3rd Quarter 2017 Market Overview

Stocks Continue to Climb

The market climbed inexorably higher during the third quarter. This relentless march upward without yielding a meaningful decline is virtually unprecedented. Usually, even in the best of years, the market always sustains ordinary pullbacks.

2017 might end up being the first time the market has made positive returns *every calendar month of the year.*

There has not been even a 3% correction since the Presidential election last fall. The last 5% move down was Brexit in July of 2016.

Despite the sustained gains so far, positive signs points to higher levels in this market. All major averages are in short and long term uptrends. Volatility is low. Interest rates are still low. A widening list of stocks and industry groups are participating in the uptrend (see below). Small cap stocks have recently broken out after a three years basing phase. The economy is firing on all cylinders. A recent WSJ report said temporary job losses from hurricanes masked 905 thousand new jobs created in our economy in September alone. This new employment figure is quite simply, off the charts!

We have to ask, what could possibly go wrong? As Bespoke Investments said, "Is this as good as it gets?" Is it possible for investing conditions to actually get better from here?

The contrarian in us asks if we should be adhering to the notion of "buy low, sell high" and this would point to only one option. SELL. It's reasonable to pause, however.

We don't know how far this bull market will reach or how long it will continue to behave. While it is considered tired by historical measures, we wouldn't want to rest any forecasting on these criteria.

Since we are astute and devoted market technicians, our work calls for staying invested as long as the trend and conditions remain favorable. **Simply put, at the appropriate time, when conditions change, we will lower equity exposure and take important action to preserve capital.**

Market Breadth

Breadth is the ratio of advancing stocks to declining stocks. Currently, it is improving and this is bullish. This indicator points to further gains in the fourth quarter.

Today, breadth is the best it's been in three years. A greater preponderance of stocks and industry sectors are advancing. The DOW, the S&P 500, the NASDAQ, the Russell 2000, emerging markets, and developed markets throughout the world are **all** making recent all-time highs in unison. This harmony sings a healthy investment tune.

We did not have this harmony earlier in the year. Remember, in the second quarter, gains in Apple, Amazon, Alphabet, and Facebook accounted for over 50% of the YTD gain in the S&P 500. Now, those very stocks have seemingly rolled over and are in consolidation phases. Currently, the rest of the market is gaining traction led by healthcare, financials, industrials, and semiconductors.

Names to Watch

We ended up gaining about 5% in the Vanguard Developing Markets fund, but we abandoned this investment due to the strength in the dollar in order to allocate to the Vanguard Small Cap fund. This move could be timely as the Russell 200 index finally breaks out of a long term base.

Currently, our largest equity holdings are Caterpillar, Lululemon, and Tyson Foods. We love the turnaround story in CAT since its business has improved over last year.

Alphabet may have cast their legal concerns behind them and we are hoping this stock will break out after consolidating for three months. Nvidia is now achieving the eminence of other noteworthy technology stocks like Apple and Amazon. This has been a good performer for us in 2017.

Netflix just announced a price increase and is breaking out of range. This stock should be watched closely.

Lam Research was sold in order to realize gains. We still like the semiconductor equipment group but will wait for a consolidation period in order to re-enter.

Our weightings in financial stocks increased. Citigroup, American Express, and PNC Financial were recent additions. These were strong at the beginning of the year as we recall gains made in Goldman Sachs during that period.

Dan Botti
Portfolio Manager
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Peregrine Asset Advisers ● 9755 SW Barnes Rd. Suite 295 ● Portland Oregon 97225●503.459.4651 ● 800.278.1420 ●
www.peregrineaa.com