



Deja Vu

Is there a better time of year? The leaves have started their transformation, the migrating birds as well as many of you, journey to warmer destinations and the Major League Baseball season comes to a climactic end that mirrors the drama only seen in day-time soap operas and Washington D.C. This fall in particular is meaningful for us, as we celebrate our 10 year anniversary with D|A Davidson & Co. Hard to believe it has been ten years! Harder even to comprehend is how well the economies and companies around the globe were able to grind out one of the worst economic recessions in history to a point where we are now experiencing near record highs across many market indexes as well as growing world economies. Still however, it doesn't quite feel like we 'are out of it'. The proverbial 'curve ball' continues to provide headwinds for the global economies and markets. Is a bear market on the horizon, a recession, a trade war, etc.?

It certainly feels like we've been here before. Not necessarily the fact that news continues to be negative and completely discounts positive activity in the market and economy; it seems as though that will never end. Rather, what seems familiar are the returns in the market, more to the point where they are coming from. Below is a snapshot of 2018 returns as of this publication:

Market Recap – Thursday, October 25, 2018

Major Indices (Price Returns)	Close	1-Day Change		WTD	MTD	YTD
S&P 500	2,705.57	+49.47	+1.86%	-2.25%	-7.15%	+1.20%
Dow Jones Industrial Average	24,984.55	+401.13	+1.63%	-1.81%	-5.57%	+1.07%
NASDAQ Composite	7,318.34	+209.93	+2.95%	-1.75%	-9.05%	+6.01%
Russell 2000	1,500.40	+31.70	+2.16%	-2.70%	-11.56%	-2.29%
MSCI EAFE (USD)	1,784.14	-13.47	-0.75%	-3.53%	-9.60%	-13.00%
MSCI Emerging Markets (USD)	948.96	-4.09	-0.43%	-2.32%	-9.44%	-18.08%
Bloomberg Commodity Index	84.62	-0.17	-0.20%	-1.54%	-0.68%	-4.02%
Barclays U.S. Aggregate Bond	98.41	-0.04	-0.04%	+0.26%	-0.79%	-4.52%



THE STRENGTH OF ADVICE®

Below is a snapshot from 3 years ago, almost to the day. Notice how similar the year-to-date returns are in 2015 compared to 2018:

Market Recap – Monday, October 26, 2015

Major Indices (Price Returns)	Close	1-Day Change		WTD	MTD	YTD
Dow Jones Industrial Average	17,623.05	-23.65	-0.13%	-0.13%	+8.22%	-1.12%
S&P 500	2,071.18	-3.97	-0.19%	-0.19%	+7.87%	+0.60%
NASDAQ Composite	5,034.70	+2.84	+0.06%	+0.06%	+8.97%	+6.31%
Russell 2000	1,159.50	-6.56	-0.56%	-0.56%	+5.34%	-3.75%
MSCI EAFE (USD)	1,779.25	+1.89	+0.11%	+0.11%	+8.20%	+0.25%
MSCI Emerging Markets (USD)	867.65	-0.90	-0.10%	-0.10%	+9.55%	-9.27%
MSCI U.S. REIT	1,110.01	+0.01	+0.00%	+0.00%	+6.65%	-0.69%
Barclays U.S. Aggregate Bond	104.77	+0.12	+0.11%	+0.11%	+0.27%	-1.00%

