



American Heritage Financial

April Update

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Never A Dull Moment

While our title could be referring to the political environment—it's not. We can stick to our knitting in the financial world and still match all the bizarre news that comes out of Washington.

The first quarter of 2018 was one for the record books. As detailed in the below table and shown on the three month chart, the Dow lost 2.5% in the first quarter, putting an end to a nine-quarter win streak, the longest such rally since an 11 quarter rally ending in 1997, according to *MarketWatch*. January kicked off with a roaring 5.8% gain but back-to-back declines of 4.3% in February and 3.7% in March reversed the early-year bliss. While the experience of declining markets had nearly been forgotten due to the long-uptrend of 2016/2017, it was the *detail of the decline* that shook investors.

First came January with record breaking market highs and booming economic conditions adding to the euphoria of the 25% advance of 2017. Then, stocks plunged and **the bottom dropped out in early February** (actually, the decline began on Jan 30) when stocks fell as much as 12% by February 9, including eye-popping 1,000 point down days on the Dow. There was a short respite into the end of the month as the Dow regained



about 2,000 points of the early February 2,750 point decline. **Then came March** with huge, volatile swings, a break below the psychologically important 24,000 level on the Dow and a close below the previous "bottom" where the Dow had found support after the February plunge. For the market to return to such heightened volatility and further price breakdown after the brief February recovery was **not encouraging**.

	1 st Quarter 2018 Index Returns		
	Dow	S&P 500	NASDAQ
January	+5.8%	+5.6%	+7.4%
February	-4.3%	-3.9%	-1.9%
March	-3.7%	-2.7%	-2.9%
Total	-2.5%	-1.2%	+2.3%

Even worse, the amazing leadership of the **FANG stocks** (Facebook, Amazon, Apple and Google/Alphabet) that had powered the big gains of recent years lost its magic. Plus, the (more recently) red hot semiconductor stocks suddenly reversed course. Selloffs in Apple and Google were in response to lackluster results (compared to high expectations). Facebook was hit by the well-publicized and still

unfolding Cambridge Analytical data fiasco and then Amazon **finally** experienced some comeuppance courtesy of **DJT tweets**. The semi weakness may have been due to problems with autonomous driving, rumors of softening "cloud" demand or, possibly just a correction to the wild infatuation the sector had enjoyed of late.

The bottom line was that March's renewed market weakness, high volatility, breaks below previous lows and loss of seemingly infallible market leadership all combined to paint **a very bleak picture** as recently as March 23 when the most recent bottom of 23,550 was recorded.

BUT, while we can't yet predict the end of this correction (actually, we'd bet there is more chaos to come), **the holiday shortened last week of March was extremely encouraging**. The Dow rallied by nearly 900 points on Monday and Tuesday from the previous Friday's low as fears of global trade wars diminished. Profit-taking eliminated most of those gains on Wednesday but the last trading day of March (Thursday, the 29th) showed that animal spirits aren't dead yet. The Dow was up more than 400 points mid-day

Thursday when, weekend defensive selling reduced the gain to a still impressive 255 points by the close.

The change in tone in the last week of March can mainly be attributed to easing tensions in the trade war rhetoric—and even the notion that all the bluster may be morphing, possibly, into new trade talks that could relieve some of the real trade complaints of U.S. companies. The week also saw investor support return to most of the previous market leaders including impressive turn-arounds in Facebook and Amazon after each took huge hits due to still unfolding threats of investigations and heightened regulations on their businesses.

April will bring more market-moving news as first quarter earnings season kicks into gear. Expectations are high for encouraging earnings reports which could add more support for stock prices on top of the encouraging end to the first quarter. ***It is an optimistic picture—but we'd still keep seat belts securely fastened!***

Best regards,

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Questions or comments?

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