CLEAR CREEK ADVISORS

BEFRIEND THE TREND

Market Review **NOVEMBER 2017**

Charles Dow is considered to be the grandfather of technical analysis; forecasting the direction of prices through the study of past market data, primarily price and volume. In his day, he theorized that the performance of the entire US stock market was governed by a select few industrial and railroad stocks. His belief led to the creation of two important indexes, the industrial and railroad (now the transportation) indexes. The industrial index is still in existence today despite its evolution to remain relevant to the modern economy. The great companies held in each one of these indexes are thought of as the bellwethers of the modern-day stock marketplace. US stocks, often represented by these particular indexes, are at all-time highs and have been consistently strong. Many investors question how long this will last.

A combination of production and price increases provides a window into demand trends for the global economy. Almost every industrial and transportation company has now issued their latest quarterly reports. Many of the companies in the industrial index, and almost all of the companies in the transportation index reported higher revenue generation. A dissection of industry reveals that consumer credit and oil and gas companies were important revenue growth contributors. The highest revenue generating companies were in the basic materials and energy sectors. Consumer defensive stocks, such as food and beverage companies weighed down the average growth rate of revenue with virtually non-existent revenue gains.

Although revenue growth is generally attractive, demand for owning stocks has certainly outpaced the demand for the products and services provided by the companies. Also, price gains by the stocks in the industrial index have more than doubled the price gains made by the stocks in the transportation index. However, in the latest quarter, the growth rate of revenue among transportation stocks as a whole was exceedingly better than the rate of revenue growth among industrial stocks as a whole. This is an example of how investors often respond to information unpredictably. In addition, this illustrates how certain sectors, such as transportation stocks may offer more resilience in the case of a market downturn.

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From a technical analysis perspective, the industrial index has made higher highs on advances and higher lows on declines since the beginning of the year. In addition, the 50-day moving average of the industrial index has acted as a support line when constituent stocks were sold. The upward price trend seen in the 50-day and 200-day moving averages of the industrial index is extremely supportive of favorable stock market sentiment.

Conversely, the price trend of the transportation index has not kept pace with the price trend of the industrial index. The aggregate price of the transportation index has breached the 50-day moving average multiple times and the 200-day moving average once. In addition, the transportation index has made multiple new lows this year. Setting new annual lows is a bearish pattern, which is why the performance of the transportation and industrial indexes have diverged so much this year. This divergence illustrates how all stocks should not be viewed collectively when making assumptions about market heights.

Although technical analysis can provide insight into market heights, it is not foolproof. The industrial index's strength made it impossible for chartists to forecast a trend reversal of this already long bull market. And, as of recently, the transportation index has soared back and made a new high, which undoubtedly inflicted a lot of pain to all of the transportation bears out there. Bull markets can, and often do, persist longer than expected.

For all of the Charles Dow acolytes out there, the stock market performance of the industrial and transportation indexes is suggestive for the broader stock market to remain intact. Further, recent revenue growth data is also generally a positive sign. Accordingly, until enough evidence is accumulated to favor a trend reversal, Dow theorists can still proudly proclaim that this 'trend is your friend'.

Market Movers

There was plenty of financial data and news headlines to digest in October. Many publicly traded companies released their earnings reports; the House Republicans put out a tax plan; Jerome Powell became a serious contender as a next central bank leader; more jobs were added in October even though the labor force participation rate fell; annualized US domestic output grew at a 3% rate last quarter; and European growth and inflation slightly crept down. Much of this data was good enough to push global equity markets higher. Foreign stocks and bonds, as well as certain alternative asset classes continue to provide sizeable benefits relative to traditional US stocks and bonds. This has yielded attractive results for our Core Allocation portfolios. To date, these portfolios continue to outperform the Morningstar World Allocation and Tactical Allocation funds.

Asset Categories	*Monthly*	*YTD*
US STOCKS	1.53%	12.24%
FOREIGN STOCKS	1.80%	26.15%
US BONDS	0.27%	3.60%
FOREIGN BONDS	-0.17%	7.57%
HARD ASSETS	0.54%	4.02%
HYBRIDS	0.86%	10.60%

*DATA USED IS SOURCED FROM MORNINGSTAR®

US STOCKS of all categories gained in October. Large Caps (IVV) lead the category with a 2% return last month. The foreign operations of Large Cap stocks drove sales and earnings higher. Mid-Caps (IJR) and Small Caps (IJH) made respective gains of between 1% to 1.5% last month. Regardless, the US stock category has returned half that of foreign stocks since the beginning of the year.

FOREIGN STOCKS also made gains last month. The Foreign category undoubtedly continues to benefit from rock bottom interest rate policies and world-wide growth trends. Large Developed (VEA) and Small/Mid International (VSS) both put up gains of about 1.5%. Emerging Markets (VWO) lead the category again, a reoccurring theme this year. Emerging Markets returned over 2% in October. The Foreign Stock category has risen over 25% this year.

US BONDS appreciated last month with the exception of Intermediate Government Bonds (VGIT). Government yields rose, possibly on uncertainty of how new tax policy (should a bill ever pass) will impact the fiscal budget. Credit bonds, such as Bank Loans (BKLN) and High-Yield Bonds (JNK), made modest gains, which reinforces the idea that investors are seeking risk. For the full year, credit bonds as a group are up nearly 5%. Our strategies have benefited from this trend.

FOREIGN BOND prices fell slightly in October. Rising interest rates on foreign bonds are slowly becoming a trend. Investors now give more attention to leading indicators that would signal policy change by foreign central banks. On the year, however, Foreign Bond performance has been extremely strong. World Bond and Emerging Market Bond (PCY) returns are approximately 6% and 9%, respectively. This exposure in our strategies has contributed to attractive year-to-date returns.

HARD ASSETS prices rose in October on a rebound by oil. Energy Commodities (AMJ) rose over 3% last month, narrowing its year-to-date losses to around 7%. Precious Metals (IAU) and Global Real Estate (RWO) produced modest losses last month, perhaps on asset flows moving into stocks. Full year gains on Precious Metals and Global Real Estate still stand at over 9% for both asset classes.

HYBRIDS had another month of positive returns, which is another reoccurring theme this year. Convertible Bonds (CWB) are a popular asset class this year as investors seek safety, but remain attracted to the equity option that Convertible Bonds offer. Preferred Stock (PFF) has not been overlooked either. Year-to-date, the returns of Hybrids are almost keeping pace with US stocks but with far less risk.