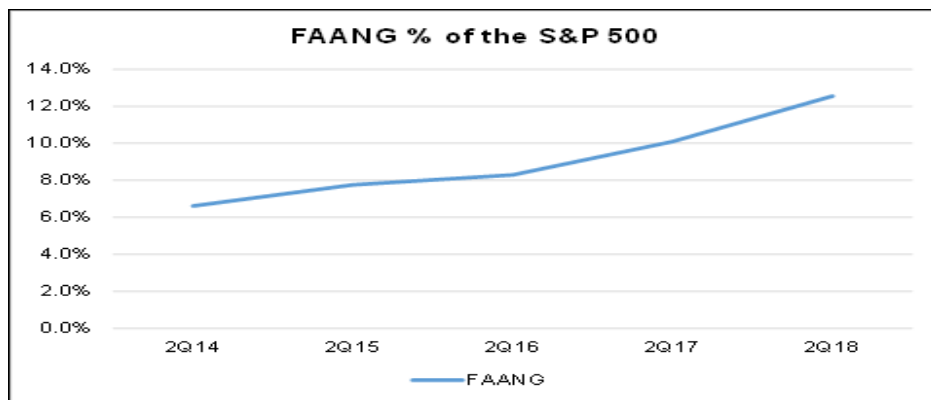
Different, however, are the month-to-date returns (MTD). The market in 2015 was already experiencing the bounce from the lows of the year—not yet the case for 2018. The S&P 500 index finished 2015 with a total return of 0.22%.¹ On January 2nd, 2016 the New York Post reported that 4 companies dominated the market the previous year. Facebook, Amazon, Netflix and Google (FANG). Facebook rose 37%, Amazon 123%, Netflix 144% and Google 48%.² We've reiterated this phenomenon in meetings with you and have noted that in some ways these 4 companies served as an insurance policy on the total market return that year, because if not for those 4, we would surely have experienced a bear market correction. Fast forward to today. Eerily similar to 2015, or in baseball terms, déjà vu all over again, just a few companies (much of those the same companies as in 2015) are pushing the market forward. There is now an addition to FANG; Apple (AAPL). FAANG, as it is now abbreviated, has provided the concentration of returns thus far in 2018, through August (as shown in the next table) and reflects that 7 stocks in the S&P 500 have contributed 49% of the overall return. Those stocks are the FAANG plus NVIDIA and Microsoft. As illustrated, the 5 largest names in the S&P 500 represent 16% of the S&P 500 and have garnered a disproportioned amount of flows as evidenced by their outsized returns, except Facebook.

Rank	SP 500 ETF (SPY)	Avg % Wgt	Tot Rtn	CTR	Pct Total
1	AAPL	3.93	36.05	1.36	13.8%
2	MSFT	3.19	33.01	0.96	9.7%
3	GOOG	2.88	16.68	0.47	4.8%
4	AMZN	2.72	72.10	1.48	15.0%
5	FB	1.86	(0.41)	0.01	0.1%
32	NVDA	0.63	45.31	0.24	2.4%
35	NFLX	0.59	91.54	0.34	3.4%
	sub Total	15.80		4.86	49.1%
	S&P 500	100.00	9.89	9.89	100.0%

1. Morning Market Dashboard Archives, 12/30/2015

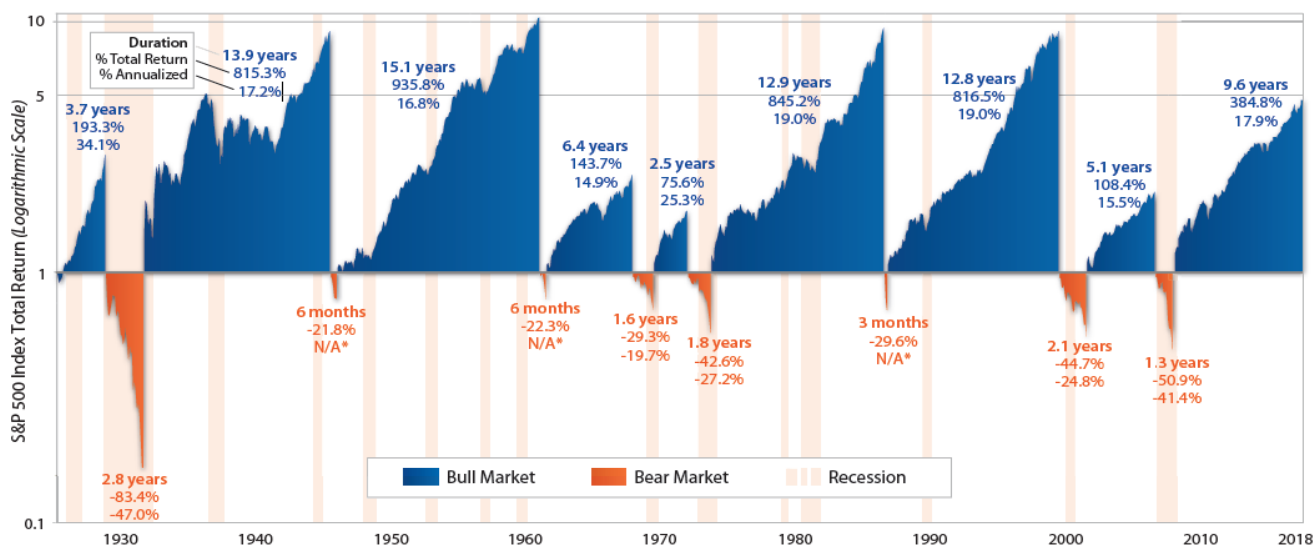
2. <https://nypost.com/2016/01/02/fangs-the-stocks-that-dominated-2015s-market/>

