



Technical Update

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I am out of the office visiting branches this week.

Current market trends

Short-Term (Days to weeks): Rally. The market indexes have been strong over the past few weeks and have recovered about half of the decline since the peak in January. The rally has lifted many stocks and continues to favor growth stocks over the value stocks that tend to perform better when investors are more uncertain. There is a possibility that the Dow Industrials and the S&P 500 could get back to their previous highs, such as the small-cap Russell 2000 has done, but we believe there is a lot of resistance to overcome on those indexes and they may peak before that happens. We are noting what looks like the beginning of some topy patterns forming in some of the previously leading Tech names, along with some maturing trends in the recently stronger Energy stocks that could cause the markets to stall out. It does not appear to us that a major move to the upside is developing in the indexes at this time, but just another move up to the higher end of the range that has been the trend so far this year.

Intermediate-Term (Weeks to months): Neutral. The strong uptrend in the indexes during 2016 and 2017 appears to be in a consolidating range that could last several more months into year-end 2018. It is very normal for even the strongest long-term market trends to trade in a range for periods of time that allow the fundamental valuation measures to catch up to the higher stock prices, and to alleviate some of the increased bullish optimism that also becomes over-extended during long rising trends. We note in our own work that there is a general lack of concern about the potential risks and a strong desire to participate in the stocks that have already made big moves to the upside. We think that better buying opportunities are created when the mood is a lot less optimistic.

Long-Term (Four to ten years): Bullish. The Dow Industrials and the S&P have been in bull markets since 2009, and they continue to trade in rising technical channels that imply further gain potential for many more years. We continue to believe that the U.S. stock market is still in the mid-point of a longer-term secular bull market that we expect to rise until the economy and business climate become much more improved, which could still take many more years to develop. The theme of the bull market has been that of changing group rotation where different market sectors and groups do better, or worse, at various times, and we expect that kind of a cycle to continue. It is usually not until much later in the long-term trend when the market gets to the point where most groups and stocks are rising, so we think that a long-term holder of a diversified portfolio can expect to see the current trend of varied performance between different stock groups for possibly several more years within an overall bull market.

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