MANAGEMENT
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Market Brief

August 31, 2018

Market Snapshot

Closing Values as of 08/31/2018

Dow	25,965
S&P 500	2,888
Nasdaq	8,058
Gold	$1,207

Market Momentum is upward…but for how long?

Momentum in the markets has clearly been in the upward direction but it may not be that way for long. One problem we have had with the ever-higher market is a lack of market breadth (too few stocks participating in the upward movement), a trend that has only gotten worse. In January ,7 sectors of the S&P500 were at new highs, now only 2 (Consumer Discretionary & Healthcare). We also see fewer individual stocks at new highs. Volume has been very low as well, which isn't atypical of summer trading but it does show a lack of conviction. When traders return to their desks after Labor Day we will start to see more volume and where the true conviction lies.

Price to earnings metrics are suggesting the markets may be over priced, or at least priced for perfection that may not be there. The Schiller PE has risen to 32.3, a level that has only been seen 3% of the time over the last 127 years. The Schiller PE is a terrible near-term metric but it is a good metric for overall market returns, and it is suggesting prices are high. Investors are projecting price to earnings ratios of 17x for the remainder of the year and 16x for all of 2019. These projections wouldn't seem to be outrageous if corporate profits weren't already well above historical norms. Corporate profits have risen 25% year over year with a nominal GDP of 5.4%. Earnings have out-paced GDP numbers by historically high amounts, to expect the pace to continue and project PE's accordingly is a recipe for disappointment.

S&P500 dividend rate is now lower than the 3 month treasury yield. Investors who had been buying stocks for the dividends because the safer treasuries offered zero returns are now taking more risk to get lower dividends. As risk adverse investors exit the markets for the safety and returns offered by treasuries the markets may see more downward pressure, or at least less upward support.

Narrowing breadth, historically elevated corporate profit levels and overly optimistic expectations from investors may signal trouble ahead.

> BULL MARKETS ARE BORN ON PESSIMISM, GROW ON SKEPTICISM, MATURE ON OPTIMISM AND DIE ON EUPHORIA
>
> John Templeton

Economy

The US economy has expanded quite nicely over the last 18-24 months but leading economic indicators are starting to show weakness. With the larger economic picture appearing strong, investors and consumers are fairly optimistic, bordering on euphoric. Eventually optimism will be tempered by the reality that things are SO good, they can only get worse. With unemployment being so low new job creation will ceased to be a reason to celebrate as unfilled positions and higher wages put a limit on how productive (profitable) companies can be. When the economy reaches its highest points in its expansion seeds of the next recession will begin to sprout. As the markets continue to press higher, euphoric investors won't want to believe the party will end, but it will…as they always do. Perhaps the greatest signal that things are about to change will be the level of euphoria we see among consumers and investors.

What does this mean?

Predicting when the economy will stall or when the markets will peak is not possible so it is important to be prepared. It is important to own investments today you would be willing to own during the next bear market. You must also be prepared to remain invested AND add to your investments through the course of the next bear market. This means you should be taking profits and adjusting your portfolios now and continue to do so as the markets continue to climb. If you are very near or in retirement you should ensure you have enough cash and cash flow to sustain your needs for 9 – 18 months.

The most important advice I can give is to remain consistent with your risk tolerance and needs. Don't get swept up in the euphoria, or take risks because you feel good. Invest in a portfolio that is consistent with your tolerance for pain, because the day will come when your tolerance will be tested.