As of June 30th, FAANG represented 12.6% of the S&P 500, and continues to increase its share of the overall index. If market leadership systematically narrows in this manner, it could be increasingly difficult for the market to post higher gains, posing downside risks should these companies falter.



Source: Bloomberg

Knowing and understanding this provides even further reason to remain balanced across multiple asset classes, sectors and geographic regions. The overused quote by Wayne Gretzky on skating to where the puck is going, not to where it has been, is so spot on. Chasing the returns of companies that have provided much of the market returns over the past 3 years is not prudent and in many financial plans, could be dangerous. All of these companies are great companies, no question, but fundamentally based on valuations, they are expensive and will at some point capitulate. The chatter out there regarding the forthcoming bear market is correct. We will experience a bear market. In fact, based on fundamentals and the data just presented, we would argue that we may actually be in one, potentially near the end. More than 350 companies out of the 500 tracked by the S&P 500 index have lost more than 10 percent of their value since hitting their 52-week highs. Within that group, around 180 stocks are now in bear market territory, with their shares having lost more than 20 percent of their value since hitting their 52-week highs.³ Since 1926, the average bear market lasted 1.4 years vs. the average bull market's 9.1 years as shown below. So what will pull the market out of its funk?



3. <https://www.reuters.com/article/us-usa-stocks-underwater/inside-sp-500-most-stocks-in-correction-or-bear-market-idUSKCN1MX33D>

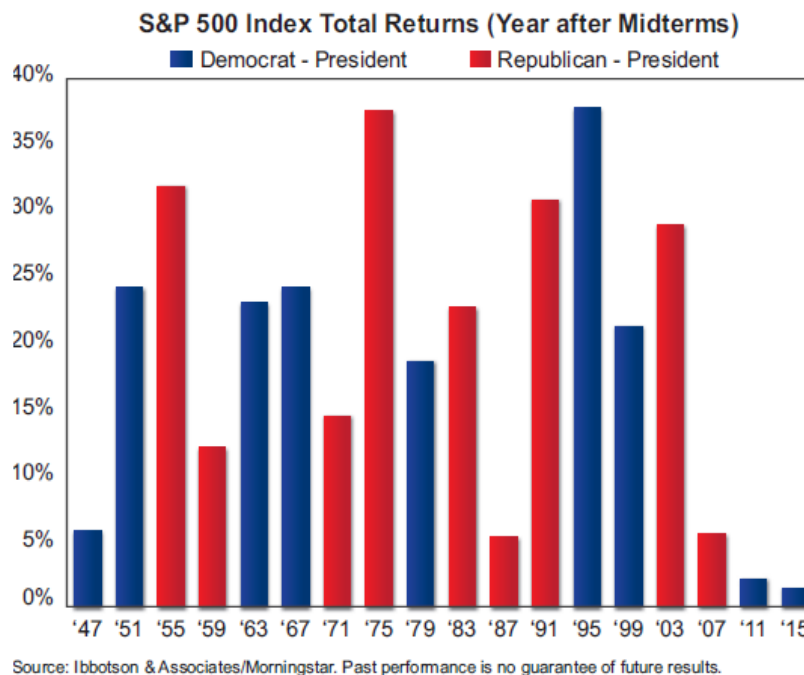


THE STRENGTH OF ADVICE®

It isn't important who is ahead at one time or another, in either an election or a horse race. It's the horse that comes in first at the finish that counts.

- Harry S. Truman

Mid term elections are upon us. Regardless of who wins, in historic terms, the market welcomes the fact that one of the 'horses' won. Below is the return of the S&P 500 following a mid-term election since 1947: a driver that could help pull the market out of it's current slump.



View from the Observation Deck

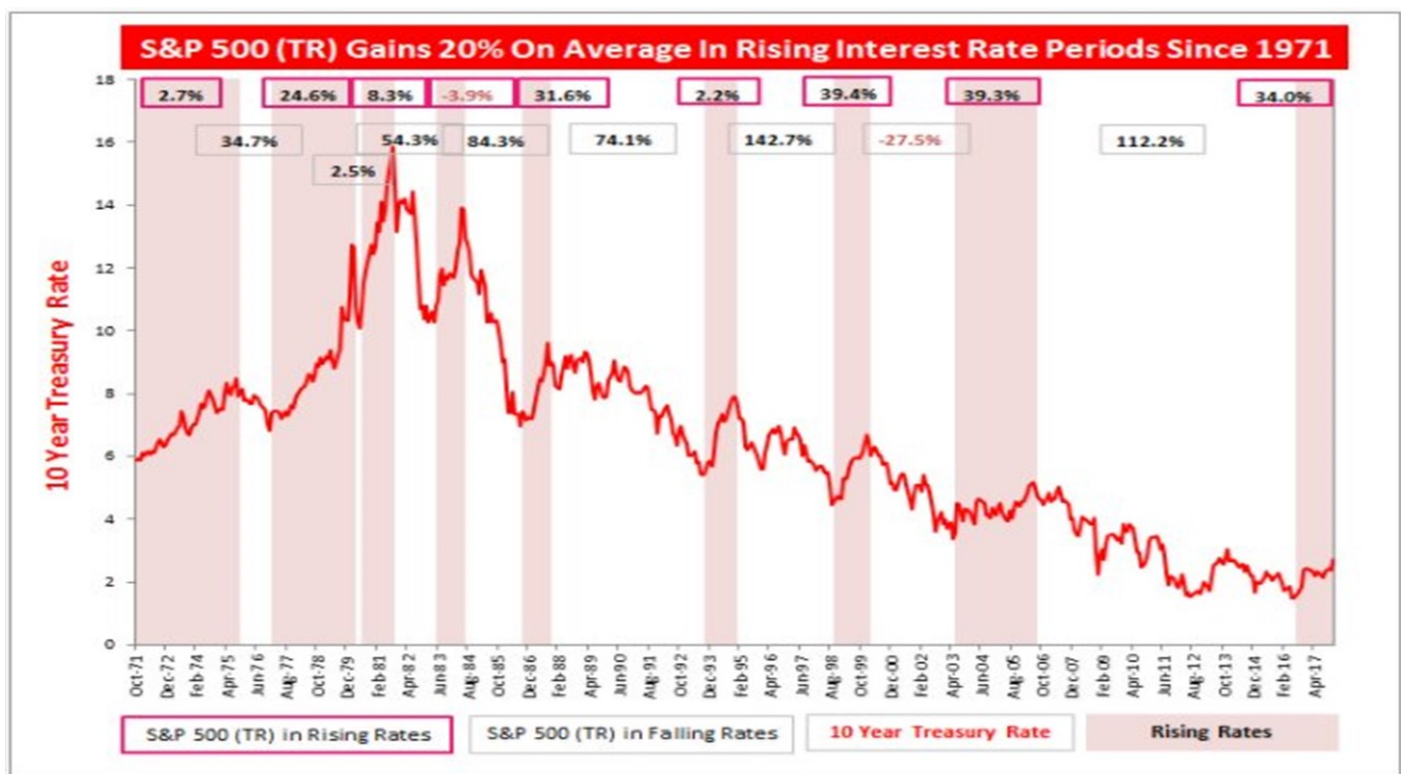
1. Since 1945 (post World War II era), there have been 18 midterm elections in the U.S. The next one is scheduled for 11/6/18.
2. Midterm elections provide voters with an opportunity to express how they feel about the job the sitting president is doing.
3. While the Republicans currently control the White House, the House and Senate, there has been a lot of discussion in political circles about the potential for Democrats to win back the House. Some refer to it as the blue wave.
4. The Incumbent's party has lost House seats in all but three of the midterm elections held over the last century, according to CNBC. Democrats need to pick up 23 seats to win back the House.
5. Voter participation in the midterms has been historically low. CNBC notes that less than 50% of eligible voters tend to vote. In 2014, that figure was just 36%.
6. As Indicated in the chart, the S&P 500 Index posted a positive total return in each of the calendar years following the previous 18 midterm elections.
7. The total returns have ranged from 1.38% (2015) to 37.43% (1995). The average gain was 19.13%.

Source: First Trust Portfolios



THE STRENGTH OF ADVICE®

Increasing interest rates continue to grab headlines and has been a subject of many of our conversations and planning. We welcome increased rates and remind you, this is a good thing. The United States posted a GDP of 3.5% on October 26th.⁴ From one year ago, GDP grew at a 3.0% rate. The last time GDP grew at an annualized rate of 3.0 percent or better for at least three straight quarters was in 2004-2005. The Federal Reserve (Fed) has signaled 3 additional rate hikes moving forward. We are strong proponents of this as, in our opinion, this is signaling the fact that the economy is strong. Beyond a strong economy it also delivers higher interest rates to savings accounts, bond allocations and cash holdings for both individuals and corporations, which in turns help increased profitability. The chart below demonstrates the correlation between interest rates and the S&P 500 since 1971.



Source: S&P Dow Jones Indices and Federal Reserve Economic Data, Economic Research Division, Federal Reserve Bank of St. Louis. <https://fred.stlouisfed.org>

Nearly ten years ago we were in a totally different position, one which had the Fed decreasing rates, in a hurry, to save the financial system and economy as we know it. We are very happy to have that behind us and do not look forward to any signs of déjà vu in regards to cutting rates. We look forward to sustained economic growth, higher interest rates and a recovery of valuations in the markets across the globe as we enter the 4th quarter of 2018. Enjoy your fall; we look forward to seeing you soon.

Randy, Trevor and Ashley



THE STRENGTH OF ADVICE®

Resources available at D.A. Davidson & Co.

- Investment Management & Monitoring
- Retirement Income Planning
- Estate Strategies
- Life Insurance and Long Term Care Review
- Business Succession Planning
- Foundation and Pension Management



Peck | Kula

Investment Management Group

Members of D.A. Davidson & Co.

www.pkimg.dadavidsonfa.com



D | A | DAVIDSON

D.A. Davidson & Co. member SIPC

Omaha, Nebraska

450 Regency Parkway, STE 400 | Omaha, NE 68114 | (402) 898-1700

The D.A. Davidson & Co. Financial Advisor sending this publication may have specifically noted authorship of a portion of this publication. Otherwise, articles were provided by a third party and do not necessarily reflect the expertise of the D.A. Davidson Financial Advisors or views of D.A. Davidson & Co. Securities, investment services, annuity and insurance products offered through D.A. Davidson & Co. member SIPC.